

# **Population and Australia's Future Labour Force**

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**This is the seventh in a series of Policy Papers,  
commissioned by the Academy, to encourage  
public debate on issues of national concern.**

*Occasional Paper 1/2008  
Policy Paper # 7*

**The Academy of the Social Sciences in Australia  
Canberra 2008**

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ISSN 1323-7136

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## **Population and Australia's Future Labour Force<sup>1</sup>**

*Peter McDonald and Glenn Withers*

### **Australia's labour imperative**

Australian economic growth has been strong for almost fifteen years. With a more flexible economy as a result of reforms and good macro-economic management settings, prognostications are that this situation can continue. This will be subject to continuing strong overseas demand and sustained buyer confidence in the face of the late 2007 and early 2008 financial situation in the United States.

Supply constraints are the major problem that the Australian economy faces at present. Labour shortages and infrastructure bottlenecks in particular have emerged. Moreover, looking ahead, there is increasing recognition that home-grown labour supply growth is in longer-term decline as baby-boomers retire and participation plateaus and growth in numbers of young workers falls. Given this situation, pressure for immigration to rise will increase. It is important to consider positive immigration strategies to respond to this increasing pressure and to ensure that immigration responses are managed well, in the national interest.

Future labour requirements are likely to be strong for several reasons:

- Average Australian living standards will rise in line with ongoing productivity growth, creating increased demand for service workers in various labour-intensive sectors to which higher incomes in general are devoted.<sup>2</sup>
- The rapid growth of the healthy aged population between 2010 and 2030, many of whom will have disposable incomes that are higher than older people in previous generations, will also generate a new demand for other service workers who support a higher living standard for Australia's aged persons. Later, the growth of the old-old population will generate demand for more intensive health support services.
- The resources boom can be projected to continue as a by-product of Chinese, Indian and other Asian growth, so sustaining demand for workers in mining, transportation and communication.
- Major investment in new physical infrastructure can be expected, as more than a decade of neglect of maintenance and new infrastructure is remedied and as massive new investment is required to deal with environmental degradation including green house gas emissions, water supply, the transformation from a fossil fuel-based economy, and transport and communications inefficiencies. This will involve a high demand for workers in construction and engineering. The inevitable changes in the 'way we live our lives' because of global warming, changes in energy forms, new approaches to water supply and sewerage, transport and communications will also be demanding of highly skilled technological workers. We can therefore expect substantial new investment in education and training and increased demand for workers in these sectors. Population growth itself generates demand for workers across the economy to service the larger population especially in the housing and construction, energy supply, retail and hospitality industries.

This high labour requirements potential contrasts sharply with the labour supply outlook. From 1980 to 2005, Australia's labour supply grew by 60 per cent (1.9 per cent per annum on average) and its economy was geared to the expectation of continued substantial increases in

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labour supply, particularly increases in the numbers of younger skilled workers. Two of the drivers of this growth in labour supply, the full entry of the baby boom generation into the labour force and very large increases in female labour force participation rates, will not be significant in future labour supply change. By 2006, Australia's labour force growth had fallen to 1.2 per cent per annum. With labour force participation rates constant at July 2007 levels and net migration remaining at the high annual level of 160,000 per annum, labour force growth would still continue to fall to 0.7 per cent by 2021 and less than 0.5 per cent by 2051. While productivity improvements will allow some slowing of labour force growth, labour demand can be predicted to be high.

In the next 20 years, the only potential sources of increases in labour supply are increased labour force participation rates and immigration. While the Australian Government is attempting to increase participation, the impacts of this policy, highly desirable as they are where they are the result of improved work choices, are likely to be small compared to labour requirements. Also, those currently projected to be out of the labour force in the future, but who might be induced into the labour force, will not necessarily provide a good match to the required skills.<sup>3</sup>

The logical conclusion from the above discussion is that Australia's future requirements for labour will drive increases in demand for sustained and growing immigration. Australia has already embarked on this pathway. Preliminary net overseas migration for the year ended 30 June 2007 was 177,600 persons, the highest annual level ever recorded. In recent years, employers have reacted to labour shortages in their industries by calling for increased levels of immigration and the government has responded by increasing the official settler program intake and increasing opportunities for temporary entry for employment purposes.

To maintain labour force growth at one per cent per annum, net migration would have to rise to 227,000 by 2021 (Table 1).

**Table 1: Population and annual net migration if labour force growth is assumed to be constant at 1% per annum, Australia, 2006-2051.**

<b>Year</b>	<b>Population (millions)</b>	<b>Annual net migration (thousands)</b>
<b>2006</b>	20.6	160
<b>2021</b>	25.3	227
<b>2031</b>	28.9	227
<b>2041</b>	32.3	266
<b>2051</b>	36.2	316

*Note: Assumes fertility constant at 1.8 births per woman and labour force participation constant at July 2007 levels*

Recent official statements of future policy have also supported higher immigration levels. Thus in reporting to the United Nations Population Division in 2005, the Australian Government stated that the level of immigration was too low and that it was taking action to increase the number of immigrants.<sup>4</sup> This is only the second time in 30 years of reporting to the United Nations that the Australian Government has said that its policy was to increase immigration. The other time was in the mid-1970s when net migration was close to zero.

Thus, it is significant that the Australian Government was seeking to increase the level of immigration at a time when immigration is already high by historical standards. The incoming Labor Government has generally supported the program levels achieved under the Coalition and did not put immigration change forward as a major element of its policies for election.

Not including the humanitarian intake, the total Migration Program planning level for 2006-07 was 144,000 new permanent settlers. Of these, 97,500 places (68 per cent) were for skilled persons (and their dependants) who gain entry because of their work or business skills. In comparison, the total Program in 1996-97 was almost half the current level at 73,900 of whom 27,550 places (37 per cent) were skilled.<sup>5</sup> The humanitarian intake in 2006-07 was 13,017, a little higher than the nominal number of places set by policy of 11,314.

Three particular questions arise from the likelihood of an increased demand for immigrant workers:

- What measures need to be taken to ensure that Australian social and economic institutions can adapt to larger numbers of immigrants?
- What skill levels and skill types will be required to meet future labour requirements?
- Are current immigration policies adequate for the recruitment of larger numbers of immigrants?

### **Adaptation of economic and social institutions to larger numbers of immigrants**

Australia has already been absorbing sharply increased numbers of immigrants over the past ten years and it is noteworthy that this has occurred without major opposition. Indeed, as described below, attitudes of Australians towards immigration have become much more strongly positive at the same time as the numbers have risen. Nevertheless, Australia may experience even larger numbers in the future and this means that attention needs to be directed towards issues of integration.

#### ***Economic Integration***

Selection of immigrants primarily upon skill levels has undoubtedly contributed to their relatively smooth absorption into the Australian labour market in the last decade. If immigrants are carefully selected to meet skill needs, economic integration is likely to be largely unproblematic. If large numbers of immigrants had skills that were already in abundant supply in Australia or if they were unskilled, opposition would be greater. If immigrants spent long periods unemployed, again, problems would ensue. Thus, as a positive strategy, it will continue to be important to recruit immigrants so that they will merge smoothly into the Australian labour market.

Economic integration of immigrants in recent years has also been aided by the continued strength of the economy. It is well established that attitudes to immigration are associated with swings in the economy, particularly with levels of unemployment, and this has been so since the earliest times for European Australia. When the agricultural economy turned down in 1842, workers demonstrated against newly-arriving immigrants at the wharf in Sydney and Australia's first major immigrant recruitment scheme was curtailed. Since that time, whenever the unemployment rate has been high, public support for immigration has been low.

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Irrespective of the results of academic studies showing a neutral or modest impact of immigration on unemployment,<sup>6</sup> it is deeply embedded in the national psyche that immigration should be reduced when unemployment is high since the labour competition effects are more evident than offsetting more subtle and broad demand-side effects. Conversely, when the economy is booming, as has been the case in recent years, attitudes towards immigrants are much more likely to be positive.

Thus, it is no surprise that, with unemployment at its lowest level since the 1970s and with evident labour shortages in many industries, public support for immigration is at an historical high<sup>7</sup>. Only 38 per cent of those polled in the Australian Survey of Social Attitudes in 2003 agreed that the immigration numbers should be lowered. This compares with 61 per cent in 1996 when the level of immigration was much lower than it was in 2003. At times of low unemployment, immigration is perceived to be an important means for filling vital labour shortages. In 2003, seven out of ten Australians considered that immigration was good for the economy compared to less than half in 1996. Only 25 per cent agreed in 2003 that 'immigrants take jobs away from people who were born in Australia' compared with 40 per cent in 1996.<sup>8</sup>

A strong association between public attitudes to immigration and the state of the economy is also indicated by the fact that those Australians who are more economically disadvantaged are more likely to say that migration numbers should be reduced. In relation to opposition to immigration among disadvantaged Australians, the positive policy approach from every perspective (not just immigration) is to reduce their disadvantage. Well-designed and sensitive welfare-to-work programs that focus upon appropriate incentives and skills training are the obvious way to do this. Immigration will always be a target for criticism while some Australian workers remain disadvantaged, so that complementary local job access policies are an essential co-condition for success.

#### **RECOMMENDATION**

Immigration should not continue to be expanded unless the public can be reassured that all best-practice efforts are being adopted to ensure that all local residents seeking work, education or training will not be disadvantaged by a focus on new overseas workers as a solution to shortage of workers.

Immigration as a policy also becomes more vulnerable if it is seen as leading to a reduced emphasis on training opportunities for Australians. Immigration policy and Australian education and training policy must be designed to complement each other from a long-term labour demand perspective. At present, Australian planning related to future needs for skills and training tends to be short-term. There is an urgent need to develop approaches that are able to extend this moving planning horizon out to at least two decades. This is now being done for climate change policy and that template, provided by the Shergold Taskforce report to Government,<sup>9</sup> can be readily transferred to education and training policy.

**RECOMMENDATION**

The Federal Government should provide a long-term skill requirements plan for Australia, based on high quality demographic-economic modelling and industry and state / territory government assessments of emerging needs for industries, skills and regions. This plan should provide the envelope and aspirational targeting for the Government's education and training policies, but do so on a regular annual update basis.

At present, the skills that are officially assessed as required in Australia are published annually by the Department of Immigration and Citizenship through the Skilled Occupation List (Form 1121i: [www.immi.gov.au](http://www.immi.gov.au)). Particular occupations considered to be in short supply are allocated points according to the extent of the excess demand. Occupations are awarded 40, 50 or 60 points and these points then are added to other sources of points (such as age) to obtain the overall points total that a migrant applicant scores. Points are allocated for occupations in four broad occupational categories: Managers and Administrators, Professionals, Associate Professionals and Tradespersons and Related Workers. These are the broad categories 1-4 in the Australian Standard Classification of Occupations (ASCO). The last category, Tradespersons and Related Workers is the only broad category for which all of the listed occupations score 60 points. Thus, skill in the current Australian policy interpretation does not necessarily mean only skills gained through academic study. Trades skills such as Butchers, Bakers and Hairdressers currently score the highest points.

There is a strong possibility that an extended planning horizon for labour supply will lead to consideration of whether future demand should involve immigration of persons with lower skills than has been the norm in the past decade (ASCO categories 5-9). For example, there are shortages emerging in the hospitality industry, in transport and in primary industry. This is evident from submissions made by industry groups to the Joint Parliamentary Committee on Migration Enquiry into temporary business visas (<http://www.aph.gov.au/house/committee/mig/457visas/subs.htm>), for example:

- *Accommodation industry employers are experiencing significant difficulties in recruiting and retaining appropriate staff; and these problems are striking across the full range of jobs within the industry, whether they be skilled, semi skilled or unskilled. (Hotel, Motel and Accommodation Association)*
- *Rural industry is experiencing extended labour shortages across all classification levels. Whilst shortages at ASCO Level 9 (Labourers and Related Workers) are a significant issue, it is shortages across the ASCO levels 5 - 7 (Advanced Clerical and Service Workers; Intermediate Clerical, Sales and Service Workers; Intermediate Production and Transport Workers) that are particularly pertinent. (National Farmers Federation)*
- *TTF identified that all levels of transport workers from drivers to supervisors, machine operators to executives, are in demand. Transport organisations are reporting job vacancies of up to 10 percent. Many of these vacancies are in skilled professions, such as engineering, planning and construction. Many others, however, are in so-called unskilled professions, such as truck driving or forklift operation. (Tourism and Transport Forum Australia).*

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Increases in the numbers of working holiday makers and the numbers of overseas students, both groups temporarily resident in Australia, have offset this demand to a large extent but there are constraints involved in the use of people in these categories as workers. Accordingly there have been suggestions that Australia might implement a 'guest worker' scheme for lower skilled workers from the Pacific Islands as a 'toe-in-the-water' approach to the filling of labour demand at the lower skilled end. Pacific Island countries themselves are supportive of this approach but, as yet, the Australian Government has continued to proceed with caution on the development of guest worker agreements with these countries.

Caution with unskilled guest-worker schemes is indeed appropriate given the wider international experience. However, a modest scheme restricted to small island nations in the South Pacific and Timor Leste would seem sensible and worthy. Numbers could be modest, Australia has special interests and responsibilities here and the precedent for entry is already in place for New Zealand. If the scheme were also embedded in a wider development strategy to facilitate island economic enhancement, including through flexible two-way movement, remittance transmission and skill and business development, it would be justified. Indeed a new 'Pacific Compact' could now replace the 'Pacific Solution' used by the former Coalition Government for offshore mandatory detention policies whereby island nations are paid to provide refugee processing service support for Australia.

### **RECOMMENDATION**

Strict limits on general unskilled worker entry to Australia should be maintained, whether on a temporary or permanent entry basis, but a tightly administered and pro-development Pacific Compact for small island nations should be developed that facilitates movement into Australia along with essential complementary labour and business development policies.

Unquestionably, there are more difficulties involved in running a low-skill migration program than in running a high-skill program. There is more opposition from unions and disadvantaged workers to the import of low-skilled workers and experience suggests that employer exploitation and shady practices are much more likely to be problems in a low-skill migration program than in a high-skill one. There is a legitimate concern that, without proper planning, import of low skilled workers could create a 'second class' group of workers who have lower entitlements and lower wages than the workforce more generally. Such a result could be seen as 'un-Australian' and might undermine support for other migration, as indicated by the public opinion evidence discussed above. It would also keep some Australian industry from moving to higher value-added production, discouraging better management practices and adoption of new technology, limiting productivity growth. Nevertheless, as seen in the submissions above, immigration is already being advocated strongly by some interests as a solution to labour shortages in low-skill occupations. This represents a major challenge to the designers of modern Australian immigration policy.

### **Social Integration**

Successful economic integration of immigrants is the first and largest step on the path to successful social integration. Employment is not only a major component of social integration

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for immigrants but also for all Australians. Over the past two decades, issues of social integration have been most evident for those who arrived as part of the Humanitarian intake and this has had an obvious economic basis.<sup>10</sup> An emphasis on English language training and occupational skills training for Humanitarian immigrants is a vital component of any positive, social integration policy for immigrants. For the children of Humanitarian immigrants, special education programs are required to fast-track the children into a position where they are able to cope with the Australian school curriculum more broadly. The Australian Government supports programs of this type but the outcomes for Humanitarian immigrants and their children indicate that more needs to be done, as adjustment has still been slow for many.

Thus, there is a strong argument that social integration proceeds more smoothly when economic integration proceeds smoothly. Migrants usually have high aspirations for economic progress, if not for themselves, at least for their children. If these aspirations are frustrated, social problems such as poverty, inter-ethnic conflict or involvement in crime will ensue. Fortunately these problems have been limited in Australia. It is crucial that this continue to be the case.

Beyond these issues of dysfunction, there is the wider issue of overall social integration in terms of acceptance into the Australian community by longer-term Australian residents and acceptance of Australian ways of life by immigrants. The following describes the former Coalition Government's formal view of the relevant policy:

The government's aim is to build on our success as a culturally diverse, accepting and open society, united through a shared future and a commitment to our nation, its democratic institutions and values, and the rule of law.

This vision is reflected in the four principles that underpin multicultural policy:

**Responsibilities of all** - all Australians have a civic duty to support those basic structures and principles of Australian society which guarantee us our freedom and equality and enable diversity in our society to flourish.

**Respect for each person** - subject to the law, all Australians have the right to express their own culture and beliefs and have a reciprocal obligation to respect the right of others to do the same.

**Fairness for each person** - all Australians are entitled to equality of treatment and opportunity. Social equity allows us all to contribute to the social, political and economic life of Australia.

**Benefits for all** - all Australians benefit from the significant cultural, social and economic dividends arising from the diversity of our population. Diversity works for all Australians.<sup>11</sup>

This statement is not likely to be rejected by the new Labor Government but it displays the fine balance that is sought in this field, and the problems in terminology that follow in characterising policies adopted. In the end the fine graduations that are at play are that 'multiculturalism' connotes respect **and** maintenance of source-country cultures, 'assimilation' connotes absorption into, and adoption of, the host country culture, and 'integration' connotes respect for source country and host country cultures and their dynamic blending. The balance between these concepts is put on trial from time to time as it is seen to shift too far in one direction or the other, but with a migrant intake as diverse as that of Australia, a return to balance is inevitable. In 2003, 74 per cent of Australians agreed that 'immigrants make Australia open to new ideas and cultures'.<sup>12</sup> A positive immigration strategy might build on this

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view and seek to ensure that integration is approached as the long-term core commitment for social adaptation.

#### **RECOMMENDATION**

An ongoing commitment to democratic process and the rule of law should be the bedrock requirement reflected in Australia's immigration strategy. This will oblige respect for the host country culture along with respect for source country culture and facilitate their dynamic blending within the host country's evolving democratic processes and the rule of law.

Again according to the polls, opposition to immigration (those who believed the numbers should be reduced) was concentrated among people with low levels of education and those living in rural areas. Thus, it is important to note the emergence of substantial demand for labour in the rural industries and calls from the rural corporate sector for their labour shortages to be met through immigration including temporary immigration.

This is already being implemented in the more organised mining industry and is already possible through the government's formal labour agreements program. As rural industry becomes more corporatised during the next 50 years, it also will become more organised in the import of labour. In the end, it is easier for one large company to bring in 20 workers than for 20 individual farmers to bring in one worker each.

Country towns are also increasingly seeing immigration as a potential source of future population to sustain their existence. A small number of towns have become active in recruitment of immigrants. Thus, support for immigration may grow even among those who are now less supportive of immigration. The more that the labour needs of rural industries and country towns are met through immigration, the more that immigration will be politically acceptable in rural communities.

**Table 2: The distribution of net international migration: 2000-01 and 2006-07**

<b>State/Territory</b>	<b>2000-01</b>	<b>2006-07</b>
New South Wales	43.2	30.9
Victoria	26.0	26.5
Queensland	15.5	18.9
South Australia	2.0	7.4
Western Australia	12.0	14.4
Tasmania	0.1	0.7
Northern Territory	0.6	0.7
Aust. Capital Territory	0.5	0.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

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Australian Bureau of Statistics data for 2006-07 (Table 2) also show that the distribution of migrants' settlement has become more widespread across States and Territories. In particular, the proportions of migrants settling in Queensland, South Australia, Western Australia and Tasmania have increased. The proportion settling in New South Wales has fallen sharply. While this may reflect the past high cost of housing in Sydney, it is also the result of very active recruitment on the part of the States and Territories now receiving more migrants and of a negative attitude to new migration to Sydney in New South Wales under former Premier Carr. It has also been facilitated by the adjustments made to the immigration points system to encourage dispersion of settlement. In a context where opposition to migration is strongest in places where immigrants are not numerous, the increased spread of immigrants across the country will tend to lead to immigration being more widely acceptable, though the post-Carr NSW Government has also itself displayed a more positive view of increased immigration to Sydney.

### **RECOMMENDATION**

Specific schemes and points arrangements in migrant selection that encourage regional dispersion in settlement by new arrivals should continue to be supported.

### ***Environmental Concerns***

In a different dimension, some opposition to immigration arises from those who argue that population per se is a major contributor to environmental degradation. It is a simple argument that the larger is the population, the greater will be the production of green house gas emissions and the greater will be the demand upon natural resources. This is irrefutably true given constant technology and behaviour. It is also possible that a migrant who moves from a low energy and resource use country to a high energy and resource use country (Australia) will produce a net global increase in the use of energy and resources, though more skilled migrants may already have a high source country impact, especially in the presence of weaker environmental regulation regimes elsewhere. Nevertheless there can be no question that the recent higher levels of immigration have increased the demand for housing and exacerbated some housing supply problems, given government restrictions on residential land supply and the slowness of many authorities in providing matching infrastructure.<sup>13</sup>

In these circumstances, it might be expected that those with a strong environmental orientation would want immigration numbers reduced. However, Katharine Betts has found that people who vote Green or belong to environmental groups are much more in favour of immigration than others. Hence strong and vocal opposition to migration from some environmentalists is a minority view even within that outlook. Betts uses data from the Australian Electoral Survey that also show sharply increasing support for immigration. The percentage agreeing that the number of migrants has 'gone too far or much too far' fell from 67 per cent in 1993 to 29.7 per cent in 2004. But the percentage agreeing with this statement from those who voted for the Greens in 2004 was only 9.0 per cent and 18.6 per cent for those who were a member of an environmental movement. At the other end of the scale, those who voted for the Greens were considerably more likely than others to agree that the level of immigration should be increased (34 per cent for Greens voters compared to 19 per cent for the total population). Betts suggests that the positive views on immigration of those

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with an environmental orientation are associated with the higher education levels of these voters.<sup>14</sup>

The 2002 CSIRO report, *Future Dilemmas*, while pointing out the complex associations between population, technology, resources and the environment, stopped short of recommending one population policy path over another. Indeed, the report concluded that management of the varying dilemmas associated with each potential level of population is the issue, not the level itself. In other words, the report argues that population per se is not the environmental problem; it is how the population behaves and how population pressures on the environment are managed that is the problem.<sup>15</sup> Michael Krockenberger, former Strategies Director of the Australian Conservation Foundation, was also prominent in rejecting the notion that Australia's environmental problems are a problem of 'over-population'.<sup>16</sup>

Finally, the report of the Federal Parliament on Sustainable Cities (with support from both major parties) makes no references to limiting the population growth of Australian cities as a pathway to sustainability<sup>17</sup> and a 2007 report by the Australian Academy of Technological Sciences and Engineering concludes that there are no insurmountable engineering, scientific or environmental barriers to Australia achieving a population of 30 million by 2050 assuming that thorough analysis and planning occur and that leadership is exercised, especially by governments.<sup>18</sup>

Nevertheless, the Australian experience has been that significant environmental degradation and some resource shortages have arisen from the failure to plan adequately for population growth. This stems largely from a failure on the part of governments to acknowledge the reality of population growth, accommodate that and plan ahead in a coordinated way. A 'head-in-the-sand' approach that pretends that future population growth will be curtailed presents far greater dangers of future environmental degradation than does future growth with adequate planning. Hence, an explicit population/migration policy should be adopted that acknowledges the global environmental issue and gives weight to the argument that greenhouse gas emissions in Australia must be limited. It must also address the infrastructure issues related to congestion in cities, sewerage and waste disposal, and the provision of water and energy. In this respect, good environmental and infrastructure policies are a necessary component of a positive immigration strategy.

### **RECOMMENDATION**

The Federal Government should adopt a forward-looking population policy that incorporates both domestic population growth and migration, acknowledges their impact on Australia's economic, social and environmental goals, and design population and complementary strategies accordingly. The population policies should include fertility, migration, population distribution and social integration and settlement. Complementary policies should include education and training, infrastructure and housing, and energy and the environment. These need to be effectively coordinated with State and Territory Governments, and their absence would be a sufficient reason for restricting immigration increases.

## **Immigration skill levels and skill types<sup>19</sup>**

Immigrants are broadly divisible into two categories, permanent and temporary. To be included in the count of the Australian population, temporary immigrants need to stay in Australia for at least 12 months within a given 16-month period.

Permanent additions to the Australian population (based on 2006-07 financial year data) fell into five eligibility categories: family (48,769), skill (99,081), humanitarian (14,158), New Zealand citizens (28,307) and others (1,592). The total was 191,907.

Statistics for long-term temporary immigrants are more difficult to describe. The main categories are overseas students, persons coming to Australia for specific employment (long stay business visa), working holiday makers, persons on bridging visas (between other visa types), persons on temporary protection visas and over-stayers (those who have remained in Australia illegally after their visa has expired). As most of these people go in and out of the country relatively frequently, statistics on their movements can be misleading. Stock data are possibly more useful than flow data. Some stock numbers at 30 June 2007 were: students, 248,500; long-stay business visa, 104,038; working holiday makers, 74,450; bridging visas, 50,000; over-stayers, 46,000; temporary protection visas, 3,000. These groups represented a total of 526,000 persons at 30 June 2007.

In addition, there is free movement to Australia of persons who are New Zealand citizens. The stock of New Zealand citizens in Australia rose from 471,000 at 30 June 2006 to 504,430 at 30 June 2007. About 17 per cent of these New Zealand citizens were not born in New Zealand, including 4.5 per cent who were born in Australia.

### ***Permanent additions: Family Eligibility Category***

In the mid 1990s, the focus of permanent settlement shifted to a skills-based, points system.<sup>20</sup> The family migration stream was curtailed, especially the immigration of parents of Australian citizens or permanent residents. On the other hand, the greater movement of Australians around the globe led to gradual increases in the permanent settlement of spouses (partners, more generally) of Australians. The level of spouse migration in 2006-07 was just over 39,000 per annum, the highest level ever reached. Almost ten thousand of these persons had applied for residence onshore. Most people in the Family stream are primary applicants (83 per cent) indicating that they are usually not accompanied by other family members.

In 2004, a new policy was introduced to enable Australians to bring in their parents with a large payment to cover potential public support costs and the Program allowance was also doubled from 500 to 1000. The consequence was substantial with the number of parents in the migration stream increasing from around 500 in 2003 to 5000 in 2004. In 2005-06, the number was 4,500 and it fell again in 2006-07 to 4,289.

In total, permanent additions through family eligibility were around 49,000 per annum in 2006-07. The Family Eligibility Category is not a flexible instrument of policy because it is driven almost wholly by direct demand from Australian individuals to bring in their parents or their spouses. However, there has been some discussion that Australia loses out to Canada and the United States because it is more restrictive in relation to the sponsoring of parents than those two countries. The argument is made that primary applicants of high quality prefer the United States and Canada because they know that those countries will allow them to bring in their parents. There is no evidence to confirm or refute this argument, though some research funding could establish the situation. Of course, a higher number of points in the points test

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for family linkages under skilled migration entry as an indicator of likely settlement and integration capacity could be considered and would render family a more flexible instrument.

### **RECOMMENDATION**

Research should be commissioned to determine if Australian family entry policies disadvantage Australia relative to other countries of immigration with which Australia competes.

### **Permanent additions: Skill Migration Category**

The shift to skilled migration in the mid 1990s was very timely because it established Australia as a lead destination country for skilled workers from all over the world. Given the continuation of low birth rates, many advanced countries will soon be facing shortages of young skilled workers. Australia's experience in recruiting young skilled workers provides it with an advantage in this increasingly competitive market.

The skill category is a flexible category in policy relating to permanent additions to the population. It is this category that is adjusted as the government feels a pressing demand for more or fewer immigrants, and points within the category for education and experience reflect the objective of broad-based labour-force enhancement. This (with language and age) drove the system when first established. But occupational shortage points have since been added in line with government attempts to fine-tune migration to meet emerging labour shortages. There are some who feel that such fine-tuning is misplaced, given approval and arrivals time lags and high occupational mobility, but it continues to appeal to important government and industry constituencies as being seen to be 'doing something' about labour shortages in particular occupations. From a national perspective, this approach might also be seen as inhibiting natural market signals to improve management and productivity.

In total, this category numbered about 99,000 in financial year 2006-07, an increase of 8,000 over the previous year. Almost 40 per cent of these persons resulted from onshore applications. The onshore applicants are concentrated among those who arrived as overseas students or temporary business entrants (Visa Class 457).

It should be noted that the numbers classified under this heading include the accompanying family members of the person admitted (the primary applicant). Indeed, in 2003-04, only 41 per cent of all arriving persons in this movement were primary applicants. However, 31 per cent of the secondary applicants were employed at the time of application and most of these were employed in the highly skilled occupational categories. This shows the effect of 'assortative mating' – if the primary applicant is highly skilled, his/her spouse is also likely to be highly skilled.

In recent years, there has been a shift in this category of entry towards those granted State-Specific and Regional Migration Visas. Under these arrangements, applicants are given access to more flexible provisions and points threshold criteria so long as they take up employment in a State or region that wishes to sponsor them. There were 27,500 immigrants in this category in 2005-06, representing 28 per cent of all skill migration visas granted. To a large extent, this policy direction accounts for the shift of settlement of immigrants away from Sydney and New South Wales.

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Growing competition around the world for skilled migrants has led some to suggest that it will be difficult to expand numbers coming to Australia in this category. An alternative view is that greater promotion in non-traditional markets such as Latin America and Eastern Europe could readily tap great latent interest. The opening up of China to freer exit policies also means a very large market is becoming available and India alone has more qualified engineers and scientists than the total Australian population. Also given that the points cut-off is twice the average resident score by the same criteria, some flexibility does seem to be present.

### ***Permanent additions: the Humanitarian Category***

The target for the Humanitarian category has been around 12,000 for a number of years. In most years, the offshore entry numbers fell short of the target by 1,000 or so (often because successful onshore refugee applications were deducted from the quota). However, the numbers rose substantially in 2004-05 (17,528) and 2005-06 (16,964) largely because of an increase in the number of visas granted on-shore. The number of on-shore visas granted fell in 2006-07 and the total humanitarian intake also fell to 14,158. Entrants under the Humanitarian category have been found in the past to have problems in the Australian labour market especially those with poor English skills and especially refugee (as opposed to the Australia-linked special humanitarian) entrants.

As there are many millions of refugees and people suffering persecution in their own countries, the category is eminently expandable so long as Australia is willing to bear the costs. By UNHCR definitions, there were 9.9 million refugees living outside their country of origin at the end of 2006. In the same year, 71,000 refugees (0.7 per cent) were resettled in 15 countries that accept refugees – dominated by three countries, the USA, Australia and Canada. Beyond these international refugees, there are some 13 million internally displaced persons receiving protection and assistance from UNHCR. A crucial issue for Australia is how much a response to refugee situations should be via resettlement as opposed to provision of aid, expertise and support offshore.

### ***Permanent additions: New Zealand citizens***

Because of their freedom of entry, the movements into and out of Australia by New Zealand citizens creates statistical problems. A fairly large number of persons arriving from New Zealand state upon arrival that they are coming to Australia permanently and the number fluctuates from year to year (21,500 in 2001-02, 16,400 in 2002-03, 18,700 in 2003-04, 22,379 in 2004-05, 23,800 in 2005-06 and 28,307 in 2006-07). However, as no visa is involved, New Zealanders can simply change their mind about their status at any time. Those who stated that they were arriving permanently can decide that they are really only here temporarily. Those who arrived as temporary residents can decide that they are staying permanently. They do not have to report their change of attitude to any statistical agency. The only legal issue is eligibility for Australian social security payments; New Zealand citizens become eligible after two years' residence.

The flow from New Zealand tends to fluctuate according to the relative health of the two economies. While movements to and from New Zealand can have a significant impact on the Australian labour market, the movement is contingent upon conditions in the two labour markets, not upon immigration policy. While Australian employers (including public employers) advertise for workers in New Zealand, it is less likely that the official Australian

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immigration program would do so for wider diplomatic reasons. Large numbers of New Zealanders also come to Australia on a temporary basis.

### ***Long-term temporary additions***

Most long-term temporary immigrants, including overseas students, are permitted to work in Australia. Their contribution to the labour force is not insignificant particularly in certain industries (hospitality, retail) and in specialised skills that are in scarce supply (long stay business visas).

Neither the number of overseas student visas nor the number of business (long-stay) visas is capped by immigration rules, although higher education regulations place limits on the overall shares of international students permitted to enrol in Australian universities. Entry is subject to demand from students or from employers respectively. Ease of entry is continually being streamlined to improve the speed of entry, though there are concerns from universities in particular at their growing role as agents of the immigration function. The government in turn has problems with some private education providers who seem more concerned to facilitate immigration than to provide quality education.

A record number of 190,700 new student visas were issued in 2005-06. The 2005-06 long stay business entry was also at a record level of 71,150, a rise of 46 per cent over the previous financial year. Applications for long-stay business visas are now all processed in Australia and, for those companies with pre-approved places, the visa can be issued as rapidly as within 24 hours. An annual target number is set for working holiday makers. In 2005-06, 112,000 working holiday maker visas were granted. It has been estimated that the number of working holiday makers converts to half that number of equivalent full-time workers (that is, about 56,000 in 2005-06). Again administration problems in enforcing employment conditions are a source of some image problems in the operation of these programs.

The Australian Government has also opened up opportunities for those in Australia on a temporary basis to extend their visas or to convert to another visa class onshore, including conversion to permanent residence. Onshore applicants are now a major and growing component of new permanent residents. Indeed, in policy terms, they are rapidly becoming the favoured source of new permanent residents. Over half of the increase in skilled migration since 1999 has come from overseas students and former students, both on-shore and off-shore. Issues of 'brain drain' then arise for the source countries but it should be recognised that, in the main, these are people who have paid for their overseas education and that remittances and international business networks are increasingly being shown to generate joint benefits. In 2006, international remittances of money by migrants living in other countries totalled US\$268 billion, more than twice the level of remittances in 2000 and considerably more than the total of international development aid. Indeed, for developing countries, these private flows of income are almost as large as total foreign direct investment – and, for developing countries, the flow of remittances is much less volatile than other forms of foreign exchange.

### **Effectiveness of the immigration program**

Overall, the changes in Australian immigration policy over the past decade appear to have been very responsive in relation to the demands for additional labour supply. The skill levels of immigrants have increased substantially and this has been beneficial to Australian

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employers. The recruitment of new permanent residents onshore has been a sensible approach as most of the new recruits already have jobs in Australia and are socially integrated to a relatively high degree. In general, the pool of foreign students in Australia provides a very substantial source of new permanent residents who are likely to be highly effective because they hold Australian qualifications, speak English and have spent time in Australia. However, this is not always the case and it was necessary for the Australian Government in September 2007 to increase the minimum level of English for skilled entry visas. Allowing working holiday makers to change to temporary long-term visas onshore is another new stream that is likely to be highly effective.

Thus, immigration policy has been shifting more towards a 'funneling' process where immigrants enter Australia on a range of temporary long-stay visas but are able to convert to permanent residence after a period. The temporary period operates as a trial period for both sides: to enable temporary immigrants to assess whether they want to stay permanently and for the Australian authorities to better assess the person's suitability for permanent residence. In the meantime, many labour shortages are met while the immigrant works on a temporary basis in Australia. This assists settlement.

Policy in Australia over the past decade has been very flexible. Where gaps have been identified, they have been plugged rapidly. Policy makers seem to be very open to new ideas and suggestions, so long as they are well conceived. An example of this has been the shift towards regional approaches to international migration in cooperation with the State and Territory Governments and with regional employers. The latest shift here has been the introduction of another funneling system – a temporary migration scheme to regional areas where immigrants can later convert to permanent residence. Detailed proposals for this were put forward by business groups and State and Territory governments and were speedily adopted. On the other hand, where problems have arisen with temporary business immigrants (the 457 visa class), the problems have related mainly to lower skilled workers in the regional streams. These problems have generally not stemmed from the immigrants themselves but from employers who have breached procedures.

Most of what needs to be done for the migration entry process can be done under existing schemes, but better organisation and scrutiny is required. In particular, employers need to be more actively involved in the recruitment process. There is a tendency for employers to make demands upon government for immigrant workers but not to do the necessary associated work in partnership themselves. Immigration Expos are an excellent approach through which the government can assist employers in recruiting immigrant workers (<http://www.immi.gov.au/general/expos/index.htm>).

A possible issue arises from the precision of the targeting of occupations. Skill shortages are specified annually according to very narrow occupational categories where, in reality, most workers 'migrate' across the boundaries of narrowly defined occupations across their lifetimes. Narrow specification can also lead to over-supply in highly specialist occupations. While workers can shift sideways, narrow specification can build an expectation on the part of new arrivals that they are certain to get a job in their area of specialisation when temporary over-supply induced by narrow specification may prevent this. This can lead to disillusionment and departure. On the other hand, the level of departure from Australia of migrant permanent residents with high skills is quite low. Permanent departures of highly skilled persons are dominated by Australian citizens. Nevertheless, there is an argument that skills could be more generically defined and directed at projected longer term labour shortages and basic productivity enhancement through a larger, higher skilled and educated workforce.

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An issue for policy, as discussed above, is emerging labour shortages at the lowly skilled end of the labour market. When unemployment drops to low levels, the remaining pool of potential Australian low skilled workers consists more heavily of the difficult cases (drug addicts, alcoholics, the severely depressed, persons on the disability support pension, indigenous people in remote localities, etc.). Other countries have used temporary entry to fill these gaps. Canada, for example, has an arrangement with Caribbean countries to allow the entry of seasonal workers mainly in agriculture. In countries that do not have an established means of bringing in low skilled workers, there is a distinct tendency for such workers to enter undocumented, the classic example being the United States. Australia's lack of common borders has helped it to successfully prevent major movements of this type into the country.

However, it is a feature of temporary migration schemes that many of those who arrive temporarily stay permanently (guest workers in Germany, Canada and Malaysia, undocumented immigrants in the United States, Spain and Italy). Even with the highly regulated Australian long stay business visa, a substantial majority of the temporary immigrants arrive with the intention to take up permanent residence. This would be the expected result too of any new program related to low skilled workers coming to Australia.

In the Australian context, there appear to be three potential approaches to less skilled migration: (i) keep extending the eligible categories for permanent migration and humanitarian entry; (ii) instigate a guest worker scheme that had a provision for conversion to permanent residence after some period subject to a good employment record - perhaps commencing with Pacific Island entry; or (iii) keep low skill entry to a minimum and stress the need to induce business to move to higher value-added production methods. It is telling that some former guest-worker countries such as Germany and Malaysia are moving to policies of the last kind.

Such is the growth of pressures for expanded migration, including increasingly at the unskilled level, that an inquiry into labour needs and the potential for filling them through expanded migration as well as expanded domestic sources would be valuable. It would need to explicitly balance any benefits in meeting immediate labour demand (recognising how immigration can create as well as fill jobs) against costs in reduced upgrading of domestic labour (recognising how skill migration can also be complementary to local skill enhancement). And it would need to consider issues of public understanding and perceptions of these issues and the conditions and education needed for overall support for a dynamic immigration and wider population policy.

There are other issues of the relation between domestic education and training and the importation of skills that would benefit from a fresh consideration. Overall a mix is beneficial and, broadly, migrants create as many jobs as they take so they need not displace locals. However, as the skilled focus grows in migration, it can potentially induce an attitude of relaxing domestic education and training efforts. That can mean that employers turn to overseas sources rather than revising their own practices and procedures. Government in turn can develop a perception that it can meet industry skills needs without best practice education funding. Certainly the OECD *Education at a Glance* report for 2007 shows that Australia is the only OECD country to have reduced public outlays on universities over the previous decade as a share of Gross Domestic Product: a fall of four per cent versus an average OECD increase of 48 per cent. Indeed, a best quality education and training system will also be beneficial for many immigrants and for their children. If there is inadequate provision for domestic training and education, a major pre-condition for a successful immigration program is compromised. This set of concerns needs close investigation.

**RECOMMENDATION**

Building upon existing immigration approaches and increasing development of population initiatives, the Australian Government should establish an independent inquiry to determine the best planning and policy approaches to the role of immigration in meeting future labour force needs for both skilled and unskilled labour. This should be part of, and extend, the skill planning for education and training recommended above with domestic population needs and opportunities being met as a co-condition for immigration policy. Pending this report, overall immigration levels subject to quota should be increased with caution and there should not be any general extension of temporary entry to lesser-skilled occupations.

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## **Appendix: Temporary Entry Visa Types**

The **Business (Short Stay) visa (subclass 456)** allows the bona fide business person to make a visit to Australia of up to three months to work or to conduct business.

The **Temporary Business Entry (Long Stay) visa (subclass 457)** caters for business visits of up to four years for: personnel (executives, managers and specialists) for companies operating in Australia; personnel from offshore companies seeking to establish a branch in Australia, participate in joint ventures, or fulfil a contract awarded to an offshore company; personnel coming under a labour or Invest Australia Supported Skills agreement. There are special arrangements for employers in regional and low population growth areas across Australia. Regional arrangements assist employers who may not otherwise be able to meet minimum skill and salary requirements for employees. Where a Regional Certifying Body supports the employer's nomination, an overseas worker may be recruited to fill a position in regional areas which falls below the normal minimum skill or salary level.

Visas are available under these arrangements for sponsorship by an Australian or overseas business where the business is unable to meet its skill needs from within the Australian labour force. They do not need to prove that they cannot find the worker in Australia. A minimum salary level is the principal 'rationing' mechanism. This minimum salary level can be waived for rural workers.

**Labour Agreements** enable Australian employers to recruit a specified number of workers from overseas in response to identified or emerging labour market (or skill) shortages in Australia. They provide an avenue for both permanent and temporary entry to Australia. They are also designed to ensure that overseas recruitment supports the longer-term improvement of employment and training opportunities for Australians. Employers or industrial associations are required to make commitments to the employment, education, training and career opportunities of Australians as part of the agreement. Labour agreements are formal agreement negotiated between the Australian Government, employers (including industry or employer associations) and other interested parties (for example, unions or professional associations) for permanent or temporary staff. Thus they are somewhat more cumbersome than is the case for temporary business entry. Labour agreements tend to be used for large construction projects (Olympic stadium, etc.).

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- <sup>1</sup> This paper in a prior version was prepared with support from the Scanlon Foundation. The views expressed are the personal views of the authors.
- <sup>2</sup> Government reports such as the 2002 Department of the Treasury *Intergenerational Report* and the 2005 Productivity Commission report, *Economic Implications of an Ageing Australia*, project that Australia's living standards will double in the next 40 years.
- <sup>3</sup> This is not an argument to drop the participation strategy. Increased participation for prime age males, for older people and for women can provide sizeable additions to Australia's labour supply, will reduce the social security load and, most importantly, will be beneficial to the individuals concerned. However, settings and incentives need to be clear and consistent. The reforms to superannuation taxation introduced in the later years of the Howard Government (1996-2007) offer very mixed incentives for older worker participation.
- <sup>4</sup> United Nations (2006). *World Population Policies 2005*. New York: Department of Social and Economic Affairs, Population Division.
- <sup>5</sup> Department of Immigration and Multicultural Affairs (2007). *Immigration Update 2005-06*. Canberra: Department of Immigration and Multicultural Affairs. Note though that some skill share increase is partly statistical reclassification of former family linkage entrants.
- <sup>6</sup> Glenn Withers (2003). 'Immigration', in McAllister, I *et al* (eds) *The Cambridge Handbook of the Social Sciences in Australia*, Melbourne: CUP.
- <sup>7</sup> It also is apparent that non-Anglo migration that is diverse and strong enforcement of bona fides for entrants also induces higher support.
- <sup>8</sup> Public opinion statistics are taken from Goot, Murray and Watson, Ian (2005). 'Immigration, Multiculturalism and National Identity', Chapter 11 in Wilson, Shaun, Meagher, Gabrielle, Gibson, Rachel, Denmark, David and Western, Mark (eds) *Australian Social Attitudes: The First Report*. Sydney: UNSW Press.
- <sup>9</sup> Prime Minister's Task Group on Emissions Trading (May 2007). *Final Report*, Canberra. (Chair: P Shergold).
- <sup>10</sup> For a comparative perspective on economic outcomes for immigrants by intake category, see Richardson, Sue, Stack, Sue, Lester, Laurence, Healy, Josh, Ilsley, Diana and Horrocks, John (2004). *The Changing Labour Force Experience of New Migrants: Interwave Comparisons for Cohort 1 and 2 of the LSIA*. Canberra: Department of Immigration and Multicultural and Indigenous Affairs.
- <sup>11</sup> Department of Immigration and Citizenship. *The Evolution of Australia's Multicultural Policy*. Fact Sheet No 6. [www.immi.gov.au](http://www.immi.gov.au) accessed 26 March 2007.
- <sup>12</sup> Same source as Note 10
- <sup>13</sup> Birrell, Bob and Healy, Ernest (2003). 'Migration and the housing affordability crisis', *People and Place*, 11, 3: 43-56. Of course, immigration is only one element in the jigsaw that comprises Australian housing policy, with a range of tax provisions, charges and regulations intersecting.
- <sup>14</sup> Betts, Katharine (2005). 'Cosmopolitans and patriots: Australia's cultural divide and attitudes to immigration', *People and Place*, 13, 2: 29-40.
- <sup>15</sup> Foran, Barney and Poldy, Franzi (2002). *Future Dilemmas; Options to 2050 for Australia's population, technology, resources and environment*. A report to the Department of Immigration and Multicultural and Indigenous Affairs by CSIRO Sustainable Ecosystems. This is the same conclusion as that reached in the 1991 National Population Council Inquiry for Prime Minister Hawke on *Population Issues and Australia's Future*. Canberra: AGPS (Chair: Glenn Withers).
- <sup>16</sup> Krockenberger, Michael (2005). 'Population? No problem', *Habitat*, 33, 2:12-13. Australian Conservation Foundation.
- <sup>17</sup> <http://www.aph.gov.au/house/committee/enviro/cities/report.htm>.
- <sup>18</sup> Australian Academy of Technological Sciences and Engineering (2007). *30/50: The Technological Implications of an Australian Population of 30 million by 2050*. ATSE, Melbourne.

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- <sup>19</sup> Statistics in this section are derived from various regular statistical publications of the Department of Immigration and Citizenship such as *Population Flows* and *Immigration Update*.
- <sup>20</sup> Based upon the use of the points system recommended in a report by the Population Issues Committee to then Minister for Immigration, Robert Ray (1988). *Report of the Expert Working Party on the Immigration Selection System* (Chair: Glenn Withers). Canberra, National Population Council.

