



Australian Government
Productivity Commission

Migrant Intake into Australia

Productivity Commission
Inquiry Report

No. 77, 13 April 2016

© Commonwealth of Australia 2016

ISSN 1447-1329 (print)

ISSN 1447-1337 (online)

ISBN 978-1-74037-583-2 (print)

ISBN 978-1-74037-582-5 (PDF)



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An appropriate reference for this publication is:

Productivity Commission 2016, *Migrant Intake into Australia*, Inquiry Report No. 77, Canberra.

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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).



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13 April 2016

The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the Commission's final report into *Migrant Intake into Australia*.

Yours sincerely

A handwritten signature in black ink, appearing to read 'PL', with a stylized flourish at the end.

Paul Lindwall
Presiding Commissioner

A handwritten signature in black ink, appearing to read 'AM', with a stylized flourish at the end.

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]

Letter of extension



TREASURER

Peter Harris AO
Chairman
Productivity Commission
Locked Bag 2, Collins St
East Melbourne VIC 8003

Dear Mr Harris

Thank you for your letter of 9 February 2016 seeking an extension of the due date for the Productivity Commission's (the Commission) current inquiry into *Migrant Intake into Australia* to 15 April 2016. The current due date is 20 March 2016.

I understand that additional insight from modelling now in progress appears likely to offer considerable policy value, and extending the time will allow the Commission to confirm this and translate it into recommended program improvements.

On that basis, I agree to extend the due date for the Commission to present the final report of its inquiry into Migrant Intake into Australia to no later than 15 April 2016.

I have copied this letter to the Prime Minister and the Minister for Immigration and Border Protection.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Scott Morrison', written over a faint circular stamp.

The Hon Scott Morrison MP

23 / 2 / 2016

Parliament House Canberra ACT 2600 Australia
Telephone: 61 2 6277 7340 | Facsimile: 61 2 6273 3420

Contents

Terms of reference	iv
Letter of extension	vii
Acknowledgments	xiii
Abbreviations and explanations	xiv
Glossary	xvi
Key points	2
Overview	3
Recommendations and findings	37
1 Introduction	49
1.1 What was the Commission asked to do?	49
1.2 Scope of the inquiry	50
1.3 The Commission's approach	50
1.4 Guide to the inquiry report	53
2 Migration trends and policies	55
2.1 Trends in global migration	56
2.2 Development of Australia's immigration policies	60
2.3 Australia's immigration flows	65
2.4 A snapshot of the current system	72
3 Immigration: an assessment framework	83
3.1 Why do people migrate and why do countries accept (and limit) immigration?	84
3.2 Key features and objectives of immigration systems	89
3.3 How are immigration, population, economic growth and wellbeing connected?	95
3.4 Is there an optimal immigration and population growth rate?	99

3.5	The Commission's approach to assessing the costs and benefits of immigration	109
4	Characteristics of immigrants	117
4.1	Countries of origin	119
4.2	Immigrants' characteristics	123
4.3	Location of immigrants	136
4.4	Second generation immigrants	142
5	Labour market outcomes of immigrants	147
5.1	Labour force participation rates	149
5.2	Unemployment rates	154
5.3	Hours of work	159
5.4	Skills, qualifications and earnings	161
5.5	Occupation and industry of employment	169
5.6	The children of immigrants	175
5.7	What are the main barriers to immigrants' labour market integration?	178
5.8	What has been the effect on aggregate and regional labour supply?	185
5.9	Some data gaps	186
6	Labour market impacts	191
6.1	Impacts on locals' labour market outcomes	192
6.2	Impacts on investments in education and training	204
6.3	What is the effect of immigration on productivity growth?	210
6.4	Data gaps	215
7	Environmental impacts	221
7.1	A framework for identifying environmental impacts	222
7.2	Impacts on the cost and amenity of living in cities	226
7.3	Broader environmental impacts	234
7.4	Policy implications	238
8	Social impacts	247
8.1	A framework for thinking about social impacts	249

8.2	What are the broad social impacts of immigration?	251
8.3	How well are immigrants integrating?	260
8.4	Is Australia inclusive?	267
8.5	What policies support integration?	274
8.6	What policies support inclusion?	287
9	Fiscal implications of immigration	293
9.1	Potential fiscal implications of immigration	294
9.2	Immigrants' contribution to government revenue	307
9.3	Immigrants' use of government-funded services	313
9.4	The Commission's modelling of lifetime fiscal impacts	325
9.5	Implications for policy	329
10	Long-term impacts	333
10.1	The demographic implications of migration	334
10.2	The economic impacts of migration	342
10.3	Estimates of the economywide impacts of migration	346
10.4	Towards an integrated evaluation	360
11	Temporary immigration programs	369
11.1	Student and Temporary Graduate programs	371
11.2	Working Holiday Maker program	381
11.3	Temporary Work (Skilled) program	390
11.4	Seasonal Worker program	400
11.5	Reducing the exploitation of temporary immigrant workers	402
12	Interaction between temporary and permanent immigration	411
12.1	Assessing the interaction of temporary and permanent immigration	412
12.2	The balance of temporary and permanent immigration	413
12.3	Pathways to permanent immigration	415
12.4	Pathways to skill stream permanent immigration	419
12.5	Pathways to family reunion	426
12.6	Issues related to New Zealand citizens	427

13	Permanent immigration programs	435
13.1	A brief snapshot of permanent immigration	436
13.2	Skill stream immigration	437
13.3	Are the eligibility criteria right?	443
13.4	Business Innovation and Investment Programme	462
13.5	Family reunion	469
13.6	Humanitarian immigration	485
14	Assessing a proposal for a price-based immigration system	493
14.1	The debate about price-based immigration policies	495
14.2	Some design issues	499
14.3	Compositional effects	503
14.4	Direct fiscal impacts	510
14.5	Broader social and economic impacts	513
14.6	Feasibility and social costs of limiting access to government supports	519
14.7	Other potential impacts	521
14.8	Summing up	522
15	Other visa charging options	525
15.1	The current charging system	526
15.2	Issues in assessing visa charging options	532
15.3	The main visa charging approaches and their compositional and fiscal effects	536
15.4	Some broader assessment issues	544
15.5	Some other visa charging options	547
15.6	Towards an improved visa charging system	551
A	Inquiry conduct and participants	555
B	Immigration systems in selected settlement countries	565
C	Labour market analysis	611
D	Immigration and Australia's youth labour market	635
E	The Business Innovation and Investment Programme	653
	References	669

Acknowledgments

The Commission is grateful to everyone who has taken the time to discuss the very wide range of matters canvassed in the terms of reference.

The Commission appreciates the assistance from the Department of Immigration and Border Protection, including through the provision of unpublished administrative data and information about existing arrangements. The Commission also acknowledges the information and advice it received from the Australian Taxation Office and the Australian Government Departments of Employment, Health and Social Services.

This inquiry used data from a number of Australian Bureau of Statistics (ABS) collections and was aided by an in-posting arrangement that allowed access to unit record data. The Commission thanks the National Migrant Statistics Unit at the ABS for providing support to in-posted Commission staff.

The modelling undertaken for the inquiry benefited from the referee comments of Emeritus Professor Gordon MacAulay from the University of Sydney, Professor Philip Adams from Victoria University, Professor Peter McDonald from the Australian National University and Professor Peter Robertson from the University of Western Australia. The Commission also acknowledges the work of Professor Robert Breunig and his team (Nathan Deutscher and Dr Hang Thi To) from the Crawford School of Public Policy at the Australian National University who were commissioned to undertake an independent economic analysis of immigrants' aggregate labour market impacts (published as technical supplement A to this inquiry).

The Commissioners would also like to express their appreciation to the staff who worked on the inquiry, led by Jane Melanie and included Joanna Abhayaratna, Meredith Baker, Catie Bradbear, Dominic Crowley, Paul Davidson, Luke Elliott, Lindsay Fairhead, Matthew Forbes, Owen Gabbitas, Jenny Gordon, Paul Gretton, Philip Harslett, Tracey Horsfall, Patrick Jomini, Ralph Lattimore, Alex Maevsky, Daniel Marshall, Nick McMeniman, Silvana Moro, Damian Mullaly, Marcelo Munoz, Tim Murray, Tom Nankivell, Hudan Nuch, Stewart Plain, Troy Podbury, Oliver Richards, Umme Salma, George Steel, Erin Turner, Stewart Turner and Shiji Zhao.

Abbreviations and explanations

Abbreviations

ABA	Australian Bankers' Association
ABN	Australian business number
ABR	Australian Business Register
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
ACN	Australian company number
ADI	authorised deposit-taking institution
AFSA	Australian Financial Security Authority
AICD	Australian Institute of Company Directors
ANZSCO	Australian and New Zealand Standard Classification of Occupations
APRA	Australian Prudential Regulation Authority
ARITA	Australian Restructuring Insolvency and Turnaround Association
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
BAS	business activity statement
CAMAC	Corporations and Markets Advisory Committee
CAUSEE	Comprehensive Australian Study of Entrepreneurial Emergence
CCIQ	Chamber of Commerce and Industry Queensland
CGT	capital gains tax
COAG	Council of Australian Governments
CPA	Certified Practising Accountants
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSOL	Consolidated Sponsored Occupations List
DIBP	Department of Immigration and Border Protection
FSI	Financial System Inquiry
GDP	gross domestic product

GFC	global financial crisis
GST	goods and services tax
ICT	information and communications technology
IELTS	international English language testing system
IP	intellectual property
IPO	initial public offering
MIT	Massachusetts Institute of Technology
NAB	National Australia Bank
NOM	net overseas migration
OECD	Organisation for Economic Co-operation and Development
PC	Productivity Commission
RBA	Reserve Bank of Australia
SCV	Special Category visa (subclass 444) for New Zealand citizens
SOL	Skilled Occupations List
SME	small- and medium-sized enterprise
STEM	science, technology, engineering and mathematics
SVP	streamlined visa processing
TFN	tax file number
VC	venture capital

Explanations

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

Glossary

Absorptive capacity	The capacity of the market and non-market sectors to respond to the increased demand for goods and services induced by immigration and population growth.
Australian community	Australian citizens and permanent residents existing at the point in time when the level and composition of the migrant intake is determined.
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.
Migration	Refers to both immigration and emigration.
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 route taken by an immigrant by which they move from an initial grant of a visa to 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 system	A system where price (or a visa charge) is the primary mechanism used to allocate visas.

Primary applicant	The person who is declared to be the principal applicant on a visa application.
Refugee	Category 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 a primary applicant who are included on the same visa application.
SkillSelect	An online portal for people to lodge an expression of interest for immigrating to Australia.
Special Humanitarian Programme	Category within the Humanitarian Programme for people who are subject to substantial discrimination amounting to a gross violation of their human rights in their home country, and are sponsored 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 but does not have the capacity to pay.

OVERVIEW

Key points

- Immigration policy has enduring effects on many dimensions of Australian life. Getting the policy settings right is critical to maximising community wellbeing.
- The current immigration system has generally served the interests of the broader community well. The key question is whether current policy settings are set to deliver the best outcomes for the Australian community over the longer term.
- Australia's immigration policy is its de facto population policy. Decisions about immigration policy should be made within a broad context and explicitly take into account the associated economic, social and environmental impacts, including the differential impacts on state, territory and local governments. Community values and perspectives should inform the policy.
- Australia's current immigration profile is projected to deliver a *demographic dividend* to Australia and higher economic output per person. By increasing the proportion of people in the workforce, immigration can reduce the impacts of population ageing, but it does not offer a long-term panacea — immigrants age too.
- While some positive rate of immigration is likely to benefit Australia over the long term, the gains depend on having a system that attracts immigrants who are younger and more skilled, and policies that are responsive to economic, social and environmental conditions.
- The Commission was asked to look at alternative ways of selecting migrants, including a specific proposal that uses price as the primary basis for rationing the permanent immigration quota.
 - Notwithstanding the downside risks and uncertainties associated with such an unprecedented system, replacing existing selection criteria with a price-based system could offer a fiscal benefit to the Australian Government.
 - The size of this benefit is highly contingent on the feasibility and credibility of enforcing tightened access to government-funded services for all non-humanitarian immigrants.
- Government policies — including immigration policy — should not be driven solely by fiscal considerations. The relative merits of any policy needs to be assessed against a broader context that takes into account all the relevant dimensions of societal wellbeing.
- The Commission does not support the price-based proposal.
- There is scope for significant reforms within the current system that could deliver superior overall outcomes for the Australian community.
 - Some of the areas for improvement relate to enhancing the integration of immigrants once they are in Australia — including through more effective settlement services and measures to mitigate the risks of immigrant worker exploitation.
 - However, the biggest gains to Australia are likely to come from recalibrating the intake of permanent skilled immigrants. This would involve 'raising the bar' by shifting to a universal points test while tightening entry requirements relating to age, skills and English-language proficiency.
 - There is a strong case for a substantial increase in visa pricing in relation to some elements of the family reunion stream. This would provide scope to recoup at least a portion of the high fiscal costs typically associated with immigrants in this category. In the medium term, the allocation of parent visas should be revised.
- A stronger evidence base is required to inform future immigration policy. This requires further investment in data collection, integration and dissemination, and data analytics capacity.

Overview

Immigration is a defining feature of Australia's economic and social life. Over the past seven decades, around seven million people have migrated to Australia. Assuming that immigration continues along its average long-term trajectory, it is projected to add another 13 million people 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 capital and social fabric.

There is no question that immigration is a major responsibility of the Australian Government and a key policy lever. In the absence of a formal population policy, Australia's immigration policy is its de facto population policy. As such, immigration has broad-ranging and enduring implications for the economy, society and the environment. Temporary and permanent immigration can generate a range of private and community-wide impacts, both positive and negative. Australia's immigrants are diverse (box 1). Therefore, these impacts can be expected to vary across groups with different characteristics.

The level of immigration matters. The flow of immigrants at any point in time matters because of absorptive capacity — the capacity of the market and non-market sectors to respond to the increased demand for goods and services induced by immigration and population growth. A sustainable rate of immigration (and population growth) is one that gives all residents the opportunity to engage productively in the economy and the community. It is also a rate that does not put undue burden on the environment to the extent that it undermines the wellbeing of existing and future generations. However, a rate of immigration that is defined as 'sustainable' may not necessarily be one that maximises community-wide wellbeing.

The mix of immigrants also matters. Younger and more skilled immigrants are best placed to make a positive economic 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. Skilled immigrants are also more likely to generate spillover benefits through enhanced productivity, innovation, and greater flexibility to move to other occupations in response to changing labour markets.

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 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.

Box 1 Who are Australia's immigrants?

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

Most contemporary immigrants to Australia come from English-speaking countries (such as the United Kingdom, New Zealand and South Africa) or Asian countries (such as 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 Sydney and Melbourne. Second generation immigrants are, however, less likely to live in major cities than their parents.

On average, immigrants have a lower fertility rate compared with the Australian-born population. They tend to accumulate less wealth and savings. This is in part due to their more recent entry into the housing market and in part due to remittances overseas. Of the seven million immigrants who have settled in Australia since 1945, more than 60 per cent have become Australian citizens.

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.

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, as well as through price-based elements. 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 almost 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 relative shift to a focus on skills, while maintaining opportunities for family reunion and a humanitarian intake, has improved economic and social outcomes, particularly for the immigrants themselves, and for the broader community. However, from a policy perspective, the key question is whether current policy settings are set to deliver the best outcomes for the Australian community over the longer term.

This question needs to be posed against some of the key challenges that Australia faces — slow income growth, slow productivity growth, an ageing population and environmental degradation. It also needs to be contextualised against some major changes in global migration patterns. 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 factors call for a well-considered and targeted approach to immigration policy, one that takes into account the complex interactions associated with the movement of people across borders and their implications for the wellbeing of the Australian community and their future generations.

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 has been used for this inquiry. The Commission has consulted with stakeholders and gathered evidence from Australia and comparable countries. It has undertaken modelling to inform its assessment of the fiscal footprint of immigrants, the longer-term economywide impacts of immigration, and the potential impacts of alternative frameworks for visa charging (box 2).

Box 2 **The use of models in this inquiry — a note of caution**

This report draws on insights from three distinct modelling frameworks:

- a computable general equilibrium (CGE) model — designed to examine the long-term demographic and economywide impacts of different rates of net overseas migration relative to a business-as-usual scenario
- a fiscal model — designed to look at the relative net fiscal footprint of different categories of immigrants from a lifetime perspective across Australian governments' budgets
- a partial equilibrium (PE) model — designed to look at the impacts of a price-based system and hybrid options for visa charges on migrant composition and level, and the associated fiscal impacts.

Economic modelling tools can provide useful perspectives on various economic phenomena, including the likely impacts of different policies. However, because models typically abstract from many real-world details, model results should not be viewed as precise estimates and need to be interpreted, used and qualified carefully.

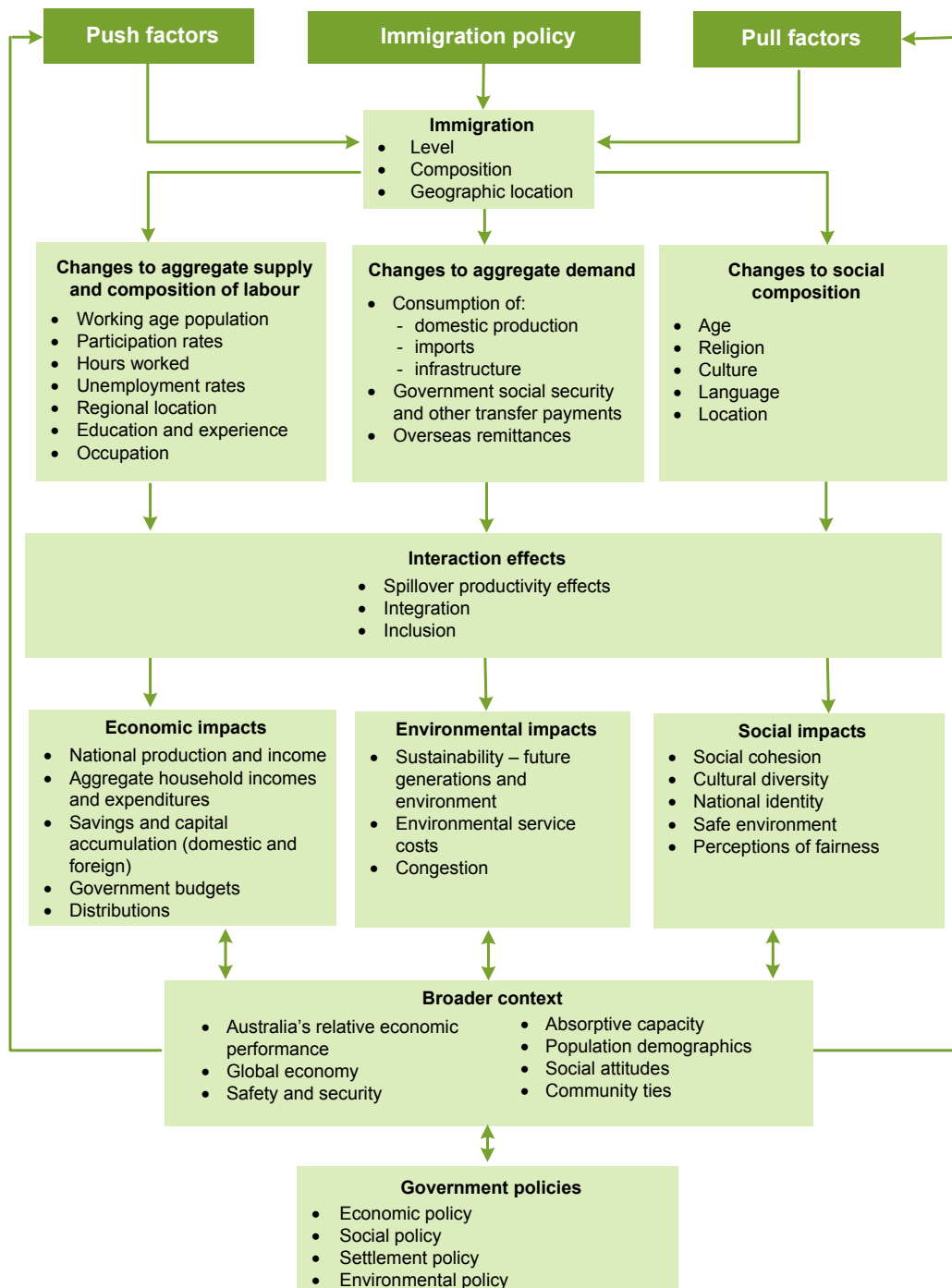
In this context, the following key caveats apply to the models used in this inquiry:

- The CGE model is highly aggregated and therefore provides limited ability to assess the differential impacts of immigrants across different visa categories — a pertinent issue from a policy perspective. Measures such as gross domestic product (GDP) or GDP per capita — a key output of CGE models — are only imperfect measures of community wellbeing, and do not capture distributional impacts.
- The fiscal model adopts several assumptions in projecting the lifetime fiscal impacts of immigrants. In particular, it assumes that current fiscal policy settings remain in place over the projection period. Further, fiscal analysis by definition does not account for the broader economic, social and environmental impacts of immigration.
- The PE model uses a number of simplifying assumptions in areas where actual data are limited. These relate to the behavioural responses of currently ineligible migrants and of older migrants to a visa charge. The model also assumes that all migrants with a willingness to pay also have the capacity to pay. For these reasons, significant sensitivity testing has been undertaken with respect to a large number of assumptions, and estimates are provided as ranges.

The Commission's analytical framework takes the overarching objective of all Australian Government policies, including immigration policy, as being to maximise the overall wellbeing of the Australian community (Australian citizens and permanent residents). This encompasses three distinct but interconnected dimensions — economic, social and

environmental (figure 1). Wellbeing includes elements that are captured in measures such as income per person. And it also includes key influences on quality of life that are not necessarily captured in market transactions, such as environmental amenity and cultural diversity.

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



While a full (monetised) social cost-benefit assessment of immigration is not feasible, a cost-benefit framework has provided useful guidance to support the Commission's thinking in assessing Australia's immigration policy. The Commission's assessment has focused on the costs and benefits that are material from a community-wide perspective.

In conducting this inquiry, the Commission has been cognisant that Australia's immigration policy is by default its population policy. Maximising 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.

The Commission is of the view that there is no single optimum for the level of immigration and population. The optima depend on a range of factors — including the potential tradeoffs that are made across the three domains of wellbeing (economic, social and environmental) and the policy settings that are in place to address the ramifications of these tradeoffs. Balancing these tradeoffs entails some element of subjectivity. As such, political judgment, and ultimately public accountability, will continue to be important in shaping these decisions. Such decisions should, nevertheless, be as well informed as possible.

Economic, social and environmental impacts

Immigration has implications for the three interrelated dimensions of community wellbeing — economic, social and environmental. 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 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 some countries in the Organisation for Economic Cooperation and Development (OECD), such as Canada, New Zealand and the United Kingdom (figure 2). Similar to the pattern in several OECD countries, Australian immigrants have a lower employment to population ratio than their Australian-born peers. While the unemployment rate of all immigrants is relatively higher in periods of economic slowdown, it is about the same as for Australian-born residents at other times. The higher unemployment rate in periods of slow economic growth 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 to those in the family and humanitarian streams, including higher levels of English-language proficiency and qualifications. These differences contribute markedly to their superior labour market outcomes 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).

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 Australian 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. Australian governments should give priority to improving the recognition of overseas qualifications obtained at high-quality institutions, including through bridging courses.

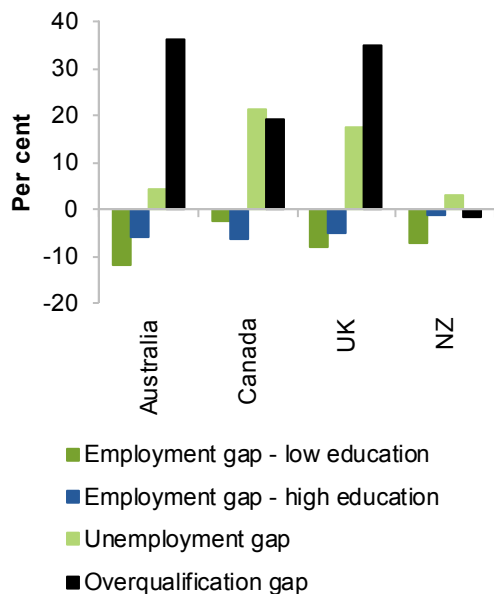
The impacts on local workers is an empirical issue

A common concern is that by adding to the supply of labour, immigration can reduce the wages of local workers (or displace them from jobs). This concept of displacement is partly a manifestation of a fallacy that there is a fixed number of jobs in an economy. However, with sufficient labour market flexibility, displaced workers will typically seek and find other jobs, although potentially at lower wages than their previous employment. Offsetting this effect is the increase in demand for local goods and services from new immigrants. Immigrants also may complement rather than displace local workers, improving productivity, particularly when filling skill shortages that are restricting the expansion of firms. The extent to which different types of immigrant labour complement or displace domestic labour is an empirical issue.

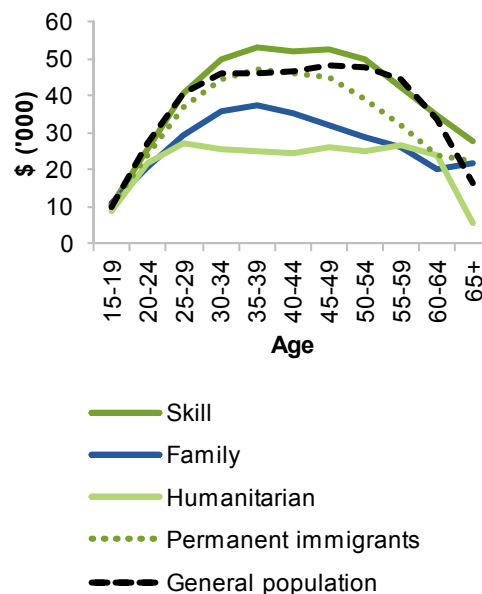
Most international studies on the aggregate impact of immigration on the wages and employment of local workers find small (either positive or negative) effects. Invariably, the extent of any displacement depends on the level, timing, geographical location and composition of immigration. It also depends on economic conditions, with high levels of immigration during economic recessions more likely to cause displacement effects, although these dissipate over time.

Figure 2 Selected labour market outcomes of immigrants

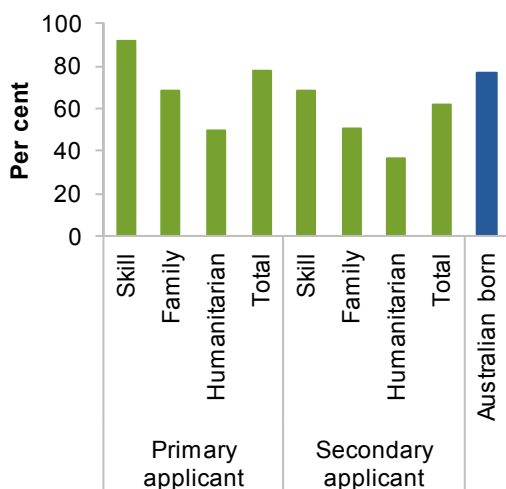
a. Gaps in labour market outcomes (Foreign-born relative to native-born as a share of native-born), 2012-13



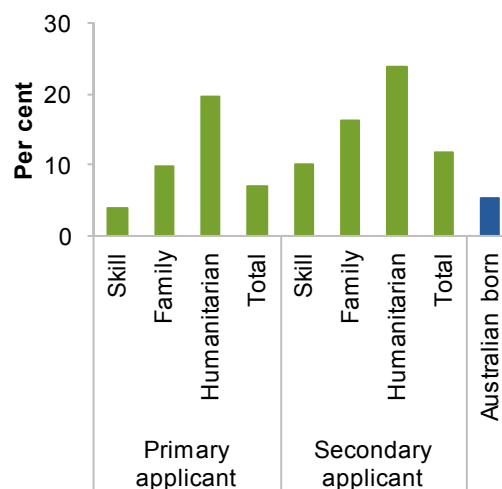
b. Medium income by age, 2009-10



c. Labour force participation rate, 2011



d. Unemployment rates, 2011



Australian evidence is scant. The Commission concluded in 2006 that immigration could lead to higher unemployment and/or slower wage growth for specific groups (especially those working in sectors with higher concentrations of immigrant workers). More recent econometric analysis commissioned for this inquiry found that, at an aggregate level, recent immigrants had a negligible impact on wages, employment and participation of the existing labour force.

Increased risk of displacement is more likely at the lower end of the skill spectrum and in the youth labour market. However, youth labour market outcomes partly reflect weak economic conditions in recent years as well as a longer-term decrease in youth labour market engagement, in part due to greater engagement with education.

Nevertheless, there is little doubt that immigration has boosted the supply of youth labour. During 2015, temporary entrants aged 15-24 years with work rights (students, working holiday makers and temporary graduates) comprised around half of the growth in Australia's youth labour force. It is empirically difficult to identify the impact of immigration on youth labour market outcomes due to the myriad of factors that affect these outcomes, such as the expansion in opportunity for higher education in Australia. Analysis performed for this inquiry was unable to draw any reliable conclusions.

More generally, ready access to temporary skilled immigration dampens incentives for employers to invest in skills and training; hence, appropriate training obligations for sponsors of 457 visas remain justified. Skilled immigration may also be associated with skill deepening and/or 'credential creep' among the Australian workforce but further evidence is required to disentangle these effects.

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 their 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.

Survey data suggest that most immigrants aspire to integrate. However, not all immigrants want to integrate and failure to engage in the local community has costs for the individual and for the community. Generally, immigrants are well accepted in the Australian community, assisted by Australia's approach to multiculturalism. There has been a mild downward trend in measures of social cohesion since 2007, mainly due to a decline in feelings of acceptance, although this trend has reversed in 2014 and 2015.

However, there appears to be a disconnect in attitudes to immigration and population. Recent surveys of temporary and permanent residents found that two thirds of respondents would like to limit the population to below 30 million — which would be reached by around 2030 on current rates of immigration — yet only one third of respondents considered that immigration levels were 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, which assists with integration, is becoming more important. The English-language program is generally well regarded, although its current ‘one size fits all’ aspect is failing some, and government funding 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 resources and existing public infrastructure. The impact of immigration can therefore be perceived as adding to the overall pressure, although population growth can also improve economies of scale in the provision and use of some infrastructure. A higher population density can nevertheless be consistent with protecting the remaining pockets of ecosystems in urban areas, but only if effective 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, it increases costs and thereby reduces the living standards for those entering the property market.

Sound policies around urban planning and infrastructure investment and effective implementation will remain critical in managing the effects of population growth on the environment, and the associated pressures on society more generally. Given that the bulk of infrastructure investment is delivered at state and local levels, the implications for planning, funding and financing capacities of state and local governments should be considered in determining the migrant intake.

The fiscal impact of immigrants — age is a key determinant

Obtaining fiscal gains per se is not the goal of immigration policy, although sometimes the achievement of that outcome produces net benefits to the community. From a conceptual perspective, the ultimate benefits from any positive net fiscal outcome arise because they enhance public or private consumption for the Australian community, now or in the future. An immigration system that is fiscally neutral or positive over the medium-to-longer term is also likely to engender stronger community support.

Immigrants are both contributors to government revenue and recipients of government-funded services and benefits. Most international studies estimate that the net fiscal impact of immigration is generally no more than plus or minus 2 per cent of a country's GDP. These studies tend to look at the fiscal impact of immigration at a macro level and do not typically examine how these impacts could be changed through a different mix of migrants.

At a micro level, the fiscal footprint of immigrants is quite variable. Whether an immigrant is a net fiscal contributor or beneficiary over their lifetime is influenced by some key factors — age on arrival, skill level, participation in the workforce, and entitlements to, and use of, government-funded services and benefits. There is some evidence to suggest that cultural factors also influence the pattern of government-funded services used.

In response to the terms of reference and the existing analytical gap in evaluation of the fiscal impacts of different categories of migrants from a *lifetime* perspective, the Commission has developed a framework that provides a robust basis for examining the fiscal impacts of immigrants from that perspective. In the Commission's view, such a framework should provide a valuable addition to the evidence base for policy development purposes.

The illustrative analysis points to age on arrival as the most critical determinant of net fiscal impact. Permanent immigrants arriving in Australia in the earlier part of their working life are likely to have a more favourable impact on government budgets in net present value terms, compared to those who arrive in the later part of their working life or in retirement, other things being equal. This applies to immigrants across all permanent visa streams.

While, on average, skill stream immigrants have similar fiscal outcomes to those of the Australian resident population, immigrants in that stream are not homogenous and include both primary and secondary applicants with a wide spectrum of age and skill combinations. Permanent immigrants who arrive at a relatively young age, particularly those who are highly educated, generally contribute more tax revenue over their lifetime and make comparatively lower use of government-funded services. In contrast, those who arrive at an older age have lower rates of labour force participation and contribute to higher costs due to their use of government-subsidised health care and other support services. Primary applicants tend to have a better fiscal outcome than secondary applicants — the current

system does not consider the age or skills of secondary applicants as part of the criteria for granting permanent skill visas.

Immigrants in the family and humanitarian streams are estimated to have a relatively lower net fiscal contribution over their lifetime due to lower rates of employment and higher reliance on government transfers.

While these results are partly driven by existing policy settings around the age pension and aged care, the relative patterns across different immigrant groups are unlikely to change under different policy settings.

Temporary immigrants, who have limited access to government-funded services, are estimated to provide positive fiscal contributions in the relatively short time that they spend in Australia.

Long-term impacts of immigration

Immigration has enduring effects on a host country. Whether these effects are positive or negative overall depends on a range of factors — some of which are directly related to immigration and some of which are related to factors that interact with immigration.

To provide insight into these likely long-term impacts, this report takes a forward looking approach to analyse and (to the extent possible) quantify the likely impact of immigration on Australia's population, economy and community-wide wellbeing over the coming decades.

The demographic dividend

Assuming that net overseas migration (NOM) continues at the long-term historical annual average rate of 0.6 per cent of the population, the Australian population is projected to grow to 40 million by 2060 — some 13 million larger in 2060 compared to natural increase alone. Over the past decade, however, NOM has averaged around 1 per cent of the population annually. If NOM continued to grow at that higher rate, the population projection would reach close to 50 million by 2060, or an additional 23 million people.

Without further migration, the Commission projects that the proportion of the population aged 65 years and over would increase from around 15 per cent in 2014 to around 30 per cent by 2060. In contrast, a continuation of the current long-term trend in NOM is projected to limit the increase in the share of the population aged 65 years and over to around 25 per cent over the same period.

By increasing the proportion of people in the workforce, immigration can provide a *demographic dividend* to the Australian economy and reduce the impacts of population ageing. However, it does not offer a panacea — it delays rather than eliminates population

ageing. In the long term, underlying trends in life expectancy mean that permanent immigrants (as they age) will themselves add to the proportion of the population aged 65 and over.

Further, immigration is only one tool to increase labour force participation and, moreover, does not address the policy settings underlying Australia's future structural fiscal imbalance. These issues need to be better addressed through a range of policies including, for example, policies to enhance Australia's labour force participation amongst older workers and to improve productivity in health care delivery to reduce the fiscal pressures of population ageing.

Temporary immigration that is responsive to labour markets conditions, on the other hand, can better offset the effects of ageing as it involves a continuing inflow and outflow of relatively younger individuals.

Economywide impacts of migration

Past studies using general equilibrium models show, unsurprisingly, that immigration increases the size of an economy as measured by GDP. However, the impact of immigration on other measures of economic activity, such as GDP per capita, varies with assumptions about the size, skills, age and relative productivity of the migrant intake.

The Commission has undertaken general equilibrium modelling to simulate the economywide impacts of the change in the population size and age structure that could be induced by migration over the next 45 years to 2060. The modelling, which applies the Victoria University Regional Model, illustrates the potential economic impacts of different rates of NOM. Many assumptions underpin the analysis and, as such, the projections should be treated as illustrative only (box 2).

Continuing NOM at the long-term historical average rate and assuming the same young age profile as the current intake is projected to increase GDP per person by around 7 per cent (equivalent to around \$7000 per person in 2013-14 dollars) in 2060 relative to a zero NOM scenario. Increasing or decreasing the level of NOM from this rate is projected to have a corresponding impact on GDP per person, all other factors equal.

The results reinforce the importance of age and skills in the migrant intake. Increasing the average age structure of NOM to reflect that of the Australian population is projected to reduce real GDP per person, while increasing the share of migrants entering in higher skilled occupations is projected to lead to an expansion in real GDP per person.

Higher rates of labour force participation through immigration are projected to moderate overall wage pressures, particularly in the professions and in some service occupations, where growth in the demand for workers is projected to be high.

In line with increases in economic activity, immigration increases government revenue and expenditure to above the levels that are projected in a scenario with zero NOM. However, as a share of GDP, government revenues and expenses are projected to remain broadly similar.

This modelling highlights that, over the long term, selecting migrants with higher rates of workforce engagement and employment in skilled and high-demand occupations is likely to deliver improved economic outcomes.

Maximising community-wide benefits

The Commission's approach to policy development does *not* aim to increase growth in GDP or GDP per capita per se — it is to maximise the wellbeing of the Australian people. Changes in GDP per capita, while an important contributor to, do not necessarily equate with changes in community wellbeing.

While the modelling suggests that the Australian economy will benefit from migration in terms of higher GDP per person, whether migration delivers an overall benefit to the existing Australian community will also depend on other factors, including the distribution of those economic benefits, and the broader impacts of immigration, notably the associated social and environmental impacts.

New immigrants benefit from an increase in GDP through their own output but only that part of GDP that is transferred to the existing Australian community (Australian citizens and permanent residents) would be directly relevant to its material wellbeing. As the framework for assessing wellbeing centres primarily on the existing Australian community, merely raising GDP per capita does not provide an appropriate metric of successful policy. In addition, to the extent that immigrants only bring extra labour, and the extent that the expansion in capital required for the economy to absorb this labour is funded by borrowing from abroad, some of the additional GDP will flow back to the providers of this capital. In this case, the difference in real income (GNI) would be lower than the difference in real output (GDP).

The broader impacts from any increase in NOM also need to be taken into account. Increasing numbers of immigrants can adversely affect the quality of Australia's natural and built environment unless governments take action to mitigate congestion and other pressures. Even with such action, there are additional costs for the community as environmental services have to be replaced with technological solutions. While there are various estimates of the cost of these solutions, the actual cost can be lower due to economies of scale, or higher if environmental services are currently 'free'.

Moreover, some environmental impacts, such as the recreational value of near empty beaches and the value of biodiversity, are hard to measure, let alone monetise. Yet, such considerations should be part of the broad cost-benefit assessment underpinning decisions on the long-term migrant intake. To inform this debate, the Australian Government should

publish projections of the impact of varying rates of migration and population growth on the natural and built environment. This would also help to address community perceptions (as expressed by participants) that debate about the impacts of immigration is lacking.

Concerns about the environmental impacts of immigration are also reported to adversely influence community perceptions of its social impacts. The social impacts of a more culturally diverse population appear to have been largely positive in Australia. This largely reflects the fact that a large proportion of Australians have immigrant ancestries. It is also a product of government policy in support of integration and inclusion. These social impacts are likely to be neutral to positive in the future — as long as immigrants continue to be willing to integrate and adopt local social values, and the concept of a multicultural community is still embraced by the Australian community.

Overall, the Commission considers that some positive rate of immigration within Australia's absorptive capacity is likely to deliver net benefits to the Australian community over the long term. However, enhancing community-wide wellbeing is dependent on having an immigration system that attracts young and skilled people, and is responsive to economic, social and environmental conditions.

Yet there are various weaknesses inherent in current processes surrounding immigration policy decision making, particularly in terms of their ability to take into account broader and longer-term considerations. Genuine community engagement, well-informed by evidence and a wide range of community perspectives, should be an important part of this process.

Assessing a price-based proposal for permanent entry

The terms of reference direct the Commission to examine a proposal for allocating visas under which price would be the *primary* mechanism for selecting immigrants and access to government supports would be restricted (referred to as the price-based proposal).

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) also have to pay visa charges. These vary between visa classes and are relatively high in some cases — almost \$50 000 for contributory parent visas.

In contrast, under the proposal the Commission has been asked to assess, a single price would be charged for all immigrants (outside the humanitarian stream), determined either through a tender, an auction or by government. It would replace the current plethora of

different visa classes, fees and charges, as well as the current administrative selection mechanisms, although current character, health and security checks would be retained. Under this price-based proposal, immigrants' access to government services would also be tightened relative to the present system.

While many immigration systems have prices in the form of visa charges, there is no precedent (domestically or internationally) for an immigration system that is *primarily* based on price. There is therefore considerable uncertainty surrounding the feasibility and potential economic and social consequences of what is a contentious proposal.

The proposal's proponents point to several advantages. Foremost, they contend that prospective immigrants' willingness to buy a visa would reflect their level of ambition, skill, drive and energy, while restricting access to welfare would deter rich and/or less productive immigrants from simply buying access to Australia's social security system. Under such circumstances, proponents argue that allocating visas primarily on the basis of a price would see 'self-selection' by those immigrants who are best placed to contribute positively to Australia. Proponents also argue that visa charges could generate significant revenue for the government and that the system would also yield other, more minor, benefits (such as reducing visa processing delays and costs).

Critics of the price-based proposal have argued that: it puts short-term revenue raising ahead of longer-term objectives of the migration program; price is not the best method for selecting immigrants who are most likely to benefit Australia; and it would skew the composition of the intake, commodify citizenship and create inequities. Some participants have also voiced philosophical concerns about such a system and questioned its political attractiveness, although these matters are not directly relevant to the Commission's assessment of the proposal.

Modelling the effects of the price-based proposal

As well as generating revenue from visa charges and reducing expenditure from the reduced access to government-funded services, the price-based proposal would alter the composition of the permanent migrant intake, which in turn would have a range of fiscal and broader economic and social impacts.

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 other countries. Factors that influence migrants' decisions on where to move include likely employment opportunities, wage differentials, family reunion opportunities, lifestyle, access to government services, and cultural affinity. Price — associated with visa charges, compliance and relocation — is also a consideration.

The Commission has modelled many of these factors to examine how various visa pricing scenarios might affect impacts. As with all models, proxies and assumptions are required where data and information are limited. The model has rich data on many migrants' characteristics, incomes and the costs of migrating, but there is little information on

potential migrants who are currently ineligible, and the model does not explicitly consider differences in migrants' capacity to pay.

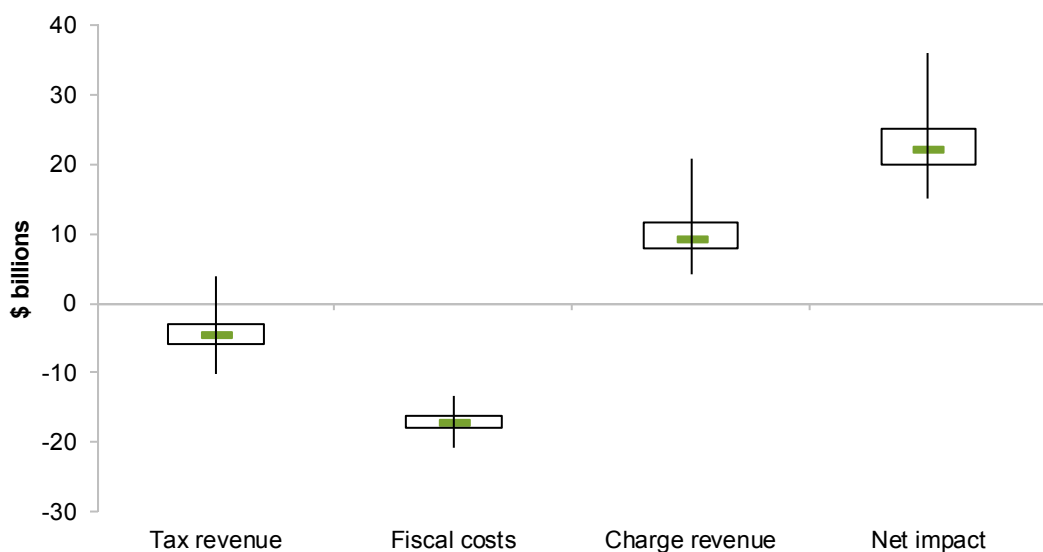
Compositional and fiscal impacts

The estimated visa charge is in the region of \$55 000 per person, consistent with maintaining the current non-humanitarian permanent intake at 190 000, and results in total charge revenue of around \$9 billion per year.

Alongside the charge revenue, the modelling identifies significant changes in the composition of immigrants, some negative as well as some positive. In particular, the modelling suggests that there would be a reduction in the average educational attainment of migrants and a large increase in younger adult migrants. Other compositional effects include a shift towards family stream migrants and a significant increase in currently 'ineligible' migrants.

These compositional changes have fiscal implications. However, a major driver of the net fiscal impacts of the price-based proposal is the tightened access to social security and essential services under this proposal. The modelling suggests that such a price-based proposal, were it to be implemented, could generate net fiscal benefits in the order of \$20-25 billion per year (figure 3). Without tightened access to government payments and services, the estimated net fiscal benefits would be lower, ranging between \$5–10 billion per year.

Figure 3 **Estimated lifetime fiscal impacts of the price-based proposal^a**
Present value, annual changes, relative to current arrangements



^a This proposal includes tightened access to social security and essential services.

Broader economic and social impacts

The large direct fiscal benefits to the existing Australian community are likely to be a significant element of the proposal's policy-relevant effects. However, some important factors not captured in the model's estimates would reduce the economic benefits of the proposal. For example, the skewing of the intake towards migrants with lower educational attainment could reduce knowledge spillovers and productivity. Further, although the Commission has found that enhanced employment of immigrants generally does not reduce the employment of local workers, an influx of less qualified migrants could harm domestic equity by depressing the wages of lower skilled local workers.

Moreover, by removing the qualitative criteria attached to the current system, a price-based system could enable the entry of some immigrants who do not possess the attributes that underpin successful integration. For example, there could be an increase in immigrants with poorer English-language skills. There could also be a further skewing towards permanent immigrants from less developed countries — social concerns can arise when a high concentration of immigrants from any one group or country reduces diversity. And the gender balance and family structures of the intake could be altered.

Acceptability issues

Although Australia already charges high fees for some visas, some participants contended that moving to a price-based system would amount to 'selling citizenship'. This, they claim, would harm the character and disposition of society, with adverse impacts on both the Australian community and immigrants.

There would be more material impacts associated with the proposal's tight restrictions on immigrants' access to the social security system. Currently, immigrants face a 10-year waiting period before being eligible for the disability support pension and the age pension. These waiting periods would be doubled under the proposal, and 10-year waiting periods would apply to other government-funded services, such as health care, subsidised education and unemployment benefits.

In these circumstances, governments would face very difficult choices were immigrants to, for example, contract significant health problems that they could not afford to cover, or fall into long-term unemployment. Such problems would have adverse flow-on effects on the broader community. To counter these risks, it would probably be necessary to mandate that immigrants acquire some basic form of insurance (at least for the length of the waiting periods). However, even if an appropriate insurance product were available, enforcing compliance with the requirement (including, if necessary, deporting those unable to comply) would be administratively challenging and costly, as well as politically problematic.

In practice, the Commission considers that it would be difficult to credibly exclude immigrants from accessing the Australian social security system and essential services for

extended periods in cases of hardship. This in turn would undermine a key feature of the price-based proposal, and would diminish its net fiscal benefits.

Summing-up

Immigration is not intrinsically suited to a price-based system. 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 heavily involved in many aspects of the Australian immigration system, including in providing funding for welfare and health services for immigrants. Its responsibilities in these areas are not easily or credibly eschewed. In these circumstances, attempting to implement the proposed price-based system would be problematic. Moreover, Australia introducing such a system — particularly while other advanced countries do not — could further reduce the skills of those immigrating and have other adverse compositional effects, which would bring a range of broader social and economic costs.

This is not to say that the price-based proposal, were it feasible, would not yield some important fiscal benefits.

However, the Commission considers that many of the (mainly fiscal) benefits of a price-based system can be captured through reforms within the existing system (discussed below), without the downside risks and uncertainties. For example, improved qualitative criteria for selecting migrants, augmented by targeted increases in visa charges in some cases, could achieve significant economic benefits while avoiding the adverse compositional changes and other problematic features of the price-based proposal.

The Commission is not recommending adoption of the price-based proposal.

Hybrid visa pricing options?

Given that the demand for permanent entry exceeds the number of places available, there may still be a role for prices in allocating permanent visas, when used in conjunction with other eligibility criteria (referred to as hybrid options).

The Australian Government currently charges a wide range of visa fees. Their basis is unclear and appears ad hoc. 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.

The Commission has analysed a range of options that could operate on top of — or in place of — the current system, including a uniform 'infrastructure levy' for all migrants (outside the humanitarian stream), and 'social services access charges' that would be

tailored to reflect the different fiscal contributions and expenses of different groups of skill and family stream migrants.

Most of the options considered are able to mitigate the risks associated with a largely price-based approach, while 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.

One lesson from the Commission's analysis is that uniform charges are likely to create 'adverse selection' problems, and could harm the skills composition of the intake. This is partly because highly-skilled prospective migrants (particularly those from other wealthy nations) generally have low income differentials, and more alternative destination options where they can earn similar incomes to their current incomes, without incurring an entry charge. They are thus more likely to be deterred from coming to Australia by charge increases than would family migrants or less-qualified migrants from less developed countries. This problem also bedevils the price-based system.

Variable visa charges, differentiated according to characteristics such as the age, skill level and English-language proficiency of different migrants, can potentially reduce these problems. In designing such a system, policy makers would face a tradeoff between more precise tailoring of charges and system complexity.

Were they to be implemented, variable visa charges could deliver a significant fiscal dividend. Based on current policy settings, the Commission's modelling suggests that social services access charges for adult applicants, set at their estimated net fiscal cost (differentiated by age bracket and skill level), could generate a fiscal benefit of around \$8 billion per year. This includes charge revenue but mainly comprises fiscal savings resulting from a decline in the number of entrants in older age brackets.

This reflects the nature of the variable charging system modelled. Although many younger migrants would face quite modest charges, the charges would become increasingly prohibitive for older people, reflecting the substantial fiscal costs to the community associated with their care. Setting very high visa fees could again raise concerns around the 'selling' of visas, although there are different arguments as to whether such charges would promote or detract from equity.

While the Commission sees scope to move towards a more structured system of charging for permanent visas, it is not recommending the adoption of a particular hybrid visa charging model. Further investigation is required in the form of a detailed review of visa charges.

The Commission notes that, in principle, changes to eligibility criteria could bring about a similar compositional shift in the intake, without the requirement to set very high visa charges for some groups.

Changes to the current system

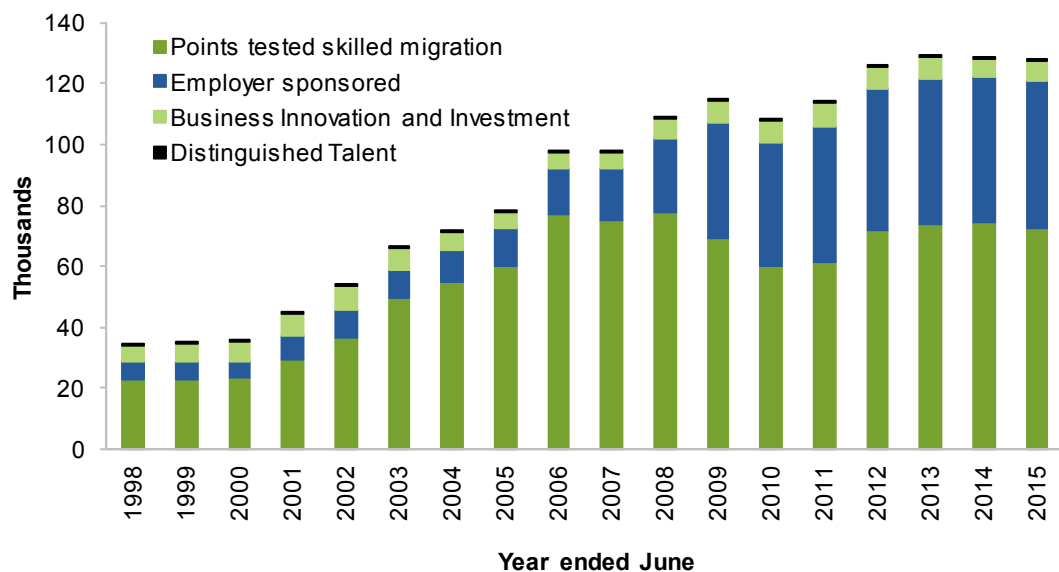
Australia's immigrants and their children integrate fairly well into the labour market and society, and most become self-reliant, productive citizens. There is broad public support for the immigration program and immigrants are generally well accepted in the community.

However, the Commission has found scope for reforms to the current system that could yield substantial benefits for the Australian community. Some of the areas for improvement are about enhancing the integration of migrants once they are in Australia. However, the biggest gains are likely to come from recalibrating the intake of permanent immigrants under the skill stream, and addressing some very high-cost elements of the family reunion stream.

Recalibrating the permanent skill stream

In 2014-15, Australia granted permanent residency to around 204 000 people — 129 000 for the skill stream, 61 000 for the family stream and 14 000 for the humanitarian program. Immigration to Australia by skill stream primary applicants is available only to people who have the skills to perform a skilled occupation (in practice, this is defined as an occupation that requires a trade qualification or higher). The skill stream comprises four broad visa classes with significant variability in eligibility requirements (figure 4). Within the skill stream, about half of the visas granted were for 'secondary applicants' — partners (who may or may not be skilled) and dependent children.

Figure 4 **Permanent skill stream immigration visa grants, 1998–2015**



As emphasised throughout this report, the impacts of immigrants have economic, social and environmental dimensions, and these combined impacts should be key to deciding the number and composition of Australia's migrant intake. However, given that the objective of the skill stream is largely economic, this should be given primacy in determining eligibility criteria for that stream. In considering the broader economic benefits, the key issue is identifying any economic benefits that are not appropriated by the immigrant workers themselves. These would include, for instance:

- the net fiscal impacts of skilled immigrants, which takes account of their contribution to government revenue and their corresponding use of government-funded services (such as health care or social security payments)
- other economic benefits from their labour that are not appropriated by the worker or governments. These would include, for instance, any knowledge spillovers, the capacity of immigrants to address enduring skill shortages that, if not mitigated, might lower the return on other assets, and any positive or negative effects of skilled immigrants on wages for local workers.

The Commission's assessment is that the current skilled migration program falls short of generating the best outcomes for the Australian community more broadly. In essence, it does not adequately target migrants who have the potential to make the greatest economic contribution — that is migrants who are younger, more skilled and who have higher English-language proficiency. It sets a lower bar for migrants who are nominated or sponsored by employers than those who apply through the independent points test. It also uses two different skills lists — the Skilled Occupations List (SOL) and the Consolidated Sponsored Occupations List (CSOL) — as filters for streams that have a common overarching objective: namely, to contribute to economic development and to meet labour market needs within the broader context of maximising the wellbeing of the Australian community. The Commission's recommendations aim to address these issues.

The analyses undertaken in this inquiry provide strong grounds for reducing the age limit below the current 50 years threshold for all skill stream immigrants, and to provide a greater weight in the points-based system for younger immigrants, while retaining a capacity to provide exemptions to the revised, lower age rule for particularly skilled applicants.

Further, the SOL — which covers a much narrower range of occupations than the CSOL, and requires that these be in short supply in the medium to long term — should be the sole basis for determining skill requirements for the entire permanent skilled immigration intake. The SOL as it currently stands is occupations-based as opposed to skills-based. There would be merit in supplementing the list with a more granular treatment of some occupations that cannot be easily allocated between the different skill levels. It should also include particular, well-defined, skill sets that are not occupationally-specific (including, for example, skills in the science, technology, engineering and mathematics field).

More importantly, there is a strong case to move to a universal points system for the entire permanent skill stream — similar to the approach adopted in Canada. This would remove

the unjustified differentiation in the degree of stringency apparent across different visa subclasses. In doing so, it would deliberately raise the standard across the entire cohort of permanent skilled migrants and generate better economic and social outcomes. Under this system, it would be beneficial to grant additional points to a primary applicant who has been nominated by an employer. However, these applicants would also need to be assessed against the same criteria (in terms of age, education, English-language skills and other skills) as those applicable to prospective migrants who are not sponsored by an employer. In short, the fact of being employer-nominated should inform but not decide the permanent immigration intake.

Another weakness of the current system is that it gives only minimal consideration to secondary applicants' skills, even though such applicants account for half of the total skill stream intake. There are strong grounds to give much greater weight to a primary applicant if the associated adult secondary applicant has skills or other desirable characteristics likely to improve their own labour market prospects. At the very least, for the sake of transparency and future policy development, Australian Government publications should report primary and secondary skill stream immigrants separately and provide more detailed information about the skills and other traits of adult secondary applicants.

Over time, the allocation of points should be refined systematically on the basis of evidence on employment and other settlement outcomes. This may require investment in data analytics capacity across government agencies.

What should be on the skills lists?

Several business groups have suggested that skilled immigration lists should be expanded to include 'semi-skilled' and even 'unskilled' occupations. Unions, on the other hand, tend to take umbrage at these suggestions. Unravelling the impacts of shifts in the skill structure of permanent immigration is complex. In principle, all other things equal, there are grounds to favour highly-skilled migrants in any given intake for a number of reasons including:

- the high costs of training highly-skilled workers, which are avoided if immigrant workers bring these skills with them, and the enhanced capacity to alleviate medium-term skill shortages where there are substantial costs in acquiring the relevant skills
- the alleviation of anti-competitive bottlenecks in supply created by restrictions in training places in some professions
- technological and learning spillovers
- lower unemployment risks associated with skilled immigrants
- higher tax revenue
- less adverse income distribution impacts.

Of course, over the longer term, the structure of the economy and labour demand may change in ways that require re-consideration of the skill composition of permanent immigration. For example, were there to be persistent shortages in high-quality attendant care in the aged care system, and local labour supply was not responsive, then there may be grounds for using immigration — both permanent and temporary — to address this service need.

Another potential issue is that skilled immigration, by compressing wage relativities and reducing private returns to investment in skills, may dampen incentives to undertake education and training. On the other hand, incentives for skill acquisition by the local workforce can also be strengthened by increased competition from skilled immigrants (which may in turn lead to ‘credential creep’). There appears to be limited Australian evidence on these issues.

Family reunion — re-evaluating parent visas

The family immigration stream comprises a highly heterogeneous group of people whose only shared characteristic is that there is a family connection to an existing Australian citizen or permanent resident. The overwhelming majority are partners of Australians, who comprised nearly 80 per cent of the family reunion stream, while most of the remainder are visas issued for the parents of resident Australians. The latter group is divided into two streams: a contributory visa, where a significant charge is levied as a basis for quick processing; and a non-contributory visa, where such a fee is not payable, but where the queue is exceptionally long (up to 30 years).

Most would accept that there is strong justification for having uncapped immigration arrangements for immigrant partners and dependent children of Australian citizens.

The issues are much less straightforward for parent visas:

- the economic outcomes of immigrant parents are typically poor. They tend to have low integration into the labour market largely due to their older ages and, in some cases, poorer than average English-language proficiency. This means lower income (and income tax) than other immigrants
- immigrant parents are at stages of their lives when they make considerable claims on the aged care, health and social security systems, which must be met through taxpayer funds
- immigrant parents can make valuable social contributions to their families, but these mainly benefit the family members themselves. It is likely that the broader social contributions of other immigrants are greater and certainly not less than those in the parent stream
- the decision by some skilled migrants to come to Australia is underpinned by the possibility of subsequently obtaining residency for parents. Any moves to restrict parent visas would have some effects on the decisions of their children to migrate to

Australia in the first place. However, this may not be a critical issue since the capped places for parent visas is a small fraction of the places available for skilled migrants.

The contributory visa charge of just under \$50 000 meets only a fraction of the fiscal costs for the annual intake of roughly 7200 contributory parents. And an additional 1500 parents make a minimal contribution. Overall, the cumulated lifetime fiscal costs (in net present value terms) of a parent visa holder in 2015-16 is estimated to be between \$335 000 and \$410 000 per adult, which ultimately must be met by the Australian community. On this basis, the net liability to the Australian community of providing assistance to these 8700 parents over their lifetime ranges between \$2.6 and \$3.2 billion in present value terms. Given that there is a new inflow each year, the accumulated taxpayer liabilities become very large over time. This is a high cost for a relatively small group.

Ultimately, every dollar spent on one social program must require either additional taxes or forgone government expenditure in other areas. It seems unlikely that parent visas meet the usual standards of proven need, in contrast to areas such as mental health, homelessness or, in the context of immigration, the support of immigrants through the humanitarian stream, and foreign aid.

Given the balance of the costs and benefits, the case for retaining parent visas in their current form is weak.

In the short term, a partial remedy would be to lower the taxpayer funded subsidy for contributory parent visas by considerably raising the visa charge, and to introduce more narrowly focused non-contributory parent visas. This would involve narrowing eligibility to non-contributory parent visas to cases where there are strong compassionate grounds.

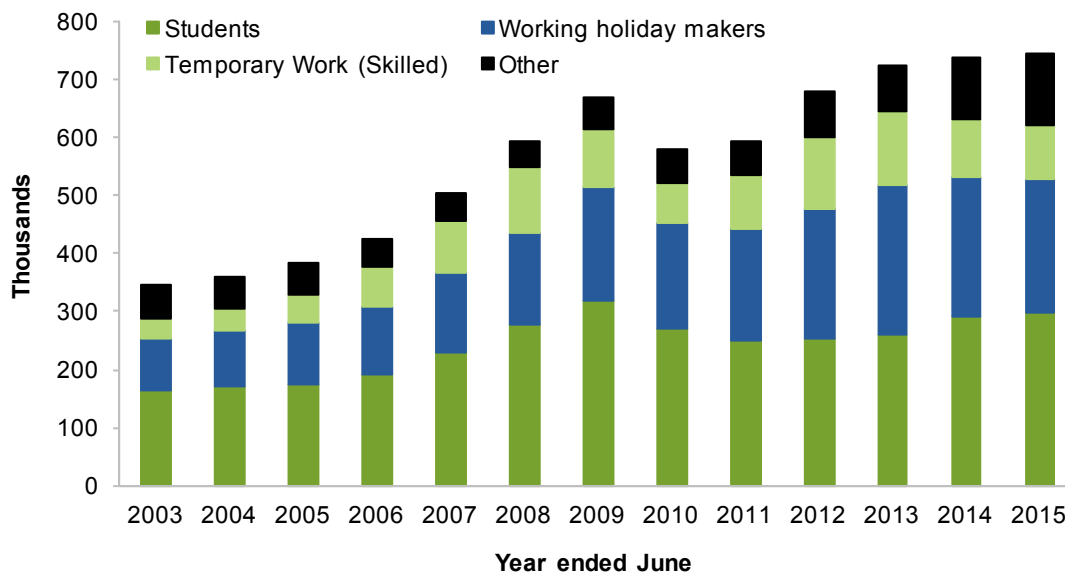
The impact of this tightening could be partly offset by the introduction of more flexible temporary parent visa arrangements, subject to the parents or sponsoring children meeting the costs of any income or health support during their period of residence.

The resulting (large) fiscal savings could be better directed at more vulnerable members of the Australian community and at reducing the more general pressures of an ageing population.

Managing the temporary immigration programs

There are around 1.5 million temporary residents currently present in Australia, with temporary visa grants almost doubling over the past decades (figure 5). This growth has been driven primarily by international student, temporary skilled worker and working holiday maker visa holders. Temporary immigrants also include seasonal workers under the Seasonal Worker Program and (technically) New Zealand citizens on the Special Category visa (SCV) — although the latter can remain in Australia indefinitely. These visa programs are largely uncapped. An overarching policy issue is whether these programs contribute positively or negatively to labour market outcomes in Australia.

Figure 5 Temporary visa grants, 2003–2015^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 September 2015, there were around 426 000 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 four years after graduation.

The pool of international students with work rights is supplemented by around 144 000 working holiday makers. 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 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 and warrant further investigation. As such, the Commission is recommending a public inquiry to identify the labour market effects of temporary immigrants and administrative changes to allow for the use of matched tax and visa data to inform policy.

In relation to the 457 visas, a key issue is whether the program is sufficiently well targeted to meet genuine skill shortages. In September 2015, there were close to 190 000 temporary

457 visa holders in Australia. 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 skill needs 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 and the integrity of the process for identifying labour shortages. The CSOL — the relevant list for 457 visas — currently includes 651 occupations that require a bachelor degree or higher qualification through to those that are commensurate with a certificate level III or IV. The CSOL is merely a list of skilled occupations. It is not (nor is it intended to be) a list of occupations in temporary short supply. The lack of transparency around the compilation of the list creates scope for vested interests to unduly influence its composition.

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 and to allow for limiting the number of visas granted for some occupations. The Australian Government has supported these recommendations, and their implementation is expected to lead to better identification of occupations (and regions) where shortages do exist, and to allow more granular decisions on whether local workers are able to meet the demand for those occupations.

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. In particular, this assessment should examine the success of the Ministerial Advisory Council on Skilled Migration in adopting an evidence-based and transparent approach to identifying skills shortages. As part of this assessment, the relative merit of establishing an independent body to undertake this function should be examined.

Temporary immigrant workers are more at risk of exploitation

International students and working holiday makers are inherently more susceptible to exploitation than other workers as they are likely to be young, face language barriers, be less aware of their work rights, and frequently be seeking a permanent visa. 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 social or economic support networks able to counter any market power of their employers or to assist them in moving to alternative jobs.

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 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. The Commission's inquiry into the workplace relations framework also considered these issues and made recommendations along these lines.

Pathways from temporary to permanent immigration

About half of permanent visa grants are to people who are already in Australia as temporary immigrants. For 457 visa holders, the main pathway to permanent residency is through the skill stream (figure 6). For international students, both the skill stream and family stream pathways to permanent immigration are significant, although the latter increasingly so, reflecting recent policy decisions to decouple student visas from permanent skill visas.

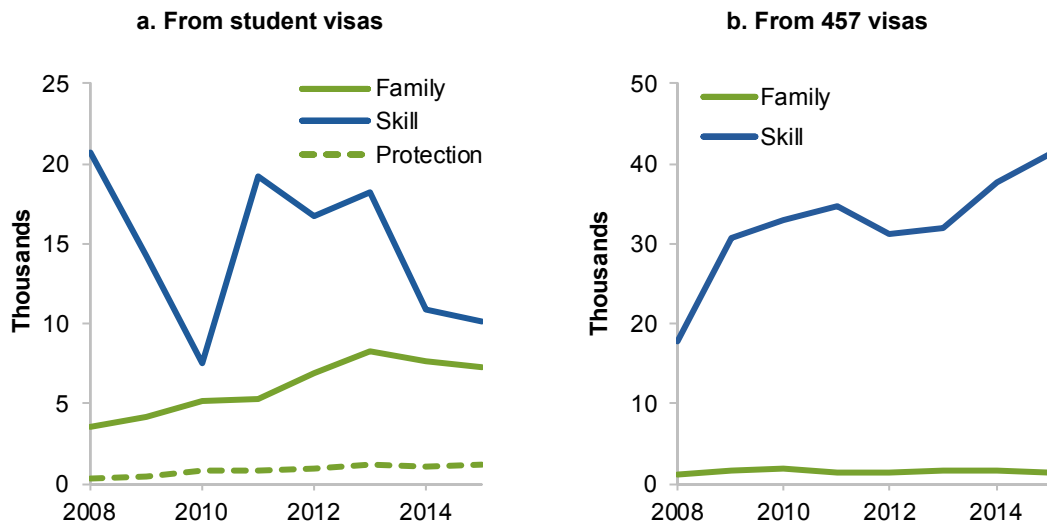
The pathway from temporary skill visas to the permanent skill stream is problematic. In essence, this pathway applies criteria to satisfy one objective (meet temporary skill shortages) to — by default — also satisfy another very different objective (meet longer-term skill needs and deliver successful settlement outcomes). A universal points test, as recommended by the Commission, would address this issue by ensuring that all applications for a permanent skill visa are processed through the same filter.

A corollary of this more coherent and effective policy approach would be that all primary applicants for skill stream permanent immigration would be required to meet the same level of English-language proficiency. Given the importance of English-language proficiency for integration and settlement outcomes, the Commission's assessment is that, regardless of the selection system adopted, a necessary condition for the granting of permanent skilled visas should be the demonstration of at least 'competent' English by primary applicants.¹ The current lower bar set for employer sponsored pathways is not justified.

¹ That is, a score of at least 6 in each of the four test components (speaking, reading, listening and writing) in an International English Language Testing System (IELTS) test that has been undertaken in the three years immediately prior to lodging the visa application and equivalent in the recognised English-language tests.

Figure 6 Transitions to permanent residency from student and 457 visas

Number of onshore visa transfers



The proposed change in screening for a permanent visa would also provide an additional incentive for temporary visa holders to upgrade their skills and improve their English-language proficiency. This could further increase their integration into the Australian community.

The Special Category visa for New Zealand citizens

Another problematic ‘pathway’ issue relates specifically to New Zealand citizens who can live in Australia indefinitely on the SCV under the Trans-Tasman Travel Arrangement.

Under this ‘temporary’ visa, New Zealand citizens gain unrestricted access to the Australian labour market. They gain immediate access to family payments and health care under Medicare. But, unlike Australian citizens and permanent residents, those who arrived in Australia after 26 February 2001 face limited access to certain social security payments. Those who arrived prior to 2001 have the same entitlements to government payments as Australian citizens, subject to waiting periods. The program is uncapped with more than 650 000 New Zealand citizens estimated to be ‘temporary’ residents in Australia.

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 (because they do not meet the criteria for family reunion or skilled migration).

The Australian Government has since addressed one area of disadvantage affecting New Zealand citizens by granting long-term residents of Australia access to the student loans program from 1 January 2016.

On 19 February 2016, the Government also announced a new conditional pathway (under the independent skill stream) for New Zealand citizens who were already in Australia and have been residents for the past five years, satisfy health and character tests and have earned a minimum annual income of \$53 900 for five years or more. The Department of Immigration and Border Protection estimates that between 60 000 and 70 000 New Zealand citizens could be eligible for this pathway. This will create another cohort of New Zealand citizens (the non-protected SCV holders resident in Australia on, and prior to, 19 February 2016) with differentiated rights and responsibilities.

More importantly, this streamlined pathway, as currently configured, will exclude the most disadvantaged group of New Zealand citizens living long term in Australia because of the income threshold. Accordingly, the Commission reiterates its position in the joint study that, within the context of the Trans-Tasman Travel Arrangement and the close relationship between Australia and New Zealand, the Government should introduce policy changes to address the issues faced by a small but growing number of non-protected SCV holders living long term in Australia, including the development of a pathway to permanent residency and citizenship.

The humanitarian intake — a Community Support program has merit

The Humanitarian Programme is a significant component of Australia's migrant intake, accounting for around 7 per cent of the total. The stream aims to fulfil international commitments to assist dispossessed people at risk. In mid-2015, there were around 60 million people in what the United Nations High Commissioner for Refugees refers to as 'populations of concern'.

The program consists of two broad streams — onshore protection (for people applying for protection or asylum after arriving in Australia) — and offshore resettlement (for people nominated through the refugee stream, the Special Humanitarian Programme, or the Community Proposal Pilot). For most years from 1996-97 to 2013-14 the humanitarian program intake has been between 12 000 and 14 000 (figure 7). In 2015-16 the humanitarian 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.

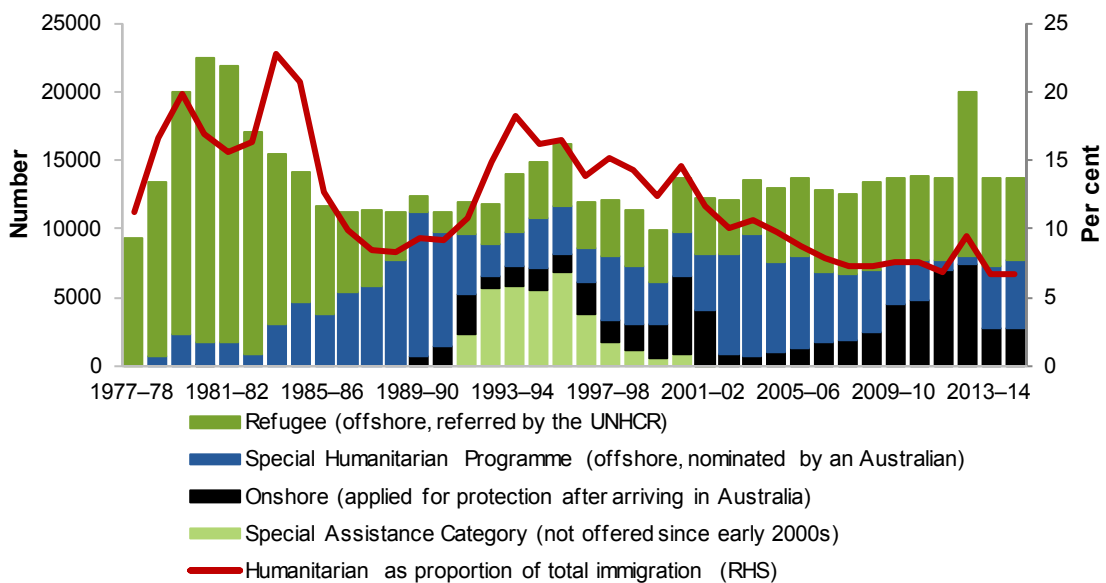
The Community Proposal Pilot commenced in June 2013 and will run until June 2016. It provides an accelerated pathway for a small number of humanitarian immigrants who are proposed by an approved organisation in Australia and pay a substantial fee (\$19 124 for the main applicant and \$2680 for any secondary applicant). The pilot has been consistently oversubscribed, with 61 per cent of visas granted to people under 40. In June 2015, the Department of Immigration and Border Protection 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 Australian Government is currently considering the feasibility of implementing an ongoing program.

Participants were generally positive about the opportunities for resettlement, but some were concerned that the program was inequitable (only relatively wealthy applicants could afford the visa application charges) and that, given fixed planning levels, visas granted through the pilot came at the expense of other humanitarian visa grants.

The Community Proposal Pilot is likely to be beneficial because it engages a part of the community who are willing to directly assist humanitarian migrants, freeing up taxpayer resources for other expenditures in the migration program or across government responsibilities generally.

Figure 7 Trends in humanitarian immigration, 1977–2015



Investment visas — the case is not compelling

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.

Data limitations constrain an assessment of these visa streams. The complying investment frameworks permit Significant Investor visa and Premium Investor visa holders to invest the majority of 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 is unlikely to have any impact on the cost of capital for Australian businesses.

Applicants for the Significant Investor visa are also required to invest \$500 000 in managed funds that invest in venture capital or growth private equity. These are riskier asset classes that attract less foreign investment. However, the Commission found in the 2015 inquiry report *Business Set-up, Transfer and Closure* that government intervention to expand the venture capital sector is not required. The small size of Australia's venture capital sector is mainly a result of the small number of opportunities for investment. Compelling additional investment in high-risk managed funds will benefit fund managers, but is unlikely to deliver a material amount of additional economic activity in Australia.

On the other hand, there are potential downside risks to these visas. 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 impacts than other immigrants. Further, compared to other visa streams, investor visas are prone to fraud. The residency requirements (160 days over four years) are very relaxed — only requiring the holder to reside in Australia 11 per cent of the year on average over four years, effectively a non-resident permanent visa.

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

Immigrants who are prepared to own or operate a business, or make a substantial investment in Australia may also be able to immigrate through the Business Innovation and Investment Programme (BIIP). The majority of immigrants through this stream (between 6000 and 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. The Australian Government, working with state and territory governments, should strengthen data collection for this stream, and review the program once better data are available.

As part of its National Innovation and Science Agenda, the Australian Government recently announced a provisional entrepreneur visa to facilitate the entry and residence of entrepreneurs with innovative ideas and financial backing from a third party. Eligibility criteria for these visas are yet to be established. The Australian Government should at a

minimum require that applicants meet some of the standards of the permanent skill stream, and most particularly those related to age, English-language proficiency and skills.

Investing in the evidence base

While the reforms proposed in this inquiry are expected to generate significant benefits for the Australian community, investment in the evidence base would facilitate further policy development and the attainment of larger gains over time.

This inquiry has highlighted the shortcomings of existing data and data analytics capacity in several areas. Data deficits constrain the systematic measurement of immigrants' outcomes over the long term, and the associated community-wide impacts. This information is important to support the development of policy that seeks to maximise the benefits and minimise the costs of immigration. Data and other forms of evidence that are transparent and publicly available also have a role to play in enhancing community understanding and enabling a more informed community and political discourse about immigration.

This inquiry puts forward several recommendations designed to build a stronger evidence base. Some of these relate specifically to the collection, integration and dissemination of data — including the better use of administrative data and the extension of longitudinal surveys.

Administrative databases provide a rich source of information that is often poorly utilised. Australia is making some progress in developing and providing access to linked government administrative data. The recent integration of immigration data with tax data is an example of such initiatives and has been particularly helpful to this inquiry. There is, however, scope to do more to better understand the outcomes of permanent and temporary immigrants. Information about temporary immigrants is particularly lacking.

In the context of immigration policy, where long-term outcomes matter, longitudinal data are also critical. Expanding the time period of analysis to capture a longer window into the settlement experiences of immigrants would greatly enhance the value of existing survey data.

Some of the Commission's recommendations are directed more to the need for more systematic data analysis to inform policy. This may require further investments in data analytics capacity across government agencies, which could be money well spent when viewed against the analysis in this report indicating exposures measured in the billions.

Recommendations and findings

Improving the policy process

FINDING 3.1

With low and stable rates of natural population growth, decisions about the size of the permanent and temporary immigration intake amount to a de facto population policy.

The Australian Government's judgments about immigration levels and population growth should be better informed by:

- a broad range of evidence which identifies, quantifies (where possible) and analyses the impacts of immigration and population growth on the wellbeing of the existing Australian community
- the Australian community's values and perspectives on the importance of different impacts, that are well-informed by evidence
- the impact on future generations, incorporating a well-informed consideration of Australia's absorptive capacity
- the effectiveness of policies that are best equipped to address these impacts.

Enhancing the Australian community's wellbeing is likely to be consistent with a range of immigration rates depending on the settings of many other complementary policies.

RECOMMENDATION 3.1

The Australian Government should:

- develop and articulate a population policy to be published with the intergenerational report
- specify that the primary objective of immigration and the Government's population policy is to maximise the economic, social and environmental wellbeing of the Australian community (existing Australian citizens and permanent residents) and their future offspring.

Australia's immigration and population policy should be better informed through:

- genuine community engagement
- a broad range of evidence on the economic, social and environmental impacts of immigration and population growth on the wellbeing of the Australian community
- a published five yearly review of Australia's population policy.

The Australian Government should calibrate the size of the annual immigration intake to be consistent with its population policy objectives.

Enhancing labour market outcomes

FINDING 6.1

On balance, and at an aggregate level, labour market outcomes of local workers have been neither helped nor harmed by immigration over the period 2000 to 2011 — generally a period of robust economic growth. Other results may be possible during periods of weaker economic growth.

Evidence on the impact of immigration, specifically on the youth labour market, remains inconclusive.

FINDING 6.2

Employers' incentives to invest in training of their workforce are likely to be dampened as a result of ready access to skilled immigrant labour, especially via the Temporary Work (Skilled) visa (subclass 457) program. Training requirements for local employers hiring 457 visa holders remain justified.

RECOMMENDATION 5.1

Australian governments should give priority to improving the recognition of overseas qualifications obtained at high-quality institutions, including through bridging courses.

Managing the environmental impacts

FINDING 7.1

High rates of immigration put upward pressure on land and housing prices in Australia's largest cities. Upward pressures are exacerbated by the persistent failure of successive state, territory and local governments to implement sound urban planning and zoning policies.

FINDING 7.2

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 waste management. These higher costs are shared by all utility users.

FINDING 7.3

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. While a larger population offers opportunities for more efficient use of, and investment in, infrastructure, governments have not demonstrated a high degree of competence in infrastructure planning and investment. Funding will inevitably be borne by the Australian community either through user-pays fees or general taxation.

RECOMMENDATION 7.1

In determining the migrant intake, the Australian Government should give greater consideration to the implications for planning and investment in infrastructure and state, territory and local governments' ability to select, fund, finance and manage these investments.

State and territory governments should develop detailed infrastructure plans that are consistent with prospective population growth rates. Major infrastructure proposals should be subject to rigorous and transparent cost–benefit analysis.

RECOMMENDATION 10.1

The Australian Government should fund the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to publish projections of the likely impact of varying rates of population growth on the built and natural environment. This analysis could form part of the CSIRO's *National Outlook* publication.

The release of this analysis should be synchronised with the release of the Australian Government's *Intergenerational Report*.

Improving settlement outcomes

FINDING 8.1

Notwithstanding some tensions between some immigrant communities and the broader community, there is widespread acceptance of cultural diversity by the Australian community. 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.

RECOMMENDATION 8.1

The Australian Government should review the mix, extent and coordination of settlement services (including English-language training and employment services) for all permanent immigrants with the aim of improving their labour market and social engagement outcomes.

The long-term fiscal impacts of immigration

FINDING 9.1

While small as a share of gross domestic product, the net fiscal impact of immigration depends primarily on the composition of the migrant intake and the time period on which the assessment is made. Amongst other benefits, selecting immigrants who are relatively young, healthy, skilled and proficient in English will lead to a more positive fiscal outcome as these immigrants tend to pay higher lifetime taxes and have a lower propensity to consume government-funded services.

RECOMMENDATION 9.1

The Australian Government should examine, on a regular basis, the fiscal impacts of immigration from a *lifetime* perspective. It should include Australian and state and territory government revenue and expenditure items in these fiscal impact estimates.

The long-term impacts of migration

FINDING 10.1

Continuing net overseas migration at the long-term historical average rate is projected to increase Australia's population to around 40 million by 2060 — 13 million larger than projected with natural increase alone. By increasing the proportion of people in the workforce, immigration can provide a 'demographic dividend' to the Australian economy and reduce the impacts of population ageing, but it does not offer a panacea.

At this long-term average rate, and with the current age profile of the migrant intake, gross domestic product (GDP) per person is projected to increase by some 7 per cent relative to a zero net overseas migration case by 2060. However, GDP per person is only one component of the overall wellbeing of the Australian community. Whether migration delivers an overall benefit to the existing Australian community will also depend on other factors, including the distribution of these economic benefits, and the associated social and environmental impacts.

While a positive rate of immigration is likely to deliver long-term benefits to the Australian community, these benefits are highly dependent on having a system that attracts young and skilled immigrants, is responsive to economic, social and environmental conditions, and is informed by an improved policy process (as in recommendation 3.1).

Assessing a price-based proposal

FINDING 14.1

While there is uncertainty around its exact effects, a proposed price-based system with extended restrictions on immigrants' access to government supports could have economic and social costs and pose challenges for governments. Most of the (mainly fiscal) benefits that such a system would deliver could be obtained through other reform options within the existing system. The Commission is not recommending the adoption of the price-based proposal.

Recalibrating the permanent skilled intake

RECOMMENDATION 12.1

All primary applicants for skill stream permanent immigration should be required to demonstrate at least 'competent' English-language proficiency.

RECOMMENDATION 13.1

The Australian Government should consider reducing the age limit of 50 years for permanent migration under the skill stream and provide greater weight in the points-based system for younger immigrants.

The Australian Government should maintain the existing capacity to provide exemptions to the age rule for particularly skilled applicants.

RECOMMENDATION 13.2

The Australian Government should:

- use the Skilled Occupations List as the sole basis for determining skill requirements for the different streams of the permanent skilled immigration program, including for those using the Temporary Residence Transition visa
- undertake a small pilot scheme that tests the merit of supplementing the Skilled Occupations List with:
 - a more granular treatment of some occupations that cannot be easily allocated between the different skill levels
 - the inclusion of particular, well-defined, skill sets that are not occupationally-specific.

RECOMMENDATION 13.3

The Australian Government should significantly increase, up to a given maximum, the contributing points to a primary applicant based on the skill and other traits of the adult secondary applicant.

All primary applicants without partners should be given additional points equivalent to the maximum above.

RECOMMENDATION 13.5

The Australian Government should adopt a common points system for the entire permanent skill stream, but in doing so should add points to a visa application by a primary applicant who has been nominated by an employer.

Over the medium term, the Department of Immigration and Border Protection, the Department of Education and Training, and the Department of Employment should jointly develop a systematic empirical approach for determining the allocation of points, based on the existing data on the traits of the permanent skill stream and follow-up evidence on employment and other outcomes.

Family reunion — re-evaluating parent visas

FINDING 13.2

Reflecting their average older age and lower labour market engagement, the parent visa stream makes considerable demands on Australia's health, aged care and social security system, while not making many fiscal contributions through taxes paid. The contributory parent visa charge recognises the high expected net fiscal costs of parents. However, at its current level, it is only a small portion of these expected costs. Accordingly, most of the costs must be borne by the community as a whole, whereas many of the benefits accrue to the sponsors and the parents themselves.

RECOMMENDATION 13.8

The Australian Government should amend arrangements for permanent parent visa applicants. In the short term, it should:

- increase substantially the charge for contributory parent visas
- narrow eligibility to non-contributory parent visas to cases where there are strong compassionate grounds to do so, accompanied by clear published criteria to limit applications for such visas
- consider lowering the caps for contributory parent visas
- introduce a more flexible temporary parent visa that would provide longer rights of residence, but with requirements, as for other temporary visas, that the parents or sponsoring child would meet the costs of any income or health supports during the period of residence.

The Australian Government should retain current arrangements for family reunions involving partners or children.

Managing temporary immigration programs

RECOMMENDATION 11.1

The Australian Government should monitor the effects and assess the costs and benefits of changes to the:

- tax status of working holiday makers (to take effect from 1 July 2016)
- eligibility of voluntary work as an input to the 88 days of employment needed to get a year's extension to a working holiday visa.

If the community-wide costs are found to outweigh the benefits, the Government should revisit these changes with a view to varying the conditions of the changes or rescinding them.

RECOMMENDATION 11.2

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

RECOMMENDATION 11.4

The Australian Government should commission by 2020 an independent review of 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).

In particular, the review should examine:

- the success of the Ministerial Advisory Council on Skilled Migration in adopting an evidence-based and transparent approach to identifying skills shortages, and the relative merit of establishing an independent body to undertake this function
- the effectiveness of the Government's changes to the training requirements on sponsors of Temporary Work (Skilled) (subclass 457) visa holders.

RECOMMENDATION 11.5

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.

Pathways from temporary to permanent immigration

RECOMMENDATION 12.2

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.

Investment visas — the case is not compelling

FINDING 13.1

The economic benefits of the Significant and Premium Investor Visa Programmes are likely to be relatively modest and accrue mainly to the visa holders and to fund managers. Overall, the case for retaining these visas is weak.

RECOMMENDATION 13.7

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

RECOMMENDATION 13.6

The Australian Government should, as an initial step:

- collect more detailed data on the characteristics and performance indicators of the Business Innovation and Investment (Provisional) visa (subclass 188) and of permanent immigrants under the Business Talent visa (subclass 132)
- examine the effects, costs and benefits of these visa streams to assess whether there are grounds to modify the criteria and planning levels for these visa subclasses.

The Australian Government should review the Business Innovation and Investment (Permanent) visa (subclass 888) in 2023, and use the results to further inform its decision about the future of the program.

Planning levels for the Business Innovation and Investment Programme should not be increased until the 2023 review is completed.

Visa charging issues

FINDING 15.1

The Australian Government currently charges a wide range of visa fees — their basis is unclear and unsystematic.

Visa charging can raise revenue for the Government and potentially augment incentives to attract the most appropriate mix of permanent migrants to Australia. However, visa charges need to be designed carefully.

- Levying a uniform charge for all migrant classes could harm the skills composition of the intake.
- Variable fiscally-reflective charges can improve incentives but can sometimes entail very high charges.

RECOMMENDATION 15.1

The Australian Government should increase transparency around its visa charging system by conducting and publishing biennial reviews covering:

- changes to visa charges and their terms and conditions, the number of visa applications and the characteristics of immigrants by visa subclass over the previous five years
- the underlying visa charging methodologies.

The Australian Government should also examine the effects of alternative models of visa charging, with a view to moving towards a more structured system of visa charging.

Any charging system should include discounts or exemptions for children.

Investing in the evidence base

RECOMMENDATION 9.2

The Australian Government, through its data integrating authorities, should continue to link the Settlement Database with other government administrative data sets — for example, data sets involving health and education services, and patent and trademark applications and business registry data — to support immigration and other policy development.

RECOMMENDATION 11.3

The Australian Taxation Office, the Department of Immigration and Border Protection, and the Australian Bureau of Statistics should compile and make available a database matching Tax File Numbers and temporary immigrant visas. Data collected through this matching process should be made available in general aggregated form for the purpose of research and informing government policy.

To facilitate the compilation of this database, the Australian Government should allocate dedicated funds to these agencies.

RECOMMENDATION 5.2

The Australian Government should:

- allocate additional funding to the Household, Income and Labour Dynamics in Australia survey to enable it to more regularly refresh its sample so that the longer-term outcomes and impacts of different immigrant arrival cohorts can be better captured
- consider extending the database in recommendation 11.3 to develop a longitudinal data set to improve the understanding of the relationship between different temporary visas and their short-, medium- and long-term outcomes.

RECOMMENDATION 13.4

The Australian Government should collect and publish more detailed information on skill stream secondary applicants over the age of 18 years to determine the proportion of secondary applicants who have attributes that would qualify them for skilled immigration in their own right.

In Australian Government publications, primary and secondary skill stream immigrants should be reported separately using a plain English term that more accurately describes the status of skill stream secondary applicants, such as 'skill stream partners and children'.

RECOMMENDATION 13.9

The Australian Government should request the Australian Government Actuary to update its actuarial analysis of the long-term fiscal consequences of immigrants arriving under the parent visa stream, eventually incorporating all expenditures and revenues, including at the state and territory government level.

1 Introduction

Immigration has played an important 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 2014-15, just 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 and has been since 2005.

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 affect 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 can include character, health, age, family connection, skills, occupation, financial capacity and humanitarian requirements. As well, most visa categories have application fees and charges.

1.1 What was the Commission asked to do?

The Australian Government requested that the Productivity Commission undertake an inquiry into the impacts of immigration on Australia and the way immigrants are selected. This report presents the Commission's assessment of 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 asked 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 Commission was asked to examine at least one specific proposal in which price would be the primary basis for selecting migrants, 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, subsidised education, housing and healthcare
 - the charge could be waived for genuine confirmed refugees, whose entry would remain subject to current constraints.

The Commission was also 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 considered a wide spectrum of policies and issues. Some of these are directly related to managing the migration intake. Others, such as environmental management and access to government services, have broader objectives, but also influence the outcomes of immigration.

In assessing the impacts of immigration, the Commission adopted an overarching policy objective of maximising the overall wellbeing of the Australian community. For the purposes of this inquiry, the Australian community is defined primarily as Australian citizens and permanent residents. However, this does not completely exclude 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 3.

1.3 The Commission's approach

The Commission used 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 was also 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 drew on existing research and analysis, and stakeholder perspectives.

Box 1.1 Quantitative work

The Commission undertook 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 were analysed as part of the assessment of costs and benefits of the current immigration system and other options.
- Computable general equilibrium modelling was used to assess the economywide impacts of immigration.
- Fiscal modelling was developed to look at the relative fiscal footprint of different categories of immigrants from a lifetime perspective.
- Partial equilibrium modelling was used to examine the relationship between visa charges and the level and composition of immigration to Australia.
- Quantitative work was 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 out econometric analysis on the relationship between immigration and the labour market outcomes of Australian workers. More information on the approaches to the quantitative and modelling work is presented in appendix C and technical supplements A, B, C and D (available on the Commission's website).

This inquiry builds on a substantial stream of migration work completed by the Commission. Previous work on migration that was 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 2010d)
- a roundtable on *A 'Sustainable' Population? — Key Policy Issues* (PC 2011a)
- a submission to the *Sustainable Population Strategy Taskforce* in 2011 (PC 2011g)
- *Geographic Labour Mobility* — a Commission research report (PC 2014b).

International evidence and experience was also 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 were 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 2014g). It is likely that any changes would be implemented from 1 July 2016 (DIBP 2015aw).
- *Review of the Temporary Work (Entertainment) visa (Subclass 420) Programme* — 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 undertaken by the Joint Standing Committee on Migration, is examining the Seasonal Worker Programme and scope for expanding it (JSCM 2015a).
- The Ministerial Advisory Council on Skilled Migration is reviewing the composition of the Consolidated Sponsored Occupations List, with the aim of increasing the contribution of sponsored immigration to productivity (Department of Finance 2015).

Recently completed reviews

- *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 was undertaken by the Senate Education and Employment Committees and its report was tabled on 17 March 2016 (SEERC 2016).
- *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 2015aa).
- *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 2015ai).
- *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 (JSCM 2015b).

(continued next page)

Box 1.2 (continued)

- *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 the 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 2015ab, 2015ah).
- *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 2015g).
- *Managing Compliance with Visa Conditions* — this performance audit report of the DIBP by the Australian National Audit Office (ANAO) found weaknesses in almost all aspects of the DIBP's arrangements for managing visa holders' compliance with their visa conditions. To address these flaws, the ANAO recommended improving the DIBP's data collection and analysis activities, superior management of allegations of possible non-compliance, improving the documentation of visa compliance activities, and implementing a range of initiatives to support the DIBP's key governance functions (ANAO 2015).

1.4 Guide to the inquiry report

This report contains 15 chapters, 5 appendices and 4 online only technical supplements.

- Chapter 2 provides an overview of Australia's immigration system and trends in immigration to Australia.
- Chapter 3 explains the Commission's approach to this inquiry and the links between immigration, population and economic growth. It also includes an outline of the framework used to assess the costs and benefits of immigration.
- Chapters 4 and 5 outline the general characteristics of immigrants and their labour market outcomes, respectively. Both chapters focus on how these differ from the Australian-born population on average and across visa categories.
- Chapters 6 to 10 examine the labour market, environmental, social, fiscal and long-term impacts of immigration on the Australian community, respectively. The Commission's assessment of the overall impacts of immigration is set out in chapter 10.
- Chapters 11 to 13 assess the current arrangements for temporary immigration, the interaction between temporary and permanent immigration, and permanent immigration, respectively.
- Chapter 14 examines the potential impacts of a proposal to use price as the primary basis for determining the intake of permanent immigrants.

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- Chapter 15 considers other options for visa charging.
 - Appendix A outlines the conduct of the inquiry, including consultations undertaken and lists the submissions received.
 - Appendix B presents an overview of immigration systems in Canada, New Zealand and the United States.
 - Appendix C provides more detailed data on the labour market outcomes of immigrants.
 - Appendix D covers the potential impacts of immigration on Australia's youth labour market.
 - Appendix E provides further information on investor visas.
 - Technical supplement A presents an econometric analysis of the impact of immigration on the labour market outcomes of Australian-born people and immigrants who have been in Australia longer than 5 years.
 - Technical supplements B to D outline the approaches taken by, and the results of, the Commission's computerised general equilibrium, partial equilibrium and fiscal modelling, respectively.

2 Migration trends and policies

Key points

- International patterns of migration have evolved substantially over time.
- In 2013, almost 28 per cent of Australia's population was born overseas. This is high by international standards. Another 21 per cent were second generation immigrants — that is, they had at least one parent born overseas.
- In past 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 with the attributes to make a significant contribution to the Australian economy and society.
- 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.
- The level and composition of permanent immigration is determined using qualitative criteria and quotas. Qualitative criteria can include attributes such as character, health, finances, age, education and skills.
- The intake of temporary immigrants — comprised mostly of international students, temporary skilled workers and working holiday makers — is typically subject to fewer criteria and is largely uncapped.
 - New Zealand citizens, who are classed as temporary immigrants, have almost unrestricted access to Australia under the Trans-Tasman Travel Arrangement and can reside in Australia for an indefinite period of time.
- While the Australian Government sets the broad parameters for the permanent and temporary immigration programs, employers have a pivotal role in selecting immigrants under a range of skilled visa categories.
 - Most of the recent growth in permanent immigration has been in employer-sponsored skilled immigration, which increased from 17 per cent of the skill stream in 2007 to 38 per cent in 2015. However, these figures include secondary applicants (family members of primary applicants) who are not necessarily skilled themselves.
- Temporary immigration often serves as a pathway to permanent residency.
 - Some visas have exemptions from requirements that make it easier for temporary visa holders to obtain a permanent visa relative to direct entry permanent visa applicants.
- Both permanent and temporary immigrants have to pay visa application charges, which can be significant in some cases.

Immigration has played, and continues to play, an important role in shaping Australia's economy and society. This chapter discusses trends in migration globally (section 2.1), developments in Australia's immigration policies since Federation (section 2.2) and recent trends in immigration to Australia (section 2.3). It concludes with 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. Throughout 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 between 1820 and about World War I. Some of the largest flows of migration over that 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 increasing 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 declining from 400 000 per year in the early 1950s to less than 100 000 in the 1990s. At the same time, migration 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 changing 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 similar reasons. People migrate because the expected net benefits of moving outweigh the expected net benefits of staying put. And the benefits and costs of migration are influenced by 'push' and 'pull' factors (chapter 3). For example, many people migrated during both waves for the higher wages and living standards in host countries (pull factors). In addition, in many cases, rising 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 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 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, such as 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 or 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.

Recent and future trends in migration

Not only have the level and direction of migration patterns changed over time, the types of people who migrate, and the length and reasons for migration, have also changed. Some important recent changes include:

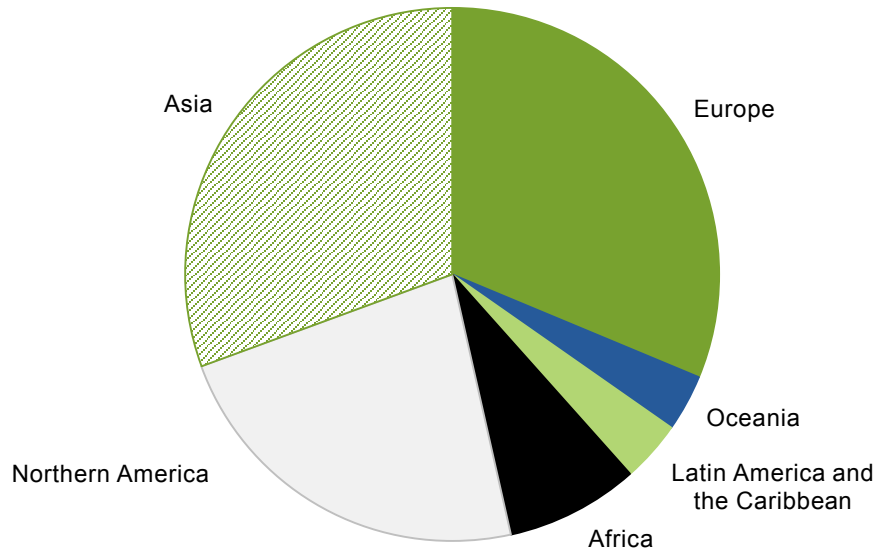
- temporary migration has become increasingly common, especially since the 1990s, when many countries (including Australia) developed policies that facilitated temporary immigration
- increased skilled migration, particularly into OECD countries such as Australia, Canada and New Zealand. Many OECD countries have also revised their legislation in recent years to be more selective when choosing skilled immigrants
- 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 as a spouse or dependent)
- a number of OECD countries are actively encouraging migration of investors and entrepreneurs, although requirements in these classes have been increased in recent years
- increased forced migration and migration of refugees — in 2014, 60 million people were forcibly displaced worldwide, the highest it had been since World War II, and it 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 2015a, 2015c; PC 2006; UIS 2014; UNHCR 2015d).

In 2013, about 232 million people (3.2 per cent of the world's population) were living in a foreign country. This was up from about 175 million (2.8 per cent of world's population) in 2000 (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).

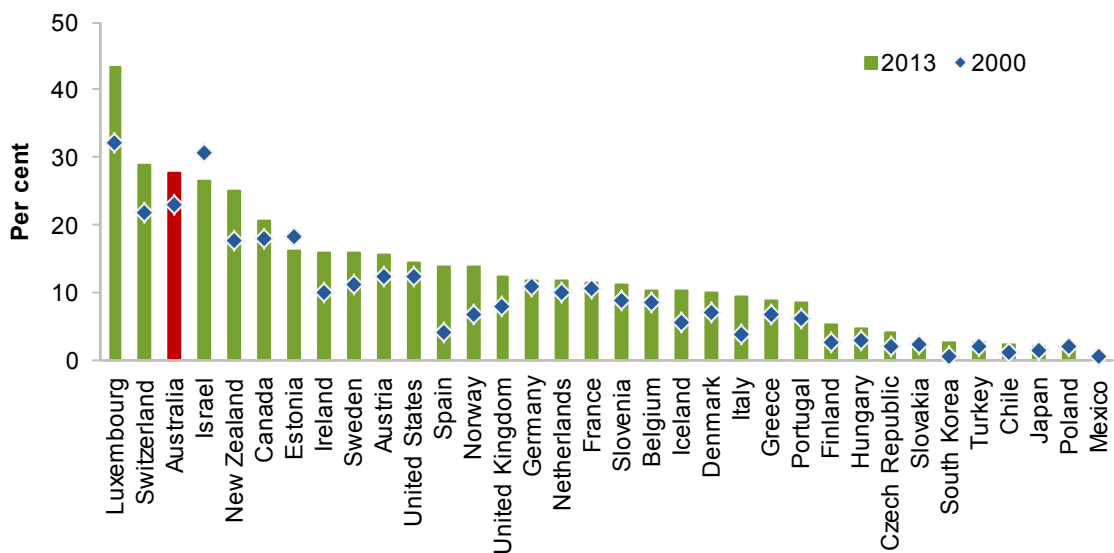
More than 80 per cent of migrants lived in Asia, Europe and North America in 2013 (figure 2.1). Oceania had the highest immigrant population as a proportion of its population — about 21 per cent (UNDESA 2013). This was due to the relatively high immigrant populations in Australia and New Zealand (figure 2.2).

Figure 2.1 **Distribution of migrants between world regions**
2013^a



^a A migrant is defined as a person who is living outside their country of origin.
Source: UNDESA (2013).

Figure 2.2 **Proportion of the population born overseas**
2000 and 2013



Source: UNDESA (2013).

Understanding future trends is important for governments when developing immigration policy. However, projecting migration trends is difficult, due to the myriad factors that affect demand for, and supply of, immigrants.

The OECD predicted that migration flows to OECD countries are likely to increase in coming decades. Push factors influencing the supply of immigrants are expected to include:

- increases in the young working-age population in some developing countries, such as countries in south-east Asia and Africa
- improvements in tertiary education in developing countries, increasing the number of skilled migrants and their ability to migrate
- environmental factors, such as natural disasters or climate change; however, it is expected much of the resulting population movements will occur within countries
- political instability in some countries, such as the recent instability in Syria that has led to increasing numbers of refugees and forcibly displaced people (OECD 2009, 2015c).

In addition, developments in receiving countries will influence migration flows. Strong pull factors are expected to include:

- continued income differentials between OECD countries and developing countries, particularly countries in the Middle East, Africa and South America
- increased competition for highly-skilled migrants
- policies to attract more international students
- population ageing in many developed countries, which could increase demand for migration of young workers. However, this could be partially offset by anticipated increases in labour force participation of women and older people (OECD 2009).

2.2 Development of Australia's immigration policies

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 immigrants 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 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 2015b). 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 and net overseas migration (NOM) was flat (figure 2.3).

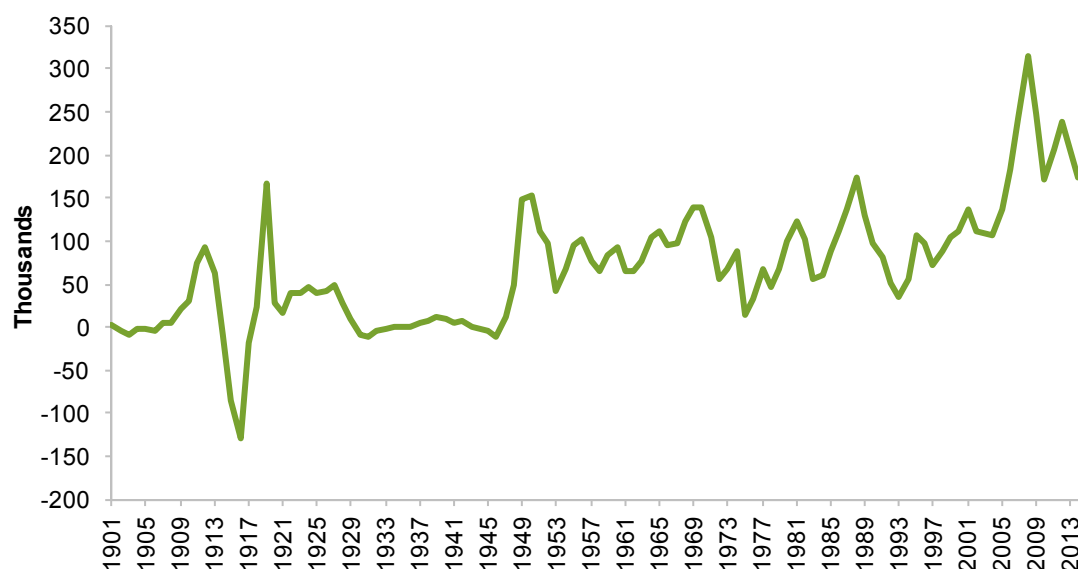
1945 to 1970

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 2015b; 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 the 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 2015bb). 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 2015b).

Figure 2.3 Net overseas migration to Australia
1901 to 2014^a



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

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

The objective of increasing immigration was achieved — for example, in 1950, Australia’s NOM was about 154 000. And 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 2015b).

During this time, Australia still had 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 (DIBP 2015b).

Over time, the White Australia policy was dismantled. The dictation test was abolished with the introduction of the *Migration Act 1958* (Cwlth) (DIBP 2015b). In addition,

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 2015v)

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 2015ag). 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 the management of immigration became more focused on the objective of increasing the wellbeing of the Australian community (Gardiner-Garden 1993). This meant having an intake that was flexible and responsive to economic conditions, but at the same time was set at a level and composition that the Australian community could adjust to and absorb (DIBP 2015ag). 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 annually, the lowest it had been since World War II (DIBP 2015b).

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

While the family stream accounted for the majority of the Migration Programme 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 (Betts 2003; Klapdor, Coombs and Bohm 2009). In 1988, the *Committee to Advise on Australia's Immigration Policies* produced a report (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 assured 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, more 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 was 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 steadily increased. The skill stream has increased at a faster rate, and since 1998 has accounted for the majority of Migration Programme visa grants (section 2.3). However, about half of the skill stream visas are granted to family members (secondary applicants) (Larsen 2013).

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).

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).

Immigration policy since the late 1990s has been increasingly focused on national security and unauthorised 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 2015b; Klapdor, Coombs and Bohm 2009).

Further changes were made 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 2015b).

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 Programme 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 13; Evans 2008)
- in 2012, business skills visas were reformed with the introduction of the Business Innovation and Investment Programme and, within this program, the Significant Investor visa (DIBP 2015e)
- in recent years, there have been a number of reforms to the Temporary Work (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 2015aa).

2.3 Australia's 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 Australian Bureau of Statistics (ABS) and visa grants data, compiled and published by the Department

of Immigration and Border Protection (DIBP). More information on these data sources is provided in box 2.2.

Australia has a significant immigrant population. About 28 per cent of Australia's population was born overseas (figure 2.2). 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).

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.

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 Programmes and temporary visas granted each year.

While these are two of the key data sources, there are other data sources also used to measure immigration.

Sources: ABS (2014d, 2015b); DIBP (2015e); Phillips, Klapdor and Simon-Davies (2010).

Net overseas migration

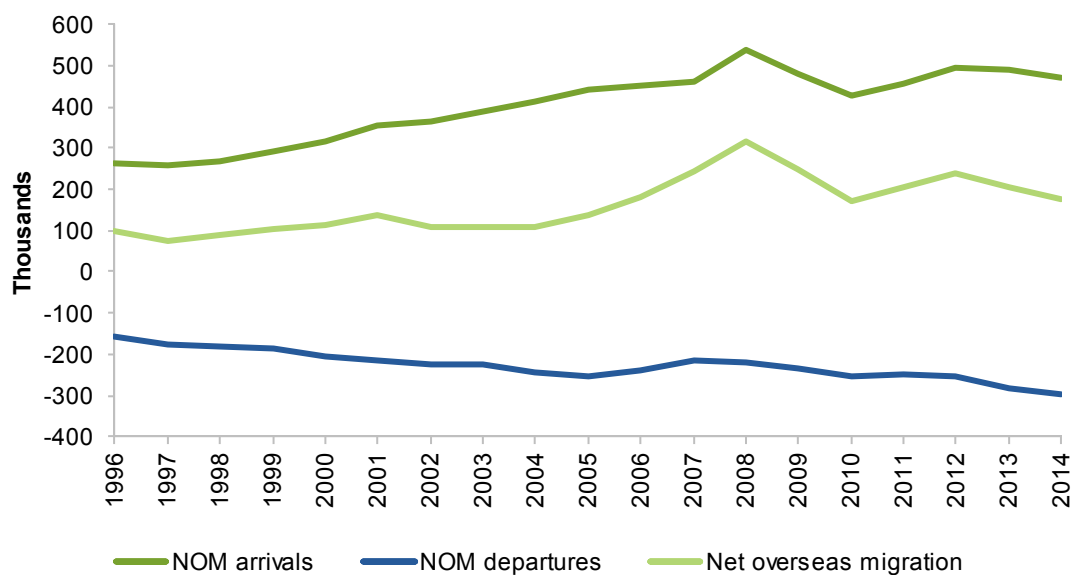
NOM to Australia has increased in recent decades, from about 97 000 people in 1996 to about 175 000 people in 2014 (although, as discussed in box 2.2, part of this difference could be due to changes in how NOM is measured) (figure 2.4). The mid-2000s in particular saw a rapid increase in NOM from about 107 000 people in 2004 to over 300 000 people in 2008, mainly driven by:

- increased temporary immigration, particularly by 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).

NOM declined after 2008 due to the global economic downturn and a significant decline in international student numbers. Notwithstanding a brief recovery between 2010 and 2012, the downward trend has continued in recent years and NOM has returned to around its 1996–2006 level.

Figure 2.4 **Annual net overseas migration**
1996–2014^a



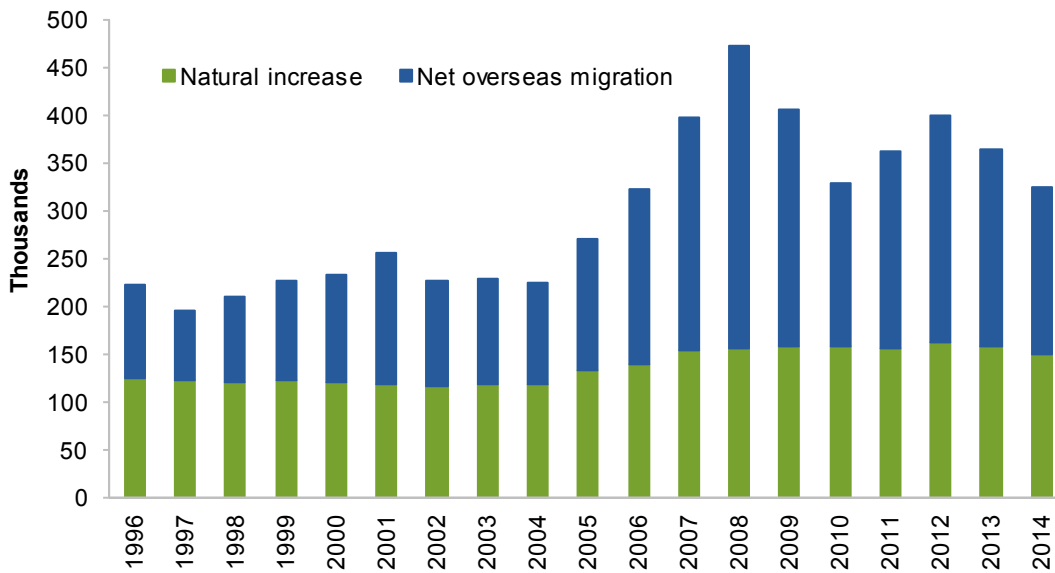
^a Data before and after 2006 are not directly comparable, due to a change in ABS methodology for estimating NOM.

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

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 between 1996 and 2014, whereas NOM increased 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 54 per cent in 2014.

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 fluctuations are due to temporary immigration being mostly uncapped and relatively more responsive to economic conditions than permanent immigration.

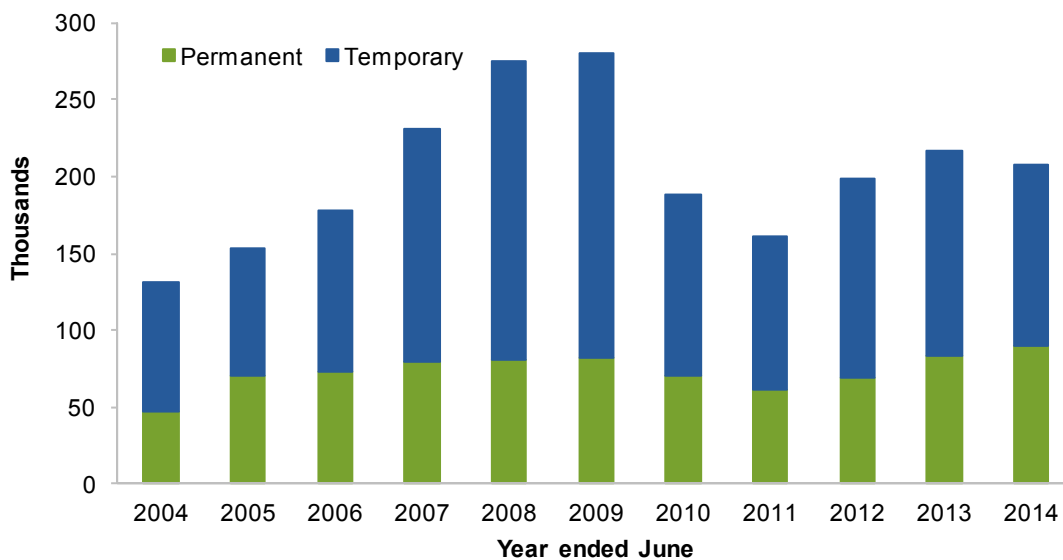
Figure 2.5 Population growth: natural increase and NOM
1996–2014^a



^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, June 2015, Cat. no. 3101.0*).

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.

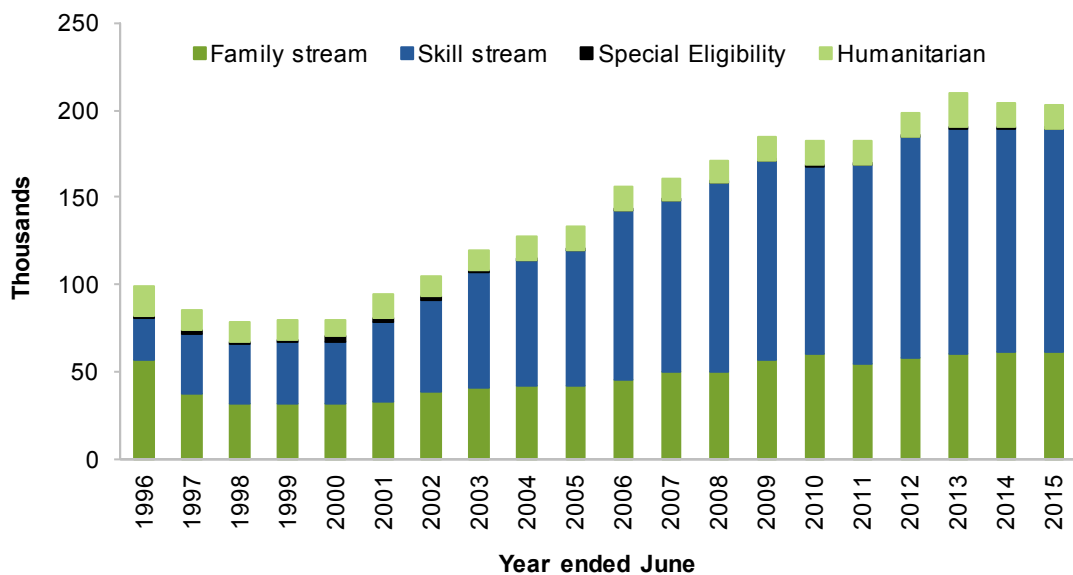
Sources: DIAC (2013b); DIBP (2014b, 2015e).

Immigration streams

Permanent immigration

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

Figure 2.7 **Permanent visa grants under the Migration and Humanitarian Programmes**
1996–2015^a



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

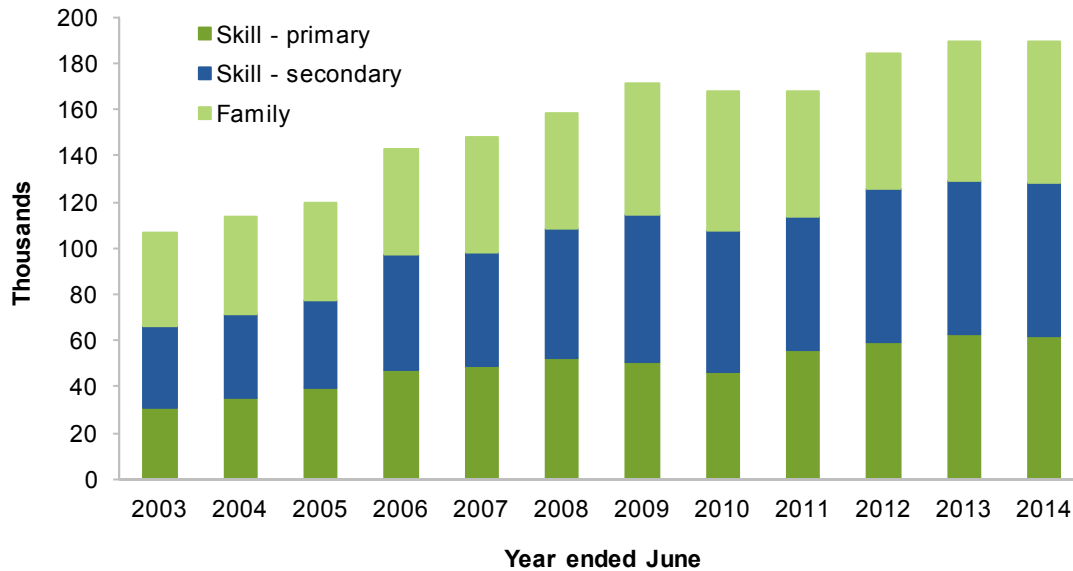
Sources: DIBP (2015a, 2015r, 2015ae).

Increased immigration under the Migration Programme has been driven primarily by skill stream visa grants, which increased from about 24 000 in 1996 to about 128 000 in 2015 (figure 2.7). The share of skill stream immigrants in the Migration Programme increased from about 29 per cent in 1996 to about 68 per cent in 2015 (section 2.4) (DIBP 2015s).

However, it is important to note that within the skill, family and humanitarian streams there are primary and secondary applicants, with secondary applicants being family members of primary applicants. Therefore, while the skill stream has increased relative to the family stream, family immigrants from the skill and family stream still make up about 70 per cent of the Migration Programme (figure 2.8). That said, some of the secondary

applicants in the skill stream might have the requisite skills to be primary applicants on their own accord.

Figure 2.8 Skill and family stream visa grants by applicant status



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

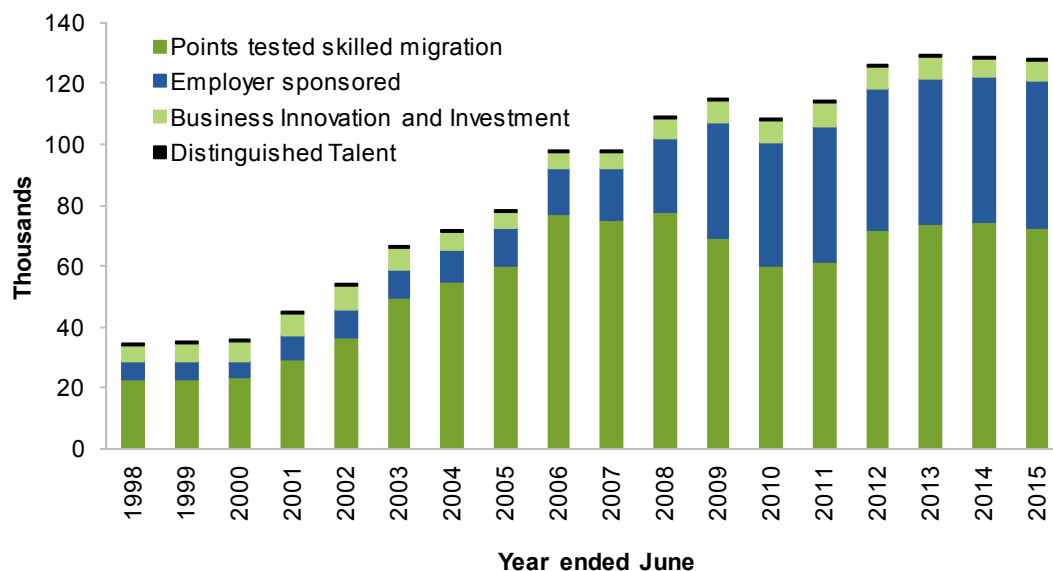
Within the skill stream, both points-tested and employer-sponsored immigration increased significantly between 1998 and 2015. Points-tested immigration rose from about 23 000 to about 73 000 (a 217 per cent increase) and employer-sponsored immigration increased from about 6000 to about 48 000 (a 700 per cent increase) (figure 2.9). 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 13). These policy changes had the effect of increasing the employer-sponsored component from 17 per cent of the skill stream in 2007 to 38 per cent in 2015 (figure 2.9).

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 26 000 in 2015 (DIBP 2015b, 2015e). Business Innovation and Investment visa grants increased from about 5400 in 1998 to about 6500 in 2015, but they remain a relatively small proportion of skill stream visa grants (figure 2.9).

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 others. Tourists are not included. There were about 1.5 million temporary entrants in Australia as at December 2015 (table 2.1).

Figure 2.9 **Permanent skilled visa grants**
1998–2015



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

Table 2.1 **Temporary entrants in Australia as at 31 December 2015**

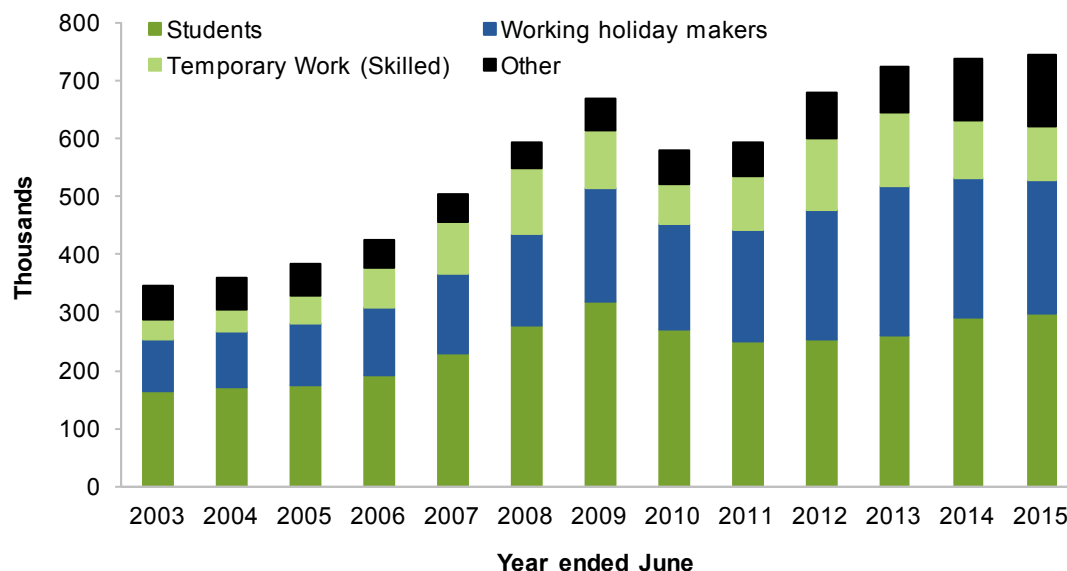
<i>Temporary visa category</i>	
New Zealand citizen	634 560
Student	328 130
Temporary skilled (subclass 457)	159 910
Working holiday maker	155 180
Bridging ^a	110 980
Temporary graduate	23 870
Other temporary	55 980
Total	1 468 610

^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 (2016g).

Temporary visa grants more than doubled between 2003 and 2014, with significant growth in the number of international students, working holiday makers and temporary work (subclass 457) visa holders (figure 2.10). However, there was a marked reduction in temporary visa grants during 2009 and 2010 largely driven by the global financial crisis and a downturn in student visa grants.

Figure 2.10 Temporary visa grants
2003–2015^a



^a Excludes visitor visas and New Zealand citizens on the Special Category visa (subclass 444).

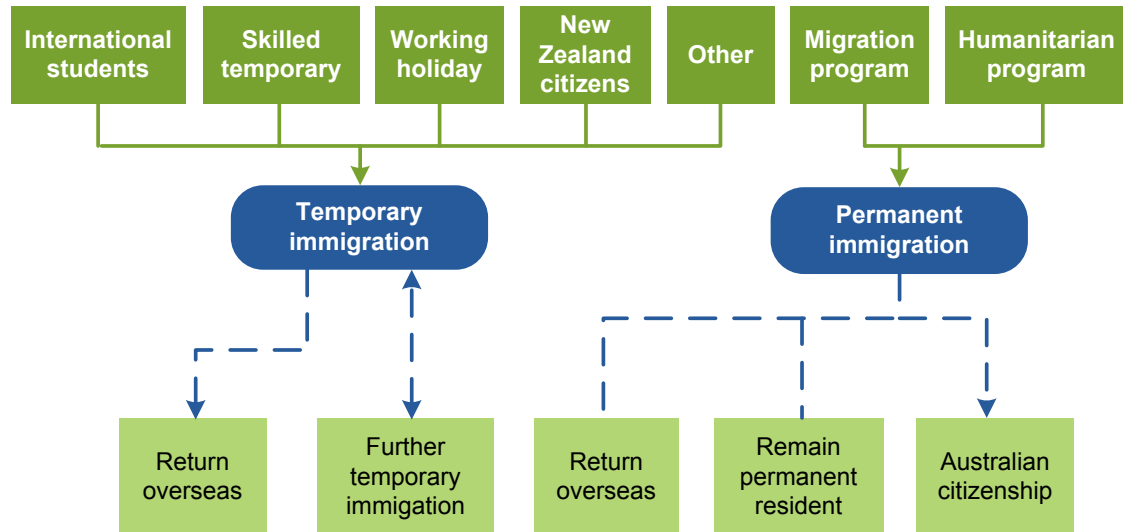
Sources: DIBP (2014b, 2015e, 2016h, pers. comm., 11 March 2016).

Student visa grants increased by about 84 per cent over the period 2003 to 2015. The increase between 2007 and 2009, in particular, has been linked to the existence of a direct pathway from the student visa program to permanent skilled immigration (PC 2015c). 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 2015c).

2.4 A snapshot of the current system

With Australia’s current immigration system, 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 (figure 2.11; chapter 12).

Figure 2.11 Migration flows



Objectives of the current system

The Australian Government sets specific objectives for each immigration stream. For example, the current objective of the Migration Programme is ‘to contribute to Australia’s economic, demographic and social well-being’ (DIBP 2014i, p. 4). Within the program, the skill stream is designed to ‘target migrants who have skills or outstanding abilities that will contribute to the Australian economy’ (DIBP 2015w). The Seasonal Worker Programme is designed to ease seasonal labour market shortages in selected industries and meet international aid goals (chapter 3). The Humanitarian Programme has two functions.

- The **onshore protection/asylum component** 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** 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 2015r).

Australia’s bilateral, regional and international commitments

Australia’s immigration programs operate within a number of bilateral, regional and international commitments.

- Australia is signatory to multilateral treaties that set out human rights obligations, including the protection of asylum seekers and refugees (AHRC nd). These include the:
 - 1951 Convention Relating to the Status of Refugees and its 1967 Protocol
 - International Covenant on Civil and Political Rights

-
- International Covenant on Economic, Social and Cultural Rights
 - Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
 - Convention on the Rights of the Child.
- 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 Programme, Australia has negotiated bilateral agreements with a number of countries that allow people aged 18–30 years to work and holiday in Australia (DIBP 2015y).
 - The Seasonal Worker Programme allows people from 10 Pacific Island and Asian nations¹ to work temporarily in the agriculture and accommodation industries with employers that cannot meet their seasonal labour needs (DoE 2015b).
 - Australia has made specific commitments under the General Agreement on Trade in 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 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 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 Programme and Humanitarian Programme each year. It also sets specific targets for the skill, family, and 'special eligibility' streams within the Migration Programme. Planning levels are adjusted in response to economic conditions and other considerations and are announced in advance (box 2.3). In contrast, the temporary intake is largely uncapped, except for caps on Work and Holiday visa grants for some countries.

¹ The countries are Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, East Timor, Tonga, Tuvalu and Vanuatu (DoE 2015b).

Box 2.3 **Setting the level of the permanent intake**

The Australian Government sets the planning level for the Migration Programme each year following community consultation. The 2015-16 planning level was 190 000 places (the same as the previous year), comprising:

- 128 550 places under the skill stream
- 57 400 places under the family stream
- 565 places for special eligibility immigrants (DIBP 2015u).

In addition, at least 3485 Places for children were available outside of the managed Migration Programme (DIBP 2015u). Places in each stream include places for primary applicants and their family (secondary applicants). The Humanitarian Programme 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 2015f).

Ministerial 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 2015t).

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 2015t).

Suspend processing

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

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 2015t).

Requirements for permanent and temporary immigration

Potential permanent and temporary immigrants have to meet a range of requirements. All immigrants must meet 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 skills — for example, this is a requirement of many skill stream primary 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 on the Consolidated Sponsored Occupations List
- 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 annual salary of \$53 900 plus superannuation contributions
- age requirements — for example, skill stream primary applicants must be under 50 years of age unless exempt and working holiday makers must be aged 18–30 years
- 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
- 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 (chapter 11; DIBP 2015p, 2015ad, 2015ao, 2015at, 2015be, 2015bg).

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 15).

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 2015j).

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, human immunodeficiency virus (HIV), Hepatitis, Yellow Fever, Polio and the Ebola Virus Disease
- 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 access for 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 2015aj, 2015ap, 2015bc).

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 2015ac).

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 2015z, 2015al).

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).

Box 2.5 Investor streams

Under the Business Innovation and Investment Programme (visa subclasses 188 and 888), there are three streams that permit immigrants to enter Australia if they invest in specified Australian-based assets.

- Investor stream — applicants must make a designated investment of at least \$1.5 million in a state or territory and maintain business and investment activity in Australia. Applicants must be nominated by a state or territory government.
- Significant Investor stream — applicants must invest 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 invest at least \$15 million in complying asset classes and be nominated by Austrade on behalf of the Australian Government.

Each of these streams also has a range of other requirements, including age, passing a points test and business experience requirements. These requirements are most restrictive for the Investor stream and least restrictive for the Premium Investor stream. More information about the Investor streams is provided in chapter 13 and appendix E.

Source: DIBP (2015i).

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 in July 2013 to \$6865 in July 2015 (DIAC 2013e; DIBP 2015z).

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).

The rights of permanent and temporary 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 study and work. Immigrants also have some access to government services and social security, which varies depending on whether they are permanent or temporary, and whether they enter under the skill, family or humanitarian streams.

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, 2015p; DSS 2014c).

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 or have been granted permanent residency. New arrangements announced by the Government on 19 February 2016 provide for a streamlined pathway to permanent residency for non-protected Special Category visa holders who arrived between February 2001 and 19 February 2016. This pathway is conditional on meeting various requirements, such as length of residence, health, character and security checks and a minimum average income threshold.

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 (chapter 12).

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 2015p). 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 2015ar).

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 2015g) 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 2015e).

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 2015g).

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 2015e).

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 practised 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).

3 Immigration: an assessment framework

Key points

- People generally seek to migrate because of the expected net benefits to themselves and their families. Both 'pull' and 'push' factors affect these decisions.
- Most countries allow immigration but they also control its level and composition.
 - Immigration can be an active policy tool designed to encourage both population and economic growth. Social factors, such as family reunion and a diverse range of source countries, are equally important.
 - But other factors affect the optimal rate of immigration. For example, immigration spreads finite rents from Australia's limited natural resources across a larger population base, reducing the amount available for the existing Australian community. Pressure on the natural and built environment along with taxpayer-funded social welfare systems in host countries also act as constraints, as the rate at which provision of services and infrastructure can be expanded is limited.
- Maximising the overall wellbeing of the existing Australian community (and their future descendants) should be the overarching objective of immigration policy. Wellbeing has economic, social and environmental dimensions, which need to be balanced over time. The overall impact of immigration on community wellbeing will therefore depend on the complex interaction of immigration flows on economic, social and environmental outcomes.
- Immigration is the primary policy lever that influences population size and growth. There will be a range of immigration (and population) growth rates that are compatible with improving the wellbeing of the Australian community. The range depends on a number of factors, including the level and composition of immigration policy, and the policy settings and approaches of governments. The sustainable rate of immigration may differ from the optimal rate.
- The Australian Government is responsible for managing the level and the composition of immigration flows on behalf of all its constituents and its immigration policy is its de facto population policy.
- From a population policy perspective, the Australia Government's current approach to determining the level of the annual migration intake could be improved through the development of a policy approach that is:
 - comprehensive and considers (i) Australia's absorptive capacity in terms of economic (including fiscal), environmental (including infrastructure) and social (including social cohesion) factors and (ii) the impacts of both temporary and permanent immigration
 - more transparent and consultative. There needs to be more regular information about the size, composition and impacts of Australia's immigration program and its broader effects on community-wide wellbeing to allow for a more informed community discussion about the level and composition of immigration. This should be accompanied by a consultation process which is more active and draws on a diversity of community views.

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 countries apply in both accepting and limiting immigration (section 3.1). The key features and objectives of immigration policy are outlined in section 3.2. Section 3.3 details the links between immigration, population, economic growth and wellbeing. Whether optimal immigration and population growth rates can be identified is discussed in section 3.4. The chapter concludes with the Commission's approach and analytical framework (section 3.5).

3.1 Why do people migrate and why do countries accept (and limit) immigration?

There are three parties affected by migration: immigrants, and source and destination (or host) countries. This inquiry focuses 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, while losing skilled workers can impose costs.

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 Helvetii, seeking new lands and conquests.

In the modern age, the migration of people due to war, if not famine, continues as an important driver. However, the potential to improve income and the falling costs of migration 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)

These economic drivers also featured in submissions (for example, Gregory, sub. 40).

Non-economic factors also influence the decision to migrate. This is illustrated throughout the migration literature, which commonly categorises the influences affecting a person's decision to migrate as 'pull' and 'push' factors. Pull factors come from what the destination country offers, including better economic opportunities (such as higher incomes, lower costs of living, a larger range of goods and services, access to education and health services) and lifestyle and cultural considerations (such a safe place to raise a family, or the desire for reunion with other family and community members). Push factors reflect conditions in the source country, including political and social instability (such as conflict and persecution) as well as climate and living conditions.

Immigration is often conceptualised as an act of human capital investment (Bodvarsson, Simpson and Sparber 2015), with the decision to migrate invariably expressed as a cost–benefit decision, reflecting the net outcome of these pull and push factors. 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)

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.

Market failures (such as capital market failures) may also sway a person's migration decision, for example, where some people are not able to access the capital required to migrate. On the other hand, new immigrants may benefit from the 'externalities' from previous migration as the presence of large established migrant communities originating from the same source country or similar cultures can also help ease immigrants' settlement and integration. In addition, technological advances have made it easier for immigrants to maintain contact with people in their source country; although this may reduce their incentives to integrate into the destination country.

Various surveys on the settlement experience of recent immigrants to Australia have included questions on motivations to migrate. Research based on these surveys concluded that the opportunities for children, including education, were important, as were a peaceful and open civic life, and Australia's relatively uncrowded and unpolluted environment. The desire to reunite with family members was also an important motivator (Richardson et al. 2004a, 2004b).

The characteristics of immigrants (both observable and unobservable) on arrival often differ from those of the resident population — although subsequent generations tend to become more similar to existing residents. Self-selection, combined with the application of explicit selection rules (see below), explain much of these differences (chapter 2).

What impacts does immigration have on the Australian community?

As well as benefiting immigrants, immigration (temporary and permanent) can generate a range of private and community-wide positive and negative impacts on the existing population (which includes previous immigrants as well as those born in Australia). Immigrants are not homogenous, so the net impacts of immigration can be expected to vary across different immigrant groups according to their characteristics, and over time as the size and dispersion of groups change.

Many impacts are market-based and can be measured readily. In broad terms, additional people of working age (who participate in the labour force) increase the supply of labour and some forms of capital: they are consumers and producers. This, along with their consumption of market-based goods and services, contributes to economic activity and associated taxation revenues. Some also contribute as volunteers in the non-market sector and consume goods and services that are delivered outside of markets (for example, subsidised government services and the services of some not-for-profit organisations). Thus, immigration has implications for labour supply, wages, and the prices of and/or access to goods and services in the market and non-market sectors. Some of the impacts are private (for example, returns to owners of capital, land and labour) while others have community-wide impacts (for example, government budgets). While complex, these ‘economic’ impacts can be identified and measured.

However, other impacts tend to fall outside of markets and are more difficult to quantify. For example, immigration also has 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 include pressures on urban infrastructure and space, natural resources and the effect of population growth on biodiversity and air and water quality (pollution). Further, immigration can also lead to positive or negative social and cultural impacts on existing inhabitants — with most of these impacts tending to be outside the influence of markets. Immigration has a two-way social effect: influencing the experiences and values of existing members of society as well as on immigrants themselves.

Although separately identifiable, the economic, social and environmental impacts 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. Importantly, it is the rate of change (and the predictability) of immigration — not just the stock — that affects the ability of the market and non-market sectors to supply the goods and services demanded.

Why do countries accept and limit immigration?

It is the broader community-wide impacts of immigration — including the distribution of impacts — on the destination community that leads to a role for governments in managing immigration. In any case, with free movement of people within a country, only the national government can influence the number and composition of immigrants.

Accordingly, the expected impacts of immigration on the existing population — including economic, social and environmental concerns — are key elements influencing a country's stance on migration levels and selection policies.

Most major countries do not have open borders for people movement

With the advent of taxpayer-funded welfare systems over a century ago, most major countries have not had 'open borders' allowing the free movement of people (Caplan 2012). That said, some countries do have open border-style arrangements with certain other countries. The arrangements operating for citizens of European Union (EU) countries — including the subset of EU countries (and Switzerland) that are parties to the Schengen Agreement and the European Economic Agreement — and Australian and New Zealand citizens under the Trans-Tasman Travel Arrangement are notable examples (Bosley, sub. DR75; Dobes, sub. DR99; and name withheld, sub. DR103). Many social security benefits in EU countries are insurance-based (contributory) schemes and access is typically subject to waiting periods to prevent 'welfare shopping'. These design features have contributed to the finding that welfare migration has not been a significant feature of intra-EU migration (ICF GHK 2013; Medgyesi and Pölöskei 2014). Nonetheless, the potential for 'welfare shopping' in those EU countries which have less contributory-based approaches has seen the United Kingdom seek to amend or limit labour mobility from other EU nationals (Dobes, sub. DR99). The freedom of movement for Australian and New Zealand citizens is also tempered by waiting periods for, and some restrictions on, access to social security in both countries (PC and NZPC 2012). Finally, all of the countries operating these schemes limit the movement of nationals from less-developed nations that typically have little in the way of social safety nets.

Some preferential trade agreements and multilateral trade rules have sought to reduce restrictions on labour mobility. The motivation for these trade agreements and rules is a comparative advantage framework demonstrating that cooperating and loosening trade restrictions ultimately benefits their respective existing residents (Sherrell 2015). This focus on the effects on existing residents means that open trade in goods and services is also consistent with restricting the free movement of people across borders. For example, while allowing free movement of labour across the economies of all nations would

substantially increase the world's gross domestic product (GDP), from the perspective of residents of high income countries (such as Australia), local workers would be worse off while new immigrant workers and people who own capital and land in the host country would benefit (Clemens 2011). Hence, this inquiry's focus on benefiting the existing Australian community — defined for the purposes of this inquiry as Australian citizens and permanent residents (section 3.2) — supports the use of labour market testing to ensure local workers are not made worse off from employing immigrant workers (name withheld, sub. DR103). Similarly, who owns the capital and land in the host country also matters when considering the distribution of net benefits from immigration.

The economic rents flowing to existing residents from international trade in finite resources (for example, mining royalties) also means that open borders in the movement of people ultimately dissipates these finite rents across a larger population base, reducing the amount per incumbent resident.

Proponents of open borders (and increased immigration rates) often argue that there is a scale advantage to a larger population. But many of the economic benefits derived from scale economies can also be achieved from more open cross-border trade in goods and services rather than requiring a larger domestic market (achieved through higher immigration) (CIE 1988). For example, many small countries (for example, Luxemburg, San Marino, Singapore, Switzerland) exploit economies of scale in areas of comparative advantage through exporting.

Most countries allow immigration but they control its level and composition

Immigration can be 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 to Australia from the end of World War II until around the 1970s.

Today, some see population growth as important for national security and enhanced economic opportunities. For example, skilled immigrants may also encourage knowledge and innovation spillovers, in turn enhancing productivity growth in the host country. And addressing labour market objectives — including meeting skills bottlenecks in a timely fashion — has become a prominent motivation for accepting migrants.

The fiscal implications of immigration also form part of considerations. Governments can be attracted to immigration as it boosts tax revenues. But it also increases spending on government services and infrastructure.

However, others are concerned about the pressures of Australia's population on the existing built and natural environment. These concerns are not new (Smith 1991). For example, Mitchell (1991) pointed out that, in the absence of definitive economic justification and given the major gains to cultural enrichment that have likely already been

met, environmental considerations should take centre stage in deliberations surrounding immigration. The associated fiscal implications may also be a source of concern.

Social considerations also come into play in the immigration selection policies of governments. These include:

- family reunion — which can affect economic outcomes
- social cohesion — which can have positive and negative impacts on social capital. For example, while large established migrant communities originating from the same source country or similar cultures can ease integration, these communities may also identify separately to ‘mainstream’ society, potentially leading to societal fractures (Collier 2013)
- social values — for example, religious tolerance and attitudes to women
- cultural and religious diversity/uniformity
- fulfilling the altruistic desires of the sections of the community and Australia’s international commitments, including humanitarian commitments which have been accepted under various international treaties ratified by governments.

3.2 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 influences these various rules. In representative democracies, immigration policy should ultimately be shaped by the community’s perspectives about immigration and immigrants (expressed through political forces and subject to the law). 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. Maintaining public confidence in the efficacy of immigration policies is also 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 commitments under those instruments.

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

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.

Further, some of the 'costs' of admitting new immigrants on the incumbent population may not be explicit (or measured) and/or they may be distributed unevenly across existing citizens and permanent residents (including future generations). For example, population growth can contribute to the degradation of Australia's natural environment, while large intakes from new source countries may result in unanticipated (adverse) changes to social customs and beliefs. There are also costs for the government associated with processing visa applications and screening for health and security risks.

The entitlements and obligations of immigrants differ across residency status

Potential immigrants acquire a bundle of entitlements and obligations when they are granted residency, whether temporary or permanent. Some entitlements vary across different visa classes in the access allowed to the labour market and social supports. Other entitlements, such as access to infrastructure and participation in the Australian community, are available to all. Additionally, the visa class determines the period immigrants can remain in Australia, the scope to apply for other visa classes and the capacity to access family reunion visas. The obligations include obeying Australian laws and meeting the requirements of the visa class. Immigrants who progress to citizenship acquire the entitlement (and compulsory obligation) to vote, and to political participation, thus shaping the future Australia.

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 that evolve as entitlements and obligations change in the transition from temporary to permanent residency to citizenship. These entitlements and obligations may also change over time as a result of policy decisions. Unexpected changes can bring considerable discontent in those affected negatively.

What should be the objectives of immigration policy?

Immigration policy should seek to maximise wellbeing

As highlighted in chapter 2, the objectives of Australian immigration policy have evolved considerably over time. Contemporary objectives of Australia's immigration policy are framed around economic, social and safety considerations (box 3.1). More detailed objectives also sit under the three main immigration-related programs (that is, the Migration (permanent), Visas (temporary) and Humanitarian Programmes). Further, these objectives are buttressed with other objectives that support economic and social inclusion, citizenship and settlement, including multicultural affairs (box 3.1).

Setting aside the Humanitarian Programme, reflecting their different intents 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 three largest temporary intake programs 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 (skilled) (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?

Although rarely made explicit, maximising the overall wellbeing of the Australian community should be a key objective of government policies, including immigration policy. 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 issues paper and the draft report in relation to the objectives of Australia's immigration policy (box 3.2). While most participants implied that the wellbeing of 'Australians' (mainly defined as citizens but not exclusively so) should be the primary objective, others thought that the wellbeing of permanent and temporary residents 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).

Box 3.1 Immigration policy has a range of stated 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 2014f, 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 2014i, 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 2015an). 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 2015an).

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 2014a)
- 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 3.2 Participants' views on whose wellbeing should be a priority

There was overwhelming 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. (Business Council of Australia, sub. 59, p. 6)

But the wellbeing of all immigrants was also seen as important by some

[The Multicultural Development Association] MDA supports the PC's recommendation that the Australian migration program prioritise the wellbeing of members of the Australian community, including migrants, understanding that wellbeing is a nuanced concept with multiple dimensions: economic, social and environmental.

MDA believes that this commitment to the wellbeing of migrants should be extended to apply to all residents of Australia regardless of their mode of arrival. (Multicultural Development Association, sub. DR112, p. 2)

The inquiry's terms of reference ask the Commission to consider the income, wealth and living standards of Australian *citizens*, and 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.

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), to which most permanent residents are subject.

What should the policy objective be?

Bearing all these considerations in mind, the Commission has taken the overarching policy objective of immigration to be maximising the wellbeing of existing Australian citizens and permanent residents (referred to as the Australian community). The future progeny of this group also forms part of the policy objective.

However, this 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 or because some Australians have an interest in promoting the wellbeing of people in other countries generally. For example, Australia has made humanitarian commitments to assist refugees, and the wellbeing of some community members is enhanced through meeting such commitments (Refugee Council of Australia, sub. 20). However, although it is a relevant consideration, the wellbeing of *potential* immigrants should not be 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 2011e). Wellbeing includes elements that are 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 aspects of environmental and urban amenity, and social and cultural impacts.

For the purpose of analysis, it is convenient to divide the wellbeing of Australia's community into three domains: economic, social and environmental.¹ This is similar to the approach adopted in developing Australia's population policy (DSEWPC 2011) (see below).

In response to the draft report, Bosley (sub. DR75) submitted that strategic considerations be added as a fourth domain on the basis that higher population through immigration gives Australia '... the strategic strength for long term survival in the absence of a major ally such as the United States' (p. 1). However, the Commission's view is that such strategic considerations would form part of the wellbeing framework through its effects on each of the three domains.

3.3 How are immigration, population, economic growth and wellbeing connected?

The Australian Government is responsible for managing the level and the composition of immigration flows on behalf of its constituents and the federation.

The link between immigration levels and population growth

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 3.1).

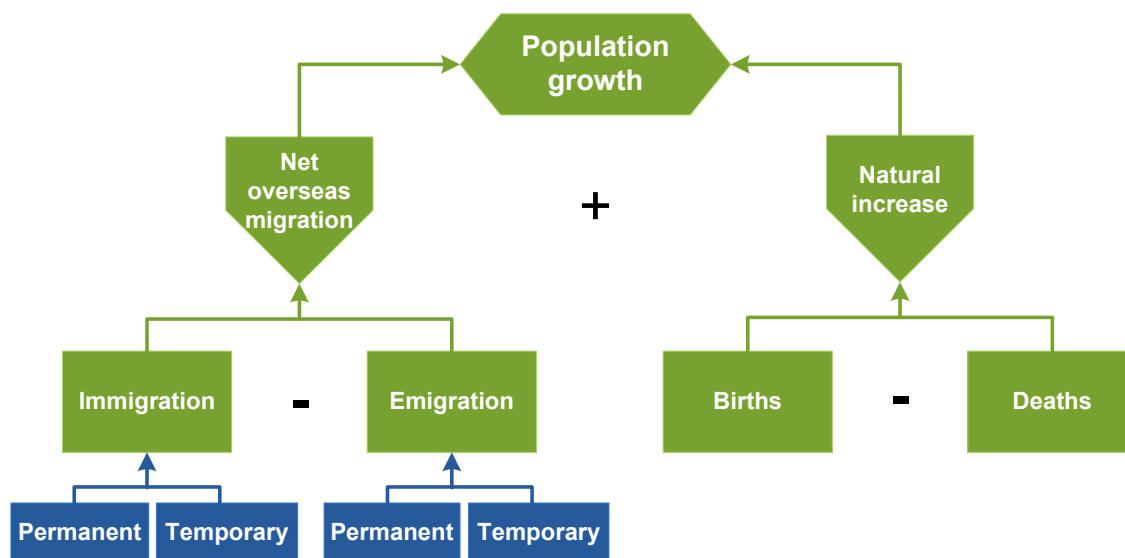
Net overseas migration (NOM) — the difference between immigration and emigration — has been the major contributor to population growth in Australia, especially since World War II (chapter 2). As Australia's population progressively ages and its natural rate of increase eventually declines, NOM is expected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

Immigration is also the *primary* policy lever government has to influence population size and growth. Other factors that affect population — such as births, deaths and emigration — are more difficult to *directly* influence through policy (PC 2011a, 2011b, 2011g). 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.

¹ These classifications are somewhat arbitrary. For example, many economic factors have social and environmental dimensions and many social and environmental factors could be deemed economic.

² McDonald and Kippen (1999) and the Commission (PC 2005b) argued that immigration will have little long-term effect on the age structure of the population. McDonald and Temple (2013) calculated that a higher NOM will help to slow down (but not stop) the effect of population ageing. Further analysis is in technical supplement A.

Figure 3.1 Components of population growth



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

The link between population growth and economic growth

Economic growth is commonly measured as the growth in real gross domestic product (GDP), where GDP is the money value of goods and services produced in the economy.³

As various Australian Government Intergenerational Reports (IGR) (for example, Australian Government 2015a) and Commission reports into ageing (for example, PC and Melbourne Institute 1999; PC 2005b, 2013a) have explained, projections of real economic growth can be constructed from trends in population, labour force participation and labour productivity (the so-called 3Ps).

And just as economic growth projections can be constructed from such trends, immigration numbers can be ‘reverse engineered’ from a desired rate of economic growth when combined with assumptions about the expected movements in various components (labour productivity growth, unemployment, fertility, mortality, participation and hours worked). The Department of Immigration and Citizenship (DIAC 2011b) recently undertook such an exercise based on information from the 2010 IGR together with the Australian Government’s Treasury outlook for GDP growth and unemployment rates. This

³ Technically speaking, economic growth is a broader concept than is captured by GDP (GNP or other similar measures). As the Treasury pointed out some time ago, ‘some of the alleged conflicts between economic growth and other goals only arise if the substance of growth is identified with its conventional statistical shadow’ (Treasury 1973).

‘endogenous’ (or residual) demand is the rate of population growth (or more specifically NOM), that was consistent with the official GDP growth outlook at that time.

In other words, if we expect over the next 10 years to 2020:

- productivity growth of 1.6 per cent and the participation rate slightly rising (consistent with the 2010 IGR);
- unemployment rate of around 5 per cent (broadly consistent with the latest forecasts and data from the Australian Bureau of Statistics (ABS)); and
- if we want to have an [real aggregate] economic growth of 3.25 per cent (broadly in line with official forecasts and trend economic growth); then
- NOM could be 180 000 to 190 000 persons on average over the next 10 years. (DIAC 2011b, p. 13)

However, while the above is only a projection exercise linking various assumptions to ‘desired’ GDP outcomes, it runs the risk that it may be interpreted as a way of estimating the community-wide benefits of immigration. There are six main deficiencies in any such interpretation.

1. Increases in *aggregate* GDP will nearly always accompany increased immigration (unless migration favours the very young or the very old), simply because the population has grown and many immigrants work. However, GDP per person provides a better insight into living standards of community members than GDP alone. For example, an economy could conceivably grow as a result of higher population, but the living standards of residents (as measured by GDP per capita) might actually fall.
2. The interpretation fails to take into account the differences between existing Australian community and new immigrants. New immigrants’ output is included in GDP, but only that part of it that is transferred to existing inhabitants would be directly relevant to the material wellbeing of the Australian community. As the framework centres on assessing the wellbeing of the Australian community (Australian citizens and permanent residents), merely raising GDP (or GDP per capita) is not an adequate metric of successful policy.
3. GDP is not the same as income, which is a better measure of living standards. For example, capital is an important contributor to GDP, but any overseas funding of it must be repaid, and capital depreciates. (Net national disposable income is a better measure of income relevant to Australian residents.)
4. The material living standards of a person at a given time is a weak indicator of their lifetime living standards, which would be better measured as the present value of their lifetime consumption (including the value of the insurance payments they make implicitly through the tax system). Much of the increase in per capita incomes from immigration reflects the shift it generates in the age structure of the population to younger ages where labour force participation (and therefore labour income) is higher. Yet such an increase in income need not necessarily translate into a change in lifetime consumption possibilities.

-
5. GDP does not include the full range of economic costs and benefits to society from immigration (for example, the cost of infrastructure congestion). It also includes so-called ‘regrettable’ costs, such as the cost of remediating any environmental damage caused by over-population.
 6. As spelt out in greater detail below, economic growth can be a means to improving living standards and enhancing wellbeing, but it is only one (albeit important) aspect of that broader goal.

Accordingly, by itself, economic growth is not an appropriate policy target from the perspective of immigration or population policy.

The link between economic growth and wellbeing

Just as GDP growth is a narrow and somewhat imperfect measure of the growth of an economy, growth in GDP per person (or even lifetime consumption) does not fully capture a nation’s development or its citizen’s welfare or wellbeing. This has long been recognised. Argy (1998), for example, critiqued the use of GDP as a measure of community welfare. The Commission on the Measurement of Economic Performance and Social Progress, created by the French Government in 2008, examined how the wealth and social progress of a nation could be measured without relying solely on the measurement of GDP (CMEPSP 2009). And similar issues had been canvassed much earlier by the inventor of GDP Simon Kuznets (US Bureau of Foreign and Domestic Commerce 1934) as well as by government economists in Australia (Treasury 1964, 1973).

Countries can experience strong growth in GDP per person, but that growth may impose costs on the community in other ways — such as reduced leisure or less liveable cities — which are not captured well or at all in GDP measurements. Of course, the opposite would occur if economic growth had positive external effects that people valued — like lower crime rates.

So GDP growth might sometimes over or understate real growth in community wellbeing. It is an imperfect proxy for wellbeing — it is better to examine a range of indicators that can be associated with wellbeing.

Therefore, the Productivity Commission’s approach to policy development does *not* aim to increase economic growth nor the growth in GDP per capita per se — it is to maximise the wellbeing of the Australian people. The Commission’s central focus is on using society’s resources — that is people’s skills and labour, land and capital — more efficiently, thereby increasing the value that society obtains from those resources and, maximising the Australian community’s welfare (or wellbeing). (‘Value’ in this sense refers not only to monetary values but to the things that people value, such as leisure, relationships and environmental amenity.)

This is not to say that growth in GDP per person is not important. Growth in GDP per capita is closely aligned with rising living standards, primarily when such growth is

sourced from productivity improvements (CCIQ, sub. DR127; Warneford, sub. DR96;). It is also the principal means to fund policies that have strong social dimensions (like public health care, disability support, education, and social security). GDP is also a key indicator of the state of the economy, allowing timely policy interventions in response to economic shocks.

3.4 Is there an optimal immigration and population growth rate?

Given the links between immigration, population and economic growth and subsequent community wellbeing outlined above, a valid issue is whether it is possible to estimate optimal immigration and population growth rates and levels.

In theory, optimal immigration and population growth (and associated levels) may be conceptualised, but in practice calculating them is complex and subjective (Joske 1991). The Commission (PC 2011g) previously concluded that there was no single optima for the level of immigration, population growth or population. The optima depend on a range of factors — including the tradeoffs that are made across the three domains of wellbeing (economic, social and environmental) and the policy settings that are in place to address the ramifications of these tradeoffs (PC 2011g).

Victoria First and Sustainable Population Australia (sub. DR81) and Cook (sub. DR124) criticised the Commission’s anthropocentric approach, which is based primarily on welfare and public economics and where the maximisation of humans’ wellbeing is central. However, as discussed in chapter 7, the Commission’s approach does not prevent including the value of environmental services to future generations, nor the existence value derived from the preservation of species, ecosystems and landscapes. The value that communities as a whole place on these type of components relative to other types of economic and social components that make up community wellbeing is what matters for policy development purposes.

In practice, assessments about optimal immigration and population growth involve a degree of judgment. However, such judgments need to be well informed.

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 2011g, p. 44)

Another participant (O’Sullivan, sub. DR108) considered that there was an empirically-based way for setting population growth. She presented evidence on the correlation between countries’ GDP growth per person and population growth rates, and total fertility rates and concluded that:

... population growth above 1% p.a. is a significant drag on economic performance, while population stabilisation is not. (p. 7)

This approach, however, ignores the direction of causality. It is also partial as it does not account for the unmeasured effects of population growth on the environment or society. Further, as O’Sullivan (sub. DR108) herself noted, using ‘GDP per capita impacts is prone to counting costs as benefits, giving a deceptive impression of the impact on Australians’ (p. 6). Immigrants generate both positive and negative externalities on an economy, with the composition being important as well as the rate of immigration.

On balance, the Commission remains of the view that in seeking to determine optimal population and immigration growth, while many aspects can be quantified, subjective judgments will always be necessary. That said, decisions should be based as much as possible on evidence and there is a strong case for further development of evidence about the impacts of immigration and population growth, especially the social and environmental impacts which remain the subject of much uninformed community debate.

In practice, there will be a range of immigration rates that is compatible with moving towards maximising the wellbeing of the Australian community and that range will be affected (among other things) by the willingness to plan and invest in infrastructure, the efficiency of the labour market, settlement patterns (which have social and environmental impacts), technology and external factors. There will also be immigration rates outside that range that will detract from the wellbeing of the Australian community. For instance, many might be concerned if the consequences of substantial rates of long-run immigration led to a few mega cities with highly congested roads, water shortages, pollution and crowding in public spaces. In this, the spatial distribution of cities in Australia is important: Australia is atypical, with a few very large cities but generally lacking a significant number of medium-sized cities of 500 000 to 1 million as may be found the United States and Europe.

Australia’s current population policy

Currently, Australia does not have a formal population policy.⁴ Given low and stable rates of natural increase, decisions about the permanent and temporary immigration intake is the Australian Government’s de facto population policy.

What should be the focus of population policy?

In its submission to the development of Australia’s previous population policy, the Commission set out a framework for exploring the different dimensions of population policy (PC 2011g). The Commission identified factors that should be considered in the population and immigration debate, to ensure that ‘future population change is compatible with the economic, social and environmental wellbeing of Australia’ (DSEWPC 2011, p. 6). As noted above, pursuing this ‘triple bottom line’ style objective requires tradeoffs between each of the subordinate objectives, which involves a decision on the weight placed on each dimension that is typically resolved politically. Any decision will involve some

⁴ Responsibility for Australia’s population policy now sits in the Prime Minister and Cabinet’s portfolio.

‘winners’ and some ‘losers’ in the existing population because there are tradeoffs in achieving so-called ‘sustainable’ population growth (Pincus 2011 cited in PC 2011g).⁵

The capacity of Australia — its economy, society and environment — to absorb population growth also matters. Accordingly, a sustainable rate of population growth is one that gives all residents the opportunity to engage productively in the economy, and in community and household life. It is also a rate of population growth that does not put undue burden on the environment to the extent that it undermines the wellbeing of existing and future generations.

Defined in this way, sustainability results in the maintenance of the current level of wellbeing into the future. It may well be the case that lower population growth will support higher levels of wellbeing (and vice versa). As Cook (sub. DR124) noted, achieving optimal immigration and population growth may involve positive, zero or even negative population growth rates, depending on the evidence (including the existing Australian community’s preferences) brought to bear in the Australian Government’s assessments.

Sustainable population is a product of both ‘proactive’ policies to control the population and ‘reactive’ policies to address the impacts of population growth (box 3.3). The more effective that policies are in providing a flourishing economy and an engaged and cohesive community, and in protecting environmental assets, the greater will be Australia’s capacity to absorb a higher population while maintaining overall community wellbeing. Hence the sustainable rate of population growth is highly conditional on the effectiveness of government, as well as the broader factors that affect the functioning of the economy, community and environment.

Box 3.3 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 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: PC (2011g).

⁵ Over time the growth rate might converge to zero, producing a sustainable population level rather than continuous population growth.

A substantial proportion of submissions raised concerns about the sustainability of the rate of population growth implicit in the current NOM levels, and in the Commission's illustrative rate of NOM to population (0.6 per cent) used in the draft inquiry report's modelling exercise. As several submissions noted (for example, Schlesinger, sub. DR76), as long as Australia's rate of natural population increase remains positive, such a NOM to population rate implies an ever-expanding population. On the other hand, a fixed migrant intake (advocated, for example, by Sustainable Population Party, sub. DR106) would add a smaller and smaller share to the population over time.

As Claus (sub. DR122) noted, the number of participants advocating lower immigration rates outnumbered those supporting higher rates (for example, Bosley subs. DR75 and DR132). Of those advocating lower immigration rates:

- a few suggested Australia's population be stabilised, implying a zero population growth target, which would require NOM to be negative to offset the natural rate of population increase while it remains positive (for example, Davis, sub. DR123; O'Sullivan, sub. 54)
- many others supported a zero rate of NOM, that is where immigration equals emigration (for example, Auchterlonie, sub. DR93; Bennett, sub. DR82; Odgaard, sub. DR91; Ortega sub. DR74).

There is a valid debate about the capacity of Australia's environment to support an ever growing population. At its heart is the question of whether built and knowledge capital can adequately replace natural capital in the delivery of both living standards and the environmental services desired by the Australian community now and in the future. Cook (sub. DR124) argued that the economy depends on the environment rather than vice versa, much like a budget constraint affects household decision making. Put in those terms, a fundamental question is whether Australia is close to (or far away from) hitting its environmental limits. History has shown that humans have a remarkable capacity to develop technological solutions to these types of constraints, albeit sometimes not without some reduction in the quality of the environment.⁶ Ultimately, however, the capacity to continue to manage the consequences of the human population depends on investments in technological solutions (and their success) and a willingness of governments to establish the required regulatory and governance frameworks.

Victoria First and Sustainable Population Australia (sub. DR81) also argued environmental damage was not just an 'externality' but that it should also be seen as a liability or cost to future generations. They pointed to the difficulty that people (and parliaments) have in taking the necessary long-term view. As the current migrant intake affects not just the current population but also the future population, these longer-term consequences should be taken into account in setting the migrant intake. As set out in box 3.4, the impacts on future generations (drawn, in part, on a consideration of Australia's absorptive capacity) is a necessary part of a cost-benefit approach to determining immigration policy.

⁶ Some technological solutions have also enabled the restoration of the natural environmental damage.

Some issues with Australia's current approach to population policy

Assessing the tradeoffs between the three domains requires judgements which should (a) reflect the Australian community's (well-informed) preferences at a point in time and (b) be informed by relevant high quality research.

While some of these facets are present, as outlined below, others are missing or inadequately incorporated into Australia's current approach to population policy.

The purpose of the Migration Programme and the process for setting its size is not comprehensive

A comprehensive approach to immigration policy — which seeks to consider *all* the ramifications for the Australian community's wellbeing (across economic, social and environmental domains) from a population perspective — should be incorporated into the objectives of the Migration Programme and in the process for setting its annual size. As one participant expressed:

... Immigration must be an instrument of population policy. Population policy cannot be a long term side effect of an ad hoc immigration practice. (Jones cited in Carter, sub. DR83, p. 1)

According to the Department of Immigration and Border Protection (DIBP), the Migration Programme (which comprises the vast bulk of the permanent intake and hence NOM) is focused on meeting Australia's economic and social needs. For example:

The Migration Programme benefits Australia both socially, through the reunification of families, and economically, through addressing Australia's immediate and future skill shortages. (DIBP 2015u)

Environmental considerations and Australia's absorptive capacity are conspicuously absent, as is the investment infrastructure required to provide services to the growing population.

The level of permanent immigration each year is set each by the Australian Government as part of its Budget process. For each stream within the Migration Programme,⁷ planning levels are established following a public consultation process that is managed by the DIBP. According to the DIBP (2015an):

The size and composition of the [Migration] programme is determined by a range of factors, including:

- feedback from the Australian community and from industry and business bodies;
- social, economic and labour market advice and analysis from other government agencies including state and territory governments;

⁷ The size and composition of the Humanitarian Programme is the subject of a separate process (DIBP 2015an).

-
- short and long-term social, demographic and economic trends and government policies;
 - expected demand for skilled labour in key occupations and industries (including in regional Australia) over the medium to long-term, as well as the identified need to address critical labour force skill shortages that are unable to be met by the domestic labour market or training schemes;
 - estimated demand for family migration places; and
 - the economic and social contributions of migrants and implications for population growth. (p. 5)

In sum, the annual size of the Migration Programme appears to be largely driven by a limited approach that attempts to take into account some labour market and economic and social factors and is informed by short- to medium-term economic and fiscal modelling. Consideration of the wider and longer-term impacts of immigration appears to be driven by the reactions of other Australian Government portfolios as part of the Government's cabinet process (which agrees on the size of the annual intake based on a formal submission from the Minister for Immigration and Border Protection). Consequently, systematic and transparent consideration of the broader ramifications to the Australian community (and its future generations) arising from population growth — for example, the uncapped nature of temporary migration, the negative externalities imposed on the natural environment and the required investment in infrastructure — appear to be 'remnant' considerations within the process that sets of size of the annual migration intake.

As part of its consultation on the 2014-15 Migration Programme, the DIBP sought input on whether annual planning levels should have a longer-term horizon and 'an increased flexibility ... to respond to the ongoing and emerging economic needs and family reunion challenges of Australians' (DIBP 2014i, p. 11). The DIBP did not receive any feedback on this issue (DIBP, pers. comm., 28 January 2016).

The uncapped nature of temporary immigration reduces control of population size

A feature of Australia's immigration policy is the largely uncapped nature of Australia's temporary migration program. This means that the Australian Government has less control over Australia's NOM, and hence population levels and growth, than was previously the case (Gregory 2015; Hugo 2006; Migration Council Australia, sub. DR111).

That said, there are regulations that curb the growth of temporary immigration. For example, labour market testing of 457 visas (chapter 11).

UnionsWA (sub. DR107) argued that one regulatory-based limit to this uncapped growth in temporary migration had been softened as a result of the bilateral trade agreements with Korea, Japan and China (which have reduced restrictions on the labour market testing of 457 visa holders). The Construction, Forestry, Mining and Energy Union (CFMEU) submitted that:

As temporary work visas have become an established pathway for permanent residence, this means that a considerable number of permanent migrants are entering Australia with neither consideration of genuine workforce needs nor consideration of Australia's medium to long-term migration policy objectives. (sub. DR114, pp. 9–10)

Further, while the growth in international students may provide financial advantages to education and training providers (and governments) (Baker, Creedy and Johnson 1996), their relatively long stays in Australia can have many other positive and negative impacts on Australian society.

Of particular concern is that there is insufficient information about the impacts of temporary immigration to inform decisions as to whether it should be capped and how, or how regulation of the different streams could act to improve community wellbeing. This issue is taken up in chapter 11.

Insufficient considerations of infrastructure costs across different levels of government

Further, the Australian Government's decisions on migration have impacts on the infrastructure costs of state and territory governments. For example, while there are fiscal costs and benefits for the Australian Government from immigration, some of the costs of immigration (urban congestion, infrastructure funding, urban planning) fall disproportionately on state, territory and local governments (chapters 7 and 9). Moreover, as the consequences of population growth arising from high immigration levels rely on sound planning and infrastructure investment decisions, Carter (sub. DR83) argued that Australia's immigration intake needed to factor in planning and infrastructure issues.

Representatives of state and territory governments are active participants in the DIBP's consultation processes on the size and composition of the annual permanent migrant intake (DIBP, pers. comm., 28 January 2016).

State and territory governments provide social, economic and labour market advice and analysis. But the full range of issues (such as infrastructure funding) affecting their constituents (including local governments) do not appear to be adequately considered in their feedback. For example, all state and territory governments supported maintaining or increasing the annual immigrant intake in 2016-17 (DIBP, pers. comm., 28 January 2016). However, this preference is somewhat baffling in the light of significant pressures for infrastructure renewal associated with sizable population increases in some states and territories. Representatives of state and territory governments consulted as part of this inquiry did not identify immigration's effect on infrastructure as a concern. Other evidence has also shown that all levels of government have not demonstrated a high degree of competency in infrastructure planning and investment (Infrastructure Australia 2015). As a consequence, additional infrastructure funding emanating from migration-induced population growth will inevitably be partially borne by local residents either through user-pays fees or general taxation (chapter 7).

... leads to an insufficient consideration of long-term fiscal impacts

In turn, the scale and costs of new infrastructure can greatly affect calculations of the net fiscal impact of immigration, particularly those considering the fiscal balances across Australian, state, territory and local governments (chapter 9).

Notwithstanding the practical difficulties in accurately measuring those effects which are directly attributable to immigration on governments' budgets, the size and significance of infrastructure costs for the Australian, state and territory governments should be included in fiscal studies, which seek to examine the impact of immigration on government revenues and expenditures (chapter 9).

To the extent that (i) the Australian Government only considers the fiscal implications of different immigrant intake sizes for its own budget and (ii) state, territory and local governments (who have responsibility for most congestible public infrastructure) fail to raise these costs during consultations, the Australian Government's migrant intake decisions rely on a partial and incomplete picture of the full long-term fiscal impacts.

This disconnect further underscores the need for the Australian Government to adopt a comprehensive approach in determining the levels and composition of immigration as well as considering the wider ramifications of a largely uncapped temporary migration program.

Perception of inadequate consideration of some stakeholders views

Consistent with a large body of political economy literature, the opinion of many participants (for example, subs. DR70; DR74; DR79; DR82; DR91; DR117; and DR119) is that Australia's system of parliamentary democracy has an in-built predisposition towards 'hearing' from certain stakeholders (who typically have a vested interest and are well organised). In contrast, members of parliament are less likely to 'hear' from affected constituents for whom the effect of a policy change is individually small, but is large when added up over many constituents. The debate surrounding tariff reductions is one historical example of this type of imbalance. Debates surrounding immigration and population policy may be subject to a similar imbalance.

A range of submitters also remarked on the absence of informed public discussion or a 'national conversation' around immigration and population policy (Allen, sub. DR88; Australian League of Rights, sub. DR92; Carter, sub. DR83; CFMEU, sub. DR114; Thorn, sub. DR85; and Warneford, sub. DR96). Cook (sub. DR124) highlighted the importance of a process of informed debate within the community and within Australia's democratic institutions noting also that judgments about immigration 'require detailed exploration of a broad range of evidence about community values' (p. 7) on economic, social and environmental matters.

While there is a range of surveys of Australians that gather views on population and immigration growth, the results need to be interpreted with care as they are dependent on the nature of the survey instrument and the precise questions (chapter 7).

Further, while the size of the annual permanent intake is part of a public consultation process managed by the DIBP, responses are usually targeted to selected types of stakeholders:

Stakeholders are generally targeted and include state and territory government representatives, industry and business peak bodies, union representatives, education providers, academics, migration agents (MIA) and community groups. The Department also engages with other federal agencies on the size and the composition of the Migration Programme. (DIBP, pers. comm., 28 January 2016).

The DIBP (pers. comm., 28 January 2015) also indicated that most stakeholders did not engage with broader issues — with the exception of state and territory governments, most tended to focus on micro policy issues (for example, visa policy issues within certain visa categories).

While the DIBP's consultation process typically centres on discussions via roundtables and advisory councils and submissions in response to a discussion paper from a group of targeted stakeholders, its 2015-16 consultation process was more open. In particular, the public was given an opportunity to take part in a survey via the discussion paper. The DIBP promoted the discussion paper and survey through its blog site and Facebook page (DIBP, pers. comm., 28 January 2016).

While almost 1500 responses were received on the survey, as was noted by the DIBP, there are problems with representativeness of the sample.

Of the survey respondents, 702 (47.3%) identified themselves as an Australian citizen or permanent resident, 373 (25.1%) as neither a citizen nor a resident of Australia, 171 (11.5%) as a temporary resident, and 239 (16.1%) chose not to respond. Given the large numbers of responses apparently from international students (based on the written comments), it may be that the number of non-residents is understated in the survey outcome. (DIBP, pers. comm., 28 January 2016)

Leaving aside the problem of selection bias, the Commission considers that analysis of respondents' views on the size of the intake should focus on responses from Australian citizens and permanent residents. To do otherwise leads to biased results on views on the size of the intake.

Given that immigration is an instrument of population policy, regular and well-informed public debates (or national conversations) should be a key input into Australia's population policy.

Further discussion on the size of the migrant intake is in chapter 10.

FINDING 3.1

With low and stable rates of natural population growth, decisions about the size of the permanent and temporary immigration intake amount to a de facto population policy.

The Australian Government's judgments about immigration levels and population growth should be better informed by:

- a broad range of evidence which identifies, quantifies (where possible) and analyses the impacts of immigration and population growth on the wellbeing of the existing Australian community
- the Australian community's values and perspectives on the importance of different impacts, that are well-informed by evidence
- the impact on future generations, incorporating a well-informed consideration of Australia's absorptive capacity
- the effectiveness of policies that are best equipped to address these impacts.

Enhancing the Australian community's wellbeing is likely to be consistent with a range of immigration rates depending on the settings of many other complementary policies.

RECOMMENDATION 3.1

The Australian Government should:

- develop and articulate a population policy to be published with the intergenerational report
- specify that the primary objective of immigration and the Government's population policy is to maximise the economic, social and environmental wellbeing of the Australian community (existing Australian citizens and permanent residents) and their future offspring.

Australia's immigration and population policy should be better informed through:

- genuine community engagement
- a broad range of evidence on the economic, social and environmental impacts of immigration and population growth on the wellbeing of the Australian community
- a published five yearly review of Australia's population policy.

The Australian Government should calibrate the size of the annual immigration intake to be consistent with its population policy objectives.

3.5 The Commission’s approach to assessing the costs and benefits of immigration

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 3.2).

In applying its framework for analysing the net impact of immigration, the Commission has considered a range of indicators as relevant to particular policy options (box 3.4). 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.

As noted earlier, many aspects of wellbeing are difficult to quantify. Accordingly, the Commission has categorised the impacts of immigration under three broad categories: (i) monetised; (ii) quantified but not monetised; and (iii) qualitative, but not quantified or monetised (box 3.5).

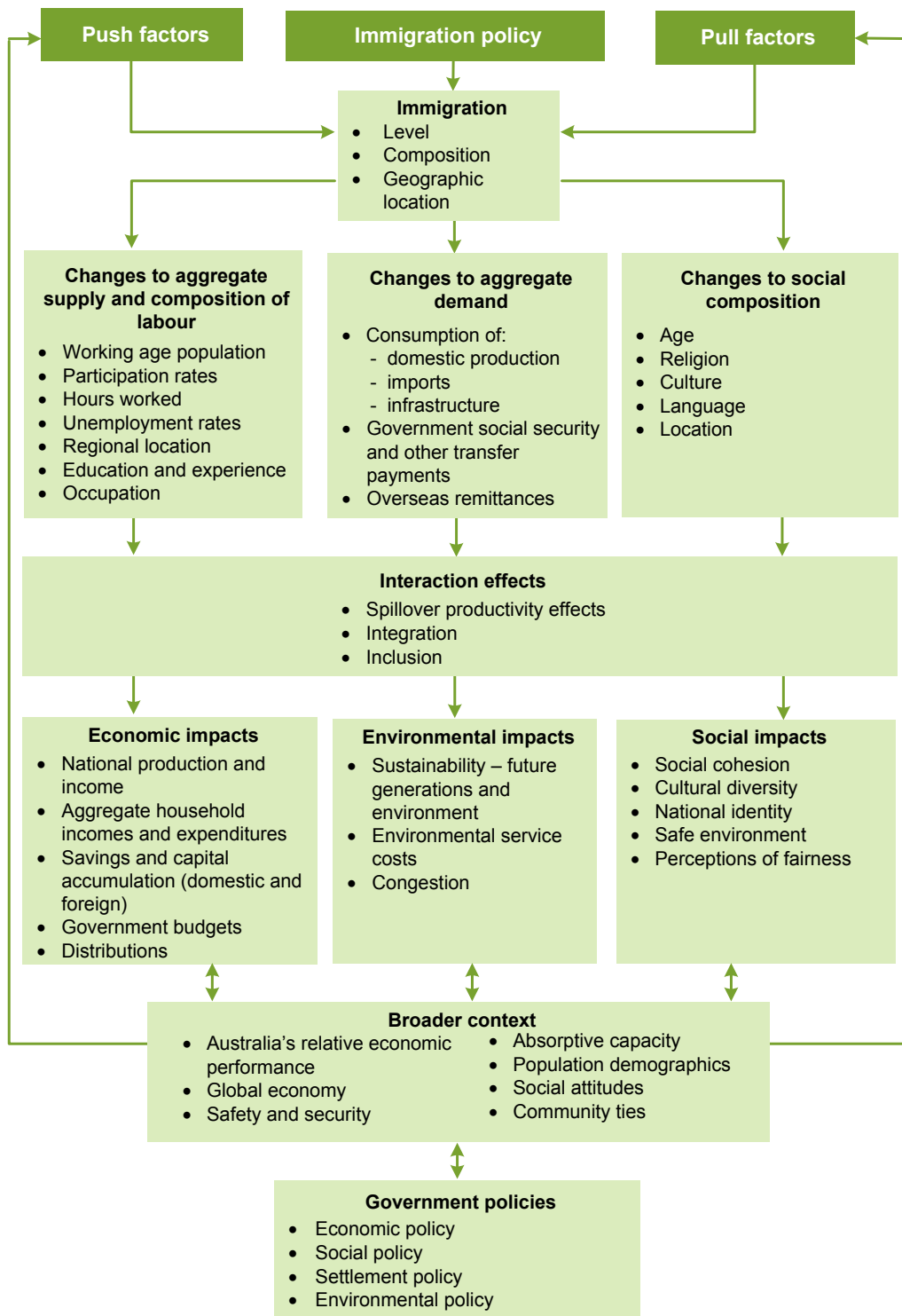
Identifying these three types of impacts provides scope to incorporate the insights and findings from a range of academic disciplines, such as economics, demography, ecology, sociology and political science. In other words, contrary to many popular misconceptions, a broad economic approach is not simply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

The Commission has also sought to distinguish who is affected 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) social cost–benefit assessment is not feasible, a cost–benefit framework has provided useful guidance to support the Commission’s thinking in assessing the community-wide impact of immigration.

While there are a number of approaches that could be used, the Commission has implemented an approach based on the suggestion of Cook (sub. DR124). This exercise starts with the computerised general equilibrium modelling estimates of GDP per capita for selected migrant intake scenarios. It then asks whether the expected overall community-wide social and environmental costs (from the perspective of existing inhabitants) under different rates of NOM would outweigh the estimated net estimated economic benefit. In practice, however, a more complex calculation is required, as GDP per capita estimates do not fully represent the net economic benefit to society. As noted earlier, this is because GDP per capita:

- is not equivalent to income
- does not include the full range of economic costs and benefits to society from immigration
- includes some ‘regrettable’ costs (which therefore need to be subtracted).

Figure 3.2 Impacts of immigration: an integrated approach^a



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

Box 3.4 Immigration policy: assessment domains

Domains for assessing the impact of immigration policy

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

<i>Domain</i>	<i>Indicators</i>
What effect does immigration have on economic outcomes?	<ul style="list-style-type: none">• English language skills, education and training• Labour force participation, average hours worked and unemployment rates, the age dependency ratio and productivity• Real wages• Investment and net transfers from overseas• Productivity• Net fiscal contribution• GDP (or GNI) per capita
What effect does immigration have on environmental outcomes?	<ul style="list-style-type: none">• Cost and quality of housing, water and infrastructure• Congestion costs• Measures of biodiversity• Emissions
What effect does immigration have on social outcomes?	<ul style="list-style-type: none">• 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

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

Box 3.5 **Types of impacts**

The three main categories of impacts:

Monetised

- Something that can generally be assigned a monetary value.

Quantified, but not monetised

- This is an impact that is able to be quantified but is difficult to monetise (for example, the percentage change in biodiversity).

Qualitative, but not quantified or monetised

- This is an impact that is not readily quantified or monetised but is nevertheless important to consider.

Measuring, quantifying and assessing the impacts

- In this inquiry, ‘monetised’ includes those elements whose value can be expressed through market prices (for example, wages and the cost of living). While they also include some elements that do not have market prices, they do have market costs, such as the costs of congestion and changes to social services.
- While proxy measures need to be found to value those impacts that are not able to be monetised, most are nevertheless vital to take into account when gauging the impact of immigration on the community (for example, on social cohesion, safety, natural environment and the like). Indeed, while some impacts cannot be easily monetised, some can be measured and quantified using a variety of techniques (Baker and Ruting 2014).
- That something can be measured (that is, quantified) does not necessarily mean that it is important in making assessments. Similarly, just because something is not readily measurable (that is, qualitative) does not mean that it is unimportant.

Sources: Baker and Ruting (2014); OBPR (2014a).

Further, while some community-wide social and environmental costs may be ‘quantified, but not monetised’, there are others that will be ‘qualitative, but not quantified or monetised’.

As discussed below, only those community-wide economic, social and environmental impacts that are assessed to have a significant impact on overall community welfare or on specific groups are included in the Commission’s approach.

In addition, guidance notes issued by the Office of Best Practice Regulation (OBPR 2014a, 2014b) suggest that the results of any cost–benefit analysis should be supplemented with an examination of:

- risk and uncertainty — for example, while sensitivity analyses can help to reduce uncertainty in a cost–benefit analysis, an analysis of the risk of a hazardous event occurring as a result of immigration intake levels should occur alongside the cost–benefit analysis for each scenario

-
- the distributional consequences — as traditional forms of cost–benefit analysis aggregate costs and benefits across individuals without regard to the equity of the distribution of those costs and benefits, identifying potential winners and losers and the magnitude of their gains and losses should be considered in conjunction with any cost–benefit analysis results. For example, the impacts of immigration on real wages may be different for skilled and unskilled incumbents
 - the impact on future generations — a cost–benefit analysis should also be accompanied by a discussion of how future generations could be affected by different immigration intake sizes. This would draw, in part, on a consideration of the evidence on Australia’s absorptive capacity.

Box 3.6 presents an overview of this approach.

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 ‘monetised’ and ‘quantifiable but not monetised’ 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 ‘quantifiable but not monetised’ benefits are mostly in the form of reducing likely negative externalities associated with potential immigrant and non-immigrant disengagement. The two types of outcomes 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 disposable 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.

Box 3.6 Stylised approach to a community-wide cost–benefit analysis of immigration

For each immigration intake scenario (relative to the base case), undertake the following modified cost–benefit analysis.

<i>Value</i>	
What is the estimated net economic benefit (cost)?	
Net present value (NPV) of the stream of per capita growth in GDP to 2060	\$A
Plus	Estimated dollar value of community-wide economic benefits not included in GDP per capita
Minus	Estimated dollar value of community-wide economic costs not included in GDP per capita
Minus	Estimated dollar value of ‘regrettable’ costs included in NPV of GDP per capita
Revised estimated net economic benefit (cost)	\$B
What is the expected NPV of net social and environmental community-wide^a costs (benefits)?	
	Expected community-wide social and environmental benefits of immigration
Minus	Expected community-wide social and environmental costs of immigration
Expected NPV of net community-wide social and environmental costs (benefits)	C
Does the expected NPV of net social and environmental community-wide costs (benefits) (C) outweigh the revised total net economic benefit (cost) (\$B)?	

^a These community-wide costs and benefits are not able to be monetised. Significant items that are able to be quantified should be listed alongside significant qualitative items.

In addition, the cost–benefit analysis should be accompanied by an exploration of:

- risk and uncertainty
- the distributional implications
- the impact on future generations, including a consideration of Australia’s absorptive capacity.

Sources: OBPR (2014a, 2014b).

What are the relevant time periods for assessment?

The conceptual framework underpinning 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.

4 Characteristics of immigrants

Key points

- On average, immigrants have different characteristics to the Australian-born population, with these characteristics varying by visa type and country of origin. These differences are likely to reflect self-selection and the targeting of specific types of immigrants by Australia's immigration system.
- Immigrants' characteristics can influence 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 have changed in recent decades. Before the 1980s, European countries and New Zealand dominated the top countries of origin.
- Most immigrants arrive in Australia when they are of working age. Temporary immigrants tend to be younger than permanent immigrants, with a significant proportion being students and working holiday makers.
- Immigrants are more likely to be married and have fewer children than the Australian-born population. This could reflect educational and cultural differences. For example, both the propensity to marry and the average number of children vary by country of origin and level of educational attainment.
- Most immigrants to Australia speak English, however, proficiency varies across visa categories. Temporary immigrants typically have better English-language skills than permanent immigrants and, within the permanent category, skill stream immigrants speak English better 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 permanent skill stream 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 lower savings rates 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 those of first generation immigrants — they have better English-language ability but lower educational attainment. The educational attainment of Australia's second generation immigrants appears to be, on average, better than the OECD average.

The characteristics of immigrants differ from those of the Australian-born population and also vary by their visa type and country of origin. In many cases, these differences are intentional and result from the design of Australia's immigration system. For example, immigrants under the permanent skill stream have better educational attainment than family and humanitarian immigrants, partly because they receive points for high educational attainment (chapter 12). Understanding the characteristics of immigrants is important for understanding the drivers and impacts of immigration, both on the existing Australian Community (Australian citizens and permanent residents) and immigrants.

This chapter starts by discussing immigrants' countries of origin (section 4.1) and then presents data on immigrants' characteristics, including their age, gender, family composition, language skills, educational attainment and wealth (section 4.2). The chapter then discusses where immigrants choose to locate in Australia and how residentially mobile they are (section 4.3). Finally, it presents data on the characteristics of second generation immigrants and compares them to first generation immigrants and other Australian-born people (section 4.4).

A number of data sources are used in this chapter (box 4.1). While these sources provide useful insights into immigrants, they have a range of limitations. Much of the data:

- are relatively dated, with limited data available since the 2011 Census
- are based on self-reported surveys
- are cross-sectional and not longitudinal, so immigrants are not followed over time
- only provide evidence of correlations between different variables and, as such, causal inferences cannot be drawn
- provide information on an immigrants' visa at one point in time. Many immigrants transition between visas, and particularly between temporary and permanent visas.

Box 4.1 Data sources used in this chapter

- The *2011 Census of Population and Housing* — includes 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 Australian Bureau of Statistics (ABS) and Department of Immigration and Border Protection (DIBP) publications and data sources.

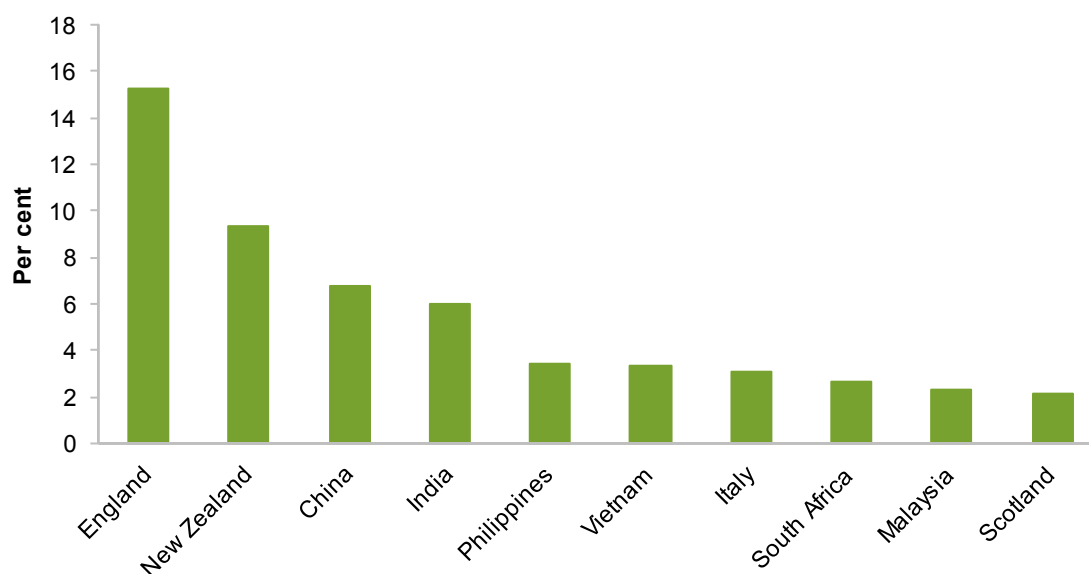
4.1 Countries of origin

Immigrants to Australia come from many different countries. However, a significant proportion of the immigrant population is sourced only from a few key countries. The dominant source countries have also 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 immigrants in 2014 were England and New Zealand, which accounted for 24 per cent of the overseas-born population (figure 4.1). China, India, and the Philippines rounded out the top five, accounting for 16 per cent.

Figure 4.1 **Top 10 source countries of the overseas-born population resident in Australia in 2014^a**



^a China excludes the special administrative regions and Taiwan.

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

The main source countries have changed over time

Although immigrants from New Zealand and England have accounted for the largest share of Australia's immigrant population over a long period of time, there have been changes in the top source countries of immigrants due to differing conditions both in Australia and internationally. For example, 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. In addition, increasing incomes and living standards in many Asian countries led to more people from that region having the financial resources to move to Australia. As a result, while the top 10 source countries for immigrants living in Australia at the 1981 Census were all European based, in recent decades Asian countries, notably China, India, Vietnam, the Philippines and Malaysia, have dominated the top source countries (table 4.1).

Table 4.1 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 (2014k); Phillips, Klapdor and Simon-Davies (2010).

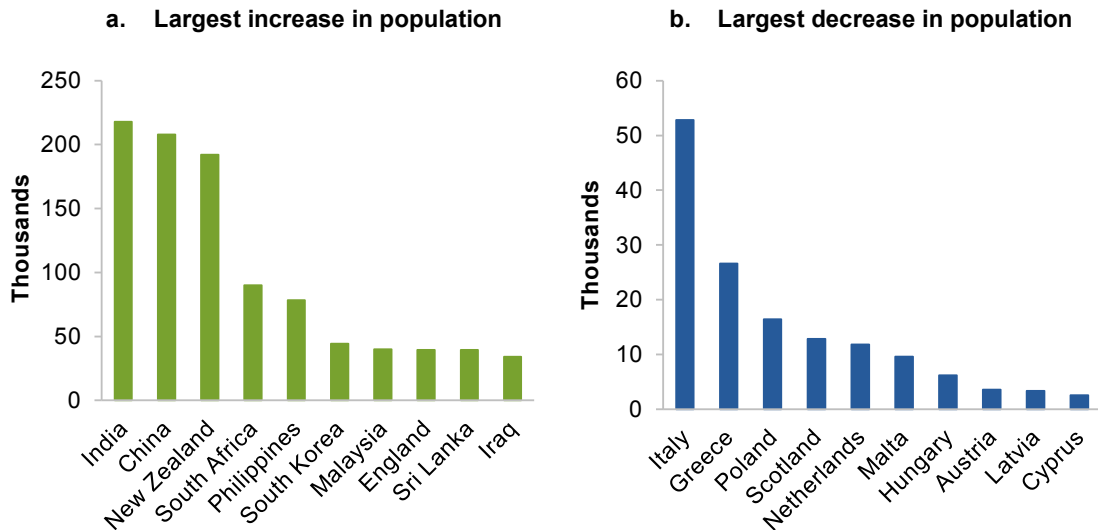
Immigration from India and China, in particular, has experienced significant growth over the past two decades. Between 1996 and 2011, the number of Indian and Chinese immigrants living in Australia each increased by over 200 000 (figure 4.2, panel a). This represented a twofold increase in the population 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 4.2, panel b).

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 largely driven by New Zealanders. While New Zealand is one of Australia's

largest source countries for temporary immigration, very few New Zealand citizens have gained permanent residence since 2000 (ABS 2013a, 2014c).

Figure 4.2 Largest changes in populations of immigrants from different countries of origin 1996 to 2011



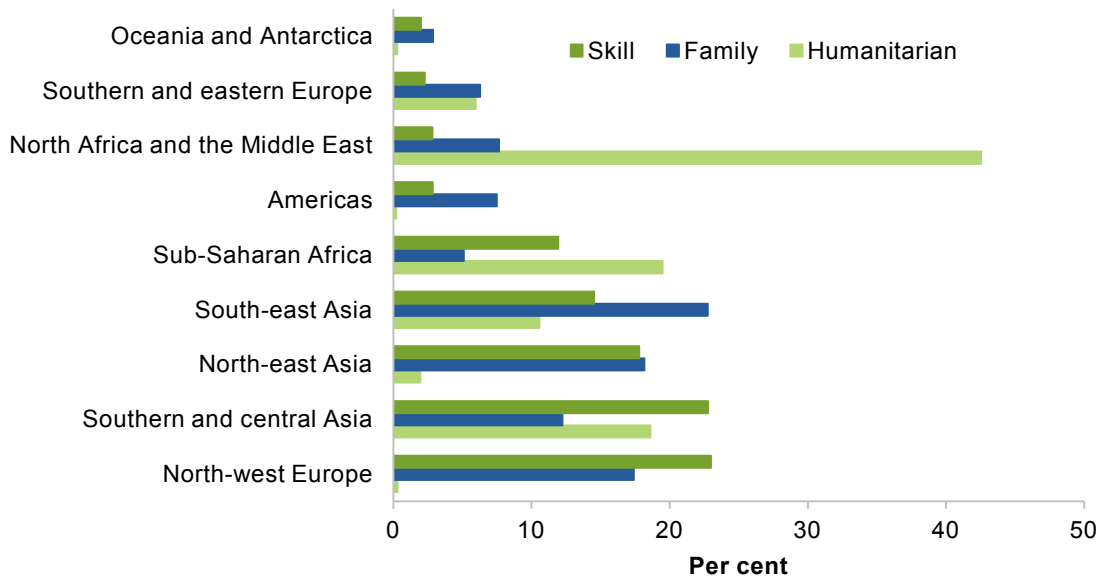
Sources: Productivity Commission estimates based on DIBP (2014k); DIMIA (2003).

Within the different streams of the permanent intake, differing source country patterns also emerge. For example, in 2011, permanent skill stream immigrants were more likely to be from north-west Europe and southern and central Asia than other permanent immigrants (figure 4.3). Immigrants within the family stream were more likely to be from south-east Asia and north-east Asia than other permanent immigrants. Most humanitarian immigrants were from north Africa and the Middle East and sub-Saharan Africa (ABS 2014c).

Skill stream immigrants also exhibit different patterns in country of origin depending on their visa type. In 2011, employer-sponsored 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 immigrants were much more likely to come from Europe and much less likely to come from Asia than other skill stream immigrants (figure 4.4).

Figure 4.3 Regions of origin of permanent skill, family and humanitarian stream immigrants

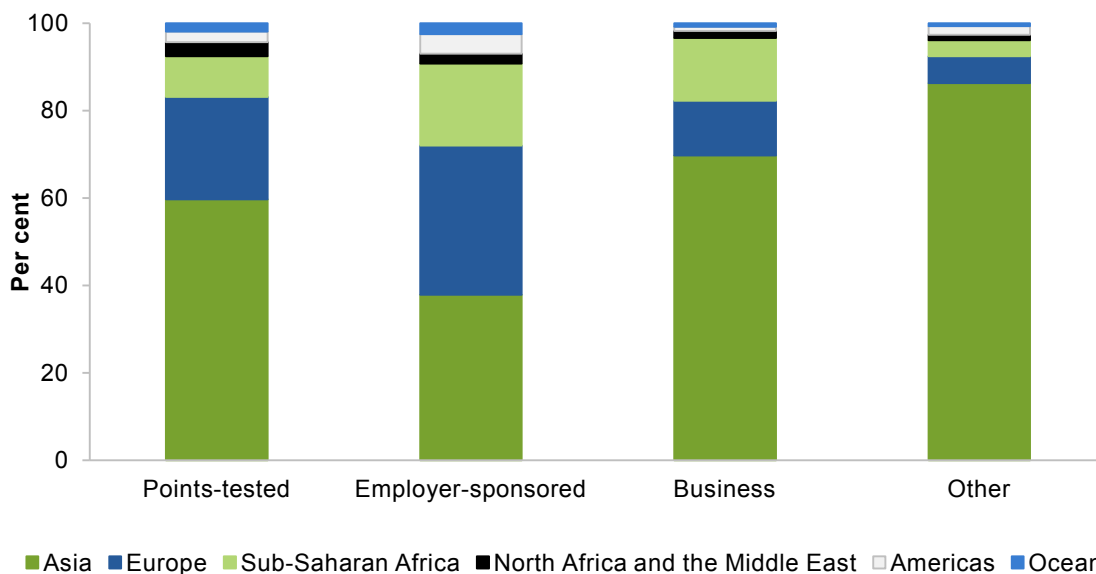
Those who were granted their visa between 2000 and August 2011



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

Figure 4.4 Regions of origin of skill stream visa holders

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 2015ax) data, in 2014, the majority of international students came from Asia, with Asian countries making up the top nine countries of origin (table 4.2). Temporary skilled workers (visa subclass 457), on the other hand, were relatively more likely than students to come from Europe, although Asia was still the highest source region. Working holiday makers came predominantly from Europe and Asia, reflecting those countries with which Australia has reciprocal agreements (chapter 11).

Table 4.2 Top 10 countries of citizenship of selected temporary visa categories^a

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

<i>Skilled (457s)</i>	%	<i>Students</i>	%	<i>Working holiday makers</i>	%
India	21.2	China	20.5	United Kingdom	18.8
United Kingdom	19.5	India	14.4	Taiwan	14.5
Philippines	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 (2015ax).

4.2 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. Further, as discussed earlier, many of the differences in characteristics are due to Australia's selection policies. For example, the Trans-Tasman Travel Arrangement, which allows New Zealand citizens to travel to Australia unrestricted, has resulted in a large settlement of New Zealand-born people in Australia. Their characteristics differ to the characteristics of other overseas-born people (box 4.2).

Box 4.2 Characteristics of immigrants born in New Zealand

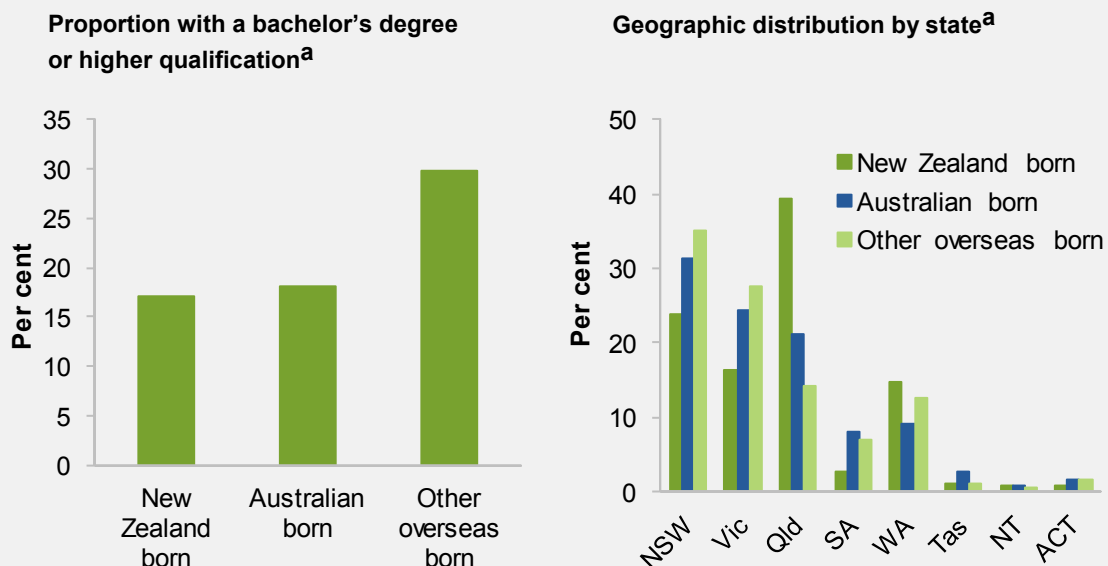
In 2011, about 480 000 New Zealand-born people and 600 000 New Zealand citizens resided in Australia. New Zealand was the second largest country of origin of immigrants behind England, accounting for 9 per cent of the overseas-born population and 3 per cent of the total population. Immigrants from New Zealand have characteristics that distinguish them from both the Australia-born and other overseas-born populations.

The New Zealand-born population living in Australia in 2011 had a different age profile than the Australian-born population and other immigrants. They were more likely to be of prime working age, with a greater proportion in the 25–54 year age group and a smaller proportion in the over 65 years age group. They also had a different gender profile — 51 per cent were male compared with 49 per cent of the Australia-born and other overseas-born populations.

In 2011, the Australian- and New Zealand-born populations had similar levels of English-language proficiency, with 93 per cent of New Zealand-born people speaking English only and 6 per cent speaking another language and speaking English very well or well, compared with 94 per cent and 6 per cent of Australians and 43 per cent and 47 per cent of immigrants.

Australian and New Zealand-born people also had similar levels of educational attainment. For example, in 2011, 18 per cent of Australian-born people and 17 per cent of New Zealand-born people had a bachelor's degree or higher qualification. This compared with 30 per cent of other immigrants.

New Zealand-born people resided in different locations to other people living in Australia. In 2011, a higher proportion lived in Queensland and Western Australia and a lower proportion lived in New South Wales, Victoria and South Australia than both the Australian-born and immigrant populations. New Zealand-born people were also more likely to live in capital cities than the Australian-born population but less likely to than other immigrants.



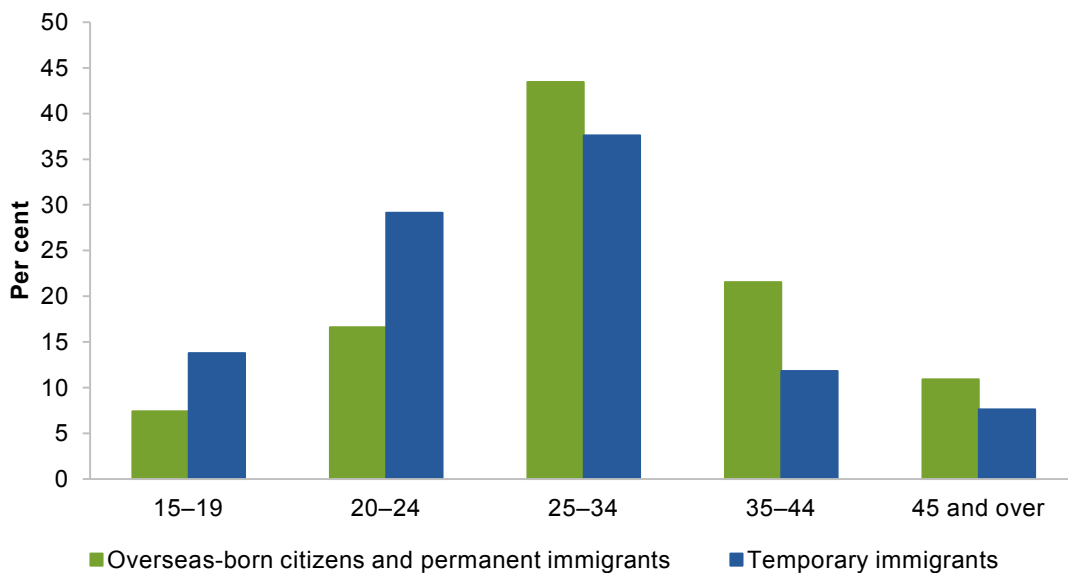
^a Aged 15 years and over.

Sources: DIAC (2013d); Productivity Commission estimates based on ABS (2011 *TableBuilder Pro*, Cat. no. 2073.0).

Most immigrants arrive in Australia when they are of working age

Most immigrants who arrive in Australia are of working age (figure 3.5). According to the 2013 *Characteristics of Recent Migrants* (CORM) survey, of those aged 15 years and over, 43 per cent of permanent immigrants and overseas-born Australian citizens and 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 12)) and the fact that some visas have an age cut-off point.

Figure 4.5 **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).

Temporary immigrants are younger than permanent immigrants when they arrive. About 80 per cent of temporary immigrants were aged between 15 and 34 years when they arrived compared with about 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).

The age of permanent immigrants also varies by visa type. According to ACMID, in 2011:

- family stream immigrants tended to be older than skill stream immigrants and humanitarian immigrants, who were the youngest group

-
- primary applicants were older than secondary applicants
 - business visa holders had a higher mean age than employer-sponsored and points-tested immigrants (ABS 2014c).

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 visa category. According to the ABS CORM survey, in 2013, there were more female 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).

The gender ratio also varies within the permanent and temporary categories. Within the permanent category, according to ACMID:

- 53 per cent of skill stream immigrants and 54 per cent of humanitarian immigrants were male, whereas 63 per cent of family stream immigrants were female
- onshore immigrants were more likely to be male while offshore immigrants were more likely to be female
- a higher proportion of primary applicants were male, whereas a higher proportion of secondary applicants were female. This could be because about 80 per cent of family visas are granted to partners of primary applicants (ABS 2014c).

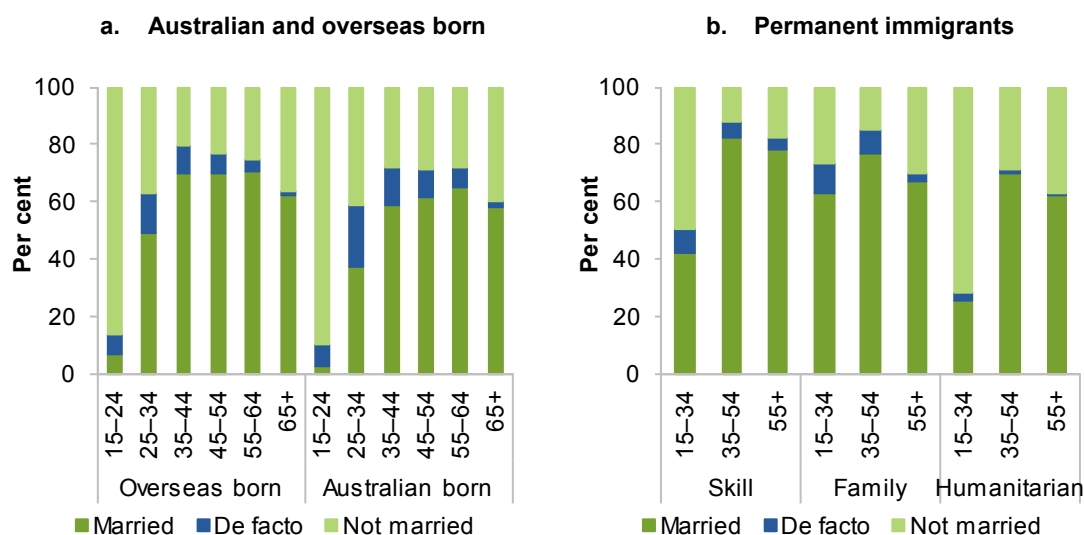
Within the temporary category, in 2013-14, 55 per cent of Temporary Work (Skilled) (subclass 457) visas granted to people from OECD countries were granted to males, whereas students were relatively less likely to be male (52 per cent) (DIBP 2015e).

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 2013a).

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 2013a). This difference holds for all age groups, with the gap of those who were married or in a de-facto relationship between overseas- and Australian-born people being widest in the 35–54 age group (figure 4.6, panel a).

Figure 4.6 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).

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 2013a). These patterns could reflect cultural differences between English-speaking and non-English-speaking countries (Miranti, Nepal and McNamara 2010).

Social marital status also varies by visa type. According to ACMID, at 2011, a higher proportion of permanent family stream immigrants were married or in de facto relationships (77 per cent) compared with skill stream (70 per cent) and humanitarian immigrants (46 per cent). Family immigrants were more likely to be married or in a de facto relationship (ABS 2014c).

However, this relationship does not hold for all age groups (figure 4.6, panel b). For example, skill stream immigrants of prime working age were more likely to be married than family immigrants of prime working age.

Immigrant females have less children than Australian-born females

Using Australian 2011 Census data, the OECD and European Union (OECD and EU 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 EU countries (OECD and EU 2015). This could be due to Australia's migrant intake being relatively skilled.

Female immigrants' fertility varies with their country of origin and their level of education. For example, a higher proportion of immigrants aged 15–49 years from a MESC reported having children than immigrants from a NESC. This partly reflects the younger age profile of NESC immigrants in Australia in 2011. Fertility also varied by the level of educational attainment. Female immigrants with a bachelor's degree qualification or higher were less likely to have had children and appeared to have delayed having children until later in life. The gap between the proportion of female immigrants with and without a bachelor's degree qualification or higher was largest at younger ages and narrowed in older age groups (ABS 2013a).

According to ACMID, in 2011, female humanitarian immigrants had a higher average number of children than skill and family stream immigrants. Skill and family stream immigrants aged 15–49 years had a similar number of children on average. However, skill stream immigrants tended to have children later in life, which likely reflected their higher educational attainment (ABS 2014c).

Immigrants' English-language skills differ across visa categories

Most immigrants are proficient in English. In 2011, 90 per cent of the overseas-born population had good English skills, with 47 per cent speaking English only and 43 per cent speaking another language and speaking English very well or well (ABS 2013a).

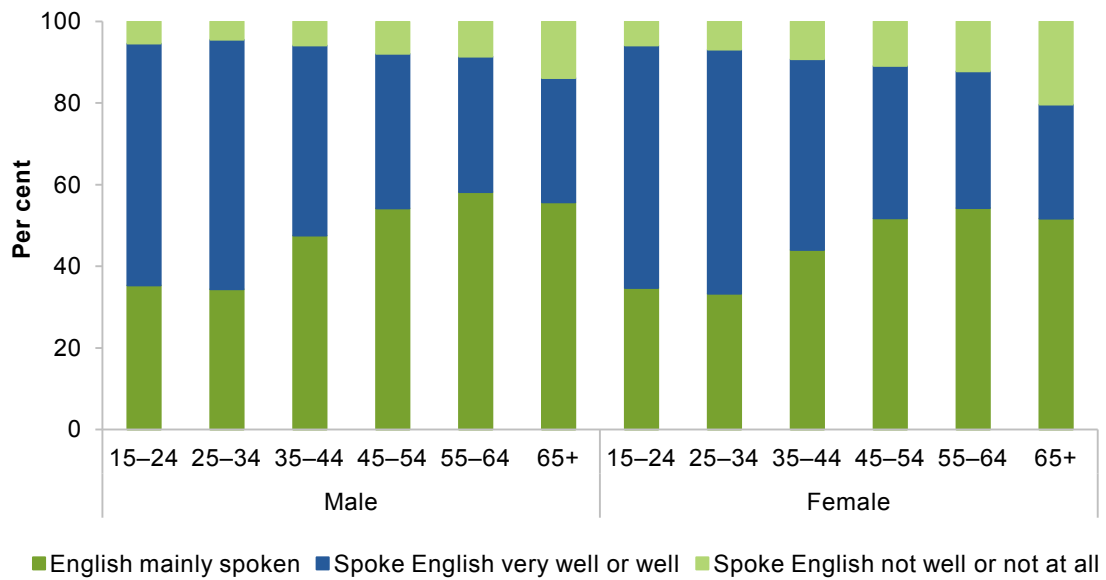
English-language skills vary by gender and age, with males and younger people having better English-language skills (figure 4.7). However, older people were more likely to report speaking English only. This could be because older immigrants are more likely to have arrived in Australia earlier and, are therefore, relatively more likely to have come from a European or English-speaking country (section 4.1). It could also be because some older immigrants have become used to speaking English, and do not use their first language anymore. That said, many older people revert back to using their native language as they age (PC 2011d).

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 85 per cent of immigrants from a NESC. Immigrants from 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 2013a).

The English-language ability of immigrants also varies by their visa category. 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).

Figure 4.7 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).

Within the permanent immigration category, according to ACMID:

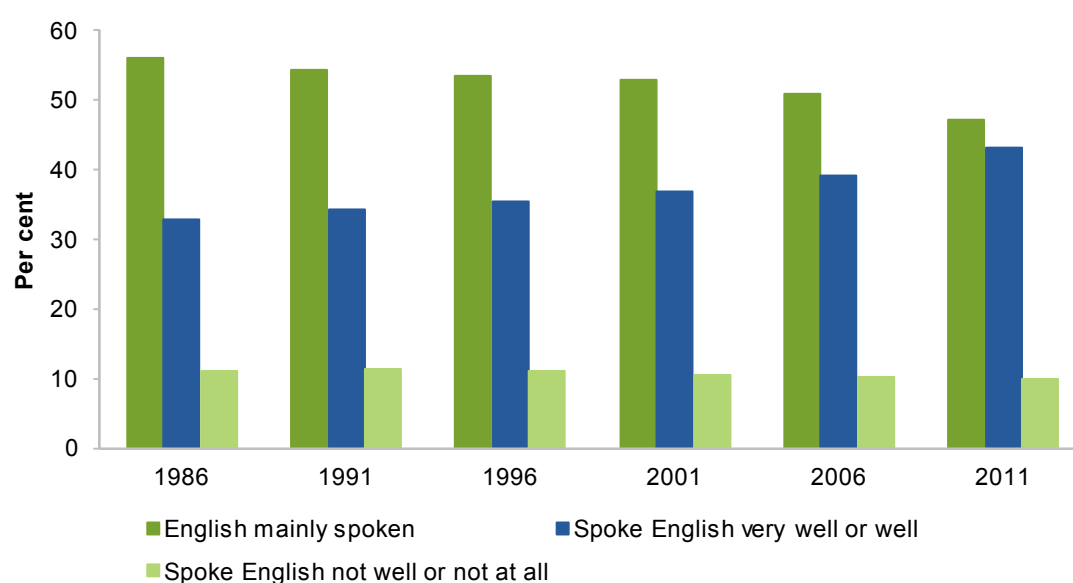
- a higher proportion of immigrants in the skill stream aged 15 years and over were proficient in English (94 per cent) compared with family (81 per cent) and humanitarian (66 per cent) immigrants
- onshore permanent applicants had better English-language skills than offshore applicants
- primary and secondary applicants had similar English-language skills, although secondary humanitarian applicants had better proficiency than primary humanitarian applicants (ABS 2014c).

Within the temporary category, international students were more likely to report speaking English not well or not at all on arrival and in 2013, compared with other temporary immigrants (ABS 2014b).

The English-language skills of immigrants have improved slightly over time (figure 4.8). While the proportion of immigrants reporting that they mainly speak English has decreased from 56 per cent in the 1986 Census to 47 per cent in the 2011 Census, the proportion reporting that they speak another language and speak English very well or well has increased from 33 per cent to 43 per cent over the same period. And the proportion

reporting to speak English not well or not at all has declined from 11 per cent to 10 per cent. The decline in the proportion of immigrants speaking English only probably partly reflects the changes in the countries of origin over this period, including the increase in immigrants from Asian countries (section 4.1).

Figure 4.8 English-language ability of the overseas-born population
Aged 15 years and over, 1986–2011



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

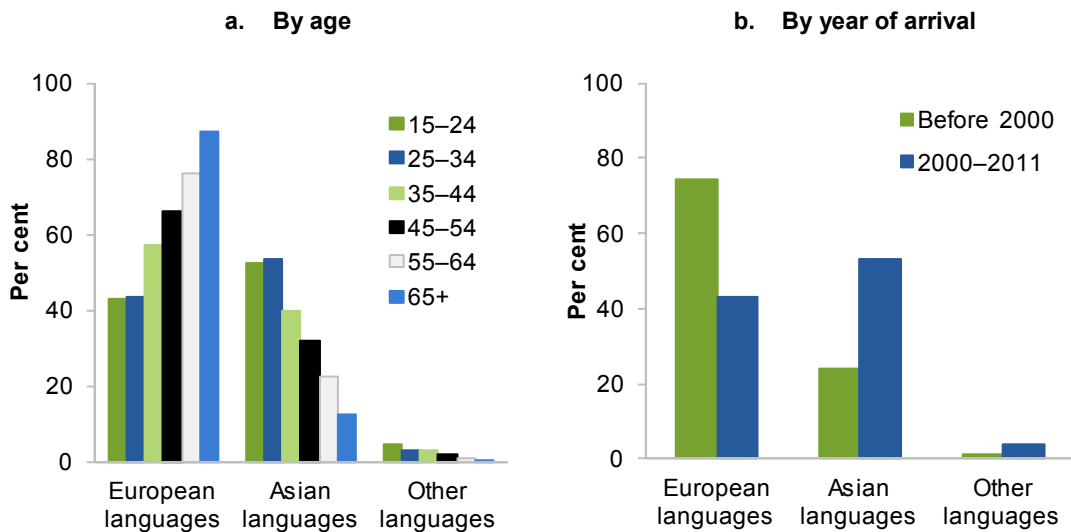
Immigrants speak a diverse range of languages at home. In 2011, the immigrant population aged 15 years and over reported speaking about 200 different languages. English was the language most spoken at home, with 47 per cent of immigrants reporting it was the main language spoken at home, followed by Mandarin (6 per cent) and Cantonese (4 per cent). Most immigrants speak mainly either a European (64 per cent) or an Asian language (34 per cent) at home.

The languages immigrants mainly speak at home also vary by age — younger immigrants were less likely to speak mainly a European language (including English) and more likely to speak mainly an Asian or other language than older immigrants (figure 4.9, panel a). This reflects the changes in the composition of migrant cohorts over time (section 3.1).

The main languages spoken at home differ by year of arrival in Australia. While 75 per cent of immigrants aged 15 years and over who arrived in Australia before 2000 mainly spoke a European language at home and 54 per cent mainly spoke English,

43 per cent who arrived between 2000 and 2011 mainly spoke a European language at home and 34 per cent mainly spoke English (ABS 2013a) (figure 4.9, panel b). About 24 per cent of pre- 2000 arrivals mainly spoke an Asian language compared to 53 per cent of those who arrived between 2000 and 2011 (ABS 2013a).

Figure 4.9 Language spoken at home by the overseas-born population
Aged 15 years and over, 2011



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

The languages immigrants are more likely to speak also vary by visa category. According to ACMID, in 2011:

- skill and family stream 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
- 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 more education

Immigrants generally have higher levels of educational attainment than the Australian-born population. For example, according to the 2011 Census, 29 per cent of immigrants aged 15 years and over had a bachelor's degree or higher qualification compared with 18 per cent of Australian-born people. This relationship holds across all age groups (figure 4.10). Other studies have also found that immigrants have higher levels of educational attainment, on average (for example, Richardson and Lester 2004).

Immigrants' higher educational attainment partly reflects Australia's selection policies, which target education and experienced people in many visa categories.

Figure 4.10 Proportion of Australian-born and overseas-born people with a bachelor's degree or higher qualification
By age and gender, as at 2011



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

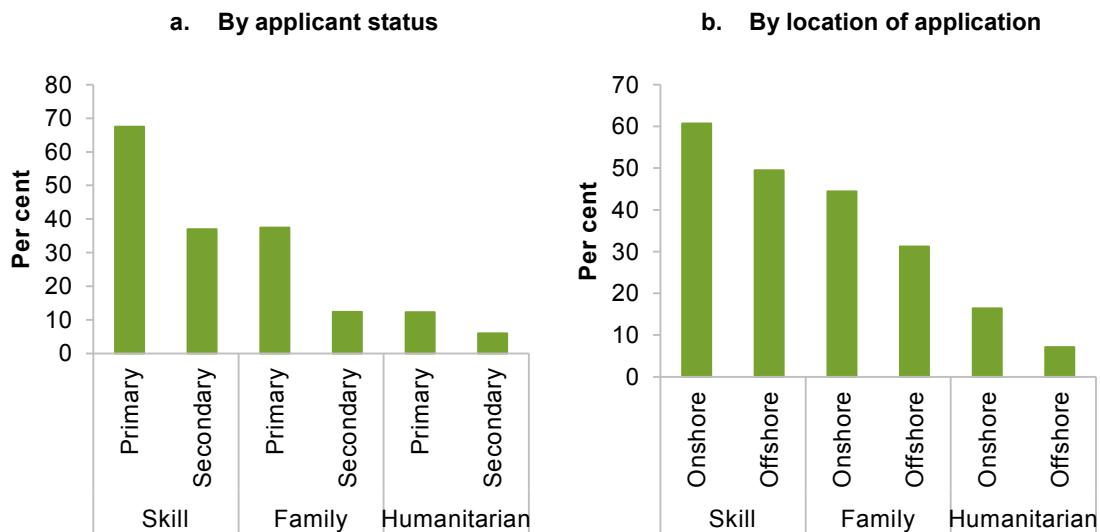
For both immigrants and Australian-born people, younger people and females were more likely to have a bachelor's degree qualification or higher. As well, immigrants with good English-language skills also tended to have higher levels of educational attainment than those who did not speak English well (ABS 2013a).

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's degree qualification or higher relative to immigrants from other countries. In addition, immigrants from a NESC were more likely to have a bachelor's degree or higher than immigrants from a MESC, although immigrants from a MESC were more likely to have a post-school qualification (ABS 2013a).

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

Within the permanent category, according to ACMID, 54 per cent of skill stream immigrants held a bachelor's degree or higher qualification, compared with 35 per cent of family immigrants and 9 per cent of humanitarian immigrants. Within the skill and family streams there was significant divergence between the educational attainment of primary and secondary applicants, with a higher proportion of primary applicants having a bachelor's degree or higher qualification (figure 4.11, panel a). In addition, onshore applicants had higher educational attainment on average than offshore applicants (figure 4.11, panel b). Of skill stream immigrants, points-tested immigrants had higher levels of educational attainment than employer-sponsored immigrants and business innovation and investment immigrants (ABS 2014c).

Figure 4.11 Proportion of permanent immigrants with a bachelor's degree or higher qualification, by stream
Aged 15 years and over, 2011



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

The educational attainment of both the overseas- and Australian-born populations has increased over time. Between the 1986 and 2011 censuses, the proportion of the overseas-born population with a post-school qualification increased from 32 per cent to 55 per cent, and from 30 per cent to 49 per cent for the Australian-born population (ABS 2013a; PC 2006).

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,¹ found that immigrant households had fewer assets and more debt than non-migrant households. At an earlier time, when examining wave two from the same data source, Doiron and Guttman (2009) also found that immigrants had less wealth than Australia-born people throughout the wealth distribution. 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 tend to have different asset portfolios to Australian-born people. For example, Miranti, Nepal and McNamara (2010) found that the value of property assets was higher 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 generally spent less time in Australia than Australian-born people, and therefore had less time to accumulate superannuation.

However, the evidence on whether immigrants have a higher or lower savings rate 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 were 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) noted that these findings may be reversed if immigrants' remittances were taken into account. Increasing levels of remittances would affect immigrants' ability to save and accumulate wealth in Australia (box 4.3).

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

¹ It should be noted that HILDA is under representative of recent immigrants in some waves (Wooden and Watson 2007). The HILDA survey was topped up in 2011 to improve its representativeness of the population (including immigrants) (Watson 2011).

- 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
- relatively low incentives for immigrants to undertake precautionary saving
- the time it takes to adjust to a new country and build up wealth
- 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).

Box 4.3 **Remittances**

In 2011, the World Bank estimated that US\$ 501 billion was remitted by immigrant workers globally. Of this, at least US\$ 372 billion was received by developing countries (World Bank 2015b). 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 2015b), 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, 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. (Osili 2007, p. 447)

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 to result from 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.

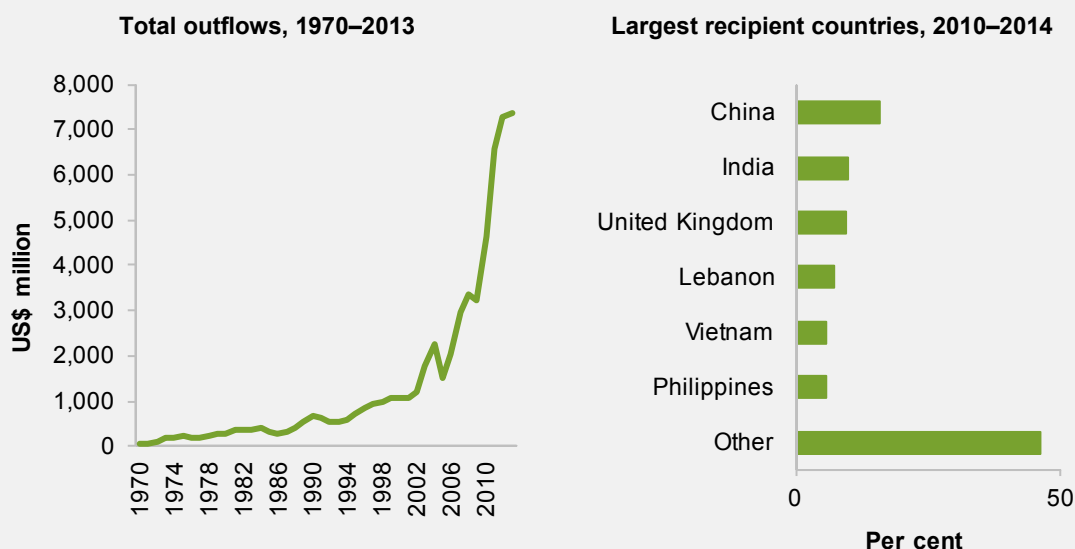
Money transfers, both from Australia and internationally, are considered expensive. In 2009, the G8 pledged to reduce the average cost of international remittances to 5 per cent of the sum sent within five years. In 2015, the global average was about 7.7 per cent (The Economist 2015). The cost of remitting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

(continued next page)

Box 4.3 (continued)

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).

Remittance outflows from Australia



Source: World Bank (2015b).

4.3 Location of immigrants

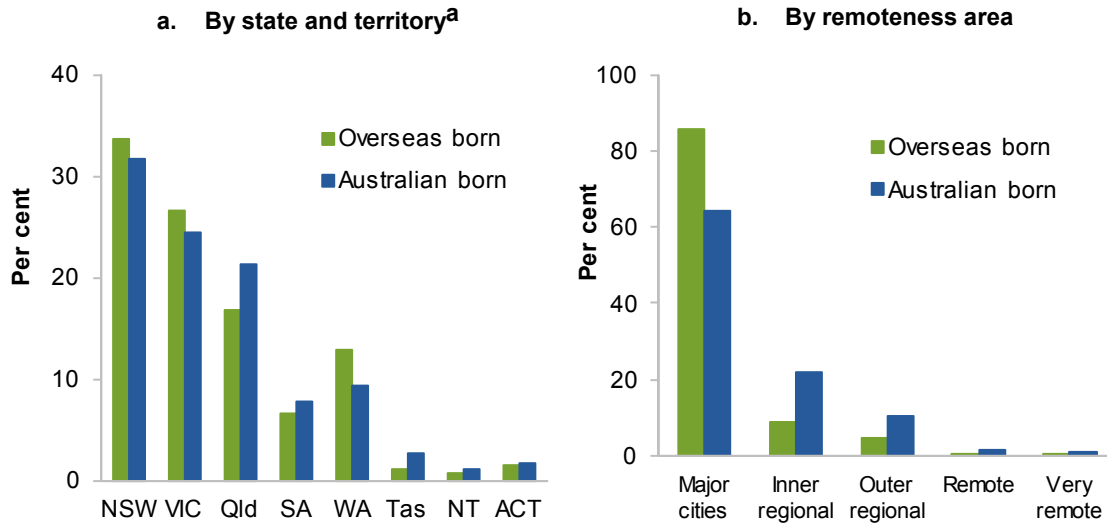
Where immigrants choose to live can influence their outcomes, including their level of integration and labour market outcomes. For example, location can influence:

- 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 immigrants 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

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 4.12, 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 4.12 **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 4.12, 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 of 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 2013a).

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.

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, inner city suburbs and often near universities (figure 4.13). 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 as at 2011.

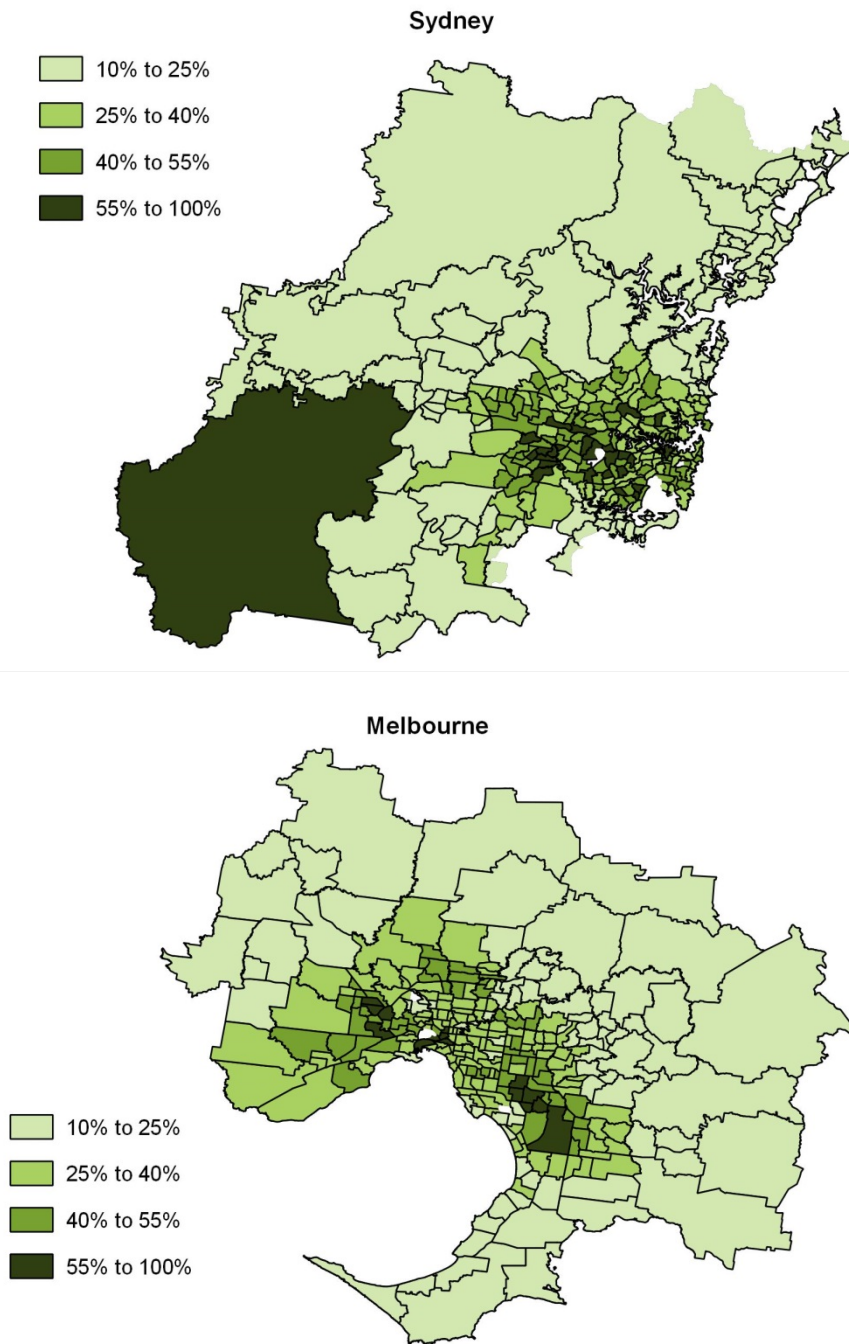
Suburbs with the highest proportion of immigrants were also those incorporating or situated near universities. In Sydney's inner city suburb of Haymarket (with 88 per cent born overseas) and Ultimo (72 per cent), situated near the University of Sydney, around one in three residents in 2011 was an international 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 to 83 per cent between 1947 and 2006 (table 4.3). The proportion of Australian-born people living in major areas has also increased, but by a far smaller amount over this period.

Figure 4.13 Percentage of the population in Sydney and Melbourne that was born overseas
By Statistical Area Level 2, 2011



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

Table 4.3 Distribution of Australian- and overseas-born people between major urban, other urban and rural areas
Per cent, 1947–2006

	<i>Overseas born</i>		<i>Australian born</i>	
	<i>1947</i>	<i>2006</i>	<i>1947</i>	<i>2006</i>
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 immigrants in the skill stream were relatively more likely to live in Queensland and Western Australia, and humanitarian immigrants were relatively more likely to live in Victoria (figure 4.14). Humanitarian immigrants were also more likely to live in capital cities (90 per cent) compared to immigrants in the skill (87 per cent) and family (85 per cent) streams.

Settlement patterns vary by country of origin

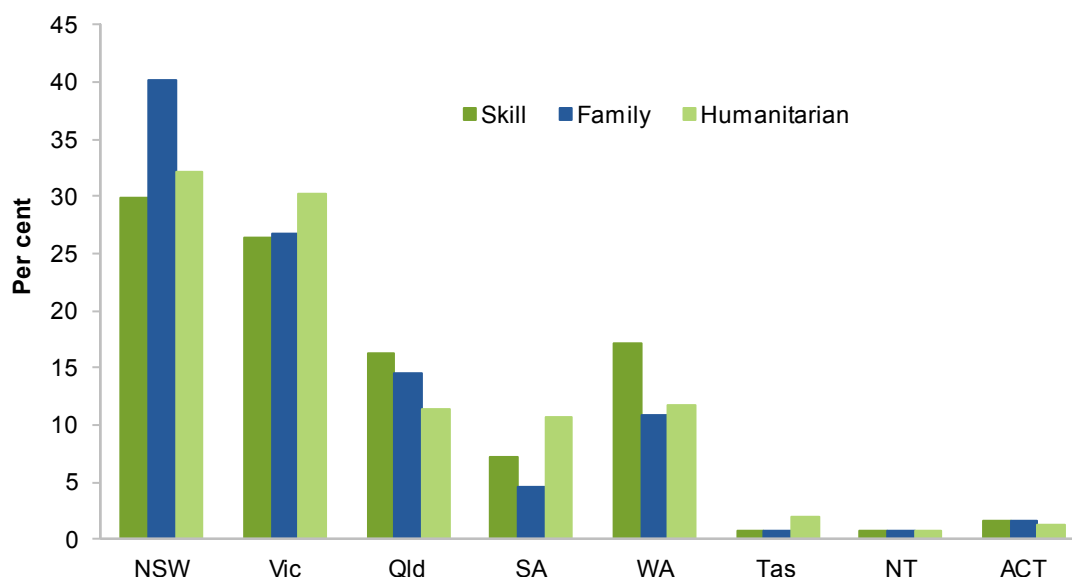
Immigrants from a MESC are substantially less likely to live in capital cities than immigrants from a NESC. In 2011, 72 per cent of immigrants from a MESC lived in a capital city compared with 88 per cent of immigrants from a NESC. They also locate in different cities, with immigrants from a MESC more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

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 4.4).

Immigrants' location patterns also vary with their year of arrival in Australia. According to the 2011 Census, 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 2013a).

Figure 4.14 Distribution of permanent immigrants between states and territories^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 4.4 Most and least urbanised population groups^a
2011

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).

Family immigrants are relatively less mobile

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, 15 per cent of both immigrants and Australian-born people moved within Australia in the year prior to the Census (table 4.5). A higher proportion of Australian-born people moved in the five years prior to the Census.

Table 4.5 Proportion of people that moved within Australia in the one year and five years prior to the 2011 Census^a
Per cent

	<i>One year</i>	<i>Five years</i>
Australian born	14.6	38.7
Overseas born	14.6	35.3
Permanent immigrants		
Skill	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).

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

4.4 Second generation immigrants

Immigrants can have a longer-term impact on Australian society through the contribution of their Australian-born children. It is important to understand the characteristics of second generation immigrants to the extent that they 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 than those with one parent born overseas in 2011, including British, southern European, south eastern European, Chinese Asian and western European (table 4.6).

Table 4.6 Ancestry of second generation immigrants, compared with Australian-born people with Australian-born parents
2011

<i>Both parents born overseas</i>	<i>%</i>	<i>One parent born overseas</i>	<i>%</i>	<i>Both parents Australian born</i>	<i>%</i>
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).

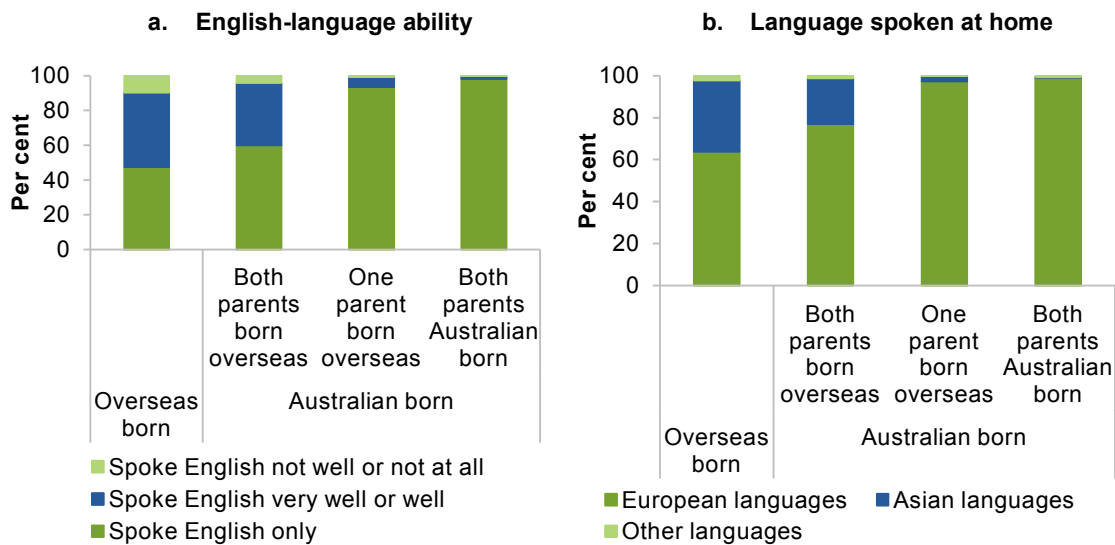
The ancestry of second generation immigrants appears to vary with age. For example, in 2011, younger second generation immigrants were less likely to report British as being their main ancestry than older second generation immigrants. As well, younger immigrants appeared to have greater diversity of 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

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, 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 4.15, panel a). This compares with 90 per cent of people born overseas.

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

Figure 4.15 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).

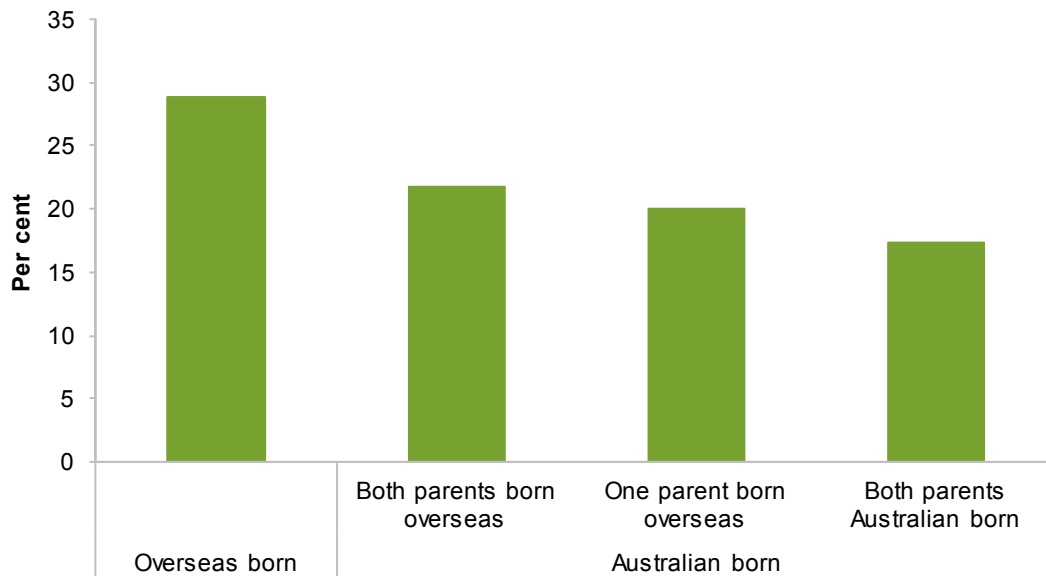
First and second generation immigrants speak different languages at home. In 2011, of second generation immigrants, 60 per cent with both parents born overseas and 94 per cent with one parent born overseas mainly spoke English at home. This compared with 47 per cent of overseas-born people (ABS 2013a). 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 4.15, panel b).

Second generation immigrants have better educational outcomes than their peers with Australian-born parents

On average, second generation immigrants have lower levels of academic achievement than first generation immigrants. About 21 per cent of second generation immigrants aged 15 years and over had a bachelor's degree qualification or higher in 2011, compared with 29 per cent of immigrants. However, their educational outcomes were better than for Australian-born people with Australian-born parents (ABS 2013a).

Educational attainment varies depending on whether the second generation immigrant has one or two parents born overseas. In 2011, 22 per cent of second generation immigrants aged 15 years and over with both parents born overseas held a bachelor's degree or higher qualification in 2011, compared with 20 per cent of those with one parent born overseas (figure 4.16).

Figure 4.16 Proportion of first and second generation immigrants with a bachelor's degree or higher qualification
Aged 15 years and over, 2011



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 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 European Union (OECD and EU 2015) and Dustmann, Frattini and Lanzara (2012) found similar results.

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

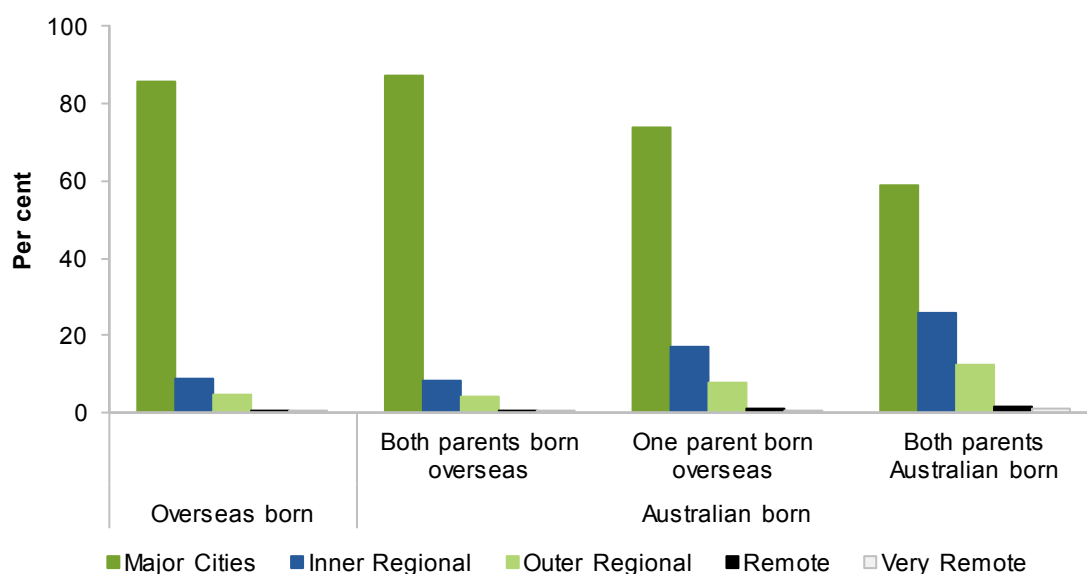
The educational performance of second generation immigrants compared with second (or higher) generation Australians, is one of the highest in the OECD. For example, only Canada's second generation immigrants had a lower representation of early school leavers relative to the native-born population with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

indicators, second generation immigrants in many OECD countries performed 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 still 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 4.17).

Figure 4.17 **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).

5 Labour market outcomes of immigrants

Key points

- The labour market outcomes of immigrants in Australia are broadly similar to 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.
 - Labour market outcomes of secondary applicants in the skill stream are similar to primary applicants in the family stream.
- Labour market outcomes of immigrants generally improve with length of time in Australia, but 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 children of immigrants have slightly better labour market outcomes than the children of Australian-born parents. However, some second generation immigrants (especially those who arrived at older ages) face some higher risks of labour market difficulties.

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.

This chapter is divided into nine sections. The outcomes of immigrants in the following key labour market domains are examined as follows:

- labour force participation rates (section 5.1)
- unemployment rates (section 5.2)
- hours of work (section 5.3)
- skills, qualifications and earnings (section 5.4)
- occupation and industry employment (section 5.5).

Section 5.6 then looks at the outcomes of the children of immigrants. This is followed by a discussion of the barriers affecting immigrants' labour market integration (section 5.7). Section 5.8 outlines the effect of immigration on aggregate and regional labour supply. The chapter concludes with a discussion on data gaps (section 5.9).

Two common measures of labour market outcomes are labour force participation (LFP) and unemployment rates, both of which vary by age and skill.¹ For people who are employed, outcome measures include the skill level used in employment, hours of work, earnings and the rate of self-employment.

A variety of data sources are available 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 using them.

In short, 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).

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 4). 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. Moreover, the labour market outcomes of secondary applicants in the skill stream are generally analogous to primary applicants in the family stream.² Hence, the average outcomes of all immigrants will depend on the numbers of primary and secondary applicants in each stream (figure 2.8). Further, many labour market outcomes improve over time as immigrants adjust and adapt to Australian conditions and circumstances.

¹ 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.

² The only exceptions are hours of work and earnings. Secondary applicants in the skill stream work slightly lower hours than primary applicants in the family stream. This difference carries over into the slightly lower pay of skill stream secondary applicants compared with family stream primary applicants.

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, Temporary Work (Skilled) (subclass 457) visa holders and international students from a main English-speaking country (MESC)).

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.

5.1 Labour force participation rates

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 United Kingdom (UK) but the opposite was true for the United States (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 (appendix C, figure C.1, panel). 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).³ This is consistent with US-based research by Blau (2015) who finds that although the LFP rates of first and second generation females from a NESC improve with time spent in the US, cultural factors act to dampen the LFP rates of immigrant females (including second generation females) from a NESC compared with their MESC counterparts and native-born people.

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 (appendix C, figure C.2, panel b). 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

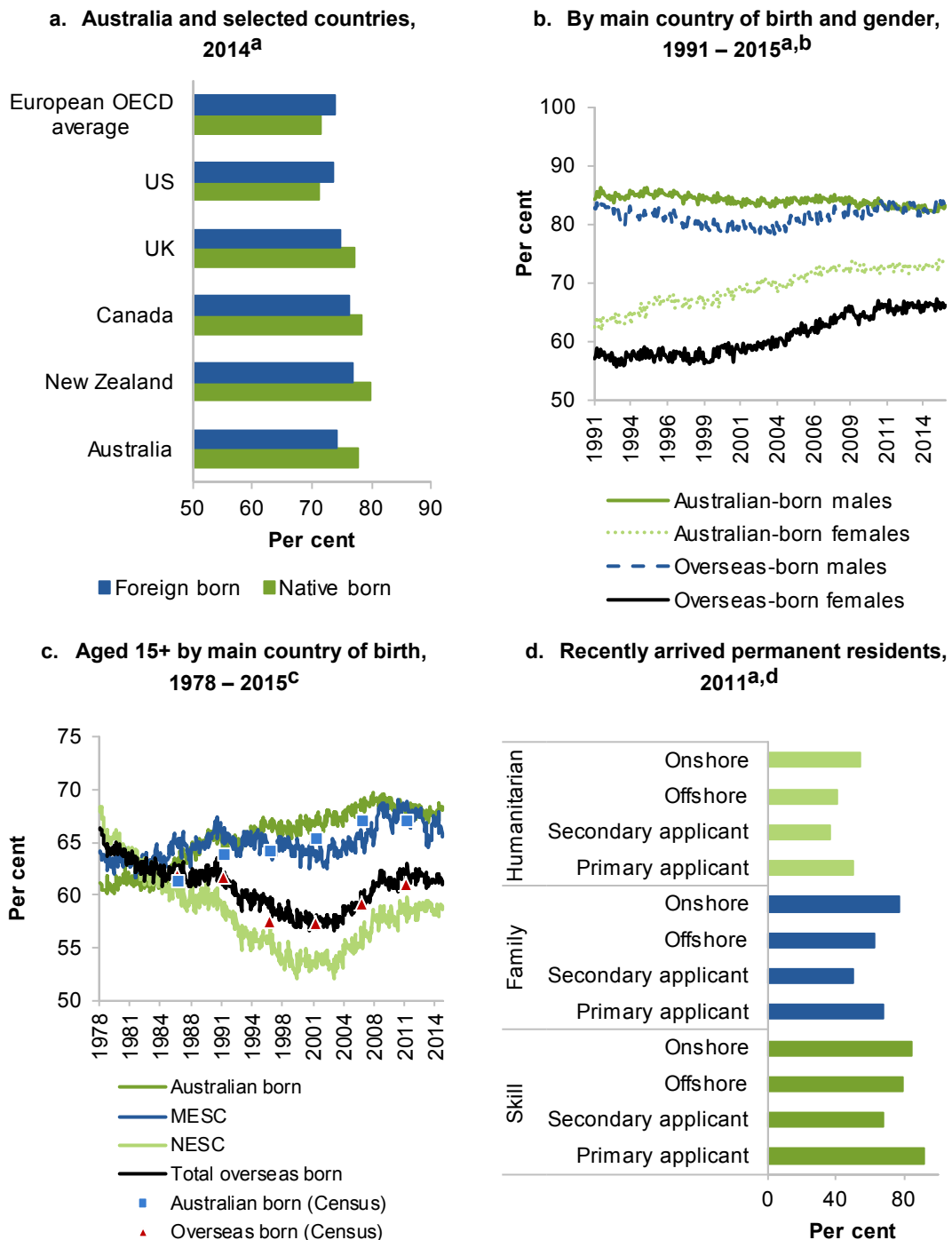
ACMID data also reveal that permanent immigrants' LFP rates vary depending on the type of visa held and the status of the applicant. For example, primary applicants in the skill stream had a LFP rate of 91.5 per cent compared to 37 per cent for secondary applicants in the humanitarian stream. Further, 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.

³ The OECD (2015c) 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 a comparison of Labour Force Survey and Census data. ^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).

In addition, longitudinal data from the *Continuous Survey of Australia's Migrants (CSAM) Cohort 1 Report* showed that 6 and 18 months after their arrival in early 2013, skilled primary and secondary applicants and certain types of family stream immigrants⁴ had *higher* LFP rates than the general population (which comprised both Australian- and overseas-born people) (DIBP 2015m). 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 2015m).

Immigrants' adjustments over longer time periods can also be observed from various cohorts in the *Longitudinal Survey of Immigrants to Australia (LSIA)*. Estimated trajectories of LFP rates of primary applicants in each major visas group in the skill and family stream revealed similar results as CSAM (DIAC 2011b). While LFP rates among family stream primary applicants were lower than their skill stream counterparts, over time they rose slightly among those in the 'partners and others' category but fell slightly for both sets of parent visa holders.

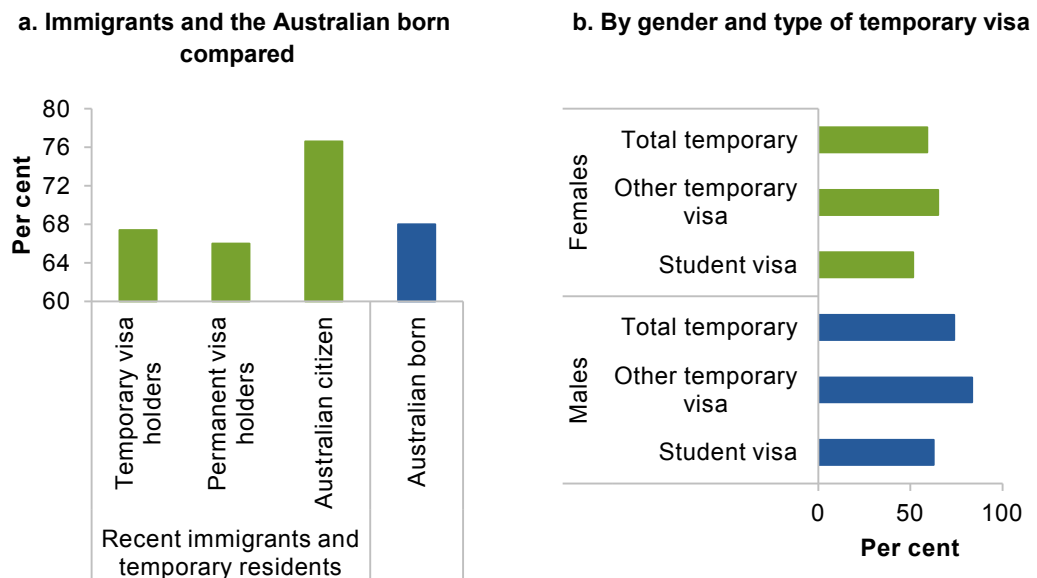
Participation rates of temporary residents are on par with Australian-born people

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).

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).

⁴ 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.

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 (2014a) *Characteristics of Recent Migrants, Australia*, cat. no. 6250.

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 on the *Economic Impacts of Migration and Population Growth* (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 (appendix C, table C.1). Although LFP rates are lower among more recent immigrants, the gap reduces the longer an immigrant has spent in Australia (appendix C, table C.11). This story has changed little from the Commission's 2006 analysis.

5.2 Unemployment rates

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 2015c). 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 the rates for those born in Australia in recent times, a gap emerges when the economy is less buoyant, such as 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 (appendix C, figure C.2, panel a).

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 (appendix C, figure C.2, panel a). 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). Notwithstanding the higher average unemployment rates among permanent immigrants

from a NESIC, Gregory (2015) highlighted that Australia's two-step migration process (chapter 2) had visibly affected the labour market integration of those from a NESIC — primarily students. For example, as NESIC immigrants increasingly enter on student visas and undertake part-time employment while studying, the high unemployment rates among NESIC migrants that were typical a few decades ago have been replaced by increasing part-time employment over the first 3-4 years after arrival for this group.

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 (appendix C, figure C.2, panel b). 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).

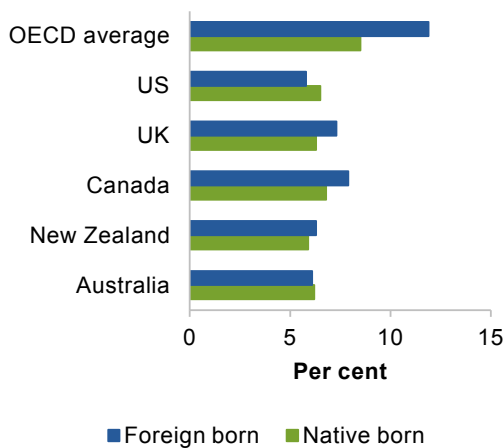
Longitudinal data from the first cohort of CSAM (DIBP 2015m) confirm that unemployment rates improve with time spent in the labour market. For example, the average unemployment rate among skilled primary applicants in this first cohort (who arrived in 2013) fell from 6.1 per cent to 2.8 per cent between 6 and 18 months after arrival.⁵ The unemployment experience of secondary applicants in the skill stream over the same period depended on whether they migrated with the primary applicant or were a non-migrating unit spouse.⁶ 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 (appendix C, figure C.2, panel c).

⁵ The average unemployment rate across all streams surveyed in CSAM also fell from 15.5 to 9.8 per cent between 6 and 18 months after arrival (DIBP 2015m).

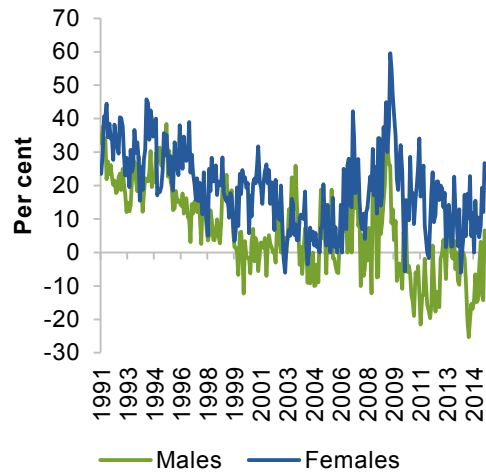
⁶ For the cohort who arrived in 2013, the average unemployment rate for a migrating unit spouse fell from 18.5 to 11.8 per cent between 6 and 18 months after arrival. By contrast, the unemployment rate for a non-migrating unit spouse (that is, those born in Australia or migrated as a different migrating unit) in the skill stream increased from 8.4 to 12.0 per cent over the same period (DIBP 2015m).

Figure 5.3 Unemployment rates of permanent immigrants

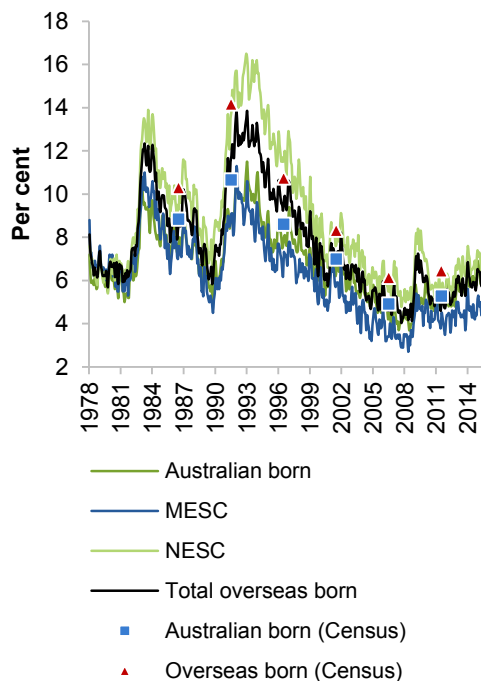
a. Australia and selected countries, 2014^a



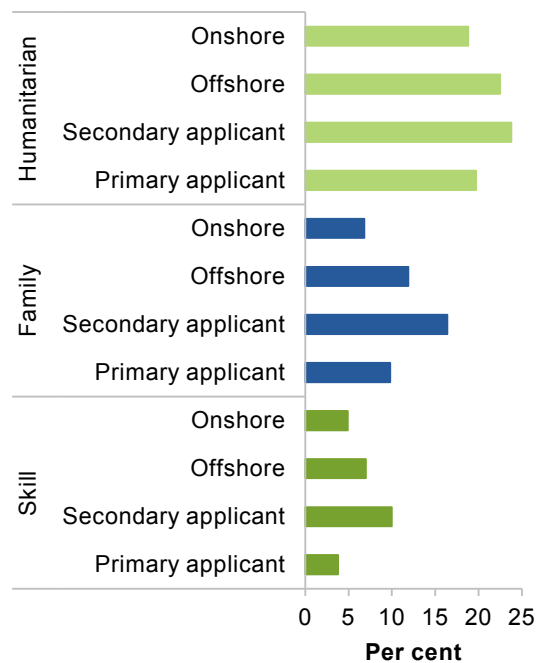
b. The gap between overseas and Australian born, 1991 – 2015^b



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' Labour Force Survey (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 (2015c) 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).

Similarly, based on several cohorts of LSIA data, unemployment rate trajectories were estimated to fall in the 4 years post-arrival for the major visa categories in the skill and family streams (DIAC 2011b).

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 varied 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). As a result of having been in Australia for a longer period of time, unemployment rates were also lower among immigrants who had applied onshore than those who applied offshore (figure 5.3, panel d).

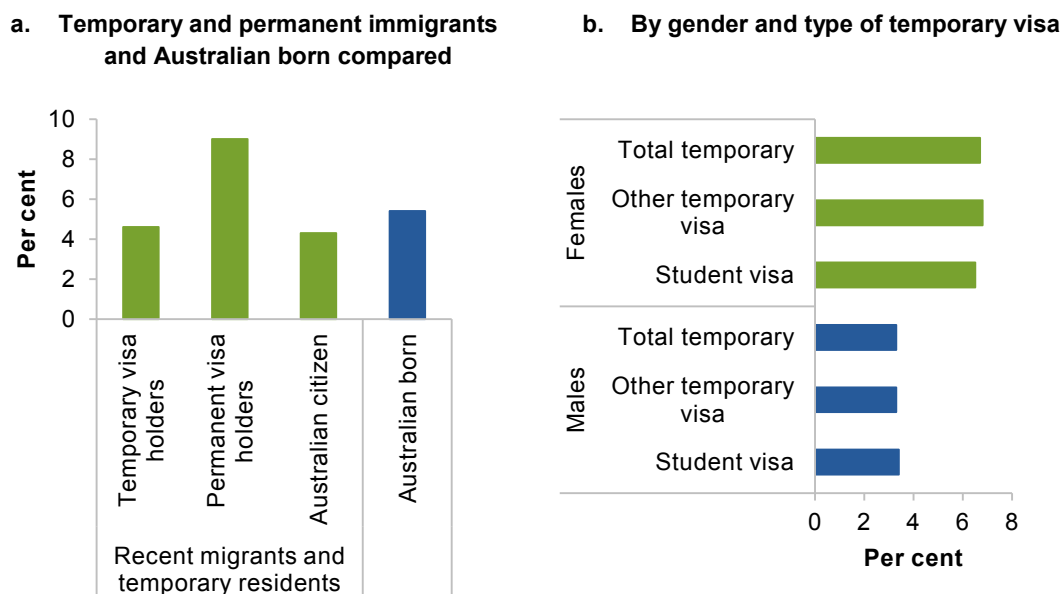
Unemployment rates of temporary immigrants are similar to Australian born

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).

Further inspection of CORM data indicated 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).

Figure 5.4 Unemployment rates among temporary immigrants^a
2013



^a Persons aged 15 years and over.

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

What explains most of the differences in unemployment rates?

Examination of the Commission's (updated) econometric results (appendix C, table C.2) 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 (2015c) 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 share 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 2015i).
- 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).

5.3 Hours of work

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.

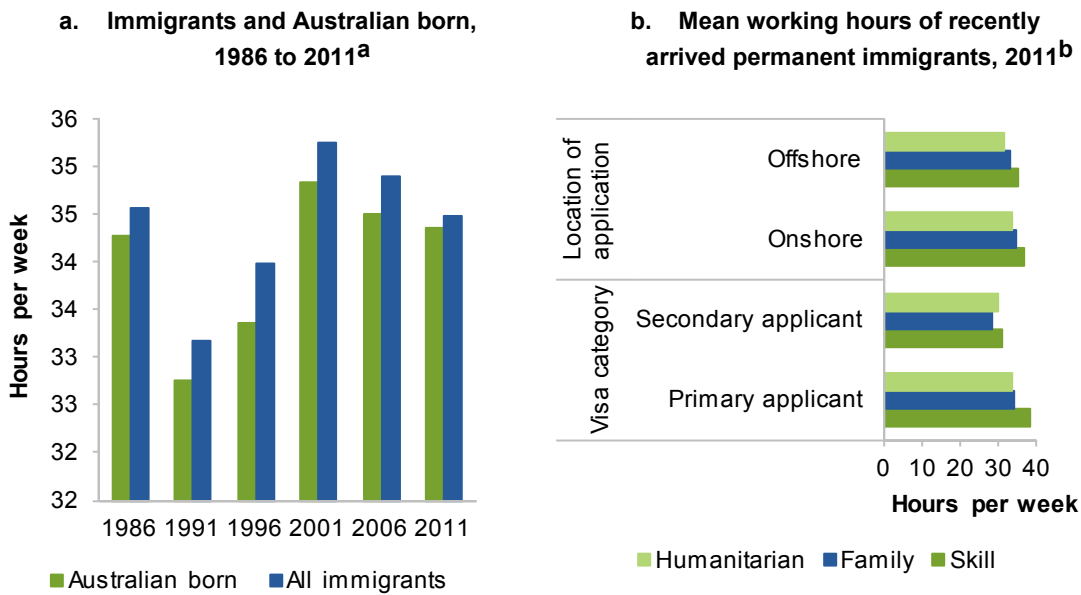
ABS' Census data from 1986 to 2001 reveal that immigrants worked around half an hour per week longer than the Australian-born population but, by 2011, there was no discernible difference (figure 5.5, panel a).

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). The 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 2014e).

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).

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 of employment, English-language ability and age). This tendency has changed little since 1986 (appendix C, table C.3).

5.4 Skills, qualifications and earnings

Immigrants tend to have higher skills and qualifications ...

On average, immigrants tend to be more highly educated than Australian-born people (chapter 4). 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 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 4, 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. The DIBP's (2014e) and (2015m) analyses of CSAM data also support this finding. One participant (ISLPR Language Services, sub. DR78) questioned the capacity of the existing English language tests to adequately measure proficiency in a full range of circumstances. This issue is discussed in chapter 11.

... 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. (2015) 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 which could potentially be compounded by inadequate English-language testing (ISLPR Language Services, sub. DR78).

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 (2015j) data on the personal income of immigrants in 2009-10 — derived from the *Personal Income Tax and Migrants Integrated Dataset* (PITMID)⁷ — 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.

⁷ ABS' PITMID comprises Australian Taxation Office taxpayer records of permanent immigrants linked to an immigrant settlement record from the Australian Government's Settlement Database.

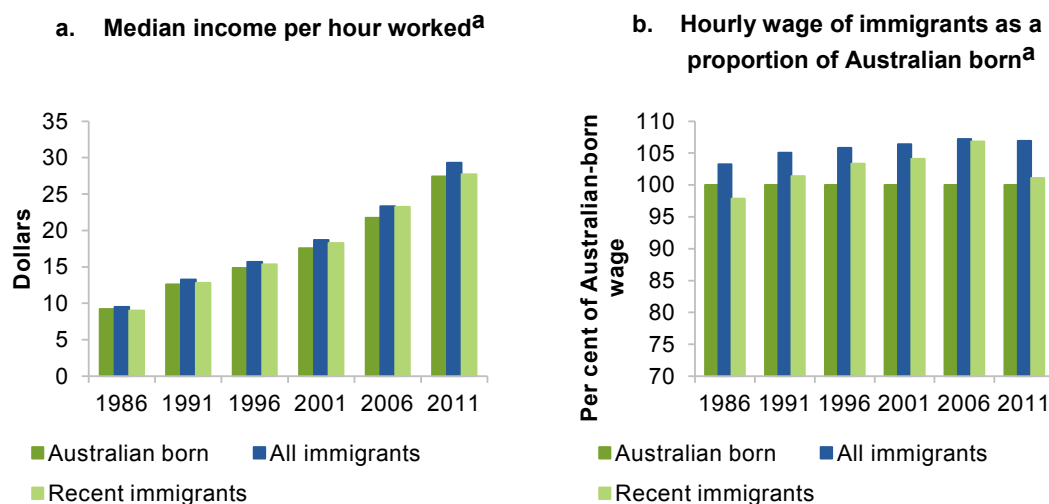
Commission analysis of unpublished PITMID data together with a 1 per cent sample of those who lodged a tax return in 2009-10 (ATO 2015), found that annual median income (excluding government pensions and allowances) of all recent permanent immigrants in 2009-10 was about the same as for the general population (\$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) (appendix C, figure C.3).

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 level of education than the broader Australian population. Higher education is associated with higher workforce participation (appendix C, table C.1), lower unemployment (appendix C, table C.2) and higher levels of hourly income (appendix C, tables C.4 and C.5). 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 consistent over previous Censuses, this can largely be explained by differences in their age and education levels (appendix C, table C.6).

Studies by Cai and Lui (2012), Islam and Parasnis (2014), Rafi and Lewis (2014), Rafi (2015) and Parham et al. (2015) 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



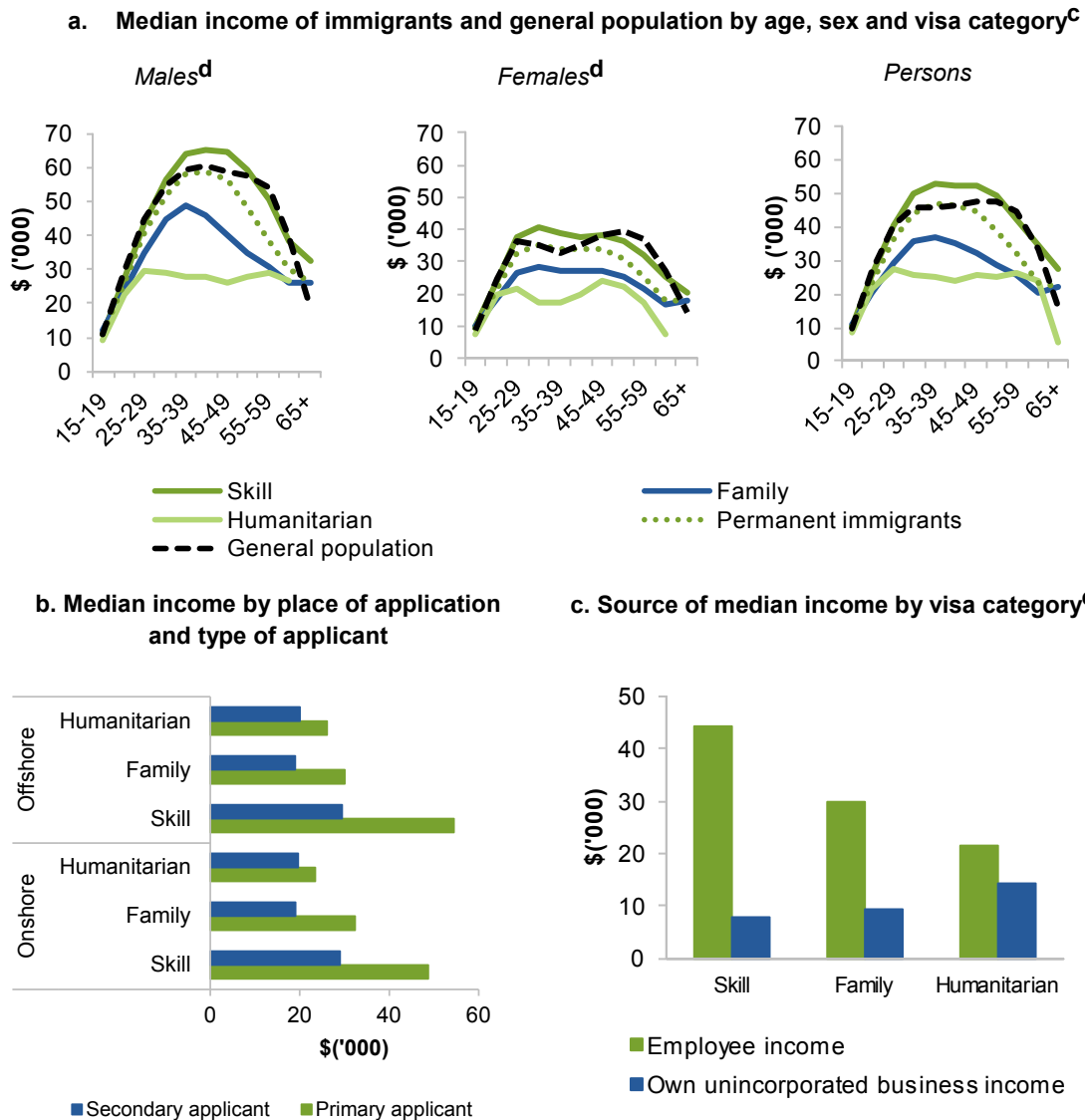
^a Recent immigrants are defined as immigrants who have been in Australia for less than five years.

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 2015j). 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).

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 were generated from own unincorporated businesses (ABS 2015j). 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 2015j).

Figure 5.7 **Personal income of recently arrived permanent immigrants^{a,b}**
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 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 (2015j) *Personal Income of Migrants, Australia, Experimental, 2009-10*, data cubes.

Some immigrants earn less than might be expected and this gap can persist

Immigrants' earnings 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 2015m).

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 2015m). This is slightly different to the findings of Parham et al. (2015) 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.

Confirming the more recent CSAM results, the Department of Immigration and Citizenship's (DIAC 2011b) estimates of annual income trajectories (based on several LSIA cohorts over a 4 year period after their arrival) showed that most principal applicants in the skill stream had rising incomes over time. One exception was the business skill migrants whose earnings profile was relatively flat, prompting DIAC to conclude:

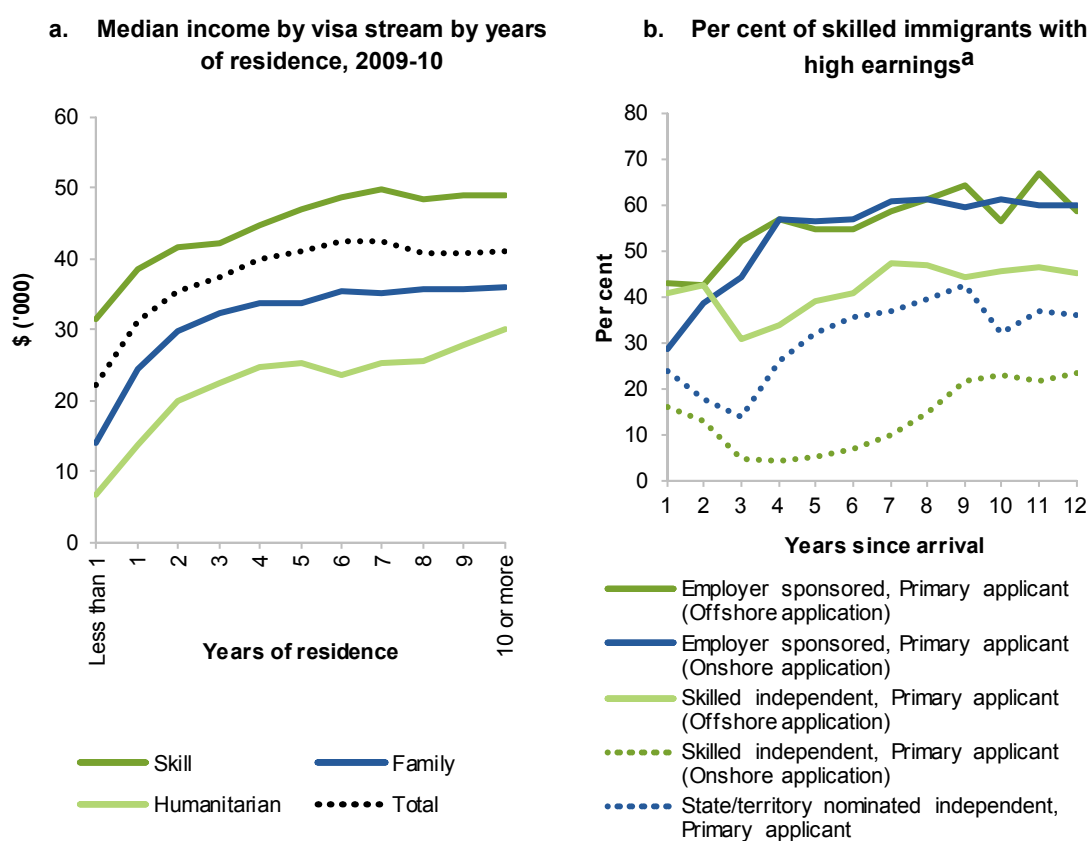
More would be expected given the 'high value' nature of this program to bring those with 'successful business or investment careers' to Australia. (DIAC 2011b, p. 8)

By contrast, within the family stream, principal applicant partners' incomes were the only visa categories whose earnings were estimated to rise over the 4 year period following arrival (DIAC 2011b).

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 2015m).

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 (2015j); 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 arrive 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 NESIC 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 (appendix C, figure C.4, panel a).

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 (appendix C, figure C.4, panel b). 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 (appendix C, figure C.3).

Are there any pay differences between permanent and temporary immigrants?

Few data are collected on temporary immigrants. However, limited data are available on the earnings of subclass 457, working holiday maker and international student visa holders. Using these data, Parham et al. (2015) reported that:

- immigrants with subclass 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.

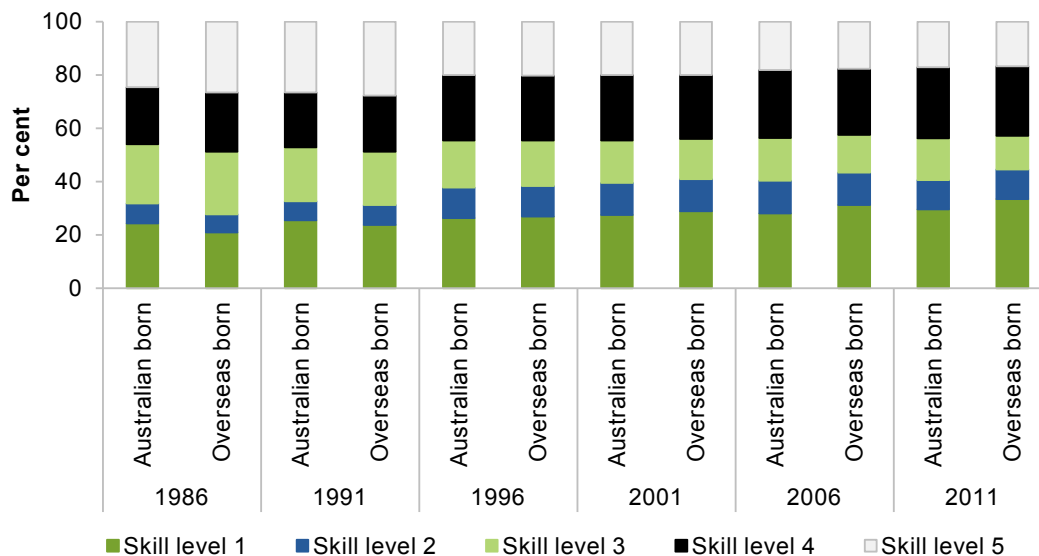
Earnings data on temporary immigrants could be improved through augmenting a number of the existing immigration data sets (chapter 9). Another strategy would be to utilise data based on the tax records of temporary visa holders using the Australian Taxation Office's (ATO) Single-Touch Payroll initiative. This latter option is discussed further in chapter 11.

5.5 Occupation and industry of employment

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).

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).

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 ... (p. S1746)

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.

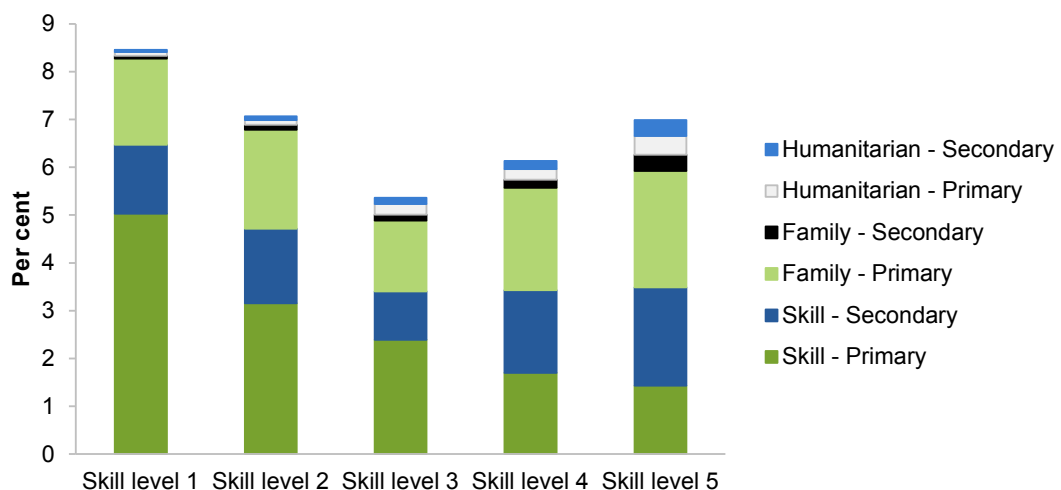
However, skill stream immigrants also find employment in occupations requiring relatively low-skill levels. For example, in 2011, almost 5 per cent of those employed as labourers were permanent immigrants from the skill stream (figure 5.10, panel a). But, in the skill stream, a larger proportion of secondary than primary applicants find employment in the lowest-skill occupations (figure 5.10, panel b).

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 include 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.

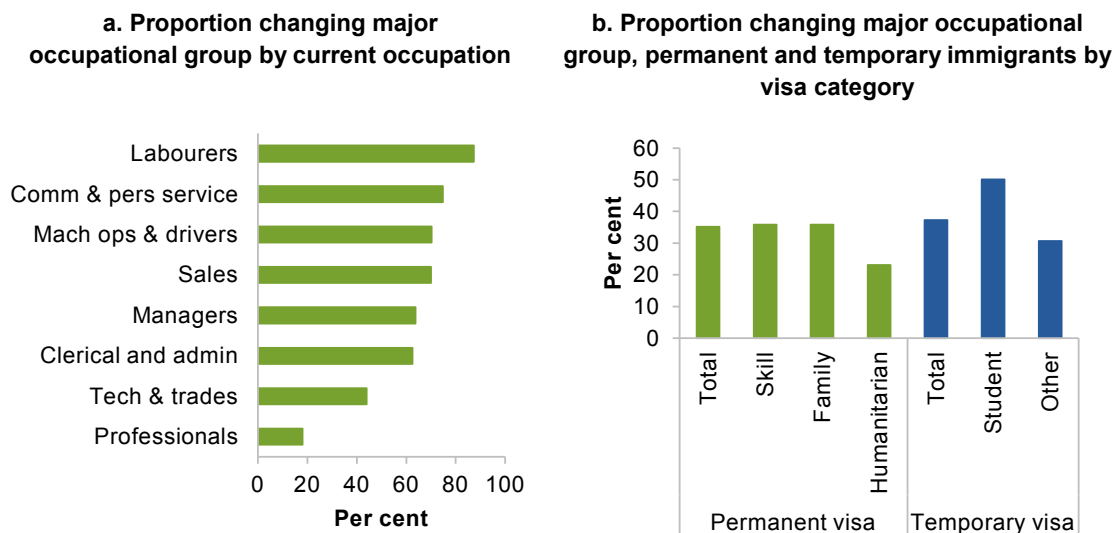
Sources: Productivity Commission estimates based on ABS (*Microdata: ACMID*, 2011 Cat. no. 3417.0.44.001; and *Labour Force, Australia, Detailed — Electronic Delivery*, Aug 2015, Cat. no. 6291.0.55.001).

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 2014c).

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 2014a). 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).

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 (2014a) *Characteristics of Recent Migrants*, Cat. no. 6250.0.

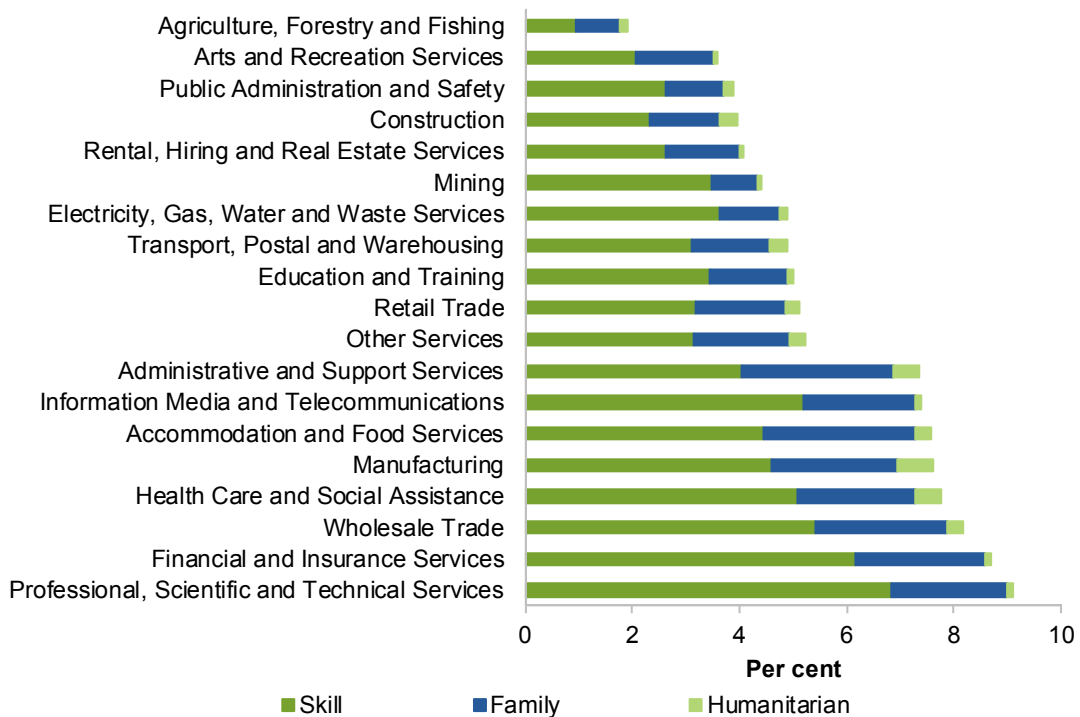
These data also show that apparent occupational ‘mismatch’ appears to be lower among humanitarian immigrants compared with permanent immigrants in the skill and family streams. Among temporary immigrants, student visa holders also experienced high levels of occupational ‘mismatch’ in 2013 — although this is not surprising given their limited work rights during study (figure 5.11, panel b).

These results are consistent with the findings of a research project commissioned by the Multicultural Development Association (MDA, sub. DR112) of nine newly-arrived communities in 2014-15 which found a ‘distinct’ mismatch between qualifications and occupations after arrival.

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).

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: 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).

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 (appendix C, table C.7). 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.

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 2013a). 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 2015i; Fairlie and Lofstrom 2014; Joint Standing Committee on Migration 2013; Mahuteau et al. 2014; OECD 2010).

5.6 The children of immigrants

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 4). 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 2011g, 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.

Increased education delivers strong improvements in the outcomes of four groups of children: children who were born in Australia of Australian-born parents; Australian-born children of immigrant parents; overseas born children of MESC immigrant parents; and overseas-born children of NESC immigrant parents (figure 5.13). For example, increased education is associated with:

- higher levels of employment in skilled occupations (figure 5.13, panel a)
- an increased likelihood of earning more than \$50 000 per year (figure 5.13, panel b)
- higher labour force participation rates (figure 5.13, panel c)
- lower unemployment rates (figure 5.13, panel d).

... 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 2012b).

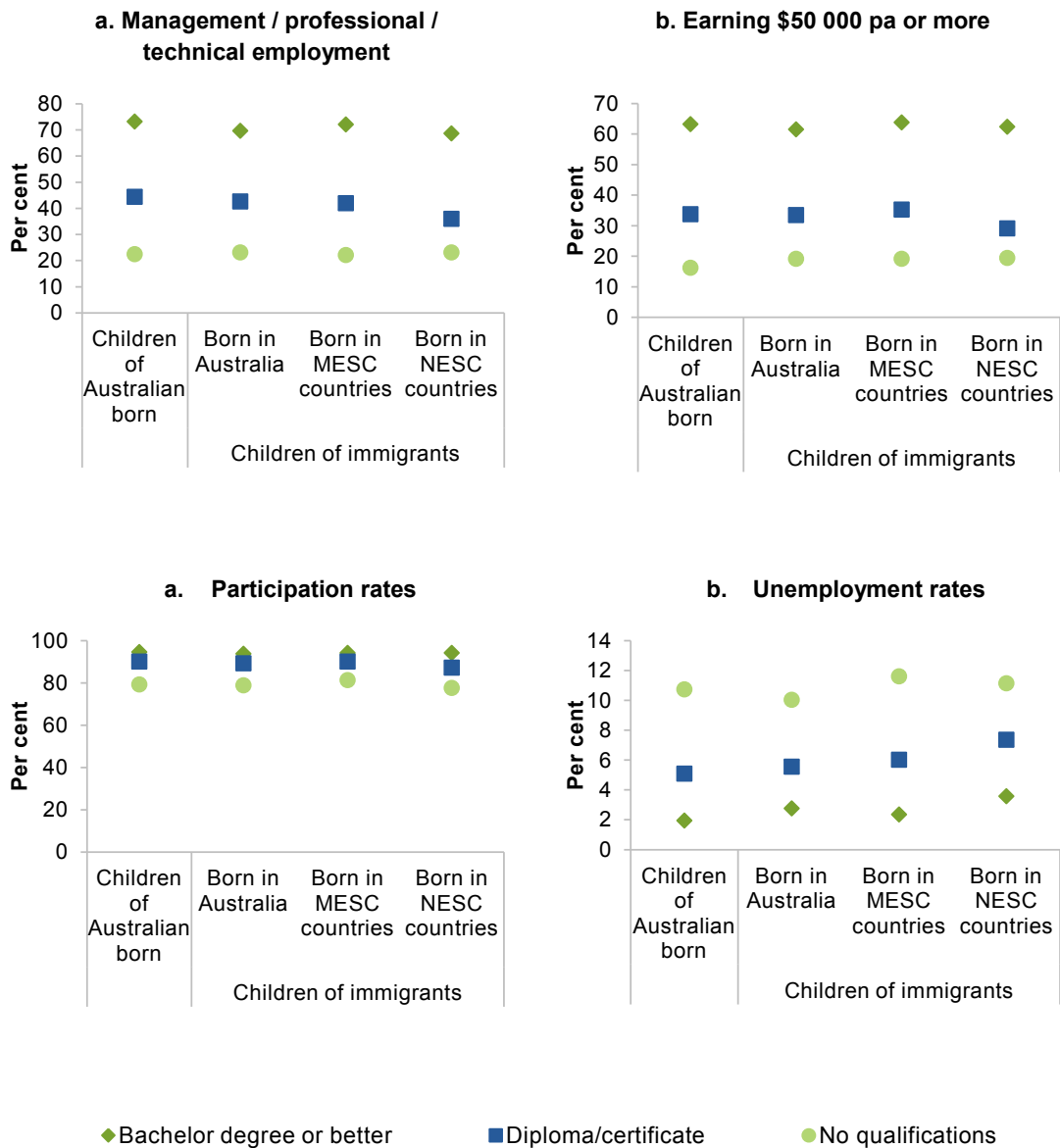
Differences in NEET rates also point to potential labour market disenfranchisement among some groups of immigrants aged 15 to 34 years. For example, while the NEET rates of Australian-born offspring of foreign-born parents and Australian-born offspring of mixed parentage were lower than the Australian-born offspring of Australian-born parents (11.5 and 11.8 per cent versus 13.6 per cent, respectively), the NEET rate of similarly aged 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).

In 2011, 14 per cent of youth who did not speak English well were NEET compared with the overall rate of 5 per cent for all youth (ABS 2013a).

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, for example, 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).

This ‘late arrival penalty’ is also consistent with the DIBP (2014b) analysis which showed that the employment, earnings, participation and unemployment rate outcomes were noticeably worse among immigrant children who had arrived with their parents in Australia after they had turned 15 years of age (particularly those from a NESC) when compared with immigrant children who had arrived in Australia before they turned 15 years.

Figure 5.13 **Employment outcomes of children of immigrants and children of Australian-born parents by educational attainment**
2011



^a MESC comprise Canada, New Zealand, Ireland, South Africa, the UK and the US. NESC comprises all other countries.

Source: DIBP (2014b, p. 147).

5.7 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 recommendation is in chapter 8.

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.

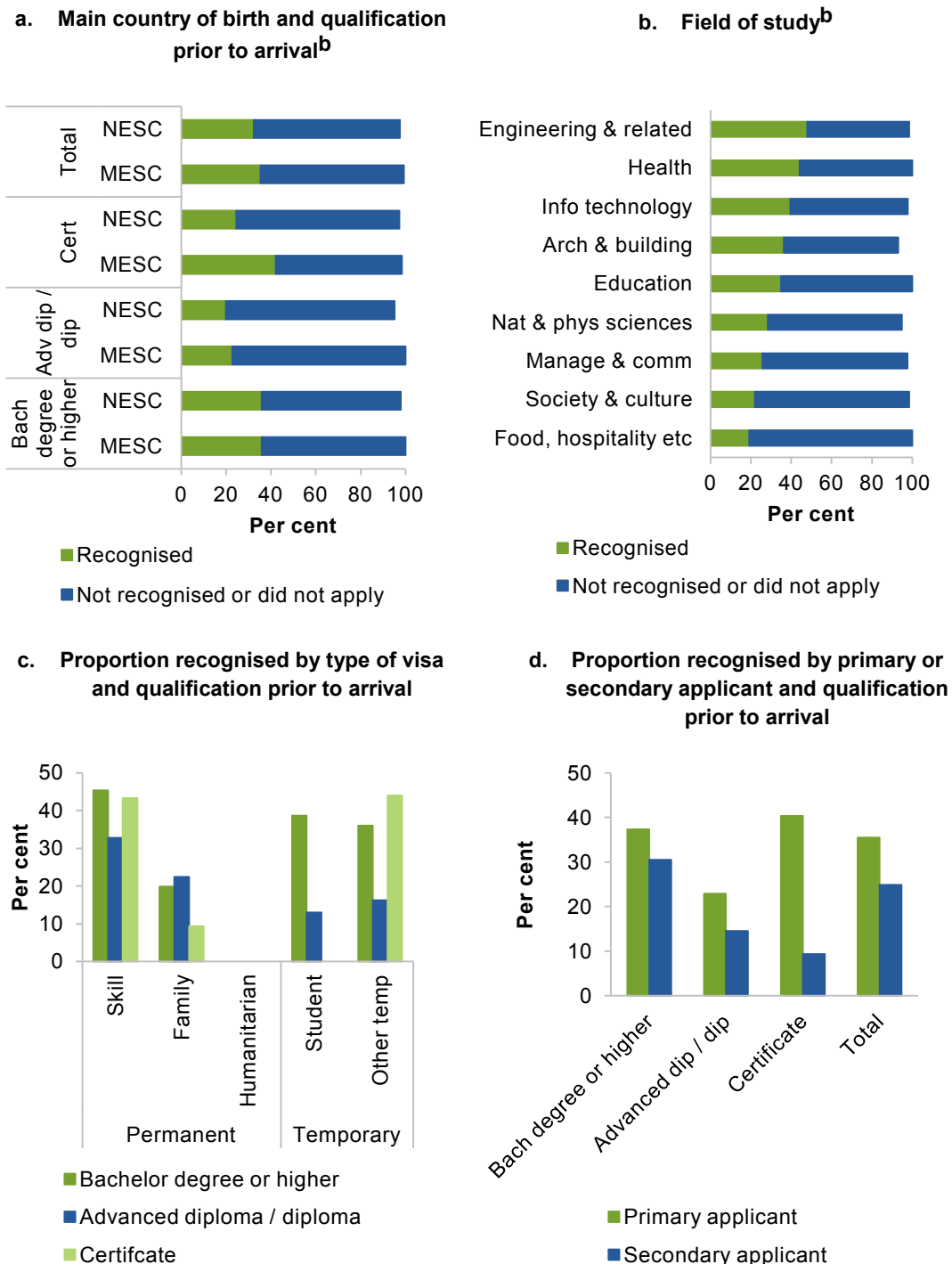
The OECD also noted that administrative complexities surrounding qualification recognition were even greater in countries where assessments were decentralised or overlapping (such as Australia). And certain hurdles can dissuade immigrants from applying to have their qualifications formally recognised.

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 NESCS holding a certificate level qualification were less likely to have their qualifications recognised than their MESCS 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 — consistent with the requirement that skilled immigrants have their qualifications assessed prior to coming to Australia, 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^a
2011



^a 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.⁸ 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 jobs that 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 engineers (Schuster, 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). The Ethnic Communities' Council of Victoria (ECCV 2014) also found that recognition processes were fragmented due to a lack of coordination between organisations, and that people from culturally diverse backgrounds often found the process difficult to navigate.

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 2005) and involved all Australian governments agreeing to establish the Australian Health Practitioner Regulation Agency in 2010 (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 2015d).

⁸ 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>.

Australia's pre-migration screening process has also contributed positively to employment outcomes for skilled immigrants and reduced 'human capital wastage' (Hawthorne 2013a). 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, 2013c). 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 (box 5.1). Other potential issues inquiry participants raised included:

- using recognition as a barrier to entry (or 'professional protectionism') (name withheld, sub. 8)
- some occupations not being subject to recognition or accreditation processes, making it difficult for employers to assess the quality of immigrants' qualifications (Leading Age Services, sub. DR110)
- a lack of harmonisation in the assessment of overseas qualifications (Migration Alliance, trans., p. 212).

Inquiry participants supported the Australian Government undertaking work to improve the recognition of overseas qualifications (Australian Council of Trade Unions, sub. DR194; Multicultural Development Association, sub. DR112; Settlement Services International, sub. DR109). Further, as qualification recognition has been a long-running policy issue (for example, Baker and Robertson 1995) the Migration Council Australia (sub. DR111) argued that more proactive engagement was required to achieve better outcomes.

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)

Difficulties in obtaining recognition for both qualification and skills, is often cited by community leaders of new and emergent communities as a contributing factor to unemployment. Even where qualifications are recognised, professional bodies may insist on the completion of costly bridging courses and further examination. Moreover, even when qualifications are recognised new arrivals may still be disadvantaged in the labour market, if local employers remain unconvinced regarding the translatability of skills and the quality of awarding institutions. (MDA, sub. DR111, p. 8)

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 migration. ... 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. (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)

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 their 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, 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).

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 2013c).

Further, the course level standards of bridging courses should be sufficient to enable successful participants to acquire equivalent Australian standards and not be used as a barrier to entry to licenced occupations.

RECOMMENDATION 5.1

Australian governments should give priority to improving the recognition of overseas qualifications obtained at high-quality institutions, including through bridging courses.

Prejudice?

Another factor which has often been cited as a barrier to labour market success is prejudice (or discrimination). 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. (2015) 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 further in chapter 8.

5.8 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 (appendix C, table C.8).

Urban and regional labour supply

A higher proportion of immigrants settle in major cities when compared with Australian-born people (chapter 4). 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 (appendix C, table C.9). 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

	<i>Units</i>	<i>Immigrants</i>	<i>Australian born</i>
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.

5.9 Some data gaps

More data on temporary immigrants are required

While there is a wealth of immigration-related data — notably for permanent immigrants — information about the labour market status and outcomes of temporary immigrants is comparatively poor. Data gaps include demographic variables, visa type, qualifications, language skills, industry, occupations, participation and employment statistics, income and hours worked. There is also a dearth of data on the labour market outcomes of those who make the transition from temporary to permanent immigrants, in terms of who makes that transition and how successful they are in doing so.

The policy imperative of collecting data on temporary immigrants was previously highlighted by Sloan and Kennedy (1992) and Hugo (2006), and was recently reinforced by Gregory (2015). In particular, Gregory noted that because many permanent immigrants now enter Australia first as temporary residents, confining data to the labour market integration of permanent immigrants will present an overly optimistic view of immigrants' labour market settlement:

As the time gap lengthens between the first labor market involvement, usually as a temporary migrant, and receipt of a permanent visa, an increasing share of the labor market integration process for a permanent settler will occur before receiving a permanent visa and this experience is not collected in the permanent settler data base. Labor market quality of permanent immigrants may seem to improve because employment is increasing at the time of permanent visa receipt, but this outcome may be due to unmeasured and increasing labor market experience before becoming a permanent settler. (Gregory 2015, pp. 1426–7)

Boucher (sub. DR128) also stated:

Comprehensive statistical studies on temporary immigrants have either not been updated in recent years (i.e. Tan et al. 2009 on the Working Holiday Maker Programme) or have simply not been conducted (such as the extent of work on international students). (p. 6)

As noted in chapter 11, while some recent efforts have attempted to remedy the lack of data on temporary immigration, mainly through surveys, for a range of reasons these data are inadequate. One approach to *partially* remedy the situation is to capture administrative data on temporary visa holders who are employed and lodge tax returns. This option is outlined in chapter 11 (recommendation 11.3). However, consideration also needs to be given to augmenting existing administrative and survey data collections so as to capture the experience and outcomes of temporary immigrants to Australia.

... together with extended longitudinal data on *all* immigrants

In circumstances where the temporary intake grows faster than the permanent intake, then during the first five years after arrival, new immigrants (after receiving permanent status) will make a smaller and smaller contribution to labour market outcomes of all new immigrant inflows, simply because the time period between entry to Australia and receiving a permanent visa is lengthening. Hence:

Under these circumstances, to assess policy change effects, and to measure recent immigration inflow contributions to the Australian economy, it is essential to include *all* new immigrants in the analysis, and not only new *permanent* settlers. It is also important to be able to follow, in detail, the rapidly changing labor market outcomes within the first five years or so after arrival and to link labor market outcomes to visa category. (Gregory 2015, p. 1423)

However, the existing data migrant collection strategies do not facilitate this type of longitudinal analysis.

First, while there are several longitudinal data sets on the settlement experiences of different types of immigrants — for example, LSIA, CSAM, ACMID, PITMID — these data are generally focused on *permanent* visa recipients.

Second, the time period of analysis of these surveys is relatively short. For example, the LSIA and CSAM cover relatively short periods of time. CSAM captures the labour market outcomes of selected categories of permanent visa holders at about the point they obtain that visa and a range of outcomes 12 to 18 months later. The LSIA surveys (which survey

three different cohorts of permanent immigrants who are primary applicants) have responses covering up to 42 months after their arrival in LSIA1, and around 18 months after arrival for LSIA2 and LSIA 3 (ABS 2011).

That said, some lengthier longitudinal analysis on the outcomes of cohorts of *permanent* immigrants is possible in HILDA. However, as HILDA's panel is only replenished at certain intervals, careful interpretation of immigrant outcomes using these data is required. While more frequent replenishment of HILDA would capture more history of those permanent immigrants who successfully transitioned from temporary visas, the circumstances and characteristics of those who did not would remain as a gap which would need to be filled by other data collection strategies. Additional funding would be required to compress the periods between sample replenishment. The net benefit of this replenishment strategy would need to be considered alongside the net benefits of extracting additional administrative data on temporary residents (chapter 11 and below).

Third, while ACMID goes part of the way to looking at outcomes of *permanent* immigrants over longer periods of time than CSAM or LSIA, its reliance on matching permanent visa holders in the Australian Government's settlement data base with Census records means that: (a) the data are available once every five years and are only released two to three years after collection; and (b) time of arrival data for immigrants are grouped in five-yearly intervals.

Fourth, while extensions to PITMID — which matches *permanent* visa holders with their annual tax records — could be undertaken so as to provide more timely data on annual income and be expanded to include *temporary* immigrants, without additional matched survey data only basic demographic characteristics (i.e. those in the settlement data base) are available. Further, these data are time series and not longitudinal.

One promising area for consideration would be to develop a de-identified longitudinal database encompassing the taxable income of immigrants, based on matched administrative data. Ideally, the taxable incomes of all resident taxpayers would also be incorporated to allow for longitudinal comparisons.

An interim step towards this goal would be to focus on developing a longitudinal data set based on the taxable incomes of temporary residents. As noted above, chapter 11 includes a recommendation to establish a database matching Tax File Numbers (TFNs) and temporary immigrant visas. To the extent that people maintain the same TFN, there is potential to use TFNs as a unique identifier to track the taxable income, employment and visa pathways of different arrival cohorts of temporary residents longitudinally. The proposed longitudinal data set could be based on a random sample of temporary visa holders entering each year from the larger temporary resident database. It could also be developed using retrospective data from 2001 and be continually updated on an annual basis over time. While this longitudinal set would incorporate only the basic demographic characteristics of individuals, it would offer additional insights not currently available to researchers examining the short-, medium- and longer-term outcomes of temporary immigrants.

RECOMMENDATION 5.2

The Australian Government should:

- allocate additional funding to the Household, Income and Labour Dynamics in Australia survey to enable it to more regularly refresh its sample so that the longer-term outcomes and impacts of different immigrant arrival cohorts can be better captured
- consider extending the database in recommendation 11.3 to develop a longitudinal data set to improve the understanding of the relationship between different temporary visas and their short-, medium- and long-term outcomes.

6 Labour market impacts

Key points

- The aggregate impact of immigration on the local labour force depends on the extent, if any, to which immigrant labour displaces local labour.
 - International studies find that the overall impact on the local labour force is small (either positive or negative). The volume and composition of immigration along with the prevailing economic and institutional conditions affects the size of any displacement effects.
 - Research commissioned for this inquiry suggests that over the decade since 2001 (generally a period of robust economic growth), on balance and in aggregate, recent immigration had negligible effects on the labour market outcomes of the local labour force. While recent immigration was not associated with Australian unemployment, it was associated with fractionally lower hourly wages, slightly longer working hours and marginally higher participation rates for the local labour force. Some of these effects may have enhanced community-wide wellbeing while others may have detracted from it. Other results may be possible during periods of weaker economic growth.
- Evidence on the impact of immigration on the labour market outcomes of local youth (aged 15–24 years) over the period 2000 to 2011 was inconclusive. However, by 2014-15 net flows of international students, working holiday makers and temporary graduates aged 15 to 24 years represented around half of the growth in the size of Australia's youth labour force.
- Ready access to temporary skilled workers reduces employers' incentives for skills investment in its workforce. Skilled immigration may also be associated with skill deepening or credential creep among existing inhabitants but further investigation is required to determine the magnitude of these effects.
- 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.

While the labour market success of immigrants (chapter 5) is important, 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 — need to be factored into any assessment of immigration. 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 looks at the labour market impacts of immigration on the existing Australian community (defined as Australian citizens and permanent residents and also referred to in this chapter as the local labour force, existing inhabitants or incumbents). It is divided into three main parts. Section 6.1 examines the aggregate impact of migrant labour on various

labour market outcomes of the local labour force. A discussion of the potential effects on a sub-sector of Australia's labour market — youth and graduates — completes the section. Section 6.2 considers whether employers' and existing inhabitants' incentives to invest in education and training have been affected by immigration. Immigration's impact on productivity growth is assessed in section 6.3. The chapter concludes by outlining some of the data gaps in undertaking these analyses and suggests some approaches to remedying them (section 6.4).

6.1 Impacts on locals' labour market outcomes

The overall effect on locals' wages and unemployment from immigration is an empirical matter

A common point of contention is that immigrants take incumbents' jobs and reduce their wages. But 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 the local labour force.

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 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 consumer preferences (including of the initial population) 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. (2015)). 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 separate supply side effects of immigration depend 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 local workers 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 existing inhabitants 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 below.

As the issue of whether the substitution effect dominates the complementary effect in aggregate over 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 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 local 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 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 when the local born had fewer opportunities 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 6.1) affirm Longhi et al.'s assessment.

... 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). For example, Newman (sub. DR119) cited the experience of nurses and questioned whether immigration may also lead to other perverse effects:

Many Australian nurses, recent graduates and older people, see themselves as being displaced by imported nurses and they and their families, who depend on them, [are] impoverished. Even unions, which tend to be pro-migrant, have been forced to represent their members on this matter. ... I have also gained the impression that hospitals are teaming up with universities to import nurses on the understanding that they will enrol for higher degrees at local universities, whilst employed. Does the public benefit, or is this really a credentialing bonanza for hospitals and universities. Local nurses must then compete by paying for more training at inflated prices, but with deflated employment opportunities. (pp. 3–4)

Largely as a result of Australia's strategy to emphasise skilled immigration, the Commission's 2006 modelling exercise 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 reduced (rather than increased) wage dispersion.

Nonetheless, one participant maintained that immigration led to lower wage growth for all:

High immigration at a time of job scarcity, and a sluggish economy, gives employers a wider scope of potential workers, and skills, and this drives down wages and working conditions. (Ortega, sub. DR74, p. 2)

More recent Australian-based evidence on the impact of immigration on incumbents is, however, scarce. Studies by Kifle (2009), Bond and Gaston (2011), Sinning and Vorell (2015) and Elnasri (2015) are summarised in box 6.2.

Box 6.1 Recent international evidence on the effect of immigration on locals' wages and employment

In their review of the key **United States** 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 **United Kingdom** (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 were 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-wage 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 New Zealanders overall, it did affect the industries hiring them. Only former welfare beneficiaries appeared to be negatively affected by temporary immigration; all other groups experienced small increases in the chances of being hired. 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). Finally, based on 2004 and 2005 data, Maani and Chen (2012) found that while there was little evidence of any impact of highly educated migration on the wages or earnings of highly educated native-born workers, small negative effects were found on native-born workers without high school qualifications. This was largely due to the propensity of skilled immigrants to accept employment below their skill level and hence be more likely to compete with unskilled rather than skilled New Zealand-born people.

Box 6.2 Recent Australian evidence on the impact of immigration

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.

Bond and Gaston (2011) used *Household, Income and Labour Dynamics in Australia* (HILDA) data over the period 2001 to 2005 to look at the effect of immigration on Australian-born workers. Their results showed that while Australian-born 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.

Based on data from the 1996, 2001 and 2006 Censuses, 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.

Finally, Elnasri (2015) tested whether an increase (decrease) in the immigration rate causes an increase (decrease) in the aggregate unemployment rate. Based on data for the three decades 1960–2103, Elnasri concluded that there was no causal relationship between immigration and unemployment.

As this inquiry seeks to determine the effect of new cohorts of immigrants on the existing Australian community (that is, the Australian-born population along with existing immigrants who are both citizens and permanent residents), the applicability of most of these studies for this inquiry is limited. For example, Kifle (2009), Bond and Gaston (2011) and Sinning and Vorrell (2015) focus on the effect of immigration on Australian-born people. Moreover, there are other problems with the Bond and Gaston (2011) study which call into question its validity. For example, as mentioned in chapter 5, the sample of people in the *Household, Income and Labour Dynamics in Australia* (HILDA) survey is not continually refreshed to incorporate new immigrants. Therefore, these data have shortcomings for the assessment of the effect of variation in immigration on Australian-born earnings and hours worked. Finally, Elnasri (2015) only looks at the effect of immigration on the aggregate unemployment rate (hence the effect of immigration on incumbents' unemployment rate is not directly discernible).

This information gap has been reduced with the commissioning of econometric analyses led by Professor Robert Breunig from the Australian National University (technical supplement A). 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;¹ and the ABS' *Survey of Income and*

¹ 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.

Housing from 2003-04 to 2011-12. Both data sets yielded similar results overall and their conclusions are twofold.

First, immigrants flow into skill groups with the highest earnings and the lowest unemployment. This is consistent with immigrants coming to Australia with knowledge of those occupations with relatively high returns and with the design and intent of Australia's selective migration policies.

Second, once immigrants' movement into skills groups with high wages and/or good labour market conditions are controlled for, the results differ depending on the choice of comparison group and the definition of skill group used.

- When Australian-born people are compared with all immigrants, there is almost no evidence that immigration is associated with worse (or better) labour market outcomes for Australian-born people. (Although the SIH-based analyses reveals a small statistical association between immigration and a higher labour force participation (LFP) rate for Australian-born people.)
- But when Australian-born people and immigrants who have been in Australia for more than 5 years (as a proxy for the existing Australian community) are compared with recently arrived immigrants (those who have been in Australia for less than 5 years),² different results emerge. Based on a narrow classification of skills, the results show that if the share of recently arrived immigrants increases by 5 percentage points, this is associated with an increase in the LFP rate of the existing Australian community of about 1.4 percentage points. When a wider classification of skill groups is used, the results suggest that a 1 percentage point³ increase in recent immigrants as a share of the existing Australian community is associated with a fall in hourly wages (2.6 per cent), an increase in hours of work (32 minutes per week) and an increase in the LFP rate (one half of a percentage point) among incumbents.⁴ However, the authors note that it is difficult to assess whether using narrower or wider skill groups provides better estimates. Nonetheless, if there is leakage and competition across the narrower skill groups — evidence of which is presented in chapter 5 — then using narrower skill groups will give biased estimates. Finally, even if the wider skill group classification is drawn on, assessing whether the estimated labour market outcomes are 'harmful' to existing inhabitants in a welfare sense is problematic. For example, while a reduction in the hourly wage rate of itself reduces wellbeing, in theory it is possible that this could be offset through an increase in overall welfare in cases where workers are initially underemployed.

² This comparison is only able to be made in the HILDA/Census data set as there is not enough information in the SIH on year of arrival of immigrants.

³ The observed increase in recent immigrants as a share of the existing Australian community over the 5 year period 2006 to 2011 was 1.6 percentage points. Over the 10 year period from 2001 the corresponding proportion was 0.7 percentage points.

⁴ The authors also point out that the negative wage effect is driven largely by one group: female degree holders with 1-10 years of experience.

The authors conclude that, when taken together, these findings suggest the labour market outcomes (wages, participation and employment) of the existing Australian community have been neither helped or harmed by immigration over the period 2000 to 2011 — a period of robust economic growth (technical supplement A). However, negligible effects in aggregate are not a reason to assume the presence of negligible effects on certain sub-groups (O’Sullivan, sub. DR108).

Local youth — a potentially vulnerable group

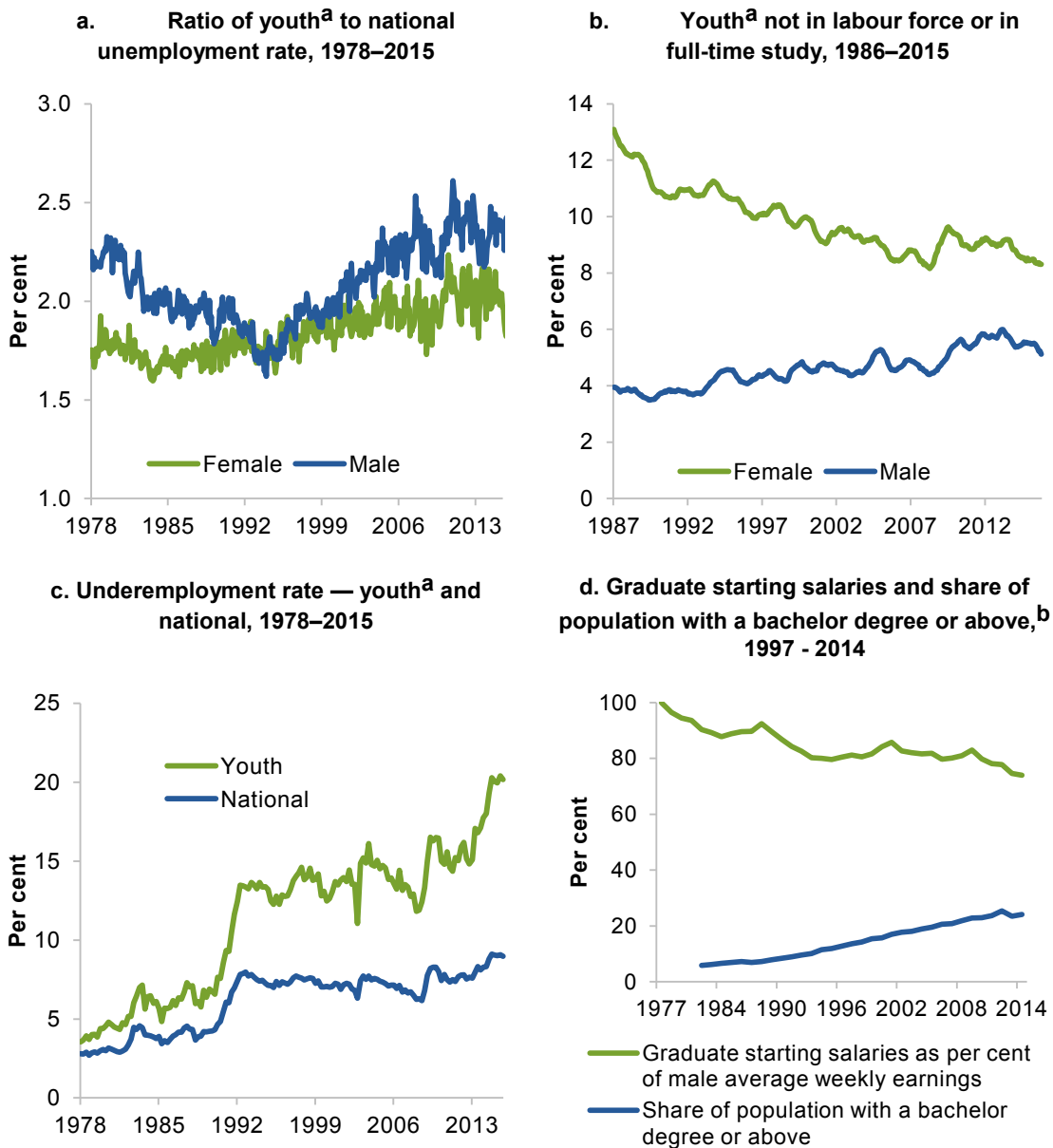
As outlined above, economic theory and international evidence suggest displacement of existing workers is most likely to occur where economic conditions are weak, where there are institutional rigidities in product and labour markets, and where the immigrant labour supply is large. Existing inhabitants with low skill levels and aged 15–24 (youth) are at greatest risk of displacement as their labour is more easily substituted for immigrant labour (Maani and Chen 2012; Nathan 2011; Nickell and Saleheen 2008; Smith 2012). A number of submitters (ACTU, subs. 36 and DR104; Cooper, sub. 25) also raised concerns that the outcomes in specific labour markets may be more affected by the inflow of immigrants.

Poor employment outcomes can result in so-called ‘scarring’ effects which can be persistent, affecting lifetime earnings, particularly if they occur early in a person’s career and when labour markets are slack (Baker and Elias 1991; Cockx and Picchio 2013; Ellwood 1982; Gregg and Tominey 2004; Mroz and Savage 2006; Oreopoulos, von Wachter and Heisz 2006). Scarring can also be associated with underemployment or occupational downgrading.

Youth labour market outcomes have deteriorated since the global financial crisis, but have been in decline for many years. From mid-2008 to early 2015, the youth unemployment rate doubled to around 14 per cent and the employment to population ratio among youth fell to around 58 per cent (its lowest level in around 20 years). While outcomes have improved recently, the longer-term labour market disadvantages faced by young people continue to be an issue. Since:

- 1994, the male youth unemployment rate has increased relative to the national rate, up from around 1.7 times to 2.4 times in 2015 (figure 6.1, panel a)
- 1987, the population share of young males not in the labour force or full-time education has increased to around 5 per cent. That said, the figures for young females show a marked improvement (figure 6.1, panel b)
- 1978, the youth underemployment rate has increased five-fold to around 20 per cent in 2015, while the adult underemployment rate has trebled (to around 9 per cent in 2015) (figure 6.1, panel c).

Figure 6.1 Youth labour market indicators



^a Youth aged 15 to 24 years. ^b Persons aged 15–69 years from 1982 to 1988, persons aged 15–64 from 1989 to 2008 and persons aged 15–74 years from 2009 to 2014.

Sources: Productivity Commission estimates based on ABS (*Labour Force*, Cat. no. 6202.0; *Labour Force Detailed*, Cat. no. 6291.0.55.001 and *Survey of Education and Work*, Cat. no. 6227.0); and Graduate Careers Australia 2014 *Graduate Salaries Report Supplementary Tables and Figures* <http://www.graduatecareers.com.au/Research/ResearchReports/GraduateSalaries> (accessed 23 March 2016).

As the number of graduates has swelled, graduates have found it more difficult to find a job on completion of tertiary education (Reserve Bank of Australia 2015). For example, the share of higher education graduates in full-time employment four months after graduation has fallen from 85 per cent in 2008 to 68 per cent in 2014 (GCA 2014). This 17 percentage point fall has been matched by an 11 percentage point increase in the share

of recent graduates in part-time employment and a 6 percentage point increase in those not working. Graduate starting salaries have grown more slowly than average earnings over a long period. In 1977, median graduate starting salaries were equal to male average weekly earnings. By 2014, median graduate starting salaries had fallen to 74 per cent of male average weekly earnings. This has coincided with an increase in the share of the population with bachelor degrees, from 5.8 per cent of the population in 1982 to 24.1 per cent in 2014 (figure 6.1, panel d). Karmel (2015) also found that while demand for workers with qualifications had increased, this had been ‘swamped’ by the increased supply of people with qualifications, which in turn led to the average quality of jobs being lower in 2011 than in 1996.

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 (ACTU, sub. DR104). For example, temporary visa grants among international students, working holiday makers and temporary graduate visa categories, measured as a proportion of Australia’s youth labour force increased from 14 per cent in 2004-05 to 27 per cent in 2013-14. Using the little information that is available on the propensity of these visa classes to seek employment, the Commission estimates that international students, working holiday makers, temporary graduates and permanent immigrants (aged 15 to 24 years) comprised over 13 per cent of total employment of those aged 15 to 24 years in September 2015 (table 6.1).

Table 6.1 International students, working holiday makers, temporary graduates and young permanent immigrants as a share of total youth employment^{a,b}
2015

	<i>Unit</i>	<i>Student</i>	<i>Working holiday maker</i>	<i>Temporary graduate</i>	<i>Permanent</i>	<i>Total</i>
Total (all ages)	no.	425 740	144 450	25 520	190 000	785 710
Aged under 25	no.	242 771	82 370	6 380	46 606	378 127
Aged under 25 and employed	no.	134 373	82 370	6 380	27 992	251 115
Share of total youth employment	%	7.3	4.5	0.3	1.5	13.7

^a Various assumptions based on the ABS’ 2013 CORM survey were made in order to calculate immigrant shares of total youth employment in 2015. The assumptions are: 57 per cent of international students were aged 15 to 24 years and, of these, and 55 per cent were employed; 57 per cent of Working Holiday Maker visa holders and 25 per cent of temporary graduates were aged under 25 years; and almost one quarter of permanent visa holders are aged 15 to 24 years and, of these, 60 per cent were employed. ^b Comparison with unpublished Australian Taxation Office data supported the validity of the above assumptions on the characteristics of students and working holiday makers.

Sources: Productivity Commission estimates based on ABS *Characteristics of Recent Migrants* Cat. no. 6250.0; ABS *Labour Force* Cat. no. 6202.0, September 2015; and DIBP (2015ay).

In addition, due to the propensity of many immigrants to accept lower-skilled jobs (relative to their qualifications and experience), immigrants in older age groups may operate in similar labour markets as local youth. These supply side effects when combined with demand side effects — such as changes in industry structure (Borland 2015), skill biased technological change (Wilkins and Wooden 2014) — which reduce demand for unskilled workers, suggest an intensification of the level of competition in the lower-skilled end of the jobs market. For example, the Construction, Forestry, Mining and Energy Union (CFMEU, sub. DR114) stated:

The current work rights attached to [working holiday] 417 and [work and holiday] 462 visas are not consistent with the stated purpose of the visa and undermine employment for young workers, unskilled workers, Australian students and local workers seeking part-time or casual work. (p. 15)

On the other hand, positive demand side effects (arising from additional spending in the local economy) may offset these negative effects. For example, the Migration Council Australia (sub. DR111) asserted that:

Recent studies — such as Giovanni Peri and Mette Foged [(2015)] analysis of refugee flows to Denmark — suggest other factors such as education and training opportunities and the flexibility of labour markets are much more important than the composition of migrants on incumbent labour market outcomes. Their work suggests low-skilled refugee migrants to Denmark actually created upward wage pressure and skill mobility for less-skilled native workers, particularly younger workers. (p. 4)

The Australian Chamber of Commerce and Industry (ACCI, sub. DR126) contended that as working holiday makers have different characteristics than young unemployed Australians no substitution or displacement occurs.

Previous Australian research — mostly from the 1990s — has found:

- temporary entrants with work rights, specifically student and working holiday makers, comprised a non-trivial component of the growth in the labour force — estimated to be up to 35 per cent in 1989-90. This estimate increased to 49 per cent when all temporary entrants with work rights were included (Sloan and Kennedy 1992)
- the supply-side effect of working holiday makers was likely to be marginal, because they were generally employed to fill labour shortages. When the demand-side effect is taken into account, there was likely to be an overall small positive effect on the labour market (Murphy 1995)
- the effect on the labour market of increased supply of labour from overseas students was more than offset by the increase in the demand for labour (Baker et al. 1996). These authors also noted that there did appear to be a relative concentration of overseas students in the restaurant sector, which raised questions about the potentially larger supply-side effect in that industry.

Today, the numbers of temporary entrants continue to represent a non-trivial portion of the growth in Australia's aggregate and youth labour force. For example during 2014-15 the

number of temporary entrants with work rights (students, working holiday makers and temporary graduates) aged 15–24 years was estimated⁵ to be:

- 7 per cent of the growth in the aggregate labour force
- around 50 per cent of the growth in the youth labour force.⁶

These figures suggest continued monitoring of the impact of immigration on youth and graduate labour markets is warranted.

However, there has been little recent Australian research on the overall impact of immigration on the youth labour market (Birrell and Healy 2014; SEERC 2015a; Tham 2015).

In the draft report the Commission examined the correlation between the percentage point change in the overseas-born employment share and the percentage point change in the Australian-born youth employment by region. The finding of a significant negative correlation was suggestive that immigration *may* have been a contributing factor to adverse outcomes in the youth labour market, but that the evidence was inconclusive and further examination was required before causality could be inferred (as also noted by Sinning, sub. DR80 and Boucher, sub. DR128).

Examining this relationship further (over an expanded historical period, from 2001 to 2011, and using additional control variables) revealed that it was an increase in the overseas-born employment share in high-skilled occupations that was associated with a reduction in the Australian-born youth employment rate, not the overseas-born employment share in low-skilled occupations as would be expected if there was direct displacement. These results suggest that there are factors not included in the Commission's econometric model that drive regional youth employment outcomes (appendix D). The results also emphasise that the correlations presented in the draft report should not be considered evidence that immigration leads to the displacement of youth workers. This is not to say that immigration does not lead to youth displacement, but further, and more complex, investigations are required to examine the many forces acting on youth and graduate labour markets before any definitive conclusions can be made about the role (if any) that immigration plays. A proposed way forward for future research on this key question is outlined below. The Commission has recommended further research on this and related topics in chapter 11.

⁵ These estimates could be further refined with access to better data on the work patterns of temporary visa holders (section 6.4).

⁶ These estimates are not readily comparable with the Sloan and Kennedy (1992) estimate. Sloan and Kennedy calculated the number of *entrants* as a share of the growth in the labour force, which overstates the impact on the labour force as it does not take account of temporary immigrants leaving Australia. The Commission's estimates are based on the *change in the stock* of temporary entrants in Australia, which as the DIBP (2015a) indicated provides a more accurate picture of flows.

A way forward

It is empirically difficult to separate out the effect of immigration on youth employment outcomes as many of the factors that drive these outcomes also affect both the level of immigration and where immigrants choose to settle and work. In addition there are a host of other factors, not least the returns on education and the higher workforce participation of women, that also affect the supply of and demand for younger workers. Methods to identify the impact of immigration on a particular segment of the labour market rely on identifying separate labour markets where immigrants and youth are likely to be substitutes but where workers in this segment are not highly substitutable with workers in other labour market segments.

Appendix D points to problems with the assumption of regional segmentation of labour markets, which in Australia's major cities is unlikely to hold. A different approach that seeks to explain youth labour market outcomes over time and across much larger regions (such as states) as a result of an array of factors, including changes in immigration rates, is required to see if there has been a relationship between immigration and incumbent youth labour market outcomes. Such work could be informed by data on changes in factors affecting a young person's decision to work or to continue in education, such as income gaps and government policy, female labour force participation trends, the relative sizes of structure of industries and occupations, and the broader economic conditions. Case studies that look at the pattern of employment in particular industries, occupations, or groups of youth would provide information on direct effects, but these do not assist in understanding the overall impacts (such as growth in alternative sources of employment).

FINDING 6.1

On balance, and at an aggregate level, labour market outcomes of local workers have been neither helped nor harmed by immigration over the period 2000 to 2011 — generally a period of robust economic growth. Other results may be possible during periods of weaker economic growth.

Evidence on the impact of immigration, specifically on the youth labour market, remains inconclusive.

6.2 Impacts on investments in education and training

In theory, skilled immigration is associated with a compression of wage relativities. As noted earlier, this may dampen existing inhabitants' and employers' incentives for education and training, eroding the formation of human capital in domestic labour supply (Fougere, Harvey and Rainville 2011). On the other hand, skilled immigration may also lead to employers' and incumbents' investing in education and training. For example, regulations often require employers to invest in the training of their local workforce when they seek to recruit skilled temporary immigrants. The presence of complementary effects

from immigration may also create skilled jobs which, in turn, improve incentives for skills acquisition by locals.

In practice, which of these forces dominate is an empirical matter. Moreover, any empirical analyses are complicated by the presence of non-immigration related factors which also affect these incentives operating on these two parties. Further, any under- or over-investment in training by one party has consequences for the incentives and behaviour of the other party.

Have employers' incentives to train locals been affected by skilled immigration?

It is commonly argued that firms 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). The agricultural sector is one sector which has relied heavily on temporary immigrant labour to fill gaps which would not otherwise be filled by incumbent labour at going wage rates (National Farmers Federation, sub. DR105).

The direction of these incentives for firms underlie the concern of the Australian Council of Trade Unions (ACTU, sub. 36), which stated:

The skilled migration program should not be a substitute for properly investing in and training the Australian workforce. (p. 9)

In a similar vein, Withers (trans., p. 111) pointed to the need to be alert '... so that [immigration] didn't become an alternative to investment in domestic population skills'.

In response to the Commission's information request in the draft report seeking further evidence on whether investment in skills had been negatively affected by immigration, the ACTU (sub. DR104) submitted that there was inadequate data gathered on the domestic training effort of employers who rely on temporary immigrant labour. However, the ACTU also pointed to evidence from one industry — the resources sector — which suggested there were negative effects from the use and availability of 457 visa labour on the national training effort. For example, the ACTU drew attention to the report of the National Resources Sector Employment Taskforce (NSRET 2010) which found that:

... ready access to temporary migration, along with the capacity to offer high wages and ‘poach’, had allowed resources companies to meet their skill needs with little thought to investments in skills development. (sub. DR104, p. 17)

The ACTU went on to argue that this situation had changed little since the NRSET report. For example:

... in Western Australia, amid the resources boom and continuing talk of skill shortages, there was no growth at all in apprenticeship and trainee commencements in 2011. Tellingly, over the same period, 457 visa numbers in the trades in Western Australia grew exponentially. (sub. DR104, p. 17)

The CFMEU (sub. DR114) submitted there were similar trends in the construction sector.

Unions in other industry sectors reinforced these views in submissions and testimony to the Senate Education and Employment References Committee’s (SEERC) inquiry on *The impact of Australia’s temporary work visa programs on the Australian labour market and on the temporary work visa holders* (SEERC 2016). Other submitters to the SEERC’s inquiry suggested that employers preferred to hire temporary visa holders due to cost factors and/or the perceived deficiencies in the basic employability skills of school leavers and graduates of vocational education and training organisations and higher education.

One of the rationales behind allowing temporary skilled immigration is that skills on the approved list occupations take a ‘long’ time to acquire and hence training locals is not a timely solution to meet these ‘temporary’ shortages. However, as Howe (2013) documented, some of the occupations on the Consolidated Sponsored Occupations List — which is a key feature of the regulations governing the operation of the subclass 457 visa program (chapter 11) — do not require long training periods.

In contrast, the Migration Institute of Australia (sub. DR131) argued that the training benchmark obligations required of 457 visa sponsors (outlined below) had increased, rather than decreased, employers’ investments in skills training.

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 Migration Council Australia (sub. DR111) also drew attention to the findings of a 2012 survey comprising a sample of just over 3800 workers holding 457 visas and 1600 employers who used the program. The results showed that:

Over three-quarters (76 per cent) of 457 visa holders help to train or develop other workers. The emphasis on training was echoed by employers, 68.5 per cent of whom said they were using 457 visa holders to train Australian counterparts. For the largest employers, of over 500 people, this rose to 74 per cent. (Migration Council Australia 2013, p. 24)

It is unclear, however, whether employer responses to this survey are representative across all industries in which 457s are employed.

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 of 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 of between \$400 and \$800 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 11). The ACTU (sub. DR104) pointed to the Deegan Report (2008) for potential options. The ACTU — along with the CFMEU (sub. DR114) — also supported the use of stronger training obligations and benchmarks tied to the use of skilled temporary migration:

... so that employers who have a genuine need to sponsor and bring in overseas workers to fill skill shortages are also training the future workforce, reducing their need to rely on temporary overseas workers in future. (ACTU, sub. DR104, p. 19)

While agreeing with Azarias et al.'s recommendations to institute a training levy, the SEERC's (2016) report regarded the size of Azarias et al.'s proposed levy as insufficient to correct incentives to ensure that employers of temporary visa holders make a genuine commitment to training domestic workers, graduates and apprentices. On the grounds that the Australian Government provides a standard \$4000 incentive payment to an employer that engages an apprentice, the SEERC argued that it was reasonable to expect employers that sponsor a 457 visa holder to make a significant commitment to Australian apprentices in the same occupations where temporary visa holders are being employed. Accordingly, the SEERC recommended that the training levy be set at \$4000 per 457 worker and that the levy be paid into existing government programs that specifically support sectors experiencing labour shortages as well as apprenticeship and trainee programs.

The SEERC (2016) went further and proposed another three recommendations designed to: ensure that employers using temporary immigrant workers also train for the future; increase employment and training in specific occupations allegedly in short supply; and increase the cost to employers of accessing 457 visa workers relative to the cost of training local workers, especially young people in entry-level positions.

While establishing training requirements for sponsors of 457 visa holders remain justified, establishing suitable regulatory safeguards can be challenging in practice.

Have locals' training incentives been affected by skilled immigration?

Several participants raised the possibility that incumbents' incentives to invest in training were adversely affected by immigration. 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)

On the other hand, incentives for skill acquisition by incumbents can also be strengthened by increased competition from skilled immigrants. This could occur as a result of incumbents investing in additional qualifications as a signalling device to potential employers (who also use qualifications as a screening device when recruiting) (Karmel 2015). Further, as noted above, complementarities arising from immigration may create skilled jobs which, in turn, improve the training incentives of locals.

There appears to be little Australian evidence specifically examining the effect of immigration on education and training of incumbents. 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.

When looking at the effect of immigration on incentives to invest in education and training on incumbents, the expansion of Australia's education and training system from around the 1980s also needs to be factored in. This expansion has occurred at the same time as the rise in skilled migration, so disentangling these two effects on incentives is important.

The share of the population with a degree level qualification increased from 11.5 per cent to 25.4 per cent between 1994 and 2015 (ABS 2015e). These same data suggest that degree-qualified immigration has grown faster than the domestic population with similar qualifications. For example, between 1994 and 2015, the average growth rate of the share of population with a degree was around 5 per cent per annum among Australian-born people compared with 7 per cent for those born overseas.

One factor influencing the incentives of incumbents is the private return to investing in a qualification. In spite of the sizable increase in the proportion of the workforce with qualifications since the 1980s, returns to education in Australia have remained relatively steady until at least 2009. For example:

- over the period 1982 to 2002–2004, Coelli and Wilkins (2009) found that the average return to post-school qualifications remained relatively resilient over the period in question. They noted that the leading explanation for the observed stability in returns was that demand for educated workers increased (possibility due to skill-biased technical change) at the same time as supply increased. However, the authors also pointed out that in cases where immigrants earn less than comparably qualified Australian-born people '... an increasing focus on skilled immigration will tend to depress earnings premia measured over all (immigrant and native-born) full-time

workers' (p. 257). Further, if highly-skilled Australian-born people are more likely to emigrate, this will also hold down average returns to education

- over the period 1997 to 2009, Karmel (2013) found that relative hourly wage rates for individuals with varying educational qualifications remained stable.

At the same time, however, concerns about an oversupply of graduates and associated 'credentialism' and 'overeducation' have been emerging (Black 2013; Dockery and Miller 2012; Miller 2007; Ryan and Sinning 2011).

Recent research by Karmel (2015) revealed that while the distribution of jobs was more highly-skilled in 2011 than it was in 1996, over the same period the expansion of highly-skilled people had dominated the change in employment structure. Consequently, the average quality of a job obtained by a person with a particular qualification was lower in 2011 than it was in 1996. While this finding could have been interpreted as evidence of 'skill deepening'⁷ within occupations, Karmel concluded that his finding (when considered alongside other evidence) was consistent with credential creep.

From society's point of view such credentialism may reflect over-investment in education, and to the extent that this over-investment is publicly funded it is an inefficient use of taxpayer funds. However, from an individual's point of view it may still be desirable for individuals to invest in acquiring additional qualifications in order to signal their higher-level abilities to potential employers. Even so, there are opportunity costs incurred by employees in undertaking such signalling.

However, as noted above, two main sources have contributed to the increased supply of labour with qualifications over the period analysed by Karmel (2015). Although it is relatively straightforward to do so, Karmel's analysis did not distinguish between these two sources. Hence, further research should be undertaken to extend Karmel's analysis to differentiate the implications of the growth in domestic and foreign qualified labour on existing residents' investments in formal education and training. Demand-side factors would also need to be considered, as some skilled migrants may be complementary and generate demand for local skilled labour, raising productivity overall (see below). Of particular interest is whether the returns to investment in qualifications by Australia's local labour force would be higher (or lower) in the absence of skilled migration. In this context, policy considerations are not straightforward as they concern the public financing arrangements for different types of qualifications alongside the level and composition of the migrant intake.

⁷ Skill deepening is associated with improved productivity within occupations and hence is of less concern to policy than credential creep (which is not associated with higher levels of productivity). The latter raises the cost of labour without increasing output.

FINDING 6.2

Employers' incentives to invest in training of their workforce are likely to be dampened as a result of ready access to skilled immigrant labour, especially via the Temporary Work (Skilled) visa (subclass 457) program. Training requirements for local employers hiring 457 visa holders remain justified.

6.3 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 (CCIQ, sub. DR125);⁸ even fractional increases in productivity growth can yield higher living standards in the long term (Otto 1997). However, these higher living standards may not be evenly spread across all members of the Australian community. Further, while productivity growth is vital for improving economic wellbeing it is not an end in itself which should be pursued at all costs (Parham et al. 2015).

Immigration affects productivity growth through its effect on skills composition

Parham et al. (2015) 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 in chapter 5, 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 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)

⁸ 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.

-
- 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. 2015).

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. 2015). 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. (2015) 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.⁹ In Nathan’s framework, immigrants bring human capital, financial resources, and social and network capital. They may also compete with existing 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.

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)

⁹ 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 and water), raising local prices (Nathan 2013).

-
- 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 existing inhabitants. 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. (2016) emphasised 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 (Jensen 2014; 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)

According to the Commission's previous assessment, immigration was unlikely to have a substantial spillover impact on productivity and income per capita because:

- the annual flow of immigrants was small relative to the stock of workers and the population
- immigrants were not very different in relevant respects from the Australian-born population and, over time, the differences become smaller (PC 2006).

The evidence presented to this inquiry does not give the Commission reason to change its 2006 assessment. 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.

Attracting highly-skilled migrants

As highly-skilled immigrants are likely to engender some 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 increase innovation (and hence productivity growth); it also needs to be supported by an active and dynamic market economy with sound institutions and property rights.

Australia, however, competes for highly mobile skilled immigrants in an increasingly competitive global market. While the US attracts the most highly-skilled immigrants, other countries, increasingly Asian nations, have become increasingly attractive to highly-skilled migrants (National Academy of Sciences, Engineering and Medicine 2015).

Two types of immigration policies have typically been used across different countries (most successfully in combination with each other) to attract skilled migrants. They range from those with a short-term perspective which is largely employer-driven (i.e. filling skills gaps) to those with a long-term perspective, where education is the main focus of selection policies. This includes policies that are designed to attract university students to faculties with a focus on the science, technology, engineering and maths (STEM) fields.

As part of its National Innovation and Science Agenda, the Australian Government recently announced a provisional entrepreneur visa to facilitate the entry and stay of entrepreneurs with innovative ideas and financial backing from a third party (box 6.3). Clearly, there is no information to judge the outcomes of a newly created visa class, whose eligibility criteria have not yet been established. However, there may be lessons from experience with associated visa classes — the Business Innovation and Investment visas

(subclasses 888 and 188) and Business Talent visa (subclass 132) which are discussed in chapter 13.

Box 6.3 The new Entrepreneur visa

The new Entrepreneur visa will be established for entrepreneurs with innovative ideas and financial backing from a third party. It will:

- be a provisional visa for individuals who have obtained capital backing from a third party (details of appropriate third parties will be informed through consultation) to develop entrepreneurial ideas in Australia
- be established as a new stream within the existing Business Innovation and Investment (Provisional) visa (subclass 188) and the Business Innovation and Investment (Permanent) visa (subclass 888)
- be introduced in November 2016. (DIBP 2016f, p. 1)

At the time of writing, the eligibility criteria had yet to be determined. The DIBP (2016f) indicated that the criteria would be finalised following consultation with key federal, state and territory government and industry stakeholders. Consultation would include consideration of the level of financial backing and how to target entrepreneurs with innovate ideas in specific sectors.

A small number of submitters nominated additional strategies to attract highly-skilled immigrants, including:

- targeted assistance and services to facilitate speedy labour market integration of skilled immigrants, which could be funded in a variety of ways (AMES Australia, sub. DR100)
- providing more opportunities for highly-skilled migrants to have family members (particularly parents) join them when settling in Australia (Migration Institute of Australia, sub. DR131)
- enhancing the use of dedicated promotion, outreach and advocacy officers in key diplomatic posts along with more effective use of the SkillSelect system to link employers and potential migrants (Migration Council Australia, sub. DR111).

Continuously experimenting and evaluating various approaches, as advocated by Migration Council Australia (sub. DR111), is a sensible approach. However, a more systematic approach would involve recalibrating the entry criteria for permanent immigration to maximise the benefits to the Australian community as a whole. This is discussed further in chapter 13.

6.4 Data gaps

As noted above, it is often empirically difficult to determine the impact of immigration on the outcomes of incumbents. While methodological difficulties can often represent a

significant hurdle, better and greater access to existing data would help to improve the situation.

Two administrative data initiatives will help to assess the impact of immigration on local youth

The Commission has recommended a public inquiry into the labour market and broader economywide effects of work rights for international student, temporary graduate and working holiday maker visa holders in chapter 11. However, improved data on the take-up of work rights for these groups of temporary immigrants (chapter 5) needs to occur prior to undertaking the research proposed in chapter 11 (recommendation 11.2).

Two ongoing developments in linking tax data and visa status offer the potential to provide comprehensive data on the work experience of international students, working holiday makers and temporary graduate visa holders. These two developments are:

1. Australian Taxation Office (ATO) / DIBP data linking of a temporary immigrant's Tax File Number and their visa status
2. the ATO's Single Touch Payroll initiative, which could also be used to identify an employee's visa status.

Further investigation of these administrative data could provide helpful insights on the taxable incomes and geographic location of this group of temporary immigrants (and any partners) who are employed, especially when cross-classified by age. This could assist (but not solve) the question of the effects of immigration on new labour market entrants (including local youth). Further discussion of both these administrative data initiatives along with a recommendation on their further development and use is in chapter 11.

What data can help to assess whether immigration affects training incentives?

As noted earlier, employers' incentives to invest in education and training of local workers are likely to have been dampened by ready access to skilled immigrant labour and hence suitable training requirements for local employers hiring 457 visa holders remain justified.

To evaluate the effectiveness of the Australian Government's (yet to be announced) changes to training requirements in response to Azarias et al.'s (2014) review, additional data is required to track the domestic training investments (and associated outcomes) of all employers (including those sponsoring 457 visa holders). It would be useful if this data is collected on a time series basis. These data collection considerations are incorporated into recommendation 11.4, which proposes that the Australian Government's response to the Azarias et. al.'s (2014) recommendation be evaluated in due course.

The 'paucity of accurate publicly available information across a range of areas related to the employment of temporary visa workers' was emphasised in the recently released

SEERC inquiry report (SEERC 2016, p. 135). As a consequence, the SEERC recommended:

Recommendation 17

5.82 The committee recommends that the following data be collected and made publicly available on an annual basis (either by the relevant statutory agency, or the relevant government department):

- all new registrations of nurses and midwives on temporary work visas;
- the number of employers currently sponsoring skilled tradespersons (ANZSCO level 3) on 457 visas;
- the number of apprentices and trainees employed directly by these 457 sponsors, in total and by sponsor industry and state/territory;
- the trades in which those apprentices are being trained, including the number of apprentices in the same trade classifications in which the 457 visa workers are employed; and
- whether the apprentice and trainee numbers in each category have increased, decreased, or have not changed since approval of the employer as a sponsor. (SEERC 2016, p. 140)

The collection of data of this nature could complement the implementation of the Commission's proposals outlined in recommendation 11.4.

Data to better analyse the impact of immigration on productivity

Based on the thorough analysis of data gaps in this area by Parham et al. (2015), the primary data gaps can be addressed either by enhancing existing data collections or gathering additional data. These two approaches are discussed in turn below.

Improving existing data collections

Echoing the sentiment in chapter 5, several overarching comments are worth reiterating:

- detailed information on temporary residents should be incorporated into the various migration-specific data sets, particularly international students and those moving from temporary to permanent (that is, CSAM, LSIA, ACMID)
- other data sets (such as HILDA and the ABS' Census, Labour Force Survey and other employment-related surveys) could be improved through better data on visa class
- of the key DIBP longitudinal data sets, CSAM is too short and could be extended and the LSIA is somewhat dated (Parham et al. 2015), therefore extending and renewing them could be helpful.

Table 6.2 summarises the suggested supplements to existing data collections to better account for the impact of immigration on productivity. Remedying these identified data gaps could help to expand the evidence base on the link between (temporary and permanent) immigration, innovation and productivity.

Table 6.2 Summary of data gaps in existing data collections

From the perspective of immigration and productivity

<i>Data set</i>	<i>Data gap</i>
Household, Income and Labour Dynamics in Australia (HILDA) survey	<ul style="list-style-type: none"> • Visa sub-class on entry to Australia and history of subsequent visa sub-class changes. • Country in which highest level of education was acquired. • Temporary residents, particularly international students.
Census of Population and Housing (Census)	<ul style="list-style-type: none"> • Visa class. • Country in which highest level of education was acquired. • Report income as a continuous variable.
Continuous Survey of Migrants to Australia (CSAM)	<ul style="list-style-type: none"> • Temporary residents, particularly international students. • Business migrants. • Country in which highest level of education was acquired. • Data on social networks, community involvement and frequency of interactions with family/friends or across social groups defined by country of birth. • Religion. • Ethnic background.
2012 Survey of subclass 457 employers and employees	<ul style="list-style-type: none"> • Information on workers receiving training so that effectiveness of knowledge transfer could be assessed.
Australian Census and Migrants Integrated Dataset (ACMID)	<ul style="list-style-type: none"> • Information on temporary immigrants, particularly international students. • Detailed sub-classes beyond the broad visa classes of skill, family and humanitarian. • Ethnic background.
Longitudinal Survey of Humanitarian Migrants (LSHM)	<ul style="list-style-type: none"> • Country of birth. • Religion. • Ethnic background. • Sponsorship patterns for family migration.

Source: Parham et al. (2015).

Potential new data collections

Linked employer-employee data

To fully capture the differences in firm-level productivity and differences in individual productivity between migrants and non-migrants (including their skill acquisition over time), longitudinal micro-level data, particularly when collected via linked employer-employee data (LEED), is necessary. As noted by Parham et al. (2015):

The distinctive feature of a LEED is that it captures information about individual workers and details concerning the firms in which people work. ... Many countries now have some form of linked employer-employee data. (p. 112)

In Australia, however, the absence of LEED-type data sets hampers researchers' ability to explore the links between individual productivity and earnings (Parham et al. 2015). These authors also noted that developing a LEED in Australia involves linking surveys across different government departments along with time and significant resources. While the

ABS is considering ways to implement a LEED (ABS 2015g), including a migrant identifier (if possible) would help to distinguish migrants' and non-migrants' links between earnings and productivity.

Better linking of existing data sets to explore migration-innovation relationship

Innovation is a key catalyst for productivity improvement but Australia lags behind the rest of the world in developing an evidence base to investigate the effect of immigration on innovation (Jensen 2014; Parham et al. 2015).

A key way forward is to better utilise existing administrative data sets. Drawing on the emerging international literature, Jensen (2014) suggested (using a probabilistic matching approach) linking Australia's Settlement Database with other administrative data containing information on innovation and entrepreneurship outcomes. For example, better connecting migration to:

- innovation outcomes through linking the Settlement Database with data from Intellectual Property (IP) Australia's data on patent and trademark applications, possibly extended to also link to international patenting activity via the PATSTAT Database (European Patent Office 2016)
- entrepreneurship outcomes through linking the Settlement Database with data from the Australian Securities & Investments Commission (ASIC) business registry data on new company formation.

There are a number of drawbacks with these two suggestions, however. First, as Jensen (2014) himself acknowledged, a control group of incumbents would need to be developed so as to compare immigrant outcomes. However, this author also outlined some approaches to remedying this problem.

Second, to the extent that highly-skilled temporary migrants may spur innovative activity which generate productivity improvements, the role that this group plays would be largely ignored. That said, Jensen's (2014) suggested data collection strategy to examine the effects of mobility on Australian scientific research productivity could offer scope to explore this question further.

Prior to committing funding to any or all of these strategies to alleviate the existing data gaps, an obvious first step is to gather information on the cost and outcomes of each of the above strategies and then assess their relative cost-effectiveness.

Further discussion on the potential to link Australia's Settlement Database with other government administrative data sets is in chapter 9.

7 Environmental impacts

Key points

- New immigrants tend to cluster in the major cities, notably Sydney and Melbourne, adding to congestion and pressure on the built and natural environment.
- The main environmental impacts are associated with a growing population, and these impacts should be considered in formulating immigration policy. Measures to mitigate these impacts should be a concern of all governments including the Australian Government.
- The natural environment is limited in the services it can provide. Where environmental assets that provide services to households are in scarce supply (such as water), price can be used to ration supply in response to population pressures. This raises the cost of living for the Australian community.
- Although population growth can improve the efficient use of infrastructure, failure of state and territory and local governments to plan and invest to accommodate population growth has resulted in congestion and pressure on the price of housing.
- Population pressures on the built and natural environment arising from immigration make sound policy and planning decisions, and their effective implementation, imperative.

In setting immigration policy (including the regional distribution of immigrants), governments have a range of objectives (chapter 3). While designing an immigration policy to deliver economic benefits to Australians is important, governments also need to consider the impact on the environment. Managing these impacts will help to ensure that immigration remains acceptable to the Australian community, and in the long run contributes to better environmental, economic and social outcomes.

Impacts of immigration on the built and natural environment are almost entirely due to the effect of the migrant intake policy on the overall size of Australia's population and where they choose to live. As Sobels et al. (2010) concluded:

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.(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. (p. 24)

While in theory, environmental impacts will also depend on the behaviour of new immigrants and whether they adopt the existing social norms (Sobels et al. 2010), in

practice, HILDA and ABS data suggests that the consumption patterns of immigrants are similar to the Australian-born population.

More people does not necessarily mean that environmental amenity or utility will be reduced for the existing population.¹ But the effect depends very much on the investment response and the planning arrangements and regulations that govern these investments. It also depends partly on the distribution of the population. A number of submissions expressed concern about the impact of population growth on the environment and the community.² These concerns mainly fell into two groups — those that arise from the pressure of a growing population in Australian cities and those that arise from the broader impact on the environment (box 7.1).

Many of the environmental impacts of population growth have been canvassed as part of the debate about the sustainable population for Australia (Pincus and Hugo 2012). This chapter does not rehash that debate, but rather seeks to identify where the recent migrant intake policy has had significant impacts on the utility people get from the built and natural environment. The chapter provides a simple framework for mapping the environmental impacts that result from immigration policies (section 7.1). It then unpacks the impacts on cities, looking at housing, utilities and transport (section 7.2) before looking at the broader impacts on food security, carbon and biodiversity (section 7.3). It concludes with a discussion of appropriate policy responses to ensure that the environmental impacts of immigration, and the consequent population growth, can be absorbed without compromising community wellbeing (section 7.3).

7.1 A framework for identifying environmental impacts

The impacts of immigration on the built and the natural environment affect community wellbeing.³ 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 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

¹ However, this may well involve the substitution of built capital for natural capital, such as the construction of walkways in wetlands that allows more people to enjoy the area without substantially reducing the quality of the environment.

² The pressure on social services, such as schools, health services and pensions, was also raised, but this is more a funding issue and is considered in detail in chapter 9.

³ The public consultation that accompanied the development of Measures of Australia's Progress documented how the environment — built and natural — directly affects people's standard of living and quality of life (ABS 2012a).

from where they live for recreational use, and many 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.

Box 7.1 Environment-related concerns raised in submissions

The link between immigration and population

High immigration promotes population growth, which is unsustainable. Nowhere in this draft report of 571 pages are the absolutely critical questions regarding sustainability in the future, discussed or commented on. (Claus, sub.DR122, p. 1)

Impact on cities

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)

... 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, pp. 1–2)

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)

Impact on the natural environment

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)

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)

For the purpose of the Commission's assessment, environmental impacts on community-wide wellbeing (or costs and benefits) can be differentiated from environmental outcomes. Outcomes are the biophysical changes in the environment (such

as changes in water quality or in ecosystem function), or features of use of the environment (such as congestion on roads and on beaches). In this sense the difference between an outcome and an impact is that the latter includes an assessment of how much people are concerned by the change.

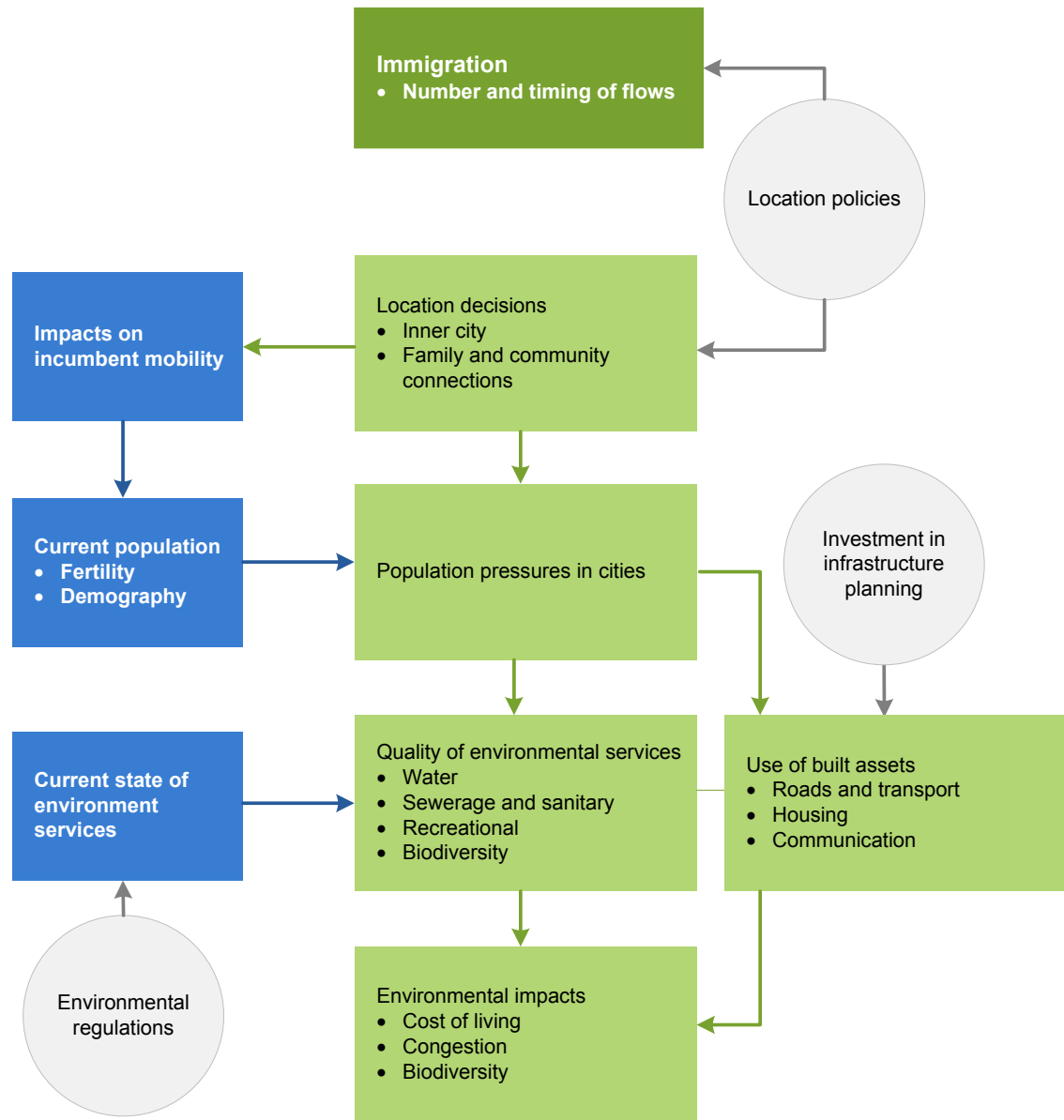
Unlike many economic outcomes where the change in wages, costs or price provide an indicator of the ‘value’ put on a change, many environmental outcomes lack a market price to indicate value. One exception to this is where a free environmental service has to be replaced by a purchased service. Another is where increasing scarcity means that price is used to ration demand (such as charging for accessing a beach or for recreational fishing). Or where price is not used the resulting costs of congestion may be able to be measured, such as in the case of transport delays in terms of the wage value of time and additional wear and tear of vehicles imposed by the increase in the commute. But estimating the value to the community of a loss in biodiversity, or in the size of a suburban backyard and a leafy outlook, is much more difficult. Moreover, these values vary across people and groups in the community and over time, so what constitutes acceptable environmental change is even more difficult to determine.⁴

The framework outlined in figure 7.1 provides more specificity to the environmental impacts identified in the overall framework in chapter 3. The environmental impacts (bottom box) are categorised as falling into those impacts on: the cost of living; congestion; and biodiversity. Biodiversity is used as a catch all category which includes environmental outcomes that are valued for existence value (or option value of use by future generations). Taking a cost–benefit approach to assessing the effect of a change in immigration policy requires putting dollar values on each of these impacts where this is possible, or at least looking at ball park estimates. To do this requires being able to assess the outcomes of immigration policy on the built and natural environment.

The environmental outcomes of immigration policy are reflected in the middle boxes in figure 7.1. The location choices and quantum of immigrants has a direct effect on the demand for infrastructure, resulting in congestion, which may be resolved by congestion charging or investment in more infrastructure adding to the cost of living. Population growth also increases the pressure on environmental services where these are major inputs into the provision of a range of water, sewerage and sanitation services. These too can be resolved by investing in more technical solutions, adding to the cost of living.

⁴ For example, a substantial number of submissions to this inquiry argued for zero net migration out of concern for the impacts of high population growth on the natural environment. For some, this was irrespective of the effects on ecosystem services used by the current and future generations (that is for existence value), for others it was the impacts that the loss of these services would have on the future cost of living and agricultural production. The Commission, as described by Victoria First and Sustainable Population Australia: Victoria and Tasmania Branch (sub. DR 81), does take an anthropocentric approach, but this does not preclude the value of environmental services to future generations, or indeed the existence value derived from the preservation of species, ecosystems and landscapes. What matters for policy makers is the value that the community as a whole place on these outcomes relative to other economic and social outcomes.

Figure 7.1 **The environmental impacts of immigration**
A framework



The preference of new immigrants to live in a few major cities and in inner city areas, limits direct impacts on environmental ecosystems, but population pressure adds to housing demand, much of which pushes out the boundaries of cities into farming land. A few submissions (for example the Sustainable Population Australia, sub. 44) raised concerns about the impact this could have on food production and on natural systems. All else equal, growth of Australia’s population also adds to Australia’s carbon emissions.

The environmental impacts depend very much on the current state of the environment and size of the population, represented in the blue boxes on the left in figure 7.1. Some

submissions (such as Cook, sub. DR124) raised concerns about tipping points, where the capacity of the environment to recover from the demands placed upon it is exceeded, pushing that part of the system into a death spiral. For example, loss of species is the result of reaching a tipping point in habitat loss, feral animal or other biological invasion, or over harvesting. The community to date has tolerated the loss of many species, whether consciously or not. However, if lynch-pin ecosystems — those that are essential for maintaining life as we know it — are at risk the ramifications are far greater. These are important questions in assessing the biophysical carrying capacity of Australia.

The relationship between environmental outcomes and population growth is not simple, and much depends on the policies put in place to mitigate the effects of population growth on the built and natural environment. These are represented by the circles in figure 7.1.

There is a further area of population impact related to environmental assets that is not represented in figure 7.1. 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 more people.⁵ More generally, pressures on the built and natural environment can contribute to pressures on society (chapter 8). Warneford (sub. DR 137), for example, expressed the view that such pressures could be catastrophic:

... as Australia's population continues to rise, primarily through immigration, the pressures of overcrowding, congestion and dwindling per capita resources will inevitably lead to increasing civil unrest and even civil war. (p.1)

The rest of this chapter looks at evidence on the scale and importance of these environmental impacts and how well policies are working to mitigate the effect of population growth on environmental outcomes.

7.2 Impacts on the cost and amenity of living in cities

Housing and urban amenity

Immigrants need a place to reside, as noted by Sobels et al. (2010):

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)

⁵ 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.

The main impact is on the cost of housing and hence cost of living, but urban amenity is also at risk from poorly managed population growth.

Where supply is constrained immigration drives up housing prices

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 articles such as one by Clancy (2014) claiming:

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.

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)

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 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). This study found that, post 1991, net overseas migration has increased median house prices.

Overseas studies of the impact of immigration on house prices 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 7.2). 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 7.2 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 in metropolitan areas in the United States.
- 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 Wachter (2011) found a negative association between immigration and changes in house prices and rents for neighbourhoods within metropolitan areas in the United States.

The impacts on incumbents vary with their age and location

A rise in the real prices of houses has a positive economic benefit for home owners and investors (although this can be offset to some extent by an increase in local rates), but for those seeking to enter the housing market the impact is negative.

A recent study by Birrell and McCloskey (2015) analysed the contribution of migration to household growth and the implications for the demand for housing. They projected that, on current patterns in NOM, the number of households would grow by 12.7 per cent between 2011-12 and 2021-22 in Melbourne (191 151 households), while in Sydney the number would grow by 12.2 per cent (198 807 households). Offsetting in part the ageing of the population (chapter 10), a little under 80 per cent of this growth is in households with a reference person aged under 45 years. This is important as younger age cohorts have a higher demand for detached housing. Birrell and McCloskey's analysis of Census data showed that more recent immigrants are less likely to be in a separate house and more likely to be in an apartment than immigrants who have been in Australia longer and the Australian-born. This likely reflects the higher cost of detached housing, particularly in inner city areas which are often preferred by new immigrants (chapter 4), but may also reflect a greater tolerance of immigrants to living in smaller and high rise apartments. The

substantial rise in international students over the last decade, for whom such housing can be appropriate, may also affect the statistics.

Looking also at the history of supply (dwelling approvals), which has focused on building high rise apartments in recent years, Birrell and McCloskey (2015) concluded:

Young people (including recently arrived migrants) will be forced to pursue their dream ever further towards the periphery of Sydney and Melbourne and perhaps beyond. ... The result will be ... an increased gulf between those wealthy enough to enjoy the amenity of the inner and middle suburbs and the rest who have to cope with long distances from this amenity. (p. 21)

While immigrants' preference for inner city living may make high rise family living more viable, Birrell and McCloskey (2015) found that the vast majority of planned and constructed apartments are too small for families, or at least much smaller than has been the norm in Australia (less than 60m²). In addition, existing residents tend to resist increasing density and older households are not downsizing (in part due to the assets test in the age pension (PC 2015b)). Such resistance is understandable as increasing population density may well reduce incumbent residents' amenity through a loss of green space, parking, and disruption associated with new construction. Moreover, many areas do not offer the range of housing types that support older households to downsize in the same area. Provision of infrastructure, such as safe spaces for family recreation, green and pedestrian zones, and public transport, are needed to mitigate the impacts of increased density. Public transport to the outer fringes will also be essential as city centres are likely to remain the main location of jobs (Kelly and Donegan 2015).

Impacts also depend on local planning and investment

Making large cities more liveable has been the subject of considerable academic and community interest. Kelly and Donegan (2015) argued that Australian cities are no longer functioning well and the problems are getting worse. They put this down to a range of factors, not least the shared responsibility for cities across three levels of government which results in what they term 'muddled accountability'. Resistance to change, and governments that have historically failed to consult or explain, also contribute as Kelly and Donegan (2015) explain, this:

... makes many residents of established areas doubtful that change will be in their interests, or accommodate their wishes. People resent having plans and decisions thrust upon them. If plans are not supported by the community they will not endure and make a difference. So existing patterns of housing development and population continue, notwithstanding the increasing congestion and limited housing choice and poor access to jobs these bring about. (p. 138)

It is not a lack of research on what makes cities liveable, rather it is that the research is not being used to inform policy. Taylor and Hurley (2015), in a study that looked at the sources of information used by urban planners, found that:

... planning practitioners rarely read research outputs and that there are entrenched barriers to information exchange between research and practice. (p. 2)

These barriers include political pressures as well as the practical difficulties in translating research to practice. But without evidence-based practice Australian cities will struggle to absorb the large flows of new immigrants without compromising the quality of the urban environment for incumbents. In cities, such as Sydney, where geography and topography limit the options for expansion, even the best plans to accommodate population growth may require considerable compromise in the quality of the urban space.

A major issue for Australian cities will remain the provision of housing with good access to jobs. As Kelly and Donegan (2015) argue:

Enabling people to live closer to jobs would help grow the economy by giving people a wider choice of jobs and employers a better choice of employees. And if housing doesn't get built in places with good access to jobs, it gets built in areas with poor access to jobs, exacerbating the growing social and economic divide. (p. 162)

This will require urban infill and allowing greater diversity of housing types in all areas. Kelly and Donegan (2015) suggest that clear and enforced outcome-based codes and standards that apply suburb wide and can be assessed by a builder, surveyor or consultant should replace the more lengthy and often discretionary local government processes or approval. For this to work, buildings that do not comply need to be forced to do so or be demolished at the expense of those who assessed the building as compliant. Codes would also need to cover all the issues that existing residents care about, such as maintenance of privacy, limiting overshadowing, and traffic management. In addition, some kind of bond deposit or pooled insurance scheme might be required to make this 'make good' threat credible. Trials would be needed to get the balance right, but current planning approvals are slow and not delivering the diversity of housing needed.

FINDING 7.1

High rates of immigration put upward pressure on land and housing prices in Australia's largest cities. Upward pressures are exacerbated by the persistent failure of successive state, territory and local governments to implement sound urban planning and zoning policies.

Urban water, sewerage and waste services

Brownfield or infill developments create additional waste streams and incremental infrastructure demand (water supply, sewerage pipes and treatment, and more lanes to roads for instance). The cost of meeting this additional demand will depend on how close the systems are to capacity.⁶ Rapid population growth can push systems past their limits requiring major investment. Upgrading systems is costly in financial terms and these costs

⁶ Decisions about upgrading need to be taken based on projections of future population growth. Hence greater certainty in the future migrant intake is useful for local and state and territory governments.

are often shared across the utility users. Upgrades also impose disruption costs on local residents.

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 land prices reflecting the considerable fees and/or infrastructure requirements imposed on developers (PC 2011f, 2014c). This raises the cost of housing in new developments, but will add to utility costs for other users where system-wide additional water supply or treatment plants are required.

Population growth increases the prices of water and waste services

Urban water, sewerage and waste services 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, suggested 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.

FINDING 7.2

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 waste management. These higher costs are shared by all utility users.

Transport

Congestion is a major concern to many residents, especially Sydney, Melbourne and Brisbane. Population growth in urban areas adds to congestion and can reduce amenity.

The costs of congestion — additional time spent travelling, wear and tear on vehicles and infrastructure, accidents, and frustrations — are real even if they do not appear in GDP, or are regrettable expenditures that add to GDP but not to people's wellbeing. The Bureau of Infrastructure, Transport and Regional Economics (2015) estimated the avoidable cost of road congestion⁷ in the Australian capital cities was \$16.5 billion in 2015 (\$6 billion in private time costs, \$8 billion in business time costs, \$1.5 billion in extra vehicle operating costs and \$1 billion in extra air pollution costs), more than doubling since 2005. On the basis of historical immigration numbers, these costs were projected to rise steadily by around 2 per cent per annum to 2030 to between \$27.7 and \$37.3 billion. The estimated rise in costs from 2015 levels to the upper bound 2030 levels are from \$6.1 to \$12.6 billion for Sydney, from \$4.6 to \$10.2 billion for Melbourne, from \$2.3 to \$5.9 billion for Brisbane, and from \$2 to \$5.7 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 of journeys within each city.

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).

Migrants are slightly less likely to drive

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

⁷ 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. The values are in 2010 Australian dollars.

or owning a car was lower for people not born in Australia. As a result, while the population-based pressure of migration exacerbates congestion, immigrant-based pressures may moderate this negative impact somewhat.

User-pays pricing can reduce congestion

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 infrastructure services on the basis of willingness to pay (which also depends on the transport alternatives that people have and their capacity to pay) provide a guide to the optimal level of congestion. Set price too low and people are willing to pay more for faster travel times, set 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.⁸ 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 were dealt with in detail in the recent Commission inquiry report into infrastructure (PC 2014), including the use of pilot trials for road pricing. However, while efficient pricing will need to be part of the mix, additional investment will also be required across a range of public and private infrastructure to cope with the projected population growth.

More generally, there are considerable differences in how much infrastructure is funded by the users as opposed to the tax payer, and those who benefit in other ways (such as through higher house prices or lower commute times on alternative routes) rarely pay. The taxpayer foots much of the cost for public transport systems in Australian cities, with only 25 per cent of the costs of provision covered in Sydney by fares, 31 per cent in Melbourne, and 38 per cent in Perth (Kelly and Donegan 2015). While road users may pay for some sections of road (often bridges and tunnels), they don't pay for the reduction in congestion due to the use of public transport or pushbike, and parking costs may be well below the opportunity cost of the parking spot. Infrastructure Australia (2015) has argued that meeting the infrastructure investment needs will require public-private partnerships that must involve a higher share of user-pays than has historically been the case. However, the scope for other beneficiaries to contribute should also be explored.

⁸ Technology can also play 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).

FINDING 7.3

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. While a larger population offers opportunities for more efficient use of, and investment in, infrastructure, governments have not demonstrated a high degree of competence in infrastructure planning and investment. Funding will inevitably be borne by the Australian community either through user-pays fees or general taxation.

7.3 Broader environmental impacts

Food production

Immigration does not threaten food security in Australia

The increase in the demand for land for housing 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 new families looking for detached housing with play areas for children. This loss of high quality agricultural land, which is in relatively short supply in Australia, would add to the costs of city fringe development discussed above. Some participants expressed concerns about this trend. For example Cook (sub. 26) stated:

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 not supported by evidence. Cook (sub. DR124) argued that climate change could reduce agricultural production by reducing rainfall in the more arable areas of Australia. While this may be the case, many peri-urban areas would also be affected by reduced rainfall, making them less productive for agriculture. And there is substantial scope to adopt new technologies in managing the application of fertilizer and water to improve food production efficiency. The Commission's current inquiry into agricultural regulation is examining how the sector could be better regulated with the scope to improve profitability and output.

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 global 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 as it has already, and will continue to do so in the face of city expansion and climate change.

Carbon emissions

Immigration raises total carbon emissions in Australia, and likely global emissions in the near future

Australia has committed to reducing greenhouse gas emissions to 26-28 per cent on 2005 levels by 2030. The Australian Government estimated that this represents a 50-52 per cent reduction in emissions per capita over the same period (Australian Government 2015b), although the population projections used to make this estimate are not stated.

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 as incumbents, this suggests that not only will Australia's emissions rise in line with NOM but, to the extent that immigration is mainly from low emission countries, global emissions will rise (India produces around 1.6 and China 6.2 tonnes per capita by comparison) (World Bank 2015a).⁹ However, as emissions targets are based on production rather than consumption of goods and services the effect on growth in emissions will be less than implied by the growth in consumption.

Over the longer term, the net global impacts are less clear, which is what matters for climate change. The relatively high per capita emissions in Australia are substantially due to the industrial structure of the economy. It is unclear what impact immigration has on the industrial structure, but the bias is likely to be toward services (chapter 10), 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

⁹ Marginal greenhouse gas emissions will be less than average, but are still likely to be substantially higher than the marginal deduction in source countries.

higher density urban living.¹⁰ 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):

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. (p. 145)

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.

The links between population growth and pollution are complex

The environmental Kuznet curve tracks the relationship between income growth per capita and pollution, finding an inverted U shape because as income rises people demand cleaner air, water and a nicer environment (Carson 2010). However, at a country, and even local, level the links between population growth and pollution may also not be straight forward. Growing population density can see an increase in demand for addressing environmental problems. For example, when slash and burn agriculturalists could move onto the next place they did not need to worry about the local impact. But once they have few options to move they have to manage the productivity of the existing farming patches. Similarly once enough people are affected by air pollution from cars, there is a demand to introduce emission controls. The link between pollution and per capita income growth has been explored extensively but fewer studies have looked at whether population growth can also contribute to reducing pollution levels. If it does then the scale effect will be smaller than expected.

¹⁰ Cook (sub. DR124) questioned whether inner city residents produce fewer carbon emissions than outer city residents citing a study that cited other studies that attributed higher CO₂ for high density housing to lifts, air conditioners and dryers as well as lit common areas. Newman (2014), however, points out that once adjusted for wealth the story was reversed (as the high-rise used also included pools and spas, and only low income households don't have air conditioning). Transport emissions are also lower for inner city. Trubka et al.(2010) estimate that transport related air pollution costs are almost three time greater for households that live on the city fringe than inner city residents, although not all of this would be due to greenhouse gas emissions.

Bond et. al. (2015) examined the relationship between real output growth and pollution in Australia. The analysis looked at both pollutant intensity per unit output and a scale effect of total output, which is related to the size of the working age population and hence reflects to some extent immigration. They found that output growth and pollution were decoupled for aggregate measures of ecosystem vitality and environmental health and indicators related to water use, nutrient balance, carbon monoxide, volatile organic carbons, and protected areas. They found that there was weak decoupling (the scale effect dominated a falling intensity per unit output) for sulphur and nitrous oxides. For carbon dioxide the intensity per unit output had fallen from 2008, while solid waste remained fully coupled to output growth. While not direct evidence of the effect of population growth on pollution, these results suggest that concerns are only valid in some areas, most notably in solid waste disposal.

Biodiversity

Many people are concerned about the impact of population growth on biodiversity, as evidenced by the large number of submissions that raised this issue. Given the concentration of immigrants in areas of Sydney, Melbourne, and Perth (chapter 4), 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 land use changes, 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 7.3). However, it is 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 the Australian government in setting immigration levels. There is also much that all 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. While clearly an important issue for all governments, further consideration of this issue is beyond the scope of this report.

Box 7.3 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)*. (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. (p. 213)

Source: Sobels et al. (2010).

7.4 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
- deliver urban planning to make cities liveable with good public transport, high walkability, green spaces and recreation areas.

Government response can mitigate or militate the pressures on cities from population growth. On the positive side, more people can allow more efficient use of existing and new infrastructure, lowering the unit costs of delivering environmental amenity and utility from built and natural environmental assets.¹¹ On the negative side, more people means

¹¹ Bettencourt et al. (2007) analysed the scale effects of cities in the US and Europe and 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. However, the findings in regard to the social and income effects have been challenged as the analysis focused on extensive (city-wide) rather than intensive (per capita) outcomes (Shalizi 2011). Moreover, given the preponderance of medium sized cities in the study, these results may not hold for very large cities such as Melbourne, Sydney and Brisbane.

pressures on these assets, resulting in congestion and loss of amenity. The question is how well governments have responded to population growth.

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 noted (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)

Market-based solutions can help but are not a panacea

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 allocate environmental assets (such as water markets) can reduce congestion, these solutions are not costless. 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 2011c) 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 tradeoff inevitable between per capita consumption and population size.

Good planning is critical

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 and Brisbane. This will work to reduce any negative impact on housing prices in locations where there is a high density of recent immigrants. The Commission previously proposed a series of leading practices aimed at ensuring high quality planning systems (box 7.4).

Box 7.4 **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 (2011f).

Planning 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 less costly to incumbents. Kelly and Donegan (2015) emphasise the need for planning to encompass the whole city as changes in one place have ramifications elsewhere. This requires a culture of cooperation and good relationships across the various governments and business and community groups in the city. Agreement on a long term

vision, with a commitment to make decisions that are only consistent with this vision across party lines is critical.

In addition, it is important that there are appropriate coordination and governance arrangements in place to help deliver better planning outcomes. Although (as has been noted previously) coordination is strong in some planning areas, it is weak in others (PC 2011f). The Commission enunciated principles of good governance — transparency, accountability and responsibility, and capability — as part of its inquiry into public infrastructure (PC 2014c). The recommendations made by that inquiry remain valid, and in view of the population pressures created by immigration even more important. High immigration rates only reinforces the need to get planning right, and attention to the ability of cities to absorb immigrants should be part of the consideration in determining the migrant intake.

Getting infrastructure investment right is also critical

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 by governments in favour of grand projects (PC 2014c). These benefit–cost analyses need to take into account the social costs and benefits as well as the economic ones, as the capacity to pay varies widely across members of the community, and user-charges mean that only the preferences of those with a capacity to pay are considered in the investment decision. This complicates the analysis considerably, but is important as access to transport matters for many aspects of people’s lives, such as being able to get to work, to services, and to see family and friends. This becomes a greater issue where lower income families are increasingly concentrated on the urban periphery where transport services are still to be well developed.

While good planning and investment can substantially mitigate the effect of population growth on congestion, it does need to be funded. Moreover, it needs governments that can make and implement the necessary planning decisions. Responses to the draft report suggest that the Commission may have been too sanguine about the ability of governments to take the necessary action. For example, Carter (sub. DR83) pointed out that ‘we have not had the sound planning needed’, while O’Sullivan (sub. DR108) expressed it more colourfully in terms of: ‘nobody dies of leukaemia, only of failure to implement successful bone marrow transplant’ (p. 3).

The issue of funding the expansion of transport and other infrastructure is fraught. While governments have moved, to some extent, to a user-pays model in regard to major new roads and tunnels and utilities, the vast bulk of roads is unpriced. In transport, like major utilities investments, existing users of infrastructure have to share the higher costs with

new users. There can be offsetting benefits from improved infrastructure, but whether these outweigh the higher cost to existing users is an open question.

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). Ortgega (sub. DR74) cited PM&C’s estimate of underinvestment in public transport of \$100 billion, growing to \$350 billion in 10 years. O’Sullivan (sub. DR108) argued governments would need to provide 25 per cent of the estimated 6.5 per cent of GDP that is required to supply the capital (fixed capital formation and human capital) needed to maintain the current capital to labour ratio.

Infrastructure Australia’s 2015 Audit identified transport, ports, telecommunication, gas pipelines and airports as areas where investment will need to grow faster than GDP (Infrastructure Australia 2015). They pointed to many challenges including a mismatch between ‘expectations about infrastructure quality and the willingness or ability to pay’ (p. 7), and poor infrastructure performance relative to other countries. Infrastructure Australia identified a need to take into account future uncertainty, not least due to the possible impacts of climate change, and to ensure communities are engaged through-out the decision making process. They concluded that:

Improvements in long-term infrastructure planning, project appraisal and project selection (including the consistent use and transparent reporting of cost-benefit analyses) are necessary if Australian’s expectations are to be realised. (p. 7)

Another important conclusion of the Infrastructure Australia Audit (2015) was that governments lack the funds to maintain the recent high investment rates, which would need to be continued and even increased to meet future demand. As mentioned, user-pays will have to feature, but there will also be an increased fiscal burden for governments, much of which is likely to fall on state and territory governments given their areas of responsibility. The magnitude of the infrastructure needs per additional immigrant is dependent on a wide range of factors unique to the city, the location within the city and any responding moves made by incumbents. As Trubka et. al (2010) noted, when attempting to estimate the relative cost of urban redevelopment in inner urban areas compared with the fringes:

... infrastructure costs are so heavily dependent on area-specific factors. For instance, road costs among different prospective development areas may vary based on the necessity for major arterial roads, costs for sewerage and water infrastructure could vary immensely depending on terrain and soil conditions, and many infrastructure components will differ depending on the level and degree of excess capacity. It is also difficult to determine who bears the costs of new infrastructure developments because of constantly changing government-induced fees, taxes, policies, and building standards. (p. 2)

Trubka et. al (2010), drawing on costs estimates mainly from Perth, which has fewer topographic restrictions than Sydney, estimated that the initial capital costs for public social and economic infrastructure to support services for 1000 new dwellings in an inner city area was \$50 million, while for outer areas it was \$136 million. They also estimated

that the public and private transport cost was about \$18 000 per household more per year for households living on the urban fringe than for inner city dwellers. This estimate included vehicle ownership costs, fuel, time, as well as pollution and other externalities. To the extent that immigrants cluster in inner city areas promoting urban infill, it could be argued that they impose lower infrastructure costs than general population growth. However, if they simply displace incumbents, who move to outer areas, then the higher fringe development cost is the appropriate estimate.

Whether new immigrants will reduce the fiscal burden associated with additional infrastructure needs through the tax revenue they bring (income tax for the Australian Government and stamp duties and GST for state and territory governments) by more than the additional costs imposed by associated population growth is a question that is considered in chapter 9. Clearly this calculus should be part of Australian Government considerations in setting the migrant intake.

Immigration policy options

The MCA (sub. 50) noted the potential for a disconnect between the Australian 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. (pp. 10–11)

There appears to be a clear case of incentives not being aligned between the:

- Australian and state and territory governments, as many of the costs of immigration fall into areas of state responsibility, notably funding public infrastructure and provision of primary and secondary education, while the distribution of benefits is more evenly shared (chapter 9)
- businesses who benefit from the increased supply of labour and, with this, demand for their goods and services, and members of the community, as reflected in the large number of submissions raising concerns about house prices, congestion, and other environmental impacts. Even if all of the concerns raised are not proven, these views do need to be taken into account in setting the migrant intake.

At a minimum the incentives should be aligned across government and government agencies.

Scope for promoting immigration to regional and rural areas

The presence of both positive (economic and social) and negative (environmental) scale effects associated with immigration suggests that immigration to rural and regional areas may, in certain cases, deliver a higher net benefit than the concentration of immigrants in the major cities. Immigration policy may be able to play a role in mitigating the impact of immigration numbers by 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) noted 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)

The Regional Australia Institute (sub. 42) raised this possibility, but admitted that there is a lack of data to test the proposition. They also pointed out that lack of social services and other infrastructure in rural and regional areas makes it difficult to retain the immigrants they do manage to attract. The National Farmers' Federation (sub. DR105) advocated for policies that would improve the attractiveness of rural areas to immigrants.

Some visa policies (such as the extension for working holiday visas) are designed to encourage immigrants to rural areas, but it is difficult to design visa conditions that can be enforced (chapter 15). Moreover, some rural areas may lack the services to retain immigrants and compulsion is not easily enforceable (or desirable).

Immigration policy should be set within a transparent population policy

Setting the total migrant intake should be a decision of all governments rather than just the Australian government. While the Department of Immigration and Border Protection consults with state governments as well as with Commonwealth agencies (chapter 3), it is hard to believe that at least some state agencies are not raising concerns about the consequences of the high rates of NOM in recent years for their major cities.

As discussed in chapter 3, decisions on the migrant intake should be part of a transparent population policy based on well-informed engagement with the Australian community so that the policy reflects the preferences of the broader community as well as businesses. The potential environmental pressures arising from immigration and population growth are only half of the story, the other half is about the government capacity to plan, invest and manage resources to minimise the social and environmental impacts of the growth in population. The apparent lack of interest by state and local governments in this inquiry (only two state agencies and one local government made a submission and none raised the issue of infrastructure) suggests that they have yet to engage with the issue, although the Commission did consult a number of state and territory government agencies.

It is worth noting that environmental impacts matter mainly in regard to setting the migrant intake numbers, and have little relevance for the composition of this intake. The composition does matter for social impacts, which are discussed in chapter 8.

RECOMMENDATION 7.1

In determining the migrant intake, the Australian Government should give greater consideration to the implications for planning and investment in infrastructure and state, territory and local governments' ability to select, fund, finance and manage these investments.

State and territory governments should develop detailed infrastructure plans that are consistent with prospective population growth rates. Major infrastructure proposals should be subject to rigorous and transparent cost–benefit analysis.

Research to better inform policy

It is not an easy task to assess the impact of immigration on environmental outcomes. Sobels et. al. (2010) use CSIRO's stocks and flow model to take into account the different built and natural environmental assets across Australia's cities, to estimate the capacity to provide services for a higher population. While this research, which was funded by the Department of Immigration and Citizenship (now DIBP), is valuable in highlighting the cities and services facing the greatest pressures from immigration it is not a forecast of the environmental impact of a given NOM. This requires taking into account the policy and market responses, as well as the evolution of preferences in the community. Nevertheless, such biophysical modelling, which continues with the CSIRO's National Outlook series (CSIRO 2015) provides governments with information on the range of possible outcomes from different population growth scenarios. As argued in chapter 10, this information should be used to inform planning to manage future population growth.

One submission (Holman, sub. DR79) argued that the Commission should recommend building a model that could incorporate all the economic, social and biophysical interactions to determine the optimal population (and hence NOM). However, the ability of any model to be able to capture all the complex dynamics needed to be useful as a policy tool is doubtful at best. Rather than subscribing to central planning, the Commission encourages researchers to focus on informing the decision makers of the costs, benefits and risks of current policy settings and of different options for future policy settings. As explained above, widespread community involvement in planning, and hence acceptance of the plans, is essential for setting policies that will be sustained by future governments. No amount of modelling will be able to adequately reflect community preferences. However, research can make a considerable contribution to the discussions required about the inevitable tradeoffs (such as between urban infill and the inequality that results from poor access to jobs). The increased provision of data and analysis, as discussed elsewhere in this report, is also important to inform the community and allow an informed debate about the issues raised in this chapter.

8 Social impacts

Key points

- 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 immigrants integrate best, with humanitarian immigrants taking longer.
- An inclusive society complements integration in promoting social cohesion. Multiculturalism succeeds where it encourages the Australian community to enable immigrant participation and to value ethnic diversity, and where immigrants are willing to adopt an Australian identity, while being able to retain their ethnic identity.
- Multicultural attitudes support acceptance of the immigration program. A large majority (85 per cent) of respondents to recent Scanlon Foundation surveys agreed that multiculturalism has been good for Australia.
- In surveys around one third of respondents thought the level of immigration was too high in 2014 and 2015, mainly arising from concerns about the impact on jobs and wages but also for reasons related to the environmental impacts. But two thirds were happy with the current levels of immigration or thought the level should be increased.
- However, there is a disconnect between attitudes to the level of immigration and the future size of the population. Almost two thirds of survey respondents expressed strong preferences for keeping the population below 30 million, which with current rates of immigration would be reached by around 2030.
- In 2015, more than three quarters of Scanlon Foundation survey respondents disagreed with any discrimination in migration policy on the basis of race or ethnicity, with a similar share rejecting discrimination on the basis of religion.
 - Nevertheless, discrimination is an issue for some immigrants and tensions have arisen between some ethnic and Australian communities.
- Settlement policies can 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.
- A recent review of the Humanitarian Settlement Services program found that it had largely been working well, but could take a more individual-oriented approach and be more outcomes focused. Consideration should be given to improving access to appropriate employment services, better coordination across and more flexibility in services, and attention to adequacy of English-language training.
- The continued promotion of multiculturalism and action to reduce discrimination remains important in supporting social cohesion.

With around one quarter of the Australian population born elsewhere and almost half having at least one parent born overseas (chapter 4), 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 4).¹ These intakes also have a higher share of immigrants in the skill stream than in previous periods (chapter 4). Immigration has changed Australia, just as Australia has changed immigrants.

The social impacts of immigration depend on the ethnic composition of the immigrants, their age, skills, and the numbers arriving at any point in time (the flow), as well as their overall share of the population. The flow at any point in time matters because the capacity of the economy and the community to absorb new immigrants varies over time as well as with the number of new arrivals. For example, periods of strong economic growth can absorb higher flows of immigrants more easily than periods where unemployment is high (chapter 6).

This chapter looks at the social impacts of immigration from the perspective of the immigrant and from the existing Australian community. Both groups want the same things — to have a good standard of living and enjoy a high quality of life. This latter, more intangible, set of outcomes includes the sense of self-worth that comes with a range of activities and relationships such as: employment, volunteering and caring; community inclusion; happy family and personal relationships; and the feeling of being safe from physical and emotional harm. A society where people have the opportunity to find and hold good jobs, access health and education services, have their personal and religious freedom and property rights upheld, and is free from discrimination is one that most Australians and most new immigrants want to live in. The question this chapter looks at is how the number and type of immigrants and government policies, affect these outcomes.

The literature on social impacts is large, complex, and sometimes conflicting. This chapter focuses on identifying the major social impacts of immigration and whom they affect. The chapter begins by expanding the assessment framework set out in chapter 3 (section 8.1). Social cohesion outcomes, a key measure of social impacts which reflects how immigration impacts on the nature of the Australian community as a whole (section 8.2), are a product of how well immigrants integrate (section 8.3) and the inclusiveness of the community (section 8.4). The final sections report on the policies that governments apply to improve economic integration (section 8.4) and inclusion by promoting multiculturalism and anti-discrimination policies (section 8.5).

¹ Social impacts can also arise if there is a strong bias in the gender balance. Khoo et. al. (2007) reported that in 2003-04 the gender ratio for temporary immigrants was 126.6 males per 100 females. However, more recent data show that the balance has largely been restored with 56 per cent of temporary immigrants being men and 54 per cent of permanent immigrants being women (chapter 4).

8.1 A framework for thinking about social impacts

Social impacts can be both tangible (such as employment or levels of crime) and intangible (such as societal trust and a sense of belonging). Figure 8.1 expands the framework set out in chapters 3 and 7 by categorising the main pathways and factors affecting the social impacts of immigration. The profile of immigrants — their skills (including English-language ability), culture, and family and community connections — along with policies such as settlement services and the attitudes of the immigrants and the Australian community (such as willingness to adopt new cultural norms and accept diversity, respectively), affect the social impacts of immigration. Population pressure (chapter 7) also has significant social ramifications, reflected in the large number of submissions to this inquiry that objected to high immigration rates because of environmental outcomes such as greater congestion, rather than concern about the impact of immigrants on social cohesion.

Figure 8.1 captures these relationships between economic integration, inclusion and social cohesion that determine the social impacts of immigration. These social impacts are described as outcomes for the community that affect people's wellbeing.

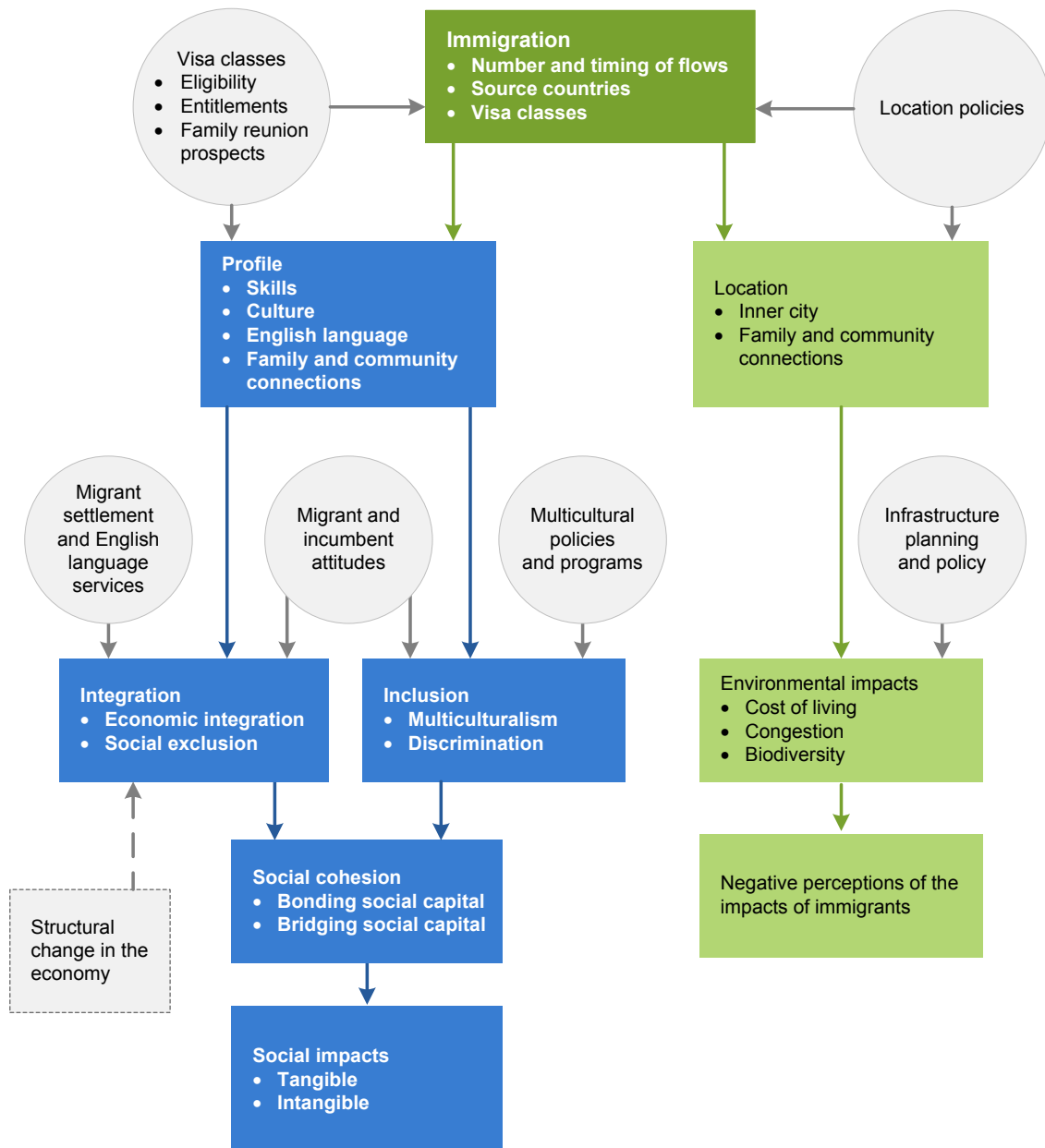
Social cohesion can be defined as how well society works towards promoting the wellbeing of all its members, fights exclusion and marginalisation, creates a sense of belonging, promotes trust, and offers its members the opportunity of upward mobility (OECD 2012a). Hence, it has both social and economic elements and is about economic integration as well as inclusion. Social cohesion is high where all those in the community are accepted as belonging to the community regardless of the diversity of the members. In a diverse community this requires strong bridging capital (ties between groups) as well as bonding capital (ties within groups) which can assist new immigrants to settle.

Economic integration plays an important role in delivering good outcomes for new immigrants as employment is key in achieving a high standard of living and is also a pathway to inclusion, given that work provides an opportunity for social interaction and to meet new people. Education is another key pathway — to employment, but also to inclusion through its enabling of more informed communication and interaction. And English-language competence assists new immigrants to participate in many aspects of the Australian community as well as aiding better outcomes in employment and education — it is particularly important for building bridging capital.

Multiculturalism has also played an important role promoting inclusion in Australia. Multiculturalism is intended to allow people to retain their cultural identity, while subscribing to an overall national identity. It enables people to bond on the basis of their cultural identity, while promoting respect and appreciation of each group by others in the community. Social cohesion is important to the long-term stability of society and, while the relative importance of different social outcomes no doubt varies across cultures, bridging capital is facilitated by a common set of 'norms' that form the core of national identity.

Figure 8.1 Social impacts of immigration

A framework



There is no simple overall measure of community-wide wellbeing, rather it is reflected in how people feel about their life, their relationships, their personal and emotional safety, future prospects for them and their families, and their engagement in civil society. The rate of immigration and the profile of new immigrants is only one factor among many that affect the social dimensions of wellbeing. Isolating the impact is empirically fraught, as not only are these outcomes hard to measure, but any analysis has to account for all the other forces that have social impacts. There is a concern that, as immigrants can be highly visible, they will be blamed for negative social outcomes that are entirely caused by other

factors, such as structural shifts in the economy away from blue-collar jobs. Yet, environmental impacts aside, there is little evidence that immigration per se has had negative social impacts on the broader community; indeed there has been high and broad support across the community for the successive waves of immigrants that make up today's Australia.

Adding social and environmental to economic impacts in a benefit–cost framework for assessing policy options is no easy task. The very different values on different outcomes across the community make putting a ‘price’ on these impacts difficult. For example, as discussed in chapter 7, a rise in house prices benefits existing home owners, while penalising those looking to get into the market (or upscale). Some people care passionately about protecting Australia's biodiversity, while for others national security is more important. A small minority are concerned about other cultures undermining the Australian culture, but more are concerned that population growth will undermine the Australian way of life. Despite the diversity of views, incorporating social and environmental impacts into the benefit–cost framework where these can be meaningfully quantified, and documenting social and environmental outcomes where such valuation is not possible, will better inform the debate about immigration policy. This challenge is taken up in chapter 10.

8.2 What are the broad social impacts of immigration?

Ruhs (2013) categorised the impacts of immigration into: economic efficiency; distribution; national identity and social cohesion; and national security and public order. All four categories have some relevance for social impacts. The impacts on the economy, and implications for the distribution of income (on wages of workers of various skill levels), affect the economic outcomes of existing workers (Wooden et al. 1994). These impacts are likely to be more material in areas where there is significant growth in demand for labour and where immigrants are highly represented (chapter 6).

There is little reported evidence on impacts on national security and public order beyond a few isolated incidents. Security screening of immigrants plays an important role in managing national security, and threats are not publicised. In any case, it would be hard to separate out any risk posed by security-screened new immigrants relative to the broader sources of risk in the existing population, including those arising from global conflicts. Incidents of public disruption related to specific groups of immigrants tend to be localised, but the associated publicity can fuel wider negative sentiment toward immigrants. Illegal behaviour of a small group of immigrants (or second generation immigrants) has provided a focal point for tensions (see below), which can be difficult for a community to resolve if it lacks bridging capital. Multicultural attitudes provide an environment that will minimise tensions in the community.

There is also little evidence on the effect of immigration on national identity and social cohesion. And again the causal links are complex. For example, Birrell (2010, p. 10) has contended 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’. Here the issue is about ensuring immigrants adopt Australian views along the lines of ‘Jack is as good as his master’, which is as much about attitudes than the jobs undertaken.

Integration and inclusion are key ingredients for heterogeneous societies to be vibrant, safe and successful. Integration means immigrants take on an Australian national identity and achieve comparable living standards. Inclusion in a multicultural society requires the acceptance and appreciation of diversity by the broader community, including among immigrants themselves. Clyne and Jupp (2011) argued that these are complementary and work together to deliver a socially cohesive society.

Much has been written on the desirability of integration and inclusive multiculturalism, on the extent to which they have been and continue to be achieved, and on what governments should be doing. As Wooden et al. (1994) 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. (p. 158)

The Commission does not take a position on what is the ‘right’ level of integration inclusion and even social cohesion. Achieving social outcomes can entail costs as well as benefits (broadly defined). However, the Commission has taken the view that a deterioration in the integration of immigrants would be of detriment to Australia. Given this, government policies should seek cost-effective ways to promote integration and inclusion.

Does immigration affect social cohesion?

Measures of social cohesion can include tangible (and observable) outcomes such as employment and participation rates (including in education, volunteer and social activities). They also include measures of more intangible outcomes, which are largely subjective, such as how safe people feel 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, but they can have an additional dimension based on perceptions. The empirical question is how immigration affects these measures of social cohesion (box 8.1). Finding an empirical answer is, inevitably, limited by data which encompass both immigration and social outcomes.

Box 8.1 Measures of social cohesion and the impact of immigration

The Australian Bureau of Statistics' *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 2015) produces a widely cited measure of social cohesion. It has undertaken population surveys on a range of attitudes, including towards immigration (2007 and 2009 to 2015 inclusive). 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 five core domains of social cohesion: belonging, worth, social justice, participation, and acceptance and rejection.

The previous Australian Social Inclusion Board used the GSS to produce a measure of social exclusion. The Brotherhood of St Laurence and the Melbourne Institute of Applied Economic and Social Research currently 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 reflect 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 related to social cohesion, such as reported levels of tolerance, discrimination, and feelings of safety.

While imperfect, the extent to which immigrants achieve the same outcomes as the rest of the Australian community is probably the best available indicator of integration. Indicators of the adoption or otherwise of multicultural attitudes by the Australian community, including by immigrants, include the extent to which immigrants experience discrimination, the extent to which they feel that Australia is not welcoming, attitudes of incumbents to immigration, and attitudes to the practise of different cultures.

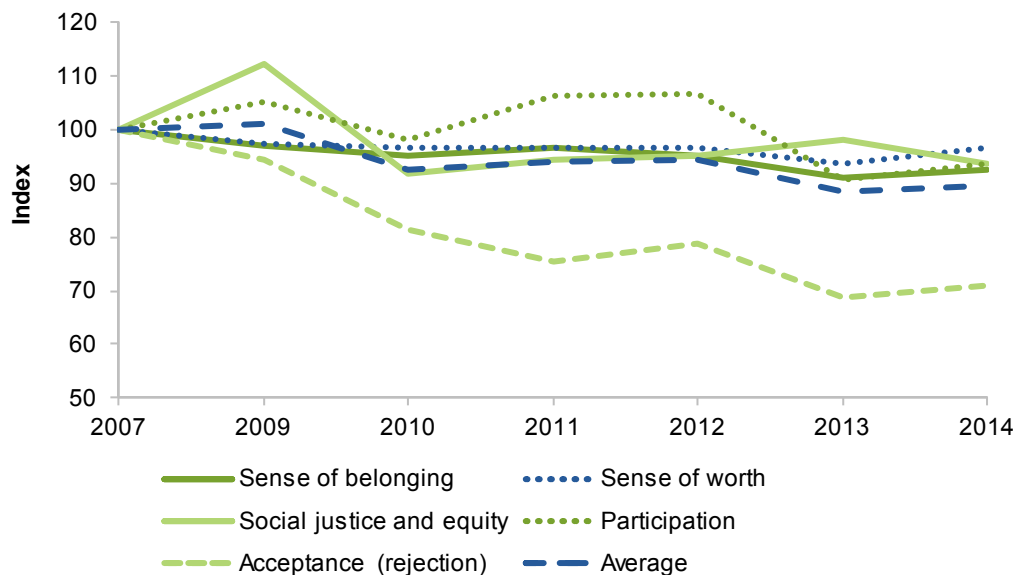
Sorting out the impact of immigration on social impact indicators — in total and for the different waves of immigration — is empirically fraught. The GSS has only been conducted every four years since 2002, and although HILDA has 14 years of data, a time series examination is still problematic. While Census data report on immigrant status, these data exclude many temporary residents. Major changes in immigrant composition over time, as well as economic conditions, also make empirical analysis of the social impacts of immigration difficult. With most recent immigrants settling in one of four major cities, data and research on regional variation — which is a useful tool to empirically test for differences due to immigrant share — is very limited. Importantly, correlations between immigration flows and/or changes in composition and social outcome indicators, such as of trust, can have complex two-way causality.

Most empirical analysis looks at the impact of immigrant status on individual outcomes. Here, data can also be limited. For example, while country of birth is an indicator of immigration, it does not indicate how long people have been in Australia (and excludes Australian citizens born abroad). Other measures such as 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.

There has been a slight downward trend in social cohesion

Trends in the Scanlon Foundation’s indicators of social cohesion, which are based on a random sample from the community (Markus 2015) have been downward since 2007, although the average has improved in the last few years (figure 8.2). The indicator with the strongest downward trend has been the responses to the question of feeling of acceptance in the broader Australian community, which declined by more than 30 per cent to 2013, a trend which has been partly reversed in the last two years.

Figure 8.2 Trends in social cohesion: Scanlon Foundation Indicators
Index 2007=100



Source: Markus (2015).

The sense of belonging is perhaps the best measure of how *immigrants* view social cohesion. In the 2012 Scanlon Foundation survey, which distinguished the responses by country of birth, 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 immigration on social cohesion is the share of population thinking that their city or area of residence is a good place for immigrants to live. In 2012, 90.3 per cent of Australians and 94 per cent of Canadians thought that their country was a good place for immigrants to live, compared to an Organisation of

Economic Cooperation and Development (OECD) average of 73 per cent (OECD and EU 2015). This share, however, fell 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

If social cohesion is mainly affected by the ability to communicate (rather than being new to the country) then immigrants from English-speaking countries, or those who have been here a longer time would tend to have higher participation in community activities than more recently arrived immigrants from non-English speaking countries. While the differences are not large, in the 2014 General Social Survey (GSS) the differences were greater between respondents who were English-speaking only and immigrants who spoke another language than between Australian-born and immigrants who were English-speaking only (table 8.1). The largest differences were in relation to attending a sporting event as a spectator.

Table 8.1 Selected indicators of social cohesion 2014
Per cent of relevant group

	<i>Australian born</i>	<i>Recent immigrants</i>		<i>Other immigrants</i>	
		<i>English speaking only</i>	<i>Speaks other language</i>	<i>English speaking only</i>	<i>Speaks other language</i>
Weekly contact with family or friends (outside the home) in the last three months	92.3	95.3	94.7	91.5	90.8
Feels most people can be trusted	54.5	57.4	57.9	55.1	50.3
Had undertaken voluntary work in last 12 months	33.6	29.6	19.3	30.3	24.1
Has attended a sporting event as a spectator in last 12 months	57.6	59.5	24.5*	48.9*	25.7*
Has attended any selected cultural venues and events in last 12 months	87.5	98.1*	93.5*	87.4	72.6*
Feels it is a good thing for society to be comprised of different cultures	82	91.7*	96.5*	86.4*	91.7*
Has experienced discrimination	18.1	24.2	24	16.7	20.7
Feeling safe walking alone in local area after dark	51.9	67.6	57.2	55.6	43.2
Has difficulty accessing service providers	25.4	24.2	20.8	26.7	23.7
Employed (full or part time)	65.5	82.4	61.8	61.4	55.3

Notes: * indicates a significant difference from the Australian-born at the 5 per cent level.

Source: Australian Bureau of Statistics (2015f).

The small sample size in some of the groups in table 8.1, along with the very different employment rates, which likely reflects differences in the ages of respondents in each group, make it difficult to draw any conclusions on changes in these outcomes on immigrant status or with length of stay. Earlier, less disaggregated data from the 2010 GSS suggested that over time immigrants do converge to the results for Australian-born people on a number of indicators (AIHW 2012).

Other evidence suggests that English-language ability is an important determining factor in integration. The 2011 Census showed that 14 per cent of youth (aged 15–19 years) who did not speak English well were not in employment, education or training (NEET), while the overall NEET rate for such youth in Australia was 5 per cent (ABS 2013a; chapter 5). 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 (AIHW) (2012) reported 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 are more positive than the population outcomes they imply

Many people hold strong opinions about the level of immigration and population growth, and participants in the inquiry expressed a range of views (box 8.2). What matters for immigration policy is how widespread the negative views are and the extent to which they reflect genuine problems that impact on people's wellbeing.

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 (for themselves and/or their children), 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 method available to assess attitudes, can be volatile and tend to reflect recent events and the related media coverage. Nevertheless, taken at face value, most opinion polling suggests that the majority of the community is relatively comfortable with current levels of immigration.

Box 8.2 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. 15–16)

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 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)

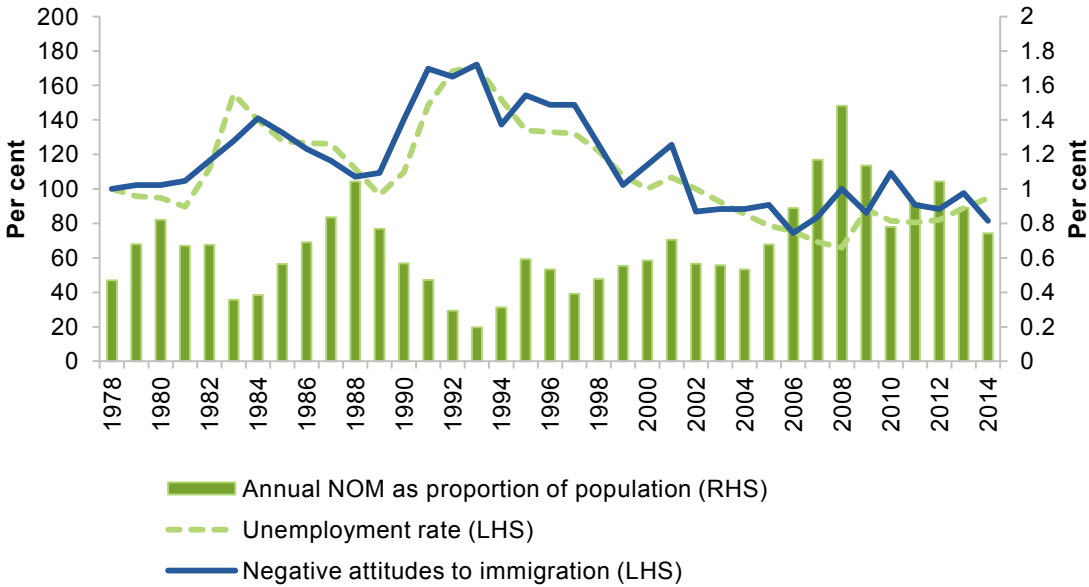
... only temporary migration can be justified. ... Skilled migrants should only come for as long as they are needed, while Australians are trained. (Matta, sub. 17, p. 2)

A higher population for economic and national security

... maximising Australian Gross Domestic Product would be an important objective of such a [population] policy. However, I also believe that an Australian population policy should aim to give Australia the strategic strength for long term survival in the absence of a major ally such as the United States. (Bosley, sub DR75, p. 1)

The Scanlon Foundation survey (Markus 2015) found that 35 per cent of respondents thought that the number of immigrants accepted into Australia was ‘too high’ in both 2015 and 2014, down from 42 per cent in 2013. The most recent years aside, there has been 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 8.3 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 net overseas migration (NOM) levels, which are shown as a share of the population in figure 8.3 and which have been well above the long-run 1920–2009 NOM average of 0.6 per cent of population per annum since the mid-2000s.

Figure 8.3 Unemployment and negative attitudes to immigration are highly correlated, but unrelated to immigration levels
1978 to 2014



Sources: ABS (*Australian Demographic Statistics, September 2015*, Cat. no. 3101.0; *Labour Force, Australia*, Cat. no. 6202.0); Goot and Watson (2011); Markus (2015).

The findings of the 2014 Lowy Institute poll were similar to the Scanlon Foundation surveys. The Lowy poll found that although a significant minority (37 per cent) thought the current level of immigration was too high, a majority (60 per cent) thought the current level was either ‘about right’ or ‘too low’ (figure 8.4, panel a). Of those who thought that immigration was ‘too high’, 88 per cent gave the major reason as ‘we should train our own people, not take them from other countries’, while 87 per cent chose ‘having more people could make unemployment worse’. Only 50 per cent listed ‘we have too much cultural

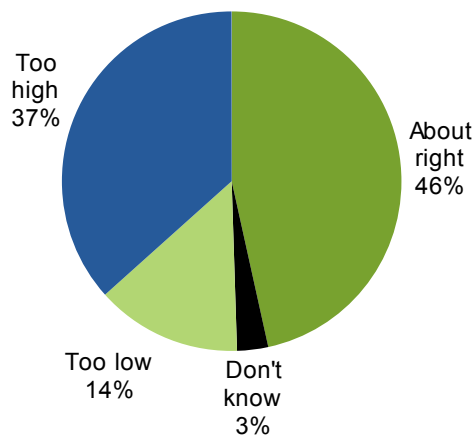
diversity already’ as the major reason (24 per cent thought this was not a reason for their response) (Lowy Institute 2014, p. 27).

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, 64 per cent of respondents were in favour of a population of 30 million or smaller, while 34 per cent were in favour of increasing the population to 40 or 50 million. These results were consistent with the results of the same survey question in 2010 (figure 8.4, panel b). The preference for limiting population growth was also found in a survey conducted by Betts (2015) for Sustainable Population Australia (SPA), which found that while 51 per cent of respondents did think Australia needed more people, 67 per cent did not want the population to grow above 30 million.

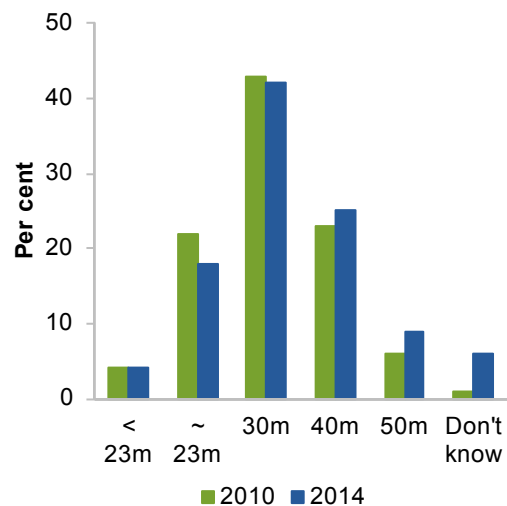
Figure 8.4 Community attitudes to population and immigration

Results from the Lowy Institute poll^a

a. Total number of immigrants each year



b. Best target population in the next 40 years



^a Responses for the left panel are from the 2014 poll.

Source: Lowy Institute (2014).

The disconnect between the support for immigration intakes and the population that such continued intakes imply was noted by Cook (sub. DR124). An annual NOM intake of 0.6 per cent of the current population implies a population of around 40 million by 2060 (chapter 10). Only 5 per cent in the SPA survey and 9 per cent in the Lowy Institute survey responded that a population greater than 40 million was acceptable. The SPA survey showed some significant differences in responses based on age (the youngest cohort was least supportive of a high population), gender (women were more likely to favour a lower population), and location (rural people favoured a lower population than city dwellers). The reasons given for preferring a lower population differed with these characteristics, but congestion and environmental impacts featured for all subgroups.

This distinction between attitudes to the population consequences of immigration and towards immigrants as a group of people is also reflected in more positive attitudes toward immigrants than toward immigration. 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 were positive towards family; and 69 per cent were positive towards the student visa category. They reported little change over the three surveys that included this question since 2007. Attitudes to unauthorised boat arrivals were less favourable with only 23 per cent favouring permanent residency, and 38 per cent temporary residency (Markus 2012b).

A further confusion could result from people failing to perceive the difference between levels and growth rates. Holding the current immigrant intake level constant implies a falling share of NOM to population over time. Conversely, for any given level of fertility and mortality, a steady rate of NOM to population implies an ever growing population. Moreover, Markus (2012a) recommended caution in interpreting the responses as support for a population growth rate or even NOM:

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)

Overall, the disconnect between attitudes to immigration and population growth poses significant risks to the public acceptance of immigration. A clear articulation of immigration policy and its implications for population growth would help improve public understanding and support. Without such a factual understanding, there is a risk that public support for immigration could fracture and false perceptions could magnify as various interest groups seek to exploit the misunderstanding for their own purposes.

8.3 How well are immigrants integrating?

Social cohesion is positively related to how well immigrants integrate. Cousens (2003) described 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 Cousen's analysis, commented:

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. Moreover, integration means that immigrants are more likely to make a net contribution to economic and social life. As the Refugee Council of Australia (RCOA) (sub. 20) and Australian Red Cross (sub. 23) explained, poor integration outcomes mean:

- lower employment rates and lower level jobs
- higher mental health costs
- higher remittances, and the consequent effect this has on the immigrant family outcomes.

Australia's performance on economic integration measures is mixed

Economic integration is only a component of integration, but it is the part that is easier to measure, and is likely highly correlated with the broader concept of integration. Overall, the economic outcomes for immigrants are not as good as those for incumbents, although the difference is smaller in Australia than in comparable countries across most indicators. More broadly, immigrants do better across a range of indicators in Australia than they do in other countries. Partly this reflects the higher-skilled profile of immigrants in Australia relative to many other countries.

Table 8.2 sets out a range of indicators of integration drawn from the OECD and European Union (EU) on immigrant settlement outcomes (OECD and EU 2015). As immigrants largely share the relatively good economic outcomes in Australia, the comparative measure used is the outcomes of immigrants relative to the native-born population as this controls for broad differences in overall outcomes across countries.

Across the countries shown in table 8.2 the foreign-born tended to do less well than the native-born (most data is for 2012). The main exception to this pattern was employment rates for low-skilled labour which were 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), were one of the poorer outcomes in Australia relative to other countries, although a more detailed look at the data shows that this was driven by poorer labour market outcomes for immigrant women (chapter 5). Similarly, the rate of over-qualification was relatively high in Australia compared to other countries (table 8.2).

Where Australia performed comparatively well was on differences in the rates of unemployment, poverty, and home ownership for immigrants, which were much closer to Australian-born people than equivalents in most other countries.

Table 8.2 Outcomes for immigrants in Australia: an international comparison

	<i>Foreign born outcomes</i>	<i>Difference in the outcomes for foreign-born relative to native-born as a share of native-born outcomes</i>						
	Australia	Australia	Canada	New Zealand	UK	USA	EU	OECD (28)
	%	%	%	%	%	%	%	%
<i>Employment rate</i>								
Low education	57.3	-12 ↓	-3	-7	-8	40	2	12
High education	82.8	-5 ↓	-6	-1	-5	-3	-10	-4
Unemployment gap	5.7	4 ↑	21	3	18	-6	57	37
<i>Over qualification rates</i>								
	30.0	35 ↓	19	-1	35	4	19	26
<i>Employment in public service</i>								
Less than 10 years	21.4	-24 ↑	-30	-9	-31	-41	-49	-43
<i>Participation in education and training</i>								
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 indicated by ↑, and where the outcomes are relatively worse is indicated by ↓. The employment gap is based on employment to population aged 15–64 not in education. The data is for 28 EU countries other than for the training which is for 19 EU countries. Most country data is 2012.

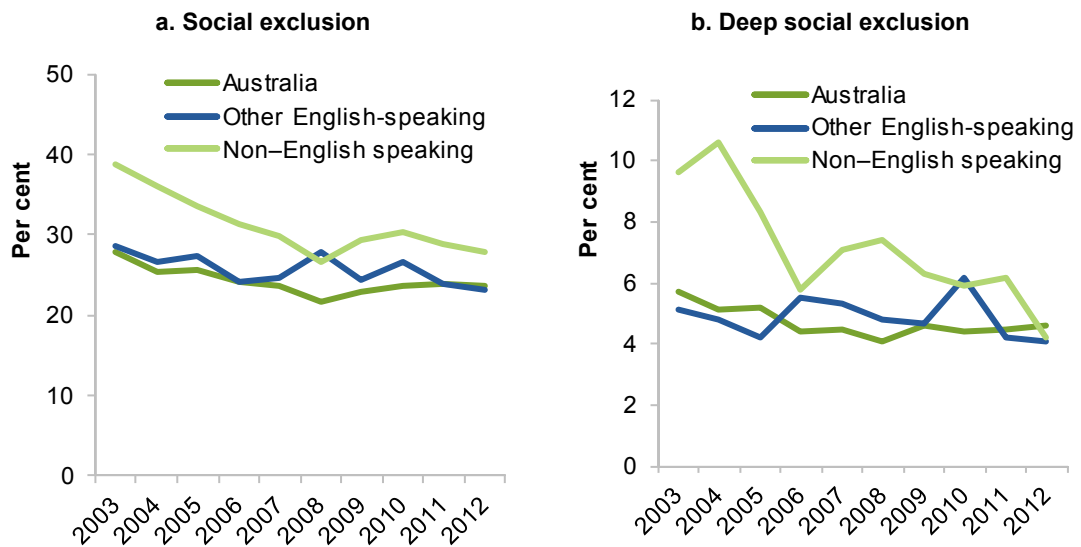
Source: OECD and EU (2015), figures 5.2, 5.8, 6.8, 6.13, 7.8 and 9.1 and table 8.1.

Rates of social exclusion are higher for immigrants but decline over time

Another way of looking at integration is whether immigrants experience higher rates of social exclusion than the population as a whole. The Social Exclusion Monitor reported that rates of deep exclusion were slightly higher for Australian-born people at 4.6 per cent, compared to 4.1 per cent for people from other English-speaking countries of birth and 4.2 per cent for people from non-English speaking countries of birth in 2012. However, rates of all social exclusion were higher for respondents born in non-English speaking countries of birth at 27.9 per cent compared with 23.7 per cent for Australian-born people (figure 8.5, panel a.) (Brotherhood of St Laurence and Melbourne Institute of Applied Economic and Social Research 2014). There has been a decline in rates of social exclusion for all groups since 2003, but particularly so for deep social exclusion for immigrants from non-English speaking countries (figure 8.5, panel b.). As the estimates are based on *Household, Income and Labour Dynamics in Australia* (HILDA) survey, which follows the same households over time, the decline in social exclusion for non-English speaking

immigrants could reflect improved integration with length of time in Australia rather than outcomes improving for new immigrants over the period.²

Figure 8.5 Social exclusion by country of birth
Per cent of population 2003 to 2014



Source: Brotherhood of St Laurence and Melbourne Institute of Applied Economic and Social Research (2014).

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. (p 13)

Major et al. (2014), in a qualitative study, reported ‘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 (DSS) (sub. 62), noted that:

In particular, for migrants and humanitarian entrants, English language tuition, better pathways to employment and improved education outcomes are critical. A focus on the three priority

² The HILDA sample was topped up in 2011 which improved the representiveness of immigrants (chapter 6).

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), for example, 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 outcomes for overseas students seeking employment in Australia found that their disadvantages in English-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 but most do

While integration is the goal of most immigrants and enhances social cohesion, not all immigrants will want to integrate. Some may limit their connections to their family and 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 enable other family members to integrate into Australian society, such as through providing childcare services so that the parents can work as raised by the Federation of Ethnic Communities’ Councils of Australia (FECCA, sub. DR95).³

The desire to integrate in terms of adopting societal norms in regard to work and marriage can also differ between cultures. The role of culture is hard to test but, in the United States at least, culture has been found to affect labour force participation rates of women. A recent study found lower rates of employment persisted for women who come from culture of low female engagement in the labour force, and for those who married an immigrant from a country with this culture (Blau 2015). Low intermarriage rates suggest lower rates of integration with youth in more ethnically isolated communities are less likely to intermarry. As discussed below, rates of intermarriage tend to be lowest for men who have immigrated from Asia, but converge to the norm within three generations (Khoo 2007). As Khoo (2011) explained, cultural practice can also play a role:

... cultural or religious institutions that focus on intra-group activities and maintaining intra-group cohesion — sometimes preferred by the elders in some ethnic communities in order to preserve the group’s language and culture — can lead to reduced opportunities for their youth to interact socially with other young people in the local community who are of different ethnic or religious background, and to lower intermarriage rates. (p. 102)

³ FECCA (sub. DR95) cited a KPMG 2009 study that estimated the value of childcare services provided by immigrant’s parents to be \$13 000 a year, boosting family income by \$54 000.

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 'maintain multiple identities' (p. 5) and mean they do not experience the same 'fundamental dislocation from country, relatives and friends' as in the postwar period (p. 14). They described 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)

Is this a problem? A small number of submissions and participants in public hearings expressed concerns that some of the more recent waves of immigrants, and Muslims in particular, do not want to integrate. It is not clear how widely these concerns are held among the broader community or how well they are based. However, to the extent that immigrants' intent to integrate is decreasing, it raises an important issue about whether this provides scope for separatism that conflicts with, and/or has the ability to undermine, key norms and long-standing understandings that are important to the functioning of Australian society and that are valued by many.

Given the links between integration and social cohesion, the Commission considers that it is generally desirable for immigrants and members of the broader community to engage with each other in ways that enable integration. It will be increasingly important for the Australian 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 or changes in the cultural mix of immigrants.

There may also be small categories of temporary immigrants for whom integration (and hence English-language 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. The numbers are not insubstantial. For example, Hugo and Harris (2011) estimated that the remigration rate of people who have migrated to Australia, and who have permanent residency, was over 20 per cent. Nevertheless, engagement with the Australian community is to the benefit of these temporary immigrants as well as the broader community.

For some groups integration can take a long time

Since 1949, 4.5 million immigrants to Australia have taken citizenship (DIBP 2015c). Historically, most immigrants have chosen to integrate and have done so successfully, albeit at different rates. The success of the second generation is one indicator of the successful integration of immigrants and in Australia (as in Canada) the children of

immigrants have been found to outperform the children of Australian-born parents across a range of education and employment outcomes (chapters 4 and 5).

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) as this group is tracked over time. The first wave of data showed that humanitarian immigrants arrived 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 were 24, 33 and 17 per cent, respectively). Respondents also had high rates of physical and mental health concerns, and 64 per cent of those who did not speak English reported that they did not know how to access government services. Over half of the men and women surveyed reported that they found it hard to make friends and to talk to Australian neighbours (DSS 2015a).

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), RCOA (sub. 20) and the Australian Red Cross (sub. 23). FECCA (sub. DR95) noted that these considerations are even greater for immigrants from more collectivist societies where responsibility to provide social support extends beyond close family members. Khoo, McDonald and Edgar (2013), in a study undertaken for the Department of Immigration and Border Protection (DIBP) drawing on a survey of partner migrants, found that family immigrants contribute mainly through ‘domestic work, caring for children and other family members and providing financial, social and emotional support’ (p. 5). They also found that they also contribute through paid work, as ‘about 85 per cent of male partner migrants and 60 per cent of female partners in the Family and Skilled streams were employed during the first five years of settlement’ (p. 6).

Australian Migration Options (sub. 34) explained their experience of sponsors trying to get visas for family members who ‘have become increasingly depressed and frustrated’ (p. 5). The Australian Red Cross (sub. 23) also supported improving pathways for family reunion. They argued:

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 a desire and even an expectation by many immigrants, even though they left their families voluntarily, that they will be able to have their families join them.

Equally, as noted in chapters 9 and 10, family reunion entails often substantial fiscal costs for the Australian community. Currently, parents are able to get a temporary contributing parent visa that allows them to stay for up to two years (chapter 10), which enables family reunion without the associated fiscal costs of a permanent visa.

8.4 Is Australia inclusive?

Modern Australia is a highly ethnically diverse society. Ethnic diversity can enrich the community (FECCA, sub. 24). Diversity supports acceptance of multiculturalism as it reduces the concentration of particular ethnic groups (Clyne and Jupp 2011). Carrington, McIntosh and Walmsley (2007) argued that diversity can also breed tolerance:

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 [gross domestic product] 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. (p. 49)

Multicultural attitudes support inclusion

Ruhs (2013) pointed out 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 being able to retain attachment to one's ethnic tradition has emerged as a central tenant of modern multiculturalism.

The majority of Australians support multiculturalism as long as immigrants are willing to adopt a national identity

The results of recent Scanlon Foundation surveys suggest that multiculturalism is supported by most of the population. Markus (2015) reported the 2015 Scanlon Foundation survey finding that 85.7 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 43 per cent between 2013 and 2015. In the 2014 survey (Markus 2014a), where these responses were disaggregated, there was a fairly strong bias toward the 'strongly agree' in responses by Australian Green party voters, younger people, those from non-English speaking countries, those with a bachelor degree level of education and above and those reporting themselves as financially comfortable. Conversely, respondents with an education of year 11 and below or a trade apprenticeship,

aged over 65, and immigrants from an English-speaking country were less likely to strongly agree.

In a similar vein, the 2014 Scanlon Foundation survey reported that 68 per cent of respondents thought that ‘accepting immigrants from many different countries makes Australia stronger’ (Markus 2014a). However, acceptance of immigration is likely to be related to perceptions of the contributions that immigrants make to the community and their willingness to adopt national values. The 2015 Scanlon Foundation survey found that the majority of respondents thought immigrants should ‘learn more about customs’ (with 68 per cent in agreement) and that immigrants ‘be more like Australians’ (65 per cent in agreement).

Discrimination can reduce economic opportunities for immigrants

Despite immigrants having an higher level of education on average (chapter 3), their employment to population ratio is lower than the Australian-born population (table 8.2). Colic-Peisker and Tilbury (2006a, p. 203), in three surveys of employment outcomes for recent immigrants, found evidence confirming a ‘segmented labour market, where racially and culturally visible migrants are allocated the bottom jobs regardless of their “human capital”’. They attributed this segmentation to:

- lack of recognition of immigrants’ qualifications and overseas experience (although standards can be an issue, as can English-language competency) (chapter 5)
- 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 of lack of recognition of qualifications 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 characteristic of labour markets contributing to 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. ISPLR Language Services (sub. DR 78) cited a number of examples of the frustration and disillusionment of immigrants whose failure to pass the English-language test precluded them from employment in their area of expertise (for which their English would have been adequate).

Fozdar (2012, p. 182) found that ‘refugees generally do not fare well’ in terms of settlement into employment and the way they are treated. This result appeared to be unrelated to religion as 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 (chapter 6).

Ethnic concentrations can undermine support for multiculturalism

The greatest social concerns with immigration 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 4). For example, Markus (2014a) found the following suburbs had a large proportion of the population indicating that they spoke a language other than English in the home: 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 (Putnam 2000).

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. For example, it has been found that ethnic communities provide bonding social capital for newly-arrived immigrants (Hugo and Harris 2011). But strong insider groups can have negative effects, creating ‘strong out-group antagonism’ (Putnam 2000, p. 23). It is bridging social capital that is critical for different groups to interact.

Where bridging social capital is weak, 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, for example Leigh (2006) found that greater ethnic diversity was associated with reduced public support for government welfare programs. Collier (2013) too found that diversity and separatism, rather than integration, led to lower support for welfare programs.

But intermarriage rates are high especially for second generations immigrants

Intermarriage helps to build mutual trust, although as Khoo (2007) noted, this is as much a consequence as cause of integration. Drawing on 2006 Census data, Khoo (2011) reported substantial differences in the rates of first and second generation intermarriage based on ancestry. While the rates rose with each generation, they were relatively low (less than 20 per cent in the first generation) for Bosnians, Chinese, Filipino men, Greeks, Indians, Italian women, Lebanese, Macedonians, Sinhalese, Turks and Vietnamese. In part this reflects the immigration of some groups as family units. By the second generation intermarriage rates were lower than 20 per cent only for Turkish women. This is a higher rate of intermarriage than reported in the 2001 Census data (Khoo 2007).

Bonding social capital might be one of the reasons why 84 per cent of people in the 2014 Scanlon Foundation survey agreed with the statement that ‘people in the local area are willing to help’. The response that 78.5 per cent agreed that ‘their local area is a place where people from different national ethnic groups get on well’ (Markus 2014a) suggests strong bridging capital. 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 is markedly lower for long-time Australians’ than the national average. This suggests less bridging social capital between different ethnic groups and/or with the Australian-born population, which at times can lead to dissatisfaction and potentially inter-group violence. The outcomes do appear to be somewhat location specific, as a local area Scanlon Foundation survey demonstrated (box 8.3).

And there are few situations where ethnic tension results in violence

The clustering of immigrants in inner-city areas and by ethnicity can create localised problems (Castles, Vasta and Ozkul 2014). However, while perceptions of crime are related to the share of immigrants in an area, there is no evidence that this is related to actual levels of crime (Sinning and Vorell 2015).

The inclusive nature of the community has a role to play in managing any tensions that emerge. For example, White (2007) explained how perceptions of exclusion can promote ethnic ‘gangs’:

... 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)

Recently, tensions have become increasingly evident in relation to some sub-groups of immigrants. Some are related to experiences of exclusion, as has recently been observed for some young Sudanese and Pacific Islanders, many of whom have low education and some who have a history of trauma (Calligeros and Gough 2016). There have also been tensions in relation to immigrants with Islamic heritage. A 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 may partly reflect concerns about the radicalisation of a small number of young people by Muslim extremists⁴ but, of potentially greater concern, it may also reflect perceptions of a more general reluctance of some recent groups of Muslim immigrants to integrate. To the extent that such perceptions were based in reality, they would raise important questions for governments and the community, and could have ramifications for migration policy.

Instead, the negative sentiment may reflect limited exposure to and understanding of people from a different background and with some different norms and practices. If so, it would be expected that such concerns would decline over time (as has happened in relation to previous waves of immigration). Negative sentiment can also reflect a tendency to generalise from some high-profile incidents and behaviours across a broader population grouping.

Box 8.3 Outcomes can vary considerably across local areas

In 2013, the Scanlon Foundation conducted local area surveys in five low socio-economic areas. These included two areas which had 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 Islands 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 Islands (Markus 2014b).

A number of indicators showed greater differences between Logan and Mirrabooka compared with the three low-immigration regional areas (all five regions are fairly similar in terms of income deciles). 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 the question of whether Australia is a land of opportunity where hard work brings a better life, which was lower in Logan and much higher in Mirrabooka (panel b). Both Logan and Mirrabooka showed fewer respondents agreeing that government provides enough support for low-income households (panel c). This is despite experiences of discrimination being about the same for Logan and Mirrabooka (panel d).

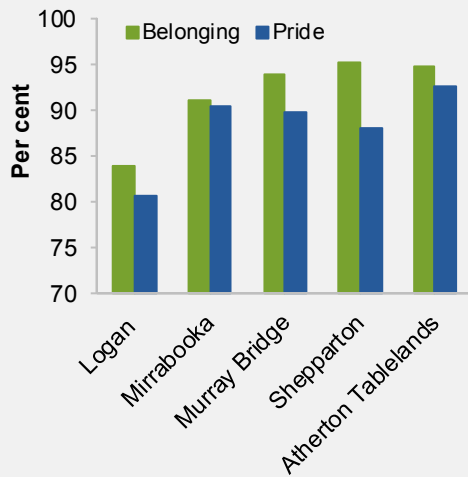
(continued next page)

⁴ Not all of these youth have been from disadvantaged or from Muslim backgrounds, suggesting other causal factors are at play.

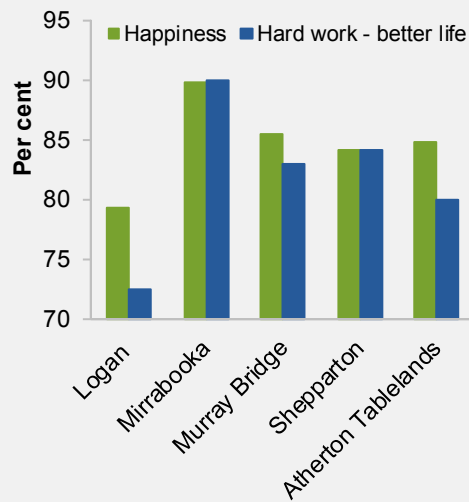
Box 8.3 (continued)

Responses in five regional areas

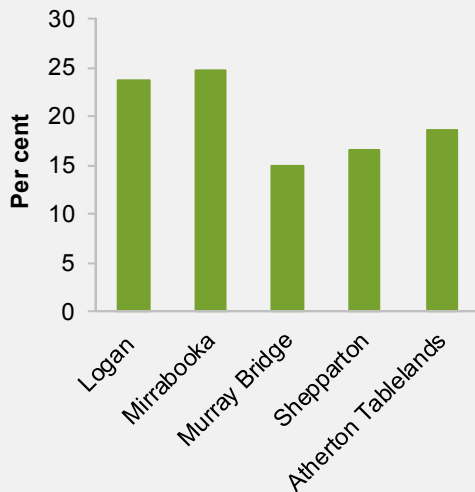
a. Sense of belonging and pride to a 'great extent' or 'moderate extent'



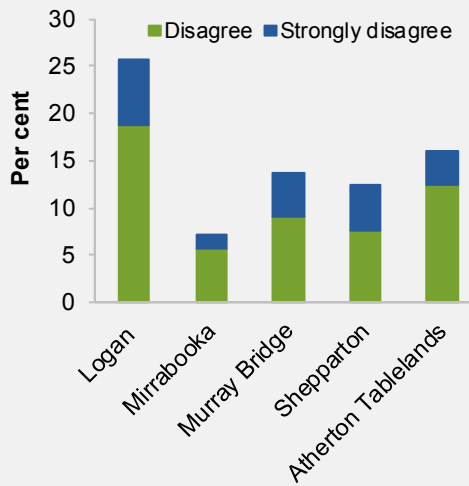
b. Happiness ('very happy' or 'happy') and agreement that hard work brings a better life



c. 'People living on low incomes receive enough financial support from the government'



d. 'Have you experienced discrimination because of your skin colour, ethnic origin or religion over the last 12 months?' Response: 'yes'.



Source: Markus (2014b).

Whatever its source, this negative sentiment can feed into discrimination that perpetuates the vicious cycle of discrimination contributes to gang behaviour and reinforces negative attitudes and discrimination. It can also undermine support for government investment in settlement services and multicultural activities. Yet it is these services that have been found to build resistance to radicalisation. As Lentini (2013) explained:

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 can reinforce negative attitudes in both the broader and immigrant communities, which can contribute fuel local conflicts and radicalisation Economic integration helps prevent marginalisation of youth while multicultural activities to build bridges of understanding and respect across ethnic communities should assist in resolving tensions.

Perceptions of discrimination differ by ethnicity, age and political affiliation

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 a less inclusive community. As reported to the OECD and EU (2015), 17 per cent of foreign born 15–64 year olds in Australia (2002–2012) considered that they belonged to a group that was discriminated against. The rate is higher for immigrants from low income countries at 24 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.

On the positive side, the 2015 Scanlon Foundation Survey reported a significant decline since 2013 in the share of respondents who reported that they had 'experienced discrimination in the last 12 months because of your skin colour, ethnic origin or religion', from 19 per cent to 15 per cent (Markus 2015).

Across the broader population, perceptions of the extent of discrimination in a country can be affected by the population demographics and religion. In the United States, the 2015 American Values Survey found major differences in the perceptions of how much different groups in society face discrimination based on the respondent's political affiliation, with Republicans saying that discrimination was much lower for all groups (black, Hispanic, Muslim, and gay and lesbian) than Democrats (Lienesch and Cooper 2015). Variations in responses to questions in the 2015 Scanlon Foundation survey that sought to reflect intolerance of diversity showed that age is a factor, with young people the least intolerant and those over 75 years having the highest reported intolerance which also varies with political identification (Markus 2015).

The 2012 Scanlon Foundation surveys found that negative feeling toward a nationality fell with the length of time substantial numbers of that nationality had been present in Australia. In 2012, the level of negative feelings toward immigrants from Greece and Italy was below 5 per cent and for those from China and Vietnam 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) has been consistently higher than to Buddhists (5 per cent) or Christians (3 per cent).

One issue is whether taking immigrants from a diversity of countries will continue to work toward promoting integration and inclusion. Diversity plays an important role as it makes it harder for new groups to challenge the dominant belief system. Geographic concentration, and stronger religious ties, 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 to promote inclusion.

FINDING 8.1

Notwithstanding some tensions between some immigrant communities and the broader community, there is widespread acceptance of cultural diversity by the Australian community. 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.

8.5 What policies support integration?

As discussed above, English-language ability, education and employment 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. Alongside the importance of institutions that are inclusive and open to newcomers (such as the labour market, education and health services) the investment by governments in services to assist new immigrants is also important for achieving good outcomes. This investment is more important the less prepared immigrants are in regard to English-language proficiency, skills, and an understanding of Australian culture and how government and society function.

The Australian Government provides a range of settlement services, most of which were transferred from the Department of Immigration and Border Protection (DIBP) to the DSS

in 2014 (box 8.4). Apart from translation services, most services 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. 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 (DSS, sub. 62).

Australian Government funding for settlement services in 2014-15 was \$141.5 million, and is forecast to slowly increase to \$183.6 million by 2018-19 (DSS, sub. 62).

Humanitarian Settlement Services and Complex Case Support

In 2013-14 there were 14 205 immigrants who received Humanitarian Settlement Services (HSS) (DSS, 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 (EY) (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 unauthorised maritime arrivals and other asylum seekers who lived in the community were no longer eligible for HSS from August 2013.

Complex Case Services (CCS) is available to all refugee and humanitarian entrants, as well as to temporary protection and safe haven enterprise visa holders. Information from the DSS (sub. 62, appendix B) indicated 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 CCS is typically by referral, often via the HSS program, although referrals can be made by any person.

Box 8.4 Australian Government settlement services

The Department of Social Services (DSS) reports that depending on their visa conditions, immigrants can be eligible for a wide range of social services provided by the Australian Government. In addition, the Australian 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 12 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 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-language proficiency
- dependants of skilled migrants in rural and regional areas with low English-language 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-language 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 DSS offers free translating and interpreting services to assist people from culturally and linguistically diverse backgrounds to settle and participate in the Australian community.

Source: DSS (sub. 6).

The importance of HSS, and other services to new arrivals, is widely recognised (FECCA, sub. 24; Australian Red Cross, sub. 23; RCOA, sub. 20). As AMES Australia (sub. 45) explained:

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)

A number of submissions (including Migration Council of Australia (MCA) (sub. DR111), Australian Human Rights Commission (AHRC) (sub. DR90), and the Multicultural Development Association (MDA) (sub. DR112) argued that, in addition to people on humanitarian visas, family members accompanying skilled immigrants and family reunion immigrants need extra assistance to integrate successfully. For the Australian Government, the fiscal cost of such investment would need to be weighed against the longer-term benefit arising from higher labour force participation and lower demand for other support services over time.

Overall settlement services work well

Recent program reviews found that settlement services were generally well-regarded by clients and other stakeholders. The EY review of the HSS and CCS programs in 2015 (EY 2015) concluded:

On the whole, both programmes are working well and are achieving their objectives. HSS and CCS services are broadly meeting client needs. The CCS programme in particular is seen as having a clear and lasting impact on client outcomes and well-being. (p. 3)

Likewise, the Australian National Audit Office (ANAO) performance audit of the Settlement Grants Program (SGP) in 2009 was largely positive. ANAO concluded that SGP was implemented in a manner consistent with its strategic objective of assisting eligible immigrants to become self-reliant and participate equitably in Australian society (ANAO 2009).

These conclusions were supported by submissions to this inquiry, although there were examples given in the public hearings of providers failing to adjust the services to meet actual needs. And, while the Settlement Council of Australia (sub. 55) claimed that 'Australia [is] rightly considered a world leader in provision of settlement support services to recently arrived refugees' (p. 3), they noted that services are focused in the first five years. Their concern was that specialised support was less available when later major life

events (such as the need for aged care or having a child) trigger the need for additional services.

The EY review found that, while HSS was generally viewed by stakeholders as being adaptive, not all clients received truly tailored support. HSS is generally undertaken at the case level, rather than the individual client level. As a result, some stakeholders contended that developing tailored support with the head of household (usually the father/husband) may not fully represent the needs and aspirations of other family members (such as the mother/wife and children) (EY 2015).

The reviews found that while the objectives of settlement services programs were generally clear, program outcomes and performance indicators were either not developed or difficult to identify. As such, these reviews relied primarily on stakeholder feedback and not on objective measures of program performance.

EY (2015) made a number of recommendations to improve the programs to:

- enhance client settlement pathways through improved referral especially to CCS
- support effective service delivery by expanding guidance on delivery to service providers, moving to an outcomes focus in the longer term and merging HSS and CCS programs
- encourage collaboration and innovation through greater recognition and sharing of innovative approaches and in the longer term establishing an innovation fund
- reduce administrative burden and realise efficiencies through reducing unnecessary reporting and quality assurance burdens, improving information technology systems, establishing an advisory provider group, and exploring alternative contracting models with a smaller number of providers.

Service provision is contracted out, including to charities

HSS, like many other community 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 part of 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 SGP, as well as state and territory programs.

As FECCA (sub. 24) noted:

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)

Given the importance of ethnic community engagement in assisting new immigrants, the Commission would advise caution in looking for economies of scale in the provision of HSS. The importance of volunteers and not-for-profit organisations, who often provide far more than the contracted service, should not be overlooked (PC 2010b).

Nevertheless, 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 (2006b) 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 program

HSS does not include any specific employment services, other than additional language services. Rather, humanitarian and other immigrants have access to the Australian Government funded jobactive services. Settlement Services International (sub. DR 109) noted that ‘While referral pathways are relatively simple, securing tailored responses to the skills and capacities of refugees and migrants is ... not occurring consistently’ (p. 2). The limitations on these services were noted in earlier submissions (for example, the Settlement Council of Australia, sub. 55). RCOA (sub. 20) identified 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. For example, in calling for specialised employment services, RCOA (sub. 20) noted:

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) identified this as a problem for many humanitarian immigrants in gaining employment. It may be that bridging courses, which

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 as well as 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 Australian Red Cross (sub. 23) called for greater attention to this issue. The National Farmers' Federation (sub. DR105) called for more assistance to settle new immigrants in rural communities, noting that 'migration can give new life to rural communities' (p. 2). Given the concentration of immigrants in the major cities, it is more cost effective to provide services in these locations. Under current arrangements services in regional areas are only likely to be cost effective 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 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. The main areas for improvement identified by EY (2015) and raised in a few submissions are a greater focus on outcomes and a need to improve coordination across services.

Although many settlement services work well, lack of coordination across services can reduce effectiveness. The feedback on the draft report in hearings and submissions suggests that greater coordination would improve outcomes. Connolly from the MDA for example, commented in the public hearings:

One of the things about the way that the system works is you have providers like us who do humanitarian support, you have the English language providers, and then the Job Services system sits way out over here. They're not well-integrated as a series of services. (trans., p. 31)

English-language services

The Department of Education and Training 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 International Second Language Proficiency Rating test score of 2 or less across all four macro skills of reading, writing, listening and speaking). Attendance is voluntary, immigrants from the family, skill and humanitarian streams 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 also 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 neediest. However, other visa classes may still not be sufficiently aware of the services. Some visa classes explicitly include the cost of English-language services in the visa charge (chapter 11).

The hours are not sufficient for all new immigrants

The ACIL Allen Consulting review (2015, p. 6) reported 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.

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 (2015) 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. (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) argued 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.’ and that the relationship between language learning and social inclusion was also affected by race/culture (Butorac 2014, p. 234). 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 are less than required, or of a nature that does not fully support immigrants’ 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 (for example, informal conversation classes). 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).

The response to the information request in the draft report suggests that conversation classes could play a greater role in the English-language program. FECCA (sub. DR95) for example, supported a more practice-oriented structure, while MIA (sub. DR131) argued for funding to support community-based groups, including schools and libraries, to provide less formal English-language classes. However, formal classes are still considered to be important to provide individual assistance (ISPLR Language Services, sub. DR78).

Other support services available to all immigrants

Other Australian Government support services include settlement grants, and translating and interpreting services. These services are available to a wider set of immigrants. 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-language proficiency, dependents of skilled immigrants with low English-language proficiency, and selected temporary residents in rural and regional areas with low English-language proficiency are eligible clients for these services. In 2013-14, there were 42 467 clients, and 26 976 in the year to March 2015 (DSS, sub. 62, appendix B).

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 (DSS, sub. 62; appendix B). Translating and interpreting services are available to Australian citizens, permanent residents, as well as temporary humanitarian visa holders 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 other eligible temporary and provisional visa holders.

Additional support services are provided by multicultural service officers from the Department of Human Services (DHS). 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 overall is hard to assess, and reviews have tended to focus only on parts of the package of services. As the MCA (sub. 50) explained:

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 called for an extension of the settlement services 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 finds 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 — MDA 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' (sub. 51, p. 3). The Settlement Council of Australia (sub. 55) 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, from a fiscal perspective, there is a balancing act between the provision of settlement services and the longer-term provision of social services. As the Australian Government takes a highly targeted approach to the provision of many social services (especially transfer payments) a case would need to be developed identifying 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 DSS's move to an 'investment approach' to the provision of support (sub. 62, p. 7).⁵

There was substantial support post the draft report for a more focused review to develop a more coordinated set of services to assist new immigrants to Australia. Some may benefit from an orientation abroad program similar to that of Canada, as suggested by AMES Australia (sub. DR100). Some may only need assistance with accessing the labour market, while others may need a more comprehensive set of services. The investment approach adopted by the DSS provides the right framework for considering the extent of services that provide a net benefit to the broader community as well as to the new immigrant. Given the importance of settlement services for achieving good outcomes from immigration (along with the selection process), the decisions about the migrant intake should be explicitly linked to the willingness to invest in settlement services.

RECOMMENDATION 8.1

The Australian Government should review the mix, extent and coordination of settlement services (including English-language training and employment services) for all permanent immigrants with the aim of improving their labour market and social engagement outcomes.

Services for immigrants on temporary visas

RCOA (sub. 20) and the Australian Red Cross (sub. 23) raised concerns about the withdrawal of settlement services for asylum seekers living in the community on Bridging visa E (BVE) or other temporary visas. These concerns are greater for immigrants on bridging visas, many of which are pending a permanent visa (box 8.5), and where bridging visas are held for a substantial period of time.⁶

At issue is whether visa conditions affect immigrants' 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 BVE, applying for permanent humanitarian visas, of whom around 14 000 had work rights (DIBP 2015b; Masanauskas 2015). As the MDA (sub. DR112) notes, there were a substantial number of

⁵ The 'investment approach' uses actuarial information to determine the type of support that is most likely to assist families and individuals to move out of welfare dependency in both the short and long run. This allows programs of support to be tailored to the family or individual's characteristics, with the aim of minimising the welfare costs over time by enabling people to engage in employment and have a healthier and more meaningful life.

⁶ 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.

people on BVEs who lost the right to work in changes made in 2013 and 2014. While most have had the right to work restored, MDA argues that:

... the uncertainty caused by the arbitrary nature in which work rights were removed and re-granted was damaging and costly to employers, the government and asylum seekers alike. Moreover, the lasting reputational damage to this cohort of potential workers and the agencies assisting them should not be underestimated. (sub. DR112, p. 11)

Box 8.5 Bridging visas

Bridging visas are temporary visas.

- A Bridging visa A allows an immigrant 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 immigrant to return to Australia if they leave.
- A Bridging visa B allows an immigrant 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 an immigrant 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 immigrant to return to Australia if they leave.
- If the immigrant'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 immigrant'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) points 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 (2015h).

Access to health services also seems to be a problem, and some people on bridging visas are not eligible for Medicare (notably those who have not lodged an application for a permanent visa and those who do not have work rights). The Royal College of Australasian Physicians noted that as the BVE has to be renewed annually, and 30 to 50 per cent of BVE holders had lapsed visas and were not eligible for Medicare, which led to state and territory governments having to meet urgent health needs at a significantly higher cost (RACP 2015). The Australian Council of Trade Unions (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, and supported more settlement services for temporary immigrants (ACTU, sub. DR104).

Immigrants from New Zealand who have not become Australian citizens face a different set of issues, with access to some social services restricted. These issues are discussed in chapter 12.

Poor outcomes for temporary immigrants on bridging visas are a concern to the Australian Government from a fiscal perspective where they arise while the immigrant is in Australia. Moreover, as many temporary immigrants on bridging visas become permanent residents, their health and education has longer term fiscal implications. Some temporary visa holders stay a considerable period of time. Peacock (2015) noted that some temporary visa holders have the incentive to pursue permanent visas, regardless of the probability of their application being successful, for the sake of prolonging their stay and work rights. Work rights, or lack of them, also have longer term consequences as discussed.

The consideration of bridging 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 (DSS, sub. 62, p. 7). Failure to invest in education and health can result in lower levels of human capital, which, to the extent that bridging visas transition to permanent visas, can have longer term fiscal 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 DSS (sub. 62) warned:

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 in relation to immigrants under some bridging visas, especially those related to humanitarian immigrants, most temporary visa holders (such as those on 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. In any case, potential policy changes for the bridging visas should consider any effects on incentives that could undermine the policy rationale.

8.6 What policies support inclusion?

Government policies affect the extent to which ethnic and cultural diversity has been, and continues to be, embraced in Australia. As explained by the AHRC (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 at all jurisdictional levels 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) concluded that:

There 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. (p. 187)

DSS (sub. 62) agreed:

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)

Government and community efforts can change community perceptions about immigrants and the impact that they have on the economy and society. There are various policy avenues including policies and programs to promote multiculturalism and anti-discrimination legislation and education. Australia has made efforts in both these areas that has fluctuated over time. A different approach is promoting the value of immigrants to the economy. For example, the Americas Society and Council of the Americas in the United States have a research program aimed at demonstrating the value that recent immigrants bring to their local communities. They have undertaken a number of studies, including documenting the contribution of immigrants to the revitalisation of depressed communities (Kallick 2015). This is more a role that community groups can pursue, and already do to some extent through promoting success stories and highlighting the contribution played in Australian cultural life (not least in food) by cultural diversity.

Multicultural policies

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. 9)

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. Robb (2006) has raised concerns that to people 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,⁷ 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 activities that promote 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 DSS’s 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 (2012b) 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. Amongst arrivals since 2000, 72% of Australians of non-English speaking background agree with assistance for maintenance of customs and traditions. (p. 3)

However, the share of respondents who disagreed or strongly disagreed fell from 62 per cent in 2007 to 53 per cent in 2015 (Markus 2015). 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 8.6), 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. The efficacy of government funding for the various programs should be periodically reviewed to ensure that governments are achieving the objectives of promoting social cohesion and building social trust.

⁷ 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.

Box 8.6 Examples of programs that support multiculturalism

The Strengthening Communities Program administered by DSS 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.

Federal

Harmony Day is an example of Australian Government policy focused on multiculturalism and diversity. It is held on 21 March every year to celebrate Australia's cultural diversity, and all state and territory governments 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' (DSS 2015b). 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.

State

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); 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.

The Queensland Government (sub. DR133) emphasised its support for community programs to celebrate Queensland's multicultural identity.

Local

An example of a local government initiative is Hobsons Bay City Council (sub. 35). The Hobsons Bay *Multicultural Policy 2012–15* guides that council's work to further support and enhance service provision, planning, advocacy and community development for the local culturally diverse community. Hobsons 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'.

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.

Research funded by DSS's predecessor on the drivers of social cohesion by 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 migrant backgrounds are crucial for social cohesion. (p. viii)

As such, well-designed government intervention to promote inclusive multiculturalism appears to assist in building bridging social capital that is important for social cohesion. A recent report by the Scanlon Foundation (2016), drawing in their 2015 survey, found that around 25 per cent of respondents supported assimilation (the view that Australians do not need to change to accommodate different immigrant cultures), 25 per cent cultural relativism (that Australians should learn more about migrants and adapt to the cultural diversity) and 40 per cent the middle ground (that it should be a two-way process). While this result does not relate directly to negative attitudes to immigration or migrants, there are groups in the community who are less supportive of multiculturalism and immigration. The Scanlon Foundation report argued that:

... continuing to work positively towards a ‘whole-of-society’ approach and demonstrate bi-partisan support will ensure we can sustain the long-running success of Australia’s multiculturalism, while also creating a resilient nation capable of adapting and leveraging future dynamics. (Scanlon Foundation 2016, p. 12)

It is beyond the scope of this inquiry 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 to be accepted by the public.

Policies addressing discrimination

Governments invest in reducing discrimination through leadership and ‘soft’ interventions as well as through anti-discrimination legislation. Governments also can promote best practice through their own hiring decisions.

The AHRC takes a lead at the national level with a range of activities. For example, the 2012 AHRC’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 (AHRC 2015). A second stage of this program is now underway (AHRC sub. DR 90). The value of the program was recognised by FECCA (sub. DR 95) who noted that the AHRC ‘did a lot with a little’, going on to say that ‘[a]dequate resourcing of the campaign would achieve better, more comprehensive community reach and awareness’ (p. 2).

Nevertheless, racism is apparent in some segments of society, including both Australian-born people and immigrants, and can have substantial costs. For example, a recent study using matched pairs of applicants for rental housing who differed only by race showed that their race affected their probability of receiving favourable treatment by real estate agents (MacDonald 2016). Colic-Peisker and Tilbury (2006a) gave the example of a high concentration of African immigrants in food processing, security and aged care, reporting that those working in aged care had 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.

9 Fiscal implications of immigration

Key points

- In aggregate, immigration has a small net effect on public finances. Most international studies find the aggregate fiscal impact on governments' balance sheets to be no more than plus or minus 2 per cent of a country's gross domestic product.
 - The size of these estimates and whether they are positive or negative are highly sensitive to the methodology and assumptions used.
- Immigrants are a diverse group. Fiscal impacts vary according to their characteristics (such as age on arrival, English-language proficiency, health, and skill profile).
- Partly reflecting these different characteristics, existing Australian studies — that typically consider impacts on the Australian Government budget over a 20 to 50 year timeframe — show that the net fiscal impact of immigrants differs significantly by visa category. It also varies according to the period over which the assessment is made. Unsurprisingly, permanent immigrants tend to have a positive fiscal impact during working age and a negative fiscal impact once they retire.
 - 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 are likely to have a negative fiscal effect. Temporary immigrants (457s), who are working and who have limited access to government-funded services, are likely to have a strong positive fiscal impact.
- In response to the terms of reference and a lack of analysis of the fiscal impacts of different categories of immigrants from a *lifetime* perspective, the Commission has developed a framework for examining the fiscal impacts of Australian immigrants.
 - The analysis highlights the importance of age on arrival and immigrant characteristics. Permanent immigrants arriving in Australia in the earlier part of their working life have a more favourable fiscal impact than those who arrive later in life, other things being equal. Family stream and humanitarian immigrants show poor fiscal outcomes relative to the skill stream. Primary skill stream applicants have better fiscal outcomes than secondary applicants — the current system does not consider the age or skills of secondary applicants as part of the criteria for granting skill visas. Temporary immigrants provide positive fiscal contributions in the relatively short time that they spend in Australia.
- Selecting immigrants who are relatively young, healthy, skilled and proficient in English leads to better fiscal outcomes. These immigrants tend to pay higher lifetime taxes and have a lower propensity to consume government-funded services.
- The limited information on immigrants in government administrative databases constrains governments' ability to comprehensively assess the fiscal impact of immigration. 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, over their lifetime, pay more tax than the government expenditure they consume. In this calculus, taxation and government expenditure is broadly defined across all levels of government.

The fiscal impact of immigration needs to be considered as part of a broader assessment framework for immigration (chapter 3). It is but one component among the many economic and social costs and benefits of immigration. However, whether the migrant intake *as a whole* is fiscally positive, neutral or negative can influence how immigration is 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 9.1). It examines the major areas of government revenue (section 9.2) and expenditure (section 9.3) that are affected by immigration. The Commission's modelling which illustrates the lifetime fiscal impacts of immigration is then provided (section 9.4). This chapter concludes by discussing some policy implications of these findings (section 9.5).

9.1 Potential fiscal implications of immigration

Australia's ageing population is putting increased pressure on government-funded health and aged care. At the same time, it is 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).

Healthy, young, educated immigrants can be expected to provide the most positive net fiscal contribution. They have the potential to pay considerable taxes over their lifetimes and consume fewer government-funded services, at least during their working life and on a net present value basis. Also, the government does not have to pay for their education costs in childhood. But immigration cannot prevent the ageing of the population without ever rising numbers of young immigrants — there is no silver bullet to an ageing population.

The fiscal impact of a given cohort of immigrants will depend on their characteristics on arrival. A range of these factors will change over their lifetime. These include their income, family situation, health condition and 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)

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.

Disparities between immigrants and the Australian-born population can be expected in some areas. Unlike the Australian-born population, immigrants' age on arrival in Australia will vary. Immigrants are also more likely to emigrate from Australia than the Australian-born population (DIBP 2013c). These differences in the time spent in Australia affect the period over which they can generate tax revenue and use government-funded services.

Some immigrants, especially temporary immigrants, do not have the same access to government-funded services as Australian citizens, which affects their fiscal impact. But some areas of government spending are directly targeted at immigrants — both temporary and permanent. These include visa processing, qualifications recognition, and settlement services. Spending in these areas is small in the context of total government expenditure and in many cases is covered by fees and charges.

Different groups of immigrants can have different usage patterns for government-funded services. Contributions to tax revenue can also differ. Where this is the case, the composition of the migrant intake will have fiscal implications. Other differences in fiscal impacts are driven by divergent education and skills profiles. As individual characteristics change over time, any assessment of fiscal impacts will also 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 estimated net impact may shift from positive to negative depending on what government revenue and spending is captured. The estimated fiscal impact is also affected by the period that the assessment covers and whether it includes both the direct and indirect impacts of immigration.

Submissions to this inquiry provide a diversity of views on the fiscal implications of immigration and how it should be examined (box 9.1).

Fiscal impacts can either be estimated at a point in time or longitudinally. Point in time studies measure the taxes paid by an immigrant compared to the government spending received, 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. Such studies do not capture the costs of these immigrants over the course of their life in the destination country (for example, their use of aged care services or pensions later in life).

Box 9.1 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, pp. 4–5)

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, pp. 14–15)

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)

Some participants' also believed that not all fiscal costs were considered in the draft report:

... [the draft report states that the overall fiscal impact of immigrants is small and positive] without any acknowledgement of the evidence presented to it on the very high fiscal impact of population growth rate. (O'Sullivan, sub. DR108, p. 5)

There is advice (Draft Report page 237) that a 20 year period has been used for Government modelling, based on a 2009 cohort of migrants, which it is reported shows a net fiscal benefit. However, this does not seem to reflect lifetime costs, including post 60 years of age, where the heaviest costs occur, and which has to be part of the basis for sensible cost evaluation. Neither does it include multiplier costs, especially for progeny and dependants, or any assessment of other costs such as resource transfers and unemployment opportunity costs. (Holman, sub. DR79, p. 3)

Longitudinal studies examine the impact of an additional immigrant over a longer timeframe — often an immigrant’s lifetime, or even the lifetimes of their children. Such studies are forward looking. They require a range of assumptions about immigrants’ future tax contributions and consumption of government-funded services. Immigrants’ fertility, mortality, return migration rates and their expected labour force participation and earnings must also be estimated. Broader assumptions are also required, such as future government policies and economic conditions. The longer the timeframe, the higher the level of uncertainty attached to these assumptions.

Not all fiscal effects can be directly attributed

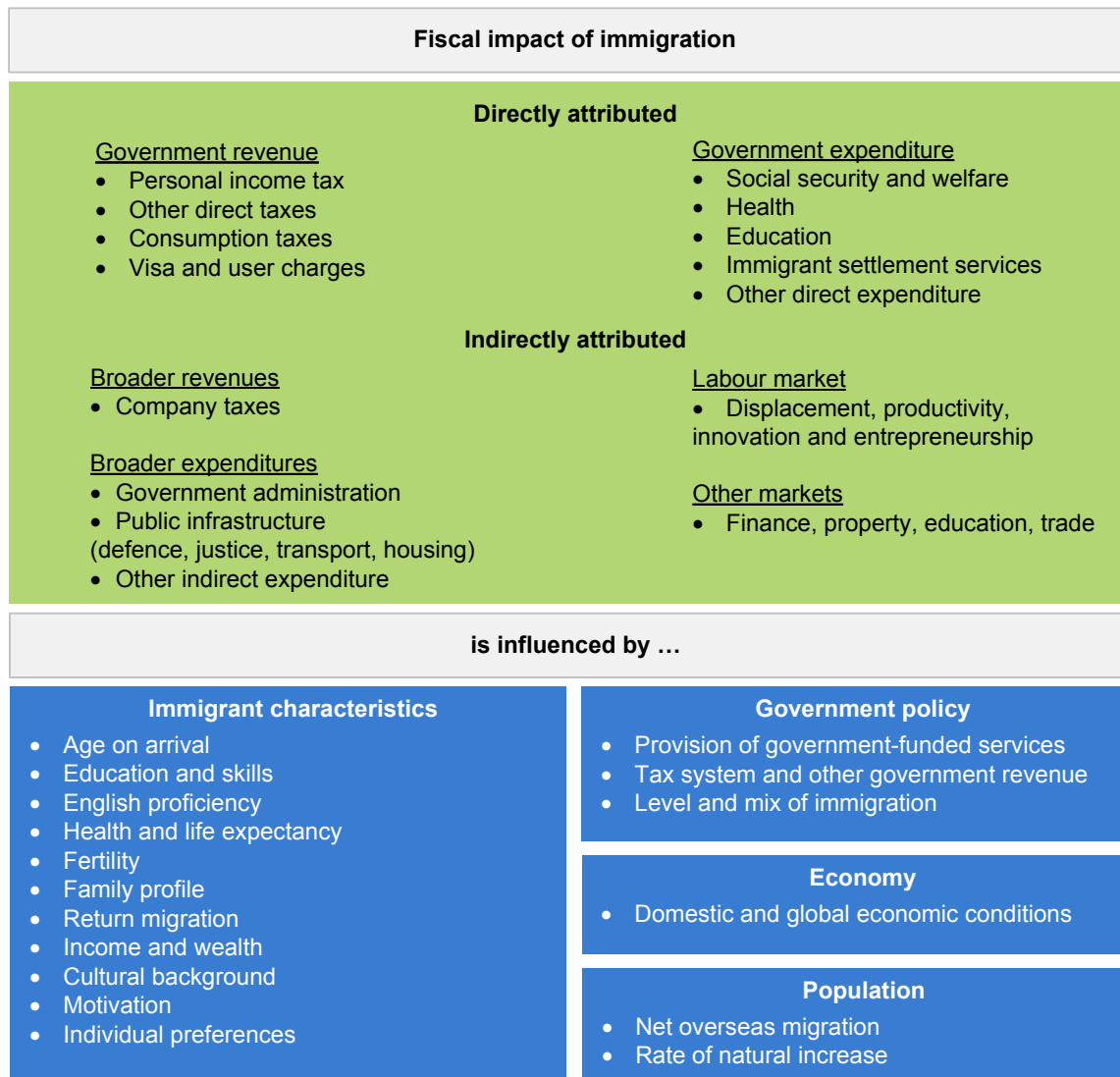
Some budgetary effects of immigration can be directly attributed to immigrants while for others this is more difficult. Directly attributed items include the amount of revenue collected through taxes levied on clearly personal activities (personal income and some consumption taxes) and government spending on immigrants for income support, health care, education and settlement services. Other government revenue and expenditure items are harder to directly attribute, including company tax and some state, territory and local government taxes. Immigrants also use or rely on government administration and public infrastructure, such as defence and transport. These fiscal effects are summarised in figure 9.1.

Immigration can also influence the broader economy, with flow-on effects to public finances. Labour market impacts will depend on whether immigrants complement or displace local workers.¹ Any resulting changes in labour force participation, unemployment and earnings — to immigrants and to the Australian population — will affect tax revenues and government spending. Immigration may also affect productivity, entrepreneurship, knowledge and skills transfer in the labour market with associated budgetary implications (chapter 6).

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, personal tax receipts fall). Higher unemployment in these periods also increases government outlays on welfare. Immigrants tend to have poorer labour market outcomes than local workers in economic downturns (chapter 5). And prolonged periods of economic downturn can lead to long-term unemployment and disengagement from the labour market (hysteresis). However, in periods of high economic activity, immigration may alleviate short-term skill shortages. This can accommodate further economic expansion and higher government revenue.

¹ Even where immigrants are substitutes for local workers this does not mean that local workers will necessarily be displaced. Immigrants not only provide labour, but consume goods and services that require labour. There is no fixed quantity of jobs in the Australian economy. Displacement of labour is likely to be more noticed among the low skilled and in the short term due to frictions and rigidities in the labour market (chapter 6).

Figure 9.1 Fiscal impact of immigration and influences



Immigration can influence other markets, such as the property market (chapter 7). It can boost government revenue from property taxes but increase spending on housing assistance. Immigration can also affect financial and human capital markets. For instance, an individual’s decision to invest in education is influenced by his or her expected career earnings. This may indirectly affect government spending on 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 area in isolation. For instance, immigration increases government spending on health 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 infrastructure in different ways

Determining the fiscal effects arising from immigrants' demand for public goods and services (collectively referred to below as 'infrastructure') is particularly problematic.

Some areas of public spending, such as defence and national broadcasting, are 'pure' forms of infrastructure. The costs of providing this infrastructure are largely invariant to population size. And so migration-induced population growth has no direct material effect on expenditure. The marginal cost of any additional population consuming a fixed level of services is effectively zero, with costs spread over a wider population.

However, most public spending is on 'impure' or 'congestible' infrastructure. Population growth increases the demand for this kind of infrastructure (such as transport infrastructure or education services). Immigration, as the main contributor to population growth, can therefore impose congestion costs on the Australian community. To avoid congestion, governments need to bring forward infrastructure spending.

While immigration increases the demand for infrastructure, it can also increase the number of people who finance its provision, for example, through taxation, user charges and council rates. Whether the fiscal impact of immigration in these circumstances is negative or positive depends on whether immigrants contribute less or more revenue than the expenditure they induce.

As discussed in chapter 7, immigration requires informed planning and investment in public infrastructure. Funding is also required. Submissions to this inquiry have stated that infrastructure has failed to keep up with the demands brought on by a growing population, particularly in major Australian cities. A lack of government funds is seen as a barrier to providing infrastructure. For instance, Allen (sub. DR88) stated:

There isn't the money available in the State coffers to pay for the necessary infrastructure to create long term sustainable communities at this rate of growth. (p. 1)

Many submissions said that infrastructure costs could be cut back by reducing or ceasing immigration. For instance, Warneford (sub. DR96) noted:

By ceasing immigration, government will be in a much better fiscal position to address the infrastructure deficit, which will pay dividends in improved productivity, rather than falling ever behind. (p. 1)

Directing immigration to (less crowded) regional areas or charging immigrants for infrastructure costs were other suggestions made to reduce infrastructure problems. Better intergovernmental planning was also raised:

... the negative impacts of immigration could be managed with stronger intergovernmental planning and communication mechanisms, particularly between the Australian Government and State and Territory governments. (Settlement Services International, sub. DR109, p. 3)

As noted by Claus (sub. 15, p. 5) ‘the cost per person of infrastructure is difficult to estimate and varies widely in the literature’. Submissions to this inquiry include wide-ranging estimates of infrastructure costs — from \$21 000 to \$200–300 000 per immigrant.

Infrastructure provision and costs depend partly on the size of the immigrant population. Size can generate economies or diseconomies of scale. Where economies of scale occur, the increased efficiency means that immigration reduces average costs of infrastructure provision. Diseconomies of scale occur when increased costs due to congestion and pressure on resources raise operating costs per person.

Vargas-Silva (2015) states that the fiscal impact of immigration also depends, in part, on the level and quality of infrastructure in a country. For instance, countries with effective infrastructure, such as well-developed highways, can accommodate additional immigrants using this infrastructure at zero or little cost. But where infrastructure is close to maximum capacity, immigration requires the building of new roads.

Vargas-Silva does not consider the future costs of bringing forward infrastructure investment. For instance, even if there is excess infrastructure capacity, a fast-growing population will more quickly use up excess capacity than a slow-growing population. There is a net present value cost to government of bringing forward infrastructure to accommodate a fast-growing population.

Data on the marginal costs of additional infrastructure are generally not available. However, marginal costs will likely differ from average costs. In some instances, they will be lower than average costs; in other instances they will be higher. How this additional expenditure is apportioned to immigrants can be important in estimating the fiscal impact of immigration (Dustmann and Frattini 2013).

Infrastructure costs vary depending on the settlement patterns of immigrants and their expected infrastructure use, which are in turn affected by immigrants’ characteristics and behaviours. Assumptions about anticipated infrastructure use are therefore required to accurately estimate costs. Infrastructure investments are not always tied to population size. Changes in consumer preferences and regulatory requirements can also be important. So too can technological change. Information on past infrastructure spending may therefore not provide a good guide for estimating future costs. Other factors affecting costs include how infrastructure is financed and funded and how efficiently it is constructed. As noted in the Commission’s inquiry into public infrastructure (PC 2014c, p. 2), ‘Private financing is not a ‘magic pudding’ — ultimately users and/or taxpayers must foot the bill’.

Another complicating factor is how to treat existing infrastructure assets and liabilities in assessing immigrants’ infrastructure costs. Consideration also needs to be given to the economic and social costs of congestion if public infrastructure investments are not made. In a simple accounting framework of government revenues and expenses, underinvestment in infrastructure would appear to lower the fiscal cost per immigrant. And so maintaining

the quality and provision of infrastructure must also be factored into these calculations (just as improvements to infrastructure quality should be considered).

This chapter focuses on major government revenue and expenditure items that can be directly attributed to immigrants and to the Australian-born population. A reliable measure of infrastructure attributable to immigration is difficult to estimate. It should be noted, however, that apart from roads, most public infrastructure is subject to user charges, even though in many cases (such as public transport) the charges are insufficient to meet the operating and capital costs of the infrastructure.

Infrastructure is a genuine and significant expense of a growing population (notwithstanding the challenges of accurately attributing any costs to immigrants). Given the scale of the costs involved, accurately identifying these expenditures can materially influence the assessment of the net fiscal impact of immigration, particularly when this assessment considers fiscal balances across Australian, state, territory and local governments.

Some empirical studies

Various studies have attempted to analyse 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 gross domestic product (GDP). Whether the impact is positive or negative varies according to the characteristics of immigrants and other influences (box 9.2).

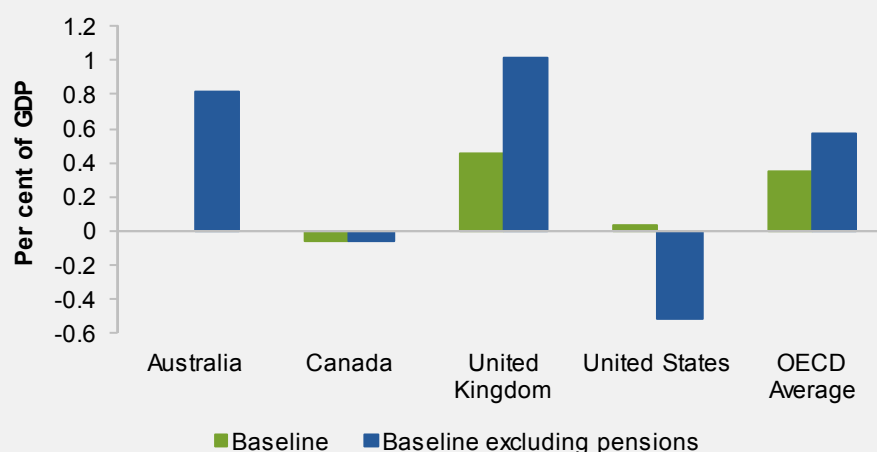
Fiscal impacts of demographic change

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 9.2). In contrast, taxable income is concentrated among those of working age and decreases significantly in retirement.

Box 9.2 International studies

The Organisation for Economic Co-operation and Development (OECD 2013a) found the overall fiscal impact of immigrants to be small for most OECD countries when estimated at a point in time (2007–2009).

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 (2013a).

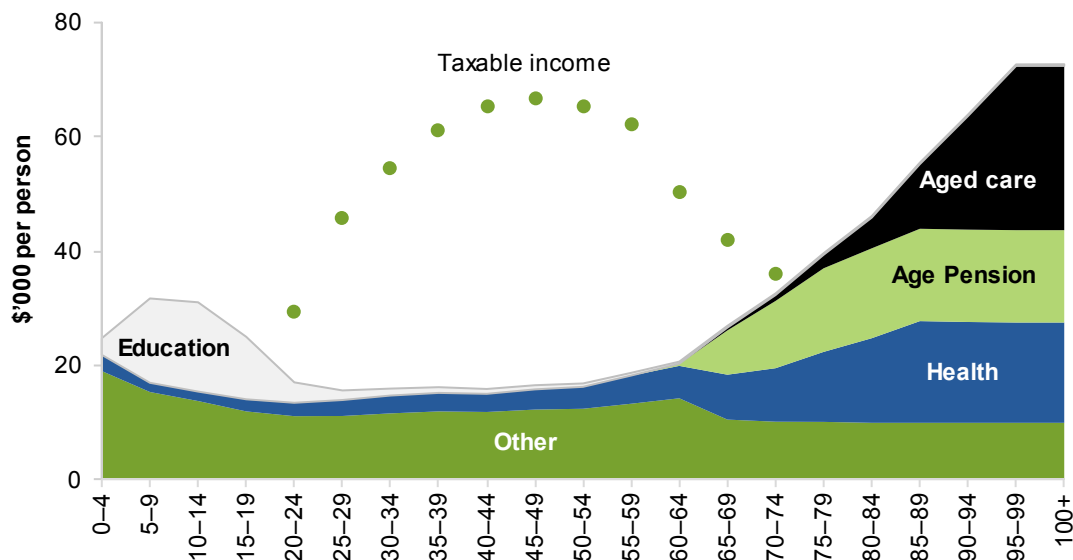
Differences in the fiscal impact across countries are strongly influenced by differences in the countries' welfare systems. The employment status of immigrants is particularly important in countries with generous welfare provisions. Welfare provisions magnify the fiscal costs when immigrants are unemployed, although this depends on their access to government assistance. Storesletten (2003) applies a lifetime net present value analysis to find that immigrants are less fiscally beneficial to Sweden's large welfare state than to the United States with its smaller public sector (Storesletten 2000).

International studies confirm the critical role that the composition of immigrants plays in determining fiscal impacts. Immigrants who arrive early in their working lives generally provide a positive fiscal contribution over their lifetimes as they spend longer in the destination country's workforce. The OECD (2013a) estimated that lifetime net present values turn 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, this is closer to 55 years. Skill level is also important. Skilled immigrants have higher earnings potential and so provide better fiscal returns than lower-skilled immigrants (Auerbach and Oreopoulos 2000; Storesletten 2000).

Fiscal impacts can also differ by the level of government. Lee and Miller (2000) found that immigration had a positive fiscal impact on the US federal government budget but a (smaller) negative impact on US state and local governments.

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 immigrants' share of the population) than estimates based on a 'marginal cost scenario' that has pure public goods set at zero and fully attributed to the local population.

Figure 9.2 **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).

Existing 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 short-term impact of immigration on state and territory budgets (box 9.3).

The model (referred to as the 'Migrants' Fiscal Impact Model') uses a direct accounting approach to estimate the fiscal impact of a group of newly-arrived immigrants. The latest version, Deloitte Access Economics (forthcoming), extends the model's detail and scope. Australian Government expenditures and revenues from an additional 1000 immigrants are projected for the next 50 years (extended from 20 years in previous versions of the model). Fiscal impacts are estimated by visa subclass and by primary and secondary applicants.

The Migrants' Fiscal Impact Model sources information on the characteristics of recent immigrants from the DIBP's *Continuous Survey of Australia's Migrants* and the Australian Bureau of Statistics' (ABS) *Australian Census and Migrants Integrated Dataset*. Unit cost information is primarily sourced from Australian Government budget papers.

Box 9.3 Fiscal impact studies on state and territory budgets

Access Economics (2002) examined the budgetary impact of permanent immigration on Australian states and territories. Similar to the Migrants' Fiscal Impact 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. Importantly, it only considers projections for a 10 year period, and so most new immigrants are of working age.

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 Migrants' Fiscal Impact Model, the strongest positive fiscal impact was for skill stream immigrants, followed by a marginally positive impact for family stream immigrants and a negative impact for 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 in a way that allows better management of 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. The prime working age of most immigrants results in a relatively low cost to government for their use of education and health services, at least in the short term.

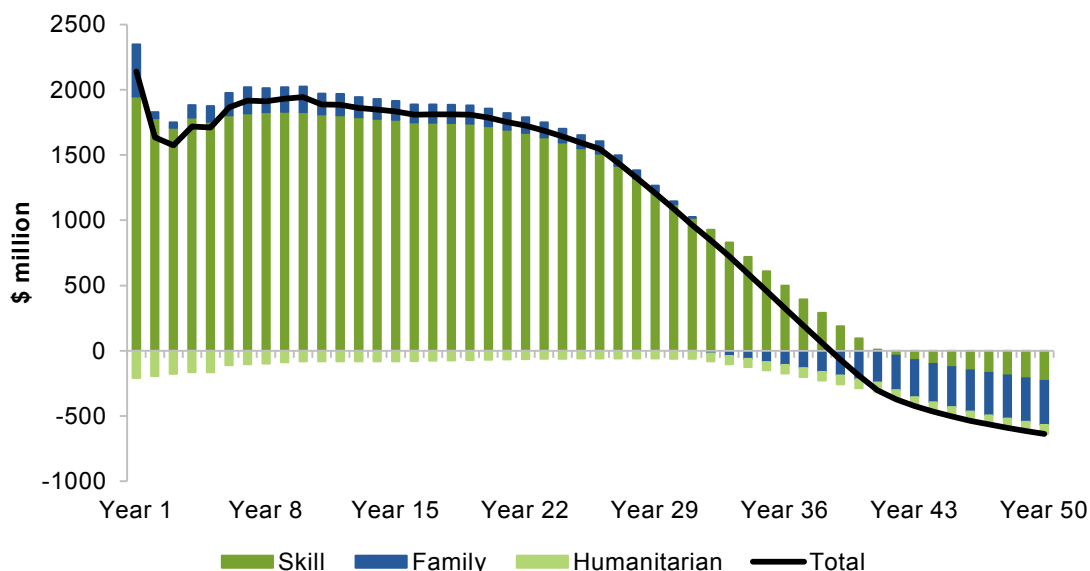
That said, these studies do not consider immigrants' net fiscal impacts over the entire life cycle and, therefore, largely omit the highest cost period for government.

The results indicate that, for a given cohort of permanent immigrants arriving in 2015-16, the net fiscal impact is expected to be positive overall (figure 9.3). However, fiscal impacts vary over time and by visa class. In the first 30 years of the projection the net fiscal benefits are considerable. However, in each year after year 38 of the projection, permanent immigrants are likely to have a net fiscal cost as the bulk of them have left the workforce and receive more government-funded services while in retirement. Lifetime net fiscal contributions are not estimated in the Migrants' Fiscal Impact Model.

The model projects that skill stream permanent immigrants will likely have a large positive impact during their working life. Within the skill stream, immigrants on employer-nominated visas are expected to provide the strongest fiscal returns due to their high labour force participation and earnings. Independent (points-tested) skill stream immigrants are also expected to provide positive fiscal impacts for most of the projection period, while immigrants on Business Innovation and Investment visas are expected to provide positive but lower fiscal returns.

Figure 9.3 The estimated net fiscal impact varies by visa category^{a,b}

Migrants' Fiscal Impact Model estimates of the 50 year impact on the Australian Government budget for the 2015-16 permanent migrant intake (\$ million)



^a Current prices. Excludes broader revenues and expenditures and temporary immigrants. ^b Assumes tax bracket indexation and an immigrant attrition rate of 1 per cent per annum.

Source: Productivity Commission estimates based on Deloitte Access Economics (forthcoming).

Net fiscal impacts for the family stream are likely to be positive for immigrants on partner visas but not for parent visas. Humanitarian arrivals are estimated to have a negative fiscal impact on average for the entire 50 year projection, owing to their expected low labour force participation and high use of government-funded services.

New Zealand immigrants are estimated to provide positive net fiscal contributions for most of the 50 year projection period. Temporary Work (Skilled) 457 visa holders are likely to provide a strong positive net fiscal impact in the relatively short time that they stay in Australia. This is due to their high expected earnings and limited access to government-funded services.

Primary visa holders are projected to have much stronger net fiscal contributions than secondary applicants (often spouses or dependent children). Skill stream permanent immigrants have the largest disparity in fiscal impacts between primary and secondary applicants. For instance, at year 20 of the projection, a skill stream primary applicant is estimated to provide almost \$21 000 to the net budget position, while a secondary applicant is expected to provide \$5800. This reflects the higher rate of labour force participation and earnings of skill stream primary visa holders relative to secondary

applicants (who under the current system do not have their skills assessed as part of granting skill stream visas).

The Migrants' Fiscal Impact Model can estimate the fiscal impact of immigrants' descendants who are born in Australia. Including descendants is likely to marginally decrease the positive net budget position in the early years of the projection as it captures the Australian Government costs of education and health in the childhood phase. However, as these descendants enter the workforce, the net budget position is likely to become more positive. The model projects that the descendants of immigrants will likely offset the fiscal costs of ageing on the initial immigrant cohort, at least in the 50 year projection period.

FINDING 9.1

While small as a share of gross domestic product, the net fiscal impact of immigration depends primarily on the composition of the migrant intake and the time period on which the assessment is made. Amongst other benefits, selecting immigrants who are relatively young, healthy, skilled and proficient in English will lead to a more positive fiscal outcome as these immigrants tend to pay higher lifetime taxes and have a lower propensity to consume government-funded services.

There are limitations to the Migrants' Fiscal Impact Model

The Migrants' Fiscal Impact Model has several important limitations. While some are due to a lack of reliable information, others reflect (necessary) simplifying assumptions.

- Limited data are collected on temporary immigrants, especially New Zealanders, and longitudinal data on permanent immigrants are only available for a short period. In the absence of other data, the model assumes that most immigrants' outcomes and use of government-funded services eventually converge to the age-based averages of the Australian population. An important exception is that observed gaps in labour force participation rates, employment rates and income between immigrant groups and the Australian population are assumed to persist over the entire projection period. This assumption differs from the 10 year convergence assumption in previous versions of the model and it prolongs the fiscal impact disparities between immigrant groups over the projection period.
- The model's 50 year projection does not capture the entire life cycle of the immigrant cohort. Some immigrants who arrive at relatively young ages in year 1 of the projection will not have reached the highest cost period for government by year 50. The shorter projection may give different fiscal impacts than estimating different groups' net fiscal impacts over their entire lifetime (Cully 2012). Shorter projections are likely to be less useful from an immigration policy perspective than lifetime fiscal modelling.

-
- The fiscal impacts of descendants are allowed for in the model. However, the 50 year projection period means that it does not capture the full revenue and expenditure impact of these children of immigrants.
 - Model estimates are based on the net impact of recently-arrived permanent immigrants. The model can also include New Zealand immigrants and Temporary Work (Skilled) 457 visa holders. However, it does not include other major temporary immigrant groups, such as international students and working holiday makers. Older cohorts of immigrant arrivals are not included in the model.
 - The model focuses on Australian Government revenue and expenditure items that can be directly attributed to immigrants. Broader revenues and expenditures can also be incorporated in the model. However, the model does not consider immigrants' fiscal impacts on state, territory and local governments.

A closer examination

The remainder of this chapter examines the fiscal implications associated with immigration in Australia in more detail. Fundamental to this examination is whether immigrants differ from the Australian-born population in paying taxes and using government-funded services. 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.

9.2 Immigrants' contribution to government revenue

As noted earlier, like other Australians, immigrants 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. Also included are 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-funded 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 (chapter 15), where there are limited data, or where revenues 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 salaries or wages, investments, government income support and business income. Earnings from salaries and wages dominate, comprising about 81 per cent 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 2015j).

Immigrants' contribution to government revenue through income tax is predominantly a function of their ability to secure employment and earn an income. It also depends on how long they work while in Australia.

As noted in chapter 5, labour market outcomes vary by immigrant category. Earnings are 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 ABS has recently linked unit record data from the Australian Taxation Office's personal income tax records with the Australian Government's Settlement Database of permanent immigrants to Australia. The resulting linked data set is 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. 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 or 2010-11 financial years. 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, PITMID is likely to underrepresent immigrants in younger and older age groups, females, secondary visa applicants and humanitarian arrivals. The estimated average taxes paid will therefore be higher than if it also included the non-taxpaying immigrant population.²

Estimated tax revenue varies by immigrant category

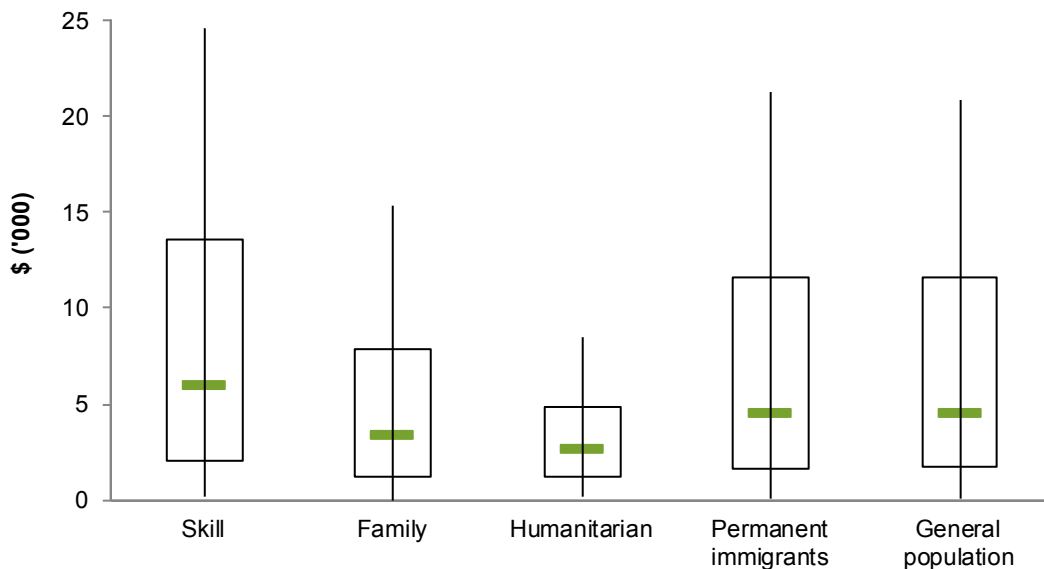
Summary findings of PITMID show that the total declared income of permanent immigrant taxpayers in the 2009-10 financial year was \$37.7 billion. Almost 55 per cent of permanent immigrant taxpayers were males and three-quarters were primary visa applicants (ABS 2015j).

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 paid more in (median) income tax relative to the general population, whereas family stream and humanitarian immigrants paid less (figure 9.4).

² 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 were made for 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).

Figure 9.4 Skill stream immigrants pay more tax than other immigrants^{a,b}

Estimated income tax paid by those who submitted a tax return, 2009-10



^a Immigrants refers to those aged 15 years and over with a permanent visa who arrived from 1 January 2000. ^b Green bars represent the median income tax paid. Black boxes indicate 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.

Primary and secondary applicants had substantial differences in the median amount of tax paid, particularly in the skill stream. Skill stream primary applicants paid about \$8100 in income tax compared with about \$3200 for secondary applicants. Smaller differences were apparent in the family stream (\$3500 for primary applicants; \$1900 for secondary applicants) and humanitarian arrivals (\$2900 for primary applicants; \$2300 for secondary applicants).

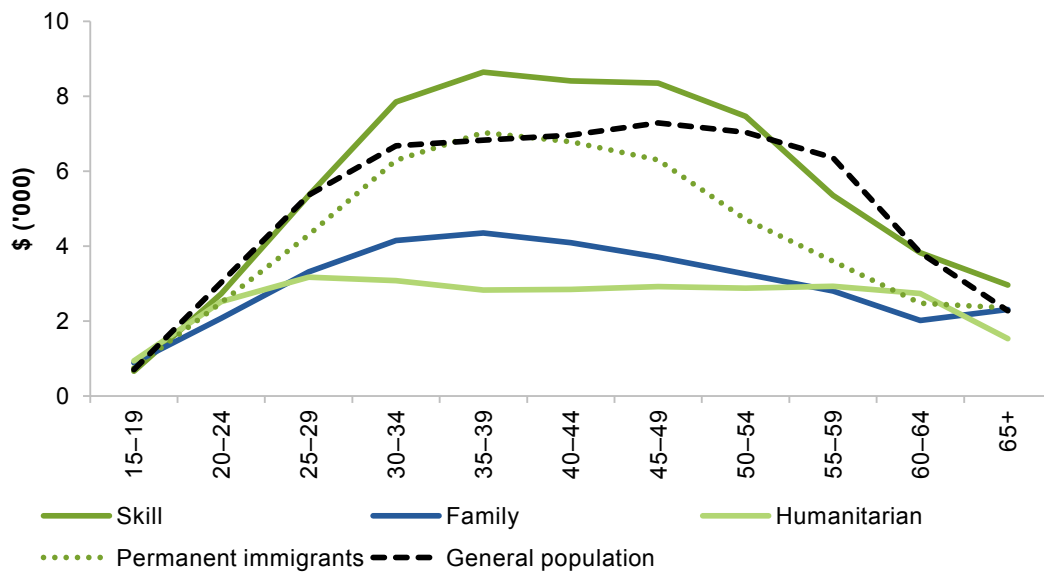
There was also a high variation in the amount of income tax paid for different visa categories in the skill stream. Immigrants on employer-nominated and independent (points-tested) visas generally paid more income tax than those on investor and business skills visas. In contrast, family stream and humanitarian immigrants have a much lower variation in income tax paid, although these groups still paid, on average, higher (median) taxes than skill stream investor visa immigrants.

Age is an important factor affecting the amount of tax paid. The estimated median tax paid by recent permanent immigrants was highest for the 35–39 year old age category (\$7000). For the general Australian population, it was highest for 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 9.5).

It should be noted that PITMID only collects tax information for immigrants who arrived within the decade. 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 2015j). 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.

Figure 9.5 Prime-age skill stream 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 from 1 January 2000.

Sources: Productivity Commission estimates based on ATO (2015) and ABS *Personal Income Tax and Migrants Integrated Dataset*, unpublished data.

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 revenue, particularly the Temporary Work (Skilled) (subclass 457) visa holders who are in employer-nominated positions and by definition in employment.

There is generally less information on temporary immigrants in terms of earnings and taxes paid. Deloitte Access Economics (forthcoming) estimates that, on average, Temporary Work immigrants pay the highest rates of tax per immigrant. This is not surprising given that they tend to fill skilled positions and are bound by a minimum salary requirement.

International students who work part time and working holiday makers can also contribute to tax revenue. The latter group will be subject to changes in the tax residency rules from 1 July 2016 and will not be eligible for a tax-free threshold. The Australian Government expects this change to generate \$540 million in tax revenue in the next three years (Australian Government 2015c). However, the actual revenue received will depend on how working holiday makers respond to the tax changes. A submission to this inquiry (United WHY, sub. DR94, p. 12) claimed that ‘... removing the tax-free threshold will *encourage* growth in [the] cash-in-hand job market’ which, if true, would result in decreased tax revenue for the government (chapter 11). The actual outcome will depend not only on these incentive effects (which could reduce the number of working holiday makers arriving in Australia) but also compliance monitoring and enforcement, including through the use of data matching by the tax authorities.

Immigrants and indirect taxes

Immigrants 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 2015k). Revenue is also collected through other taxes such as property taxes, stamp duties, payroll tax and gambling taxes which form an important source of state, territory and local government revenue. Revenue from these taxes depends on immigrants’ spending patterns that are based on their disposable income and consumption preferences.

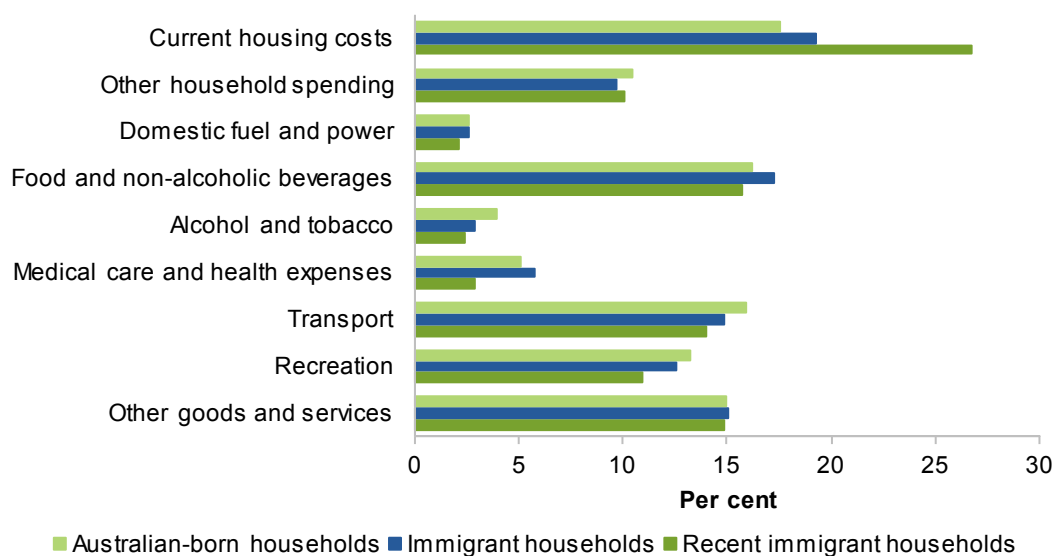
Immigrant households have similar consumption to non-immigrant households

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 2015i). However, there is significant diversity within immigrant households. Households where the reference person was an immigrant born in a main English-speaking country have higher average disposable incomes. They also 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. But this reflects the larger average size of recent immigrant households, which more often includes dependent children and non-family groups.

... and GST revenue is likely to be similar

Household expenditure follows a similar pattern for Australian-born and immigrant households overall. GST revenue is therefore likely to be similar across these households. However, immigrant households, particularly recent immigrant households, tend to spend less on items that attract excise tax — such as fuel, alcohol and tobacco (figure 9.6).

Figure 9.6 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, 3415DS0061 Migrants, Survey of Income and Housing and Household Expenditure Survey, 2009-10).

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 2015i). Home ownership rates (including those with a mortgage) are similar for immigrant and Australian-born households. Overall, this suggests that the average home-owning immigrant household could generate more in property tax revenues than the average home-owning Australian-born household. However, contributions to stamp duty

and property tax revenues also depend on the value of properties and the frequency that properties are traded.³

Despite the varying incomes among different immigrant households, income and consumption patterns are similar on average for Australian-born and immigrant households. Immigrants therefore appear, on average, to generate similar indirect tax revenue shares as the Australian-born population. However, household income and expenditure data may conceal differences between these groups at an individual level.

9.3 Immigrants' use of government-funded services

Like other Australians, immigrants can be expected to make use of services funded by governments over their lifetime in Australia. Their use of these services will differ depending on their 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 9.4). Temporary immigrants have lower access to government-funded services and supports.

Only government expenditure items that are directly used by immigrants are examined here. As discussed earlier, infrastructure is another major government expenditure item, but its costs cannot easily be attributed to immigrants and non-immigrants. A focus on directly attributable government expenditure items still enables a detailed insight into the use of government-funded services by different immigrant groups and compared to the general population.

Immigrants and social security and welfare

Government provision of social security and welfare is the largest expenditure item for the Australian Government — representing more than one-third of all Australian Government spending, at about \$154 billion in 2015-16 (Australian Government 2015d). Most government funding is through direct payment of income support in the form of pensions and allowances. Government also funds welfare services to assist individuals in areas such as employment services, disability, child care and aged care (box 9.5).

³ According to 2011 Census data, the proportion of people who changed residence was similar for immigrants and the Australian-born population (chapter 4).

Box 9.4 Immigrants' access to government-funded services varies

Temporary immigrants and people on bridging visas have limited access to most government-funded services and are often required to take out health insurance.

New Zealand citizens on the Special Category visa have immediate access to family payments and Medicare benefits, but face various limitations on access to social security. Additional access to services can be granted depending on how long they have been in Australia.

Permanent immigrants' access to services differs by visa category. Humanitarian arrivals have immediate access to all services. Skill and family streams are subject to a two-year waiting period, after which they can access most income support and employment services. A 10-year qualifying period of living in Australia is required for the age and disability support pensions (unless onset of disability occurs while they are an Australian resident). However, some family payments have no waiting periods. Medicare and public school education are available to all permanent residents, but government student loans are generally not available to non-humanitarian immigrants without gaining Australian citizenship. Commonwealth supported places that subsidise higher education fees are only available to domestic students, which can include permanent immigrants and New Zealand citizens who enrol in Australian universities.

Some pensions and subsidised health care are provided to immigrants under reciprocal international social security and health care agreements.

Immigrant eligibility for government-funded services

<i>Expenditure item</i>	<i>Temporary</i>	<i>Permanent</i>
Social security and welfare		
Income support allowances	x ^a	✓ ^b
Income support pensions	x	✓ ^c
Family payments (child care and family tax benefits)	x ^d	✓
Housing assistance	x	✓
Employment services	x	✓ ^e
Disability support services	x ^f	✓ ^g
Aged care services	✓ ^h	✓
Health		
Medicare, Pharmaceutical Benefits Scheme	x ⁱ	✓
Education		
Public schools	✓ ^j	✓
Commonwealth supported places	x ^k	✓
Student loans (HECS-HELP / FEE-HELP / VET FEE-HELP)	x	x ^l

^a Available to some temporary humanitarian arrivals. ^b Non-humanitarian arrivals are subject to a two-year waiting period. ^c Non-humanitarian arrivals are subject to a 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 require Australian citizenship. ^h Not intended for visitors to Australia or people requiring temporary or short-term care. ⁱ Restricted access to health cover for residents of countries with reciprocal health care agreements and some temporary humanitarian arrivals. ^j User charges required for selected temporary visas in some jurisdictions. ^k Available to New Zealand citizens. ^l Available to permanent humanitarian visa holders. FEE-HELP may be available to non-humanitarian permanent visas for bridging courses.

Sources: Australian Government (2015d); DHS (2013a, 2013b, 2014, 2015a, 2015b, 2015c); DSS (2015c); NDIS (2015); PC and NZPC (2012).

Box 9.5 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' service 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, and in some cases may use more informal arrangements. However, others may not use these services due to their beliefs about who should be responsible for raising young children. Other reasons include 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 9.1). In contrast, recent humanitarian immigrants have a high take-up of unemployment benefits. Humanitarian immigrants often require more intensive (and costly) employment services to address barriers to their labour market participation. Overall, immigrants' use of employment services in the longer term will depend on their labour market outcomes.

Disability services are a growing area of government expenditure. Total government expenditure on disability services was \$8 billion in 2014-15. Recent immigrants were less likely to report requiring assistance with core activities — an indicator of disability — than the general population (figure 9.9). This appears to reflect the 'healthy immigrant effect' (box 9.6). Evidence suggests that among those eligible for disability services, people born in non-main English speaking countries had lower usage rates.

Aged care services are a significant area of government expenditure for people older than 80 years (figure 9.2). Total government expenditure on aged care services was \$15.8 billion in 2014-15. Use of these services among immigrants will increase with the changing composition and population of immigrants. Current usage rates of government-funded aged care 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. However, they are overrepresented in home and community care where they are supported by family and cultural groups.

Sources: AIHW (2013); PC (2011d, 2014a); SCRGSP (2016).

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.⁴

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 it could discourage those with poorer job prospects but encourage 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 these 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 Migrants Integrated Dataset* for permanent immigrants.⁵ These analyses suggest 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 9.1).

Take-up rates of income support vary substantially by visa category. But take-up rates do not vary much between recent permanent immigrants and the general population across the age distribution (figure 9.7).⁶

Humanitarian immigrants aged 15–64 years, who have immediate access to income support, had a 65 per cent take-up rate of income support. In contrast, family stream immigrants had a 13 per cent take-up rate. Immigrants in the skill stream were far less likely to be on benefits, with only 3 per cent on income support. Among those receiving benefits, immigrants in the skill stream tended to have shorter durations on income support than immigrants from the family stream and humanitarian program. Immigrants in the skill stream and on income support were also less likely to be on full rates of income support or receiving (more expensive) pensions relative to other immigrant groups and the general population.

⁴ 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 2015q).

⁵ As estimates are sourced from multiple databases, errors may occur and the results should be treated with caution.

⁶ 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.

Table 9.1 Income support by immigrant category, 2011^{a,b}
Share of population on income support and average daily payment rate

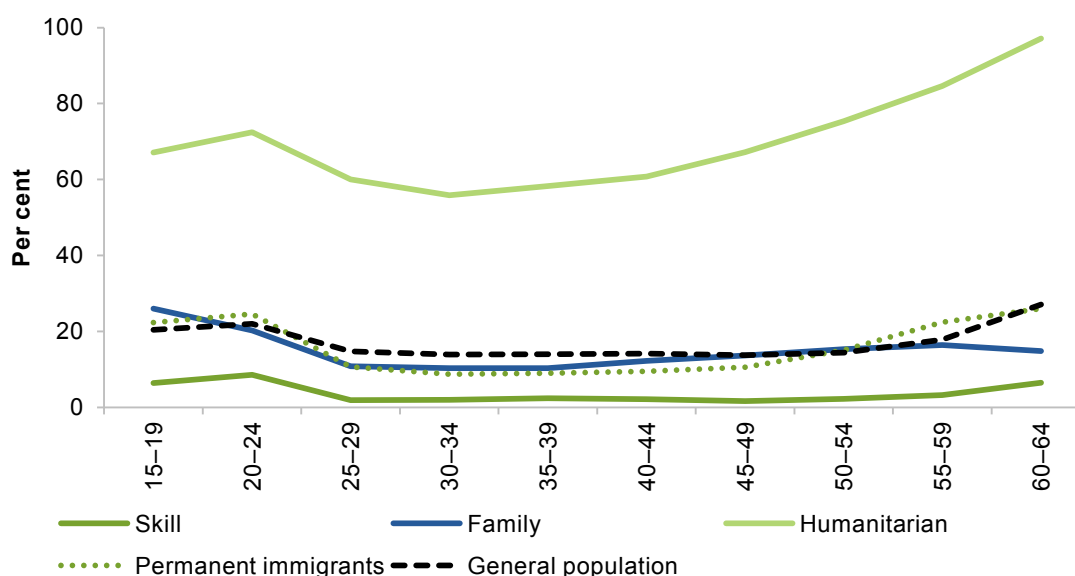
Category	Proportion receiving any form of income support	Proportion receiving unemployment benefits	Average daily income support payment ^c
	%	%	\$
Permanent immigrants	13	4	29
Skill	3	1	25
Family	13	4	30
Humanitarian	65	24	30
General population	17	4	33

^a Immigrants who arrived between 1 January 2000 and 2011 Census night. ^b Proportion aged 15–64 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.

Figure 9.7 Skill stream 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.

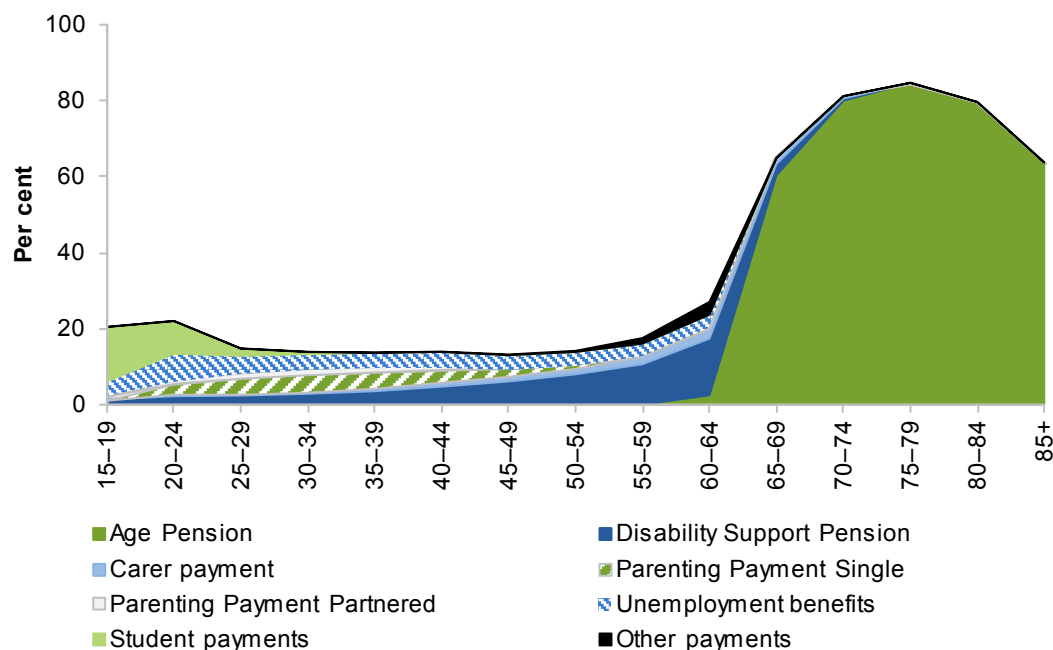
Restricting analyses to immigrants (aged 15–64 years) who arrived between 2000 and 2008 — and who were beyond the two-year waiting period — slightly increases the take-up of income support for non-humanitarian immigrants in 2011. But this is more than offset by the reduced take-up of income support by humanitarian arrivals (down 6 percentage points to 59 per cent). Humanitarian employment outcomes therefore appear to improve in the years after arrival.

The Age Pension is a significant and growing cost to government

As permanent immigrants become eligible to access the Age Pension (and do not need to have built up a superannuation contribution history), income support take-up rates can be expected to increase and may converge to the general population (figure 9.8). However, the extent to which this will occur for recent immigrants is uncertain. It will depend on their income and the extent to which they make provisions for retirement. In part, this will depend on their labour market outcomes. Young skilled immigrants, who have high rates of employment and a long period to contribute to superannuation, can therefore be expected to draw less on income support later in their life.

Figure 9.8 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.

At present, the Age Pension is the single largest income support expenditure item. The estimated cost in 2015-16 is \$44 billion (Australian Government 2015d). This is set to increase as the population ages, although the share of self-funded retirees will increase over time. Nonetheless, pension payments are likely to remain a substantial component of future government outlays.

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 (section 9.4).

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 2013-14, total government expenditure on health for Australian, state and territory governments was \$104.6 billion. The Australian Government accounted for about 61 per cent of this expenditure (SCRGSP 2016).

Permanent immigrants have similar access to Medicare and other subsidised health services as do Australian citizens. Most temporary immigrants do not have access to such government funding. But 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 recent analyses of the fiscal impact of immigration assume that, on a per person basis, (age-specific) health expenditure patterns are the same for immigrants and the general population (Deloitte Access Economics forthcoming; PC 2006).

Similar assumptions have informed the design of specific visa subclasses. For example, the expected future health costs of aged immigrants were calculated to inform the Contributory Aged Parent visa (AGA 2002, 2008). This analysis 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 (chapter 13). The estimates did not account for any potential differences in 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.

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 9.6). However, in 2015 the Commonwealth Grants Commission analysed data on health services in Victoria and concluded that the net effect of country of birth on health expenses was 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. 549)

Box 9.6 The ‘healthy immigrant effect’

The ‘healthy immigrant effect’ refers to where immigrants, or certain groups of immigrants, use health services less frequently than the general population.

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. This is thought to improve the relative health status of immigrants in Australia. Other explanations for the healthy immigrant effect are that new immigrants have relatively healthy behaviours prior to migration. Or that the self-selection of immigrants is based on their health and wealth. The ‘salmon effect’ may be another reason, whereby less healthy or less successful immigrants return home (Kennedy et al. 2015). The appearance of the healthy immigrant effect may also reflect an underreporting of medical conditions, either because of differences in health perceptions across cultures or because conditions are undiagnosed (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 2015a). Recent immigrants were also less likely to report having long-term health conditions or disabilities. Two factors explain this:

- 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 include people who arrived in Australia under a very different regulatory framework — one that focused more on family immigration than skilled immigration. Recent immigrants are more likely to have arrived on skill stream visas.

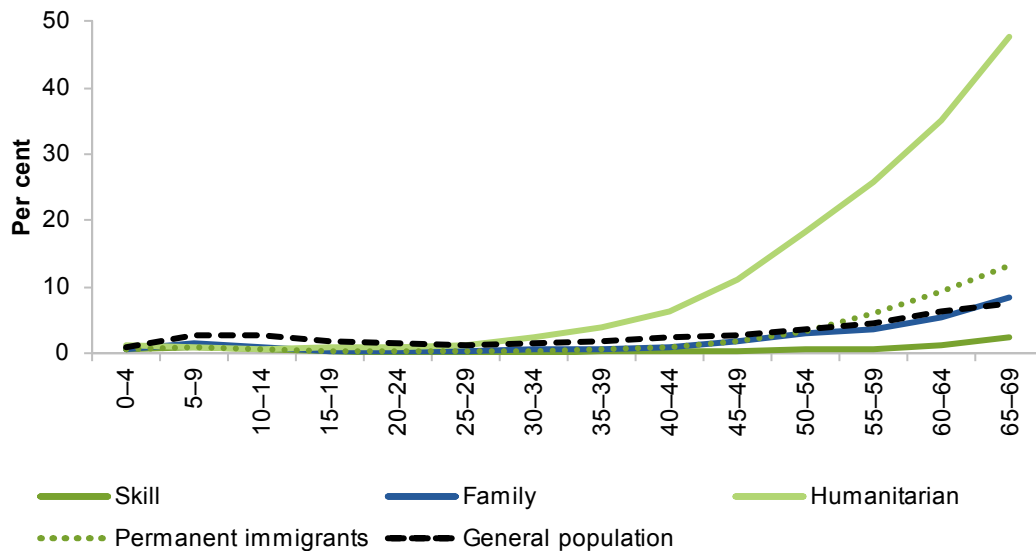
Chiswick et al. (2008) examined the self-reported health status of recent permanent immigrants over time using the *Longitudinal Survey of Immigrants to Australia*. Their analysis found that health status varies by immigrant group. Skill stream immigrants had better health than the family stream. Humanitarian arrivals had the poorest self-reported health. This pattern became weaker once other factors were included in the model (such as age, gender, educational attainment and English proficiency). The self-reported health status of immigrants worsened over the three year period analysed. The authors argue that this reflects, in part, the selection of healthy immigrants. They also suggest that immigrant health status regresses to the mean with their duration in Australia (which may reflect adjustments to a new climate, diet and lifestyle).

Immigrants report a lower incidence of disability

An indicator of disability and health services usage is the share of the population who report requiring assistance with core activities. This varies by immigrant category and increases with age. A much higher share of humanitarian arrivals aged 30 years or older reported this indicator of disability. However, few recent skill stream and family stream immigrants reported this status relative to the general population (figure 9.9).

Figure 9.9 **Non-humanitarian immigrants report a lower incidence of disability^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).

... but Medicare spending is similar by age

A key feature of Australia’s health system is access to Medicare. An analysis of Medicare services and spending data for 2011-12 shows that immigrants (both recent and non-recent) used slightly fewer Medicare services than the Australian-born population. Immigrants also had a lower relative cost per user (table 9.2).

Table 9.2 **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	14.6	767	53
Non-main English speaking country	16.8	861	51
Recent immigrants ^a	13.5	658	49

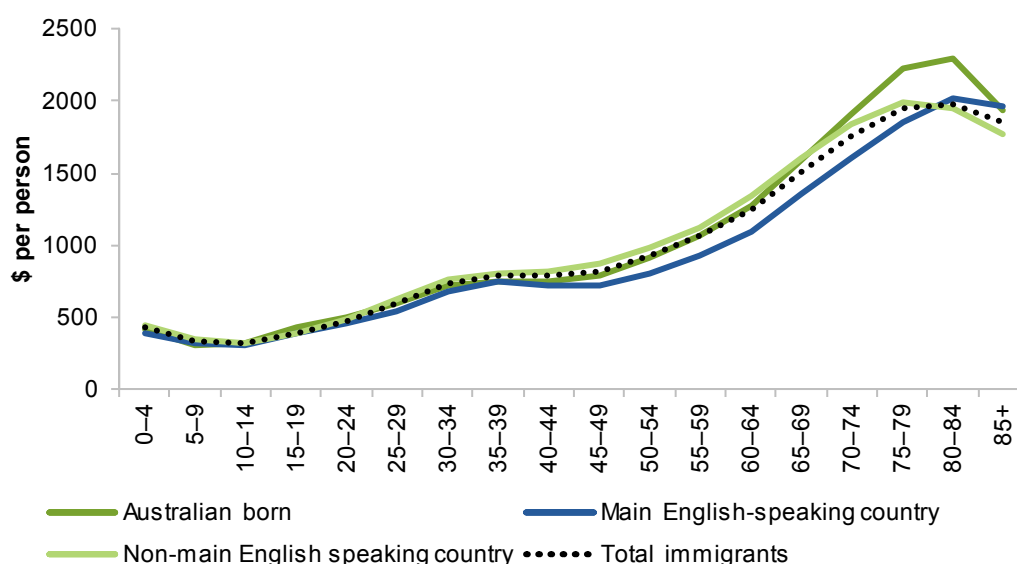
^a Recent immigrants who arrived on or after 1 July 2010.

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 than for the Australian-born population during working age. But spending is comparatively lower for immigrants beyond 60 years of age (figure 9.10).

Figure 9.10 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 main English-speaking countries had lower use of Medicare benefits per person relative to the Australian-born population. In contrast, immigrants from non-main English speaking countries had slightly higher spending (during working age). This pattern is consistent for males and females. Higher Medicare spending may reflect the poorer health and nutrition in some non-main English speaking countries. It may also signal the immigrants' characteristics, such as humanitarian arrivals.

Immigrants and education services

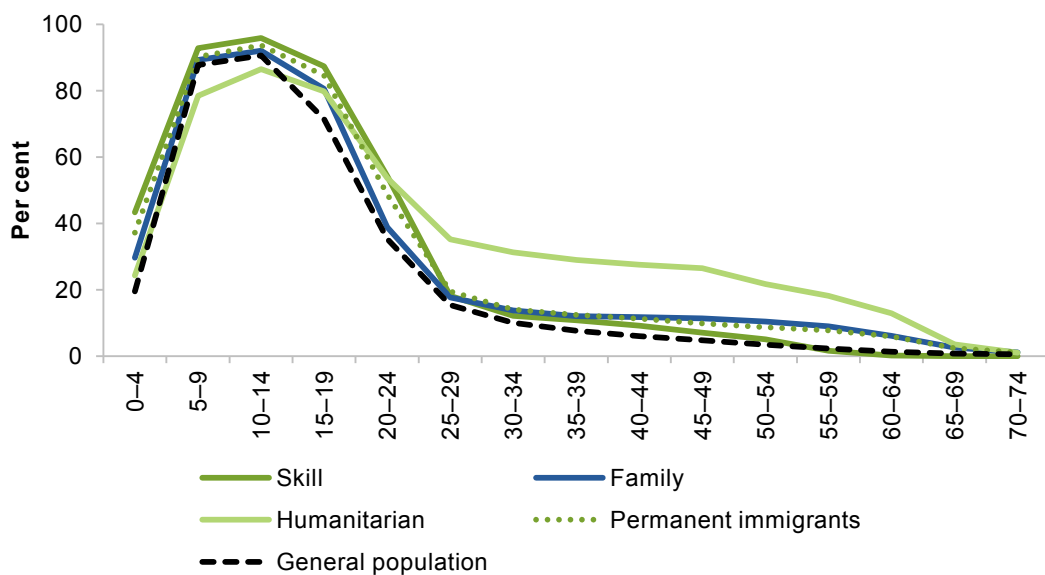
Most immigrants arrive in Australia as adults and are less likely to consume government-funded education services. This is particularly apparent for primary and secondary schooling, where government provides the largest share of funding. This

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 future descendants. However, temporary immigrants often pay the full cost of their education.

Permanent immigrants arriving between 2000 and 2011 had a proportionally higher consumption of education relative to the general population. This occurred across all age groups but was particularly prominent for those beyond secondary education. This might reflect immigrants who update their training, attend English-language classes or find they need Australian-recognised training qualifications (figure 9.11).

Figure 9.11 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).

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 2013-14 was \$50.4 billion, of which \$38.5 billion was spent on public schools. Almost three-quarters of school education spending was by state and territory governments. In 2013-14, the average cost per full-time student in government schools was approximately \$16 200 (SCRGSP 2016).

... but use differs by immigrant group

Immigrants may differ from the general population in their education costs. Some immigrants arrive in Australia with low English proficiency, especially humanitarian arrivals. This group are also more likely to be of school age. Government-funded programs are available 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.

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.

The Commonwealth Grants Commission (2015) notes that immigrants from a culturally and linguistically diverse background are a heterogeneous group. Some immigrants attract higher than average education spending. Others attract lower than average spending. The net effect is unclear.

Government expenditure on schools differs by the type of school attended. Users of non-government schools pay a higher share of the personal costs of schooling relative to government schools. Overall, a higher proportion of school-age permanent immigrants attended a government school (68 per cent) relative to Australian-born children (63 per cent). Government may therefore incur a greater cost per school-age immigrant, although this varies by immigrant category (table 9.3).

Table 9.3 School-age immigrants tend to use public schools^a
Type of school attended by immigrant category, 2011

<i>Category</i>	<i>Government school</i>	<i>Catholic school</i>	<i>Other non-government school</i>
	<i>%</i>	<i>%</i>	<i>%</i>
Permanent immigrants	68	16	15
Skill	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. The Australian Government provides subsidised student loans (HECS-HELP and FEE-HELP for university courses and VET FEE-HELP for vocational education and training courses). These loans are generally not available to immigrants unless they have become Australian citizens or hold permanent humanitarian visas. Commonwealth supported places that subsidise higher education fees are only available to domestic students (which can include permanent immigrants and New Zealand citizens who enrol in Australian universities).

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 incurring expenditure.

9.4 The Commission's modelling of lifetime fiscal impacts

In response to the terms of reference and the existing analytical gap in evaluation of the fiscal impacts of different categories of immigrants, the Commission has developed a framework to project the *lifetime* fiscal impacts of immigration. Modelling is based on observed net overseas migration (NOM) for a cohort of recent immigrants.⁷ The model includes demographic profiles for each immigrant group, and the major Australian, state and territory government revenues and expenditures that are associated with immigrants. The model projects annual flows of revenues and expenditures over 100 years (2015 to 2114) which are discounted to estimate net present values of lifetime fiscal impacts per average immigrant by age on arrival and visa type.

The Commission's framework for modelling fiscal impacts differs from existing Australian fiscal impact studies (such as Deloitte Access Economics (forthcoming)). In particular, the Commission's modelling is based on a 100 year projection rather than the 50 year projection used in the Migrants' Fiscal Impact Model. It therefore captures a period in immigrants' lives when they are not working and tend to incur large health and social security expenses.⁸ However, the two models are similar in that they both assume that current policy settings continue to apply.

⁷ A four-year average of recently observed NOM is taken on account of variability in the composition of the migrant intake. Net present values are provided only for a single cohort of immigrants, rather than the cumulative impact of successive NOM intakes or subsequent generations.

⁸ The Commission's modelling also assumes immigrants' labour force participation rates and employment rates will converge to the (age- and gender-specific) general Australian population, while the Migrants' Fiscal Impact Model assumes that these gaps will persist over the entire projection period. In the Commission's modelling, revenue growth is tied to expected growth in GDP; the Migrants' Fiscal Impact

Some key caveats

The Commission's model, while based on extensive data, contains several important assumptions and limitations that are relevant for interpreting the results (box 9.7). Details of the model can be found in technical supplement D.

Net present values of lifetime fiscal impacts, as estimated in this model, reflect current fiscal policy settings. Any significant changes to government policy (for instance, to the Age Pension) will affect these estimates.

Given that changes to policy settings would have implications for estimates of net present values in absolute terms, the Commission's model is best used to illustrate the *relative* patterns of lifetime fiscal impacts among immigrant groups. Changes to the tax system or to the provision of government-funded services are unlikely to change these patterns (unless government policies target specific visa types).

The Commission's framework can also be used to derive estimates of lifetime fiscal impacts in absolute terms. However, further work would be required to develop more precise estimates of absolute net present values. This would require assumptions on how best to apportion immigrants' shares of government expenditure that is not easily attributable to immigrants (such as public infrastructure) and better data on immigrants' use of government-funded services over their lifetimes.

Age on arrival is a key determinant of lifetime fiscal impacts

The Commission's modelling points to age on arrival as the most critical determinant of lifetime fiscal impacts. The projections indicate that permanent immigrants who arrive at a young age (and who have their full working lives ahead of them) are likely to have more favourable lifetime fiscal impacts than those who arrive at an older age, other things being equal (figure 9.12).⁹ A similar pattern would apply for the general Australian population if they were to 'arrive' in Australia at different ages. However, this is not relevant from a policy perspective because, unlike prospective immigrants, the government has no control over the age at which existing Australians arrived or were born in Australia.

Permanent immigrant groups have different projected lifetime fiscal impacts. Immigrants in the family and humanitarian streams are likely to have lower average net fiscal returns relative to those in the skill stream (who tend to pay more tax). Within the skill stream, primary applicants have better fiscal outcomes than secondary applicants (spouses and dependents). This reflects the better labour market characteristics of skill stream primary applicants, who on average have better expected fiscal impacts by age on arrival than the resident Australian population.

Model assumes revenue growth is independent of GDP growth. The Commission's modelling includes state and territory government items while the Migrants' Fiscal Impact Model does not.

⁹ For immigrants whose age on arrival is beyond 60, net present values 'bottom out' and become less negative. Immigrants who arrive at older ages have less time to consume health and social security expenditures over the remainder of their lives in Australia.

Box 9.7 Main assumptions and limitations of the Commission's fiscal model

Model assumptions

- The model assumes no further change to government policy settings beyond what has been legislated.
- Age and gender distributions are applied to each visa category. Demographic and labour market characteristics of permanent immigrants are based on the *Australian Census and Migrants Integrated Dataset*. For temporary immigrants, these are based on the *Characteristics of Recent Migrants* survey, the *Census of Population and Housing* and departmental administrative data. Median income tax revenues are based on the *Personal Income Tax and Migrants Integrated Dataset* and Australian Taxation Office data.
- Tax revenues are held constant as a share of GDP (consistent with the Intergenerational Report). Company tax, GST, and excise taxes are applied equally on a per capita basis.
- Unit costs of government expenditures are based on the Commission research paper, *An Ageing Australia* (PC 2013a). Immigrants' take-up of health, education and social security services differs by visa category. Temporary immigrants are assumed not to use these directly attributable government-funded services.
- Immigrants' take-up of government-funded services is assumed to converge (linearly) to Australian averages (by age and gender) after 10 years. Immigrants' labour force characteristics are assumed to converge at different rates to reflect their varied human capital and the speed to which they integrate into the Australian labour market (chapter 5).
 - In the skill stream, primary applicants are assumed to converge (down) to Australian averages after 30 years while secondary applicants converge (up) after 10 years. Family stream immigrants are assumed to converge (up) after 15 years while humanitarian arrivals converge (up) after 20 years.
- Emigration rates (the proportion of the NOM intake leaving Australia per year) differ by visa category, but for all permanent immigrants, are assumed to be 1 per cent per year over the projection period.
- In line with other Commission modelling for this inquiry, the real discount rate is set at 3 per cent. Government revenues and expenditures undergo indexation across the 100 year projection period.

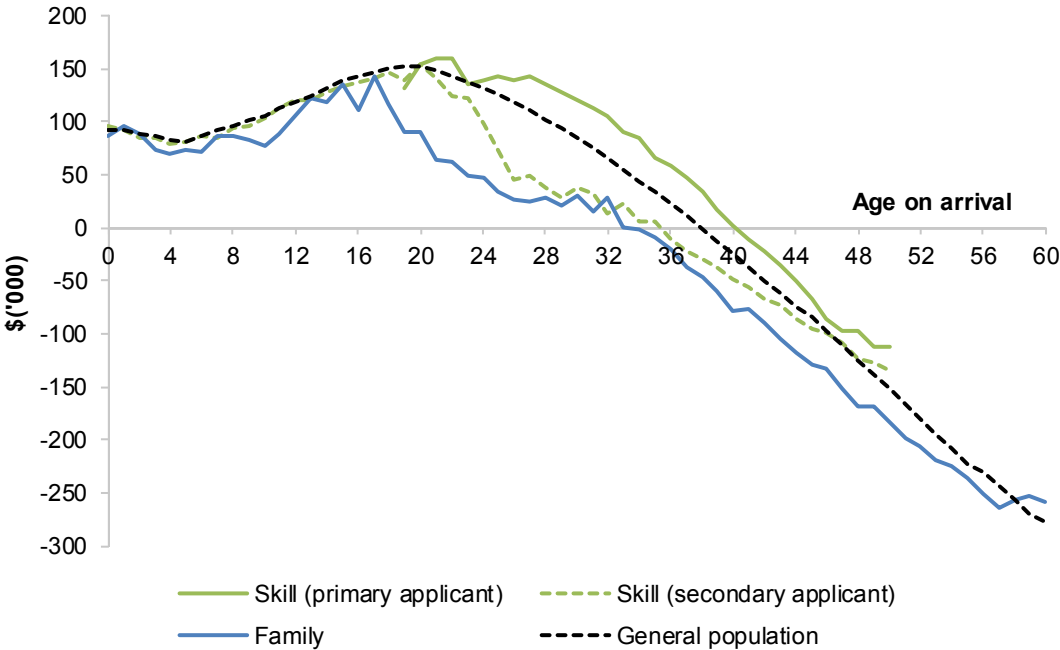
Model limitations

- The model includes most Australian, state and territory government revenues and expenditures that can be directly attributed to immigrants. It does not include relatively small areas of government revenue and expenditure (such as visa charges and settlement services) or items that cannot be easily attributed to immigrants (such as property and payroll taxes, and public infrastructure costs). Local government revenues and expenditures are also excluded.
- The model does not separately account for differences in occupation or skill level.
- General equilibrium considerations are not accounted for in the model. There is no interaction between immigration and the labour market, productivity or output growth. The model does not directly estimate the economywide and demographic impacts of immigration. Modelling using a broader general equilibrium framework is detailed in chapter 10.

As expected, the optimal lifetime net present value tends to occur when an immigrant arrives early in their working life. Arriving early in working life maximises the time spent paying income tax (and without the costs to government of education and health services in childhood).

Temporary immigrants provide a net fiscal benefit in the relatively short time that they spend in Australia. Their limited access to government-funded services means that the size of this benefit depends on how long they work and how much they earn while in Australia. Temporary skilled (457) workers are projected to provide the highest net fiscal contribution among temporary immigrants. International students and working holiday makers provide comparatively smaller, but positive, net fiscal benefits.

Figure 9.12 Key lifetime fiscal impacts by age on arrival^{a,b,c}
 Net present value estimates of fiscal impacts per average permanent immigrant, net overseas migrant intake, 2013-14 dollars



^a Different coverage of government revenues and expenditures would likely shift these curves vertically and alter the point at which these curves cross the horizontal axis. ^b The general population curve relates to the lifetime fiscal impacts of an Australian citizen that would enter Australia at the corresponding age of arrival. ^c Skill stream immigrants arriving after age 50 and humanitarian arrivals are not shown due to limited data.

Source: Productivity Commission estimates.

9.5 Implications for policy

Policy can influence the fiscal impact of immigration

Government policies can directly affect the fiscal impact of immigration. Changing the size and mix of Australia's migrant intake, for example, will change the overall net fiscal impact. Tightening the criteria of the skill stream to favour young and highly-skilled immigrants with high earnings potential will improve fiscal outcomes. Being more selective of immigrants within the skill stream, even if it reduces absolute numbers in the migrant intake, will provide more favourable fiscal outcomes compared with the current migrant intake. Given the largely non-economic reasons for immigration among family stream and humanitarian arrivals, it may be less reasonable to have the same selection criteria for these groups, although the total fiscal impact is relevant given the potentially higher-valued uses of scarce resources. Recommended policy changes for the permanent migrant intake are discussed in chapter 13.

The fiscal impact could also potentially be improved by applying additional visa charges for immigrants. Government spending can also be reduced by restricting immigrants' access to government-funded services. However, any major changes in these areas may affect the composition and integration of immigrants. 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 certain government-funded services in the early years of settlement could improve fiscal impacts in the short term, but it may affect immigrants' ability to integrate, which can add to fiscal costs in the long term as well as influencing overall levels of social cohesion and ultimately community acceptance of immigration. Notwithstanding the administrative complexity that differentiated access to government-funded services would entail, such an approach could have detrimental economic and social impacts. It could impose additional costs on government-funded services in the longer term and reduce future government revenue streams.

As noted, the fiscal impact of immigration needs to be considered as part of a broader framework. Obtaining fiscal gains per se, is not the goal of immigration policy, although sometimes the achievement of that outcome produces net benefits to the community. From a conceptual perspective, the ultimate benefits from any positive net fiscal outcome arise because they enhance public or private consumption for the Australian community, now or in the future. That said, an immigration system that is fiscally neutral or positive over the medium-to-longer term is likely to engender stronger community support.

Expanding the scope of Australian fiscal impact studies

Most Australian fiscal impact studies focus mainly on Australian Government revenue and expenditure items that can be directly attributed to immigrants. Such studies provide

detailed estimates of immigrants' fiscal impacts and can inform policies on Australia's migrant intake.

However, as noted, immigrants can also affect government budgets in ways that are more difficult to directly attribute. For instance, immigration can affect congestible public infrastructure which requires further government spending. These expenditures (and revenues) are very difficult to accurately measure and attribute to immigration.

State and territory governments have responsibility for most congestible public infrastructure. Any future studies of the fiscal impact of immigration should also consider state and territory government revenue and expenditure items from a lifetime perspective. Public infrastructure should be included in this assessment, notwithstanding the difficulties in accurately measuring these items.

RECOMMENDATION 9.1

The Australian Government should examine, on a regular basis, the fiscal impacts of immigration from a *lifetime* perspective. It should include Australian and state and territory government revenue and expenditure items in these fiscal impact estimates.

The need for better data to inform policy

Data limitations make it difficult to accurately identify the fiscal impact of immigration. They also hinder other immigration research. Information about immigrants' tax contributions and use of government-funded 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 country of birth, with poor coverage of 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. Despite the additional costs and complexities in developing extended longitudinal studies, tracking immigrants' longer-term settlement experience will enable better targeting of government expenditure (DSS 2015a).

Limited data are collected on temporary immigrants, which constrains any analysis on what is the largest share of immigrants to Australia. As Boucher (sub. DR128) notes:

... [the DIBP's Continuous Survey of Australia's Migrants] only surveys permanent immigrants and not temporary entrants; a major omission. Comprehensive statistical studies on

temporary immigrants have either not been updated in recent years ... or have simply not been conducted ... (p. 6)

The DIBP has acknowledged these data gaps and is developing a research program that includes new data collections on temporary visa holders. In addition, initiatives linking visa status with tax data hold promise for addressing these data gaps (chapter 11).

The quality of data collected by the DIBP is also a concern. The ANAO (2015) recently audited the DIBP's management of visa compliance and found that:

Appropriate governance arrangements and management oversight of the department's data, including visa related data, has been lacking over many years ... The department's capability to capture data and provide reports on most aspects of the administration of migration and visa programs is flawed ... (p. 50)

In light of these findings, the ANAO recommended that the DIBP improve its data collection and analysis activities. The ANAO audit focused on visa compliance data. However, any investments made to the DIBP's information management systems will have flow on benefits to the quality of its data collections and the ability for these data to inform government policy more broadly.

Government administrative data collections are an important source of evidence for effective policy development (PC 2013b). Data collections can be enhanced by investing in their 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 9.8).

In Australia, steps are being taken to improve the quality of and access to government administrative data collections. Several thousand government data sets are now publicly available through the data.gov.au website to encourage access and use of government data (Australian Government 2015e).

There has also been more linking of government data sets. 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. A new project is also underway to link temporary visa holders data with Census data. 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).

Box 9.8 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 2013a). 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, 2015a). 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 data sets. Vetted access to these data sets and other confidential microdata files are available to non-government researchers through Research Data Centres, an initiative by Statistics Canada (2014). 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.

Marshall et al. (2015) noted that linked immigration data sets 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 many other government administrative data sets, such as those involving health and education services. Linking the Settlement Database with IP Australia's data on patent and trademark applications and the Australian Securities and Investments Commission's business registry data would also develop an evidence base to investigate the effects of immigration on innovation and entrepreneurship (Jensen 2014; chapter 6). 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.

RECOMMENDATION 9.2

The Australian Government, through its data integrating authorities, should continue to link the Settlement Database with other government administrative data sets — for example, data sets involving health and education services, and patent and trademark applications and business registry data — to support immigration and other policy development.

10 Long-term impacts

Key points

- Migration will play an important role in changing the size and structure of Australia's population into the future. Assuming that net overseas migration (NOM) continues at the long-term historical average rate (0.6 per cent of the population), by 2060 Australia's population is projected to grow to nearly 40 million, with NOM adding some 13 million people to the population.
- The continuation of an immigration system oriented towards younger working-age people can boost the proportion of the population in the workforce and, thereby, provide a 'demographic dividend' to the Australian economy. However, this demographic dividend comes with a larger population and over time permanent immigrants will themselves age and add to the proportion of the population aged over 65 years.
- The Commission's economywide modelling projects that with NOM continuing at the long-term average rate with its current young age structure, by 2060:
 - real gross domestic product (GDP) per person is projected to be some 7 per cent (\$7000 in 2014 dollars) higher than if NOM was set to zero. In practice, this result cannot be extrapolated — limits on Australia's absorptive capacity in terms of economic, social and environmental factors mean the modelling results do not shed light on the likely economic impact of very high rates of immigration
 - a higher employment to population ratio associated with immigration will relieve some of the pressure of ageing on government expenditures (as a proportion of GDP), and moderate wage pressures particularly in high growth sectors.
- These economywide modelling results are highly dependent on the age and skill profiles of migrants; illustrating that over the long term, selecting younger and skilled immigrants with high rates of workforce engagement and employment in high-demand skilled occupations is likely to result in higher levels of GDP per person.
- However, GDP per person is only one component of the overall wellbeing of the existing Australian community and does not indicate how these gains would be distributed. Without substantial change in policy settings and the effectiveness of government action, high levels of population growth will impose adverse impacts on the quality of Australia's environment.
- While a positive rate of immigration within Australia's absorptive capacity is likely to deliver long-term net benefits to the Australian community, these benefits are highly dependent on having a system that attracts young and skilled immigrants, is responsive to economic, social and environmental conditions, and is informed by an improved policy process.
- The rate of immigration should be calibrated to ensure that it is within Australia's absorptive capacity and that the environmental impacts of population growth are capable of being well managed.

Immigration is the primary policy lever government has to influence population size and composition (chapter 3), and historically has played a significant role in shaping Australia's population (chapter 2). Over the coming decades, immigration oriented towards younger working-aged individuals can boost the proportion of the population in the workforce and reduce the impact of population ageing. However, immigration cannot readily prevent Australia transitioning to an older population and does not address the policy settings underlying the future fiscal pressures of an ageing population.

By changing the size and composition of the Australian population, immigration has enduring economic, social and environmental impacts. These impacts will vary depending on the size and profile of Australia's migrant intake, its emigration patterns, broader economic trends, government policy decisions, community attitudes and how these different factors change over time. Indeed, there is likely to be a range of immigration (and population) growth rates that are compatible with improving the wellbeing of the existing Australian community; and a range that that will detract from its wellbeing (chapter 3).

To provide insights into the likely long-term impact of a range of immigration rates, this chapter takes a forward-looking approach to analysing and, where possible, quantifying the likely impacts of immigration on Australia's population, economy and the wellbeing of the existing Australian community (Australian citizens and permanent residents) over the coming decades.

The chapter first examines the cumulative impacts of future migrant intakes on the size and age structure of the Australian population over the coming decades (section 10.1). These demographic impacts have a number of direct impacts on the economy that, in turn, set in train adjustments throughout the economy (section 10.2). The Commission's projections of the economywide impacts of varying levels of net overseas migration (NOM) are presented in section 10.3. (Details of the model can be found in technical supplement B.) With many factors at play, projections of the long-term impact of migration are illustrative and should be interpreted carefully.

While difficult to incorporate into economywide models, the enduring social and environmental impacts of major changes in the size and composition of the population are also important for the wellbeing of the Australian community. Bringing together analysis from earlier chapters, the economywide impacts of migration are considered in an integrated cost-benefit framework — a framework that seeks to explicitly account for the associated social and environmental impacts (section 10.4). Finally, the key features of the immigration system required to maximise community-wide benefits over the long term are discussed (section 10.4).

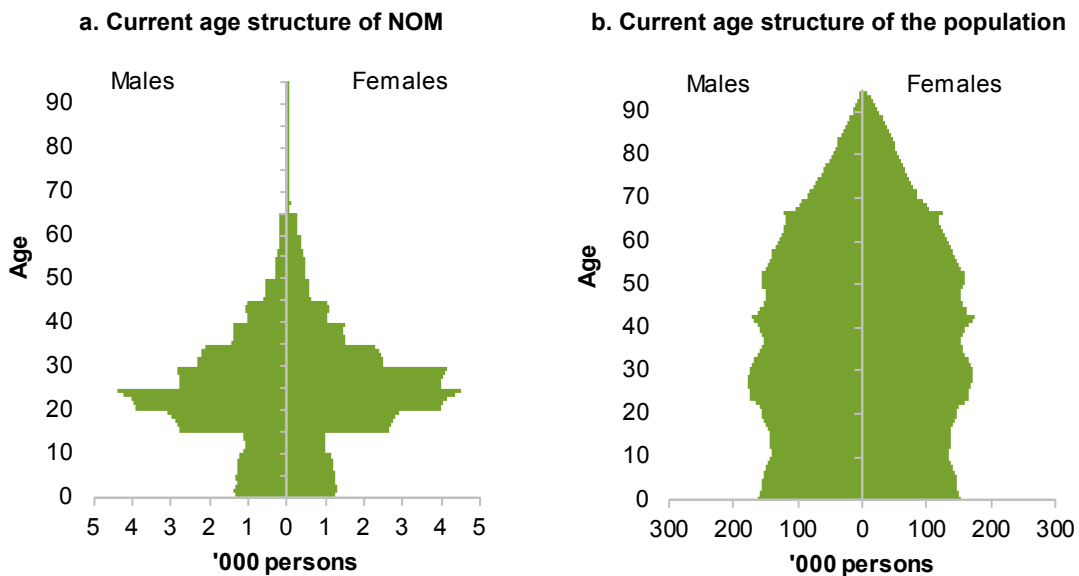
10.1 The demographic implications of migration

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 driver of population growth. Since the mid-2000s, NOM — the difference between

immigration and emigration — has made a larger contribution to population growth than natural increase.¹

Immigration policy has also become an important lever for influencing the composition of the Australian population and labour force. By design, immigration (and as a result NOM) has a substantially younger age distribution compared to the overall Australian population — with 60 per cent of migrants aged in the prime working ages of 20 to 40 years (figure 10.1).

Figure 10.1 Immigrants have a younger age distribution compared to the Australian population
2014



Source: ABS (*Migration, Australia, 2013-14*, Cat. no. 3412.0).

Although immigration is the main policy lever available to influence population size and composition (chapter 3), the Australian Government does not have full direct control over immigration levels. This is because any number of Australian citizens (and New Zealand citizens) can arrive or depart, and temporary migration (such as long-term visitors and workers on a temporary skilled visa) is effectively uncapped.

Variation in net migration outcomes reflects changes in both out-migration, influenced by economic circumstances domestically and overseas, and in government policy regarding immigration into Australia. Australia's permanent migration intake is determined by government policy (including the mix between skilled and family reunion places) and is subject

¹ 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).

to review each year as part of the Budget process to reflect evolving economic and social circumstances.

As such, actual population outcomes over coming decades will depend upon the future immigration policy settings of successive governments, as well as Australia's relative economic performance. (Australian Government 2015a, p. 10)

Immigration can reduce the impact of population ageing

Population projections undertaken by the Commission (and others) suggest that continued immigration will play an important 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) suggested 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. Compared to a population projection with zero NOM, immigration is expected to reduce the proportion of the population aged 65 years and over (table 10.1).²

Table 10.1 NOM and the projected age structure of the Australian population^a

<i>Annual level of NOM</i>	<i>Population 2063</i>	<i>Population growth, 2053</i>	<i>Population aged 15-64, 2053</i>	<i>Population aged 65 and over, 2053</i>
	Millions	%	%	%
2012 population:	23	1.7	67	14
Annual NOM scenarios:				
0	26	0	56	28
100 000	32	0.5	58	25
180 000	38	0.8	60	23
300 000	46	1.2	62	21

Source: Adapted from McDonald and Temple (2013, p. 5).

² Examining the proportion of the population aged 65 years and over gives a broad indication of trends in the available labour force, however it ignores that people over 65 years participate in the labour force and make valuable social and economic contributions in other ways (PC 2005). Further, while the eligibility age for the Age Pension is scheduled to gradually increase to 67 years by 2023, for ease of comparing the age structure over time this chapter reports the proportion of the population aged 65 years and over in 2014 and 2060.

Immigration, however, does not offer a long-term panacea for population ageing. Over time, underlying trends in life expectancy mean that permanent immigrants themselves will add to the proportion of the population aged 65 and over (PC 2013a). McDonald and Temple (2013) noted that migration has diminishing returns to scale in reducing population ageing. Their projections of the incremental effect of migration suggest that, the marginal benefit of increased migration to the 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.³

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 (the ratio of those aged 65 years and over to those ages 15 to 64 years) 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 longer-term impacts of Australia’s migrant intake, the Commission developed demographic projections of the Australian population under different assumptions for NOM over the 45 years to 2060. NOM is used to capture the impact of both permanent and temporary migration — which together have economic, social and environmental impacts.

Under current policy settings, temporary immigration is largely uncapped and relatively responsive to economic conditions (chapter 2). Large movements in NOM over the past decade mainly reflect changes in temporary immigration, with (capped) permanent immigration increasing but at a much slower rate (chapter 2, figure 2.6).

Arguably, holding other factors constant, future levels of temporary migration may be expected to grow as the Australian economy grows larger (in real terms). For the purpose of this inquiry, the Commission has taken the approach of using the long-term historical average annual rate (of 0.6 per cent) of NOM as a proportion of the population as a ‘business-as-usual’ case (box 10.4 describes the main scenarios modelled). By holding the annual rate of NOM constant as a proportion of the population, the analysis implicitly assumes that the level of NOM will increase as the population grows. This captures the uncapped nature of temporary immigration which, as discussed, has had a large impact on NOM over the past decade. (The demographic implications of holding NOM constant at a specific level each year are presented in box 10.1.)

³ In particular, McDonald and Temple (2013) projected the impact of increasing NOM by increments of 10 000 migrants — from annual NOM of zero to 360 000 — on the proportion of the population aged 65 years and over.

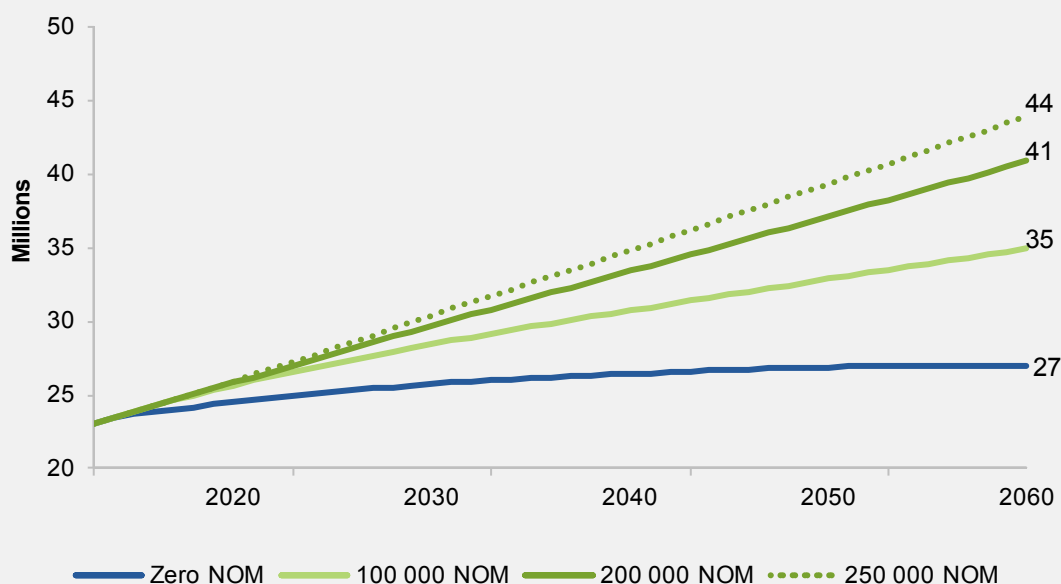
Box 10.1 Population growth assuming a fixed annual level of NOM

As noted, to capture the uncapped nature of temporary immigration the Commission has modelled the annual rate of NOM as a constant proportion of the population. However, this implicitly assumes that the level of NOM will increase as the population grows. To illustrate the demographic implications of a set annual level of NOM three alternative scenarios are modelled where NOM is assumed to:

- decline to 100 000 per year by 2026 and to remain at that level until 2060
- remain at 200 000 per year through to 2060
- rise to 250 000 per year by 2026 and to remain at that level until 2060.

The figure below shows that under these fixed level scenarios, population growth slows over time as the contribution from NOM declines. Even so, in 2060 the population and GDP per person projections assuming a fixed level of NOM are broadly similar to those assuming a fixed rate of NOM (technical supplement B).

Australia's future projected population assuming a fixed level of NOM



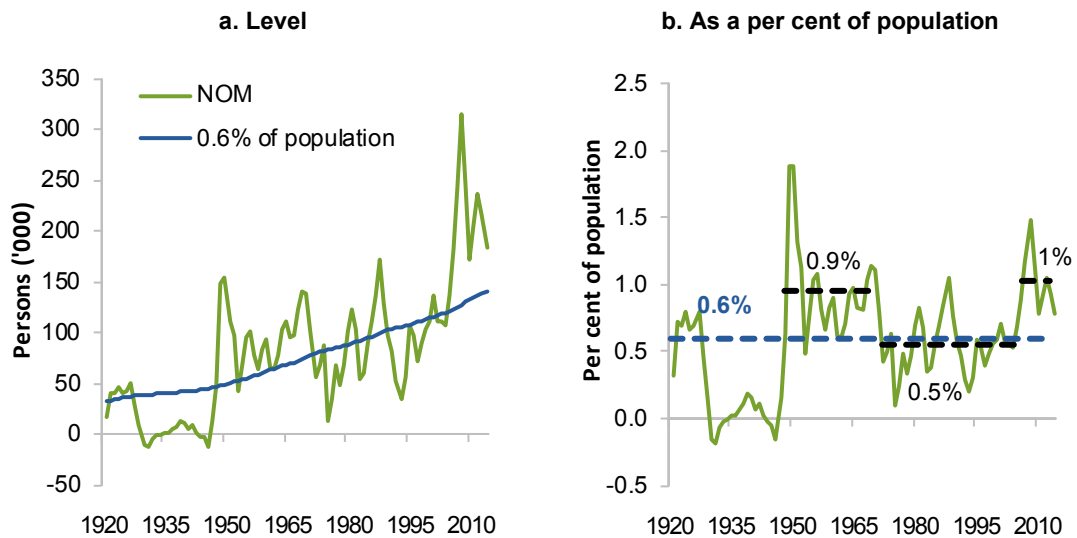
Source: Productivity Commission projections.

NOM fluctuates but has broadly increased over time

NOM as a proportion of the population has varied substantially over time (figure 10.2). Since the 1920s, the share of the population has averaged at around 0.6 per cent per annum. If NOM were to continue at around that long-term average, it could reach around 240 000 persons by 2060.⁴

⁴ The 2015 Intergenerational Report assumed that NOM was 215 000 per year from 2018-19 onwards (Australian Government 2015a). 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.

Figure 10.2 **NOM has broadly increased over time**



Sources: Productivity Commission estimates.

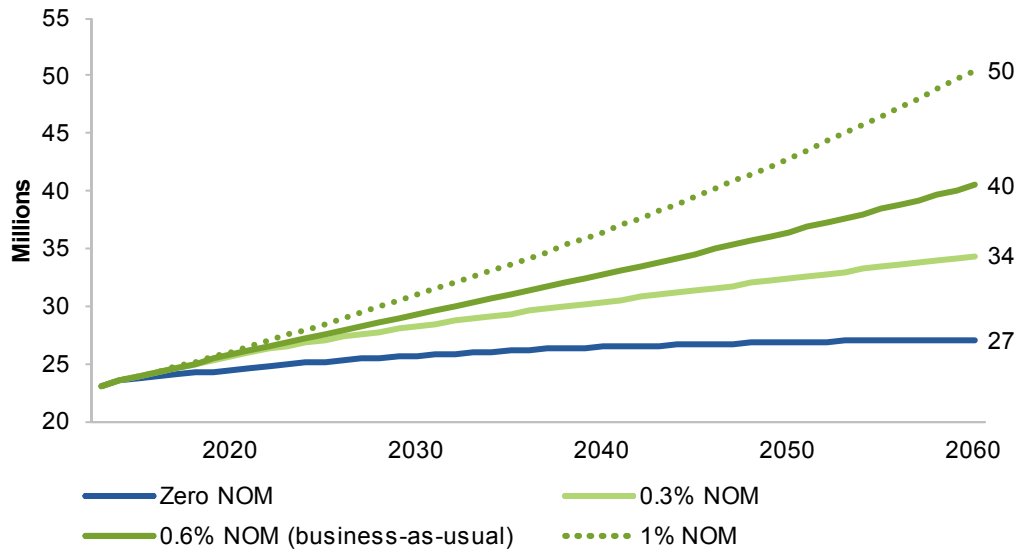
With NOM rising to this level, and with current fertility and life expectancy trends, Australia's population could reach around 40 million by 2060, compared to around 27 million with only natural increase in the population (zero NOM). That is, migrants and their children are projected to add some 13 million to Australia's population by 2060.⁵

In addition to NOM continuing at the long-run historical average rate, a number of other possible rates of NOM have been considered by the Commission. This analysis illustrates the impact of a range of different rates of NOM on the size and age structure of the Australian population (figure 10.3).

Over the past decade, NOM has averaged a much higher rate of around 1 per cent annually. If NOM was to continue at that rate over the next 45 years, by 2060 the migrant intake could reach 490 000 persons and the population is projected to grow to close to 50 million — more than double today's population. On the other hand, restricting NOM to 0.3 per cent of the population per annum is projected to lead to a population projection of 34 million by 2060.

⁵ The Commission's demographic projections are based on the assumption that immigrants take on the same age-specific fertility and mortality rates as the Australian population.

Figure 10.3 **NOM will have an important influence on Australia's future population levels^a**



^a The Commission's demographic projections are based on the assumption that NOM will converge to a constant rate of NOM (0.3 per cent, 0.6 per cent, or 1 per cent of the population) by 2025 (box 10.4). Technical details of the model can be found in technical supplement B.

Source: Productivity Commission projections.

The demographic dividend

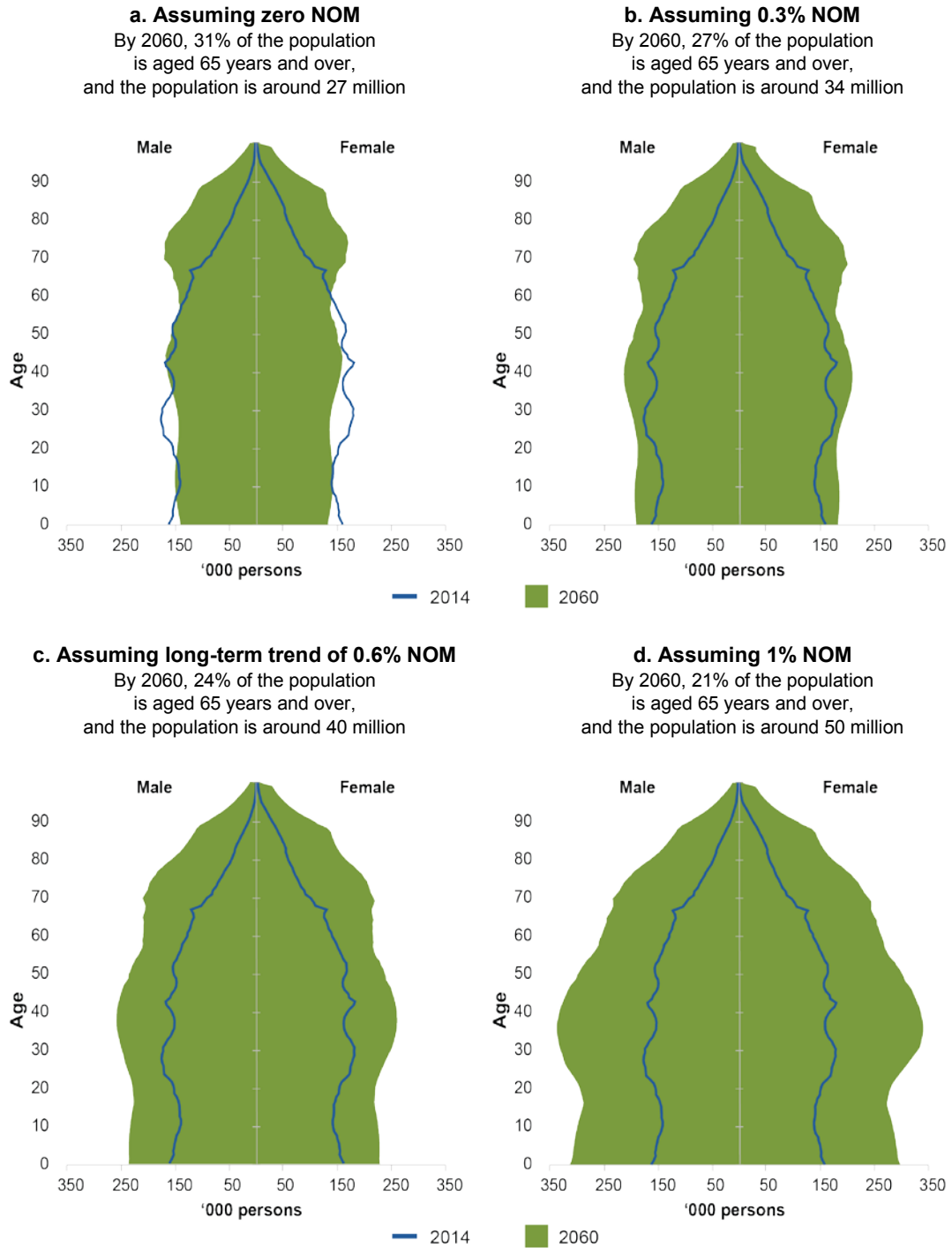
In addition to influencing the size of Australia's population, NOM will also influence the demographic structure of the population into the future. The continuation of an immigration system that is oriented towards younger working-age individuals — particularly in the prime working and family formation ages of 20 to 40 years — can boost the proportion of the population in the workforce and, thereby, provide a 'demographic dividend' to the Australian economy and reduce the impact of population ageing (figure 10.4). Over the long term, family formation by people in these age groups would further add to the labour supply and reduce the impact of an ageing population.

With zero NOM, the Commission projects that the proportion of the population aged 65 years and over could increase from around 15 per cent in 2014 to around 30 per cent by 2060. A continuation of the long-term trend in NOM with a relatively young age profile (figure 10.1), however, is projected to limit the increase in the share of the population aged 65 years and over to around 25 per cent over the same period (figure 10.4, panel a compared to panel c).

Higher rates of NOM are projected to have a proportionate impact on the share of the population aged 65 years and over and, therefore, on the proportion of the population that is more likely to participate in employment. However, this demographic dividend comes with a larger population (figure 10.4, panel d).

Figure 10.4 NOM can provide a demographic dividend but with a larger population^a

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



^a Technical details of the model can be found in technical supplement B.

Source: Productivity Commission projections.

While, permanent immigration cannot readily prevent Australia transitioning to an older population, temporary immigration can better offset the effects of ageing as it involves a continuing inflow and outflow of relatively young individuals.

10.2 The economic impacts of migration

The literature suggests that changing the level and composition of the population through immigration has a number of flow-on effects that ultimately affects economic outcomes, including the economywide level of activity (real GDP).

Immigration (modelled as NOM) can contribute to national production and income through the impact on labour supply and productivity. NOM can augment the supply of labour in the domestic economy and change the composition of the labour force. NOM will also affect productivity if it enhances human capital, improves access to new technologies, and/or boosts innovation. The income generated by the larger population also has ‘demand-side’ effects increasing households and governments consumption, and possibly changing their consumption patterns.

The discussion in this section draws on the evidence presented in earlier chapters to examine the likely impacts that immigration will have on each of these channels. This analysis forms the basis of the assumptions used in the Commission’s general equilibrium modelling.

The direct effect on the supply and composition of labour

The current immigration system provides Australia’s labour market with an inflow of people concentrated in their prime working ages. Moreover, a higher proportion of immigrants is employed in higher-skilled occupations compared to the Australian-born population (although, a significant proportion of immigrants also work in lower-skilled occupations) (chapter 5).

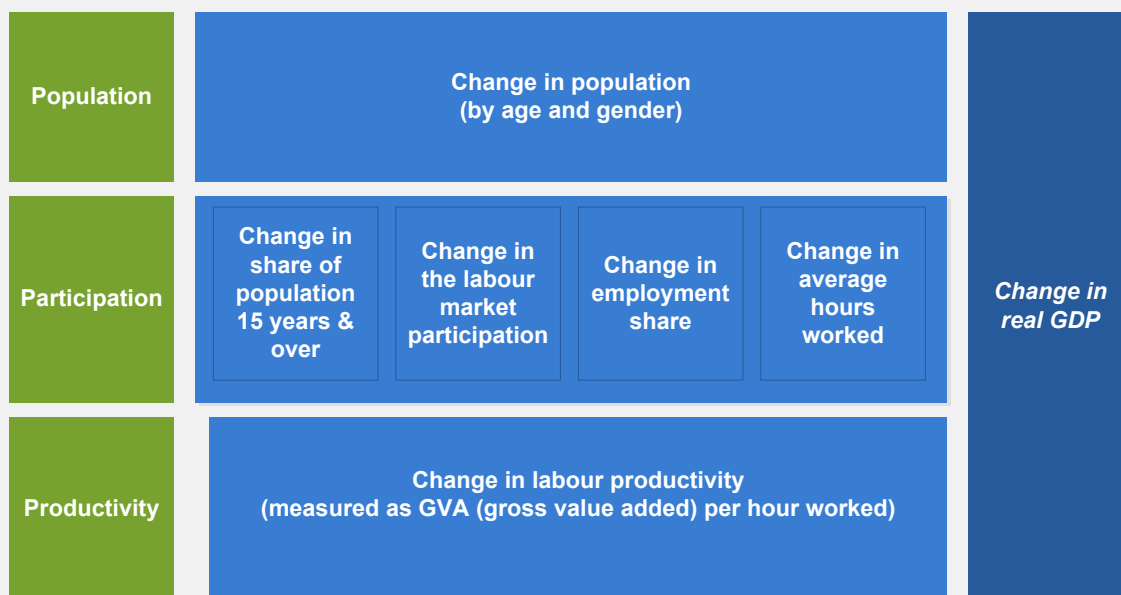
The increase in Australia’s labour supply from NOM is largely driven by the fact that a larger population augments the supply of labour (a *population* or scale effect). Further, as the age profile of NOM is relatively concentrated in prime working age groups (figure 10.1), NOM can increase the overall employment to population ratio (a *participation* effect).

Beyond *population* and *participation* effects, NOM may also affect activity levels in the economy through *productivity* effects (box 10.2). That is, to the extent that immigrants have different levels of *labour productivity* compared to the Australian labour force more generally, immigrants affect the average labour productivity.⁶

⁶ Labour productivity is the ratio of the real value of output to the quantity of labour input — measured as real gross value added per hour worked in this chapter. Labour productivity depends on the efficiency

Box 10.2 Mapping direct changes from immigration 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 *participation* of the population in employment, and labour *productivity*. The figure below presents the stylised relationship between changes in the components of population, participation and productivity, and changes in real GDP.



In this framework — as long as immigration does not lower average skills and involves working-age people — immigration will always increase real GDP as it increases the size of the population and labour supply. For this reason, changes in real GDP per person provide a better indication of the likely impact of immigration on the Australian community’s living standard. Nevertheless, chapter 3 outlines a number of shortcomings of using GDP per capita as a measure of living standards. In particular, GDP per capita:

- is not equivalent to income
- does not capture the full range of community-wide costs and benefits. Notably, impacts on the natural and built environment are excluded
- averages out the impact across the existing Australian community and new immigrants
- is only a weak indicator of changes in lifetime living standards.

Therefore, an improvement in GDP per person should be considered a necessary but not a sufficient condition for concluding that a policy change is likely to improve community-wide wellbeing.

with which labour and other inputs (such as capital and land) are combined to produce goods and services and on the availability of capital and other factors for each unit of labour.

Whether the labour market outcomes of immigrants differ from those of 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.⁷

Labour force participation

Examining labour market outcomes — 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 Australian-born population on average, whereas family and humanitarian stream immigrants experience, on average, worse outcomes (chapter 5). Over time this latter group of immigrants tends to adjust to Australian labour market conditions and circumstances, increasing their participation in the labour force towards more (age-specific) average levels.

Skills and labour productivity

The skill level of the immigrant workforce is important for the economywide benefits of immigration, as skill levels affect the labour productivity of immigrants — essentially, how much output can be produced per hour of work. 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 suggested 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 actual immigrant engagement in the workforce and ultimately on how migration may affect national output (as measured by 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.⁸ After controlling for the occupational profile of immigrants, the average within-occupation earnings of immigrants are about the same as comparable Australian-born individuals.

⁷ 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 immigrants entering under these visa categories.

⁸ Highly-skilled workers are generally more productive and therefore are more likely to earn higher wages.

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 6 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 has generally found that immigration (particularly skilled immigration) has a small, positive effect on aggregate productivity growth through such spillover effects (chapter 6). Given that the available evidence suggests that spillover effects are likely to be small, the case for including specific spillover labour productivity assumptions in modelling the economywide impacts of migration is weak and therefore has not been included in the Commission's economywide modelling.

Effects on consumption and government finances

Economywide effects also arise when immigration 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.

Population growth (through immigration) will also place pressure on, among other things, property markets and existing public infrastructure.⁹ Chapter 7 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. Nevertheless, where the environment has provided 'free' services, sharing these between more people, or protecting the environment from the pressures associated with a larger population, imposes additional costs on the existing Australian community.

⁹ 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).

A larger population would also place higher demands on some government services and outlays although this would be offset by 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 9 finds that immigration tends to have a small net effect on public finances as a share of GDP. Immigrants arriving in Australia relatively young, healthy, and skilled, tend to generate higher lifetime tax revenue and have a lower propensity to consume government-funded services. The Commission's modelling of immigrants' lifetime fiscal impacts projects that permanent immigrants who arrive in Australia early in their working life have a more favourable impact than those who arrive later in working life or in retirement. Temporary immigrants, however, will likely have a positive fiscal contribution in the relatively short time that they spend in Australia as they pay taxes but are excluded from many government-funded services.

Past assessments of the economywide impacts

Several studies have used general equilibrium models to examine the economywide impacts of immigration in Australia (box 10.3). These studies have generally projected that migrants will positively affect the level of economic activity in Australia over the decades ahead. (This is an unsurprising result, given the increase in labour supply and demand for goods and services associated with increased migration levels.) 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.

10.3 Estimates of the economywide impacts of migration

The terms of reference ask the Commission to report on the impact of immigration on government budgets, government services and the incomes of Australian citizens.

Given the substantial variation in past net migration flows and uncertainty about future flows, a 'scenarios' approach has been adopted. Under this approach, the impact of immigration is assessed by comparing the projected evolution of the Australian economy with NOM at the long-term historical average rate (that is around 0.6 per cent of the population per year) with a number of other possible rates including zero NOM per year from 2016 onwards. The sensitivity of the business-as-usual projections to the occupational and age profile of migrants are also considered. In all, the effects of four main scenarios and three sensitivity scenarios are examined (box 10.4).

The population and economy are projected to 2060 under each of these scenarios using an economywide modelling approach that integrates demographic and economic modelling —

including labour market, government finance and broader economic linkages — in a single framework.

Box 10.3 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, assumptions made about the number and mix of migrants, and differences in characteristics between the immigrant and the general Australian 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 was derived from increased labour force participation and the skill effect of a more highly-educated workforce.

Most of the projected increase accrued to 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 be \$334 per person lower relative to the base case, over the 25 year period. However, income from other sources would be higher, including increased returns to capital and increased government transfers due to higher indirect tax revenue (by \$154 and \$103 per person per year, respectively).

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 could be 4.9 per cent smaller in 2016-17.

Relative to the case without skilled and business migration, in 2016-17, real 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 skilled migrants and Australian-born workers in NSW between 2012-13 and 2016-17, the CIE included a sensitivity test where it was assumed that the productivity of the NSW workforce in the no migration case was 0.5 per cent less than in the 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 10.3 (continued)

The economic impact of migration (Migration Council Australia and Independent Economics 2015)

Building on its 2006 analysis (Econtech Pty Ltd. 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 migration adding 14 million or 37 per cent to the population over this period and contributing \$1.6 trillion to Australia’s GDP. The study also concluded that migration could 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 have prevailed.

While labour productivity was projected to decline by 7.9 per cent (as capital stocks adjusted to a larger labour force), projected employment growth meant 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 projected with no migration.

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 New Zealand 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 could increase New Zealand’s population by 437 000, add NZ\$28 billion in GDP, and increase GDP per person by NZ\$1000 above levels that with zero net immigration.

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 (NZ\$800). The report also examined the sensitivity of the results to the assumptions that:

- the additional immigrants were 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.

Box 10.4 Economywide modelling scenarios

Main scenarios

The four main scenarios are:

Business-as-usual scenario — assumes that the annual rate of NOM continues at the long-term historical average rate of 0.6 per cent of the population. This scenario illustrates the path the Australian economy may follow if NOM converges from the recent historically high levels of NOM to the annual historical average of 0.6 per cent of the population by 2025. From 2026 onwards, annual NOM is assumed to continue at a rate of 0.6 per cent of the population to 2060.

This scenario implies that the annual level of NOM grows from around 160 000 persons in 2026 to around 240 000 persons in 2060. On arrival, migrants are assumed to have the same demographic profile (concentrated in the 20 to 40 year old age groups) and occupation profile as the current migrant intake; and the same labour market characteristics as the Australian labour force.

Zero NOM scenario — assumes that NOM is zero (that is, immigration is set equal to emigration) from 2016 onwards. This scenario illustrates the effects of natural population increase on the size of the population, participation, and output per person.

0.3 per cent NOM scenario — assumes that the annual rate of NOM converges to 0.3 per cent of the population. NOM has varied substantially over time both in absolute terms and as a share of the population. Variation in NOM reflects, at least in part, government immigration policy. Given this, and responding to calls in submissions to consider lower levels of migration, the Commission has included a scenario in which the annual NOM to population rate converges from the current high level to 0.3 per cent of the population by 2025. The annual rate of NOM will rise with population from 2025 (to reach 100 000 persons in 2060) however at a slower rate than in the business-as-usual scenario.

1 per cent NOM scenario — assumes that the annual rate of NOM is set to 1 per cent of the population. Over the decade to 2014, the annual rate of NOM was around 1 per cent. This scenario explores the economywide impacts of continuing annual NOM at this higher rate, which implies a NOM of 490 000 persons in 2060.

Summary results for the Commission's main economywide scenarios

Differences in the projections between the main scenarios:	2014	2060 projections			
		Zero NOM	0.3% NOM	0.6% NOM	1% NOM
Average age	38	47	45	43	41
Population (million)	23	27	34	40	50
Employment to population ratio	0.50	0.42	0.44	0.46	0.47
GDP per person (percentage deviation from business-as-usual scenario)		-7%	-3%	0%	3%

(continued next page)

Box 10.4 (continued)

Sensitivity analysis

To shed light on the importance of the composition of the migrant intake (modelled as NOM) to the economywide results, three scenarios examine the sensitivity of business-as-usual results to the age and occupational profile (skill level) of NOM. All other assumptions, including the annual NOM as a proportion of the population, are the same as in the business-as-usual scenario.

- *Age sensitivity scenario* — assumes that NOM is of the same demographic composition as the Australian population.
- *Skilled occupations scenario* — assumes that 30 per cent of the NOM workforce are reallocated to skilled and semi-skilled occupations, broadly defined as: managers; professionals; technicians and trades workers; community and personal service workers.
- *Lower-skilled occupations scenario* — assumes that 30 per cent of the NOM workforce are reallocated to semi-skilled and low-skilled occupations broadly defined as: clerical and administrative workers; sales workers; machinery operators and drivers; and labourers.

The Commission's modelling approach

The model adopted in this study is a version of the Victoria University Regional Model (VURM) — the VURM-MI (for Migrant Intake) model (box 10.5). The VURM-MI 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 2060 and is supported by a recently updated benchmark database based on Australian Bureau of Statistics (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.

The projections from this model are not forecasts of the future. Rather, they illustrate possible growth paths for the economy under the assumptions embedded in the VURM-MI model.

National macroeconomic implications

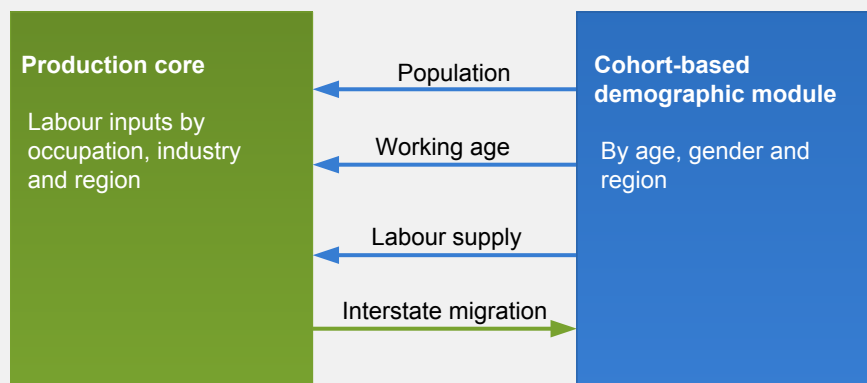
The Commission's modelling of the business-as-usual case (0.6 per cent NOM) suggests that with a population of around 40 million in 2060, economic activity measured by real GDP is projected to be around 60 per cent higher (\$1600 billion in 2014 dollars) than zero NOM (figure 10.5, panel a). Growth in the zero NOM case tapers off particularly in the 2040s and 2050s due to the projected increase in the proportion of the population over 65 years of age and the relatively low labour force participation rates by people in that age group (although age-related participation rates are likely to increase with life expectancy).

Box 10.5 The VURM-MI model of the Australian economy

The VURM-MI model is a general equilibrium model of the Australian economy. It recognises: domestic producers classified by industry and eight state regions; export demand for Australian products; eight state and territory governments and the Australian Government. The VURM model was formerly known as the Monash Multi-Regional Forecasting (MMRF) model.

The model includes explicit recognition of NOM and net interstate migration. 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). On joining the Australian population NOM entrants are assumed to have the same age-specific fertility and life expectancy as the existing Australian population.

Stylised representation of the VURM-MI model



Labour supply is assumed to adjust at the occupational level, and to relocate across states on the basis of wage differentials. Businesses are assumed to adjust their demand for labour by occupational groups and substitute between labour and capital in response to changes in the relative costs of labour and capital.

Like any other model, VURM-MI is a simplified view of the economy and its interactions with the demography. In addition, the projections do not account explicitly for issues such as the emergence of new activities and products, or developments in global financial markets that can affect the cost of capital, global population or economic changes.

Sources: Adams et al. (2015); technical supplement B.

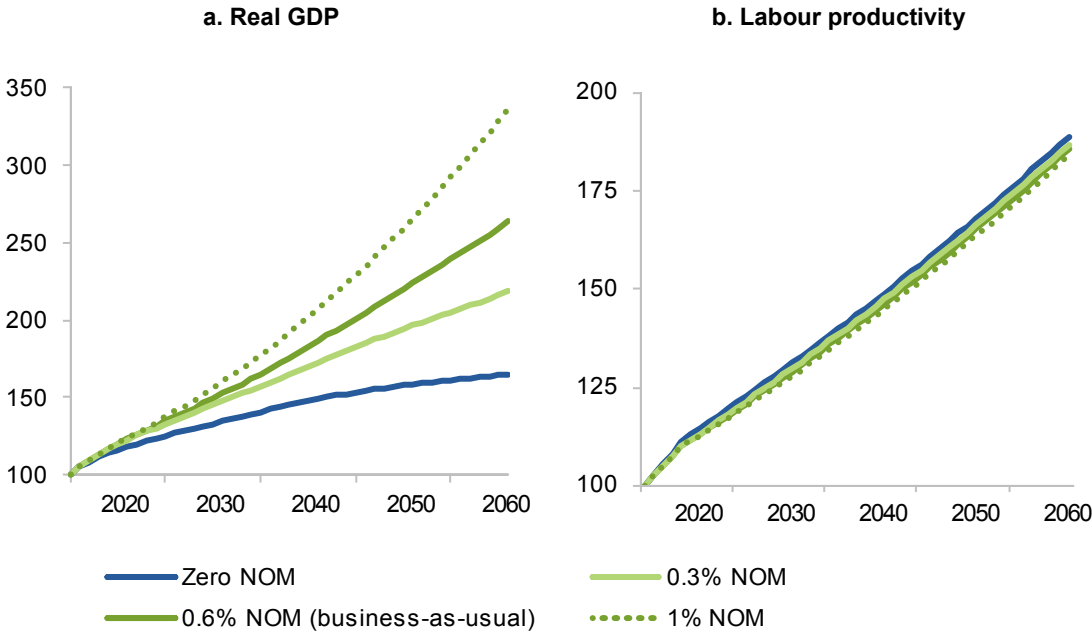
The economic growth paths depicted (figure 10.5, panel a) reflect growth in the population and assumptions about labour force participation and the continued growth in the productivity of labour by industry at historical rates. Given their long-term focus, the projections abstract from short- to medium-term cyclical changes.

The additional labour provided by Australia's migrant intake and the natural increase in the population support growth in the level of output. However, output per unit of labour input — labour productivity — need not increase proportionately. Aggregate labour productivity will be influenced by the occupational and skill mix of the migrant intake and the deployment of additional capital. In particular, in the short to medium term and other things remaining equal (including the technology and organisation of production),

production is assumed not to increase as quickly as labour, because of assumed constraints in the growth of other factors.¹⁰

Compared to the business-as-usual case, labour productivity is projected to be higher under the hypothetical zero NOM case — by around 2 per cent by 2060 (figure 10.5, panel b). The higher labour productivity is reflected in higher real wage receipts by the workforce in the zero NOM case. That is, in the zero NOM case as the population ages, labour becomes relatively scarce which puts upwards pressure on real wages. Higher wages in the zero NOM case cause a substitution from labour towards capital, contributing to higher labour productivity relative to business-as-usual. This effect dissipates over time as capital markets adjust. In theory, the impact on labour productivity could be mitigated by immigration that is oriented towards higher-skilled occupations or if the migrant intake increases opportunities to raise national productivity through technological and organisational changes that would not be otherwise available (for example, if migration was associated with increased innovation).

Figure 10.5 NOM is projected to increase the level of GDP and affect the productivity of labour
Index (2014 = 100)



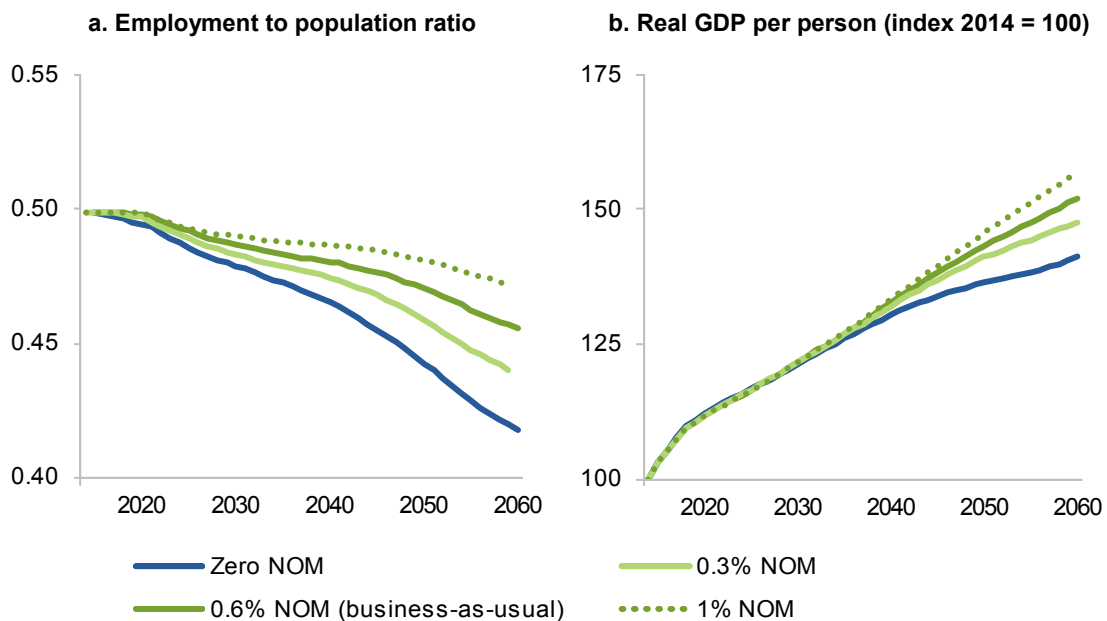
Source: Productivity Commission projections.

¹⁰ Diminishing marginal returns to labour arise when other factors are constrained. The supply of capital is constrained in the short to medium term and agricultural land is modelled as a fixed resource.

The effect of population ageing sees the projected employment to population ratio fall over time in the zero NOM case. A key economic impact of NOM arises from the higher share of working-age people in the migrant intake relative to the Australian population. Nevertheless, despite an immigration system oriented towards attracting people in the prime working-age groups, immigration only ameliorates (but does not eliminate) the effect of ageing. If migrants participate in employment at national average levels (by age and gender), then higher rates of NOM could increase the number of people in employment relative to the population (figure 10.6, panel a).

Based on current patterns of employment, the lower employment rate is projected to outweigh the higher labour productivity effects and, as a result by 2060 real GDP per person is projected to be some 7 per cent lower in the zero NOM scenario than the business-as-usual scenario (figure 10.6, panel b). This amounts to around \$7000 per person (in 2014 dollars). Increasing or decreasing the rate of NOM is projected to have a proportionate impact on the employment to population ratio and the level of GDP per person (within reasonable limits). As the modelling broadly assumes that there are constant returns to scale in production, the economywide modelling results are broadly linear. Hence, while the modelling provides insight into the economic impact of NOM, in practice limits on Australia's absorptive capacity (including environmental factors) mean that constant returns to scale are unlikely to hold for very high rates of immigration.

Figure 10.6 Participation of migrants in the workforce is important for economic outcomes



Source: Productivity Commission projections.

Importantly, higher real GDP per person does not capture the full economic impact of immigration, nor does it account for any distributional impacts.

Increases in real GDP per capita are not sufficient to assess whether the immigration system as a whole benefits the existing Australian community (and their future descendants) as it is only that part of it that is transferred to the existing Australian community that would be directly relevant and would benefit their material wellbeing.

Part of the expansion in capital required for the economy to absorb any extra labour is obtained by borrowing from abroad and some of the additional GDP is assumed to flow back to the providers of this capital. For this reason, the difference in real gross national income (GNI) is smaller than the difference in real output (GDP). By 2060, GNI per person is projected to be 6 per cent lower under the zero NOM scenario compared with the business-as-usual scenario.¹¹

Increased activity in infrastructure industries

A larger economy would be expected to be associated with higher levels of activity in infrastructure services, such as roads and utility services.

Economic activity in the electricity, gas, water and waste services and domestically-oriented transport industries are projected to grow broadly in line with GDP in each scenario (figure 10.7). Specifically, the expansion in labour supply through migration is projected to lead roughly to the same proportional growth in capital and output in most industries including infrastructure industries. That is, the modelling broadly assumes that there are constant returns to scale in production.¹²

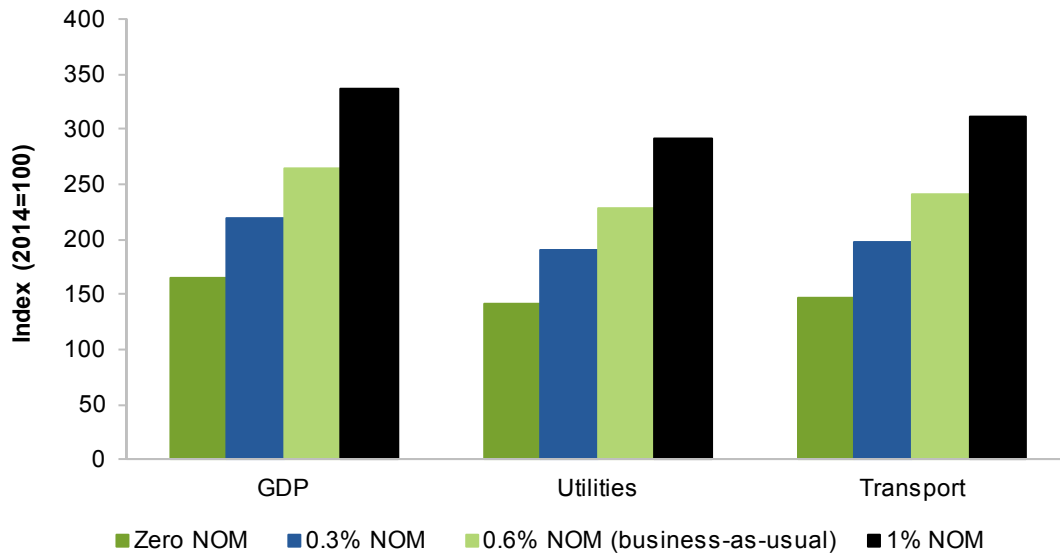
In comparison, using a macroeconomic model of the Australian economy, modelling undertaken by Independent Economics for the Migration Council Australia assumed: economies of scale in (government) network infrastructure; diseconomies of scale from fixed natural resources; and semi-endogenous growth from education and research and development. The Migration Council Australia concluded that ‘... because of fixed costs, per capita expenditures on government network infrastructure fall as migrants boost the population’ (2015, p. 3). Despite differences in modelling approaches, the GDP per person results broadly align with the Commission’s economywide projections.

¹¹ VURM-MI assumes a relatively low proportion of the additional capital investment required for a larger workforce is sourced from abroad for most industries in the business-as-usual scenario. To the extent that the share of foreign capital ownership that would be required for future migrant intakes is higher, the model under-estimates income flows to foreigners and over-estimates GNI (and GNI per person).

¹² There are limited exceptions. For example, agricultural land is a fixed resource which results in decreasing returns to scale in agricultural industries.

Figure 10.7 **Higher levels of GDP are projected to increase activity in infrastructure industries ^a**

Real industry gross value added, 2060



^a Utilities include the electricity supply, gas supply, water and drainage services and waste collection and treatment industries.

Source: Productivity Commission projections.

Government revenue and expenditure implications

A larger population and associated changes in its demographic structure will have long-term fiscal implications for Australian governments.

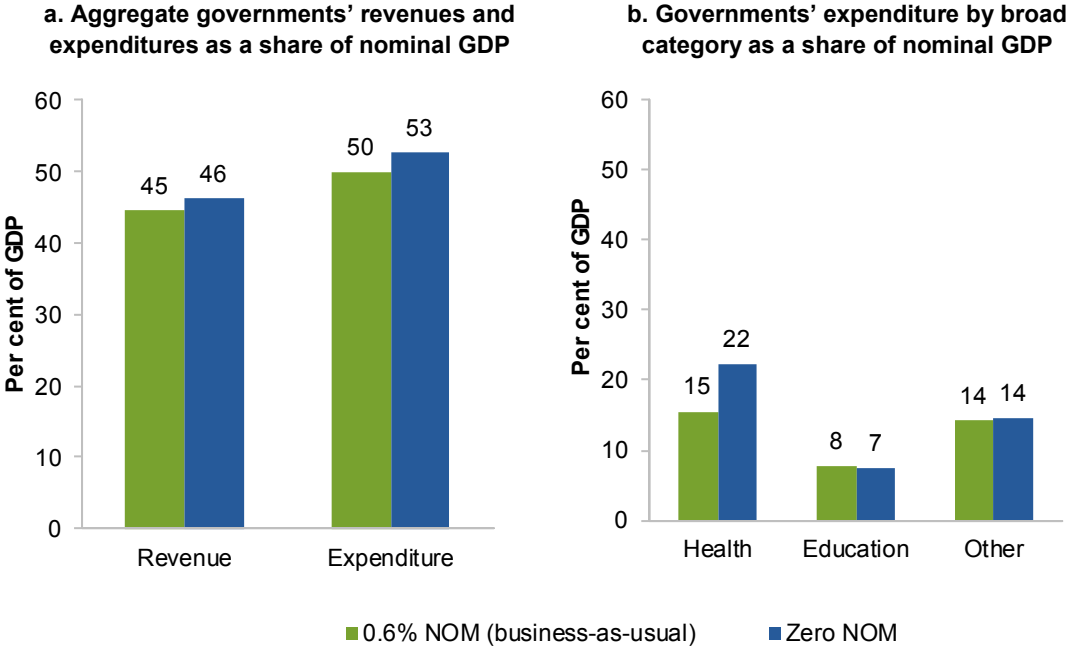
The Commission's general equilibrium modelling takes into account the impact of changes in economic activity on government revenues and outlays as well as changes in demography on key items of government expenditure including health, education and age-related social security payments (including the Age Pension) across all levels of government. Current policy settings are assumed to remain constant throughout the projection period. For example, tax rates are assumed to remain fixed so that revenue moves in line with the various tax bases. The budget position is held fixed as a share of GDP — or for the state and territory governments as a share of gross state product — through a lump-sum transfer to, or from, households.¹³

¹³ The economywide computable general equilibrium (CGE) modelling assumes that: nominal government expenditure moves in line with the underlying drivers of government expenditure activity (such as population, unemployment, aggregate economic activity and prices); and that government tax rates remain fixed so that revenue moves in line with the various tax bases.

In line with increases in economic activity, Australia’s migrant intake in the business-as-usual case is projected to increase the revenues and expenditures of the Australian, state and territory governments to 2060 over levels that could prevail assuming zero NOM. As a share of nominal GDP, however, government revenues and expenses are projected to remain broadly similar (figure 10.8, panel a).

Governments’ expenditure on education and other government provided services as a share of nominal GDP are projected to be broadly similar in the business-as-usual and zero NOM case (figure 10.8, panel b). Expenditure on health and related services, however, is projected to be higher at 22 per cent of nominal GDP in the zero NOM case compared to 15 per cent in the business-as-usual scenario.

Figure 10.8 Projected government revenues and expenditures as a share of GDP, 2060^a



^a Projections are for aggregate Australian, state and territory governments’ revenue and final consumption expenditures. 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 projections.

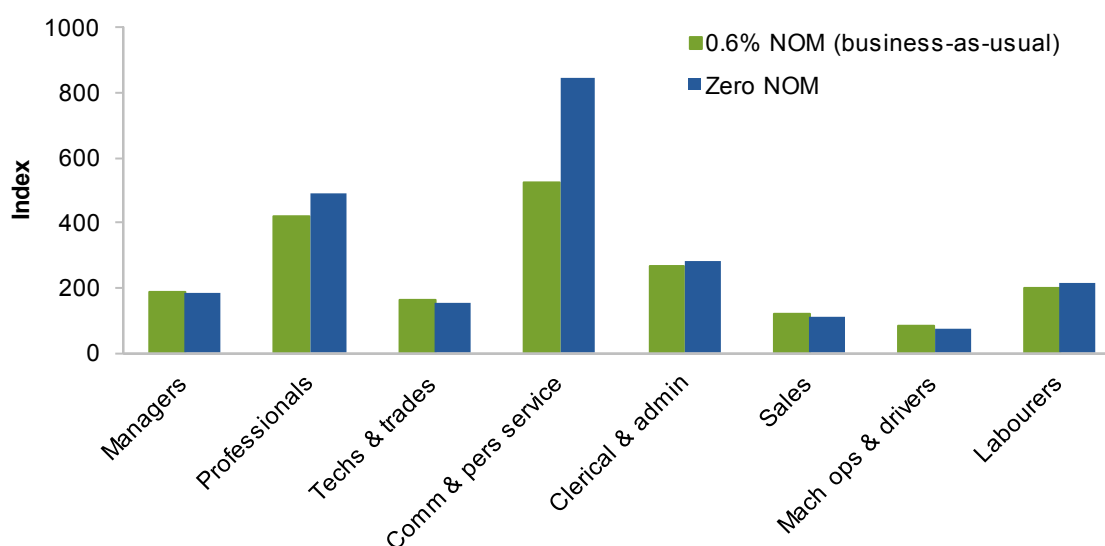
Higher expenditure (as a share of nominal GDP) on health and related services is reflective of the older age profile under the zero NOM case — with around 30 per cent of the population projected to be aged 65 years and over in 2060 under the zero NOM scenario compared to 24 per cent in the business-as-usual case (figure 10.4).

The older age profile associated with the zero NOM case has two key impacts on governments' expenditure on health and related services. First, and of most significance, in 2060 proportionally more of the population consumes health and related services in the zero NOM case compared to the business-as-usual case. Second, relative to the business-as-usual case, assuming zero NOM is projected to have lower employment as a share of the population over the projection period. Growing demand for health and related services combined with a lower labour supply results in comparably higher wage growth in professional and community and personal service occupations to 2060 (figure 10.9). Higher wage growth in these occupations is projected to increase the cost of providing health and related services in the zero NOM case. This contributes to the higher government expenditure on health and related services in the zero NOM case.

Under the assumption that governments' budget balances remain fixed as a share of nominal GDP (at 2010 levels) and that governments' expenditure on health and related services increases as a result of population ageing, any shortfall of projected revenues over expenses are transferred from households as a lump sum to governments. As the model uses a 'representative' household, the distributional impact of a higher transfer to governments cannot be examined within this framework.

Figure 10.9 Projected real wages by occupation

Index (2014 = 100), 2060



Source: Productivity Commission projections.

Migration and real wages

Population ageing is projected to place additional demands on available labour, placing upward pressures on real wages, particularly in industries servicing older Australians.

With zero NOM, real wages are projected to increase over time, and at a rate greater than in the business-as-usual scenario. That is, in the zero NOM scenario labour is relatively scarce which puts upwards pressure on real wages and causes a substitution towards capital, contributing to the marginally higher labour productivity relative to the business-as-usual scenario (figure 10.5, panel b). Higher rates of labour force participation through immigration in the business-as-usual case is projected to moderate such wage pressures. While immigration is projected to reduce the extent of real wages growth to 2060, it is important to note that real wages are still projected to rise substantially over the period.¹⁴

Moderation of wage pressures through higher immigration is greatest in the areas where higher growth is projected to place substantial upward pressure on wages — notably for professional and community and personal service workers (figure 10.9).

These projections are broadly consistent with the findings by Cully that ‘it is the faster growing service industries that have the lowest incidence of jobs susceptible to automation’ (2015, p. 6). For sales workers and machinery operators, relatively low real wage growth 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.

By increasing aggregate labour supply, immigration can moderate wage pressures and lower the cost of services across the community. However, wage pressures can also be moderated through a number of other channels. In particular, productivity improvements should play a key role in addressing the challenges associated with an ageing population.

¹⁴ The general equilibrium analysis differs from the econometric results discussed in chapter 6 and technical supplement A. The econometric results are based on an analysis of variation between labour market outcomes in skill groups with differing levels of immigration, whereas the general equilibrium analysis examines labour market outcomes in the business-as-usual scenario (with NOM continuing at the historically average of 0.6 per cent of the population) against the counterfactual of the economy with zero NOM.

How sensitive are the business-as-usual projections to the age and occupation profile of NOM?

The importance of being young

The labour force participation rates of younger people are considerably higher than for older people. Changing the age structure of the migrant intake towards older immigrants therefore affects the projections and shows a negative impact on the economic gains from migration.

To explore the sensitivity of the business-as-usual results (which hold the annual rate of NOM constant at 0.6 per cent of the population) to the age profile of NOM, the age sensitivity scenario was conducted assuming that the age profile of the migrant intake is the same as for the Australian population. This is projected to lead to a lower employment to population ratio compared to the business-as-usual case where the current (relatively young) age structure of the migrant intake is assumed. The gain to GDP per person emanating from the demographic dividend — a boost in the proportion of the population in the workforce — is not achieved in the age sensitivity scenario. Without this demographic dividend, by 2060 GDP per person in the age sensitivity case is projected to be some 8 per cent lower than in the business-as-usual case.

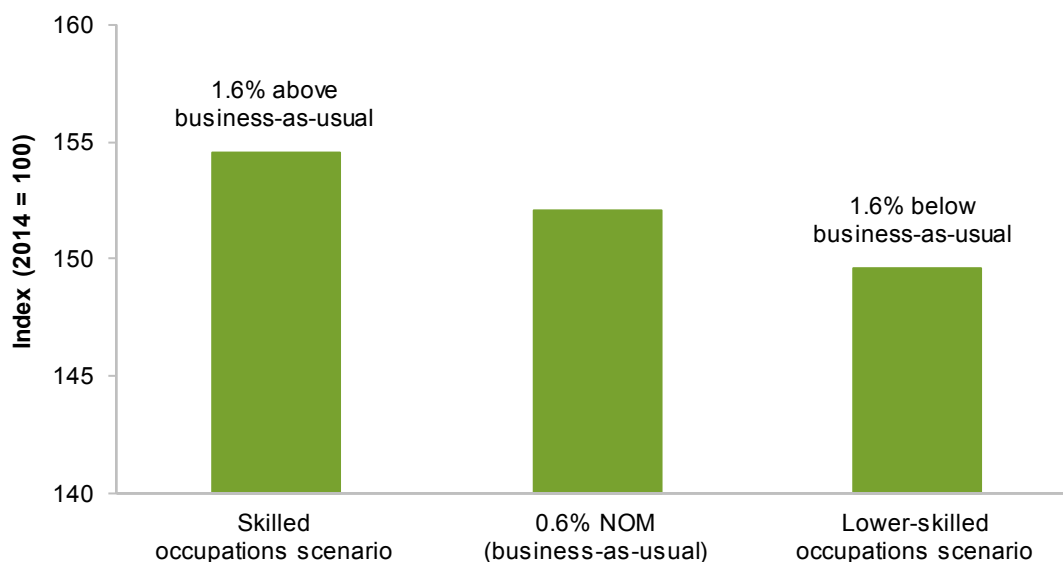
The importance of skills

How important are skills? The sensitivity of the business-as-usual results to the assumed occupation profile has been tested by modelling two additional sensitivity scenarios. The first sensitivity scenario assumes that an additional 30 per cent of NOM are in skilled occupations relative to the business-as-usual scenario. The second sensitivity scenario assumes that an additional 30 per cent of NOM are in lower-skilled occupations relative to the business-as-usual scenario.

By 2060, holding the annual rate of NOM constant at 0.6 per cent of the population (the business-as-usual case) but skewing NOM towards more skilled occupations is projected to result in GDP per person being 1.6 per cent higher compared to the business-as-usual case (figure 10.10). Reallocating the supply of migrant labour toward skilled occupations raises the labour productivity of the economy relative to the business-as-usual scenario, contributing to higher GDP per person. Furthermore, increasing the supply of labour to skilled occupations where the demand for labour is projected to grow — reduces upward pressure on wages in the economy more broadly. This results in higher investment and exports, higher GDP and (as the population has not changed) higher GDP per person. In contrast, skewing the NOM workforce towards lower-skilled occupations is projected to reduce GDP per person relative to business-as-usual. These results reinforce the key insights from the fiscal model (chapter 9) that skill levels (as well as the age) of immigrants matter for the long-term economic and fiscal benefits of immigration.

Figure 10.10 The occupational skills profile of migrants affects GDP per person

GDP per person (holding the annual rate of NOM constant at 0.6 per cent of the population), 2060



Source: Productivity Commission projections.

10.4 Towards an integrated evaluation

The economywide impacts are only part of the story

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 benefit from their employment in Australia, the population as a whole also benefits from higher GDP per person. The Migration Council Australia 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. (Migration Council Australia and Independent Economics 2015, p. 20)

Over the next 45 years the Commission's economywide modelling projects that, relative to natural population increase alone, continuing migration with the same age and occupational profile as the current migrant intake could:

-
- increase the size of the Australian population, but lower the proportion of the population aged 65 years and over and raise the employment to population ratio (the ‘demographic dividend’)
 - increase the size of the Australian economy (as measured by GDP)
 - increase measured economic output on a per person basis (GDP per person)
 - have a neutral fiscal impact overall under the assumption that the debt to GDP ratio is fixed
 - moderate wage pressures, particularly for the growing sectors of professional and community and personal service workers.

The magnitude of these economywide impacts will depend on the rate of growth in immigration over the period, assuming the young age profile is maintained. Compared to the business-as-usual case, higher (lower) rates of NOM are projected to have a proportionate positive (negative) impact on the share of the population aged 65 years and over, the employment to population ratio, and the level of GDP per person.

In summary, the Commission’s modelling illustrates that over the long term, selecting immigrants with high rates of workforce engagement and employment in high-demand skilled occupations is likely to result in improved economic outcomes in terms of higher levels of GDP per person.

However, these projected gains to the economy come with a larger population. Importantly, immigration cannot readily prevent Australia transitioning to an older population or alleviate the underlying future fiscal pressures of an ageing population. Immigration is only one tool to increase labour force participation, and importantly one that also has demographic, social and environmental impacts. Moreover, immigration does not address issues with the underlying long-term policy settings that lead to unsustainable rates of government expenditure and debt as projected in the *2015 Intergenerational Report* (Australian Government 2015a). These issues need to be better addressed through a range of policies including, for example, policies to enhance Australia’s labour force participation amongst older workers and to improve productivity in health care delivery to reduce the future fiscal pressures of population ageing (PC 2013a).

While the economywide modelling suggests that the Australian economy will benefit from immigration in terms of higher output per person, GDP per person is a weak measure of the overall wellbeing of the Australian community and does not capture how gains would be distributed among the community. Whether a particular rate of immigration will deliver an overall benefit to the existing Australian community will crucially depend on the distribution of the gains and the interrelated social and environmental impacts.

Accounting for the social and environmental impacts

The analyses that have been brought together in this report can be used to develop a more comprehensive assessment of the benefits and costs of immigration to community-wide wellbeing. 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 (chapter 3).

While a full monetised cost–benefit analysis of the long-term economic, social and environmental impacts of migration is not feasible, a cost–benefit framework provides useful guidance in considering the overall impact of different levels and compositions of the migrant intake.

Chapter 3 sets out a stylised approach to a cost–benefit analysis, where the estimated net economic benefits (costs) are assessed with the expected social and environmental costs (benefits) (box 3.6). The weighing up of costs and benefits needs to be supplemented with a consideration of: the risk and uncertainty around impacts; the distributional consequences across individuals; and the impact on future generations (drawing on part on a consideration of the evidence on Australia’s absorptive capacity).

To better inform policy makers of the tradeoffs involved in developing immigration policy, this section brings together the results from the Commission’s demographic and economywide projections with analyses of the likely social and environmental impacts from chapters 7 and 8.

Long-term social impacts

Chapter 8 explores how immigration can impact on social cohesion (that is, the trust and engagement between people in a community), finding that the social impacts of a more culturally diverse population have largely been positive in Australia. The vast majority of current Australians have immigrant forebears, and government policy has welcomed immigrants from all countries since the removal of the White Australia policy, and invested in building a multicultural identity that bonds people in a national identity while allowing them to retain links to their culture and religion. This has been complemented by the fact that, on average, immigrants integrate well into Australian life and that the children of immigrants also have relatively good outcomes in terms of education and employment. These positive social impacts have been related to care in determining the immigration intake, services that are generally effective in assisting settlement and an approach to multiculturalism that combines respect for diverse cultures (and acceptance of migration) with immigrants who are willing to integrate and to take on Australian values.

At the same time, survey evidence presented in chapter 8 suggests that there is a disconnect between attitudes to the level of immigration and the future size of the population. Despite majority support for immigration, almost two thirds of survey respondents expressed strong preferences for keeping the population below 30 million over the next 40 years,

which with current rates of immigration could be reached by around 2030 (figure 10.3). While the reasons given by survey respondents for preferring a lower population size differ between sub-groups, congestion and environmental impacts featured for all sub-groups.

One area of concern for some groups is the impact on the distribution of income, with concerns expressed over jobs and wages. However, the evidence suggests that, at least over the past decade, wages growth appears to only have been negligibly affected by the share of immigrants in any educational and age grouping (chapter 6). The economywide modelling discussed in this chapter suggests that biasing the migrant intake toward more skilled occupations is likely to reduce the wage disparities between higher- and lower-skilled occupations, which may reduce future concerns about income distribution impacts.

Continued support for the immigration program will require continued attention by governments to settlement and other services to assist immigrants to integrate, and investment in multicultural activities to support an inclusive society. This also requires that the environmental pressures of population growth, which is a source of concern about immigration, are properly addressed.

Long-term environmental impacts

Much of the community concern raised in this inquiry about the level of immigration relates to the impact of immigration on population growth and, in turn, the effect this has on the liveability of Australia's major cities and risks to the natural environment (chapter 7). A key question therefore is whether the expected community-wide impacts from population pressures on the environment, which flow through to the cost of living and congestion experienced by the existing Australian community, under different immigration rates would outweigh the estimated net economic benefit.

Without substantial change in policy settings and the effectiveness of government action, high levels of population growth will impose adverse impacts on the quality of Australia's natural and built environment. Using the Commonwealth Scientific and Industrial Research Organisation's (CSIRO's) stocks and flow model, Sobels et. al. (2010) demonstrated the stress that population growth will place on the demand for natural and built environmental resources, concluding that, 'higher levels of NOM impose greater adverse impacts on the quality of our natural and built environments, other things being equal'. Even so, the environmental impact of immigration will also depend on the policy and market responses, as well as the evaluation of preferences in the Australian community.

Chapter 7 finds that government action can mitigate congestion and other pressures. All levels of governments have a role in managing the pressures of population growth particularly in Australia's major cities. Nonetheless, even with such action, there will be additional costs for the community where environmental services that are currently 'free' have to be replaced with technological solutions. On the infrastructure front, new migrant

intakes can reduce costs for all users if they raise the utilisation of existing assets, or make new investments financially viable. But where assets are close to capacity, congestion imposes costs on all users. A larger population inevitably requires more investment in infrastructure, and who pays for this will depend on how this investment is funded (by users or by taxpayers). Physical constraints in major cities make the costs of expanding infrastructure more expensive, so even if a user-pays model is adopted, a higher population is very likely to impose a higher cost of living for people already residing in these major cities. Projecting these costs is difficult as it depends on where people choose to live, the quality of the planning and investment decision making, the level of environmental protection required, and developments in technology that could change commuter needs and utilise existing infrastructure more efficiently.

Some environmental impacts, such as the recreational value of near empty beaches and the value of biodiversity are hard to measure, let alone monetise. Yet, such considerations should be part of the broad cost–benefit assessment underpinning decisions on the long-term migrant intake (recommendation 3.1).

A more informed debate on the impacts of population growth

Community debate on sustainable levels of immigration would benefit from regular projections of the impact of varying rates of population growth on the built and natural environment. This analysis could be undertaken as part of the CSIRO's *National Outlook* series, a new initiative by the CSIRO which is:

... intended to contribute to the evidence base and understanding required for Australia to navigate the complex and often intertwined challenges involved in achieving sustainable prosperity. (CSIRO 2015, p. ii)

Integrating evidence from nine evidence-based physical and economic models, the first *National Outlook* (CSIRO 2015) projected the possible trajectory for Australia's physical economy and natural resource use out to 2050. Projections are developed for economic activity (including national output and income), resource use (including energy, water, material and land), and environmental performance indicators (including greenhouse gas emission, water extractions, area of native habitat and biodiversity).

In a similar way to the Commission's economywide modelling, the *National Outlook* explores multiple uncertainties using a scenario-based approach. While low, mid and high population projections are considered in the global modelling, only a single population scenario is considered for Australia — with net migration assumed to stabilise at 210,000 people per annum to 2050, and the total population projected to increase to 36 million by 2050 (CSIRO 2015).

The Commission considers that the analytical framework used for the *National Outlook* could be extended to examine the possible implications of varying rates population growth on Australia's physical economy and natural resource use. Indeed, the CSIRO signalled its

intent to publish further *National Outlooks* every three to five years, and to better incorporate aspects of Australia's urban systems.

To promote a well-informed dialogue on the long-term sustainability of governments' policies and changes in Australia's population size and age profile, the Commission also considers that there is benefit from synchronising the release of the *National Outlook* and the *Intergenerational Report* on a five year basis. In doing so, the analysis would make a greater contribution to community understanding of immigration and population growth (recommendation 3.1).

RECOMMENDATION 10.1

The Australian Government should fund the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to publish projections of the likely impact of varying rates of population growth on the built and natural environment. This analysis could form part of the CSIRO's *National Outlook* publication.

The release of this analysis should be synchronised with the release of the Australian Government's *Intergenerational Report*.

Maximising community-wide benefits

Maximising the community-wide benefits of immigration requires consideration of both the level and mix of the migrant intake and is highly dependent on having a system that is responsive to economic, social and environmental conditions. That is, designing an immigration system that will provide the maximum long-term community-wide benefits requires:

- a selection process that attracts young and skilled immigrants in areas where the demand for labour is high
- migrant intake levels that are responsive to short-term labour market conditions — as the capacity to absorb new immigrants will be relatively high in periods of strong economic growth and infrastructure development, and relatively low in periods of high unemployment and stagnant infrastructure development
- migrant intake levels that are within Australia's absorptive capacity — the capacity of the market and non-market sectors to respond to the increased demand for goods and services induced by population growth. This requires that the migrant intake level does not result in irreversible harm to the natural environment — which is required to support the Australian community's productive and recreational requirements, and the existence value of the natural environment
- governments to make effective investment to assist immigrants' integration and acceptance by the Australian community

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- governments to make sound planning and infrastructure investment decisions to mitigate the impact of population growth on housing, water services, and transport congestion.

Calibrating the level

A positive rate of immigration that is within Australia's absorptive capacity and oriented towards young and skilled immigrants is likely to deliver net benefits to the Australian community over the long term.

However, there are various weaknesses inherent in current processes surrounding immigration policy decision making, particularly in terms of their ability to take into account broader and longer-term considerations (chapter 3 and finding 3.1).

Taken together, these issues raise questions as to whether, without changes to increase Australia's absorptive capacity, the annual intake (which is currently at historically high levels) is consistent with achieving a population that at least sustains (and over time maximises) the wellbeing of the Australian community. For example, one view, based on the conclusions of the Australian Council of Learned Academies' first report 'Securing Australia's Future' (Withers et al. 2015), is that in the absence of a comprehensive approach to immigration policy it is better to err on the side of caution in regard to the size of the immigration intake:

Indeed, we saw policy in this area as potentially conditional, meaning unless the policy processes themselves manage to balance the triple bottom line well through population growth, including the migration component of that, then we need to rethink the extent of that growth. (Withers, trans., p. 112)

A more comprehensive approach to determining the level of immigration is required to mitigate the risks to the wellbeing of the Australian community from sustained high rates of immigration and the associated pressure on the built and natural environment from relatively rapid population growth. Recommendation 3.1 — to develop a well-informed population policy — sets out the requirements for a comprehensive approach to calibrating the annual level of immigration.

Recalibrating the composition of the migrant intake

One of the key insights from the demographic, economywide and fiscal (chapter 9) modelling is that the age and skill profiles of the migrant intake are key determinants of the impacts of immigration on the Australian community at a point in time.

The Commission considers that there is scope for reforms within the current arrangements to deliver superior overall outcomes for the Australian community. These reform options are explored in following chapters.

FINDING 10.1

Continuing net overseas migration at the long-term historical average rate is projected to increase Australia's population to around 40 million by 2060 — 13 million larger than projected with natural increase alone. By increasing the proportion of people in the workforce, immigration can provide a 'demographic dividend' to the Australian economy and reduce the impacts of population ageing, but it does not offer a panacea.

At this long-term average rate, and with the current age profile of the migrant intake, gross domestic product (GDP) per person is projected to increase by some 7 per cent relative to a zero net overseas migration case by 2060. However, GDP per person is only one component of the overall wellbeing of the Australian community. Whether migration delivers an overall benefit to the existing Australian community will also depend on other factors, including the distribution of these economic benefits, and the associated social and environmental impacts.

While a positive rate of immigration is likely to deliver long-term benefits to the Australian community, these benefits are highly dependent on having a system that attracts young and skilled immigrants, is responsive to economic, social and environmental conditions, and is informed by an improved policy process (as in recommendation 3.1).

11 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 student, working holiday maker and temporary skilled 457 programs.
- All these temporary immigration programs have labour market elements. However, the effects of student, temporary graduate 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 warranted.
- On current evidence, there appears no justification for imposing annual caps on temporary immigration programs where none currently exist, although there could 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 suggested by the Azarias report have been implemented).
- The process for identifying skill shortages needs improving to better reflect the economy's requirements and be more responsive to changing circumstances. 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 on the Consolidated Sponsored Occupations List.
- While the Commission supports labour market testing for some occupations under the 457 visa program, the current arrangements need to be reformed to improve their efficiency and effectiveness. 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.
- 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 to the communities from which overseas seasonal workers are recruited.
- 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 implementation of the Azarias report recommendations should materially reduce that risk, although the success (or not) of those reforms should be reviewed once they have been bedded down. For the other temporary programs with work rights, resources dedicated to monitoring threats to the integrity of those programs have not kept pace with increased numbers of visa holders, and should be increased. A pilot scheme to provide information by way of 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 exploitation.

Australia's temporary immigration programs may be categorised into five broad groups:¹

- Student and Temporary Graduate programs
- Working Holiday Maker program
- Employer-sponsored Temporary Work (Skilled) and Seasonal Worker programs
- Bridging visa programs²
- Other temporary programs.³

Only the first three groups — which feature a strong labour market element and account for over 80 per cent of immigrants under these five groups — are considered in this chapter.

New Zealand citizens who come to Australia are technically classed as temporary immigrants, but their Special Category visa (subclass 444) allows them to reside and work in Australia indefinitely. This visa group is discussed in chapter 13, which deals with the interaction between temporary and permanent immigration.

While the programs in each of the first three groups have different policy objectives, there are some issues they have in common. One such issue is whether these programs contribute positively or negatively to labour market outcomes in Australia — which could have major implications for whether the programs should be subject to caps or other constraints. Another shared issue is the risk of workplace exploitation. The temporary nature of these visas or being dependant on a sponsoring employer, 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 and incumbent workers.

This chapter examines the following temporary immigrant programs: Student and Temporary Graduate programs (section 11.1); the Working Holiday Maker program (section 11.2); the Temporary Work (Skilled) program (section 11.3); and the Seasonal Worker program (section 11.4). For each program it:

- outlines the objectives of the programs in the first three groups

¹ Temporary Protection visas are not included in these groups.

² 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 2015ax).

³ 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 2015ax).

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- 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 chapter concludes with a separate discussion on the exploitation of temporary immigrant workers (section 11.5).

11.1 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 3).

At a program-specific level, the objective of the Student 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 2015c).

The objective of the Temporary Graduate program is to ensure that international students who decide to stay on in Australia after completing their studies have an opportunity to gain work experience (DIBP 2015x). By doing so, this visa allows international students to gain *skilled* work experience and improve their English-language skills, which might then assist 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 (South Australian Government, sub. 57).

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-funded services (such as health and welfare). As a group, they are therefore unlikely to impose a significant fiscal cost on the Australian Government.

At a program-specific level, international student numbers have been trending upward over the past 10 years (table 2.10). While the number of student visas granted and student visa holders in Australia declined following a peak in 2009, they have grown strongly since 2012 (PC 2015c). 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 — have made a significant contribution to this growth (PC 2015c).

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 2015c).

There are concerns that SVP 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 2015c). It is too early to identify if SVP has had a positive or negative impact on the integrity of the student visa program (DIBP 2015aa). 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 2015aa).

The number, growth, and economic and social contribution of student and temporary graduate visa holders suggests that these 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 13). 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 2015e).

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 11.1).

Box 11.1 **Recent reviews affecting the Student and Temporary Graduate programs**

- *Strategic Review of the Student Visa Program* (Knight Review) in 2011
- *Australia — Educating Globally* (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 that were considered to be limiting the ability of programs to deliver against their objectives.

The level of immigrants under the programs

The number of student and temporary graduate visas is not capped, and as at December 2015, there were about 328 000 student and 24 000 temporary graduate visa holders in Australia (chapter 2).

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 create 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 (PC 2015c), 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, in this inquiry, the Commission considers that these visas should remain uncapped.

But while the Commission does not propose caps on student and temporary graduate visas, neither does it accept that ‘more is always better’. The issue of whether these visas remain uncapped should be revisited if capacity constraints emerge in the education sector or there is strong evidence of wider negative ‘externalities’.

Current international 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, the number of international students can also affect the quality and amenity of education at institutions. And although institutions have an incentive to monitor this to protect their own reputation there is a risk that, for some, their focus would be on the short term and that the longer-term implications of ever larger international student populations would be ignored. 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.

Also relevant to whether student or temporary graduate visas should be limited are the indirect costs and benefits (externalities) they might generate in areas such as infrastructure, the environment or social cohesion. While there are both positive and negative externalities from immigration, educational institutions have little incentive to consider these effects generated by student and temporary graduate visa holders. These effects though could potentially offset the net benefits to the community noted above (Grace, trans., pp. 98–9). And, as the Migration Institute of Australia (MIA) noted:

... while the consideration of economic benefits and costs is important, non-economic benefits are also important and need to be either better researched or better articulated. (MIA, trans., p. 188)

Thus, although governments can generally be confident that leaving student and temporary graduate numbers uncapped is currently warranted, they should not abdicate their responsibilities to continually assess whether this remains the case.

Another issue relevant to whether international student or temporary graduate numbers should be limited is their effect on the labour market. The Commission is not able to reach a definitive view on this.

Some participants claimed that temporary immigrant workers are crowding out local workers (particularly young Australians and new entrants) and/or putting downward pressure on wages and conditions of employment (ACTU, sub. DR104; Bennett, sub. DR82; CFMEU, sub. DR114). Ortega’s views exemplify this concern:

... there are so many categories of visas that allow migrants to work here and there are not enough entry level jobs to share. There’s students, working holiday makers, and 457 visas etc. (sub. DR74, p. 4)

Others though were sceptical of the link between temporary visa holders and adverse labour market outcomes for youth and new entrants, with Sinning (sub. DR80) claiming there is no basis for this claim.

All student visa holders (subclass 570–76 visas) have a right to work up to 40 hours per fortnight while their course is in session and full time when it is not (DIBP 2015d). Those on a temporary graduate visa, depending on their qualification, have a right to work for between 18 months and four years (AMES Australia, sub. 45). These work rights are an important factor in the attractiveness of Australia’s international education services to foreign students (IEAA, sub. DR115; PC 2015c).

Given the number of students and graduates involved and their geographic and demographic concentration, these effects are likely to be significant. This is particularly likely for student work rights since this group tends to undertake low and semiskilled work — where they are likely to be in competition with Australian youth and first job entrants (chapters 5, 6 and appendix D).

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 is 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. However, the ACTU argued that these rights should be restricted to the industry or occupation relevant to the student’s study and to occupations that are experiencing labour shortages (sub. DR104).

In Canada, concerns about the quality of its education sector and the effects of work rights for international students⁴ 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 (Government of Canada 2014b; ICEF Monitor 2014).

In the United Kingdom, concerns about jobs for local workers have also led to restrictions on work rights for international students (Boucher, sub. DR128) and graduates (International Education Association of Australia (IEAA), sub. DR115). However, as the IEAA noted, the United Kingdom’s abolition of its two-year post-study work rights program has been associated with a subsequent significant decline in international students. This experience suggests reductions in student and temporary graduate work rights could adversely affect demand for international education services.

Deciding what level is ‘right’ is severely hampered by a lack of data

The labour market effects of student and temporary graduate visa work rights (and of their accompanying dependents) are poorly understood (Gregory 2014). Lack of fundamental data on employment patterns of visa holders is a major contributing factor in this (Hugo 2006; Victoria First Inc. and Sustainable Population Australia, sub. DR81). This

⁴ The Canadian work rights of up to 20 hours per week are essentially the same as Australia’s.

lack of data has been exacerbated by the failure of the DIBP to adequately monitor visa holders' compliance with their work right entitlements (ANAO 2015).

To address the paucity of data available to inform an assessment of this issue, the CFMEU suggested the Government should commission a research group to collect data on the impact of temporary visa holders on the labour market in Australia (DR114). To the same end, the ACTU called for the DIBP to collect and provide consolidated information on the working patterns of student visa holders and other temporary immigrants with work rights (subs. 36 and DR104).

The DIBP is aware of the need to address this lack of data and to this end has instituted a research program that comprises:

- a targeted literature review to identify gaps in the data and opportunities for further research
- quantitative surveys of around 5000 temporary visa holders (student, temporary graduate, sponsored employees, working holiday maker or secondary visas) and 1000 employers of those visa holders
- qualitative place-based case studies in Cairns, Hobart and Melbourne. These include a series of group discussions and in-depth interviews with a range of audiences, covering temporary residents, employers of temporary residents, permanent Australian residents, community and cultural leaders, and secondary visa holders.

The DIBP is due to release a report on its findings from this program later in 2016. But, while the DIBP survey adds to information on the extent to which work rights are used and the type and geographic distribution of that work, its sample size and unknown non-response bias limit its usefulness.

Two initiatives, though, offer the potential to provide comprehensive and timely data on the work experience of student and temporary graduate visa holders. These are:

- Australian Taxation Office (ATO) / DIBP data linking
- the Single Touch Payroll (STP) initiative.

About 70 per cent of temporary immigrants with work rights apply for a Tax File Number (TFN) via the ATO's Individual Auto Registration system. When these clients apply for a TFN through this system, their details are matched with the DIBP's records to confirm their identity. As part of the matching process, the DIBP will provide the ATO with a DIBP 'Personal Identification' Number for that taxpayer. This matching process has been in place for over 10 years (ATO, pers. comm., 1 April 2016).

Where applicants apply for a TFN using other methods (such as through Australia Post) they are not captured by this data matching process. This 'leakage' of coverage (and that arising from when applicants apply for an Australian Business Number in lieu of a TFN) is, however, relatively minor and does not pose a threat to the value of the data collected under this matching process.

Under the STP an employer's accounting software will automatically report payroll information to the ATO when employees are paid (aligned to their payroll cycle). The current scope of the STP does not provide for matching employees' visa status with payroll related data. Further, only employers with 20 or more employees (100 000 businesses, covering about 13 million employees) are required to report using the STP from 1 July 2018. The Government is yet to decide whether to mandate the use of the STP for smaller businesses with less than 20 employees (710 000 businesses, covering about 3 million employees). These smaller businesses are likely to be where most students or temporary graduates would work.

The Commission is not suggesting that mandating the collecting of visa status under phase 1 of the STP is justified. Nor that the STP for businesses with less than 20 employees is justified. However, it notes that the benefit of obtaining such data should be considered in any cost-benefit assessment of the scope of collections under phase 1 of the STP initiative and the potential coverage of phase 2.

Even allowing for a vast improvement in the fundamental data describing the work experience of student and temporary graduate visa holders resulting from these initiatives, an analysis of the extent to which this work affects labour market outcomes for incumbent workers would still be needed. This is particularly so with regard to the possible effects on young and low-skilled workers. Also needed is an analysis of the sectoral and economywide effects of any changes in work rights (such as reducing their duration or the number of temporary immigrants with those rights). Only then can the full costs and benefits of any change be considered and a decision made on what (if any) policy response is justified from a community-wide perspective.

It is important that this analysis be comprehensive and transparent: particularly in view of the number of students and other temporary immigrants 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 National Farmers' Federation (NFF) (sub. DR105) and the Australian Chamber of Commerce and Industry (ACCI) (sub. DR126) argued that a public inquiry was not warranted as recent and contemporary reviews have covered this issue. However, while other inquiries have considered temporary work visa programs, they have not focused on the labour market effects of the student, temporary graduate and working holiday maker visa programs. For example, the labour market effects of these visa holders' work rights were within the scope of a Senate Committee inquiry on the impact of Australia's temporary work visa programs on the Australian labour market (SEERC 2015b). However, that inquiry largely focused on the 457 visa program, although this later broadened to embrace the exploitation of student and working holiday maker visa holders following media coverage of widespread exploitation among those groups (SEERC 2015a). The report did not analyse the effect of these temporary visas on the labour market for youth and new entrants.

Nonetheless, 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 temporary immigrants' work rights and what, if any, policy changes might be needed in this area. This issue is also examined in chapter 6 and appendix D.

The IEAA objected to including international students in an inquiry into the labour market effects of work rights of temporary immigrants (sub. DR115). It argued that Australia faced international competition for students and the availability of work rights is a major factor influencing demand. By implication, should an inquiry find in favour of reducing those rights, this could jeopardise Australia's competitiveness.

While such an outcome is possible, the Commission is required to provide advice taking into account the best interests of the Australian community. It considers that a public inquiry that weighs up the costs and benefits of any labour market effects of work rights, and the economywide consequences (including in the education sector) of changing those rights, is the best vehicle to advance the wellbeing of the entire Australian community.

The ACCI (sub. DR126) also objected to student and temporary graduate work rights being included in a public inquiry. It considered that any such study should be undertaken in the context of the Government's National Strategy for International Education. However, the development of that strategy (which is due to be released in the first half of 2016) did not consider nor call for submissions on the labour market effect of student and temporary graduate work rights. Accordingly, comprehensive analysis of this issue remains outstanding — a state of affairs that a public inquiry would rectify. At present what can be observed is a myriad of assertions from different sides of the debate, without solid evidence and analysis to reach a firm conclusion. This lack of evidence must be rectified to promote the best policy choices in the interest of Australia.

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-language proficiency of international students seeking enrolment in Australian courses are a barrier to the student immigration program realising its potential. It argued that for those applying for a student visa (and all other types of visas for which this testing is required) 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).

The importance of tests being related to the applicant's language or field of study was echoed by the MIA in public hearings (trans., pp. 190–3).

ISLPR Language Services acknowledged the desirability of a minimum standard of English proficiency as a prerequisite for issuing student (and other) visas (trans., p. 80). 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-language 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 it proposed that the International Second Language Proficiency Ratings (ISLPR[®]) also be accepted as a test for assessing English-language proficiency for visa programs (subs. 16 and DR78):

This is not a matter of lowering standards or accepting lower proficiency levels but rather of correctly measuring a person's real language ability whether that is in general proficiency or proficiency in their vocational or other interest area of the language ... (sub. DR78, p. 3).

ISLPR Language Services (sub. 16) and the MIA (sub. DR131) noted that ISLPR[®] is already used for assessing English proficiency for entry by international students to educational institutions and is approved by Government for assessing functional English for language training. A recent evaluation of the Adult Migrant English Program also noted that ISLPR[®] has been used to assess proficiency under the program since the late 1970s, and that it is well suited to that program and should continue to be used (ACIL Allen Consulting 2015).

English-language testing for visa applicants has seen significant reform in recent years. ETS Global (sub. DR86) noted that Government reforms introduced in 2011 and 2014 ended IELTS's virtual monopoly as the test of English-language proficiency for student and skilled visas by expanding the number of approved testing systems (box 11.2).

Box 11.2 **Recent reforms to English-language testing arrangements**

In 2008-09, the then Department of Immigration invited English-language proficiency test providers to demonstrate that their globally available test could meet 24 benchmarks set by the Department. At that time the Department only recognised the IELTS® and OET® (for health professionals) tests for visa applications. The tests that were successful through this process would be approved to assess English-language proficiency for student and skilled migration visas.

In November 2011, the Australian Government accepted three global English-language proficiency tests as alternative tests of English proficiency for student visas. (ISLPR Language Services made a submission to the review of English-language providers in 2009 but was not successful.)

In November 2014, the Department of Immigration and Border Protection finalised a review of alternate English-language test providers. That review assessed providers against a range of benchmarks, including the ability of their test to meet the differing English-language requirements of the various skilled immigration programs. As a result of that review, the department approved three tests of English-language proficiency for temporary and permanent skilled visa programs (the same three it had approved for student visas in 2011).

As a result of these changes, employers and skilled migrants are now able to choose an English-language test more appropriate to their circumstances.

The current acceptable tests for evidencing English-language ability for visa programs 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.

Sources: DIBP website; ETS Global (sub. DR86).

ISLPR Language Services stated that it was probably unsuccessful in its 2009 submission to be an approved English-language test because at that time it did not have adequate quality assurance built into its test and its development process (trans., p. 81). It argued this has since been corrected with the establishment of an international accreditation process (trans., p. 81) and ISLPR® would now be qualified to become an approved testing system.

The Commission notes that the DIBP considers the IELTS exam to be an appropriate test of a migrant's English-speaking ability (sub. DR138) and has undertaken what appears to be a rigorous process to broaden the range of English-language test providers for Australia's temporary and permanent skilled migration programs. That process has resulted in the addition of three global English-language proficiency tests to the list of tests accepted for student and skilled immigrants (box 11.2). In doing so, the DIBP has introduced reforms (most recently in November 2014) that have ended the former reliance on IELTS and provided a range of alternative tests to better assess visa applicants' language proficiency.

11.2 Working Holiday Maker program

Objectives

The Working Holiday Maker program has the primary objective of fostering closer ties and cultural exchange between Australia and partner countries. It does this by allowing young people from specified countries to experience Australian culture and lifestyle through an extended holiday, with opportunities for short-term employment (DIBP 2014a).

While the program benefits Australia's tourism industry it has increasingly been shaped to benefit other industries that have a need for short-term casual workers, particularly those based in regional Australia.⁵

How does the program perform against its objectives?

As at December 2015, there were about 155 000 working holiday makers in Australia. The growth in the program over the past 10 years (chapter 2) suggests that Australia has been a highly attractive destination for working holiday makers. As a reciprocal program, young Australians also benefit from similar opportunities overseas.

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). They are, thus, likely to contribute to economic activity and to goods and services tax revenue and to income tax revenue (with an increase in the latter expected from July 2016),⁶ 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 benefits.

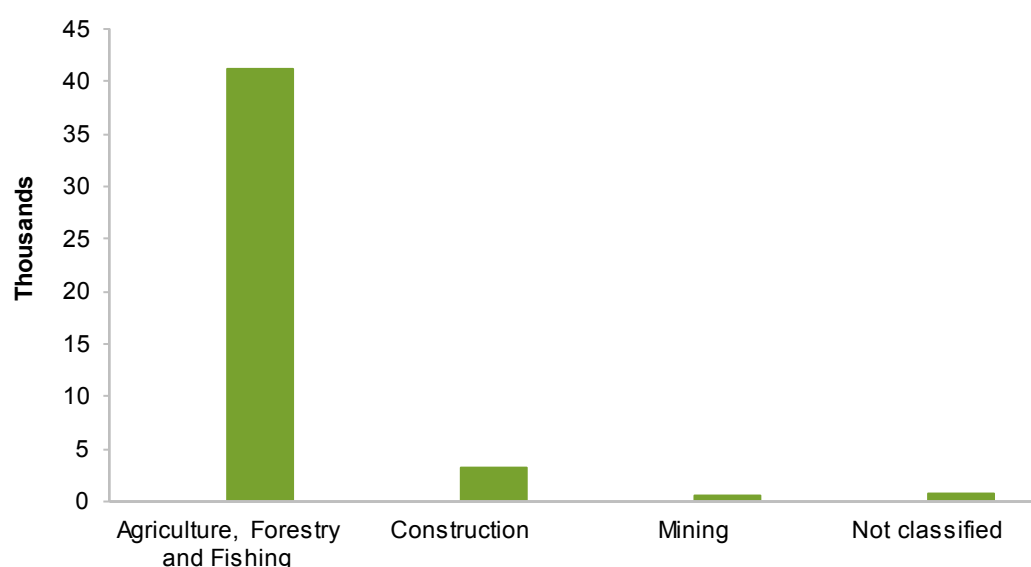
The program has also made a large contribution to the pool of labour for industries requiring short-term casual workers (Australian Multicultural Council, sub. 11; Matta, sub. 17).

⁵ 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 apply for a second such visa. 'Specified work' includes work in the agricultural, mining and construction industries. For the purpose of the Second Working Holiday visa initiative, regional Australia includes large parts of rural and regional Australia.

⁶ In the 2015-16 Budget the Government proposed changes to the tax status of working holiday makers: 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 per cent) from their first dollar of income up to \$80 000, while not being liable for the Medicare levy (Australian Government 2015c).

Through the Second Working Holiday visa initiative, the program has been particularly 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 2015bf). In 2013-14, over one in four first-time Working Holiday visa holders went on to acquire a Second Working Holiday visa (DIBP 2015bf). The success of the initiative in channelling significant numbers to agriculture is evident in figure 11.1.

Figure 11.1 Second Working Holiday visa applications granted in 2013-14 by employer industry



Source: DIBP (2014m).

The National Farmers' Federation (NFF) put the significance of these numbers in perspective, noting that working holiday makers 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 program has exhibited strong growth to date, two changes announced by the Government in May 2015 could reduce or halt that growth. Those changes were to:

- tax previously exempt earnings of backpackers (a measure expected to raise \$540 million over the forward estimates period) (Hockey and Cormann 2015)
- remove voluntary work as an eligible input to the 88 days of employment needed to get a year's visa extension (part of a suite of reforms to curb employers' exploitation of

working holiday makers by getting them to work for free — ‘involuntary volunteers’ — in return for signing documents to secure an extension) (Cash 2015c).

Affected parties have been vocal in expressing their concerns with these changes. Master Builders of Australia (sub. 49) and United WHY (sub. DR94) considered the tax changes would reduce the incentive for working holiday makers to come to Australia. Media reports also claimed they would significantly reduce Australia’s attractiveness to volunteer farm workers — with some claiming ‘dire consequences’ for the viability of some organic farming operations (Pepper 2015). The Commission notes that the DIBP has undertaken no modelling to determine the effects of the new tax arrangements on demand for working holiday visas (SLCALC 2016).

United WHY was also sceptical that the tax change would raise anywhere near the revenue expected. It believed that the change would push many workers into the cash economy and this, combined with fewer working holiday makers coming to Australia, could even reduce tax revenues.

Data from WWOOF Australia suggest that the changes have had the unintended consequence of reducing the number of genuine volunteers seeking work on organic farms. Following the announced changes in May 2015 and the commencement of the new rules in August 2015, the number of these volunteers fell markedly. There have also been anecdotal reports that the foreshadowed tax changes are already reducing the supply of working holiday makers (McKillop 2016). However, there may be other factors at play — such as news of exploitation spreading through social media.

Although the change in taxation arrangements can be expected to reduce demand for working holiday maker visas, the extent of the impact will depend partly on how much prospective holiday makers value Australia as a destination for working holiday purposes relative to other destinations that offer comparable experiences. Moreover, any reduction may be offset by proposals to expand the scope for working holiday makers to extend their visa — contained in the Government’s recent *White Paper on Developing Northern Australia* (box 11.3). The first of these proposals (allowing visa holders to undertake 12 month’s work with one employer) was implemented in November 2015 (Dutton 2015a).

Even though the work element of these visas is secondary to the main objective of cultural exchange, it would be sensible for the Government to monitor the effect of these changes on labour markets in affected industries. This would allow the Government to revisit and possibly reverse the changes if the community-wide costs were found to outweigh the benefits.

Box 11.3 Proposals to expand the scope of working holiday maker visas

The Government will amend the Working Holiday Maker 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:

- 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).

RECOMMENDATION 11.1

The Australian Government should monitor the effects and assess the costs and benefits of changes to the:

- tax status of working holiday makers (to take effect from 1 July 2016)
- eligibility of voluntary work as an input to the 88 days of employment needed to get a year's extension to a working holiday visa.

If the community-wide costs are found to outweigh the benefits, the Government should revisit these changes with a view to varying the conditions of the changes or rescinding them.

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 the annual number of visas granted and the exploitation of working holiday makers by some employers.

Changes to the program may well arise from the current inquiry by the Fair Work Ombudsman (FWO) into the wages and conditions of working holiday visa holders (FWO 2014b). The final report of this inquiry is expected before July 2016.

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 objectives.

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 that:

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 Commission, have found immigration creates at least as many jobs as it displaces (PC 2006). In addition, the working holiday maker program is likely to be a material factor in increasing demand for Australia's international education services — from working holiday makers themselves and others from their country of origin (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 for systematically limiting 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 (subclass 462) program, individual caps already apply for each partner country (except the United States, which is uncapped). As these caps reflect the DIBP's assessment of immigration risk for each country it seems appropriate that they remain.

As noted in the discussion on student and temporary graduate visa holders, the economic benefits of temporary immigrants need be set against the net indirect costs and benefits they might generate in areas such as the environment or the community.

Various participants argued for the continuation or expansion of the working holiday maker program, based primarily on its value in supplying a pool of workers for low-skilled jobs (NFF, sub. 31; Migration Alliance Inc., sub. DR89). And since its inception, there is clear evidence that some industries (notably horticulture and tourism) have relied heavily on working holiday maker visas holders to meet labour shortfalls (Parliamentary Library 2006; PC 2014b).

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. 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.

The findings of Tan and Lester lend weight to such concerns. They noted that the willingness of working holiday makers to work for lower wages and in jobs that local workers do not like:

[has] to some extent ... depressed the working conditions and reduced the job openings for the relatively unskilled local Australians. (Tan and Lester 2012)

Some participants argued that the program delivers adverse consequences for Australian workers (ACTU, sub. 36; Cooper, sub. 25) and this justifies limiting the number of visas granted. The ACTU put such concerns into perspective when it 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 that an annual cap should be imposed to limit any further growth in this program, taking into account the labour market conditions for young Australians (sub. 36). These views echo those of Birrell and Healy:

... 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)

Boucher (sub DR128), too, argued for more control over the growth of the program, including the potential imposition of annual quotas. She noted the program has grown rapidly and expanded to include new source countries that have large wage differentials with Australia. This, in turn, creates a risk that the program could become a proxy for temporary low-skilled work visas — with implications for concentrated labour market effects on young workers and new entrants.

Working holiday makers from some of the new source countries cited by Boucher (notably Bangladesh, Turkey and Thailand) are, though, only eligible for Work and Holiday (462) visas. And these visas are already subject to tight country level caps. Nonetheless, while most countries eligible for uncapped Working Holiday (417) visas have minimum and average wages equal to or higher than Australia, there are some (such as Italy and Korea) where those wages are much lower. For these countries, the concerns raised by Boucher may be valid.

The ACTU was even more critical of the Second Working Holiday visa. It claimed that workers under that program crowded out Australian workers, that it serves no useful

purpose, and should be abandoned (sub. 36). This, too, was the view of the CFMEU (sub. DR114).

However, other participants claimed that persistent labour shortages in agriculture and in regional areas for unskilled workers were evidence that local labour markets were 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 11.4). At an aggregate level, the evidence to support this view seems compelling.

Research in New Zealand also provides qualified support for this view. McLeod and Maré examined concerns that temporary immigrants (who face few restrictions on the employment they take up and who are more likely than permanent immigrants 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). These findings, though, need to be treated with caution due to the buoyant period over which the study was conducted and some data constraints (Boucher, sub. DR128).

Box 11.4 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.

The NFF concluded that 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 from that survey 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).

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 points out (sub. 36), 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.

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 partly 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 2015g).

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 other government programs intended to improve Indigenous labour market participation in regional Australia.

Accordingly, further analysis is warranted to determine whether inducing working holiday makers to take up regional jobs remains sound policy from an economywide perspective (chapter 6). As noted, the terms of reference for the 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.

Deciding what level is 'right' is severely hampered by a lack of data

Participants' expressed concerns about the adverse labour market effects arising from working holiday makers' work rights and what this might mean for the level of entrants under this program. In this, their concerns mirror those noted earlier for students and temporary graduates. But a lack of data on the work experience of working holiday makers (Harvey, sub. DR130) has meant the effects of these work rights are also poorly understood.

Against this background, the Commission considers a public inquiry into the labour market and economywide effects of work rights should embrace working holiday makers.

Some participants endorsed including working holiday makers in such an inquiry (ACTU, sub. DR104; Settlement Services, sub. DR109). But the ACCI (sub. DR126) did not. Instead, it called for the DIBP to invest in an updated version of a 2008 survey on working holiday makers (Tan et al. 2009). This, though, has been done. The DIBP's 2015 survey of temporary residents is an updated version of that 2008 survey, with the inclusion of other temporary immigrant programs. But while this survey provides some insight into the work experience of working holiday makers, its sample size and likely non-response bias limits its usefulness. More comprehensive, publicly available data and analysis are needed to inform policy in this area, and it is the Commission's view that a public inquiry would

achieve this and is the best means to do so. Without a thorough and public inquiry into these links, there will continue to be speculation and assertions from various interest groups to support or oppose the working holiday maker program.

As noted, existing publicly available data collections poorly serve policy in this area (Hugo 2006). For example, the Longitudinal Survey of Immigrants to Australia and the Continuing Survey of Australian Migrants are the only data sources that link employment outcomes to visa type, but they exclude temporary immigrants (Gregory 2014). A public inquiry could also identify gaps in data on the work experience of temporary immigrants that need to be filled so that future policy does not operate in an information vacuum. In this it could build on the work of the DIBP research program noted earlier.

Current initiatives in matching tax data and visa status also offer scope to provide comprehensive and timely data on the work experience of temporary visa holders. (This is similar in principle to the data matching undertaken through the Personal Income Tax and Migrants Integrated Dataset.) The matching of TFN applications with the DIBP's records holds particular promise in this regard, given that 'most' temporary immigrants with work rights are captured under this system and data has been collected for over 10 years.

Interrogating this matched data set could provide the basic information needed to assess the labour market effects of temporary immigrants' work rights. It could, for example, provide information on whether the holder of a particular visa type exercised their work rights (did they work or not), the extent to which they worked (with level of earnings as a proxy), the industry in which that work was undertaken, and their age.

This information could also assist the DIBP in its monitoring of temporary immigrants' compliance with visa conditions and in better targeting its efforts at enforcing compliance.

Accordingly, the Commission considers that the ATO, the DIBP and the Australian Bureau of Statistics should work to make this rich database available for the purpose of research and informing policy development. The Australian Government should allocate sufficient funds in these agencies' Budget allocations to facilitate this work.

RECOMMENDATION 11.2

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

RECOMMENDATION 11.3

The Australian Taxation Office, the Department of Immigration and Border Protection, and the Australian Bureau of Statistics should compile and make available a database matching Tax File Numbers and temporary immigrant visas. Data collected through this matching process should be made available in general aggregated form for the purpose of research and informing government policy.

To facilitate the compilation of this database, the Australian Government should allocate dedicated funds to these agencies.

11.3 Temporary Work (Skilled) program

Objectives

The key objectives for the Temporary Work (Skilled) (subclass 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, while ensuring that working conditions of sponsored visa holders are no less favourable than those provided to Australians (Azarias et al. 2014).

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 against its objectives?

Temporary 457 visa holders are only granted a visa if they have a job offer in Australia from a sponsoring employer who is approved by the DIBP. Visa holders must also have a satisfactory level of English-language proficiency (with some exceptions)⁷ and generally must work in a skilled occupation on the Consolidated Sponsored Occupations List (CSOL).

An exception to the latter requirement is available through a Labour Agreement, which allows an employer to negotiate with the Australian Government to recruit workers for occupations that are not on the CSOL. In negotiating these agreements the employer must identify the relevant skill shortage and demonstrate why Australian workers cannot fill

⁷ 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 2015ba).

these jobs. About 3 per cent of all 457 visa grants are under Labour Agreements (DIBP 2015c).

Subject to a minimum annual salary threshold (\$53 900 plus superannuation), all 457 visa holders must receive the same terms and conditions of employment as an equivalent Australian worker. In addition, 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 likely to deliver a fiscal benefit to the Government (chapter 9).

The annual intake of workers on 457 visas has almost doubled over the past decade, and as at December 2015 there were around 160 000 such visa holders in Australia (down from a peak of about 202 000 in March 2014) (chapter 2; DIBP 2015az).

The Master Builders of Australia (sub. 49) 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. In 2013-14, for example, 457 visa holders accounted for around 50 per cent of the approximately 79 000 onshore grants of skilled permanent visas (chapter 12, figure 12.4).

Are changes needed?

In common with other temporary immigration 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 program 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 that it supports 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 2015ab).

The level of immigrants under the programs

The ACTU (subs. 36 and DR104) and the CFMEU (sub. DR114) expressed concern that in some cases 457 visa holders crowded out Australian workers, especially in times when economic growth was slowing — 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). The final report, though, stated that there was little evidence put to the review to support these views.

Other submissions, though, emphasised how well the scheme has performed in meeting labour market shortages (NFF, sub. 31; Rural Health Workforce Australia, sub. 30) 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, CFMEU and UnionsWA (subs. 36, DR114 and DR107, respectively) expressed concern that the scheme reduced the incentive for employers to invest in training, which adversely affected the skilling of local workers. However, the Migration Council of Australia (2013) and the Minerals Council of Australia (sub. 52) 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 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 MIA 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 11.2; PC 2014).

Figure 11.2 **Annual intake of temporary skilled workers (on 457 visas)**
Year to June



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

However, while capping the total annual number of 457 visas granted does not appear to be 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)

Elsewhere, Hawthorne has drawn attention to developments in Canada, where concerns about jobs for locals have led to caps on particular occupations:

In 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, p. 12)

However, the concerns raised by Hawthorne — and the call to cap numbers in some occupations — may be 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). An integral part of improving this process was a recommendation to establish a new tripartite ministerial advisory council that would report to government on skilled migration issues. This council was established in mid-2015.

Once implemented and bedded down, these recommendations are expected to lead to better identification of occupations (and regions) where shortages do not exist. In turn, this should 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.

It is, however, too early to tell if these changes 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. Given the crucial role that assessing the state of the labour market plays in the integrity of the 457 program, the efficacy of the Azarias reforms targeting this area should be transparently assessed after they have been bedded down.

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. (NFF, 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).

The issue of 457 compliance costs has been subject to considerable recent Government attention — including the Azarias review that proposed changes to reduce compliance costs for skilled visa applicants and sponsors (box 11.5). That review recommended streamlining the program to reduce the cost to business of getting 457 workers into the country. These changes were included in the Government’s *Industry Innovation and Competitiveness Agenda* announced in October 2014.

Box 11.5 Compliance cost reductions for the 457 program

In February 2014, the Government commissioned an independent review into the integrity of the 457 program (the Azarias review). 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 its’ recommendations.

These reforms should 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 suggested were:

- 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.

In April 2015, the Department of Immigration and Border Protection implemented the recommendations to increase the sponsorship approval period from 12 to 18 months for start-up businesses and to provide greater flexibility in relation to English-language requirements. Streamlining of sponsorship requirements will be progressed by the end of 2016. The reforms to sponsorship requirements are being considered as part of the Skilled Migration and Temporary Activity Review.

The Office of Best Practice Regulation has agreed that these changes will lead to an annual saving of \$29.9 million in compliance costs.

Source: DIBP (2015n).

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) suggested that the high ‘pass marks’ for 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 6 and 8).

While not questioning the standard for English-language proficiency, as previously mentioned, ILSPR Language Services (subs. 16 and DR78) 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. In support of its claims it referred to a report on 457 applicants for beekeeping jobs in Australia that illustrates the necessity for the testing regime to be amended (sub. DR78).

To address these failings it called for the addition of ISLPR[®] for assessing English-language 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).

In April 2015, the Government introduced changes to English-language requirements in line with recommendations from the Azarias report. These changes provided for a broader range of tests to determine proficiency (DIBP 2015ba). On face value, these changes should assist the 457 program to better deliver against its objectives, although it would be sensible to review the effectiveness of these changes once they have been fully bedded down.

Mark Tarrant Lawyers (sub. DR134) also argued that an exemption from the English-language requirement should extend beyond that currently provided for passport holders from Canada, New Zealand, the Republic of Ireland, the United Kingdom and the United States. They held that the exemption should apply for nationals of all European Union member states and more broadly (unless required for mandatory occupation registration or licensing).

Their view accords with recommendation 7.4 of the Azarias report: 'That consideration be given to expanding the list of nationalities that are exempt from the need to demonstrate they meet the English language requirement'. This recommendation was 'Not supported' by the Australian Government in its response to that report.

Given the number of European Union member states (and other countries) for which English is not the main language, the extension of the current exemption would introduce a substantial risk of admitting 457 visa holders whose English-language skills were below the required standard. Accordingly, the Commission does not support the call for expanding the list of countries for which exemptions apply.

Skills covered, skill shortage identification and labour market testing

Some participants such as the ACTU (sub. 36), Harvey (sub. DR130), Mark Tarrant Lawyers (sub. DR134), the MIA (trans., p. 188) and the NFF (subs. 31 and DR105) 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 is based on the Australian and New Zealand Standard Classification of Occupations (ANZSCO) list — as such, it does not include some skilled occupations that are in short supply but are not recognised in ANZSCO (such as senior skilled farm hands)
- the CSOL is merely a list of skilled occupations and so it neither accurately reflects the real state of skill shortages in the economy nor is it sufficiently responsive to changing economic conditions.

These criticisms were addressed by the recent Azarias report, which recommended changes that should accommodate the inclusion of emerging skilled occupations on the CSOL and significantly improve the assessment of labour market shortages (box 11.6). Those recommendations have been supported or supported in principle by the Government.

Box 11.6 **Azarias report recommendations on listed occupations and identifying genuine labour shortages**

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 [Australian and New Zealand Standard Classification of Occupations] 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 the implementation of these recommendations should go some way towards addressing concerns about the range of skilled occupations eligible for sponsorship. It should also significantly improve the identification of skilled occupations in short supply.

In line with the Azarias report recommendations, the Government reinstated the Ministerial Advisory Council on Skilled Migration in mid-2015. That council has been tasked to review the effectiveness of the CSOL to ensure that the composition of the list better aligns to industry needs. The council is currently undertaking this task and will report to Government over the coming months.

However, Boucher (sub. DR128) and the MIA (trans., p. 188) raised concerns about the independence of that council:

... it is unclear whether this advisory council will achieve the goal of independent evaluation of skills shortages, given that it is comprised primarily of trade union and employer groups ... (Boucher, sub. DR128, p. 12)

Boucher noted that an independent body, along the lines of the Migration Advisory Committee in the United Kingdom, would increase the transparency of the list construction process over a tripartite committee. It would also avoid predictable oppositional perspectives on the labour market from business and union bodies, and be more likely to base its findings on evidence rather than anecdotal reports (sub. DR128). The MIA (trans., p. 188) also believed the UK model was a preferable approach to the current tripartite body, although other models are available — such as the (then) Australian Workforce and Productivity Agency (Howe 2013).

Given the critical role of credible assessments of skilled occupation shortages to the integrity of the 457 program, the success of the council in this task should be subject to review, with the view to changing its composition if it is found to be performing poorly.

The ACTU (subs. 36 and DR104) also argued that labour market testing should remain and be strengthened to ensure that 457 holders only fill jobs that could not reasonably be filled by Australian workers. This would ensure that the program met this part of its objectives.

This issue of how to confine 457 workers to occupations in genuine shortage has bedevilled the scheme since its inception. At the heart of arguments for labour market testing is that occupations filled by 457 workers (those on the CSOL) are merely those identified as skilled on the ANZSCO list and not those that are in short supply.

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 and those in oversupply — that report recommended the abolition of labour market testing. This proposal, though, was ‘noted’ (rather than ‘supported’ or ‘not supported’) by Government.

Despite the shortcomings in the current labour market testing arrangements identified in the Azarias report, the Commission considers that the current labour market testing provisions should be retained for the moment. However, should the new arrangements for identifying whether skill shortages exist or not prove successful then it would be apposite to revisit the need for labour market testing.

Accordingly it would be sensible to review the effectiveness of those changes after allowing time for them to be bedded down. Moreover, to avoid any conflict of interest, that review should be undertaken by an agency not involved in the implementation of the Azarias report recommendations.

This review would also be an appropriate vehicle to assess the effectiveness of the Government’s changes to the training requirements on sponsors of 457 visa holders, instituted in response to the Azarias report recommendations (chapter 6). However, the Government would need to ensure that data is collected on employers’ investment in training (and associated outcomes) to support such an assessment.

RECOMMENDATION 11.4

The Australian Government should commission by 2020 an independent review of 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).

In particular, the review should examine:

- the success of the Ministerial Advisory Council on Skilled Migration in adopting an evidence-based and transparent approach to identifying skills shortages, and the relative merit of establishing an independent body to undertake this function
- the effectiveness of the Government’s changes to the training requirements on sponsors of Temporary Work (Skilled) (subclass 457) visa holders.

In the meantime, the identified weaknesses in current labour market testing arrangements suggest that changes to improve their efficiency and effectiveness should be considered. The Commission notes that the Azarias review envisaged its proposed ministerial advisory council would provide advice to the Government on labour market testing (Azarias et al. 2014).

Other changes could also be considered to address the concern underlying calls for labour market testing — whether 457 workers are filling genuine labour market shortages.

The 457 program has an overarching objective that Australian workers be employed first:

457 visa sponsors are obliged to commit to employing Australians first in the program, regardless of whether LMT [labour market testing] is in place. This obligation exists for occupations that are exempt from LMT and existed before LMT was reintroduced in July 2013. (ACCI, sub. DR126, p. 11)

But evidence presented to past reviews suggests that compliance with this obligation has been poorly monitored and poorly enforced by government agencies charged with doing so (Howe 2013).

Thus, an added emphasis on (and resourcing of) this function seems warranted. Alternatively, a risk-based targeted auditing of 457 workers in particular occupations or industries could be used to monitor the extent to which the obligation to employ Australians first has been ignored or deliberately bypassed.

These approaches would complement the Azarias reforms listed in box 11.6.

11.4 Seasonal Worker program

Objective

The Seasonal Worker 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 it began 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).

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) suggested that 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 argued that the relatively low uptake of seasonal workers is a result of competition from working holiday makers:

... 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 indicates that there is a niche market for these workers (TNS Social Research 2011).

The Government has recently announced it will remove the annual cap on program places, expand the program 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 of itself 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, examples of exploitation of seasonal workers are relatively rare. For example, between August 2007 and January 2016, the FWO investigated only 32 complaints related to Approved Employers in the program.

This low incidence is primarily due to the heavily regulated nature of the program, which ensures that Approved Employers make a written offer of employment to seasonal workers 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 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 (DoE 2015c).

In addition, the Department of Employment has recently tightened the rules for contractors participating in the Seasonal Worker Program. These companies must now have been in operation for at least five years before they can apply to become an Approved Employer under the program (DoE 2015a). This change can be expected to reduce the risk of dodgy contractors recruiting seasonal workers under the program. If the policy is successful in reducing exploitation, the Commission considers it could provide the basis for a similar change targeting unscrupulous labour hire companies.

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). In addition, the program requires that workers must be at least 21 years of age. This helps to ensure that seasonal workers are not employed on youth wages and so prejudice the employment of young job seekers (DoE 2015c).

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 effective foreign aid tool, with scope for expansion.

11.5 Reducing the exploitation of temporary immigrant workers

Temporary immigrants face a higher risk of being exploited by their employers than the general workforce 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). They are also less likely to have access to informed social or economic support networks able to counter any market power of their employers or to assist them in moving to alternative jobs.

Working holiday makers seeking a year extension are additionally vulnerable due to their reliance on their employer for proof of work. So too are 457 and seasonal workers because their stay in Australia is dependent on their continued employment with their employer sponsor (FWO 2015b).

The ACTU highlighted that this vulnerability 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)

And the CFMEU listed numerous examples of this occurring (sub. DR114).

Although hard data on the exploitation of temporary immigrant workers are limited, requests for assistance from the FWO provide an insight into the scale of the problem. In the past three years, the FWO dealt with over 6000 requests for assistance from immigrant workers, and has recovered more than \$4 million in outstanding wages and entitlements. Requests for assistance from immigrant workers have steadily increased over this time, with those received and finalised in 2014-15 accounting for just under 11 per cent of all requests (FWO 2015b). Complaints from working holiday makers represented just over 1000 of the 25 650 finalised complaints made to the FWO in 2013-14 (FWO 2014a). 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 2014m). This is over three times the rate for all other workers.

While official data are limited, survey data presented to the Commission's recent inquiry into Workplace Relations and recent media reports indicate that underpayment and substandard working conditions for students are common across the economy (Clibborn 2015; Schneiders and Millar 2015). Similarly, during the course of this inquiry, a *Four Corners* exposé highlighted 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 11.7).

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 11.8).

Box 11.7 Australia's labour laws and occupational health and safety laws cover temporary immigrant workers

The work rights of temporary immigrant workers — including student temporary graduate, working holiday maker and 457 visa holders — are covered by the *Migration Act 1958* (Cwlth), the *Fair Work Act 2009* (Cwlth) and state employment laws and awards.

The Migration Act 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.

Box 11.8 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 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' and fact sheets tailored to overseas workers and international students)
- produced videos in 14 different languages and posted them on YouTube
- ran workplace rights presentations/seminars with relevant groups, distributed in-language posters and brochures to migrant resource centres and community groups and pro-actively engaged with ethnic media
- ran a month-long campaign whereby the FWO placed advertisements on websites in South Korea for South Korean nationals to access before they come to Australia
- Ran, in May 2015, a national social media campaign to alert up to 100 000 international students to their workplace rights
- introduced in August 2015 a program to foster relations with international student bodies and multicultural communities via the appointment of new Community Engagement Officers.

Sources: FWO (2014b, 2015a).

Over the past three years, the FWO has introduced various initiatives to tackle exploitation of temporary immigrant workers (box 11.9). 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).

The Department of Employment's Harvest Labour Services and National Harvest Labour Information Service also act to lessen the risk of exploitation for harvest labour (including temporary immigrants). These services aim to link those seeking work with a list of 'approved' employers seeking harvest labour and provide information on working conditions and entitlements. The services accept complaints from workers that can lead to approved employers (be it a farmer or labour hire company) being delisted if, for example, complaints about exploitation are found to be substantiated.

Box 11.9 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 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 (box 11.9), 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 (2015a).

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, first, improve monitoring and enforcement and, second, tackle the underlying cause of

exploitation identified by the FWO — information asymmetries between temporary workers and their employers.

Improving monitoring and enforcement

United WHY drew attention to the apparent prevalence of labour hire companies in cases of exploitation of temporary immigrant workers. It argued that new regulation — similar to the Gangmaster (Licensing) Act in the United Kingdom — was warranted to deal with this problem (sub. DR94).

The Commission notes that in response to media attention on the exploitation of temporary immigrants over the course of this inquiry, the governments of Victoria, Queensland and South Australia have instituted inquiries into the operation of labour hire companies. As these inquiries are yet to conclude, their effect on the regulatory environment facing labour hire companies is unknown.

However, as Business SA observed, it is not new labour laws that are needed but, rather, a new approach that improves the enforcement of existing laws:

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)

Similarly, the CFMEU pointed to a failure to adequately enforce existing regulations (sub. DR114, pp. 12–13), and the MIA (trans., p. 182), United WHY and UnionsWA argued for better resourcing for the monitoring and enforcement of existing laws:

United WHY recommends that the FWO will be allocated sufficient resources to improve inspection processes in the agriculture and horticulture sector and other industries ... (sub. DR94, p. 5)

... the Fair Work Ombudsman should be properly resourced to carry out a strong inspection role. (UnionWA, sub. DR107, p. 4)

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. It seems at the very least that more resources for the monitoring and enforcement of existing labour laws are warranted.

The Commission's recent report on the *Workplace Relations Framework* examined this issue in depth and came to the same conclusion. It recommended (Recommendation 29.2):

The Australian Government should give the Fair Work Ombudsman additional resources to identify, investigate, and carry out enforcement activities against employers that are underpaying workers, particularly migrant workers. (PC 2015f, p. 69)

The Commission encourages the Government to act on this recommendation.

Tackling information asymmetries

Participants' comments reinforced the FWO's view that the best defence for a temporary immigrant against being underpaid or treated unfairly is to know their rights (FWO 2014b).

Non-government agencies are already active in efforts to address this information asymmetry. United WHY described its efforts to reduce or counter exploitation through assisting working holiday makers to be aware of their work entitlements and assist them in liaising with the relevant authorities (sub. DR94). The MIA indicated they were keen to work with the FWO to provide the necessary information to temporary immigrant workers (trans., pp. 206–7).

As noted, the FWO has been active in this space (box 11.9), but the continued evidence of widespread exploitation of temporary workers would suggest that more needs to be done.

The Commission also examined this issue in its recent report on the *Workplace Relations Framework* and recommended (Recommendation 29.1):

The Department of Immigration and Border Protection and the Fair Work Ombudsman should improve the information available on their websites about migrant workers' workplace rights and conditions. They should also explore other ways of providing migrants with this information, ensuring that it is in easily accessible languages and formats. (PC 2015f, p. 69)

As with the previous recommendation from that report noted above, the Commission encourages the Australian Government to act on this recommendation.

To address the information asymmetry facing temporary immigrants seeking work on farms, an option worth considering is a web-based registry of suitable employers or recruitment agencies. United WHY (sub. DR94) suggested such a registration system could be administered by the DIBP. This registry could be informed by temporary immigrant workers 'rating' employers for the benefit of fellow visa holders. This would operate similarly to the central registry of hosts run in each country for Willing Workers on Organic Farms (WWOOFers). That registry informs other WWOOFers of a host's rating and, to protect the scheme's integrity, WWOOF Australia will de-list hosts where complaints of exploitation indicate they are not suitable (pers. comm., WWOOF Australia, 29 January 2016).

An additional 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, and available in multiple languages. A trial of this option — perhaps targeting areas or nationalities 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.

RECOMMENDATION 11.5

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.

457 visa holders

The ACTU (sub. 36) and the MIA (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 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, 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 457 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 (FWO 2014a).

Exploitation of 457 workers was examined in the Azarias 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 be done to deal with exploitation. To this end it recommended changes (supported or supported in principle by the Government) that have already been implemented or are in the throes of being so:

- the mandatory provision of a summary of the visa holder's rights and the FWO Fair Work Information Statement as part of the signed employment contract
- better online information about visa holders' rights
- greater priority on monitoring
- a change to 457 visa conditions, to place an obligation on the visa holder to provide the DIBP with their Australian tax file number

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- naming and shaming of sponsors that are sanctioned
 - dedicated resourcing to enable the investigation and prosecution of civil penalty applications and court orders
 - providing streamlined processing for low risk sponsors, 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). 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 have been or are being implemented by the DIBP) will improve sponsors' compliance with their obligations to 457 workers. These changes should also lead to earlier and more comprehensive detection of any exploitation when it does occur.

12 Interaction between temporary and permanent immigration

Key points

- About half of permanent visa grants are to people who are already in Australia as temporary immigrants.
- For 457 visa holders, the main pathway to permanent residency is through the skill stream. For international students, the skill stream and family stream pathways to permanent immigration are both significant, although the latter increasingly so. This likely reflects recent moves to decouple student visas from permanent skill visas.
- Permanent immigration should continue to be capped, but no overall cap should be introduced for temporary immigration. However, expected improvements in the assessment of skill shortages and of the labour market effects of temporary immigrants' work rights could in future provide a case for caps on some occupations within the 457 visa program and on numbers under the student, graduate and working holiday maker programs.
- The pathway from temporary skilled visas to the permanent skill stream is problematic. In essence, this pathway applies criteria to satisfy one objective (meet temporary skill shortages) to — by default — also satisfy another, very different, objective (meet longer-term skill needs and deliver successful settlement outcomes).
- Some pathways to the permanent skill stream have lower English-language requirements. It is not clear that this benefits the Australian community. Accordingly, skill stream permanent visas for primary applicants should only be granted to those who demonstrate at least 'competent' English-language proficiency.
- New Zealand citizens can live in Australia indefinitely on the Special Category visa (SCV), that is technically a temporary visa. However, the 'indefinite temporary' nature of the 'non-protected' SCV (and associated restrictions on access to government-funded services) causes hardship for a small but growing number of New Zealanders resident in Australia.
 - Legislation passed in 2015 will allow SCV holders to access student loans, and changes announced in February 2016 will provide a streamlined pathway to permanent residency under certain conditions, including an income threshold. This pathway is unlikely to apply to those New Zealand citizens most likely to face hardship. Further, those arriving after 19 February 2016 will not be eligible for this pathway. The Australian Government should continue to work to resolve this problem.

The terms of reference for this inquiry requested, among other things, that the Commission consider:

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

Section 12.1 sets out how the Commission has interpreted this part of the terms of reference. Section 12.2 discusses the balance between temporary and permanent immigration. Section 12.3 identifies the major pathways from temporary to permanent immigration. Sections 12.4 and 12.5 discuss the pathways to skill stream and family stream permanent immigration respectively. Section 12.6 deals with issues that are specific to New Zealand citizens living long term in Australia.

12.1 Assessing the interaction of temporary and permanent immigration

The concept of ‘an optimal interaction between temporary and permanent immigration’ is open to interpretation. The Commission’s framework for assessing the impacts of immigration policy (chapter 3) implies that several considerations are relevant.

- The interaction between temporary and permanent immigration should increase the wellbeing of the Australian community.
- The outcomes of temporary immigration programs should be consistent with, and not contradict, the objectives of the permanent immigration program.
- Pathways from temporary to permanent immigration should provide opportunities for temporary immigrants with desirable characteristics to migrate permanently.
- Pathways to permanent immigration should not provide an easy ‘back door’ for immigrants who do not have desirable characteristics.
- The administration of the system should be efficient and cost effective.

Mechanisms for achieving an optimal interaction

The Australian Government can influence the interaction between temporary and permanent immigration by establishing:

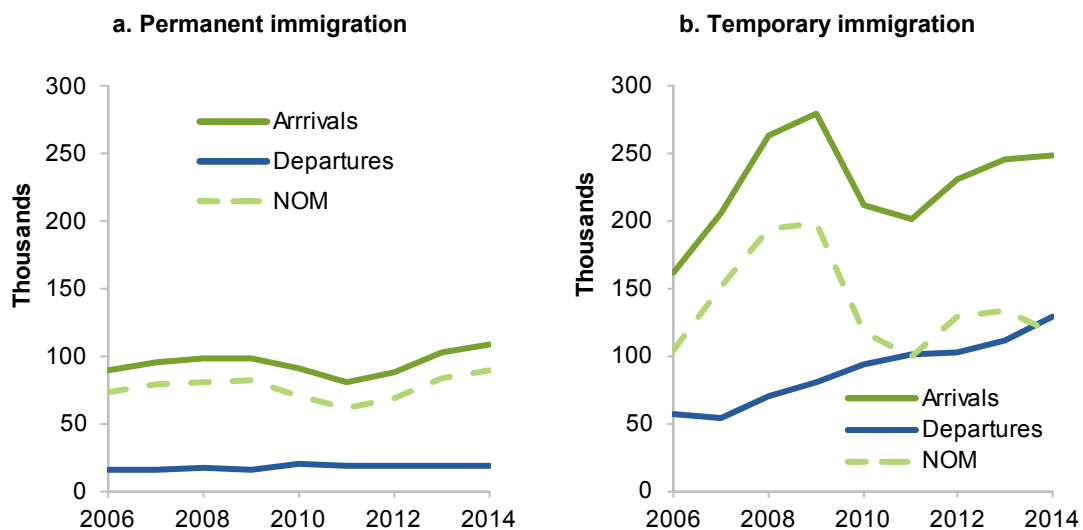
- the level of temporary and permanent immigration, and the level of immigration through various streams and visa subclasses
- conditions for visa eligibility, thereby influencing the composition of both temporary and permanent immigration
- ‘pathways’ for people to move from temporary to permanent immigration
- conditions on immigrants’ rights and access to government services.

12.2 The balance of temporary and permanent immigration

As noted in chapters 2, 11 and 13, there has been significant change in the balance of temporary and permanent immigration over the past two decades.

Net overseas migration (NOM) is a measure of the net flow of migrants — it is determined by the numbers of arrivals to and departures from Australia. In the past decade, the number of annual arrivals on permanent visas has generally been less than the number of temporary arrivals (figure 12.1). 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.

Figure 12.1 **Arrivals, departures and net overseas migration for permanent and temporary immigration**
Year ending June

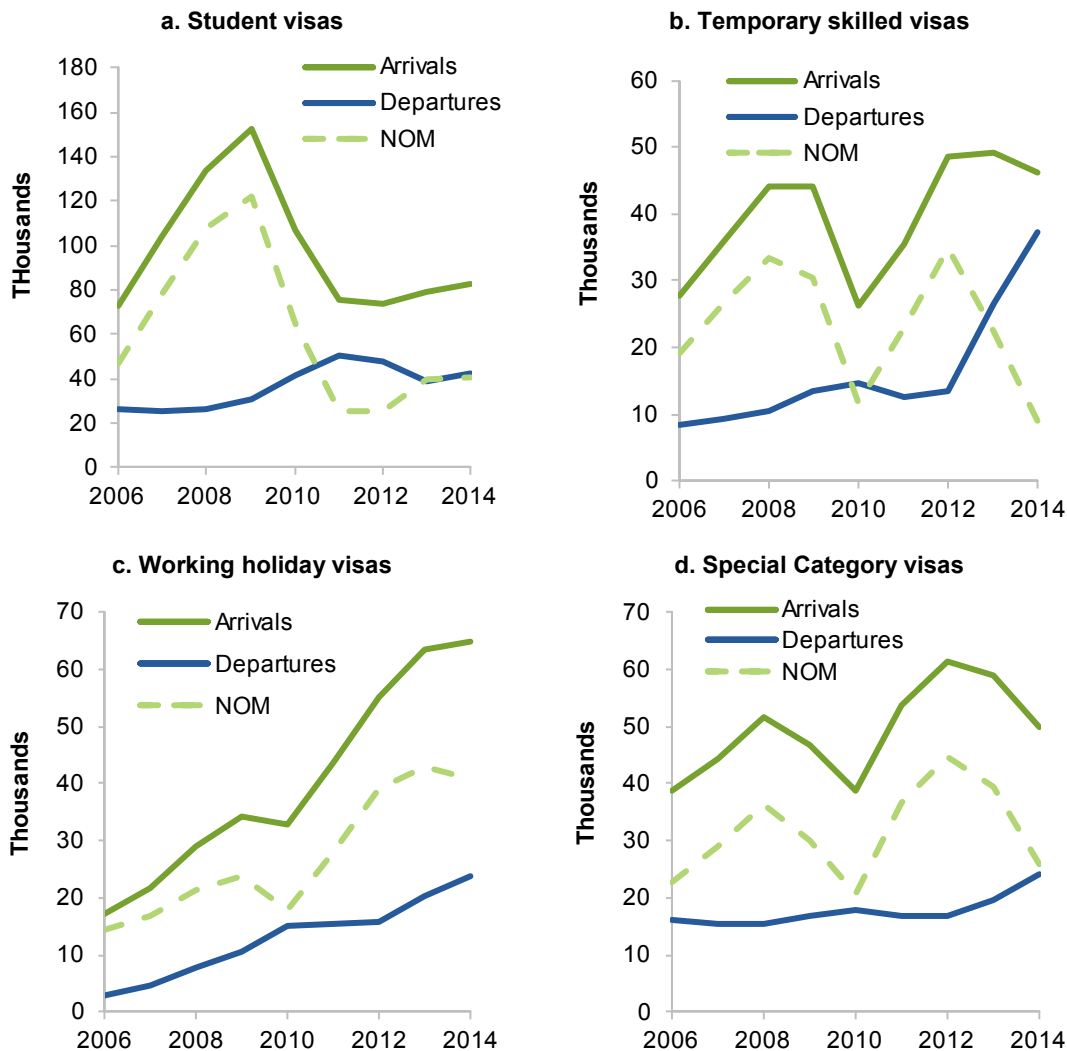


Source: DIBP (2015e).

Underlying the fluctuations in overall temporary immigration are trends in arrivals and departures in the various visa subclasses (figure 12.2). For example, student visa numbers increased significantly in the years before 2008-09, as a result of factors including changes to immigration policy, the regulation and funding of education, and macroeconomic conditions (PC 2015c). An increase in temporary immigration arrivals is generally associated with an increase in departures some time later. For example, while some international students move to permanent residency at the completion of their studies, most leave Australia. So NOM figures in any year are influenced by temporary immigration in the years before.

Figure 12.2 Arrivals, departures and net overseas migration for temporary visa subclasses

Year ending June



Source: DIBP (2015e).

Policy implications

Currently permanent immigration is capped and temporary immigration is uncapped, so there is no direct regulation of the balance between the two streams. The ACTU suggested that this should change.

... the size of the temporary migration program must be subject to similar scrutiny and oversight as the permanent migration program, including provision for numbers to be capped where labour market conditions require it. It is not clear to us what the case is, if any, for retaining the differential policy treatment of permanent and temporary intakes, whereby quotas

are used for the permanent migration streams while the temporary program is left virtually uncapped. (sub. DR104, p. 11)

It is reasonable for the Australian Government to set a cap on permanent immigration (chapter 3). Restricting temporary immigration could also have benefits, but also costs. Several participants expressed concern that temporary immigrants displace low-skilled Australian workers, suppress wages in low-skilled occupations and reduce the incentive for Australian employers to invest in training (chapters 6, 11). However, as information on the labour market outcomes of temporary immigrants is limited, it is difficult to draw strong conclusions on the extent of these problems and, hence, any benefits from addressing them.

A cap on temporary immigration would likely have a range of negative effects, including:

- reducing businesses' capacity to address skills shortages
- making Australia a less attractive destination for internationally mobile skilled workers
- adverse effects on fiscal balances (because most temporary immigrants are net contributors to government finances)
- cutting the revenue of the international education sector
- reducing the size of the pool of applicants for permanent residency.

On the basis of current information, as discussed in chapter 11, the Commission does not support capping the intake of the main temporary immigration programs (Student, Temporary Graduate, Working Holiday Maker and Temporary Work (Skilled) 457 programs).

However, the Ministerial Advisory Council's assessment of skill shortages (chapter 11) could provide justification for capping the number of entrants for certain occupations in the 457 program. Similarly, improved assessments of the labour market and economywide effects of temporary immigrants' work rights — expected to result from the Commission's recommendations for an inquiry on this topic and for changes to make available a data set of matched tax and visa status data (chapter 11) — could provide justification for capping the number of entrants under some temporary programs. Accordingly, while caps on aggregate numbers under the main temporary programs are not currently warranted, the Government should retain the flexibility to impose caps if emerging evidence supports this measure.

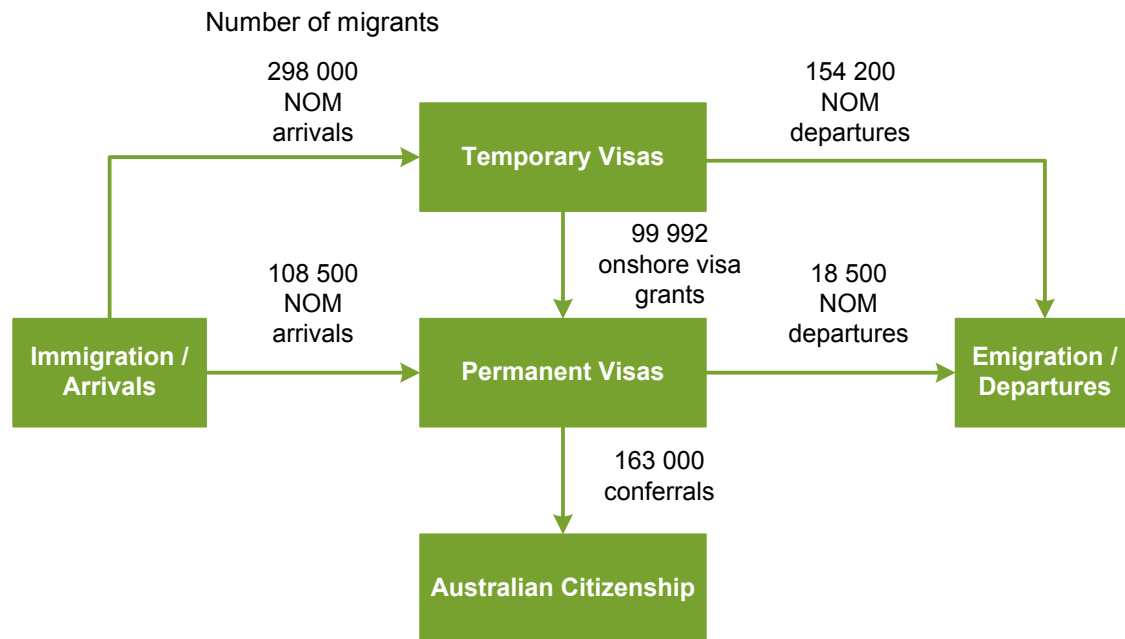
12.3 Pathways to permanent immigration

The pathway from temporary to permanent immigration is determined by the operation of a set of visas that an immigrant is granted over time between their initial grant of a temporary visa and the final grant of a visa for permanent residency (and ultimately citizenship). These pathways are established in regulations, which set out allowable transitions, and the requirements for immigration through the various pathways. Immigrants respond to the incentives and opportunities that are established by these

regulations by obtaining qualifications, experience and employer nominations that can increase their chances of being granted a permanent visa.

Each year many immigrants make the transition from temporary to permanent residency, or from permanent residency to Australian citizenship (figure 12.3). In 2013-14, around 100 000 people made the transition from a temporary to a permanent visa.

Figure 12.3 Migration flows, 2013-14^a



^a Excludes bridging visas, and the arrivals and departures of Australian citizens. Temporary visas include Special Category visas.

Source: DIBP (2015e).

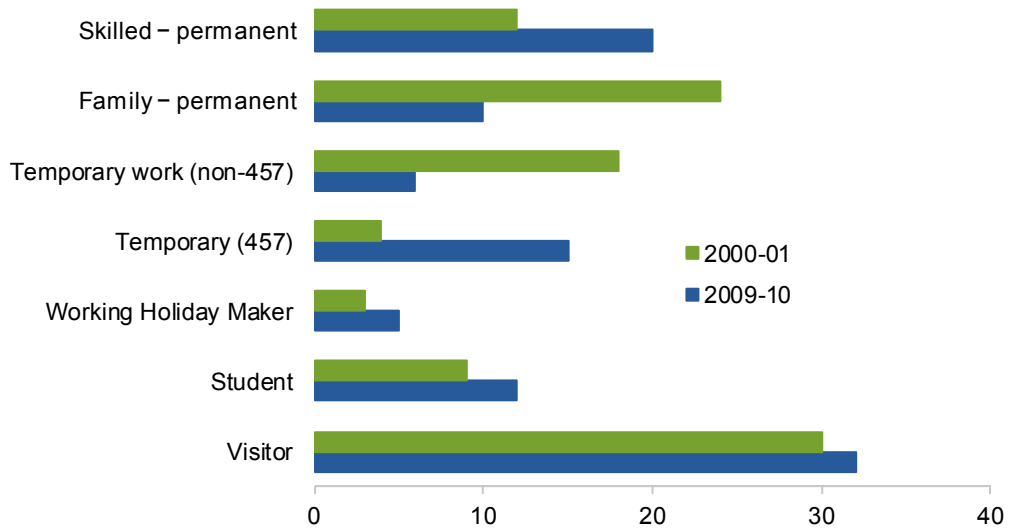
The pathways by which visa holders move to permanent residency have undergone a marked change over the period 2000-01 to 2009-10. This is illustrated by the change in the share of the first visa granted for those who eventually obtain a permanent resident visa (figure 12.4). The shares of family and skill stream permanent visas as the first (albeit only) visa in the path to permanent residency have decreased substantially over that time, while the share of temporary work (particularly 457) visas has risen substantially, as have the shares for working holiday maker and student visas.

The number of student visa holders that make the transition to permanent immigration has been volatile — particularly for those who come through the permanent skill stream (figure 12.5, panel a). This is related to volatility in the intake of international students and adjustments to policy settings around the links between student visas and permanent skilled visas. 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 the number of 457 visa holders making the transition to permanent residency

has grown relatively steadily. Almost all of these immigrants come through the skill stream (figure 12.5, panel b).

Figure 12.4 Visa transitions to permanent residency

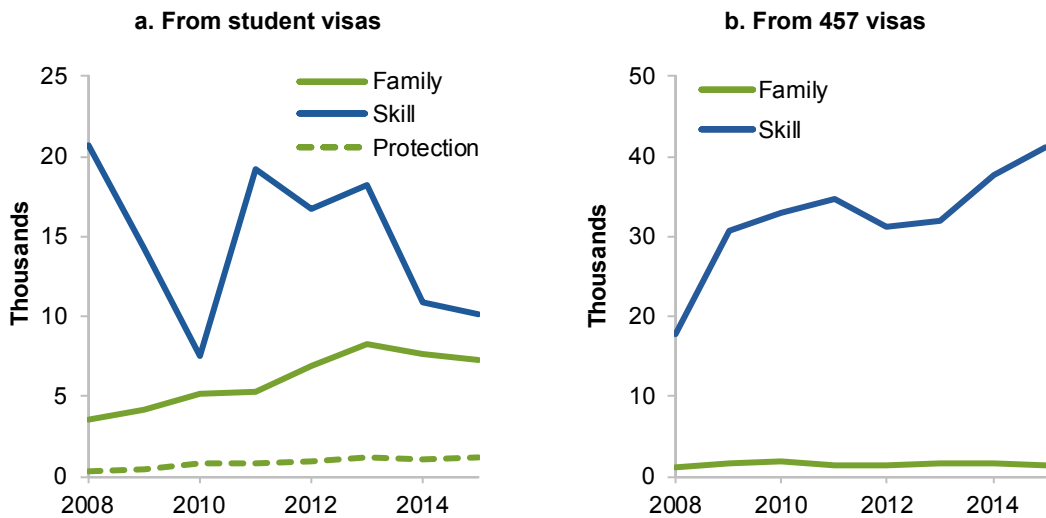
Share of first visas granted in the visa path to permanent residency, 2000-01 and 2009-10



Source: DIBP (unpublished data).

Figure 12.5 Transitions to permanent residency 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 involves 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, although some pathways are significantly quicker than others.

Analysis undertaken by the Department of Immigration and Border Protection (DIBP) identified several popular pathways to permanent residency for international students and 457 visa holders over the period 1991–2014 (table 12.1). On average, the pathway from a 457 visa to permanent skilled immigration takes less time than the pathway from student visa to permanent skilled immigration and involves fewer visa transitions. Among former international students the pathway to independent permanent skilled visas is more widely used than the employer-nominated pathway. For former 457 visa holders the opposite is true.

Table 12.1 Use of specific pathway sequences

<i>Pathway sequence</i>	<i>Individuals</i>	<i>Average number of visas obtained in pathway</i>	<i>Average duration of the pathway</i>
	No.	No.	Years
<i>Student to employer-sponsored permanent</i>			
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
<i>Student to non-employer-sponsored permanent</i>			
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
<i>Temporary skilled (457) to employer-sponsored permanent</i>			
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
<i>Temporary skilled (457) to non-employer-sponsored permanent</i>			
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 unpublished working paper.

12.4 Pathways to skill stream permanent immigration

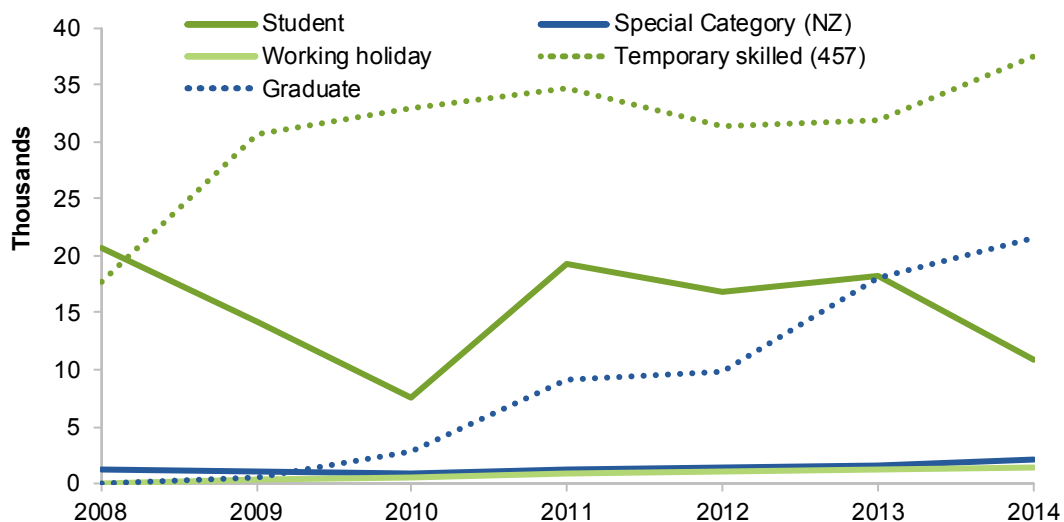
In 2013-14, about 75 per cent of onshore visa grants for permanent residency were for skill stream immigrants.

Unpublished data from the DIBP on the transitions from temporary visas to permanent skill stream immigration show several trends over 2007-08 to 2013-14 (figure 12.6).

- The number of former international students making the transition directly to permanent skill stream immigration has decreased.
- The number of former international students who use the multi-step pathway to a graduate visa followed by permanent skill stream immigration has increased.
- The number of former 457 visa holders being granted skill stream permanent immigration has increased.

These trends mean that, overall, an increasing number of the people who use the permanent skill stream pathway have Australian work experience.

Figure 12.6 **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).

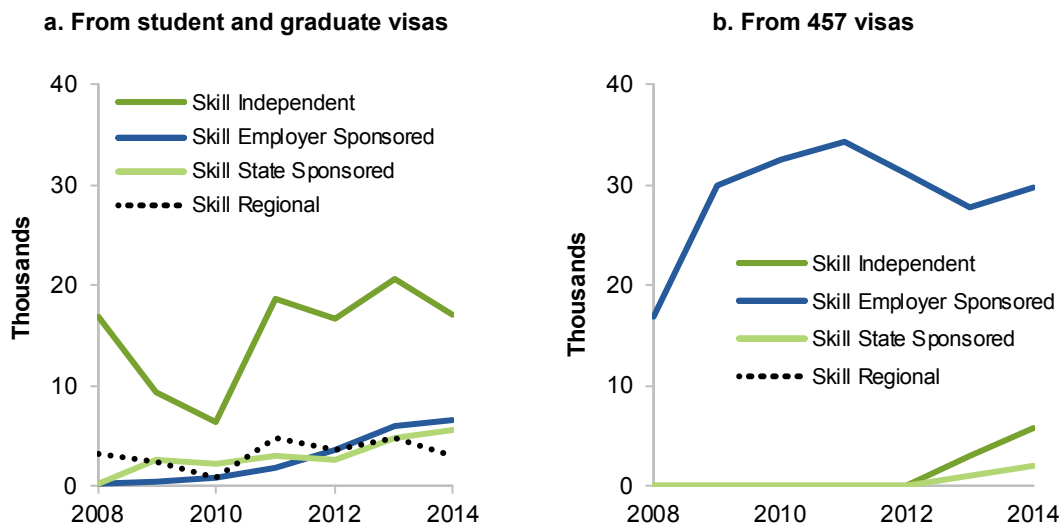
Temporary immigrants who make the transition to skill stream permanent immigration come through both the employer-nominated and points-tested pathways. Unpublished data show that the number coming through each pathway increased over the period 2007-08 to 2013-14 (figure 12.7). However, the employer-nominated pathway, in aggregate, accounts for the majority of those making the transition to skill stream permanent immigration.

International students have historically used the independent stream as their predominant means to permanent skilled immigration. The DIBP noted that recent changes to policy settings have affected the number of students being granted skilled independent visas. These include changes to the design of the Skilled Independent visa points test, increasing English-language requirements and the allocation of more employer nominated 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 ... (DIBP 2015c, p. 51)

Figure 12.7 Transitions from student and 457 visas to permanent skilled visas

Number of onshore visa transfers



Source: DIBP (unpublished data).

Policy implications

On average, skill stream permanent immigrants have relatively good labour market and settlement outcomes. However, the key policy question is whether the current pathways to permanent immigration deliver the best outcomes from a community-wide and long-term perspective.

Automatic transition from temporary visa to permanent skilled immigration

Some submissions to the current DIBP process to simplify the skilled migration and temporary activity visa program proposed the idea of automatic progression from a temporary visa (including the 457 and graduate visas) to permanent residency (DIBP 2014g). Such a visa could be granted automatically after the immigrant had served a qualifying period in Australia.

The potential benefits of such an approach include certainty for immigrants and reducing the potential for exploitation in the workplace (because employer nomination would not be required to achieve permanent residency). It could also increase the attractiveness of Australia to potential immigrants.

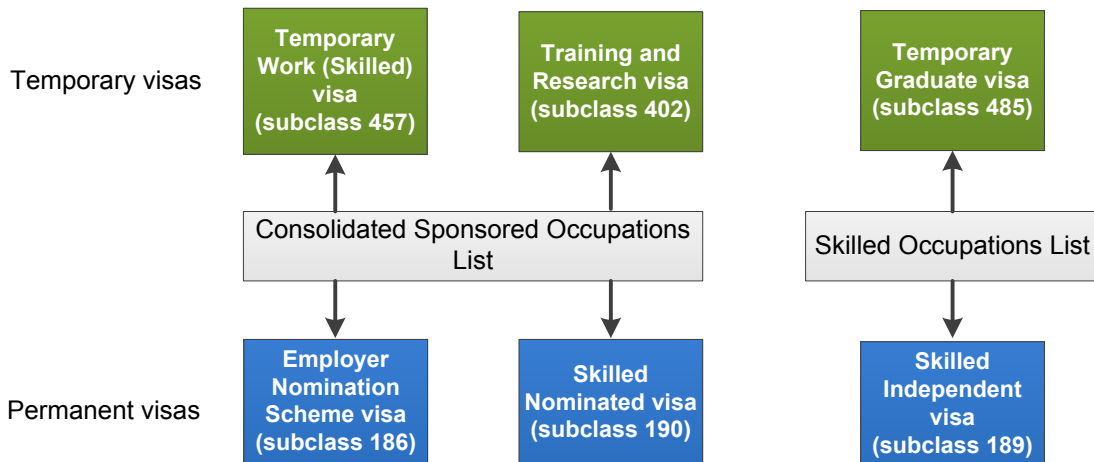
However, an automatic transition to permanent residency would make temporary immigration an unchecked back door to permanent entry and result in these visa holders taking up an ever higher share of the permanent quota. This is highly likely to reduce the quality of the permanent immigration cohort and have adverse effects on the Australian community as a whole. For these reasons, the Commission does not support automatic transition from temporary to permanent visas.

The lists of skilled occupations

Applicants for temporary and permanent skilled immigration must demonstrate that they have the skills to perform an occupation on the Skilled Occupations List (SOL) or the Consolidated Sponsored Occupations List (CSOL), depending on the pathway used (figure 12.8). Using the CSOL for both the temporary and permanent employer-nominated visas leads to a simpler administration of the pathway from temporary to permanent residency.

However, the SOL is a list of skilled occupations for which labour shortages in the medium- to long-term are deemed likely. The CSOL, on the other hand, is merely a list of skilled occupations (chapter 11). It is not (nor is it intended to be) a list of occupations in temporary short supply.

Figure 12.8 Occupation lists for skilled immigration visas



Moreover, immigrants assessed against the CSOL for entry to Australia are being selected by employers to fill *temporary* labour market shortages for occupations on that list. There is no inherent reason why occupations for which temporary shortages exist will correspond to occupations embodying the skills that Australia will need in the medium to longer term. Some will (for example, medical doctors) and some will not (for example, coal miners). The pathway whereby temporary immigrants who have been assessed against the CSOL then transition to permanent visas essentially allows immigrants selected to meet one objective (filling temporary skill shortages) to bypass an entirely different objective (meeting longer-term skill needs and deliver successful settlement outcomes).

However, it is inherently ineffective to apply criteria to satisfy one objective to — by default — also satisfy another, very different, objective.

With quotas for permanent immigration, a pathway that does not screen for the skills that Australia needs in the medium-to-long term introduces a risk that more suitable applicants for permanent immigration will be displaced.

Requiring temporary immigrants who have been assessed against the CSOL and who seek permanent status to be assessed against the SOL would impose compliance and administration costs where none presently apply. However, these costs are trivial when set against the potential benefits of a ‘better fit’ of immigrants suited for the long-term needs of the Australian economy and successful settlement outcomes.

In the draft report, the Commission requested information on the use of the CSOL in the pathway from temporary to permanent skilled immigration. Although some participants expressed views on the list and the pathway, they provided little evidence on the use of this pathway. This reflects the limited availability of evidence on the outcomes of permanent immigrants over time, and emphasises the need for such evidence in future to assess the merit of retaining the current arrangements or some alternative (chapter 13).

English-language requirements

Generally, all primary applicants for temporary and permanent skilled immigration must satisfy English-language requirements. (Exemption from the requirements apply to passport holders from the United States, United Kingdom, the Republic of Ireland, Canada and New Zealand.) Applicants can demonstrate their English-language skills through the international English-language testing system (IELTS) test or one of several other tests (box 11.2). The level of English-language proficiency required for skilled immigration varies according to the visa subclass. (English-language requirements are also discussed in chapters 11 and 13.)

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). (Test scores for the different English-language proficiency levels — benchmarked across the various acceptable testing regimes — are shown in table 12.2.)

The Temporary Residence Transition stream of the employer-nominated (subclass 186) visa, by contrast, 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). Immigrants through this pathway can be exempt from the English-language requirements if they have completed five years of full-time study in 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 English-language requirements make the pathway from a 457 visa to employer-nominated permanent immigration more attractive to immigrants than other pathways to the skill stream. However, it is not clear that this is to the benefit of the *permanent* immigration program or the Australian community as a whole. The Commission sought information on this matter in its draft report. Some participants made the case for flexibility in the English-language requirements (Migration Council of Australia, trans., p. 154; National Farmers Federation (NFF), sub. DR105). The ACTU stated that it is not in favour of any exemptions from English-language testing (sub. DR104).

The Commission agrees that flexibility is beneficial. However, the appropriate avenue for flexibility is in the testing system, not in the proficiency requirements. English-language proficiency is vital to successful settlement and expanding immigrants’ opportunities in Australia (and also goes some way to reducing the potential for exploitation in the workplace). English-language proficiency standards should be the same for all permanent skill stream immigration.

Table 12.2 English-language test scores benchmarked across acceptable tests

<i>English-language proficiency level</i>	<i>Test component</i>	<i>International English Language Testing System</i>	<i>Test of English as a Foreign Language internet based test</i>	<i>Pearson Test of English Academic</i>	<i>Cambridge English: English Test Advanced^a</i>	<i>Occupational English Test</i>
Functional	Average/total/overall across test components only	4.5	32	30	147	n/a
Vocational	Listening	5.0	4	36	154	B
	Reading	5.0	4	36	154	B
	Writing	5.0	14	36	154	B
	Speaking	5.0	14	36	154	B
Competent	Listening	6.0	12	50	169	B
	Reading	6.0	13	50	169	B
	Writing	6.0	21	50	169	B
	Speaking	6.0	18	50	169	B
Proficient (for points-tested Skilled visas)	Listening	7.0	24	65	185	B
	Reading	7.0	24	65	185	B
	Writing	7.0	27	65	185	B
	Speaking	7.0	23	65	185	B
Superior (for points-tested Skilled visas)	Listening	8.0	28	79	200	A
	Reading	8.0	29	79	200	A
	Writing	8.0	30	79	200	A
	Speaking	8.0	26	79	200	A

^a From 1 January 2015 and only for a Cambridge English: Advanced test taken on or after 1 January 2015.

Source: DIBP website.

The DIBP is currently undertaking a process to simplify the skilled immigration and temporary activity visa programs (DIBP 2014g). This process will lead to some visa subclasses (and streams within subclasses) being merged or abolished. One of the proposed changes is to combine all three streams of the Employer Nomination Scheme (visa subclass 186) into a new ‘Permanent Skilled’ visa. This presents an opportunity to standardise the English-language requirements for those streams.

The question of the appropriate level of English-language proficiency for skilled immigrants is an important one. Given the strong relationship between English-language skills and labour market outcomes (chapter 5) and social cohesion (chapter 8), the Commission favours a higher rather than a lower standard. This suggests that the minimum requirement for skilled immigration should be ‘competent’ English.

The Commission favours the ongoing use of a range of tests of English-language proficiency, but does not support the continuation of the exemption from English-language testing for immigrants who have undertaken five years' study with tuition in English. The exemption appears to be based on an assumption that anyone who has undertaken five years of full-time study will achieve at least 'vocational' English-language skills. The Commission has not seen any evidence to support this assumption. Moreover, as the top 10 source countries for international students in Australia — China, Japan, South Korea, Brazil, Thailand, Colombia, Taiwan, Vietnam, Italy and Saudi Arabia (PC 2015c, p. 52) — are countries in which English is not the primary language, the risk that applicants within this group might have poor English-language proficiency is high.

English-language testing is relatively inexpensive in the context of permanent immigration (approximately \$300 for an IELTS test, paid by the immigrant). This would not constitute a significant barrier to permanent immigration by skilled immigrants with competent English. But the test would screen out some applicants whose English-language proficiency is poor and who would otherwise displace those with superior proficiency who are likely to be better placed to achieve a successful settlement outcome.

The exemption for passport holders from the five countries noted earlier raises similar concerns. Holding a passport from those countries is a proxy for English-language proficiency, not proof. Accordingly, and in view of the importance of proficiency in successful settlement outcomes, the DIBP should examine whether retaining this exemption is warranted. This examination could also consider the merit of devising a simple and inexpensive screening process to identify if a passport holder from one of these five countries should be tested or not.

RECOMMENDATION 12.1

All primary applicants for skill stream permanent immigration should be required to demonstrate at least 'competent' English-language proficiency.

Retaining international graduates

The pathway from an international student visa to permanent residency is commonly used in Australia and in other 'migrant nations' that are also exporters of education services. As described by Hawthorne, 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. (2013b, p. 3)

The pathway from a student visa to permanent residency provides benefits to the Australian community if it creates opportunities for people with desirable characteristics to remain in Australia after they complete their studies. However, the purpose of immigration regulations is not to enhance the attractiveness of the international education services

sector, and not all former international students possess the characteristics of the most desirable immigrants.

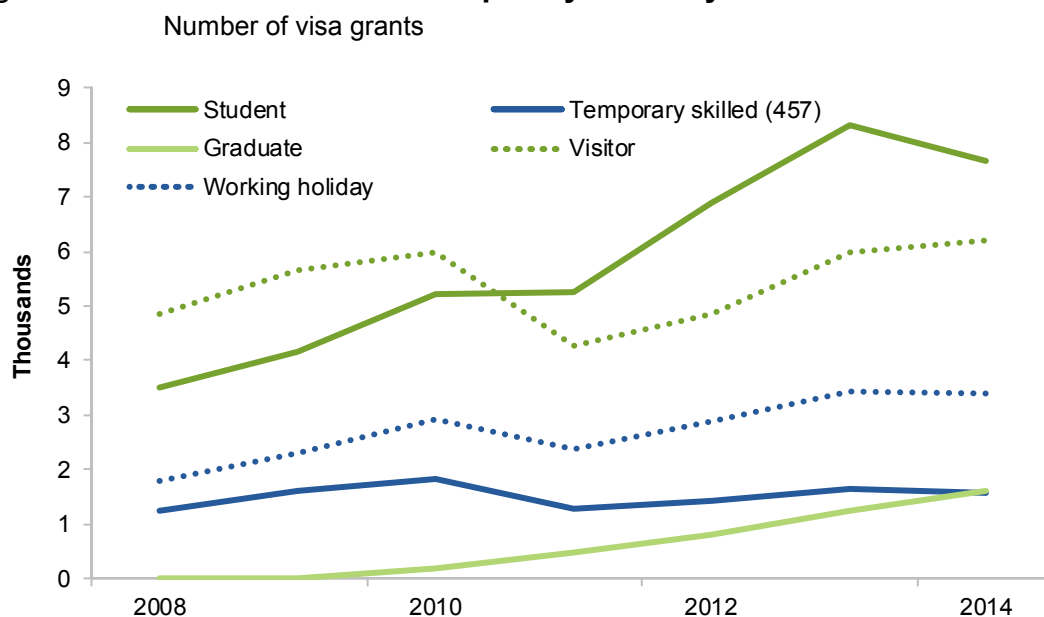
The evidence shows that international students are continuing to transition to permanent residency, albeit in somewhat reduced numbers and by different pathways. In part, this can be explained by the recently implemented Temporary Graduate visa, that provides students with the opportunity to gain work experience. This could then help them to secure either a skilled independent or employer-nominated visa. This pathway provides more options and flexibility for former international students, and provides opportunities for them to develop important skills that might not have been developed through their formal studies. It also gives the Australian Government more opportunities to assess potential immigrants' suitability.

Permanent immigration through the graduate visa pathway only began to recover from its post-Global Financial Crisis slump in around 2009-10. It would be sensible to review the outcomes of this pathway within the next two to three years.

12.5 Pathways to family reunion

Among onshore grants of permanent family reunion visas, the majority of applicants have previously been holders of student or visitor visas (figure 12.9). 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.

Figure 12.9 Transitions from temporary to family reunion visas^a



^a Graduate refers to both subclass 476 (Recognised Graduate) and subclass 485 (Temporary Graduate).

Source: DIBP (unpublished data).

Policy implications

Policy changes that have raised the requirements for the pathways from student visas to skilled immigration may have increased students' propensity to take up permanent family reunion visas.

The increasing use of permanent family visas by international students could have positive and negative implications for the Australian community. The change has meant that immigrants in the permanent family stream are now more likely to have recently completed qualifications, which may improve the average labour market outcomes of the family reunion stream.

A potential negative impact could arise if this pathway becomes a 'back door' for former international students who are not able to meet the requirements for skill stream immigration. This would be particularly problematic if it led to sham marriages.

Data on the prevalence of sham marriages are limited. In 2014-15, the DIBP finalised 120 investigations into potential fraud including 'contrived marriage and illegal labour hire' (DIBP 2015c, p. 93). It stated that these investigations 'resulted in nine prosecutions and 23 cases being referred to the Commonwealth Director of Public Prosecutions for possible action' (DIBP 2015c, p. 93). Given that not all of these prosecutions or potential actions would have related to contrived marriages, the number of such arrangements that are detected is very small. This could be because very few sham marriages occur or because of inadequate enforcement of visa requirements. The recent Australian National Audit Office report on the DIBP's management of compliance with visa conditions identified significant weaknesses in the Department's risk management and intelligence gathering capability (ANAO 2015).

Also in 2015, the Minister for Immigration and Border Protection and the Minister for Human Services announced that their Departments would work together on data matching to identify 'fake couples who are fraudulently claiming social security payments, or committing migration fraud' (Dutton and Payne 2015). This could increase detection of sham marriages, and improve the integrity of this element of the Migration Program.

12.6 Issues related to New Zealand citizens

The Special Category visa (SCV) program gives effect to the intent of the Trans-Tasman Travel Arrangement, which is to facilitate a free flow of people between Australia and New Zealand. That agreement provides for Australian and New Zealand citizens to enter each other's countries 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). Although the SCV (subclass 444) is technically a temporary visa, New Zealand citizens on this visa are permitted to remain in Australia indefinitely. Many

of the issues identified as affecting New Zealand citizens relate to the interaction between their temporary immigration status and effectively permanent residency.

The SCV program does not have an explicit objective of providing a pool of applicants for permanent immigration and provides no special pathway or preferential access for permanent immigration. Oz Kiwi Association (sub. 33) — the peak body representing New Zealand citizens in Australia — was critical of this lack of pathway or access and noted that upward of 60 per cent of New Zealanders currently in Australia have no pathway to a permanent visa.

The number of SCV 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 residents in Australia (DIBP 2015ax). This group represents the largest single net overseas migration group coming to Australia (Oz Kiwi Association, sub. 33).

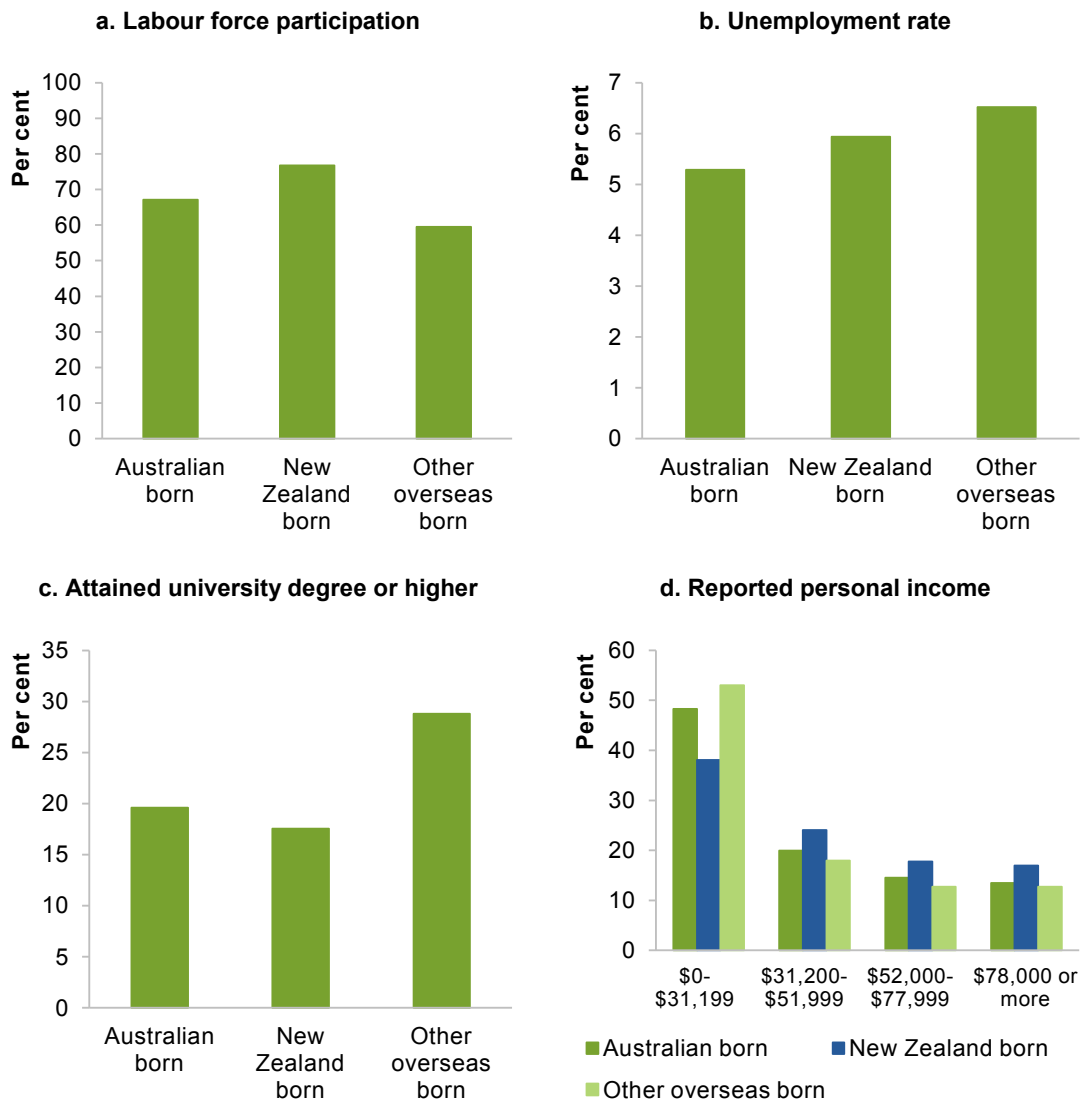
Data on the characteristics and experiences of New Zealand citizens in Australia are limited. One data source is the 2011 Census of Population and Housing. Participants in the Census were asked which country they were born in and their Australian citizenship status. These data can be used to compare New Zealand-born people (Australian citizens and non-citizens) with the Australian-born population. The data show that New Zealand-born people in Australia have labour market outcomes that are better than other overseas-born people, and comparable to (or better than) Australian-born people (figure 12.10). New Zealand-born people who have become Australian citizens fare the best.

- New Zealand-born people had higher levels of labour force participation than Australian-born or other overseas-born people (panel a).
- Unemployment among New Zealand-born people was slightly higher than for Australian-born people, but lower than other overseas-born people (panel b).
- A higher proportion of New Zealand-born people report high incomes than Australian- or overseas-born people (panel d).

These data should be treated with caution though, as they do not identify New Zealand citizens who were born in a country other than New Zealand. These people would generally fall into the ‘other overseas born’ group shown in figure 12.10 — a group for which labour force participation, unemployment rates and personal income levels are generally inferior to Australian and New Zealand-born people. Information provided to the joint study between the Australian Productivity Commission and the New Zealand Productivity Commission into *Strengthening trans-Tasman economic relations* (PC and NZPC 2012) indicates that this group represented around 15 per cent of New Zealand citizens resident in Australia at the time of the census (DIC 2012).

Despite the large number of New Zealand citizens resident in Australia, they account for a very small number of permanent immigration visas annually (figure 12.6). In 2014-15, for example, only 2068 SCV holders were granted permanent residency (DIBP, unpublished data). Smith et al. (2010) observed that a major reason for this is that most would fail to meet the requirements for family reunion or skilled migration.

Figure 12.10 Labour market outcomes and human capital of New Zealand-born people in Australia^a
2011



^a All persons aged 15 years and over.

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

Policy implications

Participants raised issues relating to the level of immigration under this program and whether changes were needed to improve access to government services and to permanent residency. The latter set of issues was comprehensively reviewed in the 2012 joint study. Accordingly, the following discussion on those issues draws heavily on the findings and recommendations of that report.

The level of immigration 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 the Sustainable Population Party argued that this arrangement should be abolished (sub. 37).

Some contend that New Zealanders *working* in Australia typically generate more in tax revenues than is spent on them by the Australian Government (Oz Kiwi Association, sub. 33). While this may be the case for some New Zealand citizens, as illustrated in chapter 9, the net fiscal impacts of immigrants are contingent on their age on arrival, how long they stay and their characteristics. In this context, the net fiscal impacts of New Zealand citizens generally would be highly sensitive to whether they permanently settle in Australia, as well as to their skill profiles.

Nonetheless, any move to cap the entry of New Zealand citizens or impose restrictions on their length of residency would be at odds with a fundamental intent of the Trans-Tasman Travel Arrangement (that is, to have a free flow of labour between Australia and New Zealand). Any such decisions would therefore only be possible within the context of an overall reassessment of that arrangement — a task that is beyond the scope of this inquiry.

Limits on access to government payments

New Zealand citizens who arrived in Australia *prior* to 26 February 2001 have the same entitlements to government payments as Australian citizens, subject to waiting periods. New Zealand citizens who arrived *after* that date are referred to as ‘non-protected’ SCV holders and have limited access to government payments. Non-protected SCV holders can access Medicare, family assistance payments and rent assistance. If they have lived in Australia continuously for at least 10 years they may be able to access some working-age allowances (Newstart Allowance, Sickness Allowance and Youth Allowance) for up to six months (Parliamentary Library 2014). Non-protected SCV holders may also be able to claim the Age Pension, Disability Support Pension and Carer payment under the International Social Security Agreement between Australia and New Zealand, although residency periods apply (DHS 2016a). For age and disability pension payments, they must have lived in Australia and/or New Zealand for more than 10 years. For carer payments, they must have lived in Australia and/or New Zealand for more than two years (DHS 2016b).

For non-protected SCV holders, these restrictions on access to payments can lead to hardship. For example, where family breakdown occurs, New Zealand citizens might find themselves in Australia without the support of their partner and limited access to government assistance.

Faulkner noted that New Zealand citizens who arrived in Australia after 2001 must pay the National Disability Insurance Scheme levy but are ineligible for its disability services

(sub. 14). 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)

Extending access to government payments and services to non-protected SCV holders would have fiscal costs. These costs would depend on the number of New Zealand citizens who would access these payments and services, either directly or through a streamlined pathway to permanent residency.

Extending such access would also change the incentives they face to work, save and take out insurance against risks to their income and health. Over time, extending payments could, at the margin, reduce the incentives of those visa holders to work, and could act as a ‘pull factor’ for New Zealanders who are considering coming to Australia but are not confident that they will be able to support themselves in the long term. (The latter is the so called ‘adverse selection’ effect.)

Further, even if New Zealand citizens have a low propensity to claim government payments and services, any increase in their entitlements would still be a fiscal cost. SCV holders already pay tax in Australia, so it is unlikely that there would be substantial offsetting revenue effects from extending access to payments. But the costs could be material.

In the 2012 joint study the Commissions stated:

There may be concerns that easing non-Protected SCV holders’ access to Australian social security payments and social policy supports may impose a fiscal burden on Australia. Further work is needed to assess these complicated effects. (PC and NZPC 2012, p. 154)

The Commission is not aware that this research has been carried out to date.

That joint study also made recommendations to address the lack of access to various government-funded services for New Zealand residents in Australia (box 12.1).

The Australian Government accepted the recommendation on New Zealand citizens’ access to student loans and in 2015 the Australian Parliament passed legislation to provide for this. Their access to the student loans program has been effective since 1 January 2016 (DET 2016).

The Australian Government’s response to the joint study’s 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, on 19 February 2016, the Government announced changes (box 12.2) that provide a streamlined but conditional pathway to permanent residency and Australian citizenship for many New Zealanders who

have lived in Australia for at least five years (Turnbull 2016). The rationale for this particular policy design is unclear.

Box 12.1 **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).

Box 12.2 **Streamlined pathway to permanent residence for non-protected Special Category visa holders**

The Australian Government will provide an additional pathway to permanent residence, and therefore citizenship, for New Zealand Special Category visa holders who arrived after 26 February 2001, have lived in Australia for the past five years and have shown a commitment and contribution to Australia.

This visa pathway will be available from 1 July 2017, for New Zealand citizens who arrived after 26 February 2001 and on or before 19 February 2016.

Requirements for this pathway include mandatory residence, contribution and community protection criteria. This includes:

- resident in Australia for the five years immediately prior to visa application
- contributed to Australia, demonstrated through income tax returns for the period of residence evidencing taxable income at or above the Temporary Skilled Migration Income Threshold (currently \$53 900)
- mandatory health, character, and security checks.

Limited exemptions to the income test requirement will be considered for particularly vulnerable New Zealand citizens. The Minister for Immigration and Border Protection and the Minister for Social Services will determine who will be considered a vulnerable individual.

Approximately 60–70 000 of the 140 000 post-2001 Special Category visa holders who have been in Australia for at least five years are expected to be eligible.

New Zealanders taking advantage of this pathway will usually be able to apply for citizenship after one year of permanent residence. The usual citizenship eligibility requirements will apply.

Source: DIBP (2016a).

A pathway to permanent residency as a solution for some SCV holders

Many of the issues faced by New Zealand citizens who are long-term residents in Australia derive from their status as temporary immigrants. A solution to these issues would be for them to become permanent residents and citizens.

The recently announced streamlined pathway to permanent residency provides this option for about half of the cohort of non-protected SCV holders resident in Australia on or prior to 19 February 2016. However, given the income threshold for this pathway, the most vulnerable cohort (those with low or no incomes) are likely to be excluded — notwithstanding the envisaged limited exemptions. Moreover, this new pathway is not available to SCV holders who arrive after 19 February 2016. These two groups will, therefore, continue to face the issues noted above that are associated with their indefinite temporary status.

Many New Zealanders in Australia would not qualify for family reunion or skill stream permanent immigration. In the 2012 report, the Commission cited evidence from the Australian Department of Immigration and Citizenship that ‘that between 40 and 60 per cent of adult, New Zealand citizen, permanent and long term arrivals would be eligible to apply for a permanent visa’ (PC and NZPC 2012, p. 153). Boucher (sub. DR128) stated:

Many of these temporary New Zealand visa holders have not applied under the permanent streams not only because they are unaware of the limitations of their existing temporary status, but also because around 60 per cent are ineligible under existing permanent residency selection criteria. (p. 7)

Some participants suggested criteria for such a pathway. Oz Kiwi Association considered various options, including a full reversal of the 2001 policy changes; 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. (sub. 33, p. 3)

The New Zealand High Commissioner to Australia stated:

... we're not looking at [being] prescriptive about how this challenge might be solved. But it seems to us that a test based on longevity of stay in Australia along with a, we accept, character test would provide a meaningful pathway for people who have clearly moved here, have made their life here, are contributing to their communities here, would provide a mechanism to allow them to become permanent residents or citizens. We think through that mechanism that would provide an opportunity for their children, who many came here when they were very young, and would allow them to therefore become citizens, which allows them to better access and contribute to the Australian economy. (New Zealand High Commissioner to Australia, trans., p. 132)

The idea that extended, lawful, productive residence in Australia should be regarded favourably in decisions about permanent immigration has merit. However, the Commission does not favour automatic grants of permanent residency. There should be some criteria to assess suitability, to guard against potential adverse selection and to safeguard against the risk of New Zealand becoming a 'back door' to permanent migration to Australia. Indeed, these criteria are embodied in the streamlined pathway (box 12.2).

However, while the new streamlined pathway might help some non-protected SCV holders to avoid hardship, it does not appear to be aimed at doing so and is likely to exclude most of those disadvantaged as a result of their temporary status. Additionally, those arriving after 19 February 2016 will not be eligible for that pathway.

Accordingly, within the context of the close relationship between Australia and New Zealand, the Commission reiterates its position as outlined in the joint study into *Strengthening trans-Tasman economic relations* (box 12.1).

RECOMMENDATION 12.2

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.

13 Permanent immigration programs

Key points

- The skill-oriented permanent immigration system has served Australia well, but improvements could be made that would have considerable benefits.
- The criteria for permanent skilled immigration differs between the visa streams in arbitrary ways, including through different age and skill tests. A coherent universal points-based system should apply to the entire permanent skill stream. However, the points system should be amended so that:
 - employer-nominated primary applicants receive more points
 - secondary applicants with skills and other desirable employment-related characteristics contribute significantly to the points score of the primary applicant. Around 50 per cent of Australia's permanent skill intake are secondary applicants, many of whom have limited skills. This fact should be made clear in immigration statistics
 - younger ages be given proportionately more points than under the current system, and the age limit be reduced from its present 50 years.
- The Skilled Occupations List should continue to be used for testing skills, but there should be a pilot of a hybrid skills classification that takes into account new occupations and skills not adequately captured by the existing statistically-based occupational taxonomies.
- Some components of the Business Innovation and Investment Programme (BIIP) contribute to economic activity, but there is no evidence to suggest it is greater than other programs. Moreover, the BIIP does not appear to achieve its trade and innovation goals.
- The broader economic benefits of the Significant Investor and Premium Investor visas are negligible, and any benefits accrue mainly to those visa holders and to fund managers. It is likely that immigrants through these streams have less favourable social impacts than other skilled immigrants. These visa subclasses should be abolished.
- The number of parent visas in the family reunion stream issued each year is small, but the cost of meeting the lifetime liabilities of aged care, disability, income support and health care needs of such parents are billions of dollars each year. Costs could be reduced considerably through higher fees for contributory parent visas and by restricting non-contributory parent visas to compassionate cases. The resulting (large) long-term fiscal savings would be better directed at more vulnerable members of the Australian community, for example, refugees, or at reducing the more general pressures of an ageing population.
- Humanitarian immigration contributes to Australia's international commitments. The Community Proposal Pilot is likely to be beneficial because it engages a part of the community who would like to directly assist humanitarian immigrants.

Immigration policies can substantially affect the Australian community, and should be strongly guided by evidence about their effects. This chapter applies the framework set out in chapter 3 and the impacts identified in chapters 5–10 to assess whether changes are needed for current permanent immigration programs.

Section 13.1 provides a brief indication of the levels and composition of current permanent immigration. The later sections consider each of the four major visa groups in detail.¹

- Section 13.2 provides background on the nature of, and trends in the skill stream, with a particular focus on the employer-nominated and points-based components, while section 13.3 examines some of the major policy issues associated with the criteria used to issue visas for people using this stream.
- While only comprising around 3 per cent of the Migration Programme, the Business Innovation and Investment Programme has several features that warrant close policy consideration (section 13.4).
- Section 13.5 examines some of the key policy issues associated with the family stream, and in particular, the scope to introduce major policy reforms to arrangements for parents.
- The Humanitarian Programme involves quite different policy imperatives than other parts of the immigration system (section 13.6).

It should be noted that in parallel with this inquiry, the Department of Immigration and Border Protection (DIBP) is reviewing the skill stream 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. 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. However, while the DIBP inquiry will change the regulatory landscape, the Commission's examination of skilled immigration is more holistic and far reaching, and will inevitably require further regulatory reform.

13.1 A brief snapshot of permanent immigration

The Australian Government sets a planned level of permanent immigration places as part of the annual budget process with 190 000 places being the planned level for 2015-16 (Dutton 2015b). Planning levels are also set for each stream of the program and visa category following a public consultation process managed by the DIBP (2014i). While the

¹ Some components of the permanent Migration Programme are not covered in this chapter given their negligible share of the intake and the absence of evidence of any substantive policy problems. These include the Special Eligibility Stream; the Distinguished Talent visa; and the Entrepreneur visa (whose detailed criteria are not yet fully disclosed and is yet to be introduced).

actual intake can vary from the planned level, over the past two decades the number of visas granted has been very close to the planning level in almost every year.

The Australian Government uses rule-based selection mechanisms to determine who is eligible to apply for a permanent visa and, if eligible, their ranking among competing applicants. Within the various immigration streams there are several pathways and numerous visa subclasses. Each visa subclass has different eligibility requirements, including age limits, character, health, family connections, skills, English-language ability and claims for humanitarian assistance. Application charges apply to most visas.

In 2014-15, the Australian Government granted just over 200 000 visas for permanent immigration to Australia (table 13.1). Most were granted to three groups — approximately 130 000 for the skill stream, 60 000 for the family stream and 14 000 for the Humanitarian Programme. Within the skill stream, around half of the visas granted were for ‘secondary applicants’ — partners and dependent children — who may not have skills. So overall, about two thirds of permanent visas are granted on the basis of a family connection.

13.2 Skill stream immigration

The different subclasses

Permanent skill stream immigration is intended to contribute to economic development and to meet labour market needs within the broader context of meeting the national interest.² In all but a few cases, immigration to Australia as a skill stream primary applicant is only available to people who are assessed as having 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 four broad visa classes (table 13.2). The two employer-nominated classes — the Employer Nomination Scheme visa (ENS) and the Regional Sponsored Migration Scheme visa (RSMS) are intended to help meet medium-term labour market needs. The points-tested classes are intended to address longer-term labour market needs and do not require any employer nomination. However, one subclass of the points-tested stream (190) requires nomination by a state and territory government, 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 2014i, p. 6).

² The *Migration Act 1958* (s. 4) specifies the national interest as the overarching object of immigration policy.

The eligibility requirements vary significantly by the visa subclass. In particular, an immigrant who is nominated by an employer faces less stringent requirements, based on the principle that nomination itself reflects filtering of potential immigrants. As noted later, that principle is not a sufficient basis for the degree of differentiation apparent between the visa subclasses. Indeed, table 13.2 understates the differences between the employer nominated classes and the points system in four significant ways.

Table 13.1 Permanent migration intake, Australia
2014-15

<i>Migrant category</i>	<i>Migrant intake</i>	<i>Share of total intake</i>	<i>Pipeline at June 2015</i>	<i>Pipeline to intake ratio</i>
	persons	%	persons	ratio
Migration Programme				
<i>Family stream</i>				
Partner	47 825	23.6	71 172	1.5
Parent	8 675	4.3	75 478	8.7
Contributory	7 175	3.5	24 287	3.4
Non-contributory	1 500	0.7	51 191	34.1
Child	4 135	2.0	3 876	0.9
Other family	450	0.2	na	na
Total family stream	61 085	30.1	146 650	2.4
<i>Skill stream</i>				
Points tested	72 840	35.9	47 233	0.6
Employer-nominated	48 250	23.8	30 930	0.6
Distinguished talent	200	0.1	na	na
Business Innovation and Investment (BIIP) ^a	6 484	3.2	3 048	0.5
Total skill stream	127 774	63.0	na	na
<i>Special eligibility</i>	238	0.1	na	na
Total Migration Programme	189 097	93.2	na	na
Humanitarian Programme				
Offshore component	11 009	5.4	na	na
Onshore component ^b	2 747	1.4	na	na
Total Humanitarian Programme	13 756	6.8	na	na
Total permanent migrant intake	202 853	100.0	na	na

^a The majority of BIIP visas are provisional visas, and may not progress to permanent visas. In that sense, this category of immigrants straddle temporary visas (like 457s), which are not shown in the table, and permanent visas. People on provisional visas can progress to permanency if they wish, with few additional hurdles, whereas the requirements for transitioning from the temporary skill stream to the permanent skill stream are more strict. ^b Onshore includes arrival by air on a valid visa and unauthorised maritime arrivals.

Sources: DIBP (2015a, 2015r).

Table 13.2 The permanent skill stream

<i>Visa type</i>	<i>SkillSelect EOI required^a</i>	<i>Nomination required</i>	<i>Required to work in regional Australia</i>	<i>Points tested</i>	<i>Skill/qualification and other requirements</i>
Employer Nomination Scheme (ENS) visa (subclass 186)	SkillSelect EOI is optional for this visa	Yes, by an employer	No	No	Occupation must be on the Consolidated Sponsored Occupations List (CSOL). Requires a skills assessment by the relevant Australian authority and 3 years' work experience, unless exempt. Relevant registration or licensing must be held if required. Must be aged under 50 unless exempt, have at least competent English, unless exempt (for example, by entering through the Temporary Residence Transition stream).
Regional Sponsored Migration Scheme (RSMS) visa (subclass 187)	SkillSelect EOI is optional	Yes, by a regional employer	Yes	No	Occupation must be an Australia and New Zealand Standard Classification of Occupations (ANZSCO) skill level 1-3. Must have a related Australian or overseas equivalent qualification or be exempt. Overseas-qualified trades workers will need to have their skills assessed by Trades Recognition Australia. Relevant registration or licensing must be held if required. Must be aged under 50 unless exempt and have at least competent English unless exempt.
Skilled Independent visa (subclass 189)	SkillSelect EOI is mandatory	No	No	Yes	Occupation must be on the Skilled Occupations List (SOL). Must be invited to apply, aged under 50 years and have at least competent English. Skills assessed by relevant assessing authority.
Skilled Nominated visa (subclass 190)	SkillSelect EOI is mandatory	Yes, applicant must be nominated by a state or territory government	No	Yes	Nominated occupation must be on the applicable CSOL and skills assessed by relevant assessing authority. Must be invited to apply, aged under 50, and have at least competent English.

^a For business immigration and points-tested skilled immigration applicants, the first step is to submit an expression of interest (EOI) through SkillSelect. (Applicants for employer nominated and regional sponsored immigration can submit 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 2015au).

Source: DIBP (2016i).

First, while the four visa subclasses share many minimum requirements (a person must be aged less than 50 years, of reasonably good health and of good character), the points system is more selective, in that people who are more experienced, younger, and qualified will receive more points (box 13.1). For example, more points are granted to a person assessed as having ‘superior’ English-language skills than a person assessed as having ‘competent’ English-language skills (the minimum). If the candidate’s score meets or exceeds the ‘pass mark’ (60 points) they may be eligible for a visa. In contrast, a person who meets the minimum requirements for the ENS or the RSMS can join the queue for entry with no further differentiation between them.

Box 13.1 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).

<i>Criterion</i>	<i>Points allocated (in bold)</i>	
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	<i>Experience overseas in past 10 years</i> 3–5 years — 5 5–8 years — 10 8–10 years — 15	<i>Experience in Australia in past 10 years</i> 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 (2015ar).

Second, the Skilled Occupations List (SOL) covers a much narrower range of occupations than the Consolidated Sponsored Occupations List (CSOL) and, among other criteria, is intended to address likely medium- to long-run supply constraints that, if not met, would have adverse economic effects (discussed below). There is no current independent

assessment that a person with an occupation listed on the CSOL be in even immediate short supply (chapter 12).

Third, after a period of employment of two years in the same position, an employer can sponsor a temporary worker skilled (subclass 457) visa holder through the Temporary Residence Transition (TRT) stream under the ENS or RSMS without satisfying any additional requirements not already stipulated for 457 visas. Progression through the TRT stream does not require any re-assessment against an occupational listing that meets Australia's longer-term labour market needs (the stated goal of the SOL and a key requirement of points-tested skilled immigration). Accordingly, under current arrangements, an immigrant in an occupation with no prospects of long-term undersupply could gain permanency through the TRT route, while they would not do so through points-tested arrangements.

The TRT stream also has weaker English-language requirements (chapter 12). The TRT pathway can therefore sidestep the requirements for English-language proficiency that would normally be expected for permanent skilled immigrants. The lower English-language requirements of the TRT pathway is not a trivial concern as the TRT pathway is a major source of permanent skilled immigrants, and because poorer English skills translate to poorer social and economic outcomes. In chapter 12, the Commission accordingly recommended that the requirements for the TRT pathway mirror that of the points system — currently at least 'competent' English, rather than vocational English.

Finally, although the Australian Government sets an aggregate skill stream planning level, and planning levels for each visa subclass, the DIBP gives priority to processing of visa applications in the employer-nominated visa subclasses ahead of the direct entry system.

Patterns in the use of skill stream immigration

From the mid-1990s, the Australian Government significantly increased skill stream immigration in absolute terms and as a proportion of the total permanent immigration intake. Over the past decade, the Australian Government also shifted skilled immigration towards employer-nominated immigration (figure 13.1), arguing that demand-driven outcomes better targeted the skills needed in the economy (Evans 2008). Nevertheless, points-tested immigration still accounts for most of the intake.

The skill stream has a significant family component

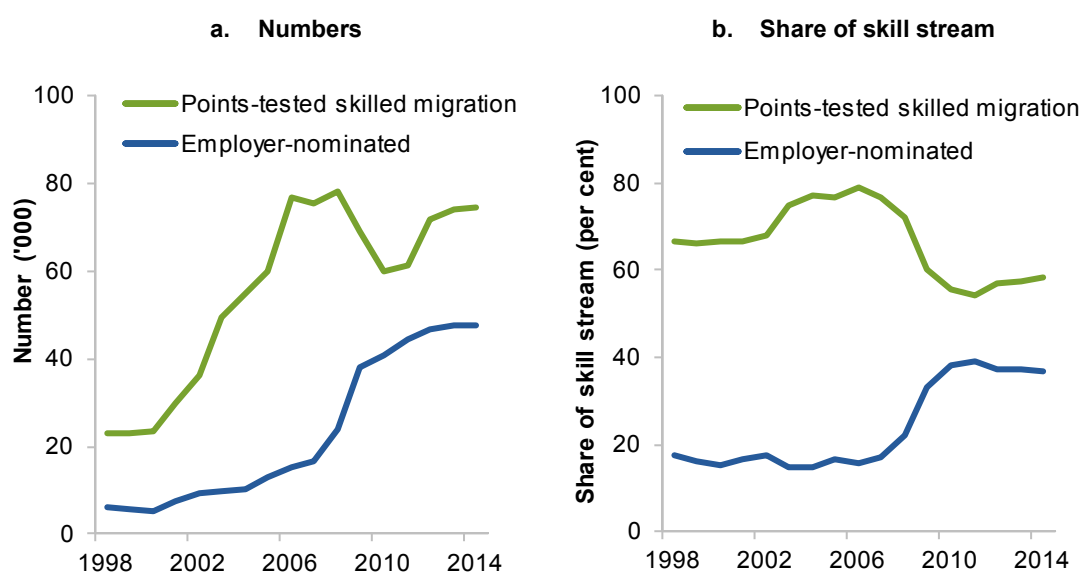
It is easy, given its name, to have the misapprehension that the skill stream only includes skilled immigrants. In fact, about half of skill stream visas are issued to secondary applicants — partners and dependent children (52 per cent in 2013-14), whose skills are typically not assessed. The only requirement for such secondary applicants is that they pass the age, health and character requirements.

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 five points toward the points test (out of a pass mark of 60) if their partner:

- is under 50 years old
- has at least 'competent' English-language skills
- has been assessed by the relevant assessing authority (generally an industry body or VETASSESS) as having the skills to perform a skilled occupation.

Partner skills and other attributes have no impact on applications through the employer-nominated streams.

Figure 13.1 Trends in employer-nominated and points-tested immigration, 1998-2014^a



^a Includes skill stream primary applicants, partners and dependent children. The 'Distinguished Talent' and BIIP are included in the total skill stream in calculating the shares.

Sources: DIMIA (2006); DIBP (2015e).

Visa waiting periods

On average, applications for skilled immigration are processed faster than the family stream and the Humanitarian Programme, as shown by the ratio of the pipeline to grants of visas in table 13.1 above. Most skill stream visas are finalised within six months of application.

13.3 Are the eligibility criteria right?

The criteria used for assessing visa applications have major implications for the composition of the migrant intake, the overall level of demand and, from a policy perspective, the capacity of the system to deliver its economic and social objectives.

The framework for government decision-making

As emphasised throughout this report, the impacts of immigrants have economic, social, and environmental dimensions, and these impacts are the key to deciding the number and composition of Australia's immigrant intake. Given that the objective of the skill stream is largely economic, this should be given primacy in determining eligibility criteria.³ In considering the economic effects, the key issue is identifying any benefits from their labour that are not appropriated by the immigrant employee. These would include, for instance:

- knowledge spillovers (chapter 6)
- the capacity of immigrants to address skill shortages, which if not mitigated, might lower the return on other assets, for example, farmland or mining resources (chapter 5)
- any positive or negative effects of skilled immigrants on wages for existing Australians, though there appears little robust evidence about the size or magnitude of these effects (chapter 6)⁴
- any reductions on net outlays by governments. This includes any additional tax revenue collected by government. Likewise it includes any reductions in the community obligations (as taxpayers) to meet certain immigrant's needs, such as through reduced outlays on health care or social security transfers. These reductions enable either more government services for the existing Australian community (greater public consumption) or lower tax obligations (greater private consumption).

The fiscal benefits outlined above cannot be looked at in isolation from the other three broad impacts. Accordingly, obtaining fiscal gains through immigration is not, per se, the goal of immigration policy, although sometimes the achievement of that outcome produces net benefits to the Australian community. Moreover, from a conceptual perspective, the ultimate benefits from any positive net fiscal outcome arise because they enhance public or private consumption for the existing Australian community, now or in the future, not because the balance sheets of governments look better.

³ In making this observation, economic and social outcomes should not be seen as independent. Good outcomes in one dimension are correlated with good outcomes in the other. English-language proficiency is a common factor (OECD 2013b).

⁴ Some of these benefits and costs would also show up as taxable income streams, but undertaking those calculations are difficult, and in any case, do not obviate the fact that, regardless of whether the income is taxed, there is an economic benefit.

In some instances — such as the weight given to different ages of skilled immigrants in any selection criteria — the fiscal impacts will be the dominant factor. This is because taxpayer-funded outlays and labour income (itself the basis for a significant part of tax revenue) are strongly age-dependent.

On the other hand, the weight given to different skills in the decision-making process should take into account any enduring labour shortages, the income of different skill groups, and the likelihood of any spillovers. In this instance, the fiscal impacts are a weaker consideration because, tax revenue aside, the claims on taxpayer-funded services of skilled people of a given age are unlikely to vary much between the different levels of skill.

The framework above does not negate consideration of broader social and environmental impacts. However, concerns about costs in these areas — such as possibly adverse environmental impacts, greater infrastructure needs and the wider diffusion of rents from scarce assets (for example, mining royalties) across a bigger population — do not relate to the composition of the various permanent immigration streams, but to the size of the population (which includes natural increase and the net level of overseas migration). The social and environmental impacts of higher-skilled immigrants are unlikely to be any different from lower-skilled employees.

Age limits

Primary applicants for permanent skill stream immigration must be aged under 50 years, unless exempt. Some stakeholders suggested that given longer life expectancies and longer working lives, there may be a case for increasing age limits. Some also pointed to inconsistencies with the New Zealand regime:

Currently points-tested skilled migrants must be less than 50 years of age at time of visa lodgement. This age limit is too restrictive and should be increased to less than 56 years of age at time of visa lodgement, which is the current New Zealand skilled migration age limit. Prior to the 1 July 2012 changes, ENS visa applicants had to be less than 45 years of age at time of lodgement, unless ‘exceptional circumstances’ existed, for example severe skill shortages. From 1 July 2012 ENS visa applicants must be under 49 years of age at time of application unless exempt. The current ENS visa age exemptions are extremely restrictive and do not reflect the real world. (Mark Tarrant Lawyers, sub. DR134, p. 21)

The idea of increasing the age limit was also raised in the DIBP review of the skill stream (DIBP 2014h).

However, increasing the age threshold is not warranted. Government expenditure per person increases rapidly after the age of 60 years, labour market participation falls precipitously and taxes paid decrease (chapter 9 and PC 2013a).⁵ The steep rise in such net

⁵ The latter would continue to hold under any realistic policy initiatives to address Australia’s long-run fiscal imbalance.

costs to taxpayers after age 60 years means that the present value of the future stream of net transfers to immigrants required from existing Australians is positive at ages much *earlier* than 60 years (and under any realistic scenarios at an age less than 50 years). This applies even if the immigrant provides net transfers *to* existing Australians in particular years, such as the year of arrival. The distinction between impacts in given years and those over a person's remaining lifetime is critical to any immigration policy aimed at maximising community-wide benefits.

The fact that Australia's skilled immigration program has never delivered outcomes below the planned level for every year in recent history suggests excess demand, and provides 'headroom' for a reduction in the age threshold.

In summary, given the analysis above and the findings in chapter 9, there are strong grounds for reducing the current age limit for eligibility for permanent residency rather than for increasing it, and, at the least, adjusting the point system to reflect the greater average benefits of skilled permanent immigrants arriving at ages around 25 years.

The other implication of this analysis is that the planning level for skilled immigration should be seen as a loose constraint. It should be lowered if, for any set of eligibility rules, the *marginal* applicants for a skilled permanent visa impose net economic (or/and social) costs, and raised if the opposite holds (subject to any broader environmental concerns). The planned level should not be seen as an objective in its own right.

There might be some concern that too strict an application of an age rule might have unintended impacts by foregoing access to particularly highly specialised and skilled niches in the global supply of labour (for example, experts in particular technologies and highly capable clinicians). These are important groups because they provide technological and other 'spillovers' to the community that are in addition to their fiscal contribution. However, the DIBP can waive the age requirement for such highly-skilled immigrants. Given the existence of this waiver and the Distinguished Talent visa, it is unlikely that Australia is foregoing a significant number of highly-skilled older immigrants.

RECOMMENDATION 13.1

The Australian Government should consider reducing the age limit of 50 years for permanent migration under the skill stream and provide greater weight in the points-based system for younger immigrants.

The Australian Government should maintain the existing capacity to provide exemptions to the age rule for particularly skilled applicants.

English-language requirements

Some business groups questioned the points-based standard for English-language proficiency. For example, Master Builders Australia (sub. 49) and BusinessSA (sub. 61) suggested that the English-language requirements for skilled immigration are generally too onerous. However, reducing the English-language requirements for permanent skilled immigrants would have negative effects (a point also emphasised in chapter 12). Numerous studies have identified the importance of English-language proficiency for immigrants' outcomes. Less fluent immigrants are generally 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. Businesses do not see or bear these costs.

Accordingly, there are few grounds for shifting away from the existing minimum standard of 'competent English' under the points system. Indeed, as noted in chapter 12, people transitioning to the permanent skill stream from the temporary skill stream should also meet this standard (recommendation 12.2).

On face value, the relative weight given to different English-language skills in the points system appear appropriate, although, as noted later, this warrants further empirical investigation.

The skilled occupations lists

Entry into the permanent stream requires a person to have a desirable skill, which must be on either the CSOL (covering 651 occupations) or its shorter version, the SOL (covering 190 occupations). Both lists are based on the Australian and New Zealand Standard Classification of Occupations (ANZSCO). The ANZSCO, which is maintained by the Australian Bureau of Statistics (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 2013b). Each occupation is assigned a 6-digit code and a skill level between 1 (highest) and 5 (lowest). An occupation is only listed on the CSOL (or SOL) for skill levels 1–3, thus limiting low-skill permanent immigration.

As noted earlier, the list used for assessing the skill of an applicant for a permanent skilled visa depends on the visa class and pathway. Employer and state and territory government nominated applicants are assessed using the CSOL, as are those who use the Temporary Residence Transition pathway. Those without such a nomination must be tested against the SOL.

The SOL is a list of 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 using a multi-step framework (box 13.2). For example, for the 2015-16 program, dentists and urban and regional planners were removed from the SOL and panel beaters and cabinetmakers were added.

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 or added. There is sometimes concern that job search and unemployment may be protracted in some occupations, or that wages and conditions might be eroded if there is an excess supply of a particular occupation.

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 and territory government nominated immigration visas (subclass 190). 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 13.2 The process for revising the Skilled Occupations List

The Skilled Occupations List (SOL) includes occupations that are highly skilled and in demand. Currently the list contains 191 occupations. The Department of Education and Training (DET) prepares advice for the Minister for Immigration and Border Protection on the SOL. (Prior to machinery of government changes in December 2014, the former 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 DET 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 SOL if:

- it is likely to be in surplus in the medium to long term
- other more appropriate visa options exist.

Sources: DET (2015); DIS (2015b).

Alternative approaches to skilled occupations lists

Skilled occupations 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. However, there are concerns about whether the existing lists perform that function well enough, and whether there may be alternative or supplementary approaches. Some of these concerns are well justified, others less so.

Expanding the SOL and CSOL to lower-skilled occupations

Several business groups suggested that skilled immigration lists 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; NT Department of Business, sub. 60). The Australian Council of Trade Unions (ACTU, sub. 36) was strongly opposed to the idea.

Unravelling the impacts of shifts in the skill structure of permanent immigration is complex (Dustmann, Frattini and Glitz 2007). Currently the permanent skill stream meets the planning levels each year. Adding lower-skilled occupations to the occupation lists could lead to some higher-skilled potential immigrants being displaced by lower-skilled immigrants. So the key question is about the desirable skill composition of a given planned level of immigration.

Businesses often would like the scope to employ unskilled immigrants if it reduces wage pressures and increases their scope to select job candidates that fit their needs. Unions tend to be more negative because they often represent existing employees who may be substitutes for immigrant labour, and who are therefore more exposed to the risk of wage reductions if the labour supply shock is big enough.⁶ Consumers gain to the extent that prices fall with wage reduction, while high-skill workers benefit as they become relatively more scarce. The economy as a whole adapts too, because changes in prices and returns lead to capital inflows and shifts in the composition of the economy.

If there are downward wage rigidities (for example, as a result of wage regulations), then adjustment of wages cannot accommodate the greater supply of low-skill immigration. This will tend to elevate unemployment rates for low-skill Australians, but may provide an incentive to acquire skills to increase their employability. Similarly, if wages at the low end of the wage distribution fall, given the social security safety net, it then reduces work incentives for low-skill Australians. It may still be that higher intakes of immigrant low-skill labour has positive average welfare benefits, but it also has potentially significant distributional effects.

⁶ Under certain conditions, there are no wage reductions even for shocks to unskilled labour supply if the composition of the economy shifts sufficiently (leading to ‘factor price insensitivity’).

There are other reasons why, all other things being equal, there are grounds to favour higher-skill people in any given immigrant intake.

- The empirical evidence for Australia (which has favoured high-skilled immigration much more than many other countries, such as the United States) does not suggest any clear adverse effect of our current immigration levels and composition on labour market conditions (chapter 6).
- There are high resource costs in training high-skill workers, which are avoided if a country obtains immigrant workers after this investment has been already been paid for. The corollary of this is that businesses' incentives to train their existing workforce might be reduced, with the wage effects that this has for such employees (chapter 6).
- High-skilled immigration can undermine the anti-competitive bottlenecks in supply created by restrictions in training places in some professions.
- Technological and learning spillovers are more likely to arise for this group.
- The capacity to alleviate medium-term skill shortages through training or re-deployment of the local population is lower where there are substantial fixed costs in acquiring the relevant skills, there is an immediate need for the skills, or there is long-run uncertainty over demand for the specific labour.
- Unemployment risks for immigrants are lower when they are skilled (which is also the case for skilled people generally).
- Skilled immigration is unlikely to have the same adverse social effects as would any reductions in wages at the low end of the wage distribution.
- The average higher wages of high-skilled immigrants produces more tax revenue (subject to the caveat that any wage reductions for existing high-skilled workers are modest).

The Azarias review of the 457 visa program also recommended that the CSOL remain as a list of occupations that are ANZSCO skill levels 1- 3 or higher, noting that there is already a capacity to address shortages in lower-skill occupations through the labour agreement system (Azarias et al. 2014). (Labour agreements are agreements between the Australian Government and an employer that permit immigration of an agreed number of semi-skilled workers, but include additional terms and conditions because these agreements are variations on standard immigration requirements.)

In arguing for a continued emphasis on skilled immigration, it is important not to invoke one red herring. Gross domestic product per capita and labour productivity will almost certainly rise with higher-skilled immigration, but that, *by itself*, is not the best argument for favouring skilled immigration since neither of these measures differentiate between the effects on the existing Australian community and new cohorts of immigrants.

Of course, over the longer-run, the structure of the economy and labour demand may change in ways that require re-consideration of the skill composition of immigration. For example, were there to be persistent shortages in high quality attendant care in the aged

care system, and the required domestic labour supply was not responsive to wages in that part of the economy, then there may be grounds for using immigration to address this service need.

Ambiguity of skills levels

At the margin between ANZSCO skill levels 3 and 4, the distinction between ‘skilled’ or ‘semi-skilled’ occupations can appear quite arbitrary, and the classifications might not be responsive to changes in the economy and labour market. The National Farmers’ Federation (sub. DR105) identified this is an issue for primary producers. One concern was that technological change has meant that occupations that were originally classified as ‘semi-skilled’ (skill level 4) might now sometimes be more accurately classified at a higher skill level. For example, driving a B-double truck requires more skills than driving a large van, but all truck drivers fall into the same ANZSCO category. This suggests that the SOL and CSOL should adopt a more granular approach to skills assessment in certain areas — even if this lies outside the ANZSCO.

Learning by doing and occupational qualifications

In farming (and undoubtedly some other industries), skills are often acquired through learning by doing and accumulated experience, rather than through formal qualifications (National Farmers’ Federation, sub. DR105). Accordingly, many farmers do not have qualifications, and instead gain their skills through experience. This experience is not reflected in the ANZSCO skills classification for farmers. All of these issues act as barriers to primary producers accessing skilled immigrants to work in the sector. Overcoming this problem is not straightforward as it is hard to identify the real competencies of people who do not have formal qualifications, though this may warrant further investigation by DET.

The more nimble treatment of emerging occupations and capabilities

The ANZSCO is sometimes seen as relatively inflexible, with few changes to the classification over time. For example, the 2013 revision of the previous 2009 version involved the addition of 10 new occupations and the removal of one. As noted by the National Farmers’ Federation, some agricultural occupations that have only recently come into existence might not be on the ANZSCO.

Arguably, it is not that the ANZSCO is unresponsive as a *statistical* framework, but more whether such a framework is suited to the goals of the permanent immigration program. For instance, for the purposes of the SOL and CSOL, it would be useful to include occupations that have fewer than 300 employees since that anticipates structural shifts in labour markets that need nimble responses. The changes recommended by the Azarias report should address these concerns about the adaptability of the ANZSCO framework by allowing occupations to be added ahead of any significant employment in these categories

(chapter 12 and Azarias et al. 2014). The Commission has recommended that the Australian Government review those changes after sufficient time has passed for them to take effect (recommendation 12.3).

More broadly, the concern about flexibility applies to more than ‘occupations’ narrowly defined. The ANZSCO classification underpinning the DIBP’s occupational categories may not always be well suited to changes in the nature of jobs and associated skills as the economy transforms. For instance, someone undertaking abstract mathematical analysis of artificial intelligence is not captured in any of the (numerous) engineering or ICT categories of the SOL, and yet the sorts of skills embodied in that analysis are inputs into practical applications. The same might apply to someone who has highly developed expertise in some of the material sciences that can be critical to robotics and nanotechnology engineering applications. The CSOL and SOL are, by their nature, vocational lists, not lists of capabilities, notwithstanding that some important new jobs will require fundamental knowledge that lies outside the domain of common knowledge and practices in existing occupations. This particularly affects the SOL given its narrower classification of occupations.

The Azarias report did not address the potential tension between an occupational classification of people’s skills and a classification based on capabilities that may apply across many jobs, including occupations that are not currently well-defined. The difficulty of applying a ‘capabilities’ approach is that it would, if intended to be a comprehensive replacement for the ANZSCO, involve considerable time to develop, and would often be difficult to assess objectively (thus occasioning significant compliance costs and risks to integrity).

On this basis, there are grounds for a hybrid approach that retains an ANZSCO framework as the core occupational framework for the SOL, but that gives the Department of Education and Training the discretion to include particular capabilities (for example, advanced statistical and mathematical analysis skills) as a separate basis for assessing skills. Such add-ons would only be included where an objective independent assessment of those capabilities were possible — for example, through verifiable academic achievement or through endorsement by reputable Australian or overseas institutions (for example, the faculty head of a prestigious university). It would only apply to those capabilities where there were strong likely economic or social benefits for Australia. This is consistent with the Australian Government’s stated goal of the points-based system:

The points-tested programme is known as the human capital component of the skilled migration programme. It is designed to attract migrants who are highly skilled in key occupations of medium- to long-term need in Australia. The points test is the mechanism used to select skilled migrants who offer the best economic benefit to Australia. It does so by awarding points for various human capital attributes. (DIBP 2015c, p. 365)

Identification of future demand and supply

Another potential problem, but specific to the use of SOL, is the degree to which DET is able to reliably assess the likely state of job demand and supply over the relevant time horizon. This is not readily testable through ex post analysis since if DET identifies a likely shortage of a skill, it permits additional immigration to fill the gap, thus removing the potential to assess the accuracy of the forecast. However, DET could systematically test whether any forecasts of surpluses of skilled occupations over the medium and long run (where it does *not* change the SOL) actually materialised, which would provide some indications of the quality of its methodologies. Regardless, DET will need to re-calibrate its models to account for new types of work and skill sets (Hajkowicz et al. 2016).

Why are there two classification systems for the permanent skilled immigration stream?

Putting aside the concerns about the flaws of the classification systems per se, the most prominent issue affecting the CSOL and SOL is the choice of their application across different visa classes. When supplemented by some assessment of immediate occupational shortages and demand by specific sponsors (as envisaged by Azarias et al. 2014), the CSOL seems well suited to the objectives of temporary skilled immigration. However, as noted in chapter 12, the capacity for someone to move seamlessly from a temporary visa to a permanent visa without re-consideration of whether their skills (or other traits) offer the best long-run economic benefit to Australia is inconsistent with the appropriately different objectives of permanent compared with temporary immigration. Equally, permanent skilled immigration through the employer and state and territory governments' nominated visa streams — while ostensibly aiming to meet medium-term labour market needs (DIBP 2014i) — do not require any actual assessment of medium-term needs for the relevant CSOL occupations beyond the current interest of an employer in providing a job. In making these observations, the measure of 'success' in permanent immigration is not just about the lifelong employment prospects of new cohorts of skilled immigrants (though employment is an inherently desirable outcome), but in ensuring that there are overall benefits to the Australian community *as a whole*.

In this context, there are good grounds for adopting the SOL as the basis for skill assessment for the entire *permanent* skilled immigration stream. Some may contend that the occupational composition of immigrants would change significantly given that the Employer Nominated Scheme currently relies on the broader occupational classification system (the CSOL), and that this would reduce long-term access to essential skills for Australia's future. However, the SOL is intended to achieve those long-term outcomes. If the framework and processes (box 13.2) used to do that are flawed, such that some relevant occupational categories are missing, then they should be remedied, rather than relying on the CSOL, whose purpose is quite different.

How far should reform of skilled occupations lists go?

There are no obvious grounds for major amendments to the SOL and CSOL as frameworks, especially given that the Australian Government is acting on the recommendations of the Azarias report. Notably, while there are flaws in the SOL and CSOL and their use, the outcomes for skilled immigrants have been very strong (chapter 5). The relevant policy question is whether those outcomes could be improved.

In that vein, there are grounds to adopt a hybrid model that would supplement the ANZSCO framework with:

- a more granular treatment of some occupations that cannot be easily allocated between the different skill levels (as in the B-double example cited earlier)
- the inclusion of particular, well-defined, skill sets that are not occupationally-specific.

There is merit in undertaking a small-scale pilot scheme to assess the workability and impacts of such a hybrid approach.

Moreover, the SOL — adapted as above — should be the basis for skills assessment for all applications for the permanent skill stream.

RECOMMENDATION 13.2

The Australian Government should:

- use the Skilled Occupations List as the sole basis for determining skill requirements for the different streams of the permanent skilled immigration program, including for those using the Temporary Residence Transition visa
- undertake a small pilot scheme that tests the merit of supplementing the Skilled Occupations List with:
 - a more granular treatment of some occupations that cannot be easily allocated between the different skill levels
 - the inclusion of particular, well-defined, skill sets that are not occupationally-specific.

The treatment of adult secondary applicants

As noted earlier, partners and dependent children of skill stream primary applicants can be granted skill stream permanent residency with relatively few requirements. If the primary applicant has a partner with the ability to perform a skilled occupation, this can attract five

points for points-tested immigration. However, the skills of the secondary adult applicant have no impact on eligibility for employer-nominated immigration.⁷

Given the significant share of secondary applicants in permanent skill stream immigration, it is important to assess their contribution to the Australian economy and the community more generally. Labour market outcomes for adult primary applicants are considerably better than secondary applicants (table 13.3 and chapter 5). In part, the labour force participation rate outcomes reflect that many secondary adult spouses are women who are outside the labour market because they are caring for children. These have somewhat higher long-run labour market involvement (as is true for female child carers amongst the existing Australian population), although it will still be the case that the extent of their likely future role will be a function of their skill and qualifications. Regardless, a sizeable gap in participation rates still persists for a decade (figure 13.2). It is also notable that even when such secondary applicants are in the labour force, a significant share are unable to secure employment, and of those that do, the minority obtain high-skill jobs. The Commission has recommended changes to settlement services to mitigate this (recommendation 8.1).

Table 13.3 Labour market outcomes by primary and secondary adult applicants

18 months after arrival, 2014

<i>Labour market outcome</i>	<i>Primary applicant</i>	<i>Secondary applicant spouse</i>
	(%)	(%)
Highly-skilled employment rate	62.9	29.0
Semi-skilled employment rate	24.1	24.7
Low-skilled employment rate	5.9	13.9
Overall employment rate ^a	93.2	68.4
Unemployment rate	2.8	11.7
Labour force participation rate	95.9	77.5

^a The overall employment rate slightly exceeds the sum of the other employment rates because some people were not categorised. Chapter 5 provides further detail on the comparative labour market outcomes of different immigrant groups.

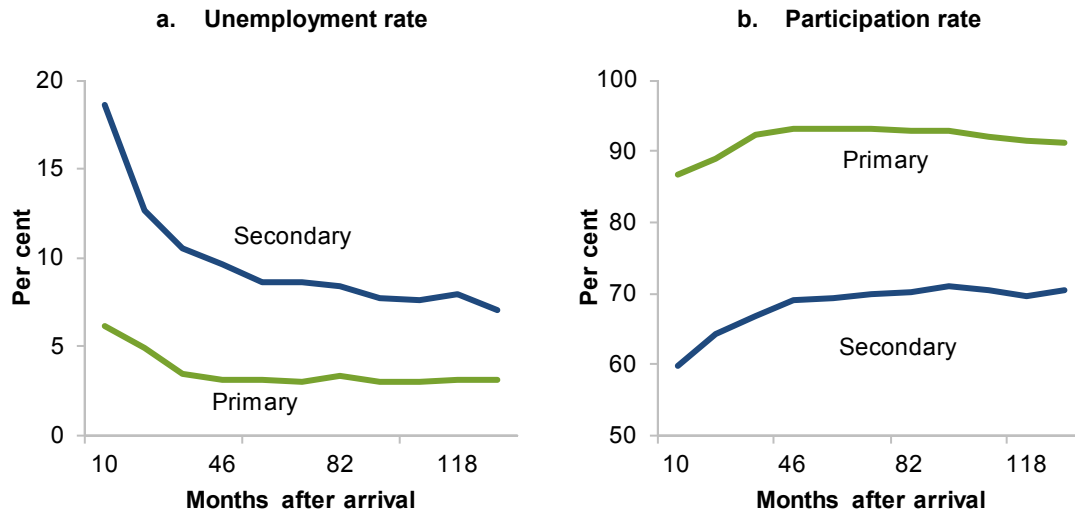
Source: Based on DIBP 2015m, *Continuous Survey of Australia's Migrants, Cohort 1 Report (Change in Outcomes)*, June 2015.

Failing to give appropriate weight to the skill (and other) attributes of a partner can shift the composition of immigration away from those that are most likely to benefit Australia. Two couples with very different traits can be treated equivalently. Likewise, a couple comprising a high-skill primary applicant and a low-skill secondary applicant may be treated equivalently to a high-skill primary applicant.

⁷ 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.

Figure 13.2 Labour outcomes for primary and secondary applicants do not converge over time

Skill stream immigrants arriving 2000 to 2011^a



^a Relates only to people aged 15 years and over.

Source: ABS 2014c, *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. No. 3417.0.55.001.

Granting higher priority to people with skilled partners would be likely to change the skill stream intake to include more partners with skills in the desired areas, and greater English-language proficiency, qualifications and job experience. This could, in turn, encourage partners to develop job and English skills or extend their job experience before seeking permanent immigration.

Making this change would also require modification to the points earned by a single applicant, since otherwise a single person with identical skills to a primary partnered applicant would almost always be displaced in the queue. The Canadian points system, as discussed later, addresses this issue. It provides a given additional number of points to a primary applicant without a partner. It then limits to the same number, the maximum contribution of a secondary applicant to his or her primary applicant's score. This would preclude the displacement issue described above.

Some are concerned about possible adverse consequences of changing the treatment of secondary applicants.

First, the potential global pool of primary applicants who would meet the current skilled visa streams would be reduced. This might diminish the capacity for employers to address skills shortages. However, whether this would actually be the case is far from clear. The Australian Government has not had difficulty in filling the skill stream quota as it has expanded over time, suggesting that there is an excess demand for skill stream visas. All that may happen is that an employer would be able to fill a vacancy with a primary

applicant whose partner has strong employment prospects, rather than a person whose partner does not. Giving greater weight to couples where both have skills in demand may actually *reduce* skill shortages — especially over the longer run.

Moreover, if a new arrangement for secondary applicants does reduce demand for visas below the set quota, this may not be a problem if the costs of relinquishing a skilled primary applicant is outweighed by the benefits of relinquishing a secondary applicant who does not make a sufficient contribution. The objective of immigration policy should not give primary weight to meeting a planned intake, but to the benefits to the Australian community of arriving immigrants (chapter 3).

An important exception to the above observations is that some primary applicants will have particularly important or scarce skills, but have a partner without the traits to contribute enough points to be rated higher than a couple where both people have good, but not exceptional skills. This could divert a highly valuable primary applicant to another country. This reinforces the need for a nuanced treatment of skills in any immigration system.

Second, a system that took more account of the readily observable positive traits of secondary applicants might nevertheless forgo entry by some secondary applicants who could make positive contributions to Australia, but where that is not readily observable *ex ante*. This is unquestionably true, but it is true for primary applicants as well. *Any* system will miss some outstanding immigrants. The policy goal is to set reasonable criteria that reduce that outcome (a false negative), while not increasing the likelihood of attracting people who have less to offer (a false positive). The solution is the refinement of criteria for identifying people who can make the greatest beneficial additions to the Australian community.

In conclusion, there are strong grounds to give much greater consideration to the traits of secondary applicants when considering primary applicants.

There are several ways of giving effect to this, including:

- increasing the points granted to a primary applicant if the secondary applicant has sought-after traits (with an accompanying increase in points for applicants without a partner)
- granting higher processing priority to people whose partners have relevant qualifications, work experience and English-language proficiency
- lower visa application charges for skilled couples.

All three have some merit, but the latter two are less targeted. Unless they took into account the varying value of different immigrant couples to the Australian community, variable visa charges would still allow entry by people with a higher ability to pay, but with a lower overall contribution to the community. Depending on the exact nature of the processing system, priority processing would not necessarily preclude entry by lower-contributing couples, but might simply put them towards the end of the queue.

A points-based system for partnered applicants is better targeted. The system would involve consideration of the same factors that are relevant to the social and economic contribution of *primary* applicants, such as skills, qualifications, experience and age. A workable strategy would involve:

- significantly augmenting the contributing points to a primary applicant from the secondary applicant
- adding this maximum to the points of every primary applicant who does not have a partner, so that the new system would only affect the relative ranking of partnered applicants with other partnered applicants. This would mean that a new system would not inadvertently displace single applicants
- examining how this new criterion affects the composition of partnered immigrants and their economic and social impacts, and then re-calibrating the contributory points from the secondary applicant
- setting either weaker or no requirements for points for secondary applicants if the skills of the primary applicant clearly create particularly strong benefits for Australia.

RECOMMENDATION 13.3

The Australian Government should significantly increase, up to a given maximum, the contributing points to a primary applicant based on the skill and other traits of the adult secondary applicant.

All primary applicants without partners should be given additional points equivalent to the maximum above.

If the Australian Government does not adopt recommendation 13.3, it should adopt higher priority processing and lower visa application charges for applicants in the skill stream whose partners can demonstrate relevant skills and other desirable characteristics.

Reporting arrangements for, and data on, secondary applicants

While such changes to the treatment of secondary applicants may not be able to be implemented immediately, in the short-run it would be useful to make some modest changes to the reporting arrangements for secondary applicants, especially given that the existing data on skill stream immigration implies that all applicants are skilled when that is not the case. More transparent reporting would lead to a better-informed discussion about immigration issues.

There are two useful initiatives in this vein. One is simply a change in terminology to make clear that secondary applicants are not necessarily skilled, for example by re-labelling them as ‘skill stream partners and children’. This would clarify the significance of skill stream secondary applicants in the overall immigrant intake (chapter 2). An example of an

alternative taxonomy is in Larsen (2013), who set out some data on the trends in family migration to Australia. He separated the Migration Program into three components — skilled primary, skilled secondary (or ‘informal family’) and family stream.

There would also be benefits in collecting more data on the traits of secondary applicants — using the same criteria that are used to allocate points to primary applicants. This would be a prerequisite for implementing recommendation 13.3, but would also clarify the impacts. While undertaking sample surveys, such as CSAM, would be one approach, another might be mandatorily collected administrative data for the immigrant intake or a share of it (which would eliminate any non-response bias). Such data would, in any case, have ultimately to be collected if the DIBP based its visa decisions on the aptitudes of secondary applicants (such as their skills and English-language proficiency).

RECOMMENDATION 13.4

The Australian Government should collect and publish more detailed information on skill stream secondary applicants over the age of 18 years to determine the proportion of secondary applicants who have attributes that would qualify them for skilled immigration in their own right.

In Australian Government publications, primary and secondary skill stream immigrants should be reported separately using a plain English term that more accurately describes the status of skill stream secondary applicants, such as ‘skill stream partners and children’.

But what about non-adult secondary applicants?

Under the current points system, no child would be able to acquire any points if assessed using the primary applicant’s test. This raises the issue of whether partnered primary applicants with and without children should be treated differently. This is more complex than for adult secondary applicants because it is hard to assess children’s future contributions to the Australian community. Clearly, skills, education and job experience cannot be gauged. However, several factors suggest that the points system should *not* differentiate between couples with and without children.

- The most decisive factor is that many childless immigrant couples have children after their arrival in Australia, so that there may be very little real difference between the long-run outcomes between the two immigrant groups. Indeed, there are some grounds for preferring immigrant couples with children because this avoids some of the future taxpayer liabilities associated with childcare costs and family tax benefits that would otherwise need to be met if the children were born in Australia. There is also evidence that children who arrive with their immigrant parents perform better in at least their education than children born in Australia to their immigrant parents (chapters 4, 5 and

8, and Le 2009). This appears to reflect the special encouragement that the former parents give to educational outcomes.

- The average lifetime fiscal costs of children are relatively low because the ages when they contribute economically are relatively close and the ages when they draw on the aged care and health system are relatively far away.⁸
- Many people with considerable job experience will have reached a time in their life when they commence having children. A system that penalised skilled couples with children would run the risk of deterring entry by many highly contributing immigrants, which may not be made up by skilled couples without children.
- The presence of children may provide an avenue for social inclusion through participation in school, childcare and the community generally (Centre for Multicultural Youth 2015). However, the degree to which this holds will depend on the attitudes of the community, the attributes of the child and family, and the school's strategies for social inclusion — which are not always positive (Golan and Petersen 2002). Accordingly, this is a weaker argument.

Adopting a universal points system for skilled immigration

A recurrent theme in this chapter is that, notwithstanding that the orientation of the permanent skill stream should be to Australia's long-term economic future, some key components of that stream rely on tests that do not translate well to that orientation. For example, the Employer Nomination Scheme has weaker requirements for English-language proficiency, gives no weight to the skills of secondary applicants, and applies the same skill-assessment system used for temporary immigration. As such, the Employer Nomination Scheme is not well targeted at achieving long-term outcomes, a point made by Birrell and Healy (2012), Professor Glenn Withers (trans., p. iii) and the ACTU. For example, the latter noted:

The risk here is that the migration program will increasingly be responding to what the DIBP discussion paper itself describes as 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)

Others considered that the weight given to employer-nominated immigration was justified (for example, the Business Council of Australia, sub. 59; Migration Institute of Australia, sub. 53; Minerals Council of Australia, sub. 52). Migration Council Australia stated that the increased emphasis on employer nomination had been positive.

... we think the balance is heading in the right direction and that it's generally meeting its sort of stated goals and that sort of shift — the long, gradual shift to employer-sponsored migration, in general, has been a good thing. (Migration Council Australia, trans., pp. 153–54)

⁸ There is some evidence that some groups of children arriving in Australia at 15 years and older had poorer labour market outcomes (and therefore likely lower tax receipts) than younger children, so this is an average result (chapter 5).

However, there is a false dichotomy between a points-based system and an employer-nominated stream. An adapted (universal) points-based system could take account of the value of employer-nomination by providing additional points for primary applicants with job offers (as in Canada — box 13.3), while avoiding the inconsistencies in the occupational, English-language proficiency and skill criteria used for eligibility for permanency under the current arrangements (chapter 12). Good regulatory practice should avoid inconsistencies that are not strongly justified.

Box 13.3 **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-language 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 (2015i, 2015q).

A new points system should give additional weight to employer-nominated applicants because:

- an employer's recruitment process itself can uncover more information about the aptitudes of an employee (most importantly those that are intangible) than the necessarily streamlined system used by the DIBP
- there is strong evidence that, on average, immigrants entering the permanent skill stream through the employer-nominated route have better labour market outcomes (appendix D). That fact does not require the maintenance of the current split system, but recognition that the higher average outcomes of employer-nominated immigrants should be counted in any points system.

Any such universal points system would reflect the changes to age limits, skill tests and the treatment of secondary applicants set out in recommendations 13.1, 13.2 and 13.3. The Canadian experiences may also assist in the design of such a system. Quite apart from the benefits of adopting a coherent system, setting a higher minimum standard for a permanent skilled visa would provide strong incentives for temporary visa holders to acquire the attributes that would enable them to meet the universal points test — most notably the required English-language proficiency level. This would improve economic and social outcomes for immigrants and the Australian community generally.

There are also grounds for reforms to the points system beyond those described above, though these should occur over the medium term, given that the data underpinning them are not yet sufficiently developed, and because robust alternatives need careful testing. The recommended approach is:

- create an administrative data set for all permanent skill stream immigrants (including secondary applicants) based on the measures used to calibrate the points test, such as experience, age and so on. This would be an extension of the existing Australian Census and Migrants Integrated Dataset (ACMID)
- systematically examine the progressive economic outcomes of such immigrants (using linked data from other agencies, such as the Australian Tax Office and the Department of Social Services), and the relative contributions of the above measures, with no presumption that a simple linear model is the most appropriate basis for predicting outcomes (which is the implicit assumption of the current points system)
- use the results of the predictive model to re-calibrate the universal points system to improve overall outcomes. For instance, some analysis by the Productivity Commission points to weaker labour market outcomes for international students who obtain permanent visas through the points-based system, which may be relevant to the points allocated or closer assessment of this group (appendix C).

The initial data sets would only cover short-run outcomes, but over time, the points system could be adapted to take account of longer-run impacts, and any cohort effects (those that relate to the year of arrival) since these may also be important.

The data sets underpinning this kind of analysis would be very large and of high quality, and grow even larger over time. Given these characteristics, they would be well suited to data analytical techniques, such as machine learning, now commonly employed by commercial organisations globally. Coles, Woolworths, Medibank Australia, the Commonwealth Bank, Telstra and Australia Post are some local users of these approaches. Insurance companies have always undertaken analysis of large data sets, but their use and methods are now more sophisticated. Businesses use such approaches because they add commercial value. Governments should do so too, and in the case of skilled immigration, the gains are potentially very high because of the heterogeneity of the intake and because the number and composition of the permanent skill migration stream is strongly influenced by the policy choices of the Australian Government. (In many other government applications of large data sets — such as in policy reforms that aim to improve outcomes for disadvantaged Australians — the degrees of freedom are more limited because the given traits of people, like their inherent aptitude, are hard to change, and in some instances, like age, cannot be changed at all.) One conceptual framework for taking a more empirical approach to the points system is that every potential skilled immigrant represents an investment in Australia’s future. As indicated in other chapters in this report, the relative net benefits of different choices can be very large, justifying a systematic way of appraising the consequences (and risks) of government’s choices.

RECOMMENDATION 13.5

The Australian Government should adopt a common points system for the entire permanent skill stream, but in doing so should add points to a visa application by a primary applicant who has been nominated by an employer.

Over the medium term, the Department of Immigration and Border Protection, the Department of Education and Training, and the Department of Employment should jointly develop a systematic empirical approach for determining the allocation of points, based on the existing data on the traits of the permanent skill stream and follow-up evidence on employment and other outcomes.

13.4 Business Innovation and Investment Programme

On face value, there are grounds for an immigration program that targets people who are not employees, but who bring their skills, finance and entrepreneurial acumen through running businesses. The Australian Government introduced business immigration in 1981, with an explicit visa targeting this group in 1992. The initial visa was oriented to business skills, but the current program, the Business Innovation and Investment Programme (BIIP) gives considerable weight to investment in Australia (DIBP 2014j).

The BIIP generally requires applicants to pass a points test,⁹ to demonstrate that they have experience in managing a business in Australia, that they have a genuine intention to live in Australia and that they will continue to take an active role in managing the business. They must typically be no older than 55 years.

Unlike other components of the skill stream, the BIIP is intended to *directly* encourage economic activity (employment, output, exports) and to broaden Australia's long-term economic opportunities by stimulating innovation and international trade linkages (DIBP 2014j). The overall program numbers are small at around 6000 in 2013-14, and the overwhelming majority of these are provisional visas, which may not lead to permanent visas. After separating out visas granted under historical arrangements, in 2013-14, 424 permanent visas were granted or 0.2 per cent of total permanent immigration in that year (DIBP 2014c). The numbers will grow as more people transition from the provisional visas, but will remain as a small share of total permanent immigration given that planning levels for future years are just over 7000, including provisional visas (JSCM 2015b).

There are multiple subclasses and transition pathways into permanent residency under the BIIP and, depending on the class, complex administrative rules about investment amounts, business experience, export achievement and business turnover (appendix E). Combined with the small size of the program, this complexity alone raises questions about its value.

While data on this small program are relatively sparse, the information that is available suggests that its impacts are likely to be limited.

- More than 70 per cent of immigrants are from the People's Republic of China (JSCM 2015b).¹⁰ The remainder come from a few other emerging economies. The lack of diversity reduces the likelihood that the program creates significant global linkages.
- English-language proficiency appears to be much poorer than most others in the permanent skill stream (DIBP 2014j). Only around 10 per cent of applicants claim the points available for English-language skills, noting that even the most basic of English skills, vocational English, has a score of five points.
- The available evidence suggests that under the Business Innovation stream, retail trade and services are the dominant industries, industries that are not likely to be conducive to the stated goals of the program, such as through innovation (Soames, Brunker and Talgaswatta 2011) or export orientation (ABS 2015d). Similarly, 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.) The Commission has previously found that small businesses are far less likely than large businesses to be innovative and that few new businesses are innovative (PC 2015a; Soames, Brunker and Talgaswatta 2011).

⁹ The test is different from that used for the skill stream in general. It gives less points for the youngest category and for superior English-language skills, while introducing new elements to the test, such as business and investment experience, and personal assets.

¹⁰ Compared with 10 per cent for skilled permanent immigration as a whole.

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- Most BIIP immigrants buy established businesses (Deng 2012; DIBP 2014j).
 - 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).

Some state governments and bodies considered the program was successful. For example, the Western Australian Business Migration Centre (BMC) stated:

The economic outcomes in Western Australia confirm business migrants are continuing to make a significant contribution to the State's economic prosperity as a leading source of new capital, investment, business establishment, export income and employment generation. For the 2013/14 financial year the injection of new capital into the State's economy is estimated to exceed \$275 million and generate over 300 new jobs. (BMC 2014, p. 6)

However, the reasoning that the program created many 'new' jobs because new businesses were created is specious. New businesses typically take their employees from other jobs or recruit people who would have had other job opportunities (a displacement effect). Looking at business entry as if it is the source of employment ignores the offsetting effects of business exits and movements of people between businesses. Around 13 per cent of the stock of businesses in existence at the end of 2012-13 exited over the coming financial year.¹¹ The entry rate was similar. Aggregate employment grew by around 0.5 per cent over the year.¹²

Even if the program did genuinely stimulate some new jobs, an open question would be whether these related to existing Australians or to secondary applicants. Similarly, given Australia's capacity to attract capital from abroad, it is very unlikely that an inshore source of capital actually adds to aggregate domestic access to finance.

Regardless, the economic effect is marginal even if the maximum values of effects were taken at face value. For example, 'job creation' of 300 jobs in 2013-14 would amount to an increase in Western Australian state employment of 0.02 per cent.¹³ Any proper accounting of job creation would be a fraction of this.

When considered against the evidence, and taking account of its complex design, it is doubtful that the BIIP has achieved its stated goals, a conclusion also reached by a recent parliamentary inquiry:

The Committee questions whether the BIIP is effective in attracting high quality business migrants to fill Australia's innovation requirements. (JSCM 2015b, p. 30)

¹¹ ABS 2015, *Counts of Australian Businesses, including Entries and Exits*, Jun 2010 to Jun 2014, Cat. No. 81650DO001_2010201406, 2 March.

¹² ABS, *Labour Force, Australia, Detailed - Electronic Delivery*, Cat. No. 6291.0.55.001, table 2.

¹³ Employment in Western Australia was 1.328 million averaged over 2013-14 (ABS, *Labour Force, Australia, Detailed - Electronic Delivery*, Cat. No. 6291.0.55.001, table 2).

It *may* still be that the BIIP has produced net economic benefits. However, given the program size and its nature, these cannot be high in absolute terms. In fact, there is a risk that with the current design, the outcome could be negative. This could arise if most of the income and other economic benefits were appropriated by the program users (including the associated secondary applicants), while taxpayers had to fund the users' lifetime costs of social security, health and aged care.

A definitive diagnosis is complicated by changes to the BIIP in 2012. Many BIIP immigrants will spend four years or longer on a provisional visa (visa subclass 188) before they are eligible to apply for permanent residency. The outcomes of the BIIP are likely to vary between provisional and permanent immigrants because the traits of those who do not obtain permanency are likely to be different from those who do, and because the behaviour of people may change once they gain permanency. This suggests that reaching any definitive view about the BIIP might have to wait until after the early 2020s.

Nevertheless, in the interim, the DIBP should collect more detailed data on the characteristics and economic contributions of provisional BIIP immigrants and for permanent immigrants under the business talent visa (subclass 132). This should include data on innovation, links with international markets, turnover, employment, employee compensation and growth. It is possible that this information might be enough to reach reasonably robust conclusions about the net benefits of the program, which would then inform decisions about any modifications. Given the risks discussed above and the likelihood that the benefits are modest, the planning levels should not be increased.

RECOMMENDATION 13.6

The Australian Government should, as an initial step:

- collect more detailed data on the characteristics and performance indicators of the Business Innovation and Investment (Provisional) visa (subclass 188) and of permanent immigrants under the Business Talent visa (subclass 132)
- examine the effects, costs and benefits of these visa streams to assess whether there are grounds to modify the criteria and planning levels for these visa subclasses.

The Australian Government should review the Business Innovation and Investment (Permanent) visa (subclass 888) in 2023, and use the results to further inform its decision about the future of the program.

Planning levels for the Business Innovation and Investment Programme should not be increased until the 2023 review is completed.

The enhanced Significant Investor and Premium Investor visas

The Significant Investor visa (SIV) and Premium Investor visa (PIV) are small sub-components of the broader Business Innovation and Investment (Provisional) visa (subclass 188), but raise additional complex issues.

The SIV and PIV streams require investments in Australia of \$5 million or \$15 million respectively in ‘complying investments’, but do not require applicants to pass a points test and have less burdensome residency requirements. Both streams are relatively new. The PIV commenced in July 2015, and while an initial version of the SIV commenced in November 2012, major changes were made in July 2015 following concerns about the effectiveness of the arrangements. Successful applications are low, with just 6 primary visas granted for the SIV from 1 July 2015 to 31 January 2016 based on the regulatory regime after 1 July 2015.¹⁴ No PIVS had been granted by 22 March 2016 (DIBP, pers. comm. 23 March 2016).

Many other countries have instituted similar visa arrangements aimed at attracting footloose global investors with business acumen and potential interest in venture finance. However, there have been substantial misgivings about their designs and impacts (appendix E), as there has been with the earlier version of the SIV in Australia.

While the enhanced SIV and the PIV are only fledgling programs, the Commission has examined their nature, their objectives and their likely impacts, drawing on the limited information available about them. More detailed information is in appendix E, but the Commission identifies considerable risks in these two streams of the broader BIIP program, and is unconvinced that they will have any material economic benefits.

- *Is there an investment problem to be fixed?* There is little robust evidence that Australia faces significant difficulties in attracting foreign investment for profitable activities. This is particularly true for vanilla investments, such as listed equities and bonds, which are complying investments for 60 per cent of SIV funds. While there is a requirement that a SIV applicant commit to investing \$500 000 over four years in eligible venture capital or growth private equity funds, past Commission work suggests that the rationale for additional measures to stimulate the venture capital funds management sector is weak (PC 2015a).
- *Is the investment additional?* Since there is little evidence of any significant barriers to venture finance, the principal mechanism by which the SIV/PIV could increase the stock of such capital would be if it lowered the marginal cost of funds. That might occur if the prospective visa holder was willing to trade off the gains from securing permanent residency with the losses from providing funds to projects with lower rates of return. Whether any such tradeoff would be required is unclear. It is likely that much

¹⁴ There were 340 primary visa granted for the SIV over this period based on the regulatory arrangements prior to 1 July 2015. And from program inception, 1228 SIVs were granted from 24 November 2012 to 31 January 2016 (DIBP 2016e). There appears to be an emerging pipeline for SIVs under the new rules (Victorian Department of Economic Development, Jobs, Transport and Resources, sub. DR135).

of the SIV and PIV complying investment will not be genuinely additional — some of the investment would have happened anyway, and some will merely crowd out other foreign investment. Many of the gains of the investments will also flow to the owners — as they do for investment that comes from offshore — or to fund managers.

- *There are alternatives.* Other visa subclasses provide opportunities for highly skilled and entrepreneurial people to migrate to Australia (including the recently announced entrepreneurial visa outlined in chapter 6). It is not clear that removing the SIV and PIV would reduce the pathways for genuinely talented people who wish to take an active role in creating economic activity in Australia (as opposed to passive investment). Some of the claims about the positive aspects of the SIV presume that investment in the eligible assets is strongly associated with entrepreneurial skills — an untested proposition (Victorian Department of Economic Development, Jobs, Transport and Resources, sub. DR135)

Moreover, there is a potential for adverse impacts.

- The absence of English-language requirements or an age threshold increases the risks that SIV holders will have worse social integration than other visa subclasses, and make claims on Australia's social security and health system that are not recovered by their economic contributions.
- There is a limited residency requirement for a provisional SIV (with the only requirement being residency of at least an average 40 days per year). There is no residency requirement under a PIV. This is likely to be inimical to both social integration and the capacity to transfer knowledge.
- The perception that visas are being 'sold' to wealthy foreigners could reduce community acceptance of the overall Migration Programme. The same issue arises for a price-based immigration system (chapters 14 and 15). In fact, visas are being *given* to foreigners so long as they hold their personal assets in a particular form, with no direct revenue flow to the Australian Government.
- Intermediaries have a history of helping their clients to push the boundaries of the visa conditions in ways that may not coincide with the overall interests of Australia.
- There is a risk that SIV and PIV might be used as a pathway for investing 'dirty money' in Australia, an issue that has been raised for other similar schemes (Sumption and Hooper 2014). Such risks may be mitigated through rigorous (but therefore costly) compliance arrangements. In that vein, Austrade observed that SIV and PIV legislation and administrative practices include '... a range of measures to protect the integrity of the programme and to ensure compliance with the policy intent' (sub. DR116, p. 1).

Overall, the Commission considers that the benefits of the SIV and PIV are uncertain, likely to be relatively small and accrue mainly to fund managers, and some could be achieved in other ways. The costs might also be relatively modest. However, the risks to the integrity of the Migration Programme and the public perception of immigration are potentially significant over the longer term.

FINDING 13.1

The economic benefits of the Significant and Premium Investor Visa Programmes are likely to be relatively modest and accrue mainly to the visa holders and to fund managers. Overall, the case for retaining these visas is weak.

One policy option is to collect further evidence about the outcomes of the programs and then subject them to rigorous review — which was Austrade’s view (sub. DR116). It indicated that it was currently working with other Australian Government agencies and the states and territories to obtain more data on the program, including ‘... where investments are being made, applicants’ preferred asset classes, the type of applicants receiving visas, re-investment levels, level of further investment made beyond the minimum qualifying investment, flow-on economic effects, and migration outcomes’ (p. 4).

If this evaluative strategy is adopted, the Commission’s view is that:

- any evaluation should be soon — taking account of the fact that the first applicants for the SIV are coming to the end of their provisional visa period in late 2016
- in addition to that described by Austrade above, the information collected should also include:
 - the time spent by the investors in Australia each year
 - their involvement in managing businesses
 - the relative importance of secondary applicants, and their employment and other economic outcomes
 - the human capital of this visa group (including their tangible skills, language abilities, evidence of entrepreneurship, international collaboration, or other ways in which they may provide benefits to Australia).

If the programs are maintained in the interim, there is also a need to ensure greater transparency around visa compliance and to give the public assurance that money laundering is adequately addressed by the current oversighting regime. Moreover, consistent with the economic goal of the program, there should be minimum requirements for age, English-language proficiency and skills.

However, closing the programs to further applicants is likely to be the better course given the absence of a compelling rationale, the risks they entail and other existing visa options for garnering the benefits of immigrant entrepreneurship.

RECOMMENDATION 13.7

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

13.5 Family reunion

The family immigration stream is a large component of Australia's migrant intake. It comprises a heterogeneous group of people whose only shared characteristic is that there is some family connection to an existing Australian. It is important when analysing the family stream to recognise this heterogeneity because some of the benefits (and costs) to the Australian community of particular groups under the broad rubric of the family stream will vary significantly. Generalisations about the whole stream are not very useful.

The primary stated objective of the family immigration program is to deliver social benefits by recognising the 'social benefits associated with family unity' (DIBP 2014a, p. 56).¹⁵ The overwhelming majority (around 80 per cent) are partners of Australians, while most of the remainder are parents (table 13.1). The latter group are primarily divided into two main streams: contributory, where a significant visa charge is levied in return for quick processing (close to \$50 000 per applicant), and non-contributory, for which only a modest fee is payable (about \$4000 per applicant), but where the queue is long.¹⁶

There are a plethora of other visa categories grouped under 'other' in table 13.1, but the planning levels for these are negligible, and are accordingly not covered in this chapter. Nevertheless, the principles that underpin the conclusions of this chapter should also apply to these categories.

How the system works

Family stream immigrants must be sponsored by an Australian citizen, permanent resident or eligible New Zealand citizen with whom they have a family relationship. In 2015-16, the planning level for the family stream in the managed Migration Programme is 57 400, although at least 3485 child places will be available outside the Programme. Accordingly, the total family places available is over 60 000 places (table 13.1). Family stream immigrants have decreased significantly over time as a share of the total migrant intake.

Within the overall planning level, places are allocated to the various visa categories (partner, parent and 'other family') through 'capping and queuing' and priority processing. The 'cap and queue' system involves a cap (set by the Minister for Immigration and

¹⁵ The family immigration program also gives effect to some of Australia's (non-legally binding) international commitments. Australia is a signatory to several international agreements that affirm the importance of family and set out the obligations of signatory states for dealing with families in the immigration context (DIBP 2012). While the current arrangements include a substantial contributory group, this is not in breach of these conventions.

¹⁶ The contributory subclasses are 143, 173, 864 and 884, while the non-contributory group includes subclasses 103 and 804. The main differences between the various subclasses are whether they involve two payments, commencing with a temporary visa (as for subclass 173 in the case of gaining a permanent contributory visa, and subclass 804 in the case of gaining a permanent contributory visa). Subclasses 143 and 103 are the primary permanent contributory and non-contributory subclasses respectively, and much of the statistical analysis in this chapter has examined these two visa subclasses.

Border Protection) on the number of visas for particular visa subclasses. Applications for each subclass are considered in the order that they are lodged. Where a cap applies to a visa class, 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 some visa classes, including: prospective marriage; parent; aged dependent relative; remaining relative and carer.¹⁷ Once the core requirements of a visa are satisfied, an applicant is assigned a ‘queue date’ and added to the queue. Receiving a queue date does not guarantee that applicants will receive a visa. If their situation changes, they could become ineligible for a visa. Examples of changes that could affect applications include changes to the residency of their children, developing a serious illness, being convicted of an offence that would lead to the applicant failing the character test or death.

As with the skill stream, the family stream is subject to processing priorities. In all cases applicants whose sponsors arrived in Australia and are identified by the Government as unauthorised maritime arrivals are afforded the lowest priority, regardless of their family relationship. The priority order is first, children and partners; second, contributory parents; third, non-contributory parents and other family applicants and last, applications where the sponsor entered Australia and were identified as an unauthorised maritime arrival.

Eligible 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. The processing priorities are often not effectively binding for partners either because many are able to live in Australia under a temporary visa while their application for permanent immigration is processed.

While waiting periods are relatively short for many family reunion applications, especially partners, they can be protracted for some family stream categories. The current expected wait for finalisation of a contributory parent visa has lengthened to around 3 years (figure 13.3). In contrast, applicants for the non-contributory parent visa currently face waiting periods of more than 30 years, and given existing patterns of new applications and capped levels, this will continue to lengthen. The visa subclasses that are part of the ‘other family’ category also have lengthy queues. The waiting period for the carer visa is currently estimated at four and a half years, and waiting periods for the remaining relative and aged dependent relative visas are approximately 50 years (DIBP 2015ak).

Changes to partner and dependent children visas are not justified

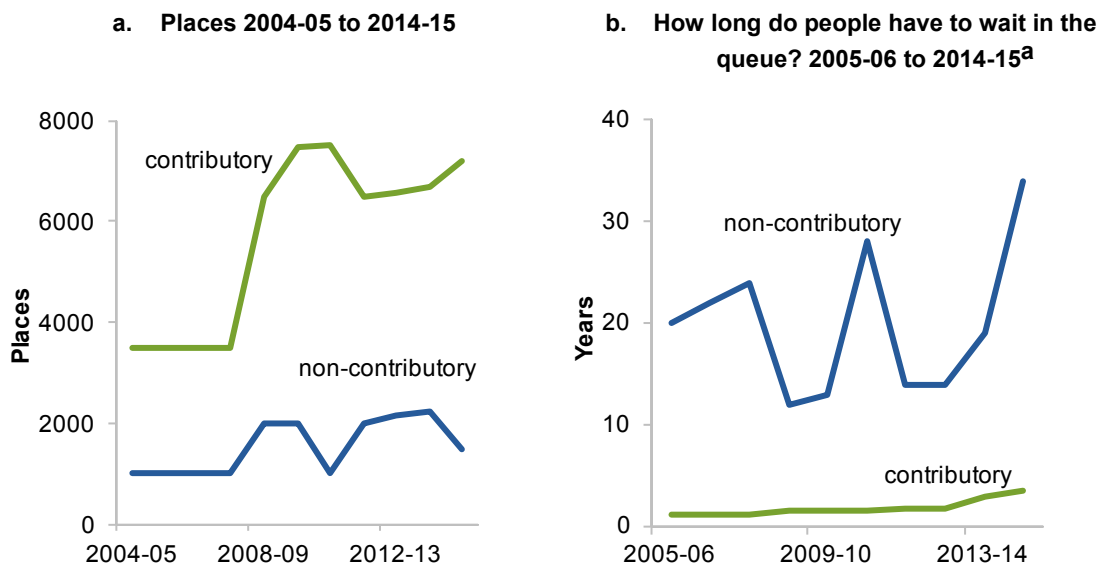
There is little basis for changing the treatment of partners or dependent children under the family stream. It would be unconscionable to deny dependent children of Australian permanent residents access to Australian residency given the hardship this would create for the parents and children concerned, and the strong social acceptance that parents and dependent children should be co-located. In the case of long-term partners, a failure to

¹⁷ Some family visa classes cannot be capped, including: partner, child, orphan relative, and adoption.

provide permanent residency rights would force the Australian partner to move overseas, destroy the relationship or, ex ante, discourage people from forming long-term relationships with people from different nationalities. It is doubtful that many Australians would accept strictures of this kind. The currently uncapped nature of visas for partners and dependent children reflect this premise. The main concerning issue — sham marriages — can be addressed in other ways (chapter 11).

Figure 13.3 Waiting for Godot: queueing for non-contributory places

Parent visas



^a The measure of the waiting period for contributory parents is the midpoint of a range in months provided by DIBP.

Source: Data provided by DIBP.

However, parent visas involve more complex considerations

The policy issues for permanent immigration of the parents of non-dependent children involve more complex considerations. The above rationale for uncapped immigration for partners and dependent children does not hold for the parent stream. While not true of all cultures, after a certain age, parents do not necessarily have day-to-day contact with their children, and nor is this a general expectation by the Australian community. Geographical mobility means that parents and children are often separated by considerable distances, but enduring relationships can still continue (in a way that would not be satisfactory for permanent relationships between partners or between parents and dependent children). Temporary visits, lower cost air travel, and increasingly accessible and inexpensive telecommunications have made it easier for families to stay in touch.

While the parent stream is small, it involves considerably more people than the BIIP stream and, as discussed below, involves much higher fiscal costs than might be supposed given the raw numbers. It can fly under the policy radar. It should not.

There are positive benefits from parent visas

Intangible economic benefits

Immigrants under the permanent parent stream can play an important role in providing unpaid care for their grandchildren and to the community through cultural capital (Boucher, subs. 22 and DR128; Australian Multicultural Council, sub. 11; Migration Institute of Australia, sub. 53).¹⁸

Some identify the supporting roles of parents as particularly important for fractured families arriving under the Humanitarian Programme (the Refugee Council of Australia, sub. 20; the Australian Multicultural Council, sub. 11 and the Red Cross sub. 23). The latter observed that:

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). (p. 8)

While such immigrants unquestionably provide benefits for the Australian community, it is important to test the magnitude of these since there may be better ways of obtaining the benefits through policies other than migration policy, or through changes to the composition of the migrant intake.

Childcare provided by a parent visa stream holder provides a good illustration of this issue. Once childcare for one's own children is removed from estimates of childcaring responsibilities, of the key visa categories, parents are the most important sources of care for grandchildren or other children who are not their own (table 13.4). However, between 75 and 80 per cent of such parents do not provide any such childcare.

Boucher (sub. DR128) cited 2009 evidence from KPMG that aged parents could save their sponsors (that is, their adult children) \$13 800 per year in childcare costs for a family with two children, as well as allowing that household to generate an additional \$55 066 in income. However, such estimates have to be interpreted carefully, and in particular, they are estimates of what 'could' apply, rather than estimates of what typically applies.

- They only apply to the minority of cases where a grandparenting role in childcare is present (and where two children are in childcare). This will in part reflect that the need

¹⁸ The Department of Social Services also pointed to the benefits of the family reunion stream on settlement outcomes and social cohesion (sub. 62), but this generalisation related to the whole stream, not to parents alone.

for childcare is greatest for infants, and so often not enduring. In contrast, the responsibilities of taxpayers for supporting the parent visa stream apply throughout the rest of their lives.

- While the government contributes to childcare costs, parents also contribute, so the savings to government are less than the total reduction in childcare costs. Arguably, many of the benefits accrue to parents, not the community broadly (in the same way that childcare provided by parents to their own children is largely a parental benefit).
- Grandparents do not necessarily provide full-time care during working hours, and in some cases provide childcare at times outside normal working hours, whose value is hard to estimate (and where there is no offset to government childcare costs). Childcare is also often provided to children who are of school age, and in this case, can only relate to a limited number of hours.
- Grandparents can still come to Australia as temporary visitors, and would be able to perform some of these child-caring responsibilities without becoming permanent residents.

Hence, the actual savings to the Australian community from the child-caring role of people on permanent parent visas is a small fraction of the value cited in the KPMG report.

Table 13.4 Childcare arrangements by visa class
Immigrants arriving between 2009 and August 2011^a

Visa class	Providing childcare at all			Providing childcare, but not for own children		
	Primary	Secondary	Both	Primary	Secondary	Both
	%	%	%	%	%	%
Skilled	37.0	46.3	41.5	1.4	2.1	1.7
Family total	34.2	22.6	33.0	5.4	11.5	6.1
Parent (103)	27.9	32.6	29.7	17.8	20.1	18.7
Contributory Parent (143)	36.8	34.3	35.9	26.2	25.9	26.1
Other family	34.1	16.3	32.7	3.9	4.1	3.9
Humanitarian	33.5	31.7	32.8	3.0	4.9	3.9
Total permanent	35.1	40.8	37.0	3.7	3.8	3.8

^a The data exclude any applicants 15 years or younger, and excludes 'not stated' from the populations.

Source: ABS 2014, *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. No. 3417.0.55.001.

Unpaid work provides a further indicator of the contribution of parents (although some of these hours will include childcare as discussed above). The evidence suggests that contributory parents are significantly more likely to provide unpaid work than skilled or humanitarian immigrants. Around 25 per cent of parent non-contributory visa holders provide 15 or more hours per week of unpaid domestic work (based on the Australian Census and Migrants Integrated Dataset — ACMID). The comparable estimates for

immigrants in the contributory parent, skilled and humanitarian categories are 32, 21 and 18 per cent respectively. That said, around half of all visa categories provide four or less hours per week of such unpaid services.

Some suggest further intangible economic benefits from increased productivity (CFMEU, sub. DR114) and (Howe and Reilly 2014). This view reflects two claims:

- skilled immigrants are more productive if they have a high level of social wellbeing, and family and community networks are central to this wellbeing. However, while it seems reasonable that family reunion may well improve social wellbeing, the evidence that this has a significant productivity impact is tenuous, relying on a 1997 paper applying to immigrants to the United States
- family reunion avoids the need for skilled residents to travel abroad to visit their parents. It is certainly correct that reduced time working lowers output, but productivity is output per unit of input. It is not clear why periodic leisure through travelling would be inimical to properly measured productivity. Moreover, the presence of elderly grandparents in Australia could also result in greater demands on their adult children's time for care and company, which could potentially displace time available for work or other activities.

Social and cultural benefits

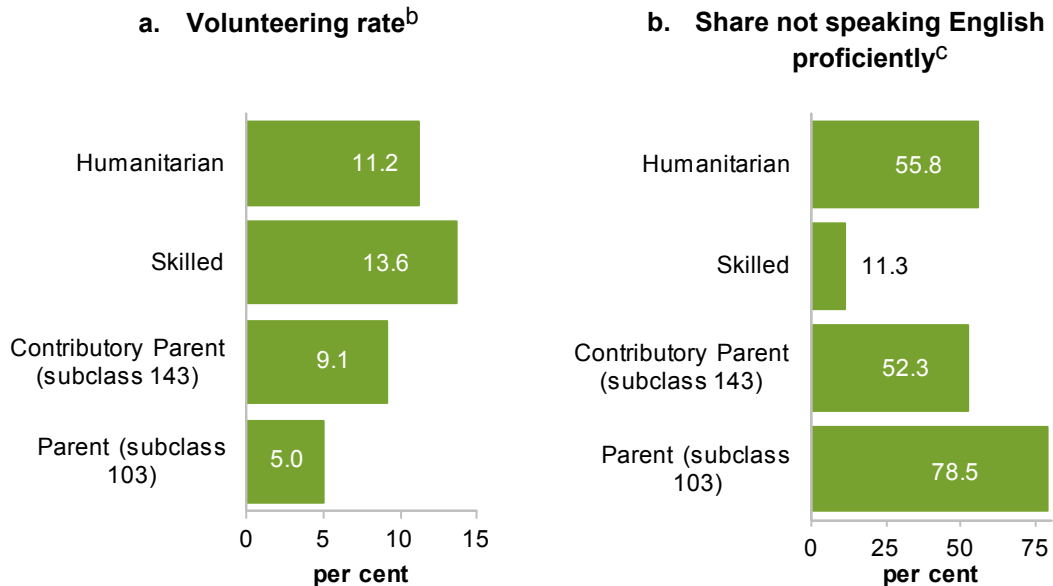
Cultural benefits are more difficult to assess given data limitations. There is strong evidence that, as a group, primary family immigrants have fewer interactions with the community than primary skilled immigrants. This occurs in multiple domains, such as sports/recreation, arts, adult education, politics, religious activities, social clubs and civic groups (Khoo, McDonald and Edgar 2013). Unfortunately, these data do not disaggregate family reunion into parents and others.

Nevertheless, there is some evidence that when groups within the family reunion stream are differentiated, the likelihood of deep and broad community connections is likely to be less for the parent visa stream than the skill stream. Volunteering rates are lower, particularly for the non-contributory parent visa (figure 13.4). Proficiency in English — an important aspect of creating linkages into the general community — is much lower in the parent visa stream.

In summary, while there are clearly social and intangible economic benefits to the Australian community from immigrants in the parent stream, they are not necessarily substantial or greater than some other streams.

Figure 13.4 **Linking into the Australian community**

Immigrants who arrived between 2009 and August 2011^a



^a The data for parents covers only the two main visa sub classes: contributory (subclass 143) and non-contributory (subclass 103). ^b Volunteering rate where volunteering status is known. ^c Share who do not speak English proficiently where English language ability is known (this includes people who do not speak English at all).

Source: ABS 2014, *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. No. 3417.0.55.001.

Direct economic benefits

Like other immigrants, people in the parent stream make economic contributions to the economy. However, all indicators point to these being lower than those under the skill stream.

Parent stream immigrants tend to have low integration into the labour market, with low labour force participation rates (table 13.5). When they are in the labour market, they have high unemployment rates. When they are employed, they tend more often to work part time. As a result, they have low personal incomes compared with those arriving under the skill stream. More than 90 per cent of those under the non-contributory stream have weekly personal incomes that are lower than \$300 a week (including some on negative incomes). This is somewhat lower for the contributory stream (around 73 per cent) and much lower for the skill stream (37 per cent). The implication is that the majority of those arriving under the parent stream will make no community contribution through taxes, and given their older ages, this can be expected to apply for the remaining part of their lifetimes.

A major factor underlying the poor labour market and income outcomes for parents is the weighting towards older ages, which is strikingly different from the skill stream (figure 13.5). Poor English-language proficiency (figure 13.4 above) is a contributing factor, as are poorer skill levels for those who obtain some employment. Around 65 per cent of arrivals in the parent stream have low skills (skill levels 4 or 5) compared to 18 per cent for the skill stream (based on ACMID). Educational qualifications of the parent stream are notably poorer than the skill stream (table 13.8).

Table 13.5 Labour market outcomes
Immigrants who arrived between 2009 and August 2011^a

<i>Visa streams</i>	<i>Unemployment rate</i>	<i>Labour force participation rate</i>	<i>Share of employed people working fulltime</i>
	%	%	%
Skilled	11.6	74.2	71.9
Total Family stream	21.0	54.1	62.1
Parent (103)	27.3	6.8	37.1
Contributory Parent (143)	28.9	27.1	47.5
Other family	20.6	57.6	62.7
Humanitarian Programme	37.7	26.5	57.7

^a Excludes non-applicable people (principally minors). The data for parents covers only the two main visa sub classes: contributory (subclass 143) and non-contributory (subclass 103).

Source: ABS 2014c, *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. No. 3417.0.55.001.

Table 13.6 Highest qualification by visa stream
Immigrants who arrived between 2009 and August 2011^a

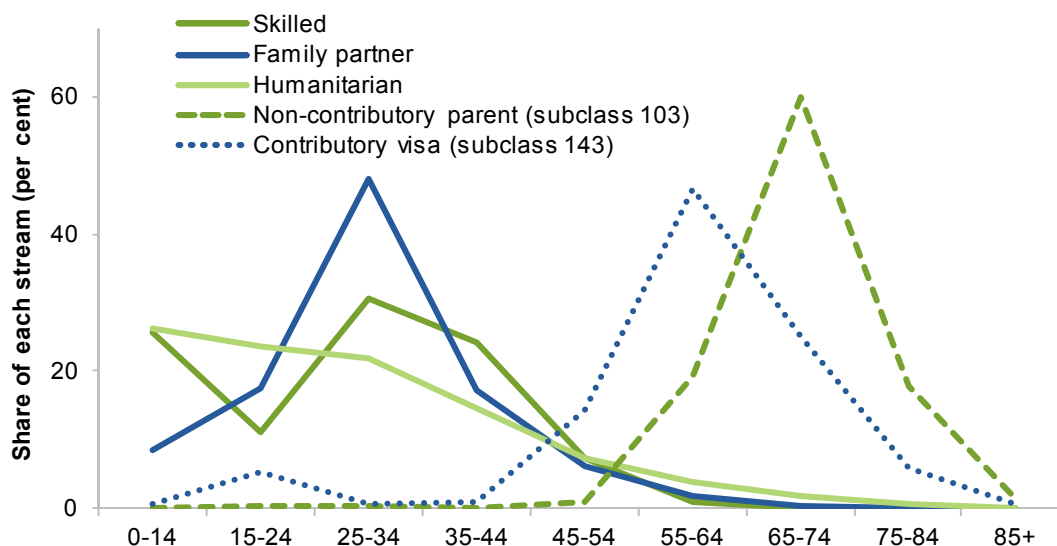
	<i>Postgrad. Degree</i>	<i>Graduate Diploma and Graduate Certificate</i>	<i>Bachelor Degree</i>	<i>Advanced Diploma and Diploma</i>	<i>Certificate</i>	<i>School Education</i>	<i>None</i>
	%	%	%	%	%	%	%
Skilled	15.4	1.8	37.4	11.0	9.2	25.0	0.3
Parent (103)	2.3	0.7	18.8	11.1	5.1	56.6	5.5
Contributory Parent (143)	2.9	0.9	15.4	11.6	6.8	59.0	3.3
Humanitarian	1.6	0.3	7.1	4.8	6.1	71.2	8.9

^a Only relates to those aged 15 or more years and excludes people who inadequately described their qualification.

Source: ABS 2014c, *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. No. 3417.0.55.001.

Figure 13.5 **Unsurprisingly, parent visas cover *much* older people than other classes**

Immigrants who arrived between January 2009 and August 2011^a



^a The reason that some in the parent stream are young is due to inclusion of young secondary applicants.

Source: ABS 2014c, *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. No. 3417.0.55.001.

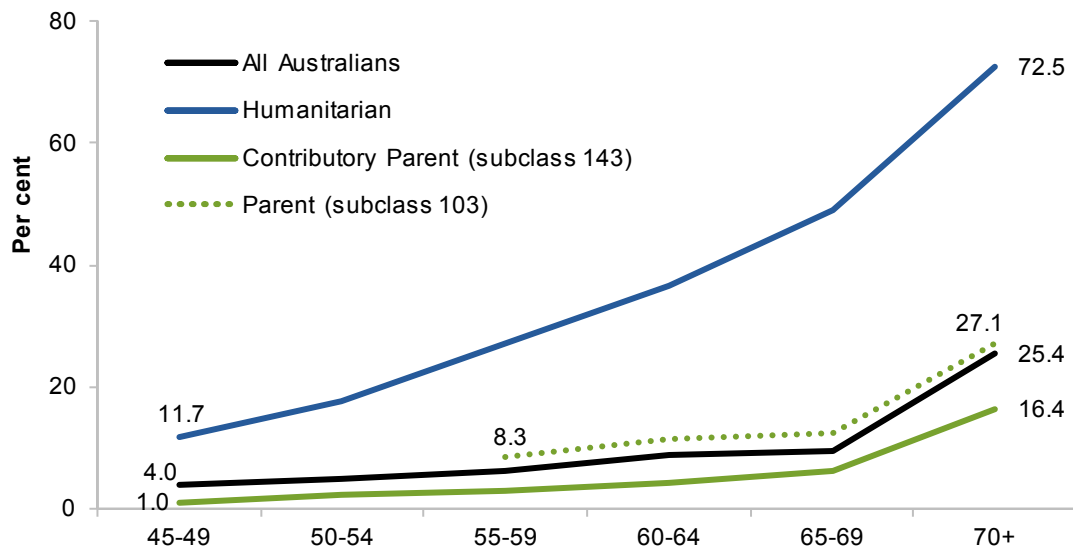
Fiscal impacts

Chapter 9 showed that, in general the fiscal impacts of immigrants are related to their age at arrival and their human capital. For example, younger immigrants with skills contribute significantly to tax revenue, while making fewer demands on transfers and government expenditure. In contrast, reflecting their greater likelihood of ill-health and disability (figure 13.6) and poorer employability, the parent visa stream makes considerable demands on Australia's health, aged care and social security system (despite a ten year waiting period for access to Age Pension benefits). This is not substantially offset by contributions through taxes paid.¹⁹ Accordingly, the costs must be borne by the community as a whole, whereas many of the benefits are obtained by the sponsors and the parents, and not by unrelated members of the Australian community.

¹⁹ The waiting period mainly affects the non-contributory parent stream because they arrive at older ages, and so would, absent the waiting period, access Age Pension benefits at, or soon after arrival.

Figure 13.6 Disability rates climb with age

Immigrants who arrived between January 2009 and August 2011^a



^a Share of people with 'a need for assistance with core activities' (a severe or profound disability). For the parent stream, the data covers only the two main visa sub classes for parents — the contributory (subclass 143) and non-contributory (subclass 103) visas. There are no or only small numbers of people for subclass 103 visa holders aged less than 55 years, which is why no data are shown for these ages for this subclass. The data for all Australians are from the ABS Survey of Disability, Ageing and Carers. It substantiates the strong increase in disability rates with age generally. The ABS data show that disability rates increase at ever greater amounts for the 5 year age groups after 65-69 years, which will particularly affect the disability levels of the stock of people on subclass 103 visas, who arrive at much older ages than other subclasses.

Sources: ABS 2014c, *Microdata: Australian Census and Migrants Integrated Dataset, 2011*, Cat. No. 3417.0.55.001 and ABS 2013, *Disability, Ageing and Carers, Australia: Summary of Findings*, Cat. No. 4430.0, released 13 November.

Successive Australian Governments have long recognised the considerable costs borne by the community associated with the parent visa stream. The Australian Government introduced a contributory visa in 2003 with a visa charge that partially reflected the Commonwealth's age-related fiscal costs associated with this stream. Each year, the visa charge is increased to reflect changes in the costs of age-related expenditure. The Australian Government Actuary (AGA) developed a new base year model for 2008, and this has subsequently been the starting point for further revisions to the charge. In 2008, the AGA estimated that in present value terms, the cumulated lifetime fiscal costs of a parent visa holder was between \$230 000 and \$285 000 per adult (AGA 2008). Using the AGA's annually updated cost indexes (the 'contributory parent visa composite index'), the estimated cost in 2015 is between around \$335 000 and \$410 000 per person (with the 'best' estimate being just over \$370 000). The actual charge applied is roughly one tenth of this cost for contributory visa holders and about 1 per cent for non-contributory visa holders.

The AGA's estimates of fiscal costs are incomplete. They exclude some important areas of government expenditure, such as health and other spending by state and territory governments, and non-age-related spending across all levels of government. These would add to the total costs. On the other hand, it also excludes some important offsets to expenditures, such as tax receipts from all levels of government (box 13.4).

Given that the last detailed examination of the fiscal costs of the parent stream was undertaken in 2008, it would be worthwhile for the AGA to update its analysis, and to the degree that non-contributory visas continue to exist, to extend analysis to this group. The AGA could consider whether there are any benefits in widening the analysis to cover any effects of the parent intake on revenues (such as income tax), other non-age related spending, and on the net fiscal position of state and territory governments. The latter may be important because while the Australian Government chooses the cap on parent visas, that choice has consequences for all levels of government.

Regardless of questions about the precise net fiscal cost of parent visas, under any reasonable modelling, the current contributory visa charge of \$47 295 meets only a small fraction of the fiscal costs for the 7175 contributory parent visa holders in 2015. And an additional 1500 parents make a negligible contribution. Using the AGA's estimates, in 2015, the net liability for the Australian community of providing assistance to these 8675 visa holders over their lifetimes was between \$2.6–3.2 billion (with a best estimate of around \$2.9 billion) in present value terms.

Given that there is a new inflow each year, the accumulated taxpayer liabilities become very large over time. To illustrate this, were the contributory parent visa composite index to grow in line with the projected growth rates of its various components, and parent visas were to grow at 0.5 per cent per year (lower than the modelled growth rate in immigration as a whole), then the cumulative net present value of the costs to the Australian community of the parent visa stream would be between around \$73–92 billion for the intakes from 2015 to 2050. Even with no growth in the annual intake, the cost would be between an estimated \$68–85 billion. This ignores the effect of decreased mortality rates for successive cohorts — which would raise costs further.

Box 13.4 **Some complexities in measuring the net fiscal costs of parent visas**

The Australian Government Actuary's (AGA's) models of fiscal net costs have various strengths and weaknesses for estimating the lifetime costs of a parent visa (AGA 2008).

The AGA's model covers the visa processing costs and expenditures that vary with age. The latter include health costs, the Age Pension, Family Tax Benefits (since some secondary applicants are young dependents) and aged care, but not education or childcare. It does not include attribution of costs that benefit the whole population, such as defence spending or infrastructure. It also relates only to spending by the Australian Government, and ignores all government revenues (such as tax receipts). In addition, the base AGA model assumes unchanging mortality rates (with mortality rates determined using the life tables for 2000–2002). The AGA's sensitivity analysis showed that a reduction in mortality in line with the trend over the past 100 years considerably increases costs. The AGA also assumed in its base case that parent immigrants were somewhat healthier than existing Australians of the same age. Paradoxically, while normally such an assumption would lead to lower costs, it does not in the AGA's model because of a quirk in the relative level of the discount rate used and the assumed cost-inflation rate at older ages. However, the extent of a 'healthy' immigrant effect is unclear (and is also explored by the AGA through scenarios).

In principle, the AGA's model should include all costs incurred by the Australian Government and state and territory governments, including infrastructure, defence, industry assistance, public administration and housing, and equally, all tax and other income. On face value, this seems a superior basis for estimating the net fiscal outcomes for the parent stream than the current AGA model. However, aside from income tax and self-evidently age-related costs (such as aged and health care), there are substantial difficulties in attributing other areas of expenditure (such as defence) and taxes across different subpopulations.

One approach would be to allocate many costs and revenues on a per capita basis. For instance, it might be assumed that the allocation of defence spending should be the same for an 85 year old as a baby. Another approach would recognise that the marginal costs of provision of publicly provided goods might decline with increased population (Cully 2012). However, in many cases, it may be more reasonable to model expenditures as a share of gross domestic product (GDP). For example, budgetary assistance to industry does not depend on population, but on the scale in output terms of local industry. Similarly, as noted in the 2014 defence issues paper, the long-run goal of the Australian Government is to lift defence spending to 2 per cent of GDP, not to target a certain level of spending per capita (Department of Defence 2016).

While the policing and criminal justice system serves all Australians in terms of its protective value, its scale largely depends on the numbers of younger, socially-isolated disadvantaged males. The parent stream — comprising an older group of people with strong family bonds — is an unlikely source of pressure on the justice system. In other instances, like spending on many public goods (research, the environment, public recreational facilities, firefighting services, public infrastructure), a per capita attribution of costs seems better justified.

Older people tend to consume more products exempt from the Goods and Services Tax (PC 2005c), and also have low consumption levels, reflecting lower incomes. Parent immigrants from developing countries also will not have substantial superannuation balances that can sustain higher levels of consumption by themselves or, through bequests, by their children. Similarly, older people are less likely to contribute to fuel excise, fringe benefits tax, tariff income, and company tax due to their consumption patterns and lower employment rates.

The net outcome of the above two factors is that, given the demographic and other traits of parent visa holders, they are likely to have minimal effects on many areas of government spending or tax incomes. In that case, the AGA's choices of included expenditures and revenues may actually provide a better estimate of the genuine net fiscal costs of parent visas. Accordingly, the AGA's estimates have been used as the basis for costing in this chapter.

Nevertheless, in future work in this area, the best approach would be to assess the long-run incremental cost and revenue outcomes from the addition of an immigrant (given their age and other characteristics).

FINDING 13.2

Reflecting their average older age and lower labour market engagement, the parent visa stream makes considerable demands on Australia's health, aged care and social security system, while not making many fiscal contributions through taxes paid. The contributory parent visa charge recognises the high expected net fiscal costs of parents. However, at its current level, it is only a small portion of these expected costs. Accordingly, most of the costs must be borne by the community as a whole, whereas many of the benefits accrue to the sponsors and the parents themselves.

Reforming parent visas

Parent visas have long been an object of debate and policy reformulation. There is a tension between the recognition of the significant fiscal costs of this visa category and the desire to allow some parent and child reunion. That tension has resulted in a capacity for a parental intake, but subject to strict caps. The level of demand for non-contributory visas has substantially exceeded these caps, so that the pipeline for applications has grown strongly, and the expected age on arrival has risen (figure 13.3). Recognising that this was problematic, in 2014, the Australian Government closed the non-contributory parent and 'other family' visas to further applications. The Migration Institute of Australia stated:

There was considerable public outcry over this decision, where there had previously been much less objection to the length of the waiting period, as there was at least some possibility of eventually joining their families in Australia. (sub. 53, p. 14)

Subsequently, non-contributory visas were reinstated following a disallowance motion passed in the Senate, which has again prompted further lengthening waiting times. The waiting periods have been characterised as 'embarrassing' (Withers, trans., p. 114), while others indicate that the delays can cause significant hardship for Australian citizens who are waiting for their relatives to join them, and for their relatives (Duncan, sub. DR77; Settlement Services International, sub. DR 109; FECCA, sub. DR95).

Options to improve non-contributory visas

There are four broad solutions to the growing pipelines for non-contributory visas.

- Even with no change to the planned level, the pipeline would ultimately stabilise. On the supply side this reflects that, as the average age of a successful applicant rises, many in the backlog would have died or reached sufficient ill health that they would fail the health test. Similarly, on the demand side, the willingness of a child to sponsor a parent for permanent residency must in part take into account the likely duration of that residency, and the potential for short residency periods to be achieved through visitor visas. Under the current policy settings, these dynamics would mean that the pipeline for non-contributory visas would stabilise when the bulk of its successful

applicants were old. The effect on costs would be determined by the distribution of ages of successful applicants at that time. If the average duration of residency were to become sufficiently short, then the costs of this visa class would decline.

- Planned levels could be expanded to better match demand (as supported by the CFMEU, sub. DR114). The expansion needed would be substantial, not just because of the currently observed demand, but because of the responsiveness of applications to the reduced waiting time, and given diversion of applications from the contributory to the non-contributory visa stream. The resulting fiscal costs would be many multiples of the already substantial costs estimated above.
- The planned level could be maintained at whatever the Australian Government deemed to be supportable, and places allocated by applicants on a lottery basis (as in the United States ‘Diversity Immigrant Visa program’ and the Canadian Visa Lottery). This would have the advantage that it would remove any pipeline (because no queue would exist) and parents could come before they were very aged, yet given the low likelihood of success, would not undermine applications for contributory visas to any great extent.
- Non-contributory parent visas could be abolished as before, or their scope limited to rare, compelling compassionate circumstances. There is already provision for a case officer to bring forward the processing of a parent (or other family visa) where such circumstances exist, but that is part of the existing system, rather than the only basis for entry (DIBP 2016d).

Of the four options, the first would undermine any reasonable goal of the non-contributory parent visa subclass as it would likely mean that successful applicants would only be granted a visa at a very old age. The second would be unaffordable, and if not well matched to demand, would still lead to a growing pipeline. The third option might be seen as unfair in any transition from the current arrangements in that it would put people who had just applied for a visa on an equal footing with people who had been waiting for decades after their initial application. In any case, the third option would still involve substantial costs to the community.

The Commission prefers the fourth option — the creation of a ‘compassionate parent visa’. This option provides targeted assistance in very rare circumstances, and balances the high costs of parent visas with their potentially significant benefits in certain cases. For example, under this new visa type, a parent could get immediate permanent residency if both of their Australian children were killed in a car accident, and they were the most appropriate carers of their grandchildren. Foreign domiciled grandparents or other family members might sometimes reasonably act as carers for an adult Australian relative if they have acquired a profound disability (FECCA, sub. DR95). Some instances of family breakdown could involve instances where a foreign-resident parent or other relative might reasonably obtain permanent residency to care for an existing permanent resident child (an issue raised by Duncan in sub. DR77).

The determination of ‘compelling compassionate’ circumstances is not straightforward. Given the desirable rarity of cases, the discretionary decision should be made by the

relevant minister, and enable a residency visa to be issued quickly. It would be important that this new visa class be accompanied by clear published criteria to limit applications. There would be few of these visas issued each year.

Options to improve contributory parent visas

Even while some perceive the current contributory visa fee as high,²⁰ it still represents only a small share of the total costs incurred by the Australian community in supporting the average successful applicant. As noted earlier, there are benefits, but these are mostly appropriated by the children of the visa applicant.

Given its goals, the parent visa stream is a social policy program. Ultimately, every dollar spent on one social program must require either additional taxes (reduced private consumption) or forgone government expenditure in other areas. It seems unlikely that parent visas meet the usual standards of proven need, in contrast to areas such as mental health, homelessness or, in the context of immigration, the support of immigrants through the Humanitarian Programme.

Given this, there are strong grounds to reduce the existing very high subsidy rate for contributory visas by lifting the fee levels — say by roughly double in the first instance. As is currently the case, fees could be spread over several periods. This measure would gather more revenue, but also be likely to reduce demand — lowering the fiscal costs of this particular social policy. There are also grounds to reduce planning levels for contributory visas since this would also directly lower the net costs of the program, freeing up taxpayer funding for higher priority uses.

One possible downside of the above policy measure is that the decision by some skilled immigrants to come to Australia is underpinned by the possibility of subsequently obtaining residency for parents. Any moves to restrict parent visas would have some effects on the decisions of their children to migrate to Australia in the first place. For example, the Migration Institute of Australia noted:

... the importance of one's family, particularly aging parents, being able to join permanent migrants in Australia ... could be a strong motivator for choosing Australia for a proportion of these migrants. (sub. DR131, p. 8)

Some research supports an effect on motivations to migrate, albeit relating to the family stream, not specifically the group of interest. Khoo (2003) 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.

²⁰ For instance, the Settlement Council of Australia (sub. 55, p. 1) characterised the charges as 'exorbitant'.

However, this cannot be a critical issue since the capped places for parent visas is a small fraction of the places available for skilled immigration and has been for some time. In other words, low caps, a lengthening pipeline for parent visas (even contributory ones), and the existing fees have not stopped the Australian Government from filling its planned skilled immigration levels. Some also consider that earlier steep visa price increases have had little effect (Business Council of Australia, sub. 59 and the Migration Institute of Australia, sub. 53). The latter noted that: ‘While there was initial shock and scepticism at the associated costs when this visa class was introduced, it has now been largely accepted’ (p. 24). Empirically, there does not seem to be any relationship between the charges for contributory visas and application numbers. Even were there to be some decrease in the numbers of skilled immigrants, the consequences would have to be weighed up against the avoided costs to the community of a reduced parent intake.

In addition, parents can still gain temporary residency through renewable long stay visitor (subclass 600) visas where they are responsible for their own accommodation, health care and income needs. Under the current subclass 600 visa, parents can stay in Australia for 12 months in any 18 month period while the visa is valid. Depending on the circumstances, the visa is valid for up to five years. The visa allows parents to keep in contact with and provide support to their children. As the DIBP notes, temporary stays provides greater flexibility without the need to wait in a queue for years for a permanent visa (DIBP 2014d).

Nevertheless, reducing caps for contributory visas and a significant reduction in non-contributory visas might create a gap in visa types that might not be filled by the existing visitor visas. One option would be to create a longer-term visa class that allows a parent to stay for longer periods than standard in the visitor visa (subclass 600), and to periodically renew this visa. A new provisional visa would permit parents to stay for a longer period of (say) five years that could, after a given period of absence from Australia, be renewed multiple times. A condition would be that the parent or sponsor would have to guarantee that they could meet any income or health costs during their stays. In effect, a parent could stay permanently with periodic interruptions, so long as she or he were financially independent.²¹

The Commission has not designed this new visa class, but recommends medium-term consideration by the Australian Government of such a visa subclass following diminution of the role of permanent parent visas. Such a visa should allow the parent to work — if that is feasible during any stay, so long as the sponsoring offspring are adults. This would increase the economic contribution of such parents. Importantly, a move in this direction would allow a greater number of parents to move to Australia without imposing substantial costs on the broader Australian community.

²¹ A recent Senate inquiry recommended that the DIBP examine the merits of setting a limit on the period of time after which it would be considered reasonable for a temporary visa holder to qualify for permanent residency. It is not clear that such a limit would be desirable, and if implemented, it should exclude the new type of visa subclass identified here (SEERC 2015b).

RECOMMENDATION 13.8

The Australian Government should amend arrangements for permanent parent visa applicants. In the short term, it should:

- increase substantially the charge for contributory parent visas
- narrow eligibility to non-contributory parent visas to cases where there are strong compassionate grounds to do so, accompanied by clear published criteria to limit applications for such visas
- consider lowering the caps for contributory parent visas
- introduce a more flexible temporary parent visa that would provide longer rights of residence, but with requirements, as for other temporary visas, that the parents or sponsoring child would meet the costs of any income or health supports during the period of residence.

The Australian Government should retain current arrangements for family reunions involving partners or children.

RECOMMENDATION 13.9

The Australian Government should request the Australian Government Actuary to update its actuarial analysis of the long-term fiscal consequences of immigrants arriving under the parent visa stream, eventually incorporating all expenditures and revenues, including at the state and territory government level.

13.6 Humanitarian immigration

Globally, the scale of misery represented by the dispossession of people at risk is vast. In mid-2015, there were around 60 million people in what the United Nations High Commissioner for Refugees (UNHCR) refers to as ‘populations of concern’ (UNHCR 2015a). These primarily comprise refugees, asylum seekers and internally displaced persons. The Humanitarian Programme is a significant component of Australia’s immigrant intake, accounting for around 7 per cent of the total (table 13.1). The stream aims to fulfil international commitments to assist dispossessed people at risk.

Categories of humanitarian immigration

The objectives of the Humanitarian Programme (DIBP 2016b) 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

-
- use resettlement strategically to help stabilise refugee populations, reduce the prospect of irregular movement from source countries of first asylum, and support broader international protection
 - meet Australia's protection obligations.

In light of this, the Humanitarian Programme consists of two broad streams.

- Onshore protection — for people who apply for protection or asylum after arriving in Australia.
- Offshore resettlement, which comprises three parts.
 - 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 Programme (SHP) is for people who are subject to gross violations of their human rights in their home country.
 - The Community Proposal Pilot, which ran from 1 June 2013 until 30 June 2016, 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.

Selecting humanitarian immigrants

Each year the Australian Government sets the total number of planned humanitarian visas. The level and composition of the intake are set following consultation with state and territory governments and refugee and humanitarian bodies. Submissions from the community are also accepted and the Government takes into account the advice of the UNHCR.

Currently the offshore stream is allocated a minimum number of places — some 11 000 in 2015-16 (Dutton 2015b) and the balance is available for onshore protection. For each of the humanitarian subgroups, the Australian Government sets priorities for visa grants depending on applicants' country of origin and family connection to Australia. Offshore humanitarian immigrants must be nominated, with the nominating entity depending on the visa subclass.

Selection for offshore resettlement

Nomination requirements and resettlement priorities are different for the SHP and refugee streams. (The Community Proposal Pilot is discussed separately below.) Applicants for the SHP must be nominated by an eligible Australian citizen or permanent resident, an eligible New Zealand citizen or an eligible organisation (DIBP 2015r). For example, the Armadale community established a program, the Sanctuary Armadale Rotating Credit Fund, to help

fund travel arrangements for people using the SHP and to assist them in the community (Ware, sub. DR136).

Family members of people who arrive as unauthorised maritime arrivals are given the lowest priority in SHP processing. Priority is given to immediate family members of people who have been resettled in Australia through the offshore program.

For the refugee stream, most successful applicants for resettlement are referred by the UNHCR. Priority is given to women at risk (1000 places are allocated specifically for women who are without the protection of a male relative and are in danger of abuse). For the remainder of the refugee stream, the Australian Government takes into account the advice of the UNHCR to determine 'priority situations'. This includes consideration of using resettlement for:

- protection of individual refugees
- a solution for groups of refugees in intractable situations
- the potential to 'leverage solutions for the remaining refugee population' (DIBP 2013b, p. 5)

Priority situations change over time. In 2014, priority situations included people from Iraq, Afghanistan, Somalia and the Democratic Republic of Congo.

Selection for onshore resettlement

Applicants for onshore protection (visa subclass 866) do not need to be nominated. To be eligible for this visa, the applicant must be a refugee, as defined by the Refugees Convention. Unauthorised maritime arrivals (people arriving by sea without a valid visa) are not eligible for a permanent onshore protection visa (but may apply for a temporary protection visa or a safe haven enterprise visa, which allow the holder to remain in Australia for three and five years, respectively).

Trends in humanitarian immigration

For most years from 1996-97 to 2013-14 the Humanitarian Programme intake was between 12 000 and 14 000 (figure 13.7). Exceptions were 1999-2000 (9960) and 2012-13 (20 019). The 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 2015f). This will mean that the humanitarian intake for 2015-16 will be the largest in absolute numbers since the history of the program, which began in 1977.

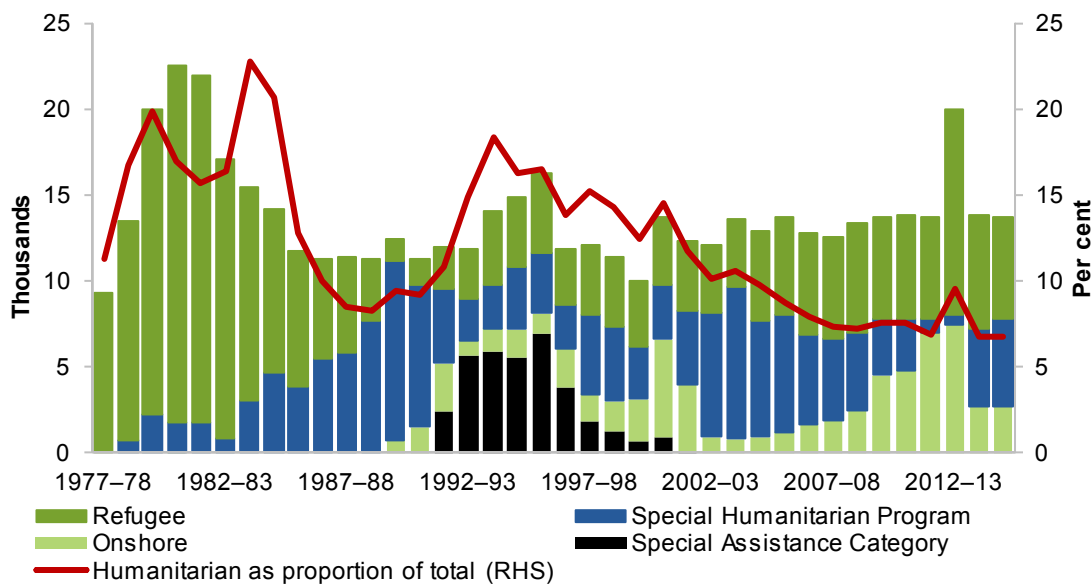
The humanitarian intake is scheduled to increase to 18 750 places in 2017-18 (DIBP 2016b). Some participants called for a higher humanitarian intake (AMES

Australia, sub. 45; Migration Institute of Australia, sub. 53; Refugee Council of Australia, sub. 20).

Within the Humanitarian Programme, 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 intake in most years. The SHP has fluctuated. In years when onshore grants were high, SHP grants were crowded out. A surge in onshore grants from about 2006-07 until 2012-13 was correlated with fewer SHP grants.

Figure 13.7 Trends in humanitarian immigration

Visa grants (left axis) and humanitarian intake as a proportion of total immigration (right axis), 1978-79 to 2014-15



^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.

Sources: Data provided by DIBP and DIBP (2015r, 2015ae).

Australia's approach to humanitarian immigration is distinctive

The UNHCR identifies three durable solutions to safeguard the rights and wellbeing of refugees — voluntary repatriation; local integration; and resettlement in a third country if it is impossible for a person to go back home or remain in the host country (UNHCR 2003).

Australia, with Canada, the United States, the Scandinavian countries and New Zealand, is one of the few countries to give any appreciable prominence to resettlement as a policy approach to the global displacement of people. Indeed in 2014, Australia accounted for around 10 per cent of global resettlement, and the numbers resettled in absolute terms were multiples of those in much larger developed economies, such as the United Kingdom and

France (UNHCR 2015b). In 2014, Japan resettled 23 people. In per capita terms, Australia was ranked first in terms of its resettlement numbers in that year.

In that sense, while it may appear that Australia makes little difference to the global problem (since in 2015, the offshore intake was around 0.02 per cent of the populations of concern), it is one of a small number of countries that accentuates one of the most enduring solutions — resettlement. Of Australia’s humanitarian intake, resettlement (or the offshore stream) accounts for around 80 per cent of applicants (table 13.1).

Determining the intake number is a forbidding calculus

While Australia has maintained a relatively constant intake under the Humanitarian Programme in total numbers, its share of the total immigrant intake has decreased as the Migration Programme has steadily grown. Migration Council Australia suggested that the level of humanitarian immigration should be set to maintain a consistent relativity with the Migration Programme.

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)

However, there is little rationale for maintaining a given share of total immigration — it is an arbitrary way of determining an appropriate number.

A starting point for a considered assessment is the UNHCR’s mission statement, which is:

... to safeguard the rights and well-being of refugees. In its efforts to achieve this objective, the Office strives to ensure that everyone can exercise the right to seek asylum and find safe refuge in another State, and to return home voluntarily. By assisting refugees to return to their own country or to settle permanently in another country, UNHCR also seeks lasting solutions to their plight. (UNHCR 2015c)

Some of the considerations that would inform a coherent approach are the:

- community’s desire to provide assistance to people in need (informed by established ethical norms). Three Australian surveys between 2010 and 2012 found that between 70 and 75 per cent of Australians were supportive of Australia’s current humanitarian intake (Markus 2013)
- capacity of the community to meet such needs (both in economic and other senses), recognising that resources are finite and can be applied to many problems. For example, while some might argue that Australia should increase its humanitarian intake to multiples of its current level, equally others might suggest that the goal of safeguarding the rights and wellbeing of refugees might take different forms, such as improved schooling or medical facilities in overseas refugee camps. One of Australia’s

leading researchers on migration has noted that resources used in one sphere of action for addressing global misery (whether related to poverty, refugees or to other sources) must inevitably displace their use in other spheres (Markus 2013)

- degree of effective support provided to humanitarian immigrants once they arrive in Australia, and in particular, the resulting effects on the speed and success of the social and economic integration of refugees (an issue examined in chapter 8, which considers the effectiveness of resettlement services)
- the effectiveness of Australia's particular solutions compared with the UNHCR's other durable solutions, or indeed, other lateral options that might address the misery of dispossessed populations. A useful element of gauging effectiveness would be the relative costs of different solutions, an area increasingly underpinned by more analysis, with Australia at the leading edge (Aiyar et al. 2016; OECD 2015b).

Accordingly, it is not simple to settle upon a desirable number for Australia's humanitarian intake without taking into account ethics, attitudes, costs, benefits and policy options. That task is beyond the scope of this inquiry.

Taking as given the planned intakes, the question is whether there is scope for the Australian Government to select humanitarian immigrants in the way that provides the greatest net benefits to Australia. In principle, the prospects for doing so are substantial since the global demand for resettlement far exceeds the supply of places. However, since the goal of the humanitarian stream is not economic, but founded largely on achieving good outcomes for highly disadvantaged people, the initial hurdle for selection should be greatest need. However, if there are many people with equally great needs, but some are likely to socially and economically integrate with greater speed, there are grounds to adopt secondary selection criteria to achieve that outcome. The Commission has not examined the feasibility of doing this or the extent to which some of the existing criteria already achieve reasonable outcomes. Any new approach would need to avoid creating any unnecessary delays in resettlement.

The Community Proposal Pilot

The Community Proposal Pilot (the Pilot) commenced on 1 June 2013 and will operate until 30 June 2016. It provides accelerated access to permanent immigration to Australia for people who meet the criteria of humanitarian resettlement. Features of the pilot include:

- a limited number of visas available (500 in 2015-16) with visa grants counted toward the overall Humanitarian Programme
- candidates must 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 have to provide settlement support for up to 12 months after arrival, including accommodation, household goods and job search assistance (DIBP 2015k).

In June 2015, the DIBP released a discussion paper seeking feedback on the possibility of establishing an ongoing ‘Community Support Programme’ (CSP), 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 aged under 40 years
- fiscal benefits included \$2.04 million of visa application charges and savings from not providing access to the Humanitarian Settlement Services Program (DIBP 2015l).

The Australian Government is currently considering the feasibility of implementing an ongoing CSP.

Some stakeholders were concerned that the program was only available to relatively wealthy applicants who could afford the visa application charges and that, given fixed planning levels, visa grants through the Pilot came at the expense of fewer other Humanitarian visa grants (box 13.5). Even if the Australian Government did maintain an overall cap on the Humanitarian Programme, such an outcome may not be adverse if the outcomes for those using the CSP are more positive than for other applicants. It is likely that CSP settlers would be well supported by their relatives and communities after arrival in Australia, assisting in their social and economic participation in the community. Inquiry participants were generally positive about the opportunities for resettlement using the CSP. However, there are also grounds for maintaining the program in addition to the existing cap on the basis that it allows for an expression of altruism by parts of the Australian community in addition to fulfilling Australia’s immigration obligations.

Moreover, it is likely that an ongoing program would have fiscal benefits. According to the review of the Pilot, the program slightly reduced the fiscal costs of humanitarian settlement.

Overall, the Commission’s judgment is that the net benefits of implementing a permanent CSP are likely to be positive, although a final judgment on continuation of the program and any design changes will depend on the results of an evaluation being undertaken by the DIBP.

Box 13.5 Views about the Community Proposal Pilot

The recent Community Proposal 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)

Our experience shows what a small group in a regional town [Armadale] can achieve. Had we been required to raise a significant sum (say \$30,000) for each humanitarian entrant it is unlikely that a rotating credit fund could have succeeded in the same way because of the need to raise a large sum up front and because the newcomers would not have been able to repay their loans. The maximum sum that we have lent to any one family is some \$12,000. (Ware, sub. DR136, p. 2)

... it is preferable that the humanitarian program focus on resettling vulnerable people through a single, transparent process, rather than carving off some humanitarian places for refugees with financial means. As the PC has identified for price-based models generally, there is risk in community perceptions of unfairness; and the unfairness of the price-based Community Proposal Pilot has not gone unnoticed by refugee communities without the means to access it. The funds community groups raise to pay visa fees under the pilot could alternately be put towards self-determined community building and community settlement needs. (MDA, sub. DR112, p. 6)

14 Assessing a proposal for a price-based immigration system

Key points

- The Commission was asked to assess a proposal for a price-based immigration system.
 - Under the assessed system, permanent visas (outside the humanitarian stream) would be allocated by means of a uniform charge, and immigrants would face significantly extended waiting periods before becoming eligible for unemployment benefits, aged care, and other government supports.
 - The system would replace current administrative selection mechanisms and the current suite of visa charges, although health, character and security checks would be retained. The current level of permanent immigration would be maintained.
- The proposal has been contentious throughout the inquiry. Proponents argued that it would attract those immigrants who would be best placed to contribute positively to Australia, reduce complexity, and deliver substantial fiscal gains. Critics argued that such a system focuses on revenue raising, that price is not the optimal method for selecting immigrants, and that the proposal would skew the intake, commodify citizenship, create inequities and be unpopular.
- There is no precedent (domestically or internationally) for such a system and limited evidence on likely impacts. The Commission has used qualitative analysis and modelling to assess the proposal, but important uncertainties remain.
- The proposed system would alter the composition of the permanent intake. On average, immigrants would tend to be younger, less well educated and have poorer English-language competency. Compositional changes would include an increase in immigration from those currently ineligible, family stream immigrants, and people from less wealthy countries. There would be a reduction in skill stream immigrants.
- Modelling suggests that the proposal could yield a net fiscal benefit of \$20-25 billion per year (under current fiscal settings). This partly comprises revenue from the charge of around \$55 000 per person, but is mainly driven by significantly extending the waiting periods for immigrants to access government-funded services and other supports.
- The proposal would have a range of broader economic, social and equity impacts, the directions and magnitude of which are difficult to determine. A younger intake could deliver a demographic dividend, helping to offset the effects of ageing. However, the changed composition could hamper integration, suppress wage growth for lower income Australians, reduce knowledge spillovers and alter existing social structures.
- The proposal's restrictions on immigrants' access to government supports is problematic and could be difficult to implement and credibly enforce.
- On balance the Commission is not recommending the adoption of the proposed system. Many of the proposal's benefits can be achieved through alternative pricing mechanisms or other system-wide reforms that do not have the same downside risks and uncertainties.

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) also have to pay visa charges. These vary between visa classes and are relatively high in some cases — as much as almost \$50 000 for contributory parent visas.

The terms of reference direct the Commission to examine an alternative option for allocating visas, under which price would be the primary mechanism for selecting immigrants.¹ Under the assessed proposal, a single price would be charged for all immigrants (outside the humanitarian stream), replacing the current plethora of different visa fees and charges, as well as the current administrative selection mechanisms, although current health, character and security checks would be retained. The analysis assumes that the current level of 190 000 non-humanitarian immigrants would be maintained.

Another feature of the assessed proposal is that immigrants' access to government supports would also be more tightly restricted than at present. This was not part of the scenario assessed for the draft report. However, following further submissions and consultation with participants (and revisiting the intention of the terms of reference), the Commission has assessed the proposal with the following changes to government supports:

- an increase in waiting periods for immigrants to be able to receive unemployment benefits, family payments, aged care and access to health services from the current exclusion periods of two year or less to ten years
- a doubling of the current waiting periods for immigrants to be able to receive the aged pension and disability support pension, to twenty years.

The proposed system has not been implemented anywhere else in the world in its entirety and, as such, evidence on its likely impacts is limited.

In assessing it, the Commission has adopted an approach that is based in the economic theory of migration and price incentives and has drawn upon evidence presented throughout this report. Qualitative and quantitative analysis has been used to assess the potential effects of the price-based proposal on the wellbeing of the Australian community and, in particular, the economic and social outcomes of the proposal. Given that the proposal examined would not alter the level of the intake and thus would not alter the size of the population, this chapter does not discuss environmental impacts.

¹ While Australia's immigration system has elements of a price-based system, with visa charges that exceed cost-recovery and amount to taxation, the essence of the proposal is that places in the immigration intake are allocated or rationed on the basis of price, rather than using qualitative criteria such as under a points-based system. For an uncapped system, such as many of the temporary visas, a price-based system would not have a quota to allocate, and is thus excluded from the analysis in this report.

The chapter does not give weight to the political feasibility of implementing the proposed system — even though many participants have argued that such a system would not be politically palatable (for example, Boucher, sub. 22). This is primarily a matter for governments and parliaments. However, the practical feasibility of the proposed scheme, including issues around the implementation and sustainability of the policy, are relevant.

The chapter outlines the debate surrounding proposals for a price-based immigration system in Australia (section 14.1); some design issues (section 14.2); the proposal's possible effects on the composition of the migrant intake (section 14.3); the fiscal and broader economic and social impacts (sections 14.4–5); some issues relating to the proposal's restrictions on immigrants' access to government supports (section 14.6); and some other, less significant, implications (section 14.7), before concluding (section 14.8).

While the Commission is not recommending a price-based immigration system, its investigation of the proposal (and of hybrid visa pricing options in chapter 15) has helped shed light on other reforms, which could generate large benefits for the community without the same downside risks and uncertainties as the price-based proposal considered in this chapter.

14.1 The debate about price-based immigration policies

The idea of a price-rationed immigration system is not new. It has been examined by several economists — for example, Chiswick (1982), Harrison (1989) and Becker (2011). Common to proposals for such a system is the view that the self-selection of immigrants, based on their willingness to pay to enter a country, would result in a more productive immigration intake and generate greater benefits for both the immigrants and the host nation (box 14.1).

Recently, the Liberal Democratic Party (LDP) advocated that a price-based system be introduced in Australia. According to the LDP:

Replacing Australia's largely qualitative and quota-based immigration system with a more tariff-based immigration system is a long-standing policy of the Liberal Democrats. It is based on a proposal championed by Nobel Prize laureate Professor Gary Becker. It also mirrors the practice of replacing import quotas with import tariffs, which has improved living standards in Australia. (sub. 46, p. 1)

The LDP believes that such a system would improve the effectiveness of Australia's immigration policy. It argued that policy makers do not have perfect knowledge of the optimal set of entry criteria and that there is 'micro-management in immigration policy, which is essentially fumbling in the dark' (sub. 46, p. 2). In its view, the proposed price-based system offers a more robust yet simple test of whether an immigrant should be permitted to migrate to Australia:

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)

Box 14.1 **Some previous arguments for pricing immigration**

Writing in the context of the United States (US), Becker's (2011) central proposal involved moving from a bureaucratically determined immigration system to a system where immigrants 'self-selected' based on their 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, p. 27)

As the US immigrant intake is predominantly unskilled (in contrast to the greater skills focus of the Australian immigration system), Becker posited that a price-based system would shift the mix of immigrants to those with more skills and higher earning capacity. He 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 attract economically active immigrants who had a real commitment to the country
- might provide an incentive for some immigrants who attempt to arrive illegally, to do so legally and undermine people smuggling businesses.

While Becker's proposal was specific to the American context, others have suggested that it could equally be applied to Australia. For example, 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). Harrison (1990) argued that the:

- immigrants' willingness to pay is linked to the additional wealth that a potential migrant can generate, reflecting 'ambition, drive, energy, skills and value to Australia' (p. 22)
- impact on Australian residents will depend on 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.

However, the benefits of such a system have also been contested. For example, in response to Harrison, Dobes argued that:

... the ability to pay for entry into Australia is unlikely to reflect an immigrant's potential to increase the benefit accruing to residents. Neither the auction price mechanism nor residents (who lack information) are able to discriminate between immigrants to ensure the economic or social benefits are maximised. At one extreme the whole quota might be purchased by rich geriatrics who impose large future medical costs on the community. (Dobes 1990, p. 1)

In relation to restrictions on access to government supports, the LDP considered that extended restrictions would reduce the fiscal burden on the Australian community and improve attitudes towards immigrants. In the draft report the Commission did not model more limited access to government supports (instead focusing on current waiting periods), to which the LDP responded that such a scenario should not be discounted (sub. DR101). The LDP also suggested extending citizenship requirements to be consistent with the longer waiting periods. (These matters are discussed further in sections 14.2 and 14.6).

In sum, proponents of the price-based proposal point to several advantages. Foremost, they contend that prospective immigrants' willingness to pay for a visa would reflect their level of ambition, skill, drive and energy, while restricting access to welfare would deter rich and/or less productive immigrants from simply buying cheap access to Australia's social security system. Under such circumstances, proponents argue that allocating visas primarily on the basis of a price would see 'self-selection' by those immigrants who are best placed to contribute positively to Australia. Proponents also argue that visa charges could generate significant revenue for the Australian Government and that the system would also yield other, more minor, benefits (such as reducing visa processing delays and costs).

A price-based system received support from a small number of inquiry participants (box 14.2). These participants saw the advantages for both incumbent Australians and migrants desirous of life and opportunity in Australia.

However, many more inquiry participants voiced opposition to a price-based system. There was also much adverse public comment about the idea in the media, following release of the inquiry's issue paper. Among other things, critics contended that such a system would focus on short-term revenue raising ahead of longer-term objectives of the migration program, that price is not the optimal method for selecting immigrants who are most likely to benefit Australia, and it would skew the composition of the intake, commodify citizenship and create inequities (box 14.2).

Most of the commentary from participants related to the proposal as assessed in the draft report, which assumed the current waiting periods for immigrants' access to government supports would be maintained. As mentioned, the final report has assessed a variant wherein waiting periods would be significantly extended. Although not canvassed in the draft report, comments from a couple of participants (Boucher, sub. DR128; Migration Institute of Australia, sub. 53) indicate that the extension to waiting periods would raise further concerns.

Box 14.2 Participants' views on a price-based immigration system

Some inquiry participants expressed support for a price-based immigration system:

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)

... my suggestion for the new system is, it is an immigration auction system, where all applicants have to do is successfully bid for a price, pay the price and then pass health, character and security checks ... It is simple: no professional qualifications, job history, job offers, references, marriage certificates, proof of filial relationships would be needed. No retention of migration agents. No investment of 18 months of one life, going through various bureaucratic and judicial levels, after which success is not guaranteed. It will be equitable, subject to HCS, health, character and security, checks and possibly age and also possibly discounts in prices for children of applicants. Apart from that, all applicants will be treated equally. It will be beyond abuse. (Lillingston, trans., p. 16)

A positive price base immigration system definitely will be of the interest of hundreds of professionals like me to come and serve Australia on permanent basis. (Salam, sub. DR73, p. 1)

A larger number of participants were critical of such a proposal:

The [Australian Multicultural] Council is concerned about the possible introduction of a pricing mechanism ... an approach which is both short-term and revenue driven. (Australian Multicultural Council, sub. 11, pp. 1–2)

... the Business Council [of Australia] recommends against adopting the Becker proposal because:

- charging high fees will reduce our ability to attract skilled migrants in an increasingly competitive global labour market
- Australia's national interest is best served by a selective system that attracts the right mix of younger, skilled workers and family and humanitarian migrants to meet our long-term economic and population needs. (BCA, sub. 59, pp. 4–5)

... Becker's analysis is flawed, at least in the Australian context. (Bosley, sub. DR75, p. 3)

I support the Productivity Commission's rejection of a price-based visa system for the reasons outlined and also due to the human rights and equity considerations ... (Boucher, sub. DR128, p. 3)

While the system may attract immigrants who are willing and have the capacity to pay, the ability to pay is not the same as possessing the skills and characteristics that best contribute to the Australian community. (Construction, Forestry, Mining and Energy Union, sub. DR114, p. 5)

... 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 ... (Federation of Ethnic Communities' Councils of Australia, sub. 24, p. 5)

Assuming that monetising immigration visas applies not just to selling labour market opportunities, but perhaps a more valuable 'good' of being able to permanently reside and belong as an Australian citizen, raises the question as to whether citizenship should be commodified in this way. (Howe, sub. 32, p. 5)

... 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. (Migration Council Australia, sub. 50, p. 3)

The adoption of a price based immigration system is not supported by the NFF [National Farmers' Federation] ... (NFF, sub. DR105, p. 5)

DoB [the Department of Business] 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 ... (Northern Territory Department of Business, sub. 60, p. 1)

14.2 Some design issues

Introducing the proposed price-based system would require the Government to resolve issues including how to set the price, whom should pay the fee, and whether there is a role for loans to defer payment. The specific proposal examined here also invokes issues about how exclusions from government supports could be administered and enforced.

Setting a price

There are two market mechanisms available to determine a visa price — auctions and tenders. Another option is to use a pre-determined price, set administratively.

With the quantity of visas pre-determined, an auction or tender process would set the price of visas such that there was no excess demand. Both methods could be run electronically. One inquiry participant advocated the use of online auction systems, indicating that they could easily be applied to the visa allocation process:

Electronic online auctions are much superior to traditional auctions. eBay is an example. You see something you like, you value it at \$10 000 and you just put in a bid for \$10 000. ... you don't have to be hanging around right at the end, the last minute, to get in that extra bid; you can put your bid in, then walk away ... (Lillingston, trans., p. 20)

Similarly, online tender systems allow users to electronically submit their offers and for the outcome of all available places to be determined simultaneously. A tender system should, in theory, enable a government to derive greater fee revenue compared to an auction (box 14.3).

As with any new system, the features of either a tender or auction process would need to be carefully designed. For example, given the proposed system would continue to require health, character and security checks, whether these should be conducted prior to or after the auction or tender process would need consideration.

An administratively set price would be intended to replicate the price achieved through a market. The administrative challenge would be to set the charge at a level at which demand would exactly fill the quota. An iterative process may be required to determine the price compatible with the desired volume of visas to be sold.

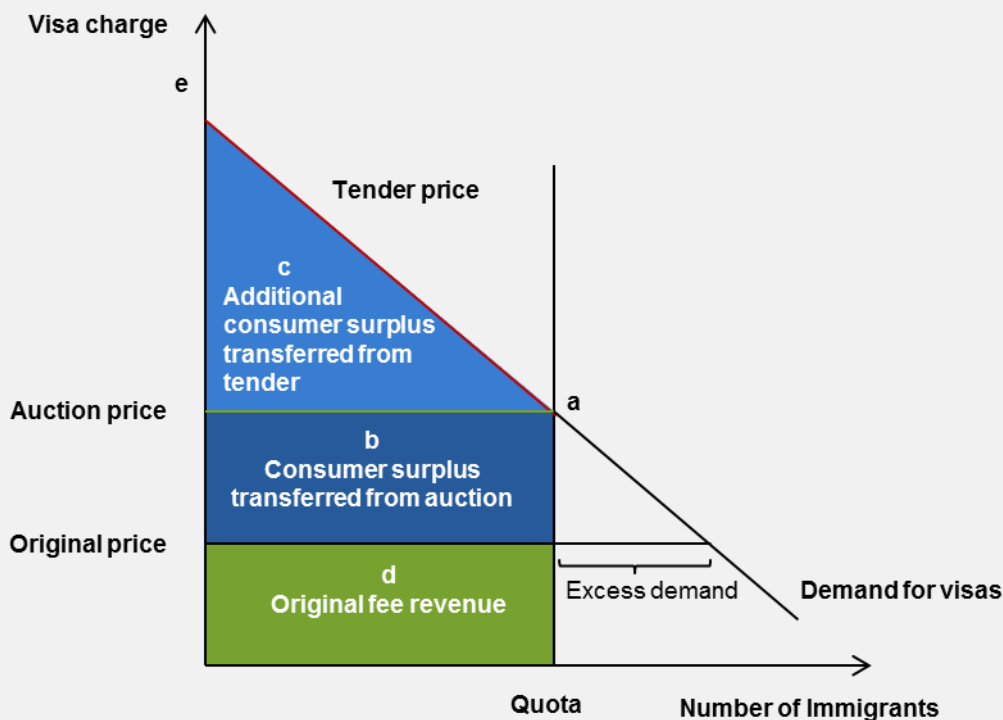
Box 14.3 Auctions and tenders

Auctions can be run in a number of ways. In one method, bidders are ordered or ranked by how much they are willing to pay, with visas 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 the last person allocated a visa would be willing to pay (point **a** in figure 14.1 below). There would be no excess demand (in contrast to the current system), and the Government would capture some additional consumer surplus — area **b** — which is the difference between what a consumer is willing to pay and the price they actually pay.

A tender involves participants submitting an offer (a sealed bid) of the price they are willing to pay. A tender system could raise more revenue compared to an auction as each person could be charged a different price, which would reflect the maximum price they would be willing to pay (as shown by the line **ae** in the figure below). In theory, the Government would extract more consumer surplus (and in fact all possible consumer surplus) compared to an auction, as shown by areas **b + c**. Total revenue for the Government is the shaded area **b + c + d**.

This may not be the outcome in practice, as it assumes there is no ‘gaming’ of the system. Migrants may participate strategically such that their bid or offer is not a true reflection of their willingness to pay. The extent to which this is possible would depend on the design of the auction or tender, including how frequently the process was run, and the ability to prevent a secondary market in visas.

Figure 14.1 Potential consumer surplus under an auction and tender



Who pays?

Primary and secondary applicants

The current immigration system provides a per person price advantage to families wishing to migrate compared to individuals — fees for secondary applicants are typically lower than those for primary applicants.

There are a number of arguments for requiring adult secondary applicants to pay (at least) the same fee as primary applicants, including that they often have poorer employment and integration outcomes (chapters 5 and 8). That said, there is a strong case for exempting children, or providing discounts on fees, given many child-free immigrants will choose to have children once in Australia anyway (chapters 13 and 15). However, with a single price under the assessed proposal, no family discount would apply and secondary applicants (whether adult or non-adult) would be charged the same fee.

Loans

A price-based system raises the issue of whether immigrants would have the ‘capacity to pay’ the charge upfront, even if they have the willingness to pay (although these two concepts are of course linked). Some 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.

It is not clear that capacity to pay issues, in practice, would be a serious constraint on the effectiveness of the proposed system (although they may raise some equity related concerns — discussed later). While some immigrants would be deterred by a price of around \$55 000, others would persist. Some immigrants are already paying high costs for migrating to Australia. Many students may pay international student fees upwards of \$20 000 per year, as well as other associated expenses with the intent of gaining permanent residency following graduation. Further, the contributory parent visa fees could be almost \$50 000 for some applicants, while those who enter irregularly are reported to be paying up to US\$16 000 to people smugglers (DIAC 2011d).

Those immigrants who do not have the capacity to pay the charge themselves may be able to borrow the money required to finance a visa. Private financial institutions may offer a loan on the basis of an immigrant’s capacity to work in Australia, with future access to finance determined by an immigrant’s repayment record. Alternatively, the Australian Government could provide loans to potential migrants. Some have argued that they could be income-contingent loans, although the Commission sees limited merit in this approach (box 14.4).

There would of course also be concerns for either financial institutions or Government regarding unrecovered debt should the immigrant choose to leave Australia. In the case of an income-contingent loan scheme, it could also encourage immigrants who might never expect to meet the repayment threshold.

Box 14.4 **Income-contingent loans for visas**

Several inquiry participants suggested income-contingent loans as a mechanism for immigrants to finance visa charges (Multicultural Development Association, sub. DR112; name withheld, sub. DR103; Potts, sub. 1).

A model of income-contingent loans already operates in Australia (HECS-HELP). Essentially, the recipient of the loan is able to purchase education, which can be expected to increase his or her future earnings. The benefits of the service are principally internalised rather than appearing as positive externalities.

However, participants have noted that there is a distinction between student loans and a possible migration loan. Boucher commented:

... given the challenges that have bedevilled the Australian government in terms of non-payment of HECS debts among Australians living overseas, it would appear that an immigration loan scheme would present even greater challenges for government, especially in cases where former immigrants left Australia on a permanent basis. (sub. 22, p. 10)

An income-contingent loan for visas could pose a fiscal risk to government through moral hazard. It would be attractive to potential migrants who expect never to earn an income above the repayment threshold. Coupled with the potential that some immigrants may leave Australia, the Government would be unlikely to fully recover its costs.

To diminish this risk, the Australian Government could put safeguards in place, such as more stringent vetting prior to migration, monitoring post migrating to Australia, or incentives to repay the loan. These measures would of course raise the administration costs and their effectiveness may not be guaranteed.

Sponsorship

Two forms of sponsorship — employer sponsorship and community sponsorship — may be possible under a price-based system. Both are an alternative to formal financing channels for immigrants who may not have the capacity to pay a visa charge upfront.

Employer and community sponsorship may assist with some parts of the integration process, by facilitating employment and settlement support for new arrivals. Concerns around potential exploitation may be allayed with mechanisms to protect against such behaviour (chapter 11).

Some participants pointed to the altruistic opportunities of a price-based system as it would enable community sponsorship. For example, Lillingston (sub. DR98) suggested a small donation from voters of 50 cents per day could fund visas for over 24 000 refugees at the cost of \$50 000 per visa. Further, the Commission heard that some organisations, such as Sanctuary Australia Foundation, already assist humanitarian immigrants with the costs of migrating to Australia (Ware, trans., p. 170; sub. DR136).

Exclusions from government supports

The proposed system's exclusions to immigrants' access to government supports raise several practical implementation issues. The economic and social implications are discussed in section 14.6 but, as noted there, it could be difficult for governments to enforce these exclusions on immigrants, who had been granted permanent residency, in cases of hardship. Attempting to do so would generate costs not only for the immigrant but also for the broader community.

The Commission considers that, if a government were to seek to implement such a proposal, it would need to mandate that immigrants have some insurance coverage (at least for the period of the exclusions). A key design question in operationalising such a scheme is whether private markets, rather than government, could be relied on to offer the necessary insurance products. This matter is discussed further in box 14.9.

One option would be to create a 'conditional permanent visa', for intending permanent residents, that would be akin to a renewable temporary visa (under which immigrants do not have access to government supports). A requirement for renewal would be that the immigrant demonstrates that they have obtained the appropriate basic insurance. Such an option would require material changes to the granting of permanent residency.

A related question is how the extended waiting periods would interact with Australian citizenship requirements. The LDP suggested that citizenship residency requirements and waiting periods be aligned (sub. DR101). This would not be essential, given that these currently differ, without apparent problems. However, were a government to seek to implement such a proposal, the LDP's suggestion might avoid what might otherwise be more clearly seen as a 'two tiered' system of citizenship.

That said, even with such measures, the Commission considers that the proposed extension to exclusions from government supports could be problematic on various grounds, which are expanded upon in section 14.6.

14.3 Compositional effects

As well as generating revenue from visa charges and reducing access to government supports, by design the price-based proposal would alter the composition of the permanent migrant intake, which in turn would have a range of fiscal and broader economic and social impacts. This section examines what drives migration choices before analysing the effect that the price-based proposal would have on the composition of Australia's intake.

Drivers of permanent migration

The migration decision

The decision to migrate permanently necessitates a dramatic change in people's lives and circumstances, and is typically considered to be the result of push and pull factors (Gaston and Nelson 2013; Kline 2003). Migrants consider factors in their home country (such as family and community, environmental amenity, safety and economic opportunities) along with these same factors in possible destination countries (chapter 3). The costs of migration (including the probability of being granted a visa, fees, compliance costs and waiting periods) also inform the decision.

In some circumstances, migrants will be open to opportunities in multiple countries. This might be the case if the probability of employment, wages, and safety is significantly higher in many other countries, or if a migrant is highly mobile and willing to seek work opportunities in a variety of places. In other circumstances, migrants might consider only one destination, for example, if they are seeking family reunion or where a specific job opportunity has arisen.

The human capital approach

One theory of what drives migration — the human capital approach — treats the act of migrating as an investment in improving one's wellbeing (chapter 3).

In its original form (Sjaastad 1962), it models migration as a response to differences in incomes across countries with the migrant's aim being to choose the location that offers the highest net income. If there is a large difference between what a person could earn in a foreign country and what they could earn in their home country, they will have a strong incentive to migrate.

This model can be extended in various ways. For example, Borjas (1987, 1991) showed that migration is not only influenced by net earnings differences between countries but also by factors such as international differences in income inequality and the degree of skills transferability (Bodvarsson, Simpson and Sparber 2015).

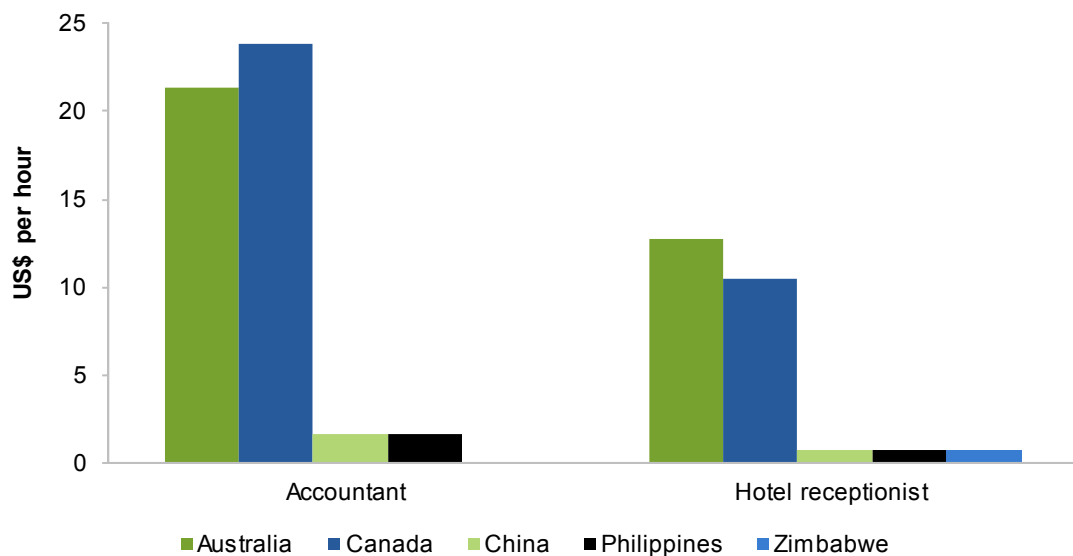
Proponents of the price-based proposal have largely based their arguments on a narrow human capital approach — that people base their migration decisions on the financial benefits and costs which would flow from migrating. They consider that potential migrants who have the greatest additional earnings potential will be the people who would pay the most to migrate.

Other considerations

While the human capital approach is relevant for analysing migration decisions, it does not of course provide a complete picture. Migrants may move even when incomes appear to be lower. This may be because analysis at an aggregate level cannot identify the differential

earning capacity of all potential migrants — for example, large regional variations in wage levels exist across Australia. Further, significant migration exists between developed countries, despite the greatest earning differentials often being between developed and developing countries (an example of two occupations is shown in figure 14.2).

Figure 14.2 **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).

This is not least because migrants will often choose to relocate for reasons other than just income, including lifestyle factors and access to government supports.

- 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, they could include the location of family and friends, prevailing climatic conditions, pollution, congestion, commuting times, access to nature, sporting facilities, cultural opportunities, and crime rates and a sense of personal safety.
- Another potential motivator for migration is access to government supports. If government subsidies in Australia are more generous in relation to health, education, social security or if taxation is markedly lower, these factors may be a decisive reason for migration, particularly for potential migrants who are most likely to heavily utilise those supports.

Another issue is that the narrow human capital approach focuses on the individual, with no analysis of how migration by an individual may affect a family unit. Indeed, the incentives for a family may be quite different to those of an individual. For example:

-
- a family may view migration as a means of increasing the family's living standards in their home country through remittances
 - some families may consider the earnings potential of the family unit, while others will only choose to migrate if both partners have the potential for higher incomes
 - the future prospects of children, including their education, may be a consideration for families and those individuals who plan to have children in the future.

Implications for assessing the effects of a price for migration

Labour market prospects, family circumstances and prospects, lifestyle, welfare access and capacity to pay all contribute to a migrant's willingness to pay a particular price for a visa. At any particular point in time, these factors can be taken as a 'given' for each migrant.

An increase (or decrease) in visa price — particularly a large change — will affect the benefits that a migrant might receive relative to the costs. An increase in price would be expected to reduce the net benefits and thus make Australia less attractive to migrants than it would otherwise be.

Migrants will have varied responses to a change in visa price, depending on what they value and the alternative options available to them. For example, on the one hand, family migrants may be more open to absorbing higher charges because they are seeking reunion with a family member in Australia, and are less likely to consider other countries as alternatives to Australia. By contrast, skilled migrants, particularly those that have relatively high skill levels, may be less willing to accept a higher price because they are generally more mobile and may be able to seek employment options in alternative destinations. On the other hand, the size of the charge relative to the potential income differential and potential lifetime net benefits will also influence an immigrants' responsiveness to a change in price.

Other characteristics of migrants — such as age — will also affect the extent to which they might be willing to pay a charge. For example:

- migrants in the early stage of their career may be more willing to pay a charge, given they have a longer working life over which to reap the benefits of additional employment income
- older migrants are more likely to access government supports such as health care, aged care and the aged pension in the near future, compared to a younger migrant. This means that (in a net present value calculation) these supports are of greater value to older migrants, while their value is more heavily discounted by younger migrants. As a result, older prospective migrants would generally be more willing to pay for access to these supports (so the proposal's extensions to waiting periods for government supports will particularly reduce older migrants' willingness to pay for a visa).

These differential responses to price need to be taken into account when assessing the compositional impacts of the price-based proposal.

Modelling the effects of visa pricing

The Commission has developed a partial equilibrium model to examine how the price-based proposal and other various visa pricing scenarios might affect impacts (box 14.5, technical supplement C). The model estimates changes in the level and composition of the migrant intake, flowing from particular scenarios, and associated fiscal impacts.

Box 14.5 The partial equilibrium model

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 and on fiscal outcomes.

The model is based on a demand and supply framework. Immigrant composition is determined by projected responses to changes in the costs and benefits associated with the option to work and reside in Australia, and particularly an immigrant's income differential. In this framework, demand represents willingness to pay for an Australian permanent resident visa and supply represents the costs to migrants of migrating to Australia, including government fees and charges, transport costs and migration agent fees. Various other characteristics that might influence the migration decision — such as that state of labour markets in Australia and in source countries — are taken as given.

The model draws on the Australian Census and Migrant Integrated Dataset (ACMID), a rich data set that has detailed information on over 1 million permanent immigrants who arrived in Australia between 2000 and 2011. The model characterises immigrants by their region of origin, visa class under the current system (as well as a 'currently ineligible' category), skill and age. The model also represents primary and secondary applicants. A number of other data sets are used to supplement ACMID, including World Bank wage data.

While the model has rich data on many immigrants' characteristics, incomes and the costs of migrating, as with all models proxies and assumptions are required where data or information is limited. Some key limitations and caveats around the modelling of the price-based proposal are:

- limited information on the non-financial benefits of migration
- uncertainty around the characteristics of those that are currently ineligible to migrate to Australia but would choose to under a price-based system. These include many migrants over the age of 50 and those with lower levels of educational attainment
- limited information on the wealth of prospective immigrants, which limits direct examination of their capacity to pay for a charge
- possible future changes to current tax and government expenditure settings are not modelled.

Comprehensive multivariable sensitivity analysis was used to explore the impacts of a number of these and other uncertainties on the model's results. Numerous parameters were varied simultaneously across many thousands of simulations to produce a range of estimates. The modelling results are best thought of in terms of ranges rather than point estimates (technical supplement C).

As with all models, proxies and assumptions are required where data and information are limited. One area of uncertainty in relation to the price-based proposal modelled (which does not apply to the alternative visa charging options examined in chapter 15) is that there is little information on potential migrants who are currently ineligible to migrate to Australia. The model also does not explicitly consider differences in immigrants' capacity to pay. Another key caveat is that possible future changes to current tax and government expenditure settings are not modelled. For these and the other reasons mentioned in box 14.5, the exact effects of the price-based proposal are uncertain. The Commission has undertaken extensive sensitivity analysis and reported ranges for its estimates.

The results should be interpreted with care and reported with appropriate caveats. Notably, the modelling results differ to those presented in the draft report because of improvements made to the model, including in response to feedback following the draft report (technical supplement C), as well as the tighter restriction on access to government supports now modelled as part of the price-based proposal.

Estimated impacts on migrant composition

The modelling suggests that a charge in the region of \$55 000 would attract the current level of the (non-humanitarian) migrant intake (190 000) and that the composition of the intake under the price-based proposal would change as follows.

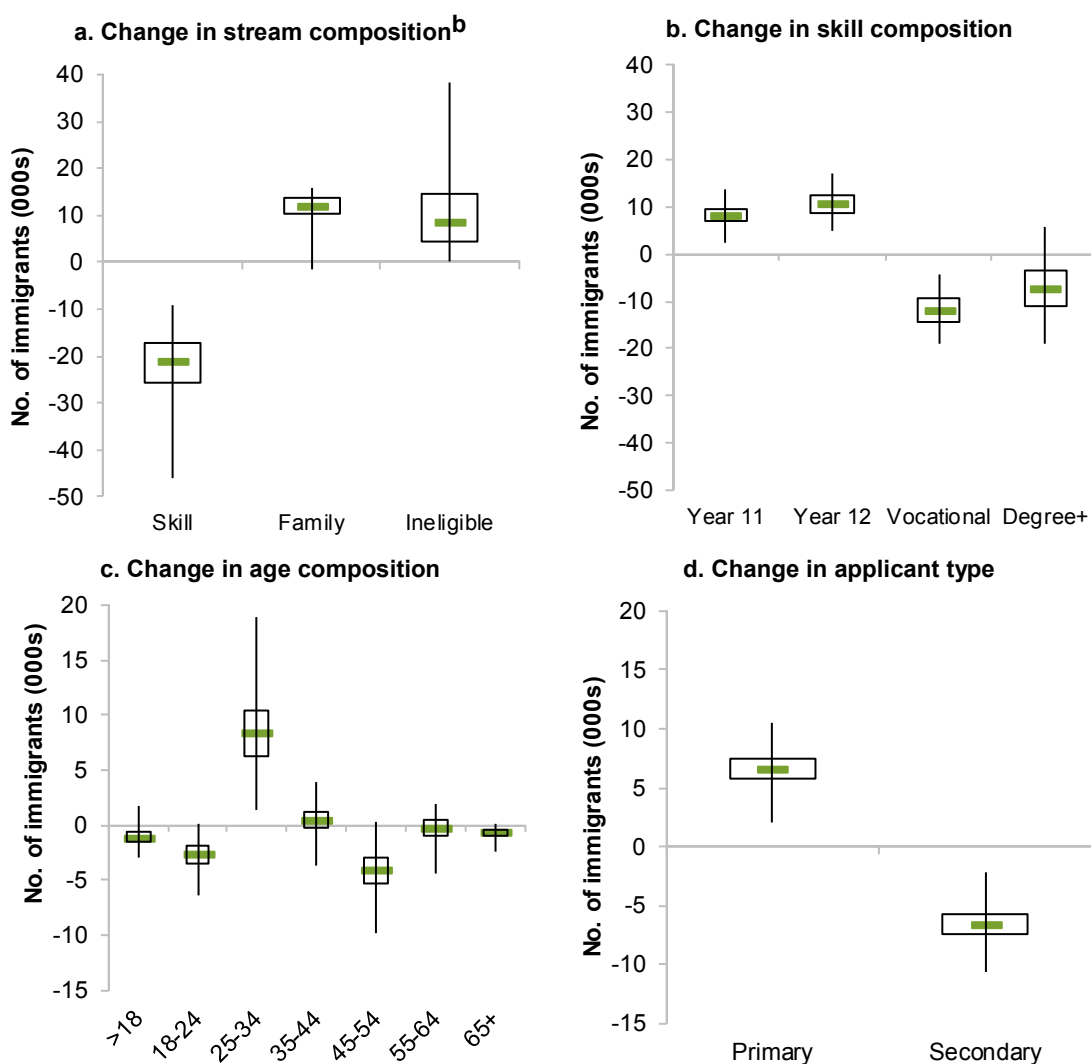
- The number of family stream immigrants would likely increase and the number of skill stream immigrants would decrease (figure 14.3, panel a).² There would also be a significant level of migration by people who are currently ineligible — perhaps due to characteristics such as their low skill level, poor English-language aptitude or age.
- There would be fewer immigrants with vocational training or a tertiary qualification, while the number of immigrants with year 11 or 12 as their highest level of education would likely increase (figure 14.3, panel b).
- Migrants would be younger — the number of those aged 25–34 will increase, while the number of those age 45–54 will decline (figure 14.3, panel c). Driving the projected increase in younger immigrants is a high income differential (in particular, they are more likely to be from less developed countries and have a longer working life in Australia from which to benefit. In contrast, those immigrants aged 45–54 are more likely to have a smaller income differential and a shorter period of time to benefit from migration. The proposal's extended restrictions of access to government supports is also likely to be more of a deterrent for older immigrants.
- The number of secondary immigrants would decline — given they would be required to pay the same fee as primary applicants — while the number of primary applicants would increase (figure 14.3, panel d). This is apparent in both the family and skill streams. For example, two thirds of the projected decline in skill stream immigrants is

² Technically, the family and skill streams would no longer exist under the price-based system examined. However, these are migrants who would meet the current requirements of each stream.

from secondary applicants,³ while almost three quarters of the increase in family immigrants is from primary applicants.

Figure 14.3 **Estimated compositional impacts of the price-based proposal^a**

Annual change, relative to current arrangements



^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 horizontal green dash represents the median. ^b The ineligible category includes those immigrants who previously would not meet the required criteria under existing skilled and family visa classes.

Sources: Productivity Commission estimates; technical supplement C.

³ As noted in chapter 2, under the current system, around half of immigrants entering through the skill stream are secondary applicants.

There would likely be other compositional changes, including to the gender mix and proportion of singles to couples, and the English-language proficiency of immigrants, resulting from adoption of the price-based proposal that are not reflected in the modelling.

14.4 Direct fiscal impacts

Moving to the price-based proposal would have direct fiscal impacts resulting from the collection of visa charges, changes in taxes and government spending associated with the composition of the intake and restrictions on accessing government supports. While the wellbeing of Australians is determined by a far broader range of factors, as discussed in section 13.3 the direct fiscal impacts are ‘externalities’ from migration that would fall to Australian community. In this case, the direct fiscal effects are also very large and, thus, are an important consideration in assessing the merits of the price-based proposal (and alternative reform options).

The partial equilibrium modelling suggests that the direct net fiscal impact of the proposed price-based system, were it to be implemented and sustained, would be in the vicinity of \$20–25 billion per year (figure 14.4). This is equivalent to over 1 per cent of Gross Domestic Product (2014-15), or around 5–7 per cent of estimated Australian Government total tax receipts in 2015-16.

The large and positive net fiscal outcome results from the balance of several factors.

First, to the extent that there is sufficient demand for Australian residency rights, an immigration system that primarily allocates visas based on the charges people are willing to pay should generate more charge revenue than the current arrangements. This is supported in the modelling, with an estimated gain of around \$9 billion per year in charge revenue. (The current immigration system generated revenue of around \$1.8 billion in 2014-15).

Second, the modelling projects that tax revenue paid by immigrants would decline, largely because of the increase in family and ‘ineligible’ immigrants who are likely to earn lower incomes (and pay less tax). This outweighs the fiscal benefits from an increase in younger immigrants who would generally earn more income (and pay more tax) over their time in Australia. The decline in tax revenue is consistent with other analysis conducted by the Commission which indicates that tax revenue is sensitive to changes in the characteristics of immigrants (chapter 9).

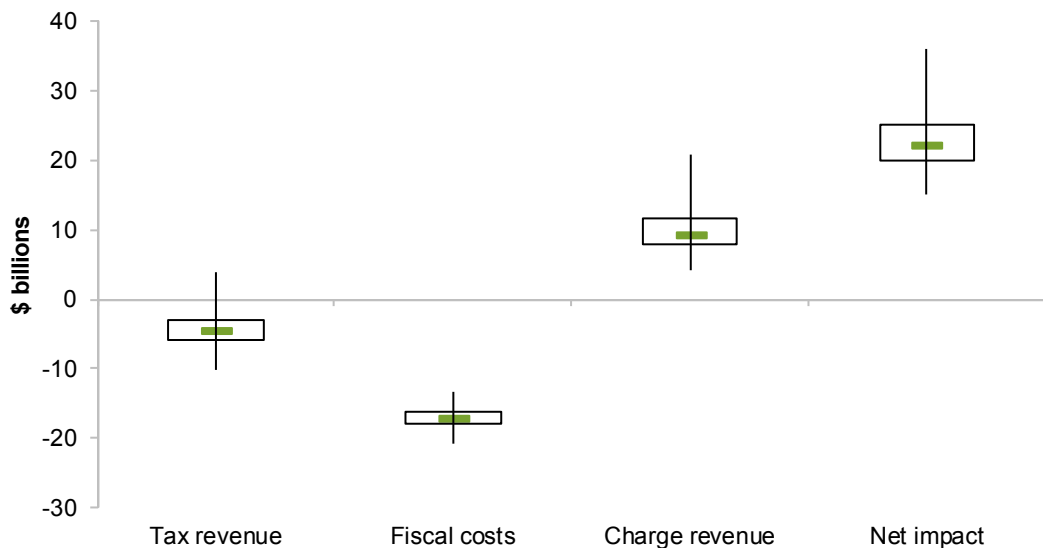
Third, there is a large reduction in the fiscal cost of spending on government supports, estimated in the order of \$17 billion per year. Fiscal costs are lower partly because younger immigrants tend to call less on government supports, while family immigrants tend to be more reliant on government supports. However, under the proposed price-based system, the major source of fiscal savings is the restriction on access to government supports. Were

the limitations on access to government supports removed, the net fiscal outcome would be substantially lower (box 14.6).

Proponents of the price-based proposal highlight the opportunity for fiscal gains, and the benefits this could bring to other areas of social and economic need. For example:

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)

Figure 14.4 Estimated lifetime fiscal impacts (present value)^{a, b}
Change relative to current arrangements



^a 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 immigrants' remaining years of life in Australia from when they are granted a visa. ^b 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 green dash represents the median.

Sources: Productivity Commission estimates; technical supplement C.

While the estimated fiscal benefits of the proposal are substantial, the caveats attached to the estimates need to be considered. As noted, there remain a number of uncertainties associated with the modelling of the price-based system.

Box 14.6 The influence of access to government supports

Additional analysis using the Commission’s partial equilibrium model suggests that if the current arrangements governing access to government supports were maintained under the price-based proposal, the net fiscal gains would potentially be much smaller, around \$5–10 billion per year (with a minimum estimate of \$-2 billion per year) (figure 14.5). This is despite the charge being higher under this alternative scenario (reflecting immigrants’ willingness to pay for access to government supports), with the median charge around \$70 000. (The caveats that apply to the other estimates in this chapter also apply to these figures — see box 14.5)

The scenario under which current access to government supports is maintained has some similar compositional impacts to the scenario with extended waiting periods. This is partly because for younger immigrants, the impact of government supports on willingness to pay is second order compared to income and non-income factors, while older immigrants tend to be driven more strongly by access to government supports. That said, there are slight differences in the age composition between the two scenarios. In particular, there would be a smaller increase in immigrants aged 25–34, and less of a decline in immigrants aged 45–54, in the current access scenario compared to the extended access scenario.

Figure 14.5 Fiscal impacts from providing current access to government supports



^a These estimates represent the fiscal impacts of a cohort of immigrants who are granted a permanent visa in a single year. Estimates are net present values over immigrants’ remaining years of life in Australia from when they are granted a visa. ^b 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 green dash represents the median.

Sources: Productivity Commission estimates; technical supplement C.

It is also important to put the large modelled net fiscal benefits of a price-based proposal for immigration in context of other possible reforms to the immigration system. As discussed in technical supplement C, applying the same single charge to immigrants as

under the price-based proposal, while retaining the current visa stream caps and eligibility criteria, would lead to even larger estimated net fiscal benefits.⁴

14.5 Broader social and economic impacts

Positive fiscal impacts are often correlated in some respects with other positive outcomes. For example, income tax collections tend to be correlated with employment, which is also a strong indicator of integration (chapter 8).

However, in the case of the price-based proposal examined in this chapter, a large share of the fiscal gains result from the extension in waiting periods for immigrants to access government supports, which is unlikely to have the same positive correlations (except insofar as the proposal would tend to attract immigrants who are less likely to need to access government supports).

Moreover, moving to the proposed price-based system would also have a range of broader and somewhat inter-related social and economic impacts, which are not directly captured in the partial equilibrium model or necessarily correlated with fiscal impacts.

It can be difficult to determine the overall direction of some of these affects, let alone their broad magnitude, although the model's compositional forecasts are relevant to some of them. The uncertainty around some of the impacts is itself a reason for adopting a cautious approach to the price-based proposal.

Labour market and productivity impacts

The modelling shows a shift in the skills composition of the intake associated with implementing the price-based proposal, with immigrants with lower levels of educational attainment displacing those with higher levels. This could reduce the knowledge spillovers that can result in productivity improvements and other benefits (box 14.7).

There could also be some adverse effects on the growth in wages of some existing Australian workers, although the mechanisms involved are complex. The labour market impact of a changed migrant composition will be highly dependent on the nature of immigrants' skills and whether they are substitutes or complements to existing workers (chapter 6). While the inquiry found that, in aggregate, recent immigration has had

⁴ Applying the charge estimated under the price-based proposal with longer waiting periods (that is, around \$55 000 per immigrant) to immigrants under the current system, but also with those longer waiting periods, would result in net fiscal gains of around \$25–30 billion per year. Equally, applying the same charge as under a price-based proposal with current waiting periods (around \$70 000 per immigrant) to immigrants under the current eligibility system, and with those same current waiting periods, could lead to an annual net fiscal gain of around \$15–20 billion (technical supplement C). These gains largely reflect the effects of an overall reduction in the intake, as in the modelling ineligible migrants or migrants in other categories are not allowed in these scenarios to replace displaced immigrants from particular visa categories.

negligible effects on labour market outcomes of the Australian community, there is a risk that an influx of younger and less skilled immigrants (as would occur under the price-based proposal) would lower wages growth for similarly-skilled local workers, which could widen income inequality.

Changes in the age profile of immigrants could also affect the labour market. The modelling suggests that more young people would migrate under the price-based proposal. This could boost the potential supply of labour, thereby ameliorating the demographic impact of population ageing (chapter 10). On the other hand, as noted, there is some uncertainty around the characteristics of people who are currently not eligible to migrate to Australia, including immigrants over the age of 50. Should there be a greater increase in older immigrants under the price-based proposal than modelled, this would diminish improvements in the age dependency ratio.

Box 14.7 The importance of educational attainment

As noted throughout the report, highly-skilled immigrants generally have better outcomes compared to other immigrants.

- They have higher participation rates, lower unemployment rates, and work longer hours (chapter 5).
- They have a greater potential for integration (chapter 8).
- Their net fiscal impact is likely to be more positive (chapter 9).
- They can contribute to higher growth in Gross Domestic Product per capita (chapter 10).

The first and third of these characteristics are reflected within the partial equilibrium model through the tax revenue and fiscal expenditure outcomes.

The partial equilibrium model indicates that the number of skilled immigrants would decline under the proposed price-based system, which would be expected to result in poorer fiscal and social outcomes. However, the potential fiscal loss is masked by a gain in revenue due to the charge and the lower fiscal costs associated with greater limits on access to government supports. Therefore, while under the current system skilled immigrants have more positive labour market outcomes, a price-based system would trade off these positive outcomes for other fiscal gains.

That said, the skill level of immigrants is important only insofar as the actual skills are compatible with the Australian labour market. It may be that immigrants in low-skilled occupations are able to fill important skills gaps, while some high-skilled immigrants may not be able to find employment.

Integration and changes to social structures

The proposed price-based system would also have a range of social impacts, although the net impact is unclear.

Chapter 8 illustrated that English-language proficiency, education and employment are strong determinants of integration, and, as a result, skilled immigrants tend to integrate best. It is likely that the price-based proposal would decrease the level of English-language proficiency across the migrant intake, given English language as a requirement for entry would be removed. Educational attainment is also likely to be lower (figure 14.3, panel b). Under the price-based proposal, both these outcomes may impair integration.

However, the integration-related outcomes from employment are not as clear, partly because employment outcomes are uncertain. For example, as already noted:

- an influx of lower-skilled immigrants may lead to higher unemployment, creating poorer integration and social cohesion outcomes
- an increase in primary applicants relative to secondary applicants could increase labour force participation and improve integration
- the tightened restrictions on access to government supports may provide an incentive to migrate among people who are more likely to remain in employment, which again, could improve integration
- however, integration can also be reduced through these tightened restrictions if immigrants do not have access to services (for example, health care) to improve or maintain their employment capacity.

There may also be social impacts related to region of origin, family structures and gender. The modelling shows that, under the proposed price-based system, immigrants are more likely to come from less developed Asian economies — regions which are already strong sources of migrants in Australia. There could also be more ‘single’ people migrating to Australia compared to the current system (primary applicants), but also more migrants who are immigrating to be with family in Australia. Additionally, the gender distribution may also change, though it is not clear in what direction (males are more likely to be primary applicants, while females are more likely to be family immigrants).

The social outcomes of these possible changes are unknown. For example, the importance of family for successful integration has also been raised by participants, so the increase in family stream immigrants could improve integration outcomes. However, concerns have been raised that a price-based system would lead to an increase in the number of young, single men with low skills and poor English-language competency. Should these immigrants not wish (or be able) to integrate fully into the Australian community, there may be some social costs. Yet immigrants with these characteristics are also more likely to be engaged in the labour force, which if employment is sustained would result in positive integration outcomes. Moreover, evidence suggests that intermarriage — which could occur after singles arrive in Australia — helps to build social trust (chapter 8). Chapter 8 outlined areas where settlement services could be improved. Under the proposed price-based system, these services would likely be important to help ensure that any change in migrant composition did not result in poorer social outcomes.

Finally, an increase in family immigrants (figure 14.3, panel a) may improve the wellbeing of members of the Australian community who have been separated from their family members under the current system (whether through ineligibility or due to queuing), but who can be reunited in Australia under the proposed price-based system.

Equity effects and the commodification of citizenship

As set out in box 14.2, several critics labelled the price-based proposal inequitable. Boucher (sub. 22, p. 7), for example, contended that ‘... the imposition of a charge-based selection system would raise considerable equity concerns ... at odds with the current principles of the Australian immigration program’. And in commenting on some current high-expense visas, Thorn (sub. DR85, p. 1), said that ‘Selling Australian citizenship to wealthy foreigners is preposterous and should be condemned’. One proponent of a price-based system acknowledged that the argument ‘usually gets immediately stuck on the equity issue ...’ (Potts, sub. 1, p. 3).

Equity concerns and counterpoints

Critics of the price-based proposal raise several concerns about the equity effects of visa charges on migrants, including that:

- visa charges, particularly if set at very high levels, would reduce the average wealth of immigrants, who often start with less anyway, relative to the existing Australian population
- such a proposal would see immigrants selected on the basis of their ability to pay rather than other merit-related indicators
- global inequalities, including between the genders, mean the use of visa charges to ration demand would exclude the relatively poor (and particularly women) and skew Australia’s immigrant intake
- the proposal to lengthen waiting periods before immigrants are able to access certain government supports and programs may also raise equity concerns. (This specific issue is discussed further in section 14.6).

On the other hand, it could be argued that any initial reduction in the wealth of immigrants who choose to come to Australia would not of itself be problematic from an equity perspective. Those who still elected to immigrate would presumably be better off by taking up the offer, inclusive of the visa charge and related conditions, as otherwise they would be unlikely to accept the offer (that is, by revealed preference). The proposal’s (high) visa charges could also be seen as improving equity in certain respects, for example by helping to compensate the existing Australian community for some of the costs attributable to immigration, including access to a social safety net to which immigrants have not contributed at that point. There are also some practical counterpoints to concerns that the

price-based proposal would harm global equity or preference richer people over poorer people (box 14.8).

Box 14.8 Global inequality and a price-based system

Some inquiry participants suggested that a price-based system could contribute to global inequality, although there are also counter arguments.

On the one hand, the price-based proposal would require migrants to pay a higher visa charge than the current system. In some cases, this charge could act as an impediment to entry for migrants that are disadvantaged, including those from less-developed countries and women. As noted by Boucher:

... global gender inequalities in the distribution of wealth and in men and women's engagement in paid labour also raise considerable equity concerns with a charge-based system. (sub. 22, p. 9)

On the other hand, it could also provide an opportunity for a greater number of people from less developed countries to improve their wellbeing (and potentially the wellbeing of their families), where they might be excluded under the current system.

In this context, the Commission's modelling indicates that the price-based proposal could lead to an increase in the number of immigrants from less-developed Asian countries, and a decrease in the number of immigrants particularly from the United Kingdom. The modelling suggests that it would also enable the migration of many who are less educated and currently ineligible, and who might ordinarily have fewer opportunities available to them.

A counter consideration is that attracting immigrants from richer countries (in preference to poorer countries) might have smaller (adverse) effects on the donor country, which has its own, complex, implications for global equity.

A broader question is to what extent immigration programs are suited to pursuing global equity issues. One view is that it would be more cost-effective for Australia to address its international equity objectives directly through foreign aid (and perhaps trade and other international engagement policies), rather than through immigration selection policies.

From an economic viewpoint, equity is intrinsically no less important for community wellbeing than is economic growth, efficiency or productivity. However, there is a threshold question about the extent to which equity impacts on prospective migrants, as distinct from any equity impacts on existing Australians, are relevant in the context of an Australian assessment of different migrant selection systems. The Commission has recommended that the focus on immigration should be on the wellbeing of the existing Australian community (Recommendation 3.1). As mentioned, there could be some adverse equity impacts on existing Australians if the increase in low-skilled immigrants affected labour market outcomes for lower income Australians.

In relation to the equity impacts on prospective immigrants, how the Australian community perceives the imposition of relatively high charges and extensions to waiting periods will vary according to the weight they give to the issue and their value judgments. People's values differ around, for example, what constitutes 'merit' and what weight it warrants relative to alternative equity criteria such as 'need'. Different weights can also be given to

the fairness of processes or opportunities relative to distributional outcomes. This makes it difficult to assess equity impacts in relation to prospective immigrants.

Psychological impacts of ‘selling’ visas

As alluded to above, some participants contended that moving to the price-based proposal would amount to ‘selling citizenship’, and would harm the character and disposition of society, with adverse impacts both on immigrants and on existing Australians:

- At the Commission’s workshop on visa pricing, one participant suggested that selling visas could affect immigrants’ sense of dignity and change their attitude towards existing Australians and their government — from wanting to give, to wanting to get back. If so, in theory it is possible that this could have implications for immigrants’ commitment to Australia and associated levels of social trust, integration and even productivity.
- And as reflected in the quotation from Thorn above (sub. DR85), some existing Australians could feel a sense of shame, anger or other forms of disquiet if their government was engaged in what they might interpret as the exploitation of migrants and/or the commodification of citizenship. A related concern is that the act of selling visas could harden people’s attitudes, including towards immigrants.

While a number of Australians may find a price-based system disagreeable, others might approve of such a system if they come to see it as requiring immigrants to ‘pay their way’ and/or compensate the community for issues such as increased population pressures and congestion. Petersen (sub. 2, p. 1), for instance, has argued that ‘The benefit of a tariff based mechanism is that it raises public funds for additional public infrastructure that immigration inevitably necessitates’. A further question is to what extent most Australians would be aware of, or affected by, the issue of visa charges, relative to the myriad of other matters that affect their lives and wellbeing.

The potential impact of high visa charges on immigrants themselves would be much greater, although the way immigrants react to particular charging systems might depend on the rationale articulated for the system. For example, a system premised on recouping community costs associated with immigration could be less problematic than one premised on ‘gouging’ as much revenue as possible from immigrants.

In this light, the rationales for some of the alternative visa charging options discussed in chapter 15 — such as an infrastructure contribution levy or a social services access charge — would be less concerning for many people than that underpinning the price-based proposal, particularly when coupled with much longer exclusion periods for immigrants to access government supports as in that specific proposal. The Commission sees some real risks with this aspect of the price-based proposal, particularly if it led to immigrants seeing themselves as ‘second class citizens’. What is not known is the extent to which such concerns would translate into immigrants’ actual behaviour once living in Australia, and to matters such as integration, trust and productivity.

14.6 Feasibility and social costs of limiting access to government supports

The Commission also sees substantial, practical problems with the price-based proposal's lengthy restrictions on immigrants' access to government support. As noted, the current 10-year waiting period before being eligible for the disability support pension and the age pension would be doubled under the proposal, and there would be 10-year waiting periods for other government-funded supports, such as health care, subsidised education and unemployment benefits.

While these restrictions are intended to dissuade immigration by people unable to support themselves, one's future health and employment status are not fully foreseeable. These waiting periods would therefore pose risks for the immigrant. They would also pose risks for the broader community.

- If immigrants defer health care because it is unaffordable, it will impact their own welfare as well as their labour force participation. Deferring care may require more costly care at a later date (including after the immigrant becomes eligible for government-funded health care) (McLachlan, Gilfillan and Gordon 2013).
- Having to pay full fees for schooling or university may deter immigrants from pursuing higher levels of education. Evidence indicates that educational attainment has a significant impact on labour force participation and wages (and thus taxes) (McLachlan, Gilfillan and Gordon 2013).
- A period of unemployment could place an immigrant at risk of severe income poverty and destitution, influencing their ability to find employment, impacting their health, and creating broader issues for social cohesion and crime.

In these circumstances, governments would face very difficult choices were immigrants to, for example, contract significant health problems that they could not afford to cover, or fall into long-term unemployment.

To counter these risks, it would probably be necessary to mandate that immigrants acquire some form of basic insurance (at least for the duration of the waiting periods). This would create its own problems (box 14.9). However, even if an appropriate insurance product were available, enforcing compliance with the requirement (including, if necessary, deporting those unable to comply) would be administratively challenging and costly, as well as politically problematic.

In response to the draft report, the LDP stated:

... such a scenario should not be discounted at all. Australian governments currently restrict access to social security as well as subsidised education, housing and healthcare for tourists, other temporary residents and permanent residents in the initial period of their residency. Prior to World War Two Australian governments did not provide social security and subsidised education, housing and healthcare comparable to current systems. Moreover, numerous

countries differentiate between citizens and other residents when providing access to various government services. (sub. DR101, p. 1)

Box 14.9 A mandated insurance scheme

There are two options for the delivery of mandated insurance: private markets or a government-provided scheme.

Private markets are already available as a (not always perfect) substitute for some government-funded supports — such as international student health cover. While there are no well-established market substitutes for income payments such as the Newstart Allowance or the Age Pension, similar financial products are available. For example, there are numerous providers of income protection insurance products in Australia, though it may be difficult for some immigrants to access this if they do not have a demonstrated employment history.

Superannuation is a private alternative (or complement) 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 limited or no Australian superannuation to draw upon, though they may have superannuation or savings from their working life prior to immigrating. For some immigrants, income and cost of living differences may mean the accrued sum is significantly below what might be required in Australia.

Requiring migrants to provide an initial investment in a superannuation fund at the time of obtaining permanent residency, or by showing proof of sufficient cash reserves could be one solution. This could vary depending upon age of arrival and expected working life in Australia, and the balance of any pre-existing superannuation. Given the possible costs of aged care and pension in Australia (chapter 9), the required deposit may be very large.

Private markets for other insurance products are currently under developed. In the case of disability and aged care, it may be more efficient and cost-effective for immigrants to purchase into the government-run National Disability Insurance Scheme and aged care system.

Even if a full suite of products were available through private markets, requiring immigrants to hold insurance through private institutions would effectively transfer the migrant selection process to financial institutions. For example, were an immigrant unable to access income support (or other cover), they would not meet their visa requirements, regardless of their potential economic or social contribution.

It may therefore be more appropriate for the Australian Government to take on the role of insurer. In the case of Government-provided insurance, immigrants could pay an upfront fee each year to buy into supports during the access waiting period.

Yet, as with other insurance schemes, there would likely be significant adverse selection problems, especially if the threat of penalty for non-compliance is not seen to be credible. Indeed, monitoring and compliance of Australia's migration system has been historically fraught (ANAO 2015), and enforcing compliance with the requirement (including, if necessary, deporting those unable to comply) would be administratively challenging and costly.

However, the Commission considers that it would be difficult for governments today to exclude permanent immigrants from accessing the Australian social security and health system and essential services for extended periods in cases of hardship. This in turn would undermine a key feature of the price-based proposal, and would diminish its net fiscal

benefits. As noted earlier, the Commission's modelling suggests that the price-based proposal with the current waiting periods would likely generate direct net fiscal gains in the vicinity of \$5–10 billion, rather than the \$20–25 billion direct net fiscal gains estimated for the scenario with extended waiting periods.

14.7 Other potential impacts

There would be several other, typically narrower, impacts from implementing the price-based proposal.

Reducing the role for migration agents

Currently, around half of the applications for permanent residency in Australia are lodged by registered onshore migration agents (OMARA 2015). Migration agents advise potential migrants of their best options for migration. They typically assist with filling forms and lodging the required evidence. Depending upon the nature of the visa, typical migration agent fees appear to range from a few hundred dollars, to thousands of dollars, 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 their corresponding fees, given it would result in a simpler application process.

Discouraging irregular arrivals

Many irregular maritime arrivals to Australia have dealings with people smugglers (DIAC 2011e). Of those arriving in 2009–10, the typical fee paid ranged from US\$5000 to US\$16 000 (DIAC 2011d). 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 be willing to pay as much, if not more, for a guaranteed permanent visa. In addition, families, friends, members of their cultural group or other members of the Australian community would also have the opportunity to purchase visas on their behalf. A price-based system would provide an opportunity for entry to those that might have sought the services of people smugglers.

International commitments

There are other potential concerns around how the price-based proposal would interact with Australia's international commitments. 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 and are not relevant to the price-based proposal.

Australia also has international humanitarian commitments, and the price-based proposal under examination could breach those commitments *were it to cover the humanitarian stream*. However, as per the terms of reference, the Commission has not examined this option.

Exploitation

Another concern is whether a price-based immigration system would expand the opportunities for exploitation. For example, the system could make it easier for people with nefarious objectives to sponsor workers with the intention of exploiting them. Conversely, the introduction of a price-based immigration system could reduce the scope for exploitation as immigrants who purchase a visa would not be bound to an employer.

14.8 Summing up

Immigration is not intrinsically suited to the price-based proposal examined by the Commission. The immigration system differs markedly from other markets in which the distribution of resources is determined by price. 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 heavily involved in many aspects of the Australian immigration system, including in providing funding for welfare and health services for immigrant citizens. Its responsibilities in these areas are not easily or credibly eschewed. In these circumstances, attempting to implement the price-based proposal would be problematic.

Moreover, although the precise impacts are uncertain, introducing the price-based proposal in Australia — particularly while other advanced countries do not — could reduce the skills of those immigrating, attract many currently ineligible immigrants, and have other compositional effects, which could bring a range of broader and potentially adverse social and economic impacts. For example, the changed immigrant composition could hamper integration, suppress wage growth for lower income Australians, reduce knowledge spillovers and alter existing social structures.

This is not to say that the price-based proposal, were it feasible, would not yield some important benefits. In particular, modelling suggests that such a proposal could generate very substantial direct net fiscal benefits, in the order of \$20–25 billion per year under current fiscal policy settings. These fiscal gains derive from two principal sources, and these provide some hints as to where it may be possible to obtain benefits through appropriate reforms:

- extension in exclusion periods of government supports for permanent immigrants. This generates significant direct net fiscal benefits but is of course problematic. Nonetheless, there are already exclusion periods on immigrants using government supports. While the Commission does not believe that the proposed extensions to the limits are

warranted or sustainable, an issue is what the optimum length of the exclusion periods might be.

- estimated charge revenue of around \$9 billion per year from a permanent intake of 190 000 per year paying around \$55 000 per immigrant. The modelling also illustrates that, even without the problems and complexities associated with limited government support access, visa charging could offer substantial fiscal benefits for the existing Australian community.

However, the Commission has found that many of the benefits of the price-based proposal can be captured through changes within the existing system, without the proposal's downside risks and uncertainties. For example, as noted above, applying the equivalent charge as under the price-based proposal to immigrants, but retaining the current system's eligibility criteria, would result in even larger fiscal gains. Were the Commission inclined to recommend a significantly more price-oriented selection system, an approach that uses the current system's eligibility criteria would be preferable to the price-based proposal. That said, the Commission considers that improved qualitative criteria for selecting migrants, augmented by targeted increases in visa charges in some cases, could also enable significant economic benefits to be obtained while avoiding the adverse compositional changes and other problematic features of the price-based proposal.

On balance, therefore, the Commission is not recommending the adoption of the price-based proposal. There is strong evidence that characteristics such as English-language competency, relevant skills and employment are key determinants of immigration outcomes. Since these determinants can be directly targeted through a points-tested system (whereas they cannot be through the proposed price-based system), the Commission considers that reform of the current system, rather than its replacement by the price-based proposal, would yield greater dividends for the Australian people.

FINDING 14.1

While there is uncertainty around its exact effects, a proposed price-based system with extended restrictions on immigrants' access to government supports could have economic and social costs and pose challenges for governments. Most of the (mainly fiscal) benefits that such a system would deliver could be obtained through other reform options within the existing system. The Commission is not recommending the adoption of the price-based proposal.

15 Other visa charging options

Key points

- Charges for different visa classes vary, although the reasons are unclear. They have increased significantly in recent years, and total charge revenue is now more than three times the cost of processing visas. Charges for Australian visas are generally higher than for visas in major competitor countries.
- Visa charging can influence the impacts to Australia from the immigration program, both directly through the revenue gained and indirectly through its impact on the level and composition of the migrant intake.
- A range of options could operate on top of — or in place of — the current system, including a uniform ‘infrastructure levy’ for all adult skill and family stream immigrants and ‘social services access charges’ that could be tailored to reflect the different fiscal contributions and expenses of different groups.
 - Uniform charges are likely to create ‘adverse selection’ problems and could harm the skills composition of the intake.
 - Variable visa charges (based on age, skill level and other relevant migrant characteristics) can potentially reduce these problems, although there can be a tradeoff between more precise tailoring and system complexity.
- Each of these approaches could deliver a significant fiscal gain — for example, in the order of \$9 billion per year for full social service access charges. The estimated gain results from charge revenue as well as substantial fiscal savings due to a decline in the number of entrants in older age brackets.
- While the Commission sees scope to move towards a more structured system of charging for permanent visas, further investigation is required in the form of a detailed review of visa charges.
 - Continuing to assess alternative charging mechanisms, extending upon the models presented in this inquiry and drawing on new information as it becomes available, is warranted.
 - However, the systemic reforms proposed in chapter 13 should be progressed prior to introducing any additional changes, if warranted, to Australia’s charging system.

Australia’s current immigration system uses a combination of quantitative and qualitative selection criteria to determine the level and composition of the migrant intake. 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) also have to pay some visa charges and other fees.

The terms of reference direct the Commission to examine alternative methods for allocating visas — including through charges — and the effects these would have. Several participants suggested an ‘open borders’ approach or bilateral ‘open borders’ agreements (box 15.1). While the latter may have some benefits, the Commission has focused its analysis in this chapter on pricing options.

Chapter 14 examined a specific proposal for a uniform price-based immigration system. Under the proposed system, all permanent visa holders would be charged the same price and current restrictions on immigrants’ access to government supports would be extended. The Commission concluded that it could not support such a system, given (i) the potential adverse compositional and related economic and social impacts, and (ii) the potential to capture many of the benefits from such a system through other reforms (that would not have the downside risks and uncertainties of the proposal).

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 eligibility criteria.

After briefly reviewing the current system of charges (section 15.1), the chapter outlines a number of general considerations that have informed the Commission’s specification and analysis of the different pricing models (section 15.2). It then examines a range of specific charging options (sections 15.3–4) and sets out an approach for reforming visa charges (section 15.5).

15.1 The current charging system

Although the migration system contains a plethora of visa charges and related fees, charging is currently a peripheral mechanism for influencing the composition of the migrant intake. In very few cases — likely only in the case of contributory parent visas — would charges be prohibitive for some migrants where they meet other qualitative selection criteria.

Charges vary across visa subclasses

Visa application charges vary across each visa subclass (table 15.1). 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 (chapter 13; appendix E).

Box 15.1 Open borders and bilateral agreements

Several inquiry participants 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. For example:

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)

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, and that those who favour lower and zero tariffs should, to be consistent, also favour no barriers to the free movement of people.

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. (Potts, sub. 1, p. 2)

The Commission's recommendations for reducing trade protection in Australia have been based on its assessments that exposing Australia's economy to international competition in this way generally *maximises the wellbeing of the Australian community* (chapter 3). Applying the same objective or criterion to the issue of people movement, however, yields a different conclusion. Given Australia's non-contributory social safety net, the free movement of people into Australia would cause a considerable fiscal strain. Since the advent of comprehensive subsidised welfare and health systems, no developed country has adopted an open borders policy. Potentially mass migration to Australia would also affect integration and social cohesion — the same issues do not arise in relation to trade in goods and services. Finally, an open borders policy could adversely affect Australia's environment. The Commission considers that such a policy would not maximise the wellbeing of the existing Australian community.

An alternative suggested by some participants — including Dobes (subs. 19 and DR99); Petersen (sub. 2); and name withheld (subs. 8 and DR103) — is a limited and selective open borders approach through bilateral agreements, similar to Australia and New Zealand's Trans-Tasman Travel Arrangement (TTTA). According to Dobes (sub. 99, p. 14):

The TTTA between Australia and New Zealand is a good arrangement that has worked to Australia's benefit. Australia should consider extending a similar arrangement to additional countries ...

This approach could allow for better matching of workers' skills, and the filling of short term skills gaps. It also would provide workers with higher wage opportunities, and opportunities to acquire new skills and technological know-how that on return can improve productivity in Australia (PC 2010a).

In some cases, the benefits of a bilateral agreement may accrue to one partner country more than the other, for example, if the 'brain drain' is all in one direction. The Commission has previously found that while the TTTA had benefited both countries by enabling people to move to higher value employment, there were concerns in New Zealand about the number of people emigrating (PC and NZPC 2012). The extent to which this is a problem depends on whether immigrants eventually return to their country of origin.

Another issue is the extent that free migration is an incentive for migrants to take advantage of more generous welfare arrangements. In cases where the partner country has a similar welfare system, this risk may be small. But with other countries there may be greater scope for adverse selection and a greater fiscal risk for governments.

While a bilateral approach to people movement with selected countries might afford some advantages, there are also risks. The current immigration system provides opportunities for relatively free movement of people to Australia on temporary visas, without the accompanying fiscal risks of more permanent migration.

c

Table 15.1 Examples of charges associated with visa applications

<i>Visa charges^a</i>	<i>Other potential costs^{b,c}</i>
Employer Nomination Scheme (subclass 186)	
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Migration agent fee: \$2 000–\$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)	
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Migration agent fee: \$1 800–\$4 000 • 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)	
<ul style="list-style-type: none"> • Base application charge: \$6 865; additional applicant charge 18 years and over: \$3 435; additional applicant charge under 18 years of age: \$1 720 	<ul style="list-style-type: none"> • Migration agent fee: \$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)	
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Migration agent fee: \$1 500–\$3 800 • 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 – Significant Investor stream (subclass 188)	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Migration agent fee: \$4 000–\$15 000 • Minimum complying investment required — \$5 million • Health check: around \$200–\$300 plus extra for other tests • 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 January 2015 to 31 December 2015. ^c Cost for a medical examination is the cost within Australia. It may vary across metropolitan and regional areas.

Sources: AFP (2015); Bupa Medical Visa Services (2015); DIBP (2015z); Macquarie University (2016); OMARA (2016).

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 15.1).

Table 15.2 Cost per applicant of processing
2014-15

<i>Stream</i>	<i>Applications^a</i>	<i>Departmental expense^b</i>	<i>Cost per applicant</i>
	number	\$ million	\$
Skill	148 915	115.4	775
Family	93 395	122.3	1 310

^a Based on the date an application is received by the DIBP. ^b Expenses data do not include costs associated with litigation.

Sources: DIBP (2014f); DIBP unpublished data.

Charges for Australian visas appear to be higher than in Australia's major competitor countries (figure 15.1).

The current approach to charging is complex and lacks transparency

Several inquiry participants commented on the basis for Australia's current visa charges. The Business Council of Australia (sub. 59, p. 30) noted that Australia's approach to setting visa charges appears to differ according to the type of visa. The Migration Institute of Australia 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. (sub. 53, p. 23)

Mark Tarrant Lawyers Pty Ltd provided an example of some apparent inconsistencies in relation to fees for working visas:

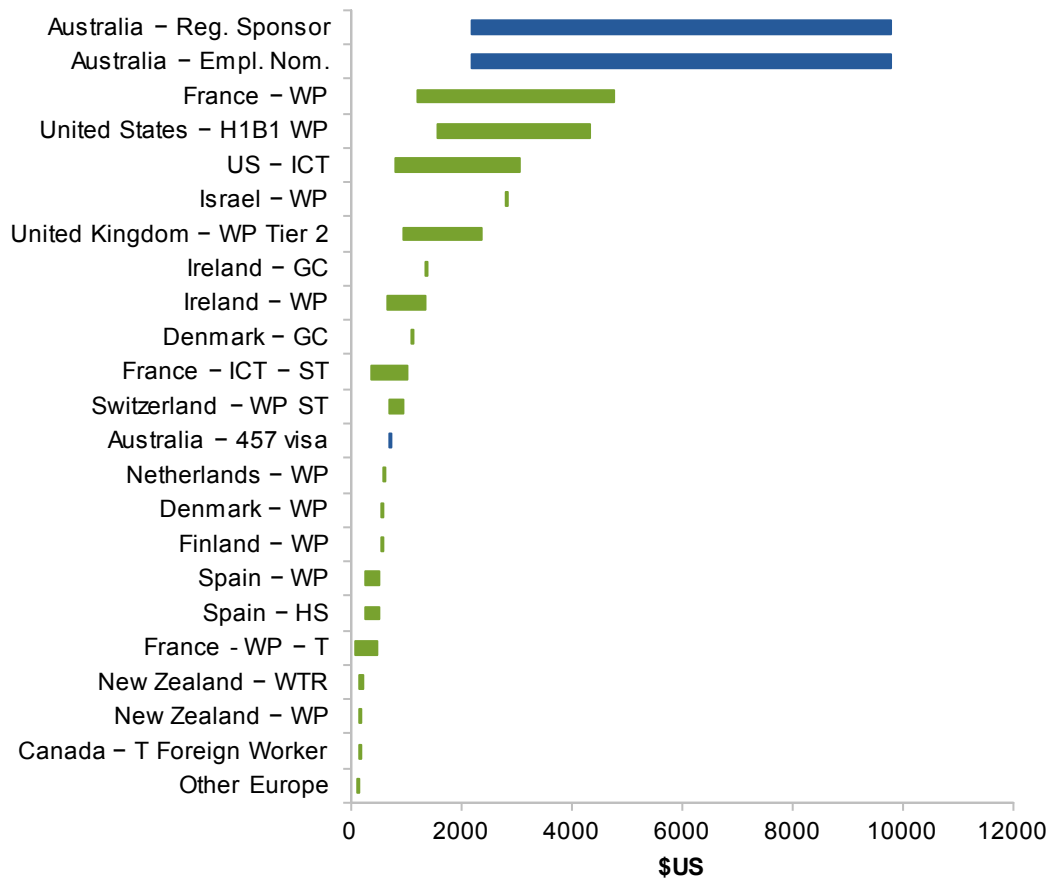
The DIBP 457 visas fees for the Austrian Software Engineer ... were \$1035 for himself and \$1035 for his de facto partner i.e. \$2070 for a 457 visa of only 7 months duration.

The basis for these excessive fee increases cannot be cost recovery as the 457 visa Standard Business Sponsorship (SBS) application fee, payable by the Australian employer remains at the pre-1 July 2013 level of \$420, and has been unchanged for several years.

The time taken by DIBP Case Officers to assess a Standard Business Sponsorship (SBS) application would clearly exceed that of the time needed to process a 457 visa application as a SBS application is a much more complex applicant than a 457 visa application. (sub. DR134, p. 17)

Figure 15.1 Government applied fees for obtaining work visas and permits^a

Range of fees in United States Dollars, 2014



^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).

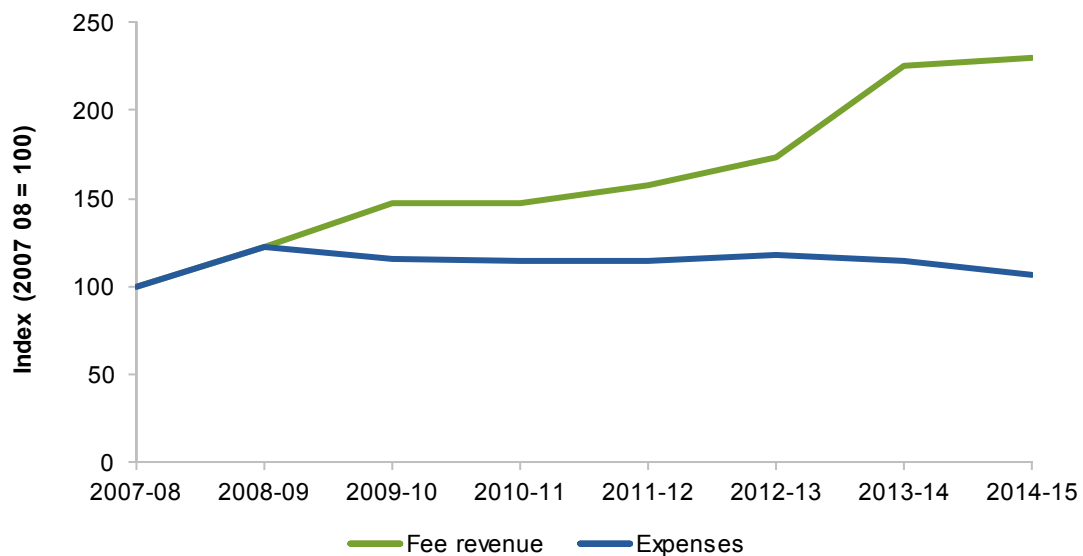
A range of methodologies appear to be drawn upon to explain visa charges.

- 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 and any demand response, and (in the case of the significant investor visa) the proportion of the charge relative to the total costs incurred by the applicant (DIBP 2015bd).
- At an aggregate level, revenue collected from visa charges is three times the administrative cost (table 15.2), and, over recent years, visa fees have been rising at considerably faster rates than administrative costs (figure 15.2), suggesting that charges are not based on processing costs.
- In the case of the contributory parent visa (and, according to the Department of Immigration and Border Protection (DIBP, sub DR138), to a certain extent the partner

visa), there is an explicit effort to recognise the fiscal cost to the Australian Government of these visa holders (AGA 2002), although the charge actually only covers a small portion (around 11–13 per cent in the case of contributory parents) of the expected costs to the Government from providing services such as health, aged care and the age pension (chapter 9).

- There is some limited recognition of the costs associated with immigrants with different skills levels. For example, under the employer nomination scheme, primary and secondary applicants that do not have ‘functional English’ are required to pay additional charges (DIBP 2015b).

Figure 15.2 **Visa fee revenue and administrative expenses per application, 2007-08 to 2014-15^a**



^a Expenses data are estimated actual expenses and include the cost of policy development. Applications data include data for permanent visas and visitor, 457, student and working holiday maker visas. 457 visa and working holiday maker visa applications data for 2007-08 are estimated from the average success rate of visas granted in the rest of the series.

Sources: DIAC (2008a, 2008b, 2009a, 2009b, 2010e, 2010a, 2010d, 2011a, 2011c, 2011f, 2012a, 2012c, 2012d, 2013a, 2013b, 2013c, 2013f); DIBP (2014l, 2015av; 2014a, 2014f); DIBP unpublished data.

In response to the draft report, the DIBP submitted:

... in practice there is a range of factors that come into play when setting the price of a visa. These are (and will continue to be) fiscal considerations, the policy intent of different categories of migration, industry/sector sensitivities, and international agreements amongst others. Currently pricing decisions are informed by a market-based approach (that is, analysis of visa demand, international benchmarking, the market’s propensity to pay, sector sensitivities, and other macro-economic factors). However, final price settings often consider broader Government and migration policy objectives. (sub. DR138, p. 8)

Concerns have also been raised about the lack of transparency for applicants arising from the complexity of the charging system for some visa classes. The DIBP 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 some migrants to use the services of migration agents, while some may fail to fully understand their financial obligations.

15.2 Issues in assessing visa charging options

This section outlines a number of general considerations that have informed the Commission's specification and analysis of different visa charging options.

Rationales

There are two main rationales that can underpin charging for visas: recovering government costs and raising revenue; and influencing the composition and/or level of the migrant intake.

Recovering costs and raising revenue

As noted in chapter 9, immigration entails a range of fiscal costs. These include administrative costs in processing visa applications, the cost of resettlement programs and services provided for newly arrived immigrants (such as language classes), and longer-term costs associated with the use of welfare and government-subsidised services such as health care and education. Governments may also face greater public infrastructure costs and environmental remediation expenditures where immigration exacerbates congestion. The fiscal impacts of immigration are effectively 'externalities' and are important considerations when assessing immigration policies.

Visa charges are one way of recovering some or all of the fiscal costs associated with immigration, and/or raising additional revenue, on behalf of the Australian community. As noted in box 15.2, there is a range of 'cost recovery' criteria against which visa charges could be set. Ultimately, the fiscal effects of a visa charge will depend on not just the charge revenue received, but also any effects it has on who comes to Australia, how much tax they pay and government subsidies they draw on while here. This in turn will depend on how the charge is designed, the level at which it is set, and how it interacts with other elements of the immigration system (such as eligibility criteria) and how it interacts with other policies such as taxation.

Box 15.2 Visa charges and revenue-related objectives

Cost recovery has a number of dimensions with respect to visa charges. At its simplest, it can refer to the cost of processing a visa. Cost recovery can also incorporate a broader definition of costs. In addition to recovering the administrative costs, the charge could include costs associated with immigrants' settlement, compliance, and other costs to the government (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 [the] Australian Government following admission' (Boucher, sub. 22, p. 4).

Of course, immigrants can also generate fiscal benefits, including through the payment of income taxes, and so there is an argument for limiting cost recovery objectives to only some measure of 'net' fiscal costs. When calculated on this basis, an appropriate visa charge would be very low (or possibly negative) for some groups, such as the young and highly skilled, but more substantial for others.

A complication in considering net fiscal costs and benefits is that, even if a particular immigrant would generate a net fiscal cost over his or her lifetime (when assessed against current taxation and government expenditure settings), they could also add to the base of potential taxpayers who might be levied in future to help address any long-term structural fiscal deficit.

A broader conception of net costs or net benefits would take into account assessments of any other unpriced economic, social and environmental costs and benefits of immigration. In theory, a net cost recovery visa charge could be adjusted to also reflect the balance of these other costs and benefits, although in practice it would be difficult to make such adjustments with much precision.

Beyond recovering some conception of costs or net costs, it would be consistent with the overarching objective of the immigration program (chapter 3) for government to increase visa charges so as to maximise the revenue from immigrants (to the extent that this does not unduly hamper achieving other objectives). The additional revenue that could be raised would essentially represent a transfer from immigrants to governments on behalf of the existing community. It would enable governments to increase spending on community services, or reduce general taxes, or retire debt (thus enabling more sustainable provision of government-funded services in future), or some combination of these.

Testing demand and influencing composition

Another possible rationale for visa charges would be to inform, or help shape, aspects of the migrant intake.

Price can be used as a test of the value of an item or service. For example, the current contributory parent visa charge of almost \$50 000 provides a test that immigrants (and/or those financially supporting their immigration) entering under that category value moving to Australia by at least that amount. This figure appears to be much less than the actual average net fiscal costs of such immigration (chapter 13). That some people are not willing to pay the charge can be taken to imply that their immigration would be unlikely to

enhance overall wellbeing.¹ Prices thus have the potential to provide an extra check or test on whether the quotas and eligibility requirements for different visa classes that are set administratively are appropriate.

Prices could also be used to affect the composition of immigrants within visa categories. For example, as discussed in chapter 14 and further below, visa charges could influence the age and skill level of migrants or the gender and family composition of the intake.

The current immigration system provides a per person price advantage to families wishing to migrate compared to individuals — fees for secondary applicants are typically lower than those for primary applicants.

The extent to which the composition of the intake will change depends on the level and design of particular visa charges and the degree to which migrants factor price into their decision to move. Chapter 14 discussed the drivers of migration and why some migrants may respond more to price than others. Such effects are relevant when assessing the merits of different visa charging options.

Assessing impacts

Changes to the migrant intake and fiscal effects

Assessments of effects of different visa pricing options on the level and composition of the migrant intake are an important input into assessments of each option's economic, social and environmental impacts. A feature of the main visa pricing models examined in this chapter is that they would be applied in conjunction with current visa eligibility criteria and caps (or revised ones, as recommended in chapter 13). In contrast to the price-based approach discussed in the previous chapter, taking appropriate qualitative eligibility conditions as the starting framework would mean that most or all immigrants would have either skills or close family connections in Australia. Nevertheless, the models will have different effects on the level and composition on the intake and these need to be assessed.

Visa charging systems have direct fiscal impacts resulting from the collection of visa charges and any changes in taxes and government spending associated with changes in the level and composition of the migrant intake. While the wellbeing of Australians is

¹ It should be noted that the estimate of the net fiscal costs associated with contributory parents visas (chapter 13) does not incorporate some possible fiscal savings, such as childcare subsidies where grandparents look after children; and that high charges on family members may reduce the demand to immigrate of other individuals including skilled immigrants, who might generate net fiscal benefits. Also, given the long term nature of immigration decisions, some immigrants likely will not estimate with reasonable accuracy the actual benefits they would obtain from immigration. Finally, some people who would be willing to pay a particular visa charge (given their current and expected future wealth) may also be unable if they could not obtain an initial loan or other finance; and some people who highly value their parents presence may simply not have sufficient income or wealth to access funds to pay. However, it is unlikely that such considerations would be sufficient to offset the substantial difference between estimated fiscal costs and the current charges for contributory parent visas.

determined by a far broader range of factors, as discussed in chapter 13 the direct fiscal impacts are ‘externalities’ from immigration that would apply to the existing Australian community. The direct fiscal effects of the visa charging models examined are also potentially very large, and positive fiscal impacts are often correlated in some respects with other positive outcomes. For example, income tax collections tend to be correlated with employment, which, as shown in chapter 8, is also a strong indicator of immigrants’ integration. Accordingly, the direct fiscal impacts for governments are an important consideration in assessing the merits of different visa charging options.

The Commission has developed a partial equilibrium model to help examine how various visa pricing scenarios might affect the level and composition of the migrant intake and associated fiscal impacts (technical supplement C). As with all models, proxies and assumptions are required where data are limited. Most of the caveats that apply to the modelling of the price-based system (chapter 14) also apply to the modelling of the visa pricing options in this chapter. The exception is that whereas the scenarios in chapter 14 were affected by the lack of information on currently ineligible migrants who might enter under the price-based proposal, such migrants would be excluded by eligibility criteria under the scenarios considered in this chapter. This improves the reliability of the PE modelling estimates. However, the hybrid charging options raise other modelling challenges, in particular in relation to eligibility criteria. These cannot be modelled precisely, and so the Commission cautions that the results are illustrative, and should be interpreted with care, and reported with appropriate caveats.

Broader assessment issues

A range of other considerations in assessing the charging systems — economic and social in nature — can stem from the effects of different visa charging systems.

- These include the impact of changes in the migrant intake on the Australian labour market, and particularly whether a charging system will attract immigrants that are complements or substitutes for existing workers (chapter 6 discusses the implications of each). A related consideration is the extent to which immigrants have skills that are in need, and whether they have knowledge and experience that can be transferred to the local labour market, producing productivity gains.
- Different charging systems may also enhance or detract from immigrants’ integration and social cohesion. As shown in chapter 8, the social outcomes of immigration are particularly dependent upon migrants having English-language skills, being educated and being employed. Social outcomes may also be impacted where there is an imbalance in the composition of immigrants with certain characteristics such as region of origin, gender or family structure.

Other considerations relevant to assessing different visa charging options can include: their environmental effects (given that some of the options can reduce intake numbers); equity and related psychological impacts; administrative feasibility, cost and complexity; and how they might interact with other reforms (such as those to the current eligibility criteria

recommended in chapter 13). There could also be specific issues around how charges for permanent visas might affect temporary immigration, whether high visa charges (for example, for a partner visa) might encourage emigration by some Australians, and how visa charges might affect fraudulent behaviour such as sham marriages and visa shopping.

15.3 The main visa charging approaches and their compositional and fiscal effects

The Commission set out a range of possible alternative models for visa charging in the draft report and invited comment on them. It also convened a workshop in February 2016, attended by a range of experts and interested parties, to examine some of the models in more detail. Based on commentary from participants and further analysis by the Commission, this chapter examines two main approaches, for application to migrants in the skill and family stream:

- a uniform ‘infrastructure contribution levy’
- variable ‘social services access fees’, based on the estimated lifetime net fiscal impacts of immigrants with different characteristics (such as their age on arrival and skill levels).

These charges are modelled as being applied on top of existing charges.

For its analysis, the Commission has assumed that there would be no (additional) charge levied for child visas. At present, secondary applicants are typically charged less than primary applicants. There are a number of arguments for requiring adult secondary applicants to pay (at least) the same fee as primary applicants, including that they often have poorer employment and integration outcomes. The charging models examined in the chapter treat adult primary and secondary applicant in the same manner. However, there is a strong case for exempting children, or providing discounts on charges, given many child-free immigrants will choose to have children once in Australia anyway (box 15.3).

A uniform infrastructure contribution levy

The most administratively simple option is to levy a uniform charge upon all (adult) immigrants entering through the skill and family streams in addition to a base fee that could reflect current charges or administration costs.

Box 15.3 Charges for children and family members

Under current arrangements, family members can migrate to Australia as secondary applicants under the skill stream or under the family stream. Secondary applicants are typically charged less than primary applicants — often half the primary applicant charge.

The charging options being considered would generally result in the same or higher fees for secondary applicants and family members (unless discounts or exemptions were provided). Chapter 13 discussed the merits of incorporating the characteristics of secondary applicants into the points test. While it made the case for incorporating adult secondary applicants, it suggested exempting children. There is similarly a case for providing a discount on charges for children.

- As shown in chapter 4, a large proportion of immigrants arrive at working age (43 per cent of permanent residents and overseas-born Australian citizens in Australia in 2013 were aged between 25 and 34 years when they immigrated). From a practical viewpoint, many (if not most) immigrants will have children following migration to Australia, even if they do not arrive with them.
- From a purely fiscal viewpoint, Australia benefits when immigrants bring their children with them, rather than having them once here. This is because some of the public costs of health care, education and other supports for children and parents will already have been met in the source country.
- A (high) charge for children could act as a deterrent for young and highly-skilled migrants who already have children. It may be a greater deterrent for skilled compared to family migrants, given that the former may have opportunities in other similar, but lower cost, countries.

Different justifications could underpin the level at which this uniform charge is set (indeed, other countries have introduced levies on a range of different grounds, although in general the levies are not large (box 15.4)). One option is for the uniform charge to be based on some portion of costs that governments might be expected to incur on behalf of immigrants, such as settlement services, social welfare costs and/or costs associated with infrastructure or the environment. Several participants argued for a charge to cover the cost of infrastructure provision — with a \$100 000 charge a frequent suggestion (box 15.5). If this approach were to be the basis for a charge, considerable work would be required to calculate what the additional infrastructure costs constitute; a task made more complex by the opportunities a larger population can create for more efficient investment in infrastructure (chapter 7). Moreover, as different levels of government are responsible for the funding and provision of infrastructure and other services used by immigrants, this complexity raises the issue of whether, and how, the revenue obtained from the charge should be allocated between governments. Ultimately, should the Government be minded to implement an infrastructure levy, it might be preferable to err on the side of less complexity with an approximate price.

Box 15.4 Levies on immigrants around the world

United Kingdom's 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's immigrant 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's 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.

While the rate varies, it can be as much as S\$950 per month for some workers.

Canada's fee arrangements

The Canadian Government charges a Right of Permanent Residence Fee of CAN\$490 for all principal applicants and accompanying spouses and common-law partners (with some exemptions, including dependent children and protected persons). The fee recognises that migration to Canada is of economic value (through availability of economic opportunities and access to programs and services provided by the state), and of intangible value for the immigrant. The charge is intended as partial compensation for the community, recognising the benefits which accrue to the person who acquires permanent resident status and helping to defray various costs incurred in delivering the immigration program.

Sources: Government of Canada (2014a); INZ (2015h); Singapore Government (2015); UK Government (2015a, 2015b).

In theory, a flat visa charge will affect the propensity of people to migrate to Australia differently depending on their 'willingness to pay'. As discussed in chapter 14, prospective migrants' willingness to pay for a visa will depend on factors including differences in their existing income and the income they might expect to achieve in Australia, lifestyle considerations and family connections, their existing wealth and/or ability to access finance, and the value they put on the government supports provided in Australia.

Box 15.5 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)

Different levels of a flat charge may also have different effects on the composition and level of the migrant intake. Most obviously, higher charges, as well as being more likely to reduce the overall level of the intake, may have greater compositional impacts as they more strongly deter groups of migrants with a relatively low willingness to pay.

The Commission has modelled a range of uniform charges, of \$25 000, \$50 000 and \$100 000 per adult immigrant (outside the humanitarian stream). As noted, these charges are modelled as being imposed *in addition* to existing charges. Existing visa stream levels and eligibility criteria are represented in the modelling.² The results and associated caveats are discussed in detail in technical supplement C.

As modelled, the Commission's estimates suggest that imposing a uniform charge would tend to have the following general effects.

- *Age*: a larger number of 25-34 year olds offset by slight declines in other age brackets (less pronounced than under the price-based proposal, for all modelled charge levels other than \$100 000 where the number of immigrants is projected to fall for all age groups)
- *Skills*: a proportionately greater reduction in skill stream relative to the family stream migrants and a reduction in educational attainment at higher levels of the charge

² Full fiscal costs for most older migrants would be prohibitive as they are far in excess of their expected willingness to pay for a visa as reflected in the model. Lower charges could have similar compositional effects as fully cost reflective charges. Charges are capped in the modelling.

(although again, less than in the case of the price-based proposal examined in chapter 14)

- *Intake level*: significant reductions in the intake at higher levels of the charge (see below).

The median estimated net fiscal impacts range from around \$3 billion per year, in the case of the \$25 000 charge, to over \$20 billion per year in the case of the \$100 000 charge (table 15.3). While caution should be exercised in interpreting model results (chapter 14 and technical supplement C), at a minimum the results illustrate that substantial direct fiscal gains are potentially available from adopting a visa charging regime.

Table 15.3 Estimated fiscal impacts of uniform charges
Lifetime fiscal impacts (present value), change relative to current arrangements^a

<i>Charge</i> ^b	<i>Charge revenue</i>	<i>Tax revenue</i>	<i>Fiscal costs</i>	<i>Net impact</i>
\$ per adult	\$ billion	\$ billion	\$ billion	\$ billion
25 000	3.4 to 3.5	-4.7 to 0.1	-4.1 to 0.4	2.1 to 3.9
50 000	5.8 to 6.4	-13.8 to -4.2	-18.6 to -6.9	8.5 to 11.3
100 000	9.2 to 10.3	-26.4 to -17.2	-40.5 to -26.6	18.8 to 24.6

^a 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. The results reported in this table are interquartile ranges (quartiles 1 and 3) based on 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. ^b Charge additional to existing visa charges. Children are not charged.

Sources: Productivity Commission estimates; technical supplement C.

The modelling shows that the fiscal benefits of visa charges arise partly from the incentives they create for some immigrants. While the total migrant intake in each of the nine visa streams is capped in the modelling, the \$25 000 charge leads to an overall reduction of up to around 10 000 migrants per year; at the high end, the \$100 000 charge leads to a major reduction of around 50 000–60 000 per year (from an annual starting number of 190 000). Many of the immigrants deterred from coming are in older age brackets and, were they to migrate, would draw more on government spending than they remit in tax over their remaining lifetime.

That the model estimates large fiscal gains from dissuading some migrants from coming to Australia partly reflects the current tax and government expenditure policy settings on which the model is based. Australia has a structural budget deficit which may necessitate changes in tax and spending settings at some point. Were tax rates to increase or government spending on programs to contract in the future then, other things equal, the

estimated net fiscal impacts³ of many immigrants would become more positive, and the fiscal savings from reductions in the intake may not be as large.

Another feature of uniform charges of the types modelled is that they can create some ‘adverse selection’ problems that shifts the composition of the intake toward less-skilled immigrants. This may occur because many current skilled migrants are from developed countries, and typically have strong labour market outcomes (and thus pay high income taxes) in Australia. This immigrant group tends to have low income differentials between what they could earn in Australia and what they earn in their country of origin. They are also likely to have more alternative destination options where they can earn similar incomes to their current incomes, without incurring an entry charge. Hence, on average, this group is more likely to be deterred from coming to Australia by even relatively small charge increases than would family migrants or less-qualified migrants from less developed countries. As noted, in the modelling, there is a proportionately greater reduction in skill stream relative to the family stream migrants and a reduction in educational attainment at higher levels of the charge.

This ‘adverse selection’ effect lessens the fiscal gains from a uniform charge, relative to what they would otherwise be. A reduction in the skill mix may also have some broader, adverse economic and social effects (section 15.4).

Variable social services access charges

The ‘adverse selection’ problems that beset uniform visa charges can be addressed to some extent through variable visa charges, differentiated according to characteristics such as the age, skill level, occupation and employment status, English-language proficiency and other measurable characteristics of different migrants. In designing such a system, policy makers would face a tradeoff between more precise tailoring of charges and system complexity (box 15.6).

A variable visa charging system could be designed to achieve a range of objectives, such as to:

- recover certain costs from migrants, where these costs vary from migrant to migrant
- influence the composition of the intake towards migrants with particular characteristics (by levying relatively low charges on those migrants)
- maximise charge revenue from migrants (by levying higher charges on those groups with a greater willingness to pay).

³ ‘Net fiscal impacts’ in this chapter refer to the assessed net fiscal benefits or costs in net present value terms for the remainder of an immigrant’s lifetime after migrating to Australia.

Box 15.6 **Segmenting visa classes to reduce adverse selection**

Existing visa categories may not align well with variations in immigrants' net fiscal costs. The net fiscal costs associated with each immigrant will differ, depending on not just age, skill levels, occupation and current English proficiency etc but also on less readily observed factors including future career success (and thus income), genetics and lifestyle (which will impact on health and aged care costs), self-reliance, support networks and so on.

It is infeasible to levy individually-tailored charges, so charges must be levied for classes or subclasses of immigrants, taking an average of the fiscal costs of immigrants in each particular class or subclass.

This leads to risks of adverse selection. A particular 'average' charge in a subclass will exceed the actual costs for some in the class and vice versa. With higher cost immigrants effectively 'undercharged' and lower cost immigrants 'overcharged', there will be incentives for costlier immigrants to displace less costly immigrants within a subclass.

If adopting a charging regime, there may be a need to redesign the current visa categories (or introduce more granularity within them). For example, other things equal, it seems likely the immigrants in the skill stream with relatively high skill levels will have lower net fiscal costs (or higher net fiscal benefits) than less-skilled immigrants in the skill stream. It might thus be sensible to split the skill stream applicants by skill level, levying a lower charge on those in the highest skill category.

Segmenting by age or age bracket group is also likely to limit adverse selection issues.

The Commission's proposed reforms to the points test for skilled migrants (chapter 13) would go some way towards providing a basis for a more targeted charging system. Under the proposals, all skill stream immigrants would be assessed on a points test, whereas at present employer-nominated immigrants bypass this hurdle. This new system would also enable a ranking of prospective secondary immigrants, and could be used for the purposes of establishing classes of charges among primary and secondary immigrants.

In practice, determining the optimal specification of classes and subclasses for these purposes would benefit from focused research and testing, to determine what observable factors are most relevant for segmenting groups to limit variability in fiscal costs.

The variable visa charging model examined here — social services access fees based on the net fiscal impacts of different migrants — focuses on the first and second of these objectives. A net fiscal impact approach to setting social services access fees would mean that visa applicants pay a charge that takes into account not just the costs government might be expected to incur in providing services and support to immigrants but also the potential contribution of the immigrant towards revenue.

In theory, this approach to designing a variable visa charge should see a compositional shift away from those groups of migrants with relatively more negative net fiscal impacts (who would be levied at higher rates) towards those with more positive lifetime net fiscal costs (who would be levied at lower rates or at no charge). For example, if differentiated by age, it would be expected that fiscally-reflective charging would cause a shift away from older cohorts of immigrants who typically have very high net fiscal costs. There may also be an overall reduction in the migrant intake, where charges are sufficiently high to be prohibitive for some groups of migrants.

The Commission has modelled the effects of social services access charges set equal to assessed net average fiscal impacts of immigrants (outside the humanitarian stream and children), with the charges varying with migrants' age bracket and skill level.⁴ This approach results in large variations in charges — most young and higher skilled adults incur no additional charge while charges for older migrants are several hundreds of thousands of dollars.⁵ There are also some variations in charges within age brackets for migrants with different levels of educational attainment, particularly among migrants aged 35–54, although these variations in charges are smaller than those between age brackets. Existing visa stream levels and eligibility criteria are represented in the modelling. The results and associated caveats are discussed in detail in technical supplement C.

As modelled, the Commission's estimates suggest that imposing such fiscally-reflective charging would have the following effects.

- *Age*: a significant increase in 25–34 year olds (in the order of 15 000 per year) offset by a large decline in those of 45 years and over, and slight declines in other age brackets. (This result is more pronounced than under the price-based proposal.)
- *Skills*: a proportionately greater reduction in family stream relative to skill stream migrants and a slight increase in the average educational attainment level of the intake.
- *Intake level*: a reduction of around 10 000–15 000 migrants per year, mainly in older cohorts, from an annual starting number of 190 000.

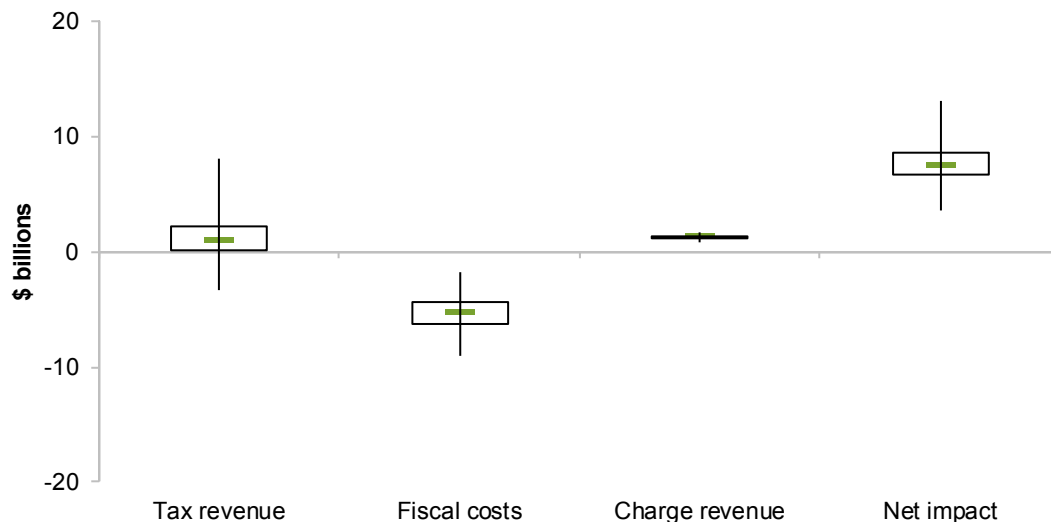
The modelling suggests that fiscally-reflective charges of the type modelled could generate a fiscal benefit in the order of \$7–9 billion per year. This includes small increases in charge revenue of \$1 billion per year and an increase in tax revenue of \$0–2 billion per year. The bulk of the fiscal gains comes from reductions in government expenditures resulting from a decline in the number of entrants which, as noted, occurs predominantly among older age brackets (figure 15.3).

These results reflect the nature of the variable charging system modelled: many younger immigrants face zero or quite modest charges, but the charges would become increasingly prohibitive for older people. In the scenario, very few older people continue to migrate to Australia and so do not pay any visa charges.

⁴ Technically, the net present value of the expected fiscal impact of a migrant across his or her lifetime, with the charges differentiated by immigrants' age group, level of educational attainment, and whether they are primary or secondary applicants.

⁵ Full fiscal costs for most older migrants would be prohibitive as they are far in excess of their expected willingness to pay for a visa as reflected in the model. Lower charges could have similar compositional effects as fully fiscally reflective charges. Charges have been capped in the modelling.

Figure 15.3 Estimated fiscal impacts of fiscally-reflective charges^{a,b,c}
 Lifetime fiscal impacts (present value), change relative to current arrangements



^a Charge additional to existing visa charges. Children do not attract charges. ^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. 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.
 Sources: Productivity Commission estimates; technical supplement C.

15.4 Some broader assessment issues

As noted, adopting the visa charging models would have social and economic impacts that are not directly captured in the partial equilibrium model or necessarily correlated with fiscal impacts. In some respects, these impacts will be similar in direction, if not magnitude, to the effects of a price-based system (chapter 14). In other respects they will be quite different. For convenience, to help briefly examine the broader impacts of the hybrid visa pricing options, the following discussion draws on the analysis of the effects of the price-based system, in chapter 14, noting similarities and differences where relevant.

Labour market and productivity impacts

Under both visa charging options, the modelling suggests an increase in young people which could boost the potential supply of labour, thereby reducing the demographic impact of population ageing (chapter 10).⁶

⁶ In relation to the price-based proposal, chapter 14 noted there is some uncertainty around the characteristics of people who are currently not eligible to migrate to Australia, including migrants over

However, adverse selection issues mean that a uniform visa charge is more likely to lead to a reduction in the skills mix of migrants than a fiscally-reflective charge. While less than in the case of the price-based system assessed in the previous chapter, this outcome is still of some concern because there are likely to be greater technological spillovers and productivity benefits associated with higher-skilled immigrants. The increase in younger and less-skilled immigrants could also lower growth in wages for equivalent Australian workers, which could widen (domestic) income inequality. The fiscally-reflective charge does not have these same features.

Integration and changes to social structures

Chapter 8 illustrated that English-language proficiency, along with education and employment, are strong determinants of immigrants' integration.

As noted, a feature of the two main visa charging models examined in this chapter is that they would be applied in conjunction with visa eligibility criteria. In contrast to the price-based proposal discussed in the previous chapter, taking existing qualitative eligibility conditions as the starting framework would mean that most or all immigrants would have either skills or close family connections in Australia. Moreover, were the reforms recommended in chapter 13 accepted, including enhanced requirements for English-language proficiency, any scope for adverse effects on integration and social structures could be further lessened.⁷

That said, although coupled to the current selection systems, the two visa charging models examined would inevitably have some other impacts that could affect immigrants' integration and Australia's existing social structures. These would likely be smaller than those identified under the price-based proposal, but remain hard to assess beforehand.

Equity and related effects

Several concerns have been raised during the inquiry about the equity effects of visa charges, particularly high visa charges, including that such an approach would reduce the average wealth of immigrants and could see some immigrants favoured on the basis of their capacity and willingness to pay, disadvantaging relatively poor prospective immigrants, including women. A related concern is that imposing visa charges, particularly

the age of 50. It observed that should there be a greater increase in older migrants under a pure price-based system than modelled, this would diminish improvements in the age dependency ratio. The same concerns do not apply to the options modelled here, as currently ineligible migrants would remain excluded.

⁷ Chapter 14 noted that it is possible that a pure price-based system would decrease the level of English-language proficiency across the migrant intake, given English language as a requirement for entry would be removed, and that this would harm integration. These effects would not occur under the hybrid options examined.

high charges, would effectively commodify citizenship and have adverse psychological effects on immigrants.

The Commission noted in chapter 14 that it is very difficult to make overall judgments about the equity or psychological impacts of, in that case, a price-based system. Similar difficulties arise in relation to the two visa charging models examined. While some people may see high visa charges as inequitable for the reasons noted above, others might see a uniform ‘infrastructure contribution levy’ or fiscally-reflective visa charges as improving equity (for example, by helping to compensate existing citizens for some of the costs attributable to immigration, such as the provision of a social safety net for immigrants).

Environmental impacts

Whereas the price-based proposal assessed in chapter 14 entailed no change to the level of the migrant intake, some of the higher uniform charge options modelled above, and the fiscally-reflective charging options, can discourage some immigrants sufficiently to lessen the overall intake. This in turn would lessen congestion and pressure on the environment (chapter 7).

Administrative cost and complexity

Whereas implementing a uniform infrastructure levy would be relatively straight-forward, adopting variable fiscally-reflective charges would involve a range of charges, tailored to reflect the relevant attributes of individual sub-groups or categories of immigrants. DIBP noted in relation to this option:

... a sophisticated pricing approach would be required to account for how differences in age, income and health contribute to net cost. Long-term Government costs, the structure of labour markets, and other complex assumptions would also need to be factored in for the life of an applicant. Changes to Government health, social, tax and other policies would need to flow through and could result in significant price fluctuations. All this additional complexity is arguably not an efficient use of departmental resources which are needed to prioritise timely visa processing. (sub. DR138, p. 8)

While this approach may result in a complex pricing system, the Commission considers that it would not necessarily be overly administratively difficult to implement. As discussed in chapter 13, modern technology, similar to that used by companies such as insurance businesses, make differential pricing possible. There is no reason why this approach should not also be adopted by governments. That said, such a system may still leave scope for strategic behaviour, including immigrants swapping between visa categories (that is, visa ‘shopping’). It may also be necessary to respecify current visa categories to enable more precise charging.

Obtaining the underlying information to set charges would pose some challenges of its own. The Commission’s estimates of the fiscal costs of immigration allow only limited

tailoring. There would be value in further work to improve the model. And even calculating a precise uniform ‘infrastructure’ charge would be demanding, entailing an understanding of longer-term trends in technology and their implications for infrastructure provision and use.

These points mean that any charge based on such estimates will inevitably be imprecise and require adjustment for subjective judgments about difficult-to-quantify elements. Depending on the charging model adopted, there may be a need to collect new or different data, either through new surveys, by augmenting existing surveys, by drawing on, linking and analysing existing data sets, or through policy experimentation.

The uncertainties entailed may also mean that charges should be set conservatively, at least in the first instance, to test the demand response, with further changes later. Some experimentation with varying immigration charges would not be problematic as changes are easily reversible and would be unlikely to have major, long-lasting effects in terms of immigration program outcomes.

Of course, changing to a new system would entail administrative effort and costs and could require increased sophistication, as emphasised by DIBP. However, as noted earlier, the potential benefits to Australia of the visa pricing models examined above are substantial — the estimated fiscal benefits are in the billions of dollars annually — and as such there could be a case for additional investment by the Government in the capacity of DIBP to deliver a new pricing strategy.

15.5 Some other visa charging options

Inquiry participants suggested some other visa charging options that could augment those discussed above.

An additional charge in exchange for relaxing eligibility conditions

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 skill stream migrants). The Migration Institute of Australia 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. (sub. 53, p. 25)

Boucher, on the other hand, argued:

A charge that allowed ineligible individuals under the skilled stream to essentially buy their way in through lower conditions (through purchasing of points on the points test) is not only unmeritocratic, it also has the potential to bring in migrants who represent a larger cost to the public system over the long-term. (sub. DR128, p. 5)

The Commission notes that there is already an additional charge for secondary applicants in some visa classes where their English-language ability is poor. Chapter 13 concluded that there is a case for increasing the skill level of the permanent migrant intake. In these circumstances, were government of a mind to extend such provisions, the fee paid in exchange for the relaxation of the selection criteria would need to be calculated such that it offsets any associated costs (that is, a net fiscal costs approach could inform the minimum charge).

Similarly, as noted in chapter 13, the Commission considers that the current age limit for skill stream migrants is too high, and has recommended that the Australian Government consider reducing it (and give greater weight in the points-based system to younger immigrants). Any mechanism to enable payment to waive the age limit would need to be based on the appropriate limit, and again would need to take into account the net fiscal costs associated with older cohorts.

A new visa class with limited checks and a high charge

A 'golden visa' option could also be considered, either to replace or complement the Significant and Premium Investor visas that the Commission recommends be abolished (chapter 13). This additional visa subclass could have a small quota, with only a minimum set of selection criteria — health, security and character checks. The revenue from a fee (say \$1 million or more) would go into consolidated revenue and be redistributed to the existing community.

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.

A visa of this type could raise concerns about ‘selling citizenship’ (similar arguments apply to the significant investor and premium investor visas), and may attract some applicants without other attributes, such as English-language proficiency, that can be important for integration. Such concerns would need to be weighed against the benefits to the Australian community from the revenue so obtained. However, the Commission is not recommending that such a visa be introduced at this stage.

Rebates for regional settlement

Prices could also be used to influence where immigrants settle in Australia. Most immigrants tend to settle in the major capital cities, particularly Sydney and Melbourne (chapter 4), but there are concerns that this puts pressure on infrastructure and creates congestion (chapter 7).

The Commission understands that governments have sought to entice immigrants, including through visa conditions, to settle elsewhere, but evidence on the success of these measures is not definitive. This is partly due to the political difficulties faced in seeking to enforce the visa conditions or to cancel visas where breached. Several participants have highlighted the difficulties associated with migration that focuses on regional areas (box 15.7)

Box 15.7 Participants’ views on regional migration

The skills needs of Australia’s regional areas are not being well-met by the migration program. Regional concessions have been removed in recent times and, when permanent visas are granted for regional areas, there is no guarantee that visa holders will stay there for the long term. Incentives do not seem to exist or to be effective for them to stay there. The MIA [Migration Institute of Australia] recognises that the needs of regional Australia cannot be met through migration alone. However, until Australia improves its training opportunities for Australians and has more-effective regional development strategies, migration remains one of the few means by which regional needs can be met in the short term. (Lane, trans., p. 187)

It’s always a difficult balance between employment availability, which is the sort of critical factors. ... On the other hand, housing is readily available and various other services, sometimes not so much doctors but other services may be quite readily available. ... Even if they start in a regional area, obviously that isn’t a guarantee that they are going to stay there. (Ware, trans., p. 184)

We have sort of a set of policy norms in Australia ... that says you can’t force people to live in certain places. Maybe you can tie some incentives there, but it’s not very common that you see actual enforced – even under programs like the RSMS, the Regional Sponsored Migration System, it’s designed to get people into the regions. I’m not aware of any visa that’s ever been cancelled because someone moved from Perth, which is apparently a regional area, to Melbourne. So I think that thinking about this more, I don’t think there’s any magic solution to it. (Sherrell, trans., p. 157)

One participant has suggested that charging could be used as an incentive for regional settlement:

Although DoB [the Department of Business] 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)

While the Commission is not recommending this approach, there may be a role for charges to be structured in a way that provides a financial incentive for immigrants to settle outside designated cities. For instance, immigrants who could demonstrate that they had resided elsewhere in Australia for, say, five years might be eligible for a rebate on some or all of the applicable visa charges. Such financial incentives might stand alone, or complement existing visa conditions that seek to encourage immigrants to particular locations. There would be scope for these incentives to be incorporated into each of the hybrid options discussed within this chapter.

The extent to which pricing could be an effective incentive for regional migration is uncertain. For example, participants highlighted other barriers, such as access to employment and services (including settlement services and health services), that could dampen its effectiveness. Similarly, the compliance and enforcement challenges that have been part of past incentive schemes may still be present. That said, while there would need to be careful consideration of the design of such a scheme, there may be a role for pricing as an incentive for regional migration.

Taxes on temporary immigrant workers

This and the previous chapter have examined the potential outcomes of several charging approaches for permanent visas. The focus on permanent visa holders is largely because most temporary visas are currently uncapped (chapter 14).

An alternative approach to charging for temporary visas would be to change the taxation arrangements for immigrant workers once in Australia, including charging differential rates of income tax (for example, based on their visa category) or limiting their access to tax rebates such as the tax-free threshold or low income tax offset.⁸ The recent changes to working holiday maker visa holders (discussed in chapter 11) are an example of such an approach.

⁸ A differential system of taxation already exists in Australia, depending on whether the taxpayer is defined as a resident or a non-resident for tax purposes. Amongst several differences, non-residents do not have access to the tax-free threshold and face a marginal tax rate of 32.5 per cent from the first dollar they earn.

The main economic argument for increasing taxes on immigrant workers is that they would be a relatively efficient source of tax revenue, provided that they accrue sufficient surplus value (or economic ‘rents’) from working in Australia when compared to working in their home country or elsewhere.

However, the extent to which a change in taxation arrangements will raise revenue depends on several factors, many of which are currently uncertain, including the overall effect on labour supply and tax avoidance behaviour.

Reducing the after tax wages of temporary immigrant workers could reduce their willingness to come to Australia and/or engage in paid work while here. This may particularly be the case where immigrants are from source countries with wages similar to Australia. There would be a risk that a tax increase may ‘overshoot’ and go beyond taxing the surplus value such immigrants gain from coming specifically to Australia, thus reducing the supply of immigrant workers. If so, the upshot may be that Australian firms (and ultimately consumers) bear a large share of the increased tax burden, through reduced workforces and higher wages and prices.

A further consideration is that increasing income taxes for temporary migrants would create a greater incentive for both employees and employers to engage in tax avoidance through ‘cash-in-hand’ payments for work. In a submission to the inquiry, United WHY argued that ‘... the proportion of workers who are paid cash-in-hand is already very high and removing the tax-free threshold will encourage growth in cash-in-hand job market.’ (sub. DR94, p. 12). Tax avoidance would not only enable both parties to capture some of the revenue that would have otherwise flown to the Australian Government but also reduce the ability for Australian workers to compete in the labour market. This could be mitigated to some extent by better enforcement of immigrants’ and employers’ tax obligations.

There is some debate about the recent changes to tax arrangements for working holiday maker visa holders (chapter 11), and particularly their effect on certain industries reliant on their labour. Some similar but also some different issues might be expected to arise were the government to consider special taxation arrangements for other temporary immigrants engaged in paid work in Australia, including those here on student visas and 457 visa holders (box 15.8). As this section has highlighted, there are risks associated with changing taxation arrangements for temporary migrants. Just as there should be a careful assessment of the impacts for working holiday makers (recommendation 11.1), so any other future changes should first be carefully evaluated.

15.6 Towards an improved visa charging system

A key message from the above analysis is that the impacts of visa charges depend on much more than just the direct charge revenue obtained; the visa charge’s effects on the level and composition of the intake can have potentially greater fiscal and broader impacts. It follows that there can be risks in simply increasing visa charges. If not well targeted, visa fee increases risk distorting the migrant intake and, for example, causing a displacement of

higher-skilled migrants by lower-skilled migrants. This could diminish tax revenue as well as lessening the knowledge spillovers that high-skilled immigration can bring.

Box 15.8 Extending taxation changes to other temporary immigrants?

An issue is whether there is scope to alter the taxation arrangements that apply to other temporary immigrants, such as students and 457 visa holders. As outlined above, the costs and benefits of this would depend on the resulting change in labour supply and the impacts for local industries.

The ability to work and earn money in Australia can be an important factor in the decision by some students to study in Australia (PC 2015c). This suggests that some Australian universities may currently be capturing some of the 'rents' that international students accrue from working in Australia). Reducing the benefits of working in Australia through higher taxes could therefore directly affect the study decisions of international students and the competitiveness of Australia's higher education sector (although, as the Commission has noted elsewhere (chapters 11 and 12), the objective of the immigration system should not be to support Australia's higher education sector).

For 457 visa holders, the effect of changing tax arrangements would depend partly on their mobility and the likelihood that they would choose to work in a competitor country instead of Australia. Should 457 visa holders have access to a range of alternative (and comparable) employment destinations, lower after-tax wages may lead to Australia being unable to attract these types of immigrants. Employers may therefore be unable to attract employees with appropriate skills, or forced to pay substantially higher wages to compensate for higher tax rates. These effects would be commensurately larger for higher differential tax rates.

Australia's visa charges have increased significantly in recent years and are generally higher than in major competitor countries. There is clearly a rationale for recovering visa processing costs, but current charges are not aligned with these costs. The current immigration system generated revenue of around \$1.8 billion in 2014-15, compared to an administrative cost of around \$600 million. While there can be rationales for charges in addition to visa processing costs, the basis for additional charges needs to be deliberate and transparent, and their effects carefully considered.

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 migrants have responded to past price changes.

In this context, the Commission considers that the DIBP should publish information on the bases for its current visa charges and for further adjustments. The latter should be informed by analysis of how the number of applications and characteristics of immigrants change in response to past changes in visa charges. The Department has indicated that it and other agencies already report this information in a range of publications (sub. DR138). The Commission sees merit in publishing the required information together in a single, publicly accessible document.

The bigger question is whether there is a case for more substantial reforms to visa charges including, potentially, the adoption of much higher charges in some cases.

The two main visa charging options examined in this chapter mitigate many of the risks associated with a largely price-based approach (examined in chapter 14) and, if adopted, would provide a more consistent and transparent approach to charging. Retaining the current qualitative selection criteria would mean that all immigrants would need to have either skills or close family connections. The Commission notes that such an approach might also be less unpopular than a price-based system, although the extent of public support would partly be contingent on the exact model adopted and the narrative used to explain the policy. It would also depend on the level of the visa charges and whether any discounts and exemptions were provided, and the overall gains to the Australian community from adopting the policy.

Some of the options examined are estimated to generate significant fiscal gains, but they also have their limitations. As modelled by the Commission, a uniform infrastructure levy could provide some scope for adverse selection outcomes, and both uniform and variable charges would have some impacts on composition that could affect integration and social structures in ways that are hard to assess a priori. A social services access charge, at least in the ‘pure’ form modelled, would also involve very high charges for some classes of prospective migrants, reflecting the high net fiscal costs to the community that would be associated with their age and skill profiles.

Many of the benefits modelled under visa charging options could be, in principle, obtained by changes to the selection criteria as embedded in the current immigration system. For example, imposing lower charges for younger migrants could lead to similar outcomes as giving younger migrants more points under a universal points test and reducing the age threshold under that system. Some of the other compositional changes that charging systems can in principle generate, such as increasing the overall skills profile of migrants, can also be achieved through, for example, giving more weight to skills, including the skills of secondary applicants, when selecting or prioritising migrants within the skill stream.

The Commission’s recommendations in chapter 13 are intended to go some way to achieving these outcomes. Those reforms are intended to affect the composition of the migrant intake. The Commission has also recommended closer attention to the level of the intake (chapter 3).

What those processes do not do is focus on the additional benefits to the existing community that might be obtained, particularly in the form of visa charge revenue, from increasing visa charges.⁹

⁹ In the specific case of contributory parents visas, the Commission has recommended an increase in visa charges (chapter 13).

Given the potential benefits, the Commission sees scope to move towards a more structured system of charging for permanent visas. However, at this stage, it is not recommending the adoption of a particular visa charging model to sit on top of the existing criteria and caps. Instead, the collection of additional information and analyses would be appropriate to determine if change is warranted and, if so, the best model. Extensions to the PE model developed by the Commission for this inquiry and utilised in this chapter and chapter 14, as well as the fiscal model presented in chapter 9, could inform these analyses.

There would also be value in progressing reforms to the current selection criteria, as recommended in chapter 13, prior to considering any new pricing system in detail. Data generated through these systemic reforms would provide a valuable evidence base for reforms to the visa charging system in particular. Supported by appropriate investment in data analytics capacity, a more systematic and evidence-based approach to visa charging policy has the potential to generate substantial gains for the Australian community.

FINDING 15.1

The Australian Government currently charges a wide range of visa fees — their basis is unclear and unsystematic.

Visa charging can raise revenue for the Government and potentially augment incentives to attract the most appropriate mix of permanent migrants to Australia. However, visa charges need to be designed carefully.

- Levying a uniform charge for all migrant classes could harm the skills composition of the intake.
- Variable fiscally-reflective charges can improve incentives but can sometimes entail very high charges.

RECOMMENDATION 15.1

The Australian Government should increase transparency around its visa charging system by conducting and publishing biennial reviews covering:

- changes to visa charges and their terms and conditions, the number of visa applications and the characteristics of immigrants by visa subclass over the previous five years
- the underlying visa charging methodologies.

The Australian Government should also examine the effects of alternative models of visa charging, with a view to moving towards a more structured system of visa charging.

Any charging system should include discounts or exemptions for children.

A Inquiry conduct and participants

The Commission received the terms of reference for this inquiry on 20 March 2015. It subsequently released an issues paper on 1 May 2015 inviting public submissions and highlighting particular matters on which it sought information.

The Commission received 138 public submissions throughout the inquiry. Submissions are listed in table A.1 and are available on the inquiry website.

During the course of the inquiry, the Commission had discussions with a number of government agencies, business groups, community organisations and academics in Australia. A list of these meetings is in table A.2. The Commission also held meetings with a range of individuals and organisations in Canada, New Zealand and the United States (table A.3).

The Commission held several workshops with representatives from business, industry associations, governments and academia on the following topics: modelling the economywide impacts of migration; youth labour markets and immigration; partial equilibrium and fiscal modelling; and hybrid migration charging options. Participants in these workshops are listed in table A.4.

In conjunction with the Australian National University 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.

Five days of public hearings were held for this inquiry. Hearing participants are listed in table A.6 and transcripts are available on the inquiry website.

An extension to the date for provision of the final report from 20 March 2016 to 15 April 2016 was granted by the Australian Government. A copy of the extension letter is included with the terms of reference at the front of this report.

The Commission thanks all those who have contributed to this inquiry.

Table A.1 Public submissions received

<i>Participants</i>	<i>Submission no.</i>
Alkhateeb, Abdallah	10
Allen, Mark	DR88
Alm, Margit	3, DR071
AMES Australia	45, DR100
Atkinson, Colin	DR125
Auchterlonie, D J	DR93
Australian Chamber of Commerce and Industry	DR126
Australian Council of Trade Unions (ACTU)	36, DR104
Australian Government Department of Immigration and Border Protection	DR138
Australian Human Rights Commission	DR90
Australian League of Rights	DR92
Australian Migration Options Pty Ltd	34
Australian Multicultural Council	11
Australian Private Equity and Venture Capital Association Limited	DR113
Australian Property Institute	12
Australian Red Cross	23
Australian Trade Commission (Austrade)	DR116
Bennett, Ralph	DR82
Black, Debbie	DR121
Bosley, Rhys	DR75, DR132
Boucher, Anna	22, DR128
Breeze, David	DR102
Business Council of Australia	59
Business SA	61
Carter, Fred	DR83
Chamber of Commerce and Industry Queensland (CCIQ)	DR127
Claus, Eric	15, DR122
Collins, Paul	DR72
Construction, Forestry, Mining and Energy Union	DR114
Consult Australia	65
Cook, Peter	26, DR124
Cooper, Glenda	25
Daly, Glen	5, DR69
Davis, Sheila	DR123
Department of Social Services	62
Dobes, Alex	19, DR99
Dobes, Leo	13
Duncan, Ken	DR77
Engineers Australia	47
ETS Global	DR86
Faulkner, David	14
Federation of Ethnic Communities' Councils of Australia (FECCA)	24, DR95

(continued next page)

Table A.1 (continued)

<i>Participants</i>	<i>Submission no.</i>
Financial Demographics	29
Finch, Alexander	4, DR70
Grace, Robert	21
Green, Peter	38
Gregory, Peter	40
Hawthorne, Lesleyanne	43
Hobsons Bay City Council	35
Holman, Geoffrey	58, DR79, DR84
Howe, Joanna	32
Howell, Philip	63
Howie, Mark	7
Human Rights Commission	64
Innovative Research Universities	66
International Education Association of Australia	DR115
ISLPR Language Services Pty Ltd	16, DR78
Lamperd, Geoffrey	28
Leading Age Services Australia	DR110
Leung, Tim	DR97
Liberal Democratic Party	46, DR101
Lillingston, Philip	9, DR98
Lister, Lorraine	DR117
Mark Tarrant Lawyers Pty Ltd	DR134
Master Builders Australia	49
Matta, Tony	17
Matthews, C	27
Moelis & Company	DR129
McNicol, Jan	39
Migration Alliance Inc	DR89
Migration Council Australia	50, DR111
Migration Institute of Australia	53, DR131
Minerals Council of Australia	52
Minister for Police; Road Safety; Training and Workforce Development; Women's Interests (WA)	DR130
Multicultural Development Association	51, DR112
Name withheld	8
Name withheld	DR103
National Ethnic Disability Alliance (NEDA)	18
National Farmers' Federation	31, DR105
Newman, Sheila	DR119
Noack, Michael	6
Northern Territory Department of Business	60
O'Sullivan, Jane	54, DR108
Odgaard, Judith	56, DR91

(continued next page)

Table A.1 (continued)

<i>Participants</i>	<i>Submission no.</i>
Ortega, Vivienne	DR74
Oz Kiwi Association Inc	33
Petersen, Terje	2
Planning Backlash Inc	DR118
Potts, Jason	1
Queensland Government	DR133
Rafi, Bilal	DR68
Reduce Immigration	48
Refugee Council of Australia	20
Regional Australia Institute	42
Reid, Joan	67
Roles, John	41
Rural Health Workforce Australia	30
Salam, Abdul	DR73
Schlesinger, Peter	DR76
Settlement Council of Australia	55
Settlement Services International	DR109
Sinning, Mathias	DR80
South Australian Government	57
Sustainable Population Australia	44
Sustainable Population Party	37, DR106
Thorn, Peter	DR85
Unions WA	DR107
United WHY	DR94
Victoria First and Sustainable Population Australia	DR81
Victorian Government Department of Economic Development, Jobs, Transport and Resources	DR135
Ware, Helen	DR87, DR136
Warneford, Robert	DR96, DR137
Wieckowski, Sonia	DR120

Table A.2 Consultations

Individual or organisation

AMES Australia
Attorney-General's Department
Australian Bureau of Statistics
Australian Council of Trade Unions (ACTU)
Australian Government Actuary
Australian Human Rights Commission
Australian Institute of Family Studies
Australian Security Intelligence Organisation
Australian Trade Commission (Austrade)
Australian Transaction Reports and Analysis Centre (Austrac)
Birrell, Bob
Boucher, Anna
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 of 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 (FECCA)

(continued next page)

Table A.2 (continued)

Individual or organisation

Gregory, Bob
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
Khadria, Binod
Markus, Andrew
McDonald, Peter
Melbourne Institute
Migrant Resource Centre SA
Migration Council Australia
Migration Institute of Australia
Minerals Council of Australia
National Farmers' Federation
Nieuwenhuysen, John
NSW Trade and Investment
NSW Treasury
Parham, Dean
Refugee Council of Australia
Regional Australia Institute
Robertson, Shanthi
Senator David Leyonhjelm
Settlement Council of Australia
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 Services
US Department of Homeland Security
US Department of State
World Bank

Table A.4 Workshop details and participants

19 August 2015, Canberra — Modelling the economywide impacts of migration

Australian Bureau of Statistics
Australian National University
Centre of Policy Studies, Victoria University
Department of Employment
Department of Immigration and Border Protection
New South Wales Government
Parliamentary Budget Office
The Treasury
University of Melbourne

3 December 2015, Canberra — Youth labour markets and immigration

Australian National University
Department of Employment
Department of Social Services
Monash University
University of Melbourne

14 December 2015, Canberra — Partial equilibrium and fiscal modelling

Australian Bureau of Statistics
Australian Government Actuary
Australian National University
Deloitte Access Economics
Department of Employment
Department of Finance
Department of Immigration and Border Protection
Department of Social Security
Department of the Prime Minister and Cabinet
Monash University
The Treasury
University of Melbourne

2 February 2016, Canberra — Hybrid migration charging options

Australian Government Actuary
Australian National University
Department of Finance
Department of Immigration and Border Protection
Department of the Prime Minister and Cabinet

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, Francesca (Australian National University / 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.

Table A.6 Public hearings

<i>Individual or organisation</i>	<i>Transcript page numbers</i>
Melbourne — 7 December 2015	
Denis McCormack	2–8; 57–59
Victoria First	8–15
Philip Lillingston	15–29
Multicultural Development Association	29–40
Geoffrey Holman	40–51
Mark Allen	51–53
Geoff Leach	53–57
Melbourne — 8 December 2015	
Planning Backlash	62–71
Protectors of Public Lands Victoria	71–79
ISLPR Language Services	79–85
Australian Migration Options	86–96
Robert Grace	96–103
Michael van Leeuwen	104–107
Canberra — 15 December 2015	
Glenn Withers	110–121
Sustainable Population Australia	121–129
New Zealand High Commission	130–138
ETS Global	138–149
Migration Council Australia	149–162
Council of International Students Australia	162–168
Sydney — 16 December 2015	
Helen Ware	170–185
Migration Institute of Australia	185–210
Sydney — 17 December 2015	
Migration Alliance	212–224
Australian Council of Trade Unions	224–238
Transparency International	239–247
Settlement Council of Australia	247–260
United WHY	261–275
Australian Private Equity and Venture Capital Association	375–285
Kiki Tsoli	285–286

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 intakes have similarities with each other, and similarities with Australia’s approaches. For example, all countries accept permanent and temporary immigrants, capping 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 (US) prioritises family immigrants.

The settlement countries set target levels for permanent immigration

Australia, Canada, New Zealand and the United States all set target levels for their permanent migrant 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 US, 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 US 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-type streams — 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 it has increased over time in each country as governments have prioritised immigration of skilled people. The US, by contrast, prioritises family immigration, and skilled immigration makes up only a small proportion of its intake.

Table B.1 Permanent immigration and stream caps as a proportion of the total intake^a

	<i>Skilled (%)</i>	<i>Family (%)</i>	<i>Humanitarian (%)</i>	<i>Total</i>
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 (2015u); INZ (2015); The White House (2014).

Unlike Australia, Canada and New Zealand, the US has an explicit objective of promoting diversity in its migration intake. The US 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 US (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 US accepts permanent and immigrants who plan to invest in a US business by way of 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 their levels of temporary immigration have increased over time. Temporary immigration is (mostly) uncapped in the 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. The countries also have requirements such as age, education, work experience, employer sponsorship, family connection and language requirements, which 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 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 US all use employer sponsorship to determine 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 US, the permanent employer-sponsored EB-2 and EB-3 visas

were the two largest categories of the employment-based (skilled) intake in 2013. 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) (subclass 457) visa 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 US, 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

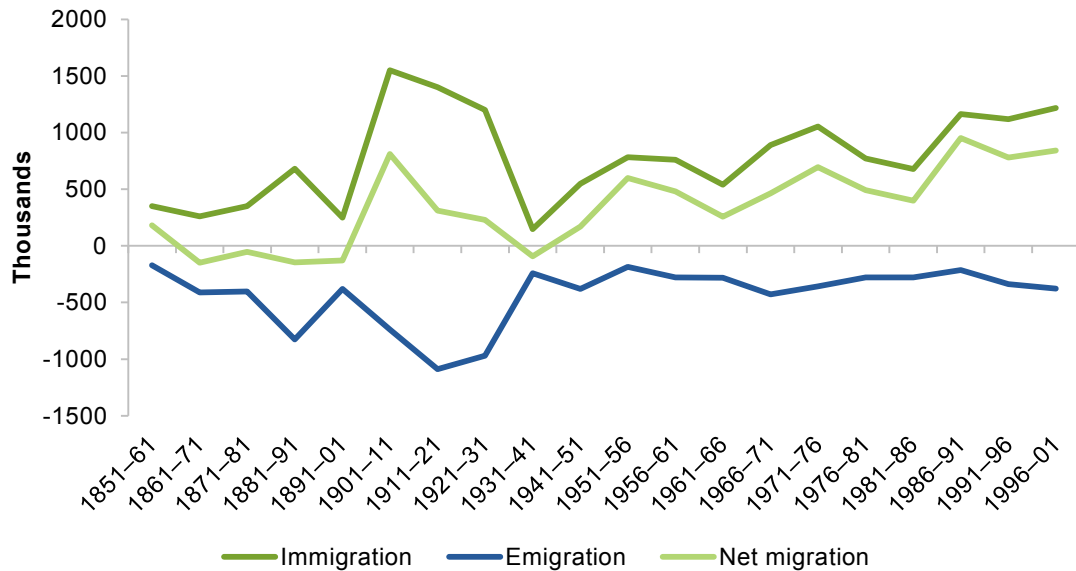
Brief history of immigration to Canada

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 Canadian industries (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 US, 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, 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 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 an increasing proportion (McIntyre 2001).

The *Immigration Act 1976* introduced a new immigration system, which 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).

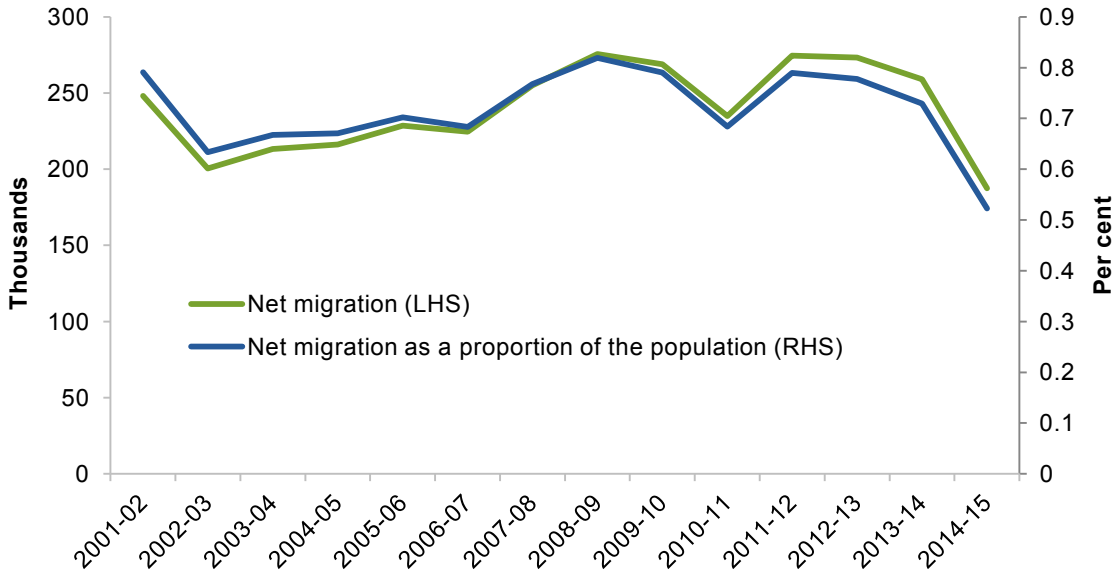
In 2002, the *Immigration and Refugee Protection Act 2001* was passed, which introduced the current immigration system. The Act changed requirements for skilled immigration, including increasing qualification requirements and changing employment requirements to give preference to higher-skilled workers. 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, Canada, 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 2015u).

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.

Table B.2 Planned permanent immigration levels, Canada, 2015

<i>Category</i>	<i>Level</i>
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

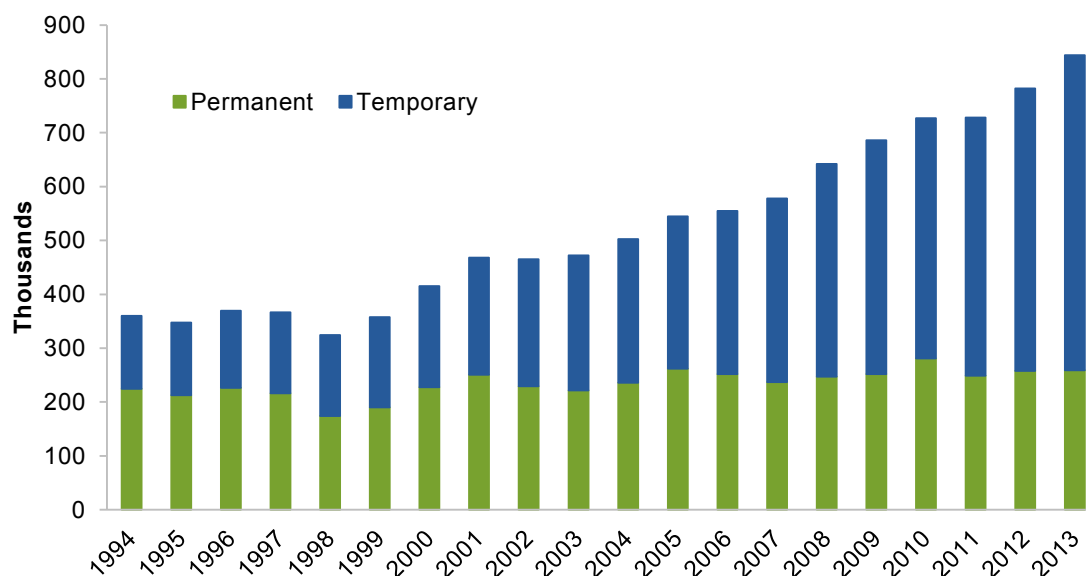
Source: CIC (2015u).

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.

Permanent and temporary immigration increased over recent decades. However, temporary immigration 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.

Figure B.3 Permanent and temporary immigration, Canada, 1994–2013^a



^a Temporary immigration includes immigrants under the Temporary Foreign Worker Program, the International Mobility Program and international students.

Sources: CIC (2014b, 2015j).

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 connections. 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 the employer needs a foreign worker as there is no suitable local worker available (CIC 2015l).

Permanent and temporary visas also confer different rights on the holder. Permanent immigrants have most of the rights of citizens. They can live work and study anywhere in Canada, they are eligible for most of the social benefits citizens receive, including publicly-funded health care, and they can apply for Canadian citizenship (CIC 2014g). However, permanent residents cannot vote, run for political office or hold some jobs that require high-level security clearance (CIC 2014g).

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, 2015t).

Table B.3 Selected permanent and temporary visa fees, Canada, July 2015^a

Visa category	Principal applicant	Secondary applicants ^b
Permanent		
Economic class	C\$550 (A\$556)	C\$150–550 (A\$152–556)
Family class ^c	C\$75–475 (A\$76–480)	C\$150–550 (A\$152–556)
Self-employed	C\$1 050 (A\$1 061)	C\$150–550 (A\$152–556)
Temporary		
Study permit	C\$150 (A\$152)	
International Experience Canada	C\$150 (A\$152)	
Citizenship^d	C\$100 (A\$101)	

^a Based on an exchange rate of C\$1=A\$1.010. Rate current at 28 January 2016. ^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).

Temporary immigrants have fewer rights and less access to services than permanent immigrants that depend on the visa they hold. 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).

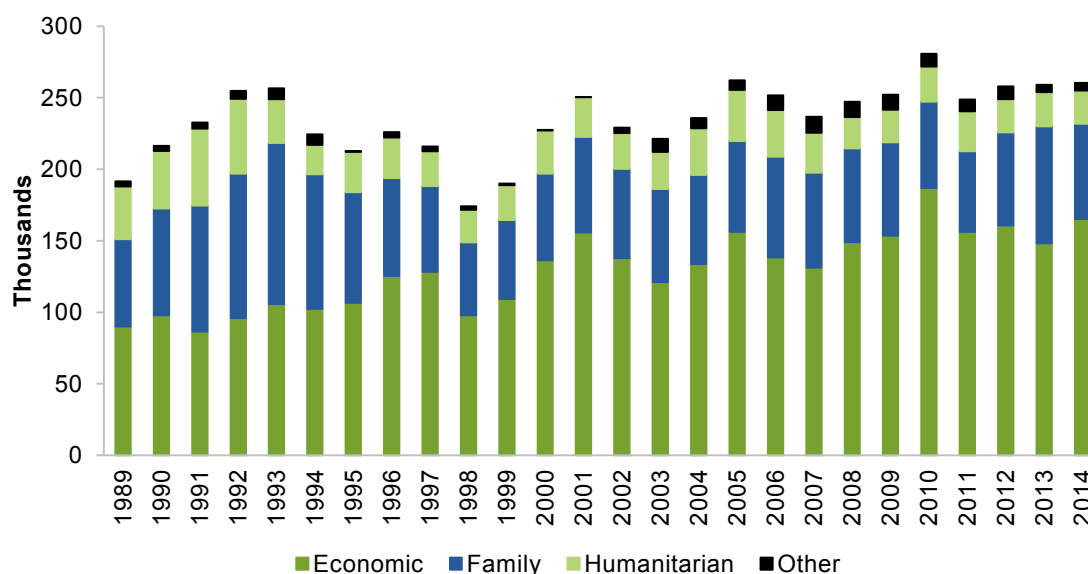
Permanent immigration

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 2015u, 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).

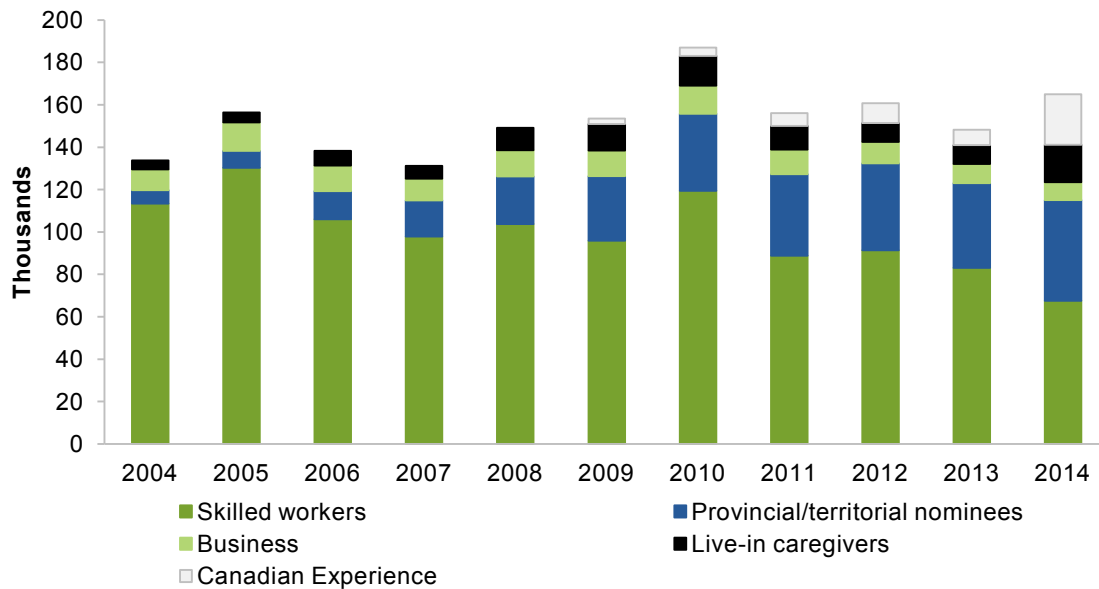
Figure B.4 Permanent immigration, Canada, 1989–2014



Sources: CIC (2014c, 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.

Figure B.5 Economic immigration, Canada, 2004–2014



Sources: CIC (2014c, 2015j).

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 2015u, 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).

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, 2015m).

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

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, 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 (2015n, 2015o, 2015s, 2015q); 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 2015u). 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, which has usually been obtained as a temporary worker or international student (CIC 2015u). 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 Canadian 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. However, the Canadian Government is still responsible for issuing the visa and for assessing the applicants admissibility (CIC 2015u).

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 2015u).

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 2015u). Provinces can nominate candidates in the Express Entry pool for 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 2015u). Canada recently overhauled its Business Program, which included terminating its Investor and Entrepreneur 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).

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 2015p, 2015y).

Box B.3 Immigrant Investor Venture Capital Pilot Program, Canada

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 (2014f, 2015e).

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 or people with significant medical needs. Requirements differ depending the stream but generally applicants need to have relevant work experience, meet the language requirements and 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, 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 2014e, 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.

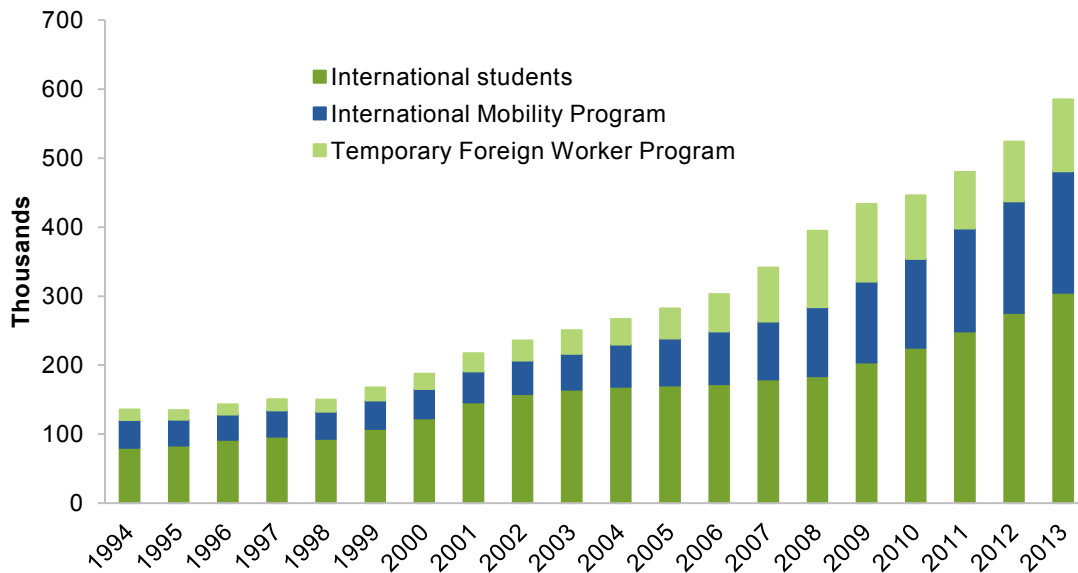
- The Refugee and Humanitarian Resettlement Program, which is for people seeking protection from outside Canada.
- The In-Canada Asylum Program, which is for people making refugee protection claims from within Canada (CIC 2015x).

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, Canada, 1994–2013



Source: CIC (2014b).

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 2015u, p. 19). Temporary workers can immigrate under the Temporary Foreign Worker Program and the International Mobility Program. The main 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 2014b).

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. The number of places under some agreements are unlimited, while caps are placed on the number of immigrants from other countries (CIC 2015u).

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 2015r).

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 2015u).

In December 2013, about 56 000 people were in Canada under the International Experience Canada program (CIC 2014b).

International Students

Overseas students require a study permit if they plan to study for six months or more in Canada (although the arrangements are different in Quebec). To obtain a study permit, applicants need to have been accepted into a Canadian education institution and 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 for the same length of time that they studied, 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 2014b).

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 of Canada's history, values, institutions and symbols (CIC 2015c).

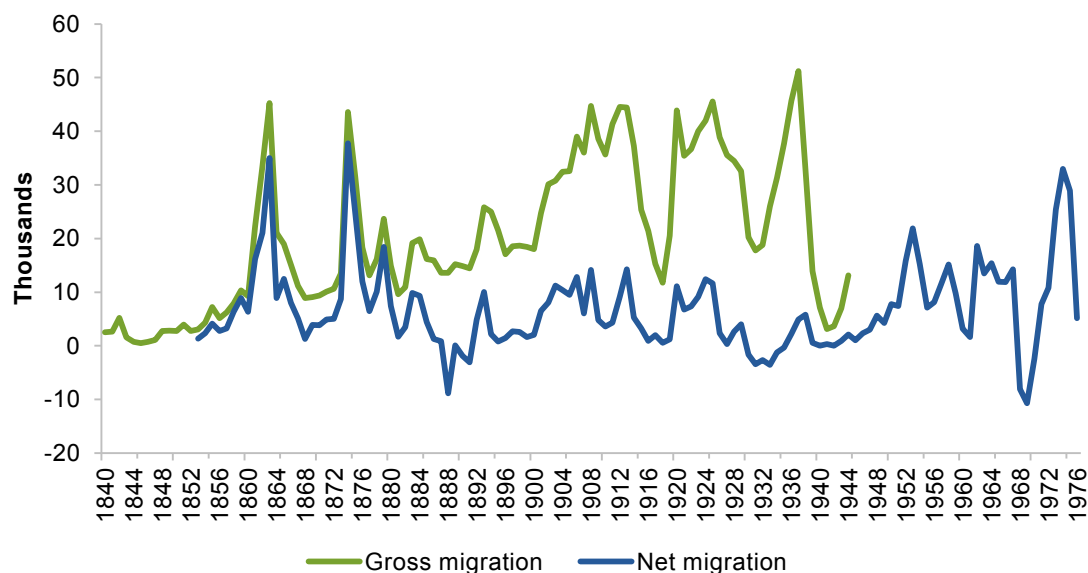
B.3 New Zealand

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, New Zealand, 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).

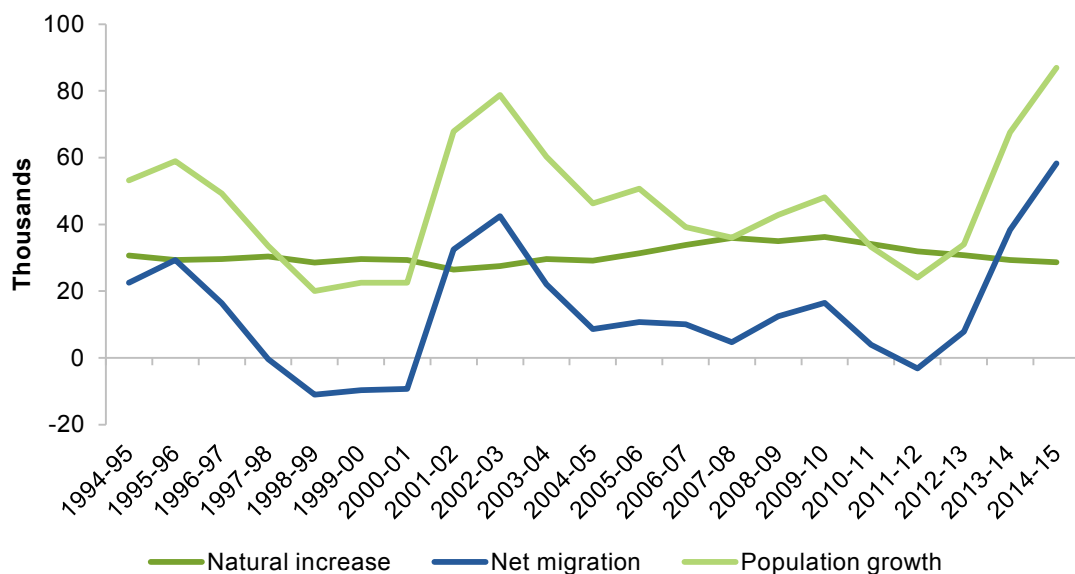
The current picture

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 in Australia (OECD and EU 2015).

Net migration¹ 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.

Net migration to New Zealand is an important component of population growth. In 2014-15, net migration was 58 300, which was higher than natural increase in that year of 28 700 people.

Figure B.8 Components of population growth, New Zealand, 1994-95 to 2014-15^a



^a Population growth does not equal natural increase and net migration in some years due to intercensal revision.

Sources: MBIE (2014); Statistics New Zealand (2013b, 2014, 2015b).

¹ Defined as permanent and long-term arrivals minus permanent and long-term departures (MBIE 2015a).

Permanent immigration

Permanent immigration to New Zealand is managed under the New Zealand Residence Programme. Its objective 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 2015l)

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 2015l).

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).

Permanent residency requirements 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, who also have to meet character and health requirements (INZ 2014d).

Box B.4 Character and health requirements, New Zealand

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
- unable 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 (2015).

Box B.5 Visa fees, New Zealand

The New Zealand Government charges an application fee and an immigration levy for most temporary and permanent visa applications. Fees can vary by visa category, the applicant's country of origin, the location of the Immigration New Zealand office processing the application and whether the application is in hard copy or online format. Immigration levies also vary by visa category. The table below provides examples of application fees and immigration levies based on the applicant being physically present in New Zealand at the time of the application and submitting their application online.

Selected visa application fees, as at December 2015

Visa category	Fee (NZ\$)	Fee (A\$) ^a	Levy (NZ\$)	Levy (A\$) ^a
Resident visas				
Skilled Migrant	1 890	1 731	580	531
Investor Plus (Investor 1 Category)	4 280	3 919	580	531
Entrepreneur Residence	3 340	3 059	580	531
Family	970	888	280	256
Parent Retirement	3 340	3 059	280	256
Temporary visas				
Student	233	213	17	16
Working Holiday Scheme	170	156	38	35
Temporary Retirement	3 340	3 059	14	13

In most cases, applicants who include family in their application only have to pay one fee and levy, 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 US do not have to pay fees for offshore visitor, student and work visa applications.

^a Based on an exchange rate of NZ\$1=A\$0.916. Rate current at 8 December 2015.

Sources: INZ (2015h, 2015i, 2015j).

Permanent immigration increased over the period 1997-98 to 2014-15, 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 (figure B.9). The increase in permanent immigration was primarily driven by increased skilled and business immigration. Approvals in this category increased from about 12 000 to 1997-98 to about 24 000 in 2014-15 (figure B.9). Approvals in the family and international and humanitarian categories also increased over this period.

Skilled and Business stream

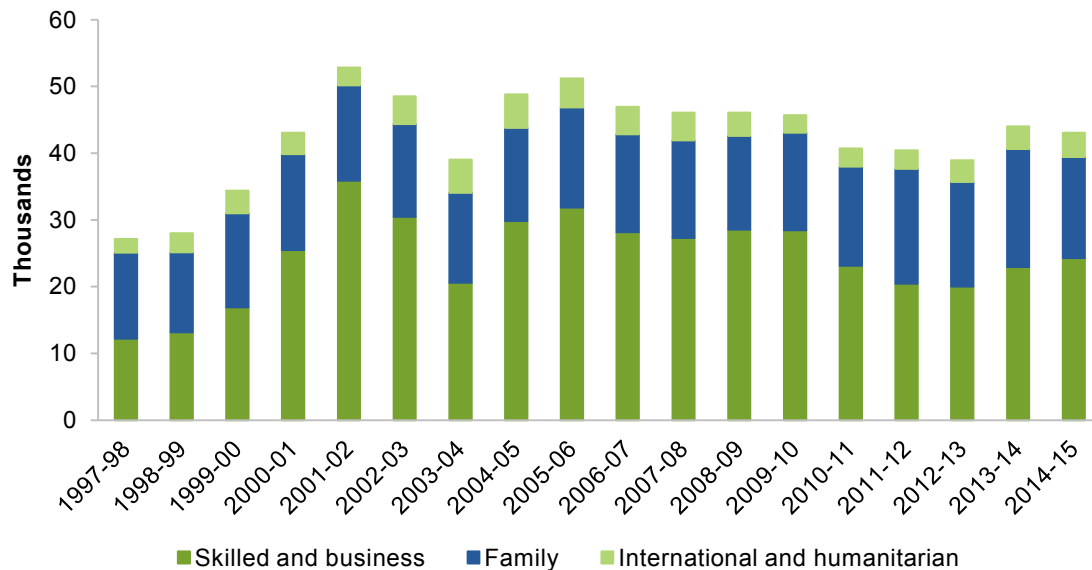
Skilled migrant policy

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).

Figure B.9 Permanent visa approvals, New Zealand, 1997-98 to 2014-15



Source: MBIE (2015a).

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 for employability and capacity building factors, New Zealand

<i>Factor</i>	<i>Points</i>
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
<i>Bonus points for employment or offer of employment in:</i>	
An identified future growth area or an area of absolute skills shortage	10
A region outside of Auckland	30
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 was 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. Bachelor's Degree, Bachelor's Degree with Honours)	50
Recognised level 9 or 10 postgraduate qualification (Master's degree, Doctorate)	60
<i>Bonus points for:</i>	
2 years of full-time study in NZ completing a recognised Bachelor's 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

Sources: INZ (2015d, 2015).

Skilled immigrants who apply (after being invited), meet the criteria and who 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

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 2015n; MBIE 2014).

Business policy

The Business policy includes three main categories of visas:

- Entrepreneur Work Visa — available to people who make a minimum investment of NZ\$100 000 and have a business plan for a proposed business, and pass a points test.
- Entrepreneur Residence Visa, which includes two options.
 - Two-year option — available to people who have successfully established or purchased and run a business in New Zealand for at least two years, and the business has benefited New Zealand significantly
 - Six-month option — available to people who have successfully established and run a business in New Zealand for six months, have invested NZ\$500 000 in it, created employment for at least three New Zealand citizens, and hold an Entrepreneur Work Visa.
- Migrant Investment category — provides residence to people who make a significant financial contribution to New Zealand's economy (box B.6) (INZ 2015b, 2015e, 2015f; 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 — the 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 2015m; MBIE 2014).

Box B.6 Migrant Investment category, New Zealand

People who plan to make a significant financial contribution to New Zealand's economy can immigrate through the Migrant Investment category, which includes two sub-categories:

- Investor Plus category
- Investor 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 under 65 years of age
- have at least three years business experience
- submit an expression of interest (including a points test), similar to a skilled stream application
- meet 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 2014-15, there were 26 principal applicant approvals under the Investor Plus category and 155 principal applicant approvals under the Investor category. China was the top source country for these visas, making up about 73 per cent of principal applicant approvals.

Sources: INZ (2011a, 2011b, 2013b, 2015b); MBIE (2014, 2015a).

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. 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 (MBIE 2014).

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 2015k; 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 2015a, p. 1)

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:

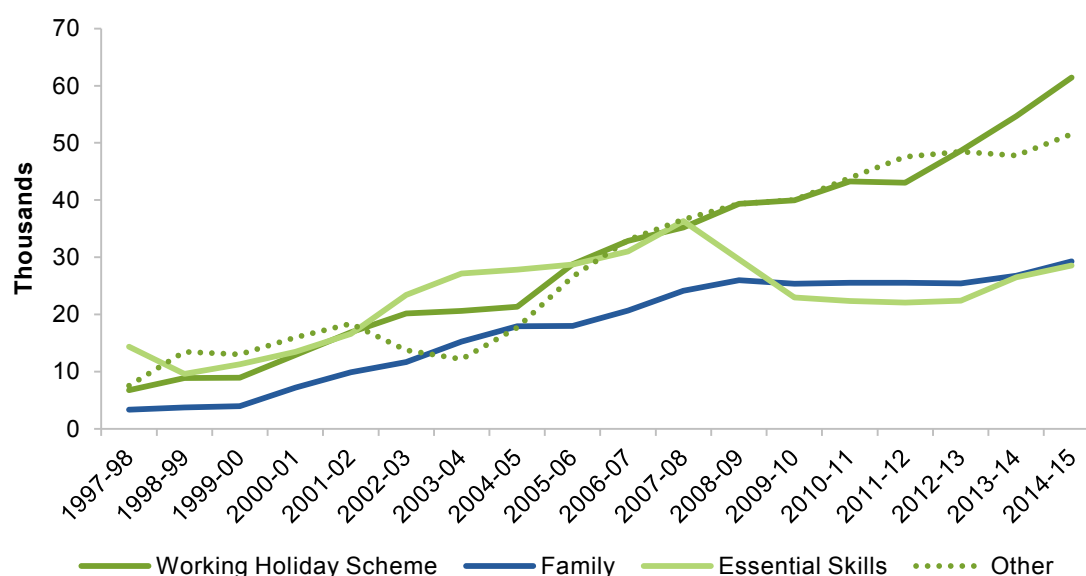
- ... facilitate the access of New Zealand employers and industry to global skills and knowledge while complementing the government's education, training, employment and economic development policies. (MBIE 2014, p. 2)

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) (subclass 457) visa
- 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 434 per cent over recent decades from about 32 000 in 1997-98 to about 171 000 in 2014-15 (figure B.10). The Working Holiday schemes, Family and Essential Skills policies are the largest components of temporary worker immigration, making up about 70 per cent of approvals in 2014-15. The Working Holiday schemes and Family policy experienced the largest increases of the temporary worker policies in recent years, eightfold between 1997-98 and 2014-15 (MBIE 2015a).

Figure B.10 **Temporary worker approvals, New Zealand, 1997-98 to 2014-15^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 (2015a).

Essential Skills policy

Immigrants can obtain a temporary work visa under the Essential Skills policy if they have been nominated by an employer for a position and there is a skill shortage in 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 2015g).

Immigration New Zealand also usually conducts a labour market test to confirm no suitable New Zealand workers are available (INZ 2015g).

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 2015g).

Student policy

Overseas students usually need a visa to study full time in New Zealand for longer than three months (INZ 2015o; 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:

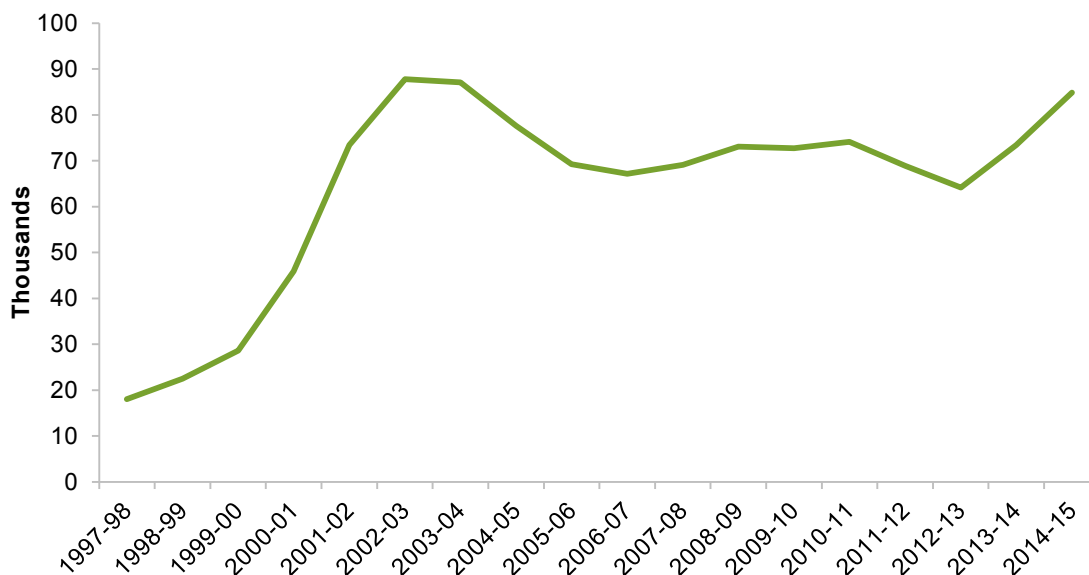
... facilitate the entry of genuine students. This policy aims to increase global connectedness, support sustainable growth of export education capability, earn foreign exchange, and strengthen New Zealand education while managing risks to New Zealand. (MBIE 2014, p. 2)

Applicants for student visas need to meet a number of requirements including having:

- been offered a place or confirmation of enrolment at a New Zealand education provider
- sufficient funds to pay tuition fees
- financial support such as having enough money to support themselves or having a sponsor that has agreed to accept financial responsibility
- the financial means to leave New Zealand before the visa expires (INZ 2015o).

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 until 2014-15, when they increased to about 85 000.

Figure B.11 Student visa approvals, New Zealand, 1997-98 to 2014-15



Source: MBIE (2015a).

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 policy.

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 2015b). 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 7 months during an 11-month period, except for workers from Tuvalu and Kiribati who can stay for 9 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. For example, about 81 per cent of people approved for a residence visa in 2014-15 had previously held a temporary visa (MBIE 2015a).

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 901 000 Australian citizens travelled to New Zealand in 2014-15 (DIBP 2015ax; MBIE 2014, 2015a).

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).

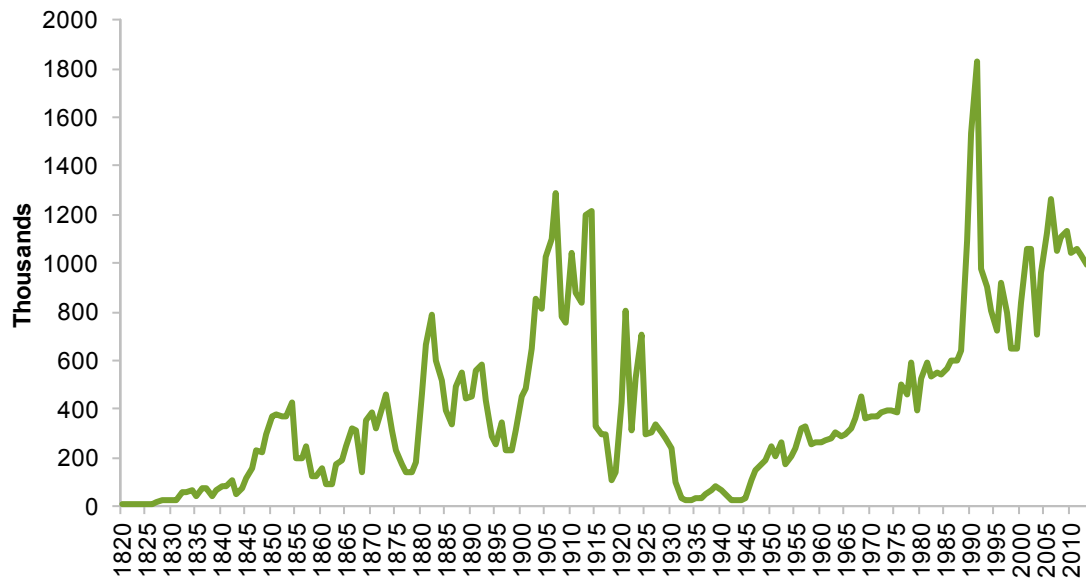
Information on the rights of New Zealand citizens who enter Australia is provided in chapter 12.

B.4 United States

Brief history of immigration to the US since 1800

Although there was significant immigration to the US before the 19th century, 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 US. Between the 1820s and 1860s, about 7 million people arrived in the US (Ewing 2012; HULOCP nd) (figure B.12).

Figure B.12 Permanent immigration, United States, 1820–2013



Source: USOIS (2014).

The US 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 US 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 US (Ewing 2012).

The US 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 US 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 US implemented the Bracero Program, which allowed for immigration of temporary workers from Mexico. 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 US 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 US 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 US 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 US 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 US is governed by the Immigration and Nationality Act. The Act includes an annual limit of 675 000² 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)³ (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. This is to ensure that no group dominates the immigration intake (AIC 2014). Currently, the limit is 7 per cent of the intake in any given year.

Permanent residents have the right to live, work and study indefinitely in the US 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. 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 US (USCIS 2011a). Family-based immigrants are admitted to the US either as immediate relatives of US citizens or through the family preference system.

- Immediate relatives are defined as spouses, unmarried minor children and parents of US citizens.

² This is roughly 0.2 per cent of the United States' population at June 2015. Australia's Migration Programme is equal to just under 0.8 per cent of the population.

³ Since 1999, 5000 of these places have been set aside for allocation under the *Nicaraguan Adjustment and Central American Relief Act*.

-
- 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, United States

The US 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 Green Card.

Sources: USCIS (2015c); USDS (2015).

Sponsors must meet certain age and financial requirements to bring family members to the US. 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 paroled⁴ 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 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).

⁴ An alien paroled is a person who is not a citizen or national of the US and is allowed into the US 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).

Table B.5 Family-sponsored immigration categories, United States

<i>Category</i>	<i>Sponsor</i>	<i>Relationship</i>	<i>Limit</i>
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 US. As the family-based immigration is technically capped, it has remain at a similar level in recent years. (USOIS 2014).

Employment-based immigration

The US 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 work experience requirements.

The EB-2 and EB-3 visas require employer-sponsorship and a labour certification. Employers sponsoring applicants 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 US (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.

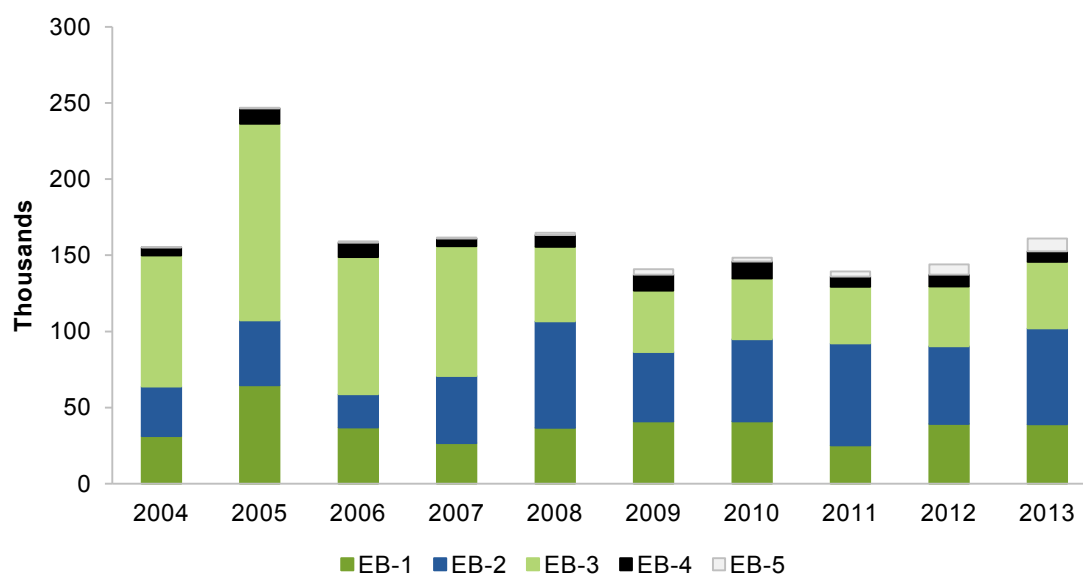
Table B.6 Permanent employment-based immigration categories, United States

<i>Preferences</i>	<i>Reserved for</i>	<i>Labour certification required?</i>	<i>Limit</i>
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 US foreign service posts, former US 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, United States, 2004–2013



Source: USOIS (2014).

Diversity Visa Program

The Diversity Visa Program was established in 1990 to help diversify the permanent immigration intake, by providing a dedicated channel for people from countries with low rates of emigration to the US. 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; US Department of State Bureau and Consular Affairs 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 US in 2013 (USOIS 2014).

Refugees and asylum seekers

The US 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 US 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 US 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, United States, 2015

<i>Region</i>	<i>Allocation</i>
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	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 US 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 US (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 US or at a point of entry. They can apply for asylum within one year of arriving in the US. There is no limit on the number of people who can be granted asylum in any given year (AIC 2014). In 2013, the US granted asylum to about 42 000 people (USOIS 2014).

Temporary immigration

People can migrate to the United States on a temporary basis to work or study, although the US classes these entrants as 'nonimmigrants'. While the overall number of temporary entrants is uncapped, caps exist 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, United States

<i>Classification</i>	<i>Description</i>	<i>Can bring family?</i>	<i>Maximum duration of stay</i>
E-2	Allows investors from a country the United States has a treaty with (including 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 (including 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 United States 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. ^d Can be extended for up to two years at a time to a maximum limit of seven years. ^e Can receive one additional extension of up to 30 months.

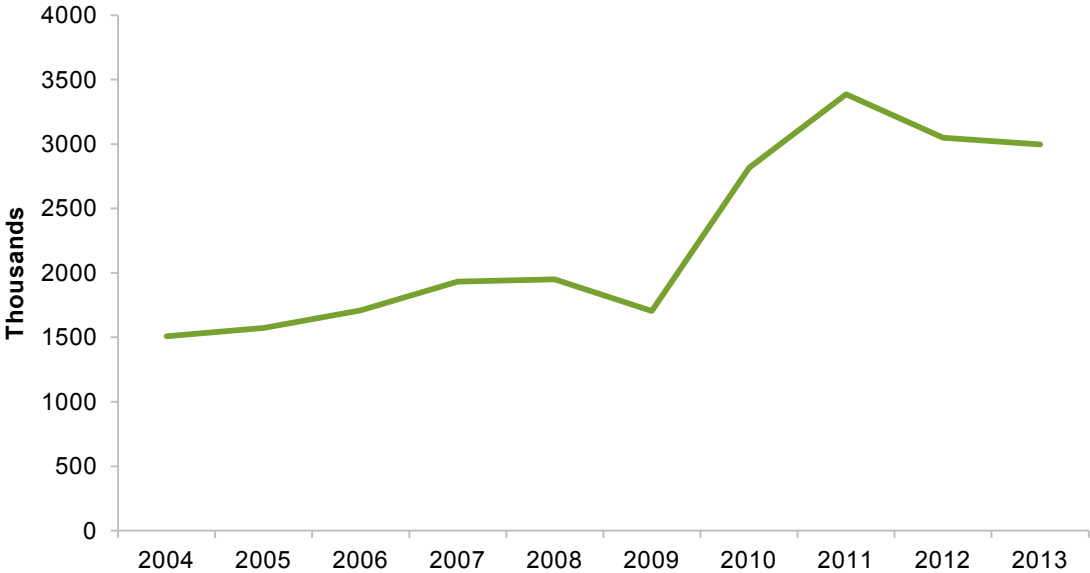
Sources: USOIS (2014); USCIS (2010a, 2011c, 2013a, 2013c, 2013d, 2015a, 2015b).

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 is 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:

- they will pay the worker a fair wage
- they will provide working conditions that will not adversely affect other similarly employed workers
- there is no strike or lockout at their place of business
- they 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 (USOIS 2014).

Figure B.14 Temporary worker admissions, United States, 2004–2013



Source: USOIS (2014).

International students

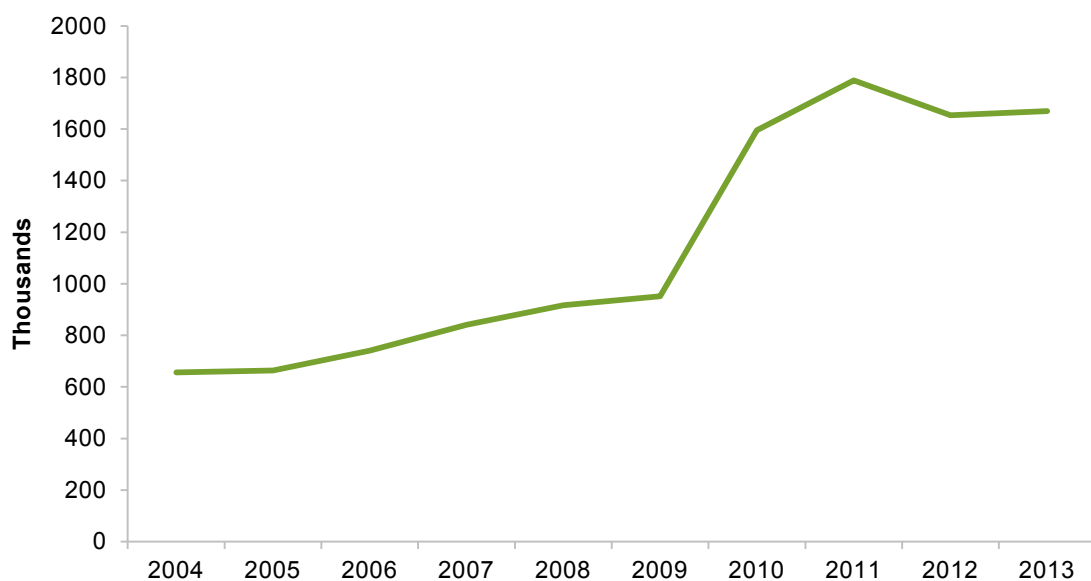
International students who want to study full-time in the US require a student visa. Applicants need to meet the following criteria.

- 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 2013e).

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 2013e).

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, United States, 2004–2013



Source: USOIS (2014).

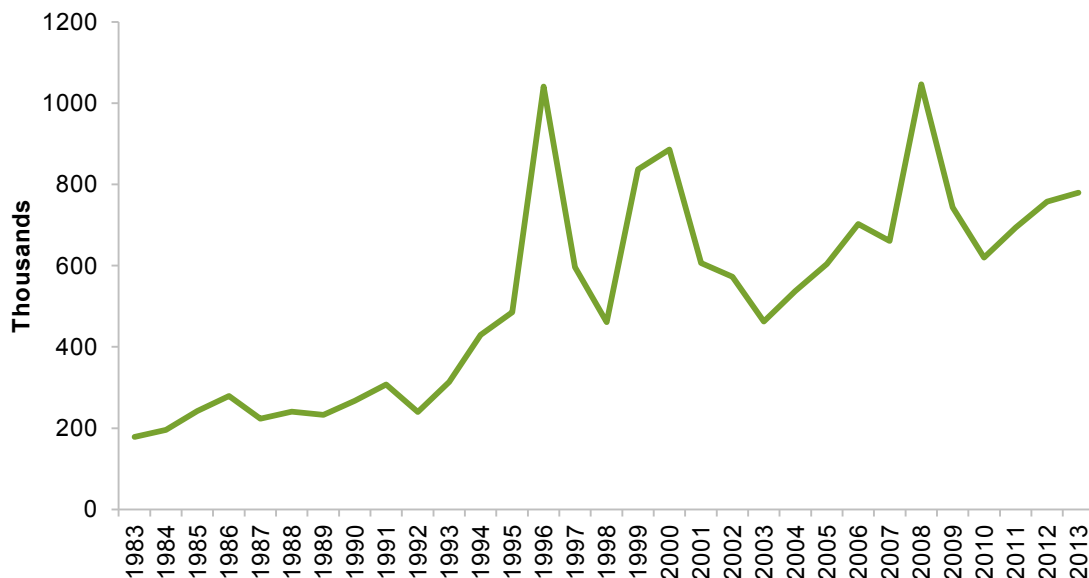
Citizenship

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 2013b).

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: USOIS (2014).

C Labour market analysis

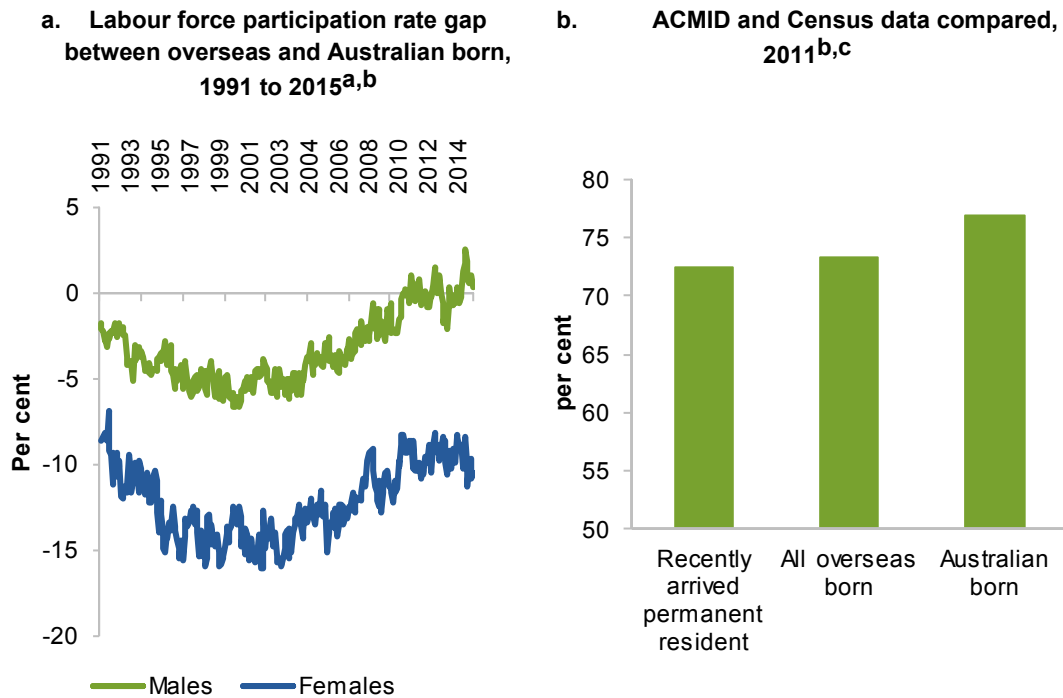
In chapter 5, the Commission compared the labour market outcomes of immigrants and Australian-born people and reported its econometric estimates of the contribution that different factors (such as education level, age and English-language ability) made to the observed differences between the various 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 that chapter, including the data, the dependent and explanatory variables, data issues and the techniques employed. Section C.3 examines the labour market outcomes of former international students, supporting the material discussed in chapter 13.

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

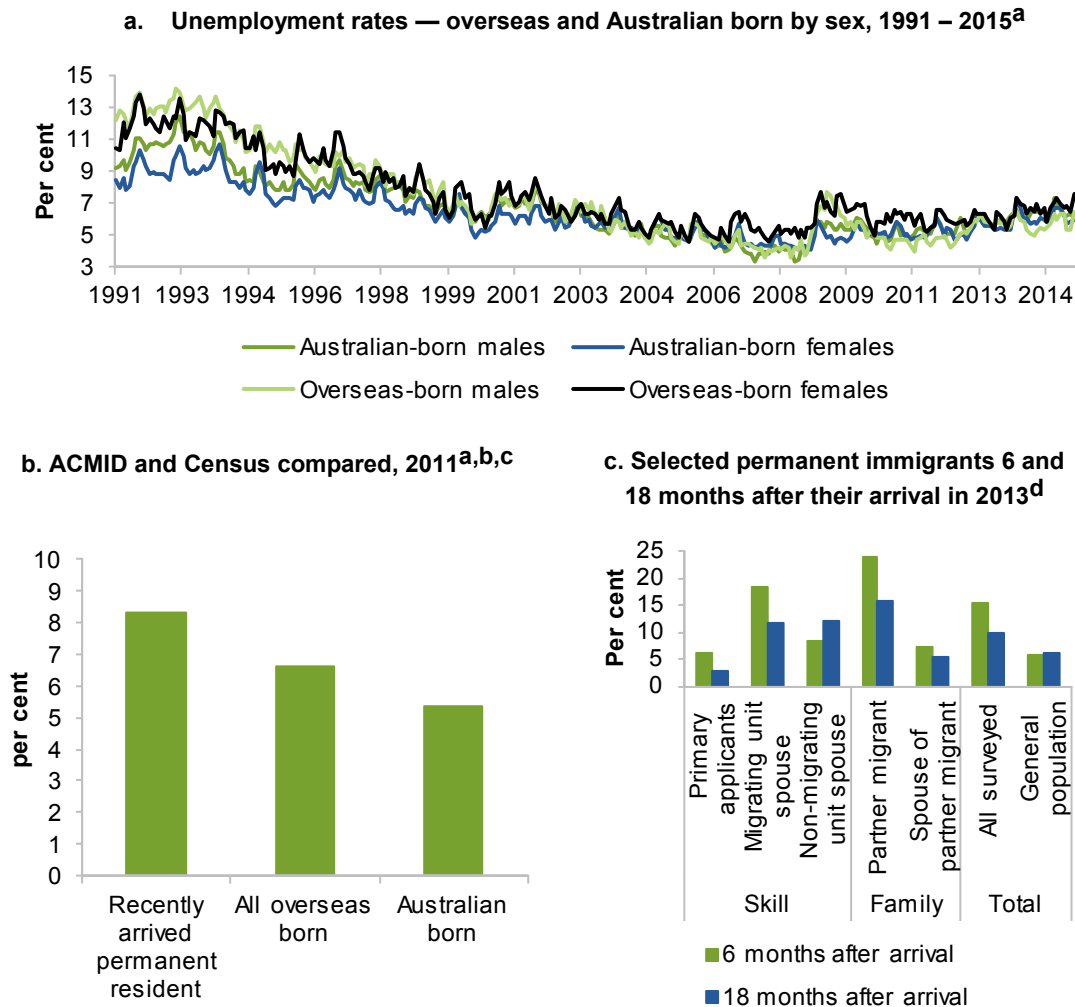
	1986	1991	1996	2001	2006	2011
	%	%	%	%	%	%
Contribution of compositional factors						
Education	0.4	0.5	0.7	0.9	1.1	1.4
Location	0.3	0.4	0.5	0.6	0.4	0.3
Gender	0.7	0.3	0.2	0.1	0.0	0.0
Age	-1.0	-1.3	-2.2	-3.2	-3.3	-2.1
English ability	-2.5	-3.7	-5.4	-5.2	-4.8	-5.2
Difference explained by compositional 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 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 (2015m).

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.

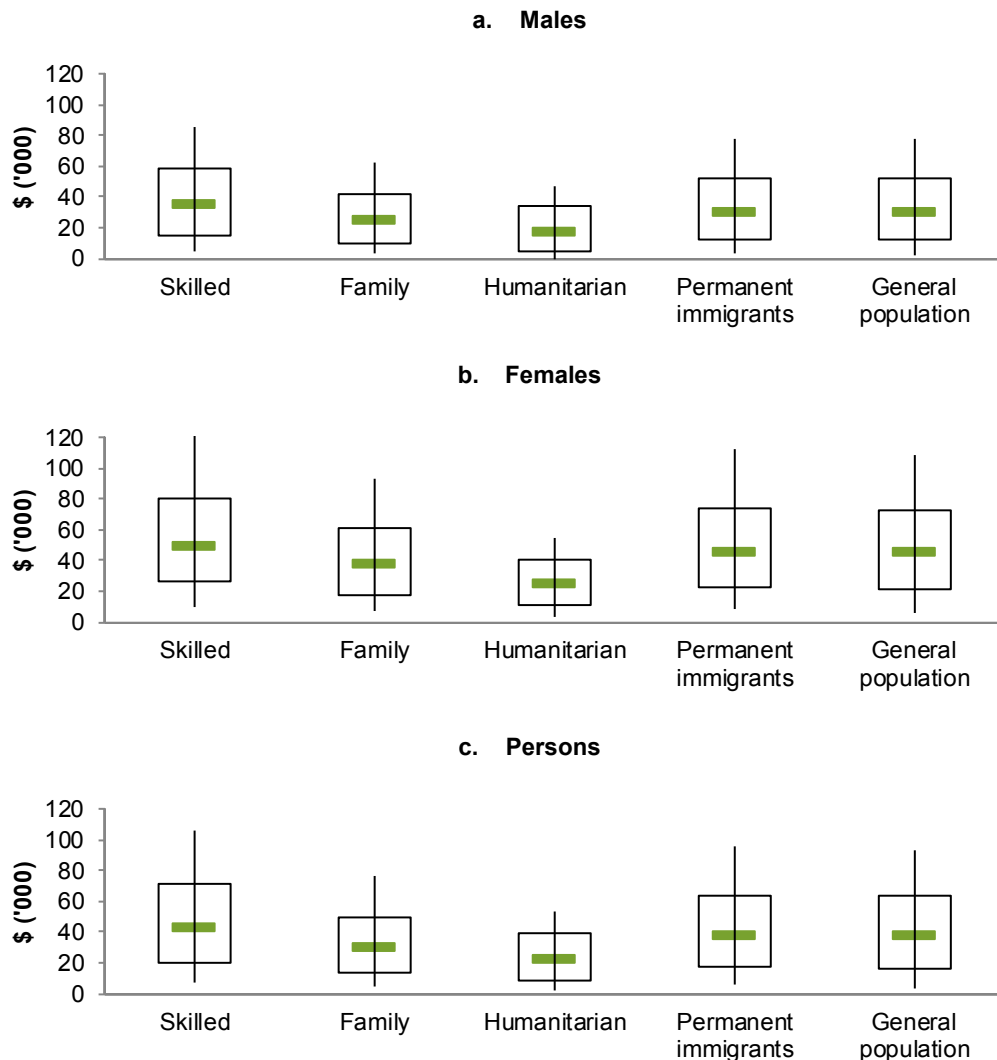
Table C.6 Percentage difference in the hourly income of recently arrived immigrant and Australian-born workers living in regional Australia
1986 to 2011 Censuses

	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

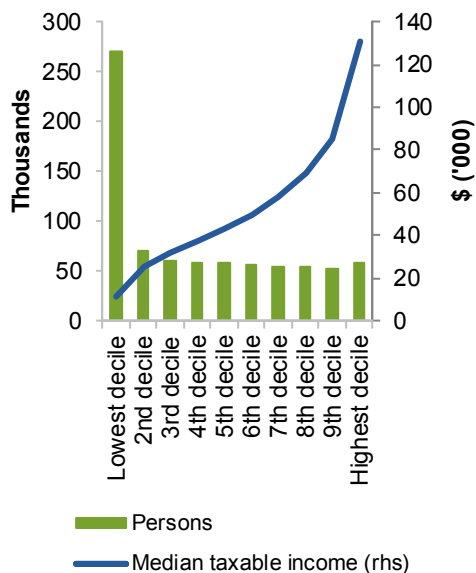


^a Persons who receive an income below the tax-free threshold (\$6000 in 2009-10) are not necessarily required to lodge a tax return and this can include persons who derive their income from government pensions and allowances. In addition, some Australian Government pension, benefit and allowance payments 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 lines indicate the 10th and 90th percentiles.

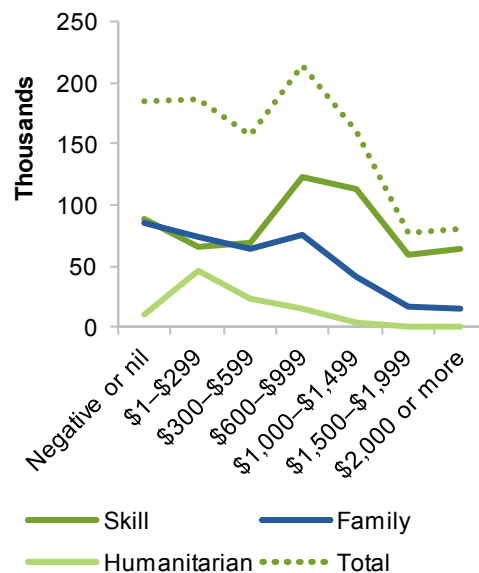
Source: Productivity Commission estimates based on Australian Taxation Office (2015) and ABS *Personal Income Tax and Migrants Integrated Dataset*, unpublished data.

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 (2015j) *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 (2013c), *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

Industry	1986		2011	
	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

	Units	<i>Immigrants</i>						<i>Australian born</i>					
		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

	<i>Major city</i>		<i>Inner regional</i>		<i>Outer regional</i>		<i>Remote</i>	
	<i>Australian born</i>	<i>Foreign born</i>	<i>Australian born</i>	<i>Foreign born</i>	<i>Australian born</i>	<i>Foreign born</i>	<i>Australian born</i>	<i>Foreign born</i>
	%	%	%	%	%	%	%	%
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

	<i>Units</i>	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

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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 are 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 those of 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
<i>Adjusted R-square</i>	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
<i>Adjusted R-square</i>	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)

	1986	1991	1996	2001	2006	2011
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
<i>Adjusted R-square</i> ^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.

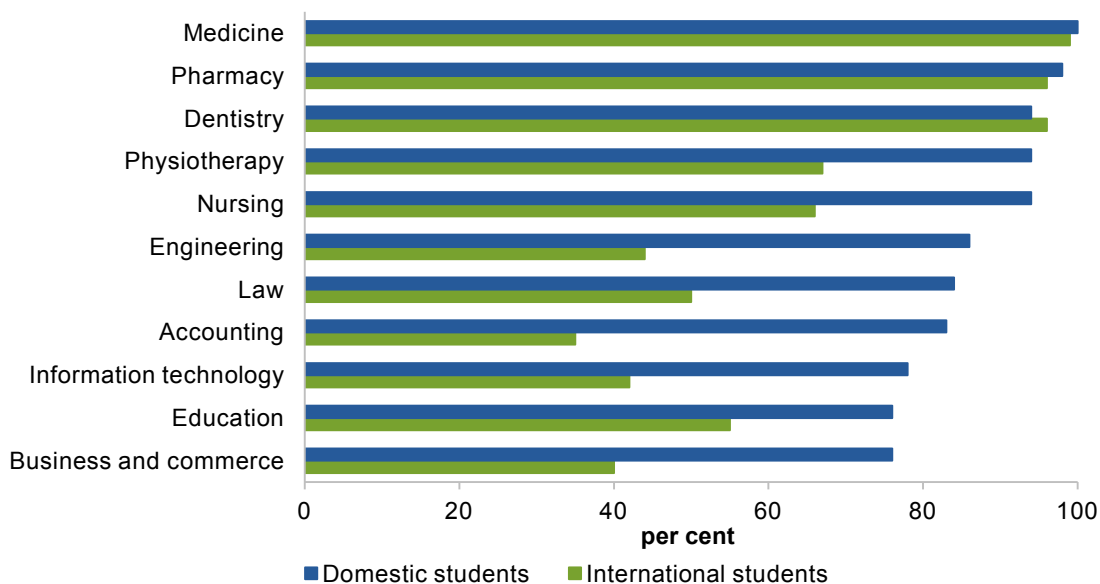
Source: Productivity Commission estimates based on unpublished Census data.

C.3 Outcomes of former international students

Research has shown that former international students from many areas of study have significantly worse labour market outcomes than their Australian counterparts, at least in the short to medium term. 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 C.5). 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.

Figure C.5 **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 poor labour market outcomes of some former international students will drag down the average labour market outcomes of the points-tested stream as a whole. 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, although the proportion obtaining a permanent visa through this route has increased over time (table C.16).

Table C.16 Permanent residence visas granted to former international students

	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>
	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 (2015e, p. 52).

D Immigration and Australia's youth labour market

While the effect of immigration on the labour market outcomes of Australian-born workers was found to be relatively benign over the last decade (technical supplement A), there are some concerns that the outcomes in specific labour markets may be negatively affected by the inflow of new immigrants (chapter 6). This appendix provides an examination of the impacts on the youth labour market.

This appendix is organised as follows. It starts by describing the trends in Australia's youth labour market outcomes and the main factors thought to lie behind these trends (section D.1). It then looks at the evidence regarding the effect of immigration on these outcomes (section D.2).

Youth is defined as those aged 15 to 24 in this analysis. Some discussion on tertiary graduates is also included.

D.1 Australia's youth labour market outcomes

Why a focus on youth labour markets?

As new and less-skilled workers, youth are more sensitive to changes in labour market conditions (including changes in labour supply due to immigration) than the general population (Gregg and Tominey 2004). Youth are also more likely to work in labour market segments which are more sensitive to economic conditions (such as hospitality and retail) or external shocks (such as tourism).

Poor employment outcomes for any worker can result in scarring, 'where an individual loses skills, self-confidence and workplace and social networks' (McLachlan, Gilfillan and Gordon 2013, p. 129) which reduce a person's capacity to return to work. These effects can be persistent, affecting lifetime earnings, particularly if they occur early in a person's career (box D.1). Scarring need not arise only through unemployment, but could be associated with underemployment or occupational downgrading (that is, taking a job at a lower skill level than otherwise qualified for).

Box D.1 **Estimates of scarring effects**

A study by Gregg and Tominey (2004), controlling for individual heterogeneity, found that in the **United Kingdom** experiences of unemployment at an early age resulted in wages being lower by 12 to 15 per cent at the age of 42, although the difference fell to 8 to 10 per cent if further periods of unemployment were avoided.

Studies of youth in the **United States** (Mroz and Savage 2006) have found little evidence of significant long-lived persistence of unemployment spells on the incidence and duration of future unemployment but did find evidence of long lived ‘blemishes’ from unemployment on wages, lasting up to 10 years. One study (Ellwood 1982) found that experience increases wages by as much as 10 to 20 per cent per year in the first few years out of school, implying significant effects from being out of work in those years.

In their examination of the findings of a range of **UK** and **US** panel studies, Baker and Elias (1991) concluded that spells of unemployment early in the labour market experience of young people had deleterious effects on later employability and earnings. Importantly, that the size of the effect was related to the state of the labour market — with tight labour markets tending to reduce the size of the deleterious effects.

Cockx and Picchio (2013) studied **Belgian** youths who remained unemployed for more than 9 months after leaving school. They found that the probability of finding a job fell the longer a youth was unemployed. The authors infer the cost of prolonged unemployment is not related to depreciating human capital but rather forgone human capital accumulation and the negative signal of prolonged unemployment to employers.

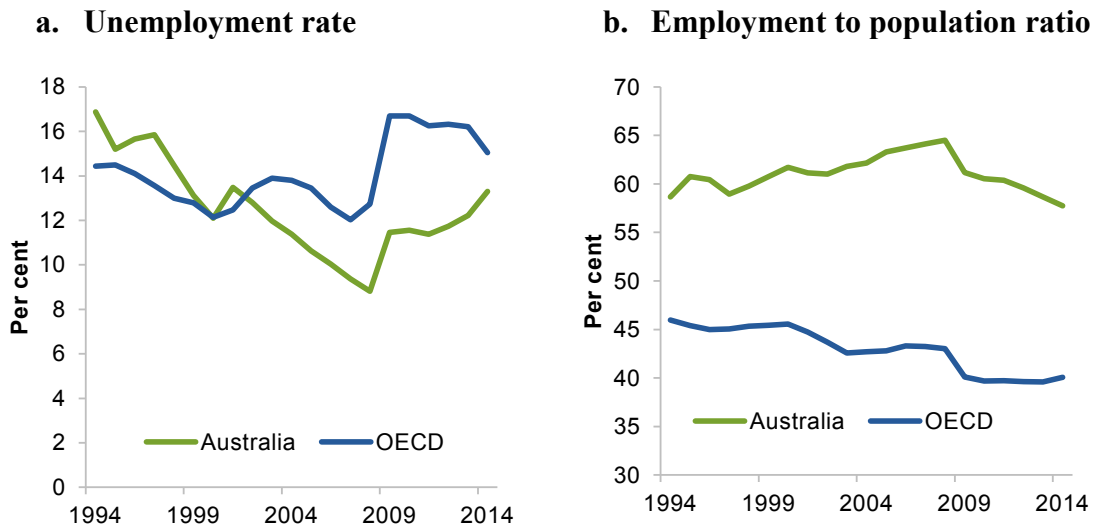
Oreopoulos, von Wachter and Heisz (2006) found that young **Canadian** graduates entering the labour market in a recession suffer significant initial earnings losses that only fade after 8 to 10 years. They found 30 to 40 per cent of these earnings losses were explained by graduates taking jobs with lower quality employers. They also found the effects are larger and more persistent for less capable graduates.

At the economywide level, scarring effects from unemployment are one possible cause of the macroeconomic phenomenon known as hysteresis. That is, rises in the unemployment rate during downturns persist during upturns due to a rise in the natural rate of unemployment. Some evidence of this effect has been found in Australia (Liu, Sun and Lin 2012).

Youth labour market outcomes have been deteriorating for some years

Australia went from having the highest youth unemployment rate among English-speaking Organisation for Economic Cooperation and Development (OECD) countries (and higher than the overall OECD) in 1992 to the lowest in 2007 (figure D.1, panel a). In keeping with the overall change in unemployment after the GFC, the rise in the youth unemployment rate in Australia from 2008 to 2011 was also much lower than in most OECD countries. Since 2011, however, the youth unemployment rate continued to increase in Australia while falling in other English-speaking OECD countries and has converged with those of the US and Canada.

Figure D.1 Youth unemployment rate and employment to population ratio
1995 – 2014



Source: OECD Stat database.

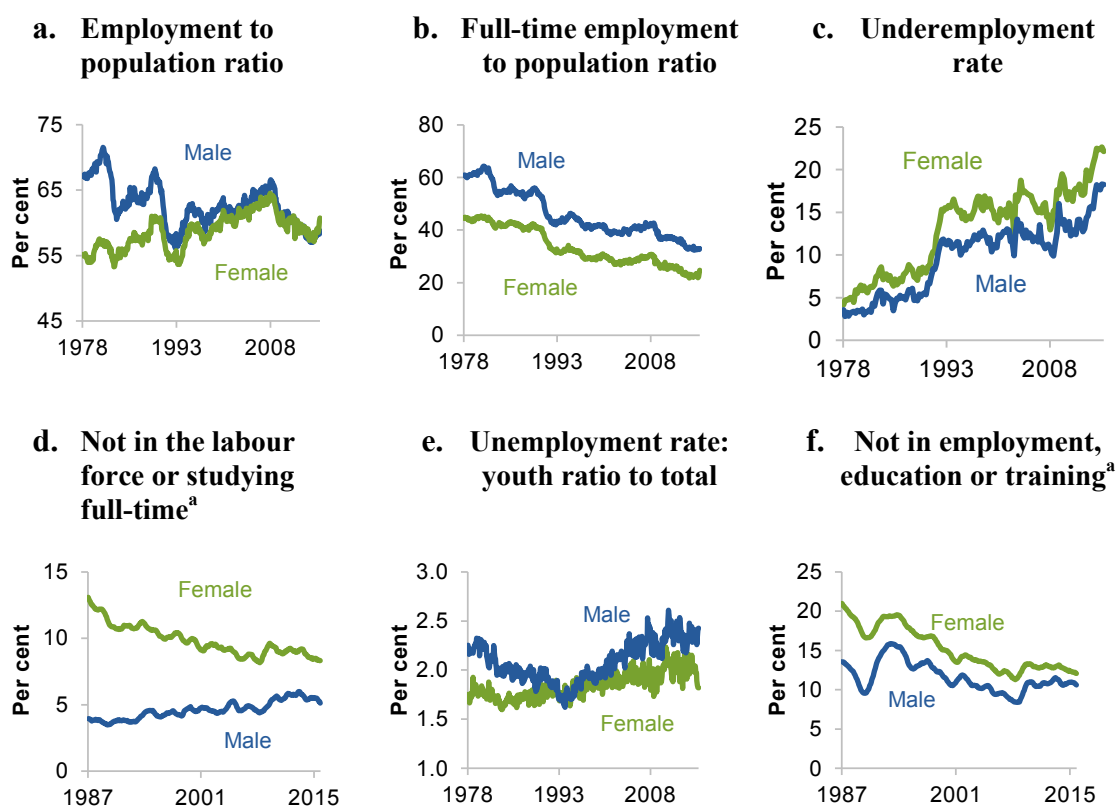
- The Australian youth unemployment rate rose from 7.6 per cent in August 2008 to 14.5 per cent in November 2014, and has since fallen to around 12 per cent (ABS 2015h).
- The employment to population ratio among youth fell by 6.3 percentage points from its most recent peak in January 2008, to 59.3 per cent in December 2015 (ABS 2015h).
- The youth share of total employment has fallen from 18.1 per cent in January 2008 to 15.6 per cent in December 2015. Only a small portion of this fall reflects a fall in the youth share of the working age population, which declined by around one per cent. The decline in the youth share of employment since 2008 has been broad-based across industries, occupation and regions (ABS 2015h).

While outcomes have started to improve recently, youth labour market engagement has been declining over the long run. Among youth:

- since 1978 the youth male employment to population ratio has fallen by around 10 percentage points, to 58 per cent in 2015 (figure D.2, panel a). The change is much greater in the full-time employment to population ratio, which has fallen by around 30 percentage points to around 32 per cent (figure D.2, panel b). This largely reflects increasing participation in full-time education (up from around 30 per cent to 50 per cent). The youth female employment to population ratio has increased from 55 per cent to 60 per cent over the same period
- since 1978, the underemployment rate for males has increased from around 3 per cent to around 18 per cent. The underemployment rate for females has increased from around 4 per cent to around 22 per cent (figure D.2, panel c)

- since 1986, the share of males not in the labour force or full-time education has increased from around 4 per cent to around 6 per cent. In contrast, the share of young females not in the labour force or studying fell from around 13 per cent to around 8 per cent (figure D.2, panel d)
- the deterioration relative to the broader population is also noteworthy. In 1994, young males had an unemployment rate which was around 1.7 times higher than the broader population rate (17.7 per cent as compared to 10.9 per cent). This ratio has now risen to 2.4 times (13.8 per cent compared to 5.7 per cent). The female unemployment rate has risen from 1.7 times higher than the broader population (18.6 per cent as compared to 10 per cent) to 1.8 times (10.6 as compared to 5.8 per cent) (figure D.2, panel e) over the same period
- since 1987, the share of males not in education, employment or training (NEET) has fallen from around 13.5 per cent to around 10.6 per cent and the share of females has fallen from around 21 per cent to around 12.1 per cent (figure D.2, panel f). The NEET rates for males and females have not yet returned to their pre-2008 levels.

Figure D.2 Youth labour market outcomes have been declining



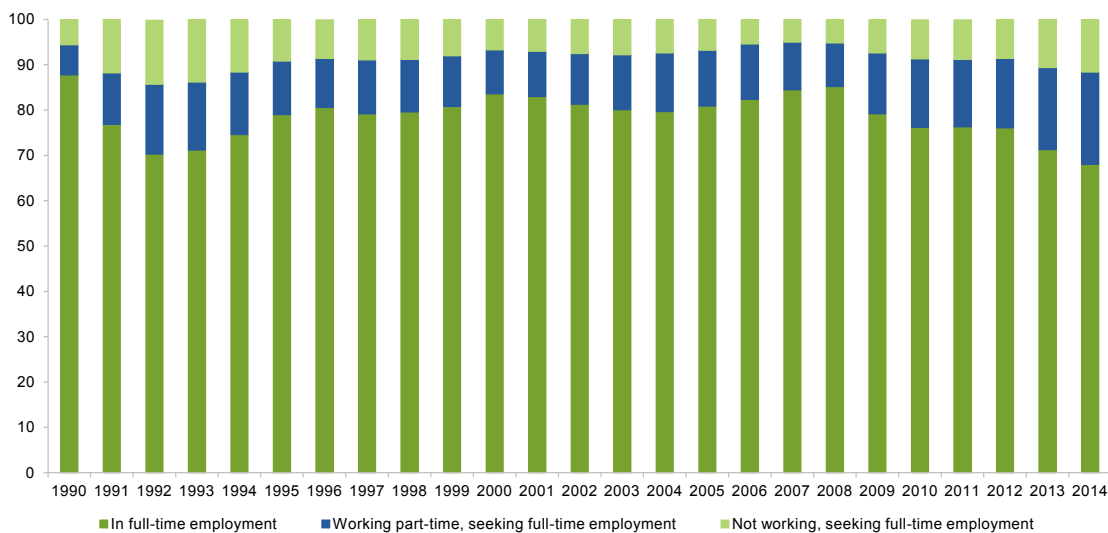
^a 12 month moving average

Sources: ABS (*Labour Force*, Cat. no. 6202.0 December 2015; *Labour Force Detailed*, Cat. no. 6291.0.55.003 December 2015).

Graduate outcomes

Education does not guarantee employment, and evidence suggests that it is becoming harder for recent graduates to find a job on completion of their education (Reserve Bank of Australia 2015). For example, the share of higher education graduates in full-time employment four months after graduation fell from 85.2 per cent in 2008 to 68.1 per cent by 2014 (figure D.3).

Figure D.3 Recent graduates' employment outcomes
1990 to 2014

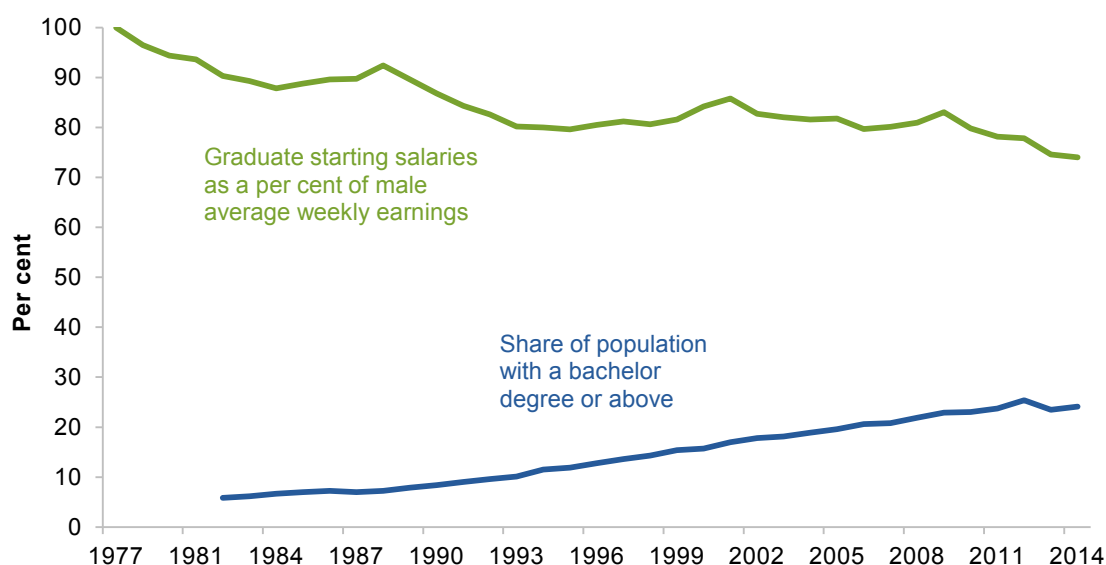


Source: Graduate Careers Australia 2014 *Graduate Destinations Report Supplementary Tables and Figures* <http://www.graduatecareers.com.au/Research/ResearchReports/GraduateDestinations> (accessed 23 March 2016).

The 17 percentage point fall in the share of recent graduates in full-time employment from 2008 to 2014 has been matched by an 11 percentage point increase in the share of recent graduates in part-time employment and a 6 percentage point increase in the share of recent graduates not working.

Graduate starting salaries have grown more slowly than average earnings over a long period. In 1977, median starting salaries were equal to male average weekly earnings. By 2014, median starting salaries had fallen to 74 per cent of male average weekly earnings (figure D.4). This has coincided with an increase in the share of the population with bachelor degrees, from 5.8 per cent of the population in 1982 to 24.1 per cent in 2014.

Figure D.4 Graduate starting salaries and share of population with a bachelor degree or above^a
1977 to 2014



^a Persons aged 15–69 years from 1982 to 1988, persons aged 15–64 from 1989 to 2008 and persons aged 15–74 years from 2009 to 2014.

Sources: Graduate Careers Australia 2014 *Graduate Salaries Report Supplementary Tables and Figures* <http://www.graduatecareers.com.au/Research/ResearchReports/GraduateSalaries> (accessed 23 March 2016); and ABS (*Survey of Education and Work* Cat no. 6227.0, May 2015).

What could be affecting the youth labour market?

The demand for, and supply of, labour by young people are affected by a number of factors of which immigration is only one.

Demand factors

Borland (2015) argued that the deterioration in the labour market since the global financial crisis, including the increase in the youth unemployment rate, was consistent with recent macroeconomic conditions. Changes in the industry structure driven by broader macroeconomic trends can change the demand for youth labour. If industries which generally employ young workers shrink while other industries expand, there will (other things being equal) be a decrease in the demand for young workers. However, analysis of industry employment shares suggest this is unlikely to be the case.

The two sectors which employ most young workers are retail trade and accommodation and food services. These sectors also have the highest share of their workforce aged 15–24. These two sectors' share of total employment increased from 15.5 per cent in 1985 to

19 per cent in 2005 and has since fallen to around 18 per cent (ABS 2016a). These two sectors' share of the economy has remained fairly stable at around 7 per cent since 1974-75 (ABS 2015c).

Advances in technology may also disproportionately affect the demand for some types of workers. Two effects explored in the literature are routinisation/polarisation and skill biased technological change.

- Routinisation/polarisation. Routinisation occurs when manual tasks are replaced by technology and can occur for blue collar manufacturing jobs and white collar office, clerical and administrative jobs. Polarisation comes from increases in abstract and manual jobs, which are the highest and lowest paid jobs respectively. This 'hollowing out of the middle' effect has been observed internationally (Autor and Dorn 2013) and in Australia (Coelli and Borland 2015).
- Skill biased technological change. This type of technological change implies a straight line relationship, with technology increasing opportunities for the highly skilled, whose productivity is enhanced by technology, and decreasing opportunities for the low skilled. Wilkins and Wooden (2014) concluded that this had been the dominant effect in Australia over the two decades to 2013. Coelli and Borland (2015) also found evidence of skill biased technological change in Australia in the 1970s and the 2000s. Wilkins and Wooden (2014) speculated that 'hollowing out' may be less likely to occur in Australia than overseas due to Australian regulation of wages of low-paid workers (meaning less growth in low paid jobs as predicted by the polarisation effect).

Globalisation also impacts on demand for low-skilled workers in advanced economies. Dobbs et. al (2012) estimated that 900 million low-skilled non-farm jobs have been created in developing countries over the past 20 years, many in exporting sectors. Technology and trade liberalisation are facilitating access by advanced economies to this supply of low cost, low-skilled labour. This is reducing demand for low-skilled labour in advanced economies and depressing low-skilled wages (Autor, Dorn and Hanson 2013). These trends raise questions about whether the relatively high minimum wage in Australia limits the demand for low-skilled (low-productivity) labour. The Commission (PC 2015f) looked at this issue extensively but was not able to find a robust relationship between minimum wages and employment of lower-skilled labour.

Demand for youth labour may be reduced if there is an increase in supply of non-youth labour. One very clear trend over the past three decades has been an increase in female labour force participation, particularly by prime age (25 to 44 years) and mature age women (45 plus years) (Gilfillan and Andrews 2011). Mature age women's share of employment has increased within almost all industries, increasing the labour supply for entry level work that youth traditionally undertook. Immigration is another source of potentially competing labour. This is less likely to be the case with women who are entering the labour force or expanding hours after unpaid work raising a family, but both can also affect labour demand (and hence wages) indirectly.

New immigrants raise the level of demand in an economy as they have to establish a home on arrival, and subsequently, will consume at least in proportion to their income. Similarly, as women work more hours in the paid workforce there is some substitution of unpaid household work with market work, such as in house cleaning, laundry, take away meals, and child and aged care. These areas of work are less skilled, but child and aged care do require some specialised training.

Bringing these factors together, labour demand for youth is a function of: macroeconomic conditions; industry structure; labour supply of substitute workers; and minimum wages.

Supply factors

On the supply side, more youths have been taking up education and training opportunities, either by choice or by necessity. Fewer opportunities for employment for people with less than year 12 education or who lack tertiary qualification and the prospect of a less secure and/or lower paid employment down the track give youth a greater incentive to continue their education. Governments have also encouraged greater participation in education, introducing both ‘carrots’ and ‘sticks’. Carrots include the Higher Education Loan Program (HELP), recently extended to vocational education and training (VET) education, and Youth Allowance. Sticks include raising the minimum age at which youths can leave school, tightening eligibility and increasing training requirements for youth access to unemployment benefits. This delay in seeking employment depresses employment rates at younger ages.

As the supply of people with tertiary qualifications has increased, the market return on a qualification may have decreased. Karmel (2013) found that the Australian labour market had shifted, from 1997 to 2009, to be more favourable for those with postgraduate qualifications, degrees and diplomas. Large increases in the number of people with certificates III and IV had not noticeably affected wage relativities. Further research by Karmel (2015) showed that while there were more highly-skilled jobs in 2011 than in 1996, there was an even larger increase in the supply of qualified people over that period. The consequence was the average quality of a job for a given qualification had fallen. As discussed, failure to find employment, or stable employment can erode human capital, reducing the demand for this type of worker. But such failures can also raise the cost of seeking employment for disaffected workers arising from loss of confidence and the physic cost of rejection.

The tax/transfer system may also be reducing the incentives of youth to work. Some youths may face high effective marginal tax rates (or participation tax rates) on entering the workforce. That is, entering the workforce leads to only small net increases in incomes due to withdrawal of government support and income tax paid. The Commission has found these tax rates to be large in some cases (PC 2015e), although the extent to which they act as a disincentive to accept work is not known (Newstart allowance imposes an obligation to look for work).

New immigrants can also add to the stock of youth labour. In particular, depending on the numbers, temporary visas that allow work rights (20 hours a week for students) can substantially increase the supply of youth labour. Competition with immigrants for jobs could affect youth labour market outcomes in a number of ways. The standard neoclassical model predicts that the increase in immigrant supply will reduce employment and wages (where flexible). This may result in youths becoming unemployed, underemployed or exiting the labour force (for example, becoming inactive/pursuing education and training). Alternatively, youths may work for a lower quality employer or in a job that does not fully utilise their skills.

The factors influencing the supply of youth labour can be summarised as: education participation trends and the incentives for participation; the opportunity cost of working (tax/transfers); wages; and transaction costs.

What is the size of the supply shock from immigration?

There has been a large increase in the supply of both youth labour and other entry level workers (women and older immigrants) which could affect the operation of youth labour markets. International student, working holiday maker and temporary graduate visa grants doubled from 2004-05 to 2013-14, from 281 000 to 555 000 (DIBP 2015e). Permanent immigration increased from around 120 000 in 2004-05 to 190 000 in 2013-14 (DIBP 2015e). By comparison, the population aged 15–24 increased by 331 062 from 2004-05 to 2013-14 (from 2.8 million to 3.1 million) (ABS 2015a).

As at 30 September 2015 there were 425 740 international student, 25 520 temporary graduate and 144 450 working holiday maker visa holders in Australia (DIBP 2015ax).

As discussed in chapter 11, detailed information is not readily available on the characteristics of these temporary immigrants, including whether they are working. The Commission is recommending relevant agencies establish a database matching tax records with temporary visa records and make this database available for research (chapter 11). Without access to this detailed information, an estimate of the labour supply increase from the increase in immigration relies on a number of assumptions based on survey data.¹ The Australian Bureau of Statistics' (ABS) *Characteristics of Recent Migrants* survey (CORM) results provides information about the participation rates of different visa classes (ABS 2014b). However, these results are not differentiated by age. Nevertheless, an estimate of international students, working holiday makers and temporary graduates as a share of total youth employment can be made as follows.

- International students represented 7.3 per cent of total youth employment in September 2015 assuming:

¹ Unpublished Australian Taxation Office data was also used to verify some of the assumptions about the characteristics of students and working holiday makers.

-
- 57 per cent of international student visa holders were aged 15–24 in 2013, and the age composition has remained the same, then in September 2015 immigrants aged 15–24 on international student visas numbered 242 771
 - around 55 per cent of international student visa holders were employed in 2013, and this also remained the same in September 2015, there would be 134 373 employed international student visa holders aged 15–24
 - this does not include international student visa holders who are not working but are looking for work
 - Temporary graduate visa holders represent 0.3 per cent of total youth employment assuming:
 - 25 per cent are aged under 25 and all of them are working
 - Working holiday maker visa holders make up 4.5 per cent of youth employment, assuming:
 - 60 per cent are aged under 25 and that they are all employed, representing another 82 068 persons.

There may also be a supply effect from permanent immigrants. As outlined in chapters 2 and 4, much of the increase in permanent immigration has been through skill stream visa grants and so these immigrants are less likely to be operating in the same labour market as young Australians. Nonetheless, according to CORM survey data, 24.5 per cent of permanent visa holders were aged 15 to 24. If 60 per cent are assumed to be working, then this group could represent 1.5 per cent of total youth employment.

Adding together these estimates, young immigrants could comprise over 13 per cent of youth employment (table D.1). In addition to the possible direct supply shock, international students, working holiday makers and temporary graduates of all ages could be affecting Australian youth labour market outcomes by operating in similar labour markets. Temporary visa grants in these categories as a proportion of the youth labour force increased from around 14 per cent in 2004-05 to around 27 per cent in 2013-14. Women re-joining the labour market, secondary applicants in the skill stream, and family stream immigrants of working age, could also be competing in the same labour market.

D.2 Immigration effects: a further look

In its draft report the Commission examined the correlation between the percentage point change in the overseas-born employment share and the percentage point change in Australian-born youth employment by region. The significant negative correlation was taken to provide ‘some preliminary evidence to suggest that immigration *may* be a contributing factor to adverse outcomes in the youth labour market’ (italics added). It also noted that correlation is not causation and this evidence was not conclusive and the issue required further examination.

Table D.1 Estimating the number of youth immigrants in work

	<i>Unit</i>	<i>Student</i>	<i>Working holiday maker</i>	<i>Temporary graduate</i>	<i>Permanent</i>	<i>Total</i>
Total (all ages)	no.	425 740	144 450	25 520	190 000	785 710
Aged under 25	no.	242 771	82 370	6 380	46 606	378 127
Aged under 25 and employed	no.	134 373	82 370	6 380	27 992	251 115
Share of total youth employment	%	7.3	4.5	0.3	1.5	13.7

Sources: Commission estimates based on ABS (*Characteristics of Recent Migrants* Cat. no. 6250.0; ABS *Labour Force* Cat. no. 6202.0, September 2015); and DIBP (2015ax).

Further econometric analysis of the relationship between youth labour market outcomes and immigration suggested that the correlations presented in the draft report should not be considered evidence of a direct negative relationship. However, a number of correlations raised more questions about the source of the observed trends in youth labour market outcomes.

The following section briefly details the Commission's econometric analysis.

Methodology

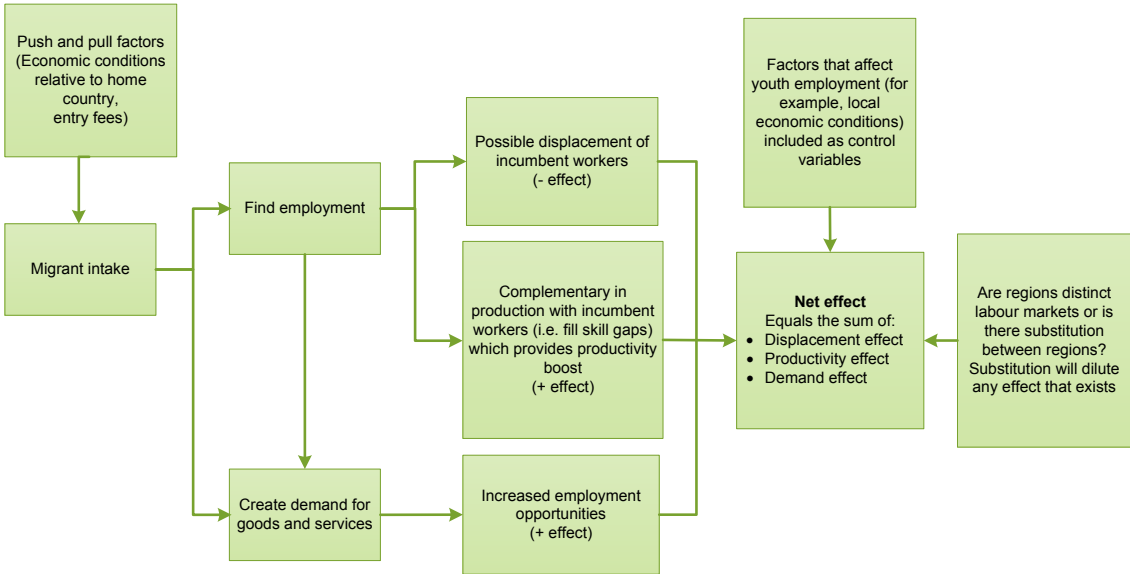
The usual approach taken to estimating the effect of immigration on wages and other employment outcomes of existing residents has been to examine the change in outcomes for the existing residents associated with changes in the share of immigrants in a particular labour market segment. The majority of these studies have defined the labour market segment in regional terms (since immigrants in most countries tend to cluster in a small number of geographic areas). However some studies (for example, Borjas 2003) have segmented labour markets by education and age. The analysis presented in this appendix uses the former approach to assess the impact of immigration on youth employment while the analysis by Breunig et al. for this inquiry (technical supplement A) estimates the effect of immigration on a range of labour market outcomes for all incumbents using the latter approach.² Under these approaches, the change in the labour market outcome of interest is then regressed on the change in the share of immigrants in the labour market segment along with a set of other variables reflecting other factors that might affect relative labour market outcomes differentially across the labour market segments.

The estimated coefficient on the change in the share of immigrants in the labour market segment can theoretically be either positive or negative. In the context of this appendix, the

² In addition to the regional analysis presented here, the Commission also undertook an analysis where the labour market segments were defined by occupation. This analysis did not find evidence of youth displacement from migration at the occupational level (subject to the same caveats as the regional analysis).

coefficient will be positive if immigrants tend to displace local youths for jobs. The coefficient will be negative if this displacement effect is more than offset by immigrants demand for goods and services (leading to an increase in labour demand) and/or if immigrants increase the productivity of local youths (figure D.5).

Figure D.5 How can immigration affect youth employment outcomes?



The method relies on the assumption that the extent of substitution across the different labour market segments is very limited. If this assumption does not hold then labour market effects will be dispersed across multiple segments making them difficult to detect. This means that an insignificant coefficient estimate could indicate that the net effect of immigration on the labour market outcomes of the group of interest is close to zero or that there is substitutability between labour market segments (i.e. regions, in this case).

A second issue is whether there are omitted variables that influence changes in both the immigrants’ choice of location and the youth employment share. Omitting such variables from the regression will result in biased estimates on the coefficient on immigration share.

A third issue is that a statistically significant coefficient estimate will not necessarily indicate immigration has a causal impact on youth labour market outcomes even if the estimates on the coefficient are unbiased. It could be that the causal relationship runs in the other direction (for example, a positive coefficient could indicate that immigrants tend to move to areas that have low youth unemployment levels).

The Commission's approach

In the analysis presented in this paper, the Commission looked at changes in employment to population rates across regions as its measure of labour market outcomes. There are many other measures of labour market outcomes, including hours worked and wages (technical supplement A uses six dependent variables to test labour market effects, for instance.) Labour market adjustment can be spread across these variables, so any one variable will not present a complete picture. For example, if there is a displacement effect, incumbents may be dispersed across both unemployment and nonparticipating categories. The advantage of the employment to population rate is that it will capture both the effects. One of the problems with the employment to population rate is it will be strongly influenced by changes in education take-up (as are unemployment rates). An alternative would be to use the NEET rate of youth.

A pooled differenced model approach was used as follows:

$$\Delta y_{it} = \delta + \beta_1 \Delta x_{it} + \beta_2 \Delta z_{it} + u_{it}$$

Where:

- Δy_{it} is the percentage point change in the youth employment to population ratio in region i in period t
- δ is the intercept (change in constant) term
- Δx_{it} is the percentage point change in the immigrant share of employment in region i in period t
- Δz_{it} is the percentage point change in the adult unemployment rate in region i in period t
- u_{it} is the error term.

The percentage point change in the immigrant share of employment in the region is used as a proxy for new immigration to the region. Three variants are considered, the:

- percentage point change in the *total* immigrant share
- percentage point change in the low-skilled and high-skilled immigrant shares. High-skilled workers are defined as skill level 1 and 2 of the Australian and New Zealand Standard Classification of Occupation and low-skilled workers are defined as skill levels 3 to 5. This is intended to test the proposition that because *low-skilled* immigrants compete more directly and are more substitutable for young workers they will have larger displacement effects on youth employment
- percentage point change in the youth (aged 15–24) and adult immigrant shares (aged 25–64). This is intended to test the proposition that because *youth* immigrants compete more directly and are more substitutable for young workers they may have larger effects on youth employment.

The percentage point change in the unemployment rate of Australian-born adults is included in order to control for differences in regional economic conditions.

Data

Data on the number of persons in Australia by birth place, age and employment status have been sourced from the 2011, 2006 and 2001 Australian Population and Housing Censuses. Residents who were born in a country other than Australia are treated as immigrants. Residents who were born in Australia and are aged 15–24 are considered as ‘Australian-born youth’. Residents who were born in Australia and are aged 25–64 are considered as ‘Australian-born adults’.

Data are aggregated to *Statistical Area Level 4* (SA4 level) of the Australian Statistical Geography Standard (ASGS).³ After the data were cleaned, 87 observations remained in the regional data set.⁴ As can be seen in figure D.6, in 2011 youths were evenly spread across regions while immigrants were more concentrated.

Figure D.6 Employed Australian-born youth and immigrants by region 2011



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

³ Census data for 2006 and 2001 (which use Australian Standard Geographical Classification (ASGC)) was converted to the ASGS using an ABS published correspondence.

⁴ To avoid small sample bias, observations were dropped if there are less than 5000 persons employed in a region or occupation in 2011. ‘Migratory’ and ‘No usual address’ regions have been excluded from the analysis. This is not expected to materially affect the results as the numbers in these categories are usually small.

As mentioned previously, the Commission's estimation approach assumes that labour markets are highly regionally segmented. That is, that workers are not highly mobile across regions and work in the region that they live in. However, this assumption may be less likely to hold in Australia than in the United States or Europe, where there are many middle size cities. (Many SA4 regions in Australia are in the same capital city so this analysis assumes that individuals only look fairly locally for a job.)

Results

Table D.2 presents the regression results for the regional analysis. The results using the change in the share of immigrants in the region as an explanatory variable suggest that between 2001 and 2011, regions that experienced an increase in the immigrant share of employment tended to also experience a decrease in the share of the youth population that was employed. While the correlation is consistent with the proposition that new immigrants displace youth in the labour market, there are also alternative explanations. As expected, the percentage point change in the adult employment rate had a statistically significant negative relationship with the Australian-born youth employment rate.

However, the results do not support the displacement theory when the change in the immigrant share of the workforce is split by skill. The estimates suggest that it is the increase in high-skilled immigrants in a region that is correlated with a reduction in the Australian-born youth employment rate, rather than with low-skilled immigrants, who theory suggests are more likely to be a substitute to young Australian-born workers. One possibility is that there is a 'trickle-down' effect of displacement along the labour skills spectrum, with displaced workers seeking jobs one level down displacing these workers and so on, but other factors, not included in the regressions, could be at play. For example, immigrants might be attracted to regions that have strong improvements in educational outcomes, while the same factor can mean that youth employment rates have fallen as a higher share of youth are going onto complete school and attend university.

The third regression finds a statistically significant negative coefficient on the change in adult immigrant employment share and a statistically significant positive coefficient on the change in youth immigrant employment share. This evidence does not support the hypothesis that young immigrants (a substantial share of whom are international students) are displacing young Australian-born workers at a regional level. The positive relationship between Australian-born and immigrant youth employment outcomes suggests there is a factor other than changes in the adult unemployment rate related to youth employment rates overall. The accessibility of higher education discussed above may be one candidate. For example, regions with a university are likely to have a high share of young immigrants, and a higher share of youth living in the region, which could be associated with higher employment to population rates even if the rate of employment of these youths is lower than in other regions. Such fixed effects of a region should be muted by regressing changes rather than levels. However, if there has been strong growth in these variables, such a regional effect can arise.

Alternative model specifications which included time dummy variables and cross-product terms did not significantly alter model results.

Table D.2 Regression results^a

	<i>Reg 1</i>	<i>Reg 2</i>	<i>Reg 3</i>
Adjusted R ²	0.833	0.846	0.846
Intercept	-1.367 ***	-1.121 ***	-1.332 ***
Immigration variables (percentage point)			
Change in immigrant employment share	-0.394 ***		
Change in low-skilled immigrant employment share		0.181	
Change in high-skilled immigrant employment share		-0.917 ***	
Change in youth immigrant employment share			1.458 **
Change in non-youth immigrant employment share			-0.555 ***
Control variable (percentage point)			
Change in Australian-born adult unemployment rate	-2.937 ***	-2.902 ***	-2.846 ***

^a Significance codes: '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1.

Source: Productivity Commission estimates.

Conclusion

The Commission's analysis suggests that the simple correlations presented in the inquiry's draft report cannot be considered evidence that young Australian-born workers being displaced by immigrant workers. Rather, the correlation between immigration and the Australian-born youth employment rate observed between 2006 and 2011 is likely to be because the regions that have experienced an increase in the number of high-skilled immigrants happen to be the same regions that have seen a decline in youth employment shares. As discussed, the econometric approach relies on assumptions about low rates of substitution across regions for both immigrant and youth workers, an assumption that may not hold for Australian regions, many of which are in the same capital cities. Moreover, there may be other factors that affect the changes in both employment shares and immigrant shares that are not adequately reflected in the regional adult unemployment rate. Further investigation is required before any conclusions can be formed.

How to improve the modelling approach

The econometric approach presented in this appendix has significant limitations, in part due to data availability and the time available. The approach used by the Commission could be improved by:

- adding additional control variables. A range of factors that impact the labour market outcomes of youths should be included in an econometric analysis to properly quantify

any effect of immigration on youth labour market outcomes at the regional level. These include (but are not limited to):

- the average education level of youths in a region
 - the presence of a higher education institution in a region
 - regional economic conditions including the demand for goods and services provided by industries that are (or could be) employers of youth
 - regional labour supply of other workers, such as prime and mature age females, who can be substitutes for youth
- analysing alternative measures of labour market outcomes. In addition to a decline in employment share, adverse labour market outcomes include NEET, underemployment, lower wages, and employment in lower quality jobs, such as those that do not fully utilise employee skills. To gain a complete picture of the effect of immigration on Australian youth all of these labour market outcomes need to be considered.
 - Changes in average wages and NEET rates for youth are available from Census data. However, data on youth underemployment and job quality are only available from survey data (for example, the *Household, Income and Labour Dynamics in Australia* survey or the *Longitudinal Survey of Australian Youth*). These surveys do not contain enough observations for each SA4 region to support a regional approach
 - using longer time series data. The Census data moved to the ASGS regional classification for the 2011 Census. While the 2001 and 2006 Censuses were converted to the ASGS for this analysis using an ABS published correspondence, it is unlikely that earlier censuses could be converted in the same way. This means that it is not possible to obtain a sufficient time series of data to use fixed effects to control for regional differences that are constant over time. A longer time series would allow a fixed effect model to be applied to control for regional differences that are constant over time but that influence youth labour market outcomes
 - improving the coverage and identification of immigrants who are more likely to compete in the youth labour market. The Census data:
 - exclude persons intending to stay in Australia less than one year who may well have different work patterns than other immigrants
 - does not differentiate between overseas-born citizens, permanent residents and temporary immigrants who might have different effects on youth employment outcomes.⁵

While these developments would improve the modelling approach, testing the hypothesis that immigration affects youth labour market outcomes remains problematic.

⁵ Hugo (2006) recommended including all persons in Australia in the Census and incorporating different residential bases in the existing Census question on citizenship to resolve these drawbacks.

First, establishing causality is difficult. The usual approach is to find an instrument that is highly correlated with immigrant shares, but is not otherwise related to youth labour market outcomes. Some studies have used lagged immigration rates as an instrumental variable for current immigration in an attempt to address this problem (Sinning and Vorell 2015; Smith 2012). However, the effectiveness of this instrument has been questioned (technical supplement A).

Second, the approach assumes limited substitution across the regions. Yet at the SL4 regional level, this assumption is unlikely to hold as immigrant and youth workers in capital cities are likely to be able to move or commute to a different region within their city for work.

One option to examine the effect of immigration on youth labour markets would be to use larger regions (such as states) and a shorter time period (reducing the likelihood of capturing interstate migration due to changes in labour market conditions). A reasonably long time-series of annual data would be needed to ensure a sufficient sample size is available. In addition to the additional control variables mentioned above, this approach would need to include factors that affect the decisions about continuing education such as income gaps and government policy as these have changed over time. The data set needed would likely involve using a combination of survey data (for the youth-specific variables), ABS migration data by state and territory and ABS data on regional economic conditions. This approach would only be able to pick up large and systematic effects of immigration on youth employment outcomes.

The effects on the youth labour market outcomes in specific industries or regions may also be of interest, including where any displaced youth find alternative employment.

Case studies on specific industries and/or regions can shed light on the effect of immigration on youth labour market outcomes (though the conclusions would necessarily be limited to the specific cases analysed and could not be used to ascertain whether a economywide relationship exists). Case studies in regions that had a large negative correlation between immigration and youth employment outcomes could be particularly illuminating. Such case studies would likely involve interviewing a representative sample of employers (to determine who they have been hiring and why they have been hiring them) and youths (for example, to determine whether a lack of work has led them to withdraw from the labour force and instead study) and would be complemented by quantitative analysis on labour market outcomes for working ages and skill levels in the region.

E The Business Innovation and Investment Programme

People with business skills and/or money to invest in Australia can apply for permanent immigration through the Business Innovation and Investment Programme (BIIP). 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 2014j).

The following sections examine the program more closely, including coverage of some distinctive issues relating to the Significant Investor visa (SIV) and Premium Investor visa (PIV) subclasses (sections E.2 and E.3). The material in this appendix provides detailed information to support the critical assessment of these visa categories in chapter 13.

E.1 The origin and design 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 three visa subclasses are part of the BIIP:

- 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 2015s). This visa subclass is a minor component of the BIIP — only 265 visas were granted in 2013-14 (DIBP 2015e). 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 (Provisional) visa (subclass 188) is a temporary visa for people who want to own or manage a new or existing business in Australia, or invest in Australia.
 - The Business Innovation and Investment (Permanent) visa (subclass 888) is a permanent visa for people who own or manage a business in Australia, or invest in Australia. Applicants must first be granted a provisional visa, and can be eligible for a permanent visa after a given period. (The period before eligibility for a permanent visa depends on which ‘stream’ of the 188/888 pathway the immigrant uses.)

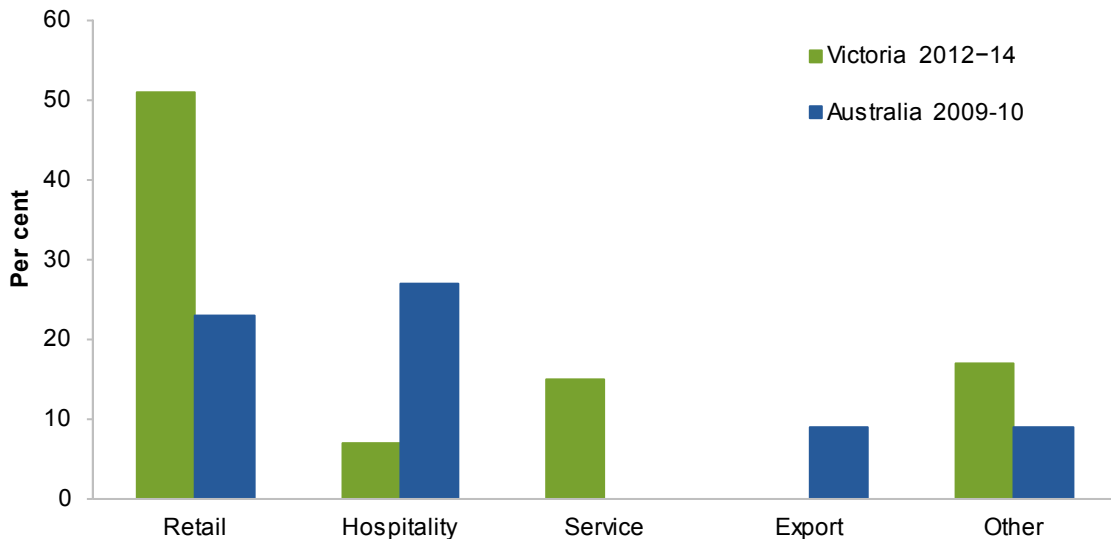
For the pathway from a provisional to a permanent Business Innovation and Investment visa immigrants can access four streams (plus two ‘extension’ streams).

- Business innovation (own or manage a business).
 - Business innovation extension stream (allows extra time for a provisional visa holder to meet the requirements for a permanent visa).
- Investor (investment of at least \$1.5 million).
- Significant investor (invest at least \$5 million in complying investments).
- Significant investor extension stream (allows extra time for a provisional visa holder to meet the requirements for a permanent visa).
- Premium investor (invest at least \$15 million in complying investments).

Applicants through either pathway (Business Talent or Business Innovation and Investment) 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 2015s).

The program is particularly attractive for immigrants from the People’s Republic of China, who comprised about 70 per cent of the intake in recent years. By comparison, Chinese immigrants accounted for 14 per cent of permanent immigrants and about 10 per cent of skilled immigrants in 2013-14. While data are incomplete, retail or hospitality businesses have been the dominant nominated industries (figure E.1).

Figure E.1 **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. Data for Australia show outcomes in 2010 of Business Skills program immigrants who lodged applications between July 2009 and October 2010.

Sources: DIBP (2014j, p. 34); Victorian Government Department of State Development Business and Innovation (2014, p. 7).

The 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. (JSCM 2015b, 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. (JSCM 2015b, p. 30)

The Committee also commented on the availability of evidence to assess the program. It found that the Department of Immigration and Border Protection (DIBP) had very little data on the characteristics of businesses operated by BIIP visa holders. It also found that although state and territory governments collected some data, they are not readily available. Consequently, the Committee was limited in its ability to reach conclusions about the program. The Committee made a single recommendation — that the DIBP review the program in 2015-16. In chapter 13, the Commission reiterates the concerns about inadequate data. It has recommended a review when the program is more mature and after the DIBP has collected more data.

E.2 Investor visas

All of the streams available under the BIIP require the immigrant to invest some money in Australian businesses. The Business Innovation stream and the Investor stream require applicants to pass a points test to demonstrate that they have experience in managing a business in Australia, and that they have a genuine intention to live in Australia and to continue to take an active role in managing the business. The Investor stream is not extensively used. In 2013-14, only 16 visas were granted through this stream (up from two the previous year) (JSCM 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 residency for people who invest at least \$5 million or \$15 million (respectively) in ‘complying investments’. The SIV and PIV are similar to investor visas that exist in several other countries (box E.1).

The SIV has been a small part of the total skill stream. From the inception of the program in late November 2012 until 31 January 2016, the Australian Government granted 1228 SIV visas, with \$6.14 billion invested in complying investments. Applicants from China accounted for just over 90 per cent of primary applicant visa grants over this period (DIBP 2016e). Of the visas granted from November 2012 until 30 November 2015, the majority of recipients settled in Victoria (57 per cent) and New South Wales (33 per cent) (DIBP 2015aq). To date (March 2016), no PIV grants have been made.

Box E.1 Investor visas in other countries

Several other countries offer visas that have similar characteristics to the Significant Investor visa and Premium Investor visa, which provide 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 €1.15 million for a passport
- Cyprus — pay €3 million for a passport
- Austria — citizenship granted to people who donate €2 million to charity or invest \$US10 million 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 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 fund that is managed by the Business Development Bank of Canada. The pilot is limited to 60 visa approvals.

How the SIV and PIV work

Applicants for the SIV and PIV must be nominated. State and territory governments and Austrade can nominate applicants for the SIV. Only Austrade can nominate applicants for the PIV. Conditions for nomination for the SIV vary slightly across jurisdictions. In general, applicants must demonstrate a commitment to residing in the nominating state or territory, and investing some of the complying investment funds in that state. To be nominated by Austrade for the PIV, a potential immigrant has to demonstrate 'proven talents and the long-term economic benefit they can deliver to Australia' (Austrade,

sub. DR116, p. 3). Successful SIV and PIV applicants are granted provisional residence and are eligible to apply for permanent residence after four years (SIV) or one year (PIV).

The transition to permanent residency has few requirements. For SIV holders, permanent residency can be granted with as little as 40 days per year residency in Australia over four years. No residency requirement applies for provisional PIV holders who have maintained their investment for at least 12 months. Because the SIV commenced in November 2012, no provisional visa holders have yet become eligible to apply for permanent residency.

When the SIV was introduced, the list of complying investments included Australian government bonds and Australian listed equities. The framework was reviewed in 2014. The then 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 E.2). PIV holders will be permitted to invest up to 100 per cent of PIV assets in Australian government bonds and other low- or no-risk asset classes.

Box E.2 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 (Austrade 2015b), of which:

- there must be Mandatory investment of at least \$500 000 at the time of investment in an AusIndustry registered fund(s), either an early stage venture capital limited partnership or a venture capital limited partnership. The target group are 'start-up and small private companies' (Austrade 2015a)
- at least \$1.5 million must be invested in 'eligible managed fund(s) or Listed Investment Companies that invest in emerging companies listed on the Australian Securities Exchange'
- 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).'

To be granted a Premium Investor visa the applicant must invest at least \$15 million. The visa is available by invitation only, and the framework for eligible investments is more flexible than the Significant Investor visa complying investment framework. Eligible investments include: Australian securities exchange listed assets; Australian government, semi-government and corporate bonds or notes; proprietary limited companies; real estate property (excluding direct investment in residential real estate property and limited indirect investment), annuities and state and territory government approved philanthropic donations.

E.3 Some considerations in assessing the SIV and PIV

Objectives of the SIV and PIV

The Australian Government has stated several objectives for the SIV, with the emphasis changing over time. Initially, the Government identified the objectives as attracting ‘high net worth’ individuals, attracting successful business people and investors, and increasing the pool of funds under management in Australia (Bowen and Shorten 2012; Bowen 2012).

More recently, the Australian Government has emphasised the objectives of attracting people with entrepreneurial and other business skills, and encouraging investment in sectors that have thin capital flows.

[The SIV and PIV] are aimed at attracting applicants who genuinely want to settle in Australia, who will invest in innovative Australian businesses, and who are expected to make an enduring contribution to Australia, including through investment and reinvestment beyond the complying investment framework. Additionally, the complying investment framework requires that applicants invest in areas that the Government considers will support innovation and the commercialisation of Australian ideas, research and development. In particular, it is intended that mandatory SIV investments into venture capital and growth private equity have the potential to become an additional source of equity capital to assist new and innovative Australian businesses through the high-risk period often referred to as the ‘valley of death’ or the ‘equity gap’. (Austrade, sub. DR116, p. 1)

The PIV is focused on attracting people with very high levels of skill.

The Government introduced the PIV with the intention of attracting a very small number of highly talented entrepreneurial individuals who can translate those skills and talents into areas which deliver a long-term economic benefit to Australia. The ability to make a \$15 million complying investment is a mandatory eligibility criterion, but in selecting who to invite to apply for a PIV, Austrade’s primary focus will be to identify individuals who can translate their exceptional entrepreneurial skills and talents into areas which deliver a long term economic benefit to the country. (Austrade, sub. DR116, p. 5)

Economic impacts and risks

The SIV and PIV have the potential to create additional employment, investment, innovation and generate government revenues through several mechanisms.

- Complying investments could reduce the cost of capital for some businesses, enabling them to expand.
- Investments outside the complying investment framework could create additional economic activity.
- SIV and PIV holders could bring skills to Australia that would otherwise not be available.

The extent to which the SIV and PIV could increase the wellbeing of the Australian community as a whole requires that:

- any apparent economic impacts are truly ‘additional’ — that is, they would not have occurred in the absence of the SIV and PIV. For example, Australia is very open to foreign investment. If SIV-complying investments in Australian Stock Exchange-listed companies merely displace other foreign investment, the net effect on Australia of this SIV impact would be zero, and the SIV complying investment could not be counted as a net benefit to Australia
- the benefits they produce are not fully appropriated by the successful applicants. At least in some instances, the main benefit to the broader Australian community would be through additional tax revenue.

Additional SIV investment in venture capital and early stage equity

Ten per cent of SIV-complying investments must be invested through eligible managed funds in early stage venture capital limited partnerships (ESVCLPs) or venture capital limited partnership (VCLPs). While ostensibly aimed at start-up and small private companies, the legislation is not prescriptive.

- In the case of ESVCLPs, the legislation does not define early stage, but there are several factors that are apposite. The relevant recipient business for venture capital must have gross assets up to \$50 million. The business’s levels of risk, return on equity, the level of its technology and its stage of development are also important factors (Maarbani 2015). Maarbani notes that the ‘relatively high threshold would typically include expansion stage investments’ (p. 1). BlueChilli Venture Fund is an example of a SIV-compliant ESVCLP. It invests early and focuses on ‘scalable, capital-efficient technology startups’ that have completed the BlueChilli Accelerator Program and that have already raised some follow-on funding from external angel investors or venture capital funds (BlueChilli 2016).
- VCLPs include mature businesses and covers investment in businesses with gross assets of up to \$250 million (DIS 2015a). There are relatively few SIV-compliant VCLPs (with AVCAL listing six registered entities on its website at 5 April 2016). Blue Sky VC2014 Fund L is an example of a SIV-compliant VCLP. It has a late stage venture capital/early expansion capital focus, encompassing mature companies with a ‘lower risk profile’ and is industry and technology sector ‘agnostic’, providing investors access to a diverse portfolio ‘less vulnerable to technology and market cycles’ (BlueSky 2016).

ESVCLPs like BlueChilli meet the usual criteria for venture capital, defined by the Australian Bureau of Statistics (ABS 2016b) as pre-seed, seed, start-up and early expansion projects. However, given their characteristics, ESVCLPs and (particularly) VCLPs can straddle the categories of venture capital and later stage private equity.

Venture capital is a subset of private equity that focuses on new, fast growing or innovative companies. Venture capital managers typically provide skills (mentoring, advice and oversight) as well as a financial investment. Fund managers may take positions on the boards of companies they invest in, and some run ‘business incubators’ or similar programs to support new businesses. The majority of the return from venture capital investment is expected to be through capital gains (realised when the company is divested, such as by public listing or buy-out). This means that venture capital tends to be a long-term investment. It can take up to 10 years to identify an investment, build up a fledgling business and sell it to recoup the gains. One of the criticisms of the SIV is that not only are the investments sometimes not in businesses that typically are the target of venture capital conventionally-defined, but that the minimum investment time frame (of four years) remains too short (Suchard 2015).

Late stage equity still tends to focus on higher-risk businesses, with most of the return also expected to be through capital gains, but as observed by BlueSky (2016), the risks and the types of businesses covered can be quite different from those in the early stages of development.

Is government intervention in the venture capital sector required?

Previous analysis by the Commission found that, as a share of gross domestic product (GDP), Australia’s venture capital sector was one of the smallest among countries in the Organisation for Economic Cooperation and Development (OECD), with investment accounting for approximately 0.02 per cent of GDP in 2014 (PC 2015a, p. 157). In Canada and the United States, venture capital investments are 4 to 14 times larger as a share of GDP. However, venture capital is a very small share of GDP in most other OECD countries, with Australia on par with Germany and New Zealand. (The Commission does not have data on the varying access to later stage equity among different countries.)

Official data for 2014-15 shows that there was \$178 million of new investments during the year in venture capital (that is, pre-seed, seed, start-up and early expansion projects) and an additional \$206 million in follow-up venture capital, or a total of \$384 million (ABS 2016b). The accumulated stock of commitments to venture capital in that year was \$4.7 billion.¹ The comparable estimates for later stage private equity for 2014-15 were \$1.2 billion (new investments), \$209 million (follow-on investments) and \$15.2 billion for the accumulated stock. Overall venture finance and late stage equity finance increased considerably compared with the previous financial year (respectively by 29 and 57 per cent in real terms).

The Australian Private Equity and Venture Capital Association (AVCAL) also publishes data on new funding commitments to venture capital and private equity (AVCAL 2015). The AVCAL data relate to a different measure of venture capital than the ABS data, and

¹ ABS 2016, *Venture Capital and Later Stage Private Equity, Australia, 2014-15*, Cat. No. 5678.0, released 11 February.

the values are accordingly different. In 2014-15, AVCAL estimated that new venture capital funding was \$368 million (close to the total ABS figure above) and that private equity funding was \$2.7 billion (considerably greater than the ABS estimates).²

The key question for policy analysis is whether the venture capital and late stage private equity sector is below its efficient size. If so, some companies that merited such risk-capital would not be able to attract it. Based on its discussions with venture capital managers, AVCAL suggested that there was sufficient capital for only two or three of every 10 seriously-good investment opportunities (trans., p. 280).

This is not the only perspective. In the *Business Set-up, Transfer and Closure* report, the Commission found that the small size of Australia's venture capital sector could be a barrier to some businesses seeking investment over \$5 million. However, it also concluded:

... just because every start-up does not receive the venture capital it seeks does not of itself indicate there is inadequate pool of venture capital funds available. Indeed, if every start-up received venture capital, that would likely indicate that venture capital funds were not undertaking the necessary due diligence. It is, however, not possible for the Commission to determine the extent to which start-ups that would otherwise develop into commercially successful businesses are not being funded. (PC 2015a, p. 163)

A recent paper from the Office of the Chief Economist was also sceptical about financing constraints for innovative businesses as a group, but did not regard this as sufficient evidence to rule out the possibility of some problems in equity finance for segments of the market:

Young innovative SMEs are also significantly more likely to get the equity finance they seek suggesting that there is not an issue with equity finance for young innovative SMEs in Australia. Additional venture capital financing data suggests that fewer high-growth potential, innovative firms are now receiving venture capital despite resurgence in demand. Australia's venture capital early-stage investments are also very low when compared with OECD countries. This specific equity financing gap may present significant challenges for the diversification and growth of innovative, disruptive firms in Australia (Alinejad, Balaguer and Hendrickson 2015)

The return on investment is a litmus test of the performance of the venture finance market. In theory, in the presence of capital rationing, the returns should be relatively high because the selected projects should be the highest returning. In fact, the sector has historically achieved poor returns.

Of the 37 funds operating in Australia between 1985 and 2008 the average annualised return was -5.4 per cent (AVCAL 2009). In comparison, the average annual return provided by the All Ordinaries Accumulation Index was around 13 per cent over the same period (AMP 2013). More recent data on the returns provided by venture capital funds in Australia show that for the 12 month period from September 2013 to September 2014 the pooled return to Australian

² The ABS also uses different terminology from AVCAL to describe the amounts of venture capital. The ABS refers to as 'investment' the amount of investment by venture capital and late stage private equity vehicles in investee companies, only some of which is drawn down.

venture capital funds was just over 14 per cent, but over the 5 year period to September 2014 the pooled return was –2.7 per cent. (AVCAL, pers. comm., 19 February 2015 cited in PC 2015a, p. 164)

The small size of most venture capital investments (three quarters are below \$5 million) may also affect the overall returns from investing because the transaction costs (arising from the need for due diligence) are relatively high.

Given historically-poor rates of return, the transactions costs, the need for good information about what are inherently high-risk investments, and the importance of support for start-ups, institutional investors may have rationally chosen to avoid substantial investment in the sector. In that context, it is not clear that government intervention to stimulate investment would be justified. Even if there was a justification for some support, a further consideration is that there are substantial difficulties in designing effective industry support programs. Markets may not always work well, but government interventions to address these flaws may also be flawed, and may deliver no better, or even worse outcomes.

In any case, the premise that venture finance is heavily constrained may be changing. In 2015, several venture capital funds were launched, with backing from institutional investors, including superannuation funds, and investment targets of \$200 million (Rose 2015).

In its 2015 study, the Commission also considered the availability of foreign investment in venture capital. It found that foreign investment is volatile from year to year, but there are no regulatory barriers to foreign investment.

Just under half of all new venture capital in 2013-14 was sourced from overseas, around 10 per cent in 2012-13 and 2011-12, but more than half in the previous year (2010–12) (AVCAL submission 72 to the PC 2015a, p. 160)

Ultimately, the Commission concluded that government intervention to expand the sector was not required.

The Commission has concluded that there are no significant regulatory barriers to the establishment of new venture capital funds in Australia or to the flow of venture capital into Australia. There may be some issues with the small scale of Australian funds although a few larger venture capital funds, underpinned by investment from superannuation funds, have recently been established. The Commission does not consider that government intervention is required to further develop the Australian venture capital market. (PC 2015a, p. 175)

Does the SIV lead to additional investment in venture capital?

Putting aside questions about the desirability of government programs for stimulating venture finance, an important ancillary question is whether the SIV is likely to increase investment in innovative businesses, rather than crowd out existing funding sources.

In theory, the additional value of SIV funds could be considerable if the number of successful applicants was large. That said, since the Australian Government modified the rules about complying investments in 2015, there have been relatively few grants. This may increase over time but, given the additional restrictions, is unlikely to reach the annual numbers granted before 2015. Nevertheless, as a hypothetical scenario, were 100 SIVs to be granted per year (significantly fewer than the number prior to the implementation of new regulations in July 2015), this implies new venture capital funding of \$50 million annually (and double this, if the requirement increases to \$1 million as envisaged by the Australian Government).³ To the extent that this did not crowd out existing venture finance, this would still represent a significant increase in venture and later stage equity financing compared with current funding levels, although the effect would be larger the more that SIV funds were allocated through ESVCLPs.

However, there is a risk that there will be some crowding out of existing investment. SIV holders are, in exchange for the capacity to obtain visas, willing to take a lower return compared with other investors. Visas are valuable assets in their own right — with the analysis in the body of this report indicating that Australian permanent residency can be worth hundreds of thousands of dollars given the fiscal transfers involved. There are also other pecuniary and non-pecuniary benefits from residency. This means that the rate of return that will just elicit a willingness to supply finance by SIV holders will be lower than for other investors. On the venture capital supply side, this creates pressures to reduce the average required rates of return to investors (in effect, funds are less rationed). This could be expected to increase the number of financeable projects, which is the objective of the SIV. However, the lower rates of return would lead to some substitution between existing investors (who require a higher rate of return to be willing to invest) and SIV investors. Total investment would be still likely to rise, but by a smaller amount than the newly committed funds of SIV holders. The magnitude of the crowding out effect is an empirical issue.

Moreover, a SIV holder does not have to leave their investments in a venture capital fund in perpetuity. Depending on the desired horizon for venture capital investment, this may mean that the provision of funds by SIV holders may not be patient enough to serve the purpose for early stage funding (as noted above by Suchard 2015). The Australian Government has apparently made it clear that:

... in relation to complying investment requirements for the Significant Investor visa, the mandatory investment into eligible Venture Capital growth Private Equity funds may be for investment terms that are greater than the provisional visa period. (DIBP 2016a)

Nevertheless, there is little clarity about the acceptable minimum term for investments, and how after residency was granted, the Australian Government could require a longer-term

³ The annual investment amounts will be lower than this initially because there are relatively few successful grants so far under the new arrangements, and because SIV recipients are only required to make the investments over a four-year period.

investment. In that context, the degree to which SIV funds genuinely stimulate ‘patient’ capital is unclear.

Tax issues relating to ESVCLPs and VCLPs

ESVCLPs and VCLPs are programs governed by legislation (through the *Venture Capital Act 2002* and the *Income Tax Assessment Act 1997*) and require Australian Government approval and registration. These partnerships are not taxed at the partnership level (that is, they received flow-through tax treatment), and income distributions and capital gains as a result of the investments are exempt from tax in the hands of the foreign and domestic partners (Maarbani 2015).

The Australian Government has also signalled that as part of the National Innovation and Science Agenda, it will provide concessional tax treatment (through tax offsets) for early stage investments through ESVCLPs and VCLPs (Treasury 2016).

It would appear that SIV holders, like other investors, will be able to benefit from these tax arrangements, despite already having strong incentives to make the investments to obtain a permanent visa. The outcome from the combination of visa eligibility conditions and the tax-preferred status of ESVCLPs and VCLPs could amount to the Australian community paying a small group of people to become permanent Australian residents, notwithstanding the significant benefits such people obtain from permanent residency status. That is, Australian taxpayers would be effectively subsidising SIV applicants.

Other SIV complying investments

Under the revised complying investment framework, successful SIV applicants can still allocate much of their funds to relatively low-risk investments (box E.2), such as ‘blue chip’ listed equities and corporate and government bonds. (There is even greater scope for investment in such assets by any successful PIV applicant.)

The markets for listed equities and corporate and government bonds are highly liquid and deep, and attract significant offshore investment.⁴ Investment by SIV (and would-be PIV holders) can only account for a trivial percentage of capital flows to Australia and investment in these asset classes. Accordingly, SIV/PIV investments in these assets cannot materially reduce the price of capital to Australian businesses.

SIV investments outside the complying investment framework

SIV and PIV holders are free to invest additional funds outside the complying investment framework. Some may invest in businesses that would otherwise not attract funding. Some

⁴ 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).

inquiry participants emphasised the benefits of this investment. For example, Moelis and Company, a fund manager that provides services to SIV holders, stated:

In our view, the investment ‘multiplier’ effect will be significant and ultimately the total capital invested will be multiples of the capital invested under the SIV program. The vast majority of our SIV investors have indicated a genuine intention to make material investments into Australia outside the SIV program which they would not have pursued without being holders of SIVs. (Moelis & Company, sub. DR129, p. 3)

Currently, there are no data to assess the extent of investment outside the complying investment framework. However, Australia is very open to foreign investment. It is therefore doubtful that investment by SIV holders outside the complying investment framework would be genuinely new to Australia, but rather would simply displace investment from another source.

Regardless, the very small scale of SIV investments suggests its impact must be trivial. In the year ended 31 December 2014, foreign investment in Australia was \$261 billion, and the total stock of foreign investment in Australia was \$2.8 trillion. SIV complying investments account for about one fifth of 1 per cent of total foreign investment in Australia. Claims of ‘multiplier’ effects have no substance.

Attracting talented migrants to Australia

Some SIV immigrants have entrepreneurial skills, business acumen and links to their home countries that could increase economic activity. However, there are other visas that more directly target highly-skilled and entrepreneurial people.

- The Business Talent visa (subclass 132) was discussed briefly above. Applicants must lodge their application through Skill Select and be invited to apply for the visa by a state or territory government or the Minister for Immigration. Applicants must have:
 - a significant history in business, willingness to take a management role in an Australian business and assets of at least \$1.5 million (Significant Business History stream), or
 - a high value business idea and at least \$1 million in funding from an Australian venture capital firm (Venture Capital Entrepreneur stream).
- The Distinguished Talent visa (subclass 858) is available to people who have ‘an internationally recognised record of exceptional and outstanding achievement’ in a profession, sport, academia and research or in the Arts. Visa holders are granted immediate permanent residency and can include partners and dependents in their visa application. Applicants must have at least functional English (or pay an additional charge). Applicants under 18 or over 55 are eligible, but must prove that they would ‘be of exceptional benefit to the Australian community’ (DIBP 2015o).
- As part of the *National Innovation and Science Agenda*, the Australian Government announced that it will develop a new entrepreneurs’ visa (chapter 6).

These visas provide viable pathways to immediate permanent immigration by highly-skilled and entrepreneurial people. Only the Business Talent visa has a significant financial requirement, albeit substantially less than the SIV investment requirement.

It is unlikely that any highly talented person who genuinely wanted to migrate permanently to Australia and use their skills would face any significant difficulties in gaining entry through one of these streams. This might lead perversely to the outcome that, because of these alternative opportunities, the people using the SIV might have less business acumen (though more investment funds) than people using the other business-focused immigration pathways.

Benefits for fund managers

The SIV compels visa holders to invest money through managed funds. Fund managers gain access to a new source of capital, with the associated fees and commissions. In economic terms, the investment framework for the SIV leads to a transfer of a rent from non-Australians to Australians. Technically this is a benefit to the Australian community (broadly defined).

Moelis & Company argued that the SIV could be a ‘beach head’ to help the funds management industry to increase its exposure and export of services to Asia (sub. DR129). Migration Alliance Inc. (sub. DR89) made a similar argument. The Commission is unsure whether this is a realistic prospect. However, the concentrated private benefits to a few fund managers are likely to be relatively small. Depending on the age of a SIV immigrant, his or her occupational skills and English-language proficiency, and the number and traits of any secondary applicants, there is a reasonable potential that these benefits might be offset by the fiscal costs borne by the rest of the community.

Social impacts and risks

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 may reduce successful integration into the Australian community. Some inquiry participants also raised a general objection to the idea of ‘selling’ residency. Additionally, the fact that SIV holders are permitted to spend as little as 10 per cent of their time in Australia during the period they hold the provisional SIV would also impede social connections to the broader Australian community.

Program integrity risks

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 have not arisen from corrupt practices. However, as noted by Transparency International Australia, the integrity regime is costly and not foolproof:

Monitoring and surveillance of overseas fund flows in relation to these visas is complex, we recognise, and involves extensive and challenging work by Austrade and other agencies, and is expensive. It is, in our view, a diversion of specialist resources and limited funds. ... no level of screening and vetting can provide complete assurance as to the integrity of the source of funds accessed by the applicants for those visas. (Transparency International Australia, trans., p. 239)

The historical operation of the SIV suggested that at times, visa holders, with the help of financial institutions, sought to (lawfully) use the rules in ways that were inimical to the objectives of the program. In the first two and a half years of the SIV, some financial institutions provided 'loan back' facilities to SIV holders. Institutions permitted SIV holders 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 SIV immigrants (and intermediaries) may sometimes act outside the spirit of the program to achieve permanent residency. (Of course, this is not a problem unique to the SIV.)

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