

Understanding the Economics of Immigration

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by Lynne S. Williams

Bureau of Immigration, Multicultural and Population Research

Foreword

The Bureau of Immigration, Multicultural and Population Research publications list includes some seminal works on the economic impact of immigration on Australia. In particular, William Foster and Lyle Baker in *Immigration and the Australian Economy* and Mark Wooden and others in *Australian Immigration: A Survey of the Issues* expertly review the literature and issues in this complicated field.

In addition to these general overviews, the Bureau has published many notable works detailing other aspects of the effect of immigration on the Australian economy. These include topics such as the consequences of immigration for wages and prices; external account balances; budgets; trade and capital flows; and employment and the labour market.

The Bureau has noted, however, a substantial need for surveys of this and other fields which are suitable for the secondary school level and the broader public. It has consequently initiated a series on understanding various aspects of the effects of immigration on Australia.

The first in this series is *Understanding the Economics of Immigration*. Written by Dr Lynne Williams of the Bureau, and using the output of the Economics and Locational Branch, it covers very clearly and expertly, and with great professional balance, the various divisions of the subject. Dr Williams is very well placed to fulfil

this task, since she has been involved in writing, managing and bringing to publication a very significant sequence of the recent literature on the economics of immigration. This cogent and succinct summary should be of wide general use and interest. Its high standard reflects the growing richness of this branch of the literature on immigration, a literature to which the Bureau's publications have already contributed greatly.

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Section 1 – Introduction

Immigration is the process of people moving from one country to live in another. There are many reasons why people leave their country of birth. Some people move to be with their families, others to get better jobs and others because they cannot remain in or return to their own country.

Many people have come to Australia as immigrants since the Second World War. ...these numbers have varied over time, with more settlers coming when the Australian economy is doing well. Over this period, the number of settlers has varied from a low of 52,748 in 1975-76 to a high of 185,099 in 1969-70. In 1992-93, the latest year for which data are available, 76,330 people came to Australia as settlers.

Immigration concerns people, and it therefore affects all the economic activities that people are involved in, such as going to work and earning money, and buying or selling any of the range of goods and services available today in Australia. Each new arrival to Australia has a two-fold effect on Australia's economy. First, the

immigrant brings to Australia a set of skills and experience, and in most cases some money. Second, the immigrant needs to live, and so needs to buy food, rent or buy a house, and so on. In economics, these are called supply and demand effects.

Most people have an opinion about immigration. The newspapers often publish stories, articles and letters in which arguments for and against immigration are presented. The answer to the question 'What are the economic effects of immigration?' is quite complicated, and depends on a whole range of issues, such as who might immigration be good or bad for, whether we are looking at the effects now or in a few years, and the sort of effects we are looking for. This booklet discusses some of the points that need to be thought about when trying to understand the economic effects of immigration, and surveys the research results into the economic effects of immigration.

Section 2 – Background

Demand and supply effects

Immigration affects both the demand and supply sides of the economy. It requires more goods and services to be produced to meet the demands of the expanded population, but the new arrivals themselves contribute to supplying that increased production through working or investing their money. Immigrants affect the demand side through household spending (for example, food), through housing requirements, through business-sector expansion (private investment), and through government-sector expansion (for example, health, education and so on). They affect the supply side through the labour, skills and funds they bring, which help the economy through the production of a range of goods and services.

...Skilled workers are those who have a recognised formal qualification, usually at the

Table 1: Immigrants' funds, Australia, 1983-84 to 1992-93

Year	Unrequited transfers (\$m)		Unrequited transfers from overseas	Amount per immigrant brought from overseas (\$)
	Brought from overseas	Sent overseas		
1983-84	977	-291	686	13 996
1984-85	1052	-296	756	13 472
1985-86	1348	-296	1052	14 587
1986-87	1657	-306	1351	14 624
1987-88	2074	-319	1755	14 454
1988-89	2580	-349	2231	17 754
1989-90	2663	-408	2255	21 967
1990-91	2819	-462	2357	23 166
1991-92	2878	-477	2401	26 799
1992-93	1452	-476	976	19 023

Note: Unrequited transfers are monies sent or brought from overseas for which no goods or services are sent in return.

Sources: Australian Bureau of Statistics, *Balance of Payments*, Cat. no. 5303.0, various issues; Bureau of Immigration and Population Research, 1993, *Consolidated Statistics*, no. 17, 1991-92, AGPS, Canberra; Bureau of Immigration and Population Research, 1993, *Immigration Update*, June Quarter 1993, AGPS, Canberra.

post-secondary-school level. In Australia, the convention is to classify skilled workers as those in the following occupations: managerial and administrative (for example, chief executive officers of companies), professional (for example, doctors or engineers), paraprofessional (for example, nurses) and tradespersons (for example, plumbers). Since the mid-1980s, the share of immigrant worker arrivals who were employed in skilled occupations before they immigrated has risen from two-fifths to nearly three-quarters (around 72 per cent). This is significantly higher than the share of resident workers in skilled occupations, which has varied around 42 per cent (or about two-fifths) over the same period. Even if immigrants do not immediately get jobs in their areas of expertise, their presence is a valuable additional source of skills for the Australian labour market or work force.

Table 1 gives information on the amount of money immigrants brought into the country in the period 1983-84 to 1992-93, and some idea also of how much they sent overseas for the same period. It shows that immigrants for each year shown brought in much more money than they sent out. In 1992-93, the average amount brought into Australia was about \$19,000. This was a fall from the average of \$26,800 in the previous year.

These figures in part reflect the category of immigrant coming to Australia. There are three broad components which make up Australia's immigration program. These are family, skill and humanitarian. Immigrants in the family component are admitted to Australia because they have existing family here. Those arriving in the skill component have been selected because of their labour-market characteristics. The humanitarian component includes refugees and others prevented by special humanitarian reasons from remaining in or returning to their country of birth. In 1992-93, there was a greater share of immigrants in the family as compared with the skill component than in the previous year. Because those in the skill component generally bring in more money than their family component counterparts, this partly

explains the fall in the average amount of money brought in by each immigrant in 1992-93.

Efficiency effects

As well as having effects on both the demand and supply sides of the economy, immigrants may affect the efficiency with which goods and services are produced. They could do this in a number of ways. Many immigrants bring skills with them which may be more developed than or different from those already in Australia. If they pass these skills on to resident workers, or even if they just use them themselves, this could improve the efficiency of the work force in Australia. The quality of some goods and services could be improved, or alternatively the same goods or services could be produced more cheaply. Immigrants often start new businesses using different and sometimes more productive (or efficient) techniques. An example is the cheese-making skills brought to Australia by Dutch immigrants. By providing special knowledge of new and better ways to produce goods and services, immigrants may contribute to industry technology. All these contributions could improve the overall efficiency of the Australian economy.

Two further ways in which immigrants may influence the efficiency of Australian industry are through their effects on population size and work-force flexibility. Immigrants increase the size of the population, thus leading to an increase in demand for the various goods and services needed in everyday life. This could lead to economies of scale, whereby things are produced more cheaply in bulk. For example, cooking two cakes in the oven at the same time means the average cost of making each cake falls. In terms of their effects on labour-market flexibility, immigrants may have different skills from those already in Australia, or may be more prepared to go to where the jobs are. Immigrants may not have the same family ties and attachments to particular areas as those born in Australia or those who have been here for many years, and so may be happy to go to areas where new industries are starting up or where demand for labour is greater than the

work force available. In terms of people's ability to move, it should be noted, however, that the Australia-born work force has become increasingly mobile in recent years.

Although it is possible that each of these contributions to industry efficiency occurs, the research cannot yet tell us how strong the connections really are between immigration and each of these various aspects of efficiency.

A framework for assessing the economic effects of immigration

In addition to recognising the demand and supply effects of immigration, and the effect of immigration on efficiency, there are three important choices that lie behind any decision that we might make on whether immigration is advantageous or disadvantageous for the Australian economy.

Aspects of the economy

First, we need to decide which aspects of the economy we are going to examine. There are many economic variables which give a guide to or an indication of the state of the Australian economy. These include:

- the unemployment rate (reflecting the percentage of people in the labour force who cannot find jobs);
- the rate of inflation (or how quickly prices are rising);
- average incomes;
- the budget deficit (which reflects how much more the Government spends on services than it obtains in revenue or taxes);
- the foreign debt (or the amount of money Australia has borrowed from overseas);
- gross domestic product (representing the amount of goods and services produced within Australia); and

- gross domestic product per person.

All these indicators tell us something about the state of the Australian economy, and all are affected in different ways through immigration. People have different views on which economic indicators are the most important, and therefore may judge the economic effects of immigration differently as a result.

These indicators aim to assess the effects of immigration at the macro-economic level (that is, the economy as a whole). We can also look at the effects of immigration at the microeconomic (individual) level. For example, we can examine the effects of immigration on a particular town or area, or on a particular industry or occupation.

The relevant time period for analysis

The second thing we have to decide is the time period we are interested in examining. Do we want to look at the effects on the economy immediately following the arrival of immigrants, or do we want to look at these effects over a longer period of time? Do we want, for example, to wait until the new arrivals have had time to settle their families, learn the customs and practices of Australia and perhaps also learn English if they need to?

Economists usually examine the effects of a change in immigration policy over the medium to long term - say three to five or more years after the change. The immediate or short-term view can also be important. For example, governments provide settlement services to support immigrants in the early months after their arrival to help them 'find their feet' in their new country. Such services might include English language courses for those arriving from countries where English is not commonly spoken. However, in difficult times like recession, there are increasing pressures on governments to spend money on other policies, such as training programs for those who can't find jobs. Some people see the choice as being between spending money on such training programs, and spending money on settlement

services for newly arrived immigrants; therefore, if immigration were reduced, there would be more money for helping those already in Australia.

As you will see in the next section, the story is not quite so simple, because of the demand and supply effects of immigration, and because, on average, immigrants' contributions are different depending on how long they have been in Australia.

The population group of interest

The third decision is about which group of people we are interested in. Do we want to look at the economic outcomes of immigration for the immigrants themselves, the people who were in Australia before the latest group of immigrants arrived, or both groups combined? For example, should we look at the effect of immigration on the unemployment rate of the immigrants only, the non-immigrants only, or the whole population? If, as is very likely, the effects of immigration vary for these different groups, then deciding whether immigration is advantageous or disadvantageous can depend on whether immigrants, non-immigrants or both are the focus of attention.

The choice of which aspect to study is an individual one. Because of this, it is important to realise that people will tend to see the economic effects of immigration differently. This subjectivity, or individual opinion, should be kept in mind when observing the immigration debate.

Section 3 – The evidence at the macroeconomic level

This section discusses the research results related to various overall indicators of immigration on the Australian economy. The indicators examined are living standards, the unemployment level and rate, inflation, Australia's current account, and government budgets. We also look at research which examines whether any of these effects are

influenced by the composition of the immigration program, in terms of the combination of the family, skill and humanitarian components. Part of the issue is whether the unemployment rate would be different if all the immigrants coming to Australia were highly skilled, or if, on the other hand, they were all refugees. As mentioned in the Introduction, immigrants come to Australia for a variety of reasons, and for some of them getting a job is not their first priority. For example, elderly immigrants might come to be with their immediate family, while in immigrant families often the wife makes her first priority settling her children into new schools and a new way of life.

Living standards

The most commonly used measure of the overall economic effect of immigration is living standards, or quality of life. This is usually measured in one of two ways: average annual output (or income) per person or average annual consumption per person. Some argue that any measure ought to be in terms of workers, rather than the whole population, but such an indicator is a better measure of labour productivity (output per worker in a given time period) than of living standards. There is also some debate over whose living standards ought to be the focus of attention: those of the immigrants, the pre-immigrant population or the total post-immigration population. As discussed in the previous section, deciding on the relevant group for investigation depends on the question we want answered. Finally, it is generally accepted that the time period to be investigated ought to be the medium to long term, which allows the total effects of an immigrant's contribution to the Australian economy to be more clearly shown.

There are many studies of the effects of immigration on living standards. The methods of analysis used range from simple examinations of relationships over time, to very sophisticated statistical (econometric) models of the Australian economy. Some studies distinguish between the effects on those already resident in

Australia and the immigrants themselves. Others focus on all those in Australia, including the new arrivals. It is also fair to say that some of the results from the econometric studies are influenced by the assumptions made in developing the models in the first place.

However, the consensus from the wide variety of this research is that the effects of immigration on living standards of any of the groups of interest are very small. Some studies suggest a small but positive effect on output per person, while others show the reverse. Other research shows the effects to be neutral. The majority of studies relate to Australian immigration in the post-Second World War period. Immigration numbers over this period have fluctuated quite markedly, from a low of 52,748 in 1975-76 to a high of 185,099 in 1969-70. It appears possible, therefore, for the Australian economy to absorb quite large numbers of immigrants in a sustained way and not experience dramatic swings in either output or consumption per person as a result.

An important qualification to the consensus that the effects of immigration on living standards are insignificant is that there can still be strong (significant) distributional effects. Put simply, looking at the overall picture for the population as a whole may hide the fact that some groups benefit, or experience a rise in living standards, while for other groups the result is the reverse. This possibility is discussed in section 4, which deals with the microeconomic effects of immigration.

Unemployment

Immigrants add to the size of Australia's labour force. Like those born in Australia, some new immigrants find jobs, while others find it harder to do so. In general, as any economy and labour force grows, both the numbers of those employed and those unemployed increase. However, the best measure of the extent of unemployment in the economy is the unemployment rate. This is the number of people looking for work (the unemployed) expressed as a percentage of the total labour force.

Immigration is often thought to increase the unemployment rate, as the newcomers are assumed simply to add to the number of people already looking for jobs. But this argument overlooks the demand effects of immigration. Immigrant demands for goods and services increase the size of the economy and, as the economy expands, so too do the jobs needed to produce the extra goods and services. So while immigrants add to the labour supply (that is, the number of people available to work), their presence also generates more jobs. The focus of much research has been on the effect of immigration on the unemployment rate, once both demand and supply effects have been taken into account.

The consensus of many studies, which again use a wide variety of research techniques, has been that the supply and demand effects of immigration on the unemployment rate are roughly balanced. Put another way, immigrants create about as many jobs as they take. This result holds for the total unemployment rate, whether we look at data over very long time periods (such as the post-Second World War period), or whether we look only at periods when Australia was in recession. It holds if we use simple relationships between variables over time, or if we use more complicated econometric models of the Australian economy.

...the unemployment rate and the net migration rate (people arriving to stay minus people leaving the country permanently) have varied over the post-Second World War period. Some studies show that immigration leads to a small reduction in the unemployment rate, because the demand effects outweigh the supply effects, while others show the reverse. All studies, however, show that the effect either way is very small and insignificant. The conclusion, therefore, is that varying the size of the immigration program is an inappropriate and inefficient policy tool for influencing the unemployment rate.

What is less clear is who benefits from the jobs created through the demand effects of immigration. Research has shown that for the

whole population, the unemployment rate is not significantly affected by immigration. However, the unemployment rate for recently arrived immigrants (say, within two years of arrival), particularly those from countries where English is not the main language spoken, is higher than that for either those born in Australia or those from English-speaking countries. This largely reflects the time taken by immigrants to settle into the Australian job market as they improve their English language skills or need to gain recognition of their overseas qualifications.

Research has also shown that, in times of recession, immigrants from non-English speaking backgrounds suffer the most in terms of a greater increase in their unemployment rate, and recover more slowly once the economy starts to pick up. Overall, then, and certainly in the short term, it may be that the jobs created through the demand effects of immigration are filled by people already living in Australia, who have a better knowledge of how to find and secure those jobs.

Finally, while the research concludes that there is no significant causal link between immigration and the unemployment rate, the reverse is not the case. Historically, high unemployment rates in Australia have led to subsequent declines in the immigrant intake. This has occurred both because of government policy, and because there is less interest from prospective immigrants in coming to a country where unemployment rates are high.

Inflation

Inflation measures the rate at which prices of goods and services increase. Wage inflation is the rate at which wages go up. There is some belief in the community that immigration causes greater inflation and that it also causes wages to fall.

In the past, it has been argued that increased immigration leads to a larger population competing for the same number of goods and services as before, thus forcing up the prices people have to pay and causing inflation.

However, this argument fails to allow for the supply effects of immigration. The increased population does not lead merely to an increased need or demand for the purchase of goods and services, but also to an increase in the actual production of those goods and services (through immigrant labour, skills and money). With the amount of goods and services available rising with the demand to purchase them, immigration will not necessarily lead to inflation.

Research on the relationship between immigration and inflation shows similar results to those in the immigration-unemployment area. A large body of research exists, which uses a wide variety of time periods and research techniques. Some research shows a small increase in inflation as a result of immigration; other research shows immigration leads to prices being reduced slightly. All the research concludes that any link between immigration and inflation is small, again because of the offsetting demand and supply effects. Thus, immigration has no significant effect on inflation.

When examining the effects of immigration on wages, it is important to distinguish between nominal and real wages. Nominal wages are what we take home in our pay packets, that is, our earnings. If inflation exists, then the \$100 we earned last week will buy us less this week. Real wages correct for the rate of inflation, so that we can get an idea of the value of our wages in a 'fixed' currency, or in terms of buying power. We can convert nominal wages to real wages by deflating them by the amount by which prices have risen (the inflation rate).

There are some who argue that since immigration adds to labour supply, unskilled workers are likely to see their bargaining power eroded, so that real wages go down as more workers compete for the same number of jobs. The argument goes that because workers supposedly have less bargaining power, employers can hire them more cheaply, and not increase wages as prices rise.

However, immigrants, through their demand effects, also add to the number of jobs (required to produce the additional goods and services), so that wage competition may not occur.

Using a wide range of models, economists have shown there is no relationship between immigration, nominal or real wages, and inflation.

Balance of payments

The balance of payments is the record of a country's financial transactions, or of business dealings carried out between the residents of a country and the rest of the world. Two main items in the balance of payments are the export (international sales) and import (international purchases) of goods and services. In Australia, for example, we export minerals and import computers. The balance of payments also records whether the money used to pay for imports was available from within Australia or was borrowed from overseas. In recent years, Australians have imported more than they have exported, and so have had to borrow overseas to pay for the 'excess' imports. This has led to an increase in Australia's overseas debt.

Research to date suggests that the effect of immigration on the balance of payments changes over time. In the years straight after an increase in immigration, the additional investment demand (for example, for new factories and machines), to cope with the extra demand for goods and services from an increased population, cannot be fully supplied from within Australia. Imports go up, with much of the money for the increased spending having to be borrowed from overseas. However, in the longer term the supply effects 'catch up'. The initial burst of investment and import spending declines, while immigrant skills and labour help produce more goods and services within Australia in the newly built and more efficient factories. This helps Australia become more internationally competitive, which then means that people in other countries are more likely to buy from us, thus leading to an increase in Australian exports. In the long run,

therefore, Australia is better able to control its overseas debt.

Agreement on the balance of these short- and long-term effects of immigration on the balance of payments is not as clear as on some of the other macroeconomic indicators. However, it is likely that immigration has little impact one way or the other.

Government budgets

It is frequently argued that immigrants are a significant drain on government resources. For example, some argue that immigrants on arrival immediately join the ranks of the unemployed on social security benefits, or that the money spent on settlement services could be better spent training the unemployed. However, once again the picture changes if we look at both the demand and supply effects of immigration, and if we consider the costs and benefits over a longer time period.

There have been major studies of the effects of immigrants on each of the Commonwealth, State and local government budgets. Both the Commonwealth and State budget studies show that in the short to medium term, these governments outlay more on immigrants, particularly those from a non-English speaking background, than they receive in revenue from immigrants. At the Commonwealth level, costs of settlement services, English language provision, unemployment and other social security benefits exceed the taxes (or revenue) generated by new immigrants.

However, these costs are more than offset once these immigrants have been in Australia for ten years or more. Because the majority of those born overseas have been in Australia for a long time, there is a net positive effect on the Commonwealth budget of all immigrants at any point in time. However, the Commonwealth budget study also shows that in recessionary times, the net costs of a new intake in the short term are likely to be higher, due to greater difficulties in obtaining employment and associated higher social welfare payments.

The Commonwealth collects income tax, by far the largest of all taxes imposed at any of the three levels of government in Australia. States and Territories levy taxes and charges, but these are not enough to provide all those services which are traditionally their responsibility, so they rely on grants from the Commonwealth as their major source of income. At the State/Territory level, expenditure for new or recent immigrants on education, interpreter services, health and housing far exceed revenue generated through non-income taxes such as land rates. As immigrants settle into Australia, they need less assistance from the State/Territory and, indeed, it has been shown that in the longer term immigrants have a much less negative effect on the State/Territory budget than those born in Australia. In fact, those from an English-speaking background on average make a positive contribution.

The effects on local government budgets appear less specific than those for either the Commonwealth or the State, primarily because of the lack of available information necessary for a thorough analysis. One study done in this area focuses on immigrants from non-English speaking backgrounds, as language-related services are the only immigrant-specific service which can be identified at the local government level. This study shows immigrants from non-English speaking backgrounds to be net contributors to local government budgets; that is, they pay more in local council rates and charges than they get back in the form of language-specific services and other non-immigrant-specific services. This is attributed, in part, to the limited range of specific services provided for immigrants of non-English-speaking backgrounds by local governments. It may be due also to lack of knowledge of available facilities by these immigrants, and their possible reluctance to approach authorities about facilities and services.

One aspect of government budgets that has attracted particular attention is immigrants' use of the social security system. Again, it is important to consider the time-frame of analysis. Recent immigrants seeking work may

have trouble getting jobs, and a greater proportion than the average for the population as a whole may be on unemployment benefits. However, in the longer term, the reverse might be the case. A study which looks at the overseas-born as a whole has shown that immigrants of working age, with the exception of those from Lebanon and Vietnam, are less likely to be receiving a pension or benefit than their Australia-born counterparts. It should also be noted that to investigate adequately the issue of over- or under-utilisation of the social security system, it would be important to investigate utilisation by category of immigrant. For example, it is likely that those in the refugee categories would have more trouble getting jobs than those who were admitted to Australia under the skill component of our migration program.

As well, the Assurance of Support (AOS) scheme provides an essential criterion for assessing the applications of some classes of immigrants who are potentially high users of the health and social security systems. The AOS scheme ensures that the burden of some financial costs which new immigrants might incur in their initial years in Australia is not borne by the community but by their sponsors. Unfortunately, social security data are not classified by immigrant category, so analysis based on visa category has not yet been possible.

Another view sometimes expressed is that immigrants who have spent a good part of their working life in Australia often return to their country of birth when they are older, while Australia continues to pay their pensions. Thus money is being sent out of Australia, which, it is argued, is not good for Australia's external balance. The study of the social security system referred to above found that the value of overseas pensions paid to immigrants in Australia is almost double that of Australian pensions paid overseas.

These results do not confirm the opinion sometimes expressed that immigrants are over-utilisers of the social security system.

Size and compositional effects

The three major rationales driving Australia's immigration program have been:

1. to increase Australia's skills base (reflected in the skill component);
2. the rights of all to family reunion (reflected in the family component);
3. international humanitarian obligations.

The different categories for immigrants entering Australia are outlined in Table 2 (below).

Given that immigrants are admitted to Australia for different reasons, it is reasonable to expect the economic effects of different categories to vary. For example, we might expect that, in the short term, the economic contribution of those arriving in the skill component of the migration program will be greater than that of those arriving as refugees in the humanitarian program...

Several studies have examined the macroeconomic effects of varying both the size and composition of Australia's migration programs. There are two general conclusions from these studies. First, the macroeconomic effects of varying either the size or composition within the range experienced in Australia's post Second World War programs are very small. Any effects are stronger in relation to the growth variables: a larger program leads to greater growth in output or productivity, but not necessarily to output per person, because the population is also increasing. Effects of a larger intake on the unemployment and inflation rates, and on the current account balance, are small. A more skilled intake results in more funds being transferred from overseas, and more demand for dwellings and other forms of private investment, but these increases are not significant.

These results are not surprising since the immigrant intake, whatever its composition, has varied between 50,000 and 185,000 in the post-war period compared with a total population which has increased from about 8 million to

Table 2: Migration (Non-Humanitarian) Program and Humanitarian Program planning levels, 1994-95

Component/Category	Planning level	Component/Category	Planning level
Migration Program		Humanitarian Program	
Family		Refugees	4 000
Preferential Family	36 500	Special Assistance	6 500
Concessional Family	10 500	Special Humanitarian	2 500
Total Family	47 000	Total Humanitarian Program	13 000
Skill		Grand Total	86 000
Employer Nomination/ Labour Agreements	4 600		
Business Skills	1 600		
Special Talents	200		
Independents	10 300		
I November On-shore	8 300		
Total Skill	25 000		
Special Eligibility	1 000		
Total Migration Program	73 000		

Source: Bolkus, N. 1994, Minister for Immigration and Ethnic Affairs Media Releases B20/94 and B21/94.

nearly 18 million. Therefore, additions to the total population in any one year as a result of immigration have been very small, with associated very small macroeconomic impacts.

The second general conclusion from studies of the effects of size and composition is that even if models are used to study extreme variations in the immigrant intake, the macroeconomic effects are still small. The most sensitive variable is one of the indicators of living standards: consumption per person. Here an intake comprised only of the skill component can lead to a significant increase in consumption per person over an eight-year period. The corresponding increase in output (or production) per person, an alternative measure of living standards, is not so significant. Non-growth-related variables, such as the unemployment and inflation rates, are again not greatly affected.

The lack of macroeconomic significance of variations in the size and composition of the immigrant intake does not mean that compositional issues are not important from other perspectives of the immigration debate. For example, there may be good social, cultural, locational, humanitarian or other reasons for preferring particular intake compositions. A relevant consideration might be high unemployment in particular occupations, suggesting it makes little sense to allow more people with skills relevant to these occupations to come to Australia.

What the compositional studies reported here suggest is that arguments over the appropriate composition of Australia's immigrant intake need not take macroeconomic effects into consideration.

Overview

What can we say overall about the effects of immigration on the Australian economy at the macroeconomic level?

1. For a range of the most common economic indicators the effects are

neutral. In other words, immigration really doesn't matter much as far as these indicators are concerned. The basic reason for there being neither strongly positive nor strongly negative conclusions about the economic effects of immigration is that immigration has many different possible influences on each of the demand, supply and efficiency sides of the economy. As well, these effects may also vary from the short to the longer term. These differences tend to act in opposite directions and generally cancel each other out.

2. The research evidence indicates that strong positive or negative views on immigration's economic effects simply cannot be justified.
3. Varying the numbers of immigrants admitted to Australia does not appear to be a suitable policy for the Government in trying to influence the general economy. The research shows that immigration's effects on such indicators as average output per person, the unemployment rate, the rate of inflation and the balance of payments have in the past generally been negligible. Similarly, varying the composition of the immigrant intake has been shown to have negligible effects at the macroeconomic level. Government changes to immigration policy are therefore unlikely to have any generally significant impacts on these variables.

Section 4 – The evidence at the micro- economic level

Location-specific studies

There are many different aspects of the microeconomic effects of immigration. One is the economic effects of immigration on a particular geographic location such as a major

town or even a suburb within a town. For example, many immigrants choose to settle in Sydney, and within Sydney they are concentrated in suburbs such as Cabramatta. Immigrants settle in particular areas for a variety of reasons, including wanting to be close to family and friends, and often people from the same country of origin. The geographic distribution of Australia's immigrants and a more detailed discussion of this distribution can be found in *Understanding Where Immigrants Live*, another report title in the 'Understanding' series.

Any concentration of population requires the provision of certain services, such as housing, schools, health facilities, transport and so on. Such services are referred to as social and physical infrastructure. Several studies examine the pressures that immigrants might place on infrastructure in particular areas. These studies look at the effects of immigrants in areas that are already well populated, and also those areas where immigrants start new communities, such as on the outskirts of some of Australia's major

towns. As well, some studies look at the need for immigrant-specific services (such as translation services) in areas where immigrants only make up a small proportion of the population, as in some outback towns.

Because each geographic region is different in terms of population size, composition and existing services, there are few general conclusions to emerge from the variety of studies described above. It is these very differences that highlight the need to look at each area individually when examining the microeconomic effects of immigration.

Industry concentration

A second aspect of the microeconomic effects of immigration is the effect of immigration on particular industries. In the period immediately following the Second World War, immigrants were encouraged to come to Australia to work on large construction projects such as the Snowy Mountains Scheme. Later, many worked in Australia's rapidly growing manufacturing

Table 3: Distribution of employment by industry, Australia-born and overseas-born, Australia, August 1993

Industry	Australia-born		Overseas-born	
	Number	%	Number	%
Agriculture etc.	357 706	6.2	49 532	2.7
Mining	71 574	1.2	18 469	1.0
Manufacturing	714 178	12.4	359 762	19.5
Electricity, gas and water	77 261	1.3	17 558	1.0
Construction	414 796	7.2	139 041	7.6
Wholesale and retail trade	1 237 265	21.4	352 419	19.1
Transport and storage	280 554	4.8	84 903	4.6
Communication	86 040	1.5	28 311	1.5
Finance etc.	639 162	11.1	213 988	11.6
Public administration	310 845	5.4	78 894	4.3
Community services	1 132 935	19.6	344 624	18.7
Recreation etc.	456 579	7.9	154 587	8.4
All industries	5 778 895	100.0	1 842 088	100.0

Source: Australian Bureau of Statistics, The Labour Force, Australia, August 1993, unpublished tables on microfiche.

sector.

In particular, they worked in unskilled jobs in the car and textiles, clothing and footwear industries where a high skill level or knowing how to speak English was not essential. Studies show that while these industries relied on immigrant labour for their workers, often the immigrants were poorly treated by today's workplace standards. As well, studies have shown that because industries in the manufacturing sector suffer most in times of economic recession, so immigrants in the labour force have suffered relatively more in times of economic hardship than those born in Australia.

Table 3 gives data on the number of immigrants employed in different industries compared with those born in Australia as at August 1993. This table shows that the manufacturing industry is still the largest employer of immigrants, closely followed by wholesale and retail trade and community services. The picture is slightly different for those born in Australia. Here, the largest number of employees are in wholesale and retail trade, followed by community services. Proportionally, there are relatively more immigrants than Australia-born in the manufacturing industry. The reverse is the case for agriculture, public administration, community services and wholesale and retail trade.

In general, studies have shown that over time, as industries have become more technologically advanced, both technical skills and English language abilities have become more important in getting and keeping a job. Thus, while historically many industries relied on immigrants to provide much of their 'unskilled' labour, this is no longer the case.

Some studies have also focused on towns that developed through the joint location of a particular industry and associated immigrant labour. A good example is the Illawarra area in NSW. Here the closing of the steelworks in 1989 has left a generation of immigrants unemployed, with few prospects of employment in the local region.

In addition to immigrants supplying labour to particular industries, other industries have relied on immigrants to generate a significant part of their new demand. The housing industry, in particular, is a strong advocate for higher levels of immigration, because immigrants add to housing demand. Studies have shown that while some immigrants come with enough money to buy a house straight away, on average it takes about seven years for other immigrants to save enough money to start buying their own home.

Occupational concentration

A third aspect of the microeconomic effects of immigration is the effect of immigrants on particular occupations. As noted above, some immigrants are admitted to Australia because of their potential to contribute as workers. In the selection criteria for some categories of Australia's immigrant intake, points are given to immigrants in particular occupations. Historically, Australia has used parts of its migration program to deliberately attract (or target) skills in short supply. When Australia is in recession, naturally there are few such occupations. However, immigration can be used to increase a skills base more quickly than locally based training programs as Australia moves out of recession.

All the microeconomic effects described above relate to the effects of immigration on the labour market, and the experiences of immigrant workers. Again, these are covered in another of the 'Understanding' series, *Understanding Immigrants and the Labour Market*.

Income distribution

One final aspect in which immigration might have a microeconomic effect is distribution of income. Does the presence of immigrants result in the rich getting richer? Do immigrants join the richest or the poorest of Australia's existing residents? Not much study has been done in these areas.

A recent study has found that newly arrived

immigrants and those from Asia are more likely to be in lower income brackets than other immigrants or those born in Australia. This suggests that, in their initial years in Australia, immigrants, particularly those arriving from countries where English is not the main language spoken, have relatively low incomes. However, over time, their incomes rise towards those of the rest of the population. This study also found that there was more variation in income distribution between different groups of immigrants than between immigrants and those born in Australia.

Some studies compare the income-distribution position of immigrants with that of the locally born in different countries. They show that immigrant families in Australia and Canada appear to be better off than those in Germany or the United States. Further comparison between Australia and Canada indicates that immigrants in Australia appear to do no worse, and probably do slightly better, than their counterparts in Canada.

Compositional effects

There have been some studies of the economic effects of particular categories of Australia's immigrant intake. To date, most research has been concentrated on the skill categories, generally in an attempt to see if program aims are being met. Several studies exist of the Employer Nomination Scheme, an intake category where employers bring out particular types of workers which they cannot find among Australian residents. These studies have found that there has been a significant transfer of skills from the immigrants to the resident population and an addition to the base level of skills through the presence of the immigrants themselves.

The Business Skills category, like the Business Migration Program that preceded it, has also been the subject of research. This is the category under which people shown to have capital, as well as entrepreneurial skills, are admitted to Australia to start a business. Recent experience in running a business is a prerequisite for this

category.

Over time, the selection rules for this category have been refined to ensure only genuine business people and those likely to invest in Australia are admitted.

The selection test for applicants in this migration category focuses on specific business and personal attributes. While it is too early to conduct a detailed analysis of the business performance of Business Skills immigrants, the monitoring of those who have been in Australia for at least twelve months indicates that worthwhile outcomes are being achieved. For example, half the immigrants in this category are in business (with two-thirds having set up new businesses), an average of almost eight people are employed in each business, two-thirds are involved in exports, and an average of \$860 000 per immigrant has been transferred to Australia.

There have also been some studies of refugees. However, these have tended to focus on the refugees' special needs rather than on their economic contribution to Australia. Nonetheless, an interesting side finding from some of the refugee studies has been the increasing economic contribution of refugees over time. For example, after about ten years in Australia, the unemployment rate among refugees is even lower than that of the Australia-born.

Section 5 – International comparisons

Australia is one of five countries which have formal immigration programs. The other four are the United States of America, Canada, New Zealand and Israel. Israel's program is different from those of the others, in that it has no limit to its immigrant intake as long as prospective immigrants are of Jewish origin. The other four countries have broadly similar programs, in that each has a family, skill and humanitarian component. Naturally, the size of the programs varies enormously between these countries, as does the make-up of the different programs in

terms of the three main components. Most analyses of immigration have occurred in the United States, Canada and Australia, with relatively little work done in New Zealand.

In the United States, immigrant numbers in any one year, while much greater than Australia's, represent a very small proportion of the total population. Studies have therefore tended to focus on the effects of immigration on specific towns or regions. As well, a larger share of the intake in the United States is comprised of the family component. In both Australia and Canada, the focus on the skill component is relatively greater. In all three countries, between 10 and 20 per cent of the immigrant intake is made up of those in humanitarian categories.

All three countries have experienced changes in the major source countries of their immigrants over the last decade. In both Canada and Australia, the shift has been from Europe to the Asian region. In the United States, an increasing share of immigrants comes from South America and some parts of Asia rather than Europe.

In all three countries, immigrants concentrate in urban areas and with people from the same country.

There have been some major studies analysing the economic effects of immigration on Australia compared with both the United States of America and Canada. At a very broad level, the results generally suggest that the economic effects of immigration across these three countries are fairly consistent.

In terms of outcomes, at the aggregate or macroeconomic level, both the Canadian and Australian research suggest that immigration has a mildly positive or neutral effect on the receiving country. A similar result is suggested from the more location-specific studies in the United States. At the individual level, in each country, labour market outcomes are explained by how long immigrants have been there, their English language skills, and their qualifications and work experience.

Less work has been done on the effects of immigration on the New Zealand economy. However, New Zealand is an important country for Australia from an immigration point of view because at the moment people move freely (that is, they don't need visas) between these two countries. Issues such as whether people move to places where they have a better chance of getting a job, or whether they get paid more for given skills in one country or another, become relevant.

Section 6 - Conclusion

Consensus

At the macroeconomic or economy-wide level, most of the evidence suggests that immigration confers either slightly positive or at worst neutral effects on the economy. Some studies do show slight negative impacts on some key macroeconomic variables, but again the size of these is acknowledged to be very small. Of importance for policy-makers is the consensus that:

- immigration does not lead to an increase in the unemployment rate;
- immigration has relatively little effect on both prices and wages;
- immigration has relatively little effect on the balance of payments in the long run; and
- in the longer run immigrants are net contributors to Commonwealth and local government revenues.

The other major consensus is that using immigration as a tool of macroeconomic policy is ineffectual and inappropriate as it does not influence the main economic variables like the unemployment rate, inflation, the balance of payments and so on.

What the researchers do not agree on

The agreement which is emerging on the

macroeconomic effects of immigration is not reflected in the debate at the microeconomic level. As noted earlier, there are many different types of microeconomic studies. They include studies of the effects of immigration on particular regions and locations and on particular industries and occupations, and also include research into the economic effects of particular categories of immigrants.

Some studies show positive influences from immigration, others suggest the results are more negative. For example, at a location-specific level, immigrants have provided excellent workers for some of the mining industry operations in non-urban areas. Yet other studies conclude that the concentration of immigrants in urban areas with others from the same country of birth is placing considerable burdens on social and physical infrastructure there.

Many studies show that the labour-market performance of immigrants in Australia varies according to the component of the immigration program under which they are admitted, their skills and education, their English-speaking ability and their length of residence in Australia. Some groups of immigrants do very well in the Australian labour market while others struggle. As a general rule, immigrants in the skill component tend to do better more quickly than those in the humanitarian component, who have usually suffered extreme hardship prior to arrival and, in any case, are not admitted to Australia because of their labour-market attributes. On the other hand, those arriving in the skill component have to pass some sort of test to assess their labour-market potential. There are arguments for and against having skill categories that target specific rather than general skills.

More details on the criteria underlying the different components and categories under which people are admitted to Australia as immigrants are provided in the report *Understanding Australia's Migration and Humanitarian Programs*.

Much of the debate on immigrant experiences

in the labour market is explained and discussed more fully in *Understanding Immigrants and the Labour Market*.

Are there aspects of the subject yet to be studied?

There are several areas of economics that might be affected by immigration and where further research and understanding needs to be developed. These include the effects of immigration on productivity, the effects of those leaving permanently (emigrants) on the economy, and the relationship between immigration and differences in regional economic activity. While some work has been done in each of these areas, the results at this stage are still preliminary.

In the 1980s and early 1990s many more people world-wide started to move between countries for temporary periods. This increase is due to many factors, including improvements in transportation, and the greater range of inter-country trade patterns. In a sense, the world is getting smaller. There are three main categories of temporary movements to Australia:

- temporary residents;
- overseas students; and
- visitors.

In 1992-93, the number of visas issued in the first two of these categories was 73,390 and 34,710 respectively, while 2,785,600 visitors came to Australia. Each of these groups of people has important (and different) effects on Australia's economy. Temporary residents usually have some sort of work rights and can stay for up to four years. Overseas students add to Australia's export of educational services, and also spend money to live while they are here. They have the right to work (part-time during term time, full-time otherwise), and many do. Visitors tend to come for shorter periods, but spend more. While the focus of research to date has been on the economic impact of permanent arrivals, the increased flow of temporary

movements and their associated economic effects suggest the need for more work in this area.

Final remarks

This report has provided a framework for analysing the economic effects of immigration, and has reviewed some of the effects of immigration on the main economic indicators. Analysing these effects is not simple - there are always demand and supply effects to be considered for any indicator. In addition, decisions have to be made about whether short- or long-term effects should be studied, and which groups of people should be considered.

At the general or aggregate level, the complexity and balancing of the effects suggest that strong positive or negative views on the economic effects of immigration are hard to justify. At the more specific level, agreement is less clear. Immigration may be either advantageous or disadvantageous for a particular region, industry, occupation, or group of people, depending on a range of demographic, economic, social and region-specific factors.