

WESTERN AUSTRALIAN GOVERNMENT SUBMISSION ON THE PRODUCTIVITY COMMISSION POSITION PAPER ECONOMIC IMPACTS OF MIGRATION AND POPULATION GROWTH

The position paper “Economic Impacts of Migration and Population Growth” is a useful aggregation of contemporary material on migration in Australia but we believe that the modelling it contains does not reflect the economic benefits of migration, particularly in times of severe skills shortages as exist today.

As with any modelling exercise, the Productivity Commission (PC) approach to the economic impact of migration has limitations and the results should be used in the correct context. The PC Report states that “The model is a simplification of the features of the economy and the adjustment process. Therefore, the results of the simulation exercise should be viewed only as a guide”. Whilst this cautionary statement is repeated several times throughout the PC document it is likely that the qualification to the modelling will be lost when the report is quoted in the media or discussed within the community. Any media releases on the PC report should contain a firm qualification on the limitations of the modelling.

While the Monash Model has made, and will continue to make, a valuable contribution to the policy debate in Australia, in this case it appears that the modelling exercise has failed to pick up factors that could influence the results significantly.

The PC simulation has as its focus the growth in per capita income and productivity whereas the support for skilled migration across Australia is based on supporting investment, removing impediments to business growth, addressing skills shortages, improving the supply of services such as health, facilitating Australian content in major projects and growing the economy.

The PC report does not analyse the additional costs involved due to skills shortages such as increased financing costs from delays in project completions, loss of onshore content of major projects, higher “churn rate” of employees leading to lower productivity and increased travel costs to access health services.

The PC paper does not deal with the spatial distribution of migrants and the potential to promote regional growth using a targeted migration program.

The PC paper does not analyse benefits from economies of scale. The current migration program is increasing population growth allowing for local delivery of a wider range of personal, health and education services. This is particularly important for smaller states such as Western Australia, which has large-scale resource and resource processing activities, but a much narrower range of service industries than Australia’s major population centres (Sydney and Melbourne).

The PC simulation is based on a 50 per cent increase in skilled migration from the 2004/05 level of 77,880 skilled migrants. The 2005/06 planned outcome for skilled migration is already at 97,500. Hence the modelled increase is only 19,200 higher than the 2005/06 program. The use of the phrase “a 50 per cent increase in the level of skilled migration” throughout the document should clearly identify that it relates to the 2004/05 level.

It is easy to confuse the contribution of skilled migration with that of the overall program. The 2005/06 overall program is 140,000 migrants. Hence the “50 per cent increase in skilled migration” reflecting 19,200 migrants under the 2005/06 skilled migration program is only an increase 13.7 per cent of the 2005/06 overall program.

The PC simulation assumes a constant increase in skilled migration over the next 20 years. However Australia’s immigration has increased or decreased depending on prevailing economic conditions. The tactical manner in which annual migration program outcomes are set for Australia takes into account skills shortages, the outlook for the economy, supply of skills from within Australia, workforce growth and unemployment levels.

The value in skilled migration is the ability to vary the migration program on an annual basis and to give priority to skills that are complementary to the existing workforce. This issue is well discussed in a series of UK publications that identify migration as part of integrated workforce planning¹²³.

The thrust of the UK publications are that “migration is neither a substitute nor an alternative for other labour market policies, notably those on skills, education and training: rather migration policies should complement other policies and contribute to a well functioning labour market”⁴.

The fact that immigration changes may be driven by changes in labour demand (such as the current commodities boom) rather than being determined exogenously as assumed in the modelling, has potentially significant influences on the results of the modelling.

In particular, the investment (page 119) and output (page 91) responses of the mining industry are small relative to the other industries reported, which flows directly through to the impact on Western Australia. This is a function of the capital-intensive nature of the mining industry in response to an increase in the supply of labour from the base case.

¹ Paying their way – The fiscal contribution of migrants in the UK. Sriskandarajah D, Cooley L and Reed H. Institute for Public Policy Research, London. April 2005

² The migrant population in the UK: fiscal effects. Gott C and Johnston K. UK Home Office Paper 77, London. 2002

³ Migration: an economic and social analysis. Glover S, Gott C, Loizillon A et al. UK Home Office Paper 67, London. 2001

⁴ Migration: an economic and social analysis. Glover S, Gott C, Loizillon A et al. UK Home Office Paper 67, London. 2001. pp ix

Today the demand for mineral and energy products is so great (which appears to be set to continue for some time), that there is a substantial pent up demand for skilled workers, which is stopping projects from proceeding. The investment response from the mining industry is, therefore, likely to be one of the largest amongst all industries, rather than the smallest. Western Australia would consequently have the most to gain from a targeted increase in skilled migration, rather than the least.

Increasing migration of small but important categories of labour (for example mine managers, mining engineers or civil engineers) will enable local labour from other occupations such as trades to move to the high-value and high wage mining industry, increasing aggregate and per capita income. As the report notes (Table 5.1, page 81), the mining industry pays a substantial wage premium for all occupations over and above all other industries.

In summary the report and the modelling that it contains provides a useful basis for the discussion on skilled migration. At this stage the assumptions underlying the model could be improved to better reflect the way skilled migration operates in response to economic conditions. Incorporating improved assumptions is critical to using the modelling to support any findings in the PC's final report.

ATTACHMENT

In the past migration has peaked roughly every six years in response to the position in Australia's economic cycle. A simple approach of identifying a range of migration outcomes for the next 20 years would better reflect the actual situation. In years of strong employment growth both permanent migration and temporary migration will be high. This rapidly drops after the migration peak and slowly recovers over the next five years. The baseline economic assumptions would need to reflect this cycle.

Table 1
Net Permanent Residents Gain from Overseas Migration

YEAR	HISTORICAL AND PC MODEL '000	HISTORICAL AND ALTERNATIVE '000	DIFFERENCE FROM 2004/05 ACTUAL AND ALTERNATIVE '000
1998/99	96.5	96.5	
1999/00	107.3	107.3	
2000/01	135.7	135.7	
2001/02	110.6	110.6	
2002/03	116.5	116.5	
2003/04	100.0	100.0	
2004/05	110.1	110.1	
Year +1 +7 +13 +19	160.0	160.0	+49.9
Year +2 +8 +14 +20	160.0	125.0	+14.9
Year +3 +9 +15	160.0	130.0	+19.9
Year +4 +10 +16	160.0	135.0	+24.9
Year +5 +11 +17	160.0	140.0	+29.9
Year +6 +12 +18	160.0	145.0	+34.9
Model Average 20 yrs	160.0	139.2	+29.1

As unemployment increases lower skilled migration targets will be set and fewer temporary migrants will be sponsored by employers. The fluctuating numbers of skilled migrants should have greater per capita attributes as they complement the existing workforce.