

19 June 2015

Migrant Intake
Productivity Commission
GPO Box 1428
Canberra ACT 2601

Dear Commissioners,

The Migration Council Australia is pleased to provide a submission for the Productivity Commission's Inquiry into Australia's Migration Intake.

Our submission reflects an ongoing commitment by the Migration Council Australia to advocate for improved migration and settlement policies. The Migration Council Australia is an independent, non-partisan, not-for-profit body established to enhance the productive benefits of Australia's migration and humanitarian programs.

We would be happy to meet further with the Commission to expand on our submission.

Yours sincerely



Carla Wilshire
Chief Executive Officer

Migration Council Australia (MCA) - Submission to the Productivity Commission's Inquiry into Australia's migrant intake

Recommendations:

- Australian immigration policy should reflect Australian values and support the economic, social and cultural interests of the Australian people.
- Australian immigration policy should maintain a skills and family based system as opposed to price-based mechanism.
- Australian immigration policy goes beyond simply regulating the entry and exit of people. How people settle and live in Australia is a critical part of our approach to immigration.
- Visa categories should reflect their central priority and not be subject to "scope-creep".
- The maintenance of public support for Australia's immigration policy is critical for its long-term sustainability.

Introduction

Australia is internationally recognised as a leader in migration. Our policy framework is the culmination of decades of program iteration and thoughtful evaluation. The premise and rationale for migration has shifted and changed as our national interest has matured and our needs have evolved. A program that began as the survival imperative of a colonial outpost has become a sophisticated economic tool of strategic import.

At times migration has been framed as a defence measure; at times as a population strategy and a means to compensate for our relative isolation, more recently it has become a labour force strategy and a skills program. It has been our link to the outside world and has re-shaped our identity and shifted the focus of our relationships. Both its value and its impact cannot be underestimated.

Our migration program has changed but the trend has continued. Since the end of the Cold War, Australian migration has increased in magnitude and scope. This has seen historically high levels of net migration year upon year and an increase in Australia's population at a rate amongst the fastest in the developed world.

The Migration Council Australia (MCA) strongly supports the current migration framework. While not each and every component part of migration policy is perfect, the structure and outcomes delivered to Australia are vital to our national interests. Moreover, the current policy framework has delivered economic growth, social cohesion and cultural enrichment without the cleavages of discontent found elsewhere.

Second generation Australian migrant children perform better than their Australian counterparts while Australian migrants exceed in terms of net government tax contribution and expenditure consumption compared to Australian born residents. Amongst developed countries, Australian immigration is lauded for its tradition and innovation.

However there are broad questions worth asking for the future. Should our migration framework be neatly categorised into small segments – permanent, temporary, students, family etc – or does this blind us to how the system works as a whole? Are there gaps in the system and is the current framework meeting need in regional Australia? Will future demand be satisfied by the status quo?

Public attitudes to migration in Australia are clearly linked to the current performance of the economy. A good economy and a low unemployment rate sees support for migration while the inverse of a poor economy and high unemployment has traditionally dampened public support. Yet this becomes difficult for policy makers in a period of 24 years and counting of economic sunshine. In this period, temporary migration has become a mainstay of policy. What effects would a recession have on temporary migrants, both the nearly 1m who are already in Australia and future arrivals? And, in a system of increasing complexity where two-step migration is becoming the norm, what would a fall in temporary migration do to our permanent intake?

In the Australian context, migration has traditionally been both a process – to migrate – and an outcome – to settle. The act of migration itself does not define who a migrant is or what they will accomplish in Australia.

Visa fees

The terms of reference provided for this inquiry ask that the Productivity Commission examine the feasibility of transitioning to a system whereby entry charges for migrants are the primary basis of selection. The MCA considers that moving to a price based selection system would be a retrograde step and would significantly undermine the positive economic contribution our migration program makes, both to the long run fiscal position of the state, and to the economy as a whole.

Underlying arguments in favour of a price-based system is the notion that capacity or willingness to pay enables the market to self-select those most likely to succeed. However, capacity or willingness to pay is not a predictor of capacity or willingness to contribute socially or economically. The ability to out-bid other potential applicants in order to secure a visa offers little insight into the likelihood that (1) the applicant will be a good skills match for Australia's industry needs; (2) is likely to work in Australian companies in positions that are currently vacant; (3) is willing to integrate and settle into the Australian community.

Just as the capacity of a student to pay university fees is not a predictor of academic aptitude, the financial means to pay for a visa does not translate into a willingness to work in Australia. Rather, as our universities have found, a reliance on a range of merit based criteria is the best mechanism to award course places. The current framework for our permanent skilled migration system works on a similar basis, awarding places (a fixed number of visas) to those who meet a range of merit based criteria calibrated to select those most likely to fill our skills shortages.

The discussion paper raises the possibility that a HECS style system may be used to enable migrants who do not have the means to bid for a visa to re-pay a loan over the course of their working lives. It should be noted that there are distinctive differences between the notions of a student loan for a degree and a loan issued to re-pay a visa. The premise of HECS is that a payment is made for services provided (namely education) that would enhance their income earning capacity. In contrast, a migrant would be paying to enable them to make a contribution to the Australian economy using a degree that has been acquired prior to their arrival. A loan system risks creating a second class of citizenship, in effect creating a working tax on new migrants as they attempt to re-build their lives in Australia.

Further a HECS style system relies heavily on a high level of future repayment. A loss of public confidence would quickly ensue with low repayment rates, hurting support for migration and social cohesion in Australia.

More generally, the political appeal of a visa price system rests in the instantaneous revenue raising capacity and in the notion that Australians will more readily accept migrants who pay.

With respect to the revenue raising appeal of a visa pricing system, the gain is short-term only. Selecting highly skilled migrants who have high employment outcomes generates tax-revenue and minimises transfer payments over the working-life of the migrant. The lifetime revenue of an applicant under the current skilled migration framework significantly exceeds the nominal amount any one-off visa payment could contribute. Shifting the application towards a price-based mechanism would risk this contribution. Further, the capacity of a high skilled program that is complimentary to our current workforce to create new jobs and stimulate economic activity cannot be discounted. Inquiries that focus on the point of entry forget that migration is a lifelong process. Revenue forgone in the act of granting a visa is more than made up for over the life of a migrant.

Moreover, the potential drop in supply of migrants in the event that we moved to a bidding war should be factored in. Not only is supply in general likely to evaporate, but also such a strong price signal in a competitive global market will significantly skew the composition of the program. Highly skilled workers with strong English language abilities will choose to migrate to countries that have maintained a policy to select on the basis of merit, such as Canada or New

Zealand. Only potential candidates unable to meet the criteria other countries have set in place will default to Australia. It is very difficult to forecast how this would play out over the medium- and long-term, creating significant systemic risk for Australia's migration policies. While short-term prices may be extraordinarily high, over a 10, 20 or 30 year period, these prices may evaporate.

Finally, with regard to the potential of a price based system to enhance public support for migration the MCA remains sceptical. Public support for the migration program in Australia is already high. Some 59 per cent of Australians support our migration program, significantly above global trends. Support for migration rests in part of an acceptance of an orderly merit based process. The MCA considers that a system where Australians consider that those who are wealthier have "paid to skip the queue" will undermine public support in the program.

The use of prices to replace the current status quo would ignore our migration traditions. The current framework is based on Australian values, such as an egalitarian approach to selection and a sense of fairness. These values reflect community values and contribute to the high level of public support. Andrew Markus, author of the Scanlon-Monash Social Cohesion surveys states Australia has "possibly the highest current level of positive sentiment towards immigration in the western world".

The change to a price-based mechanism would risk the economic, social and cultural benefits Australia currently enjoys from our migration policies. But most importantly, it would threaten to undermine what is one of the most socially cohesive societies in the world. Public support for immigration cannot be discounted, as it is the foundational driver for current policies.

Looking more broadly at our current fee system, the MCA acknowledges that the criteria to determine the current level of visa fees are difficult to assess. Recent increases in visa fees occurred in quick succession and without public discussion. Migrants are in an inherently difficult position to prevent fee increases given political representation and the bipartisan move to close the budget deficit.

Regardless of the quantum of the fee levied, the Migration Council sees a strong case to levy the fee on where the demand occurs. For example, a 457 visa holder migrates to Australia because there is underlying demand in the labour market and only then is a decision made about migration or remaining in Australia. Yet the visa fees are predominantly levied on the migrant as opposed to the business. This mismatches the price signal with where the labour market activity occurs.

The MCA also sees a strict "cost recovery" model of visa fees as inappropriate given the medium- and long-term benefits migrants provide in Australia. While there are costs associated with visa processing and administration, as noted above, these costs pale in significance to the benefit provided to Australia by the vast majority of migrants.

If a cost recovery model is used, the benefit calculation should include at least some time period where the migrant is making a contribution intended in policy. For example, higher education is a top five export for the Australian economy. The benefit of students relative to the administration of their visas is enormous.

Put simply, ever-higher visa fees will effect marginal decisions of migrants. While the elasticity is almost impossible to calculate, there is no doubt a higher upfront fee will place a barrier to movement when combined with other regulations. This must be considered when government sets visa fees.

Drivers of migration to Australia

There are a range of factors that influence demand for immigration to Australia including macroeconomic demand as our economy is more attractive than elsewhere, microeconomic demand on an individual cost-benefit analysis, risk mitigation in the form of insurance, as well as migrant network and institutional effects.

An analysis of the movements in various programs demonstrates these factors. Working holiday flows increased just after the Global Financial Crisis, as Australia was a destination where jobs and wages were more available relative to many other countries. These flows have since subsided from their recent highs. Likewise, movements in the 457 program track closely to unemployment and economic growth.

Lower transaction costs and communication barriers have both worked to limit the cost of migration, making it more attractive compared to the past. Student migration in particular has likely been facilitated by these factors, as well as by established pathways forged by the previous generation of migrants where we now see large cohorts, such as China and India.

Many of these factors are not unique to Australia. However our geography and tradition of migrant settlement likely accentuates the current environment of migrant movement in and out of Australia. As a result, international competition for prospective immigrants has traditionally not been a material consideration for Australian policy makers. Historically, there has been ample supply of people willing and able to migrate to Australia. This was true in the post-war boom and has held until the present.

However it is likely that there will be a marginal increase in global competition for high skilled migrants in the coming decades. Three factors will precipitate this trend. Firstly, as the labour market matures in countries such as China and India, the pull of economic opportunities abroad will lessen. In essence, countries that were once migrant origin countries are now origin and destination countries. Malaysia's skilled migration policies provide a glimpse into how and why competitiveness will change into the future.

Secondly, the demographic impact of an ageing population is not unique to Australia, and indeed such trends are even more pronounced across the developed world. Countries that have not traditionally considered migration as part of their labour market strategy will begin to come online as potential migration destinations, spreading the options for potential migrants beyond the traditional target destinations.

Finally, the present trend across the developed North has been to close down migration flows. The UK has cut migration while the US has failed to enact the legislative changes needed to keep pace with migration demand. However, as pressures build, the pendulum is likely to swing back and migration flows to the North will likely increase.

Policy makers should recognise that recent growth in the flow of migrants is linked strongly to economic performance. A strong economy underlines much of the ability to attract migrants. This holds true only while supply holds and while our migration framework remains attractive.

Objectives of immigration policy

The Migration Council recommends the central objective of Australia's immigration policy should read:

“Australia's immigration policy will support the economic, social and cultural interests of the Australian people.”

Secondary objectives should support this central objective given the diverse effects immigration has within Australia, other countries and on individuals:

“Australia's immigration policy will:

- support humanitarian interests and economic development in the Asia-Pacific;
- support regional and global mobility; and,
- support the tradition of Australian settlement.”

Different policies will prioritise different objectives, as Australia's migration framework is both broad and deep. Effective management to incorporate at times disparate policies will ensure the interests of the Australian people are met.

Alignment of the current migration program

Current immigration policy is broadly inline with the central objective. Major visa categories reflect one or more of the economic, social and/or cultural imperatives. The vast majority of visa categories actively seek to “improve the wellbeing of the Australian community”. These themes shape the composition of Australia’s immigration intake. In recent decades, the economic theme has been prioritised above social and cultural objectives, a decisive shift from the 1980s and earlier.

Finding the balance between the proportion of skilled and family migration pathways will be an ongoing challenge and is an inherently political decision. The large increase in skilled migrants over the past 15 years will likely create pressure for an increase in the ability to reunify families. While the proportion of family migrants has decreased relative to the skilled stream, the total number of family migrants has increased over the past 15 years given the larger migration program numbers.

The MCA supports the current allocations of the Migration Program noting there will likely be scope for change in the future given different policy environments. It is also worth noting the link between the migration program and Australian values. As noted above, notions of “a fair go” and a merit based system, where individuals are judged by contribution rather than social or economic position feature heavily in the Australian national psyche. Our current framework for the selection of “future Australians” follows these values, allocating positions based on past performance in securing skills as a measure of the potential to contribute. A system that valued capacity to pay or economic position would likely clash with our national values.

Broadening our policy settings

The MCA notes the proposed secondary objective would be a marked shift in immigration policy. While Australia’s humanitarian record is strong, migration for economic development has traditionally not been recognised. The field of “Migration and Development” has recently demonstrated substantial gains for economic growth in poorer nations, including in the Asia-Pacific. Migration opportunities to richer nations such as Australia interact with domestic economic performance in a myriad of ways, including direct transfer payments through remittance flows, through incentivising education as a means for migration and through skills transfer and circular migration flows. By formalising this link, policy makers would be better able to incorporate development-friendly migration policy into Australia’s migration framework.

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.

Impacts of migration

Distributional and wages

The distributional effects of immigration policy are substantial yet have often been overlooked in an Australian context. As Australia's policy is skewed towards a preference for skilled migrants, the economic redistribution of the gains of migration supports lower skilled workers. This is because skilled migrants act as complements in the labour market. MCA analysis forecast a 21.9 per cent wage increase from 2015 to 2050 for lower skilled workers based on current migration flows. The fact highly skilled workers complement lower skilled workers in the labour market drives this wage gain for lower skilled workers. While traditionally overlooked, this demonstrates skilled migration is a highly progressive policy framework with significant distributional benefits.

This finding is supported by other research. Peri et al find a 4.5 per cent increase in wages for lower skilled workers between 1990 and 2000 given migration (2011). These gains stand in stark contrast to many other developed economies. Peri et al show that Australia is second to Singapore for the wage effect of immigration between 1990 and 2000. The wage gains in Australia are 3 to 4 times larger than most other OECD countries. This is a direct result of our immigration framework.

Of course, globally there are much greater distributional effects. Clemens estimates global GDP gains in the order of 50 to 150 per cent given greater mobility. If a migrant comes from a developing country, a potential wage increase orders of magnitudes larger will have a strong distributional effect at the global level. For example, Australia's Seasonal Worker Program is delivering income gains that are transformative for Pacific Island communities.

There are other, non-wage distributional effects. A larger labour market in the short-term will increase the returns to capital owners as the economy takes time to respond to more workers. This has consequences and any government that has a strong immigration program should also seek to ensure capital adjustment occurs without unnecessary impediments to lessen this adjustment period.

Public opinion and social cohesion

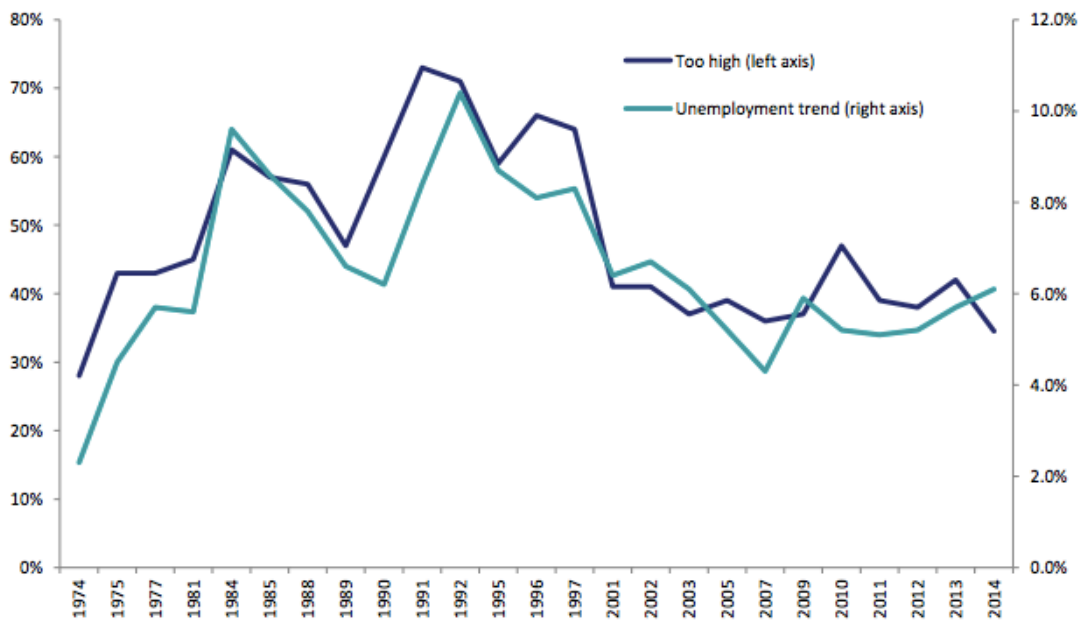
Public opinion is central to long-term policy sustainability for Australia's migration program. In 2014, 59 per cent of the population thought the number of migrants arriving to Australia was either "about right" or "too low" (Markus 2014). This was an increase of 8 per cent from 2013. This level of public support for immigration contrasts starkly with other countries, particularly European and other OECD countries.

The Scanlon Foundation's "Mapping Social Cohesion" reports outlined how "attitudes to immigration over the last 25 years indicates that it is an issue on which there is considerable volatility of opinion. Whereas in the early 1990s, a large majority (over 70% at its peak) considered the intake to be "too high", most

surveys between 2001 and 2009 indicated that opposition to the level of intake was a minority viewpoint.”

The research makes clear that two factors inform these attitudes: the level of unemployment and the political prominence of immigration. In particular, the link to the economy is visually stark. Figure 19 from the 2014 survey shows the correlation between the unemployment rate and the proportion of people who view the immigration intake as “too high”:

Figure 19: Correlation between unemployment and those of the view that the immigration intake is ‘too high’, 1974–2014



While there are other important factors to support social cohesion, attitudes to immigration are a determinative factor. Both a reduction in the number of people concerned about asylum and the record level of support for immigration helped drive the Scanlon-Monash “Social Cohesion Index” up in 2014.

Policy jurisdiction

One of the major gaps with regard to immigration policy is the jurisdictional divide given the Federal government manages immigration policy while many effects of policy decisions are borne by state governments. Healthcare, education and infrastructure are three state policy areas that are heavily affected by a growing population.

Despite this 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.

Social and cultural

Australia's recent immigration tradition has had highly positive social and cultural outcomes. While greater diversity should not be considered a standalone outcome, the social and cultural effects of diversity can be transformative with the right environment.

Australian attitudes to multiculturalism – a concept that people conceptualise differently – are extraordinarily high. 85 per cent of the public support the statement, "Multiculturalism has been good for Australia". This reflects how individuals incorporate a social and culturally diverse population into their personal lives. The Migration Council sees this support as affirmation of the positive social and cultural effects of immigration.

However there are also negative social and cultural effects. The number of people who have experienced discrimination is rising. This finding likely correlates with the increasing number of people born outside of Australia.

Links between temporary and permanent visas

The link between temporary and permanent visas is the key regulatory area for Australian immigration policy. Permanent migration is deeply embedded in the settlement tradition of Australian migration. Australia's embrace of a relatively open temporary migration programs is an increasingly important policy for future prosperity.

Effective management of how and where our policy tradition and future combine will be the difference between a success and dysfunction for Australia's immigration framework in the 21st century.

The MCA strongly supports a more holistic approach to considering different visa categories. This approach should reflect what occurs in the economy and society as opposed to administrative functionality. For example, the difference in the labour market between a temporary 457 visa holder and a permanent Employer Nomination Sponsored visa holder is effectively zero. Both programs use the same occupation list and both programs are designed to fill skilled vacancies. Both programs rely on an employer to sponsor a migrant.

Yet administratively, there is a great difference. While many sponsors will offer to provide permanent residency to temporary migrants, some will not. Policy makers have ignored this situation. In 2012, policy was changed from 12 months to 24 months in order to qualify for eligibility to a streamlined access for sponsored permanent residency. This increased the period of time a temporary migrant is held to a single employer, reducing their labour mobility.

The MCA recognises the need for both a temporary and permanent sponsored employer program. Yet it is critical the policy environment reflect the fact many migrants intend to remain in Australia indefinitely, regardless which visa they are on or the regulations for different visas. No migrant should be stuck as “permanently temporary” as this reduces their ability to contribute economically, socially and culturally to Australia.

Social policy and migration

Human rights play a role in public debate and across different visa categories, eligibility to government support and rights to social engagement vary. For example, permanent visa holders can change employers in the labour market freely while sponsored temporary visa holders cannot. Tax breaks, income support, government rebates and private health insurance requirements differ across Australia’s visa categories. Eligibility for government support is not dictated by immigration policy. These decisions are typically made in other policy areas, highlighting how immigration policy goes beyond simply regulating the entry and exit of people to Australia.

The terms of reference for this inquiry echo many past reviews in focusing on the visa framework for migration. However, the MCA considers that the missed opportunity is in the broader questions around the social policy framework that surrounds migration. 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.