ECONOMIC IMPACTS OF MIGRATION AND POPULATION GROWTH

The Department of Immigration and Multicultural and Indigenous Affairs welcomes the opportunity to make a submission to the Productivity Commission's study into the impact of population growth and migration on productivity and economic growth in the Australian economy.

The Commission's August 2005 issues paper titled **Economic Impacts of Migration and Population Growth** sets out a number of the key trends in Australia's managed migration arrangements. Those trends are:

- the increasing size and proportional strength of the Skill Stream of the migration program;
- increased targeting of skilled migration to labour force needs through employer sponsored migration in particular;
- increased targeting of skilled migration to the development needs of state and territory governments and regional areas of Australia;
- increased emphasis on the development of logical pathways from a range of temporary visas to permanent skilled visas;
- a generally increasing volume of temporary entry for employment and business purposes consistent with the globalisation of economic opportunities and the increased mobility of skilled employees

DIMIA will not elaborate on all these elements in any detail as much of this material is already known to the Commission. DIMIA will work with the Commission as and if required during the course of its deliberations to provide additional information and research material.

Our contribution in this submission can be divided into two broad components as attached :

Part A	a series of questions and comments on particular aspects of the economic, demographic and labour market analysis;
Part B	a more detailed set of comments focusing on the issues of more effective utilisation of overseas skills and the social and economic benefits of productive diversity.

PART A

Scope of the Study

1. Defining economic growth:

    i. We agree that economic growth has to be looked at in per capita terms. We also agree that growth in per capita income is more appropriate from a welfare perspective than GDP per capita or total GDP but this raises two questions:

        a) is consumption per capita a better measure of welfare gain; and

        b) given that productivity is a major concern of the study, is GDP per capita also relevant?

2. Who are immigrants and emigrants?

    i. There appears to be some asymmetry in the definitions adopted in the Commission's paper. Emigrants in the paper are those residents who have left Australia on a permanent or long-term basis but immigrants are defined as all Australian residents born overseas without any reference to whether they are resident permanently or long-term.

    - We consider the definition should be symmetrical such that immigrants should be persons resident in Australia permanently or long term. We propose that the ABS standard of defining long-term as more than 12 months be adopted.

3. Impediments to realising potential economic gain.

    i. We suggest that the Commission not define its consideration of this issue too narrowly. The inference could be drawn from the discussion paper that it is only government induced or legal impediments that would be looked at. Potentially, there are a number of other sources of impediments that could be looked at, including:

    a) characteristics of migrants themselves;

    b) attitudes or practices of Australian businesses/trade unions; and

    c) lack of knowledge/training by Australian business in utilising diverse skills and backgrounds.

    ii. We agree that for the most part things that affected both Australian-born and overseas-born should be outside the scope of the study if both groups are affected similarly. However, where the overseas born were disproportionately affected by some general impediment, then that should also be examined.

Economic Framework Set Out in the Issues Paper

4. The economic framework outlined in Chapter 2 of the discussion paper appears to capture all the major possible relationships. Two minor comments :

    i. We note the comment that "emigration obviously decreases population and productive resources". We note that in the developing country context, there is research which suggests that the supply of skilled natives is stimulated by the possibility of migration. Other research suggests some other benefits to these countries. While any similar effects could be expected to be smaller for developed countries, are the effects zero or negligible and therefore able to be ignored?

    ii. We note that figure 2 shows economic growth as GDP per capita. This appears inconsistent with the definition of economic growth earlier in the discussion paper.

Issues and questions posed in the Issues Paper

International Migration Trends

5. Over the 1980s and 1990s, the number of international migrants increased but the rate of increase slowed over the latter decade. In addition, in the latter decade, all of the increase in migrant numbers was in the developed world[1].
6. Perhaps nearly half of the increase in migration was, or was intended to be, of a temporary nature. For example, EU countries, unlike Australia, the USA, Canada and New Zealand did not generally see themselves as countries of migration. Yet, if not for migration:

    i. Europe as a whole would have experienced population decline during 1995-2000: and

    ii. population would have declined in Germany since 1970.

7. The contribution of migration to Australia's population growth fluctuated markedly over the 1990s but in recent years has been around 50 per cent. In turn, the contribution of temporary movement to net overseas migration gain has been increasing over the 1990s from around 10 per cent to around perhaps 50 per cent. (Recent ABS estimates of net temporary movement have been affected by methodological issues[2].)
8. Most developed countries (and many developing countries) are facing a significant structural ageing of the population over the next 20 years as a result of below replacement fertility rates and increasing life expectancy. In some cases, countries are facing a decline in the workforce and in population without significant migration.
9. As a result, there has been increasing discussion of the role that migration could play in these countries. This has led some countries,

[1] IOM, World Migration 2005
[2] Population Flows: Immigration Aspects 2003-04

for example the UK and Germany, to seek virtually for the first time since the 1970s to manage migration to their countries. However, most of these countries are a long way from having the managed migration of countries such as Canada and Australia.

10. Most countries looking at managing their migration are seeking skilled migration but a few consider that unskilled migration is where their future needs lie eg some Scandavian countries. It is still temporary migration that most countries (outside the traditional migration countries) are looking at, particularly initially. Much of the increased temporary movement over the last 5 years or so is of seasonal workers.

11. The UK does allow some "highly skilled" persons to enter permanently but most migration for work purposes is temporary and requires employer sponsorship. After 4 years on a temporary work permit, the person can apply to stay permanently if they have employer sponsorship.

12. Recently, Germany has enacted its first migration law. This only allows entry to work on a temporary basis but for the first time has established a range of pathways to permanent residence and, eventually, to citizenship.

13. While historically Australia has focused on permanent migration for most of the post WWII period, there has always been some temporary migration and, particularly since 1995, this has been increasing for work purposes, working holidays and study. Australia has sought to make it relatively easy for people here for such purposes to stay permanently if they have skills of use to the economy.

14. Australia has also been actively increasing its focus on skilled migration since 1996-97. In 2004-05, the Skill Stream of the Migration Program was the largest ever at 77,880 places and the overall Program at 120,060 was the largest since the late 1980s. In 2005-06, the Skill Stream is planned to be larger still at 97,500.

15. With globalisation, the ageing of the developed country' population and workforce and the significant increases in labour supply in the developing world, it appears likely that the overall level of international migration will continue to increase over the next few decades and that more countries will make greater efforts to attract the migrants they believe they need. Whether such migrants will be skilled or unskilled, temporary or permanent is less clear.

16. While the unskilled in Australia continue to have relatively high unemployment rates and research continues to suggest that the greatest economic and equity returns come from skilled migration, it seems likely that Australia will continue its focus on skilled migration. It also seems likely that permanent migration will remain an important component of Australia's migration policy in part because it probably plays an important role in attracting temporary migrants to Australia and in part because it may be more readily adjusted to meet

government objectives. Permanent migration and access to citizenship is also important for the kind of nation Australia is.

17. Another trend over the last decade or so has been an increasing tendency for most countries to be countries of both immigration and emigration. This has been increasingly true of Australia with significant increases in permanent emigration and long term departures in recent years.

Linkages

18. The important linkages appear to be largely captured in the stylised economic framework set out in Section 2 of the Issues Paper although productive diversity appears to be implicit rather than explicit therein.

Impacts of population size on productivity and economic growth.

19. Increases in net overseas migration increase population size over what it would otherwise be. Given the current composition of migration to Australia, net overseas migration also increases the numbers of working age and, other things being equal, increases the actual workforce over what it would otherwise be.

20. More importantly, net overseas migration is likely to be the difference between a growing population and workforce and an absolute decline in those stocks. On plausible assumptions about fertility and life expectancy, the working age population would begin to decline early next decade and total population in the third decade of this century if not for immigration.

21. It seems unlikely that a larger population, other things equal, promotes productivity and economic growth unless a larger population in itself leads to economies of scale or encourages inflows of capital for investment or stimulates innovation.

22. In practice, where population is increasing as a result largely or wholly because of immigration, it is also likely that the characteristics or composition of the population is changing. Thus evidence of any independent effect of population growth may be difficult to find.

23. Theory suggests that, other things being equal, both productivity and economic growth are likely to be higher the more the skills of immigrants are complementary to existing residents.

24. Research by Econtech suggests that the more skilled the immigrant intake is the more it raises average skill levels and enhances GDP per head and consumption per head.

25. Whether industries or geographic regions benefit from immigration-induced population growth depends, theory would again suggest, on

how complementary immigrants are to existing workers and other resources in those industries or regions.

26. The impact of emigration on productivity and economic growth in Australia would depend on the same factor.

27. On the issue of increased congestion of public infrastructure, environmental degradation and loss of amenities, is it population growth per se that is relevant? Is it more about the ability of the society and economy to develop appropriate ways of handling public goods and externalities eg improved property rights?

The Impacts of Migration on the Composition and Supply of Skills in Australia.

28. On average, recent migrants are more skilled than the average resident. At the 2001 Census,:

    i. 5.9% of recent migrants had higher degrees compared to 1.8% of the population; and

    ii. 73% have Year 12 or equivalent schooling compared to 42.5% of the population.

29. Recently arrived migrants are also likely to differ from the wider immigrant population in Australia. They will tend, on the whole, to be better qualified and be younger.

30. It is important that the Commission as far as possible distinguish the impacts of migrants by Skill Stream, Family Stream and the Humanitarian Program as the characteristics of migrants will differ in these cases. Migrants in the Family Stream and the Humanitarian Programs are not chosen on the basis of their skills, including English proficiency, and there is no requirement for their skills to be recognised in Australia prior to migration. Many of these people, nevertheless, do have skills.

31. There is evidence of under utilisation of skills in the sense that some migrants are not working in occupations for which they are qualified or skilled. Potentially, the impact of migration on both productivity and economic growth could be higher, where this underutilisation was reduced. The issue of underutilisation is explored further in Part B to this submission.

32. There is some research that suggests that immigration is likely to have provided additional labour market opportunities for existing residents[3].

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[3] See, for example, Chapman B and Cobb-Clark D, *A Comparative Static Model of the Relationship between Immigration and the Short-Run Job Prospects of Unemployed Residents*, Economic Record, Vol 75, No 231, December 1999.)

33. There is also anecdotal evidence that some Australian workers have been encouraged to acquire skills eg a female welder recruited from overseas has led to a receptionist in the same company taking up a welding apprenticeship.

34. Most research in the Australian context suggests there is little impact of migration on unemployment rates[4]. This finding is replicated in much research in other countries, including the USA.

35. We note that the unemployment rate for migrants from the main English-speaking countries is usually below the rate for the Australian-born while the rate for migrants from non-English-speaking countries is usually above the Australian-born rate but there has been significant convergence of rates over the last ten years.

36. It would be expected that migration would increase labour force participation over what it otherwise would be. First, new migrants are clustered in the prime working age years. Second, skilled migrants tend to have high labour force participation rates relative to the general population and the numbers and proportion of skilled migrants have been increasing rapidly in recent years[5].

37. Whether differences between immigrants and Australian-born in unemployment and labour force participation rates will persist over time in Australia is difficult to say. In many ways, recent migrants and future migrants will differ from the existing migrant population and the labour market and economic environment may differ as well.

38. In the Skill Stream, for example, many more are likely to have Australian qualifications and many more will start their life in Australia with skills recognised as being of Australian standard, compared to previous migrant cohorts.

39. Given the likelihood of a tighter labour market in the longer term, other things being equal, as a result of the ageing of Australia’s population, there is some expectation that differences in unemployment and labour force participation might reduce, on average, over the next few decades.

Other Economic effects of migration.

40. Modelling using information from surveys of recent migrants suggest that migrants on average provide a fiscal surplus for Australia. In particular, skilled migrants are estimated to make a strong positive contribution from the very first year in Australia. Modelling suggests that family migrants ie spouses and children rather than parents, also contribute positively with the contribution increasing over time.

41. Research in both the USA and the UK has made similar findings.

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[4] See Wooden M, Holton R, Hugo G and Sloan J, *Australian Immigration: A Survey of the Issues*, 2nd Edition, 1994.

[5] See *Population Flows: Immigration Aspects 2003-2004.*

42. Improved fiscal balances imply increased savings, other things being equal, which could be used for investment, lowering of taxes or increased government expenditure. Depending on the use to which improved fiscal balances are put, there could be impacts on productivity and economic growth.

PART B

Part B of this submission addresses elements of Terms of Reference numbers 3 and 5 related to population and workforce diversity and productivity in Australia:

- *Assess the relationship between migration, its different permanent and temporary categories, population growth, population and workforce diversity and productivity in Australia and its states and territories and regions (where possible) and assess likely future developments, quantifying impacts where possible and drawing on the experience of other OECD countries.*
- *Report on any legislative or other impediments which prevent Australia realising the potential productivity gains from migration and from effective use of Australia's population and workforce diversity.*

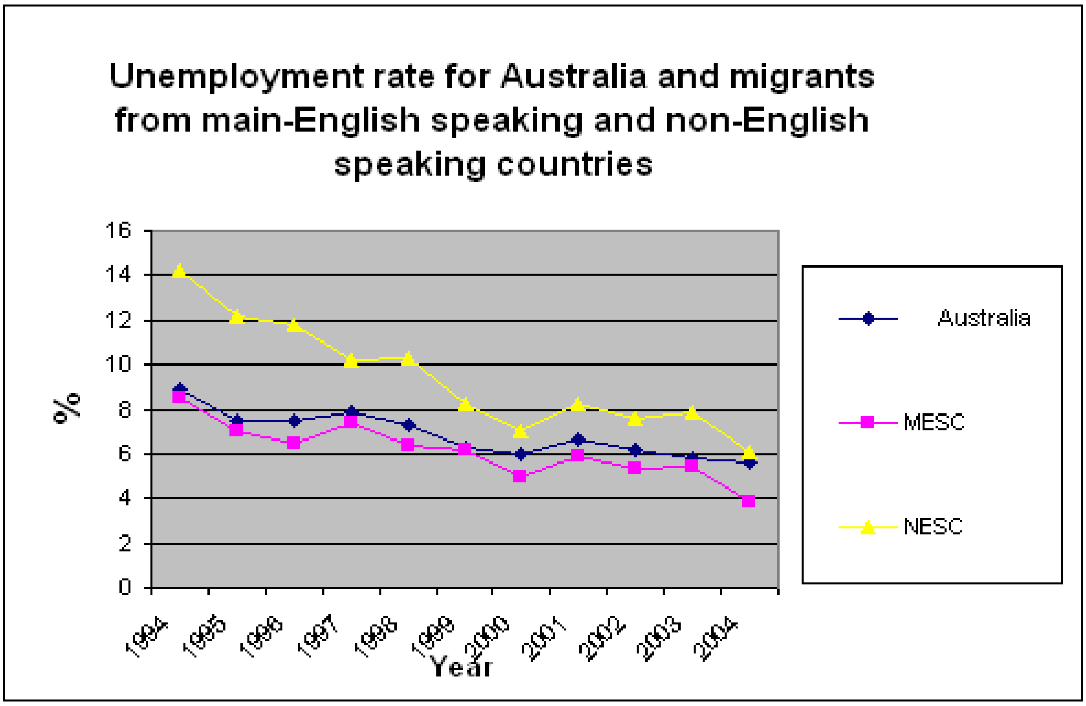
Under-utilisation of migrant skills

1. The extent to which Australia maximises the use and realises the productive potential of the skills delivered by the migration program, including benefits of the language and cultural diversity in the population and workforce, impacts and correlates directly with the extent to which it achieves maximum outcomes in terms of productivity, economic growth, efficiency and global competitiveness.

2. Research and empirical evidence suggest that at present, Australia's utilisation of these significant resources is less than optimal but much better than most other developed nations. This under-utilisation is manifested by comparative data relating to unemployment and labour force participation rates, participation in training, lower equivalised income level, conversion of high educational attainment to high job status, noticeable mismatch between the qualifications and occupations of employed migrants and in capitalising on the business and economic benefits of cultural and linguistic diversity as a resource. Evidence of under-utilisation in these areas is presented in the rest of this submission.

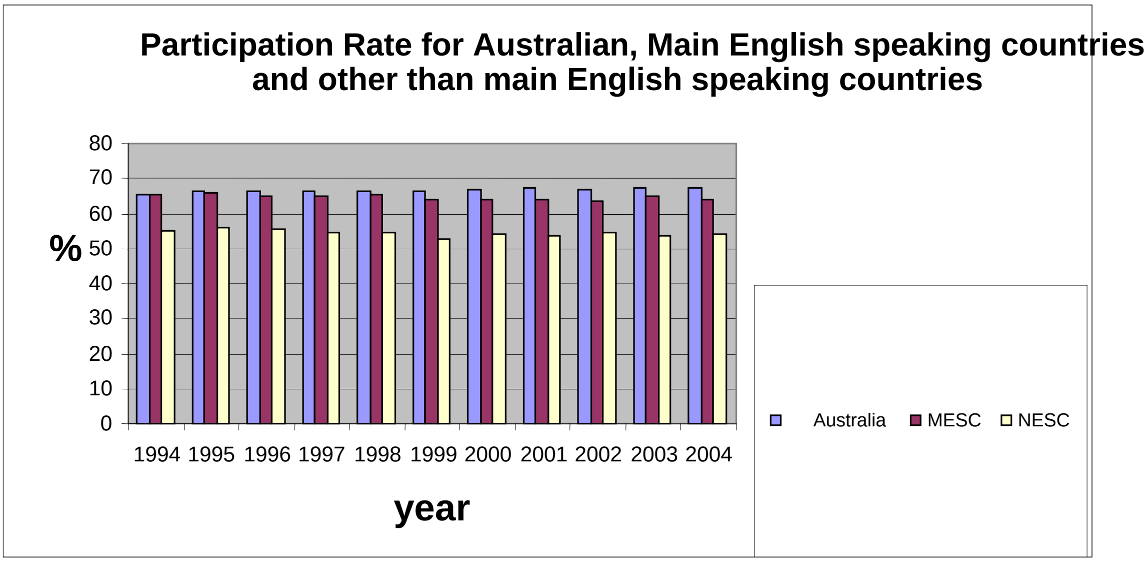
3. Graphs 1a and 1b show the persistence over the last 15 years, although the gap is narrowing, of higher unemployment and lower labour force participation rates for non-English speaking countries (NESC) born migrants compared to the Australian-born or migrants from Main-English speaking countries (MESC). This convergence contrasts with the situation in other countries (eg Canada) where divergence is a concern.

Graph 1a



Note: Unemployment rates taken from the month of June 1994-2004 for each year
Source: ABS labour force status

Graph 1b



Note: Participation rates taken from the month of June 1994-2004 for each year
Source: ABS labour force status

4. More recent findings of the *Labour Force Status and Other Characteristics of Migrants* data is that for the majority (68.4 per cent)

of migrants born in NESC, the unemployment rate in November 2004 was 6.7 per cent compared with 3.7 per cent for migrants born in MESC countries[6].

5. Also, participation in training of NESC migrants is lower than other workers. In September 2004, the participation rate for those born in NESC was 55.4% compared to 68.0% for those born in Australia[7]. With participation in training being lower amongst NESC migrants, their capacity of earnings may be reduced as training and skill enhancement contributes to improved productivity, and hence higher earnings:
   i. The ABS survey of Income and Housing 2003-04 indicates that the weekly equivalised disposable household income is less than $250 for 9.9% of the Australian born population, 9.2% of MESC migrants arriving after 1991 and 17.75% of NESC migrants arriving after 1991. It should be noted however, that a significant proportion of NESC migrants in this group would have migrated via the Humanitarian Program.

6. Evidence also shows that despite their higher average educational attainment, compared to the Australian-born, migrants are less successful in converting years of education into a high status job:
   i. 2001 Census data shows that while 96% of migrants from NESC holding a degree and above, speak English only or have good English proficiency, only 55% of them are employed as Managers, Administrators, Professionals and Associate Professionals, compared to 75% of their Australian-born and 73% of main English-speaking countries born counterparts. Also, 8,895 (2.4%) of NESC born migrants holding a degree and above were employed as labourers/related workers, in comparison to 0.6% of their Australian-born and main English-speaking countries born counterparts.

[6] Australian Labour Market Update, July 2005; Department of Employment and Workplace Relations
[7] ABS data Cube (ST LM7), supplied by the Economic and demographic Analysis Section, DIMIA

	Australian Born	MESC Born	NESC Born
Degree and above holders			
Percentage to population	13.67%	18.16%	18.87%
Number of degree holders	1,198,272	221,772	364,869
Trade/vocational qualifications			
Percentage to population	24.13%	27.89%	20.19%
Number of trade/vocational qualifications holders	2,114,860	340,581	390,333

7. The recent significant shift in the balance of the migration program towards skilled migration and raising the bar in respect of selection criteria, resulted in selection of migrants who have characteristics (better qualified, younger and with good command of English) that enhance their employment prospects in Australia. The Longitudinal Survey of Immigrants to Australia (LSIA1 and LSIA2)[8] data confirm that recent cohorts fared better than earlier ones. Aggregate modelling also indicates that if these skilled migrants' qualities are maintained into the future, Australia will benefit significantly from skilled migration in terms of aggregate GDP growth and per capita. Nonetheless, there is a need to ensure that Australia makes optimum use of the productive potential of the human capital delivered via immigration, in particular skilled migration.

8. While recent skilled migrants have had higher employment rates compared to earlier cohorts in the same category, a significant proportion of them were employed in jobs that did not match their qualifications or in which their overseas qualifications were not recognised, or a mismatch between occupation prior to and after arrival. The LSIA2, Wave 2 data[9] indicates 20% of Independent skilled migrants and migrating unit spouses[10] (MU spouses) do not use their

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[8] LSIA 1 surveyed migrants who arrived in Australia between September 1993 and August 1995. LSIA 2 surveyed migrants who arrived in Australia between September 1999 and August 2000.

[9] Wave 2 covered the period six to 18 months after migration.

[10] Migrating unit spouse is when the spouse is a part of the same migrating unit as the Primary Applicant and detailed information on the spouse will be collected from the spouse.

qualifications in Australia compared to 8% not using their qualifications in their former countries as indicated in Table 2 below.

Table2a: Use of highest qualifications in employment LSIA1and LSIA2 Wave 2 by Visa category, Primary Applicants and MU Spouses with qualifications and in a job

	LSIA1		LSIA2	
(Primary applicants and MU spouses)	Former Country	Wave 2(18 months)	Former Country	Wave 2(18 months)
Very Often or Often (%)				
Concessional Family/Skilled-Australia Linked	81	45	73	58
Independent	84	63	80	71
Humanitarian	71	19	45	19
Rarely or Never (%)				
Concessional Family/ Skilled-Australia linked	8	40	12	32
Independent	5	22	8	20
Humanitarian	18	75	53	78
Have Job and Qualification(%)				
Concessional Family/ Skilled-Australia Linked	71	53	93	69
Independent	78	65	87	71
Humanitarian	28	11	39	9

9. This survey also indicates a drop in skilled employment of migrants in comparison to their employment in former countries as indicated in Table 2b below.

Table 2b: Skilled Employment: Pre and post arrival LSIA1 and LSIA2, Wave 2 by Visa Category, Primary Applicants and MU Spouses

	LSIA1		LSIA2	
(Primary applicants and MU spouses)	Former Country	Wave 2(18 months)	Former Country	Wave 2(18 months)
In Skilled Employment(%)				
Concessional Family/Skilled-Australia linked	64	31	71	42
Independent	72	51	73	55
Humanitarian	34	3	21	3

10. Some of the contributing factors to the downward occupational mobility of skilled migrants after arrival in Australia, in particular for those arriving under the General Skilled, Family or Refugee/Humanitarian programs, include:
    i. Recognition of overseas skills for employment purposes
    ii. Recognition of overseas work experience
    iii. Different licensing and registration requirements in States and Territories
    iv. Lack of local work experience, in particular training for use of technology in the workplace
    v. Registration/licensing requirements regarding entry to the labour market of some professions and trades
    vi. Real or perceived English language proficiency shortfalls
    vii. Perceived attitudes, behavioural and performative traits of qualified/skilled migrants by employers.

11. A study by Miller and Neo in 2003[11] indicates that the United States labour market institutions are more conducive to immigrants than Australian labour markets. Migrant incomes in Australia commence below those of natives but not as far below as the United States, however incomes of migrants to the United States rise much rapidly, eventually to a much higher level than the United States born, while incomes of migrants to Australia rise slowly and never catch up.
    i. 62.5% of foreign-born males and 45.6% of foreign-born females were employed in Australia in comparison to 76.1% of foreign-born males and 50.8% foreign-born females in the

[11] Miller, P.W and Neo L.M (2003) Labour Market flexibility and Immigration Adjustment

United States[12]. These findings, however, could be influenced by differentials in participation rates, age structure and size of illegal immigrants' cohort.

12. Presence of higher unemployment rates, particularly higher prevalence among certain migrant communities (eg Lebanese, Turkish, Vietnamese and refugees from the Horn of Africa), lower labour force participation rates, under-utilisation of the productive capacity in the workplace and lower earnings amongst migrants from NESC not only affects the well being of individuals and families, but the possibility that parental disadvantage could trigger an inter-generational dynamic. This could have direct implications to Australia's social capital. Community relations and community harmony are negatively correlated with increased social and economic marginalisation, which results in reduced social networks and a deterioration of mutual trust.

13. Research suggests that social capital which is – adherence to social norms, well developed networks and associated levels of trust – is a desirable social asset and can generate benefits such as economic wellbeing in terms of prosperity and lower inequality. The Productivity Commission in its 2003 research paper on Social Capital also suggests that there would be benefits in integrating social capital considerations into mainstream policy analysis and governments should consider the scope for modifying policies that damage social capital.[13]

<u>Employment opportunities in occupations relevant to overseas gained qualifications</u>

14. Employment opportunities in occupations relevant to overseas gained qualifications are reduced due to regulated entry to labour market, in particular the regulated and self-regulating professions, where in some fields stringent requirements effectively control entry. The Hilmer report (1995, *National Competition Policy*) found that such a regulatory regime may be more restrictive than necessary to protect public interest objectives for which they were imposed.

15. For instance, it is only since May 2002 (for medical specialists in areas of need) and since May 2004 (for all medical practitioners) that changes to immigration arrangements have been made to assist medical practitioners who wish to migrate to Australia. The changes, made as part of the enhancements to Medicare, allow Medical Practitioners to migrate to Australia under one of the General Skilled Migration visa categories.

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[12] Garnaut,R (2003) Migration to Australia and comparisons with the United States
[13] Social Capital: Reviewing the Concept and its Policy Implications, Productivity Commission Research Paper, July 2003.

16. The Skills assessment process for the nominated occupation of 'Medical Practitioner', includes the following two essential criteria:

    i. meeting the Australian Medical Council (AMC) requirements: and
    ii. making an application for full medical registration to the Medical Board in the State or Territory in which the applicant intends to practise.

17. Evidence of full medical registration constitutes a skills assessment for the occupation of 'Medical Practitioner' for the purposes of migration under the General Skilled Migration program.

18. This recently introduced skills and qualifications assessment for overseas trained doctors to be integrated into the health sector in Australia, has had manifold benefits, including reduction in doctor population ratios and some improvements in supply of doctors to remote and regional areas. However, regulatory regimes apply in several other professions and trades which can act to restrict employment of overseas trained professionals/tradespersons and their ability to practice in the occupation for which they are trained.

19. According to the ABS 2004 *Labour Force Status and other Characteristics of Migrants Survey*, that was conducted throughout Australia in November 2004 as a supplement to the monthly Labour Force Survey (LFS):

    i. Of MESC migrants arriving between1995 -1999, 69% of those employed as Managers/Administrators, Professionals and Associate professionals and 60% of those employed as Tradespersons and related workers in their former countries before arrival to Australia were employed in similar occupations in Australia as of the survey date

    ii. Of MESC migrants arriving between 2000 – 2004, 66% of those employed as Managers/Administrators, Professionals and Associate professionals and 57% of those employed as Tradespersons and related workers in their former countries before arrival to Australia were employed in similar occupations in Australia as of the survey date

    iii. Of NESC migrants arriving between1995 -1999, only 45% of those employed as Managers/Administrators, Professionals and Associate professionals and 22% of those employed as Tradespersons and related workers in their former countries before arrival to Australia were employed in similar occupations in Australia as of the survey date

iv. Of NESC migrants arriving between 2000 – 2004, only 40% of those employed as Managers/Administrators, Professionals and Associate professionals and 26% of those employed as Tradespersons and related workers in their former countries before arrival to Australia were employed in similar occupations in Australia as of the survey date.

20. The inability of a significant proportion of NESC migrants to practice in their occupation can overtime lead to their de-skilling and hence loss of productive potential.

21. If qualifications and competency assessments of overseas trained migrants were conducted against Australian standards for employment purposes, in addition to assessment for migration purposes, possible skill gaps could be identified; including understanding of the Australian work environment and use of technology. The marginal cost of investment to bridge such gaps so that the productive potential of overseas qualified professionals and tradespersons can be realised fully, would be outweighed by the benefits.

22. The cost of bridging courses/training for those who were deemed to need it could be paid for by recipients either up front, for those who are able to pay or on a deferred loan basis, to be recovered with interest once they start gainful employment (i.e. an arrangement similar to HECS).

23. Australian work experience is also one of the employment barriers for migrants. "The Migrants Work Experience program" which was established in 1996 to provide work placement opportunities for employees of the NSW Government with under-utilised overseas skills and qualifications is an example of measures to overcome this barrier. The 1999-2000 Program included areas such as administration, archaeology, community services, engineering, finance, geology, information technology and training and resulted in many participants moving from less skilled work back into their field of expertise.

Business and Economic benefits of diversity

24. Extensive research in Australia and overseas has demonstrated the business case for diversity management. For example, Taylor Cox[14]explored six dimensions of the business importance of effective management of diversity:

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[14] Cox, H.T., 1993 *Cultural Diversity in Organisations: Theory, Research and Practice*: Berret-Keohler Publishers, San Francisco.

i. Cost: reducing or avoiding costs due to poor work integration
ii. Resources: accessing 100 per cent of the talent pool 100 per cent of the time, and keeping the best employees
iii. Marketing: global marketing and multicultural niche marketing
iv. Creativity: heterogenous work groups outperform homogenous ones with new product and service ideas
v. Problem solving: more innovative and effective resolution of operational challenges through the contributions of diverse perspectives
vi. Organisational flexibility: is enhanced with diverse workgroups.

25. Stephen Nicholas[15] highlighted four key themes that have emerged regarding diversity:

i. Global competitiveness: a diverse workforce permits a firm to work more effectively in a culturally complex environment than one without such a workforce.
ii. HR management: effective diverse teams increase the level of work satisfaction, reduce staff turnover, minimise absenteeism, and lessen discrimination creating a “good place to work”.
iii. Knowledge creation: diversity among employees creates organisations that are flexible and responsive in shifts to technology, consumer tastes, government regulation and industry restructuring.
iv. Sales and marketing: a diverse workforce facilitates new sales and enhances market activity and new product development.

Commercial impacts of investment in diversity[16]

26. Research commissioned by Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) and conducted by Bearing Point (Formerly KPMG Consulting) identified and analysed some key drivers influencing commercial investments by business in diversity.

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[15] Nicholas, S., 2000 *Corporate awareness of diversity in the Australian workplace:* Paper presented to the21st century Business ;Delivering the Diversity Dividend Conference, DIMIA, Melbourne.
[16] Bearing Point (Formerly KPMG Consulting): Commercial Imperatives for Investment in Diversity Initiatives; Research initiated by Department of Immigration and Multicultural and Indigenous Affairs 2004

27. The main commercial impacts seen from investment in diversity include:

i. reduced staff costs – reduced recruitment costs, reduced staff absences, higher staff retention rates, increased workforce adaptability;
ii. reduced customer or client complaint handling costs;
iii. reduced litigation costs, or potential litigation costs (opportunity cost);
iv. increased productivity – increased outputs, improved work processes;
v. reduced downtime and errors;
vi. increased customer retention;
vii. increased brand recognition;
viii. innovation – new products, new markets, new customers, new partnerships;
ix. increased profitability – increased revenue, increased sales, increased market share, increased shareholder value.

Combining drivers and impacts

28. The three matrices below bring together the key categories of drivers of business investment in diversity (business prosperity, contribution to the community and workforce management) with the ways of measuring their commercial impact.

Business prosperity

Driver for investment	**Measurement**	**Potential commercial impact**
Creation of a learning environment	- New skills sets utilised - Staff competencies linked to current and future organisational requirements	- Increased outputs - Increased workforce adaptability - Innovation (new products and new approaches)
Innovation	- New and improved processes - New and expanded products - New and expanded markets - New and expanded customer bases - Improved product quality	- Increased revenue - Increased sales - Increased profit - Increased market share - Increased shareholder value
Maintenance of or growth in market position	- Market share - Sales - Sustainability	- Maintenance of, or increased revenue - Maintenance of, or increased sales - Maintenance of, or increased profit - Maintenance of, or increased market share
Customer retention	- Customer profile - Customer turnover - Customer satisfaction	- Maintenance of, or increased revenue - Maintenance of, or increased sales - Maintenance of, or increased profit - Maintenance of, or increased market share
New business networks	- Product innovation - Customer profile - Sales - New partnerships - New markets	- Increased revenue - Increased sales - Increased profit - Increased market share
Business growth	- Market share - Sales - Diversification in products and markets	- Increased profit - Increased market share - Establishment of new markets
Brand recognition	- Customer recognition	- Maintenance of, or increased customer base - Maintenance of, or increased sales - Maintenance of, or increased profit - Maintenance of, or increased

Driver for investment	Measurement	Potential commercial impact
		market share
Customer satisfaction	- Customer profile - Customer loyalty	- Maintenance of, or increased customer base - Maintenance of, or increased sales - Maintenance of, or increased profit - Maintenance of, or increased market share

Contribution to the community

Driver for investment	Measurement	Potential commercial impact
Social responsibility – a ‘good corporate citizen’	- Staff perceptions - Shareholder perceptions - Customer perceptions - Market perceptions - Positive market perception - Brand differentiation	- Maintenance of, or increased (new) customer base - Maintenance of, or increased sales - Maintenance of, or increased profit - Maintenance of, or increased market share - Attraction of investment - Shareholder membership and value

Workforce management

Driver for investment	**Measurement**	**Potential commercial impact**
Legislative compliance	- Number of complaints - Number of complaints resulting in litigation - Cost of complaints - Potential costs of complaint management - Reduced negative media	- Reduced resources involved in complaints management - Reduced litigation costs
Workforce stability	- Retention rates - Sick leave rates - Compensation claims - Utilisation of flexible work options by employees at various levels	- Reduced recruitment and staff costs - Reduced cost from unplanned absenteeism
Strong social fabric of the organisation	- Demographic profile of employees across all positions - Staff satisfaction - Organisational climate - Employee performance	- High retention rates - Low levels of downtime caused by disputes - High productivity - Reduced production errors
Improved productivity	- Downtime – eg reduced downtime due to new knowledge acquisition, replacement of staff, requirements for retraining, introduction of new products and services, industrial relations disputes - Error rate – eg quality control	- Increased outputs - Improved work processes
Access to a wider skills pool	- Time taken for recruitment - Skills fit positional requirements - Cost for the replacement of staff	- Reduced recruitment costs - Reduced vacancy levels
Employer of choice – effective staff recruitment and retention for current and new markets	- Skills mix/vacant positions - Time and cost of recruitment - Retention rates - Recruitment of staff to emerging markets	- Reduced recruiting and search costs

29. In 1994, the Productivity Commission's Task Force on Leadership and Management Skills in its report *Enterprising Nation (*AKA Karpin Report) identified capitalising on the talents of diversity as one of the key five areas for immediate action for upgrading management performance in Australia. The Task Force proposed a *"major recommendation to the private sector and government that they give high priority to strategies to capitalise on the talents of Australia's diverse population in Australian business and industry".*

30. However, a recent survey (2001) of 227 CEOs of domestic and foreign owned international firms in Australia indicated that only 33% had documented diversity policies and 22% did not employ workers from non-English speaking backgrounds while 83% had EEO policies, indicating that the "compliance culture" or a "deficit model", and not a "benefits model" remains the dominant business approach to diversity in Australia[17].

Magnitude of Australia's Cultural and Linguistic Diversity

Cultural and language diversity is one of Australia's greatest resources.

31. Australia has welcomed more than six million migrants since 1945 to help build the prosperous and peaceful nation Australians enjoy today. At the 2001 Census, Australia had about 19 million people. Of this population:

    i. 43 per cent were either born overseas or had at least one parent born overseas, and
    ii. over 200 languages were spoken; following English, the most common being Italian, Greek, Cantonese, Arabic, Vietnamese and Mandarin.

32. The language and cultural diversity of Australia's population is also strongly reflected in the workforce and small business ownership. In October 2002:

    25 per cent of Australia's workers were born overseas, with 15 per cent coming from non-English speaking countries (NESC)

    i. 29 per cent of the total number of small businesses in Australia were owned/ operated by people who were born overseas
    ii. 70 per cent of Australia's workforce was employed by small and medium size enterprises (SMEs), and this

[17] The Diversity Dividend (June 2001): research by the Australian Centre for International Business

sector also generates the fastest growth rates in terms of employment, exports and innovation.

33. As mentioned earlier, research indicates that workplace diversity can stimulate creativity and foster innovative thinking, by providing different perspectives for superior and creative problem solving and business decisions and creating an environment for organisational learning and knowledge sharing. In addition, employees who feel valued and supported by their organisation tend to be more productive and innovative, leading to stronger business performance.

34. Given the changing composition of Australia's population and the increase in people from diverse cultural backgrounds, domestic market niches are becoming substantial (43% or 8.8 million of the Australian population are either born overseas or have at least one parent who was). Hence a business competitiveness and growth is predicated on reaching the 'whole' consumer market. Capitalising on the cultural diversity of employees provides a business competitive edge; because marketers with the same cultural and/or language background, or who have such skills, as the customer are able to relate better and understand the needs and preferences of the consumer.

35. As companies become more global, the need to integrate cultural diversity marketing, sales and customer services strategies is becoming increasingly essential for gaining and maintaining a competitive edge. Firms that capitalise on the diversity of employees and make effective use of their specialised knowledge of overseas markets and cultural protocol expertise can become more competitive globally.

36. Non-English speaking countries represent seven of our ten largest export markets and eight of our ten fastest growing markets[18]. In fact, 75% of Australian trade is with non-English speaking countries[19]. The language skills and cultural protocol knowledge of migrants from non-English speaking backgrounds represent a natural reservoir of talent that could be deployed to advance the performance of business sectors in Australian economy; in particular tourism, education, trade and foreign investment.

37. In addition to their professional and trade qualifications, skilled migrant employees also bring language and cultural skills. Language and cultural diversity provides Australia's business opportunities for boosting productivity and innovation in the workplace, developing

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[18] National Agenda for a Multicultural Australia: Department of Immigration and Multicultural and Indigenous Affairs.
[19] The Business Case of Diversity: Mt Eliza Business Review 1998

domestic niche markets and using the networks amongst migrants as a competitive edge for doing business in the global market.

38. DIMIA promotes the business and economic benefits of language and cultural diversity through the *"Diversity Works!"* Program. (For more information refer to the Diversity Australia website www.diversityaustralia.gov.au).The overall aim of the "*Diversity Works!*" Program is to encourage and support business to harness and capitalise on the talents of language and cultural diversity in the workplace and the community.

39. The bottom line benefit of diversity at the individual business level is illustrated citing a business case study of the McDonald's restaurant in Punchbowl in Sydney. In response to the demographic profile of the local community, this restaurant introduced a selected range of Halal products including Halal burgers which led to a 15% increase in sales and an increase in the customer base with 700 to 800 new customers visiting the restaurant each week, employed 10 new staff and increased the number of hours worked by existing staff. For more details see Attachment A.

40. The economic benefits of diversity at the industry sector level is illustrated by a case study commissioned by DIMIA on Australia's Halal Food Industry. The case study provides estimates of the current and potential contribution of the Halal food industry to the Australian economy. In 2002, Australian food exports to Muslim countries were valued at $3.7 billion:

    i. the combined export value of beef, veal and sheep meat products was over $330 million; and
    ii. dairy exports to predominantly Muslim countries in Asia and the Middle East was worth more than $1 billion.

41. There are about 14 approved Islamic organisations currently providing Halal certification, inspection and supervisory services to the Australian food industry. For more details see Attachment B.

42. There are many other case studies on the Diversity Australia website of Australian businesses, large and small and medium size enterprises, who are already reaping the rewards and benefits from capitalising on the diversity of their employees and the population.

<u>Potential costs to Australian business, economy and fiscal outcomes as a result of under-utilisation of migrant's human capital and the benefits of diversity</u>

43. Failure to fully realise the productive potential of skilled migrants and failure to capitalise on the business and economic benefits of the diversity of our population and workforce would have direct opportunity costs; such as:

i. High business costs associated to less effective management of workplace diversity which could cause lower job satisfaction and high rates of absenteeism and staff turnover. Evidence shows that minority groups in the workplace tend to have lower levels of job satisfaction and higher rates of turnover. Turnover can be very costly (separation, replacement and training costs incurred) to an organisation. The NRMA, for instance estimated the cost of replacing a manager at $48,000, and other staff members at $12,000. Generally, organisational turnover costs per person are estimated between 93 and 200 percent of their annual salary[20].

ii. Loss of productivity and high workers compensation and rehabilitation costs because of high risk and incidence of workplace injury. Safety and health at work is a major issue for all workers, but it specially affects migrants from NESC because they disproportionately work in manufacturing, construction and other heavy industries where the majority of workplace accidents and injuries occur.

iii. in a study by Worksafe Australia (1994), *The Role of Migrant Factors in Work-Related Fatalities in Australia*, overseas-born workers were found to have a higher fatality rate than the Australian-born. For instance, for migrants from NESC, 40% of deaths were in manufacturing and construction compared to 22% among their Australian-born counterparts;

iv. the Industry Commission's Inquiry into Occupational Health and Safety (1995) found that migrant workers from NESC have higher work-related fatality rates than the average workforce. In their first year in Australia, migrant workers had almost four times the risk of fatal injury than those born in Australia;

v. higher injuries experienced by migrant workers from NESC are also reflected in our rehabilitation and compensations systems. According to Industry Commission's Inquiry, *"the South Australian WorkCover data demonstrates that the cost of NESB workers claims*

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[20] Diversity No 6, 2002: "The Diversity Dividend" ; The Australian Centre for International Business

are on average 40% greater than those from English speaking backgrounds" (1995, Vol 2, p 43)

vi. The South Australian WorkCover Corporation data[21] for 2002-03 indicate that income maintenance claims cost for NESC workers is higher than the average cost in several occupations; 16% of the income claims by farm hands were made by NESC workers and were 33% higher in dollar value than the average cost. In some occupations like that of a heavy truck driver, the income claims cost for a NESC worker was 87.4% higher than the average income claims cost in that occupation.

vii. forgone revenue that would accrue from personal income tax owing to comparatively higher unemployment rates or lower earnings because of downward occupational mobility;

viii. higher budget outlays in terms of income support and other support services to unemployed migrants and their families. Migrants from NESC (who comprise 23% of the total population) are over-represented in the lowest income quintile – 31%, which is well above the 20% defining the quintile[22];

ix. higher aged pension/care bill due to disproportionate numbers of aged migrants who would have higher dependency on Government support owing to their reduced or lack of capacity to provide for themselves in retirement. The 2001 Census data shows that NESC-born make up 18.2% of Australia's population over the age of 65 (overseas born make 30.5%) and population projections indicate that migrants from non-English speaking countries shall represent 21.2% of the of the total aged (65+) by 2026[23].

x. loss of actual/potential contribution of diversity to productivity and innovation in the workplace

xi. less than optimal use of cultural and language skills as a competitive advantage for improving trade and investment performance in changing markets domestically and internationally.

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[21] WorkCover Corporation South Australia, Statistical review 2002-2003

[22] Household Income and Expenditure Survey 2003-04, ABS.

[23] Gibson, Braun, Benham and Mason (2001) Projections of Older Immigrants: people from culturally and Linguistically Diverse Backgrounds, 1996-2026, Australia

44. In the recent Productivity Commission Research report on *Economic implications of an Ageing Australia*[24]population, labour force participation and productivity were stated as the policy measures to reduce the fiscal pressure from ageing. In fact productivity performance was recommended as the critical policy measure to improve society's capacity to generate income to meet the costs of ageing and to also provide fiscal relief. The 2002 Intergenerational report[25] also states that over the longer term, productivity growth is the key driver of real GDP growth.

45. Addressing the current under-utilisation of the human capital delivered via the migration program presents a significant opportunity to improve the productivity performance levels.

46. In addition, increasingly intensifying competition for skilled labour in the global market, poses a strategic challenge for Australian business and economy to maximise the utility of its current migrant skilled intake, both in terms of employment and effective use of professional and trade qualifications, in order to be competitive in attracting and retaining skilled migrants in the future:

    i. Queensland's Chief Scientist, Peter Andrews, has predicted a need for 75,000 more scientists by 2010 to build biotechnology businesses and other knowledge-based industries for Australia to remain internationally competitive.

    ii. For the same period, The European Union has estimated demand for more researchers at between 500,000–700,000. The United States also continues to compete aggressively for scientific personnel (Beyond Brain Drain – Mobility, Competitiveness and Scientific Excellence report, federation of Australian Scientific and Technological Societies, Sep 2004).

47. Given the projected progressive ageing of the Australian population and low and declining trend in the birth rates, migration alone will keep Australia's working age population growing past the end of the next decade and the total population growing past the end of the third decade of this century. This suggests that it is important that Australian business and the economy make best use of the talents and skills that migrants will bring and of the skills and talents that they have already brought, by intervention measures aimed at maximising their participation rates and productivity; such as:

    - facilitation soon after arrival of access to assessment, upgrading and recognition of overseas gained qualifications;

[24] Economic Implications of an Ageing Australia: Productivity Commission research report, March 2005
[25] This document is Budget Paper No. 5 of the 2002-03 Budget

- local labour market experience to enable better understanding and functioning in Australian workplace environment; including on-the-job use of technology and OH&S;
- enhancing English language proficiency, in particular vocational English;
- encouraging and facilitation higher participation in workplace training;
- employer education campaigns to address reservations and perceptions regarding overseas qualifications and experience; and
- promotion to Australian business and industry of the business and economic benefits of language and cultural diversity; including in partnership with peak business/industry bodies.