



Australian Government
Productivity Commission

Migrant Intake into Australia

Productivity Commission
Inquiry Report
Overview & Recommendations

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The Productivity Commission

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

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

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



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13 April 2016

The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

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

Yours sincerely

A handwritten signature in black ink, appearing to be 'PL' followed by a stylized flourish.

Paul Lindwall
Presiding Commissioner

A handwritten signature in black ink, appearing to be 'AM' followed by a stylized flourish.

Alison McClelland
Commissioner

Terms of reference

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

Terms of Reference

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

Background

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

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

Scope of the inquiry

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

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

-
- (iii) taxes paid now and in the future;
 - (iv) the dilution of existing, government-held assets and liabilities across a larger population; and
- (b) the income, wealth and living standards of Australian citizens, including with respect to:
- (i) impacts on the salaries and employment of Australian citizens, knowledge and skill transfer, productivity, foreign investment, and linkages to global value chains;
 - (ii) cultural, social and demographic impacts; and
 - (iii) agglomeration, environmental, amenity and congestion effects.
2. An examination of the scope to use alternative methods for determining intakes – including through payment – and the effects these would have. This should include examination of a specific scenario in which entry charges for migrants are the primary basis for selection of migrants, such that:
- (a) there would be no requirements relating to skills and family connections;
 - (b) qualitative requirements relating to health, character and security would remain;
 - (c) all entrants would have the right to work;
 - (d) entrants would have limited access to social security or subsidised education, housing or healthcare; and
 - (e) the charge could be waived for genuine confirmed refugees, whose entry would remain subject to current constraints.
- The scenario should examine the way in which the above charges could be set, and what they might be, to maintain the current levels of the migrant intake or to maximise the benefits for Australian citizens. The scenario should also examine the impacts of such charges – based on assessment of the factors listed in (1) above and also taking account of:
- (f) opportunities for Australian citizens to be altruistic towards foreigners including refugees;
 - (g) the administration and compliance costs associated with immigration, including costs associated with criminal behaviour and the use of migration agents; and
 - (h) interactions with citizenship criteria and existing and potential bilateral agreements.
3. The benefits and costs of temporary migration with an examination of the use of charges as the primary basis for regulating the level and composition of this migration, having regard to:
- (a) complementarity with the Australian workforce; and

-
- (b) achieving flexibility in responding to structural and cyclical adjustments in the Australian economy.
4. Mechanisms for achieving an optimal interaction between temporary and permanent migration noting that temporary migration is an established pathway to permanent migration.

Process

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

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

J. B. HOCKEY
Treasurer

[Received 20 March 2015]

Letter of extension



TREASURER

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

Dear Mr Harris

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

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

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

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

Yours sincerely

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

The Hon Scott Morrison MP

23 / 2 / 2016

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

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Acknowledgments

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

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

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

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

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

OVERVIEW

Key points

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

Overview

Immigration is a defining feature of Australia's economic and social life. Over the past seven decades, around seven million people have migrated to Australia. Assuming that immigration continues along its average long-term trajectory, it is projected to add another 13 million people by 2060. With more than one in four Australian residents born overseas, and close to half of the population with at least one parent born elsewhere, immigrants and their descendants make an important contribution to Australia's human capital and social fabric.

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

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

The mix of immigrants also matters. Younger and more skilled immigrants are best placed to make a positive economic contribution to Australia. These types of immigrants provide a *demographic dividend* by increasing the proportion of people in the workforce, thus reducing the negative impacts associated with an ageing population. Skilled immigrants are also more likely to generate spillover benefits through enhanced productivity, innovation, and greater flexibility to move to other occupations in response to changing labour markets.

Australian governments have a long history of active immigration policies that have evolved substantially over time. From an emphasis on ethnicity, population growth, nation building and citizenship, the system has shifted to one geared primarily to meeting the needs of employers, through both the temporary and permanent immigration streams. The

system also provides opportunities for family reunion and entry on humanitarian grounds, as well as arrangements targeted to meeting Australia's regional engagement objectives, including foreign aid to Pacific island nations. It also caters for international students and working holiday makers.

Box 1 Who are Australia's immigrants?

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

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

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

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

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

The intake of temporary and permanent migrants is managed through a range of qualitative criteria including character, health, financial capacity, age, skills, family connections and humanitarian need, as well as through price-based elements. However, various programs are managed in different ways:

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

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

There is a general perception that this system has served Australia well, notwithstanding some divergence of views in the community. The relative shift to a focus on skills, while maintaining opportunities for family reunion and a humanitarian intake, has improved economic and social outcomes, particularly for the immigrants themselves, and for the broader community. However, from a policy perspective, the key question is whether current policy settings are set to deliver the best outcomes for the Australian community over the longer term.

This question needs to be posed against some of the key challenges that Australia faces — slow income growth, slow productivity growth, an ageing population and environmental degradation. It also needs to be contextualised against some major changes in global migration patterns. There is now much greater diversity in source countries, destination countries and the frequency and duration of migrants' movements. Reductions in travel costs and advances in information technology have also led to a substantial increase in the level of migration, especially of a temporary nature. More recently, the significant increase in the cross-border movement of asylum seekers and refugees has created additional pressure points on migration systems globally.

These factors call for a well-considered and targeted approach to immigration policy, one that takes into account the complex interactions associated with the movement of people across borders and their implications for the wellbeing of the Australian community and their future generations.

What has the Commission been asked to do?

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

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

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

The Commission's approach

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

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

This report draws on insights from three distinct modelling frameworks:

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

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

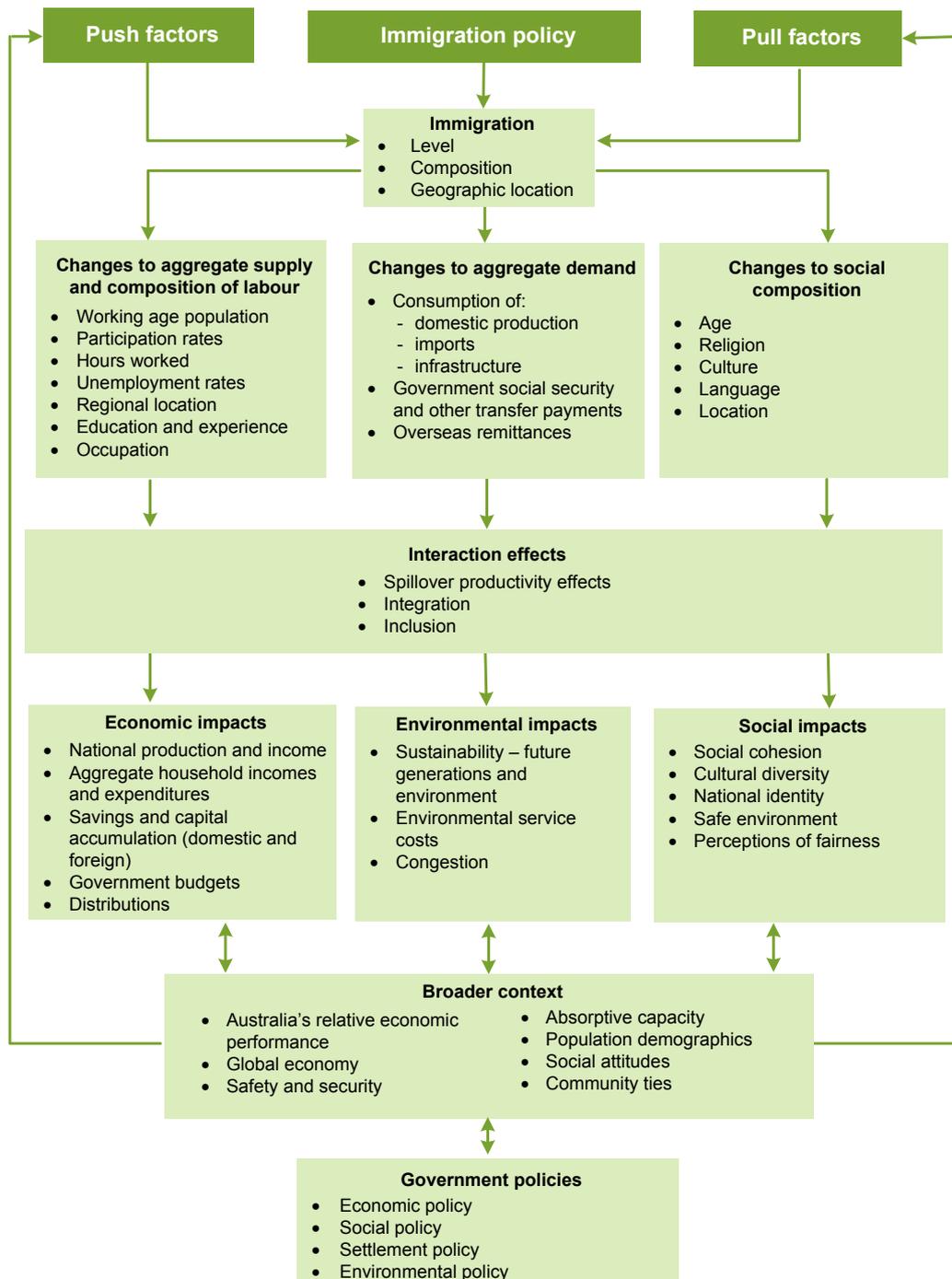
In this context, the following key caveats apply to the models used in this inquiry:

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

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

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

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



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

In conducting this inquiry, the Commission has been cognisant that Australia’s immigration policy is by default its population policy. Maximising the wellbeing of the Australian community is contingent on achieving a balance between proactive policies that influence the rate, composition and geographical distribution of population growth, and reactive policies that address the impacts of a given rate of population growth.

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

Economic, social and environmental impacts

Immigration has implications for the three interrelated dimensions of community wellbeing — economic, social and environmental. The key drivers of the direct effects of immigration are the level of immigration relative to the size of the population, and the differences between immigrants and the resident population. The characteristics of immigrants are influenced by the entry conditions for each visa category. They are also reflective of the self-selection and motivation of different cohorts of immigrants.

The labour market outcomes of immigrants are mixed

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

Across several labour market indicators, Australian immigrants have broadly comparable outcomes to immigrants in some countries in the Organisation for Economic Cooperation and Development (OECD), such as Canada, New Zealand and the United Kingdom (figure 2). Similar to the pattern in several OECD countries, Australian immigrants have a lower employment to population ratio than their Australian-born peers. While the unemployment rate of all immigrants is relatively higher in periods of economic slowdown, it is about the same as for Australian-born residents at other times. The higher unemployment rate in periods of slow economic growth may reflect the fact that recently

arrived immigrants are new entrants to the labour market. Immigrants' labour market outcomes generally improve over time as they gain experience, and adapt to the conditions and circumstances of life and work in Australia.

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

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

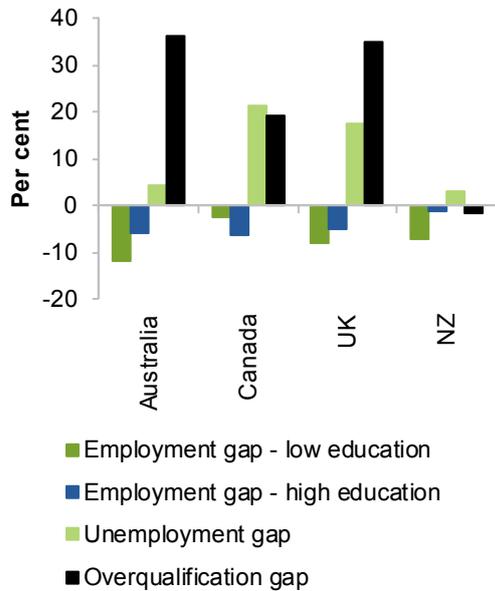
The impacts on local workers is an empirical issue

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

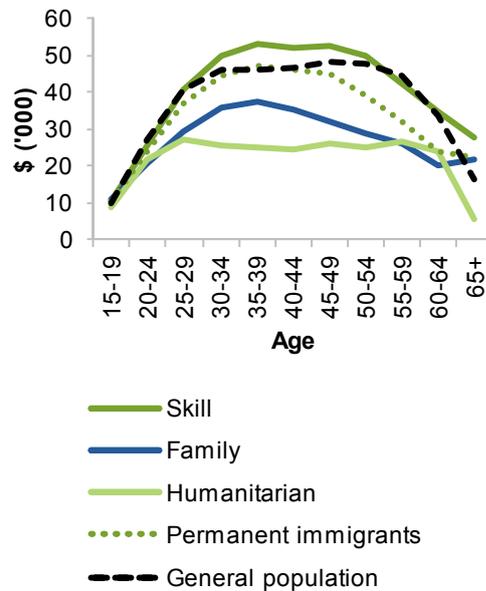
Most international studies on the aggregate impact of immigration on the wages and employment of local workers find small (either positive or negative) effects. Invariably, the extent of any displacement depends on the level, timing, geographical location and composition of immigration. It also depends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

Figure 2 Selected labour market outcomes of immigrants

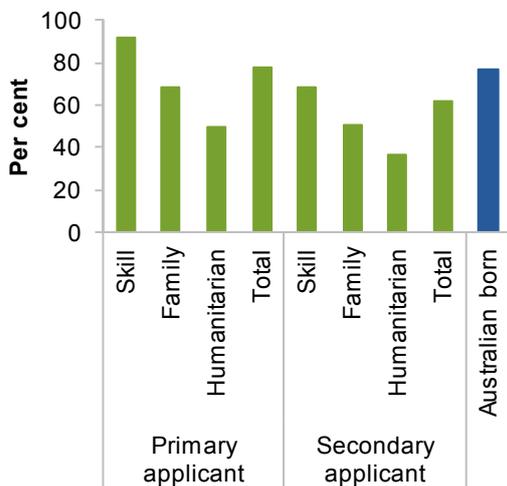
a. Gaps in labour market outcomes (Foreign-born relative to native-born as a share of native-born), 2012-13



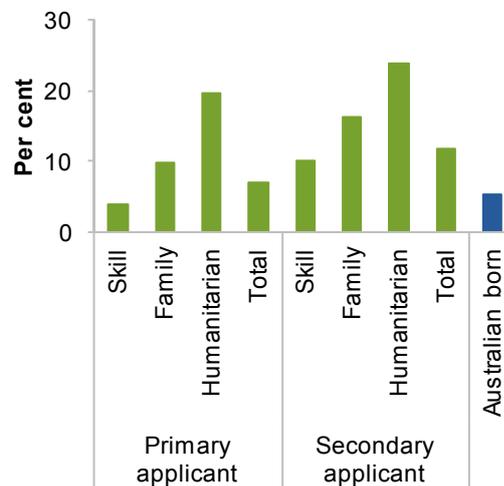
b. Medium income by age, 2009-10



c. Labour force participation rate, 2011



d. Unemployment rates, 2011



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

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

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

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

Economic and social integration are interrelated

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

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

However, there appears to be a disconnect in attitudes to immigration and population. Recent surveys of temporary and permanent residents found that two thirds of respondents would like to limit the population to below 30 million — which would be reached by around 2030 on current rates of immigration — yet only one third of respondents considered that immigration levels were too high.

With recent migrants more likely to come from Asian countries and less likely to have English as their native language, English-language training, which assists with integration, is becoming more important. The English-language program is generally well regarded, although its current ‘one size fits all’ aspect is failing some, and government funding could be used more efficiently.

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

Immigration reinforces the need for sound environmental policies

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

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

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

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

The fiscal impact of immigrants — age is a key determinant

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

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

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

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

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

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

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

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

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

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

Long-term impacts of immigration

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

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

The demographic dividend

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

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

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

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

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

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

Economywide impacts of migration

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

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

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

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

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

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

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

Maximising community-wide benefits

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

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

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

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

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

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

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

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

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

Assessing a price-based proposal for permanent entry

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

Australia's current immigration system uses a combination of quantitative and qualitative selection criteria to determine the level and composition of the migrant intake. It has elements of a market-based system, such as with employer nomination and sponsorship, alongside government controls. The number of places under the permanent immigration programs is capped. Within these caps, qualitative criteria around character, health, age, skills (including English-language skills) and financial capacity apply. Most applicants (with the exception of humanitarian entrants) also have to pay visa charges. These vary between visa classes and are relatively high in some cases — almost \$50 000 for contributory parent visas.

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

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

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

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

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

Modelling the effects of the price-based proposal

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

People choose to migrate for a range of reasons. They make a choice between the conditions (now and expected in the future) in their home country and their potential opportunities in other countries. Factors that influence migrants' decisions on where to move include likely employment opportunities, wage differentials, family reunion opportunities, lifestyle, access to government services, and cultural affinity. Price — associated with visa charges, compliance and relocation — is also a consideration.

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

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

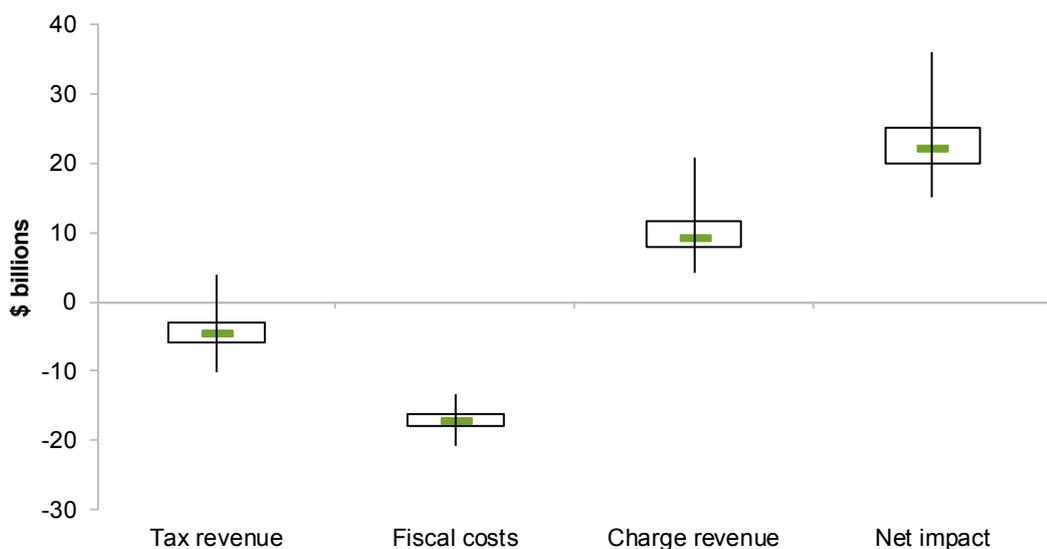
Compositional and fiscal impacts

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

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

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

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



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

Broader economic and social impacts

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

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

Acceptability issues

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

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

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

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

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

Summing-up

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

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

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

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

Hybrid visa pricing options?

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

The Australian Government currently charges a wide range of visa fees. Their basis is unclear and appears ad hoc. Visa charges have increased significantly in recent years, and the revenue generated is now more than three times the costs of processing visa applications. Charges for Australian visas are generally higher than in Australia's major competitor countries.

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

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

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

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

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

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

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

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

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

Changes to the current system

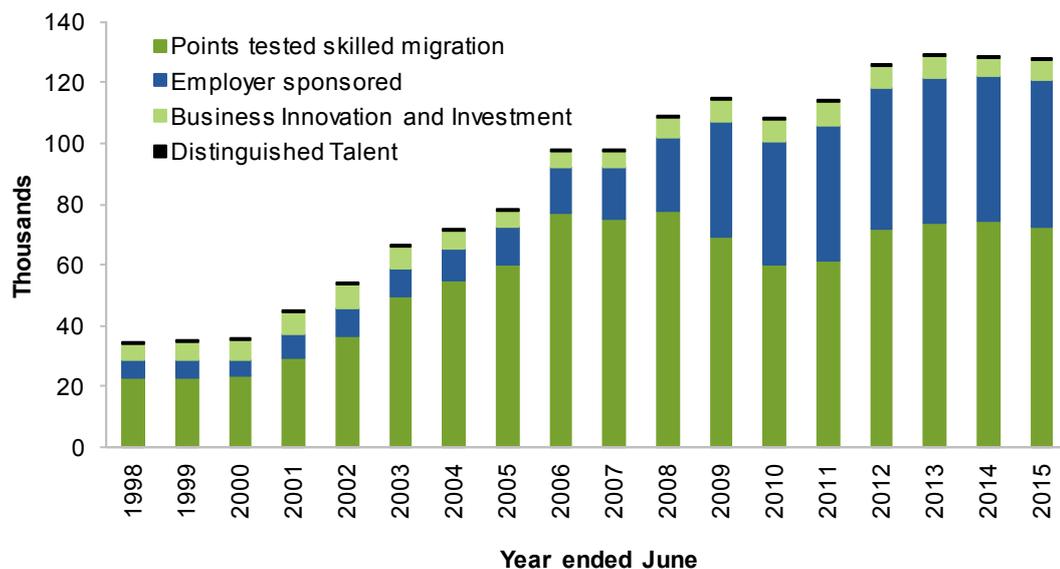
Australia's immigrants and their children integrate fairly well into the labour market and society, and most become self-reliant, productive citizens. There is broad public support for the immigration program and immigrants are generally well accepted in the community.

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

Recalibrating the permanent skill stream

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

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



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

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

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

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

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

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

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

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

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

What should be on the skills lists?

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

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

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

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

Family reunion — re-evaluating parent visas

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

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

The issues are much less straightforward for parent visas:

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

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

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

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

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

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

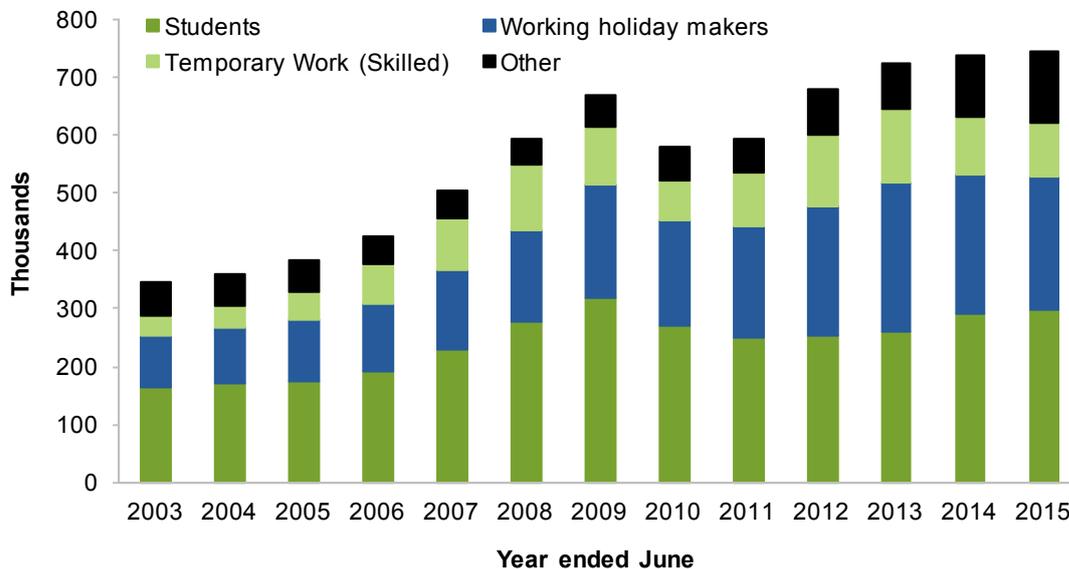
The impact of this tightening could be partly offset by the introduction of more flexible temporary parent visa arrangements, subject to the parents or sponsoring children meeting the costs of any income or health support during their period of residence.

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

Managing the temporary immigration programs

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

Figure 5 Temporary visa grants, 2003–2015^a



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

The labour market impacts of temporary visa programs are poorly understood

In September 2015, there were around 426 000 student and 26 000 temporary graduate visa holders in Australia. Student visa holders have a right to work (generally up to 40 hours per fortnight while their course is in session). Those on a Temporary Graduate visa, depending on their qualifications, have a right to work for between 18 months and four years after graduation.

The pool of international students with work rights is supplemented by around 144 000 working holiday makers. The primary objective of this visa program is to encourage cultural exchange and closer ties between Australia and eligible countries (with reciprocal rights for Australian citizens). In recent years, this program has been extended to direct labour to jobs in regional areas.

Well-targeted temporary immigration programs can be an effective response to labour market shortages. However, the labour market implications of the work rights of the substantial and uncapped pool of international students, graduates, and working holiday makers are poorly understood and warrant further investigation. As such, the Commission is recommending a public inquiry to identify the labour market effects of temporary immigrants and administrative changes to allow for the use of matched tax and visa data to inform policy.

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

457 visa holders in Australia. The program can play an important role in allowing businesses to source skilled labour in peak labour demand periods and access a global pool of specialised labour that may not be available domestically. In recent times, the program has been used extensively to fill skill needs in fields such as medicine and nursing, and mining.

Nevertheless, the operation of the 457 visa program has attracted a great deal of criticism and has been the subject of a number of government reviews in the past decade. These criticisms have included the range of skilled occupations covered by the program and the integrity of the process for identifying labour shortages. The CSOL — the relevant list for 457 visas — currently includes 651 occupations that require a bachelor degree or higher qualification through to those that are commensurate with a certificate level III or IV. The CSOL is merely a list of skilled occupations. It is not (nor is it intended to be) a list of occupations in temporary short supply. The lack of transparency around the compilation of the list creates scope for vested interests to unduly influence its composition.

The Azarias review of the 457 visa program recommended some changes to the management of the CSOL, including to the process for adding occupations to the list and to allow for limiting the number of visas granted for some occupations. The Australian Government has supported these recommendations, and their implementation is expected to lead to better identification of occupations (and regions) where shortages do exist, and to allow more granular decisions on whether local workers are able to meet the demand for those occupations.

It is too early to tell whether these changes will be effective in addressing the issues identified by the review. However, their effectiveness should be evaluated by the Australian Government after sufficient time for those changes to take effect. In particular, this assessment should examine the success of the Ministerial Advisory Council on Skilled Migration in adopting an evidence-based and transparent approach to identifying skills shortages. As part of this assessment, the relative merit of establishing an independent body to undertake this function should be examined.

Temporary immigrant workers are more at risk of exploitation

International students and working holiday makers are inherently more susceptible to exploitation than other workers as they are likely to be young, face language barriers, be less aware of their work rights, and frequently be seeking a permanent visa. Moreover, as they mostly work in low to semi-skilled jobs, for which labour is generally not in short supply, they have less ability to resist the coercive behaviour of unscrupulous employers. They are also less likely to have access to social or economic support networks able to counter any market power of their employers or to assist them in moving to alternative jobs.

The exploitation of temporary migrant workers is a breach of generally applicable employment laws and is subject to existing arrangements designed to protect the rights of

all workers. Principal among these is the general enforcement of workers' rights through monitoring and inspections by officers of the Fair Work Ombudsman, and the provision of information on employees' workplace rights.

Apart from the adverse impacts on the individuals involved, there is a risk that exploitation of temporary migrant workers by some employers could taint the appeal of these temporary programs. More resources to identify and act against threats to the integrity of these visa programs, reduce the information asymmetry between temporary workers and their employers, and increase access to complaint mechanisms would help to manage these risks. The Commission's inquiry into the workplace relations framework also considered these issues and made recommendations along these lines.

Pathways from temporary to permanent immigration

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

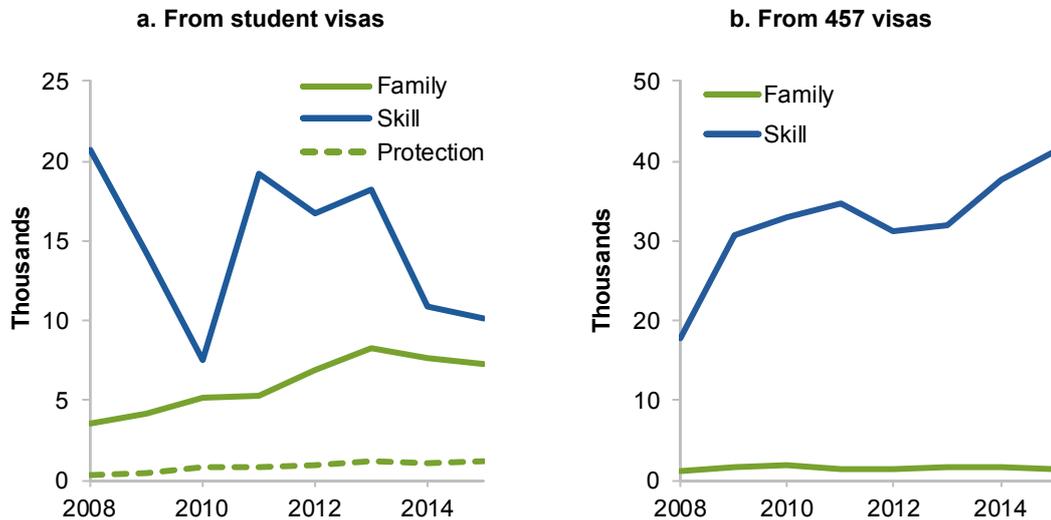
The pathway from temporary skill visas to the permanent skill stream is problematic. In essence, this pathway applies criteria to satisfy one objective (meet temporary skill shortages) to — by default — also satisfy another very different objective (meet longer-term skill needs and deliver successful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

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

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

Figure 6 Transitions to permanent residency from student and 457 visas

Number of onshore visa transfers



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

The Special Category visa for New Zealand citizens

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

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

The Commission examined a suite of issues associated with the movement of people under the Trans-Tasman Travel Arrangement in its joint study with the New Zealand Productivity Commission on *Strengthening trans-Tasman economic relations* in 2012. That study found that exclusions from certain social services created a small, but growing, group of significantly disadvantaged people with no pathway to a permanent visa (because they do not meet the criteria for family reunion or skilled migration).

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

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

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

The humanitarian intake — a Community Support program has merit

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

The program consists of two broad streams — onshore protection (for people applying for protection or asylum after arriving in Australia) — and offshore resettlement (for people nominated through the refugee stream, the Special Humanitarian Programme, or the Community Proposal Pilot). For most years from 1996-97 to 2013-14 the humanitarian program intake has been between 12 000 and 14 000 (figure 7). In 2015-16 the humanitarian intake will be 25 750, the largest intake in the history of the program. The Australian Government increased the original planned intake of 13 750 by 12 000 in September 2015 in response to the refugee crisis caused by conflict in Syria and Iraq.

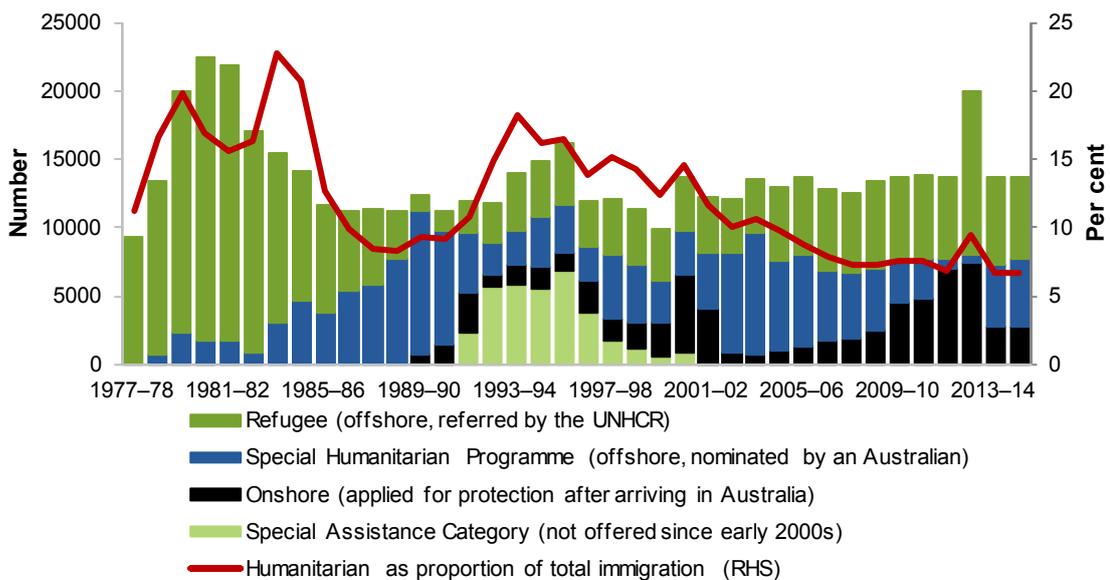
The Community Proposal Pilot commenced in June 2013 and will run until June 2016. It provides an accelerated pathway for a small number of humanitarian immigrants who are proposed by an approved organisation in Australia and pay a substantial fee (\$19 124 for the main applicant and \$2680 for any secondary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

feedback on the possibility of establishing an ongoing ‘Community Support’ program’, which would have similar features to the pilot. The Australian Government is currently considering the feasibility of implementing an ongoing program.

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

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

Figure 7 Trends in humanitarian immigration, 1977–2015



Investment visas — the case is not compelling

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

Data limitations constrain an assessment of these visa streams. The complying investment frameworks permit Significant Investor visa and Premium Investor visa holders to invest the majority of their money in assets that are highly liquid, including blue-chip equities,

corporate bonds, and government bonds. Visa applicants are required to hold these investments for four years (less for the Premium Investor visa stream). The marginal addition to investment in these assets that is induced by the investor visa classes is unlikely to have any impact on the cost of capital for Australian businesses.

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

On the other hand, there are potential downside risks to these visas. Because there are no English-language requirements for the Significant Investor visa and Premium Investor visa, and no upper age limits, it is likely that these immigrants will generate less favourable impacts than other immigrants. Further, compared to other visa streams, investor visas are prone to fraud. The residency requirements (160 days over four years) are very relaxed — only requiring the holder to reside in Australia 11 per cent of the year on average over four years, effectively a non-resident permanent visa.

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

Immigrants who are prepared to own or operate a business, or make a substantial investment in Australia may also be able to immigrate through the Business Innovation and Investment Programme (BIIP). The majority of immigrants through this stream (between 6000 and 7000 per year) come through the 'business innovation' stream, which requires them to own or manage a business in Australia with requirements to achieve a minimum level of turnover.

Most immigrants through this stream own or operate established businesses in retail or hospitality with fewer than five employees. The BIIP has recently been reviewed by the Joint Standing Committee on Migration. It found that limited data exist to assess the impacts of the program, and that it is probably not meeting objectives related to increasing innovation or linking with international markets. The Commission agrees with this assessment. The Australian Government, working with state and territory governments, should strengthen data collection for this stream, and review the program once better data are available.

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

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

Investing in the evidence base

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

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

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

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

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

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

Recommendations and findings

Improving the policy process

FINDING 3.1

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

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

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

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

RECOMMENDATION 3.1

The Australian Government should:

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

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

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

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

Enhancing labour market outcomes

FINDING 6.1

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

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

FINDING 6.2

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

RECOMMENDATION 5.1

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

Managing the environmental impacts

FINDING 7.1

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

FINDING 7.2

Urban population growth puts pressure on many environment-related resources and services, such as clean water, air and waste disposal. Managing these pressures requires additional investment, which increases the unit cost of relevant services, such as water supply and waste management. These higher costs are shared by all utility users.

FINDING 7.3

Immigration, as a major source of population growth in Australia, contributes to congestion in the major cities, raising the importance of sound planning and infrastructure investment. While a larger population offers opportunities for more efficient use of, and investment in, infrastructure, governments have not demonstrated a high degree of competence in infrastructure planning and investment. Funding will inevitably be borne by the Australian community either through user-pays fees or general taxation.

RECOMMENDATION 7.1

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

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

RECOMMENDATION 10.1

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

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

Improving settlement outcomes

FINDING 8.1

Notwithstanding some tensions between some immigrant communities and the broader community, there is widespread acceptance of cultural diversity by the Australian community. Successful multiculturalism helps Australia benefit from a diverse immigration intake and assists in maintaining social cohesion by developing respect and trust between the different ethnic groups that make up the Australian community.

RECOMMENDATION 8.1

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

The long-term fiscal impacts of immigration

FINDING 9.1

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

RECOMMENDATION 9.1

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

The long-term impacts of migration

FINDING 10.1

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

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

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

Assessing a price-based proposal

FINDING 14.1

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

Recalibrating the permanent skilled intake

RECOMMENDATION 12.1

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

RECOMMENDATION 13.1

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

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

RECOMMENDATION 13.2

The Australian Government should:

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

RECOMMENDATION 13.3

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

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

RECOMMENDATION 13.5

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

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

Family reunion — re-evaluating parent visas

FINDING 13.2

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

RECOMMENDATION 13.8

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

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

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

Managing temporary immigration programs

RECOMMENDATION 11.1

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

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

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

RECOMMENDATION 11.2

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

RECOMMENDATION 11.4

The Australian Government should commission by 2020 an independent review of the effectiveness of changes implemented as a result of the recommendations made by the *Independent Review into Integrity in the Subclass 457 Programme* (the Azarias Review).

In particular, the review should examine:

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

RECOMMENDATION 11.5

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

Pathways from temporary to permanent immigration

RECOMMENDATION 12.2

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

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

Investment visas — the case is not compelling

FINDING 13.1

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

RECOMMENDATION 13.7

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

RECOMMENDATION 13.6

The Australian Government should, as an initial step:

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

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

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

Visa charging issues

FINDING 15.1

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

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

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

RECOMMENDATION 15.1

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

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

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

Any charging system should include discounts or exemptions for children.

Investing in the evidence base

RECOMMENDATION 9.2

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

RECOMMENDATION 11.3

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

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

RECOMMENDATION 5.2

The Australian Government should:

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

RECOMMENDATION 13.4

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

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

RECOMMENDATION 13.9

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