



Andrew Leigh MP

FEDERAL MEMBER FOR FRASER

15 April 2011

**Australian Parliament
Joint Standing Committee on Migration
Submission no. 147**

Ms. Maria Vamvakinou MP
Federal Member for Calwell
Chair of Standing Committee on Migration
Joint Standing Committee on Migration
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Ms. Vamvakinou,

Please find attached our submission to the Inquiry into Multiculturalism in Australia.

Our submission aims to examine the labour market impacts of skilled migration and the extent to which skills of migrants have been utilised.

Yours sincerely,

Ruth Tay
Economics Student
Australian National University

Andrew Leigh MP
Federal Member for Fraser

The Labour Market Impacts of Skilled Migration

Ruth Tay

Economics Student
Australian National University

Andrew Leigh MP

Federal Member for Fraser

Web: www.andrewleigh.com

Email: andrew.leigh.mp@aph.gov.au

Phone: 02 6247 4396

Address: 8/1 Torrens St, Braddon ACT 2612

**Submission to the Inquiry into
Multiculturalism in Australia**

April 2011

1. The Case for Skilled Migration

Australia's first federal immigration portfolio was created in 1945, with the aim of increasing the population for defence purposes. Since then, the migration program has shifted its focus from developing manufacturing industries to humanitarian purposes and now to skilled migration. Skilled migrants have tripled in the last decade, now accounting for close to half of all migrants (DIAC, 2010a).

1.1 Labour Market Importance of Skilled Migration

In 2007, the Australian Government reported that Australia would face a deficit of 240,000 skilled workers by 2016. As such, the skilled migration program was expanded to address the acute skills shortage. While increasing emphasis has been placed on training local talent – as seen by the growth in the Vocational Education and Training sector – relying on the local population has not been able to adequately fill the gap. A survey conducted by the Australian Human Resources Institute (2009) found that a significant proportion of organisations (69 per cent) experienced skill shortages, despite almost all organisations trying to fill the vacancies within Australia first. The shortages are also set to increase in the near future. It is likely to double over the next five years in the ACT alone (ACT Chamber of Commerce and Industry, 2011). This highlights the increasingly important role of skilled migration in filling the gap.

The negative consequences of the skills shortage have been well-documented (Mitchell and Quirk, 2005; St-George - ACCI, 2007):

- The availability of appropriately qualified employees is the biggest constraint faced by businesses. Business productivity and expansion have been adversely affected as a result.
- The skills shortage is a major barrier to investment.
- Wages do not remain competitive.
- Key growth areas are curtailed. For example, the mining boom has led to a scramble for appropriately skilled workers in the construction, science, engineering, gas, oil and petroleum industries.

Without skilled migration, Australia's relative skill level is likely to fall behind our international competitors in the future. Australia's current level of skill formation lags behind that of top performing countries such as the USA, UK and Canada. This suggests that by 2020, the proportion of low skilled workers in Australia could be triple that of these countries (Leitch, 2006). Migration can be a key solution to boost skill formation and address the skills shortage.

1.2 Impact of Skilled Migration

Australia is a net importer of skills from other countries (Birrell, Rapson and Smith, 2006). That is, immigration has a positive impact on skill shortages. A number of studies have been done to quantify the effects of immigration on labour market outcomes, but few concentrate exclusively on skilled migrants. Here we summarise the results of two important studies that do so. The Productivity Commission (2006) and the Department of Immigration and Multicultural Affairs (DIMA) (2006) estimated the effects of a 50 per cent expansion of the skilled migration program, or an additional 38,490 skilled migrants annually.

Table 1: Comparison of main results from the Productivity Commission and DIMA studies

| Outcomes | Impact of 50% Increase in Skilled Migrants After 20 Years (relative to without increase) | |
|---------------------------------|---|---|
| | Productivity Commission | DIMA |
| Unemployment rate | Negligible effects | Negligible effects |
| Labour force participation rate | Increase by 1.0% | Increase by 0.9% |
| Labour productivity | Decrease by 0.3% | Increase by 0.7% |
| Living standards | Increase in GNP per capita by 0.6% | Increase in real consumption per capita by 1.1% |

The studies use different models but on the overall, similar trends emerge. In general, more skilled migration has negligible or slightly positive effects on long-run economic outcomes.

Both studies estimated an increase in labour force participation. This is the result of a larger proportion of skilled migrants in the prime working-age group of 15 to 39 years of age, as compared to the existing population.

The effect of skilled migrants on productivity does not appear to be as clear as conventional theory suggests. Starkly different results were achieved for the impact on labour productivity. The study by the DIMA study found an increase in productivity due to the higher educational attainment by the average skilled migrant than the existing population. In contrast, the Productivity Commission estimates a decrease in long-run labour productivity due to capital dilution. Capital dilution occurs when capital adjusts very slowly to the increase in population size. Additional research should investigate the rate of capital adjustment in Australia to ascertain this.

These studies did not account for a number of potentially important impacts of skilled migration on productivity. First, the increase in population size can have positive effects through an improvement in economies of scale. An expansion of the domestic market may result, boosting competition and productivity. Second, the increase in population size can also have negative effects through environmental externalities. Productivity would then suffer. Third, the transfer of new skills from migrants to the Australian-born population can raise productivity.

Both studies estimated a positive but small long-term impact on annual living standards. The Productivity Commission recorded an increase in GNP per capita of 0.6 per cent while the DIMA noted a 1.1 per cent increase in real consumption per capita. This was based on the:

- Positive contribution from the increased working-age share of the population.
- Positive (DIMA) or negative (Productivity Commission) contribution of labour productivity. The result is a greater rise in living standards for the DIMA study than the Productivity Commission study.
- Positive contribution from the higher labour force participation and employment.

Overall, the above results show that skilled migration has a positive impact on most labour market outcomes. However, the difference in estimates across studies and difficulty in

measuring certain effects prevents greater conclusiveness. More research should be done to improve the existing models and to update them with more recent data.

2. Skill-targeting and Skill-utilisation

The main objective of skilled migration is to address Australia's skills shortage. As such, it is crucial for immigration policy to target these skills effectively. If this is accomplished, the next step is to ensure that migrants find jobs suited to their skills. This skill-job matching should be perfect in the absence of labour market barriers. The skills of migrants would be well-utilised under these circumstances and the economic benefits of skilled migration maximised. On the other hand, a low level of skill-job matching would indicate that significant labour market barriers exist.

2.1 Skill-targeting by Immigration Policy

Ineffective targeting of immigration policy results in an incompatibility between the skills possessed by immigrants and the skills in shortage. When this happens, migrants are unable to fill skilled vacancies. This is unlikely to be the case given Australia's stringent immigration criteria. Skilled stream categories are directly related to labour market considerations via the Skilled Occupational List and Migrant Occupational Demand List, as well as characteristics such as English language ability, academic qualification, and work experience. We compare the occupational groups facing skill shortages with the pre-migration occupations of migrants to verify whether immigration policy has been effective.

Skill shortages are difficult to pinpoint and quantify. The two common methods are to analyse the movements of various labour market indicators, including the Internet Vacancy Index (IVI) and Skilled Vacancy Index (SVI), and results from employer-based surveys.

The IVI is based on a count of new vacancies lodged by major online job agencies, while the SVI is depends on new skilled vacancies in major metropolitan newspapers. High vacancy growth may hint at an area of skill shortage, or a worsening shortage. Table 2 summarises the movements of the IVI over financial year 2009-10 for the three skilled occupational groups - professionals, managers and technicians and trades workers – and the top industry-specific occupations in terms of change in index. Table 3 shows the movements of the SVI over financial year 2009-10 for the three skilled occupational groups – professionals, associate professionals and trades.

Table 2. Internet Vacancy Index – Summary Table

| Occupations | Per cent change 2009-10 |
|--|----------------------------|
| Managers | 7.2 |
| Corporate Managers | 20.1 |
| Chief Executives, Managing Directors & Legislators | 6.4 |
| Hospitality, Retail & Service Managers | 4.0 |
| Professionals | 13.3 |
| Science Professionals and Veterinarians | 46.1 |
| Sales, Marketing & Public Relations Professionals | 42.0 |
| ICT Professionals | 25.6 |
| Technicians and Trades Workers | 26.6 |
| Automotive & Engineering Trades | 40.2 |
| Construction Trades | 38.3 |
| Engineering, ICT & Science Technology | 36.6 |

Source: IVI data from Skillsinfo.

According to the IVI, technicians and trades workers showed the highest growth in skilled vacancies (26.6 per cent) over 2009-10, followed by professionals (13.3 per cent) and managers (7.2 per cent).

Table 3. Skilled Vacancy Index – Summary Table

| Occupation | Per cent change FY 2009-10 |
|---------------------------------|-------------------------------|
| Professionals | -19.3 |
| Marketing & Advertising | 45.1 |
| Organisation & Information | 43.1 |
| Building & Engineering | 22.9 |
| Associate Professionals | 20.3 |
| Medical & Science | -31.9 |
| Building & Engineering | 26.9 |
| Trades Workers | 51.4 |
| Construction Trades | 115.8 |
| Metal Trades | 108.8 |
| Electrical & Electronics Trades | 42.2 |

Source: SVI data from Skillsinfo. Shaded rows are major occupational categories. Other rows are the narrower occupational groups that show the largest change in vacancies.

The SVI recorded the strongest growth in skilled vacancies for trades workers (51.4 per cent), followed by associate professionals (20.3 per cent). Vacancies declined by 19.3 per cent for professionals.

The IVI and SVI indicate that trades occupations faced the highest growth in skilled vacancies and therefore are most likely to face skill shortages. Professionals are likely to be the next largest source of vacancy growth. However, the difference between the skill shortages experienced by professionals and trades occupations becomes less distinct when we look at the results of several employer-based surveys. According to the *DEEWR Survey of Employers who have Recently Advertised*, similar proportions of vacancies were filled for

professions (61 per cent) and technicians and trades (65 per cent). The Australian Chamber of Commerce and Industry's National Workplace Skills Survey 2010 finds similar results; there were no significant differences between recruitment difficulty levels between the skilled occupational groups.

Next, we look at the pre-migration occupations of skilled migrants to determine whether immigration policy-targeting has been effective. According to the Department of Immigration and Citizenship (DIAC), the top three pre-migration occupations among skilled settler arrivals in 2009-10 were professionals (44.0 per cent), followed by associate professionals (11.3 per cent) and managers and administrators (10.7 per cent). In other words, two-thirds of Australia's skilled settler arrivals previously worked in their source country as professionals, associate professionals, managers or administrators. This suggests that immigration has been most effective at targeting professionals. However, given the high vacancy rates for technicians and tradespeople, it might be worth considering whether the Australian skilled migration program should place more emphasis in the future on migrants who have trade skills.

2.2 Skill-utilisation

Skills can only be utilised if migrants manage to successfully find employment. Australia has performed well with respect to this, with most skilled migrants finding jobs quickly. For example, skilled migrants who arrived in 2009 had an unemployment rate of just 5 per cent within 6 months – lower than the national average of 5.7 per cent (DIAC, 2010b).

Next, an inspection of skill-job matching reveals that much room for skill-job matching remains. We examine immigrant data from two sources:

- 1) DIAC's first Continuous Survey of Australia's Migrants (CSAM), which includes responses from migrants 6 months after their arrival in 2009 (offshore visa applicants) or 6 months after being granted a visa (onshore applicants). Hence, it captures only outcomes early on in the settlement process.
- 2) DIAC's third Longitudinal Survey of Immigrants to Australia (LSIA) – it surveyed immigrants who arrived between December 2004 and March 2005.

Table 4. Employment outcomes of recent migrants compared with the Australian population (October 2009)

| | Full-time employed (% of employed) | Employed in skilled job (% of employed) |
|---|---------------------------------------|--|
| Skilled Stream (overall) | 83.6 | 75.0 |
| Employer Nominated Scheme | 95.0 | 94.1 |
| Points-tested (independents) | 83.0 | 80.0 |
| - Onshore | 79.0 | 66.9 |
| - Offshore | 86.0 | 91.4 |
| Points-tested (sponsored) | 75.0 | 62.7 |
| - Onshore | 72.0 | 52.2 |
| - Offshore | 81.0 | 82.5 |
| Skilled Graduates | 76.0 | 56.2 |
| For comparison... | | |
| Australian population aged 15 and above | 70.2 | 49.2 |

Source: How new migrants fare: Analysis of the CSAM (DIAC, 2010b)

Notes: Migrants from the skilled stream have nominated skilled occupations on DIAC's Skilled Occupation List. The list identifies occupations of high value that will help to fulfil the medium and long term needs of the Australian economy (Skills Australia, 2010).

Skills are utilised effectively only if skilled migrants manage to find skilled jobs. Results of the CSAM indicate that the proportion of skilled migrants employed in a skilled job varies significantly in the short-run according to migrant category (DIAC, 2010b). As expected, migrants from the Employer Nominated Scheme perform the best, with 94 per cent who find a job obtaining skilled employment. Offshore Points-tested Independents and Sponsored applicants perform well with over 80 per cent of those in employment finding skilled jobs. However, the figures for Onshore Points-tested applicants and Skilled Graduate migrants are more disappointing.

One possible explanation of the fact that only 56 per cent of Skilled Graduate migrants who find a job are able to secure skilled employment, is that most are former international students who lack work experience and are unable to meet the criteria for a permanent General Skilled Migration visa.

Points-tested Onshore migrants is a group comprising mostly former international students who pass the points test. They are hence well-qualified and have targeted skills. There is also a large 12 to 20 percentage point difference between their proportions in full-time employment and skilled employed further suggests that their skills are the most under-utilised amongst all skilled migrants.

The 2004-05 LSIA survey results confirm the trends found by the 2009 CSAM survey. Employer nominees still perform the best 18 months after arrival. Before migrating, 91 per cent were employed in a skilled job. After migrating, a similar proportion (92 per cent) of employer nominees obtained skilled employment. All other categories of skilled migrants face a significantly lower likelihood of obtaining a skilled job post-migration than pre-migration. One possible explanation is that this could reflect differences in countries' education systems or the overall skill level of the Australian labour market. For example, it

might be the case that a developing country migrant has sufficient skills to work as a manager in her home country, but the additional complexity of the Australian business environment means that she is unable to find a similar job here. Alternatively, it might be the case that some migrants lack a sufficient command of English to allow them to move countries while retaining the same job level. Another possibility is skill mismatch, perhaps due to locality, discrimination or job-specific factors.

According to the 2004-05 LSIA, only a minority of skilled migrants – between 25 and 40 per cent – are working in their nominated occupation. Previous patterns remain, with employer nominees and offshore independents outperforming the concessional family migrants and former overseas students.

2.3 Labour Market Barriers

One of the most important factors that determines the labour market outcomes of skilled migrants is their country of origin. Migrants from non-English speaking countries face the lowest extent of skill-job matching in the Australian labour market and the lowest employment rates. This has been attributed to their lower levels of English proficiency and a lack of recognition of their overseas qualifications. Migrants from non-English speaking countries also have a significantly lower likelihood of obtaining skilled employment. For example, although migrants from non-English speaking countries and ‘mainly English speaking countries’ have similar employment-population ratios, the former group has only a 66 per cent chance of obtaining skilled employment, which is 21 percentage points below that of migrants from mainly English speaking countries (DIAC 2007).

Further, education and occupation match much more closely for people born in Australia and migrants from mainly English speaking countries than for non-English speaking country migrants. For instance, tertiary-educated migrants aged 35 to 54 from non-English speaking countries are twice as likely to work in low- and medium- skilled occupations as migrants from mainly English speaking countries and the Australian-born population (DIAC, 2007).

The lack of language proficiency is one of the most significant barriers facing skilled migrants. Migrants with weak language abilities have the lowest employment rates and likelihoods of finding skilled employment (Birrell, Hawthorne and Richardson, 2006). Poor language has also been listed by employers as the main problem with skilled migrants (AHRI, 2009).

Discrimination is another major labour market barrier. Economists define discrimination as differential treatment based upon an individual’s personal characteristics that are unrelated to productivity. Discrimination arises due to cross-cultural differences and is often a response to a recent influx of immigrants from a particular country (Wagner & Childs, 2006). Research by DOTAR (2005) on four regional communities found that due to social exclusion, communities were failing to utilise the skills of immigrants. Discrimination takes a toll on the utilisation of migrants’ skills through two channels. First, migrants who face discrimination in their existing workplaces tend to have reduced productivity and absenteeism (Priest and Paradies, 2010). It has been found that up to 70 per cent of workers affected by discrimination take leave from work as a result (Equal Opportunity Commission of New South Wales, 1999).

Second, employer discrimination can create barriers to employment. Although Asian migrants have relatively high employment rates, this is largely due to high levels of human capital. After controlling for attributes such as human capital and proficiency in English, Junankar, Paul and Yasmeen (2004) found that Asian migrants face significantly higher unemployment rates than non-Asian migrants.

An audit study carried out by Booth, Leigh and Varganova (2009) examined the influence of having a non-Anglo Saxon name on the call-back rate. They controlled for unobserved characteristics that affect productivity and are correlated with ethnicity by sending out resumes with different ethnic names but with all other characteristics held constant. Their results indicate that applicants with Chinese-sounding names face the most discrimination as they must submit 68 per cent more applications in order to reach the same call-back rate as applicants with Anglo names. Applicants with Middle Eastern sounding names must submit 64 per cent more applications, while applicants with Italian-sounding names must submit 12 per cent more applications.

Table 5: Estimates of Labour Market Discrimination Based on a Callback Experiment with Fake CVs

| Soundingness of Name | Callback Rate | How many <u>more</u> applications does a candidate with a racially or ethnically sounding name need to submit to get the same number of interviews as someone with an Anglo-sounding name? |
|-----------------------------|----------------------|---|
| Anglo | 35% | N/A |
| Indigenous | 26% | 35% more |
| Chinese | 21% | 68% more |
| Italian | 32% | 12% more |
| Middle Eastern | 22% | 64% more |

Source: Booth, Leigh and Varganova (2009).

3. Conclusion

Australia's skilled migration program is crucial to addressing acute skill shortages and to maintaining the competitiveness of the economy. In this submission, we analyse post-migration employment patterns across various migrant categories.

Measured by the share of employed applicants who find work in a skilled occupation, employer-nominated migrants and Offshore-Independent categories fare the best in all labour outcomes, while former international students tend not to perform as well. One possibility is that this might be addressed through changes to English-language skill requirements, or additional language training.

Discrimination also presents a challenging labour market barrier for skilled migrants. Since discrimination stems from underlying attitudes and perspectives, there is no one easy solution. Rather, closer cooperation between organisations, the government and migrants themselves is required. It is difficult to know precisely how to boost interaction between migrants and Australian-born residents, but policymakers should be alive to a variety of possibilities: including volunteering, internships and cultural exchanges. More audit discrimination research should also be undertaken to pinpoint the extent of and underlying reasons for discrimination.

References

- The Australian (2010), 'Migrants under-utilised', November 17 2010.
- Australian Chamber of Commerce and Industry (2011), 'Employer's commitment to training: key findings from the ACCI National Workplace Skills Survey 2010'.
- Australian Human Resources Institute (2009), 'Australian experiences with skilled migration – perception and reality', HRpulse research report series 3(1).
- Beggs, J. and Bruce C. (1990), 'Search efficiency, skill transferability and immigrant relative unemployment rates in Australia', Applied Economics.
- Birrell, B., Rapson, V. and Smith, T. (2006), 'Australia's net gains from international skilled movement', Centre for Population and Urban Research, Monash University.
- Bureau of Transport and Regional Economics (2006), 'Skill shortages in Australia's regions', Working Paper 68.
- Canadian Council on Learning (2008), 'More education, less employment: Immigrants and the labour market'.
- Department of Education, Employment and Workplace Relations (2010a), 'Skill shortages in Australia'.
- Department of Education, Employment and Workplace Relations (2010b), 'Skill shortages – summary'.
- Department of Immigration and Citizenship (2007), 'New migrant outcomes – Results from the third longitudinal survey of immigrants to Australia'.
- Department of Immigration and Citizenship (2010a), 'Immigration update'.
- Department of Immigration and Citizenship (2010b), 'How new migrants fare: Analysis of the Continuous Survey of Australia's Migrants'.
- Department of Immigration and Multicultural Affairs (2006), 'The economic impacts of migration'.
- DOTARS (2005), 'Cultural Diversity and Economic Development in four Regional Australian communities', Report prepared by Institute of Community Engagement and Policy Alternatives.
- Equal Opportunity Commission of New South Wales (1999), 'Managing for diversity', Publication by Department of Premier and Cabinet.
- Junankar, P., Paul, S. and Yasmeen, W. (2004), 'Are Asian Migrants Discriminated Against in the Labour Market?: A Case Study of Australia', The Institute for the Study of Labor, Bonn.

Leitch Review of Skills (2006), 'Prosperity for all in the global economy – world class skills'.

Mitchell, W. and Quirk, V. (2005), 'Skills shortages in Australia: concepts and reality', Centre of Full Employment and Equity, University of Newcastle.

Nelson, B. (2004), 'A New Approach to Tackling Skills Shortages in Trades', Media Release retrieved 1 Mar 2011, from http://www.dest.gov.au/ministers/nelson/april_04/n673060404.htm

Priest, N. and Paradies, Y. (2010), 'Economic costs of racism in Australia: Scoping project report', Social Justice Discussion Papers, Discussion Paper No. 5.

Productivity Commission (2006), 'Economic impacts of migration and population growth', Productivity Commission Research Report.

Ramsay, S, Barker, M and Shallcross, L (2009), 'Counterproductive forces at work: Challenges faced by skilled migrant job-seekers', International Journal of Organisational Behaviour, Volume 13(2).

Skills Australia (2010), 'Summary sheets for occupations on the Skilled Occupation List (SOL) for migration purposes'.

Skillsinfo, IVI and SVI data, accessed April 8 2011,
<<http://www.skillsinfo.gov.au/skills/LMI/VacancyReport>>

St. George and ACCI (2007), 'St. George – ACCI Small Business Survey'.

Standing Committee on Regional Development for the Regional Development Council (2004), 'Attracting & retaining skilled people in regional Australia: A Practitioner's Guide', Department of Local Government and Regional Development, Western Australia.