

Business  
Council of  
Australia



submission

Submission to the Productivity  
Commission's Issues Paper on  
Migrant Intake into Australia

JUNE 2015

*Working to achieve  
economic, social  
and environmental  
goals that will benefit  
Australians now and  
into the future*

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The Business Council of Australia (BCA) is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

## **About this submission**

This is the Business Council's submission to the Productivity Commission inquiry into Migrant intake into Australia.

The submission addresses the three key sections of the Productivity Commission's issues paper:

1. Immigration impacts and policy issues
2. The links between temporary and permanent migration
3. Alternative methods for determining migrant intakes.

The Business Council advocates for well-managed population growth in Australia's best long-term interests. Effective temporary and permanent migration policies are needed to meet Australia's long-term objectives for a larger, secure and more prosperous nation.

## **Key points**

### ***Australia needs well-managed population growth***

- Well-managed population growth, underpinned by a strong migration intake, will be in Australia's best interests over the coming decades. It will grow incomes for Australians, offset the impacts of the ageing population on the workforce and strengthen Australia's position in the world.
- Population growth needs to be well managed and planned for to avoid potential costs from congestion and environmental degradation and to enhance social cohesion.
- The Business Council has long argued that the migration intake and migration policy settings should be informed by a National Population Strategy. A National Population Strategy would explicitly set out Australia's long-term economic and population goals and the policies to manage population growth well.
- There are only two sources of population growth – natural increase and net overseas migration (NOM). Natural increase factors are stabilising so Australia's future population growth will overwhelmingly come from the migration intake.
- In the absence of a National Population Strategy, the 2015 Intergenerational Report (IGR) provides a good estimate of the population growth that will be needed. The IGR assumes NOM of 215,000 over the next forty years, leading to a population of 39.7 million by 2055. (NOM has averaged 210,000 over the past five years.)
- Independent modelling finds that annual net overseas migration between 160,000 and 220,000 to the middle of the century can optimise Australia's growth in GDP per capita – a key measure of economic wellbeing. Economic gains are higher when migrants bring high-level skills that complement the Australian workforce.

- This inquiry is an opportunity to assess the challenges Australia will face in attracting skilled migrants in an increasingly competitive global market for talent, and to make recommendations to improve the competitiveness of our skilled migration programs.

### ***The important role of permanent and temporary migration***

- Permanent and temporary migrants bring many economic and social benefits. Migrants grow the workforce, build economic and social relations with the rest of the world and complement local workers including by transferring skills and knowledge.
- Australia's annual permanent migrant intake is the cornerstone of Australia's migration policy framework (and is the key policy setting for influencing NOM outcomes). The permanent migration program should remain at least at current levels of 190,000 per annum. Two-thirds of the program should continue to be filled by skilled migrants. The intake is set annually in the federal budget papers.
- Efficient and competitive temporary migration schemes are important for our economy. Short-term work visas enable skills gaps to be filled quickly. Student visas are essential for growing education exports. Working holiday visas build relations with people from other countries. Australians themselves benefit from using temporary migration programs where they are reciprocated in other countries. Employment rules for people on temporary visas working in Australia should be clear and properly enforced.
- The 'Temporary Skilled' 457 visa scheme fills short-term skills shortages and should retain its demand-driven and uncapped elements to remain highly responsive to the needs of the economy. The integrity of the scheme should be ensured primarily through enforcement of the market salary rates requirement. Labour market testing has been found repeatedly by independent reviews to be ineffective and costly and should be abolished.
- As Australia's temporary migration policies continue to evolve, it is important that changes are developed in consultation with industry, and that the Department of Immigration is properly resourced to enforce safeguards, including current plans to reform the business short stay 400 visa and introduce Investment Facilitation Agreements.
- Temporary and permanent migration are increasingly interlinked – one in two permanent skilled migrants transfer from a temporary visa. The initial temporary period works well for Australia and the migrant. Both temporary and permanent migration are important for meeting Australia's economic needs.

### ***Australia must improve its competitiveness to attract skilled migrants***

- Other developed and developing countries, particularly those with declining workforces due to ageing, are increasingly seeking to attract skilled migrants. Australia must continue to improve its attractiveness as a migration destination and its migration programs in the face of increasing global competition for skilled migrants.
- Australia should retain the key features of its existing permanent and temporary migration programs and refine them where needed to increase competitiveness.

- Charging migrants significantly higher fees, as is being considered by this inquiry, is likely to work against Australia's competitiveness. We should not adopt the proposed migration pricing model as it would put Australia at a disadvantage in the global market for skilled migrants. It would also be likely to lead to migration outcomes that are less consistent with Australia's national interest than under the current targeted approach.

## **Key recommendations**

### **Recommendation 1**

A National Population Strategy should be developed that explicitly sets out Australia's long-term economic and population goals and the policies to manage population growth well. The strategy should include:

- A commitment to long-term population growth, based on the population and migration intake projections in the IGR (and other available research).
- Policies for the permanent migration intake, temporary migration programs and to influence natural increase factors (in line with the IGR's assumed 1.9 fertility rate).
- Policies to ensure population growth is managed well, including through adequate planning and investment in infrastructure and housing, and the provision of education, training and other services across the economy.

### **Recommendation 2**

- The permanent migration program intake, set annually in the Federal Budget, should remain at least at current levels of 190,000 per annum, with two-thirds of the program filled by skilled migrants.
- 'Temporary Skilled' migration should remain demand-driven and uncapped to ensure it remains highly responsive to the needs of the economy. Labour market testing should be abolished.
- It is important that changes to temporary migration programs are developed in consultation with industry and that the Department of Immigration is properly resourced to enforce safeguards, including current plans to reform the business short-stay 400 visa and introduce Investment Facilitation Agreements.

### **Recommendation 3**

The intergenerational report should model the long-term impact of a wider range of net overseas migration scenarios on the federal budget (and state budgets). This should include a scenario of zero NOM that can demonstrate the fundamental importance of migration to the economy and public finances.

### **Recommendation 4**

Given the highly positive net benefits of Australia's existing migration regime, and the risks of replacing our current selective system with substantially higher charges for all visa categories, the Business Council 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.

## 1. Immigration – impacts and policy issues

This section of the Productivity Commission’s issues paper considers the broader economic and strategic context for migration policy settings.

### 1.1 Objectives of immigration policy

#### ***Migration policy should serve Australia’s long-term economic and population needs***

Migration policy is inextricably linked to national economic and population policy. Consideration of Australia’s migration intake needs to start with Australia’s long-term population and economic needs.

The 2015 Intergenerational Report (IGR) projects population growth of 1.3 per cent per annum leading to a population of 39.7 million by 2055.<sup>1</sup> This projected population growth relies heavily on the assumption that net overseas migration will be 215,000 per annum.

The estimated population growth rate in the IGR is slightly less than the average growth rate of the past forty years. The assumed NOM of 215,000 is also in line with the experience of the past five years, where NOM has averaged 210,000 (Figure 1).

**Figure 1: Net overseas migration**



**Source: Australian Bureau of Statistics and Department of Immigration and Border Protection**

Population growth can only come from two sources – natural increase or net overseas migration (NOM). Natural increase is in decline due to fertility rates that are below replacement rates. Short of a dramatic and unlikely change in ‘natural increase’, maintaining Australia’s population growth will depend on substantial levels of net overseas migration over the coming decades.

According to the IGR, population growth will effectively contribute almost half of annual GDP growth over the next forty years. Real GDP growth is projected to average

1. 2015 Intergenerational Report Australia in 2055, Commonwealth of Australia, March 2015.

2.8 per cent per annum, with per capita growth only contributing 1.5 per cent. While GDP per capita is the preferred measure of economic wellbeing, the growth in the size of the economy will also provide Australia with important benefits.

Population growth, driven by net overseas migration, will enable Australia to offset the impacts of ageing, grow the economy and earn higher incomes necessary to lift living standards. It will lift Australia's standing in the world. But population growth comes with challenges and must be well managed and properly planned.<sup>2</sup>

### ***The case for population growth***

Population growth that is well managed will deliver:

- a larger, more dynamic, resilient and diverse economy that is better integrated with the global economy and our region
- through a larger and highly skilled workforce (and more favourable demographic age profile), more revenue to fund government services including health, pensions, aged care, education and infrastructure, as well as for making investments to improve the environment
- more diverse and competitive markets for the supply of goods and services for Australian consumers
- through appropriate planning and investment, better-designed cities that can accommodate more people while improving liveability and sustainability
- migrants bringing new ideas, innovations and cultures to Australia and growing our trade and investment links
- stronger relationships, connections and influence with other growing countries in our region
- reduced or avoided impacts on the environment through the adoption of efficient water and energy technologies, and long-term planning and investment in the sustainable growth of our cities and regions.

### ***Low or no population growth is not the answer***

A strategy of low or no population growth, which would occur if the migrant intake was drastically lowered, would lead to very different outcomes for Australia. Switching to low population growth would be a very different model for our economy. And it presents the following risks the Business Council believes outweigh any potential benefits. These risks include:

- slowdown in economic activity and loss of economic confidence, leading to investor withdrawal and 'brain drain'

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2. Business Council of Australia, *Submission on the development of Australia's sustainable population strategy*, BCA, Melbourne, 2011.



- less funding for services, including health and aged care, as our tax base decreases and the population ages
- higher deficits and higher public debt due to fewer workers available to deliver services and to pay taxes; this would occur against the backdrop of Australia's already substantial debt obligations today
- a less influential nation in global and regional affairs and a less diverse economy functioning more as a 'branch economy' of the region.

### ***Population growth needs to be well managed***

For all Australians to benefit from population growth it needs to be managed well. Governments need to take a long-term approach to migration program settings and the policies needed to ensure a larger population enhances, rather than detracts from, living standards. Well managed population growth would ensure, among other things:

- the predominance of skilled migrants within the permanent migration program is maintained
- an ongoing commitment to world-class education and training of Australians
- long-term planning for growth in our cities and regions and investment in the infrastructure that will be needed
- positive impacts of a larger population on the environment and on social cohesion.

### ***The need for a population growth strategy***

Australia does not have a dedicated national population strategy that explicitly lays out its long-term goals for population growth, or considers how Australia will plan and invest for a higher population.

A national population strategy would make the case for population growth and set out a long-term commitment to achieve population outcomes in line with the IGR projections. It would explain how the government will set migration policies, as well as to a lesser extent, policies impacting on natural increase (e.g. through management of the tax-transfer system as it applies to families).

Businesses, individuals and state and local governments need to know that the Commonwealth is committed to maintaining growth in our population and economy, so they can plan and invest for growth.

The strategy should set out policies to ensure adequate planning and investment in infrastructure and housing as well as the provision of education, training and other services across the economy to cater for a growing population.

If governments fail to plan and invest for population growth, Australians will experience worsening congestion, environmental degradation and other negative consequences that will detract from liveability and sustainability. These consequences of poor planning can lead to opposition within the community to population growth.

### *Recommendation 1*

A National Population Strategy should be developed that explicitly sets out Australia's long-term economic and population goals and the policies to manage population growth well. The strategy should include:

- A commitment to long-term population growth, based on the population and migration intake projections in the IGR (and other available research).
- Policies for the permanent migration intake, temporary migration programs and to influence natural increase factors (in line with the IGR's assumed 1.9 fertility rate).
- Policies to ensure population growth is managed well, including through adequate planning and investment in infrastructure and housing, and the provision of education, training and other services across the economy.

### **Migration policy**

The migration intake and program settings (including alternative models) in Australia should be considered within the context of:

- the important role that migration will continue to play in growing our population over time
- changing patterns in global migration patterns, typified by greater temporary movement and increasing global competition for migrants, and how these changes will impact on our capacity to attract skilled migrants.

Australia's migration policies need to complement the development of local labour to build a larger, highly skilled workforce. Migration must be part of a multifaceted approach to dealing with Australia's long-term workforce development challenges along with domestic policies for:

- lifting workforce participation and workplace productivity
- education and skills training for Australians
- greater labour mobility.

Policies for developing the workforce need to be fit for purpose in a changing economy. Globalisation, technology development and digitisation are causing structural shifts in the economy with flow-on effects for the demand for skilled labour. Governments need to focus on where future jobs will be created, and put in place policies to ensure both the local labour force and migrants are supplying the skills and experience that will be needed.

In the case of migration settings, the selective approaches currently in place to match new migrants with employment needs, namely employer sponsored approaches and the points test for independent skilled migrants, serve Australia well.

The impact of ageing on the labour force is adding to the need to get these policies right. The IGR estimates that by 2055 there will be only 2.7 workers for every person 65 and

over (compared with 4.5 today and 7.5 last century). That is *with* net overseas migration at 215,000 per annum. The ratio would be much worse with lower levels of migration.

Annual growth in demand for highly skilled workers is projected to be on average between 3 per cent and 3.9 per cent to 2025.<sup>3</sup> Australia's demographic profile means the local workforce cannot meet this demand, particularly with large numbers of workers moving into retirement age. Temporary and permanent migrants will both be needed.

This submission argues that, in the absence of a National Population Strategy, the IGR's projections for annual net overseas migration of 215,000 to the year 2055 should be adopted as a policy target. NOM at this level will help to address the impact of ageing on the workforce while also serving to grow our population over time. While annual NOM outcomes can never be met exactly, NOM outcomes around 215,000 can be achieved through:

- maintaining the permanent migration program at least at current levels of 190,000 per annum (it may need to be higher)
- the humanitarian program (currently 13,750 places)
- net temporary migration, where the inflow of migrants exceeds the outflow of migrants
- net positive migration from New Zealand (noting this has declined recently).

Increasingly, the permanent migrant intake is being filled by migrants who first come to Australia on a temporary visa.

### ***Permanent migration***

The Business Council considers that the permanent migration program must continue to ensure that the total annual intake remains at least at current levels of 190,000 per annum, with two-thirds of the program filled by skilled migrants.

Australia should continue to maintain its preference for skilled migrants within the permanent migration program. The skilled migrant intake is currently 128,550, around two-thirds of the total program. The employer sponsored category is important for matching new permanent migrants to immediate skills needs, while the points test is intended to ensure other new migrants arrive with the skills and attributes to quickly find work (see Table 1).

As a result of the selective process, skilled migrants are, on average, younger and more highly educated than the Australian-born population. Recent modelling for the Migration Council of Australia estimates that migrants overall offer a premium of 10.1 per cent in their GDP per capita compared to existing residents, and for the 'skilled independent' category of migrants the premium is 21 per cent.<sup>4</sup> Further research on the benefits of migration is provided later in this submission.

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3. Australian Workforce and Productivity Agency, *Future focus: 2013 national workforce development strategy*, Commonwealth of Australia, 2013.

4. Migration Council of Australia, *The economic impact of migration*, Migration Council of Australia, 2015.

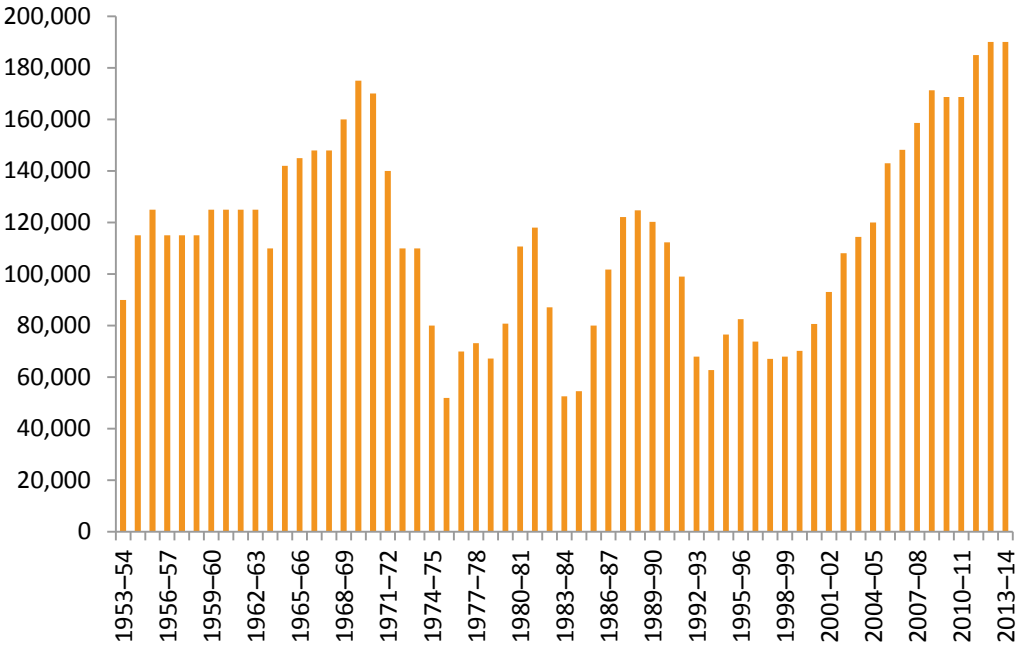
**Table 1: Migration Program outcomes 2013–14**

Category	2013-14
Skill Stream	128,550
<i>Employer sponsored</i>	47,450
<i>Business Innovation and Investment</i>	6,160
<i>Points Tested Skilled Migration</i>	74,740
<i>Distinguished talent</i>	200
Family Stream	61,112
Special eligibility	338
<b>Total</b>	<b>190,000</b>

Source: Department of Immigration and Border Protection, 2015

Australia’s permanent migration intake has varied over the past few decades from as low as 52,000 in 1975–76 to 190,000 today (Figure 2). In arguing for the intake to remain at least at 190,000, the Business Council also considers that greater stability in the migration intake (and less annual variation) would better enable Australia to meet its long-term population goals and to better plan for growth.

**Figure 2: Permanent migration intake**



Source: Department of Immigration and Border Protection

## ***Temporary migration***

'Temporary migration' refers to people staying in Australia for extended periods of time, defined as 12 months within a 16-month period. The three most significant temporary visa categories are:

- Student visas
- Working holiday visas
- Temporary skilled migration (457 visas).

Temporary visa holders have conditional rights to work in Australia during their stay. Students and working holiday visa holders often perform important roles filling jobs that are casual or in regional areas. Temporary skilled migrants meet immediate skills shortages that cannot be filled by the local workforce.

To maintain community confidence in temporary migration schemes it is important to maintain their integrity and enforce non-compliance. It is also imperative that the costs of temporary visa regulation are kept low to maintain Australia's attractiveness as a migration destination.

There will be a need from time to time to properly review and update policy settings to ensure integrity and efficiency are maintained. The recent *Independent review into integrity in the subclass 457 programme* took an evidence-based approach and is a good example of the type of process that should precede any regulatory change. Ad hoc changes to the rules made without proper review or consultation – which have occurred in the past – should be avoided, as they can add to business costs, undermine confidence and slow economic activity.

Where there are concerns about individual visa holders or employers not complying with visa conditions or Australian laws, these issues should be dealt with directly and the laws enforced.

### ***457 visas***

The temporary skilled migration subclass 457 visa program is uncapped, demand-driven and designed to respond to the needs of the Australian economy – it is very important in our view that these remain as the key features of program design.

The 457 visa enables employers to overcome skills shortages by quickly employing non-Australian skilled workers when an Australian worker is unavailable. A well-designed temporary skilled migration program, with effective integrity measures, should complement rather than substitute for local employment, enabling businesses to increase overall employment.

Businesses naturally prefer to hire locally wherever possible, because it is lower cost and easier to do so. There are considerable additional costs and uncertainties involved in relocating staff from other countries to Australia. Australian workers also have the advantage of local knowledge which is valuable to employers.

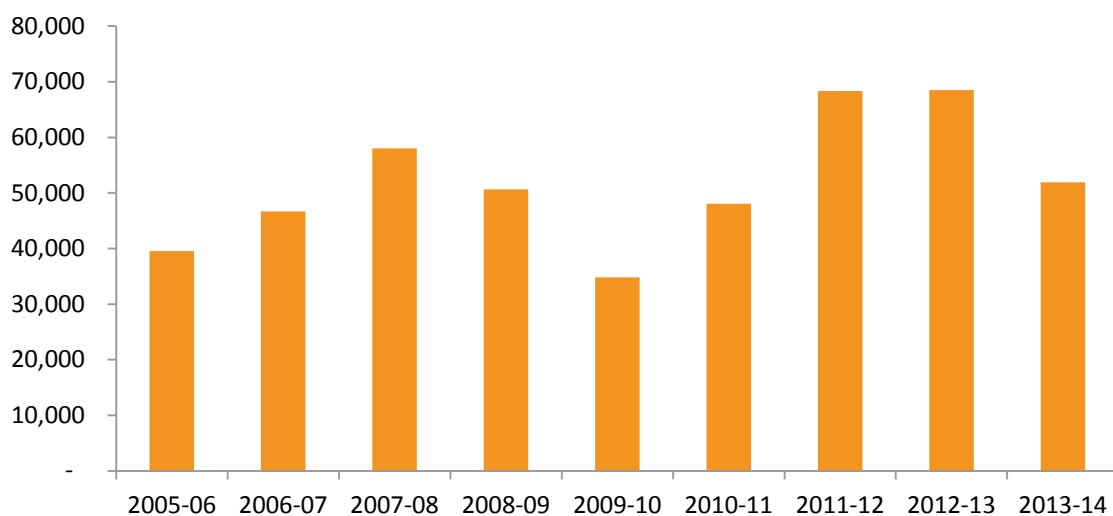
However, in some sectors and locations where timing is critical, there is not the supply of skilled labour to meet demand. These pressures will increase due to structural changes in our economy and as our population ages.

Temporary skilled migration enables investments in projects, economic expansion and basic service provision to proceed without undue delay. It brings skills and knowledge into Australia that boost innovation, grow national income and in turn create high-value job opportunities for Australians. It establishes a pathway to permanent residence that works extremely well for both Australia and the individual migrant, and has become an integral component of Australia's broader population policies.

As long as appropriate and effective integrity settings are in place, centred primarily on the requirement to meet Australian market salary rates and Australian conditions, then abuses of migration schemes should be few and are best addressed through enforcement, rather than imposing additional costly regulation across the board. The reintroduced labour market testing requirements have been found repeatedly by independent reviews to be ineffective and costly. They should be abolished.

It is critical that debate about migration policy is based on evidence, particularly in relation to temporary work visas. The use of temporary work visas has remained relatively stable, with visa-holders typically making up around one per cent of the workforce. The alignment of 457 visa issuance with changing economic conditions over ten years demonstrates that the program is responding to the needs of the economy. At a time of falling demand, the number of primary 457 visas granted also fell by 24 per cent between 2012–13 and 2013–14 (Figure 3). More recent data confirms this downward trend, with the number of primary 457 visas granted in the nine months to March 2015 falling (–4.1 per cent) compared with the same period in the previous year. The number of primary 457 visa holders also fell (–4.5 per cent) over the same period.<sup>5</sup>

**Figure 3: Number of primary 457 visas granted, 2005–06 to 2013–14**



**Source: Department of Immigration and Border Protection**

5. Department of Immigration and Border Protection, *Subclass 457 quarterly report quarter ending at 31 March 2015*, 2015.

### *Changes to the 457 visa*

Many of the recommendations in the 2014 Independent Review into Integrity in the Subclass 457 program<sup>6</sup> seek to improve the efficiency and effectiveness of 457 visa administration and enforcement and should be quickly implemented. They include:

- improving the scheme's safeguards, for example, by prioritising an effective 'market salary rate' test and updating the Consolidated Sponsored Occupations List
- overturning some recent unnecessary regulatory changes, such as the introduction of labour market testing and less flexible English-language requirements
- the establishment of three approval streams whereby larger employers with a good track record, and 457 visa applications for more highly paid occupations, would both face relatively less scrutiny during the assessment process and require less compliance reporting.

The proposed new approval streams would align more closely with a 'risk-based' approach to regulation. Department resources would instead be devoted to scrutinising applications from higher-risk employers and for occupations that have proved to be more problematic in the past.

### *The proposed new short-term mobility visa*

The Business Council supports, in principle, the department's proposal for a new 12-month temporary work visa to replace the current '400 visa'.<sup>7</sup> As the department points out, in many cases the three-month period is too limiting, with highly specialised workers needed for up to a year, for instance, to install complex equipment and IT systems. When these skills needs are specific, temporary and unable to be met from the local labour force, the visa period should match the length of time required to complete the task. Scheme safeguards should be broadly consistent with the approach taken for 457 visas.

### *Investment Facilitation Arrangements*

The Business Council notes a recent migration policy development in the China–Australia Free Trade Agreement (ChAFTA) which will allow for Investment Facilitation Arrangements (IFA) for Chinese-owned companies registered in Australia undertaking large infrastructure development projects above \$150 million.

IFAs will provide flexibility for companies to respond to the unique economic and labour market challenges related to large infrastructure development projects. They are expected to operate within the framework of Australia's existing 457 visa system, with the main existing safeguards applying to sponsors using IFAs.

The Business Council would welcome departmental consultation with industry on the development of the guidelines for IFAs announced as part of ChAFTA. There will need to be effective resourcing of the Department of Immigration and Border Protection to enforce

6. J Azarias, J Lambert, P McDonald & K Malyon, *Independent review into integrity in the subclass 457 programme*, September 2014.

7. Department of Immigration and Border Protection, *Proposal paper: simplification of the skilled migration and temporary activity visa programmes*, December 2014.

safeguards and assess the cumulative impact of changes to investment and labour market arrangements.

### *Recommendation 2*

- The permanent migration program intake, set annually in the Federal Budget, should remain at least at current levels of 190,000 per annum, with two-thirds of the program filled by skilled migrants.
- ‘Temporary Skilled’ migration should remain demand-driven and uncapped to ensure it remains highly responsive to the needs of the economy. Labour market testing should be abolished.
- It is important that changes to temporary migration programs are developed in consultation with industry and that the Department of Immigration is properly resourced to enforce safeguards, including current plans to reform the business short-stay 400 visa and introduce Investment Facilitation Agreements.

### ***Global context and competing countries***

The issues paper invites observations on the global context for migration and factors affecting Australia’s relative attractiveness.

As the world’s economy changes, we need to continually update our migration policies to remain competitive. Globalisation and technological developments are creating the conditions for greater movement of capital, products and people around the world.

At the same time, profound demographic changes across the world are occurring:

- The world’s population, currently 7.2 billion, is expected to continue to grow to over 9 billion by mid-century, when it will start to peak due to falling fertility rates. Most regions of the world will experience population stabilisation or decline. (The main exception will be Africa, which by 2050 is projected to provide 80 per cent of the growth in global population.)
- Population ageing means globally the proportion of people over-60 is expected to increase from 12 per cent today to 21 per cent by 2050 (and to be over 30 per cent for developed economies).
- Around half the world’s population now lives in cities, increasing to around two-thirds by mid-century. Urbanisation, if well-planned, can lift productivity and enhance people’s mobility.<sup>8</sup>

A recent consultation paper by the department sets out the future challenges for Australia’s labour market and the importance of a well-functioning migration program. In particular:

- Australia’s migration programs must keep pace with increasing international competition for talent and be able to source skilled workers for jobs that cannot be filled locally.

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8. United Nations, *Concise report on the world population situation in 2014*, New York, 2014.



- There is growing international competition for talent as other countries also seek to offset the economic impacts of their ageing populations. We must continually improve our migration programs to attract the 'best and brightest' overseas workers.<sup>9</sup>
- Australia's temporary and permanent migration programs are increasingly complementary, with many temporary migrants going on to become permanent citizens.

Competition for skilled migrants will come from:

- developed countries similar to Australia, which are growing their populations (e.g. Canada, the United States)
- developed countries with stable populations but which are facing the impacts of ageing (e.g. Europe, Asia)
- developing countries and regions that are seeking to attract migrants to help them to develop their economies, or to retain their population and prevent citizens with high skills from emigrating (eg Asia).

In 2013, more than half (55 per cent) of governments worldwide considered their ageing population to be a major issue. More and more countries are adopting policies targeting highly skilled workers. The proportion of countries with policies to raise immigration of highly skilled workers rose from 22 per cent in 2005 to 40 per cent in 2013.<sup>10</sup>

The main competition is expected to be for young, skilled migrants, as they offer the highest economic benefits over a long period of time.

Analysis by The Boston Consulting Group, which surveyed over 200,000 people in 189 countries, found that younger workers with bachelor degree qualifications or higher were more mobile compared with other workers.<sup>11</sup> In particular, workers in the engineering and information technology and telecommunication fields were more likely to move abroad.

Almost two-thirds of respondents were interested in moving abroad, while one in five had already done so. The United States, United Kingdom and Canada were selected as the top three destinations, while Australia ranked seventh. A number of factors, including tax, affect migration choices. (Of the Australians surveyed, between 80 and 90 per cent were willing to move abroad, or had already done so.)

Reflecting the increasingly globalised nature of our economy, many migrants first come to Australia on a temporary basis either as employees, students or to provide business services. Many of these temporary visitors then go on to become permanent migrants. Our migration system needs to be responsive to different patterns of migration if Australia is to compete effectively for skilled migrants.

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9. Department of Immigration and Border Protection, op cit.

10. United Nations, *World population policies*, United Nations, New York, 2013.

11. The Boston Consulting Group, *Decoding global talent*, The Boston Consulting Group, October 2014.

### ***Factors affecting Australia's relative attractiveness***

A number of factors affect Australia's competitiveness for migrants, relative to other countries, including:

- employment opportunities and incomes and access to high-quality jobs
- housing affordability – high housing costs make Australia less attractive
- access to government services (e.g. health, education)
- amenity of Australia's cities and towns
- taxation rates, especially high personal income tax rates relative to other countries
- visa conditions, particularly if there are constraints on the types of jobs migrants can perform.

Competitive personal income tax rates will become increasingly important as people, particularly those with specialist skills, have more opportunities to work around the world.

The cost and efficiency of engaging with the migration system itself can affect Australia's attractiveness as a migration destination. The migration system should maintain high levels of integrity while also making our visa programs simpler and lower cost. Any changes to migration programs should serve to increase Australia's attractiveness to migrants as a place to live and work. Reforms should be prioritised that:

- lower the cost of migration, including fees and charges
- reduce processing times for visas
- improve clarity and reduce uncertainty for potential migrants.

### **1.2 Impacts of immigration**

Australia's immigration programs have generated substantial economic and cultural benefits. Our migration program has expanded over time, with an increasing emphasis on skilled permanent and temporary migration.

For this inquiry, when examining the impacts of migration we recommend the Productivity Commission consider not only the benefits that skilled migrants bring to Australia, but also the important long-term economic and social advantages to Australia from a growing population. The consideration of the impacts of migration in the review ought to cover:

- dynamic economic benefits from increasing aggregate demand associated with a growing population
  - wherever possible the review should recognise that migration grows both the demand and supply sides of the economy
  - around half of Australia's future GDP growth will be due to population growth

- the growth in the economy provides opportunities to expand and improve Australia's capital stock, which enables new technologies from around the world to be embedded in new capital investments, supporting innovation and productivity growth <sup>12</sup>
- there will be new investment in infrastructure and housing to meet the higher demand.
- stronger regional trade and investment links associated with migrants' personal and cultural connections in our key trading markets
- greater influence in regional and global affairs from having a larger and more diverse population and economy
- demographic benefits over the next four decades as migration reduces the effect of ageing on the worker to retiree ratio. Migration will enable economic growth, better public finances and the provision of services, including services that older Australians will demand in retirement
- global and regional influence and national security benefits from a higher population – a larger economy and tax base mean greater participation and influence in multinational institutions, more overseas diplomatic relations and the capacity to fund future defence capability that is needed.

### ***Aggregate and distributional considerations***

Two recent academic studies, along with the IGR, provide estimates of the economic impacts from migration.

#### *McDonald and Temple (2013)*

ANU demographer Peter McDonald and collaborator Jeromey Temple examined a wide range of scenarios of population change, most notably by varying NOM by 10,000 increments between 0 and 360,000 per year.

McDonald and Temple's analysis found that Australia's recent levels of migration (average net overseas migration of 210,000 over the past five years) are consistent with higher economic growth:

... the effects of relatively high levels of migration (150,000–260,000) on the growth rate of GDP per capita are positive.<sup>13</sup>

Under modest assumptions about migrant productivity, McDonald and Temple conclude that NOM between 160,000 and 220,000 is broadly consistent with a goal to optimise GDP per capita:

... if the aim is to optimize GDP per capita growth through to 2053, NOM between about 160,000 and 220,000 seems to do this if it is assumed that the migrants have Australian labour productivity growth. If it is assumed that migrants have a higher level of labour

12. Wolfgang Keller, 'International technology diffusion', *Journal of Economic Literature*, 2004.

13. P McDonald & J Temple, *The long term effects of ageing and immigration upon labour supply and per capita gross domestic product: Australia 2012–2062*, Canberra, October 2013, p. 12.

productivity growth, NOM up to 300,000 still provides worthwhile increments to the rate of growth of GDP per capita.<sup>14</sup>

The IGR's assumption of 215,000 NOM is within this range.

McDonald and Temple caution that population growth needs to be managed well:

... increases to migration add constantly to the population and this increases the burdens associated with the provisioning and servicing of a growing population.<sup>15</sup>

McDonald and Temple model zero migration and conclude it leads to a significant, rapid slow down in labour force growth and thus an '... immediate precipitous decline in the growth rate of GDP in all states and territories.'<sup>16</sup> They caution that this could present a notable macroeconomic risk, as an unplanned slow down would 'require considerable economic adjustment.'<sup>17</sup>

#### *Migration Council of Australia (2015)*

Recent research by the Migration Council of Australia (MCA)<sup>18</sup> shows the positive economic impacts from migration due to two factors:

- the increase in the population, and the more favourable age mix, due to migration
- the per person contribution to GDP that migrants make versus the local population.

The MCA research is based on the premise that migrants are better educated, have higher workforce participation rates and are more productive than the average Australian worker. These assumptions are made because Australia's migration program prioritises skilled migrants.

The MCA modelled a scenario with migration (250,000 NOM plus modest escalation) against a scenario without migration (zero NOM). It found that by 2050:

- migration significantly grows the economy
  - a population of 38 million (compared with a zero NOM population of 24 million)
  - additional \$1.6 trillion in GDP (due to the bigger population)
  - additional 5.9 per cent in GDP per capita growth
  - an increase in labour force participation of 15.7 per cent, equivalent to the gains made over the past 35 years from women's participation in the workforce.
- each individual migrant will be on average contributing approximately 10 per cent more to Australia's economy than existing residents. Because of their characteristics, migrants

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14. *ibid.*, p. 10.

15. *ibid.*, p. 29.

16. *ibid.*, p. 79.

17. *ibid.*, p. 13.

18. Migration Council of Australia, *op. cit.*

generate more knowledge transfer, R&D and innovation and require less government spending on social security, health and education.

- migration increases the population by 37 per cent, but makes a greater proportional contribution to increasing
  - the proportion of the population that is employed (45.1 per cent)
  - the proportion of the population with a university degree (60.4 per cent)
  - GDP (40.7 per cent).
- migration improves the budget bottom line as
  - the gains in employment will contribute to tax revenues
  - migrants who enter on a student visa pay the full costs of their education
  - migrants can help lower per capita expenditure on government network infrastructure where there are fixed costs
  - these improvements to the budget position create an opportunity for lower personal income tax rates which, in turn, benefit the wider population by enabling higher household consumption.
- migration leads to a gain in overall real after-tax wages of 9.7 per cent across the economy, primarily benefiting low- and medium-skilled workers. The modelled effect of migration on wages to 2050 (relative to the zero migration scenario) is
  - a 3.5 per cent decrease for high-skilled workers
  - an 11.0 per cent increase for medium-skilled workers
  - a 21.9 per cent increase for low-skilled workers.

These results are due to the greater supply of high-skilled workers and fewer low-skilled workers under the migration program, causing an adjustment in relative wages.

The MCA analysis acknowledges two factors that reduce productivity and per capita GDP growth with a larger population:

- There are diseconomies of scale and potentially lower living standards associated with a higher population drawing from Australia's fixed factors of land, water and mineral resources.
- The terms of trade are assumed to fall as Australia's economy grows relative to the rest of the world, predominantly due to lower export prices from additional supply.

The economic results also depend on migrant visa categories. In terms of GDP impact, students and skilled workers make a positive impact whereas family and humanitarian categories have a negative impact.

### ***Sensitivity analysis in the IGR***

The 2015 IGR provided a sensitivity analysis of different net overseas migration outcomes with respect to economic growth.

According to the IGR, real GDP is higher at 250,000 NOM than for the baseline assumption of 215,000 (see Table 2). However the difference under 'low', 'baseline' and 'high' scenarios is not large, possibly because the variations modelled are narrow.

**Table 2: IGR sensitivity analysis**

	Net overseas migration		
	Baseline 215,000 people	Low 180,000 people	High 250,000 people
Real GDP growth	<b>2.78%</b>	2.64%	2.92%
Real GDP growth per person	<b>1.48%</b>	1.46%	1.50%
Real GDP per person in 2055	<b>\$121,900</b>	\$121,000	\$123,000

Source: 2015 Intergenerational Report

Also, as raised by McDonald and Temple, the higher NOM would come with greater challenges such as ensuring infrastructure and housing provision keeps pace.

### ***Impacts on wages and other incomes***

In addition to the MCA analysis, other research shows the positive effect that migration has on incomes. National Bureau of Economic Research (NBER) modelling found that the effect of net migration on Australian wages has been clearly positive – around 1.5 per cent. The biggest positive impact was for lower-skilled workers whose wages were boosted by 4 per cent.<sup>19</sup>

These benefits are due to the complementary nature of migration on the workforce. Foreign workers in Australia bring new skills and knowledge which, either through direct training and skills transfer, or indirectly through on-the-job interaction, help to lift the skills and earning potential of Australian workers.

The migration program also allows for people with world-class skills and high levels of entrepreneurship to work in Australia's economy, which generates economic activity that supports innovation and makes Australia more competitive.

Skilled migrants create critical relationships and links with the rest of the global economy that facilitate future trade and investment and grow national income.

### ***Impact on government budgets and balance sheets***

The impact on government budgets depends on the type of migration. The Commonwealth Government's Migrants' Fiscal Impacts Model (reported by the OECD) reports an immediate and positive impact on the budget from permanent migration (family and labour) and temporary migration.<sup>20</sup> In 2010–11, permanent family migrants were

19. F Docquier, C Ozden & G Peri, *The wage effects of immigration and emigration*, National Bureau of Economic Research, Working Paper 16646, December 2010.

20. OECD, *International Migration Outlook 2013*, 2013.

estimated to add \$212 million collectively in their first year, permanent labour migrants add \$747 million and temporary labour add \$889 million.

Humanitarian migration adds initial costs to the budget, however this too becomes positive just over a decade later.

**Table 3: Estimated net impact of immigration on the Australian Government Budget, by visa category, 2010–11**

Category	Visa grants in 2010–11	Net fiscal impact (AUD million)				
		Period of settlement in Australia (years)				
		1	2	3	10	20
Family	54 543	212	60	43	201	146
Labour (including accompanying family)	113 725	747	839	915	1033	1154
Humanitarian	13 799	-247	-69	-62	-12	48
<b>Total permanent</b>	<b>182 067</b>	<b>712</b>	<b>829</b>	<b>896</b>	<b>1221</b>	<b>1349</b>
<b>Temporary Labour (business long stay)</b>	<b>90 120</b>	<b>889</b>	<b>955</b>	<b>383</b>	<b>441</b>	<b>586</b>

Source: OECD International Migration Outlook 2013

An important impact that migrants will have on government balance sheets and budgets, as mentioned earlier, will be to support efforts for fiscal stability and debt and deficit reduction during a looming period of ageing in Australia.

The IGR models the sensitivity of the budget position to modest differences in population and migration outcomes. While this probably reflects a realistic approach to considering possible scenarios, ideally the IGR should model fiscal outcomes under a wider range of population scenarios, including a scenario of zero NOM, to demonstrate the importance of migration to the budget and the economy. This analysis would further demonstrate the importance of migration to economic fiscal outcomes and build support for ongoing migration and population growth at current levels.

### *Recommendation 3*

The intergenerational report should model the long-term impact of a wider range of net overseas migration scenarios on the federal budget (and state budgets). This should include a scenario of zero NOM that can demonstrate the fundamental importance of migration to the economy and public finances.

### ***Administrative and compliance costs associated with immigration***

The Australian Government has identified \$626 million in compliance costs for the immigration department.<sup>21</sup>

Recent changes to the 457 visa scheme, for example, have been mixed in terms of reducing administration and compliance costs. Beneficial changes have been announced to streamline processing for some sponsors and to add some sensible flexibility around

21. Australian Government, *The immigration and border protection portfolio — deregulation annual report 2014*, March 2015.

English-language requirements. Initiatives that have added to costs in recent times are the reintroduction of labour market testing in 2013 and the significant raising of visa fees.

The inquiry can make a useful contribution to reducing the regulatory burden by highlighting areas of reform that will either speed up processing times or reduce compliance costs on business, while maintaining scheme integrity.

The Business Council supports proposed moves to online visa lodgement as a way of improving the efficiency and effectiveness of visa processes. This has the potential to reduce processing times and costs, and increase the transparency and clarity of approval processes. It may also improve process efficiency and integrity by reducing the role of intermediaries, such as migration agents, in visa applications.

Undue costs and delays in the migration scheme detract from economic growth, which ultimately is a cost borne by the community and by domestic employees who miss out on the business activities and other benefits generated by skilled migrants.

Making sure the system is flexible and low-cost to individuals and employers is important for Australia's competitiveness, given that there are already very high transitional and other costs associated with the decision to migrate.

In making the decision that a skills shortage can only be met by hiring a 457 visa holder from overseas, business already needs to factor in additional costs arising from:

- funding assistance to help with relocation and repatriation – these costs vary, but are generally higher for professionals
- on-costs associated with worker top-up training, providing health insurance cover, funding and/or subsidising visa and residency applications
- program compliance costs, for example, demonstrating payment at the market rate, demonstrating that training requirements are being met, monitoring and reporting obligations.

Furthermore, it is becoming more difficult to attract the very best people to Australia due to more competitive approaches being taken by other countries towards attracting skilled migrants. And, for all their liveability attributes, Australia's cities and regions are viewed as expensive places in which to buy housing and to live.



### **A case study in unnecessary and costly red-tape: labour market testing**

The previous government re-introduced a failed regulatory impost to the 457 visa program called labour market testing. A number of independent reviews have found labour market testing costly and ineffective. Other integrity measures such as the 'market salary rate' requirement, coupled with effective enforcement, are considered superior to labour market testing.

The most recent independent review (the 'Azarias' review) confirmed this:

In its current form the labour market testing requirement is costly for sponsors who have done the right thing and subject to manipulation by those that have not made a serious effort to find a local worker.

The review recommended that the current legislative requirement for labour market testing be abolished.

In November 2013, the government exempted highly skilled occupations from the labour market testing requirements. It estimated that this would lead to an annual saving of \$5.45 million in compliance costs.

The simple removal of labour market testing on the remaining occupations to which it applies (e.g. engineers, nurses and some trades occupations) would add to these savings.

Labour market testing imposes more than compliance costs. By making it more difficult to address genuine skills shortages in a timely way, it can deter business expansion, innovation and job creation.

Source: *Independent review into integrity in the subclass 457 programme*, J Azarias, J Lambert, P McDonald & K Malyon, September 2014.

### **Impacts on the urban amenity of existing residents**

The issues paper appropriately raises the issue of migration impacting on urban amenity through population growth. It is essential that Australia's governments openly and properly plan for population growth and the investments that will be needed. The Business Council has consistently argued for the need for improved land use and infrastructure planning and adequate supply of housing, to meet the needs of a growing population.

The increasing labour supply from migration will enable Australia to fund and build the infrastructure and housing that will be needed. Skilled migration can provide the people needed to design and build infrastructure and housing where there are skills shortages.

If governments openly and clearly commit to population growth (in a national population strategy) markets will receive clearer signals of future demand and will be better placed to provide the increased capital stock needed across the economy.

### ***Environmental impacts***

The issues paper raises the matters of environmental impact from a larger population. Sustainable population growth will require us to properly value and care for our natural environment and manage it on behalf of future generations.

A stronger economy, driven by migration, will be better placed to fund environmental protection and sustainability. A strong and growing economy provides the resources and funds to invest in rehabilitating degraded environments, enhancing clean river flows and protecting natural assets, such as coral reefs, from pollutants. Population growth would enable us to make our economy and our environment more resilient in the face of climate change and to invest in new energy sources and technologies.

By contrast, while a stable population scenario may lead to lower demand for scarce resources and less immediate impact on the environment, the weaker state of the economy and budgets would also significantly lessen the availability of funds for environmental protection or rehabilitation.

Planning processes and market and regulatory measures can be designed to manage the impact of a higher population on the environment while also supporting growth.

Water supply is often raised as a concern. Reliable, affordable access to water supplies can be facilitated if we effectively develop our water markets and provide the conditions to invest and bring new supplies of water to areas of population growth.

The challenge of transitioning to a low greenhouse gas emitting economy and meeting our international obligations, without adverse impacts on economic growth and living standards, will exist under all population scenarios. This will require effective decoupling of the growth of the economy from greenhouse gas emissions.

### ***Social and cultural impacts***

Australia has one of the most successful records of migrant integration in the world. In part this can be attributed to the focus on skilled migration and our selective points system. Skilled migrants are more likely to gain employment, their children do well at school, and their serious crime rates are below those of the native population.<sup>22</sup>

Improving the liveability of our cities and maintaining the social cohesion of our communities will be an important challenge for policymakers if our major cities grow by several million people as projected.

It is the potential for poor outcomes from poor management that make many wary of population growth. Inevitably some people will feel that there are trade-offs they are not comfortable with. However, with strong leadership and the right planning and investment policies, growth can provide opportunities to make our cities better places to live through urban development and renewal. The benefit of a growing population and economy is it provides the opportunity to make continuing investments in improving urban amenity and adapting new urban designs.

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<sup>22</sup> Centre for Independent Studies, *Selection, migration and integration: why multiculturalism works in Australia (and fails in Europe)*, O Hartwich, CIS Policy Monograph 121, 2011.

By contrast, a low-population strategy may appear to be immediately more manageable but presents risks over time if a lack of dynamism leads to urban decline. Our cities will need to continue to evolve if they are to continue to be regarded among the best cities in the world.

Clearly, birth rates are also a significant factor in how our population and communities will change over time. An OECD working paper says a fertility rate at least near replacement rate is a worthy objective for population policy to replenish the population and maintain a more even spread of population across age brackets. Higher birth rates encourage family connections, which should help limit the call on government services later in life and offset any adverse consequences from a change in the nature of intergenerational ties from a population increasingly dominated by older cohorts. The Productivity Commission found birth rate outcomes are linked to buoyant economic conditions, workplace flexibility and supportive family policies.<sup>23</sup>

## 2. The links between temporary and permanent migration

Temporary and permanent migration are increasingly interconnected and work well together to serve Australia's economic needs. Australia needs both sources of immigration. In terms of filling the annual permanent migration intake, there are many advantages from migrants first spending time in Australia on a temporary visa, as is increasingly occurring.

In 2012–13 about 50 per cent of 190,000 places available in the permanent migration program went to people already in Australia on a temporary basis. This is up from one-fifth in the mid-1990s.

In 2013–14, 83.6 per cent of applications for the Employer Sponsored component of the permanent scheme were from onshore. Three quarters were from 457 visa holders and just under one-fifth were recent student visa graduates.<sup>24</sup>

Globalisation has led to more people moving to a country on a temporary basis first, for instance, as students or temporary workers, before deciding to take up permanent residency. The OECD identified that for its member countries:

... the temporary-to-permanent track is an increasingly prevalent model that accounts for a growing share of permanent migrants.<sup>25</sup>

For many people, especially young people, temporary migration is often a more attractive option than permanent migration in order to, as the Commission puts it, 'try before they buy'. Temporary migrants who then wish to settle more permanently in Australia can apply for permanent residency. The firm cap on the permanent migration program of 190,000 ultimately limits the extent to which migrants can use temporary visas to become permanent migrants.

23. Productivity Commission, *Recent trends in Australian fertility*, Staff working paper, R Lattimore & C Pobke, Canberra, July 2008.

24. Department of Immigration and Border Protection, *Australia's migration trends 2013–14*, Canberra, 2014, p. 28.

25. OECD, *International Migration Outlook 2014*, 2014, p. 150.

The OECD also makes an important observation about the benefits of the temporary-permanent approach for host countries like Australia. Migrants that are first temporary before becoming permanent have usually demonstrated that they have the qualifications or experiences that will enable them to seamlessly enter (or remain) in the workforce. By comparison, even with a selective points system, migrants going directly into the permanent scheme may not have the 'experience and education' necessary to succeed. The OECD says that:

As a result, countries are now placing greater emphasis on foreigners having a job in hand or on employability proven by experience in the country.<sup>26</sup>

If Australia is to achieve a net overseas migration outcome of 215,000 a year over the next forty years, as projected in the IGR, Australia's main challenge is to attract skilled migrants in the first place. Increasing competition from other countries for skilled migrants means we cannot afford to be too rigid in our migration options. We should continue to take advantage of having strong temporary and permanent migration programs working together in the global labour market and which can match the different preferences of potential skilled migrants.

Australians also benefit from temporary work visa arrangements overseas. They return to Australia with new skills and experiences and strong relationships that can be the basis for ongoing trade and investment with those countries once they return to Australia. In part, these opportunities arise due to Australia reciprocating temporary visa options available in other countries.

### **3. Alternative methods for determining migrant intakes**

The issues paper seeks suggestions on more cost-effective methods of determining Australia's migration intake, and in particular a proposal by Gary Becker to adopt a 'price-based' system for selecting migrants.<sup>27</sup> This would hypothetically replace the current qualitative assessment processes for selecting Australia's permanent migrants.

Becker argues that, because there is an incentive for people to move to a country with greater benefits, such as higher incomes and welfare benefits, governments could sell the right to migrate by setting a price and accepting as many people who wish to pay the price.

Becker's proposal to charge migrants in this way would be subject to migrants meeting security and other criteria, such as health or age. If young, talented migrants are unable to pay a large upfront price, loans could be provided.

An alternative option proposed by Smith is to impose a tax surcharge for a period with, or instead of, an upfront price.<sup>28</sup>

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26. *ibid.*, p. 151.

27. Gary Becker, *The challenge of immigration – a radical solution*, The Institute of Economic Affairs, London, 2011.

28. Nathanael Smith, *Principles of a free society*, The Locke Institute, 2010.

### ***Arguments for and against replacing qualitative assessments with a price***

Becker argues that charging a high price would encourage young, highly skilled migrants with a strong commitment to the country. These people have most to gain from migration in terms of higher wages.

He also argues that charging a high price would reduce illegal immigration. Fees paid now to people smugglers would instead be paid as migration charges to government.

Migration fees could be used to lower other taxes. This would lower any public hostility to immigration as the revenue can be used to reduce the budget impact of immigration arising from migrant use of subsidised health, education, welfare and other government services.

Governments would also benefit from lower migration program administrative costs.

Several arguments have been made against introducing Becker's approach as a means of selecting migrants.

One argument is that Becker's approach has been designed for permanent migration and would not be well suited to temporary migration, which is used to address short-term skill shortages that cannot be filled by the local workforce. Nor does it take account of globalisation and the increasing likelihood that skilled people will work overseas for at least part of their career.

Others argue that a market-based approach would not capture the same external benefits from migration that the current selective scheme can capture by purposefully matching migrants with skills shortages in Australia. There is a risk that relying on private decisions and willingness to pay would see a mix of migrants come to Australia that could make worse existing skills oversupplies or shortages. It also risks increasing social welfare costs if a greater proportion of older people, and those whose skills are already oversupplied, chose to migrate.<sup>29</sup> Migration would be expected to come from older, wealthier individuals with the capacity to pay.

For this reason, several benefits of Australia's existing selective, qualitative approach would be lost, including the capacity to quickly address skill shortages that cannot be filled by local workers.

The Becker proposal still requires administrative processes (and costs) to check security and other criteria such as health and age. Providing loans along the lines of student loans, would impose additional administrative and other costs. Australia's current migration arrangements include an annual cap on net overseas migration, so an optimal price would need to be set. This would be difficult to establish.

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29. 'The price of entry – a new proposal by Gary Becker to make a new market in immigration', *The Economist*, 24 June 2010.

### ***Is a substantial change to Australia's regime warranted?***

Australia's migration programs are currently working well. While there may be room for improving their effectiveness, any changes should not risk diminishing Australia's attractiveness for potential migrants.

The pricing model would appear to put Australia at a distinct disadvantage in the global market for skilled migrants. In that sense, it is not clear the premise of Becker's model is quite right – it is not as simple as defining the market for migration is made up of migrants that 'demand' migration and nations which 'supply' migration options. It is also the case that the Australian Government 'demands' skilled migrants by setting the permanent migrant intake at 190,000 per annum. For instance, the Department of Immigration, along with state governments, holds skilled migration expo's and seminars throughout the world to actively promote Australia as a place to migrate.

As discussed in previous sections, our permanent and temporary migration programs seek to attract migrants with the skills we need because they deliver the highest gains to Australia. Australia competes with other countries for these skilled migrants in global markets that are becoming increasingly competitive. A consequence of charging high prices to overseas migrants is that Australia would become less attractive as a migration destination – whether potential migrants are applying from offshore or are temporary migrants already in Australia applying for permanent migration status onshore.

The pricing regimes would be likely to deter the younger, skilled workers Australia needs to reduce the impact of population ageing and support workforce development over the long term.

Furthermore, it is arguable that using a price mechanism to convert the 'gains to the migrant' into Australian Government revenue is the best way for the community to benefit from migration. By charging new migrants high prices, the Becker model reduces their financial capacity to spend privately once they settle in Australia, whether on consumption or to invest in housing or a new business. In that sense the Becker model assumes that transferring the 'gains to the migrant' to the government benefits the community more than the migrants spending the gains directly within the community.

### ***What pricing methods are being used now?***

While no country has adopted Becker's proposal as far as we are aware, the OECD found that:

The fees that labour migrants and employers are charged range from zero to many thousands of dollars across OECD countries. Only a few countries, such as Israel, deliberately charge high fees to discourage employers from recruiting foreign workers.<sup>30</sup>

When it comes to setting visa fees, the OECD suggests that at least some of the costs to government of administering visa processes could be recovered:

Simplifying procedures and making them more transparent can reduce the role of mediators and allow some of the associated costs to be recovered by public agencies for investment in

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30. OECD, *International Migration Outlook 2014*, 2014, p. 137.

service quality. Processing efficiency can also be supported by charging higher filing costs for paper applications, for example.<sup>31</sup>

Australia's approach to visa fee-setting appears to differ according to the visa. Australia also restricts access to Medicare and the aged pension for migrants, although this depends on any reciprocal arrangements with the country of origin, and their visa category.<sup>32</sup>

The recent review of border fees, charges and taxes by the Department of Immigration and Border Protection, and the Department of Agriculture, led to increases in several visa application charges to take effect from 1 July 2015.<sup>33</sup> The review sought opportunities to improve cost recovery for visa services and streamline visa administration. The visa price increases take into account factors such as visa demand, international competition and recent price increases. Refugee and humanitarian visa fees will be unaffected.

Table 4 sets out the new visa application charges applying to selected key visa categories from 1 July 2015 (excluding other charges, such as second instalments).

The greatest price increase (50 per cent) will apply to the Significant Investor stream because the charge is a small proportion of the minimum \$5 million of investments required under visa regulation. Parent visa streams will increase by 10 per cent because underlying visa demand is not expected to be affected by the price increase. Only a small increase in line with inflation (2.3 per cent) will apply to permanent and temporary skilled visas because of strong international competition for these migrants.

**Table 4: Selected visa application charges to apply from 1 July 2015**

Category	Primary applicant	Adult dependent	Child dependent
Business Innovation and Investment (Significant Investor)	\$7,010	\$3,505	\$1,755
Aged Parent	\$3,870	\$1,935	\$970
Permanent skilled (independent and employer nominated)	\$3,600	\$1,800	\$900
Temporary skilled (457)	\$1,060	\$1,060	\$575

Source: Department of Immigration and Border Protection

In 2013–14, Australian visa fees and charges raised \$1.7 billion in government revenue, an increase from \$1.2 billion in 2012–13.<sup>34</sup> The increased revenue mainly arose from visa fee increases imposed in 2013, including for 457 visas.<sup>35</sup> Additional revenue from migration fees can help to improve the budget position but care needs to be taken that higher fees do not harm Australia's global competitiveness.

31. *ibid.*, p. 142.

32. *ibid.*, p. 155.

33. Department of Immigration and Border Protection, *Joint review of border fees, charges and taxes*, [www.customs.gov.au/feesreview](http://www.customs.gov.au/feesreview) (accessed 11 June 2015).

34. Department of Immigration and Border Protection, *Annual report 2013–14*, 2014.

35. Commonwealth of Australia, C Bowen & P Wong, *Economic statement*, August 2013.

#### *Recommendation 4*

Given the highly positive net benefits of Australia's existing migration regime, and the risks of replacing our current selective system with substantially higher charges for all visa categories, the Business Council 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.

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