Australian Government
Productivity Commission

Migrant Intake into Australia

Productivity Commission Draft Report

November 2015

This draft report has been prepared for further public consultation and input. The Commission will finalise its report after these processes have taken place.

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

Opportunity for further comment

You are invited to examine this draft and comment on it by written submission to the Productivity Commission, preferably in electronic format, by **18 December 2015**. Further information on how to provide a submission is included on the inquiry website http://www.pc.gov.au/inquiries/current/migrant-intake.

The final report will be prepared after further submissions have been received and public hearings have been held, and will be forwarded to the Australian Government by end March 2016.

Public hearing dates and venues

Location	Date	Venue
Melbourne	Monday 7 December 2015 Tuesday 8 December 2015	Productivity Commission Rattigan Room Level 12, 530 Collins Street
Canberra	Tuesday 15 December 2015	Productivity Commission Hearing Room Level 2, 15 Moore Street
Sydney	Wednesday 16 December 2015 Thursday 17 December 2015	SMC Conference & Function Centre Corinthian Room 66 Goulburn Street, Sydney

Commissioners

For the purposes of this inquiry and draft report, in accordance with section 40 of the *Productivity Commission Act 1998* the powers of the Productivity Commission have been exercised by:

Paul Lindwall	Presiding Commissioner
Alison McClelland	Commissioner

Terms of reference

Productivity Commission Inquiry into the Use of Charges to Determine the Intake of Migrants

Terms of Reference

I, Joseph Benedict Hockey, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake an inquiry into the greater use of charges relative to quotas and qualitative criteria to determine the intake of temporary and permanent entrants into Australia.

Background

The intake of temporary and permanent entrants is currently regulated through a mix of qualitative requirements (e.g. skills, family connections, refugee-status, health, character and security), quotas (e.g. the size of the Migration and Humanitarian Programmes, and of components within these Programmes) and imposts (including the cost of investing under the Significant Investor Visa).

The Australian Government's objectives in commissioning this inquiry are to examine and identify future options for the intake of temporary and permanent entrants that improve the income, wealth and living standards of Australian citizens, improve the budgets and balance sheets of Australian governments, minimise administration and compliance costs associated with immigration, and provide pathways both for Australian citizens to be altruistic towards foreigners including refugees, and for Australia's international responsibilities and obligations to foreign residents to be met.

Scope of the inquiry

In undertaking this inquiry, the Productivity Commission should use evidence from Australia and overseas to report on and make recommendations about the following:

1. The benefits and costs that the intake of permanent entrants can generate with respect to:
   (a) the budgets and balance sheets of Australian governments, including from:
      (i) entry charges;
      (ii) government services used (including public health, education, housing, social and employment services) now and in the future;

(iii) taxes paid now and in the future;

(iv) the dilution of existing, government-held assets and liabilities across a larger population; and

(b) the income, wealth and living standards of Australian citizens, including with respect to:

(i) impacts on the salaries and employment of Australian citizens, knowledge and skill transfer, productivity, foreign investment, and linkages to global value chains;

(ii) cultural, social and demographic impacts; and

(iii) agglomeration, environmental, amenity and congestion effects.

2. An examination of the scope to use alternative methods for determining intakes – including through payment – and the effects these would have. This should include examination of a specific scenario in which entry charges for migrants are the primary basis for selection of migrants, such that:

(a) there would be no requirements relating to skills and family connections;

(b) qualitative requirements relating to health, character and security would remain;

(c) all entrants would have the right to work;

(d) entrants would have limited access to social security or subsidised education, housing or healthcare; and

(e) the charge could be waived for genuine confirmed refugees, whose entry would remain subject to current constraints.

The scenario should examine the way in which the above charges could be set, and what they might be, to maintain the current levels of the migrant intake or to maximise the benefits for Australian citizens. The scenario should also examine the impacts of such charges – based on assessment of the factors listed in (1) above and also taking account of:

(f) opportunities for Australian citizens to be altruistic towards foreigners including refugees;

(g) the administration and compliance costs associated with immigration, including costs associated with criminal behaviour and the use of migration agents; and

(h) interactions with citizenship criteria and existing and potential bilateral agreements.

3. The benefits and costs of temporary migration with an examination of the use of charges as the primary basis for regulating the level and composition of this migration, having regard to:

(a) complementarity with the Australian workforce; and

(b) achieving flexibility in responding to structural and cyclical adjustments in the Australian economy.

4. Mechanisms for achieving an optimal interaction between temporary and permanent migration noting that temporary migration is an established pathway to permanent migration.

Process

The Commission is to undertake an appropriate public consultation process including holding hearings and roundtables (where appropriate), and releasing a draft report to the public.

The final report should be provided within 12 months of receipt of these terms of reference.

J. B. HOCKEY
Treasurer

[Received 20 March 2015]

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Technical Supplements (forthcoming)

A The economywide impacts of migration — general equilibrium modelling

B The impacts of a charge — partial equilibrium modelling

C The impact of immigration on labour market outcomes — econometric analysis

Abbreviations and explanations

Abbreviations

ABS	Australian Bureau of Statistics
AIHW	Australian Institute of Health and Welfare
AMEP	Adult Migrant English Program
BTRE	Bureau of Transport and Regional Economics
BVE	Bridging visa E
CCS	Complex case support
EU	European Union
FECCA	Federation of Ethnic Communities Council of Australia
GDP	Gross domestic product
GSS	General Social Survey
HILDA	Household, Income and Labour Dynamics in Australia
HRC	Human Rights Commission
HSS	Humanitarian Settlement Services
IAC	Industries Assistance Commission
IC	Industry Commission
IELTS	International English Language Testing System
ISLPR	International Second Language Proficiency Ratings
JSA	Job Services Australia
MCA	Migration Council Australia
MDA	Multicultural Development Association
MIA	Migration Institute of Australia
NDIS	National Disability Insurance System
NEET	Not in employment, education or training
NOM	Net overseas migration
OECD	Organisation of Economic Co-operation and Development
PC	Productivity Commission

RCOA	Refugee Council of Australia
SGP	Settlement Grants Program
UK	United Kingdom
US	United States
WSAA	Water Services Association of Australia

Explanations

Billion	The convention used for a billion is a thousand million (10^9).

Glossary

Age dependency ratio	The ratio of those aged 65 years and over to those aged 15 to 64 years.
Capacity to pay	The ability of a consumer to pay the prevailing price for a good or service. This can include having available savings, being able to borrow the money or other means to raise the necessary money (such as through selling possessions, gifts or donations).
Consumer surplus	The difference between the maximum price a consumer is willing to pay for a good or service and the price they pay.
Main English speaking countries (MESC)	Includes Canada, Ireland, New Zealand, South Africa, the United Kingdom and the United States.
Net overseas migration (NOM)	The net increase or reduction in population through people arriving (immigrating) and departing (emigrating). It is measured based on the duration of stay in or away from Australia of at least 12 months out of the past 16 months. The concept captures both permanent and long-term temporary movements (including the movements of Australian and New Zealand citizens).
Non-main English speaking countries (NESC)	Countries other than those listed under Main English speaking countries.
Pathway	The stream of visas that an immigrant is granted over time between his or her initial grant of a temporary visa and the final grant of a visa for permanent residency
Planning level	The number of places available for permanent immigration to Australia each year.
Price-based immigration system	A proposal where price (or a visa charge) is the predominant mechanism used to allocate visas.

Primary applicant	An applicant for immigration to Australia whose eligibility is assessed against selection criteria related to either skills or family connection.
Refugee stream	Stream within the Humanitarian Programme for people who face persecution in their home country and need to settle in another country
Second generation immigrant	An Australian-born person who has at least one parent born overseas.
Secondary applicant	The partner, dependent children and other dependent relatives of the primary applicant who are included on the same visa application. Secondary applicants are subject to fewer requirements for eligibility than primary applicants.
SkillSelect	An online portal for people to lodge an expression of interest for immigrating to Australia.
Special Humanitarian Programme	A visa stream within the Humanitarian Programme for people who are subject to gross violations of their human rights in their home country, and are nominated by an Australian citizen or permanent resident, an eligible New Zealand citizen or an organisation based in Australia.
Willingness to pay	A situation where a consumer would be willing to purchase a good or service at the prevailing price. This could include the situation where a consumer wants to purchase the good or service, whether or not they have the capacity to pay.

OVERVIEW

Key points

- Immigration affects many dimensions of life in Australia. The changing backdrop of global migration patterns calls for a responsive and carefully balanced approach to immigration policy.
- The merit-based immigration system used by Australia to allocate a significant number of permanent immigration places has served the interests of the broader community well.
  - The focus on education and skills targets immigrants with characteristics that enable them to integrate successfully and deliver good labour market and economic outcomes.
  - Opportunities for family reunion are important for the wellbeing of Australians and for Australia's attractiveness to prospective skilled immigrants.
  - A separate quota for immigrants who meet the criteria for humanitarian resettlement allows Australia to meet its international responsibilities.
- By attracting people of working age, the current system delivers a demographic dividend to Australia. By increasing the proportion of people in the workforce, immigration reduces the impacts of population ageing, but does not offer a panacea.
  - While immigrants benefit from their employment in Australia, preliminary modelling suggests that the Australian population as a whole benefits from higher output per person.
- The immigration system is not well suited to a price-based approach.
  - By changing the composition of the migrant intake, a price-based immigration system could reduce the demographic dividend from migration, while realising few of the gains normally associated with a market-based system.
  - The 'selling' of visas to those who can pay without meeting other criteria would essentially place short-term revenue raising objectives ahead of medium to longer-term economic and social considerations. It could have a negative net fiscal impact on government.
  - Public confidence in Australia's immigration system could also be undermined by such a system.
- Australia's current immigration system works well by international standards. However, there is scope for improvement, including by:
  - removing unnecessary barriers to immigrants' labour market integration
  - improving the effectiveness of settlement services, especially for humanitarian immigrants
  - acquiring a better understanding of the labour market impacts of temporary migration programs, and improving the targeting of 457 visas to areas of genuine skill shortages
  - investing in cost-effective measures to mitigate the risks of exploitation faced by migrant workers and to better enforce regulation
  - abolishing the investor visa streams
  - establishing a more systematic and transparent framework for visa charging
  - investing in data collection, integration and dissemination to support evidence-based policy.

Overview

Immigration is a defining feature of Australia's economic and social life. Over the past seven decades, immigration has added around seven million people to Australia's population, and, under current policy settings, it is projected to add another 13 million by 2060. With more than one in four Australian residents born overseas, and close to half of the population with at least one parent born elsewhere, immigrants and their descendants make an important contribution to Australia's human and social capital endowment. The characteristics of immigrants — the composition of the migrant intake — has been important to this positive contribution.

The demographic composition of immigrants matters. This inquiry shows that immigrants who are relatively young and skilled make a positive contribution to Australia. These types of immigrants provide a demographic dividend by increasing the proportion of people in the workforce, thus reducing the negative impacts associated with an ageing population.

Australian governments have a long history of active immigration policies that have evolved substantially over time. From an emphasis on ethnicity, population growth, nation building and citizenship, the system has shifted to one geared primarily to meeting the needs of industry and employers, through both the temporary and permanent immigration streams. The system also provides opportunities for family reunion and entry on humanitarian grounds, as well as arrangements targeted to meeting Australia's regional engagement objectives, including foreign aid to Pacific island nations. It also caters for international students and working holiday makers.

The temporary and permanent immigration streams operate as standalone entry points into Australia and can be accessed separately by prospective immigrants. However, for an increasing number of immigrants, temporary immigration serves as a pathway to permanent immigration. In 2013-14, around half of all permanent visa grants went to people already in Australia on a temporary visa.

Australia has a hybrid immigration system — with market-oriented and planning elements. The intake of temporary and permanent migrants is managed through a range of qualitative criteria including character, health, financial capacity, age, skills, family connections and humanitarian need. However, various programs are managed in different ways:

- the intake of permanent immigrants is capped, while the intake of temporary immigrants is largely uncapped
- some visa streams are supply-driven through a migrant-based application process while others are demand-driven through employer, state, or territory sponsorship

- some visa subclasses are subject to minimal qualitative criteria but have a relatively high charge or other financial impost
- the entry and long-term residency of New Zealand citizens is unrestricted under the Trans-Tasman Travel Arrangement.

There is a general perception that this system has served Australia well, notwithstanding some divergence of views in the community. The shift to a focus on skilled immigration, while maintaining opportunities for immigration by people who have close family connections, or humanitarian needs, has delivered relatively good economic and social outcomes overall, both for the immigrants themselves and for the broader community. While the permanent immigration intake is focused on human capital and is relatively stable, the temporary immigration programs tend to be more responsive to the economic cycle.

As always, global migration patterns are changing. Australia's immigration policy needs to maintain flexibility to adapt if it is to continue to serve the needs of the Australian people. There is now much greater diversity in source countries, destination countries and the frequency and duration of migrants' movements. Reductions in travel costs and advances in information technology have also led to a substantial increase in the level of migration, especially of a temporary nature. More recently, the significant increase in the cross-border movement of asylum seekers and refugees has created additional pressure points on migration systems globally. These issues raise some complex policy challenges.

As a country with a long history of immigration and a relatively high intake of permanent migrants, Australia is well placed to take advantage of growing international mobility. These developments call for a flexible and carefully balanced approach to immigration policy that takes into account the complex interactions associated with the movement of people across borders.

What has the Commission been asked to do?

The Australian Government has requested the Productivity Commission to conduct an inquiry into the impacts of immigration on Australia and the way immigrants are selected. The terms of reference for the inquiry ask the Commission to examine:

- the costs and benefits of temporary and permanent immigration
- options for determining the intake of migrants with a greater focus on charges
- the interaction between temporary and permanent immigration.

In examining these issues, the terms of reference request the Commission to consider the impacts on the income, wealth and living standards of Australian citizens as well as on the budgets and balance sheets of Australian governments. In looking at options for the selection of migrants, relevant factors include Australia's humanitarian commitments and other international responsibilities and obligations to foreign residents.

The Commission's approach

A range of research and analytical methods have been used during this inquiry. These include consultations with stakeholders and gathering of evidence from Australia and comparable countries. Preliminary modelling has been undertaken to inform the assessment of the economywide impacts of migration, and the impact of a charge as the primary basis for selecting migrants.

The analytical framework used in this inquiry assumes that the overarching objective of immigration policy is to improve the overall wellbeing of the Australian community. The wellbeing of the Australian community can be divided into three distinct but interconnected dimensions — economic, social and environmental. In assessing the impacts of immigration policies, the Commission has adopted a framework that aims to capture these three dimensions and the interactions between them (figure 1).

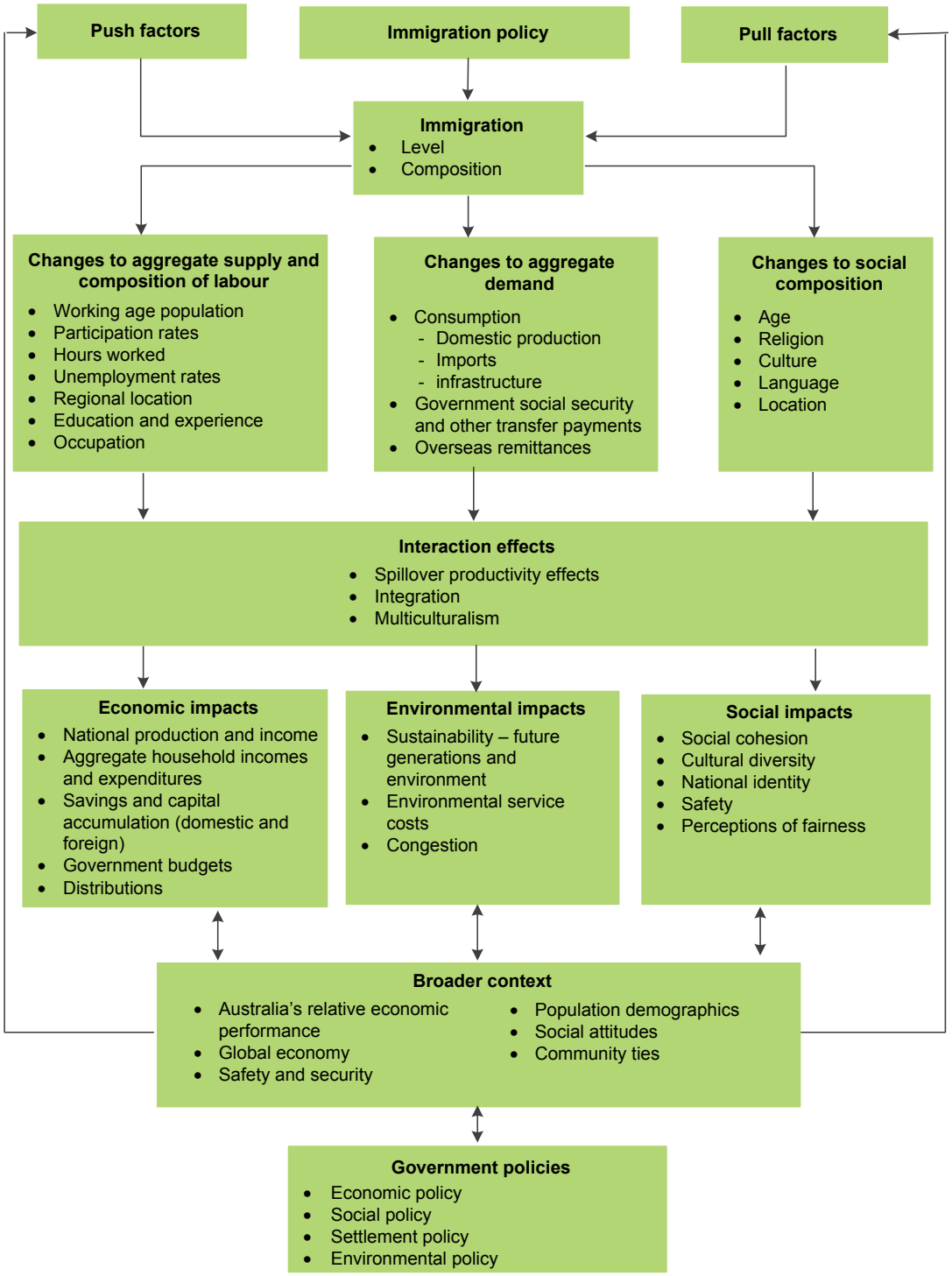
Some elements of community wellbeing are more readily measurable than others, while the assessment of tradeoffs between dimensions can be subjective. The analytical approach adopted in this inquiry has regard to both tangible impacts — those that can be assigned a value in monetary terms (for example, the impact on incomes), and the intangible impacts — which are more difficult to monetise (for example, the impact on social cohesion).

In conducting this inquiry, the Commission has been cognisant that Australia's immigration policy is inextricably linked to population growth. Net migration[1] — the difference between immigration and emigration — is a key contributor to population growth in Australia. As such, any decision about the level of net migration is implicitly a decision about the size and age structure of Australia's population.

The Commission has taken the view in this inquiry, and in its previous work, that there is no comprehensive empirical basis for setting an aggregate level of immigration or population over time that would maximise the wellbeing of the Australian community. There is a range of outcomes that could be consistent with this objective. Increasing the wellbeing of the Australian community is contingent on achieving a balance between proactive policies that influence the rate, composition and geographical distribution of population growth, and reactive policies that address the impacts of a given rate of population growth. Reviews such as this inquiry can help inform public policy by identifying, quantifying and analysing the various impacts, and those policy alternatives best equipped to promote the benefits and mitigate the costs. Nevertheless, there will always be a subjective element in setting immigration targets, requiring political judgment and, ultimately, public accountability.

1 For simplicity, net migration is used instead of net overseas migration.

Figure 1 **Impacts of immigration: an integrated approach**



Who are Australia's immigrants?

Australian immigrants are diverse and on arrival, often have different characteristics from the Australian-born population. Different cohorts of migrants bring with them a wide spectrum of human, social and financial capital.

Most contemporary Australian immigrants come from English-speaking (including the United Kingdom, New Zealand and South Africa) and/or Asian countries (including China, India and the Philippines), with the latter growing in importance as source countries over the past decade. They mostly arrive in Australia when they are of working age and, on average, have higher formal qualifications than their Australian-born counterparts. On average, the children of immigrants also achieve higher educational outcomes than the children of Australian-born parents.

The majority of immigrants report that they speak English well, but there is a marked variation in competency across visa streams, and significant diversity in languages spoken at home. Immigrants, particularly those from non English-speaking countries, are more likely to settle in capital cities, especially in the inner city suburbs of Sydney and Melbourne. Second generation immigrants are, however, less likely to live in major cities than first generation immigrants.

On average, immigrants have a lower fertility rate compared with the Australian-born population. They tend to accumulate less wealth and savings than incumbent Australians. However, in 2013, they remitted around $7 billion to their countries of origin.

Of the seven million immigrants who have settled in Australia since 1945, more than 60 per cent have become Australian citizens.

The economic, social and environmental impacts

Immigration has implications for the economy, society and the environment. The key drivers of the direct effects of immigration are the level of immigration relative to the size of the population, and the differences between immigrants and the existing resident population. The characteristics of immigrants are influenced by the entry conditions for each visa category. They are also reflective of the self-selection and motivation of different cohorts of immigrants.

The labour market outcomes of immigrants are mixed

Employment is a fundamental indicator of immigrants' economic integration. The labour market outcomes of immigrants depend critically on their age, education, skills — including English-language proficiency — and time spent in Australia. Domestic policies, such as recognition of qualifications and occupational licensing, and the efficiency of labour markets more broadly, also influence these outcomes.

Across several labour market indicators, Australian immigrants have broadly comparable outcomes to immigrants in other OECD countries such as Canada and the United Kingdom, with lower unemployment, but also lower participation than immigrants in these countries.

Similar to the pattern in several OECD countries, Australian immigrants have a lower employment to population ratio than their Australian-born peers (figure 2). While the unemployment rate of all immigrants is relatively higher in recessions, it is about the same as for Australian-born residents at other times. The higher unemployment rate in recessions may reflect the fact that recently arrived immigrants are new entrants to the labour market. Immigrants' labour market outcomes generally improve over time as they gain experience, and adapt to the conditions and circumstances of life and work in Australia.

On average, permanent immigrants in the skill stream have different human capital characteristics compared with those in the family and humanitarian streams, including higher levels of English-language proficiency and qualifications. These differences markedly influence their labour market outcomes, with skilled immigrants outperforming family and humanitarian immigrants in terms of labour force participation rates, unemployment rates, hours of work and earnings. These outcomes also vary according to whether they are a primary or secondary applicant (typically the accompanying spouse) — with the former outperforming the latter (figure 2).

Despite the higher skills and qualifications of immigrants relative to the incumbent population, the evidence is mixed on whether they earn more than the Australian-born population on average. Within occupations, there is no apparent difference in earnings between those born overseas and those born in Australia. For many immigrants, an initial gap in earnings narrows considerably after living in Australia for six years or more.

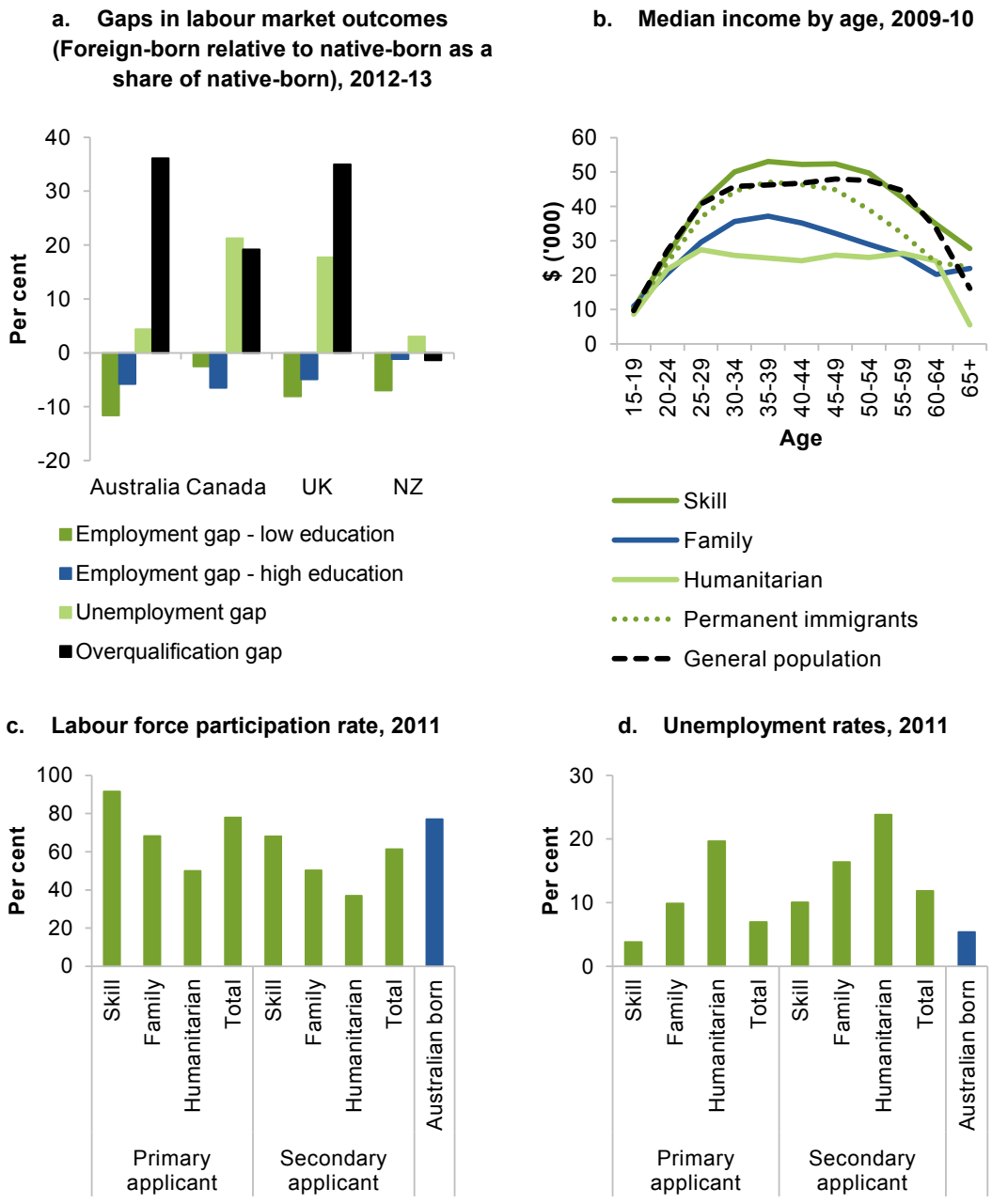
While employment is a key indicator of integration, other important indicators relate to job quality — including working hours, job security, and job and skills matches. Data suggest that immigrants are slightly more likely than incumbent workers to report being overqualified for the jobs they hold. In 2012-13, around 30 per cent of highly educated immigrants in employment appeared to be 'over-qualified' compared to 22 per cent of the Australian-born population. The Australian Government should seek opportunities to improve the recognition of overseas qualifications obtained at internationally recognised, high-quality institutions, including through bridging courses.

The impacts on incumbent workers vary

A common concern is that by adding to the supply of labour, immigration can reduce the wages of incumbent workers (or displace them). This concept of displacement is frequently a manifestation of the lump of labour fallacy — that there is a fixed number of jobs in an economy. However, immigrants may complement rather than displace incumbent workers. They also increase demand for local goods and services, which could enable local firms to benefit from economies of scale particularly in sectors that produce goods and services that

are not traded internationally (for example, transport, communications and public administration). The extent to which different types of immigrant labour complement or displace domestic labour is an empirical issue.

Figure 2 **Selected labour market outcomes of immigrants**



Most overseas studies on the aggregate impact of immigration on the wages and employment of incumbents find small (either positive or negative) effects. Invariably, the size of any displacement effect depends on the level, timing, geographical location and

composition of immigration. It also depends on economic conditions, with high levels of immigration during economic recessions more likely to cause displacement effects in the short run, although these usually dissipate over time.

Australian evidence is scant. Preliminary econometric analysis commissioned for this inquiry found no discernible effect from immigration on wages, employment and participation in aggregate. However, the Commission previously concluded that immigration may lead to higher unemployment and/or slower wage growth for specific groups (especially those working in sectors with higher concentrations of immigrant workers who are more likely to be close substitutes).

Increased risk of displacement can be expected to be more likely at the lower end of the skill spectrum and in the youth labour market. Youth (aged 15–24) labour market outcomes have been particularly poor in recent years. This largely reflects weak economic conditions since 2007 as well as a longer-term decrease in youth labour market engagement. While there is some tentative evidence to suggest that there may be some relationship between immigration and youth employment outcomes, it is not conclusive.

Skilled immigration may also dampen incentives for domestic workers and employers to invest in skills and training. However, further evidence is required to determine the size of any effect.

There are positive productivity spillovers

Immigrants — especially skilled ones — can contribute to productivity through innovation, entrepreneurship and technological change. The human, financial, social and network capital which immigrants bring with them can augment existing labour and capital resources, and spill over to the broader community, contributing to increased aggregate productivity.

International evidence suggests that skilled immigrants have a small positive impact on a range of drivers that affect productivity growth. The extent to which immigrants' attributes translate into productivity gains is partly contingent on having institutional and public policy settings that do not deter innovation and entrepreneurship in the economy more broadly.

Attracting highly skilled immigrants can help to connect Australian firms and workers to high productivity economic activity. The Commission is seeking views on policies that are likely to be more effective in attracting such highly skilled immigrants.

Economic and social integration are interrelated

The effect of immigration on social cohesion — the trust and engagement between people in a community — is driven by two interrelated factors. On the one hand, it depends on

how well immigrants fit in. The evidence suggests that immigrants' integration into the economy and society improves with English-language skills, education and employment, and is better in Australia than in many other countries. On the other hand, social cohesion also depends on the extent to which immigrants themselves and the Australian-born population accept diverse ethnic identities as consistent with a common 'national' identity, which itself evolves over time. A high level of acceptance is conducive to better integration.

Most immigrants aspire to integrate, with more than 60 per cent of permanent residents choosing to become Australian citizens. However, not all immigrants want to integrate and failure to engage in the local community has costs to the individual and to the community. Generally, immigrants are well accepted in the Australian community, assisted by Australia's approach to multiculturalism. However, there has been a mild downward trend in measures of social cohesion since 2007, mainly due to a decline in feelings of acceptance. From the perspective of residents, recent surveys have found that 35 per cent of the community consider that immigration levels are too high.

With recent migrants more likely to come from Asian countries and less likely to have English as their native language, English-language training assists with integration, but the current 'one size fits all' program is failing some, and resources could be used more efficiently.

The humanitarian settlement program plays an important role in assisting these immigrants to integrate. However, those services do not include specialist employment services, which may be more successful in assisting this group to find employment. Similarly, family stream immigrants and the partners of skilled immigrants from non-English speaking countries find it harder to gain employment. There is a question as to whether settlement services could be more effective in delivering better employment outcomes for these groups of recent immigrants.

Immigration reinforces the need for sound environmental policies

The impacts of immigration on the natural and built environment arise from the major contribution that immigration makes to population growth, rather than the consumption choices of immigrants, which largely mirror those of the resident population. That said, both permanent and temporary immigrants are more likely to gravitate to major cities compared to the resident population. This adds a geographic dimension to the impacts on the environment.

An increase in population from any source places pressure on environmental services and existing public infrastructure. The impact of immigration can therefore be perceived as adding to the overall pressure, although in the case of some underutilised infrastructure, population growth can improve economies of scale in service provision. A higher population density can be consistent with protecting the remaining pockets of ecosystems in urban areas, but only if efficient regulations to protect these remnants are enforced.

Population pressure on environmental services can be managed, but inevitably the technological solutions, such as manufactured water and tertiary waste treatment, come with higher costs. There are also impacts on the price of land and housing particularly in metropolitan areas. While this is beneficial to property owners, there is a cost of living impact for those entering the property market.

Sound policies around urban planning and infrastructure investment, as discussed in the Commission's previous work, will remain critical in managing the effects of population growth on the environment.

The overall fiscal impact of immigrants is small and positive, but varies by visa category

Immigrants are both contributors to government revenue and recipients of government services and benefits. Notwithstanding some mixed findings, most international studies reveal that the net fiscal impact of immigration is positive but limited (no more than 2 per cent of a country's GDP). The Commission's preliminary modelling undertaken for this inquiry finds that a larger population, with the associated changes in its demographic structure and the level and composition of economic activity, will have fiscal implications for Australian governments. However, as government revenues and expenses overall are projected to increase in line with GDP, the net fiscal impact of immigration is projected to be marginally positive.

Whether an immigrant is a net fiscal contributor or beneficiary over his or her lifetime is influenced by some key factors — age on arrival, skill level, participation in the workforce, and entitlements to, and use of, government services and benefits. There is some evidence to suggest that cultural factors also influence the pattern of government services use.

Immigrants who arrive at a relatively young age, and who are highly educated, generally contribute more tax revenue over their lifetime and have comparatively low use of government services. In contrast, those who arrive at an older age have lower rates of labour force participation and higher costs due to the use of government-subsidised health care and government assistance. As a result, skilled immigration (including Temporary Work (skilled) 457 visa holders) generates a relatively large positive net fiscal impact. Fiscal impacts for family visas tend to be positive for partners but not for parents. The fiscal costs outweigh the fiscal benefits for the humanitarian stream, at least in the initial years of settlement.

Limiting immigrants' access to government assistance reduces government spending. It may also encourage the self-selection of immigrants who do not expect to require these services. But the lack of an effective government safety net for immigrants may also adversely affect their wellbeing and integration, which can add to fiscal costs in the long term.

The limited information on immigrants in government administrative databases constrains the extent to which the fiscal impact of immigration can be comprehensively assessed.

Government administrative data can be enhanced by investing in its quality, including improving the recording and integration of immigrant data across agencies and by developing data keys enabling timely linkage between administrative databases. This would provide a platform for more evidence-based policy and service delivery.

Australia (while being behind other countries) is making progress in developing and providing access to linked government administrative data. The recent integration by the Australian Bureau of Statistics of the Settlement Database with Census data and personal income tax data is a step in the right direction and has been helpful to this inquiry. There is, however, scope to broaden the integration of the Settlement Database with other government administrative datasets, such as datasets on health and education services.

The demographic impacts of migration

Population projections undertaken by the Commission and others suggest that net migration will continue to play an important role in shaping the size and structure of Australia's population into the future. Immigration oriented towards younger working-age individuals — particularly in the prime working ages of 25 to 45 years — can boost the supply of labour and thereby reduce the impact of population ageing (figure 3).

Without further net migration, the Commission projects that the age dependency ratio — the ratio of those aged 65 years and above to those aged 15 to 64 years — would increase from around 23 older persons to every 100 working-age individuals in 2014 to around 59 older persons by 2060. In contrast, a continuation of the current long-term trend in net migration is projected to limit the increase in the age dependency ratio to around 44 older persons to every 100 working-age individuals over the same period.

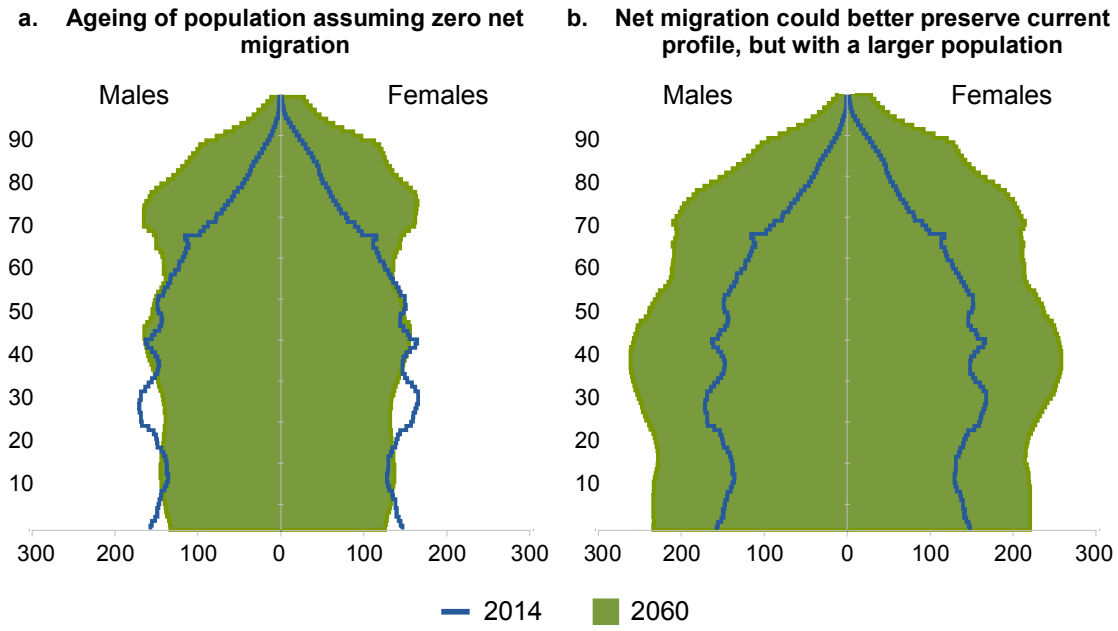
The direct effects of net migration on the size and composition of the Australian population set in train adjustments throughout the economy. A relatively larger working-age population augments the labour supply with flow-on effects on output and demand for goods and services. The contribution to national output in per capita terms — and ultimately incomes — depends on immigrants' employment rate, hours of work, skills and labour productivity.

By adding to the size of the population, net migration also increases the number of consumers in the domestic market, increasing demand for locally produced and imported goods and services, housing and human services, as well as for investment in the public infrastructure required to support a larger population.

While past studies using general equilibrium models show, unsurprisingly, that immigration has led to an increase in GDP, its impact on other measures of economic activity, such as GDP per capita, varies with assumptions about the size, skills and relative productivity of the migrant intake.

Figure 3 **The demographic dividend**

Projected population by age and gender, 2014 and 2060 ('000 persons)



Preliminary estimates of the economywide impacts

The Commission has undertaken preliminary general equilibrium modelling to simulate the economywide impacts of the change in the population size and age structure that could be induced by net migration over the next 45 years to 2060. The modelling, which applies the Victoria University Multi-regional Model, illustrates the potential economic impacts of continuing net migration compared with a hypothetical scenario of zero net migration from 2015. As with all modelling, there are a number of key assumptions underpinning the analysis and, as such, the projections should be interpreted with caution.

Without net migration, real GDP per capita is projected to be around 42 per cent higher in 2060 compared to 2014 (figure 4, first bar) based on natural increases in the population and the continuation of longer-term industry productivity trends. The population in 2060 is projected to be 27 million under this scenario.

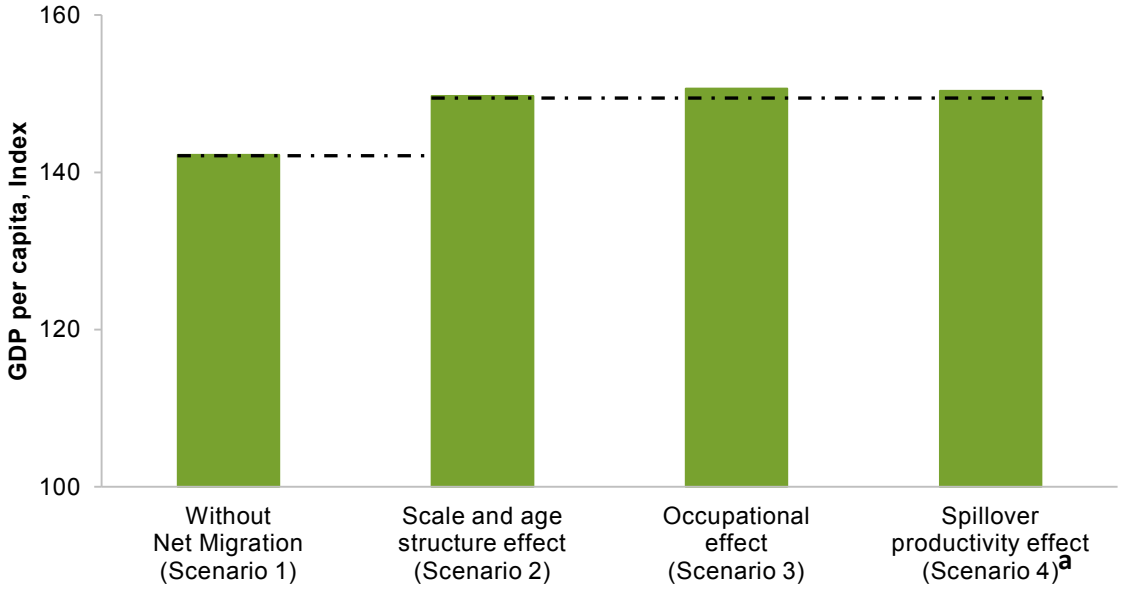
As immigrants entering Australia have a substantially younger age profile than the incumbent population, demographic projections indicate that continuing net migration at long-term average levels to 2060 will reduce the effects of population ageing. This provides a demographic dividend to Australia through higher labour force participation, with real GDP per person projected to be around 50 per cent higher in 2060 than in 2014 (figure 4, second bar). In 2060, this translates into an increase in real GDP per person of some 5 per cent relative to the zero net migration scenario. The population in 2060 is projected to be 40 million under this scenario.

Accounting for occupational differences between immigrants and the incumbent population only marginally affects GDP per capita (figure 4, third bar). While the migrant intake has a focus on skills, Australia has a relatively highly educated and experienced labour force. Therefore, much of the gains from skilled migration are already reflected in the previous scenario (where immigrants are assumed to have the same occupational profile as the incumbent population).

More speculatively, any spillover benefits from migration to labour productivity would add to the economic contribution of net migration (figure 4, fourth bar) — although, based on currently available empirical evidence on the possible scale of such effects, these spillover benefits are likely to be modest. For illustrative purposes, the Commission has applied a one per cent increase in labour productivity growth. The general economic environment and the responsiveness of the economy to new technologies and ways of working are likely to have a greater effect on productivity and its growth.

Figure 4 **The impact of net migration on GDP per person in 2060**

Index 2013-14 = 100



a Assumes that spillovers associated with migration result in a 1 per cent increase in labour productivity growth.

Population ageing is projected to place additional demands on labour availability, placing upward pressures on real wages, particularly in growing service industries. A lowering of the age dependency ratio through immigration would moderate such pressures — by an estimated 20 per cent economywide by 2060. Moderation of wage pressures is projected to be highest in the areas where the immigrant workforce is most represented — the professions, community services and labourers. Even so, real wages are projected to rise over the period.

The Commission's modelling illustrates that choosing immigrants with high rates of workforce engagement and employment in higher skilled occupations in line with the occupational profile of the Australian workforce is likely to lead to an increase in per capita GDP, provided that the rate of net migration remains broadly stable. An immigration system geared to attracting migrants with these characteristics is therefore more likely to deliver outcomes that are in the interests of the Australian community.

A price-based system: high risks — low returns?

Australia's current immigration system uses a combination of quantitative and qualitative selection criteria to determine the level and composition of the migrant intake. It has elements of a market-based system, such as with employer nomination and sponsorship, alongside government controls. The number of places under the permanent immigration programs is capped. Within these caps, qualitative criteria around character, health, age, skills (including English-language skills) and financial capacity apply. Most applicants (with the exception of humanitarian entrants) have to pay visa charges, which are relatively high in some cases.

The Commission was requested in the terms of reference to examine alternative means of allocating non-humanitarian visas, including an option where price would be the primary mechanism for selecting immigrants, while maintaining character and security checks, and providing limited access to government services.

Differences between temporary and permanent visas suggest that it is in Australia's interest to maintain a distinction between the allocation and charging system for permanent and temporary visas. Most temporary visas are uncapped — which makes the allocation of a quota through a price-based system redundant. Further, temporary immigrants are highly mobile and have a much wider range of options available to them for work, study or working holiday purposes. As such, adopting a price-based system for temporary visas would place Australia at a significant competitive disadvantage relative to the large number of other countries that offer these types of visas. Another concern is that adopting a price-based system for temporary visas could breach a range of reciprocal international agreements that Australia has entered into. Accordingly, the Commission has focused on analysing the potential impacts of a price-based allocation mechanism in relation to permanent visas only.

There is no precedent for such a system. There is, therefore, considerable uncertainty around its potential consequences. The Commission also emphasises that the estimates of the impact of the charge are preliminary, with more work to be undertaken for the final report. That said, for the reasons outlined below, the actual impacts of such a system are likely to remain highly uncertain.

A price-based immigration system — the pros and cons

People choose to migrate for a range of reasons. They make a choice between the conditions (now and expected in the future) in their home country and their potential opportunities in a new country. Factors influencing their decision on migration destination include likely employment opportunities, wage differentials, family reunion opportunities, lifestyle, access to government services, and cultural affinity. Cost — associated with visa charges, compliance and relocation — is also a consideration.

Price can be an effective rationing mechanism when there is a quota — in this case for permanent immigration visas. Proponents of a price-based system consider that an allocation system for visas based primarily on prices would have some advantages relative to the current system. It could reduce administrative and compliance costs, reduce the need for migration agents, overcome the rigidities and time delays inherent in the current system, and also raise government revenue through the charge. There is also a view that movement to a price-based system could discourage irregular arrivals by providing a legitimate and less hazardous route to permanent residency. Migrants who pay to enter may also be less exposed, and more resistant, to exploitative work practices used by some employers in relation to temporary visa holders seeking permanent residency.

Further, proponents of the system argue that migrants tend to self-select. Their willingness to pay for a visa could be expected to reflect their level of ambition, drive, energy, skill and, hence, value to their adopted country. As such, it is argued that willingness to pay could be a good proxy for immigrants' potential contribution to the economy and society.

That said, the immigration system is not well suited to a price-based approach. The movement of people across borders is distinct from the movement of goods and services given the broader economic and social flow-on effects associated with the former. Government is intrinsic to the system in every aspect, including in providing funding for welfare and health services. To remove government from a key part — selection of permanent immigrants — would increase the risk of an adverse compositional change and of eroding community acceptance of immigration, while realising few of the gains normally associated with a market-based system.

By removing the qualitative criteria attached to the current system, it could attract immigrants who are willing and able to pay, but who do not have the attributes that underpin successful integration. In particular, such a system could shift the balance of the migrant intake towards older and wealthier immigrants who are less likely to work and contribute to Australia's economy. Further, if any country were to implement a price-based system unilaterally, there could be a significant first-mover disadvantage from doing so, particularly in terms of attracting skilled migrants who have other migration options.

Preliminary modelling undertaken by the Commission suggests that under a price-based system, a charge in the order of $35 000 to $45 000 per person would maintain the annual intake of permanent immigrants at around 190 000. The results also suggest that such a system would reduce the number of skilled immigrants, and significantly increase the

number of immigrants who currently would not meet the required criteria under existing skill and family visa classes (figure 5).

Charging a higher price for visas would likely generate higher government charge revenue relative to current levels. However, visa charges are just one component of revenue that governments receive from immigrants. Another major source of revenue is income tax. The lifetime contribution of income tax is commonly much larger than current visa fees, but varies substantially by visa category. Any approach that leads to a shift away from the skill streams and/or to older migrants would be inherently risky from a fiscal perspective. This is supported by preliminary modelling results which highlight the uncertainty around the net fiscal impact of a charge (figure 5).

Limiting access to government services under the price-based model (as specified in the terms of reference) would reduce the fiscal cost of immigrants. However, there are questions over the public acceptability and credibility of such an approach, and the willingness of future governments to continue to withhold access to subsidised services — particularly for long-term immigrants (especially those who subsequently take out citizenship). There are also complex administrative issues associated with the implementation of variable rights across different immigrant cohorts and across jurisdictions. At this stage, the Commission has not considered limiting access to government services beyond the restrictions that currently apply.

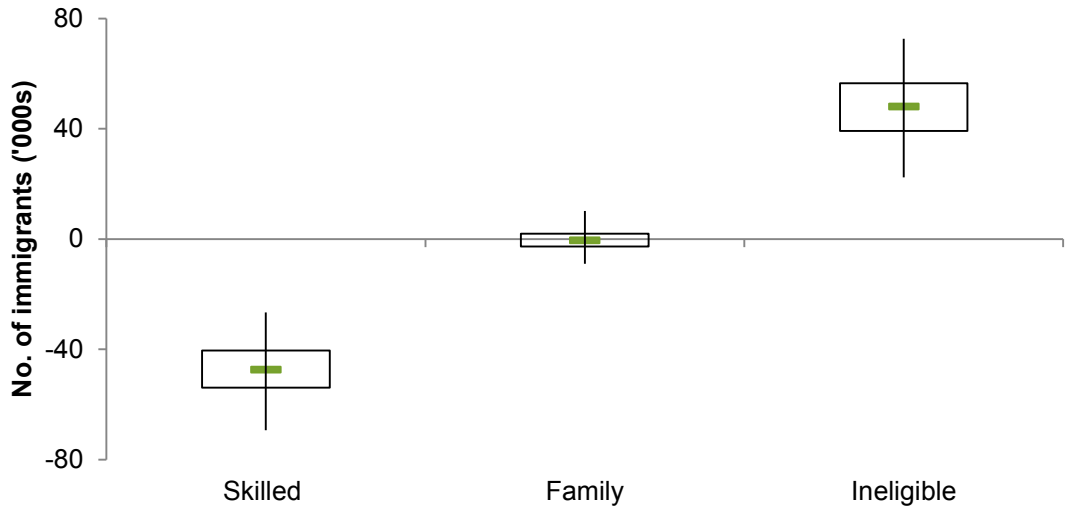
The Commission's modelling also assumes that each individual, including members of the same family, pay the same charge per person. Further, it does not account for potential increased remittances to source countries (for example, to repay a debt incurred to pay the charge). Both of these assumptions act to improve the estimated net fiscal impact of the price-based model presented in figure 5.

While attitudes towards immigration fluctuate over time in response to economic conditions, political discourse and public debate, the level of community acceptance is positively related to how well immigrants integrate. Consequently, any system that relaxes the conditions of entry and skews the composition of immigrants towards those with attributes that are less conducive to integration is likely to adversely affect social cohesion.

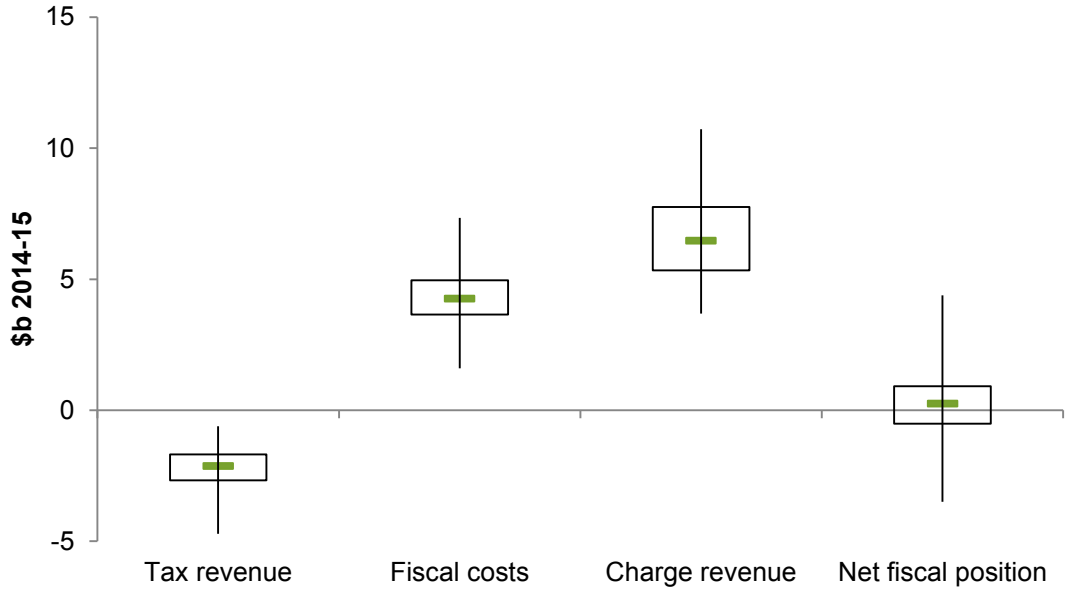
Figure 5 **Preliminary illustrative impacts of a uniform charge[a,b]**

Change relative to current arrangements

a. Annual change in migrant composition



b. Lifetime fiscal impacts of a single year cohort of migrants[c]



[a] The chart shows box plots of the distribution of each measure from 1000 sensitivity model runs, varying a number of parameters in the model. Parameter values were varied for all 3640 migrant types in the model using Monte Carlo selections from a uniform distribution. The box plot tails show the minimum and maximum of all the runs, the box shows the interquartile range (quartiles 1 and 3). The large dash represents the median. [b] The ineligible category includes prospective migrants who would not meet the required criteria under existing skill and family visa classes. [c] These estimates represent the fiscal impacts of a cohort of migrants who are granted a permanent visa in a single year. Estimates are net present values over migrants' remaining years of life in Australia from when they are granted a visa.

A price-based system would expose Australia to the negative perceptions associated with 'selling' visas. The implementation of such a scheme is likely to be controversial. Commission consultations and submissions indicate likely public resistance on several grounds, including the perceived loss of control over the immigration program, equity and other potential negative consequences. The risk that public confidence in Australia's immigration program would be eroded under such a system is not inconsequential.

The current Australian immigration system has some elements of a price-based system, for example, the contributory parent visa. However, the Commission considers that the advantages of a largely price-based system would be significantly outweighed by the disadvantages, and that there remains a role for government in influencing the attributes of prospective immigrants.

Enhancing the current system

Australia's immigration system works effectively from several perspectives. Immigrants and their children integrate fairly well into the labour market and society as a whole, and most become self-reliant, productive citizens. There is broad public support for the program and immigrants are generally well accepted in the community. Nonetheless, there is scope for improvement. Against a backdrop of changing migration patterns and emerging policy issues, Australia's system needs to remain flexible and balanced.

Managing the temporary immigration programs

There are around 1.5 million temporary residents in Australia, with temporary visa grants almost doubling over the past decade (figure 6). This growth has been driven primarily by international student, temporary skilled worker and working holiday maker visa holders. Temporary immigrants also include New Zealand citizens on the Special Category Visa, and seasonal workers. These visa programs are largely uncapped.

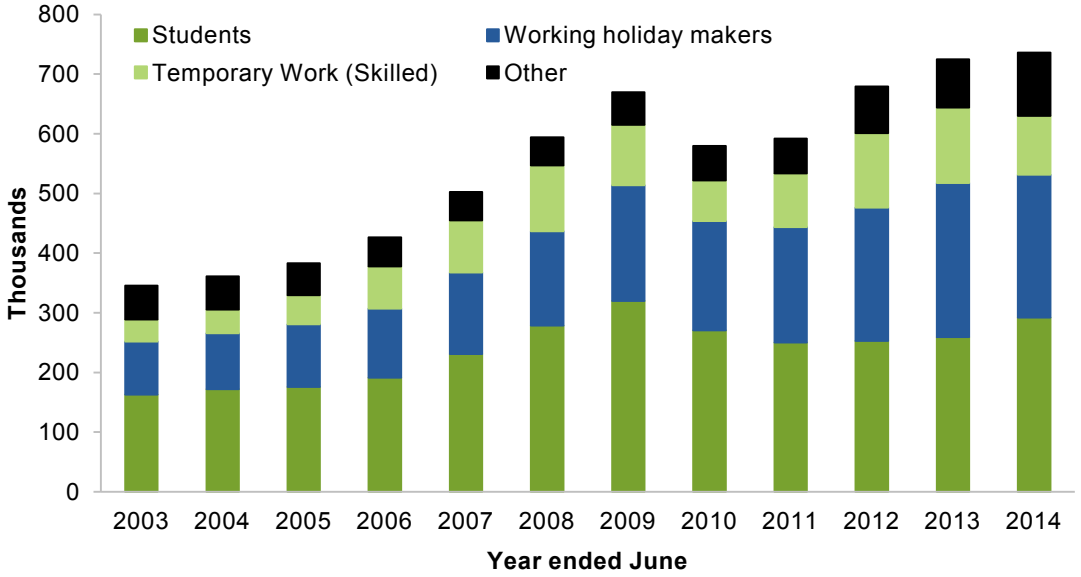
Virtually all temporary immigration programs have a labour market element, and this spans the entire skill spectrum. As such, an overarching policy issue is whether these programs contribute positively or negatively to labour market outcomes in Australia.

Another common thread across many of these visa categories is the issue of exploitation. The temporary nature of these visas, when combined with a lack of awareness of workplace rights and obligations, and, in some cases, language barriers, make temporary immigrants more susceptible to adverse outcomes, including exploitation by employers.

A further distinguishing feature of many temporary visa programs is their use as an instrument in the pursuit of regional engagement and foreign policy objectives. A number of Australia's bilateral trade agreements have provisions regarding the temporary entry of

business-related immigrants, as well as provisions relating to accompanying family members' and spouses' work rights.

Figure 6 **Temporary visa grants, 2003–2014**[a]



[a] Excludes visitor visas and New Zealand citizens on a Special Category visa.

The labour market impacts of temporary visa programs are poorly understood

In June 2015, there were 375 000 student and 26 000 temporary graduate visa holders in Australia. Student visa holders have a right to work (generally up to 40 hours per fortnight) while their course is in session. Those on a Temporary Graduate visa, depending on their qualifications, have a right to work for between 18 months and 4 years after graduation.

The pool of international students with work rights is supplemented by around 145 000 working holiday makers in Australia. The primary objective of this visa program is to encourage cultural exchange and closer ties between Australia and eligible countries (with reciprocal rights for Australian citizens). In recent years, this program has been extended to direct labour to agricultural jobs in regional areas.

Well-targeted temporary immigration programs can be an effective response to labour market shortages. However, the labour market implications of the work rights of the substantial and uncapped pool of international students, graduates, and working holiday makers are poorly understood. Some stakeholders consider that, at a time where youth unemployment is relatively high, the growing temporary programs with work rights may be adversely affecting employment and training opportunities for the incumbent population. As noted earlier, preliminary, but not conclusive, evidence suggests that

immigration may be contributing to adverse outcomes in the youth labour market. More research is required.

In relation to the 457 visas, a key issue is whether the program is sufficiently well targeted to meet genuine skill shortages. In June 2015, there were close to 190 000 temporary 457 visa holders in Australia. The annual intake of workers on these visas has almost doubled over the past decade, although it has recently fallen from its peak during the resources boom. The program can play an important role in allowing businesses to source skilled labour in peak labour demand periods and access a global pool of specialised labour that may not be available domestically. In recent times, the program has been used extensively to fill skills gaps in fields such as medicine and nursing, and mining.

Nevertheless, the operation of the 457 visa program has attracted a great deal of criticism and has been the subject of a number of government reviews in the past decade. These criticisms have included the range of skilled occupations covered by the program, the integrity of the process for identifying labour shortages, the labour market testing requirements intended to verify that genuine shortages exist and the appropriateness of the regime for testing English-language proficiency.

The most recent review of the 457 visa program (Azarias 2014) made various recommendations in each of these areas. The Government has accepted most of these and is in the process of implementing them. It is too early to tell whether these changes will be effective in addressing the issues identified by the review. However, their effectiveness should be evaluated by the Australian Government after sufficient time for those changes to take effect.

Temporary immigrant workers are more at risk of exploitation

International students and working holiday makers are inherently more susceptible to exploitation as they are likely to be young, face language barriers, and be less aware of their work rights. Moreover, as they mostly work in low to semi-skilled jobs, for which labour is generally not in short supply, they have less ability to resist the coercive behaviour of unscrupulous employers. They are also less likely to have access to informed networks.

The exploitation of temporary migrant workers is a breach of generally applicable employment laws and is subject to existing arrangements designed to protect the rights of all workers. Principal among these is the general enforcement of workers' rights through monitoring and inspections by officers of the Fair Work Ombudsman, and the provision of information on employees' workplace rights.

Apart from the adverse impacts on the individuals involved, there is also a risk that exploitation of temporary migrant workers by some employers could taint the appeal of these temporary programs. More resources to identify and act against threats to the integrity of these visa programs, reduce the information asymmetry between temporary

workers and their employers, and increase access to complaint mechanisms would help to manage these risks. These issues are also being considered in the Commission's ongoing inquiry into the workplace relations framework.

The Special Category Visa for New Zealand citizens

Under the Trans-Tasman Travel Arrangement, New Zealand citizens can generally enter and live indefinitely in Australia. Under this 'temporary' visa, New Zealand citizens gain unrestricted access to Australia's labour markets. They gain immediate access to family payments and health care under Medicare. But they also face limitations on access to social security and student loans unless they qualify for permanent residency under a permanent visa stream. There is no limit on the number of New Zealand citizens permitted to enter and remain in Australia, and more than 600 000 New Zealand citizens are currently 'temporary' residents in Australia.

The evidence suggests that New Zealanders have a high workforce participation rate in Australia. The program appears to be working effectively in facilitating labour mobility across the Tasman and is responsive to the economic cycle.

The Commission examined a suite of issues associated with the movement of people under the Trans-Tasman Travel Arrangement in its joint study with the New Zealand Productivity Commission on *Strengthening trans-Tasman economic relations* in 2012. That study found that exclusions from certain social services created a small, but growing, group of significantly disadvantaged people with no pathway to a permanent visa, for whom a case could be made for changes to improve their access to welfare support. Consistent with the study, the Australian Government has recently introduced legislation to give New Zealand citizens who have been long-term residents of Australia access to the student loans program from 1 January 2016. In this context, the Australian Government should implement the recommendation of that joint study related to the ongoing exclusion from services by a small group.

Managing the permanent immigration programs

In 2014-15 Australia granted permanent residency to around 204 000 people — 129 000 for skilled immigration, 61 000 for family immigration and 14 000 for humanitarian immigration. The skill and family streams are, overall, quite successful and aspects of Australia's approach have been emulated by other countries. However, targeted adjustments to selection mechanisms could lead to better outcomes.

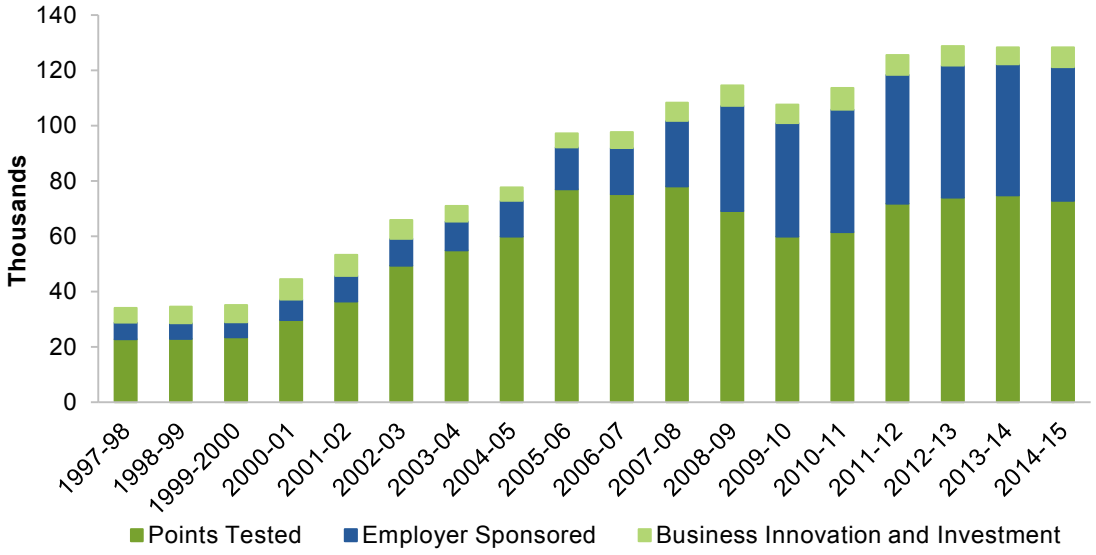
Skilled immigration — some groups perform better than others

Skilled immigration to Australia is available through four pathways: points-tested, employer-nominated, the Business Innovation and Investment Program, and the

Distinguished Talent visa. Applicants under these streams can include their partner and dependent children on their application.

Over the past decade, the Australian Government has deliberately shifted the skilled immigration program toward employer-sponsored immigration (although points-tested immigration still accounts for the majority of the intake) (figure 7). In parallel with this inquiry, the Department of Immigration and Border Protection (DIBP) is reviewing the skilled immigration program with a view to assessing its effectiveness and developing a simplified visa system. These changes could affect the characteristics of skilled immigrants over the medium term.

Figure 7 **Permanent skilled immigration visa grants, 1997–2015**



Most skilled immigrants have positive labour market outcomes and make a net contribution to government finances. This suggests that the mechanisms for selecting skilled immigrants are reasonably effective. However, some cohorts have better outcomes than others. In particular:

- employer-nominated immigrants have, on average, better short and medium-term labour market outcomes than independent skilled immigrants
- onshore independent and state government nominated applicants have significantly less favourable labour market outcomes, initially and after several years. This is likely to be related to the prevalence of former international students migrating through this pathway.

Former international students who have studied fields that are not in high demand (including business, accounting and some IT and engineering disciplines) also have less favourable labour market outcomes. After graduation they have relatively low rates of

full-time employment in jobs related to their qualification. And there is some evidence that the relatively poor outcomes for this group of immigrants persist long after their permanent immigration. In this context, the Australian Government should consider adjusting the approach to selecting skilled immigrants on the basis of further evidence on the labour market outcomes of permanent skilled immigrants coming through different pathways. This could include tightening the criteria for certain visa subclasses in relation to English-language proficiency, academic results and qualifications in occupations that are deemed to be subject to labour market shortages.

The 'skilled' lists seem arbitrary

The Consolidated Sponsored Occupations List (CSOL) and the Skilled Occupation List (SOL) apply to primary applicants under the employer-nominated and the independent points-tested skilled streams respectively. Currently the CSOL includes 649 occupations that require a bachelor degree or higher qualification through to those that are commensurate with a certificate III or IV. There is no requirement of labour shortage for an occupation to be on the CSOL. In contrast, the SOL is a list of (currently 191) occupations that are deemed by the Australian Government to be in shortage, based on labour market analysis and a public consultation process.

There are a number of issues with these lists. Whether an occupation is classified as 'skilled' is arbitrary. Further, government's assessments of whether an occupation is currently in shortage are, at best, informed speculation about the state of the labour market today and in the future. The lack of transparency around the compilation of these lists creates scope for vested interests to unduly influence the outcomes.

The Azarias review of the 457 visa program recommended some changes to the management of the CSOL, including to the process for adding occupations to the list. The Australian Government has supported these recommendations, and their implementation could address some of the concerns.

A small number of participants suggested that skilled immigration should be expanded to include 'semi-skilled' and 'unskilled' occupations. Expanding the list to include 'unskilled' or 'semi-skilled' occupations could crowd out more highly-qualified immigrants and potentially displace lower-skilled Australians who have limited opportunities in the labour market. While the list should continue to support skilled immigration only, there is scope for additional flexibility in its composition to respond to labour market developments.

The value of business and investment visas is questionable

Immigrants who are prepared to own or operate a business, or make a substantial investment in Australia may be able to immigrate through the Business Innovation and Investment Program (BIIP). The majority of immigrants through this stream (about

6000-7000 per year) come through the 'business innovation' stream, which requires them to own or manage a business in Australia with requirements to achieve a minimum level of turnover.

Most immigrants through this stream own or operate established businesses in retail or hospitality with fewer than five employees. The BIIP has recently been reviewed by the Joint Standing Committee on Migration. It found that limited data exist to assess the impacts of the program, and that it is probably not meeting objectives related to increasing innovation or linking with international markets. The Commission agrees with this assessment. Data limitations make it difficult to assess whether the BIIP generates genuine additional economic activity, or simply displaces other potential business owners. It is also not possible to compare the impacts of BIIP immigrants relative to other immigrants. The Australian Government, working with state and territory governments, should strengthen data collection for this stream, and should review the program once better data are available.

Investor visas are granted to people who invest in certain classes of assets in Australia. The thresholds range from $1.5 million for the Investor Visa to $15 million for the Premium Investor Visa. These visa classes account for a very small proportion of the total migrant intake.

Similarly, data limitations constrain an assessment of these visa streams. However, the complying investment frameworks permit Significant Investor Visa and Premium Investor Visa holders to invest their money in assets that are highly liquid, including blue-chip equities, corporate bonds, and government bonds. Visa applicants are required to hold these investments for four years (less for the Premium Investor Visa stream). The marginal addition to investment in these assets that is induced by the investor visa classes has no impact on the cost of capital for Australian businesses. The only Australian beneficiaries are fund managers, who are able to extract commissions from would-be immigrants who are forced to invest in their products.

Because there are no English-language requirements for the Significant Investor Visa and Premium Investor Visa, and no upper age limits, it is likely that these immigrants will generate less favourable social impacts than other immigrants. Further, compared to other visa streams, investor visas are prone to misuse and fraud. Concerns about visa fraud played a part in the Canadian Government's decision in 2014 to scrap its investor visa scheme.

Overall, the case for retaining the Significant Investor Visa and Premium Investor Visa streams is weak and the Government should abolish these visas.

Family immigration — valued by Australian citizens and prospective skilled immigrants

The family immigration stream provides an avenue for Australian citizens and permanent residents to bring family members to Australia. Applications by dependent children and partners are given the highest priority, and for those groups visa processing tends to be fairly efficient. Approximately 90 per cent of applications for children are finalised within 12 months. Only about half of partner visa applications are finalised within the same period. However, many partners are able to live in Australia under a temporary visa while their application for permanent immigration is processed.

Parent visa applicants can face a much longer wait. The wait for a contributory parent visa. which is subject to visa charges in excess of $45 000, is usually less than two years. But applicants through the non-contributory stream (who pay about $6000 for one parent and about $10 000 for two) face waiting times of up to 30 years. Although the waiting periods are ultimately an outcome of the demand for this visa class relative to the small annual quota, there is a question about whether this program (and other family reunion programs with excessive waiting periods) could be administered more effectively to reduce the costs of uncertainty imposed on Australian permanent residents, citizens and their parents.

Immigrants on partner visas typically have less favourable labour market outcomes than primary applicants on skilled visas. However, they still make a net contribution to government finances. Parent immigrants, on the other hand, generally impose net economic costs on the Australian community. However, the prospect of family reunion (including with parents) is an important part of Australia's attractiveness to potential skilled immigrants. Many participants emphasised the importance of family reunion for successful settlement. Any policies designed to alter the balance between skilled and family immigration need to take these interactions into account.

Humanitarian intake — a Community Support Program has merits

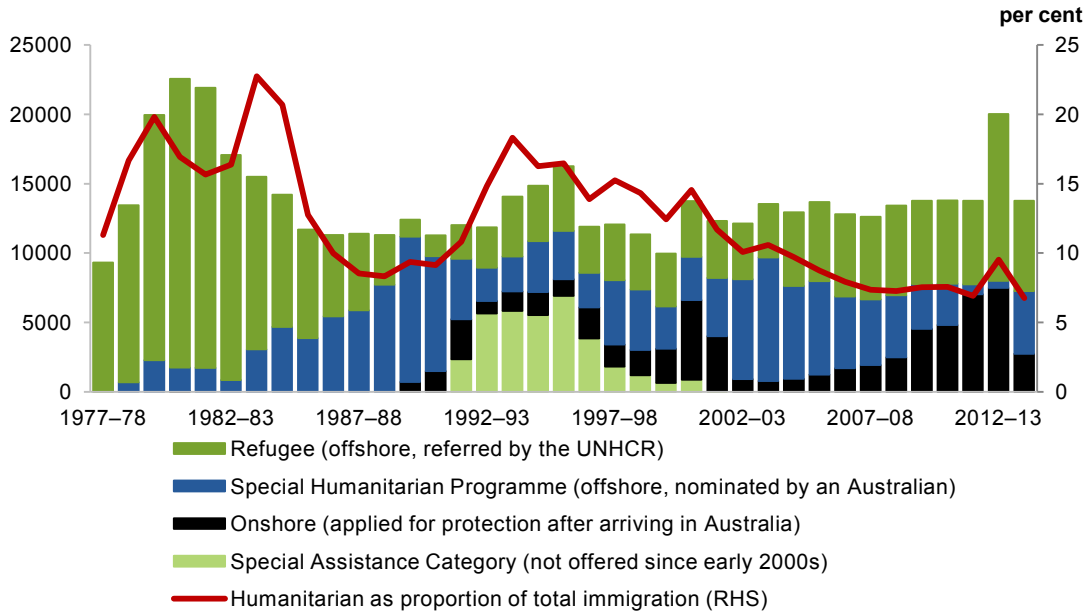
The Humanitarian Program consists of two broad streams — onshore protection (for people who apply for protection or asylum after arriving in Australia) — and offshore resettlement (the refugee stream, the Special Humanitarian Program, and the Community Proposal Pilot). For most years from 1996-97 to 2013-14 the humanitarian program intake has ranged between 12 000 and 14 000 (figure 8). In 2015-16 the humanitarian program intake will be 25 750, the largest intake in the history of the program. The Australian Government increased the original planned intake of 13 750 by 12 000 in September 2015 in response to the refugee crisis caused by conflict in Syria and Iraq.

The Community Proposal Pilot ran from June 2013 to June 2015. It provided an alternative pathway for a small number of humanitarian immigrants who were proposed by an approved organisation in Australia and paid a substantial fee ($19 124 for the main applicant and $2680 for any secondary applicant). The pilot was consistently oversubscribed. In June 2015, the DIBP released a discussion paper seeking feedback on

the possibility of establishing an ongoing 'Community Support Program' which would have similar features to the pilot. The pilot had:

- demand for places exceeding the available 500 visas
- 61 per cent of visas granted to people under 40
- fiscal benefits of $2.04 million from visa application charges and savings from not providing access to the Humanitarian Settlement Services Program.

Figure 8 **Trends in humanitarian immigration**



Inquiry participants were generally positive about the opportunities for resettlement, but some were concerned that the program was inequitable (only relatively wealthy settlers could afford the visa application charges) and visas granted through the pilot came at the expense of other Humanitarian visa grants.

The program reduced the fiscal costs of humanitarian settlement and it is likely that settlers through the program would be well supported by their relatives and communities in Australia.

Effective temporary to permanent pathways

Temporary and permanent immigration programs are designed to meet different objectives. As such, the Australian Government should keep the processes for determining permanent and temporary immigration separate. Nonetheless, given that temporary immigration is increasingly used as a pathway to permanent immigration (and ultimately to citizenship),

the interactions between the two are important, and should be considered in policy decisions.

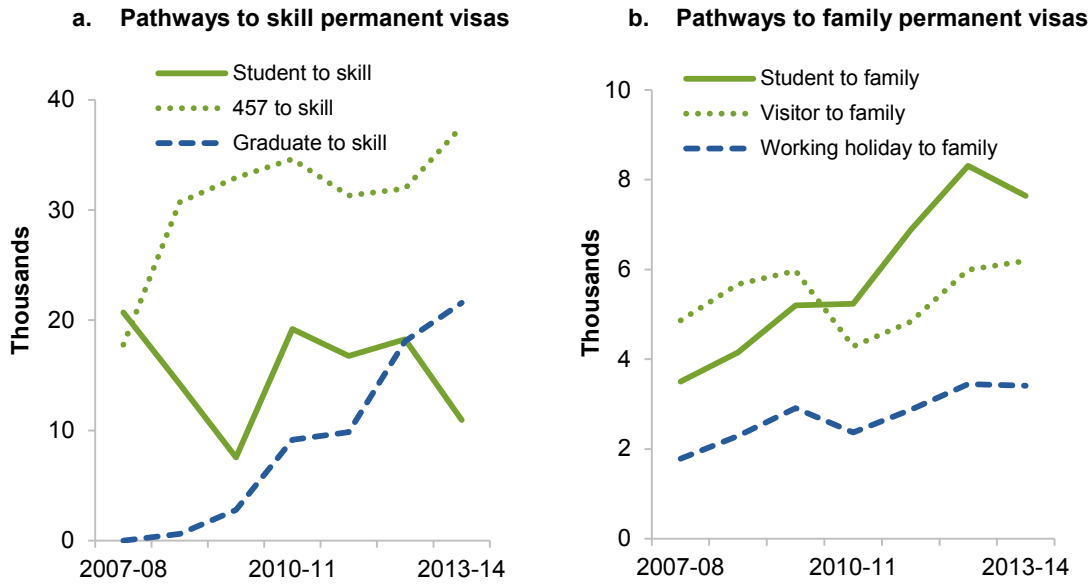
Pathways have value in supporting informed decisions on both sides — allowing immigrants to 'try before they buy', and providing additional information to employers and government about immigrants' potential economic contribution. A key issue is whether (or to what extent) the current pathways provide effective screening and targeting of immigrants transitioning from a temporary visa to a permanent one.

The shift to employer-sponsored pathways has advantages and disadvantages

One increasingly prominent pathway to permanent skilled immigration is from a 457 visa to an employer-sponsored permanent skilled visa (figure 9). Of around 79 000 onshore grants of skilled permanent visas in 2013-14, around 50 per cent of recipients were 457 visa holders.

Figure 9 **Key transitions from temporary to permanent visas[a]**

Number of onshore visa holders



[a] Not all visas are shown.

The shift towards employer-driven immigration provides less government control over the composition of the migrant intake and allows for a better alignment between immigration and business needs. Employer-driven immigration appears to have resulted in improved labour market outcomes, largely because employer-nominated permanent immigrants are employed from the time their visa is granted or immediately from arrival. Many of the objectives of sponsoring employers and governments would be aligned, while others are stipulated in visa conditions. In all likelihood, many characteristics that would make

someone employable in the short term would also make them employable over the longer term.

Yet, there is an important distinction in the *incentives* faced by employers, that even where a sponsoring employer intends to employ an immigrant for a long period of time, there would be little incentive for them to consider what the immigrant's economic or social outcomes might be in 10 to 20 years' time. Similarly, an employer has no incentive to explicitly consider whether their sponsored employee would have good prospects in the wider job market or under different economic circumstances. As such, there is a role for government in regulating employer-nominated pathways (for example, through setting of English-language and age requirements) in order to maintain a balance between immediate business needs and longer-term human capital needs.

Currently, the regulation of occupations eligible for sponsorship is not intended to be restrictive, recognising that, while incentive issues may exist, employers are well placed to observe skill shortages affecting them. As such, the regulation of employer-sponsored migration does not attempt to distinguish between short and longer-term skill needs. For example, the CSOL is used for both the temporary and permanent employer-nominated visas. Using a single list has the advantage of supporting an administratively simple pathway from temporary to permanent residency. However, there could be adverse outcomes if demand for particular CSOL occupations drops in the future. That could lead to poor labour market outcomes for some permanent immigrants. The Commission is seeking information on whether the CSOL is consistent with creating a set of incentives to meet the objectives of both temporary *and* permanent employer-nominated immigration.

Different English-language requirements

English-language requirements apply to all skilled migration pathways. However, there is a lower standard for immigrants applying for a permanent visa who have spent two years working for their nominating employer on a 457 visa in Australia compared to immigrants applying through the points-tested independent stream or through the 'direct entry' stream of the employer-nominated visa. In addition, immigrants applying for a permanent visa can be exempt from the English-language requirements if they have completed five years of secondary and/or higher education and all the tuition was delivered in English.

English-language proficiency is critical for successful labour market outcomes and social integration. While there are likely to be benefits in having some flexibility in how English-language testing is undertaken, it is not clear that having lower English-language requirements for former 457 visa holders is justified. Unless there is compelling evidence that the lower standard delivers significant net benefits to the Australian community, it would seem reasonable to bring the English-language requirement into line with the requirement for the other skilled immigration pathways.

The Commission also has concerns about the exemption from English-language testing for immigrants who have undertaken five years study with tuition in English. Courses of study

vary markedly in their requirement for English-language comprehension. For instance, some subjects may be more amenable to private study rather than interaction with teaching staff. There is also likely to be wide variation in the extent to which particular courses can ensure that students have the language skills fit for the workplace.

A consistent approach to visa charges

The current system

Currently, the Australian Government sets different fees for each visa subclass, ranging from zero for most humanitarian visas, through to almost $50 000 for a Contributory Parent Visa. Visa charges have increased significantly in recent years, and the revenue generated is now more than three times the costs of processing visa applications. Charges for Australian visas are generally higher than in Australia's major competitor countries.

However, the basis for setting these charges is unclear and appears ad hoc in its reliance on a range of methodologies. For example, the Contributory Parent Visa charge is the only charge that is based on some portion of the expected fiscal costs to the Australian Government. However, as was intended when introduced, the actual charge only covers a small portion (around 12 per cent) of the expected costs of the Contributory Parent Visa holder.

There is a paucity of data on the relationship between visa charges and the demand for visas. This constrains the evidence base to inform policy decisions. This gap should be addressed by the Australian Government publishing on a regular basis information on visa charges and the underlying methodology for setting these charges, as well as the number of applications and the characteristics of immigrants covered by these charges.

Other options for consideration

The terms of reference ask the Commission to examine the scope for alternative approaches (to a price-based system) for allocating and charging for visas. A range of options have been suggested in submissions to this inquiry — including open borders, a system whereby prospective migrants could pay for the relaxation of particular criteria, and an infrastructure levy.

In an environment where the demand for permanent visas exceeds the number of places available, there can be a role for price in allocating permanent visas when used in conjunction with the current system's eligibility criteria.

In assessing the scope for other options, the Commission has focused only on options that maintain the:

- current level of skill and family visa grants (at around 190 000 migrants per year)

- current balance between the skill and family streams and the qualitative criteria attached to these streams
- health, character and security checks as applicable under the current system
- current exemption from a visa charge for humanitarian migrants.

Most of the options considered (box 1) are able to mitigate the risks associated with a largely price-based approach, whilst providing a more consistent and transparent approach to charging. Retaining the current eligibility conditions means that all immigrants would need to have either skills or close family connections.

Box 1 Other visa charging options considered

Option 1: A market-based price by visa category — the existing qualitative criteria for each subclass would be retained. However, charges would be set on a basis consistent with demand and supply conditions for each visa category (and could be set through an auction, tender or administrative approach) — effectively multipart pricing.

Option 2: A fiscally-reflective charge by visa category — the existing qualitative criteria for each subclass would be retained. However, charges would be set according to the expected net lifetime fiscal costs (or a proportion thereof) for each visa category.

Option 3: A charge in exchange for relaxed criteria — a charge could allow prospective immigrants who are currently ineligible under the skill stream to, for example, purchase points or be exempt from the age criterion under this stream.

Option 4: A uniform levy paid by all skilled and family immigrants — all immigrants would pay a flat levy in addition to a base fee for infrastructure, settlement services and other initial costs.

Option 5: A paid permanent visa — a new visa class with a small quota (potentially as a replacement for the Significant and Premium Investor Visas) would be established. Only health, character and security checks would apply, with a relatively high charge as the main rationing mechanism.

By and large, these options would raise government charge revenue relative to the current system. They could also be less likely to face public resistance compared to the largely price-based approach, though public support would partly be contingent on the narrative used to explain the policy. However, the incentives created by differential charging could change the composition of immigrants *within* the skill and family streams, with potential economic and social implications. In addition, options that are more tightly targeted are likely to be more administratively complex.

To the Commission's knowledge, most of these options have not been adopted elsewhere in their entirety, and there is scant evidence on the likely behavioural responses of migrants. Given this uncertainty, the Commission is seeking participants' views on the relative merits of these options or other options that may be appropriate.

Draft recommendations, draft findings and information requests

Assessment framework

DRAFT FINDING 4.1

Decisions about the level of immigration are the responsibility of the Australian Government. They involve balancing a complex set of economic, social and environmental policy objectives.

There is no comprehensive empirical basis for setting an aggregate level of immigration over time that would improve the wellbeing of the Australian community. Improving incumbents' wellbeing is likely to be consistent with a range of immigration rates, which is determined (among other things) by the efficiency of the provision of infrastructure, the efficiency of the labour market, technology, settlement services and external factors.

Enhancing labour market outcomes

DRAFT FINDING 5.1

At an aggregate level, preliminary analysis suggests that there is no discernible effect of immigration on wages, employment and participation of incumbent workers. While there is some preliminary evidence to suggest that immigration may be a contributing factor to adverse outcomes in the youth labour market, this evidence is not conclusive and requires further examination.

DRAFT RECOMMENDATION 5.1

The Australian Government should seek opportunities to improve the recognition of overseas qualifications obtained at high quality institutions, including through bridging courses.

INFORMATION REQUEST 5.1

The Commission seeks evidence and information on whether investment in skills by incumbents and firms has been negatively affected by immigration and, if so, the size of the effect.

INFORMATION REQUEST 5.2

The Commission is interested in information on policies that are likely to be more effective in attracting highly skilled immigrants to live and work in Australia.

Managing the social and environmental impacts

DRAFT FINDING 6.1

There is widespread acceptance by the Australian community of multiculturalism. Successful multiculturalism helps Australia benefit from a diverse immigration intake and assists in maintaining social cohesion by developing respect and trust between the different ethnic groups that make up the Australian community.

DRAFT FINDING 6.2

High rates of immigration put short-term upward pressure on land and housing prices in Australia's largest cities. Such upward pressures are at least partly the result of government failure to implement urban planning and zoning reforms.

DRAFT FINDING 6.3

Urban population growth puts pressure on many environment-related resources and services, such as clean water, air, and waste disposal. Managing these pressures requires additional investment, which increases the unit cost of relevant services, such as water supply and sanitation.

DRAFT FINDING 6.4

Immigration, as a major source of population growth in Australia, contributes to congestion in the major cities, raising the importance of sound planning and infrastructure investment. However, a larger population offers opportunities for more efficient use of, and investment in, infrastructure. While immigration levels are determined by the Australian Government, many of the impacts have to be managed by state, territory and local governments.

DRAFT RECOMMENDATION 6.1

The Australian Government should review the mix and extent of settlement services for immigrants (including humanitarian immigrants) with the aim of improving their labour market and social engagement outcomes. This should include consideration of the adequacy of the English-language training hours and access to employment services.

INFORMATION REQUEST 6.1

How can the Adult Migrant English Program be better tailored to meet the individual needs of immigrants for English-language training? Are there lower cost approaches to increasing the access of recent immigrant groups (such as those on a family visa) to English-language classes, including conversation classes?

INFORMATION REQUEST 6.2

Are the current investments to support acceptance of multiculturalism and address racial discrimination effective and efficient? Could governments achieve more by improving coordination and/or improving engagement with community organisations?

A better evidence base of the fiscal impacts of immigration

DRAFT FINDING 7.1

International and Australian evidence suggests that the overall net fiscal impact of immigration tends to be small but often positive, and depends on the composition of the migrant intake. Selecting immigrants who are relatively young, healthy, skilled and proficient in English is likely to lead to a net positive fiscal outcome as these immigrants tend to generate a higher lifetime tax revenue and have a lower propensity to consume government-funded services.

DRAFT RECOMMENDATION 7.1

The Australian Government, through its data integrating authorities, should continue to link the Settlement Database with other government administrative datasets, such as datasets involving health and education services, to support immigration policy development and expenditure on social services.

DRAFT RECOMMENDATION 7.2

The Australian Government should follow the approach of Statistics Canada in establishing Research Data Centres to provide non-government researchers vetted access to unit record government administrative datasets and other confidential microdata files.

Economywide impacts of migration

DRAFT FINDING 8.1

Projections from the Commission's preliminary modelling suggest that continuing net overseas migration at long-term average levels would increase Australia's population to around 40 million by 2060 — 13 million larger than projected with natural increase alone.

By continuing to attract people of working age, the intake of migrants would deliver a demographic dividend to Australia. The associated decrease in the age dependency ratio can reduce — but not offer a permanent solution to — the economic impact of an ageing population.

- While immigrants would benefit from their employment in Australia, the Australian population as a whole would benefit from a higher output per person.
- The increased employment relative to population raises GDP per person — projected to be around 5 per cent higher by 2060 (equivalent to $5100 per person in 2013-14 dollars) than without migration.

Managing temporary immigration programs

DRAFT RECOMMENDATION 9.1

The Australian Government should commission a public inquiry into the labour market and broader economywide effects of work rights for international students, temporary graduate visa holders and working holiday makers.

DRAFT RECOMMENDATION 9.2

The Australian Government should assess the effectiveness of changes implemented as a result of the recommendations made by the Independent Review into Integrity in the Subclass 457 Programme (the Azarias Review) after sufficient time for those changes to take effect.

DRAFT RECOMMENDATION 9.3

The Fair Work Ombudsman should commission the development of a smart phone app that would provide temporary immigrant workers with information on their work rights and responsibilities, and with links for lodging complaints about abuses or exploitation.

DRAFT RECOMMENDATION 9.4

The Australian Government should implement recommendation 4.24 of the 2012 joint study by the Australian Productivity Commission and the New Zealand Productivity Commission on *Strengthening trans-Tasman economic relations*. In particular, it should:

- address the issues faced by a small but growing number of non-Protected Special Category Visa holders living long term in Australia, including their access to certain welfare supports and voting rights. This requires policy changes by the Australian Government, including the development of a pathway to achieve permanent residency and/or citizenship.

INFORMATION REQUEST 9.1

How widespread and valid are the concerns raised by ISLPR Language Services regarding the current acceptable English tests for immigrants to Australia?

What are the likely benefits and costs of introducing ISLPR® or other validated English-language tests as an accepted test for assessing the English-language proficiency of those seeking a temporary visa?

INFORMATION REQUEST 9.2

The Commission seeks feedback on the merit of caps on temporary 457 visa numbers for specific occupations. It is particularly interested in participants' views on whether the recommendations from the Independent Review into Integrity in the Subclass 457 Programme (the Azarias Review) — and which have been supported by the Australian Government — are likely to lead to the more accurate identification of genuine labour market shortages for occupations on the Consolidated Sponsored Occupations List.

Managing permanent immigration programs

DRAFT FINDING 10.1

Former international students who graduated in oversupplied fields (including business, accounting and information technology) have relatively poor labour market outcomes. It is likely that this contributes to the relatively poor performance of onshore independent points-tested immigrants.

DRAFT FINDING 10.2

The Australian community benefits from having a skilled immigration intake with a diverse range of skills and other human capital characteristics. Maintaining a range of visa subclasses with different requirements for visa grants provides pathways for a diverse skilled immigration intake.

DRAFT FINDING 10.3

The economic benefits of the Significant Investor Visa and Premium Investor Visa streams accrue mainly to the visa holders and to fund managers. The benefits to Australian businesses seeking investment and the economic benefits to the broader Australian community are likely to be very small or nonexistent. Overall the case for retaining the Significant Investor Visa and Premium Investor Visa streams is weak.

DRAFT RECOMMENDATION 10.1

Following the implementation of the current simplification of skilled visa subclasses the Australian Government should continue to collect information on the labour market outcomes of permanent skilled immigrants through the independent points-tested and employer-nominated visa subclasses, including onshore and offshore applicants.

The Australian Government should use this information to assess the effectiveness of the various skilled immigration visa subclasses and should adjust the selection criteria to choose the immigrants who make the largest economic contributions. This could include tightening the criteria for certain visa subclasses in relation to:

- English-language proficiency
- academic results
- qualifications in occupations that are in a state of labour shortage.

DRAFT RECOMMENDATION 10.2

The Australian Government should review the Business Innovation and Investment Program to assess whether it is meeting its objectives.

To complete this review, the Australian Government will require more detailed information on the characteristics and impacts of immigrants through this program. The Australian Government should collect and publish information on indicators including:

- turnover
- employment
- wages paid to employees
- location
- innovation
- links with international markets.

DRAFT RECOMMENDATION 10.3

The Australian Government should abolish the Significant Investor Visa and Premium Investor Visa streams.

INFORMATION REQUEST 10.1

The Commission seeks information on the potential impacts of tightening the points test for the onshore independent visa subclass of the skilled immigration program, including granting more points for:

- *superior English-language proficiency*
- *better academic results*
- *qualification in under-supplied fields.*

Effective temporary to permanent pathways

DRAFT RECOMMENDATION 11.1

The Australian Government should retain separate processes for determining temporary and permanent immigration. In doing so, it should:

- ensure that the impacts of both temporary and permanent immigrants are considered in policy decisions
- improve monitoring of temporary immigrants' labour market participation
- ensure that the design of immigration pathways supports the broader objectives of immigration policy.

INFORMATION REQUEST 11.1

The Commission seeks feedback on the use of the Consolidated Sponsored Occupations List in the immigration pathway from temporary to permanent employer-sponsored skilled immigration. Is the list sufficient to allow both temporary skilled (subclass 457) visas and employer-nominated permanent visas to meet their stated objectives?

INFORMATION REQUEST 11.2

The Commission is seeking information on the English-language requirements for the Temporary Residence Transition stream of the employer-nominated (subclass 186) visa, including:

- *the benefits and costs of having a lower English-language requirement than other skilled immigration streams ('vocational' rather than 'competent')*
- *the benefits and costs of the exemption from English-language testing for immigrants who have undertaken five years education with all tuition in English.*

A price-based system: high risks — low returns?

DRAFT FINDING 12.1

The adoption of a price-based immigration system is not supported by evidence. Such a system could:

- attract less desirable immigrants compared to the current system
- favour immigrants with an existing capacity to pay over those who would make the greatest economic contribution to Australia.

DRAFT RECOMMENDATION 12.1

The Australian Government should not use price as the principal mechanism for allocating permanent visas.

Visa charging

DRAFT FINDING 13.1

The Contributory Parent Visa charge recognises the high expected fiscal costs of parents. However, at its current level, it is only a small portion of these expected costs.

DRAFT RECOMMENDATION 13.1

The Australian Government should articulate the objective of its visa charging system and publish information in the form of:

- a retrospective report covering the past 10 years of visa charges, the number of applications and the characteristics of immigrants by visa subclass
- biennial reports on changes in visa charges and the underlying visa charging methodology, changes in other visa terms and conditions, the number of applications and the characteristics of immigrants by visa subclass.

INFORMATION REQUEST 13.1

The Commission seeks participants' views on the potential impacts of the following alternative visa charging models in conjunction with retaining the qualitative criteria under the current system:

- *Option 1: A market-based price for each visa subclass*
- *Option 2: A fiscally-reflective charge by visa subclass*
- *Option 3: An additional charge in exchange for relaxing specific selection criteria*
- *Option 4: A uniform levy across visa classes*
- *Option 5: A new visa subclass with a limited number of places and a very high charge, with only health, character and security checks.*

1 Introduction

Immigration has played a defining role in shaping Australia's population, economy and society. More than four in ten people living in Australia are either immigrants or children of immigrants. In 2013-14, over 200 000 people were granted permanent visas and over 700 000 people were granted temporary visas to work, study or holiday and work. Immigration is the largest component of population growth in Australia.

The level and composition of immigration to Australia have evolved significantly over time in response to developments abroad and in Australia. More recent changes include a substantial increase in temporary immigration and an increasing emphasis on skilled immigration. Such changes influence how immigration affects Australia's economy and society, and this inquiry is a timely opportunity to review Australia's approach to managing immigration.

Australia's immigration system allows people to migrate to Australia temporarily or permanently under many different visa categories. Australia sets limits (such as caps) on some forms of immigration and uses qualitative selection criteria (such as the points system for permanent skilled immigration) to determine its composition. The qualitative selection criteria typically include character, health, age, family connection, skills, occupation, and financial requirements. As well, most visa categories have application fees and charges.

1.1 What has the Commission been asked to do?

The Australian Government has requested the Productivity Commission to undertake an inquiry into the impacts of immigration on Australia and the way immigrants are selected. The Commission is to report by March 2016 on the benefits and costs of temporary and permanent immigration with regard to the budgets and balance sheets of Australian governments, and the income, wealth and living standards of Australian citizens.

The terms of reference request the Commission to conduct an examination of the scope to use alternative methods for determining migrant intakes — including through charges — and the effects these would have. The terms of reference direct the Commission to examine at least one specific scenario in which entry charges for immigrants would be the primary basis for the selection of immigrants, such that:

- there would be no requirements relating to skills and family connections
- qualitative requirements relating to health, character and security would remain
- all entrants would have the right to work

- entrants would have limited access to social security or subsidised education, housing or healthcare
- the charge could be waived for genuine confirmed refugees, whose entry would remain subject to current constraints.

The Commission has also been requested to consider the interaction between temporary and permanent immigration, noting that temporary immigration is an established pathway to permanent immigration.

1.2 Scope of the inquiry

The scope of the inquiry is broad and gives the Commission an opportunity to examine the entire immigration system to identify possible improvements. To inform the analysis in this inquiry, the Commission has considered a wide spectrum of policies and issues. Some of these are directly related to managing the migration intake. Others, such as social security and environmental management, have broader objectives, but also influence the outcomes of immigration.

In assessing the impacts of immigration, the Commission has adopted an overarching policy objective of improving the overall wellbeing of the Australian community. For the purposes of this inquiry, the Australian community is defined as including Australian citizens and permanent residents. However, this does not completely disregard temporary residents and prospective immigrants, where their wellbeing also affects the wellbeing of the Australian community. The framework used by the Commission to assess the costs and benefits of immigration is presented in chapter 4.

1.3 The Commission's approach

The Commission is using a number of methods to undertake this inquiry, including consulting widely with stakeholders and drawing on evidence, analysis and recommendations from other reports from Australia and overseas. Quantitative work is also being undertaken to inform the Commission's assessment of the costs and benefits of immigration and the impact of using a charge as the primary basis for determining the migrant intake (box 1.1). However, many of the impacts of immigration, and evidence of these impacts, are qualitative in nature. In these cases, the Commission is drawing on existing research and analysis, and stakeholder perspectives to form a judgment.

Box 1.1 Quantitative work

The Commission is undertaking the following quantitative analyses as part of this inquiry.

- A number of data sources and statistics (including unpublished and administrative data) on immigration, labour markets, government finances and other areas are being analysed as part of the assessment of costs and benefits on immigration.
- Computable general equilibrium modelling is being used to assess the economywide impacts of immigration.
- Partial equilibrium modelling is being used to examine how a charge might affect the level and composition of immigration to Australia.
- Quantitative work is being undertaken on the labour market outcomes of immigrants, including updating work undertaken in the Commission's 2006 study on the economic impacts of migration and population growth.

In addition, the Commission contracted Professor Robert Breunig to undertake work on the impact of immigrants on the labour market outcomes of the incumbent population.

More information on the approaches to the quantitative and modelling work is presented in appendix C and technical supplements A, B and C (available on the Commission's website).

The Commission has completed a substantial stream of work on migration in the past and this inquiry builds on that. Previous work on migration that is relevant to this inquiry includes:

- *Economic Impacts of Migration and Population Growth* — a Commission research report (PC 2006)
- *Population and Migration: Understanding the Numbers* — a Commission research paper (PC 2010b)
- a roundtable on *A 'Sustainable' Population? – Key Policy Issues* (PC 2011a)
- a submission to the *Sustainable Population Strategy Taskforce* in 2011 (PC 2011a)
- *Geographic Labour Mobility* — a Commission research report (PC 2014c).

International evidence and experience is also being drawn on in this inquiry, with a focus on countries with which Australia is most likely to compete for immigrants, including Canada, New Zealand and the United States.

Several reviews related to immigration have recently been conducted by other organisations and some are being undertaken concurrently, such as the *Review of Skilled Migration and Temporary Activity Visa Programmes* by the Department of Immigration and Border Protection (box 1.2).

Box 1.2 Some current and recently completed reviews

Current reviews

- *Review of the Skilled Migration and Temporary Activity Visa Programmes* — the Department of Immigration and Border Protection (DIBP) is undertaking this review, through which it is proposing to simplify and significantly reduce the number of visas within these programs (DIBP 2014j). It is likely that any changes would be implemented from 1 July 2016 (DIBP 2015e).
- *Review of the Temporary Work (Entertainment) visa (Subclass 420) program* — this review is being undertaken by the DIBP and the Ministry for the Arts. Its aim is to reduce regulations and inefficiencies related to this visa (AGD and DIBP 2015).
- *Inquiry into the Seasonal Worker Programme* — this review, being undertaking by the Joint Standing Committee on Migration, is examining the Seasonal Worker Programme and scope for expanding it (Joint Standing Committee on Migration 2015a).
- Inquiry into *The impact of Australia's temporary work visa programs on the Australian labour market and on the temporary work visa holders* — this inquiry is being undertaken by the Senate Education and Employment Committees and is scheduled to report in February 2016 (Senate Standing Committees on Education and Employment 2015).

Recently completed reviews

- *Inquiry into the Australian Citizenship Amendment (Allegiance to Australia) Bill 2015* — this inquiry, undertaken by the Parliamentary Joint Committee on Intelligence and Security, examined the Bill, which contained measures specifying the circumstances in which a dual Australian national can lose his or her Australian citizenship. The Committee recommended the Bill be passed subject to a number of amendments to improve safeguards, oversight and accountability mechanisms (Parliamentary Joint Committee on Intelligence and Security 2015).
- *Future directions for streamlined visa processing* — this review, undertaken by the DIBP recommended a number of changes to the student visa program including implementing a new combined framework for assessing risks and reducing the number of student visa subclasses from eight to two (DIBP 2015a).
- *Joint review of border fees, charges and taxes* — this review was commissioned prior to the 2015-16 Commonwealth Budget to identify where charging arrangements could be improved. It was undertaken by the then Australian Customs and Border Protection Service, the DIBP and the Department of Agriculture. In response to the review's recommendations, some price differentials between similar visas were removed and some visa fees were increased (DIBP 2015d).
- *Independent Review into Integrity in the Subclass 457 Programme* — this review, commissioned by the Australian Government, made a number of recommendations including removing labour market testing, replacing annual training benchmarks with a training fund for local workers, changes to the English-language requirements and changing requirements for permanent residency. The Australian Government responded that it was supportive of most of the recommendations and has begun implementing a number of them (Azarias et al. 2014; DIBP 2015b, 2015c).

(continued next page)

Box 1.2 (continued)

- *Inquiry into the Business Innovation and Investment Programme* — this review recommended that the DIBP undertake a review of the Business Innovation and Investment Programme as part of the 2015-16 Migration Programme survey (Joint Standing Committee on Migration 2015b).
- *Our North, Our Future: White Paper on Developing Northern Australia* — this White Paper included a number of immigration-related recommendations including working with the Northern Territory, Western Australia and Queensland governments on a Designated Area Migration Agreement for each state, expanding the Seasonal Worker and Working Holiday Maker programs and piloting a two-year visa for citizens of Nauru, Tuvalu and Kiribati to work in Northern Australia (Australian Government 2015d).

1.4 Conduct of the inquiry

The terms of reference for the inquiry were received on 20 March 2015. Following receipt of the terms of reference, the inquiry was advertised in national newspapers and promoted on the Commission's website. An issues paper was released on 1 May 2015.

The Commission has consulted widely with stakeholders within Australia, including interested individuals, industry and business organisations, unions, professional groups, academics and officials from Australian, state and territory governments. As well, stakeholders provided 67 submissions and several public comments prior to the release of this draft report. In addition, the Commission held a technical workshop on the computable general equilibrium modelling being used to assess the economywide impacts of immigration. The Commission has also undertaken international consultations in Canada, New Zealand and the United States (appendix A).

Following the release of the draft report, further consultations with stakeholders will be conducted. The Commission is seeking feedback on the draft findings, recommendations and information requests through submissions, and will hold public hearings in December 2015. Details on how to make a submission and the forthcoming public hearings can be found at the front of this report.

1.5 Structure of the report

This report contains 13 chapters, 3 appendices and 3 online only technical supplements.

- Chapter 2 provides an overview of Australia's immigration system and trends in immigration to Australia. Chapter 3 discusses the characteristics of immigrants and how they differ from the Australian-born population and across visa categories.
- Chapter 4 explains the Commission's approach to this inquiry including outlining the framework used to assess the costs and benefits of immigration.

- Chapters 5 to 8 assess the labour market, social and environmental, fiscal and economywide impacts of immigration.
- Chapters 9 and 10 provide an assessment of current arrangements for temporary and permanent immigration respectively. Chapter 11 discusses the balance and interaction between temporary and permanent immigration.
- Chapter 12 examines the feasibility of using a price as the primary basis for determining the intake of permanent immigrants and chapter 13 outlines other options for visa charging.
- Appendix A outlines the consultations undertaken and the submissions received.
- Appendix B presents an overview of immigration systems in Canada, New Zealand and the United States.
- Appendix C provides more detail on the impact of immigration on labour market outcomes.
- Technical supplements A and B outline the approaches taken for the general equilibrium and partial equilibrium modelling respectively.
- Technical supplement C presents a quantitative analysis of the impact of immigration on the labour market outcomes of the incumbent population.

2 Migration trends and policies

Key points

- International patterns of migration have evolved substantially over time. Over the past century, migration flows to Australia have tended to reflect global trends.
- In recent decades, Australia has shifted from immigration policies largely focused on ethnicity, and with the objectives of nation building and encouraging citizenship, to attracting a diverse range of immigrants who can potentially make the greatest contribution to the Australian economy and society.
- In 2013, almost 28 per cent of Australia's population was born overseas. This is high by international standards. Another 21 per cent had at least one parent who was born overseas.
- Australia has a hybrid immigration system, which uses a combination of qualitative and quantitative selection mechanisms to determine the level and composition of immigration. Australia caps the number of places available under the permanent Migration and Humanitarian programs. Qualitative criteria include character, health, financial, age and skill requirements. Most immigrants have to pay visa application charges, which can be significant.
- The Australian Government takes an active role in selecting immigrants, particularly for some permanent immigration programs. But for others, the Government imposes fewer requirements and exerts less control. For example:
  - most temporary immigration programs are uncapped
  - employers are responsible for assessing the skills of potential permanent immigrants for many skilled visa categories
  - the Australian Government sets few requirements for accompanying family members and New Zealand citizens.
- Since the mid-2000s, net overseas migration — the difference between immigration and emigration — has made a larger contribution to population growth than natural increase.
- Both permanent and temporary immigration have increased in recent years. Temporary immigration has increased at a much faster rate, and is now the larger contributor to net overseas migration.
  - Most of the recent growth in permanent immigration has been in skilled immigration. In particular, the employer-sponsored category increased from 17 per cent of skilled immigration in 2007 to 37 per cent in 2014.
  - In the temporary immigration stream, international student visa grants increased by about 80 per cent between 2003 and 2014, skilled workers under the subclass 457 visa category by about 170 per cent and working holiday makers by about 170 per cent.
  - Temporary immigration often serves as a pathway to permanent residency.

Immigration has played an important role in shaping Australia's economy and society. This chapter provides a brief overview of trends in migration globally (section 2.1), discusses developments in Australia's immigration policies since Federation (section 2.2) and recent trends in immigration to Australia (section 2.3), and provides an overview of Australia's current immigration system (section 2.4).

2.1 Trends in global migration

People have been migrating for millennia. From late medieval times to the late 18th century, most international migration involved slaves and criminals, particularly to the new world. Through the 19th century, free migration between sovereign states became more common. Since then, two distinct waves of international migration have taken place, coinciding with increased globalisation (Ferrie and Hatton 2015; Williamson 2006). Although the two waves of migration occurred separately, much of the migration during these waves occurred for the same reasons (box 2.1).

The first wave of large-scale migration took place from 1820 until around World War I. One of the largest flows of migration in the period involved people emigrating from European countries to the new world countries. For example, over 55 million people emigrated from Europe to North America (71 per cent), South America (21 per cent) and Australasia (7 per cent). However, people also migrated within Europe and between new world countries. And significant migration to, from and within Asia also took place. For example, about 50 million people emigrated from India and South China to south east Asia, the Pacific Islands, Africa, South America and the Caribbean (Ferrie and Hatton 2015; Williamson 2006).

The second wave of migration occurred after World War II and has continued to the present. Key shifts in the levels and patterns of migration over this period have included:

- migration to North America and Oceania increased from the end of World War II to the 1970s and again from the mid to late-1990s onwards
- emigration from Europe to North America and Oceania declined from 400 000 per year in the early 1950s to less than 100 000 in the 1990s. At the same time, immigration to Europe and between different countries within Europe increased. Immigration into the European Union has soared since the 1980s
- substantial emigration from Eastern Europe, particularly in the 1980s
- Latin America changed from a destination to a major source of immigrants, due to the much higher wages in the United States and long periods of economic and societal disruption in Latin American countries (Hanson and McIntosh 2012). Between 1960 and 1980, the number of people from Latin America and the Caribbean living outside the region increased from 1.9 million to 4.8 million
- significant increases in the number of migrants from Asia, Africa and the Middle East (Chiswick and Hatton 2003; Williamson 2006).

Box 2.1 What drove the two waves of migration?

Much of the migration during the first and second waves occurred for the same reasons. People migrate because the expected net benefits of moving outweigh the expected net benefits of staying put. The benefits and costs of migration are influenced by 'push' and 'pull' factors (chapter 4). For example, many people migrate for the higher wages and living standards in host countries (pull factors). And in many cases, higher incomes in source countries increased migration as more people had the resources to finance the costs of moving (Czaika and de Haas 2014; Ferrie and Hatton 2015; Williamson 2006).

Demographic factors also played an important role. For example, improvements in health and nutrition during the 19th century increased the proportion of young adults in the European population — those most likely to migrate (Ferrie and Hatton 2015; Williamson 2006). Increases in the young adult population likewise appear to be associated with trends in migration in the second wave (Chiswick and Hatton 2003).

Globalisation has influenced migration flows as it has created the cultural and technical conditions for mobility (Castles 2014). Globalisation and technological developments have reduced transportation, information and communication costs. These developments made it easier for people to migrate and remain connected with their families and friends. Improvements in access to information (in particular the internet) have increased people's awareness of migration and work opportunities and therefore, their desire to migrate (Castles 2014; Czaika and de Haas 2014).

Government policy barriers to immigration also played an important role, especially in the second wave. There were few policy barriers to migrating during the first wave, and those that did exist were largely ineffective (Chiswick and Hatton 2003). However, government policies, for example, subsidised or assisted passage offered by new world countries, still played a role (Ferrie and Hatton 2015; Williamson 2006).

During the second wave, immigration policies have oscillated between being more and less restrictive, due to economic cycles and political and ideological shifts (Czaika and de Haas 2014). Chiswick and Hatton (2003) identified four overlapping policy regimes after World War II that influenced global migration flows.

- Guest worker policies in the early postwar years, such as those in Europe and the United States, that encouraged low-skilled immigration.
- The shift in major immigrant receiving countries, such as Australia, Canada, New Zealand and the United States, from systems based on national origins to quotas, which occurred over the 1960s to 1980s.
- The increase in humanitarian migration and the number of countries that accepted refugees, especially from the 1980s.
- The focus on skilled immigration in OECD countries, starting with Canada in the late 1960s.

Not only have the level and direction of migration patterns changed over time, the composition of migration, how long people migrate for, and the reasons people are migrating, have also changed. Some important recent changes include:

- increased temporary migration — temporary migration has been become increasingly common, especially since the 1990s, when many countries (including Australia) developed policies that facilitated temporary immigration

- increased skilled migration, particular into OECD countries such as Australia, Canada and New Zealand. However, many OECD countries have revised their legislation in recent years to be more selective
- increased migration by international students — in 2012, at least 4 million tertiary-level students studied internationally, up from 2 million in 2000
- increased independent migration by women (rather than migration as a spouse or dependent)
- a number of OECD countries have actively encouraged migration of investors and entrepreneurs, although these migrants have been increasingly scrutinised in recent years
- increased forced migration and migration of refugees — in 2014, the number of forcibly displaced people worldwide was about 60 million people, the highest it had been since World War II, and it has increased again in 2015. Many OECD and European Union countries have adopted policy measures in response, including temporary increases in their annual intakes of refugees, strengthening border controls and encouraging voluntary returns (Castles 2014; Czaika and de Haas 2014; European Commission 2015; Hawthorne 2014; OECD 2015; PC 2006; UNESCO Institute for Statistics 2014; UNHCR 2015).

2.2 Development of Australia's immigration system

Australia's immigration system has evolved substantially over the past century. In the 70 years following Federation, the system was biased heavily towards permanent immigration for population growth and nation building, and the selection system favoured immigration by people of certain ethnic backgrounds. Since the 1970s, the system has emphasised skilled immigration and provided extensive opportunities for temporary immigration.

Colonial era to 1945

During the colonial era (1788–1900), immigrants came to Australia as transported convicts, through subsidised passage schemes or as free settlers (self-funded). Most immigrants were British, but some free settlers came from other European and non-European countries. For example, many Chinese came to Australia during the Gold Rush of the 1850s. In response to the growing non-European population, colonial governments enacted restrictions on 'alien' immigration, starting with the *Chinese Immigration Act 1855* (Vic) implemented by Victoria (Freeman and Jupp 1992; Museum of Australian Democracy 2015).

One of the first pieces of legislation passed by the Australian Parliament following Federation was the *Immigration Restriction Act 1901* (Cwlth). The Act provided the legal

framework for the 'White Australia' policy which had the intention and effect of preventing immigration to Australia by non-European people.

As a result of pressure from the British Government, the Act did not explicitly prohibit immigration on the basis of ethnicity. However immigration by non-Europeans (and some Europeans who were considered undesirable for political or other reasons) was prevented through the notorious 'dictation test'. Applicants could be required to write a passage of text that was dictated by a Customs officer in any European language of the officer's choosing. Mason (2014, p. 64) cites examples of a Czech citizen who was set a dictation test in Scottish Gaelic and 'a Japanese fisherman who entered Australia illegally in 1915 and was discovered fourteen years later [and] was set a test in Greek, administered by a local Greek restaurateur'.

Further restrictions were introduced in the *Naturalisation Act 1903* (Cwlth), which precluded people from Asia, Africa or the Pacific Islands from applying for naturalisation (Klapdor, Coombs and Bohm 2009).

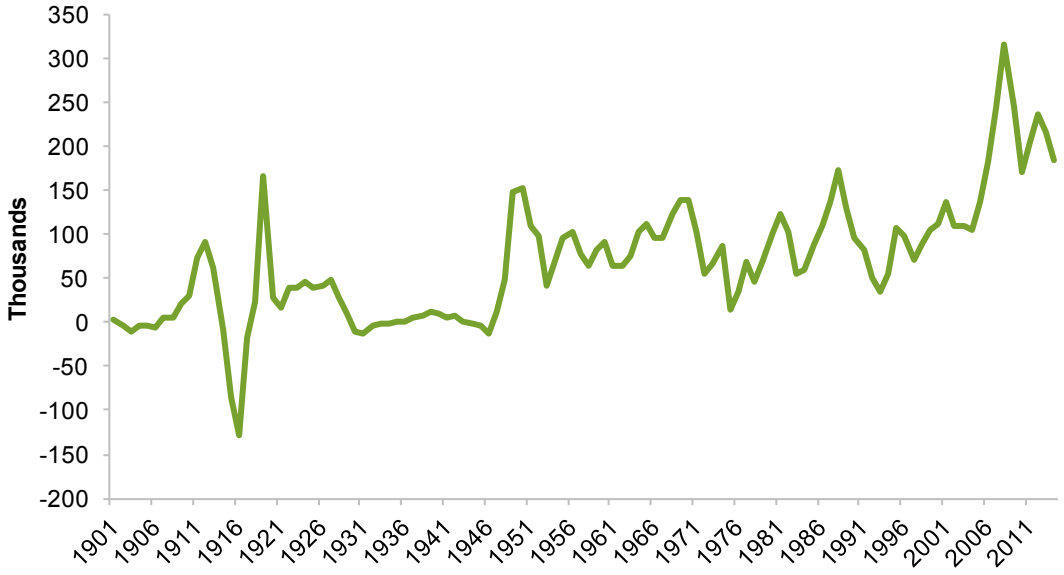
Although the White Australia policy restricted the ethnic diversity of the migrant intake, Australia achieved a significant level of immigration in the first three decades of the policy. Between 1905 and the beginning of the Great Depression in 1929, over 700 000 new settlers arrived in Australia, most of them from the British Isles, and many arrived with the help of assisted passage (DIBP 2015a). Over this period Australia's population increased from about 4 million to more than 6 million (DIMA 2001). However, between the late 1920s and the end of World War II, immigration flows fell considerably (figure 2.1).

1945 to 1970

After World War II, increasing the population became a national priority. The Australian Government established the world's first Department of Immigration in 1945 and set a target to increase the population by 2 per cent each year, with 1 per cent coming through immigration (DIBP 2015a; Phillips and Spinks 2012). Skill shortages were seen as a key issue at this time and immigration of skilled workers also became an important policy goal (Miranti, Nepal and McNamara 2010).

To meet its immigration target, the Australian Government provided assisted passage and temporary accommodation to many immigrants from Britain and some other European countries. It also provided settlement services including assistance with finding employment and English-language training (DIMA 2001; Jupp 1992). From 1947, Australia also agreed to resettle 12 000 displaced persons each year (DIBP 2015z). Australian Citizenship was also introduced with the passing of the *Nationality and Citizenship Act 1948* (Cwlth). Prior to this, Australians could only hold the status of British subjects (DIBP 2015a).

Figure 2.1 **Net overseas migration to Australia, 1901 to 2014[a]**



[a] Series breaks occur in 1922, 1925, 1971 and 2006. These limit comparability of data over time.

Sources: ABS (*Australian Demographic Statistics, March 2015*, Cat. no. 3101.0); Phillips, Klapdor and Simon-Davies (2010).

The objective of increasing immigration levels was achieved — in 1950, Australia's net overseas migration (NOM) was about 154 000. Although the annual intake fluctuated, immigration remained high for almost two decades (Phillips, Klapdor and Simon-Davies 2010). This high level of immigration contributed to rapid population growth — Australia's population increased from about 7.4 million in 1945 to over 13 million in 1970. Over 3 million of this increase has been attributed to immigration (DIBP 2015a).

During this time, Australia still maintained a racially-selective immigration program. Immigration in the 1950s was guided by the principle that the intake of immigrants should be 'balanced between assisted and non-assisted immigrants, British and non-British immigrants, and between northern and southern Europeans within the non-British intake' (DIMA 2001, p. 4). A very limited number of non-European immigrants were admitted (including 800 refugees and some Japanese war brides in 1952) (DIBP 2015a).

Over time the White Australia policy was dismantled. The dictation test was abolished with the introduction of the *Migration Act 1958* (Cwlth) (DIBP 2015a). Restrictions on immigration by non-Europeans were relaxed from 1966, when the then Immigration Minister announced that:

> … applications for migration would be accepted from well-qualified people on the basis of their suitability as settlers, their ability to integrate readily and their possession of qualifications positively useful to Australia. (DIBP 2015k)

1971 to 1995

The White Australia policy was further dismantled in 1973 when the Australian Government took several steps to remove race as a factor that could influence immigration decisions (DIBP 2015r). In 1978, in response to the *Review of Post-Arrival Programs and Services to Migrants* (the Galbally report), there was an overhaul of Australia's immigration policies and a shift towards multiculturalism (Koleth 2010).

The principal objective of increasing the population each year through immigration was abandoned in the early 1970s, and immigration began to be managed to increase the wellbeing of the Australian community (Gardiner-Garden 1993). This was to allow the Australian economy and community to absorb and adjust to the influx of people while, at the same time, allowing the intake to be flexible and responsive to economic conditions (DIBP 2015r). Due to concerns about increasing unemployment, the planned immigration quota was reduced in the early 1970s. By 1975, the number of places was 50 000, the lowest it had been since World War II (DIBP 2015a).

While Australia had been accepting refugees since World War II, a specific refugee policy was not developed until the late 1970s. The Humanitarian Program was implemented in 1977, which was designed to deal with refugee and humanitarian issues, such as the resettlement of Indochinese refugees, and it established mechanisms to determine onshore protection claims (DIBP 2015a; Phillips, Klapdor and Simon-Davies 2010).

In 1979, Australia's first points-based system — the Numerical Multifactor Assessment System — was introduced. Points were allocated according to applicants' 'family links to Australia, skills, knowledge of English, successful settlement prospects and literacy in the client's language' (DIAC 2010a).

While the family stream accounted for the majority of the Migration Program in the early 1980s, community attitudes and government priorities began to change to favour skilled immigration and immigration of people who wanted to establish businesses over family reunion (Betts 2003; Klapdor, Coombs and Bohm 2009). In 1988, the *Committee to Advise on Australia's Immigration Policies* produced a report — known as the FitzGerald report — that was highly critical of the existing immigration policies. The Committee found that selection methods needed to be improved, with a sharper economic focus so that the public would be convinced that the program was in Australia's interests (CAAIP 1988).

In response, the Australian Government enacted revisions to the *Migration Act 1958* (Cwlth) and Regulations in 1989, which it described as 'the most fundamental changes to Australia's immigration laws ever introduced in a single package' (Ray 1989, p. 1). Key reforms included:

- capping the level of immigration through the points-tested components of the family and 'economic' streams
- a 'floating pass mark' — previously the pass mark in the points test had been fixed, and any applicant who exceeded the pass mark was entitled to immigrate

- changing the process by which temporary immigrants were granted permanent residency
- limiting opportunities for people in Australia illegally to be granted residence
- reducing ministerial discretion (Betts 2003; Ray 1989).

In 1992, a universal visa system was introduced under the *Migration Reform Act 1992* (Cwlth). The intention of the legislation was to have all immigrants enter Australia under one visa system and to set out an effective means of regulating entry, detention and removal of people in Australia illegally (Klapdor, Coombs and Bohm 2009).

1996 to 2015

After a change of government in 1996, significant reforms to the immigration program were introduced, with the objective of further increasing skilled immigration. In particular:

- the total intake was reduced slightly, with caps introduced on all streams apart from spouse and dependent children through the family stream
- immigration through the skill stream was increased and the family stream was reduced
- English-language proficiency was introduced into the points test for family immigrants to increase the skills focus in that stream
- the waiting period for access to welfare benefits was extended from six months to two years (except for humanitarian arrivals)
- a range of integrity measures were introduced to address concerns about abuse of the spouse and fiancé provisions (Klapdor, Coombs and Bohm 2009; Ruddock 1996).

These reforms led to significant changes in the composition of Australia's migrant intake. Following an initial reduction in 1997, immigration through the family stream has increased almost every year since 1998. However, the skill stream has increased at a faster rate, and since 1998 has accounted for the majority of Migration Program visa grants (section 2.3).

Since the mid-1990s, visa classes and eligibility criteria have been revised to enable temporary immigration by any person who has skills that are needed in Australia (not just highly-skilled professionals). The most significant change to the policies affecting skilled temporary immigration occurred in 1996, when the Government streamlined the arrangements for temporary skilled immigration and introduced a new visa for long-term business temporary entry (visa subclass 457) (Klapdor, Coombs and Bohm 2009).

Immigration policy since the late 1990s has been more focused on security and unauthorised boat arrivals. For example, in 2001, legislation was passed that excluded a number of external territories from the Migration Zone and the 'Pacific Solution' was introduced, which established offshore processing centres (DIBP 2015a; Klapdor, Coombs and Bohm 2009).

Community debate about security and multiculturalism led to changes in Australia's citizenship legislation in 2007. The residency requirement to gain citizenship was increased from two to four years and a requirement to hold permanent residency for 12 months was introduced. As well, a citizenship test was introduced, which requires applicants to demonstrate an understanding of the English language and Australia's history, culture and values (Klapdor, Coombs and Bohm 2009).

Further changes were made during the period between 2013 and 2015 to reflect the increased focus on security, including merging the Department of Immigration and Citizenship and the Australian Customs and Border Protection Service, and transferring many of the responsibilities for settlement services to other departments (DIBP 2015a).

Although security has been an important focus, there have been other changes to immigration policy in recent years. For example:

- in 2008, the skill stream of the Migration Program was reformed to increase 'demand driven' outcomes by increasing the number of immigrants sponsored by employers and state and territory governments, and reducing the number of point-tested immigrants (chapter 10; Evans 2008)
- in 2012, business skills visas were reformed with the introduction of the Business Innovation and Investment Program and the Significant Investor visa (DIBP 2015b)
- in recent years, there have been a number of reforms to the temporary worker (skilled) (subclass 457) visa to improve the integrity of the program (Cash 2015a)
- there have been changes to the student visa program, including the introduction of streamlined visa processing in 2012 (DIBP 2015n).

2.3 Recent trends in immigration

This section presents recent data on high-level trends in migration globally, and more detail on trends in immigration to Australia under the different streams.

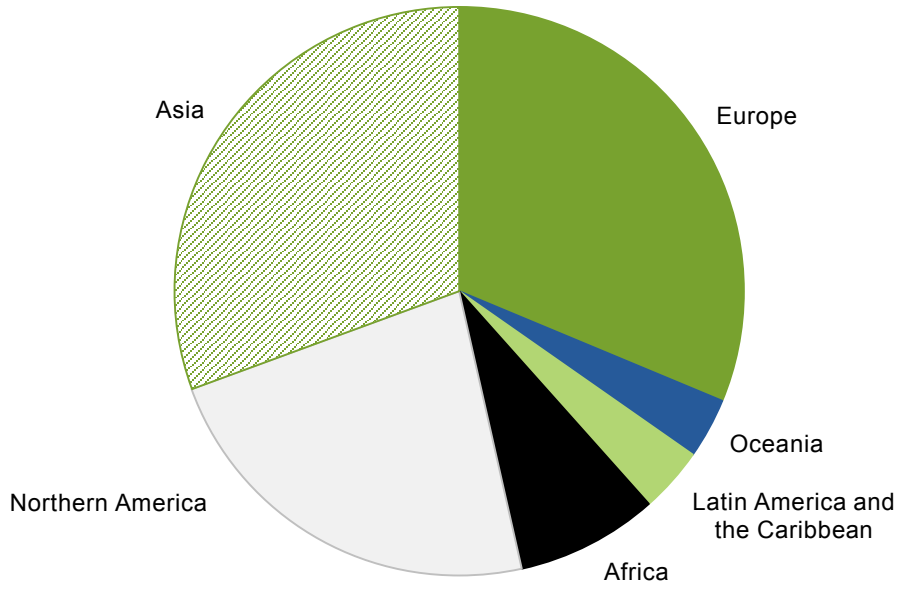
Global migration

In 2013, about 232 million people, or 3.2 per cent of the world's population were living in a foreign country. This was up from about 175 million in 2000 (or 2.8 per cent of world's population) (UNDESA 2013). Between 2005 and 2010, about 41.5 million people — 0.6 per cent of the world's population — moved between countries (Abel and Sander 2014).

Close to 60 per cent of migrants lived in developed countries in 2013. Migrants also accounted for a much larger proportion of the population in developed countries — more than 10 per cent compared with less than 2 per cent in developing countries (UNDESA 2013).

More than 80 per cent of migrants lived in Asia (including Saudi Arabia, the United Arab Emirates and India), Europe and North America in 2013 (figure 2.2). Oceania had the highest immigrant population as a proportion of its population — about 21 per cent (UNDESA 2013). This was due to the relatively high immigrant populations in Australia and New Zealand. For example, about 28 per cent of Australia's population was born overseas (figure 2.3). This has increased from 23 per cent in 2000. Another 21 per cent are second generation immigrants — people born in Australia with at least one parent born overseas (OECD and EU 2015).

Figure 2.2 **Distribution of migrants between world regions, 2013[a]**



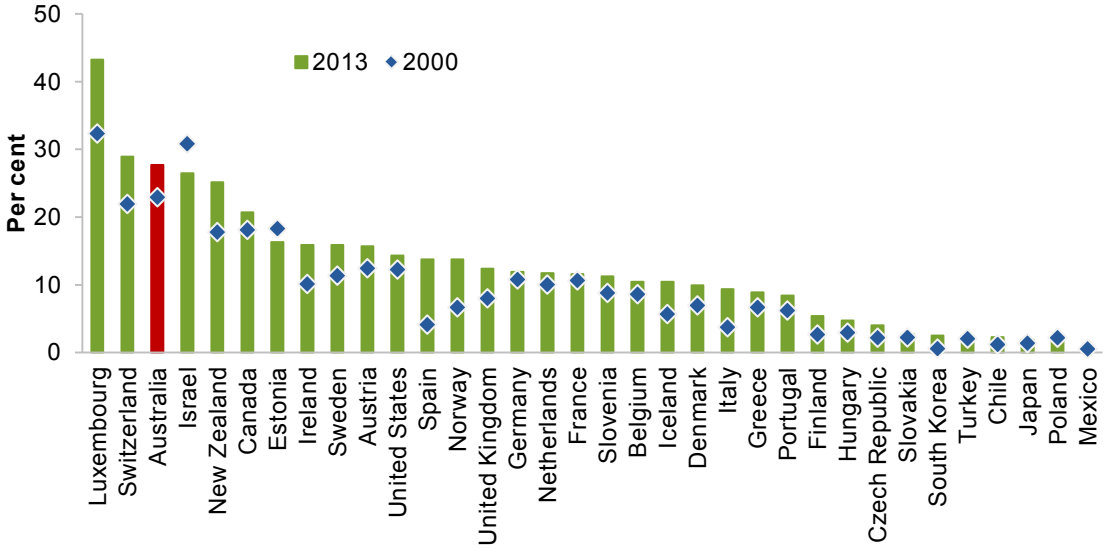
[a] A migrant is defined as a person that is living outside their country of origin.

Source: UNDESA (2013).

Australian immigration flows

This section presents data on trends in immigration to Australia, including trends in different visa categories and how immigration has changed since 1996. The main Australian data sources used are NOM, which is compiled and published by the ABS, and visa grants data, compiled and published by the Department of Immigration and Border Protection. More information on these data sources is provided in box 2.2.

Figure 2.3 **Proportion of the population born overseas, 2000 and 2013**



Source: UNDESA (2013).

Box 2.2 Key measures of immigration to Australia

Net overseas migration (NOM) is the most commonly used method for measuring migration flows in Australia. NOM is defined as the net gain or loss of population through people arriving (immigrating) and departing (emigrating). It is measured based on a duration of stay in or away from Australia of at least 12 months out of the past 16 months — known as the 12/16 rule. The key components of NOM are:

- NOM arrivals — the number of incoming people who stay in Australia for 12 months or more over a 16-month period, who are not currently counted in the population
- NOM departures — the number of outgoing travellers (Australian residents and long-term visitors to Australia) who leave Australia for 12 months or more over a 16-month period, who are currently counted in the population.

The 12/16 rule was adopted in 2006. Prior to this, the ABS used a 12/12 rule, based on a duration of stay in or away from Australia of a continuous 12 month period. The ABS has also made a number of other changes to how it measures NOM over time. As a result, NOM data over time are not directly comparable. For example, estimates of NOM (as long as it is positive) are likely higher under the current 12/16 rule than the 12/12 rule as it is a less restrictive definition.

Visa grants data are also often used to measure immigration. The Department of Immigration and Border Protection compiles and publishes data on the number of visas granted under the Migration and Humanitarian programs and temporary visas granted each year.

While these are two of the key data sources, other data sources exist that can be used to measure immigration.

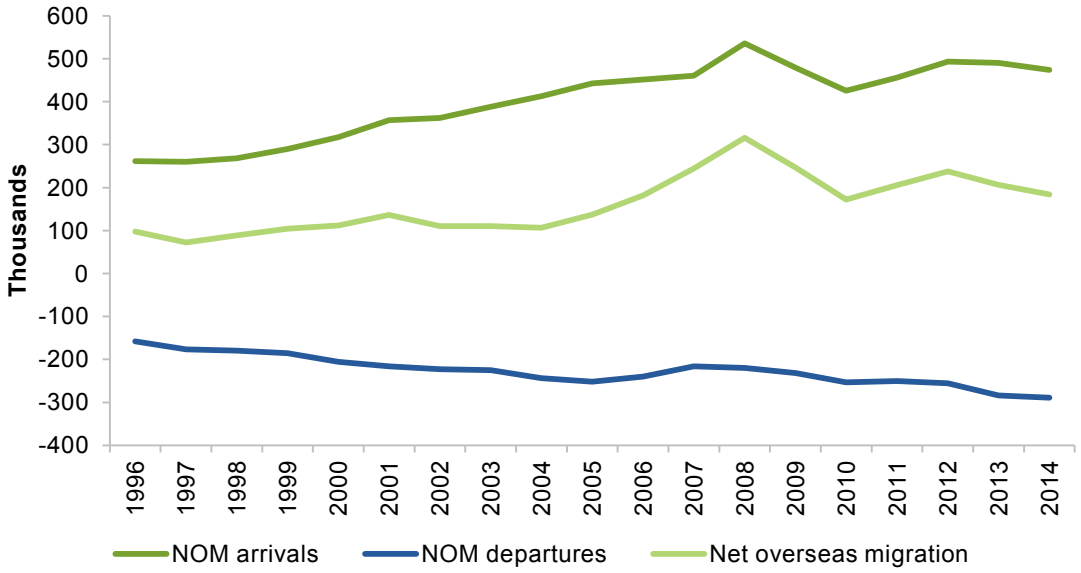
Sources: ABS (2015a, 2015b); DIBP (2015b); Phillips, Klapdor and Simon-Davies (2010).

Net overseas migration

NOM to Australia has increased in recent decades, from about 97 000 people in 1996 to about 184 000 people in 2014 (figure 2.4). The mid-2000s in particular saw a rapid increase in NOM from about 107 000 people in 2004 to over 300 000 people in 2008, mainly driven by:

- increased temporary immigration, particularly overseas students and people on temporary skilled work visas (457 visas)
- increased permanent skilled immigration
- Australians returning due to the economic downturn in places like the United Kingdom
- more New Zealand citizens coming to Australia (DIBP 2014b; Phillips, Klapdor and Simon-Davies 2010).

Figure 2.4 **Annual net overseas migration, 1996–2014[a]**



[a] Data before and after 2006 are not directly comparable, due to a change in ABS methodology for estimating NOM.

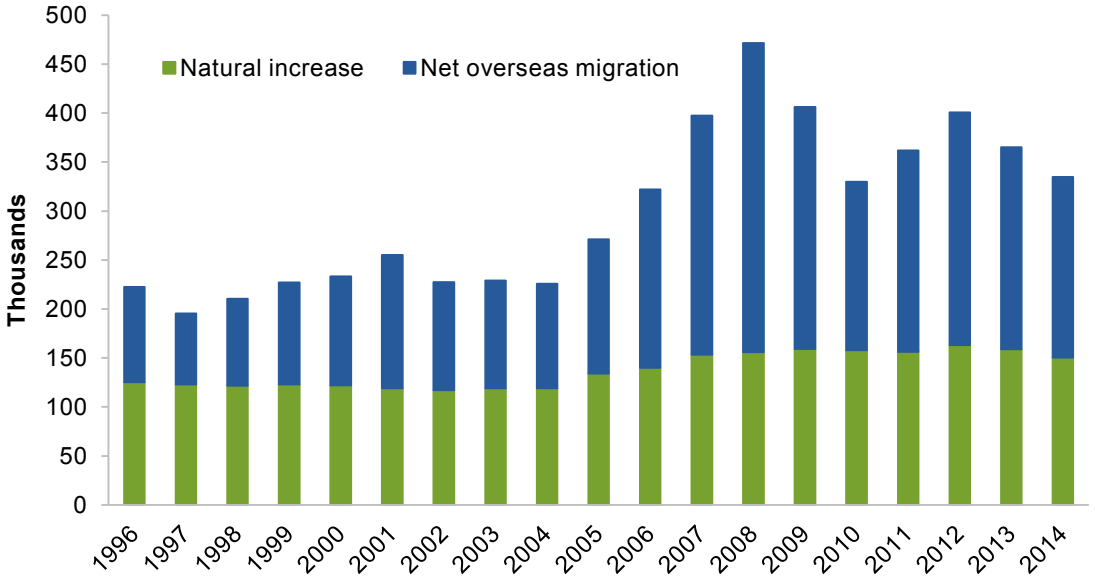
Source: ABS (*Australian Demographic Statistics, March 2015*, Cat. no. 3101.0).

NOM declined after 2008 due to the economic downturn and, notwithstanding a brief recovery between 2010 and 2012, the downward trend has continued in recent years (ABS 2015a).

The contribution of NOM to population growth has increased over the past two decades (figure 2.5). Natural increase (births minus deaths) was relatively stable at between 120 000 and 160 000 per year over that period, whereas NOM increased from about 97 000 to 184 000 over the same period, and as such has made a larger contribution to population

growth than natural increase since the mid-2000s. However, due to the decline in NOM over the past few years, its contribution to population growth has declined from a peak of 67 per cent in 2008 to 55 per cent in 2014.

Figure 2.5 **Population growth: natural increase and NOM, 1996–2014[a]**



[a] Data before and after 2006 are not directly comparable, due to a change in ABS methodology for estimating NOM.

Source: ABS (*Australian Demographic Statistics, March 2015*, Cat. no. 3101.0).

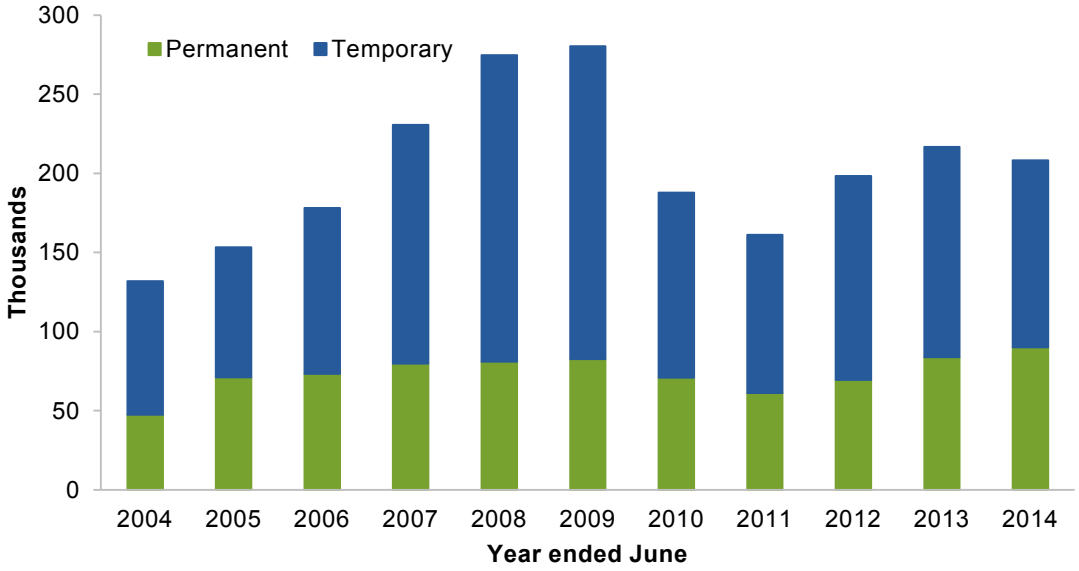
The increase in NOM during the 2000s mainly reflected increased temporary immigration (figure 2.6). Permanent immigration increased as well, but at a slower rate. Temporary immigration has also fluctuated significantly over the past decade, while permanent immigration has remained relatively stable. The fluctuation has come about because temporary immigration is generally uncapped and relatively responsive to economic conditions.

Immigration streams

Permanent immigration

Permanent immigration visa grants include offshore and onshore applications under the family, skill and special eligibility streams of the Migration Program, and the Humanitarian Program. Permanent immigration under the Migration Program increased from 82 500 in 1996 to 190 000 in 2015 (figure 2.7). Places under the Humanitarian Program have been mostly stable at around 14 000 to 16 000 over the same period.

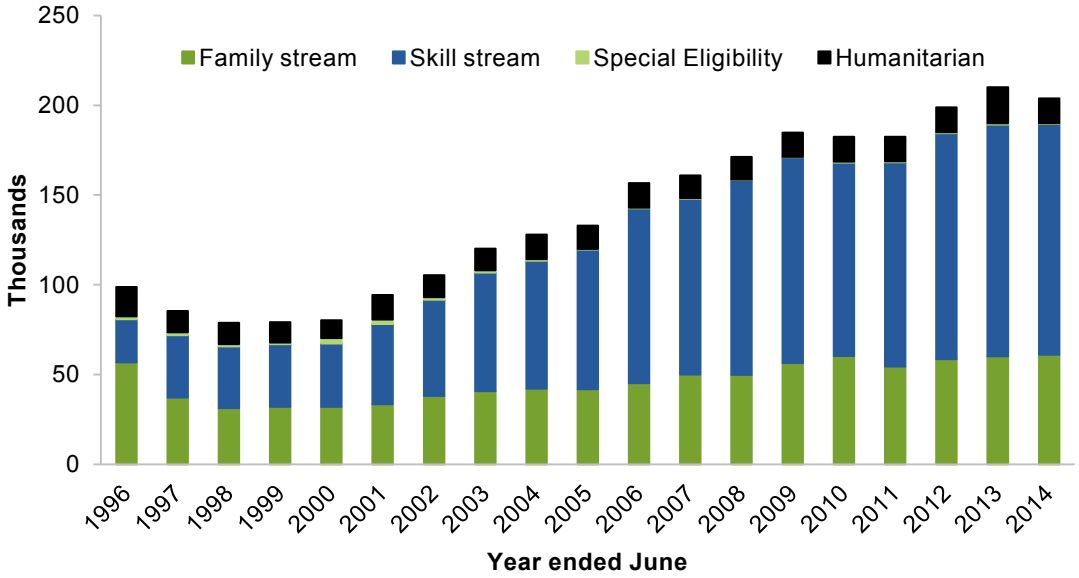
Figure 2.6 **Permanent and temporary components of NOM, 2004–2014[a]**



[a] For simplicity, the other category reported by the Department of Immigration and Border Protection, which includes departing Australian citizens and New Zealanders, is not included.

Sources: DIAC (2013b); DIBP (2014b, 2015b).

Figure 2.7 **Permanent visa grants under the Migration and Humanitarian programs, 1996–2014[a]**

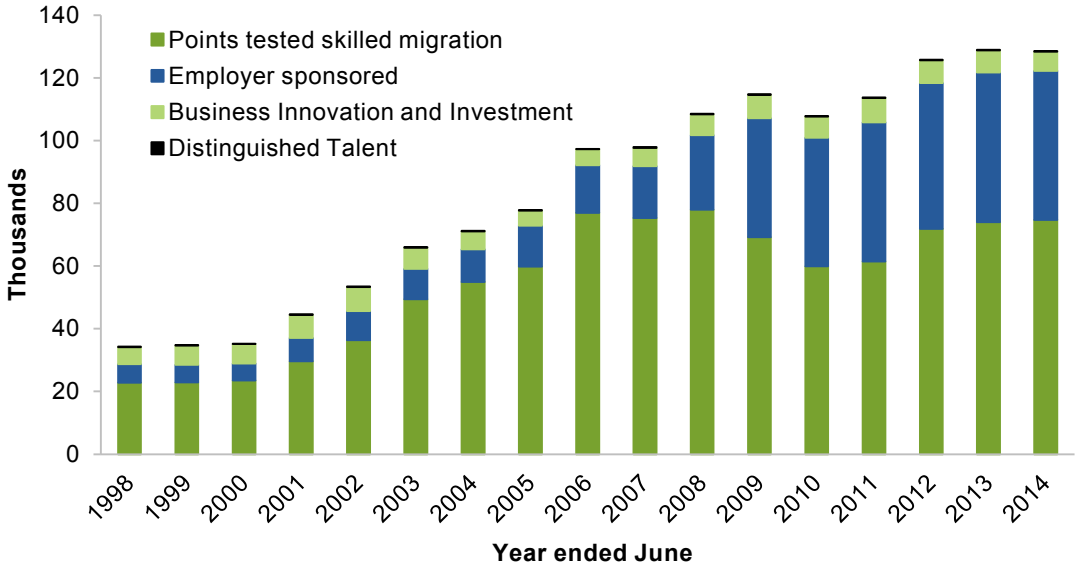


[a] Special eligibility includes former permanent residents on the Former Resident (subclass 151) visa.

Source: DIBP (2015q).

Increased immigration under the Migration Program has been driven primarily by increased skilled visa grants, from about 24 000 in 1996 to about 130 000 in 2014 (figure 2.8). The share of skilled immigrants in the Migration Program increased from about 29 per cent in 1996 to about 68 per cent in 2014 (section 2.4) (DIBP 2015q).

Figure 2.8 **Permanent skilled visa grants, 1998–2014**



Sources: DIAC (2010b); DIBP (2015b); DIMIA (2006).

Within the skill stream, both points-tested and employer-sponsored immigration increased significantly between 1998 and 2014. Points-tested immigration rose from about 23 000 to about 75 000 (a 226 per cent increase) and employer-sponsored immigration increased from about 6000 to about 47 000 (a 683 per cent increase) (figure 2.8). Policy changes implemented in 2008 increased the 'demand driven' or employer-sponsored component of the skilled intake and reduced the 'supply-driven' points-tested component of the intake (chapter 10). These policy changes had the effect of increasing the employer-sponsored component from 17 per cent of the skill stream in 2007 to 37 per cent in 2014 (figure 2.8).

State- and territory-sponsored visas under the points-tested skilled immigration category have also increased over the past decade, from about 4000 in 2005 to about 25 000 in 2014 (DIBP 2015b). Business Innovation and Investment visa grants increased from about 5400 in 1998 to about 6200 in 2014, but they remain a relatively small proportion of skilled visa grants (figure 2.8).

Temporary immigration

Temporary immigrants include overseas students, working holiday makers, skilled temporary residents, New Zealand citizens on the Special Category Visa (subclass 444), seasonal workers and other temporary residents. Tourists are not included. There were about 1.5 million temporary entrants in Australia as at June 2015 (table 2.1).

Table 2.1 **Temporary entrants in Australia as at 30 June 2015**

Temporary visa category	
New Zealand citizen	653 830
Student	374 570
Temporary skilled (subclass 457)	188 000
Working holiday maker	143 920
Bridging[a]	102 220
Temporary graduate	26 260
Other temporary	49 030
Total	**1 537 830**

[a] Bridging visas are temporary visas that allow the holder to remain in Australia until they make a substantive visa application, their substantive visa application is processed, or they make their arrangements to leave, depending on the type of bridging visa.

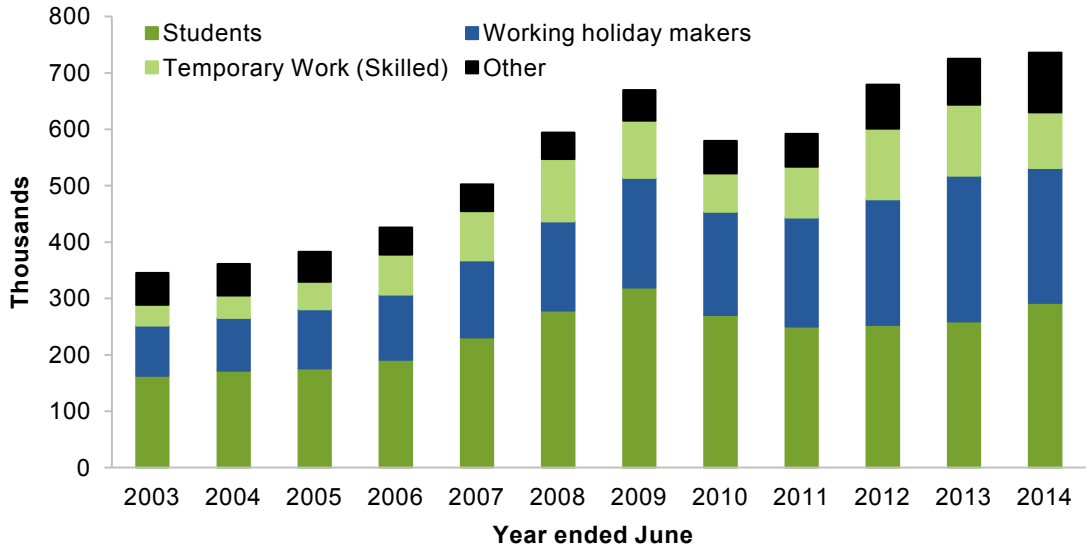
Source: DIBP (2015y).

Temporary visa grants almost doubled over the decade 2014, with significant growth in the number of international students, working holiday makers and Temporary Work (Skilled) (subclass 457) visa holders (figure 2.9). However, there was a reduction in temporary visa grants during 2009 and 2010, which was likely due to the global financial crisis, and a decrease between 2013 and 2014 in the main visa categories, except for student visa grants.

Student visa grants increased by about 80 per cent over the period 2003 to 2014. The increase between 2007 and 2009, in particular, was driven by the existence of a direct pathway from the student visa program to permanent skilled immigration (PC 2015b). The decline since 2009 was driven by the global economic downturn, the appreciation of the Australian dollar (until its more recent depreciation), changes to the student visa and skilled immigration visa programs, uncertainty about college closures and highly publicised attacks on students (which deterred Indian students in particular) (DIBP 2014b; Mares 2012; PC 2015b). Unlike working holiday maker and temporary work (skilled) visa grants, student visa grants have not recovered completely to their pre-global financial crisis levels.

Temporary immigration also appears to have increased internationally, apart from a decline triggered by the global financial crisis. For example, the number of international students migrating to OECD countries almost doubled between 2000 and 2012 (OECD 2014).

Figure 2.9 **Temporary visa grants, 2003–2014[a]**



[a] Excludes visitor visas and New Zealand citizens on the Special Category Visa (subclass 444).

Sources: DIBP (2014b, 2015b).

2.4 A snapshot of the current system

Australia's current immigration system comprises both permanent and temporary immigration (figure 2.10). The permanent and temporary immigration streams interact with each other, with many immigrants using temporary immigration as a stepping stone to permanent residency in Australia (chapter 11).

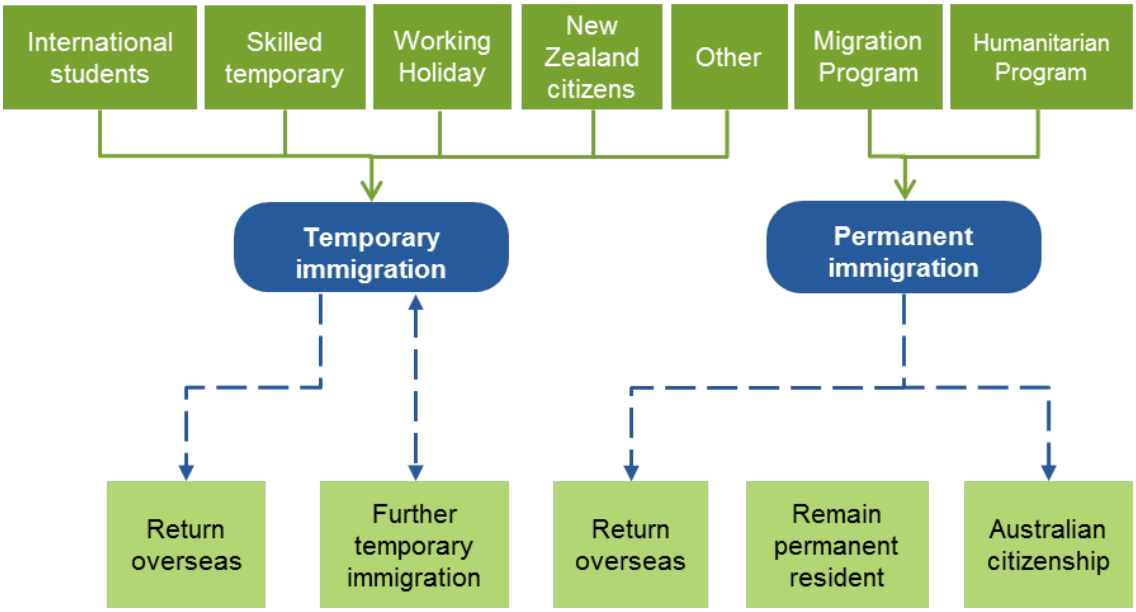
Objectives of the current system

The Australian Government aims to manage immigration to benefit the Australian community (DIBP 2014d). As part of this overriding objective, it sets specific objectives for each immigration stream. For example, the current objective of the Migration Program is 'to contribute to Australia's economic, demographic and social well-being' (DIBP 2014d, p. 4). Within the Migration Program, the skill stream is designed to 'target migrants who have skills or outstanding abilities that will contribute to the Australian economy' (DIBP 2015j). The Seasonal Worker Program is designed to ease seasonal labour market shortages in selected industries and meet international aid goals (chapter 4). The Humanitarian Program has two functions which include:

- the **onshore protection/asylum component**, which fulfils Australia's international obligations by offering protection to people already in Australia who are found to be refugees according to the United Nations Convention relating to the Status of Refugees

- the **offshore resettlement component**, which expresses Australia's commitment to refugee protection by going beyond these obligations and offering resettlement to people overseas for whom this is the most appropriate option (DIBP 2015l).

Figure 2.10 **Migration flows**



Australia's bilateral, regional and international obligations

Australia's immigration programs have to operate within a number of bilateral, regional and international obligations.

- Australia is signatory to multilateral treaties that set out human rights obligations, including the protection of asylum seekers and refugees (AHRC nd).
  - 1951 Convention Relating to the Status of Refugees and its 1967 Protocol (Refugees Convention)
  - International Covenant on Civil and Political Rights (ICCPR)
  - International Covenant on Economic, Social and Cultural Rights (ICESCR)
  - Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT)
  - Convention on the Rights of the Child (CRC)
- Under the 1973 Trans-Tasman travel arrangement, Australian and New Zealand citizens can travel, work and live almost unrestricted in the other country (PC and NZPC 2012).

- Under the Working Holiday Maker Program, Australia has negotiated bilateral agreements with a number of countries, which allow people aged 18–30 years to work and holiday in Australia (DIBP 2015i).
- The Seasonal Worker Program allows people from 10 Pacific Island and Asian nations[2] to work temporarily in the agriculture and accommodation industries with employers that cannot meet their seasonal labour needs (Department of Employment 2015).
- Australia has made specific commitments under the *General Agreement on Trade and Services* related to the temporary movement of some types of business people (WTO 1995).

Preferential trade agreements can also affect Australia's immigration policies and the movement of people. Australia's preferential trade agreements contain provisions that allow for the entry of some types of temporary business immigrants, including business visitors, service sellers, independent executives, intra-company transferees, contractual service providers and investors. They also contain provisions relating to accompanying family members and work rights for spouses. As well, a number of preferential trade agreements provide some form of exemption from labour market testing for selected temporary business immigrants.

Managing the migration intake

The level and composition of permanent and temporary immigration

The Australian Government manages the level and composition of the migration intake using both quantitative and qualitative mechanisms. It sets planning levels for permanent immigration through the Migration Program and Humanitarian Program each year. It also sets specific targets for the skill, family, and 'special eligibility' streams within the Migration Program. Planning levels are adjusted in response to economic conditions and other considerations and are announced in advance (box 2.3).

In contrast, the temporary migration intake is largely uncapped, except for caps on Work and Holiday visa grants for some countries. In 2013-14, student visas made up the highest proportion (40 per cent) of temporary visas granted (table 2.2). This was followed by working holiday maker visas (33 per cent) and temporary work (skilled) visas (13 per cent).

2 The countries are Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, East Timor, Tonga, Tuvalu and Vanuatu (Department of Employment 2015).

Box 2.3 Setting the level of the permanent intake

The Australian Government sets the planning level for the Migration Program each year following public consultation. The Department of Immigration and Border Protection takes submissions and prepares a report to the Government that includes analysis of:

- input from the community, industry and business bodies
- demographic trends
- skilled labour demand (including critical demand and medium- to long-term demand)
- the demand for family immigration
- the 'need to balance economic and social contributions of migrants' (DIBP 2014d, pp. 4–5).

The 2015-16 permanent immigration planning level was 190 000 places, comprising:

- 128 550 places for skilled immigrants
- 57 400 places for family immigrants
- 565 places for special eligibility immigrants (DIBP 2014c).

In addition, at least 3485 Child places will be available outside of the managed Migration Program (DIBP 2014c). The overall planning level was 190 000 places in 2013-14 and 2014-15 as well. The Humanitarian Program was originally set at 13 750 places in 2015-16, however, the Australian Government has since agreed to resettle an additional 12 000 refugees from Syria and Iraq (DIBP 2015c).

The immigration Minister's powers to cap migrant intakes

The Minister for Immigration and Border Protection has a range of powers under the *Immigration Act 1958* (Cwlth) to limit migrant intakes through specific visa classes.

Cap and queue

The Minister has the power to 'cap' the number of visas which can be granted each year in a particular visa subclass. When a cap is reached, no further visas will be granted in that subclass in the program year. However, processing of applications continues and eligible applicants may be considered in a following year, if places are available (DIBP 2015h).

Cap and cease

A 'cap and cease' provision means that when a cap has been reached for a visa subclass, work on all applications that have not been processed to decision stops and the files are closed. These applications are treated as if they have not been submitted (DIBP 2015h).

Suspend processing

The Minister can suspend all processing in a particular subclass until the date specified in an official notice (DIBP 2015h).

Priority processing

The Minister can give written directions to consider and finalise visa applications in an order of priority that the Minister considers appropriate. In the family stream, higher priority is given to immediate family categories such as dependent children, fiancés, and partners of sponsors in Australia. In the skill stream, the highest priority is afforded to those seeking immigration to a regional area and then to employer-sponsored applicants (DIBP 2015h).

Table 2.2 **Temporary visa grants, 2011-12 to 2013-14[a]**

Visa categories	*2011-12*	*2012-13*	*2013-14*	*% in 2013-14*
	no.	no.	no.	%
Students	253 047	259 278	292 060	39.7
Working holiday makers	222 992	258 248	239 592	32.5
Temporary Work (Skilled)	125 070	126 348	98 571	13.4
Temporary Work (Short Stay Activity)	..	6 224	40 894	5.6
Temporary Graduate	39 943	35 223	22 867	3.1
Training and Research	4 268	5 251	6 910	0.9
Other	34 013	34 471	35 230	4.8
Total	**679 333**	**725 043**	**736 124**	**100**

a Excludes subclass 444 visas granted to New Zealand citizens on arrival. **..** Not applicable.

Source: DIBP (2015b).

Requirements for permanent and temporary immigration

Potential permanent and temporary immigrants have to meet a range of requirements. All immigrants must meet the character and health requirements (box 2.4). In addition, there are visa-specific requirements that can include (but are not limited to):

- undergoing points-based selection, based on the skills of immigrants — for example, this is a requirements of many skill stream applicants
- sponsorship or nomination by an employer, or state or territory government — for example, the Employer Nomination visa (subclass 186) and Regional Sponsored Migration Scheme (subclass 187) visa require employer nomination, while the Skilled Nominated (subclass 190) visa requires nomination from a state or territory government
- nominating an occupation from one of the occupations lists — for example, applicants for the Temporary Work (skilled) (subclass 457) visa must be nominated to work in an occupation from the Consolidated Sponsored Occupations Lists
- English-language requirements — for example, skill stream primary applicants must demonstrate English-language proficiency
- proof of enrolment at an Australian educational institution — a requirement for the temporary student visas
- financial requirements — for example, student visa holders are required to have enough money to pay for travel, tuition and living expenses for themselves, their partner and any dependent children
- minimum salary requirements — sponsors of Temporary Work (skilled) (subclass 457) visa holders are required to pay a minimum salary of $53 900 plus super, per year

- family connection requirements — for example, permanent family stream visas generally require the applicant to be related to an Australian citizen, Australian permanent resident or New Zealand citizen
- age requirements — for example, skill stream immigrants must be under 50 years of age unless exempt and Working Holiday Makers must be aged 18–30 years
- country of origin requirements — for example, applicants for the Working Holiday (subclass 417) and Work and Holiday (subclass 462) visas have to be from countries with which Australia has a working holiday agreement (chapters 9 and 10; DIBP 2015g, 2015p, 2015u, 2015x, 2015ab, 2015ac).

Box 2.4 Character and health requirements

The Australian Government imposes character and health requirements on all potential immigrants. Visa applicants will not pass the character requirements if:

- they have a substantial criminal record or have been convicted of sexually based offences involving a child
- they have been convicted of escaping from immigration detention or convicted of other offences related to time spent in detention
- they have been a member of, or associated with, a group or organisation suspected of being involved in criminal activity
- they are reasonably suspected of crimes of international concern such as people smuggling, people trafficking, genocide, war crimes, and crimes involving torture or slavery
- their past and present behaviour shows they are not of good character
- there is a risk that while they are in Australia they would engage in criminal or other unsocial activities
- they are subject to an adverse security assessment by the Australian Security Intelligence Organisation, or are the subject of an Interpol notice from which it is reasonable to infer they are a risk to the Australian community (DIBP 2015f).

To meet the health requirements, both permanent and temporary applicants must be free of a disease or condition that is:

- considered to be a threat to public health or the Australian community. These conditions (depending on circumstances) can include tuberculosis, HIV, Hepatitis, Yellow Fever, Polio and the Ebola Virus Disease (DIBP 2015aa)
- likely to result in significant health care and community service costs to the Australian community
- likely to require health care and community services that are already in short supply and would limit the access of Australian citizens. Current health services in short supply include organ transplants, blood/plasma products, fresh blood or blood components for people with rare blood groups and radiotherapy for the treatment of malignancy (DIBP 2015s, 2015v).

All permanent and some temporary visa applicants are required to undergo health examinations, which can include chest x-rays, HIV tests and other tests depending on the applicants circumstances (such as their country of origin) (DIBP 2015o).

Immigrants must also pay visa application charges and for some subclasses invest significant sums of money in Australian assets to secure a visa. Visa application charges vary depending on the visa subclass and the characteristics of the applicant (such as their age and whether they are sponsored by an employer or family member). Visa application charges can include the base application charge, charges for secondary applicants (which vary depending on whether they are an adult or not), charges for applicants without functional English and second instalments payable when the visa is approved (chapter 13).

In some cases, the visa applications charges are set to ration demand. For example, eligible Australian residents can sponsor parents to join them in Australia through either the contributory or non-contributory streams. Applicants for the non-contributory stream face relatively low application charges (about $7000 per applicant). However the number of visas is limited and applicants can be in a queue for up to 30 years. Contributory parent visas include a significant additional payment — the total charge can exceed $47 000 per immigrant. But far more of these visas are available, with a queuing time of up to two years (DIBP 2015m, 2015t).

To immigrate to Australia under one of the investor streams, immigrants are required to buy specified Australian-based assets. For example, the Premium Investor Visa (subclass 188) is a fast-tracked permanent residence visa that can be granted to people who make a designated investment of $15 million (box 2.5).

Fees for some visas classes have increased significantly in recent years. For example, the application fees for the Partner (Provisional) visa (subclass 309) and the Partner (Migrant) visa (subclass 100) increased from $2680 at August 2012 to $6865 at July 2015 (Australian Migration Options, sub. 34; Migration Institute of Australia, sub. 53).

More detail on revenue from visa fees, and the wider fiscal impact of immigrants, can be found in chapter 7 and more information on the processing of visas, including queuing times for permanent visas, can be found in chapter 10.

As most temporary immigration streams are uncapped, the Australian Government does not control the total level of immigration. In addition, while many visa subclasses have a range of qualitative requirements, a large proportion of immigrants (for example, around two-thirds of the 2013-14 permanent intake) are subject to only basic qualitative selection requirements. This includes (but is not limited to) secondary applicants under the permanent skill stream (generally partners and children), family stream permanent immigrants and New Zealand citizens.

Further, by increasing the employer-sponsored and state- and territory-sponsored components of the permanent intake, the Australian Government is increasingly delegating some of the selection responsibilities to employers and state and territory governments. While it can influence the level and composition of immigration by adjusting policy settings, it exercises limited discretionary control over some elements of the immigration system (although it retains the right to intervene more directly if needed).

Box 2.5 Investor streams

Under the Business Innovation and Investment Program (visa subclasses 188 and 888), there are three streams that immigrants can enter Australia under if they buy specified Australian-based assets.

- Investor stream — applicants must buy state or territory-based assets worth at least $1.5 million in a state or territory and be nominated by a state or territory.
- Significant Investor stream — applicants must buy assets worth at least $5 million in complying asset classes and be nominated by a state or territory government or by Austrade on behalf of the Australian Government.
- Premium Investor stream — applicants must buy assets worth at least $15 million in complying asset classes and be nominated by Austrade on behalf of the Australian Government.

Each of these streams also have a range of other requirements, including age, points test and business experience requirements, that are most restrictive for the Investor stream and least restrictive for the Premium Investor stream. More information about the Investor streams can be found in chapter 10.

Source: DIBP (2015e).

The rights of temporary and permanent immigrants

Visas grant rights to immigrants, including the right to enter (and re-enter) Australia, to remain (for a defined period or indefinitely) and to work. Immigrants also have some access to government services and social security, which varies depending on whether they are temporary or permanent, and whether they are skilled, family or humanitarian immigrants.

Generally, permanent visa holders have more rights than temporary visa holders. Permanent residency visas allow the holder to stay in Australia indefinitely. The holder is also allowed to:

- work and study in Australia
- enrol in Medicare
- receive social security payments (after serving a waiting period)
- apply for Australian citizenship if eligible
- sponsor eligible relatives for permanent residency
- travel to and from Australia for five years from the date the visa is granted (after that time, the visa holder needs a resident return visa or another visa to return to Australia) (DIBP 2014b, 2015g; DSS 2014b).

Temporary visa holders' rights vary by subclass. Temporary visas generally allow the holder (and their family members where eligible) to stay in Australia and visit, work and/or study for the duration of the visa. Temporary visa holders are restricted to undertaking

work and study activities as specified by their visa. In some cases they can receive access to some government services and social security.

Permanent humanitarian entrants receive additional rights and benefits on top of permanent residency rights. The Australian Government covers the costs of transport for humanitarian immigrants and provides them with settlement services, including English-language tuition, and immediate access to income support payments (DSS 2014a).

Whether or not New Zealand citizens on the Special Category Visa (subclass 444) receive social security depends on when they arrived in Australia. Most New Zealand citizen immigrants are not eligible to access the full range of social security payments, unless they were residing in Australia before February 2001. New Zealand immigrants who become Australian citizens can be eligible for social security (PC and NZPC 2012) (chapter 9).

Pathways from temporary to permanent residency

A defining feature of Australia's immigration system is that many temporary immigrants go on to obtain permanent residency. For example, one study has estimated that over 70 per cent of temporary work (skilled) (subclass 457) visa holders and over 30 per cent of student visa holders ultimately obtain permanent residency (chapter 11).

Some visas have specific requirements or exemptions from requirements that make it easier for temporary visa holders to obtain a permanent visa. For example, the Temporary Residence Transition stream under the Employer Nomination Scheme (subclass 186) visa enables subclass 457 visa holders who have worked in Australia for two years in the same occupation and with the same employer to obtain permanent residency if their employer nominates them (DIBP 2015g). As well, immigrants who want to apply for the Skilled Independent visa (subclass 189) can receive points on the points test for having Australian skilled work experience and Australian qualifications (DIBP 2015w).

Citizenship

Permanent residents may apply for Australian citizenship if they meet eligibility requirements. The concept of citizenship has been around for a long time (box 2.6) and is considered by many to be an important step in immigrating permanently to a country. For example, the Department of Immigration and Border Protection (DIBP 2015d) noted 'Australian citizenship is an extraordinary privilege requiring a continuing commitment to this country. Australian citizens enjoy privileges, rights and fundamental responsibilities'. To apply for citizenship, applicants must:

- be an Australian permanent resident
- have been lawfully present in Australia for four years immediately before applying, including 12 months as a permanent resident immediately before applying
- be of good character

- have an understanding of the rights and responsibilities of Australian citizenship
- have a basic knowledge of English and Australia's history, culture and values, demonstrated through the successful completion of a citizenship test
- be likely to reside, or continue to reside, in Australia or maintain a close and continuing association with Australia
- understand the nature of the application they are submitting (DIBP 2015b).

Box 2.6 Origins of citizenship

The concept of citizenship as we know it today — equal membership of a nation, with a bundle of rights and responsibilities, a shared identity, a set of civic virtues and practices to sustain political freedom and self-government — originated in Athens (under the city state or *polis*) and Rome (*res publica*).

In the 6th century BC, the Athenian jurors Solon and Kleisthenes established an assembly (*ekklesia*) of citizens who could speak on any matter concerning the *polis*. Crucially, and according to the ideals of Aristotle, a citizen was the highest order of being, with the capacity to rule. A citizen ruled his equals and was ruled by his equals — that was politics and the essence of citizenship. Citizens in Athens were males of strict genealogy – it was not possible to acquire Athenian citizenship except by birth.

The strict separation of the public (*polis*) from the private (*oikos*) in the Athenian conception changed under Rome, where jurisprudence was divided into persons, actions and things. In Rome, citizens possessed assets and practiced jurisprudence — under Law, with acts of authorisation, appropriation, conveyance, litigation, prosecution and defence. A citizen in Rome was a person free to act by the law, free to ask, and subject to the law's protection. Thus citizenship moved from the Athenian conception of a political status to one of a legal status — ultimately to the *legalis homo* who could sue and be sued. Citizenship was membership of shared and common law, with rights and responsibilities. It was acquired in multiple ways, not confined to descent, and not based on race. Freed slaves (through manumission) could acquire Roman citizenship and be subject to its protections.

In his 70 BC speech, *Against Verres*, Cicero said *civis romanus sum* (I am a Roman citizen), perhaps the touchstone of citizenship.

Sources: Cic. Ver. 2.5.162; Pocock (1995).

All Australian citizens have a number of obligations including to obey the law, defend Australia should the need arise and vote in federal and state elections, and in referenda (DIBP 2015d).

Over 4.5 million immigrants have been conferred Australian citizenship since 1949 (DIBP 2014a; Klapdor, Coombs and Bohm 2009). In 2013-14, about 163 000 people were conferred with Australia citizenship. The top countries of original citizenship for new citizens were India, the United Kingdom and the Philippines (DIBP 2015b).

3 Characteristics of immigrants

Key points

- On average, immigrants have different characteristics to the Australian-born population. Immigrants' characteristics also vary by their visa type. These differences are likely to reflect self-selection and the targeting of specific types of immigrants by Australia's immigration system.
- Immigrants' characteristics have important implications for their outcomes and the impact of immigration on the Australian economy and society.
- Most immigrants to Australia come from English-speaking or Asian countries, notably England, New Zealand, China and India. The main source countries of immigrants have changed in recent decades — before the 1980s, European countries dominated the top countries of origin.
- Most immigrants come to Australia when they are of working age. Temporary immigrants tend to be younger than permanent immigrants, because a significant proportion of temporary immigrants are students and working holiday makers.
- Immigrants are more likely to be married and have fewer children than the Australian-born population. This could reflect cultural differences, with both the propensity to marry and the average number of children varying by country of origin.
- Most immigrants to Australia speak English well. The English-language proficiency of immigrants varies across visa categories. Temporary immigrants typically have better English-language skills than permanent immigrants and, within the permanent category, skilled immigrants speak better English than immigrants under the family and humanitarian streams.
- Immigrants generally have higher levels of educational attainment than Australian-born people. Educational attainment also varies by visa category, with temporary immigrants having higher educational attainment than permanent immigrants, and skilled permanent immigrants having higher educational attainment than permanent family and humanitarian immigrants.
- Immigrants generally have less wealth and lower savings than the Australian-born population. However, the evidence on whether immigrant households with similar characteristics to Australian households have a lower savings rate is mixed.
- Immigrants are much more likely to settle in capital cities, especially in inner city suburbs or suburbs near universities, than the Australian-born population. Settlement patterns also vary by visa type and country of origin.
- The characteristics of second generation immigrants differ to first generation immigrants — they generally have better English-language ability but lower educational attainment. The educational attainment of Australia's second generation immigrants appears, on average, to be better than the OECD average.

The characteristics of immigrants differ from those of the Australian-born population and also vary by their visa type. In many cases, these differences are intentional and result from the design of Australia's immigration system. For example, permanent immigrants on skilled visas have better educational attainment than other immigrants, partly because applicants receive points for high educational attainment on the points test for skilled immigration (chapter 10). Understanding the characteristics of immigrants is important for understanding the drivers and impacts of immigration, both on incumbents and immigrants.

This chapter starts by discussing immigrants' countries of origin (section 3.1) and then presents data on some of the important characteristics of immigrants, including their age, gender, family composition, language skills, educational attainment and wealth (section 3.2). The chapter then discusses where immigrants choose to locate in Australia and how residentially mobile they are (section 3.3), and finally, it presents data on the characteristics of second generation immigrants and compares them to first generation immigrants and other Australian-born people (section 3.4).

This chapter uses a number of data sources (box 3.1). Most of the data presented in this chapter is self-report survey data. In addition, while much of the data presented provides evidence of correlations between different variables, causal inferences cannot be drawn from the data presented in this chapter.

Box 3.1 **Data sources used in this chapter**

- The *2011 Census of Population and Housing* — covers all immigrants (permanent, temporary and naturalised Australian citizens) who were in Australia on 9 August 2011 (Census night) and intended to stay in Australia for one year or more, and their characteristics at that point in time.
- The *Australian Census and Migrants Integrated Dataset* — includes people who were granted a permanent visa between 1 January 2000 and 9 August 2011 and were present in Australia on Census night, and their characteristics at that point in time.
- The *2013 Characteristics of Recent Migrants* survey — covers permanent and temporary immigrants (excluding New Zealand citizens) aged 15 years and over who arrived in Australia in the 10 years prior to the survey. It includes data on their characteristics when they arrived in Australia and at the time of the survey.
- Various other ABS and Department of Immigration and Border Protection publications and data sources.

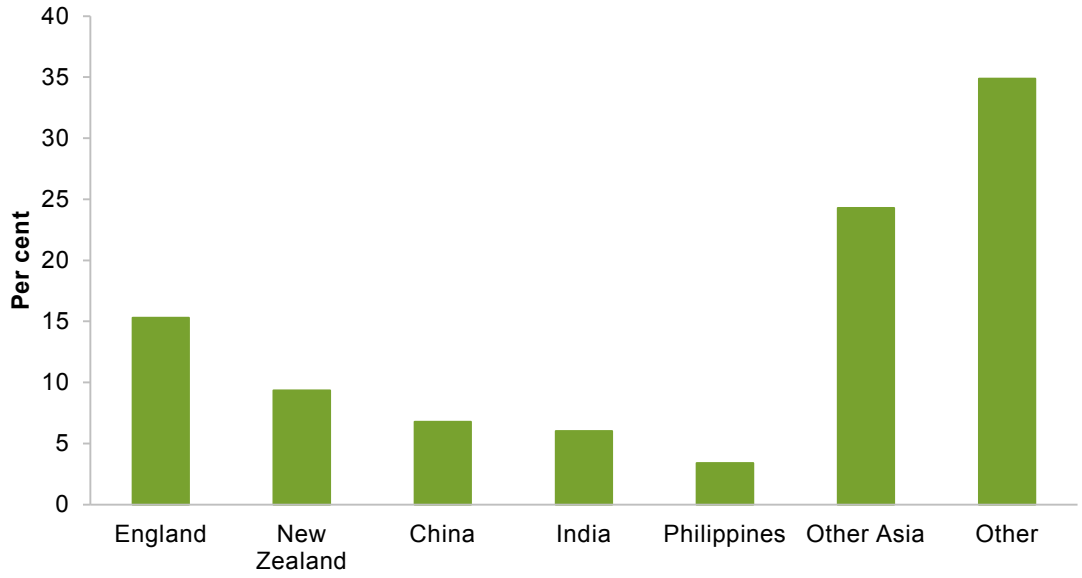
3.1 Countries of origin

Immigrants to Australia come from many different countries. However, a significant proportion of the immigrant population is sourced only from a few key countries, and the dominant source countries have changed over time.

English-speaking and Asian countries dominate

Most immigrants to Australia come from English-speaking or Asian countries. The top two source countries of the stock of overseas-born people living in Australia in 2014 were England and New Zealand, which accounted for about 24 per cent of the overseas-born population (figure 3.1). China, India, and the Philippines rounded out the top five, accounting for about 16 per cent of the immigrant population in 2014.

Figure 3.1 **Top source countries of the overseas-born population[a,b]**
Stock at 2014



[a] China excludes the special administrative regions and Taiwan. [b] Percentages do not add to 100 due to rounding.

Source: Productivity Commission estimates based on ABS (*Migration, Australia, 2013-14*, Cat. no. 3412.0).

The main source countries have changed over time

Although immigration from New Zealand and England has accounted for the largest share of Australia's immigrant population over a long period of time, the top source countries of immigrants have changed. As discussed in chapter 2, until the 1970s, Australian Government policy focused on encouraging immigration from European countries, and restricting immigration from non-European, non-English-speaking countries. As a result, the top 10 source countries for immigrants living in Australia at the 1981 Census were all European based (table 3.1).

Table 3.1 **Top 10 countries of birth of immigrants as at selected Censuses**

1901[a]	*1981*	*1991*	*2001*	*2011*
UK	UK	UK	UK	UK
Ireland	Italy	New Zealand	New Zealand	New Zealand
Germany	New Zealand	Italy	Italy	China
China	Yugoslavia	Yugoslavia	Vietnam	India
New Zealand	Greece	Greece	China	Italy
Sweden and Norway	Germany	Vietnam	Greece	Vietnam
India	Netherlands	Germany	Germany	Philippines
US	Poland	Netherlands	Philippines	South Africa
Denmark	Malta	China	India	Malaysia
Italy	Lebanon	Philippines	Netherlands	Germany

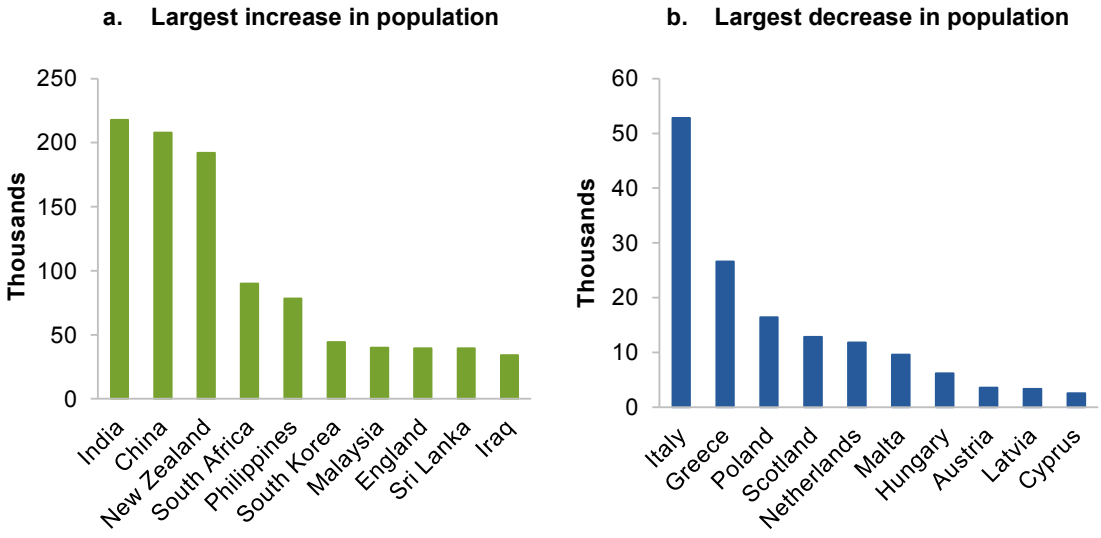
[a] Prior to the 1954 Census, persons recorded as born in Ireland included persons born in the Republic of Ireland and Northern Ireland.

Sources: DIBP (2014e); Phillips, Klapdor and Simon-Davies (2010).

The evolution of Australia's immigration policy, and changing conditions in other countries, have resulted in more immigrants coming from Asian countries. In recent decades, China, India, Vietnam, the Philippines and Malaysia have all become top source countries of immigrants to Australia (table 3.1). Immigration from India and China, in particular, has experienced significant growth over the past two decades. Between 1996 and 2011, the number of Indian and Chinese immigrants living in Australia each increased by over 200 000 (figure 3.2, panel a). This represented a twofold increase in the population of Chinese immigrants and a threefold increase in the population of Indian immigrants over that period. In contrast, the largest immigrant population declines over that period were among immigrants from European countries (figure 3.2, panel b; figure 3.3).

Figure 3.2 **Largest changes in populations of immigrants from different countries of origin**

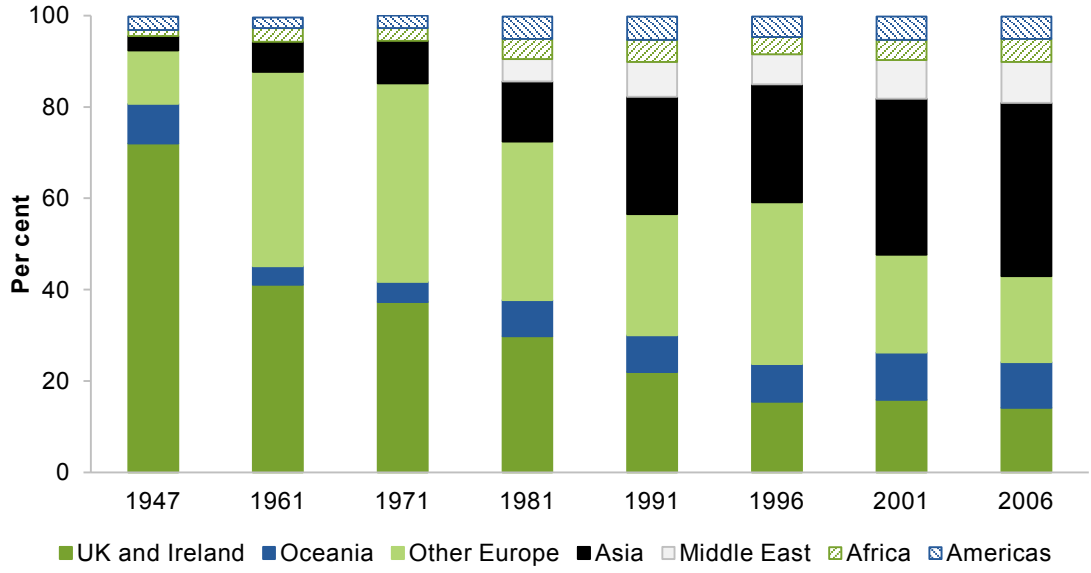
1996 to 2011



Sources: Productivity Commission estimates based on DIBP (2014e); and DIMIA (2003).

Figure 3.3 **Regions of origin of the overseas-born population in Sydney[a]**

1947–2006



[a] The Middle East is incorporated with Africa in 1947 and incorporated with Asia in 1961 and 1971.

Source: Hugo and Harris (2011).

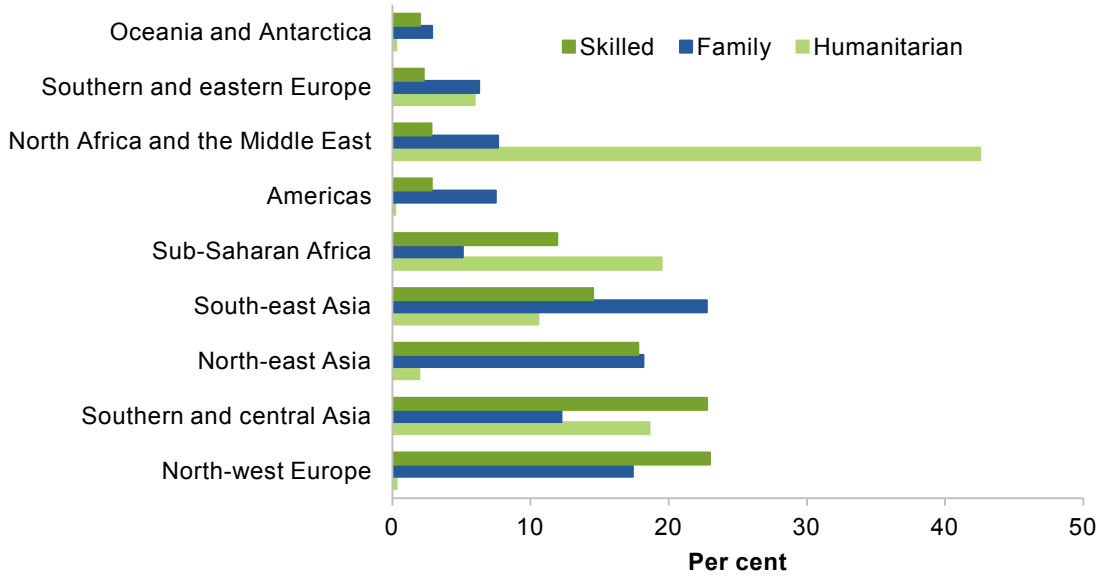
Source countries vary across visa types

The main source countries of permanent immigrants differ to those of all immigrants. According to the 2011 Census (all immigrants) and the *Australian Census and Migrants Integrated Dataset* (ACMID) (permanent immigrants), and restricting the samples to those who arrived from 2000 onwards, a larger proportion of permanent immigrants were from Asia, Europe, the Middle East and Africa and a much lower proportion were from Oceania. This result is partly driven by New Zealanders. While New Zealand is one of Australia's largest source countries, very few New Zealand citizens have gained permanent residence since 2000 (ABS 2013b, 2014c).

Within the different streams of the permanent intake, differing source country patterns also emerge. For example, according to ACMID, in 2011, skilled permanent immigrants were more likely to be from north-west Europe (including England and Scotland) and southern and central Asia (including India and Bangladesh) than other permanent immigrants. Immigrants within the family stream were more likely to be from south-east Asia (including the Philippines and Vietnam) and north-east Asia (including China) than other permanent immigrants (figure 3.4). Most humanitarian immigrants were from north Africa and the Middle East (including Iraq and Sudan) and sub-Saharan Africa (including Ethiopia and Sierra Leone) (ABS 2014c).

Figure 3.4 **Regions of origin of permanent skilled, family and humanitarian immigrants, 2011**

Those who were granted their visa between 2000 and August 2011



Source: Productivity Commission estimates based on ABS (*Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

Permanent skilled immigrants also exhibit different patterns in country of origin depending on whether they entered on a points-tested, employer-sponsored or business innovation and investment visa. In 2011, employer-sponsored skilled immigrants were relatively more likely to come from a main English-speaking country (MESC) (45 per cent) compared with points-tested immigrants (27 per cent) and business innovation and investment immigrants (20 per cent) (ABS 2014c). As well, employer-sponsored permanent skilled immigrants were much more likely to come from Europe and much less likely to come from Asia than other skilled immigrants (which include immigrants on the Distinguished Talent visas) (figure 3.5).

Figure 3.5 **Regions of origin of permanent skilled visa holders, 2011**
Those who were granted their visa between 2000 and August 2011

Source: Productivity Commission estimates based on ABS (*Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

Immigrants arriving under the various temporary visa categories also exhibit different patterns in country of origin. According to Department of Immigration and Border Protection (DIBP 2015d) data, in 2014, the majority of international students came from Asia, with Asian countries making up the top nine countries of origin (table 3.2). Temporary skilled workers (visa subclass 457), on the other hand, were more likely than students to come from Europe, although Asia was still the highest source region. Working holiday maker visa holders came predominantly from Europe and Asia, reflecting those countries with which Australia has working holiday maker agreements (chapter 9).

Table 3.2 **Top 10 countries of citizenship of selected temporary visa categories[a]**

Percentage of the overseas-born population under selected visa categories as at December 2014

Skilled (457s)	*%*	*Students*	*%*	*Working holiday makers*	*%*
India	21.2	China	20.5	United Kingdom	18.8
United Kingdom	19.5	India	14.4	Taiwan	14.5
Philippines (6.4)	6.4	Vietnam	6.1	Germany	11.4
Ireland	6.3	Nepal	5.2	South Korea	11.0
China	5.7	South Korea	4.8	France	9.7
United States	4.5	Thailand	4.3	Italy	6.8
South Korea	2.8	Pakistan	3.4	Hong Kong	5.3
South Africa	2.6	Indonesia	3.2	Japan	5.0
Nepal	2.5	Malaysia	3.1	Ireland	3.8
France	1.9	Brazil	2.9	Canada	2.7

a China excludes the special administrative regions and Taiwan.

Source: Productivity Commission estimates based on DIBP (2015d).

3.2 Immigrants' characteristics

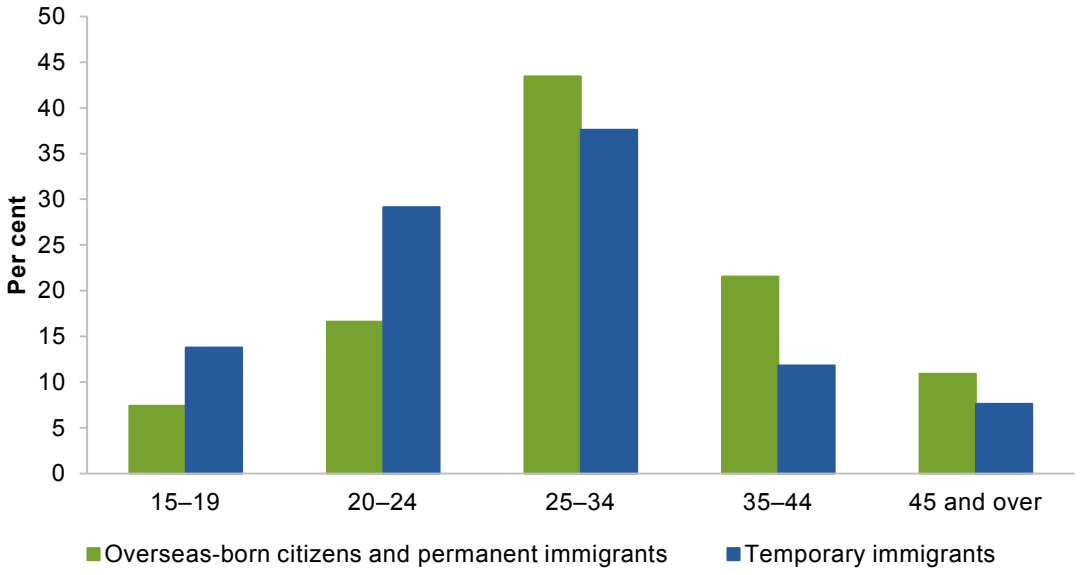
Immigrants' characteristics, such as their age, English-language skills and educational attainment, affect their integration and outcomes. As a result, the impacts of immigration on Australia's economy and society will partly depend on immigrants' characteristics, with implications for selection and settlement policies.

Most immigrants arrive in Australia of working age

Most immigrants who arrive in Australia are of working age (figure 3.6). According to the 2013 *Characteristics of Recent Migrants* (CORM) survey, about 43 per cent of permanent immigrants and overseas-born Australian citizens and about 38 per cent of temporary immigrants in Australia in 2013 were aged between 25 and 34 years when they immigrated in the 10 years prior to the survey. This reflects Australia's focus on skilled immigration (for example, applicants receive points under SkillSelect for being of prime working age (chapter 10)) and the fact that some visas have an age cut-off. Temporary immigrants generally arrive at a younger age than permanent immigrants, with about 80 per cent of temporary immigrants aged between 15 and 34 years compared with two-thirds of permanent immigrants and overseas-born citizens. This result is at least partly driven by international students, who tend to be younger than other temporary immigrants (ABS 2014b), and working holiday makers, who are only eligible for the visa if they are aged between 18 and 30 years (chapter 2).

Figure 3.6 **Age group of immigrants on arrival[a]**

Immigrants in Australia as at November 2013



[a] Overseas-born citizens refers to permanent or temporary immigrants that have since become Australian citizens.

Source: Productivity Commission estimates based on ABS (*Characteristics of Recent Migrants, November 2013*, Cat. no. 6250.0).

The age of different types of permanent immigrants also varies. According to ACMID, of the permanent immigrants that were in Australia in 2011, and were granted a permanent visa between 2000 and 2011, family immigrants tended to be older than skilled immigrants and humanitarian immigrants, who were the youngest group. Similar results for skilled and family immigrants are found in the *Continuous Survey of Australia's Migrants* (CSAM) (DIBP 2015b, 2015c). As well, primary applicants were older than secondary applicants. (This is probably due to many secondary applicants being the children of primary applicants.) Within the skill stream, business visa holders had a higher mean age than employer-sponsored and points-tested immigrants (ABS 2014c).

The age of all immigrants in Australia also varies by country of origin. For example, in 2014, the median age of immigrants from European countries was greater than for immigrants from Asia, Middle Eastern and African countries (ABS 2015e). Much of this difference is likely driven by when immigrants arrived in Australia.

The total immigrant population is, on average, older than the Australian-born population. Of the population that was in Australia at 30 June 2014, the median age of immigrants was 44.5 years compared with 33.6 years for Australian-born residents (ABS 2015e).

The gender ratio varies by type of immigrant

While the gender ratio does not vary substantially between the total immigrant and Australia-born populations, the gender ratio does vary by type of immigrant. According to the ABS CORM survey, in 2013, there were more female permanent immigrants than male permanent immigrants, with females making up 54 per cent of the permanent intake. In contrast, 56 per cent of temporary immigrants were male (ABS 2014b).

Within the permanent category, according to ACMID, in 2011, about 53 per cent of skilled immigrants and 54 per cent of humanitarian immigrants were male, whereas about 63 per cent of family immigrants were female (ABS 2014c). The gender ratio also varies between temporary visa categories. For example, in 2013-14, 55 per cent of Temporary Work (Skilled) (subclass 457) visas granted to people from OECD countries were granted to males, whereas students were relatively less likely to be male (52 per cent) (DIBP 2015a).

There are also differences in the gender ratio of immigrants according to their application location and status. According to ACMID, more permanent onshore immigrants were male while more offshore immigrants were female. Primary applicants were also more likely to be male, whereas secondary applicants were more likely to be female (ABS 2014c).

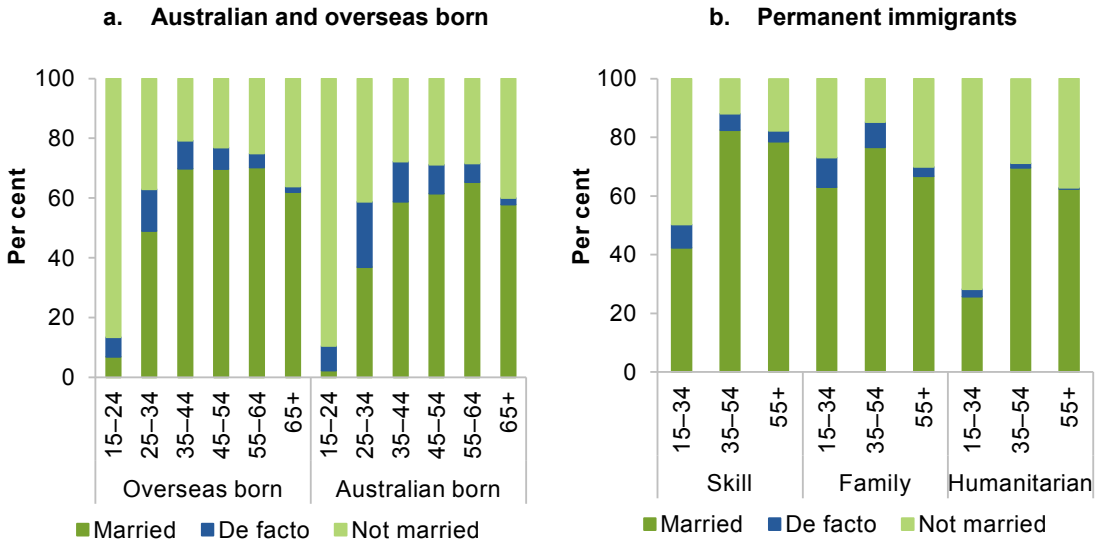
The gender ratio of immigrants varies by country of origin. For example, according to the 2011 Census, 50 per cent of immigrants from a MESC were male compared with 48 per cent from a non-main English-speaking country (NESC). As well, while the gender ratio of immigrants from Oceania, Europe and sub-Saharan Africa were fairly balanced, immigrants from south-east Asia, north-east Asia, and the Americas were more likely to be female, and immigrants from north Africa and the Middle East and southern and central Asia were more likely to be male (ABS 2013b).

Immigrants are more likely to be married

According to the 2011 Census, of the population aged 15 years and over, immigrants were more likely to be married and less likely to be unmarried than Australian-born people, while Australian-born people were more likely to be in a de facto relationship (ABS 2013b). This difference holds for all age groups, with the gap of those who were married or in a de facto relationship between overseas-born people and Australian-born people being widest in the 35–54 age group (figure 3.7, panel a).

Immigrants' social marital status varies by country of origin. Immigrants from a MESC were less likely to be married and not married and more likely to be in a de facto relationship than those from a NESC. They were also less likely to be not married than Australian-born people (ABS 2013b). These patterns could reflect cultural differences between English-speaking and non-English-speaking countries (Miranti, Nepal and McNamara 2010).

Figure 3.7 **Social marital status of immigrants and the Australian-born population, and permanent immigrants by stream**
By age, as at 2011



Sources: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0; *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

Social marital status also varies by visa type. According to ACMID, at 2011, a higher proportion of permanent family immigrants were married or in de facto relationships (77 per cent) compared with skilled (70 per cent) and humanitarian immigrants (46 per cent). Family immigrants were more likely to be married or in a de facto relationship because most of them are partners — about 83 per cent of family visas granted between 2000 and 2011 were partner type visas (ABS 2014c).

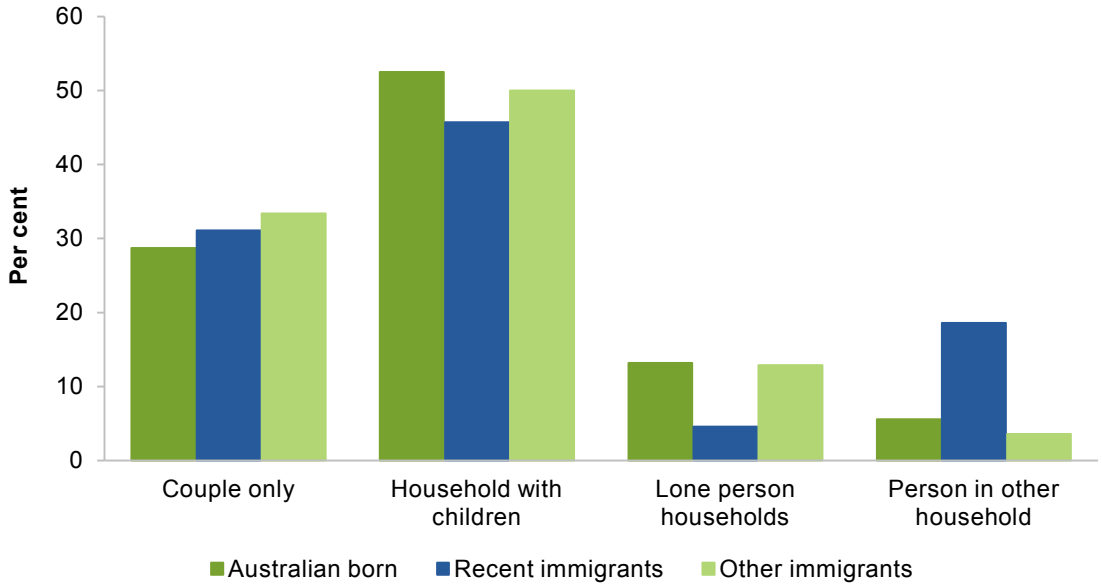
However, this relationship does not hold for all age groups (figure 3.7, panel b). For example, skilled immigrants of prime working age were more likely to be married than family immigrants of prime working age.

The household structures of immigrants and Australian-born people also vary. According to the 2014 *General Social Survey*, immigrants were less likely to live in a lone person household or household with children (figure 3.8).

Immigrant females have less children than Australian-born females

Using Australian 2011 Census data, the OECD and European Union (2015) found that the total fertility rate of female immigrants aged 15–49 years was 1.75 compared with 1.94 for the Australian-born population. The opposite was found internationally, with immigrant females tending to have a higher total fertility rates in most OECD and European Union countries (OECD and EU 2015).

Figure 3.8 **Household composition of Australian-born people, recent immigrants and other immigrants, 2014[a]**



[a] Recent immigrant are defined as immigrants that arrived in Australia since 2004.

Source: Productivity Commission estimates based on ABS (*General Social Survey: Summary Results, Australia, 2014*, Cat. no. 4159.0).

Female immigrants' fertility varies with their country of origin. For example, a higher proportion of immigrants aged 15–49 years from a MESC report having children than immigrants from a NESC (ABS 2013b).

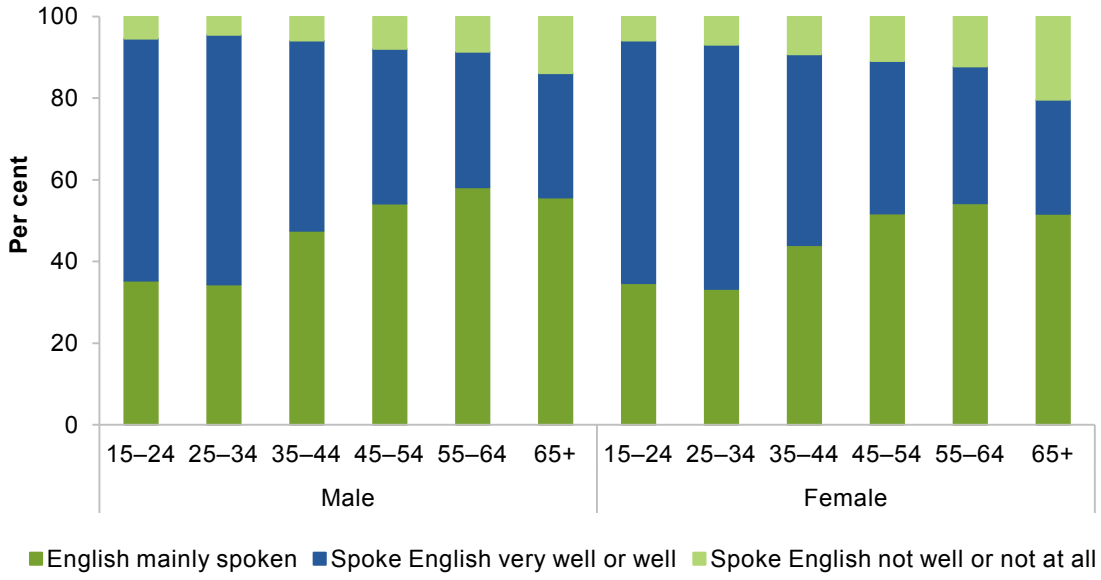
According to ACMID, female permanent humanitarian immigrants (even though they are more likely to be from NESCs) have a higher average number of children than permanent skilled and family immigrants. Skilled and family immigrants aged 15–49 years have a similar number of children on average. However, their fertility varied with age. Family immigrants aged 15–34 years had a higher average number of children than skilled immigrants, while skilled immigrants aged 35–49 years had a higher average number of children (ABS 2014c).

Immigrants' English-language skills differ across visa categories

Most immigrants are proficient in English. Of the population of overseas-born people aged 15 years and over living in Australia in 2011, about 90 per cent had good English skills, with about 47 per cent speaking English only and 43 per cent speaking another language and speaking English very well or well (ABS 2013b). English-language skills vary by sex and age, with males and younger people having better English-language skills (figure 3.9). However, older people were more likely to report speaking English only. This could be

because older immigrants are more likely to have arrived in Australia earlier and, are therefore, relatively more likely to have come from a European or English-speaking country (section 3.1).

Figure 3.9 **English-language ability of the overseas-born population**
By age and gender, as at 2011



Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

English-language skill varies by country of origin. In 2011, almost all immigrants aged 15 years and over from a MESC spoke English well, compared with about 85 per cent of immigrants from a NESC. Immigrants from the regions of north-west Europe and Oceania, had the best English-language skills, whereas immigrants from north-east Asia and north Africa and the Middle East had the poorest English-language skills (ABS 2013b).

The English-language ability of immigrants also varies by the visa category under which they enter Australia. According to the 2013 CORM survey, on average, temporary immigrants had better English-language skills than permanent immigrants on arrival to Australia. The English-language skills of both temporary and permanent immigrants appear to improve while they are in Australia. A larger proportion of immigrants reported having good English-language skills at 2013 compared with when they arrived in Australia in the previous 10 years (ABS 2014b).

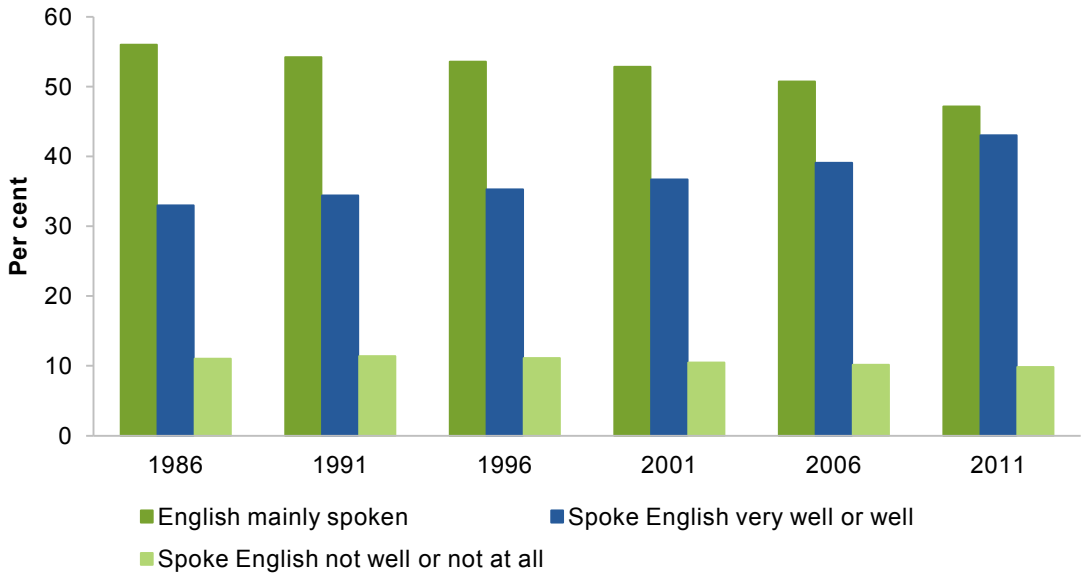
Within the permanent immigration category, a higher proportion of skilled immigrants aged 15 years and over were proficient in English (94 per cent) compared with family (81 per cent) and humanitarian (66 per cent) immigrants. Similar results have be found in CSAM (DIBP 2015b, 2015c). Onshore permanent applicants also had better English-language skills than offshore applicants (ABS 2014c).

English-language skills were also different within the temporary category. On arrival and in 2013, international students were more likely to report speaking English not well or not at all compared with other temporary immigrants (ABS 2014b).

The English-language skills of immigrants have improved slightly over time (figure 3.10). While the proportion of the overseas-born population that reported mainly speaking English has decreased from about 56 per cent at the 1986 Census to about 47 per cent at the 2011 Census, the proportion reporting that they speak another language and speak English very well or well has increased from about 33 per cent to 43 per cent. And the proportion reporting to speak English not well or not at all has declined from 11 per cent to 10 per cent. The change in the English-language ability of immigrants probably partly reflects the changes in the countries of origin over this period, including the increase in immigrants from Asian countries (section 3.1).

Figure 3.10 **English-language ability of the overseas-born population, 1986–2011**

Aged 15 years and over



Sources: PC (2006); Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

There is significant diversity in languages spoken at home

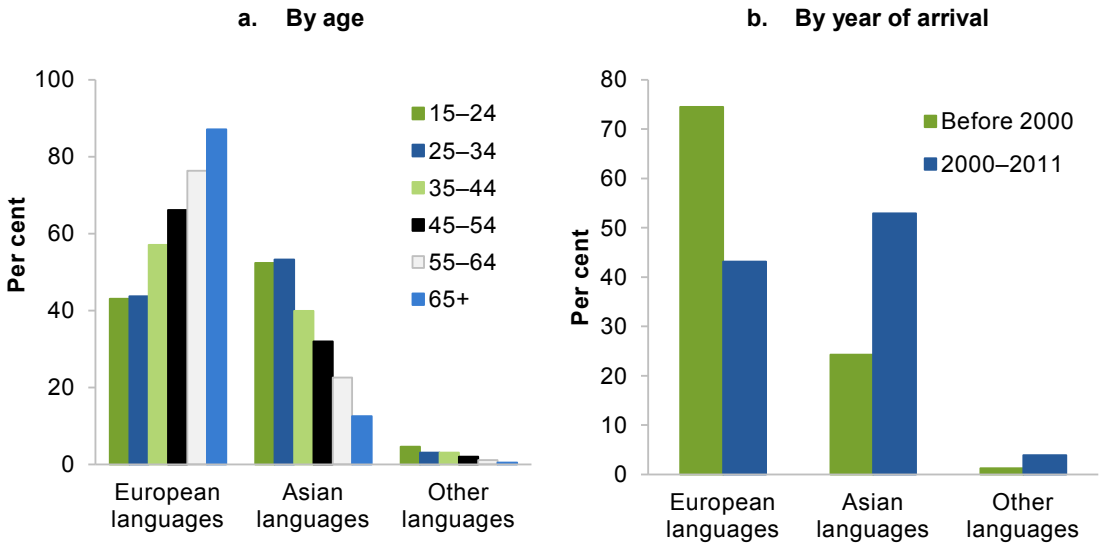
Immigrants speak a diverse range of languages at home. In 2011, immigrants aged 15 years and over reported speaking about 200 different languages. English was the top language spoken at home, with about 47 per cent reporting speaking it, followed by Mandarin (about

6 per cent) and Cantonese (about 4 per cent). Most immigrants speak either a European (about 64 per cent) or an Asian language (34 per cent).

The languages immigrants speak at home also vary by age. In 2011, younger immigrants were less likely to speak a European language (including English) and more likely to speak an Asian or other language than older immigrants (figure 3.11, panel a).

Figure 3.11 **Language spoken at home by the overseas-born population, 2011**

Aged 15 years and over



Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

The main languages spoken at home differ by when immigrants arrived in Australia. While 75 per cent of immigrants aged 15 years and over who arrived in Australia before 2000 spoke a European language at home and 54 per cent spoke English, 43 per cent who arrived between 2000 and 2011 spoke a European language at home and 34 per cent spoke English (ABS 2013b) (figure 3.11, panel b). The proportion who spoke an Asian language at home increased from 24 per cent of those who arrived before 2000 to 53 per cent of those who arrived between 2000 and 2011 (ABS 2013b).

The languages immigrants are relatively more likely to speak also vary by visa category. According to ACMID, in 2011, skilled and family immigrants aged 15 years and over were more likely to speak European languages and less likely to speak Asian and other languages compared with humanitarian immigrants. (ABS 2014c). Within the skill stream, employer-sponsored immigrants were more likely to speak a European language and less likely to speak an Asian language compared with points-tested and business innovation and investment immigrants (ABS 2014c).

Immigrants have relatively higher educational attainment

Immigrants generally have higher levels of educational attainment than the Australian-born population. According to the 2011 Census, about 29 per cent of immigrants aged 15 years and over had a degree level or higher qualification compared with about 18 per cent of Australian-born people. This relationship holds across all age groups (figure 3.12). Other studies have also found that immigrants have higher educational attainment (for example, Richardson and Lester 2004).

Figure 3.12 **Proportion of Australian-born and overseas-born people with a degree level or higher qualification**

By age and gender, as at 2011

Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

For both immigrants and Australian-born people, younger people and females were more likely to have a degree level qualification or higher. As well, immigrants with good English-language skills also tended to have higher educational attainment than those who did not speak English well (ABS 2013b). Immigrants' higher educational attainment partly reflects Australia's selection policies, which target education and experienced people in many visa categories.

The educational attainment of immigrants also varies with their country of origin. In 2011, immigrants from countries in Asia and the Americas were more likely to have a bachelor degree or higher compared with immigrants from other countries. In addition, immigrants from a NESC were more likely to have a bachelor degree or higher than immigrants from a MESC, although immigrants from a MESC were more likely to have a post-school qualification (ABS 2013b).

Educational attainment also differs by visa category. According to the 2013 CORM survey, temporary visa holders had higher educational attainment than permanent visa holders when they arrived in Australia. About half of the temporary immigrants held a degree level or higher qualification on arrival compared with about 39 per cent of permanent immigrants (ABS 2014b).

Within the permanent category, according to ACMID, about 54 per cent of skilled immigrants held a degree level or higher qualification, compared with 35 per cent of family immigrants and 9 per cent of humanitarian immigrants. Skilled immigrants were also found to have higher educational attainment than family immigrants in CSAM (DIBP 2015b, 2015c). Of the skilled immigrants in Australia at 2011, points-tested skilled immigrants had higher levels of educational attainment than employer-sponsored immigrants and business innovation and investment immigrants. Educational attainment also varied by the status of the applicant and where they applied. Primary applicants and applicants who applied onshore were more likely to hold a degree level or higher qualification compared with secondary and offshore applicants (ABS 2014c).

The educational attainment of both the overseas-born and Australian-born populations has increased over time (figure 3.13). Between the 1986 and 2011 censuses, the proportion of the overseas-born population with a post-school qualification increased from about 32 per cent to about 55 per cent, while the proportion of Australian-born people with a post-school qualification increased from about 30 per cent to about 49 per cent.

Immigrants to Australia are relatively educated compared with immigrants internationally. Generally, countries that have selective immigration policies, such as Australia, Canada and New Zealand, have the most highly educated immigrants (OECD and EU 2015).

Immigrants have less wealth than Australian-born people

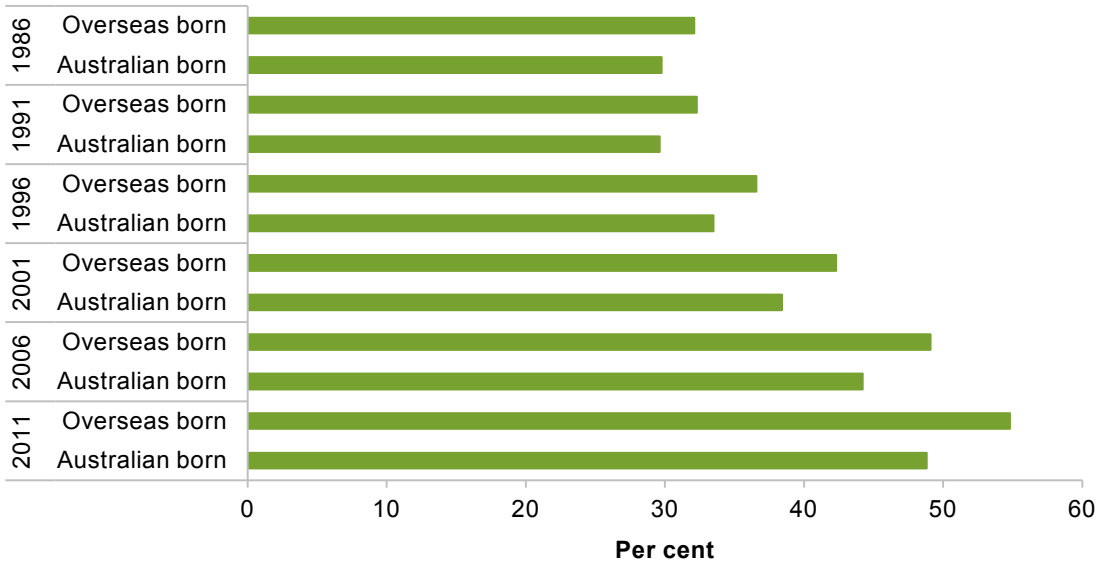
On average, immigrants have less wealth and savings than Australian-born people (Headey, Marks and Wooden 2005). For example, Miranti, Nepal and McNamara (2010), using wealth data from wave six of the *Household, Income and Labour Dynamics in Australia* (HILDA) survey,[3] found that immigrant households had less assets and more debt than non-migrant households. Doiron and Guttman (2009), using wealth data from wave two of the HILDA survey found that immigrants had less wealth than Australia-born people throughout the wealth distribution. In addition, Cobb-Clark and Hildebrand (2009) found that immigrant couples had about $162 000 less wealth than Australian-born couples, when they analysed wave two of the same survey.

Immigrants also have different asset portfolios to Australian-born people. For example, Miranti, Nepal and McNamara (2010) found that the value of property assets was higher

[3] It should be noted that HILDA is under representative of recent immigrants in some waves (Wooden and Watson 2007).

for immigrant households, whereas non-immigrant households held more superannuation, savings and investments. This could be due to more immigrants living in urban areas such as capital cities, where property values are generally higher, and the fact that immigrants have spent less time in Australia than Australian-born people, and therefore have less time to accumulate superannuation.

Figure 3.13 **Proportion of the Australian-born and overseas-born populations with a post-school qualification, 1986–2011**
Aged 15 years and older



Sources: PC (2006); Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

However, the evidence on whether immigrants have a higher or lower rate of saving is mixed. Using Australian expenditure surveys for 1988-89, 1993-94, 1998 and 2003-04, Islam, Parasnis and Fausten (2013) found that while immigrant households had lower savings and savings rates, once income and household characteristics were controlled for, immigrant households actually had a higher propensity to save. The main reason immigrant households had lower overall savings was due to them having lower incomes.

Alternatively, Gatina (2014), using data from waves two and six of the HILDA survey, found that Australian-born people had higher saving rates than immigrants. The author also found that country of origin influenced savings rates, including that immigrants' savings rates are positively influenced by their home country's relative wealth and age dependency ratio and negatively affected by their home country's national savings rate. Nevertheless, Gatina (2014) notes that these findings may be reversed if immigrants' remittances were taken into account. Increasing levels of remittances would impact on immigrants' ability to save and accumulate wealth in Australia (box 3.2).

Box 3.2 Remittances

In 2011, the World Bank estimated that $USD 501 billion was remitted by immigrant workers globally. Of this, at least US$ 372 billion was received by developing countries (World Bank 2015). Estimated remittances now exceed aid to developing countries (Clemens and McKenzie 2014). However, estimates of remittances appear problematic. While it has been suggested data underestimates remittances, as it generally exclude remittances that occur through informal channels (World Bank 2015), another study has estimated that 79 per cent of the growth in remittances between 1990 and 2010 reflected changes in measurement (Clemens and McKenzie 2014).

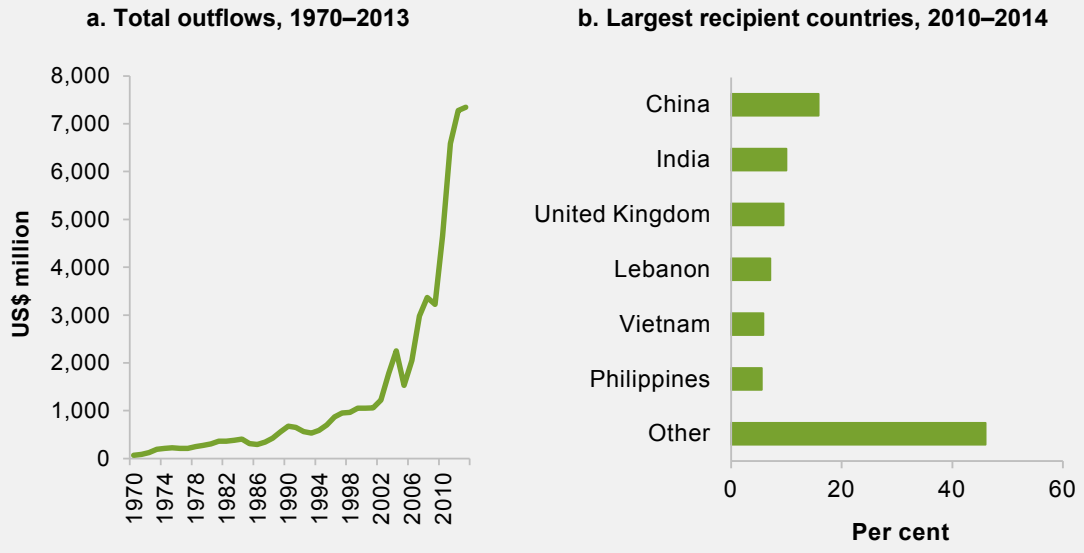
According to Osili (2007, p. 447), early research on immigrants' remittances suggested that transfers to home countries were made primarily:

> … to help meet the consumption needs of the origin household or to provide economic support during periods of income shocks. However, recent evidence also reveals the significant economic potential of remittances that are invested in the origin community. In particular, migrants' remittances may finance investments in the country of origin in the form of land and housing acquisition, financial assets, and microenterprises.

Remittance outflows from Australia appear to have grown significantly since the early 2000s, from around US$ 1 billion in 2000 to over US$ 7 billion in 2013 (figure below). This increase was likely the result of increasing migration flows, the appreciation of the Australian dollar and the sharp increase in immigrants from countries with large remittance inflows including China, India, the Philippines and Vietnam.

Over the five year period from 2010 to 2014, the greatest beneficiaries of remittances from Australia were China, India, the United Kingdom, Lebanon, Vietnam and the Philippines. These nations made up around 54 per cent of Australia's total remittances.

Remittance outflows from Australia



(continued next page)

Box 3.2 (continued)

Money transfers, both from Australia and internationally, are relatively expensive. In 2009, the G8 pledged to reduce the average cost of international remittances to 5 per cent of the sum sent within five years. In 2015, the average was about 7.7 per cent (The Economist 2015). The cost of remitting from Australia is above the global average (Davis and Jenkinson 2012).

In 2014, a number of Australian financial institutions shut down the accounts of money transfer operators, due to concerns about meeting obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cwlth) (Singh 2014).

Source: World Bank (2015).

Other explanations (apart from remittances) for the wealth gap between immigrants and Australian-born people could include:

- institutional barriers to immigrants accessing credit and financial markets, such as barriers related to culture and ethnicity, a lack of understanding about financial markets and unknown credit history
- policy barriers, such as the waiting periods for social security payments (chapter 2)
- labour market discrimination, which could affect income
- cultural influences such as customs and traditions in their home country
- incentives for immigrants to undertake precautionary saving
- the potential for return migration
- the geographic separation immigrants have from friends and family, which makes it more difficult for immigrants to rely on their traditional networks for financial support in times of necessity (Bauer et al. 2011; Cobb-Clark and Hildebrand 2009; Doiron and Guttmann 2009; Dustmann 1997; Gatina 2014; Maurer and Meier 2008).

3.3 Location of immigrants

Where immigrants choose to live can influence their outcomes, including their level of integration and labour market outcomes. For example, location can influence:

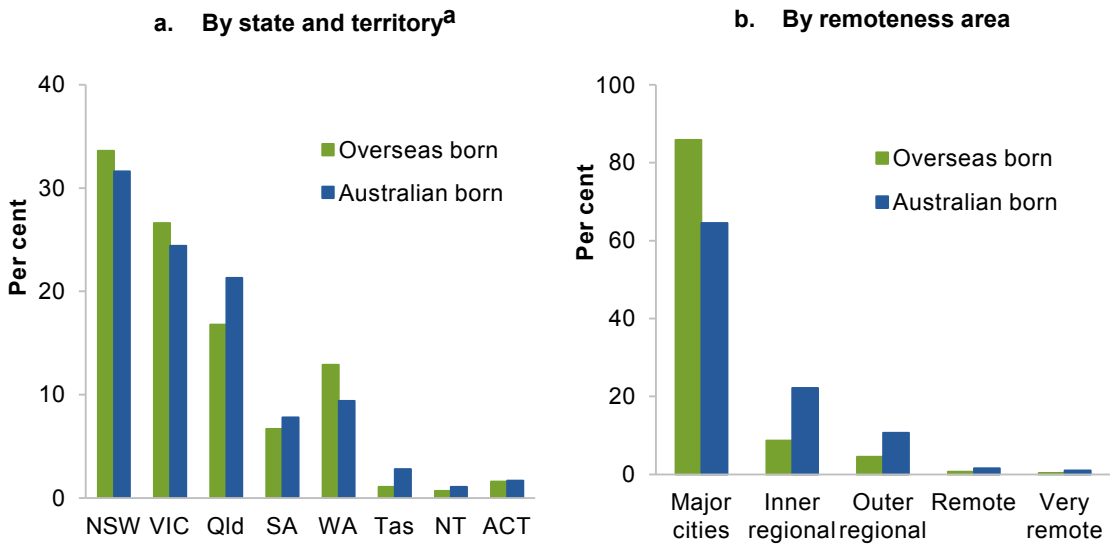
- access to work opportunities and the ability to interact with people who speak the same language and have similar cultural and religious backgrounds
- the extent immigrants can draw on the social capital embodied in networks with fellow settlers from the same background, including those who have been in Australia longer and who can cushion their adjustment to life in a new land
- their access to goods and services, including those provided by different levels of government, which will also impinge on the speed and level of their adjustment (Hugo 2011).

Most immigrants live in Melbourne or Sydney

In Australia, the percentage of foreign-born population aged 15–64 years living in densely populated areas is the fourth highest among OECD economies, behind Canada, the United States and Israel (OECD and EU 2015). However, in comparison with these economies, the difference between the proportion of native- and foreign-born populations that settle in densely populated areas is larger in Australia.

According to the 2011 Census, most immigrants in Australia lived in New South Wales or Victoria, with 60 per cent of the overseas-born population living in those two states (figure 3.14, panel a). Compared with the Australian-born population, immigrants were more likely to live in New South Wales, Victoria and Western Australia, and less likely to live in Queensland, South Australia and Tasmania.

Figure 3.14 **Geographic distribution of immigrants and Australian-born people, 2011**



[a] Excludes other territories.

Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

Immigrants are more likely to settle in urban areas than people born in Australia. While 86 per cent of immigrants lived in the major cities of Australia in 2011, only 65 per cent of the Australian-born population did so (figure 3.14, panel b). Only 13 per cent of immigrants lived in regional areas and 1 per cent in remote areas, compared with 33 per cent and 3 per cent respectively for the Australian-born population.

Of the immigrants living in capital cities in 2011, most lived in either Sydney or Melbourne, with 1.5 million residents of Sydney and 1.3 million residents of Melbourne born overseas. Perth had the third largest immigrant population at almost 600 000 people in 2011. These three cities combined accounted for almost two-thirds of the immigrant population in 2011 (ABS 2013b).

Most immigrants choose to settle in the inner city and near universities

In terms of the locations within Australia's capital cities, the settlement of immigrants appears to be most prevalent within city centres and near universities (figure 3.15). According to the ABS (2014a), with the exception of Hobart and Darwin, more than half of the residents of the central business districts of every capital city in Australia were born overseas in 2011.

Suburbs with the highest proportion of immigrants were also those incorporating or situated near universities. In Sydney's inner city suburb of Haymarket (with 88 per cent born overseas) and Ultimo (72 per cent), situated near the University of Sydney, around one in three residents in 2011 was an international student attending university, technical and further education or another further education institution. The top immigrant suburbs in Melbourne (Clayton, with 70 per cent born overseas), Brisbane (Robertson, 62 per cent), and Canberra (Acton, 57 per cent) all incorporate or are situated near Monash University, Griffith University and the Australian National University, respectively (ABS 2014a).

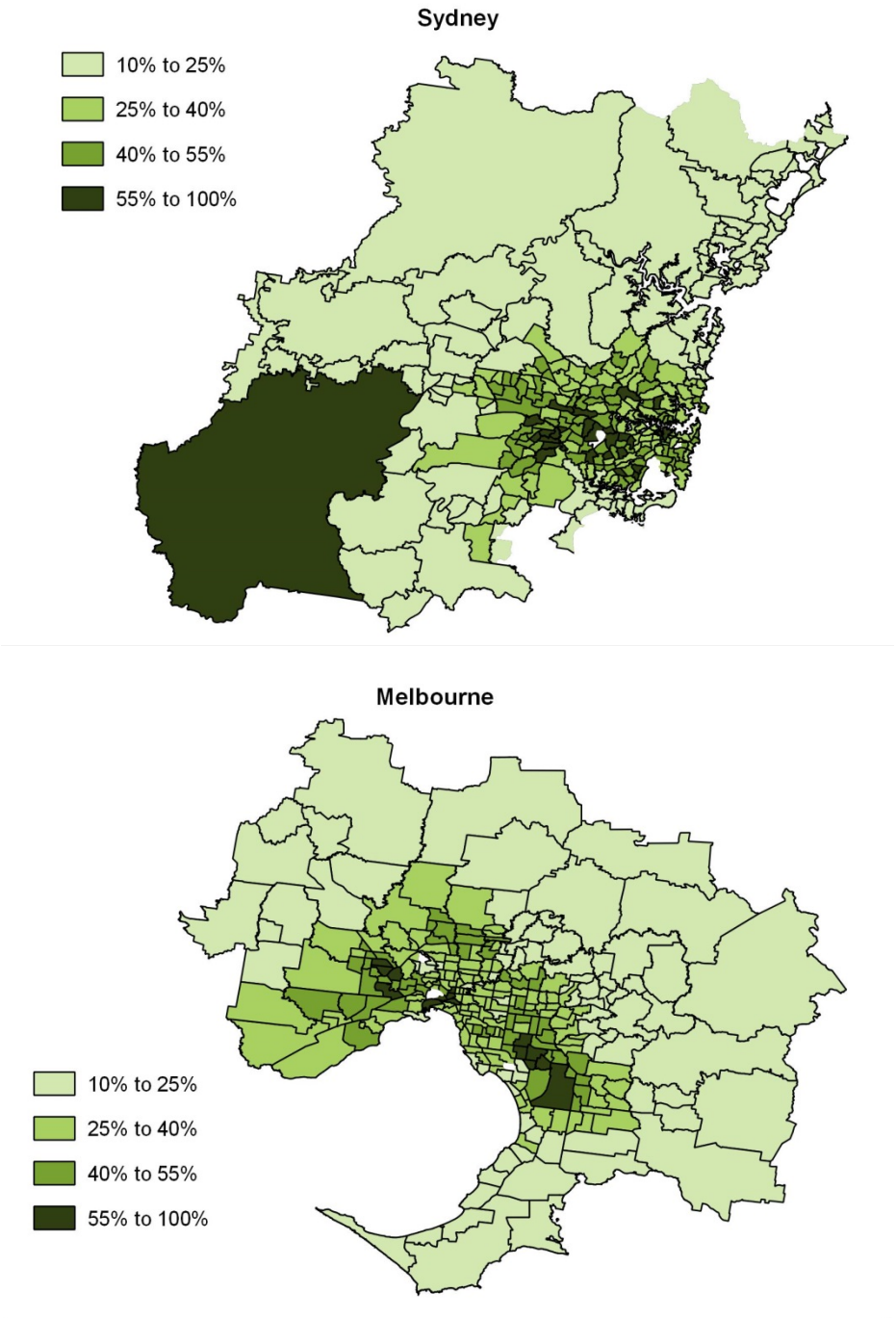
Unsurprisingly, suburbs that are close to universities also have considerable turnover in their population. For example, in Haymarket, Ultimo and Clayton, around a quarter of respondents that lived in these suburbs in 2010 were not living there in 2006 (ABS 2014a).

The settlement patterns of immigrants have changed over time

The proportion of immigrants that live in urban areas has increased over time. According to Hugo (2011), the proportion of the overseas-born population living in major urban areas increased from 62 per cent in 1947 to 83 per cent in 2006 (table 3.3). The proportion of Australian-born people living in major areas has also increased, but by a far smaller amount over this period.

Figure 3.15 **Percentage of the population in Sydney and Melbourne that was born overseas, 2011**

By Statistical Area Level 2



Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

Table 3.3 **Distribution of Australian-born and overseas-born people between major urban, other urban and rural areas, 1947–2006**

Per cent

	Overseas born		*Australian born*	
	1947	*2006*	*1947*	*2006*
Major urban	61.8	82.8	49.7	61.0
Other urban	13.5	11.2	18.5	25.1
Rural	24.7	6.0	31.8	13.9
Total (no.)	**733 372**	**4 414 577**	**6 827 383**	**14 068 993**

Source: Hugo (2011).

Immigrants on different visas reside in different areas

Temporary immigrants reside in different places to permanent immigrants. For example, according to the 2013 CORM survey, temporary immigrants were slightly more likely to live in capital cities and Western Australia, whereas permanent immigrants were more likely to live in New South Wales, Victoria, and Queensland (ABS 2014b).

According to ACMID, in 2011, family immigrants were more likely to live in New South Wales than other permanent immigrants, while skilled immigrants were relatively more likely to live in Queensland and Western Australia, and humanitarian immigrants were relatively more likely to live in Victoria (figure 3.16). Humanitarian immigrants were also more likely to live in capital cities (90 per cent) than skilled (87 per cent) and family (85 per cent) immigrants.

Settlement patterns vary by country of origin

Immigrants from a MESC are substantially less likely to live in capital cities than immigrants from a NESC. In 2011, about 72 per cent of immigrants from a MESC lived in a capital city compared with about 88 per cent of immigrants from a NESC. They also locate in different cities, with immigrants from a MESC more likely to live in Brisbane, Adelaide and Perth, and less likely to live in Melbourne and Sydney (ABS 2013b).

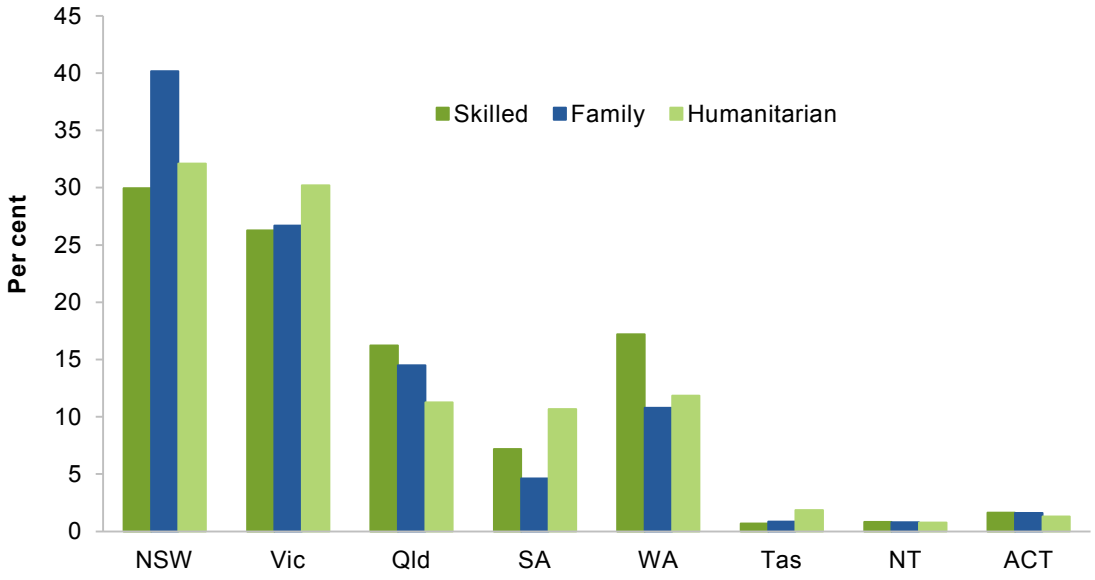
In 2011, the immigrant groups that were the most urbanised tended to be from Asia, north Africa and the Middle East, while the least urbanised groups tended to be from Oceania and north-west Europe (table 3.4).

Immigrants' location patterns also vary with when they arrived in Australia. According to the 2011 Census, recent immigrants who arrived between 2000 and 2011 were more likely to live in capital cities (85 per cent) than immigrants who arrived before 2000 (81 per cent). As well, a higher proportion of recent immigrants lived in Queensland and

Western Australia and a lower proportion in New South Wales and South Australia (ABS 2013).

Figure 3.16 **Distribution of permanent immigrants between states and territories, 2011[a]**

Those who were granted their visa between 2000 and August 2011



[a] Excludes other territories.

Source: Productivity Commission estimates based on ABS (*Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

Table 3.4 **Most and least urbanised population groups, 2011[a]**

Top 10	*%*	*Bottom 10*	*%*
Djibouti	98	Benin	48
Lebanon	97	Tuvalu	57
Somalia	97	Togo	61
Cambodia	97	Netherlands	62
Vietnam	97	Papua New Guinea	62
Syria	97	Vanuatu	64
Armenia	96	Solomon Islands	65
Iraq	96	French Polynesia	65
Georgia	96	New Caledonia	66
East Timor	96	New Zealand	67

[a] Proportion that lived in a Greater Capital City Statistics Area. Countries of origin with less than 50 immigrants living in Australia at the Census were excluded.

Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

Skilled and humanitarian immigrants are more mobile than family immigrants

Many immigrants change residence while they live in Australia. However, the residential mobility of immigrants does not vary substantially compared with the Australian-born population. For example, of the population that was living in Australia one year prior to the 2011 Census, about 15 per cent of both immigrants and Australian-born people moved within Australia in the year prior to the Census (table 3.5). That said, a higher proportion of Australian-born moved in the five years prior to the Census.

Mobility varied within the permanent immigration program. For example, in 2011, a higher proportion of skilled and humanitarian immigrants had moved within Australia than family immigrants. As well, onshore and primary applicants were more likely to move than offshore and secondary applicants (table 3.5).

Table 3.5 **Proportion of people that moved within Australia in the one year and five years prior to the 2011 Census[a]**
Per cent

	One year	*Five years*
Australian born	14.6	38.7
Overseas born	14.6	35.3
Permanent immigrants		
Skilled	19.1	58.4
Family	16.2	49.9
Humanitarian	20.4	50.9
Onshore applicant	20.6	63.3
Offshore applicant	17.1	49.7
Primary applicant	18.8	56.3
Secondary applicant	17.6	51.9

a Includes people who were living in Australia in the one and five years prior. Therefore, it does not include overseas moves.

Sources: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0; *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

3.4 Second generation immigrants

Immigration can have a longer term impact on Australian society through the contribution of their Australian-born children. This is important to the extent that the characteristics of second generation immigrants may differ to both first generation immigrants and Australian-born people with Australian-born parents.

Ancestry of second generation immigrants

A majority of second generation immigrants reported their primary ancestry as British and Australian in the 2011 Census. Most of those responses comprised people with one parent born overseas. Second generation immigrants with both parents born overseas reported a greater variety of ancestries in 2011, including British, southern European, south eastern European, Chinese Asian and western European (table 3.6).

Table 3.6 **Ancestry of second generation immigrants, compared with Australian-born people with Australian-born parents, 2011**
Per cent

Both parents born overseas	*%*	*One parent born overseas*	*%*	*Both parents Australian born*	*%*
British	25.0	British	52.5	British	45.5
Southern European	14.4	Australian	24.1	Australian	40.4
South eastern European	11.2	Southern European	6.0	Irish	7.8
Chinese Asian	7.9	Irish	5.6	Western European	2.6
Western European	6.1	Western European	3.9	Southern European	2.2
Arab	5.1	South eastern European	2.5	South Eastern European	0.7
Southern Asian	5.0	Arab	1.2	Chinese Asian	0.2
Mainland south-east Asian	4.2	Chinese Asian	1.1	Eastern European	0.2
Australian	4.2	Eastern European	0.8	Arab	0.1
Eastern European	3.9	New Zealand	0.4	Northern European	0.1

Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

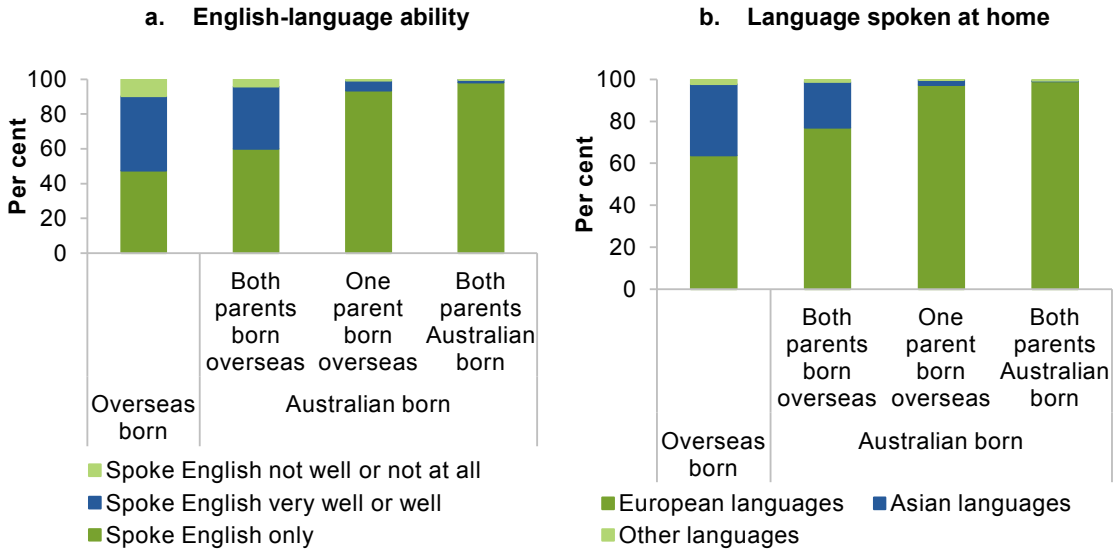
The ancestry of second generation immigrants appears to vary with age. For example, in 2011, younger second generation immigrants were less likely to report British as being their main ancestry than older second generation immigrants. As well, younger immigrants appear to have greater diversity of ancestries. For example, 74 per cent of those aged 15–24 years reported having one of the top 10 ancestries compared with 95 per cent of the 65 years and older age group. This reflects the changing countries of origin of immigrants (section 2.1).

Second generation immigrants are more proficient in English and more likely to speak English at home than first generation immigrants

Second generation immigrants have better English-language skills than overseas-born people and similar English-language proficiency to Australian-born people with Australian-born parents. According to the 2011 Census, about 96 per cent of Australian-born people with both parents born overseas and 99 per cent of Australian-born people with one parent born overseas reported speaking English only, or speaking English very well or well (figure 3.17, panel a). This compares with about 90 per cent of people

born overseas. Australian-born people with Australian-born parents reported having the highest English-language proficiency.

Figure 3.17 **English-language ability and language spoken at home by first and second generation immigrants, 2011**



Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

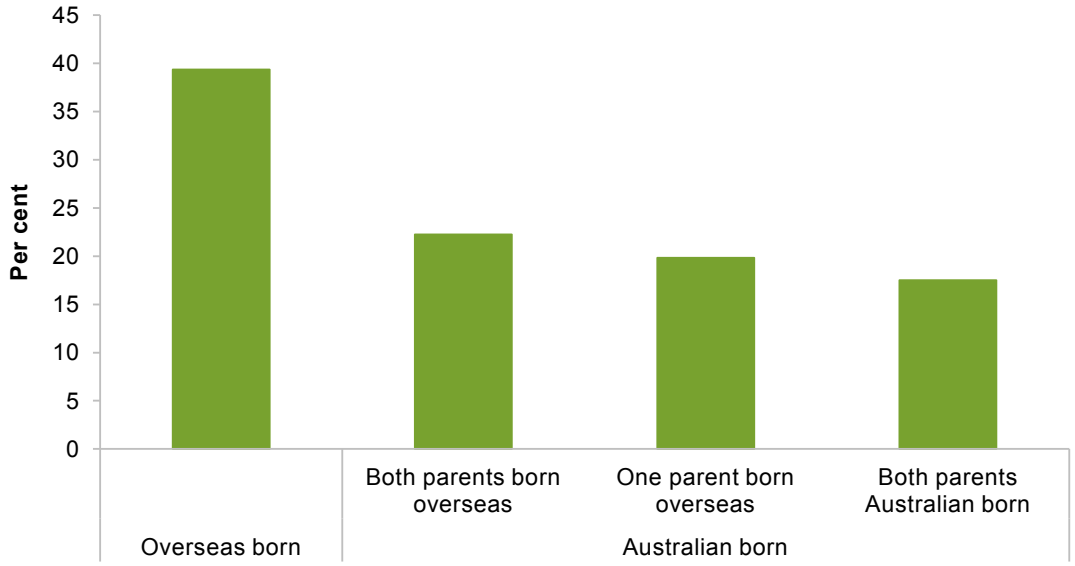
First and second generation immigrants speak different languages at home. In 2011, of second generation immigrants, about 60 per cent with both parents born overseas and 94 per cent with one parent born overseas spoke English at home. This compares with about 47 per cent of overseas-born people (ABS 2013b). In addition, a higher proportion of second generation immigrants spoke a European language at home and a lower proportion spoke an Asian language, than first generation immigrants (figure 3.17, panel b).

Second generation immigrants have higher educational attainment than Australian-born people with Australian-born parents

Second generation immigrants have different academic achievement than first generation immigrants and are more similar to Australian-born people with Australian-born parents. For example, 21 per cent of second generation immigrants aged 15–39 years had a degree level qualification or higher in 2011, compared with about 39 per cent of immigrants and 18 per cent of Australian-born people with Australian-born parents (ABS 2013b).

Educational attainment also varies depending on whether the second generation immigrant has one or two parents that were born overseas. In 2011, 22 per cent of second generation immigrants aged 15–39 years with both parents born overseas held a degree level or higher qualification in 2011, compared with 20 per cent of those with one parent born overseas (figure 3.18).

Figure 3.18 **Proportion of first and second generation immigrants with a degree level or higher qualification, 2011**
Aged 15–39 years



Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

Khoo et al. (2002) also found that second generation immigrants had higher educational attainment than Australian-born people with Australian-born parents. However, they found that outcomes varied by country or origin, with second generation immigrants of southern European, eastern European and Asian backgrounds more likely to achieve better educational outcomes.

Other studies have also found the second generation immigrants have similar or even favourable education outcomes compared with second (or higher) generation Australians. For example, Liebeg and Widmaier (2009) found that, once socioeconomic status and other factors were taken into account, second generation immigrants performed better than children of Australian-born parents on the OECD's Programme for International Student Assessment. OECD and EU (2015) and Dustmann, Frattini and Lanzara (2012) found similar results.

However, Le (2009) compared tertiary entrance scores of first and second generation immigrants, and second (or higher) generation Australians and found, while first generation immigrants had higher entrance scores, second generation immigrants had similar entrance scores to second (or higher) generation Australians.

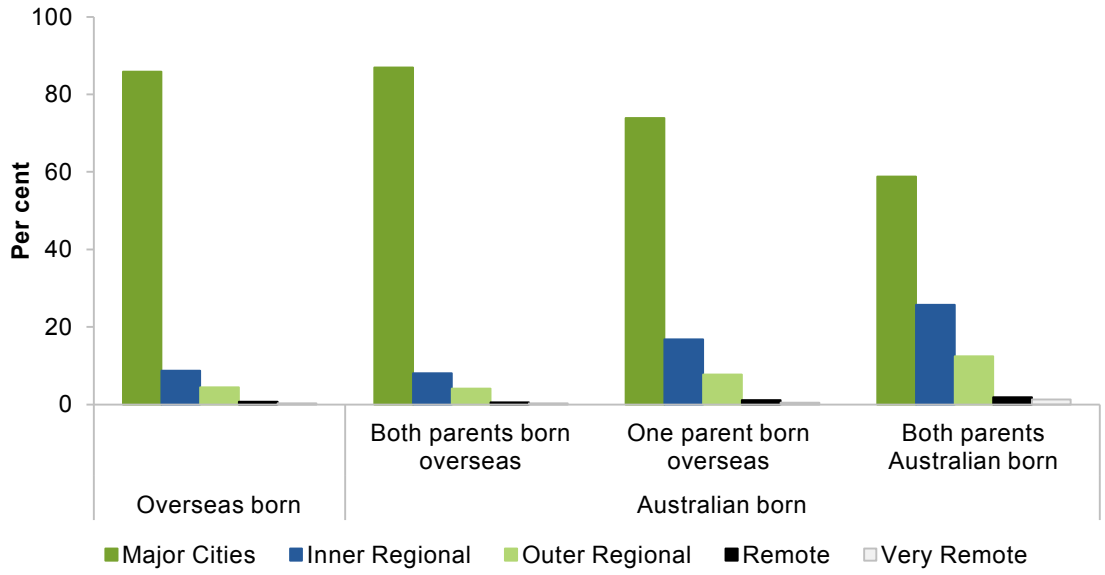
The educational performance of second generation immigrants compared with second (or higher) generation Australians, is one of the highest in the OECD. For example, only Canada's second generation immigrants had a lower representation of early school leavers relative to the native-born population with native-born parents. In fact, on many education

indicators, second generation immigrants in many OECD countries perform worse than native-born with native-born parents (OECD and EU 2015).

First and second generation immigrants' settlement patterns differ

Second generation immigrants are less likely to live in major cities than first generation immigrants. In 2011, 80 per cent of second generation immigrants lived in a major city compared with 86 per cent of overseas-born people. However, they were more likely to live in a major city than Australian-born people with Australian-born parents (59 per cent). Second generation immigrants with both parents born overseas were more urbanised than both second generation immigrants with one parent born overseas and first generation immigrants (figure 3.19).

Figure 3.19 **Distribution of first and second generation immigrants by remoteness area, 2011**



Source: Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

4 Immigration: an assessment framework

Key points

- People generally migrate because of expected net benefits. Both 'pull' and 'push' factors affect these implicit calculations.
- Countries accept immigrants for a variety of reasons. In many cases, immigration is a proactive policy designed to meet long term 'nation building' and human capital objectives as well as short term labour market needs. International engagement also factor in countries' immigration policies.
- The overall effect of immigration on a host country depends on the complex interaction of economic, social and environmental impacts — some of which can be positive and others negative. These inter-linkages have important policy implications — policies that target one particular objective may have positive or negative collateral effects.
- Governments are responsible for managing immigration flows on behalf of their constituents — typically through rule-based selection mechanisms. The rights and responsibilities of immigrants differ as they change residency status (from temporary to permanent to citizen).
- Improving the overall wellbeing of the Australian community should be the overarching objective of immigration policy. Wellbeing has economic, social and environmental components which need to be balanced over time.
- Immigration is the largest component of Australia's population growth and a key population policy lever. There is no comprehensive empirical basis for setting an aggregate level of immigration or population. Research can help inform public policy by identifying, quantifying and analysing the various impacts, and those policy alternatives which are best equipped to address them. Nevertheless, there will always be a subjective element in setting immigration levels, requiring political judgment and, ultimately, public accountability.

This chapter sets out the broad framework employed by the Commission in assessing the costs and benefits of immigration policies. It starts by explaining why people migrate and the rationale for countries in accepting immigrants (section 4.1). The key features and objectives of immigration policy are outlined in section 4.2. The chapter concludes with the Commission's approach and analytical framework adopted in this inquiry.

4.1 Why do people migrate and why do countries accept immigrants?

In general, there are three parties affected by migration: the immigrants themselves (and any accompanying family), the source country, and the destination country. This inquiry is focused on the first and third of these three parties, although remittances and the acquisition of Australian-based work experience and education can benefit source countries.

Why do people migrate?

Throughout most of human history, masses of people have migrated largely for reasons related to war and famine. For example, in his *Commentarii de bello Gallico* (*Commentaries on the Gallic War* circa 46 BC), Caesar wrote of the migration of various tribes, such as the Helvetti, seeking new lands and conquests.

In the modern age, the migration of peoples due to war and famine continued as an important driver but rising gaps in income across nations following the industrial revolution have led to migration based largely on 'economic advancement' grounds. As noted by Collier (2013):

> … we now know three big things about what drives international migration. One is that migration is an economic response to the gap in income: other things being equal, the wider the gap in income, the stronger the pressure to migrate. The second is that there are a myriad of impediments to migration, economic, legal, and social, that are cumulatively important, so that migration is an investment: costs must be borne before benefits can be reaped. Since poor people are least able to meet the costs of investment, this generates an offset to the pressure coming from a wide gap in income. If the gap is wide because people in the country of origin are desperately poor, their desire to migrate is likely to be frustrated. The third big thing we know is that the costs of migration are greatly eased by the presence in the host country of a diaspora from the country of origin. The costs of migration fall as the size of the network of immigrants who are already settled increases. So the rate of migration is determined by the width of the gap, the level of income in countries of origin, and the size of the diaspora. (p. 38)

Economic drivers also feature in submissions (for example, Gregory, sub. 40).

Immigration is often conceptualised as an act of human capital investment. Thus, at its core, migration theory is based on a human capital investment model (Bodvarsson, Simpson and Sparber 2015), with the decision to migrate often expressed as a cost-benefit decision. That is, people seek to migrate if the expected net benefits to them of doing so exceed the expected net benefits to them of staying put, less any costs of moving. As one submitter put it:

> Each country in the world can be conceptualised as offering a different 'bundle' of economic goods (private goods, job opportunities), public goods (healthcare, educational opportunity, legal rights, security from harm, style of government), environmental goods (climate

> conditions, clean air, clean water, natural parks and leisure activities, quality and style of built environment) and social goods (experiences, culture, language, presence of family ties, ability to live with partner) in return for paying a certain tax rate and cost of living. In other words, migration is driven by people maximising their expected overall quality of life according to their personal values versus costs of living (tax rate and costs of living) and alternative migration opportunities (including staying home). (Name withheld, sub. 8, p. 5)

As with many decisions, there are not only private costs and benefits but also broader community costs and benefits attached to migration. Individuals typically make decisions based on their expected private costs and benefits. Other factors can also affect private decisions. For example, while the cost of migration has fallen over time, there are now more restrictions on migration than before World War I.

In addition, community-wide costs and benefits (largely deriving from so-called 'externalities' from migration) and other market failures (such as capital market failures) may also sway a person's migration decision. For example, technological advances have made it easier for immigrants to maintain contact with people in their source country; this may also reduce their incentives to integrate into the destination country. And while the presence of large diasporas can also help with immigrants' integration, a large diaspora may also identify separately to the 'mainstream' society, potentially leading to societal fractures (Collier 2013). On the other hand, skilled immigrants may also encourage knowledge and innovation spillovers, in turn enhancing productivity growth in the host country (chapter 5).

Some of these community-wide costs and benefits of immigration will also affect other parties, in turn leading to a role for government in managing immigration policy.

Both 'pull' and 'push' factors affect a person's decision to migrate. Pull factors include better economic opportunities in destination countries (including higher incomes, lower costs of living, a larger range of goods and services, access to education and health services) and lifestyle and cultural considerations (including the desire for reunion with other family and community members as well as the size of the diaspora). Push factors include political and social instability (including conflict and persecution) as well as climate and living conditions in their home country.

Various surveys on the settlement experience of recent immigrants to Australia have included questions on motivations to migrate. Research based on these surveys have concluded that the opportunities for children, including education, were important as were the peaceful and open civic life, and Australia's relatively uncrowded and unpolluted environment. For many immigrants, their motives were not primarily economic — since most were skilled and had good jobs before immigrating. The desire to reunite with family members was also an important motivator (Richardson et al. 2004a, 2004b).

Given these push and pull factors, the characteristics of immigrants (both observable and unobservable) often differ from those of the resident population — although subsequent generations tend to become more similar to incumbent residents. Self-selection, combined

with the application of explicit selection rules (see below), explain much of these differences.

Why do countries accept immigrants?

With the advent of taxpayer-funded welfare systems over a century ago, most major countries have not had 'open borders' to allow the free movement of people (Caplan 2012). Further, as migrants are independent actors with their own set of incentives, labour mobility is more complex than is the movement of goods and services in the context of preferential trade agreements and multilateral trade rules (which, in turn, rest on a comparative advantage framework driving nations to cooperate and loosen trade restrictions) (Sherrell 2015).

However, countries do accept immigrants for a variety of reasons. In many cases, immigration is a proactive policy designed to influence the rate, composition and geographical distribution of population growth. For example, nation building was one of the stated reasons for immigration from the end of World War II until around the 1970s (chapter 2). Today, some see population growth as important for national security and enhanced economic opportunities while others are concerned about the pressures of Australia's population on the existing built and natural environment. And addressing labour market objectives — including meeting skills bottlenecks in a timely fashion — has become a prominent motivation for accepting immigrants.

Social considerations also come into play. This includes: facilitating family reunion (which can contribute to economic outcomes); promoting social cohesion (which can have positive impacts on social capital) and social values (for example, religious tolerance, and attitudes to women); and increasing cultural diversity. It may also include fulfilling altruistic desires of the community, which have been manifested in Australia ratifying various international treaties.

The impacts of immigration

Immigration (and population growth) can generate a range of positive and negative impacts. Immigrants are not homogenous, so the net impacts of immigration can be expected to vary across different immigrant groups according to their characteristics.

However, in broad terms, additional people of working age (who participate in the labour force) increase the supply of labour and some forms of capital, contribute to society via taxation, and may contribute some domestic, community or broader social services in the non-market sector. They and their dependants are also consumers of various goods and services, including those delivered outside of markets (for example, subsidised government services and the services of some not-for-profit organisations). Thus, immigration has implications for wages, capital returns, and the prices of and/or access to goods and

services in the market and non-market sectors. While complex, these 'economic' impacts are the easiest to identify and measure.

In addition, there are environmental and urban amenity impacts — resulting from physical and natural constraints and their interaction with the intake of migrants and associated population growth. These impacts, which sometimes fall outside of markets, include urban infrastructure and space constraints, natural resource constraints and the effect of population growth on biodiversity and pollution (chapter 6).

Immigration can also lead to positive or negative social and cultural impacts on the incumbent population — with most of these impacts tending to be outside the influence of markets. Immigration has a two-way effect: on existing members of society as well as on immigrants themselves.

Impacts that tend to fall outside of markets are typically 'intangible' and therefore more difficult to quantify. For example, levels of community cohesion or cultural diversity are not easily verifiable and quantifiable and can be influenced by perceptions and values.

Though separately identifiable, these categories should not be viewed in isolation, since some impacts are interlinked. For example, negative impacts on economic growth might lead to adverse social effects, while urban congestion and some types of environmental problems might limit growth in incomes, in addition to affecting other aspects of wellbeing. Such inter-linkages have important policy implications — policies targeting specific impacts may have positive or negative collateral effects.

4.2 Key features and objectives of immigration systems

What are the key features of immigration systems?

Government involvement has typically led to rule-based selection mechanisms

Governments act on behalf of citizens to limit or expand the size of the population through immigration policies, set the rules of entry to a country and protect the country's borders. Section 51(xxvii) of the Australian Constitution authorises the Australian Parliament to make laws with respect to immigration and emigration. Relevant statutes include the *Migration Act 1958* (Cwlth) and the *Australian Citizenship Act 2007* (Cwlth).

A mix of factors influence these various rules. In representative democracies, immigration policy is ultimately influenced by public opinion about immigration and immigrants (expressed through political forces and subject to the Constitution). For example, one reason that governments manage — through quantitative restrictions and qualitative criteria — the entry of non-citizens and regulate the conditions of their stay is to protect

citizens' safety (including national security, biosecurity and health, and long term social cohesion and societal trust). As taxpayers fund social welfare supports and much of the public infrastructure, governments also need to manage and regulate immigration systems on behalf of taxpayers as well as citizens. Successful integration of immigrants into the economy and society can facilitate positive attitudes of citizens towards immigration. Maintaining public confidence in the efficacy of immigration policies is crucial for the continued public acceptance of immigration.

As part of Australia's international engagement strategy and foreign policy, successive Australian governments have also entered into treaties and other international instruments, accepting responsibilities and obligations under those instruments.

… which mean that 'price paid' and 'costs borne' are often hard to observe

As governments determine the rules of entry to the different visa classes, the 'price' that immigrants pay may not be readily observable, except for visa fees. This price can include a range of other components, such as time costs of the applicant and their transportation, documentation and agent costs. Applicants may also be required to purchase insurance and bonds. In some cases immigrants may lose their property in the source country.

Further, some of the 'costs' of admitting new immigrants may not be explicit (or measured) and/or they may be distributed unevenly across existing citizens and residents (including future generations). There are also costs associated with processing visa applications and screening for health and security risks.

The rights and responsibilities of immigrants differ across residency status

Potential immigrants acquire a bundle of rights and responsibilities when they are granted residency, whether temporary or permanent. The rights (which can also vary across different visa classes) allow access to social supports, infrastructure and participation in the Australian economy. Additionally, the visa class determines the period immigrants can remain in Australia and the scope to apply for other visa classes and the capacity to access family reunion visas. The responsibilities include obeying Australian laws and meeting the requirements of the visa class. Those that progress to citizenship acquire the right and responsibility to vote, and to political participation, and thereby affect the changing Australian nation.

The relationship between a person and the community and country in which he or she lives is often long term in nature. Reflecting this, there are various implicit contracts which evolve as rights (entitlements) and responsibilities (obligations) that a person meets as he or she moves along a pathway from temporary to permanent residency to becoming a citizen. These rights and responsibilities may also change over time as a result of policy decisions.

What are the objectives of immigration policy?

Immigration policy should seek to improve wellbeing

Although rarely made explicit, improving the overall wellbeing of the Australian community should be a key objective of government policies, including immigration policy. In practice, governments typically enunciate more focused objectives for different areas of policy responsibility.

As highlighted in chapter 2, the objectives of Australian immigration policy have evolved over time. Contemporary objectives of Australia's immigration policy are framed around economic, social and safety considerations (box 4.1). More detailed objectives also sit under the three main immigration-related programs (that is, the Migration, Visas and Humanitarian Programmes). Further, these objectives are buttressed with other objectives that support economic and social inclusion, citizenship and settlement, including multicultural affairs (box 4.1).

Setting aside the Humanitarian Programme, the relative weight given to economic and social factors differs between the permanent and temporary programs, with more weight given to economic objectives in the temporary intake than the permanent intake. For example, family reunion is a feature of the permanent program but is not at the forefront of the objectives of the temporary program, with most temporary visa offerings centred around tourists, students, temporary graduates, temporary work (457s), training and research, working holidays, international relations, and skilled and business (DIBP 2013a).

At the same time, to the extent that temporary visas offer a pathway to permanent entry, a mutual 'vetting' objective is also apparent (for both Australia and the potential permanent resident).

Whose wellbeing should be considered?

A key question relates to whose wellbeing should be considered in assessing the impact of immigration policies.

Different views on this question are implicit in participants' responses to the question raised in the issues paper in relation to the objectives of Australia's immigration policy (box 4.2). While most participants implied that the wellbeing of 'Australians' (mainly defined as citizens but not exclusively so) was the primary objective, others thought that the wellbeing of immigrants also mattered.

In previous work, the Commission has defined the group whose wellbeing should be considered as those people living in Australia who are citizens or permanent residents (PC 2006). This is consistent with section 8 of the *Productivity Commission Act 1998* (Cwlth), which requires the performance of its functions to have regard to '… all members of the Australian community' and '… to recognise the interests of industries, employees,

consumers and the community likely to be affected by measures proposed by the Commission'.

The inquiry's terms of reference (ToR) asks that the Commission consider the income, wealth and living standards of Australian *citizens* as well as the budgets and balance sheets of Australian governments. It also provides for Australian citizens to be altruistic towards foreigners including refugees and for Australia's international responsibilities and obligations to foreign residents to be met.

Box 4.1 Immigration policy has a range of objectives

Overarching objectives

The Department of Immigration and Border Protection states that its immigration-related outcomes are to:

> Protect Australia's sovereignty, security and safety by managing its border, including through managing the stay and departure of all non-citizens.
>
> Support a prosperous and inclusive society, and advance Australia's economic interests through the effective management of the visa and citizenship programmes and provision of refugee and humanitarian assistance. (DIBP 2014i, p. 11)

Detailed objectives and strategies

Sitting under these objectives are more detailed objectives and strategies. For example:

- within the Migration Programme (which centres on **permanent entrants**), the skill stream 'targets high quality migrants who use their skills and attributes to contribute directly to Australia's economic well-being' while the Family stream 'addresses an important social objective in enabling Australian residents to reunite with close family members from overseas' (DIBP 2014m, p. 3)
- within the Visas Programme (which focuses on **temporary entrants**), while the broad intent is to meet Australia's national interest (including national security and economic and social development) there are specific objectives for each visa class. For example, the international student program facilitates the export of education services onshore to non-citizens under an overarching objective of ensuring a 'sustainable international student sector' (DIBP 2015al). By contrast, the Seasonal Worker Programme has dual objectives of easing seasonal labour market shortages in selected industries together with international aid goals
- the Humanitarian Programme contributes to the resettlement of **refugees and those in humanitarian need** and to provide visa pathways for those needing Australia's protection (DIBP 2015al).

Other objectives which support immigration objectives

The above immigration-related objectives are buttressed with policies which help to:

- support a prosperous and inclusive Australia and promote Australian citizenship (DIBP 2014c)
- improve the lifetime wellbeing of immigrants and refugees settling in Australia by responding to their specific needs, encouraging their independence and participation in the Australian community (DSS 2014b).

Box 4.2 Participants' views on whose wellbeing should be a priority

There was support for a focus on the wellbeing of 'Australians'

> The impact of migration needs to be considered in a comprehensive way, that goes well beyond the effect on the Federal budget or even on [gross domestic product] GDP growth. At the very least it should consider GDP per capita, and better still, the incomes of existing residents. But GDP measures are not enough. We should consider effects on the quality and accessibility of schools, hospitals, transport, recreational facilities and access to nature. We should ask current citizens (as distinct from permanent residents) what they think about these things, in a systematic and objective way (because at present it seems that a small number of voices, including big business, have a disproportionate say). (anonymous, public comment no. 7)

> Current immigration policy is NOT aligned with improving the wellbeing of the Australian community. The Australian community is worse off by any measure from increased population growth due to immigration. … There is no case for including benefits to the immigrant. The benefits are clearly very great when compared with their prospects in their home countries. The Australian Government should not be in the business of redistributing the wealth of Australians to non-Australians. (Matta, sub. 17, p. 2)

> The first priority must always be to maximise jobs and training opportunities for Australians — that is, citizens and permanent residents of Australia, regardless of their background and country of origin — and ensure they have the first opportunity to access Australian jobs. (ACTU, sub. 36, p. 9)

> … rather than aiming for a false economy of rapid population growth, Australia's government must focus on the quality of life of current citizens … (Sustainable Population Party, sub. 37 , p. 11)

> The objective of Australia's immigration policy should be to improve the living standards of incumbent Australians. (Liberal Democratic Party, sub. 46, p. 2)

> The objective should be to stabilise the population at levels that are not detrimental to Australia's environmental, social and cultural sustainability. (Reduce Immigration, sub. 48, p. 1)

> Australia's immigration policy should reflect Australian values and support the economic, social and cultural interests of the Australian people. (Migration Council Australia, sub. 50, p. 1)

> … to ensure Australia's continued prosperity and economic growth into the future for the benefit of all Australians. (Migration Institute of Australia, sub. 53, p. 3)

> It is important to separate the impacts on existing Australians and Australia's national interest, from the impacts on immigrants, and on international communities from whom immigrants are drawn. All are worthy of attention, but too often attempts to discuss Australia's national interest, or even global interest, are shut down under accusations of being anti-immigrant. (O'Sullivan, sub. 54, p. 1)

> Immigration … places permanent obligations and costs upon the host Nation for all of the future. This is a great responsibility, involving responsibilities to migrants and their progeny and to all future generations of Australians. (Holman, sub. 58, p. 2)

> Migration policy should serve Australia's long-term economic and population needs. (BCA, sub. 59, p. 6)

The wellbeing of immigrants was also seen as important

> … the Productivity Commission's terms of reference explicitly include consideration of the lever's applicability to Australia's temporary migration program and the relationship between Australia's permanent and temporary programs. Most importantly, the examination of these issues is to take place within an overarching context designed to serve the national interest through improving national income, living standards, reducing the administrative burden on the immigration department and meeting Australia's international obligations. Absent from these objectives are the specific needs relating to the wellbeing of migrants, the needs of employers or the concerns of local workers — the balancing of the latter two being the current principal mission of Australia's permanent and temporary labour migration programmes. (Howe, sub. 32, p. 2)

While the terms of reference is consistent with the notion that the first priority of governments is to its constituents (that is, existing citizens and their descendants), the majority of permanent residents eventually become citizens and, hence, future constituents. Accordingly, the wellbeing of permanent residents is also a relevant but second tier consideration. This is evident in Australia's income support system, for example, which allows eligible Australian citizens immediate access to social security allowances and/or concession cards without having to wait the Newly Arrived Resident's Waiting Period of 104 weeks (DHS 2015b), which most permanent residents are subject to.

Bearing all these considerations in mind, the Commission proposes to consider the wellbeing of the Australian community — defined here as encompassing Australian citizens and permanent residents — existing at the time when a policy is being considered as the primary objective (also known as the 'incumbent' Australian community). To the extent that sustainable population growth also requires sustainable immigration growth, future generations of existing Australian community members also form part of the policy objective.

However, this proposed objective does not completely disregard temporary resident visa holders. How these types of residents are treated — for example, ensuring that exploitation does not occur (ACTU, sub. 36) and New Zealand citizens living long term in Australia (Faulkner, sub. 14) — can affect the wellbeing of the Australian community directly and indirectly. Nor does it completely disregard the wellbeing of prospective immigrants — for example, the wellbeing of some Australians may be affected by the wellbeing of other potential immigrants seeking to immigrate through Australia's family reunion program. And while Australia has humanitarian obligations to assist refugees, the wellbeing of some community members is enhanced through meeting such obligations (Refugee Council of Australia, sub. 20). However, the wellbeing of *potential* immigrants is not the primary goal of government's immigration policy.

The three dimensions of wellbeing — economic, social and environmental

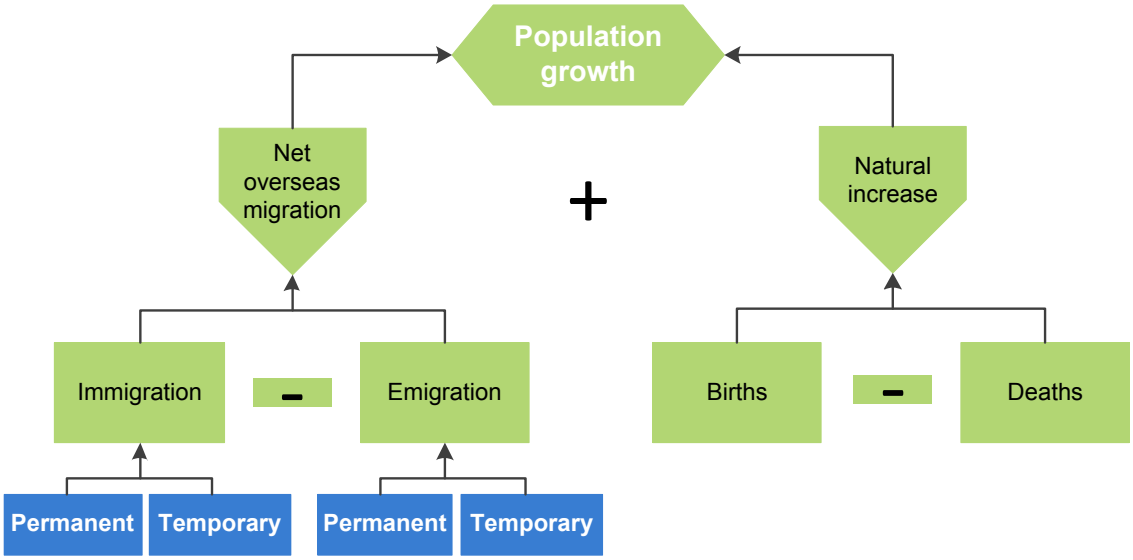
The term 'wellbeing' is a multi-dimensional concept. The Commission has previously defined it broadly as the overall satisfaction that members of the community derive from various aspects of their lives and the social and physical environment in which they live (PC 2010a). As such wellbeing includes economic aspects that are typically captured in measures such as income per person. But it also includes key influences on quality of life that are not necessarily captured in market transactions. For example, these include environmental and urban amenity, and social and cultural impacts.

In practice, the wellbeing of Australia's community can be divided into three domains: economic, social and environmental. This is similar to the approach adopted in developing Australia's population policy (DSEWPC 2011) (see below). There can be trade-offs between these three components which are frequently (but not always) normative, and hence essentially political reflecting the Australian community's views at a point in time.

The link between immigration policy and population policy

Australia's immigration policy is inextricably linked to population policy — any decision about the level of immigration is implicitly a decision about the rate of population growth (figure 4.1).

Figure 4.1 **Components of population growth**



Source: PC (2010b, p. 7).

Net overseas migration (NOM) — the difference between immigration and emigration — has been the major contributor to population growth in Australia, especially since World War II (chapter 2). As Australia's population progressively ages and its natural rate of increase eventually declines, NOM is expected to continue to play an important role in the size and growth of Australia's population.[4]

Immigration is also the *primary* policy lever government has to influence population size and growth. Other factors which affect population — such as natural increase and emigration — are more difficult to *directly* influence through policy (PC 2011a, 2011b, 2011c). Alongside settlement patterns of immigrants, internal migration (the movement of the existing population within Australia) can also involve relatively large people flows and is an important component of the distribution of the population.

The composition of immigrants also has flow-on consequences for the economy, society and environment.

[4] While McDonald and Kippen (1999) and the Commission (PC 2005b) argued that immigration will have little effect on the age structure of the population, McDonald and Temple (2013) argue that NOM will help to slow down (but not stop) the effect of population ageing. Further analysis is in technical supplement A.

Australia's population policy, outlined in *Sustainable Australia — Sustainable Communities,* aims to ensure that 'future population change is compatible with the economic, environmental and social wellbeing of Australia' (DSEWPC 2011, p. 6). Pursuing this 'triple bottom line' style objective, however, inevitably requires some trade-offs between each of the subordinate objectives (as previously mentioned) and can lead to a loss of clarity as various parties argue about how one should be traded off against another. Hence, some 'winners' and some 'losers' will emerge among the existing population as a result of making trade-offs to achieve sustainable population growth (Pincus 2011 cited in PC 2011b).

In its submission on the development of Australia's population policy, the Commission set out a framework for exploring the different dimensions of population policy. The submission identified factors that should be considered in the population and immigration debate, including economic, environmental and social impacts. It also stressed the importance of drawing a balance between 'proactive' policies to control the population and 'reactive' policies to address the impacts of population growth (box 4.3).

Box 4.3 The role of 'proactive' and 'reactive' policies in addressing population growth

The key to achieving outcomes that enhance community wellbeing is to find the appropriate balance between 'proactive' and 'reactive' policies.

- 'Proactive' policies influence the rate, composition and geographical distribution of population growth.
- 'Reactive' policies address the impacts of given population growth, rather than address that growth directly. (For example, environmental management and investment in infrastructure would be examples of 'reactive' policies.)
- Efficient and effective 'reactive' policies can increase the economic benefits and reduce the costs of any given level of immigration.
- If population growth is not the primary cause of a problem, directly addressing the problem (through 'reactive' policy) could be more efficient than 'proactive' policies.

Source: Productivity Commission (2011b).

The Commission also concluded that it is not possible to identify the optimal level of immigration, population growth or population.

> Research can help inform public policy by identifying, quantifying and analysing the various impacts, and those policy alternatives best equipped to address them. Nevertheless, there will always be a subjective element requiring political judgment and, ultimately, public accountability. (PC 2011b, p. 44)

So, although it is possible to assess the impacts of immigration, there is no comprehensive empirical basis for setting a level of immigration or population over time that would improve the wellbeing of the Australian community. It is up to the political process to deliver an informed decision about the change in the size of the population that is in the

best interest of Australians. In practice, there will be a range of immigration rates that are compatible with improving the wellbeing of the Australian community and that range will be affected (among other things) by the provision of infrastructure, the efficiency of the labour market, settlement patterns, technology and external factors. There will also be immigration rates outside that range that will detract from the wellbeing of the Australian community.

Australia's population policy does not establish a population target. Rather its focus is on achieving sustainable population growth. This dynamic perspective means that ultimate population levels are less important for policy than the rate of population growth over time and the capacity of the Australian community to accommodate it (PC 2011c). As such, sustainable population growth is largely (but not entirely) about the composition and level of immigration flows as well as policies to best manage immigration settlement in order to maximise beneficial impacts.

While a small number of inquiry participants did not agree with the notion of sustainable population growth (Green, sub. 38; and O'Sullivan, sub. 54), the Commission's view is that a focus on sustainable population growth (including through immigration) ensures that concerns about the adverse effects of population levels and growth on the economic, social and environmental aspects of migration are taken into account in policy deliberations.

DRAFT FINDING 4.1

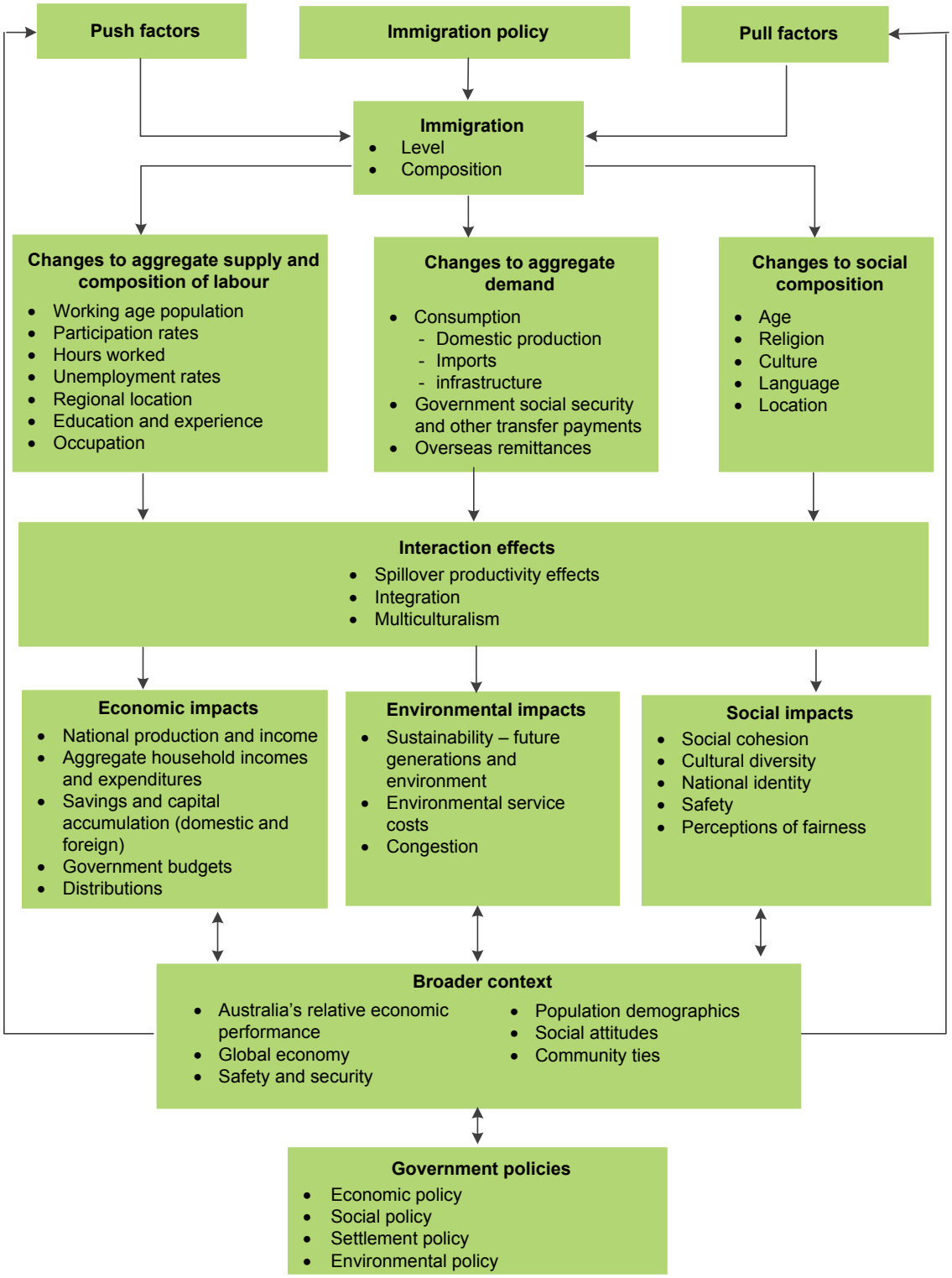
Decisions about the level of immigration are the responsibility of the Australian Government. They involve balancing a complex set of economic, social and environmental policy objectives.

There is no comprehensive empirical basis for setting an aggregate level of immigration over time that would improve the wellbeing of the Australian community. Improving incumbents' wellbeing is likely to be consistent with a range of immigration rates, which is determined (among other things) by the efficiency of the provision of infrastructure, the efficiency of the labour market, technology, settlement services and external factors.

4.3 The Commission's approach

In assessing the costs and benefits of immigration, the Commission has adopted an integrated framework that aims to capture the economic, social and environmental dimensions of immigration and the interactions between these domains (figure 4.2).

Figure 4.2 **Impacts of immigration: an integrated approach[a]**



[a] Elements includes those that are identified as the most important rather than a complete listing.

In applying this framework, the Commission has considered a range of indicators as relevant to particular policy options (box 4.4). In addition, the assessment framework also includes a number of criteria that relate primarily to the efficiency and effectiveness of the administration of immigration programs and policies.

Box 4.4 Immigration policy: assessment domains

Domains for assessing the impact of immigration policy

Recognising there are overlaps and potential trade-offs between them, the impact assessment is framed as a research question within each of the three domains: economic, environmental and social. Within each domain there are a range of indicators. Further, some indicators may be relevant for more than one domain.

Domain	*Indicators*
What effect does immigration have on **economic** outcomes?	• English-language skills, education and training • Labour force participation and unemployment rates, and employment to population ratio • Real wages • Productivity • Fiscal cost to governments • GDP (or GNI) per capita
What effect does immigration have on **environmental** outcomes?	• Cost of housing, water and infrastructure • Congestion costs • Measures of biodiversity
What effect does immigration have on **social** outcomes?	• Social cohesion and trust indices • Perceptions of fairness, threats to safety and national security • Measures of public acceptance of immigrants and immigration policy • Measures of diversity of the intake (such as by country of birth and visa category)

Criteria for assessing the administration of immigration policy

- Australia's international obligations are met.
- Australia's immigration policies are efficiently managed.
- The *integrity* of Australia's immigration programs is maintained or enhanced.
- The *administrative burden* of immigration programs is the minimum necessary.

As many aspects of wellbeing are difficult to quantify, the Commission has categorised the impacts of immigration under two broad categories: 'tangibles' and 'intangibles' (box 4.5).

Identifying the 'tangible' and 'intangible' impacts provides scope to incorporate the insights and findings from a range of academic disciplines, such as economics, demography, ecology, sociology and political science. In other words, contrary to many popular misconceptions, a broad economic approach is not simply about 'money, markets and materialism'.

Box 4.5 'Tangible' and 'intangible' impacts

'Tangible'

- Something that is '*tangible'* has a physical existence and can generally be assigned a value in monetary terms.

'Intangible'

- By contrast, an '*intangible'* is something that is usually difficult to measure and monetise.

Measuring, quantifying and assessing them

- In this inquiry, '*tangibles'* include those elements whose value can be expressed through market prices (for example, wages, cost of living). But they also include some elements that do not have market prices, such as the costs of congestion and changes to social services.
- While proxy measures need to be found to value most '*intangibles'*, 'intangibles' are nevertheless vital to take into account when gauging the impact of immigration on the community (for example, on social cohesion, safety and the like). Indeed, while intangibles cannot be easily monetised, some can be measured and quantified using a variety of measures.
- And just because something can be measured does not necessarily mean that it is important in making assessments. Similarly, just because something is not readily measurable does not mean that it is unimportant.

The Commission has also sought to distinguish who is impacted positively and negatively, and whether these costs and/or benefits are private in nature or affect the community as a whole (or significant groups in the community). While a full (monetised) cost-benefit assessment is not feasible, the cost-benefit framework has provided useful guidance to support the Commission's thinking in assessing the impact of immigration.

What else needs to be considered?

Care is needed to avoid ambiguity and double counting of the impacts on individuals and the wider community. For example, immigrant employment has both 'tangible' and 'intangible' outcomes — the former in terms of economic output and the additional private and social consumption this supports, and the latter in terms of the non-monetary benefits from both social and economic engagement (for example, satisfaction from relationships at work). From the point of view of citizens, these 'intangible' benefits are mostly in the form of reducing likely negative externalities associated with disengagement. 'Tangibles' and 'intangibles' are distinct but they are also joint outcomes and so both can be counted. But to also add taxation revenue to a measure of GDP would be double counting as it is already included (as is their income from employment).

In the face of a vast array of potential measures of impacts, maintaining tractability is important. In selecting these measures, the focus has been on whether there is likely to be a

significant impact on overall community welfare or on specific groups. When gathering, filtering and 'triangulating' the evidence, the Commission has considered:

- the quality, robustness and applicability of the evidence
- experts' advice on the relative importance of different channels and/or factors.

What are the relevant time periods for assessment?

The conceptual framework that underpins the Commission's analysis makes the distinction between direct effects and wider implications. The Commission has focused initially on the direct effects of migrant arrivals over time on population, labour supply and other economic, social and environmental variables. Wider flow-on implications of migration follow from these direct effects progressively over time. Where considered significant and feasible, the Commission has used the direct impacts to inform assessments of the wider implications of immigrants and the time scale over which these impacts may occur.

Subject to data availability, assessments of wider effects would consider:

- short term impacts — to capture the first round impacts of immigration arrivals and adjustments, say after two years from arrival
- medium term impacts — to capture the subsequent adjustments as immigrants are integrated into the labour market, new capital is commissioned and industry, society and the environment transitions, say over two to 10 years
- subsequent and longer term impacts — to capture the life cycle effects and second generation effects of migrant arrivals (perhaps extending up to 40 years and similar to the timescale adopted in intergenerational reporting).

5 Labour market outcomes and impacts

Key points

- The labour market outcomes of immigrants in Australia are broadly similar with outcomes in comparable OECD countries (Canada, New Zealand and the UK).
- Outcomes of permanent immigrants are generally similar to the Australian-born population but there are differences between immigrants with different characteristics.
  - Labour force participation rates are higher for males and females in the skill stream but lower for women from a non-main English speaking country (NESC).
  - Unemployment rates of immigrants are higher among females and those from a NESC, but lower among primary applicants in the skill stream.
  - Employment of immigrants is more concentrated in higher skill level occupations.
  - Earnings of immigrants within occupations are about the same as Australian-born people.
- While labour market outcomes of immigrants generally improve with length of time in Australia, there are some barriers to labour market integration.
  - Those barriers can be reduced through bridging supports to assist labour market integration and by pursuing possibilities for further recognition of overseas qualifications.
- The aggregate impact of immigration on incumbent workers depends on whether the complementary effects of immigration outweigh the substitution effects of additional labour supply (that is, the extent to which immigrant labour displaces local labour).
  - International studies find that the overall impact on incumbents is small (either positive or negative). The volume and composition of immigration along with the economic and institutional conditions prevailing at the time of immigration affects the size of any displacement effects.
  - Consistent with previous Australian results, preliminary estimates suggest that, across the economy as a whole, recent immigrants have not significantly affected the wages of incumbent workers or displaced them. Over the period 2000 to 2014, additions to aggregate labour supply from immigration have been entirely offset by increases in aggregate labour demand in the Australian economy.
  - But there is tentative evidence suggesting possible displacement effects from immigration among incumbent youth (aged 15–24 years).
- There is a risk that skilled immigration may reduce incentives for skills investment among incumbent employees and employers. Further evidence is required to determine the size of any effect.
- Immigration (particularly highly skilled immigration) has generally been found to have a small, positive effect on aggregate productivity growth through its spillover effects. Immigration also affects productivity growth through its effect on skills composition.

From an individual immigrant's perspective, successful immigration is often about success in the labour market. The overall benefits of immigration to the Australian economy are also likely to be largest when the productive potential of immigrants is fully realised.

But immigration also has consequences for existing inhabitants. For example, the costs of immigrants' reaching their potential — notably those costs that are borne by Australian taxpayers — also need to be factored into any assessment. And while immigration may be beneficial for the economy as a whole, the net benefits of immigration may not be evenly shared, so distributional consequences need to be assessed.

This chapter is divided into two main parts. Section 5.1 starts by examining a range of labour market outcomes of immigrants (including their children) and concludes with a discussion of the barriers affecting labour market integration. Section 5.2 looks at the impact of immigrant labour on key aspects of Australia's labour markets and on productivity growth.

5.1 Labour market outcomes of immigrants

Two common measures of labour market outcomes are labour force participation (LFP) and unemployment rates, both of which vary by age and skill.[5] For people who are employed, outcome measures include the skill level used in employment, hours of work, earnings, the rate of self-employment, and so on.

A variety of data sources have been used to examine a range of labour market outcomes across different types of immigrants. While these data lead to broadly similar conclusions, some variability remains. Each data set has its strengths and weaknesses which need to be borne in mind when assessing their findings.

On average, permanent immigrants in the skill stream have acquired higher levels of human capital when compared with their family and humanitarian counterparts. These include higher levels of English-language proficiency and advanced qualifications (chapter 3). These differences also influence their economic outcomes. While most immigrants perform moderately well in the Australian labour market, skilled immigrants tend to outperform family and humanitarian immigrants. Further, many of these outcomes improve over time as immigrants adjust and adapt to Australian conditions and circumstances.

[5] The labour force participation rate is one measure of an economy's productive potential. It measures the percentage of the working age population (or a population subgroup) who are in the labour force (which counts those looking for work and those working as one group). The unemployment rate is the percentage of people in the labour force who are unemployed. A third measure is the employment to population ratio, which shows the proportion of the working age population who are employed.

While the available data do not allow a comprehensive analysis of temporary immigrants, they do show slightly higher unemployment rates, on average, when compared with those born in Australia. In terms of labour income, some do well (for example, 457 visa holders and international students from a main English speaking country (MESC)).

Immigrants generally have lower labour force participation rates

Comparisons between countries is not straightforward due to differences in the characteristics of immigrant populations and diverse country-specific economic and social conditions. Data published by the Organisation for Economic Cooperation and Development (OECD) showed that, in 2014, the LFP rate of overseas-born people was lower than the Australian-born population (74 versus 77 per cent). A similar pattern was observed in Canada, New Zealand and the UK but the opposite was true for the US and the average for European OECD countries (figure 5.1, panel a).

Particularly among females and those from non-main English speaking countries

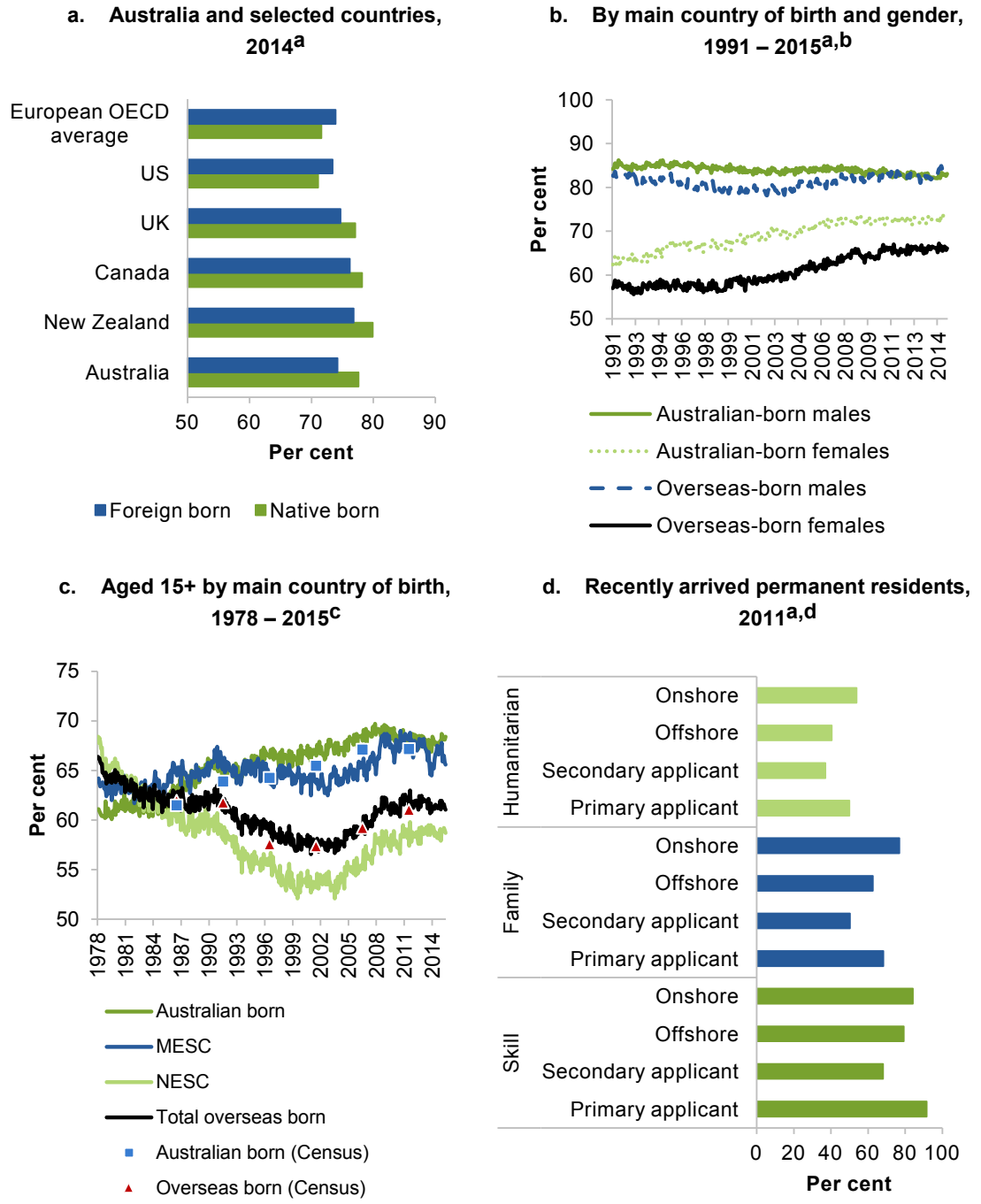
OECD data show that males generally have higher LFP rates than females, including in Australia. Further, across many OECD countries foreign-born males generally have higher LFP rates than native-born males while the opposite is observed for females. While lower LFP rates were observed for overseas-born females compared with Australian-born females (66 versus 73 per cent), the LFP rate of males born overseas was much the same as males born in Australia in 2013 (83 per cent).

However, while the gender gap between the LFP rates of both the Australian- and overseas-born populations has been gradually narrowing over time, the LFP rate gap between females born overseas relative to Australian-born females remains distinct (figure 5.1, panel b). These lower LFP rates among overseas-born females do not appear to result from a 'discouraged worker' effect. For example, Australian Bureau of Statistics (ABS) data suggest that while most of those not participating in the labour force in 2011 were not marginally attached, both males and females from a non-main English speaking country (NESC) had higher proportions without marginal attachment than those born in Australia or a MESC. Further, those who arrived before 2001 were less likely to be marginally attached in 2011 compared to more recent arrivals (ABS 2015d).

While the LFP rate gap between Australian- and overseas-born people was much closer in the 1970s, this gap widened after the mid-1980s and narrowed again after the early 2000s (figure C.1, panel a, appendix C). But, the average LFP rates of immigrants born in a NESC has not fully recovered and remains noticeably lower than those born in a MESC and the Australian-born population (figure 5.2, panel c).[6]

6 The OECD (2015) also showed that in 2014, the LFP rate of all immigrants in Australia was lower than average for those born in North Africa and the Middle East (55 per cent) and Asia (71 per cent).

Figure 5.1 **Labour force participation rates of permanent immigrants**



[a] Aged 15 to 64 years. [b] Based on ABS Labour Force Survey data. [c] Based on LFS and Census data compared. [d] Based on ACMID data for permanent immigrants by visa category which includes permanent immigrants who arrived between 1 January 2000 and 2011 Census night.

Sources: Productivity Commission estimates based on OECD (2015 Foreign-born participation rates (indicator) doi: 10.1787/fa75b43e-en, Native-born participation rates (indicator) doi: 10.1787/afed6c9e-en accessed 2 October 2015) and OECD (2015) Table 2.1 doi:10.1787/888933260965; ABS (*Microdata: ACMID*, 2011 Cat. no. 3417.0.44.001; Census, various; *Labour Force Survey*, Cat. no. 6291.0.55.001).

These LFP rate patterns are also confirmed in Australian data from the ABS' *Census of Population and Housing* (Census) and the *Australian Census and Migrant Integrated Dataset* (ACMID) — which matches data from the 2011 Census with the Australian Government's Settlement Database for immigrants who obtained permanent residence between 1 January 2000 and Census night 2011 (figure C.2, panel b, appendix C). Unlike ACMID data (which focus on permanent immigrants who arrived after 2000), the Census includes all permanent and temporary residents in Australia on Census night who were residing in (or intending to reside in) Australia for more than one year (ABS 2012b; chapter 2).

Permanent immigrants in the skill stream have higher participation rates

ACMID data also reveal that permanent immigrants' LFP rates vary depending on the type of visa held and the status of the applicant. For example, primary applicants in the skill stream had a LFP rate of 91.5 per cent compared to 37 per cent for secondary applicants in the humanitarian stream. Further, applicants who applied onshore generally had higher LFP rates compared with those who applied offshore (figure 5.1, panel d).

… and participation rates increase as immigrants adapt over time

Each cohort of immigrants can be expected to adjust and adapt to the Australian labour market over time. This process is evidenced in cross-sectional ACMID data which show that those who arrived between 2000 and 2006 had marginally higher LFP rates compared with those who arrived between 2006 and 2011.

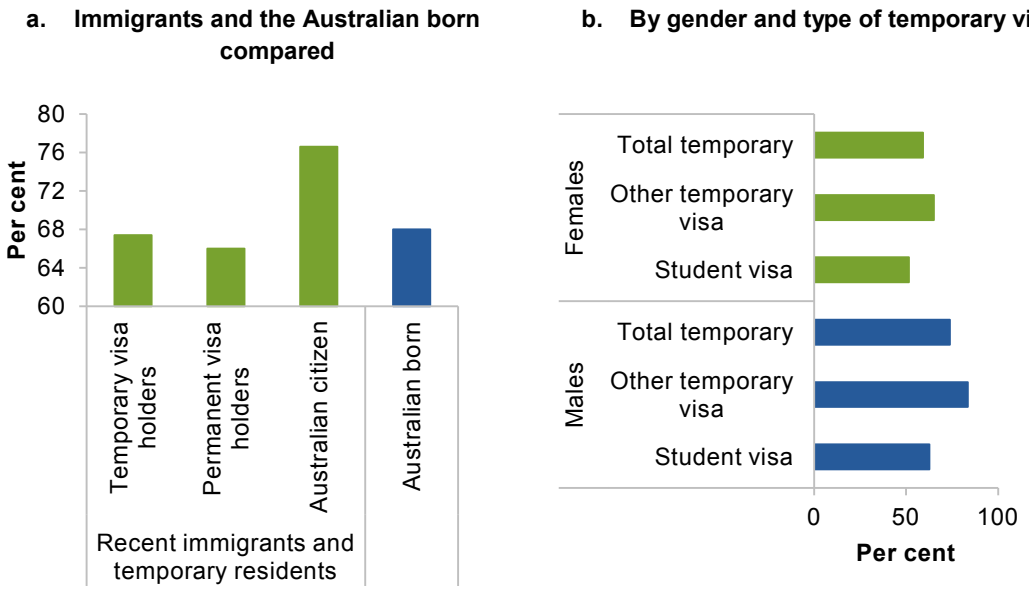
In addition, longitudinal data from the *Continuous Survey of Australia's Migrants* (CSAM) *Cohort 1 Report*, show that 6 and 18 months after their arrival in early 2013, skilled and certain types of family stream immigrants[7] had *higher* LFP rates than the general population (which comprised both Australian- and overseas-born people) (DIBP 2015l). This result held true for each subcategory of immigrants in CSAM. Further, among permanent immigrants within the skill stream, all primary applicants in each visa subclass (employer sponsored, state/territory nominated, offshore independent, onshore independent) had much higher LFP rates than the general population (DIBP 2015l).

[7] Migrants selected in the CSAM included: skill stream primary applicants; migrating unit spouses (spouses of skill stream primary applicants who entered as part of the same migrating unit); non-migrating unit spouses (spouses of skill stream primary applicants who had migrated to Australia at another time or were born in Australia); partner immigrants (primary applicants granted a visa through the family stream enabling them to marry their Australian resident fiancé or to settle with their Australian resident spouse or de facto partner in Australia); and spouse of partner immigrants (spouses and de facto partners of partner immigrants, who sponsored their migration to Australia). No other types of family stream and no humanitarian stream immigrants were included in the CSAM.

Participation rates of temporary residents are on par with Australian-born people

The ABS' (2014b) *Characteristics of Recent Migrants* (CORM) survey showed that the LFP rate of temporary visa holders in 2013 was about the same as Australian-born people but was slightly higher than permanent visa holders and lower than recent immigrants who held Australian citizenship (figure 5.2, panel a). Among temporary immigrants, females had lower LFP rates than males, and international students had lower LFP rates than other temporary visa holders (figure 5.2, panel b). LFP rates also varied with age (peaking at 82 per cent in the 35 to 44 year age group). Finally, the LFP rate among temporary immigrants from a MESC (84 per cent) was considerably higher than those from a NESC (62 per cent) (ABS 2014b).

Figure 5.2 **Labour force participation rates of temporary visa holders[a]**
2013



[a] All persons aged 15 years and over.

Source: Productivity Commission estimates based on ABS (2014b) *Characteristics of Recent Migrants, Australia,* cat. no. 6250.

For temporary residents, LFP rates also increase with time spent in Australia. For example, in 2013, the LFP rate of temporary visa holders was 55 per cent among those who arrived in 2013 but was 81 per cent for those who arrived in 2008-09 (ABS 2014b).

What explains most of the differences in LFP rates?

Many factors influence LFP rates. To help explain the relative importance of these factors, the Commission updated econometric analyses conducted in the Commission's earlier study (PC 2006) with data from the 2006 and 2011 Censuses. This analysis revealed that

the gap in LFP rates between immigrants and the Australian-born population was largely explained by compositional differences — with poorer English-language skills contributing most to the lower average LFP rate of immigrants while immigrants' higher average education levels partially offset the negative effects of poorer English-language skills (table C.1, appendix C). Although LFP rates are lower among more recent immigrants, the gap reduces the longer an immigrant has spent in Australia (table C.11, appendix C). This story has changed little from the Commission's 2006 analysis.

Immigrants' unemployment rates are similar to Australian-born people

Compared with the recent experience of other OECD countries, both immigrants and Australian-born people have enjoyed relatively low unemployment rates. In 2014, on average, the unemployment rate of immigrants across most OECD countries was higher than native-born people (OECD 2015). This was the case in the UK, Canada and New Zealand but not in the US (figure 5.3, panel a). By contrast, in Australia the unemployment rate of immigrants was about the same as their Australian-born counterparts (figure 5.3, panel a). In Australia, in 2013, highly educated immigrants experienced a higher unemployment rate than Australian-born people holding similar qualifications (4.3 versus 2.8 per cent) while the opposite was true for women and low-skilled immigrants (OECD and EU 2015).

But immigrants' unemployment rates are generally higher in economic slowdowns

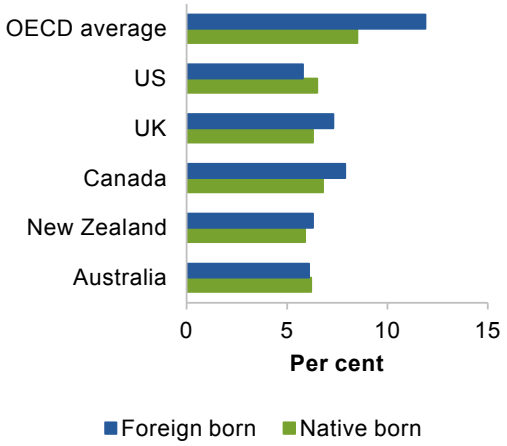
While the unemployment rates of immigrants have been close to those born in Australia in recent times, a gap emerges when the economy is less buoyant, such as the during the early 1980s, the early 1990s and around 2008-09 (figure 5.3, panels b and c). This is consistent with the notion that recent labour market entrants (such as immigrants) typically experience poorer labour market outcomes than others in slack labour markets. However, it may also be the case that immigrants were more concentrated in industries which were most affected by structural changes in the economy. Further work is required to disentangle these effects.

… and among females and immigrants from non-English speaking countries

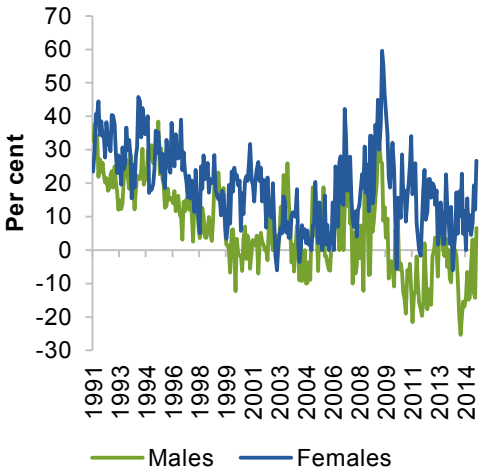
Unemployment rates are also generally higher among female than male immigrants. And the unemployment rate gap between overseas-born females and Australian-born females is wider than their male counterparts (figure 5.3, panel b). However, in conjunction with the general decline in unemployment rates (since July 1991), there has been a convergence in these unemployment rates (figure C.2, panel a, appendix C).

Figure 5.3 **Unemployment rates of permanent immigrants**

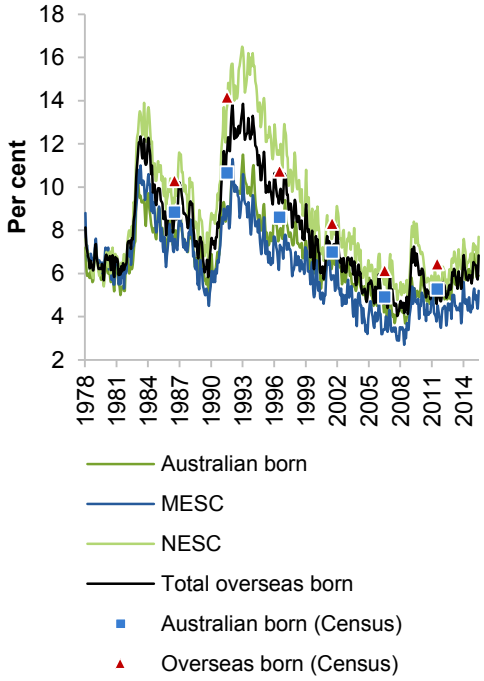
a. Australia and selected countries, 2014[a]



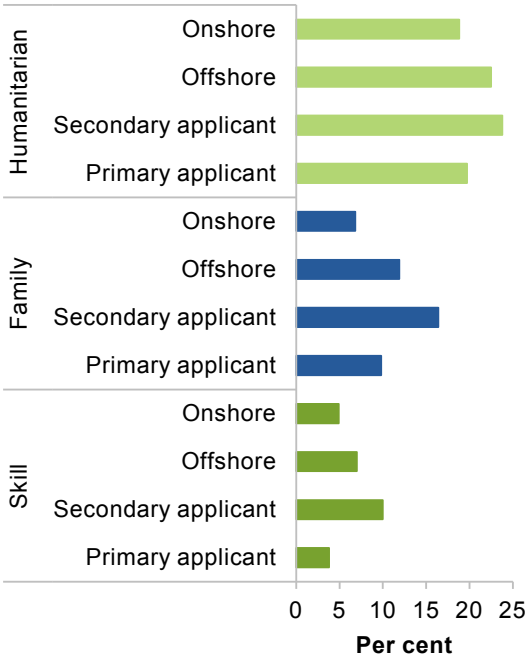
b. The gap between overseas and Australian born, 1991 – 2015[b]



c. Aged 15+ by main country of birth, 1978 – 2015[c]



d. Recently arrived permanent residents, 2011[a,d]



[a] Aged 15 to 64 years. [b] Unemployment rate gap is percentage point difference in unemployment rates as a proportion of the Australian-born unemployment rate. Based on ABS' LFS data and population aged 15 to 64 years. [c] LFS and census data compared. [d] ACMID data for permanent immigrants by visa category only includes permanent immigrants who arrived between 1 January 2000 and Census night 2011.

Sources: Productivity Commission estimates based on OECD (2015) figure 2.3 and OECD migration data (http://dx.doi.org/10.1787/888933260984 accessed 2 October 2015); ABS (*Microdata: ACMID*, 2011 Cat. no. 3417.0.44.001; Census, various; and *Labour Force Survey*, Cat. no. 6291.0.55.001).

And whether an immigrant is born in a NESC also matters. Since the late 1970s, while the unemployment rate gap between those born in Australia and those born overseas was previously much closer, the gap widened up to the late 1980s and narrowed again after the early 2000s (figure C.2, panel a, appendix C). Nonetheless, the average unemployment rates of immigrants from a NESC has not fully recovered and remains lower than those born in a MESC and the Australian-born labour force (figure 5.3, panel c).

Unemployment rates of immigrants and the Australian-born labour force converge with time spent in the labour market

Labour market adjustment often takes time. Data from the OECD and European Union (2015) revealed that more recently arrived immigrants had higher rates of unemployment than those who had arrived in Australia prior to 2003. Based on ACMID data, the unemployment rate of recently arrived permanent immigrants in 2011 was 8.3 per cent, compared with rates of 6.6 per cent for all overseas-born, and 5.4 per cent for Australian-born, at that time (figure C.2, panel b, appendix C). These data also showed that immigrants who arrived between 2001 and 2006 had a lower rate of unemployment compared with those who arrived between 2006 and 2011 (6.4 versus 10.3 per cent, respectively).

Longitudinal data from the first cohort of CSAM (DIBP 2015b) confirms that unemployment rates improve with time spent in the labour market. For example, the average unemployment rate for those in this first cohort fell from 6.1 per cent to 2.8 per cent between 6 and 18 months after arrival. Over the same period, the unemployment rate for the general population increased from 5.8 to 6.3 per cent. However, some primary applicant skill stream subclasses continued to do better than others 18 months after arrival. For example, immigrants in the employer sponsored and onshore independent visa subclasses had the lowest unemployment rates (1.5 and 2.8 per cent, respectively) compared with those in state/territory nominated (4.0 per cent), offshore independent (3.7 per cent) and other skilled visa subclasses (4.1 per cent). In general, unemployment rates also fell between 6 and 18 months after arrival across most of the other visa subclasses selected in CSAM. That said, many subclasses still experienced higher unemployment rates than the general population (figure C.2, panel c, appendix C).

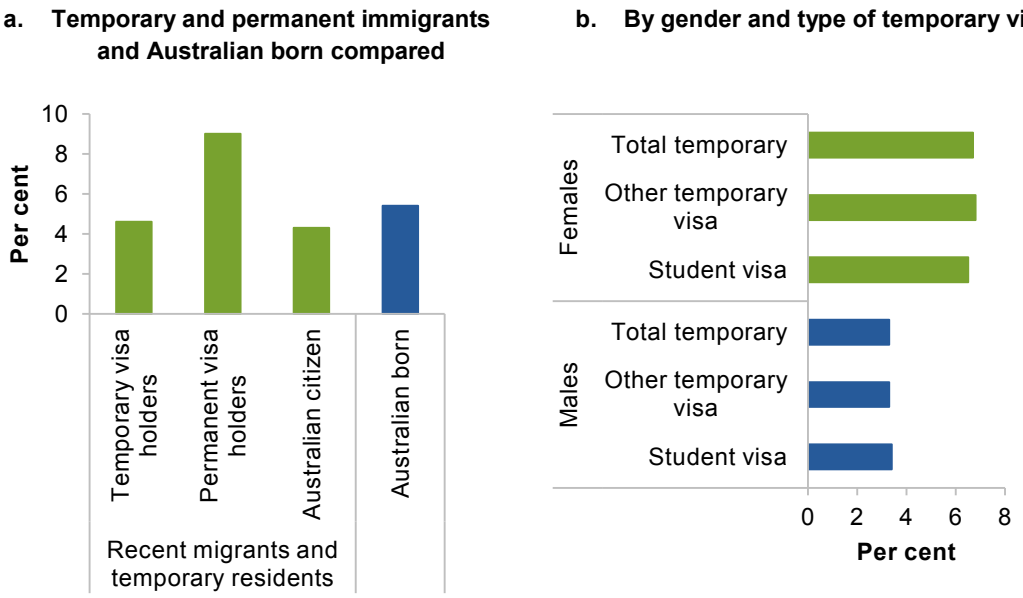
Unemployment rates are lower for permanent immigrants in the skill stream

The unemployment rates of permanent immigrants who arrived between 2000 and Census night 2011 (ACMID data) also vary by visa category and applicant status. For example, primary applicants holding a visa in the skill stream in the permanent intake experienced a much lower unemployment rate (3.8 per cent) compared with secondary applicants in the humanitarian stream (23.8 per cent). Unemployment rates were also lower among immigrants who had applied onshore than those who applied offshore (figure 5.3, panel d).

Unemployment rates of temporary immigrants are similar to Australian born

Using CORM data, temporary immigrants can be compared with recently arrived permanent immigrants who either held a permanent visa or had obtained Australian citizenship, and the Australian-born labour force. In 2013, while unemployment rates of temporary visa holders were slightly higher than Australian-born people, they were lower than permanent visa holders. By contrast, immigrant holders of Australian citizenship had the lowest unemployment rate across these groups (figure 5.4, panel a). Among temporary immigrants, females had higher unemployment rates than males but there was no discernible difference in unemployment rates between student and other temporary visa holders (figure 5.4, panel b).

Figure 5.4 **Unemployment rates among temporary immigrants**
2013



[a] Persons aged 15 years and over.

Source: Productivity Commission estimates based on ABS (2014b) *Characteristics of Recent Migrants, Australia* cat. no. 6250.0.

Further inspection of CORM data indicates that the unemployment rate of temporary immigrants:

- typically varies with age (ranging from 6 per cent among 15–19 year olds to 3.5 per cent for 35–44 year olds and then slightly increasing to 4 per cent for those aged 45 years and over)
- from a MESC is lower than those from a NESC (3.6 versus 5.1 per cent)

- improves with time spent in the Australian labour market. For example, unemployment rates among those who arrived in 2013 were around 15 per cent compared with 2 per cent among those who arrived in 2008-09 (ABS 2014b).

What explains most of the differences in unemployment rates?

Examination of the Commission's (updated) econometric results (table C.2, appendix C) shows that while poorer English-language skills contributed to immigrants' higher average unemployment rates, other factors (that were not observed) accounted for much of the difference in unemployment rates between immigrants and Australian-born people. A similar conclusion was reached in the Commission's 2006 study.

What about long-term and hidden unemployment?

Long-term unemployment is defined as those unemployed for more than 12 months. In contrast to the average pattern observed across the OECD, the proportion of unemployed immigrants in Australia who were long-term unemployed fell marginally from 17.9 per cent in 2006-07 to 17.0 per cent by 2012-13. The comparable rates for Australian-born people increased over the same time period, from 16.5 per cent to 19.2 per cent (OECD and EU 2015). More recent data from the OECD (2015) suggested that long-term unemployment rates of foreign-born (especially foreign-born youth) and Australian-born people increased over the period 2007 to 2014.

Hidden unemployment includes people who have stopped looking for a job (known as discouraged workers) and people who work less than they desire (underemployment). While data in this area for immigrants are generally limited, two pieces of evidence are available.

- In 2011, the per cent of discouraged workers (measured as a proportion of those not in the labour force who were classified as marginally attached) was higher for those born overseas compared with those born in Australia (13 versus 8 per cent, respectively). Among those born overseas, males born in a NESC and those who arrived before 2001 had the highest proportions of discouraged workers (19 and 23.5 per cent, respectively) (ABS 2015d).
- In 2013, the underemployment rate of foreign-born people in Australia was slightly higher than Australian-born people (27 versus 25 per cent) and this difference had grown between 2007 and 2013 (mainly as a result of an increasing proportion of foreign-born part timers wishing to work more hours) (OECD and EU 2015).

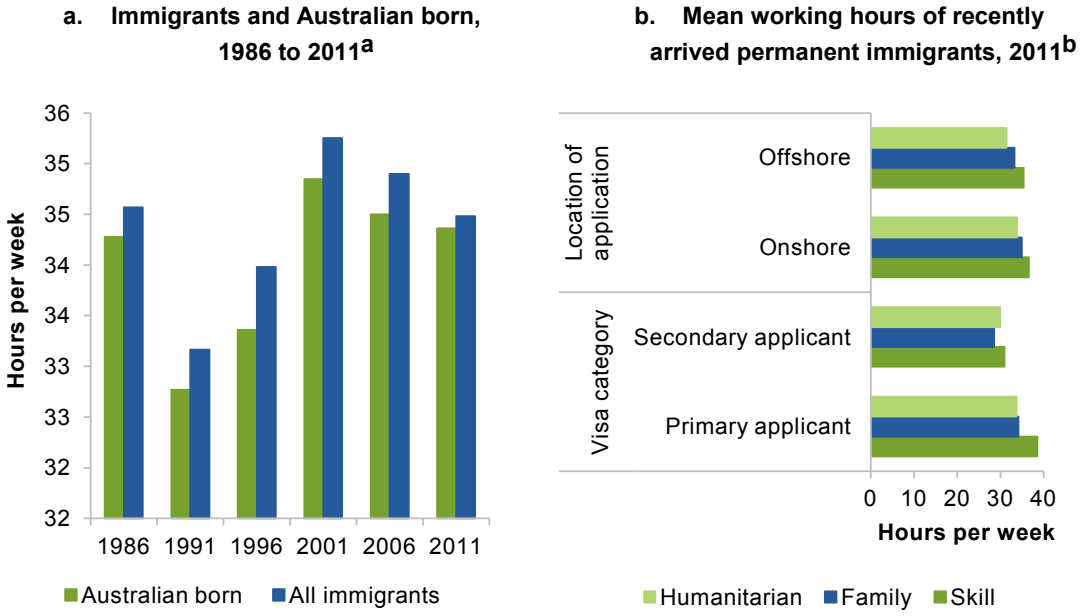
Immigrants work about the same hours as Australian-born people

Estimates of whether immigrants work more or less (or the same) hours as Australian-born workers vary depending on which data set is used.

Islam and Parasnis' (2014) analysis of pooled *Household, Income and Labour Dynamics in Australia* (HILDA) data found that on average immigrants worked fewer hours per week than Australian-born workers over the period 2000 to 2011. However, analyses using HILDA data prior to 2011 need to be interpreted with caution as HILDA is not necessarily representative of all immigrants. (The HILDA survey was topped up in 2011 to improve its representativeness of the population (including immigrants) (Watson 2011).) Wilkins' (2014) analysis based on HILDA data in 2011 showed that immigrants have higher rates of part-time employment and lower rates of full-time employment than Australian-born people, supporting Islam and Parasnis' finding that hours of work may be lower on average for immigrants.

ABS' Census data from 1986 to 2001 reveal that immigrants worked around half an hour per week longer than the Australian-born population but, by 2011, there was no discernible difference (figure 5.5, panel a).

Figure 5.5 **Hours worked by immigrants**



[a] Population aged 15 years and over. [b] ACMID data for permanent immigrants by visa category only includes permanent immigrants who arrived between 1 January 2000 and 2011 Census night.

Sources: Productivity Commission estimates based on PC (2006); and ABS (Census, 2006 and 2011; and *Microdata: ACMID*, 2011 cat. no. 3417.0.44.001).

Among permanent immigrants, those in the skill stream work the longest hours

According to ACMID data, for the cohort of permanent immigrants who arrived between 2000 and 2011, the weighted mean weekly hours of work was 35 hours in 2011 (which was the same as for Australian-born workers in Census data). However, averages vary at

lower levels of aggregation. For example, primary applicants in the skill stream had the highest average weekly hours of work (38.5 hours) and those who applied onshore worked slightly longer hours on average than those who had applied offshore (figure 5.5, panel b). Department of Immigration and Border Protection's (DIBP) analysis of CSAM data also suggested that principal applicants in the skill stream worked the longest hours on average compared to immigrants in the other visa classes included in that survey (DIBP 2014l).

What explains most of the differences in working hours?

Although there were only relatively small differences in average working hours between Australian- and overseas-born people observed in Census data, the differences were largely due to differences in immigrants' characteristics (that is, industry, English-language ability and age). This tendency has changed little since 1986 (table C.3, appendix C).

Immigrants tend to have higher skills and qualifications …

On average, immigrants tend to be more highly educated than Australian-born people (chapter 3). This is mainly due to Australia's focus on selecting skilled immigrants. Reflecting this, the share of highly skilled jobs increased among immigrants relative to the Australian-born people between 2006-07 and 2012-13 (OECD and EU 2015).

But they are slightly more likely to be overqualified for the jobs they hold

As noted earlier, in 2013, the unemployment rate of highly educated immigrants was higher than among the Australian-born labour force holding similar qualifications. Moreover, across OECD countries, on average, 35 per cent of highly educated immigrants in employment appeared to be 'overqualified' compared to 28 per cent of native-born people in 2012-13. The corresponding figures for Australia were 30 and 22 per cent respectively (OECD and EU 2015). Immigrants from some birthplace groups appear to have a higher risk of de-skilling than others in their first five years (notably those from China, the Philippines, Indonesia, India, Sri Lanka, Bangladesh, North Africa and the Middle East) (Hawthorne 2013a). That said, qualifications obtained in some countries are of much lower standard than those at ostensibly the same level as those acquired in Australia, reducing the extent of the apparent over-qualification.

One of the factors attenuating the value of many immigrants' skills and qualifications is their inadequate English-language skills. As outlined in chapter 3, immigrants' English-language skills differ by visa category, with temporary immigrants generally having better English-language skills than permanent immigrants on arrival to Australia, although the skills of both groups improve over time. (The English proficiency of temporary entrants as a group was adversely affected by relatively poor skills in this area among international students.) As reflected in their superior labour market performance,

permanent immigrants in the skill stream displayed the highest proficiencies. DIBP's (2014g) and (2015l) analyses of CSAM data also support this finding.

… but the evidence is mixed on whether they earn more

Most studies find that the earnings of immigrants are improving over time relative to the Australian-born population, reflecting the emphasis on skilled migration in the latest waves of immigration. For example, in their international comparison Dustman and Glitz (2011) found that Australia was the only country where the median wage of foreign-born workers was higher than native-born workers. Islam and Parasnis' (2014) analysis of pooled HILDA data from 2000 to 2011 also found that, on average, immigrants earned higher weekly wages than their Australian-born counterparts. However, as discussed earlier, analyses which use HILDA data prior to its 2011 'top up' should be interpreted with caution as the HILDA data are not necessarily representative of all immigrants prior to that year.

Based on HILDA data over the period 2011 to 2013, Parham et al. (forthcoming) found that:

> Work performed by migrants is more skilled on average than work performed by the Australian-born. Overall wage rates do not differ substantially between migrants and non-migrants in the same skill categories, although migrant degree holders are paid somewhat less than their Australian-born counterparts. Because their work is more skilled, migrants enjoy a 6 per cent wage advantage over the Australian-born. (p. 14)

Their finding that immigrant degree holders were paid somewhat less, on average, than their Australian-born counterparts could mean that this group had lower average productivity levels (as a result of lower English-language skills or lower quality education). But it may also reflect difficulties in having their overseas qualifications recognised.

However other studies and data sets do not yield results that suggest immigrants earn more than the Australian-born population. Using data from the 2011 HILDA survey, Wilkins (2014) found that immigrants generally had hourly earnings that were about the *same* as Australian-born workers of the same age. Moreover, as immigrants had higher rates of part-time employment and lower rates of full-time employment than the Australian-born labour force, their equivalised annual incomes were found to be generally lower than those born in Australia for each age range as well as for immigrants who arrived pre- and post-2001.

In addition, recently released ABS (2015f) data on the personal income of immigrants in 2009-10 — derived from the *Personal Income Tax and Migrants Integrated Dataset*

(PITMID)[8] — showed that total average annual private income (excluding government pensions and allowances) of the Australian taxpayer population was slightly higher than the linked taxpaying permanent immigrants ($48 530 versus $47 489, respectively).

As part of this inquiry the Commission has been granted access to interrogate unpublished PITMID data. However, because of the effect of outliers on the measurement of average incomes, the Commission has focused on median income as a measure of central tendency. In addition, in its analysis of these data the Commission has excluded around 60 000 temporary and provisional visa holders.

Commission analysis of unpublished PITMID data together with a 1 per cent sample of those who lodged a tax return in 2009-10 (ATO 2015), found that annual median income (excluding government pensions and allowances) of all recent permanent immigrants in 2009-10 was about the same as for the general population ($37 900 and $37 600, respectively). The ranking of median incomes from this analysis of unpublished data matched the ranking of LFP and unemployment rate outcomes by visa category, with skilled immigrants earning the highest median annual incomes ($43 600) followed by family ($30 000) and then humanitarian immigrants ($22 800) (figure C.3, appendix C).

Further, Commission analysis of ABS Census data over the period 1986 to 2011 broadly supports the Commission's previous conclusion that:

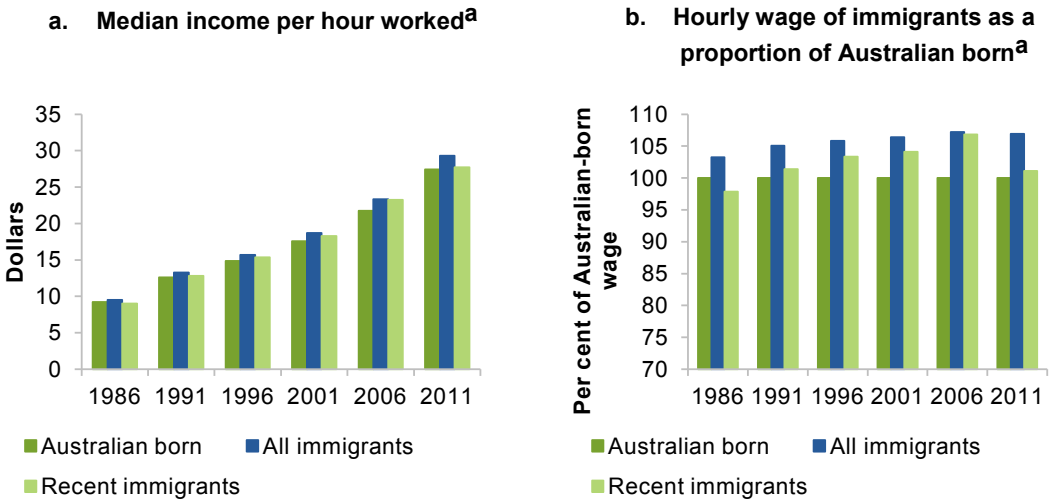
- the earnings of immigrants have generally been improving relative to Australian-born people over time (figure 5.6, panels a and b). However — likely reflecting the comparatively sluggish economy after the global financial crisis in 2008-09 — the relative (median hourly) earnings of immigrants who had been in Australia for less than five years in 2011 had declined since 2006, but were similar to the experience of recently arrived immigrants in the 1986 and 1991 Census (both less buoyant economic circumstances)
- on average, immigrants earned more per hour worked than Australian-born workers. The difference in average hourly incomes was predominantly driven by two characteristics that act in different directions. Immigrants in general, and particularly recent immigrants, typically have a higher levels of education than the broader Australian population. Higher education is associated with higher workforce participation (table C.1, appendix C), lower unemployment (table C.2, appendix C) and higher levels of hourly income (tables C.4 and C.5, appendix C). However, the effects of higher educational qualifications were countered by poor English-language skills, which are associated with lower hourly incomes
- in regional Australia in 2011, immigrants earned an hourly income that was around 10 per cent more than that earned by Australian-born employees. As has been

[8] ABS' PITMID comprises Australian Taxation Office taxpayer records of permanent immigrants linked to an immigrant settlement record from the Australian Government's Settlement Database.

consistent over previous Censuses, this can largely be explained by differences in their age and education levels (table C.6, appendix C).

Studies by Cai and Lui (2012), Islam and Parasnis (2014) and Parham et al. (forthcoming) have also found that some immigrants do better than others, depending on their characteristics. For example, immigrants born in a MESC and those born in OECD countries had higher hourly wage rates than both non-migrants and immigrants from a NESC. English-language proficiency and higher levels of education also contributed to higher average earnings.

Figure 5.6 **Hourly wage: immigrants and Australian born compared**
1986 to 2011, nominal



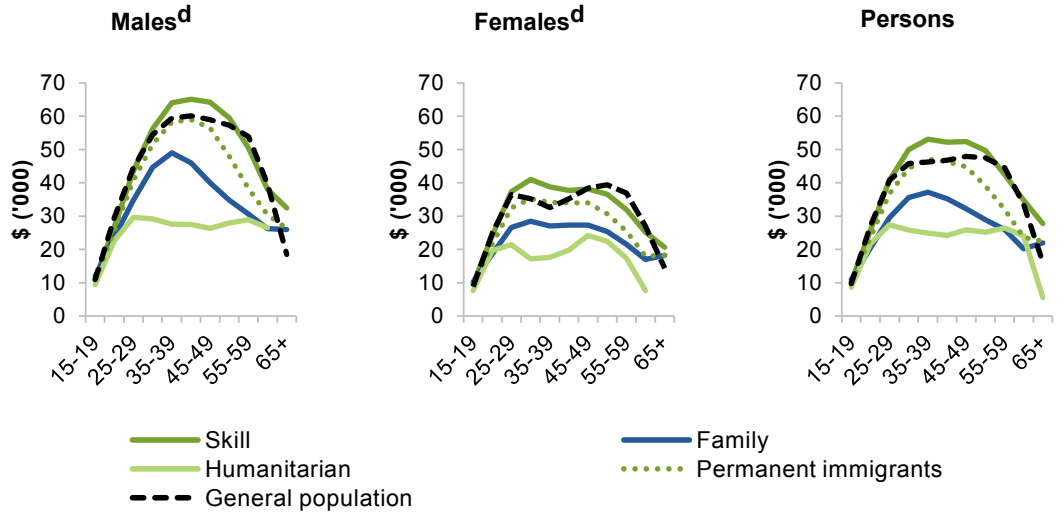
[a] Recent immigrants are defined as immigrants who have been in Australia for less than five years.

Sources: Productivity Commission estimates based on PC (2006); and ABS *Census*, 2006 and 2011.

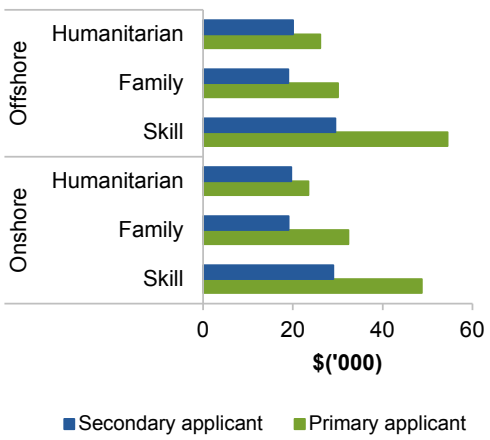
PITMID data on the personal income of recently arrived permanent immigrants in 2009-10 show that immigrants' median private income (excluding income from government pensions and allowances) varied with age, sex and visa category (ABS 2015f). Further analysis of unpublished PITMID data shows that, on average, family and humanitarian stream entrants had lower median incomes compared to the average for all permanent immigrants and the general population. These unpublished data also show that across all visa categories, female permanent immigrants also earned less than their male counterparts (figure 5.7, panel a). In addition, while there was little difference in the median incomes of onshore and offshore applicants within each visa stream, principal applicants had higher median incomes than secondary applicants in the same stream (figure 5.7, panel b).

Figure 5.7 **Personal income of recently arrived permanent immigrants[a,b]**
2009-10

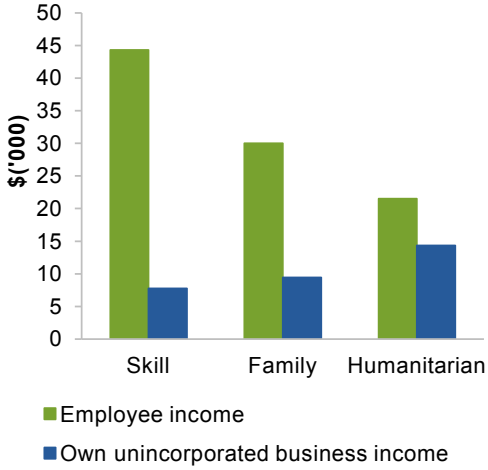
a. Median income of immigrants and general population by age, sex and visa category[c]



b. Median income by place of application and type of applicant



c. Source of median income by visa category[e]



[a] Persons who receive an income below the tax-free threshold ($6000 in 2009-10) are not necessarily required to lodge a tax return and this can include persons who derive their income from government pensions and allowances. In addition, some Australian Government pension, benefit and allowance payments are exempt from income tax and therefore recipients are not required to include this income in their taxation returns. Consequently, the coverage of low-income earners is incomplete and Government pensions and allowances are excluded from these data. [b] These statistics relate to immigrants aged 15 years and over, with a permanent visa, who arrived after 1 January 2000. [c] Immigrants refer to those aged 15 years and over with a permanent visa who arrived after 1 January 2000 [d] Due to small numbers of immigrants in the humanitarian visa class, median income for males and females aged 60–64 years reflects those aged 60 and over. [e] Excludes income from investment and other sources as the median income earned from these sources was generally below $1000 per year.

Sources: Productivity Commission estimates based on Australian Taxation Office (2015); unpublished ABS *Personal Income Tax and Migrants Integrated Dataset* data; and ABS (2015f) *Personal Income of Migrants, Australia, Experimental, 2009-10*, data cubes.

In PITMID, income is comprised of employee income, own unincorporated business income, investment income and other income (excluding pensions and allowances). While most (92 per cent) immigrants' incomes were derived from employment, almost 5 per cent was generated from own unincorporated businesses (ABS 2015f). Notably, the income received from own unincorporated businesses was highest among humanitarian immigrants (figure 5.7, panel c). The proportion of humanitarian immigrants in receipt of own unincorporated business income increased after around five years of residence in Australia (ABS 2015f).

Some immigrants earn less than might be expected and this gap can persist

Immigrants' earnings also adjust over time as they adapt to the Australian labour market. For example, according to PITMID data, while the median incomes of skilled, family and humanitarian immigrants grows over time, the gap between them also closes over time (figure 5.8, panel a). In particular, the average annual growth in median incomes over 11 years was almost 15 per cent among humanitarian immigrants compared with a rate of 4 per cent and 9 per cent among skilled and family immigrants, respectively.

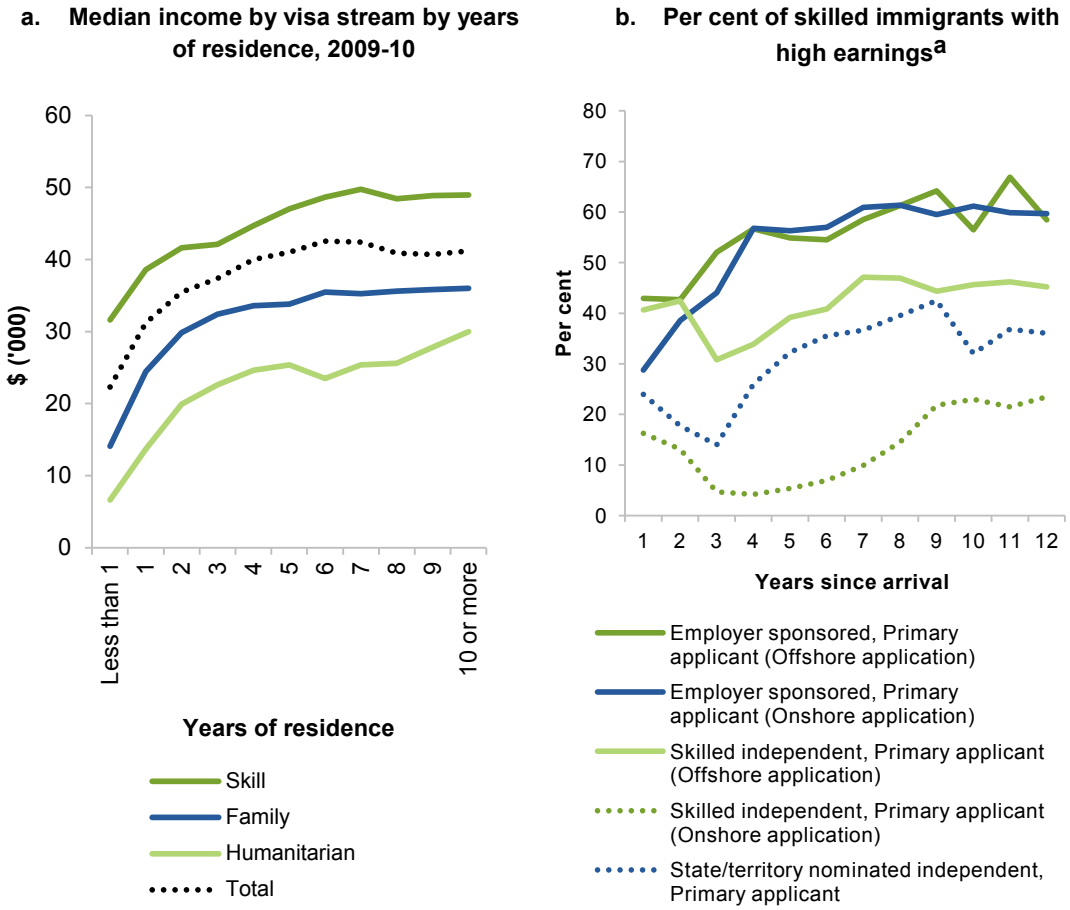
Other data show similar results. CSAM data reveal that while the median annual full-time earnings of immigrants were higher 18 months after their arrival when compared with the general population ($60 000 versus $52 000, respectively), the earnings of principal applicants in the skill stream were substantially higher than the general population ($65 000 versus $52 000, respectively). While the median annual earnings of full-time employees who entered Australia as migrating partners in the family stream was below that of the general population at 6 and 18 months after arrival, the gap had narrowed over that period (DIBP 2015l).

Further, within the skill stream, there was noticeable variability between visa subclasses. For example, the median annual full-time earnings of offshore independent primary applicants was the highest (at $85 000 18 months after arrival) while the lowest figure ($50 000 18 months after arrival) was found among 'other' skilled visa holders (DIBP 2015l). This is slightly different to the findings of Parham et al. (forthcoming) who calculated hourly wage rates among visa categories from CSAM data 6 months after arrival. Parham et al.'s estimates suggest immigrants on employer or state sponsored visas earned the highest hourly wage ($36 per hour) while immigrants on a skilled independent visa earned $32 dollars per hour and immigrants on a family dependent visa earned $27 per hour.

Immigrants on onshore independent and state government nominated visas tend to be younger (with an average age of 27 and 30 years respectively) compared with employer sponsored and offshore independent immigrants (aged 34 and 33 years, respectively). As such, they have less work experience and would be expected to be less productive and earn less. But over time as they acquire more work experience and become more productive, the pay of these two cohorts may 'catch up' with other immigrants. However, there is evidence that these earnings gaps persist over time. For example, analysis by the Commission of

unpublished ACMID data reveals that independent visa holders who applied onshore maintained a much lower incidence of high earnings in the years after their arrival compared with visa holders from other skilled categories (figure 5.8, panel b). Other analysis also suggests that while outcomes for other immigrant categories (including partner immigrants in the family stream) improved over time, the earnings for this group remained well below that of the general population 18 months after arrival (DIBP 2015l).

Figure 5.8 **Earnings adjustment over time among permanent immigrants**



[a] High income is defined as $1500 per week and over.

Sources: Productivity Commission estimates based on ABS (2015f); and ABS *Australian Census and Migrants Integrated Dataset*, unpublished data.

Immigrants' age, English-language skills and when they arrived in Australia also affects earnings convergence

Immigrants' English-language ability together with the age at which they arrived in Australia affect their earnings. For example, Fleming, Kifle and Kler (2015) found that

immigrants who arrived before the age of 15 years earned about 4 per cent more than their Australian-born peers, while those who arrived after the age of 34 years earned about 6 per cent less than those born in Australia. In addition, the rate at which earnings 'catch up' to Australian-born people increased with age at arrival, with those who arrived after the age of 24 years experiencing almost a 1 per cent increase in earnings for each additional year in Australia. In contrast, there was no significant difference for those aged 15–24 years on arrival and those aged less than 15 years, for whom the annual rate of increase was around 0.5 per cent (Fleming, Kifle and Kler 2015). These authors also found that on arrival NESC immigrants who arrived after the age of 34 years earned almost 14 per cent less than Australian-born people. While this gap diminished over time, on average it took 11 years for this group to catch up (Fleming, Kifle and Kler 2015). These authors also found that the timing of immigrants' arrival in Australia mattered, with higher rates of earnings growth experienced among more recently arrived cohorts. However, as noted earlier, some caution is warranted as these findings are based on the HILDA survey over the period 2000 to 2011.

Wilkins' (2014) analysis of 2011 HILDA data also found that equivalised annual earnings were systematically lower among immigrants who arrived post-2001 than those arriving pre-2001.

There is also evidence of a persistent wage gap for immigrant males from non-English-language backgrounds who arrived before 1985. After controlling for both observable and unobservable characteristics (such as ambition or motivation), Breunig et al. (2013) found that this cohort of immigrants faced a larger wage gap (compared to those born in Australia) than those immigrants from subsequent cohorts. They also found that while wage assimilation occurred slowly, it was slowest among those immigrants from a non-English speaking background.

Overall, these results suggest earnings convergence can take some time (between 6 and 11 years and possibly longer) and it depends on a range of factors, including immigrants' skills and qualifications, age, time of arrival and English-language skills.

What about the distribution of income?

The OECD and European Union (2015) found that income inequality between foreign- and native-born households was particularly pronounced in some countries (notably the US and some European countries). And, although the gap was less glaring in Australia and Canada, immigrant households' median household incomes in 2012 were lower than for native-born households in both countries.

PITMID data reveal that while just over one third of permanent immigrants were in the lowest taxable income decile (less than $22 229), the balance was evenly distributed across the other nine deciles. The median taxable incomes of those in the lowest and highest deciles were around $11 300 and $130 500, respectively (figure C.4, panel a, appendix C).

Among permanent immigrants, the distribution of income also varies by stream. For example, those in the humanitarian stream have a flatter distribution than those in the skill stream, with that of the family stream sitting between these two (figure C.4, panel b, appendix C). This pattern is also reflected in the Commission's estimates — based on Australian Taxation Office (2015) and unpublished PITMID data — of the distribution of total income cross-classified by males and females (figure C.3, appendix C).

Are there any pay differences between permanent and temporary immigrants?

Few data are collected on temporary immigrants. However, limited data is available on the earnings of 457, working holiday maker and international student visa holders. Using these data, Parham et al. (forthcoming) reported that:

- immigrants with 457 visas whose first language is English earned more than other workers in their company
- working holiday maker visa holders earned significantly less per hour compared to non-migrants and permanent immigrants
- a higher proportion of international students from a MESC earn a high income compared to domestic students and international students from a NESC.

Immigrants work in higher skilled occupations

Reflecting their higher educational attainment, on average, most immigrants tend to work in higher skilled occupations than the Australian-born workforce. Since 1986, there has been a trend towards an increasing proportion of immigrants working in higher skill occupations compared with Australian-born workers (figure 5.9).

Further, some occupations have relatively high concentrations of immigrants. For example, Hawthorne (2015) stated that:

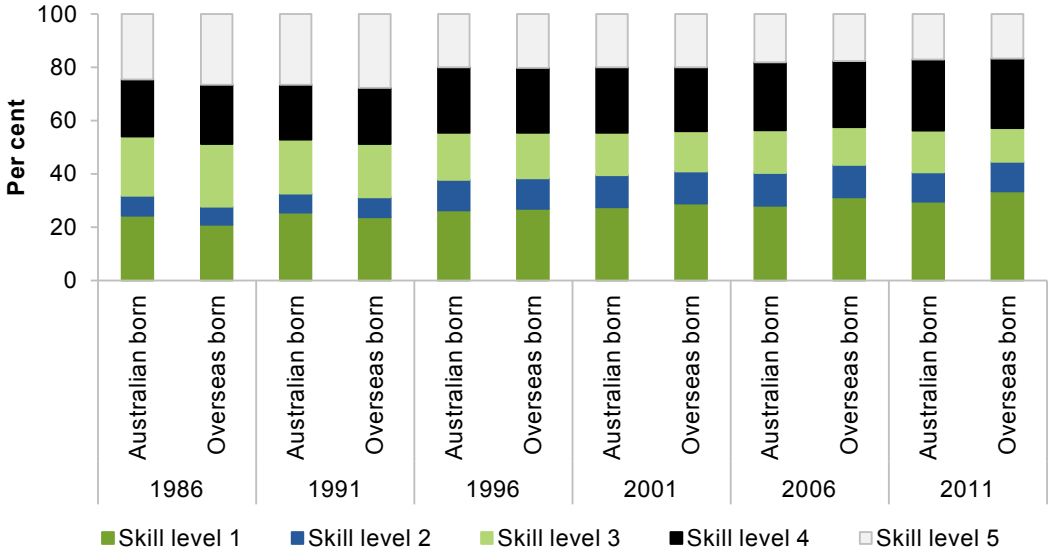
> By 2011, 62 per cent of residents with engineering degrees were overseas born, compared to 57 per cent of information technology (IT) professionals, 53 per cent of accountants, 47 per cent of doctors and 29 per cent of nurses (compared to 26 per cent of the population). Around a third had migrated in the previous five years … (Hawthorne 2015, p. S174)

The occupations of permanent immigrants vary by visa category. According to ACMID data, in 2011, the highest concentration of permanent immigrant workers (15 per cent) was among community and personal service workers. However, permanent immigrants in the skill stream were more likely to be employed as professionals compared with their counterparts in other streams (figure 5.10, panel a).

These results are echoed in figure 5.10 (panel b), which shows the relative concentration of immigrants by visa stream in occupations in 2011 (ranked from highest to lowest skill level). Within each visa category, primary applicants tend to be employed in higher-skill occupations than secondary applicants.

Figure 5.9 **Occupation skill level of employed persons[a]**

1986 to 2011 Censuses



[a] For the 1986 to 2006 Censuses, occupations are grouped into skill levels at the major group level under the Australian Standard Classification of Occupations. For the 2011 Census, occupations are grouped into skill levels at the unit group level under the Australian and New Zealand Standard Classification of Occupations.

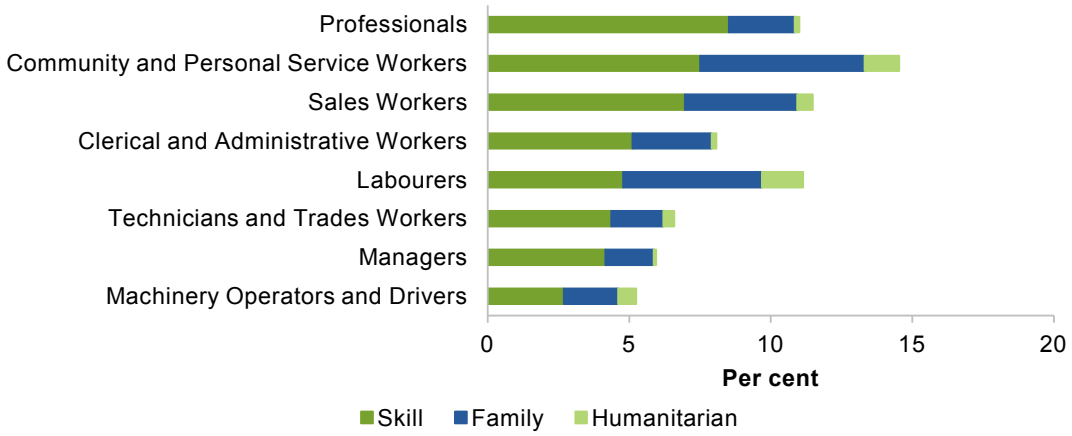
Sources: PC (2006); and Productivity Commission estimates based on ABS (*2011 TableBuilder Pro*, Cat. no. 2073.0).

However, skill stream immigrants also find employment in occupations requiring relatively low-skill levels. For example, in 2011, almost 5 per cent of those employed as labourers were permanent immigrants from the skill stream (figure 5.10, panel a). But, in the skill stream, a larger proportion of secondary than primary applicants find employment in the lowest-skill occupations (figure 5.10, panel b).

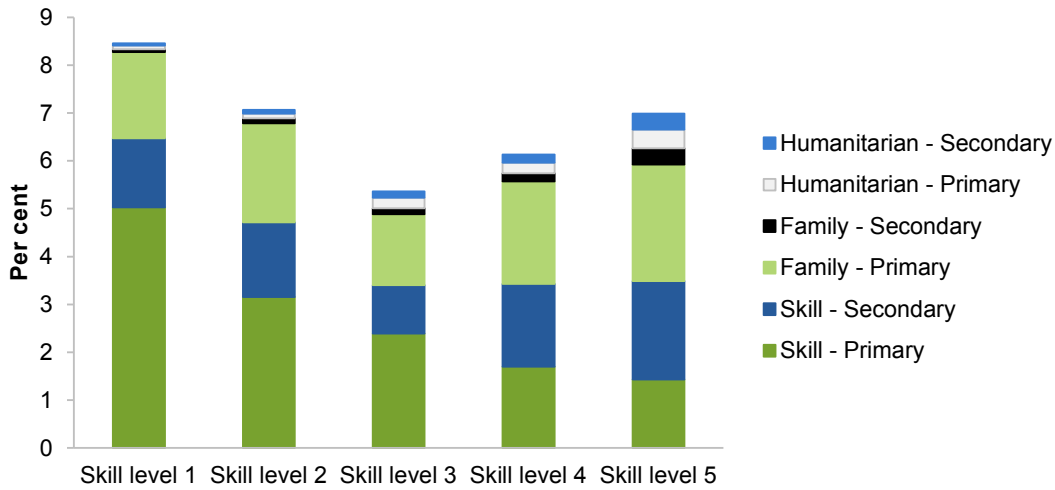
Other data confirm that while permanent residents within the skill stream are likely to be employed in more highly skilled occupations, there is some variability between subclasses within this stream. For example, CSAM data show that 69 per cent of employer sponsored and 66 per cent of offshore independent immigrants were employed in highly skilled occupations compared to 62 per cent of onshore independent and 52 per cent of state/territory nominated immigrants (DIBP 2014g).

Figure 5.10 **The occupational distribution of recently arrived permanent immigrants[a]**
2011

a. Permanent immigrants as a proportion of all workers in occupations[b]



b. The proportion of permanent immigrants in occupations classified by skill level[b,c]



[a] ACMID data for permanent immigrants by visa category only includes permanent immigrants who arrived between 1 January 2000 and 2011 census night. [b] Permanent visas in each visa category as a proportion of total occupational employment by occupational classification or skill level of the occupation. [c] The highest skill level occupation is Skill level 1.

Sources: Productivity Commission estimates based on ABS (*Microdata: ACMID*, 2011 Cat. no. 3417.0.44.001; and *Labour Force, Australia, Detailed - Electronic Delivery, Aug 2015*, Cat. no. 6291.0.55.001).

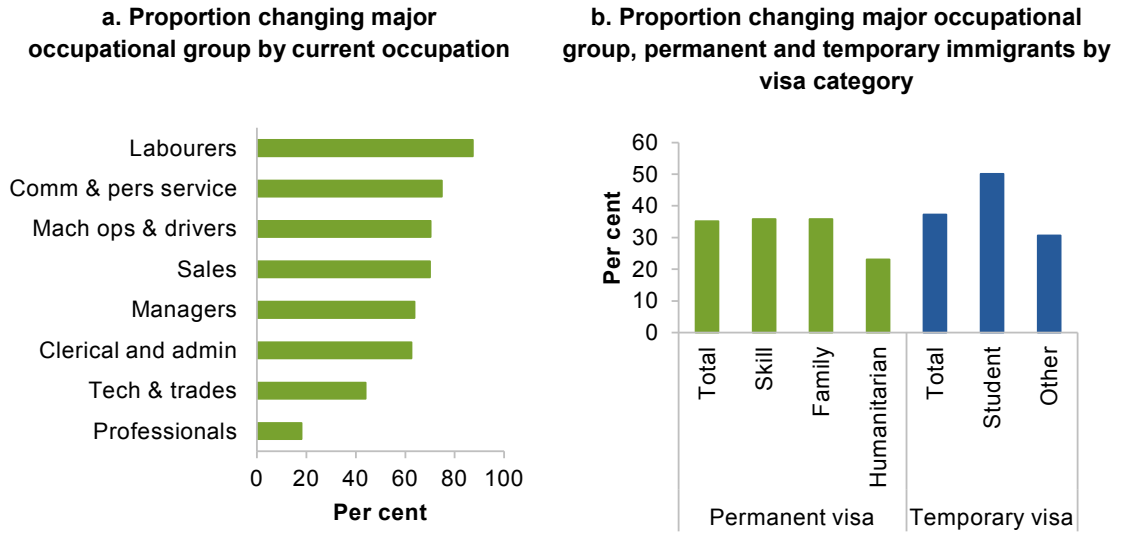
Some occupational 'mismatch' occurs during immigrants' labour market transitions

In the process of immigrants transitioning into the Australian labour market, some occupational 'mismatch' is apparent, especially in the middle to lower end of the occupational distribution. For example, CORM data show that in 2013, almost half (47 per cent) of recent immigrants who were employed in Australia indicated that they worked in a different major occupational group in Australia from the occupation they formerly held overseas (ABS 2014b). However, this proportion varied considerably across current occupations. For example, less than one-fifth (18 per cent) of those employed as professionals in Australia had changed major occupational group. By contrast, 87 per cent of those employed as labourers in 2013 had changed occupational group in Australia (figure 5.11, panel a).

These data also show that apparent occupational 'mismatch' appears to be lower among humanitarian immigrants compared with permanent immigrants in the skill and family streams. Among temporary immigrants, student visa holders also experienced high levels of occupational 'mismatch' in 2013 — although this is not surprising given their limited work rights during study (figure 5.11, panel b).

Figure 5.11 **Occupational mobility associated with recent immigrants**

Whether occupation in main job overseas was in the same occupation in 2013



Source: Productivity Commission estimates based on ABS (2014b) *Characteristics of Recent Migrants*, Cat. no. 6250.0.

The industry pattern of immigrants' employment also differs

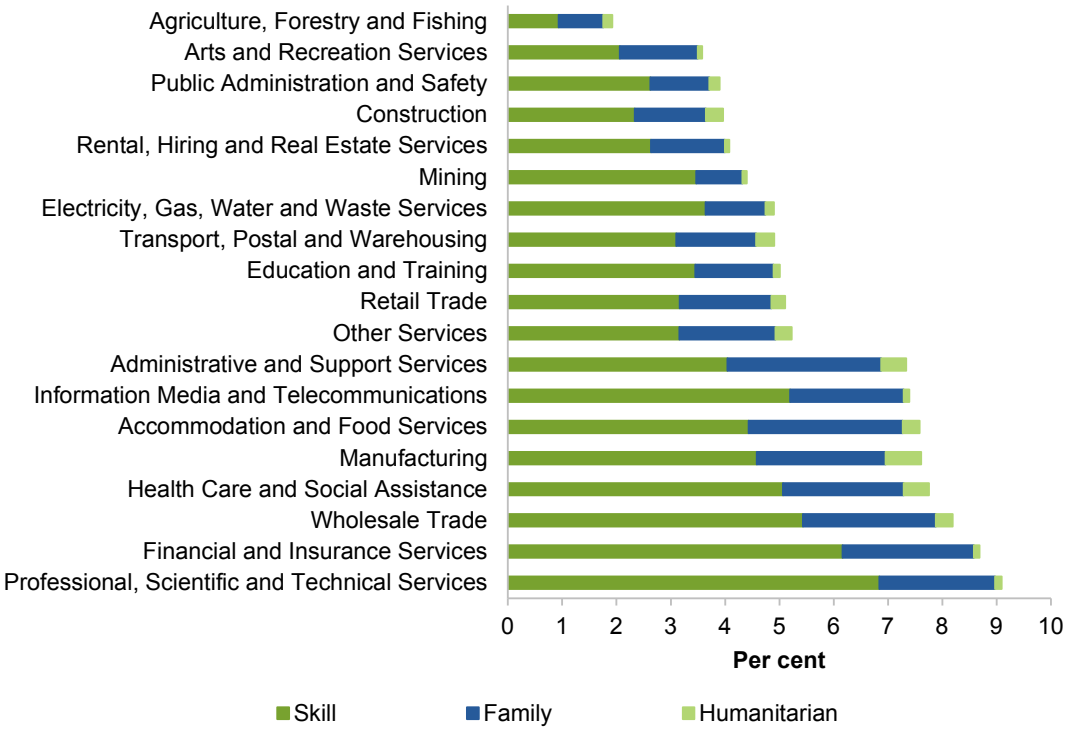
Reflecting their occupation and skill composition, immigrants are more likely to be employed in some industries than others. For example, in 2011, around 9 per cent of

employees in the professional, scientific and technical services industry were permanent immigrants who arrived between 2000 and 2011. By contrast, of those employed in agriculture, forestry and fishing, around 2 per cent were permanent immigrants who arrived between 2000 and 2011 (figure 5.12).

A similar pattern is observed when Census data is examined. Further, reflecting the broad structural changes in the Australian economy, these industry employment patterns have changed since 1986. Of note, the pattern of immigrants' employment by industry looked more like that of the Australian-born workforce in 2011 than in 1986 (table C.7, appendix C). For example, the proportion of immigrants employed in manufacturing has declined from 22 per cent in 1986 to 13.5 per cent in 2011. The corresponding figures for Australian-born people were 12.8 and 8.5 per cent.

Figure 5.12 **Recently arrived permanent immigrants as a proportion of industry employment[a,b]**

2011



[a] ACMID data for permanent immigrants by visa category only includes permanent immigrants who arrived between 1 January 2000 and 2011 census night. [b] Permanent immigrants in each visa category as a percentage of total industry employment.

Sources: Productivity Commission estimates based on ABS (*Microdata: ACMID*, 2011 Cat. no. 3417.0.44.001; and ABS (*Labour Force, Australia, Detailed - Electronic Delivery*, Jun 2015, Cat. no. 6291.0.55.001).

How the industry patterns of permanent immigrants' employment differ also depends on their migration stream (figure 5.12). For example, in 2011, humanitarian stream immigrants were more likely to work in manufacturing, construction, transport, postal and warehousing, and health care and social assistance. By contrast, skilled immigrants were more likely to be employed in: financial and insurance services; professional, scientific and technical services; and in education and training industries.

… and they are more likely to move into self-employment over time

Immigrants have a similar propensity to self-employment as the Australian-born population. According to the 2011 Census, about 16 per cent of immigrants aged 15 years and over reported being self-employed, compared with about 15 per cent of Australian-born people (ABS 2013b). Self-employment rates of permanent immigrants vary by visa category, with those in the family stream having a higher rate (12 per cent) compared with those in the skill (11 per cent) and humanitarian (10 per cent) streams (ABS 2014c). That said, private income from own unincorporated businesses was highest among humanitarian visa holders (see above).

Longer term immigrants are more likely to be self-employed. Mahuteau et al. (2014) found that the probability of being self-employed increased with time spent in Australia. This is consistent with OECD and European Union (2015) data which show that self-employment rates of immigrants were higher among those who had been in Australia over 10 years. A number of reasons have been put forward for why immigrants may move to self-employment, including:

- waiting periods for access to social security
- immigration policies and visa categories that encourage self-employment. For example, Mahuteau et al. (2014) found that the introduction of stricter entry requirements (including a greater emphasis on attracting 'business' skills) along with restricted access to welfare entitlements in the mid-1990s resulted in an increase in the incidence of new immigrants undertaking entrepreneurial activities
- the positive relationship between risk taking and business ownership. Consistent with previous literature Hugo et al. (2011) found that refugee-humanitarian settlers were more likely to be self-employed than Australian-born people and immigrants from other streams, either because they were innately more risk-preferring than other immigrants or because of Australia's approach to selection. However, rather than doing so because of barriers to mainstream work as an employee (see below), many in the humanitarian intake started as employees to acquire the necessary capital and identify opportunities before starting a new business. This is consistent with the earlier finding that income from own unincorporated businesses among humanitarian immigrants increases with time in the labour market (figure 5.7, panel c)

- barriers that restrict access to mainstream employment alternatives, such as language barriers and discrimination (DIBP 2015h; Fairlie and Lofstrom 2014; Joint Standing Committee on Migration 2013; Mahuteau et al. 2014; OECD 2010).

The children of immigrants have slightly better labour market outcomes than the children of Australian-born parents

In 2013, around one-third of the Australian population aged 15 to 34 years was either born in Australia to immigrant parents (10 per cent), Australian-born with mixed parentage (14 per cent) or foreign-born and arrived as children (8 per cent) (OECD and EU 2015).

Several studies have found that the labour market and education outcomes of children of immigrants to Australia have been slightly better than the children of Australian-born parents. For example, second generation immigrants were more likely to have a degree-level qualification and do as well or better than children of Australian-born parents on Programme for International Student Assessment (PISA) tests (chapter 3). In addition:

> The OECD [Liebig and Widmaier (2009)] found that … once employed the [proportion of] children of migrants in highly skilled jobs tends to be higher than for Australian-born. (DIAC 2011, p. 33)

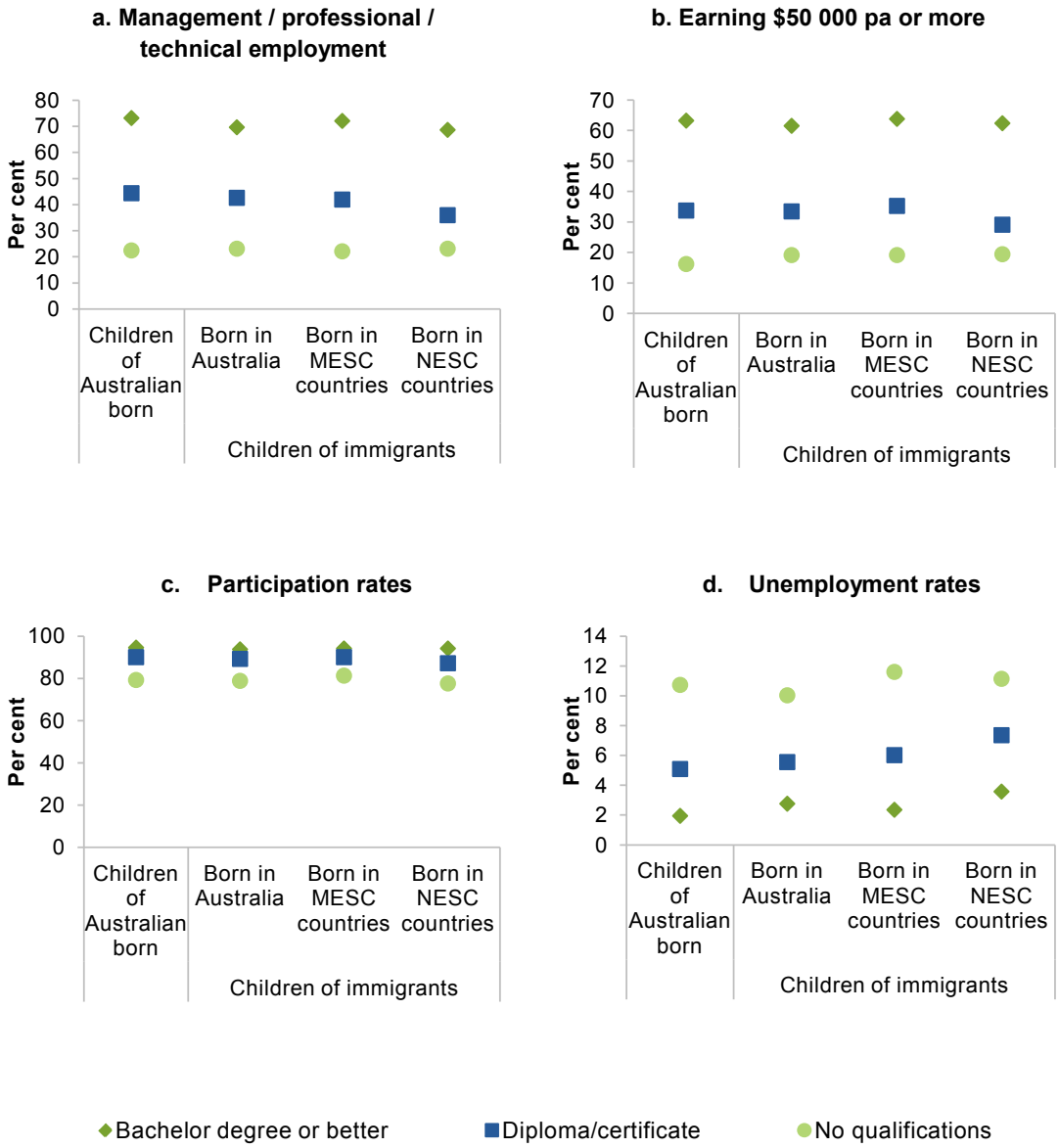
More recent analysis by the OECD and European Union (2015) showed similar results for Australia.

- The unemployment rate of Australian-born children (aged 15 to 24 years) of Australian-born parents was the same as for similarly aged Australian-born children with two foreign-born parents (11 per cent). And among 25 to 34 year olds, the unemployment rates of Australian-born children with two foreign-born parents and Australian-born children with mixed parentage were slightly lower when compared with the unemployment rates of Australian-born children with two Australian-born parents (4.3 and 4.4 per cent compared with 4.6 per cent, respectively).
- The over-education rates (measured as the proportion of highly qualified people in low-and medium-skilled jobs) of 25 to 34 year olds among those born in Australia with two foreign-born parents, Australian-born people with mixed parentage and the foreign-born who arrived before the age of 15 years was around the same as for Australian-born people with two Australian-born parents (around 18 to 20 per cent). By contrast the over-education rate of 25–34 year olds who arrived in Australia as adults was much higher (34 per cent).

In relation to the outcomes of children of humanitarian immigrants, Hugo et al. (2011) found higher levels of labour force engagement than their parents and when compared with the average of the Australian-born population.

The employment outcomes of both second generation permanent immigrants and second (or higher) generation Australians — for a given level of educational attainment — appeared to be similar (figure 5.13).

Figure 5.13 **Employment outcomes, children of immigrants and children of Australian-born parents by educational attainment**
2011



MESC comprise Canada, New Zealand, Ireland, South Africa, the UK and the US. NESC comprises all other countries.
Source: DIBP (2014d, p. 147).

Across most indicators, second (or higher) generation Australians and immigrants from a MESC appeared to perform slightly better than other second generation immigrants, particularly among those with higher levels of educational attainment. Second generation immigrants performed better than first generation immigrants from a NESC. For those with fewer qualifications, first generation immigrants appear to perform better than other groups (figure 5.13).

… but not so for some indicators and some sub-groups

A slightly different picture emerges, however, when long-term unemployment rates and the proportion of people not in employment, education or training (NEET) are examined.

For example, in 2008, the long-term unemployment rate of people aged 15 to 34 years who were the offspring of immigrants was almost four times higher than for the offspring of Australian-born parents (23.5 versus 6.6 per cent) (OECD 2012).

Differences in NEET rates also point to potential labour market disenfranchisement among some groups of immigrants aged 15 to 34 years. For example, while the NEET rates of Australian-born offspring of foreign-born parents and Australian-born offspring of mixed parentage were lower than the Australian-born offspring of Australian-born parents (11.5 and 11.8 per cent versus 13.6 per cent, respectively), the NEET rate of similarly aged foreign-born immigrants who arrived before the age of 15 years was 17.9 per cent (while those who arrived as adults had a NEET rate of 15.4 per cent) (OECD and EU 2015).

One factor contributing to these low NEET rates derives from the 'late arrival penalty' observed for immigrants who arrive as an older-aged child. This penalty is observed in the PISA test reading score results among immigrants who arrived between the ages of 6 and 11 versus those who arrived aged 12 or older (OECD 2014). The OECD also noted that the '… penalty is more marked for those originating from a low-income country and not speaking the language of the host country at home' (OECD 2014, p. 95).

In summary

The labour market outcomes — such as labour force participation and unemployment rates, earnings, and skilled employment — of immigrants is mixed, with outcomes depending largely on:

- the stream in which they entered (skilled immigrants do better than those in family stream followed by humanitarian immigrants)
- whether they are primary or secondary applicants
- their personal characteristics (notably English-language ability).

The children of Australian immigrants have slightly better labour market outcomes than those with Australian-born parents. However, some sub-groups (notably those immigrants who entered as older-aged children or young adults) have a greater risk of labour market disenfranchisement.

What are the main barriers to immigrants' labour market integration?

While the labour market outcomes of most Australian immigrants have been generally positive, these outcomes have not occurred by accident. Australia's approach to selecting

immigrants who are more likely to succeed, together with the provision of settlement services (targeted mostly at humanitarian immigrants who are likely to need more help after they arrive), has played an important role.

However, there are opportunities in several areas to reduce barriers to immigrants' labour market integration.

Better supporting English-language proficiency

English-language proficiency is a key factor affecting the labour market success of immigrants. English-language proficiency is also required in many Australian professions and in the health professions it has been described as the most formidable pre-accreditation hurdle for immigrants (Hawthorne 2013a). However, immigrants' needs differ by visa category as well as between primary and secondary applicants. Policy in this area needs to consider private versus social returns from investing in these skills. As English-language skills also affect the integration of immigrants into Australian society more broadly, further discussion including a draft recommendation is in chapter 6.

Recognition of overseas qualifications

Many immigrants seek to have their foreign qualifications recognised at an equivalent level in the receiving country. But qualifications acquired abroad may be under-valued, partly because employers have difficulty judging them. And while formal qualifications recognition can assist immigrants to integrate into Australia's labour market, recognition of foreign qualifications is ultimately in the hands of employers (as they are the ones who determine whether the foreign qualification suits their needs). For this reason, employers need to have confidence in accreditation processes. Consumers too need to have confidence in these processes, especially when safety concerns are present.

Only a minority of immigrants across a range of OECD countries apply to have their foreign qualifications formally recognised (OECD 2014). The OECD suggested these relatively low application rates reflect a wide range of factors, including:

- the lack of standard foreign qualification recognition procedures in many countries
- immigrants' not knowing of the existence of the recognition processes
- immigrants not being aware of the positive effects of recognition or perceiving the process as too burdensome, lengthy, opaque, complex or expensive
- immigrants perceiving that employers either implicitly accept immigrants' foreign qualifications (and hence they do not need them recognised) or are unlikely to accept immigrants' foreign qualifications even if they are formally recognised (and hence they do not bother)
- the existence of multi-lateral and bilateral agreements which provide automatic recognition.

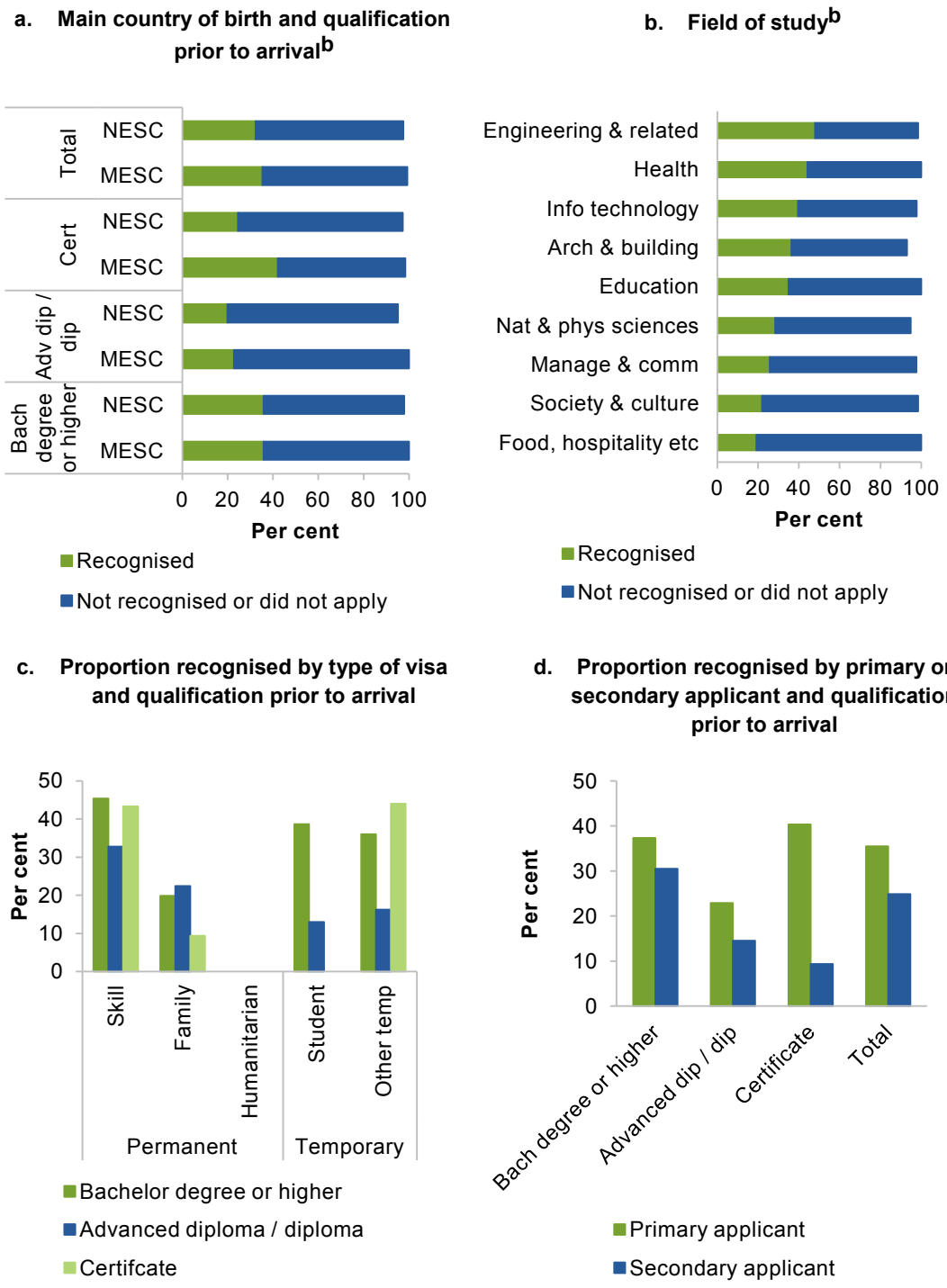
The OECD also noted that administrative complexities surrounding qualification recognition were even greater in countries where assessments were decentralised or overlapping (such as Australia). And certain hurdles can dissuade immigrants from applying to have their qualifications formally recognised.

Relatively low rates of occupational recognition are also observed in Australia. In 2013, on average, one-third of immigrants with a non-school qualification on arrival had their qualifications recognised (ABS 2014b). However, this proportion varied by level of qualification, with a higher rate among those holding a bachelor degree or higher (36 per cent) and a lower rate for those holding an advanced diploma or diploma (21 per cent). (About one-third of those holding a certificate level qualification had them recognised.) The rate of qualification recognition also varied by:

- country of birth — although there is little difference at the aggregate level, immigrants from a NESC holding a certificate level qualification were less likely to have their qualifications recognised than their MESC counterparts (figure 5.14, panel a)
- field of study — those holding qualifications in engineering and related technologies, health, information technology, architecture and building and education had higher than average rates of qualification recognition (figure 5.14, panel b)
- type of visa held — among permanent immigrants, skilled immigrants had higher rates of qualification recognition than other streams. Among temporary visa holders those with bachelor degrees and non-student temporary visa holders with a certificate were more likely to have their qualifications recognised (figure 5.14, panel c)
- type of applicant — a higher proportion of primary than secondary applicants had their qualifications recognised. Moreover, the lower the level of qualification held by a secondary applicant, the less likely it was to be recognised (figure 5.14, panel d).

In addition, older immigrants and those not in the labour force were less likely to have their qualifications recognised (ABS 2014b).

Figure 5.14 **Recognition of overseas qualifications**
2011



Persons aged 15 years and over. [b] Most people in the 'not recognised or did not apply' category did not apply to have their qualification recognised.

Source: Productivity Commission estimates based on ABS (2014b) *Characteristics of Recent Migrants, Australia*, Cat. no. 6250.0.

What are the Australian arrangements and how do they fare?

Employment in some Australian occupations requires registration, licencing, professional membership or other industry requirements. The authorities which assess and accredit overseas qualifications are generally those peak industry bodies that are responsible for establishing or applying nationally recognised professional standards.[9] In addition, the Australian Government's Department of Education provides ongoing support to these assessing authorities to establish that their services (to the Australian Government and prospective immigrants) are accessible, transparent, equitable and appropriate to the goals of the Skilled Migration Programme. For those jobs which are not subject to specific licencing requirements, each state and territory government has an Overseas Qualifications Unit which can assess immigrants' overseas qualifications in general terms and provide further advice on how to have them formally recognised.

In addition, Australia automatically recognises some qualifications through the Trans-Tasman Mutual Recognition Arrangement (between Australia and New Zealand) as well as bilateral agreements covering several occupations, such as medical practitioners, actuaries and engineering (Schuster, Vincenza Desiderio and Urso 2013).

The Commission's earlier report (PC 2006) suggested that Australia's skills assessment and recognition scheme was complex, time consuming and bureaucratic.

Schuster et al. (2013) also pointed to complexities arising from having state- and territory-based assessment authorities. For example, in 2013, 34 assessment bodies spanned 450 occupations (Hawthorne 2013a).

However, there are several cases where assessment and recognition processes have been streamlined, the complexity reduced and state-specific anomalies eradicated. One such case is the health profession. Changes to recognition arrangements in this profession followed a recommendation by the Commission (PC 2005a) and involved all Australian governments agreeing to establish in 2010 the Australian Health Practitioner Regulation Agency (COAG 2008). Recognition of medical qualifications is also supported by the 'competent authority' pathway. And a number of health regulators have exploited e-technologies, global partnerships and empirical evidence to transform their assessment procedures (Hawthorne 2015). Another case is trades assessment with the Australian Government's Trades Recognition Australia. And there are likely to be more opportunities for rationalising or centralising skills assessment and recognition in other occupations (PC 2015c).

Australia's pre-migration screening process has also contributed positively to employment outcomes for skilled immigrants and reduced 'human capital wastage' (Hawthorne 2013a).

[9] A list of current assessing authorities is provided on the Department of Immigration and Border Protection's website at: http://www.border.gov.au/Lega/Lega/Form/Immi-FAQs/how-do-i-get-a-skills-assessment.

But while the diversity of source countries among skilled migrants brings many challenges to this process, Australia's increasing reliance on a two-step migration process means that some temporary visa holders (notably 457s) may end up 'marooned' (Hawthorne 2013a, 2013b). For example, in health fields:

> Large numbers [of immigrants] had completed four years employment in their field, typically holding 'conditional' or 'limited' registration to work in public hospitals or regional 'areas of need'. The challenge of achieving full recognition had been deferred rather than resolved, leaving many in an invidious professional situation (the subject of an Australian 2011-12 Parliamentary inquiry in relation to medicine) (House Standing Committee on Health and Ageing, 2011, 2012). (Hawthorne 2013a, p. 205)

Among those skilled immigrants who had their qualifications pre-screened by regulatory or professional bodies, some in professions that are 'approved' for migration are still required to complete registration requirements onshore (for example, nursing).

Further, many immigrants arrive who have not had their qualifications pre-screened (for example, most family and humanitarian immigrants and secondary applicants in the skill stream). So onshore recognition processes remain important for this group, who are otherwise at risk of skills discounting and occupational displacement (Hawthorne 2013a).

Finally, inquiry participants also raised similar issues to those outlined above, including the issue of recognition as a barrier to entry (or 'professional protectionism') (box 5.1).

Bridging programs and courses can help

When full recognition is not granted, bridging courses can help make up the difference. These courses can help to mitigate the costs faced by immigrants (associated with starting over again), their lower than expected earnings, and higher risks of unemployment and over-qualification. Such courses can also facilitate the integration of higher vocational or professional levels than would otherwise be possible in the Australian labour market.

The OECD (2014) noted that effective bridging programs appear to be those which lead to a domestic qualification (which employers typically know and value) and that bridging programs are well established in Australia, Canada, New Zealand and the US. Evaluations of bridging programs indicate that they:

> … seem to be particularly effective if they involve all relevant stakeholders, from labour market service providers and employers to professional organisations and universities. If immigrants are able to successfully re-qualify, bridging programmes are cost-effective. (OECD 2014, p. 86)

In a recent cross-country review, Australia was described as a world leader in the development of field-specific bridging programs (Schuster, Vincenza Desiderio and Urso 2013). Some registered training organisations, for example VETASSESS, provide recognised trade credentials through onshore and offshore short training courses to enable full rather than partial recognition (Hawthorne 2013a).

Box 5.1 Participants views on overseas qualifications recognition

Some new arrivals and refugee and humanitarian immigrants can experience problems

… a persistent issue is that of qualification recognition for migrants. Many new arrivals report difficulty in gaining recognition of their overseas skills, qualifications and prior learning. Australia does not have a consistent, national approach to overseas skills and qualifications recognition and offers limited opportunities for practical demonstration of work skills. There are some clear benefits to the current criteria for skilled migration, where skills recognition issues are considered prior to migration. Further work is required to determine the impact of this issue in light of a potential change to migration intakes. (Department of Social Services, sub. 62, p. 11)

… recognition of skills and overseas qualifications is still a major issue for people from refugee backgrounds. Many refugee and humanitarian entrants arrive in Australia with significant skills and professional qualifications. However, many are unable to have their qualifications accredited with the relevant industry body and are thus forced to complete their studies again (which they may not be able to afford to do) or gain employment in an area unrelated to their field of expertise or well below their skill level. (Refugee Council of Australia, sub. 18, p. 7)

The assessment processes for 457 temporary visa holders may be problematic

The 457 visa plays a vital role in assuring workforce supply in select fields, including medicine and nursing. … Despite this, it should be noted that large numbers of 457 visa migrants arrive unwilling to invest in full qualification recognition — their preferred options being:

- *Limited scope of practice* (restricted to defined functions);
- *Conditional registration* (licensed on a limited or conditional basis to undertake training, for example in pre-registration bridging programs); and
- *Restricted practice time frames* (defined periods of licensure catering for example to international medical graduates, or to transnational corporation employees resident in Australia on a short-stay basis).

In terms of safe and effective practice, this can be problematic. (Hawthorne, sub. 43, p. 4)

Engineers Australia is also seriously concerned about the failure to assess the qualifications of engineers granted temporary migrations. The background section of this submission described the qualifications and professional qualities Engineers Australia expects from a competent practicing engineer. Engineers Australia does not accept the view that employers are best placed to evaluate engineering qualifications and competence. Persisting with this approach risks Australia's technical engineering capacity and compromises Australia's capacity to realise the productivity gains essential to maintaining and growing Australian standards of living through technical innovation and progress. Engineers Australia urges that qualifications and experience should be rigorously assessed. An administratively simple way to do this is to require membership of Engineers Australia at a level that satisfies the criteria for competent practicing engineers set out above. (Engineers Australia, sub. 47, pp. 6–7)

But some assessment processes can be used as a barrier to entry

Mutual recognition is important as people who bring new skills into Australia may not be recognised or occupational licensing acts as a barrier to industry entry. While requirements may be necessary, if pursued too far or on unfair terms (i.e. very high certification of qualification fee, limited times per year for assessment) it may lock out legitimate and competent individuals from employment and promote monopolisation or a 'gatekeeper' role by vested interest professional bodies which pushes up costs for everyone. Investigation of occupational licensing is an overdue Productivity Commission inquiry all by itself. (name withheld, sub. 8, pp. 2–3)

Finally, while Australia has implemented (and developed) a variety of best practice qualification recognition initiatives and bridging programs (Hawthorne 2013a, 2015), Australian governments and regulators should continue to explore opportunities to further improve. Looking forward, regulators will also need to balance the challenges arising from an increasing 'temporary' flow of immigrants — often within the context of a global labour market, including transnational companies transferring their personnel around the world — with the need to safeguard public safety and standards and the desire to curtail skills 'wastage' (Hawthorne 2013b).

DRAFT RECOMMENDATION 5.1

The Australian Government should seek opportunities to improve the recognition of overseas qualifications obtained at recognised high quality institutions, including through bridging courses.

Prejudice?

Another factor which has often been cited as a barrier to labour market success is prejudice. While Cai and Lui (2012) suggest that discrimination might explain the lower than expected returns to education and experience for males from a NESC, in contrast Hahn and Wilkins (2013) and Breunig et al. (2013) found that wage discrimination was not a significant problem in Australia. Parham et al. (forthcoming) also concluded that Australia was a low wage discrimination country when compared with other OECD countries. They pointed to evidence which showed that second generation immigrants suffered no wage disadvantage.

There is some limited evidence about prejudice against immigrants. For example, Booth, Leigh and Varganova (2012) showed that people from ethnic minorities who attended a high school in Australia would need to apply for more jobs to receive the same number of interviews for entry-level jobs when compared with other ethnic groups. Carlsson and Rooth (2008) found similar evidence of ethnic discrimination in Sweden. In particular, they found that having a foreign sounding name explained 77 per cent of the gap in the probability of being hired while having foreign qualifications explained the remaining 23 per cent. The findings of Parasnis et al. (2008) support the view that prejudice features in the Australian labour market. Based on an econometric analysis, they found that immigrants holding Australian qualifications did not have better LFP or unemployment rates than immigrants holding foreign qualifications.

As prejudice has broader implications beyond the labour market, this issue is considered in further detail in chapter 6.

What has been the effect on aggregate and regional labour supply?

While immigration will increase the supply of labour to the economy, the size of this shift depends on a number of factors, including immigrants' labour force participation, employment/unemployment rates and hours of work.

While labour force participation, unemployment and hours of work did not differ much between immigrants and Australian-born people in 2011, there was a sizable difference in the proportions that were of working age (aged 15 years and over). In particular, 94 per cent of immigrants were of working age compared with just over three-quarters of the Australian-born population. This difference largely contributed to those born overseas working on average about three hours per week per person more than Australian-born people (table 5.1). While the magnitude has varied somewhat, this broad trend has remained relatively constant for each Census from 1986 to 2011 (table C.8, appendix C).

Urban and regional labour supply

A higher proportion of immigrants settle in major cities when compared with Australian-born people (chapter 3). Those immigrants who settled in regional and remote areas — where their impact can be more substantial — generally experienced better labour market outcomes (especially in terms of unemployment rates) than their city counterparts in 2011 (table C.9, appendix C). However, the LFP rates of those who settled in inner- and outer-regional areas were lower than immigrants who settled in inner city or remote areas.

Table 5.1 **Immigration and aggregate labour supply**
2011

	Units	*Immigrants*	*Australian born*
Proportion of working age	%	94.1	76.4
Labour force participation rate	%	60.7	61.0
Unemployment rate	%	6.4	5.3
Hours per worker	hrs/week	34.5	34.3
Hours worked per person[a]	hrs/week	18.5	15.2

[a] Hours worked per person is calculated as the product of the proportion of working age people (aged 15 years and over), participation rate, employment rate and hours per worker, as described box 5.1 in PC (2006).

Source: Productivity Commission estimates based on ABS Census data 2011.

5.2 The impacts of immigration on incumbents' labour market outcomes

The overall effect on incumbents' wages and unemployment from immigration is an empirical matter

A common point of contention is that immigrants take incumbents' jobs and reduce their wages. However, the issue is more complex than the simple 'lump of labour' fallacy, which holds that there is a fixed amount of work in the economy, so that any immigrant arriving at work must be 'taking' a local's job. That said, the presence of relatively high minimum wages and penalty rates adds a layer of complexity to the analysis of the effect of immigration on incumbents.

However, immigrants not only add to the supply of labour, they can increase the demand for labour in two ways, through:

- their spending in the local economy
- complementing the skills of existing workers and capital (for example, through human capital deepening and spillovers (see below)).

Empirically it is difficult to disentangle these separate effects, especially at the aggregate level. Accordingly, the literature typically categorises the net aggregate effect of immigration on incumbent labour as either a *substitution* effect (that is, where the supply-side effect dominates) or a *complementary* effect (where the demand-side effect dominates). Ultimately, the net effect in aggregate depends on how a range of immigration-related factors (including its level) affect the scale of economic activity, labour market interactions and consumer choices, which, in turn, are affected by external factors (such as the state of the global and local economies).

Immigrants unambiguously increase the supply of labour, generating downward pressure on wages (and wage growth) in the short term, all else remaining equal. However, to the extent that trade is completely open and capital is mobile, immigration can simply result in a shift in the production of output between countries. The recipient country expands the production of the products that use the new factor relatively more intensively, while production contracts in the country of origin. The return to labour, as a mobile factor, is unaffected, while the return to any fixed factor in the recipient country rises (Gaston and Nelson 2013). While factor price equalisation clearly does not hold (differential wages being a main motivation for immigration), the empirical evidence on whether factor prices are insensitive to movements in factors is more equivocal.

There are other reasons why the simple partial equilibrium demand and supply view of the world (that immigrants drive down wages for workers with similar skills) may not hold. One reason is that the labour market is heterogeneous, and to the extent that different types

of labour are complement the skills of existing workers and capital, the wages of workers that are not close substitutes to the immigrants will rise with immigration (Borjas 2013).

In addition, immigrants — through their spending on goods and services — increase the demand for factor inputs, including labour. They can also shift consumption preferences (of the initial population as well as their own effect) that, in turn, alter the mix of production. And they can change the production mix through network effects on market access (see also Parham et al. (forthcoming)). Hence immigration can lead to a change in the production and consumption mix through more than just the initial labour supply shift.

At an aggregate level, the net effect of the shifts in labour demand and the supply side effects of immigration depends on how all these factors affect the:

- size of the *shifts* in aggregate demand and supply
- responsiveness of markets to those changes in demand and supply (that is, the relative *slopes* or 'elasticities' of each of these curves).

These changes can vary over time and are affected by 'external' factors, notably the state of the domestic and global economies. For example, during an economic downturn labour demand responses are more likely to be slower than during periods of economic growth (Peri 2010; Ruhs and Vargas-Silva 2015).

Overall, the effect of immigration on the wages and employment of incumbents depends on a range of factors, including:

- the state of the economy
- the time frame used (short, medium or longer run)
- whether (and to what extent) immigrants are complements or substitutes for the skills of incumbent workers and installed capital.

Where the skills of immigrants and existing workers are substitutes, immigration will increase competition in that segment of the labour market and drive down wages. This is considered by some as problematic if immigrants are predominantly low skilled and compete directly with the unskilled end of the labour market. But even at higher skill levels, the initial effect would be to moderate wage increases or place downward pressure on wages. In the presence of sticky downward wages (including binding minimum wages and inflexible labour and product markets), unemployment may occur (Angrist and Kugler 2003). For certain groups in the labour market, particularly young people, an unemployment spell can have long-lasting scarring effects. The closer the substitutability between immigrants and incumbent workers, the greater are the adverse wage and employment effects. Further, lower wages may reduce the incentive of non-immigrants and employers to invest in skills acquisition, consequently eroding the formation of human capital in domestic labour supply (Fougere, Harvey and Rainville 2011).

By contrast, if the skills of immigrants are complementary to those of existing workers and to capital, they may produce positive effects on productivity and wages (McDonald and

Worswick 2015; Salter 1966). The presence of strong skill complementarities means that productivity might rise potentially resulting in an increase in wages (including among incumbent workers). To the extent that incumbents are owners of capital and fixed factors (such as land) they may also benefit from immigration (Chiswick 2011). The various channels through which immigrants (notably skilled ones) can affect productivity are discussed in the final subsection of this chapter.

As the issue of whether the substitution effect dominates the complementarity effect in aggregate in the medium to long term is ambiguous, assessing the net effect is an empirical matter.

What does the evidence say?

In practice, there are different approaches to measuring the effects of immigration on wages and unemployment, each having different merits and drawbacks (Borjas 2013). The choice of time, place and data can also affect results (Devlin et al. 2014) as can the choice of the empirical technique adopted (Somerville and Sumption 2009).

Overseas evidence suggests the effect is small (and can be positive or negative)

Most studies examining the aggregate impact of immigration on the wages and employment of incumbent workers find small effects (either positive or negative) and many find effects that are not statistically significant. Two main meta-analyses of around 45 international studies concluded that the overall the effect of immigration on:

- incumbents' wages was very small (Longhi, Nijkamp and Poot 2005)
- the employment of incumbents was quantitatively very small and more than half of the time statistically insignificant (Longhi, Nijkamp and Poot 2008).

But while the overall impact may be small, some studies have found negative effects of immigration on certain workers and markets (Fry 2014; Picot 2013; Ruhs and Vargas-Silva 2015). The meta-analysis by Longhi et al. (2008) found a strong and 'statistically significant downward effect of newcomers on the wages of earlier migrants … and that the impact may be greater on labour force participation and on employment than wages' (p. 24). These authors also found that the negative impact was greater the lower the opportunities the local born had to 'escape' through other means, such as via outward internal migration, new capital investment by the firm or additional aggregate demand.

Several subsequent studies (box 5.2) affirm Longhi et al.'s assessment.

Box 5.2 Recent international evidence on the effect of immigration on incumbents' wages and employment

In their review of the key **US** evidence, Gaston and Nelson (2013) concluded that immigration had small negative effects on incumbents' wages and employment prospects (see also Hanson 2008), with the largest negative effects experienced by previous waves of immigrants with similar labour market traits. They also noted that evidence suggested that the negative effects were more severe in the short term than in the long term.

The effect of immigration on **Canadian**-born employment and wages was investigated by Tu (2010) and Beaudry et al. (2010). They concluded that immigrants had a small, statistically insignificant impact on the employment and wages of Canadian workers. Although there was a negative wage effect from immigrants in certain industries this was more than offset by positive effects in other sectors such that, in aggregate (i) immigration had not applied downward pressure on the wages on non-immigrants and (ii) job displacement was not apparent.

Following the rapid increase in unskilled labour flows emanating from European Union (EU) enlargement in 2004 a number of **UK** studies found an increase in the casualisation of low paid jobs and downward pressure on wages for low-skilled workers (Fry 2014). Devlin et al. (2014) also concluded that there was some displacement (that is, unemployment) effects among low skilled native workers during periods when migration volumes were high and during economic recessions, but these effects dissipated over time. In their recent review of UK evidence, Ruhs and Vargas-Silva (2015) concluded that immigration had significant impacts on the wage distribution with low-waged workers 'losing' while medium and high-paid workers 'gained'. Further, while there was no significant impact on UK unemployment from immigration, they highlighted evidence that immigration from outside the European Union could have a negative impact on the employment of UK-born workers, especially during an economic recession.

Based on longitudinal **European** data across 11 countries over the period 1995 to 2001, Cattaneo, Fiori and Peri (2013) found that when a larger number of immigrants entered the labour market, native Europeans were more likely to upgrade their occupation to one associated with higher skills and better pay, and start a self-employment activity. As a consequence of this upward mobility, their income increased or remained unchanged in response to immigration. The researchers also found no evidence of an increased likelihood of change in employment or region of residence. These effects took place within two years and some persisted over four years. Hence they concluded that immigrants pushed native European workers on a faster career track rather than reducing their employment opportunities.

In **New Zealand**, Maré and Stillman (2009) found a small negative effect on the wages of high skilled workers following increases in the relative skill composition of immigrant inflows into that country (offset by small positive impacts on the wages of medium-skilled workers). By contrast, McLeod and Maré (2012) and (2013) found that while the large rise in temporary immigration over the previous decade had not diminished the chances of hiring of New Zealanders overall, it did affect the industries hiring them. For example, it appears to have spurred the emergence of work brokers and employment agencies to aid the hiring of both temporary immigrants and other jobseekers in particular industries and regions. Only former welfare beneficiaries appeared to be negatively affected by temporary immigration; all other groups experienced small increase in the chances of being hired. In addition, the employment of temporary immigrants in the family category resulted in small negative impacts on (i) the employment of New Zealanders aged over 25 and (ii) the chance of hiring New Zealanders at any age. A cautious conclusion was also reached that temporary immigration had a small positive impact on the earnings of both New Zealanders and temporary immigrants (McLeod and Maré 2013).

… but recent Australian evidence is scant

Based on its examination of a range of studies, the Commission (PC 2006) concluded that, while immigration did not cause unemployment at the aggregate level in Australia, it was possible that immigration may lead to higher unemployment for specific groups (especially among those who worked in sectors of the economy with high concentrations of immigrant workers). Largely as a result of Australia's strategy to emphasise skilled immigration, the Commission's modelling also found that the wage growth of residents in direct competition with skilled immigrants was dampened by immigrants, while unskilled resident workers tended to experience enhanced wage growth (PC 2006). In other words, Australia's approach to skilled immigration tends to reduce (rather than increase) wage dispersion.

More recent Australian-based evidence on the impact of immigration on incumbent workers is, however, scarce.

Bond and Gaston (2011) used HILDA data over the period 2001 to 2005 to look at the effect of immigration on incumbents. Their results showed that while incumbent workers with certificates or diplomas were negatively affected by immigration, those results were more than offset by the positive effect of immigration across other skill groups. There are problems, however, with this study which call into question its validity. For example, as previously mentioned, the sample of people in HILDA is not continually refreshed to incorporate new immigrants. Therefore, this data has shortcomings for the assessment of the effect of variation in immigration on Australian-born earnings and hours worked.

Using data from the 2001 Census, Kifle (2009) examined the effect of immigration on the earnings of the Australian-born workforce. Focusing on the effect of immigration within occupations or skill groups, this study found that immigrants generally had a strong positive impact on the earnings of Australian-born workers. However, some negative impacts were also observed, notably in low-skill occupations where a large number of immigrants were overqualified for the occupation and thus tended to earn more than their Australian-born counterparts. Kifle argued that this result was indicative of a skill mismatch rather than a pure substitution effect.

Another study — this time based on the 1996, 2001 and 2006 Censuses — by Sinning and Vorell (2015) analysed immigration flows over that time period and concluded that immigration had no adverse effects on regional unemployment rates, median incomes, or crime levels.

Limiting the applicability of the Kifle (2009) and Sinning and Vorrell (2015) studies for this inquiry is their focus on the effect of immigration on Australian-born people. The approach adopted in this inquiry seeks to determine the effect of new cohorts of immigrants on the stock of incumbent Australian citizens and permanent residents (that is, the Australian-born population along with existing immigrants who are both citizens and permanent residents).

This information gap has been reduced with the commissioning of econometric analyses led by Professor Robert Breunig from the Australian National University (technical supplement C). Using Borjas' (2003) national labour market methodology, two data sets were analysed: HILDA 2001–2014 data on wages matched to Census data from 2001–2011 for immigrant shares by experience/education;[10] and the ABS' *Survey of Income and Housing* from 2003-04 to 2011-12. Both data sets yielded similar results overall and their initial conclusions are:

- immigration is higher in areas that have higher wages and better labour market prospects. This is consistent with immigrants coming to Australia with knowledge of where returns are high and with Australia's selective migration policies
- there is no depressing effect of immigration on wages, participation or employment, having controlled for immigrants' movement into areas with high wages and/or good labour market conditions.

Taken together, these preliminary findings suggest there is no discernible harmful effect from immigration on incumbents'[11] wages or other labour market outcomes (participation or unemployment), under current policy settings. In other words, over the period 2000 to 2011, the supply-side effects of immigration have been entirely offset by demand-side effects in the broader economy. These results are consistent with the earlier Australian results of Sinning and Vorrell (2015) (discussed above) and those of Addison and Worswick (2002), who found no statistically significant effect from immigrants on the real wages of Australian-born people (based on a cross-sectional analysis on 48 local labour markets during the period 1982–1996).

Youth employment — a potential vulnerability

As outlined above, economic theory and international evidence suggest displacement of incumbent workers is most likely to occur where economic conditions are weak, where there are institutional rigidities in product and labour markets, and where the immigrant labour supply is large and low skilled. Low skilled and youth (aged 15–24) incumbents are at greatest risk of displacement as their labour is more easily substituted for immigrant labour (Nathan 2011; Nickell and Saleheen 2008; Smith 2012). Australia has had large migrant inflows, including large numbers of international students and working holiday makers at the same time as a slowdown following the global financial crisis. However, there has been little recent Australian research on the impact of immigration on the youth labour market (Birrell and Healy 2014; Senate Education and Employment References Committee 2015; Tham 2015).

[10] This matching overcomes the problems identified earlier with using HILDA data to assess the effect of variation in immigration on Australian-born earnings and hours worked.

[11] Incumbents include Australian-born people and existing immigrants. The overall result of no statistical significance remains when the effects are examined on Australian-born only (technical supplement C).

Youth labour market outcomes have deteriorated markedly since the global financial crisis, but have been in decline for many years. Since 2008, the youth unemployment rate has doubled to around 14 per cent and the employment to population ratio among youth has fallen to around 58 per cent (its lowest level in around 20 years). The longer term decline in youth labour market outcomes is most prominent for males as female trends are outweighed by the broader increase in female participation in the labour force and education. Since:

- 1995, the male youth unemployment rate has increased relative to the national rate, up from around 1.5 times to 2.5 times (figure 5.15, panel a)
- 1986, the population share of young males not in employment or full-time education has increased by half to around 6 per cent (figure 5.15, panel b)
- 1978, the youth underemployment rate has increased six-fold to around 18 per cent, around twice the increase in the broader population (figure 5.15, panel c).

There is tentative evidence to suggest that there may be some relationship between immigration and Australian-born youth employment outcomes. Between 2006 and 2011, those regions that had larger increases in immigrant employment shares tended to have larger increases in the unemployment rates of Australian-born youth and larger falls in Australian-born youth employment shares (figure 5.15, panels d and e). Similarly, occupations (figure 5.15, panel f) which had larger increases in immigrant shares had larger falls in youth employment shares.

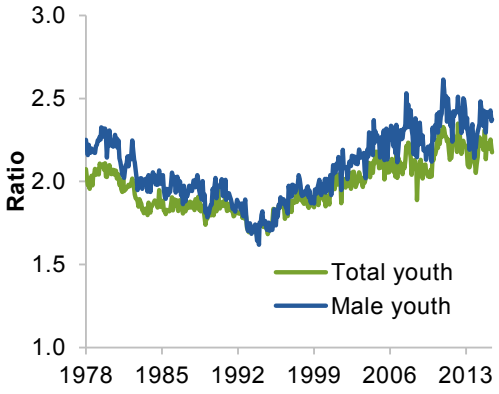
While suggestive, the Commission's analysis does not control for other factors that may affect the observed correlations, such as economic conditions or the local cost of living. Employment-share effects may also be overstated as increases in immigrant numbers will mechanically reduce youth shares by increasing the denominator. Further work is required to control for other factors and link specific immigrant group intakes to youth labour market outcomes. This is discussed further in chapter 9.

DRAFT FINDING 5.1

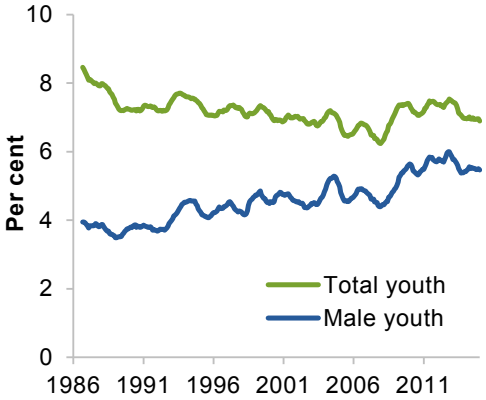
At an aggregate level, preliminary analysis suggests that there is no discernible effect of immigration on wages, employment and participation of incumbent workers. While there is some preliminary evidence to suggest that immigration may be a contributing factor to adverse outcomes in the youth labour market, this evidence is not conclusive and requires further examination.

Figure 5.15 **Youth labour market indicators**[a,b]

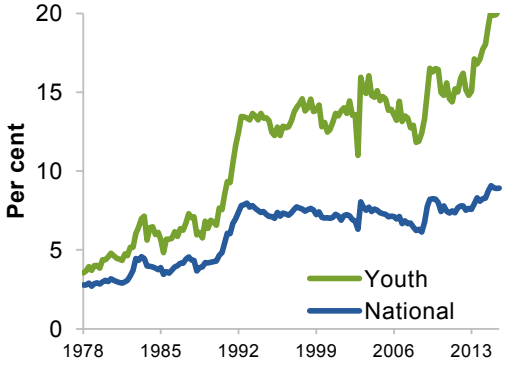
a. Ratio of youth to national unemployment, 1978–2015



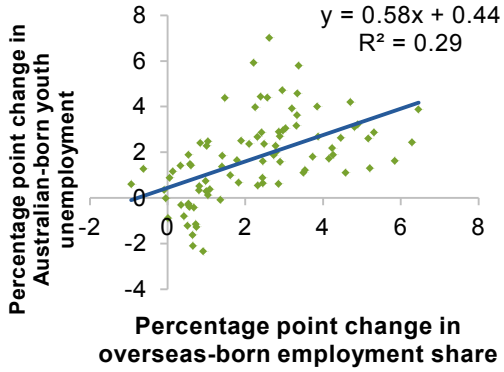
b. Youth not in employment or in full-time study, 1986–2015



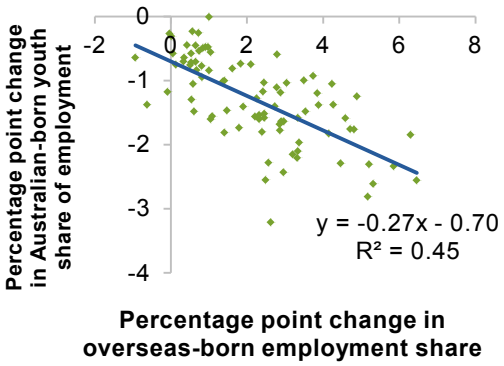
c. Underemployment rate, youth and national, 1978–2015



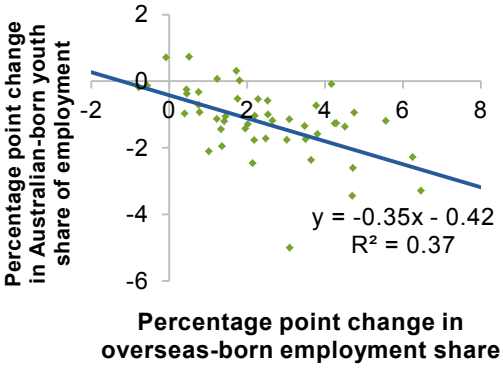
d. Youth unemployment rate by region, 2006–2011



e. Youth employment share by region, 2006–2011



f. Youth employment share by occupation, 2006–2011



[a] Aged 15 to 24 years. [b] Region, industry and occupation are SA4, ANZIC two digit and ANZSCO two digit levels. Observations were dropped if less than 5000 persons were employed in a region/industry/occupation. 'Migratory' and 'No usual address' regions and observations where industry and/or occupation was not stated were excluded.

Sources: Productivity Commission estimates based on ABS (*Labour Force*, Cat. no. 6202.0; *Australian Census and Migrants Integrated Dataset*, Cat. no. 3417.0.55.001; and *Census of Population and Housing*, 2011 and 2006).

Does immigration reduce the incentives of firms and incumbents to invest in education and training?

In theory, skilled immigration is associated with a compression of wage relativities. As noted earlier, this may dampen incumbents' and employers' incentives to undertake education and training, eroding the formation of human capital in domestic labour supply (Fougere, Harvey and Rainville 2011).

Several participants raised this possibility. For example, Matta (sub. 17) argued:

> Incoming immigrants, skilled or otherwise compete with Australians for jobs making it less attractive for untrained Australians to get training and for the government to spend on training. (p. 2)

And the Australian Council of Trade Unions (ACTU) (sub. 36) stated:

> The skilled migration program should not be a substitute for properly investing in and training the Australian workforce. (p. 9)

Firms may also have lower incentives to invest in training, especially if they can promptly and inexpensively fill vacancies at the existing wage rate from abroad. While this may result in lower costs to business (and ultimately consumers) than otherwise, this arrangement also blunts the usual labour market signals of shortages. For example, in the absence of immigrant workers filling shortages, wage rises would occur prompting incumbents to invest in any pre-requisite skills and training and/or move to locations with skills shortages. In reality these signals take time to be observed. Acquiring the necessary skills inevitably takes time too. While many firms adapt to skill shortages through increasing the utilisation of their core workforce (longer hours, internal training), using peripheral strategies (outsourcing, short-term contracts) or reducing output in the short term, in the longer term, persistent skill shortages may affect firms' survival, growth and performance (Healy, Mavromaras and Sloane 2012).

On the other hand, some inquiry participants argued that immigration could increase training if immigrants pass on their knowledge and skills to local workers (for example, Business Council of Australia, sub. 59; Minerals Council of Australia, sub 52). The presence of complementary effects from immigration may also create skilled jobs which, in turn, improve incentives for skilled acquisition by locals.

To sponsor workers for temporary work (skilled) visas (subclass 457), employers that have been operating in Australia for at least 12 months must meet training benchmarks, which include paying at least 2 per cent of their payroll annually into an industry training fund or spending at least 1 per cent or their payroll training on existing employees (Migration Regulations 1994). The 2014 *Independent Review into Integrity in the Subclass 457 Program* found that while there was support in principle for training contributions from employers, stakeholders were not supportive of the current benchmarks. The review recommended that the benchmarks be replaced by an annual training fund contribution based on the number of 457 visas sponsored, which would scale according to the size of

the business (Azarias et al. 2014). The Australian Government has announced it will explore options to replace the current training benchmarks (DIBP 2015ah; chapter 9).

There appears to be little Australian evidence on the effect of immigration on education and training. The Commission's 2006 study found that immigration appeared to have only had a small impact on the training levels of existing workers (PC 2006). This finding was based on work from the early 1990s, before the substantial increase in temporary immigration (for example, Baker and Wooden 1992 and Stromback 1994 cited in PC 2006). McDonald and Worswick's (2015) review also indicated there was little in the way of recent research in this area, but acknowledged it was a potential issue.

INFORMATION REQUEST 5.1

The Commission seeks evidence and information on whether investment in skills by incumbents and firms has been negatively affected by immigration and, if so, the size of the effect.

What is the effect of immigration on productivity growth?

Productivity matters because productivity growth is *the* major source of growth in national income and prosperity;[12] even fractional increases in productivity growth can yield higher living standards in the long term (Otto 1997). However, while productivity growth is vital for improving economic wellbeing it is not an end in itself which should be pursued at *all* costs. And while net overseas migration may affect productivity growth through a number of channels, the benefits from increased productivity growth may not be evenly spread across all members of the Australian community.

Immigration affects productivity growth through its effect on skills composition

Parham et al. (forthcoming) examined the link between Australia's immigration and labour income and concluded that the stated skill level of immigrants was linked to labour income — and more so in Australia than other countries. As noted earlier, on average, these authors also found that immigrants had a 6 per cent wage advantage over Australian-born people. However, within skill levels, immigrants were not apparently more productive (as they did not have a discernible wage advantage).

These authors also examined the contribution of immigration to Australia's labour productivity performance over time and found that skills in immigrant labour input had

[12] There are also other factors that affect prosperity, such as the terms of trade (the ratio of export to import prices), in the short- to medium-term. However, over the longer-term most of the growth in living standards has come from productivity growth.

grown more rapidly than that of Australian-born labour and, subsequently, immigrants' effect on productivity was positive. They concluded that, based on 2006 and 2011 Census data, immigrants accounted for about:

- 0.17 of a percentage point of annual labour productivity growth. This represents about 7 per cent of the average rate of labour productivity growth of 2.4 per cent a year (over the period 1994-95 to 2007-08)
- 0.1 of a percentage point of annual multi-factor productivity growth. This represents about 10 per cent of the average rate of multi-factor productivity growth of 0.95 per cent a year (over the period 1994-95 to 2007-08) (Parham et al. forthcoming).

While these estimates take into account the direct human capital effect (of skills and work experience), they do not account for the indirect spillover effects (for example, on the rest of the workforce and accumulation of knowledge) or the scale effects of a larger workforce (Parham et al. forthcoming). The spillover effects from immigration are discussed below.

While acknowledging that disentangling and quantifying the relationship between migration and productivity was fraught with conceptual and empirical challenges, Parham et al. (forthcoming) concluded that 'migration has had a weakly positive impact on aggregate productivity in Australia over the period studied' (p. 16).

Immigration may also enhance productivity growth through spillover effects

The openness of an economy to international trade and investment is well known to be associated with higher productivity and output growth. However, the link between immigration and productivity growth — especially through immigrants' 'spillover' effects — is less well known. Such effects lift the productivity of *all* workers (not just the wages and productivity of recent immigrants).

In its 2006 study, the Commission (PC 2006) identified numerous ways in which immigration might be linked to productivity growth. More recently, Nathan (2014) identified four channels through which *highly skilled* immigrants — that is, those with degree levels of education and above, or employed in occupations requiring advanced training — can affect the production side of the economy.[13] In Nathan's framework, immigrants bring human capital, financial resources, and social and network capital. They may also compete with incumbent labour. The increase in the supply of effective labour can positively affect firm-level performance, entrepreneurship and industry structure, market openness and worker/consumer welfare.

[13] The consumption side impacts are harder to distinguish as migration may increase demand for non-tradeable goods and increase competition for goods with inelastic supply (for example housing, water), raising local prices (Nathan 2013).

In broad terms, immigration can be supportive of:

- increased innovative activity and innovation enabled by the acquisition of additional research and development skills
- more rapid adoption of technological and organisational changes through increased knowledge and access to international best practice (for example, through knowledge spillovers or increased task specialisation)
- exposure to increased competitive pressures through the take up of new foreign trade and investment opportunities and entrepreneurship.

The impacts of immigration on these different areas are ambiguous in terms of size, sign and significance. Hence, the actual effect of immigration on productivity growth is an empirical question.

International evidence suggests skilled immigrants have small positive impacts

In a meta-analysis of 78 studies mainly from the US, Canada and Northern Europe, Nathan (2014) concluded that overall '… the available evidence often — though not always — turns up small, robust positive aggregate impacts' (p. 2). However, he also warned that:

> The inherent uncertainties in trying to 'push' dynamic, long term impacts of skilled migrants have much in common with another essentially experimental policy field, that of industrial policy. (Nathan 2014, p. 14)

And within each of the areas reviewed by Nathan, the empirical evidence in some areas was more equivocal than in others.

First, in relation to immigration and its effect on innovation and knowledge creation, the bulk of the literature is centred on the US, a country which has a successful track record of attracting the 'stars' (or potential 'stars') — notably immigrants from Europe (for example, Albert Einstein) and in recent times from South and East Asia in the science and technology fields. Most of the studies reviewed by Nathan concluded that high-skilled immigration had a small positive effect on innovation, and that urban areas may amplify this impact (although very large inflows may lead to a short-term constraint in this association). There were also some conflicting findings; some studies found a 'crowding out' effect while others a 'crowding in' effect from skilled immigration on incumbents. The provision of high-quality graduate education may provide a potential pathway for attracting immigrants who are more likely to boost innovative activity and productive capacity.

Other reviews have made similar conclusions, for example, Jensen (2014) and McDonald and Worswick (2015). Further, Breschi et al. (2014) and Breschi et al. (forthcoming) emphasise the role of professionals in science, technology and engineering fields in connecting the benefits of immigration and innovation for destination countries.

Second, while Nathan (2014) found evidence to support the notion that high-skilled immigration leads to a small increase in productivity at the firm and area level, the mechanisms through which this outcome operated were less clear. Nathan posited that positive selection and co-ethnic groupings were key channels in the US, while workforce diversity seemed to be a key channel in most of the European studies he reviewed.

However, the results of Alesina, Harnoss and Rapoport (2013a) suggest that *birthplace* diversity (rather than ethno-linguistic or religious diversity) is a key driver of productivity and hence the economic prosperity of countries. Their study, based on an empirical investigation of 195 countries, found that the diversity of skilled immigration had a positive impact on the income and productivity levels of the richest and most productive countries in their sample. While acknowledging that the direction of causality is difficult to establish — do successful nations attract diversity or does diversity foster success? — they found strong evidence of causality from the diversity of skilled immigration to the productivity of the receiving country. However, they noted that their results are also consistent with economic theory, which predicts that excessive diversity may be counterproductive (mostly due to communication difficulties) while too little diversity prevents complementarities arising from different skills sets, knowledge, practices and problem solving processes (Alesina, Harnoss and Rapoport 2013b).

Third, Nathan's review suggested that while foreign direct investment flows were mainly towards sending (or 'home') countries, trade flows between sending and receiving countries tended to increase as a result of immigrant diasporas. This latter result was not strong when immigrants were from countries where strong trade links already existed.

Fourth, most of the US literature tends to show that large and skilled diasporas have influenced firm formation in that country. By contrast, the pattern of results linking immigration and entrepreneurship is harder to establish empirically in European studies.

Limited Australian evidence suggests similar results

While international research on the link between immigration and innovation is emerging, especially in the US, Australian evidence is scant (Smith 2011). Cully (2012) recently concluded:

> The evidence in this area is less compelling than it is for the participation boost … although the argument is broadly consistent with the theory that the social pay-off to investments in human capital exceeds the private returns. (p. 347)

In relation to immigration's trade effects, Dolman (2008) found that while previous Australian surveys reported findings consistent with the hypothesis that migration strengthens business ties with immigrants' countries of birth, partly as a result of trade diversion, he concluded that:

> … simply increasing the number of migrants from all countries of birth, by say 10 per cent, should be expected to have a much smaller effect on aggregate trade than may have naïvely

been expected given previous studies of the effects of migrants on bilateral trade with their country of birth. This suggests caution in applying the results from other papers that have demonstrated the beneficial effects that increasing aggregate international trade can have on a country's productivity and living standards.

The effects of migrants on foreign direct investment appear to be different. Bilateral investment patterns show that migrants increase investment between their country of residence and country of birth, with a 10 per cent increase in the number of migrants from a particular country of birth estimated to raise bilateral investment with that country by 1.7 per cent. (p. 43)

As it progresses to the final report, the Commission will continue to seek other relevant studies which quantify the size of the effect of net migration on aggregate productivity growth, especially in the Australian context.

According to the Commission's previous assessment, immigration was unlikely to have a substantial impact on productivity and income per capita because:

- the annual flow of immigrants is small relative to the stock of workers and the population
- immigrants are not very different in relevant respects from the Australian-born population and, over time, the differences become smaller (PC 2006).

Overall, while the effect of net overseas migration on Australian productivity growth is likely to be positive but small (and is likely to depend crucially on the composition of the intake), the precise size of the likely spillover effects from immigration is uncertain. To illustrate the direction and size of possible economic impacts associated with immigration spillovers on labour productivity and, ultimately, economic growth, the Commission has modelled the impact of a 1 per cent increase in the labour productivity growth rate (chapter 8).

As highly skilled immigrants are likely to engender small positive spillover benefits, encouraging these types of immigrants to Australia makes sense. These benefits do not occur in isolation, however. By itself skilled (or even highly skilled) immigration does not necessarily cause more innovation (and hence productivity growth); it also needs supported by institutional structures which encourage and support innovative activity.

INFORMATION REQUEST 5.2

The Commission is interested in information on policies that are likely to be most effective in attracting highly skilled immigrants to live and work in Australia.

6 Social and environmental impacts

Key points

- The different waves of migration to Australia have resulted in a diverse multicultural population. The size and composition of immigrants shape their social impact. By some measures social cohesion has fallen slightly in recent years. However Australia has built a highly successful multicultural society.
- Most immigrants integrate well into Australian society, and by many measures immigrants do better in Australia than in comparable countries. With English-language, education, and employment being strong determinants of integration, skilled migrants integrate best, with humanitarian migrants taking a longer time to integrate. Second generation immigrants have better educational and employment outcomes than the children of Australian-born parents.
- Integration promotes social cohesion, as does successful multiculturalism. This includes immigrants' participation in Australian economic and social life and adoption of an Australian national identity, while retaining their ethnic identity. For incumbents it means providing opportunities for immigrant participation and respecting the value of ethnic diversity.
- Multicultural attitudes support acceptance of the immigration program. Surveys have found that the majority of respondents think the level of immigration is not too high (65 per cent) and a higher proportion have favourable views of immigrants.
  - Nevertheless, tensions have arisen between some ethnic and Australian communities. Activities that connect across ethnic communities can help break down perceived and actual discrimination.
- Settlement policies have an important impact on immigrant outcomes. The Humanitarian Settlement Services program is well regarded, but this group of immigrants, as well as youth and women immigrants from non-English speaking countries, have poor employment outcomes.
- New migrants tend to cluster in the major cities, notably Sydney, Melbourne and Perth, which can add to congestion and pressure on the built and natural environment. However, the main environmental impacts are associated with a growing population and not the source of population growth per se.
- The natural environment is limited in the services it can provide, although effective regulation can protect environmental assets. Where environmental assets that provide services to households are in scarce supply, such as water supply, price can be used to ration supply in response to population pressures. This raises the cost of living for incumbents.
- The impact of population growth on the built environment depends on the supply response. Population growth can improve the efficient use of infrastructure and make investment decisions clearer. For housing, supply constraints make immigration a source of price pressure, although poor local regulations can raise the cost of housing irrespective of immigration and population growth.
- For both the natural and built environment, population pressures arising from immigration make sound policy and planning decisions even more imperative.

The volume and profile of immigrants changes the population size, location, and demographic and ethnic composition.[14] Along with the legal rights that these immigrants have (such as to employment conditions, social services, income support, and voting), these changes can have a range of impacts on the social cohesiveness of the community and on the environment.

The literature on these impacts is large, complex, and sometimes conflicting. Moreover, the interpretation of social cohesion, and what constitutes acceptable environmental change varies across people and groups in the community. Rather than providing a comprehensive survey of the literature, this chapter focuses on identifying the major social and environmental impacts of immigration and who they affect. The chapter provides a simple framework for mapping the social and environmental impacts that result from immigration policies (section 6.1). It then unpacks the social impacts (section 6.2) before examining how immigration and other policies can have a direct impact on these social outcomes for immigrants and the broader community (section 6.3). It concludes with a review of possible environmental impacts, and the appropriate policy response (section 6.4).

6.1 A framework for identifying social and environmental impacts

In setting immigration policy, including settlement and other services that target migrants, governments have a range of objectives (chapter 4). While designing an immigration policy to deliver economic benefits to Australians is important, governments need to consider the effect on social cohesion, societal trust and the environment, and to manage these impacts to ensure that immigration remains acceptable to the Australian community.

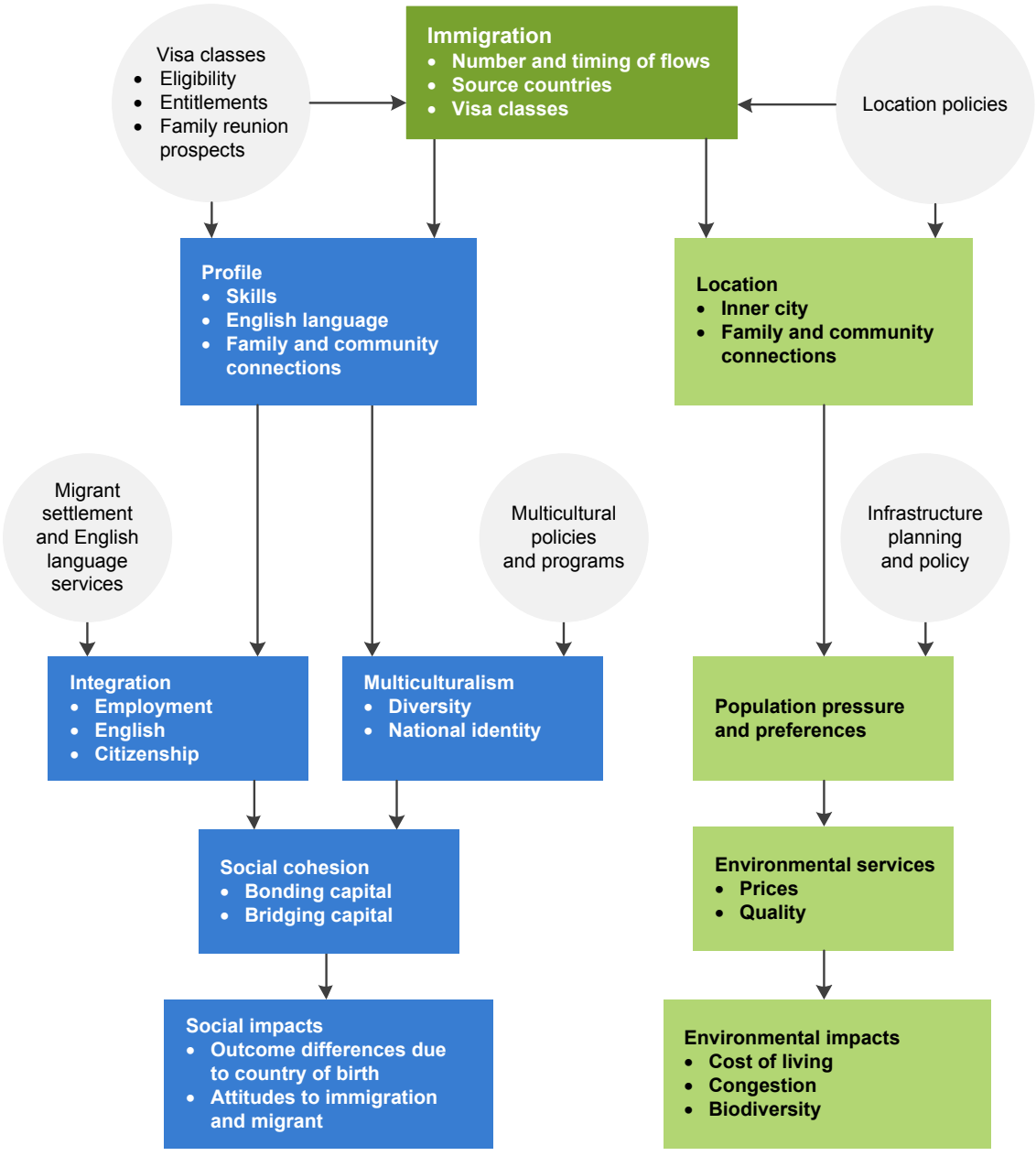
Social and environmental impacts are intimately linked, with strong links to economic impacts. For example, the economic impacts on real wages and the distribution of income have direct social effects. And, as is explained below, mitigating the environmental impacts of population growth has economic impacts through the cost of living, which in turn has social impacts.

Figure 6.1 sets out one way to categorise the main social and environmental impacts. Social impacts can be considered from the perspective of recent immigrants, people who immigrated some time ago, and the Australian born, including second generation immigrants. Both tangible outcomes, such as employment, and intangible outcomes (such as feeling accepted) matter for the wellbeing of these incumbent Australians. These outcomes depend in turn on how immigration affects social cohesion, with integration and multiculturalism the main mechanisms by which social cohesion is affected. The last rows in figure 6.1 list the profile of immigrants — their skills, English-language ability and

[14] Ethnic composition is used here to include cultural and racial differences.

family and community connections, which affect integration and multiculturalism. Location also impacts in complex ways.

Figure 6.1 **A categorisation of social and environmental impacts**



Environmental outcomes can be looked at in terms of the impacts on the: cost of living from the use of environmental services; congestion; and on biodiversity. The location of immigrants, who have a preference for inner cities and locations where family and their ethnic community are settled, directly affects the population pressure on a location.

Government actions have some degree of influence over social and environmental outcomes. Migrant settlement and English-language services and multicultural policies and programs are the two policy areas that directly influence social outcomes. Other government services can also influence integration, including the provisions of additional support services in schools and health services. Visa policies and the overall numbers and flow of immigrants are taken as given, although they too will affect the social impacts.

As indicated in figure 6.1, policies designed to ensure the efficient use of, and investment in infrastructure and urban development, and those related to management of environmental resources and the services they deliver will largely determine the environmental impacts of immigration. However, many of the solutions affect the prices for environment-related services, and hence the cost of living. Environmental policy — for managing both the built and natural environment — is an area where immigration makes good policy settings more imperative.

6.2 Social impacts

With around one quarter of the Australian population born elsewhere and almost half having at least one parent born overseas (chapters 2 and 3), much of Australia's national and cultural identity has been formed by the various waves of immigration. The source countries for migrants to Australia have changed over time, with recent intakes more likely to come from Asian countries than in previous periods (chapter 3). These intakes also have a higher share of skilled migrants than in previous periods (chapter 3). Immigration has changed Australia, just as Australia has changed immigrants.

The social impacts of migration depend on the ethnic composition of the migrants, their age, skills, and the numbers arriving at any point in time (the flow), as well as their overall share of the population. Timing matters because the absorptive capacity of the economy and the community varies — periods of strong economic growth and infrastructure investment can absorb higher flows of migrants more easily than periods where unemployment is high, and when governments are reluctant to expand infrastructure capacity.

Ruhs (2013) categorises the impacts of immigration into economic efficiency, distribution, national identity and social cohesion, and national security and public order. The impacts on the economy, and implications for distribution of income (on wages of incumbents of various skill levels) have been discussed extensively in chapter 5. These economic outcomes have important social impacts (Wooden et al. 1994). For immigrants, employment is a critical factor in their successful integration. For the incumbents, the distributional outcomes affect social cohesion, because where groups believe (rightly or wrongly) that their employment opportunities have been diminished by immigration, they can react in ways that reduce social cohesion, and at the extreme, pose risks to public order. The motivation for such attitudes can be complex, for example, Birrell (2010, p. 10) raised the concern that importing immigrant workers to fill 'dirty work' jobs (such as in

aged care) 'is contrary to one of Australia's finest traditions — there will [be] no social division between menial workers and other citizens in Australia'.

This section looks at how migration has affected measures of social cohesion in Australia. It also looks at the extent to which immigrants integrate into society — that is take on an Australian national identity and achieve comparable living standards, which contribute to social cohesion. The acceptance and appreciation of diversity (multiculturalism) by the broader community and the adoption of a unifying national identity by immigrants are key ingredients in a vibrant, safe and successful, while nonetheless heterogeneous, society.

Much has been written on the desirability of integration and multiculturalism, on the extent to which they have been and continue to be achieved, and on what government should be doing. As Wooden et al. (1994, p. 158) explained:

> Public debate on [immigration] matters contains a complex amalgam of arguments, some of them based on prejudice or emotion, others formulated through evidence or personal experience. Debate also involves both individuals speaking in their own right and those representing or claiming to represent particular interest groups or communities. As with all public debates, value judgments, rhetorical enthusiasms, anecdotes and political expediency are often intricately bound up with appeals to evidence.

The Commission does not take a position on what is the 'right' level of social cohesion, integration or multiculturalism, nor that more of these outcomes are always desirable, given that achieving them can entail costs as well as benefits (broadly defined). However, it has taken the view that, usually, greater integration and social cohesion and successful multiculturalism are of benefit to Australia.

Is social cohesion affected by immigration?

Social cohesion has been defined in many ways. One definition is that social cohesion reflects how well society works towards promoting the wellbeing of all its members, fights exclusion and marginalisation, creates a sense of belonging, promotes trust, and offers its members the opportunity of upward mobility (OECD 2012a).

A common element in most definitions is that social cohesion reflects the level of trust and engagement between members of a community. Measures of social cohesion often include observable outcomes such as employment and participation rates (including in education, volunteer and social activities). They also include subjective measures of more intangible outcomes, such as perceptions of discrimination, and whether people feel safe in their local area. These can be related to more objective measures such as rates of crime, and differences between economic and health outcomes for different groups in the community. The empirical question is how migration affects these measures of social cohesion (box 6.1). The answer is, inevitably, limited by the data available.

Box 6.1 Measures of social cohesion and the impact of immigration

The ABS General Social Survey (GSS) provides the main source of information on outcomes that relate to the level of, and trends in, social cohesion. The Australian Institute of Health and Welfare (2015) in *Australia's Welfare*, draws on the GSS for indicators of the level of social capital, which is a closely related concept.

The Scanlon Foundation (Markus 2014a) produces a widely cited measure of social cohesion. It has undertaken population surveys on a range of attitudes, including towards immigration (since 2007 and from 2009 to 2014). The data from these surveys are used to calculate the Scanlon-Monash Index of Social Cohesion which provides a population-weighted estimate of perceptions in the five core domains of social cohesion: belonging, worth, social justice, participation, and acceptance and rejection.

The Australian Social Inclusion Board uses the GSS to produce a measure of social exclusion, which uses some of the same indicators as measures of social cohesion (but in reverse). The Melbourne Institute and Brotherhood of St Laurence produce the Social Inclusion Monitor based on the Household Income and Labour Dynamics Australia (HILDA) survey. Both measures of social exclusion have a number of indicators designed to measure the extent to which people engage in the workforce and have sufficient financial resources, involvement in family and community activities, and access to health, education and other services. There are also other measures that would be correlated with social cohesion, such as reported levels of tolerance, discrimination, and feelings of safety.

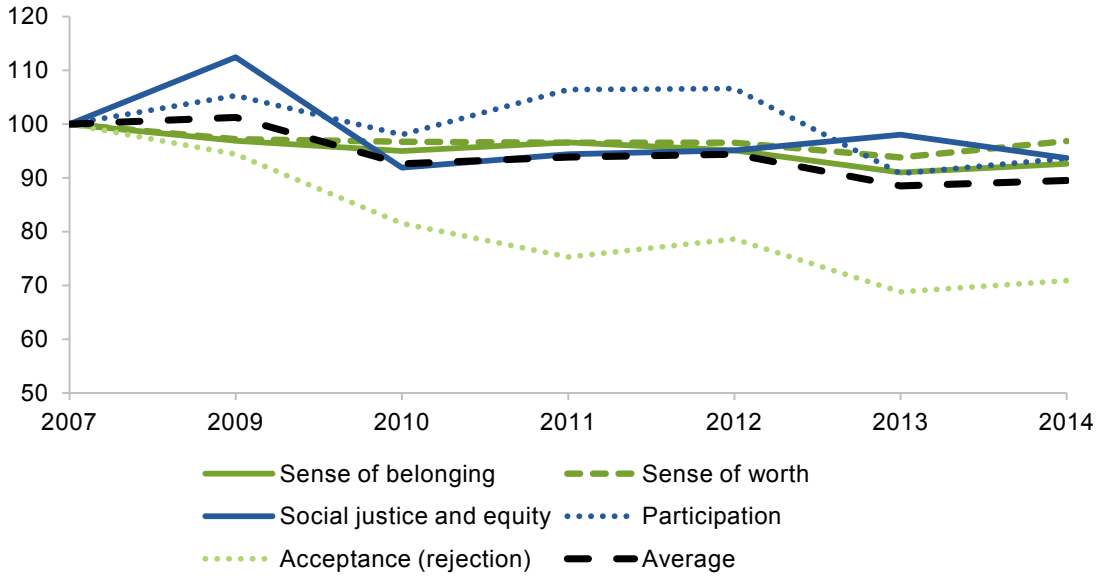
Sorting out the impact of immigration on these measures — in total and for the different waves of immigration — is empirically fraught. While country of birth is an indicator of migration, it does not indicate how long people have been in Australia (and includes Australian citizens born abroad). English not spoken at home would exclude immigrants from English speaking backgrounds and immigrant families that have adopted English as the common language, while including some second generation immigrants and Indigenous Australians. Having a non-English speaking birth country would pick up immigrants from non-English speaking countries, but exclude immigrants from English speaking countries. Most studies use non-English speaking background as the distinguishing factor, although technically this may not equate to immigrant status, and will include some Indigenous Australians.

While imperfect, the extent to which immigrants achieve the same outcomes as the rest of the Australian community is an indicator of integration. The extent to which immigrants experience discrimination or feel that Australia is not welcoming, or where incumbents feel threatened is an indicator of the adoption or otherwise of multicultural attitudes by the Australian community, including by immigrants. More generally, the extent to which migration flows and changes in composition affect outcomes such as levels of trust and safety are indicators of the impact on social cohesion.

There has been a slight downward trend in social cohesion

Trends in the Scanlon Foundation's indicators of social cohesion (Markus 2014b) have been downward since 2007, although they have stabilised since 2013 (figure 6.2). The indicator with the strongest downward trend is the respondent's feeling of acceptance in the broader Australian community, with an almost 30 per cent decline over the period.

Figure 6.2 **Trends in social cohesion: Scanlon Foundation Indicators**
2007=100



Source: Markus (2014a).

The sense of belonging is perhaps the best measure of how *immigrants* view social cohesion. In the 2012 Scanlon Foundation survey, 98 per cent of Australian-born respondents expressed a sense of belonging (82 per cent to a great extent, 16 per cent to a moderate extent). For foreign-born respondents the proportions were lower, with 56 per cent reporting a sense of belonging to a great extent and 35 per cent to a moderate extent. For those arriving since 2000, 86 per cent with an English-speaking background and 88 per cent with a non-English speaking background reported a sense of belonging to a great or moderate extent, reflecting rapid integration (Markus 2012b).

Another perspective on the effect of migration on social cohesion is the share of population thinking that their city or area of residence is a good place for migrants to live. In 2012 90.3 per cent of Australian and 94 per cent of Canadians thought that their country was a good place for migrants to live, compared to an OECD average of 73 per cent (OECD and EU 2015). This share is, however, down by 2.9 percentage points from 2007 for Australia (it rose by 4.8 percentage points for Canada over the same period).

English-language rather than immigrant status appears to affect social cohesion

One question that arises is whether it is immigrant status per se that affects social cohesion, or whether it is the ease of communication within the community. While the differences are not large, there is a significant difference between most of these measures related to social cohesion for respondents who have an English speaking country of birth and those who were born in a non-English speaking country (table 6.1). The largest differences are in

relation to feeling safe walking in the local area at night, however, this could reflect the concentration of immigrant groups in inner city areas. The role of ethnic communities in providing bonding social capital (Hugo and Harris 2011) could lie behind the high rates of contact with family and friends.

Table 6.1 **Selected social indicators, 2012**
By English or non-English speaking country of birth

	English speaking country of birth	*Non-English speaking country of birth*
	%	%
Family (children 0-14 years) support networks		
Could get support in times of crisis	96.6	89.8
Could ask for small favours	95.2	85.2
Has weekly contact with family or friends	97.9	94.9[a]
Feel safe at home		
Day and night	87.3	76.3
Day	94.7	92.7[a]
Night	87.4	76.7
Feel safe walking in local area at night	61.6	48.0

[a] The difference is not statistically significant

Source: AIHW (2012).

As immigrants from a non-English speaking country of birth are more likely to have arrived more recently than those from an English speaking background (chapter 3), so the differences may reflect the time it takes to become part of the community rather than English-language ability per se.

However, other evidence suggests that language ability is the determining factor. The 2011 Census showed that 14 per cent of youth who did not speak English well were not in employment, education or training (NEET), while the overall NEET rate for youth in Australia was 5 per cent (ABS 2013b). Lack of English-language ability may also be making it more difficult for families to participate in some community activities. The Australian Institute of Health and Welfare (2012) reports ABS data that 73 per cent of children born in Australia and 75 per cent born in other English-speaking countries participated in sport and/or cultural activities compared to 53 per cent for children born in non-English speaking countries.

While this might reflect cultural attitudes toward the more common activities for children, other evidence discussed below suggests that it is more about the difficulty in engagement.

Attitudes toward immigration fluctuate but are largely positive

Many people hold strong opinions about the level of immigration and population growth, and participants in the inquiry expressed a range of views (box 6.2). What matters for immigration policy is how widespread the negative views are.

Attitudes to immigration are influenced by education, socioeconomic status, and the characteristics of the local area (Stone and Hughes 2002). Attitudes also depend on which immigrant group people have in mind — the Commission was told that in the United States people tend to be nostalgic about past immigrants and hostile to new immigrants. This tendency to be less supportive of 'new immigrants' reflects the concerns people have in relation to the effect of new immigrants on competition for jobs, effects on the cost of living, congestion and, for some, the ecological concerns about population growth (Birrell 2010).

Attitudes towards immigration can and do fluctuate over time in response to political discourse and public discussion (Markus 2014a). Hence, surveys, which are the main methods available to assess attitudes, can be volatile and tend to reflect recent events and the related media coverage. Nevertheless, most opinion polling suggests that the community as a whole is relatively comfortable about current levels of immigration and population growth.

The Scanlon Foundation survey (Markus 2014a) found that only 35 per cent of respondents thought that the number of immigrants accepted into Australia was 'too high' in 2014, down from 42 per cent in 2013. The most recent year is somewhat unusual as there is usually a positive correlation between the unemployment rate and the views of immigration being 'too high', a pattern first documented by Jupp and Kabala (1993). As figure 6.3 illustrates, negative attitudes to immigration have generally moved in the same direction as unemployment. Further, negative views about immigration levels have roughly stabilised since the early 2000s at a level well below the average over the 1980s and 1990s. Interestingly, these views have little to do with the actual immigration levels, which are shown as a share of the population in figure 6.3, and which have been well above the 1920–2009 net overseas migration (NOM) average of 0.6 per cent of population per annum since the mid-2000s.

Box 6.2 The level of permanent immigration — participants' views

Keep immigration at the current level

The permanent migration program intake, set annually in the Federal Budget, should remain at least at current levels of 190,000 per annum. (Business Council of Australia, sub. 59, p. 4)

Master Builders' policy at the macro level is for the current, permanent migration program intake to be set at around 195,000 persons per annum. This figure reflects our commitment to a 'bigger Australia', expectations of sustained economic growth and associated low levels of unemployment and increasing skills pressures across a number of sectors of the Australian economy, and in the building and construction industry in particular. (Master Builders Australia, sub. 49, pp. 16–17)

Cut immigration to stabilise the population

The objective should be to stabilise the population at levels that are not detrimental to Australia's environmental, social and cultural sustainability. This can only be achieved by reducing net overseas immigration (NOM). Many commentators suggest that 70 – 80,000 would be an appropriate annual intake. We agree. (Reduce Immigration, sub. 48, p. 1)

Given current demographic momentum, a peak in the range of 26-27 million would be an appropriate target. Accordingly, SPA advocates that Australia's immigration policy objectives specifically include the facilitation of a sustainable population level as its primary goal. (Sustainable Population Australia, sub. 44, p. 2)

I want to live in an Australia that is ecologically and socially sustainable, with a stable population not much greater than, and even considerably below the current 23.7 million. (McNicol, sub. 39, p. 1)

This submission urges the Commission to recommend a policy approach which pro-actively reduces our immigration intake to a level which will maintain a stable population in Australia over time, rather than an ever-increasing population which is the current default setting. (Cook, sub. 26, p. 3)

Zero net migration

I support a balanced migration, with emigration matching immigration. (Green, sub. 38, p. 7)

A lower level of immigration as proposed by SPP, in line with the world average of zero net migration, will help maintain social cohesion in Australia as it will enable the Australia Government to dedicate far more resources to each migrant. This will enable migrants to better understand core Australian values including egalitarianism and tolerance, as well as better invest where necessary in each migrant's language, education and skills training. It will also free up significant government resources to allow for more thorough application assessments. (Sustainable Population Party, sub. 37, p. 8)

Zero immigration

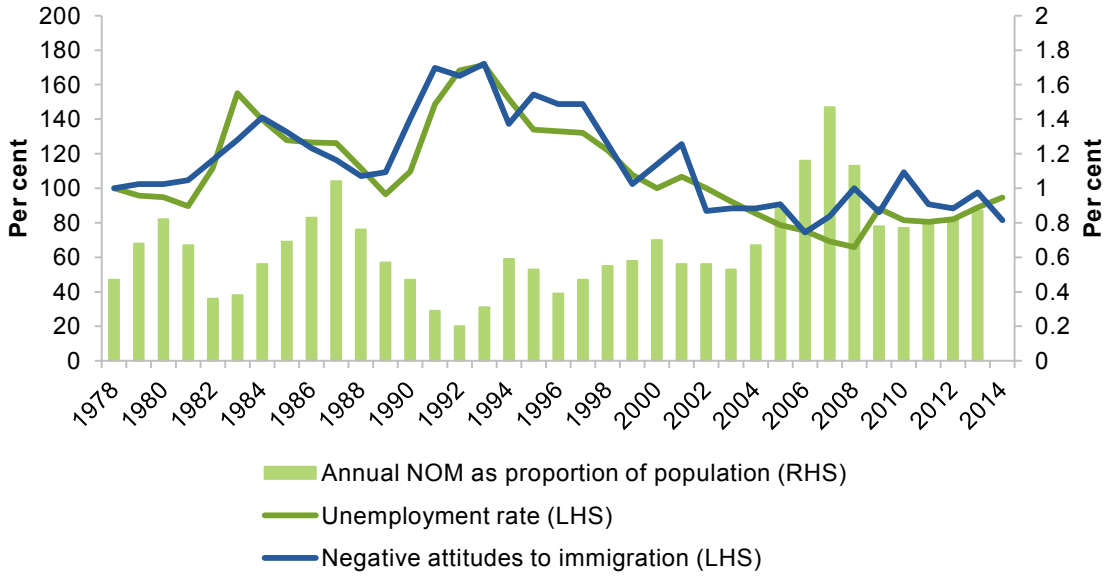
I do not believe we need any more migrants. Many countries, with a population less than that of Australia (Finland, Sweden, Norway, Denmark) provide for their own, have an excellent education system, adequate social security, innovative work practices, sufficient infrastructure and do not seek to enlarge their population. (Cooper, sub. 25, p. 1)

In my opinion the migrant intake should be significantly and largely reduced, if not stopped all together. (Grace, sub. 21, p. 1)

There are only one [2] sensible recommendations which this enquiry can make - an indefinite moratorium on all migration and Australia's immediate withdrawal from the Refugee Convention. (Daly, sub. 5, p. 1)

… only temporary migration can be justified. … Skilled migrants should only come for as long as they are needed, while Australians are trained. (Matta, sub. 17, p. 2)

Figure 6.3 **Unemployment and negative attitudes to immigration are highly correlated, but unrelated to immigration levels**
1978 to 2014

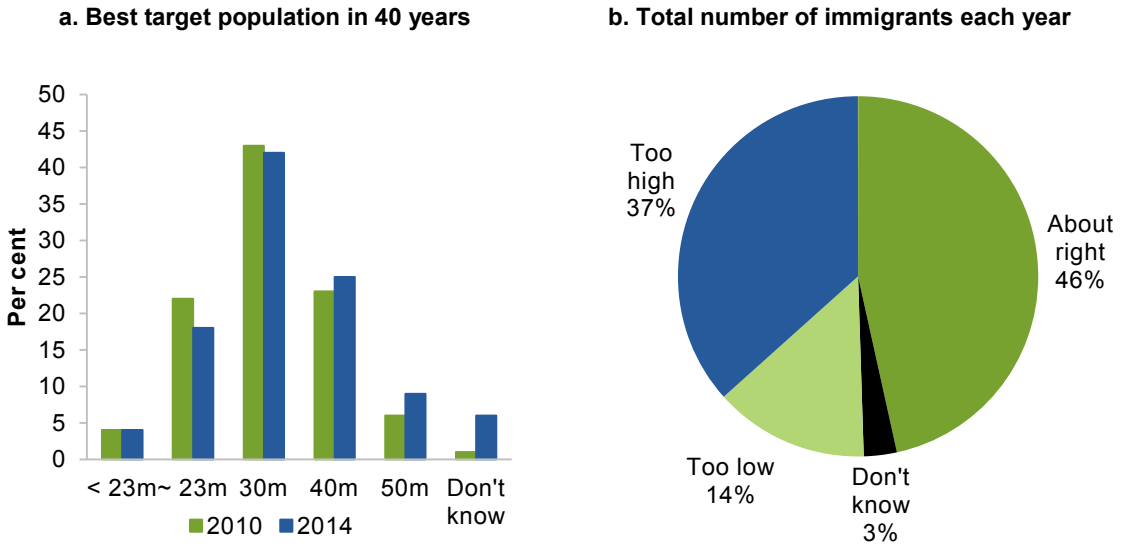


Sources: ABS (2015c); Goot and Watson (2011); and Markus (2014a).

The findings of the Scanlon Foundation surveys are similar to the Lowy Institute poll that found that although a significant minority (37 per cent) think the current level of immigration is too high, a majority (60 per cent) think the current level is either 'about right' or 'too low' (figure 6.4). The Lowy Institute (2014, p. 26) also asked a more general question about 'the best target population for Australia in the next 40 years'. In 2014, about 22 per cent of respondents were in favour of a population at the current level (about 23 million) or smaller, while 76 per cent were in favour of increasing the population to 30, 40 or 50 million. These results were consistent with the results of the same survey question in 2010 (figure 6.4). These population numbers are broadly in line with projections based on an annual NOM intake of 0.6 per cent which implies a population of around 40 million by 2060 (chapter 8), so the views on immigration intake and population size are not inconsistent.

The 2012 Scanlon Foundation survey asked how people felt about immigrants by visa category, finding 77 per cent of respondents were positive toward immigrants in the skill stream; 75 per cent were positive to the humanitarian (specified as refugees admitted after overseas assessment of their claims); 70 per cent towards family; and 69 per cent towards the student visa category. They reported little change over the three surveys since 2007. Attitudes to asylum seekers (unauthorised boat arrivals) were less favourable with only 23 per cent favouring permanent residency, and 38 per cent temporary residency.

Figure 6.4 **Community attitudes to population and immigration**
Results from the Lowy Institute poll[a]



[a] Responses for the right panel are from the 2014 poll.

Source: Lowy Institute (2014).

Although these results suggest that the majority of Australians is comfortable with immigration levels and the resulting population growth, Markus (2012a) recommended caution:

> Such questions make little sense to those polled. Respondents lack the knowledge to make an informed judgment and, as to be expected in such a context, responses are ranged along a normal curve — that is, the most common response is at the mid-point of the range of options presented to respondents, then either side of the mid-point, with a small proportion selecting the extreme or outer positions. (p. 124)

How well are immigrants integrating into the Australian community?

Social cohesion is positively related to how well immigrants integrate. Cousens (2003) describes the process of integration as re-identification involving the new immigrant reflecting and rebuilding who they are in a new environment. As Thomson and O'Dwyer (2014), drawing on Cousens' analysis, comment:

> Re-identification may challenge traditional notions of family identity, role change and involve the adoption of new values and norms that are commonplace in Australia such as 'consumption', 'independence' and 'individualism'. (p. 8)

Integration is the result of an immigrant's determination to overcome these challenges as well as the community's openness to, and support for, new immigrants.

Australia's performance on integration measures is mixed

Overall, the outcomes for immigrants are more positive in Australia than in comparable countries across a range of indicators. For example, rates of employment tend to be higher and rates of poverty lower. However, this conclusion is driven in part by good outcomes across the Australian population relative to other countries, in which immigrants to Australia largely share. A better measure of integration is the outcomes of immigrants relative to the Australian-born population.

Table 6.2 sets out a range of indicators of integration drawn from the OECD and European Union on immigrant settlement outcomes (OECD and EU 2015). The first column is the outcomes for the foreign-born in Australia. The next column compares the outcome for foreign-born relative to the Australian born (the gap in outcome as a percentage of the outcome for the native-born). The subsequent columns give the same measure for a selection of other countries, with Canada having the most similar levels of immigration to Australia.

Across all the countries in the table the foreign-born tend to do less well than the native-born. The main exception to this pattern is employment rates for low skilled labour which are higher than for the native-born in a number of countries, most notably in the United States. Employment rates for foreign-born with lower education, at 12 per cent below the native-born in Australia, are one of the poorer relative outcomes, although a more detailed look at the data shows that this is driven by poorer labour market outcomes for immigrant women (chapter 5). Similarly, the rate of over qualification is relatively high in Australia compared to other countries.

Where Australia performs comparatively well is on the differences in the rates of unemployment, poverty, and home ownership, which are much smaller in Australia than most other countries.

Another way of looking at integration is whether immigrants experience higher rates of social exclusion than the population as a whole. Drawing on the Social Inclusion Monitor, McLachlan, Gilfillan and Gordon (2013) report that for immigrants from non-English speaking backgrounds, the relative poverty rate was 15.8 per cent compared with an overall rate of 12.8 per cent, their rate of deep social exclusion was 5.7 per cent compared with 4.8 per cent, and deep and persistent social exclusion was 5.6 per cent compared with 4.4 per cent. However, these social exclusion figures are from the Household Income and Labour Dynamics Australia (HILDA) survey — which is not representative of the immigrant population and may understate the actual outcomes as it misses more recent immigrants.

Table 6.2 **Outcomes for immigrants in Australia: a comparison**

	Foreign - born outcomes	*Difference in the outcomes for foreign-born relative to native-born as a share of native-born outcomes*						
	Australia	Australia	Canada	NZ	UK	USA	EU	OECD (33)
	%	%	%		%	%	%	%
Employment gap								
Low education	57.3	-12	-3	-7	-8	40	2	12
High education	87.8	-5	-6	-1	-5	-3	-10	-4
Unemployment gap	5.7	4	21	3	18	-6	57	37
Over qualification rates	30.0	35	19	-1	35	4	19	26
Employment in public service								
Less than 10 years	21.4	-24	-30	-9	-31	-41	-49	-43
Participation in education and training								
Men	55.9	0	-13	na	-7	-10	-9	-9
Women	50.7	-7	-8	na	-6	-21	-13	-12
Poverty rate	29.2	36	39	35	61	59	82	75
Home ownership	62.1	-11	-5	-21	-37	-26	-43	31

Notes: The first column is the Australian outcomes for the foreign born. Where Australia performs better than the OECD average is highlighted in green, and where the outcomes are relatively worse is highlighted in red. The employment gap is based on employment to population 15–64 not in education. The data is for 28 EU countries other than for the training which is for 19 EU countries.

Source: OECD and EU (2015), figures 5.2, 5.8, 6.8, 6.13, 7.8 and 9.1 and table 8.1.

The three Es — English, education and employment promote integration

It is well accepted that successful integration depends largely on being able to converse and interact with the resident population. For example, Carrington, McIntosh and Walmsley (2007) concluded that:

> The evidence amassed in this report suggests that the ability to communicate with the host community is absolutely vital, not only for practical reasons of attaining employment and attending education, but also for building cross-cultural understanding, social cohesion, and social capital networks.

Major et al. (2014, p. 249), in a qualitative study, reported both 'instances of self-imposed exclusion due to lack of confidence in using English as well as cases of active marginalisation by customers or colleagues' (p. 259).

In addition to the ability to communicate, the Department of Social Services (sub. 62), noted that:

> [I]n particular, for immigrants and humanitarian entrants, English language tuition, better pathways to employment and improved education outcomes are critical. A focus on the three priority areas of English language, education and employment … early in the settlement journey can lead to:
>
> - enhanced social cohesion;
> - reduced risk of long-term and inter-generational unemployment; and
> - increased productivity, new ideas and access to potential new markets. (p. 13)

Nevertheless, other barriers (including racial stereotypes) can remain (for example Butorac (2014)).

Hawthorn (sub. 43) confirmed the relatively negative employment outcomes of immigrants who have poor English-language skills, noting that: 'Those with low English-language ability face years of occupational displacement' (p. 5). Her analysis of employment outcomes for overseas students seeking employment in Australia found that their disadvantages in language skills could be offset if they had qualifications in a field in very high demand (such as medicine).

Not every immigrant will want to integrate

While integration is a desirable goal for most immigrants, and is important from the perspective of social cohesion, not all immigrants will want to integrate. Some may limit their connections to family and their ethnic community. This is more likely to be the case for older parents on family visas as the challenges of learning a new language increases with age, and they do not need to seek employment. Nevertheless, these immigrants can still play a crucial role in assisting other family members to integrate into Australian society (such as through providing childcare services so that the parents can work).

The ease of communicating with family and friends in the immigrant's country of origin, and access to news and other media in their home language through the internet, has made it much easier for people who do not feel capable or have no desire to integrate. As Markus, Jupp and McDonald (2009) noted, improvements in communication technology increase immigrants' ability to 'to maintain multiple identities' (p. 5), and that they do not experience the same 'fundamental dislocation from country, relatives and friends' as in the postwar period (p. 14). They describe this as 'Transnationalism' where:

> The immigrant now possesses enhanced resources for self-sufficiency, with a lessened need to adjust to and integrate or assimilate to the norms and customs of the host society. He or she has more power in determining the extent and level of interaction. (p. 15)

Nevertheless, it is desirable, from the perspective of the broader community, and ultimately immigrants themselves, to engage with the community in their new home. It will be increasingly important for the Government to monitor social cohesion and integration trends if the proportion of the immigrant population not wishing to integrate rises in response to less costly international communication.

There may also be small categories of temporary immigrants for whom integration (and hence English proficiency) per se is not important. With the emergence of more internationally mobile labour, individuals can and do work in locations for a short period of time before moving on to other countries in response to market opportunities. Reduced transportation and communication costs have facilitated such lifestyles. As such, this pool of labour may have less interest in becoming integrated with Australian society. Nevertheless, engagement with the Australian community is to the benefit of these temporary immigrants as well as the broader community.

The remigration rate of people who have migrated to Australia, who have permanent residency, is around 20 per cent (Hugo and Harris 2011). Consultations identified that some source countries, such as Mexico, are working to reconnect with their diaspora, and keep the loyalty of nationals. The factors that drive remigration are complex, but with the globalisation of the workforce, the numbers could well rise in the future.

The vast majority do want to integrate, and do so successfully, although for some groups this can take a long time

Since 1945, 7.5 million immigrants have come to Australia and 4.5 million have taken citizenship (chapter 3). Thomson and O'Dwyer (2014) in a survey of 507 of AMES Australia students found:

> Almost 7 out of 10 (68.2%) respondents stated that they were hoping to become an Australian citizen, while 16.2% stated that they might become an Australian citizen. Only 4.9% stated that they did not hope to become an Australian citizen. Although citizenship was an aspiration for most respondents, a number were still on temporary visas and hoping to secure permanent visas. (p. 20)

By a number of indicators, humanitarian immigrants need a longer time to integrate. The Longitudinal Study of Humanitarian Migrants will provide increasing insight into the employment and other outcomes for recent humanitarian immigrants (who arrived between May and November 2013) and this group is tracked over time. The first wave of data recently released shows that humanitarian immigrants arrive with significant levels of disadvantage, particularly women, with 67 per cent of women over 18 years of age never having undertaken paid work, 44 per cent never having spoken English at all before arrival, and 23 per cent illiterate in their own language (the figures for men are 24, 33 and 17 per cent respectively). They also have high rates of physical and mental health concerns, and 64 per cent of those who do not speak English report that they do not know how to access government services. Over half of the men and women surveyed report that they find it hard to make friends and hard to talk to Australian neighbours (DSS 2015).

The role of family reunion in the successful integration into Australia has been touched on by a number of participants (for example, the Migration Institute of Australia (MIA) sub. 53, the Refugee Council of Australia (RCOA), sub. 20, the Australian Red Cross sub. 23). Australian Migration Options (sub. 34) explain their experience of sponsors trying to get visas for family members who 'have become increasingly depressed and

frustrated' (p. 4). The Australian Red Cross (sub. 23) also supports improving pathways for family reunion, arguing:

> Migrants' families are an important resource, supporting members to adjust and settle into their new environment. The types of support provided by family members include financial (sharing money), physical (providing care or assistance), emotional (sharing love, understanding and counsel), legal (occupying positions of guardianship) and spiritual (performing religious duties). … Prolonged separation causes significant and at times debilitating distress to people who are living involuntarily apart from their families. This can negatively affect migrants' ability to settle successfully and participate in Australian life. (p. 8)

This argument points to an expectation by many immigrants, who left their families voluntarily, that they will be able to have their families join them.

Successful integration is important, as RCOA (sub. 20) and the Red Cross (sub. 23) explain, pointing to a fiscal cost of poor integration outcomes in terms of:

- lower employment rates and lower level jobs
- mental health costs
- higher remittances, and the consequent effect this has on the immigrant family outcomes.

The success of the second generation is one indicator of the successful integration of immigrants. Australia, along with Canada, is successful in regards to this indicator as the children of immigrants have been found to outperform the children of Australian born parents across a range of education and employment outcomes (chapters 3 and 5).

How successful is Australia's multicultural society?

Ethnic diversity can enrich the community (Federation of Ethnic Communities' Councils of Australia (FECCA) sub. 24). Diversity supports acceptance of multiculturalism as it reduces the concentration of particular ethnic groups. As Carrington, McIntosh and Walmsley (2007, p. 43) explain:

> The presence of cultural diversity can, under the right circumstances, reduce insularity, foster bridging social capital and promote social tolerance. These qualities are fundamental not only to GDP such as through growth of tourism and export education but also to Australia's standing and future in a global democratic world that values cultural diversity and nations that foster tolerance and understanding.

Ruhs (2013) makes the point that national identity, defined as 'how the existing residents see themselves', is likely to include multiculturalism in countries where most of the population are, or are descended, from immigrants. In Australia, multiculturalism can be viewed as having transitioned from repudiation of the White Australia policy, through cultural pluralism, to a 'national-building policy based on an ideal of citizenship' (Soutphommasane 2012, p. 22). Having an agreed national identity while retaining

attachment to one's ethnic tradition has emerged as a central tenant in the acceptance of multiculturalism.

Multiculturalism is supported by most of the population. Markus (2014a) reports the Scanlon Foundation survey finding that 85 per cent of respondents agreed or strongly agreed to the statement 'Multiculturalism has been good for Australia'. The proportion who strongly agreed with this statement rose from 32 per cent to 37 per cent between 2013 and 2014. There is a fairly strong bias in the strongly agree response with Green's voters, younger people, those from non-English speaking countries, bachelor level education and above, and reporting themselves as financially comfortable, while respondents with an education of year 11 and below or trade apprenticeship, aged over 65, and immigrants from an English speaking country were less likely to strongly agree.

The Scanlon Foundation survey reported that 67.7 per cent of respondents thought that accepting immigrants from many different countries makes Australia stronger (Markus 2014a). Acceptance of immigration is likely to be related to perceptions of the contributions that immigrants make to the community. This is reflected in the efforts of the Americas Society and Council of the Americas in the United States to demonstrate the value that recent immigrants bring to their local communities. They have undertaken a number of studies, such as one documenting the contribution of immigrants to the revitalisation of depressed communities (Kallick 2015).

Australia may not be making the most of its more recent immigrants

Despite immigrants having an average higher level of education (chapter 3), on average, their employment outcomes are poorer than the Australian born population (table 6.2). Colic-Peisker and Tilbury (2006, p. 203), in three surveys of employment outcomes for recent immigrants, found evidence confirming a 'segmented labour market, where racially and culturally visible immigrants are allocated the bottom jobs regardless of their human capital'. They attributed this to:

- lack of recognition of immigrants' qualifications and overseas experience (although standards can be an issue, as can English-language competency)
- racial and cultural discrimination by employers
- lack of access to mainstream social networks, and reliance on ethnic-group social networks for help.

There are long term consequences as after several years in a low-skilled job, professional skills are likely to degenerate, a 'gap' in the curriculum vitae appears, and the likelihood of ever acquiring a job at the previous skill level decreases, which is a characteristics of labour market known as hysteresis. Major et al. (2014) found that immigrants' sense of social inclusion and belonging can also depend on their obtaining work at an appropriate level. That is, the ability to gain work at a level commensurate with their pre-migration qualifications/experience affects immigrants' sense of social inclusion.

Fozdar (2012, p. 182) also found that 'refugees generally do not fare well' in terms of settlement into employment and the way they are treated. Fozdar also found that Muslim refugees were not treated differently from other refugees, concluding that Muslims:

> … are no more likely than others to report finding the Australian way of life difficult to adapt to, nor to report being treated unpleasantly as a refugee or finding it difficult to be a refugee in Australia. In terms of satisfaction with life, there were also no significant differences by religion (p. 181).

Booth, Leigh and Varganova (2012) tested the extent of ethnic bias in recruitment by mainstream firms. In their experiment, call in rates for interviews were significantly lower for applicants with a clearly ethnic name for otherwise identical applications.

Immigration can introduce tensions that have negative impacts

The greatest social concerns with migration tend to arise where there is a high concentration of immigrants from a particular country. As recent immigrants tend to cluster in inner city areas — the 2011 Census found that 80 per cent of immigrants choose to settle in 20 per cent of the Local Statistical Areas — this can create ethnic pockets (chapter 3). For example, Markus (2014a) found suburbs with a large proportion of the population indicating that they speak a language other than English in the home include, in Sydney, Cabramatta (88 per cent), Canley Vale (84 per cent), and Lakemba (84 per cent); and in Melbourne, Campbellfield (81 per cent), Springvale (79 per cent), and Dallas (73 per cent). Such clustering has both positive and negative effects that can be explained in terms of bonding and bridging social capital.[15]

Common ethnic, cultural and religious backgrounds, as well as common experiences are strong determinants of bonding social capital (PC 2003; Putnam 2000). High levels of bonding social capital provide the people in the group with a strong sense of identity and good support systems that often assist them to find work, places to live, assistance in emergencies and so on. But as they form strong insider groups, it is bridging social capital that is critical for different groups to interact. Where bridging social capital is weak, social tensions between groups are more likely, and problems are exacerbated when groups perceive that another group's activities impinge on their own welfare.

Putnam (2007), in a study of the effects of ethnic diversity in the United States, found that ethnically diverse communities had lower levels of interpersonal trust, civic engagement and perceived quality of life. There is limited evidence of similar outcomes in Australia, with Leigh (2006) finding that greater ethnic diversity was associated with reduced public support for government welfare programs. Collier (2013) too finds that diversity and

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15 Putnam (2000) described social capital as:

> …the relations of trust, co-operation and mutual aid that are fostered by 'norms and networks of civic engagement' and which provide the vital underpinnings of effective government, productive economies, productive diversity, healthy populations and socially cohesive communities.

separatism, rather than integration, leads to lower support for welfare programs. He also notes that intermarriage helps to build mutual trust, although as Khoo (2007) notes, this is as much a consequence as cause of integration. Drawing on 2001 Census data, Khoo reports substantial differences in the rates of first and second generation intermarriage based on ancestry. While the rates rise with each generation, they are relatively low (less than 20 per cent in the first generation) for Greek, Macadonian, Lebanese, Turkish, Chinese, Korean, Indian and Vietnamese ancestry, but by the second generation are lower than 30 per cent only for Lebanese and Turkish women, Koreans and Vietnamese.

Bonding social capital might be one of the reasons why 84 per cent of people in the Scanlon Foundation survey agreed with the statement that people in the local area are willing to help, and 78.5 per cent agreed that their local area is a place where people from different national ethnic groups get on well (Markus 2014a). However, Markus and Arnup (2010, p. 58) also found that in areas with high concentrations of immigrant residents, 'the level of social capital and sense of security for long-time Australians were markedly lower' than the national average. This suggests a lack of bridging social capital between different ethnic groups and/or with the native born population, which at times can lead to inter-group violence. The outcomes do appear to be somewhat location specific, as a local area Scanlon Foundation survey demonstrates (box 6.3).

The clustering of immigrants in inner city areas and by ethnicity can create localised problems (Castles, Vasta and Ozkul 2014).

And while this is not an excuse for violence, White (2007) offers an explanation for why ethnic 'gangs' form:

> … even though most of the young men were born in Australia or have been here since they were little children, they are treated as outsiders. Already subject to economic disadvantage and social marginalisation, a generation of young people has grown up in a social atmosphere that is very hostile to their culture, to their community, to their religion, and to their very presence. (p. 71)

More recently, radicalisation of a small number of young people by Muslim extremists has raised tensions more broadly.[16] A recent survey by the Australian Institute for Progress (2015) in response to the question: 'In recent years there has been an increase in the number of Australians who follow Islam or who immigrated from an Islamic country. In general do you feel this is good or bad for Australia?' found that while 42 per cent responded it was 'not good or bad', 48 per cent responded it was 'bad' (8 per cent responded that it was good). This negative sentiment can feed into discrimination that perpetuates the vicious cycle of discrimination that contributes to gang behaviour that reinforces negative attitudes and discrimination. It can also undermine support for government investment in settlement services and multicultural activities. Yet it is these

[16] Not all of these youth have been from disadvantaged or from Muslim backgrounds, suggesting other causal factors are at play.

services that have been found to build resistance to radicalisation. As Lentini (2013) explains:

> Rather than opening the floodgates of anti-Australian opposition and enabling an environment conducive for terrorism, multicultural policies and practices have had more success in developing partnerships with individuals and communities who have enhanced Australia's national security. (p. 245)

Both localised cross-ethnic violence and isolated incidents illustrate the importance of attitudes in both the broader and immigrant communities in affecting behaviour that can reinforce attitudes. This suggests that preventing marginalisation through integration and multiculturalism that builds bridges of understanding and respect across ethnic communities holds the key to resolving tensions that can fuel local conflicts and radicalisation.

Box 6.3 Outcomes can vary considerably across local areas

In 2013 the Scanlon Foundation conducted local area surveys in five low socio-economic areas. These include two areas which have immigrants as a high share of the population — Logan in Queensland (16.7 per cent) and Mirrabooka in Western Australia (21.5 per cent). The study also included three regional areas with low levels of immigration — Murray Bridge in South Australia (5.4 per cent), Shepparton in Victoria (9.1 per cent) and Atherton tablelands in Queensland (3.0 per cent). The composition of immigrants varied considerably, with the majority in Logan coming from New Zealand and the Pacific followed by Asia and then Africa and the Middle East. The same source region profile, but as a much smaller share, was found in the Atherton tablelands. In the other three areas immigration from Asia made up the majority followed by Africa and the Middle East, with only a small share coming from New Zealand and the Pacific (Markus 2014b).

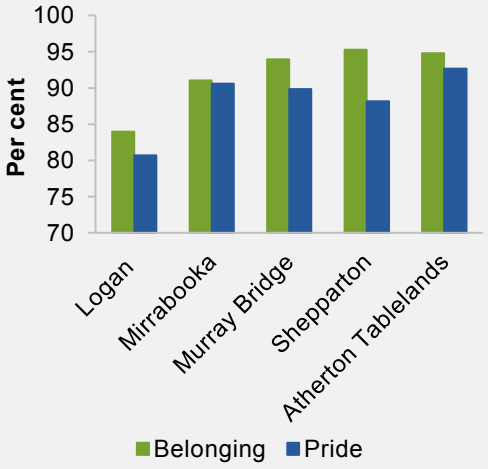
A number of indicators show greater differences between Logan and Mirrabooka than in comparison with the three low immigration regional areas (all five regions are fairly similar in terms of income deciles) (figure below). Most notably, positive sentiment toward a sense of belonging and pride was high across all regions other than Logan (panel a), while happiness and economic opportunity were higher in Mirrabooka than the other survey areas and much lower in Logan (panel b). The same pattern is found with negative sentiment on whether Australia is a land of opportunity where hard work brings a better life, which was higher in Logan and much lower in Mirrabooka (panel c). This is despite experiences of discrimination being about the same for Logan and Mirrabooka (panel d).

(continued next page)

Box 6.3 (continued)

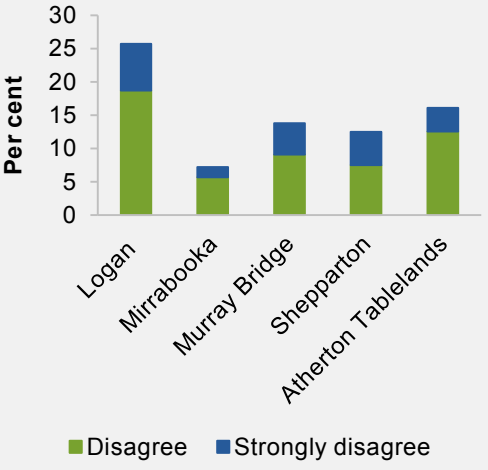
Responses in five regional areas

a. Sense of belonging and pride to a 'great extent' or 'moderate extent'

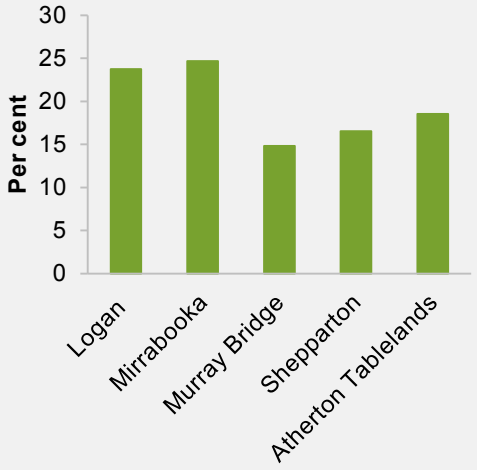


b. Happiness ('very happy' or 'happy') and agreement that hard work brings a better life

c. 'Australia is a land of economic opportunity where in the long run, hard work brings a better life'



d. 'Have you experienced discrimination because of your skin colour, ethnic origin or religion over the last 12 months?' Response: 'yes'.



Source: Markus (2014b).

Perceptions of discrimination differ by ethnicity and age

While perceptions of discrimination can arise for a range of reasons unrelated to actual levels of discrimination, they are an indicator of poor integration and acceptance of diversity in the community. As reported to the OECD and EU (2015), 16.9 per cent of foreign born 15–64 year olds in Australia (2002–2012) consider that they belong to a group

that is discriminated against. The rate is higher for immigrants from low income countries at 24.2 per cent. Interestingly, and in common with Canada but not most other OECD countries, the perceptions of discrimination are higher among young, Asian, and higher educated immigrants. One explanation may be that this reflects higher expectations of equal treatment in Canada and Australia.

The Scanlon Foundation surveys found that negative feeling toward a nationality fall with the length of time substantial numbers of that nationality have been present in Australia. In 2012, the level of negative feelings toward immigrants from Italy and Greece was below 5 per cent, and for those from Vietnam and China around 9 per cent. However, negative feelings were relatively high for immigrants from Iraq and Lebanon (23 per cent) and Sudan (19 per cent). Whether the declining trend will continue is questionable given attitudes to religion have been stable and the level of negative attitudes toward Muslims (25 per cent) is consistently higher than to Christians (3 per cent) or Buddhists (5 per cent).

One issue is whether taking immigrants from a diversity of countries will continue to work toward promoting integration and acceptance of multiculturalism. Diversity can play an important role as it makes it harder for new groups to challenge the dominant belief system. Geographic concentration, and stronger religious ties between Muslims regardless of country of origin, combined with the ability to connect to the country of origin through improved communications, may reduce the need for integration. Should this trend evolve, bridging social capital between communities will become critical in maintaining support for multiculturalism, integration and consequently delivering social cohesion.

DRAFT FINDING 6.1

There is widespread acceptance by the Australian community of multiculturalism. Successful multiculturalism helps Australia benefit from a diverse immigration intake and assists in maintaining social cohesion by developing respect and trust between the different ethnic groups that make up the Australian community.

6.3 What policies reduce social costs and improve social benefits?

Policies supporting integration

As discussed above, the three ‘Es’ are the most important determinant of a rapid and easy integration of immigrants into Australian economic and social life. The higher the share of immigrants with these characteristics the more successful integration is likely to be overall. Australian immigration policy settings determine the share of immigrants with these characteristics, so are a primary determinant of the overall ‘success’ rates for integration.

The inquiry into Migration and Multiculturalism in Australia (Joint Standing Committee on Migration 2013a) found:

- settlement services in Australia are generally 'commendable' and have supported the 'settlement and integration of new immigrants, including refugees' (p. viii)
- there are good examples of multiculturalism embedded in policy and service delivery, especially at state, territory and local government levels
- but still some systemic weaknesses that need to be addressed, such as more flexible English-language training, barriers to having overseas experience and qualifications recognised in Australia.

Given the importance of the three E's, there are questions as to whether the current English-language tests are appropriate and fit for purpose. The International Second Language Proficiency Rating Scale (ISLPR) Language Services (sub. 16), for example, raised the question of the adequacy of the International English Language Testing System for testing proficiency for vocation and general living purposes (chapter 9). The other issue is low rates of recognition of some foreign qualifications, which can mean that immigrants integrate more slowly than would be the case if genuine qualifications were recognised, enabling them to get a job that better matches their skills (chapter 5).

Family members accompanying skilled immigrants, family reunion immigrants, and people on humanitarian visas may need extra assistance to integrate successfully. These programs are important as noted in a discussion paper rated to a 2014 evaluation of the program:

> Settlement services play an important role in integrating these new arrivals into Australian Society, connecting them to essential services and support. The Australian Government is especially committed to improving English language, education and employment outcomes for humanitarian arrivals as important foundations for settling in Australia. (Ernst & Young 2014, p. 3)

The Australian Government provides a range of settlement services, most of which were transferred from the Department of Immigration and Border Protection to the Department of Social Services in 2014 (box 6.4). Apart from translation services, most are targeted to humanitarian, and to a lesser degree, family reunion and the dependents of the skilled worker visa classes. One area of settlement services where funding has been withdrawn is professional migration advice services in lodging family reunion applications. RCOA (sub. 20) raised the importance of family reunion for humanitarian immigrants in enabling them to work (by providing childcare services), or allowing them to study to improve their employment prospects. However, without an expansion in the number of family reunion visas available, restoring funding to this service is unlikely to offer a solution.

State, territory and local governments provide a wide array of support services, but these vary considerably across locations, in part reflecting differences in need. Small grant programs to assist community organisations to provide family support (such as home visits to the elderly, and ethnic playgroups) can play an important role in engaging the volunteer

community within ethnic groups. As such these activities are important for building bonding social capital by connecting the ethnic community.

Recognition of the need for a more coordinated approach to delivering services led to the development of the National Settlement Framework, which is currently in the process of being endorsed by the three tiers of government (Department of Social Services, sub. 62, p. 13).

Commonwealth funding for settlement services in 2014-15 was $141.5 million, and is forecast to slowly increase to $183.6 million by 2018-19 (Department of Social Services, sub. 62).

Humanitarian Settlement Services

In 2013-14 there were 14 205 immigrants who received Humanitarian Settlement Services (HSS) (Department of Social Services, sub. 62). There have been some changes in the client base for the HSS, in particular with the move to offshore resettlement in 2013, which according to Ernst & Young (2014) has seen 'a sudden shift in the client-base from the relatively unlinked onshore single male arrivals to the highly linked families arriving as part of the offshore Humanitarian Programme' (p. 5). The client base has also changed as illegal maritime arrivals and other asylum seekers who lived in the community were no longer eligible for HSS from August 2013.

The importance of the HSS, and other services to new arrivals, is widely recognised (for example, FECCA sub. 24, Red Cross, sub. 23, RCOA, sub. 20). As AMES (sub. 45) explains:

> This investment in initial settlement support is essential from a number of perspectives.
>
> - It provides the required support to enable new arrivals to settle as quickly and effectively as possible and begin to make a social and economic contribution in their new country
> - It allows Australia [to] take advantage of the skills, experience and capacity to contribute to Australia's economy as soon as possible
> - It impacts on the acceptance of new arrivals into the broader Australian community where they are seen as willing and able to contribute economically and engage in mainstream activities and therefore contributes to social cohesion. (p. 5)

Box 6.4 Australian Government settlement services

The Department of Social services reports that depending on their visa conditions, immigrants can be eligible for a wide range of social services provided by government. In addition, government funds settlement services to some visa classes in nine priority areas: language services, employment, education and training, housing, health and wellbeing, transport, civic participation, family and social support and justice.

Humanitarian settlement services

The Humanitarian Settlement Services (HSS) program provides early practical support to humanitarian entrants on arrival and throughout their initial settlement period. The HSS program endeavours to strengthen the ability of humanitarian entrants to participate in the economic and social life of Australia and to equip individuals with the skills and knowledge to independently access services beyond the initial settlement period.

HSS providers work with clients to assess and identify their needs and deliver a tailored package of services to meet those needs. Services under the program are generally provided for the first six to twelve months after a client's arrival.

Complex case support

Complex Case Support (CCS) delivers specialised and intensive case management services to humanitarian entrants with exceptional needs. CCS is specifically targeted at supporting clients whose needs extend beyond the scope of other settlement services, such as the HSS and the Settlement Grants Program.

Settlement grants program

The aim of the Settlement Grants Program (SGP) is to deliver services that help eligible clients become self-reliant and involved in Australian society. To ensure SGP funding is directed to those most in need, services are limited to permanent residents who have arrived in Australia in the last five years as:

- humanitarian entrants
- family stream migrants with low English proficiency
- dependants of skilled migrants in rural and regional areas with low English proficiency.

Also included in the target group are:

Selected temporary residents (prospective marriage, provisional spouse, provisional partner, provisional interdependency visa holders and their dependants) in rural and regional areas who have arrived in the last five years and who have low English proficiency.

Newly arrived communities that require assistance to develop their ability to organise, plan and advocate for services to meet their own needs and are still receiving significant numbers of new arrivals.

Free translating and interpreting services

The Department of Social Services offers free translating and interpreting services to assist people from culturally and linguistically diverse backgrounds to settle and participate in the Australian community.

Source: Department of Social Services, sub. 62.

Service provision is contracted out, including to charities

The HSS, like many other settlement services, is contracted out by the Australian Government. This has attracted a range of providers, all not-for-profit in nature, but from various provenances. For example, AMES Australia, which provides HSS in Victoria as well as the Adult Migrant Education Program (below), is an autonomous Adult Education Institution, accountable to the Victorian Government. The Community Migrant Resource Centre, which delivers HSS services in Sydney, is a charity established in 1996 for the purpose of delivering settlement services. There are Migrant Resource Centres in most states and territories, including in some regional areas, which are a national network of independent not-for-profit community organisations. In regional and rural areas it is more likely that a general community service provider, such as Anglicare, will be the HSS provider. One of the features of many, if not all, providers is their ability to organise volunteers to assist in service delivery. Many also deliver a number of other services funded under the Settlement Grants Program, as well as state and territory programs.

As FECCA (sub. 24) note:

> Ethnic community organisations are the first point of entry for new immigrants into mainstream Australian society – they empower both the individual and community to grow confident and strong. Through the organisation's activities and training programs, communities learn how to strengthen themselves until they can finally engage actively with the wider community. It is clear that Australia gains from having ethnic community networks and organisations which help immigrants navigate through the resettlement process. (p. 4)

The Commission has heard that the HSS program provides very good services for humanitarian immigrants. The Settlement Council of Australia (sub. 55) for example, claims that 'Australia [is] rightly considered a world leader in provision of settlement support services to recently arrived refugees' (p. 3). However they note that services are focused in the first five years, and later major life events (such as the need for aged care or having a child) can trigger the need for additional services.

The contracting out of services and the reliance on volunteers as well as paid staff for service delivery is not without issues. Colic-Peisker and Tilbury (2006, pp. 213–214) make the point that the provision of services to humanitarian visa holders by charities is not unambiguously ideal, as 'cultural bias' inherent in the delivery systems can reinforce stereotypes and slow integration.

However, as these organisations are able to harness volunteer involvement from the ethnic and broader community their involvement brings other benefits (as well as lower costs) than is likely to be the case with government or for-profit service providers. Hence, this concern is best addressed by the organisations themselves.

Employment services are not a part of the HSS

The HSS does not include any specific employment services, other than additional language services. Rather, humanitarian and other immigrants have access to jobactive services. The limitations on these services were noted in several submissions (for example, the Settlement Council of Australia sub. 55). RCOA (sub. 20.) identify several issues with Job Services Australia (which has been replaced by jobactive), raising the question of whether the funding model gives adequate weight to the difficulties that humanitarian immigrants (in particular) have in attaining employment. In addition, in calling for specialised employment services, RCOA (sub. 20) notes:

> The limited skills and experience of some [Job Services Australia] providers in cross-cultural communication and working with people from refugee backgrounds, which hampers their capacity to provide tailored and effective support to this group. (p. 7)

As discussed, immigrants' sense of social inclusion and belonging can depend on their obtaining work at a level commensurate with their pre-migration qualifications and experience (Major et al. 2014). RCOA (sub. 20) identifies this as a problem for many humanitarian immigrants in gaining employment. It may be that bridging courses that can assess the competencies of immigrants in their field and address minor gaps in their knowledge to meet Australian standards, would assist to improve employment outcomes. Issues with English-language competencies, which are also a barrier to employment and social integration, are discussed below.

While the majority of immigrants settle in the major cities, there is a recent trend towards directing immigrants to regional areas. This raises the question of whether the services are adequate in rural and regional areas. The Red Cross (sub. 23) called for greater attention to this issue. Given the concentration of immigrants in the major cities, it is more cost effective to provide services in these locations. It is also cost effective to provide services in regional areas where there are concentrations of humanitarian immigrants. New models of service contracting, if not service delivery, are likely to be required if humanitarian immigrants were more widely dispersed.

The success of the HSS affects public acceptance of the humanitarian immigration program as negative outcomes for new humanitarian immigrants naturally raise questions about the sustainability of the size and nature of the intake. As discussed, HSS also assists with integration and contributes to social cohesion. The current program is well regarded, and the Commission has not heard any concerns with the level of funding. Whether there is scope to improve efficiency is not examined in this draft report.

English-language services

The Department of Education is responsible for providing the Adult Migrant English Program (AMEP). The AMEP provides for up to 510 hours of formal English-language training for people who have less than functional English (an ISLPR of 2 or less across all

four macro skills (reading, writing, listening and speaking). Attendance is voluntary, immigrants from the family, skilled and humanitarian stream are eligible as are some temporary visa classes, but there is no formal referral process. Humanitarian immigrants are eligible for a Special Preparatory Program that provides up to an additional 400 hours of instruction. There is also the Settlement Language Pathways to Employment and Training Program, that provides up to an additional 200 hours of vocation-specific English-language instruction, including up to 80 hours of a work experience placement. Childcare is available to enable people to attend AMEP services.

The budget for AMEP in 2014-15 was $236.0 million, and had the target of assisting 57 000 immigrants.

Targeting is adequate but dependent on referrals

A recent review of the AMEP (ACIL Allen Consulting 2015) found that AMEP enrolments have increased in most years since 2004-05, and the majority of clients were from the family stream (55 per cent), followed by the humanitarian stream (28 per cent) and the skill stream (17 per cent).

The review found that the Special Preparatory Program has been used by more than 90 per cent of humanitarian immigrants over the past decade. HSS providers were found to play a central role in informing humanitarian entrants of the AMEP, which suggests that services are being targeted to the most needy. However, the question of whether other visa classes are sufficiently aware of the services remains.

The hours are not sufficient for all new immigrants

The ACIL Allen Consulting review found that the expectation of attaining functional English after 510 hours of tuition was 'unattainable and unrealistic' given the low level of English that some immigrants possessed (p. 6).

RCOA (sub. 20) noted:

> In terms of English language tuition, RCOA has heard consistent feedback from community members and service providers indicating that the 510 hours of free English language tuition available under the Adult Migrant English Program (AMEP) is not enough time for some people to develop an adequate level of English. Participants in RCOA's community consultations continue to call for greater flexibility within the program to respond to the varying needs and skills of refugee humanitarian entrants, both in terms of teaching and learning styles and in terms of the eligibility period for AMEP tuition. (p. 8)

The ACIL Allen Consulting review looked at the question of what level of hours was required:

> There is some evidence to suggest that approximately 600 hours is an appropriate minimum to achieve functional levels of language acquisition. However, detailed analysis of learner

> outcomes and language gains in LINC [Language Instruction for Newcomers to Canada] suggest that between 750–1000 instructional hours is more likely to result in the desired proficiency outcomes. There is agreement within the literature that the pre-migration experience of language learning and education is a strong factor in the length of time required to reach functional levels in an additional language. (ACIL Allen Consulting 2015, p. 26)

Simply increasing the hours of English-language training may, however, not be sufficient to enable employment, and cost effectiveness is also a major factor. Butorac (2014) argues that English-language training does not resolve all barriers for non-English speaking background immigrants, finding evidence that English-language learners are often seen in Australia from a deficit perspective, that is 'linguistically deficient in English, rather than as an emerging bi- or multilingual.' (Butorac 2014, p. 234), and that the relationship between language learning and social inclusion is also affected by race/culture. However, these issues are best addressed by anti-discrimination policy and promoting the value of diversity rather than imposing other requirements on English-language training.

The AMEP appears to be well targeted, but for some recent immigrants the hours of language tuition is less than required, or of a nature that does not fully support immigrant's labour market and social needs. This raises the question of whether there are more cost-effective ways to provide suitable language training to recent immigrants. For example, some people may learn language more effectively through engagement in activities that require communication than in formal learning settings. Yates (2011) argued that local English-speaking communities could do more to foster interactions and connect with immigrants, particularly in the workplace setting. The review by ACIL Allen Consulting (2015) also recommended that more innovative ways of delivering English-language training be explored (recommendation 7).

INFORMATION REQUEST 6.1

How can the Adult Migrant English Program be better tailored to meet the individual needs of immigrants for English-language training? Are there lower cost approaches to increasing the access of recent immigrant groups (such as those on a family visa) to English-language classes, including conversation classes?

Other support services available to all immigrants

Other Australian Government support services include complex case support (CCS), settlement grants, and translating and interpreting services. These services are available to a wider selection of immigrants.

The CCS is available to all refugee and humanitarian entrants, as well as to temporary protection and safe haven enterprise visa holders. Information from the Department of Social Services (sub. 62, appendix B) indicates that in 2013-14 there were around 132 cases which represented around 450 people, and in the year to 31 March 2015 there

were 156 cases (around 551 people). Access to the CCS is typically by referral, often via the HSS program, although referrals can be made by any person. The CCS was to be reviewed as part of the HSS review.

The Settlement Grants Program is an application-based program where organisations can apply for funding to assist new arrivals settle in Australia. The program supports a range of services including case management, information, advice, referrals and community development services for arrivals up to five years. Humanitarian entrants, as well as immigrants in the family migration stream with low English proficiency, dependents of skilled immigrants with low English proficiency, and selected temporary residents in rural and regional areas with low English proficiency are eligible clients for these services. In 2013-14 there were 42 467 clients, and 26 976 in the year to March 2015 (Department of Social Services, sub. 62, appendix B).

Translating and interpreting services are available to Australian citizens, permanent residents, as well as temporary humanitarian stay, temporary humanitarian concern, and temporary protection visa holders to assist them with settlement such as to meet their government obligations, access government services, and seek employment. Translating services are also available to eligible temporary and provisional visa holders. Somewhat unsurprisingly given the eligibility, the translating and interpreting services are the most widely used services. In 2013-14, over 240 000 interpreting services were provided, and nearly 12 000 documents translated (Department of Social Services, sub. 62, appendix B).

Additional support services are provided by multicultural service officers from the Department of Social Services. They are responsible for assisting immigrants and humanitarian entrants to connect with Australian Government programs and services. There are approximately 70 officers across the country and they play a complementary role to other settlement services, including HSS and AMEP (ACIL Allen Consulting 2015).

The economic and social impacts of migration are not independent of the settlement policies. While the feedback from participants has been positive, just how well Australia's settlement services are performing is hard to assess, and reviews have tended to focus only on parts of the package of services. As the MCA (sub. 50) explain:

> The selection of migrants is only a part of the picture; how we settle and integrate migrants, and how we manage the increasing diversity of our community are questions that deserve more focus. Significant transformations to our migration program have not been matched by commensurate changes to settlement support services (p. 12).

Several groups have called for an extension of settlement services that are currently reserved for humanitarian immigrants to all immigrants. For example, chapter 5 identified immigrants from non-English speaking countries who arrived as older children as having particularly poor employment and education participation outcomes. Another group who find it harder to gain employment is the female partners of skilled immigrants who do not have English as their first language. Even skilled immigrants may need assistance finding employment — the Multicultural Development Association (sub. 51) cited the experience

of their staff members who came in under the skilled immigrant visa program but found it 'surprisingly difficult to navigate the Australian labour market' (p. 3). The Settlement Council of Australia (sub. 55) has advocated for greater settlement support for all immigrants and access to Centrelink support, arguing that:

> Providing additional supports to skilled migrants, temporary migrants and students is highly likely to improve overall community outcomes in terms of cohesion, employment and health. (p. 3)

While this might assist social and economic integration which would reduce the longer term fiscal impact of some immigrants, it does come at an immediate cost. Hence, there is a balancing act between the provision of settlement services and the longer term provision of social services. As Australia takes a highly targeted approach to the provision of many social services (especially transfer payments), there would need to be a case made for which immigrants would benefit most from an expansion of services beyond those currently available. A more detailed analysis of the life pathway for immigrants and the fiscal costs associated with these pathways is required to make an assessment of whether change is warranted. This approach aligns with the Department of Social Services move to an 'investment' approach to the provision of support (sub. 62, p. 7).

DRAFT RECOMMENDATION 6.1

The Australian Government should review the mix and extent of settlement services for immigrants (including humanitarian immigrants) with the aim of improving their labour market and social engagement outcomes. This should include consideration of the adequacy of the English-language training hours and access to employment services.

Services for immigrants on temporary visas

RCOA (sub. 20) and the Red Cross (sub. 23) raised concerns about the withdrawal of settlement services for asylum seekers living in the community on Bridging visa E or other temporary visas. These concerns are greater for immigrants on bridging visas, many of which are pending a permanent visa (box 6.5), and where bridging visas are held for a substantial period of time.[17]

At issue is whether visa conditions affect migrants' future outcomes, with restrictions for some visa holders on employment, access to Medicare, and English-language services. For example, in March 2015, there were over 27 000 migrants on Bridging Visa E (BVE), applying for permanent humanitarian visas, of whom around 14 000 had working rights (DIBP 2015b; Masanauskas 2015). This varied access is also found in terms of access to health services, with the Royal College of Australasian Physicians noting that as the

[17] For example Selvaratnam (2013) notes that one migrant held a bridging visa for three years before receiving permanent residency, while other temporary visas are often held for five years.

Bridging Visa E has to be renewed annually, 30 to 50 per cent of Bridging Visa E holders had lapsed visas and were not eligible for Medicare, with state and territory urgent health needs at a significantly higher cost (RACP 2015). The ACTU (sub. 36) also raised the issue of the cost of public school education (which can be up to $14 000 a year) as well as lack of access to the public health system for 457 and student visa holders.

Immigrants from New Zealand who have not become joint citizens face a different set of issues, with access limited to some social services. These issues are discussed in detail in chapter 9.

Poor outcomes are a concern to the Australian Government from a fiscal perspective where they are likely to occur within Australia — which is particularly relevant for those immigrants who become permanent residents.[18] The consideration of visa conditions in light of their potential impact on future outcomes and associated fiscal cost is similar in principle to the Investment Approach to social welfare, where decisions on social welfare payments are made in the context of their likely impact on future fiscal liability

(Department of Social Services, sub. 62, p. 7). Apart from the different question of 'fairness', failure to invest in education and health can result in lower levels of human capital, which, to the extent that temporary migration is a pathway to permanent immigration, can have longer term consequences. The logic of the Investment Approach applies to the conditions attached to different visa classes, as well as to the investment in settlement services.

Nevertheless, the costs of expanding access to social services, including through varying the size and mix of the intake can be considerable as the Department of Social Services (sub. 62) warn:

> The level and composition of Australia's migration intake, as determined by the structure and operation of Australia's Migration and Humanitarian Programmes, will have a critical bearing on future spending on social welfare in Australia. Any changes to current settings, particularly any changes which will weaken the focus on migrants based on key desirable attributes, are likely to impact on future social welfare expenditure and would need to be carefully considered. (p. 7)

While there may be some validity in the concerns raised for immigrants under some bridging visas, especially those related to humanitarian immigrants and from New Zealand, most temporary visa holders (such as 457 and international student visas) should have been well aware of the limits on access to social services when they sought entry under the visa class.

[18] Not all immigrants on bridging or other temporary visas will become permanent (chapter 11). It should be noted that some temporary visa holders may have the incentive to pursue permanent visas, regardless of the probability of their application being successful, for the sake of prolonging their stay and working rights (Peacock 2015).

Box 6.5 **Bridging Visas**

Bridging Visas are temporary visas.

A Bridging Visa A allows a migrant to stay in Australia after their current substantive visa ceases and while their substantive visa application is being processed. It can be granted if they lodge an application in Australia for a substantive visa while they still hold a substantive visa. It does not allow the migrant to return to Australia if they leave.

A Bridging Visa B allows a migrant to leave and return to Australia while their application for a substantive visa is being processed. Provided they return to Australia within the specified travel period, the Bridging Visa B will then allow them to stay in Australia while their substantive visa application is being processed. They can hold a substantive visa and a Bridging Visa B at the same time.

A Bridging Visa C allows a migrant to stay in Australia while their application for a substantive visa is being processed. It can be granted if they lodge an application in Australia for a substantive visa but not if they already hold a substantive visa. A Bridging Visa C does not allow the migrant to return to Australia if they leave.

If the migrant's substantive visa has ended, a Bridging visa D lets them stay in Australia lawfully for a short time until they are able to make a substantive visa application, make arrangements to leave Australia or are granted a Bridging Visa E. It does not let them work or re-enter Australia if they leave.

If the migrant's substantive visa has ended, a Bridging Visa E lets them stay in Australia lawfully while they make arrangements to leave, finalise their immigration matter or are waiting for an immigration decision. It does not let the migrant re-enter Australia if they leave.

With the humanitarian entrant program capped at 13 750 places for offshore visas until 2018 (excluding the recent Syrian refugee intake) the Red Cross (sub. 23) point out that there are likely to be a large number of asylum seekers on Bridging visas, Humanitarian Stay (Temporary) visas and Temporary (Humanitarian Concern) visas.

Source: DIBP (2015a).

Policies promoting successful multiculturalism

Government policies affect the extent to which ethnic and cultural diversity has been, and continues to be, embraced in Australia. As explained by the Australian Human Rights Commission (sub. 64):

> The official commitment to multiculturalism has allowed the expression of cultural diversity while encouraging immigrants and their children to participate fully in Australian society. The success of Australian immigration policy has been aided by public policy that allows for new arrivals to make the transition from foreigner to citizen. (p. 1)

Over the past 30-40 years, government policy has clearly evolved in the direction of promoting greater ethnic and cultural diversity (National Multicultural Advisory Council 1999). Many consider that such policies have a positive influence on attitudes towards immigration. For instance, Carrington, McIntosh and Walmsley (2007, p. 152) concluded that:

> [t]here seems to be no doubt that policies of multiculturalism have encouraged the right sort of environment for cultural diversity to be generally not only accepted but also enthusiastically embraced by migrants and host communities alike.

The Department of Social Services (sub. 62) agrees:

> Australia is a stable society with high levels of social cohesion. This is in part a result of a well-planned migration programme and efforts by successive governments to consolidate and promote the benefits of a diverse multicultural population. (p. 3)

The Australian Government's multicultural policy reflects this focus on supporting social cohesion. It:

> … enhances respect and support for cultural, religious and linguistic diversity. It is about Australia's shared experience and the composition of neighbourhoods. It acknowledges the benefits and potential that cultural diversity brings. (Australian Government 2013, p. 13)

Notwithstanding this 'official' position, the term multiculturalism is interpreted less favourably by some in the community, who see it more as a vehicle for separatism and division rather than cohesion. Bishop and Robb (2015) have noted that some people are concerned that multiculturalism in practice means:

> … allegiances to original culture ahead of national loyalty, a philosophy which fosters separate development, a federation of ethnic cultures, not one community. … A community of separate cultures fosters a rights mentality, rather than a responsibilities mentality. It is divisive. It works against quick and effective integration. (p. 1)

While Australia does not have a restriction on multiple citizenships,[19] which allow people to be formally linked to their country of origin as well as Australia, multiculturalism, as reflected in government policy, is not about ethnic identity ahead of an Australian identity. Government programs that build ownership of a common Australian identity, within the context of diverse cultures that make up Australian society, are important in building the bridging social capital that promotes social cohesion.

Recent policy changes have reduced Australian Government support for multiculturalism, with funding for multicultural activities reduced by $33 million to $27.3 million in 2014-15, and the Diversity and Social Cohesion Program rolled into the multicultural activities of the Department of Social Services' Strengthening Communities Program.

Public support for multicultural funding is mixed. In regard to the statement 'ethnic minorities in Australia should be given Australian government assistance to maintain their customs and traditions' the Scanlon Foundation surveys Markus (2012a) found:

> … just 30% of the Australian-born and 25% of those of English speaking background agree with this form of government funding, compared to 52% of non-English speaking background.

[19] Multiple citizenship is not possible for all immigrants as it relies on both Australia's and the host country's laws in permitting multiple citizenship.

> Amongst arrivals since 2000, 72% of Australians of non-English speaking background agree with assistance for maintenance of customs and traditions. (p. 7)

However, the share of respondents who disagreed or strongly disagreed fell slightly from 62 per cent in 2007 to 57 per cent in 2012. Moreover, the question does not focus on funding for activities that promote engagement across ethnic lines, which might elicit a different response.

Programs to support multiculturalism are provided by all tiers of government (box 6.6), however, it appears to be fairly ad hoc in who provides what and when. To some degree this may reflect the nature of the types of activities, which range from festivals to education campaigns, and the importance of the engagement of grassroots community organisations.

Research funded by the Department of Social Services' predecessor on the drivers of social cohesion Dandy and Pe-Pua (2013), concluded:

> In diverse communities there need to be institutions and processes in place to mediate potential intergroup tensions and the public must have confidence in them as trustworthy, fair and impartial. Australian organisations and strategies such as the Australian Multicultural Council, the National Anti-Racism Partnership and Strategy, Reconciliation Australia, the Native Title Tribunal, racial vilification and anti-discrimination legislation, and programs to strengthen access and equity for Australians from Indigenous and immigrant backgrounds are crucial for social cohesion (p. 12).

As such, government action that promotes inclusive multiculturalism appears to assist in building bridging social capital that is important for social cohesion. It is beyond the scope of this study to examine whether the current suite of multicultural programs are the most cost effective way to build a harmonious society. Nevertheless, such investments are an important part of any immigration strategy designed to make a positive contribution to community wellbeing, and be accepted by the public.

INFORMATION REQUEST 6.2

Are the current investments to support acceptance of multiculturalism and address racial discrimination effective and efficient? Could governments achieve more by improving coordination and/or improving engagement with community organisations?

Box 6.6 Examples of programs that support multiculturalism

The Strengthening Communities Program administered by the Department of Social Services provides grants for activities that support diversity and social cohesion. State and Territory and some local governments also support a range of community programs. Some examples follow.

Harmony Day is an example of government policy focused on multiculturalism and diversity. Harmony Day is held on 21 March every year to celebrate Australia's cultural diversity, and all states and territories host similar events at various times of the year. These events are designed to help achieve 'inclusiveness, respect and a sense of belonging for everyone' (Department of Social Services 2015). As part of this, the Diversity Council of Australia runs the *A Taste of Harmony* program that encourages firms to share culture and food at work. They also provide information on how to better integrate workers from different ethnic backgrounds, and promote the value of diversity in the workplace.

The New South Wales Government launched a new Multicultural Grants Program in 2014 with four types of grants — unity grants ($5000 to $30 000) for cross cultural community engagement projects; support grants to support communities (up to $10 000) and individuals ($500); and celebration grants ($1000 to $5000) for events and festivals that celebrate cultural diversity and partnership grants that address significant issues ($10 000 and $150 000 per annum over three years to organisations that partner to deliver an initiative). Multicultural NSW also supports a number of awards and events that celebrate multicultural achievements.

An example of a local government initiative is Hobson Bay City Council (sub. 35). The Hobson Bay *Multicultural Policy 2012–15* guides Council's work to further support and enhance service provision, planning, advocacy and community development for the local culturally diverse community (p. 2). Hobson Bay has a strong history of welcoming refugees and recently signed an agreement with the Refugee Council of Australia to become a 'Refugee Welcome Zone' (p. 3).

The City of Ballarat established a Migrant Attraction and Retention Population Strategy Steering Committee in 2006, which launched a Multicultural Ambassador Program focused specifically on acceptance of skilled migrants.

Policies addressing discrimination

Governments invest in reducing discrimination through leadership and 'soft' interventions as well as through antidiscrimination legislation. The Human Rights Commission takes a lead at the national level with a range of activities. For example, the 2012 Human Rights Commission's *It stops with me* campaign to raise awareness of racism and the harm it causes undertook a range of projects to engage youth and raise awareness to promote and support social cohesion in priority areas. An evaluation in 2015 found 84 per cent of respondents felt the campaign had had a positive impact (Human Rights Commission 2015).

The Human Rights Commission provides free interactive online resources to support local governments to build strong, socially cohesive communities. Resources document a number of 'good practice examples'. The Human Rights Commission also provide

information on rights, such as the 2012 publication *Know your rights: Racial discrimination and vilification*.

Nevertheless, racism is apparent in some segments of society, including both Australian-born and immigrants, and can have substantial costs. Colic-Peisker and Tilbury (2006) give the example of a high concentration of African immigrants in food processing, security and aged care, reporting that those working in aged care have experienced verbal racial abuse from aged care residents and from white co-workers, but did not see engaging with anti-discrimination channels as a helpful option (in terms of helping their employment/life outcomes).

Integration can help ameliorate racism — not having groups perceived as separate or 'other'. Hence the importance of promoting successful multiculturalism as well as directly addressing discrimination. The problem is not unique to Australia, and immigrants are not the only group facing discrimination — Indigenous Australians face particular problems with discrimination.

6.4 Environmental impacts

The impacts of immigration on both the built and the natural environment affect community wellbeing.[20] The amenity of the areas in which people live — the recreational areas, green space and trees, sunlight, wind corridors, closeness to neighbours, attractiveness of buildings, and lighting at night to name a few features — are determined by the area's natural endowments, the planning processes (and whether they are binding), and the public and private investment in local infrastructure. The utility of the areas in which people live — access to transport networks and to water and sanitation services, and to social services including schools, universities and health services — are less affected by the area's natural endowments, but are very affected by government planning and investment in infrastructure and current expenditure on services. Many people enjoy access to areas away from where they live for recreational use, and because they value the existence of a healthy natural environment. They may also recognise the importance of environmental assets in delivering clean water for their own consumption, water for agriculture and industry, cleaner air, healthier waterways and coastal areas, and the contribution to the global environment such as reducing Australia's carbon emissions, and maintaining genetic diversity.

More people does not necessarily mean that environmental amenity or utility will be reduced for the existing population. But the effect depends very much on the investment response and the planning arrangements and regulations that govern these investments. It also depends on the behaviour of new immigrants and whether they adopt the existing

[20] The public consultation that accompanied the development of Measures of Australia's Progress documented how the environment — both natural and built —directly affects people's standard of living and quality of life (ABS 2012a).

social norms (Sobels et al. 2010). Analysis of HILDA and ABS data suggests that, on the whole, the consumption patterns of immigrants are similar to the resident population.

On the positive side, more people can allow more efficient use of existing and new infrastructure by lowering the unit costs of delivering environmental amenity and utility from both built and natural environmental assets.[21] On the negative side, more people means pressures on these assets, which in the case of the built environment can be described as congestion, and in the case of the natural environment as environmental degradation. Congestion mainly affects those using the assets, while environmental degradation can have wider effects.

While market-based solutions such as scarcity pricing (for example variable road tolls depending on congestion, or water prices depending on dam levels) and creating markets for the right to use environmental assets (such as rural water markets) can reduce congestion and alleviate the environmental pressure, these solutions are not costless. Such pricing solutions, while efficient from one perspective, affect people who have to pay more for these environmental services (this has distributional impacts as such charges tend to take up a higher share of a low income household's budget). There is also a view, that has been expressed to the Commission in previous studies, such as urban water (PC 2011a) and electricity (PC 2013c), that people have a right to a minimum level of essential services such as household water, sewerage and waste services and an electricity connection. Such considerations are central to debates about the sustainable population, with some trade-off inevitable between per capita consumption and population size.

The impacts of immigration on the environment depends on the location and scale of the population effects as Sobels et al. conclude:

> Scale and location are crucial to understanding the physical implications of population change. The focus of concern for managing the physical implications of [net overseas migration] NOM should be on particular locations at the regional/local level as the impact of population/NOM dynamics is more critical for some locations than it is for others. (Sobels et al. 2010, p. 1)
>
> … the environmental pressures created by migration are a consequence of where migrants settle in Australia, which is largely in the capital cities and particularly in suburban locations in Sydney, Melbourne and Perth. (Sobels et al. 2010, p. 24)

The presence of both positive economic and social and negative environmental scale effects suggests that migration to rural and regional areas may, in certain cases, deliver a higher net benefit than the concentration of immigrants in the major cities. The Regional Australia Institute (sub. 42) raise this possibility, but admit that there is a lack of data to test the proposition. They also point out that lack of social services and other infrastructure

[21] Bettencourt et al. (2007) analysis of the scale effects of cities in the US and Europe found that there were increasing returns to scale for innovative and social activities, but negative scale effects on new AIDS cases and serious crimes. Household electrical consumption and water consumption were neutral with effect to scale.

in rural and regional areas makes it difficult to retain the immigrants they do manage to attract.

The rest of this chapter takes as given the preference of new immigrants to settle in the major cities. A number of concerns about the resulting increase in population density are raised in submissions (box 6.7), with one participant suggesting that the overall immigration intake be determined by adding up the additional number of people that locals are willing to accept in each local area (collected as a Census question) (Howell sub. 63). These issues are considered in turn.

There is a further area of population impact related to environmental assets. Australia has considerable natural resources in regard to mineral wealth. As non-renewable resources deliver rents for those who extract them and for governments in the form of resource royalties and taxes on company profits, a larger population means those rents that are captured by government are shared across a larger number of people.[22] This is addressed in chapter 8 as it affects GDP per capita.

Housing and urban amenity

Immigrants need a place to reside, as noted by Sobels et al. (2010, p. 25):

> Migrants also add to the demand for land and housing in the suburbs, and therefore to the cost of supplying suburban infrastructure in the outer suburbs and maintaining or replacing it in the existing suburbs. (p. 25)

There are economic, social, and environmental impacts associated with housing, which are somewhat linked.

Where supply is constrained immigration drives up housing prices, but local price effects can be negative

Overall, an increase in the population raises the demand for housing. Depending on the supply response this can contribute to increases in housing prices. The general view is that high rates of immigration tend to increase the price of housing, with headlines such as by (Clancy 2014):

> Immigrants arriving to work and start a new life in Australia are pushing up property prices which have increased by 10 per cent in 2013, it is claimed.

[22] Rents are also captured by the owners of capital and sometimes the workers in those firms. While the share of rent for resources declines with population, investment in human, knowledge and built capital can support economic growth and allow the protection of the environment to deliver a high quality of life and standard of living.

According to property experts UCHK Consulting who consult to Australian Immigration, understanding or predicting the country's real estate market is about immigration policies and overseas investors opinions of Australia's economic prosperity. (p. 1)

Box 6.7 Environment-related concerns raised in submissions

On housing and urban amenity:

> Some amenity loss can be temporarily mitigated through good planning and investment but the effect is never permanent. Other affects such as conflict over waves at the beach and increased cost of housing can never be mitigated. There is no positive affect on amenity from immigration. (Matta, sub. 17, p. 6).
>
> … the development industry requires government to keep expanding demand, to force people to accept ever lower standards of apartment living and/or longer commutes for the price they would previously have gained a conveniently located home freehold. (O'Sullivan, sub. 54, p. 5)

On water and water services:

> … endless growth became an impossible dream from about 1985, when we began to draw on renewable resources, and create waste, at a rate that could not be sustained. The result has been a drawdown on natural capital, and an inability of the environment to absorb those wastes. Under such conditions, more of us means less resources per-capita, and an inexorable reduction in quality of life. (Green, sub. 38, p. 2)

On congestion:

> The huge intake of permanent and temporary residents in recent years has led to a significant shortage of social and physical infrastructure. Public transport, roads, housing, health, education, social services are all breaking under the strain of this onslaught of 'invaders'. (Alm, sub. 3, p. 1)
>
> Given the crippling impacts of rapid population growth (and related diseconomies of scale) on infrastructure, congestion, productivity and government budgets, it is clear that population is a critical factor in solving Australia's infrastructure and congestion crisis. (The Sustainable Population Party, sub. 37, p. 5)

On food security:

> Australia has already become a net importer of 'groceries' on the basis of trade balance – our population growth has annulled the net contribution to wealth that our agricultural exports once provided. If Australia's population doubles while climate change intensifies, it is highly likely that Australia will become a net importer of food calories. (Sustainable Population Australia, sub. 44, p. 5)

On biodiversity:

> As Australia's population expands we exert a larger ecological footprint on our country. Water quality in even remote streams is reduced, soil erosion worsens from agriculture on more questionable land. Creatures of world importance such as the dugong, cassowary, hairy nosed wombat, platypus etc will inevitably become victims of an expanded population and pass into the annals of extinction. (Grace, sub. 21, p. 1)

On carbon emissions:

> Australians currently are responsible for one of the highest [greenhouse gas] GHG emissions of any country. On average we emit around 16T of GHG per person per year. The bulk of immigrants arriving here originate from countries with GHG emissions at a fraction of the Australian numbers. From a world perspective this flow of people therefore represents a huge negative impact on the effort to limit climate change. (Roles, sub. 41, p. 2)

Several studies (Bourassa and Hendershott (1995) and Otto (2007)) have found that population growth increases Australian housing prices, however, these studies did not focus on immigration specifically, as opposed to interstate migration effects. A recent, yet to be published, study examined the house price movements in Australian states and territories between 1971 and 2013, taking into account all sources of population growth (Andric 2015). The regression model finds that post 1991, net overseas migration has had increased median house prices.

Overseas studies find mixed outcomes — with the evidence leaning toward a positive impact on price at the overall population level, and some evidence of negative local effects on price (box 6.8). Such localised effects may be present in Australia, although causality is unclear — it may be that recent migrants are attracted to lower cost locations.

Box 6.8 Studies of the impact of immigration on housing prices

- Gonzalez and Ortega (2009) found a positive causal effect on both prices and quantities in the Spanish housing market between 1998 to 2008, estimating that immigration contributed to a third of the increase in house prices.
- Saiz (2007) found that immigration increased rent in the short run followed by house prices, with a 1 per cent rise in the population due to immigration flows leading to a 1 per cent increase in rent and house prices.
- Saiz (2003) estimated that low skilled immigration shocks over the period 1979 to 1981, and associated higher residential densities, increased rents in Miami by between 8 and 11 per cent compared to less popular migration destinations.
- Ley and Tutchener (2001) reported the correlation between migration as a cause of net population growth in Vancouver and Toronto and a rise in house prices over the period 1986 to 1996.
- Chanpiwat (2013) estimated that in New Zealand over 1996 to 2011, a 1 per cent migration shock increased house prices by 7.5 per cent on a national scale, although they also found that smaller housing markets have a stronger price response than larger cities where immigrants tend to cluster.
- Sa (2015) found that immigration has a negative effect on house prices in England and Wales, with a 15 per cent increase in the immigrant share of the population in an area reducing house prices by 2 per cent. The effect is found to be strongest in areas with large concentrations of low-educated immigrants.
- Saiz and Watcher (2011) found a negative association between immigration and changes in house prices and rents for neighbourhoods within metropolitan areas in the US.

The impacts on incumbents vary with the density of immigration

A rise in the prices of houses has a positive economic benefit for home owners and investors (although to the extent that their local rates also rise this is negative), but for those seeking to enter the housing market the impact is negative.

Immigrants' preference for inner city living makes urban infill solutions more viable. However, existing residents may resist increasing density. Increasing population may reduce incumbent residents' amenity, such as through a loss of green space or streetscape due to new construction (houses, schools, hospitals and so on). Other amenity impacts as a result of population growth can be increased congestion and pollution levels.

Environmental impacts depend on local planning and investment

Brownfield or infill developments create additional waste streams and incremental infrastructure demand (sewerage pipes and motorways need to be widened for instance). How these costs are shared has economic impacts on incumbents. Greenfield development requires extensions to existing infrastructure (for example, new road, electricity and water connections). These fixed costs are often high, and are largely recovered from the new residents of an area through higher prices reflecting the considerable fees and/or infrastructure requirements imposed on developers (PC 2011a, 2014). New housing developments also reduce the amount of land available for other uses, such as for agricultural or environmental purposes.

The impact of population growth on housing and urban amenity will, in large part, depend on the planning system in place. Systems that are responsive to community preferences, provide flexibility in the face of uncertainty about future patterns of growth, and are underpinned by sound governance structures, are more likely to manage the impacts of population growth in a way that is least costly to incumbents. The Commission has emphasised the importance of planning in numerous reports (notably PC (2011a)), and high immigration rates only reinforces the need to get this right.

DRAFT FINDING 6.2

High rates of immigration put short-term upward pressure on land and housing prices in Australia's largest cities. Such upward pressures are at least partly the result of government failure to implement urban planning and zoning reforms.

Urban water, sewerage and waste services

Population growth increases the prices of water and waste services for incumbents

Population growth increases the pressure on the existing urban water, sewerage and waste services infrastructure. These services utilise the environment as a source of water (rain fed dams and groundwater), and waste disposal (ocean outfalls and landfills). As the population grows, the pressure on the environment means that more infrastructure is required to deliver the same level of services. Demand management to reduce per capita

water use and waste streams can assist in delaying the need for such investments, but eventually the substitution of technology for environmental services rises with population growth. This impacts negatively on productivity, as the costs associated with technical solutions such as desalination plants and tertiary treatment of sewerage are higher (Topp and Kulys 2012). Hence, eventually population growth tends to be associated with higher costs of these services for the incumbents.

Analysis by the Water Services Association of Australia (WSAA) (2010) using the ABS projected population forecasts, suggests that from 2009 to 2026, total urban water consumption (including residential water, commercial, municipal, and industrial water) will rise by between 39 per cent and 49 per cent depending on the ABS population scenario used.

In a major study on the environmental impact of immigration, Sobels et al. (2010) modelled the effect of different levels of NOM on water demand. They concluded that at annual NOM rates of 50 000 (well below current rates) Melbourne and Sydney would retain small surpluses of net surface water supply over demand by 2050, although Brisbane and Perth would require additional manufactured water. A NOM of 260 000 (well above current rates), would see all four cities requiring substantial additional manufactured water to meet demand even with improved water use efficiencies.

DRAFT FINDING 6.3

Urban population growth puts pressure on many environment-related resources and services, such as clean water, air, and waste disposal. Managing these pressures requires additional investment, which increases the unit cost of relevant services, such as water supply and sanitation.

Transport

Congestion is a major concern to many residents in some Australian cities — not least Sydney. Population growth in urban areas adds to congestion. The Sustainable Population Party (sub. 37) raised concerns about the capacity to double infrastructure to meet a doubling of the population, citing increasing unit costs: 'there is no room to retro-fit new infrastructure without expensive additions like land buy-backs and tunnelling' (p. 5). While there can sometimes be truth to this argument, it ignores the effect of population on the utilisation rate of infrastructure. It also ignores the fact that a, not inconsiderable, share of unit cost increases arise from the need for developments to be undertaken with greater attention to managing the environmental (and social) impacts (PC 2004). Additionally, much investment would be required in any case even in the absence of immigration due to the ageing of infrastructure in Australia's major cities and poor infrastructure decisions over decades (PC 2014d).

Nevertheless, the costs of congestion are real and population growth does add to congestion for users of existing infrastructure assets. For example, the Bureau of Transport and Regional Economics (2007) estimated the avoidable costs of congestion[23] in the Australian capital cities were $9.4 billion in 2005 ($3.5 billion in private time costs, $3.6 billion in business time costs, $1.2 billion in extra vehicle operating costs and $1.1 billion in extra air pollution costs). On the basis of historical immigration numbers, which are lower than recent arrivals, these costs were projected to rise to $20.4 billion by 2020. The estimates of the rise in costs are $3.5 to $7.8 billion for Sydney, $3.0 to $6.1 billion for Melbourne and $0.9 to $2.1 billion for Perth, which are the cities most likely to be affected by immigration. The rise in passenger and freight traffic costs in the Bureau of Infrastructure, Transport and Regional Economics' model are driven by both growth in the population and income per person, and assumes that the share of public transport will continue to remain constant at around 10 per cent.

These costs do not include the mental health costs associated with congestion, including road rage, and stress from loss of time at work and with family. These costs vary with the individual, but can nonetheless be substantial (Koslowsky and Krausz 1993).

Migrant transport choices mitigate slightly the effect of immigration on population-based congestion

Tsang and Rohr (2011) in a RAND study for the UK Migration Advisory Committee, reviewed the literature on the impact of immigration on the use of transport networks and resulting congestion levels. Drawing on this and UK data they concluded that:

- immigrants are concentrated in metropolitan areas where public transport provision is high
- their travel is strongly associated with non-car driving modes of travel
- their transport needs assimilate over time, that is the travel patterns of immigrants trend toward those of the native born.

Given the tendency of immigrants to cluster in inner city areas, which are better serviced by public transport, such findings are likely to apply in Australia. This is supported by Tsang and Daly's (2010) finding that in Sydney the probability of having a driver's licence or owning a car was lower for people not born in Australia. As a result, while the population-based pressure of migration can exacerbate congestion, immigrant-based pressures moderate this negative impact somewhat.

[23] The Bureau of Infrastructure, Transport and Regional Economics define this as where the benefits to road users of some travel in congested conditions are less than the costs imposed on other road users and the wider community.

Immigration brings forward the need for sound infrastructure planning and investment

There is an optimal level of congestion. The supply solution to solving congestion requires investment in new road and other transport infrastructure. Efficient investment rules dictate that people who use the service must be willing to pay for the costs of enhancement to the service. Pricing solutions that ration access to the infrastructure services on the basis of willingness to pay (which also depends on the alternatives that people have to get to work, education, health and other services, and for social purposes, and their capacity to pay) provide a guide to what this optimal level of congestion is. Price too low and people are willing to pay more for faster travel times, price too high and the infrastructure's capacity is not fully utilised. The resulting 'just right' price gives the optimal level of congestion.

Differential pricing on time of day and day of the week can help to improve the efficient use of infrastructure. Differential pricing based on the costs imposed through build standards and maintenance (why tolls vary with the number of axles as a proxy for vehicle weight and damage) also improve efficient investment in infrastructure. These issues are dealt with in detail in the recent Commission inquiry report into infrastructure (PC 2014d), including the use of pilot trials for road pricing. Crucially, infrastructure investment decisions should be informed by transparent cost–benefit analysis. Decisions to invest in projects which fail cost–benefit analysis come at a large opportunity cost. So too are decisions to eschew the investment in projects with high benefit–cost payoffs, including some smaller and more incremental improvements which frequently are neglected in favour of grand projects.

Technology, too, has a crucial role in improving the efficiency and productivity of existing infrastructure. One example is the prospective autonomous vehicle which would revolutionise transportation and increase the efficiency of existing roads by many orders of magnitude (Karpilow and Winston 2015).

While efficient solutions are available, it needs to be acknowledged that population growth in cities does impose congestion costs on incumbents. Unless there is an offsetting benefit there is a net cost on the incumbents from population growth. This offsetting benefit comes as population growth also makes investments that would not have been economically efficient become so. This is because as the average utilisation rates rise, the cost of resolving congestion is shared between more people. Hence, in the long run, whether immigration affects average congestion rates depends almost entirely on the policy response.

DRAFT FINDING 6.4

Immigration, as a major source of population growth in Australia, contributes to congestion in the major cities, raising the importance of sound planning and infrastructure investment. However, a larger population offers opportunities for more efficient use of, and investment in, infrastructure. While immigration levels are determined by the Australian Government, many of the impacts have to be managed by state, territory and local governments.

Food production

Immigration does not threaten food security in Australia

The growth in population arising from migration can increase the demand for land for housing which mostly affects land adjacent to major cities. Some peri-urban land is prime agricultural land that is often a source of fresh vegetables and other perishables. In many cases it is not the new immigrants who move into peri-urban areas, given their observed preference for an inner city location, but there is some displacement due to population pressures on housing (see above). Nevertheless, population pressure is undoubtedly reducing the share of peri-urban land that is available for agriculture. Some participants expressed concerns about this trend. For example Cook (sub. 26) states:

> This encroachment is often at the expense of some of the country's best agricultural land. … The significance of these losses for agricultural production cannot be overstated. These lands provide the bulk of the food supply for the adjacent conurbations. If, for any reason, liquid transport fuels were to be in short supply on either a temporary or longer term basis, the importance of large cities having ready access to nearby food sources becomes obvious. And yet it seems that the urban development strategies do not consider the importance of maintaining these food production areas as a high priority. (p. 7.)

However, the concern that immigration reduces Australia's ability to feed its population (such as expressed by Millar and Roots (2012), Buxton (2014) and Sobels et al. (2010)) is likely to overstate the problem.

Australia is a significant *net exporter* of food — exporting $31.8 billion of food in 2012-13 (Department of Agriculture 2014). With higher incomes, people do tend to consumer more protein, which requires more resources to produce. But at most, feeding people here instead of in their country of origin only slightly changes the pattern of food flows and the overall demand for food.

Overall, population growth as a result of the current levels of immigrant intake does not threaten Australia's food security. It does, however, increase the competition for land in peri-urban areas and housing will crowd out agriculture and other activities in some areas. This process of change is ongoing and agricultural production can and does relocate.

Carbon emissions and biodiversity

Immigration raises total carbon emissions in Australia, and likely global emissions in the near future

A larger population typically results in a higher level of economic activity. Environmental impacts associated with a greater level of economic activity can be both local (such as waste discussed above) or global (most notably greenhouse gas emissions). Although Australia represents a very small proportion of the global population, Australia's per capita greenhouse gas emissions are high (16.74 tonnes per capita) in part because Australia is a net energy exporter. If immigrants moving to Australia adopt the same energy consumption pattern, this suggests that not only will Australia's emissions rise in line with net immigration but, to the extent that immigration is mainly from low emission countries, global emissions will rise (India produces 1.64 and China 6.18 tonnes per capita by comparison).

Over the longer term, the net impacts are less clear. The high per capita emissions in Australia are in substantial part due to the industrial structure of the economy rather than household behaviour. It is unclear what impact immigration has on the industrial structure, but the bias is likely to be toward services (chapter 8), which tend to be less energy intensive in their production. In addition, immigrants may well be less intensive in their use of energy than incumbents, given the observed preference toward higher density urban living. Both these features work to reduce per capita levels of emissions. However, shifting to technological solutions to water and waste management (see above) does involve a higher use of inputs, not least energy. As noted by Sobels et al. (2010, p. 145):

> Water supply infrastructure is also tied directly to energy consumption, a relationship made obvious by the installation of desalination plants that demand large inputs of energy and which therefore produce large amounts of greenhouse emissions.

Looking globally, most low income countries are still on a rising per capita emission trend as their economies develop, while most developed countries are reducing their per capita emissions. At some point these growth trends (along with emission reduction strategies) will remove the per capita differential.

More problematically for Australia, high rates of immigration and the consequent GDP growth do add to Australia's emissions. As the targets are based on total levels not per capita emissions, higher rates of immigration mean more effort is required to reduce per capita emissions to achieve a given emissions reduction target.

Ecosystems in cities are vulnerable but immigration does not threaten biodiversity

Given the concentration of immigrants in areas of Sydney, Melbourne, and Perth (chapter 3), the biodiversity impacts are likely to be mainly in those specific locations.

Other areas will be affected, but these impacts are more akin to impacts associated with a larger population, rather than immigrant-specific impacts.

The ecosystems in most major cities are already under considerable pressure, and this is true for most Australian cities (box 6.9). However, it is very unclear what pressure immigrants exert other than their contribution to the demand for land, housing, water, and waste disposal discussed above. Indeed, given the observed preference for urban density, immigrants may well place less per capita pressure on city ecosystems. Nevertheless, as population growth is closely linked to immigration rates, the impact on biodiversity should be a consideration for governments in setting immigration levels. There is also much that governments can do to minimise the impact of the current and future population on biodiversity, as set out in Australia's Biodiversity Conservation Strategy 2010–2030, (Natural Resource Management Ministerial Council 2010). Like greenhouse gas emissions, population growth makes it more imperative to pursue sound environmental strategies. However, further consideration of this issue is beyond the scope of this report.

Box 6.9 Many ecosystems in Australia's major cities are fragile

There are a number of endangered species, populations, and ecological communities currently in Sydney. Many of the current issues are due to poor historical practices, rather than recent population changes. As noted by Sobels et al. (2010):

> Allied to its location — temperate coastal, floodplain, mountain escarpment — and climate, the Sydney Basin is noted as one of the more biologically diverse regions of Australia. It is, however, badly fragmented. (p. 205)

Melbourne faces similar issues to Sydney in terms of the magnitude of threatened species:

> Surveys have, so far, counted 296 threatened flora and 128 threatened fauna species around Melbourne. Of these, 95 are listed under the Victorian *Flora and Fauna Guarantee Act (1988)* and 49 are listed under Commonwealth legislation, the *Environment Protection and Biodiversity Act (1999).* (Sobels et al. 2010, p. 206)

Perth has been identified as a 'biodiversity hotspot' as a result of its concentration of a large number of flora and fauna species. The expansion of Perth has put particular pressures on its wetlands:

> Approximately 80% of the Perth region wetlands have been lost to the city leaving a series of remnants that total 80,000 ha in 2001 … Some of these wetlands are categorised as suitable for development depending on their state of degradation. Approximately 1,500 ha are being drained or developed each year. (Sobels et al. 2010, p. 213)

Source: Sobels et al. (2010).

Policy implications

The main policy implications of environmental impacts are that they reinforce the need for sound regulatory policies and programs to:

- protect and manage the natural environmental assets

- plan, invest and manage infrastructure investments (including through user pricing in some cases), especially transport, urban water and sewerage, and public spaces.

As past Commission reports have identified, state, territory and local governments have not always distinguished themselves in managing the environmental implications of population growth. In a survey commissioned by the Property Council (cited in Water Services Association of Australia (2014)) respondents rated government performance as poor in relation to 'making housing affordable, setting fair property taxes, supplying infrastructure to keep up with demand, and planning and managing urban growth' (p. 10).

As Engineers Australia note (sub. 47):

> … many factors unrelated to population growth contributing to the situation including poor infrastructure planning arrangements, the politicisation of infrastructure strategies and project decision making, poor selection of infrastructure projects, poor use of existing infrastructure assets, failure to price infrastructure services commercially and procurement arrangements that largely ignore the highly technical nature of infrastructure design, construction and ongoing maintenance. (p. 6)

The MCA (sub. 50) note the potential for a disconnect between the Commonwealth government, which sets immigration numbers, and the state, territory and local governments, which have to manage the impacts of population growth (on health and education as well as infrastructure).

> There is a lack of institutional capacity to effectively manage these jurisdictional pressures. In extreme circumstances, this can create an environment where immigration generates a larger population without any of the necessary state government support or planning. The MCA sees a stronger role for institutional support and better cross-government engagement to more effectively manage this jurisdictional gap. (p. 11)

Where migration policy can play a role is in directing a larger share of new immigrants toward regional and rural areas where the population pressures on the built and natural environment are lower. The MIA (sub. 53) note that:

> The migration system contains visa classes that provide incentives to encourage migrants to settle in regions outside the major metropolitan hubs. Much stronger incentives could be implemented through the migration program if required. (p. 20)

However, as mentioned, some rural areas may lack the services to retain immigrants and compulsion is not easily enforceable (or desirable).

Planning systems and city design are particularly important in managing the impacts of population growth and immigrant settlement patterns, particularly for immigrant-concentrated areas of Sydney, Melbourne and, to a lesser extent, Perth. This will work to reduce any negative impact on housing prices in locations where there is a high density of recent immigrants. The Commission has previously proposed a series of leading practices aimed at ensuring high quality planning systems (box 6.10).

In addition, it is important that there are appropriate coordination and governance arrangements in place to help deliver better planning outcomes. Although it has been noted previously that coordination is strong in some planning areas, it is weak in others (PC 2011a). The Commission recently enunciated principles of good governance — transparency, accountability and responsibility, and capability — as part of its inquiry into public infrastructure (PC 2014d). The recommendations made by this inquiry remains valid, and in view of the population pressures created by immigration even more important.

Box 6.10 Leading practices in planning systems

The Commission's benchmarking study on *Planning, Zoning and Development Assessments* identified the following model practices for Australia's planning systems.

- Early resolution of land use and coordination issues
  - Determine as much planning policy as possible early in the planning-to-approval chain and obtain commitments to undertakings.
- Engaging the community early and in proportion to likely impacts
  - Engaging the community more fully in developing strategic land use plans and subsequent changes improves community buy-in. Greater clarity around community preferences, and explaining plans in terms of optimising the overall community welfare is likely both to gain greater acceptance and provide more certainty to residents and businesses.
- Broad and simplified development control instruments
  - If the prescriptiveness of zones and allowable uses were significantly reduced, it would increase competition by allowing a wider range of businesses and developers to bid for the same land, better harness the market in allocating land to its most valued use, and cater much more easily for innovations in business and service delivery without requiring re-zoning.
- Rational and transparent allocation rules for infrastructure costs
  - Broadly, the appropriate allocation of capital costs hinges on the extent to which infrastructure provides services to those in a particular location relative to the community more widely.
- Improving development assessment and rezoning criteria and processes
  - Specifically, through linking development assessment requirements to their objectives, using risk-based approaches for assessing development projects, facilitating the timely completions of referrals and assessments of applications, facilitating access to relevant information, and providing transparent and independent alternative assessment mechanisms.
- Disciplines on timeframes
  - More extensive use of timeframes for planning processes would provide better discipline on agencies and give developers more certainty.
- Transparency and accountability in planning decisions.

Source: PC (2011a).

7 Fiscal implications of immigration

Key points

- Immigration tends to have a small but often positive net effect on public finances. Most international studies find the aggregate fiscal impact to be no more than 2 per cent of a country's GDP.
- The size and direction of these estimates are highly sensitive to the methodology and assumptions used. Accordingly, any measure of fiscal impact is likely to be contentious.
- Immigrants are a diverse group and their fiscal impact varies according to their characteristics (such as age on arrival, English-language proficiency, health, and skill profile).
- Australian studies show that the net fiscal impact of immigrants differs significantly by visa category and the period over which the assessment is made. In line with expectations, immigrants from the skill stream tend to have a relatively larger positive fiscal impact. The fiscal footprint of family visa holders tends to be positive for partners but not for parents, while those in the humanitarian program do not tend to have a positive effect on public finances until many years after arrival, if at all.
- Selecting immigrants who are relatively young, healthy, skilled and proficient in English is likely to lead to a net positive fiscal outcome as these immigrants tend to generate a higher lifetime tax revenue and have a lower propensity to consume government-funded services.
- The limited information on immigrants in government administrative databases constrains the extent to which the fiscal impact of immigration can be comprehensively assessed. Improved data quality, integration and access are needed to support a strong policy capability, backed by evidence-based research and active evaluation of program outcomes.

The fiscal impact of immigration refers to how immigrants affect government budgets (at the Australian, state, territory and local government levels). In simple terms, a positive net fiscal impact occurs when immigrants generate greater tax revenues than the government expenditure they engender over their lifetime.

The fiscal impact of immigration needs to be considered as part of a broader assessment framework for immigration (chapter 4). It is but one component among the many economic and social costs and benefits of immigration that the Australian Government needs to take into account in setting immigration policy. However, whether the migrant intake as a whole boosts or drains public finances can influence how it is broadly viewed by the Australian people and their governments.

This chapter discusses the likely fiscal implications of immigration in terms of how it affects the budgets and balance sheets of Australian governments (section 7.1). It examines what major areas of government revenue (section 7.2) and expenditure (section 7.3) are affected by immigration and the differences in fiscal impacts between immigrants and the general population. Where possible, these outcomes are examined for each of the major characteristics of immigrants and their visa categories. This chapter concludes by discussing the policy implications of these findings (section 7.4).

7.1 Potential fiscal implications of immigration

Australia's ageing population is putting increased pressure on government-funded health and aged care while reducing the relative size of the workforce and working-age tax receipts. In theory, immigration can help to alleviate the effects of population ageing — at least in the short- to medium-term — by rejuvenating the population and providing additional younger workers to finance government spending (Rowthorn 2008). However, immigration cannot prevent the ageing of the population without ever rising numbers of young immigrants. Young workers, particularly if they are healthy and highly skilled, can be expected to provide the most positive net fiscal benefit as they have the potential to generate considerable lifetime tax revenue and consume fewer government-funded services during their working age. Also the government does not have to pay for their education costs in childhood.

The fiscal impact of a given additional immigrant will depend on their characteristics on arrival and a range of other factors that are likely to change over their lifetime. These include their income, their family situation, their health condition and their longevity. Previous Commission work has demonstrated that the diversity of immigrants has the potential to alter:

- the mix of goods and services provided by all levels of government (for example, education and health)
- the mix and levels of the various transfer payments made by all levels of government (for example, social security)
- the level of taxation revenue collected by all levels of government. (PC 2006, p. 44)

However, the relationship between a given immigrant and government finances is, generally speaking, only as (un)predictable as it would be for a given Australian-born person.

There are some areas where differences between immigrants and the Australian-born population can be expected. Unlike the Australian-born population, immigrants' age on arrival in Australia will vary and this affects the period over which they can generate tax revenue and use government services. They are also more likely to emigrate than the Australian-born population (DIBP 2013c).

Some immigrants, especially temporary immigrants, do not have the same access to government services as Australian citizens, which has implications for their fiscal impacts. However, some areas of government spending are directly targeted at immigrants — both temporary and permanent. These include visa processing, qualifications recognition, and settlement services, although these areas of expenditure are small in the context of total government expenditure.

It is possible that different groups of immigrants have different usage patterns for some government services. They may also have different outcomes in generating tax revenue. Where this is the case, the composition of the migrant intake will have fiscal implications.

Other differences in fiscal impacts between immigrants and non-immigrants are driven by their divergent characteristics in terms of education and skills profiles. This is reflected in the categories of immigrants (skilled, family, humanitarian), which in general exhibit marked variation in the characteristics of the individuals that make up these categories (chapter 3).

Fiscal impacts will vary based on individual characteristics, which will change over time. Accordingly, any assessment of fiscal impacts will depend on whether it is taken at a point in time, or over an immigrant's lifetime in Australia.

Measuring the fiscal impact of immigration is complex

Assessing the fiscal impact of immigration is complex and highly sensitive to the methodology and assumptions used (Nowrasteh 2014). The net impact can often swing from positive to negative depending on what government revenue and spending is captured, the period that the assessment covers, and whether it includes both the direct and indirect impacts of immigration.

Submissions to this inquiry show a diversity of views on the fiscal implications of immigration and how it should be examined (box 7.1).

There are two broad approaches to measuring fiscal impacts — static and dynamic. The static approach measures the taxes paid by an immigrant compared to the government spending received at a single point in time, usually within a given year. The difference between tax revenue and government spending for immigrants is the net fiscal contribution in that year (Rowthorn 2008). These studies can be misleading as current immigrants are often at working age and generally pay more in taxes than they consume in benefits. A static approach does not capture the costs of these immigrants over the course of their life in Australia (for example, their use of aged care services or the age pension later in life).

Box 7.1 Participants' views on the fiscal implications of immigration

In evaluating the potential fiscal effects of immigration for Australia, it is important to offset these against the potential gains of immigration. It is also important to ask what the baseline for comparison should be. For instance, all individuals in Australia cost government some money either through use of services or through the disamenities created through environmental impacts. Further, the cost of any one individual varies across the life course. Children and the elderly are more costly than individuals in their key years of labour force engagement. The central question should not be therefore whether immigrants cost anything but rather, how much they cost compared to the majority Australian population … (Boucher, sub. 22, pp. 4–5)

Ultimately, it is the assumptions, data and methodology used, that reliably and accurately establishes the costs of immigration. The time frame selected for calculations is especially important. It is reasonable to consider lifetime costs, corresponding with the anticipated life of infrastructure needs (40 or 50 years; or longer) and modified for the average arrival ages, and also for average multipliers (reunions and progeny), so that aged care and all lifetime costs are included in the calculation. It would not be realistic for cost benefits to be based only on the productive working years of a migrant. (Holman, sub. 58, pp. 7–8)

The commission needs to look all government expenditure that relates to citizens' amenity. That would exclude foreign, defence or anything that is not directly benefiting citizens. This should be looked at on per capita basis. The government's balance sheet should also include a net present value of all the known reserves of our mineral and energy resources. This net present value should include potential revenue from royalties as well as the taxes from extraction activities. The dilution due to immigration of the per capita value of this item and other government assets should be considered by the commission. (Matta, sub. 17, p. 5)

Significant public investment is involved in raising an Australian child from birth: health care, child care, primary school education, secondary school education, tertiary or vocational education, family tax benefits etc. It may take around 15–25 years before an Australian child enters the workforce with this embodied 'human capital' and taxes begin to be paid from work. In contrast, an immigrant's country of origin has paid much of this investment in human capital already, and many immigrants are ready to work. In other words, Australian births appear to represent a significantly larger draw on public finances than immigrants. (name withheld, sub. 8, p. 14)

NEDA believes there are significant difficulties and impossibilities in fairly assessing future costs associated with disability over a person's lifetime, and there is significant room for interpretation in this process … (National Ethnic Disability Alliance (NEDA), sub. 18, p. 5)

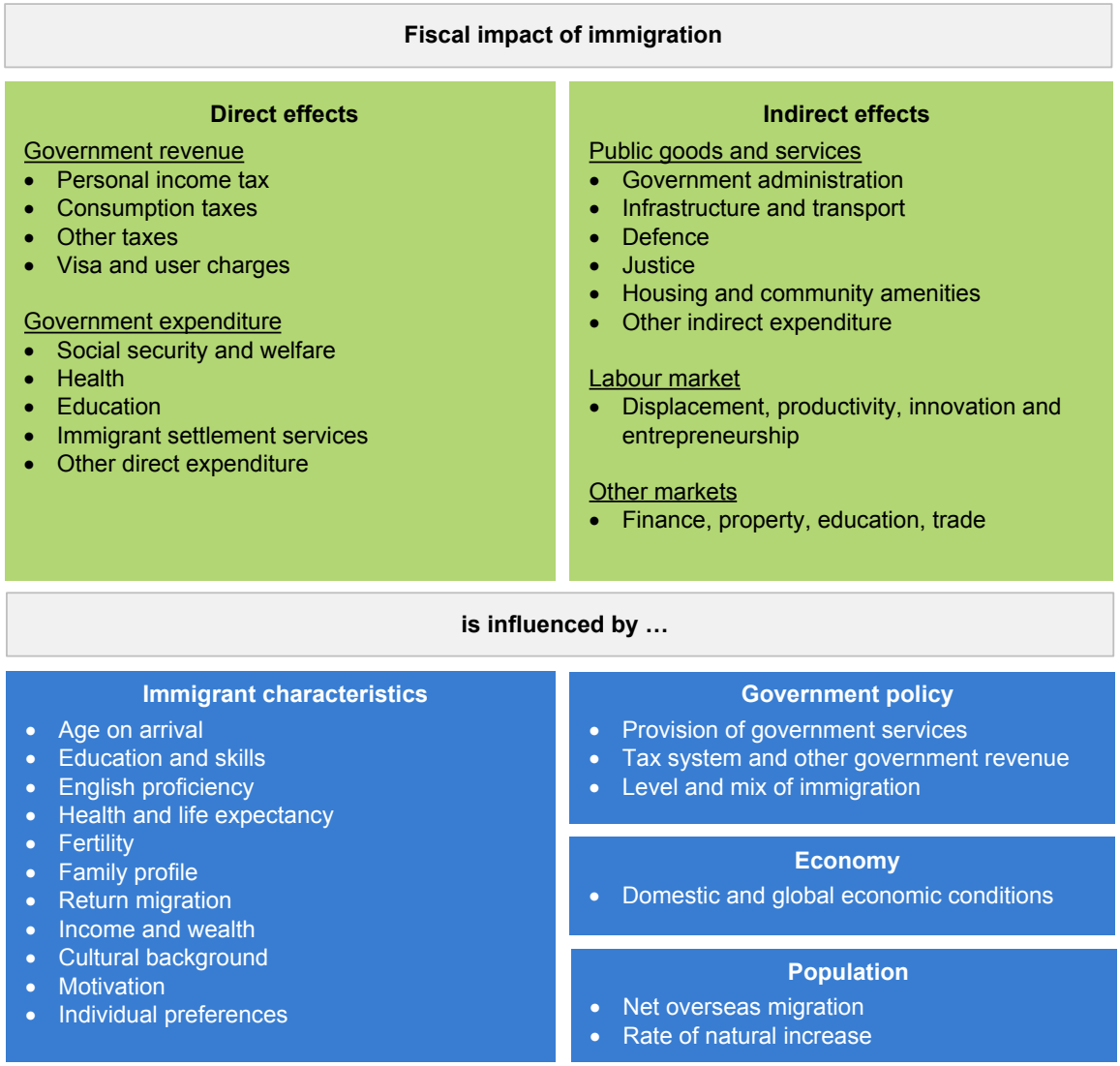
Even in the immediate term, the costs of increasing our population outweigh the benefits. These costs include crowding of public infrastructure and government services, housing inflation and unaffordability, more unemployment and insecure work, escalation of both public and private debt, environmental impacts including biodiversity loss and more carbon emissions, among many others. Most benefits are ephemeral, while most costs are cumulative over time. (O'Sullivan, sub. 54, p. 1)

Dynamic studies are generally more sophisticated as they examine the impact of an additional immigrant over their lifetime, or even the lifetime of their children. However, such studies require a range of assumptions about immigrants' future tax contributions and consumption of government services. This, in turn, requires consideration of immigrants' fertility, mortality and return migration rates, and their expected labour force participation and earnings. It also requires assumptions about future government policies and broader economic conditions. The longer the timeframe, the higher the level of uncertainty attached to these assumptions.

Immigration has direct and indirect effects

The direct effects of immigration include the amount of revenue collected through personal taxes less any government spending on immigrants for income support, health care, education and settlement services. Other government revenue and expenditure items are harder to quantify, such as revenue received from the goods and services tax, company tax, excise taxes and state and local government taxes, as well as attributing indirect government spending on public goods and services such as defence, government administration and infrastructure. These are summarised in figure 7.1.

Figure 7.1 **Fiscal impact of immigration and influences**



Immigration can also influence the broader economy, which has flow-on effects to public finances. Labour market impacts will depend on whether immigrants complement or

displace incumbent workers. This will affect labour force participation, unemployment and earnings for the immigrant and for the Australian population and will have flow-on effects for tax revenues and government spending, such as unemployment benefits. It may also affect productivity, entrepreneurship, knowledge and skills transfer in the labour market with associated budgetary implications (chapter 5).

Equally, economic cycles can have important effects on the fiscal impact of immigration. In periods of economic downturn, immigrants, like all Australian workers, tend to have reduced earnings (and, thus, reduced taxes) and a greater propensity to access unemployment benefits. Immigrants tend to have poorer labour market outcomes than incumbent workers in these periods (chapter 5). Prolonged periods of economic downturn can lead to long-term unemployment and disengagement from the labour market.

However, in periods of high economic activity, immigration may alleviate short-term skill shortages in the economy and so potentially accommodate further economic expansion and government revenue.

Other markets, such as the property market, may also be affected by immigration (chapter 6). This can influence government revenue from property taxes and government spending on housing assistance. Immigration can also affect financial and human capital markets, and so indirectly affect public finances. For instance, an individual's decision to invest in education will be influenced by his or her expected career earnings and this may indirectly affect government spending in education subsidies and the expected tax revenue from future earnings.

While it is possible to consider the impact of immigration in a particular area of government expenditure, it is misleading to consider any of these areas in isolation. For instance, immigration is likely to lead to an increase in health expenditure as there are more people accessing hospitals, medicines and the Medicare system. However, while immigrants use the health system, they also contribute to its provision through the taxes they pay. In other words, the impact of immigration on health expenditure does not, in itself, explain whether immigration has added to fiscal pressures overall.

Immigration can affect public goods and infrastructure in different ways

Determining the fiscal effects of immigration for the provision of infrastructure and public goods is particularly problematic.

In general, immigration will lead to increased demand for infrastructure and the need for governments to invest in that infrastructure, for example, by upgrading transport networks. Since immigration is the main contributor to population growth, it can impose congestion costs on incumbents and requires the bringing forward of expenditure on infrastructure (chapter 6).

Additionally, while immigration increases the demand for some infrastructure, it also increases the number of people who finance the provision of that infrastructure through taxation, user charges and council rates. Whether the fiscal effect of immigration in these circumstances is negative or positive depends on whether immigrants contribute less or more revenue than the expenditure they induce and whether their presence results in any economies or diseconomies of scale.

Where economies of scale occur, the increased efficiency of that infrastructure means that immigration has reduced its average cost. On the other hand, increased costs due to congestion and pressure on resources can raise operating costs per person.

Accurately identifying the fiscal costs of immigration also requires an understanding of the use of government-provided services by immigrants relative to the Australian-born population. Without that understanding, it is not possible to accurately allocate the share of additional infrastructure expenditure between immigrant and Australian-born populations, leading to assumptions typically made that use is the same.

Finally, for some public goods, such as defence and national broadcasting, an immigration-induced higher population will have no direct material effect on government expenditure. For these public goods the marginal cost of any additional population 'consuming' a fixed level of services is effectively zero, with fixed costs spread over a wider population. Nevertheless, if expenditure is set at a proportion of GDP, expenditure would increase with the scale of activity associated with positive net migration (just as it should fall during a recession).

Some empirical evidence

Various studies have analysed the fiscal impact of immigration in Australia and abroad. There is consensus among these studies that the overall fiscal impact of immigration is small — usually within 1 or 2 per cent of GDP. Whether the impact is positive or negative varies according to the characteristics of immigrants and other influences (box 7.2).

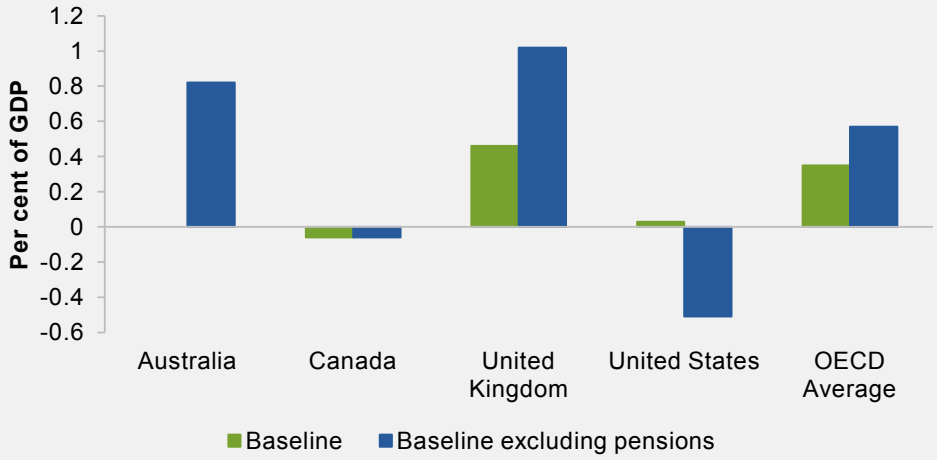
Fiscal impacts of demographic change

In broad terms, and from a lifetime perspective, immigrants can be expected to have a similar fiscal footprint to the general population. Analysis undertaken by the Commission (PC 2013a) showed that the Australian population aged 20–65 years tended to incur less government expenditure than those who were younger (due to the use of education services being concentrated in childhood years) or those who were aged over 65 years (due to the use of aged care, the age pension and health care later in life) (figure 7.2). In contrast, taxable income is concentrated among those of working age and decreases significantly in retirement.

Box 7.2 The international evidence

The OECD (2013), using a static accounting approach based on immigrants' contributions and costs to the government over 2007–2009, found the overall fiscal impact to be small for most OECD countries.

Estimated net fiscal impact of immigrants, 2007–2009[a,b]



a Selected countries. **b** Baseline estimate for Australia is 0 per cent of GDP.

Source: OECD (2013).

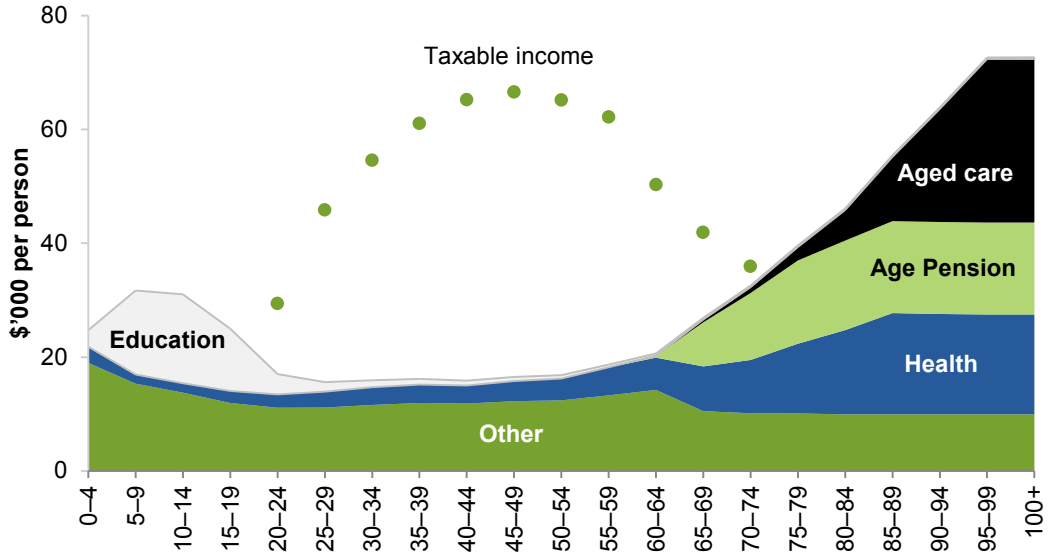
Differences in the fiscal impact across countries are shaped by the government-funded welfare system. The employment status of immigrants is particularly important in countries with generous welfare provisions, as these provisions magnify the fiscal costs when immigrants are unemployed, although this depends on their access to government assistance. Storesletten (2003) applies a dynamic net present value analysis to find that immigrants are less fiscally beneficial to Sweden's large welfare state than his earlier study (Storesletten 2000) of immigrants to the United States with its smaller public sector.

International studies confirm the critical role that the composition of immigrants plays in determining fiscal impacts. Immigrants who arrive early in their working life generally provide a positive fiscal contribution over their lifetime, with estimated net present value turning negative in most countries between the ages of 40 and 45 years. For countries where a large proportion of immigrants have come for employment, such as Australia and the United States, this is closer to 55 years (OECD 2013). Skill level is also an important factor, with the higher earnings potential of skilled immigrants generally providing a better fiscal return than lower-skilled immigrants (Auerbach and Oreopoulos 2000; Storesletten 2000).

Fiscal impact estimates can be highly sensitive to assumptions about how expenditure on public goods and services is attributed. In a UK study, Dustmann and Frattini (2013) present significantly less favourable estimates of fiscal impacts based on an 'average cost scenario' which considers public goods on a pro-rata basis (in proportion to the immigrants' share of the population) than estimates based on a 'marginal cost scenario' that has pure public goods set as zero and fully attributed to the incumbent population.

Figure 7.2 **Government spending and taxable income by age[a,b,c]**

All governments, 2011–12



[a] Estimates based on the age profiles of expenditure used in the study's projections. Where costs were not available by age, they were equally apportioned to all age groups. [b] The 'Other' category includes the disability support pension, parenting payment, family tax benefit, disability support services, other social security and welfare payments, defence and other expenditures and other state and territory expenditures not classified elsewhere. [c] Taxable income is per person who submitted an individual tax return in 2012.

Sources: PC (2013a) and Productivity Commission estimates based on ATO (2014).

Australian Government modelling of the fiscal impact of immigration

The Department of Immigration and Border Protection (DIBP) and Deloitte Access Economics have modelled the impacts of immigration on the Australian Government budget (Access Economics 2001, 2004, 2008; DIAC 2011b). An earlier model examined the impact of immigration on state and territory budgets (box 7.3).

The Australian Government model used a direct accounting approach over a 20 year period to estimate the fiscal impact of the direct costs and revenues to the Australian Government associated with new immigrants. It sourced information on the characteristics of recent immigrants from the DIBP's *Continuous Survey of Australia's Migrants* and *Longitudinal Survey of Immigrants to Australia*, and from unit cost information from Australian Government budget papers.

The results show that, for a given cohort of immigrants arriving in 2009-10, the net fiscal impact was positive overall but varied over time and by visa class. Skill stream immigration had a relatively large positive net fiscal impact while fiscal impacts for family visas were positive for partners but not for parents (table 7.1).

Box 7.3 Impacts on state and territory budgets

Access Economics (2002) examined the budgetary impact of immigration on Australian states and territories for a cohort of permanent immigrants over a 10 year period. Similar to its Australian Government model, it focused on the effects of an additional 1000 immigrants in terms of their incremental budget impacts. The main contrasts are that the State model examines each of the eight jurisdictions and allows for interstate migration.

The State model estimates positive net fiscal impacts of additional immigration after 10 years for all states and territories. However, these impacts vary by jurisdiction, with the Northern Territory, Queensland, Victoria and New South Wales performing above average, and the Australian Capital Territory, Tasmania, Western Australia and South Australia below average (but still with a positive net operating balance). The main reason for this variation was the diverse pattern of state-specific services and taxes between jurisdictions, with high service/low tax jurisdictions having smaller positive effects.

Similar to the Australian Government model, the strongest positive fiscal impact was for skilled immigration, followed by the marginally positive impact of family stream immigration and a negative impact of humanitarian immigrants at the state level.

A more recent study of the fiscal effects of immigration at a jurisdictional level is provided in the New South Wales intergenerational report (NSW Treasury 2011). That report draws linkages between immigration and reducing the problem of population ageing in New South Wales. It finds that immigrants change the demographics of the labour force to better manage the fiscal demands of an ageing population — for every 20 000 additional immigrants, the State's fiscal gap is reduced by about 0.1 percentage points. This is largely due to the prime working age of most immigrants, which results in them having a relatively low cost to government for their use of education and health services, at least in the short term.

Humanitarian arrivals and Temporary Work (skilled) 457 visa holders in the 2006-07 migrant intake were also examined (Access Economics 2008). The fiscal contribution of the Humanitarian program was estimated to be negative for the first 12 years and positive thereafter. The initial negative contribution was largely due to their relatively young age profile[24] (often below working age), low labour force participation and high use of government services.

Temporary Work (skilled) 457 visa holders showed a highly positive net fiscal impact for the average (two year) term of the temporary visa. This was due to their high skills and earnings and limited access to government services. The fiscal impact of these visa holders continued to be positive for those who became permanent immigrants.

24 Chapter 3 provides a discussion of the characteristics of immigrants.

Table 7.1 **The estimated net impact varies by visa category**

Estimated impact on the Australian Government Budget by visa category ($ million)	*Period of settlement in Australia*				
	Year 1	*Year 2*	*Year 10*	*Year 15*	*Year 20*
	2009-10	*2010-11*	*2018-19*	*2023-24*	*2028-29*
Parents	-14.8	-10.7	-14.8	-24.1	-18.1
Partners and others	-17.9	81.9	259.8	252.1	257.9
Contributory parents	228.1	-11.0	-34.3	-84.4	-83.4
Total family stream	**195.4**	**60.1**	**210.8**	**143.5**	**156.4**
General Skilled Migration Independent	171.6	235.1	404.5	421.4	462.7
General Skilled Migration Sponsored	51.9	60.9	79.5	88.0	104.9
General Skilled Migration Regional Sponsored	5.5	12.4	17.6	18.9	21.4
Business Skills	37.7	37.2	27.9	24.7	20.3
Employer Sponsored	417.4	429.0	442.0	459.6	475.7
Total skill stream	**684.1**	**774.6**	**971.6**	**1 012.6**	**1 085.0**
Fiscal impact of permanent immigration	**879.6**	**834.7**	**1 182.3**	**1 156.1**	**1 241.3**

Source: DIAC (2011b).

DRAFT FINDING 7.1

International and Australian evidence suggests that the overall net fiscal impact of immigration tends to be small but often positive, and depends on the composition of the migrant intake. Selecting immigrants who are relatively young, healthy, skilled and proficient in English is likely to lead to a net positive fiscal outcome as these immigrants tend to generate a higher lifetime tax revenue and have a lower propensity to consume government-funded services.

There are limitations to the Australian Government's fiscal model

The Australian Government's model has several important limitations. While some are due to a lack of reliable information, others reflect (necessary) simplifying assumptions.

- Some of the limitations of the modelling are a direct result of the limitations of the available data. For instance, DIAC (2011b, p. 10) noted that:

  > The most reliable data are for the first four years after settlement in Australia after which immigrants are largely assumed to converge to Australian averages for labour market and other outcomes (in the absence of other data).

- For many areas of expenditure, such as health, the model assumes immigrants' use of services is similar to the age cohorts of the general population.
- The model is not designed to relate to the entire life cycle of the immigrant cohort, or capture the fiscal impacts of descendants if they were born after their parents arrived in

Australia — rather, it projects 20 years into the future. This means that immigrants who arrive at relatively young ages in year 1 of the projection will not have reached retirement by year 20. As such, estimates of their use of government expenditure omits a relatively high-cost period. This approach may give different fiscal impacts than a dynamic approach of estimating different groups' net fiscal impacts over their lifetime (Cully 2012).

- Model estimates are based on the net impact of recently arrived permanent immigrants. Temporary immigrants are not examined except for Temporary Work (skilled) 457 visa holders. The model also does not examine older cohorts of immigrant arrivals.
- The model focuses on Australian Government revenue and expenditure items that are directly attributable to immigrants, rather than on public goods and infrastructure (although it allows for additional revenue and expenditure items to be examined for a broader budget analysis). It does not consider the indirect effects of immigration on the incumbent population or its impact on other markets.

A closer examination

The remainder of this chapter examines the implications for government revenue and expenditure associated with immigration in Australia in more detail. It focuses on permanent immigration as this group has a larger fiscal footprint than temporary immigrants (who stay for a short period and have minimal access to government services). Fundamental to this examination is whether immigrants have different patterns of tax revenue generation and use of government-funded services than the Australian-born population. Where this appears to be the case, it is important to consider the conceptual underpinnings of such observations and whether they provide a robust indication of likely future trends. This can inform immigration policy and planning for government service delivery, notwithstanding the caveats attached to available data.

The impacts of immigration on government finances using a general equilibrium model framework is examined in chapter 8 and in technical supplement A. It focuses on the scale effects of additional immigrants and how demographic changes affect government budgets.

Preliminary estimates of partial equilibrium modelling are detailed in chapter 12 and in technical supplement B. It examines the estimated lifetime fiscal costs of immigrants and other effects of immigration under different visa charging scenarios.

7.2 Immigrants' contribution to government revenue

Immigrants, like other Australians, contribute to government revenue through taxes. These comprise direct tax payments including personal income tax, company taxes, and state and local government taxes, such as property taxes, and indirect tax payments such as excise taxes and the goods and services tax (GST). Immigrants are also subject to specific

government user charges that relate to visa processing, settlement services and access to some government services.

This section focuses on key elements of revenue, including personal income tax and the GST. It does not examine other forms of revenue which are relatively small, such as visa charges (discussed in chapter 13), where there are limited data, or which are likely to be the same for immigrants and the Australian-born population (such as company taxes).

Immigrants and direct taxes

Direct income tax revenue from immigrants depends on the marginal tax rates applied to their income less any deductions available to them. Income can include earnings from salary or wages, investments, government income support and any business income, although earnings from salaries and wages dominate, comprising about four-fifths of total income for the general population (ABS 2013d). For recent immigrants, this is even higher at about 92 per cent of total income (ABS 2015f).

Immigrants' contribution to government revenue through income tax is therefore predominantly a function of their ability to secure employment and earn an income, and the length of time they spend in work while in Australia.

As noted in chapter 5, many labour market outcomes of immigrants are similar to the Australian-born population and there is mixed evidence on whether income is any different in aggregate. However, these averages mask differences between immigrants with different characteristics. Immigrants' earnings tend to be higher on average for skill stream immigrants, primary visa applicants, immigrants born in main English speaking countries, prime-age males and highly-skilled immigrants.

New data have expanded opportunities to examine the taxes paid by immigrants

The Australian Bureau of Statistics has recently linked unit record data from the Australian Taxation Office personal income tax records with the Australian Government's Settlement Database of permanent immigrants to Australia. The resulting linked dataset has been referred to as the *Personal Income Tax and Migrants Integrated Dataset* (PITMID) (Walsh and Weckert 2014).

PITMID greatly enhances the information available on the taxes paid by immigrants, although at present it is only available for permanent immigrants aged 15 years and over who arrived on or after 1 January 2000 and submitted a personal income tax return for the 2009-10 financial year. Some immigrants, particularly those on low incomes or receiving government-funded income support, may not be represented in these data as they are not necessarily required to lodge a tax return. On this basis, it is likely to underrepresent immigrants in young and older age groups, females, secondary visa applicants and

humanitarian arrivals. Estimated average taxes paid will therefore be higher than if it also included the non-taxpaying immigrant population.[25]

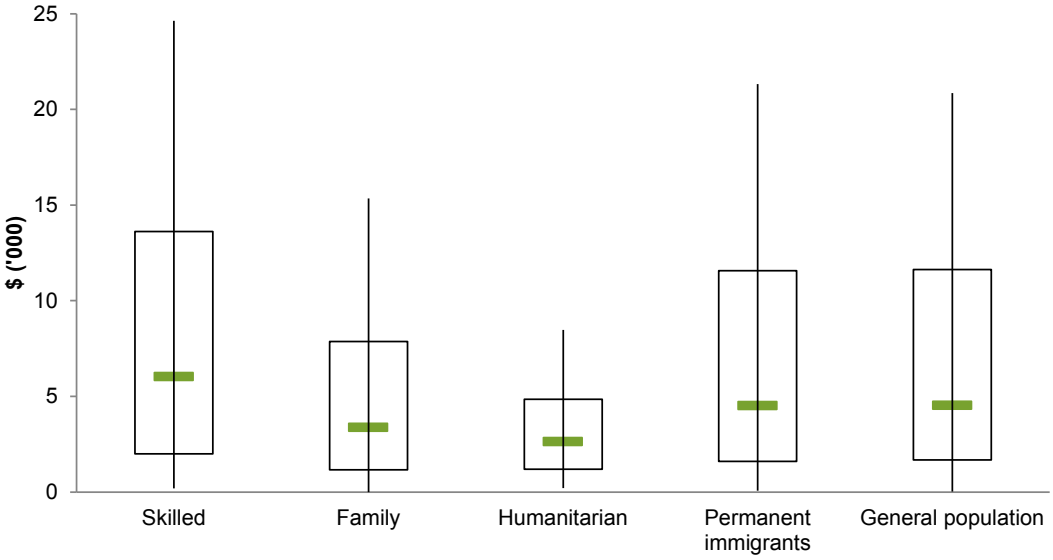
Estimated tax revenue varies by immigrant category

Summary findings of PITMID show that the total income of immigrant taxpayers in the 2009-10 financial year was $37.7 billion. Almost 55 per cent of immigrant taxpayers were males and three-quarters were primary visa applicants (ABS 2015f).

The estimated median income tax paid in 2009-10 by all recent permanent immigrants was about the same as the general Australian taxpaying population, at $4500. Skill stream immigrants pay more in (median) income tax relative to the general population, whereas family stream and humanitarian immigrants pay less (figure 7.3).

Figure 7.3 **Immigrants pay similar tax to the general population[a,b]**

Estimated income tax paid by those who submitted a tax return, 2009-10



[a] Immigrants refer to those aged 15 years and over with a permanent visa who arrived after 1 January 2000. [b] Green bar is median income tax paid. Black box indicates the range between the 25th and 75th percentiles. The extremes of the black vertical lines indicate the 10th and 90th percentiles.

Sources: Productivity Commission estimates based on ATO (2015) and ABS *Personal Income Tax and Migrants Integrated Dataset*, unpublished data.

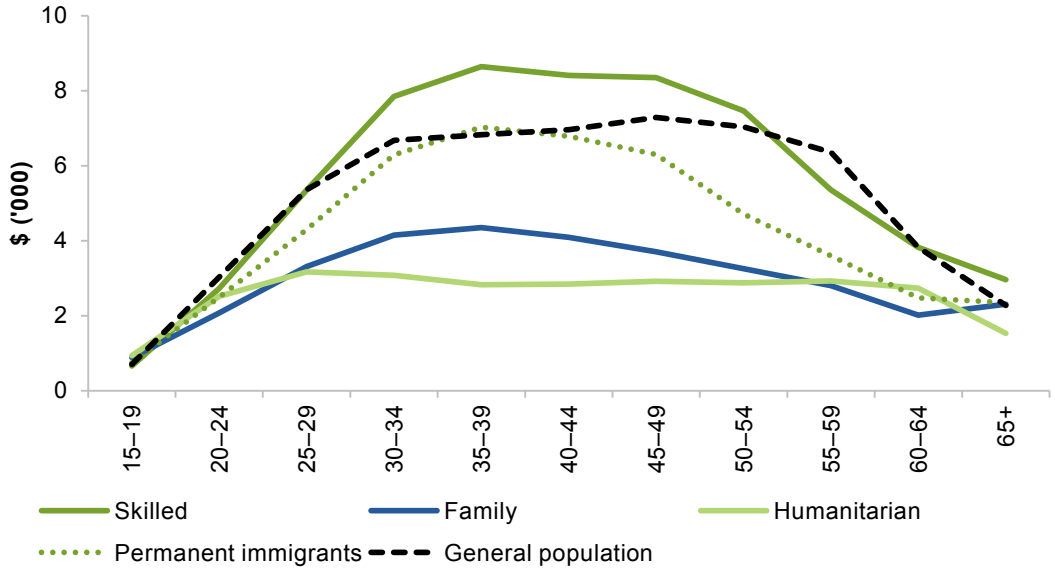
[25] Information on actual income tax paid is not provided in PITMID. The Commission has estimated the amount of tax paid based on immigrants' taxable income and the 2009-10 income tax brackets. Equivalent calculations are made to the general Australian population who lodged a tax return based on the 1 per cent sample of 2009-10 personal income tax records (ATO 2015).

There is substantial variation in the amount of tax paid within these immigrant categories. Skill stream immigrants in particular show a high variation in the amount of tax paid, with immigrants on employer-sponsored and skilled independent visas generally paying more tax than those on investor and business skills visas. In contrast, family stream and humanitarian arrivals have much lower variation in income tax paid, with most of the variation in the family stream concentrated on those immigrating on partner visas.

Age is an important factor affecting the tax paid by immigrants and the general Australian population. Estimated amounts of median tax paid by recent permanent immigrants are highest among the 35–39 year age category ($7000), while for the general Australian population it is highest among 45–49 year olds ($7300). This difference reflects the higher median amount of tax paid by older females in the general population, who may be returning to the workforce after having children. Older immigrants who recently arrived in Australia tend to pay lower amounts of tax relative to the general Australian population of the same age (figure 7.4).

Figure 7.4 **Prime-age skilled immigrants pay the most tax[a]**

Estimated median income tax paid by those who submitted a tax return by age, 2009-10



[a] Immigrants refer to those aged 15 years and over with a permanent visa who arrived after 1 January 2000.

Sources: Productivity Commission estimates based on ATO (2015) and ABS *Personal Income Tax and Migrants Integrated Dataset*, unpublished data.

As chapter 12 indicates, differences in tax contributions made over a lifetime are highest for skill stream immigrants arriving in Australia at a relatively young age.

However, it should be noted that PITMID only collects tax information for immigrants who arrived within a decade of the 2009-10 financial year. It is not clear whether the tax

paid by immigrants across the age profile in a given year provides a good indication of the tax an immigrant will pay over their lifetime. As discussed in chapter 5, immigrant labour market outcomes and earnings tend to improve with their length of stay in Australia, with PITMID indicating that median incomes increase over time and stabilise about five to seven years after arrival (ABS 2015f). Beyond this point, it seems reasonable to expect convergence in the amount of tax paid (per annum) with the general Australian population who exhibit similar characteristics.

Temporary immigrants can also pay income tax

Temporary immigrants are required to pay taxes on earnings made in Australia. These immigrants are not included in PITMID. However, they represent an important contribution to tax earnings, particularly for the Temporary Work (subclass 457) visa immigrants who are in employer-nominated positions and by definition in employment.

There is limited information on the earnings and taxes paid by temporary immigrants. Access Economics (2008) estimates that average direct tax contributions made by Temporary Work immigrants are second only to employer-sponsored immigrants. This is not surprising given that they are used to fill positions in skill shortage and are bound by a minimum salary requirement. They estimate that for every 1000 subclass 457 arrivals, about $12 million (or $12 000 per immigrant in 2007-08 prices) would be generated in direct tax revenue in the first year of arrival.

International students who work part-time and Working Holiday Makers also contribute to tax revenue. The latter are subject to changes in the tax residency rules from 1 July 2016 and will not be eligible for a tax-free threshold. This change is expected to generate $540 million in tax revenue in the next three years (Australian Government 2015a).

Immigrants and indirect taxes

Immigrants also provide revenue to government through indirect taxes paid through their consumption of goods and services. This includes the GST (about 13 per cent of revenue collected by all levels of government) and excise taxes (6 per cent of revenue collected) (ABS 2015g). Revenue is also collected through other taxes such as property taxes, stamp duties, payroll tax and gambling taxes. Revenue generated through these taxes depend on immigrants' spending patterns which are based on their disposable income and consumption preferences.

Immigrant households have similar consumption to non-immigrant households …

ABS household expenditure survey data in 2009-10 show only slight differences in average weekly expenditure between Australian-born and immigrant households ($1242 compared with $1225 for immigrants) (ABS 2015d). However, there is significant

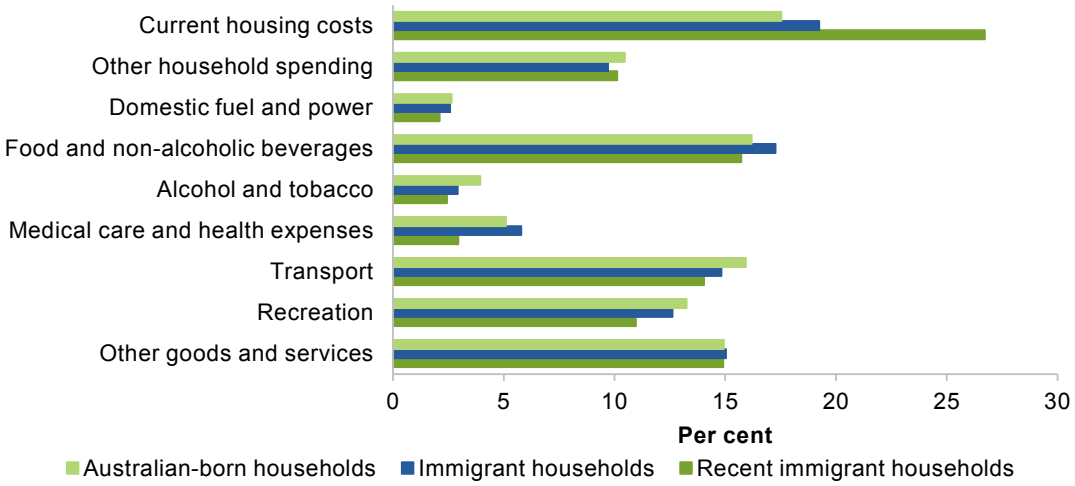
diversity within immigrant households. Households where the reference person was an immigrant born in a main English speaking country have high average disposable incomes and spend more per week than immigrant households from a non-main English speaking country ($1334 and $1153, respectively). Recent immigrants (who arrived within five years of the survey) had higher expenditure per household, at $1370 per week. This reflects the larger average size of these households, which more often includes dependent children and non-family groups.

… and GST revenue is likely to be similar

Household expenditure followed a similar pattern for Australian-born and immigrant households overall, indicating that GST revenue is similar across these households. However, immigrant households, particularly recent immigrants, tend to spend less on items that attract excise tax — such as fuel, alcohol and tobacco (figure 7.5).

Figure 7.5 **Household spending patterns are similar[a]**

Share of household spending, 2009-10



[a] Australian-born households refer to where the reference person was born in Australia. Immigrant households refer to where the reference person was born overseas. Recent immigrant households refer to where the reference person arrived in Australia from 2005 to 2010.

Source: Productivity Commission estimates based on ABS (*Migrant Data Matrices,* Cat. no. 3415.0).

But immigrants tend to spend more on housing

By comparison, immigrant households tend to spend a higher share of their income, and more per week, on housing than Australian-born households. This reflects the higher costs of housing in capital cities where most immigrants reside (79 per cent of immigrant households are in capital cities, compared with 56 per cent of Australian-born households) (ABS 2015d). Home ownership rates (including those with a mortgage) are similar for

immigrant and Australian-born households. Overall, this suggests that the average immigrant household generates more in property tax revenues than the average Australian-born household. However, contributions to stamp duty and property tax revenues also depend on the frequency that properties are traded.[26]

Despite the varying incomes among different immigrant households, income and consumption patterns are similar on average for Australian-born and immigrant households. Therefore, it appears that immigrants generate, on average, similar indirect tax revenues as the Australian-born population. However, household income and expenditure data may conceal differences between these groups at an individual level.

7.3 Immigrants' use of government services

Like other Australians, immigrants can be expected to make use of services funded by governments over their lifetime in Australia. Their use of those services will differ depending on a person's characteristics (such as age, health and employment status) and their level of need — all of which will change over their lifetime. There is also some evidence to suggest that cultural factors are an important determinant of service use.

Immigrants have different levels of access to government-funded services and assistance depending on their visa type and whether they are temporary or permanent immigrants (box 7.4). Limited government expenditure is provided for temporary immigrants and this group is not considered in this analysis in any detail.

Immigrants and social security and welfare

Government provision of social security and welfare is the largest expenditure item for the Australian Government — representing around $154 billion in 2015-16, or more than one-third of all Australian Government spending (Australian Government 2015b). Most government funding is through direct payment of income support in the form of pensions and allowances. Government also provides for welfare services to assist individuals in such areas as employment services, disability, child care and aged care (box 7.5).

Eligibility for government-funded social security and welfare is often restricted to people on low incomes and/or with limited assets. It can also be subject to other conditions based on an individual's age, health, employment and residency status.[27]

[26] According to 2011 Census data, the proportion of people who changed residence was similar for immigrants and the Australian-born population (chapter 3).

[27] Some permanent immigration visa types in the family stream also require an 'assurance of support' that legally commits the assurer to provide financial support to a person applying to immigrate to reduce access to social welfare payments. This is to limit the potential financial burden on the Australian community. It also commits the assurer to repay any welfare payments that are made to this person. In some cases, the assurer will also need to provide a financial bond of up to $10 000 (DIBP 2015p).

Box 7.4 Immigrants have varied access to government services

Temporary immigrants have limited access to most government services. They are often required to make provisions for their own health insurance. In some jurisdictions, public school fees apply to immigrants on selected temporary visas, while user charges may also apply for settlement services. Temporary workers are not entitled to payments if their employer becomes insolvent. There are also limited government services available for people on bridging visas.

New Zealand citizens living in Australia on the Special Category Visa have immediate access to family payments and health care under Medicare. Additional access to services can be granted depending on how long they have been in Australia. But they face various limitations on access to social security, which were introduced to reduce the cost to taxpayers.

Permanent immigrants' access to services differs by visa category. Humanitarian arrivals have immediate access to all services. Skill and family streams are subject to the newly arrived resident's waiting period for two years, after which most income support allowances and employment services can be accessed. A 10-year qualifying period of living in Australia is required for the age pension and disability support pension (unless onset of disability occurs while they are an Australian resident). However, waiting periods do not limit access to some family payments. Medicare and public education are available to all permanent residents, but subsidised post-secondary education are generally not available to non-humanitarian immigrants. Additionally, some pensions and subsidised health care are provided to immigrants under reciprocal international social security and health care agreements.

Immigrant eligibility to government services

Expenditure item	*Temporary*	*Permanent*
Social security and welfare		
Income support allowances	✗[a]	✓[b]
Income support pensions	✗	✓[c]
Family payments (child care and family tax benefits)	✗[d]	✓
Housing assistance	✗	✓
Employment services	✗	✓[e]
Disability support services	✗[f]	✓[g]
Aged care services	✗	✓
Health		
Medicare, Pharmaceutical Benefits Scheme	✗[h]	✓
Education		
Public schools	✓[i]	✓
Post-secondary education (HECS-HELP / VET-FEE-HELP)	✗	✗[j]

[a] Available to some temporary humanitarian arrivals. [b] Non-humanitarian arrivals are subject to the newly arrived resident's waiting period of 104 weeks. [c] Non-humanitarian arrivals are subject to the 10-year qualifying residence requirement. [d] Available to special category, temporary protection, partner provisional and interdependency visas. [e] Eligibility requires a person to be receiving income support. [f] May be available to protected special category visa holders. [g] Some disability services may require Australian citizenship. [h] Restricted access to health cover for residents of countries with reciprocal health care agreements and some temporary humanitarian arrivals. [i] User charges are required for selected temporary visas in some jurisdictions. [j] Available to permanent humanitarian visa holders. FEE-HELP may also be available to non-humanitarian permanent visas for a bridging course.

Sources: Australian Council of Trade Unions (sub. 36); Australian Government (2015e); DHS (2013a, 2013b, 2014, 2015a, 2015b, 2015c); NDIS (2015); PC and NZPC (2012).

Box 7.5 Other major areas of welfare expenditure

There is limited information on whether immigrants' demand for other welfare services is different from the general population, although immigrants' services usage is affected by eligibility.

Early childhood education and care has lower use among children of immigrants from non-English speaking backgrounds. In 2013, about 18 per cent of children aged 0–5 years in child care services were from non-English speaking backgrounds which is lower than this group's representation in the community (21 per cent in 2011). There are a number of conjectures for the lower take-up. Some immigrant families have low labour force participation or cannot afford the personal costs of child care. However, others may not use these services due to their beliefs about who should be responsible for raising young children, or the cultural challenges in meeting child care service requirements and a lack of understanding of when education starts in Australia.

Employment services, funded by the Australian Government, are provided to people receiving unemployment benefits. Unemployed immigrants who are subject to the newly arrived resident's waiting period are able to access assistance through the 'jobsearch' website but they are not eligible to access tailored employment assistance available to those on income support until they have served their waiting period. Recent non-humanitarian immigrants' take-up of unemployment benefits is low relative to the general population (table 7.2). In contrast, recent humanitarian immigrants have a relatively high take-up of unemployment benefits and often require more intensive (and costly) employment services to address labour market barriers. Immigrants' use of employment services longer term will depend on their labour market outcomes.

Disability services are a growing area of government expenditure with total government expenditure at $7.5 billion in 2013-14. Recent immigrants were less likely to report requiring assistance with core activities — an indicator of disability — than the general population (figure 7.8). This appears to reflect the 'healthy immigrant effect' (box 7.6). There is also evidence that among those eligible for disability services, there were lower usage rates among people born in non-main English speaking countries.

Aged care services are a significant area of government expenditure for people older than 80 years (figure 7.2). Use of these services among immigrants will increase with the changing composition and population of immigrants. Current usage rates of government-funded aged case services are similar overall for immigrants and the Australian-born population, but differ by aged care program. In particular, immigrants from non-main English speaking countries are relatively underrepresented in residential settings but overrepresented in formal community care where they are supported by family and cultural groups.

Sources: AIHW (2013); PC (2011e, 2014b); SCRGSP (2015).

Take-up of income support varies by immigrant category

Given that most newly arrived permanent immigrants have restricted access to social security benefits, government spending on these services per immigrant should be lower than for the average individual in the general population, particularly in the first few years after arrival. Limiting access to social security could also influence which people migrate to Australia, potentially discouraging those with poorer job prospects while encouraging

those who believe they will not require government assistance. Selecting immigrants based on their health, age and expected economic contribution to Australia would also suggest that immigrants will have less reliance on income support than the general population.

Take-up rates of income support are examined through government administrative databases on income support records (*Research and Evaluation Database*) and the *Australian Census and Migrant Integrated Database* for permanent immigrants.[28] These analyses show that recent non-humanitarian immigrants — arriving within about a decade of the 2011 Census — had lower average take-up of income support relative to the general population in Australia (table 7.2).

Table 7.2 **Income support by immigrant category, 2011[a,b]**

Share of population on income support and average daily payment rate

Category	*Proportion receiving any form of income support*	*Proportion receiving unemployment benefits*	*Average daily income support payment)*[c]
	%	*%*	*$*
Permanent immigrants	13	4	29
Skilled	3	1	25
Family	13	4	30
Humanitarian	65	24	30
General population	17	4	33

[a] Immigrants who arrived between 1 January 2000 and 2011 Census night. [b] Proportion aged 15 to 64 years receiving income support payments on census date, 9 August 2011. [c] Average daily income support payment is only for those who are receiving income support.

Sources: Productivity Commission estimates based on ABS (*2011 Tablebuilder Pro*, Cat. no. 2073.0; *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001) and *Research and Evaluation Database*, unpublished data.

Take-up rates of income support varied substantially by immigrant category but did not vary much between recent permanent immigrants and the general population across the age distribution (figure 7.6).[29]

Humanitarian immigrants aged 15–64 years, who have immediate access to income support had a 65 per cent take-up rate, compared with 13 per cent in the family stream. Skilled immigrants were far less likely to be on benefits, with only 3 per cent of those aged 15–64 years on income support. Among those receiving benefits, skilled immigrants tended to have shorter durations on income support than immigrants from the family stream and humanitarian program. Skilled immigrants on income support were also less

[28] As estimates are sourced from multiple databases, errors may occur and should be treated with caution.

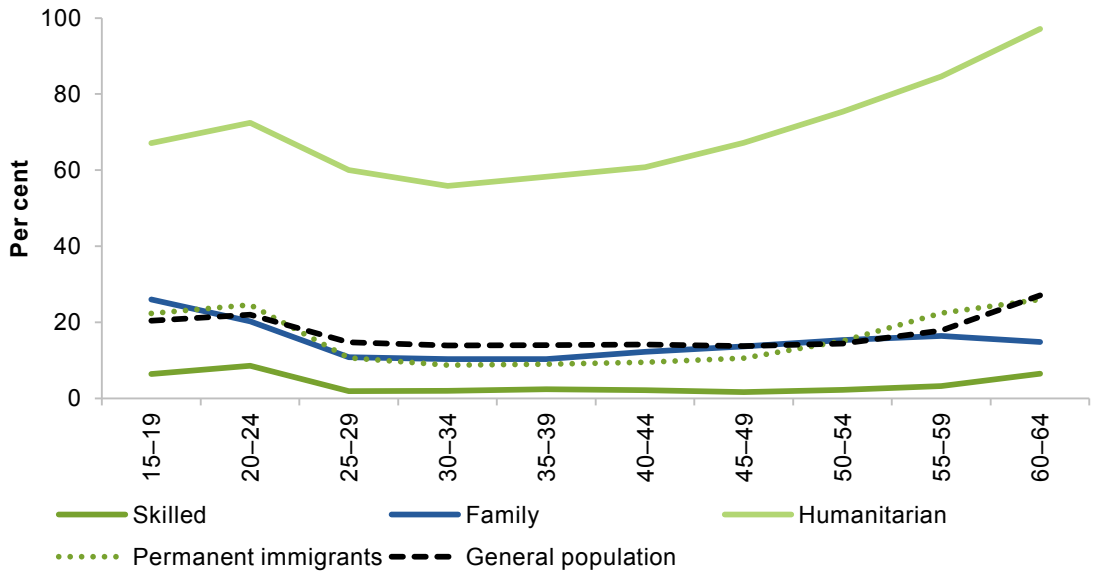
[29] Within the general Australian population, all immigrants to Australia (not just recent arrivals) had lower relative take-up of income support under the age of 50 years than non-immigrants and higher take-up for older age groups.

likely to be on full rates of income support or receiving (more expensive) pensions relative to other immigrant groups and the general population.

Restricting analyses to immigrants (aged 15–64 years) who arrived between 2000 and 2008 — and who were beyond the two year waiting period — slightly increases the take-up of income support for non-humanitarian immigrants in 2011. However, this was more than offset by the reduced take-up of income support by humanitarian arrivals (down 6 percentage points to 59 per cent), suggesting an improvement in their employment outcomes in the years after arrival.

Figure 7.6 **Non-humanitarian immigrants have a low take-up of income support[a,b]**

Share of population on income support by age, 2011



[a] Permanent immigrants who arrived between 1 January 2000 and 2011 Census night. [b] Proportion receiving income support payments on census date, 9 August 2011.

Sources: Productivity Commission estimates based on ABS (*2011 Tablebuilder Pro*, Cat. no. 2073.0; *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001) and *Research and Evaluation Database*, unpublished data.

Age pension is a significant and growing cost to government

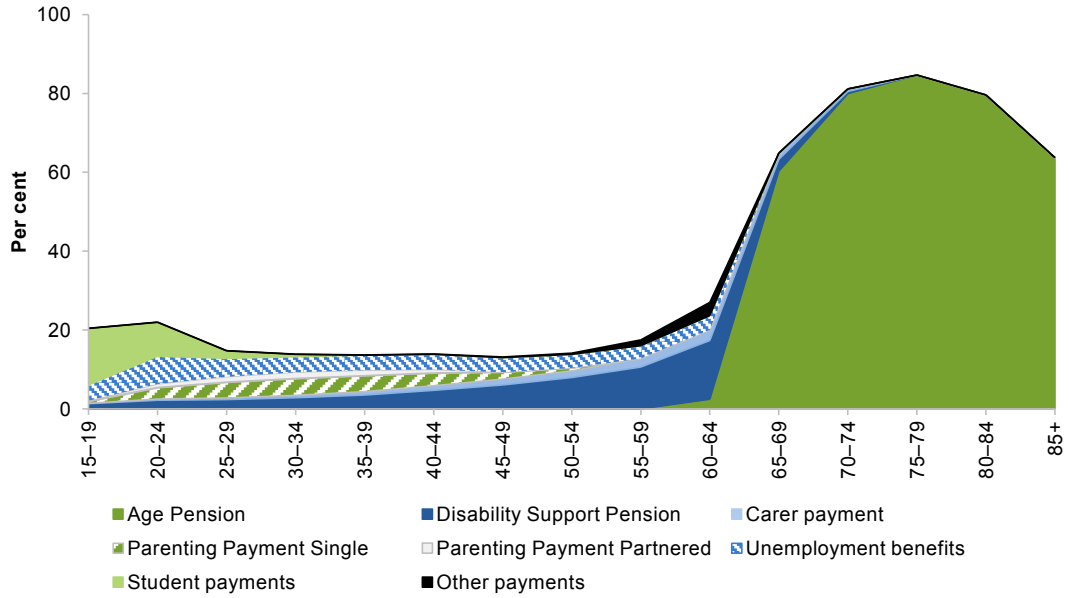
As permanent immigrants become eligible to access the age pension, income support take-up rates can be expected to increase and may converge to the general population (figure 7.7). However, the extent to which this occurs for recent immigrants is uncertain as they generally arrive at a young age. It will depend on their income and the extent to which they have saved for retirement, which will in part also depend on their labour market outcomes. It is therefore expected that young skilled immigrants, who have high rates of

employment and a long period to contribute to superannuation, will be less likely to draw on income support later in their life.

At present, the age pension is the single largest income support expenditure item, costing an estimated $44 billion in 2015-16 (Australian Government 2015b). This is set to increase as the population ages, although the share of self-funded retirees will increase over time. While future government provision and expenditure on income support is uncertain, it is likely that pension payments will continue to be a substantial component of future government outlays.

Figure 7.7 **Take-up of income support increases with age[a]**

Share of population on income support by age, 2011



[a] Proportion receiving income support payments on Census date, 9 August 2011.

Sources: Productivity Commission estimates based on ABS (*2011 Tablebuilder Pro*, Cat. no. 2073.0) and *Research and Evaluation Database*, unpublished data.

Factoring in government outlays on immigrant ageing will therefore affect estimates of the fiscal impact of immigration. These high costs during the retirement phase provide strong support for fiscal impact modelling to be approached from a whole-of-life perspective.

Immigrants and health services

Health is the second largest component of total government expenditure and one that is certain to be affected by immigration. In 2012-13, total government expenditure on health for Australian, state and territory governments included $30.2 billion for primary and

community health, $41.7 billion for public hospitals and $7.3 billion for mental health (SCRGSP 2015).

Permanent immigrants have similar access to Medicare and other subsidised health services as do Australian citizens. While most temporary immigrants do not have access to such government funding, they do access health services through their own private expenditure or private health insurance.

Health costs increase with age, but future health costs are uncertain

Most of the recent analyses of the fiscal impacts of immigration assume that, on a per person basis, health expenditure patterns for immigrants are broadly similar to those for the general population (Access Economics 2008; PC 2006).

Similar assumptions have informed the design of specific visa subclasses. For example, the implementation of the Contributory Aged Parent visa involved a calculation of an aged immigrant's likely future health costs (AGA 2002, 2008). This formed the basis of the fee associated with the visa application, even though the fee was intentionally set well below the actuarially estimated cost to government. These estimates did not account for any potential differences of service usage between groups of immigrants, or between immigrants and the general population. However, it did allow for the possibility that immigrants were healthier than the general population. Contrary to expectations, the net effect of a healthier immigrant population is an increase in lifetime health costs. This is because health cost inflation, at least in the short term, was expected to increase by more than the discount rate used to calculate present values of future health costs (AGA 2008).

A more recent analysis of immigrant health costs points to differences between groups of immigrants, with some groups having higher costs compared to others (box 7.6). However in 2015, the Commonwealth Grants Commission analysed Victorian data on health services and concluded that the net effect of country of birth on health expenses is negligible:

> There is evidence that while some birthplace groups have higher than average use and/or cost for at least some services, other birthplace groups have lower use and/or costs. … We found the net effect of this is … negligible. (CGC 2015, p. 499)

Box 7.6 The 'healthy immigrant effect'

Where immigrants, or certain groups of immigrants, are observed to use health services less frequently than the general population, this may reflect the so called 'healthy immigrant effect' — under the current system, prospective immigrants are subject to health checks and other eligibility criteria to ensure that only those in generally good health migrate to Australia. Other potential explanations for the healthy immigrant effect are that new immigrants have relatively healthy behaviours prior to migration, that the self-selection of immigrants is based on their health and wealth, and the 'salmon effect' whereby less healthy or less successful immigrants return home (Kennedy et al. 2015). The appearance of the healthy immigrant effect may also reflect an under-reporting of medical conditions because of differences in health perceptions across cultures or because conditions are undiagnosed due to barriers in access to health services, including less frequent contact with western medical diagnostics (Jasso et al. 2004).

Recent survey data on self-reported health outcomes only partially accord with the 'healthy immigrant effect'. The ABS *General Social Survey* shows that overall, self-assessed health outcomes were similar for immigrants and non-immigrants. However, recent immigrants (who arrived in Australia in the past 10 years) have better self-assessed health status than non-recent immigrants and the Australia-born population (ABS 2015b). Recent immigrants were also less likely to report as having long-term health conditions or disabilities. This is likely reflective of two factors:

- The recent immigrants group had a much younger age profile than both the non-recent immigrants and Australian-born groups. As noted earlier, people of working age tend to spend less on health services than those above the age of 65 years.
- Non-recent immigrants would include people who had arrived in Australia under very a different regulatory framework — one that focused more on family immigration than skilled immigration. Given that recent immigrants are more likely to have arrived on skill stream visas, they are more likely to be of relatively young working age and to have passed the necessary health requirements.

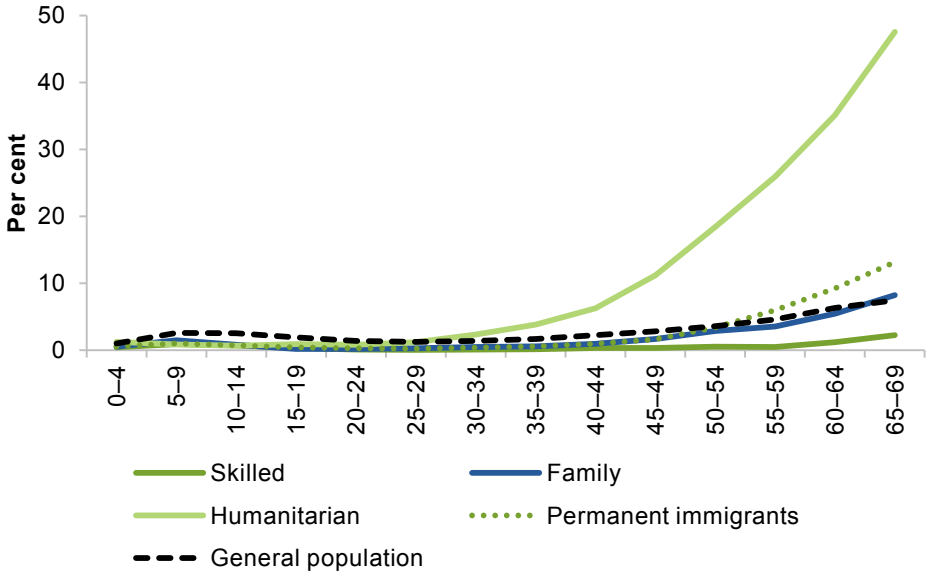
Chiswick et al. (2008) examined the self-reported health status of recent permanent immigrants over time using the *Longitudinal Survey of Immigrants to Australia*. Their analysis found that health status varies by immigrant group, with skill stream immigrants having better health than the family stream and humanitarian arrivals having the poorest self-reported health. This pattern became weaker once other factors were included in the model (such as age, sex, educational attainment and English proficiency). The self-reported health status of immigrants decreased over the three year period analysed. The authors' argue that this decrease, in part, represents the selection of healthy immigrants, with their health status regressing to the mean with their duration in Australia (which may reflect adjustments to a new climate, diet and lifestyle).

Immigrants report lower assistance with core activities …

An indicator of health services usage is the proportion of the population who report requiring assistance with core activities. This varies by immigrant category and increases with age. Few recent skill and family stream immigrants reported in the 2011 Census that they require assistance with core activities relative to the general population (figure 7.8). However, humanitarian arrivals aged 30 years or older were more likely to require assistance with core activities than the general population.

Figure 7.8 **Non-humanitarian immigrants report lower need for assistance with core activities[a]**

Share of population who report requiring assistance with core activities by age, 2011



[a] Permanent immigrants who arrived between 1 January 2000 and 2011 Census night.

Sources: Productivity Commission estimates based on ABS (*2011 Tablebuilder Pro*, Cat. no. 2073.0; *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

… and lower use of hospitals

A further indication of health services usage comes from the relative proportions who were in hospital on the night of the 2011 Census. Although only a small proportion of immigrants and the Australian-born population were in hospital on Census night (about a quarter of one per cent of the population), immigrants were less represented across the age distribution, indicating a lower relative use of hospital services.

But Medicare spending is similar in aggregate

A key part of Australia's health system is Medicare. About $18 billion was spent on Medicare services in 2011-12. An analysis of Medicare services and spending data for 2011-12 shows that immigrants (both recent and non-recent) used slightly fewer Medicare services and had a lower cost per user than the Australian-born population (table 7.3). The Australian-born population had on average 16.6 Medicare-related services in 2011-12, while immigrants had 16.1 services.

Table 7.3 **Medicare services and spending, 2011-12**

Category	*Medicare services per person*	*Medicare benefits per person*	*Cost per Medicare service*
		$	*$*
Australian-born	16.6	887	53
Immigrants	16.1	829	52
Main English speaking country[a]	14.6	767	53
Non-main English speaking country	16.8	861	51
Recent immigrants[b]	13.5	658	49

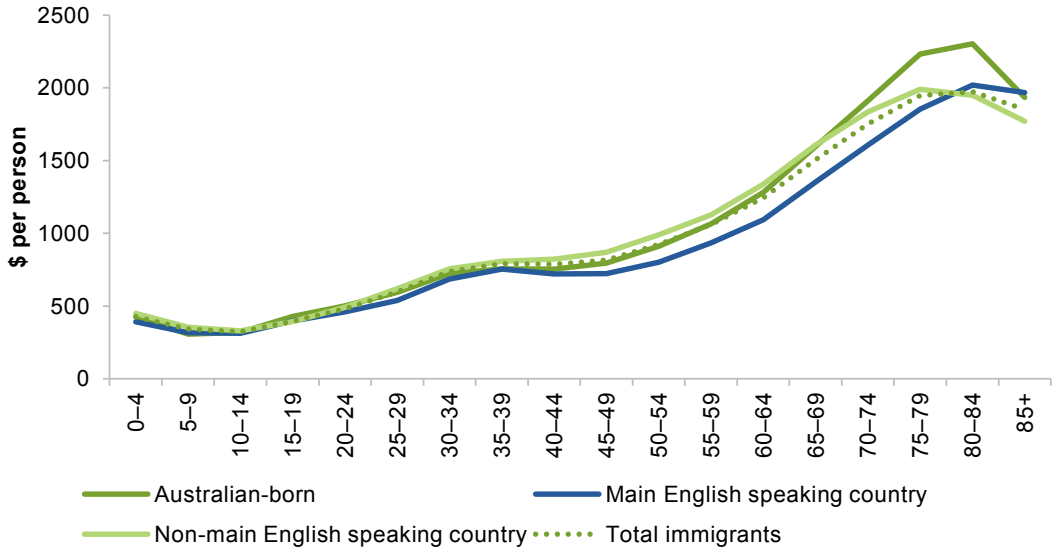
[a] Countries include Canada, Ireland, New Zealand, South Africa, the United Kingdom and the United States. [b] Recent immigrants who arrived after 1 July 2010.

Source: Productivity Commission estimates based on *Medicare Benefits Schedule*, unpublished data.

Medicare benefits also vary between immigrants and the Australian-born population. Average annual costs were lower for immigrants at $829 per person compared with $887 per person for the Australian-born population.

Medicare spending per person across age groups indicates a similar pattern for immigrants and the Australian-born population. Spending on health services for immigrants (and their use of health services) is slightly higher during working age but is comparatively lower than the Australian-born population beyond 60 years of age (figure 7.9).

Figure 7.9 **Medicare spending patterns are similar by age, 2011-12[a]**



[a] Main English speaking countries include Canada, Ireland, New Zealand, South Africa, the United Kingdom and the United States.

Source: Productivity Commission estimates based on *Medicare Benefits Schedule*, unpublished data.

People born in a main English speaking country had lower use of Medicare benefits per person throughout the age distribution, while those from a non-main English speaking country had slightly higher spending during working age relative to the Australian-born population. This pattern is consistent for males and females and is perhaps an indication of the poorer health and nutrition backgrounds of some countries, or of the characteristics of immigrants themselves, such as humanitarian arrivals.

The selection of healthier immigrants appears to reduce government outlays on health care for immigrants, particularly in older age groups. However, health care costs throughout the age distribution are similar for immigrants and the general population. There is also substantial diversity between country of birth, with health spending being higher per person during working age for immigrants from a non-main English speaking country.

Immigrants and education services

Most immigrants arrive in Australia as adults and as such are less likely to consume government-funded education services. This is particularly apparent for primary and secondary schooling, where government provides the largest share of funding. This represents a substantial cost saving to government relative to the Australian-born population.

Immigrants who use education services will incur additional costs to government, as will their descendants. However, temporary immigrants, most notably international university students, often pay the full cost of their education.

Permanent immigrants arriving between 2000 and 2011 have a proportionally higher consumption of education relative to the general population. This occurs at all age groups but is particularly prominent for those beyond secondary education. This might reflect immigrants who update their training, attend English-language classes or find they need to have Australian-recognised training qualifications (figure 7.10).

School education is a major area of government spending

Governments spend a large portion of their budgets on primary and secondary schooling. Recurrent expenditure on school education by Australian, state and territory governments in 2012-13 was $47.9 billion, of which $36.9 billion was spent on public schools. Almost three-quarters of this spending was by state and territory governments. In 2012-13, the average cost per full-time student was approximately $15 700 (SCRGSP 2015, p. 4.37).

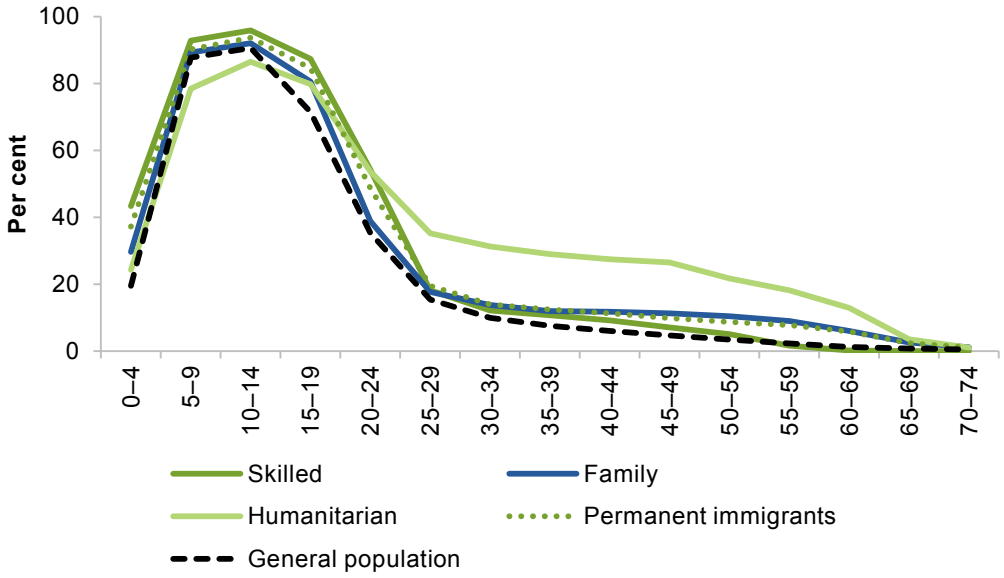
But use differs by immigrant group

Immigrants may differ from the general population in terms of their education costs, given that some arrive in Australia with lower English proficiency — particularly humanitarian

immigrants who are also more likely to be of school age. There are government-funded programs to teach English as a second language for newly arrived immigrants who are not proficient in English. These programs are available to both government and non-government schools and represent an additional cost to government.

Figure 7.10 **Recent immigrants are more likely to be attending education[a]**

Share of population attending education by age, 2011



[a] Permanent immigrants who arrived between 1 January 2000 and 2011 Census night.

Sources: Productivity Commission estimates based on ABS (*2011 Tablebuilder Pro*, Cat. no. 2073.0; *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

The Commonwealth Grants Commission (2015) note that immigrants from a culturally and linguistically diverse background are a heterogeneous group, with some immigrants attracting higher than average education spending by state and territory governments and others attracting lower than average spending. It is not clear whether this increases or decreases the overall cost of delivering education services.

At the same time, international students and some other temporary immigrants are required to pay some or all of their public education expenses, although this differs by jurisdiction. As such, the additional user charges applied to school-age immigrants could offset some of the government spending on education for this group.

Overall, a higher proportion of school-age permanent immigrants attended a government school (68 per cent) relative to the general population (63 per cent) (table 7.4). This suggests that government incurs a greater cost per school-age immigrant relative to Australian-born school-age children who pay a higher share of the personal costs of schooling by using non-government schools. This differs by the immigrant category, with

humanitarian and family stream immigrants more likely to use public education relative to skill stream immigrants.

Table 7.4 **School-age immigrants tend to use public schools[a]**
Type of school attended by immigrant category, 2011

Category	*Government school*	*Catholic school*	*Other non-government school*
	%	*%*	*%*
Permanent immigrants	68	16	15
Skilled	65	17	18
Family	74	14	12
Humanitarian	77	17	6
General population	63	22	15

a Permanent immigrants who arrived between 1 January 2000 and 2011 Census night and currently attending school.

Sources: Productivity Commission estimates based on ABS (*2011 Tablebuilder Pro*, Cat. no. 2073.0; *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. no. 3417.0.55.001).

Immigrants' post-secondary education is generally not funded by government

Post-secondary education differs from primary and secondary education in that it involves greater private expenditure, as well as private decisions regarding uptake. For instance, while the Australian Government provides HECS-HELP for university courses and FEE-HELP for vocational education and training courses, these are generally not available to immigrants unless they have become Australian citizens or hold permanent humanitarian visas.

Immigrants who initially enter Australia on a student visa pay for the full cost of their education, as opposed to Australian-born students who have government-subsidised education — as such, tertiary education is generally an area where government receives revenue from immigrants rather than incurs expenditure.

7.4 Implications for policy

The characteristics of immigrants are important

Age and skill level are the most important drivers in determining the fiscal impacts of immigrants.

Immigrants who arrive at an older age mostly generate negative net fiscal impacts because of their lower labour force participation and higher use of government-subsidised health care and other services.

In contrast, young and highly educated immigrant workers contribute relatively large amounts of tax revenue through their lifetime earnings but they are less likely to require government assistance, both after arrival and in the future. Young workers have their full working lives to self-fund their retirement and high-income earners are more likely to use private health and aged care services and have a lower call on government assistance, reducing the expected future costs to government.

Fiscal impacts depend on how immigrants are selected

Immigrants reflect the characteristics embodied in their selection. Skill stream immigrants are selected based on their education, age, health status and English proficiency and on average have the strongest positive fiscal returns.

Employer-sponsored immigrants, for instance, are selected to meet skill shortages and expand the productive capacity of the Australian economy. Their high rates of labour force participation and comparatively high earnings mean that they contribute to government revenue while using few government services. However, their fiscal contribution also depends on how long they continue to pay personal income tax.

Temporary work immigrants are used by business to fill short-term vacancies where skill shortages exist. These temporary immigrants provide a positive fiscal impact while working and have limited access to government services. However, the lifetime fiscal impact of permanent immigrants depends on other factors such as age, skills, and earnings potential. Family stream immigrants and humanitarian arrivals provide comparatively low fiscal returns, as they generally exhibit lower tax contributions and a higher use of government services. This is not surprising given that immigration through these pathways is largely for non-economic reasons.

Uncertainty

This chapter has focused primarily on recent permanent arrivals to Australia (within about the last 10 years) as it allows immigrant categories to be separately analysed. Recent immigrants also better represent Australia's current immigration policy framework — in contrast to immigrants who arrived decades ago.

As most recent permanent immigrants arrive during their working age their expected future net fiscal contribution is not known. This is problematic given that government spending is highest among older age groups. It is therefore highly uncertain to estimate the future government outlays on recent immigrant cohorts (as it is with estimating anyone's future net fiscal contributions over the course of a person's lifetime). Estimates of the general

Australian population by age groups should be used in the absence of this information, noting that immigrants' integration into Australian society will likely lead to a convergence in their behaviours and in their net fiscal contributions over time.

Policy changes can influence fiscal impacts of immigration

Fiscal impacts of immigration can be directly affected by government policy. For example, government revenue can be increased by applying additional visa charges for immigrants (chapter 12), while spending can be reduced by restricting immigrants' access to government services.

However, any major changes in these areas may affect the composition and integration of immigrants, and could therefore adversely affect the overall fiscal impact of immigration in other ways. For example, significantly higher visa charges could, at the margin, deter highly mobile young skilled people from choosing Australia as their destination. Similarly, limiting (or delaying) immigrants' access to government assistance and government-subsidised services in the early years of settlement may reduce the cost to government and improve the fiscal impact of immigration, at least in the short term, but affect immigrants' ability to integrate in Australian society, which can add to fiscal costs in the long term.

Notwithstanding the administrative complexity that differentiated access to government services would entail, such an approach could have detrimental economic and social impacts, with the potential to impose additional costs on government services in the longer term and reduce future government revenue streams.

The need for better data to inform policy

Data limitations make it difficult to accurately identify the fiscal impact of immigration. Information about immigrants' tax contributions and use of government services is spread among Australian, state and territory governments and among administrative databases held by many government agencies. Information on immigrants in these databases is often neither comprehensive nor comparable. It often only includes details of their country of birth, with poor coverage of their visa type and date of arrival in Australia.

Other data sources, such as Australian longitudinal surveys of immigrants, are only available for short periods. Extending the longitudinal tracking of recent immigrants — which is now being done for five years for humanitarian immigrants in the *Building a New Life in Australia* study — will provide better information on immigrant pathways and offer further insights into their longer term settlement experience, enabling the better targeting of government expenditure (DSS 2015).

Government administrative data collections are an important source of evidence for effective policy development (PC 2013b). Data can be enhanced by investing in its quality,

including improving the recording and integration of immigrant data across agencies or developing data keys enabling timely linkage between administrative databases. This could be achieved through a centralised administrative database or better communication and shared data standards between government agencies. Improving researchers' access to administrative data collections will also encourage examination of government policies, including immigration policy.

Other countries have made significant advances in developing and accessing linked government administrative data, which is particularly valuable for cross-cutting policy areas like immigration (box 7.7).

Box 7.7 Linking administrative data on immigration — New Zealand and Canada

In New Zealand, government agencies have long been involved in linking administrative data, known as 'Integrated Data Infrastructure'. This includes linked information on education and benefit systems, the labour market, and migration databases (Statistics New Zealand 2013). It has enabled research into the employment and education pathways of immigrants, their characteristics, earnings and mobility patterns and their transitions to permanent residency (Statistics New Zealand 2012, 2015). Such projects aim to support immigration policy development and promote government accountability through monitoring and evaluation.

In Canada, extensive work has been done in linking government administrative datasets. Vetted access to these datasets and other confidential microdata files are available to non-government researchers through Research Data Centres, an initiative by Statistics Canada (2014b). This includes the 'longitudinal immigration database' which was developed to provide detailed and reliable data on the performance of Canada's Immigration Program. It combines linked immigration and taxation records to examine the economic performance of immigrants based on those who have arrived in Canada since 1980 (Statistics Canada 2015b). The database allows for an analysis of immigrant characteristics and labour market behaviour over a long period and has been an important information source for immigration research and policy development.

In Australia, steps are being taken to improve the quality and access to government administrative data collections. Several thousand government datasets are now publicly available through the data.gov.au website to encourage access and use of government data (Australian Government 2015c).

There has also been more linking of government datasets. The recent integration by the ABS of the Settlement Database with Census data and personal income tax data are useful initiatives in this direction and have been helpful to this inquiry. These projects are part of a broader statistical data integration initiative organised by the National Statistical Service and led by the ABS. Many integration projects involving government administrative data are now listed on a public register (National Statistical Service 2015).

Marshall et al. (2015) note that these linked immigration datasets make it possible to conduct detailed analyses on a wide range of issues not possible in isolation. There is scope

to broaden the integration of the Settlement Database with other government administrative datasets, such as those involving health and education services. Improved data quality, integration and access are needed to support a strong policy capability, backed by evidence-based research and active evaluation of program outcomes.

DRAFT RECOMMENDATION 7.1

The Australian Government, through its data integrating authorities, should continue to link the Settlement Database with other government administrative datasets, such as datasets involving health and education services, to support immigration policy development and expenditure on social services.

DRAFT RECOMMENDATION 7.2

The Australian Government should follow the approach of Statistics Canada in establishing Research Data Centres to provide non-government researchers vetted access to unit record government administrative datasets and other confidential microdata files.

8 Economywide impacts of migration

Key points

- Net migration will play an important role in changing the size and structure of Australia's population into the future.
  - It is projected to add some 13 million to Australia's population by 2060 compared to natural increase alone.
- Continued orientation of immigration towards younger, working–aged individuals will reduce the effects of population ageing in Australia. Compared to natural increase alone the migrant intake is projected to:
  - raise the number of people in employment as a share of the Australian population
  - lower the age dependency ratio in 2060 — from about 59 persons aged 65 years and over per 100 people of working age without migration to about 44 persons with migration — although this projected reduction is unlikely to be sustained.
- The Commission's preliminary general equilibrium modelling suggests the population will grow to nearly 40 million by 2060, with economic activity (measured by GDP) projected to be around 58 per cent higher than it would be with natural increase alone.
- With proportionally more of the population participating in employment, GDP per person is projected to be about 5 per cent above what it could have been through natural increase alone by 2059-60 — equivalent to around $5100 dollars per person (2013-14 prices).
- Higher economic activity is also projected to increase government revenues and expenses in similar proportions.
  - Preliminary projections, nevertheless, suggest that net migration could improve governments' fiscal balances to 2060, relative to a hypothetical no-migration case.
- A reduction in the age dependency ratio (though migration) is also projected to drive changes to the composition of government outlays.
  - Reflecting a younger age profile in the with-migration case, by 2059-60 expenditure on health and related services is projected to be lower at 14 per cent of nominal GDP, compared to 17 per cent without net migration.
- A larger population and economy will be associated with higher levels of activity in infrastructure service provision, such as roads and utility services.
- Overall, an immigration system geared to attracting more skilled immigrants in working-age groups is one most likely to deliver an economic benefit to the wider Australian community.
  - Immigrants benefit from their employment in Australia and the Australian population as a whole benefits from higher output per person.

The economywide impacts of net migration depend on the size and profile of Australia's migrant intake, its emigration patterns, how these change over time, broader economic trends, and government policy decisions. With many factors at play, any estimation of the impact of migration is illustrative and should be treated with caution.

The impacts of the change in the labour supply are reasonably straightforward to model. Wider effects such as productivity improving spillovers from net migration are much more difficult to delineate, but can also be important. These wider effects include enhancing human capital, adopting new technologies, and promoting innovation (chapter 5). Migration can also affect the composition of demand as well as tax receipts and transfer payments, which in turn can have economywide effects. However, government decisions about expenditure and taxation, regulation of the economy, and investment in infrastructure also influence the economywide impacts of migration. Any economic model has to make assumptions about future government policy in these key areas.

Government policy also influences the social and environmental impacts of major changes in the size and composition of the population. While these impacts are important for the wellbeing of Australians, they are difficult to incorporate in the models that estimate the economywide impact of net migration.[30] The focus of this chapter is therefore on estimating economic impacts. Nevertheless, a full consideration of the impacts of immigration policy requires that these social and environmental effects also be considered (chapter 6).

The chapter begins with a discussion of the expected implications of net overseas migration (NOM) on the size and age structure of the Australian population over the next 45 years to 2060 (section 8.1).[31] It then sets out the direct (or first round) impacts of migration that set in train adjustments throughout the economy. These direct effects underpin the development of the draft scenarios modelled (section 8.2). The chapter then presents the results of the Commission's preliminary modelling (section 8.3). (Details of the model can be found in technical supplement A.) The projections of the economywide impacts of migration depend on the nature of the model used and the assumptions about the size and composition of net migration flows (section 8.4). In section 8.5, past assessments of the likely impact of migration on the Australian economy are considered, prior to an overall assessment of the likely impact of net migration on the Australian economy at the end of the chapter (section 8.6).

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30 Sobels et al. (2010) developed a model of the impact of immigration on the environment. Some of the findings are discussed in chapter 6. As that model did not include government responses, or prices, which rise in response to increased scarcity reducing demand for and hence pressure on resources, it overstates the likely environmental impacts of immigration-induced population pressure. Integrating this kind of biophysical model into an economic model is beyond the scope of this inquiry.

31 NOM is defined as the net increase or reduction in population through people arriving (immigrating) and departing (emigrating) (box 2.2, chapter 2). It is measured based on a duration of stay in or away from Australia of at least 12 months out of the past 16 months. The concept captures both permanent and long-term temporary movements (including the movements of Australian and New Zealand citizens).

8.1 The demographic implications of migration

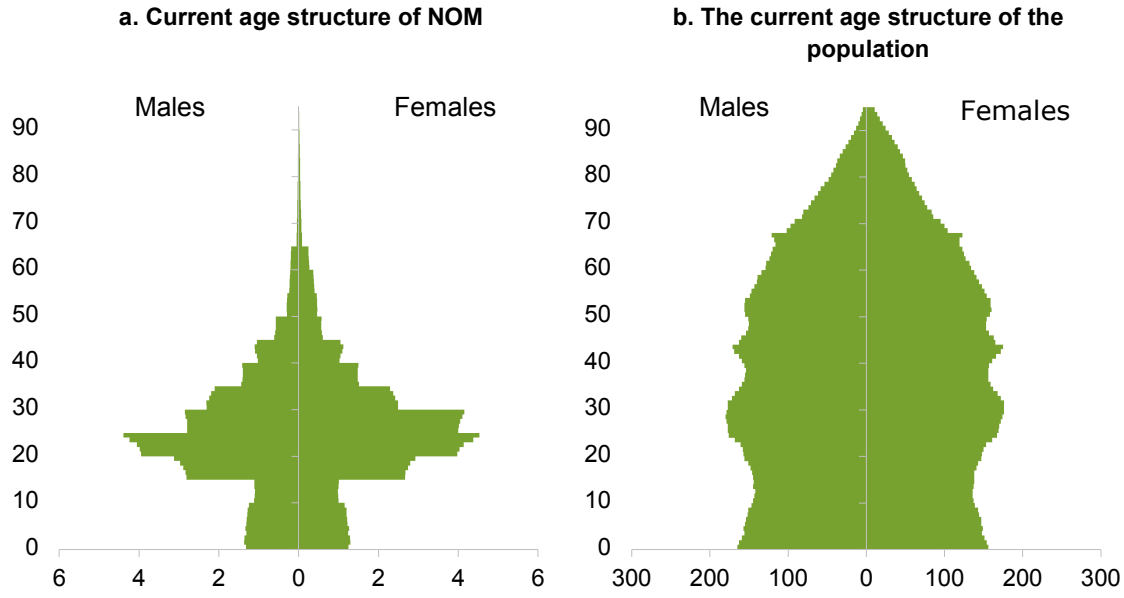
Immigration has been a significant source of population growth in Australia.

As outlined in chapter 2, growth in Australia's immigration intake, combined with a relatively stable natural increase (births minus deaths), means that immigration has become a key influence on population growth. Since the mid-2000s, NOM has made a larger contribution to population growth than natural increase.

Unlike either fertility or mortality, the migrant intake is more readily controlled by the Australian Government; sometimes directly and sometimes indirectly.[32] As such, immigration policy has become an important lever for influencing the size and composition of the Australian population and labour force. By design, NOM has a substantially younger age distribution compared to the overall Australian population — with 45 per cent of migrants aged in the prime working ages of 25 to 45 years (figure 8.1).

Figure 8.1 **Immigrants have a younger age distribution compared to the Australian population**

Population by age and gender, 2014 ('000)



Source: ABS (*Migration, Australia, 2013-14*, Cat. no. 3412.0).

[32] However, the Australian Government does not have full direct control over NOM as any number of Australians (and New Zealanders) can arrive or depart. In addition, temporary migration (such as long-term visitors and working holiday makers) is effectively uncapped.

Migration can reduce the impact of population ageing

Population projections undertaken by the Commission (and others) suggest that continued migration will play a role in shaping Australia's demographic structure into the future, although the actual impact will depend on the level and composition of the migrant intake. By 2050, it is estimated that Australian births will no longer exceed deaths, and as the natural rate of population growth approaches zero, immigration will be the only source of population growth (Pincus and Hugo 2012).

Population projections undertaken for the Department of Immigration and Citizenship by McDonald and Temple (2013) suggest that, without any further immigration, the percentage of Australia's population aged 65 and over will increase from 14 per cent in 2012 to over 28 per cent of the population by 2053. Increases in NOM could lower the share of the population aged 65 years and over. Compared to a population projection with zero net migration, immigration is expected to lead to a slowing down of both the ageing of the population and the decline in the age dependency ratio — the ratio of those aged 65 years and above to those aged 15 to 64 years (table 8.1).[33]

Table 8.1 **NOM and the projected age dependency ratio[a]**

Annual level of NOM	*Population 2063* *(millions)*	*Rate of population growth, 2053* *(%)*	*Per cent of population aged 15-64, 2053* *(%)*	*Per cent of population aged 65 and over, 2053* *(%)*	*Age dependency ratio (per 100 people of working age)*
2012 population:	23	1.7	67	14	21
NOM scenarios:					
0	26	0	56	28	51
100 000	32	0.5	58	25	43
180 000	38	0.8	60	23	39
300 000	46	1.2	62	21	34

a The age dependency ratio is expressed here as the number of persons aged 65 years and over for every 100 people of working age (15 to 64 years).

Sources: McDonald and Temple (2013, p. 5); Productivity Commission estimates.

Immigration, however, will only reduce the impact of population ageing. In the long term, larger cohorts of immigrants will themselves add to the proportion of the population aged 65 and over as they age and, thus, reduce the impact of further immigration intakes on the age structure of the population (PC 2013a).

[33] While the age dependency ratio gives a broad indication of tends in the available labour force, it ignores the fact that people over 65 years can still participate in the workforce or make valuable social and economic contributions in other ways (PC 2005b).

Furthermore, McDonald and Temple (2013) noted that migration has diminishing returns to scale in reducing population ageing. Their projections of the marginal (or incremental) effect of migration suggest that the marginal benefit of increased migration levels to age structure (in terms of reducing the proportion of the population aged 65 years and over) gets smaller as the incremental level of migration increases.[34]

In its 2005 research paper *Economic Implications of an Ageing Australia*, the Commission found that 'larger intakes can start to make appreciable differences to ageing, but only at the cost of unsustainably large population growth' (PC 2005b, p. XVII). To illustrate this, the Commission projected that to retain the age dependency ratio at 2005 levels until 2045 would require an annual migrant intake of 3.1 per cent of the population — growing the Australian population to 85 million and the annual net migrant intake to 2.5 million by 2045.

The Commission's demographic projections

To examine the economywide impacts of Australia's migrant intake, the Commission has developed demographic projections of the Australian population over the 45 years to 2060.

NOM as a proportion of the population has varied substantially over time (figure 8.2, panel a). Despite this substantial variation, since the 1920s, NOM as a share of the population has averaged at around 0.6 per cent. If NOM were to continue at around that average until 2060, it could reach around 240 000 persons by 2060.[35]

With NOM rising to this level, and with current fertility and life expectancy trends, Australia's population could reach around 40 million by 2060, compared to around 27 million with only natural increase in the population (without, or zero, NOM) (figure 8.2, panel b). That is, migrants and their children are projected to add some 13 million to Australia's population by 2060.[36]

By contrast, if net migration were to continue at recent rates of 0.8 per cent rather than converging back to 0.6 per cent of the population, NOM could reach around 350 000 persons per year by 2060.

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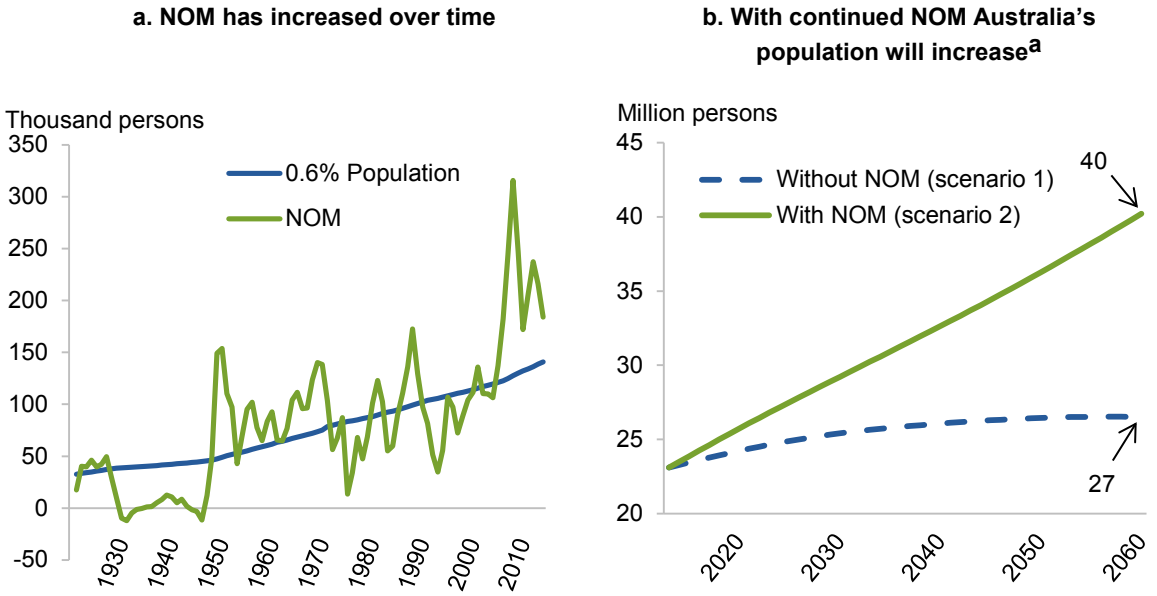
[34] In particular, McDonald and Temple (2013) projected the impact of successive 10,000 increments of migrants — from annual NOM of zero to 360,000 — on the proportion of the population aged 65 years and over.

[35] The 2015 Intergenerational Report assumed that NOM was 215 000 per year from 2018-19 onwards (Treasury 2015). The report noted substantial variability in NOM over recent decades, reflecting both changes in economic, political and social circumstances domestically and overseas, and in Australia's immigration policy.

[36] The Commission's demographic projections are based on the assumption that immigrants take on the same age-specific fertility and mortality rates as the incumbent population.

While there is considerable uncertainty around any projections over such an extended period, the underlying assumptions about the migrant intake as a share of the population, fertility, mortality and demography align with those commonly adopted in other studies (technical supplement A).

Figure 8.2 **NOM will have an important influence on Australia's future population levels**



[a] The Commission's demographic projections are based on the assumption that NOM will converge to a long term trend of 0.6 per cent of the population (technical details of the model can be found in technical supplement A).

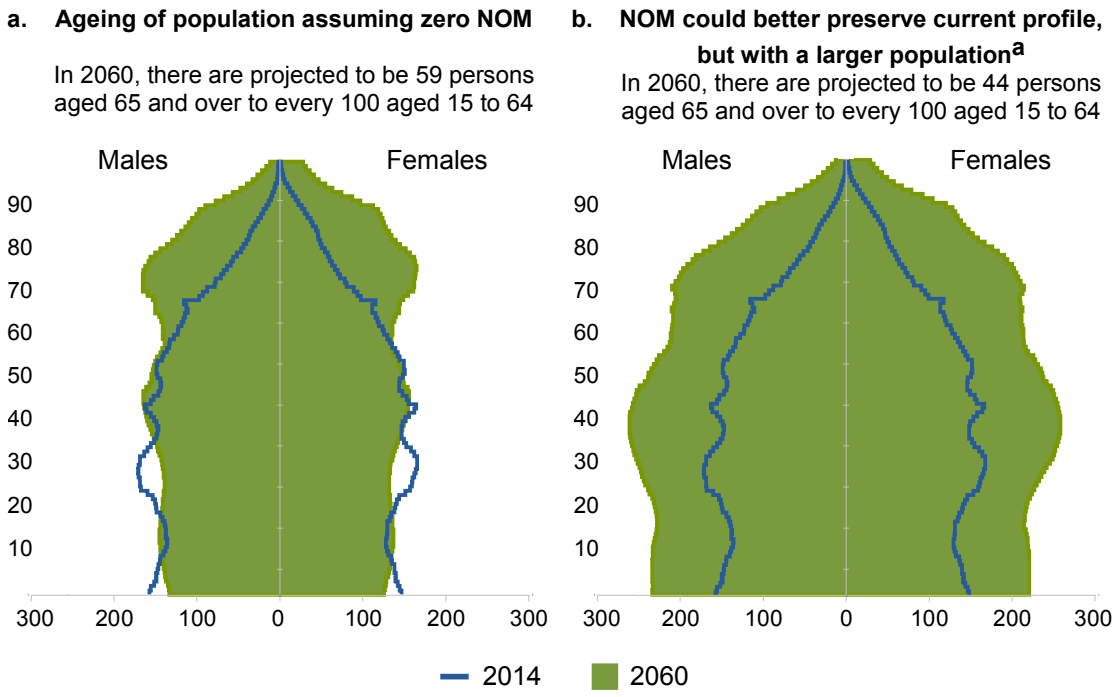
Source: Productivity Commission estimates and preliminary projections.

In addition to having an important influence on the size of Australia's population, NOM will also influence the demographic structure of the population into the future. Without migration and with the continuation of current fertility rates and expectations of increased life expectancy, the proportion of the population aged 65 and over is projected to increase substantially — from around 15 per cent at present to around 30 per cent in 2059-60 (figure 8.3, panel a).

The continuation of an immigration system that is oriented towards younger working aged individuals — particularly in the prime working and family formation ages of 25 to 45 — could boost the potential supply of labour and, thereby, reduce the demographic impact of population ageing (figure 8.3, panel b). Family formation by people in these age groups would further reduce the demographic impact of an ageing population.

Figure 8.3 **Population structure and size will be influenced by NOM**

Projected population by age and gender, 2014 and 2060 ('000 persons)



[a] The Commission's demographic projections are based on the assumption that NOM will converge to a long term trend of 0.6 per cent of the population (technical details of the model can be found in technical supplement A).

Source: Productivity Commission preliminary projections.

With natural population increase alone, the age dependency ratio is projected to increase from around 23 persons aged 65 and over to every 100 working age individuals in 2014 to around 59 persons aged 65 and over by 2060. A continuation of the long-term trend in NOM with a relatively young age profile (figure 8.1), however, is projected to reduce the age dependency ratio from 59 persons to around 44 persons aged 65 years and over to every 100 working aged individuals by 2060 (figure 8.3, panel a compared to panel b).

As noted, immigration cannot realistically prevent Australia transitioning to an older population. Nevertheless, an immigration system with a focus on young and more skilled migrants, is projected to change the size and structure of the population. In doing so, Australia's migrant intake will have a range of economic impacts (discussed in the next section), which should help to reduce the economic impacts of ageing to 2060.

8.2 The economic impacts of migration

Theoretical and empirical literature suggests that changing the supply and composition of the population through immigration has a number of flow-on effects throughout the

economy and ultimately affects the economywide level of activity (real Gross Domestic Product (GDP)) (chapter 4).

Immigration (modelled as NOM) can contribute to national production and income through labour supply and productivity. NOM would augment the supply of labour in the domestic economy and can change the composition of the labour force. NOM may also effect labour productivity. The income generated and the larger population would also have 'demand-side' effects including through consumption by households and governments.

The discussion in this section draws on the evidence presented in earlier chapters to examine the likely impact that migration will have on each of these channels. This analysis forms the basis for the assumptions used in the Commission's general equilibrium model, the result of which are presented in section 8.3.

The direct effect on the supply and composition of labour

On the whole, the current immigration system provides Australia's labour market with an inflow of people concentrated in their prime working ages who tend to be more highly educated compared to the incumbent population. It also has a significant component that participates in the Australian workforce as labourers, mainly though temporary immigration streams.

The increase to Australia's labour supply from NOM is largely driven by the fact that a larger population augments the supply of labour (a *population* or scale effect). Further, as the age profile of NOM is relatively concentrated in prime working age groups (figure 8.1), NOM can increase the overall employment to population ratio (a *demographic* or cohort effect).

Beyond *population* and *demographic* effects, NOM may also affect activity levels in the economy through age-specific *participation* and *productivity* effects (box 8.1). That is, to the extent that immigrants have a greater level of *participation* in the labour force and higher levels of *labour productivity* compared to their Australian counterparts, immigrants can affect the supply and composition of labour.[37]

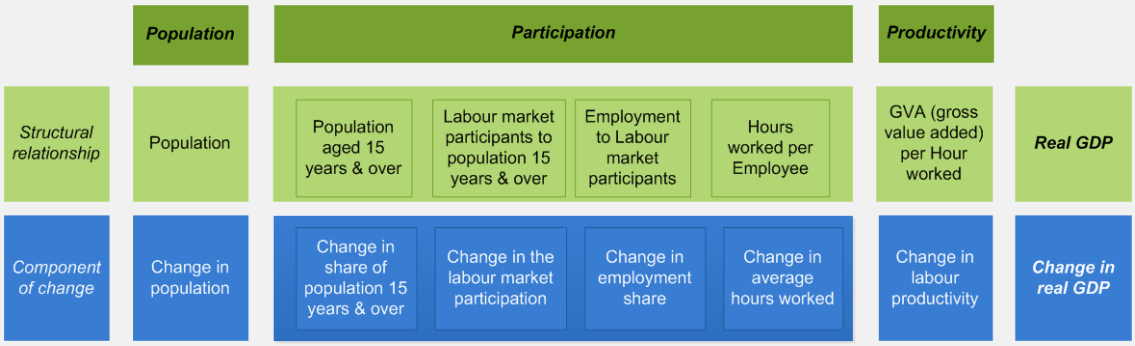
Whether the labour market outcomes of immigrants differ from the Australian-born population is an empirical question. Evidence presented in chapter 5 suggests that the labour market outcomes of immigrants (compared to Australian-born individuals) vary by visa category.[38]

[37] Labour productivity is the ratio of the real value of output to the quantity of labour input — typically measured as GDP per hours worked in the economy. Labour productivity depends on the efficiency with which labour and other inputs (such as capital and land) are combined to produce goods and services.

[38] By design, entry conditions for a number of visa categories favour skilled immigrants with demonstrated skills to succeed in the labour market, including those sponsored by an employer (DIAC 2011g); but may also be reflective of the self-selection and motivation of migrants entering under these visa categories.

Box 8.1 Mapping changes in labour to GDP — the three Ps approach

The impact of changes in the size and composition of the labour force on economic growth (measured by changes in real GDP) is jointly determined by changes to three Ps — that is, changes in *population*, the rate of *participation* in the labour force, and labour *productivity*. The figure below maps out the relationship between population, participation and productivity.



Labour force participation

Examining labour force participation — in terms of labour force participation rates, employment rates and hours of work — by visa category suggests that skill stream immigrants tend to achieve better outcomes than the local population on average, whereas family and humanitarian stream immigrants experience worse outcomes. Over time this latter group of immigrants tend to adjust to Australian labour market conditions and circumstances, increasing their participation in the labour force towards more average levels.

Skills and labour productivity

The skill level of the immigrant workforce is important to evaluating the economywide benefits of migration, as skill levels affect the labour productivity of immigrants — essentially, how much output can be produced per hour of work. Primarily due to Australia's focus on selecting skilled immigrants, on average, immigrants in the skill stream tend to be more highly educated than the Australian-born population.

However, chapter 5 finds evidence of a higher rate of job 'mismatch' for immigrants; concluding that a slightly higher proportion of immigrant workers were nominally overqualified for the job they hold compared to Australian-born workers. Further, reflecting the transition of immigrants into the Australian labour market, survey evidence suggests that in 2013 almost half of recent immigrants who were employed in Australia had changed major occupational group in Australia compared with their prior overseas employment (chapter 5).

This evidence supports occupation, rather than education, as a better indicator of migrant engagement in the workforce and ultimately on how migration may affect national output (GDP). Indeed, chapter 5 finds that the wage differences (often used as a proxy for labour productivity) are largely explained by the fact that immigrants tend to be employed in more skilled occupations.[39] After controlling for the occupational profile of immigrants, the average within-occupation earnings of immigrants are about the same as comparable Australian-born individuals (chapter 5).

The spillover effects on productivity

In addition to influencing the occupation and skills composition of the Australian workforce, immigrants may have *spillover effects* on aggregate productivity.

Chapter 5 describes a number of spillover channels through which highly-skilled immigrants can boost aggregate productivity, in particular through:

- increased innovative activity and innovation enabled by the acquisition of additional research and development skills
- more rapid adoption of technological and organisational changes through increased knowledge and access to international best practice (for example, through knowledge spillovers or increased task specialisation)
- exposure to increased competitive pressures through the take up of new foreign trade and investment opportunities and entrepreneurship.

International evidence suggests that immigration (particularly skilled immigration) has generally been found to have a small, positive effect on aggregate productivity growth through such spillover effects (chapter 5).

Direct effects on consumption and government finances

Economywide effects also arise when net migration changes the consumption behaviour of the population.

By adding to the size of the population, NOM also adds to the number of consumers in the economy. For this reason, immigration can be expected to increase demand for locally produced and imported goods and services (including tourism and international education services) as well as investment in capital required to support the larger population.

[39] Highly skilled workers are generally more productive and therefore are more likely to earn higher wages.

Population growth (through immigration) will also place pressure on, among other things, property markets and existing public infrastructure.[40] Chapter 6 emphasises that the impact of population growth on housing and urban amenities is highly dependent on the institutional arrangements and suite of policies in place to deal with the demands of a growing population.

A larger population would also place higher demands on some government services and outlays which would be offset against higher taxation revenues from higher activity levels. Due to the fact that immigrants are currently selected on the basis of their age, health and skill profile, immigration may also affect the size and composition of government outlays. Chapter 7 finds that immigration tends to have a small but often positive effect on public finances. In particular, chapter 7 finds that most immigrants arrive in Australia as young skilled workers and are less likely to consume government-funded support services. The government does not have to pay for the education costs in childhood of these immigrants and their consumption of health and welfare services can be in the future.

8.3 Preliminary estimates of the economywide impacts of migration

The terms of reference ask the Commission to report on, among other things, the impact of migration on government budgets, government services and the incomes of Australian citizens. Given the substantial variation in past net migrant flows and uncertainty about future flows, to report on the economic impact of migration, a 'scenarios' approach has been adopted. Under this approach, the impact of migration is assessed by comparing the projected evolution of the Australian economy with NOM at around historical average rates (that is around 0.6 per cent of the population per year) with the hypothetical case where NOM is zero from 2014-15 onwards. The implications of the occupational structure and possible net migration-induced productivity spillovers to the Australian economy are also considered. In all, the effects of four scenarios are considered (box 8.2). The population and economy are projected to 2059-60 under each of these scenarios using an economywide modelling approach that integrates demographic and economic modelling in a single framework.

[40] Although, a larger population can improve economies of scale in service provision of public infrastructure and there may be spillover benefits from larger cities (up to a point).

Box 8.2 Economywide modelling scenarios

Scenario 1 Without NOM to illustrate the implications of population increases with current fertility and life expectancy characteristics.

Scenario 2 Population and cohort effect of NOM. Scenario 1 with the addition of migration which converges to the historical average of the ratio of net migration to population (0.6 per cent) and the additional assumption that migrants have the same demographic characteristics as the current migrant intake and the same labour market characteristics (including occupation profile) as the incumbent labour force. This scenario illustrates the possible effects of net migration on the size of the population and the effects of net migration on demography and changing workforce participation.

A further two scenarios take account of the cross border movement of migrants on productivity:

Scenario 3 Labour force occupational effect. Scenario 2 with the addition of the assumption that future migrants have the same occupational characteristics as the current migrant intake.

Scenario 4 Spillover effects. Scenario 2 with a conjectured 1 per cent increase in national labour productivity on account of NOM.

The Commission's modelling approach

As migration affects the size and demographic profile of the Australian population and workforce, assessment of the impacts of NOM requires an economywide dynamic model with labour market, government finance and broader economic linkages.

The model adopted in this study is a version of the Victoria University Multiregional Model (VUMR) — the VUMR-MI (for Migrant Intake) model (box 8.3). The model includes a cohort-based demographic model with: separate modelling of population changes due to migration; detailed modelling of the supply and demand for labour (the labour market) by state, occupation and industry; and detailed modelling of government finances at the state and national levels. The basic model has been augmented to include a provision to model the labour market characteristics of migrants and a facility to further disaggregate government expenditure items on the basis of information assembled in the inquiry.

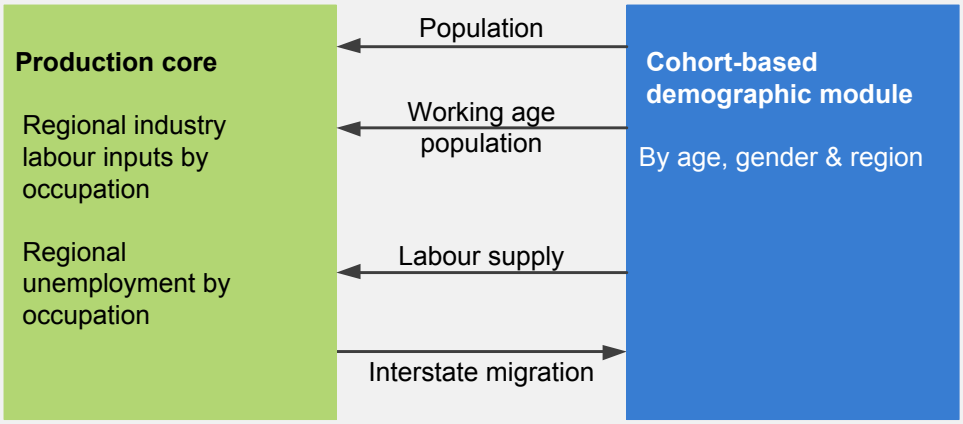
The VUMR model is particularly suited to the economywide modelling in this inquiry because it includes an established methodology for the projection of the population and the economy to 2059-60 and is supported by a recently updated benchmark database based on ABS input-output tables and other data. The simulations are prepared under forward looking assumptions of fertility and mortality, labour force participation rates, unemployment rates, average hours worked by age and gender as well as assumptions about the evolution of the terms of trade and other macroeconomic variables.

Box 8.3 The VUMR-MI model of the Australian economy

The VUMR-MI model is a multi-regional general equilibrium model of the Australian economy. It recognises: domestic producers classified by industry and eight state regions; an aggregate foreign purchaser of Australian products; eight state and territory governments and the Australian Government. The VUMR model was formerly known as the Monash Multi-Regional Forecasting (MMRF) model.

The model includes explicit recognition of NOM and net interstate migration of labour and households. It also includes explicit modelling of the supply and use of labour by state, industry and occupation as well as the evolution of the population over time based on standard assumptions relating to fertility and mortality rates (life expectancy).

Stylised representation of the VUMR-MI model



In the model, labour force participants adjust their supply of labour to occupations on the basis of changes in after tax real wages, and relocate between states on the basis of the relative competitiveness of labour markets. Businesses are modelled as adjusting their demand for labour by occupational groups on the basis of wage bills and substitute between labour and capital on the basis of changes in the relative cost of labour and capital.

In any one projection period, new labour is progressively introduced into the labour force by state-occupations on the basis of the occupational distribution in the database for that year. On joining the Australian population, NOM entrants would be treated as having the same age-specific fertility, life expectancy, and labour market characteristics as incumbents (scenario 2). To recognise the possibility that the age, gender and occupational characteristics of migrants entering the economy may differ from the average in the database, the age, gender and occupational profiles of migrants are included in the scenarios (scenarios 3 and 4).

The modelling assumes NOM would not affect the Australian terms of trade, governance and taxation structures, or broad assumptions about the maintenance of a well-functioning market economy and the absence of catastrophic social, political, population or economic shocks.

No model can fully replicate the economy, the population and its demography and all of the complex interactions within and between the systems. There are also some real world processes not explicitly captured within this model such as the emergence of new activities and products, or global population or economic changes.

Sources: CoPS (2015); Technical supplement A.

Using VUMR-MI projections of the economy, the impact of NOM is assessed through the four scenarios outlined in box 8.2 from the recent past (2013-14) to 2059-60. The scenarios highlight the implications of migration and assumptions concerning the composition of the migrant intake.

The scenarios are not forecasts of the future but rather conditional projections based on the growth assumptions embedded in the VUMR-MI model. As with all modelling, there are a number of key assumptions underpinning the analysis and, as such, the projections should be treated as illustrative of possible growth paths for the economy.

National macroeconomic implications

The Commission's modelling of scenario 2 compared with scenario 1 suggests that with a population of around 40 million in 2059-60, economic activity measured by GDP is projected to be around 58 per cent higher ($917 billion in current 2014-15 dollars) than without NOM (figure 8.4, panel a). Growth in the 'without migration' case tapers off particularly in the 2040s and 2050s with the projected increase in the proportion of the population over 65 years of age and the relatively low workforce participation rates by people in that age group (although participation is likely to be higher with the increase in life expectancy).

The economic growth paths depicted reflect growth in population as well as its participation in the workforce and assumptions about the continued growth in the productivity of labour by industry at historical average rates. In common with other longer-term studies, the projections abstract from short to medium-term cyclical changes and variations in the terms of trade. To the extent that such events occur, realised changes would vary from the growth path depicted.

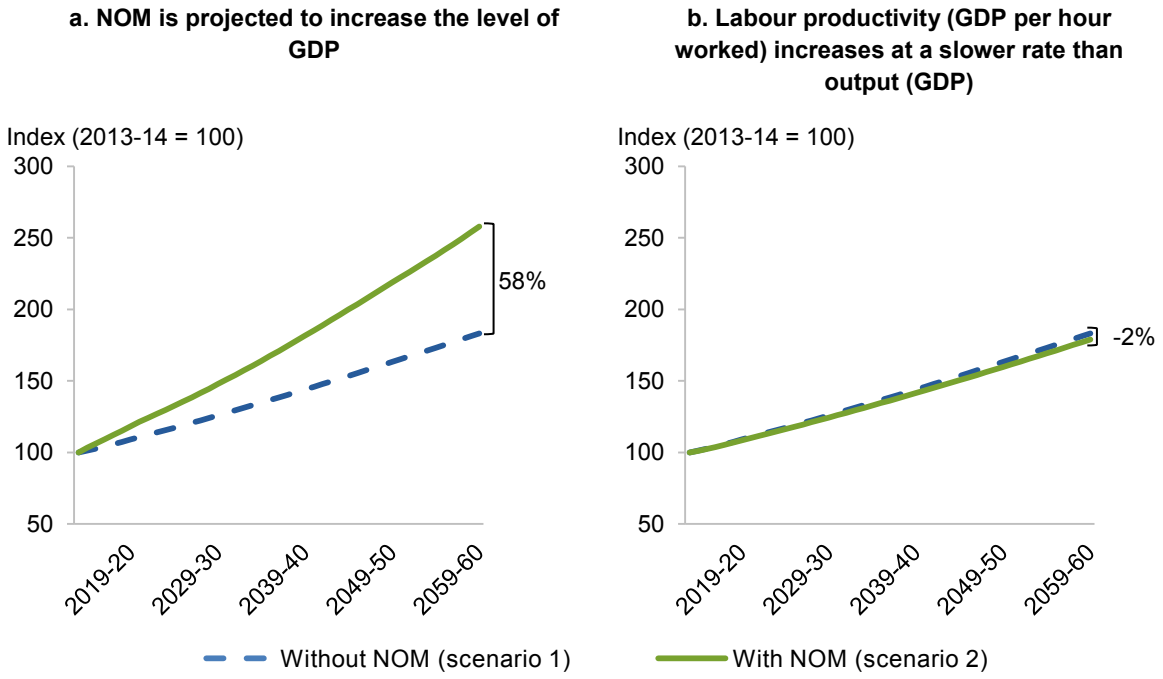
While the additional labour provided by Australia's migrant intake (and the natural increase in the population) supports growth in the level of output, output per unit of labour input — labour productivity — need not increase proportionately. It will be influenced by the occupational and skill level of the migrant intake and the deployment of additional capital to support labour in productive activities. However, other things remaining equal (including the technology and organisation of production), diminishing marginal returns in production mean that labour productivity would not increase as quickly as output.[41]

The Commission's projections indicate that, with NOM converging to the historical average rate of 0.6 per cent of population per year, labour productivity is likely to be lower than the hypothetical without migration case — by around 2 per cent (figure 8.4, panel b).

[41] Diminishing marginal returns to production arise because of: constraints on the availability of fixed resources (such as agricultural land); the requirement that new capital be deployed at the going rate of return; and lags between increases in labour and investment in new capital.

The lower labour productivity could be reflected in lower real wage receipts by the workforce in the with-NOM case relative to the without migration case.

Figure 8.4 **NOM is projected to increase the level of GDP and affect the productivity of labour**



Source: Productivity Commission preliminary projections.

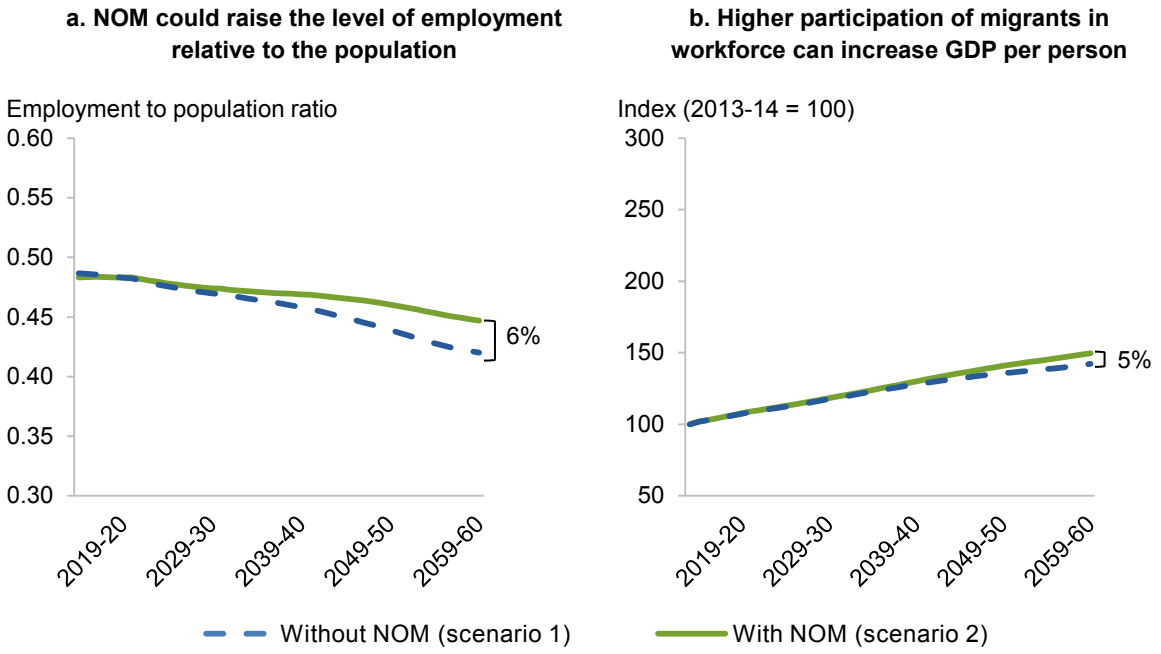
This effect could be mitigated if migration was increasingly oriented to higher skilled occupations or if the migrant intake afforded increased opportunities to raise national productivity though technological and organisational changes that would not be otherwise available (through, for example, increased innovative activity). These matters are taken up below.

Over the next 45 years, the effect of population ageing could see the number of persons in employment relative to the population fall. A key economic impact of NOM arises from the mix of working age people in the migrant intake relative to the incumbent population. With an immigration system oriented towards attracting people in the prime working age groups, immigration ameliorates, but does not eliminate, the effect of ageing. If NOM were to continue at historical average levels (as a share of the total population) and the migrant intake participated in the workforce at around national average levels, the number of people in employment relative to population would be higher than with natural population increase alone (figure 8.5, panel a).

Based on current patterns of workforce participation, the higher employment rate is projected to outweigh the lower labour productivity and, as a result, GDP per person is

projected to be 5 per cent higher with NOM in 2059-60 (figure 8.5, panel b). This would amount to $5100 per person (in 2013-14 dollars).

Figure 8.5 **Participation of migrants in workforce is important for economic outcomes**



Source: Productivity Commission preliminary projections.

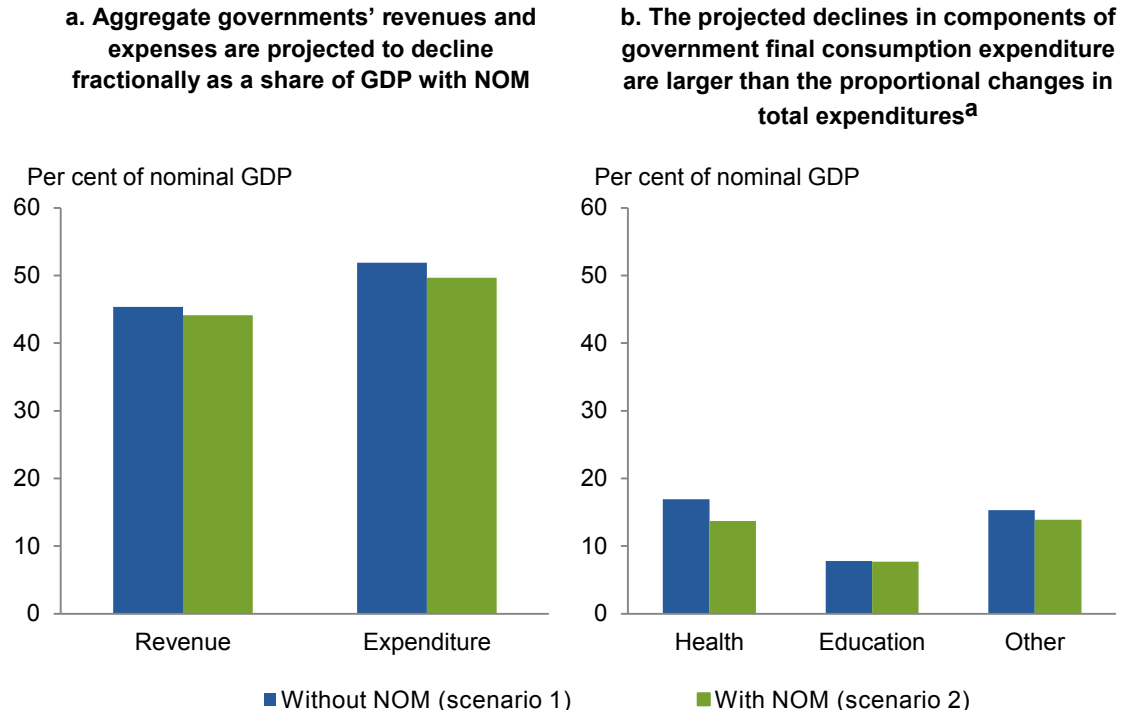
Government revenue and expenditure implications

A larger population and the associated changes in its demographic structure and the level and composition of economic activity will have fiscal implications for Australian governments. The Commission's general equilibrium modelling takes into account the impact of changes in economic activity on government revenues and outlays as well as changes in demography on key items of government expenditure including health, education and age-related social security payments (including the aged pension) across all levels of government.

In line with increases in economic activity (GDP), Australia's migrant intake is projected to increase the revenues and expenditures of the Australian, state and territory governments to 2059-60 over levels that could prevail without NOM. As a share of GDP, however, government revenues and expenses are projected to remain broadly similar — with a slight improvement in the fiscal balance — in the with-NOM case compared to the hypothetical without NOM case (figure 8.6, panel a).

The improvement in the fiscal balance is partly due to the younger age profile in the with-NOM case, which is projected to relieve some of the pressure of ageing on government expenditures as a proportion of GDP. In particular, expenditure on health and related services is projected to be lower at 14 per cent of GDP with NOM compared to around 17 per cent of GDP without migration (figure 8.6, panel b). Other government expenditures including education, are also projected to be relatively lower.

Figure 8.6 **Government revenues and expenditures are projected to be lower as a share of nominal GDP with NOM, 2059-60**



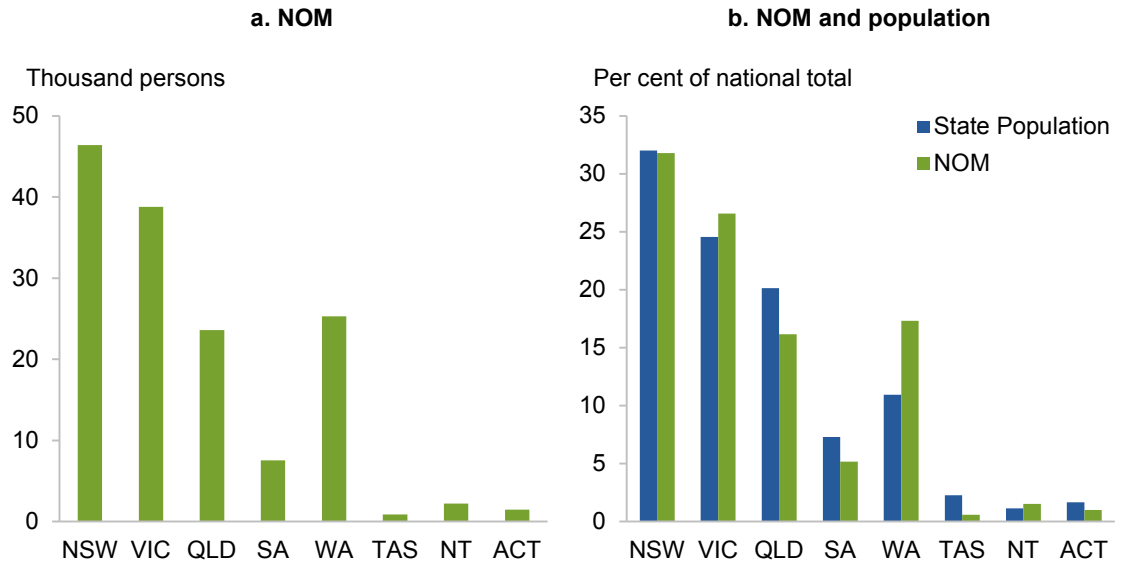
[a] Government health expenditure includes health care services and residential care. Government education expenditure includes pre-school, primary, secondary and tertiary education. Other government expenditure includes public administration and regulatory services, defence and transport services.

Source: Productivity Commission preliminary projections.

Regional implications

The points of entry of NOM are currently concentrated in the most populous states of New South Wales and Victoria both in absolute and relative terms. While migrants broadly entered states according to the distribution of the population across states in 2013-14, there was a disproportionate migrant flow to Western Australia and Northern Territory; and a below average flow to Queensland, South Australia, Tasmania and the Australian Capital Territory in that year (figure 8.7, panel a and b respectively).

Figure 8.7 **NOM by state of entry, 2013-14**



Sources: ABS (*Australian Historical Population Statistics*, cat no. 3105.0.65.001); ABS (*Australian Demographic Statistics*, cat. no. 3101.0).

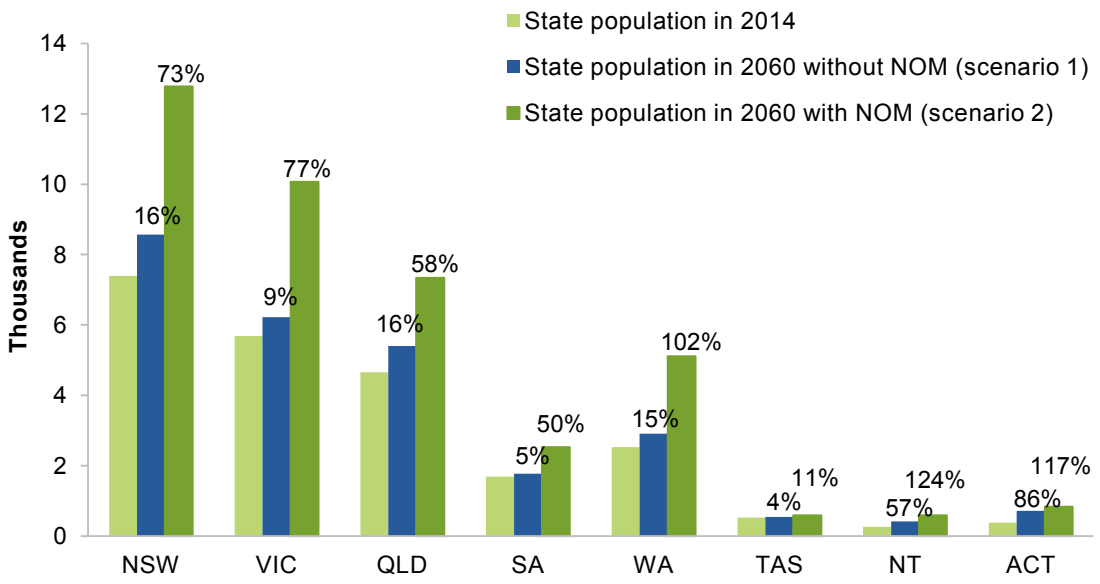
How NOM ultimately affects state and territory populations will depend not only on the point of entry of immigrants (and the point of exit of emigrants) but also employment opportunities across regional industries and the movement of people between jurisdictions in response to those opportunities.

Without NOM, populations are projected to increase across jurisdictions and roughly maintain the current regional population distribution (figure 8.8). This reflects the relatively small increase in the total population and the expansion of employment in occupations serving a population with a higher age dependency ratio.

Continued NOM (with immigration oriented towards the relatively young working aged) would increase the supply of labour in the Australian economy. This labour would find employment in existing centres and also support the expansion of some activities, including the more trade-exposed capital-intensive activities across Australia. With the relative concentration of migration into Western Australia and Northern Territory, and the relatively high concentration of trade-exposed industries in these states, populations are projected to expand relative to other states (figure 8.8). The populations of the more diverse states of New South Wales and Victoria are projected to expand at roughly the national average rate.

Figure 8.8 **Regional populations are projected to increase with NOM, although not in the same proportions**

Thousand persons and per cent increase (between 2014 and 2060)



Source: Productivity Commission preliminary projections.

8.4 What if migrants have different labour market characteristics?

Occupations and spillover benefits to labour productivity

The earlier analysis focused on the effects of continued migration with the demographic characteristics of the current migrant intake against the hypothetical case without net migration — real GDP per person is projected to be around 50 per cent higher in 2059-60 compared to 2013-14 with migration (scenario 2), and only 42 per cent higher without migration (scenario 1) (figure 8.9). That is, taking the younger age profile of immigrants into account, NOM is projected to deliver a demographic dividend to Australia through higher labour force participation, with real GDP per person projected to be some 5 per cent higher in 2059-60.

The above results assume migrants have the same age-specific labour market characteristics as the incumbent population. This section considers the sensitivity of impacts to:

- differences in the occupations of new migrants compared to the incumbent population (scenario 3); and

- possible productivity spillovers to the domestic economy from the migrant intake (scenario 4).

Overall, the occupational effect of NOM is uncertain because the migrant intake includes people that gain employment in both the more skilled professional, technical and community service groups as well as the less skilled labourer occupational groups.

The nature and size of the likely spillover effects to productivity from immigration is also very uncertain. As a result, the Commission's general equilibrium modelling exercise is based on the conjecture that spillovers associated with migration lead to a 1 per cent increase in labour productivity growth. This approach is adopted to illustrate the direction and size of possible economic impacts associated with immigration spillovers on labour productivity and, ultimately, economic growth.

Preliminary projections suggest that accounting for occupational differences between immigrants and the incumbent population only marginally affects GDP per person (figure 8.9, scenario 3). While the migrant intake has a component focused on skills, Australia has a relatively highly educated and experienced labour force. Much of the gains from the skilled component of migration are therefore already reflected in scenario 2 (where immigrants are assumed to have the same occupational profile as the incumbent population).

The augmentation of the existing resources through additional (small) spillover benefits to labour productivity is projected to further add to the economic contribution of NOM — with GDP per person projected to be only marginally higher in scenario 4 compared to scenario 2 (figure 8.9, scenario 4).

Real wages and the effects of migration

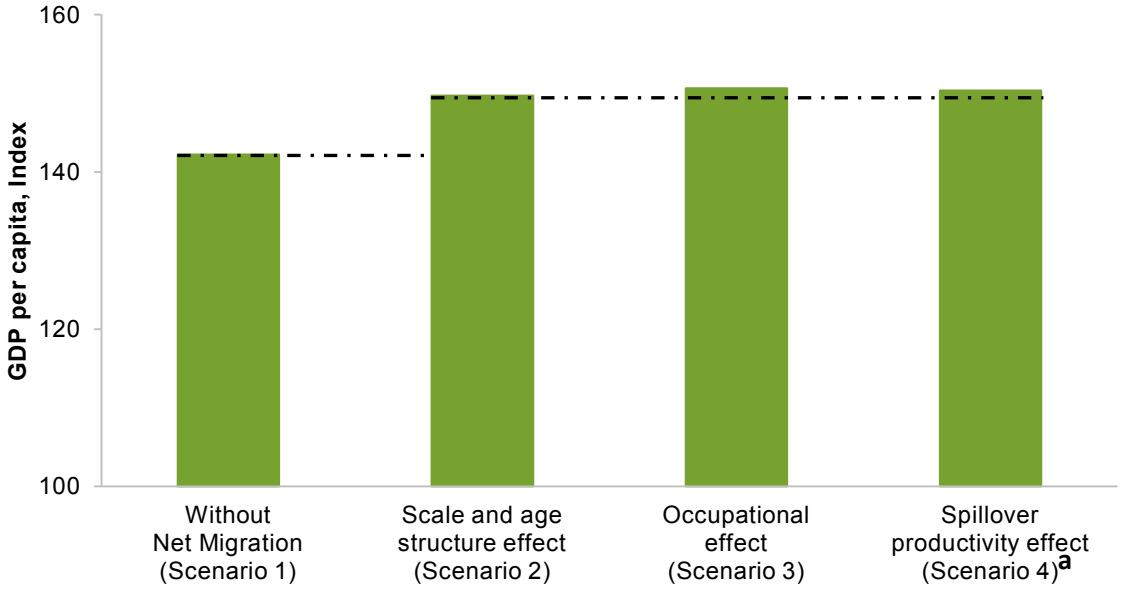
Population ageing is projected to place additional demands on available labour, placing upward pressures on real (after-tax) wages, particularly in industries servicing older Australians.

A lowering of the age dependency ratio through net migration would moderate such pressures — by around 20 per cent economywide by 2059-60 (scenario 2) (figure 8.10, panel a). While immigration is projected to reduce the extent of real wages growth to 2059-60, it is important to note that real wages are projected to rise substantially over the period.[42]

[42] The general equilibrium analysis differs from the econometric results discussed in chapter 5 and technical supplement C. The econometric results are based on an analysis of variation between labour market outcomes in skill groups with differing levels of migration, whereas the general equilibrium analysis examines labour market outcomes in an economy with migration against the counterfactual of the economy without migration.

Figure 8.9 **Occupational and spillover effects of NOM on projected GDP per person**

Index 2013-14 = 100, 2059-60



[a] Assumes that spillovers associated with migration result in a 1 per cent increase in labour productivity growth.

Source: Productivity Commission preliminary projections.

The higher growth in the service industries is projected to place substantial upward pressure on the professional and community and personal service wages (figure 8.10, panel b).

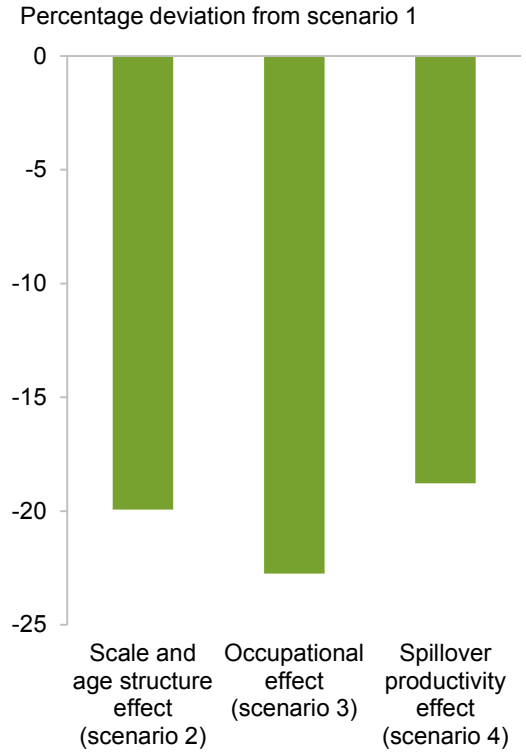
Moderation of wage pressures is projected to be highest in the areas where the immigrant workforce is most represented — the professions and community services workers and labourers — and pressure for wage growth is high. This takes account of both the growth in industries, their workforces and the movement of people between occupations in response to relative wage differentials.

Real wages are projected to be broadly similar under the with and without NOM scenarios in 2059-60 for sales workers and machinery operators and drivers. These occupations are concentrated in retail and wholesale trade, and road freight transport. As such, there are relatively limited opportunities for re-employment in the same occupation in other industries. Adding new labour through immigration into these activities, therefore, is projected to lead to a relocation of workers to other occupations and industries in response to real wage differentials.

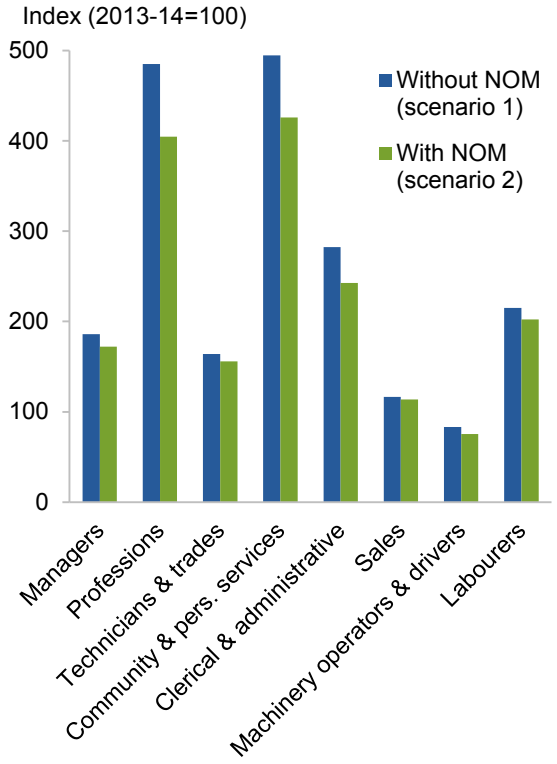
Figure 8.10 **Real wage changes**

Projected changes in real after-tax consumer wages

a. Percentage deviation in total wages from the without NOM projection, 2059-60



b. Cumulative change in real wages by occupation percentage change from 2013-14 to 2059-60



Source: Productivity Commission preliminary projections.

More broadly, low real wage growth for sales people and machinery operators may occur with technological changes and the associated slowing of demand for labour in these occupations. Indeed, Cully (2015) suggested that jobs that are the most susceptible to automation are those that involve low levels of perception and manipulation, creative intelligence and social intelligence. The analysis suggested that automation potential is highest in retail trade, transport, postal and food warehousing, and accommodation and food services. These include industries in which employment of sales and machinery operators and drivers is concentrated.

8.5 Past assessments of the economywide impacts

Several studies have used general equilibrium models to examine the economywide impacts of immigration in Australia (box 8.4). In particular, a few studies have examined the contribution of migration to changing the demographic and productive structure of the Australian population and its labour market, towards one that is relatively younger and

more skilled than could be achieved through natural population increase at prevailing fertility rates.

Past studies of the economywide impact of migration have generally projected that migrants will positively affect the level of economic activity in Australia over the decades ahead. However, the overall direction and distribution of other common measures of economic activity, such as real GDP per person or wages, have been somewhat mixed and affected by, among other things, assumptions about the size and relative productivity of the immigration intake.

Focusing on the supply-side impacts of introducing more skilled labour into the economy, in 2006, the Commission conducted a modelling exercise to assess the economic impacts of a 50 per cent increase above 2004-05 levels in Australia's skilled immigrant intake — the equivalent of 39 000 additional skilled immigrants per year — over the 20 years to 2024-25. Based on this simulation, the Commission projected an increase in the size of the economy (real GDP) by 4.6 per cent and in national income (real Gross National Product (GNP)) per person of 0.71 per cent (PC 2006). At the same time, modelling by Econtech for the Department of Immigration and Multicultural Affairs also simulated a 50 per cent increase in skilled immigration, projecting a 1.1 per cent increase in consumption per person (as a measure of living standards) after 20 years (Econtech Pty Ltd. 2006).

While these earlier studies shed some light on the contribution of higher levels of skilled immigration to the Australian economy, the scenarios modelled differ substantially from the question asked in the Commission's current inquiry — on the economywide impacts of the overall migration program. Moreover, Australia's immigration policies have changed substantially over the past decade, with a much greater focus on skilled immigration including on the employer-sponsored stream (chapter 2). Indeed, different assumptions regarding the number and mix of migrants give different population and labour supply projections and help to explain differences in modelling results.

More recently, to analyse the economic impact of migration on Australia, modelling undertaken by Independent Economics for the Migration Council of Australia examined the impact of a continuation of the current migration framework compared to zero migration over the 35 year period to 2050.

In addition to taking into account the direct effect of migration in increasing the size and quality of the labour force, Independent Economics also '… allow for economies of scale in infrastructure, diseconomies of scale from fixed natural resources and semi–endogenous growth from education and research and development to also be considered' (Migration Council Australia 2015, p. 6). The study projected that migration could increase the Australia's population by 14 million (to reach 38 million) by 2050, with migration projected to increase GDP per person by 5.9 per cent.

It is generally understood that the results produced by different economic models (including general equilibrium models) may vary, and that differing results are contingent on the underlying assumptions (including the assumed rate or level of NOM) and

methodological approaches employed. Despite differences in modelling approaches, the nature of results published by Independent Economics broadly align with key economic impacts suggested by the Commission's preliminary projections.

Box 8.4 Some studies of the economywide impacts of migration

Estimates of the economywide impacts of migration have been highly dependent on the impacts and timeframe captured by the economic models used by these studies and the assumptions made about the differences in characteristics between the immigrant and non-immigrant population.

Economic Impacts of Migration and Population Growth (PC 2006)

At the time, the Commission projected that the impact of increasing skilled immigration by 50 per cent — that is, the impact of an additional 39 000 skilled immigrants each year over the 20 years to 2024-25 — could increase the population by 3.3 per cent, the size of the economy (real GDP) by 4.6 per cent and income (GNP) per person by 0.71 per cent. Most of this increase derived from increased labour force participation and the skill effect of a more highly educated workforce.

Most of the projected increase accrued to the migrants in the form of wage income for their labour and to owners of capital as a consequence of new investment to support the higher activity levels. Growth of real average incomes of existing resident workers was projected to be moderated relative to the base case. Average real wages were projected to decline by $334 per person, over the 25 year period but income from other sources rose, including increased returns to capital and increased government transfers due to higher indirect tax revenue (by $154 and $103 per year respectively).

Overall, PC (2006, p. 77) found that '… a 50 per cent increase in the skilled migration intake is estimated to deliver a 0.27 per cent increase to GDP per capita …'.

The economic impacts of migration, an analysis of NSW (The CIE 2013)

The Centre for International Economics (CIE) projected that if skilled and business migration did not occur in NSW between 2012-13 and 2016-17 — preventing an estimated 194 000 skilled migrants and 186 000 secondary skill steam migrants from entering NSW — the NSW population would be 4.9 per cent smaller in 2016-17.

Without skilled and business migration, in 2016-17, NSW Gross State Product (GSP) was projected to be 2.3 per cent smaller and real wages 0.5 per cent higher. The CIE (2013) noted that as the contraction in real GSP (of 2.3 per cent) was smaller than the reduction in population (of 4.9 per cent), real GSP per person was projected to be 2.7 per cent higher in the absence of skilled and business migration in NSW.

Noting uncertainty over whether a productivity differential existed between migrants and incumbent workers in NSW, the CIE included a scenario where it was assumed that the productivity of the NSW workforce in the no migration case was 0.5 per cent less than the with skilled migration case. Under this assumption, the CIE projected that real GSP could be 2.8 per cent lower and real consumption 3.8 per cent lower in 2016-17 without skilled and business migration.

(continued next page)

Box 8.4 (continued)

The economic impact of migration (Migration Council Australia 2015)

Building on its 2006 analysis (Econtech 2006) to reflect substantial changes to the migration program since 2004-05 and to include additional linkages between migrants and the economy in the modelling, Independent Economics examined the economic impact of migration over a 35 year period to 2050.

The model assumed continuation of the current migration framework — an average level of NOM of around 250 000 people per year up to 2029-30, with NOM contributing 0.85 percentage points to population growth thereafter — compared to the scenario of zero migration. The study projected that Australia's population could reach 38 million by 2050, with immigration adding 14 million or 37 per cent to the population over this time and contributing $1.6 trillion to Australia's GDP. The study also concluded that migration will add 15.7 per cent to Australia's labour force participation rate, and increase real wages by almost 10 per cent in 2050. By skill level, real wages were projected to decline by 3.5 per cent for high skilled workers, but increase by 11 per cent for mid-skilled and 21.9 per cent for low-skilled workers, from levels that would otherwise prevail.

While labour productivity was projected to decline by 7.9 per cent (as capital stocks adjust to a larger labour force), projected employment growth means that by 2050 migration was projected to increase GDP per person by 5.9 per cent and household consumption by 12.2 per cent, above levels that would, otherwise apply.

Economic Impacts of Immigration: Scenarios Using a Computable General Equilibrium Model of the New Zealand Economy (Nana, Sanderson and Hodgson 2009)

This report for the NZ Department of Labour, among other things, modelled the economywide impact of no further immigration with the 'business as usual' case. The report estimated that over the 15 years to 2021 the current immigration intake will increase New Zealand's population by 437 000, add $28 billion in GDP, and increase GDP per person by $1000 above levels that would otherwise apply.

The impact of doubling net immigration inflow (increasing the level of annual immigration by 20 000 above existing levels) was also modelled, increasing the population by 6.1 per cent and the labour force by 7.4 per cent in 2021. Real GDP was projected to increase by 7.6 per cent and GDP per person by 1.5 per cent ($800). The report also examined the sensitivity of the results to the assumptions that:

- the additional immigrants are concentrated among skilled labour categories. The skill mix assumption slightly raised GDP and GDP per person outcomes, with real wages increasing slightly compared to the business as usual scenario in 2021
- improved economies of scale and productivity across the domestic economy — modelled as a 1 per cent improvement in technical change. The productivity shock raised projected real wages (0.9 per cent), GDP (8.7 per cent) and GDP per person (2.5 per cent) compared to the base case
- more open trade in both exports (by assisting producers to develop new products, contacts and export-market opportunities) and imports. Assuming an increased propensity to trade resulted in a slightly lower GDP and GDP per person improvements compared to the base case.

8.6 What can be concluded about the overall impact of migration on the Australian economy?

Previous studies that have used general equilibrium models to examine the economic impacts of migration in Australia have found that immigrants make a positive impact on economic output (often measured in terms of GDP). A number of Australian studies including PC (2006), have also found that while immigrants receive returns from their employment in Australia, the population as a whole benefits from higher GDP per person. The Migration Council Australia (2015, p. 20) concluded that:

> While many of the economic gains from migration will go to migrants themselves, in the form of employment and income from that employment, the effects of migration flow through every aspect of the economy. There are also significant gains for existing residents, both in terms of wages and living standards, through the net fiscal benefit they provide to the Government budget.

The Commission's own preliminary modelling projects that continuing NOM at historical average levels (0.6 per cent of the population) to 2059-60, relative to natural increase alone, would have a number of demographic and economic impacts:

- increase the size of the Australian population by 13 million and lower the age dependency ratio
- raise the employment to population ratio
- increase the size of the government, with revenue and expenses increasing by broadly similar proportions
- moderate wage pressures, particularly in industries servicing older Australians.

Overall, the Commission projects that economic activity (measured by GDP) could be around 58 per cent higher in 2059-60 with NOM compared to natural increase alone.

A larger population and economy will also be associated with higher levels of activity in infrastructure service provision, such as roads and utility services. However, as noted in chapter 7, the fiscal effects of immigration on infrastructure spending will depend on the relative contribution of immigrants to government revenue and expenditure and whether their presence affects the unit costs of service provision. It also depends on the links between infrastructure service provision and government, and the types of infrastructure required to meet the needs of a larger population.

The Commission's modelling highlights the importance of the age and skills profile of immigrants to the economywide benefits of migration, particularly in the context of an ageing Australia. Provided that the rate of migration remains broadly stable, immigrants with high rates of workforce engagement and employment in higher skilled occupations (in line with the occupational profile of the Australian workforce), are likely to lead to an increase in per person GDP. In 2059-60, the Commission projects that net migration could increase GDP per person by 5 per cent ($5100 per person in 2013-14 dollars).

An immigration system geared to attracting skilled migrants in working age groups is therefore more likely to deliver an economic benefit for the wider Australian community.

Nevertheless, it cannot be assumed that a material increase (or decrease) in the NOM would result in proportional increases (or decreases) in economic outcomes. Whether a particular migration program will deliver an overall benefit to Australia will crucially depend on a broad range of factors, including the efficiency of the labour market, the efficiency in developing new and maintaining existing infrastructure as well as environmental and social policy settings.

DRAFT FINDING 8.1

Projections from the Commission's preliminary modelling suggest that continuing net overseas migration at long-term average levels would increase Australia's population to around 40 million by 2060 — 13 million larger than projected with natural increase alone.

By continuing to attract people of working age, the intake of migrants would deliver a demographic dividend to Australia. The associated decrease in the age dependency ratio can reduce — but not offer a permanent solution to — the economic impact of an ageing population.

- While immigrants would benefit from their employment in Australia, the Australian population as a whole would benefit from a higher output per person.
- The increased employment relative to population raises GDP per person — projected to be around 5 per cent higher by 2060 (equivalent to $5100 per person in 2013-14 dollars) than without migration.

9 Temporary immigration programs

Key points

- The scale and relative importance of temporary immigration has grown significantly over the past 20 years. This growth is particularly apparent in the international student, working holiday maker and temporary skilled 457 programs.
- All temporary programs have labour market elements. However, the labour market effects of student and working holiday maker work rights on the incumbent labour force (particularly young workers and new entrants) are poorly understood. More analysis is needed to determine if changes to these work rights are needed.
- There appears no justification for imposing annual caps on temporary immigration programs where none currently exist, although there might be a case to limit numbers under particular occupations on the 457 occupations list. Existing country-level caps on the number of Work and Holiday visas appear justified on the basis of country risk.
- Although English-language proficiency remains an important criterion for student and skilled 457 visa holders, flexibility in how it is assessed is warranted (and relevant changes have been supported by the Government).
- The process for identifying skill shortages needs improving to better reflect the economy's requirements and be more responsive to changing circumstances. To this end, the relevant recommendations of the Independent Review into Integrity in the Subclass 457 Programme (which the Commission endorses) are expected to deliver improvements. Better processes for identifying genuine skill shortages could also support caps for some occupations.
- While the Commission supports labour market testing under the 457 visa program, the current arrangements need to be reformed to improve their effectiveness and efficiency. The continuing need for labour market testing should be reviewed in the light of how successful the new arrangements for assessing skill shortages prove to be.
- The higher risk of exploitation faced by temporary immigrant workers is a serious issue that has the potential to adversely affect the future success and credibility of temporary immigration programs. For workers on 457 visas, the Government's implementation of the Azarias report recommendations should materially reduce that risk. For the other temporary work visa programs, resources dedicated to monitoring threats to the integrity of the program have not kept pace with increased numbers of entrants. A pilot scheme to provide information via a smart phone app on workers' rights and where and how to lodge complaints about exploitation could empower temporary workers and reduce the incidence of their exploitation.
- The New Zealand citizen Special Category Visa program appears to be working effectively in facilitating the free flow of labour across the Tasman. However, concerns remain about the limited access to some government services for a small, but growing number of significantly disadvantaged people under this visa category.
- There are sound reasons to believe the Seasonal Worker Program is successful in allowing some farmers to fill otherwise perennial labour shortages and in delivering significant benefits in the communities from which overseas seasonal workers are recruited.

Australia's temporary immigration programs may be categorised into six broad groups.[43] Only the first four — which feature a strong labour market element and account for over 90 per cent of immigrants under the six groups — are considered in this chapter.

- Student and Temporary Graduate programs
- Working Holiday Maker program
- Employer-sponsored Temporary Work (skilled) and Seasonal Worker programs
- New Zealand citizen program
- Bridging visa programs[44]
- Other temporary programs.[45]

While the programs in each of the first four groups have different policy objectives, there are some issues that apply to a number of them. One such issue is whether these programs contribute positively or negatively to labour market outcomes in Australia: the answer to which could have major implications for whether the programs should be subject to caps. Another shared issue is the risk of workplace exploitation. The temporary nature of these visas, when combined with immigrants' lack of awareness of workplace rights and obligations, and, in some cases, poor English-language skills, place them at a higher risk of exploitation by employers, relative to permanent immigrants.

The following discussion:

- outlines the objectives of the programs
- identifies the performance of the programs against these objectives, while being mindful of their compatibility with the overarching objective of immigration policy to improve the wellbeing of the Australian community
- assesses whether changes are needed to deliver better outcomes, particularly with regard to the annual level of immigrants entering under the programs or to address obstacles to the success of the programs identified by participants.

This discussion is presented by visa programs. Student and Temporary Graduate programs are discussed in section 9.1, the Working Holiday Maker program in section 9.2, the Temporary Work (skilled) program in section 9.3, the Seasonal Worker program in

43 Temporary Protection Visas are not included in these groups.

44 Comprising Bridging visa A (to non-citizens who have had a substantive visa and who have made a valid application for a further substantive visa), Bridging visa B (to Bridging visa A holders who demonstrate substantial reasons for travel), Bridging visa C (to applicants who do not hold a substantive visa when they apply for a substantive visa while in Australia), Bridging visa E (to certain unlawful non-citizens in circumstances of compliance interest, including those who are making arrangements to depart Australia). Other Bridging visa classes are granted to non-citizens under other specific circumstances (DIBP 2015g).

45 Comprising visa subclasses for New Zealand Citizen Family Relationship (461) for eligible family members of a New Zealand citizen, Training and Research (402), Diplomatic (995), Retirement (410) and Temporary Work (Long Stay Activity) (401) (DIBP 2015g).

section 9.5 and the New Zealand citizen program in section 9.6. A separate discussion on exploitation is provided in section 9.4.

9.1 Student and Temporary Graduate programs

Objectives

Australia's temporary immigration programs are implicitly subject to an overarching objective of increasing the living standards of the Australian community (chapter 4).

At a program-specific level, the objective of the Student visa program is to support the growth of the international education sector while maintaining high levels of immigration integrity (that is, ensuring students are genuine in their intention to complete a course of study rather than using the program primarily as a de facto migration entry point) (PC 2015).

The objective of the Temporary Graduate program is to ensure that overseas students who decide to stay on in Australia after completing their studies have an opportunity to gain work experience (DIBP 2015d). By doing so, this visa allows overseas students to gain skilled work experience or improve their English-language skills, which might then allow them to pass the points test under the Skills Select system or gain sponsorship by an Australian employer (Fitzroy Legal Service 2015).

While these two programs do not have an explicit objective of providing a pool of applicants for permanent immigration, they are an established and important path to permanent immigration (SA Government, sub. 57, p. 5).

How do the programs perform against their objectives?

The temporary immigrants in student and temporary graduate programs share many of the attributes identified in permanent immigrants that give rise to positive economic contributions (that is, being of working age, skilled, and proficient in English). In addition, immigrants in these programs are also generally excluded from free or subsidised access to most government services (such as health and welfare). As a group, they are therefore unlikely to impose a significant fiscal cost on the Government.

At a program-specific level, international student numbers have been trending steadily upward over the past 10 years (table 2.11). While student numbers declined following a peak in 2009, since 2012 student visas granted and student visa holders in Australia have grown strongly (PC 2015b, p. 47). Changes to the student visa program — particularly the introduction of an expansionary student visa policy through streamlined visa processing (SVP) and an expansion of post-study work rights for graduates — made a significant contribution to this growth (PC 2015b, p. 4).

The Commission's 2015 report on international education services found these visa holders made a major economic and social contribution to Australia. In 2014, demand from these students contributed some $17 billion to the Australian economy, representing around 27 per cent of services exports (PC 2015b, p. 3).

The use of SVP has raised concerns that it could undermine the integrity of the visa system because it treats students applying to higher education courses as though they were from low immigration risk countries, irrespective of their country of origin (PC 2015b, p. 90). It is too early to identify if SVP has had a positive or negative impact on the integrity of the student visa program (DIBP 2015e, p. 12). However, in response to these and other concerns about the operation of SVP, the Department of Immigration and Border Protection (DIBP) initiated a review of the system in November 2014. That review reported in June 2015, and made a number of recommendations aimed at maintaining high levels of immigration integrity. Chief among those recommendations was to implement a combined country and provider immigration risk framework to guide student visa evidentiary requirements (DIBP 2015e, p. 4).

By these measures it seems fair to conclude that the Student and Temporary Graduate programs have been successful in supporting the growth of the international education sector, while reforms are underway to maintain high levels of immigration integrity.

In practice, these programs have provided a path to permanent immigration for significant numbers of students and temporary graduates (chapter 11). In 2013-14, for example, almost 25 000 Points Tested Skilled Migration permanent places went to graduating international students (7941) and those on a Temporary Graduate (or equivalent) visa (17 050) (DIBP 2015b, p. 27).

As noted, these applicants have characteristics that predispose them to make a positive contribution to the Australian community. This is likely because of their age, health and skill attributes (particularly when their qualifications are in areas where labour market shortages exist). Similarly, their experience of living and working in Australia means they are likely to understand the challenges of integrating into the community and, thus, less likely to later emigrate as a result of being disillusioned with their life here.

Are changes needed?

Over the past five years, various reviews have delivered recommendations to improve the performance of the Student and Temporary Graduate programs (box 9.1).

Box 9.1 **Recent reviews and reports affecting the Student and Temporary Graduate programs**

- *Strategic Review of the Student Visa Program* (Knight Review) in 2011
- *Australia — Educating Globally* report (the Chaney Report) in 2013
- *Draft National Strategy for International Education*, released in April 2015, which includes the Government's response to the Chaney Report
- *International Education Services*, a research report by the Productivity Commission in 2015
- *Future directions for streamlined visa processing*, by the Department of Immigration and Border Protection in 2015.

While the Government has acted on many of the recommendations in those reports, participants still expressed concerns about the performance of the programs. These concerns centred around whether the annual level of visas granted under the programs was too high and obstacles they considered were limiting the ability of programs to deliver against their explicit or de facto objectives.

The level of immigrants under the programs

The number of Student and Temporary Graduate visas is not capped, and as at 30 June 2015, there were 374 570 Student and 26 260 Temporary Graduate visa holders in Australia (DIBP 2015g, p. 3).

The level of immigrants entering Australia under each program was a source of contention among participants. While most with a view on this matter held that 'more is better', some argued that numbers should be capped so as to minimise the adverse labour market effects that temporary immigrant workers created for Australian workers.

As noted, these visa holders contributed some $17 billion to the Australian economy in 2014. Student and temporary graduate visa holders play a critical role in underpinning the international education sector. In its recent assessment on the international education sector, the Commission concluded that international students provided a net benefit to the community but noted a number of risks to the potential sustainability of the sector, including an overreliance on international agents and a lack of diversification across source countries and courses. Overall, the Commission considers that these visas should remain uncapped — at least until capacity constraints emerge in the education sector, at which point the benefits and costs of uncapped international student numbers should be revisited.

On this point, current student numbers are still below the peak of almost 434 000 visa holders in 2009, which suggests capacity constraints are not an immediate problem. However, there remains an issue with course concentration and a relatively high reliance on a small number of source countries. In future, the education sector's ability to expand

capacity to accommodate growing student numbers while maintaining and improving course quality will determine if and how soon any constraints might arise.

Another issue relevant to whether international student or temporary graduate numbers should be limited is their effect on the labour market.

All student visa holders (subclass 570–76 visas) have a right to work (generally up to 40 hours per fortnight) while their course is in session (DIBP 2015a). Those on a Temporary Graduate visa, depending on their qualification, have a right to work for between 18 months and four years (AMES, sub. 45, p. 12). These work rights are an important factor in the attractiveness of Australia's international education services to foreign students (PC 2015b).

However, while Student and Temporary Graduate visa programs are instrumental in supporting a strong demand for Australia's international education services, the labour market effects of the associated work rights (and of their accompanying dependents) are poorly understood (Gregory 2014). Given the number of students and graduates involved and their geographic and demographic concentration, these effects are most likely significant. This is particularly likely for student work rights since the work undertaken by this group tends to be in low and semiskilled work and where they are in competition with Australian youth and first job entrants (chapter 5 and appendix C). The paucity of information in this area led the ACTU to call for the DIBP to collect and provide consolidated information on the working patterns of student visa holders (sub. 36, p. 30).

Moreover, changes to Temporary Graduate visas in 2013 gave longer and less restrictive post-study work rights to higher education graduates than to vocational education and training graduates. The effect of these changes are yet to fully flow through to the take-up of temporary graduate visas and it is too early to identify any link between the post-study work rights policy settings and labour market outcomes.

In Canada, concerns about the quality of its education sector and the effects of work rights for international students[46] on locals' access to jobs led to changes to its International Student Program. Introduced in June 2014, those changes mean that only students enrolled at designated institutions are eligible to apply for an international student visa, and work rights are confined to only those enrolled in certain courses. Language school courses do not qualify and students in those courses are not eligible for work rights (ICEF Monitor 2014; Government of Canada 2014).

This contrasts with the situation in Australia, where all student visa holders, including those on English Language Intensive Courses for Overseas Students visas, are eligible for automatic work rights of up to 40 hours per fortnight.

46 The Canadian work rights of up to 20 hours per week are essentially the same as Australia's, which allows up to 40 hours per fortnight.

More information and analysis on the labour market effects of these work rights (including the potential displacement of some low skilled workers), and the sectoral and economywide effects that might ensue from changing these rights, is needed to determine whether a policy response is justified. It is important that this analysis be comprehensive and transparent: particularly in view of the number of students with work rights, the importance of those work rights in supporting demand for Australia's international education services and in augmenting the supply of labour throughout the economy. A public inquiry would satisfy these conditions.

The labour market effects of student and temporary graduate work rights is within scope of a current Senate Committee inquiry on the impact of Australia's temporary work visa programs on the Australian labour market (Senate Standing Committees on Education and Employment 2015). That inquiry delivered an interim report in October 2015 and its final report is due in February 2016. The initial focus of the inquiry was largely on the 457 visa program although the focus later broadened to more fully embrace the student and working holiday maker programs following media coverage of widespread exploitation of those visa holders (Senate Education and Employment References Committee 2015, p. 6).

The terms of reference for that inquiry could provide a framework for the type of analysis needed to better understand the labour market effects of student and temporary graduate work rights and what, if any, policy changes might be needed in this area. This issue is also examined in chapter 5 and appendix C.

Administration and compliance issues

While excessive administration and compliance costs (generally described as 'red tape') are a perennial target as a barrier to the efficient and effective operation of any government program, participants' comments on this were limited. However, the Commission recently identified concerns with the compliance costs associated with student visas in its report on *International Education Services* (PC 2015b).

Since that report was released, the Government has released a report on *Future directions for streamlined visa processing* and announced the introduction of a simplified international student visa framework (DIBP 2015e). The new framework is expected to replace existing SVP arrangements and the current Assessment Level Framework from mid-2016. The new framework is intended to reduce unnecessary costs on education providers and students.

In addition, the Department of Immigration is undertaking a review of the skilled migration and 400 series temporary visa programs with the aim, among other things, of reducing unnecessary red tape (DIBP 2014d, p. 4). Temporary Graduate (485) visas are included within this review (DIBP 2014d).

In view of the scant attention accorded this issue by participants to this inquiry, and recent changes aimed at reducing unnecessary costs on student visas noted above, the

Commission concludes that this area is not a significant barrier to the programs delivering on their objectives.

English-language proficiency

A key finding in this inquiry is the fundamental importance of strong English-language skills for an immigrant's integration and wellbeing in Australia.

ISLPR Language Services argued that deficiencies in the principal test for assessing the English proficiency of international students seeking enrolment in Australian courses are a barrier to the student immigration program realising its potential. It argued that assessing proficiency under that test (the international English language testing system or IELTS):

- imposes a punitive load on visa applicants (some candidates have taken IELTS from 10 to 50 times, spending up to thousands of dollars in the process)
- is unrelated to applicants' background or language experience and unrelated to the field in which they are going to study
- needlessly excludes some applicants (sub. 16, pp. 6–8).

ISLPR Language Services acknowledged the desirability of a minimum standard of English proficiency as a prerequisite for issuing student visas. And it noted that IELTS is a high quality test that has proven its practical usefulness for many years.

However, it argued that if English proficiency testing was to be fair, reliable, valid for the specific purpose, and relevant for each candidate, then:

> … it is also desirable that another test, better suited to the many purposes for which visa applicants need to use English and better able to assess their English proficiency at the various levels required for visa purposes, should be optionally available. (sub. 16, p. 5)

To this end they proposed that the International Second Language Proficiency Ratings (ISLPR®) be accepted as an option for assessing English-language proficiency (sub. 16, p. 2) in addition to other accepted tests (listed in box 9.2).

ISLPR Language Services noted that ISLPR® is already approved by Government for assessing functional English for visa purposes and is used for assessing English proficiency for entry by international students to educational institutions (sub. 16).

However, it is not clear whether the four other accepted tests for English-language proficiency address the deficiencies of the IELTS claimed by ISLPR Language Services. Nor is it clear what impediments there are to the use or general availability of ISLPR® as an alternative to IELTS. Accordingly, the Commission seeks further information on these matters.

On this issue, the Commission notes that the Azarias report recommended that consideration be given to exploring the suitability of tests such as ISLPR® to determine

English proficiency for the 457 visa program (Azarias et al. 2014, pp. 66–7). The results of any such consideration would presumably have implications for its suitability for assessing the language proficiency of international students.

Box 9.2 Acceptable English tests for international students

The current acceptable English tests for evidencing English-language ability are the:

- International English language testing system (IELTS)
- Occupational English Test
- Pearson Academic Test of English
- Test of English as a Foreign Language Internet Based Test (and Paper-Based Test where IELTS is not available)
- Cambridge English: Advanced Test.

Source: DIBP (nd).

INFORMATION REQUEST 9.1

How widespread and valid are the concerns raised by ISLPR Language Services regarding the current acceptable English tests for immigrants to Australia?

What are the likely benefits and costs of introducing ISLPR® or other validated English-language tests as an accepted test for assessing the English-language proficiency of those seeking a temporary visa?

9.2 Working Holiday Maker program

Objectives

The Working Holiday Maker program has the objective of fostering closer ties and cultural exchange between Australia and partner countries, by allowing young people from specified countries to experience Australian culture and lifestyle through an extended holiday and short-term employment (DIBP 2014b).

While the program is intended to support Australia's tourism industry (by increasing visitors to Australia) it is also intended to support the Australian economy by providing supplementary labour for industries requiring short-term casual workers. The program

(through the second Working Holiday visa initiative)[47] has a special focus on helping employers in regional Australia meet short-term employment needs.

How does the program perform against its objectives?

Working holiday makers are by definition young and of working age, and are excluded from free or subsidised access to most government support services (such as health and welfare). In addition, they spend an average of around $15 000 each year while in Australia: an annual contribution of more than $3.5 billion (NFF, sub. 31, p. 10).

Working holiday makers are, thus, likely to contribute to economic activity and goods and services tax revenue (and to income tax revenue from July 2016)[48] and unlikely to impose a significant fiscal cost on the Government. In addition, an Austrade study of the program's operation in Taiwan has noted that it has directed tens of thousands of Taiwanese to Australia, and has been instrumental in their subsequent choice to study in Australia (Austrade 2011). This second round effect of the program significantly increases its benefit to Australia.

The upshot of this is that, in aggregate, working holiday makers can be expected to deliver a net positive contribution to the economic wellbeing of Australians and, in doing so, contribute to the overarching objective of Australia's immigration program. The large number of working holiday makers also shows the value of the scheme to those in partner countries.

On a program-specific level, the number of working holiday makers in Australia as at 30 June 2015 — 143 920 — and the growth in their numbers over the past 10 years (chapter 2) shows that the program has been successful in facilitating the entry of large numbers of visa holders to Australia and supporting Australia's tourism industry in the process.

Those numbers are also evidence of the contribution the program has made to expand the pool of labour for industries requiring short-term casual workers (Australian Multicultural Council, sub. 11; Matta, sub. 17).

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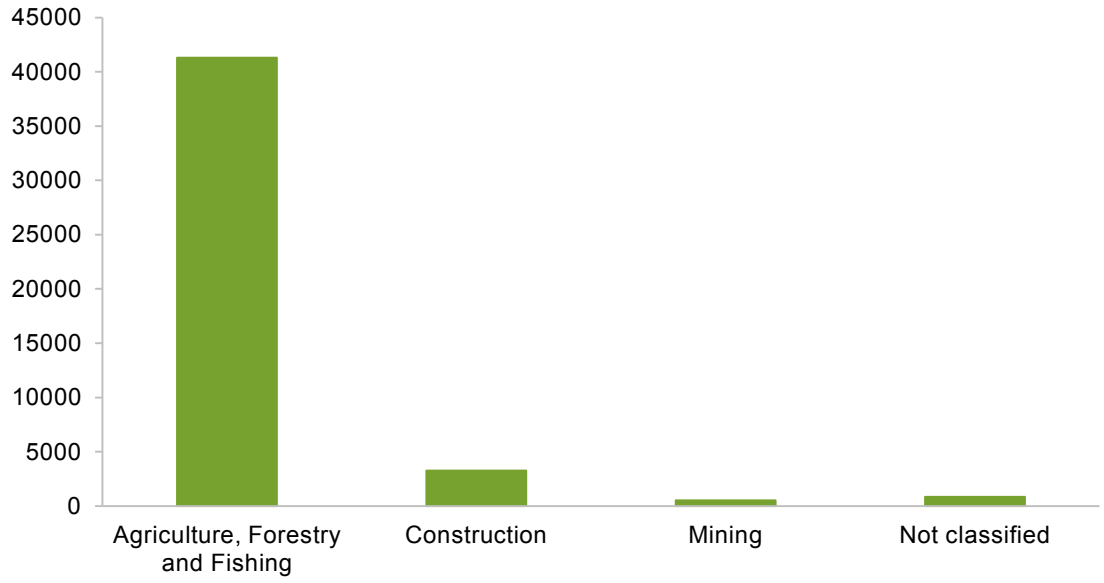
47 The second Working Holiday visa initiative (introduced in November 2005) allows first-time Working Holiday visa holders who undertake 88 days 'specified work' in regional Australia during their stay to acquire eligibility to apply for a second such visa. 'Specified work' includes work in the agricultural, mining and construction industries. For the purpose of the Working Holiday visa initiative, regional Australia includes large parts of rural and regional Australia.

48 In the 2015-16 Budget the Government proposed changes to the tax status of working holiday makers from 'resident' to 'non-resident': to take effect from 1 July 2016. The changes mean they will not be able to access the tax-free threshold and will be taxed at the second marginal rate (currently 32.5%) from their first dollar of income up to $80 000, while not being liable for the Medicare levy (Australian Government 2015a).

The program (through the second Working Holiday visa initiative) has also been successful in helping employers in regional Australia to meet short-term employment needs). Second Working Holiday visa grants grew from about 2700 in 2005-06 to 46 000 in 2013-14 (DIBP 2015i, p. 7). In 2013-14, this represented about one in four first-time Working Holiday visa holders going on to acquire a second Working Holiday visa (DIBP 2015i, p. 4). The success of the second Working Holiday initiative in channelling significant numbers to agriculture is evident in figure 9.1.

Figure 9.1 **Second Working Holiday visa applications granted in 2013-14 by employer industry**



Source: DIBP (2014a).

The National Farmers' Federation (NFF) put the significance of these numbers in perspective, noting that they make a vital contribution to meeting labour shortages in rural and regional Australia:

> Overseas workers are an important part of the Australian agricultural workforce. Approximately 40 000 working holiday makers, 3000 Seasonal Worker Program participants and almost 900 skilled temporary migrants work on Australian farms each year: [this represents] almost one-third of the total (non-managerial) workforce. (sub. 31, p. 4)

While the number of visa holders under the Working Holiday Maker program have exhibited strong growth to date, policy changes announced in the 2015-16 Budget (to tax previously exempt earnings of backpackers and to remove voluntary work as an eligible input to the 88 days of employment on farms needed to get a year's visa extension) may reduce or halt that growth. Master Builders of Australia considered that this would reduce future demand for these visas (sub. 49, p. 22), while media reports suggest it will

significantly reduce Australia's attractiveness to volunteer farm workers — with 'dire consequences' for the viability of some farming operations (Pepper 2015).

While these measures can be expected to reduce demand for Working Holiday Maker visas, it is too early to determine how significant any reduction might be. Moreover, any reduction from this policy change may be offset by proposals in the Government's recent *White Paper on Developing Northern Australia* to expand the scope for working holiday makers to extend their visa (box 9.3).

Box 9.3 Proposals to expand the scope of Working Holiday Maker visas

The Government will amend the Working Holiday Maker visa program to allow both Working Holiday (subclass 417) and Work and Holiday (subclass 462) visa holders to work an additional six months with one employer in northern Australia if they work in the following high demand areas in the north:

- agriculture, forestry and fishing
- tourism and hospitality
- mining and construction
- disability and aged care.

The Government will also be giving Work and Holiday (462) visa holders the opportunity to access a second 12 month visa if they work for three months in agriculture or tourism in the north. Working Holiday (417) visa holders already have access to a second 12 month visa and this change means Working Holiday Maker visa program participants could potentially be able to work for the entire duration of their two year stay in Australia — increasing the supply of seasonal and temporary labour in the north.

Source: Australian Government (2015b).

In addition, although the Working Holiday Maker program is not intended to be a recruiting ground for permanent immigration, it does serve this purpose in a small way. For example, the DIBP's research has shown that from 1991 to 2014 around 18 per cent of working holiday makers applied for and were granted permanent residence (chapter 11).

Are changes needed?

Participants identified a range of changes they thought were justified in order to deliver better outcomes from the program. These focused mainly on changes to the annual number of visas granted under the programs and changes to address the exploitation of working holiday makers by some employers.

Changes to the program may well arise from current reviews. The Fair Work Ombudsman is conducting an inquiry into the wages and conditions of working holiday visa holders (FWO 2014b) and the program is within scope of a Senate Committee inquiry into

Australia's temporary work visa program (Senate Standing Committees on Education and Employment 2015). The final reports of these reviews are due before July 2016 and in February 2016, respectively.

The level of immigrants under the programs

The record of these programs in attracting substantial and growing numbers of young people to visit and work in Australia is partial evidence of their success in meeting their objective.

More generally, studies have indicated that working holiday makers contribute more to total expenditure than they earn and so, on balance, make a small contribution to increasing demand for Australian workers (Harding and Webster 2001; Tan et al. 2009). Tan et al., for example, note:

> Each WHM [Working Holiday Maker] arrival was estimated to create a total of 0.212 full-time equivalent (FTE) jobs, through their spending. … This means that the 134 388 WHM arrivals in 2007-08 created a total number of 28 448 FTE jobs in Australia's economy. (2009, p. V)

Other studies, including those by the Productivity Commission, have found immigration creates at least as many jobs as it displaces (PC 2006) and that it is likely to be a material factor in increasing demand — among those working holiday makers and others from their country of origin — for Australia's international education services (Austrade 2011).

These results, coupled with the evidence from earlier chapters that long-term temporary immigration generates, in aggregate, economywide effects that are likely to be positive, suggests there is no basis to systematically limit numbers where they are not presently capped. This though is not to deny a continuing need to monitor arrivals and, if necessary, introduce (short-term) restrictions if one component of the temporary immigration system is moving out of balance.

For the Work and Holiday program, individual caps already apply for each partner country (except for the US, which is uncapped). As these reflect the DIBP's assessment of immigration risk for each country it seems appropriate that these caps remain.

However, participants' concerns about the current labour market outcomes of the Working Holiday Maker program indicate the need for caution about the number of entrants (chapter 5). The ACTU (sub. 36, p. 29), for example, noted:

> … the working holiday visa … program continues to operate without any public assessment and review of the potential impact this additional and growing labour supply has on employment opportunities and employment conditions for Australian citizens and permanent residents, particularly on young Australians in lower-skilled parts of the labour market.

Various participants argued for its continuation or expansion, based primarily on its value in supplying a pool of workers for low skill jobs (NFF, sub. 31). And since its inception, there is clear evidence that some industries (notably horticulture and tourism) rely heavily

on Working Holiday Maker visas holders to meet labour shortfalls (Parliamentary Library 2006, p. 12); (PC 2014c).

Others argued that the program delivers adverse consequences for Australian workers (Cooper, sub. 25; ACTU, sub. 36) and this justifies limiting the number of visas granted. Putting the issue into perspective, the ACTU stated:

> In 2013-14, a total of 229 378 working holiday 417 visas were granted to young people from overseas … As a point of comparison, at the same time youth unemployment is currently 13.6 per cent, with almost 285 000 young Australians aged 15–24 looking for work. (sub. 36, p. 26)

It argued, given the current labour market, that a cap should be imposed to limit any further growth in this program and annual quotas be determined after taking into account the labour market conditions for young Australians (sub. 36, p. 27). These views echo those of Birrell and Healy, who also argue for limits on visa numbers:

> … action should be taken to ensure that Australian resident job seekers are given priority access to the limited number of new jobs being created in Australia. … There is also a need to cap the number of temporary entry visas issued, particularly to [Working Holiday Makers] … (2014, p. 4)

The ACTU was even more critical of the second Working Holiday visa. It argued that workers under that program were crowding out Australian workers, that it serves no useful purpose, and should be abandoned (sub. 36, p. 28).

However, other participants argued that the persistent labour shortages in agriculture and in regional areas for unskilled workers was evidence that local labour markets are not able to supply the workers needed and that any crowding out would be minimal. The NFF also pointed to the benefits accruing to regional communities from having those labour shortages met and agricultural production enabled (box 9.4). At an aggregate level, the evidence to support this view seems compelling.

Research in New Zealand also supports this view. McLeod and Maré examined concerns that temporary migrants (who face few restrictions on the employment they take up and who are more likely than permanent migrants to take up low-paid or part-time work) are possibly substituting for low-skilled local workers. Their study found no evidence that this is the case in aggregate and that, overall, temporary immigrants do not appear to adversely affect the hiring of New Zealanders or, if they do, the effects are small at most (McLeod and Maré 2013, p. 3).

On balance, the Commission considers that restricting the growth of the second Working Holiday visa program and imposing annual quotas are not warranted on the basis of current information. However, as the ACTU rightly points out (sub. 36, p. 29), there is a dearth of data on the working patterns of working holiday makers, and more information and analysis is needed to inform what policy changes (if any) are needed in this area.

Box 9.4 Working Holiday Makers' value to agriculture: the NFF view

Analysis by the National Farmers' Federation (NFF) in 2008 revealed:

- 22 000 fruit-picking positions were unfilled in horticulture — costing horticultural farms, on average, $100 000-a-year each in unpicked rotting fruit
- in the most extreme cases, farmers were losing $250 000 per season in rotting produce due to the inability to find labour.

There is a chronic disconnect between supply and demand factors, particularly in relation to low skilled work on Australian farms. The seasonal nature of the work limits capacity to offer permanent employment, and spikes in demand for labour at peak harvest times are better suited to short-term, casual employment.

In 2014, the NFF undertook a *Farm Business Survey* to better understand critical employment and labour-related issues affecting the agriculture sector. Almost 50 per cent of respondents said that a shortage of labour was the greatest impediment to their business.

The NFF concluded that labour shortages in the sector have been ameliorated by changes to the second working holiday maker initiative, which encouraged backpackers to work on farms.

Source: NFF (sub. 31).

Nonetheless, although a cap on second Working Holiday visa holders appears to be not warranted at present, the operation of the program in practice raises issues about whether it is delivering the best outcome for Australia.

In its present guise, the initiative is aimed at helping employers in regional Australia to meet persistent labour shortages. This focus is set to expand with the proposals set out in the Government's *White Paper on Developing Northern Australia* (Australian Government 2015b, p. 112).

However, this is not necessarily consistent with maximising community wellbeing. Directing working holiday makers into regional areas and selected industries, rather than allowing market forces (in particular, wages) to determine where they choose to work, can impose efficiency costs if their labour could be used more productively elsewhere . In addition, the program has the potential to thwart attempts to improve Indigenous labour market participation in regional Australia.

Accordingly, further analysis is warranted to determine whether directing working holiday makers to regional jobs remains sound policy from an economywide perspective (chapter 5). As noted, the terms of reference for the current Senate inquiry into the labour market effects of Australia's temporary work visa programs could provide a framework for an inquiry into this issue, which is needed to better understand these effects and what, if any, policy changes might be needed in this area. The scale and growth of this initiative lends force to the case for this.

DRAFT RECOMMENDATION 9.1

The Australian Government should commission a public inquiry into the labour market and broader economywide effects of work rights for international students, temporary graduate visa holders and working holiday makers.

9.3 Temporary Work (Skilled) program

Objectives

The key objectives for the Temporary Work (skilled) 457 visa program are to enable businesses to sponsor a skilled overseas worker if they cannot find an appropriately skilled Australian citizen or permanent resident to fill a skilled position, and to do so while ensuring that working conditions of sponsored visa holders are no less favourable than those provided to Australians (Azarias et al. 2014, p. 27).

Along with the other temporary immigration programs, this program does not have an explicit objective of providing a pool of applicants for permanent immigration who are predisposed to make a positive contribution to the Australian community. However, the 457 program is a particularly significant source of applicants for permanent immigration.

How does the program perform?

Temporary 457 visa holders are only granted a visa if they have a job offer in Australia, have assessed English-language skills (for all bar a few circumstances)[49] and work in an occupation on the Consolidated Sponsored Occupations List (CSOL). Moreover, their remuneration is subject to a minimum annual salary threshold ($53 900 plus superannuation) and they are excluded from free or subsidised access to most government support services. Immigrants under the program are, thus, likely to contribute to economic activity and taxation revenue, and are unlikely to impose a significant fiscal cost on the Government.

The annual intake of workers on 457 visas has almost doubled over the past decade, and as at 30 June 2015 there were 188 000 such visa holders in Australia (down from a peak of about 202 000 in March 2014) (chapter 2; (DIBP 2015g, p. 12)).

[49] Such as where the nominated occupation does not need a level of English proficiency or the applicant is a passport holder from Canada, New Zealand, the Republic of Ireland, the United Kingdom or the United States (DIBP 2015h, p. 39).

The Master Builders of Australia (sub. 49, p. 25) noted that extensive research confirms the economic and budgetary benefits of the 457 visa program. Elsewhere, the Business Council of Australia has also argued that the program delivers significant benefits:

> Temporary skilled migration enables economic expansion and basic service provision to proceed where there are skills shortages in the domestic workforce. The demand-driven, uncapped nature of the 457 visa programme is critical to enable businesses to find the critical skills they need and cannot find locally. (2014, p. 4)

The 457 program has also provided a significant pool of applicants for permanent immigration, with the DIBP's research showing that from 1991–2014 some 72 per cent of 457 visa holders applied for and were granted permanent residence (chapter 11).

Are changes needed?

In common with other temporary programs, a major source of contention among participants was whether the level of immigration under the programs was consistent with delivering a net benefit to the Australian community and whether it should be capped.

Participants also drew attention to a range of obstacles that they considered were inhibiting the programs from delivering against its explicit or de facto objectives. All of the obstacles identified (such as English-language testing requirements and the exploitation of temporary workers) were recently the subject of investigation by a major review into the integrity of the program (Azarias et al. 2014).

In March 2015, the Government announced it supports or supports-in-principle the majority of that review's recommendations, except those to abolish labour market testing and to expand the list of nationalities that are exempt from the English-language requirement (DIBP 2015f).

The level of immigrants under the programs

The ACTU (sub 36) expressed concern that in some cases 457 visa holders crowded out Australian workers — suggesting that the number of 457 entrants was too high. This concern was extensively canvassed in the recent Azarias review. That review heard claims that 457 workers 'are stealing Australian's jobs and that citizens and permanent residents, particularly Australia's youth, can become victims of the 457 program' (Azarias et al. 2014, p. 23). The final report, though, stated that there was little evidence put to the review to support to these views.

Other submissions, though, emphasised how well the scheme has performed in meeting labour market shortages (Rural Health Workforce Australia, sub. 30; NFF, sub. 31) and in allowing the economy (and jobs) to grow (Regional Institute Australia, sub. 42). On this theme, Hawthorne observed:

> The 457 visa plays a vital role in assuring workforce supply in select fields, including medicine and nursing. (sub. 43. p. 4)

Similarly, the Minerals Council of Australia and Business SA, respectively, noted:

> The main form of temporary migration used by the minerals industry is the … 457 visa. … the use of '457s' has been a highly flexible mechanism that has successfully filled Australia's skills gaps and contributed to two decades of unbroken economic growth. (sub. 52, p. 1)

> Temporary skilled migration (457 Visa) provides a skilled worker that isn't available locally, often at a critical time for the business. Without this option the business and the economy suffers. (sub. 69, p. 3)

The ACTU (sub. 36) also expressed concern that the scheme reduced the incentive for employers to invest in training, which adversely affected the skilling of local workers. However, the Minerals Council of Australia (sub. 52) and the Migration Council of Australia (2013) argued that 457 visa holders play an important part in building Australia's human capital through the transfer of skills and knowledge to Australian workers. (This issue is also discussed in chapter 5).

Submissions also argued that the number of 457 workers is responsive to the business cycle and a cap on numbers would be at odds with the program's intent to fill cyclical shortages. Consult Australia, for example, noted:

> … the use of migrants is responsive to changes in local demand and supply of skills. … in response to a downturn in the market, Consult Australia's 2013 and 2014 Skills Survey reports show that in 2012 and 2013 employers dramatically reduced the recruitment of migrants. For the first time, almost a fifth of respondents reported no use of migrants in the previous twelve months. (sub. 65, p. 5)

While the Migration Institute of Australia observed:

> The levels of Australia's temporary migration programs are in many respects self-regulating. The numbers of 457 visa grants closely follows the level of activity in the Australian economy. (sub. 53, p. 23)

Annual intake data supports participants' claims that the scheme is responsive to changes in the economic cycle and that capping the annual number of 457 visas granted is not warranted (figure 9.2 and PC 2014c).

However, while capping the total annual number of 457 visas granted appears to be not warranted at present, some have argued there is a case for capping particular occupations. Hawthorne, for example, has noted:

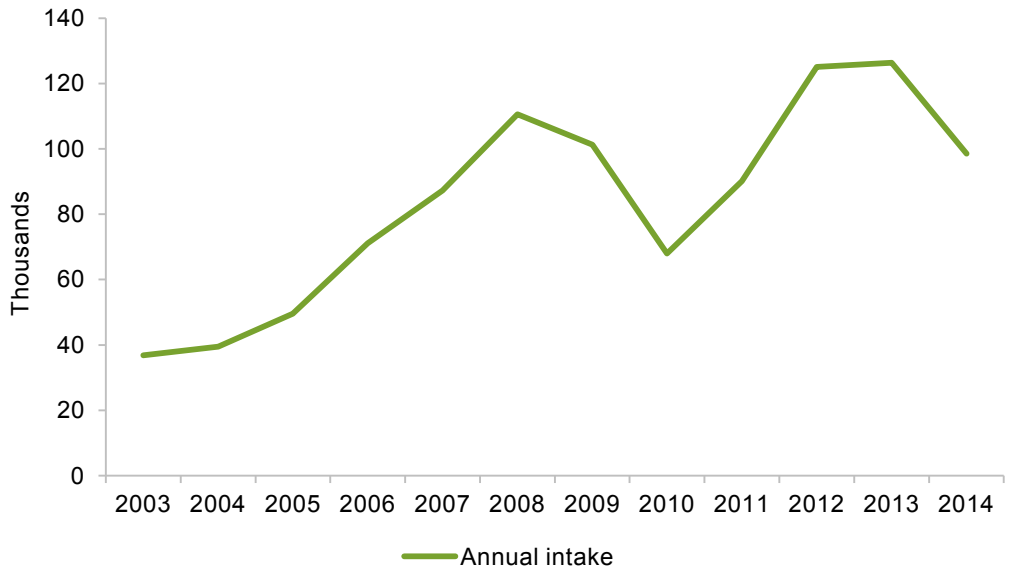
> … the 457 visa to date lacks a cap (a critical issue in potentially oversupplied fields such as engineering, accounting, nursing, pharmacy and dentistry, where there are growing issues about the scale of 457 visa entry). (sub. 43, p. 5)

And raised the prospect of introducing caps on some occupations:

> Impose caps by field where appropriate (for example to control the scale of arrivals in hospitality and aged care nursing, of relevance to the labour market re-entry of domestic workers). (sub. 43, p. 5)

Figure 9.2 **Annual intake of temporary skilled workers (on 457 visas)**

Year to June



Sources: DIAC (2013), DIBP (2014c).

Elsewhere, Hawthorne has drawn attention to developments in Canada, where concerns about jobs for locals have led to caps on particular occupations:

> In Canada, within the context of rising concern for the impact of temporary foreign workers on domestic employment, a sharp contraction of this program was announced mid-2014 with the aim of 'putting Canadians first'. Annual caps have now been introduced, including in specific fields, supported by limits to length of stay for low-skilled workers. (Hawthorne 2014)

However, the concerns raised by Hawthorne — and the call to cap numbers in some occupations — have been addressed by the Azarias report. That report made recommendations (supported by Government) that should significantly improve the assessment of labour market shortages. Those recommendations focus on improving the integrity, transparency and evidentiary base of the process used to determine the state of the labour market for 457 visa occupations (Azarias et al. 2014, pp. 49–51). Once implemented and bedded down, this is expected to lead to the better identification of occupations (and regions) where shortages do not exist, and to allow more granular decisions on whether local workers are able to meet the demand for those occupations (and, thus, whether issuing 457 visas for those occupations or regions or capping numbers for some occupations is warranted).

Given these changes are still to be implemented, it is too early to tell if they will prove successful in assessing the state of the labour market for particular occupations and whether caps on specific occupations or for specific occupations in some regions are justified.

INFORMATION REQUEST 9.2

The Commission seeks feedback on the merit of caps on temporary 457 visa numbers for specific occupations. It is particularly interested in participants' views on whether the recommendations from the Independent Review into Integrity in the Subclass 457 Programme (the Azarias Review) — and which have been supported by the Australian Government — are likely to lead to the more accurate identification of genuine labour market shortages for occupations on the Consolidated Sponsored Occupations List.

Administration and compliance issues

The NFF and Master Builders Australia drew attention to compliance costs associated with the 457 program:

> Small farm employers find it difficult to access employer sponsored pathways due to compliance requirements, paperwork, associated costs and red tape. (sub. 31, p. 13)

> If an applicant who is already in Australia on another visa — for example, a visitor visa, a student visa, a [working holiday maker] or a sub-class 457 — meets the criteria for an employer-sponsored visa, the applicant should not be required to leave Australia in order to receive that visa. Such requirements represent an unnecessary cost of doing business. (Master Builders Australia, sub. 49, p. 8)

However, Engineers Australia observed that past concerns about excessive red tape and administrative delays — which did impede recruitment of skilled personnel — have largely been addressed by changes since 2010 (sub. 47, p. 5).

The issue of 457 compliance costs has been subject to considerable recent Government attention. In October 2014, the Government announced its *Industry Innovation and Competitiveness Agenda*, which included a promise to streamline the 457 program so as to reduce the time and cost to business of getting 457 workers into the country. The program was also the subject of a major review in 2014 that proposed changes to reduce compliance costs for skilled visa applicants and sponsors (box 9.5). In addition, a current review of the '400 series' visas (which has focused heavily on the 457 program) has as one of its guiding principles the agenda to reduce red tape and regulatory costs (DIBP 2014d, p. 3).

Box 9.5 Compliance cost reductions for the 457 program

In February 2014, the Government commissioned an independent review into the integrity of the 457 program. The review's report was released in September 2014 and in March 2015 the Government announced it will reform the 457 visa program in line with those recommendations.

These reforms will reduce the overall regulatory burden placed on businesses seeking to use the program, provide simplification and greater transparency of processes for applicants, and increase program integrity by strengthening monitoring and sanctions activities. Some key changes to the program will:

- streamline the processing of sponsorship, nomination and visa applications
- reform sponsorship requirements to reduce the time and cost to businesses
- increase the sponsorship approval period from 12 to 18 months for start-up businesses
- provide greater flexibility in relation to English-language requirements.

Implementation of the report's recommendations is due to be completed by the end of 2015.

The Office of Best Practice Regulation has agreed that this will lead to an annual saving of $29.9 million in compliance costs.

Source: DIBP (2015c).

Accordingly, while excessive compliance costs have been an issue in the past it appears this problem is no longer a material impediment to the success of the 457 visa program.

English-language requirements

Some participants, such as Business SA (sub. 61, p. 4) suggested that the high 'pass marks' needed to satisfy this requirement in Australia was resulting in potential applicants choosing other countries with lower standards. Similarly, Master Builders Australia (sub. 49) suggested that Australia could apply a functional English standard for skilled immigrants, consistent with the ability to read and understand workplace instructions and safety standards.

Hawthorne, however, stressed how vital English-language skills were for employability in multiple fields (particularly important where 457 holders transition to permanent visas), and argued strongly against any watering down of current requirements (sub. 43, p. 6). This latter view accords with the Commission's findings in its report on *Economic impacts of migration and population growth*: that English-language proficiency is a key factor in determining ease of settlement and labour market outcomes (PC 2006) and its view in this inquiry that English-language skills are fundamental to successful outcomes by immigrants (chapters 5 and 6).

While not questioning the standard for English proficiency, as mentioned, ILSPR Language Services (sub. 16) argued that the main test used to assess that proficiency (IELTS) does a poor job of testing vocational or community-surviving language competency. It claimed IELTS imposes a punitive cost on applicants and is a barrier to

optimising labour market benefits from the 457 program. To address these failings it called for the addition of ISLPR® for assessing English proficiency of 457 visa applicants (as it did for assessing the proficiency of students).

The case for and against retaining current English-language requirements for 457 visa holders, and how that might be assessed, was comprehensively examined in the recent Azarias report. That report proposed that current standards be maintained but provided for greater flexibility in the manner in which proficiency might be assessed and the tests that might be used to assess that proficiency (Azarias et al. 2014, pp. 66–7).

The Commission endorses these changes (which were supported by Government) and considers that their implementation will assist the 457 program to better deliver against its objectives.

Skill shortage identification, skills covered and labour market testing

Some participants such as the ACTU (sub. 36) and NFF (sub. 31) were highly critical of the ability of the 457 program to deliver against its objectives of meeting skill shortages. They identified two major weaknesses:

- the CSOL — being based on the Australian and New Zealand Standard Classification of Occupations (ANSZCO) list — does not cover some skilled occupations that are in short supply but are not recognised in ANSZCO (such as senior skilled farm hands).
- current arrangements for assessing skill/occupation shortages mean the CSOL does not accurately reflect the real state of skill shortages in the economy and nor is it sufficiently responsive to changing economic conditions.

These criticisms were addressed by the recent Azarias report, which recommended changes that should significantly improve the assessment of labour market shortages and accommodate the inclusion of additional occupations on the CSOL (box 9.6). Those recommendations have been supported or supported in principle by the Government.

Box 9.6 Azarias report recommendations

Recommendation 1.1: That, in lieu of the existing Ministerial Advisory Council on Skilled Migration, a new tripartite ministerial advisory council, which is not necessarily prescribed in legislation, be established to report to government on skilled migration issues.

Recommendation 1.2: That the new ministerial advisory council be supported by a dedicated labour market analysis resource.

Recommendation 3.1: That the Consolidated Sponsored Occupations List (CSOL) be retained as a list of occupations which are at Skill Level 3 and above, and that the CSOL should be able to be amended by two means: first, the addition of skilled occupations which can be shown to exist in the community but which may not be on the ANZSCO list; and, second, the refinement of the CSOL in cases where there may be integrity or appropriateness concerns. Any occupations not on the list, which are usually referred to as semi-skilled, may be addressed as part of the Labour Agreement regime.

Recommendation 3.2: That the new ministerial advisory council provide advice on those occupations where some concerns exist and recommend additional requirements or limitations on occupations and/or regions.

Source: Azarias et al. (2014).

The Commission considers that the implementation of these recommendations should significantly improve the assessment of labour market shortages and address concerns about the range of skilled occupations eligible for sponsorship under the 457 program.

The ACTU (sub. 36) also argued that labour market testing should remain to ensure that 457 holders only filled jobs that could not reasonably be filled by Australian workers and, accordingly, to ensure that the program met this part of its objectives.

The Azarias report, too, examined this issue and found:

> … that labour market testing has previously been removed from the 457 programme as it was found to be ineffective, and we have not been presented with any strong evidence in support of the effectiveness of its re-introduction in 2013. … in practice they do not assist in achieving the objective of providing evidence that suitable Australian workers are not available. Therefore the requirement adds unnecessary regulatory cost for little or no actual benefit. (2014, pp. 44, 46)

Consequently — and against a backdrop of proposals (above) that should markedly improve the identification of skilled occupations facing genuine labour shortages — that report recommended the abolition of labour market testing. This proposal, though, was not supported by Government.

Despite the shortcomings in the current labour market testing arrangements identified in the Azarias report, the Commission considers the Government's approach of retaining labour market testing is sensible for the moment. However, should the new arrangements for identifying genuine skill shortages prove successful then it would be apposite to revisit the case for labour market testing.

Accordingly — and in view of the importance of the 457 program in meeting skill shortages in Australia and of identifying if the recent changes to the program deliver their expected outcomes — it would be sensible to review the effectiveness of those changes after allowing time for them to be bedded down.

DRAFT RECOMMENDATION 9.2

The Australian Government should assess the effectiveness of changes implemented as a result of the recommendations made by the Independent Review into Integrity in the Subclass 457 Programme (the Azarias Review) after sufficient time for those changes to take effect.

In the meantime, the identified weaknesses in current labour market testing arrangements suggest that changes to improve their efficiency and effectiveness should be considered.

9.4 Reducing the exploitation of temporary immigrant workers

Temporary immigrants face a higher risk of being exploited by their employers for a number of reasons. Arguably, these risks are highest for temporary workers engaged in unskilled and semiskilled jobs, for which labour is generally not in short supply.

International students and working holiday makers are particularly vulnerable to exploitation as they are likely to be young, have limited English-language proficiency and be unaware of their work rights (FWO 2014a, p. 30). They are also less likely to have access to informed social or economic support networks to counterbalance any market power of their employers or to assist them moving to alternative jobs.

The ACTU's submission highlighted that this is not just a theoretical concern:

> Reports that unions receive are that employers are basing their whole business model around using the labour of working holiday makers, either for free in some cases or by paying them well below Australian award standards. (sub. 36, p. 27)

Hard data on the extent of exploitation is, however, limited. The annual report of the Fair Work Ombudsman (FWO) shows complaints from working holiday makers represented just over 1000 of the 25 650 finalised complaints made to the FWO in 2013-14 (2014a, pp. 26, 30). This represents a complaint rate of around 0.7 per cent for the 151 201 working holiday makers in Australia at 30 June 2014 (DIBP 2014a, p. 6). This is over three times the rate for all other workers.

While official data is limited, recent media reports and survey data presented to the Commission's concurrent inquiry into Workplace Relations indicate that underpayment and substandard working conditions for students is common across the economy (Schneiders and Millar 2015) (Clibborn 2015, p. 4). Similarly, during the course of this inquiry, a *Four Corners* exposé highlighted the widespread exploitation of working holiday makers by some labour hire companies and employers (Meldrum-Hanna, Russell and Christodoulo 2015). The apparent extent of exploitation indicates that this is an issue that may damage the credibility and reputation of the student and working holiday maker visa programs.

These examples of exploitation are essentially breaches of generally applicable workplace laws (box 9.7).

Box 9.7 Australia's labour laws and occupational health and safety laws cover temporary immigrant workers

The work rights of temporary immigrant workers, including students and temporary graduates, are covered by the *Migration Act 1958* (Cwlth), the *Fair Work Act 2009* (Cwlth) and state employment laws and awards.

The Migration Act regulates migration into Australia and details the different working visa types and their conditions. This Act sets the maximum fortnightly hours that students can work.

The Fair Work Act and state employment laws and awards regulate the pay, conditions and workplace entitlements of all workers in Australia, whether citizens or immigrants. In addition, the national minimum wage and the National Employment Standards constitute the minimum entitlements for employees in Australia, including temporary immigrants. An award, employment contract, enterprise agreement or other registered agreement cannot provide for conditions that are less than the national minimum wage or the National Employment Standards.

Further, immigrant workers are also protected under Australian occupational health and safety laws under the Model Work Health and Safety Act or state-specific occupational health and safety Acts, Model Work Health and Safety regulations, Model Codes of Practice and a National Compliance and Enforcement Policy.

At the national level, the FWO has primary responsibility for ensuring workers' rights are protected. It achieves this through its monitoring and inspection activities and, of particular importance for international students and working holiday makers, the provision of information on employees' workplace rights (box 9.8).

Box 9.8 Existing efforts to inform temporary workers of their rights

The Fair Work Ombudsman (FWO) has noted that temporary immigrant workers are often not fully aware of their workplace rights under Australian laws and that the best defence for a temporary immigrant against being underpaid or treated unfairly is to know their rights.

To that end, the FWO has:

- fact sheets tailored to overseas workers and international students on its website
- produced videos in 14 different languages and posted them on YouTube
- run workplace rights presentations/seminars with relevant groups, distributed in-language posters and brochures to migrant resource centres and community groups and pro-actively engage with ethnic media
- run a month-long campaign whereby the FWO placed advertisements on websites in South Korea that it knows South Korean nationals access before they come to Australia.

Source: FWO (2014b).

Over the past three years, the FWO has introduced various initiatives to tackle exploitation of temporary immigrant workers (box 9.9). These include setting up a specialist Overseas Workers' Team in mid-2012 and a dedicated Young Worker's Team that focuses on this cohort. It is also running a three-year, comprehensive program called the Harvest Trail, to ensure seasonal workers (many of them working holiday makers) receive their minimum lawful entitlements (Cash 2015b).

Box 9.9 The Fair Work Ombudsman's initiatives to tackle exploitation

Over the past three years, the Fair Work Ombudsman (FWO) has instituted various measures aimed specifically at tackling the exploitation of temporary immigrant workers. In mid-2012 it set up a specialist Overseas Workers' Team to help combat the exploitation of overseas workers in Australia and has a dedicated Young Worker's Team that focuses on this cohort.

The FWO has acknowledged the importance of raising international students' awareness of their work rights. To this end, it has interactive educational tools and resources on its website to inform young workers and immigrant workers of their entitlements (such as its 'Pay and Conditions Tool'). Moreover, in May 2015, it ran a national social media campaign to alert up to 100 000 international students to their workplace rights. In August 2015 it announced a new program to foster relationships with international student bodies and multicultural communities via the appointment of new Community Engagement Officers.

The FWO is working closely with the Australian Border Force in multi-agency operations targeting visa fraud, illegal work and the exploitation of foreign workers. Under *Taskforce Cadena*, Government agencies are joined together and working more closely on intelligence gathering, disruption, enforcement and litigation.

In addition to efforts to educate employees about their rights, the FWO is working with employer organisations and major employers of young workers to raise awareness about their workplace obligations and build a culture of compliance to minimise the risk of underpayment.

Source: FWO (2015).

Separately, the Government has announced reforms to the Working Holiday Maker program that require payslips to be provided as evidence of work to obtain a second Working Holiday visa. This change is intended to reduce the scope for exploitation and provide better protections for temporary immigrant workers (Cash 2015b), although it is too early to gauge the success of this reform.

In parallel with these measures, since August 2014 the Ombudsman's Overseas Workers' Team has been reviewing the wages and conditions of overseas workers in Australia on the 417 Working Holiday visa following a spike in complaints since 2012. That review is due to report before July 2016.

However, the fact that existing arrangements for monitoring and enforcing workplace rights did not detect the apparently widespread exploitation of temporary immigrants suggests that current arrangements are inadequate. New approaches are needed to improve monitoring and enforcement and to tackle the underlying cause of exploitation identified by the FWO — information asymmetries between temporary workers and their employers.

Additionally, while the numbers of international students and working holiday makers have increased substantially in recent years, resources devoted to monitoring the integrity of these programs have not increased commensurately. As Business SA observed:

> There are sufficient labour laws in Australia to cover these temporary workers; they simply need to be enforced and monitored. The Fair Work Ombudsman and the relevant state based Work Health Safety regulators all have roles to play in education and enforcement. (sub. 61, p. 5)

Accordingly, it seems at the very least that more resources to improve the detection of exploitation of temporary immigrants are warranted (the Commission's draft report on Workplace Relations has recommended additional resources be provided to the FWO to this end (PC 2015d).

To address the information asymmetry facing temporary immigrants seeking work on farms, an option worth considering is a web-based registry where temporary immigrant workers could 'rate' employers for the benefit of fellow visa holders. This would operate similarly to the central registry run in each country for Willing Workers on Organic Farms (WWOOFers), which informs them of other WWOOFers' rating of the farm on which they are considering work.

Another option would be for the Government to commission the development of a smart phone app that contains information on visa holders' rights and local contacts for information or lodging complaints. Such an app could be available to download from the Government web page for visa applications. A trial of this option — perhaps targeting areas where a risk assessment indicates the problem of exploitation is most prevalent — would provide information on whether the broader application of this option is justified.

DRAFT RECOMMENDATION 9.3

The Fair Work Ombudsman should commission the development of a smart phone app that would provide temporary immigrant workers with information on their work rights and responsibilities, and with links for lodging complaints about abuses or exploitation.

The ACTU (sub. 36) and the Migration Institute of Australia (sub. 53) noted that exploitation was also an issue for the 457 visa program. The ACTU, for example, observed:

> … employer-sponsored visas where workers are dependent on their employer for their ongoing visa status increase the risk for exploitation as workers are less prepared to speak out if they are underpaid, denied their entitlements, or otherwise treated poorly. … The now well-worn pathway from a temporary 457 visa to a permanent employer-sponsored visa creates the same kind of problems … this makes these workers much more susceptible to exploitation and far less prepared to report problems of poor treatment in the workplace (sub. 36, p. 18)

The ACTU also referred to numerous examples of exploitation that it detailed in its submission to the contemporary Senate inquiry into the impact of Australia's temporary work visa programs on the Australian labour market and on the temporary work visa holders.

Although evidence on the incidence of exploitation is limited, the record of complaints lodged with FWO provide some measure of the extent of the problem. That data shows that, in 2013-14, temporary skilled (457) visa holders lodged 404 complaints with FWO. In the same year the FWO assessed 1029 entities employing a total of almost 2000 temporary skilled visa holders. The FWO subsequently referred 243 of those entities to the DIBP due to concerns that wages or position obligations were not being met for 338 employees (2014a, p. 30).

Exploitation of 457 workers was examined in the recent Independent Review of the 457 program. That review found that while the increased use of risk-based monitoring of sponsors and inter-agency cooperation over the past few years has substantially improved detection of abuses, more needs to done to deal with exploitation. To this end it recommended changes (supported or supported in principle by the Government) that DIBP is in the throes of implementing:

- the mandatory provision of a summary of the visa holder rights and the FWO Fair Work Information Statement as part of the signed employment contract
- better online information about visa holders' rights
- greater monitoring
- mandatory provision to the Australian Taxation Office of the visa holder's Australian tax file number

- naming and shaming of employers that are sanctioned
- increasing the deterrence created by civil penalties by dedicating resources for litigation
- providing streamlined processing for low risk employers, taking account of past sponsor behaviour. The reduced compliance burden associated with streamlining introduces an incentive for employers to comply with their obligations to 457 workers.

The review also highlighted the role of education as an effective and efficient method of promoting sponsor compliance with their obligations to 457 workers. The report argued for greater resources dedicated to education, and recommended that more resources (along the lines of the Outreach Officer network discontinued in the last Budget) be provided to help sponsors understand and comply with their obligations (Azarias et al. 2014, p. 89). This recommendation — supported in principle by the Government — echoes the call for the reinstatement of the Outreach system made by Consult Australia (sub. 65).

The Commission considers that the changes recommended by the Azarias report (most of which were supported by Government and are being implemented by the DIBP) will improve the levels of sponsors' compliance with their obligations to 457 workers and lead to earlier and more comprehensive detection of any exploitation when it does occur.

9.5 Seasonal Worker program

Objective

The Seasonal Worker 416 visa program aims to enhance international relations and cultural exchange with Pacific Island and Asian nations by allowing their people to share cultural and social experiences, knowledge and skills in the Australian community through special programs of seasonal work. It is intended to contribute to the economic development of participating countries by providing work opportunities in the Australian agriculture and accommodation industries, remittances and opportunities for up-skilling.

How does the program perform against its objective?

The annual intake of Seasonal Workers has grown from around 400 in 2010-11 to just over 2000 in 2013-14 (chapter 2). The NFF noted that the program has placed almost 3500 seasonal workers in the horticulture sector since its commencement and that anecdotal evidence indicates the program is working well in filling otherwise unmet demand. It concluded that the program can deliver increased productivity for the agricultural sector and is a valuable scheme that brings together foreign aid and labour market policy for the economic benefit of Australia and participating nations (NFF, sub. 31, p. 11).

Are changes needed?

Despite the growth in annual visa grants, Howes notes 'Australia's official entry pathway for low-skilled, seasonal work has not been widely embraced by employers' (sub. 32, p. 1), and the program has consistently failed to fill its annual quota.

Leith and Davidson (2013) suggest the demand for seasonal workers under the program is limited by the ready supply of working holiday makers who in most (but not all) cases appear to be ready substitutes. Similarly, Howes has argued that the relatively low uptake of seasonal workers is a result of the Working Holiday Maker program:

> … backpackers are currently rewarded for three months work on a farm by a second year's visa … It has been incredibly effective in channelling an ever-growing number of backpackers onto farms. Pacific seasonal workers simply can't compete with backpackers. … No wonder the SWP [Seasonal Worker Program] is languishing. (Howes 2014)

The apparent substitution of working holiday makers for seasonal workers is despite evidence that the productivity of seasonal workers (especially of those who return year after year) is materially higher than working holiday markers (Leith and Davidson 2013). However, the general practice in the horticulture industry of paying workers by piece rates rather than hourly rates tends to negate the productivity difference as it means that the per bin harvesting cost to farmers is the same for seasonal workers and working holiday makers, even if the time to complete would be less with seasonal workers.

Nonetheless, the evidence of repeat employment of seasonal workers among those farmers and approved employers who have embraced the scheme is indicative that there is a niche market for these workers (TNS Social Research 2011, p. 67).

The Government has recently announced it will remove the annual cap on program places, expand it to the broader agriculture industry and make the accommodation sector part of the program on an ongoing basis (Bishop and Robb 2015). Together with the recent Budget changes affecting working holiday makers noted above, which can be expected to reduce the growth in their numbers, these changes provide grounds to believe that the annual number of seasonal worker visa holders will increase.

However, while it is too early to determine the effect of these changes, the substitution effect from the much larger Working Holiday Maker program and the program's history of not filling its modest annual cap of 2500 in 2014-15 suggest that removing the cap is unlikely to significantly increase the number of visas granted under the scheme. In view of the non-binding nature of previous quotas for this program, setting caps is irrelevant.

Unlike some other temporary immigration programs, there have been no indications that seasonal workers are subject to exploitation by their sponsoring employers. This situation is primarily due to the heavily regulated nature of the program, which ensures that Approved Employers make a written offer of employment to a seasonal worker and that the offer is signed by, or on behalf of, the approved employer. The offer must be in line with the program requirements and will set out:

- pay and conditions of employment and the relevant industrial instrument
- commencement and duration of employment
- location of employment
- description of the type of work the seasonal worker will undertake
- accommodation and transportation arrangements (Department of Employment 2015b, p. 10).

Similarly, the Seasonal Worker program is unlikely to have adverse labour market effects for local workers because labour market testing is required to ensure that local Australian workers are offered a position before approval is given to recruit offshore ((TNS Social Research 2011, pp. 17–22). In addition, as workers participating in the program must be at least 21 years of age, this requirement helps to ensure that seasonal workers are not employed on youth wages and so prejudice the employment of young job seekers (Department of Employment 2015b, p. 18).

Australia's current Seasonal Worker program has not been subject to an assessment of its success as a vehicle to deliver foreign aid and enhance international relations with our partnering countries. However, a recent assessment of New Zealand's seasonal worker policy (which the Australian scheme mirrors) found it had large positive development effects. That scheme increased income and consumption of households, allowed households to purchase more durable goods, increased subjective standard of living, and increased child schooling (Gibson and McKenzie 2014). These positive outcomes give reason to believe that Australia's program delivers similarly positive outcomes and, accordingly, is an extremely effective foreign aid tool, with scope for expansion.

Given the mutually beneficial nature of the seasonal worker program, it would be helpful for the Government to examine distortions that might provide an incentive for the employment of working holiday makers at the expense of seasonal workers. While both schemes have strong merit, the substitution of some working holiday makers by seasonal workers would be likely to have a net benefit.

9.6 New Zealand citizens Special Category Visa program

Objectives

The objective of the Special Category Visa (SCV) program is to give effect to the intent of the Trans-Tasman Travel Arrangement to facilitate a free flow of people between the two countries. That agreement provides for Australian and New Zealand citizens to enter each other's country to visit, live and work, without the need to apply for authority to enter the other country before travelling (subject to health and criminal record requirements).

The SCV program does not have an explicit objective providing a pool of applicants for permanent immigration and provides no special pathway or preferential access for permanent immigration. Oz Kiwi (sub. 33) was critical of this lack and argued that upward of 60 per cent of the approximately 640 000 New Zealanders currently in Australia have no pathway to a permanent visa.

How does the program perform?

The number of New Zealand citizen 444 visa holders in Australia over the period December 2009 to December 2014 has consistently been in excess of 500 000, and at 30 June 2015 there were an estimated 653 840 resident in Australia (DIBP 2015g). This group represents the largest single net overseas migration group coming to Australia (Oz Kiwi Association, sub. 33).

Despite the large number of New Zealand citizens resident in Australia, they account for a very small number of permanent immigration visas annually. In 2014-15, for example, only 2068 SCV holders were granted permanent residency (DIBP, unpublished data). Smith et al. (2010, p. 11) observed that a major reason for this is that most would fail to meet the requirements for family reunion or skilled migration.

Are changes needed?

Issues raised by participants were confined to whether the level of immigration under this program should remain uncapped and whether changes were needed to improve access to government support services and improve access to permanent residency (this last issue is discussed in chapter 11).

The latter two issues were comprehensively reviewed in 2012 by the Commission in a joint study with the New Zealand Productivity Commission into *Strengthening the trans-Tasman relationship* (PC and NZPC 2012). Accordingly, the following discussion on those issues will draw heavily on the findings of that report.

The level of immigrants under the program

There is no limit on the number of New Zealand citizens permitted to enter and remain in Australia under this program, although one participant, the Sustainable Population Party, argued that this arrangement should be abolished (sub. 37).

Any move to cap these numbers would be at odds with a fundamental intent of the Trans-Tasman Travel Arrangement (that is, to not restrict the free flow of labour between Australia and New Zealand).

Moreover, as tax revenues from New Zealanders working in Australia appear to more than compensate the Australian government for any payments made to New Zealanders ((Mares 2013); Oz Kiwi, sub. 33), capping numbers would be at a net fiscal expense to Australia. This provides further reason for not imposing limits on the annual number of New Zealand citizens who enter Australia under the program.

Limits on access to government services

New Zealand citizens living in Australia have immediate access to family payments (such as Family Tax Benefit, Child Care Benefit, and Parental Leave Pay), and health care under Medicare. But they face various limitations on access to social security and student loans.

Some participants identified the inability to access some Government support services as an obstacle to the free flow of labour from New Zealand to Australia as well as a fundamental abrogation of Australia's human rights obligations to these people. Oz Kiwi Association (sub. 33), for example, noted:

> New Zealand citizens who arrived in Australia after 2001 — over 240 000 individuals — do not have access to basic Australian social security benefits, including unemployment and sickness benefits. They may also be ineligible to receive other forms of social assistance like housing or disability services (Walsh 2015, p. 674).

However, the revealed preference of New Zealanders to continue to enter Australia in large numbers suggests that the effect of access restrictions is marginal.

Faulkner noted that New Zealand citizens who arrived in Australia after 2001 changes must pay the National Disability Insurance Scheme levy but are ineligible for its disability services (sub. 14, p. 7). He considered this was an illegitimate use of immigration status to effect discrimination and 'is a violation of Australia's obligations under [international human rights laws]' (sub. 14, p. 8). He argued that Australia is subject to human rights obligations that require it to not discriminate on eligibility as it does:

> Nationality-based social security restrictions that are unreasonable and/or disproportionate amount to unlawful discrimination — even for temporary residents. Reasonableness cannot be justified on the sole ground of immigration status. (sub. 14, p. 3)

The Migration Institute of Australia (sub. 53) had a different view, recommending that the current access to government-funded benefits for temporary visa applicants continue.

A joint study by the Australian and New Zealand Productivity Commissions in 2012 on *Strengthening trans-Tasman economic relations* considered these issues and made recommendations to address the lack of access to various government-funded services for New Zealand residents in Australia (box 9.10).

Box 9.10 **Joint study recommendations**

R4.24: The Australian Government should address the issues faced by a small but growing number of non-Protected Special Category Visa holders living long term in Australia, including their access to certain welfare supports and voting rights. This requires policy changes by the Australian Government, including the development of a pathway to achieve permanent residency and/or citizenship.

R4.25: The Australian Government should seek to improve access of New Zealand citizens to tertiary education and vocational training through the provision of student loans, subject to a waiting period and appropriate debt recovery provisions.

Source: PC and NZPC (2012).

The Australian Government accepted the recommendation on New Zealand citizens' access to student loans, and legislation to this effect was included as part of a higher education reform Bill presented to Parliament in 2014. That Bill (and a subsequent amended Bill) failed to gain passage. The Government has, however, recently introduced legislation into the Australian Parliament to give New Zealand citizens who have been long-term residents of Australia since childhood access to the Australian student loans program from 1 January 2016 (Turnbull and Birmingham 2015).

The Australian Government's response to the recommendation on access to welfare supports and voting rights was that existing arrangements would not be changed in the near future (Hockey and English 2014). However, as there have been no material changes in circumstances since the 2012 report to alter the conclusions of that study, the Commission considers that the report's recommendation on access to certain welfare supports (and student loans) remain equally applicable today.

DRAFT RECOMMENDATION 9.4

The Australian Government should implement recommendation 4.24 of the 2012 joint study by the Australian Productivity Commission and the New Zealand Productivity Commission on *Strengthening trans-Tasman economic relations*. In particular, it should:

- address the issues faced by a small but growing number of non-Protected Special Category Visa holders living long term in Australia, including their access to certain welfare supports and voting rights. This requires policy changes by the Australian Government, including the development of a pathway to achieve permanent residency and/or citizenship.

10 Permanent immigration programs

Key points

- Australia grants permanent residency to about 200 000 people each year.
- Permanent immigration is managed through rule-based selection. Immigrants must satisfy criteria such as age, English-language ability, health, character, skills, family connection or humanitarian need.
- Selection mechanisms for skilled and family immigration are generally effective in identifying immigrants who deliver benefits to the Australian community. However, targeted adjustments to selection mechanisms could lead to better outcomes.
- Since the mid-1990s skilled permanent immigration has increased relative to the family stream. This rebalancing has increased the positive economic effects of the system.
- Within the skilled immigration stream the proportion of employer-nominated immigrants has increased relative to independent (points-tested) immigrants since 2009. (Despite this increase the majority of skilled immigration is still through points-tested visa subclasses.)
  - Employer-nominated immigrants have, on average, better short and medium-term labour market outcomes than independent skilled immigrants.
  - Onshore independent and state government nominated applicants have significantly less favourable labour market outcomes, initially and after several years.
  - The less favourable outcomes of onshore independent skilled immigrants are likely to be related to the prevalence of former international students migrating through this pathway.
  - There could be benefits in adjusting the approach to selecting skilled immigrants, with a particular emphasis on the independent points-tested stream.
- Parent visa recipients impose net fiscal costs. However, it is likely that there are interactions between family and skilled immigration. Any changes to the parent visa stream could have flow-on effects for the attractiveness of Australia for prospective skilled immigrants.
- Business Innovation and Investment Program immigrants contribute to economic activity. However, the program does not appear to achieve objectives related to increasing international trade or innovation. It is not clear that immigrants through this pathway deliver larger benefits than immigrants through other skilled immigration pathways.
- The economic benefits of the Significant Investor and Premium Investor Visas are small, and accrue mainly to the immigrants and to fund managers. It is likely that immigrants through these streams have less favourable social impacts than other skilled immigrants.
- Humanitarian migration addresses Australia's international commitments. It is likely that the Community Proposal Pilot slightly reduced the fiscal cost of humanitarian immigration.

In 2013-14, the Australian Government granted approximately 204 000 visas for permanent immigration to Australia. Most were granted through three 'streams' —

approximately 129 000 for the skill stream, 61 000 for the family stream and 14 000 for the humanitarian program.

This chapter applies the framework set out in chapter 4 and the impacts identified in chapters 5–8 to assess whether the current permanent immigration programs increase the wellbeing of the Australian community. Several immigration streams are considered — skilled immigration (section 10.1); the Business Innovation and Investment Program (section 10.2); family immigration (section 10.3) and humanitarian immigration (section 10.4).

Assessing the impacts of each stream is a complicated task. The characteristics of permanent immigrants and their economic and social impacts are diverse and are not distributed evenly. It has not been possible to thoroughly assess the impacts of the entire, diverse population of permanent immigrants. Instead the Commission has tried to identify aspects of the system where adjustments could deliver net benefits.

The impacts of permanent immigration are influenced by the level of immigration and its composition. This chapter focuses on the composition of permanent immigration. As noted in chapter 4, the level of immigration is a matter for elected decision makers. Immigration levels should be based on an assessment of the positive and negative impacts and risks across the economic, social and environment dimensions.

The level of permanent immigration is set each year by the Australian Government as part of the Budget process. For each stream the Government sets 'planning levels' following a public consultation process that is managed by the Department of Immigration and Border Protection (DIBP) (DIBP 2014d). Over the past two decades the number of visas granted has been very close to the planning level in almost every year.

The composition of permanent immigration is also determined by the Australian Government, which uses rule-based selection mechanisms to determine which immigrants are granted a visa. Within the three immigration streams there are several 'pathways' and numerous visa 'subclasses'. Each visa subclass has different eligibility requirements, including visa application charges, age limits, and qualitative criteria including character, health, family connections, skills, English-language ability and claims for humanitarian assistance.

10.1 Skilled immigration

Skilled immigration to Australia is available through four pathways: points-tested, employer-nominated, the Business Innovation and Investment Program and the Distinguished Talent visa. This section describes the points-tested and employer-nominated pathways, and the characteristics and outcomes of immigrants through these streams. The Business Innovation and Investment Program is discussed in section 10.2. The Distinguished Talent visa is for people with an internationally-recognised

record of achievement in a profession, sport, the arts or academia. This subclass accounts for less than 200 immigrants per year and is not discussed.

In parallel with this inquiry the DIBP is currently reviewing the skilled immigration program to assess the effectiveness of the program and develop new visa models. The DIBP has undertaken a public consultation process and is currently developing changes to the administration of skilled visa classes that are scheduled to be enacted from 2016. This will include combining about 25 existing visa subclasses into about 10 new subclasses. It is also possible that there will be changes in eligibility requirements for some visa subclasses. These changes could affect the characteristics of skilled immigrants over the medium term.

Objectives of the system

Skilled immigration is intended to contribute to economic development and to meet labour market needs. The employer-nominated pathway is intended to help meet medium-term labour market needs, and the points-tested pathway is intended to address longer-term labour market needs. A proportion of the points-tested intake is allocated through state and territory government nominated places, which, according to the DIBP 'helps the states and territories respond to varying regional and economic needs through supplementing the labour force in key industries and regions' (DIBP 2014d, p. 6).

Trends in skilled immigration

From the mid-1990s the Australian Government significantly increased skilled immigration, both in absolute terms and as a proportion of the total permanent immigration intake. Over the past decade the Australian Government has deliberately shifted the skilled immigration program toward employer-nominated immigration (although points-tested immigration still accounts for a majority of the intake) (figure 10.1). The turning point was the 2008-09 program year. In December 2008 the then Minister for Immigration and Citizenship announced significant changes to the skilled permanent immigration program. The Minister stated a review of the program had identified a need:

> … for a shift in the focus of the program towards 'demand driven' outcomes, in the form of employer and government-sponsored skilled migrants, to ensure the program was better targeted on the skills needed in the economy. (Evans 2008, p. 1)

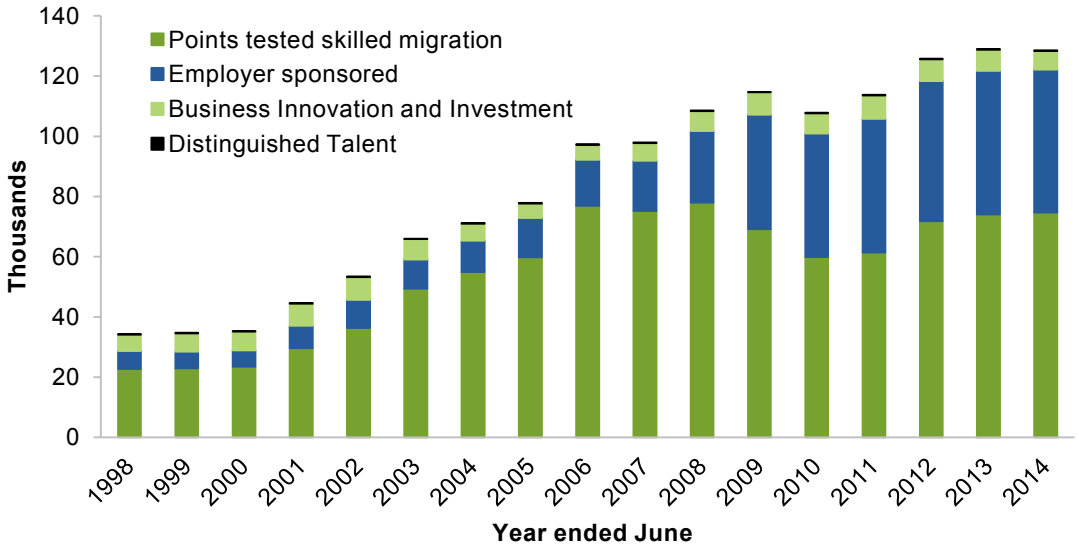
In the 2008-09 program year, the Minister cut the skill stream planning level from 133 500 to 117 000, and significantly changed the balance within the skill stream.

- The points-tested immigration planning level was cut from 98 310 to 71 500, and ultimately 69 153 visas were granted. (Visa grants were 30 per cent less than the original planned level and 13 per cent less than the previous program year.)
- The employer-nominated planning level was increased from 28 000 to 36 000, and ultimately 38 026 visas were granted. (Visa grants were 36 per cent higher than the

original planned level and 60 per cent higher than the previous program year.) (Webster 2009)

The changes in the 2008-09 program year have persisted over the subsequent six years. Since 2009-10, points-tested immigration has accounted for between 54 and 58 per cent of the skilled intake, and employer-nominated for about 38 per cent of the intake.

Figure 10.1 **Permanent skilled immigration visa grants 1998–2014[a]**



[a] The 'Distinguished Talent' visa subclass accounted for between 99 and 234 visa grants over the period — less than 1 per cent in every year. These visa grants are omitted from this chart for readability.

Sources: DIMIA (2006); DIBP (2015b).

How the system works

Visa processing priorities

Each year the Australian Government sets a skilled immigration planning level. Within the planning level there is no separate cap on the employer-nominated or points-tested visa subclasses. Instead, the level of immigration through each subclass is an outcome of the number of applications and the DIBP's visa processing priorities. The DIBP prioritises processing in the following order.

1. Regional Sponsored Migration Scheme
2. Employer Nomination Scheme
3. state or territory government-nominated

4. applications for points-tested skilled immigration with nominated occupations on the Skilled Occupation List
5. all other applications.

There is no cap on employer-nominated skilled immigration in any year, apart from the overall skilled immigration planning level. The Australian Government does set a planning level for the employer-nominated stream, but this can be adjusted through the year to accommodate changes in demand. The points-tested classes are effectively a residual within the overall skilled immigration stream.

SkillSelect

For business immigration and points-tested skilled immigration applicants, the first step is to lodge an expression of interest through SkillSelect. (Applicants for employer-nominated and regional sponsored immigration can lodge an expression of interest through SkillSelect, but are not obliged to.) Applicants must supply details of their skills, work experience and nominated occupation. Registered applicants can then be nominated by an employer or a state or territory government, or by the Australian Government. Once nominated, they can lodge an application for a visa (DIBP 2015o).

Visa waiting periods

On average, applications for skilled immigration are processed faster than the family and humanitarian immigration streams. The DIBP provided the Commission with data on visa processing outcomes over the period 2004-05 to 2014-15. Over that period 78 per cent of applications were finalised within six months and a further 19 per cent between six months and one year. (Finalisation can result in a visa being granted or refused or the application being withdrawn.) For the most recent year for which data are available the pipeline of applicants for skilled immigration is less than one year's planning level (table 10.1).

Onshore and offshore applications

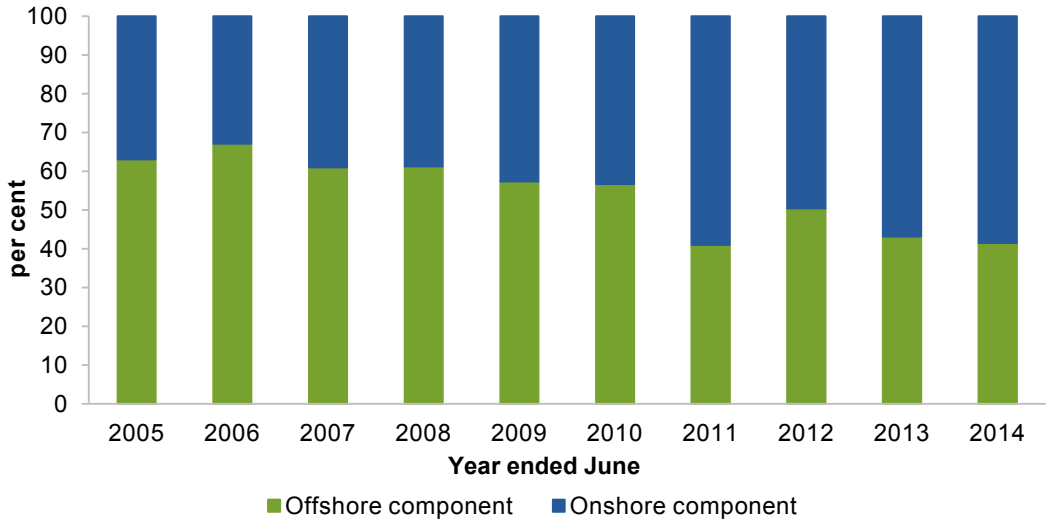
Applicants for skilled immigration can apply when they are in Australia (onshore) or overseas (offshore). The proportion of skilled immigration visas granted to onshore applicants has increased from about 37 per cent in 2004-05 to about 59 per cent in 2013-14 (figure 10.2). Disaggregating the data further, in 2013-14 onshore applicants accounted for approximately 84 per cent of employer-nominated visa grants and 44 per cent of points-tested visa grants (DIBP 2014a).

Table 10.1 **Skilled immigration applications, grants and pipeline**
2013-14 program year

Immigration pathway	*Planning level*	*Applications*	*Grants*	*Pipeline at 30 June 2014*
Employer-nominated				
Employer Nomination Scheme		33 281	30 912	15 117
Regional Sponsored Migration Scheme		14 619	16 538	5 832
Employer-nominated total	*47 450*	*47 900*	*47 450*	*20 949*
Points tested				
Skilled independent		39 045	44 984	19 706
State and territory nominated		27 708	24 656	14 267
Skilled regional		2 083	5 100	21 993
Points tested total		*68 836*	*74 740*	*55 966*
Skilled immigration total	**128 550**	**124 416**	**128 550**	**84 288**

Source: DIBP (2014a).

Figure 10.2 **Skilled immigration onshore and offshore visa grants**



Source: DIBP (2015b).

Primary and secondary applicants

Applicants for permanent skilled immigration can include their partner and dependent children on their application. If the 'primary applicant' meets the requirements for skilled immigration and their dependents ('secondary applicants') pass the age, health and character requirements, the dependents are granted the same visa as the primary applicant.

So the partner and children of a skilled permanent immigrant receive a skilled immigration visa, even though their skills have not been assessed. In 2013-14, approximately 52 per cent of permanent skilled immigration visa grants were to dependents.

Granting the same visas to primary and secondary applicants is not inherently problematic. However, reporting of skilled immigrants should be disaggregated and primary and secondary applicants discussed separately and the data separately analysed. Unless otherwise specified, references to 'skilled immigrants' in this chapter refer to primary applicants — people who have been assessed as being skilled.

Including dependents on a visa application does not prejudice the primary applicant's prospects of success. (In fact, in some cases their chances can be slightly increased — applicants for points-tested immigration can receive points toward the points test if their partner can provide evidence of certain skills.)

If an individual migrates to Australia through the permanent skilled immigration stream and subsequently wants to bring family members to Australia he or she must apply through the family stream, unless family members are eligible to apply as primary applicants through the skill stream (section 10.3).

Requirements for skilled immigration

The Australian Government sets rules for the selection of skilled immigrants. These selection criteria are intended to identify immigrants who are most likely to have a positive impact on the Australian community, including through tangible impacts (such as labour market and fiscal impacts) and intangible impacts (such as integration and social cohesion). Different criteria apply for the various visa subclasses.

Age limits

Applicants for permanent skilled immigration must be aged under 50 unless exempt. An exemption might be granted if the applicant is an academic, scientist, researcher, technical specialist or medical practitioner, or in some cases if he or she has been working in Australia under a temporary visa. Through the consultation process for this inquory some stakeholders suggested that given longer life expectancies and longer working lives there may be a case for increasing age limits. This idea was also raised in the DIBP review of the skilled immigration program (DIBP 2014c). There are several reasons to conclude that increasing the age threshold would not be warranted.

First, government expenditure per person increases rapidly after the age of 60 and taxes paid begin to decrease (chapter 7). On average, the older an immigrant is at arrival, the more likely he or she will impose a net fiscal cost on Australia.

Second, in the case of very highly-skilled immigrants there are provisions for the age limits to be waived, as mentioned above. It is unlikely that Australia is missing out on a significant number of highly-skilled older immigrants.

Third, Australia's skilled immigration program has met planning levels every year in recent history. There is no need to relax age limits to meet the objectives of the skilled immigration program.

English-language requirements

Primary applicants must demonstrate English-language proficiency. The requirements vary depending on visa subclass and applicants can demonstrate their English-language proficiency by passing a test or proving that they are a citizen of an English-speaking country. If the applicant has nominated earnings above the top income tax bracket (currently $180 001) they may be exempt from the English-language requirements. Secondary applicants can be granted a visa without demonstrating English-language skills. However, if they do not demonstrate at least 'functional' English they have to pay an additional charge of $4885.

Master Builders Australia (sub. 49) and BusinessSA (sub. 61) suggested that the English-language requirements for skilled immigration are too onerous. The Commission does not agree. Reducing the English-language requirements, especially for permanent skilled immigrants, would be likely to have negative effects. Numerous studies have identified the importance of English-language proficiency for immigrants' outcomes. Less fluent immigrants are paid less, could be vulnerable to labour market exploitation, are less likely to effectively integrate into the Australian community (chapter 6) and more likely to draw on income support.

Demonstrating occupational skills

Skilled immigration to Australia is only available to people who have the skills to perform a skilled occupation (in practice this has been defined as an occupation that requires a trade qualification or higher). There are two ways for primary applicants to demonstrate that they have the requisite level of skills.

The skills of employer-nominated applicants are assessed by the employer as part of the process for deciding whether to offer them a job. To be eligible for employer-nominated immigration the job must be in an occupation that is regarded by the Australian Government as 'skilled'. A list of skilled jobs is published annually as the Consolidated Sponsored Occupation List (CSOL — discussed below). Employer-nominated immigrants do not need to provide the Australian Government with any proof of qualifications or work experience to receive a visa. However, if there are professional requirements for the nominated occupation (such as licences, registration or membership of a professional

body) the applicant must satisfy those requirements or have been assessed by the relevant professional body as suitable.

For applicants through the points-tested pathway the Government assesses the applicant's skills and characteristics with a points test (box 10.1). Desirable characteristics (including age, English-language skills, qualifications and work experience) attract points. For example, more points are for a person assessed as having 'superior' English-language skills than a person assessed as having competent English-language skills. If the candidate's score exceeds the 'pass mark' they may be eligible for a visa. Applicants must also demonstrate that they have the skills to perform an occupation that is skilled, and considered by the Australian Government to be in a state of shortage. A list of such occupations is published annually as the Skilled Occupation List (SOL), which is much smaller than the CSOL. In practice, this requirement does not appear to be binding. The DIBP stated that in 2013-14 approximately 34 per cent of primary applicants for points-tested skilled immigration did not have an occupation that was on the SOL (DIBP 2015a).

Box 10.1 The points test for skilled immigration

If applicants achieve the pass mark in the points test (currently 60 points) they are eligible to apply for an independent skilled immigration visa (although not guaranteed entry).

Criterion	*Points allocated*	
Age	18–24 years — **25** 25–32 years — **30** 33–39 years — **25**	40–44 years — **15** 45–49 years — **0**
English-language skills	Competent English — **0** Proficient English — **10** Superior English — **20**	
Experience in a nominated skilled occupation	*Experience overseas in past 10 years* 3–5 years — **5** 5–8 years — **10** 8–10 years — **15**	*Experience in Australia in past 10 years* 1–3 years — **5** 3–5 years — **10** 5–8 years — **15** 8–10 years — **20**
Qualifications	Doctorate (Australian or recognised standard) — **20** Bachelor or higher (Australian or recognised standard) — **15** Diploma or trade qualification completed in Australia — **10** An award or qualification recognised by the assessing authority in the assessment of the skilled occupation — **10**	
Australian study	Australian-awarded degree, diploma or trade qualification — **5**	
Other	Credentialed community language qualifications — **5** Study in regional or low-population growth area — **5** Partner skill qualifications — **5** Professional year in Australia — **5** State or territory government nomination — **5** or **10** (depends on visa subclass)	

Source: DIBP (2015n).

Other countries take different approaches to assessing the skills of potential migrants. For example, in Canada all applicants for skilled immigration are subject to a points test (box 10.2). However, any applicant who has an offer of employment in Canada is immediately ranked higher in the pool of applicants than anybody who does not have a job offer. In effect, the Canadian system is similar to the Australian approach of giving higher priority to employer-nominated applicants, but with an extra layer of administration for employer-nominated applicants.

Box 10.2 Canada's points-tested skilled immigration system

The Canadian Government introduced a new system for selecting skilled immigrants in January 2015. All applicants for skilled immigration must apply through the Express Entry system (based on the Australian SkillSelect system). Applicants provide information on their skills, work experience, language ability, education, and other characteristics, and eligible applicants are placed in a pool. All applicants in the pool are ranked using the Comprehensive Ranking System. Each candidate is awarded a score out of 1200, with points awarded based on:

- arranged employment in Canada — 600 points
- age — up to 100 points
- education — up to 140 points
- skills transferability — up to 100 points
- English or French proficiency — up to 150 points
- Canadian work experience — up to 70 points
- not having a partner — up to 40 points
- partner's skills — up to 40 points

Because half of the available points are awarded for an offer of employment, any applicant with a job offer will be ranked higher than any applicant without an offer. The highest ranked candidates in the pool are invited to apply for one of three visa types:

- Federal Skilled Worker program (which is subject to a second points test)
- Federal Skilled Trades program
- Canadian Experience Class (for people with work experience in Canada) (appendix B).

Between January and August 2015 the Canadian Government made 17 427 invitations over 14 rounds. In each round, between 750 and 1600 invitations were made. For the first four rounds (accounting for 3594 invitations) the points test pass mark was above 700 points (so only applicants with a Canadian job offer were invited to apply for permanent residency). After that, the pass mark was below 500 in most months.

Sources: CIC (2015a, 2015b).

The skilled occupation lists

Both the SOL and the CSOL use the Australian and New Zealand Standard Classification of Occupations (ANZSCO). The ANZSCO (which is maintained by the ABS) lists

approximately 1000 occupations. An occupation can be added to ANZSCO if more than 300 people in Australia or 100 people in New Zealand are performing the occupation (ABS 2013a). Each occupation is assigned a 6-digit code and a skill level between 1 (highest) and 5 (lowest).

The CSOL

The CSOL currently contains 649 occupations that are skilled. Most of the occupations on the CSOL are in the ANZSCO skill levels 1–3, with a small number of skill level 4 occupations (DIBP 2014c). In broad terms:

- skill level 1 is commensurate with a bachelor degree or higher qualification
- skill level 2 is commensurate with an associate degree, diploma or advanced diploma
- skill level 3 is commensurate with certificate III or IV (possibly with some additional on-the-job training) (ABS 2013a).

There is no requirement that an occupation be in a condition of labour shortage to be on the CSOL. The CSOL is enacted by an instrument under the *Migration Regulations* 1994, under the authority of the Minister for Immigration. The list is updated by the DIBP on 1 July each year. There is little publicly available information about this process and there does not seem to be any mechanism for an occupation to be removed from the list. However, the Independent Review into Integrity in the Subclass 457 Programme (Azarias et al. 2014) recommended some changes that could lead to immigration being capped for certain CSOL occupations, at least for temporary skilled (subclass 457) immigration (chapter 9).

The SOL

The SOL is a list of 191 occupations that the Australian Government considers highly skilled and in high demand. The SOL is also published annually as an instrument of the *Migration Regulations* 1994. The Department of Education and Training conducts labour market analysis and public consultation and makes recommendations to the Minister for Immigration and Border Protection. Occupations are added to and removed from the list each year (box 10.3).

The process of amending the SOL is sometimes controversial. People employed in occupations that are on the SOL (and their representative bodies) often petition for their occupation to be removed. For the 2015-16 program dentists and urban and regional planners were removed from the SOL and panel beaters and cabinet makers were added.

As well as determining which occupations are on the SOL, each year the DIBP sets ‘occupation ceilings’ for SOL occupations for points-tested immigration. For example, the 2015-16 ceiling for accountants is 2525. The ceilings do not apply to state government nominated immigration. Typically visa grants only approach or meet the ceilings for a few

of the occupations on the SOL — generally accounting and some information technology occupations.

Box 10.3 The process for revising the Skilled Occupation List

The Skilled Occupation List includes occupations that are highly skilled and in demand. Currently the list contains 191 occupations. The Department of Education and Training prepares advice for the Minister for Immigration and Border Protection on the Skilled Occupation List. (Prior to machinery of government changes in December 2014 the Department of Industry and Science provided this advice.) The process involves two stages.

Shortlisting specialised occupations

An occupation is shortlisted for further analysis if it satisfies two of three criteria:

- long lead time to develop skills
- high use — skills developed in qualification are used in work
- high risk — a shortage would pose a significant risk to the Australian economy and/or community.

Assessing medium to long-term skill needs

For each occupation on the shortlist the Department of Education and Training assesses the current labour market, experiences of employers and new entrants (including graduates and immigrants) and how students have responded to labour market conditions. It also undertakes public consultation. An occupation would not be added to the Skilled Occupation List if:

- it is likely to be in surplus in the medium to long term
- other more appropriate visa options exist.

Source: Department of Education and Training (2015); Department of Industry and Science (2015).

Alternative approaches to skilled occupation lists

Skilled occupation lists are one way to restrict immigration to applicants that have skills that are likely to be in demand and make a contribution to the Australian economy, including over the longer term. But they are not perfect and they are not the only option. One problem is that whether an occupation is classified as 'skilled' or 'semi-skilled' can appear quite arbitrary at the margin between ANZSCO skill levels 3 and 4, and the classifications might not be responsive to changes in the economy and labour market. Another issue is that governments' assessments of whether an occupation is currently under-supplied are, at best, informed speculation about the state of the labour market today and in the future. Alternatives (other than the price-based systems discussed in chapters 12 and 13) to skilled occupation lists could include:

- minimum salary thresholds for employer-nominated skilled immigration
- assessing qualifications on the basis of academic achievement rather than whether they are related to a specific occupation.

Replacing the skilled occupation lists with such criteria might remove the need for governments to speculate about the current and future labour market. However, the potential effects on the composition of the skilled immigration program are unknown. In the absence of any specific, widespread problem with the skilled occupation lists there is no need at this time to abandon the basic approach. If problems emerge in the future, there could be merit in a small-scale pilot scheme to assess the impacts of providing an alternative pathway to skilled immigration. It should be noted too, that although problems with the SOL and CSOL have been identified and could be rectified, the outcomes of skilled immigrants have been very strong (chapters 5, 6, 7, and 8).

Suggestions to expand the skilled occupation lists

A small number of participants suggested that skilled immigration should be expanded to include 'semi-skilled' and 'unskilled' occupations — occupations that are not in ANZSCO levels 1, 2 or 3 (Master Builders Australia, sub. 49; Northern Territory Department of Business, sub. 60). The Australian Council of Trade Unions (sub. 36) was strongly opposed to the idea.

The Azarias review of the 457 visa program recommended that the CSOL remain as a list of occupations that are ANZSCO skill level 3 or above. It also recommended that a mechanism be established for amending the CSOL to include skilled occupations that exist but are not currently on the ANZSCO list. This should make the process for updating the CSOL more responsive. The also review recommended that semi-skilled occupations be addressed through the labour agreement system (Azarias et al. 2014). (Labour agreements are agreements between the Australian Government and an employer that permit immigration by an agreed number of skilled workers.) The Australian Government has supported these recommendations.

Currently the permanent skilled immigration program meets the planning levels each year. (Although it appears that a substantial minority of points-tested skilled immigrants have non-SOL occupations.) Adding lower-skilled occupations to the occupation lists could lead to some higher-skilled potential migrants being displaced by lower-skilled immigrants. On average, this would reduce the productivity of the immigrant cohort, reduce their net contribution to government finances and crowd out less skilled Australians from the labour force. This would not increase overall community wellbeing. A key finding of this inquiry is the importance of selecting immigrants based on skills — this should not be weakened.

Assessing the balance of the skilled immigration pathways

The balance between the points-tested and employer-nominated pathways and onshore and offshore visa grants influences the economic and social impacts of skilled immigration. It is not feasible to identify the 'optimal' balance, but it is clear that each stream delivers benefits, and the skilled immigration system as a whole benefits from having a variety of

visa subclasses to accommodate people with different characteristics. There could be scope to improve outcomes by adjusting selection mechanisms to target stronger applicants.

Many participants expressed positive sentiments about the skilled immigration program (for example, Business Council of Australia, sub. 59; Migration Institute of Australia, sub. 53; Minerals Council of Australia, sub. 52). However, the Australian Council of Trade Unions was critical of the increased emphasis on employer-nominated immigration.

> The current weighting of Australia's skilled migration program towards temporary and employer-nominated pathways should be re-evaluated, with greater emphasis given to the permanent, independent stream as the 'mainstay' of the skilled migration program. (sub. 36, p. 5)

The Australian Council of Trade Unions had two main concerns with the employer-nominated pathway.

1. Because workers are reliant on ongoing sponsorship to retain their visa, they are at greater risk of exploitation.
2. The employer-nominated pathway responds to the immediate needs of businesses and is not being 'structured in a rational and coherent way that allows for longer-term skill needs of the Australian workforce and economy to be addressed' (Australian Council of Trade Unions, sub. 36, p. 19).

Chapter 9 set out the Commission's view on the issue of the potential for exploitation of temporary sponsored immigrants. The risks of exploitation due to obligations arising from employer nomination are lower for permanent immigrants. Although employer-nominated permanent immigrants must be nominated by an employer, it is uncommon for permanent residents' visas to be revoked for changing employers. Visas are generally only revoked if immigrants have provided false information on their applications. Changes in employment are generally not regarded as sufficient grounds to revoke a visa.

The following sections set out the Commission's assessment of labour market outcomes over the short, medium and longer terms and some of the indirect economic impacts of skilled immigration.

Short and medium term labour market outcomes of skilled immigrants

The requirements for skilled immigration mean that, on average, skilled immigrants have similar human capital characteristics to the Australian-born population. Chapter 5 established that skilled immigrants have significantly higher rates of labour force participation than the general population in both the short and medium term. Unemployment rates among skilled immigrants are higher than the general population immediately after arrival, but over the longer term unemployment rates of immigrants and Australian-born people are similar. Chapter 5 also identified some systematically different short and medium-term labour market outcomes for points-tested and employer-nominated

skilled immigrants, and also for onshore and offshore applicants. In general, for primary applicants over the short-to medium term:

- all groups have relatively high rates of labour force participation
- employer-nominated primary applicants (onshore and offshore applications) have the highest earnings initially and a significant earnings gap persists over at least 11 years
- points-tested independent offshore applicants have slightly lower earnings initially and over the medium term
- points-tested independent onshore applicants have the lowest earnings initially and over time
- state government nominated points-tested immigrants have relatively low earnings initially, but over time catch up to skilled independent offshore applicants.

There is some evidence that the increased emphasis on employer-nominated immigrants and proportionally lower intake of points-tested immigrants from 2009 has led to improvements in the labour market outcomes of skilled immigrants as a whole, and that the positive effects are likely to persist into the medium term. Van de Ven et al. (2014) researched the labour market impacts of the changes over the period 2005–2009, and reached broadly positive conclusions about the impact of increasing the proportion of employer-nominated skilled immigrants.

- Short-run labour market outcomes improved for all skilled immigrants — rates of employment increased by between 11 and 13 per cent for all skilled immigrants.
- The proportion of immigrants employed in technical and trade roles increased significantly, while the proportion in managerial and professional roles remained roughly the same. (So the immigrant cohort after the changes was in more highly-skilled occupations than before.)

The relatively poor short- and medium-term labour market outcomes of onshore independent points-tested immigrants are partly related to employment outcomes for international students who gain permanent residency. The majority of former international students who are granted permanent residency through the skill stream receive either independent or state government-nominated visas. A minority come through the employer-nominated visa subclasses (table 10.2).

Researchers have shown that former international students from many areas of study have significantly worse labour market outcomes than their Australian counterparts. Hawthorne and To (2014) compared graduate outcomes for numerous disciplines, and found that in some cases former international students' outcomes were significantly inferior to domestic graduates' (figure 10.3). In particular, international student graduates in business and commerce, accounting, information technology and engineering had very low rates of full time employment in the year after completing their courses. Hawthorne (sub. 43, p. 8) stated that poor labour market outcomes are associated with qualifications in fields that are

'oversupplied', such as business, accounting and information technology. She also concluded that English-language skills are critical for graduate outcomes.

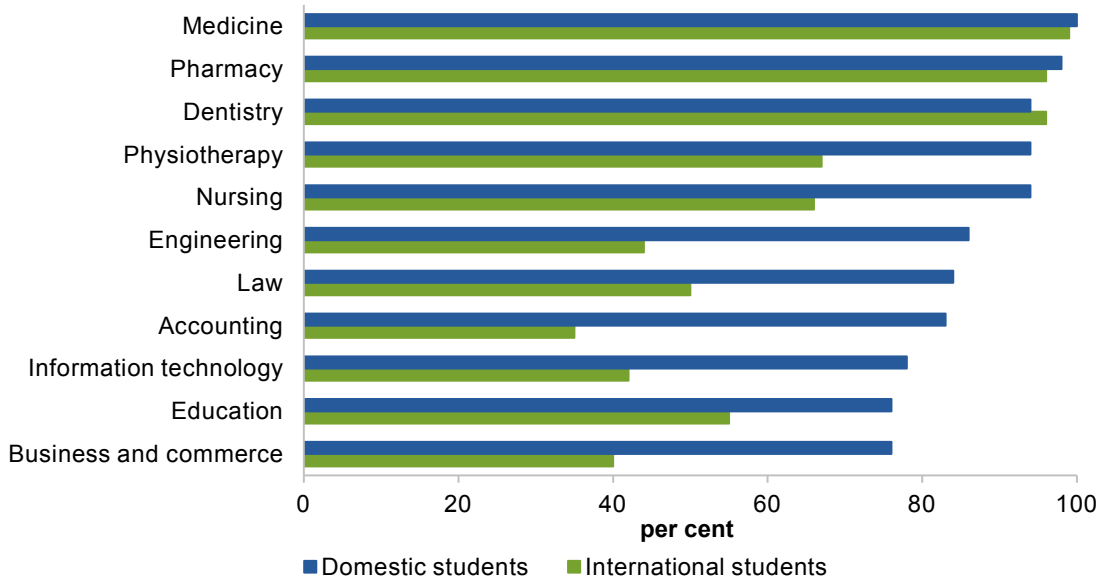
Table 10.2 **Permanent residence visas granted to former international students**

	2010-11	*2011-12*	*2012-13*	*2013-14*
	Number (% of total)			
Points-tested				
Skilled independent	14 908 (61)	12 549 (58)	11 752 (54)	4 239 (40)
Skilled regional	4 597 (19)	3 405 (16)	3 900 (18)	2 039 (19)
State/territory nominated	2 755 (11)	2 161 (10)	2 156 (10)	1 663 (16)
Total points-tested	22 260 (91)	18 115 (84)	17 808 (82)	7 941 (75)
Employer-nominated				
Regional sponsored	1 090 (4)	2 437 (11)	3 096 (14)	2 138 (20)
Employer nomination	1 100 (4)	1 004 (5)	801 (4)	512 (5)
Total employer-nominated	2 190 (9)	3 443 (16)	3 906 (18)	2 650 (25)

Source: DIBP (2015b, p. 52).

Figure 10.3 **Employment outcomes — domestic and international students**

Rates of full time employment, year after course completion, 2009–2011



Source: Hawthorne and To (2014, p. 104).

The relatively poor employment outcomes of some international students in their first year after graduation and the (related) relatively poor earnings of applicants for the onshore

independent pathway in their first 18 months after immigration does not mean that they will have permanently low incomes. There is scope for them to catch up with other immigrants. However, the persistent gap in earnings for onshore independent immigrants suggests that this does not happen in all cases.

DRAFT FINDING 10.1

Former international students who graduated in oversupplied fields (including business, accounting and information technology) have relatively poor labour market outcomes. It is likely that this contributes to the relatively poor performance of onshore independent points-tested immigrants.

Longer-term labour market outcomes of skilled immigrants

The points-tested skilled immigration pathway is intended to address longer-term labour market needs. There are limited data available that can be used to assess whether the points-tested pathway meets this objective or to compare it to the employer-nominated pathway over the longer term. Although longer-term data do exist (such as ABS surveys and Census data) they are not broken down to the required level of detail. However, it is possible to draw some conclusions.

First, the evidence of income differentials among immigrants through the various pathways includes immigrants who had been in Australia for as long as 11 years (chapter 5). Even after 11 years of residence there is a significant gap between the earnings of different groups of skilled immigrants, with the employer-nominated pathway having the highest proportion of high income earners. One major factor in the determination of wages is the scarcity of skills — in general skills that are in short supply attract higher wages. So the data provide some evidence that over a significant period employer-nominated and offshore points-tested immigrants continue to provide skills that are relatively more scarce than those of onshore points-tested immigrants.

The demand for points-tested visas provides some insights. As noted above, visa grants only approach or meet the occupational ceilings for a few of the occupations on the SOL — generally accounting and some information technology occupations. Hawthorne (sub. 43) stated that the accounting and information technology fields are oversupplied and that this is a reason for poor employment outcomes for former international students. This suggests that the points-tested pathway is used by some people with skills that are not subject to skills shortages, and are not likely to be subject to skills shortages in the future.

DRAFT FINDING 10.2

The Australian community benefits from having a skilled immigration intake with a diverse range of skills and other human capital characteristics. Maintaining a range of visa subclasses with different requirements for visa grants provides pathways for a diverse skilled immigration intake.

There is a case for adjusting the selection of skilled immigrants

Across the skill stream as a whole, immigrants' skill levels are broadly similar to those of the Australian-born population. However, within the skill stream there is significant variation. The relatively poor labour market outcomes of onshore independent skilled immigrants suggest that there is scope to improve the labour market outcomes of the skilled immigration stream overall by adjusting the eligibility criteria for this visa subclass.

One option would be to radically change the approach to selection of all skilled immigrants, such as by imposing a points test on all applicants, similar to the Canadian system. However, this would not address the most problematic subclass — the onshore independent subclass — which is already subject to a points test. It would add extra administration to employer-nominated skilled immigration (which performs well). On balance it is unlikely that imposing extra bureaucracy to the entire skilled immigration program to address deficiencies in one visa subclass would improve skilled immigrants' labour market outcomes significantly.

An alternative would be to make targeted adjustments to the eligibility criteria, including:

- increasing the points granted for superior English-language skills (currently superior English attracts 20 points)
- granting more points to graduates who have studied in fields which are under-supplied (or penalising graduates in over-supplied fields)
- granting more points to applicants who have achieved better academic results (currently points are granted based on the award of a degree from a recognised institution; academic success is not taken into account) — for example those with a distinction or high distinction average, honours and higher degrees
- reducing the occupational ceilings for over-supplied fields
- capping the onshore independent visa subclass (which would implicitly increase the points test pass mark for the subclass each year).

Of these options, the Commission favours the first three. Increasing the points granted to applicants who have desirable human capital characteristics (English-language skills and high marks in fields that are not over-supplied) would be consistent with the objective of identifying immigrants who are likely to meet Australia's longer-term labour market needs.

Reducing the occupational ceilings for over-supplied fields would be a less targeted approach, particularly if applications are processed in the order they are lodged.

The potential impacts are difficult to assess

One complication in assessing the relative merits of any adjustment to the assessment of onshore independent skilled immigrants is that this subclass is currently the lowest priority in processing. As a result, the intake through this pathway is effectively a residual — whatever number of places that are left in the skilled immigration program go to onshore independent applicants. So improved targeting within this subclass might not lead to any significant improvement in the capabilities of immigrants through this stream, at least in the short term — there is no 'tap' to turn on to deliver more immigrants with better human capital characteristics. However, stricter targeting could affect the incentives that potential migrants face, and over the longer term could encourage potential migrants to improve their skills before applying.

A further complication is that reforms have recently been implemented that will affect the permanent immigration decisions of former international students, including through the onshore independent pathway. Following the *Strategic Review of the Student Visa Program* (Knight 2011) the Australian Government revamped the Temporary Graduate subclass 485 visa, which provides for up to four years of post-study residence and work in Australia. The changes included relaxing the eligibility criteria for the visa.

It is likely that the changes to the pathway from student visa to 485 visa and then (potentially) to permanent residency will lead to a change in the composition of onshore permanent skilled immigrants. The extended temporary residence through this visa could give more graduates an opportunity to gain work experience and skills in Australia, and improve their English-language skills. This could open the door to employer-nominated immigration for graduates who demonstrate an ability to succeed in the Australian labour market. If the changes to the 485 visa lead to significant changes in international students' immigration outcomes, there might not be any further need to adjust the selection of skilled immigrants through the onshore independent subclass.

However, the data do not yet exist to assess the impacts of these changes. As the Commission stated in its report *International Education Services*:

> Given that these changes were implemented in 2013, their impacts are yet to flow through to the take-up of temporary graduate visas. It is therefore premature to assess the link between the post-study work rights policy settings and labour market outcomes. In any case, there is a general lack of data to inform an analysis of the impacts of the relatively large and uncapped pool of temporary migrants with work entitlements on labour market outcomes in Australia. More evidence in this area is needed for the purpose of informing policies related to post-study work rights for both higher education and [vocational education and training] students. (PC 2015b, pp. 12–13)

The review of the skilled immigration program that is currently underway could also lead to changes to the number of visa subclasses and the eligibility criteria, and as a result could affect the characteristics and labour market outcomes of skilled immigrants through the various visa subclasses. Once these changes have washed through the system, there could be a case for further adjustments to the mechanisms for selecting skilled immigrants.

INFORMATION REQUEST 10.1

The Commission seeks information on the potential impacts of tightening the points test for the onshore independent visa subclass of the skilled immigration program, including granting more points for:

- *superior English-language proficiency*
- *better academic results*
- *qualification in under-supplied fields.*

DRAFT RECOMMENDATION 10.1

Following the implementation of the current simplification of skilled visa subclasses the Australian Government should continue to collect information on the labour market outcomes of permanent skilled immigrants through the independent points-tested and employer-nominated visa subclasses, including onshore and offshore applicants.

The Australian Government should use this information to assess the effectiveness of the various skilled immigration visa subclasses and should adjust the selection criteria to choose the immigrants who make the largest economic contributions. This could include tightening the criteria for certain visa subclasses in relation to:

- English-language proficiency
- academic results
- qualifications in occupations that are in a state of labour shortage.

10.2 Business Innovation and Investment Program

People with business skills and/or money to invest in Australia can apply for permanent immigration through the Business Innovation and Investment Program (BIIP). The DIBP stated that the objectives of the BIIP are to:

- generate employment
- increase the export of Australian goods and services
- increase the production of goods and services in Australia
- introduce new or improved technology

- increase competition and commercial activity
- develop links with international markets
- increase the dispersal of business migrants across Australia through state and territory government nomination. (DIBP 2014d)

The following sections set out the Commission's assessment of whether the program delivers a net benefit to the Australian community. Some issues related to the Significant Investor Visa and Premium Investor Visa subclasses are discussed separately.

History of the BIIP

The forerunner to the BIIP, the Business Skills program, was established in 1992. Since the introduction of the program visa grants have fluctuated between 5000 and 7000 in most years. The program was reviewed in 2003 and again in 2010-11. Following the 2010-11 review the program was renamed the BIIP the number of visa subclasses was reduced and a points test was introduced (with points awarded for age, English-language skills, qualifications, business experience, assets and 'innovation'). Currently two 'streams' exist under the BIIP. (The Special Investor and Premium Investor visa subclasses are also counted as BIIP 'streams', but are discussed separately.)

- The Business Talent visa (subclass 132) permits immediate permanent residency. It is intended to facilitate immigration by people who have a significant history in business and by immigrant entrepreneurs (DIBP 2015g). This visa subclass is a minor component of the BIIP — only 265 visas were granted in 2013-14 (DIBP 2015b). Applicants must have either:
  - $1.5 million in assets and business turnover of at least $3 million; or
  - $1 million in venture capital funding for a high-value business idea.
- The Business Innovation and Investment stream is a two stage process. Applicants must first be granted a provisional visa (subclass 188) and after a minimum of two years can apply for a permanent visa (subclass 888). The subclass 188 visa includes four streams:
  - Business innovation (own or manage a business)
  - Investor (investment of at least $1.5 million)
  - Significant Investor (SIV) (invest at least $5 million in complying investments)
  - Premium Investor (PIV) (invest at least $15 million in complying investments).

Applicants through either stream must first submit an expression of interest through SkillSelect, and must be nominated by a state or territory government. Applicants for the SIV can also be nominated by Austrade on behalf of the Australian Government. Applicants for the PIV must be nominated by Austrade (DIBP 2015d).

Joint Standing Committee on Migration inquiry into the BIIP

The Joint Standing Committee on Migration was asked in 2014 by the Minister for Immigration and Border Protection to conduct an inquiry into the BIIP. The Committee released its report in March 2015. It found that BIIP visa holders deliver an economic benefit. However, it stated:

> … based on the evidence, it is difficult to conclude that the programme meets any of the following key objectives:
>
> - increase the export of Australian goods and services
> - increase the production of goods and services in Australia
> - introduce new or improved technology
> - develop links with international markets
> - increase the dispersal of business migrants across Australia through State and Territory government nomination. (Joint Standing Committee on Migration 2015, p. 30)

It also stated:

> The Committee questions whether the BIIP is effective in attracting high-quality business migrants to fill Australia's innovation requirements. (Joint Standing Committee on Migration 2015b, p. 30)

The Committee also commented on the availability of evidence to assess the program. It found that the DIBP has very little data about the characteristics of businesses operated by BIIP visa holders, and that although state and territory governments collect some data, it is not readily available. As a result, the Committee was limited in its ability to reach conclusions about the program. The Commission has faced similar challenges in its assessment of the program. The Joint Standing Committee on Migration made a single recommendation — that the DIBP review the program in 2015-16. The Australian Government has not yet responded to that recommendation.

Characteristics of BIIP immigrants

Data that identifies the characteristics of BIIP immigrants are limited. Most immigrants through this program — about 70 per cent in recent years — are from the People's Republic of China. By comparison Chinese immigrants accounted for 14 per cent of permanent immigrants and about 10 per cent of skilled immigrants in 2013-14. In its submission to the Joint Standing Committee on Migration inquiry, the DIBP provided some evidence on BIIP immigrants that it derived from the points test.

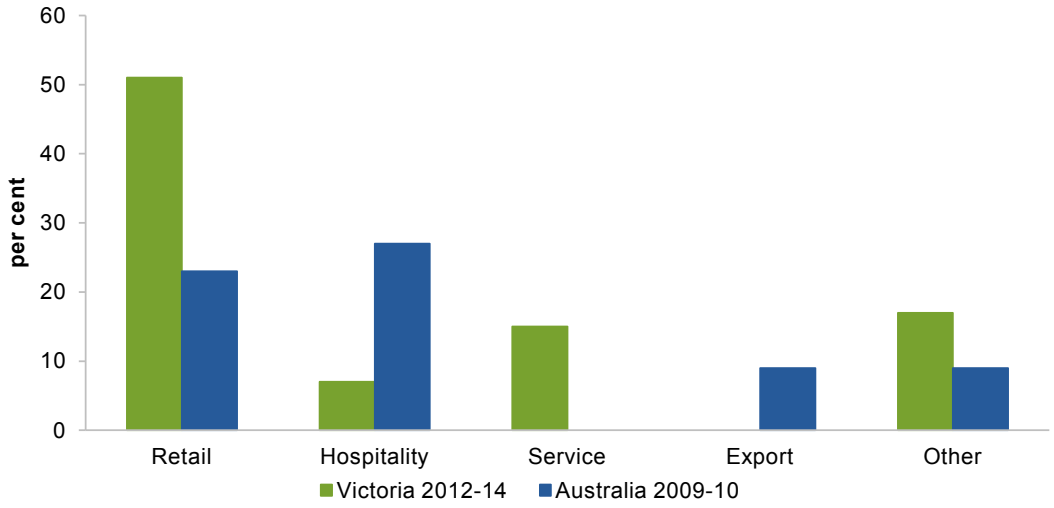
> … approximately only 10% of applicants claimed the points available for English language skills, suggesting that business migrants continue to have lower capacity in this area than most other skilled stream migrants. (DIBP 2014d, p. 14)

Economic impacts of BIIP immigrants

The economic impacts of BIIP immigrants are expected to arise from different mechanisms to other skilled immigrants. By establishing and managing businesses it is expected that they will generate economic activity and employment, although the impacts depend on whether this is additional activity rather than substituting for activity that would have happened without the program. Submissions to the inquiry of the Joint Standing Committee on Migration included some snippets of information on the businesses that BIIP immigrants operate.

- The majority of applicants intend to operate retail or hospitality businesses (figure 10.4).
- Most businesses are small. DIBP data showed that in 2010 a total of 93 per cent of recent BIIP immigrants' businesses employed four people or fewer. (For Australian businesses as a whole, the figure was 84 per cent.)
- Most BIIP immigrants buy established businesses (Deng 2012; DIBP 2014d).
- Over the period 1 July 2012 to 31 July 2014, 97 per cent of people nominated by the Victorian Government for a BIIP visa intended to settle in metropolitan areas (Victorian Government Department of State Development Business and Innovation 2014, p. 7).

Figure 10.4 **Business immigrants by industry[a]**



[a] Data for Victoria show the proposed business type for BIIP immigrants nominated by the Victorian Government from 1 July 2012 to 31 July 2014. Date for Australia show outcomes in 2010 of Business Skills program immigrants who lodged applications between July 2009 and October 2010.

Sources: DIBP (2014d, p. 34); Victorian Government Department of State Development Business and Innovation (2014, p. 7).

The Commission has previously found that small businesses are far less likely than large businesses to be innovative (PC 2015a). The patterns of business ownership and management among BIIP immigrants lead the Commission to agree with the conclusion of the Joint Standing Committee on Migration that the BIIP probably does little to increase exports or innovation.

The Commission's assessment of the BIIP

It appears likely that BIIP immigrants deliver economic benefits to the Australian community by operating businesses and contributing to economic activity. However, it is not possible to determine whether they generate additional economic activity, or if they crowd out incumbent Australians who might operate the same businesses. Nor is there significant evidence that the Business Talent via subclass makes a significant contribution to entrepreneurship in Australia. The limited evidence on their impacts means that it is not possible to make a definitive judgment on whether they deliver larger benefits than other skilled immigrants. As the DIBP stated:

> … very little economic modelling is able to distinguish between different categories of skilled migration in relation to increases in GDP. There is little to no evidence that business migrants will create a greater or lesser quantity of economic growth than other skilled stream migrants. (2014d, p. 21)

The analysis is complicated by changes to the BIIP in 2012. Many BIIP immigrants will spend four years or longer on a provisional visa before they are eligible to apply for permanent residency. It is too early to assess the characteristics and contribution of the cohort that does achieve permanent residency under the BIIP. The program should be reviewed five years after the changes, in 2017. In the meantime, the DIBP should explore ways to capture and disseminate more detailed data on the characteristics and economic contribution of BIIP immigrants.

DRAFT RECOMMENDATION 10.2

The Australian Government should review the Business Innovation and Investment Program to assess whether it is meeting its objectives.

To complete this review, the Australian Government will require more detailed information on the characteristics and impacts of immigrants through this program. The Australian Government should collect and publish information on indicators including:

- turnover
- employment
- wages paid to employees
- location
- innovation
- links with international markets.

Investor visas

Three investor visa streams exist under the BIIP — the investor visa, the SIV and the PIV. The investor stream is for people who make an investment of at least $1.5 million in Australia. Applicants face several additional requirements, including:

- at least three years' experience of managing an eligible business
- a genuine intention to live in Australia for at least two years
- passing a points test.

This stream is not extensively used. In 2013-14 only 16 visas were granted through this stream (up from two the previous year) (Joint Standing Committee on Migration 2015b).

The SIV and PIV streams require larger investments in Australia, but permit more passive investment options, do not require applicants to pass a points test and have less burdensome residency requirements. The SIV commenced in November 2012, and the PIV commenced in July 2015. These streams of the BIIP provide pathways to permanent residence for people who invest at least $5 million or $15 million (respectively) in eligible assets. Initially the Government stated that the SIV would:

> … target migrants with a demonstrated history of success in business and investment, to make a powerful contribution to national innovation and the Australian economy. (Bowen 2012)
>
> … help Australia to compete effectively for high net worth individuals seeking investment immigration. (Bowen and Shorten 2012)
>
> … [create] a new source of investment capital and increases the pool of funds managed locally. This is good for jobs and growth in areas such as financial planning, fund administration, stockbroking, accounting and funds management. (Bowen and Shorten 2012)

The SIV has been a small part of the total skilled immigration program. From the November 2012 until 31 March 2015 a total of 751 visas were granted to primary applicants. (Processing of the SIV was suspended from 24 April to 30 June 2015.) Applicants from China accounted for 89 per cent of primary applicant visa grants and the majority settled in Victoria (57 per cent) and New South Wales (33 per cent) (DIBP 2015m). To date, no invitations for the new PIV stream have been issued.

The SIV and PIV application process

Successful applicants for the SIV and PIV streams are granted provisional residence and are eligible to apply for permanent residence after four years (SIV) or one year (PIV). In some respects the requirements for a provisional visa (subclass 188) are less onerous than for other BIIP streams — there is no points test or age limit for either stream. However, applicants must be nominated by a state or territory government or by the Australian Government (for a PIV).

The transition to permanent residency has few requirements. For applicants through the SIV subclass permanent residence can be granted with as little as 40 days per year residence in Australia over four years. No residency requirement applies for a grant of permanent residency for holders of a provisional PIV who have maintained their investment for at least 12 months.

The complying investment framework

Immigrants through the SIV and PIV streams must invest a minimum of $5 million or $15 million (respectively) in 'complying investments'. When the SIV was introduced the list of complying investments included government bonds and Australian listed equities. The framework was reviewed in 2014. The Minister for Trade and Investment stated:

> Our objective is to see greater investment from the SIV in areas where there tends to be thin capital flows. We are particularly interested in seeing investment in innovation and the commercialisation of high quality Australian ideas, research and development. (Robb 2014)

A new framework has been in place since 1 July 2015 (box 10.4). PIV holders will be permitted to invest up to 100 per cent of PIV assets in government bonds and other low- or no-risk asset classes.

Box 10.4 Significant and Premium Investor Visa complying investments

To be granted a Significant Investor Visa, an applicant must invest at least $5 million for a minimum of four years, of which:

- at least $500 000 must be invested in 'eligible Australian venture capital or growth private equity fund(s) investing in start-up and small private companies' (Austrade 2015)
- at least $1.5 million must be invested in 'eligible managed fund(s) or Listed Investment Companies (LICs) that invest in emerging companies listed on the Australian Securities Exchange' (Austrade 2015)
- the balance (up to $3 million) must be invested must be invested in managed funds or listed investment companies that include 'other ASX [Australian Stock Exchange] listed companies, eligible corporate bonds or notes, annuities and real property (subject to the 10 per cent limit on residential real estate)' (Austrade 2015).

To be granted a Premium Investor Visa the applicant must invest at least $15 million. The visa will be available by invitation only, and the framework for eligible investments is intended to be more flexible than the Significant Investor Visa complying investment framework. Eligible investments include: Australian securities exchange listed assets; government, semi-government and corporate bonds or notes; proprietary limited companies; real property (excluding direct investment in residential real property and limited indirect investment), annuities and state and territory government approved philanthropic donations.

The economic impacts of the SIV and PIV streams

The SIV and PIV streams could lead to economic benefits if complying investment reduces the cost of capital to Australian businesses. This could happen if the existence of these streams leads to investment that would not have otherwise occurred. However, there are reasons to be sceptical about whether these visas have a material effect on investment in Australia. First there is the matter of scale. According to the DIBP annual report for 2013-14:

> Since November 2012, 286 SIVs have been granted to primary applicants, resulting in $1430 million being injected into the Australian economy. (2014b, p. 36)

To put that figure in perspective, in the year ended 31 December 2014 foreign investment in Australia was $261 billion The SIV stream makes a trivial contribution to foreign investment in Australia.

A second consideration is the allocation of SIV assets. Where SIV holders invest in highly-liquid assets it is doubtful that the program makes any material contribution to the cost of capital for Australian businesses. Under the revised complying investment framework up to 60 per cent of SIV assets can be invested in managed funds that invest in assets including 'blue chip' listed equities and corporate bonds. A further 30 per cent can be invested (through managed funds) in listed companies with a market capitalisation of up to $500 million. PIV holders will be able to invest in these assets and in government bonds. The markets for listed equities and corporate and government bonds are highly liquid and deep and attract significant offshore investment.[50] Investment by SIV and PIV holders would account for a trivial percentage of capital flows to Australia and investment in these asset classes. The idea that SIV/PIV investments in these assets would reduce their prices (and as such reduce the price of capital to Australian businesses) below what they would have been in the absence of the SIV and PIV visas is untenable. All these visas would achieve would be to substitute at the margin investment by an alternative purchaser who might not have been granted a visa simply for owning an asset.

The final 10 per cent of SIV complying investments must be invested (through managed funds) in 'start-up and small private companies'. This requirement is intended to increase the funds available for higher-risk businesses that might struggle to attract investment. However, the scale of the SIV scheme suggests that the benefit will be small. In 2013-14 investors had committed $18.5 billion to venture capital and later stage private equity (ABS 2015h). If SIV grants remain at current rates (about 300 per year) and each provisional visa holder invests $500 000 in these asset classes, the net increase in funds available for venture capital would be less than 1 per cent. The effect of this requirement on the cost of capital for Australian start-up businesses will be immaterial.

[50] Corporate bond issuance decreased following the global financial crisis, but the market has recovered and bond issues have 'been met by robust domestic and offshore demand' (Debelle 2014).

The SIV and PIV streams could lead to other economic benefits to the Australian community. Immigrants through these streams are free to invest additional funds outside of the complying investment framework and some may invest in businesses that would otherwise not attract funding. Some eligible immigrants will have business acumen and links to their home countries that could increase economic activity. But there is no reason to expect that SIV and PIV holders would be systematically more successful in these respects than holders of other visas. And in any case it is unclear why a visa should be granted for simply choosing a sound commercial investment.

There are also reasons to be sceptical about the impacts of the SIV and PIV. One is the use of 'loan back' arrangements during the first two and a half years of the SIV. Some SIV holders arranged with banks (including Westpac and Macquarie) to use their SIV complying investments as security for loans. This was permitted under the regulations at the time, and there was no restriction on how loaned funds were used. This created a loophole that potentially allowed immigrants to gain permanent residency with no net financial contribution to Australia (Boyd 2015). This loophole has been closed, but it shows that potential SIV immigrants (enabled by finance firms) will identify opportunities to act outside the spirit of the program to achieve permanent residency.

Another reason to be cautious about the potential economic benefits of the SIV and PIV programs is the lack of any age limit or English-language requirements. In general, younger immigrants contribute more to the Australian economy (because they have more of their work life ahead of them) and English-language skills are extremely important for success in Australian business. And the minimal residency requirements for these visas mean that passive investors can obtain permanent residency through these schemes without any requirement to create new economic activity. So overall it is not clear that there will be significant economic benefits through this mechanism compared to granting visas to applicants in other streams.

The only definite economic benefit of the SIV and PIV streams is to fund managers who will have access (through compulsion) to a new source of capital, with the associated fees and commissions. In economic terms the SIV complying investment framework leads to a transfer of a rent from non-Australians to Australians. Technically this counts as a benefit to the Australian community (broadly defined). Although it is not clear that the benefits exceed the costs of giving away a valuable asset: permanent residency in Australia.

Social impacts of the SIV and PIV streams

Because of the small size of the SIV and PIV streams, their social impacts are likely to be small. However, the absence of an age limit or English-language requirements and the minimal residency requirements for SIV and PIV holders are unlikely to be consistent with successful integration into the Australian community.

Some inquiry participants, including law enforcement agencies, raised concerns about the potential for money laundering and other nefarious activities. To date it appears that there

has not been any proven case of money laundering or other fraudulent activity associated with the SIV stream. The SIV application process includes detailed vetting of applicants' assets to determine that they are lawfully held and not arising from corrupt practices although no screening can eliminate this risk.

Other participants raised a general objection to the idea of 'selling' residency.

Significant investor visas in other countries

Several other countries offer visas that have similar characteristics to the SIV and PIV — streamlined entry for immigrants who make significant investments in the host countries or upfront payments to governments. Hartwich (2015) summarised the requirements for several 'golden visa' schemes in European countries:

- Portugal — grants residency to people who invest €1 million in a Portuguese company, buy Portuguese property worth at least €500,000 or create 10 jobs
- Malta — pay €1.15m for a passport
- Cyprus — pay €3m for a passport
- Austria — citizenship granted to people who donate €2m to charity or invest $US10m in an Austrian company
- Latvia — residence granted for an investment of €80,000
- Hungary — grants residence for investing €300,000 in government bonds for five years.

The Canadian Government had an Immigrant Investor Program from 1986 until it was cancelled in June 2014. Immigrants could obtain permanent residency if they could demonstrate business experience, had a net worth of at least C$1.6 million and lent a Canadian provincial Government at least C$800 000 for a period of five years. Investments were guaranteed and repaid (without interest) after five years (CIC 2014d). The Canadian Government identified several reasons for cancelling the program, including:

- significant backlogs for processing (at least 54 months wait)
- a relatively low investment requirement compared to other countries
- the program did not meet Canada's labour force needs
- investors pay less tax than other types of immigrants
- many investors did not live in Canada or make an active contribution to Canada
- the program undervalued Canadian citizenship (CIC News 2014; Workpermit.com 2014).

In place of the Immigrant Investor Program the Canadian Government has introduced a pilot scheme for people with a net worth of over C$10 million who are proficient in English or French and have recognised post-secondary qualifications. Candidates must

invest at least C$2 million in a venture capital fund that is managed by the Business Development Bank of Canada. The pilot is limited to 60 visa approvals.

The Commission's assessment of the SIV and PIV

One of the stated objectives of the SIV and PIV streams is to attract high net worth individuals to Australia. This appears to be based on the assumption that people with a lot of money are inherently desirable immigrants. However, the Commission's analysis suggests that the economic benefits of the SIV and PIV are likely to be small, and accrue mostly to fund managers. The social impacts of the streams are likely to be less favourable than other skilled immigration streams (because of the lack of English-language requirements and the limited residency requirements). Overall the case for retaining or extending the SIV and/or PIV is weak.

A more transparent alternative

The SIV and PIV are based on the assumption that attracting wealthy people to Australia is inherently beneficial. These benefits are highly questionable. To the extent that they exist the current scheme directs most of the benefits to a handful of fund managers. If the Australian Government intends to retain a scheme to permit wealthy foreigners with a minimal commitment to Australia to obtain permanent residency, the SIV and PIV should be replaced with a more transparent scheme that delivers direct benefits to the wider community. One option would be to replace the SIV and PIV with a visa subclass with minimal requirements aside from security, character and health, accelerated processing and a high, non-refundable fee payable to consolidated revenue.

DRAFT FINDING 10.3

The economic benefits of the Significant Investor Visa and Premium Investor Visa streams accrue mainly to the visa holders and to fund managers. The benefits to Australian businesses seeking investment and the economic benefits to the broader Australian community are likely to be very small or nonexistent. Overall the case for retaining the Significant Investor Visa and Premium Investor Visa streams is weak.

DRAFT RECOMMENDATION 10.3

The Australian Government should abolish the Significant Investor Visa and Premium Investor Visa streams.

10.3 Family immigration

Family members account for about 67 per cent of all permanent immigrants through the Migration Programme.

- About 32 per cent of permanent immigrants come through the family stream.
- About 35 per cent of permanent immigrants are dependents who accompany skilled immigration primary applicants.

This section focuses on permanent immigrants through the family stream.

Objectives of family immigration

The DIBP stated that the primary objective of the family immigration program is to deliver social benefits.

> The Family stream of the Migration Programme provides for the permanent migration of certain family members to Australia, in recognition of the social benefits associated with family unity. (2014b, p. 56)

The DIBP also identified several international agreements to which Australia is a signatory that affirm the importance of family and set out the obligations of signatory states for dealing with families in the immigration context (DIBP 2012). The family immigration program gives effect to some of Australia's international commitments.

How the system works

Family stream immigrants must be sponsored by an Australian citizen, permanent resident or New Zealand citizen with whom they have a family relationship. The overall family immigration program is capped each year. The planning level for 2015-16 is 57 400 family stream visas. In addition '[a]t least 3485 Child places will be available outside the managed Migration Programme' (DIBP 2015h). Within the overall planning level visas are allocated to the various visa subclasses (partner, parent and 'other family') through two mechanisms: 'capping and queuing' and priority processing.

The 'cap and queue' system involves a cap (set by the Minister) on the number of visas for particular visa subclasses. Applications for each subclass are considered in the order that they are lodged. Once the annual cap has been reached no further visas are granted, and applicants remain in the queue for the following year. The Minister can only cap the number of visas in some classes, including: Prospective Marriage; Parent; Aged Dependent Relative; Remaining Relative and Carer. Some family visa classes cannot be capped, including: Partner; Child; Orphan Relative and Adoption.

Demand for family stream visas is high. Because partner visas are uncapped and afforded priority processing they constitute the majority of visa grants — about 78 per cent of

family visa grants in 2013-14. In the same year, parent visas accounted for about 15 per cent of the family stream (8925 visa grants). Of these, 7175 places were allocated to the Contributory Parent visa class and 1500 to non-contributory parent visas (DIBP 2015l).

Visa processing priorities

As with the skill stream, the family stream is subject to processing priorities. In all cases applicants whose sponsors arrived in Australia as illegal maritime arrivals are afforded the lowest priority, regardless of their family relationship. The priority order is:

1. children and partners
2. contributory parents
3. non-contributory parents and other family
4. applications where the sponsor entered Australia as an illegal maritime arrival.

New Zealand Citizens living in Australia can sponsor family members who are not New Zealand citizens. These applicants are exempt from processing priorities and applications are processed in the order that they are received.

Visa waiting periods

Data provided to the Commission for the period 2004-05 to 2014-15 show that over that period approximately 90 per cent of child visa applications were finalised within 12 months. Only about half of permanent visa applications by partners were finalised within the same period. However, many partners are able to live in Australia under a temporary visa while their application for permanent immigration is processed. Data on the number of applications, visa grants and the pipeline for family visas are consistent with the majority of these applications being finalised within around 12 months (table 10.3).

For parents the waiting periods are longer. Applicants through the contributory parent visa, who pay visa charges in excess of $45 000, generally have their applications finalised within two years (DIBP 2015j). The cap on non-contributory parent visas and the significant demand for this visa leads to very long queue times — the DIBP stated that applicants should ‘expect an approximate 30 year wait before visa grant consideration after being allocated a queue date’ (DIBP 2015l), although they may be entitled to visit their children in the meantime on temporary visas.

The waiting times for the non-contributory parent visa impose significant costs on Australian permanent residents, citizens and their parents, including uncertainty about the future and hardship associated with separation from family. Although the waiting periods are ultimately an outcome of the demand for the visa and the small annual quota, there could be scope to improve outcomes for applicants through better communication with potential immigrants and their families, and through more efficient administration of the program. The Commission intends to explore this issue for the final report.

The cap on non-contributory parent visas limits the avenues for immigrants to bring their parents permanently to Australia without incurring the significant costs of the Contributory Parent class. This would reduce the attractiveness of immigration to Australia for some prospective skilled immigrants. However, it is not clear how significant the effect is.

Table 10.3 **Family immigration applications, grants and pipeline**
2013-14 program year

Immigration stream	*Planning level / cap*	*Applications*	*Grants*	*Pipeline at 30 June 2014*
Partner	47 752[a]	64 907	47 752	65 470
Spouse			42 330	
Fiancé			5 421	
Child	3 850	4 670	3 850	4 560
Parent				
Contributory parent	6 675	5 071	6 675	12 800
Non-contributory parent	2 250	1 485	2 250	36 000
Other family	585	2 696	585	
Family immigration total	61 112	82 910	61 112	126 680

[a] The planning level for partner immigration is adjusted through the year to match the outcome.

Sources: DIBP (2015a); Productivity Commission estimates.

Labour market impacts

Chapters 3 and 5 set out evidence on the characteristics and labour market outcomes of immigrants, including an assessment of the different streams in the Migration Program. On average, compared to skilled immigrants, family stream immigrants:

- are older
- have lower English-language skills
- are less qualified
- have lower labour force participation and hours of work and higher unemployment
- are less likely to work in high-skill occupations and as a result tend to earn less.

The labour market impacts of skilled and family immigrants on the existing labour supply depend on whether they are substitutes for or complements to the existing labour supply (chapter 5).

Fiscal impacts

Chapter 7 showed that, in general the fiscal impacts of immigrants are related to their age at arrival and the human capital characteristics that make them employable. Younger immigrants with skills have a larger average positive fiscal impact than older immigrants and immigrants with fewer skills. Consistent with this, partners tend to make a positive fiscal impact and parents tend to make a negative impact.

The Australian Government Actuary estimated in 2008 that the average lifetime fiscal cost of entrants through the contributory parent scheme is between $232 000 and $284 000 per person (AGA 2008). Health care costs accounted for about 59 per cent of the total, income support for about 31 per cent, and aged care for about 9 per cent. Even taking into account the visa application charges of in excess of $45 000, each contributory parent visa holder imposes costs of approximately $200 000 over his or her life in Australia. The fiscal cost of non-contributory parents could be higher or lower and would depend on the ages at arrival of parents through the two visa subclasses.

Social impacts

Several participants identified positive social contributions made by family immigrants. For example, the Australian Red Cross stated:

> Migrants' families are an important resource, supporting members to adjust and settle into their new environment. The types of support provided by family members include financial (sharing money), physical (providing care or assistance), emotional (sharing love, understanding and counsel), legal (occupying positions of guardianship) and spiritual (performing religious duties). (sub. 23, p. 8)

Several other participants emphasised the importance of family reunion for successful settlement (for example, AMES Australia, sub. 45; Australian Multicultural Council, sub. 11; Federation of Ethnic Communities' Councils of Australia, sub. 24; Migration Institute of Australia, sub. 53; Northern Territory Department of Business sub. 60).

By their nature, the social impacts of family immigration are difficult to quantify. Khoo et al. (2013) assessed the available evidence on the social contribution of family immigrants and found that family immigrants made important contributions through housework, care for children and other members of their families and volunteering. However, their research showed that in some indicators of social impacts skill stream immigrants made a larger contribution than family stream immigrants. It also showed that the social contributions vary according to gender and whether the immigrant is the primary applicant or a partner.

Interaction with skilled immigration

There are interactions between family reunion and other streams of immigration. Khoo found that immigrants who have sponsored family members to join them in Australia are

'much more likely to settle permanently than migrants who have not' (Khoo 2003, p. 196). She found that the relationship between sponsorship of relatives and permanent settlement is stronger for skilled and business immigrants than for other classes of immigrants.

Migration Council Australia also identified a link between skilled and family reunion. It stated:

> The large increase in skilled migrants over the past 15 years will likely create pressure for an increase in the ability to reunify families. (sub. 50, p. 8)

So to the extent that the Australian Government seeks to attract and retain skilled immigrants, family reunion is an important part of the permanent immigration system. It is not clear whether these interaction effects offset the negative economic impacts of parent immigration.

The balance of the family and skilled immigration streams

There is a place for both family stream and skill stream permanent immigration. The increased emphasis on skilled immigration has led to better labour market outcomes among immigrants, a more positive fiscal contribution and improved community attitudes to immigration.

Only a few participants expressed firm opinions the issue of the balance of skilled and permanent immigration in submissions. The Business Council of Australia (sub. 59) and Migration Council Australia (sub. 50) both supported the current allocations. The Migration Institute of Australia (sub. 53) favoured retaining the emphasis on skilled immigration, but increasing the level of family immigration (through an increase in total level of immigration).

The balance of family and skill stream permanent immigration has been at about the same level for the past ten years. Any significant change from that balance would need to be justified by credible evidence that the change would lead to better outcomes. Based on the available evidence only limited conclusions can be drawn, and it would be difficult to justify significant changes to the balance of the two streams.

It is clear that parent immigration imposes a direct net cost on Australia. However, the second-round effects through the interaction with skilled immigration might offset some or all of these costs. So although reducing parent immigration would probably deliver direct net benefits, over time it could reduce the attractiveness of immigration to Australia by skilled immigrants. Increasing the visa application charges for parent visas and limiting their access to government services and income support could reduce the net costs of the program. However, this could push parent immigration out of reach of some immigrants, which could be seen as undesirable from an equity perspective.

10.4 Humanitarian immigration

The objectives of the Humanitarian Program are to:

- provide permanent resettlement to those most in need, who are in desperate situations overseas, including in refugee camps and protracted humanitarian situations
- reunite refugees and people who are in refugee-like situations overseas with their family in Australia, and
- use resettlement strategically to help stabilise refugee populations, reduce the prospect of irregular movement from source countries and countries of first asylum, and support broader international protection. (DIBP 2013b, p. 2)

Categories of humanitarian immigration

The Humanitarian Program consists of two broad streams.

- Onshore protection — for people who apply for protection or asylum after arriving in Australia.
- Offshore resettlement
  - The Refugee stream is for people who face persecution in their home country and need to settle in another country. Most refugees are referred by the United Nations High Commissioner for Refugees.
  - The Special Humanitarian Program is for people who are subject to gross violations of their human rights in their home country. Resettlement through this program is only available to people who are nominated by an Australian citizen or permanent resident, an eligible New Zealand citizen or an organisation based in Australia (DIBP 2015i).
  - The Community Proposal Pilot which ran from 1 June 2013 until 30 June 2015, provided an alternative pathway for a small number of humanitarian immigrants who were proposed by an approved organisation in Australia and paid a substantial fee. The Pilot is discussed below.

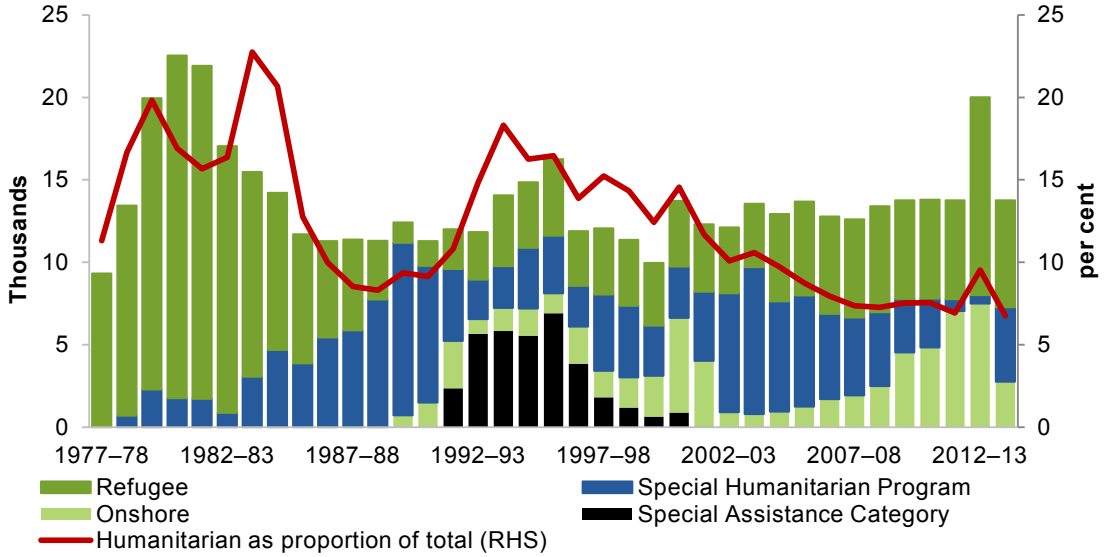
Trends in humanitarian immigration

For most years from 1996-97 to 2013-14 the humanitarian program intake was between 12 000 and 14 000 (figure 10.5). Exceptions were 1999–2000 (9960) and 2012-13 (20 019). The Humanitarian intake planning level for 2015-16 was originally set at 13 750 places. On 9 September 2015 the Australian Government announced that it would make available an additional 12 000 places for people displaced by conflict in Syria and Iraq (DIBP 2015c). This will mean that the humanitarian intake for 2015-16 will be the largest in the history of the program, which began in 1977.

The humanitarian intake is scheduled to increase to 18 750 places in 2017-18. Some participants called for a higher humanitarian intake (AMES Australia, sub. 45; Migration Institute of Australia, sub. 53; Refugee Council of Australia, sub. 20).

Figure 10.5 **Trends in humanitarian immigration[a]**

Visa grants (left axis) and humanitarian intake as a proportion of total immigration (right axis)



[a] 'Special assistance' visas were granted in the 1990s and early 2000s including to people from the former Soviet states, Iraq, Kuwait, Lebanon, China, East Timor and Sri Lanka. This visa is currently not offered.

Source: DIBP (2015k).

Because the Migration Program has steadily increased, the Humanitarian intake has decreased as a proportion of the total intake (figure 10.5). Migration Council Australia suggested that the level of humanitarian immigration should be set to maintain a consistent relativity with the Migration Program.

> The Migration Council supports a change in the method of how the humanitarian intake is calculated. Instead of picking an annual figure, the humanitarian intake should reflect a proportion of the entire migration program. This would allow the intake to grow over time naturally in line with the Migration Program. The proportion would become a policy decision of governments of the day. The Migration Council support a humanitarian program proportional to 12.5 per cent of the Migration Program, a one in eight ratio. (sub. 50, p. 8)

Within the Humanitarian Program the balance between streams has changed over time. Since 1989-90 the Refugee stream has increased gradually and since 2004-05 has accounted for about 40–50 per cent of the humanitarian intake in most years. The Special Humanitarian Program has fluctuated. In years when onshore grants are high, Special Humanitarian grants tend to be crowded out. A surge in onshore grants from about 2006-07 until 2012-13 was correlated with fewer Special Humanitarian Program grants.

The Community Proposal Pilot

The Community Proposal Pilot operated from 1 June 2013 to 30 June 2015. It provided accelerated access to permanent immigration to Australia for people who met the criteria of humanitarian resettlement. Features of the pilot included:

- a limited number of visas available (500 in total for the Pilot) with visa grants counted toward the overall Humanitarian Program
- candidates had to be proposed by 'approved proposing organisations'
- visa application charges of $19 124 for the main applicant and $2680 for any secondary applicant. (So a family of five would face charges of approximately $30 000)
- limited access to government-funded settlement support services — proposing organisations had to provide settlement support for up to 12 months after arrival, including accommodation, household goods and job search assistance (DIBP 2015e).

In June 2015 the DIBP released a discussion paper seeking feedback on the possibility of establishing an ongoing 'Community Support Program' which would have similar features to the Pilot. The paper included some information on the Pilot, including:

- demand for places exceeded the available 500 visas
- 61 per cent of visas were granted to people under 40
- fiscal benefits included $2.04 million of visa application charges and savings from not providing access to the Humanitarian Settlement Services Program (DIBP 2015f).

Inquiry participants expressed a range of opinions about the Pilot. Participants were generally positive about the opportunities for resettlement, but some were concerned that the program was inequitable (only relatively wealthy settlers could afford the visa application charges) and that visa grants through the Pilot came at the expense of fewer other Humanitarian visa grants (box 10.5).

The program slightly reduced the fiscal costs of humanitarian settlement and it is likely that settlers through the program would be well supported by their relatives and communities after arrival in Australia.

If the Community Support Program goes ahead the high level of demand suggests that there is scope for the Government to target the scheme toward people with characteristics that increase their likelihood of successful settlement, including English-language skills, education and younger age. The question of whether the Community Support Program should count toward the Humanitarian Program is ultimately a political one that goes to the question of whether the Australian Government should increase the humanitarian intake.

Box 10.5 **The Community Proposal Pilot**

Some participants expressed opinions on the Community Proposal Pilot.

> The recent Community Proposer Pilot [CPP] now in its third year of delivery has assisted family reunion for families that have become established and in a position to pay for the costs of proposing their families as well as to commit to providing effective settlement on their arrival. This program is a useful adjunct to the humanitarian program and has the capacity to be expanded, especially as it is delivered by settlement agencies with expertise that ensure productive settlement outcomes. However the allocated number of visas to this program should not be increased at the expense of the direct humanitarian settlement program. (Settlement Council of Australia, sub. 55, p. 2)
>
> For many years, [Refugee Council of Australia] has been advocating for greater community involvement in resettlement and the expansion of Australia's Refugee and Humanitarian Program in response to unmet resettlement needs internationally. However, we believe the current model of the CPP is an inadequate way to address these issues. In consultations over the last few years, community members and service providers have expressed a range of concerns about the CPP and its accessibility to people from refugee backgrounds.
>
> The most commonly raised concern relates to the visa application charges. Many participants were of the view that these fees were excessive, to the point that the CPP was simply not an option for their communities or clients. Considerable concern has been expressed that the program would benefit communities which are well-organised, have good connections and have significant financial resources and fundraising capacity, while new and emerging communities would be likely to miss out.
>
> The placement of the CPP within the existing Humanitarian Program was also raised as a significant concern. Many felt that by placing the CPP within the existing quota of 13,750, places have been taken from those most in need and given to those who are willing and able to pay the high fees. Many commented that because of the high cost to communities and low cost to the Government, the CPP should be in addition to the Humanitarian Program. (Refugee Council of Australia, sub. 20, p. 6)

11 Interaction between temporary and permanent immigration

Key points

- The Australian Government must balance a range of objectives to achieve an optimal interaction between permanent and temporary immigration.
  - The shorter-term objectives of temporary immigration must be balanced with the longer-term objectives of permanent immigration.
  - The number of immigrants in the various sub classes must be balanced (including by managing immigrant stocks and flows).
  - The administration of the pathways from temporary to permanent residency should be efficient and effective.
- Pathways should target immigrants with skills, experience and characteristics that are consistent with the overall objective of improving the wellbeing of the Australian community.
  - As new evidence becomes available on which characteristics are related to positive outcomes, policy should be reconsidered and recalibrated.
  - Given the importance of achieving an optimal mix of immigrants, and because the temporary and permanent immigration streams are not direct substitutes, the two streams should continue to be determined separately.
- Permanent immigration through the pathway from employer-sponsored temporary to employer-sponsored permanent visas has become more common in recent years, mainly with positive economic impacts. However, this pathway highlights the importance of continuing government regulation through the enforcement of visa conditions.
  - The English-language requirements for the Temporary Residence Transition stream of employer-nominated permanent immigration are lower than for other skilled immigration streams, and an exemption from English-language testing is available for some people who have undertaken education in English. These less stringent standards could lead to immigrants with inadequate English-language skills being granted permanent residence.

Chapters 9 and 10 assessed Australia's temporary and permanent immigration systems. The terms of reference requested that the Commission also consider:

> Mechanisms for achieving an optimal interaction between temporary and permanent migration noting that temporary migration is an established pathway to permanent migration.

Many immigrants make *transitions* between different temporary visas and, at some point, make the transition from a temporary to a permanent visa (with many also moving subsequently to Australian citizenship). So-called immigration *pathways* from temporary

to permanent immigration may involve one or more transitions. The existence of allowable, established pathways from temporary to permanent visas provides several benefits, as they:

- allow immigrants to 'try before they buy' in terms of understanding what life is like in Australia and, essentially, beginning to 'settle' prior to deciding to migrate permanently
- allow immigrants a period of time to demonstrate their commitment to being law abiding residents
- allow employers to make a more informed decision on nomination for permanent immigration, as immigrants are able to demonstrate their value as employees while on temporary visas
- provide a means for international students to immigrate permanently after having acquired their qualifications
- influence the intake of temporary immigrants, which helps to make up the pool of applicants for permanent residency.

The Commission is proposing to interpret an 'optimal' interaction between temporary and permanent immigration as a system that achieves several objectives at the same time (also discussed in chapter 4). First, the outcomes of temporary immigration programs should be consistent with, and not contradict, the objectives of the permanent immigration program (section 11.1). Second, the pathways from temporary to permanent immigration should provide an effective means for screening temporary immigrants who seek to become permanent. Third, the administration of the system should be efficient and cost effective. Finally, policy should be informed by the fact that immigration pathways will themselves have some effect on immigrants' outcomes.

The empirical basis for these considerations is discussed in section 11.2, while the policy implications are discussed in section 11.3.

11.1 Balancing objectives

As noted in chapters 9 and 10, the temporary and permanent immigration programs, and the various visa subclasses, have their own objectives. However, these programs do not exist in isolation, and although the intake for a given visa (or subclass) needs to be justified in its own terms, it should also be viewed in the broader context of the migration program.

The Commission's approach to balancing the various objectives of the immigration system involves considering the economic, social and environmental impacts of the system, including the impacts over the short and long term (chapter 4). Inevitably, balancing the various objectives means making trade-offs and setting priorities. The Australian Government has several policy levers that it can use to influence the impacts of immigration and the interaction between temporary and permanent immigration, including setting the level of immigration, setting rules for immigration pathways to target

immigrants with desirable characteristics and programs to assist immigrants with integration.

Controlling the level of immigration

Both the stock and flow of immigrants are important. Longer-term immigration, particularly permanent immigration, has a greater effect on the stock of immigrants (and the population) because the migrant intake for a given year will continue to reside in Australia in subsequent years. As such, the effects of permanent immigration accumulate over time. Temporary immigrants, on the other hand, may only reside in Australia for a relatively short period, and as such have a less sustained impact than permanent immigrants on immigrant and population numbers. For this reason, the size of the yearly intake of temporary immigrants is less tightly controlled than that of permanent immigrants, and it is more responsive to the economic cycle.

The numbers of immigrants in any particular stream or subclass can be controlled directly so as not to exceed a planned maximum level. However, influencing demand so that it is above a minimum level is less straightforward. For example, it is likely that the potential for permanent residency is a factor for some immigrants when applying for their temporary visas. That is, if the conditions around permanent residency were to change, this is likely to affect some migrants' decisions on whether to take up temporary residency in Australia. Conversely, if policy changes were to affect the temporary migrant intake, this would have implications for the pool of applicants for permanent immigration. In short, there is a strong interdependency between temporary and permanent immigration which affects both the supply of potential immigrants and the demand for immigrants.

Targeting immigration composition through pathways

A pathway refers to the set of visas that an immigrant is granted over time between his or her initial grant of a temporary visa and the final grant of a visa for permanent residency (and ultimately citizenship). These pathways are effectively established in regulations, which set out which transitions are allowable, and as a result influence immigrants' decisions through incentives. These regulations include:

- *eligibility conditions*, which establish the composition of both temporary and permanent intakes and in some cases, also determine which temporary visa holders are eligible to apply for a particular permanent visa
- *conditions for visa holders*, which determine, for instance, immigrants' rights to work and access to government services, both of which influence temporary immigrants' incentive to apply for permanent residency
- *point systems for permanent immigration*, which allow prioritisation based on various characteristics, qualifications or experience, and also implicitly or explicitly favour applicants from particular temporary visas or visa subclasses

- *quotas*, which determine maximum numbers of immigrants in particular subclasses, streams and pathways
- *administrative processes*, including bridging visas (and their associated conditions) and avenues of appeal.

In combination, these factors have a strong influence on the composition of the overall migrant intake, and potentially, on the size of the temporary migrant intake. For instance:

- they help determine which immigrants can apply for *permanent* visas, which immigrants are prioritised over others, and how many are accepted. This in turn will affect decisions made by potential immigrants in regard to temporary immigration, to the extent that those applying for temporary visas hold some interest in longer-term immigration
- they help determine which immigrants can apply for *temporary* visas, and which immigrants are prioritised over others. This in turn determines the composition of the pool of applicants for permanent immigration.

Such regulations lead to pathways that target desirable groups of immigrants and 'reward' desirable behaviours and characteristics.

Improving immigrants' outcomes through pathways

Regulations that apply through the various immigration pathways not only help to 'target' the migrant intake, but also have some impact on immigrants' outcomes. That is, many aspects of the immigration pathway can affect immigrants' economic, social and environmental impacts. For instance:

- access to language and employment programs can influence immigrants' economic and social outcomes
- the ability to undertake paid work while on temporary visas is likely to have some positive effect on immigrants' future outcomes in the labour market, including when they may have moved onto permanent residency
- in some cases, earlier access to medical services can prevent further illness — as such, access to medical services in the short term can, for some people, improve their fiscal impact in the longer term.[51]

The focus on longer term outcomes is conceptually in line with the 'Investment Approach' to social welfare, which seeks to make policy decisions on social welfare based on their likely impact on future welfare dependence — hence attempting to minimise overall fiscal liability (Department of Social Services sub. 62). However, in the immigration context, it

[51] Several temporary visas which do not allow access to Medicare require immigrants to hold private health insurance as a precondition.

makes sense to expand this line of thinking to other objectives aside from fiscal impacts, to include economic, social and other outcomes. Moreover, policy decisions in this context are not limited to access to services or payments, but also involve visa conditions and restrictions.

Given that aspects of immigration pathways can affect longer term outcomes, such effects are more relevant for people who eventually complete the pathway to permanent residency. As such, if a high proportion of people in a particular temporary visa subclass are likely to obtain permanent residency, this places greater importance on ensuring that the relevant immigration pathways are compatible with the broader objectives of the permanent immigration program.

Beyond permanent residency to citizenship

Beyond permanent residency, a further step for many immigrants is to obtain Australian citizenship — the endpoint of the immigration pathway. Rather than representing an immigrant's status as a permanent inhabitant of Australia, citizenship is conceptually significant as a signal of intangible qualities relevant to social participation and political involvement.

Citizenship lies outside of the formal immigration program, which determines the composition of people who enter Australia and their length of stay. As such, while citizenship is, in many respects, a part of the same pathway, this chapter focuses mainly on the transition to permanent residency. In this context, the relevance of citizenship relates mainly to immigrants' eligibility to apply, and how this may factor into their decisions on temporary and permanent visas. Such considerations would include, for example, the scope for the immigrant to maintain source-country citizenship (some countries do not allow multiple citizenship) the value of the Australian passport as a means for travel (for example, visa-free entry) and assistance by Australian consular officials.

11.2 The current balance and pathways

As noted in chapters 2, 9 and 10, there has been significant change in the makeup of Australia's migrant intake. One notable change has been the increase in prominence of temporary immigration relative to permanent immigration. Related to this are changes to the relative use of visa pathways.

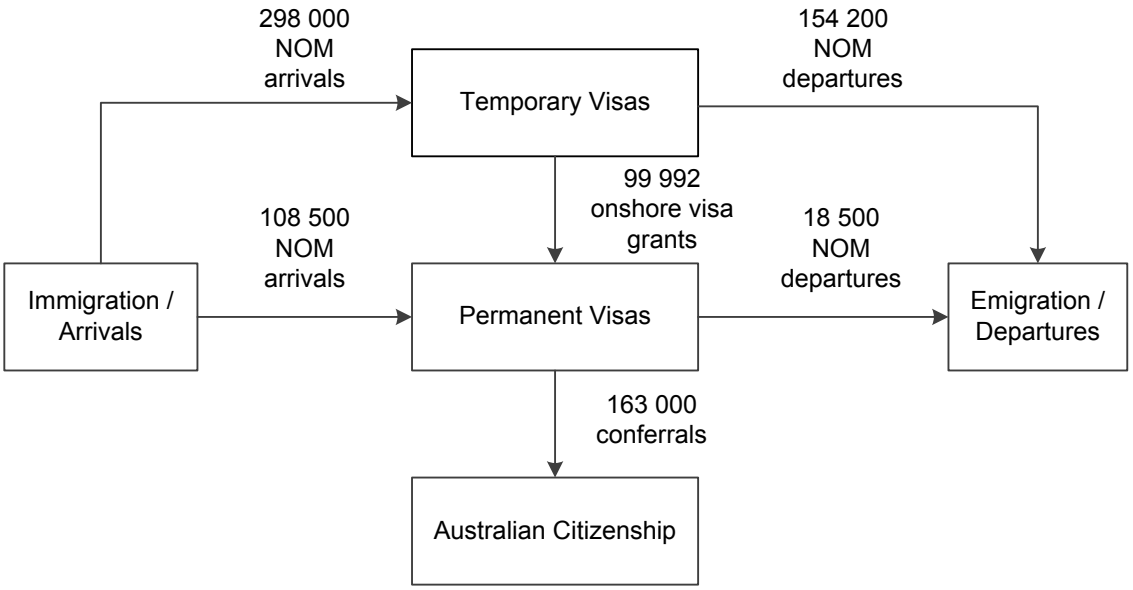
The current balance of temporary and permanent immigration

Temporary immigration has overtaken permanent immigration as the main contributor to annual net overseas migration (NOM) (chapter 2). As a measure of the net flow of migrants, NOM is determined by both the numbers of arrivals to and departures from

Australia. In a given year, many immigrants will transition from temporary to permanent residency, or from permanent residency to Australian citizenship (figure 11.1). In 2013-14, 99 992 people made the transition from a temporary to a permanent visa.

Figure 11.1 **Migration flows, 2013-14[a]**

Number of migrants



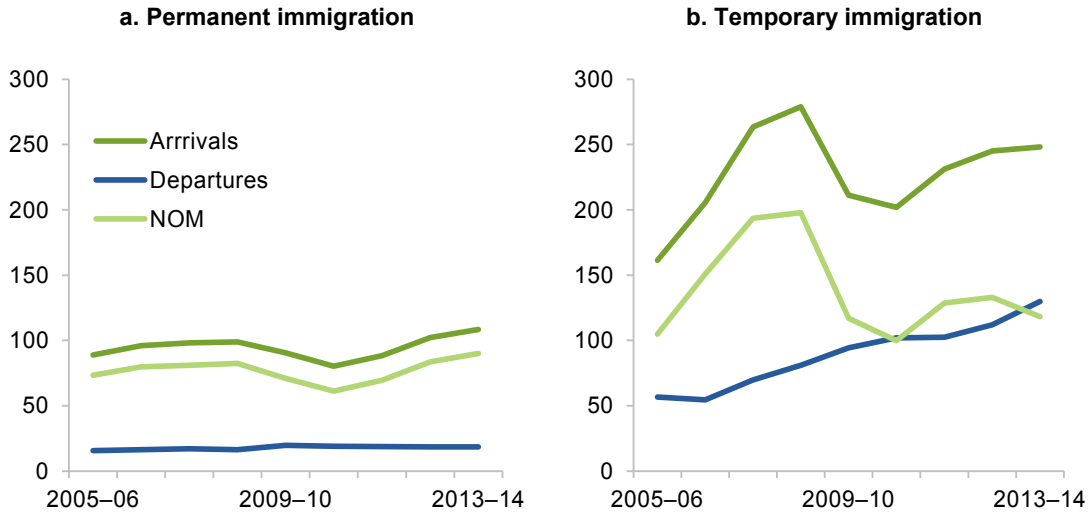
[a] Excludes bridging visas, and the arrivals and departures of Australian citizens. Temporary visas include Special Category Visas.

Source: DIBP (2015a).

In the past decade, the number of annual arrivals on permanent visas has generally been less than the number of temporary arrivals (figure 11.2). The number of departures of permanent immigrants has also been much lower than that of temporary immigrants. Overall, temporary immigration makes a larger contribution to annual NOM than permanent immigration.

Underlying the fluctuations in temporary immigration are several distinct subclasses, each with different trends in arrivals and departures (figure 11.3). For example, student visa numbers increased significantly in the years leading to 2008-09, driven by several factors including changes to immigration policy, the regulation and funding of education, and macroeconomic factors (PC 2015b). Like other types of temporary immigration, an uptick in arrivals is generally associated with an uptick in departures some years later. Such a lag is likely to be largely dictated by the length of the course of study, which may be short-term (say, 6 to 18 months) or longer-term (3 years or more). By contrast, working holiday visas generally last one year and, as such, there is a shorter lag between arrivals and departures.

Figure 11.2 **Arrivals, departures and NOM for temporary visas**
Thousands

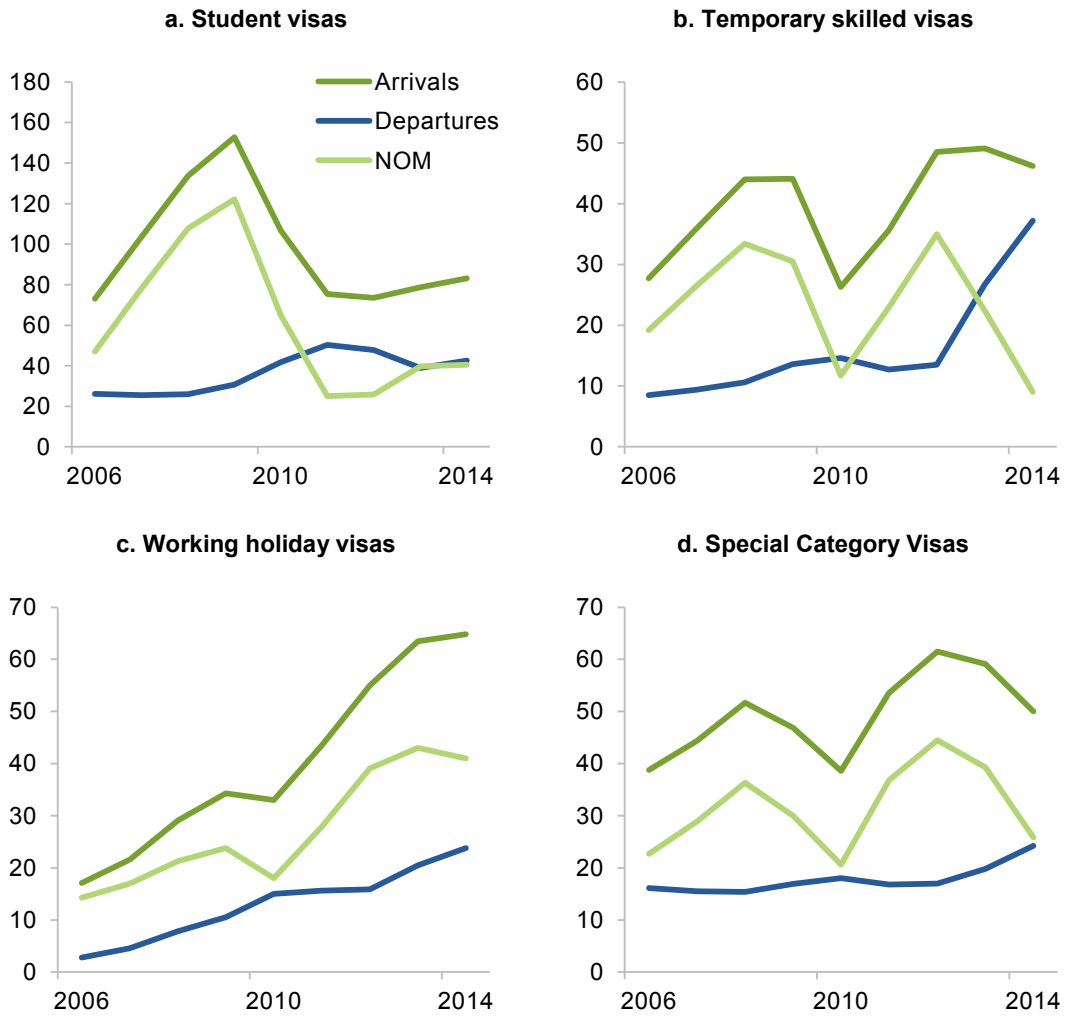


Source: DIBP (2014b).

These lags have an effect on NOM — while an increase in temporary immigrant intake in a given year will increase NOM for that year, immigrants' departure will reduce NOM in subsequent years. If temporary immigration is mainly made up of working holiday visa holders, these opposing pressures will tend to occur one year apart. Alternatively, if there is a large increase in temporary skilled (subclass 457) visa holders, there could be a substantial downward pressure on NOM in three or four years' time if these immigrants depart and are not replaced.

Lags aside, there is an observable disconnect between the level of arrivals and departures for temporary visas (figure 11.3). This is particularly true where temporary immigrants are likely to progress to permanent residency (such as with Student or temporary skilled visas) or are able stay indefinitely (such as with Special Category Visas). As such, in order to understand what factors determine the balance between temporary and permanent immigrants, it is necessary to consider the pathways that immigrants take from one visa to another, particularly from temporary and permanent residency.

Figure 11.3 **Arrivals, departures and NOM for temporary visa subclasses**
Thousands, year ending June



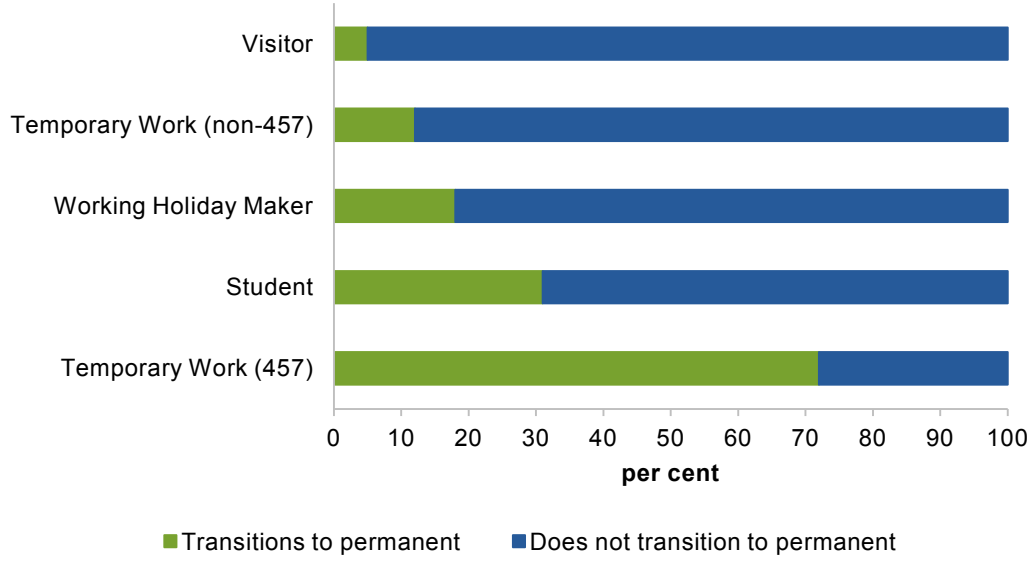
Source: DIBP (2014b).

Well-travelled pathways

In 2015, the Department of Immigration and Border Protection (DIBP) prepared a working paper on visa transitions and immigration pathways. The paper used data from 1991 to 2014, covering individuals with at least one temporary or permanent visa grant during the period 1 July 2000 to 30 June 2010. The final sample contained around 56 million visa grants to around 30 million unique individuals. Visitor visas accounted for around 85 per cent of all temporary visa grants, and only a small proportion of visitors made the transition to permanent residency. A much larger proportion of temporary work and student visa holders were eventually granted permanent residency (figure 11.4).

Figure 11.4 **From temporary visa to permanent**

Proportion of visa holders who eventually transition to permanent residency, by initial temporary visa held



Source: DIBP working paper (2015).

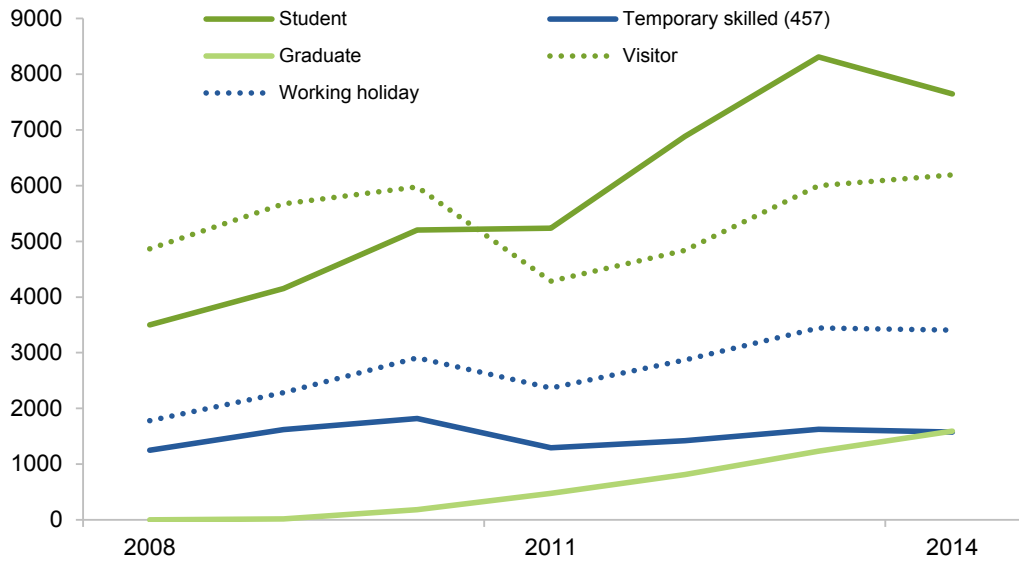
Pathways from temporary to permanent immigration

Among onshore grants of permanent family visas, the majority of applicants have consistently been holders of student and visitor visas (figure 11.5). In the past four years, international students have become the largest group of applicants for family visas, the vast majority of whom applied for spouse visas.

For onshore grants of skilled permanent visas, the largest groups of applicants are 457 visa holders, graduate visa holders and student visa holders respectively (figure 11.6). Graduate visas have become a major source of applicants for skilled visas in the past five years.

Figure 11.5 **Transitions from temporary visas to permanent family visas[a]**

Number of visa grants

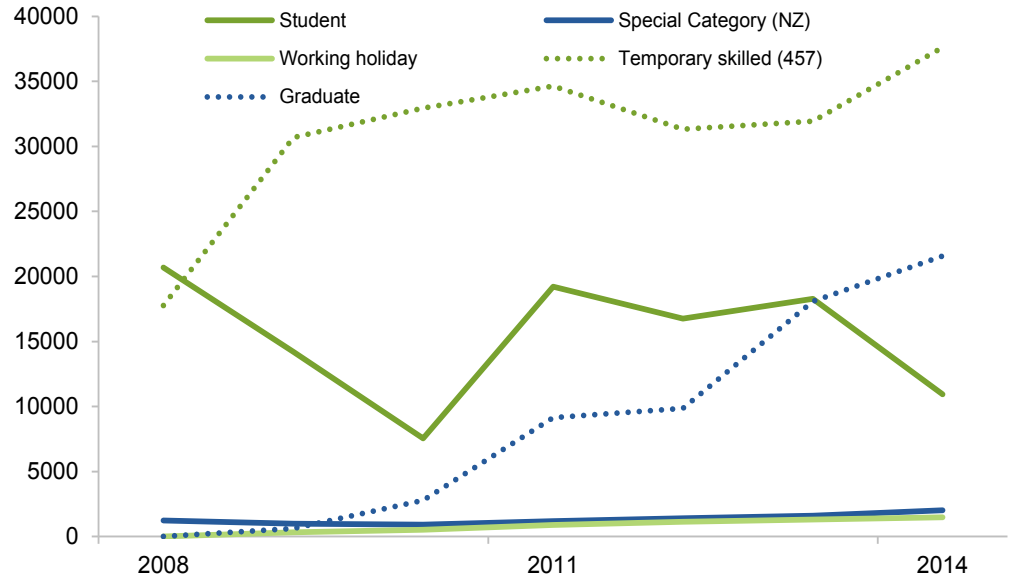


[a] *Graduate* refers to both subclass 476 (Recognised Graduate) and subclass 485 (Temporary Graduate).

Source: DIBP unpublished data.

Figure 11.6 **Transitions from temporary visas to permanent skilled visas[a]**

Number of visa grants



[a] *Graduate* refers to both subclass 476 (Recognised Graduate) and subclass 485 (Temporary Graduate).

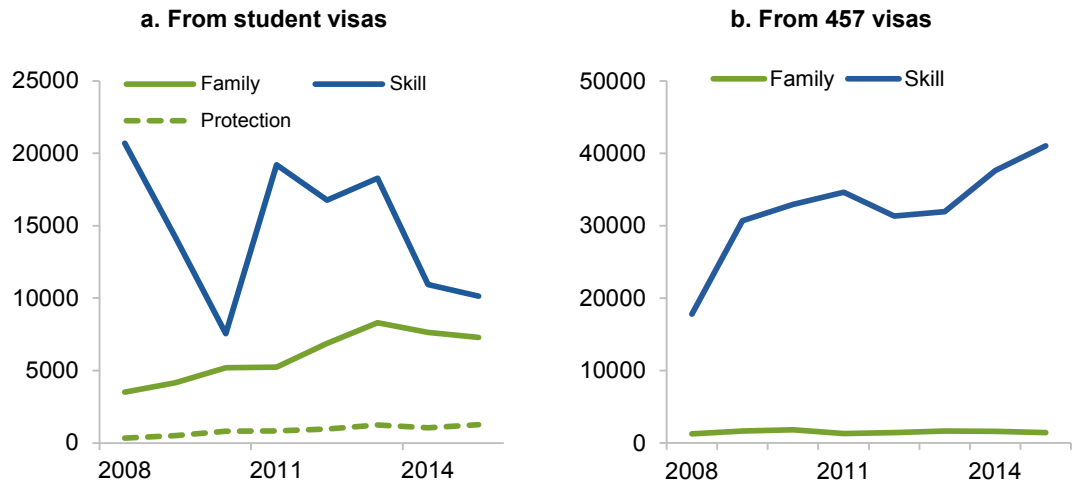
Source: DIBP unpublished data.

The contribution from student visa holders to permanent immigration has been relatively volatile — particularly with regard to skilled immigration (figure 11.7, panel a). This is related to volatility in the intake of international students. At the same time, the number of international students obtaining permanent spouse visas has grown, particularly relative to those obtaining permanent skilled visas.

Over the past six years 457 visa holders have grown relatively steadily as a source of permanent residents, primarily through the skilled immigration stream rather than the family stream (figure 11.7, panel b).

Figure 11.7 **Transitions to permanent residency from student and 457 visas**

Number of onshore visa transfers



Source: DIBP unpublished data.

Pathways to permanent skill stream immigration

The importance of employer-nominated permanent immigration has increased in recent years — this is true for both student and 457 visa holders (figure 11.8). For 457 visa holders, the vast majority granted permanent residency used the employer-nominated permanent immigration scheme. Unpublished data to 31 May 2015 show the continuation of two trends — that the number of students progressing to skilled independent visas has continued to fall; and the number of 457 visa holders progressing to employer-sponsored visas has continued to rise.

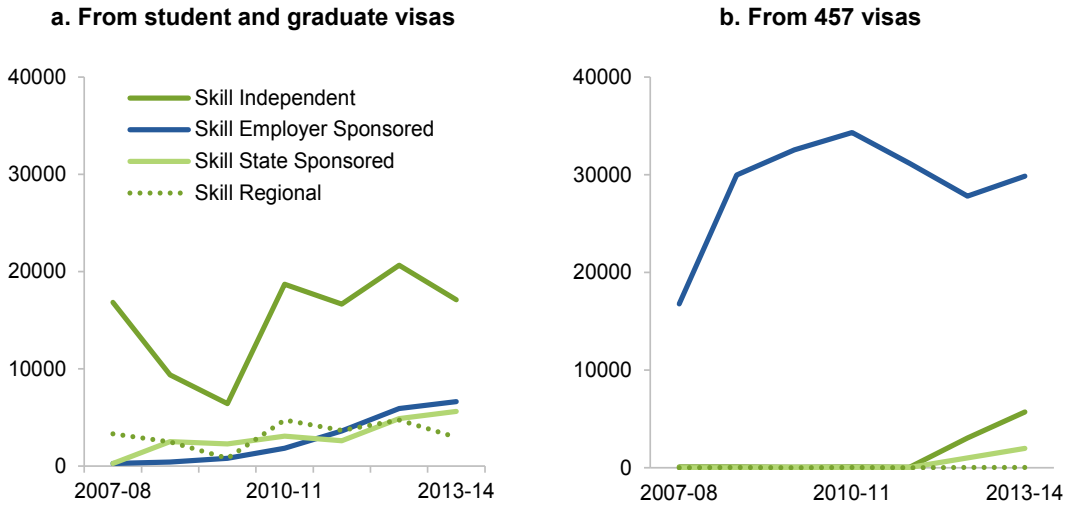
Students have historically used the independent stream as their predominant means to permanent skilled immigration. The DIBP noted that a number of recent reforms have affected the number of students transferring to skilled independent visas. Such reforms include changes to the design of the Skilled Independent visa points test, streamlining of

the Skilled Occupations List, increasing English-language requirements and the allocation of more Employer Sponsored places in the Migration Program.

> The main effect of the reforms has been on the granting of Skilled Independent visas. Before the reforms were introduced, the Skilled Independent visa was the most common visa granted to former international students — accounting for 74.7 per cent of all grants in 2006-07. In the early years after the reforms, these visas fell considerably … In its place was a small increase in the number of students sponsored for permanent residency by an Australian employer and the introduction of a new visa; the Skilled Graduate (subclass 485) visa described earlier. (DIBP 2015a, p. 51)

Figure 11.8 **Transitions to permanent skilled immigration from student and 457 visas**

Number of onshore visa transfers



Source: DIBP unpublished data.

Multi-step pathway sequences

For many immigrants, the pathway to permanent residency will have more than one transition — they will obtain multiple temporary visas before obtaining permanent residency. On average, multi-step immigrants receive 3.3 visa grants, including extensions or renewals. The average duration of multi-step pathways is approximately 6.4 years.

Analysis undertaken by the DIBP shows that there have been several popular pathways for international students and 457 visa holders to obtain permanent residency for the period 1991–2014 (table 11.1). Among international students who transitioned to an employer-nominated permanent skilled visa during this period, around 29 000 first moved to a temporary skilled (non-457) visa, whereas 34 000 students moved directly to a

permanent visa. For students moving to a non-sponsored skilled permanent visa, almost 80 000 did so directly, and 58 000 first moved to a temporary skilled (non-457) visa.

Among 457 visa holders, the vast majority who transitioned to a skilled permanent visa did so by obtaining an employer-sponsored permanent visa, without obtaining other temporary visas along the way. So in general 457 visa holders are likely to obtain permanent residency with fewer transitions and in less time than international students.

Table 11.1 **Use of specific pathway sequences**

Pathway Sequence	*Individuals*	*Average number of visas obtained in pathway*	*Average duration of the pathway*
	no.	no.	Years
Student to employer-sponsored permanent			
Direct[a]	34 340	3.6	4.4
Via temporary skilled (non-457)	29 173	4.5	5.2
Via temporary skilled (457)	12 870	4.6	5.0
Student to non-employer-sponsored permanent			
Direct[a]	79 652	3.8	3.9
Via temporary skilled (non-457)	58 209	4.7	4.9
Via temporary skilled (457)	4 149	4.7	5.2
Temporary skilled (457) to employer-sponsored permanent			
Direct[a]	111 537	2.3	2.7
Via 457 to visitor to 457 visas	555	4.7	6.2
Via visitor to 457 visas	539	3.3	3.8
Temporary skilled (457) to non-employer-sponsored permanent			
Direct[a]	19 529	2.5	2.7
Via visitor visa	253	3.6	4.8
Via student visa	196	4.3	5.7

[a] A direct pathway may involve several visa grants if it includes extensions and renewals.

Source: DIBP working paper (2015).

11.3 Policy implications

As noted earlier, the two main policy levers for managing the interaction between temporary and permanent immigration are balancing the relative numbers of immigrants across different visa classes and designing efficient and effective pathways from temporary to permanent immigration.

The balance between temporary and permanent immigration

The balance between temporary and permanent immigration should be set to optimise the composition of the migrant intake, in light of the various objectives and outcomes discussed in sections 11.1 and 11.2 respectively. Currently permanent immigration is capped and temporary immigration is uncapped.

It is reasonable for the Australian Government to set a cap on permanent immigration (chapter 4). However, as discussed in chapter 9, there is no compelling argument to curtail the intake of the major temporary immigration programs (the New Zealand Special Category visa, student visas and the 457 visa) of their own accord. As such, there does not appear to be a strong argument to change the ratio between temporary and permanent immigrants for the sake of recalibrating the balance between them.

Capping temporary immigration would reduce the effectiveness of the system

Where immigration is used to meet short to medium-term needs in the labour market, businesses have the flexibility to react promptly to their changing skill needs. Where temporary immigration is used instead of permanent immigration there are fiscal benefits, as it avoids periods of higher use of government services at older ages.

In addition to reducing business flexibility and restraining fiscal costs, restricting temporary immigration would likely have other costs.

- Any restrictions on student immigration or temporary skilled immigration would have a range of negative impacts, including on the international education sector and on businesses that are not able to meet skill shortages with domestic workers.
- There is some evidence that skilled workers are becoming more internationally mobile. Temporary visas can facilitate immigration, and restrictions on temporary immigration might reduce the attractiveness of Australia as a destination for skilled workers.
- For some immigrants, the current pathways from temporary to permanent status may represent an easier or more certain way of obtaining permanent residency. Other immigrants may use temporary immigration before deciding whether to apply for permanent residency. Restricting temporary immigration would reduce the size of the pool of applicants for permanent residency.

The benefits of restricting temporary immigration are less clear. There could be some groups in the community that face labour market competition from temporary immigration. However, the extent to which temporary immigrants are substitutes for Australian-born workers is unknown, and the aggregate effects are not significant (technical supplement C).

The extent to which temporary immigrants act as a substitute to incumbent citizens and permanent residents in the labour market can be minimised in the current framework by ensuring that existing regulations are enforced and their impacts monitored. For example,

there is little official monitoring of the employment of student visa holders and weak enforcement of their adherence to working hours restrictions.

Given that permanent and temporary immigration serve different objectives and that the pathways between them allow both flexibility and some government control, there is unlikely to be a net benefit in jointly determining the level and composition of permanent and temporary immigration. However the combined impacts of temporary and permanent immigration need to be measured and understood.

DRAFT RECOMMENDATION 11.1

The Australian Government should retain separate processes for determining temporary and permanent immigration. In doing so, it should:

- ensure that the impacts of both temporary and permanent immigrants are considered in policy decisions
- improve monitoring of temporary immigrants' labour market participation
- ensure that the design of immigration pathways supports the broader objectives of immigration policy.

Pathway policy

The employer-nominated pathway

The increasing use of the pathway from an employer-nominated temporary visa to an employer-nominated permanent visa, and the positive outcomes demonstrated from temporary and permanent employer-sponsored visas (chapters 9 and 10), highlight the increasingly important role of employers across the immigration pathway.

Although the DIBP ultimately decides whether a visa is granted and implements a range of conditions, employer sponsorship has a strong and increasing influence on the composition of the skilled immigration stream. Employers influence which applicants are granted permanent residency and which immigrants arrive on temporary work visas — this group comprises a significant share of the pool of applicants for permanent residency. Given that the *pathway* from employer-sponsored temporary visas to employer-nominated permanent visas has become much more commonly-used in recent years, it is important to consider whether this pathway is delivering:

- temporary immigrants of an appropriate mix and quality to serve as a pool of applicants for permanent residency
- permanent immigrants with desirable characteristics and qualities.

On the one hand, the increased importance of employer sponsorship should lead to better alignment between immigration and labour market needs. It appears to have resulted in improved labour market outcomes within the skilled immigration stream (chapter 5, 9, 10), likely because skilled, permanent immigrants are employed from the time their visa is granted or immediately from arrival.

On the other hand, it might be possible for employers to sponsor immigrants that fulfil their own skill needs but do not fulfil the longer-term or economywide needs about which governments are concerned. For instance, the Australian Council of Trade Unions described the risks associated with demand-driven immigration as:

> … that the migration program will increasingly be responding to … employers' 'immediate business needs', rather than being structured in a rational and coherent way that allows for longer-term skill needs of the Australian workforce and economy to be addressed. (sub. 36, p. 19)

Many of the objectives of sponsoring employers and governments would be aligned. In general, characteristics that would make someone employable in the short term would also make them employable in the longer term. Similarly, what is valuable to one employer is often valuable to another. Empirically, employer-nominated immigrants have more positive short and medium-term labour market outcomes than state and territory government nominated or onshore independent immigrants (chapters 5 and 10).

Yet the *incentives* faced by employers, even where a sponsoring employer intends to employ an immigrant for a long period, do not necessarily encompass the broader economic and social impacts of the immigrants (on either the immigrants themselves or on Australia more broadly). For example, an employer has no incentive to explicitly consider whether their nominated employee would have good prospects in the wider job market over the longer term.

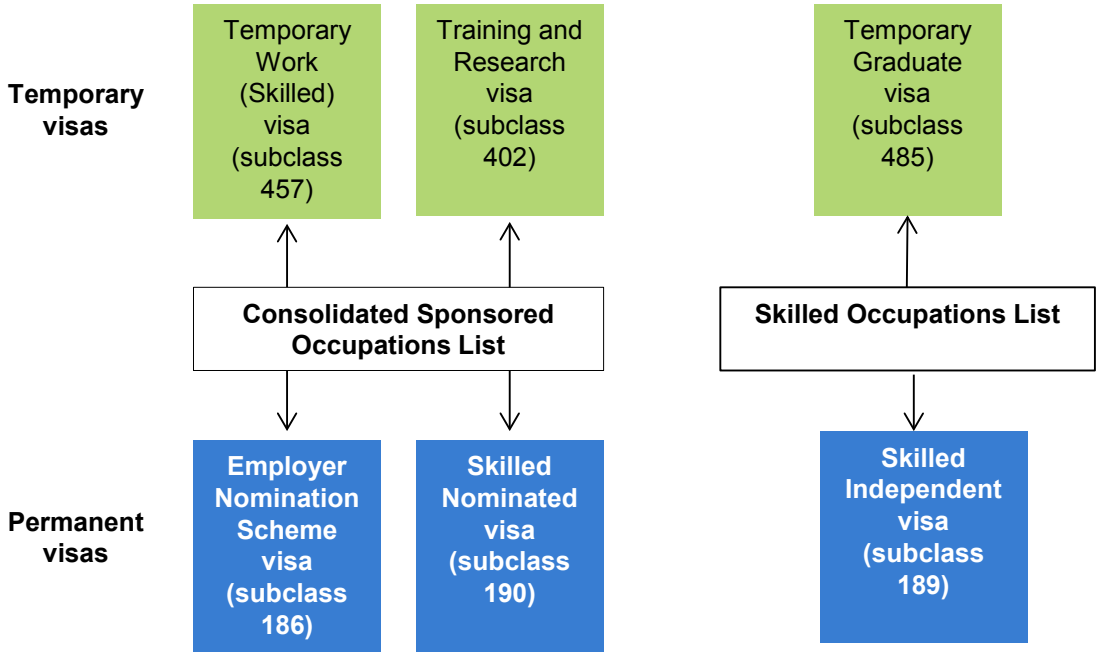
These incentive issues illustrate the importance of regulation and enforcement, particularly in the form of the conditions and standards attached to employer-sponsored visas. Under the current framework, visa conditions stipulate both maximum ages and minimum English-language requirements (discussed later in this chapter).

One way the Australian Government attempts to align the skilled immigration system with longer-term labour market needs it through the skilled occupation lists. Currently, permanent points-tested independent skilled immigrants must have the skills to perform an occupation on the Skilled Occupations List — a list of about 200 occupations considered to be skilled and in demand. The temporary (subclass 457) and permanent (subclass 186) employer-nominated visas require the applicant to have a job in an occupation on the Consolidated Sponsored Occupations List (CSOL) — a broader list of about 600 occupations that are considered skilled, but not necessarily in a state of labour market demand (figure 11.9).

Using the same occupation list for both the temporary and permanent employer-nominated visas lends itself to an administratively simple pathway from temporary to permanent

residency. It also reflects common objectives between those visa programs of meeting the skill needs of Australian employers. However, it also means that the CSOL must be broad enough to allow employers to fill skill shortages on a temporary basis, while being targeted enough to ensure that employers nominate permanent immigrants whose skills will be useful in the longer term. This is an inherently difficult combination of responsibilities — there would *potentially* be occupations which satisfy either the former or the latter but not both. The mining boom offers one example where some very specific skills moved quickly into high demand, albeit temporarily.

Figure 11.9 **Occupation lists for skilled immigration visas**



Moreover, both the importance of the CSOL to the immigration program and the complexity of setting such a list suggest the need for an analytical and consultative process. Yet, many stakeholders have noted the lack of a transparent process to modify or target the CSOL (Azarias et al. 2014). And although the Skilled Occupations List acts as a list of selected occupations that are considered to be in a state of labour market demand, the CSOL:

> … is not a list of occupations in demand. The CSOL, with few exceptions, includes all ANZSCO [Australia and New Zealand Standard Classification of Occupations] occupations in Skill Levels 1, 2 and 3. We understand that while there is the ability for the department to exclude occupations from the list in response to evidence of abuse, to date, few occupations have been excluded on the basis of integrity. (Azarias et al. 2014, p. 47)

As it is currently administered, the CSOL is not targeted to specific skill needs, rather it maintains a broad scope of higher-skill occupations. As such, its current administration is not geared towards identifying either short or long-term skill needs.

An independent review of the 457 visa program recommended changes to the process of determining the CSOL, which have been supported by the Australian Government (chapter 9). Such changes should result in improved processes for adding to the list occupations that are *currently* in shortage, although not necessarily addressing the question of whether occupations may be in need in the longer term.

If the CSOL is to retain its current roles, any changes or updates must consider skill needs in regard to temporary skilled immigration and to permanent skilled immigration. This may not necessarily be problematic, given that employment in the short term is a positive indicator of future employment prospects, and that employers are generally better placed than government to identify their skill needs, at least in the short to medium term. In practice, these aspects may prove more influential than the mismatch of incentives outlined above. As chapter 10 notes, the current system has had relatively strong results.

INFORMATION REQUEST 11.1

The Commission seeks feedback on the use of the Consolidated Sponsored Occupations List in the immigration pathway from temporary to permanent employer-sponsored skilled immigration. Is the list sufficient to allow both temporary skilled (subclass 457) visas and employer-nominated permanent visas to meet their stated objectives?

Employer-sponsored pathways and bargaining power

Compared to other employees, sponsored employees may have reduced bargaining power and a reduced incentive to sever employment. This poses risks of exploitation. While overall arrangements appear to function well there have been occasions of poor (illegal) behaviour by employers that have been documented recently. Immigrants with relatively lower English-language skills and with a tenuous claim to a permanent visa are likely to be more vulnerable to such exploitation.

The empirical evidence on immigration pathways reinforces the reasons to be concerned about these risks. The pathway to employer-nominate permanent immigration is one of the most commonly used, and has several advantages over other pathways:

- for 457 visa holders, the direct pathway to employer-sponsored permanent skilled immigration tends to be the shortest in duration, taking 2.74 years on average
- for some applicants, there are exemptions from English-language testing
- for applicants to the *Direct Stream* of employer sponsored permanent visas, greater emphasis is put on relevant work experience rather than Australian qualifications or time spent working in Australia (DIBP 2015b).

Given that applicants have several advantages to gain from employer sponsorship, it is strongly in their interests to protect their employment relationship. This could increase the risk of exploitation.

In recognition of these risks, the Commission's ongoing inquiry into Workplace Relations recommended in its draft report that, amongst other measures, the Fair Work Ombudsman be given additional resources to monitor compliance with Australia's workplace laws.

Retaining international students

One of the main immigration pathways used in Australia is the transition from an international student visa to permanent residency. This is a common pathway in 'migrant nations' that are also exporters of education services (box 11.1). As described by Hawthorne (2013), such nations:

> … compete to attract the best human capital, with international students presumed to be advantaged by youth, host-country language ability, credential recognition, significant acculturation, and domestically relevant professional training. (p. 3)

The evidence shows that international students are continuing to transition to permanent residency, albeit in somewhat reduced numbers and by different pathways.

Gregory (2014) noted that the time gap between arrival and permanent residency had grown in recent years. This accords with empirical evidence in section 11.2, which showed that international students tend to have multiple transitions between visas in their pathways to permanent residency — often involving multiple student visas. The recently implemented Graduate visa also provides students with the opportunity to gain work experience, which may then help them to secure either a skilled independent or employer-nominated visa. As such, several pathways exist for students to gain skilled permanent visas, many of which are longer in duration than student pathways in the mid-2000s.

The longer and more complex pathways from student visas to permanent residency make it more difficult to determine whether the immigration system is successfully retaining immigrant graduates. For instance, the number of students transitioning to permanent skilled visas may be lower due to a lag effect, brought on by the increasing duration of pathways.

It is important to note that the objective of the immigration program is not simply to retain as many international students as possible. For instance, not all international students study degrees that are relevant to the Australian labour market — many students intend to acquire skills that are relevant in their home country. Moreover, international students vary in their labour market outcomes. Chapter 10 points to evidence which suggests that many international students who obtain independent points-tested permanent visa perform less well than other skilled immigrants in the labour market.

Box 11.1 UK and Canadian approaches

The United Kingdom underwent major reforms of its pathways from student visa to permanent residency. When this pathway was made clearer, it led to an expansion of international student numbers, which was subsequently met with greater restrictions to permanent immigration for students:

> In 2008 16 171 former students were approved as Tier 1 migrants, with Indian applicants dominating (25 per cent) followed by Pakistan and China. In 2009, 34 180 'Post-Study' applicants were selected in-country. In terms of Tier 2, from June 2009 to 2010 the primary jobs were allocated to IT and software professionals (16 839 approvals), nurses (3689) and doctors (2434) – the proportion who had qualified in Britain currently unclear … Following the election of the UK's Conservative government however, in the context of the global financial crisis, non-EU migration was slashed. By 2011 UK university administrators were reportedly dealing in an 'air of panic' with domestic fees trebling, in 'a wholly untested market'. While a key institutional response was planned expansion of international student numbers, in April 2011 the Prime Minister announced those completing UK courses would be obliged to 'go home'.
>
> Following a decade in which student migration had 'almost trebled', migration to the UK would be preserved for the international student elite – people with 'a graduate-level skilled job, with a minimum salary' competing for places under the new 20 700 non-EU/EEA 'immigration cap' … By 2012 the British Home Office had proposed to restrict student visas 'to those coming to study at degree level … as part of its drive to reduce annual net migration to Britain to less than 100 000 by the general election'. (Hawthorne 2013, p. 13)

Canada undertook various reforms with the aim of retaining international students. For instance:

> … [in] 2008 an uncapped 'Canadian Experience Class' (CEC) was established, to facilitate the retention of international students and temporary foreign workers. By 2009, 196 138 international students were enrolled in Canada, compared with 114 046 in 2000. 107 441 were in the university sector at this time, followed by 34 459 in secondary education or less. Conversion to skilled migration however has been modest to date – just 3900 former students and temporary workers selected through the Canadian Experience Class in 2010 rising to 6027 in 2011 … (Hawthorne 2013, p. 12)

Changes that have restricted the pathways from student visas to skilled immigration may have increased students' propensity to take up permanent family visas. Almost as many international students were granted onshore spouse visas in 2013-14 as were granted permanent skilled visas. This change in trend coincided with volatility in transitions from student visas to permanent skilled visas, as well as the relatively strong growth in the number of 457 visa holders transitioning to permanent skilled visas. While the evidence is unclear, it is possible that international students who would have otherwise applied for permanent residency through the permanent skill stream have been crowded out by former 457 visa holders, and are now applying for permanent family (spouse) visas.

The implications of the increasing use of permanent family visas by international students are unclear. The change has meant that immigrants in the permanent family stream are now more likely to have recently completed qualifications, which may improve their labour market outcomes. The extent to which the regulatory framework has led to fraudulent applications for spouse visas from students would need to be proven empirically before any policy change. Tightening the eligibility for spouse visas would have negative social consequences for immigrants who were legitimately in relationships. In any case, it is an example of why it is important for flexibility in the migration system enabling the

Government to monitor streams and, if necessary, restrict access to a stream or tighten eligibility rules.

English-language requirements

All primary applicants for temporary and permanent skilled immigration must satisfy English-language requirements. Applicants can demonstrate their English-language skills through the International English Language Testing System (IELTS) test and several other tests.[52] The level of English-language proficiency required for skilled immigration varies according to the visa subclass. (English-language requirements are also discussed in chapters 9 and 10.)

Points-tested independent immigrants (visa subclass 189) and immigrants through the 'direct entry' stream of the employer-nominated visa (subclass 186) must demonstrate that they have a minimum of 'competent' English. This is equivalent to an IELTS score of 6 in each component (speaking, reading, listening and writing).

The Temporary Residence Transition stream of the employer nominated (subclass 186) visa has a lower English-language requirement. This stream is available for people who have spent two years working for their nominating employer on a 457 visa in Australia. In 2014-15 it accounted for almost 33 000 permanent immigrants. The minimum requirement for this stream is 'vocational' English — equivalent to an IELTS 'modest user' of English — a score of 5 in each component (speaking, reading, listening and writing). In addition, immigrants through this pathway can be exempt from the English-language requirements if they have completed five years of secondary and/or higher education and all the tuition was delivered in English. (It is not a requirement for the education to have been completed in Australia.)

The lower requirement for the Temporary Residence Transition stream makes this pathway more attractive to potential permanent skilled immigrants than if the English-language requirement was the same as for other skilled immigration pathways. It also poses risks. English-language proficiency is essential for successful labour market outcomes and social integration. While there are likely to be benefits in having some flexibility in how English-language testing is undertaken it is not clear that having lower English-language requirements for one pathway is justified. Unless there is compelling evidence that the lower standard delivers significant net benefits to the Australian community, it would seem reasonable to bring the English-language requirement into line with the requirement for the other skilled immigration pathways.

The Commission also has concerns about the exemption from English-language testing for immigrants who have undertaken five years study with tuition in English. The exemption

[52] Other tests that can be used are the Occupational English Test; the Test of English as a Foreign Language internet-based test; the Pearson Test of English and the Cambridge English: Advanced test.

appears to be based on an assumption that it is impossible to undertake five years of full-time study without achieving at least 'vocational' English-language skills. This assumption is problematic for several reasons.

- Courses of study vary markedly in their requirement for English-language comprehension. For instance, some subjects may be more amenable to private study rather than interaction with teaching staff.
- There is likely a wide variation in the extent to which education institutions are able to ensure that students have the communication skills required for successful integration. Even where it is made clear to students that such skills are important, these skills may not form the core of the pass-fail decision.
- The regulation of Registered Training Organisations, including the eradication of non-genuine institutions, is an ongoing process. Many registered training organisations that have been found to be non-genuine had been able to operate for a number of years.

For these reasons, the assumption that all applicants who have completed at least five years of full-time study in English would have at least 'vocational' English-Language skills must be open to question. Unless there is compelling evidence that the exemption delivers significant net benefits to the Australian community, it would be sensible to remove it.

INFORMATION REQUEST 11.2

The Commission is seeking information on the English-language requirements for the Temporary Residence Transition stream of the employer-nominated (subclass 186) visa, including:

- *the benefits and costs of having a lower English-language requirement than other skilled immigration streams ('vocational' rather than 'competent')*
- *the benefits and costs of the exemption from English-language testing for immigrants who have undertaken five years education with all tuition in English.*

New Zealand citizens

As discussed in chapter 9, New Zealand citizens are a unique subset of the immigrant intake — the Special Category Visa (SCV) is open ended and untargeted. There are economic and non-economic reasons for this to be the case, as discussed in the joint study by the Australian and New Zealand Productivity Commissions (PC and NZPC 2012).

Economic and social outcomes are generally good for SCV holders, and access to social welfare payments are broadly comparable with permanent residents, save for some key exceptions (chapter 9). However, there are some situations where the legal status of SCV holders can have significant negative consequences for New Zealand citizens in Australia. Examples include extreme financial hardship and family breakdown.

Some of these problems could be ameliorated by providing access to social security payments and student loans (chapter 9). An alternative would be to facilitate new or existing processes for SCV holders to obtain permanent residency and citizenship. New Zealand citizens are currently able to apply for permanent visas under the same conditions as other onshore temporary immigrants and, if granted, they can then apply for Australian citizenship. However, relatively few SCV holders take up this option — in 2013-14, around 3000 New Zealand citizens were granted permanent visas from a pool of around 600 000 SCV holders (DIBP 2014a, p. 3). The reasons are twofold:

- given the SCV is open-ended, many New Zealand citizens would not see the reason to apply for a more formal permanent residency
- given the SCV is untargeted, immigrants from New Zealand would not necessarily meet the requirements of the skilled permanent visa stream. As such, many SCV holders are unable to meet the eligibility criteria for the grant of a permanent visa.

In its submission to this inquiry, the peak body representing New Zealand citizens in Australia considered various options, including a full reversal of the 2001 reforms; an entry charge option; or a new permanent residency pathway.

> As an alternative to full reversal of the February 2001 changes, enable New Zealanders who have resided in Australia for three (3) continuous years, immediately before applying, to be eligible to apply for a permanent visa by:
>
> - paying a nominal application fee … and
> - demonstrating they intend to usually reside in Australia; and
> - providing evidence of substantial business, cultural, employment or personal ties of benefit to Australia; and
> - providing evidence they have no criminal convictions.
>
> As with all other permanent residents, New Zealanders would still be required to serve a Newly Arrived Resident's Waiting Period (NARWP) for access to social security. The NARWP could either commence upon arrival in Australia OR once granted permanent residency. Currently an estimated 200 000 New Zealanders are permanently excluded from any financial support. (Oz Kiwi Association, sub. 33, p. 3)

The Commission considers that, notwithstanding the special relationship between Australia and New Zealand, any changes to the SCV would ideally follow similar principles as those governing the broader immigration program. For instance, the permanent skilled immigration program is currently the main vehicle by which people migrate permanently to Australia, and it is targeted not only toward skills, qualifications and employer demand, but also age, health and other conditions. Evidence on immigrants' labour market outcomes, and the environmental, social and fiscal impacts of immigration (chapters 5–7) shows that immigrants' characteristics are crucial in determining the impacts of immigration in Australia. As such, it would follow logically that any pathway for SCV holders to obtain permanent residency should also be appropriately targeted.

Bridging visas and appeals

Bridging visas are a procedural aspect of the transition to permanent residency. They provide onshore applicants with conditional stay during the processing of their visa claims, as well during any appeals processes. There were around 90 000 bridging visa holders in Australia in 2014. Bridging visas are granted upon application for a permanent visa, and last up to 28 days after a decision is made on the permanent visa. This means that the time spent on a bridging visa is determined by the DIBP's processing times. (Chapter 6 discusses the impacts of bridging visa conditions on immigrants' wellbeing.)

The average duration of bridging visas is also affected by the significant number of appeal and review cases undertaken by the Migration Review Tribunal (MRT) and Refugee Review Tribunal (RRT) — which, since July 2015, been merged into the Administrative Appeals Tribunal (AAT). The tribunals completed a total of 9618 reviews in 2013-14, the vast majority of which were to seek review of a decision where a visa was not granted (DIBP 2014c). In 2013-14, around 33 per cent of MRT cases and 18 per cent of RRT cases resulted in the original decision being overturned, remitted or set aside. On average, MRT cases took 333 days to process, while RRT cases took 181 days.

These processing times can affect people's incentives to lodge applications, as even an application that will eventually fail could lead to an extra six months to a year of residency on average. Such considerations had been recognised by the MRT and RRT (2014a) during the Commission's inquiry into Access to Justice Arrangements (PC 2014a). As such, the efficiency of the tribunal process — in terms of timely resolution of cases — has broader implications for the visa program.

At the same time, the ability of immigrants to appeal their visa outcomes not only supports such objectives as goodwill and fairness of process, but should also have positive influences on the efficiency of the decision making mechanism by reducing the number of unnecessary rejections. This is particularly important given that both the composition of the migrant intake and the characteristics of immigrants are indicators of future outcomes — any distortions introduced by administrative errors should be avoided. As such, it would be insufficient to simply aim at reducing the length of appeal cases without also ensuring that the processes are thorough.

It is beyond the scope of this inquiry to investigate the processes of the AAT. The Commission's recent inquiry into Access to Justice Arrangements did not contain specific recommendations on the operation of the MRT and RRT, though it predated their move to the AAT. It is important that, under current administrative arrangements, the AAT continues to keep data on migration and refugee related cases (such as average cost, duration and caseload), distinct from other cases handled by the AAT, given the relevance to immigration policy. Overall, it is important that the AAT is adequately funded, both to minimise the potential distortionary effects for visa applications, and to efficiently process legitimate immigration claims. And while longer processing times can create incentives for immigrants to appeal in order to remain in Australia, this should not be addressed at the expense of the functionality of the tribunal.

12 A price-based immigration system

Key points

- The Commission has been asked to consider an immigration system where the allocation of permanent visas is determined by a uniform fee, subject to health and security checks. There is no precedent for such a system and limited evidence on likely impacts.
  - People choose to migrate for a range of reasons which differ depending on their particular circumstances. They make a choice between the conditions (now and expected in the future) in their home country and their potential opportunities in a new country.
  - Factors influencing decisions on migration destination include: likely employment opportunities, wage differentials, ability to bring family, lifestyle, access to government services, and cultural affinity. Cost is also a consideration.
- A price-based system applied to permanent visas only, would have some advantages. It could reduce compliance costs, reduce the need for migration agents, overcome the rigidities and time delays inherent in the current system and also raise additional revenue.
  - It may also attract some highly desirable immigrants who, for various reasons, are currently excluded from the immigration system — for example, people with innovative business ideas in occupations that are not on the skilled occupation lists.
  - If potential migrants take out loans to purchase a visa, the repayment of those loans may be remitted overseas, affecting future consumption in Australia and tax revenue.
- However, it would also have some significant disadvantages. The system would attract immigrants who are willing and have the capacity to pay but who may not have the desirable attributes that underpin successful integration.
  - A price-based system would favour immigrants who have already generated wealth, are from wealthier countries, or have family or communities that are willing to sponsor them.
  - A large component of the current system is designed to augment the Australian workforce by filling skills gaps through, for example, employer sponsorship. A price-based system may be less effective in targeting those who have the skills in need, are of an age where they still have a long working life ahead, or who have good English-language skills.
  - Amongst immigrants, unemployment rates could be higher and incomes lower. Despite the higher revenue that may initially be collected under a price-based system, tax collected over the lifetime of an immigrant could be lower on average under a price-based system, and the loss of income (and other) tax revenue could be larger than the increase in revenue from the visa charge.
  - No other country allocates permanent visas on the basis of price. A price-based system would place Australia at a competitive disadvantage to other destination countries competing for highly skilled immigrants.
- Given the balance of risk to the composition of the migrant intake and to the potential costs and benefits to the Australian community, the Commission's assessment is that the current immigration system is superior to a price-based system.

In the terms of reference the Commission was asked to examine an immigration system where the allocation of visas would predominantly be determined by a fee (Hockey 2015). The terms of reference also indicate that under such a price-based system, security and health checks would still apply.

Australia already has elements of a price-based system, with a range of fees reaching just under $50 000 for the Contributory Parent Visa. The principal difference with the proposed price-based system is the more deliberate use of price as a means of rationing the permanent visa quota and a relaxation of a number of qualitative selection criteria.

This chapter examines the theory behind proposals for a price-based immigration system (section 12.1), the drivers of permanent migration (section 12.2) and how such a system could work in practice (section 12.3). The chapter then examines the advantages and disadvantages of adopting a price-based system (section 12.4). Preliminary modelling results of the potential impacts of moving to a price-based system are then presented (section 12.5). Potential variations to the option examined in this chapter are discussed in chapter 13.

12.1 Proposals for price-based immigration policies

Moving to a price-based immigration system has been discussed by several economists — for example Chiswick (1982) and Harrison (1989) — and more recently by Gary Becker (box 12.1). Becker's central proposal was that, rather than having governments determine immigration quantity and composition, price (or a set of prices) should be the main determining factor, and that immigrant self-selection, coupled with payment for entry, would deliver greater benefits to the immigrants and the host community.

In devising his policy option, Becker particularly focused on the United States. While his proposal could be implemented in any country, its impacts would depend on the immigration policy settings of different countries. For example, the Australian immigration system is predominantly focused on skilled immigrants, which is significantly different to the US immigration system. As Becker (2011) noted:

> Two thirds of the graduate students in the economics department at Chicago University are now from outside the United States. A significant fraction of them go back, partly because they have good opportunities elsewhere. That is fine, but they also go back partly because the USA makes it difficult to stay. That is the bad part, that is what my system would solve. (pp. 40–41)

The Liberal Democratic Party (LDP) submission articulates how the use of a uniform immigration fee could improve the effectiveness of immigration policy. It states that no policy can be designed based on perfect knowledge of the circumstances that will arise during the application of the policy. As such, it considers that the inquiry should 'prompt policy recommendations to reduce micro-management in immigration policy, which is essentially fumbling in the dark' (sub. 46, p. 2).

Box 12.1 Becker's pricing mechanism proposal for immigration policy

Gary Becker (2011) discussed the merits of introducing a pricing regime for immigration in the United States. The mechanism involved moving from a bureaucratically determined immigration system to a system based on immigrants' willingness to pay to enter the country:

> The proposal is that governments should sell the right to immigrate. The government should set a price each year and anyone would be accepted, aside from obvious cases such as potential terrorists, criminals and people who are very sick and who would be immediately a big burden to the health system. But aside from these cases, you would allow anybody to immigrate who could make the payments. No country has ever adopted such a policy. (Becker 2011)

Becker argued that charging an 'immigration fee' could yield mutual benefits for both immigrants and the host country. The principal benefit to immigrants is that they can access (typically) higher wages in the host country. The main benefits to the host country are that the fee:

- could represent a significant potential revenue stream, allowing governments to either improve the provision of services, decrease its citizens' taxes, or a combination of both
- would ensure that economically active immigrants who had a real commitment to the country were most attracted
- might provide an incentive for some immigrants who attempt to arrive illegally, to do so legally and undermine people smuggling businesses.

In essence the proposal is that of club membership: an initial joining fee followed by membership payments (taxes).

Source: Becker (2011).

The LDP has also raised concerns over the ability of governments to ascertain the relative merits of potential migrants.

> A decentralised approach that tests each potential immigrant is required. A tariff-based immigration system, where new entrants have only limited access to social security or subsidised education, housing or healthcare, is such a system. This would confine public servants to confirming that a potential immigrant satisfies qualitative criteria concerning health, character and security. The rest is left to the individual. If the individual believes that the extra after-tax earnings he or she can earn by immigrating to Australia exceed the tariff that must be paid, the individual will have a financial incentive to choose to immigrate. (sub. 46, p. 3)

A price-based system and temporary visas

Most proposals for a price-based immigration system limit the discussion to permanent immigration. However, the immigration arrangements in Australia encompass both temporary and permanent visas. Potentially a price-based system could also apply to temporary migration.

However, there are several strong reasons why a price-based system should not, apply to Australian temporary visas.

- Most temporary visas are uncapped — especially employment and student visas. The reason for a price-based system is to allocate a quota.

- Temporary visa holders are highly mobile, with many options to reside in other countries. Australia is also exporting services, such as international education, where a price-based system would be effectively an export tax.
- Australia is party to a number of reciprocal international agreements which apply to temporary immigration. These include the Trans-Tasman Travel Arrangement with New Zealand, working holiday maker arrangements and the seasonal worker program. A price-based system would likely breach Australia's obligations under these agreements.
- As highlighted in chapter 11, temporary immigration is a pathway to permanent immigration. A price on temporary immigration would significantly affect the pathway and alter incentives facing potential immigrants who wish to sample life in Australia prior to taking a decision to migrate permanently. Since temporary visas are more restrictive and offer fewer benefits than permanent visas, any price would need to be substantially below that which might apply to permanent visas — probably not much above current temporary visa fees.

Accordingly a price-based system should not apply to temporary visas.

12.2 Drivers of permanent migration

The decision to migrate permanently necessitates a dramatic change in people's lives and circumstances. While the exact reasons underpinning the migration choice will differ, a reasonable generalisation is that people want to make their lives better.

The decision to migrate

Examining the impact of a uniform immigration fee requires an understanding of the decision-making process of potential migrants.

Migration decisions are typically considered to be the result of push and pull factors (Gaston and Nelson 2013; Kline 2003). That is, migrants consider factors in their home country (such as environmental amenity, safety and economic opportunities) along with these same factors in other countries. Subsequently, migrants investigate the relative merits of alternative destinations. This includes the factors considered for the home country, and migration costs (including the probability of being granted a visa, explicit fees, compliance costs and waiting periods) and the strength of family, community or cultural affinity. This then informs the decision about the destination country.

In other circumstances, the decision-making process may be simpler. For example:

- where opportunities are significantly better in other countries, some migrants will apply to multiple countries and may apply for multiple visas in those countries.[53] Factors such as the probability of employment, wages, safety and climatic conditions will be important
- in some instances only one destination is considered, including for family reunion or where a specific job opportunity has arisen.

Human capital approach

A key driver of migration is the prospect of improving one's life. One of the simplest ways of measuring how people's lives could be improved is to compare what they could earn in a foreign country with what they could earn in their home country. In economic literature, this is often referred to as the human capital effect.

The difference in earning potential is typically compared on a purchasing power parity basis (which attempts to account for any differences in the price of goods and services). Adjustments for purchasing power parity compare the lifestyle a person may have in their home country to what they could achieve if they lived in a different country.

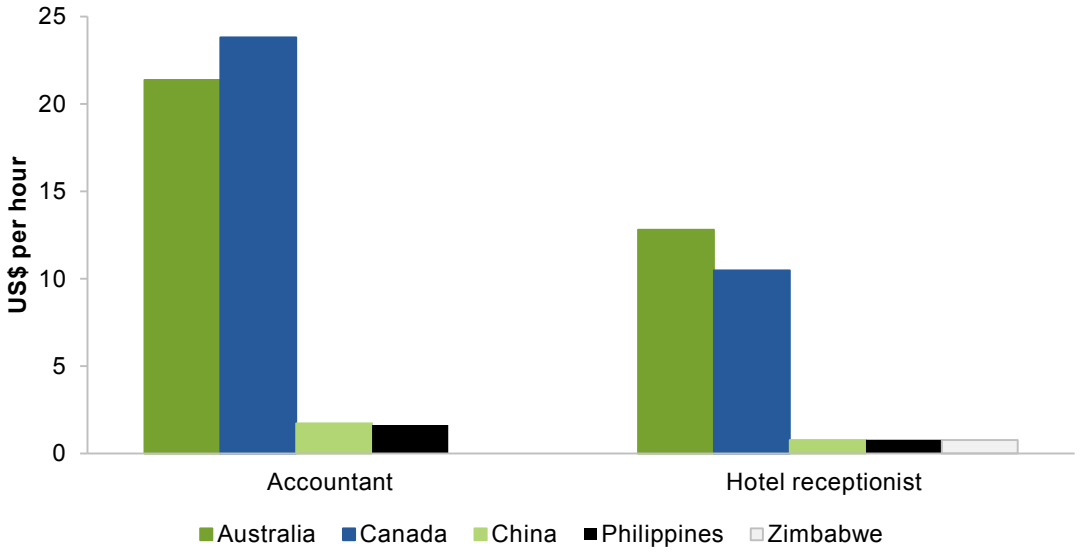
A good way of approximating the difference in earning potential is to examine prevailing wage rates for occupations in different countries. As expected, the difference in prevailing wages is most pronounced between developing and developed countries (figure 12.1). In general, migration would be expected to flow from low to high wage countries, and the magnitude of demand for migration would be expected to relate to the difference in the wages.

While differences in prevailing wages by occupation should provide a reasonable guide to the direction of migration, such aggregate level analysis cannot identify the differential earning capacity of all potential migrants — there will be potentially large differences in the wages paid for an occupation within a country. For example, accountants in Sydney are likely to have higher wages than accountants in regional areas in Australia, and wages for individual accountants will vary based on experience and expertise. Such international comparisons would also be influenced by currency fluctuations and by the time lags in compiling and presenting the information. These vagaries may affect the expected magnitude of immigration, and the prevailing wage comparisons may conceal the scope to earn more by moving from a higher to a lower wage country.

[53] The US Department of State informed the Commission that one person applied for a diversity lottery over 1000 times (Pers. comm).

Figure 12.1 **Comparison of prevailing wage rates[a]**

US$ per hour in 2006



[a] Wage information for accountants in Zimbabwe was not available

Source: World Bank (2013).

When comparing earnings potential, other factors that will affect the costs of migration and living standards following migration, also need to be taken into account. Notably this includes differences in taxation, cost of living and fees associated with migration. In particular, if substantial fees were charged for the right to migrate, it could substantially alter the incentives to migrate and/or the choice of destination country.

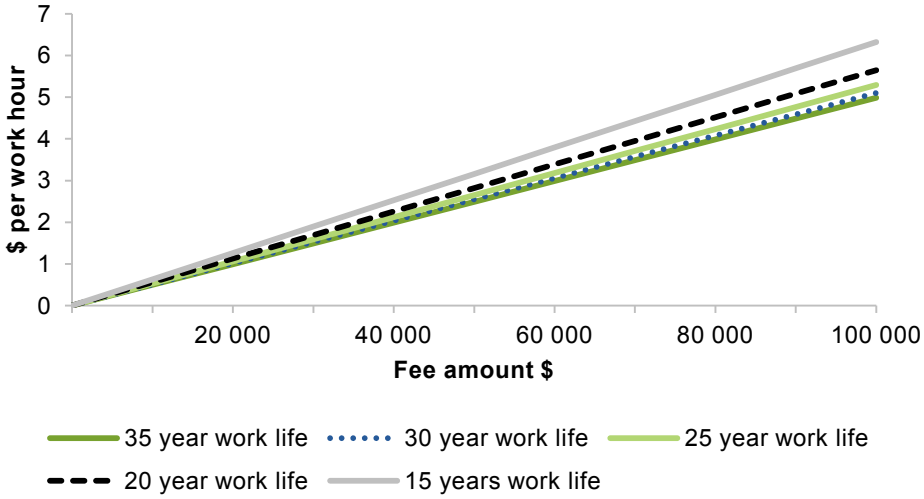
Comparing the discounted value of an immigration fee to an immigrant's future earnings[54] (figure 12.2) highlights that, while the expected number of years of remaining work will influence a potential immigrants willingness to pay, the magnitude of the fee is likely to have a greater influence.[55] In addition, if Australia were to introduce very high immigration fees, it would substantially alter the relative desirability of migrating to Australia compared to other developed countries.

[54] Effectively amortising the fee over each future hour of work of the immigrant.

[55] This relationship holds for any discount rate above zero. For example, the amortised cost with a 5 per cent discount rate would be half the cost using a 10 per cent discount rate.

Figure 12.2 **Amortised cost of an immigration fee per hour worked after immigration**

By number of work years remaining, assuming 10 per cent discount rate



Source: Productivity Commission calculation.

Views of the proponents of a price-based immigration system

Proponents of a price-based immigration system have largely based their arguments on a human capital approach. That approach assumes that people base their migration decisions on the benefits and costs which would flow from migrating or not migrating. They consider that potential migrants who have the greatest additional earnings potential will be the people who would pay the most to obtain migration rights. However, the arguments about the efficiency of the outcome differ.

Harrison argued that among migrants whose primary motive is economic, those willing to pay the highest fees will also provide the 'greatest contribution to Australia's welfare' (1989, p. 28).

In a response to a critique of his 1989 paper, Harrison (1990) argued that the:

- willingness to pay is linked to the additional wealth that a potential migrant can generate in Australia, stating: 'Willingness to pay will reflect ambition, drive, energy, skills and value to Australia' (p. 22)
- impact on Australian residents will be determined by the overall level of immigration, the efficiency of the capital markets and the extent to which capital is owned by Australians and foreigners

- wealth impacts on Australia will depend upon the value added created by a potential migrant and to what (if any) extent the entry of the immigrant displaces incumbent workers.[56]

In contrast, Becker started from a belief that immigration provides benefits (at least for the United States), but that greater benefits would flow if the pool of immigrants was more skilled (Becker 2011). Given that the US immigration intake is predominantly unskilled (in contrast to the focus on skills in the Australian and Canadian immigration systems), Becker posited that a price-based immigration system would shift the mix of immigrants to the US to those with more skills and higher earning capacity.

Implications and issues for assessing a price for migration

Even within the construct of the human capital theory of migration, there are a number of presumptions that are required to reach the conclusion that a price-based system will attract the best immigrants. Most importantly, both Becker (2011) and Harrison (1989) acknowledged that the people with the greatest additional earning potential may not have the capacity to pay for a fee up front (an issue dealt with in the section on 'willingness versus capacity to pay').

In practice, there will be interaction between policy decisions and the incentives for migrants that will influence not only the decisions taken by migrants themselves but also the impacts on the Australian community (figure 12.3).

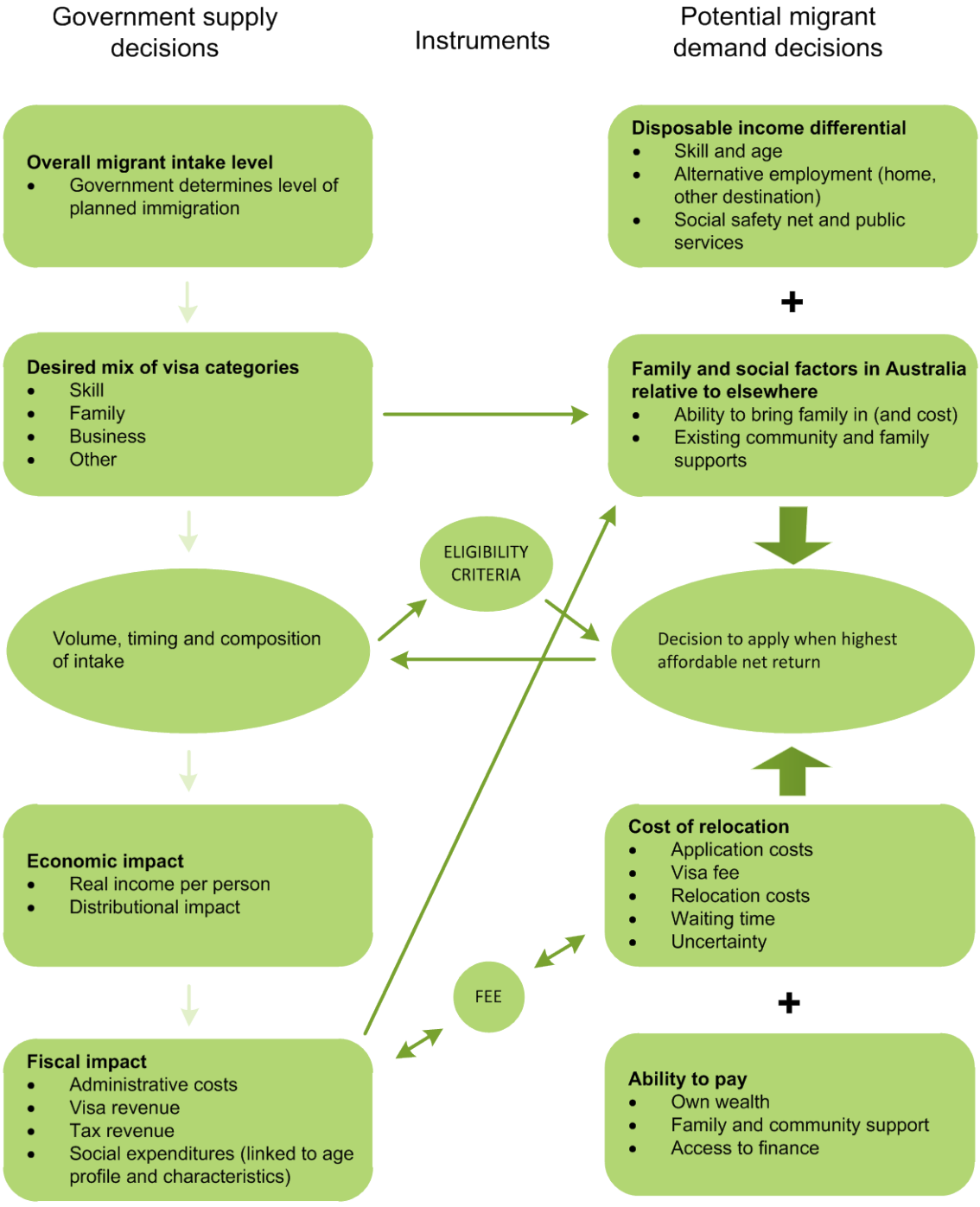
Family versus individual decision making

The human capital approach to migration typically focuses on an individual. While some people will migrate on their own, it is also common for family units to migrate together. The incentives to migrate can be different depending on whether the immigration decision is made by individuals or families.

A family may view migration as a means of increasing the family's living standards in their home country. Under such a scenario, one or more family members may emigrate in order to earn a higher income and to repatriate some of their earnings to support the family. Even if the family considers the arrangement to be of a temporary nature (that is the migrant is expected to return to the home country at some stage), the migrant may attempt to obtain permanent residency. Permanent residency may overcome time limits or restrictive conditions that are placed on temporary visas and provide greater opportunities and flexibility should circumstances change.

56 Preliminary estimates prepared for this report found no significant displacement of Australian workers in aggregate over the period 2001 to 2011 (chapter 5).

Figure 12.3 **Impact of visa fees : only one element in many**



All or part of a family may consider migrating. In such cases, the rationale for migration may not hinge on the earnings potential of one member. For example, if the family unit is a couple with children, they may consider the potential earnings of both parents as well as the educational and work opportunities for their children. Some families may only choose to migrate if both partners have the potential for higher income, while in other families, the

decision may be based on the likely change in overall family income (after accounting for cost of living differences).

Couples without children may even include the impact of education and future work prospects of potential children as part of their decision-making process. However, the imperative to migrate before children are born will be stronger when the destination is a country that provides citizenship based on country of birth (*jus soli*). For example, the United States provides citizenship to those born in or above the territory of the United States. There is an additional incentive to migrate (even illegally) to such countries prior to having children. A couple that has already had children, by contrast, may be indifferent between comparable migrant destinations (Western Europe, Australia and New Zealand) which grant citizenship based on descent (*jus sanguinis*).[57]

Even if a family develops a plan to migrate, it will need to examine the opportunities in possible host countries. A key factor will be the immigration rules currently in place. Given the majority of permanent visas offered by Australia are for skilled immigrants, and that visas in the skill stream enable migrants to bring their dependents, the current immigration system provides opportunities for potential migrants with no previous links to Australia. The rules also provide some scope for the first migrant to sponsor other family members. As such, the current system could provide incentives for families to jointly fund an initial migrant on the basis that the first migrant may be able to facilitate the subsequent migration of other family members (box 12.2).

While the motivations driving families' consideration of migration are unlikely to change, changes in Australia's immigration policy may alter families' plans. They may revise the timing of migration, they may consider other countries (or choose to migrate to Australia rather than another destination) or they may decide not to migrate.

Lifestyle factors

Lifestyle factors most commonly relate to aspects of the physical or built environments that can affect people's comfort and happiness. While the factors important for each person will differ, it could include the location of families and friends, prevailing climatic conditions, pollution, congestion, access to nature, sporting facilities, cultural opportunities, sense of personal safety, access to friends, family or people from their own culture and the vibrancy of the location.

[57] The *jus soli* principle was abolished in Australia on 20 August 1986 with the commencement of the *Australian Citizenship (Amendment) Act 1986*.

Box 12.2 Opportunities to migrate to Australia under current policies

Chapter 2 outlined the current Australian immigration policies. It discussed the individual visa streams and the overarching policy in relation to the policy objectives. It did not examine the policies from the perspective of a family examining strategies to achieve permanent migration to Australia. The following examples illustrate some opportunities and tradeoffs as individuals and families explore options and choose those which are easiest and least expensive for their circumstances.

If a person could obtain a skill stream visa, it would enable him or her to also bring a spouse and any children. There are more skill stream visas available than all other permanent visas combined. However, skill stream visas are generally only available for a primary applicant who is aged under 51 years (and in practice, most are aged under 40 years). As such, if neither parent could qualify for a skill stream visa, then the next best opportunity is to have one of their children obtain a skill stream visa.

There are options to obtain residency because of exceptional skill, as a manager of a selected type of business or if the family has sufficient money to invest (represented by the other category below). These visas allow people to bring partners and children (and in some cases, parents), and there are no strict age restrictions. Few people qualify for these visas.

Once a family member obtains a permanent visa, there is scope to sponsor other family members for migration to Australia (although places are limited, there can be long waiting times and the fees are higher). But there are few visas that allow family members beyond parents, partners or children to be sponsored. Persons with a permanent visa who have established a business may also be able to employ other members of their family if they are already in Australia (as a student or on a 457) and the family member(s) may also meet other criteria for permanent skilled immigration.

Alternatively, a family may attempt to obtain residency on humanitarian grounds. There are no age limits, but places are limited, they would need to prove that they are in substantial risk and there is no guarantee that they would be accepted in any country (let alone Australia).

In surveys of migrants and potential migrants, access to family, friends and/or people from the same culture are factors influencing migration decisions and especially about the favoured destination. As discussed in chapter 6, the diverse mix of migrants affects Australian society and culture. A price-based migration system could narrow the range of source countries of potential migrants.

The potential lifestyle of children is another significant motivating factor. Factors of relevance to families include access to quality education, level of pollution, crime, and commuting times. Given that the price-based system would have no requirements for age, skills or family linkages with people already in Australia, an increasing number of families might consider migrating to Australia. However, the migration decision would be crucially influenced by the price and whether it is charged on a per person basis or if there is a lower fee for accompanying children (and parents).

At present, immigration rules limit the scope of people to migrate for lifestyle factors. A price-based system could lead to a significant number of people moving to Australia primarily for lifestyle reasons. While this group would include people who are price

sensitive, they would likely also consider the overall cost involved in such a move (including the transaction costs involved in buying and selling houses and the relative cost of housing). For those of working age, relative employment prospects and the relative standard of living that they could experience would be important, subject to exchange rates.

Other push, pull and anchor factors

One potential motivator for migration is access to government services. If government assistance in Australia is more generous in relation to health, education, social security or if taxation is markedly lower, it is possible that a decisive reason for migration may be to access more generous government conditions. In particular, the potential migrants most likely to be motivated by such differences are those most likely to heavily utilise those services — an issue of adverse selection.

The price-based scenario the Commission was asked to explore explicitly indicates that potential migrants should be subject to existing health, character and security checks and that they should have 'limited access to social security or subsidised education, housing or healthcare' (Hockey 2015). While 'limited' can be defined in different ways, this feature of a price-based system is intended to mitigate the risks that immigrants would choose to come to Australia to access government services.

Some migrants are already excluded from accessing a range of government services (box 12.3). As such, there are no practical barriers to implementing further limits on services. However, there are other considerations, including:

- what would be the impact of limiting access to government services?
- would limiting services help achieve policy objectives?
- which group of migrants should have limited services?
- which subsidised services should be limited?
- for how long should the limits apply?
- what practical and acceptable enforcement measures are open to government?
- how credible would the limits be?
- what is the likelihood that a future government would reduce the limits?

The exclusion from subsidised government services does not necessarily mean immigrants have no access to such services. They may instead pay full price or access other services. For example, there are a range of people in Australia who have no right to receive government subsidies on health care (or are not part of the Medicare scheme) such as foreign diplomats and most temporary residents in Australia. When they receive medical services, they are liable for the full cost of the service, less any cover they have under health insurance.

Box 12.3 Limiting access to government services for immigrants

Australia already limits most immigrants' access to government services. For example:

- non-humanitarian immigrants are excluded from accessing most social welfare payments for the first two years after being granted permanent residency (and 10 years for the age pension and disability support pension)
- while permanent immigrants (and most temporary immigrants) have access to public schools, access to fee assistance for tertiary and vocational education is typically restricted to citizens
- non-humanitarian temporary immigrants are generally excluded from subsidised health services (both Medicare and the Pharmaceutical Benefits Scheme)
- while people on a Contributory Parent Visa have the same eligibility for government payments as other permanent skill or family visa holders, they must have an Australian based sponsor who provides an assurance of support for them (and bank guarantee)
  - if the Contributory Parent Visa holder claims welfare payments during their first 10 years of permanent residency, these payments are deducted from the assurance of support.
- New Zealand citizens in Australia are entitled to a maximum of six months of welfare payments, but can only access those payments after 10 years of residency in Australia.

Limiting migrants to subsidised government services might reduce the use of publicly provided services. This may be relevant for the consumption of health services (the number of doctor visits may decline), but many other government services are discrete and/or ongoing services (for example schooling is not purchased by the day). While the consumption of some services may decline, there may be consequences from limiting such access. For example, the migrant may not receive necessary medical treatment. Such missed treatment may relate to a health issue that only affects the migrant, but it may also affect public–health goals. Moreover, as poor health outcomes for immigrants can affect their ability to find and maintain employment, and their long term health needs, there can also be negative fiscal impacts in the future.

Governments can also require migrants to hold relevant private insurance. For example, specialist health insurance policies have been developed for temporary residents. While there are no procedural impediments to extending health insurance requirements to permanent residents (and potentially requiring new citizens to maintain such policies), however, this would represent a major policy shift and could result in two classes of citizens (which would have social cohesion implications).

While there are no well-established markets for substitutes to payments such as the Newstart Allowance or the Age Pension, similar financial products have been available. For example, there are numerous providers of income protection products in Australia. However income insurance products are typically limited to people who have a demonstrated employment history. Any new offshore immigrant would not have an employment history in Australia and historical analysis indicates that non-employer sponsored offshore migrants are more likely to have extended periods of unemployment on

arrival in Australia. These factors could make it difficult for the private sector to provide an insurance product.

The fiscal risk relating to the age pension is that older migrants may arrive in Australia, have a limited (or no) employment before reaching the qualifying age for the pension, contribute little if any tax revenue and then draw on an Age Pension. When the Contributory Parent Visa was established, the Australian Government Actuary estimated what the likely fiscal impact (2002). It was found that even with a very large up-front fee that the visa would have a negative fiscal impact in the long term, primarily because of health costs, but also in relation to the Age Pension.

As noted above, Australia already places a waiting period on accessing the Age Pension (of ten years from obtaining permanent residency). Other countries — notably New Zealand — limit the amount of age pension a person is eligible for based on the number of years of living in the country.

Superannuation is the obvious private alternative (or complement) to access to the Age Pension. However, the value of superannuation depends on past contributions and earnings. Older immigrants who are newly arrived will have little or no Australian employment and therefore no or limited Australian superannuation, to draw upon. This could be overcome by requiring migrants to provide an up-front investment in a superannuation fund at the time of obtaining permanent residency. To reduce the likelihood of the migrant having insufficient money to fund his or her retirement, the amount of the deposit would increase with the age of the migrant. For very old migrants, the up-front deposit would likely be in the range of hundreds of thousands of dollars.

However, the requirement for a (potentially large) up-front deposit in a superannuation fund may discourage people from considering migrating to Australia, particularly for people who have limited capacity to pay. Additionally, under present superannuation policy settings, those who are older than the preservation age can withdraw their funds as a lump sum.

Given these concerns, it would appear problematic to limit access to government funded services for extended periods. Permanently limiting access for those who have even taken up citizenship is even more problematic and unlikely to be credible.

The analysis of price-based visas in this chapter has therefore assumed that the current limits and waiting periods for access to government services are retained (box 12.3).

Migrating between developed countries

Much of the relevant literature focuses on migration from less well-off to more well-off countries (particularly the human capital literature). There has been considerably less examination of the drivers of migration between developed countries, despite such

migration being substantial. This includes understanding the motivation for migration between developed countries and the implications of a possible move to migration fees.

Many of the factors that drive migration between less well-off and more well-off countries also apply to migration between developed countries, but the relative importance of these factors will differ. For example, while wage differentials between developed countries are likely to be less, average wages and wages for particular skills and occupations can be higher in some developed countries. Additionally, unemployment rates can vary significantly (especially the youth unemployment rate), and labour markets may be larger, deeper and more flexible.

Even where the average wage for an occupation is lower in Australia, wage differentials could still lead to migration to Australia. A person may be able to earn more in Australia as there may be a broader range of wages in that occupation. Additionally, a potential migrant could secure a promotion in his or her occupation through moving to Australia.

Other factors which drive migration between developed countries include family reunion (partners especially) and various lifestyle factors given that cost of living differences are likely to be less between developed countries. The potential for improved job satisfaction is also relevant.

Potential migrants are price sensitive. A price-based system would increase the cost of migrating to Australia — the higher the price, the fewer immigrants. However, potential migrants from developed countries would be more likely to have the capacity to pay a migration fee. The extent of any increase in interest in migration from developed countries (compared to the current levels of application) will largely be driven by people who currently have limited opportunities to migrate to Australia — such as people without family in Australia, who do not have recognised skills, who do not have millions of dollars to invest, people who meet current Australian criteria, but are not selected for immigration and/or who are over the age of 50.

12.3 How could a price-based system work in practice?

There are a number of practical issues on how a price–based system could work in practice. These relate to the setting of the price, on whom it should be levied and whether loans should be available. There is also the issue of how current visa rights and requirements should apply under a price–based system.

How could the price be set?

The terms of reference indicate that the Commission should consider 'the way in which the above charges could be set, and what they might be, to maintain the current levels of migrant intake or to maximise the benefits for Australian citizens'. There are two main

means of ensuring that a market mechanism results in an exact quantity being purchased – auctions and tenders. Another option is to use a pre-determined price rather than a pre-determined quantity.

Auctions

One of the clear advantages of an auction is that the quantity available for sale can be determined beforehand. In addition, it removes the need to set a price. For an auction to be used as the means of allocating visas, a set number of visas must be made available at a specified time and a 'location' for the auction also needs to be established (the most practical would be an electronic platform).

One submission suggested that auctions could be undertaken weekly (Lillingston, sub. 9). If that was the case, and each auction had the same number of permanent visas on offer, then over 3500 places would be available each week. Auctions normally operate by sequentially selling different lots (in this case, permanent visas — either for each individual, or possibly allowing families to simultaneously purchase visas for each family member). Even if families are allowed to purchase visas simultaneously, there would likely be more than a thousand lots for auction each week — which may be impractical. In addition, a live electronic auction may be susceptible to communication problems (especially as a large number of potential bidders will want to simultaneously access and interact with the same server).

By definition there is no excess demand at an auction. Bidders would be ordered by how much they are willing to pay and visas would be awarded in descending order of bid price until all available visas are allocated. The prevailing price for the auction would be determined by the amount that the last person allocated a visa would be willing to pay. As such, everyone who is willing to pay the prevailing price obtains a visa and there are no queues or waiting lists to be managed.

Sale by tender

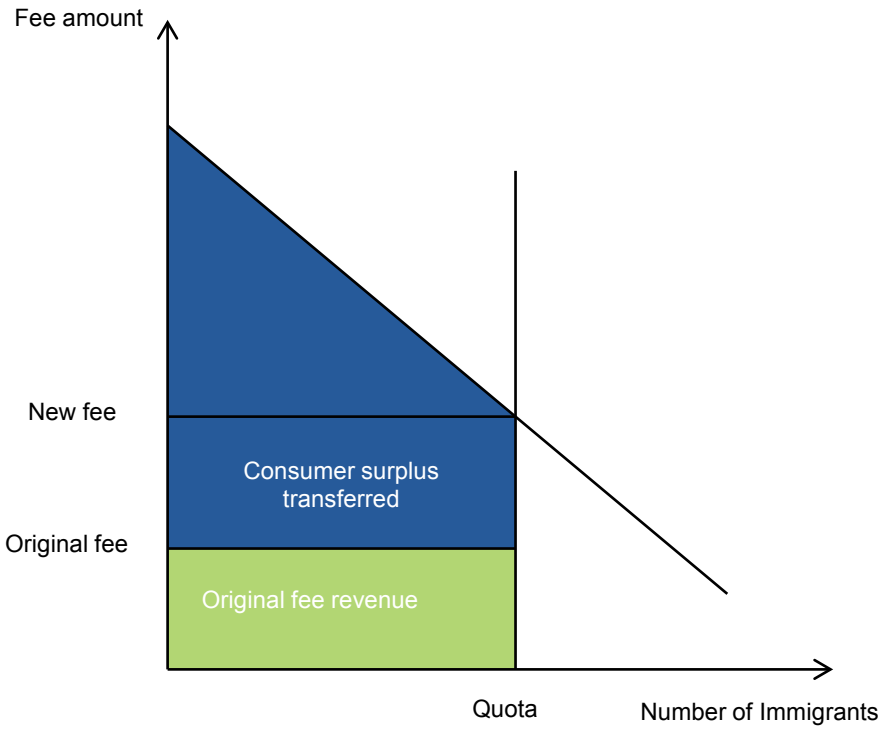
Tenders differ from auctions in that people submit an offer beforehand that indicates what price they are willing to pay. Online tender systems allow users to electronically submit their offers and for the outcome of all available places to be determined simultaneously. In this way, tenders can overcome some of the technical problems that can hamper large online auctions.

In addition, tenders may allow invalid entries to be excluded prior to the determination being made. For example, entries from people who have previously failed character or security checks and people who are temporarily excluded for previously having overstayed visas or for supplying fraudulent documents.

Tenders have another benefit over auctions. In an auction setting, the seller typically only obtains information about people who bid (or who win) at the auction. Under a tender process, information from all participants is obtained – which will provide substantial additional evidence on the level of demand for Australian visas.

Tenders also potentially allow for each person to be charged a different price (what is referred to as pure price discrimination). In theory, each person could be charged the maximum price they would be willing to pay, allowing the government to extract all of the consumer surplus (illustrated by the blue area in figure 12.4). This would allow the Australian Government to obtain the maximum revenue from the sale of permanent visas, although in practice this would not be possible.

Figure 12.4 **Pure price discrimination under a tender**



Sale at a set price

The two main advantages of establishing a set price for visas are that visas can be applied for at any time of the year (overcoming the rigidity associated with auctions and tenders) and price transparency helps participants know if they can afford a visa before participating in the sales process.

The principal disadvantage with a set price sale is that the number of visas sold is not directly controlled and will be determined by the selected price. An iterative process may be needed to determine the price compatible with the desired volume of visas to be sold.

The current migration system is effectively a set price system (with different pricing for each visa subclass). The number of visas grants is controlled by restrictive criteria and by closely monitoring the number of applications and ceasing to process applications when target levels are approached.

Such a level of quantity control could be applied with a flat price for all visas. The downsides of such an approach include the need to establish queues, uncertainty and frustration for applicants, and incentives for gaming the system (especially people applying before their desired time to ensure that they can migrate at the preferred time). This would effectively replicate problems inherent in the current system.

Should the price be per applicant or by visa?

Under the current fee arrangements for Australian visas, primary applicants and secondary applicants are typically charged separate fees. These fees are typically lower for secondary applicants. As such, the current fee structure advantages families relative to single migrants.

The effective discount on visa fees for family groups is likely to have economic consequences as it is unlikely that the partners and children of primary applicants would provide greater economic benefits than an applicant without dependents. However, if no discount were provided, applicants with families may be discouraged. There would also be societal impacts if the mix of migrants moved more toward people without families.

The revenue implications of continuing family discounts under a primarily fee based system could be substantial. For the purpose of this inquiry, it has been assumed that no family discount would apply. Applying family discounts would reduce the fiscal benefits of a price-based migration system.

Willingness to pay versus capacity to pay

While there may be many people willing to pay for a visa under a price-based system, not all will have the capacity to pay, even if there is likely to be a significant increase in their income from migration. Capital markets are imperfect, and potential migrants (such as those who are young, those with recently acquired qualifications and those from countries with very low average incomes) may face constraints in accessing finance or exorbitant interest charges if they could access finance. By comparison, foreign retirees or property investors who have significant wealth may have both the willingness and capacity to pay a high visa charge. Other things being equal, a price-based system, given capital market

imperfections, will tend to favour those who are already relatively wealthy over those who are not.

Some potential migrants will be able to source a loan for the visa fee from formal or informal channels. Migrants with higher income are more able to service a loan. But with uncertainty over future income and employment, and where the cost of enforcing a contract is high relative to the value of the contract, access to finance through formal channels will be limited for many applicants.

Potential migrants might also obtain loans through informal channels, such as people smuggling organisations. However, as the sureties for payment including holding people hostage, indentured labour of family members or the threat of reprisals for non-payment, it would be highly undesirable if a price-based system encouraged the growth of such 'services'.

The terms of reference direct the Commission to explore options for financing a migration fee. Options to address the capacity of migrants to pay include potential employers providing assistance, specialist migrant loan products that could be developed in Australia, a government backed income contingent loan, and differential tax arrangements for migrants.

Employer assistance with migration fees

There are potential advantages with employers contributing all or part of a migration fee. It would make it less likely that migrants with limited capacity to pay may experience a period of unemployment on arrival and it is more likely to result in migrants who have skills in demand in Australia. Such a system may work well for highly skilled workers who are in demand and who are experienced in negotiating work contracts.

However, there are concerns that relying on employer payments could have adverse impacts. For example, there is the potential for exploitation if workers are legally tied to the sponsoring employers while they still have a debt. It would also have the equivalent impact of a tax on employers of foreign labour.

Most of these issues are surmountable. Concerns over the exploitation of migrant workers already exist with temporary visas (such as those on student visas), but the problems do not appear to be widespread for permanent workers. There are mechanisms to address worker exploitation, and chapter 9 includes recommendations for further protections. However, the issues that may arise and the breadth of problems may alter under a price-based permanent migration system.

A new problem that would need to be addressed is the obligations of the migrant to the organisation who financed the fee (an issue that also arises with domestic financial products or government-backed loans). In all instances, unless there is a way of enforcing repayment, the system may be prone to abuse and may undermine the principle that a

price-based immigration system will select migrants with the greatest earning capacity. Alternatively there could be tradeable permits where the remaining obligation transferred to a new employer when an employee moved jobs.

Specialist domestic loans for migrants

The local financial industry may be willing to provide loans for migration charges based on a person's capacity to work in Australia.

If such a product were available, migrants may be able to apply for pre-approval up to a specific threshold, enabling them to participate in the migrant charge market (be it an auction, tender or predetermined fee). If the potential migrant successfully wins a visa, the Australian financial institution could transfer the money to the Australian Government (which would address concerns that the funds might be used for a different purpose).

Becker suggested that such a scheme would be similar to student loans (a widely used financial product in the United States). Student loans are leveraged off potential future earnings of students rather than being backed by collateral (like students, migrants would have little collateral). Student loans in the United States work because there is a large market (which allows bad debts to be offset from within the pool), non-payment of student loans negatively affects future access to finance within the United States, and students who are US citizens generally do not emigrate.

For migrant loans, the desire for future access to finance could be an effective tool to encourage repayment of most loans — so long as the migrants remain in the country. Finance companies would effectively have little recourse to recover unpaid debts if migrants choose to leave Australia (although a number of financial institutions in Australia operate in other countries and could provide sanctions elsewhere to defaulting permanent visa holders).

Income–contingent loans

A model of income–contingent loans already operates in Australia (HECS-HELP). It is a relatively low-cost system, with repayments administered through the tax system. It could be implemented as a means of offsetting the cost of the visa fee for people with a low capacity to pay.

Essentially the recipient of the income–contingent loan receives a service (an education or a permanent visa) which increases his or her future earnings — the benefits of the service are principally internalised rather than appearing as positive externalities. As for HECS-HELP for Australian students, an income–contingent loan to potential migrants would assist those at risk of being excluded because of a lower capacity to pay up front. However, there would also be a substantial fiscal risk to government through moral hazard

— such a scheme would be attractive to potential migrants who expect never to earn an income above the repayment threshold.

Given the moral hazard problem, the government would need significant safeguards and, as such, those requirements would reduce or eliminate any administrative cost savings from moving to a price-based immigration system. Additionally the price-based system would be ineffective at rationing demand and a quota would also need to be applied — a price-based permanent visa system in conjunction with an income–contingent loan would significantly reduce price elasticity.

Differential taxation of migrants

Income contingent loans involve the recovery of debts through the Australian taxation system. An alternative approach may be to apply a differential tax rate to migrants. An example of this is the recent changes to the taxation of working holiday makers.

The change in tax arrangements for working holiday makers relates to their residency classification. The recent Budget changed them from being treated as residents (and therefore eligible for the tax-free threshold) to being non-residents — thus requiring no change to taxation legislation.

Migrants who enter under a price-based system could be provided with provisional visas (or some new designation) until their fee is repaid. That designation of visas could then be subject to differential taxation rates until the remaining migrant charge had been recouped.

This would involve similar moral hazard risks, and administrative complexity, as the income contingent loan above. It would also undermine the efficacy of the visa price to ration visa demand.

The issue of non-repayment of debts if immigrants re-emigrate is different. Any unpaid debt relates to the right to permanently reside in Australia. If people emigrate without paying their debts, the government could cancel their visas, enabling it to re-sell the visas to other potential migrants.

12.4 Advantages and disadvantages of a price-based system

The proponents of a price-based system have highlighted many advantages of such a scheme. Those advantages partly relate to overcoming perceived problems with the current migration system (problems which have been examined in chapters 5–11), but they also partly relate to an attempt to generate additional government revenue from immigration. This section will examine the claimed benefits before examining the scope for unintended impacts.

Could it encourage more motivated immigrants?

Becker (2011) suggested that the use of a migration charge would encourage immigrants who are more motivated to work and more committed to their adopted country.

The literature on immigration identifies a range of push and pull factors that provide incentives for people to migrate. While these push and pull factors generally relate to a broad range of people within any given country, only a fraction of those people consider migration (Bruns 2012).

Research has found some differences in the characteristics people who choose to migrate and those who choose not to. The United Nations Development Program highlight that, 'not only do migrants have higher income earning capacity than non migrants but they often also appear to be healthier than natives of the destination country with equivalent educational qualifications (UNDP 2009, p. 27).

The introduction of a substantial price for migration could be counterproductive. Migrants who are the most motivated and dedicated may not have the capacity nor the willingness to pay very high fees. As other migrant destination countries do not impose high fees (chapter 13), some well-organised and motivated migrants are more likely to choose a destination other than Australia.

Could it reduce compliance cost for governments and migrants?

The scenario for a price-based migration system that the Commission was asked to explore explicitly states that migrants should still be subject to existing character, security and health checks.

As such, there would still be compliance and administrative costs associated with a migration system primarily based on a migration fee. There may be savings in relation to no longer having to prove the nature of a relationship (for family visas), not having to provide or assess evidence of education, skill level and training and not having to maintain waiting lists of applicants. To some extent, however, these savings may be partially negated by the extensive range of data required to meet security and health checks.

There are other benefits the price-based system could offer in administering immigration policies. For example, the current immigration system experiences a high number of challenges to adverse decisions. Prior to July 2015, the main avenues for challenging migration decisions was the Migration Review Tribunal and the Refugee Review Tribunal.[58] In 2013-14, over 22 000 cases were lodged with the tribunals in addition to more than 19 000 cases carried over from the previous financial year, at a cost of more than $70 million (MRT and RRT 2014a). A price-based system could be expected to

[58] From July 2015, the Administrative Appeals Tribunal (AAT) hears migration appeals.

reduce the number of appeals, and the complexity of matters appearing before the Administrative Appeals Tribunal. On the other hand, disputes would still arise over health, character or security assessments while new disputes might arise over suspected late or non-payment of visa fees or over which party was liable for the fee (for example, employers).

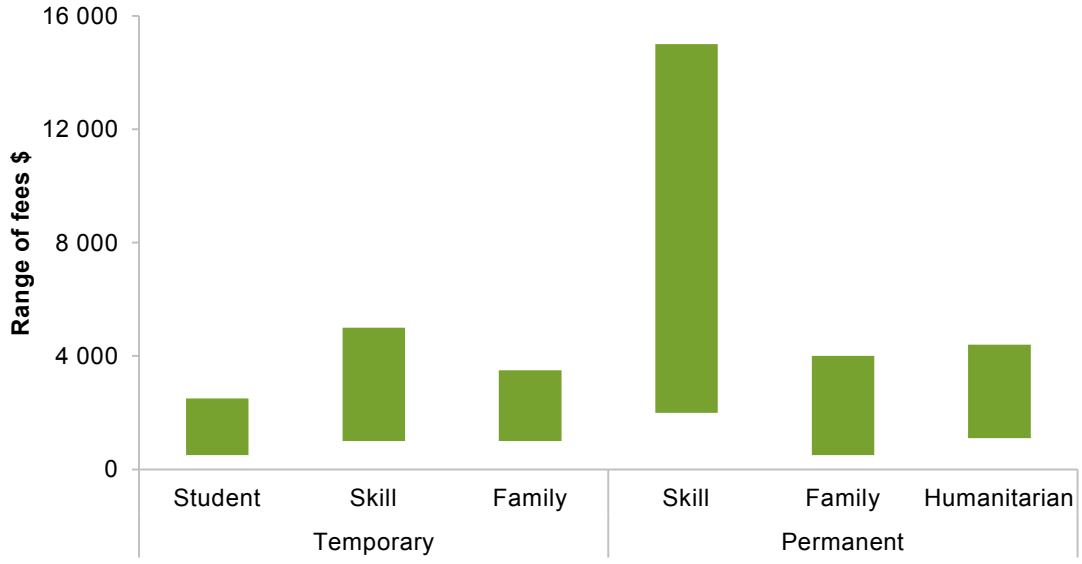
Lillingston has argued that the current system is open to abuse because of the specific criteria applied to current visas (sub. 9). He particularly noted that prescriptive qualifications increase the incentives to obtain entry by fraud and deceit, which would be mitigated under a price-based system.

Could it reduce the role for migration agents?

Migration agents advise potential migrants of their best options for migration and what evidence they require. They typically assist with filling forms (or do so on behalf of their clients) and lodging the required material.

There is widespread use of migration agents. Around half of the applications for permanent residency in Australia are lodged by registered onshore migration agents (Office of the Migration Agents Registration Authority 2015). Depending upon the nature of the visa, typical migration agents fees appear to be thousands of dollars (figure 12.5), and anecdotal evidence suggests that fees charged by offshore migration agents may be substantially higher. Movement to a price-based immigration system should substantially reduce the need for migration agents and as the remaining work for migration agents should be simpler, it should reduce the prevailing fees.

Figure 12.5 **Quoted range of migrant agent fees**
July to December 2014



Source: OMARA (2015).

In addition, onshore migration agents are regulated. As such, there may also be some administrative cost saving from moving to a price-based immigration system.

Could it overcome rigidities and time delays?

Elements of the current immigration system have been criticised as being rigid and imposing long time delays (chapters 5, 10 and 11).

The process of identifying occupations in shortage has been particularly criticised. The Skilled Occupations List (SOL) is used to identify occupations with shortages (chapter 10). There are concerns that the classification of occupations in the SOL[59] is too coarse to effectively enable shortages to be identified because:

- either an occupation that should be on the list may be overlooked (particularly if there are fewer than 300 people with that occupation in Australia)
- or occupations that should not be on the list are included (because they have previously been on the list).

There are also concerns that as the SOL and Consolidated Sponsored Occupation List (CSOL) are only updated annually, that they do not necessarily reflect contemporary labour demands of employers. Chapters 9 and 10 also refers to recommendations from recent reviews that could improve the use of the lists.

Proponents of a price-based immigration system consider that employers and migrants are better placed to assess labour market conditions than governments. For example, Lamperd (sub. 28) said:

> The present system of allocating points for selected skills and personal characteristics is suboptimal in that it relies on bureaucratically assigned quotas and skill designations. Decisions made at a national level are based on poorer quality data than individuals and corporations who can carefully assess the costs and expected benefits. The fee-based visa system would select migrants more effectively as it would be based on organic demand within the community. It would be less susceptible to distortion caused by the political lobbying of special interest groups. (p. 1)

Others have raised concerns that basing migration policy on the views of industry and migrants ignores issues of wider societal impacts (box 12.4).

[59] Both the Consolidated Sponsored Occupations List (CSOL) and the Skilled Occupation List (SOL) use the Australian and New Zealand Standard Classification of Occupations (ANZSCO).

Box 12.4 Concerns with industry and migrant interests directing immigration policy

> The property industry is a primary beneficiary and a major sponsor of both major political parties and of pro-migration peak bodies. Their speculative profits are at the expense of housing affordability for ordinary Australians. Employers seeking cheap and compliant labour have exaggerated skills shortages. The benefits that these groups claim Australia will get from high immigration have not been realised. (McNicol, sub. 39, p. 1)
>
> … all government policy development should be deliberately and transparently balanced to include societal and environmental priorities, to consider the equity of distribution of impacts, and to take a long-term view. This is particularly important in the context in which government deliberations are disproportionately exposed to the vested interests of a small minority of powerful stakeholders. (Sustainable Population Australia, sub. 44, p. 2)
>
> Using immigration policy to solve labour issues is the same as tax payer funded subsidies and protection for uncompetitive industries. (sub. 17, p. 1)
>
> The question of whether population growth, of itself, is a good thing for Australia has been aired in previous inquiries. This debate has been coloured to a damaging extent by politically influential vested interests. There can be no doubt that the inflation of property values and the erosion of wages and conditions of employment are of benefit to an elite few in the near term. The challenge for objective inquiry is to filter these voices and scrutinize the contrived evidence they present with scepticism. (Jane O'Sullivan, sub. 54, p. 2)

Overall, while a price-based system may have fewer rigidities and delays, it is uncertain whether the outcomes of immigrants would be better or worse under a price-based system. The current system delivers beneficial outcomes, with primary migrants under the skill stream having good employment and earnings prospects and having lower unemployment than other migrants (chapter 5).

Could it discourage irregular arrivals?

Proponents argue that movement to a primarily price-based immigration system would discourage people from coming to or staying in Australia without a valid visa.

Many irregular maritime arrivals to Australia have dealings with people smugglers (DIAC 2011d). Of those arriving in 2009-10, the typical fee paid ranged from US$5000 to US$16 000 (DIAC 2011e). People who would risk paying people smugglers to undertake a dangerous journey to Australia and still have no guarantee of obtaining a visa would likely to be willing to pay as much, if not more, for a guaranteed permanent visa. In addition, families, friends, members of their cultural group or general Australians would also have the opportunity to purchase visas on their behalf. Proponents argue that such incentives would make it more difficult for people smugglers to sell their services.

While a shift to a primarily price-based immigration system would increase the opportunities for people to obtain a visa who might otherwise be considering an irregular entry into Australia, there is a significant backlog of people deemed to be in need. For example, the United Nations High Commission for Refugees estimated that there were at least 950 000 people who were in need of resettlement in June 2014 (UNHCR 2014). The

pool of people in need of resettlement is not static, but is frequently added to by new incidents of conflict and natural disasters. Not all of these people would have the financial capacity to pay a fee or be lucky enough to have people pay on their behalf. As such, while a migration program based primarily on price may diminish the incentives for people to arrive in Australia irregularly, it would not solve the situation given the very large pent-up demand.

Is there scope for revenue raising?

Proponents of a price-based system also highlight the scope to raise additional revenue (box 12.5). To the extent that there is sufficient demand for Australian residency rights, an immigration system that primarily allocates visas based on the fees people are willing to pay should generate more fee revenue than the current immigration arrangements. However, it should be noted that the current immigration system already generates substantial fees — around $1.6 billion in 2013-14 (equivalent to a fee of around $8500 per permanent immigrant) and fees have been raised since that time (chapter 7).

Box 12.5 Views on revenue raising potential of a fee

There is clearly excess demand for permanent and temporary visas to Australia. Ignoring this opportunity to leverage revenue for the country would be irresponsible. (Matta, sub. 17, p. 7)

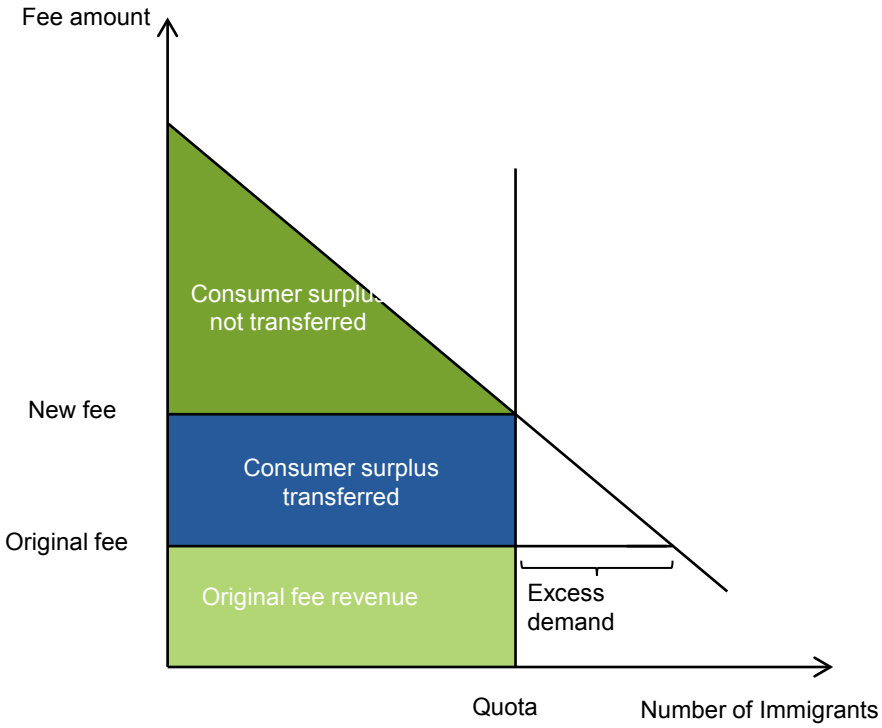
Where visas are currently subject to a quota, and where demand for these visas exceeds those quotas, then increasing the charges for these visas could reduce delays between applications and entry, and increase Government revenues. (LDP, sub. 46, p. 14)

Australia is not a country where the government has more money than it needs. Health, education and infrastructure development are merely three areas where there are requests for further investment. Any possibility where expenditure can be saved or indeed revenue can in fact be made, should be given serious consideration. (Lillingston, sub. 9, pp. 3–4)

The difference in the amount that people are willing to pay and the amount that they are charged for a good or service — or 'consumer surplus' (figure 12.6) — indicates that a person would not willingly pay more for a good or service than the valuation that he or she places on that good or service.

At the current level of fees, there are more people willing to migrate to Australia than there are available places. As such, immigration fees could be increased to some extent before any reduction in the number of potential immigrants would occur. This would result in some of the existing consumer surplus being transferred to Australian taxpayers as higher immigration fees — although it could also result in different migrants being selected.

Figure 12.6 **Scope to raise revenue**
Transfer of consumer surplus



Proponents of the price-based system have also argued that the additional revenue could be used to increase public acceptance of migration, and/or that part of the revenue stream could be used to compensate those Australians who may be financially disadvantaged by immigration. While these may be laudable objectives, they would only be possible if the switch to a price-based immigration system actually generated additional revenue over the long-term. Whether revenue would increase or decrease is crucially dependant on how the composition of immigrants would change if a price-based system was adopted.

Is it certain that adopting price-based immigration would provide net fiscal benefits?

While there is scope for a price-based immigration system to generate additional fee revenue, adoption of a such a system could have other direct and indirect fiscal impacts. These fiscal impacts need to be considered (box 12.6).

Box 12.6 Comparing fiscal impacts — migration fee and the stream of income tax

When examining fiscal impacts of immigration, it is important to consider more than just the revenue from the initial migration fee. The importance of other fiscal impacts can be demonstrated using an example.

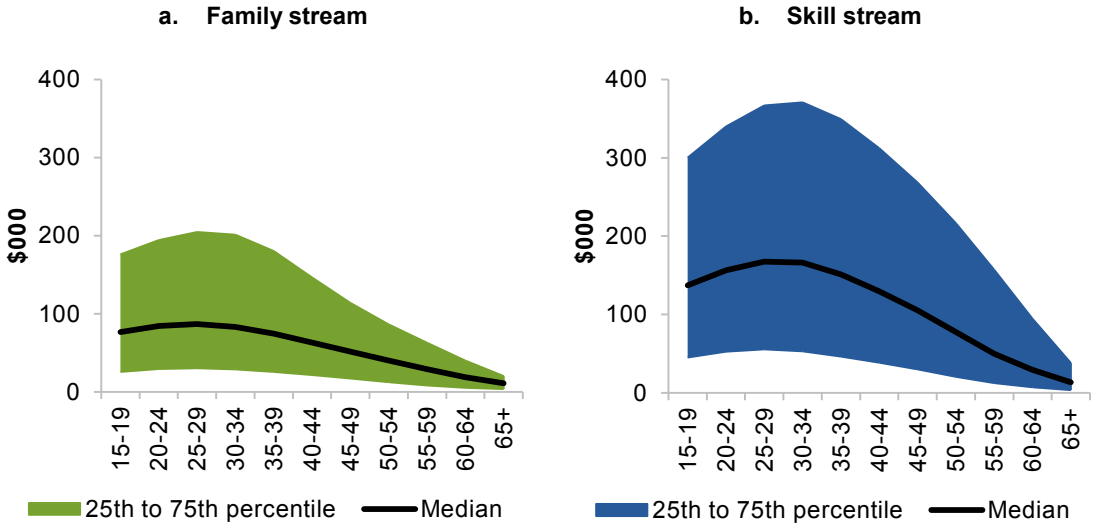
Consider that one place is available for migration and the only difference in fiscal impact will arise because of changes in the value of migration fees and the expected flow of income tax.

Assume that the successful migrant under the current rules earns an average income for permanent migrants and will work for 35 years after arriving in Australia. Given that the average income tax paid in 2014 for those permanent migrants who submitted a tax return was just under $14 000 (ATO unpublished data), that implies an annual taxable income of around $65 000. If the successful migrant under a price-based approach earned a slightly lower annual income of around $57 000 (and is also assumed to work for 35 years in Australia), then the expected revenue stream from income tax would be lower. Assuming a 5 per cent discount rate the reduction in the present value of the income tax stream would exceed $40 000. Thus the higher fee can be offset in part or in full by reduced tax receipts from even a modest reduction in expected income.

Analysis of income tax revenue paid by different immigrants (box 12.7 and figure 12.7) indicates that the expected stream of income tax received by the Australian Government from immigrants is likely to be very sensitive in changes in the mix of the visa streams as well as the quality of the immigrants arriving in each visa stream.

Figure 12.7 Potential ranges of lifetime income tax stream

By age of arrival in Australia



Source: Commission estimates.

Box 12.7 How the stream of income tax revenue might differ based on migrant characteristics

A recent experimental dataset compiled by the Australian Bureau of Statistics (2015f) can be used to indicate the potential differences in the lifetime stream of income tax paid by different migrants. The database contains information on people who obtained permanent residency since 2000 and who submitted a tax return in 2009-10.

By using information on the median, 25th and 75th percentile of incomes by age group in the family and skill visa streams for the 2009-10 tax year (ABS Personal Income Tax and Migrants Integrated Dataset, unpublished data), the Commission was able to estimate the tax paid in that year. By assuming that future migrants would have the same tax profile and that migrants would continue to pay tax until they were 70 years, it was possible to approximate the discounted value of the stream of income tax a migrant would pay for the remainder of his or her life.

Under both the skill and family streams, the highest discounted income streams are for migrants who arrive aged between 30 and 34 years. For both visa streams, the value of discounted income streams steadily declines for migrants who arrive at older ages. This pattern is consistent for the median tax payers as well as the 25th and 75th percentiles. While there is variation in the value of discounted income tax streams within each visa stream, the expected lifetime income tax contribution from skill stream migrants is substantially higher than from family migrants.

Why might migrant incomes be lower under a price-based immigration system?

The proponents of a price-based immigration system also propose that the incentives of the charge will encourage people with a higher capacity to pay tax. For example, the LDP stated:

> Under such a system, if a potential immigrant believes that the extra after-tax earnings he or she can earn by immigrating to Australia exceed the tariff that has to be paid, the individual will have a financial incentive to choose to immigrate. A potential immigrant without such prospects for after-tax earnings would have no such incentive. So a tariff-based immigration system would encourage the immigration of people with the greatest ability and willingness to earn, through a process of self-selection. (sub. 46, p. 5)

And Lillingston stated:

> Due to the bidding process where highly productive professionals would find it more feasible to outbid professionals or tradespeople of medium to low productivity, the average skills of new immigrants would be of a higher level than now exists. (sub. 9, p. 6)

If there are no non-economic benefits from migration, the maximum immigrants would be expected to pay under a price-based immigration system is an amount that would leave them no worse by leaving their home country and coming to work in Australia. Effectively, this could be estimated as the discounted after tax income stream less the differential cost of living in Australia (that is of an equal standard to what they experience in their home countries). It is entirely possible that a cleaner from a very low income country would have a larger increase in living standards (in money terms) compared to a doctor or lawyer from

a high income country. It is therefore an empirical question if the income of immigrants (and consequently income tax receipts) would be higher or lower under a price-based immigration system.

The conceptual link between willingness to pay for a visa and the capacity to earn additional income in Australia is reduced (or non-existent) if people are migrating primarily for non-economic reasons. It is not just people who have high potential earnings who flee from countries where their lives are at risk. People wanting to migrate for family reunion reasons would presumably place a higher value on a visa than other potential migrants who have the same earning potential, but no family connections in Australia. Finally, those contemplating migrating to Australia as a retirement option may be willing to pay a substantial price for the visa (based on their past earnings) even if they would earn no income in Australia.

Additionally, the change in migrants under a price-based immigration system may alter other key characteristics that will influence tax revenue (such as the expected number of years of work in Australia). Such outcomes are more likely if non-economic reasons for migration are substantial. As such, the magnitude and possibly the sign of the revenue impact of adopting a migration fee is uncertain and needs to be explored.

Public resistance to an immigration fee

Based on the submissions and consultation undertaken during this inquiry and media commentary, implementation of a price–base immigration system appears likely to be controversial (box 12.8).

Following the release of the issues paper for this inquiry, there was extensive media coverage of the concept of a price-based immigration system. The media coverage and the accompanying public commentary predominantly opposed the concept. Some of the reasons for opposing the concept included:

- that no immigration should be permitted
- that immigration rights should be earned, not sold
- that such a scheme would attract undesirable immigrants
- that it is unfair to exclude poor people from migrating
- the apparent inconsistency between the policy toward people smugglers (and the associated political dialogue) and a scheme that would explicitly permit the wealthiest economic migrants to purchase their way into Australia.

Box 12.8 Participants that oppose a price-based immigration system

The Council is concerned about the possible introduction of a pricing mechanism into migration policy which would move from the current approach which prioritises the long term economic and social benefits of migration to Australia, to an approach which is both short-term and revenue driven. (Australian Multicultural Council, sub. 11, pp. 1–2)

FECCA considers that the proposal to implement an entry charge for migrants wanting to live in Australia is inequitable and fundamentally overlooks the importance of immigration to Australian society. … This is a short-sighted approach to immigration, overlooking the need to consider the long term outcomes and benefits of migration to Australian society and the economy. (FECCA, sub. 24, p. 5)

Oz Kiwi is opposed to any suggestion of an entry charge for migrants as the primary basis for the selection of migrants. Other considerations such as health, character and security, the right to work and having access to subsidised education, housing or healthcare are all supported. (OzKiwi Association, sub. 33, p. 3)

The ACTU does not support any proposal for Australian immigration policy to be determined simplistically on the basis of capacity to pay and which effectively removes important national interest considerations, such as the rights of Australians to access jobs and training opportunities and the need to address genuine skill shortages, as the basis for determining the migrant intake. (ACTU, sub. 36, p. 10)

The implementation of an entry charge system, as proposed in the Terms of Reference, to recover short-term costs will likely be irrelevant to the challenge of optimising the cost benefit ratio. Worse, it may result in the creation of negative incentives for regional migration, particularly unskilled migration. (The Regional Australia Institute, sub. 42, p. 1)

Master Builders is of the view that moving to a price-based immigration system along the lines suggested by some economists including Gary Becker, is unworkable and should be rejected. (Master Builders Australia, sub. 49, p. 19)

The MCA considers that moving to a price based selection system would be a retrograde step and would significantly undermine the positive economic contribution our migration program makes, both to the long run fiscal position of the state, and to the economy as a whole. (MCA, sub. 50, p. 3)

DoB does not support the introduction of a price-driven migration program as the sole migration pathway as it believes that such an approach will negatively impact the flow of migrants to regions outside Australia's major metropolitan centres and hence the economic and social development of northern Australia. (Northern Territory Department of Business, sub, 60, p. 1)

Given that some existing visas are subject to quite substantial fees, it is not clear if the objection is to fees in general (and if so, are people unaware of existing fees), the level of the fee, the expectation that fees may be applied to a wider set of visas, or that the principal rationing of immigration quotas would be on price.

Not all coverage of the price-based approach to visa allocation has been negative (box 12.9). However, the reaction to the release of the issues paper highlights that public (and political) opposition may be a substantive barrier to the introduction of a price–based immigration system.

Box 12.9 **Participants that support a price-based immigration system**

It might well be that a tariff based immigration system actually is, in fact, a panacea that cures (almost) all ills. While still having to deal with the administrative and appeals process of screening on (HC&S) grounds, the costs, subjective decision making and potential for abuse for all other grounds could be eradicated. The abolition of the stigma of discrimination, together with the openness of the system and its ability to placate, albeit to a small degree, both anti- and pro- immigration voices in the community, continues the benefits this system offers. (Lillingston, sub. 9, pp. 9–10)

I think Australia will be very smart country to consider taking immigrants for the price of $50k. (Alkhateeb, sub. 10, p. 1)

A well-tuned fee-based policy would provide benefits for both intending migrants desirous of a life in our country, and for our communities and industries that wish to take advantage of this human capital. (Lamperd, sub. 28, p 2)

… the living standards of incumbent Australians would be improved by replacing the current immigration regime, based largely on qualitative criteria and quotas, with a regime largely based on an immigration tariff, where migrants would have reduced access to welfare and subsidised healthcare, education and housing. (LDP, sub. 46, p. 11)

Some possible unintended consequences

There are other potential unintended consequences of adopting a price-based immigration system. For example, concerns have been raised that very high fees could be considered arbitrary taxation, which could be inconsistent with Australia's commitments under the General Agreement on Trade in Services. However, these commitments would only relate to temporary visa categories.

While Australia has international humanitarian commitments, the price-based system under examination could breach those commitments. The terms of reference indicated that the price-based allocation model should not be extended to the humanitarian program (although people with grounds to apply for humanitarian assistance could choose to obtain visas under the price-based system).

One participant also indicated that the recent rapid increase in fees for family visas could be breaching Australia's international commitments because it reduced families abilities to live together (Australian Migration Options, sub. 34, p. 2), although reunion has always been constrained by eligibility and other restrictions, including the size of the intake.

Another concern is whether a price-based visa would expand the opportunities for people with nefarious motives. The introduction of a price–based immigration system could reduce the scope for exploitation as migrants who purchase a visa would have less restrictive work rights, which would reduce the opportunities for unscrupulous employers to exert undue influence over them. Conversely, the system could make it easier for people with nefarious objectives to sponsor workers with the intention of exploiting them. While the proposal for a price-based immigration system includes character and security checks, those checks relate to the migrant rather than a migrant's sponsor.

For example, prostitution in most Australian jurisdictions is legal, but a significant share of prostitution services are provided by illegal operators (Edwards 2009). Among legal brothels, the rate of exploitation of migrant workers is low (Donovan et al. 2010, 2012), with the main problems identified as people on student visas exceeding their allowable work hours or people remaining in Australia after their visa has expired (Auditor General 2004). The rate of exploitation of migrant workers in illegal brothels is unknown, but there have been a limited number of prosecutions (for example (Andrews 2012)), and concerns have been raised over debt-bonded prostitution (ACSSA 2005). Typically, this involved women who know they are migrating to Australia to work in the sex industry, but when they arrive, their passports are withheld from them until they have repaid their debt through prostitution.

The adoption of a price-based immigration system could have two effects. Being able to pay for a visa could reduce the scope for exploitation. For example, the Scarlett Alliance has advocated for sex work to be added to the Skilled Occupation List to allow people to temporarily migrate to participate in sex work (Scarlet Alliance 2014). However, the magnitude of the debts requiring repayment would be substantially higher as it would also encompass the substantial visa fee.

12.5 Possible impacts of a price-based system

In order to explore the possible implications of moving to a price-based immigration system, the Commission has developed a custom made partial equilibrium model (box 12.10, technical supplement B).

The preliminary modelling of the price-based immigration system assumes that the intake of permanent immigrants remains around the current level of 190 000. As such, the estimated impacts relate to the change in the characteristics of migrants who could be included in the intake under different assumptions. Other key assumptions include that:

- 'limited' access to government services are the same as the current exclusions and waiting times for accessing government services (chapter 7)
- permanent visas (excluding humanitarian visas) were assumed to be allocated to migrants who were willing to pay the highest price (that is, a market clearing price was assumed)
- all migrants (the primary applicant, their partner and children) are charged the same fee.

Box 12.10 The migrant composition modelling framework

The Commission has developed a partial equilibrium model to explore the impacts of the greater use of immigration charges on the composition of Australia's permanent migrant intake. The model is based on a demand and supply framework. Migrant composition is determined by projected responses to changes in the costs and benefits associated with the option to work and reside in Australia. In this framework, demand represents willingness to pay for a visa and supply represents the costs to migrants of migrating to Australia, including government fees and charges, transport costs and migration agent fees.

The model draws on the Australian Census and Migrant Integrated Dataset (ACMID), a rich dataset which has detailed information on over 1 000 000 permanent immigrants who arrived in Australia between 2000 and 2011. The model characterises migrants by their region of origin, visa class under the current system (including a 'currently ineligible' class), skill and age. The model also represents primary and secondary applicants. A number of other datasets are used to supplement ACMID, including World Bank wage data.

Many factors influence migration decisions. No model can capture all of these factors. In addition, there is limited information on the weighting of different factors by different types of migrants. The model is therefore subject to a number of key caveats including:

- limited information on the non-financial benefits of migration
- limited information on the wealth of prospective immigrants, limiting examination of their capacity to pay for a charge
- a focus on markets for Australian visas only. Various other markets — such as labour markets in Australia and in source countries — are taken as given
- uncertainty around the fiscal impacts of migrants. Further work on the fiscal impacts of immigrants will be undertaken for the final report
- not accounting for any additional remittances which would detract from the positive revenue obtained from the fee.

Comprehensive multivariable sensitivity analysis was undertaken to explore the impacts of these and other uncertainties on model results. A large number of parameters were varied simultaneously across many thousands of simulations to produce a range of estimates. Results from the modelling are best thought of in terms of ranges rather than point estimates (technical supplement B).

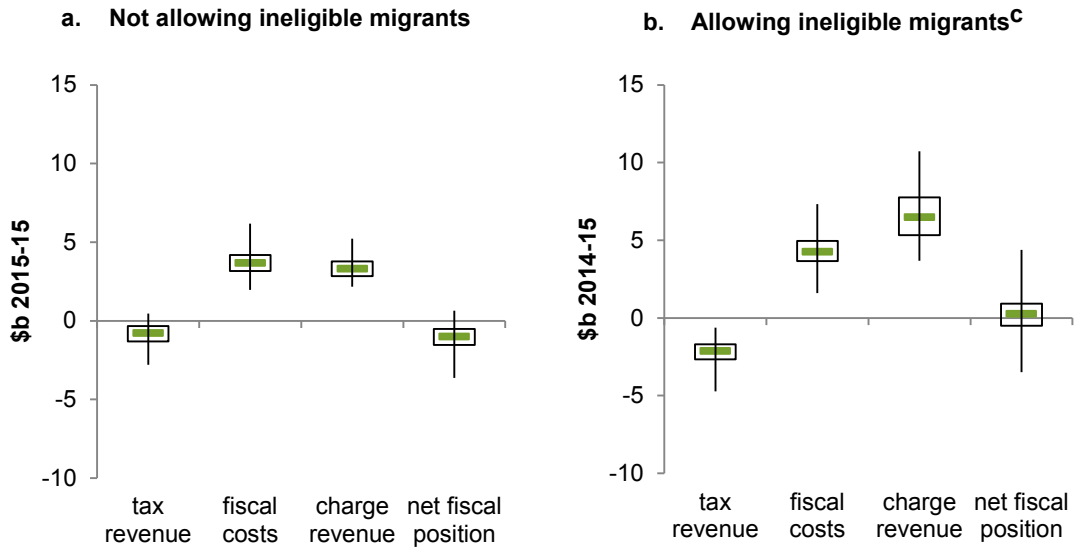
The preliminary model relies on specific evidence about people who have recently applied to migrate to Australia, as well as more generic information about the wages, skills and characteristics of people throughout the world who may be interested in migrating to Australia, but who do not meet any of the selection criteria set out in Australia's current immigration system.[60] Given the uneven level of detail about these two groups of potential migrants, the impacts of moving to a price-based immigration system when currently ineligible migrants are included is likely to be inherently more uncertain than the preliminary results suggest.

60 Except health, security and character checks.

Despite the projection that the migrant charge under a price based system could be substantial (with the per person charge ranging from $35 000 to $45 000), it is uncertain if a price-based system would have a positive fiscal impact in net terms (figure 12.8). This is because the tax revenue (income tax and GST) is projected to be lower and government expenditure (fiscal cost) higher under a price-based immigration system relative to current arrangements.

Figure 12.8 **Projected fiscal impact of introducing a price-based system[a,b]**

Discounted lifetime fiscal impact relative to current arrangements for a single year cohort of migrants



[a] The scenario in panel 'a' is included as a means of indicating the impact of the sensitivity analysis for potential migrants who are not currently eligible for Australian visas. The inclusion of currently ineligible migrants is not projected to substantially alter the central estimate of tax revenue or government expenditure, but is projected to increase the charge revenue that a price-based system could generate (because more people are eligible to bid for a fixed number of visas). However, for each fiscal measure, the range of plausible outcomes is wider. [b] These estimates represent the fiscal impacts of a cohort of migrants who are granted a permanent visa in a single year. Estimates are net present values over migrants' remaining years of life in Australia from when they are granted a visa. [c] The chart shows box plots of the distribution of each measure from 1000 sensitivity model runs, varying a number of parameters in the model. Parameter values were varied for all 3640 migrant types in the model using Monte Carlo selections from a uniform distribution. The box plot tails show the minimum and maximum of all the runs, the box shows the interquartile range (quartiles 1 and 3). The large horizontal dash represents the median. The ineligible category includes prospective migrants who would not meet the required criteria under existing skill and family visa classes

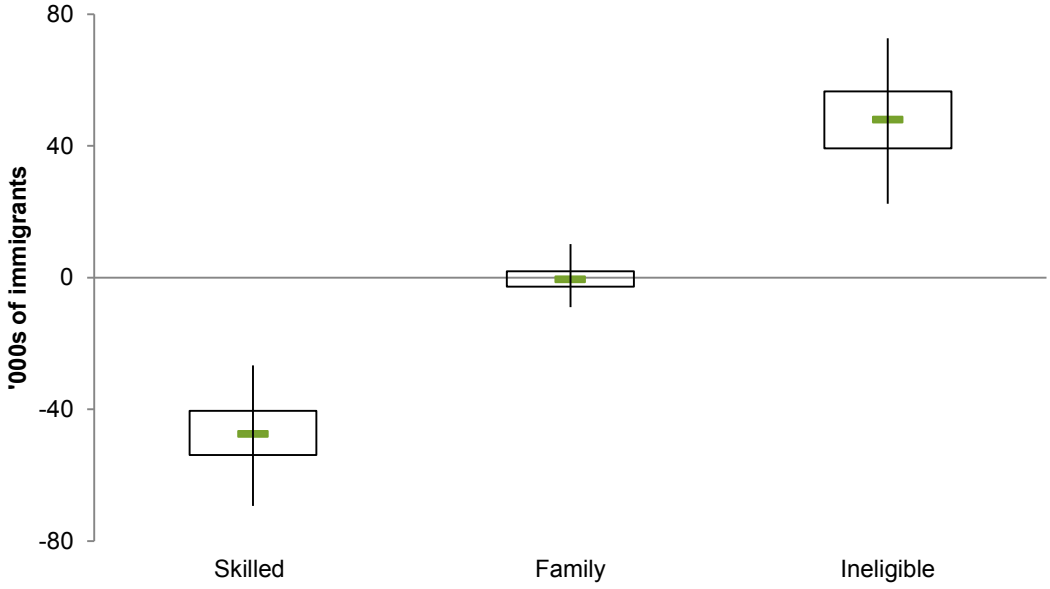
Source: Commission projection.

The projected adverse impacts on tax and government expenditure flow from the projected change in mix of migrants (figure 12.9). Of note, these preliminary projections indicate a reduction in skill stream immigrants. Given that the overall migrant intake does not change, the reduction in skill stream immigrants is mainly taken up by migration by those who are currently ineligible. Despite many family migrants already paying substantial fees

(up to $50 000), those very high fees are only paid by the primary applicant, and lower fees are charged for their partner and/or children. As such, a family unit would be expected to pay higher fees under the price-based scenario modelled. In addition, family migrants also need to compete with a pool of potential migrants who have not previously been eligible to migrate to Australia.

The preliminary projections indicate that under a price-based immigration system, between 40 000 and 60 000 migrants a year would come from people who have never previously been eligible to migrate to Australia. It is uncertain how old these people would be, what education and skills they possess or how likely they are to find employment. In contrast, the reduction in immigrants is likely to occur among young immigrants with valuable skills and who are likely to have very strong labour market outcomes.

Figure 12.9 **Projected annual change in migrant composition[a]**

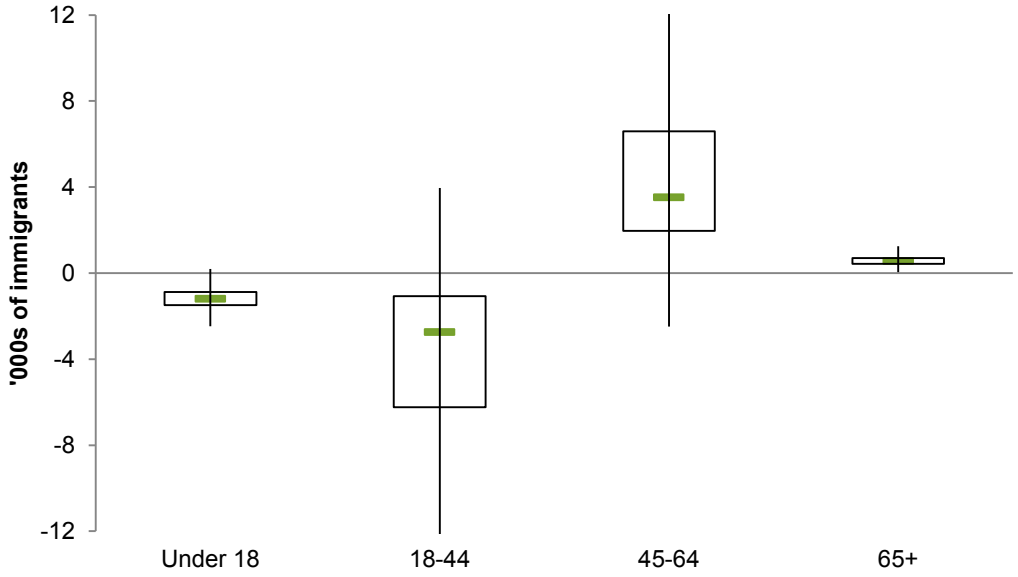


[a] People considered ineligible are those who do not meet the eligibility criteria for any current Australian visa (including skill level, age, English proficiency or family relationship). They would still meet health, character and security checks.

Source: Commission projections.

The projected impact on the age distribution of migrants is less certain than the reduction in the number of skill stream immigrants (figure 12.10). The projections indicate that the direction of change for all age groups is subject to considerable uncertainty, with potentially large variations in the proportion of migrants in the 18 to 44 and 45 to 64 year age ranges.

Figure 12.10 **Projected annual change in migrant ages**



Source: Commission projections.

Given the large difference in the expected value of the stream of income tax that migrants would pay based on their age and skill, the preliminary modelling highlights that adopting a price-based immigration system would be inherently risky in several dimensions. There is the potential for adverse changes in migrant characteristics, income potential, income tax contributions, use of government services, and overall fiscal impact. The modelling for the draft report has not been able to fully explore the uncertainty, particularly relating to possible migrants who currently do not meet eligibility criteria for migrating to Australia.

While modifications to the design of a price-based immigration system could result in more favourable estimates (such as expanding the waiting times for migrants to access government services), such changes would not reduce the uncertainty surrounding the expected stream of income tax revenue. As such, the partial equilibrium modelling does not provide support for the adoption of a priced-based immigration system.

The adoption of a price-based immigration system presents the real possibility of adverse change in the composition of immigrants. Given the scope for adverse demographic, economic and fiscal impacts, a price-based system should not be adopted.

DRAFT FINDING 12.1

The adoption of a price-based immigration system is not supported by evidence. Such a system could:

- attract less desirable immigrants compared to the current system
- favour immigrants with an existing capacity to pay over those who would make the greatest economic contribution to Australia.

DRAFT RECOMMENDATION 12.1

The Australian Government should not use price as the principal mechanism for allocating permanent visas.

13 Hybrid options

Key points

- Charges for different visa classes vary, although the reasons for this are opaque. They have increased significantly in recent years, and total charge revenue is now more than three times the costs of processing visas. Charges for Australian visas are generally higher than for visas in major competitor countries.
- Visa charging can influence the benefits to Australia from the immigration program, both directly through the revenue gained, and indirectly through its impact on the composition of the migrant intake.
- In an environment where the demand for permanent visas exceeds the number of places available, there can be a role for price in allocating permanent visas when used in conjunction with the current system's eligibility criteria.
- In assessing alternative visa charging options, the Commission has focused on options that maintain:
  - the current level of skilled and family visa grants (around 190 000 per year)
  - the current balance between the skill and family streams and the qualitative criteria attached to these streams
  - the health, character and security checks applicable in the current system
  - the current exemption from a visa charge for humanitarian immigrants.
- While the options outlined in this chapter mitigate the risks associated with a largely price-based system (chapter 12), they still entail some tradeoffs.
  - By and large these options would increase charge revenue relative to the current system. However, the incentives created by differential charging can still change the composition of immigrants *within* the skill and family streams. This has potential economic and social implications.
  - Options that are more tightly targeted are likely to be more administratively complex.
- Given the uncertainty around the behavioural responses of prospective migrants, the Commission is seeking participants' views on the relative merits of these options to inform its final report.

Chapter 12 examined the option of a price-based immigration system under which all permanent visa holders would be charged the same price. The Commission concluded that it could not support such a system, given the balance of risk to the composition of the migrant intake, and the costs and benefits of the current Australian migration system.

However, in an environment where the demand for permanent visas exceeds the number of places available, there can be a role for price in allocating permanent visas when used in conjunction with the current system's eligibility criteria.

This chapter begins by reviewing the charges under the current system, which do not follow a systematic approach (section 13.1). The chapter goes on to examine a number of options which could mitigate the risks associated with the chapter 12 scenario, while also providing a more systematic approach to permanent visa charging (section 13.2). The options take the current permanent visa system — which uses a combination of charges and rationing through qualitative criteria and quotas — as a starting point.

13.1 The current charging system

Charges vary across visa subclasses

Visa application charges vary across each visa subclass (table 13.1). Charges range from zero for most humanitarian visas up to almost $50 000 for some Contributory Parent Visas. Some visas also require applicants to make other financial commitments. For example, certain visas in the family stream require assurances of financial support and investor visa holders must make a minimum complying investment in Australia.

The price of the visa is only one of the costs applicants face. There are significant other costs involved with a visa application, including the cost of mandatory health and security assessments. Many applicants also pay migration agents for advice and assistance in preparing visa applications (table 13.1). In making decisions about whether to apply for an Australian visa (and which type), applicants will take all these costs into account as well as their assessment of their probability of success, and the waiting time for a determination, compared to other opportunities.

Table 13.1 **Examples of charges associated with visa applications**

Visa Charges[a]	*Other potential costs*
Employer Nomination Scheme (subclass 186)	
• Base application charge: $3 600; additional applicant charge 18 years of age and over: $1 800; additional applicant charge under 18 years of age: $900 • For applicants 18 years and over at the time of application and who are assessed as not having functional English, the second instalment for main applicants: $9 800; and secondary applicants: $4 890 • Employer nomination fee: $540	• Migration agent fee[b]: $2 500–$5 500 • Health check: around $200–$300 plus extra for other tests • Australian Federal Police (AFP) check: around $40 • International English Language Testing System (IELTS) test: around $330
Skilled Independent (subclass 189)	
• Base application charge: $3 600; additional applicant charge 18 years of age and over: $1 800; additional applicant charge under 18 years of age: $900 • For applicants 18 years and over at the time of application and who are assessed as not having functional English, the second instalment is $4 885. Other applicants pay no second instalment	• Migration agent fee[b]: $2 000–$4 500 • Skills assessment by an accrediting authority: unknown • Health check: around $200–$300 plus extra for other tests • AFP check: around $40 • IELTS test: around $330
Partner (subclasses 309/100)	
• Base application charge: $6 865; additional applicant charge 18 years and over: $3 435; additional applicant charge under 18 years of age: $1 720	• Migration agent fee[b]: $500–$4 000 • Health check: around $200–$300 plus extra for other tests • AFP check: around $40 • IELTS test: around $330
Contributory Parent (subclass 143)	
• Base application charge varies depending on the pathway, up to $3 695; additional applicant charge 18 years and over: $1 245 and additional applicant charge under 18 years of age: $625 • Second instalment varies, up to $43 600	• Migration agent fee[b]: $1 650–$4 000 • Bond of assurance $10 000 • Health check: around $200–$300 plus extra for other tests • AFP check: around $40 • IELTS test: around $330
Business Innovation and Investment stream – Significant Investor stream (subclass 188)	
• Base application charge: $7 010; additional applicant charge 18 years and over: $3 505; additional applicant charge under 18 years of age: $1 755 • For applicants who have turned 18 at the time of application and who are assessed as not having functional English the second instalment for main applicants: $9 795; and secondary applicants $4 890.	• Minimum complying investment required — $5 million • AFP check: around $40 • IELTS test: around $330

[a] The first instalment is payable at the time the visa application is made; the second instalment is payable before the grant of the visa. [b] Migration agent fees are the range of fees charged by registered migration agents for the period 1 July 2014 to 31 December 2014.

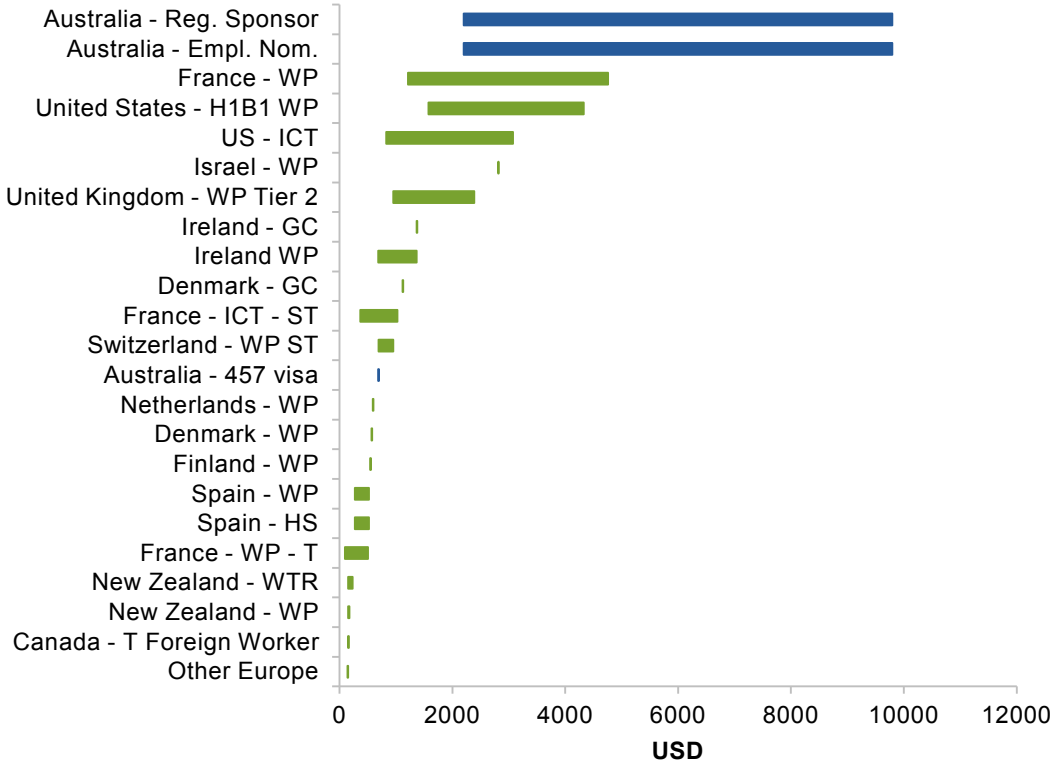
Sources: AFP (2015); Bupa Medical Visa Services (2015); DIBP (2015z); OMARA (2015a).

Australian visa charges are comparatively high

Charges for Australian visas appear to be higher than in Australia's major competitor countries (figure 13.1). Comparatively higher charges can be important because Australia competes for skilled migrants. For some migrants, price may be a small factor in their migration decision (such as in the case of employer-driven immigration). However, for other migrants, high charges may mean they instead opt to settle in one of Australia's competitor countries.

Figure 13.1 **Government applied fees for obtaining work visas and permits, 2014[a]**

Range of fees in USD



[a] **WP** Work Permit; **ICT** Intra Company Transfer; **GC** Green Card; **ST** Short Term; **T** Temporary; **HS** High Skilled; **WTR** Work to Residence.

Source: OECD (2014).

The current approach to charging is complex and lacks transparency

A range of methodologies appear to be drawn upon to explain visa charges (box 13.1). The Migration Institute of Australia (sub. 53, p. 23) commented:

> The basis of the current charging regime is not transparent and considerable differences exist between the cost of the various visa classes, for example permanent skilled migration and partner visas.

As the Business Council of Australia (sub. 59, p. 30) noted in its submission, 'Australia's approach to visa fee-setting appears to differ according to the visa'. Further, another participant suggested:

> The rationale behind differential charges appears to be related to the likely contributions of individuals to the Australian economy following admission, including the likely future reliance of these individuals on government services. (Boucher, sub. 22, p. 3)

Box 13.1 The basis for charging appears inconsistent

The Australian immigration system appears to adopt a variety of approaches to setting visa charges.

- The reasoning provided for recent increases in visa charges has varied, depending on the subclass. Explanations for the adjustments include inflation, whether the subclass had faced a recent fee increase, demand and (in the case of the significant investor visa) the proportion of the charge relative to the total costs incurred by the applicant (DIBP 2015c).
- At an aggregate level, revenue collected from visa charges is three times the administrative cost, and over recent years, visa fees have been rising at considerably faster rates than administrative costs, suggesting charges are not based on processing costs.
- In the case of the Contributory Parent Visa there is an explicit effort to recognise the fiscal cost to Government of these visa holders (AGA 2002).
- There is some limited recognition of the costs associated with different skills levels. For example, under the Employer Nomination Scheme, main and secondary applicants that do not have 'functional English' are required to pay additional charges (DIBP 2015ap).

Cost recovery has a number of dimensions in respect to visas. At its simplest, it can refer to the cost of processing a visa (table 13.2). Cost recovery can also incorporate a broader definition of costs. In addition to recovering the administrative costs, the charge could include costs associated with settlement, compliance, and other costs to the government of immigrants (such as additional services that might be provided). One submission to the inquiry acknowledged this broader interpretation of 'cost recovery' and that it could relate to the 'ongoing costs of immigration to the social security, health and education systems of Australian Government following admission' (Boucher, sub. 22, p. 4).

Table 13.2 **Cost per applicant of processing**
2014-15

Stream	*Applications*[a]	*Departmental expense*[b]	*Cost per applicant*
	number	$ million	$
Skill stream	148 915	121.9	818.4
Family stream	93 395	115.4	1 235.9

[a] Based on the date an application is received by the Department of Immigration and Border Protection. [b] Expenses data do not include costs associated with litigation.

Sources: DIBP (2014i); DIBP unpublished data.

The Contributory Parent Visa charge is the only charge that is intended to recognise the fiscal cost of immigrants to the Government. However, the charge actually only covers a small portion (around 11–13 per cent) of the expected costs to the Australian Government from providing services such as health, aged care and the aged pension — thought in 2008 to be between $232 000 and $284 000 per entrant (chapter 7) (AGA 2008). The lower charge was partly to reflect the view that the presence of parents also has economic and social benefits:

> Families with young children can benefit from the presence of grandparents. Australia's cultural life is enriched by the migration of parents and grandparents. Research shows that parents bring economic assets with them. They also contribute to the economy through the consumption of goods and services and the payment of various taxes. In recognition of the benefits, the government is seeking a fairer contribution rather than a full recovery of the estimated costs of parent migrants. (Ruddock 2002, p. 2)

DRAFT FINDING 13.1

The Contributory Parent Visa charge recognises the high expected fiscal costs of parents. However, at its current level, it is only a small portion of these expected costs.

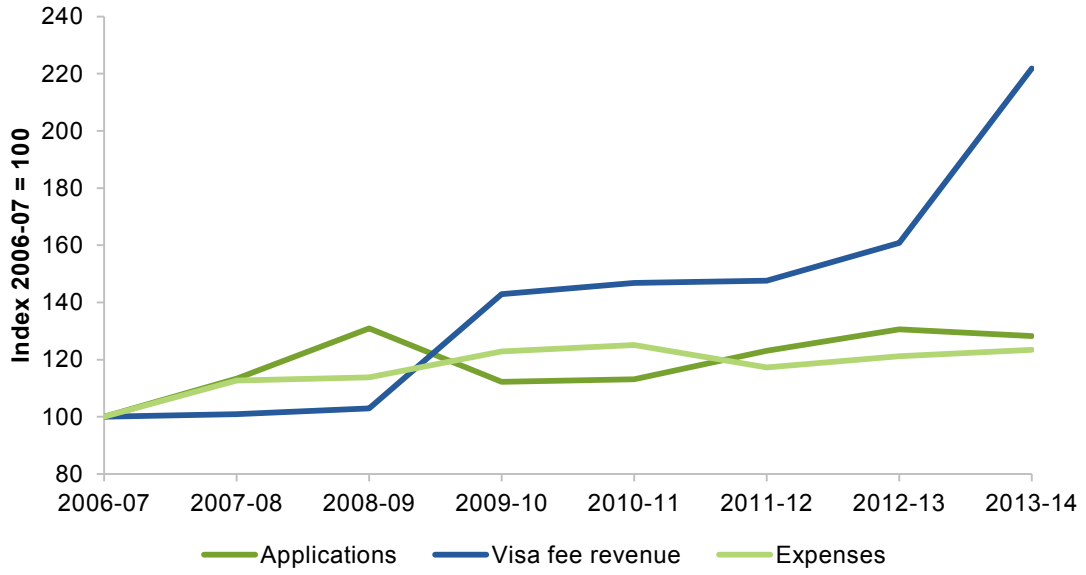
Cost recovery has a number of benefits. It provides a basic test, such that the recipient values the benefits from a service (in this case, residency in Australia) more than the cost of provision. It can also promote equity by ensuring that the recipient of a service bears its cost (rather than the general public).

However, there may be circumstances when it would not be optimal to recover costs from immigrants, for example, where cost recovery changes behaviour such that it has detrimental economic or social impacts in the long term.

The high total revenue collected from visa charges compared to administration costs suggests visa charges are significantly higher than the cost of processing, so it can be considered that some cost recovery for future fiscal imposts is included, even if this is not intended (figure 13.2). Data on visa revenue at the subclass level and detailed estimates of

the net fiscal cost at the same level are required to determine the extent to which this broader cost recovery approach is being applied.

Figure 13.2 **Index of visa fee revenue and administrative expenses per application[a, b]**



[a] Expenses data are estimated actual expenses. They include the cost of policy development. [b] Applications data include data for permanent visas and 457, student and Working Holiday Maker visas. 457 visa applications data for 2006-07 are estimated from the number of visas granted in 2006-07 and the proportion of applications that were granted in 2007-08 and 2008-09. Working Holiday Maker applications data for 2006-07 and 2007-08 are estimated from the number of visas granted in 2006-07 and 2007-08 and the proportion of applications that were granted in 2008-09 and 2009-10.

Sources: DIAC (2007a, 2007b, 2008a, 2008b, 2009a, 2009b, 2010e, 2010a, 2010b, 2011a, 2011c, 2011f, 2012a, 2012b, 2012c, 2013a, 2013b, 2013c, 2013d); DIBP (2014c, 2014i, 2014n, 2015bb); DIBP unpublished data; DIMA (2006a; 2006b); DIMIA (2004, 2005a; 2005b).

Concerns have also been raised about the lack of transparency arising from the complexity of the charging system for some visa classes. The Department of Immigration and Border Protection has an online visa price estimator, but it does not include second instalment charges (which can be significant). Visa charges are outlined in complex tables over 30 pages, often with multiple footnotes. In some cases, the details on charges to be paid are not readily apparent. For example, parent visa charges are outlined in a one page table, but have over four pages of accompanying notes. The notes include the details of the second instalment, which for Contributory Parent Visa applicants can be up to $43 600 (with significant scope for variation depending on the applicant). The table also does not include other costs, such as the required Assurance of Support. The complexity in understanding the charging schedule is likely to lead to some migrants using the services of migration agents, while some may fail to fully understand their financial obligations.

Despite the substantial collection of information on immigrants, there is no publicly available information on how recent changes in visa charges have influenced the demand for visas. Policy changes need to be based on a sufficient understanding of the way immigrants have responded to past price changes. The Australian Government should publish information on visa charges, the underlying methodology, and how the number of applications and characteristics of immigrants change in response to changes in charges.

DRAFT RECOMMENDATION 13.1

The Australian Government should articulate the objective of its visa charging system and publish information in the form of:

- a retrospective report covering the past 10 years of visa charges, the number of applications and the characteristics of immigrants by visa subclass
- biennial reports on changes in visa charges and the underlying visa charging methodology, changes in other visa terms and conditions, the number of applications and the characteristics of immigrants by visa subclass.

13.2 Hybrid options for visa charging

The terms of reference request that the Commission examine the scope to use alternative approaches for determining migrant intakes — including through payment — and the effects these would have. Chapter 12 discussed one option — a system under which price would be the primary basis for selecting immigrants (along with health and security checks). The Commission recommends that such a system should not be adopted. The system could attract immigrants who are willing and have the capacity to pay but who may not have the desirable attributes that underpin successful economic and social integration (chapter 12). Additionally, the fact that competitor countries to Australia do not have price-based systems would undermine the efficacy of such an approach. The net long-term benefit of such a compositional shift could be negative as the additional fee revenue could be more than offset by a reduction in taxation revenue over immigrants' lives, alongside other possible economic and social costs arising from a compositional change (chapter 12, technical supplement B).

Participants' suggestions

A range of alternative options have been suggested by participants throughout this inquiry (box 13.2).

The Commission has not considered several of these suggestions in any great detail. For example, some participants to the inquiry have advocated a policy of open borders, in which there would be no charge on entry (regardless of skills or family connections) and no quota capping the number of immigrants who could migrate to Australia. This option

has been proposed on the basis that the movement of people is akin to the movement of capital and trade in goods and services. However, unlike free trade in goods and services, free movement of people would likely have a very different — in fact, negative — impact on the wellbeing of the Australian community. It would place significant pressure on wages and the labour market. Further, given the Australian Government provides a wide range of services to the community, an open borders approach would also be of considerable fiscal and social risk to the Government. Since the advent of comprehensive welfare and health systems, no developed country has adopted an open borders policy.

Box 13.2 Participants' suggestions for alternative options

An open borders approach

> Exactly the same argument that applies to international flows of goods and services, and capital, also applies to labour, to the international flow of people. … Many of the current debates about reform of immigration policy in Australia are essentially about changing the conditions of the current quota system — tweaking it here and there for political expediency. A better idea is to replace it altogether with a tariff system. This can be viewed as the first phase in a gradual sequence of reforms that will culminate in open markets for labour … (Potts, sub. 1, p. 2)

> A policy of open borders with modest, prudent constraints, is desirable and beneficial to both our nation and to the immigrants who come here. (Lamperd, sub. 28, p. 1)

> The policy implication is that, to avoid unintended consequences, free movement of labour is best established with small and wealthy countries, at least initially. … Given the potential risks (and rewards) of free movement arrangements, a sensible approach is to establish such programs on a pilot basis with a small number of the lowest-risk countries. (Dobes, sub. 19, pp. 5–6)

Maintaining elements of the current system

> There may be some merit … in considering the introduction of second VACs [visa application charges] to further visa classes to offset shorter term costs to the Australian economy and government costs. These second VACs could provide for shortfalls in points for points tested visas. (Migration Institute of Australia, sub. 53, p. 25)

> Create a new class of visa — Paid Permanent Visas (PPVs) alongside the current migration system. This would permit the extent and pace of transitioning the current system to one including prices to be carefully staged and controlled by the Australian Government. (name withheld, sub. 8, p. 18)

> Although DoB does not support the broad application of a significant entry charge to non-humanitarian visas, there may be scope to apply this concept to some visa subclasses. … . Consideration could also be given to offering prospective skilled migrants, who do not meet the mandated age and English language criteria for various visa subclasses, the option of paying a significant entry charge provided they committed to live and work in northern Australia for a specified period. (Northern Territory Department of Business, sub. 60, pp. 16–17)

> The government must always retain control over the number and composition of immigrants who are allowed to come. These two criteria must be set first, then the charging regime overlayed. … Visas granted under a charging regime which overlays a current visa category should have the same conditions as the current category. A new visa for sale category should be set at a high enough price that no other conditions are necessary. (Matta, sub. 17, p. 9)

> A range of combinations of extant selection mechanism — quotas, qualitative requirements, and financial imposts — could be devised. (Multicultural Development Association, sub. 51, p. 4)

The focus of this chapter is on options for allocating permanent visas that could reduce the risks associated with the pure price-based approach, and that could also provide a more consistent approach to charging. In particular, the options discussed maintain:

- the current level of skilled and family visa grants (around 190 000 per year)
- the current balance between the skill and family streams and the qualitative criteria attached to these streams[61]
- the health, character and security checks applicable in the current system
- the current exemption from a visa charge for humanitarian immigrants.

The Commission has looked at five options, which range from smaller 'tweaks' to system-wide changes (box 13.3).

Box 13.3 Some visa charging options

Option 1: A market-based price for each visa subclass — the existing qualitative criteria for each subclass would be retained. However, charges would be set on a basis consistent with demand and supply conditions for each visa category (and could be set through an auction, tender or administrative approach) — effectively multipart pricing.

Option 2: A fiscally-reflective charge by visa category — the existing qualitative criteria for each subclass would be retained. However, charges would be set according to the expected net lifetime fiscal costs (or a proportion thereof) for each visa category.

Option 3: A charge in exchange for relaxed criteria — a charge could allow prospective immigrants who are currently ineligible under the skill stream to, for example, purchase points or be exempt from the age criterion under this stream.

Option 4: A uniform levy paid by all skilled and family immigrants — all immigrants would pay a flat levy in addition to a base fee for infrastructure, settlement services and other initial costs.

Option 5: A paid permanent visa — a new visa class with a small quota (potentially as a replacement for the Significant and Premium Investor Visas) would be established. Only health, character and security checks would apply, with a relatively high charge as the main rationing mechanism.

Taking the existing qualitative eligibility conditions as the framework for adjustments diminishes some of the risks associated with a uniform charge. In particular, the eligibility conditions mean that all immigrants (or at least, the vast majority in the case of a new visa subclass) would have either skills or close family connections in Australia.

61 The Department of Immigration and Border Protection is currently reviewing the Skilled Migration Program (DIBP 2014j).

Option 1: A market-based price for each visa subclass

Under a market-based price approach, the visa charge for each subclass would be determined by the demand for, and supply of, visas in that subclass. The qualitative criteria for each subclass would be maintained, and charges for each subclass could be set by auction, tender or through administrative processes.

Many of the factors discussed in chapter 12 that influenced the charge under the price-based system are also relevant for this option. The difference, however, is that there is scope for variation between visa subclasses in the level of the charge, and the balance between the family and skill streams would be maintained. In effect, this option allows for price discrimination (specifically third-degree price discrimination, which means that migrants are grouped into categories depending on their set of characteristics and charged different prices accordingly). It could therefore raise more visa charge revenue than a single price as it sets a price more closely aligned to individual preferences (to the extent that preferences are captured by the relevant visa subclass). The greater the number of visa subclasses based on the characteristics of the migrant, the greater the scope to raise revenue. However, this also makes the system more complex and potentially more difficult to navigate.

Option 2: A fiscally-reflective charge by visa subclass

A net fiscal costs approach to setting charges would mean that visa applicants pay a charge that takes into account both the costs the Government might be expected to incur and the potential contribution of the immigrant towards revenue. Chapter 7 has discussed the fiscal costs and benefits of immigration. There is already a precedent for this approach in the Contributory Parent Visa, although this charge reflects only 11–13 per cent of the total fiscal cost.

Should this approach be adopted, there may be some circumstances in which it could be used in tandem with other measures to make visas more affordable for particular groups. For example, a small number of visas could be made available at a lower charge which could be allocated by queuing (as is already the case with several family visas) or a lottery system. Several countries, including New Zealand and the United States, use lotteries as part of their visa systems, although for different reasons (box 13.4). Another option to improve affordability would be for the Government to offer flat repayment rate or income contingent loans (chapter 12).

Box 13.4 Lottery systems in other immigration systems

- The Samoan Quota Scheme in place in New Zealand allows up to 1100 citizens of Samoa, selected by ballot, to be granted a resident visa for New Zealand each year. Immigration New Zealand conducts a random electronic draw.
- The Pacific Access Category — also in New Zealand — allows citizens from Fiji, Kiribati, Tuvalu and Tonga to enter into a ballot similar to the Samoan Quota Scheme.
- The United States Diversity Lottery provides for a class of immigrants from countries with historically low rates of immigration to the United States. A limited number of visas are available each fiscal year and the visas are distributed among six geographic regions.

Sources: Appendix B; Immigration New Zealand (2015h, 2015k); US Department of State (2015).

Option 3: An additional charge in exchange for relaxing specific selection criteria

Under this option, applicants who are currently excluded from migrating to Australia because they do not meet the skill stream entry criteria would be able to pay a charge in exchange for relaxed eligibility conditions. As such, this is an option that would only relate to the skill stream.

There could potentially be several different approaches to this option, given the current process of submitting applications through SkillSelect and the range of qualitative criteria that applicants must meet. Two suggestions that have been put to the Commission are a charge to make up for a shortfall in points, and/or a charge in exchange for lifting the current age restriction (50 years of age for skilled migrants). The Migration Institute of Australia (sub. 53, p. 25) commented:

> There may be some merit … in considering the introduction of second VACs [visa application charges] to further visa classes to offset shorter term costs to the Australian economy and government costs. These second VACs could provide for shortfalls in points for points tested visas. Again there is a precedent in past Australian migration programs. … Prior to the current system, skilled migrant applicants could obtain 5 extra points by investing $100 000 for 12 months in an Australian account. A similar voluntary VAC choice requirement could be reintroduced to the current points test system, but in this case the revenue would be paid to the government, rather than being eventually refunded to the applicant.

Notably, there is already an additional charge for secondary applicants in some visa classes where their English is poor. Chapter 10 concluded that there is no case for reducing the skill level of the immigrant intake. Therefore, the fee paid in exchange for the relaxation of the selection criteria could be calculated such that it offsets any associated costs (that is, a net fiscal costs approach could inform the minimum charge).

Option 4: A uniform resource or infrastructure levy across visa classes

An administratively simpler option is to levy a uniform charge upon all immigrants entering through the skill and family streams in addition to a base fee that could reflect current charges or administration costs.

Different rationales could underpin the level at which the levy is set (indeed, other countries have introduced levies on a range of different grounds (box 13.5)). One option is for it to be calculated based on some portion of costs that might be expected to be incurred on behalf of immigrants, such as settlement services, social welfare costs and/or costs associated with infrastructure or the environment. Several participants have argued for a charge to cover the cost of infrastructure provision — with a $100 000 charge a frequent suggestion (box 13.6). If this is to be the basis for a charge, considerable work is required to calculate what the additional infrastructure costs are, a task made more complex by the opportunities a larger population can create for more efficient investment in infrastructure (chapter 6) and infrastructure being funded by different levels of government. As with the other charging options, the impact of this level of charge on the composition of the migrant intake and the fiscal implications would need to be carefully considered.

Box 13.5 Levies on migrants around the world

United Kingdom immigration health surcharge

The United Kingdom has introduced an immigration health surcharge of £200 per year for temporary immigrants and £150 per year for students. The immigration health surcharge is intended to ensure that temporary, non-European Economic Area migrants coming to the United Kingdom for longer than six months contribute to the cost of health services they may use whilst in the United Kingdom.

New Zealand migrant levy

The New Zealand Government charges a migrant levy in addition to the standard application fees (NZ$310 per successful applicant aged five years and over or NZ$155 for successful applicants aged less than five years or under the Pacific Access Category). The levy funds costs related to the Language Line telephone interpreting service, the Migrant Employment Assistance service, and the Citizens Advice Bureau Language Link service. The funds also include a contribution towards English for Speakers of Other Languages tuition for adults and children.

Singapore foreign worker levy

The foreign worker levy is a pricing mechanism to regulate the number of foreign workers in Singapore. The levy is a liability for employers and is paid monthly. The levy is dependent on:

- the worker's qualifications (skilled or unskilled), with a lower levy for skilled foreign workers and a nil levy for highly skilled foreign workers
- a dependency ceiling or quota (for manufacturing and services sectors) — the maximum ratio of foreign workers to the total workforce that a company in a given sector can employ.

Sources: Immigration New Zealand (2015m); Singapore Government (2015); UK Government (2015a, 2015b).

Box 13.6 Participants' views on the level of a flat charge

The direct impact on government fiscal balance is around a quarter of the total societal cost, and is well over $100 000 per added person. The indirect impact includes the diversion of household spending of consumption to mortgages (constraining economic activity generally), an increase in consumption of mostly-imported durables such as vehicles and furnishings (reducing balance of trade) and a reduction in saving capacity (ultimately increasing pension liability). (O'Sullivan, sub. 54, pp. 4–5)

… each new immigrant costs the Australian public well in excess of $100 000 per person in public infrastructure, environmental and dilution of public wealth. If the government's objective is to provide a net wealth benefit to its citizens through immigration, then this is the minimum that we should expect new migrants to return to Australian society. … It therefore makes sense to recover the upfront costs from new migrants upon entry … (Roles, sub. 41, p. 3)

The direct costs to the government bottom line include public infrastructure, which costs over $100 000 per extra person across all government-provided facilities. Migration-related costs, provision of multilingual services and welfare costs are additional to this burden. (McNicol, sub. 39, p. 1)

The fee will help fund the extra infrastructure (new suburbs, roads/telecoms to those suburbs, etc.) needed by that new resident. (Noack, sub. 6, p. 1)

To my knowledge, provision of infrastructure costs upwards of $200 000 per newcomer. In addition, this newcomer requires ongoing 'maintenance'. … There is currently a proposal under consideration to make a permanent resident visa subject to a payment of $50 000 … I fail to see how $50 000 can balance the books when the cost of a new arrival is upwards of $200 000 plus ongoing maintenance. (Alm, sub. 3, pp. 1–2)

Option 5: A new visa class with limited checks and a high charge

An option that could be introduced into the current system or in association with the other options discussed is a new visa subclass. This additional visa subclass could have a small quota, with only a minimum set of selection criteria — health, security and character checks. This could replace the Significant and Premium Investor visas that the Commission recommends be abolished (chapter 10). The revenue from a fee (say $1 million or more) would go into consolidated revenue and be redistributed to the community.

This idea has been suggested in several submissions (box 13.7).

Given the revenue raising objective of this subclass, the expected net fiscal cost of expected migrants could be regarded as a charge 'floor', with the charge set substantially above this level. One option would be to use a market-based mechanism, such as an auction or tender process, to set the level of the charge. This would reveal information about the demand for such a subclass and the charges that applicants are willing to pay, which could generate higher visa revenue for small changes in the number of visas provided. For example, at $2 million, there may only be 20 migrants willing to pay for a visa, while at $1.5 million, there may be 40 migrants willing to pay for a visa.

Box 13.7 Participants' suggestions for a new visa class

One submission to the inquiry (name withheld, sub. 8) has suggested a new class of visa — called the Paid Permanent visa (PPV) — which would sit alongside the current migration system. Initially, this would allow the current system to be transitioned to one that includes prices. On setting the charge for the PPV, the submission notes:

> The pricing of PPVs could reflect the following: (a) the cost of administration and enforcement, (b) the cost of providing catastrophic emergency healthcare, (c) and the cost of a return flight and transport to the country of origin, (d) fees that would be forwarded to the applicant's local council and state government to cover public services, (e) policy considerations such as limiting the absolute number of migrants and (f) any discount for skills, special considerations or knowledge of the English language. Using the fees newspapers have reported for phony migration services as an indication of what the market is prepared to pay suggests $30 000 is a good initial starting point for a PPV. (p. 16)

The submission suggests that a limited trial of a PPV alongside the current system would allow testing of the paid entry approach to migration. It would also enable collection of data and analysis of its impacts.

Petersen (sub. 2) suggested a new class of visa be introduced as part of a phasing towards a tariff-based system. It suggested that the 'paid migration visa' be available to an uncapped number of applicants that satisfy the health and security criteria. The submission suggests:

> This new paid migration visa should operate in parallel with existing visa arrangements for a period of at least twelve months before moving to the second phase. This would give time for migration agents and other parties to adjust to the new paradigm but it would also allow time to assess the impact and the take up of the option. At the end of this phase it may be deemed appropriate to adjust the price level. (p. 2)

Tradeoffs are inherent with each of these options

Maintaining the current balance between family and skilled immigrants means that each of these options is likely to result in more positive economic and social outcomes compared to the pure price-based system discussed in chapter 12. Retaining the current qualitative selection criteria to ration immigration in conjunction with charging could also face less public resistance compared to the largely price-based approach, though public support would partly be contingent on the narrative used to explain the policy.

However, social and economic tradeoffs within these options remain. Such tradeoffs stem from the incentives created by charging, the impact upon immigrant composition and resulting economic and social outcomes. Some of these tradeoffs are highlighted in table 13.3.

Each of these options has the potential to raise significant levels of visa charge revenue compared to the current system. Yet a substantial compositional shift towards lower skilled or older family immigrants may still result in poorer economic and social integration outcomes than under the current arrangements.

Table 13.3 **Possible outcomes under the five charging scenarios**

Option	*Possible charge impacts*	*Possible composition impacts*	*Fiscal impacts*	*Other impacts*
1. A market price by visa subclass. Charges could be determined through a tender, auction or administratively.	Based on current demand, charges are expected to be higher across the board. Highest charges expected for the small quota, and high demand, family subclasses, especially compared to skilled. Charge levels would vary over time.	Immigrants more likely to be older and have higher wealth. Some higher-skilled immigrants and large families likely to be deterred.	Significantly higher charge revenue than current system, but lower income tax revenue from migrant intake (magnitude unclear). Charge revenue may vary year on year because of changes in demand.	A systematic charging approach, but one that would introduce more administrative complexity. Potentially some uncertainty around charge revenue. Possibly some negative social integration implications and community perceptions, although to a lesser extent than the chapter 12 price-based system.
2. Net fiscal costs by subclass.	Very high charges for some family subclasses (parent visas potentially over $300 000), particularly with an older age profile.	Strong incentive for younger, skilled immigrants relative to higher-cost family immigrants. Large families would be deterred.	Likely to be significantly higher visa charge revenue.	Likely negative social implications and community perceptions from high family visa costs. It is a systematic charging approach, but does not account for intangible benefits/costs. Administratively, a precedent already (partly) in place with Contributory Parent Visa.
3. A charge in exchange for a relaxation of the skilled qualitative selection criteria (such as age or points).	An additional charge for lower-skilled and/or older entrants. Charge could be set to offset any fiscal costs of lower-skilled immigrants.	Increase in lower-skilled and/or older immigrants in place of higher-skilled and/or younger immigrants. No change to family stream.	Higher revenue than current system, provided the charge offset the costs associated with lower-skilled/older entrants.	An added complexity to the current system. Social integration problems with lower-skilled immigrants, particularly if English skills are compromised.
4. A resource or infrastructure levy, administratively determined (for example, $10 000–$25 000) plus a baseline charge (current charges or processing costs).	Charge for skill subclasses likely to be higher than current charges. Some family subclasses would be more expensive, but parent visas could be lower, depending on the level.	Some skilled immigrants and secondary applicants likely deterred by higher cost. May attract more applicants already charged high fees.	Charge revenue would increase on the current level, but it is unclear if it would offset potential loss in income tax revenue.	Simple to administer, but hard to estimate a charge that reflects costs. Complexity regarding who receives the revenue and appropriate revenue shares.
5. Additional visa class with basic requirements and a revenue-maximising charge.	Charge could be expected to be very high — potentially into the millions of dollars. Would likely change over time depending on demand.	Immigrants would be either currently ineligible (older, lower skilled, no family) or at the back of a queue. Small quota means relatively small composition risk	Revenue would be significantly higher than current because of magnitude of the charge. Fiscal costs associated with the small number of entrants would likely be offset.	Is a complement to other options and not by itself a more systematic approach to charging. Could replace the ineffective investor visas. A market process may have some administrative complexity. Possibly unpalatable to some community members.

The options that are more tightly targeted and where the market sets the price — such as option 1 — are likely to be more administratively complex. Similarly, the options which provide a more systematic approach to charging may also result in greater complexity, at least initially. However, this would be offset by increased transparency around the way charges are set, and a sound basis on which to make future policy adjustments.

To the Commission's knowledge, most of these options have not been adopted elsewhere in the world in their entirety, and there is scant evidence on the likely behavioural responses of migrants. The Commission is seeking further information and views from participants on the relative merits of these options. In particular, the Commission is interested in information on how prospective migrants might respond to these options, and the possible implications for the wellbeing of the Australian community.

INFORMATION REQUEST 13.1

The Commission seeks participants' views on the potential impacts of the following alternative visa charging models in conjunction with retaining the qualitative criteria under the current system:

- *Option 1: A market-based price for each visa subclass*
- *Option 2: A fiscally-reflective charge by visa subclass*
- *Option 3: An additional charge in exchange for relaxing specific selection criteria*
- *Option 4: A uniform levy across visa classes*
- *Option 5: A new visa subclass with a limited number of places and a very high charge, with only health, character and security checks.*

A Inquiry conduct and participants

This appendix lists the organisations and individuals that have participated in the inquiry to date. Following receipt of the terms of reference for this inquiry on 20 March 2015, the Commission distributed an initial circular advertising the inquiry to industry organisations and individuals and advertised the inquiry in national newspapers.

The Commission released an Issues Paper on 1 May 2015 to assist interested stakeholders in preparing their submissions. There were 67 public submissions received by the Commission prior to the release of this draft and they are listed in table A.1. In addition, the Commission received several public comments.

The Commission met with a number of government agencies, business groups, community organisations and academics in Australia. A list of these meetings is in table A.2. It also held meetings with a range of individuals and organisations in Canada, New Zealand and the United States (table A.3).

The Commission held a preliminary technical workshop on Computable General Equilibrium modelling of the economywide impacts of migration with representatives from governments and academia. Participating organisations to this workshop are listed in table A.4.

In conjunction with the ANU Centre for European Studies, the Commission also ran a symposium on *Understanding the impact of migration: measures and categories in Europe and Australia*,. Participants in that symposium are listed in table A.5.

Participants are invited to send any additional submissions in response to this draft to the Commission by 18 December 2015. The Commission will provide its final report to the Australian Government by mid-March 2016.

The Commission would like to thank all who have contributed to the inquiry so far.

Table A.1 **Public submissions received**

Participants	*Submission no.*
ACTU	36
Alkhateeb, Abdallah	10
Alm, Margit	3
AMES Australia	45
Australian Migration Options Pty Ltd	34
Australian Multicultural Council	11
Australian Property Institute	12
Australian Red Cross	23
Boucher, Anna	22
Business Council of Australia	59
Business SA	61
Claus, Eric	15
Consult Australia	65
Cook, Peter	26
Cooper, Glenda	25
Daly, Glen	5
Department of Social Services	62
Dobes, Alex	19
Dobes, Leo	13
Engineers Australia	47
Faulkner, David	14
Federation of Ethnic Communities' Councils of Australia	24
Financial Demographics	29
Finch, Alexander	4
Grace, Robert	21
Green, Peter	38
Gregory, Peter	40
Hawthorne, Lesleyanne	43
Hobsons Bay City Council	35
Holman, Geoffrey	58
Howe, Joanna	32
Howell, Philip	63
Howie, Mark	7
Human Rights Commission	64
Innovative Research Universities	66
ISLPR Language Services	16
Lamperd, Geoffrey	28
Liberal Democratic Party	46
Lillingston, Philip	9
Master Builders Australia	49
Matta, Tony	17
Matthews, C	27

(continued next page)

Table A.1 (continued)

Participants	*Submission no.*
McNicol, Jan	39
Migration Council Australia	50
Migration Institute of Australia	53
Minerals Council of Australia	52
Multicultural Development Association	51
Name withheld	8
National Ethnic Disability Alliance	18
National Farmers' Federation	31
Noack, Michael	6
Northern Territory Department of Business	60
O'Sullivan, Jane	54
Odgaard, Judith	56
Oz Kiwi Association Inc.	33
Petersen, Terje	2
Potts, Jason	1
Reduce Immigration	48
Refugee Council of Australia	20
Reid, Joan	67
Roles, John	41
Rural Health Workforce Australia	30
Settlement Council of Australia	55
South Australian Government	57
Sustainable Population Australia Inc.	44
Sustainable Population Party	37
The Regional Australia Institute	42

Table A.2 **Consultations**

Individual or organisation
ACTU
AMES Australia
Attorney-General's Department
Australian Bureau of Statistics
Australian Government Actuary
Australian Human Rights Commission
Australian Institute of Family Studies
Australian Security Intelligence Organisation
Australian Transaction Reports and Analysis Centre
Birrell, Bob
Castles, Stephen
Chapman, Bruce
Business Council of Australia
Business SA
Centre for Independent Studies
Chamber of Commerce and Industry (WA)
Collins, Jock
Committee for Economic Development of Australia
Commonwealth Grants Commission
Consult Australia
Cully, Mark
Deloitte Access Economics
Department of Employment
Department of Environment
Department of Finance
Department of Foreign Affairs and Trade
Department Human Services
Department of Immigration and Border Protection
Department of Infrastructure
Department of Premier and Cabinet (NSW)
Department of Premier and Cabinet (SA)
Department of Premier and Cabinet (VIC)
Department of Social Services
Department of State Development, Business and Innovation (Vic)
Department of the Prime Minister and Cabinet
Department of Training and Workforce Development (WA)
Embassy of the United States of America in Australia
European Union Delegation to Australia and New Zealand
Federation of Ethnic Communities' Councils of Australia
Grattan Institute
Gregory, Bob

(continued next page)

Table A.2 (continued)

Individual or organisation
Harrison, Mark
Hawthorne, Lesleyanne
High Commission of Canada in Australia
High Commission of India in Australia
High Commission of New Zealand in Australia
Hughes, Peter
International Organisation for Migration
Markus, Andrew
McDonald, Peter
Melbourne Institute
Migrant Resource Centre SA
Migration Institute of Australia
Minerals Council Australia
National Farmers' Federation
Nieuwenhusen, John
NSW Trade and Investment
NSW Treasury
Parham, Dean
Refugee Council of Australia
Regional Australia Institute
Robertson, Shanthi
Senator Leyonhjelm
Settlement Council of Australia
Sheridan, Greg
Sinning, Mathias
Sobels, Jonathan
The Centre for International Economics
The Honorable Peter Dutton MP
The Honourable Philip Ruddock MP
The Lowy Institute
The Treasury
Withers, Glenn

Table A.3 **International visits**

Individual or organisation
Canada
Akbari, Ather — Saint Mary's University
Canadian Chamber of Commerce
Citizenship and Immigration Canada
Coulombe, Serge — University of Ottawa
Davis, Mitch — Industry Canada
Duncan, Howard — Carleton University
Employment and Social Development Canada
Grenier, Gilles — University of Ottawa
Hodgson, Glen — Conference Board of Canada
Hopkins, Mark — Privy Council Office
Lavoie, Claude — Finance Canada
Negus, Tony — Australian High Commissioner to Canada
St-Amant, Pierre — Bank of Canada
Statistics Canada
Stewart, Iain — Treasury Board Secretariat
Worswick, Chris — Carleton University
New Zealand
Ministry of Business, Innovation and Employment
MOTU Economic and Public Policy Research
New Zealand Institute of Economic Research
New Zealand Productivity Commission
New Zealand Treasury
Poot, Jacques — University of Waikato
Potts, Michael — Australian High Commissioner to New Zealand
Reddell, Michael
United States
CATO Institute
Council on Foreign Relations
Hattam, Victoria — Zolberg Institute
Migration Policy Institute
United Nations, Population Division
US Citizenship and Immigration Service
US Department of Homeland Security
US Department of State
World Bank

Table A.4 **Technical workshop – modelling the economywide impacts of migration, Canberra, 19 August 2015**

Participating organisations
Australian Bureau of Statistics
Centre for European Studies, Australian National University
Centre of Policy Studies
Crawford School, Australian National University
Department of Employment
Department of Immigration and Border Protection
Melbourne University
NSW Government
Parliamentary Budget Office
The Treasury

Table A.5 **Symposium on understanding the impact of migration**

Participants
Breunig, Bob (Australian National University)
Brown, Laurence (Australian National University / University of Manchester)
Hall, Peter (University of NSW)
Hughes, Peter (Australian National University)
Lo, Jacqueline (Australian National University)
Markowski, Stefan (Australian National University / University of NSW)
Raymer, James (Australian National University)
Vasallo, Francesa (University of Southern Maine)
Withers, Glenn (Australian National University)

It is with sadness that the Commission records that in the last session of the symposium Emeritus Professor Peter Hall suffered a heart attack from which he later passed away. Professor Hall was a distinguished academic who rose to Head of the School of Business at the University of New South Wales (Canberra Campus) before becoming an Emeritus Professor. Peter supported the work of the Commission in the role of associate Commissioner to the 1995 inquiry into Research and Development and has maintained contact with Commission colleagues since. His counsel and advice has been invaluable and much appreciated. Peter suffered his heart attack while presenting his reflections on the links between migration and innovation.

B Immigration systems in selected settlement countries

This appendix presents information on the immigration systems in three countries — Canada (section B.2), New Zealand (section B.3) and the United States (section B.4). The appendix also includes a brief summary of important similarities and differences between these countries and Australia (section B.1). These countries (along with Australia) are known as the 'settlement countries' as they have traditionally accepted relatively large numbers of permanent immigrants.

B.1 Comparing immigration policies in settlement countries

The approaches used by Canada, New Zealand and the United States to manage their migration intake have many similarities with each other, and with Australia. For example, all countries accept permanent and temporary immigrants. And they all cap permanent immigration while leaving temporary immigration (generally) uncapped. However, there are also important differences. For example, Canada, New Zealand and Australia prioritise skilled immigrants in their permanent intakes while the United States prioritises family immigrants. This section highlights some of the significant similarities and differences between the countries. More detail on each country's immigration system is presented in the following sections.

The settlement countries set target levels for permanent immigration

Australia, Canada, New Zealand and the United States all set target levels for their permanent immigration intakes. In Australia, Canada and New Zealand, the government sets the target after a consultation process. Australia and Canada set their targets annually and New Zealand sets it for a two- to three-year period.

In the United States, the annual limit is legislated in the *Immigration and Nationality Act 1952*. However, there are exceptions for immediate relatives (spouses, unmarried minor children and parents of US citizens) and, as a result, the permanent intake often exceeds the limit. The United States' refugee intake is set annually by the President, in consultation with Congress.

The United States prioritises family immigration while the other countries focus on skills

Each country has similar streams within its permanent intake — skilled, family and humanitarian — and limits are set for each (table B.1). However, the balance between streams varies. In Australia, Canada and New Zealand, skilled immigration makes up the majority of the permanent intake, and has increased over time in each country as governments have prioritised immigration of skilled people. The United States, by contrast, priorities family immigration, and skilled immigration makes up only a small proportion of its intake.

Table B.1 **Permanent immigration and stream caps as the proportion of the total intake[a]**

	Skilled (%)	*Family (%)*	*Humanitarian (%)*	*Total*
Australia (2015-16)	128 550 (59.6)	60 885 (28.2)	25 750 (11.9)	215 750[b]
Canada (2015)	172 100–186 700 (65.8)	63 000–68 000 (24.0)	24 900–30 200 (10.1)	260 000–285 000[c]
New Zealand (2014-15 to 2015-16)[d]	53 800–59 950 (59.9)	29 700–32 400 (32.7)	6 500–7 650[e] (7.4)	90 000–100 000
United States (2015)	140 000 (18.8)	480 000 (64.4)	70 000 (9.4)	745 000[f]

[a] Percentages do not add to 100 due to rounding. [b] Includes 565 places for special eligibility immigrants. [c] Upper limit includes 100 Permit Holders. [d] Limit is for a two year period. [e] Includes immigrants under the Samoan Quota Scheme and Pacific Access Category. [f] Includes 50 000 diversity immigrants and 5000 places under the *Nicaraguan Adjustment and Central American Relief Act*, which make up 7.4 per cent of the intake.

Sources: AIC (2014); chapter 2; CIC (2015t); INZ (2015g); The White House (2014).

Unlike Australia, Canada and New Zealand, the United States has an explicit objective of promoting diversity in its migration intake. The United States limits immigration from any one country to 7 per cent of the intake in any given year. It also promotes diversity through the Diversity Visa Program, under which 50 000 permanent visas are randomly allocated each year to applicants from countries with low rates of migration to the United States (AIC 2014).

Immigration of investors and entrepreneurs is also encouraged

Along with attracting skilled workers, each country has visa categories in its skilled intake designed to attract entrepreneurs and high net worth individuals. Canada recently overhauled its investor visa categories, and now grants venture capital investors and self-employed people residence through the Immigrant Investor Venture Capital Pilot Program, and the Self-employed and Start-up visas. New Zealand has an Entrepreneur category for temporary immigrants who have successfully run a business in New Zealand

and a Migrant Investment category, similar to Australia's Investor, Significant Investor and Premium Investor visas. The United States accepts permanent and immigrants who plan to invest in a US business via its EB-5 Immigrant Investor Program.

The countries all have significant immigration of temporary workers and international students

The settlement countries all accept temporary immigrants, and the level of temporary immigration has increased over time. Temporary immigration is (mostly) uncapped in all four countries, but is still subject to other requirements (discussed below). Each country accepts international students and temporary skilled workers, which are generally two of the largest temporary immigration categories. In addition, Australia, Canada and New Zealand have similar working holiday maker programs. New Zealand also has a program that is similar to Australia's Seasonal Worker Programme, the Recognised Seasonal Employer Scheme, which targets people from Pacific Island countries to work in agriculture.

A range of requirements are used to determine the intake

In each country, all immigrants (temporary and permanent) are subject to health, character and security-related requirements. In addition to caps on permanent immigration, the countries also have requirements relating to characteristics including age, education, work experience, employer sponsorship, family connection and language. These requirements vary by visa category and are generally more substantial for the permanent category and some temporary worker visa categories. Family, humanitarian and many temporary immigrants have fewer requirements to meet. Some of the main requirements are discussed below.

Australia, Canada and New Zealand use points systems

Australia, Canada and New Zealand use points-based systems to determine a significant proportion of their permanent skilled immigrant intakes. Prospective immigrants are required to fill out expressions of interest, and points are awarded for a number of characteristics that can include age, educational attainment, work experience, native language proficiency and having a job offer. Generally, applicants are then placed in a pool and ranked, with the top applicants invited to apply for a permanent visa. The United States does not use a points system to select skilled immigrants.

All countries use employer sponsorship

Australia, Canada, New Zealand and the United States all use employer sponsorship as a mechanism for determining part of their skilled intake. Canada revamped its points system in January 2015 so that half of the total possible points an applicant can earn are awarded

for having a job offer from a Canadian employer. In the United States, in 2013, the permanent employer-sponsored EB-2 and EB-3 visas were the two largest categories of the employment-based (skilled) intake. And in New Zealand, bonus points are awarded on the points test for having a job offer from a New Zealand employer.

Countries use labour market testing to ensure local workers are not displaced

Each country has rules to reduce the likelihood that employer-sponsored immigrants fill a position that could be taken by a local worker, similar to the labour market testing arrangements for some Temporary Work (Skilled) visa (subclass 457) holders in Australia. In Canada, employers sponsoring some types of permanent and temporary immigrants require a Labour Market Impact Assessment, which shows that there are no suitable local workers. In New Zealand, employers of temporary skilled workers under the Essential Skills policy must prove that there are no suitable local workers available and Immigration New Zealand usually conducts a labour market test to confirm this. In the United States, sponsors of some temporary and permanent visa holders must obtain a labour certification, which verifies there are insufficient workers to fill the position at the prevailing wage and that hiring a foreign worker will not affect the wages and working conditions of similarly employed US workers.

B.2 Canada

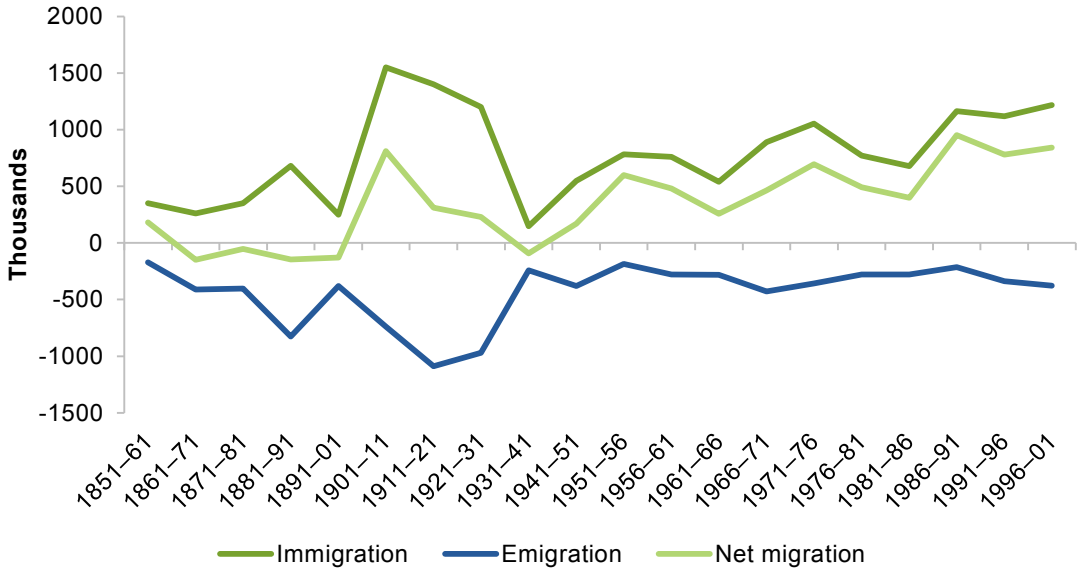
Brief history of immigration to Canada

Until the 19th century, immigration to Canada was relatively low. Immigration increased substantially from the mid-19th century due to both conditions in source countries such as Britain and demand for workers in emerging industries in Canada (CMH nd).

Immigration to Canada was mostly unrestricted until the late 19th century. In 1885, a Chinese Head Tax was introduced in British Columbia to restrict Chinese immigration. In 1906, the federal government increased its oversight and management of immigration, including by establishing a C$25 landing fee for any tickets purchased and/or funds brought into the country. The government also introduced a C$500 Head Tax on all Asian Immigrants (McIntyre 2001). In 1907, Japan agreed to voluntarily limit emigration to Canada (CCR 2000).

Around the same time that restrictions on immigrants from Asian countries were being introduced, Canada had initiatives in place to encourage immigration in order to increase the population, particularly in the western prairie provinces. Between 1896 and 1915, about 3 million immigrants from the United States, Britain and other European countries arrived, with half moving to the prairies (figure B.1). There was also significant emigration at this time (CMH nd).

Figure B.1 **Immigration, emigration and net migration to Canada, 1851–61 to 1996–01**



Source: Statistics Canada (2005).

Canada began reducing immigration restrictions based on racial and ethnic discrimination in 1947, when the Head Tax on Asian Immigrants was removed. However, preference was still given to British subjects (CMH nd). In 1962, Canada began accepting unsponsored immigrants if they had the required education and a job waiting for them in Canada, regardless of their race and country of origin (McIntyre 2001).

Canada also commenced accepting large groups of refugees from the 1940s. It accepted 100 000 displaced persons from Europe throughout the 1940s and 1950s, and about 38 000 refugees after the failed Hungarian uprising in 1956. Over the next 50 years, Canada undertook large-scale resettlement of Czechoslovakian, Ugandan Asian, Chilean, Vietnamese, Cambodian, Laotian and Kosovar refugees (CIC 2014b; CMH nd).

In 1967, racially- and ethnically-discriminatory policies were removed entirely and the points system for skilled immigration was established. Immigrants were assessed on characteristics such as their qualifications and language abilities. Around this time, the composition of immigrants to Canada was changing, with Asian immigrants accounting for a larger proportion (McIntyre 2001).

The *Immigration Act 1976* introduced further reforms. The new immigration system aimed to promote Canada's demographic, economic, cultural and social goals. It encouraged family reunification and meeting refugee obligations. The system included four categories for immigration — family, humanitarian, independents and assisted relatives. It also required the federal government to consult with the provincial governments regarding planning and management of immigration (McIntyre 2001).

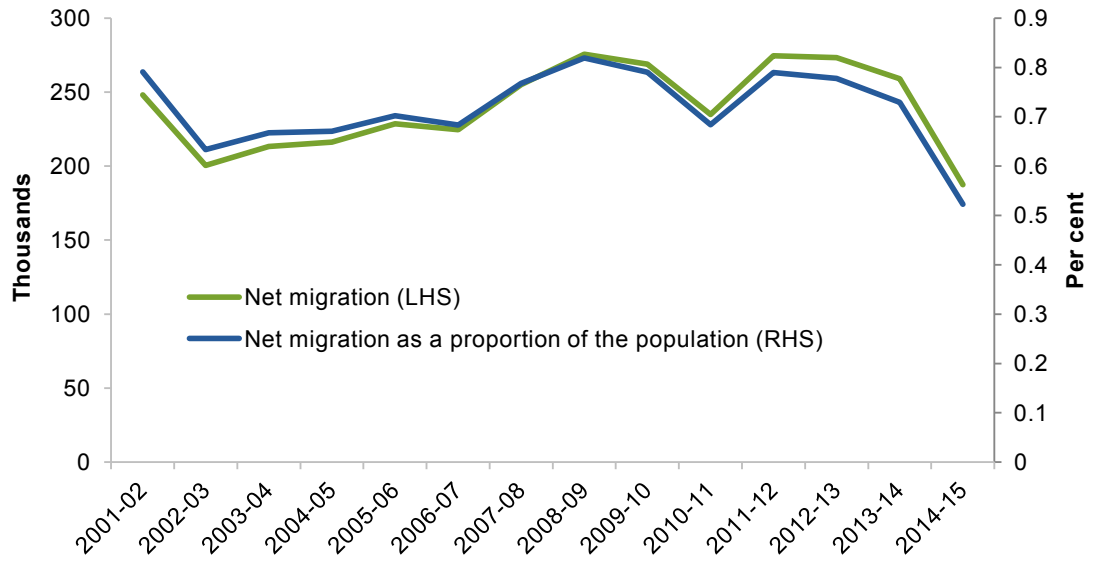
In 2002, the *Immigration and Refugee Protection Act 2001* was passed, which introduced the current immigration system. The Act changed requirements for skilled immigration, including increasing qualification requirements and changing employment requirements to give preference to higher-skilled workers. It also introduced tougher requirements for refugees and immigrants through entrepreneur visa classes (Troper 2013).

The current picture

As a result of sustained immigration over a long period of time, Canada has a relatively large population of immigrants. In 2013, about 21 per cent of Canada's population was born overseas, up from about 18 per cent in 2000. This is lower than the proportion of the Australian population born overseas, but still high by international standards (OECD and EU 2015; UNDESA 2013).

In 2014-15, Canada had net migration of about 187 000 people (figure B.2). Net migration makes a larger contribution to population growth than natural increase. Between 2001-02 and 2013-14, net migration accounted for about two-thirds of population growth, however, it declined to 60 per cent in 2014-15 (Statistics Canada 2008, 2013, 2014a, 2015a).

Figure B.2 **Net migration, 2001-02 to 2014-15**



Sources: Statistics Canada (2008, 2013, 2014a, 2015a).

Canada's immigration system and policies

Each year, the Canadian Government releases a plan for how it is going to manage its immigration system, including how many permanent residents it will admit. In developing this plan, Citizenship and Immigration Canada (the government department responsible for

immigration matters) considers a number of factors, including Canada's economic needs and family reunification and humanitarian goals, and consults with other government departments, public stakeholders and provinces (CIC 2015t).

The Canadian Government plans to admit between 260 000 and 285 000 permanent immigrants in 2015 (table B.2). (This is roughly 0.76 per cent of Canada's population at June 2015. In comparison, Australia's Migration and Humanitarian programs are equal to about 0.85 per cent of the population.) The Canadian Government also plans for the number of immigrants it will admit under the three main categories — Economic, Family and Humanitarian — and the sub-categories. The Economic class accounts for about two-thirds of the permanent intake.

In contrast with the permanent immigration program, temporary immigration is mostly uncapped. The majority of temporary immigrants are temporary foreign workers, international students and working holiday makers.

Table B.2 **Planned permanent immigration levels, 2015**

Category	*Level*
Economic	**172 100–186 700**
Federal Skilled Workers (including Federal Skilled Trades)	47 000–51 000
Canadian Experience Class	21 000–23 000
Caregivers	26 000–30 000
Federal Business	1 000–1 700
Quebec Business	5 000–5 500
Quebec Skilled Workers	26 000–27 000
Provincial Nominees Program	46 000–48 000
Ministerial Instruction Economic Programs	100–500
Family	**63 000–68 000**
Spouses, Partners and Children	45 000–48 000
Parents and Grandparents	18 000–20 000
Humanitarian	**24 900–30 200**
Protected Persons in Canada and Dependants Abroad	10 000–11 000
Government-Assisted Refugees	5 800–6 500
Blended Visa Office Referred Refugees	700–1 000
Privately Sponsored Refugees	4 500–6 500
Public Policy – Federal resettlement Assistance	400–500
Public Policy – Other	500–700
Humanitarian and Compassionate	3 000–4 000
Total	**260 000–285 000**

Source: CIC (2015t).

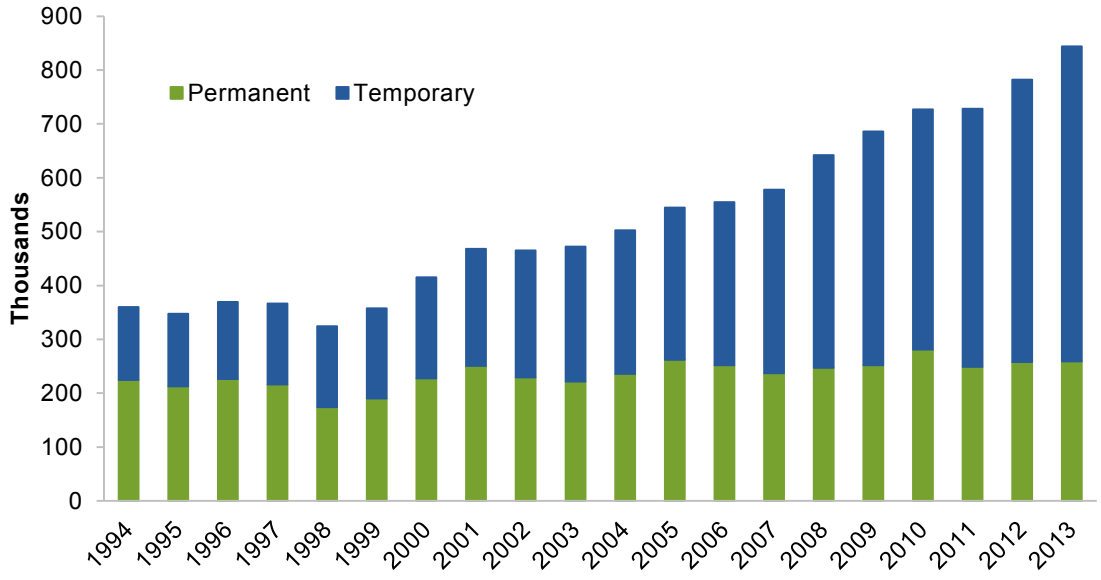
Permanent and temporary immigration have increased over recent decades. However, temporary immigration has increased at a much faster rate. Permanent immigration increased from about 224 000 in 1994 to about 259 000 in 2013 (figure B.3). In contrast,

temporary immigration increased more than fourfold, from about 136 000 in 1994 to about 585 000 in 2013.

Permanent and temporary visa categories are subject to qualitative requirements. There are security, health and financial requirements that all entrants to Canada must meet (box B.1). Each visa category has additional requirements, which vary depending on the objective of the program, but often include age, education, work experience and family connection. In addition, most immigrants are required to pay application fees and permanent residents are required to pay a once-off C$490 Right of Permanent Residence Fee (CIC 2015k) (table B.3).

People can immigrate independently to Canada, or can be sponsored by provincial governments or employers. To hire permanent workers and some temporary workers, employers usually need to have a Labour Market Impact Assessment, which shows that there is a need for a foreign worker as there is no suitable local worker available (CIC 2015q).

Figure B.3 **Permanent and temporary immigration, 1994–2013[a]**



a Temporary immigration includes immigrants under the Temporary Foreign Worker Program, the International Mobility Program and international students.

Sources: CIC (2014c, 2015j).

Box B.1 General requirements for entry into Canada

All permanent and temporary applicants must meet health, security and financial requirements to be allowed into Canada. If they do not meet these requirements, they are considered to be 'inadmissible' under Canada's immigration law. Applicants may be considered inadmissible if they:

- are considered a security risk
- have committed human or international rights violations
- have been convicted of a crime, or have committed a crime that would be punishable by a maximum prison term of at least 10 years in Canada
- have ties to organised crime
- have a serious health problem, which is likely to endanger public health or public safety, or cause excessive demands on health or social services (certain temporary residents, family immigrants, refugees and protected persons are exempt from some health requirements)
- are unable or unwilling to financially support themselves and their family members
- misrepresented themselves, including giving false or misleading information in their application or in an interview
- do not meet the conditions of Canada's immigration law
- have a family member that is not allowed into Canada.

Sources: CIC (2012, 2015a, 2015s).

Table B.3 Selected permanent and temporary visa fees, July 2015[a]

Visa category	*Principal applicant*	*Secondary applicants*[b]
Permanent		
Economic class	C$550 (AUD$581)	C$150–550 (AUD$158–581)
Family class[c]	C$75–475 (AUD$79–502)	C$150–550 (AUD$158–581)
Self-employed	C$1 050 (AUD$1 109)	C$150–550 (AUD$158–581)
Temporary		
Study permit	C$150 (AUD$158)	
International Experience Canada	C$150 (AUD$158)	
Citizenship[d]	C$100 (AUD$106)	

[a] Based on an exchange rate of C$1=A$1.056. Rate current at 20 October 2015. [b] Varies depending on relationship with the principal applicant. [c] Canadian citizens or permanent residents who are sponsoring their family members also have to pay a C$75 sponsorship fee. [d] A processing fee of up to C$530 also applies.

Source: CIC (2015k).

Permanent and temporary visas also confer different rights on the holder. Permanent immigrants have most of the rights that citizens have. They can:

- live, work and study anywhere in Canada

- receive most of the social benefits of citizens, including publicly-funded health care
- apply for Canadian citizenship (CIC 2014f).

However, permanent residents cannot vote, run for political office or hold some jobs that require high-level security clearance (CIC 2014f).

The rights and benefits of temporary immigrants depend on their visa. Temporary immigrants have fewer rights and less access to services than permanent immigrants. However, they can generally access some public programs and benefits including some social security payments and publicly-funded health care, once waiting periods have been served (Health Canada 2011; Service Canada 2011).

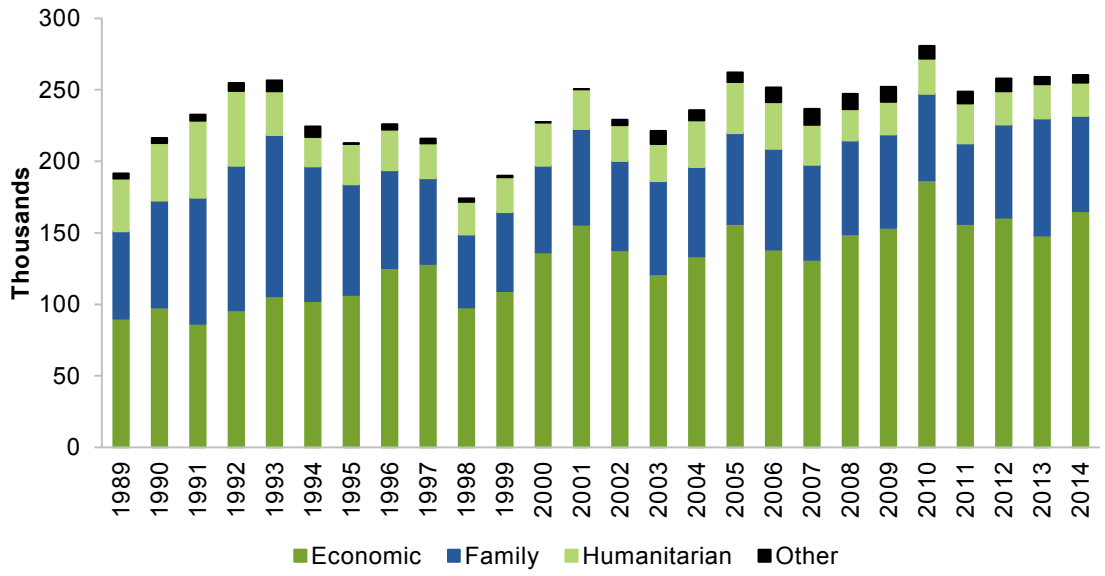
Permanent immigration

Economic class

The focus of Canada's permanent economic immigration program is on 'the selection and processing of immigrants who can support the development of a strong and prosperous Canada, in which the benefits of immigration are shared across all regions of Canada' (CIC 2015t, p. 21). Canada accepts economic immigrants under a range of categories, including the federal skilled programs, the Provincial Nominee Program, the Quebec Skilled Worker Program, the business programs and the Caregiver Program.

Economic class immigration has increased in recent decades and was the driver of the increase in permanent immigration. It increased from about 90 000 in 1989 to about 165 000 in 2014 (figure B.4).

Figure B.4 **Permanent immigration, 1989–2014**



Sources: CIC (2014b, 2015j).

Provincial immigration has been the main driver of the increased economic immigration in recent years, increasing from about 6000 immigrants in 2004 to about 48 000 in 2014 (figure B.5). Immigration through the Federal Skilled Worker Program declined over the same period from about 113 000 to about 67 000, but it is still the largest component of the Economic class.

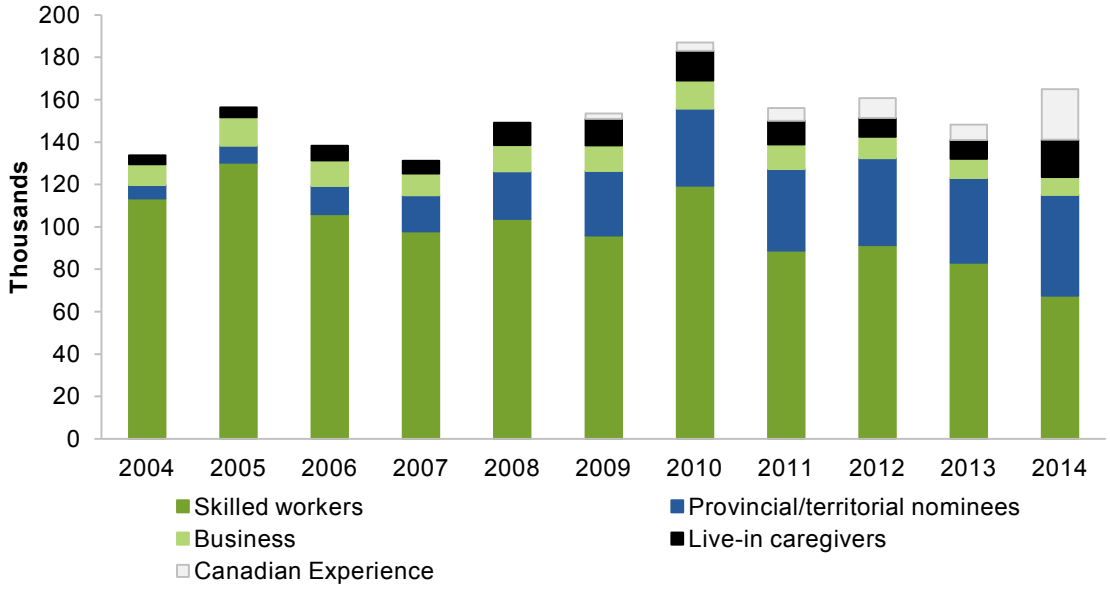
Federal Skilled Worker Program

The Federal Skilled Worker Program is the Canadian Government's main program for skilled permanent immigration. The goal of the program is to:

> … select highly skilled immigrants whose high human capital enables them to contribute to Canada's long-term national and structural labour market needs, in support of a strong and prosperous Canadian economy. (CIC 2015t, p. 22)

Applicants must meet requirements including skilled work experience, English-language, educational and financial requirements, and they must plan to live outside the province of Quebec (CIC 2015d).

Figure B.5 **Economic immigration, 2004–2014**



Sources: CIC (2014b, 2015j).

The skilled work experience must be at least one year continuous full-time (or an equivalent amount in part-time) paid work in the last ten years at skill level 0 (management occupations), A (professional jobs) or B (technical jobs and skilled trades) under the Canadian National Occupational Classification (CIC 2015d, 2015l).

Applicants who meet the minimum requirements are then assessed on a range of human capital indicators, such as their level of education, skilled work experience, language skills, age and whether they have a valid job offer. The assessment is done using a points-based system, called Express Entry, which is similar to the systems used in Australia and New Zealand (box B.2).

Box B.2 **Express Entry**

Canada has had a points-based system since the 1960s. In January 2015, it implemented a new Expression of Interest system, Express Entry, to select applicants for permanent skilled immigration. The new system is based on SkillSelect used in Australia and the points system used in New Zealand.

Under Express Entry, applicants fill out an online profile that includes information on their English- and French-language ability, educational attainment and work experience. The profile is given a score out of 1200 points based on the Comprehensive Ranking System. 600 of these points are awarded for having arranged employment in Canada.

Profiles that meet the minimum score and requirements for that category are entered into a pool and ranked. Citizenship and Immigration Canada issues invitations each month to the top applicants to apply for permanent residence. Profiles remain in the pool for up to one year. After that, those who wish to remain in the pool need to reapply.

Applicants in the pool who do not have a job offer or a nomination from a province or territory must register for Job Bank, which is a government-run website where employers post job advertisements.

Express Entry is used for the following permanent skilled programs:

- Federal Skilled Worker Program
- Federal Skilled Trades Program
- Canadian Experience Program
- Provincial Nominee Program (in some cases)

Under the new system, employers can hire Express Entry candidates if they are not able to find suitable local workers. Employers can find potential workers through Job Bank. Applicants who receive a qualifying job offer are invited to apply for permanent residence the next time the system draws applicants from the Express Entry pool.

Sources: CIC (2015m, 2015n, 2015r, 2015u); Duttagupta (2014).

In 2014, about 29 000 principal applicants and about 39 000 spouses and dependents were approved under this program (CIC 2015j).

Federal Skilled Trades Program

The Federal Skilled Trades Program, introduced in 2013, aims to attract qualified skilled tradespeople who can meet labour demand in specific trades across Canada (CIC 2015t). To be eligible, the applicant must:

- meet English-language requirements

- have at least two years of full-time work experience (or an equal amount of part-time work experience) in a skilled trade within the five years before he or she applies
- meet the job requirements for that skilled trade as set out in the National Occupation Classification, except for needing a certificate of qualification
- have an offer of full-time employment for at least one year or a certificate of qualification in that skilled trade issued by a Canadian provincial or territorial authority
- plan to live outside of Quebec (CIC 2015h).

As with Federal Skilled Worker Applicants, Federal Skilled Trades Program applicants are assessed using Express Entry (CIC 2015h). In its first year, 2013, 17 applicants were approved under this program (CIC 2015j).

Canadian Experience Class Program

The Canadian Experience Class Program was introduced in 2008 to provide a streamlined path to permanent residence for immigrants who have work experience in Canada, usually obtained as a temporary worker or international student (CIC 2015t). Applicants must:

- have at least one year of full-time (or an equal amount of part-time) skilled work experience (skill level 0, A or B under the National Occupation Classification) in the three years before they apply
- have gained their experience in Canada with the proper authorisation
- meet the required language levels for their occupation
- plan to live outside Quebec (CIC 2015b).

Applicants under this program are assessed using Express Entry (CIC 2015b). In 2014, about 14 200 principal applicants and about 9600 spouses and dependents were approved under this program (CIC 2015j).

Quebec Skilled Workers

The province of Quebec (which accounts for about 23 per cent of Canada's population) does not accept permanent economic immigrants under the Federal Skilled Worker Program, Federal Skilled Trades Program or Canadian Experience Class Program. Under the Canada-Quebec Accord, the Quebec Government is responsible for selecting people to immigrate to its province, including setting the requirements that applicants must meet. The Canadian Government is still responsible for issuing the visa and for assessing the applicants admissibility (CIC 2015t).

To obtain permanent residence as a skilled worker in Quebec applicants must first apply to the Quebec Government and then to Citizenship and Immigration Canada for permanent residence.

Provincial Nominee Program

Provincial governments (except Quebec and Nunavut) can nominate permanent residents to immigrate to their province under the Provincial Nominee Program. The Canadian Government has bilateral immigration agreements with each province which grant the provincial government the authority to nominate permanent residents that meet local economic development and labour market needs, and who wish to settle there (CIC 2015t).

Each provincial government is responsible for assessing the skills, education and work experience of applicants, while Citizenship and Immigration Canada has final responsibility for approving nominated immigrants (CIC 2015t). Provinces can nominate candidates in the Express Entry pool under their program (CIC 2015g).

In 2014, about 21 000 principal applicants and about 27 000 spouses and dependents were approved under this program (CIC 2015j).

Business Immigrants programs

The Federal Business Immigrants Program is designed to encourage immigration of investors, entrepreneurs and the self-employed, who would contribute to business capital, employment creation and economic development (CIC 2015t). Canada recently overhauled its Business Program, which included terminating its Investors and Entrepreneurs Programs. These programs had large net worth and investment requirements. The current visas under this Program include the:

- Immigrant Investor Venture Capital Pilot Program (box B.3)
- Self-employed visa
- Start-up visa.

The Self-employed visa is aimed at immigrants who take part in cultural activities or athletics at a world-class level, or have experience in managing a farm. Requirements vary depending on the stream the applicant applies for but generally include education, age, language abilities and 'adaptability'. Applicants must also have two years of relevant experience and intend to become self-employed in Canada (CIC 2013).

Box B.3 Immigrant Investor Venture Capital Pilot Program

The Immigrant Investor Venture Capital Pilot Program is designed to target high net-worth immigrants who will make a significant investment in Canada, and have the skills and abilities to successfully integrate into the Canadian economy and society. The pilot will include up to 60 investors and their families in a given period. The requirements of the program include:

- making a $2 million non-guaranteed investment for approximately 15 years into the Immigrant Investor Venture Capital fund
- proficiency in English or French
- a post-secondary degree, diploma or certificate, or equivalent
- a net worth of at least C$10 million obtained through lawful, profit-making business activities. Net-worth acquired through inheritance or in the value of their primary residence does not count
- planning to live outside of Quebec.

Money in the Immigrant Investor Venture Capital Fund will be invested in Canadian-based start-ups with high growth potential. Immigrants could receive returns on their investment from the fund over time or at the end of the investment term, depending on gains or losses in the fund.

Citizenship and Immigration Canada will accept up to 500 applications within a specified period. Applications are to be randomly selected for processing until up to 60 applications are approved. The pilot reopened for a second round from May to December 2015.

Sources: CIC (2014e, 2015e).

To be eligible for the Start-up visa, applicants must have:

- support from a designated angel investor group, venture capital fund or business incubator
- a minimum investment of C$75 000 if the support is from an angel investor group or C$200 000 if the support is from a venture capital group
- been accepted into a Canadian business incubator program, if the support comes from a business incubator
- proficiency in English or French
- enough money to settle and meet costs of living prior to earning an income (CIC 2015o, 2015y).

In 2014, Canada accepted 159 principal applicants and 240 spouses and dependents on the Self-employed visa, and 499 applicants under the since terminated Entrepreneur Program and about 7500 applicants under the since terminated Investor Program (CIC 2015j).

Quebec has its own business program with similar classes and requirements (Government of Quebec 2015).

Caregiver Program

The Caregiver Program allows people to reside permanently in Canada to provide care for children, elderly persons of people with high medical needs. Requirements differ depending the stream but generally applicants need to:

- have relevant work experience
- meet the language requirements
- have completed a recognised post-school qualification (CIC 2014a).

Applicants under the Live-in Caregivers Stream also need a positive Labour Market Impact Assessment from a Canadian employer (CIC 2015f).

In 2014, about 12 000 principal applicants and about 6000 spouses and dependents were approved under this program (CIC 2015j).

Family class

Most Canadian citizens and permanent residents can sponsor their spouse, partner, dependent children, parents and grandparents to immigrate to Canada. To sponsor family members to immigrate to Canada, the citizen or permanent resident must prove they can:

- meet basic needs for themselves and their family
- support their relative financially
- make sure their family member does not seek financial support from the government (CIC 2014d, 2015v).

In 2014, Canada admitted about 67 000 people under the Family class including about:

- 42 000 spouses and partners
- 3000 children
- 18 000 parents and grandparents
- 3000 others (CIC 2015j).

As with Economic class immigration, Family class immigration increased over the period from 1989 to 2014 (figure B.4).

Humanitarian class

Canada accepts refugees through two programs.

- The Refugee and Humanitarian Resettlement Program, which is for people seeking protection from outside Canada.

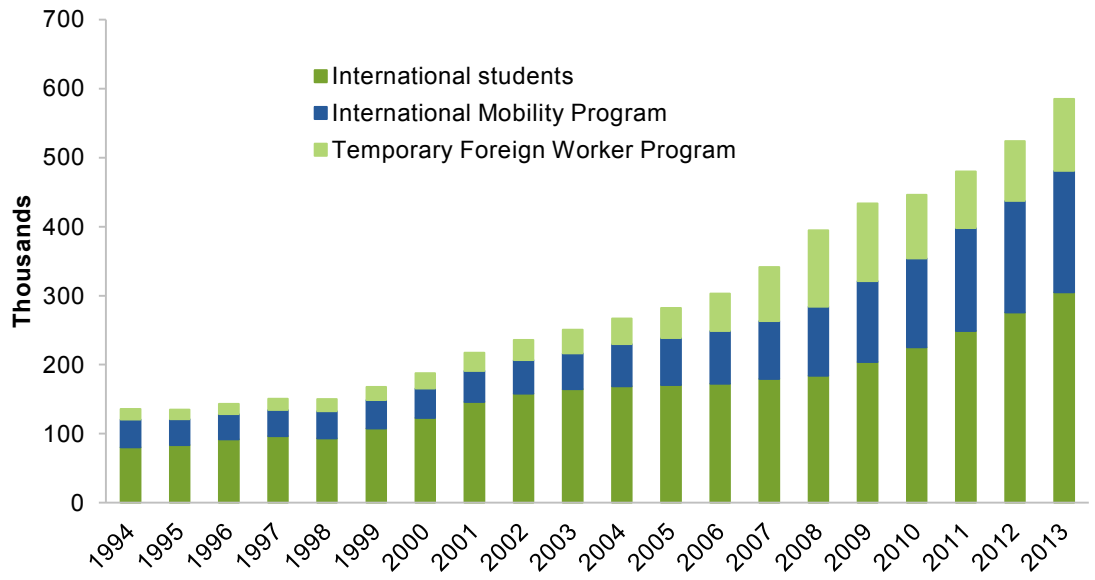
- The In-Canada Asylum Program, which is for people making refugee protection claims from within Canada (CIC 2015x).

In 2014, 23 000 people were admitted to Canada as refugees (CIC 2015j).

Temporary immigration

People can immigrate temporarily to Canada for work, study or a working holiday. Temporary immigration through each of the major streams — the Temporary Foreign Worker Program, the International Mobility Program (which includes International Experience Canada) and international students — have all increased in recent years (figure B.6).

Figure B.6 **Selected temporary immigration streams, 1994–2013**



Source: CIC (2014c).

Temporary Foreign Workers

People can immigrate to Canada to work temporarily if they will be 'meeting short-term and acute needs in the labour market that are not easily filled by the domestic labour force' (CIC 2015t, p. 19). Temporary workers can immigrate under the Temporary Foreign Worker Program and the International Mobility Program. The key difference between these programs is that employers do not need a Labour Market Impact Assessment to employ foreign workers under the International Mobility Program. To be eligible to work temporarily in Canada, the applicant must:

- prove that they will leave Canada when the permit expires

- have enough money to support themselves and their family, and to return home
- work for an eligible employer
- have not already worked in Canada for one or more periods that total four years after 1 April 2011 (some exceptions apply) (CIC 2015i).

Further requirements apply depending on the specific visa they apply for and if the person applies from inside or outside of Canada (CIC 2015i).

In December 2013, about 104 000 people had temporary residence under the Temporary Foreign Worker Program and about 176 000 under the International Mobility Program (CIC 2014c).

International Experience Canada

International Experience Canada is part of the International Mobility Program. It is similar to Australia's Working Holiday Maker Program. It is a cultural exchange program that allows Canadian citizens and residents and foreign nationals aged 18–35 years to travel and work in other countries for six months to two-years at a time. Citizenship and Immigration Canada negotiates bilateral agreements with the countries whose residents are eligible for the program. Agreements with some countries are unlimited, while caps are placed on immigrants from others (CIC 2015t).

There are three streams available to foreign workers, depending on where they are from:

- Working Holiday — allows participants to holiday and undertake temporary work in Canada.
- Young Professionals — allows participants to work professionally in Canada if they have an offer of employment.
- International Co-op Internship — allows international students enrolled in a post-secondary education institution in their own country to complete a work placement or internship as part of the academic curriculum (CIC 2015p).

Participants in this program are issued work permits that exempt them from a Labour Market Impact Assessment on the basis that their work creates or maintains reciprocal employment for Canadians in other countries (CIC 2015t).

In December 2013, about 56 000 people were in Canada under the International Experience Canada program (CIC 2014c).

International Students

Overseas students require a study permit if they plan to study for six months or more in Canada (although different in Quebec). To obtain a study permit, applicants need to:

- have been accepted into a Canadian education institution

- have sufficient funds for their stay in Canada including tuition fees, living expenses and return transportation for themselves and their family (CIC 2015w).

Some international students have work rights. They can work full time on campus without a work permit, or part-time off campus while studying (or full-time during scheduled breaks) if they obtain an Off-Campus Work Permit (CIC 2015w).

After graduating from a Canadian education institution, students can apply for a Post-Graduation Work Permit which allows them to work professionally. The permit is valid for the same length as their studies up to a maximum of three years (CIC 2015w).

In December 2013, about 305 000 people in Canada had student permits and about 61 000 people had Post-Graduation Work permits (CIC 2014c).

Citizenship

As mentioned above, permanent residents can apply for Canadian citizenship. To apply, the applicant must:

- be 18 years or older or, if under 18 years, the child's legal guardian can apply on behalf of the child if they are a citizen or are applying for citizenship at the same time as the child
- have been physically present in Canada as a permanent resident for at least four years during the previous six years and for at least 183 days during each of the most recent four calendar years (some exemptions apply including to children under 18 years)
- intend to live in Canada, work outside of Canada as a Crown servant or live outside of Canada with certain family members who are Crown servants
- have adequate knowledge of English or French
- prove that they have adequate knowledge of the rights responsibilities and privileges of citizenship and knowledge of Canada's history, values, institutions and symbols (CIC 2015c).

B.3 New Zealand

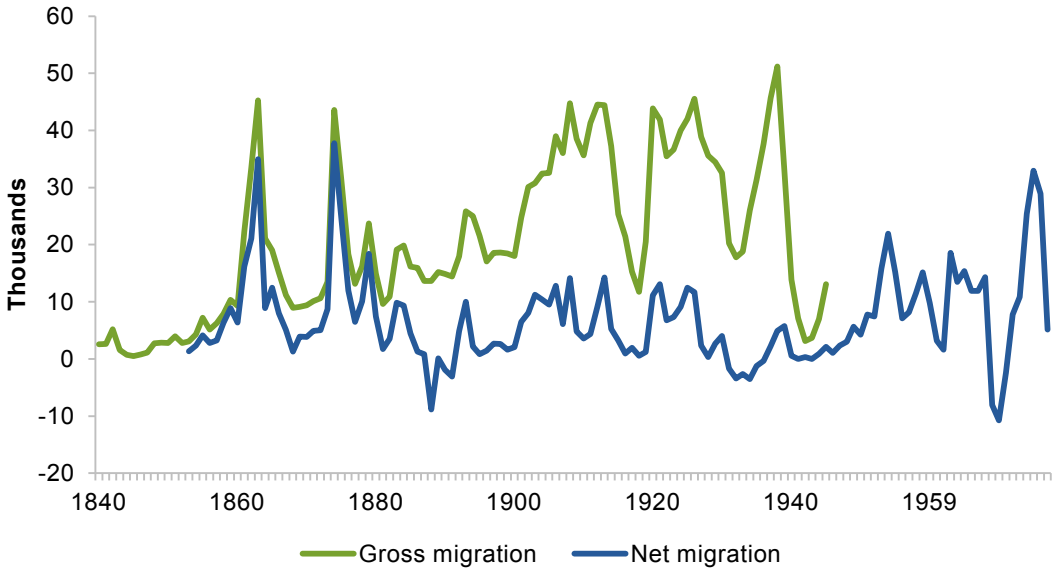
Brief history of immigration to New Zealand

Controlled immigration to New Zealand began in 1840 with the signing of the Treaty of Waitangi, which established British control. Between the 1840s and 1970s, New Zealand's provincial governments, and private entities such as the New Zealand Company, worked to increase immigration to New Zealand by advertising and offering free passage and other incentives to people, mostly from Britain and Australia, to emigrate (Beaglehole 2012b; Phillips 2013a, 2013c). Between the 1850s and 1880s, gross and net migration to New

Zealand were positive, and increased dramatically in the early 1860s due to the gold rushes (figure B.7).

New Zealand began introducing anti-immigration legislation in 1881 with the introduction of a poll tax on Chinese immigrants. In 1899, it introduced a law that imposed an English-language restriction on all immigrants not of British or Irish parentage (Phillips 2013b). The *Undesirable Immigrants Exclusion Act 1919* was passed to restrict immigration of Germans and Austro-Hungarians and the *Immigration Restriction Amendment Act 1920* was introduced to further restrict immigration from Asia. This was seen as the beginning of the 'White New Zealand' policy (Beaglehole 2012a). Between the 1880s and World War I, New Zealand continued to add to its population through net migration, except for a brief period in the late 1880s and early 1890s. Immigration decreased significantly around World War I.

Figure B.7 **Annual gross and net migration, 1840–1976**



Sources: Phillips (2015a, 2015b, 2015c, 2015d, 2015e).

Between World War I and the 1960s, net migration fluctuated significantly, but was mostly positive. New Zealand began to introduce non-discriminatory immigration policy in the 1960s. The *Immigration Amendment Act 1961* required all non-New Zealand citizens (except for Australian citizens) to obtain a permit before entering New Zealand. An immigration policy review in 1974 led to the introduction of a system where the right to residence for all immigrants (again, except for Australians) was based on skills and qualifications. In 1975, assisted immigration from Britain formally ended (Beaglehole 2012b; Phillips 2013d).

By 1978, three streams of entry for immigrants were in place: occupation, family reunion and humanitarian. Provision was also made for business immigrants with skills and capital,

and people distinguished in the arts, sciences or public life. The *Immigration Act 1987* was the beginning of the three main residence streams that are in place today: skills and business, family and humanitarian (Beaglehole 2012b).

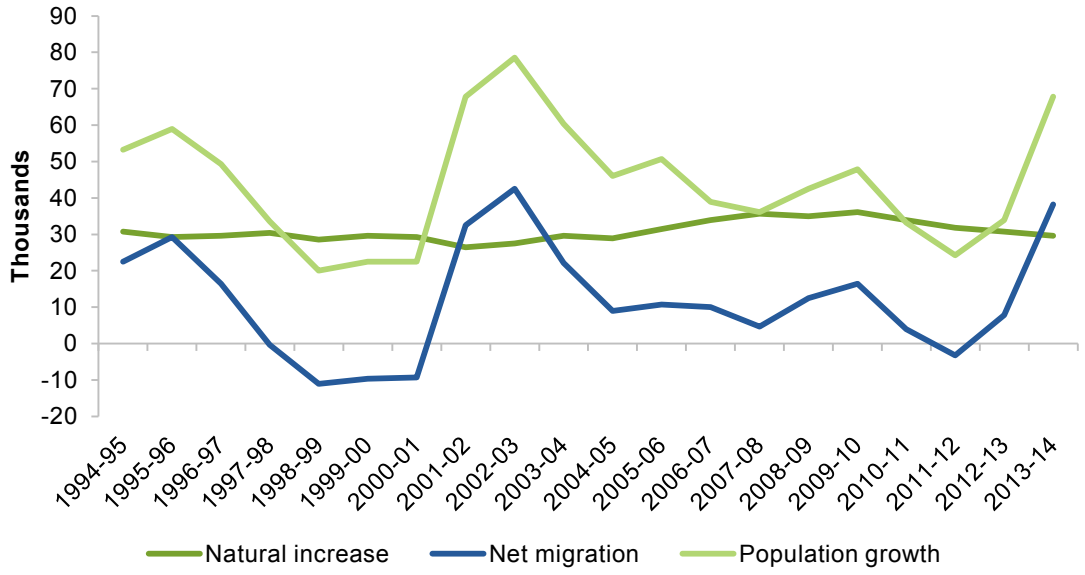
The *Immigration Amendment Act 1991* introduced a points system for skilled immigration. Applicants were awarded points for age, employability, educational attainment and settlement funds. A modest level of English was also required. The points system, English-language requirements, the different immigration streams and categories within the streams have been adjusted numerous times in recent decades to maintain a focus on attracting skilled immigrants (Beaglehole 2012c).

The current picture

New Zealand has a relatively large immigrant population. In 2013, about 25 per cent of the population was born overseas, up from about 18 per cent in 2000 (UNDESA 2013). This is high by international standards, but lower than Australia (OECD and EU 2015).

Net migration to New Zealand has fluctuated substantially over the past two decades, including being negative between 1997-98 and 2000-01, and briefly in 2011-12 (figure B.8). The declines in net migration were driven largely by high levels of emigration, particularly to Australia (MBIE 2014). Unlike many countries which experienced a decline in net migration around the global financial crisis, net migration to New Zealand actually increased.

Figure B.8 **Components of population growth, 1994-95 to 2013-14**



Source: MBIE (2014).

Net migration to New Zealand is an important component of population growth. In 2013-14, net migration to Zealand was 38 000, which was higher than natural increase in that year of 29 500 people.

Permanent immigration

Permanent immigration to New Zealand is managed under the New Zealand Residence Programme. The objective of the programme is to:

> … contribute to economic growth through enhancing the overall level of human capability in New Zealand, encouraging enterprise and innovation, and fostering international links, while maintaining a high level of social cohesion. … This objective is achieved through selecting a broad mix of migrants on the basis of either their skills and experience or their family links to New Zealand. (INZ 2015g)

The New Zealand Cabinet periodically sets the overall target number of places for the programme and for each of the streams (MBIE 2014). The current target range for the two-year period from 1 July 2014 is 90 000 to 100 000 places. (This is equal to an average annual intake of roughly 1 per cent of New Zealand's population at June 2015. In comparison, Australia's Migration and Humanitarian programs are equal to about 0.85 per cent of the population.) These places are distributed across streams as follows:

- Skilled and Business — approximately 53 800 to 59 950 places.
- Family — approximately 29 700 to 32 400 places.
- International and Humanitarian — approximately 6500 to 7650 places (INZ 2015g).

Permanent residents can access most of the same privileges available to New Zealand citizens (MBIE 2014). These include:

- being able to stay, work and study in New Zealand indefinitely (*Immigration Act 2009*)
- access to social security benefits (after meeting minimum residency requirements) (NZ Ministry of Social Development 2015)
- access to publicly-funded primary and secondary school education (*Education Act 2009*)
- access to publicly-funded health and disability services (NZ Ministry of Health 2011)
- being eligible to vote (after one years' residence) (INZ 2014e).

The requirements to be granted permanent residence vary across the different visa categories. However, all permanent (and temporary) immigrants must meet character and health requirements (box B.4). Applicants must also pay application fees which vary by visa category (box B.5). Permanent visa applicants can include their partner and dependent children in their application. Secondary applicants must also meet character and health requirements (INZ 2014d).

Box B.4 Character and health requirements

Character requirements

To enter New Zealand, either permanently or temporarily, entrants must be of 'good character'. This means they cannot:

- have certain types of convictions, such as being convicted of an offence and sentenced to imprisonment for a term of five years or more
- have been deported from any country
- have previously provided false, misleading or forged information to, or withheld material information from, Immigration New Zealand
- be, for another reason, considered a risk to security of public order.

Health requirements

Applicants will generally not be approved for permanent residence if they:

- require dialysis treatment
- have tuberculosis
- have severe haemophilia
- have a physical, intellectual, cognitive and/or sensory incapacity that requires full-time care, including care in the community.

Applicants with other medical conditions may also be declined for permanent residency if they:

- are likely to impose significant costs or demands on health or special education services
- are not able to undertake the work on the basis of which they are applying for the visa, or which is a requirement of the visa being granted (unless they are sponsored by a person in New Zealand with refugee status).

All permanent residence applicants must complete either a General Medical Certificate or Limited Medical Certificate, and a Chest X-ray Certificate.

Health requirements for temporary entry are similar to those for permanent applicants.

Sources: *Immigration Act 2009*; INZ (2015g).

Box B.5 Visa fees

The New Zealand Government charges fees for both temporary and permanent visa applications. Fees vary by visa category, the applicant's country of origin and the location of the Immigration New Zealand office processing the application. The table below provides examples of application fees based on the applicant being physically present in New Zealand at the time of the application.

Selected visa application fees, as at July 2015

Visa category	*Fee (NZ$)*	*Fee in Australian dollars*[a]
Resident visas		
Skilled Migrant	1 810	1 701
Investor Plus (Investor 1 Category)	4 100	3 854
Entrepreneur Residence	3 200	3 008
Family	930	874
Parent Retirement	3 200	3 008
Temporary visas		
Student	250	235
Working Holiday Scheme	165	155
Temporary Retirement	3 200	3 008

Applicants who include family in their application only have to pay one fee, rather than having to pay additional application fees as is the case for Australia.

The New Zealand Government has bilateral fee-waiver agreements with certain countries, so citizens from these countries do not have to pay fees for some application types and visas. For example, citizens of the United States do not have to pay fees for offshore visitor, student and work visa applications.

If the application is successful, everyone included in the application is required to pay a migrant levy (unless they are exempt). The migrant levy is NZ$310 per applicant aged five years and over, or NZ$155 for applicants aged under five years and applicants under the Pacific Access Category.

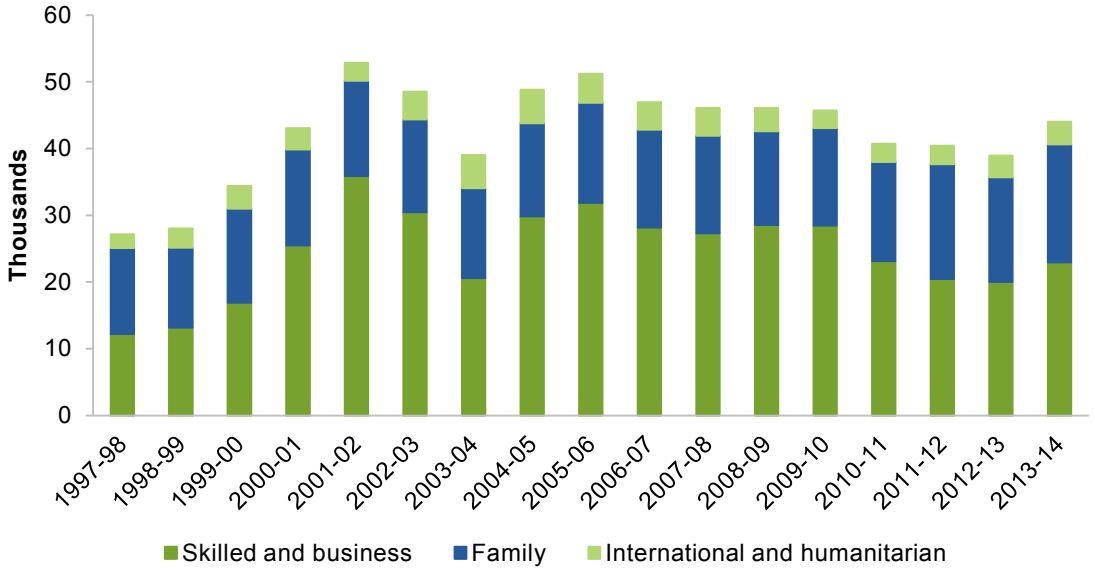
[a] Based on an exchange rate of NZ$1=A$0.94. Rate current at 20 October 2015.

Source: INZ (2015e).

Permanent immigration increased over the period 1997-98 to 2013-14 (figure B.9). It increased significantly from about 27 000 approvals in 1997-98 to a high of about 53 000 approvals in 2001-02 and has since fluctuated around the 40 000–50 000 mark.

The increase in permanent immigration was primarily driven by the increase in the skilled and business category. Approvals in this category increased from about 12 000 to 1997-98 to about 23 000 in 2013-14 (figure B.9). Approvals in the family and international and humanitarian categories also increased over this period.

Figure B.9 **Permanent visa approvals, 1997-98 to 2013-14**



Source: MBIE (2014).

Skilled and Business stream

Skilled migrant policy

To apply under the skilled migrant policy applicants must:

- be under 55 years of age
- meet health and character requirements
- meet English-language requirements
- be invited to apply for residence (INZ 2013c; MBIE 2014).

Skilled applicants are assessed using a points system. To be eligible, applicants must complete an expression of interest, in which they claim points for age, skills, experience and other factors (table B.4). Expressions of interest that achieve 140 points or more are automatically selected from the pool and applicants might be invited to apply. Expressions of interest that have between 100 and 140 points might be selected to meet target numbers for the residence stream if they have a skilled job or job offer and meet other specified criteria (MBIE 2014).

Applicants can receive bonus points towards to their application if they have an offer of employment, work experience or qualifications in an area of absolute skill shortage as identified on the Long Term Skill Shortage List. This list includes occupations that have been identified as having a sustained and ongoing shortage of skilled workers in New

Zealand and internationally. The Ministry of Business, Innovation and Employment updates the list annually. This list is also relevant to the Work to Residence and Essential Skills policies (discussed below) (INZ 2014a).

Table B.4 **Skilled immigration points**

Factor	*Points*
Skilled employment	
Current skilled employment in NZ for 12 months or more	60
Offer of skilled employment in NZ or current skilled employment in NZ for less than 12 months	50
Bonus points for employment or offer of employment in:	
An identified future growth area, an area of absolute skills shortage, or a region outside Auckland	10
Partner employment or offer of employment	20
Work experience	
Five categories (2, 4, 6, 8, or 10 years)	10–30
Additional bonus points if work experience in NZ — Three categories (1 year, 2 years, 3 years or more)	5–15
Additional bonus points for work experience in an identified future growth area — Two categories (2 to 5 years, 6 years or more)	10–15
Additional bonus points for work experience in an area of absolute skills shortage — Two categories (2 to 5 years, 6 years or more)	10–15
Qualifications	
Recognised level 4–6 qualification (e.g. trade qualification, diploma)	40
Recognised level 7 or 8 qualification (e.g. bachelors degree, bachelors degree with Honours)	50
Recognised level 9 or 10 postgraduate qualification (Masters degree, Doctorate)	60
Bonus points for:	
2 years of full-time study in NZ completing a recognised bachelor degree (level 7) NZ qualification	10
1 year of full-time study in NZ completing a recognised postgraduate NZ qualification	10
2 years of full-time study in NZ completing a recognised postgraduate NZ qualification	15
Qualification in an identified future growth area	10
Qualification in an area of absolute skill shortage	10
Partner qualifications	
Two categories (recognised level 4–6 qualification; recognised level 7 + qualification)	10–20
Close family support in New Zealand	10
Age (20–55 years)	
Five categories (20–29, 30–39, 40–44, 45–49, 50–55)	5–30

Source: INZ (2015g).

Skilled immigrants who apply (after being invited), meet the criteria and whom Immigration New Zealand considers will settle successfully and contribute to New Zealand, will be granted a residence visa. Having a skilled job offer or current skilled employment is considered evidence that they will successfully settle and contribute (MBIE 2014). If Immigration New Zealand does not have sufficient evidence the applicant will successfully settle and contribute, the applicant might be offered a Job Search visa. This allows the holder to obtain skilled employment in New Zealand for up to nine months.

If the applicant obtains skilled employment they will be offered a residence visa (INZ 2011c).

Residence from Work category

The Residence from Work category is part of a pathway for temporary visa holders to gain residence. Immigrants who have been in New Zealand for at least two years on the temporary Work to Residence visa are eligible to apply for residence under this category (INZ 2015i; MBIE 2014).

Business policy

The Business policy includes three main categories of visas:

- Entrepreneur category — available to people who have successfully established and run a business in New Zealand for six months, have invested $500 000 in it and created employment for at least three New Zealand citizens.
- Employees of Relocating Businesses category — available to people in a business that is relocating to New Zealand who do not qualify under any other residence category. A two-year employment period applies before the residence visa is endorsed.
- Migrant Investment category — provides residence to people who make a significant financial contribution to New Zealand's economy (box B.6) (INZ 2015b; MBIE 2014).

Family immigration

New Zealand citizens and residents can sponsor their family to immigrate to New Zealand if they are their:

- partner — husband, wife, de facto or civil union partner. Applicants must provide evidence that they have been living in a partnership that is genuine and stable for 12 months or more
- dependent child
- parent — parents are required to submit an expression of interest and then be invited to apply. There are two tiers.
  - Tier 1 — applicants must either have a guaranteed annual lifetime income of at least NZ$27 584 alone or NZ$40 523 together with a partner, bring at least NZ$500 000 in settlement funds to New Zealand, or have a sponsor who earns at least NZ$65 000 per annum alone or NZ$90 000 per annum with a partner. The wait time for processing of expressions of interest under tier 1 can be up to 12 months.
  - Tier 2 — sponsor must earn at least NZ$33 675 per year and all the applicants' adult children must live permanently outside the parent's home country. The wait

time for processing of expressions of interest under tier 2 can be up to seven years (INZ 2015h; MBIE 2014).

Box B.6 Migrant Investment category

The Migrant Investment category enables people who make a significant financial contribution to New Zealand's economy to immigrate. It includes two sub-categories:

- Investor Plus (Investor 1 Category)
- Investor (Investor 2 Category)

To qualify for the Investor Plus category applicants must invest NZ$10 million in New Zealand for three years, and spend at least 44 days in New Zealand in each of the last two years of the investment. Applications for this visa can be sent directly to Immigration New Zealand.

The Investor category has more requirements than the Investor Plus Category. Applicants must:

- invest NZ$1.5 million in New Zealand for four years
- prove they own an additional NZ$1 million in settlement funds and/or assets
- be 65 years or younger
- have at least three years business experience
- submit an expression of interest (including a points test), similar to a skilled stream application
- meet certain English-language requirements
- spend 146 days in New Zealand in each of the last three years of the investment.

Eligible expressions of interest for the Investor category are placed in a pool and ranked based on total points claimed for age, business experience, English-language ability, and investment funds. A maximum of 300 places are available each year (for principal and secondary applicants).

Applicants under both streams must also meet the general health and character requirements (discussed above).

In 2013-14, there were 28 principal applicant approvals under the Investor Plus category and 157 principal applicant approvals under the Investor category. China was the top source country for these visas, making up about 63 per cent of principal applicant approvals.

Sources: INZ (2011a, 2011b, 2013b, 2015b); MBIE (2014).

There is also a Parent Retirement category. To be approved for this the applicant must:

- have ownership of, or undertake to invest NZ$1 million in an acceptable investment in New Zealand for four years
- have settlement funds of NZ$500 000 and an annual income of at least NZ$60 000 at the time of the application
- have no dependent children (MBIE 2014).

International and Humanitarian

New Zealand accepts 750 refugees (plus or minus 10 per cent) each year for resettlement as determined by the Office of the United Nations High Commissioner (MBIE 2014). The quota allows for women at risk, people with disabilities or needing medical attention and people with family already in New Zealand, as well as refugees in general. Quota refugees are eligible for permanent residence on arrival in New Zealand.

The Samoan Quota Scheme and the Pacific Access Category are ballot schemes that offer residence in New Zealand annually. The Samoan Quota Scheme includes up to 1100 places for citizens of Samoa and the Pacific Access Category includes places for up to 250 citizens of Tonga, 75 citizens of Tuvalu and 75 citizens of Kiribati. To be included applicants must:

- have an acceptable offer of employment
- be 18–45 years old
- meet the income requirements (if they have dependents), English-language requirements and health and character requirements (INZ 2015f; MBIE 2014).

Temporary immigration

The objectives of New Zealand's temporary entry policy are to:

- facilitate the entry of genuine visitors, students and temporary workers while managing the associated risks
- contribute to building strong international linkages, attracting foreign exchange earnings and address skill shortages (MBIE 2014).

Temporary immigration in New Zealand is divided into four categories: Visitor policy (for short-term visitors and tourists), Work policy, Student policy and Limited Visa policy (MBIE 2014). The requirements and rights of temporary entrants vary across visa categories. The Work, Student and Limited Visa policies are discussed in more detail below.

Work policy

The aim of the Work policy category is to:

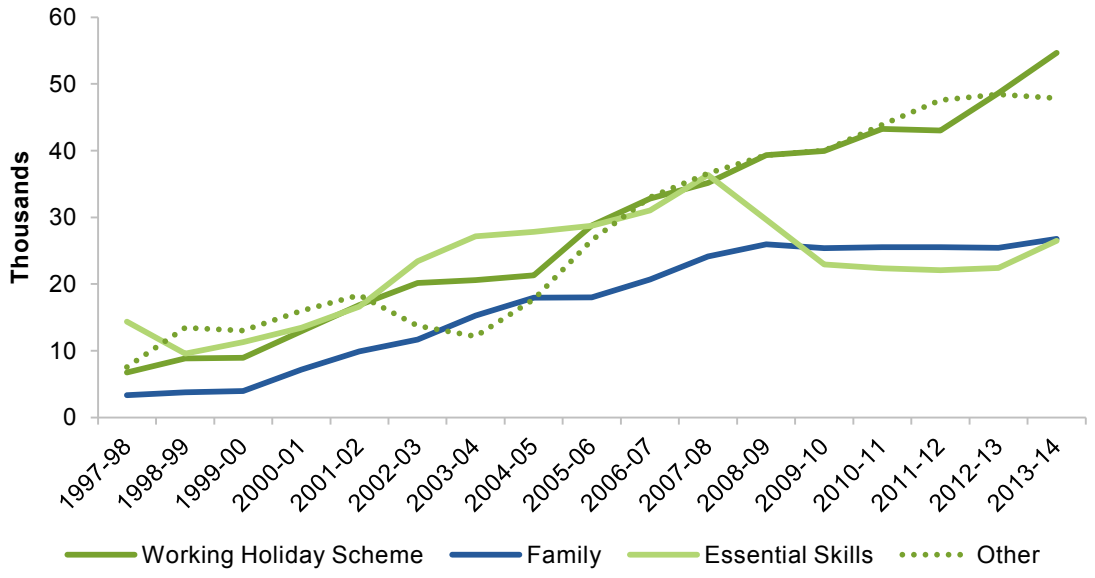
> … facilitate the access of New Zealand employers and industry to global skills and knowledge while complementing the government's education, training, employment and economic development policies. (MBIE 2014, p. 2)

New Zealand has several work policies. The three main ones are the:

- Essential Skills policy — facilitates the entry of workers to fill shortages where suitable New Zealand citizens or residents are not available. In many ways it is similar to Australia's Temporary Work (Skilled) visa (subclass 457)
- Working Holiday schemes — reciprocal international agreements that allow young people (generally aged 18–30 years) from partner countries to holiday and work in New Zealand
- Family policy — allows people to apply for the New Zealand Work visa if they are in a genuine and stable relationship with a New Zealand Citizen, resident, work visa holder or student (MBIE 2014).

Immigration of temporary workers increased by almost 400 per cent over recent decades from about 32 000 in 1997-98 to about 156 000 in 2013-14 (figure B.10). The Working Holiday schemes, Family and Essential Skills policies are the largest components of temporary worker immigration, making up about 69 per cent of approvals in 2013-14. The Working Holiday schemes and Family policy experienced the largest increases of the temporary worker policies in recent years, increasing sevenfold between 1997-98 and 2013-14 (MBIE 2014).

Figure B.10 **Temporary worker approvals, 1997-98 to 2013-14[a]**



[a] The other category includes the Specific Purpose or Event, Study to Work, Horticulture and Viticulture Seasonal Work, Work to Residence and other policies.

Source: MBIE (2014).

Essential Skills policy

Immigrants can obtain a temporary work visa under the Essential Skills work policy if they have been nominated by an employer for a position and there is a skill shortage for that occupation. Applicants must meet a number of requirements.

- They must stay in the nominated position for the duration of the visa.
- They must prove that they are qualified for the position.
- The job offer must come from a New Zealand employer who can demonstrate that no suitable New Zealand workers are available to do the job. This can be done in three ways:
  - The employer can request an 'approval in principle' from Immigration New Zealand to recruit overseas workers before they apply for the visa.
  - The employer can provide proof as part of the application process.
  - The occupation may be listed on one of the Essential Skills in Demand Lists (INZ 2015d).

Immigration New Zealand also usually conducts a labour market test to confirm no suitable New Zealand workers are available (INZ 2015d).

One way applicants can meet the requirement of having a position in an area where there is a skill shortage is being nominated for an occupation on the Essential Skills in Demand Lists — the Long Term Skill Shortage List (discussed above) or Immediate Skills Shortage List. The Immediate Skills Shortage List includes occupations that have an immediate shortage of skilled workers either throughout New Zealand or in certain regions. As with the Long Term Skill Shortage List, it is updated annually (INZ 2014a).

If the occupation is classified as skill level 1, 2, or 3 under the Australian and New Zealand Standard Classification of Occupations, the visa will usually be issued for three years. A five-year visa can also be issued once per applicant if the occupation is classified as skill level 1 and the base salary is at least NZ$55 000. Applicants whose occupation is classified as skill level 4 or 5 can be granted a visa for up to one year (INZ 2015d).

Student policy

Overseas students usually need a visa to study full time in New Zealand for longer than three months (INZ 2015j; MBIE 2014). (Although some Working Holiday scheme visa holders can study for up to six months without a student visa (MBIE 2014).) The objective of the student policy is to:

> … facilitate the entry of genuine students. This policy aims to increase global connectedness, support sustainable growth of export education capability, earn foreign exchange, and strengthen New Zealand education while managing risks to New Zealand. (MBIE 2014, p. 2)

Applicants for student visas need to meet a number of requirements including having:

- been offered place or confirmation of enrolment at a New Zealand education provider
- sufficient funds to pay tuition fees
- financial support such as enough money to support themselves or a sponsor that has agreed to accept financial responsibility
- the financial means to leave New Zealand before the visa expires (INZ 2015j).

Immigration of international students to New Zealand increased dramatically from about 18 000 approvals in 1997-98 to 88 000 in 2002-03 (figure B.11). Students approvals then declined and have fluctuated between about 65 000 and 75 000 since then.

Figure B.11 **Student visa approvals, 1997-98 to 2013-14**

Source: MBIE (2014).

Limited Visa policy

The Limited Visa policy is designed to allow temporary entry for an express purpose to people who:

- would not be accepted for temporary entry otherwise because of the risk they might remain in New Zealand after their visa expires
- have been offered seasonal work under the Recognised Seasonal Employer Scheme
- choose to enter under the Limited Visa.

The Recognised Seasonal Employer Scheme allows workers from Pacific Island nations to enter New Zealand temporarily to work in horticulture and viticulture industries to address labour shortages (MBIE 2015). To be eligible for the scheme applicants must:

- be aged 18 years or older
- have a job offer from an employer in New Zealand that meets the requirements of the scheme
- meet health and character requirements
- be genuine in their intention to work
- have been approved for acceptable medical insurance
- be offshore (in most cases) (INZ 2014b).

People employed under the scheme can stay in New Zealand for up to seven months during an 11-month period, except for workers from Tuvalu and Kiribati who can stay for nine months due to the cost and distance of travel. Eligible Pacific Island nations include the Federated States of Micronesia, Fiji, Kiribati, Nauru, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu (INZ 2014c).

The scheme currently has an annual cap of 9000 workers, however, the number of places can be changed by the Minister of Immigration, depending on the availability of New Zealand workers and industry demands (INZ 2014c).

Temporary to permanent transition

Temporary visas are often used as a stepping stone to permanent residence in New Zealand. About 82 per cent of people approved for a residence visa in 2013-14 had previously held a temporary visa (MBIE 2014).

Citizenship

Permanent residents can apply for citizenship. To be eligible, they must:

- have lived in New Zealand as a resident for at least five years and have the right to continue living there indefinitely
- intend to keep living there
- speak English
- be of good character (INZ 2013a; NZ Department of Internal Affairs 2015).

Migration between Australia and New Zealand

Migration flows between Australia and New Zealand make up a large component of the migrant intake in both countries. For example:

- New Zealand is Australia's second largest source country for immigrants. Over 650 000 New Zealand immigrants were living in Australia at June 2015 and about 67 per cent of all permanent departures of New Zealand citizens from New Zealand in 2013-14 were to Australia
- about 860 000 Australian citizens travelled to New Zealand in 2013-14 (DIBP 2015; MBIE 2014).

The Trans-Tasman Travel Arrangement, implemented in 1973, allows Australian and New Zealand citizens to live and work in the other country without restrictions. Australian citizens who arrive in New Zealand and meet the character requirements are granted a residence class visa, which allows them to live, work and study in New Zealand on an indefinite basis (INZ 2015a, 2015c). Australian citizens can access the same social security entitlements as New Zealand citizens after serving waiting periods (generally two years). They also have immediate access to publicly-funded health and disability services, provided they can demonstrate they intend to live in New Zealand for two or more years (PC and NZPC 2012). Australians can apply for permanent residence if they hold a residence visa continuously for 24 months and meet some other permanent residence requirements (INZ 2015a, 2015c).

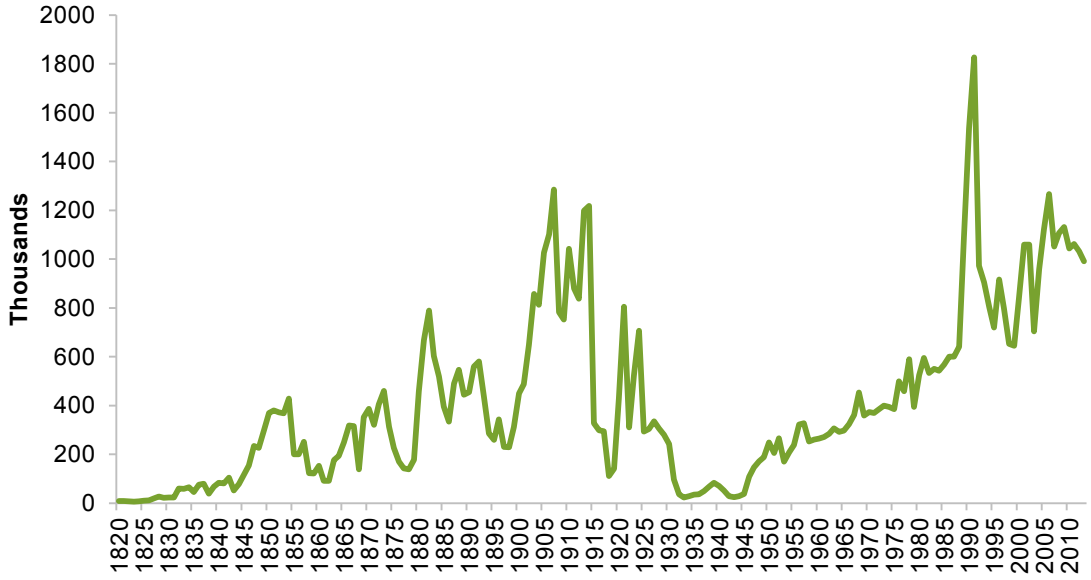
Information on the rights of New Zealand citizens who enter Australia is provided in chapter 9.

B.4 United States

Brief history of immigration to the United States since 1800

Although there was significant immigration to the United States before the 19th century, including the Pilgrims who arrived in Plymouth on board the Mayflower in 1620, free immigration increased dramatically in the 19th century. Expansion of the United States' borders (such as the purchase of Louisiana from France in 1803 and the acquisition of Florida from Spain in 1819) and the discovery of gold in California in 1848 significantly increased demand for immigrants and settlers. As well, from 1862, the American West offered free plots of land to both immigrants and native-born people who agreed to live on and develop the land for at least five years. At the same time, conditions in source countries such as crop failures in Germany and the Great Potato Famine in Ireland encouraged emigration to the United States. Between the 1820s and 1860s, about 7 million people arrived in the United States (Ewing 2012; HULOCP nd) (figure B.12).

Figure B.12 **Permanent immigration, 1820–2013**



Source: US Office of Immigration Statistics (2014).

The United States began restricting immigration in the late 1800s (Ewing 2012). The 1875 Page Law banned transportation of people from Asia against their consent, women who were being transported for prostitution purposes and criminals (Vong 2015). The immigration of Chinese workers was banned entirely in 1882 and the 'Gentlemen's Agreement' with Japan essentially banned Japanese immigration in 1907. Immigration from other Asian and Pacific nations was banned in 1917 (Ewing 2012).

In 1921, the Quota Law was introduced, which capped immigration at about 350 000 per year and restricted immigration from any particular country to 3 per cent of the number of people of that ancestry living in the United States in 1910. The law favoured immigrants from northern Europe, and immigrants from Latin America, Canada and the Caribbean were exempt from numerical limits. The *National Origins Act 1924* reduced the cap to about 165 000 immigrants per year and 2 per cent of the number of people of that ancestry living in the United States in 1890. In 1929, the 'national origins quota system' was further adjusted and made more complex. These changes also introduced visas and the temporary immigration system. Between 1870 and 1930 more than 30 million immigrants arrived in the United States (Ewing 2012).

The United States began removing restrictive immigration policies based on race in the 1940s. In 1943, the ban on immigration of Chinese workers was removed and a quota was introduced. This was extended to workers from India and the Philippines in 1946 (Ewing 2012). The United States also started accepting large intakes of refugees around this time. The *Displaced Persons Act 1948* allowed the admission of up to 205 000 'displaced persons', mostly from Eastern Europe (Ewing 2012).

In 1942, in response to shortages of workers in the agricultural sector, the United States implemented a large-scale program that encouraged immigration of temporary workers from Mexico (the Bracero Program). By the time it ended in 1964, about 5 million Mexican workers had come to work temporarily on US farms. Unauthorised immigration from Mexico increased around the same time, partly due to the cumbersome and costly legal immigration process. In response to this, the United States deported about 1 million Mexican immigrants in 1954 (Ewing 2012).

The *Immigration and Nationality Act 1952* further reformed the national origins quota system and set the annual quota for each country outside the western hemisphere at one-sixth of 1 per cent of the number of people living in the United States in 1920. The law also introduced the first quota preference system for skilled immigrants (Ewing 2012).

Immigration restrictions based on race and ancestry were abolished with the introduction of the *Immigration and Nationality Act 1965*. However, quotas based on place of origin were maintained. The quotas were changed to 170 000 a year for the eastern hemisphere and 120 000 per year for the western hemisphere. There was no per-country limit. The Act also implemented the preference system for permanent immigration (Ewing 2012). A similar system is still in place today.

The United States reformed its refugee policies in the 1970s and 1980s. It implemented resettlement programs for Cambodian, Vietnamese and Laotian refugees in the 1970s. The *Refugee Act 1980* created a domestic resettlement program for all refugees and removed refugees from the immigration preference system. The Act also reduced the permanent cap on immigration to 270 000 (Ewing 2012).

Between 1986 and 2000, the United States introduced a number of reforms aimed at addressing unauthorised immigration. For example, the *Immigration Reform and Control Act 1986* allowed for about 2.7 million unauthorised immigrants living in the United States to apply for legal status (Rytina and Caldera 2008). However, it also implemented sanctions on employers who knowingly employed unauthorised immigrants. As well, under the *Personal Responsibility and Work Opportunity Reconciliation Act 1996* introduced in 1996, unauthorised immigrants were barred from receiving any kind of public benefits (Ewing 2012).

The quotas for permanent immigration were further changed in 1990 through the Immigration and Nationality Act. These quota levels are still in place today (discussed below) (Ewing 2012).

Since 2000, many of the changes in US immigration policy have focused on national security (Ewing 2012). For example, laws were introduced in 2002 that required male immigrants from 25 countries, as well as selected individuals from other countries, to submit biometric data and conduct in-person interviews on arrival and re-register on an annual basis (Rosenblum 2011).

Permanent immigration

Permanent immigration to the United States is governed by the Immigration and Nationality Act. The Act includes an annual limit of 675 000[62] permanent immigrants per year (with some exceptions, for example, close family members) under three categories:

- Family-sponsored immigrants (480 000 places)
- Employment-based immigrants (140 000 places)
- Diversity immigrants (55 000 places)[63] (AIC 2014).

The United States also takes permanent refugees, with the limit for that intake set annually (AIC 2014).

Along with the overall limits, there are limits on how many permanent immigrants can come from any one country under each of the permanent immigration categories. Currently, this limit is 7 per cent of the intake in any given year. This is to ensure that no group dominates the immigration intake (AIC 2014).

Permanent residents have the right to live, work and study indefinitely in the United States and apply for US citizenship once other eligibility requirements are met (discussed below) (AIC 2014; USCIS 2010d). Spouses and dependent children of applicants for permanent residence are usually also eligible to apply for permanent residence.

The requirements for permanent residence vary by visa category and can include family connection, financial, education and work experience requirements. Both temporary and permanent immigrants are required to pay a range of fees, including application fees and immigration fees (box B.7). In addition, there are general requirements related to health, security, age and financial resources that are considered by immigration and consular officials when deciding to grant permanent residence (USCIS 2009, 2011b).

Family-based immigration

The family-based immigration category is the largest category of permanent immigration to the United States. The category allows US citizens, permanent residents and people admitted as refugees or asylum seekers within the past two years to bring certain family members to the United States (USCIS 2011a). Family-based immigrants are admitted to the United States either as immediate relatives of US citizens or through the family preference system.

62 This is roughly 0.2 per cent of the United States' population at June 2015. Australia's Migration Program is equal to just under 0.8 per cent of the population.

63 Since 1999, 5000 of these places have been set aside for allocation under the *Nicaraguan Adjustment and Central American Relief Act*.

- Immediate relatives are defined as spouses, unmarried minor children and parents of US citizens.
- Family preference relatives include adult children and siblings of US citizens and spouses and unmarried children of permanent residents (AIC 2014).

Box B.7 Fees and charges

The United States has a complex system of fees and charges that are applicable to permanent and temporary immigrants, and their petitioners (sponsors). Fees differ by the visa for which immigrants are applying, the forms they are required to submit for their application, and other factors, such as their personal characteristics. Fees are collected by both the US Department of State and the United States Citizenship and Immigration Services (USCIS).

The US Department of State collects processing fees for all visa categories. These range from US$160 for some temporary visas to $US345 for permanent employment-based immigration. It also collects other fees including border crossing card fees and the Border Security Act fee.

The USCIS collects filing fees based on the forms the immigrants and petitioners are required to submit. Along with a general filing fee, there are numerous additional fees for some types of immigrants, including, for example, the Biometrics Fee and Fraud Prevention and Detection Fee.

Permanent immigrants, once approved, are also required to pay the US$165 USCIS Immigrant Fee, unless they are exempt. This fee goes towards processing their immigrant visa packet and producing the immigrant's Green Card. Permanent residents do not receive their Green Card until they have paid the fee.

Sources: USCIS (2015c); USDS (2015).

Sponsors must meet certain age and financial requirements to bring family members to the United States. They must also sign an affidavit of support saying they will be financially responsible for the family member (AIC 2014). Sponsors can also be asked to post a bond however, this is only done in borderline cases (Bray 2015).

As mentioned above, 480 000 family visas are available each year. However, there is no limit on the number of visas available for immediate relatives. There is a limit on the number of visas available each year under the family preference system (table B.5).

The system used to determine the number of family preference visas available in any year is complicated. The number is determined by subtracting the number of immediate relative visas issued and the number of aliens paroled[64] during the previous year from 480 000. Any unused employment preference visas from the previous year are then added to calculate the family preference visa allocation. However, by law, the number of family

64 An alien paroled is a person who is not a citizen or national of the United States and is allowed into the United States for humanitarian reasons when their entry is determined to be of significant public benefit, even though they appear to be inadmissible under US immigration law (US Department of Homeland Security 2012).

preference visas cannot be lower than 226 000 annually. As a result, the total number of family visas issued often exceeds 480 000 (AIC 2014).

Table B.5 **Family-sponsored immigration categories**

Category	*Sponsor*	*Relationship*	*Limit*
Immediate Relatives	US citizen adults	Spouses, unmarried minor children, and parents	Unlimited
Preference category			
1	US citizen	Unmarried adult children	23 400[a]
2A	Lawful permanent residents	Spouses and minor children	87 900
2B	Lawful permanent residents	Unmarried adult children	26 300
3	US citizen	Married adult children	23 400[b]
4	US citizen	Brothers and Sisters	65 000[c]

[a] Plus any unused visas from the fourth preference category. [b] Plus any unused visas from the first and second preference categories. [c] Plus any unused visas from all the other family-based preferences.

Source: AIC (2014).

In 2013, about 440 000 immediate relatives and about 210 000 family-sponsored relatives were granted permanent residence in the United States. As the family-based immigration is capped, it has remain at a similar level in recent years. (US Office of Immigration Statistics 2014).

Employment-based immigration

The United States accepts skilled permanent residents under its employment-based preference system, which comprises five categories (table B.6). Each of the categories has requirements that applicants must meet, which generally include education and experience.

The visas EB-2 and EB-3 require employer-sponsorship and a labour certification. Employers sponsoring applicants under these categories must obtain an approved labour certification from the US Department of Labor which verifies that:

- there are insufficient available, qualified, and willing US workers to fill the position being offered at the prevailing wage
- hiring a foreign worker will not adversely affect the wages and working conditions of similarly employed US workers (USCIS 2010c).

In 2013, about 161 000 employment-based immigrants were granted visas to the United States (figure B.13). The EB-2 had the highest number of permanent immigrants at about 63 000. While employment-based immigration remained relatively constant between 2004 and 2013 due to the cap being unchanged, the numbers within each category changed. For example, EB-2 immigration increased over the period, while EB-3 immigration declined.

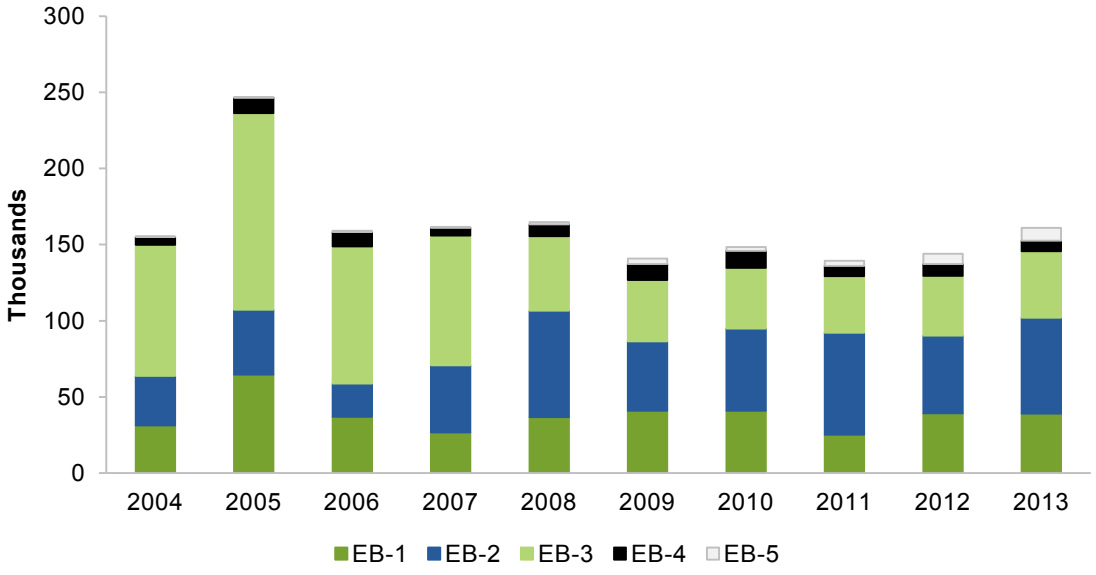
Table B.6 **Permanent Employment-based immigration categories**

Preferences	*Reserved for*	*Labour certification required?*	*Limit*
EB-1	'Persons of extraordinary ability' in the arts, science, education, business, or athletics, outstanding professors and researchers, some multinational executives.	No	40 000[a]
EB-2	Members of professions requiring advanced degrees, or people with exceptional abilities in the arts, science or business.	Yes[c]	40 000[b]
EB-3	Skilled workers with at least two years of training or experience, professionals with degrees, or other workers for unskilled labour that is not temporary or seasonal.	Yes	40 000[d]
EB-4	Certain 'special immigrants' including religious workers, employees of U.S. foreign service posts, former U.S. government employees and other classes of aliens.	No	10 000
EB-5	People who will invest US$500 000 to US$1 million in a job-creating enterprise that employs at least 10 full time US workers.	No	10 000

[a] Plus any used visas from the fourth and fifth preferences. [b] Plus any unused visas from the first preference [c] Unless applicant obtains a national interest waiver. [d] Plus any unused visas from the first and second preference. Other unskilled labourers restricted to 5000.

Sources: AIC (2014); USCIS (2010c).

Figure B.13 **Employment-based immigration admissions, 2004–2013**



Source: US Office of Immigration Statistics (2014).

Diversity Visa Program

The Diversity Visa Program was established in 1990 with the aim of diversifying the permanent immigration intake, by providing a dedicated channel for people from countries with low rates of emigration to the United States. Each year, 50 000 permanent visas are randomly allocated to people who apply from countries that have sent less than 50 000 immigrants to the United States in the past five years (AIC 2014).

The visas are distributed among six geographic regions, with a greater number of visas going to regions with lower rates of immigration. No one country can receive more than 7 per cent of the diversity visas in any given year. A computer-generated lottery randomly allocates the visas (AIC 2014; USDSBCA 2015).

To be eligible, immigrants must have a secondary-level education, or have, in the past five years, obtained a minimum of two years' work experience in a profession requiring at least two years of training or experience (AIC 2014).

About 46 000 Diversity Visa Program applicants took up permanent residence in the United States in 2013 (US Office of Immigration Statistics 2014).

Refugees and asylum seekers

The United States accepts people who are fleeing persecution, or are unable to return to their homeland due to life-threatening or extraordinary conditions, under the refugee and asylee categories (AIC 2014).

People who apply for protection outside of the United States are classed as refugees. Unlike the other permanent immigration categories, the President of the United States, in consultation with Congress, sets the refugee quota (AIC 2014). It is set at 70 000 for 2015 (The White House 2014). It has also been announced that the United States plans to accept 10 000 Syrian refugees next financial year (Somanader 2015). The allocation between regions for 2015 is presented in table B.7.

Table B.7 **Refugee regional allocations for 2015**

Region	*Allocation*
Africa	17 000
East Asia	13 000
Europe and central Asia	1 000
Latin America and the Caribbean	4 000
Near East and south Asia	33 000
Unallocated reserve[a]	2 000

[a] The unallocated reserve is allocated to regional ceilings as needed.

Source: The White House (2014).

A person's eligibility for admission to the United States as a refugee is determined by a number of factors, including the degree of risk they face, whether they are a member of a group that is of special concern to the United States (designated yearly by the President of the United States and Congress) and whether they have family members in the United States (AIC 2014).

People can also apply for asylum from within the United States or at a point of entry. These asylees can apply for asylum within one year of arriving in the United States. There is no limit on the number of people who can be granted asylum in any given year (AIC 2014). In 2013, the United States granted asylum to about 42 000 people (US Office of Immigration Statistics 2014).

Temporary immigration

People can migrate to the United States on a temporary basis to work or study, although the United States classes these entrants as 'nonimmigrants'. While the overall number of temporary entrants is uncapped, caps exists for some temporary worker visas. For example, the H-1B visa has a cap of 65 000 per year (USCIS 2015a). Most temporary immigrants can bring spouses and dependent children with them.

Temporary workers

Numerous visas exist for temporary skilled and unskilled workers. Temporary worker visas fall into 10 high-level categories including:

- E — treaty traders and investors, including the E-3 visa for Australian citizens
- H — variety of visas for both high- and low-skilled employment
- I — representatives of foreign media
- L — intracompany transfers
- O — individuals of extraordinary ability or achievement
- P — athletes, entertainers and skilled performers
- Q — cultural exchange
- R — religious workers
- CW — temporary workers employed in the Commonwealth and Northern Mariana Islands
- TN — temporary workers eligible for entry under the North America Free Trade Agreement (USCIS 2011c).

An overview of some of the different visas is provided in table B.8. The requirements of these visas vary, but given that they are work visas, most requirements relate to education, skills and work experience.

Table B.8 **Selected temporary worker classifications**

Classification	*Description*	*Can bring family?*	*Maximum duration of stay*
E-2	Allows investors from a country the United States has a treaty with (includes Australia) to immigrate temporarily when they invest a significant amount of capital in a US business. The investor must also be immigrating to develop and direct the business. Employees of the investor can also immigrate on this visa if certain conditions are met.	Yes	2 years[a]
E-3	Allows Australians to work in the United States in a specialty occupation. The worker must have an offer of employment, have the necessary qualifications and licenses to undertake the job and the employer must have submitted a Labor Condition Application.[b]	Yes	2 years[a]
H-1B	Allows workers to immigrate to the United States to work in specialty occupations, on a Department of Defence cooperative research and development project, or as a fashion model. The requirements differ depending on the stream that the worker enters the United States under. For some streams the employer has to submit a Labor Condition Application.	Yes	3 years[c]
H-2A	Allows employers who meet regulatory requirements to bring in workers to fill temporary agricultural jobs. To qualify, the petitioner must demonstrate that there are no domestic workers who can take the job, show that employing the foreign worker will not adversely impact the wages and conditions of similarly employed US workers, and obtain a temporary Labor Certification. Workers must be from eligible countries (includes Australia).	Yes	3 years
L-1A	Allows a US employer to transfer an executive or manager from an affiliated international office to a US office, or a foreign employer to send an executive or manager to the US to start up a US office.	Yes	3 years[d]
Q-1	Allows immigrants to participate in an international cultural exchange program. Immigrants must be 18 years or older and able to communicate effectively about the cultural attributes of their country. Petitioner employers must have a qualified employee to administer the program, offer wages and conditions similar to those provided to local workers and prove they have the financial means to compensate the participant.	No	15 months
R-1	Allows religious workers to be employed at least part-time by a nonprofit religious organisation (or an organisation which is affiliated with the religious denomination). The worker must have been a member of the religious denomination for at least two years and hold the necessary qualifications to work in that position. The petitioning employer must provide proof of tax-exempt status and proof they will be compensating the employee where it is a paid position.	Yes	30 months[e]

[a] Can be extended for up to two years at a time. There is no limit on the number of extensions. [b] Specialty occupations are defined as occupations that require theoretical or practical application of a body of knowledge in professional fields and at least a degree or its equivalent to enter the occupation. [c] Can receive one addition extension of up to three years. [e] Can receive one additional extension of up to 30 months.

Sources: US Office of Immigration Statistics (2014); USCIS (2010a, 2011c, 2013b, 2013c, 2015a, 2015b).

Some visas also require a job offer from a US employer. In these cases, the employer generally has to file a petition and obtain a Labor Certification or Labor Condition Application, depending on the visa. A Labor Certification from the US Department of Labor verifies that there are an insufficient number of local workers available to fill the position and that employing a foreign worker would not adversely affect the wages and conditions of local workers. A Labor Condition Application requires the employer to agree that:

- the employer will pay the worker a fair wage
- the employer will provide working conditions that will not adversely affect other similarly employed workers
- there is no strike or lockout at the employer's place of business
- the employer will place a notice at their place of business and with bargaining representatives that a Labor Condition Application has been filed (USCIS 2010b).

Immigration of temporary workers has increased in recent years from about 1.5 million in 2004 to about 3 million in 2013 (figure B.14). Temporary worker visa categories that experienced significant increases over this period include the H-2A (agricultural workers), L (intracompany transfers) and E (treaty traders and investors) categories (US Office of Immigration Statistics 2014).

Figure B.14 **Temporary worker admissions, 2004–2013**

Source: US Office of Immigration Statistics (2014).

International students

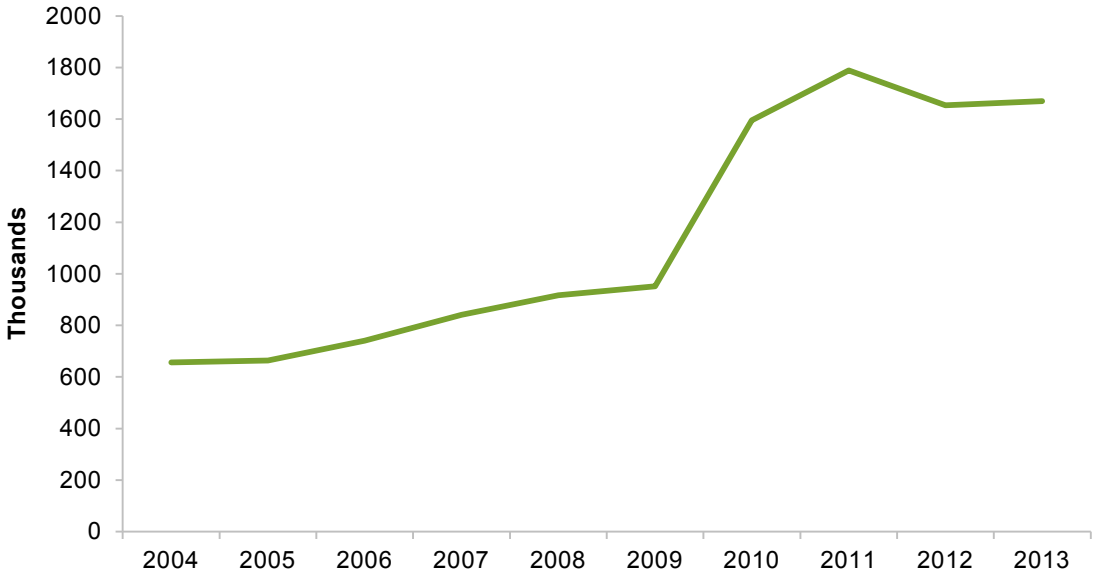
International students who want to study full-time in the United States require a student visa. Applicants need to meet the following criteria:

- They must be enrolled in a full-time academic educational program, a language-training program, or a vocational program.
- The school must be approved by the Student and Exchange Visitors Program, Immigration and Customs Enforcement.
- They must be proficient in English or be enrolled in courses leading to English proficiency.
- They must have sufficient funds to support themselves during the entire duration of their studies.
- They must maintain a residence abroad which they have no intention of giving up (USCIS 2013d).

International students on the F-1 visa cannot work off campus during their first academic year but can work on-campus. After their first year, they can undertake practical training related to their studies. Students on the M-1 visa cannot work until they have completed their studies (USCIS 2013d).

International student admissions have increased in recent years from about 660 000 in 2004 to about 1.7 million in 2013 (figure B.15).

Figure B.15 **International student admissions, 2004–2013**



Source: US Office of Immigration Statistics (2014).

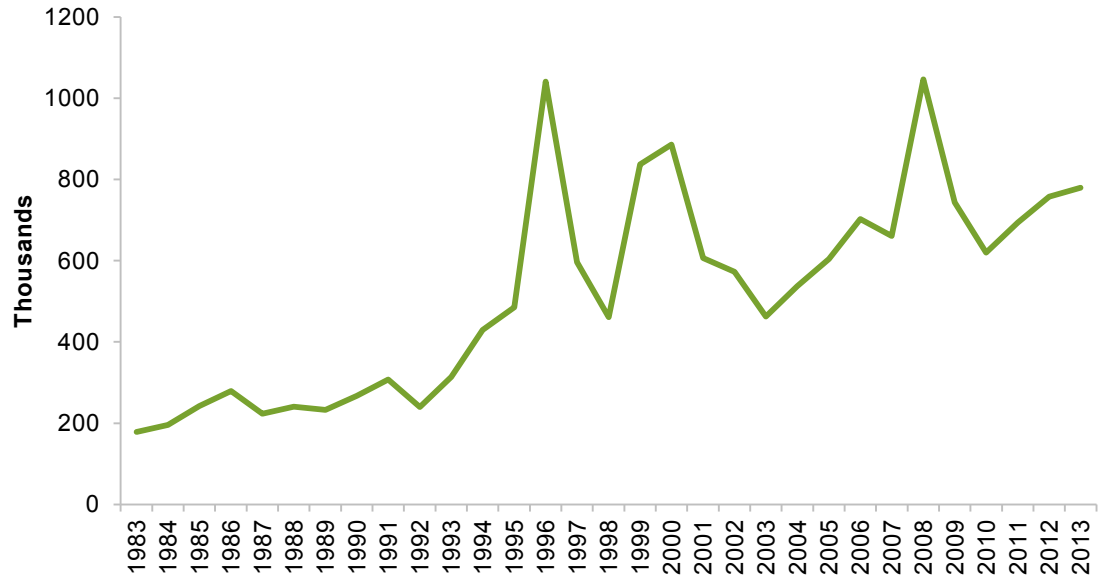
Citizenship

Immigrants can qualify for US citizenship if they have held permanent residence for at least five years (or less in some cases, such as if they are the spouse of a US citizen or a refugee). Applicants for US citizenship must also:

- be 18 years or over
- demonstrate continuous residency
- demonstrate good moral character
- pass English and US history and civics exams (unless they are exempt)
- pay an application fee (AIC 2014; USCIS 2013a).

In 2013, about 780 000 immigrants became naturalised US citizens (figure B.16). The number of people granted US citizenship has increased significantly over the past two decades. US policy is an important driver of citizenship grants. For example, the large spike in citizenship grants in the mid- to late-1990s was due to the 2.7 million undocumented immigrants legalised under the *Immigration Reform and Control Act 1986* becoming eligible for citizenship. The spike in citizenship grants in 2008 was due to the announcement of a fee increase and media campaigns by Hispanic media and organisations to encourage eligible residents to apply for citizenship (Rytina and Caldera 2008).

Figure B.16 **Number of people granted US citizenship, 1983–2013**



Source: US Office of Immigration Statistics (2014).

C Labour market analysis

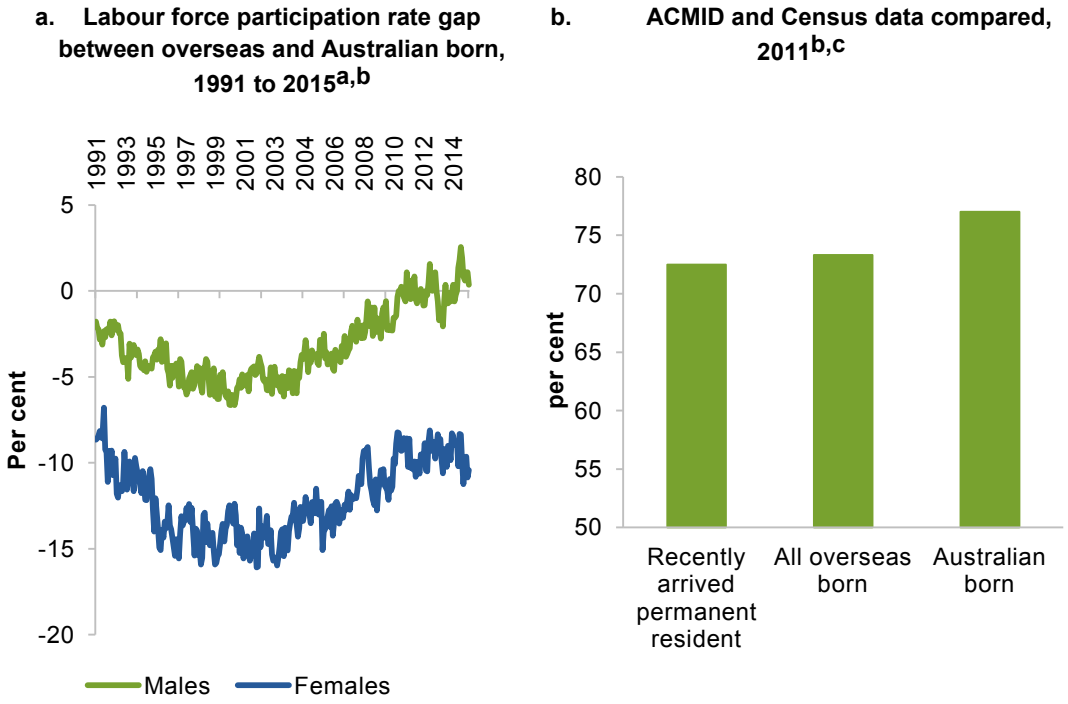
In chapter 5, the Commission compared the labour market outcomes of immigrants and Australian-born people and reported its econometric estimates of the contribution that different factors (such as education level, age and English-language ability) made to the observed differences between the various labour market outcomes of overseas- and Australian-born people.

The first part of this appendix (section C.1) presents figures and text supporting chapter 5. Section C.2 outlines the nature of the econometric analyses reported in the chapter, including the data, the dependent and explanatory variables, data issues and the techniques employed.

C.1 Other supporting evidence

Labour force participation rates

Figure C.1 **Labour force participation rates compared**



a Percentage point difference between overseas-born and Australian-born labour force participation (LFP) rate as a proportion of Australian born LFP rate. **b** Population aged 15 to 64 years. **c** Data for Australian born and all overseas born based on 2011 Census. Data for recently arrived permanent resident is based on the *Australian Census and Migrant Integrated Dataset* (ACMID), which includes permanent immigrants who arrived between 1 January 2000 and 2011 census night.

Sources: Productivity Commission estimates based on ABS (*Labour Force*, Australia, Detailed – Electronic Delivery, *September, 2015* Cat. no. 6291.0.55.001; *Microdata: Australian Census and Migrant Integrated Dataset, 2011* Cat. no. 3417.0.44.001; *2011 TableBuilder Pro*, Cat. no. 2073.0).

Table C.1 **The difference in labour force participation rates between immigrants and the Australian-born population[a]**

Immigrant participation rate less Australian-born participation rate, 1986 to 2011 Censuses

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
	%	%	%	%	%	%
Contribution of compositional factors						
Education	0.4	0.5	0.7	0.9	1.1	1.4
Location	0.3	0.4	0.5	0.6	0.4	0.3
Gender	0.7	0.3	0.2	0.1	0.0	0.0
Age	-1.0	-1.3	-2.2	-3.2	-3.3	-2.1
English ability	-2.5	-3.7	-5.4	-5.2	-4.8	-5.2
Difference explained by compositional factors	-2.2	-3.7	-6.3	-6.7	-6.6	-5.6
Difference not explained by compositional factors	2.5	1.1	-0.5	-1.4	-1.3	-0.6
Total difference	**0.3**	**-2.6**	**-6.8**	**-8.2**	**-7.9**	**-6.1**

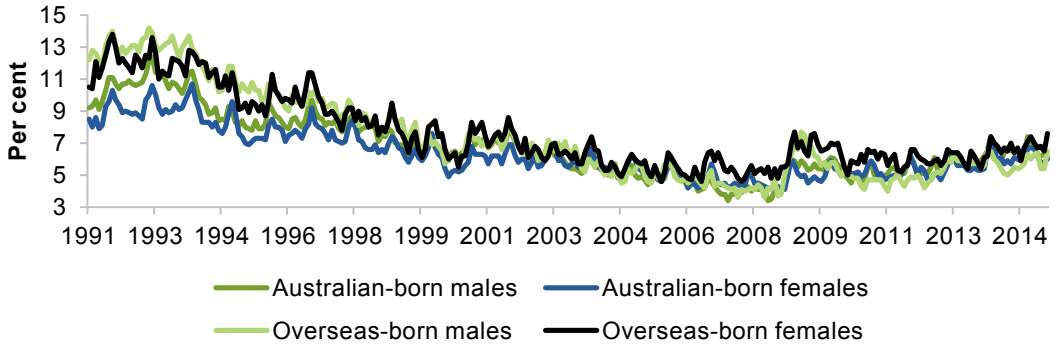
a Includes only Census responses that identify age, education and English ability.

Source: Productivity Commission estimates based on unpublished Census data.

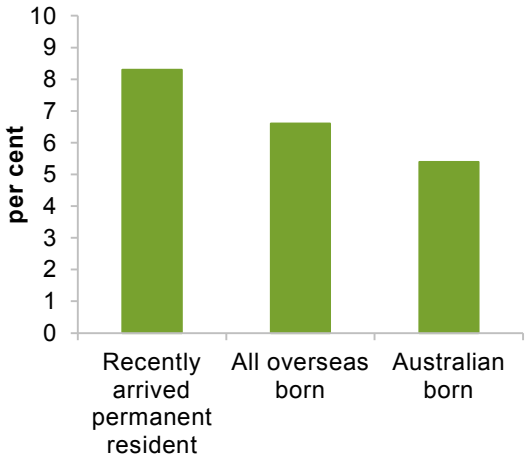
Unemployment rates

Figure C.2 **Unemployment rates compared**

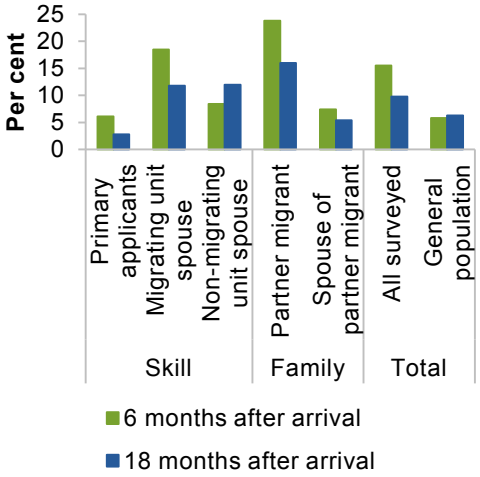
a. Unemployment rates — overseas and Australian born by sex, 1991 – 2015[a]



b. ACMID and Census compared, 2011[a,b,c]



c. Selected permanent immigrants 6 and 18 months after their arrival in 2013[d]



[a] Population aged 15 to 64 years. [b] ACMID data for permanent immigrants by visa category only includes permanent immigrants who arrived between 1 January 2000 and 2011 census night. [c] Data for Australian born and all overseas born is based on 2011 census. [d] Based on *Continuous Survey of Australia's Migrants* (CSAM) data. Not all sub-categories of immigrants are included in the CSAM survey. Immigrants selected in the CSAM included: skill stream primary applicants; migrating unit spouses (spouses of skill stream primary applicants who entered as part of the same migrating unit); non-migrating unit spouses (spouses of skill stream primary applicants who had migrated to Australia at another time or were born in Australia); partner immigrants (primary applicants granted a visa through the family stream enabling them to marry their Australian resident fiancé or to settle with their Australian resident spouse or de facto partner in Australia); and spouse of partner immigrants (spouses and de facto partners of partner immigrants, who sponsored their migration to Australia).

Sources: Productivity Commission estimates based on ABS (*Labour Force Survey* Cat. no. 6291.0.55.001; *Microdata: Australian Census and Migrant Integrated Dataset, 2011* Cat. no. 3417.0.44.001; *2011 TableBuilder Pro*, Cat. no. 2073.0) and DIBP (2015).

Table C.2 **The difference in unemployment rates between immigrants and the Australian-born population[a]**

Immigrant unemployment rate less Australian-born unemployment rate, 1986 to 2011 Censuses

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
	%	%	%	%	%	%
Contribution of compositional factors						
Education	-0.1	-0.3	-0.4	-0.4	-0.4	-0.5
Location	-0.7	-0.5	-0.5	-0.4	-0.3	-0.2
Gender	0.0	0.1	0.1	0.0	0.0	0.0
Age	-1.3	-1.5	-1.1	-1.0	-0.6	-0.7
English ability	2.0	3.4	2.6	1.8	1.7	1.6
Difference explained by compositional factors	-0.2	1.2	0.6	0.1	0.4	0.2
Difference not explained by compositional factors	1.5	2.2	1.4	1.2	0.8	0.9
Total difference	**1.3**	**3.3**	**2.0**	**1.3**	**1.2**	**1.2**

[a] Includes only Census responses that identify age, gender, location, education and English ability.

Source: Productivity Commission estimates based on unpublished ABS Census data.

Working hours

Table C.3 **The difference in working hours between immigrant and Australian-born workers[a]**

Immigrant average working hours minus Australian-born average working hours, 1986 to 2011 Censuses

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
	%	%	%	%	%	%
Contribution of compositional factors						
Age	0.0	0.2	0.3	0.6	0.6	0.6
Gender	0.2	0.2	0.2	0.2	0.2	0.2
Occupation	-0.1	-0.1	0.0	0.1	0.2	0.2
Industry	0.0	0.0	0.1	0.0	0.0	-0.1
Location	0.0	0.0	0.0	0.0	0.0	-0.1
English ability	-0.1	-0.2	-0.2	-0.4	-0.5	-0.7
Difference explained by compositional factors	-0.1	0.2	0.5	0.5	0.4	0.1
Difference not explained by compositional factors	0.3	0.4	0.1	0.0	0.1	0.2
Total difference	**0.3**	**0.6**	**0.6**	**0.5**	**0.5**	**0.3**

[a] Includes only Census responses that identify age, gender, location, education, English ability, industry and occupation.

Source: Productivity Commission estimates based on unpublished ABS Census data.

Income

Table C.4 **Percentage difference in the hourly income of immigrant and Australian-born workers[a]**

1986 to 2011 Censuses

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
	%	%	%	%	%	%
Contribution of compositional factors						
Education	0.4	1.9	2.6	3.3	5.8	6.7
Location	1.5	2.1	1.9	2.2	2.1	1.9
Gender	0.5	0.4	0.4	0.2	0.2	0.2
Age	3.5	4.3	4.3	3.3	3.6	3.0
English ability	-4.2	-4.8	-5.4	-5.0	-7.3	-7.8
Industry	0.7	1.3	1.1	1.4	1.1	0.6
Difference explained by compositional factors	2.4	5.4	4.8	5.4	5.4	4.5
Difference not explained by compositional factors	0.9	0.9	1.7	2.0	2.0	1.5
Total difference	**3.2**	**6.3**	**6.4**	**7.4**	**7.5**	**6.0**

a Includes only Census responses that identify age, gender, location, education, English ability and industry.

Source: Productivity Commission estimates based on unpublished ABS Census data.

Table C.5 **Percentage difference in the hourly income of recently arrived immigrant and Australian-born workers[a]**

1986 to 2011 Censuses

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
	%	%	%	%	%	%
Contribution of compositional factors						
Education	3.3	7.0	8.8	7.8	11.5	10.3
Location	1.8	2.6	2.2	2.5	2.3	1.9
Gender	0.1	0.2	0.3	0.2	0.2	0.3
Age	-0.3	0.8	0.5	0.1	-0.3	-1.1
English ability	-5.5	-7.7	-10.1	-7.8	-12.4	-10.2
Industry	0.2	1.6	1.1	1.2	0.8	-1.0
Difference explained by compositional factors	-0.3	4.6	2.8	4.1	2.1	0.2
Difference not explained by compositional factors	-0.1	-0.7	2.9	3.2	1.4	-2.9
Total difference	**-0.5**	**3.9**	**5.7**	**7.3**	**3.5**	**-2.7**

a Includes only Census responses that identify age, gender, location, education, English ability and industry.

Source: Productivity Commission estimates based on unpublished ABS Census data.

Table C.6 **Percentage difference in the hourly income of recently arrived immigrant and Australian-born workers living in regional Australia**

1986 to 2011 Censuses

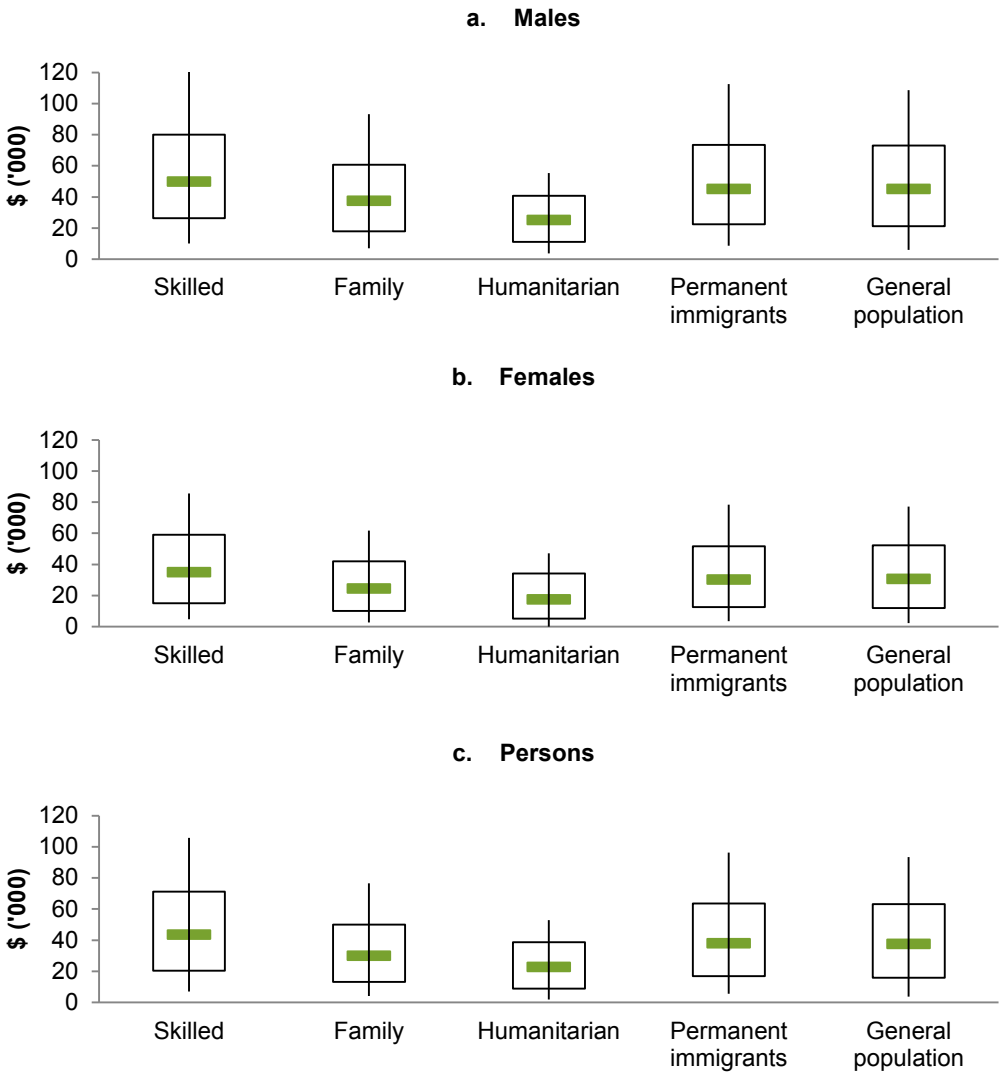
	1986	*1991*	*1996*	*2001*	*2006*	*2011*
	%	%	%	%	%	%
Contribution of compositional factors						
Education	2.3	3.2	3.3	3.8	5.2	5.9
Gender	0.6	0.3	0.2	0.0	0.0	0.0
Age	2.7	3.1	3.3	2.9	3.3	2.4
English ability	-1.8	-0.9	-1.0	-0.7	-0.8	-1.6
Industry	4.1	3.2	2.2	2.0	1.1	0.6
Difference explained by compositional factors	7.9	8.9	8.0	8.0	8.7	7.3
Difference not explained by compositional factors	3.8	4.0	3.9	3.2	3.9	3.1
Total difference	**11.7**	**12.9**	**11.9**	**11.2**	**12.6**	**10.4**

a Includes only Census responses that identify age, gender, location, education, English ability and industry. The contribution of compositional factors for 1986, 1991, 1996 and 2001 differs slightly from that reported in PC (2006) due to corrections made to those decompositions.

Source: Productivity Commission estimates based on unpublished ABS Census data.

Figure C.3 **Income distribution of recently arrived permanent immigrants by sex and visa category[a,b,c]**

2009-10

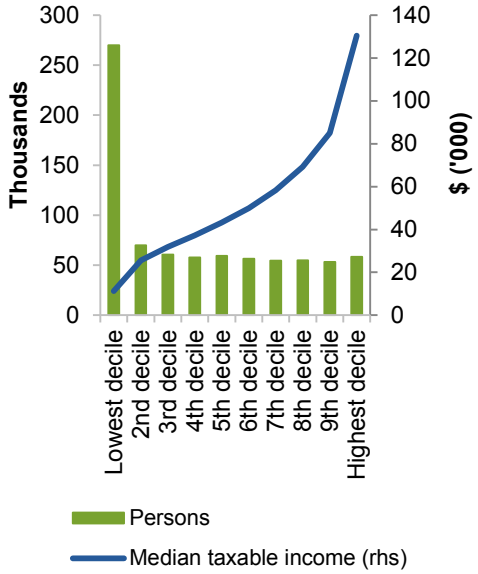


a Persons who receive an income below the tax-free threshold ($6000 in 2009-10) are not necessarily required to lodge a tax return and this can include persons who derive their income from government pensions and allowances. In addition, some Australian Government pension, benefit and allowance payments are exempt from income tax and therefore recipients are not required to include this income in their taxation returns. Consequently, the coverage of low-income earners is incomplete and Government pensions and allowances are excluded from these data. **b** These statistics relate to immigrants aged 15 years and over, with a permanent visa who arrived after 1 January 2000. **c** Green bar represents median income, black box indicates the range between the 25th and 75th percentile, the extremes of the black vertical ines indicate the 10th and 90th percentiles.

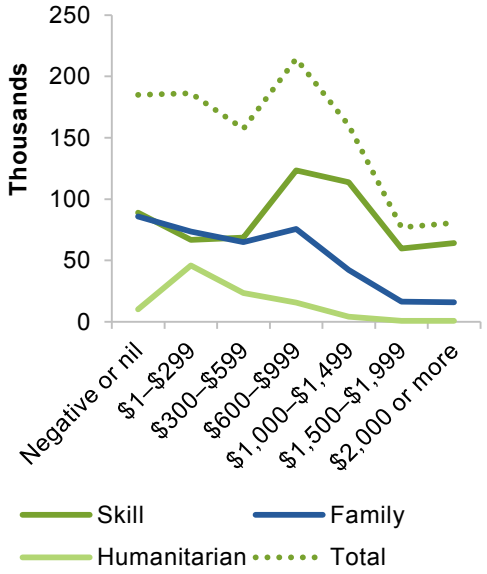
Source: Productivity Commission estimates based on Australian Taxation Office (2015) and ABS *Personal Income Tax and Migrants Integrated Dataset*, unpublished data.

Figure C.4 Income distribution of permanent immigrants

a. Number of recently arrived permanent immigrants in taxable income deciles and median taxable income in each decile, 2009-10[a]



b. Number of permanent immigrants with individual weekly incomes in specified ranges, 2011[b]



[a] These statistics relate to immigrants aged 15 years and over, with a permanent or provisional visa who arrived after 1 January 2000. [b] Income may be negative when a loss accrues to a household as an owner or partner in unincorporated enterprises or rental properties. Losses occur when operating expenses and depreciation are greater than gross receipts.

Sources: Productivity Commission estimates based on ABS (2015) *Personal Income of Migrants, Australia, Experimental, 2009-10* Linked Migrant Taxpayer Records from the 2009-10 Personal Income Tax and Migrants Integrated Dataset (PITMID); and ABS (2013), *Understanding Migrant Outcomes — Enhancing the Value of Census Data, Australia 2011*, Cat. no. 3417.0.

Employment

Table C.7 **Immigrant and Australian-born employment by industry**
Proportion in each industry[a]

	1986		*2011*	
Industry	*Australian born*	*Immigrants*	*Australian born*	*Immigrants*
	%	%	%	%
Accommodation, cafes and restaurants	3.2	4.0	6.2	7.8
Agriculture, forestry and fishing	7.0	2.4	3.0	1.3
Communications	2.2	2.0	1.8	2.0
Construction	6.4	8.0	9.0	7.1
Cultural and recreational services	1.9	1.5	1.7	1.2
Education	7.4	5.6	8.7	6.8
Electricity, gas and water	2.1	1.7	1.3	1.0
Finance	4.9	3.7	3.5	4.6
Government	6.7	5.1	7.6	5.5
Health	8.3	8.7	11.3	13.5
Manufacturing	12.8	22.0	8.5	11.1
Mining	1.5	1.4	1.9	1.5
Personal services	3.3	2.8	4.0	3.5
Property and business services	6.4	7.0	11.5	14.5
Retail	14.4	12.9	11.5	9.0
Transport	5.6	5.2	4.8	5.2
Wholesale	5.8	6.1	3.9	4.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

a Totals might not add as a result of rounding.

Source: Productivity Commission estimates based on unpublished ABS Census data.

Labour supply

Table C.8 **Hours worked per capita per week[a]**
1986 to 2011 Censuses

		Immigrants						*Australian born*					
	Units	1986	1991	1996	2001	2006	2011	1986	1991	1996	2001	2006	2011
Proportion of working age	%	90.8	93.1	94.2	94.8	94.8	94.1	71.2	73.3	73.9	75.2	76.0	76.4
Labour force participation rate	%	62.0	61.8	57.5	57.4	58.5	60.7	61.5	63.9	64.2	65.5	61.2	61.0
Unemployment rate	%	10.3	14.2	10.7	8.3	6.1	6.4	8.8	10.6	8.6	7.0	4.9	5.3
Hours per worker	hrs/week	34.6	33.2	34.0	35.3	34.9	34.5	34.3	32.8	33.4	34.9	34.5	34.3
Hours worked per person	hrs/week	17.5	16.4	16.4	17.6	18.2	18.5	13.7	13.7	14.5	16.0	15.3	15.2

a Hours per person calculated as the product of the proportion of working age, participation rate, employment rate and hours per worker.

Source: Productivity Commission estimates based on unpublished Census data.

Table C.9 **Participation and unemployment rates across regions**

Immigrants and Australian-born populations, 2011 Census

	Major city		*Inner regional*		*Outer regional*		*Remote*	
	Australian born	*Foreign born*	*Australian born*	*Foreign born*	*Australian born*	*Foreign born*	*Australian born*	*Foreign born*
	%	%	%	%	%	%	%	%
Labour force participation rate	63.6	61.3	63.6	53.6	58.8	57.0	60.5	78.0
Unemployment rate	5.2	6.5	5.6	5.9	5.5	5.9	5.4	2.5

Source: Productivity Commission estimates based on unpublished ABS Census data.

C.2 Econometric results

For ease of comparison, the Commission has replicated the econometric approach adopted in the previous Productivity Commission (PC 2006) study.

Data and variables

Data was sourced from the six Australian *Census of Population and Housing* covering the period 1986 to 2011.

As a result of its 2006 study, the Commission already held unpublished data for the first four Censuses. To update the material, the same unpublished data was acquired from the Australian Bureau of Statistics (ABS) for the 2006 and 2011 Censuses.

Dependent variables

Aligned with the previous study, four labour market statistics were used in the regression and subsequent decomposition analysis (reported above). They include labour force participation rate, unemployment rate, hours worked per week, and hourly income.

Explanatory variables

Replicating the approach adopted in PC (2006), a large set of explanatory variables were used to estimate the participation rate, unemployment rate, hours worked and hourly income models.

The means and standard deviations for most of the variables are presented in table C.10. This table also gives an overview of the categories used for different variables.

While most variables were present in all four models, some variables were not included in one or more models. In particular:

- in the hours worked model, education was replaced by categories of occupation (which explained more of the variance in hours worked across groups)
- time since arrival in Australia by immigrants was not used in the decomposition analysis.

Table C.10 **Group means**

Australian population aged over 15 years, 1986 to 2011 Censuses

	Units	*1986*	*1991*	*1996*	*2001*	*2006*	*2011*
Hourly Earnings	$/hr	9.6	13.4	15.8	18.5	23.1	28.9
Participation rate	%	61.4	63.0	61.9	63.0	60.4	61.4
Unemployment rate	%	9.2	11.6	9.2	7.4	5.4	5.8
Age							
15 to 24	%	21.4	21.2	18.6	17.6	17.0	16.5
25 to 44	%	41.0	41.3	40.5	39.0	35.3	34.7
45 to 64	%	25.0	24.6	27.0	29.5	31.1	31.4
65 and over	%	12.6	12.9	13.9	13.9	16.6	17.4
Education							
No post-school qualifications	%	69.7	69.7	65.7	60.5	60.6	55.1
Certificate level	%	20.4	15.6	15.4	17.9	16.7	18.1
Bachelor degree/diploma level	%	8.5	12.5	15.8	18.0	18.7	21.5
Postgraduate level	%	1.5	2.2	3.1	3.6	4.0	5.4
Other demographics							
Live in a regional area	%	36.3	36.5	36.4	36.1	34.6	34.2
Female	%	50.3	50.1	50.3	50.5	51.1	51.0
Immigrant	%	24.9	25.8	26.3	26.3	26.3	28.6
English ability[a]							
Not well or not at all	%	11.2	11.6	11.0	10.6	10.1	9.7
Very well or well	%	32.1	33.7	35.0	36.7	38.8	42.6
Native speaker	%	56.6	54.7	54.0	52.7	51.2	47.7
Years since arrival in Australia							
Recent (<5)	%	10.4	17.1	12.5	13.7	20.4	22.7
Medium (5 to 15)	%	21.7	19.0	23.6	22.4	25.2	17.6
Long term (15+)	%	67.9	64.0	63.9	63.9	54.4	59.8

(continued next page)

Table C.10 (continued)

	Units	1986	1991	1996	2001	2006	2011
Industry[b]							
Accommodation, cafes and restaurants	%	3.4	4.3	4.8	5.0	6.5	6.6
Agriculture, forestry and fisheries	%	5.9	4.8	4.4	4.1	3.2	2.5
Communications	%	2.1	1.8	2.0	1.9	2.0	1.8
Construction	%	6.8	6.5	6.6	6.9	8.0	8.4
Culture and recreation	%	1.8	2.0	2.5	2.6	1.4	1.5
Electricity, gas and water	%	2.0	1.4	0.7	0.7	1.0	1.2
Education	%	7.0	7.2	7.3	7.4	7.9	8.2
Finance and insurance	%	4.7	4.8	4.1	3.9	3.9	3.8
Government admin & defence	%	6.3	6.1	5.2	4.6	6.9	7.0
Health	%	8.4	9.0	9.8	9.9	10.8	11.9
Manufacturing	%	15.0	13.8	13.0	12.3	10.7	9.2
Mining	%	1.4	1.3	1.2	0.9	1.2	1.8
Personal services	%	3.2	3.6	3.7	3.8	3.8	3.8
Property and business services	%	6.6	7.9	10.1	11.3	11.8	12.3
Retail trade	%	14.0	14.3	14.1	14.9	11.7	10.8
Transport and storage	%	5.5	4.8	4.4	4.5	4.8	4.9
Wholesale trade	%	5.9	6.5	6.0	5.3	4.5	4.1

[a] Rebased to proportion of immigrants. [b] Rebased to proportion of people employed.

Source: Productivity Commission estimates based on unpublished ABS Census data.

Data issues

Typically, there are imitations to using Census data to obtain measures of labour market performance. They relate to both the nature of the data and the way they are collected.

- All data are self-reported and might suffer from bias or human error.
- Income data are given in bands, which are asymmetrically compressed at the upper end of the income distribution. Reported income also includes earnings from all sources, including rental properties and other investments.
- Hours worked data are not an average over the year but taken from the week before the Census. This might have significant implications in certain industries and for shift or part time workers.

As noted in PC (2006), the impact of these issues on the validity of the results is tempered by the comparative nature of the analysis such that biases or systematic errors only present a problem if immigrant data is more (or less) likely than data for Australian born to have the bias or error.

Notwithstanding the limitations, the Census remains the most appropriate data set for comparing, at a highly detailed level, the labour market outcomes of immigrants with Australian born over time.

Method

Econometric regressions

As was the case in the Commission's previous study, weighted ordinary least squares on group data was used. Each of the four dependent variables were regressed on a set of explanatory variables drawn from the broader human capital literature, previous empirical studies and model specification tests.

A stepwise regression procedure was also used to assist in identifying whether the regression models were correctly specified and to test whether significant interaction effects had been omitted.

Decomposition analysis

Replicating the Commission's 2006 approach, a Blinder-Oaxaca decomposition technique was used to decompose participation rates, unemployment rates, working hours and hourly income into two parts.

- One part reflecting differences in characteristics (composition) between immigrants and Australian-born workers.
- The other part reflecting differences in parameters (or differences after controlling for composition) between immigrants and Australian-born workers.

Again, the Australian-born population is used as the base set of coefficients which are used to attribute participation, unemployment, working hours and hourly income differentials to difference in characteristics.

Regression results

Table C.11 **Participation rate regression results**[a]

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
Adjusted R-square	0.92	0.94	0.95	0.95	0.96	0.96
Participation rate for 25 to 44 year old, Australian born, no qualifications, in a capital city	85.27	86.32	83.9	82.22	81.64	80.61
Age						
15 to 24	-7.13	-10.69	-8.66	-8.68	-8.64	-10.53
45 to 64	-18.46	-16.61	-13.4	-11.15	-9.63	-7.90
65 and over	-66.96	-69.99	-69.56	-68.54	-68.84	-66.79
Education						
Postgraduate level	19.66	18.8	21.06	20.9	20.34	20.19
Bachelor degree/diploma level	17.62	16.63	17.91	17.65	16.56	16.62
Certificate level	13.61	12.53	12.01	12.57	12.48	12.84
Other demographics						
Live in a regional area	-1.83	-2.43	-2.69	-2.98	-1.99	-1.69
Female	-23.42	-18.23	-15.34	-13.01	-11.20	-10.14
Immigrant	3.59	1.86	1.9	2.72	-1.02	0.58
English ability						
Not well or not at all	-7.41	-9.05	-17.35	-22.4	-24.67	-25.32
Very well or well	-5.1	-4.59	-6.2	-9.48	-8.18	-8.83
Years since arrival in Australia						
Recent (<5)	0.30[c]	-1.51[c]	-9.55	-7.87	-3.96	-5.31
Medium (5 to 15)	1.33[c]	1.96	0.96[c]	-1.40[b]	2.82	-1.16

Model also includes interactive effects between immigrants' age, education, English ability and years since arrival in Australia.

[a] All reported coefficients are significant at the 1 per cent level, unless otherwise indicated. Regression of group data weighted by persons. [b] Significant at the 5 per cent level. [c] Not significant at the 5 per cent level.

Source: Productivity Commission estimates based on unpublished ABS data.

Table C.12 **Unemployment rate regression results**[a]

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
Adjusted R-square	0.76	0.84	0.81	0.81	0.76	0.81
Unemployment rate for 25 to 44 year old, Australian born, no qualifications, in a capital city	8.25	11.56	9.66	8.27	5.39	5.73
Age						
15 to 24	8.40	8.77	6.82	6.04	4.77	6.42
45 to 64	-2.16	-2.60	-1.59	-1.89	-1.18	-1.22
65 and over	-4.46	-4.53	-6.13	-5.21	-3.61	-3.53
Education						
Postgraduate level	-6.77	-8.33	-6.76	-5.27	-3.15	-2.84
Bachelor degree/diploma level	-6.97	-7.57	-6.43	-5.23	-3.20	-2.94
Certificate level	-5.68	-4.89	-4.44	-3.61	-1.93	-1.56
Other demographics						
Live in a regional area	3.59	2.29	2.56	2.00	1.23	0.69
Female	-0.62	-2.57	-2.01	-1.54	-0.13	-0.17
Immigrant	-1.35	-0.84	-0.83	-1.06	0.19	0.22
English ability						
Not well or not at all	14.03	18.52	15.87	12.56	11.60	8.53
Very well or well	2.24	3.99	3.91	2.88	2.71	2.02
Years since arrival in Australia						
Recent (<5)	12.42	9.27	9.81	5.14	2.80	5.47
Medium (5 to 15)	2.99	2.64	0.50[b]	1.07	-0.11	0.51

[a] All reported coefficients are significant at the 1 per cent level, unless otherwise indicated. Regression of group data weighted by persons in labour force. [b] Not significant at the 5 per cent level.

Source: Productivity Commission estimates based on unpublished ABS data.

Table C.13 **Working hours regression results**[a]

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
Adjusted R-square	0.70	0.76	0.81	0.83	0.77	0.78
Hours worked for 25 to 44 year old, Australian born, 'other occupation' in manufacturing industry and in a capital city	37.34	37.14	36.84	37.92	38.87	38.43
Age						
15 to 24	0.02[c]	-1.90	-2.72	-4.90	-5.67	-6.34
45 to 64	-0.72	-0.43	-0.31	0.16	0.08[b]	0.01[c]
65 and over	-8.32	-8.59	-9.39	-10.73	-10.05	-9.6
Occupation						
Managers and professionals	4.54	5.06	5.68	7.53	6.16	5.92
Associate professionals	2.15	3.12	4.82	5.73	4.51	4.52
Tradespersons and advanced clerical	1.27	1.85	2.53	3.01	2.76	3.01
Intermediate clerical/sales	1.71	2.26	2.54	2.73	1.62	1.64
Other demographics						
Live in a regional area	-0.31	-0.11	-0.35	0.00[c]	0.06[b]	0.22
Female	-6.39	-6.33	-6.02	-7.09	-7.23	-6.95
Immigrant	0.14	0.19	0.02[c]	0.07[c]	-0.28	-0.13
English ability						
Not well or not at all	-0.69	-0.76	-1.07	-2.26	-0.42[c]	-2.66
Very well or well	-0.13[c]	-0.14[b]	-0.31	-0.80	0.41	0[c]

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Table C.13 (continued)

Years since immigrant's arrival in Australia						
Recent (<5)	0.63	0.28	-0.19[c]	-0.59	0.48	0.51
Medium (5 to 15)	0.38	0.49	0.36	0.14[c]	0.96	1.09
Industry						
Accommodation, cafes and restaurants	-7.44	-8.50	-8.81	-8.39	-10.71	-10.47
Agriculture, Forestry and Fishing	0.46	-0.42	-0.76	0.69	-7.31	-7.38
Communications Services	-2.80	-2.15	-1.22	-2.44	-0.02[c]	-7.3
Construction	-1.28	-1.31	-1.14	-0.56	-7.16	-7.3
Culture and Recreational Services	-6.98	-7.92	-7.60	-7.89	0.03[c]	0.84
Electricity, Gas and Water Supply	-6.68	-6.40	-7.22	-6.80	-6.96	-6.41
Education	-1.55	-0.73	-1.15	-1.07	0.01[c]	0.61[c]
Finance and Insurance	0.59	0.69	-4.03	-4.09	1.07	1.34
Government Administration and Defence	-1.24	-1.46	-5.09	-5.70	-5.37	-4.47
Health and Community Services	-3.94	-4.09	-5.70	-5.60	-4.53	-3.85
Mining	-0.64	0.36[b]	1.56	8.26	11.7	14.73
Personal and Other Services	-4.23	-5.90	-6.65	-6.31	-3.21	-3.49
Property and Business Services	-5.46	-6.58	-7.15	-6.30	-4.38	-1.59
Transport and Storage	-3.75	-5.74	-8.69	-7.98	-3.55	-2.39
Retail Trade	-1.12	-0.49	-0.53	-1.20	3.07	3.55
Wholesale Trade	0.56	-0.67	-0.83	-0.90	-7.26	-7.17

[a] All reported coefficients are significant at the 1 per cent level, unless otherwise indicated. Regression of group data weighted by employed persons. [b] Significant at the 5 per cent level. [c] Not significant at the 5 per cent level.

Source: Productivity Commission estimates based on unpublished ABS data.

Table C.14 **Factors influencing income per hour worked of immigrants and Australian-born workers — regression 1[a]**
1986 to 2011 Censuses, nominal dollars

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
Adjusted R-square[b]	0.73	0.79	0.79	0.80	0.77	0.80
Income of 15 to 24 year old, Australian born, no qualifications, working in Retail Trade Industry and in a capital city	5.88	8.33	9.70	11.24	13.38	16.05
Age						
25 to 44	2.38	3.55	4.13	4.63	6.19	7.30
45 to 64	2.72	4.27	4.94	4.98	7.30	8.52
65 and over	3.89	7.51	8.08	8.04	11.26	12.37
Education						
Postgraduate level	5.56	9.37	8.91	8.91	13.09	14.23
Bachelor degree/diploma level	4.50	5.92	5.32	5.52	7.76	8.82
Certificate level	0.98	0.82	0.72	0.70	1.12	1.40
Other demographics						
Live in a regional area	-0.57	-1.18	-1.20	-1.68	-2.02	-2.16
Female	-1.37	-2.09	-2.03	-1.33	-2.16	-2.22
Immigrant	-0.27	-0.45	-0.51	-0.48	-1.07	-1.58
Industry						
Accommodation, Cafes and Restaurants	0.51	0.63	0.37	-0.05[c]	-1.13	-1.65
Agriculture, Forestry and Fishing	-2.11	-2.59	-2.39	-2.74	-4.10	-5.19
Communications Services	2.86	3.23	4.59	5.76	6.74	7.66
Construction	1.39	1.96	1.81	2.79	3.58	4.97
Culture and Recreational Services	1.81	2.18	2.54	2.78	1.93	2.07
Electricity, Gas and Water Supply	3.51	3.72	5.02	7.86	2.35	4.37
Education	4.07	1.27	1.63	3.09	8.79	11.70
Finance and Insurance	2.98	4.94	5.55	6.94	9.26	10.75
Government Administration and Defence	2.86	3.14	4.03	5.20	6.38	9.27
Health and Community Services	2.11	2.54	2.86	3.20	3.41	4.61
Manufacturing	1.30	1.68	1.76	2.50	2.48	3.58
Mining	6.00	9.23	11.64	9.70	12.76	14.38
Personal and Other Services	1.37	1.34	1.44	1.83	-0.93	-0.33
Property and Business Services	2.31	3.98	4.01	4.81	5.24	6.51
Transport and Storage	2.32	2.61	3.11	2.98	2.52	3.59
Wholesale Trade	1.53	2.24	2.17	2.32	2.80	3.91

[a] All coefficients are significant at the 1 per cent level unless otherwise indicated. Regression of group data weighted by employed persons. [b] The adjusted R-square using grouped data is higher than it would be if the regression were done on the ungrouped data. [c] Not significant at the 5 per cent level.

Source: Productivity Commission estimates based on unpublished Census data.

Table C.15 **Factors influencing income per hour worked of immigrants and Australian-born workers — regression 2[a]**

1986 to 2001 Censuses, nominal dollars

	1986	*1991*	*1996*	*2001*	*2006*	*2011*
Adjusted R-square[a]	0.74	0.80	0.80	0.82	0.84	0.87
Income of 15 to 24 year old, Australian-born, no qualifications, working in Retail Trade Industry and in a capital city	5.89	8.37	9.76	11.31	13.52	13.52
Age						
25 to 44	2.40	3.58	4.16	4.64	6.21	7.41
45 to 64	2.76	4.29	4.94	4.94	7.15	8.29
65 and over	3.91	7.53	8.09	8.02	11.03	11.81
Education						
Postgraduate level	5.53	9.35	8.92	8.92	13.30	14.54
Bachelor degree/diploma level	4.47	5.89	5.32	5.53	7.86	8.95
Certificate level	0.94	0.76	0.65	0.63	1.03	1.27
Other demographics						
Live in a regional area	-0.61	-1.25	-1.30	-1.78	-2.19	-2.39
Female	-1.36	-2.09	-2.03	-1.33	-2.17	-2.26
English ability of immigrants						
Not well or not at all	-1.51	-2.50	-3.27	-3.67	-5.10	-6.41
Very well or well	-0.76	-1.26	-1.63	-1.47	-2.75	-3.33
Native speaker	0.16	0.28	0.43	0.55	0.99	1.23
Years since immigrant's arrival in Australia						
Recent (<5)	-0.19[b]	-0.49	-0.29	-0.24[c]	-0.35	-0.91
Medium (5 to 15)	-0.10[b]	-0.10[c]	-0.28	-0.44	-1.24	-1.87
Industry						
Accommodation, Cafes and Restaurants	0.55	0.70	0.45	0.04[d]	-0.92	-1.28
Agriculture, Forestry and Fishing	-2.09	-2.56	-2.35	-2.70	-4.04	-5.02
Communications Services	2.85	3.22	4.56	5.74	6.61	7.43
Construction	1.41	1.96	1.80	2.77	3.51	4.83
Culture and Recreational Services	1.76	2.1	2.44	2.68	1.73	1.84
Electricity, Gas and Water Supply	3.51	3.71	4.98	7.81	2.15	4.10
Education	4.04	1.21	1.54	3.00	8.69	11.54
Finance and Insurance	2.95	4.89	5.48	6.88	9.15	10.57
Government Administration and Defence	2.83	3.08	3.95	5.12	6.20	9.01
Health and Community Services	2.09	2.50	2.79	3.13	3.30	4.51
Manufacturing	1.36	1.77	1.88	2.59	2.60	3.71
Mining	5.98	9.18	11.57	9.61	12.57	14.15
Personal and Other Services	1.35	1.30	1.39	1.78	-0.99	-0.36
Property and Business Services	2.28	3.93	3.94	4.76	5.14	6.37
Transport and Storage	2.31	2.59	3.09	2.97	2.52	3.61
Wholesale Trade	1.51	2.21	2.12	2.30	2.80	3.90

[a] All coefficients are significant at the 1 per cent level unless otherwise indicated. Regression of group data weighted by employed persons. [b] The adjusted R-square using grouped data is higher than it would be if the regression were done on the ungrouped data. [c] Significant at the 5 per cent level. [d] Not significant at the 5 per cent level.

Source: Productivity Commission estimates based on unpublished Census data.

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