

Master Builders Australia

Submission to Productivity Commission on Migrant Intake into Australia

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1 Introduction

- 1.1 Master Builders Australia is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders Australia's members are the Master Builder state and territory Associations. Over 125 years the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.
- 1.2 The building and construction industry is a major driver of the Australian economy and makes a major contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter. At the same time, the wellbeing of the building and construction industry is closely linked to the general state of the domestic economy.

2 Background

- 2.1 In this Submission Master Builders will be responding to a number of specific matters raised by the Productivity Commission in its Issues Paper: "*Migrant Intake into Australia*".
- 2.2 The Productivity Commission was given the terms of reference for an inquiry into migrant intake on 20 March 2015. Whilst this inquiry raises many issues regarding immigration, the over-arching purpose of the inquiry, as expressed in the Treasurer's introductory sentence, is to undertake an inquiry into:
- 2.3 "*. . . the greater use of charges relative to quotas and qualitative criteria to determine the intake of temporary and permanent entrants to Australia.*"
- 2.4 The intake of temporary and permanent entrants is currently regulated through a mix of qualitative requirements (e.g. skills, family connections, refugee-status, health, character and security), quotas (e.g. the size of the Migration and Humanitarian Programmes, and of components within these Programmes) and imposts (including the cost of investing under the Significant Investor Visa).
- 2.5 The Australian Government's objectives in commissioning this inquiry are to examine and identify future options for the intake of temporary and permanent

entrants that improve the income, wealth and living standards of Australian citizens, improve the budgets and balance sheets of Australian governments, minimise administration and compliance costs associated with immigration, and provide pathways both for Australian citizens to be altruistic towards foreigners including refugees, and for Australia's international responsibilities and obligations to foreign residents to be met.

2.6 The Productivity Commission has been asked to use evidence from Australia and overseas to report on and make recommendations about the benefits and costs that the intake of permanent entrants can generate with respect to (a) the budgets and balance sheets of Australian governments, including from:

- entry charges;
- government services used (including public health, education, housing, social and employment services) now and in the future;
- taxes paid now and in the future;
- the dilution of existing, government-held assets and liabilities across a larger population;

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

- impacts on the salaries and employment of Australian citizens, knowledge and skill transfer, productivity, foreign investment, and linkages to global value chains;
- cultural, social and demographic impacts; and
- agglomeration, environmental, amenity and congestion effects.

2.8 The Productivity Commission has also been asked to examine the scope to use alternative methods for determining intakes – including through payment – and the effects these would have. This should include examination of a specific scenario in which entry charges for migrants are the primary basis for selection of migrants, such that:

- there would be no requirements relating to skills and family connections;

- qualitative requirements relating to health, character and security would remain;
- all entrants would have the right to work;
- entrants would have limited access to social security or subsidised education, housing or healthcare; and
- the charge could be waived for genuine confirmed refugees, whose entry would remain subject to current constraints.

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

- opportunities for Australian citizens to be altruistic towards foreigners including refugees;
- the administration and compliance costs associated with immigration, including costs associated with criminal behaviour and the use of migration agents; and
- interactions with citizenship criteria and existing and potential bilateral agreements.

2.10 Another area the Productivity Commission has been asked to look into is the benefits and costs of temporary migration with an examination of the use of charges as the primary basis for regulating the level and composition of this migration, having regard to:

- complementarity with the Australian workforce; and
- achieving flexibility in responding to structural and cyclical adjustments in the Australian economy.

2.11 The final area the Productivity Commission has been asked to examine is mechanisms for achieving an optimal interaction between temporary and

permanent migration noting that temporary migration is an established pathway to permanent migration.

- 2.12 After a summary of recommendations (Section 3) and a section on the policy framework (Section 4), Master Builders' submission is structured as follows:
- Benefits and costs of permanent migration (Section 5);
 - Scope to use alternative methods of determining the permanent migration intake and in particular, the use of entry charges as the primary basis for migrant selection (Section 6);
 - Benefits and costs of temporary migration with an examination of the use of charges as the primary basis for regulating the level and composition of this migration (Section 7); and
 - Mechanisms for achieving an optimal interaction between temporary and permanent migration (Section 8).

3 Summary of Master Builders' Recommendations

- 3.1 Master Builders is of the view that moving to a price-based immigration system along the lines suggested by some economists including Gary Becker, is unworkable and should be rejected.**
- 3.2 Master Builders contends that only employers can sensibly select the migrants they sponsor and hence employer-sponsored categories would need to be retained.**
- 3.3 Given the need to boost skills and therefore productivity as well as grow the size of Net Overseas Migration to Australia over the next 40 years to maintain the modest population growth rate assumed in the Intergenerational Report, Master Builders strongly recommends against use of a price mechanism as the primary basis for selecting points-tested migrants.**
- 3.4 Master Builders believes employers must be allowed to recruit skilled migrants based on the employers' assessment of the needs of their businesses. It is employers who understand their businesses best.**

- 3.5 **Master Builders would strongly object to business owners being forced to pay any significant new charge - a tax on employers who recruit from overseas - as it will only add to the costs of doing business.**
- 3.6 **Master Builders opposes any further increases in charges/taxes associated with employer-sponsored visas for skilled workers from overseas or additional regulation to do with recruiting from overseas.**
- 3.7 **Master Builders considers use of a price based mechanism to select which applicants receive a sub-class 457 would be a seriously retrograde step:**
- **Responsibility for nomination of applicants for a sub-class 457 visa must remain solely with the sponsoring employer;**
 - **Charges/taxes associated with this process should be kept to no more than the cost of processing the visa; and**
 - **Any charges/taxes above this level would represent an unnecessary cost of doing business.**
- 3.8 **Master Builders believes there should be clear and simple pathways for employers to sponsor a person temporarily in Australia for an employer sponsored visa – whether permanent or temporary. If an applicant who is already in Australia on another visa - for example, a visitor visa, a student visa, a WHM or a sub-class 457 - meets the criteria for an employer-sponsored visa, the applicant should not be required to leave Australia in order to receive that visa. Such requirements represent an unnecessary cost of doing business.**

4 The Policy Framework

- 4.1 Australia's population growth rate of around 1.4 per cent per annum over the past 40 years has contributed to Australia's strong economic performance, including growth in key sectors like building and construction, an industry that employs around 9 per cent of the Australian workforce and is a key driver of economic growth and productivity-enhancing infrastructure.
- 4.2 To maintain Australia's population growth rate, even at the lower rate of 1.3 per cent per annum projected in the Intergenerational Report (Treasury,

2015), will require a steady increase in the level of Net Overseas Migration (NOM) to offset a decline in natural increase. The Australian Bureau of Statistics (ABS, 2013) projects the number of deaths compared to births, or natural increase, will progressively move towards zero over the rest of this century.

- 4.3 If NOM is to become the primary source of population growth over the next 40 years as suggested by the ABS and the Intergenerational Report, how migrants are selected will become increasingly important if the profile of migrants to Australia is to remain economically advantageous.
- 4.4 Use of a price mechanism as the primary means of selecting migrants in most skilled stream visa categories risks Australia becoming uncompetitive for young migrants with good English language skills and vocational skills that are recognized in Australia.
- 4.5 Access Economics (Access Economics, 2008) has highlighted the significant net positive contribution to the economy and the budget of young, highly skilled migrants with good English language skills. The decline in labour force participation projected in the Intergenerational Report can be partly offset through the entry of young, skilled migrants with good English language proficiency. This is a key point for an industry like building and construction, that requires, for example, 'white card' proficiency.
- 4.6 The current level of visa application charges/taxes already significantly exceeds the cost of visa processing (outlined in the Productivity Commission's Discussion Paper). To be legally acceptable, these charges operate under taxation legislation. The charges were increased in the 2015 Budget.
- 4.7 For employer-sponsored visas, these costs would most likely have to be met by the sponsoring employer. Master Builders is strongly opposed to increases in charges/taxes paid by employers to recruit the skilled workers they need, especially as these skilled workers are recognised as already making a significant net contribution to the economy and the Budget.
- 4.8 Use of a price mechanism to select migrants under points-tested skilled visas (instead of the current criteria based approach) would see a shift towards migrants who are older, have lesser English language skills and with vocational skills that may not be recognised in Australia. Such a shift in the

profile of migrants in these visa categories would lead to reduced employment prospects and consequently a reduction in their net contribution to the economy and the Budget. Some may take out loans to pay the required charges/taxes. Repayment of these loans would be difficult if they do not quickly obtain employment in Australia. This would have social and other consequences.

- 4.9 Master Builders also notes Australian society is unlikely to accept use of a price mechanism to determine which spouses and dependent children of Australian permanent residents and citizens should be allowed to migrate.
- 4.10 Master Builders strongly supports streamlined pathways for people already in Australia to migrate permanently where they are sponsored by an employer and meet the relevant criteria for such a visa. The applicant should not be required to leave Australia in order to receive the visa as that represents an unnecessary cost of doing business.
- 4.11 To recap, Master Builders strongly believes Australia needs to ensure it remains competitive in the global market for young, skilled migrants. Greater use of a price mechanism would appear to compromise this objective. The Government should rule out using entry charges as a primary basis for migrant selection.

5 Benefits and Costs of Permanent Immigration

- 5.1 The terms of reference initially pose this question in terms of the impact of permanent migration on the budgets and balance sheets of Australian governments. The net impact of migration to Australia on the Commonwealth Budget has been estimated by Access Economics using a model they first developed for the Department of Immigration in the late 1990s. The model was last updated in 2008 (Access Economics, 2008). Its findings have been broadly similar across each update. The key findings in the 2008 update which remain valid today, were as follows:

The bottom line result is that new migrants provide a substantial contribution to the Commonwealth government budget initially, and this contribution grows over time in real terms.

The contribution is positive across all visa categories, with the exception of the Family-Parents categories, which remain negative (apart from a substantial visa application charge paid by

migrants in the Parents Contributory category which goes some way to offsetting their expected health care costs). The contribution is also negative for the Humanitarian category for the first 12 years, as labour force participation is very low initially, and there is considerable use of government services. (Access Economics, 2008)

5.2 The Report notes factors that drive this outcome include:

- The age at which most migrants arrive in Australia, particularly in the skilled streams, being in their twenties or early 30s (that is, after they have been educated, often at the expense of the government of another country). The age profile of migrants at time of arrival is generally much younger than the current resident population of Australia and hence they have a significant portion of their working lives to contribute to Australia before entering retirement.
- Skill levels and participation and employment rates for migrants (other than Parents and Humanitarian Entrants) is higher than for the Australian population as a whole, leading to strong direct tax receipts.
- Exclusion from many government benefits during the first two years after arrival reduces costs as periods of any unemployment must be met from migrants' own savings.

5.3 While they benefit to a lesser degree, permanent migration is also a net positive to State governments. Access Economics' Chris Richardson finds that *"it is therefore fascinating to discover that State Governments actually do benefit from migrants - they just don't benefit as much as the Federal Government"*. (Richardson, 1999)

Dilution of Assets and Liabilities Across a Larger Population

5.4 The terms of reference also ask about the potential 'dilution' of existing government-held assets and liabilities across a larger population.

5.5 The Cato Institute in the USA notes *"immigrants lower the tax burden of providing pure public goods. But, if the public goods are "congestible," more immigrants could decrease the quality of the goods, prompting the government to spend more tax dollars to maintain the quality. Some congestion occurs for most government-supplied goods whenever population*

increases, by immigration or through procreation, but the fiscal impact varies widely (Nowrasteh, 2014).

- 5.6 The Intergenerational Report projects Australia's population will grow at 1.3 per cent per annum over the next 40 years. While that is lower than the 1.4 per cent per annum over the past 40 years, it still represents substantial growth in absolute terms. Australia will need to plan and pay for the infrastructure to support this larger population. Both the existing population and new immigrants will make a contribution towards the costs of this infrastructure either through the taxes they pay or through user charges.
- 5.7 From a purely financial perspective, whether new immigrants should pay an additional charge upon entry to help fund new infrastructure both they and the existing population will use would depend on factors such as:
- The marginal impact of immigration on the cost of infrastructure – assuming the building of some infrastructure could be postponed by lowering the level of immigration;
 - The level of additional revenue generated from the proposed charges/taxes on new immigrants; and
 - The impact of the additional charge in reducing the net budget benefits from immigration because of the consequential impact on the profile of new immigrants to Australia.

Impacts on income, wealth and living standards of Australian citizens

- 5.8 The 2015 Intergenerational Report (Treasury, 2015), like its predecessors, highlights the three key drivers of economic growth – Population, Participation and Productivity. It is these drivers that also largely determine income, wealth and living standards. Skilled migration in particular has a highly positive impact on all three drivers for the reasons outlined by Access Economics (Access Economics, 2008):
- Population: The Intergenerational Report projects “*the average annual rate of growth in the population to be 1.3 per cent over the next 40 years, slightly slower than the annual average population growth rate of 1.4 per cent over the past 40 years.*”

- Participation: The Intergenerational Report projects that *“over the next 40 years, the proportion of the population participating in the labour force is expected to decline as our community ages. By 2054-55, the participation rate for Australians aged over 15 years is projected to fall to 62.4 per cent, compared to 64.6 per cent in 2014-15.”*
- Productivity: The Intergenerational Report states *“during the 1990s, Australia’s productivity growth was especially high, with an estimated average of 2.2 per cent growth per year. This has been widely attributed to the significant economic reforms during the 1980s and 1990s. More recently, however, our productivity growth has slowed, with an average of 1.5 per cent growth per year observed through the 2000s. This is the rate of productivity growth the Intergenerational Report assumes over the next 40 years.”* As in the past, a significant portion of the productivity growth will be driven by technological change.

5.9 Based on these assumptions, the Intergenerational Report projects economic growth *“to be 2.8 per cent per annum on average over the next 40 years with annual growth per capita of 1.5 per cent. This growth rate is expected to be slightly slower than the 3.1 per cent per annum or 1.7 per cent per capita, achieved over the past 40 years, due to an ageing population and gradual decline in the participation rate.”* (Treasury, 2015)

Population growth and economic growth

5.10 The Intergenerational Report correctly emphasizes the role of productivity as a key to achieving the projected rate of economic growth of 2.8 per cent per annum. But it would be short-sighted to assume that the projected level of population growth is a given or the role of population and labour force participation in achieving this rate of economic growth is minor. Neither assumption would be correct.

5.11 The fact that Australia’s significantly faster rate of population growth compared to other advanced economies took place at the same time as 24 years of uninterrupted economic growth is not just co-incidence. The strong rate of population growth was also a major contributor to expanding the capability and capacity of Australia’s vibrant building and construction industry and as an enabler in productivity-enhancing infrastructure, which itself has been a major contributor to economic growth over the past 24 years.

- 5.12 Japan provides a good example of what can happen to an economy where there is minimal population growth and strong population aging. Japan entered the demographic transition to an older population and a low rate of fertility much earlier than Australia. Combined with Japan having a minimalist approach to immigration, its population growth rate over the last 20 years has been around 0.1 to 0.2 per cent per annum (even less in recent years and in some years Japan has had negative population growth). Over the same period, the size of Japan's GDP measured in US dollars has grown very slowly. By comparison, Australia's GDP over the same period has almost quadrupled.
- 5.13 In per capita terms, Japan's GDP has grown since 1996 in constant US dollars from around \$34,000 to around \$37,500. By comparison, Australia's per capita GDP in constant US dollars has grown from around \$27,000 to over \$37,000 over the same period (Economies.com).
- 5.14 The southern European countries of Portugal, Italy, Greece and Spain have for over 20 years had similarly low rates of population growth driven by low rates of fertility and a more aged population. From an immigration perspective, these have been transit countries rather than countries of final destination for most immigrants. While low population growth may not have been the major factor, they too have had comparatively low rates of economic growth.

Drivers of population growth

- 5.15 The two drivers of population growth are natural increase/decrease and net overseas migration.
- 5.16 Under projections developed by the Australian Bureau of Statistics (ABS, 2013), the contribution of natural increase/decrease to Australia's population growth - the balance of births over deaths - is likely to steadily decline over the rest of this century as the large cohort of baby boomers shrinks and Australia maintains a total fertility rate below the replacement level of 2.1 (the Intergenerational Report assumes a total fertility rate of 1.9 while the ABS's middle assumption for total fertility rate is 1.8).
- 5.17 Australia's fertility rate over the last ten years has been closer to 1.9 than 1.8. But it is quite likely this was affected by both the now abolished baby bonus

as well as the second 'echo' of the baby boom. If that is correct, the ABS assumption may turn out to be more accurate than the one used by Treasury in the Intergenerational Report.

- 5.18 The difference between a total fertility rate assumption of 1.9 and 1.8 is non-trivial in terms of the speed with which Australia's rate of natural increase approaches zero and then becomes negative. Using a total fertility rate assumption of 1.8 and a Net Overseas Migration (NOM) assumption of 240,000 per annum (and life expectancy at birth continuing to rise at around current rates), the ABS projects that Australia's population growth rate will decline to 1.0 per cent per annum by 2045 and to 0.5 per cent per annum by 2101.
- 5.19 This would mean that to achieve the Intergenerational Report's population growth rate assumption of 1.3 per cent per annum over the next 40 years, the level of NOM would need to rise steadily to make up for the decline in the rate of natural increase.

Net Overseas Migration

- 5.20 The level of NOM is driven by three main factors:
- Government policy settings, particularly in respect of criteria for Skilled Migration but noting that there is considerable demand for highly skilled migrants and to increase significantly the level of NOM may require a dilution of standards (and hence the potential beneficial impact of these immigrants);
 - Demand for migration generated by Australian employers. As Australia's population ages and the labour force participation rate declines, Australian employers may have no choice but to look overseas to recruit skilled workers. On the other hand, with ubiquitous high speed broadband, we may see employers increasingly accessing some of the skills they need via broadband rather than migration. The Freelancer model of accessing skills may become more prominent; and
 - Relative economic conditions. There is a very strong correlation between relative economic conditions and the level of NOM. For example, each of the major dips in NOM over the past 40 years has occurred soon after a

recession (for example, 1975, 1983, 1992). This has been the result of: an increase in the level of emigration, particularly amongst recently arrived migrants and also with New Zealanders choosing to return to New Zealand; employers reducing recruitment of overseas workers; and reductions in the size of the formal migration program.

- 5.21 If NOM is to become the primary source of population growth over the next 40 years as suggested by the ABS and the Intergenerational Report, how migrants are selected will become increasingly important if the profile of migrants to Australia is to remain economically advantageous.

Population Growth, Immigration and the Building & Construction Industry

- 5.22 The Building and Construction Industry is Australia's third largest industry both in terms of output and employment, and plays a major role in determining economic growth. The Building and Construction Industry employs more than one million people, or 9 per cent of Australia's workforce and from time to time is reliant on skilled migrants to supplement specialised demand.

- 5.23 Changes in Australia's population growth rate and demographic structure have a profound impact on the Building and Construction Industry and the number of people it employs. Some of the more significant impacts on the Industry from the changes in population growth and structure projected in the Intergenerational Report are likely to include:

- An increase in the portion of people over 65 will progressively lead to increased demand for modifications to the existing dwelling stock to suit older people and for residential aged care facilities.
- The projected increase in the number of deaths relative to births will free up older dwelling stock, weighted towards higher value locations.
- The size and distribution of NOM across Australia will become increasingly important to the Industry as NOM becomes the primary driver of population growth compared to natural increase/decrease.
- Slower rates of economic growth will, all other things being equal, reduce the level of NOM and consequently the size of the Industry.

- The size of the International Education Industry and Tourism will also impact on the Building and Construction Industry.
- 5.24 Immigration has historically played an important role in the growth of the building and construction industry in Australia. The industry is expected to once again face serious labour force challenges. These challenges concern both the expected increased demand for managerial, skilled and unskilled labour and replacing the exiting and/or retirement of a sizeable number of skilled workers over the next decade.
- 5.25 Master Builders recommends migration policy has an emphasis on skilled migration including semi-skilled workers, ensuring that the '457 visa program' remains uncapped and responsive to the nation's skills needs.
- 5.26 Master Builders also recommends that the *Robust New Foundations: A Streamlined, Transparent and Responsive System for the 457 Visa Programme* report be implemented in full with appropriate funding to assist in implementation. As acknowledged in the Report, the OECD has pointed out that employer-conducted labour market testing is not "fully reliable", and in the Australian context has proven ineffective. Master Builders recommends that labour market testing for 457 visas is unnecessary and should be removed.
- 5.27 Master Builders other policy elements of a skilled migration program include:
- Ensuring the '457' program remains 'uncapped', with further streamlining where a 457 visa-holder seeks to transition to a permanent visa.
 - Enhancing the access of certain occupations, currently classified as 'semi-skilled' for the purposes of permanent employer-sponsored migration which could best be achieved by including priority semi-skilled on the Employer Nominated Skilled Occupation List on a case-by-case basis; and
 - Applying a functional English standard for skilled migrants, consistent with the ability to read and understand workplace instructions and safety standards.
- 5.28 Master Builders' policy at the macro level is for the current, permanent migration program intake to be set at around 195,000 persons per annum.

This figure reflects our commitment to a 'bigger Australia', expectations of sustained economic growth and associated low levels of unemployment and increasing skills pressures across a number of sectors of the Australian economy, and in the building and construction industry in particular.

- 5.29 Master Builders, while supporting the proper role of skilled migration, has a strong commitment to the training and up skilling of Australians. However, future labour force projections show an ongoing need for skilled migration programs.
- 5.30 Master Builders estimates, based on current industry labour force attrition rates and growth projections, around 60,000 entrants to the industry will be required each year, on average, over the next decade with around two-thirds (or some 40,000 people) of this demand being for skilled positions. These figures compare with construction trades apprenticeship commencements of 18,000 in 2014, where generally over 30 per cent will not go onto complete their training.

Agglomeration, environmental, amenity and congestion effects

- 5.31 While a larger population would generally imply increased agglomeration, environmental, amenity and congestion effects, these issues also need to be considered through the prism of technological change, particularly change driven by increased use of ubiquitous high speed broadband. These impacts may reduce the congestion effects of population growth due to:
- Increased delivery of services via digital means – this will mean that the person delivering a service may not be in the same city as the recipient or indeed in the same country.
 - Increased adoption of activity-based working driven by technology may significantly alter the design and location of commercial buildings and reduce the size of such buildings on a per employee basis (for example, the new Commonwealth Bank Building and Microsoft Offices in Sydney).
 - Increased take up of telework driven by ubiquitous high speed broadband would impact the design and location of homes.

6 Entry Charges as Primary Basis for Migrant Selection

- 6.1 The terms of reference for this inquiry request the Productivity Commission to examine *“the scope to use alternative methods for determining intakes – including through payment – and the effects these would have. This should include examination of a specific scenario in which entry charges for migrants are the primary basis for selection of migrants such that there would be no requirements relating to skills and family connections; qualitative requirements relating to health, character and security would remain.”*
- 6.2 According to the Productivity Commission’s Discussion Paper for this Inquiry, moving to a price-based immigration system has been discussed by several economists including in an opinion piece by Gary Becker. Becker proposes that the *“government should set a price each year and anyone who would be accepted, aside from obvious cases such as potential terrorists, criminals and people who are very sick...But aside from these cases, you would allow anybody to immigrate who could make the payments.”*
- 6.3 Becker notes that *“no country has ever adopted such a policy”* and that the *“main benefits to the host country would be that the fee:*
- *could represent a significant potential revenue stream;*
 - *would ensure that economically active immigrants who had a real commitment to the country were most attracted; and*
 - *might provide an incentive for some immigrants who attempt to arrive illegally, to do so legally and undermine the people smuggling businesses.”*
- 6.4 The Productivity Commission has been asked to examine this in some depth including possible ways in which the scheme might be designed and how the proposed price or prices may be set. In outlining a series of questions about this proposition, the Productivity Commission has correctly started with the question of whether existing Australian residents are likely to accept such a scheme and whether it would assist in building public support for immigration. The Commission also asks about *“the likely international reaction to Australia introducing such a charging regime.”*

- 6.5 Whilst Master Builders is not able to respond to these a priori questions, they are ones we strongly recommend be tested with the Australian public and with the governments of key trading partners if there is any intention to move further down this path.

Price Mechanism (or ‘Becker’) Approach

- 6.6 Becker’s proposition is to significantly simplify the immigration selection system by removing distinctions between visa categories (and use of visa criteria) to rely almost entirely on a price mechanism. The terms of reference for this inquiry modify that by proposing to waive the charge for ‘refugees’ (we have assumed this applies to all Humanitarian Program entrants as none would have the capacity to pay).

- 6.7 A decision on whether to adopt a single pricing mechanism to determine migrant selection for all other visa categories as a whole, together with abolition of all skills/family criteria, would require government to balance factors such as:

- the level of revenue collected from the charge/tax;
- the net benefit/cost (including to the Commonwealth Budget) associated with the likely change in the composition of the intake, for example, it is likely that use of a pricing mechanism as the primary means of migrant selection would lead to a shift in the composition of the points-tested Skill Stream towards:
 - older migrants with a greater capacity to pay but a shorter working life in Australia;
 - migrants with lesser English language skills who may find it more difficult to obtain good employment in Australia;
 - migrants with less skills or less relevant skills or skills that are not recognized in Australia;
- implications for family reunion, particularly spouses and children, for example, if a couple was unable to pay, would they be forced to live overseas (that is, requiring deportation) or live apart from each other or from their children?

- implications for migrants in employer-sponsored categories, for example, if distinctions between visa categories are to be abolished, how would an employer nominate the skilled migrants they wish to sponsor? **Master Builders contends only employers can sensibly select the migrants they sponsor and hence employer-sponsored categories would need to be retained.**

6.8 Against this background, the Productivity Commission correctly asks whether such a price based scheme:

- would operate in conjunction with existing approaches to migrant selection – noting that migration application charges are already well in excess of the costs of processing those applications and are indeed classified as a tax; and
- needs to be considered in terms of individual visa classes and their objectives rather than in aggregate across the whole program – noting that the Parent Visa Categories, for example, already have significant elements of the pricing approach being considered.

6.9 Master Builders strongly agrees with both propositions. **Master Builders is of the view that moving to a price-based immigration system along the lines suggested by some economists including Gary Becker, is unworkable and should be rejected.**

Points-Tested Skill Stream Visas

6.10 Australia is one of the few countries in the world that operates such visa categories. The USA does not have such visa categories but Canada and NZ do. As Becker's proposal relates to the situation in the USA, he may not have had such categories in mind.

6.11 Access Economics has demonstrated the significant net benefit from these categories for government budgets (Access Economics, 2008). Young, highly skilled migrants with good English language skills and recognized vocational skills are the target of these categories. These people are highly mobile and have options in terms of the countries in which they choose to live and work. Indeed over their lifetime, they may live and work in a number of countries.

- 6.12 Introduction of a supplementary price mechanism for these categories is, at least in theory, plausible. It could be done by significantly increasing the current visa application charges/taxes (as the Government has done to a degree in the 2015 Budget).
- 6.13 The risk is that use of a price mechanism to select migrants under points-tested skilled visas (instead of the current criteria based approach) would see a shift towards migrants who are older, have lesser English language skills and with vocational skills that may not be recognized in Australia. Such a shift in the profile of migrants in these visa categories would lead to reduced employment prospects and consequently a reduction in their net contribution to the Budget. Some may take out loans to pay the required charges/taxes. Repayment of these loans would be difficult if they do not quickly obtain employment in Australia. This would have social and other consequences.
- 6.14 Given the need to boost skills and therefore productivity as well as to grow the size of NOM to Australia over the next 40 years to maintain the modest population growth rate assumed in the Intergenerational Report, Master Builders strongly recommends against use of a price mechanism as the primary basis for selecting points-tested migrants.**

Employer-Sponsored Visas

- 6.15 Master Builders' members have an overwhelming preference to train and employ Australians. However, there are occasions where they are unable to find people with the right skills within Australia. These are people with skills that will often be critical to business success and to training others in the needed skills. In these circumstances, Master Builders' members look to recruit from overseas, noting that the costs of doing so are significant.
- 6.16 Access Economics has shown that employer sponsored migrants deliver by far the highest net benefit to the Budget (Richardson, 1999) (Access Economics, 2008). **Master Builders believes employers must be allowed to recruit these skilled migrants based on the employers' assessment of the needs of their businesses. After all, it is employers who understand their businesses best.**
- 6.17 Participation rates in Australia will decline, as projected in the Intergenerational Report, so the risks of employers not being able to find the

skilled workers they need, will rise. In these circumstances, it makes more sense for the Government to streamline processes for recruiting employer-sponsored skilled workers.

- 6.18 **Master Builders would strongly object to business owners being forced to pay any significant new charge - a tax on employers who recruit from overseas - as it will only add to the costs of doing business.** Expecting the prospective migrant to pay this new tax is unrealistic. It would be the employer who has to pay.
- 6.19 These costs would need to be passed onto consumers as businesses could not absorb them, especially if the charge/tax is significant. Introduction of such a charge/tax would make it even more difficult for Australian businesses to compete with overseas businesses who would not face such charges/taxes.
- 6.20 **Master Builders therefore opposes any further increases in charges/taxes associated with employer-sponsored visas for skilled workers from overseas or any additional regulation associated with recruiting from overseas.**

Business Investor Visas

- 6.21 These visas require the visa applicants to make significant investments in Australia. If there is sufficient demand for these visas, a case could be made to further raise the visa application charge/tax for these visas. However, as genuine visa applicants in these categories are in demand around the world, careful judgement would need to be exercised in how the charges/taxes are set.

7 Entry Charges as Primary Basis for Temporary Resident Selection

- 7.1 There are many temporary resident categories. We have assumed that the Government does not propose to increase beyond indexation the current charges/taxes paid for tourist and business visitor visa applications (or the visitor bonds that some applicants pay).

- 7.2 Apart from the above, the other key temporary resident categories are overseas students; working holiday makers and employer-sponsored temporary residents.

Overseas Students

- 7.3 The International Education Industry is one of Australia's largest export earners. To obtain a student visa, applicants must meet the costs of full fees to the relevant Australian education institution as well as general living costs, etc. These costs are in addition to the visa application charge/fee and the cost of relevant English language tests.
- 7.4 The International Education Industry is highly competitive. A significant increase in student visa application charges/taxes would impact on the Australian Industry's competitiveness and be strongly opposed by that Industry.
- 7.5 Any increase in revenue collected may not be sufficient to offset the loss of economic benefits from a reduction in student visa numbers.

Working Holiday Makers (sub-class 417)

- 7.6 Relatively small numbers of WHMs are likely to be employed in the Building and Construction Industry.
- 7.7 We note, however, that in the 2015 Budget, the Government announced that most Working Holiday Makers (WHMs) will not have the benefit of the tax free threshold but will need to pay tax at 32.5 per cent from the first dollar earned. This will impact demand for these visas from future potential applicants.
- 7.8 As the WHM program operates on a reciprocal basis with agreement countries, use of a price mechanism to select WHMs would require negotiation with agreement countries.
- 7.9 Once again, the revenue benefits from a significantly higher charge/tax may not sufficiently offset the economic benefits that would be lost from a reduction in WHM numbers.
- 7.10 Introduction of a price mechanism by reciprocal agreement countries would reduce the opportunities of young Australians to undertake working holidays overseas.

Employer-sponsored temporary residents (sub-class 457)

- 7.11 There has been extensive research that confirms the economic and budgetary benefits of this visa category. These benefits stem from the fact that these temporary residents:
- generally earn salaries substantially above the Australian average;
 - pay taxes at the temporary resident rate; and
 - are ineligible for a range of government services and benefits.
- 7.12 There have been a number of reviews and changes relating to this visa sub-class over recent years, largely in response to isolated incidents of visa non-compliance. Master Builders supports the Department of Immigration being appropriately resourced to address non-compliance.
- 7.13 Master Builders is on record of supporting streamlined sub-class 457 visa processing that excludes redundant labour market testing and has high levels of transparency in minimum salary requirements. When a business is unable to find the skilled workers they need in Australia, they need to be able to secure these skilled workers from overseas as quickly as possible. Streamlined processing is critical to this need.
- 7.14 **Master Builders considers use of a price based mechanism to select which applicants receive a sub-class 457 would be a seriously retrograde step:**
- **Responsibility for nomination of applicants for a sub-class 457 visa must remain solely with the sponsoring employer;**
 - **Charges/taxes associated with this process should be kept to no more than the cost of processing the visa; and**
 - **Any charges/taxes above this level would represent an unnecessary cost of doing business.**
- 7.15 Being a demand driven visa category, the sub-class 457 visa responds effectively to changes in rates of economic growth and employment. Higher visa charges/taxes would diminish the responsiveness of this visa category to economic conditions.

Temporary entrants from New Zealand

- 7.16 Special arrangements between the governments of New Zealand and Australia allow citizens of one country to travel, work and live in the other country with minimal visa processing other than in respect to health and character.
- 7.17 Introduction of a price mechanism for these visas would require re-negotiation of the current trans-Tasman travel arrangements.
- 7.18 Such a mechanism would be inconsistent with the directions that have been taken by successive governments towards Closer Economic Relations (CER) between Australia and New Zealand.

8 Optimal interaction between temporary and permanent migration

- 8.1 **Master Builders believes there should be clear and simple pathways for employers to sponsor a person temporarily in Australia for an employer sponsored visa – whether permanent or temporary.**
- 8.2 **If an applicant who is already in Australia on another visa - for example, a visitor visa, a student visa, a WHM or a sub-class 457 - meets the criteria for an employer-sponsored visa, the applicant should not be required to leave Australia in order to receive that visa. Such requirements represent an unnecessary cost of doing business.**

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