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Using immigration as a tool of economic policy – the transformation of Australia's demography

Phd dissertation – Abul Rizvi

Supervisors: Professor Peter McDonald and A/Professor Jeromey Temple

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Chapter 1: Introduction

Abstract

The purpose of this thesis is to review why and how Australian immigration levels were sharply increased from around the year 2000, largely but not solely in response to widespread concerns about the projected rate of population ageing.

The literature on the economics of immigration and on the economic and budget impact of population ageing is extensive. However, there is relatively little research on the use of immigration to slow the rate of population ageing.

Australia has long used immigration as a tool of economic policy. This thesis examines how change in the Howard Government's approach to immigration from 2000 led to a sharp rise in the population growth rate and a slowing in the rate of population ageing. This was done primarily for economic reasons but was not projected in any scenario used by the Australian Bureau of Statistics (ABS) in its 1999 base year population projections.

The thesis examines the impact of this from a range of perspectives but focuses particularly on economic and budget performance during the demographic dividend phase (ie when the working age to population ratio is rising towards a peak) compared with the demographic burden phase (ie when the working age to population ratio is falling after reaching a peak). The thesis also compares the economic and budget performance of the world's most aged nation (ie Japan) with Australia, one of the developed world's youngest nations.

The research suggests economic growth should be weaker in the demographic burden phase – but is that borne out?

This is not a thesis in demographic technique but in public policy on immigration and population. It seeks to highlight the importance of demographers developing a deeper understanding of immigration policy if they are to move away from the traditional approach of using a single measure of net overseas migration based on an average of past years (with a couple of high/low scenarios) to analyse population directions and to begin using a more granular breakdown of net overseas migration for this analysis.

In that way, demographers can make a stronger contribution to public policy.

Background

Amongst major developed economies, Australia is a demographic outlier (see Table 1.1).

Australia is generally younger; and has a much larger portion of overseas born in the population, most of whom have traditionally been encouraged to apply for citizenship rather than remain long-term permanent residents or temporary residents. Until the coronavirus crisis, Australia's population was growing more quickly than every major developed nation. This was due particularly to immigration but also to the contribution of a younger population to a higher rate of natural increase.

Table 1.1: Australia Compared with Major Developed Nations

Country	Population Growth Rate (2017)	Foreign Born Population (2017)	Percent Population 65+ (2017)	Median Age (2017)	Projected Natural

					Increase (2015-2020)
Australia	1.6%	27.7%	14.71%	37.5	0.61%
Canada	1.1%	20.0%	15.71%	40.7	0.30%
France	0.4%	12.0%	17.95%	41.4	0.27%
Germany	0.4%	12.8%	21.45%	46.0	-0.25%
Italy	0.4%	9.5%	21.25%	46.3	-0.24%
Japan	-0.23%	1.6%	25.06%	46.7	-0.27%
UK	0.7%	12.3%	17.26%	40.3	0.31%
USA	0.7%	13.1%	14.50%	37.8	0.43%

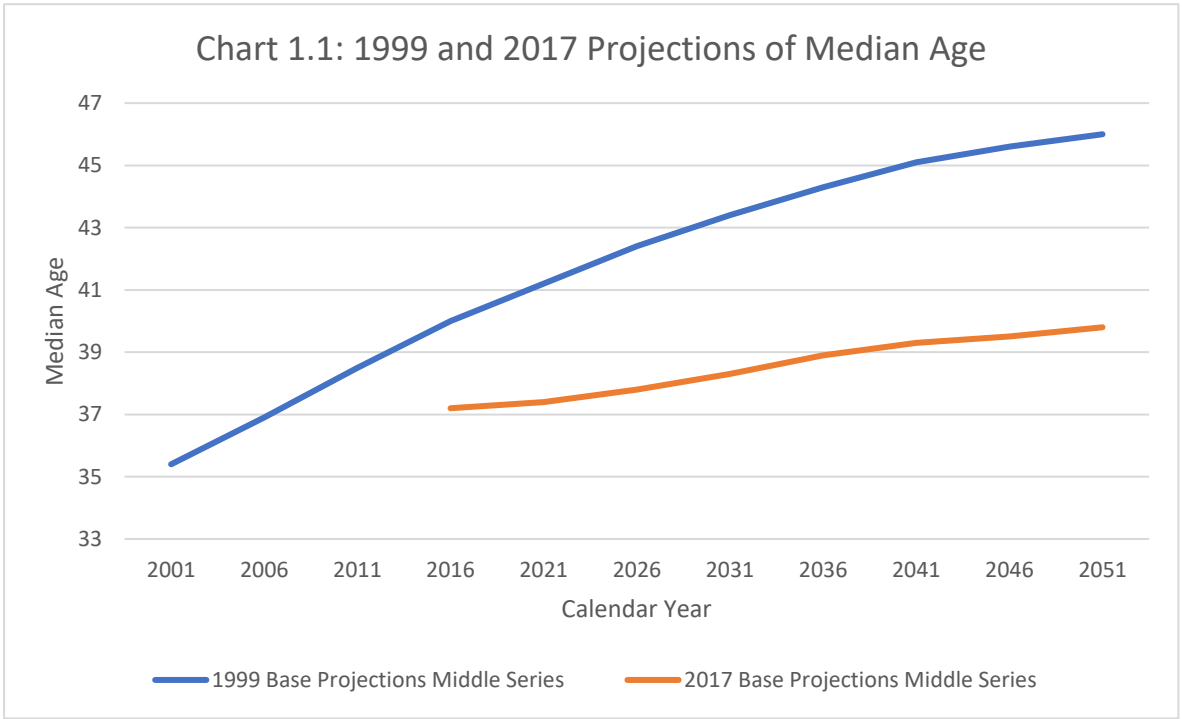
Source: UN Population Division and World Bank

This was all the more extraordinary given Australia's long-standing obsession with 'border protection' which pre-dates the Howard Government.

The purpose of this thesis is to examine how and why this came about; what was the impact in demographic, economic and social terms and the implications for current and future immigration policy directions. A particular focus is the impact of increasing skilled migration, including through increased long-term temporary entry with pathways to permanent migration, which slowed the rate of population ageing.

All developed nations, including Australia and its major trading partner China, are now in their demographic burden phase where their working age to population (WAP) ratio is in decline and their median age is rising rapidly (see Tables 1.2 and 1.3). This has now been the case for a decade that coincided with slow economic growth in most developed nations. From 2020, the developed world enters the second decade of its demographic burden phase.

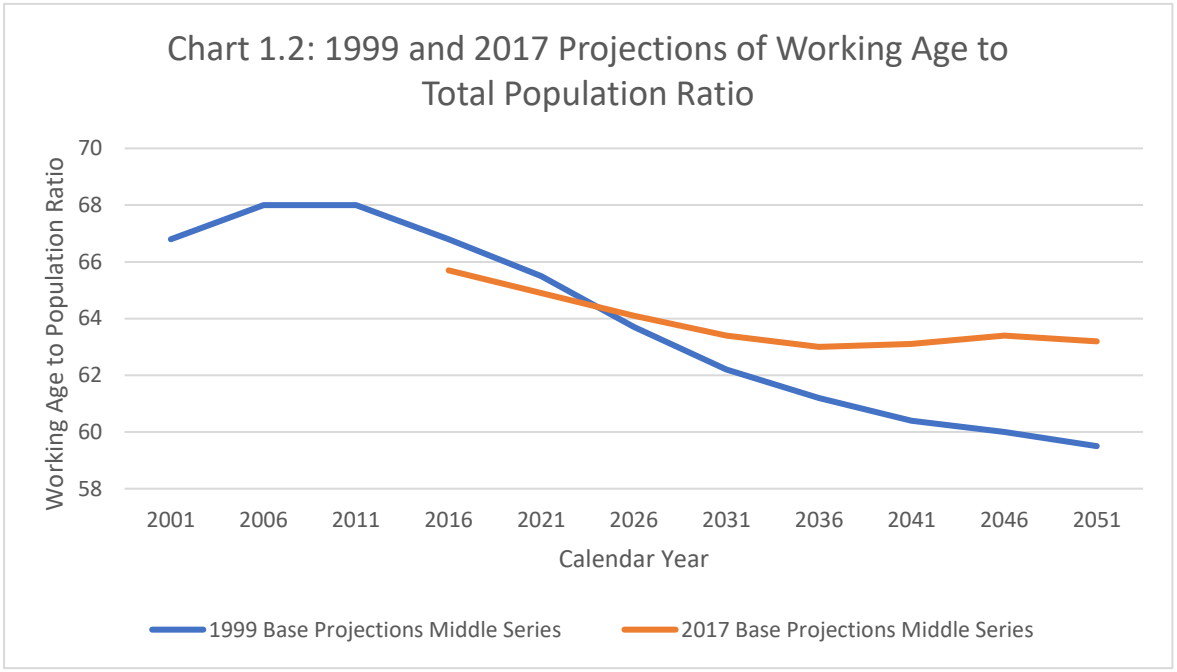
When the developed world emerges from the current coronavirus crisis, it will still need to deal with the consequences of significant further population ageing, and, in many developed nations, population decline. In this context, lessons from Australia's experience of using immigration to slow the rate of population ageing will be important to all developed nations even if they chose not to use immigration in the same way.



Source: ABS Cat: 3222

In the second half of the 1990s, the issue of population ageing became more prominent in the Australian public debate. In its 1999 base year population projections for Australia, the Australian Bureau of Statistics (ABS) projected in its middle series that Australia's median age would rise to over 41 by 2021 and 46 by 2051 (see Chart 1.1).

In the same series, the ABS also projected that Australia's working age to population ratio would fall steeply to well below 60 percent by 2051 (see Chart 1.2).



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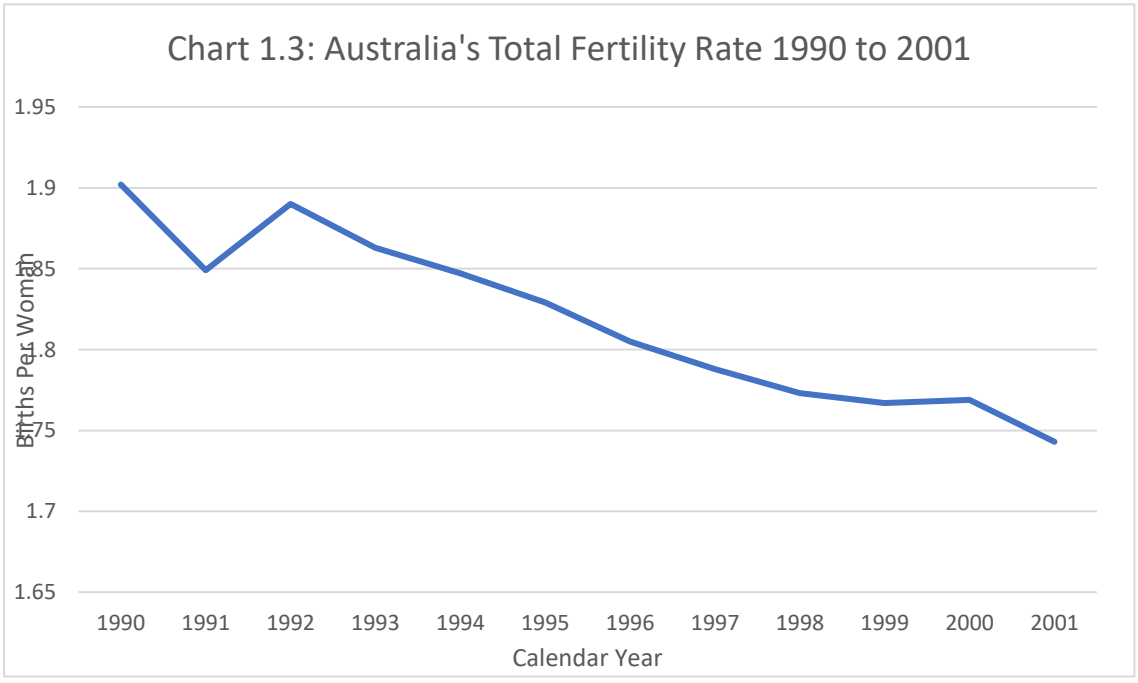


Source: ABS Cat 3301

The ABS' 1999 base year middle series assumed Australia's fertility rate would continue to fall to 1.6 births per woman after having fallen steadily over the previous decade (see Chart 1.3) and net overseas migration would remain around 90,000 per annum – the level it had averaged for most of the 1990s (ABS Cat 3101).

The decline in the fertility rate raised significant concerns about the implications of an ageing population that were articulated in a report to the then Department of Immigration by McDonald and Kippen (1999)[i]. The concerns were also highlighted at a conference on ageing run by the Productivity Commission and Melbourne University in March 1998[ii]; in an ANU research paper by Withers (1999)[iii] and in the first Intergenerational Report (Costello 2002)[iv]. Withers would follow-up his 1999 paper with one that argued even more strongly for an increase in immigration to slow the rate of population ageing (Withers 2002)[v].

Apart from a 2002 statement in Parliament by Treasurer Peter Costello that immigration is one of many tools to respond to population ageing and the 2002 Intergenerational Report highlighting the benefits of skilled migration in slowing the rate of population ageing, the Howard Government never explicitly stated that in increasing the level of skilled migration from 1999 its objective was to either increase Australia's population or to reduce the rate of population ageing.

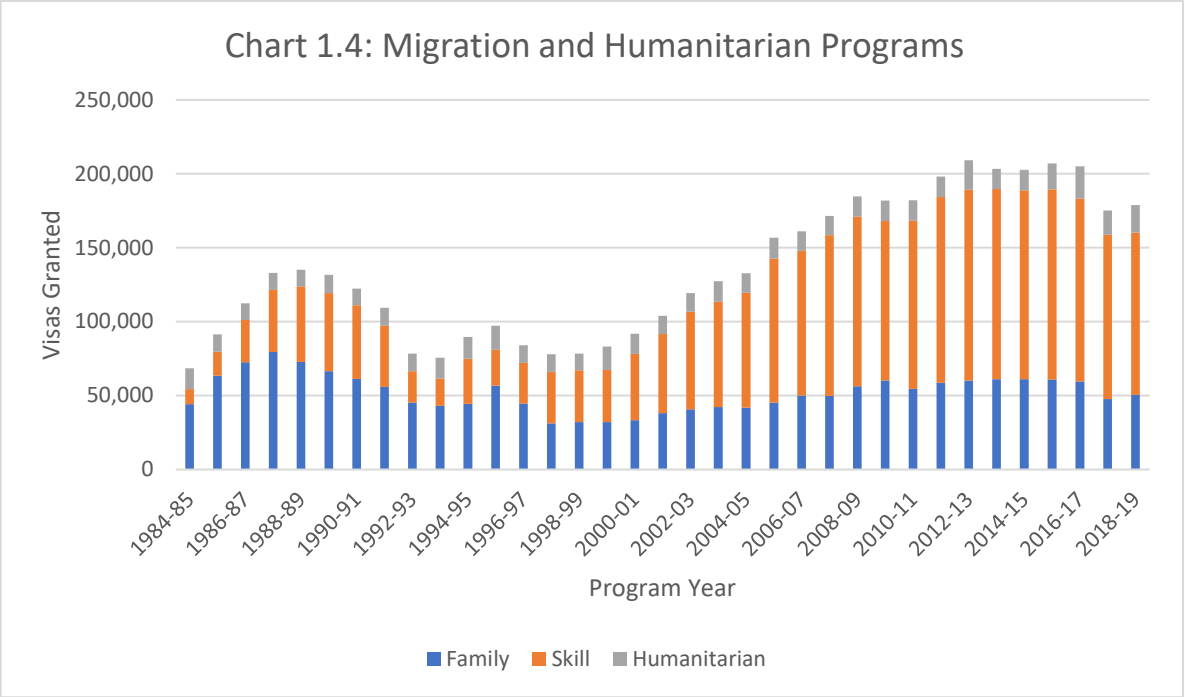
That may be because the policy to increase skilled migration to slow population ageing was led by Costello and Ruddock with only reluctant support from Howard who would have known the bulk of the increase would come from Asia.

But there can be no question the Howard Government knew that increasing the level of skilled migration would slow the rate of ageing and that was relevant to its decision-making. In the period from 1998-99, pressure on the Howard Government to increase skilled migration to slow the rate of population ageing was intense. The pressure was not just internal advice from the Treasury and Immigration Departments but also from the Labor Opposition, state/territory governments other than NSW and key media outlets such as *The Age* and *The Australian*.

Most significantly, however, there was intense pressure from the business community and in particular from the Australian Chamber of Commerce and Industry and the Business Council of Australia. It is very rare for any government to ignore pressure from such a wide range of influential stakeholders.

By implementing an immigration policy that slowed the rate of population ageing from the late 1990s and early 2000s (see Chart 1.4), the Howard Government moved early to provide a real life test of whether increasing the level of skilled migration can be an effective policy lever to assist with managing the transition to a more aged population.

As a result of the immigration policy changes introduced by the Howard Government from around the year 2000 (and in particular from July 2001 when student visa design and pathways to permanent residence for students were overhauled), Australia has become a significant demographic outlier amongst major developed economies (see Table 1.1).



Source: Parliamentary Library, Home Affairs Website, Migration and Humanitarian Programs

But implementation of a policy to slow the rate of ageing has other implications that require consideration. These include the impact of a faster rate of population growth on infrastructure and the environment, the impact on existing residents and issues of social cohesion arising from a larger overseas born population and a larger temporary resident population.

Why research the role of immigration in slowing the rate of ageing?

How Australia implemented its policies to reduce the rate of population ageing, the impact of those policies, both negative and positive, and the future outlook for Australian immigration policy are not only important questions for Australia but for developed nations more generally. Even if the Australian Government decides to abandon the Howard legacy and cuts back significantly further on immigration levels (as it will in any case due to the coronavirus as well as changes in immigration policy settings before the crisis), the question of the role of immigration in slowing the rate of ageing will remain a consideration in setting future immigration policy.

The working age to population ratio of developed nations as a whole, plus China and Russia, has now been in decline since around 2010. On current population projections, these nations will need to confront the challenge of greater population ageing over at least the next two decades. The populations of all major developed nations will age further and more rapidly than Australia's population, subject to the rate of immigration Australia adopts after the coronavirus crisis and the impact of that crisis on fertility rates.

Table 1.2 highlights the UN projections for the median age of major world economies and Table 1.3 shows the UN projections for the working age to population ratio of these economies. Both tables demonstrate the extraordinary ageing that is projected to take place across the developed world.

Table 1.2: Projected Median Age of Major Economies

	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060
Australia	37.2	37.9	38.9	40.0	40.8	41.3	41.5	41.8	42.2	42.8
Canada	40.4	41.1	42.1	43.0	43.9	44.8	45.4	45.5	45.7	45.9
China	36.7	38.4	40.2	42.6	45.0	46.3	47.2	47.6	47.8	48.2
France	41.2	42.3	43.2	44.1	44.9	45.3	45.5	45.9	46.4	46.9
Germany	45.9	45.7	46.2	47.0	47.8	48.6	49.0	49.2	48.8	48.4
Japan	46.4	48.4	50.5	52.1	53.3	54.1	54.6	54.7	54.9	55.1
Korea	40.8	43.7	46.5	49.1	51.4	53.4	54.9	56.5	57.7	58.5
Italy	45.4	47.3	49.2	50.8	51.9	52.6	53.2	53.6	53.8	54.1
Spain	42.5	44.9	47.3	49.6	51.4	52.6	53.2	53.2	53.2	53.2
UK	40.0	40.5	41.4	42.4	43.3	44.1	44.4	44.5	44.9	45.4
USA	37.6	38.3	39.1	39.9	40.9	41.6	42.2	42.7	43.1	43.4

Source: UN World Population Prospects 2019

Table 1.3: Projected Working Age to Population Ratio of Major Economies

	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060
Australia	66.3%	64.5%	63.3%	62.4%	62.2%	61.7%	61.4%	60.5%	59.5%	59.0%
Canada	68.0%	66.1%	64.1%	62.2%	61.7%	61.5%	61.2%	60.6%	60.0%	58.9%
China	72.6%	70.3%	69.0%	67.4%	64.6%	62.0%	60.9%	59.8%	56.9%	56.2%
France	62.8%	61.6%	60.7%	59.7%	58.4%	57.3%	56.9%	56.4%	56.2%	56.3%
Germany	65.6%	64.4%	62.3%	59.5%	57.5%	57.2%	57.1%	56.4%	55.6%	55.3%
Japan	61.0%	59.2%	58.6%	58.0%	56.5%	53.7%	51.9%	50.7%	50.2%	50.2%
S. Korea	73.4%	71.7%	68.3%	64.8%	60.8%	57.0%	54.2%	52.0%	50.9%	49.2%
Italy	64.3%	63.7%	62.9%	60.9%	58.1%	55.2%	53.2%	52.4%	52.1%	52.3%
Spain	66.4%	65.6%	64.8%	62.8%	60.1%	56.7%	53.0%	51.0%	50.7%	51.4%
UK	64.5%	63.7%	62.9%	61.9%	60.9%	60.4%	59.9%	59.0%	58.2%	57.6%
USA	66.1%	65.0%	63.7%	62.3%	61.4%	61.2%	61.2%	61.1%	60.5%	59.7%

Source: UN World Population Prospects 2019

It should be noted that the projections in Tables 1.2 and 1.3 are highly sensitive to key assumptions, particularly assumptions of fertility and net migration. Often these will have been 'negotiated' by the UN with officials from the relevant countries and must be viewed with a degree of caution.

For example, the China projections assume China's fertility rate will continuously increase for the rest of this century. If such an increase in fertility is not realised, or if China's fertility rate converges with that of other countries in East Asia (eg South Korea, Japan and Taiwan), China's population would age even faster.

The projection for the USA does not take into account its recent decline in fertility which fell to 1.77 in 2017 and according to the US National Centre for Health Statistics may have fallen further in 2018 (Pew 2019)[vi]. Together with the reduction in legal immigration being pursued by the Trump Administration (Amadeo 2019)[vii], population ageing may accelerate in the USA faster than the latest UN projections.

Projections for South Korea do not take into account its extraordinary recent fall in fertility to 0.98 births per woman in 2018 (CNN 2019)[viii]. This is possibly the first time in modern history that the

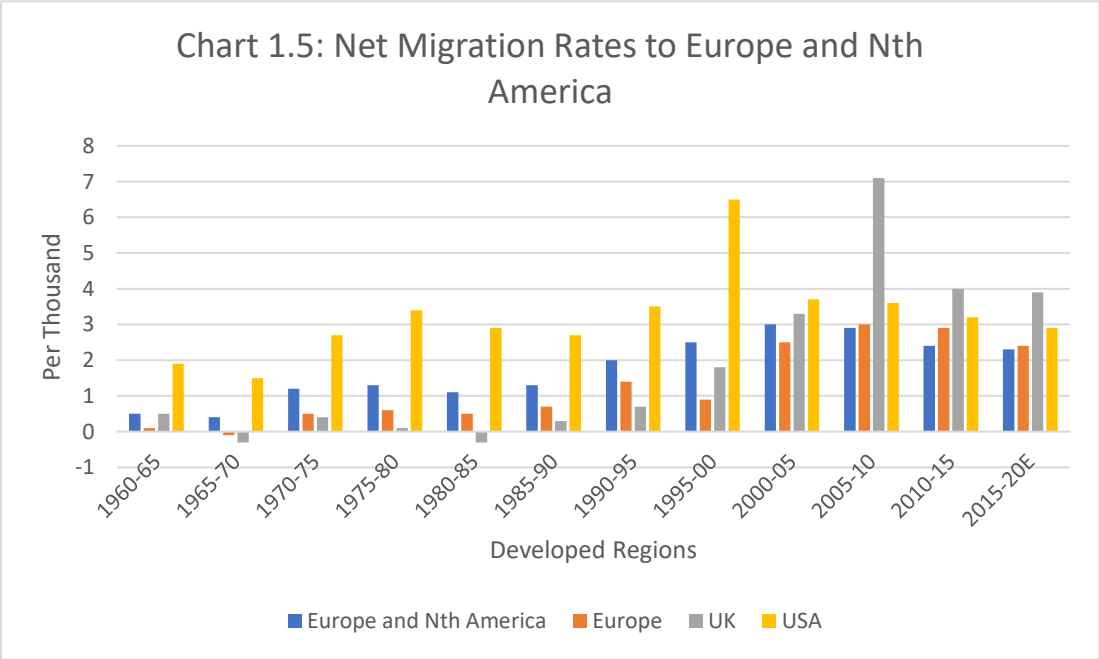
fertility rate of a major economy has fallen below one let alone below the replacement rate of 2.1 births per woman.

The UN projections also do not take into account any effect the coronavirus crisis may have on fertility rates such as occurred after the Great Depression when fertility rates fell substantially (McDonald 2020)[ix].

While many developed economies are currently focused on controlling and limiting immigration (eg USA, UK, Italy, Spain); or have traditionally not viewed themselves as migrant nations (eg Japan); or have been nations of net emigration (eg China), this may change as ageing progressively becomes a bigger drag on economic and budget performance.

The developed world is again in a period of population ageing as it was in the 1930s – ageing is projected by the UN to continue for the rest of the century. Simultaneously there has been a pull-back in net migration to Europe and North America (see Chart 1.5) as there was in the 1930s. Thus a key policy question is whether managed migration of young, skilled people can be an effective policy tool to manage adjustment to a more aged society, especially during the 2020s and 2030s when the baby boomers will be largely in the age range of 65 to 85?

For example, due to the impact of population ageing and labour shortages, both Japan and Germany are now embarking on a much more expansive immigration intake. Japan has adopted both a points-test for skilled migrants (Immigration Bureau of Japan 2019)[x] as well as for lesser skilled migrants (Green 2017)[xi]. Germany has also introduced a points based system for skilled migrants (Jefferson 2018)[xii] and in 2015-16 admitted around one million refugees, many of whom would have been lower skilled.



Source: UN Population Division, World Population Prospects, 2019 Revision

For these and other developed countries facing significantly greater levels of ageing, a better understanding of Australia's experience (both negative and positive) with expanding its immigration

intake under the Howard Government and for the subsequent ten years would be of value even if they choose not to go down the immigration path.

Methodology and Structure

The focus of this thesis is on why and how Australia used immigration to slow the rate of ageing, especially from 1999-2000, the impact of that policy change; the lessons that can be learned from it and the prospects for Australia's immigration policy going forward.

The crucial question is whether economic growth, including per capita economic growth, is lower during the 'demographic burden' phase (ie when the working age to total population ratio is falling and eventually when the absolute size of the working age population is falling) compared to the 'demographic dividend' phase (ie when the working age to total population ratio is rising). An equally important question is what are the main factors driving any differential in economic growth and whether immigration can be used effectively to slow the rate of ageing.

This thesis examines these questions in terms of both the theory as well as actual outcomes. If actual outcomes support the theory on this question, a key policy challenge is whether and how governments might best use the migration of young, skilled migrants to reduce the rate of ageing noting that:

- all developed nations are now at various stages in their demographic burden phase with Japan at the front edge of this in terms of the degree of ageing and Australia still amongst the youngest developed nations – and hence the focus in this thesis on Japan and Australia;
- global competition for young skilled migrants, particularly those with strong relevant language skills, is likely to rise in future; and
- there is a range of other policy and administrative implications of pursuing a higher a level of skilled migration.

The thesis firstly considers the research literature on population ageing, the economics of immigration and finally on the use of immigration to manage population ageing (see Chapter 2).

The literature on the use of immigration to manage population ageing is largely theoretical as very few developed economies have deliberately used immigration to slow the rate of ageing to the extent Australia has. This thesis looks at this question from an administrative and policy perspective (ie immigration policy changes and visa design).

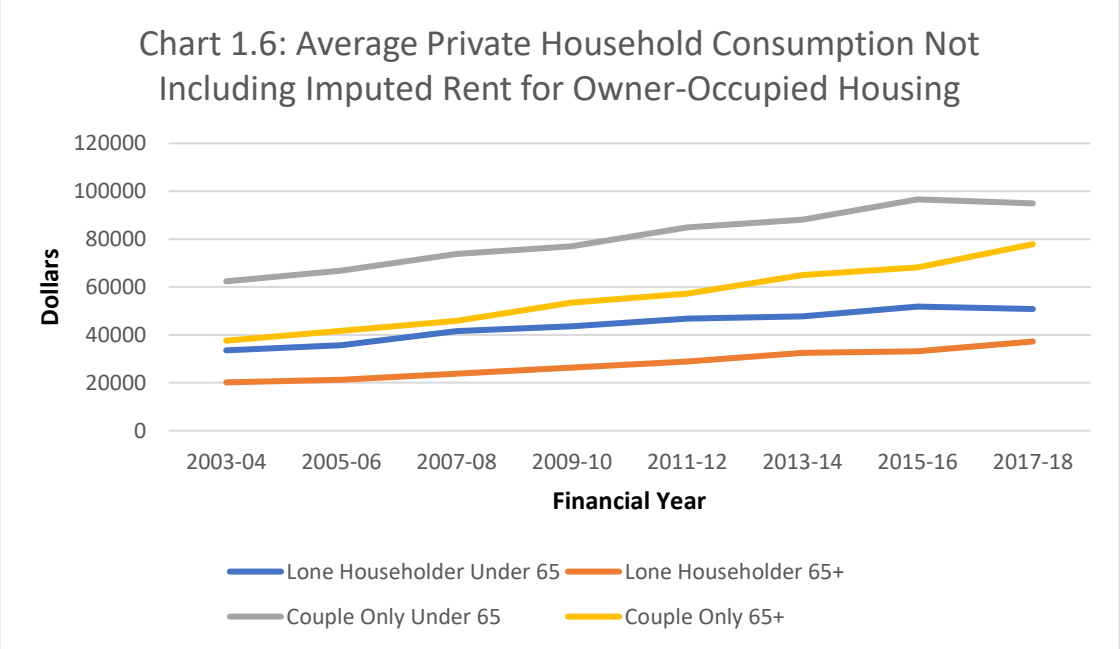
Chapters 3 to 7 describe the development of Australia's approach to immigration drawing on a range of published and unpublished sources as well as debates in Parliament (ie Hansard) and relevant media releases from ministers and shadow ministers. The main unpublished sources are reports of the Australian correspondent to the OECD's continuous reporting on migration. These unpublished reports are available from the library at the Department of Home Affairs but are not readily accessible by the general public.

Faced with pressure to increase skilled migration quickly but without reducing selection standards, the Howard Government increased temporary migration (students, working holiday makers and skilled temporary entrants) with explicit pathways for those temporary entrants who met relevant criteria to secure permanent residence and then citizenship. That change led to a sharp increase in Australia's rate of net overseas migration via long-term temporary entrants, a large portion of whom were encouraged to become permanent residents and citizens. It increased the population growth rate as well as slowing the rate of population ageing compared to those in Charts 1.1 and 1.2 (see Chapter 8).

Literature on Population Ageing, Secular Stagnation, Economics of Immigration and Use of Immigration to Slow Population Ageing

The research literature has long highlighted the negative impact of population ageing for the economy and government budgets (National Population Council 1991[xiii], Masson and Tyron 1991[xiv], EPAC 1994[xv], Alvarado and Creedy 1998[xvi], OECD 1998[xvii], Withers 1999[xviii], Productivity Commission and Melbourne Institute of Applied Economic and Social Research 1999[xix], Guest and McDonald 2000[xx], Withers 2002[xxi], Sadahiro and Shimasawa 2002[xxii], Skirbekk 2003[xxiii], Feldstein 2006[xxiv], Batini, Callen and McKibbin 2006[xxv], Feyrer 2007[xxvi], Bloom and Canning 2008[xxvii], Gragnaloti et al 2011[xxviii], Lowe 2014[xxix], Yoon, Kim and Lee 2014[xxx], Kent 2014[xxxi], Bloom et al 2015[xxxii], Berk and Weil 2015[xxxiii], Apella and Troiana 2015[xxxiv], Liu and Westelius 2016[xxxv]; Aiyar, Ebeke and Shao 2016[xxxvi], Nagarajan, Teixeira and Silva 2016[xxxvii], Adler et al[xxxviii] 2017, Bricker and Ibbitson 2019[xxxix], Jones 2020[xl]).

The literature points to ageing having a negative impact on both the supply and demand sides of the economy. On the supply side, ageing is expected to reduce labour force participation (including the employment to population ratio), labour productivity and eventually population growth. On the demand side, ageing is expected to reduce per capita private household consumption expenditure although this aspect has to date received less attention (see Chart 1.6) and as result reduced business investment.

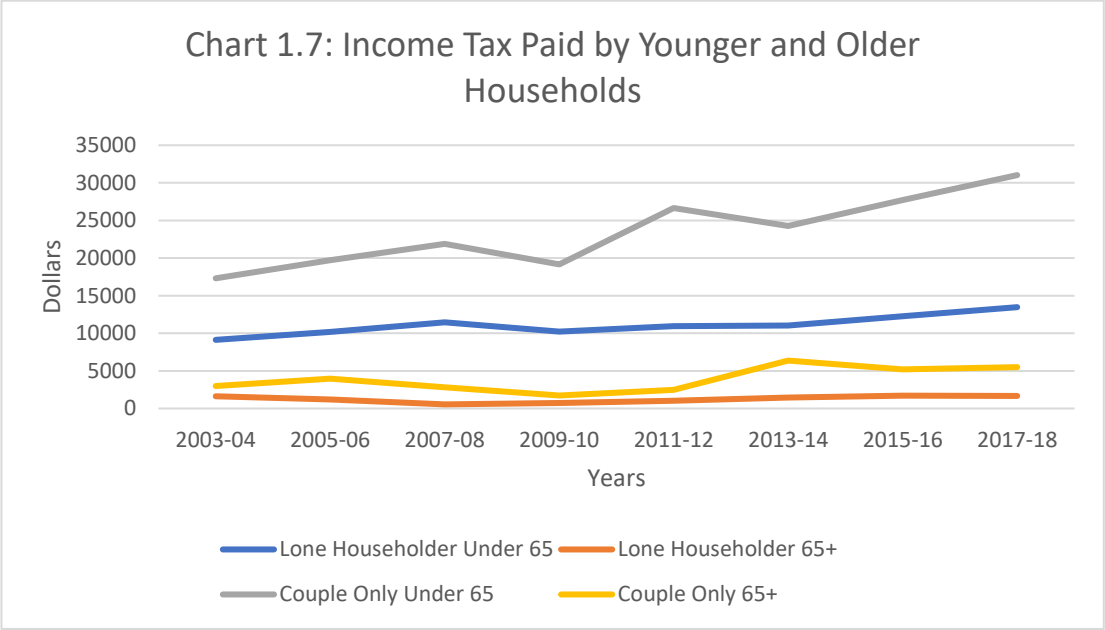


Source: ABC Cat: 5204

It is also notable from Chart 1.6 that the private consumption gap between older and younger households has been reducing, possibly the impact of low wages growth, high levels of household debt amongst younger Australians, superannuation tax concessions for older Australians and increased public expenditure on older Australians as illustrated in the National Transfer Accounts.

The narrowing of the private consumption gap between older and younger households may also reflect rising participation rates of older Australians. However, this is not showing up strongly in

terms of the gap between income taxes paid by older and younger Australians. That gap has been widening (see Chart 1.7).



Source: ABS Cat 5204

The combined negative impact of an ageing population on aggregate demand and supply is expected in the literature to reduce economic growth, including per capita economic growth. Government budgets are expected to come under pressure from weaker revenue growth as older households pay significantly less income tax (see Chart 1.7) and increased demand for health, social support and aged care services (see successive Intergenerational Reports of the Australian Government, 2002, 2007, 2010, 2015).

Some of the research also suggests labour shortages with an ageing population would lead to strong wage increases (Auerbach and Kotlikoff[xli] 1987; Sadahiro and Shimasawa[xlii] 2003; Fougere et al[xliii] 2009; Kent[xliv] 2014, Drosdowski, Stover and Wolter 2015, Irmen[xlv] 2017)[xlvi]. On the other hand, there is also research that suggests population ageing is deflationary (Anderson, Botman and Hunt 2014)[xlvii]. It would be difficult for both these findings to be correct simultaneously for any significant period of time. If ageing leads to weaker per capita private consumption expenditure, it is more likely that ageing is deflationary rather than driving up wages.

Secular stagnation, population ageing and inequality

In discussing his thoughts on 'secular stagnation', former US Treasury Secretary Larry Summers noted in a speech to the IMF (2013)[xlviii] that "the growth in the work force in the industrial world, is trailing off very, very substantially. The easiest way to look at it is to look at the change in the working-age population. If you do it more subtly, you probably reinforce the conclusion, because you had a big surge of women entering the labor force, and if anything, that tide is going out, suggesting a larger demographic change than you get just by looking at the crude population figures."

On secular stagnation, Summers was drawing on the work of Alvin Hansen (1938)[xlix] who described "sick recoveries which die in their infancy and depressions which feed on themselves and leave a

hard and seemingly immovable core of unemployment." He noted "the combined effect of the decline in population growth, together with the failure of any really important innovations of a magnitude sufficient to absorb large capital outlays, weighs very heavily as an explanation for the failure of the recent recovery to reach full employment."

In a 1937 lecture titled *'Some Economic Consequences of a Declining Population'*, John Maynard Keynes[l] said "with a stationary population we shall…be absolutely dependent for the maintenance of prosperity and civil peace on policies of increasing consumption by a more equal distribution of incomes".

In a 1938 article titled *Population Problems and Politics,* Nobel prize winning economist Gunner Myrdal argued that "age distribution has consequences both for the productivity of people and for total consumptive demand."[li] He said that with an ageing population, "young people will have an easier chance to 'get-in' but they will meet greater difficulties in 'getting-on' and 'getting upward'."

The 1930s was of course the last time the developed world faced a substantial level of population ageing, exacerbated by declining immigration to both the USA and Europe. At around 0.5 million, immigration to the US in the 10-year period between 1931 and 1940 was by far the lowest for any 10 year period in the previous 50 years. For example, over 4 million people migrated to the US in the previous 10 years between 1921 and 1930; over 5.7 million in the 10 year period between 1911 and 1920 and over 8.7 million in the 10 year period between 1901 and 1910 (Harvard University Open Collections Program – Immigration Timeline)[lii].

Prior to the 1930s, and indeed also for most of the time since World War II, the US economy has become accustomed to immigration-fuelled population and economic growth. Since the 1930s, there has been no decade when net migration to the USA was less than 2 million. Net migration to the USA peaked in the five-year period 1995-2000 at over 8 million and has fallen back to just over 5 million in the subsequent three five year periods. It may be lower still in the period 2015-20 due to reductions in legal migration implemented by the Trump Administration.

Paul Krugman (2013)[liii], a supporter of the secular stagnation hypothesis, argues the current environment is one where the normal rules of economic policy don't apply. In raising the spectre of a 'Keynesing liquidity trap', he says that "virtue becomes vice and prudence becomes folly. Saving hurts the economy – it even hurts investment, thanks to the paradox of thrift. Fixating on debt and deficits deepens the depression." Krugman has been a vocal critic of the theory of growth through austerity which was popular from around 2010 (Krugman 2015).[liv]

Krugman places demographic ageing at the centre of the secular stagnation hypothesis. He makes the point that between 1960 and 1985, the US labour force grew at an average annual rate of 2.1 per cent. This was the effect of both the baby boomers moving into the workforce and an increase in female participation rates. He does not mention the substantial contribution of net migration (see Chart 1.5).

Krugman says the rapid growth in the labour force during the second half of the 20th Century "made sustaining investment fairly easy: the business of providing Americans with new houses, new offices, and so on easily absorbed a fairly high fraction of GDP. Now look forward. The Census projects the population aged 18 to 64 will grow at an annual rate of only 0.2 per cent between 2015 and 2025. Unless labour force participation not only stops declining but starts rising rapidly again, this means a

slower-growth economy, and thanks to the accelerator effect, lower investment demand (Krugman 2015)."

The point Krugman makes about ageing impacted continental Europe and Japan as early as the late 1980s and early 1990s. The difference since around 2010 has been that every developed economy, plus China and Russia, have been in their demographic burden phase with their WAP ratio in decline (see Tables 1.2 and 1.3).

French economist Thomas Picketty (2014)[lv] says "demographic growth also has important implications for the structure of inequality. Other things being equal, strong demographic growth tends to play an equalising role because it decreases the importance of inherited wealth…[c]onversely, a stagnant or, worse, decreasing population increases the influence of capital accumulated in previous generations. The same is true of economic stagnation."

He notes that as the population ages and life expectancy rises, an increasing portion of wealth is being held by people in their 80s (and in future in their 90s). The propensity to consume amongst this group is low. The children of this cohort, people with a higher propensity to consume, may not receive their inheritance until they themselves are well into their 60s – an age when they themselves are starting to reduce their consumption.

The OECD (2008)[lvi] finds that "[t]hose around retirement age (55-75) have seen the biggest increases in incomes over the past 20 years…poverty among young adults and families with children has increased." This older cohort (ie 55-75) is of course also the cohort whose propensity to consume will continue to decline as they age further.

Similar to Keynes in 1937, Joseph Stiglitz in his book *The Price of Inequality* (2013)[lvii] argues "inequality has reached a stage where it can be inefficient and bad for growth".

Jones (2020)[lviii] in '*The End of Economic Growth? The Unintended Consequences of Population Decline'* notes that "several recent papers suggest that falling labor force growth may explain a substantial part of the decline in firm entry and dynamism in the U.S. economy, including Karahan, Pugsley and Sahin (2019), Hopenhayn, Neira and Singhania (2018), Engbom (2019), and Peters and Walsh (2019)".

In their book 'Empty Planet', Bricker and Ibbitson (2019)[lix] argue that global population growth in the future may not only fall to zero but may actually be negative by the second half of this century. The UN's 2019 population projections highlight steady population ageing and decline for four of the world's five major economic and military powers (ie China, Russia, Japan and Germany with the USA the odd one out with a growing population).

Thus, there is a growing challenge associated with the interaction of ongoing population ageing (and eventual decline), inequality, weak economic growth and impaired government balance sheets across the developed world. That situation will only be exacerbated by the current coronavirus crisis.

Using Skilled Immigration to Slow the Rate of Population Ageing

There is reasonable consensus in the literature on the positive economic impact of skilled migration (Chiswick 1978[lx], Carliner 1980[lxi], Borjas 1985[lxii], Fitzgerald 1988, Card 1990[lxiii], Borjas, Freeman, and Katz 1992, Borjas 1994[lxiv], . Passel and Clark 1994[lxv], Saxenian 2002[lxvi], Moretti 2004[lxvii], Brunello et al 2007[lxviii], Peri 2009[lxix], Docquier, Özden and Peri 2010[lxx], Hunt and Gauthier-Loiselle 2010[lxxi], D'Amuri

and Peri 2011[lxxii], Lewis 2012[lxxiii], UK Migration Advisory Committee 2012[lxxiv], Card and Rafael 2013[lxxv], McDonald and Temple 2013, Withers 2014[lxxvi], Chassamboulli and Palivos 2014[lxxvii], Lewis and Peri 2014[lxxviii], Dustmann and Frattini 2014[lxxix], Rawthorn 2014[lxxx], Dustmann, Schonberg, and Stuhler 2016[lxxxi], Productivity Commission 2016[lxxxii], Breunig, Deutscher and To 2017[lxxxiii], Peri 2017[lxxxiv], de Brauw 2017[lxxxv], McDonald 2017[lxxxvi], Panel on the Economic and Fiscal Consequences of Immigration to the USA 2017[lxxxvii], Lofstrom 2017, Wachter 2017[lxxxviii], Ottaviano, Peri and Wright 2018[lxxxix], Chen, Sinnewe and Kortt 2018[xc], Treasury/Home Affairs 2018, CEDA 2019[xci], Brell and Dustmann 2019[xcii] Lin 2019[xciii]).

While research in Australia by Young (1994)[xciv], Hugo (1990)[xcv] and Jackson (1999)[xcvi] argued against using immigration to slow the rate of ageing, there has been an emerging body of research that is either more equivocal (or indeed positive) on the potential benefits of using skilled migration to slow the rate of ageing (Withers 1999, McDonald and Kippen 1999, Withers 2002, Fehr, Jokisch and Kotlikoff 2004[xcvii], Feldstein 2006[xcviii], Bloom and Canning 2008[xcix], McDonald and Temple 2013[c], Withers 2014[ci], Bloom et al 2015[cii], Chojniki and Ragot 2016[ciii], Productivity Commission 2016[civ]).

On the other hand, a 2019 Report[cv] to the EU Commission on demographic scenarios for the EU argues against using immigration to slow the rate of ageing. The arguments in this report are similar to those used in Australia by Young in 1994 that, as immigrants age as well, there is no point in using immigration to slow the rate of ageing or indeed to eventually prevent population decline.

The EU Report argues that "while a high volume of immigration would increase the overall size of the EU labour force, it would have a limited impact on the proportion of workers to non-workers in the long-run [the long-run in this instance is not defined]. If higher immigration volumes were to coincide with deteriorating economic integration of migrants, it would actually result in a labour force situation that is worse than with medium or low volumes of immigration, which highlights the importance of effective efforts for economic integration".

The EU Report authors recommend a focus on increasing the participation rate of older people but make no reference to the impact of an ageing population on per capita consumption, productivity or per capita economic growth. They also do not explain how long the EU can sustain a continuously ageing population with very low fertility and limited immigration although it does note the negative impact on Eastern European member states of low fertility and high levels of emigration of young, skilled workers to richer Western European member states.

McDonald (2005[cvi] and 2006[cvii]) notes once a country's fertility rate falls below 1.5, this rarely recovers (Russia appears to be an exception to this assuming the accuracy of its official fertility statistics).

Following on from this idea, Lutz and Skirbeckk (2005)[cviii] and Lutz (2006)[cix] put the case for what they call the 'low fertility trap' where once fertility falls below a certain level and stays there for sufficient time, this can produce a self-reinforcing demographic regime change that is difficult or impossible to reverse. This is based on three interacting mechanisms:

- Population momentum whereby the delay in childbirth produces very low fertility rates shrinking the pyramid-base leading to new generations composed of much smaller cohorts. This systematically produces less and less children.
- Young people are increasingly socialized in an environment with few children.

- Negative economic feedback leading to smaller family sizes due to declining prosperity amongst younger adults.

Thus, two questions arise for policy makers arguing against using skilled migration to reduce the rate of population ageing:

- For economies facing rapid population ageing, is there an opportunity cost in delaying the adoption of policies to increase skilled migration to slow the rate of population ageing?
- Is there a stage in the decline of the working age population that it becomes imperative to adopt skilled migration policies such as those used by Australia? Is it better to delay adoption of skilled migration policies until this point is reached (as Japan has) or is it better to move early as Australia did?

This again comes back to the issue of this thesis as to whether Australia's use of skilled migration to reduce the rate of population ageing was an effective policy.

Post-war Migration

Chapter 3 of this thesis considers post-war migration from 1945 through to the election of the Howard Government from a population perspective. A particular focus is to identify characteristics of immigration policy in that period that provide context to the Howard transformation and Australia's current approach to immigration policy. Eight key features of policy in that period were:

- strong desire to target immigration to Australia's skill and labour force needs, including in terms of industry development (eg the car industry, particularly in Adelaide and Geelong, and steel manufacturing in Newcastle and Wollongong) and infrastructure development (eg Snowy Mountains Scheme) followed by development and subsequent refinement of the points test for selecting skilled migrants;
- policy challenges associated with whether overseas students should be permitted to remain in Australia at completion of their course either as temporary or permanent residents – students would remain the key to migration levels from the late 1980s onwards but the policy challenge associated with whether students should be allowed to remain began with the Colombo Plan under Menzies and Holt;
- priority given to avoiding development of large cohorts of temporary entrants who were unlikely to leave Australia and encouraging permanent residents to become citizens as quickly as possible – viewed as a key to social cohesion;
- early adoption of a policy of multiculturalism and development of extensive settlement services;
- decision that Australia should play a leading role in accepting refugees, starting with Jewish refugees after World War II, Australia's leading role in development of the Comprehensive Plan of Action for Indo-Chinese refugees after the Vietnam War and Australia's rapid response to the Tiananmen Square Massacre;
- on-going obsession with border control and limiting the number of undocumented migrants (culminating in the universal visa system and mandatory detention of irregular arrivals);
- determination that migrants, other than humanitarian entrants, should not be a net charge on the budget; and
- bi-partisan consensus on high levels of immigration during the 1950s and 1960s followed by stronger political debate that generally reduced immigration levels during the 1970s, 1980s and 1990s, particularly during periods of recession.

Howard's Tightening and Turning

Chapter 4 describes the tightening of immigration policy during the first phase of the Howard Government (1996-1999) to focus immigration much more on a high performing skill stream and tightening of policy on family migration, particularly spouses and parents. The tightening was highly controversial, with substantial opposition including from political parties such as the Australian Democrats even though that Party had a policy of zero net migration. The tightening provided context for the subsequent transformation of immigration policy under the Howard Government from 2000 onwards.

Chapter 5 outlines the rationale behind the dramatic change in immigration policy direction taken in the second phase of the Howard Government – as a means of addressing skill shortages but more importantly to (perhaps only implicitly) slow the rate of population ageing. That Australia would increasingly be in competition for skilled migrants began to permeate government thinking.

Chapter 6 describes the administrative and policy considerations in implementing the transformation that Markus, Jupp and McDonald (2009)[cx] describe – that is, how immigration policy was changed to grow the intake by growing the number of overseas students, working holiday makers and skilled temporary residents together with increasingly more transparent pathways for these temporary visa holders to permanent residence. Using this approach to increasing the permanent intake was made essential as the Government did not support reducing selection standards for direct or indirect permanent migration.

Chapter 7 outlines the decade of immigration policy following the Howard Government and the extent to which Howard's transformation was continued and/or changed. In particular, the post-Howard decade continued the policy struggle with whether overseas students should be encouraged to reman post-study and subsequently secure permanent migration or be required to leave. That decade also continued to increase visa charges on new immigrants and to reduce access to social services to ensure immigration had a net positive impact on the Commonwealth Budget.

On the other hand, the post-Howard decade entrenched the Howard Government view post-2005 that access to citizenship for permanent residents should be made increasingly more difficult. This has taken place without any publicly available evidence that making access to citizenship more difficult has any positive public policy impact.

Impact of Howard Government's Transformation

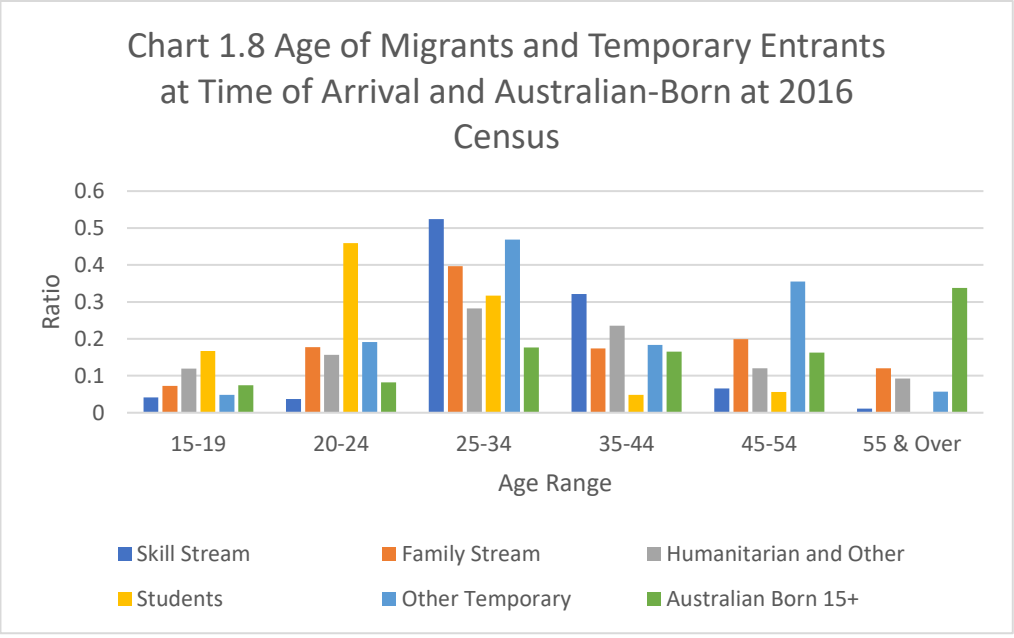
Chapter 8 examines the impact of the changes brought about by the Howard transformation in demographic, economic and social terms. In particular, the impact of scaling up skilled immigration, including through temporary migration, as follows:

- Examination of Australia's economic performance since the Howard Government transformation compared to major developed economies;
- Comparison of the demographic and economic performance of Australia and Japan from the point when Japan's working age to population ratio peaked around 1990 to the present day – Australia and Japan provide a useful comparison because they are at the opposite ends of the spectrum amongst major developed nations in terms of population ageing and use of immigration to slow ageing (see Table 1.1). The research on population ageing would suggest that compared to Australia, per capita economic growth, productivity, private consumption and business investment in Japan should have been significantly weaker over this period and that the Japanese Government's budget position should have deteriorated markedly;

- Comparison of the economic performance of major developed economies in the 15 years leading up to their working age to population ratio peaking (ie the strongest part of the demographic dividend phase of each of these countries) with the period since that time (ie the initial stages of the demographic burden phase) in terms of key economic indicators. Note the working age to population ratios of major developed economies peaked at markedly different times with some peaking as early as the mid to late 1980s (eg Germany). The Anglo nations of USA, UK, Canada, Australia and NZ peaked around 2007-2009. China peaked around 2010 while South Korea did not peak until as late as 2012. If the research on ageing is robust, economic and budget performance during the demographic burden phase should be substantially weaker than during the demographic dividend phase; and
- Examination of the extent to which ageing, especially since Australia's working age to population ratio peaked in 2008-09, is impacting the overall Australian economy and budget. The research would suggest a marked weakening in per capita economic growth, productivity, private consumption and business investment since Australia's working age to population ratio peaked.

Markus, Jupp and McDonald (2009) in *Australia's Immigration Revolution*[cxi] describe the impact of immigration policy since the 1990s as "fundamental change in the ethnic composition of our immigration intake, with a consequent impact on Australia's major cities; the increasing arrival of temporary workers; the rising global competition for skilled workers; and that many skilled migrants are no longer looking for permanent residence but see themselves as 'international citizens', operating in a global labour market."

Leaving aside the births to migrants, slowing the rate of population ageing was driven by the younger age structure of migrants and temporary entrants at time of arrival. Considering persons age 15 and over, Chart 1.8 compares the age at arrival of migrants in different streams with the age structure of the Australian-born at the 2016 Census.



Source: ABS Characteristics of Recent Migrants; 2016 Census

Skill stream migrants are particularly concentrated in the age range 25 to 44 at time of arrival or permanent resident visa grant while students are concentrated in the age range 20 to 34. By

comparison, the almost 34 percent of Australian-born adults (ie 15+) were aged 55 or over. This differential is likely to rise as Australia's population ages further.

While reducing the rate of population ageing outlined in Charts 1.1 and 1.2, the Howard transformation also significantly increased the rate of population growth compared to the 1990s and the proportion of overseas born in the population to very much higher levels than any comparable developed nation. As under Chifley, Calwell, Menzies and Holt, growing the intake inevitably meant there was also change in terms of source countries with an increasing shift towards the two emerging economies of China and India in the Howard period.

For some, this has raised issues around social cohesion and whether an increasingly multicultural Australia that includes a large cohort of temporary entrants is a less cohesive Australia. There are conflicting views on this question.

Markus (2017)[cxii] notes that despite support for multiculturalism in the general population, "there's a high level of concern about the muslim population within the general Australian population and even amongst immigrant groups themselves…the first five surveys we did showed people reporting experience of discrimination on the basis of their ethnicity or their skin colour, religion was about 12–13 per cent. And now in the most recent survey it's around 20 per cent."

At the same time, Australia's domestic security agency, ASIO, has highlighted a rise in far-right extremism in Australia (Burgess 2020)[cxiii].

The Scanlon-Monash[cxiv] surveys, the most rigorous of such surveys in Australia that have been run since 2007, would suggest that while there are certainly issues that need to be addressed, Australia has managed the transition to a more diverse society relatively successfully.

On the other hand, in a 2012 paper titled *'Temporary Migration and its Implications for Australia'*, Peter Mares[cxv] expresses general concern about the trend towards increasing levels of temporary migration. He notes that "Australia's migration program is changing in quite fundamental ways. In fact, we may be witnessing the biggest change since the abolition of the White Australia policy forty years ago, but these changes are not widely recognised or discussed. The implications of these changes are not entirely clear or predictable, but they may well be profound".

Mares goes on to say "that our analysis has not caught up with this changed reality and we need to start thinking critically about what this might mean for Australian society—for multiculturalism and indeed for the particularities and peculiarities of our liberal democracy."

Another crucial research question is whether the benefits from using immigration to slow the rate of ageing and address key skill gaps sufficiently outweighs the congestion costs that arise from faster population growth. While one response is that it reflects a failure of planning for higher levels of immigration that were initiated by the Howard Government, particularly in the major cities, in its 2019 population plan the Morrison Government reduced the formal migration program because it wanted to 'bust congestion'.

This suggests the Government considers the benefits from reducing the rate of ageing have to be balanced against its impact on congestion. However, in the 2019 Budget issued a month after the population plan, the Government forecast a substantial increase in net migration compared to the forecast in the 2018 Budget. This increase, if realised, would inevitably be focused on the major cities. The conflict between these two positions has never been explained.

The only way to reconcile these two positions is that the Government expects its new regional migration visas will be effective in diverting immigration away from the major capital cities. The evidence for the effectiveness of such mechanisms which have been in place now for some 25 years is mixed (Tan et al 2019)[cxvi].

Conclusion and Future Directions of Immigration Policy

Chapter 9 concludes with the key findings of this thesis and considers the directions of current Australian immigration policy in terms of the likely rate of population ageing, including in particular the likely level of NOM under current policy settings.

This finds a critical need for further work on immigration policy settings as we emerge from the coronavirus crisis and enter Australia's second demographic burden decade. This may best be addressed in the 2021 Intergenerational Report.

As part of this Report, there will be a need to improve forecasting of NOM, including in terms of the composition of NOM ahead of the 2021 Intergenerational Report. The need for this is highlighted in Table 1.4 and in the literature that highlights the difficulties in forecasting NOM.

According to Raymer and Wisniowski (2018)[cxvii], international migration is the most difficult demographic component to forecast in population projection models. They say "this is worrying because, in developed societies, international migration is often the largest component of population growth and most influential in debates about societal and economic change."

The UN Population Division (2017) notes that "[i]nternational migration is the component of population change that is most difficult to project. Data on past trends are often sparse or incomplete. Moreover, the movement of people across international borders, which is often a response to rapidly changing economic, social, political and environmental factors, is a very volatile process. Not only has international migration shown drastic changes in absolute numbers, but the direction of the flows has changed as well".[cxviii]

Wilson (2017) [cxix] provides a long list of possible methodologies for forecasting migration levels. He finds "no individual migration forecasting approach or technique is regarded as clearly superior in the literature." He suggests "rather than trying to select the best individual approach or technique, it could be fruitful to combine several approaches, drawing strength from each of them, such as expert argument-based approaches, long-run trends, explanatory models, and leading indicators. In the general forecasting literature, the benefits of combining methods have been appreciated for some time (e.g. Armstrong, 2001; Bates & Granger, 1969; Clemen, 1989; Goodwin, 2009)."

Noting the "unprecedented increase in Australia's net overseas migration over the past decade", Bell et al (2011) [cxx] suggest that "if [population] projections are to be of more value to users, progress is required on two fronts: (i) more effective processes for setting assumptions, and (ii) greater clarity as to the uncertainty of the resulting projections." They also suggest a more "systematic, theoretically guided approach to the formulation of projection assumptions using a structured questionnaire to elicit the views of experts on the future of net overseas migration to Australia."

Table 1.4: Treasury Forecasts of NOM

	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019	Actual
2013	228,600							208,380
2014	237,900	246,400						182,350

2015	244,400	247,500	237,750					186,730
2016	244,400	250,800	250,000	203,216				243,830
2017		252,000	250,000	208,522	209,018			241,660
2018			250,000	222,251	216,447	234,600		248,400
2019				238,881	225,184	231,400	271,700	
2020					235,379	227,400	271,300	
2021						221,400	267,600	
2022							263,800	

Source: Treasury Budget Papers and ABS Cat 3412.

Government thinking in terms of setting the annual migration program has been significantly influenced by the work of McDonald and Temple (2010) using the Modem Model that was developed for the Productivity Commission and the similar 3P (population, participation and productivity) models used by the Treasury.

This thesis highlights two key areas where this model may be built upon:

- A more granular approach to the net overseas migration assumption used in the model, initially by distinguishing between long-term temporary entrants who are likely to be constantly churning and hence remain a relatively younger cohort in terms of population structure. This should also take into account the fact different parts of net overseas migration have very different impacts on population, participation and productivity;
- The Modem Model is essentially a supply side model. This thesis has shown that population ageing and immigration impacts both supply and demand. There is thus a need to also approach the modelling challenge from the demand side.

Establishment of a dedicated population unit in the Treasury Department should enable this to be progressed.

Note: All references to visa grants in this thesis include both primary and secondary applicants (ie spouses and dependent children of the primary applicant) unless otherwise indicated.

Chapter 2: Literature on the Economics of Immigration and Population Ageing

This chapter considers the research literature in three parts:

- Population ageing
- Immigration
- Possible use of immigration as an adjustment mechanism to slow the rate of ageing.

Population ageing

In 2020, the developed world in entering the second decade of its demographic burden phase where the working age to population ratio of almost every developed economy, including China, has been falling and will keep falling.

The last time developed economies faced the prospect of an ageing population was during the 1930s. In a 1938 article titled *Population Problems and Politics,* Nobel prize winning economist Gunner Myrdal argued that "age distribution has consequences both for the productivity of people and for total consumptive demand."[cxxi]

In other words, ageing affects both the supply and demand sides of the economy.

He said that in such an environment, "young people will have an easier chance to 'get-in' but they will meet greater difficulties in 'getting-on' and 'getting upward'."

Did this presage the low wages growth that younger workers in particular are experiencing today in many developed nations? Or indeed that young people may find it hard to achieve the standard of living of their parents?

Myrdal (1938) focused his policy prescriptions to deal with demographic ageing on increasing the fertility rate. "The solution is: certain services free for all children and for families without a means test." This would also help to increase female participation in the labour force.

Policies to increase the fertility rate in developed nations have met with limited and usually only short-term success (Bamrah 2015)[cxxii]. But the case for supporting families to have the number of children they want remains strong (McDonald 2018)[cxxiii].

Measures to increase female participation have been pursued across the developed world for at least 30 years. Although many would argue there is still a long way to go as indicated by the on-going debate in the US on maternity leave provisions (Froese 2016)[cxxiv], and in Australia on childcare policies (Sheppard 2015)[cxxv], there has been a steady increase in female participation in Australia although this appears to have been offset by slower improvement and in some cases reduction in male participation rates (ABS Cat: 6202).

Australia has also been successful in increasing participation of older workers although much more will be needed in this space to break down the barriers to further increases in participation by older workers and their high rates of long-term unemployment (Temple and McDonald 2017)[cxxvi].

But in 1938, Myrdal made no mention of a possible role for immigration.

Perhaps not co-incidentally, it was also in 1938 that Harvard economist Alvin Hansen coined the term *'secular stagnation'* in a speech titled *Economic Progress and Declining Population Growth*[cxxvii].

Hansen (1938) described *secular stagnation* as "sick recoveries which die in their infancy and depressions which feed on themselves and leave a hard and seemingly immovable core of unemployment." This was at a time that:

- the USA (and many other developed nations) were struggling to recover from the Great Depression - in 1938 US GDP fell by 3.3% in nominal terms and inflation for the year was minus 2.8% (Bureau of Economic Analysis);
- US population growth in the 10 year period between the 1930 US Census and the 1940 US Census was 7% compared to 16.2% in the previous 10 years (ie 1920-1930) and 14.4% in the 10 years between 1940 and 1950; and
- at around 0.5 million, immigration to the US in the 10 year period between 1931 and 1940 was by far the lowest for any 10 year period in the previous 100 years. For example, over 4 million people migrated to the US in the previous 10 years between 1921 and 1930; over 5.7 million in the 10 year period between 1911 and 1920 and over 8.7 million in the 10 year period between 1901 and 1910 (Harvard University Library Open Collections Program)[cxxviii]. Prior to the 1930s, the US Economy had become accustomed to immigration-fuelled population and economic growth and it resumed high levels of immigration after the war.

Former US Vice President Henry Wallace in his 1934 book *New Frontiers*[cxxix] wrote "[t]oday, immigration is mostly shut out. Our birth rate is decreasing. It appears that by 1950 our population will probably reach its peak, around a hundred and fifty million people, and then start declining."

As it turned out, the post-war baby boom and higher levels of immigration to many developed nations meant slowing population growth and population ageing was not the challenge the world had to deal with. Indeed, Paul Ehrlich in *The Population Bomb (1968)*[cxxx] considered the opposite would be the problem.

But as fertility rates again declined to well below replacement levels after the baby boom of the 1950s and 1960s, concerns about an ageing population gradually re-emerged from the 1980s onwards.

These concerns are extensive in the modern literature. Research has long predicted population ageing would have a negative impact on economic growth and on government budgets both in Australia and overseas: Masson and Tyron (1991)[cxxxi], National Population Council (1992)[cxxxii], EPAC (1994)[cxxxiii], Alvarado and Creedy (1998)[cxxxiv], OECD (1998)[cxxxv], Withers (1999)[cxxxvi], Guest and McDonald (2000), Sadahiro and Shimasawa (2002)[cxxxvii], Withers (2002)[cxxxviii], Skirbekk (2003)[cxxxix], Feldstein (2006)[cxl], Batini, Callen and McKibben (2006)[cxli], Feyrer (2007)[cxlii], Bloom and Canning (2008)[cxliii], Gragnaloti et al (2011)[cxliv], Lowe (2014)[cxlv], Yoon, Kim and Lee (2014)[*cxlvi*], Bloom et al (2015)[cxlvii], Berk and Weil (2015)[cxlviii], Apella and Troiana (2015)[cxlix], Liu and Westelius [cl] (2016); Aiyar, Ebeke and Shao (2016)[cli], Adler et al[clii] (2017).

Almost ten years before the working age to population ratio on Korea would peak, Sadahiro and Shimasawa (2002) [cliii] considered "aging of the population is thus expected to affect the Korean [South] economy greatly. It reduces the growth potential of per-capita GDP by around 25%

according to our simulation. We therefore need to keep alert to the trend of population aging and consider appropriate measures in response to this phenomenon."

Bloom et al in 2015[cliv] find:

- "older people do not work as much as young and middle-aged adults, which means that an economy populated mainly by such people will tend to create less output (on a per-person basis) than an economy with a higher proportion of individuals at prime working ages;
- consumption accounts for a higher proportion of income in older adults than for those at the prime working ages;
- an increasing proportion of older people tends to raise the demands on pension schemes;
- disease and disability in older adults represent a substantial loss to national production;
- older people place a large burden on health and long-term care systems, especially in high-income countries, and contribute reduced revenue to their support."

In an introduction to the macroeconomic effects of ageing, Conesa and Kehoe (IMF Working Paper 2018) summarise the literature as follows:

"The process of worldwide aging presents challenges in terms of macroeconomic growth and stability. The age composition of the population directly affects the supply of factors of production in the economy, with an older population being associated with relatively more capital and less labor. Consequently, aging directly affects the production possibilities and the returns to factors of production, resulting in higher wages and lower returns to capital and interest rates. In addition, to the extent that many of the welfare state entitlements—pensions, health care, and so on—are associated with age or labor force participation, aging poses challenges to most countries with respect to the viability of public finances. Finally, the age composition of the labor force affects the dynamism of the economy as a whole, potentially influencing the rate of innovation and economic growth."

It is relevant that neither Conesa and Kehoe or Bloom et al make any reference to the impact of population ageing on private consumption demand as had been emphasized by Myrdal in 1938 and Keynes in 1937.

On the general topic of ageing, the OECD (2019) says that "projected population ageing across G20 economies has far-reaching implications for economic growth, productivity, inequality within and between generations and the sustainability of public finances… Japan is experiencing the fastest ageing of its population, with 47 people older than 65 per 100 working-age adults in 2015, up from 19 in 1990, and rising to 80 by 2060. Among advanced G20 countries, Italy, Germany and Korea will also face some of the most significant challenges from ageing. Rising old-age dependency ratios will put the financing of adequate pensions, health and long-term care under high pressure. A comprehensive approach is needed to deal with ageing costs and promote inclusive growth in an era of demographic change".

Rouzet, Sanchez, Renault and Roehn (2019)[clv] from the OECD Economics Department identify the following consequences from population ageing across G20 nations:

- decline in annual GDP per capita growth;

- increase in public pension costs;
- increase in public health expenditure, including for countries such as the USA which has a predominantly private health system;
- increase in costs of long-term aged care;
- reduction in per capita tax revenue;
- rising public debt which is projected to be more than double by 2060 compared to a scenario with no ageing;
- exacerbation of old age poverty.

Effectiveness of monetary policy with an ageing population

In his treatise on population decline, Alvin Hansen (1938) argued "[l]ess agreement can be claimed for the role played by the rate of interest on the volume of investment. Yet few there are who believe that in a period of investment stagnation [that] an abundance of loanable funds at low rates of interest is alone adequate to produce a vigorous flow of real investment. I am increasingly impressed with the analysis made by Wicksell who stressed the prospective rate of profit on new investment as the active, dominant, and controlling factor, and who viewed the rate of interest as a passive factor, lagging behind the profit rate."

Iman (2013)[clvi] explains that "based on the life-cycle hypothesis, we would expect older societies to typically have a large share of households that are creditors, and to be less sensitive to interest rate changes, while younger societies would typically have a larger share of debtors with higher sensitivities to monetary policy". He concludes that "demographic changes in five large advanced economies with independent monetary policy have been a contributing factor explaining the observed decrease in monetary policy effectiveness. Societies dominated by young households would tend to be more sensitive to interest rate changes than graying societies. Monetary policy may therefore become less potent in a society going through a demographic transition to an older population; this implies that monetary policy will have to operate differently to achieve the same impact as in a younger society".

Of course very low interest rates would also drive older households to look for alternative investment opportunities such as shares and property. This may be contributing to the strong performance of the share market in a number of developed nations (at least prior to the coronavirus impact).

Baksa and Munkacsi (2019)[clvii] consider that "as aging redistributes wealth among generations and the labor force becomes more scarce, our model suggests that aging makes monetary policy less effective and in more gray societies central banks should react more strongly to nominal variables".

Impact on Productivity

A decline in labour productivity associated with an ageing population has been predicted extensively in the literature (Adler et al[clviii] 2017; Gragnaloti et al [clix] 2011; Skirbekk[clx] 2003; Governor of the RBA, Phil Lowe[clxi] 2014; Assistant Governor of the RBA, Chris Kent[clxii] 2014; Berk and Weil [clxiii] 2015; Apella and Troiana [clxiv] 2015; Liu and Westelius [clxv] 2016; Aiyar, Ebeke and Shao 2016[clxvi]).

Feyrer (2007)[clxvii] finds "changes in workforce demographics have a strong and significant correlation with the growth rate of productivity. Changes in the proportion of workers between the ages of 40 and 49 seem to be associated with productivity growth. A 5% increase in the size of this cohort over a ten-year period is associated with a 1%–2% higher productivity growth in each year of the decade". He notes that "poorer nations have a lower proportion of 40-year-old workers than the richer nations in every year. This characteristic is associated with lower productivity in the poor nations throughout the sample…The wealthy nations saw a relatively static 40-year-old cohort until about 1980. From 1980 until 2000, the proportion of 40-year-olds increases dramatically. This is not true of the poor nations".

He also finds that large cohorts aged 15-39 are associated with lower productivity. The findings for the cohort aged 50-59 is negative but only marginally so while the productivity impact of a large cohort over 60 is generally negative.

Aiyer, Ebeke and Shao (2016)[clxviii] similarly find that "workforce aging has direct implications for labor productivity. They consider that if different age cohorts differ in their productivity, then changes in the age distribution of the workforce will affect average output per worker...A more mature labor force will have higher average levels of work experience, with potentially positive effects on productivity. On the other hand, workforce skills also depend on the stock of knowledge acquired before entering the labor market, or in the early stages of individuals' careers. This stock of skills is likely to become increasingly dated as the average age of participants in the workforce rises, with negative effects on innovation and productivity. Moreover, if job requirements change over time, older workers may find it more difficult to adapt. For example, some have argued that the increased penetration of information technologies might place older workers at a disadvantage".

Berk and Weil (2015)[clxix] consider that "as populations age, the degree to which workers' human capital reflects the cutting edge of technology falls because education took place further in the past. This "pure vintage" effect of aging is well known…in an older population, older teachers pass on knowledge that was current further in the past. We show that this "teacher multiplier" can significantly increase the technological backwardness of the labor force".

According to the Productivity Commission (2019)[clxx], labour productivity between 1974-75 and 2017-18 was 1.7 percent per annum; it was 1.2 percent per annum from 2011-12 to 2017-18. Australia's working age to population ratio peaked in 2009 and has been in decline since that time.

The Productivity Commission (2019) notes that "while Australia has experienced a productivity slowdown, it has been more persistent and extreme in many other countries". Nevertheless, a crucial question for delivery of the Government's ten year budget plan announced as part of the 2019 Budget is whether average productivity growth will rise to 1.5 percent per annum during the 2020s as forecast (compared to the much lower levels in recent years) and thereby enable real GDP growth to average 3 percent per annum?

Governor of the Reserve Bank, Philip Lowe (2019)[clxxi] notes "over the past couple of years, output growth has been subdued, but employment growth has been strong. In other words, measured

labour productivity growth has been weak…It may be that the current lull in productivity growth is just noise in the data, which is quite common, but it may also be a sign of something more persistent. Again, time will tell".

Jones (2020)[clxxii] in '*The End of Economic Growth? The Unintended Consequences of Population Decline'* notes that "several recent papers suggest that falling labor force growth may explain a substantial part of the decline in firm entry and dynamism in the U.S. economy, including Karahan, Pugsley and Sahin (2019), Hopenhayn, Neira and Singhania (2018), Engbom (2019), and Peters and Walsh (2019)".

Inequality and ageing

In a 1937 lecture titled *'Some Economic Consequences of a Declining Population'*, John Maynard Keynes[clxxiii] said "with a stationary population we shall…be absolutely dependent for the maintenance of prosperity and civil peace on policies of increasing consumption by a more equal distribution of incomes…Yet there will be many social and political forces that oppose the necessary change. It is probable that we cannot make the changes wisely unless we make them gradually…If capitalist society rejects a more equal distribution of incomes…then a chronic tendency towards the under-employment of resources must in the end sap and destroy that form of society…A too rapidly declining population would obviously involve many severe problems…But a stationary or slowly declining population may, if we exercise the necessary strength and wisdom, enable us to raise the standard of life."

French economist Thomas Picketty (2014)[clxxiv] finds "demographic growth also has important implications for the structure of inequality. Other things being equal, strong demographic growth tends to play an equalising role because it decreases the importance of inherited wealth…[c]onversely, a stagnant or, worse, decreasing population increases the influence of capital accumulated in previous generations. The same is true of economic stagnation."

He notes that as the population ages and life expectancy rises, an increasing portion of wealth is being held by people in their 80s (and in future in their 90s). The propensity to consume amongst this group is low. The children of this cohort, people with a higher propensity to consume, may not receive their inheritance until they themselves are well into their 60s – an age when they themselves are starting to reduce their consumption.

The OECD (2008)[clxxv] finds that "[t]hose around retirement age (55-75) have seen the biggest increases in incomes over the past 20 years…poverty among young adults and families with children has increased." This older cohort (ie 55-75) is of course also the cohort whose propensity to consume will continue to decline as they age further.

The OECD (2017)[clxxvi] considers "younger generations will face greater risks of inequality in old age than retirees and for generations born since the 1960s, their experience of old age will change dramatically. Moreover, with family sizes falling, higher inequality over working lives and reforms that have cut pension incomes, some groups will face a high risk of poverty…inequalities have been increasing from one generation to the next. Among people starting their working life it is now already much higher than among today's elderly".

Inflation, wages and ageing

There is an emerging body of literature that that suggests ageing may be deflationary (eg Shirakawa 2011a, b, 2012, 2013; Bullard et al. 2012; Broniatowska 2017). But this would appear to be inconsistent with research that suggests ageing will lead to strong wages growth (Auerbach and Kotlikoff[clxxvii] 1987; Sadahiro and Shimasawa[clxxviii] 2003; Fougere et al[clxxix] 2009; Kent[clxxx] 2014; Drosdowski, Stover and Wolter[clxxxi] 2015; Irmen[clxxxii] 2017).

The strong wages growth hypothesis is based on concerns that population ageing would increase labour shortages leading to wages being bid up.

Given widespread slow wages growth in developed economies since the GFC and the increasing rate of ageing since that time (the working age to population ratio in the USA, Canada and the UK peaked around 2007; in Australia it peaked around 2009; in China around 2010 and South Korea in 2012 – see Chapter 8), the conclusion that ageing will lead to strong wages growth appears highly questionable when the literature is also predicting slower economic growth, weak productivity growth and low inflation.

Kohler and Koukoulas[clxxxiii] note that between 1995 and 2000, a period of relatively low immigration, wages growth in Australia was well below that of the OECD as a whole. But since 2000, wages growth in Australia has consistently outstripped that of the OECD as a whole. While there are other factors that would have influenced this outcome (including the mining boom), it is relevant that since the Howard transformation from 2000, Australia has aged more slowly than the OECD as a whole and the Australian population has grown more quickly, largely due to the intake of young, skilled migrants.

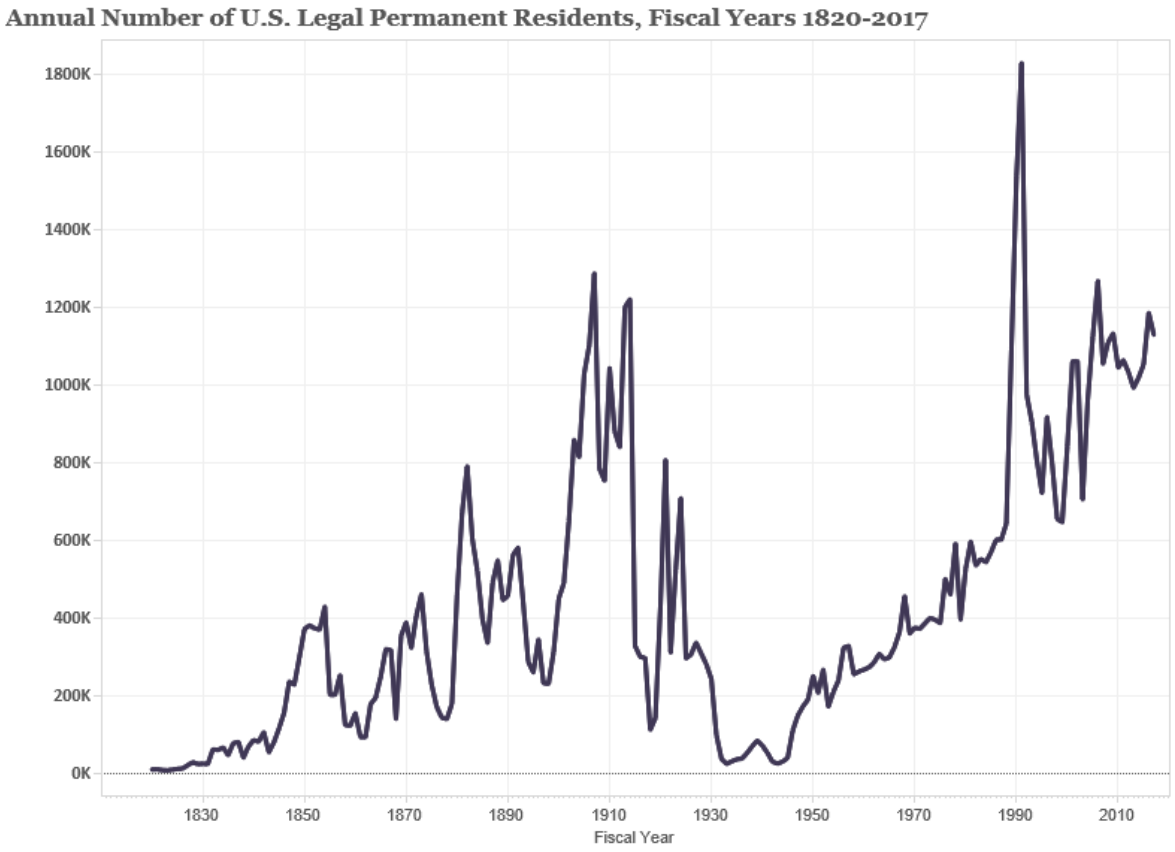
Economics of Immigration

Immigration has long been a feature of growing economies.

"As the Roman emperors sought to expand and strengthen their empire, they recognized that immigration was a means for both. Although the Roman elites sneered at immigrants, the emperors welcomed them into the labor force and military, keenly understanding that for the empire to grow and thrive it had to have new blood." (Strauss – 2019)[clxxxiv]

The modern literature on the economics of immigration has its their origins in the 1970s and 1980s. By the 1990s, research into the possible role of immigration in the transition to more aged populations also became more prominent.

In modern history, the USA is generally regarded as the nation most transformed by immigration. Since the start of the 20th century, it was only during the 1930s that legal immigration to the USA was at a relatively low level. Since the 1990s, legal immigration to the USA has averaged around 1 million per annum (see Chart 2.1).



Source: Chart 2.1 - Migration Policy Institute (USA)

Not surprisingly, the US literature on the economics of immigration is also rich.

In 2011, Barry Chiswick and George Borjas were awarded the IZA Prize in Labor Economics for their "fundamental contributions to the economic analysis of migration". Their work represents a logical launching point to examine the literature on the economics of immigration.

Borjas (1994)"[clxxxv] sets out a framework for analysing the economic impact of immigration. He notes "the political discussion is centered around three substantive questions. First, how do immigrants perform in the host country's economy? Second, what impact do immigrants have on the employment opportunities of natives? Finally, which immigration policy most benefits the host country?"

This segment on the economics of immigration broadly follows the structure suggested by Borjas with a focus on the USA and Australia. The final segment of this chapter examines the literature on the possible role of immigration in the transition to more aged populations that all developed nations, including China, are now undergoing.

Immigrants in the labour Market

Chiswick (1978)[clxxxvi] found that "although immigrants initially earn less than the native born, their earnings rise more rapidly with U.S. labor market experience, and after 10 to 15 years their earnings equal, and then exceed, that of the native born".

Referring to Chiswick's analysis of the 1970 US Census, Borjas (1994) [clxxxvii] notes "at the time of arrival, immigrants earn about 17 percent less than natives. Because immigrants experience faster

wage growth, immigrant earnings "overtake" native earnings within 15 years after arrival. After 30 years in the United States, the typical immigrant earns about 11 percent more than a comparable native worker."

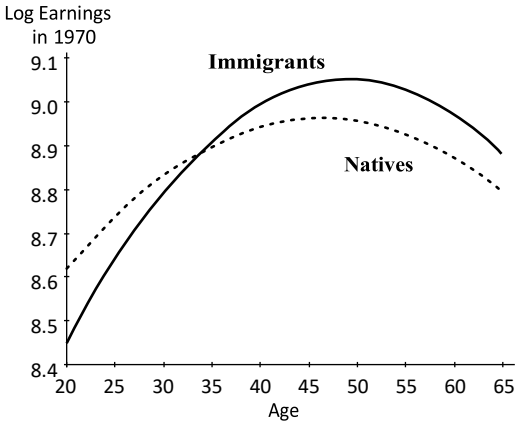


Chart 2.2 Source: The Cross-Section Age-Earnings Profiles of Immigrants and Natives in the United States, 1970

Chiswick set out his key findings in Chart 2.2 which highlights improvement in immigrants' labour market performance over time. He explained the faster growth in earnings of immigrants because he considered they were "more able and more highly motivated" than existing residents.

Carliner (1980) [clxxxviii] argues immigrants "choose to work longer and harder than non-migrants".

But the labour market performance of migrants to different countries, at different times and under different categories and circumstances can vary considerably (see discussion of the Longitudinal Survey of Immigrants to Australia below).

Borjas (1985) [clxxxix] for example argued against assuming how immigrant earnings may evolve over time based on a single snapshot of the immigrant population. He suggested that newly arrived immigrants may be inherently different from those who migrated twenty years ago. He warned against using "the current labor market experiences of those who arrived twenty years ago to forecast the future earnings of newly arrived immigrants."

Borjas (1990) noted the risk of 'cohort effects'. He described these as possibly arising from changes in immigration policy. He said, for example, "the 1965 Amendments de-emphasized the role of skills in allocating entry visas, and instead makes these awards based almost entirely on whether the applicant has family ties with current US residents. If this policy shift generated a less-skilled immigrant flow, the cross-section finding that more recent immigrants earn less than earlier immigrants says little about wage convergence, but instead may reflect innate differences in ability or skills across cohorts...both the immigrant and native populations must be 'tracked' over time to correctly measure wage convergence between immigrants and natives. Most longitudinal data sets either contain very few immigrants or provide non-random samples of the foreign-born population."

Borjas (1990) also pointed to the impact of changes in the age structure of immigrants, their language skills, the comparability of their educational qualifications and how immigrants are accepted within the host community as relevant to how they perform in the labour market.

Longitudinal Survey of Immigrants to Australia (LSIA)

Noting the points made by Borjas in 1990, as well as the findings of the Committee to Advise on Australia's Immigration Policies (Fitzgerald 1988 – see also Chapter 3 for main recommendations of this inquiry), the Australian Department of Immigration in the 1990s embarked on a series of Longitudinal Surveys of Immigrants to Australia (LSIA) that would be undertaken for the next 15 years and provide essential data for the development of immigration policy under the Howard Government.

Respondents to these surveys were selected from the Department's Settlement Database and followed over time. Responses were analysed on a range of topics including migration experience, use of support services, education and qualifications, language, employment, health, housing, income and finances, perceptions and demographics. Most importantly, the data was broken down according to the permanent residence visa category they were granted and hence the survey data was highly relevant to policy analysis.

Three separate LSIA surveys were conducted:

- LSIA 1 covered 5,200 primary applicants and their migrating spouses who arrived between September 1993 and August 1995. Each respondent was interviewed on three occasions – six months after arrival; 18 months after arrival and around 42 months after arrival.
- LSIA 2 covered 3,120 primary applicants and their migrating spouses who arrived between September 1999 and August 2000. They were interviewed using essentially the same questions 6 months after arrival and 18 months after arrival.
- LSIA 3 covered 9,800 primary applicants who arrived between December 2004 and March 2005 or were granted a permanent visa onshore between these two dates. They were then interviewed in August 2005 and again in September 2006.

Three key findings from the LSIA were that:

- migrants selected on the basis of their skills, age and English language ability more quickly found employment in the Australian labour market;
- tightening of requirements relating to skills, age and English language ability led to an improvement in labour market performance whereby these migrants, on average, significantly outperformed local residents in terms of employment and income and contributed significantly to positive budget outcomes;
- temporary migrants who were already in Australia and secured an onshore visa on the basis of their skill generally performed better than skilled migrants arriving from offshore in the first 18 months after being viased (Rizvi 2006)[cxc].

Subsequent to the LSIA, the Australian Government has established a Continuous Survey of Australia's Migrants (CSAM) which generally confirms these findings (see Home Affairs website – research and statistics).

For example, the 2015 report from this survey finds "at the six-month stage of settlement, almost nine-in-ten skilled migrants (ie primary migrants in the Skill Stream) were employed. More than three quarters were working in full-time jobs and more than six-in-ten were in highly skilled employment. On the basis of these measures, skilled migrants significantly outperformed Australia's general population. Skilled migrants also had higher earnings on average than the Australian population, but unemployment was slightly worse than the national average."

It should be noted CSAM outcomes are only for six months after arrival or from the date of onshore visa grant.

The Productivity Commission's Inquiry into Australia's Migrant intake (2016)[cxci] found labour market outcomes of permanent immigrants are "generally similar to the Australian-born population but there are differences between immigrants with different characteristics. Labour force participation rates are higher for males and females in the skill stream but lower for women from a non-main English speaking country (NESC). Unemployment rates of immigrants are higher among females and those from a NESC, but lower among primary applicants in the skill stream. Employment of immigrants is more concentrated in higher skill level occupations. Earnings of immigrants within occupations are about the same as Australian-born people. While labour market outcomes of immigrants generally improve with length of time in Australia, there are some barriers to labour market integration. Those barriers can be reduced through bridging supports to assist labour market integration and by pursuing possibilities for further recognition of overseas qualifications."

However, Birrell (2018a)[cxcii] argues that 'skilled' migrants from non-English speaking countries (NESC) who arrived after the 2011 Census were less likely to be employed in a skilled occupation at the time of the 2016 Census than were the Australian-born or migrants from mainly-English speaking countries with similar skills.

The key here is that Birrell's use of the term 'skilled' is misleading. High-level Census data is a poor tool for making conclusions regarding the effectiveness of skilled migration visa categories. Migrants who may consider themselves to be 'skilled' in response to a Census question may have entered Australia under a range circumstances, including via the Humanitarian Program, the Family Stream; or as secondary applicants in the Skill Stream (eg the spouse of a primary skilled migrant).

Unlike primary migrants in the Skill Stream, people in these other categories will generally have migrated without having their professional skills assessed by the relevant Australian skills assessment body or had their English language skills tested. Most would have their skills assessed after migrating, perhaps requiring them to undertake bridging courses and/or sitting relevant exams. Others, such as those who enter as parents, may never even try to secure recognition of their skills.

This is where assessing their success in the workforce gets complicated. Take the example of a nurse who migrates as a spouse in the Family Stream or as a Humanitarian Program entrant. He or she may need to do bridging courses to get their overseas qualifications recognised in Australia. While doing such courses, the nurse may be employed as an orderly in a hospital (ie an unskilled occupation). This does not mean he or she is not contributing to the economy or is not valued by an employer. In time, they may well get their skills recognised, leading to employment in a skilled occupation.

Primary migrants in the Skill Stream must also meet the relevant English language requirements before they migrate. Because this is not required of other migrants, 'skilled' migrants in other visa categories may need to undertake additional English language classes after arrival. This will further delay their ability to secure employment in a skilled occupation.

Another issue with the comparison Birrell (2018a) makes is that a significant portion of applicants in the Skill Stream will have obtained permanent residence after they graduate as overseas students from an Australian university. Comparing the early employment experience of this group with that of all skilled Australian-born is comparing apples and oranges. These migrants may need to work initially in entry-level positions that are not recognised as a skilled occupation. It would be more

appropriate to compare the early employment experience of this group with recent Australian-born graduates of Australian universities.

In contrast to Birrell (2018a), Treasury/Home Affairs (2018) find "unemployment among skilled migrants is low. The unemployment rate of the skill stream (including both primary and secondary applicants) is comparable to unemployment rates in the general population after migrants have been in Australia for only 18 months".

The Productivity Commission (2016) notes that "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. The Australian Government should seek opportunities to improve the recognition of overseas qualifications obtained at internationally recognised, high-quality institutions, including through bridging courses".

Treasury/Home Affairs (2018)[cxciii] find "skilled migrants who have been the focus of Australia's modern migration program earn significantly higher incomes. Forty-two per cent of skill stream primary applicants earned over $1,250 per week (the top 30 per cent of incomes), whereas this applied to only 20 per cent of the Australian-born. This is not to say that migrants earn more than non-migrants in the same job, but rather that they tend to work in more skilled jobs on average".

Immigrant employment and the economic cycle

A key factor impacting the labour market performance of immigrants is the state of the economic cycle. According to the OECD (2009)[cxciv], "past experience has shown that immigrants are among those hardest hit in the labour market during a downturn."

The OECD finds that leading up to the Global Financial Crisis (GFC), the "labour market outcomes of immigrants have also improved significantly both in absolute terms and vis-à-vis the native-born in most OECD countries".

But with the onset of the GFC, total employment in the USA decreased between 2007 and 2008 with the unemployment rate increasing by 3.3 percentage points to reach 8.1% by February 2009. By the "end of 2008, the impact of the economic crisis had already spread to most sectors but it was particularly noticeable in construction (-900 000 jobs lost since the peak in September 2006), in manufacturing (-790 000 in 2008), in retail trade (-522 000) and in financial services (-150 000). During the first two months of 2009 employment declined further by more than 3% in construction (-222 000 jobs) and manufacturing (-425 000 jobs)".

From March 2008, the OECD finds "the employment rate of the foreign-born decreased rapidly and their unemployment rate increased. In February 2009, the unemployment rate of immigrants increased to 10.5% (more than twice the unemployment rate recorded in March 2007). Differences by ethnic background and gender indicate that some groups of people with a foreign background may be disproportionately affected, suggesting that other factors beyond immigrant status, like educational deficits, language fluency or duration of stay are at play to explain labour market outcomes. In the past 12 months to February 2009, the unemployment rate of Blacks and African Americans rose from 8.4% to 13.8%, while that of Asian Americans increased from 3.0% to 6.9%. Corresponding figures for Hispanic workers were 6.9% and 12.1%, respectively".

The OECD also finds that "during economic downturns employers initially try to avoid firing permanent workers when adjusting their workforce because of short-term and long-term financial

costs. A recession is generally expected to be initially associated with a cutback in working hours while conversely employers increase the hours of their workers during recovery before hiring new employees. At the same time, temporary employment is expected to decline during the initial phase of the recession followed by a rise from the trough to the end of the recession".

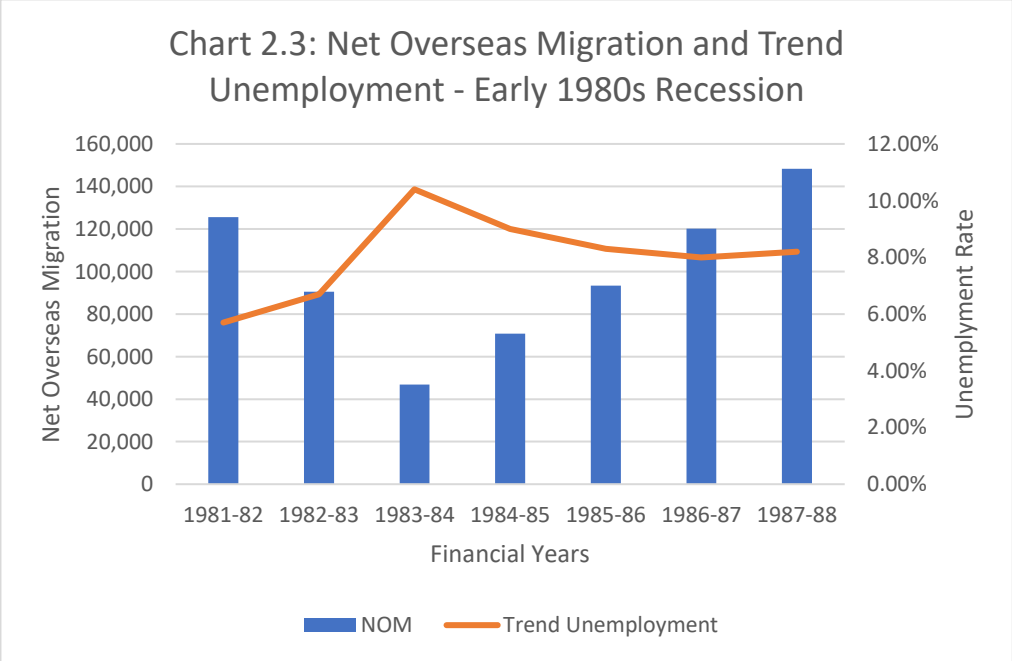
The OECD considers "there is a visible correlation between the business cycle and net migration, downturns being marked by a rapid reduction of migration and recoveries by an increase, the correlation being particularly noticeable during the most severe slumps". But it considers this has not in the past applied to the USA as much as to countries such as Australia and Germany.

The UK Migration Advisory Committee (2012)[cxcv] finds that "migrants are more likely to compete with natives for jobs during an economic downturn when native unemployment is high and job vacancies are low."

Changes in labour market conditions affect the rate of arrivals as well as the rate of departures. In particularly severe downturns, traditionally net immigration countries can become countries of net emigration (eg the USA during the Great Depression; NZ after the recession of the early 1990s).

The lowest levels of net overseas migration to Australia have consistently coincided with economic downturns including the recessions of 1974-75; 1982-83 and 1991-93 (ABS Cat: 6202 and Parliamentary Library 2010: Migration to Australia Since Federation).

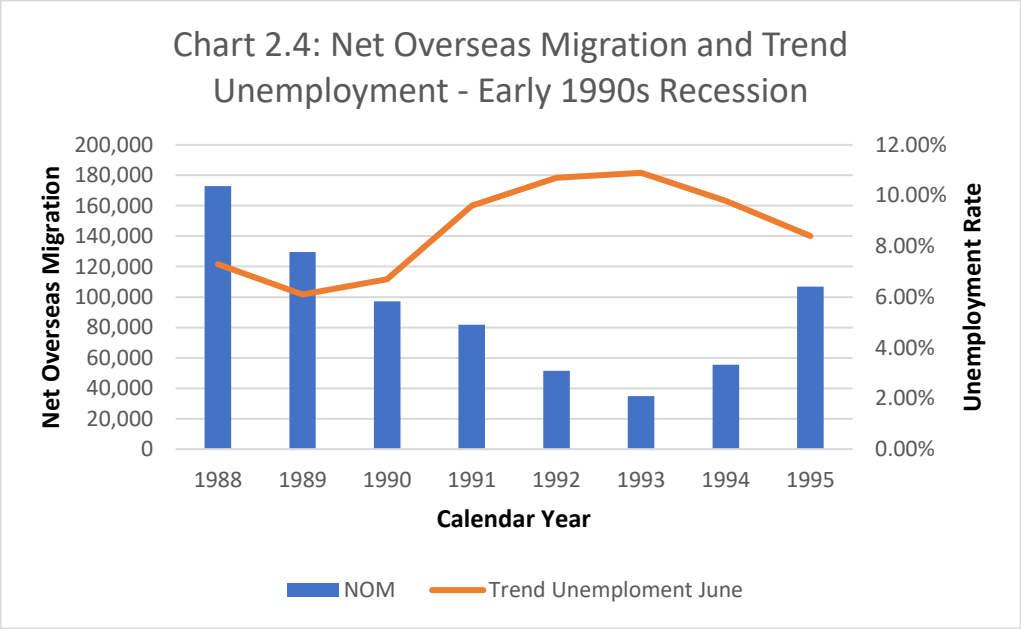
Chart 2.3 shows how NOM fell sharply during the recession of the early 1980s when trend unemployment increased from 5.7 percent in June 1981 to 10.4 percent in June 1983 while NOM fell from 125,600 in 1981-82 to 46,800 in 1983-84.



Source: ABS Cat: 6202 and 3101

The situation was even more stark during the recession of the early 1990s.

Chart 2.4 shows that during the 1990s recession, trend unemployment increased from 6.1 percent in June 1989 to 10.9 percent in June 1993. Over the same period, net overseas migration fell from 172,900 in 1988 to 34,900 in 1993 before gradually recovering as unemployment declined.



Source: ABS Cat: 6202 and 3101

By contrast, after the Global Financial Crisis (GFC) unemployment in Australia increased from 4.2 percent in June 2008 to only 5.8 percent in June 2009 before beginning to decline.

Yet net overseas migration fell from 315,690 in 2008 to 246,900 in 2009 and 172,040 in 2010 before again increasing.

The extraordinary feature of Australia's economic performance after the GFC was that, unlike most other developed nations, Australia did not experience an actual recession (ie two quarters of negative GDP growth).

Unemployment increased by only 1.6 percentage points from top to bottom compared to 4.8 percentage points during the recession of the early 1990s.

While the associated falls in net overseas migration were partly driven by deliberate policy change (ie reductions in the formal Migration Program), there was also substantial contribution from an increase in departures as well as a decline in employer sponsored arrivals.

Breunig, Deutscher and To (2017)[cxcvi] note that their findings for Australia "are dependent both on the immigration policies in place during the period 2001– 2012 and the overall economic conditions. As we are estimating over a period of very robust economic growth, it is perhaps not surprising that we find very little negative impact of immigration. It could be that in periods of slow growth or contraction there are negative effects, but we would not be able to identify these in our data".

The Productivity Commission (2016) finds "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".

With regard to employment of undocumented workers during an economic downturn, the OECD (2008) says "on the one hand, immigrants employed illegally are less protected and thus easier to layoff when employers are trying to adjust their workforce. On the other hand, employers may prefer to cut back first on higher paid legal employment, everything else being equal. In any case, much will depend on the distribution by industry of unauthorized foreign workers".

Likely due to Australia's relatively much smaller portion of undocumented workers, there has been little research into the impact of an economic slowdown on the employment of 'overstayers'.

Immigration, employment and earnings of existing residents

Any assessment of the impact of immigration must also consider the impact on existing residents. This question is made more complex because:

- immigrants impact both the supply of labour as well as the demand for labour;
- immigrants tend to be attracted to cities/locations with better employment and earnings opportunities; and
- different cities/locations have different patterns of demand for skilled and unskilled workers.

Many early empirical studies of the impact of immigration on local residents examine this question comparing particular localities/cities. Borjas (1994) said "the typical study then regresses a measure of the native wage in the locality on the relative quantity of immigrants in that locality (or the change in the wage in the locality over a specified time period on the change in the number of immigrants in the locality)".

In a particularly celebrated location based study, Card (1990)[cxcvii] found the sudden arrival of immigrants from the Cuban port of Mariel during 1980 increased the labour force of Miami by some seven percent but had negligible impact on the employment and earnings of existing Miami workers".

Altonji and Card (1991)[cxcviii] show that, at least conceptually, if the portion of unskilled migrants versus skilled migrants in the immigrant intake is higher than that in the host population, the skilled wage will rise relative to the unskilled wage (ie it will increase inequality).

Borjas (1994) notes "the 1980s witnessed a substantial increase in the wage gap between workers who do not have a high school diploma and workers with more education. The decade also witnessed the entry of large numbers of less skilled immigrants. Given reasonable estimates of labor demand elasticities, Borjas, Freeman, and Katz (1992) conclude that perhaps a third of the 10 percentage point decline in the relative wage of high school dropouts between 1980 and 1988 can be attributed to the less skilled immigration flow."

Borjas (1994) summarises the literature on the economic impact of immigration at that time noting that "natives benefit from immigration mainly because of production complementarities between

immigrant workers and other factors of production, and these benefits are larger when immigrants are sufficiently "different" from the stock of native productive inputs. The available evidence suggests that the economic benefits from immigration to the United States are small, on the order of $6 billion and almost certainly less than $20 billion annually. These gains, however, could be increased considerably if the United States pursued an immigration policy which attracted a more skilled immigrant flow."

Comparing the situation of different states in the US (a somewhat broader approach than more traditional location based studies), Peri (2009)[cxcix] finds "no evidence that immigrants crowded-out employment and hours worked by natives. At the same time we find robust evidence that they increased total factor productivity, on the one hand, while they decreased capital intensity and the skill-bias of production technologies, on the other. These results are robust to controlling for several other determinants of productivity that may vary with geography such as R&D spending, computer adoption, international competition in the form of exports and sector composition. Our results suggest that immigrants promoted efficient task specialization, thus increasing TFP and, at the same time, promoted the adoption of unskilled-biased technology as the theory of directed technological change would predict. Combining these effects, an increase in employment in a US state of 1% due to immigrants produced an increase in income per worker of 0.5% in that state."

In a study of the impact of immigration on wages in OECD countries, Docquier, Özden and Peri (2010)[cc] find that while immigration had negatively affected the wages of low skill natives in most OECD countries, the "reverse takes place in Canada and Australia where immigration strongly helps the wages of less educated (+3.3 and +4.5% respectively)".

D'Amuri and Peri (2011)[cci] examine the impact of immigration on 14 Western European countries and find no evidence that immigration reduced employment rates amongst local residents but find significant evidence immigrants "took 'simple' (manual-routine) type of occupations and natives moved, in response, toward more 'complex' (abstract-communication) jobs". They also find "immigration stimulated job creation, and the complexity of jobs offered to new native hires was higher relative to the complexity of destructed native jobs. Finally, we find evidence that the occupation reallocation of natives was significantly larger in countries with more flexible labor laws".

Lewis (2012)[ccii] argues that "the old, simple view that the only labor market impact of immigration is to drive down the relative wages of 'similar' native-born workers in a predictable, mechanical way may be a highly incomplete description of the long-run impact of immigration." He notes that the standard model uses a single good and two labour types: skilled and unskilled. But immigrants can have a much wider range of labour types with varying degrees of substitutability with existing residents in the relevant locality. Lewis refers to a range of studies that increasingly recognise this point including Card (2001)[cciii], Borjas (2003)[cciv], Ottaviano and Peri (2012)[ccv]

From a conceptual perspective, Lewis (2012) notes that a model that uses only a single good can also give misleading results because "in an open economy with multiple industries, the wage impact of an immigration-induced shift in skill mix can be mitigated by a shift in the composition of industries." He suggests that more skilled immigration intakes are likely to shift the industry/output mix towards skill intensive industries. Noting the work of Moretti (2004)[ccvi], Lewis suggests a rise in skilled immigration has a smaller negative effect on skilled wages. Lewis says this is because "the supply effect is partially offset by the human capital spill over...this equivalently implies that a less skilled

immigration inflow would reduce the wages of less-skilled workers by more than is implied by the elasticity of substitution".

On the other hand, Borjas and Doran (2011)[ccvii] find little sign of spill overs from the influx of mathematicians from the former Soviet Union to the US. They suggest US mathematicians in similar fields were displaced to lower ranked universities where they produced less valuable research.

Peri (2017)[ccviii] finds that wages for non-college graduates in the US, also commonly referred to in the USA as unskilled workers, have in real terms been stagnant since the 1980s. He finds "the Census data confirm that the average national real weekly wage of college-educated workers who are natives, employed for at least one week of the previous year, and aged between 18 and 65 grew by about 20 percent from 1980 to 2014. In contrast, the average real weekly wage of non-college graduates decreased by 8 percent during the same period, while dropouts lost about 18 percent of their real weekly wages. Trends in wage inequality between college and non-college workers highlight this trend but with significant variation over the period. For instance, the 1990s were the only decade in which college and non-college workers both saw positive wage gains of 10 and 14 percent, respectively".

It is relevant that the 1990s were also a period of very high immigration to the USA (see Chart 2.1).

Peri (2017) notes that "immigration could affect wages by changing the relative supply of different types of workers. For instance, if immigration increased the supply of non-college graduates substantially relative to workers in other education levels then it could contribute to a pure 'relative supply' explanation whereby an increase in one type of worker reduces their wages relative to other types of workers" (see Chart 2.5).

But is this what happened in the USA given the substantial portion of unskilled migrants in its legal immigration intake (as well as in its undocumented intake)?

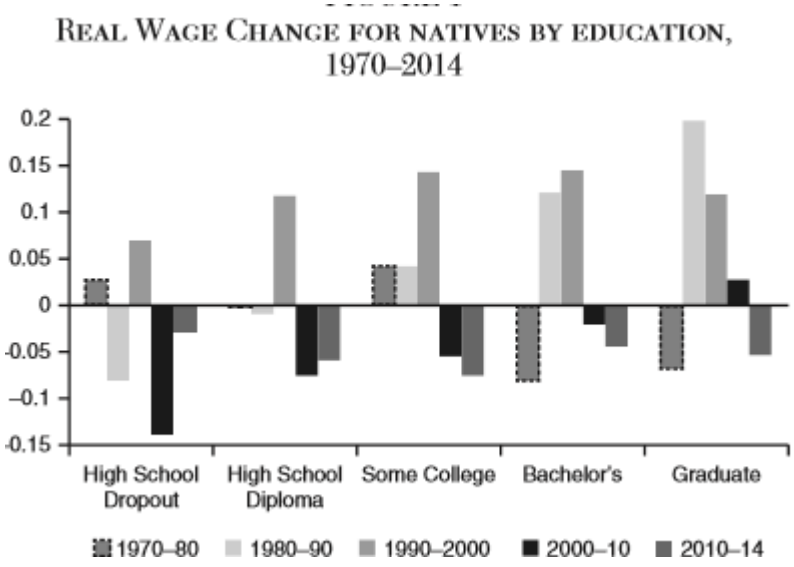


Chart 2.5 Source: Peri (2017)

Peri (2017) finds "immigration cannot account for the observed increase in wage inequality in the considered period by decade; thus it cannot account for relative wage stagnation. The relative supply effect of immigration actually attenuates wage inequality in the periods of largest increase in

the gap between college and non-college workers from 1980 to 1990 and 2000 to 2010. Immigrants were disproportionately college educated in those two decades, but these periods also experienced the largest increase in the college and non-college wage differentials. Immigration can explain 14 percent of the increase in the wage gap in the 1990s. Too many immigrants are college educated to explain any of the relative wage decline of non-college graduates especially in the decades when this relative wage decline was the greatest. Only in the 1990s was immigration moderately non-college intensive. The 1980 to 2010 relative supply change due to immigrants could account only for 0.1 percent of the increase in wage inequality when there was a 24 percent decrease in the relative college to noncollege wage ratio".

In other words, Peri finds there are other factors that were having a greater impact on wage stagnation and wage inequality than the level and composition of immigration. One reason Peri gives why immigrants did not drive down local wages is due to the increase in local productivity generated by higher educated immigrants in science, technology, engineering and mathematics occupations. Three other factors he mentions are:

- high concentration of immigrants in major metropolitan centres may be increasing economies of scale (although these also create congestion if there is inadequate investment in infrastructure);
- immigrants having a higher self-employment rate, including start-ups (see below re business creation by migrants); and
- immigrants may actually be competing more with other immigrants than with natives with similar skill levels.

Lewis (2017)[ccix] attacks two common myths about the impact of immigration on locals. Firstly that the number of jobs in an economy is fixed. Lewis points out that "economist David Schloss termed it the 'lump of labor fallacy' and thoroughly refuted it in 1892. It is a wrongheaded idea that just refuses to die".

The second myth Lewis points to is that "If you add more workers, don't wages have to go down? Isn't that the basic economics of supply and demand?"

This is the point made by former Prime Minister Tony Abbott in his 2018 speech[ccx] arguing for a reduction in immigration. He said "it's a basic law of economics that increasing the supply of labour depresses wages".

Similarly, Lewis (2017) notes that Borjas (2003) argued that the 'labour supply curve ***is*** downward sloping'.

Lewis (2017) says "the fallacy underlying the prediction that more workers must lead to lower wages is the assumption that the capital stock is fixed. In this context, what economists mean by 'capital' is all of the productive inputs in the economy besides workers. That includes, for example, office space and machinery, including the computers that help us increase our output. Capital is very important: economists estimate that it is responsible for about one-third of GDP. The 'downward sloping demand curve,' which supposedly governs the relationship between the number of workers and wages, turns out to derive entirely from the assumption that the stock of capital is fixed. As the story goes, immigration "dilutes" the capital available to each worker, lowering worker productivity and therefore wages. In this counterfactual world, a new immigrant arrival would have to share a computer and an office with an existing worker— since no computers or offices could be added—

and as a result, an existing worker would be made less productive by a factor proportional to capital's share in the economy".

In the context of the Trump Administration's policies to reduce immigration to boost employment and earnings opportunities for local residents, de Brauw (2017)[ccxi] seeks to test the findings in Borjas (2003) that the labour demand curve is downward sloping (ie more immigration must result in lower wages).

He notes that "economists typically measure the responsiveness of wages to immigrants using the wage elasticity of immigration—the percentage change in wages one can expect for a given percentage change in the quantity of immigrants. Literature on the U.S. labor market suggests the wage elasticity of immigration is about -0.2, meaning that if the number of migrants were to increase by 10 percent, then wages would fall by 2 percent, on average. However, this average masks substantial disagreements among economists who study immigration. Some economists have found that wages do not change at all with an increased supply of immigrants (Card 1990, Card and Peri 2016). Others, such as Harvard University economist George Borjas, find a greater wage elasticity of immigration that is between -0.3 and -0.4 (Borjas 2003)".

Dustmann, Schonberg, and Stuhler (2016)[ccxii] identify three broad approaches in the literature to testing the impact of immigration on wages:

- a national skill cell approach where effectively all immigrants of a particular skill level (usually college graduates; high school graduates and high school dropouts) compete for jobs suitable to their skill level with local residents in the same skill cell;
- a location based approach that considers immigrants as a block competing with local residents in a range of specific locations; and
- a mixture of the two above.

de Brauw (2017) notes that Borjas (2003) uses the national skill cell approach. This assumes migrants and local residents are perfect substitutes. However, de Brauw suggests "there are many reasons that immigrants and natives might not be perfect substitutes even if they have the same level of skill and education—for example, language ability (Lewis 2013). Card and Peri (2016) find that relaxing Borjas's assumption of perfect substitution shows that an increased supply of immigrant workers actually increases wages".

de Brauw and Russell (2014) seek to replicate the results in Borjas (2003) but extend the period of analysis from between 1960 and 2000 to 1960 and 2010. They argue that if Borjas (2003) is correct, adding another decade of data should make little difference to the results. But they find Borjas's elasticity declines from -0.33 to -0.22.

de Brauw also argues that if Borjas (2003) is correct, then it should also work for the even larger addition of women to the labour market in the period 1960 to 2000. He finds "a statistically insignificant relationship when we use weekly wages as the wage measure, but a positive and statistically significant relationship when using annual wages. This result implies that as women enter specific education experience cells men's wages actually increased. These coefficients suggest that Borjas's method cannot be just measuring labor demand. Thus, the perfect substitutability assumption in Borjas's model is violated".

Brell and Dustmann (2019)[ccxiii] find "when output prices and technology levels are fixed, after an immigration influx natives will continue to be paid the same wages as they had been before the labour supply shock had occurred. The industry that uses the more abundant factor more intensively will increase its production, and the additional output will be traded away on international markets at constant prices. While there are no wage changes due to migration, there is also no migration surplus. From the perspective of the native workers, migration simply has no effect on their living standards…In line with the thinking in Lewis (2011), an economy may adjust to a labour supply shock through changes in the way it uses technology. Dustmann and Glitz (2015)[ccxiv] assess the importance of adjustment to labour supply changes through adjustment of industrial structure and through technology for Germany, and find that the latter is more important".

In a working paper for the Bank of England, Nickell and Salaheen (2015)[ccxv] find "the immigrant to native ratio has a small negative impact on average British wages. This finding is important for monetary policy makers, who are interested in the impact that supply shocks, such as immigration, have on average wages and overall inflation. Our results also reveal that the biggest impact of immigration on wages is within the semi/unskilled services occupational group".

A major 2017 report by the Panel on the Economic and Fiscal Consequences of Immigration to the USA[ccxvi] finds "the impact of immigration on the wages of natives overall is very small. However, estimates for subgroups span a comparatively wider range, indicating a revised and somewhat more detailed understanding of the wage impact of immigration since the 1990s. To the extent that negative wage effects are found, prior immigrants—who are often the closest substitutes for new immigrants—are most likely to experience them, followed by native-born high school dropouts, who share job qualifications similar to the large share of low-skilled workers among immigrants to the United States. Empirical findings about inflows of skilled immigrants suggest the possibility of positive wage effects for some subgroups of workers, as well as at the aggregate level."

The Panel notes "several studies have found a positive impact of skilled immigration on the wages and employment of both college educated and noncollege-educated natives. Such findings are consistent with the view that skilled immigrants are often complementary to native-born workers, especially those who are skilled; that spill overs of wage-enhancing knowledge and skills occur as a result of interactions among workers; and that skilled immigrants innovate sufficiently to raise overall productivity. However, other studies examining the earnings or productivity prevailing in narrowly defined fields find that high-skilled immigration can have adverse effects on the wages or productivity of natives working in those fields".

The Panel warns that "with so much focus in the literature on the labour market (and much of this on the short run), other economic consequences—such as the role of immigrants in contributing to aggregate demand, in affecting prices faced by consumers, or as catalysts of long-run economic growth—are sometimes overlooked by researchers and in policy debates. By construction, labour market analyses often net out a host of complex effects, many of which are positive, in order to identify direct wage and employment impacts. The contributions of immigrants to the labour force reduce the prices of some goods and services, which benefits consumers in a range of sectors including child care, food preparation, house cleaning and repair, and construction".

Immigration and impact on Australian residents

Breunig, Deutscher and To (2017)[ccxvii] replicate the national skill cell approach used by Borjas (2003) but apply it to Australian data using a combination of:

- the ABS Survey of Income and Housing; and
- match Census data to the Household, Income and Labour Dynamics in Australia (HILDA) survey.

They find "immigration flows into skill groups where wages and employment are high. We find almost no evidence that outcomes for those born in Australia have been harmed by immigration. If anything, there is some evidence that immigration has a small positive association with outcomes for the Australian-born".

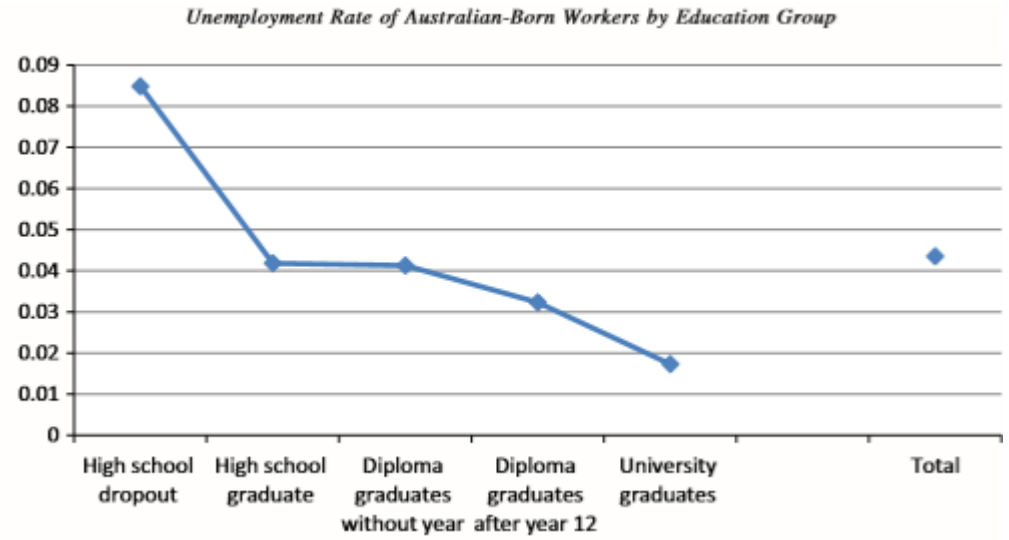


Chart 2.6. Source: Breunig, Deutscher and To

Breunig, Deutscher and To (2017) find their results "show less evidence of a negative effect of immigration on native workers than similar studies on the USA or the UK, which are discussed in the introduction. This could be because of Australian immigration policies which have been more selective than those of the USA or the UK. Or it could be that immigrants interact with different labour market institutions in different countries. Collective bargaining agreements are much more important in Australia than in the USA and the UK".

The Productivity Commission (2016) confirms the view in most of the literature that the "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".

While noting that displacement effects are likely to be small, the Productivity Commission considers these would depend on the level of immigration, timing, geographical location and composition of

immigration. It would also depend on economic conditions with immigration more likely to cause displacement effects during periods of economic recession.

The Commission considers there would be an increased risk of displacement at the lower end of the skill spectrum and in the youth labour market.

Colebatch (2017)[ccxviii] also argues migrants to Australia are displacing locals in the labour market. He points to 474,000 full time jobs created between 2008 and 2016, of which 364,000 went to migrants who arrived since 2001 while 110,000 went to either the Australian-born or migrants who arrived prior to 2001.

Colebatch makes no reference to the demand impact of immigration on the labour market (ie how many of the 474,000 jobs were created, and how many more were not abolished, due to the demand impact of immigration?). For example, he ignores the steady rise in Australia's participation rate to record levels in 2019.

He also makes no reference to the fact the vast majority of people who retire from the labour market each year would be either Australian born or were migrants who came to Australia prior to 2001. Because the age structure of Australia's immigration intake is dominated by people in ages 20-35, relatively few retirees from the labour market would be migrants who arrived after 2001. Between 2008 and 2016, far more than 474,000 Australian-born and migrants who arrived prior to 2001 would have retired.

An indication of the annual number of potential retirees from the labour force is that in 2016, there were some 2.077 Million Australian residents aged between 65 and 74 of whom 21 percent were still in the labour force (ABS Cat: 2071). While mature age participation has been rising (Temple and McDonald 2017)[ccxix], the total number of Australians retiring each year will continue to rise as the baby boomer cohort gets older. The cohort of people turning 65 each year was around 250,000 in 2017 and rising steadily. Annual retirees would significantly reduce the number of annual net additions to the labour market of the Australian-born or migrants who arrived before 2001.

Colebatch's analysis does not consider that as Australia's working age to total population ratio declines, there will continue to be a shift in the balance of the population between:

- a rising portion of retirees, who will be either Australian-born or long-standing migrants who generally came to Australia near the start of their working lives; and
- a declining portion of people of working age - a growing portion of whom will be recently arrived temporary or permanent migrants, especially if the contribution of natural increase to population growth continues to trend downwards.

It is also relevant that people over 55 years of age, who are more likely to be Australian-born or have migrated prior to 2001, are disproportionately represented amongst the long-term unemployed (ABS Cat 6105). They will tend to be people whose skills are most likely not to have kept pace with the needs of a technologically advanced labour market.

A more in-depth demographic accounting analysis of the take up of jobs by of migrants versus population change without migration between 2011 and 2016 has been undertaken by McDonald (2017)[ccxx]. McDonald uses the ABS Labour Force Surveys of 2011 and 2016 to "decompose changes in total employment in Australia in this five-year period into three components:

1. Change in the age and sex distribution in the absence of migration.

2. Changes in employment participation rates by age and sex.

3. Net migration by age and sex for the period 2011–2016".

The results from this are summarised by McDonald in Chart 2.7.

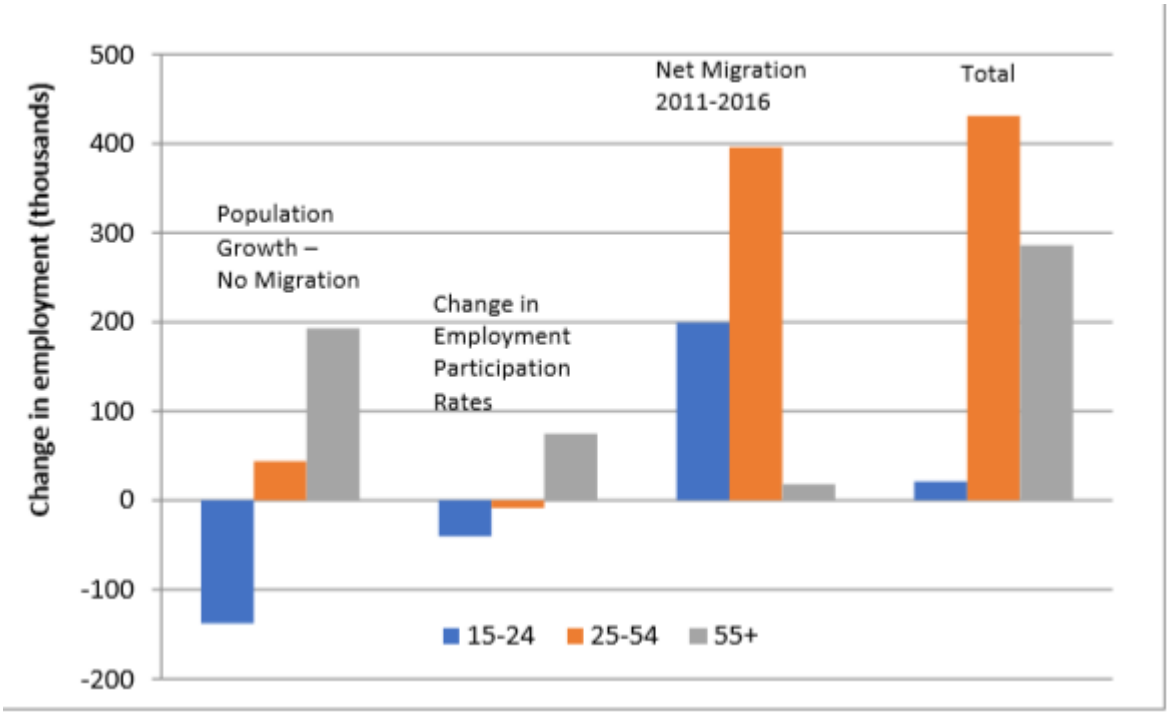


Chart 2.7: Decomposition of the change in the total number of people employed in Australia between June 2011 and June 2016, Source: From P. McDonald, 2017

McDonald (2017) finds that total employment over this period increased by 738,800 which is an increase of 6.8 percent (total employment in Australia in July 2011 was 10,890,700). He notes that this analysis does not seek to identify how many of these jobs were the result of the demand effects of immigration.

Chart 2.7 shows that the largest increase in employment associated with population growth without migration was amongst those aged 55+ whilst there was a sizeable in reduction in employment for people in ages 15-24. All of the employment increase for people aged 15-24 was due to migration, most likely overseas students and working holiday makers.

Against this background, and given the high rate of youth unemployment in Australia, McDonald poses the obvious counterfactual question: "had there been zero migration at these ages, would Australian employers have opted to employ unemployed non-migrants aged 15–24 to a much greater extent, or would total employment have been lower?"

Young unemployed Australians have essentially three options open to them. Resume studying with government support if available; get a job; or remain on Newstart.

McDonald (2017) notes that because of the way the Newstart allowance works, young unemployed Australians would need to find longer-term, full time work as temporary part time work would result

in them losing part of their Newstart allowance and require them to constantly be re-checking into Centrelink.

He considers that "given the structure of the labour market at these ages, such jobs are hard to find. As the skills requirements of the Australian labour market have shifted upwards, skilled workers are rarely aged under 20, or even in their early twenties, and the opportunities for low-skilled, full-time work at these ages have fallen dramatically… Young unemployed Australians have a low-skills problem in a skilled labour market and the social security system makes it difficult for them to take part-time, short-term jobs. While there may be some instances of displacement, the broad story is that they are not pushed out of jobs by migrants."

McDonald's arguments are supported by the fact youth unemployment in Australia is much higher in regional areas where there is little immigration and lower in the major cities which are the focus of most immigration to Australia. Like the situation in most developed and emerging countries, young people continue to move from regional areas of high unemployment to the major cities where there are more job opportunities, including more permanent well-paying jobs.

The Productivity Commission (2016) is also circumspect on the issue of displacement of locals. It says "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".

The literature on the impact of immigration on economic growth as measured by GDP growth and per capita GDP growth is extensive. Economists generally note immigration will almost always lead to GDP growth but may not always deliver per capita GDP growth. While there are well documented shortcomings in using per capita GDP growth as a measure of the impact of immigration (Productivity Commission 2016), this remains the most common prism through which the economic impact of immigration is considered, including in terms of the possible use of immigration to ameliorate the impact of ageing.

In a 2012 CEDA Report, Pincus and Sloan[ccxxi] conclude that "the consensus of the Australian research on the economic impact of population growth and migration is that it is small, benign and long term. There are however, vigorous dissenters from this viewpoint, who point to the absence in the modelling, of mechanisms through which sheer size can be an economic advantage. This is via economies of scale or scope and via induced technological change".

In 2015, the Migration Council of Australia (MCA)[ccxxii] commissioned modelling work based on the Population, Participation and Productivity framework used by Treasury in its 2002 Intergenerational Report. This found that "Australia's projected population will be 38 million by 2050 and migration will be contributing $1,625 billion (1.6 trillion) to Australia's GDP. Moreover, migration will have added:

- 15.7 per cent to our workforce participation rate;
- 21.9 per cent to after tax real wages for low skilled workers; and

- 5.9 per cent in GDP per capita growth.

Overall, by 2050, each individual migrant will on average be contributing approximately 10 per cent more to Australia's economy than existing residents."

By contrast, a 2016 report by the Committee for Economic Development of Australia (CEDA)[ccxxiii] finds "economic modelling generally shows that the benefits of migration are relatively small and any net benefits are captured by the immigrants themselves. However, recent modelling conducted for the Immigration Council incorporating agglomeration benefits associated with migration finds a more significant net contribution to the Australian economy."

Using its modelling, the Productivity Commission (2016) finds that if net overseas migration is maintained at its long-run average, by 2060, "real gross domestic product (GDP) per person is projected to be some 7 per cent ($7000 in 2014 dollars) higher than if NOM was set to zero. In practice, this result cannot be extrapolated — limits on Australia's absorptive capacity in terms of economic, social and environmental factors mean the modelling results do not shed light on the likely economic impact of very high rates of immigration – a higher employment to population ratio associated with immigration will relieve some of the pressure of ageing on government expenditures (as a proportion of GDP), and moderate wage pressures particularly in high growth sectors".

CEDA (2019)[ccxxiv] also models the impact of immigration on wages and employment using a national skill cell approach dividing up the working age population into five parts (high school dropouts; high school graduates; high school dropouts with certificate or diploma level qualifications; high school graduates with certificate or diploma level qualifications; and bachelor and post-graduate degree holders). The CEDA analysis adjusts for age of entry into the labour market and time in the labour market divided into 8 different length of work experience categories and uses data from the ABS's biennial Survey of Income and Housing (ie more frequent than Census data).

CEDA (2019) finds "a positive relationship between immigration and labour force participation rates in all specifications of our model, implying that recent migrants have not harmed the outcomes of local workers. To the contrary, migrants' presence in the labour market is associated with positive labour force participation outcomes for local workers". The report also finds that "concerns that recent waves of migrants put downward pressure on wages for local workers is not supported by the data and evidence at hand".

Brell and Dustmann (2019) note the most common approach to studying the impact of immigration is through its impact on wages using models where the supply of labour from local residents is fixed. But they also note that:

- if the supply of labour from local residents is elastic, there will also be an employment response to the immigration shock;
- if the supply of capital is elastic, there will be no direct effect on the wages and employment of local residents;
- if there are shortages of particular skills, immigration of people with those skills can lead to additional benefits through complementarities;
- immigrants of course also have demand effects that are particularly important for non-traded industries, particularly service industries.

Immigration and innovation/productivity/business creation

Saxenian (2002)[ccxxv] notes the over representation of immigrants in the US, particularly from China and India, in high technology firms and among high skill workers more generally. Brunello et al (2007)[ccxxvi] find that in the US, around 20 percent of natural scientists and engineers are overseas born and that 27 percent of US Nobel Prize winners in the natural sciences are overseas born.

Hunt and Gauthier-Loiselle (2010)[ccxxvii] show that high skill immigrants have high patenting rates and they also appear to induce higher rates of patenting amongst high skill local residents working in the same fields. They argue that the rise in skilled immigration in the 1990s may have increased US GDP per capita by two percentage points although there are clear limitations to assuming more patents drive greater productivity.

Comparing the situation of US states close to the Mexican border and points of entry with states that are further away, Peri (2009)[ccxxviii] finds "robust evidence immigrants increased total factor productivity… immigrants promoted efficient task specialization, thus increasing TFP and, at the same time, promoted the adoption of unskilled-biased technology as the theory of directed technological change would predict. Combining these effects, an increase in employment in a US state of 1% due to immigrants produced an increase in income per worker of 0.5% in that state".

Hunt (2011) finds that immigrants are 30 percent more likely to start a business that have 10 or more employees within five years of start-up. Lewis (2011)[ccxxix] notes that a much higher portion of immigrants work in immigrant owned businesses and links this to language skills (although cultural factors may also be relevant).

The Panel on the Economic and Fiscal Consequences of Immigration to the USA (2017) finds "the infusion by high-skilled immigration of human capital has boosted the nation's capacity for innovation, entrepreneurship, and technological change. The literature on immigrants and innovation suggests that immigrants raise patenting per capita, which ultimately contributes to productivity growth. The prospects for long-run economic growth in the United States would be considerably dimmed without the contributions of high-skilled immigrants."

Lofstrom (2017) says "the emphasis on entrepreneurship and small and startup businesses as key engines in job creation, innovation, and economic growth has a long history, going back to Adam Smith. Not surprisingly, governments around the world view promoting entrepreneurship as a national and local priority. The interest is driven primarily by evidence that small and young businesses create a disproportionate share of new jobs in the economy, represent an important source of innovation, increase national productivity, and alleviate poverty (Reynolds 2005, OECD 2005, U.S. Small Business Administration 2011, Decker et al. 2014). A frequently held view, often supported by research, is that immigrants are especially entrepreneurial, a sentiment commonly shared by policymakers and reflected in immigration policies. Many developed countries, including the United States, have created special visas and entry requirements in an attempt to attract immigrant entrepreneurs" (Fairlie and Lofstrom 2015).

Between 2000 and 2014, the total number of self-employed in the United States grew by about 1.4 million, a growth of about 12 percent. Lofstrom says "most noticeable is that immigrants accounted for about 1.3 million of the added number of self-employed individuals in the United States. In other

words, more than 90 percent of the total growth in self-employment between 2000 and 2014 can be attributed to immigrants".

But more significantly, in the period after the GFC, the number of US born who were self-employed fell 1.269 million while the number of overseas-born who were self-employed increased by 0.272 million. Lofstrom finds these changes were across all skill levels. The most common industry for both US-born and overseas-born low skilled self-employed is construction. For the overseas-born, this is followed by private household work, landscaping services, building services, restaurants and child care.

Ottaviano and Peri (2006) consider a model that defines immigrants from different source countries as a different skill. They find this has a direct positive productivity effect. Alesina et al (2013) examines the effect of country of birth diversity across countries in the world and find a similar positive effect while Trax et al (2013) examine this relationship at the firm/plant level. Lewis and Peri (2014) argue there is significant evidence for this effect although they concede more research on this is needed.

Lofstrom (2017) finds high skill immigrants operate businesses in very different industries including health care, consulting, computer systems design, legal, engineering and architectural services.

He also notes:

- It is common to find limited English proficiency among both self-employed immigrants lacking a high school credential and those with no education beyond high school.
- Self-employed who are Asian increases with educational attainment among both foreign-and U.S.-born, but is especially noticeable among immigrants.
- Most self-employed immigrants reside in just four states—California, Florida, New York, and Texas.
- A relatively small share of US-born business owners are from minority groups.
- Only high-skilled immigrant business owners work more hours per week than US-born entrepreneurs with the same level of educational attainment.
- On average US-born self-employed business owners have higher annual earnings than self-employed immigrants – but the gap decreases with educational attainment.

In a study of UK firms in service industries, Ottaviano, Peri and Wright (2018)[ccxxx] find immigrants to the UK had reduced costs and increased firm level productivity allowing firms to produce and export more. They also find immigrants had brought country-specific skills that firstly substituted for the import of services that had previously been either off-shored or imported and that these skills had also enabled increased exports back to the immigrants' country of origin.

Lin (2019)[ccxxxi] examines the impact of high skill migration to the US on the occupational structure of native-born workers in US cities. He finds that overseas-born college graduates working in STEM occupations "where they hold a comparative advantage over native-born workers, increase the specialization of college natives in social-intensive tasks". While finding no evidence of displacement effects, Lin does find "evidence of positive wage effects of foreign STEM flows on college natives, particularly for those in high social occupations".

In Australia, Chen, Sinnewe and Kortt (2018)[ccxxxii] argue a range of factors drive immigrants to establish a business that differ from those driving local residents, including 'necessity entrepreneurs' (ie migrants who may face discrimination in the labour market choosing to set up their own business); and migrant business owners operating within an ethnic enclave can have an advantage over business owners from outside the relevant ethnic group.

Breunig, Deutscher and To (2017) note that "the balance of skilled to non-skilled migrants has shifted markedly to the former, with migrants having higher qualifications and greater English-language ability than in the past. There is a close association between skills and productivity such that today Australia's migrants are likely to be more productive on arrival in Australia than in the past".

Concentration of immigrants in specific localities

Like other migrant settler nations, the USA has areas with very high immigrant concentrations (eg in 2011, California hosted around 25 percent of the US overseas born population but only 9 percent of US born; New York had around 14.5 percent of the overseas born in the US but only 5.5 percent of US born) as well as states with very low concentrations (eg in West Virginia there was one overseas born for every 99 US born in 2011).

The concentrations are even more extreme in some cities. For example, almost 40 percent of Miami and Los Angeles residents in 2011 were overseas born while other cities such as Johnstown, Pennsylvania and Billings, Massachusetts had less than 1 percent overseas born.

The situation is similar but perhaps not as extreme in Australia where Sydney, Melbourne and Brisbane have far higher concentrations of recent arrivals than cities such as Adelaide and Hobart (ABS 2016 Census).

It can be tempting to draw conclusions about the relative economic success of cities such as Los Angeles and Miami compared to Johnstown and Billings, or Sydney and Melbourne compared to Adelaide and Hobart, as being linked to immigration. As Lewis and Peri (2014)[ccxxxiii] point out "a booming economy attracts more worker and more firms. If immigrants respond more vigorously to economic incentives than natives, an increase in their share of the population may be a consequence (and not a cause) of regional economic success".

Lewis and Peri (2014) note that in the US, immigrants are over-represented:

- in the major cities and under-represented in rural areas;
- in very high education (ie Phds) and very low education (ie less than high school diploma) groups;
- amongst the younger portion of the labour market (ie 18-35); and
- in manual/physical occupations requiring limited education as well as in science; technology and maths related amongst occupations requiring higher education – the latter may be a function of language skills.

They note three potential consequences from the above:

- local residents with skills and in occupations similar to those where immigrants concentrate will experience greater competition for jobs while those in other occupations will experience a beneficial impact depending on the complementarity between skills as well as demand effects;
- a differential incentive for local residents to move away from or to locations where immigrants are concentrated depending on skill complementarities or competition;
- firms will adopt different technologies, techniques or products to take advantage of the additional skills that become available.

For cities/locations with large inflows of less educated immigrants, Lewis (2011) shows that firms have fewer incentives to adopt techniques or technologies such as automation that may be a substitute for manual labour.

Peri (2011) examines the impact of immigration on poverty rates among existing residents. He finds "for all plausible parameter values there is essentially no effect of immigration on native poverty at the national level. At the local level, only considering the most extreme estimates and only in some localities, we find non-trivial effects of immigration on poverty. In general, however, even the local effects of immigration bear very little correlation with the observed changes in poverty rates and they explain a negligible fraction of them."[ccxxxiv]

Card and Rafael (2013)[ccxxxv] note that "immigration could increase or decrease poverty, but the correlation in the trends of immigration and poverty makes some believe that more immigration creates more poverty and that immigration should be restricted as a result. Immigration may increase poverty through composition - immigrants are poorer than natives, and increasing the number of poor immigrants increases poverty or by increasing job competition, immigrants may create more poverty among natives".

Chassamboulli and Palivos (2014)[ccxxxvi] find that when immigrants have few employment options outside their current job and/or have lesser bargaining power than locals, they will be paid less even if they have identical productivity to locals. This suggests firms that hire more immigrants will earn a larger surplus per vacancy filled. This may lead to more job creation some of which may be filled by locals on higher wages thus increasing inequality. Or it may lead to an increase in retained earnings with no additional job creation if there is insufficient demand or existing spare capacity.

Card and Rafael (2013) also note "estimates from 2012 reveal that 14.4 percent of native-born families and 19.0 percent of foreign-born families live below the poverty line. But, of the foreign born who are naturalized citizens, only 12.5 percent lower percentage than the native born live in poverty. On the other hand, nearly one quarter (24.3 percent) of noncitizens live below the poverty line. Some of this difference is related to time in the United States: the longer people have been here, the lower the poverty. The foreign born who have been in the United States for at least 30 years have significantly lower poverty rates than natives".

Lewis and Peri (2014) consider "a change in relative skills caused by immigrants induces a change in relative skill supply of natives (also characterised as specialisation, occupational upgrading, and possibly educational upgrading by natives). It may also induce a change in technologies/techniques adopted which results in a change in relative productivity. Both responses reduce the 'competition effect' of immigrants on similarly skilled natives. And they both increase the surplus received by natives as a consequence of immigration".

Wachter (2017)[ccxxxvii] notes "immigrants prefer immigrant-dense neighborhoods, due to the proximity they afford to people of the same national, ethnic, or linguistic group (Borjas 1992). This clustering does not imply higher house prices or rents in such neighborhoods, however, since native-born residents tend to respond by moving to less expensive neighborhoods themselves".

But Wahcter also says "there are alternatives to this 'native flight' hypothesis, which suggest that the native born find immigrant neighborhoods relatively less attractive and that this attitude is responsible for the association between immigrants and relatively lower neighbourhood house prices. Other potential explanations include:

- Changes in housing quality,
- Reverse causality (that is, immigrants moving to neighborhoods with falling prices), and
- Omitted variables.

Fiscal impact of immigration

The fiscal impact of immigration has been a long standing focus of public debate.

Borjas and Trejo (1991) find that "immigrants were slightly less likely than natives to receive cash benefits in 1970. By 1990, the fraction of immigrant households on welfare was 1.7 percentage points higher than the fraction of native households." They suggest this trend reflected the declining skill level of immigrants to the USA at a time when post-school skills were becoming increasingly important to success in the labour market.

Not surprisingly, the US Census data shows refugee groups have a higher propensity to access welfare in the early years after arrival and this can continue to ten years after arrival.

The question of whether immigrants as a whole 'pay their way' in terms of fiscal impact is also disputed in the USA. Passel and Clark (1994)[ccxxxviii] conclude that immigrants pay $27 billion more in taxes than they take out of the system, while Huddle (1993)[ccxxxix] claims immigration increases the tax burden by about $40 billion annually.

The differences lie in different assumptions about the budget impact of immigrants. Huddle for example assumes immigrants displace locals in employment and that this must be counted as a cost of immigration while Passel and Clark make no such assumption. Also relevant are assumptions about the average age of arrival of immigrants, skills and qualifications, prior periods on temporary visas, impact on congestion and how costs to upgrade infrastructure are attributed to immigrants.

Crucial to these findings is the human capital immigrants bring (or develop while on temporary visas such as students) and therefore the issue of migrant selection.

The US Immigration Act of 1990 thus sought to "create a selection system that would meet the future needs of the economy by moving away from a near-total focus on family-based immigration and toward admission of more immigrants based on their skills and education."[ccxl]

The Act sought to build on the ideas contained in the 1981 recommendations of the Select Commission on Immigration and Refugee Policy which were not implemented in the Immigration Reform and Control Act 1986. It focused on three main streams of immigration: family sponsored; employment based and diversity-based but largely left the refugee and asylum stream untouched.

The 1990 Act ostensibly set an overall cap of 700,000 permanent resident visas which was to be reduced to 675,000 from 1995. This comprised 480,000 family sponsored migrants, 140,000 employment based visas and 55,000 diversity visas.

The cap on family sponsored visas, however, exempted immediate relatives of US citizens (ie spouses and dependent children) which meant that it was not a hard cap and indeed has been breached in every year since it was established (US Immigration and Naturalisation Service Yearbook 2014).

The 1990 Act achieved only a modest shift in the balance of the permanent intake. The portion of family sponsored migrants fell from 68 percent in 1990 to 64% in 2014 while the portion of employment based visas increased from 9 percent to 15 percent over the same period (part of this included a strong increase in the immigrant investor category).

Successive US Administrations have sought to reform the legal immigration system but with limited success. Dissatisfied with the skill balance of legal immigration, President Trump (16 May 2019) has proposed to "create a fair, modern, and lawful system of immigration". A key feature of the proposal is to almost eliminate all family-sponsored migration other than immediate relatives (ie spouses and dependent children of US Citizens and permanent residents) and replace the existing employer based visas with a points system. The overall number of permanent visas would remain at around current levels.

Dustmann and Frattini (2014)[ccxli] use the UK Labour Force Survey to determine the probability of immigrants receiving benefit payments or tax credits and living in socially provided housing. They identify migrant cohorts from 1995 to 2011 dividing them between those from the European Economic Area (EEA) and those from outside the Area. They then assign each item of government expenditure and source of government revenue to each cohort. This provided a basis for comparison with the net contribution of natives.

Drawing on this data, Dustmann and Frattini (2014) they find that over the period 1995 to 2011, the net fiscal contribution of immigrants from the EEA was 10 percent higher than natives while the net contribution of those from outside the EEA was 9 percent lower than natives. But over the period 2001 and 2011, the "net fiscal contributions of recent A10 immigrants (ie from core EU countries) amounted to almost £5 billion, those of the other recently arrived European immigrants to £15 billion, and those of recent non-European immigrants to a total of over £5 billion. Remarkably, over the same period, the natives' fiscal cost amounted to almost £617 billion".

Dustmann and Frattini (2014) consider the key to this finding is that immigrants bring with them educational qualifications paid for by other countries. They find that "between 1995 and 2011 European immigrants endowed the UK labour market with human capital that would have cost £14 billion if it were produced through the British education system".

In an unpublished note, Rowthorn (2014)[ccxlii] considers the Dustmann and Frattini (2014) analysis to be flawed due to:

- not taking into account the cost of displacement of natives noting such displacement is more likely amongst the lower skilled – similar to Huddle (1993);
- not taking a net present value approach to all future costs and revenues, including those of the descendants of immigrants – while not including descendants of immigrants, Australia's Productivity Commission does take such an approach;

- not ascribing the marginal cost of some government expenditures such as transport infrastructure to immigrants – of source infrastructure spending is a capital investment and thus also generates an on-going asset unlike government consumption expenditure.

But the key shortcoming of the Dustmann and Frattini (2014) analysis is that it does not consider the fiscal impact between different visa categories of immigrants (perhaps because such data was unavailable in the UK).

From the 1990s and early 2000s, the Australian Government effected a significant shift in the balance of the permanent migration program towards skilled migration. The Government also extended the waiting period for access to social security to two years. Part of the rationale for this was to improve the fiscal impact of immigration. From the mid-2000s, the Department of Immigration commissioned Access Economics (later Deloitte Access Economics) to upgrade an internally developed model of the impact of different categories of immigration on the Commonwealth Budget (Rizvi 1998)[ccxliii].

The Deloitte Access Economics model was updated in 2016 by the Productivity Commission to make it into a life-cycle net present value model. The Productivity Commission (2016) noted that "immigrants are both contributors to government revenue and recipients of government-funded services and benefits…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… 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".

International students

International students are the fastest growing part of the global higher educational system. For Australia, they have represented around 40 percent of net overseas migration for most of the last 15 years (ABS Cat 3412).

According to Freeman (2014)[ccxliv], "between 1975 and 2010 the number of international students increased nearly seven-fold, producing a growth rate about three times as large as that for tertiary education students worldwide. As the lead scientific country and highly desirable location for educated workers, the US is a major attractor of international students in science and engineering. In 2011 21% of S&E students enrolled outside their country of origin were enrolled in US institutions of higher education. The top supplying countries for international students were China and India, with the Chinese concentrated in the science and Indians in engineering. Many international students obtain work visas to remain in the US for the early years of their scientific careers. Many become permanent immigrants".

The situation in Australia is much the same. Ellis (2017)[ccxlv] finds "recent migrants have a different profile to the incumbent Australian population. They are generally younger, and the youngest age group are significantly more likely to have non-school qualifications. This is possibly because so many recent migrants initially arrive on student visas and then stay. In line with that, service exports in the form of education have grown rapidly over the past few decades…Older migrants are on average less likely to have such a qualification than existing residents in the same age groups, but they are a small fraction of all migrants. The average education level of newly arrived Australians is actually higher than that of existing residents, precisely because they are younger. So Australia's

migration program is structured in a way that, in principle at least, it can grow the economy while raising average living standards".

Birrell (2018)[ccxlvi] notes "between 2012 and 2016 the number of commencing overseas students in Australian universities increased from 85,497 to 124,150. As a result, the share of commencing overseas students to all commencing students increased from 21.8 per cent in 2012 to 26.7 percent in 2016. The overall figure hides a spectacular increase in the dependence of Group of 8 (Go8) universities on overseas students. In the case of the University of Sydney, this share increased from 22.8 percent of all commencing students in 2012 to 39.2 percent in 2016. This outcome was similar for the University of Melbourne, Monash University and the University of NSW where, by 2016, the share of commencing overseas students to all commencing students was 36.2 percent, 36.5 percent and 38.7 percent respectively".

This, Birrell (2018) argues, puts these universities in a precarious state. Firstly because Birrell considers Go8 universities are catering for mainly "Chinese students whose English language skills are weak" and this risks reputational damage while non-Go8 universities are vulnerable to a change of regulations regarding access to work visas and eventual permanent residence after graduation.

Birrell (2019)[ccxlvii] considers high levels of youth unemployment in Australia reflect the impact of surging overseas student numbers which are also putting downward pressure on wages and pushing up accommodation costs in the major cities. He asserts "many thousands of overseas students are being enrolled who do not hold the funds needed to finance their stay in Australia for more than a short period. They have to rely on obtaining employment here. They have created an underclass of workers with little choice but to accept whatever terms employers are prepared to offer".

Birrell (2019) goes on to assert that "most of those holding an overseas student visa do not possess professional or trade qualifications accepted in Australia. And because they hold temporary visas employers are usually only willing to recruit them on a casual or part-time basis. Most of these students have no choice but to enter low skilled labour markets".

Birrell is certainly right to highlight the risks of students and other temporary migrants being exploited and underpaid. But is he right that students are displacing locals in the labour market or has he succumbed to the 'fixed number of jobs' fallacy that Lewis (2017) points to?

Youth unemployment rates are much higher and wages growth much lower in areas of Australia with very little immigration and even fewer overseas students. For example, the areas in Queensland that have the lowest rates of youth unemployment (and relatively higher wage) are in Brisbane while the areas in Queensland with the highest rates of youth unemployment are in regional areas such as Townsville, Wide Bay and Outback Queensland (Qld Government Statistician's Office drawing from ABS Cat 6291). It is these regional areas that receive relatively little migration, particularly international students.

Young Australians continue to move from areas of high youth unemployment to the major cities (see ABS Census and Cat: 3218) where there are greater job opportunities, including as a result of the demand effects of higher migration.

Skilled temporary migration

The world's most famous skilled temporary visa is the USA's H-1B.

The 1990 Immigration Act capped H-1B visas at 65,000 new visas per annum. H-1B visas are for a period of up to 3 years. But when new and continuing H-1B visas are considered (ie including H-1B visas for periods beyond the initial visa), the numbers climbed significantly to 172,748 in 2015.[ccxlviii]

H-1B workers are required to have "exceptional skills that firms cannot otherwise easily obtain" and a legal obligation that employment of an H-1B worker "will not adversely affect the working conditions of workers similarly employed".

Nevertheless, as is the case of Australia's skilled temporary sub-class 457 (now 482) visa, views in the US on H-1B are polarised. For example, in congressional testimony, former Microsoft Chairman Bill Gates argued that "H-1B workers have special, innovative skills and that technology firms on average hire five additional employees to support each new H-1B worker" (Gates 2008, based partly on National Foundation for American Policy 2008).[ccxlix]

The Gates view is backed up by Kerr et al (2013)[ccl] focussing on data for larger firms and high patenting firms. They find "evidence that increased employment of young skilled immigrants raises the overall employment of skilled workers in the rm, increases the immigrant share of these workers, and reduces the older worker share of skilled employees. The latter effect is evident even among natives only. As to whether the older worker skilled employment increases or declines in absolute level, the evidence is mixed but suggests that absolute declines are not likely. These estimates suggest that age is an important dimension on which rms make decisions and that there may be lower complementarity between young skilled immigrants and older domestic workers. This finding is consistent with some of the arguments made in the public debate about skilled immigration and suggests that age is an important dimension along which immigration may have heterogeneous impacts."

An alternative view is that of Dorn et al (2014) who note "if an H-1B is employed rather than another worker, and the alternative worker otherwise would have innovated at the firm as much as the H-1B, then we would not expect innovation or employment to increase at the firm that received the H-1B. Moreover, many H-1Bs are not in scientific industries, and many H-1B workers perform jobs (eg technical support) that might be expected not to lead to innovations in the great majority of cases. Economic theory predicts that firms will apply to hire an H-1B worker as long as this increases the firm's profit in expectation. H-1Bs could increase the firm's profit even if they have no effect on the firm's innovation and/or crowd out other workers to some extent, as in the case studies in Matloff[ccli] (2003) or Hira[cclii] (2010)—for example, if the H-1B is substitutable with other workers and the firm pays the H-1B less than the worker whose employment is crowded out. Firms submit legal attestations that they will pay the H-1B a "prevailing wage" comparable to other similar workers, but it is possible that these regulations are ineffective in some cases. Indeed, profit-maximizing firms apply for H-1Bs even though they must pay a fee to the U.S. government to apply, suggesting that H-1Bs are paid less than alternative workers with the same marginal product of labor."[ccliii]

Looking at the experience of firms in the USA that were successful in accessing H-1B workers via the lotteries that applied in 2006 and 2007, Dorn et al (2014) find no strong evidence of additional innovation at the firm level, only a modest increase in employment and some evidence for crowding out of other workers in the firm as the H-1B workers were paid less (but crowded out workers may have found employment in other firms) and an increase in the firm's profits.

It is relevant that the Dorn et al analysis looks at workers who were visaed on the day of the lottery and hence are, in Dorn et al's words, 'marginal H-1Bs'. This is because the H-1B cap does not apply to a range of circumstances including U.S. educational institutions; those applying for an extension

of an existing H-1B visa; those who have an existing H-1B visa and are changing jobs during the period the existing visa covers; and citizens of five countries (Australia, Canada, Chile, Mexico, and Singapore), who are in effect not bound by H-1B limits. It is possible the wider pool of H-1B workers would have different effects particularly if they have greater experience in the US labour market.

The controversial nature of the H-1B visa has led to frequent changes to its design. In 1999, Congress:

- introduced an additional $500 fee for each sponsored H-1B worker with the funds to go to scholarship and training of US workers;
- temporarily increased the H-1B cap to 115,000 to deal with excess demand;
- introduced the concept of a "H-1B dependent employer" who were required to provide additional evidence that local workers were not being displaced.

In 2000 Congress again increased the H-1B cap to 195,000 for 2001, 2002 and 2003 (and exempted universities and non-profit research organisations from the cap). It also raised the fee to $1,000.

Australia's equivalent, the former sub-class 457, has also undergone significant policy change, especially in 2017-18 when it was abolished and replaced by the new sub-class 482 (see Chapter 7 for further discussion).

Undocumented migration

According to Massey (2017)[cciv], from 1986 to 2008 the undocumented population of the United States grew from three million to 12 million persons, despite a five-fold increase in Border Patrol officers, a four-fold increase in hours spent patrolling the border, and a 20-fold increase in the agency's nominal budget. Whether measured in terms of personnel, patrol hours, or budget, studies indicate that the surge in border enforcement has had little effect in reducing unauthorized migration to the United States (Massey, Durand, and Pren 2014).

President Donald Trump is far from the first US politician to refer to illegal immigration as a threat. President Ronald Reagan in 1985 declared undocumented migration "a threat to national security" and warned that "terrorists and subversives [are] just two days driving time from [the border crossing at] Harlingen, Texas" and that communist agents were ready "to feed on the anger and frustration of recent Central and South American immigrants who will not realize their own version of the American dream".

In response, the US Government dramatically increased funding for border control (Massey, Durand and Pren 2014) from under $300 million in 1970 to almost 4 billion in 2010 (in 2013 prices).

Massey et al (2017) consider this has had a number of effects:

- Reduction in number of border crossings at traditional entry points and increased crossings at more remote and hazardous entry points.
- Increased use if agent (coyotes) to assist with border crossings and increased prices being demanded by these agents - from just over $500 per person in 1982 to 2,700 per person in 2013 prices).
- Modest impact on the probability of being apprehended starting from around 0.37 to 0.42 in the 1970s to a low of 0.21 in 1989 to around 0.44 in 2009 – substantially affected by the effectiveness of agent services (and associated costs).

- Because people who are apprehended and returned are free to try again, the probability of eventual success is high.
- Deaths of people trying to cross the border have fluctuated peaking at 482 in 2005 and 365 in 2010. Massey, Durand and Pren (2016) contend that if the budget for border control and enforcement had been held at its 1970 level, some 5,119 deaths may have been avoided by 2010.

In recent years, the Trump Administration has ramped up spending on border control as well as investment in a more extensive border wall. This has occurred in conjunction with border crossings at the highest level in a decade.

The volume of undocumented workers in Australia has not changed a great deal over the past 25 years at around 60,000 (Home Affairs website). However, following the surge in boat arrivals from 2008-09 and more recently a surge in onshore asylum seekers who arrived initially on visitor visas, there is now a significant number of people in Australia with an uncertain visa status and who are potentially at risk of exploitation (see Chapter 7 and 8 for more details).

Immigration as an adjustment mechanism to slow population ageing

Given the projections of ongoing population ageing, the crucial research question is whether managed migration can successfully be used to slow the rate of ageing in a manner that delivers a net benefit to the host society.

McDonald and Temple (2013) demonstrate the impact of different levels of net overseas migration on both Australia's population growth and rate of ageing – higher levels of net overseas migration deliver faster population growth but a slower rate of ageing.

In its research paper Economic Implications of an Ageing Australia (2005)[cclv], the Productivity Commission found that "larger intakes can start to make appreciable differences to ageing, but only at the cost of unsustainably large population growth".

The question then arises – is there an ideal rate and composition of net migration, and its contribution to population growth, to best manage the impact of ageing? Can such a rate of net migration be calculated and can it actually be delivered?

Fehr, Jokisch and Kotlikoff (2004)[cclvi] use a three region (ie USA, EU and Japan) overlapping generations general equilibrium life-cycle model where capital is mobile but immigration to each region is exogenous.

They find that increasing immigration on the basis of the current skill mix of immigration to each of these regions would be a 'double-edged sword'. While higher immigration would increase the number of workers and thus the number of taxpayers, "more immigrants, particularly low skilled immigrants, demand public goods as well as transfer payments, neither of which is cheap. According to our model, the costs of additional immigrants, assuming they have the same distribution of skills as the current immigrants, roughly equal the revenue gains they engender. On balance, such a uniform expansion of immigration makes essentially no difference to the developed world's demographic transition path. On the other hand, if immigration is expanded primarily among the low skilled, fiscal conditions will significantly deteriorate. The opposite is true in the case of expanding immigration among the high skilled. Unfortunately, materially improving the developed

world's future economic prospects would require massive increases in high-skilled immigrants, all of whom would have to come from the developing world".

Feldstein (2006)[cclvii] comes to a similar conclusion for similar reasons. He finds the "common prescription of increased immigration would do little to reduce the future fiscal burden. The increased revenue from a large rise in immigration would finance only a small part of the coming rise in the cost of pension and health benefits. The only alternative to significantly higher tax rates or substantially lower retirement income is to shift from a pure tax-financed system to a mixed system that supplements the tax financed benefits with benefits based on increased saving financial investment".

Both Feldstein (2006) and Fehr, Jokisch and Kotlikoff (2004) implicitly dismiss the fact countries/regions already compete for skilled migrants (or potential skilled migrants) and that this competition is likely to intensify as ageing progresses. Some countries/regions will be more successful in attracting skilled migrants over others just as some countries/regions are more successful than others in attracting capital investment. They also do not consider that developed countries compete for fee-paying overseas students from emerging economies as well as young working holiday makers (some of whom go onto become permanent residents) and how that may impact on developed economies undergoing population ageing.

Bloom and Canning (2008)[cclviii] highlight the potential for an increase in net migration to ameliorate the impact of population ageing. They consider immigration has "made a significant contribution to improving the ratio of workers to non-workers in the United States…while there may be resistance to longer working lives or to large scale immigration, the economic incentives for one or both of these responses may grow very strong…the challenge with immigration is to devise institutions that turn a large potential efficiency gain into a Pareto improvement by compensating those who lose from the process".

While Bloom and Canning (2008) appear more open to the possibility immigration could assist with ameliorating the impact of ageing, Bloom et al (2015) [cclix] concede that "in view of present political views in most high income countries, increased immigration will probably not appreciably offset the workforce issues posed by population ageing except in a handful of countries".

Withers (2014)[cclx] notes that "Australia's assimilation of people from all around the world in reasonable harmony and prosperity, as much or more than almost any other nation, has been a worthy achievement. Can it continue to be the case?"

He notes that Australia's ability to continue to attract sufficient numbers of skilled migrants – this was indeed the challenge that faced the Howard Government in the late 1990s and early 2000s. As more developed nations enter the competition for skilled migrants, particularly countries such as China and Japan, attracting sufficient numbers of skilled migrants will becoming even more challenging.

Withers (2014) also argues, as he did in the early 1990s, for a comprehensive population policy. That has been an elusive goal for all Australian Governments. The five yearly intergenerational reports are as close as Australia gets to such a policy. But these have increasingly become political documents and less useful from a policy perspective.

Withers notes (2014) that the Business Council of Australia in 2004 argued for population growth in the range of 1 percent to 1.5 percent per annum. While in recent years, Australia's population growth rate has been above this range, current policy settings and the impact of the coronavirus will see Australia's population growth rate falling well below 1 percent and possibly much lower. Even when the crisis is past, current immigration policy settings (see Chapter 9) would see Australia's population growth rate at the low end of the range suggested by the Business Council of Australia.

This would be exacerbated if Australia's fertility rate continued to fall. The rate of natural increase will also fall naturally as Australia's population ages further.

Chojniki and Ragot (2016)"[cclxi] consider "immigration is often seen as an instrument of adaptation for ageing countries". They us a dynamic general equilibrium model to assess "the contribution of migration policy in reducing the tax burden associated with the ageing population in France. Four alternative scenarios, compared with a baseline scenario based on official projections, are simulated with the aim of quantifying the effects of immigration on French social protection finances". They show that "the age and, to a lesser extent, the skill structure of immigrants are the key features that mainly determine the effects on social protection finances. Overall, these effects are all the more positive in the short to medium term if the migration policy is selective (in favour of more skilled workers). In the long term, the beneficial effects of a selective policy may disappear. But whatever the degree of selectivity of the migration policy, the financial gains from higher consequent migration flows are relatively moderate compared with the demographic changes implied by ageing".

An EU Commission Report on Demographic Scenarios for the EU (2019)[cclxii] says "it is important to acknowledge that neither higher fertility nor more migration will stop population ageing because the momentum has been decisively set by past, long-term demographic trends."

The Report also notes that "automation alone may significantly cut the need for labour, calling into question conventional assumptions about what policymakers should target as the 'ideal' size of the labour force." And that "another reason for optimism is the fact that the EU's labour force is clearly becoming better educated over time. In almost all scenarios, the EU's future labour force will be more highly skilled and therefore likely to be more productive and adaptive to an ever-changing job market… already today unemployment is generally higher among the lower skilled and there may be even fewer low skills jobs in the future"

The Report authors argue that "the most feasible and effective remedy to negative consequences of population ageing is neither focusing on higher fertility nor more migration, but rather increasing labour force participation". The authors consider that with people living longer lives, there will also be a significant increase in the participation rate of the elderly.

But the authors of the EU Commission Report does not consider the consequences of nations in Europe falling into the situation of Japan with a sharply declining working age population and constantly declining population (see Chapter 8).

The Productivity Commission (2016) finds "the continuation of an immigration system that is oriented towards younger working-age individuals — particularly in the prime working and family formation ages of 20 to 40 years — can boost the proportion of the population in the workforce and, thereby, provide a 'demographic dividend' to the Australian economy and reduce the impact of

population ageing (figure 10.4). Over the long term, family formation by people in these age groups would further add to the labour supply and reduce the impact of an ageing population".

The key once again appears to be migrant selection and the design of immigration policy. This is emphasised in McDonald and Temple (2013)[cclxiii] on the long-term effects of ageing and immigration on labour supply and per capita gross domestic product in Australia. They conclude that 'to draw a more definite conclusion, if the aim is to optimize GDP per capita growth through to [year] 2053, NOM [net overseas migration] between about 160,000 and 220,000 seems to do this if it is assumed that the migrants' have the same rate of labour productivity growth as the general Australian population".

Thus, McDonald and Temple (2013)[cclxiv] also note diminishing returns to scale in using immigration to ameliorate the impact of population ageing. That is due to the impact of ageing amongst the migrants themselves.

Chapter 3: Immigration Policy Pre Howard Government

Over the period 1930 to 1946, **aggregate** net overseas migration to Australia was less than 10,000 with a number of years in which net overseas migration was negative (eg in 1930 it was negative 9,833 and in 1931 it was negative 12,177). It was negative 11,589 in 1946 (ABS Cat: 3105).

This was combined with a fall in fertility following the Great Depression (ABS Cat: 3105).

The impact of World War II on the fears of the Australian public created a strong consensus amongst the major political parties on the need for Australia to grow its population through immigration.

The way Australian immigration policy evolved after the war was critical to Australia becoming the modern multicultural nation that it has.

From Calwell onwards, successive immigration ministers wrestled with the question of how to determine the most appropriate level, composition and geographic distribution of immigration. Concern focused on labour market outcomes of the immigrants and local residents as well as how to most quickly and successfully absorb the new immigrants into Australian society.

Curtin, Chifley and Calwell

In his maiden Parliamentary speech in 1940, Arthur Calwell[cclxv], who would go onto become Australia's first Minister for Immigration, expressed concern about Australia's declining birth rate and the low level of net migration to Australia during the 1930s. Calwell argued in 1942[cclxvi] that "[i]f we cannot get a population of 20,000,000 or 30,000,000 people in this country within a generation or so by means of immigration and an increase in the birth-rate, the day of the white race in Australia will be finished".

Defence and control of the Australian continent by the 'white race' remained a strong driver for Calwell throughout his career.

Calwell said in his 1945 Ministerial Statement on Immigration[cclxvii] that "[i]t has been proven by hard experience over long periods that the maximum effective population absorption capacity in any expanding country is usually somewhere about two percent…this would mean a migration ceiling of 70,000 a year, assuming that the economy was fully expanded to take the maximum number."

The two percent figure assumed natural increase would contribute around one percent per annum.

The two percent target was in fact quite moderate compared to some. According to Jerzy Zubrzycki (1995) [cclxviii], "[i]n 1942 considerable publicity was given to press reports attributed to 'unknown sources in Parliament' arguing that immigration at 6 per cent of population per annum was desirable. This would add to the population something of the order of 430,000 people per annum."

The more moderate level adopted by Calwell was influenced by Professor LF Giblin who was the Chair of the Commonwealth Financial and Economic Committee. He wrote to the Minister for Post-War Reconstruction in 1942 suggesting that '[w]e should plan to increase immigration to the maximum reasonably possible: about 1 percent of population, something between 50,000 and 100,000 per year (Zubrzyckli 1995)[cclxix]. Queensland Government Statistician Colin Clark in 1943 recommended a net migration target of 70,000 per annum. According to Zubrzycki, this is the origin of Calwell's position.

Calwell's approach was partly dictated by the opposition he expected from the trade union movement and its concerns about employment opportunities for existing residents (and returning servicemen) as well as general concerns about integration of the newcomers within the Australian population. In his 1945 Ministerial Statement[cclxx], he said that immigration must be linked to "the whole social service programme of creating greater economic security and a higher standard of living as an inducement to young Australian couples to have larger families" His concerns about Australia's fertility rate again coming to the fore.

Diversifying the intake

Calwell (1942) [cclxxi] was also conscious of the difficulties encountered by the Empire Settlement Schemes of the inter-war period to achieve the number of British migrants that were sought. He knew some degree of diversification of source countries away from Britain was going to be necessary if an immigration target of 70,000 per annum was to be met. Selling this to the Australian public would be the challenge, especially at a time when Australian troops were being demobilised. They would need jobs in an economy that was growing only slowly and they would need housing at a time of a major housing shortage.

Markus and Taft (2015)[cclxxii] consider that for Calwell, "selling immigration to the Australian public required a government-directed publicity campaign: assimilation was central to this campaign".

Calwell (1945) [cclxxiii] argued for recruiting "people from the various Dominions, the United States and from European continental countries who are sound in health and will not become a charge to the community." While Calwell maintained an official position that a ratio of 10 Britons to every non-Briton would be his aspiration, this ratio was never delivered, either by Calwell or any subsequent Immigration Minister.

Zubryzcki said in 1995 that this was a just a 'smokescreen' as extensive work had been undertaken in 1943 and 1944 by the Inter-Departmental Committee (IDC) on post-war migration on the need for migration from alternative source countries if a target of 70,000 was to be met. Indeed the minutes of an IDC meeting of 5 October 1944[cclxxiv], state "[t]hat in view of the necessity of greatly enlarging Australia's population and the fact that natural increase and British migration are not likely to provide sufficient increase, a vigorous policy of white alien immigration should be adopted and the alien migrant made to feel that he is regarded as an asset and not admitted on sufferance."

A Committee of Cabinet on Migration consisting of Calwell, Dr Evatt and Senator Collinge (then Minister for the Interior) agreed on 11 December 1944[cclxxv] to:

- "A vigorous policy of white alien immigration, complete with an effort to make the individual alien feel he is regarded an asset;
- Assistance to immigrants to meet part of passage costs that maybe necessary to induce good flow;
- A central body of unofficial groups interested in migration to be formed in each State to assist with reception, placement and after-care of migrants, alien and British alike;
- It should be made clear that Commonwealth immigration policy is based on social, economic and cultural grounds and not on any assumption of racial superiority."

While Calwell has a mixed history on the issue of race, he made perhaps one of the earliest decisions that led eventually to abolition of the White Australia Policy. In 1947 he decided "non-Europeans admitted for business reasons, who had lived in Australia continuously for 15 years, could be

permitted to stay without applying for periodical extensions of permits" (Armit 2006)[cclxxvi]. This small group effectively became permanent residents.

They could not, however, apply for citizenship until 1956. The evolution of citizenship policy to encourage migrants to become citizens as quickly as possible would continue until late 2005.

The start of Australia's post-war migration program was at a time when other countries were resisting the acceptance of Jewish people who had been displaced during the war.

Sir Robert Jackson, first head of the UN Relief and Rehabilitation Administration[cclxxvii] said "[b]y May 1945, we had about eight and a half million displaced persons in Europe to look after. Of these, it was possible to return about six million to their own countries fairly quickly. However, no country would accept any of the remaining two and a half millions. Finally, in desperation, I went to Australia and approached the Prime Minister, who was a remarkable man, Ben Chifley. Thanks to his outstanding leadership, the Australian Government immediately accepted one hundred thousand of the displaced persons and in doing so broke the 'log-jam'."

Implementation of the Displaced Persons Program, which inevitably involved the re-settlement of a significant number of people of Jewish background, was not without its critics. Henry ('Jo') Gullett, a Liberal member of the Federal Parliament, said in 1946 that "we are not compelled to accept the unwanted of the world at the dictate of the United Nations or anyone else. Neither should Australia be a dumping ground for people whom Europe itself, in the course of 2,000 years, has not been able to absorb." (Levi 1998)[cclxxviii]

While Calwell himself had no revealed antipathy towards people of Jewish faith, he gave an assurance to the Australian public that no ships bringing migrants to Australia would have more than 25 percent of passengers who were Jewish. (Tavan 2005)[cclxxix]

In announcing this limit to the number of Jewish arrivals, Calwell may have been conscious of the public controversy around the arrival in 1940 of some 2,000 German and Austrian passengers (including some prisoners of war) on the HMT Dunera. The bulk of the 2,000 were of Jewish background. Only some 900 were eventually permitted to remain (Armit, 2006).

Calwell was also conscious that increased immigration was not supported across all parts of the Australian community. "I failed to realise the number of bitter people in our community who were suffering from xenophobia, the hatred or distrust of the foreigner. This particular disease is endemic among all races and among people of all colours. I found that I had powerful enemies in the press world." (Armit 2006).

Calwell countered with a series of publicity campaigns promoting the benefits of immigration. He also stressed the importance of his Department working with the trade union movement as well as chambers of commerce, manufacturers and primary producers.

Recognising the additional assistance displaced persons would need, Calwell introduced a requirement that the migrants must accept employment in a location decided by the Department of Immigration. Concerns about where migrants would settle was an early priority.

He explained that "[t]hey had two years of guaranteed employment, two years of guaranteed accommodation and two years in which to learn the language and customs of the country while they decided where they would finally settle down. After two years, 80 percent remained with the same employers, both government and otherwise. They were quite happy to stay where they had first

been placed. They bought their own houses, established their own families and brought their relatives to Australia to live with them." (Armit 2006)[cclxxx]

George Kiddle, the Department of Immigration officer charged with selecting the initial group of displaced persons in 1947, says in his memoirs "[w]e were to select, from the Baltic states only [the 'beautiful Balts' publicity tag was important to selling a diversified immigration intake to the Australian population], male labourers and farm workers and female domestics and clerks/typists proficient in English…as this was a completely new venture and in order to ensure uniform and high standards of selection, we decided that each applicant would be interviewed by a panel consisting of Colonel Sellers, Bill Barnwell and myself…medical examinations were conducted by two Australian doctors…we were particularly diligent in weeding out former members of the SS." (Armit 2006 from the memoirs of George Kiddle).

The sourcing of migrants from non-English speaking countries presented the challenge of providing them with 'an elementary knowledge of English and to meet their practical everyday wants and in addition some knowledge of Australian civics'. The Immigration Department would co-ordinate these services with the relevant State Education Departments becoming responsible for administration from 1951. (Armit 2006). These were a predecessor to the current Adult Migrant English Program.

The Chifley Government, supported by Menzies, sponsored the *Nationality and Citizenship Act 1948* (later to be known as the Australian Citizenship Act). Immigration Minister Arthur Calwell described its intended effect to the Parliament (Klapdor, Coombs and Bohm 2009)[cclxxxi]: "It will symbolise not only our own pride in Australia, but also our willingness to offer a share in our future to the new Australians we are seeking in such vast numbers. These people are sure of a warm welcome to our shores. They will no longer need to strive towards an intangible goal, but can aspire to the honour of Australian citizenship … My aim, and that of the Government, is to make the word, 'Australian' mean all that it truly stands for to every member of our community. We shall try to teach the children that they are fortunate to be British, and even more fortunate to be Australian."

This legislation repealed all previous legislation relating to nationality and clarified which existing residents were to be made an Australian citizen by operation of law and who could apply to become an Australian citizen. The 'mutual obligation' aspect of citizenship was spelt out during the first citizenship ceremony on 3 February 1949 by the Chief Justice of the ACT Supreme Court, Justice Simpson. He said "you are required to serve and obey the King and he is bound to maintain and defend you." (Armit 2006)

But Calwell and later Menzies realised successful settlement could not be delivered by governments alone. From August 1949, the Good Neighbour Movement was established to encourage Australian community groups to welcome new migrants and assist their settlement (Klapdor, Coombs and Bohm 2009). To encourage the movement, the Department of Immigration developed *The Good Neighbour* bulletin (Museums Victoria 1959)[cclxxxii].

Delivery of settlement services has been a core function of the Department of Immigration for most of its history (other than a brief period under Whitlam and for a longer period under the current Coalition Government when the function had been 'mainstreamed' – it has recently been returned to collocate with the immigration function).

Calwell's task of implementing the post-war migration program was substantially assisted by the support from then Leader of the Opposition, Robert Menzies, who said to Parliament in 1945[cclxxxiii]: "[s]o long as we are a population of only 7,000,000, or within measurable distance of that number,

holding this vast continent, it is absurd for us to pretend that we can describe ourselves in real terms as an independent power. To a major degree, we shall be dependent upon other communities for our very existence and safety. Consequently, from the point of view of Australian independent existence and national integrity, it is vital that our population shall be increased. Whatever vain words may be spoken by those who have ideas on the subject of the birth-rate, it is still completely true that our real prospect of a large increase of population is to be found, as the Minister has pointed out quite clearly, in the possibility of substantial migration."

In October 1949, Prime Minister Chifley announced establishment of a Commonwealth Immigration Planning Council with representatives from employer groups, trade unions, administrators and academics. This Council was charged with:

- "[p]lanning and reviewing programs in absorbing migrants into industry and developmental projects. This included the Snowy Mountains Hydro-Electric Scheme on which work had started that month.
- Advising on ways in which immigration can contribute to a desirable pattern of development in Australia with due regard to decentralisation and the general distribution of the population.
- Examining major problems and difficulties connected with the employment and accommodation of migrants." (Armit 2006)

Menzies, Holt, Gorton and McMahon

As it turned out, Chifley and Calwell, followed by Menzies, Holt, McEwan, Gorton and McMahon, were remarkably successful in boosting immigration planning levels well above Calwell's 70,000 per annum target. (DIBP website – Historical Migration Statistics).

Apart from a brief period in 1952-53, the 23 years of Coalition Government coincided with the longest period of continuously high rates of both immigration and natural increase since Federation (ABS Cat 3105).

To meet the growing intake targets, the Immigration Department implemented extensive publicity campaigns, particularly in the UK and Ireland, on the benefits of migration to Australia, including through an assisted passage scheme, initially for British migrants (Department of Immigration 1946)[cclxxxiv]. These campaigns were in competition with similar campaigns being run by South Africa, Canada and New Zealand.

Directing where migrants work and settle

Soon after becoming Prime Minister, Menzies in 1951 restructured the Migration Program to give the Government greater capacity to direct where and in what industries migrants would work (eg on the Snowy Mountains project) – an extraordinary level of government intervention in how the economy worked. This was done through treaties with a range of European countries including the Netherlands and Italy. These treaties were extended to West Germany, Austria, Belgium, Greece and Spain in 1952. All of these treaties gave Australia the ability to select the skills needed and to direct where the migrants initially settled and worked (Armit 2006).

Skills assessment and recognition

One of the thorniest (and ongoing) challenges the new Immigration Department would face was assessment of the skills of potential migrants and the subsequent recognition of those skills after arrival. To assist with trade skills assessment, qualified tradesmen were appointed to Australian migration missions in a growing range of countries. In terms of professional qualifications, the first

Australian Citizenship Convention in January 1950 recommended that "[r]epresentation should be made to State Government registration boards and other competent authorities that new Australians holding professional qualifications of repute should be admitted to registration for their respective callings, after passing the appropriate examinations and following a reasonable period of training." (Armit 2006)

ALP's fertility and naturalisation Policy

The ALP's 1951 policy platform continued to reflect a strong desire to also see an increase in the birth rate. The platform stated "[t]hat as the Australian baby is the best immigrant, we urge the Federal Government to give further economic encouragement to young people to marry by providing marriage loans to a maximum of £400 for each couple requiring assistance. The loans to be at a low rate of interest, and to be cancelled at the rate of £100 for each child."

The platform also said the "Federal Parliamentary Labor Party [should] press for amendments to the Naturalisation Act to enable New Australians being brought into the country under the present migration scheme to apply for naturalisation at the end of two years' residence in Australia, and that the fee charged be not more than £1." (1951 ALP Conference Proceedings)[cclxxxv]

Secretary of the Department of Immigration, Tasman Hayes, said in 1952 that "a high rate of naturalisation would be evidence of the success of our immigration policies." (Armit 2006). This view would remain at the core of citizenship policy until 2005.

However, low numbers of migrants becoming Australian citizens persisted. In 1955, a media article suggested migrants would not "have any truck with the Australian way of life" and "did their utmost to bind their children with old national ties" (Klapdor, Coombs and Bohm 2009)[cclxxxvi].

Amendments to the Nationality and Citizenship Act in 1955 removed many obstacles to citizenship including Declarations of Intention to apply for citizenship no longer had to be made two years before the application and applications could be made six months prior to the end of the five-year residency qualifying period. Other changes included removing the requirement for intending applicants to advertise their intentions in the newspaper. These brought a significant increase in those becoming Australian citizens jumping from 4,770 in 1954 to 49,087 in 1959 (Klapdor, Coombs and Bohm 2009).

Overseas students – Colombo Plan

According to Burke (2014)[cclxxxvii], "whilst official records indicate that students from Asia have undertaken tertiary education at Australian institutions since 1904, the formal International Student Program is considered to have its origins in the 1950 Colombo Plan".

Prior to the Colombo Plan, (Waldron 1992) [cclxxxviii] students entering Australia did so under the 'Aliens Clause' and were required to be nominated and guaranteed by an Australian resident. But this Clause could not be used as the basis for the much larger Colombo Plan. New arrangements had to be in place to facilitate entry of these students.

Menzies announced in 1951 that Australia would participate in the Colombo Plan for Economic Development in South East and South Asia. That led to around 3,000 to 4,000 students from these regions coming to Australia annually during the early 1950s on condition that they returned home at completion of their study in order to assist with economic development. Many were on scholarships but there were also privately funded students (Jones 1986) [cclxxxix].

These Colombo Plan students would be amongst the first non-Europeans to be officially allowed entry to Australia since the start of the White Australia Policy following Federation.

Jones (1986) describes the objectives of the Plan as "the fostering of international understanding through student mobility [and] the stimulation of social and economic development through training in Australia for Asian students...ensuring that students temporarily admitted to Australia returned home promptly on the completion of their studies."

In a challenge that would repeat itself many more times in Australia's history, the first group of graduating Colombo Plan students in 1955 had to be forced to leave Australia.

Of the requirement to return home, Burke (2014) says "analysis of Australian newspaper texts during the 1950-1973 period reveals that – at least within the confines of the media – this requirement was the source of some debate. Support for the policy co-exists within the media alongside calls for international students to have the opportunity to remain in the country following graduation both as expatriates undergoing workplace training and as potential 'Australians'. As such, I argue that media discussion of the requirement for students to return home after graduation not only provided a forum for the contestation of the broader issue of Australian immigration policy, but also facilitated the articulation of beliefs regarding Australian 'national identity'".

Brisbane's Courier-Mail (1954) [ccxc] made its views very clear on the issue of students from Asia being allowed to remain. "An immigration policy which has spared this country problems that now appear almost insoluble to other countries that have tried to blend peoples who are racially [sic] and culturally exclusive when they become sufficiently numerous to build up their own communities."

By contrast, in a letter to the Editor of the Argus (1954) [ccxci], one writer argues "it has been our privilege to give part-board to three Asians who are studying here under the auspices of the Colombo Plan…As a result of this contact, my family and I feel strongly that if any such Asians did wish to settle permanently in Australia, this country in its refusal to admit even a quota of Asian migration is doing itself a real disservice."

Response to rising unemployment

With the unemployment rate 'climbing' to 2% and hitting low skilled migrants with poor English hardest, Menzies cut the assisted passage program from a planned 150,000 to 75,000 in 1952-53 (Home Affairs website – Historical Migration Statistics).

In that year, there was also an increase in permanent departures to over 20,000. This would be the first in a number of instances government cut immigration levels in the face of a slowing economy and rising unemployment. In each of these instances, net migration declined significantly more than the cuts to the formal Migration Program due to a rise in departures associated with a weak economy (ABS Cat 3105 and Home Affairs website – Historical Migration Statistics).

But with Calwell a leading member of the ALP for all of the 1950s, opposition to immigration (as opposed to source countries and how immigrants were being screened) remained low key. By 1954-55, the Menzies Government had again increased the planned Migration Program to 115,000 and to 125,000 for 1955-56 (Home Affairs website – Historical Migration Statistics).

Migration Act 1958

Another notable Menzies Government initiative was passage of the *Migration Act 1958* which abolished the Dictation Test (for use both as a means of determining entry as well as for deportation) and replaced it with a system of entry permits (permanent and temporary). The new

Act, while it has been amended many times, remains at the core of Australia's immigration arrangements (Downer 1958)[ccxcii].

It avoided references to race and abolished any arbitrary powers of removal from the Minister. Immigration Minister Alexander Downer (senior) at the time said that 'distinguished and highly qualified Asians' might be allowed to immigrate. This did not, however, have the support of either Menzies or Calwell.

Population growth in the 1950s

The 1950s is the only post-war decade when average population growth was greater than the two percent per annum target set by Calwell (it in fact averaged 2.4 percent per annum – ABS Cat:3105). The Menzies Government presided over the fastest population growth rate Australia has experienced since Federation (and perhaps since the Gold Rushes of the 1850s and 1860s and the economic boom from 1870-1890) due to both a high birth rate and strong immigration. Migration Program planning levels were maintained at between 110,000 and 125,000 per annum for most of the years that Menzies was Prime Minister (DIBP website – Historical Migration Statistics).

The high level of migration also led to the portion of overseas born in the population rising from 9.8 percent at the 1947 Census to 16.9 percent at the 1961 Census with the top five countries of birth being the UK (40.4%), Italy (12.8%), Germany (6.1%), Netherlands (5.7%) and Greece (4.3%) – the biggest change being a decline in the portion of overseas-born from the UK falling from 66.7% in 1947 to 40.4% in 1961.

Further increases in immigration levels

The credit squeeze of 1960-61 presented Treasurer Harold Holt with a challenge to reduce immigration. But he argued for maintenance of the program and said in Parliament on 14 March 1961[ccxciii], "[a]fter the war, the Australian people were determined to grow in strength and in numbers. The then Government set about achieving that objective, and set about it briskly. We have continued with the task, and this country has grown and developed. We have maintained a planned programme of immigration, and that is what the people of Australia expect of us. They know that this imposes some strain upon us, but they recognize the great benefit the country will derive from it."

Even with the rapid rate of population growth in the 1950s and early 1960s, the ALP's Federal Conference in 1965 introduced its immigration policy platform with the following: "Convinced that increased population is vital to the future development of Australia, the Australian Labor Party will support and uphold a vigorous and expanding immigration programme."(Whitlam 1985)[ccxciv]

The ALP position reflected the pressure the new Holt Government was under to increase the intake as the economy continued to strengthen and suffer from labour shortages. GDP growth was strong, averaging over 5 percent per annum after the economic slowdown of 1961 and unemployment remained below 2 per cent (ABS Cat 5206 and 6204).

Despite the baby boom of the 1950s, there was still concern about a fall in the birth rate in the early 1960s. In response to a Question on Notice from Jim Killen, MP about the birth rate, Immigration Minister Opperman said in 1966[ccxcv] "the falling birth rate has added to the responsibility of migration to maintain a high level of total population growth."

In the mid-1960s, Immigration Minister Opperman had to also deal with a significant increase in permanent departures. This was particularly concerning as Government at the time contributed to

the cost of migrant passages and accommodation. Permanent departure numbers had averaged around 8,000 per annum between 1961 and 1964. However, the numbers jumped to over 14,800 in 1965. Opperman conceded that "there had been a steady increase [in departures] among professionals, technical and managerial workers…[while] the proportion of unskilled departing had declined."(Opperman 1966)[ccxcvi]

Opperman (1966) [ccxcvii] noted "the proportion of skilled tradesmen among departures had not increased, but there had been a steady increase among professional, technical and managerial workers. The proportion of unskilled people departing had declined."

With the economy continuing to grow strongly, the Coalition Government increased the planned intake rising to 145,000 in 1965-66; 148,000 in 1966-67 and 1967-68, 160,000 in 1968-69 and 175,000 in 1969-70 (Home Affairs website – Historical Migration Statistics).

White Australia

The expansion included further attempts to modify the White Australia policy by permitting entry of small numbers of highly skilled non-Europeans. According to Tavan (2005) [ccxcviii], Opperman and the Secretary of his Department Peter Heydon, made an initial attempt to convince Cabinet to amend the policy. This was only partly successful in respect to people of mixed race. However, a second submission seeking to amend policy on entry of people of non-European descent was resisted by Menzies.

With Menzies' retirement and Holt as Prime Minister, Opperman took a further proposal to Cabinet in March 1966[ccxcix]. This sought permission to allow entry of a limited number of immigrants with permanent residence status depending on:

- "their being assessed as suitable as settlers and as capable of ready integration into the Australian community;
- their having knowledge, experience or qualifications useful to Australia;
- their ability to make a contribution to Australia's economic, social and cultural progress."

In a Ministerial Statement, Hubert Opperman (1966) [ccc] explained that "[w]hen in 1956 the Government reviewed the policy, which had been followed since Federation, of not admitting persons of non-European origin for permanent residence, it introduced several significant reforms. Those people already settled here became eligible to be naturalised; the admission for permanent residence of immediate relatives of Australian citizens was authorised; and it was made possible for highly qualified people to come here for indefinite stay, though under temporary permits. Then in 1957 it was decided that non-Europeans who had been admitted on temporary permits could be naturalised after 15 years' stay. In 1964, the rules governing the entry of persons of mixed descent were eased."

Opperman said the Government had decided to take two further steps regarding the permanent migration of non-Europeans (indeed the changes had already been adopted) but without "departing from the fundamental principles of our immigration policy"

The first of these was that certain non-Europeans who were already in Australia under temporary permits but with the rights of indefinite stay in Australia, would not have to wait 15 years before being allowed to apply for permanent residence but would be able to apply after five years' stay in Australia. Opperman was at pains to stress that this policy did not apply to overseas students and others admitted on a temporary entry basis for specific purposes.

The second measure Opperman announced was that "applications for entry by well qualified people wishing to settle in Australia will be considered on the basis of their suitability as settlers, their ability to integrate readily, and their possession of qualifications which are in fact positively useful to Australia. They will be able after five years' stay on temporary permits to apply for resident status and citizenship. They will be able to bring their immediate families with them on first arrival." (Opperman 1965).

While Whitlam argued this opening of non-European immigration was "not as liberal as the Government projected" (Whitlam, 1985) and is indeed quite critical of the Government's failing to reform the White Australia Policy, Opperman's announcement was followed by a steady but still modest increase in non-European migration.

Citizenship and access to social services

Later in 1966, Opperman[ccci] would announce new social service provisions for migrants "whereby age, invalid and widow's pensions will be available to all migrants under the same conditions that now apply to others in the community. Migrants arriving to settle permanently in Australia were already entitled in the same way as Australians to child endowment, unemployment, sickness, funeral and rehabilitation benefits and maternity allowances."

Opperman went on to state that "need, irrespective of nationality, will determine the entitlement of people living in Australia to a social service benefit." He said it had always been his view that naturalisation should not rely on material benefit, such as eligibility for social service, for incentive.

In conjunction with gradual change to the White Australia Policy, the *Citizenship Act 1969* made it easier for non-British migrants to become citizens by reducing the residency requirement to two years if they could read, write, speak and understand English proficiently (Klapdor, Coombs and Bohm 2009).

The students conundrum

The issue of overseas students returning home would continue to be an issue through the 1960s. Prime Minister Holt (1966) [cccii] said "Australia would not be doing a favour to their countries if it allowed Asian students to stay here. The primary object of the students' coming to Australia was to strengthen the economy and administration of their own countries."

Holt (1950) [ccciii] had earlier argued for increased flexibility in the application of the White Australia Policy advocating "a reasonable discretion to meet particular circumstances' such as the post-war refugee intake, declaring he was 'confident that the great majority of the Australian people supported that view".

Whitlam (1966) would ramp up pressure on the Holt Government with calls to abolish the White Australia Policy specifically in the context of overseas students stating that "we solicit students from Asia. The very persons we train are the persons we require to leave. If they are fit to study here they should be fit to settle here."

Whitlam's statements received support within the media. A representative of Australian Alumni in Singapore, Mr L Mah (1966)[ccciv], agreed that "skilled Asian technicians should be allowed to settle in Australia on the same terms as skilled European technicians". Mr Mah argued "we are firmly of the view that most of us who had the benefit of higher education and training in Australia would wish to return home and use our skills and knowledge to assist the difficult task of nation building. We are however, equally convinced that those of us who, for personal reasons, might wish to settle in

Australia, should not be prevented from doing so because of race [sic] or creed. We feel certain that only a minority of Asian graduates would wish to live permanently in Australia".

In response to a question on notice from Senator Cohen on agreements or arrangements with countries to ensure return of their students, Senator Dame Annabelle Rankin advised in 1967[cccv] that "there are no such arrangements… an application by a private student to extend his stay to obtain practical experience after completing academic studies would be considered on its merits, bearing in mind the objectives of the student programme. As a general rule an extension of stay for a reasonable period would not be refused where the additional training sought is a necessary adjunct to the course of study or where it would add to the student's ability to make the maximum contribution to his country's need".

The policy appeared to be further diluted when Senator Anderson on behalf of the Minister for External Affairs (1968) [cccvi], said "policy is that private overseas students should be permitted to come to Australia for courses of study or training which are not available in their own countries and to obtain qualifications which will be of positive value in those countries upon the students' return there. It follows that students are, in general, expected to return home on completion of their courses but' a request for resident status by a student who has qualified is nevertheless considered in the circumstances relating to his particular case. For example, if it is clear that the qualification acquired is not in positive demand in his home country, and the applicant meets immigration requirements in other respects, resident status is granted."

The number of non-European overseas students securing residence status was provided in another answer to a question on notice by Senator Annabelle Rankin (1970) [cccvii] as follows:

- 1966: 430
- 1967: 415
- 1968: 572
- 1969: 451.

These were from a stock of non-European students of around 10,000 in April 1968.

At the official opening of the Overseas Students' Service Conference at Queensland University in 1968, the Gorton government's Minister for External Territories, Mr Charles Barnes, again stated the Government's concerns to maintain a racially homogeneous Australia (Burke 2014).

Burke (2014) finds that "the twin justifications for rejecting student settlement in Australia – the desire to assist with regional development and a concern with maintaining an imagined Australian cultural homogeneity – were consistently voiced in media reports of the time."

In 1970, the Secretary of the NSW Association for Immigration Reform, KL Fernandes[cccviii], argued, "Asian students who seek to remain here have enjoyed fair educational opportunity. There is not the slightest chance Asian students who come here will cause racial conflict". He noted 'that the number permitted to stay who have qualified to follow any particular profession is not so large as to damage the interests of Australian colleagues" He also said that "the question of whether a student's skills were better used in his/her home country or in Australia was best decided by the student themselves and their country of origin–not Australia."

Population growth in the 1960s

Both net migration and natural increase in the 1960s surpassed the high levels of the 1950s although in percentage terms, population growth at 1.9% was below the 2.4 percent of the 1950s and below

Calwell's two percent target (ABS Cat:3105). The high level of immigration resulted in Australia's overseas born population continuing to rise to 20.2 percent of the population at the 1971 Census (from 16.9 percent at the 1961 Census) with strong increases in the portion of overseas born people from Italy (11.2%), Greece (6.2%), Yugoslavia (5%) and Germany (4.3%). Migrants from the UK continued to represent over 40 percent of the overseas born.

The high rate of immigration, together with the early baby boomers also entering the labour market at around that time, led to calls for a review of Australia's population directions. In 1970, Immigration Minister Philip Lynch announced a National Population Inquiry headed by Professor WD Borrie of the ANU Demography Department (Lynch 1971)[cccix].

Whitlam

But well before Borrie reported, and against the background of a rise in unemployment in 1970-71, the ALP's immigration policy launched by Whitlam on 24 October 1971 explicitly "removed the assertion that a primary national objective must be to increase population…removed the commitment to expand the immigration program…immigration needs specifically [to be related] to the capacity of Australia to provide 'employment, housing, education and social services' – in other words a very specific instruction…that the welfare of people, the people already here and the people who may come, must be the prime consideration, not mere numbers. And…there must be no discrimination on grounds of race or colour or nationality." (Whitlam 1985)

This was the first time since World War II that one of the major parties no longer viewed growing the population through immigration a long-term policy objective.

Whitlam cut migration planning levels to 110,000 visas in 1972-73 and 1973-74; 80,000 visas in 1974-75 and 52,000 visas in 1975-76 (Home Affairs website – Historical Migration Statistics). He introduced legislation to abolish the White Australia policy, made available assisted passages for non-European migrants and placed priority on family re-union as the over-riding rationale for Australia's immigration policy (Whitlam 1985)[cccx].

Trans-Tasman movement

Another significant action of the Whitlam Government was to formalise free movement of people between New Zealand and Australia through the trans-Tasman Travel Arrangements (TTTA) in 1973 (Whitlam 1985). These provided for Australian and New Zealand citizens to travel between the two countries to visit, live and work with no time limits without the need to obtain a visa. The free movement arrangements have led to far more New Zealanders moving permanently to Australia than Australians the other way. New Zealand citizens since the 1991 Census have been the second largest source country of overseas born population in Australia.

Decentralisation

The Whitlam Government was highly focused on policies of decentralisation through the Minister for Urban and Regional Development, Tom Uren. In response to a Question on Notice on Immigration: Decentralisation Programs, Uren said in 1973 "[t]he placement of migrants in this country is "within the role of the Minister for Immigration. I think it is generally accepted within the Government that we should be seeking to guide people away from the major cities such as Sydney and Melbourne."(Uren 1973)[cccxi]

Given the extent to which the intake had been reduced and focused on family reunion, however, there was little scope for the Whitlam Government to use immigration as part of its decentralisation policy.

Overseas students

Singaporean Prime Minister Lee Kuan Yew, via a Canberra Times editorial, expressed his criticism that "Australia is prepared to accept as migrants from Singapore university graduates, particularly those trained in Australia, but not the hewers of wood and the drawers of water". (Lee 1973)[cccxii] In response, the Times editor said that whilst most students did return to their home country, "it is understandable that the governments of their countries of origin should feel aggrieved at the loss of those who do not".

Immigration Minister Al Grassby (1973) [cccxiii] assured the Singaporean government that Australia would only accept private international students who "indicated they were coming to Australia to acquire skills to take back to Singapore". He said students who wished to remain in Australia, "would be closely counselled on the desire of their government that they return".

But he would later say "it is not possible to tell students where to go once they have finished their studies in Australia". He considered there to be a "need to promote understanding in the Australasian area – not to close the door to students".

Leader of the Government in the Senate, Lionel Murphy[cccxiv], elaborated on the policy in 1974 after a trip to South East Asia. He said "under our non-discriminatory immigration policy, private students enter Australia on the understanding that they will return home. However, if they can meet migration criteria they are allowed to remain in Australia. The Singapore Government was perturbed about this and have now decided to sponsor officially all private students coming to Australia. Sponsored students have always been required to return to their home country on completion of their studies and this has been at the express insistence of their home governments. I want to make it clear that if any student from Singapore is to be sent home, it will be as the result of his sponsorship by the Singapore Government and not as the result of a decision taken on its own account by the Australian Government."

Under its more flexible approach, overseas student numbers continued to grow under Whitlam even though overall immigration numbers were reduced. Immigration Minister Clyde Cameron[cccxv] advised Parliament in November 1974 that "as at 30 June 1973 there were 9,728 private and 2,676 sponsored overseas students in Australia."

Population growth in the 1970s

Whitlam (1985) explains the reduction in immigration levels to "the advent of the world recession" even though he announced his intention to reduce immigration levels well before this. The reductions, in addition to continuation of lower levels of immigration during the early years of the Fraser Government, led to net migration during the 1970s being the lowest of any decade since the 1930s.

Net migration during the decade of the 1970s fell in absolute terms to 685,000, some 30 percent lower than during the 1960s. This was offset by a 19 percent rise in natural increase over the decade but average annual population growth during the 1970s still fell to an average of 1.4 percent per annum (Home Affairs website - Historical Migration Statistics).

Net migration in 1975 fell to 13,515, lowest since 1947 (ABS Cat: 3105). The reduction in immigration through the mid-1970s, together with a shift in focus to family re-union and an increase in boat arrivals from Vietnam, coincided with a lengthy period of stagflation (ie the combination of high unemployment and high inflation).

Despite the reduction in immigration in the 1970s, the working age to population (WAP) ratio began to rise from a low of around 61 percent at the start of the 1960s to almost 65 percent by the end of the 1970s. This meant rapid growth in new entrants to the labour market, strong household formation and rising household consumption expenditure. It reflected the impact of the early baby boomers reaching working age and what should have been the start of Australia's 'demographic dividend' phase.

It is a matter of conjecture whether maintenance of the higher levels of immigration of the late 1960s would have reduced or exacerbated the stagflation phenomenon of the 1970s (ie unemployment rising from around two percent at the end of the 1960s to above six percent by 1975 and inflation rising from three percent at the start of the 1970s to over 17 percent by 1975). Certainly the inflexible nature of the Australian economy at that time, including the relatively inflexible nature of the labour market, fixed exchange rates and a heavily controlled financial system, would not have assisted

Stagflation was common to most developed economies in the 1970s. Population growth, particularly growth of the working age population, was strong across all major developed economies (UN Population Division website). Australia's Government and economy was not, however, well prepared for the rapid increase in new entrants to the labour market resulting from the baby boom combined with the high level of migration of the late 1960s (ie to take advantage of the start of Australia's 'demographic dividend').

The National Population Inquiry (Borrie) [cccxvi] reported in 1975 and was, to that time, the most comprehensive report on Australia's population directions. Using a net reproduction rate assumption of one, net migration assumptions of zero and 50,000 per annum and a stable mortality rate, Borrie projected Australia's population in 2001 would be between 15.9 million and 17.6 million.

Using his high net migration assumption, Borrie projected Australia's population would grow by around 4 million over the subsequent 25 years, substantially less than growth of around 5.2 million for the previous 25 years. Actual net migration over the projection period turned out to be significantly higher than Borrie's high migration assumption while mortality rates were lower. Even though fertility was also lower than Borrie assumed, the overall result was that Australia's population in 2001 was 18.7 million (more than a million higher than Borrie's high migration projection).

Fraser

Because the report of the National Population Inquiry was received in 1975, it was left to the new Coalition Government to respond.

The response came by way of a statement in March 1976 by the new Immigration Minister, Michael MacKellar[cccxvii]. He re-affirmed the position in the Liberal Party's election policy statement that "Immigration is an essential instrument of Australia's population policies and of the broader national strategies and objectives of which those population policies are directed."

He went on to say that his statement was "a commitment to population growth, with immigration as the prime factor in that growth. But – and I emphasise this – it is not a commitment to immigration

simply to add to our population without any assessment of the effects of doing so and what is needed to meet those effects."

Consistent with this view, MacKellar said the Government needed further advice on the most appropriate rate of population growth and its composition and would commission both his own Department as well as a newly re-formed Australian Population and Immigration Council to regularly monitor and advise on population issues. The Council was chaired by Borrie and provided a supplementary report in 1978.

While the **Borrie** Report "underestimated the population aged 65 years and over by 25%, due to an unpredicted fall in mortality rates" (McDonald and Kippen, 1999) [cccxviii], MacKeller, nevertheless, noted in his 1976 Ministerial Statement the prospect of an aging population (based on a "constant net reproduction rate of one") and that immigration can help to reduce the rate of aging. He went on to say that "it may even be desirable to direct immigration in such a way as deliberately to have a 'younging' effect on the population."

Growing the intake

Despite stagflation continuing well into the second half of the 1970s, the Fraser Government gradually increased migration planning levels from a low of 52,000 visas in 1975-76 to a peak of 118,000 visas in 1981-82. As a result, NOM increased from 13,515 in 1975 to 123,066 in 1981.

According to demographer Charles Price (1979)[cccxix], the Fraser Government "realised that continual immigration was essential for economic recovery, sustained development and for broader national strategies. It based its annual intake policy on four basic categories: refugees, family reunion, New Zealanders, and general eligibility (national need), taking into account the growing political power of immigrants groups, and their dissatisfaction with many aspects of settlement policy."

Throughout his career, Fraser viewed growing the population in terms of both development and Australia's standing in the world. As early as 1956[cccxx], he said in Parliament "[a]t present we have slightly over 9,000,000 people in Australia, and when we consider that this country is equal in area to the United States of America, which has over 150,000,000 people, we must realize how sparsely inhabited this continent is. We may not have the same natural riches as the United States, but every honorable member will agree that the possibilities for development in this country are very great. Indeed. I am sure that I shall live to see the day when we shall have 25,000,000 people in Australia and then we shall be able to look the world in the face far more boldly and play a more effective part in the maintenance of world peace and freedom."

Many years after he had retired, Fraser argued for a population of between 45 and 50 million by 2050 (Weekend Australian 3-4 May 1997). Sadly, Fraser died with Australia's population still short of 24 million.

Birth of points-tested migration

In 1979, MacKellar introduced the Numerical Multi-factor Assessment System (NUMAS) to select both skilled and some family migrants. This was a predecessor to the current points-tested categories and fundamentally changed how the majority of skilled migrants were selected. These categories have long distinguished how Australia (as well as Canada and NZ) run their immigration programs. An important impact of this approach to migrant selection was that it gradually reduced the level of subjective judgement in skilled migration decision-making. It also contributed to increasing the diversity of the intake in terms of source countries (York 2003)[cccxxi].

During the 1980 Election, the Fraser Government announced it would review the new migrant selection system. The outcome of that review was announced by new Immigration Minister, Ian Macphee. The new arrangements, titled Australia's Migrant Assessment System, was announced by Macphee in 1981[cccxxii] and provided for five broad eligibility categories:

- Family Migration defined broadly with few methods to limit applications but required an Assurance of Support; satisfactory assessment of settlement prospects; health and character;
- Labour Shortage for occupations in demand and subject to demonstrated inability by the employer to fill the position and Business Migration for applicants with proposals to set up a substantial enterprise in Australia;
- Independent Migration for applicants with outstanding characteristics subject to satisfactory employment assessment and settlement prospects;
- Refugees and Special Humanitarian programs;
- Special Eligibility for NZ citizens; children or grandchildren of people born in Australia; self-supporting retirees and applicants with outstanding creative and sporting talents.

Changes implemented from January 1981 also permitted change of status after arrival on a temporary visa in a range of circumstances including asylum or refugee status; spouse, unmarried child or aged parent; strong compassionate or humanitarian grounds; authorised to work in Australia unless the person is a student who committed to leave Australia when original visa was granted or a diplomat.

Economic/employment criteria would be assessed using a points test that included points for English or an ability to learn English. The settlement criteria would continue to be assessed subjectively. Concessional points would be awarded to applicants wishing to settle in designated growth areas away from Sydney and Melbourne as well as for non-dependent children and siblings. A review of processes for recognition of qualifications was also announced.

Macphee made special mention of the importance of family re-union and transparency – he stressed "so that people affected by decisions can understand them, they will be given access to the Department of Immigration and Ethnic Affairs' instruction manual."

Indo-Chinese boat arrivals

On 26 April 1976, the first boatload of refugees fleeing Vietnam arrived in Darwin. This started a series of boat arrivals to Australia that was part of a major exodus of Vietnamese refugees to countries throughout South East Asia reaching 21,276 in 1977; 106,489 in 1978 and 166,604 in 1979 (Grant 1979)[cccxxiii].

Between 1977 and 1982, the Australian Government resettled over 54,000 Vietnamese refugees. It also admitted 2,059 Vietnamese asylum seekers who arrived by boat without state authorisation (Stevens 2012).[cccxxiv]

Settlement services and multiculturalism

In 1978, the Fraser Government released the report of the Galbally Review[cccxxv] which led to a revamped Adult Migrant English Program, expansion of Migrant Resource Centres, translating and interpreting services and radio and television services targeting Australia's ethnic communities. The Fraser Government began to shape multicultural policy as "cultural pluralism". He suggested Australia should work towards "not a oneness, but a unity, not a similarity, but a composite, not a melting pot, but a voluntary bond of dissimilar people sharing a common political and institutional structure".

Fraser also said that politicians have a duty to speak with 'discretion and respect' on issues of race and religion.

The Galbally Report (1978) proposed some key principles for the delivery of settlement services and multiculturalism:

- all members of society are to have equal opportunity to realise their potential and have equal access to programs and services;
- every person to be able to retain his or her culture without prejudice or disadvantage and be encouraged to embrace and understand other cultures;
- migrants' needs are to be met by mainstream services, but special services and programs are to be in place at first; and
- there be full consultation with clients in design and operation of services with a focus on migrants becoming self-reliant quickly.

Citizenship

In 1982, Minister for Immigration and Ethnic Affairs in the Fraser Government, Ian Macphee, said "from the current review there has emerged general agreement on the following five matters: Firstly, it is desirable for the entire community to be aware of the benefits and the obligations attaching to citizenship; secondly, the meaning and value of citizenship should be enhanced; thirdly, there should be no discrimination within eligibility criteria for citizenship; fourthly, the provisions of the Citizenship Act should be as objective as possible and subjectivity should be minimised; and, fifthly, the administrative simplicity of the current Act should be preserved."

Macphee's comments continued Australia's tradition of encouraging permanent residents of Australia to take out citizenship as soon as possible.

Overseas students

The Fraser Government maintained a flexible approach to applications of change of status by overseas students. Immigration Minister Michael MacKellar (1978) [cccxxvi] said in response to a Question on Notice the "objective of the private overseas student policy is to provide opportunities for the youth of other countries to study in Australia thus fostering good relations and cultural exchanges. This objective, whilst preserving the temporary nature of student entry, neither prevents nor directly encourages settlement in Australia by persons eligible under Government policy."

MacKellar (1979) [cccxxvii] considered that criteria for a student visa were that "prospective students may be granted visas for temporary entry to undertake full-time post-secondary studies provided they are able to establish to the satisfaction of the relevant overseas post that: the proposed course of study or its equivalent is not available in their home country or country of residence; such study is of worthwhile content and duration leading to a qualification which would be recognised or be of value in relation to future employment opportunities in the home country or country of residence; they have the capacity (including a satisfactory knowledge of English) to undertake their proposed course of study; they gain enrolment in an Australian educational institution to undertake the approved course of study; they have a financial guarantor who will meet the costs of their fares to and from Australia, their fees and maintenance; they have a genuine intention to enter Australia on a temporary basis for study purposes only and will depart from Australia on the completion of their approved course of study or if they abandon studies; they have passports or travel authorities valid

for re-entry into their home country or country of residence; and they meet health and character requirements."

In August 1979, MacKellar[cccxxviii] explained major changes to overseas student policy that provided the basis for an expansion of the program. The changes that took effect from the 1981 academic year included:

- Introduction of an annual charge on overseas students undertaking courses at universities and colleges of advanced education set at between $1,500 and $2,500 per annum (still well below full cost estimated at around $4,000 to $5,500 per annum);
- Removal of any reference to the requirement that the course being studied in Australia was unavailable or not able to be accessed in the student's home country;
- Removal of any arbitrary limit on the number of overseas students that could be admitted as long as no local student was displaced. There was no limit for private students undertaking English language courses, specialised training or student exchange programs who would be required to meet commercially set fees and not the charge determined by the Government;
- Provision for secondary level education would also be opened up.

He noted that "almost 75 per cent of students completing formal studies in recent years have applied successfully for resident status. This development has negated the main objectives of the program." He argued "in future, overseas students will be required to leave Australia on the conclusion of their studies. Applications to return to Australia for residence will not normally be received or considered within two years."

The Labor Opposition (Dr Moss Cass, August 1979) [cccxxix] supported the changes but noted the extent to which the Australian taxpayer was still subsidising each overseas student. In the Senate, Dr Grimes (August 1979) [cccxxx] agreed with the concern that 75% of overseas students had obtained permanent residence in Australia but expressed noted "we do not introduce a rigid set of rules which will prevent students completely from achieving resident status in this country."

The introduction of charges for overseas students led to a number of petitions to Parliament opposing the initiative because of the burden this would place on the families of the overseas students. There was also concern about the impact on existing overseas students, especially those undertaking post-graduate research (Senator Mason 21 April 1980). Part of the Government's response was that the fees were significantly below those charged in the UK (Carrick 21 April 1980).

The Labor Opposition (Moss Cass October 1979) questioned MacKellar's reference to 75% of overseas students being granted permanent residence. He argued that many students sought this status as a means of obtaining post-study job experience.

The figures on the stock of students and numbers securing residence status were given by Immigration Minister Ian Macphee (1980) [cccxxxi] as follows:

- 1975: Stock – 10,407; Grant of Residence to students – 1,098
- 1976: Stock – 10,746; Grant of Residence to students – 1,255
- 1977: Stock – 11,113; Grant of Residence to students – 1,043
- 1978: Stock – 10,071; Grant of Residence to students – 1,331
- 1979: Stock: - 10,658; Grant of Residence to students – 648

Thus as early as the late 1970s, around 10 percent of overseas students were being granted residence status in Australia.

Working holiday makers

In 1976, Immigration Minister Michael MacKellar[cccxxxii] advised Parliament that "with the introduction on [1 January 1975] of visa requirements for Commonwealth and Irish citizens of European descent, the Government decided that provision should be made for young citizens of the United Kingdom, Canada and Ireland to be granted temporary residence visas for the purposes of working holidays in Australia. Before 1975, such persons required no prior authority to enter Australia for that purpose; in fact until that date Commonwealth and Irish citizens of European descent required no prior authority to come to Australia for any purpose.

Young Australians enjoy the facility of entering Britain for working holiday purposes and it was decided that in reciprocation young citizens of the United Kingdom should have a similar facility under the visa conditions introduced on 1 January 1975. At the same time the facility was extended to young Irish and Canadian citizens. Under the decision eligibility was confined to young United Kingdom citizens applying in the United Kingdom, young Irish citizens applying in Ireland or the United Kingdom and young Canadian citizens applying in Canada.

"Statistics are not maintained on working holiday makers in Australia at a given time [they are now]. In the first full year of operation of the scheme 1408 United Kingdom citizens, 248 Canadian citizens and 36 Irish citizens were admitted to Australia as working holiday makers".

Senator Margaret Guilfoyle (1979) "[cccxxxiii] advised that "working holiday visitor arrivals from Britain in 1978 were approximately 3,000, whereas the number of Australians entering Britain for a similar purpose is estimated at between 12,000 and 15,000 a year".

In response to a question from Senator Colston, Senator Durack (1982)[cccxxxiv] advised that Australia had reciprocal working holiday maker arrangements with Ireland, Canada, the UK, the Netherlands and Japan. Senator Durack's answer showed that the core criteria for a working holiday maker visa have changed relatively little since that time. The core criteria were:

- Age range of 18 to 25, either single or married without children
- Employment in Australia to be incidental to the holiday
- Reasonable prospects of securing temporary employment in Australia
- Possession of a return ticket or sufficient funds to cover the costs of a return ticket
- Reasonable funds to cover initial period of the holiday
- Health and character

Maximum period of stay was 12 months. WHM visa holders could apply while in Australia for the equivalent of today's points tested visa (NUMAS). 5,540 people were granted a WHM visa in 1979 and 7,793 in 1980.

Hawke/Keating

Re-emergence of recession in 1982-83 (with unemployment above 10 percent for all of 1983) led the Hawke Government to reduce immigration levels (ie outcome of almost 69,000 visas in 1984-85 with

only some 10,000 (or 14.5%) of these via the Skill Stream). Hawke's first Immigration Minister, Stewart West (1983) [cccxxxv], made it very clear priority was to be given to family reunion and refugees and the Government would crack down on employer sponsored visas based on 'alleged' occupational skill shortages.

As a result, net migration fell to 54,995 in 1983 and 59,823 in 1984.

The decision to reduce the intake and focus it more on family reunion and refugees was criticised by the Shadow Spokesman on Immigration, Alan Cadman (1983) [cccxxxvi], who said "[a]t the end of the year we will find that the intake of migrants for 1983-84 will be down. It will be down because of the Government's agreement with the Australian Council of Trade Unions in the Accord - and it is clearly spelt out - that migration will be reduced. The ACTU was careful to have the Government agree to that provision to ensure that job shortages could be created in certain areas so that the demands of those employed in select areas would not be threatened and in fact their bargaining powers would be increased."

Cadman was particularly critical of a cut back in employer sponsored migration – "[e]mployment demand, that is the category that allowed people to gain entry because there was a shortage of certain skills in Australia-has now been almost removed."

But as Australia emerged from recession and unemployment gradually fell (reaching just under six percent in 1989), the Hawke Government steadily increased immigration levels and the relative size of the skill stream (mainly via the general points tested categories):

- 91,700 visas in 1985-86 of which the skill stream comprised 17.7%;
- 113,000 visas in 1986-87 of which the skill stream was 25.2%;
- 133,500 visas in 1987-88 of which 31% were in the skill stream;
- 136,000 visas in 1988-89 of which 37.6% were in the skill stream; and
- 132,600 visas in 1989-90 of which 39.7% were in the skill stream (Home Affairs website – Historical Migration Statistics).

Hawke himself was a strong proponent of immigration. In his memoirs (1994) [cccxxxvii], he says "I was passionately convinced of the economic and humanitarian correctness of this policy [post war immigration program] and believed it was the responsibility of all Australians to make these newcomers welcome." Hawke goes on to say "[m]y early excitement with the program never diminished. I saw Australia becoming an economically stronger and more culturally enriched nation."

Citizenship

A significant change in citizenship policy was enacted by the Hawke Government in August 1986. Until that time, any child born in Australia could become an Australian citizen irrespective of the immigration status of the child's parents. The Government changed the law to confine access to citizenship by descent to children with at least one parent who was a permanent resident or citizen. The concern was to address the situation of children born in Australia to persons who were in Australia unlawfully (or on temporary visas). These people argued they should not be removed because of the difficulties this would create for their Australian citizen children. (Jupp 2001)[cccxxxviii]

Jupp notes that the requirement for new citizens to renounce other allegiances was also deleted. This was never legally enforceable and, as some countries do not allow their citizens to divest themselves of their citizenship through renunciation, some migrants could become dual-Australian citizens. Removing the renunciation requirement formalised the toleration of migrants in this situation (but still did not allow Australians migrating overseas to become dual citizens).

Prior to that, the *Australian Citizenship Amendment Act 1984* removed discriminatory aspects of the Act in relation to sex, marital status and nationality. The English language requirement was changed from 'adequate' to 'basic' and applicants over 50 were exempted from the English language requirement. The definition of the status of British subject was repealed to reflect the national identity of all Australians. In the following year, the number of new citizens increased to 114,914 grants in 1985–86, an increase of 20,000 on 1984–85 (Klapdor et al)[cccxxxix].

A report by the Joint Standing Committee on Migration, *Australians All – Enhancing Australia Citizenship*, in 1994 recommended widespread promotion of citizenship coordinated by the Commonwealth: It said that "Such promotion should serve the dual purpose of encouraging non-citizens to become Australian citizens and increasing awareness among all Australians about the meaning and value of Australian citizenship."

Asian migration

In his June 1987 Election Policy speech[cccxl], Opposition Leader John Howard supported Hawke's increases in immigration. He said that "Australia's economic circumstances demand that we embark upon a revitalised immigration program. A dynamic, soundly-planned, well executed and balanced immigration program is essential to the future economic, social and national development of Australia."

In 1988, however, Howard[cccxli] raised questions about the level of Asian migration. In explaining his position, he said "all Australians enjoy and approve of the fact that we are now a more diverse community than we were forty years ago. But equally there is concern that some aspects of multiculturalism could lead to fragmentation and it would be our desire in the Liberal and National Parties to assert once again a 'one Australia' approach to the cultural basis of this country."

At the same press conference, Howard went on to say "the balance at present is too much in favour of family reunion. At no stage have I said that I don't believe in family reunion. And I want to assure people who are concerned from some of the news reports that I am against family reunions that I am not. I simply believe that a greater proportion, a significantly greater proportion of migrants coming to this country should be chosen on a skills or business basis."

While that is essentially the direction the Hawke Government was taking the program, Howard's explanation of his position continued to generate debate.

In response to a question from radio identity John Laws on the level of Asian immigration (1988)[cccxlii], Howard said "if you have less family reunion you may have less coming from Asia. It would not be an aim, it wouldn't be an objective to bring that about. But that could happen. I would never want to see Asian immigration stopped because I think that would be politically and socially and emotionally stupid. We have moved on from the days of the white Australia policy. But I do think it's legitimate for any government to worry about the capacity of the community to absorb change and there is some concern about the pace of change involved in the present level of Asian migration."

In response to Howard's comments, the Hawke Government proposed and had passed in the House of Representatives on 25 May 1989[cccxliii], the following motion: "That this House:

(a) acknowledges the important contribution which immigration has made to the economic, social and cultural development of Australia;

(b) recognises that bipartisan support for the dismantlement of the White Australia Policy and the adoption of a non-discriminatory immigration policy have been to the overwhelming national and international benefit of Australia;

(c) welcomes the support now publicly expressed by the newly-elected Leader of the Opposition on 9 May 1989 for a non-discriminatory and bipartisan immigration policy; and

(d) reaffirms its unambiguous and unqualified commitment to the principle that, whatever criteria are applied by Australian Governments in exercising their sovereign right to determine the composition of the immigration intake, race or ethnic origin shall never, explicitly or implicitly, be among them."

National agenda for a multicultural Australia

Against the background of how the policy of multiculturalism was perceived within the Australian public, Hawke in 1989 also issued a statement titled the *National Agenda for a Multicultural Australia*[cccxliv]. The statement said that multiculturalism was based on three rights and three obligations:

- The right to cultural identity (expressing and sharing one's individual cultural heritage, including their language and religion); social justice (equality of treatment and opportunity, and the removal of barriers of race, ethnicity, culture, religion, language, gender or place of birth); and economic efficiency (the need to maintain, develop and utilise effectively the skills and talents of all Australians).
- The obligation to have an overriding and unifying commitment to Australia, to its interests and future first and foremost; to accept the basic structures and principles of Australia; and to accept that the right to express one's own culture and beliefs involves a reciprocal responsibility to accept the right of others to express their views and values.

Planned immigration increases or cave-ins and blow-outs?

The increase in the overall level of immigration under the Hawke Government continued to attract criticism including from Hawke's own Finance Minister, Peter Walsh (1995) [cccxlv]. He described the increases as "three sequences of blow outs and cave-ins boost[ing] arrivals from 70 to 115 thousand. The next year it blew out to 140 thousand. Apart from the unplanned and unintended doubling of the numbers in four years, the composition, at the instigation of the ethnic mafia, also changed towards 'family re-union' which debased migrant employability. Frequent Ministerial changes – four Ministers in the first five years – did not facilitate the development of coherent on-going policy."

The four Ministers Walsh was referring to were West (Mar 83- Dec 84); Hurford (Dec 84 – Feb 87); Young (Feb87 – Feb 88); and Holding (Feb 88 – Sep 88). In the Hawke/Keating Governments, they would be followed by Ray (Sep 88 – Apr 90); Hand (Apr 90 – Mar 93); and Bolkus (Mar 93 – Mar 96).

On the other hand, Withers (2002)[cccxlvi] says that Minister Chris Hurford "saw reduced ageing of the population as one of the basic rationales of the immigration program. The median age of immigrants has been lower by around five years than that of the Australian population in general, for much of the post-war period. And it was believed that Australia's younger age structure, like that of other settler countries, was in substantial part a product of strong immigration levels (National Population Council 1991). Mr Hurford uniquely oversaw an expansion of immigration under a Labor government

at a time of high and rising unemployment, partly by convincing his government of the importance of this long-term benefit".

In an Economic Record article of June 1985 titled Immigration and Unemployment, Pope and Withers[cccxlvii] use both statistical causality techniques and conventional structural models to investigate the relationship between immigration and unemployment in the post-war period in Australia. They find "no evidence of any association from migration to unemployment, though there is strong evidence of a significant effect of Australian unemployment on migration".

This timely research supported Hurford and Hawke's enthusiasm to increase immigration levels in the latter half of the 1980s.

Despite this research, for the 1988-89 migration program, Finance Minister Peter Walsh pressed "for both a substantial reduction in numbers and a compositional change." Walsh argued that:

- as population rises, economic rents from activities such as mining and farming, which he says are generally fixed, must be distributed amongst a larger number of people;
- immigration reduces real wages growth;
- social infrastructure spending (eg housing, sewerage, power) driven by population growth "bleeds funds away from productive investment", exacerbates the Current Account Deficit and the big city problems of Sydney and Melbourne;
- immigrants from some source countries (Walsh highlighted Turkey) have very high unemployment rates.

While Walsh believed then Treasurer Keating was on his side of this debate, he says Keating did not intervene in any significant way and the proposed increase in the 1988-89 Program was endorsed.

When questioned in 1990 on the merits of the increased immigration intake (Transcript of Press Conference June 1990), Keating said "[t]he Government decides each year a migration target and as you know we have doubled that intake over the last two or three years from 70,000 to 140,000 and this has been generally a good thing for the economy. It has added to the supply side and the demand side, but as the years go on we will take each year's opportunity at the natural point each year to review where we are, and I don't expect that, well, there isn't a view around that the policy levels of the past few years have been other than entirely appropriate."

Population growth in the 1980s

The increase in immigration levels during the Hawke Government led to net overseas migration in the 1980s rising to 1.08 million over the decade and contributed around 46 percent to population growth during that period (ABS Cat: 3105). The overseas born component of Australia's population continued to rise and reached 22 percent by the time of the 1991 Census. The portion of overseas born in the UK had fallen to 30 percent. The four next largest source countries were NZ (7.2%), Italy (6.9%), Yugoslavia (4.4%) and Greece (3.7%).

With growth in family reunion subsequent to the refugee intakes of the late 1970s, the 1980s also saw the emergence of Vietnam as a significant source country with 3.3 percent of the overseas born population (1991 Census).

Committee to advise on Australia's immigration policies

Given the debate on immigration both within his Cabinet and outside it, Hawke commissioned two significant inquiries into immigration and population. The first was the Committee to Advise on Australia's Immigration Policy (CAAIP)[cccxlviii] chaired by Dr Stephen Fitzgerald which reported in 1988

and the second was an inquiry by the Population Issues Committee[cccxlix] chaired by Professor Glenn Withers which reported in 1992. Both reports had a significant impact on Australia's approach to immigration and population issues.

Key recommendations of CAAIP included:

- migration program be managed on a ten-year rolling basis with the first three years to be fixed with an indicative intake for the following seven years – not adopted;
- an Immigration Selection System should be adopted based on seven sets of criteria weighted in the following priority order: labour market skills, entrepreneurial and special talents, age, language capacity, including English, as an employability factor, kinship in Australia, other links with Australia and attributes of spouse – broadly adopted;
- establishment of a Bureau of Immigration Research – adopted although the Bureau was to be abolished under the Howard Government;
- replacement of the Determination of Refugee Status Committee with a two-stage process with the second stage eventually being the Refugee Review Tribunal - adopted;
- increased capacity to manage the number of visas granted – this was adopted via 'cap and queue' arrangements as well as a floating pass mark for the points tested categories;
- criteria for access to permanent residence by temporary residents in Australia be the same as for those outside Australia (ie facilitating change of status) – progressively adopted over many years but with occasional tightening;
- introduction and expansion of 'user pays' for application processing – adopted and progressively ramped up;
- settlement services to give priority to English teaching, skills recognition and bridging and upgrading, support to immigrant women who are often isolated and discriminated against, and translation and interpreter services - adopted;
- government examine ways of restricting access to public benefits by non-citizens – not adopted until the Howard Government;
- Immigration Department be responsible for delivery of services for first two years following arrival and later government responsibilities be with other agencies – partly adopted; and
- major changes to the structure of migration legislation, including a two tier system to review immigration decisions – adopted in two stages (Migration Act amendments of 1989 and 1994.

One of the most important changes CAAIP brought about was the codification of immigration criteria and how visa applications were dealt with into primary and secondary legislation. Immigration Minister Robert Ray (1989) [cccl] called this "a radically revised approach to immigration decision-making. Currently the Minister for this portfolio has decision-making discretions which are totally unfettered…The wide discretionary powers conferred by the Migration Act have long been a source of public criticism. Decision-making guidelines are perceived to be obscure, arbitrarily changed and applied, and subject to day to day political intervention in individual cases."

The Hawke Government also moved quickly to establish the Bureau of Immigration Research (BIR). Immigration Minister Robert Ray (1988)[cccli] said in Parliament "the Bureau will have an important role in providing facts to combat ignorance and misinformation about immigration and in improving the climate in which immigration issues are considered. The Bureau will have the resources for predominantly commissioned research and will undertake some in-house research. It will undertake formal and informal consultations, including the immigration outlook conferences proposed by the Committee. It will also make an important contribution in facilitating policy development elsewhere in my Department".

The BIR would go onto produce some outstanding research until it was abolished by the Howard Government in 1996 with its resources being re-distributed within the Department of Immigration.

Most other CAAIP recommendations were implemented over the next five years although it was not until the Howard Government that the program was given the much greater economic edge that CAAIP recommended.

National Population Council (NPC)

In 1986, the NPC[ccclii] said that "by adding younger people, immigration retards demographic ageing." This was subsequently reinforced by Immigration Minister Young who said "without immigration we would experience an accelerated ageing of the population, a steep increase in welfare payments and therefore higher taxation."[ccccliii]

But subsequently in its final report in 1991, the Population Issues Committee of the NPC was more ambivalent on the use of immigration to slow the rate of ageing. Diamond (1994)[ccccliv] describes the report as "an excellent document which would have given the politicians a clear indication of the policy issues…followed by a call for a population policy and a description of the agenda for such a policy to be effective."

The Withers Report (1992) also made a strong case for development of a national population policy as it considered population issues from not just an economic perspective but also in terms of the environmental and social dimensions That recommendation was supported in a subsequent report by the ALP's Barry Jones but development of a genuine population policy remained an elusive proposition.

The Hawke Government had thus established the framework for a long-term immigration policy although the onset of the 1991 recession meant that the Keating Government would remain limited in how far it could progress the immigration and population agenda the Hawke Government had established.

The final report of the NPC titled *Population Issues and Australia's Future* was provided to Prime Minister Hawke in the period immediately before he was replaced as Prime Minister by Paul Keating. Thus Hawke was unable to progress the agenda outlined in that report. Keating was of course confronted by the recession of the early 1990s which led to a major reduction in immigration. In the immigration area, the Keating Government was pre-occupied with addressing the situation of the Chinese students as well as implementing the new Migration Regulations 1994 anticipated by the 1989 amendments to the Migration Act.

Linked to the CAAIP recommendations, the Hawke Government also adopted a new points system to select Independent and Concessional Family migrants from 1 July 1989. The points system was re-developed by a National Population Council Working Party under the chairmanship of Professor Glenn Withers. Immigration Minister Robert Ray (1988)[ccclv] advised Parliament that "the Government has adopted a new points system which will be used to select certain categories of migrant from 1 July 1989. The points system was developed by a National Population Council Working Party under the chairmanship of Glen Withers, Professor of Economics at Latrobe University. It followed extensive research and model simulation, together with consultation with peak employer, employee and community groups, and took the Committee's proposed system as the basis for development. Under the points system, independent applicants will be numerically assessed against an employability factor which awards points for skill, age and language, while extended family migrants

will be separately assessed on the basis of points awarded for employability-excluding language-and attributes of the sponsor".

By using a separate points test for extended family migrants, the Hawke Government set in place arrangements that could be used to better regulate family migration in a manner that has not been possible in countries such as the USA and the UK.

Overseas students

In response to a question on notice, Labor's John Dawkins (23 August 1983)[ccclvi] advised the number of students enrolled in universities and colleges of advanced education were:

- 1980: Universities – 8,058; CAEs – 1,761
- 1981: Universities – 9,181; CAEs – 1,860
- 1982: Universities – 9,857; CAEs – 2,152

In 1984, two significant government reports made recommendations on overseas students. The 1984 Goldring Report[ccclvii] titled *Mutual Advantage*, noted the "overseas student program has brought a great many political, economic, educational and other benefits to Australia, particularly in the context of our relations with the countries of the Asian and Pacific region. Many of the benefits cannot be measured in monetary terms, but they are nonetheless very real and, collectively, show that the program has served Australia's interests well."

The Jackson Report on Australia's Overseas Aid Program (also released in 1984) [ccclviii] found "education should be regarded as an export industry in which institutions are encouraged to compete for students and funds. This would require a more positive attitude towards acceptance of foreign students in Australia. Scholarship funds would be simultaneously provided through the aid vote to promote development and equity. Improvements in the Australian graduate training system are urgently needed to enable Australia to compete with countries such as the, United States for students of high calibre, This would provide education that is more relevant to developmental needs, benefit Australian students and assist the Australian economy."

Opposition spokesman Peter Baume (October 1984)[ccclix] set out the Coalition's position on these two contrasting reports.

He considered the Jackson Committee had come up with a more definitive solution in proposing the hidden subsidy of about $70m a year be pulled out and reapplied. Baume said the "Opposition believe that if the $70m subsidy were pulled out, made explicit and applied back to education to provide extra places on a government to government basis we would be able to take many more than the 2,000 sponsored students than we are taking at present. But if that money were applied back to the education system, the displacement of resident Australians would end. The Jackson Committee approach is attractive in that respect."

"The Jackson Committee also suggested - and this is contentious - that students over and above the extra thousands who come under government to government arrangements should be allowed to come to this country if they pay their way. I find nothing wrong with that. We have a tertiary education system in Australia which is of high quality. We have educational institutions desperate and anxious to increase the number of people they are teaching. There are students in South East Asia and in our region who are desperate to be taught. At present, those students have to go to

North America or England if they cannot get places here. They have to pay their way in those countries."

Baume argued Jackson's approach "would end the displacement of resident Australians from our campuses. It would allow as many or more overseas students to come to this country as come already. It would allow universities and colleges to give these people the benefit of their excellent teaching. It would enable some expansion within the education sector because the full cost that would be paid by these students would probably include $100 to $125 as capital over and above the tuition cost."

In March 1985, Minister for Education Susan Ryan[ccclx] announced that the Government had decided on a new overseas student program, adopting basically the Goldring approach, with the following main features:

- An annual ceiling on overseas students in all categories, to be determined by the Government, and not to exceed aggregate numbers applying at that time.
- Institutions would have flexibility to enrol overseas students up to 10 per cent of their total number, and up to 20 per cent in any course, within the overall ceiling.
- The overseas students charge would be increased to 35 per cent of the full cost of a place in 1986, and 45 per cent of the full cost of a place in 1987 according to the cost of course undertaken.
- An overseas student office in the Education portfolio would administer the overseas student program as a 'one-stop shop' for students themselves, institutions and others interested in overseas students.
- Overseas students sponsored by the Australian Government would remain with the Minister for Foreign Affairs.
- There would be separate quotas for individual countries determined by the Minister for Foreign Affairs and the Minister for Education.
- The Minister for Immigration and Ethnic Affairs would be responsible only for visa and entry permit matters.
- Overseas students not able to be accommodated within the quota of students subsidised by Government, institutions would be allowed to offer places at full cost in courses, separate from their normal degree and diploma courses, which are specifically designed for overseas students.

The Government had moved significantly down the pathway to a fully-fledged export of education industry but not as far as the Opposition had suggested in its support for the recommendations of the Jackson Report.

At the same time, the Opposition (Ruddock 1986)[ccclxi] continued to express concern about the impact on Australia's reputation of the increased overseas student charges. For example, Philip Ruddock said in October 1986 that "the uncertainty and the disadvantage that those students will suffer as a result of the size of those increased fees are such that they are likely, in my view, significantly to damage Australia's reputation."

In late 1986, the Government (Ryan 1986)[cccLxii] further encouraged educational institutions to offer full fee paying courses to more overseas students by permitting them "to retain a part of the capital component of the full fees that they charge overseas students. Under these arrangements institutions would retain the full capital element of fees until the end of 1988, 75 per cent in 1989, and 50 per cent in 1990. Institutions were free to use this revenue to develop new facilities, which in turn will generate a further capacity for export activity. The Government has also decided that the remaining 50 per cent of the capital component in 1989 and 1990 will be applied through the Commonwealth Tertiary Education Commission to priority capital projects across the higher education sector. It is clearly now very much in the interests of institutions themselves and of the sector generally that they pursue the opportunity for the development of full cost courses."

The Minister for Trade, John Dawkins (1986)[cccLxiii] highlighted the involvement of private sector organisations. In response to a question without notice he said "it is about a year ago that my colleague the Minister for Education and I announced new policies to encourage the export of educational services…the private sector has also responded, with 120 private sector organisations being registered to offer courses to overseas students. This is an important development. Australia is trying to diversify its export activities, and getting into the services area, particularly education services, is very important for us. It is entirely a result of the changes in policies which this Government undertook a year ago and more recently, when we allowed institutions to retain a proportion of the capital element of their fees to be used within those institutions. We have also streamlined the issuing of visas to overseas students in order to make it easier for them to obtain entry into this country."

"The benefits from this development will first arise, of course, in a modest way in 1987, but in future years I think we will see this making a significant contribution to turning around our balance of payments."

The streamlining of visa processing in this context was particularly important.

In response to a question on notice from Mr Hollis, the Minister for Employment, Education and Training, Mr Dawkins[cccLxiv] advised that as at 30 June 1988, there were "13,084 overseas students undertaking tertiary courses in Australia under the Private Overseas Students quota-controlled subsidised program. In addition, there were 2,641 private students undertaking tertiary courses on a full fee-paying basis, and 1,441 tertiary students fully-sponsored by AIDAB."

Senator Walsh advised that as at June 1989, "there were some 32,000 full fee paying overseas students in Australia."[cccLxv]

The rapid increase in numbers, a high rate of overstay and non-compliance with visa conditions amongst the students was raising concerns within the Immigration Department from as early as 1987. Minister for Immigration Senator Robert Ray said (1989) [cccLxvi] in a Senate Estimates hearing that "there is enormous concern about that. My Department has been concerned about it for a year and a half. It was one of the reasons why major changes were announced a month ago to the short-term courses in Australia. We made very dramatic changes. We had been concerned about short term courses being used as a way of bypassing normal migration procedures. People may be coming to the country simply to work rather than to study. So there has been a massive tightening up."

This tightening up eventually led to establishment of the gazetted and non-gazetted country regime which provided for more rigorous processing of student visa applications from higher risk countries.

While the rapid increase in numbers and a high rate of overstay amongst the students was raising concerns within the Immigration Department from as early as 1987, the matter was brought to a head with the Tiananmen Square massacre on 4-5 June 1989. Hawke (1989)[cccclxvii] said in Parliament "this is a very worrying time for Chinese students in Australia. We in the Government are aware of their fears about being sent home to China in its current state. We have already announced that visas for Chinese students will be extended until 31 July and that no action will be taken during this period against Chinese nationals who have already overstayed their visas."

Leader of the Opposition, Andrew Peacock (1989)[cccclxviii], supported the Government and indeed suggested the Government extend "the period in which nationals of the People's Republic of China may remain in Australia - not just until 31 July, next month, as referred to by the Prime Minister but for a period of one year."

The situation led to a rapid increase in applications for onshore refugee status, predominantly from Chinese students but also from Sri Lankan and Lebanese visitors and students in Australia at the time due to tensions in their homelands. Such a large number of temporary entrants not wanting to leave was a situation Australia had not faced since the arrival of non-European refugees during World War II – something that Menzies wrestled with for many years before eventually allowing the refugees (including the non-European spouses of Australian citizens) to remain.

To deal with the large number of onshore refugee applications, Immigration Minister Gerry Hand[cccclxix] on 27 June 1990 announced the introduction of four-year temporary entry permits within the refugee and humanitarian categories. The new arrangements separated the obligation to offer protection from the practice of granting automatic permanent residence to those found to be refugees. All persons holding these temporary entry permits were provided with a range of social support.

<u>1 November visa categories</u>

In 1994-95, the Keating Government increased immigration planning levels (Migration and Humanitarian Programs combined) to 98,800 visas (Home Affairs website – Historical Migration Statistics). To some degree, this increase was necessary to accommodate the so-called '1 November' categories. These were named so because they were announced on 1 November 1993. At the time, the Government did not wish to use a name that suggested these categories were essentially humanitarian in nature, especially as the 1 November categories would be counted as part of the Skill Stream.

The 1 November categories catered mainly for the Chinese students who were in Australia on 4 June 1989 (ie Tiananmen Square) and had been given four-year temporary entry visas plus people who had already applied for a student visa prior to 4 June 1989. The total number of visas issued under the 1 November categories eventually reached around 42,000 over a period of three years (Rizvi 1997)[cccclxx]. This increase in permanent visas for people from China had significant downstream family reunion implications, particularly the spouses and parents of the students. But in terms of NOM, the people involved had already been counted when they received four-year temporary entry visas under Gerry Hand.

The 1 November arrangements were strongly criticised by the Opposition (Phillip Ruddock (1991)[cccclxxi] and Senator John Short in particular) who said these cases should have been dealt with

under the standard onshore protection processes. They also suggested these arrangements set a dangerous precedent. Given the original basis on which they were granted temporary residence, it is highly likely, however, that if the people who benefited from the 1 November arrangements had been required to go through the onshore protection process, the outcome would have been much the same (ie permanent residence for almost all the 42,000 applicants), albeit achieved much more slowly and with a great deal more cost.

From an overseas student perspective, the Tiananmen Square incident led to very major tightening of overseas student policy that persisted until the end of the 1990s through the gazetted and non-gazetted country regime (ie separating 'high overstay risk' countries from 'low overstay risk' countries).

Immigration Minister Robert Ray[ccclxxii] said "the new policy governing the entry of applicants wishing to undertake non-formal study courses of less than 12 months duration and ELICOS (English Language Intensive Courses for Overseas Students) has been introduced to curb a real overstay problem. The overstay rate for students from all countries in these programs is 23.3 per cent. In 1988-89 21,483 persons were issued visas to undertake ELICOS. By way of contrast, the overstay rate for visitors is 1.8 per cent and over 1.3 million visas were issued in 1988/89 under this program. The overstay rate at the end of May 1989 for students from the People's Republic of China (PRC) was 40 per cent. Since 1 January 1986, 15,111 PRC students have arrived in Australia and up to the end of May 1989 only 1,685 (or 11.2 per cent) had left Australia."

The tightening of policy also led to the closure of a large number of private colleges and exposed the lack of a safety net for overseas students attending such colleges. Another issue was that student visa applicants had paid fees to education institutions in Australia but their visa had not been processed. As a result, and despite policy tightening, the number of students from China continued to grow for at least a year after the Tiananmen Square incident. The Minister for Immigration, Senator Bolkus (1990)[ccclxxiii] told Parliament that as of "June 1990 there were some 44,400 nationals of the People's Republic of China (PRC) temporarily in Australia, most of whom would have arrived as ELICOS students. Of this number:

- some 19,400 were here on 20 June 1989 and have not since departed or been granted permanent residence (eg through marriage);
- the balance of 25,000 is the net number of arrivals after 20 June 1989 less departures and change of status cases. This figure is based on actual numbers to February 1990 and estimates for arrivals for the period March to June 1990.

Drawing on an Industry Commission Report by former Immigration Deputy Secretary Tony Harris (1991)[ccclxxiv], the Government introduced significant new regulations to manage the education of export industry. A key finding of the Report was that "a balance must be sought between the need to minimise the costs of excessive illegal immigration, in the form of finding and deporting those who overstay or otherwise fail to comply with visa restrictions, and the need to minimise the intensity of checks on student applicants so as to discourage as few genuine students as possible. There are costs in being too strict, and there is a different set of costs if policy is too lenient."

As a result of the policy tightening, overseas student numbers remained subdued for much of the 1990s although concerns about unscrupulous education providers and student non-compliance continued to be raised (eg Kim Carr 1999[cccLxxv]; Chris Ellison 1999[cccLxxvi]).

Unauthorised boat arrivals and mandatory detention

The Hawke and Keating Governments were also challenged by a new wave of unauthorised boat arrivals from China and Cambodia. Hawke's (Kelly 2009)[cccLxxvii] response to this group in 1990 varied markedly from his response to the Chinese students. He was blunt: "Do not let any people…think that all they've got to do is break the rules, jump the queue, lob here and Bob's your uncle. Bob is not your uncle on this issue. We're not going to allow people just to jump that queue."

Hawke's uncompromising comments on this group of boat arrivals would subsequently be used against the Government by lawyers challenging decisions initially to refuse them Refugee Status. It provided a lesson for future Prime Ministers and Ministers for Immigration to use more careful language regarding the outcome of possible motives of visa applicants while their applications were still to be considered.

Soon after becoming Prime Minister, Paul Keating followed up Hawke's statement with introduction of a policy of mandatory detention of unauthorised arrivals in conjunction with a universal visa requirement that meant any non-citizen seeking lawful entry to Australia, or the right to remain in Australia, must have a visa. The universal visa arrangements also required the introduction of visas for New Zealand citizens entering Australia – the so-called 'Special Category Visa' (this was not fully implemented until the 1994 Migration Reform Act).

To implement the mandatory detention policy for unauthorised arrivals, detention centres were established in remote locations starting with one at Port Hedland from the early 1990s. The policy also signalled the start of an ongoing struggle between the Executive and the Judiciary on how unauthorised arrivals should be dealt with.

Universal visa requirement

The universal visa requirement was highly unusual in the early 1990s. No other major developed economy had at that time adopted such an approach. Major developed nations favoured the use of 'visa waivers' for short term entrants from other developed nations, with any necessary immigration or other assessments being undertaken at the border. The Australian tourism industry was particularly vocal in its opposition to the universal visa requirement arguing that it put Australian tourism at a competitive disadvantage.

In response, the Immigration Department developed the Electronic Travel Authority (ETA) to enable both rapid visa processing but still enabling basic checks against an alert list to be undertaken. The ETA was also significant in that it allowed travel to Australia without a visa label in the visa holder's passport; nor did the intending traveller formally go through a visa application process as this was managed as part of the process of purchasing a ticket to travel to Australia. The broad approach embodied in the ETA has subsequently been adopted by the USA (albeit the applicant has to lodge an online application) following rising concerns about terrorism and national security (Rizvi 1997).

The universal visa requirement also necessitated introduction of a system of 'bridging visas'. While the intention was that the number of these should be limited, the backlog of such visas has grown significantly over time and particularly in recent years to over 200,000 at times (data.gov – temporary entrants in Australia).

One less well-known benefit of the universal visa requirement was that it enabled Australia to maintain a better estimate of the level of overstaying – the overall number, length of overstay and source countries.

Response to 1991 recession

With the advent of the 1991 recession and unemployment rising to over 11% and interest rates to 17% , the Hawke and Keating Governments reduced the intake (Migration and Humanitarian Programs combined) significantly to:

- 123,500 visas in 1990-91 of which the skill stream was 40.3%;
- 110,900 visas in 1991-92 of which the skill stream was 37%;
- 79,700 visas in 1992-93 of which the skill stream was 26.7%; and
- 76,900 visas in 1993-94 of which the skill stream fell to 23.8% (Home Affairs website – Historical Migration Statistics).

The Leader of the Australian Democrats, John Coulter (1992)[cccIxxviii], said Keating's admission "the Government had been making decisions on population and immigration without reference to our capacity to house them, was very valid. He now needs to take the next step and recognise that the size of our immigration intake must be determined by the sustainable carrying capacity of this country…immigration needs to be cut and maintained at a lower level. We should not have wild swings in the program for demographic, economic and social reasons."

Opposition Leader John Hewson[cccIxxix] argued in March 1993 that the reductions the Keating Government had made had not gone far enough. He said "[f]airness demands reduction until there are jobs available, both for people in Australia as well as those intending to come here." Hewson also suggested a set of reforms including "better labour market testing of applicants, more rigorous bona fides testing (eg for fiancé and spouses), denial of social security benefits for the first two years (except for refugees and special hardship cases), and an increased emphasis on English language proficiency."

While not specifying the size of the further cuts to immigration (or the categories to be cut), Hewson noted that "our immigration program during previous recessions has fallen to as low as 50,000 net."

In fact, it had fallen much lower than 50,000 net during the 1975 recession and fell to a low of around 34,900 in 1993 and 55,500 in 1994 without any further cuts to planning levels. The relatively weak economy itself delivered much of the reductions, as it had previously in 1983, 1975 and 1952 (ABS Cat 3105).

The outcome highlighted how quickly and how far net migration can fall during a serious recession, exacerbating a negative impact on aggregate demand.

The reductions in net migration were accentuated by a major tightening of the overseas students program, particularly from China. The Government introduced the concept of gazetted and non-gazetted countries, where student visa applications from gazetted countries would receive streamlined processing and greater reliance on education providers to ensure they were recruiting genuine students. Student applications from non-gazetted countries would be scrutinised much more closely and as a result student visas from non-gazetted countries fell significantly. China was designated a non-gazetted country.

The Government began to use capping powers to limit the number of visas issued under the working holiday maker program – a measure that was strongly opposed by the Tourism Industry but was called for by the Union movement.

It also tightened policy on the entry of parents (and other aged relatives) through introduction of a 'Balance of Family' test whereby at least half of a parent's children had to be permanent residents or citizens of Australia. In 1991 Gerry Hand announced that the 'Assurance of Support' arrangements would also require payment of a bond that would be drawn down should the sponsored parent/relative access certain social security payments. This was introduced in conjunction with a health services charge that would partly offset the costs of health services that the parent/relative may use. These were the start of a steady tightening of policy on the migration of parents and elderly relatives.

Working holiday makers

With high unemployment in the early 1980s, the ALP increasingly raised concerns about WHMs taking Australian jobs (Young 1982).[cccclxxx] There were also concerns of an imbalance in the program with more people coming to Australia under the reciprocal arrangements than Australians going overseas under these arrangements. (West 1983)[ccclxxxi]

Immigration Minister Stewart West (1983)[ccclxxxii] continued to express concerns about WHMs. "Working holiday makers sign a piece of paper which says: 'I will not seek permanent residence. I will work for three months in a particular job to supplement my working holiday and then move on'. They then come here, get a job and blatantly continue working for up to 12 months. Then, because the employers think that they are good workers, or because they can get their employers to say that they are good workers to suit their own ends, they seek to change their status to permanent resident. There are some very severe implications if we let people get away with that."

Immigration Minister Robert Ray (1989)[ccclxxxiii] was more positive indicating an interest in negotiating more reciprocal agreements, possibly with Italy and Greece. In 1991, Withers and Birrell[ccclxxxiv] produced a report for the National Population Council recommending agreements with a wider range of countries.

But the recession of the early 1990s led to pressure from the ACTU to limit the program. In response to a question without notice, Senator Bolkus (1991)[ccclxxxv] tried to reassure Parliament saying "I think the ACTU had two specific concerns: one was the actual number of working holiday-maker arrivals in Australia. There has in fact been a major increase in the number since 1983-84, when something fewer than 6,000 working holiday-makers arrived here. In the financial year 1988-89 the number was somewhere in the vicinity of 45,000. However, in the last financial year there has been a trending back of about 10 per cent, to 40,000."

Roach report on skilled temporary entry

A somewhat overlooked initiative of the Keating/Bolkus era was the commissioning of a report on skilled temporary entry by the CEO of Fujitsu, Neville Roach. This report eventually led to introduction of the sub-class 457 visas in 1996 by Coalition Immigration Minister Philip Ruddock.

The Bolkus view on skilled temporary entry sat in marked contrast to the traditional ALP view of employer sponsored migration. Immigration Minister Stewart West, for example, had promised to 'crack down' on alleged occupation shortages used by employers to sponsor migrants to Australia.

In releasing the Roach Report, Bolkus (1995)[ccclxxxvi] said "companies of good standing will be able to bring in key personnel much more quickly through streamlined sponsorship arrangements; waiver of labour market and skills testing for certain key activities, and much simpler and faster health assessment procedures."

Bolkus said in his 1995 media release that a 'key activity' would be defined quite broadly as "an activity which would have a significant impact on the overall success of the employer's business and which requires specialised skills or proprietorial knowledge. It does not include unskilled or semi-skilled or skilled trades activities. These, as well as specific occupations and professions, will be controlled by policy guidelines which will require full labour market testing."

Procedures for extension of stay were also to be streamlined. Bolkus said "the new approach involves a degree of self-regulation on the part of employers who have demonstrated that they are good corporate citizens, and therefore can be expected to act in Australia's interests."

Employers of 'good standing' would be able to apply for pre-qualified status that would obviate the need to re-apply for sponsorship for subsequent visa applicants. These employers nominating a 'key activity' would be exempt from both labour market testing as well as any skills assessment of the visa applicant.

Health assessments were to also be streamlined with no medical examinations required except where a medical declaration showed a public health risk. Formal police checks would also not be required.

The visa sought to streamline entry to Australia for up to four years. A key objective was speed of processing to deal with an increasingly inter-connected business world's need to rapidly access urgently needed skills. The visa was originally designed for:

- personnel (executives, managers and specialists) of companies operating in Australia;
- personnel of off-shore companies seeking to establish a branch in Australia; participate in joint ventures; or fulfil a contract awarded to an off-shore company;
- independent executives seeking to establish a new business or joining an existing business in Australia; or
- personnel coming under a labour or regional headquarters agreement.[ccclxxxvii]

Citizenship

A report by the Joint Standing Committee on Migration, *Australians All – Enhancing Australia Citizenship*, in 1994 recommended widespread promotion of citizenship coordinated by the Commonwealth: It said that "Such promotion should serve the dual purpose of encouraging non-citizens to become Australian citizens and increasing awareness among all Australians about the meaning and value of Australian citizenship."

The Keating Government continued Australia's post-war tradition of encouraging take up of citizenship by permanent residents.

Chapter 4: Howard's Tightening

Election of the Howard Government in March 1996 led to seismic shifts in immigration policy.

Most of the media attention was on how Howard and Ruddock dealt with the new Member for Oxley, Pauline Hanson, and later with how they dealt with unauthorised boat arrivals. However, in terms of the broader impact on Australia's population, economy and society, it was measures dealing with the migration and humanitarian programs as well as temporary entry arrangements that had the much larger long-term impact on Australia's economy and society.

Antecedents of Howard's Tightening

Some of the policies adopted by the Howard Government had been signalled by the Coalition from the early 1990s when Ruddock was Shadow Minister for Immigration. In an undated media statement from the early 1990s (on the APH website), Ruddock highlighted the "need to address the size of the program and its skill composition and the need for consistency in decision-making, particularly in relation to refugee determination. We have also stressed the importance of bona fides testing where other matters, such as a marriage relationship or study, are the basis for contrived entry."

Ruddock went on to say "we have also stressed the importance of English language competence…the shift in the balance of the program from skilled to family entry occurred early in Labor's term in office. After many critical reports, such as the Fitzgerald Report, about the low skilled outcome of the program, the government was unwilling to change the emphasis on family reunion but opted for a rapid increase in the overall size of the program to accommodate more skilled entrants."[cccclxxxviii]

This theme also shows up in Howard's comments on Asian immigration in the late 1980s (see Chapter 3). And while Hewson had argued for further reductions in immigration when Keating was Prime Minister (see Chapter 3), there was no mention of cutting immigration in Howard's 1996 Election Policy speech.

Indeed, that speech (Howard 1996)[cccclxxxix] referred to "introduction of policies and attitudes that would strengthen the role of the family. For most Australians, whatever our circumstances and whatever our attitudes on other things, it is from our families we draw our greatest emotional and spiritual nourishment. It is from our families that we have sought the values that we take through life. It is our families that provide us with a roof over our heads and provide us with sustenance, as well as moral and emotional support."

"I think all of us recognise that apart from the other great qualities of families – stable, united, functioning families represent the most effective welfare system that any nation can ever devise. I listen to a lot of families. I listen to a lot of people as I go around. I spend a great deal of my political time listening rather than lecturing, and the message I get from families is that they want more choice."

In referring to 'families', Howard does not appear to include the families of migrants or to overseas born people that Australians may marry. Howard's views on family migration contrasted significantly with those of former Coalition Immigration Minister Ian Macphee in his 1981 Ministerial Statement on Australia's Migrant Selection System (see Chapter 3). Arguably this was linked to Howard's views on Asian migration expressed in 1988 and the subsequent changes to citizenship laws made by Howard in September 2005.

Rationale for reducing Migration and Humanitarian Programs

In his early years in power, Howard significantly reduced permanent migration (the migration and humanitarian programs combined) and shifted the balance towards the skill stream and a significant reduction of places in the family stream:

- 1995-96 – 98,752 visas with 24.4% skill stream; 59.1% family; 16.5% humanitarian
- 1996-97 – 85,489 visas with 40.6% skill stream; 45.5% family; 13.9% humanitarian
- 1997-98 – 78,895 visas with 43.7% skill stream; 41.0% family; 15.3 humanitarian
- 1998-99 – 79,179 visas with 44.1% skill stream; 41.6% family; 14.3% humanitarian
- 1999-00 – 80,160 visas with 44.1% skill stream; 43.5% family; 12.4% humanitarian (data.gov, historical migration statistics)

The rationale given for the reductions (both for 1996-97 and 1997-98) was that "because of high levels of unemployment, a further reduction in migration is desirable at this time." (Ruddock 1997) [cccxc]. The linking of immigration to unemployment was pure Howard – Ruddock did not have the same view on the immigration and unemployment relationship. It is notable from the Howard Government Cabinet Papers (Bagshaw 2019)[cccxci] that Ruddock had in fact recommended a small increase in the migration program in 1996-97 and not the reduction Howard secured because of his view that unemployment and immigration were linked.

While unemployment in 1996-97 was still high at around 8.5 percent, it had fallen from above 11 percent in 1992-93 and was trending down (ABS: Cat 6202). The reductions in the intake in 1996-97 and 1997-98 (and maintained at the 1997-98 level in 1998-99) were the first reductions in the formal migration intake since the start of the post-war migration program that took place when unemployment was falling (see Table 4.1). The other four major reductions in migration planning levels since World War II (ie 1952-53 (Menzies); 1972-75 (Whitlam); 1983-84 (Hawke) and 1991-93 (Keating) were at least partly in response to a significant rise in unemployment (ABS Cat: 6202) and slowing economic growth (ABS Cat:5206).

Table 4.1: Outcomes for Migration (non-Humanitarian) Programs

Visa Category/Stream	1995-96	1996-97	1997-98	1998-99	1999-00
Spouse	27,790	22,130	22,440	21,632	22,970
Prospective Marriage	5,760	3,000	3,350	3,110	3,360
Child	2,540	1,900	1,910	2,069 (inc Adoption)	2,170 (inc Adoption)
Child – Adoption	290	300	280	NA	NA
Parent	8,890	7,580	1,080	3,123	1,800

Preferential – Other	2,800	1,930	1,860	1,807	1,280
Interdependent	650	400	390	295	330
Concessional Family	8,000	7,340	NA	NA	NA
Total Family	**56,700**	**44,580**	**31,310**	**32,036**	**32,000**
ENS, RSMS, Labour Agreements	4,640	5,560	5,950	5,583	5,390
Business Skills	4,900	5,820	5,360	6,077	6,250
Independent	10,600	15,000	13,270	13,639	15,610
Skilled Australian Linked	NA	NA	9,540	9,312	7,900
Distinguished Talent	200	190	180	211	110
1 November	3,800	980	370	178	60
Total Skill	**24,100 (29.2%)**	**27,550 (37.3%)**	**34,670 (51.7%)**	**35,000 (51.5%)**	**35,330 (50.3%)**
Special Eligibility	**1,700**	**1,730**	**1,110**	**889**	**2,850**
Total Program	**82,500**	**73,900**	**67,100**	**67,925**	**70,280**

Source: Rizvi, SOPEMI Reports 1997, 1998, 1999 and 2000

Immigration policy of Australian Democrats

Also relevant was the population and immigration policy of the Australian Democrats. The third force in Australian politics at the time and often critical to the passage of legislation in the Senate, the Democrats argued Australia should strive for a stable population by adopting a policy of zero net migration (even though zero net migration would not deliver a stable, or more correctly, a stationery population). This view was led by Dr John Coulter, Australian Democrat Senator for South Australia, and subsequent National President of *Sustainable Population Australia.*

Between 1990 and 1995, the Australian Democrats held three policy ballots amongst their members on the level of immigration. As a result of these ballots, the Democrats adopted a formal population policy including a commitment to "Australia's migration levels (immigrants [including refugees] less emigrants) shall not exceed that number that will allow the population of Australia to be stabilised at a level which is consistent with an indefinitely sustainable environment."[cccxcii]

Despite this policy, the Australian Democrats would play a crucial role in limiting Howard's ability to secure the changes he wanted to reduce immigration levels, particularly the family stream. How the Democrats expected their policy of zero net migration to be delivered without the changes Howard wanted remains a mystery.

In debate on these measures, Senator Vanstone (1996)[cccxciii] said "if the Democrats were not to support this, if they were to prevent the government from delivering a program of 74,000, it would seem to be inconsistent with their own immigration policy which, as I understand it, is a policy of zero net migration…The National President of the Australian Democrats, Tony Fountain, in a letter to the editor just recently said 'The policy of the Australian Democrats on immigration is, in essence, that our numbers coming into the country should equal in any one year those of the people leaving."

Influence of Pauline Hanson

The decision to reduce the size of the 1996-97 intake was made a number of months before the Member for Oxley, Pauline Hanson, made her maiden speech on 10 September 1996. While Hanson argues many of the immigration measures the Howard Government took were due to her influence, tightening immigration processes and giving the program a strong economic focus had been longstanding Coalition policy. Indeed, Howard had anticipated reducing the size of the Family Stream in his 1988 interview with John Laws on Asian migration (see Chapter 3).

Journalist Paul Kelly[cccxciv] in his book *The March of Patriots* suggested the second cut in immigration levels (ie for 1997-98) was "pure Hanson appeasement. Even worse, Howard endorsed Hanson's claim that immigration caused unemployment." (Kelly 2009). Kelly may well be right about Howard wanting to appease Hanson but he offers no direct evidence to support his claim that the cut in the intake for 1997-98 was "pure Hanson appeasement" other than the fact Howard was slow to reject Hanson's comments on Asian migration.

It is important to recognise that simultaneously making large adjustments to both immigration levels and structure is not a single-year exercise. The global application pipelines for each visa category are extensive with processing times for some visa categories being, at that time, in excess of six to nine months (and much longer today). Clearing the pipeline of applications, even for visa categories that may be closed to new applications, extends over many years depending on the number of program places available.

Family sponsored visa applications in particular carry legal rights of review (through the sponsor). The Government's power to restrict (or cap and queue) the number of visas granted is limited to specific categories (s86 and s87 of the *Migration Act 1958*). Criteria for each visa category are set in either primary legislation and/or in regulations. Amendments to primary legislation or changes to regulations, particularly for Family Stream visas, are controversial and difficult to achieve (note comments of Senator Vanstone above).

Once changes are approved, implementation requires modification of complex IT systems, training of staff located around Australia and overseas who must apply the new rules/processes and development of public information for applicants, sponsors and the general public. Making these changes can often take many months. Dealing with regulations that are disallowed in the Senate carry the added complexity the regulations were in force for a period and then abruptly ceased to be in force.

These multiple factors meant the Howard Government could not achieve in one year its desire to make large cuts to each visa category in the Family Stream to a level he viewed as acceptable; re-balance the program towards the Skill Stream; give Skill Stream visas a sharper economic focus; and improve the integrity of each visa category. It would take a number of years to bring about the changes the Howard Government wanted.

Tightening of family migration and shifting the balance towards skills

Despite Howard's comments about the importance of family in his 1996 Election policy speech, his Government was particularly concerned about growth of the Family Stream due to the difficulties these migrants were having in the labour market. Senator Vanstone in 1996 referred in Parliament to "high and sustained levels of unemployment in the preferential family category".[cccxcv] The Government was also concerned about the budgetary costs associated with the Family Stream and reports of abuse of the provisions, particularly use of contrived relationships to access partner visas.

In debate on proposed amendments to the *Migration Act* to enable the Government to better manage demand in the Family Stream, Vanstone (1996)[cccxcvi] said "[t]he Family Stream was allowed to grow by 27 percent during 1995-96. The effect was that it made up almost 70 percent of the Program (Vanstone was referring to the Migration (non-Humanitarian) Program), with a growth of 32 percent in the number of spouse visas granted and a growth of 74 percent in the number of parent visas granted. This growth was allowed to occur at the expense of the Skilled Stream of the Program."

Much of this growth was the flow on family migration consequences of the '1 November' provisions referred to in Chapter 3.

The package of policy and legislative changes announced with the reduction in the 1996-97 intake were wide-ranging and controversial. The following changes were made (or attempted):

Securing the power to limit the number of visas issued in all visa categories and in particular the spouse visa categories (capacity to "cap and queue" as well as "cap and terminate" other visa categories had been available since 1989). This measure was included in Migration Legislation Amendment Bill (No 3) 1996. The Hawke Government in 1989 had unsuccessfully sought the power to cap spouse visas (along with all other visa types). At that time, in opposing granting this power to the then Government, the Coalition in Opposition had argued use of such a power in respect of spouse visas would be 'unconscionable' (Ruddock 1989).

But in 1996, the Coalition Government[cccxcvii] argued "[i]t is Australia's sovereign right to decide the total level of immigration to Australia. It is also Australia's sovereign right to decide the balance between the various immigration categories. The proposed amendments will enable the government of the day to determine, if necessary, the number of people in every migration category able to enter Australia each year."

Ruddock also argued the size of the spouse category had grown to such a degree that it was important the Government had the capacity to cap its numbers.

This aspect of the Bill was defeated in the Senate which effectively meant that unless the Government could reduce demand for partner visas, it would need to focus more on restricting the number of visas in non-partner categories of the Family Stream (ie especially parents). In more recent years, the Government has used administrative measures to limit the number of partner visas issued. It is arguable whether this is legally permissible under s87 of the Migration Act which prohibits the capping of spouse visas.

A two year cohabitation requirement for applicants in a de facto or interdependent relationship (with an exemption for circumstances where there are children as a result of the relationship). The two-year cohabitation requirement was not extended to de jure relationships and hence required a consequential amendment to the Sex Discrimination Act. It was argued by Ruddock[cccxcviii] in 1996 that "[a] key feature of migration entitlements based upon relationships must be that those involved

have a long-term commitment to each other. Short term or transitory relationships should not provide non-Australians with the lifelong right to live in Australia." – a one-year requirement was eventually approved by the Parliament.

Limiting serial sponsorships. The Government proposed that sponsors should be limited to sponsoring two partners in a lifetime and there be a minimum of five years between sponsorships – this measure was supported in the Parliament.

Requiring sponsors for migration in the Family Stream be Australian Citizens rather than just permanent residents and, in respect of parents, the Balance of Family children be Australian citizens. This measure would have had a significant impact on the number of new applications. The Government said that "where this demand driven category has grown to an unacceptable size and to constitute an unacceptable proportion of the program, it is reasonable to reduce this demand through recognition that the right to sponsor family members to become part of Australian society be acknowledged as a privilege only available to those who have made a public commitment to Australia by becoming an Australian citizen." (Vanstone 1996) [cccxcix].

The Australian Democrats (Stott-Despoja 1996)[cd] argued they "have concerns that these matters, potentially, are in breach of the Race Discrimination Act 1975. Honourable senators will appreciate that in the recent political climate (ie soon after Hanson's maiden speech), it is essential that not only are our immigration policies non-discriminatory, but that there is a reasonable perception of that non-discriminatory principle.". The measure was disallowed in the Senate with the support of the Australian Democrats even though the policy of that party was for zero net migration and would have been very difficult to achieve without some greater restriction of this large visa category.

Extension of the two-year probationary visa arrangements that were in place for on-shore partner applicants to off-shore partner applicants. Ruddock (1996)[cdi] said the onshore probationary arrangements had led to "a reduction between 1991 and 1994 from 9,000 to 4,500 in the number of people applying on that basis." The argument being that, irrespective of whether the applicant is onshore or off-shore, it would be difficult for people in a contrived partner relationship to sustain that relationship for two years after grant of the probationary visa – this was supported in the Parliament but did not immediately help in reducing demand for places in the Family Stream given the size of the existing pipeline of applications.

Introduction of points for English in the points-tested Concessional Family category. This measure was also opposed by the ALP and the Australian Democrats. Stott-Despoja (1996)[cdii] of the Australian Democrats said "the imposition of a 20-points test—that is, to the level of a native speaker—is going to have a disproportionable effect upon those people from a non-English speaking background. Ultimately, the balance between non-English speaking backgrounds and English speaking backgrounds would significantly alter." This measure was also initially disallowed but the Government moved from 1 July 1997 to expand the number of occupations that required functional English to around 80% and ultimately achieved its objective of a much more extensive English language requirement by re-designing and re-naming the Concessional Family category as the Skilled Australian-linked category (Rizvi 1998).

The Coalition's Election Policy commitment to extend from six months to two years the restriction on access to certain social security benefits was also implemented. This was applied in conjunction with the Assurance of Support arrangements as some types of social security payments continued to be available to new migrants. This arrangement did not apply to Humanitarian Program entrants.

The 1996-97 intake also started the shift in the balance of the intake towards the Skill Stream in a way that now represents a commonly accepted approach to immigration policy (see Table 3.1). The re-balancing was initially achieved by 'capping' a number of Family Stream categories (but not the spouse or dependent child categories as these could not lawfully be capped) and giving increased processing priority to Skilled Stream visa categories. Caps for a number of categories in the Family Stream were reached only eight to nine months into the Program Year.

Applications in these categories continued to be received and processed but were queued for visa grant in a subsequent program year (based on the date the application reached the approval stage). The rising backlog of applications that had been approved but queued for grant represented a major management challenge for the Department. It also meant that caps in the subsequent year would be reached even earlier unless planning levels were increased or demand from new applications was reduced.

1996-97 Humanitarian Program

The Government also reduced the size of the Humanitarian Program (from 16,252 visas in 1995-96 to 11,902 in 1996-97), predominantly by reducing the Special Assistance Category (SAC) that had been introduced under Gerry Hand. Ruddock (1996)[cdiii] had consistently argued the SAC was not a genuine humanitarian category but more in the nature of a family category for those who could not enter via the standard Family Stream provisions.

Under Ruddock, the SAC was closed to new applications and the number of places was steadily reduced as the pipeline of existing applications was cleared. The reduction started from a peak of 6,910 in 1995-96 (ie the largest part of the Humanitarian Program in 1995-96) to 3,848 in 1996-97, 1,821 in 1997-98 and 1,190 in 1998-99. No SAC visas were issued after 2001-02. Clearing the pipeline of applications in the SAC was another reason overall intake levels could not be reduced as rapidly as the Howard Government desired (Rizvi 1997)[cdiv].

The 11,902 outcome for 1996-97 comprised 9,652 visas offshore and 2,251 visas onshore. The source region composition was:

- 4,024 from the former Yugoslavia – 41.7 percent of total offshore grants
- 2,444 from the Middle East – 25.3percent of total offshore grants
- 1,259 from North Africa – 13 percent of total offshore grants.

On 13 June 1997, the Government announced that persons from Sri Lanka and the former Yugoslavia who had arrived lawfully in Australia on or before 1 November 1993 would be eligible to extend their visas for a further 12 months with availability of permanent residence for those who complete 10 years of residence. This approach highlighted the Government's determination to limit build-up of temporary stay arrangements for people allowed to remain on humanitarian or compassionate grounds.

Ruddock also sought to limit abuse of the onshore protection visa system by people with limited claims for protection. He introduced limits on access to work rights for people who failed to lodge a protection visa application within 45 days of arrival to limit use of the protection visa system to delay departure and a $1,000 post-decision application fee for unsuccessful Refugee Review Tribunal applications (Rizvi 1997).

1997-98 Migration Program - further reduction and re-balancing

For 1997-98, the Government decided to further reduce the Migration (non-Humanitarian) Program to 68,000 places, representing a decrease of around 20 percent since coming to Office (see Table 3.1). According to Ruddock (1997)[cdv], it also "further strengthened the emphasis on the skilled intake".

The reduction in the Program and the further shift in the balance to the Skilled Stream was achieved in two main ways:

- Significantly greater limitation on places for parents and other preferential family. The final outcome for parents in 1997-98 was capped at 1,000 visas compared to 7,580 in 1996-97 and 8,890 in 1995-96. Ruddock said "[t]he priority in the Family Stream is to provide for the reunion of migrants entering as the spouse or child of Australians. The entry of parents under the Migration Program will be substantially reduced, pending a review…Parents have a greater dependency on services being used by our ageing population and find it difficult to obtain employment or contribute economically." (Ruddock 1997)[cdvi]
- Revamping the Concessional Family category (which was predominantly for brothers and sisters sponsored by Australians) by increasing the pass mark to the same level as the Independent Category (ie from 95 to 115) and re-introduction of regulations to provide points for a strong English language requirement. This effectively meant that unless an applicant had functional English, it would be almost impossible to reach the new pass mark. Ruddock explained that "[t]he Concessional Family category will be renamed the 'Skilled-Australian Linked' category and will from 1997-98, be included in the Skilled Stream. This is because it has been transformed into a genuinely skilled category, while still offering concessions because of family links in Australia." (Ruddock 1997)[cdvii]

1997-98 Humanitarian Program

The Humanitarian Program for 1997-98 was delivered at 12,055 visas (Rizvi 1998) but with the number of places for the SAC continuing to decline in favour of the off-shore Refugee category and the Special Humanitarian Program. Consistent with advice from the UNHCR, priority continued to be given to the former Yugoslavia, the Middle East and Africa as offshore visa grants as follows:

- 5,175 from the former Yugoslavia – 49.4 percent of offshore grants
- 2,952 from the Middle East – 28.2 percent of offshore grants
- 1,445 from Africa – 13.8 percent of offshore grants.

The offshore outcome included 543 under the Women at Risk program exceeding the target of 420 places.

On shore asylum application numbers fell from a peak of 11,135 in 1996-97 to 8,111 in 1997-98. Because of faster processing, the number of applications on hand at 30 June 1998 had fallen to 2,855. A total of 1,593 protection visas were granted in 1997-98; 844 at primary stage, 680 following review and 69 as a result of Minister's intervention.

The main source countries for onshore protection applications in 1997-98 were Indonesia (19.4 percent); China (13.5 percent); Philippines (8.5 percent) and Sri Lanka (7.5 percent). The highest grant rates as a percentage of total determinations in 1997-98 were for nationals from Iran (38.4 percent); Pakistan (15.1 percent); Sri Lanka (7.7 percent); and Burma (7.6 percent).

Part of the decline in the asylum seeker application rate is likely to have been due to measures introduced in July 1997 including not granting work rights to people who lodged their protection visa applications after being in Australia for more than 45 days (Rizvi 1998).

1998-99 Humanitarian Program

The 1998-99 Humanitarian Program (Rizvi 1999) was delivered at 11,360 visas (9,526 offshore and 1,834 onshore).

The offshore component comprised:

- 4,647 visas to the former Yugoslavia – close to half the offshore intake
- 2,919 visa to the Middle East – around 31 percent of the offshore intake
- 1,552 visas to Africa (mainly Sudan and Somalia) – around 16 percent of the offshore intake

New arrangements were put in place to give the Government greater flexibility to respond to humanitarian need including places:

- not used in a program year could be carried forward to the next year or brought forward from a future year as needed;
- for people who did not arrive could be re-used;
- could be moved between the offshore and onshore component.

Applications for onshore protection increased marginally in 1998-99 to 8,257 and represented a marked contrast to the 11,135 applications received in 1996-97. The two main source countries for applications remained Indonesia (22.6 percent) and China (12 percent).

7,145 onshore asylum determinations were made in 1998-99 compared to 11,341 in 1997-98 and 13,667 in 1996-97. Countries with the highest grant rates as a portion of determinations were Iraq (26.7 percent); Iran (33.7 percent) and Sri Lanka (17.6 percent). Grant rates in 1998-99 for Indonesia were 0.12 percent and for China 0.73 percent. Applications on hand at the primary stage at end June 1999 were 3,886 with 76.5 percent of these from nationals of Indonesia (Rizvi 1999).

1998-99 Migration Program

For 1998-99, the Government announced a Migration (non-Humanitarian) Program at the same overall level as 1997-98 (ie 68,000). In making the announcement, Ruddock said "[b]ased on a migration program of this size and projected fertility levels, Australia's population should peak at around 23 million before the middle of next century."[cdviii] But Ruddock's assumptions of both net migration and fertility rates underestimated what would happen over the next 20 years.

In 1998-99, Ruddock had to deal with two growing issues – the rising backlog of parent applications with the associated criticism from migrant groups and pressure from the Victorian, South Australian and Tasmanian Governments, as well as demands from numerous regional bodies, for a greater share of the Skilled Migration intake.

Parents

Ruddock moved to extend the measures taken by Robert Ray and Gerry Hand to reduce parent migration. Ray had introduced the Balance of Family test which required half of the sponsored parent's children to be permanent residents of Australia while Gerry Hand introduced an Assurance of Support (AoS) Bond to cover any social security support required by the sponsored parents and a health service charge to cover a small portion of the health costs the sponsored parents may incur.

From November 1998 (Ruddock 1998)[cdix], the Government closed the Parent visa category to new applications from working age parents (ie 65 years for men and 61 years for women at that time) unless the parent had a dependent child in Australia. Ruddock noted "[n]ew migrants over 45 generally face extreme difficulties in the Australian labour market with unemployment rates as high as 50 percent some 18 months after arrival."

The Government created a new parent category with a higher Assurance of Support bond (increased from $3,500 for the main applicant plus $1,500 per additional adult to $4,000 and $2,000 respectively) and a higher health services charge (increased from $940 per person to $5,000 per adult and $945 per dependent child). Assurers had to demonstrate a minimum level of income to demonstrate they could indeed financially support their parents.

Applicants in the new parent category would receive a higher processing priority. The changes enabled the Government to increase places for parents from around 1,000 in 1997-98 to around 2,500 in 1998-99 (Rizvi 1998).

These measures led to the emergence of a very large backlog of parent applicants for which Ruddock was heavily criticised. But they also significantly changed the age structure of the intake (making it much younger); reduced the flow-on pressures to Australia's health, aged care and social support systems and significantly changed the long-term budget impact of immigration.

State-Specific and Regional Migration

The settlement pattern of immigrants to Australia has long been concentrated in the major capital cities of Sydney, Melbourne, Brisbane and Perth with cities such as Adelaide and Hobart as well as most regional areas receiving a disproportionately small part of the intake. To enable different jurisdictions to attract (or not attract) the skilled migrants they needed, Ruddock (1998)[cdx] announced a number of State-Specific and Regional Migration Mechanisms (SSRMs). He said "[i]f interested states and territories are able to attract a substantially increased share of the skilled intake, predominantly away from Sydney, I would be prepared to shift places from the more general skilled categories to the state specific categories."

While a number of the SSRMs were designed in a manner that tied the relevant migrant to a particular area (eg by way of an employment contract, or an agreement with the relevant state/territory or a link to an Australian family sponsor), this could only be effective for a limited period. The number and usage of these visas increased very significantly over the next 10 to 20 years but were slow to develop during the early years of the Howard Government (see Table 4.2).

The South Australian Government was a key driver behind the development of these visas against the background of its ageing and very slowly growing population. The Victorian Government also pressed to have greater access to these visas, including for Melbourne in some instances.

Table 4.2: State-Specific and Regional Migration

Visa Category	1996-97	1997-98	1998-99	1999-00	2000-01
Regional Sponsored Migration Scheme	170	581	765	664	1,021
State/Territory Nominated Independent	NA	16	169	9	85

Regional Linked	40	111	67	195	1,002
Skill Australia Linked*	850	984	1,744	2,384	1,575
State/Territory Sponsored Business Skills	66	61	59	44	122
Regional Established Business in Australia	NA	0	0	13	41
Total	1,126	1,753	2,084	3,309	3,846

Source: Rizvi – 2001 Sopemi Report of the Australian Correspondent. *SAL applicants receiving bonus points for a sponsor living in a designated area.

Review of points-tested migration

In August 1998, Ruddock announced the outcomes of a Review of the Points-Tested Categories (ie the Independent and Skilled Australian-Linked visas). Key changes flowing from this included:

- Establishment of minimum threshold requirements for skills (is a skilled occupation recognised in Australia by the relevant skills assessing body), age (no more than 44 at time of application) and English language ability (vocational English as per an IELTS test). Ruddock said "[e]stablishment of minimum thresholds will not only do away with some anomalies in the current points test but will also enable us to introduce other factors more focused on obtaining employment in Australia"(Ruddock 1998)[cdxi].
- Five additional points to applicants who obtained their diploma, trade certificate or degree from an Australian educational institution (this was introduced from 1 July 1998). This was the first formal linking of Australia's International Education Industry with Australia's immigration policy. Striking the right balance between these two objectives without undermining either has remained an ongoing challenge.
- Requiring applicants to nominate their own occupation and having their skills assessed by the relevant professional skills assessing body before a migration application is lodged (previously, the Immigration Department identified the applicants 'usual occupation' and often also undertook the skills assessment. This change helped to also streamline skills recognition when the migrant arrived in Australia.

These changes were designed to achieve better labour market outcomes for these migrants. However, such policy tightening also meant a significant reduction in demand for migration via these categories, an issue the Howard Government would need to address in later years as the economy strengthened and business complained of skill shortages (Rizvi 1998).

Overseas students

The Howard Government inherited a student visa program subdued by the overstay issues arising in the late 1980s and the major tightening of student visa processes in the early 1990s for applicants from high immigration risk countries (ie the gazetted versus non-gazetted country regime). While there was a 9 percent increase in offshore student visa grants in 1996-97 (see Table 4.3), the Howard Government recognised the gazetted/non-gazetted country regime was unsustainable if Australia was to further develop its International Education Industry.

Ruddock announced the overseas student visa program would be reviewed in 1997 "examining legislation, policy and procedures governing entry into Australia of overseas students. One of the issues that will be examined by the review is how to lessen abuse of the student visa program by strengthening bona fides assessment. The review is also seeking the views of Australian education providers on how they can work in partnership with the Department to better target high quality students who will comply with immigration requirements." (Rizvi 1997).

Table 4.3: Offshore Student Visa Grants

Country	1995-96	1996-97	1997-98	1998-99	1999-00
South Korea	8,171	9,588	5,100	3,056	3,390
Indonesia	6,651	8,030	7,913	9,133	5,439
Japan	5,967	6,319	5,558	4,915	4,438
Malaysia	4,874	5,327	4,909	4,771	5,900
Singapore	4,958	4,575	3,364	4,006	4,455
Hong Kong	3,888	4,276	3,228	3,467	4,544
USA	3,137	3,579	4,913 (Inc Canada)	5,679 (inc Canada)	7,435 (inc Canada)
Thailand	3,297	3,413	2,300	2,661	3,668
India	2,449	2,820	4,113	4,518	4,310
Taiwan	3,208	2,586	2,209	2,214	2,164
China	NA	NA	2,368	3,583	6,079
Other	16,473	18,098	17,599	19,127	22,606
Total	**63,073**	**68,611**	**63,574**	**67,130**	**74,428**

Source: Rizvi, Successive Sopemi Reports from 1996 to 2000

A most notable aspect of Table 4.3 is the very small number of student visa grants to nationals from China and India for most of the second half of the 1990s – the two source countries that now dominate Australia's International Education industry.

The 9 percent decline in offshore student visas granted in 1997-98 was driven largely by a reduction in short course English language. This may partly have been due to regulation changes allowing people on visitor visas to undertake these courses rather than apply for a student visa. There was also a substantial decline in student visas for primary and secondary schools in 1997-98. In addition, students from low immigration risk countries from 1995 could be granted five-year student visas where they were able to provide confirmation of enrolment for consecutive courses (Rizvi 1998).

A review of the overseas student program was completed in 1998 and endorsed by Government on 7 July 1998 for implementation from 1 December 1998 (Rizvi 1998)[cdxii]. Key measures included:

- Allowing people already in Australia from gazetted countries (ie designated as low risk) to apply for a student visa onshore (eg people on visitor or working holiday maker visas);
- Requiring students to apply for work rights once they have produced evidence they have started studying – this was in recognition of policy that work in Australia was intended to supplement a student's sources of income rather than be the major source of income;
- Requiring students to remain with their original education provider for the first 12 months unless there were exceptional circumstances – this was designed to reduce the risk of students being lured away by an education provider offering more relaxed attendance arrangements thus enabling greater time for the student to engage in local employment;

- Introduction of a Pre-Qualified Institution (PQI) pilot to test the capability of high quality education providers to test the bona fide intentions of student visa applicants – the scheme was reviewed in 2000.

These measures led to resumption of steady growth in 1998-99 with some indication of the eventual emergence of growth from China and India. A key to this growth was implementation of the PQI pilot for a small number of Australian education providers selected on an objective basis for the high levels of immigration compliance by their students. The PQI pilot was for students from China, India, Pakistan and Vietnam and started in early 1999.

The overwhelming majority of students who received visas under the PQI pilot were from China and this is reflected in the growth in offshore student visas for Chinese nationals in 1999-00. In 2000 45 providers were provided with PQI status but each for only a single source country. Once selected, PQI providers were expected to "fulfil a number of undertakings, including assessment of an applicant's bona fides, ensuring applications are lodged with complete documentation and monitoring the performance of students while in Australia".(Rizvi 2000)[cdxiii]

This was the start of re-growth of the Chinese student market to Australia that would continue for much of the next 20 years. The report from the pilot led to further significant changes to how student visas would be processed (see Chapter 5).

From July 2000, the Department also implemented an electronic confirmation of enrolment arrangement that assisted with faster and more efficient visa processing as well as improved capacity to monitor students from application, visa grant, arrival in Australia, commencement of course, course completion or other outcome or departure from Australia. This provided vital data to monitor the performance of students and providers under PQI arrangements (Rizvi 2000).

The rising number of overseas students was recognised as a growing source of potential skilled migrants who would have qualifications that were readily recognised in Australia. Together with experience of life and work in Australia, it was considered that these potential skilled migrants would have strong prospects in the Australian labour market (Report from the Review of the Points-Tested Categories, 1998). The downside risk was that education providers might reduce education standards in order to attract a greater market share leading to the students performing poorly in the labour market once they obtained permanent residence (Rizvi 1999).

Working holiday makers (WHM)

The Howard Government inherited a relatively small WHM program but one which had been growing strongly and was capped from 1994-95 due to excess demand and a concern it was impacting negatively on the job opportunities of the long-term unemployed.

At a Joint Standing Committee on Migration (JSCM) Inquiry into the program (1996)[cdxiv], the tourism industry highlighted two issues with capping:

- Negative view of Australia as a tourist destination; and
- Negative impact on tourism businesses as soon as the cap is reached which was often as early as March in the program year.

While Immigration Minister Ruddock raised the cap, the Tourism Industry pressed hard for the Program to return to operating on a demand driven basis (Rizvi 1997).

A key concern with the program was that some employers were giving preference to hiring WHMs with language skills in preference to Australians with similar skills. In tabling the Parliamentary

Committee's report, the Chair of the Committee, Mrs Gallus (1997) [cdxv] said to Parliament "we heard from tour guides, especially those who speak Japanese, who were concerned that they were missing out on jobs because of the ready supply of working holiday makers. The committee also found that sections of the horticultural industry rely too heavily on working holiday makers to bring in the harvest."

With regard to the cap, the Committee recommended this be maintained for the next three years but did not specify the level of the cap. The Government continued to progressively raise the cap.

In 1999, Immigration Minister Ruddock[cdxvi] said "reciprocal working holiday arrangements exist with the UK, Canada, Japan, Ireland, the Netherlands, the Republic of Korea and Malta… Working holiday makers need to be between 18 and 25 (and in special circumstances from arrangement countries, 26 to 30). Single or married persons can apply, but they must have no dependent children. They are permitted to do any kind of work of a temporary or casual nature. They are not permitted to work for longer than three months with any one employer. Under the visa subclass, applicants can stay in Australia for a maximum of 12 months. Applicants need to show that they have a good chance of finding temporary work to supplement their holiday funds, they will not undertake any studies in Australia other than an English language course, they have a return ticket or sufficient funds for a return fare and the first part of their stay, and that they will leave Australia at the end of their authorised stay."

Two recommendations of the JSCM Report on WHMs that Government accepted (Ellison 1999) [cdxvii] was abolition of the 'benefit' criterion (where the applicant demonstrated time in Australia would be of benefit to the visa applicant and to Australia) and to expand the age range of the program to between 18 and 30. The Government response noted discussions with the USA, Germany, Italy, France, Spain, Cyprus and Israel, and that it was considering giving priority to establishing agreements with a number of other countries, including Singapore, Malaysia and Hong Kong.

Table 4.4: Working Holiday Maker Visa Grants

	1993-94	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00**
UK	17,085	17,915	20,526	23,088	27,088	32,874	37,374
Japan	5,256	6,117	5,590	9,349	8,627	7,938	8,052
Canada	2,506	2,928	3,420	3,367	3,459	4,344	5,343
Ireland	2,381	3,395	4,316	6,276	7,552	10,566	12,596
Netherlands	1,635	2,040	2,616	3,088	3,470	4,167	5,111
South Korea	NA	2	603	1,602	1,456	1,769	1,175
Malta	NA	NA	NA	54	39	35	58
Germany	NA	NA	NA	NA	NA	NA	234
Non-Agreement Countries	732	2,994	3,202	3,176	3,046	951	1,926
Total	**29,595**	**35,391**	**40,273**	**50,000**	**55,620**	**62,644**	**71,531**

Source: Rizvi, Sopemi Reports 1997, 1998, 1999, 2000 and 2001

For 1999-00, Ruddock announced the WHM reciprocal arrangements were to be extended to Germany and that Australia was negotiating further reciprocal arrangements with Italy, Spain, France, Greece, Singapore, Malaysia, Hong Kong, Taiwan, Israel, Cyprus, Belgium, Austria, Switzerland, Finland, Sweden, Norway, Denmark and the USA (Rizvi 1999). These negotiations gradually came to fruition in the 2000s and, together with more streamlined WHM visa processing arrangements, led to major growth in the WHM program (see Chapter 5).

Ruddock oversaw a steady increase in the WHM program from his first year in Office (see Table 4.4).

Visitor visas

Australia's obsession with border control and the universal visa requirement increasingly came into conflict in the 1990s with pressure from the tourism industry to boost international tourism. The universal visa requirement meant that unlike most other developed nations, Australia was unable to adopt the more common approach of visa waiver where visitors from low risk countries were assessed only at the border rather than requiring a visa before they started their journey to Australia.

Australia's solution was the Electronic Travel Authority (ETA) which was progressively implemented from September 1996 after years of design and negotiation under the Hawke/Keating Governments. The first countries with access to the ETA were the United States and Singapore with Qantas and Singapore Airlines being the first carriers. By the end of 1997, there were 26 eligible nationalities and 35 participating airlines (Rizvi 1997).

The ETA replaced the visa label or stamp in a passport for nationals from participating countries and carriers. It was described by the Immigration Department (Rizvi 1997)[cdxviii] as being "issued within seconds by computer link between the Department and many travel agents and airlines around the world…It is the most advanced and streamlined travel authorisation system in the world."

During 1996-97, 542,285 ETAs were issued, representing 19.1 percent of all short stay visitor visas to Australia. In 1997-98, 1,980,142 ETAs were issued, representing 65 percent of all visitor visas. There was a slight decline in total visitor visas issued in 1997-98, predominantly due to a decline in demand from Japan (Rizvi 1998).

The increasing take-up of the ETA continued in 1998-99 (75 percent of all visitor visas) and 1999-00 (82.5 percent of visitor visas).

Approved Destination Status (ADS)

In April 1999, the Australian and PRC Governments signed an ADS agreement which provided facilitated visa issue for PRC nationals travelling to Australia on organised group tours. From 1 July 2000 to 30 June 2001, 25,334 PRC Nationals were granted visitor visas under the ADS program. Of these, only 58 visitors (0.24 per cent) did not return by the expiry of their visa (a low rate compared to other visitors from China). The program was monitored closely in cooperation with the PRC authorities.

Skilled temporary entry (Sub-class 457)

Ruddock inherited the recommendations of the Roach Report into skilled temporary entry (Business Temporary Entry - Future Directions). Whilst initially sceptical of the proposed changes, Ruddock would go onto implement the Roach Report recommendations as announced in 1995 by his predecessor Nick Bolkus (see Chapter 3).

The changes were designed around:

- procedural simplicity by reducing the complexity and range of existing business visas;
- fast track processing, particularly for persons performing 'key activities' and for 'pre-qualified' sponsors. If an employer had met requirements to become 'pre-qualified' and the nominated position was a 'key activity', there would be no requirement for a re-assessment of the

employer's standing; no labour market testing; no skills assessment and the applicant would meet streamlined health and character; and

- rigorous monitoring to ensure employers abide by their undertakings to accept full financial responsibility for the persons they nominated and employed. Employers were required to meet all health/medical costs and advise the Immigration Department immediately the sponsored entrant left their position. Employers were required to provide annual reports and be subject to random auditing. Sanctions including fines would apply for breaches.

Roach recommended some critical changes including:

- rules for business temporary entrants being simplified by replacing the previous range of temporary residence and business visitor classes and subclasses with one class for all business temporary entrants
- streamlined processing being available for long-term entry (more than 3 months and up to 4 years) for companies operating in Australia, including fast track processing where the nominee will be involved in a 'key activity', and standard and pre-qualified sponsorships subject to appropriate undertakings
- separate and streamlined entry mechanisms for companies not operating in Australia be introduced
- regional headquarters entry mechanisms be brought within the operation of the proposed new single business temporary entry visa class
- individual case management be made the responsibility of one case officer, irrespective of where elements of the processing take place
- all sponsors be given the right of review at the time of refusal of their sponsorship and nomination, and that all applicants for the long-term entry (more than 3 months) have access to review rights
- current policy, which allows temporary business entrants to apply to become permanent residents, be continued
- streamlined health assessment procedures be introduced for all business temporary entrants
- all holders of the proposed single business temporary entry visa, who no longer have access to Medicare, who themselves, or whose employees, have undertaken responsibility for health and medical costs be exempt from paying the Medicare levy
- consideration be given to the most appropriate use of sanctions when breaches occur.
- monitoring will also ensure that streamlined entry is not abused for criminal activities or for circumvention of Government entry policies (Roach 1995).[cdxix]

Speed was what mattered for Roach. In releasing the report, Bolkus (1995)[cdxx] said "companies of good standing will be able to bring in key personnel much more quickly through streamlined sponsorship arrangements; waiver of labour market and skills testing for certain key activities, and much simpler and faster health assessment procedures."

Bolkus said in his 1995 media release that a 'key activity' would be defined quite broadly as "an activity which would have a significant impact on the overall success of the employer's business and which requires specialised skills or proprietorial knowledge. It does not include unskilled or semi-skilled or skilled trades activities. These, as well as specific occupations and professions, will be controlled by policy guidelines which will require full labour market testing."

Procedures for extension of stay would also be streamlined. Bolkus said "the new approach involves a degree of self-regulation on the part of employers who have demonstrated that they are good corporate citizens, and therefore can be expected to act in Australia's interests."

Employers of 'good standing' would be able to apply for pre-qualified status that would obviate the need to re-apply for sponsorship for subsequent visa applicants. These employers nominating a 'key activity' would be exempt from both labour market testing as well as any skills assessment of the visa applicant.

Health assessments were to also be streamlined with no medical examinations required except where a medical declaration showed a public health risk.

This visa sought to streamline entry to Australia for up to four years. A key objective of the new visa was speed of processing to deal with an increasingly inter-connected business world's need to rapidly access urgently needed skills. The visa was originally designed for:

- "personnel (executives, managers and specialists) of companies operating in Australia;
- personnel of off-shore companies seeking to establish a branch in Australia; participate in joint ventures; or fulfill a contract awarded to an off-shore company;
- independent executives seeking to establish a new business or joining an existing business in Australia; or
- personnel coming under a labour or regional headquarters agreement." (Rizvi 1997)[cdxxi]

Table 4.5: Offshore Skilled Temporary Entry Sub-Class 457

Country	1998-99	1999-00	2000-01
United Kingdom	7,834	7,528	8,737
United States	3,560	3,396	3,005
Japan	2,532	2,216	2,239
South Africa	2,482	1,649	1,995
China	1,984	1,209	1,341
India	1,923	2,696	3,294
Korea	1,309	1,189	1,264
Canada	1,095	1,110	1,164
Ireland	864	1,114	1,441
France	709	808	845
Other	8,873	8,154	11,757
Total	**33,165**	**31,069**	**37,082**

Source: Rizvi – Sopemi Reports of the Australian Correspondent, 1998, 1999, 2000, 2001

There were 25,417 sub-class 457 visas granted in 1996-97 and 33,584 in 1997-98.

As at the end of June 2001, there were 55,961 sub-class 457 visa holders in Australia compared to 50,395 at the end of June 2000 (Rizvi 2000 and 2001).

New Zealand Citizens

Despite the Howard Government's cuts to the formal Migration and Humanitarian Programs in its first few years in Office, net overseas migration actually increased from 72,402 in 1997 to 88,781 in 1998, 104,210 in 1999 and 111,441 in 2000 (Rizvi 2000). While partly due to an increase in net long-term temporary migration (including skilled temporary entrants, students and working holiday

makers), the rising level of net movement of New Zealand citizens caught the Howard Government's attention. Howard became increasingly concerned about the imbalance in migration of New Zealand citizens to Australia compared to the migration of Australian citizens to New Zealand (which largely reflected the relatively stronger Australian economy at that time).

The estimated size of the New Zealand born population in Australia increased from 312,240 in 1996 to 365,060 in 2000 – an increase of 52,820. By comparison, the Chinese-born population increased over the same period by 26,050; the Indian-born by 10,210; the South Africa-born by 18,840 while the UK-born fell by 33,550 (ABS Cat: 3105).

The Howard Government's concerns were that reforms it had applied to the formal Migration Program, including increasing the emphasis on professionally recognised skills, English language ability and youth, as well as the tightening of parent migration, did not apply to New Zealand citizens migrating to Australia. New Zealand citizens entered Australia under the Trans-Tasman Travel Arrangements (TTTA) that were formalised under Whitlam (see Chapter 3). New Zealand citizens at that time could apply for Australian citizenship after two years residence in Australia (Rizvi 2000).

The New Zealand Government had not at that time made similar changes to its skilled migration arrangements or its parent migration arrangements. This meant intending migrants who could not meet Australia's new immigration requirements could potentially use New Zealand as a staging post before migrating to Australia as New Zealand citizens.

But the biggest issue for the Howard Government was that the two-year wait for access to most social security benefits would not apply to New Zealand citizens migrating to Australia under the TTTA. Howard wanted to secure the budget savings from tightening access to social security and discouraging citizens from New Zealand migrating to Australia if they had poor employment prospects (Rizvi 2000).

The New Zealand Government argued Australia should not be concerned with the imbalance of movements of New Zealand citizens to Australia as their citizens were performing strongly in the Australian labour market. Nevertheless, the Australian Government proposed that from 2001, New Zealand citizens settling in Australia would meet the same migration tests to obtain permanent residence that citizens from other countries were required to meet. This meant the associated two year wait to access most social security benefits and acquisition of formal permanent residence prior to access to citizenship would also be applicable.

The New Government decided not to apply similar requirements to Australian citizens migrating to New Zealand. Relevant to this decision was something that Australia has not experienced since World War II and the depressed economic conditions of the 1930s – negative net migration. New Zealand had experienced negative net migration on a number of occasions including during the recession of the early 1990s and co-incidentally in 2000-01 (Statistics New Zealand website). The New Zealand Government's priority was to ensure free movement between the two countries remained in place and that reciprocal health service arrangements were also retained for those New Zealanders that migrated to Australia but did not obtain formal permanent residence status (Rizvi 2001).

The new arrangements applied only to New Zealand citizens arriving after 26 February 2001 with all New Citizens who were in Australia on 26 February 2001 continuing to be eligible to apply directly for Australian citizenship.

This meant that over time, the number of New Zealand citizens in Australia who are not eligible to apply directly for Australian citizenship has grown steadily. As a result of strong lobbying, the Productivity Commissions of the two countries were asked to undertake a joint examination of the issues in 2012. The report of the two Commissions recommended a number of changes, including the development of more open pathways to citizenship by New Zealand citizens.

1999-00 Humanitarian Program and unauthorised arrivals

The 1999-00 Humanitarian Program was delivered at 9,960 places with 7,502 offshore and 2,458 onshore (Rizvi 2000). The main source regions remained the same as in the recent past:

- 3,424 from the former Yugoslavia – 45.6 percent of total offshore visas;
- 2,206 from the Middle East – 29.5 percent of total offshore visas;
- 1,738 from Africa – 23.1 percent of total offshore visas.

The decline in offshore humanitarian visa grants was due to a decision to roll forward approximately 2,500 places into the 2000-01 program year to supplement the onshore places needed to deal with a surge in applications. 12,713 onshore asylum applications were received in 1999-00. Three source countries, Iraq, Afghanistan and China, comprised around 40 percent of these applications with a substantial decline in applications from Indonesia and Sri Lanka. Most of the applicants from Iraq and Afghanistan arrived by boat as unauthorised arrivals (Rizvi 2000).

During 1999-00, 75 boats carrying 4,175 passengers arrived compared to 42 boats and 921 passengers in 1998-99. Given the mandatory detention requirements of the Migration Act, this meant the Government urgently had to set up a range of new detention centres. This presented the Government with a major logistical and public policy challenge.

To try to stem the flow of unauthorised arrivals, the Government introduced new laws to deal with people smuggling (Rizvi 2000) including:

- Enabling enforcement action beyond Australia's territorial waters, including powers to search and detain vessels suspected of involvement in people smuggling
- Increased penalties for those involved in people smuggling
- Legislation preventing people from claiming protection in Australia if they have effective protection in other countries
- Campaign to promote international action against people smuggling.

The Government also introduced a new Temporary Protection Visa (TPV) to be granted to those unauthorised arrivals found to be owed protection. The TPVs were for a period of three years in the first instance and provided work rights, and access to health care and basic social security benefits but not the full range of services and benefits available to those who arrived with authorisation. After three years, holders of TPVs who were still owed protection were granted permanent protection visas (Rizvi 2000).

Temporary safe haven

Temporary safe haven visas were established to allow Australia to respond quickly to humanitarian crises while enabling those assisted to return in safety when possible. The number of visas in this category were in addition to the places available under the Humanitarian Program.

This visa was used for the first time to respond to the UNHCR's global appeal to help with evacuating Kosovars expelled into the former Yugoslav Republic of Macedonia. Almost 4,000 Kosovars took up

Australia's offer of temporary protection and another 2,000 visas were issued in response to the humanitarian crisis in East Timor (Rizvi 1999).

Multicultural Policy

Howard had been a long-standing critic of multicultural policy. His early actions to abolish the Office of Multicultural Affairs from within his own Department and the Bureau of Immigration, Multicultural and Population Research from the Immigration Portfolio reinforced the view the multicultural policy was in decline. Under pressure from his own National Multicultural Advisory Council, in 1999 Howard[cdxxii] launched *A New Agenda for Multicultural Australia*.

This statement adopted the term *Australian Multiculturalism* as a means of communicating the unique way in which Australia would approach multiculturalism. This stressed values that reflected Howard's thinking in terms of issues such as civic duty, cultural respect, social equity and productive diversity. But Howard did not provide funding for implementation other than for promoting community harmony through *Living In Harmony* grants and promotion of a new *Harmony Day*. Howard also created a new Council for a Multicultural Australia.

1999-00 Migration Program – return to growth

The 1999-00 migration program outcome of 70,200 was delivered against the background of increasing economic growth (4.5 percent in 1998-99 and 4.8 percent in 1997-98), strong employment growth and falling unemployment. While the Howard Government maintained formal immigration planning levels at around the levels of the previous two years (small increase in Special Eligibility category to deal with long-standing Resolution of Status cases), Australia's relatively strong economy meant that net overseas migration continued to rise due to large increases in net long-term movements including NZ citizens entering under the TTTA. Record numbers of temporary entry visas were issued in 1999-00 with large increases over 1998-99 as follows:

- Students – an increase of nine percent (74,428 off-shore and 45,378 on-shore)
- Visitors – an increase of seven percent
- Working holiday makers – 14 percent increase to more than 74,000
- Other temporary residence, including long-term skilled business entry – an increase of eight percent (Rizvi 2000).

Through the Howard Government's migration tightening phase (1996-2000), the balance of permanent visa grants to people onshore and offshore remained relatively stable (see Table 4.6). The onshore component began to edge up in 1999-00, predominantly due to an increase in onshore visas to spouses (38.1% onshore) and employer sponsored visas (77.2% onshore). Employer sponsored visas had traditionally been skewed towards people who were already onshore but this trend would continue to accelerate with the growing number of temporary entrants with work rights.

Table 4.6: Off-shore versus onshore program balance

	1996-97	**1997-98**	**1998-99**	**1999-00**
Visas to People Offshore (%)	57,320 (77.6%)	51,820 (77.2%)	52,871 (77.7%)	52,840 (75.2%)
Visas to People Onshore (%)	16,580 (22.4%)	15,280 (22.8%)	15,054 (22.3%)	17,340 (24.8%)
Total Migration Program	73,900	67,100	67,925	70,280

Source: Rizvi, Sopemi Reports of the Australian Correspondent to the OECD 1997, 1998, 1999 and 2000

Population growth in 1990s

The combined result of the reduction in the intake associated with the 1991 recession and following the election of the Howard Government was that net overseas migration during the 1990s was some 200,000 less than during the 1980s, averaging 78,000 per annum compared to an average of 108,000 per annum in the 1980s (Home Affairs website). As total fertility rates also fell significantly during the 1990s (to levels below 1.8 children per woman), concerns about slowing population growth and an ageing population became more prominent in the late 1990s and early 2000s.

During the early 1990s, Ruddock's held a conservative view on a role for immigration in slowing population ageing. As Withers (2002)[cdxxiii] points out, in a 1997 speech to the Urban Development Institute of Australia[cdxxiv], Ruddock said "irrespective of any realistic level of migration, ageing will continue for the next forty years. There was some work done at the Australian National University, which said that no foreseeable immigration response is projected to be able to address this process. In other words, we would have to have a very much larger program than people have been prepared to entertain in order to have even marginal impacts on the ageing process".

But that view was held within the constraint of then Government policy on the size of the migration program, and especially Howard's view on the link between immigration and unemployment.

Chapter 5: Howard's Turning

Having made major structural changes to the intake and tightened visa requirements, from 1999-2000 onwards the Howard Government:

- steadily increased the migration program and in particular the skill stream by developing pathways to permanent residence for a growing cohort of long-term temporary entrants. This led to a significant shift in source countries towards Asia - China and India in particular (Home Affairs website – Historical Migration Statistics); and
- took unprecedented measures to deal with irregular maritime arrivals (offshore processing and boat turn-backs) while shifting the focus of the off-shore humanitarian intake away from Europe and towards Africa (Rizvi 2001 and 2002).

The other significant change in immigration policy direction the Howard Government adopted was, from September 2005, to tighten access to citizenship after over 50 years of Australian governments making access to citizenship faster and encouraging permanent residents to take out citizenship as soon as possible (Rizvi 2005).

From 1999-00 onwards, the Howard Government faced rising pressure to increase skilled migration. It responded in a manner that led to the largest sustained increase in immigration since implementation of the post-war migration program.

Key factors driving immigration policy from 2000

While there are many factors that contributed to the Howard Government's turning, including ongoing pressure from the international education and tourism industries, there are three that were crucial:

- Research highlighting the improved labour market performance of skill stream migrants that was incorporated into the Liberal Party's 2001 election policy platform (see below);
- Decline in fertility through the 1990s and the impact of this on population ageing that was highlighted in a number of articles and reports including by Professor Peter McDonald and Dr Rebecca Kippen[cdxxv] (commissioned by the Immigration Department), Withers (1999)[cdxxvi], the Productivity Commission (1998)[cdxxvii] and picked up in Treasurer Peter Costello's first Intergenerational Report of 2002; and
- On-going complaints from industry and employer bodies about increasing skill shortages, including in regional Australia, and reinforced through criticism by the ALP (see below).

Labour market performance of skill stream

The Liberal Party's 2001 election policy platform extensively highlighted the economic and budgetary benefits of skilled migration after the reforms it had implemented in the second half of the 1990s.[cdxxviii] This drew on the Longitudinal Survey of Immigrants to Australia (LSIA) comparing skilled migrants who had been granted visas prior to the Howard Government changes to skilled migration (LSIA 1) with those who were assessed after the Howard Government changes (LSIA 2). See Tables 5.1 and 5.2.

Table 5.1: Unemployment Rate Six and 18 Months After Arrival - Primary Applicants

Visa Stream	LSIA 1: 5,192 Principal Applicant Arrivals between Sept 1993 and Aug 1995		LSIA 2: 3,124 Principal Applicant Arrivals between Sept 1999 and Aug 2000		LSIA 3: 9,856 Principal Applicant Arrivals (and Change of Status) arrived or changed status December 2004 to March 2005	
	6 months	18 months	6 months	18 months	6 months	18 months
Family	37%	19%	21%	13%	20%	6%
Skilled	25%	11%	11%	6%	9%	3%
Humanitarian	86%	53%	75%	42%	NA	NA

Source: SOPEMI Report 2009

Table 5.2: Participation Rate Six and 18 Months After Arrival - Primary Applicants

Visa Stream	LSIA 1: 5,192 Principal Applicant Arrivals between Sept 1993 and Aug 1995		LSIA 2: 3,124 Principal Applicant Arrivals between Sept 1999 and Aug 2000		LSIA 3: 9,856 Principal Applicant Arrivals (and Change of Status) arrived or changed status December 2004 to March 2005	
	6 months	18 months	6 months	18 months	6 months	18 months
Family	49%	55%	54%	62%	76%	70%
Skilled	85%	90%	85%	90%	93	94%
Humanitarian	47%	58%	16%	32%	NA	NA

Source: SOPEMI Report 2009

The policy platform, which was developed by then Immigration Minister Phillip Ruddock, also drew on a number of research reports that had been commissioned by the Immigration Department. Two of particular importance were:

- **Fiscal Impact of Migrants to Australia by Access Economics.** This report updated an internally developed model of the impact of immigration on the Commonwealth Budget. It highlighted the positive budget impact of the changes to the size and structure of the immigration intake made by the Howard Government (Rizvi 2001); and
- **Economic Impact of 2000-01 Migration Program Changes by Econtech.** This examined the economic impact of changes to the size, category, composition and category attributes introduced from 1996-97 and including the 2000-01 Migration Program. This updated an earlier study undertaken by Econtech for the Department examining the impact of changes made between 1995-96 and 1997-98. The report examined demographic and economic outcomes, living standards, employment, unemployment and individual industries and states (Rizvi 2001).[cdxxix]

Advertising the improvements highlighted in this research in the 2001 election policy platform further intensified pressure from industry and employer bodies for an increase to the skill stream.

Population ageing

The issue of population ageing had been bubbling along in the public debate during the 1980s and 1990s with a range of views expressed. During the 1980s, Immigration Ministers including MacKellar,

Hurford and Young all expressed support for using immigration to slow the rate of ageing (see Chapter 3).

Thinking from the late 1980s, however, began to shift towards a view that immigration was an inefficient tool for retarding the rate of ageing. CAAIP concluded that massive levels of immigration would be needed to retard ageing. In a BIR report[cdxxx], Hugo concluded "claims, therefore, that the immigration program can retard the overall ageing of the population must be treated with suspicion."

ANU Demographer Christabel Young was perhaps most influential in this regard. Her 1990 study, *Australia's Ageing Population – Policy Options*[cdxxxi], concluded that large scale immigration was not a sensible response to population ageing. Castles, Foster, Iredale and Withers (1998) added that ABS projections showed that ageing of the population is only slightly more pronounced without overseas migration.

Jackson (1999)[cdxxxii] noted that "migration is often proposed as the 'answer' to population ageing. That is, a net gain from migration is argued to assist in keeping a population 'young', or, more accurately, in keeping the labour force from declining in proportion to the dependent population...the general consensus amongst the demographic community is that migration is not the answer. First, the numbers required to offset the decline in fertility would be enormous, in the vicinity of 280,000 per year (Borowski and Hugo 1997, p. 29), and, in the longer term, would substantially add to numerical ageing. Second, immigrants from a number of key sending countries now have lower fertility than the Australian population."

Jackson (1999) considered a relatively limited range of net overseas migration scenarios (zero, 70,000 and 90,000) consistent with the levels for most of the previous five years. The ABS's 1999 population projections used three slightly larger net migration scenarios of 70,000, 90,000 and 110,000.

The 1990s was indeed the decade with the lowest level of net overseas migration since the 1970s and well below the levels for the 1950s and 1960s. That both the Keating Government and the early years of the Howard Government kept migration levels low may have been influenced by the consensus of views on immigration and population ageing. Certainly during most of the 1990s there was very little pressure to increase immigration to counter population ageing.

In this context, the ABS choosing a relatively narrow range of net overseas migration scenarios for its 1999 projections is understandable. The ABS 1999 projections were made before the Howard Government began to increase immigration very significantly and around the time pressure on the Howard Government to increase immigration became more intense. The ABS projections also did not account for the sharp increase in long-term temporary migration which is counted as part of net overseas migration.

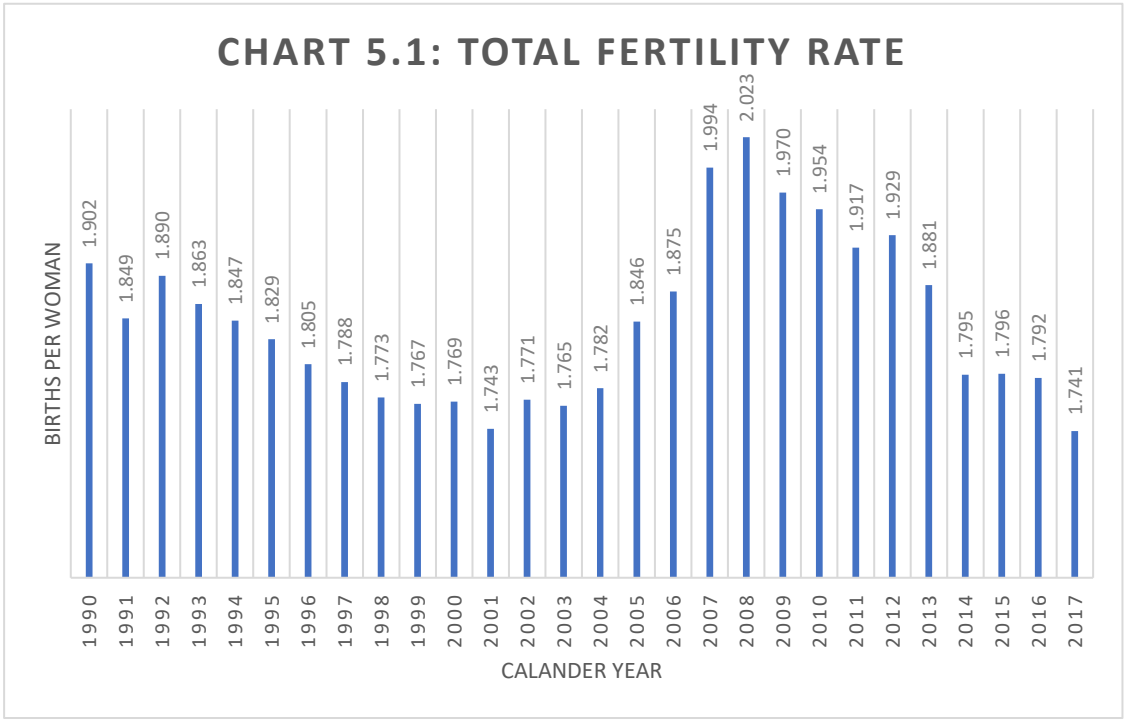
In its 2017 population projections, the ABS still did not distinguish between the permanent migration and long-term temporary migration in the assumption of net overseas migration that it used. The ABS also does not distinguish between long-term temporary migrants and citizens/permanent residents in its estimate of the resident population. This remains an area of future improvement in ABS practice.

Net overseas migration in 1998-99 was 96,500. It increased to 107,200 in 1999-00 and continued to rise for the remainder of the time the Howard Government was in Office.

But there remained counter views to those of Young et al on the role of immigration through the 1990s due to Australia's declining fertility rate and its impact on population ageing. Through the 1990s, Australia's fertility rate declined steadily reaching below 1.75 births per woman in 2001 (see Chart 5.1). Expectations at the time were that the fertility rate would fall further to 1.6 births per woman as well as sensitivity analysis in the ABS population projections for a scenario of 1.5 births per woman.

Alvarado and Creedy (1996)[cdxxxiii] argued that "large inflows of people with higher fertility and a younger age structure than the native population can retard the process of population ageing and therefore the growth in the ratio of social expenditure to GDP".

Opposition Leader Kim Beazley (1998) considered that "immigration can help keep our population young".



Source: ABS Cat: 3301

From 1999 Treasury's concerns about ageing became more prominent in both public debate and internal to government discussions on the level of immigration.

The Treasury's concerns were partly sourced from a 1999 report by Professor Peter McDonald and Dr Rebecca Kippen and commissioned by the Immigration Department. This report found that "given current trends in fertility and mortality, annual net migration to Australia of at least 80,000 persons is necessary to avoid spiralling population decline and substantial falls in the size of the labour force. This level of annual net migration also makes a worthwhile and efficient contribution to the retardation of population ageing. Ageing of the population can be substantially retarded beyond 2030 through combinations of fertility and immigration which guarantee at least zero population growth."

In 1999, the Productivity Commission (part of the Treasurer's Portfolio) ran a conference titled *Policy Implications of the Ageing of Australia's Population*. The Chair of the Commission, Gary Banks, said in

his keynote address that “in most developed countries, net additions to the labour force are trending downwards. This can only accelerate when the ‘baby-boom bulge’ reaches pensionable age… it is primarily through the work of those in employment that a nation’s wealth is created. Further, it is through the goods and services that workers produce, and the income they generate, that governments can afford to provide the safety net to which people in the so-called first world have become accustomed. It is also, ultimately, only because of the efforts of those in employment that our superannuation fund managers can afford to pay us interest on our contributions. So even self-funded retirees are reliant on the work of others for their material welfare, if less visibly… the OECD predicts that a slow-down in labour force growth will decrease Australia’s rate of economic growth from 2000 onward.[cdxxxiv]

In an ANU policy discussion paper, Withers (1999) [cdxxxv] argued for an increase in immigration to slow the rate of ageing. He said “Australia’s population is likely to undergo dramatic change in the second and third decades of next century. Instead of being a young country by OECD standards, significant population ageing is now predicted for Australia. This will reduce labour force participation and flexibility, reduce savings and investment, and raise social expenditure while reducing public revenues”.

Withers noted the view of the Economic Planning and Advisory Council (EPAC) from 1994[cdxxxvi] “that the assumption of fixed levels of migration is likely to be increasingly misleading the greater the period for which projections are made, at least in the presence of a growing base population". Withers was the Chair of EPAC and had been and continues to be highly influential in the debate on immigration and population in Australia. Ruddock was briefed on his 1999 paper arguing for an increase in immigration to slow the rate of ageing.

Withers was critical of the findings of demographer Christabel Young (1990)[cdxxxvii] who argued that “maintaining near-replacement fertility is a more efficient way of retarding the ageing of the population than maintaining a high level of immigration.” The challenge of course being whether developed nations can indeed maintain near-replacement fertility noting that at that time, and since, very few developed nations have been able to maintain ‘near-replacement’ fertility.

As many developed nations have found over the past decades, increasing fertility rates, particularly when they have fallen below 1.5 children per woman, is extraordinarily challenging (McDonald 2005[cdxxxviii], Lutz 2006[cdxxxix]).

Withers (1999) noted that “this notion of “efficiency” contrasts a rising population contribution based on rates (fertility) with a fixed contribution based on absolutes (migration), that it does not incorporate costs of child dependency associated with higher fertility, that it does not consider changing migrant composition to favour a younger entry profile, and it does not offer quantitative guidance or costing for policy levers which can influence fertility”.

Withers could have also mentioned that a substantial increase in long-term temporary migration was also not considered in Young’s analysis.

The CEO of the Business Council of Australia (BCA), David Buckingham (2000) [cdxl], was less understated about Australia’s population challenge saying that “Australia is facing a population crisis in the next 30 years as birth rates continue to decline population inexorably ages and immigration levels are at historically low levels…if we do nothing, we face the prospect of a population which, by

2028, will have stopped growing and which will begin to diminish in size with all the consequent implications."

In a report to the Commonwealth Department of Health and Ageing, Access Economics (2001)[cdxli] said "the demographic effect could be a relative dampener on GDP per capita as Australia's population ages unless we utilise the talents of mature age workers. This means increasing the employment participation rate of persons over 55 years by keeping a larger percentage in the workforce." Access noted that "the working age population currently grows by 170,000 people a year. But trends already in place will see the working age population grow by just 125,000 for the entire decade of the 2020s. If present trends continue some experts predict that the impact of population ageing is projected to be as follows:

- 2000s - Labour supply and income tax revenues start to slow down.
- 2010s - Pension outlays start to increase as a result of an increasing baby boomer cohort of retired people.
- 2020s - Health outlays start to rise.
- 2030s - Aged care demands increase."

Dr John Schubert, Chair of the BCA (2002) [cdxlii], added "if Australia is to achieve the 4 per cent decade long growth target and improve the quality of life of all Australians, then work force participation must continue to rise, and we must build on the remarkable productivity gains of the last decade. While the Council will retain a keen interest in encouraging on-going workplace flexibility and productivity improvements, its key focus will be population. Given declining birth rates, the Access Economics modelling points to an increase in immigration of 50,000 people a year, rising to 80,000 a year by 2012. This is additional to the ABS projected intake of 90,000 migrants a year. This would increase the population from the projected 21.3 million to 22.1 million in 2012."

This theme was taken up by Treasurer Peter Costello in the first intergenerational report, issued in 2002[cdxliii]. He described this report as assessing "the long-term sustainability of Commonwealth finances. It examines the impact of current policies and trends, including population ageing and slower population growth, on the Commonwealth's budget 40 years from now."

The first Inter-generational report highlighted, in particular, the budgetary impact of an ageing population. It considered the possibility the fertility rate may fall further to 1.6 births per woman (including a sensitivity analysis scenario of 1.5) and that life expectancy may increase by another five years. McDonald and Kippen (1999) had shown that such a decline in fertility and increase in life expectancy would accelerate ageing. Treasury extended this thinking in the first Intergenerational Report to the negative impact of ageing on the economy and government budgets.

Costello said to Parliament (2002)[cdxliv] that "government can do little to influence fertility rates…Fertility can be below the replacement rate for economic sustainability because other factors together can compensate, for example, **increased immigration (author's emphasis added)**, reductions in unemployment, increased productivity, increased working hours, higher labour force participation rates, and reduced child dependency which can raise private saving rates. The extent to which retirements are self-funded is also important."

Costello's comments about increased immigration piled pressure on the Immigration Department to find ways to increase the intake of skilled, young migrants but without relinquishing the gains made in the labour market performance of skilled migrants.

The 2002 Intergenerational Report itself stated that "an influence with some offsetting effect on the rate of population ageing is Australia's net overseas migration. This is the number of permanent and long-term temporary arrivals minus permanent and long-term temporary departures. Over many years, Australia's net migration inflow has been younger on average than the resident population; this has slowed population ageing".

The Report goes on to say "in the future, levels of net migration are likely to be affected by greater competition for skilled migrants, particularly as populations age in OECD countries. Unlike most countries, Australia has a planned migration programme supporting skilled migration, which should provide an advantage in future competition for skilled migrants".

Thus it is clear the Government, and in particular the Treasurer, understood that increasing skilled migration would slow the rate of population ageing. That also explains the Treasury's consistent support for increasing skilled migration that has survived to this day.

Table 15 of the 2002 Intergenerational Report shows that the higher net overseas migration scenario of 135,000 per annum would deliver higher labour force growth and a lower aged to working age ratio. The Report finds that "as immigrants are younger on average than the resident population, the increased migration scenario results in a decline in the aged to working-age ratio over the next four decades and a 10 per cent increase in GDP by 2041-42".

This once again highlights the Treasury's desire to see an increase in migration of young skilled people to slow the rate of ageing.

On 22 June 2002, the Minister for Ageing, Kevin Andrews[cdxlv] asked the Parliamentary Committee on Ageing "to *inquire into the long-term strategies to address the ageing of the Australian population over the next 40 years.*"

While this inquiry lapsed with the dissolution of the House on 31 August 2004, it highlighted the level of concern with ageing in the public discourse.

Apart from Costello's reference to increasing immigration as one of a number of policy options to respond to ageing (Costello statement to Parliament when tabling the 2002 Intergenerational Report and statements within the 2002 Report itself), and the high net migration scenario outlined in the 2002 Intergenerational Report that highlighted the impact of immigration in slowing the rate of ageing, there was no official public statement that reversal of the Howard Government's position on immigration levels was explicitly linked to slowing the rate of population ageing.

Nor was there any official statement that there was an objective to increase the population growth rate even though the Government knew that higher immigration would deliver both.

Because immigration touches on almost every area of public policy, government consideration of the annual migration and humanitarian programs involves not just consultation with a wide range of stakeholders but often a wide-ranging debate within government. That debate covers both short-term considerations often focused on the state of the labour market as well as longer-term factors.

For example, during much of the 1990s, a dominant long-term consideration was the impact of a growing population on the environment and Australia's carrying capacity. Environmentalist Tim Flannery's work was particularly influential on politicians such as former Science Minister Barry

Jones, Leader of the Australian Democrats, John Coulter and within the Howard Government, former Finance Minister, Nick Minchin.

While there were no official public statements that reduction of the migration and humanitarian programs in 1996-97 and 1997-98 was related to issues of long-term carrying capacity, the debate within government was very much influenced by this. It was due to these concerns that Immigration Minister Philip Ruddock subsequently commissioned the CSIRO to undertake additional research on carrying-capacity.

As the senior official in the Department of Immigration responsible for migration and temporary entry policy for over a decade that included most of the Howard Government era, I can attest that population ageing was one of the major pressures to increase migration of young, skilled migrants. Indeed, it was against this background that Immigration Minister Ruddock commissioned the demographic analysis by McDonald and Kippen referred to above.

I attended almost every community consultation run by Immigration Minister Ruddock and most meetings he had with key stakeholders. There is no question there was a change in the view being expressed at the stakeholder consultations for increasing skilled migration to slow the rate of ageing.

I also chaired the annual inter-departmental committee meetings with other Commonwealth Government departments on setting the annual migration programs. From around 1999, the Treasury Department was sending a team of senior officials to these meetings to ensure its views on immigration and population ageing were being heard loud and clear. No department spoke against Treasury on this issue.

I was also chair of the Commonwealth/State Working Party on Skilled Migration for around a decade. This was established by Commonwealth/State immigration and multicultural affairs ministers in 1996 (see Chapter 6). The three states that most strongly argued for an increase in immigration overall and an increase in skilled migration to their respective states were South Australia, Tasmania and Victoria.

As the states with the oldest populations and comparatively low levels of skilled migration, South Australia and Tasmania were most vocal in pressing for increased immigration to address population ageing.

An Editorial in The Age newspaper (1999)[cdxlvi] said that “the prospect of a static, greying population is why the Premier, Mr Jeff Kennett, has joined the Australian Chamber of Commerce and Industry (ACCI) and the Federal Opposition in the chorus of voices calling for an increase in Australia’s migrant intake.

While NSW Premier Bob Carr continued to oppose any increase in immigration because he considered ‘Sydney was full’, The Australian newspaper (1998) also supported an increase in immigration to slow ageing. In an editorial, it argued “the answer is not to veto a long-term immigration program, condemning Australia to slowing population growth, an ageing population and worsening employment prospects”.

Key economic ministers as well as the Minister for Immigration were very much aware of the projections of population ageing produced by the ABS, the concerns of the Productivity Commission, the very public work published by Withers, the strongly held views on using immigration to slow the rate of ageing within the Treasury Department as well as the views of state premiers. Opposition immigration spokesman, Con Sciacca (quoted in *The Australian* 19 February 1999) also supported an increase in immigration saying "greater immigration, properly targeted, provided the best solution to securing the future of Australia's growing ageing population".

But perhaps the most influential factor was pressure from the business community generally and the Business Council of Australia (BCA) in particular for an increase in immigration to respond to both a tightening labour market as well as the BCA's very public concerns about population ageing. It is very rare for Liberal-National Party government policy to not be influenced by the views of the BCA as well as the ACCI.

In the immigration area, it is not without precedent for governments to announce an increase in immigration without providing the full picture of why and how that might be delivered. That Arthur Calwell at the start of post-war migration assured the Australian public that increased migration would be predominantly from Britain when he well knew the numbers he wanted would require much larger numbers from a wider range of source countries is one example.

Other possible factors in the Howard Government not wanting to be much more explicit about using immigration to slow the rate of ageing may have been the risk it would then need to explain the rationale behind the cuts to immigration in 1996-97 and 1997-98 as well as the implications for the long-term size of Australia's population of much higher levels of immigration – a lesson that Prime Minister Kevin Rudd subsequently learned when he suggested he was comfortable with the idea of 'a big Australia'.

The Howard Government fully understood that increasing immigration would lead to a bigger population. But at no stage did any Howard Government minister explicitly state that a bigger population was an over-riding policy objective.

The policy to increase skilled migration to slow ageing was led by Costello and Ruddock with only reluctant support from Howard who would have known the bulk of the increase would come from Asia as it was to be driven substantially by overseas students.

The Howard Government would have also been cautious about warnings from the Immigration Department that having significantly tightened selection criteria, attracting a sufficient increase in applications from people who met those criteria would not be rapid. It was for that reason the Howard Government introduced the concept of a contingency reserve in addition to the planned increase in migration.

It is notable that in early 2006, Treasury[cdxlvii] ran another conference titled "Demographic Challenges and Migration". In introducing the conference, Treasury said "although labour mobility cannot permanently prevent population-ageing in developed economies, it may delay or slow the process, creating an opportunity for countries to design domestic policy settings more appropriate for ageing populations. Hence it is important to understand the costs and benefits of labour mobility, for both destination and source countries."

The conference continued Treasury's support for using skilled migration to slow the rate of ageing. At that conference, Winters[cdxlviii] said "although migration is not a solution to demographic change, it remains part of the policy set because other policies are inadequate on their own or entail significant adjustment costs. Previous work has shown there are potentially large gains to the world economy from even small increases in labour mobility". He suggested that temporary migration could be better than permanent migration because the costs of temporary migration, to both destination and source countries, are smaller, while the gains are substantial.

This conference was held in the lead up to Treasury preparing the 2007 Intergenerational Report which used much higher net migration scenarios. It stated "Australia's net overseas migration has increased from an average of around 90,000 to 110,000 over the past 10 years. This helps to reduce population ageing". The reality was that net overseas migration in 2007 was significantly higher than 110,000 and rising. It has remained well above that level until the impact of Covid-19.

The 2007 Intergenerational Report noted that "changes to Government policy encouraging greater numbers of skilled migrants — who are younger on average than the resident population — tend to lower slightly this average age…the level of net overseas migration is important: net inflows of migrants to Australia reduce the rate of population ageing because migrants are younger on average than the resident population.".

The base scenario used by Treasury in the 2007 Intergenerational Report was 110,000 compared to 90,000 in the 2002 Report. By 2007 there was much greater level of confidence in the Immigration Department about its ability to deliver higher levels of skilled migration without lowering selection criteria.

In 2008 (with the final report published in 2010)[cdxlix], McDonald and Temple said that "In this report, the efficacy of population strategies or, more specifically, migration strategies is investigated. How effective can migration be in ameliorating population ageing in Australia and what would be the ensuing impact on the rate of growth of per capita gross domestic product?"

Thus by 2008 both Labor and Liberal Governments had commissioned reports that advised on using migration to slow the rate of population ageing.

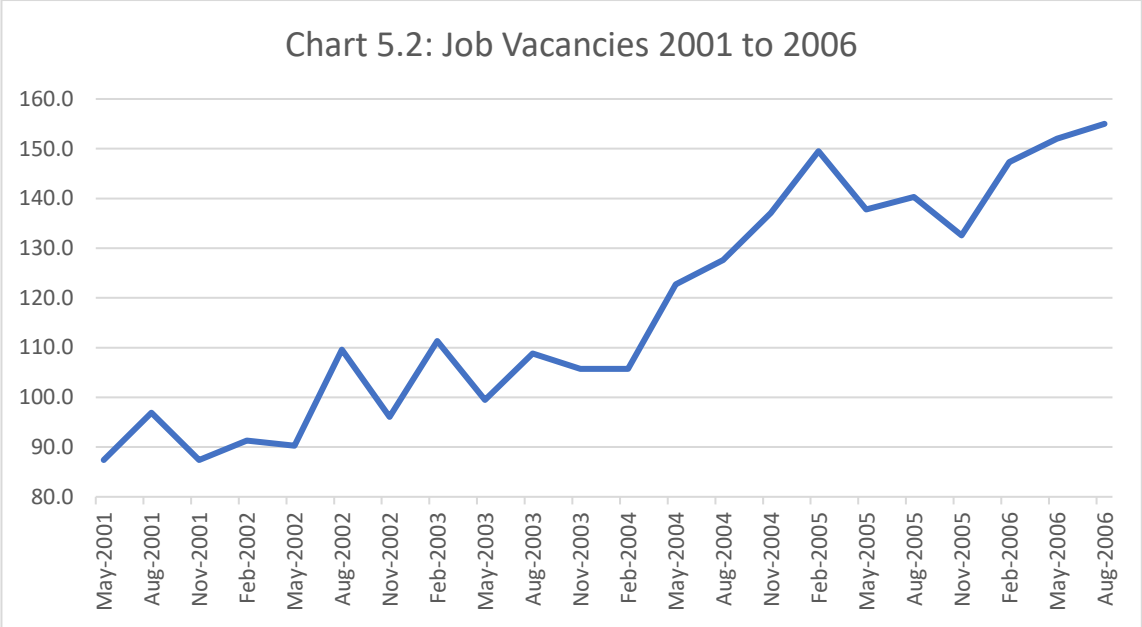
Skill shortages

Pressure to increase the skill stream was exacerbated by strong economic and employment growth – Australia was approaching the peak of its demographic dividend phase as well as benefiting from the China boom - leading to complaints from the business community about skill shortages. These complaints would grow stronger through the first half of the 2000s as the unemployment rate fell from around 8.5% in the mid-1990s to around 5% by the mid-2000s (ABS Cat 6202) while job vacancies increased rapidly (see Chart 5.2).

The complaints about skill shortages persisted despite the employment to population ratio increasing from around 58% in the mid-1990s to around 62% by the mid-2000s (ABS Cat 6202); and the working age to population ratio increasing from 66.6% in 1996 to 67.5% in 2009 (ABS Cat 6202). In the ten years to 2009, Australia was in the strongest part of its demographic dividend phase and this was contributing to strong economic growth (along with the mining boom). But it was

accompanied by increasing pressure to address skill shortages as job vacancies continued to grow (see Chart 5.2) despite major increases in immigration levels.

Part of the pressure was due to criticism from the Opposition that these skill shortages would be much less severe if the Government had not reduced funding for vocational education and training (VET) and increased reliance on private provision of VET.



Source: ABS Cat: 6354

The ALP's Cheryl Kernot[cdl] said in debate on the 2001 Vocational Education and Training Funding Bill that "[t]he first thing the Coalition did when they got into government was to slash funding for ANTA…In the 1996 and 1997 budgets, $240 million was taken out…Labor's Workforce 2010 research found that 60 per cent of all new jobs in Australia would require a post-school qualification. This figure is made very stark by the fact that only 40 per cent of the current adult population have a post-school qualification. No wonder there is rising demand. There is huge need—huge, huge need. It is ironic that at a time of rising unemployment (sic) there are still so many occupations that cannot fill their positions. It is not because people are job snobs. It is because the vacancies are skilled vacancies that require qualifications to perform. You cannot just turn up and be a chef simply because you have had a bit of practice cooking breakfast. You actually have to have some training as a chef. Australia currently has skilled vacancies in, amongst other things, child care and nursing and for pharmacists, motor mechanics, chefs, hairdressers and nurses, according to the Department of Employment's latest skilled vacancy survey."

In considering the Government's response to a Senate Committee Report on VET funding and policy, *Aspiring to Excellence*, Senator Kim Carr[cdli] said in May 2001 "the report also drew attention to the quite extraordinary levels of skill shortages that are now developing within this country."

In response to a question on notice from Dr Theophanous, Tony Abbott (2001)[cdlii], the Minister for Employment, Workplace Relations and Small Business, advised "a national survey of the IT&T Industry estimated during 1999-00 the Industry would have approximately 30,000 positions to be filled by skilled IT&T employees."

While the Government acted to increase funding for VET in particular, Costello and Ruddock recognised that in the short to medium term immigration would be the key to dealing with skill shortages and in the longer-term with the challenges of ageing (Rizvi 2000). But having significantly tightened skilled migration requirements after 1996, the Immigration Department was under pressure to find means of increasing visa grants for skilled migration without relinquishing the gains in labour market performance of recently arrived skilled migrants.

The Skill Stream as a portion of the total permanent intake increased from less than 25 percent in 1995-96 to consistently over 50 percent and frequently over 60 percent after 2000 (see Chart 1.4). The momentum created by Howard's changes meant that since he left office, the Skill Stream has consistently been above 110,000 per annum (although it fell below this level in 2018-19 and due to the coronavirus may fall further in 2019-20).

This is perhaps surprising given Howard's previous history on immigration, especially as the bulk of the increase in immigration would inevitably be sourced from Asia and China and India in particular (see Chapter 8 for details).

And while the higher levels of immigration have been supported by the Treasury and Home Affairs Departments (2018)[cdliii], the Reserve Bank (2018)[cdliv], the Productivity Commission (2016)[cdlv] and McDonald and Temple (2010)[cdlvi], the increases have also been vehemently criticised by others (Bob Carr[cdlvii] John Stone 2009[cdlviii] Leith Van Onselen 2014[cdlix] Judith Sloan 2016[cdlx] Bob Birrell 2010[cdlxi]).

More recently, former Prime Minister Tony Abbott (2018)[cdlxii] has called for a much larger cut to immigration than already delivered under Immigration Minister Peter Dutton in 2017-18[cdlxiii]. Prime Minister Scott Morrison has confirmed his support for Dutton's cuts (Sheilds 2018).[cdlxiv] This was despite Morrison, when Immigration Minister, locking in the migration program at a historically high 190,000 in the 2014 Budget (Rizvi 2018)[cdlxv].

In his 2019 'Population Plan', Morrison set the Migration Program ceiling at 160,000 per annum. In 2010, McDonald and Temple had specified a range of 160,000 to 220,000 as 'optimising' the impact of immigration on the growth rate of GDP per capita, through its impact on population ageing. Drawing on this research, the program was set at 190,000 per annum for several years.

Re-focusing of offshore Humanitarian Program

Another major turning point of the Howard Government was to re-focus the Offshore Humanitarian Program away from Europe (specifically the former Yugoslavia) to sub-Saharan Africa and subsequently Myanmar.

In 1996-97, only 13 percent of the offshore humanitarian intake was from Africa and more specifically from North Africa while 41.7 percent was from the former Yugoslavia. The African component, particularly from sub-Saharan Africa, increased steadily under the Howard Government and peaked at over 73 percent in 2004-05 (see Table 5.3). This led to rapid growth in the sub-Saharan community in Australia, albeit off a very small base.

In its latter years, the Howard Government began a shift in the offshore humanitarian intake towards Myanmar associated with the outflow of Rohingya refugees.

Table: 5.3: Offshore Humanitarian Program

	Africa	Middle East & SW Asia	Europe (b)	Asia & Pacific	Americas	Total Offshore
1996-97	1,240 (a)	2,425	4,236	1,669	82	9,652

1997-98	1,473 (a)	2,952	5,307	685	50	10,467
1998-99	1,552 (a)	2,919	4,736	295	24	9,526 (c)
1999-00	1,738 (d)	2,206	3,424	113	23	7,502 (c)
2000-01	2,032 (e)	2,155	3,462	316	27	7,992
2001-02	2,801	2,743	2,709	189	16	8,458
2002-03	5,632	4,656 (f)	1,158	207	3	11,656
2003-04	8,353 (h)	2,867 (g)	354	221	7	11,802
2004-05	8,846	3,174 (i)	20	415	1	12,096
2005-06	7,100 (k)	4,335 (j)	55	1,260 (l)	8	12,758
2006-07	5,695 (m)	3,126 (n)	50	2,315	0	11,186

Source: Rizvi, Mills and Jones: Reports of Sopemi Correspondent to OECD from 1997 to 2005. (a) Mainly North Africa until 1999-00. (b) Former Yugoslavia (c) Not including Kosovars and East Timorese granted temporary protection visas. (d) Mainly from Sudan and Somalia. (e) Principally Sudan, Sierra Leone, Somalia, Ethiopia and Eritrea. (f) Includes 311 grants to Afghani and Iraqi in offshore processing centres in Manus and Nauru. (g) Includes 90 grants to Afghani and Iraqi in offshore processing centres in Manus and Nauru. (h) Includes 6,147 grants to Sudanese; 690 to Ethiopians; 368 Liberians; 287 from Sierra Leone; 226 from Congo and 185 from Somalia. (i) Includes 153 grants to Afghani and Iraqi in offshore processing centres in Manus and Nauru. (j) Includes 18 grants to Afghani and Iraqi in offshore processing centres in Manus and Nauru. (l) Includes 1,118 from Myanmar. (k) Includes 3,726 from Sudan; 888 from Liberia; 749 from Burundi; 460 from Sierra Leone; 363 from Congo; and 274 from Eritrea. (m) Includes 1,105 from Sudan; 703 from Burundi; 670 from Congo; 608 from Liberia; 460 from Sierra Leone; 253 from Eritrea. (n) Includes 2,030 from Myanmar.

Irregular maritime arrivals and onshore asylum seekers

The issue on which the Howard Government didn't so much change direction but more continued to ramp up its actions was to act to reduce numbers of onshore asylum seekers and irregular maritime arrivals.

Onshore asylum applications had reached 11,135 in 1996-97 with the largest source countries being Indonesia, China and the Philippines.

From 1 July 1997, Immigration Minister Ruddock introduced regulations to deny work rights to onshore asylum seekers who did not lodge their application within 45 days of arrival in Australia. The measure was aimed at limiting use of asylum claims to delay departure. He also introduced a $1,000 post-decision fee for unsuccessful Refugee Review Tribunal applications as well as administrative measures to reduce processing times. Reduced processing times were aimed at discouraging non-bona fides applications (Rizvi 1997)[cdlxvi].

These measures led to a decline in asylum applications in 1997-98 to 8,111, with a 60 percent fall in applications from the Philippines (1,741 applications in 1996-97 to 693 applications in 1997-98). Asylum grant rates in 1997-98 remained low at 7.4 percent at the primary stage with the highest number of grants to citizens of Iran at 98 and a grant rate of 38 percent. Grant rates at review were around 10 percent with the highest to citizens of Sri Lanka at 181 and a grant rate of 44 percent (Rizvi 1998)[cdlxvii].

Asylum applications increased marginally in 1998-99 to 8,257, including an increase from citizens of countries with strong claims (Sri Lanka, Iran and Iraq) as well from citizens of countries with weak claims (eg Malaysia and South Korea). 100 percent of the latter were refused very quickly, including at review (Rizvi 1999)[cdlxviii].

Onshore asylum applications surged to 12,713 in 1999-00 with 2,394 from Iraq (18.8%), 1,765 from Afghanistan (13.9%) and 1,038 from China (8.2%). Most of the applicants from Iraq and Afghanistan

travelled to Australia by boat (Rizvi 2000) [cdlxix]. The approval rates at primary stage for Iraqi protection visa applicants in 1999-00 was 76.8 percent while it was 93 percent for Afghans.

In response to the significant increase in irregular maritime arrivals in 1999, Ruddock introduced a new temporary category for onshore protection. Applicants who arrived in Australia without authorisation after 20 October 1999 could only be granted a temporary protection visa (TPV) with a validity of three years after which the circumstances of each temporary visa holder would be re-examined. Permanent protection would be available at that stage (Rizvi 2000).

TPVs were offered only work rights, access to health care and basic social security. These did not provide English language training, settlement support services, family re-union or right of re-entry. The surge in irregular maritime arrivals required the establishment of a range of new detention centres as capacity in existing centres was inadequate. Ruddock shifted approximately 2,500 places from the offshore humanitarian program to supplement the number of places available onshore (Rizvi 2000).

The Government's response to the surge in irregular maritime arrivals climaxed when a 20-metre wooden Indonesian fishing boat (the *Palapa*) with 433 Afghan asylum seekers on board was in distress in the Indian Ocean 140 kilometres north of Christmas Island. A Norwegian container ship, the MV Tampa, responded to an Australian Search and Rescue call for assistance.

The rescued asylum seekers objected to being returned to Indonesia. Under duress from the asylum seekers, the captain of the Tampa headed for Christmas Island. A stand-off was created as Australian authorities insisted the Tampa return the asylum seekers to Indonesia. Eventually, the Tampa was boarded by Australian SAS members.

"On 1 September 2001, the Prime Minister announced that agreements had been reached with the governments of New Zealand and Nauru for the people rescued by the *Tampa* to be conveyed to, and their claims to asylum assessed in, those two countries. On 2 September, an agreement with Papua New Guinea was announced, allowing for the trans-shipment of people from the *Tampa* through Port Moresby, on the Australian troopship HMAS *Manoora." (Select Committee of Inquiry into a Certain Maritime Incident 2002)*[cdlxx].

The Tampa crisis led to establishment of a new border protection regime starting with new legislation passed in September 2001. The main points of the new laws included the following:

- excision of certain territories from Australia's migration zone in relation to unauthorised arrivals to those territories - people who cannot apply for a visa;
- possible detention and removal from those territories of unauthorised arrivals;
- measures to strengthen deterrence in relation to unauthorised arrivals, including the introduction of a new visa regime and minimum terms of imprisonment for people smugglers;
- possibility that an adverse inference may be drawn about claimed identity and/or nationality where unauthorised arrivals fail to provide information to support their claims;
- guidance in relation to the meaning of "refugee" for the purposes of Australian law;
- limited grounds of judicial review in migration matters (also known as the privative clause);
- prohibition of class actions in migration litigation; and
- measures to put beyond doubt the legality of the actions of the Government in relation to the MV Tampa and the Aceng, and additional statutory authority for future action (Rizvi 2001)[cdlxxi].

Under the first so-called 'Pacific Solution', 1,637 persons were transferred to the Nauru and Manus Island. Of these, 705 were re-settled in Australia, 401 in New Zealand, 21 in Sweden, 16 in Canada, 6

in Denmark, 4 in Norway, 483 returned voluntarily and there was one death. The bulk of the cases had been resolved by May 2005 when 54 persons remained on Nauru awaiting resolution of their cases. The majority of these would have been there for over three years (Phillips 2012)[cdlxxii].

"When the Rudd Government dismantled the 'Pacific Solution' in February 2008, the final members of a group of later arrivals (82 Sri Lankans transferred from Christmas Island to Nauru in March 2007) were resettled in Australia" (Phillips 2012).

Citizenship

Citizenship was another issue on which the Howard Government dramatically changed policy direction away from that set over the previous 50 years.

Initially, the Howard Government continued to promote citizenship and encourage permanent residents to take out citizenship as quickly as possible.

In May 2001 the Howard Government released *Australian Citizenship… A Common Bond.* This was the Government's response to the report of the Australian Citizenship Council, *Australian Citizenship for a New Century* issued in February 2000. In its response, the Government endorsed the Council's conclusion that Australian citizenship is a major success in that it has welcomed over 3.1 million migrants since the establishment of citizenship in 1949, as full participants in Australian society and that, overall, citizenship policy and law were working well (Rizvi 2002).

A key objective of the initiatives announced in the Howard Government's initial position on citizenship was to invigorate Australian citizenship, give more prominence to the concept of citizenship and allow it to more effectively reinforce national unity and harmony. Major initiatives included:

- a national citizenship promotion campaign in the Centenary of Federation Year - the promotion campaign ran from 1 July 2001 to early October 2001. It was designed to promote the acquisition of Australian citizenship among eligible permanent residents and to enhance community understanding of the role of citizenship in our society, particularly as a unifying concept.
- establishment of an annual Australian Citizenship Day, to be celebrated on 17 September each year - The inaugural Australian Citizenship Day in 2001 provided an opportunity for all Australians to reflect on the meaning and importance of Australian citizenship and a focal point for Australians to reflect on the changes that have formed the nation and the role all Australian citizens have played in building Australia and shaping its future.
- conduct of affirmation ceremonies – these have potential to enhance awareness of Australian citizenship and its unifying role. The Government's intention was to encourage and provide opportunities for people who are already Australian citizens to publicly affirm their loyalty and commitment to Australia through the conduct of affirmation ceremonies at appropriate occasions, such as citizenship ceremonies.
- a range of legislative amendments and refinements – the Government announced that there would be no changes to the criteria for grant of Australian citizenship but it did pursue a number of legislative amendments and refinements, including:
    - repeal of s17 of the *Australian Citizenship Act 1948* to ensure that adult Australian citizens who acquire another citizenship do not lose their Australian citizenship;

- tightening of the 'good character' provisions; and
- extending existing provisions to benefit children and young adults. For example, the Government would provide children with their own citizenship certificate. Previously, children were included on their parent's certificate (Rizvi 2002).

As a consequence of the repeal of s17 of the Australian Citizenship Act 1948, a number of the further changes were announced in July 2004 to reflect the policy rationale for the repeal of s17. The further changes included:

- Making the sole requirement to resume Australian citizenship to be that the person is of good character;
- Giving children of former Australian citizens who lost their citizenship under the former s17 of the Act the opportunity to apply for grant of Australian citizenship;
- Ensuring consistency and simplicity in the provisions relating to citizenship by descent;
- Raising the age for an exemption from the requirement to have a basic knowledge of the English language from 50 to 60;
- Requiring a spouse of an Australian citizen to meet the same requirements for grant as most adult applicants, although allowing wider discretion, in relation to residence, where the spouse has a close association with Australia;
- Allowing de facto spouses to benefit from this wider discretion in some circumstances; and
- Amending the residence discretions to ensure integrity, equity and consistency in the citizenship process (Rizvi 2005).

Howard's very liberal response to *Australian Citizenship… A Common Bond* and the subsequent changes announced in July 2004 contrasted significantly with citizenship measures he would take from then on.

In September 2005, and after the departure of Ruddock from the Immigration portfolio, Howard reversed Australia's long-standing approach to citizenship. The new Minister for Citizenship and Multicultural Affairs (John Cobb) [cdlxxiii] announced:

- extension of the residence qualifying period from two to three years;
- security checking of citizenship applications, so that citizenship applications can be refused on security grounds;
- strengthening the deprivation of citizenship provisions relating to serious criminal offences to include offences committed in the period between approval of an application and acquisition of citizenship; and
- introduction of a framework for the collection and use of personal identifiers which may be used in the future.

Cobb explained that, "as announced by the Prime Minister on 8 September [2005], the residential qualifying period of not less than two years in Australia in the previous five years is being extended to three years. There will be no change to the requirement to have spent one year in Australia in the two years immediately prior to making the application. The increase in the residential qualifying period will allow more time for new arrivals to become familiar with the Australian way of life and the values to which they will need to commit as citizens. It will also strengthen the integrity of the

citizenship process by giving more time for the identification of people who may represent a risk to Australia's security."

In a question without notice, Senator Alison asked Senator Minchin about comments from the Prime Minister and Treasurer that immigrants and dual citizenship holders should abide by Australian values or be kicked out. Senator Alison asked "[w]hat specifically are those Australian values?"

In his response, Senator Minchin (2006) [cdlxxiv] said "I think that the Prime Minister and the Treasurer and other government spokesmen have merely said what is the consensus view of all Australians: that when migrants come to this country and seek to become, and do become, Australian citizens they should abide by the general rules that govern this great country. Those general rules essentially are: a commitment to our liberal democracy, a commitment to pluralism and a commitment to abiding by the general rule of law. It is a fact that in Australia, as a long part of the Western tradition, there is a separation of church and state and, while as a proud pluralist country we respect the rights of everyone to honour their faiths, we do seek to ensure that we eliminate extremism in Australia and that we do ensure that everybody, no matter what their faith, their background or their originating culture, does abide by the fundamentals that make this one of the great democratic nations of the world."

The issue of Australian values and citizenship would remain the subject of on-going debate for the Australian Parliament. The Leader of the Australian Greens (Senator Bob Brown) [cdlxxv], moved on 28 February 2006 that "the Senate:

> (a) notes the call by the Treasurer (Mr Costello) for people applying for Australian citizenship who do not `share certain beliefs' to be refused citizenship, and those Australians holding dual citizenship who do not `share certain beliefs' to be stripped of their Australian citizenship; and
>
> (b) calls on the Treasurer to outline how that non-sharing is defined and how this could be framed in law.

While this motion was defeated, controversy around what the Treasurer meant continued. Senator Bartlett of the Australian Democrats (2006) [cdlxxvi] noted that "[t]he Treasurer was criticising people – Muslims obviously."

This change of direction for citizenship policy would be carried further forward under the Abbott/Turnbull/Morrison Governments but in the face of substantial opposition.

Chapter 6: How the Howard Government Increased the Skill Stream

Having tightened skill stream requirements significantly, which also led to a decline in the application rate, the Howard Government could hardly reduce those same requirements in order to generate additional applications. A different approach would be needed.

The Government approached the challenge through a range of inter-linked measures, including increased occupational targeting, expansion of visa mechanisms to assist migration to regional Australia and development of more streamlined and electronic visa processing arrangements to manage the anticipated growth in visa applications. But these would not be enough to adequately and quickly address concerns about skill shortages.

Growing temporary entry and change of status – breaking a longstanding taboo

The key to delivering a sufficient boost to permanent skilled migration levels would be a change in attitude to long-term temporary entrants (ie overseas students, working holiday makers and skilled temporary entrants - sub-class 457) in terms of streamlining entry arrangements and the extent to which temporary entrants should be allowed or encouraged to apply for permanent residence without leaving Australia.

The Immigration Department had long been conscious of the negative experience of guest workers in Europe and North America in terms of both exploitation and overstay. Allowing the stock of overstayers to rise was anathema to the Department which had long boasted of its ability to keep overstayer numbers down – it produced regular estimates of the overstayer population that, compared to other developed nations, were relatively small. These were also relatively accurate largely due to Australia being an island, introduction in the 1990s of a universal visa requirement and systems for entry/exit data collection.

The traditional view of immigration authorities across migrant settler nations was that opening up temporary entry in any significant way would put unsustainable pressures from temporary entrants to be allowed to remain permanently.

The view expressed by Philip Martin[cdlxxvii] in his 2001 article 'There is Nothing More Permanent Than Temporary Foreign Workers' was very much the thinking in Australia's immigration department and its ministers throughout the 1970, 1980s and 1990s. That thinking was the driving force behind Australia's immigration authorities arguing strongly against allowing a large cohort of temporary entrants to develop, and particularly against the introduction of low skill and low pay temporary agricultural worker programs such as those in the USA and Europe.

Until the early 2000s, Australia's approach to temporary entry, and in particular to overseas students, working holiday makers and skilled temporary entrants, was very much guided by the kind of thinking embodied in Martin's article.

The Immigration Department was particularly conscious of the overstayer problems created by Australia's initial foray into the export of education in the late 1980s (see Chapter 3). The rapid increase in short course student numbers, a high rate of overstay and non-compliance with visa conditions raised concerns within the Immigration Department from as early as 1987.

Against this background, the gradual streamlining of long-term temporary entry arrangements for students, working holiday makers and skilled temporary entrants and opening up of 'on-shore change of status' to grow the skill stream, was revolutionary. In 1996-97 only some 16% of a skill stream of 27,550[cdlxxviii] was drawn from people already in Australia. By 2006-07, this had increased to some 39% of a much larger skill stream of 97,920 (Mills 2007).[cdlxxix]

In addition, the stock of temporary entrants in Australia, including New Zealand citizens, increased rapidly and is now consistently over 2 million, including around 600,000 overseas students plus temporary graduate visa holders (see Temporary Entrants in Australia; data.gov).

And despite frequent comment that is critical of this (Shorten 2016)[cdlxxx] O'Connor (2019)[cdlxxxi], it is a figure that is unlikely to fall significantly unless Australia's competitiveness for overseas students, working holiday makers and skilled temporary entrants declines (although it will decline due to the impact of the coronavirus).

Outside the unprecedented impact of the coronavirus, any decline in the stock of temporary entrants would most likely be due to either a major reduction in the migration program, tightening of policy on employer sponsored temporary entry or due to a weaker economy noting rapid decline in net migration during past recessions. The Morrison Government's forecast for net migration in the 2019 Budget (Frydenberg 2019) would suggest it was anticipating acceleration in the stock of temporary entrants in Australia.

Occupational targeting

The simplest means of growing the skill stream was by allocating more points in the general skilled migration (points tested) categories to occupations in national shortage. While many of the occupations targeted were professions in health, education, finance and engineering, there was a significant ramping up of ICT occupations from around 1999.

The Minister for Employment, Workplace Relations and Small Business, Tony Abbott (2001)[cdlxxxii], said he was aware of an IT Industry survey which "estimated that during 1999-2000, the Industry would have approximately 30,000 positions to be filled by skilled IT&T employees."

He noted in 1999-00 there had been a net gain of 8,000 IT&T professionals through existing immigration arrangements and referred to further initiatives as follows:

- Using a contingency reserve allocation of 5,000 places in the 2000-01 Migration Program to accommodate the expected rising demand from ICT professionals who had been trained in Australia – use of the contingency reserve concept reflected uncertainty about how much additional demand for skilled migration could be generated. As it turned out, 4,450 of the 5,000 places were used, mainly for migrants with ICT skills;
- From July 2001, successful Australian-educated overseas students with key skills, particularly ICT qualifications, could apply to obtain a visa for permanent residence under the Skilled-Independent and related categories without leaving Australia;
- Issuing of a Ministerial Direction for immigration decision-makers to give processing priority to ICT professionals applying under permanent and temporary skilled entry categories;
- All ICT occupations would be recognised as 'key' positions for sub-class 457 purposes, meaning that they would not be subject to labour market testing;

- Recognising the rapidly changing market for ICT skills, labour market demand in all ICT occupations would be reviewed every six months rather than every 12 months for inclusion on the Migration Occupations in Demand List (MODL).

Over time, the number of occupations on the MODL would continue to grow. By September 2006, there were 86 skilled occupations on MODL, including nine computing specialisations, 20 medical and health professions, six engineering occupations, and 41 other skilled trade occupations. Policy was changed such that MODL would be reviewed by the Department of Employment and Workplace Relations every six months to reflect emerging labour shortages and further improve targeting. Enlargement of MODL enabled the Government to both boost the number of skilled migration applicants as well as targeting specific skill needs (Mills 2007).[cdlxxxiii]

The most significant change was addition of 41 skilled trade occupations against the background of escalating skill shortages in the trades.

Indeed, in December 2004, Senator Kate Lundy[cdlxxxiv] said "[t]he Howard government has failed to do anything to address the massive skill shortages evident in manufacturing. In this sector alone the Australian Industry Group reports that there are currently between 18,000 and 21,000 vacancies for tradespeople… the Department of Employment and Workplace Relations skilled vacancies index showed that vacancies for skilled tradespersons jumped from 97.1 in November 2001 to 149.4 in November 2004. These figures reveal the sharply rising demand for skilled workers in key areas, including the metal trades, automotive, electrical and construction industries."

But because of issues with assessing trade skills, adding so many trade occupations to MODL would turn out to be a high-risk measure that would eventually be scaled back by the Rudd Government.

Overseas students

Through most of the 1990s, Australia maintained a very strict policy on the entry of overseas students. The tightening of policy led to the closure of a large number of private colleges and exposed the lack of a safety net for overseas students attending such colleges. Another issue was that student visa applicants had paid fees to education institutions in Australia but their visa had not been processed.

As a result of the policy tightening, overseas student numbers remained subdued for much of the 1990s although concerns about unscrupulous education providers and student non-compliance continued to be raised (eg Kim Carr 1999[cdlxxxv]; Chris Ellison 1999[cdlxxxvi]). This meant Australia's international education export industry grew only very slowly through the 1990s.

But this would change from the late 1990s.

In a speech on 18 March 1998 to the National Press Club, Immigration Minister Philip Ruddock[cdlxxxvii] explained "we are also looking closely at the student visa program to ensure the controlled, sustainable growth of Australia's international education and training industry. Among options I am considering is visa assessment streamlining for students from emerging markets such as China and India by introducing an effective partnership with education institutions to ensure we receive bona-fide students, and not those wanting to jump the queue and achieve a migration outcome."

In August 1998 Ruddock[cdlxxxviii] announced that five additional points would be granted in the points-tested skilled migration categories to any applicant who obtained a diploma, trade certificate or degree from an Australian educational institution. This was effective from 1 July 1999.

Ruddock's thinking on the nexus between overseas students and skilled migration was gradually shifting.

In announcing the 2000-01 Migration Program, Ruddock noted "about 50% of the people assessed under the new points test were former overseas students who had the advantage of qualifications that were readily recognised in Australia and that of having prior experience of life and work in Australia" (Spinks 2016)[cdlxxxix].

In a press release of 23 November 2000, Ruddock said the "Government had effected a 'critical shift' in the way greater numbers of successful overseas students are able to migrate to Australia after completing their studies. This gives Australia a significant competitive advantage over competing countries in terms of Australia's ability to attract more overseas students and more skilled migrants" (Spinks 2016).

After relatively slow growth during most of the 1990s (mainly but not entirely due to the restrictions of the gazetted and non-gazetted country student visa regime introduced in the early 1990s), overseas student numbers and their contribution to net migration increased strongly from 2001. Offshore student visa grants increased very slowly from the 1996-97 level of 68,611 to 86,277 in 2000-01, an increase of 26%. But from this stage, offshore student grants accelerated to 226,898 in 2008-09, an increase of 163%. The increase was also associated with a shift towards China and India as the main source countries (see Table 6.1).

"Immigration policies introduced under the Howard Coalition Government…fundamentally changed the nature of migration to Australia. Policy changes in this period were pivotal in facilitating the rapid growth of overseas student education in Australia by forging links between the overseas student program and permanent skilled migration (Koleth 2012)."[cdxc]

"The Howard Government sought to attract overseas students in response to changing global economic conditions and migratory trends. The rapid growth of both the skilled stream of the Migration Program and the overseas students program occurred in a climate of intense international competition for highly skilled young migrants and overseas students (Spinks 2016).[cdxci]

"Australian immigration policy has facilitated the growth of the international education industry by offering the option of permanent settlement to those successfully completing courses in areas of high demand" (Markus, Jupp and McDonald 2009).[cdxcii]

Table 6.1: Offshore Student Visa Grants by Main Source Country

1996-97	**1999-00**	**2004-05**	**2008-09**
South Korea: 9,588	China: 6,079	China: 17,506	India: 54,610
Indonesia: 8,030	Malaysia: 5,900	USA: 10,367	China: 35,405
Japan: 6,319	Indonesia: 5,439	India: 10,000	Nepal: 10,706
Malaysia: 5,327	Hong Kong: 4,544	South Korea: 9,328	South Korea: 10,055
Singapore: 4,575	Japan: 4,438	Malaysia: 6,609	USA: 8,872

Total: 68,611[cdxciii]	Total: 74,428[cdxciv]	Total: 116,715[cdxcv]	Total: 226,898 (Home Affairs website)

Source: Rizvi Sopemi Reports 1997, 2000 and 2005 and Home Affairs website

The two key factors driving this growth were:

- changes to design of student visas to facilitate growth while balancing non-compliance risk; and
- more open pathways to further temporary and permanent residence.

A key date in this regard was 1 July 2001. On this date the Government both significantly streamlined the design of student visas to facilitate growth as well as opening up the opportunity for successful overseas students to make an onshore application for permanent residency through the Skilled Independent and related visa categories (Rizvi 2001).[cdxcvi]

Student visa design and processing

From 1 July 2001, the gazetted/non-gazetted country regime that had been in place for a decade was replaced by seven new student visa subclasses and a system of five 'assessment levels' that determined the level of scrutiny different student visa applications would attract.

The new visa subclasses were based on the education sector of the student's principal course of study. For each visa subclass, there were criteria in respect of financial ability, English language proficiency, potential to breach visa conditions and other relevant matters. The criteria a student had to meet to be granted a student visa differed depending on the 'assessment level' of their application. An assessment level of 1 meant there was a low risk of non-compliance with visa conditions and overstay, whereas an assessment level of 4 (5 was held in reserve) indicated a high risk of students overstaying their visas and/or non-compliance with visa conditions (Ruddock 2001).[cdxcvii]

The objective was both controlled growth of Australia's export of education industry and to help grow the permanent resident skill stream with young, successful overseas students who had obtained a relevant qualification from an Australian education institution.
Complimentary measures to improve the integrity of the overseas student program had earlier been taken by the Education Department (Kemp 2000) [cdxcviii].

In the second reading speech for the new Education Services for Overseas Students (ESOS) Act, Education Minister David Kemp said "some successful measures to increase monitoring of student visa compliance were undertaken during 1999. As a result, the cancellation rate for breaches of student visa conditions has grown significantly. It increased by 19 per cent during 1998-99 and by 36 per cent for 1999-2000. The bills will help to ensure that students admitted to Australia to study do just that, and that those students receive the education to which they are entitled."

He said "the new ESOS Act will:

- provide overseas students with stronger protection for pre-paid fees and continuing education if their provider collapses, through an industry-based assurance fund;
- establish a legally enforceable national code providing nationally consistent standards for the registration and conduct of providers, which will deliver improved and more reliable quality assurance across the states and territories;

- create new obligations for providers to report student breaches of their visa conditions through the Electronic Confirmation of Enrolment system;
- make it an offence to be a bogus provider—that is, to fail to provide genuine courses to students and in doing so intentionally or recklessly facilitate visa breaches;
- provide powers for my department to investigate possible breaches of the act and of the national code; and
- allow greater powers to impose suspension and cancellation action and other conditions on providers that breach the provisions of the act or the national code."

The new Act contained a power for the Immigration Minister to issue an "Immigration Minister's suspension certificate" to an education provider, preventing for a period of six months, further recruitment action by that provider and also effectively suspending visa applications by, and grants to, students proposing to study there. This certificate could be issued where, in the Minister's opinion, a significant number of the provider's students were in breach of their visa conditions or involved in other specified activities of immigration concern.

The student visa program also introduced a number of systems-based improvements. These included an electronic confirmation of enrolment (eCoE), which was introduced in July 2000. The eCoE enabled the Immigration Department to maintain information to track students' progress from enrolment to course completion. (Rizvi 2002).

On 1 July 2002, an offshore Internet based electronic student visa facility (eVisa) was expanded to provide access to Assessment Level one (low immigration risk) caseloads in all education sectors. There were 27,533 student visas granted in 2002-03 using this facility (Rizvi 2004)[cdxcix].

From July 2004 the Department commenced testing a new electronic visa lodgement facility for students from India, the PRC and Thailand. Unlike students from lower immigration risk countries who could apply directly over the Internet for a visa, applications from these countries could only be lodged by education agents who had signed a facility access agreement with the Department. Applications from Chinese and Indian students were assessed by the Adelaide Offshore Student Processing Centre with integrity checking undertaken by relevant overseas posts. Thai student applications were assessed by the Perth Offshore Student Processing Centre which also processed all low risk cases (Rizvi 2004).

In recognition of improving compliance levels, Assessment Levels for a number of countries and education sectors were reduced in November 2005. In all, 15 nationalities had their risk ratings reduced in one or more sectors, totalling 59 Assessment Level adjustments. These reductions reflected on-going reduction in visa non-compliance since the reforms introduced in 2001 and provided more people with the opportunity to study in Australia (Rizvi 2006).

In September 2006, the Minister for Education approved changes to the Migration Regulations to support the revised National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students (the National Code). The National Code, which was administered by the Department of Education, Science and Training (DEST), came into effect on 1 July 2007 along with the consequential changes to the student visa legislation and policy. Key immigration related changes included (Rizvi 2006):

- New welfare arrangements for students under the age of 18 (National Code Standard 5): Providers were required to nominate the period for which they would approve the welfare of a student under 18, where that student was not residing with a parent or suitable relative. Immigration would grant a visa that corresponds to this period.
- Removal of change of education provider condition (Immigration Condition 8206 and National Code Standard 7): This effectively removed Immigration from the process of assessing applications to change education provider. Students who wished to change providers within the first six months of their course needed permission from their provider. Student visa condition 8206 preventing students from changing provider was removed. The function served by this condition was replaced by ESOS legislation.
- Changes to course progress and attendance (Immigration Condition 8202 and National Code Standards 10 and 11): The revised Code required all providers to specify course progress policies, and to implement early intervention policies to help students at risk of failing. Education providers, other than those in the higher education sector were required to monitor attendance using a 70-80% attendance threshold as a guide for students at risk. If a student's attendance fell below 70%, the provider was required to report the student to Immigration. To support this, Immigration changed student visa condition 8202 to allow automatic cancellation to be pursued based on the provider's dissatisfaction with a student's progress or attendance. Immigration was not required to assess whether a breach had occurred.

In an effort to further streamline visa processes for students, the requirement for a visa label for several student cohorts was removed, including for all students who applied for a further student visa in Australia. This meant that successful applicants no longer needed to have a visa label in their passports as evidence of their visa grant. Their visa information was stored electronically and they and potential employers were able to access it through the Department's Visa Entitlement Verification Online (VEVO) service (Rizvi 2006).

Australia's label-free processing initiative also applied to clients from India, Indonesia and Thailand who applied outside Australia. Most applicants from these countries applied for their visas online. The introduction of label-free processing further simplified visa grant processes (Evans 2008).[d]

While there is much debate about the issues raised by the rapid growth of Australia's overseas student program, including concerns about the quality of education delivered, the changes Ruddock initiated from the late 1990s would lead to international education becoming one of Australia's largest export industries (ABS Cat 5206).

Pathways for students to temporary and permanent migration

At the same time as it was re-designing the overseas student visa program to facilitate growth, the Howard Government also progressively opened up pathways for successful overseas students to secure further stay in Australia on a temporary and eventually permanent basis.

This was contrary to long-standing policy dating back to establishment of the Colombo Plan, that students should come to Australia to study and then return. While regulations allowed for changes in circumstances that meant the student could apply to remain in Australia permanently (eg on the basis of a relationship with an Australian citizen or permanent resident), the policy thinking for almost 50 years had been that onshore change of status should be discouraged (see Chapter 3).

In a speech to the Economic Impact of Immigration Conference (March 2001)[di], Ruddock noted the policy of allowing successful Australian-educated overseas students to be granted permanent residence under the Skilled-Independent and related categories was "helping to attract more overseas students and an increasing portion are undertaking courses in areas that are experiencing a skills shortage such as accountancy, engineering and nursing…around 50% of principal applicants in the Skilled Independent category are successful overseas students with the numbers expected to rise in coming years."

Australia's overseas student program increasingly became an important source of highly skilled migrants. Nearly 30 per cent of skilled visas under the 2001-02 Migration Program were delivered from onshore visa applicants who changed status (Rizvi 2002).[dii]

In announcing a larger 2002-03 Migration Program with 58% of places allocated to the skill stream, Ruddock[diii] said "due to the high demand for migration, particularly from overseas students who have completed tertiary education in Australia, the Government has decided to increase the pass mark from 110 to 115 points for all independent skilled applications received from 8 May 2002." Ruddock also noted "the Government is looking to attract more overseas students, who are considered a very important skill stream feeder group, to regional universities and TAFEs."

In a joint media release (March 2003), Tony Abbott (Minister for Employment and Workplace Relations) and Ruddock[div] announced a reduction in the number of ICT specialisations on the MODL and to remove accountants but include a wider range of health professionals.

The treatment of accountants and finance professionals would remain a difficult policy challenge. On the one hand, there is a high demand for such courses from both students and education providers. However, there are limits to how many such migrants Australia can successfully absorb (recent policy requires accountants to meet a higher pass mark than all other occupations).

That same month Ruddock (2003)[dv] also announced successful overseas students applying for general skilled migration on or after 1 July 2003 would be required to have completed a minimum of two years study physically in Australia rather than just one year. The points available for post-graduate study were also boosted.

In April 2004, new Immigration Minister, Amanda Vanstone[dvi], announced a further increase in the pass mark for the skilled independent visa from 115 points to 120 points but this increase would not apply to overseas students studying in Australia who applied before April 2005 (Rizvi 2005).

Vanstone also announced allocation of an additional 5,000 places for a new Skilled Independent Regional (Provisional) (SIR) visa for potential migrants outside Australia as well as to overseas students in Australia wishing to remain permanently. From 1 July 2005, SIR (Provisional) visa applicants were eligible for 10 "sponsorship" points when sponsored by an authorised state or territory government agency, further enhancing the attractiveness of this visa. The SIR visa was a two stage visa where permanent residence would be granted if the skilled migrant lived and worked in a regional area for a minimum period (In 2019, the Morrison Government would change this visa to make access to the provisional stage easier while making the permanent residence stage more difficult – see Chapter 7).

Students in Australia seeking to remain permanently could obtain additional points for studying in regional institutions but required a 60 point occupation to meet the points test. To further

encourage overseas students to consider settling permanently in regional Australia, students could apply for and be granted an SIR (Provisional) visa while in Australia even if they could only nominate a 50 point occupation. This concession only applied if they had lived and studied at a campus in regional Australia or a low population growth metropolitan area for a minimum of two years prior to applying.

50 point occupations included a range of trade occupations. At that time, there were 46 trade occupations on the MODL making the pathway to permanent residence for overseas students even easier. Associated with this was a surge in students undertaking VET courses.

To accommodate the surge in students applying for skilled migration, for the 2005-06 Migration Program, Vanstone (2005)[dvii] said these would be increased by 20,000 places. As part of that announcement, Vanstone added more trades and engineering related occupations to the MODL as a response to increasing skill shortages associated with the mining boom.

An evaluation of the general skilled migration categories undertaken by Dr Bob Birrell, Associate Professor Lesleyanne Hawthorne and Professor Sue Richardson (2006)[dviii] found that good English and relevant work experience were essential to labour market success. As a result of the evaluation, Vanstone (2006) announced the Government would:

- Increase the base level of English language proficiency;
- Give greater emphasis to skilled work experience as a factor in the points test; and
- Provide temporary visa mechanisms (ie a new skilled graduate visa sub-class 485) to enable students to gain work experience in Australia.

In August 2007, the new Immigration Minister, Kevin Andrews[dix], further expanded the MODL to include 38 managerial and professional occupations, one associate professional occupation, 10 computer specialisations and 46 trade occupations. By September 2008, there were 106 skilled occupations on MODL, including 41 managerial and professional occupations, two associate professional occupations, 14 computing specialisations and 49 trade occupations. (Wood 2008)[dx]

These changes further accelerated demand for migration from the rapidly rising pool of overseas students in Australia, particularly those studying a trade occupation such as cookery and hairdressing. This would drive private VET providers in particular (some unscrupulous ones) to expand their offerings that would subsequently be addressed through changes to skilled migration implemented by Immigration Minister Chris Evans (Birrell and Healy 2010).[dxi]

Working holiday makers

Unlike countries in Europe and North America, Australia has largely avoided introduction of a visa to supply low skill workers for the agriculture sector (as well as other industries that have lobbied for a temporary low skill visa (eg nannies, truck drivers, hotel maids). Two over-riding concerns underpinned this view: firstly the risk of worker exploitation and secondly risks of overstay. (It is notable that the relatively small Pacific Island Seasonal Worker visa was introduced after the Howard Government lost power).

The Immigration Department was very conscious of the experience with such visas in the USA, Canada, Europe, the UAE and Saudi Arabia. The level of ongoing exploitation associated with the USA's long-standing agricultural visa was top of mind. (Bauer and Stewart 2013)[dxii]

However, with many parts of the economy experiencing labour shortages in the early 2000s, the agricultural sector pressured government more than usually to assist with its labour needs. Noting the extent to which the agricultural sector was using WHMs to supplement its labour needs, Government responded by:

- expanding the number of countries with whom it had Working Holiday Maker (WHM) agreements. By November 2001, the government had agreements in place with Canada, the Republic of Ireland, Japan, the Republic of Korea, the Netherlands, Malta, the United Kingdom, Germany, Sweden, Denmark, Norway and Hong Kong (Rizvi 2001);[dxiii]
- streamlining visa processing – in July 2002, the immigration department initiated a pilot of electronic lodgement of WHMs. Processing of all electronically lodged WHM applications was centralised in Hobart.[dxiv] By 2003, around 90 percent of WHM applications were lodged electronically with over half of these decided on the same day (Rizvi 2003);[dxv] and
- introduction from 1 November 2005 of an incentive of a second WHM visa for WHMs who worked for at least 3 months in the agricultural sector. Immigration Minister Amanda Vanstone said "ripened fruit has proven to be a good meal ticket for at least 500 visitors who have applied for this second working holiday-maker visa since its introduction only four weeks ago. We can be sure from the response received in just over four weeks that this is going to make a significant difference to rural areas, where farm labour is so important. It represents about half of the overall operational cost for horticultural businesses. It is a critical factor in ensuring the smooth running of the field preparation, the planting, the maintenance and the harvesting and packing activities on the farm. The changes to the visa do provide, I think, a significant incentive to people to get out there and help us bring the crops in. That in turn will provide farmers with a wealth of fit, mobile and enthusiastic workers when they are most needed for farm labour. It also gives a boost to the tourism industry, because the working holiday-makers who stay longer may or may not choose to do more fruit-picking in that second year but they will at least be available for a whole range of jobs, in particular in the tourism industry that relies so heavily on working holiday-makers" (Vanstone 2005)[dxvi]

The Government also announced additional flexibilities with the WHM visa including:

- allowing WHMs to work for a maximum of six months with one employer recognising that many businesses needed to train up WHMs before they are fully efficient in the work of the business. Previously, the law permitted only three months with any single employer;
- the minimum period of study allowed under a WHM was increased from three months to four months to allow WHMs with nursing qualifications to undertake a bridging course before they could work as a nurse. A significant number of these bridging courses were more than three months but less than four months. This made it significantly easier for these nurses to subsequently secure skilled temporary residence and eventually permanent residence (Rizvi 2006).[dxvii]

In 2001-02, 85,200 WHM visas were issued, up from 57,000 in 1997-98. (Rizvi 2002)[dxviii] Major source countries were the UK (40,946), Ireland (10,799); Japan (9,752); Germany (5,869); Canada (5,729); the Netherlands (4,656).

In 2002, Finland and Cyprus joined the list of WHM agreement countries. By 2003, the Government had extended the scheme to Italy and Belgium (starting from 2004). During 2004, France, Taiwan and Estonia were added to the Program (Rizvi 2004).[dxix]

The higher immigration risk Work and Holiday (W&H) visa also continued to be expanded. While this visa began with a small agreement with Iran, by 2006 Chile, Thailand, Turkey and Bangladesh had been added (Mills 2006).[dxx] The addition of the USA to the Work and Holiday visa led to over 2,000 such visas being granted to nationals from that country in 2007-08 (Wood 2008).[dxxi]

In 2006-07, WHM visa grants had increased to 134,612 with the main source countries being the UK (31,204); Korea (28,562), Germany (15,684), Ireland (13,514) and Japan (11,707). 98 percent of applications were lodged online (Jones 2007).[dxxii]

These changes led to rising numbers of WHM/W&H visa holders working longer-term in Australia. This inevitably had a flow-on to other temporary visas as well as permanent migration where the WHM/W&H visa holders were able to demonstrate they possessed skills in demand.

Employer sponsored migration

Employer sponsored permanent migration has traditionally been treated as a high priority in the skill stream. While at times Labor Governments have viewed this form of migration with suspicion (eg Immigration Minister Stewart West in the Hawke Government – see Chapter 3), it has almost always been managed on a demand driven basis. This meant that if demand for employer sponsored permanent entry increased, usually in association with a strong economy, the number of places available in the overall program would be increased or places in the points-tested categories would be reduced.

The rationale for this is well established in the research. A skilled migrant who has been sponsored by an Australian employer has a skilled and relatively well-paying job on arrival (see Tables 6.2, 6.3 and 6.4). As a result, employer sponsored migrants consistently make the largest per capita economic and budgetary contribution. [Note LSIA 1 relates to migrants arriving between September 1993 and August 1995 while LSIA 2 relates to migrants arriving between September 1999 and August 2000.]

Table 6.2: Unemployment Rates - LSIA 1 and 2 - Primary Applicants

	LSIA 1 – 6 Months After Arrival	LSIA 1 – 18 Months After Arrival	LSIA 2 – 6 Months After Arrival	LSIA 2 – 18 Months After Arrival
Preferential Family/Family Stream	38%	19%	22%	13%
Concessional Family/SAL	35%	18%	21%	5%
Skilled Labour/ENS	1%	3%	0%	0%
Business Skills	10%	3%	8%	0%
Independent Skilled	25%	9%	8%	7%

Humanitarian	85%	52%	71%	42%
Total	38%	20%	17%	10%

Source: Rizvi 2005, Sopemi Report

Table 6.3: Participation Rates - LSIA 1 and 2 - Primary Applicants

	LSIA 1 – 6 Months After Arrival	**LSIA 1 – 18 Months After Arrival**	**LSIA 2 – 6 Months After Arrival**	**LSIA 2 – 18 Months After Arrival**
Preferential Family/Family Stream	49%	55%	53%	62%
Concessional Family/SAL	80%	85%	85%	87%
Skilled Labour/ENS	95%	99%	99%	100%
Business Skills	61%	84%	54%	81%
Independent Skilled	88%	91%	89%	92%
Humanitarian	48%	58%	18%	32%
Total	59%	65%	64%	71%

Source: Rizvi 2005, Sopemi Report

Table 6.4: Weekly Income - LSIA 1 and 2 - Primary Applicants

	LSIA 1 – 6 Months After Arrival	**LSIA 1 – 18 Months After Arrival**	**LSIA 2 – 6 Months After Arrival**	**LSIA 2 – 18 Months After Arrival**
Preferential Family/Family Stream	$103	$191	$59	$224
Concessional Family/SAL	$317	$488	$414	$574
Skilled Labour/ENS	$1073	$1094	$1130	$1221
Business Skills	$287	$556	$896	$774
Independent Skilled	$527	$671	$684	$730
Humanitarian	$182	$224	$183	$204
Total	$177	$296	$249	$433

Source: Rizvi 2005, Sopemi Report

Growing the skill stream via employer sponsored migration was therefore considered superior to growing it via independent skilled migration or indeed via business skills. But despite being managed on a demand driven basis and a strengthening economy, employer sponsored migration remained

below 6,000 per annum through the second half of the 1990s (see Table 6.5). The Immigration Department's attitude to onshore change of status by long-term temporary entrants also retarded growth of employer sponsored permanent migration.

The growth in employer sponsored migration was driven by two main factors:

- creation of specialised 'business centres' in the department's regional offices from the late 1990s. These business centres ensured employer sponsors of both temporary and permanent applicants received specialised assistance from officers with a strong knowledge of business and financial terms and concepts and the employer sponsorship segment of the *Migration Act (Rizvi 2000)*; and
- the significant increase in long-term temporary residents with work rights (ie students, working holiday makers and sub-class 457 visa holders) who then became eligible for employer sponsored permanent residence, including the Regional Sponsored Migration Scheme.

Table 6.5: Employer Sponsored Permanent Migration (includes Labour Agreements and RSMS)

	Visas to Offshore Applicants	Visas to Onshore Applicants (portion of employer sponsored migration)	Total (portion of total program)
1996-97	2,340	3,220 (57.9%)	5,560 (7.7%)
1997-98	2,140	3,810 (64.0%)	5,950 (8.9%)
1998-99	1,536	4,047 (72.5%)	5,583 (8.2%)
1999-00	1,230	4,160 (77.2%)	5,390 (7.7%)
2000-01	1,200	4,600 (79.3%)	5,800 (7.2%)
2001-02	1,240	4,760 (79.3%)	6,000 (6.4%)
2002-03	2,770 (a)	7,760 (73.6%)	10,540 (9.8%)
2003-04	2,020 (b)	8,380 (80.6%)	10,400 (9.1%)
2004-05	2,600	10,430 (80.1%)	13,020 (10.8%)
2005-06	3,220	12,000 (78.8%)	15,230 (10.7%)
2006-07	3,590	12,990 (78.3%)	16,590 (11.2%)
2007-08	4,926	18,836 (79.2%)	23,762 (15.0%)

Source: Successive Sopemi Reports to 2009. (a) Includes 794 STNI visas. (b) Includes STNI visas

These measures led not only to an increase in the overall number of permanent migrants under employer sponsored categories but to a significant increase in the portion of these migrants who were already in Australia at the time they were sponsored. This portion increased from an already high 57.9 percent in 1996-97 to around 80 percent from 2000-01 onwards (Migration Program Reports on Home Affairs website).

Long-stay temporary business entry sub-class 457

A key to growth in employer sponsored permanent migration was growth in the feeder sub-class 457 (also known as the 'temporary business entry long-stay' visa). That growth was initiated by the 1995 Roach Report (led by Chairman of Fujitsu Australia, Neville Roach).

After growing strongly in its early years, visa grants in this category fell in the early 2000s (data below sourced from successive Sopemi reports):

- 1997-98: 56,474 with main source countries being the UK (15,780); Japan (11,368); the USA (9,209); Germany (3,249); Singapore (2,639); South Korea (1,458) and France (1,126)
- 1998-99: 58,287 with main source countries being the UK (15,232); Japan (13,093); USA (8,421); Singapore (3,450); Germany (2,911) South Korea (1,880); Hong Kong (1,229) and Canada (1,056)
- 1999-00: 46,741 with the main source countries being Japan (11,839); UK (11,723); USA (7,053); Singapore (2,978); Germany (2,178); South Korea (1,247); Canada (948)
- 2000-01: 36,902 with the main source countries being the UK (8,737); India (3,294); USA (3,005); Japan (2,239); South Africa (1,995); Ireland (1,441); China (1,341); South Korea (1,264)
- 2001-02: 33,705 with the main source countries being the UK (9,653); India (3,075); USA (2,640); Japan (2,441); South Africa (1,887); Ireland (1,626); South Korea (1,606; China (1,104)

The decline in sub-class 457 visa grants in 2000-01 and 2001-02 was driven almost entirely by the dot.com crash with a 30.8 percent decline in the number of offshore applicants with ICT qualifications (Rizvi 2002). The decline was partly offset by a 144 percent increase in registered nurse applicants (rising from 1,049 to 2,563).

The other significant development in the early 2000s was the increase in sub-class 457 grants to skilled entrants from India, China, South Africa and Ireland. The stock of subclass 457 visa as at 30 June 2002 was 55,001 visa holders, down from 59,610 at 30 June 2001 (Rizvi 2002).

But with the labour market continuing to tighten, growth in sub-class 457 visa grants resumed from 2002-03 with 36,800 visas granted (excluding Independent Executives); 39,500 in 2003-04; 48,590 in 2004-05 and 71,150 in 2005-06 (an increase of 45%). The main source countries in 2005-06 were the UK (23.6%); India (10.2%); South Africa (7.8%); China (5.7%); USA (5.6%) and the Philippines (5.3%). The top five occupations were registered nurse (7.7%); computing professional (5.2%); business and information professional (3.2%); slaughter person (2.9%) and medical practitioner (2.7%). (Rizvi 2005)

In 2005-06, 13,320 people holding the Temporary Business (Long Stay) visa applied to remain in Australia permanently. The majority of these (80 per cent) applied for permanent entry under the Employer Nomination Scheme, Regional Sponsored Migration Scheme and Labour Agreements.

The strong growth in sub-class 457 visas continued in 2006-07 to 87,310. The main source countries were the UK (23%); India (14%); Philippines (9%); USA (6%) and China (6%).

In 2007-08, 110 570 Subclass 457 - Business (Long Stay) visas were granted, a rise of around 22 per cent. The main source countries were the UK (22%);

Some 24 950 people who last held a Subclass 457 - Business (Long Stay) visa were granted permanent residence in 2007-08.

The strong growth in sub-class 457 during the Vanstone years was driven by a range of concessions for use of this visa in regional Australia and smaller capital cities (see below).

Migration to regional Australia and smaller cities

Encouraging and enabling skilled migration to regional Australia and smaller cities has been government policy since at least the early 1990s (indeed the Menzies Government also directed migration to regional areas in the 1950s and 1960s).

The range of visa types available to meet this objective, collectively called State-Specific and Regional Migration (SSRM) mechanisms, were developed through a Commonwealth-State Working Party established by Ruddock in 1996 (Rizvi 1997). This body ensured the visa mechanisms and how they were used progressed in close consultation with state/territory governments.

These visas were "designed to provide State and Territory governments (and regional bodies) with some influence over the level and composition of skilled and business migrants settling in their jurisdictions. State and Territory Governments determine the extent of their involvement in these initiatives depending on their own independent development priorities…the mechanisms play a key role in providing employers and businesses in regional Australia with a means of business expansion and of attracting workers with required skills and knowledge. They rely on employers, State/Territory Governments or relatives sponsoring prospective migrants. This is based on research that shows there are three factors that are critical in determining the settlement patterns of migrants: the location of family members; the availability of employment; and business opportunities (Rizvi 2002)."[dxxiii]

Take up of SSRMs had grown only gradually until 2000-01. The SSRMs in place during 2000-01 (Rizvi 2001) were:

- Regional Sponsored Migration Scheme (RSMS) which enabled employers to sponsor skilled migrants under more concessional arrangements compared to the mainstream Employer Nomination Scheme as long as the employer secured support from the relevant regional certifying body.
- State/Territory Nominated Independents (STNI) which enabled state/territory governments to nominate skilled migrants who were willing to settle in the relevant state/territory based on a skills shortage assessment for each jurisdiction. State/territory governments were required to nominate these migrants from a database of interested skilled migrants maintained by the Immigration Department.
- Skilled Designated Area Sponsored visa enabled people living in a designated area to sponsor family members who meet threshold criteria for skills, English and age.
- Regional Established Business in Australia provided for sub-class 457 visa holders who successfully established a business venture in a designated area and met the business skills points test to apply for permanent residence. They received 15 bonus points if the business was in a designated area of Australia and they were sponsored by a state/territory government.

But as the economy strengthened from the early 2000s, skill shortages were also emerging in regional areas as well as the smaller capital cities, particularly Adelaide. This created pressure to expand the take up and range of SSRMs that had gradually been developed since 1995 but remained until the early 2000s a boutique part of the intake.

Key measures taken included:

- Concessions in the skilled temporary entry visa (sub-class 457) to provide Regional Certifying Bodies with a greater role in supporting employer sponsorships in regional Australia. Regional Certifying Bodies had been appointed under the Migration Act since 1995 to certify that any position a local employer was seeking to fill with a non-permanent resident were both genuine and skilled for the purposes of the RSMS. Extending the role of these certifying bodies to sub-class 457 visas was a significant expansion of their role. This enabled these certifying bodies to approve limited exceptions from the gazetted minimum skill and salary requirements for positions nominated under temporary business visas. The positions had to be located in regional areas or smaller cities. These provisions were used in particular by large meatworks companies in regional Australia to fill semi-skilled positions that Australian permanent residents and citizens were reluctant to take up.
- To encourage a greater proportion of overseas students to consider studying at education institutions in regional areas and smaller cities, and eventually settle in these areas as permanent residents, the following adjustments to the points-test and eligibility criteria were implemented:
    - additional points for overseas students who had recently completed their qualifications by studying and living nearby for a period of at least 2 years at the campus of an education institution in regional Australia;
    - the period of time students are required to attend a tertiary institution in Australia to be exempt from the work experience requirement increased from 12 months to 2 years;
    - a five-point increase in the overall passmark for the points-tested categories to give a sharper focus to the measures to better target these categories. This effectively meant that applicants had to be younger, have an occupation on the MODL, have studied in Australia and in particular in a regional or low growth area.
- Introduction of a two-stage process (ie a provisional visa and then the granting of permanent residence once a business is fully established) for the Business Skills categories with a much greater emphasis on state and territory government sponsorship and support at both stages (with immediate permanent residence only available for high calibre business migrants who have state/territory government support). The pathway to permanent residence was designed to give clarity and certainty to provisional business migrants and relied upon the establishment and management of genuine business activity in Australia.
- Streamlining of temporary entry arrangements for medical practitioners for 'areas of need' as determined by relevant health authorities (relevant Sopemi Reports from early 2000s).

Table 6.6: State-Specific and Regional Migration

Category	2001-02	2002-03	2003-04	2004-05	2005-06
Total	4,136	7,941	12,720	18,700	27,490

Source: Rizvi – Sopemi Correspondent Reports

While a substantial part of this increase was driven by increased use of RSMS as well as regional business skills visas, a key driver was introduction from 1 July 2004 of the new Skilled Independent Regional (SIR) visa. This was introduced following a recommendation by Powall and Withers (2003)[dxxiv] who proposed "an initial tapered weighting of up to 20 points in the independent skilled

category for those applicants prepared to locate in regional Australia in the absence of prior sponsorship".

They suggested the new arrangement should "cater to the genuine independent migrant who is willing to make a commitment to regional Australia. It would not restrict movement except to require an ongoing regional residential commitment for an initial period. Permanency of residence would be granted at the end of a three-year period upon presentation of valid documentation of the maintained residence. Such documentation is of the kind required for a wide range of residence-based programs or benefits, with penalties (including deportation) available for false representation".

"To reduce uncertainty, the conversion to permanency would be conditional only on maintained regional residence (and absence of criminal activity) and not more onerous "settlement success" factors such as sustained employment".

Powall and Withers noted that such an arrangement was already in place for business migrants who could enter on a temporary basis and then apply for the Regional Established Business in Australia category.

Vanstone moved quickly to implement this arrangement on the basis that it would provide potential general skilled migration applicants who fell up to 10 points short of the passmark with three-year temporary stay in Australia on condition they live and work in regional Australia. After two years living in a regional area and twelve months of being employed there, temporary visa holders could apply for permanent residence if they obtained State and Territory Government or employer sponsorship. The visa was designed to attract skilled migrants who met the basic criteria for general skilled migration to regional Australia or low population growth areas where a need had been identified for skilled workers (Rizvi 2005).

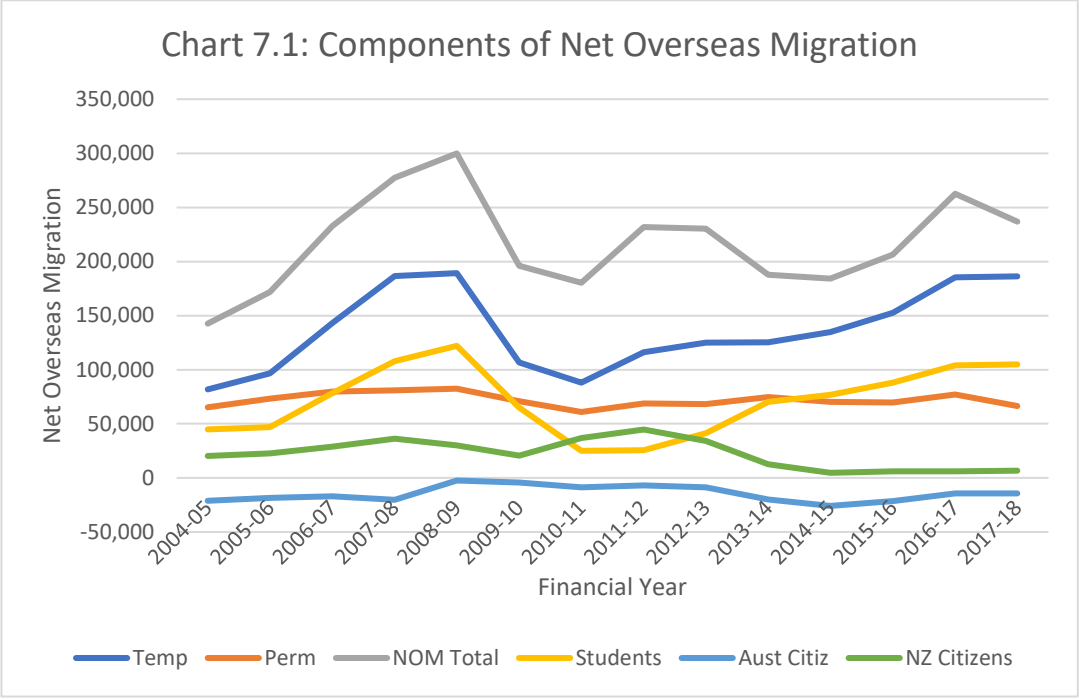
A contingency reserve of 5,000 places was made available in the 2004-05 program for this new visa. Because initially there was a lower than expected interest in the SIR visa, in April 2005 the government announced that from 1 July 2005, an additional 10 points would be available for SIR visa applicants who were sponsored by an authorised state or territory government agency. In addition, from 1 November 2005, holders of a Working Holiday Maker visa or an Occupational Trainee visa were able to apply for, and be granted an SIR visa, without leaving Australia (Rizvi 2006).

The result was a strong increase in the take up of SSRMs peaking in 2012-13 at almost 52,000 visas and over 40 percent of the skill stream (see Chapter 7).

Chapter 7: The Post Howard Decade

For the decade that followed the Howard Government, net overseas migration averaged well above 200,000 per annum peaking at over 260,000 in 2016-17 (see Chart 7.1).

The momentum created by the Howard government policy settings continued well into 2008-09 when net overseas migration peaked at almost 300,000. The Rudd/Gillard Governments temporarily tightened policy (other than in respect of asylum seekers arriving by boat) that, together with a weaker economy, led to a substantial fall in net migration in 2009-10 and 2010-11. That included a temporary cut to the skill stream announced by Immigration Minister Chris Evans in December 2008[dxxv].



Source: ABS Cat 3412

Most of Howard's migration and temporary entry policy directions were maintained in the decade that followed. Indeed, the stock of temporary entrants in Australia continued to rise strongly, predominantly due to an increase in the stock of overseas students and temporary graduates (ie students on post-study work visas). See Table 7.1 for temporary entrants in Australia at end June and 7.2 for temporary entrants in Australia at end September. The stock of temporary entrants in Australia at end September are generally higher than at end June.

The increase in bridging visa holders reflects a significant increase in processing times and visa application backlogs (see discussion on partner visas and employer sponsored visas below), both onshore and offshore. Part of the stock of bridging visa holders includes the surge in asylum seekers in recent years (see below under onshore asylum seekers arriving by air).

In future, the stock of temporary entrants will also be boosted by the new temporary parent visa (see below under parents) but overall will decline due to the border restrictions and economic impact of the coronavirus crisis.

Table 7.1: Stock of Temporary Entrants as at end June

	2012	2013	2014	2015	2016	2017	2018	2019
NZ Citizens	646,093	640,770	649,085	653,832	660,182	665,394	673,198	678,658
Students	307,045	304,248	339,761	374,564	401,423	443,798	486,394	553,139
Temp Graduate	34,939	36,224	25,198	26,260	37,717	53,582	71,157	91,776
Temp Res Employ	25,644	27,692	29,712	32,571	34,032	35,698	38,573	40,961
Temp Skilled	162,273	191,216	195,083	188,002	170,585	161,413	147,339	142,828
WHM + W&H	136,593	160,503	151,201	143,918	137,376	134,269	134,909	135,263
Bridging Visas	113,863	104,666	94,625	102,219	119,368	137,420	176,216	205,616
Visitors	202,228	198,690	200,731	226,395	262,445	294,368	304,140	316,469
Temp Protect	0	10	145	204	1,586	7,551	12,538	15,413
Crew & Transit	12,806	12,581	11,744	14,534	13,608	13,428	13,075	12,076
Other	2,906	2,470	2,429	2,687	3,000	3,527	4,508	4,924
Total	1.644M	1.679M	1.699M	1.765M	1.841M	1.950M	2.062M	2.196M

Source: Home Affairs Temporary Entrants Pivot Table as at 30 June.

Table 7.2: Stock of Temporary Entrants as at end September

	2012	2013	2014	2015	2016	2017	2018	2019
NZ Citizens	644,708	648,200	657,207	661,547	677,029	674,569	682,440	685,172
Students	342,255	346,962	387,797	425,741	470,811	513,104	575,337	633,816
Temp Graduate	39,166	30,349	21,968	25,516	38,638	55,448	74,306	94,657
Temp Res Employ	26,371	29,322	31,227	33,862	35,270	37,921	40,260	42,068
Temp Skilled	175,584	196,446	196,934	186,805	172,191	160,296	152,936	139,267
WHM + W&H	145,663	166,258	151,224	144,451	138,029	136,925	136,467	135,124
Bridging Visas	111,670	111,979	94,839	114,391	132,321	160,284	197,798	229,019
Visitors	191,196	199,848	225,265	258,007	279,922	316,638	325,729	337,563
Temp Protect	10	10	166	266	2,836	8,950	13,358	15,936
Crew & Transit	10,299	12,471	13,656	15,839	12,511	12,092	15,828	11,832

Other	2,716	2,585	2,721	3,052	2,836	4,237	4,928	5,228
Total	1.690M	1.744M	1.783M	1.870M	1.963	2.080M	2.219M	2.330M

Source: Home Affairs Temporary Entrants Pivot Table as at 30 September.

Contrary to subsequent claims by former Prime Minister Tony Abbott in 2018[dxxvi], the dip in net overseas migration in 2013-15 (the period Abbott was Prime Minister) and highlighted in Chart 7.1 was largely due to a net increase in Australian citizens departing Australia and a decline in net movement of New Zealand citizen rather any changes to immigration policy. The migration program itself was delivered at record levels during Abbott's term as Prime Minister (see Table 7.3).

While there was a fall in net overseas migration in 2017-18, the 2019 Budget (Frydenberg 2019) forecast a resurgence in net overseas migration associated with a forecast strengthening of economic growth and an election commitment to create 1.25 million jobs over five years. Even before the advent of the coronavirus, however, there was substantial doubt whether the increased net overseas migration forecast in the 2019 Budget would be realised given the reduced migration program, tightening of student visa policy and a weakening labour market (Rizvi 2019)[dxxvii]. See Chapter 9 for further discussion.

Migration program

The migration program was maintained at the high (or even higher) levels initiated by the Howard Government for most of the decade after Howard left office (see Chart 1.4, Table 7.3 and 7.5).

Table 7.3: Migration Program 2008-09 to 2014-15

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Partners	42,098	44,755	41,994	45,150	46,325	47,752	47,825
Parents	8,500	9,487	8,499	8,502	8,725	8,925	8,675
Child	3,238	3,544	3,300	3,700	3,850	3,850	4,135
Other Family	2,530	2,468	750	1,252	1,285	585	450
Total Family	56,366	60,254	54,543	58,604	60,185	61,112	61,085
Employer Sponsored (inc RSMS)	38,026	40,987	44,345	46,554	47,740	47,450	48,250
Business Skills (Renamed BIIP from 1 July 2012)	7,397	6,789	7,796	7,202	7,010	6,160	6,484
Skilled Independent	44,594	37,315	36,167	37,772	44,251	44,984	43,990
S/T Nominated	14,055	18,889	16,175	22,247	21,637	24,656	26,050
Skilled Australian Sponsored (Renamed Skilled Reg)	10,504	3,688	9,117	11,800	8,132	5,100	2,800
Distinguished Talent	201	199	125	180	200	200	200
Total Skill	114,777	107,868	113,725	125,755	128,973	128,550	127,774

Special Eligibility	175	501	417	639	842	338	238
Total (a)	171,318	168,623	168,685	184,998	190,000	190,000	189,097

Source: Economic Analysis Unit, Dept of Immigration, Sopemi Report to OECD. (a) All figures do not include NZ Citizens granted a permanent residence visa, a practice that would be changed under Immigration Minister Dutton.

The Rudd Government moved to tighten direct access to permanent migration by overseas students via the general points test in favour of employer sponsored and state/territory government nomination (see Tables 7.4 and 7.5). It reduced the program marginally in 2009-10 and 2010-11 and then continued to increase the program in 2012-13 and 2013-14 (see Table 7.3). As with governments before them, the Rudd and Gillard Governments struggled with whether overseas students should be offered a clear pathway to permanent residence or should be viewed as temporary entrants. Indeed, the Rudd Government introduced a highly subjective but little used 'genuine temporary entrant' test to student visa requirements. Through implementation of the recommendations of the Knight Review, student visa requirements were again streamlined and pathways to permanent residence were again made more open to enable delivery of a larger migration program (see Tables 7.4 and 7.5).

Table 7.4: Students Accessing Permanent Migration

	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Employer Sponsored (RSMS)	464	615	1,010	687 (282)	2,291 (1,096)	3,443 (2,437)	3,906 (3,096)
Skilled Australian Sponsored (Regional)	2,571	3,566	2,504	786	4,597	3,405	3,900
Skilled Independent	20,294	17,836	9,649	4,848	14,909	12,549	11,572
Partner	3,024	3,038	3,733	4,941	5,172	6,689	8,011
State/Territory Nominated	337	413	2,368	1,822	2,755	2,161	2,156
Other	322	338	336	224	133	226	445
Total	27,012	25,806	19,600	13,286	29,756	29,743	30,170

Source: Cully, SOPEMI Correspondent Report, 2010, 2011, 2012, 2013

Table 7.5: Temporary Graduates Accessing Permanent Migration

	2009-10	**2010-11**	**2011-12**	**2012-13**
Employer Sponsored (RSMS)	135 (42)	306 (125)	859 (480)	2,276 (1,771)
Skilled Regional	47	230	274	707
Skilled Independent	1,892	3,995	4,167	8,211
Partner	182	424	580	1,101
State/Territory Nominated	694	384	460	2,337

Other	1	2	19	32
Total	2,951	5,341	6,460	14,664

Source: Australia's Report on Migration to OECD, 2013

A migration program of 190,000 per annum was, to some degree, locked-in by Immigration Minister Scott Morrison who in 2014 used a budget measure titled 'Migration Programme – allocation of places for 2014-15' (see Budget Paper No. 2 Expense Measures) to, for the first time, formally link the size and composition of the program to budget figuring. This effectively meant that any future minister who sought to reduce the program would need to find the offsetting budget savings from elsewhere in their portfolio or find other strategies to avoid budget rules (Rizvi 2018).[dxxviii]

Consistent with Howard Government policy, the size of the skill stream relative to the family stream was maintained at around two-thirds to one-third with the parent category continuing to be capped – this ensured a positive budget outcome (see Table 7.6).

Pathways for temporary entrants, particularly overseas students to permanent residence, remained relatively open with around 40 percent of the skill stream being people who were already in Australia.

Table 7.6: Permanent Migration and Humanitarian Programs

	2015-16 Outcome	**2016-17 Outcome**	**2017-18 Outcome**	**2018-19 Outcome**	**2019-20 Planning**
Employer Sponsored including Regional Sponsored Migration Scheme (RSMS)	48,250 (12,269)	48,250 (10,198)	35,528 (6,221)	42,012 (8,987)	30,000 (not inc RSMS)
Skilled Independent (including long-term New Zealand citizens accessing formal permanent residence)	43,994	42,422	39,137 (4,493 NZ citizens)	34,247 (5,944 NZ citizens)	18,652 (inc NZ citizens)
Skilled Employer Sponsored Regional (new provisional employer sponsored regional visa replacing RSMS)	NA	NA	NA	NA	10,000 (now inc RSMS)
Skilled Work Regional SC 494 (new provisional state/territory nominated visa replacing state/territory nominated sub-class 489)	NA	NA	NA	NA	15,000 (now inc SC 489)
State/Territory Nominated (existing permanent residence visa sub-class 190; includes provisional subclass 489 until end June 2019)	24,650	23,765	27,400	25,346	24,986 (not inc SC 489)
Skilled Regional	4,196	1,670	1,574	647	NA
Business Innovation and Investment Program (BIIP)	7,260	7,260	7,260	7,261	6,682
Global Talent Independents (distinct from the Global Talent Scheme)	NA	NA	NA	NA	5,000
Distinguished Talent	200	200	200	200	200
Total Skill Stream	**128,550**	**123,567**	**111,099**	**109,713**	**108,682**
Partner (inc fiancé)	47,825 (4,644)	47,825 (3,929)	39,799 (3,032)	39,918	39,799
Parent	8,675	7,563	7,371	6,805	7,371
Other Family	900	832	562	524	562

Child (Not subject to ceiling)	3,512	3,400	3,350	3,248	3,350
Total Family	**60,912**	**59,620**	**51,082**	**50,495**	**51,082**
Special Eligibility	308	421	236	115	236
Total Migration Program	**189,770**	**183,608**	**162,417**	**160,323**	**160,000**
Offshore Humanitarian	15,552	20,257	14,825	17,112	17,100
Onshore Humanitarian	1,732	1,711	1,425	1,650	1,650
Total Humanitarian	**17,284**	**21,968**	**16,250**	**18,762**	**18,750**
Total Permanent Migration	**207,054**	**205,576**	**178,667**	**179,085**	**178,750**

Source: Home Affairs website

Since 2016-17, the migration program has been steadily reduced. The large reduction in 2017-18 was ascribed by immigration minister Peter Dutton to application of greater levels of integrity checking (Benson 2018)[dxxix]. But the evidence to support this contention is not strong.

Media reports earlier in the year (Elton-Pym 2018)[dxxx] indicated Dutton had been unsuccessful in convincing his ministerial colleagues of a 20,000 cut to the program – approximately the size of the cut he ended up delivering. It is highly unusual in the last 30 years for the migration program to be delivered at a level significantly different from the level the minister wants delivered.

It was clear well before the end of the program year that the program had been cut (Pascoe 2018)[dxxxi].

The program was still delivered with a two thirds to one third balance between the skill stream and the family stream – a remarkable coincidence that increased integrity checking led to an outcome that maintained this balance.

Dutton also took steps to redefine the migration and humanitarian program levels set by the Government as a 'ceiling' rather than a 'target'. That gave him the flexibility to deliver below the level set by Government but without having to seek policy authority or to provide the associated budget savings that Morrison had claimed when he linked budget funding to the program level in the 2014 Budget (Rizvi 2018 – Inside Story)[dxxxii].

A large part of the reduction in the skill stream Dutton delivered was in the employer sponsored categories, including RSMS (see Table 7.5). These are the same categories where new immigration minister Coleman has delivered an increase in numbers in 2018-19. How Coleman found more applications with integrity in these employer sponsored categories in 2018-19 that Dutton could not in 2017-18 has not been explained.

The pressure from employer groups such as the Business Council of Australia, the Australian Industry Group and the Australian Chamber of Commerce and Industry on Coleman to process employer sponsored visas more quickly and reduce the backlog that Dutton had allowed to build up is likely to have been intense (see Australian Industry Group Pre-Budget Submission 2019). That backlog had built up despite a 27 percent decline in employer sponsored applications (Home Affairs website: 2017-18 Migration Program Report).

If Dutton wanted to deliver a program closer to the new 'ceiling' and was finding it difficult to identify enough cases with integrity in the employer sponsored caseload, he could have readily delivered a larger skills stream via the Independent Skilled category or the Business Innovation and Investment Program which had more than enough applications (Home Affairs website, 2017-18 Migration Program Report). He did not choose either option.

In March 2019, Prime Minister Scott Morrison announced in his new 'Population Plan' that the long-term ceiling for the migration program would be reduced to 160,000 per annum. This reduction was made without any adjusting budget savings measure (ie cost to the budget) as had been the case in the 2014 Budget when Morrison claimed a budget credit for locking in a larger program (Morrison 2019)[dxxxiii].

Sammut and Wilkie (CIS 2018)[dxxxiv] argued "the majority of both rich and poor Australians support cutting the immigration intake to relieve population pressures on infrastructure, requiring migrants to learn English and Australian values to promote integration, and maintaining strong border protection policies".

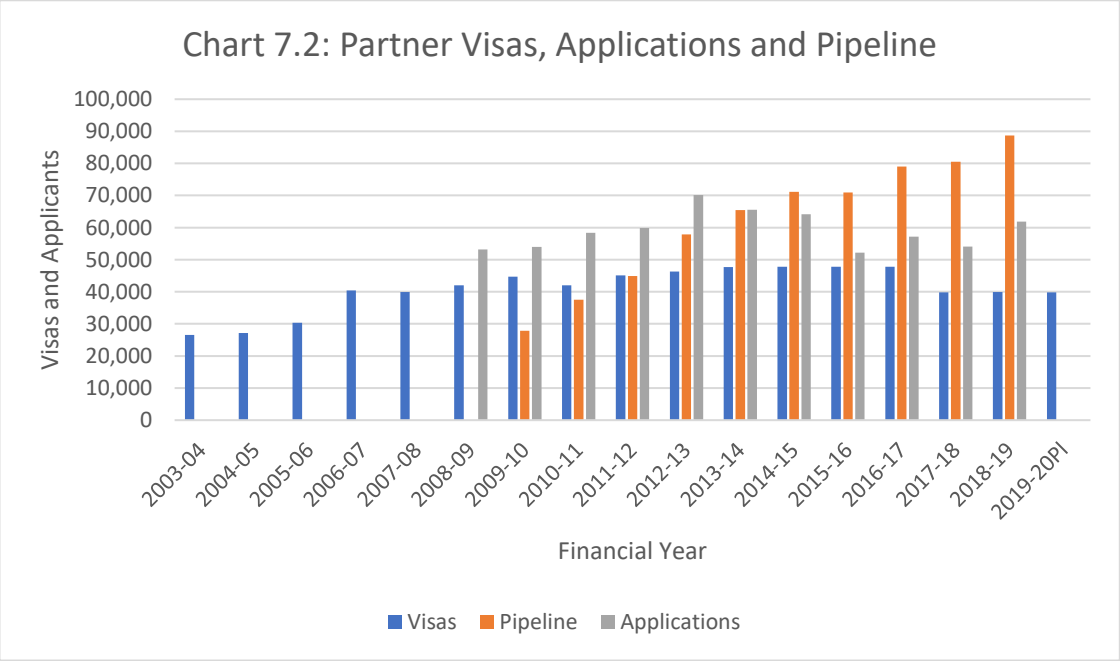
The reduction appears to have been a compromise between Morrison and Dutton. The rationale given for the reduction was that it would reduce congestion although in the 2019 Budget delivered a month later, Treasurer Frydenberg announced net migration was forecast to increase over the next four years rather than decrease. How an increase in net migration via an increase in long-term temporary migration including students would lead to a reduction in congestion was not made clear by either Morrison or Frydenberg.

Partners

The partner visa categories are for people who have formed a genuine relationship (formally married or de facto or prospective marriage) with an Australian citizen or permanent resident (Home Affairs website – family migration).

Applications for partner visas continued to increase after the Howard Government (see Chart 7.2) consistent with rising demand associated with an increase in the overseas-born population in Australia, an increase in the stock of long-term temporary entrants and an increase in the number of Australians travelling and residing overseas.

Visas granted in the partner categories increased from 42,098 in 2008-09 to a peak of over 48,000 in each of 2014-15, 2015-16 and 2016-17 (Tables 7.3 and 7.6).



Despite a rising pipeline of applications, Dutton reduced visas granted in the partner categories to 39,799 from 2017-18 (see Table 7.6 and Chart 7.2).

At end June 2019, there was a pipeline of almost 90,000 partner visa applications with average processing times above two years (Home Affairs website – 2018-19 Migration Program). This did not include over 5,000 partner applications at the AAT.

The number of places available for partners in the 2019-20 migration program has been maintained at 39,799. While the annual application rate had fallen to between 50,000 and 55,000 per annum, in 2018-19 it again increased to over 60,000. The limited number of places available in 2019-20 were more than double the number of new applications. This means the pipeline will continue to grow (see Chart 7.2).

The pipeline was well under 30,000 in 2009-10. The sustainability of maintaining a growing pipeline of partner applications of almost 90,000 and rising is legally questionable. Sections 86 and s87 of the Migration Act (the capping powers) prohibit Government from capping the number of spouse visas issued. Parliament has twice voted (in 1989 and 1996-97) against giving Government the power to cap spouse visa numbers (see Chapter 3).

While the Government has not used these formal capping powers in respect of partner visas, it appears to have found other means of limiting the number of partner visas granted.

Birrell (2019)[dxxxv] suggests two possible reasons for the fall in partner visas issued in 2017-18 compared to 2016-17. He firstly notes that "the reason why the number of partner visas dropped in 2017-18 is that the Department of Home Affairs took a harder line on assessing the bona fides of partner visa applications".

Birrell subsequently states that "in 2017-18 'only' 39,799 partner visas were issued. This was a result of a slow-down in the processing of partner visas".

It is quite possible that both reasons were in play along with the fact the Government will have been keen to maintain the two thirds skill versus one third family balance. With a large reduction in the skill stream, this balance could not have been maintained without a reduction in the number of partner visas issued.

It is of course important that partner visas are only issued to people in bona fide relationships. However, Birrell provides no evidence to suggest the integrity checking by Home Affairs, at either the provisional stage and/or after two years at the permanent visa stage, is missing many non-bona fide cases. He also does not explain why bona fides checking under previous ministers (eg former Immigration Minister Morrison) was allowed to become lax.

It is notable that at end March 2019, there were 5,396 active partner cases at the AAT. The set aside rate at the AAT as at October 2019 was around 59 percent which suggests integrity checking by Home Affairs can frequently come to the wrong conclusion.

While not broken down by source country, the 2016 Continuous Survey of Australia's Migrants (Home Affairs website) finds that six months after arrival, people on partner visas had:

- an employment to population ratio of 61.4 percent (commensurate with that for the general population and rises further at the 18 month after arrival point);

- an unemployment rate of 17.8 per cent (around three times above that for the general population but this falls sharply at the 18 months after arrival point as new migrants secure greater experience in the labour market);
- a labour force participation rate of 74.6 per cent (significantly above that for the general population); and
- median annual full-time earnings of 51,800.

Concerns about partner migrants performing poorly in the labour market appear largely unfounded. Khoo, McDonald and Edgar (2013)[dxxxvi] find that "while family migrants are not assessed on their skills for migration, 60-70 per cent of Family stream primary migrants and 70-80 per cent of Skilled stream secondary migrants in recent years have post-school qualifications."

Khoo et al also note family stream migrants also "contribute to their families' welfare by doing domestic work, caring for children and other family members and providing financial, social and emotional support."

Parents

Howard Government policy to restrict parent migration was also maintained over the subsequent decade with around 8,500 visas issued per annum until 2015-16 (see Table 7.3). From 2016-17, the Government reduced the number of parent visas issued to around 7,500 per annum (see Table 7.6).

As at 30 June 2018, there were 50,642 applicants in the non-contributory parent pipeline and 48,595 applicants remain in the contributory parent pipeline (Home Affairs website, 2017-18 Migration Program report).

From 1 July 2019, the Government initiated a long-term temporary parent category with up to 15,000 places per annum. While these visas will not be included in the permanent migration program, most will be included in net migration as the length of these visas is up to five years (Home Affairs website). It is likely this will be a fast-growing category of net migration from 2019-20. It does, however, raise a number of public policy challenges (discussed in Chapter 9).

Points tested migration

Within the points-tested categories, the skilled independent category was by far the largest throughout the time of the Howard Government. While it was reduced to just below 40,000 for three years from 2009-10, for the bulk of the decade since the Howard Government, this category was maintained at above 40,000 visas per annum (see Tables 7.3 and 7.6).

From 2016-17, however, the Government has moved to significantly reduce the size of the skilled independent category. It fell from 42,422 in 2016-17 to 39,137 in 2017-18 and to 34,247 in 2018-19. From 2017-18, the Skilled Independent category also included for the first time 4,493 NZ citizens granted skilled independent visas. This change in counting rules effectively reduced the number of places available as previously all New Zealand citizens securing formal permanent residence were not counted as part of the migration program (see Table 7.6).

The planning level for the skilled independent category for 2019-20 has been further reduced to 18,652 including an unknown number of New Zealand citizens. This will be the smallest skilled independent category since 1999-00 when 15,610 visas were granted (not including New Zealand citizens granted skilled independent visas).

Other than the desire to reduce the flow of migrants to the major capital cities, no other explanation has been given for reduction of the skilled independent category. The 2016 Continuous Survey of Migrants to Australia (Home Affairs website - Research) states that these migrants are performing relatively well in the Australian labour market.

In terms of the design of the category, marginal changes were made to the general points test that took effect from July 2011. These were:

- age eligibility range was expanded from 18-45 to 18-49 with maximum points going to those aged 25-32 rather than to those aged 18-29;
- work experience obtained in Australia would attract more points than work experience obtained overseas;
- all occupations would be put on an equal footing rather than professional occupations attracting higher points; and
- greater weight would be given to very high proficiency in English (Cully 2011).

From July 2012, the Government introduced a new two-step regime for skilled migration known as SkillSelect (see Home Affairs website). This system largely remains in place today.

In the first instance, potential skilled migrants submit an electronic expression of interest for a skilled migration visa. In the second step, a sub-set are invited to formally apply.

For independent skilled migrants, the expression of interest step provides sufficient information from which to derive a points test score and rank applicants within a nominated occupation, with the highest ranked in each selection round issued an invitation to apply.

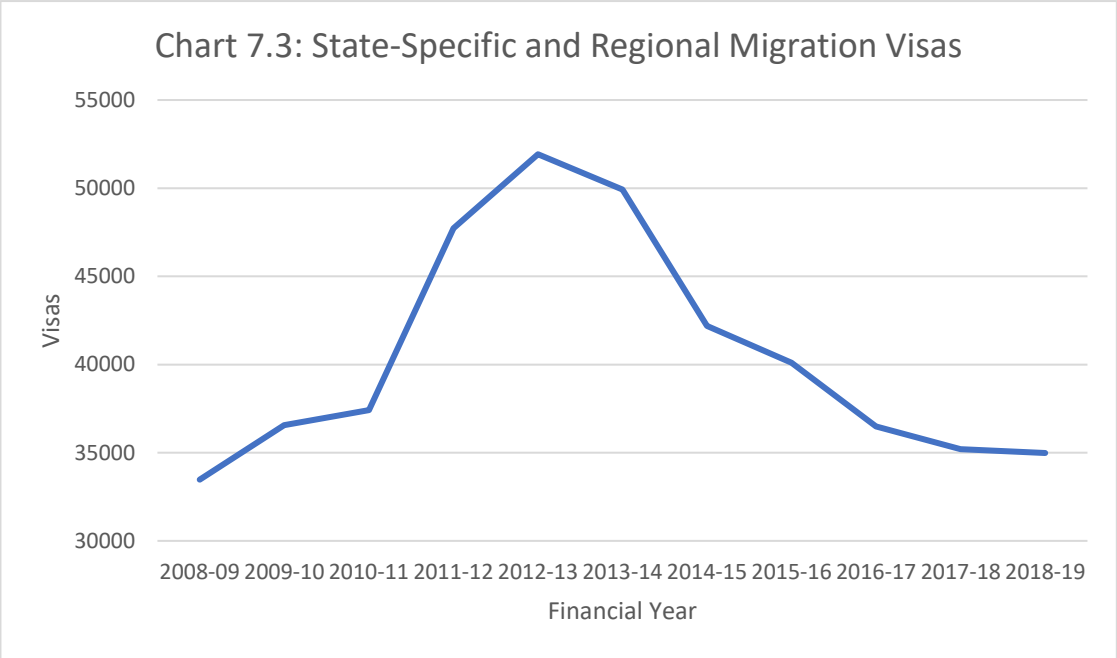
For state-sponsored migrants, state and territory governments can select anyone from the expression of interest pool, so long as they meet the points test pass mark and other criteria as specified in their State Migration Plans.

Those wishing to enter through the Business Skills program are also be required to make an expression of interest and can then be nominated by a state or territory government and issued with an invitation to apply.

Employers have access to the expression of interest database, from which they can then select migrants who have indicated an interest in being sponsored by an employer on a permanent or temporary basis, though they are not limited to using this means to identify suitable migrant workers.

State-specific and regional migration (SSRM)

Take up of SSRM visas introduced by the Howard Government continued to grow strongly under the Rudd and Gillard Governments (see Chart 7.3 and Table 7.7).



Source: Home Affairs Migration Program Reports.

The increase was driven through both state/territory sponsored categories (non-business) which peaked at 26,050 in 2014-15 and the employer sponsored RSMS which peaked at 20,510 in 2012-13. Since that time, SSRM visas steadily declined. This decline started under former immigration minister Scott Morrison (see Chart 7.3 and Table 7.7).

Table 7.7: Take Up of SSRM Visas 2008-09 to 2016-17

Category	RSMS	State/Sponsored	Other	Total (% of Skill Stream)
2008-09	8,811	14,055	10,608	33,474 (29.2%)
2009-10	10,213	18,889	7,466	36,568 (33.9%)
2010-11	11,112	16,175	10,123	37,410 (32.9%)
2011-12	16,471	22,247	9,015	47,733 (38.0%)
2012-13	20,510	21,637	9,777	51,924 (40.3%)
2013-14	16,583	24,656	8,683	49,922 (38.8%)
2014-15	12,380	26,050	3,753	42,183 (33.0%)
2015-16	12,269	24,665	3,167	40,101 (31.2%)
2016-17	10,198	23,765	2,531	36,494 (29.5%)
2017-18	6,221	27,400	2,629	36,250 (32.6%)
2018-19	8,987	25,346	647*	34,980 (31.9%)*

Source: Home Affairs Website: Migration Program Reports. Does not include state/territory sponsored business skills visas.

After steady decline in take up of SSRMs, the Morrison Government indicated it intended to re-design the SSRMs and encourage greater take up from 2018-19 (Crowe 2018).[dxxxvii] The new arrangements were announced as part of the Government's March 2019 'Population Plan'.

From November 2019, there are essentially four skilled migration (non-business skills) pathways targeting regional Australia (see under Regional Migration on Home Affairs website).

The existing state/territory nominated visa (Sub-class 190) for direct permanent residence has been retained; 24,968 places have been allocated for this visa in 2019-20. This visa mainly caters for high skill migrants who have a priority occupation for the nominating state/territory. Most state/territory governments use this visa to target occupations such as health and aged care professionals, high end ICT occupations; engineers and teachers. The visa is not confined to regional Australia but can be used by any state/territory government for any part of their jurisdiction. Take up of this visa will be subject to the needs of each state/territory government.

While the allocation of 24,968 places in 2019-20 for this category is less than previous years, those outcomes included the former provisional state/territory sub-class 489 visa. The replacement for that provisional visa, the new sub-class 491 (see below), now has its own much larger allocation in 2019-20.

A new provisional Skilled Employer Sponsored visa (sub-class 494) replaced the long-standing direct permanent residence Regional Sponsored Migration Scheme (RSMS former sub-class 187). The new visa had 9,000 places allocated in 2019-20 but this was subsequently increased to 10,000 and now includes visas issued under the former RSMS category until the pipeline of those applications is cleared.

The new visa will provide for a wider range of occupations than the previous RSMS but becomes an employer-sponsored provisional visa. The policy rationale and evidence supporting the need to make the existing permanent residence RSMS visa into a provisional visa has not been made public. Some experienced migration agents have noted Home Affairs concerns about abuse of RSMS but details have not been made public.

The changes made to the former RSMS visa as part of the suite of changes to employer sponsored migration announced in April 2017 and fully implemented from March 2019 (see below under employer sponsored migration) have been retained for the RSMS replacement. This makes the replacement RSMS highly unattractive to both employers and potential migrants, particularly the three years skilled work experience requirement, the higher costs and slower processing times. In 2018-19, only 4,015 RSMS nominations were lodged compared to 17,003 in 2017-18 and 20,236 in 2016-17 (Home Affairs website - 2018-19 Migration Program Report).

If this declining application rate continues under the new version of RSMS, noting the RSMS replacement is a less attractive provisional visa and not direct permanent residence, it will make it very difficult to fill the 10,000 places allocated to this visa after the backlog of old RSMS visa applications is cleared.

The President of the South Australian Chapter of the Migration Institute of Australia considers that *"if this 494 visa was a car it comes pre-dented, with broken windows and a two stroke engine. This bad regional visa is actually going to be piling people back into the cities. It's not a viable product. It's uncompetitive, unattractive and is not going to bring people to regional Australia or South Australia.*

As migration professionals, we know the program target of 9000 is not going to be met nationally; they'll be lucky to get 2000." (Kenneally et al 2019)[dxxxviii]

Note this statement was made before the Government announced that visas granted under the old version of RSMS would be included in the larger allocation of 10,000 places in 2019-20.

The Government has also established a new skilled work regional Visa (sub-class 491) which is also a provisional visa that replaced the former state/territory nominated provisional visa (sub-class 489). There were originally 14,000 places for this visa in 2019-20 but this has been increased to 15,000 after visas granted under the former sub-class 489 were also included in the allocation.

The key difference between the two visas will be that to obtain permanent residence, the provisional visa holders must now live and work in the relevant region for three financial years rather than one year of work and two years of living in the relevant region under the previous version. To secure permanent residence, the applicant must also earn a minimum taxable income of $53,900 for three years. Once again the policy rationale and evidence supporting the need to make access to permanent residence more difficult has not been made public.

Jobs that pay $53,900 per annum to recent graduates – and most of the migrants applying for this visa will be relatively recent graduates most likely on a temporary graduate visa sub-class 485 - are not common in South Australia or Tasmania or indeed in many parts of regional Australia. Average weekly earnings (ABS Cat: 6302) for all persons working in the private sector in South Australia in May 2019 was $1005.10 (ie $52,265 per annum). In Tasmania this was $948.50 (ie $49,322).

At the 2016 Census, median employee income for major regional centres was substantially below $53,900 per annum. For example, Albury - $45,382; Armidale - $39,733; Bega - $38,672; Cessnock - $45,506; Corangamite - $38,374; Douglas - $36,089; Dubbo - $45,510; Geelong - $45,256; Griffith - $41,042; Mildura - $39,421; Murray River - $40,311; Northam - $50,328; Rockhampton - $50,022; Wanneroo - $50,024).

While in time most skilled migrants achieve much higher salaries, to expect them to do so soon after graduation risks them being exploited and/or being put into immigration limbo.

It is worth considering some possible scenarios for this visa and how the Department of Home Affairs may handle these.

Scenario 1: Former overseas student now on a temporary entry visa but with less than three years skilled work experience has a job in a regional town with a salary just below $53,900 per annum. Migrant is nominated by a state/territory government. The migrant remains in that job for five years but their salary only exceeds the $53,900 level for the last two financial years? Must the migrant then leave Australia or can the migrant then nominate for the new regional employer sponsored provisional visa to extend provisional stay in Australia?

Scenario 2: Temporary entrant couple, both with less than three years skilled work experience, are nominated by a state/territory government. Both work for five years in regional Australia but neither is able to secure a pay increase to above $53,900 per annum for three financial years. Must the couple then leave Australia?

Scenario 3: Temporary entrant who has been nominated by a state/territory government works in regional Australia on a series of short-term contracts with breaks of 1-2 months. Annualised salary in each contract is greater than $53,900 but in no three financial year period does the migrant earn $53,900 per annum. Must the migrant leave Australia?

Scenario 4: Temporary entrant nominated by a state/territory government gets a job in regional Australia that pays more than $53,900 but a substantial part of that salary is 'in-kind'. The migrant is egregiously exploited by their employer. The temporary entrant is desperate to secure permanent residence and does not report the exploitation to Fair Work. DHA discovers the migrant has been exploited and has not genuinely earned $53,900 per annum for three years. Must the migrant leave Australia at the end of their provisional visa?

Scenario 5: Temporary entrant nominated by a state/territory government works in a number of low skill jobs in regional Australia which, added together, realise a salary of greater than $53,900 per annum over three financial years. Is that going to be acceptable to the Commonwealth?

Scenario 6: An overseas applicant is nominated by a state/territory government. After 12 months unsuccessfully looking for a job in regional Australia and living off their savings, moves to Sydney to take up a skilled job at a six-figure salary. Must the migrant leave Australia at the end of their five year provisional visa because they have breached the conditions of their visa? Are they allowed to apply to return or is there a penalty?

A delegate of Minister Coleman has argued that the $53,900 salary threshold has been "carefully set to protect migrants from worker exploitation, and to ensure that migration cannot be used to undercut the wages of Australians" (Letter from delegate of Minister Coleman to migration agent Steven O'Neil dated 18 November 2019).

This statement confuses the purpose of minimum salary for temporary employer sponsored migration which is indeed designed to minimise the risk of exploitation and prevent migration being used to displace Australian workers. It was introduced when the key-activity/non-key activity concept and labour market testing was originally abolished.

The minimum salary mechanism applying to employer sponsored migration is an obligation on the employer and it is the employer who is subject to penalty if they fail to pay the minimum salary not the employee.

Use of a high minimum salary for a lengthy period under the new state/territory nominated provisional visa actually increases the risk of exploitation. This is because the minimum salary requirement applies to the employee not the employer. The penalty for not receiving the minimum salary applies entirely to the employee. The minimum salary requirement for state/territory provisional visas puts the employer in an enormously powerful position to make onerous demands on the migrant.

Given the exploitation risks and the possibility of leaving many migrants in immigration limbo, use of this visa by state/territory governments may be limited making it less likely the allocation of 15,000 places will be taken up once the backlog of sub-class 489 visas is cleared.

The Government is also pursuing wider adoption of Designated Area Migration Agreements (DAMAs). These are a formal arrangement between the Commonwealth of Australia and a designated area representative (DAR) that provide a temporary residence visa for largely lower skill workers with low levels of English and who are prepared to work in relatively low paid jobs in regional Australia.

The pathway to permanent residence for these visa holders is highly constrained. Many of the visa holders under a DAMA are unlikely to be able to obtain permanent residence at any stage. Places available under these arrangements are negotiated on a region by region basis by the Department of Home Affairs.

DHA advises that "for a DAMA to be approved there must be demonstrated efforts to recruit Australians first, ceilings on numbers of overseas workers employed annually and local support made available to migrant workers. Robust arrangements to manage and monitor activity under the DAMA will need to be in place" (Home Affairs website – Regional Migration, DAMAs).

Given these workers will have lesser skills, low pay and low levels of English, the risks of exploitation are significantly increased. Whether the arrangements for monitoring and worker protection are adequate will be a key test as will the fact these workers have very few pathways to permanent residence or even extension of temporary residence.

Employer sponsored migration

Employer sponsored permanent migration has traditionally been a high priority in the skill stream and managed on a demand driven basis. If demand for employer sponsored permanent entry increased, often in association with a strong economy, number of places available in the overall program would be increased or places in points-tested categories would be reduced.

A high portion of employer sponsored permanent migration has traditionally been sourced from temporary entrants already in Australia, particularly employer sponsored temporary entrants. Under the Howard Government, employer sponsored permanent migration increased from 5,560 in 1996-97 to 23,762 in 2007-08. The portion of these visas granted to people who were already in Australia (overseas students, working holiday makers and skilled temporary entrants) increased from around 60 percent in 1996-97 to 80 percent in 2007-08 (Sopemi Reports from 1998 to 2009).

In 2007-08, 18,836 visas were granted to people already in Australia compared to 4,926 to people who were offshore (Wood 2009). The key to this growth was the former skilled temporary entry visa (sub-class 457 and now sub-class 482).

In contrast with past Labor Governments which had been suspicious of employer sponsored visas (see Chapter 3), the Rudd Government announced it would give greater priority to employer sponsored permanent migration (Cully 2010). This would inevitably involve growth in the skilled temporary entry pathway – which itself was often used as an interim step by overseas students and working holiday makers.

In 2005-06, 13,320 people holding a skilled temporary entry visa applied to remain in Australia permanently. The majority of these (80 per cent) applied for permanent entry under the Employer Nomination Scheme, Regional Sponsored Migration Scheme and Labour Agreements (Mills 2006).

Strong growth in sub-class 457 continued through to 2012-13 when 126,361 visas were granted. The mining boom was a major driver of that growth with sub-class 457 visas for work in Western Australia rising from 11,363 (15.8%) in 2005-06 to 26,969 (21.3%) in 2011-12. Visa grants for primary

applicants in the mining industry increased from 2,836 (7.1%) in 2005-06 to 6,463 (9.5%) in 2011-12. They have since fallen back to just 399 (1.2%) in 2017-18 (Home Affairs Reports on Skilled Temporary Entry 2015-2018).

Through the mining boom, the sub-class 457 visa increasingly became a transition visa for overseas students and working holiday makers to permanent residence (see Table 7.8). Students able to obtain a position for which an employer would sponsor them for a sub-class 457 (or directly to permanent residence via ENS or RSMS) increasingly did so. Those who could not, used the Temporary Graduate visa as a pathway to employer sponsorship. Some may have also used WHM visas or even visitor visas as a pathway.

Students directly securing a sub-class 457 visa increased to 9,590 (including spouses and children) in 2012-13 and Temporary Graduates securing a sub-class 457 visa increased to 2,651 in 2013-14.

Table 7.8: Onshore Primary Sub-class 457 Visas Granted by Previous Visa Held

Visa Type	2010-11	2011-12	2012-13	2013-14	2014-15
Student	2,964	6,018	9,590	7,976	7,624
WHM	5,622	8,547	9,437	6,600	5,927
Visitor	4,101	4,867	4,165	2,728	2,427
Temporary Graduate	178	648	2,263	2,651	1,126
Other	6,949	8,320	7,968	6,477	7,908
Total Onshore	19,814 (41.0% of total onshore sub-class 457)	28,400 (41.6% of total onshore sub-class 457)	33,441 (48.8% of total onshore sub-class 457)	26,432 (50.9% of total onshore sub-class 457)	25,012 (48.9% of total onshore sub-class 457)

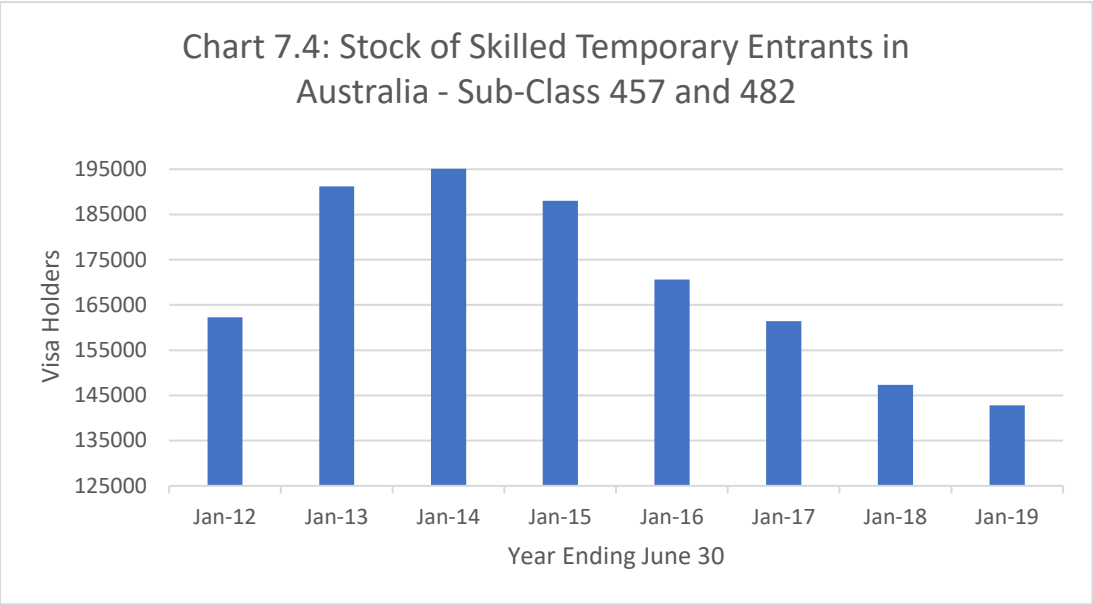
Source: 2014-15 Sopemi Australia's National Report to the OECD, November 2015

A weaker economy in 2014 saw the start of a steady decline in sub-class 457/482 visa grants (see Table 7.9 and Chart 7.4).

Table 7.9: Decline in Sub-class 457/482

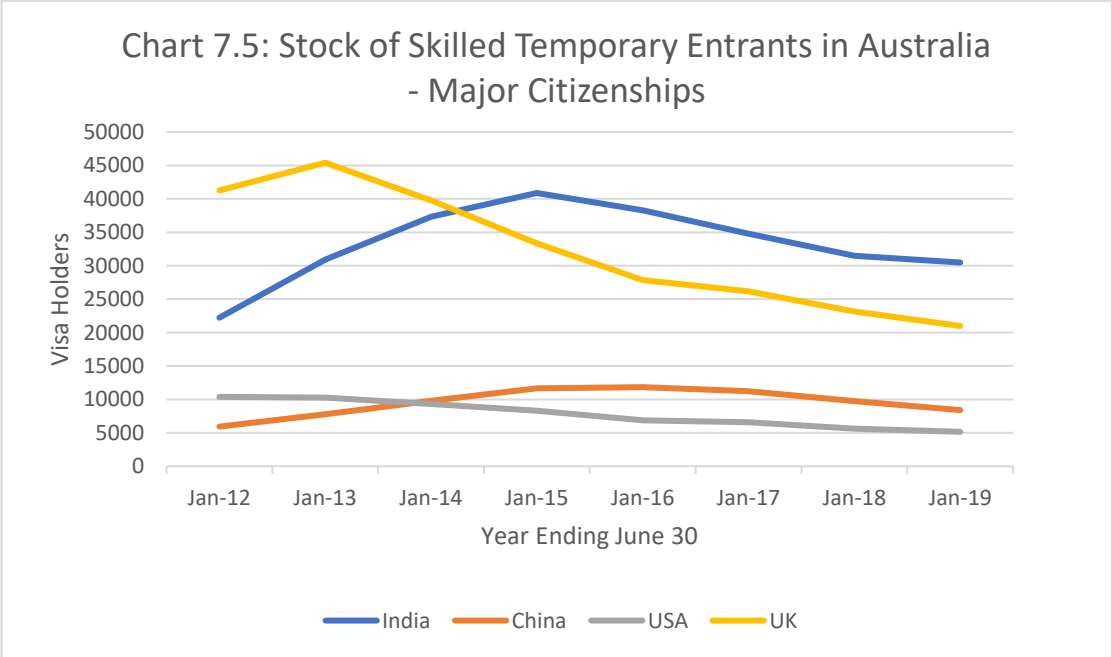
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Offshore visa grants	78,973	72,532	55,481	54,689	48,873	51,788	37,521
Onshore visa grants	46,102	53,829	43,090	41,395	36,738	35,792	26,949
Total	125,075	126,361	98,571	96,084	85,611	87,580	64,470
Stock end June	162,273	191,216	195,083	188,002	170,585	161,413	147,339
Stock – India	22,227	30,909	37,337	40,880	38,283	34,787	31,487
Stock – UK	41,269	45,412	39,793	33,351	27,850	26,162	23,152
Stock – Philippines	11,343	12,889	13,813	12,650	11,112	10,543	10,321
Stock – China	5,937	7,801	9,786	11,637	11,834	11,214	9,739

Source: Temporary Business Entry Pivot Table. Note the stock of temporary entrants in Australia at end September are generally higher than at end June.



Source: data.gov, Temporary Entrants in Australia. Note the stock of temporary entrants in Australia at end September are generally higher than at end June.

The decline affected all major source countries (see Chart 7.5)



Source: data.gov, temporary entrants. Note the stock of temporary entrants in Australia at end September are generally higher than at end June.

In a 2016 CEDA Report, Howe[dxxxix] recommends greater use of a skill shortage of a ministerial advisory committee to determine the skills list used for employer sponsored temporary entry. But this fails to address the fundamental question of whether such lists can ever be sufficiently responsive to the rapidly changing and diverse needs of employers across Australia.

Despite the stronger economy from 2016-17, the decline continued due to policy changes announced on 18 April 2017 by Prime Minister Malcolm Turnbull and Immigration Minister Peter Dutton. They jointly announced that the Subclass 457 would be abolished and replaced with the new Temporary Skilled Shortage (TSS) visa (sub-class 482). The abolition took effect from March 2018 but prior to that there was a substantial reduction in the number of occupations eligible for sub-class 457 (Home Affairs Fact Sheet 1, 2018) [dxl].

Birrell (2017)[dxli] identified a reduction from 651 occupations to 435 but that "those sponsored in the deleted occupations made up just ten percent of the annual number of 457 visas granted in recent years."

The real impact took place from March 2018. Birrell (2017) said "the reset will sharply reduce the number of onshore applicants (mainly overseas students) who have been able to bypass the 457 route to permanent residence by being sponsored directly by employers. This will be the case for around half of those sponsored in the Regional Sponsored Migration Scheme, which is responsible for about 12,000 of the annual total Employer Sponsored visas being issued. This group will be largely excluded from this pathway in future, because, from March 2018, all applicants will have to have three years' experience in the relevant occupation."

He is convinced that "when fully in place from March 2018, the flagship ENS program will fall to less than a third of its recent size of 48,250." Here Birrell is referring to ENS and RSMS combined. The start of the decline Birrell refers to can be seen in the outcome for 2017-18 (see Table 7.7). The changes also mean the opportunities for students to directly access permanent residence via RSMS and ENS have largely been closed.

The key changes were:

- narrower range of eligible occupations split into two streams – around 185 occupations (known as the Medium and Long-term Strategic Skills List (MLTSSL)) eligible for four year work contracts between the employer and the worker and the other 250 occupations (ie the Short-term Skilled Occupations List (STSOL)) eligible for two year work contracts (from 19 April 2017).
- increased English language requirement for all permanent entry employer sponsorship visas (from 1 July 2017) increased from IELTS 5 to IELTS 6.
- sub-class 457 visa replaced by new Temporary Skill Shortage (TSS) visa (March 2018) – this was divided into two streams: a two year contract stream with scope for only one renewal and a four year contract stream.
- Labour Market Testing – this was re-introduced for all TSS visa nominated positions other than for nationals from countries with whom Australia has a free trade agreement or other international trade obligation (eg under the WTO).
- Australian market salary rate - all TSS visa holders must be paid Australian market rates with this to be checked by data matching with the Australian Tax Office. For the first time, this requirement also applied to ENS visa holders. This salary must also meet the Temporary Skilled Migration Income Threshold requirements.
- Pathways to Permanent Residence – two year contract stream visa holders were made ineligible for a permanent residence employer sponsored visa – according to Birrell, around 80 per cent of

people securing an Employer Nomination Scheme (ENS) permanent residence visa transitioned from a sub-class 457 visa while around 50 per cent of those granted a Regional Sponsored Migration Scheme (RSMS) permanent residence visa transitioned from sub-class 457. This is likely due to the more concessional arrangements in place for RSMS (Table 7.8 and 7.9).

- Relevant work experience - all TSS visa applicants must have two years relevant work experience and all permanent residence employer sponsored visas now require a minimum of three years relevant work experience – this change particularly impacts overseas students including those who previously were able to directly obtain an RSMS visa
- Genuine need – this test is in addition to labour market testing and requires the employer to demonstrate there is a need for the person to do the work. Exactly how this will work is not clear but seems to give the decision-maker additional discretion to refuse an application
- Costs – Employers sponsoring overseas workers (both temporary and permanent) will need to make a substantial contribution to the Skilling Australians fund of $1200 per year or part year for small businesses (those with annual turnover of less than $10 million) and $1800 per year or part year for other businesses. In addition, application fees will be:
    - each employer sponsorship - $420;
    - each position that is nominated - $330;
    - in the short-term scheme, each primary applicant and each adult dependent - $1,150 plus $290 for each child dependent;
    - in the medium-term scheme, each primary applicant and each adult dependent - $2,400 plus $600 for each child dependent
- Character - Mandatory penal clearance certificates to be provided. TSS visa applicants sponsored by accredited sponsors may be able to satisfy character requirements on the basis of a work reference confirming the applicant's good character (Home Affairs Fact Sheet 2018).[dxlii]

Tables 7.10 and 7.11 highlight the crucial role skilled temporary entry plays as a pathway to permanent residence (around 25% of the total migration program); the skill stream (around 35%) and employer sponsored migration (around 80%).

Table 7.10: ENS and RSMS Visa Grants by Previous Visa Held

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
ENS (inc Labour Agreements)	27,230	30,912	35,870	35,981	38,052	29,307
RSMS	20,510	16,538	12,380	12,269	10,198	6,221
Students to RSMS	5,494	2,868	2,256	2,759	2,087	927
Students to ENS	824	588	515	494	479	NA
Skilled Temporary to ENS/RSMS	30,060	33,390	38,010	38,200	39,690	29,680

Source: Home Affairs Skilled Temporary Entry, Students and Temporary Graduates and Migration Program Reports.

Table 7.11: Permanent/Provisional Migration Outcomes for Skilled Temporary Entrants

Visa Category	2013-14	2014-15	2015-16	2016-17	2017-18
Family Stream	1,820	1,720	1,770	1,630	1,200
Special Eligibility	NA	NA	NA	110	70
BIIP	NA	NA	NA	40	20
Dist Talent	NA	NA	NA	40	50
ENS/RSMS (portion of	33,390 (70.4%)	38,010 (78.8%)	38,200 (79.2%)	39,690 (82.3%)	29,680 (83.5%)

total ENS/RSMS)					
Skilled Independent	7,340	7,470	7,540	5,840	4,860
Skilled Regional	NA	NA	NA	30	20
State/Terr Nominated	2,700 (a)	2,880 (a)	3,610 (a)	3,200	3,890
Not Specified	NA	NA	NA	10	5
Total – Skill (portion of total skill)	43,440 (33.8%)	48,360 (37.8%)	49,340 (38.4%)	48,850 (39.5%)	38,520 (34.7%)
Total – Program (portion of tot. program)	45,250 (23.8%)	50,080 (26.5%)	51,110 (26.9%)	50,620 (27.6%)	39,800 (24.5%)

Source: Home Affairs Skilled Temporary Entry Reports (a)Includes BIIP and Skilled Regional.

The range of occupations now available for skilled temporary residence has been substantially narrowed contributing to a significant decline in visa grants for the top 15 occupations (see Table 7.12). This downward trend would have continued even without the impact of the coronavirus.

Note visa grants for occupations such as 'cook' in 2017-18 (see Table 7.11) would relate to applications lodged before the changes took full effect as cook is no longer an eligible occupation for the new TSS visa.

Table 7:12 Top Occupation for Skilled Temporary Entry (Nominated Position of Primary Applicant)

Occupation	2016-17	2017-18	Percent Change	Portion of Tot.
Developer Programmer	2,120	1,640	-22.4%	4.8%
ICT Business Analyst	1,640	1,390	-15.0%	4.0%
University Lecturer	1,330	1,360	2.2%	3.9%
Cook	2,170	1,350	-37.9%	3.9%
General Practitioner	1,140	1,170	2.6%	3.4%
Software Engineer	1,390	1,160	-16.8%	3.4%
Chef	1,110	1,130	1.8%	3.3%
Resident Medical Officer	1,220	1,060	-13.5%	3.1%
Café or Restaurant Manager	1,450	1,030	-29.5%	2.4%
Management Consultant	1,160	820	-29.2%	2.4%
Marketing Specialist	1,030	740	-28.6%	2.1%
Analyst Programmer	820	690	-15.4%	2.0%
Accountant (general)	990	680	-30.6%	2.0%
Recruitment Consultant	830	570	-32.2%	1.6%
Motor Mechanic	620	560	-10.4%	1.6%
Other	27,460	19,110	-30.4%	55.5%
Total	46,480	34,450	-25.9%	100%

Source: Home Affairs Report on Skilled Temporary Entry

As part of the changes announced in April 2017, the Government also made changes to direct entry arrangements for ENS and RSMS (Home Affairs Fact Sheet 2017).

To be eligible for a direct entry ENS visa (sub-class 186), the applicant must:

- have an eligible occupation (which were significantly narrowed);
- have at least 3 years relevant work experience in the nominated occupation;
- hold a positive skills assessment from the relevant skills assessing body unless nominated as an academic at levels A, B, C, D or E by a university in Australia; or as a scientist, researcher, or technical specialist by an Australian scientific agency; or a New Zealand citizen who has been nominated by their current employer for whom the applicant has worked for two out of the last three years;
- be nominated by an Australian employer whose business is actively and lawfully operating in Australia;
- be under 45 years of age unless exempt as per dot point 3 above;
- have an English language level at least competent (eg IELTS 6 in each of the 4 components) or higher if required by the relevant skills assessing body.

To be eligible for a direct entry RSMS visa (sub-class 187), the applicant must:

- have an eligible occupation on either the MLTSSL or the Regional Occupation List (which has been expanded);
- have at least 3 years relevant work experience in the nominated occupation;
- hold a positive skills assessment from the relevant skills assessing body unless nominated as an academic at levels A, B, C, D or E by a university in Australia; or as a scientist, researcher, or technical specialist by an Australian scientific agency; or a New Zealand citizen who has been nominated by their current employer for whom the applicant has worked for two out of the last three years;
- be nominated by an Australian employer whose business is actively and lawfully operating in regional Australia and have entered into an employment contract of at least two years;
- be under 45 years of age unless exempt as per dot point 3 above;
- have an English language level at least competent (eg IELTS 6 in each of the 4 components) or higher if required by the relevant skills assessing body.

The RSMS visa has since it was established in 1995 had a number of concessional features compared to ENS. Most of these were removed with the changes announced in April 2017. The RSMS has subsequently been abolished and replaced by a new five year provisional employer sponsored visa (see under SSRMs above).

For applicants transitioning from employer sponsored temporary entry to ENS or RSMS (and now the new provisional visa sub-class 494), the applicant must:

- have the required skills for the nominated position – the requirement to get a formal skills assessment can be waived;
- have relevant work experience – this can be demonstrated by having worked fulltime for the sponsoring employer on a TSS visa for at least three out of the previous four years;
- be nominated by an Australian employer whose business is actively and lawfully operating (for RSMS, in regional Australia) and have entered into an employment contract of at least two years;
- be under 45 years of age unless exempt as per dot point 3 above;
- have an English language level at least competent (eg IELTS 6 in each of the 4 components) or higher if required by the relevant skills assessing body.

The overall impact of these changes has been to significantly reduce application rates for both ENS and RSMS (Home Affairs website – 2018-19 Migration Program report).

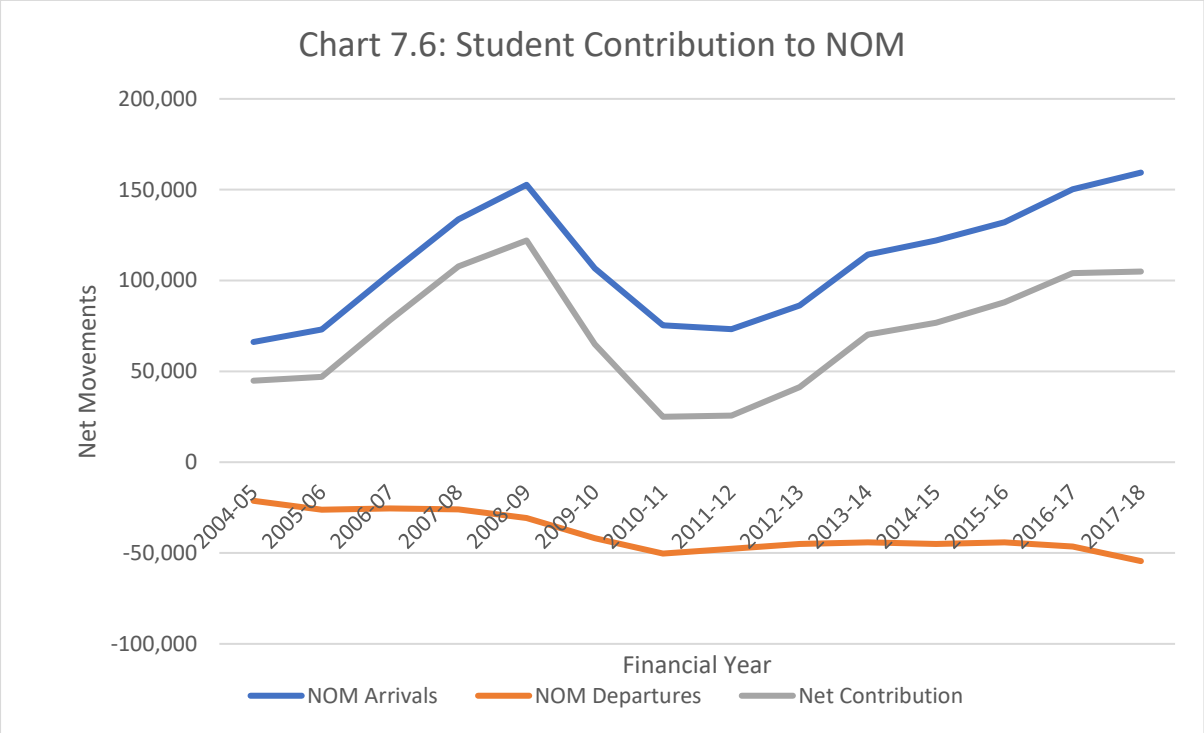
International students

As has been the case for most of the past 30 years, students continued to be the dominant driver of net overseas migration in the post-Howard decade. Over 40 percent of net migration in the post-Howard decade came from overseas students (see Chart 7.7).

While offshore student visa grants fell sharply for a brief period after the Global Financial Crisis (see Table 7.13), this was only for a few years. In terms of offshore student visas, these fell from 226,898 in 2008-09 to 158,646 in 2009-10 – a decline of 30 percent. The decline continued in 2010-11 to 126,186 and would not recover until 2012-13.

The decline was ascribed by Cully (2009)[dxliii] to "a stronger Australian dollar; the ongoing impact of the global economic crisis in some countries; increased competition in the education market; and changes to the skilled migration program"…and "strengthened integrity checks on student visa applications from selected student caseloads were responsible for a sharp decrease in grants to applicants from India and Nepal".

The recovery in overseas student numbers from 2012-13 followed implementation of the Knight Review. In a joint media release of September 2011, Ministers Bowen (Immigration) and Evans (Tertiary Education)[dxliv] announced "the Government will introduce new streamlined visa processing arrangements for a range of Australian university courses for faster, easier visa access for prospective students in time for second semester next year".



Source: ABS 3412

Table 7.13: Offshore Student Visa Grants

Year	Elicos	School	VET	Higher Education	Post-Graduate	Non-Award	Govt. Sponsor	Total
2000-01	18,709	4,045	10,047	38,555	9,113	2,535	3,273	86,277

2001-02	17,811 (a)	9,590	9,912	35,921	15,414	5,634	3,368	97,650
2002-03	17,490 (a)	10,151	12,286	34,602 (b)	20,638	11,395 (b)	3,048	109,640
2003-04	17,048 (a)	12,211	11,890	32,864 (b)	25,185	13,094 (b)	2,987	115,297
2004-05	18,115	10,608	12,703	48,247	8,122	16,747	2,909	117,441
2005-06	22,115	10,900	15,629	57,363	2,867	16,730	3,844	129,448
2006-07	25,460	14,815	26,865	76,907	3,361	16,688	4,128	168,224
2007-08	25,444	14,767	40,449	90,864	4,051	19,124	3,973	198,672
2008-09	28,881	11,881	68,729	90,616	5,239	17,912	3,640	226,898
2009-10	25,414	10,343	28,100	68,411	5,391	17,160	3,827	158,646
2010-11	20,332	8,791	15,556	55,922	5,149	16,254	4,182	126,186
2011-12	19,099	8,095	15,560	55,885	5,764	15,429	5,287	125,119
2012-13	19,258	8,033	13,638	72,051	6,059	16,466	6,305	141,810
2013-14	21,468	8,931	16,566	99,612	6,775	19,341	6,454	179,147
2014-15	23,905	10,950	19,669	101,460	6,509	18,698	6,051	187,242
2015-16	26,465	10,961	24,628	110,314	6,319	20,242	4,947	203,876
2016-17	32,304	11,883	24,869	124,289	7,256	20,084	5,989	226,677
2017-18	29,638	10,446	24,616	133,298	7,255	20,430	5,896	234,110
2018-19	31,276	9,276	29,106	142,098	7,254	19,968	4,762	243,740

Source: Unpublished SOPEMI Reports, Home Affairs Website. (a) ELICOS sector continues to show a decrease in grants due to applicants packaging their courses, where the visa grant is shown against the primary course, which is likely to be Higher Education or Masters/Doctorate. (b) Students enrolled in the non-award sector increased by 128 per cent in 2002-03 year compared to 2001-02. This was mainly due to study abroad students applying against the Non-award sector instead of the Higher Education sector. The study abroad sector movement also affected the growth of the Higher Education sector, which only saw an increase of just over one per cent during 2002-03.

The streamlined arrangements would apply to international students enrolled in courses mainly at the level of bachelor degree.

“These students, regardless of their country of origin, will be treated as though they are lower risk, similar to the current Assessment Level (AL) 1 requirements”. This effectively devolved responsibility for checking English language skills and financial capacity requirements to individual universities and relevant VET providers.

Bowen argued that “the financial requirements for Student Visas were too onerous, so we are reducing the financial requirements for some applicants, with students now needing around $36,000 less in the bank when applying for a visa.”

He noted this would “particularly assist a significant number of Vocational Education and Training and private education providers.”

The two ministers also announced that “a two to four-year post-study work visa will also be available for university graduates depending on the level of study completed. Other work visa options, such as the Temporary Skilled 457 visa and the Skilled Graduate Visa, continue to be available to graduates and to employers looking to meet genuine skills needs”.

Bowen and Evans also committed to “undertake a fundamental review of the Student Visa risk management framework, the assessment levels and consider options for early implementation of the findings, targeting a small number of high quality education providers – including TAFEs – to recognise the lower migration risks associated with them”.

They argued that "these reforms will be made possible through a new 'genuine temporary entrant' requirement for all Student Visa applicants that will enable the Department of Immigration and Citizenship to better assess applications". How this highly subjective requirement would be applied was not made clear.

This 'genuine temporary entrant' requirements continued the Government's uncertainty about whether students should or should not have an eye towards possible migration to Australia. It is notable that Bowen maintained pathways to migration to Australia for overseas students and increased the skill stream of the migration program (see Table 7.2), a significant part of which would continue to be filled by successful students.

The Government also announced that it would:

- Allow all English language students to apply for a visa without first meeting minimum English skills requirements;
- Extend the time a PhD student can stay in Australia while their thesis is marked;
- Establish an Education Visa Consultative Committee to improve information flow between the Australian Government and the international education sector; and
- Repeal the automatic cancellation and mandatory cancellation provisions for student visas where students were reported by their education provider as not meeting course or attendance requirements.

Following these changes, offshore student visa grants resumed an upward trend rising from 125,119 in 2011-12 to 234,110 in 2018-19. The key driver of the increase was the higher education sector which increased from 55,885 offshore student visa grants in 2011-12 to 133,298 in 2018-19.

The VET sector also grew but that was more through on-shore student visas, including students transferring from a higher education course (either after or before completion) to a less expensive VET course (see Tables 7.13 and 7.14).

Onshore student visa grants show a similar pattern but with a substantial lag between the peak in offshore student visa grants (2008-09) and the peak in onshore student visa grants (2011-12) as students and others who are already in Australia sought to undertake further study to access a narrower range of temporary and/or permanent visa opportunities (see Table 7.14).

Table 7.14: Onshore Student Visa Grants

Year	Elicos	School	VET	Higher Education	Post Graduate	Non-Award	Govt Sponsored	Total
2007-08	5083	2227	28123	39507	2900	1657	546	80043
2008-09	7571	2258	35060	43244	3096	1087	418	92734
2009-10	9828	2184	43930	50593	3905	979	389	111853
2010-11	8730	1669	51850	56645	4054	853	451	124252
2011-12	8699	1424	54384	57275	4841	731	573	127927
2012-13	10349	1156	44925	55218	4656	613	551	117468
2013-14	9496	1028	44082	52732	4546	592	437	112913
2014-15	9310	1061	46,021	50253	4599	505	549	112298
2015-16	7872	963	45539	47847	3845	467	436	106969
2016-17	7792	1095	51721	50912	3251	455	378	116358

2017-18	8988	1398	63473	65818	3716	433	352	144182
2018-19	9240	1548	71799	74696	3985	431	373	162072

Source: Unpublished SOPEMI Reports, Home Affairs Website pivot table

Onshore student visa grants increased from 106,969 in 2015-16 to 162,072 in 2018-19. This partly reflected the flow-on from the strong growth in offshore student visa grants from 2012-13 onwards. The strong growth in on-shore student visa grants was across all sectors other than the non-award and government sectors. This is likely to reflect students looking for study options that respond to tightening of the range of occupations eligible for both temporary and permanent stay in Australia.

Table 7.15 shows that around 80% of onshore student visa grants are to people who already hold a student visa and are extending study in Australia. The two other major sources of onshore student visa grants are visitors (around 10%) and working holiday makers (around 8%).

Table 7.15: Source of applications for onshore student visas

	Students	**Visitors**	**WHMs**	**Temp Skilled**	**Temp Other**	**Other**	**Total**
2015-16	81992	11882	8626	690	289	3490	106969
2016-17	85543	14708	10568	758	464	4317	116358
2017-18	106115	18276	10585	885	7149	1172	144182
2018-19	113931	23344	10815	1085	11675	1152	162002

Source: Home Affairs Student Visa Reports

A significant development highlighted in Table 7.15 is the growth in student visa applications from people in the 'Temporary Other' category. This is likely to reflect holders of Temporary Graduate visas (sub-class 485) either going back to studying, possibly with a view to acquiring a qualification that gives them a better chance of meeting the new tighter skilled migration requirements, or because that is the only option they have of extending stay in Australia – the Temporary Graduate visa is a once off visa that cannot be secured a second time.

Table 7.16: Stock of Overseas Student Visa Holders as at end June by Sector

Year	**Elicos**	**School**	**VET**	**Higher Education**	**Post-Graduate**	**Non-Award**	**Govt. Sponsor**	**Total**
2006	13,863	15,657	32,025	125,622	9,843	6,632	5,324	209,169
2007	16,175	18,464	48,356	145,723	8,895	6,678	5,708	250,058
2008	16,608	21,950	78,418	177,941	10,280	6,941	5,841	318,030
2009	19,566	20,165	123,540	198,566	12,567	6,366	5.457	386,266
2010	17,313	15,949	122,149	199,917	15,581	6,487	5,301	382,712
2011	14,943	14,270	94,247	180,108	17,340	5,785	5,995	332,705
2012	14,565	11,421	79,856	169,355	19,396	5,576	6,831	307,050
2013	15,996	10,341	68,883	174,929	20,569	6,223	7,293	304,251
2014	17,632	10,545	70,568	203,187	22,021	8,185	7,609	339,763
2015	19,374	11,244	78,873	227,983	22,780	6,822	7,478	374,564
2016	20,392	13,187	89,977	243,190	22,235	6,282	6,149	401,423
2017	23,988	14,832	104,539	265,958	22,941	6,178	5,351	443,798
2018	23,630	15,959	123,228	288,222	24,204	6,463	5,217	486,934
2019	25,216	15,471	147,167	328,719	25,949	5,632	4,974	553,139

Source: Various Home Affairs Reports on Student Visa Program. Note the stock of temporary entrants in Australia at end September are generally higher than at end June.

The overall stock of student visa holders (see Table 7.16) tracks the trend in offshore student visa grants and student NOM Arrivals but with a lag of 2-3 years after policy is changed. After policy is tightened, the lag is often associated with a temporary increase in onshore student visa grants (see Table 7.14) and subsequently a rise in student NOM Departures.

Against that background, the strong rise in the stock of VET students from 2016 is surprising given tightening of policy restricting their pathways to permanent residence in Australia (more so than for Higher Education and Post-Graduate students). With Australia's strong labour market from 2016 to 2019, it appears that access to work rights may have been sufficient incentive for VET students to be attracted to Australia.

Table 7.17: Destinations of Student Visa Holders (ie Onshore visa immediately after student visa)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Student	31,012	28,531	26,641	27,858	27,593	84,255	73,791	48,542*
Visitor	26,296	27,799	30,653	32,283	35,952	39,945	44,158	46,978
Temporary Graduate	33,753	30,793	20,496	20,952	30,209	37,759	46,695	57,587
Temporary Skilled	10,478	17,946	15,843	14,676	11,715	10,685	6,233	6,100
Partner and Other Family	7,736	9,343	8,636	8,548	7,459	8,586	6,193	6,852
Skilled Independ	7,080	6,131	4,464	5,335	5,340	5,133	3,469	3,102
Skilled Nominated	4,710	5,230	4,246	3,945	5,112	3,885	3,543	3,025
RSMS	3,902	5,494	2,868	2,256	2,759	2,087	926	2,167
ENS	1,132	824	588	515	494	479	NA	NA
WHM	2,737	2,808	2,743	2,746	2,912	2,846	3,086	3,306
Other Temporary	610	745	1,012	1,234	1,081	1,023	NA	NA
Onshore Protection	946	1,217	1,057	1,285	986	864	599	647
Other	2,971	2,623	1,586	1,601	1,625	1,471	4,000	4,251
Total	133,363	139,484	120,833	123,234	133,237	199,018	192,693	182,557
Total Not Including Student to Student	102,351	110,953	94,192	95,376	105,644	114,763	118,902	134,015

Source: Home Affairs website: Student Program Reports. * This figure does not include students who held a SC 500 student visa and secured a further SC 500 student visa – this is based on advice from DHA Statistics area.

Table 7.17 shows the range of visa pathways students use. It highlights a dramatic rise from 2016-17 in students accessing further student visas to continue study in Australia. This further reinforces the view that students were moving into areas of study that are more likely to enable a pathway to permanent migration and/or secondary students visa holders (eg the spouses of primary student visa holders) switching places to enable one partner to acquire more skilled work experience and/or just continue to access the labour market.

Other common visas students move onto include:

- Visitor visas – these would most commonly be used by students who need to briefly extend stay, for example, to attend a graduation ceremony or increasingly as part of a transition to another visa type. Students who subsequently depart Australia on a visitor visa would be counted as a visitor NOM departure as in total they had spent at least 12 out of 16 months in Australia;
- Temporary Graduate visas – this visa has and is likely to continue to be increasingly popular given the tightening of other pathways to extend stay. It should be noted the graduate work stream of this visa would not provide visa holders with sufficient time in Australia to meet the new minimum relevant work experience requirements for temporary and permanent employer sponsored visas. Bachelor level students who obtain a two year visa under the post-study work stream may also find it difficult to meet the minimum relevant work experience requirement. This may require Temporary Graduate visa holders to apply for another type of temporary work visa until they obtain sufficient skilled work experience;
- Temporary Skilled visas – students have from end March 2018 not generally been able to access this visa directly from a student visa because of the new minimum relevant skilled work experience requirement. Visas granted to students in this category will largely be from those who applied before the regulation changes took effect or students who used another visa to obtain the requisite skilled work experience;
- Skilled Independent – the sharp reduction in places for this visa and the increase in the pool mark from 60 to 65 will continue to limit the number of students who can access this visa. It is likely very few students will directly obtain skilled independent visas in future;
- State-Territory Nominated skilled visas (permanent and provisional) – these will become more popular with successful overseas students depending on the criteria and occupations different state/territories target;
- RSMS/ENS – these are permanent employer sponsored visas which few students in future will be able to access directly because of the relevant work experience requirement. The RSMS visa has been abolished and replaced by a new 3 year provisional employer sponsored visas. Pathways to this new regional visa may be established for people accessing the new skilled temporary visa as part of the new Designated Area Migration Agreements (DAMA);
- WHM/W&H – the rise in students using WHM/W&H visas could indicate use of these visas to acquire additional skilled work experience.

Table 7.17: Stock of Student Visa Holders in Australia by Citizenship at End June

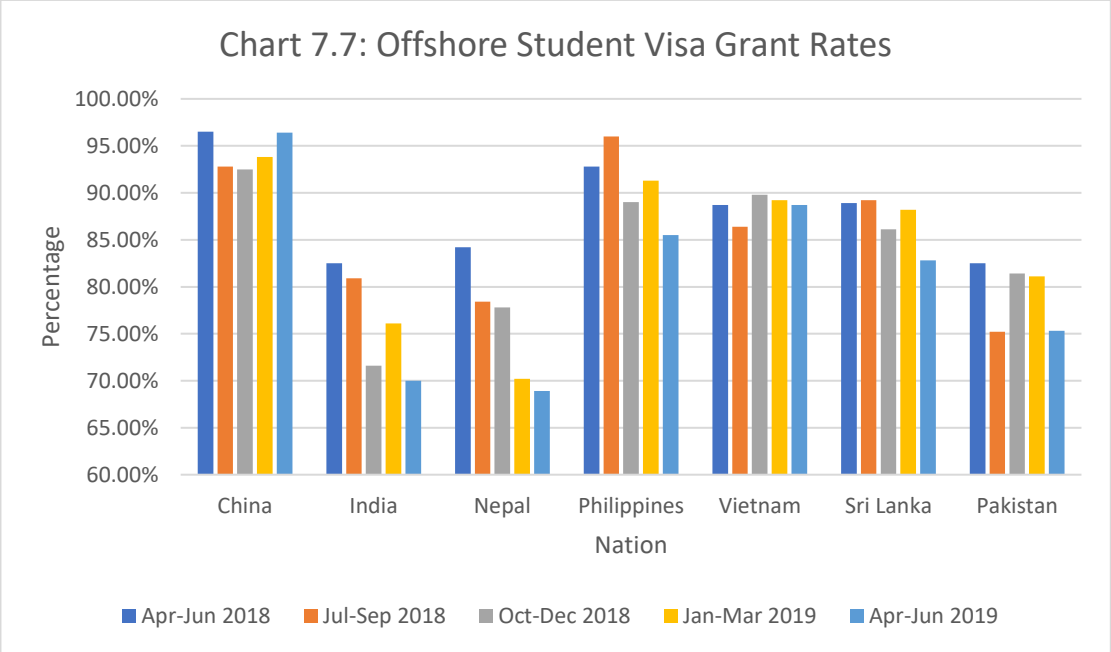
	2014	2015	2016	2017	2018	2019
China	76,152	82,571	91,302	104,218	112,297	123,165
India	40,595	48,585	53,709	59,390	70,240	94,661
Nepal	14,043	16,447	18,777	26,913	41,696	56,451
Brazil	8,624	10,074	12,397	16,965	20,349	20,932
Vietnam	20,054	20,693	20,651	20,138	19,917	20,118
Malaysia	13,666	14,468	15,871	17,266	18,156	18,027
Korea	16,030	17,152	17,768	18,177	17,389	16,664
Colombia	5,883	6,592	8,058	10,644	12,627	16,064
Indonesia	11,838	12,797	12,545	12,638	13,136	14,676
Thailand	13,615	15,488	16,653	16,413	14,723	13,485
Pakistan	10,303	11,497	11,071	10,265	11,122	12,460
Sri Lanka	NA	NA	NA	8,052	9,898	12,789
Taiwan	4,478	6,340	7,805	8,681	9,121	9,046

Total (inc Other)	**339,763**	**374,564**	**401,423**	**443,798**	**486,934**	**553,139**

Source: Home Affairs Annual Student Visa Reports. Note the stock of temporary entrants in Australia at end September are generally higher than at end June.

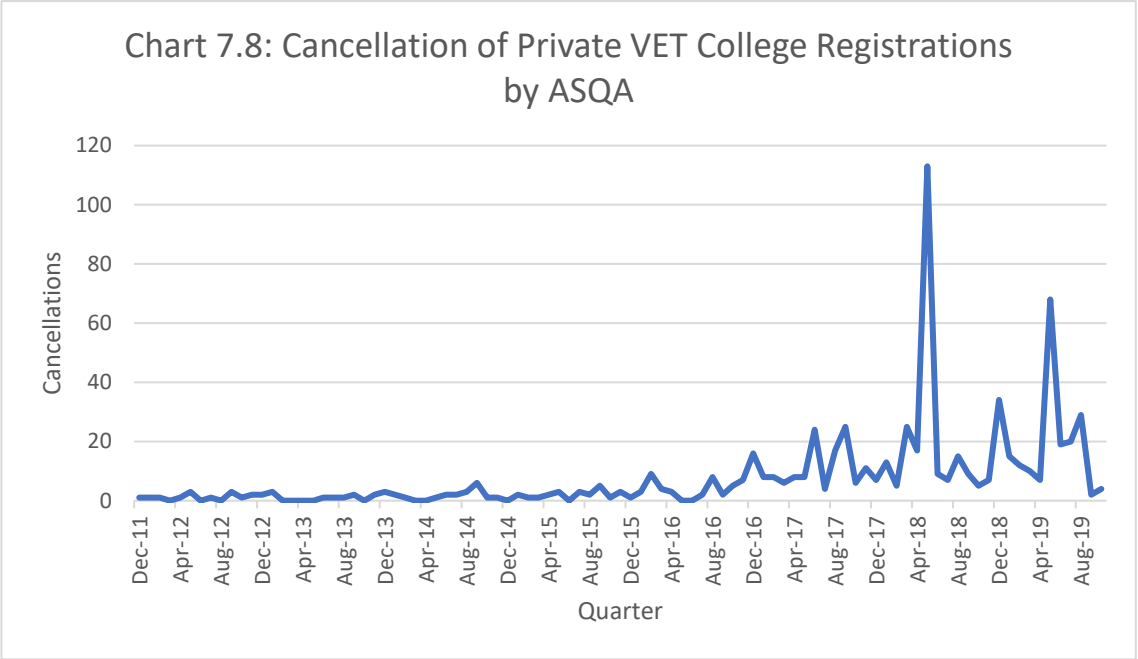
Table 7.17 shows the reliance of the student market out of China, India and more recently Nepal. While the stock of overseas students from China continued to rise through to June 2019, the downturn in offshore student visa grants out of China may be reflected in the number of Chinese students in Australia from 2020 onwards. This is backed up by concerns this may be an ongoing trend due to political considerations (Varghese 2018)[dxlv].

During 2019, the Government appears to have increased the refusal rate for offshore student visa applications from India, Nepal, Pakistan, Sri Lanka and the Philippines (see Chart 7.7). This may be linked to a surge in the cancellation of VET college registrations by the Australian Skills Quality Agency (ASQA) from the start of 2018 (see Chart 7.8). Note Chart 7.8 includes cancellation of VET colleges that were not registered on CRICOS and hence did not provide courses for overseas students.



Source: Home Affairs Student Visa Report June 2019

Home Affairs announced in September 2019 (see Home Affairs website) that applications for student visas from nationals of India, Nepal and Pakistan would be treated as higher risk (other than those for top tier universities). This would require a mandatory English language test and a funds check to ensure the student applicant has the funds to afford to study in Australia. This is likely to further increase refusal rates in the short-term and eventually a decline in the student visa application rate from nationals from these three countries.



Source: ASQA Website

In a reversal of the policy direction announced by former Immigration Minister Chris Bowen and continued by Immigration Ministers Morrison and Dutton, Coleman announced the Government would increase the funds student visa applicants in higher assessment levels would need to demonstrate they had access to. The new requirement is that the applicant must demonstrate:

- "sufficient funds to cover your travel costs and 12 months of living and tuition fees for you and your accompanying family members and school costs for any school aged dependants, or
- evidence that your spouse or parents are willing to support you and they have an annual income of at least AUD 60,000 for single students or at least AUD 70,000 for students that are accompanied by family members." – Home Affairs website on 31 October 2019.

The future direction of the overseas student program will continue to be the key determinant of whether the Government's increased forecast of net overseas over the next few years is realised (once the impact of the coronavirus has passed). The strongest driver will be the state of the labour market as well as design of the student and pathways to permanent residence. But if the labour market continues to be weak after the coronavirus and students find it more difficult to secure employment that pays an adequate wage, the ability of many overseas students to continue to afford to study in Australia or remain here on another type of temporary visa will be tested.

Temporary graduates

A key feature of Australia's student visa arrangements is the temporary graduate visa (Sub-class 485). With tightening of direct access by students to employer sponsored entry and the skilled independent category, the temporary graduate visa has become an increasingly important part of the migration pathway for overseas students.

The temporary graduate visa allows overseas students who have completed studies in Australia to extend stay on a temporary basis. To be eligible for this visa (Home Affairs website), the applicant must be either:

- the primary holder of a current student visa (hence the attractiveness of secondary student visa holders to switch p-laces with a primary visa holder thus enabling a couple to secure a second Temporary Graduate visa); or

- the holder of a bridging visa A or B that was granted on the basis of a valid application for a visa and the applicant's student visa expired in the past 6 months; or

- the holder of another substantive visa (eg a visitor visa) and the applicant's student visa expired in the past 6 months; or

- in the past 28 days the AAT notified the applicant of a decision to set aside and substitute the Minister's decision not to revoke the cancellation of the person's student visa.

Holders of student visas sponsored by the Department of Foreign Affairs or the Australian Defence Force are not eligible for a Temporary Graduate visa.

Applicants for a Temporary Graduate visa must:

- Meet the Australian study requirement. This requires that the applicant:
    - Undertook a CRICOS-registered course;
    - Successfully completed all course requirements;
    - The study was in English
    - The study was over at least two academic years (ie 92 weeks);
    - Was physically in Australia for at least 16 calendar months to complete the study; and
    - Held an Australian study visa.
- Have a minimum level of English. This requires the applicant to either:
    - Be a citizen of the UK, USA, Canada, NZ or Ireland; or
    - Achieve a minimum overall score of IELTS 6 and at least 5 in each of the four components (or the equivalent in TOEFL, Pearson test of English or OET).
- Hold adequate Health Insurance unless the applicant is the citizen of a country with which Australia has a reciprocal health agreement.

The Temporary Graduate visa has two streams:

- The **Graduate Work stream** is for a stay of 18 months and targets overseas students who have recently completed a CRICOS-registered course at the diploma and trade level in particular. The application fee is $1,535 and processing times are 86 days for 75% of applications and five months for 90% of applications (as at November 2018). The applicant must be under 50 years of age, have an occupation on the Medium and Long-term Strategic Skills List (MLTSSL) and be assessed by the relevant skills assessing body as meeting the Australian standard for that occupation.

- The **Post-Study Work stream** is for a stay in Australia of up to 4 years, depending on the level of Australian study qualification: bachelor degree (including honours) - 2 years; masters by

coursework - 2 years; masters by research - 3 years; doctoral degree - 4 years. The applicant must be in Australia when applying and when a decision is made on the application. The application fee is $1,535 and processing times are 64 days for 75% of applications and 72 days for 90% of applications (as at November 2018). The applicant must be under 50 years of age and have completed a bachelor degree or higher (AQF Level 7 or above) at an Australian CRICOS-registered education provider.

Temporary Graduate visa holders have no sponsoring employer. They must find their own employment. While it is not possible for Temporary Graduate visa holders to obtain another Temporary Graduate visa (ie it is a once in a lifetime visa for each primary student visa holder), they are eligible to apply for other skilled visas for which they may be eligible.

The Temporary Graduate - Graduate Work Stream targets overseas students who have acquired trades or diploma level qualifications while the Post-Study Work Stream targets students who have undertaken bachelor level degrees and above.

To meet the requirements of the Graduate Work Stream, an applicant must not only hold the relevant qualifications but must also meet the occupational testing standards of the relevant skills assessing body. This is not required for the Post-Study Work Stream and has led to visa grants in the Graduate Work Stream trending down compared to the Post-Study Work Stream which allows successful graduates to remain in Australia from 18 months up to four years depending on the course they completed. Graduates of VET courses generally receive only an 18 month visa while those holding post graduate research qualifications can receive visas for 3-4 years. The length of these visas is critical to acquiring the skilled work experience necessary to obtain temporary and eventually permanent employer sponsored visas.

Table 7.19: Temporary Graduate Visa Grants

	2014-15	2015-16	2016-17	2017-18	2018-19
Graduate Work Stream	14,066	12,425	9,419	8,142	9,213
Post-Study Work Stream	8,586	19,989	31,960	43,507	54,781
Total	22,652	32,414	41,379	51,649	63,994

Source: Temporary Graduate Visa Pivot Table

The increase in visas granted under the graduate work stream in 2018-19 suggests VET and non-Award students in Australia are finding occupations linked to their qualifications that meet the Australian standard.

Table 7.20: Stock of Temporary Graduate Visa Holders at End June

	2014	2015	2016	2017	2018	2019
China	6,861	8,214	10,693	13,320	15,250	17,104
India	4,545	4,419	7,615	12,951	20,041	28,171
Nepal	2,611	2,654	3,637	5,378	7,596	11,169
Brazil	147	103	153	248	462	957
Vietnam	901	985	1,514	2,152	2,743	3,407
Malaysia	1,022	904	1,187	1,611	2,064	2,493

Korea	683	588	839	1,149	1,399	1,952
Thailand	145	141	198	271	326	455
Indonesia	803	684	918	1,142	1,492	1,725
Colombia	276	223	272	461	610	875
Pakistan	1,258	1,446	2,153	2,999	3,888	4,286
Sri Lanka	737	648	996	1,410	1,923	2,689
Taiwan	138	166	301	466	648	829
Total (Inc Other)	25,198	26,260	37,717	53,582	71,157	91,776

Source: Home Affairs Annual Student Visa Reports. Note the stock of temporary entrants in Australia at end September are generally higher than at end June.

The increasing attractiveness of the post-study Temporary Graduate visa is highlighted in Tables 7.19 and 7.20 – the latter table shows the stock of former students on this visa more than tripling in the four years from 2015 to 2019.

While there has been a general upwards trend in the portion of students taking up the Temporary Graduate visa option (see Table 7.19), this visa is particularly popular to students from the sub-continent and not so much to students from South America and ASEAN countries (although this appeared to be changing for ASEAN countries in 2018 and 2019). See Table 7.21.

Table 7.21: Stock of Temporary Graduates as Portion of Student Stock

	2014	**2015**	**2016**	**2017**	**2018**	**2019**
China	9.0%	9.9%	11.7%	12.8%	13.6%	13.9%
India	11.2%	9.1%	14.2%	21.8%	28.5%	29.8%
Nepal	18.6%	16.1%	19.4%	20.0%	18.2%	19.8%
Brazil	1.7%	1.0%	1.2%	1.5%	2.3%	4.6%
Vietnam	4.5%	4.8%	7.3%	10.7%	13.8%	16.9%
Malaysia	7.5%	6.2%	7.5%	9.3%	11.4%	13.8%
South Korea	4.3%	3.4%	4.7%	6.3%	8.0%	11.7%
Thailand	1.1%	0.9%	1.2%	1.6%	2.2%	2.8%
Indonesia	6.8%	5.3%	7.3%	9.0%	11.3%	11.8%
Colombia	4.7%	3.4%	3.4%	4.3%	4.8%	6.5%
Pakistan	12.2%	12.6%	19.4%	29.2%	35.0%	34.4%
Sri Lanka	NA	NA	NA	17.5%	19.4%	21.0%
Taiwan	3.1%	2.6%	3.9%	5.4%	7.1%	9.2%
Total (Inc Other)	**7.4%**	**7.0%**	**9.4%**	**12.1%**	**14.6%**	**16.6%**

Source: Home Affairs Annual Student Visa Reports

With the rising importance of the temporary graduate visas, the destination visas these visa holders use becomes increasingly important. Table 7.22 highlights a significant increase in temporary graduates going back to a student visa. This may be associated with temporary graduates either seeking a qualification that is in greater demand, especially by relevant state/territory governments, or as a secondary visa applicant to accrue more skilled work experience.

There has also been an increase in temporary graduates securing the Temporary Skill Shortage (TSS SC 482) visa. This visa requires a minimum of two years skilled work experience (other than use of this visa via a DAMA). By contrast, an ENS/RSMS visa requires three years skilled work experience.

Hence increased use of the TSS visa by temporary graduates may reflect an intention to acquire additional skilled work experience.

Table 7.22: Destination Visas Secured by Temporary Graduates

	2016-17	2017-18	2018-19
Student (SC 500)	3,049	6,645	10,802
Skilled Ind (SC 189)	7,833	6,878	7,586
Skilled Nom (SC 190)	2,012	2,762	3,473
Skilled Prov (SC 489)	1,081	1,230	1,410
RSMS (SC 187)	770	477	1,288
Temp Skill (SC 457 &482)	1,363	1,357	2,133
Partner	677	745	959
ENS	102	152	266
Visitor (inc ETA)	1,470	1,867	2,429
WHM & W&H	155	229	311
Training	NA	20	117
Other	1,412	165	178
Total	**19,925**	**22,527**	**30,952**

Source: Home Affairs Reports on Students and Temporary Graduates

While use of state/territory nominated visas by temporary graduates has been limited to date, this may increase with the tightening of other visa options. This will particularly be the case with announcement as part of the Government's March 2019 Population Plan of the option for temporary graduates who have studied at an Australian education institution outside the three major capital cities (ie Sydney, Melbourne and Brisbane) of a third year on a temporary graduate visa. This option was extended in November 2019 to include Perth and the Gold Coast.

Working holiday makers (WHM)/work and holiday (W&H) visas

The WHM visa (sub-class 462) and W&H visa (sub-class 462) are both an essential part of Australia's tourist industry as well as the Australian labour market more generally.

These visas are based on agreements currently with 42 countries. Major expansion of the number of these agreements began under the Howard Government which both lifted the cap on these visas that were in place for most of the 1990s, initiated negotiations with a wide range of additional countries and began to give these visas a greater labour market focus (see Chapters 4 and 5).

Effective 1 November 2005, WHMs in Australia were allowed to apply for a Skilled Independent Regional visa. To be eligible, the WHM visa holder needed to have held their visa for at least six months while in Australia and meet basic requirements for General Skilled Migration. These included being aged less than 45 years, possess good English language skills, and have their skills assessed as suitable by a relevant assessing authority for an occupation on the skilled occupations list (Rizvi 2006).

By 2012-13, WHM visa numbers had grown to 249,231 with the main source countries being the UK (46,131); Taiwan (35761); Korea (35,220); Germany (26,184); and France (24,788). Some 38,862 of these were second WHM visa grants. Work and Holiday visa grants had increased to 9,017 with the most grants to USA citizens (6,878); Chile (808); Thailand (464); and Argentina (417). The number of countries with whom Australia had Work and Holiday agreements had increased to 10 (Sopemi Report 2013).[dxlvi]

But in 2013-14, WHM visa numbers fell to 229,378 and then again to 214,830 in 2014-15 (see Table 7.22). While the declines were from most countries, the largest declines over the two years were from Taiwan, Korea and Ireland. Second WHM visa grants also fell for the first time since inception of the second WHM visa (Economic Analysis Section, DIBP, 2015).[dxlvii]

Possible factors that may have driven the decline included a weak labour market in Australia (unemployment in 2014 reached 6 percent), rising competition for these high yield tourists and emerging media reports of exploitation by employers.

WHM/W&H visa numbers may also have been impacted by:

- tightening of employer sponsored visas (both permanent and temporary) – in particular the reduction in the number of occupations on the relevant skilled occupation lists; and the minimum relevant skilled experience requirements. Particularly affected will be WHMs/W&H visa holders who were previously able to directly access RSMS/ENS as well as the new Temporary Skills Shortage visas
- increase in the pool mark for lodging Expressions of Interest (EOI) for SkillSelect (from 1 July 2018 from 60 to 65); and
- reduction in places in the skill stream of the migration program. This started modestly in 2016-17 with a much larger reduction in 2017-18 with a further reduction likely in 2018-19.

In the 2015-16 Budget, the Government proposed WHM visa holders should be taxed at the non-resident rate rather than the resident rate. This would have meant that WHMs tax rate would be 32.5% for all earnings up to $80,000. This proposal led to extensive debate in the media (Carvalho, P; The Drum, 14 May 2015; Kempton, H; Mercury, 15 May 2015; Allen, L; The Australian, 14 May 2015).

Parliament eventually reached a compromise with the size of the tax rate increase reduced to 15 percent for all earnings up to $37,000 and 32.5% for all subsequent earnings up to $90,000 (ATO 2018).[dxlviii]

In October 2019, the Federal Court ruled that this tax was illegal when applied to citizens of countries with whom Australia had a tax treaty that requires Australia not to tax their respective citizens on a differential basis (Young 2019)[dxlix].

Table 7.23: WHM and W&H Visas Granted

Year	Sub-class 417 First Visa	Sub-class 417 Second Visa	Sub-class 462 First Visa	Sub-class 462 Second Visa
2006-07	127,171	7,822	1,812	NA
2007-08	142,516	11,826	3,488	NA
2008-09	166,132	21,775	6,409	NA
2009-10	150,431	25,315	7,422	NA
2010-11	162,980	22,500	7,442	NA
2011-12	184,143	30,501	8,438	NA
2012-13	210,369	38,862	9,017	NA
2013-14	183,428	45,950	10,214	NA
2014-15	173,491	41,339	11,982	NA
2015-16	159,409	36,264	18,910	NA
2016-17	157,858	34,097	18,647	409
2017-18	152,622	32,828	21,667	3,339
2018-19	142,805	37,418	23,012	5,801

Source: Working Holiday Maker Reports, Home Affairs Website plus author estimates from 2017-18

From 2015-16, the government initiated a Work and Holiday agreement with China starting with a cap of 5,000 visas per annum. Second visas have become particularly popular with Chinese citizens (1,155 in 2017-18). The other large increases in Work and Holiday visa grant countries have been Chile (2,000 cap in 2017-18), Spain (1,500 cap in 2017-18), Argentina (1,400 cap in 2017-18) and Indonesia (1,000 cap in 2017-18). The Government has announced that as part of the Free Trade Agreement with Indonesia, the cap for that country will be increased to 5,000.

The decline in WHM (SC 417) first visas has been offset by growth in W&H (SC 462) first visas, initially from the USA and more recently from China, Chile, Spain, Argentina and Indonesia. While growth in this visa from the USA is slowing, visa numbers from all other W&H agreement countries are subject to caps which can be raised (see Table 7.23). In addition, negotiations with countries such as India may also lead to further growth in this visa. Countries with whom negotiations for a W&H agreement are currently proceeding include Andorra; Brazil; Croatia; Fiji; India; Latvia; Lithuania; Mexico; Monaco; Mongolia; Philippines; Solomon Islands; and Switzerland.

The downward trend in first grant of W&H visas for citizens of the USA (it has fallen from 8,669 in 2015-16 to 7,368 in 2017-18) may also bottom out in coming years. But this may be offset by growth in W&H visas for other agreement countries if the government chooses to raise the cap on W&H visas from these countries. Second W&H visa numbers are also likely to continue to rise. The government will be under pressure from the tourism and horticulture industries to do so once the coronavirus crisis passes.

The stock of WHM and W&H Visa Holders in Australia has followed the same pattern. The stock of first WHM visa holders in Australia peaked in 2013 at 123,160 and the stock of second WHM visa holders peaked at 37,817 in 2014. There was a minor increase in the stock of people on second WHM visa in 2019 (see Table 7.24).

Table 7.24: Stock of WHM and W&H Visa Holders at end June

Year Ending June	WHM First Visa	WHM Second Visa	W&H First Visa	W&H Second Visa
2006	60,000 (Est)	2,292 (Est)	NA	NA
2007	70,000 (Est)	5,225 (Est)	NA	NA
2008	78,000 (Est)	9,040 (Est)	NA	NA
2009	87,000 (Est)	16,482 (Est)	NA	NA
2010	79,000 (Est)	20,367 (Est)	NA	NA
2011	88,000 (Est)	19,978 (Est)	4,007	NA
2012	106,730	25,377	4,486	NA
2013	123,160	32,165	5,178	NA
2014	107,377	37,817	6,007	NA
2015	101,458	35,434	7,026	NA
2016	95,847	30,909	10,620	NA
2017	92,728	28,187	13,061	293
2018	90,434	28,090	13,700	2,685
2019	85,684	30,126	14,796	4,657

Source: Home Affairs Reports on Working Holiday Makers plus author estimates. Note the stock of temporary entrants in Australia at end September are generally higher than at end June.

Introduction of the second WHM/W&H visa led to rapid increase in the contribution of these to net migration. This is because to be counted as a net migration arrival, a visa holder must spend at least 12 months out of the past 16 months in Australia (see Table 7.25).

Table 7.25: Contribution of WHM/W&H to Net Migration

Year	Arrivals	Departures	Net Contribution
2004-05	12,930	3,530	9,400 (6.6%) (c)
2005-06	17,080	2,840 (22.0%) (b)	14,240 (8.3%) (c)
2006-07	21,630 (16.8%) (a)	4,650 (27.2%) (b)	16,980 (7.3%) (c)
2007-08	29,120 (19.9%) (a)	7,770 (35.9%) (b)	21,360 (7.7%) (c)
2008-09	34,300 (19.9%) (a)	10,480 (36.0%) (b)	23,820 (7.9%) (c)
2009-10	33,030 (20.9%) (a)	15,030 (43.8%) (b)	18,000 (12.3%) (c)
2010-11	43,460 (25.5) (a)	15,560 (47.1%) (b)	27,900 (14.0%) (c)
2011-12	54,620 (28.5%) (a)	15,720 (36.5%) (b)	38,900 (16.8%) (c)
2012-13	59,250 (27.2%) (a)	20,850 (38.2%) (b)	38,400 (16.7%) (c)
2013-14	54,190 (28.1%) (a)	26,970 (45.5%) (b)	27,220 (14.5%) (c)
2014-15	51,600 (28.0%) (a)	28,510 (52.5%) (b)	23,090 (12.5%) (c)
2015-16	50,100 (31.4%) (a)	27,470 (53.2%) (b)	22,640 (11.0%) (c)
2016-17	50,040 (31.7%) (a)	25,850 (51.6%) (b)	24,190 (9.2%) (c)
2017-18	49,286 (29.7%) (a)	22,415 (44.8%) (b)	26,871 (11.4%) (c)

ABS: Catalogue 3412 plus author estimates. (a) Percentage of first WHM/W&H visas granted in that year. (b) Percentage of previous year's Net Migration arrivals. (c) Percentage of Total Net Migration.

Of the 42 partner countries with whom Australia currently has an agreement, 19 are Working Holiday (subclass 417) visa arrangements (UK, Ireland, Canada, Japan, South Korea, Malta, Germany, Sweden, Norway, Denmark, Hong Kong, Finland, Cyprus, Italy, France, Taiwan, Belgium, Estonia and Netherlands), and 23 are Work and Holiday (subclass 462) visa arrangements (Thailand, Chile, Turkey, USA, Malaysia, Indonesia, Argentina, Uruguay, Poland, Portugal, Spain, China, Slovak Republic, Slovenia, Israel, Hungary, San Marino, Luxembourg, Vietnam, Singapore, Peru, Austria, Czech Republic, PNG, Greece and Ecuador).

New W&H visa agreements are currently being negotiated with Andorra, Brazil, Croatia, Fiji, India, Latvia, Lithuania, Mexico, Monaco, Mongolia, Philippines, Solomon Island and Switzerland.

The key differences between the two visas are that W&H visa arrangements generally have caps on the number of visas granted annually and additional eligibility requirements.

All WHM (both Working Holiday and Work and Holiday) visa applicants must:

- be aged 18-35 (inclusive) at time of application – recently increased from 30
- hold a passport from an eligible partner country.
- not be accompanied by dependent children during their stay in Australia
- meet financial, health and character requirements.

Work and Holiday visa applicants must meet additional requirements, which may (or may not) include:

- functional English
- successful completion of at least two years of undergraduate university study (except Israel & USA)
- a letter of home country/government support in association with their visa application (except Argentina, China, Israel & USA).

WHM and W&H visas are for an initial period of 12 months. Visa holders can work throughout this period but until recently could not work with the same employer for more than 6 months. This has

now been extended to allow work with the same employer for the full 12 months if working in regional Australia.

WHM and W&H visa holders are also allowed to study for 4 months.

They may also apply for a second WHM/W&H visa if they undertake three months of 'specified work' in regional Australia during their stay acquire eligibility to apply for a second such visa.

'Specified work' includes work in the agriculture, mining and construction industries. For the purposes of second Working Holiday visa eligibility, regional Australia includes large parts of rural and regional Australia, which are identified in a list of postcodes available on the Home Affairs' website.

The Government has recently announced that WHM/W&H visa holders will now be able to apply for a third visa if they undertake 'specified work' in regional Australia. This started from 1 July 2019 (Home Affairs News 2 April 2019). The range or work that WMH/W&H visa holders can undertake to secure a second visa has also been expanded to include bushfire related work (Home Affairs Website).

These changes make WHM/W&H visas an attractive option for students seeking to acquire additional skilled work experience, especially if they intend on taking advantage of the changes to SSRMs.

While not part of the WHM program, in 2008-09 a pilot Pacific Seasonal Worker pilot was introduced to undertake low skilled work in the horticultural industry. The visas for a period of up to seven months in any 12 month period and targeted workers from Kiribati, PNG, Tonga and Vanuatu. 56 workers were recruited in 2008-09 and 67 in 2009-10 (Cully 2009).[dl]

A 2016 CEDA Report (Boucher and Howe)[dli] recommend capping the WHM program and a ministerial advisory committee examine the labour market impact of WHMs as well as students. Given the rapid decline in WHM numbers in the past 6-7 years, the need to cap the program would seem redundant.

Irregular maritime arrivals

Perhaps the most significant change from the policies of the Howard Government was in respect of irregular maritime arrivals. One of the earliest acts of the new Rudd Government was to close down the Howard Government's offshore processing arrangements (Phillips 2012)[dliii]. Irregular maritime arrivals increased significantly post-Howard (see Table 7.26).

Table 7.26: Humanitarian Program and Onshore Asylum

	Irregular Maritime Arrival PV Applications	IMA Protection Visa Grants (a)	Non-IMA Protection Applications	Non-IMA Protection Visa Grants	Offshore Humanitarian Visa Grants	Total Humanitarian Program
2008-09	678		5,072		10,875	13,412
2009-10	4,597	2,119	5,987	2,367	9,207	13,757
2010-11	5,166	2,696	6,337	2,121	8,941	13,799
2011-12	7,373	4,766	7,036	2,274	6,706	13,759
2012-13	18,119	4,949	8,480	2,555	12,488	20,019
2013-14	1,007	546	9,646	2,207	11,006	13,768
2014-15	261	1	8,587	2,746	10,981	13,756
2015-16	0	(a)	12,697	2,002	15,552	17,555

2016-17	0	(a)	18,290	1,711	20,257	21,968
2017-18	0	(a)	27,931	1,425	14,825	16,250
2018-19	0	(a)	24,566	1,650	17,112	18,762

Source: Sopemi Reports and Humanitarian Program Reports. (a) Legacy IMA caseload at end Sept 2019 states there were 16,325 grants of Temporary Protection visas or Safe Haven Enterprise Visa and 7,630 applications on hand or at review.

The reasons behind the surge were at first disputed. The first Rudd Government argued 'push factors' (ie wars in the Middle East as well as internal conflict in countries such as Afghanistan and Sri Lanka) were the dominant reason behind the increase in irregular maritime arrivals. There was some evidence supporting this view as other countries were also experiencing an increase in asylum seekers. The Opposition, however, focused on 'pull factors' such as the dismantling of Howard Government policies to deter and prevent irregular maritime arrivals (Spinks and McClusky 2013)[dliii].

Spinks (2013a)[dliv] argues that "beyond a simple correlation between policy changes and the numbers of boat arrivals at certain points in time, little empirical evidence has been presented to demonstrate that such pull factors are actually at play.

As the number of arrivals continued to increase, however, the first Rudd Government and subsequently the Gillard Government began to look at policy actions to slow the volume of irregular maritime arrivals.

In a speech to the Lowy Institute, Prime Minister Gillard (2010)[dlv] said "we move forward to an effective, sustainable, long-term solution: to stop the boats not at our shoreline but before they even leave the far-away ports from which they come; to ensure people smugglers have nothing to sell and so ending the long and dangerous voyages.

This means building a regional approach to the processing of asylum seekers, with the involvement of the UNHCR, an approach which effectively eliminates the onshore processing of unauthorised arrivals and ensures that anyone seeking asylum is subject to a consistent process of assessment in the same place - a regional processing centre removing the incentive once and for all for the people smugglers to send boats to Australia. Why risk a dangerous journey if you will simply be returned to the regional processing centre?"

On 7 May 2011, Gillard and Prime Minister Najib of Malaysia[dlvi] announced Australia and Malaysia were negotiating an agreement to transfer and resettle asylum seekers and refugees between the two countries. Their joint statement said the two governments were negotiating "a cooperative transfer agreement that will see asylum seekers arriving by sea in Australia transferred to Malaysia. In exchange, Australia will expand its humanitarian program and take on a greater burden-sharing responsibility for resettling refugees currently residing in Malaysia".

The core elements of this bilateral arrangement were to include:

- "800 irregular maritime arrivals, who arrive in Australia after the date of effect of the arrangement, will be transferred to Malaysia for refugee status determination;
- in return, over four years, Australia will resettle 4000 refugees already currently residing in Malaysia;
- transferees will not receive any preferential treatment over asylum seekers already in Malaysia;
- transferees will be provided with the opportunity to have their asylum claims considered and those in need of international protection will not be refouled;

- transferees will be treated with dignity and respect and in accordance with human rights standards; and
- Australia will fully fund the arrangement.

The implementation of this one off pilot project will be important to undermine the business model of transnational criminal syndicates, particularly in people smuggling and human trafficking in this region. Australia and Malaysia are working closely with the United Nations High Commissioner for Refugees (UNHCR) and the International Organization for Migration (IOM) to operationalise the arrangement".

The total cost was estimated at $292 million over four years, comprising $216 million to cover the increase in the humanitarian program and $76 million to cover the operational costs of transferring people from Australia to Malaysia.

Spinks (2011)[dlvii] said "the stated aim of the agreement is to 'break the people smugglers' business model' by denying them a product to sell. The Government claims the agreement will send a message that getting on a boat to Australia is not worth the risk, as people will simply find themselves transferred to Malaysia with no possibility of resettlement in Australia. Indeed, the Immigration Minister has linked the announcement of the Joint Statement in May to a 'dramatic reduction in the number of boat arrivals'."

In August 2011, the High Court ruled the Malaysia agreement to be invalid. Law lecturer Maria O'Sullivan (2011)[dlviii] noted that "*Section 198a Migration Act* provisions mean that a country has to be legally bound to provide access for asylum seekers to effective procedures and to provide protection for asylum seekers. A country like Malaysia has to be legally bound either under international law or its own domestic law to do those things [for the Malaysia Solution to be lawful]".

Menadue (2014)[dlix] argues "when the High Court rejected the Malaysian arrangement in August 2011, irregular maritime arrivals were running at less than 300 per month. That number increased to 1200 by May 2012, and kept on rising. The Labor Government attempted to amend the Migration Act to address the problems identified by the High Court but the Coalition, together with the Greens, blocked the amending legislation. They bashed Malaysia at every opportunity. The failure of the Malaysian arrangement sent a very clear message to people smugglers that boat arrivals would succeed. Boat arrivals were running at over 4,000 per month in July 2013".

A contrasting view is put by Senator Brandis (2012)[dlx] who said in the Senate "in the four months between the announcement of the Malaysia solution by Ms Gillard on 7 May 2011 and the High Court's decision in the Malaysia solution case on 31 August 2011 there were 1,092 asylum seekers who came to Australia in that four-month period when the Malaysia solution was the policy of the Australian government, before it was struck down by the High Court. In the previous four months, the equivalent period antecedent to the Prime Minister's announcement of the Malaysia solution, there were 1,172 asylum seekers who came to Australia. There was no material difference in the numbers at all—none. So, if we take up Senator Bob Carr's invitation to compare the rate of passage of asylum seekers after the announcement of the Malaysia solution with the rate for an equivalent period before the Malaysia solution, there was no significant difference at all".

Of course, while it was the policy of the Government in the period Senator Brandis refers to, the agreement was not actually operational.

To address the issues raised by the High Court with the Malaysia agreement, the Gillard Government introduced the Migration Legislation Amendment (Offshore Processing and Other Measures) Bill 2011. Immigration Minister Bowen said the purpose of the bill was "to restore to the executive the power to set Australia's border protection policies, specifically the power to transfer asylum seekers arriving at excised offshore places to a range of designated third countries within the region, while ensuring protection from refoulement, for the processing of their claims.

This is a power that was thought to exist until 31 August this year, when the majority of the High Court decided that transfers under section 198A of the Migration Act could only take place to countries legally bound to provide protections equivalent to those offered by Australia.

Subsequent legal advice has made it clear that the High Court's decision has thrown into significant doubt the ability of governments—present or future—to effect transfers to a range of countries in our region who are prepared to offer protection from refoulement, and will allow processing of refugee claims to be made, including Papua New Guinea and Nauru".

In debate on the Gillard Government's attempt to legislate to overcome the High Court's concerns with the Malaysia agreement, Assistant Treasurer David Bradbury (2011)[dlxi] said "I mentioned the Indochinese example of the 70s and 80s because I think the Malaysian arrangement that has been brought forward and put in place with the agreement of the Australian government and the Malaysian government is very similar in many respects. The fact that we are prepared to embrace and welcome an extra 1,000 refugees into our country each year but in doing so insist upon the ability to exercise some control over the flow of people in our region, indicates to me that this proposal is very much in keeping with the history and tradition of the way in which this country and the Labor Party have been able to manage people flows in the past".

Shadow spokesman on immigration Scott Morrison (2011)[dlxii] made clear his concerns: "This five for one people swap deal with Malaysia is a proposal conceived in denial and negotiated in desperation. Five for one speaks for itself…The government has also failed to address our international obligations here, which others have noted. It is not enough just to get a commitment from Asia not to refoule, as is required under the UN convention on refugees. I understand that the government needs to get that requirement and I accept that they have received that undertaking from the Malaysia government. But what they have not got is an undertaking when it comes to the United Nations convention against torture. ..There are laws in Malaysia—actual laws—permitting fines, imprisonment and whipping of people who illegally reside in Malaysia. That is the law in Malaysia. Unless this government has an absolutely rock-solid guarantee that these laws will not apply to people sent to Malaysia then clearly they can give no guarantee about the human rights and welfare of those sent…This deal just simply does not stack up at the end of the day, and the government has options in Nauru. They only have to pick up the phone".

The bill to enable the Malaysia agreement was defeated with the Coalition and Greens voting it down in the Senate.

Whether the agreement would or would not have been effective remains open to conjecture. Menadue (2014) argues the pattern of boat arrivals in Table 7.27 confirms his argument that boat arrivals increased after the Malaysia agreement was voted down.

Table 7.27: Boat Arrivals by Month

Month	Persons Arriving by Boat (not including crew)	Number of Boats
January 2013	471	10
February 2013	925	16
March 2013	2,455	37
April 2013	3,396	47
May 2013	3,315	47
June 2013	2,715	41
July 2013	4,145	47
August 2013	1,591	25
September 2013	837	15
October 2013	339	5
November 2013	207	5
December 2013	355	7

Source: Menadue (2014) drawing on data from Department of Immigration and Border Protection and Parliamentary Library.

In June 2012, the then Government announced the appointment of an expert panel to provide a report with advice and recommendations to prevent asylum seekers risking their lives on dangerous boat journeys to Australia. In August 2012, the Expert Panel on Asylum Seekers released a report[dlxiii] including recommendations for:

- providing incentives for asylum seekers to seek protection through a managed regional system
- applying a 'no advantage' principle to ensure no benefit is gained through circumventing regular migration arrangements

- increasing the size of the Humanitarian Programme to 20 000 places
- enhancing regional engagement through advancing and developing cooperation on asylum issues with Indonesia and Malaysia
- improving regional processing capacity by re-establishing facilities in Nauru and Papua New Guinea and by strengthening the safeguards and accountability associated with Australia's agreement with Malaysia on the transfer and resettlement of asylum seekers
- changing family reunion arrangements for asylum seekers who arrived in Australia as Illegal Maritime Arrivals (IMAs).

Ultimately, the second Rudd Government adopted much of the Howard Government's approach to illegal maritime Arrivals other than boat turn-backs.

While Scott Morrison argues that it was his implementation of Operation Sovereign Borders (OSB) that stopped the boats, according to Menadue (2014) "what largely stopped the boats, although not completely, was the announcement by Kevin Rudd on the 19th July 2013 that in future any persons coming by boat and found to be a refugee would not be settled in Australia. We may argue about the wisdom of that policy, but it effectively crippled the business case of the people-smugglers".

The decline in boat arrivals after Rudd's announcement is certainly dramatic (see Table 7.26). Peter Hughes a former deputy secretary in the Department of Immigration and Citizenship noted in an article in the Canberra Times in late 2013 "t*he arrival of 546 asylum seekers in October and November 2013 represents only 14% of the number of arrivals for the corresponding months in 2012. This is a dramatic reduction … The announcement of long-term resettlement of refugees in Papua New Guinea and Nauru by the previous government has likely been decisive in changing the decision to travel to Australia on the part of those asylum seekers who have not yet handed over their money to a smuggler."*

Nevertheless, on 25 July 2013, the then Opposition Leader Tony Abbott announced his policy to stop the boats — Operation Sovereign Borders (OSB).

The policy was implemented on 18 September 2013 by the newly elected Coalition Government. OSB was a military-led border security operation supported by the direct involvement of a number of agencies and departments brought together under a single operational command and a single ministerial responsibility.

OSB comprised three task groups::

- Disruption and Deterrence Task Group, led by an Assistant Commissioner in the Australian Federal Police
- Detection, Interception and Transfer Task Group, led by a Rear Admiral from the Border Protection Command (utilising resources from both the Australian Defence Force and the Australian Customs and Border Protection Service)
- Offshore Detention and Returns Task Group (ODRTG), led by the Department of Immigration and Border Protection.

While there have been very few Irregular Maritime Arrivals since the Rudd and Abbott Government policy changes, the challenge of the legacy caseload both in Australia and on Manus and Nauru has been ongoing.

In December 2014, amendments to the Migration Act 1958 were passed which, among other measures, established a Temporary Protection visa (TPV) and a Safe Haven Enterprise visa (SHEV). Anyone who had arrived in Australia by boat would only be eligible for the grant of a TPV or SHEV should they be found to engage Australia's protection obligations. TPVs and SHEVs are similar; however, SHEVs are valid for five years rather than three years and provide access to an onshore pathway to apply for other visas if the visa holder works or studies in a specified regional area without accessing certain social security benefits (2015 Sopemi Report).

According to a Home Affairs September 2019 IMA Report, "successive Ministers have used their non-compellable, non-delegable intervention power under s195A of the Migration Act 1958 to grant a Bridging E Visa (BVE) to some IMAs. As at 30 September 2019, a total of 36,958 have been granted to IMAs. Of these, 13,827 remain in the community, (11,746 with a current BVE and 2,081 awaiting grant of a further BVE). The remaining 23,131 IMAs, who were granted BVEs have either been granted a substantive visa, departed Australia, returned to immigration detention or are deceased".

IMAs can only apply for a Temporary Protection Visa (subclass 785) (TPV) or a Safe Haven Enterprise Visa (subclass 790) (SHEV) if the Minister has made a decision that it is in the public interest to lift a legislative bar on making a valid visa application in Australia. Where the Minister lifts the bar, the Department will advise the IMA that they are eligible to apply for a TPV or a SHEV.

Of the 23,370 IMAs who have been allowed by the Minister to apply for a TPV or a SHEV, 10,849 had been granted a SHEV and 5,476 a TPV. The remainder have been either refused or have not had their application fully finalised (DHA September IMA Report).

In order to re-settle an unknown number of asylum seekers on Nauru who are found to be refugees, Immigration Minister Morrison in 2014 signed and MOU with the Government of Cambodia. He noted that "a number of those found to be in genuine need of protection will now have the opportunity and support to re-establish their lives free from persecution…As a party to the refugees convention, Cambodia ... is demonstrating its ability and willingness to contribute positively to this humanitarian issue" (AAP 2014)[dlxiv].

As part of the agreement, Australia agreed to give the Cambodia an additional $40m in aid, with an extra $15.5m for resettlement and integration services for the refugees. But a little more than a year later, only four refugees had accepted an offer to re-settle in Cambodia (Medhora 2015).[dlxv]

The Turnbull Government also negotiated an agreement with the United States to accept genuine refugees from Manus and Nauru (BBC 2016)[dlxvi].

While the Howard Government also sought to re-settle some of the refugees on Manus and Nauru in third countries, the majority of the refugees were settled in Australia and New Zealand. To date, the Australian Government has resisted taking up the option of re-settlement in New Zealand.

Non-IMA onshore asylum seekers

Table 7.28 highlights a significant increase in non-IMA onshore asylum applications after the Howard and Rudd/Gillard/Rudd Governments. The increase was initially gradual, rising at between 500 and 1,000 per annum, but at a faster rate from 2015-16 when it increased by around 4,000 and then peaking at 27,931 in 2017-18.

Table 7.28: Onshore Asylum Applications by Major Source Country (Non-IMA)

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
China 1,040	China 1,249	China 1,186	China 1,293	China 1,124	China 1,216	China 1,174

Sri L 462	Sri L 397	Sri L 493	Fiji 563	India 556	India 906	India 1,037
India 381	Indon 219	India 353	Iran 378	Pak 549	Pak 667	Pak 935
Iraq 203	Malay 219	Zimb 317	Pak 349	Egypt 427	Iran 462	Egypt 734
Indon 182	Iraq 202	Afghan 255	Malay 257	Iran 386	Egypt 357	Iran 564
Malay 102	India 199	Iraq 245	Iraq 223	Fiji 331	Iraq 297	Leban 424
Pak 94	Pak 181	Pak 221	Egypt 207	Nepal 229	Fiji 271	Libya 299
Iran 76	Zimb 140	Indon 213	Indon 178	Iraq 221	Nepal 241	Fiji 224
Zimb 64	Iran 140	Malay 207	Nepal 93	Malay 212	Malay 196	Nepal 204
Afghan 33	Afghan 20	Iran 209	NA	Indon 195	Leban 182	Malay 166
Total 3,743	**Total 4,009**	**Total 5,072**	**Total 5,987**	**Total 6,337**	**Total 7,036**	**Total 8,480**

2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
China 1,799	Malay 1,401	Malay 4,812	Malay 8,579	Malay 9,319	Malay 8,013
India 1,214	China 1,299	China 1,428	China 2,269	China 9,315	China 4,872
Pak 998	Pak 717	India 895	India 1,133	India 1,529	India 1,864
Egypt 478	India 674	Iraq 793	Vietnam 867	Thailand 846	Thailand 1,319
Fiji 479	Iraq 625	Pak 473	Pak 509	Fiji 354	Fiji 980
Iran 366	Libya 300	Fiji 343	Iraq 469	Vietnam 764	Vietnam 782
Libya 322	Fiji 231	Vietnam 302	Indon 426	Pak 589	Indon 672
Nepal 317	Iran 227	Indon 280	Fiji 307	Indon 515	Pak 508
Leban 300	Bangla 182	Thailand 180	Taiwan 246	Taiwan 323	Philipp 487
Malay 294	Leban 176	Taiwan 159	Thailand 232	Philipp 237	Taiwan 478
Total 9,646	**Total 8,587**	**Total 12,697**	**Total 18,290**	**Total 27,931**	**Total 24,566**

Source: Immigration Annual Reports and Onshore Humanitarian Program Reports

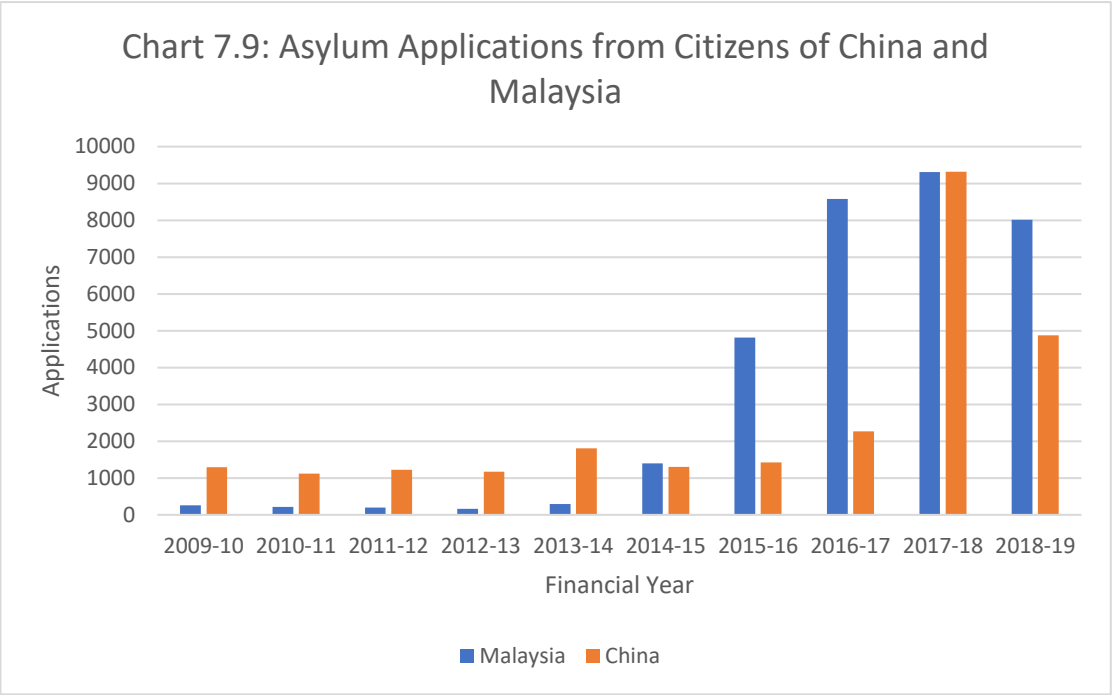
A possible factor contributing to the initial increase was that the first Rudd Government announced that access to work rights for asylum seekers from 1 July 2009 would be made more readily available through abolition of the '45 day rule'. Previously, the 45 day rule required that a protection visa applicant must have been in Australia for fewer than 45 days prior to making their visa application in order to obtain permission to work (2008-09 Annual Report). This is most likely to affect people who have been in Australia for a substantial period and have exhausted other options to remain.

Another driving factor can be civil and political unrest. For example, the rise in asylum applications from nationals of Egypt in 2009-10, 2010-11 and 2011-12 is likely linked to the so-called 'Arab Spring' which took place from around 2010.

The most significant increases, however, have been from nationals of Malaysia and China.

In most of the post-Howard decade, Chinese nationals have made the most non-IMA asylum applications (see Table 7.28). There had been small numbers of asylum applications from Malaysian nationals throughout the period of the Howard Government. Approval rates had generally been less than two percent and in many years, zero asylum applications from Malaysian nationals have been approved (Sopemi Reports and Immigration Department Annual Reports).

Against this background, the surge in asylum applications from Malaysian nationals from 2014-15 is unusual.



Source: DHA Asylum and PV Reports

It is relevant that Malaysian nationals have had access to the ETA and hence streamlined entry to Australia since the late 1990s (Rizvi 2000). But the key to the surge since 2014-15 appears to be a slow response from immigration authorities allowing asylum seekers longer in Australia with work rights.

The build-up of a range of large visa application backlogs and limited processing resources, partly due to the Government's staffing cap (Whyte 2019)[dlxvii], is increasing the reward for making non-genuine asylum applications. The onshore backlogs are reflected not just in the number of people on bridging visas (see Table 7.1) but also at the Administrative Appeals Tribunal (AAT) (see Table 7.29). As at end March 2020, the AAT had a backlog of over 12,187 asylum applications from Malaysian nationals and 5,137 from Chinese nationals (AAT website).

Table 7.29: Caseload at the AAT

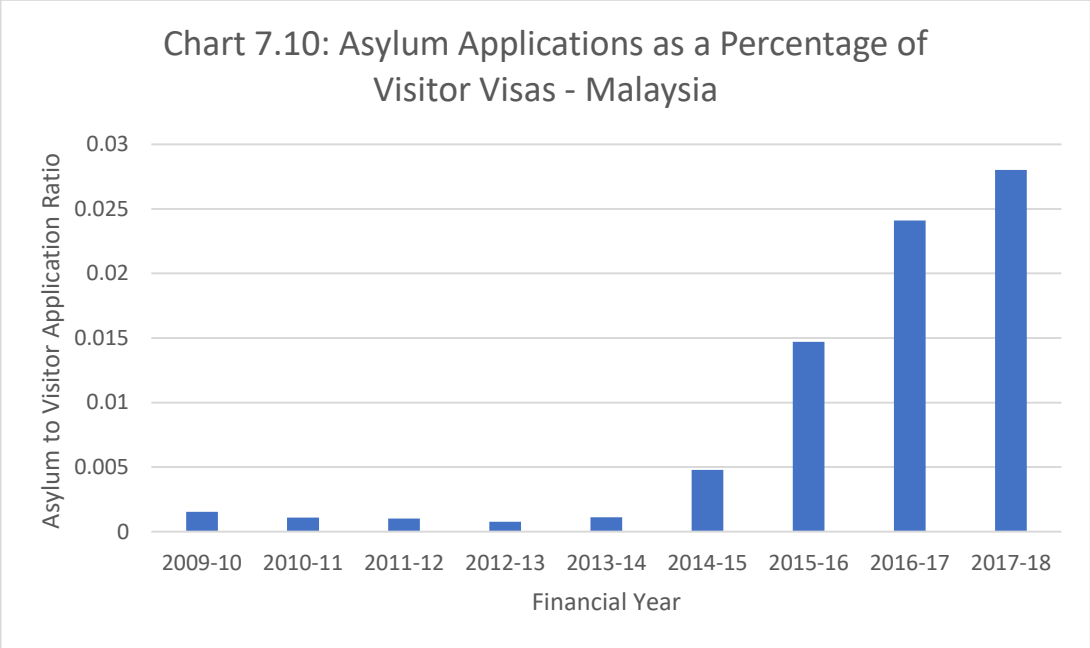
	July 2016	June 2017	June 2018	June 2019	March 2020
Student Refusal	NA	4,394	8,813	9,198	10,091
Employer Nom/Sponsor	NA	2,329	5,562	8,508	8,603
Permanent Business	NA	1,063	3,693	5,816	6,429
Partner	NA	3,485	4,405	5,575	5,965
Total Migration & TE	11,798	16,092	29,991	39,029	40,960
Onshore Asylum	5,682	8,370	14,445	20,689	25,726

Total Mig and Asylum	17,480	24,462	44,436	59,718	66,686

Source: AAT Website, Migration and Refugee Division Caseload Reports

The explanation provided by the Government that the increase in non-IMA asylum applications is just part of normal growth in the caseload is not supported by the data (Rizvi Oct 2019)[dlxviii] (Rizvi July 2019)[dlxix].

The ratio of asylum applications from Malaysian nationals as a portion of visitor visa grants for Malaysian nationals has increased around 25 times since 2013-14 (see Chart 7.10).



Source: Home Affairs Reports on Visitor Visas and Asylum Applications

The increase in this ratio for China has 'only' increased around four times – that is still significant given the number of visitors from China (see Chart 7.11).

The most likely explanation is that the new 'global integrity system' designed to identify visitor and other visa applications that require further checking, rolled out in 2016, was not up to dealing with the China caseload. Electronic lodgement of visitor visa applications from China was then introduced (possibly made mandatory) in February 2017 (Home Affairs Visitor Visa Report 2017-18). There are reports that in conjunction with these two changes, use of the 'auto-grant' facility (ie a system generated approval facility) was ramped up.

Source: Home Affairs Reports on Visitor Visas and Asylum Applications

Electronic lodgement meant the experience of local Home Affairs staff in China to spot non-genuine visitor visa applications made in paper form was lost. Moreover, use of auto-grant meant scam organisers could test and identify the types of applications being auto-granted and those that were being referred for additional checking by local staff. With this knowledge, scam organisers could profit by selling entry to Australia on visitor visas together with work rights associated with asylum applications.

The surge out of China in 2016-17 and 2017-18 is particularly odd given the extent to which asylum applications from Chinese nationals have fallen back in 2018-19 – this suggests Home Affairs is slowly responding to the surge, albeit through a major increase in visitor refusal rates (Rizvi January 2020)[dlxx].

Visa privatisation

The Government announced in the 2016-17 Budget it would undertake "a long-term program service delivery reform and modernisation to ensure Australia's visa system remains competitive, relevant, and attractive into the future. This will enable it to continue to support national prosperity, national security, and cohesion in Australian society" (Home Affairs submission to Senate Legal and Constitutional Committee Inquiry into Impact of Changes to Service Delivery Models 2019).

The Home Affairs submission notes "the Government has determined the Department should test the capability, capacity and willingness of the private sector to provide a privately funded and constructed single integrated visa application and processing workflow tool – the Global Digital

Platform – to support the Department's core function of receiving and processing visa applications. The Department alone will determine the business rules that govern what the Global Digital Platform does, which questions are asked of which applicant, which applications can be auto-granted in accordance with its business rules and threat profiles, and which applications need to be further considered by its officials".

The key issue that the Home Affairs submission does not address is that unlike past public/private partnerships that the Immigration Department has entered into, the private provider in this case will also be the 'owner' of the Global Digital Platform. That is a game changer and raises a range of risks in three areas (Rizvi Oct 2018)[dlxxi]:

Firstly, what arrangements does the Department of Home Affairs have if the private provider, like private providers before it, underestimates the cost of developing such a complex ICT platform? What contingency does the Department have if the private provider chooses a cheap form of re-build that is effectively 'putting lipstick on a pig' rather than what it may have first promised? Is the Department prepared to bail out the private provider with additional funds or allow more time for a proper build?

Secondly, once visa processing has been transferred to the new ICT platform owned by the private provider, what guarantees has Home Affairs given on the minimum rate of return the private provider will receive and how the private provider will be paid for the regular changes to the ICT platform that Government will inevitably demand due to policy changes? Given Home Affairs cannot possibly afford for the private provider to get into financial trouble, will Home Affairs have to agree to whatever visa application charge increases the private provider demands? How will Home Affairs deal with either any natural decline in caseload due to the economic cycle or due to policy change? Will Home Affairs have to compensate the private provider for these? Is there a risk that having to make such compensation payments could affect how Home Affairs advises on immigration policy?

Finally, given the pressure on the private provider to provide strong returns to its shareholders, how will Home Affairs deal with relentless demands on it to allow the private provider to use the ICT platform to increase profits but which are negative to the national interest? How can we be confident Home Affairs will be able to resist such pressure, especially as the opportunities requested by the private provider may proceed in small steps?

Acting Immigration Minister Alan Tudge announced in March 2020 that the Government would not be proceeding with the plan to privatise visa processing (Jenkins 2020)[dlxxii].

Chapter 8: Impact of Howard Government's Transformation

According to Markus, Jupp and McDonald (2009)[dlxxiii], the changes to immigration in the 1990s and 2000s transformed Australia. It was the Howard Government that was in power for most of this time and predominantly responsible for this transformation.

But how should we assess the impact of this transformation? This Chapter considers this question in terms of impact on:

- Australia's demography; and
- Australia's economic, labour market and budgetary performance, including across Australian towns and cities with a population of greater than 10,000 at the 2016 Census.

It also compares Australia's economic, labour market and budgetary performance with that of Japan since 1990 – the point at which Japan's working age to population ratio peaked as well as the economic performance of major developed economies in the 15 years prior to their working age to population ratio peaking with the period after that peak.

The transformation led to a faster rate of population growth, a slower rate of population ageing, a rise in the proportion of overseas-born population, a rise in the stock of temporary entrants and major changes in the source countries of immigrants. This has had flow through implications for economic growth, the labour market and the budget and led to rapid growth in Australia's International Education Industry.

There have also been negative impacts, particularly in terms of increased congestion in the major cities, a rise in incidents of temporary worker exploitation and concerns about an impact on the quality of education delivered to overseas students.

Such rapid change has also exacerbated some social tensions, particularly the divisive debate on asylum seekers arriving by boat. While on the whole Australians have remained relatively positive towards the increasingly multicultural nature of Australia (Scanlon Social Cohesion Index 2019)[dlxxiv], there has also been a rise in far right groups as noted by the Head of ASIO[dlxxv].

Australia passed the peak in its working age to population ratio in 2009. As Australia is now ten years into its demographic burden phase, with the retirement of the baby-boom generation, we are now starting to experience the impact of more rapid population ageing.

Impact on Australia's demography

The Howard Government changes gave Australia significantly more rapid population growth than during the 1970s, 1980s and 1990s. Population growth in the 2000s was almost 2.95 million of which net migration contributed over 1.7 million (almost 700,000 more than net migration during the 1990s). While the average population growth rate over the first decade of the 21st Century was 1.44%, by the time Howard left office population was growing at 1.69% (ABS Cat: 3101). The population growth rate in the decade since Howard left office has remained in the 1.4 percent to 1.6 percent range even though the contribution of natural increase relative to net migration has fallen to less than 40 percent (ABS Cat 3101).

The proportion of overseas-born at the 2001 Census was 21.9 percent, a small decline from the 22 percent in the 1996 Census. Since the Howard transformation, this increased to around 28 percent at the 2016 census – the highest of any major developed economy including Canada and the US.

The five main countries of birth for the overseas born from the 2001 Census onwards were as outlined in Table 8.1.

Table 8.1: Sources of Overseas Born in the Australian Population

Country of Birth	2001 Census	2006 Census	2011 Census	2016 Census
First	England 4.5%	England 4.3%	England 4.2%	England 3.9%
Second	New Zealand 1.9%	New Zealand 2.0%	New Zealand 2.2%	New Zealand 2.2%
Third	Italy 1.2%	China 1.0%	China 1.5%	China 2.2%
Fourth	Vietnam 0.8%	Italy 1.0%	India 1.4%	India 1.9%
Fifth	China 0.8%	Vietnam 0.8%	Italy 0.9%	Philippines 1.0%

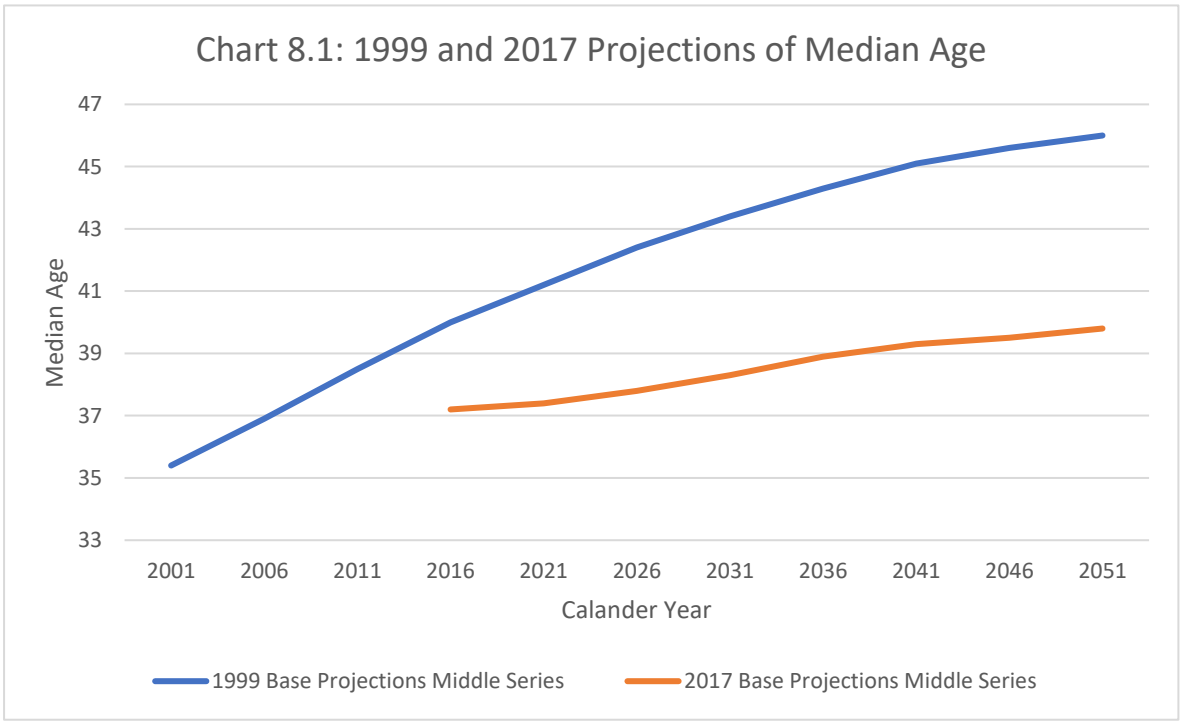
Source: ABS Census Data

Table 8.1 highlights a slow decline in the portion of overseas born from England and Italy, increases in the overseas born from China and India as well as more modest increases from New Zealand and the Philippines.

Impact on population ageing

But what impact was there on the rate of ageing – the original rationale for increasing the level of skilled migration?

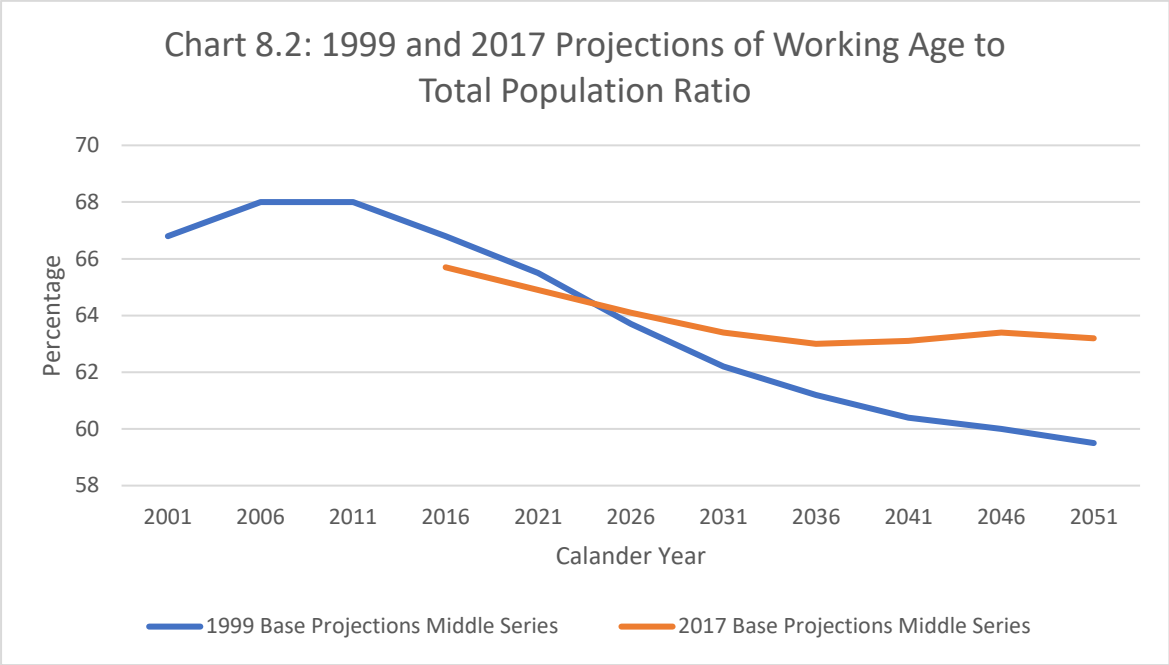
In a media release associated with its 1999 population projections (released in 2000)[dlxxvi], the ABS said that it expected the portion of the population 65+ by 2051 could "make up 24-27 percent of the population compared to 12 percent in 1999." Using the middle series in its 2017 base projections, the ABS projects this to now only increase to 21 percent by 2066 – a very significant slowing in the rate of ageing.



Source: ABS Cat: 3222

The ABS also projected Australia's median age would rise from 35 in 1999 to around 46 by 2051. Its 2017 base projections indicate a median age of 39.8 by 2051 (see Chart 8.1) – a difference of over 6 years.

In its 1999 base projections, the ABS said the working age population as a portion of the total population would fall from 67 percent in 1999 to 65 percent by 2021 and 59-61 percent by 2051. In its 2017 base projections, the ABS has adjusted this to 63.2 percent by 2051 (see Chart 8.2).



Source: ABS Cat 3222

The lower WAP ratio in the period 2016 to 2026 reflects the impact of both a brief increase in the fertility rate and increased births due to a younger population (which itself was partly driven by the migration of young adults). Over the longer-term, these factors will lead to Australia's WAP ratio being significantly higher than forecast in 1999.

Table 8.2 highlights that despite slowing the rate of ageing, Australia's population has continued to age with the portion of the population aged 0-14 and 15-24 steadily declining while the portion of the population aged 55-64 and 65+ increases strongly. Given Australia's below replacement fertility rate, this trend will continue even if the higher net migration assumed in the 2019 Budget was realised (see Chapter 9).

Table 8.2: Population Age Structure

Age	2001 Census	2006 Census	2011 Census	2016 Census
0-14	20.8 percent	19.8 percent	19.3 percent	18.7 percent
15-24	13.7 percent	13.6 percent	13.3 percent	12.8 percent
25-54	43.5 percent	42.2 percent	41.8 percent	41.2 percent
55-64	9.4 percent	11.0 percent	11.6 percent	11.8 percent
65+	12.6 percent	13.3 percent	14.0 percent	15.8 percent

Source: ABS Census Data

The crucial policy question is whether the slower rate of population ageing and the faster rate of immigration has been beneficial in economic, budgetary and social terms and the extent to which Australia should persist with the policy of using immigration to slow the rate of ageing.

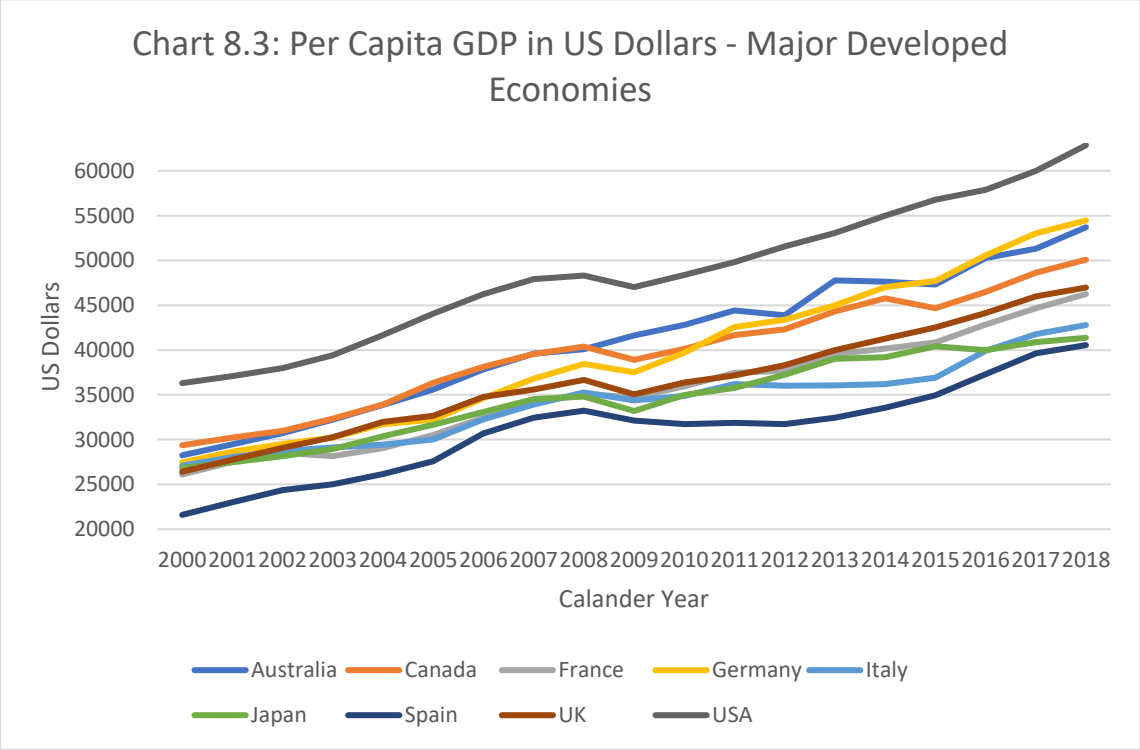
Economic impact

In a speech on Australia's demographics, the Governor of the Reserve Bank, Philip Lowe (2018) [dlxxvii], said "back in 2002, Australia was expected to age quite quickly, with the median age projected to increase significantly to over 45 by 2040. But after a decade of increased immigration of younger people, the latest estimate is that the median age in 2040 will be around only 40 years."

In particular, he pointed out that immigration driven by overseas students has "boosted the nation's human capital. People living in Australia who were born overseas are more likely than the average Australian to have a post-secondary school qualification."

In its 2016 inquiry into Australia's migrant intake, the Productivity Commission[dlxxviii] found the "current immigration profile is projected to deliver a demographic dividend to Australia and higher economic output per person…younger and more skilled immigrants are best placed to make a positive economic contribution to Australia...They provide a demographic dividend by increasing the proportion of people in the workforce."

"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."



Source: OECD

Chart 8.3 shows that Australia's per capita GDP grew from $US28,249 in 2000 to $US53,700 in 2018, an increase of 90 percent. This was substantially faster growth than every country in Chart 8.3 other

than Germany which grew by 98 percent. Per capita GDP growth faster than the USA is particularly significant given the size of the fall in the value of the Australian dollar to the US dollar was much greater than the fall in the value of the Euro to the US dollar.

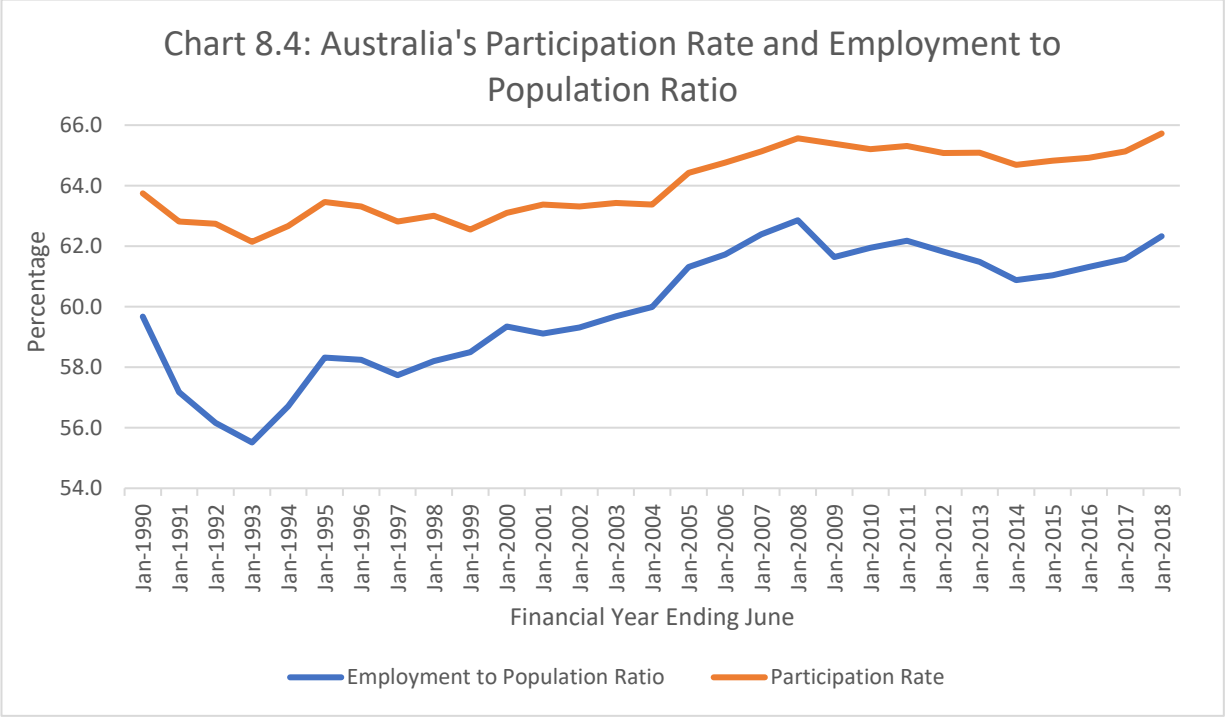
Germany's per capita economic growth lagged Australia's until it accelerated from 2014. That included the years 2015 and 2016 when Germany accepted over a million refugees from Syria and Iraq (Baker 2017)[dlxxix].

Australia's per capita GDP fell only marginally during the GFC and recovered more sharply, possibly due to the speed of Australia's fiscal and monetary stimulus. Per capita GDP was flat during the period 2014-15 when the Australian Government significantly tightened fiscal policy starting with the 2014 Budget. During those years, net migration fell significantly below 200,000 per annum (ABS Cat: 3412).

Australia's per capita GDP growth over the past 20 years was particularly strong compared to the rapidly ageing nations of Italy (58 percent growth) and Japan (54 percent growth). It has also been faster than the Anglo nations of Canada (70 percent), the UK (78 percent) and the USA (73 percent).

Labour market

The key to delivering a positive outcome from using immigration to slow the rate of ageing is in the impact on the labour market, including in terms of the impact on participation, employment, wages and potentially labour productivity.



ABS Cat: 6202

Chart 8.4 highlights a particularly strong increase in both the participation rate and the employment to population ratio since around the year 2000. While Temple and McDonald (2017) note increased participation by mature age workers as well as increased female participation would have

contributed to the strong increase in overall participation rates from 2000 to 2015[dlxxx], a key to this was the increase in participation of the overseas born.

Cully (2011)[dlxxxi] finds that between 1980 and 2000, the participation rate of the overseas born declined from around 65 percent to around 57 percent. But from 2000 to 2010, the participation rate of the Australian-born increased by 1.7 percentage points while that of the overseas-born increased by 3.3 percentage points.

The increase in the participation rate was unexpected as the Productivity Commission as late as 2005[dlxxxii] was forecasting a decline in participation due to ageing.

Cully (2011) notes that "the reversal in the long-run decline in the migrant participation rate is consistent with the expected outcome arising from policy changes from the late 1990s onwards."

The rise in the participation rate (in September 2019 the trend participation rate stood at a record 66.1 percent and was still at 66.0 percent in February 2020) has also contributed to a rise in the employment to population ratio to a record 62.6 percent in June 2019 (see Chart 8.3). These will of course fall with the economic slowdown associated with the coronavirus.

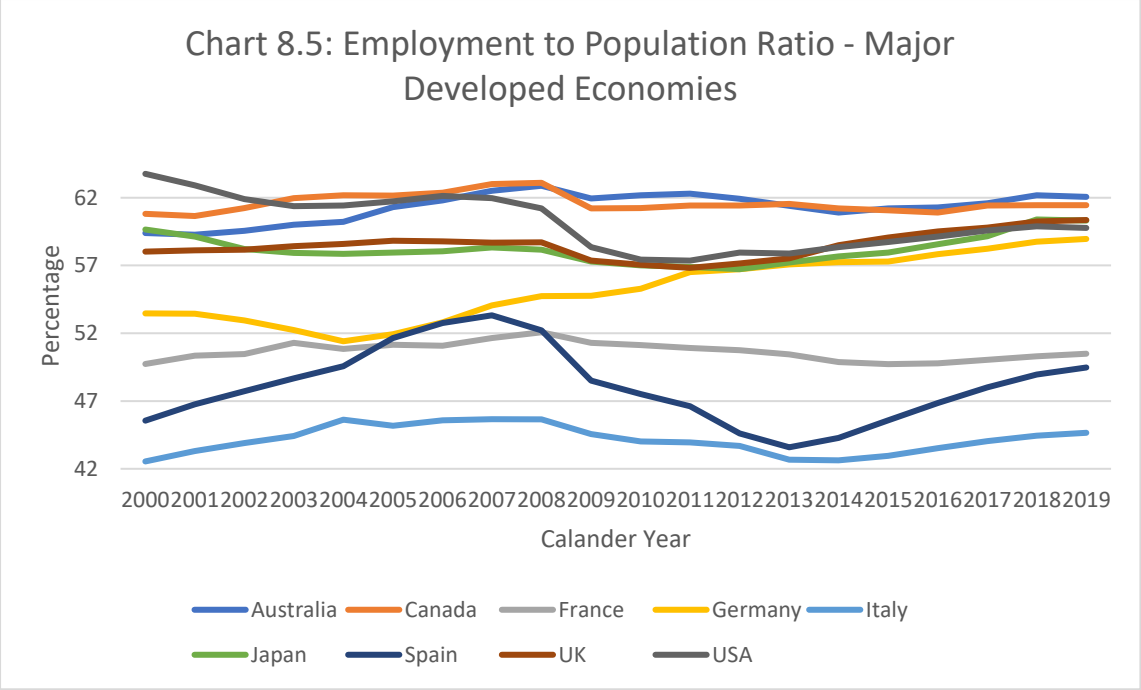
Kohler and Koukoulas (2016) [dlxxxiii] argue that "a vitally important driver of the economy is the employment ratio. This is arguably a more reliable indicator of the health of the labour market than the unemployment rate as it captures the extent to which the working age population is undertaking paid work, adding to GDP and not calling on the public purse for income."

The latest version of the Continuous Survey of Australia's Migrants (CSAM 2016 – Research segment of Home Affairs website), the successor to the LSIA, shows that between the six month and 18 month stages of settlement, primary applicants in the Skill Stream showed an improvement in their labour market performance relative to the Australian population in general:

- employment to population ratio was up 4.2 percentage points from 89.3% to 93.4% compared to a fall of 0.4 percentage points for the general population;
- unemployment rate was also down 4.2 percentage points from 7.8% to 3.5%;
- no change in the participation rate at 96.8%
- median annual full-time earnings—up $7,000; from $65,000 to $72,000 (compared to an increase of $3,000 over a longer time frame of May 2014 to May 2016 for the general population); and
- highly skilled employment to population ratio —up 4.2 percentage points; from 62.6 per cent to 66.9 per cent (survey undertaken in 2016 and data drawn from the Home Affairs website as at 6 March 2019).

The Productivity Commission Report on the Migrant Intake (2016) also noted that:

- the earnings of immigrants have generally been improving relative to Australian-born people over time;
- on average, immigrants earned more per hour worked than Australian-born workers;
- in regional Australia in 2011, immigrants earned an hourly income that was around 10 per cent more than that earned by Australian-born employees.



Source: World Bank,
Modelled ILO
Estimate

While Australia's employment to population ratio has increased since 2000 from a relatively high level, other major economies have had a more mixed experience (see Chart 8.5). These are likely to have been driven by a mixture of:

- rising female participation rates partly offset by a fall in male participation;
- rising migrant participation rates, particularly in Anglo countries;
- rising participation by the elderly offset by ageing populations (World Bank database).

The employment to population ratios in countries such as Italy, Spain and France have remained comparatively low.

The remarkable performer has been Germany which has increased its employment to population ratio from 53.5 percent in 2000 to 59.0 percent in 2018.

But as its population, and those of other developed economies age further, the crucial question will be whether the rise in participation by older workers can sufficiently offset the impact of ageing (ie can more people in their 70s and 80s continue to participate in the labour market and secure employment).

Wages

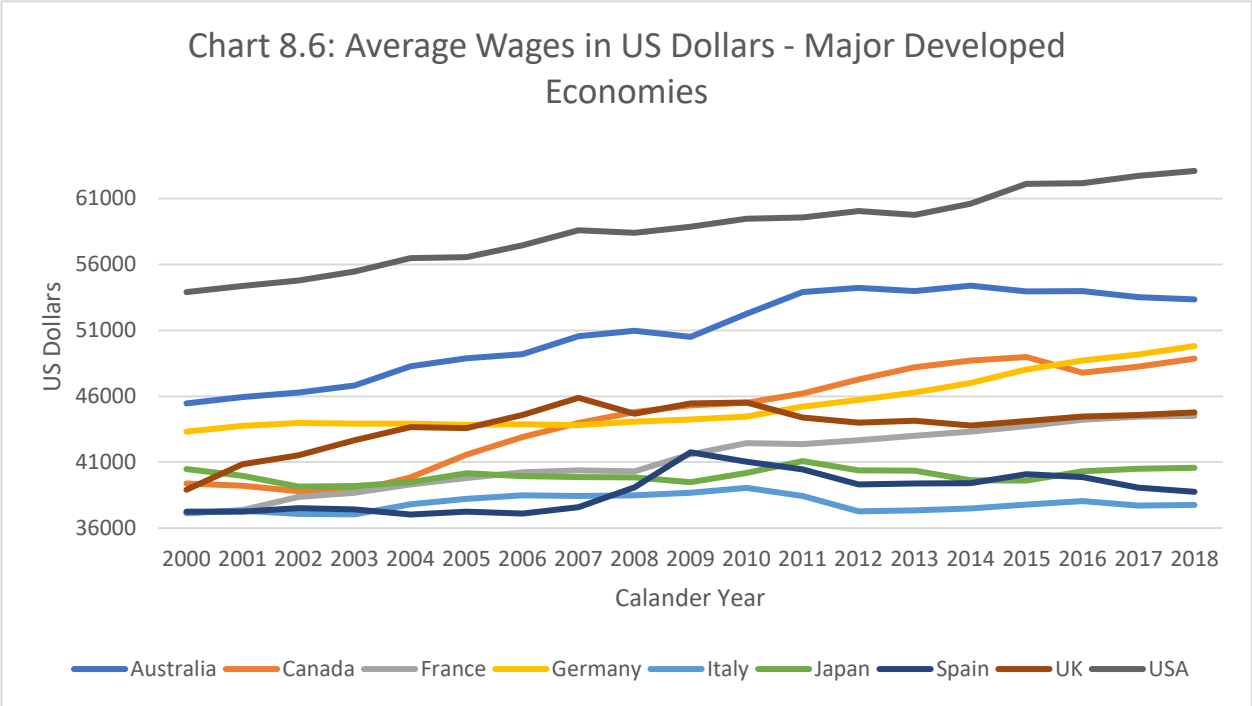
Using data from the 2001 Census, Kifle (2009) [dlxxxiv] finds that immigrants generally had a strong positive impact on the earnings of Australian-born workers. However, some negative impacts were also observed, notably in low-skill occupations where a large number of immigrants were overqualified for the occupation and thus tended to earn more than their Australian-born counterparts.

The Productivity Commission (2016) notes that "a gap emerges when the economy is less buoyant, such as during the early 1980s, the early 1990s and around 2008-09. This is consistent with the notion that recent labour market entrants (such as immigrants) typically experience poorer labour market outcomes than others in slack labour markets."

But a key concern that has emerged in recent years is the generally weak wages growth across most developed economies. While the research on ageing suggests labour shortages would contribute to strong wage increases, the lived experience in both Australia and in most other developed nations is that ageing has been associated with weaker wages growth.

Is this evidence that the more significant negative impact of ageing is on aggregate demand, and in particular per capita household consumption, than on aggregate supply?

Wage growth has stagnated across a range developed nations. This includes nations with different levels of immigration such as the USA, Canada, UK and several European countries (Elsby et al., 2016[dlxxxv]; Pinheiro and Yang, 2017[dlxxxvi]; Bell and Blanchflower, 2018[dlxxxvii]; Bishop, 2018[dlxxxviii]) as well nations with very little immigration and a population that is declining rapidly such as Japan (Reuters 2019)[dlxxxix].



Source: OECD

Of the major developed economies in Chart 8.6, average wages in Canada in US dollar terms increased the most at 24.0 percent. This was achieved despite depreciation of the Canadian dollar to the US dollar of over 25 percent since 2012. Since 2015, however, Canadian average wages in US dollar terms have stagnated.

Australian wages in US dollar terms increased by 17.4 percent since 2000. The sharp increase in US dollar denominated Australian wages in the period immediately after the GFC (ie 2009 to 2011) was associated with a relatively stronger economy and a stronger Australian dollar. Australian wages in

US dollar terms have stagnated since that time. Since 2011, the Australian dollar has fallen by around 40 percent compared to the US dollar.

Average wages in Germany have increased in US dollar terms since 2000 by 15.0 percent. The Euro has devalued compared to the US dollar since 2012 by around 15 percent.

Average wages in Germany in US dollar terms increased strongly from 2003 to 2015 but have stagnated since then. The Euro fell sharply against the US dollar in 2014-15. Counter-intuitively, that period also coincides with a strong increase in German per capita GDP also denominated in US dollars. That would suggest the benefits of the stronger per capita GDP growth flowed more to capital than to labour.

Conversely, average wages in France since 2000, and in particular since the GFC, have increased steadily. This was despite a decline in the employment to population ratio over the same period.

Average wages in the UK have declined since 2010 but overall since 2000 have increased by 15.1 percent.

Spain (4.1 percent), Italy (1.6 percent) and Japan (0.3 percent), three countries with very aged populations and low employment to population ratios, have all experienced wage stagnation since 2000.

All major developed nations are now at least a decade into their demographic burden phase (UN Population Division). Some developed nations such as Japan are now almost 30 years into their demographic burden phase.

A crucial policy question is whether increasing skilled migration to developed nations would help to increase wages of locals or put more downwards pressure on wages?

Lewis (2017)[dxc] attacks two common myths about the impact of immigration on locals. The first is that the number of jobs in an economy is fixed. Lewis points out that “economist David Schloss termed it the ‘lump of labor fallacy’ and thoroughly refuted it in 1892. It is a wrongheaded idea that just refuses to die”.

The second myth Lewis points to is that “if you add more workers, don’t wages have to go down? Isn’t that the basic economics of supply and demand?”

This is the point made by former Prime Minister Tony Abbott in his 2018 speech[dxci] arguing for a reduction in immigration. He said "it’s a basic law of economics that increasing the supply of labour depresses wages”.

To test this notion for Australia, Breunig, Deutscher and To (2017)[dxcii] replicate the national skill cell approach used by Borjas (2003) but applied it to Australian data using a combination of:

- the ABS Survey of Income and Housing; and
- a match of Census data to the Household, Income and Labour Dynamics in Australia (HILDA) survey.

They find “immigration flows into skill groups where wages and employment are high. We find almost no evidence that outcomes for those born in Australia have been harmed by immigration. If anything, there is some evidence that immigration has a small positive association with outcomes for the Australian-born”.

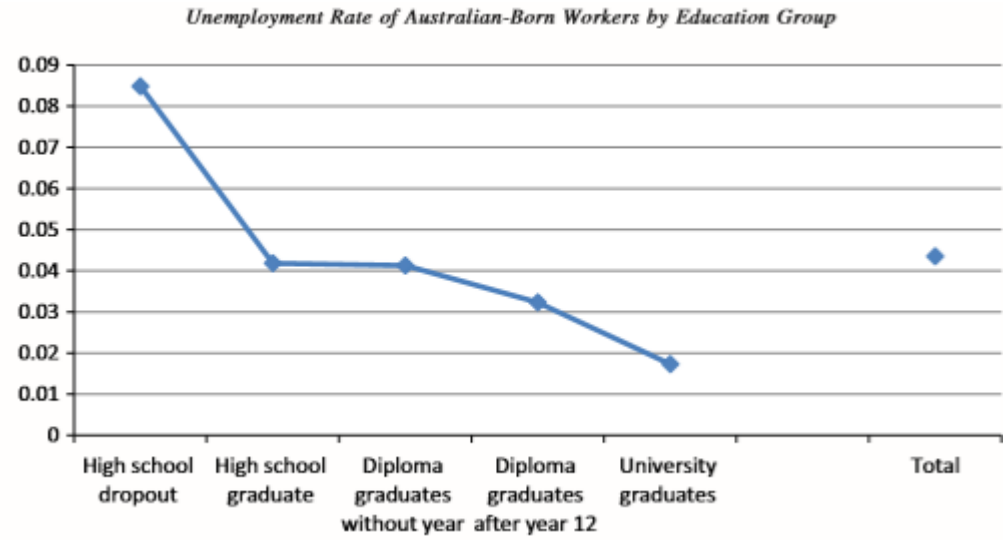


Chart 8.7. Source: Breunig, Deutscher and To

Breunig, Deutscher and To (2017) find their results "show less evidence of a negative effect of immigration on native workers than similar studies on the USA or the UK…this could be because of Australian immigration policies which have been more selective than those of the USA or the UK. Or it could be that immigrants interact with different labour market institutions in different countries. Collective bargaining agreements are much more important in Australia than in the USA and the UK".

Chart 8.7 highlights the effects of education levels on unemployment.

Kalb and Meekes (2019)[dxciii] track the wages growth of individuals over the period 2002 to 2008, and over the period 2009 to 2017. They find annual wages growth is about 2 per cent per year slower between 2009-2017 compared with 2002-2008. This is not so surprising given economic growth and job vacancies were both also much higher during the 2002 to 2008 period. The latter period coincides with the start of Australia's demographic burden phase.

Kalb and Meekes also find wages growth has slowed more for younger people. Wages for those under 30 grew 3 per cent per year slower between 2009-2017 compared with 2002-2008. In low-skill occupations, particularly sales and machinery operators and drivers, wages growth decelerated significantly. Sales has gone from being an occupation with relatively high wages growth (10 per cent per year) between 2002-2008 to relatively low wages growth (only 6 per cent per year) between 2009-2017.

Daley (2019)[dxciv] notes that "the weight of [the] literature establishes that in general migration does not lead to slower wages growth. But I want to ask whether a substantial influx of low-skill young migrants might lead to slower wages growth for low-skill low-experience jobs, particularly when there is a relatively high minimum wage. I will suggest that the literature might be missing something because it uses data that are likely to miss some of what is going on, and it uses models that look for a general effect rather than taking into account the specific issues that arise with a legislated minimum wage".

Daley argues that underpayment of temporary migrants, particularly students and working holiday makers, is endemic. But without providing any supporting evidence, he asserts this has a flow-on

effect to (mainly young) Australians competing in the same labour market. He argues that because temporary migrants have no access to welfare, they have a stronger incentive to accept any type of work at almost any wage.

Daley says that "about three quarters of the net migrants to Australia today are not high-skill, at least when they arrive. Permanent migrants, by contrast, are much more likely to be high-skill." However, Daley may have underestimated the contribution of overseas students to delivering the high skill permanent migration outcome. At what point should we be considering the impact of immigration – at point of arrival? at the point they obtain permanent residence or over their life-cycle?

A more in-depth demographic accounting analysis of the take up of jobs by of migrants versus population change without migration between 2011 and 2016 has been undertaken by McDonald (2017)[dxcv]. McDonald uses the ABS Labour Force Surveys of 2011 and 2016 to "decompose changes in total employment in Australia in this five-year period into three components:

1. Change in the age and sex distribution in the absence of migration.

2. Changes in employment participation rates by age and sex.

3. Net migration by age and sex for the period 2011–2016".

The results from this are summarised by McDonald in Chart 8.8.

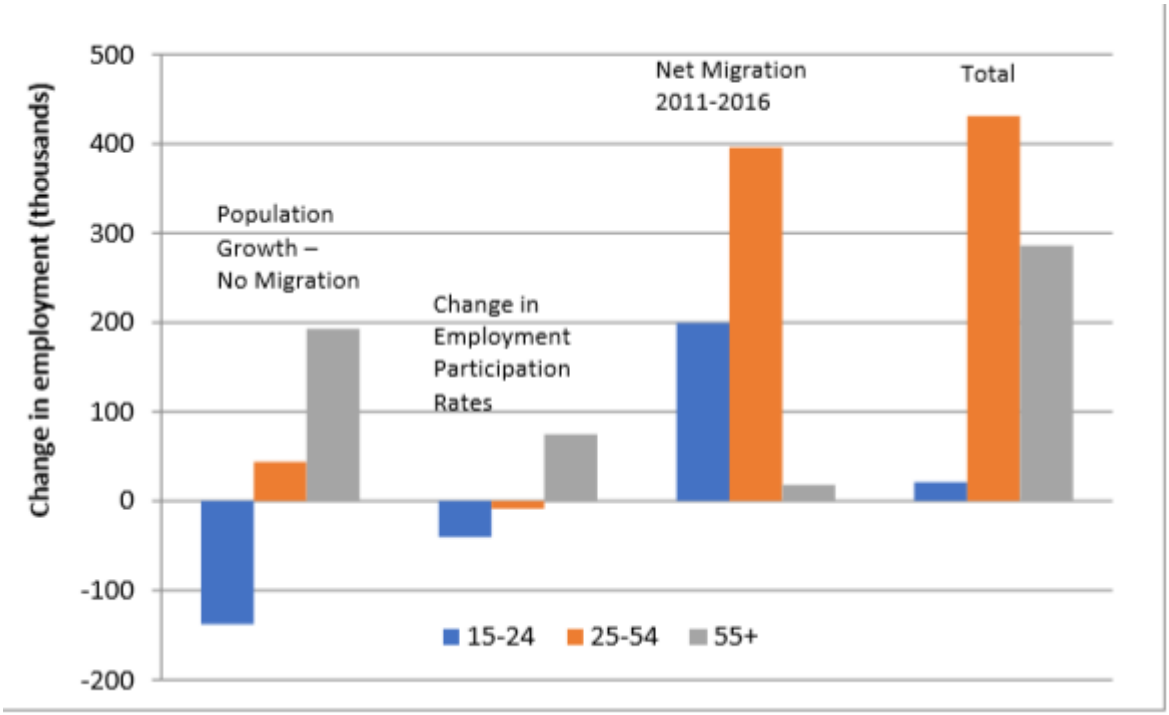


Chart 8.8: Decomposition of the change in the total number of people employed in Australia between June 2011 and June 2016, Source: From P. McDonald, 2017

McDonald finds that total employment over this period increased by 738,800 which is an increase of 6.8 percent (total employment in Australia in July 2011 was 10,890,700). He notes that this analysis does not seek to identify how many of these jobs were the result of the demand effects of immigration.

Chart 8.8 shows that the largest increase in employment associated with population growth without migration was amongst those aged 55+ whilst there was a sizeable reduction in employment for people in ages 15-24. All of the employment increase for people aged 15-24 was due to migration, most likely overseas students and working holiday makers.

Against this background, and given the high rate of youth unemployment in Australia, McDonald poses the obvious counterfactual question: "had there been zero migration at these ages, would Australian employers have opted to employ unemployed non-migrants aged 15–24 to a much greater extent, or would total employment have been lower?"

Young unemployed Australians have essentially three options open to them. Resume studying with government support if available; get a job; or remain on Newstart.

McDonald notes that because of the way the Newstart allowance works, young unemployed Australians would need to find longer-term, full time work as temporary part time work would result in them losing part of their Newstart allowance and require them to constantly be re-checking into Centrelink. He considers that "given the structure of the labour market at these ages, such jobs are hard to find. As the skills requirements of the Australian labour market have shifted upwards, skilled workers are rarely aged under 20, or even in their early twenties, and the opportunities for low-skilled, full-time work at these ages have fallen dramatically… Young unemployed Australians have a low-skills problem in a skilled labour market and the social security system makes it difficult for them to take part-time, short-term jobs. While there may be some instances of displacement, the broad story is that they are not pushed out of jobs by migrants."

McDonald's arguments are supported by the fact youth unemployment in Australia is much higher in regional areas where there is little immigration and lower in the major cities which are the focus of most immigration to Australia, particularly overseas students. Like the situation in most developed and emerging countries, young people continue to move from regional areas of high unemployment to the major cities where there are more job opportunities, including more permanent well-paying jobs (ABS Cat: 3218 on changes in Australia's regional population).

The Productivity Commission (2016) is also circumspect on the issue of displacement of locals. It says "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".

In their submission to the Senate Inquiry into Temporary Migration, McDonald and Moyle (2020)[dxcvi] argue there is a high level of segmentation of part-time and casual jobs. "Young Australians (mainly full-time students) have higher level jobs in retail and restaurants that are cleaner and have more sociable hours. Young Australians, in general, do not want to do the jobs that international students do (cleaners, Uber deliveries, service station attendants, dishwashers, 7-11s, etc.). So, competition between the two is not great."

Taking McDonald's line of argument leads to the conclusion that overseas students and working holiday makers are unlikely to be competing with Australians for low skill/low pay jobs which tend to be part-time, casual or gig-economy type jobs. These temporary entrants are more likely to be competing with each other. While this increases the participation and employment rate, they are unlikely to be impacting the wages of young Australians who target fulltime jobs.

Daley's thinking on the other hand is that overseas students and working holiday makers do compete with young Australians for low skill/low pay jobs and hence young low skill Australians must either accept the consequent lower wages or remain unemployed.

Daley recommends that "if Australia is going to run a substantial lower-skill migration system [here Daley is referring to the assumed skill levels of overseas students and working holiday makers at time of first arrival], and if it is committed to a minimum wages regime, then there should probably be more enforcement. In particular, the penalties are clearly far too low. At the moment, the major risk for an underpaying employer is that they might have to pay a portion of the wages that they should have paid in the first place. In terms of pure incentives, it is rational for many employers to underpay. That's particularly the case if the employer's competitors are underpaying. If there is little consequence for breaking the rules, then the overwhelming incentive is to cheat – repeatedly. It is likely that there would less underpayment, despite migration, if the penalties for underpayment were higher – in particular if employers who systemically materially underpaid could go to jail – and if there were rather more resources dedicated to effective enforcement more needs to be done."

Daley's argument about enforcement is entirely valid even if young Australians are not affected. The level of wage exploitation across the economy is indeed endemic (see later in this Chapter). He also recommends that "it may also be that some visa conditions need to be rethought. Some conditions effectively give employers enormous bargaining power, and facilitate underpayment of wages. These conditions include the limit on international visitors working no more than 20 hours per week, and the additional residency permitted to working holiday makers who work for a period in specified regions or in the agriculture industry. While these conditions serve public policy purposes, they need to be weighed against the cost of the extent to which they undermine Australia's minimum wages regime. And policy makers should consider alternative conditions that would serve the same public policy purposes, but give employers less bargaining power".

Daley's reference to the limit on international visitors working for no more than 20 hours per week is likely to be a reference to overseas students. Removal of work rights for overseas students would put Australia's International Education industry, Australia's third largest export industry, at a significant competitive disadvantage for a highly uncertain benefit noting that there would be a consequent negative impact on the Industry as well on aggregate demand.

It also leaves open the question of how Australia would attract skilled permanent migrants that Daley refers to as having a positive economic and budget impact given a substantial portion of skilled permanent migrants are former overseas students using onshore pathways through various temporary visas (see Chapters 6 and 7).

The removal of the incentive for working holiday makers to undertake 88 days working in the agriculture sector is also unlikely to lead to farmers significantly raising wages in order to attract more Australians to undertake seasonal farm work. The key competitors with working holiday makers for this type of work include overstayers and asylum seekers (Rizvi 2019) who are at even

greater risk of exploitation or from the Seasonal Worker Program which is also at risk of exploitation and which a significant portion of the industry finds as being too cumbersome and too costly (thus limiting take up).

Budget impact

The Productivity Commission (2016) confirms findings of the much older Deloitte/Access Economics model of the fiscal impact of immigration (2001, 2004, 2008, 2011). It finds that the "net fiscal impact of immigrants differs significantly by visa category…Unsurprisingly, permanent immigrants tend to have a positive fiscal impact during working age and a negative fiscal impact once they retire. Immigrants from the skill stream tend to have a relatively larger positive fiscal impact. The fiscal footprint of family visa holders tends to be positive for partners but not for parents, while those in the humanitarian program are likely to have a negative fiscal effect. Temporary immigrants (457s), who are working and who have limited access to government-funded services, are likely to have a strong positive fiscal impact."

The Commission also finds that the "estimated median income tax paid in 2009-10 by all recent permanent immigrants was about the same as the general Australian taxpaying population, at $4500. Skill stream immigrants paid more in (median) income tax relative to the general population, whereas family stream and humanitarian immigrants paid less… Primary and secondary applicants had substantial differences in the median amount of tax paid, particularly in the skill stream. Skill stream primary applicants paid about $8100 in income tax compared with about $3200 for secondary applicants. Smaller differences were apparent in the family stream ($3500 for primary applicants; $1900 for secondary applicants) and humanitarian arrivals ($2900 for primary applicants; $2300 for secondary applicants).

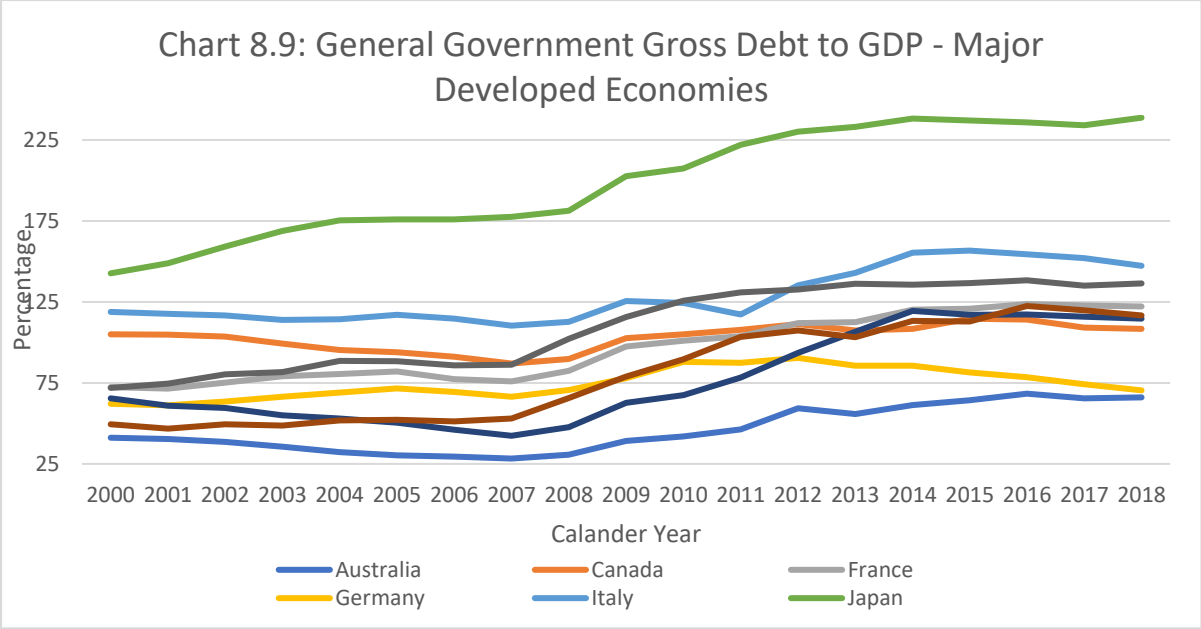
Consistent with findings of the earlier Deloitte/Access reports, the Productivity Commission also finds there was also a high variation in the amount of income tax paid for different visa categories in the skill stream. Immigrants on employer-nominated and independent (points-tested) visas generally paid more income tax than those on investor and business skills visas. In contrast, family stream and humanitarian immigrants have a much lower variation in income tax paid, although these groups still paid, on average, higher (median) taxes than skill stream investor visa immigrants.

Age is an important factor affecting the amount of tax paid. The estimated median tax paid by recent permanent immigrants was highest for the 35–39 year old age category ($7000). For the general Australian population, it was highest for 45–49 year olds ($7300). This difference reflects the higher median amount of tax paid by older females in the general population, who may be returning to the workforce after having children. Older immigrants who recently arrived in Australia tend to pay lower amounts of tax relative to the general Australian population of the same age."

Immigrants have different levels of access to government services and benefits with temporary entrants have very limited access to either social support, Medicare (most temporary entrants are required to take out private health insurance), public housing, etc. While children of temporary entrants have access to government schools, in some jurisdictions this is subject to meeting relevant user charges.

Permanent migrants have access to most services other than the now four year wait for access to social services – these are only available to Humanitarian Program entrants on arrival. The four year wait for access to social services also applies to New Zealand citizens.

As a result, temporary entrants and skill stream migrants, particularly primary applicants, represent a substantial net positive to the Commonwealth Budget very soon after arrival. Humanitarian Program entrants have a negative impact in the first few years after arrival.



Source: OECD

Chart 8.9 shows that general gross government debt to GDP ratio in all major developed economies increased from 2000 to 2018.

The five standout countries are Japan (debt increased 96 percentage points); the UK (debt increased 67.1 percentage points) and the USA (debt increased 64.4 percentage points); Spain (debt increased 49.3 percentage points); and France (debt increased by 49.7 percentage points).

Italy managed to limit the increase in its government debt to GDP ratio 28.5 percentage points although its starting position was the second highest debt to GDP ratio of all major developed nations at 118.8 percent of GDP.

While Australia's government gross debt to GDP remains the lowest of the major developed economies, it has increased 24.9 percentage points since the 2000 and particularly since the GFC. The GFC was the debt inflection point for all major developed economies.

Only two countries have managed to keep debt at levels close to 2000 – Canada with an increase of 3.3 percentage points and Germany with an increase of 8.3 percentage points. Germany's situation is particularly remarkable having reduced debt from 90.4 percent of GDP in 2012 to 70.4 percent of GDP by 2018.

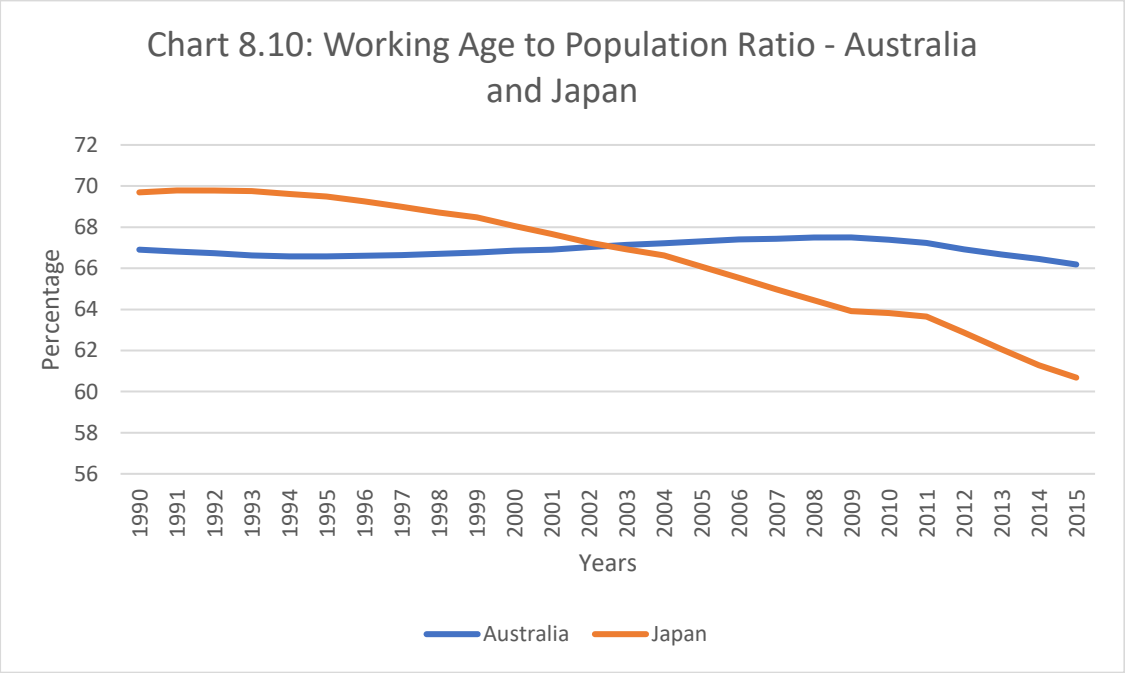
The rescue packages being implemented by all governments as part of the coronavirus crisis will significantly increase government debt of all major developed nations. After the crisis, these governments will still face the prospect of further pressure on their budgets from population ageing.

The situation of Japan in this regard appears the most dire given the size of its debt before the crisis and the extent of further rapid population ageing that the country faces.

Australia and Japan – demographic opposites

Another way of looking at the impact of Australia's use of immigration to slow the rate of ageing is to compare the experiences of Australia and Japan – these two developed nations are polar extremes in terms of the rate of demographic ageing and their use of immigration as a policy instrument.

While Australia significantly boosted immigration to reduce the rate of ageing, especially from 2000 onwards, Japan has largely maintained a tight immigration policy. Combined with a low fertility rate, Japan has aged much more quickly than Australia with its working age to population ratio falling almost 10 percentage points since 1990. Australia's working age to population ratio over the same period has declined only marginally, from 2009 (see Chart 8.10).



Source: UN Population Division

Longstanding Japanese Government policy has been that it is not a country of immigration. Communications Minister Taro Aso's statement in 2005 that Japanese immigration policy was for "one culture, one civilization, one race" was largely uncontroversial as it reflected popular opinion in Japan. Japan specialist Chris Burgess (2014)[dxcvii] argues that the "no immigration principle is an institutionalisation of the homogeneous people discourse".

While there are indications of a gradual change in the Japanese Government's attitude to immigration (eg introduction of an Australian-style points test and new targeted temporary entry

categories – see Japanese Ministry of Justice website), the fact remains Japan has had very little immigration through most of its modern history. The portion of overseas born in Japan's population in 2017 was 1.6 percent compared to Australia's 27.5 percent (World Bank).

As a result of little immigration and a low fertility rate, Japan's population has aged much more quickly. The median age in Japan in 2017 was 46.7 compared to Australia's 37.5 and the portion of the population aged 65 and over was 25.1 percent compared to Australia's 14.7 percent (UN Population Division). The working age to population ratio in Japan peaked in the early 1990s while the same ratio for Australia did not peak until 2009 (see Chart 8.10).

In other words, Japan entered its demographic burden phase (ie when the ratio of working age to total population is in decline) almost two decades earlier than Australia.

While there are many factors at play over this period, it is instructive to compare the experience of the two economies since the time Japan entered its demographic burden phase in the early 1990s (ie a period during which Japan's population has steadily aged). For the period from 1990 to 2009, Australia was in its demographic dividend phase. Thus, all things equal, the Australian economy should have performed much more strongly than that of Japan over the period 1990 to 2009. As Australia has aged much less than Japan since 2009, it should have maintained the advantage of a younger population.

Since 1990, Japan's working age to population (WAP) ratio has declined from around 70 percent to almost 60 percent (and is projected to decline to 50 percent by 2050). Australia's WAP ratio over the same period has declined only marginally and is projected to still be around 62% by 2050 (UN Population Division, World Population Prospects, 2019 Revision). The size of Australia's working age population has increased since 1990 by around five million while that of Japan has declined by over 10 million (see Table 8.3). This increase in Australia's working age population has been due to the very substantial immigration intake targeting younger adults as well as a relatively higher birth rate (which itself is partly higher due to immigration).

Table 8.3: Australia and Japan Compared: 1990-2018

	Australia 1990	**Australia 2018**	**Japan 1990**	**Japan 2018**
Ratio of Working Age to Total Population (UN Population Division)	66.9%	66.2%	69.7%	60.7%
Size of Working Age Population (UN Population Division)	11.4 Million	16.3 Million (Increase of 4.9 Million)	86.1 Million	75.6 Million (Decrease of 10.5 Million)
GDP per capita, Constant $US, 2011 base year, PPP*	$28,669	$45,439 (Increase of 58.5%)	$30,582	$39,293 (Increase of 28.5%)

Labour Compensation Per Hour Worked – Aggregate Growth (OECD)		Increased 80.2% (from 1996 to 2017)		Increased 4.0% (from 1996 to 2017)
Participation Rate (OECD)	63.9%	65.6%	63.4%	61.5%
Employment to Population Ratio (OECD)	57.1 (1991)	62.2%	62.5% (1991)	60.0%
Household Disposable Income – Aggregate Growth (OECD		79.1% (from 1995 to 2017)		16.25% (from 1995 to 2017)
Final Household Expenditure Per Capita – Constant $US 2010 base year	$18,928	$31,843 (Increase of 68.2%)	$20,964	$26,989 (Increase of 28.7%)
General Govt debt as % of GDP (Gross)	12.3%	66.1%	52.9%	238.7%
General Govt Consumption Expenditure as a Portion of GDP	17.2%	18.8%	13.5%	19.7%
Gross Fixed Capital Formation as a % of GDP – OECD	29.0%	24.3%	34.5%	23.9% (2017)
GDP Per Hour Worked – OECD Index	71.5	110.4	71.4	106.5
House Prices – OECD Index Base Year 2015	22.9	112.7	166.3	106.9
Household Debt as a Portion of Net Disposable Income (OECD)	95.7% (1995)	216.0% (2017)	109.6% (1995)	107.3% (2017)

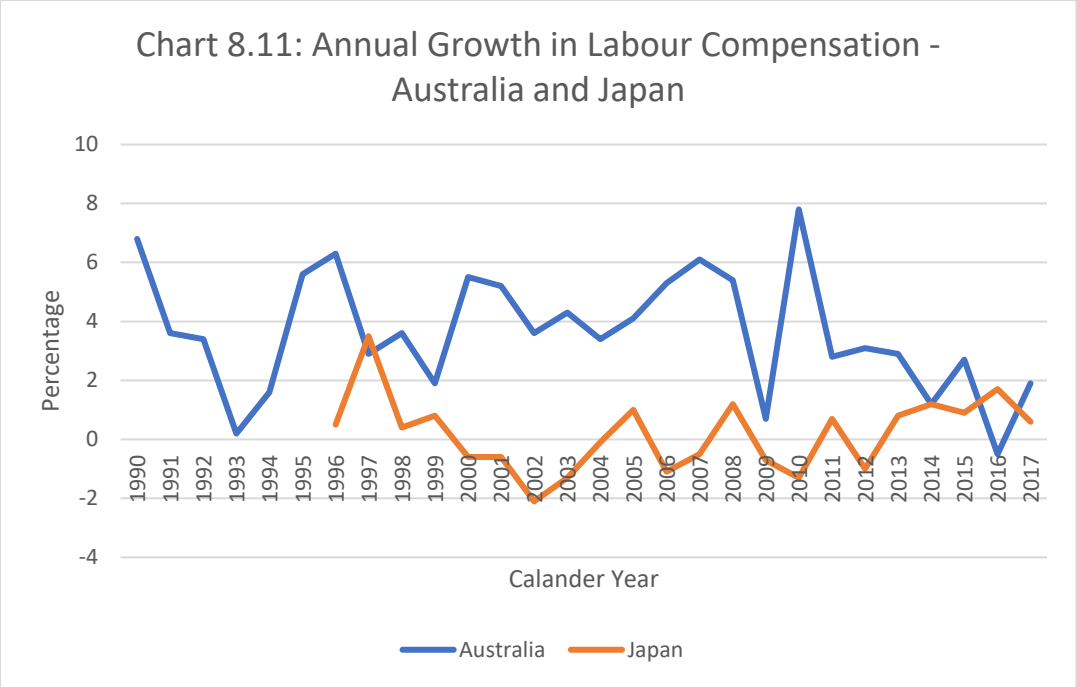
Source: World Bank unless otherwise indicated. *PPP is Purchasing Power Parity.

Since the recession of the early 1990s, the Australian economy strengthened significantly, particularly during the strongest part of Australia's demographic dividend phase (ie the 10 to 15 years leading up to 2009) while the Japanese economy remained in the doldrums. This was after Japan was viewed as the world's miracle economy during the 1980s (ie during the strongest part of its demographic dividend phase).

Despite Australia's more rapid rate of population growth, Australia's real per capita GDP increased by 58.5 percent between 1990 and 2018 while Japan's increased by 28.5 percent (see Table 8.3).

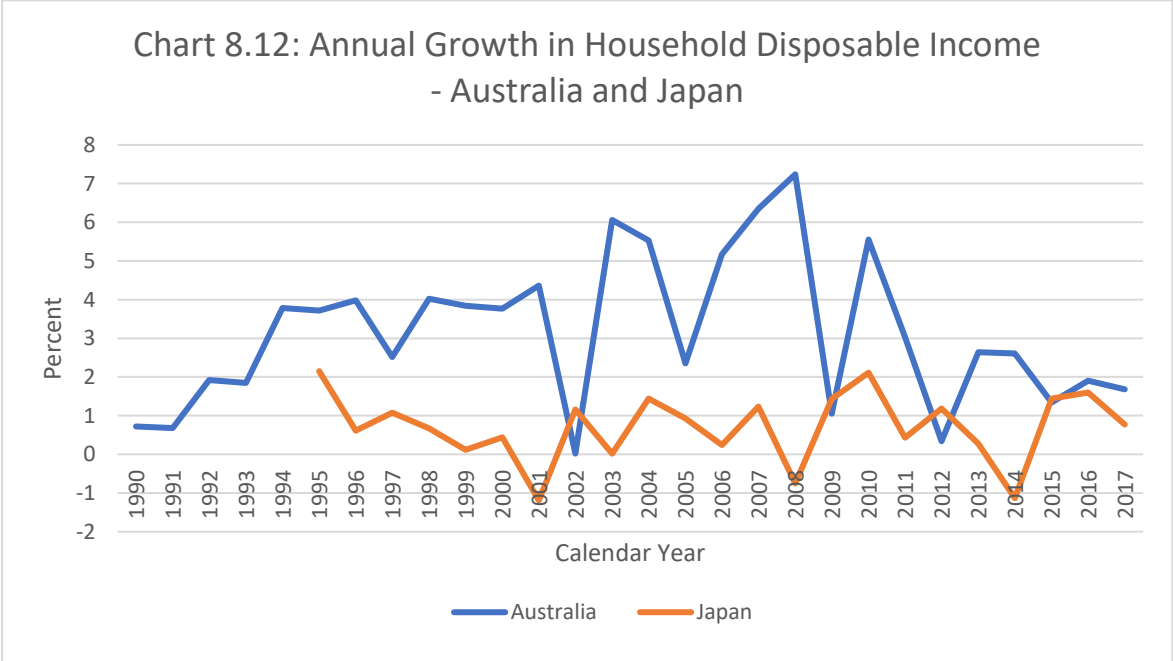
Labour Compensation/household disposable income/labour market

Labour compensation per hour worked (ie wages) in Australia from 1996 to 2017 increased by 80.2 percent while this increased in Japan by only four percent (see Chart 8.11). This runs counter to the common argument that immigration puts downward pressure on wages or indeed the conclusion in much of the literature that ageing contributes to strong upwards pressure on wages due to labour shortages.



Source: OECD

Similar to labour compensation, household disposable income in Australia also grew more rapidly (see Chart 8.12) although the differential was not as great. This may be due to Japanese elderly households having greater access to savings.



Source: OECD

Higher wages and higher household disposable income led to final household consumption expenditure, measured in constant $US (base 2010) and in purchasing power parity terms, increasing in Australia by 68.2 percent between 1990 and 2018 while in Japan it increased by only 28.7 percent. This would have been the impact of differentials in population growth rates, ageing and the rate of annual wage increases and increases in household disposable income. Japan's household consumption spending not only grew very weakly but a rising portion of it was from dissaving by its growing elderly population (Japan Statistics Bureau – Household Expenditure).

The labour market in the two countries has also been impacted by ageing with Australia's participation rate rising from 63.9% in 1990 to 65.6% in 2018. This was the result of an increase in female participation as well as increased participation of elderly Australians.

But as discussed earlier in this Chapter, there has also been a substantial increase in migrant participation. While Japan has also sought to increase female and elderly participation, the impact of ageing has meant that its overall participation rate fell from 63.4 percent in 1990 to 61.5 percent in 2018.

Consistent with the increase in the participation rate, the employment to population ratio in Australia increased from 57.1 percent in 1991 to 62.2 percent in 2018. By comparison, Japan's employment to population ratio fell from 62.5 percent in 1991 to 60 percent in 2018.

These labour market changes impact not just GDP growth but also government budgets.

The literature anticipates a deterioration in government budgets as a result of ageing, both reducing per capita tax revenue as well as increasing government expenditure (see Chapter 2).

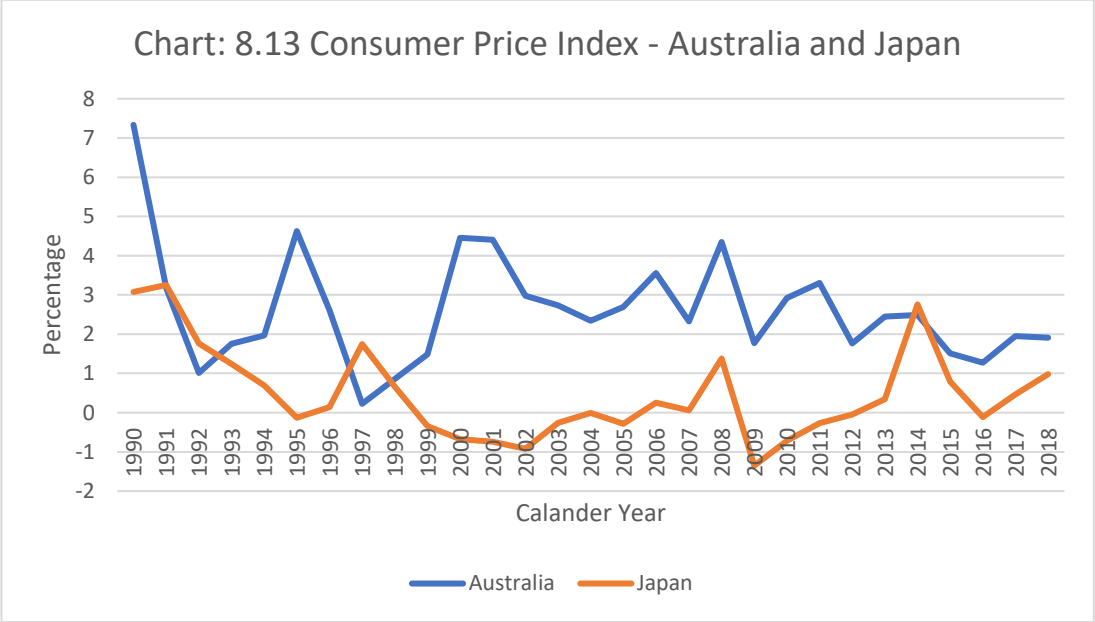
Government Budgets

While Australia's government debt has increased since 1990, the rate of increase has been much slower than in Japan. Australia's gross government debt as a portion of GDP increased from 12.3% in 1990 to 66.1% in 2018. During the period that Japan's working age to population ratio fell by almost ten percentage points, its government debt as a portion of GDP increased from 52.9 percent of GDP in 1990 to 196.4 percent in 2016. This is one of the highest levels of government debt to GDP in the developed world (World Bank).

Australia's government consumption expenditure as a portion of GDP increased from 17.2 in percent in 1990 to 18.8 percent in 2018. Over the same period, Japan's general government consumption expenditure increased from 13.5 percent of GDP to 19.7 percent.

Inflation

The weakness in the Japanese economy since 1990 is also reflected in its inflation rate which, apart from very brief periods in 1997, 2008 and 2014, has generally been close to or even below zero (see Chart 8.13). This accords with research findings that population ageing is deflationary (see Chapter 2) and suggests that its impact on aggregate demand is stronger than its impact on aggregate supply. While Australia's inflation rate has also fallen, since 1990 it has generally been around two percentage points higher than that of Japan.



Source: World Bank

Gross Capital Formation

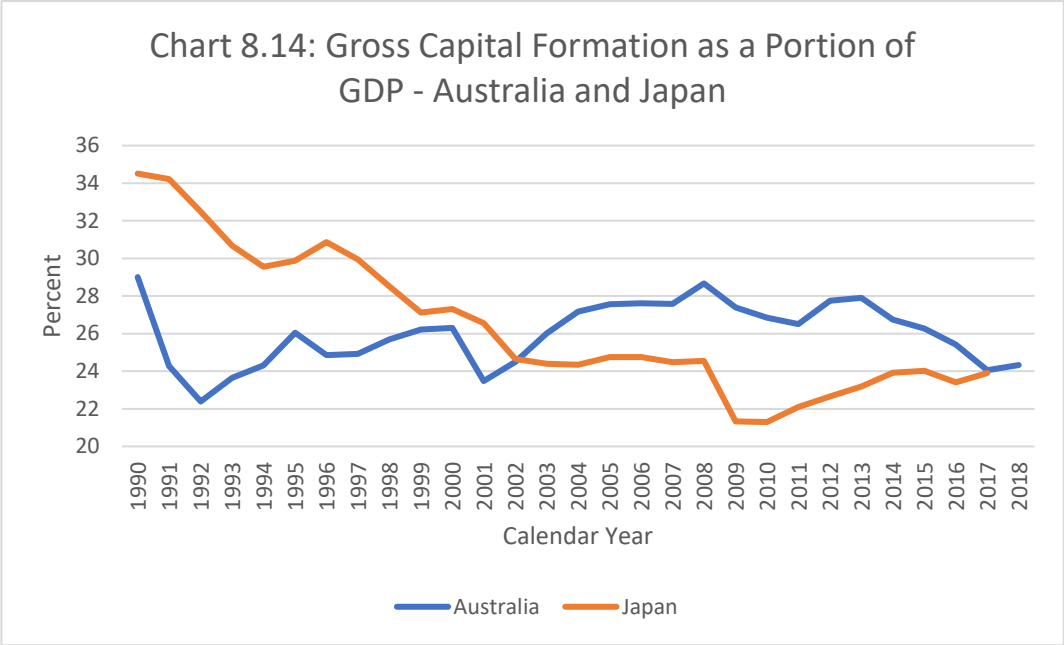
Gross capital formation is essential to maintaining strong productivity growth as it assists capital deepening. According to the St Louis Fed (Owyang 2018)[dxcviii], "capital deepening refers to an increase in the proportion of the capital stock to the number of labor hours worked. Movements in this ratio are closely tied to movements in labor productivity, all other things held equal. An increase in capital per hour (or capital deepening) leads to an increase in labor productivity."

Owyang concludes that "currently, the [US] economy is functioning in a low-productivity state. One explanation could be a decline in labor quality as highly skilled baby boomers retire and are replaced by younger, less-experienced millennials. However, that explanation does not tell the entire story. Capital deepening is an important component of productivity, and historically low growth of capital per hour is likely contributing to the current low productivity state".

Gross capital formation as a portion of GDP in Japan has declined substantially since 1990 when it was a very high 35 percent to around 24 percent in 2017. This is despite Japan moving to negative interest rates from early 2016 (Walker 2016)[dxcix] as well as massive levels of quantitative easing following the GFC.

In Australia, gross capital formation as a portion of GDP from 2000 increased from around 23 percent of GDP to between 26 and 28 percent of GDP until 2013 (see Chart 8.10). It has subsequently fallen below 25 percent even though Australia also now has very low interest rates (RBA 2020).

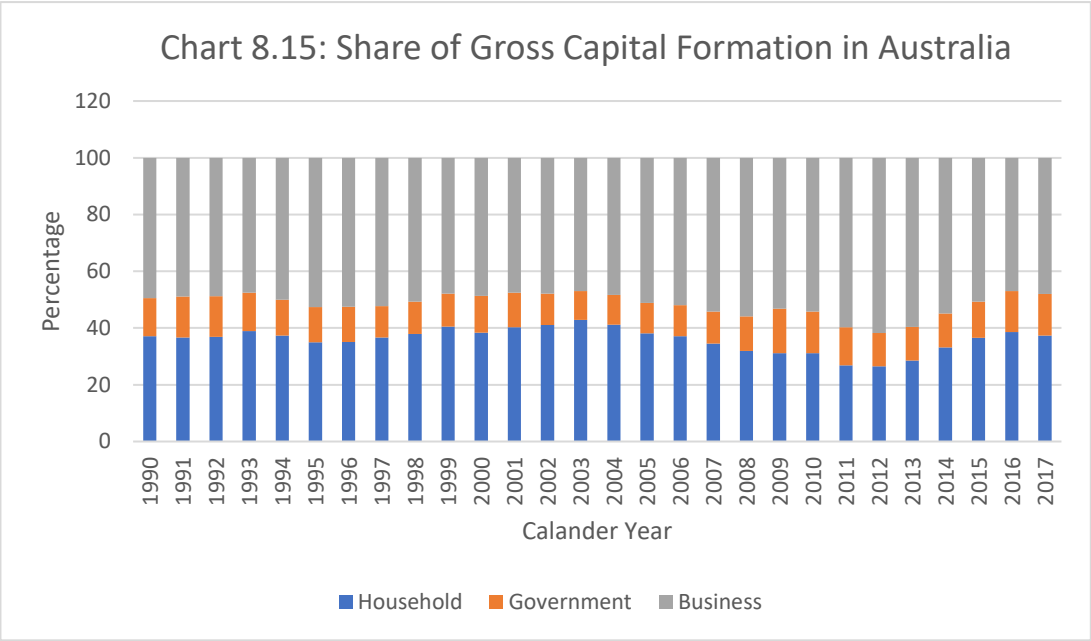
As Owyang points out, a high level of capital investment, particularly by businesses, is essential to increasing productivity. But if businesses see household consumption, both domestic and that of key trading partners, growing only very slowly (partly associated with ageing population), they may remain reluctant to invest.



Source: World Bank

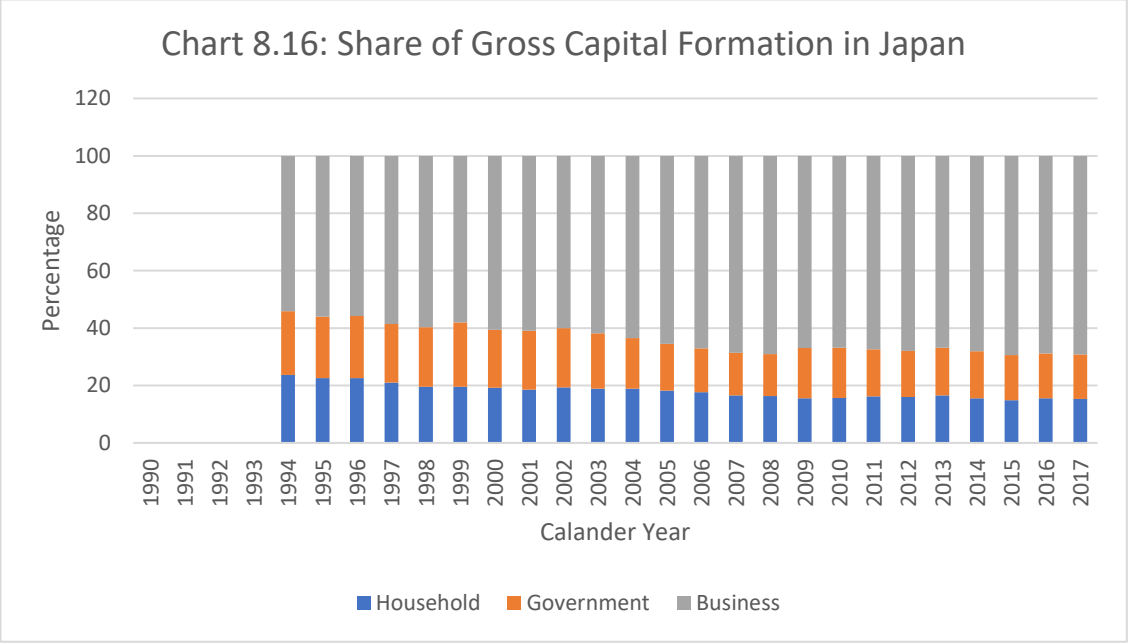
The increase in capital formation in Australia from 2000 was substantially driven by increased business investment. The business investment share of total capital formation in Australia peaked in 2012 at 61.8 percent and has subsequently declined to 48 percent in 2017 (Chart 8.15). The increased business investment in Australia in that period was driven by the mining boom although that itself was supported by a high level of skilled migration for the mining industry.

The subsequent decline in the portion of business investment partly reflects increased household share of capital investment (mainly in owner occupied and investor housing). The decline in business investment is contributing to weak productivity as measured by GDP per hour worked (see last row in Table 8.3).



Source: OECD

While gross capital formation as a portion of GDP in Japan has weakened considerably since 1990 (see Chart 8.14), the business investment share has steadily increased from 54 percent in 1994 to almost 69 percent in 2017 (see Chart 8.16).



Source: OECD

This is likely to reflect both the advanced manufacturing nature of the Japanese economy that requires strong business investment to remain competitive and a decline in the household share of

gross capital formation which by 2017 had fallen to just over 15 percent. The latter is not surprising given steady decline in the size of the Japanese working age population and hence very low level of new household formation. This appears to have also contributed to a relative decline in house prices (see Table 8.3).

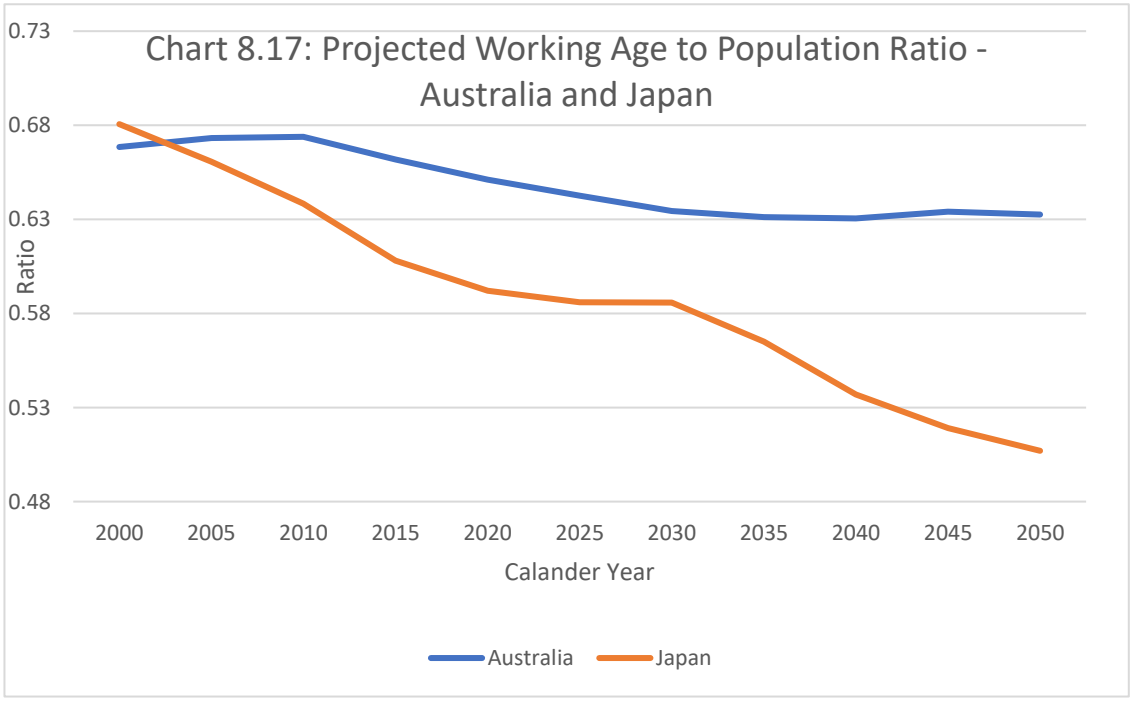
Even with a high share of business investment in Japan, the overall decline in gross capital formation has been associated with productivity growth that has weakened even more than in Australia (see Table 8.3).

Despite a much faster increase in household disposable income, household debt in Australia has increased as a portion of disposable income from 95.7 percent in 1995 to over 216 percent in 2017 (see Table 8.3). The strong increase in house prices in Australia, partly driven by faster population growth, will have contributed to this. By contrast, household debt as a portion of household income has remained relatively stable despite much lower interest rates in Japan for much longer.

It is notable that, despite Japan's declining population, its Government has continued to invest in new infrastructure. In late 2019, the Japanese Government announced (News 2019)[dc] a $A178 billion stimulus package that is expected to include a substantial infrastructure component from 2021 (ie after the Tokyo 2020 or now 2021 Olympics). This is despite the highly indebted nature of the Japanese Budget.

Japan's outlook

And what of the future for Japan given the projected further decline in its working age to population ratio (see Chart 8.17)?



Source: UN Population Division

Muto, Odea and Sudo (2016)[dci] find "Japan's population aging as a whole adversely affects GNP growth by dampening factor inputs. It also negatively impacts on GNP per capita and fiscal variables,

especially in the future, mainly due to the decline in the fraction of the population of working-age. For these findings, a decline in the fertility rate plays a quantitatively larger role in lowering GNP growth and the primary balance to GNP ratio, because it reduces the labor force population and the proportion of savers in the economy. Although working households mitigate these adverse effects by increasing their working hours and saving rates, this is not enough to compensate for the effects of the shrinking working-age population. The effects of increased longevity on economic growth are expansionary, but relatively small. Our simulations predict that the negative effects of fertility rate decline will expand during the next few decades. We also find that public medical benefits partly financed by payroll income tax have negative effects on GNP per capita and the fiscal balance. Our results suggest that the impact of population aging is underestimated in previous studies which assume that public medical benefit is financed by lump-sum tax. Furthermore, in a small open economy setting, we show that when domestic households have access to the foreign asset market, they may mitigate the adverse effects of population aging on GNP by investing their savings in foreign capital with higher returns."

Colacelli and Corugedo (2018)[dcii] note that "a rapidly shrinking and ageing population and labor force constitute severe demographic headwinds to future productivity and growth, with official projections anticipating that Japan's population will decline by just over 25 percent in the next 40 years. Weak growth and inflation prospects, together with growing age-related government spending, pose serious challenges to fiscal prospects as well… IMF staff simulations estimate that the level of real GDP will decline by over 25 percent in about 40 years due to demographics under current policies (with an average annual GDP growth rate of about -0.8 percent) relative to a projection where productivity and population grow at their recent pace. In response to a shrinking and ageing population, GDP growth declines not only due to the direct effect from the decline in labor inputs, but also because the capital stock declines in response to the shrinking labor inputs. As a result, private savings fall, leading to a deterioration of the current account which is further exacerbated by the reduction in tax revenues and increased government dissaving".

To help address these dire predictions, there is evidence that Japan is now moving gradually to increase immigration. The overseas born share of the Japanese population has steadily increased from a very low 0.6 percent in the mid-1990s to over 1.8% by 2017 (Japanese Ministry of Internal Affairs and Communications Statistics Bureau accessed 9 March 2017).

A new 'Highly Skilled Foreign Professional' visa was introduced in 2012. This is based on the Australian-style points-tested skilled migration category. The proportion of overseas students in the foreign born population increased from 6.3% (131,789) in 2006 to 11% (257,739) in 2016[dciii]. Japan has also started to recruit low skill workers, although The Economist magazine argued (28 February 2019) that the "rules are too woolly and too onerous and support for new arrivals is too scant".

But the pressure from population ageing for Japan to get its immigration settings right will continue to grow. The extent to which Japan is locked into further population ageing over the next few decades is such that there may be no practical or socially acceptable level of immigration that can make a significant difference. While Australia moved very early to use immigration to slow the rate of ageing, Japan appears to be moving very late.

Ageing in Australia and the OECD

For around 40 years from the 1970s, the working age to population (WAP) ratio across the totality of developed nations, plus China and Russia, increased steadily from as low as 55 percent in some countries to over 70 percent in others (UN Population Division).

Higher birth rates in the post-war period (1945-1965 – the so-called baby boom period) across many developed nations and rising levels of immigration to many developed nations until the period 2010-15 resulted in their working age to population (WAP) ratios rising steadily from around the mid-1960s. In the 40-45 years after the mid-1960s, most developed nations became accustomed to economic growth driven by a growing number of new households and their demands for a range of goods and services as well as a constant boost to the workforce (ie the so-called demographic dividend phase noting that this did not by itself guarantee strong economic performance).

The aggregate demand generated by the associated high household formation rates meant the key economic challenge was to contain inflation, including wage inflation, and encourage savings (and thereby discourage consumption) to fund capital investment and increase productive capacity. In this environment, the focus was very much on supply side policies – strong household consumption growth was almost a given.

However, due to the fall in fertility to below replacement levels from around the 1970s, and rising life expectancy, the WAP ratio across the developed world began to peak and then go into decline (see Table 8.4). This was also impacted by net migration which peaked in the five-year period between 2005-10 at almost 2.7 per thousand population after being at 2.6 during 2000-05 and 2.3 during 1995-00. It fell back to around 1.8 per thousand population in the period 2010-15 (UN Population Division; World Population Prospects 2017).

Table 8.4: WAP Ratio in Major OECD Nations

Country	WAP Ratio Peak and Year of Peak	WAP ratio in 2018	Percentage Points Difference between WAP Ratio Peak and WAP Ratio in 2018 & Rate of Decline in WAP Ratio Per Annum
Australia	67.5% (2008-09)	65.15%	Minus 2.52 (0.25 per annum)
Austria	68.2% (1989)	66.7%	Minus 1.50 (0.05 per annum)
Belgium	67.6% (1986)	64.16%	Minus 3.45 (0.16 per annum)
Canada	69.47% (2007-08)	66.9%	Minus 2.53 (0.25 per annum)
Denmark	67.44% (1993-94)	63.73%	Minus 3.71 (0.15 per annum)
Finland	68.09% (1984-85)	62.13%	Minus 5.96 (0.18 per annum)
France	65.97% (1987-88)	62.01%	Minus 3.96 (0.13 per annum)
Germany	69.71% (1986-87)	64.92%	Minus 4.79 (0.14 per annum)
Hong Kong	75.12% (2010)	71.22%	Minus 3.9 (0.49 per annum)
Italy	68.65% (1990-91)	63.92%	Minus 4.74 (0.18 per annum)
Japan	69.78% (1991-92)	59.73%	Minus 10.06 (0.39 per annum)
South Korea	73.41% (2013-14)	72.61%	Minus 0.81 (0.16 per annum)
Luxembourg	69.66% (1986-87) & 69.93% (2018)	69.94%	Plus 0.28

Netherlands	69.07% (1989-90)	64.7%	Minus 4.38 (0.15 per annum)
New Zealand	66.55% (2008)	64.69%	Minus 1.85 (0.19 per annum)
Norway	66.3% (2010)	65.4%	Minus 0.9 (0.11 per annum)
Portugal	67.7% (2000)	64.59%	Minus 3.11 (0.17 per annum)
Singapore	78.75% (2010)	76.26%	Minus 2.49 (0.31 per annum)
Spain	69.07% (2005)	65.95%	Minus 3.12 (0.24 per annum)
Sweden	65.43% (2008-09)	62.32%	Minus 3.11 (0.31 per annum)
UK	66.11% (2007-08)	63.92%	Minus 2.18 (0.2 per annum)
USA	66.88% (2008-09)	65.48%	Minus 1.4 (0.14 per annum)
European Union	67.24% (2005)	64.59%	Minus 2.65 (0.2 per annum)
European Area	67.56% (1999)	64.33%	Minus 2.99 (0.16 per annum)
OECD	66.67% (2007-08)	65.05%	Minus 1.62 (0.16 per annum)

Source: World Bank Database and author calculations

This downward trend in net migration may continue during 2015-2020 given current anti-immigrant sentiment and policies in many developed countries (note fall in UK net migration post-Brexit, reduced migration to USA due to policies of current administration and the brief surge in migration to Europe in 2015-16 due to the Syria crisis). The coronavirus crisis will exacerbate the decline in net migration. See Chart 1.6 in Chapter 1.

The combined effect has been that the WAP ratio in most countries in continental Europe and Japan peaked in the late 1980s and early 1990s. While there is no practical level of immigration that can prevent ageing, targeted migration has helped slow the rate of ageing in the USA, the UK, Canada, NZ and Australia (UN Population Division, International Migration Report 2015).[dciv] By contrast with most other developed nations (as well as China and Russia), the absolute size of the working age population in these five countries is projected to continue to grow beyond 2050 assuming current levels of net migration are broadly maintained and fertility rates do not fall significantly further (UN Population Division 2019 Revision).

The research on population ageing suggests that, all other things equal, economic performance should be stronger in the period leading up to the working age to population ratio peaking compared to the period when the working age to population ratio is in decline.

Moreover, the rate at which the working age to population ratio declines and how far it has declined is also likely to have an impact. Economic modelling over the last 25 years (see Chapter 2) has generally found demographic ageing will:

- reduce the rate of economic growth, including per capita economic growth;
- lead to lower labour force participation, a decline in the employment to population ratio and weakening household consumption expenditure;
- increase government expenditure on age pensions, health and aged care while reducing tax revenue.

This is confirmed in the above comparison of Australia and Japan.

Economic growth

All other things equal, per capita economic growth in the 10-15 years immediately before the WAP ratio peak (ie the strongest part of the demographic dividend phase) should be higher than in the period after the peak (ie as nations move into their demographic burden phase). Moreover, once most or all developed nations (plus China and Russia) have moved into their demographic burden phase, the impact of ageing would become stronger than the period when only Japan and countries in continental Europe were in their demographic burden phase due to a negative impact on international trade.

This may be offset somewhat through increased trade with emerging economies, particularly in Africa, that are younger and in their demographic dividend phase.

Table 8.5: WAP Ratio and Economic Growth Rates in Measured Local Currency

Country	Column 1: Average GDP Growth Rate in 15 Years Before WAP Ratio Peak	Column 2: Average GDP Growth Rate in Period After WAP Ratio Peak	Column 3: Percentage Point Difference between Column 1 and Column 2	Column 4: PP Difference between WAP Ratio Peak & WAP Ratio in 2018 & Rate of Per Annum Decline in WAP Ratio
Australia	3.71%	2.59%	Minus 1.12 PP	Minus 2.52 (0.25 pa)
Austria	2.29%	2.03%	Minus 0.27 PP	Minus 1.50 (0.05 pa)
Belgium	2.45%	1.95%	Minus 0.50 PP	Minus 3.45 (0.16 pa)
Canada	3.06%	1.69%	Minus 1.37 PP	Minus 2.53 (0.25 pa)
Denmark	1.85%	1.76%	Minus 0.09 PP	Minus 3.71 (0.15 pa)
Finland	3.49%	2.01%	Minus 1.49 PP	Minus 5.96 (0.18 pa)
France	2.52%	1.71%	Minus 0.81 PP	Minus 3.96 (0.13 pa)
Germany	2.34%	1.81%	Minus 0.53 PP	Minus 4.79 (0.14 pa)
Hong Kong	3.66%	2.98%	Minus 0.69 PP	Minus 3.9 (0.49 pa)
Italy	3.09%	0.74%	Minus 2.36 PP	Minus 4.74 (0.18 pa)
Japan	4.45%	0.91%	Minus 3.54 PP	Minus 10.06 (0.39 pa)
South Korea	4.90%	2.96%	Minus 1.94 PP	Minus 0.81 (0.16 pa)
Luxembourg	2.92%	3.92%	Plus 1.00 PP	Plus 0.28
Netherlands	2.09%	2.16%	Plus 0.07 PP	Minus 4.38 (0.15 pa)
New Zealand	3.30%	2.53%	Minus 0.77 PP	Minus 1.85 (0.19 pa)
Norway	2.27%	1.66%	Minus 0.61 PP	Minus 0.9 (0.11 pa)
Portugal	3.83%	0.56%	Minus 3.27 PP	Minus 3.11 (0.17 pa)
Singapore	5.83%	4.02%	Minus 1.82 PP	Minus 2.49 (0.31 pa)
Spain	3.00%	1.05%	Minus 1.95 PP	Minus 3.12 (0.24 pa)
Sweden	3.11%	1.86%	Minus 1.25 PP	Minus 3.11 (0.31 pa)
UK	3.00%	1.14%	Minus 1.86 PP	Minus 2.18 (0.2 pa)

USA	3.05%	1.76%	Minus 1.29 PP	Minus 1.4 (0.14 pa)
European Union	2.15%	1.31%	Minus 0.84 PP	Minus 2.65 (0.2 pa)
OECD	2.60%	1.48%	Minus 1.12 PP	Minus 2.99 (0.16 pa)

Source: World Bank Database and Author Calculations

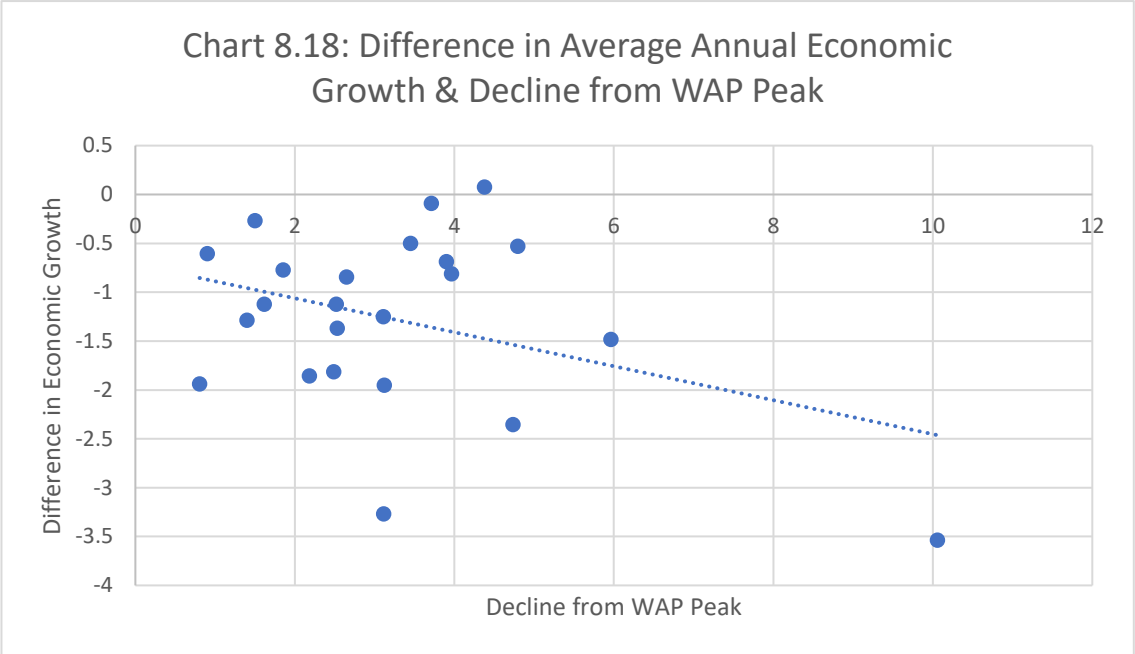
Other than for two countries (Luxembourg and the Netherlands), Table 8.5 confirms weaker economic growth during the demographic burden phase compared to the final 15 years of the demographic dividend phase. The difference across the European Union is 0.84 percentage points lesser average economic growth per annum. For the OECD, the difference is 1.12 percentage points.

While it may be argued that weak economic growth in the demographic burden phase is significantly influenced by the GFC, it should be noted that for most European nations, the WAP ratio peaked in the late 1980s and early 1990s so that there has been more than enough time to offset the impact of the GFC. For a number of other nations, the WAP ratio peak was either just before or just after the GFC. However, weak economic growth has persisted almost ten years after the GFC suggesting other factors are contributing to weak economic growth (such as a simultaneous decline in the WAP ratio across the developed world).

Not surprisingly, the country that has aged the most (ie Japan) has also experienced the largest difference in average annual economic growth between the last 15 years of its demographic dividend phase and its demographic burden phase until 2018 – a difference of 3.54 percentage points.

The situation of Luxembourg is unique as it has experienced two WAP ratio peaks over the past 40 years. Its WAP ratio peaked firstly in 1986-87 at 69.66 percent, fell to 66.84 percent in 2002-03, and then again peaked again in 2018 at 69.93 percent. It is also notable that Luxembourg has one of the largest proportion of overseas born in its population. This has contributed to maintaining its WAP at a relatively high level despite its below replacement fertility rate.

The other outlier is the Netherlands. While the difference in average economic growth during its demographic dividend phase compared to its demographic burden phase is only slight, the Netherlands has aged significantly with its WAP ratio falling from a peak of 69.07 percent in 1989-90 to 64.7 percent in 2018.



Source: World Bank Database and Author Calculations

Another outlier is Portugal which had (at least until 2018) experienced a much greater decline in economic growth during the demographic burden phase even though the degree of ageing in Portugal is not significantly different to other European nations.

Chart 8.18 plots the difference in average annual economic growth between the demographic dividend phase and the demographic burden phase against the size of the fall in the WAP ratio from the peak for each country considered (other than Luxembourg due to its dual WAP peak) as well as for the EU as a whole and the OECD.

Regressing the two factors gives an R-Squared of 0.14 suggesting that while ageing is a factor in the weaker economic growth during the demographic burden phase, there are also other factors involved.

Table 8.6 makes the same comparison as in Table 8.5 but uses per capita economic growth measured in constant US dollars with a base year of 2010. This removes the effects of inflation and currency fluctuations as well as changes in total population size.

Table 8.6: WAP Ratio and Per Capita Economic Growth in Constant $US 2010 Base Year

Country	Column 1: Average Per Capita GDP Growth Rate in 15 Years Before WAP Ratio Peak	Column 2: Average Per Capita GDP Growth Rate in Period After WAP Ratio Peak	Column 3: Percentage Point Difference between Column 1 and Column 2
Australia	2.45%	0.94%	Minus 1.51 PP
Austria	2.28%	1.50%	Minus 0.77 PP

Belgium	2.32%	1.48%	Minus 0.84 PP
Canada	2.05%	0.59%	Minus 1.46 PP
Denmark	1.74%	1.31%	Minus 0.43 PP
Finland	3.06%	1.64%	Minus 1.42 PP
France	1.98%	1.20%	Minus 0.78 PP
Germany	2.39%	1.60%	Minus 0.79 PP
Hong Kong	2.76%	2.22%	Minus 0.54 PP
Italy	2.93%	0.51%	Minus 2.52 PP
Japan	3.80%	0.83%	Minus 2.96 PP
South Korea	10.15%	2.51%	Minus 7.64 PP
Luxembourg	2.46%	2.28%	Minus 0.18 PP
Netherlands	1.47%	1.64%	Plus 0.17 PP
New Zealand	2.10%	1.13%	Minus 0.96 PP
Norway	1.49%	0.61%	Minus 0.89 PP
Portugal	3.65%	0.57%	Minus 3.08 PP
Singapore	3.31%	2.66%	Minus 0.65 PP
Spain	2.21%	0.71%	Minus 1.50 PP
Sweden	2.73%	0.85%	Minus 1.88 PP
UK	2.57%	0.40%	Minus 2.17 PP
USA	1.98%	1.02%	Minus 0.96 PP
European Union	1.89%	1.04%	Minus 0.85 PP
OECD	1.86%	0.86%	Minus 1.00 PP

Source: World Bank Database and Author Calculations

The results in Table 8.6 are very similar to those in Table 8.5 with weaker per capita economic growth on a constant US dollar basis (base year 2010) during the post WAP peak period compared to the 15 years before the WAP ratio peaked for each country other than the Netherlands. Looking at the situation for the EU as a whole, per capita economic growth was 0.85 percentage points weaker and for the OECD as a whole, per capita economic growth was 1 percentage point weaker.

The key outlier on this basis is South Korea which has experienced a much larger decline in its average rate per capita economic growth in the demographic burden phase. This may reflect the fact per capita economic growth in South Korea during its demographic dividend phase was particularly strong averaging over 10 percent per annum. It may also reflect the fact South Korea:

- has only been in its demographic burden phase for a relatively short period; and
- being a nation heavily dependent on international trade, South Korea would be more affected by a general decline in aggregate demand across the developed world.

Given South Korea's extraordinarily low fertility rate and a rapid rate of ageing, its challenges over the next 20 years may be even greater than that of Japan since the early 1990s.

So if ageing is a partial driver of weaker per capita economic growth, even after adjusting for inflation and currency fluctuations, what are the mechanisms through which this is becoming manifest?

Private household consumption expenditure

Private household consumption expenditure surveys across a range of countries (Australia, USA, Japan, Germany, Canada) highlight the fact that as people age beyond 60, their private household expenditure declines. This makes intuitive sense as people of that age will have acquired a range of assets during earlier periods in their lifetime that they will not need to purchase again. This is in contrast to newly forming younger households.

Beech et al (2014)[dcv] note Australia's 2009-10 household expenditure survey confirms that "(on average) income, consumption and saving each follow a hump-shaped pattern over the life cycle. All three peak for households with the reference person aged 45-54 years." They also note that while "on average, older households spend less than other households…older households now spend more, compared with the average household, than older households did two decades ago " This is due to "increases in the real value of the aged pension and the growing importance of superannuation and later retirement of older households." Also relevant is the higher level of home ownership amongst older households and "an increase in non-wage inequality and, in particular, capital income."

It should be noted, however, that National Transfer Accounts (NTA)[dcvi] data for Australia show that "[t]otal consumption rises steeply to a first peak at around 25 years of age, falls gradually to a trough at around 35 years of age before rising gradually to a second peak at around 58 years of age, and then falls slightly in later life."[dcvii] NTA data includes both private and public expenditure and therefore the decline in private per capita spending by the elderly, as highlighted in the HES, is currently being offset by public spending associated with the elderly (mainly for health, aged care and the age pension).

Whether this is sustainable as the Australian population continues to age will be a major public policy challenge as noted in numerous Intergenerational Reports. Irrespective of whether governments seek to deal with this challenge by raising taxes or cutting public spending, ageing will have an increasingly negative impact on aggregate demand.

Despite the stereotype of the jet-setting grey nomad, per capita private household consumption expenditure by average elderly households (ie where the reference person is 65+) is significantly lower than per capita private consumption expenditure by households where the reference person is between 45 and 54. Moreover, per capita private household expenditure continues to decline as people age past 75 including because of the fear their savings will expire if they live longer than anticipated and/or they have a strong desire to leave a substantial inheritance to their children.

Table 8.7 from Australia's 2015-16 Household Expenditure Surveys (HES) shows that:

- elderly couples (reference person aged 65+) with no children at home spent $339 per week less on goods and services than couples also with no children at home where the reference person was aged 55-64 – they paid $246 per week less in income tax. They spent $506 per

week less than couples with no children where the reference person was aged under 35 and paid $359 per week less in income tax.

- lone person households under the age of 35 spent $309 per week more than lone person households aged 65 or over. They also paid $172 per week more in income tax.

In other words, private household consumption expenditure in Australia falls as people approach or reach retirement age and continues to fall thereafter. Commensurate with this, they would pay less in GST. They pay significantly less income tax as a result of earning less income and major tax concessions, including those associated with capital gains tax, dividend imputation and superannuation tax concessions.

Table 8.7: Household Expenditure Survey and 2015-16: Average Weekly Household Spend

	Lone person aged under 35	**Lone person aged 65+**	**Couple only - reference person aged under 35**	**Couple only - reference person aged 55-65**	**Couple only - reference person aged 65+**
Weekly Goods and Services Expenditure	$849	$540	$1584	$1417	$1078
Income tax	$201 or 18%	$29 or 4.5%	$468 or 19.6%	$355 or 17.4%	$109 or 8.2%
Principal mortgage repayments	$44	$4	$56	$52	$8
Superannuation and Life Insurance Contribution	$26	$18	$49	$227	$81
Number of Households (Total 15-16 – 8,960K)	330K or 3.7%	910K or 10.2%	470K or 5.2%	507K or 5.7%	876K or 9.8%
No of persons (Total 09-10 - 21,589K) (Total 15-16 – 23,297K)	330K or 1.4%	734K or 3.4% (09-10) 910K or 3.9%	1,005K or 4.7% (09-10) 932K or 4.0% (15-16)	1,044K or 4.8% (09-10) 1014K or 4.4% (15-16)	1,491 or 6.9% (09-10) 1,750K or 7.5% (15-16)
Mean weekly gross household income	$1114	$647	$2392	$2038	$1336
Mean household net worth	$145K	$707K	$266K	$1454K	$1582K

Source: Australian Bureau of Statistics

Elderly couples represented 9.8% of households in 2015-16 (up from 8.9% in 2009-10) while the lone person elderly represented 10.2% of households in 2015-16 (up from 8.7% in 2009-10). As the proportion of these households continues to grow, they will have a growing influence on trends in total private household consumption expenditure and revenue from both the GST and income taxes.

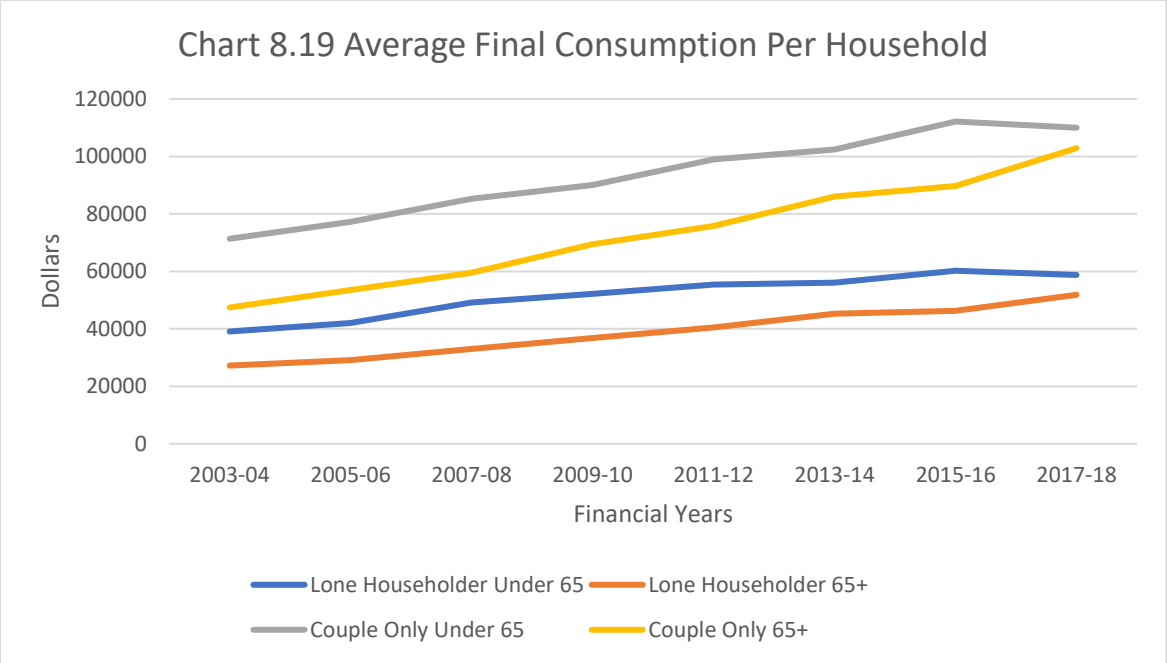
A similar pattern emerges if consumption spending is considered on the basis of the age of the Household Reference Person. Between 2009-10 and 2015-16, the proportion of households where the reference person is 65+ increased from 20.9 percent to 24.1 percent. Average weekly spending by these households was $886, some $536 per week less than the average of all other households (see Table 8.8).

Table 8.8: Households by Age of Reference Person

Age of Reference Person	15-24	25-34	35-44	45-54	55-64	65+	Total
Portion of Households in 2009-10	3.9%	16.9%	20.5%	20.3%	17.5%	20.9%	100%
Portion of Households in 2015-16	3.2%	16.2%	19.0%	20.0%	17.4%	24.1%	100%
Mean expenditure per household per week in 2015-16	$1,209	$1,478	$1,686	$1,743	$1,468	$886	$1,422

Source: ABS Household Expenditure Surveys 2009-10 and 2015-16

In Australia, (ABS Cat: 5204), the difference between mean private household consumption expenditure for lone person households under 65 years of age and those 65+ has been over $10,000 for most years since 2003-04. This gap had narrowed to less than $7,000 in 2017-18. Similarly, for two person households, the gap has narrowed from over $20,000 per household to less than $7,000 (see Chart 8.19).



Source: ABS Cat: 5204

The narrowing of this gap may reflect a combination of increases to the age pension, the superannuation tax advantages available to older Australians and access to franking credit refunds that have grown significantly since they were first introduced by the Howard Government. These factors would suggest the gap may continue to narrow, especially if wages growth were to remain weak, the household debt to income ratio remains high and the temporary resident component of NOM grows as forecast in Frydenberg (2019).

If the gap does not significantly narrow further, population ageing would contribute to continuing weak growth in final household consumption expenditure and thus weak real GDP growth (all other things equal).

However, if the gap narrows due to a combination of weak household consumption growth for people less than 65 years of age as well as budget concessions to older Australians, the flow on implications to economic growth and the budget would be concerning.

A substantial proportion of the narrowing in average private household consumption between older and younger households is due to the relative contribution of imputed rent from owner-occupied houses. Once this is removed, the gap between lone person households 65+ and those less than 65 remains around $13,000. For couple only households, the gap narrows from around $24,000 in 2003-04 to around $17,000.

If the situation is similar across developed nations, this would suggest that during the demographic dividend phase (ie in the 15 years before the WAP ratio peaks), growth in per capita private household expenditure should be strong while it should weaken once the WAP ratio is falling. This is in fact the case in 22 out of 24 instances listed in Table 8.9.

The two instances where this is not the case are Denmark and Hong Kong. The difference for Denmark is only marginal (1.00 percent in demographic dividend phase compared to 1.19 percent in the demographic burden phase.

The difference in the case of Hong Kong is much more substantial with per capita household consumption growth in the demographic dividend phase being 1.88 percent compared to 4.03 percent in the demographic burden phase. The Hong Kong situation may be explained by the fact that while its WAP ratio has declined, that decline is from a very high base of 75.12 percent falling to a still very high WAP ratio of 71.22 percent. The high WAP ratio for Hong Kong is largely due to high levels of young people migrating from mainland China as Hong Kong's fertility rate has been below replacement since 1980 and below 1.4 children per woman for most years since 1985 (UN Population Division).

Table 8.9: WAP Ratio and Growth in Per Capita Private Household Consumption

Country	Column 1: Average Per Capita Growth in Private Household Consumption in 15 Years Before WAP Ratio Peak	Column 2: Average Per Capita Growth in Private Household Consumption in Period After WAP Ratio Peak	Column 3: Percentage Point Difference between Column 1 and Column 2
Australia	2.82%	1.04%	Minus 1.78 PP
Austria	2.56%	1.09%	Minus 1.47 PP
Belgium	2.58%	1.14%	Minus 1.44 PP
Canada	2.42%	1.21%	Minus 1.20 PP
Denmark	1.00%	1.19%	Plus 0.18 PP
Finland	2.89%	1.78%	Minus 1.11 PP
France	2.12%	1.14%	Minus 0.98 PP
Germany	2.48%	1.33%	Minus 1.14 PP
Hong Kong	1.88%	4.03%	Plus 2.14 PP
Italy	3.10%	0.52%	Minus 2.58 PP
Japan	3.33%	0.91%	Minus 2.42 PP
South Korea	3.52%	1.90%	Minus 1.62 PP
Luxembourg	2.53%	1.38%	Minus 1.14 PP
Netherlands	1.18%	1.16%	Minus 0.02 PP
New Zealand	2.50%	1.95%	Minus 0.55 PP
Norway	2.82%	1.30%	Minus 1.53 PP
Portugal	3.78%	0.74%	Minus 3.04 PP
Singapore	2.52%	2.17%	Minus 0.36 PP
Spain	2.03%	-0.04%	Minus 2.07 PP
Sweden	2.17%	1.02%	Minus 1.14 PP
UK	3.11%	0.29%	Minus 2.82 PP
USA	2.28%	1.16%	Minus 1.12 PP
European Union	1.92%	0.75%	Minus 1.18 PP
OECD	1.93%	0.85%	Minus 1.08 PP

Source: World Bank Database and Author Calculations

Table 8.9 shows that decline in per capita household consumption between the demographic dividend phase and the demographic burden phase is not as significant for Japan as might be expected given its degree of ageing while this has deteriorated much more significantly for Luxembourg. The situation for Japan may reflect the stronger savings position of Japanese households (Japan Bureau of Statistics, Household Expenditure). For Luxembourg, the result may reflect its relatively stronger net export contribution to its per capita GDP covering for the impact of ageing on household consumption (World Bank database).

Fixed capital formation

All other things equal, weaker household consumption across the OECD, and the prospect of further significant ageing and slowing of population growth, would likely lead to reduced fixed capital formation as a proportion of GDP. While this is the case for the European Union and the OECD as a whole, this is not as consistently the case for individual countries as it is for weaker per capita GDP growth and household consumption (see Table 8.10). This may partly be due to governments' attempts to kick start their economies through increased infrastructure investment even when their populations are in decline.

Table 8.10: WAP Ratio and Fixed Capital Formation as a Portion of GDP

Country	Column 1: Average Fixed Capital Formation as Portion of GDP in 15 Years Before WAP Ratio Peak	Column 2: Average Fixed Capital Formation as Portion of GDP in Period After WAP Ratio Peak	Column 3: Percentage Point Difference between Column 1 and Column 2
Australia	25.68%	26.26%	Plus 0.57 PP
Austria	25.61%	24.08%	Minus 1.54 PP
Belgium	23.23%	22.22%	Minus 1.01 PP
Canada	20.72%	23.48%	Plus 2.77 PP
Denmark	19.93%	20.57%	Plus 0.63 PP
Finland	28.49%	22.94%	Minus 5.55 PP
France	23.36%	21.74%	Minus 1.62 PP
Germany	24.54%	21.50%	Minus 3.05 PP
Hong Kong	24.40%	22.94%	Minus 1.46 PP
Italy	23.13%	19.52%	Minus 3.61 PP
Japan	31.94%	25.74%	Minus 6.20 PP
South Korea	30.64%	29.86%	Minus 0.78 PP
Luxembourg	25.21%	21.63%	Minus 3.58 PP
Netherlands	21.79%	21.03%	Minus 0.76 PP
New Zealand	22.51%	21.41%	Minus 1.09 PP
Norway	21.59%	23.68%	Plus 2.09 PP
Portugal	27.37%	18.72%	Minus 8.65 PP
Singapore	29.40%	26.40%	Minus 3.00 PP
Spain	24.68%	23.04%	Minus 1.64 PP
Sweden	21.63%	23.38%	Plus 1.75 PP
UK	17.80%	16.33%	Plus 1.47 PP
USA	21.99%	19.63%	Minus 2.36 PP
European Union	21.44%	20.48%	Minus 0.96 PP
OECD	22.66%	20.91%	Minus 1.75 PP

Source: World Bank Database and Author Calculations

Gross fixed capital formation as a portion of GDP in Australia has remained high after the WAP peak. This may partly be explained by its strong ongoing population growth requiring increased government investment in infrastructure as well as household expenditure on house purchases (see Chart 8.15).

Labour Productivity

A decline in labour productivity associated with an ageing population has also been predicted extensively in the literature (Adler et al[dcviii] 2017; Gragnaloti et al [dcix] 2011; Skirbekk[dcx] 2003; Governor of the RBA, Phil Lowe[dcxi] 2014; Assistant Governor of the RBA, Chris Kent[dcxii] 2014; Berk and Weil [dcxiii] 2015; Apella and Troiana [dcxiv] 2015; Liu and Westelius [dcxv] 2016 but not by the Treasury Department in its 2015 Intergenerational Report).

The decline is confirmed by Table 8.11 where labour productivity has declined for every nation other than Spain in the post WAP ratio peak period compared to the pre WAP peak period (note the result for Spain is the result of a significant decline in the number of hours worked post WAP ratio peak).

Table 8.11: WAP Ratio and Labour Productivity

Country	Column 1: Average Annual Labour Productivity Growth in 15 Years Before WAP Ratio Peak	Column 2: Average Annual Labour Productivity Growth in Period After WAP Ratio Peak	Column 3: Percentage Point Difference between Column 1 and Column 2
Australia	1.77%	1.07%	Minus 0.70 PP
Austria	NA	NA	NA
Belgium	3.37%	1.37%	Minus 2.00 PP
Canada	1.46%	0.79%	Minus 0.67 PP
Denmark	2.49%	1.29%	Minus 0.63 PP
Finland	3.63%	2.10%	Minus 1.53 PP
France	3.14%	1.40%	Minus 1.74 PP
Germany	2.82%	1.54%	Minus 1.28 PP
Hong Kong	NA	NA	NA
Italy	2.58%	0.64%	Minus 1.94 PP
Japan	3.85%	1.39%	Minus 2.46 PP
Korea	4.44%	2.49%	Minus 1.95 PP
Luxembourg	2.83%	1.08%	Minus 1.95 PP
Netherlands	2.19%	0.99%	Minus 1.10 PP
New Zealand	0.99%	0.45%	Minus 0.54 PP
Norway	1.20%	0.61%	Minus 0.59 PP
Portugal	2.44%	0.83%	Minus 1.61 PP
Singapore	NA	NA	NA
Spain	0.77%	1.02%	Plus 0.25 PP
Sweden	2.30%	0.73%	Minus 1.57 PP
UK	2.23%	0.24%	Minus 1.99 PP
USA	1.90%	1.00%	Minus 0.90 PP

European Union	1.91% (Only 10 years data available)	0.92%	Minus 0.99 PP
OECD	1.78% (Only 7 years data available)	0.83%	Minus 0.95 PP

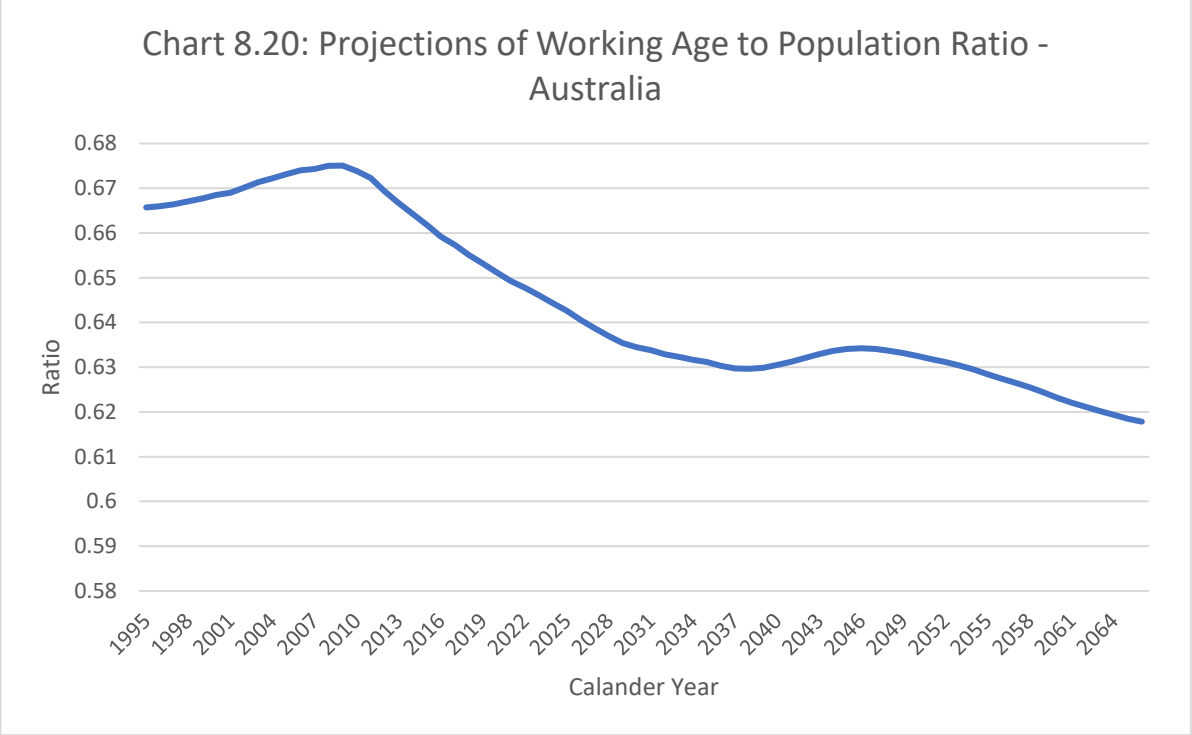
Source: OECD Database and Author Calculations

Is ageing affecting Australia's economic performance?

Australia's working age to total population ratio peaked in 2009 at around 67.5 percent. By 2019 it had fallen by around two percentage points to 65.3 percent (Chart 8.20).

Drawing on the ABS's latest population projections (Series B), it is projected to decline by about another 1.9 percentage points by 2030 to around 63.4 percent. Between 2009 and 2039, Australia's working age to population ratio is likely to have fallen by 4.5 percentage points, assuming NOM will average 225,000 per annum, a fertility rate of around 1.8 births per woman and life expectancy growing but slightly more slowly than assumed in earlier ABS population projections.

Under current policy settings, population ageing may be faster than this as NOM is likely to fall below 225,000 and the fertility rate may also remain lower than 1.8 (see Chapter 9).



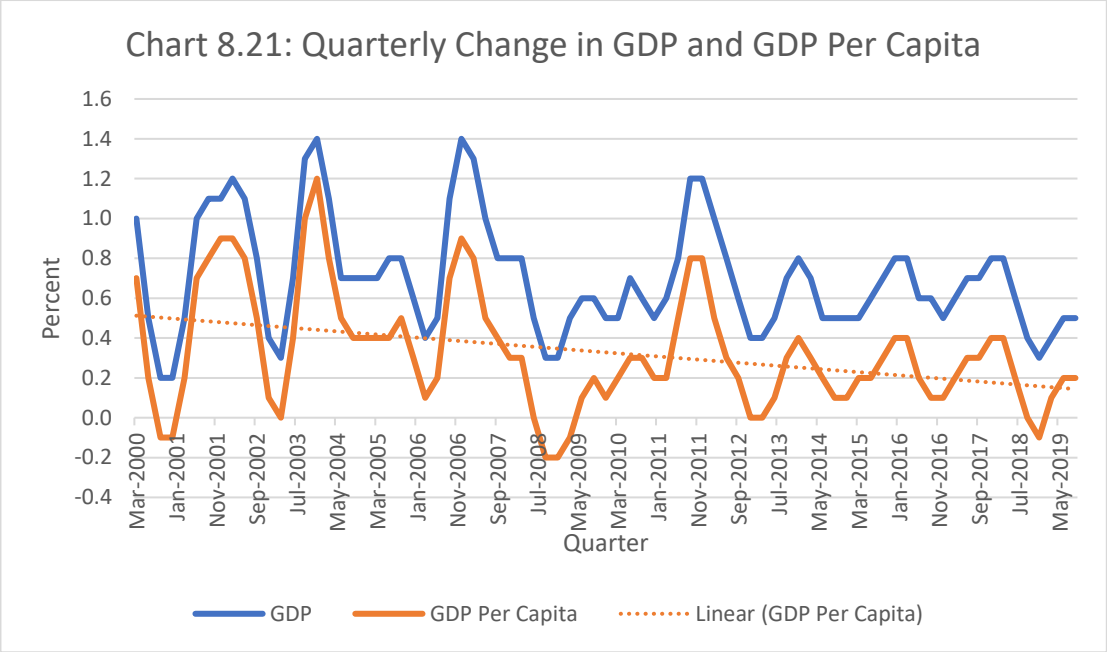
Source: ABS Cat: 3101 and 3222 (Series B)

Since 2009, GDP growth has averaged 0.6 percent per quarter while per capita GDP growth has averaged 0.2 percent per quarter (see Chart 8.21). During the 10 years prior to that, GDP growth averaged 0.8 percent per quarter and GDP per capita averaged 0.4 percent per quarter.

In the period 2009 to early 2019, Australia was unusual amongst developed economies in that the WAP ratio was in decline while population growth was faster than in the period 2000-09. For most other developed economies, in the period 2009-19 both the WAP ratio was in decline and there was slower population growth.

The crucial policy question is if Australia also had population growth in the period 2009-19 similar to that in the period 2000-09 or indeed as slow as in the 1990s, would its economic performance have been better or worse?

The Government's favoured framework for considering long-term impact on economic growth is that of the three Ps – that is population, productivity and participation.



Source: ABS Cat 5206

In the period 2009-19, both the participation rate (see Chart 8.4) and the population growth rate have been higher than in the period 2000-09 (ABS Cat 3101). It thus comes down to the question of productivity.

According to the Productivity Commission (2019), Australia's labour productivity has been weak since at least 2012-13. In each of 2015-16 and 2016-17, labour productivity was 0.9 percent and fell to 0.2 percent in 2017-18. In 2017-18, labour inputs outstripped capital inputs thus leading to a negative impact on the capital to labour ratio (ie capital shallowing). As employment growth and NOM were both strong, real GDP growth was a respectable 2.8 percent in 2017-18 but was well below that level in 2018-19 at around 1.4 percent.

A key concern of the Productivity Commission is the slow growth in capital investment, particularly slow growth in research and development capital. Also of concern is that the share of businesses that are 'innovators' is, according to the Productivity Commission, 'no longer growing'.

Feyrer (2007)[dcxvi] finds "changes in workforce demographics have a strong and significant correlation with the growth rate of productivity. Changes in the proportion of workers between the ages of 40

and 49 seem to be associated with productivity growth. A 5% increase in the size of this cohort over a ten-year period is associated with a 1%–2% higher productivity growth in each year of the decade". He notes that "poorer nations have a lower proportion of 40-year-old workers than the richer nations in every year. This characteristic is associated with lower productivity in the poor nations throughout the sample…The wealthy nations saw a relatively static 40-year-old cohort until about 1980. From 1980 until 2000, the proportion of 40-year-olds increases dramatically. This is not true of the poor nations".

He also finds that large cohorts aged 15-39 are associated with lower productivity. The findings for the cohort aged 50-59 is negative but only marginally so while the productivity impact of a large cohort over 60 is generally negative.

Aiyer, Ebeke and Shao (2016)[dcxvii] similarly find that "workforce aging has direct implications for labor productivity. They consider that if different age cohorts differ in their productivity, then changes in the age distribution of the workforce will affect average output per worker...A more mature labor force will have higher average levels of work experience, with potentially positive effects on productivity. On the other hand, workforce skills also depend on the stock of knowledge acquired before entering the labor market, or in the early stages of individuals' careers. This stock of skills is likely to become increasingly dated as the average age of participants in the workforce rises, with negative effects on innovation and productivity. Moreover, if job requirements change over time, older workers may find it more difficult to adapt. For example, some have argued that the increased penetration of information technologies might place older workers at a disadvantage".

Berk and Weil (2015)[dcxviii] find that "as populations age, the degree to which workers' human capital reflects the cutting edge of technology falls because education took place further in the past. This "pure vintage" effect of aging is well known…in an older population, older teachers pass on knowledge that was current further in the past. We show that this "teacher multiplier" can significantly increase the technological backwardness of the labor force".

According to the Productivity Commission (2019), labour productivity between 1974-75 and 2017-18 was 1.7 percent per annum; but it was 1.2 percent per annum from 2011-12 to 2017-18.

The Productivity Commission (2019) notes that "while Australia has experienced a productivity slowdown, it has been more persistent and extreme in many other countries". Nevertheless, a crucial question for delivery of the Government's ten-year budget plan is whether average productivity growth will rise to 1.5 percent per annum during the 2020s as forecast (compared to the much lower levels in recent years) and thereby enable real GDP growth to average 3 percent per annum?

Governor of the Reserve Bank, Philip Lowe (2019) notes "over the past couple of years, output growth has been subdued, but employment growth has been strong. In other words, measured labour productivity growth has been weak…It may be that the current lull in productivity growth is just noise in the data, which is quite common, but it may also be a sign of something more persistent. Again, time will tell".

Leigh (2019)[dcxix] provides a discussion of possible measures to boost productivity as does the Productivity Commission (2017)[dcxx] in its report titled 'Shifting the Dial' and the CSIRO (2019) in its report 'Australian National Outlook'.

Similar to Leigh, the Productivity Commission and the CSIRO, Lowe recommends "ensuring a strong ongoing focus on training, education and the accumulation of human capital…our national

comparative advantage will increasingly be built on the quality of our ideas and our human capital. This means that a continued focus on education and research is important. Investment in human capital also helps with two of the issues that I touched on earlier: the diffusion of new technologies and emerging skills shortages. One explanation for the widening gap between leading and laggard firms is the difficulty of employing new technologies. Successfully using these technologies requires both the right management capability and technical skills. Both of these can be difficult to acquire. It seems reasonable, then, to suggest that investment in human capital can both lift the rate of technical progress and accelerate its diffusion. It is therefore an important part of addressing the slow wages growth in many advanced economies, including Australia".

On other hand, Hockey (2015) argues "there is little evidence that slower productivity growth has been the result of inadequate investment in skills, education and innovation more broadly". This suggests little enthusiasm for the types of productivity enhancing measures recommended by Lowe, the Productivity Commission and the CSIRO. But even if these measures were adopted, it is not clear we would see a sustained increase in productivity to the level assumed in Frydenberg (2019).

While it is highly likely the labour productivity outcome for 2017-18 (ie 0.2 percent) was an outlier and may be revised upwards, it is less likely the outcomes for 2015-16 and 2016-17 at 0.9 percent were also outliers.

Table 8.16 shows the OECD index of real GDP per hours worked for the OECD as a whole and for major developed OECD economies. Over the past seven years, real GDP per hour worked has increased by less than 1 percent per annum for the OECD as a whole. Australia has performed slightly better than this over the seven-year period. Moreover, Australia still has a significantly lower median age than most OECD countries and is projected to age more slowly than most OECD countries (due to both a higher rate of net migration and a lower fertility rate).

It is notable the working age to population ratio for all major OECD economies is now in decline (UN Population Prospects 2019 Revision). South Korea was the last major developed economy to reach the peak in its working age to population ratio in 2012 while China reached this in 2010. The USA, Canada and the UK reached this point in 2007 while Japan and most major economies in Europe reached this point much earlier. All major developed economies will have to deal with ageing during the 2020s and beyond.

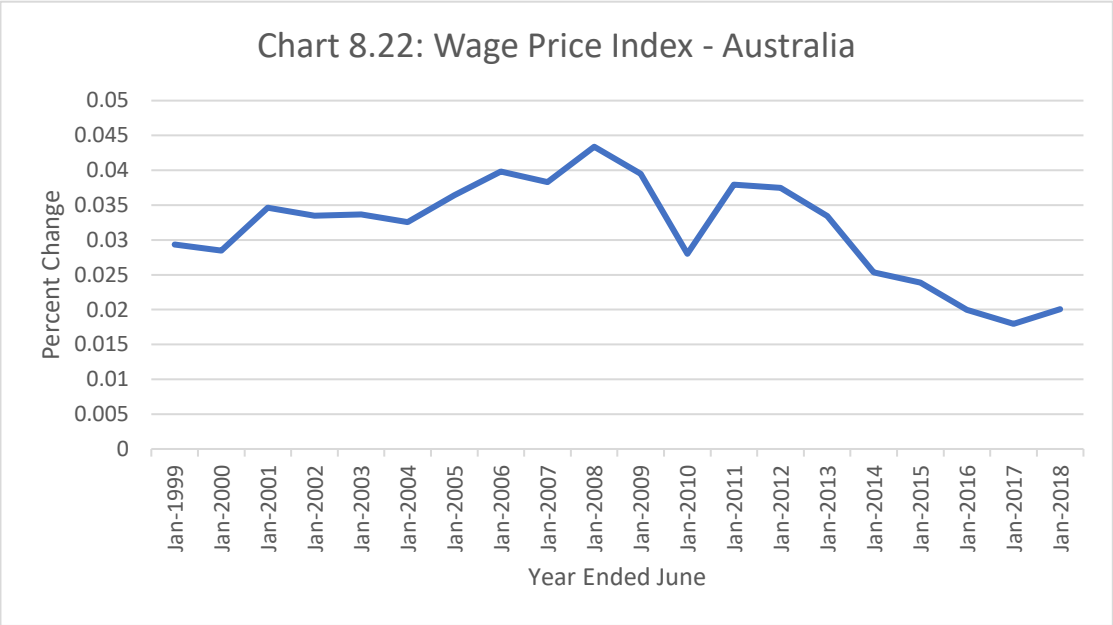
Table 8.16: OCED Index of Real GDP Per Hour Worked for Major Developed Economies

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Australia	100	101.2	103.6	105.4	106.0	108.8	108.5	109.7	110.4
Canada	100	101.6	101.9	103.2	105.9	105.7	106.1	107.9	107.7
France	100	101.0	101.3	102.7	103.7	104.5	104.8	107.3	108.8
Germany	100	102.1	102.7	103.5	104.6	105.2	106.7	107.6	107.6
Italy	100	100.5	100.2	101.1	101.3	101.5	101.1	101.7	101.5
Japan	100	100.2	101.2	103.3	103.3	104.8	104.7	106.0	106.5
South Korea	100	102.9	104.3	106.3	108.7	109.6	112.5	117.0	NA
OECD	100	101.0	101.6	102.6	103.5	104.5	104.9	106.3	NA
Spain	100	101.4	103.5	104.9	105.2	105.8	106.3	107.4	107.2
UK	100	100.3	99.8	100	100.2	101.9	101.3	102.2	102.8
USA	100	100	100.4	100.8	101.4	102.1	102.2	103.4	NA

Source: OECD Open Data. 2010 is Base Year

Frydenberg (2019) may be correct in assuming labour productivity in Australia will continue to out-perform the OECD as a whole given the OECD is projected to age significantly more rapidly than Australia (see Chapter 1). However, against the background of at least a further 1.9 percentage point decline in Australia's working age to population ratio during the 2020s, and without a major productivity improvement policy agenda, productivity growth in that decade much above the average level since 2009 seems unlikely (ie in the range of 1 percent to 1.25 percent per annum).

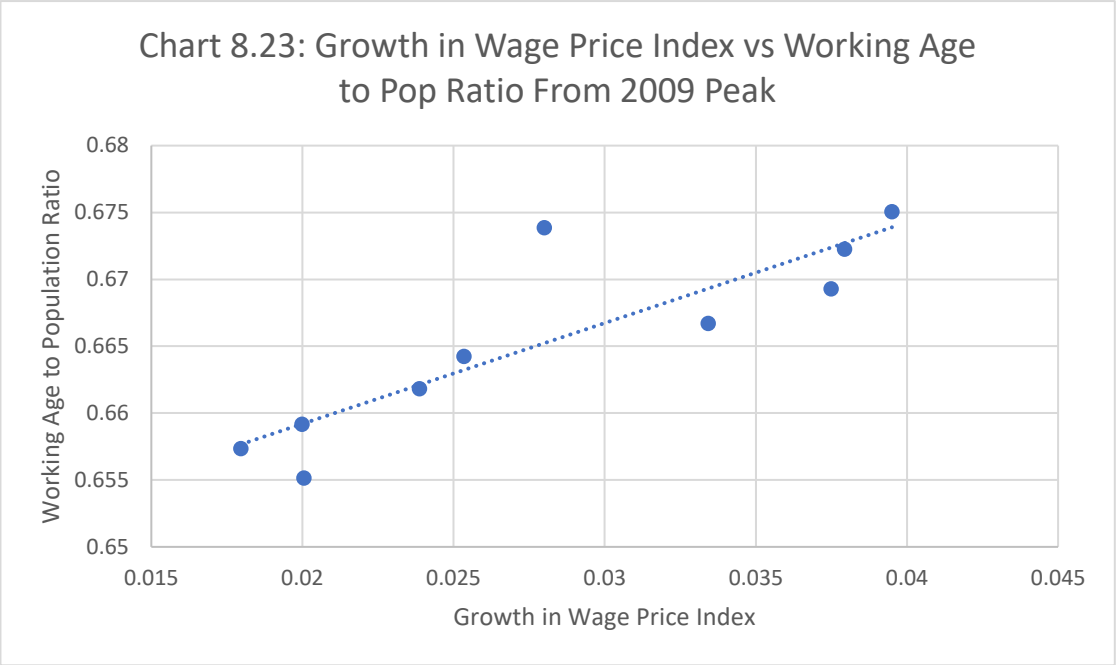
Lowe (2018)[dcxxi] notes that "lifting productivity is the key to building on our current prosperity and ensuring sustained growth in wages and incomes". The weak productivity growth of recent years has unsurprisingly coincided with weak wages growth (see Chart 8.22).



Source: ABS Cat: 6345

While the rate of growth in Australia's wage price index has declined significantly since 2009 and has been hovering around 2 percent per annum in recent years, Frydenberg (2019) forecasts this to increase to 2.5 percent in 2018-19, 2.75 percent in 2019-20, 3.25 percent in 2020-21 and 3.5 percent from then on. This would be well ahead of the forecast inflation rate of 2.5 percent per annum.

Chart 8.23 highlights a strong relationship between a declining working age to population ratio and weak growth in the wage price index (Pearson Correlation of 0.869 with a 95 percent confidence interval). While much of the research literature anticipates strong wages growth associated with ageing (due to assumed labour shortages), the evidence of the last decade across countries such as the USA, UK, Canada and Australia, and earlier for countries in continental Europe as well as Japan, suggest weaker economic growth, weaker productivity growth and weaker household consumption associated with ageing has been having a greater impact on wages than general labour shortages.



ABS Cat: 6345, 3101 and 3222

Daley (2019)[dcxxii] argues that most new migrants to Australia are now low skill due to the dominance of students and working holiday makers working in low skill occupations. With reduction of the permanent migration program, this situation may be exacerbated.

Underpayment of temporary migrants is also the focus of the Report of the Migrant Workers' Task Force (2019)[dcxxiii] which noted "the underpayment and exploitation of temporary visa holders is a significant problem that has adverse effects on individuals, law-abiding employers and the community in general. Employers who flout the law and mistreat migrant workers are undermining Australia's reputation as a fair country in which to live and work".

With Frydenberg (2019) forecasting a very substantial increase in the stock of long-term temporary entrants to Australia over the next decade, the underpayment of temporary entrants will increasingly weigh on growth in wage levels, particularly for low skill work undertaken by overseas students and working holiday makers.

Population increase and government investment in infrastructure

A surprising aspect of Australia's gross capital formation history is the comparatively low level of government investment in infrastructure given its more rapid rate of population growth (see Chart 8.15).

Brain (2019)[dcxxiv] says "from 1985 to around 2007 we saved on infrastructure relative to population growth and we're now paying the price for that…While there is a lot of infrastructure investment at the moment, we are just playing catch up and it's not catering to the current population."

A joint Treasury/Home Affairs report (2018) [dcxxv] found that "migrants to Australia have increasingly been young and skilled. These migrants have softened the impact of Australia's ageing population,

boosted labour force participation, and increased the diversity of Australia's workforce. The economic and fiscal benefits that migrants have brought to Australia have undoubtedly played a part in Australia's 26 years of uninterrupted growth."

But it also said that "a bigger population, including through migration, can heighten existing pressures on infrastructure, housing, and the environment. Without continuing action to find innovative solutions, high rates of growth may also intensify issues such as congestion and excessive waste production. None of these issues are new and would exist even in the absence of population growth."

Sobels et al (2010)[dcxxvi] note that "scale and location are crucial to understanding the physical implications of population change. The focus of concern for managing the physical implications of [net overseas migration] NOM should be on particular locations at the regional/local level as the impact of population/NOM dynamics is more critical for some locations than it is for others… the environmental pressures created by migration are a consequence of where migrants settle in Australia, which is largely in the capital cities and particularly in suburban locations in Sydney, Melbourne and Perth."

Australia is unusual as it has a small number of very large cities with populations well over 1 million (Sydney, Melbourne, Brisbane, Perth and Adelaide) but relatively few medium-sized cities of between 500 000 to 1 million as is the case in the United States and Europe. This means infrastructure and congestion pressures tend to arise in these major cities that attract the bulk of migrants, particularly overseas students who have in recent years represented around 40 percent of net migration, as well as a large flow of international tourists.

The stock of international tourists in Australia, particularly during summer months, is substantial. It was in excess of 630,000 in December 2018, fell to a little over 316,000 in June 2019 and was over 640,000 in December 2019 (see data.gov.au – stock of temporary migrants pivot table).

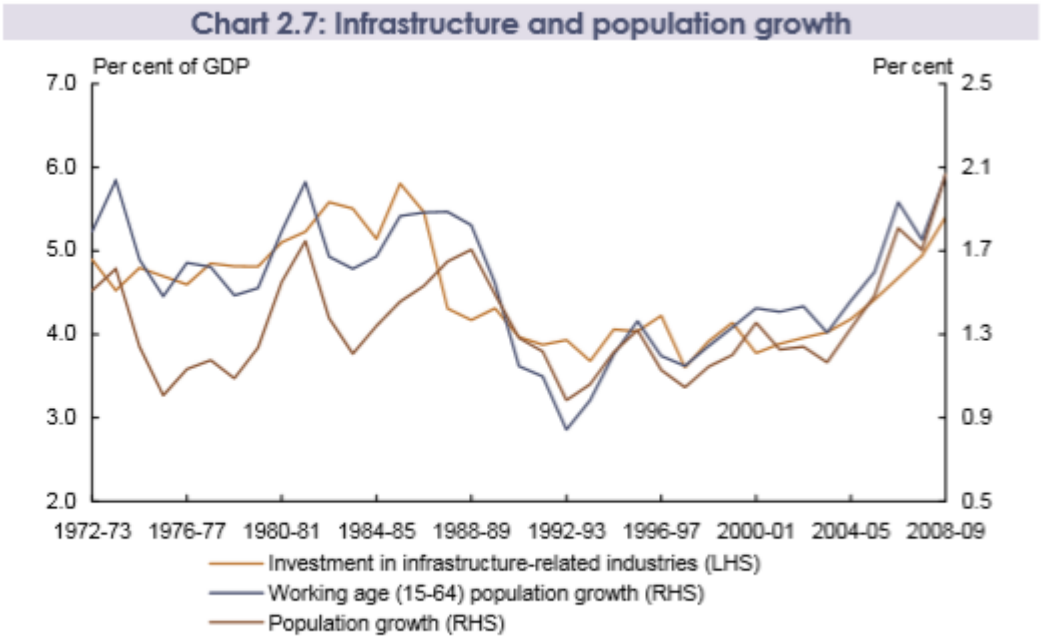
Former NSW Premier Bob Carr has long been concerned that 'Sydney is full'. Current Premier Gladys Berejiklian called for a halving of net migration to NSW (Rizvi 2018)[dcxxvii] due to concerns about congestion, particularly in Sydney. This is despite the fact the NSW Government was the leading state sponsor of skilled and business migrants in 2017-18 (Home Affairs website) and has run 'roadshows' in China, Malaysia, Vietnam and Hong Kong to attract more skilled and business migrants to NSW (NSW Department of Industry, NSW Business, Investor and Skilled Migration Program).

In addition, the NSW Government has "established Study NSW to increase the number of international students studying in NSW…Study NSW is a dedicated unit within the Department of Industry responsible for delivering the 10-year international education strategy outlined in the Industry Action Plan and positioning NSW in key markets as a leader in international education that launches global careers (NSW Department of Industry website on 8 March 2019)." Overseas students have represented around 40 percent of net migration in recent years, including to NSW.

The NSW Government also strongly encourages international tourism to NSW (visitnsw website) which inevitably involves the bulk of these tourists arriving via Sydney and spending substantial time in the Sydney CBD and surrounding tourist attractions.

It would appear the NSW Government wants the economic and budgetary benefits from this people movement but would prefer these people not create congestion.

Against this background, it is not surprising the Productivity Commission found "representatives of state and territory governments consulted as part of this inquiry did not identify immigration's effect on infrastructure as a concern."



Note: Excludes inventory investment. Infrastructure-related industries are electricity, gas, water and waste services, transport, postal and warehousing and information media and telecommunications.
Source: ABS cat. no. 3201.0 and ABS cat. no. 5204.0.

Infrastructure Australia notes that "cities require less fixed infrastructure per capita relative to rural areas because of the economies of scale that accompany infrastructure networks in cities. Still, increasing population density can lead to significant congestion costs that offset the benefits of these economies of scale. These effects are often most acutely felt in road transport infrastructure, but can also occur in electricity and communications infrastructure".

The Commonwealth Government faces a similar conundrum in that Prime Minister Scott Morrison (2019) said he will reduce immigration due to concern about its impact on infrastructure and congestion while at the same time committing to creating 1.25 million jobs over the next five years – something that would be very difficult to achieve without high levels of net migration which in fact were forecast in the 2019 Budget (Rizvi)[dcxxviii]. Morrison has also said the Commonwealth will do more to encourage migrants to settle away from the major cities. This was after a steady decline in use of SSRM visas since 2013 (Rizvi)[dcxxix]. But the long-term effectiveness of these policies in limiting the growth of major cities is questionable given the long-standing relationship between economic success of a city and pressure on infrastructure.

Clearly there is a difficult trade-off between:

- capturing the demographic, economic and budget benefits of immigration, particularly as two-thirds of the migration program since the Howard transformation has been delivered through the skill stream, as well as the export income from international education and tourism; and

- the increased pressure on infrastructure and congestion in the major cities.

While there have been suggestions the Government further reduce the rate of immigration 'until our infrastructure can catch up' (eg Abbott 2018)[dcxxx], this is not necessarily the approach being suggested by Infrastructure Australia who note that "demand for infrastructure does not necessarily rise or fall in proportion with changes in population. Nevertheless, in the absence of changes in the per capita consumption of infrastructure services and/or an ability to manage demand for those services within existing assets, the recent and prospective growth in Australia's population suggests a rising demand for new infrastructure."

Infrastructure Australia (2015)[dcxxxi] goes on to say "the projected growth in population will have significant implications for our infrastructure networks. Given the 'fiscal gaps' projected in various versions of the Intergenerational Report (and equivalent reports prepared by some states), funding (or otherwise meeting) the projected requirements for infrastructure will almost certainly require significant policy change."

While there has been much complaint about the impact of congestion on Australia's cities, it is also notable that major cities in countries with minimal levels of overseas immigration continue to experience congestion pressures (eg Tokyo in Japan) and that the Economist Intelligence Unit's – City Livability ratings continue to have Australian cities very highly rated (eg Melbourne 2nd, Sydney, 5th, Adelaide 10th, Perth 14th).

Source countries, cultural diversity and social cohesion

Most nations have moved on from the views of sociologist Edward Ross[dcxxxii] who in 1914 advocated scientific racism and was strongly critical of immigrant peoples such as Italians and Slavs as genetically inferior. He argued "their presence in the United States as a rootless proletariat threatened skilled native-born workers and promoted political corruption."

In the early 1960s, Gordon (1964)[dcxxxiii] suggested assimilation into the mainstream culture was essential to the success of immigration. In the US, assimilation was more commonly referred to as the American 'melting pot'.

Markus and Taft (2015)[dcxxxiv] consider that for Arthur Calwell, "selling immigration to the Australian public required a government-directed publicity campaign: assimilation was central to this campaign".

They note a June 1947 press statement in which Calwell says "we do not want people who tend to collect in little communities composed of specific nationalities or religions. We do not want people who, having left their homeland for Australia, persist in clinging tenaciously to loyalties and affinities which can only retard their assimilation in the Australian way of life."

In 1950, Menzies stressed the need for immigrants to adopt a 'British' approach to their life in Australia. He said "when they come here, we must receive them as Australians ... We must say to them, in effect, that whatever may be the circumstances of the past ... [in] a few years they will all be Australians, they will all be British, and they will all be, as we are, the King's men and the King's women".

But Markus and Taft note Menzies successor, Harold Holt, "was no supporter of forced assimilation" and note Holt's comments from as early as 1952 stating "We should try to give them the best of what we have here in Australia, and take from them the best that they can bring to us from other lands ... Undoubtedly one of the most effective ways to effect assimilation is a

knowledge and use of the English language ... But we've got to realise that it's a gradual process ... We've got to be prepared to allow them to have their own newspapers ... in this transition stage. We must let them have their own clubs ... and gradually be absorbed over the years. That has been largely the American experience. You get the fully assimilated migrant perhaps in the second generation. You don't expect to get it in the first".

Collins (2013)[dcxxxv] says "integration policy replaced assimilation, though the difference was not clearly defined in public policy, partly because integration policy lasted only a few years before multiculturalism replaced it…The philosophy of multiculturalism was initially developed by the Whitlam Labor Government's immigration minister, Al Grassby, in the early 1970s, though multiculturalism itself was not clearly defined in a policy and institutional sense until the Conservative Fraser Coalition came to office in 1975. Multiculturalism rejected the key premises of assimilation: that immigrants' cultural baggage was to be left at the border; that there was no need for immigrant-specific programs and services to assist in the settlement phase; and that there was no need for new institutions to be established to support immigrant settlement. In constructing the policy and institutional edifice of Australian multiculturalism, the Fraser Government accepted and enacted most of the recommendations of the landmark Galbally Report in 1978."

While multiculturalism has been official government policy in Australia since the 1970s, Howard himself baulked at the word and was eventually convinced to adopt the concept of "Australian multiculturalism". Collins (2013) considers that Howard "simultaneously redefined multiculturalism (to add an economic objective to its social and cultural objectives) and demonstrated a strong lack of enthusiasm for it while increasing immigration intakes considerably".

Both of Australia's two most recent Prime Ministers (Turnbull and Morrison) have proclaimed Australia to be the world's most successful multicultural nation. Turnbull nominated "Australia's cultural tolerance and multicultural society as reasons the country is well-placed to deal with terrorist threats" (Taylor 2016)[dcxxxvi].

Prime Minister Morrison has asked "What do Australia's founding fathers and cultural diversity have in common? Both celebrate this country's great multiculturalism" (Zimmerman 2019)[dcxxxvii].

Zimmerman (2019) argues that "our Christian Prime Minister stop promoting 'multiculturalism' and instead promote the Judeo-Christian culture of Western democracy which has given the world outstanding examples of freedom and prosperity… the Christian image of Australia has already been damaged by the state-imposed ideology of multiculturalism, which is in essence an ideological movement opposed to the western concepts of democratic principles, culture, and identity. It is basically an anti-Western and an anti-Christian ideology".

The key to Zimmerman's concerns is the increasing level of Muslim migration over the past 20 years.

These concerns were also at the source of comments by former Treasury Secretary, John Stone (2009), who considered the Howard Government had only a mixed record on immigration and citizenship matters. He noted that it comprised "achievements, on the one hand, and failures (both of commission and omission), on the other, my ultimate verdict is that it essentially failed at the fence." In essence, Stone strongly supported Howard Government policies on unauthorised boat arrivals but not the increase in immigration levels, including long-term temporary entry.

Stone (2009)[dcxxxviii] says “ever since I first began to think about the topic in the mid-1960s, I have been a strong supporter of a substantial immigration program for Australia. By the mid-1980s this attitude, while unchanged in principle, came to be qualified by growing doubts about the increasingly contrived use of that program to remake Australia in a politically-correct multiculturalist image.”

Withers writing in CEDA (2016)[dcxxxix] argues Australia’s immigration program has always aspired to “a utilitarian approach – one that seeks to ensure the greatest happiness of the greatest number, where happiness is defined as economic improvement for incumbent Australians”.

Markus (2017)[dcxl] notes that despite support for multiculturalism in the general population, “there’s a high level of concern about the Muslim population within the general Australian population and even amongst immigrant groups themselves…the first five surveys we did people reporting experience of discrimination on the basis of their ethnicity or their skin colour, religion was about 12–13 per cent. And now in the most recent survey it's around 20 per cent."

Australia’s domestic security agency, ASIO, has highlighted a rise in far-right extremism in Australia (Burgess 2020)[dcxli].

But these issues are not just being experienced by Australia. Rooduijn (2020)[dcxlii] notes that “over the last three decades, far right parties in Europe have tripled their vote share, from about 5 percent in the early 1990s to more than 15 percent today. About one in six Europeans now vote for parties such as Marine Le Pen’s national Party (previously National Front) in France, Matteo Salvini’s League in Italy, or Viktor Orban’s Fidesz in Hungary”.

Another issue that arises from the Howard Government changes is whether the growth in temporary entrants has had an impact on social cohesion.

In a 2012 paper titled *‘Temporary Migration and its Implications for Australia’*, Peter Mares[dcxliii] expresses general concern about the trend towards increasing levels of temporary migration. He argues the temporary migration program is changing in fundamental ways that will have unpredictable consequences. A key focus of Mares’ concern is the former sub-class 457 and now subclass 482 skilled temporary visa. He notes the employer’s ability to give or withhold sponsorship is very powerful and makes temporary migrants who wish to seek permanent residency particularly vulnerable to exploitation. These temporary migrants may put up with substandard living conditions, illegal or unfair deductions from wages, and other forms of exploitation.

While there are concerns about the exploitation of temporary entrants, there are also negative Australian attitudes to temporary entrants due to the way political and community leaders at times refer to temporary entrants or fail to correct public commentary in this space. Examples include negative comments about skilled temporary entrants ‘taking Aussie jobs’ (e.g. Kinnard 2016[dcxliv], Computer Daily News 2016)[dcxlv]; or overseas students using the visa system to securing permanent migration by the ‘backdoor’ (Leith Van Onselen 2020)[dcxlvi]; or the Deputy Prime Minister, Michael McCormack[dcxlvii] referring in 2019 to the role of Pacific Island workers as being here to ‘pick our fruit’; or indeed the Minister for Home Affairs, Peter Dutton[dcxlviii] in 2018 talking about residents of Melbourne being “too scared to go to restaurants because of African gang violence”.

A more positive view of temporary migration is put in a CEDA Report (2019)[dcxlix] that argues temporary migration is an essential part of modern Australia.

The issue of how Australians and their leaders publicly or privately discuss immigrants generally and temporary entrants in particular could well represent a risk not just to social cohesion but to vital Australian industries such as Tourism and International Education. This is a key issue for further research.

Perhaps in contrast to the Commonwealth Government, local councils both in Australia and around the world appear to be taking a leading role in promoting social cohesion. Australia's Welcoming Cities[dcl] initiative is an example.

A further issue for Government is the need to take greater action to address wage theft amongst both young Australians and temporary entrants such as students and working holiday makers (Robinson and Brenner 2020)[dcli], (Dick 2020)[dclii] Just for 2019, Dick lists the following major Australian businesses that were identified as having underpaid their employees – Woolworths, Sunglass Hut, Commonwealth Bank, Subway, Dominos, the ABC, Qantas, Super Retail Group, Michael Hill, and Bunnings.

Wright and Clibborn (2020)[dcliii] affirm that while migrant workers had high levels of agency from 1973 to 1996, their power has since been incrementally curtailed. Today, Australia's labour immigration policy resembles a guest-worker regime where migrants' rights are restricted, their capacity to bargain for decent working conditions is abridged and their agency to pursue opportunities available to citizens and permanent residents is diminished.

According to the Government's Migrant Worker Taskforce (2019)[dcliv], exploitation and abuse of low skill workers is rife, particularly of temporary entrants.

The Attorney-General Christian Porter (McCauley 2020) [dclv] is reportedly developing new legislation to address this. A key issue will be whether the response will be adequate for the size of the problem and in particular, the situation of low skill temporary entrants.

If the situation continues to deteriorate, the Government may need to consider a stronger role for unions in protecting the rights of temporary entrants. This will be particularly important during the coronavirus crisis that will make temporary entrants even more vulnerable to exploitation because of their lack of access to either the new Job Keeper Payment or Job Seeker Payment (Rizvi 2020)[dclvi].

Chapter 9: Conclusion and Future Directions for Immigration Policy

This thesis has examined Australia's use of managed migration as an instrument of economic policy with a particular focus on the period from the Year 2000 when public debate in Australia was intensely focused on the implications of population ageing.

A key objective of immigration policy from 2000, while not explicitly stated until many years later, was to slow the rate of population ageing by increasing immigration of young migrants with recognised skills and good English language ability. To generate an adequate level of interest from such migrants, the Government implemented policies to grow the number of temporary entrants (eg students, working holiday makers, skilled temporary entrants) with pathways for these people to access permanent residence - an approach that was previously considered taboo amongst policy-makers in both Australia and in other developed nations (Martin 2001)[dclvii].

These measures also contributed to rapid growth in Australia's population, its international education industry, its international tourism industry and provided a supply of skilled workers into other key industries such as health and aged care, ICT, finance, construction and mining as well as unskilled workers via overseas students and working holiday makers while on those visas.

As a result of the immigration policies introduced from around the Year 2000, Australia's median age is today some four years lower than projected by the ABS in its 1999 base year projections (see Chart 8.1) and around five years lower than the OECD average. By 2051, Australia's working age to population ratio is projected in the 2017 population projections to be almost three percentage points higher than in the 1999 base year projections (see Chart 8.2).

The consensus amongst Australia's major economic agencies (ie Treasury, RBA and the Productivity Commission) is that immigration policy has contributed to stronger per capita economic growth, higher productivity and a relatively solid budget balance (see Chapter 8).

These agencies consider immigration policy has also contributed to Australia avoiding a recession for almost 30 years (Lowe 2014)[dclviii].

The findings of these agencies are reinforced by the findings in this thesis which confirm most of the predictions in the research on population ageing including that population ageing would:

- Slow economic growth including per capita economic growth;
- Lower participation rates and the employment to population ratio;
- Lower productivity growth and increase income/wealth inequality;
- Reduce private consumption expenditure and business investment;
- Increase pressure on government budgets by reducing growth in tax revenue and increasing pressure on health and aged care expenditure (see Chapter 2).

A comparison of Australia with Japan, two developed nations that represent polar extremes from a population ageing and immigration perspective, highlights the economic and budgetary impact of population ageing in Japan (see Table 8.3).

Similarly, a comparison of the economic performance of a range of developed nations 15 years prior to their working age to population (WAP) ratios peaking (ie part of the demographic dividend phase) with that after this peak (ie the beginnings of the demographic burden phase) shows a significant deterioration in economic performance (see Tables 8.5 and 8.6). It should be noted that this peak was reached at very different times for different developed nations ranging from the mid-1980s for a

number of European countries; early 1990s for Japan; around 2007-09 for the USA, Canada, the UK and Australia; 2010-2012 for China and South Korea (see Table 8.4).

On average across the OECD, the WAP ratio has fallen 1.62 percentage points since the peak in 2007-08 (see Table 8.4). Economic growth in the OECD in the post-WAP peak period has been around 1.12 percentage points lower than during the 15 years prior to the peak (see Table 8.5). Per capita GDP growth has been one percentage point lower (see Table 8.6). Per capita household consumption has been 1.08 percentage points lower and labour productivity has been 0.95 percentage points lower (see Table 8.9).

While the size of the differential in economic performance between the 15 years prior to the WAP ratio peak (demographic dividend phase) and the post WAP ratio peak (demographic burden phase) varies between developed nations, it is very rare for economic performance in any developed nation for any economic indicator to be stronger in the burden phase compared to the dividend phase. This further reinforces the findings of the research on population ageing.

An aspect of the research that is not confirmed by the above is that population ageing would lead to labour shortages that drive up wage rates. It would appear that, all other things equal, the negative impact of population ageing on private consumption demand and consequently business investment and productivity is stronger than the impact of labour shortages on wages growth.

Population ageing appears to be associated with weaker not stronger wages growth (see Charts 8.7, 8.8, 8.17, 8.19, 8.26 and 8.27) and weaker labour productivity (see Table 8.11 and 8.16).

Population ageing is decidedly deflationary as it contributes to weaker aggregate demand. Hence macro-economic policies that may have been appropriate during the demographic dividend phase (eg fighting inflation first; keeping a lid on wages) may not be appropriate during the demographic burden phase. The current debate on Modern Monetary Theory is relevant to the debate on population ageing.

A key negative of the policies adopted from 2000, however, was that the associated faster population growth rate created congestion in the major cities. This appears to reflect mostly on poor planning at both the Commonwealth and State levels given the extent to which the two levels of government in Australia co-operated to deliver higher immigration. This was despite significant measures to encourage migration to regional Australia and the smaller capital cities (see Chapters 5, 6 and 7).

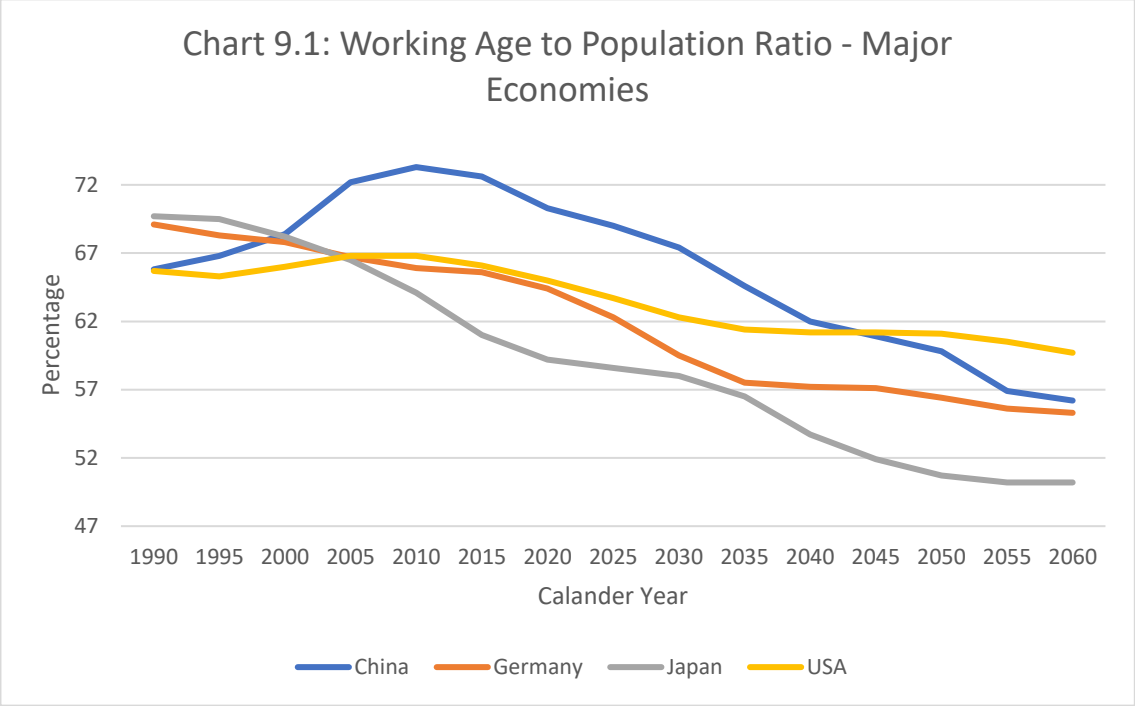
Population directions of developed nations

Along with all other developed nations (as well as China and Russia), Australia is now very clearly in its demographic burden phase. This has been the case for almost all developed nations for at least the last decade. The 2020s will be the second decade in which all developed nations, plus China and Russia, are simultaneously in their demographic burden phase.

According to the UN, the populations of all developed nations, plus China, are projected to age significantly for the next two decades (see Chart 9.1) as the baby boomers collectively move into their retirement years. In addition, many developed nations have already moved into a phase whereby the absolute size of their working age population is in decline – this now includes China - or indeed their total population is in decline as in Japan.

A recent article in the Lancet by a team of researchers at Washington University (2020)[dclix] suggests global population growth is slowing much faster than projected by the UN and may in fact be in decline after around 2065 and possibly be 2 billion less than forecast for 2100 by the UN..

Some developed nations (eg Japan, Italy, Spain, South Korea) appear to be in a low fertility trap whereby it is unlikely they will ever be able to increase their fertility rate to any significant degree above 1.5 births per woman (McDonald 2005[dclx], Lutz 2006[dclxi]). Combined with an ageing population and limited immigration, that must eventually lead to continuous population decline.



Source: UN Population Division

As developed nations move further down the path of population ageing and decline, it is inevitable they will need to at least consider the option of managed migration as a policy tool to slow the rate of population ageing and economic decline. This is already the case for countries such as Japan and Germany but is contrary to the recommendations of a recent EU Commission report (2019)[dclxii] on its demographic future.

Even China has introduced measures to try to attract back its diaspora (Cheong 2018)[dclxiii] and to consider offering permanent residence to some foreigners (Zekun 2020)[dclxiv]. Over the next decade, China may well move from the country of net emigration that it has been over the past 30 years to a country of net immigration.

Competition for highly skilled, young workers will likely become more intense. The EU Commission Report on its future demography (2019) has noted the situation of countries in Eastern Europe, which already have very low fertility rates and have been losing their younger workers to countries in Western Europe.

The UN (2020)[dclxv] says “37 per cent of the 111 responding Governments reported having policies to raise levels of immigration through regular channels, while 26 per cent reported policies to maintain current levels. Only 3 per cent had policies to lower their current immigration levels, while 34 per

cent had either no policy or no data on such measures…68 per cent of the 111 responding Governments viewed irregular migration to their country as a major concern; another 25 per cent viewed it as a minor concern; nearly 5 per cent had no information; while nearly 3 per cent did not consider irregular migration to be a matter of concern".

In terms of population ageing, the UN (2020)[dclxvi] notes "population ageing is a global phenomenon. Virtually every country in the world is experiencing growth in both the size and the proportion of older persons in the population. In 2019, there were 703 million persons aged 65 years or over in the global population. This number is projected to double to 1.5 billion in 2050. Globally, the share of the population aged 65 years or over increased from 6 per cent in 1990 to 9 per cent in 2019. That proportion is projected to rise further to 16 per cent in 2050, when it is expected that one in six people worldwide will be aged 65 years or over. Globally, the number of persons aged 80 years or older nearly tripled between 1990 and 2019, growing from 54 million to 143 million; it is projected to triple again between 2019 and 2050 to reach 426 million. Between 1990 and 2019, the number of persons aged 80 or over doubled in all regions except Europe and Northern America and tripled in four of eight regions. Between 2019 and 2050, the number of persons aged 80 years or over is projected to show the largest percentage increases in Eastern and South-Eastern Asia and in Northern Africa and Western Asia".

"The global fertility rate declined from 3.2 live births per woman in 1990 to 2.5 in 2019. In sub-Saharan Africa, the region with the highest fertility levels, total fertility fell from 6.3 births per woman in 1990 to 4.6 in 2019. Over the same period, fertility levels also declined in Northern Africa and Western Asia (from 4.4 to 2.9), in Central and Southern Asia (4.3 to 2.4), in Eastern and South-Eastern Asia (2.5 to 1.8), in Latin America and the Caribbean (3.3 to 2.0)." (UN 2020)[dclxvii]

The ability of countries with very low fertility rates to retain younger workers in the face of weak economic growth and weak labour markets, will become crucial. These countries may increasingly look like smaller towns and cities in regional parts of Japan or indeed parts of Australia unless they are able to retain and/or attract young skilled workers.

This competition for highly skilled, young workers may well focus on attracting international students and providing them with a pathway to eventual migration as Australia did.

Australia's future population and immigration policy directions

While there have been frequent public reports that have pressed the Australian Government to develop a formal population policy (Withers 1991, Jones 1994, Withers 2012), the Government has largely resisted this. Instead, since 2002, the Australian Government has produced four Intergenerational Reports (Costello 2002 and 2007; Swan 2010 and Hockey 2015) that provided its best view of Australia's long-term population directions and the implications of this for the economy and the Commonwealth Budget. Each of these reports included population, economic and budget forecasts for the decade of the 2020s and beyond.

These Intergenerational reports are about as close to a formal population policy as Australian governments have been prepared to consider.

In 2019, Treasurer Frydenberg produced a ten-year plan that also covered the decade of the 2020s.

While the next Intergenerational Report was due in 2020, the Government has announced that due to the coronavirus crisis, this will not now be produced until 2021. When it is published, the 2021 Intergenerational Report is likely to again use the population, participation and productivity framework for determining the forecast rate of economic growth.

In development of the 2021 Intergenerational Report, key issues will include:

- Whether the public can rely on the underlying assumptions and economic parameters? It should be noted that the Parliamentary Budget Office (PBO) which exists partly to keep the Government honest in terms of budget costings, is not permitted to question the assumptions and economic parameters that are used – it must accept those as given. Is it time to give the PBO that power in terms of both the annual Budget and Intergenerational Reports?
- What will the Report assume in terms of the fertility rate? While the 2019 Budget assumed fertility would rise to 1.9 births per woman, in its July 2020 Economic Statement, the Treasury has indicated it does now expect Australia's fertility rate to decline rather than rise rapidly (Rizvi 2020)[dclxviii]. All other things equal, that means a faster rate of population ageing than forecast in the 2019 Budget and ten year plan.
- What will the Report assume in terms of net overseas migration and thus overall population growth and ageing. The overall net overseas migration assumption will have to be substantially below that used in the 2019 Budget at least for the next four years. That will add to the faster rate of population ageing.
- Will the Report explicitly address the issue of population ageing or will it avoid the issue as in the 2019 Budget ten year plan?

The most uncertain part of the above is the forecast of net overseas migration.

NOM in the 2021 Intergenerational Report

The key population forecasting question for the 2021 IGR is what level of NOM should be assumed under current policy settings once the impact of the coronavirus has passed?

Despite the reduction in the permanent migration program, the 2019 Budget forecast that NOM would rise strongly. This was after NOM was forecast to fall in the 2018 Budget (see Table 9.1).

Table 9.1: Forecast of NOM in 2018 and 2019 Budgets

	2017	2018	2019	2020	2021	2022
NOM in 2019 Budget	NA	259,600 (a)	271,700	271,300	267,600	263,800
NOM in 2018 Budget	242,600 (a)	234,600 (a)	231,400	227,400	221,400	221,400 (b)
Difference	NA	Plus 25,000	Plus 40,300	Plus 43,900	Plus 46,200	Plus 42,400

Source: Budget Paper No.3 (a) Actual outcome in 2017 was 241,660 and in 2018 was 248,440 (ABS Cat 3412). (b) As per standard budget practice, the last year of the Forward Estimates is assumed to continue into forward years unless otherwise indicated.

For the period 2018 to 2022, Frydenberg increased the forecast of NOM by a total of 197,800 compared to Morrison in the 2018 Budget. But given the size of the cuts to permanent migration, was that plausible? McDonald (2019) has shown that that over time there is a strong link between the level of permanent migration and NOM. He shows that differentials between the two do not last long.

So was the Government aiming to break that relationship?

Rizvi (2020a)[dclxix] provides a detailed discussion of the components of NOM that would need to be considered in the forecast of NOM that is used in the 2021 Intergenerational Report.

The key to forecasting NOM will be the speed at which the economy and in particular the labour market recovers after Covid-19, the size and composition of the annual migration program after that recovery, changes to policy settings for each visa type and how the Government goes about addressing a range of immigration policy challenges, particularly large backlogs of partner applications, asylum seekers, bridging visa holders and business skills applicants.

For the past decade, Government thinking in terms of setting the annual migration program has been significantly influenced by the work of McDonald and Temple (2010) using the Modem Model that was developed for the Productivity Commission. This is a 3Ps model (population, participation and productivity) similar to that used by the Treasury in their Intergenerational Reports.

This thesis highlights two key areas where this important model may be built upon:

- A more granular approach to the net overseas migration assumption used in the model, initially by distinguishing between long-term temporary entrants who are likely to be constantly churning and hence remain a relatively younger cohort in terms of population structure, and permanent migrants and citizens. The model would also need to take into account the fact different parts of net overseas migration have very different impacts on participation and productivity. For example, contrast strong growth in the new temporary parent category with weak growth or even decline in overseas students or working holiday makers;

- The Modem Model is essentially a supply side model. This thesis has shown that population ageing and immigration impacts both supply and demand. Population ageing is deflationary leading to slower growth in private consumption (ie weaker aggregate demand). There is thus a need to also approach the modelling challenge from the demand side.

Establishment in 2019 of a Commonwealth/state/territory Treasurer's Forum on Population together with a dedicated population unit in the Treasury Department highlights just how important population change, including immigration, is to economic management.

While Frydenberg did not refer to the impact of population ageing in his ten year plan in the 2019 Budget, he has subsequently acknowledged (2019)[dclxx] that "while growing wealth and technology had lifted living standards globally, this had created a new set of challenges driven principally by an ageing population. Ageing, for example, drives savings which pushes down the price of funds and, ultimately interest rates. Low rates enable global debt, which has spiralled".

It is to be hoped that in the 2021 Intergenerational Report, this will lead to a substantial improvement in the way immigration policy is analysed in the context of Australia's population directions as suggested above.

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Glossary

ADS: Approved Destination Status. A group tourism scheme developed by the Chinese Government. Australia was one of the first western countries to participate in this scheme from the late 1990s.

BIIP: Business Innovation and Investment Program. A range of visas designed to attract successful business people and investors.

DAMA: Designated Area Migration Agreement. These are agreements between the Department of Home Affairs and a region or state/territory of Australia that allow for the migration of short-term temporary entrants (usually no more than 2 years) in specific occupations and under concessionary arrangements for skill levels, English language ability and wages.

Demographic Burden Phase: The period in a nation's history where the working age population as a ratio of the total population is declining.

Demographic Dividend Phase: The period in a nation's history where the working age population as a ratio of the total population is rising.

Fertility Rate: The total fertility rate in a specific year is defined as the total number of children that would be born to each woman if she were to live to the end of her child-bearing years and give birth to children in alignment with the prevailing age-specific fertility rates.

Intergenerational Report: A Government Report issued every five years by the Treasurer on Australia's population, economic and budgetary future. To date four such reports have been prepared in 2002, 2007, 2010, 2015. The 2020 Report has been postponed to 2021.

NOM: Net overseas migration is the means by which the Australian Bureau of Statistics measures the net contribution of immigration to the aggregate population over a period of time. It is defined as the aggregate number of people, irrespective of visa category or citizenship, who arrive in Australia and remain in the country for at least 12 months out of 16 months; less the number of existing Australian residents who have been in Australia for at least 12 months out of 16 months, irrespective of visa category or citizenship, who depart Australia for 12 months out of 16.

RSMS: Regional Sponsored Migration Scheme. An employer sponsored visa category (Sub-Class 187) targeting regional Australia in particular using critical concessions compared to standard Employer Nomination Scheme (Sub-class 186). Replaced by a new provisional visa category from November 2019.

SSRM: A range of visas designed to re-direct the skilled migration program towards the smaller states/territories and regional Australia

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