

MIGRATION TO AUSTRALIA AND COMPARISONS WITH THE UNITED STATES: WHO BENEFITS?

**Report prepared for the Department of Immigration and Multicultural
and Indigenous Affairs**

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MIGRATION TO AUSTRALIA AND COMPARISONS WITH THE UNITED STATES: WHO BENEFITS?

Executive Summary

Immigration makes Australians richer on average, but benefits some Australians more than others.

The increase in average incomes arises to a considerable extent because, in a country of Australian's population size and geographic dispersion, it costs less per person to provide many public goods and services for a larger population. It also derives from the lower unit costs of providing national cultural goods, transport and communications and some other non-tradeable goods and services through market processes to a larger population. The increase in average incomes is greater if the immigrants are better endowed with economically valuable skills (many of which are accumulated through formal education). It is greater if they are young, with a maximum positive impact if immigrants arrive near the beginning of their working years.

Amongst established Australians, immigration increases average incomes most for owners of assets that are used to produce goods and services that are not internationally tradeable, notably urban land, especially in the large cities, and shares in companies that produce such services, including through membership of superannuation funds. It does least to raise the incomes of Australians who do not own such assets and who need to purchase non-tradeable goods and services on the market.

When immigrants on average have higher education levels than the established population, as they have had in recent years, immigration is more likely to raise average incomes of relatively unskilled workers relative to better educated Australians. Australia's rigid labour market institutions tend to generate

relatively low employment and high unemployment for people who are poorly endowed with economically valuable skills, so that immigration with a high skill component tends to raise employment and lower unemployment of low-skill established Australians.

A substantial part of immigration's contribution to higher average incomes comes through the budgets of the Commonwealth, State and local governments. Who gains from immigration, and by how much, therefore depends to a considerable extent on how Governments use their increased budget capacity. Australian governments' budgets tend to redistribute income from relatively rich to relatively poor Australians, so it is reasonable to presume that increased budgetary capacity raises the services and private consumption of poor Australians proportionately more than rich Australians.

Overall, immigration on the pattern of the recent past favours relatively low-income Australians. However, there may be losers amongst established Australians who rent houses in the big cities and who own few or no superannuation assets. Some of these potential losers or small winners reduce costs through internal migration from the big cities to places where housing is cheaper.

The Australian experience with gains and distribution of costs and benefits from immigration contrasts sharply with that of the United States. Immigrants have less education relative to the average of the established population in the United States than they do in Australia. Immigration to the United States tends to depress the relative incomes of poor Americans. However, the more flexible United States labour markets cause this tendency to be reflected in lower wages rather than unemployment. High rates of employment assist the accretion of economically valuable skills, and reduce the depressing effects on incomes of low-skill workers over time.

Australian immigrants settle disproportionately in Sydney and Melbourne, and relatively few settle in rural and provincial Australia. This does not mean that immigration causes the populations of the biggest cities to grow faster than those of the other capitals or of the 'Rest of Australia'. Indeed, from 1981 to 1996, Sydney-Melbourne grew more slowly than either 'Other Capital Cities' or 'Rest of Australia'. Centralisation of population growth reasserted itself between the 1996 and 2001 censuses. The faster population growth of Sydney-Melbourne in this latter period resulted to a considerable extent from a reduced rate of out-migration of native Australians from these cities to other parts of the country.

1: Broad Features of Immigration of Australia

Immigration increases total incomes and changes the distribution of incomes. This paper looks broadly at who wins most and who wins least from immigration, and whether some Australians might lose. It focuses on immigration since the Second World War and makes a few points that are important for choices affecting the future. It compares some features of the Australian experience with that of the United States.

Immigration increases the scale of the economy above what it otherwise would be. The paper suggests that contemporary immigration raises the average incomes of Australians, and that the extent to which it raises the average (and under different patterns of immigration whether it raises them at all) depends on the composition of the immigrants in relation to age and economically valuable skills. The distribution of gains between native Australians and immigrants and amongst Australians also depends on the age and skill composition of the programme.

The Australian immigration programme has several components, that by their nature have different age and skill compositions. There is close regulation of the age and skill characteristics of migrants in the skilled, business and to some but lesser extent family reunion components of the programme, but not in the humanitarian (mainly refugee), New Zealand and 'partners' components. In some components, government policy places limits on numbers (refugees, general points tested skilled migrants and parent migration under family reunion), but in others admits all who meet the criteria. The characteristics of immigrants within the various programmes differ in ways that have large implications for the distribution of the benefits from immigration.

The humanitarian component of immigration exists for reasons beyond the economic issues covered by this study. Australians have long recognised that their circumstances and values require acceptance of refugees. The formal refugee programme in recent years has been set at 12,000 per annum (with the roll-over of any unused places), or about 15 per cent of the Government's average target over this period for total immigration. This happens to be about the number of European refugees resettled annually in Australia in the immediate postwar years. Refugee numbers were higher in the late 1970s in response to the humanitarian crisis in Vietnam, Cambodia and Laos.

Although Australians rarely reflect on these matters, the refugee programme has an important element of enlightened Australian self interest. Full participation in cooperative international arrangements on treatment and placement of refugees is insurance against Australia itself one day having to manage alone a major refugee crisis on its own territory. Despite the recent controversial treatment of asylum seekers from Pakistan, Iraq and Afghanistan, Australia has not yet experienced anything that the rest of the world would recognise as a refugee crisis. In this, it is unlike many countries in Asia, Africa, Europe and the Americas. A major fracture in governance or failure in development in Southeast Asia (especially Indonesia) or the Southwest Pacific (with greatest potential dimension in Papua New Guinea) would generate a real refugee problem for Australia. In circumstances in which large numbers of desperate people were seeking refuge in Australia, the deterrent measures that have been the subject of recent debate in Australia would have a trivial influence on the movement of people. Australia would want, and preservation of effective sovereignty may require, large-scale cooperation from the international community.

Refugees therefore have a place in the total immigration programme that is determined mainly with regard to factors other than economic benefits. There is no reason why there should be a direct relationship between the number of

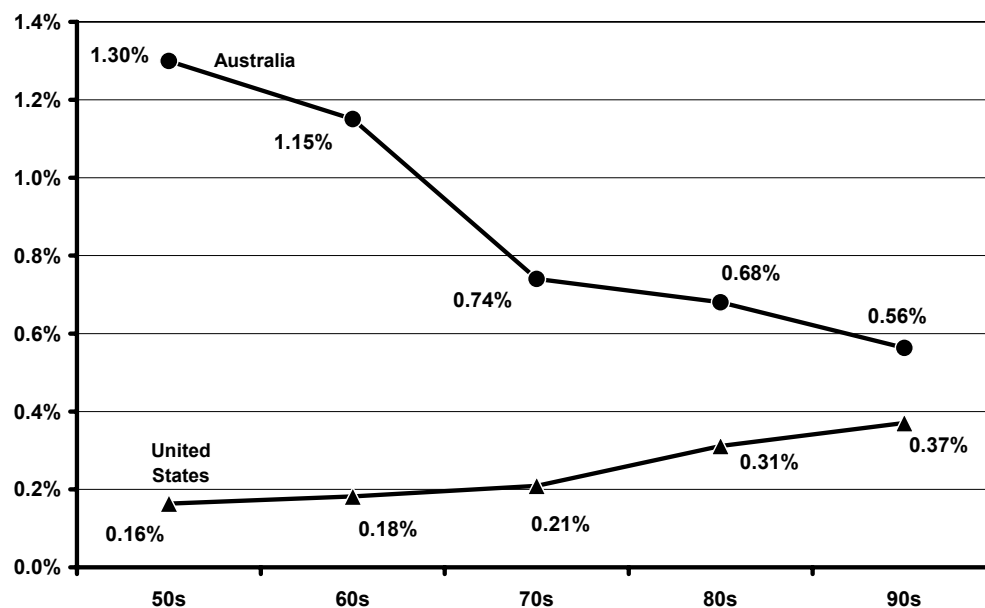
refugees admitted and the size of other components. It is appropriate that the size of the refugee programme be discussed amongst Australians independently of the wider debate about immigration and population.

The family reunion component of the immigration programme responds to Australians' preferences to have relatives live with them in Australia. The possibility of family reunion undoubtedly increases the attraction of Australia as a destination for migration, including of people in a position to make large economic contributions to Australia. Under current Australian policy, places are also set aside in the skill stream for relatives who have economically valuable characteristics of age, skill and (English) language. But the economic criteria vary slightly, for example by requiring basic rather than occupational standard English.

The level of gross immigration each year is the resultant of many forces, only some of which are discretionary decisions of the Australian Government. The actual level of net immigration also depends on the rate at which Australians leave the country (Hugo, 2002). The retention of talented and ambitious young people is a challenge for all relatively small economies in an era of globalised economic activity and opportunity. The challenge is not yet as severe in Australia as in New Zealand, with low average incomes relative to the skill level of its population, and with easy access to Australia. It has generated less anxiety than in Canada, where people with economically valuable skills have relatively easy access to the United States labour market. It is likely to be a powerful factor compounding other favourable or unfavourable economic outcomes for Australia in future. In an extreme case, as in New Zealand in much of the last decade of the twentieth century, it could turn economic underperformance into a downward cycle of emigration of young and talented Australians and further deterioration of economic performance. This possibility raises the stakes in the contest to achieve economic growth in a small and isolated economy like Australia.

Australian immigration has ebbed and flowed with the economic tide, community reaction and Government policy. It has been much larger in proportion to population since the Second World War than in the first half century of Federation. There has been a downward tendency over the past five decades (Chart 1). Some observers see this tendency as reflecting forces that could not easily be reversed. Peter McDonald argues that there are political limits to the absolute number of immigrants arriving each year, independently of the size of the Australian population. ‘There were difficulties’, McDonald has said, ‘when net immigration rose for just two years to over 150,000 per annum’ in the late 1980s (McDonald, 1999, p2).

Chart 1 Rates of Migration by Decade, Australia and the US, 1950s - 1990s (per cent of total population per annum)



Sources: ABS, *Census of Population and Housing*; *Australian Demographic Statistics*; and *Australian Historical Population Statistics*, various issues.
 Borjas, G. J. (1999), *Heaven's Door: Immigration Policy and the American Economy*, Princeton University Press, p.7.
 US Census Bureau, *Current Population Survey*, various issues; and Census 2000 Gateway at <<http://www.census.gov/main/www/cen2000.html>>.
 US Immigration and Naturalization Service, *Statistical Yearbook of the INS 2001*, at <<http://www.ins.usdoj.gov/graphics/aboutins/statistics/immigs.htm>>.

In the late 1980s, the ratio of net immigration to the established population was close to 1 per cent, and not far below the average of the 1960s. The Report of the Committee to Advise on Australia's Immigration Policies (1988), *Immigration: A Commitment to Australia*, at this time advocated annual targets of 150,000 for three years from 1988-89, with subsequent targets depending 'on social and economic conditions'.

There is a way of reading the historical data that would support different conclusions from those reached by McDonald. In times of sustained growth of output and employment, the Australian community has accepted high rates of immigration relative to population. The two post-war decades were the longest and strongest period of economic expansion in Australian history since Federation. The prosperity ended abruptly in 1974, giving way to slower and less stable output and employment growth, including three deep recessions in less than two decades. Strong employment growth returned for six years from 1983, towards the end of which period the ratio of immigration to population rose again, to the high levels observed by McDonald. The Australian economic environment then changed dramatically, with the deepest collapse in domestic demand and the highest unemployment in 1991 since the Great Depression. The recovery from the 1990-91 recession was less rapid than from 1982-83, but proceeded much longer, and can now be seen as the second most powerful sustained expansion since Federation, having now surpassed the performance of the first decade. As confidence in sustained growth strengthens, community attitudes become more supportive of high levels of immigration. This is important background to the lift in the annual intake in the early twenty-first century (Ruddock, 2002).

I do not suggest that there is an automatic link between the state of the economy and the level of immigration. Clearly there is not. Community attitudes and Government policy preferences intercede in different ways at different times. It is to take a rosy view of past Australian attitudes to large-

scale immigration, however, to suggest that there was support of a different order for large-scale immigration in the early post-war years of White Australia, than there is under contemporary, racially non-discriminatory policies. Goot (1988) has presented the evidence. For example, in 1949, a survey of Melbourne opinion by social psychologists concluded that less than a quarter of the sample thought that Italians, Greeks or Russians should be allowed to come to Australia. A 1948 Melbourne survey found 'only' 32 per cent in favour of Chinese migration, 36 per cent for German, 21 per cent for Italian, 26 per cent for Greek and 17 per cent for Jewish. (Goot 1988, pp 2-5). Majority support for acceptance of Jewish refugees and for the new sources of migrants in Southern Europe came after many had already settled in Australia.

At all times in Australian history, announced Government policy, and views expressed by opposition leaders, have influenced community opinion. And at all times there has been community caution about continuing immigration at high levels, whatever opinions have been held about the beneficial effects of past immigration.

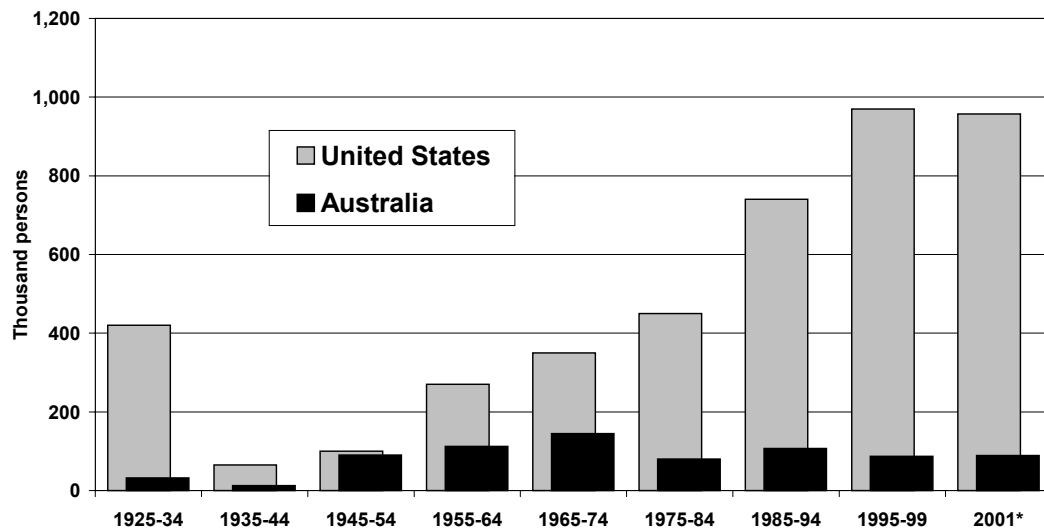
A wide range of immigration levels as a proportion of the existing population, including levels that are closer to the early postwar years than to the 1990s, perhaps returning to around the 0.7% average of the 1970s, and 1980s, might turn out to be feasible depending on economic and other circumstances.

The declining proportionate rates of immigration to Australia over the past 50 years contrast with the United States, where immigration has been rising as a proportion of population (Chart 1).

Chart 2 focuses on absolute numbers rather than proportions of the existing population. This is misleading as an indication of effects of immigration on society or the economy, but its demonstration that absolute levels of migration

to Australia were not far below those to the United States in the early post-war period is of considerable interest.

Chart 2 Number of Migrants to Australia and the US, 1925 – 2001
(thousand persons per annum)

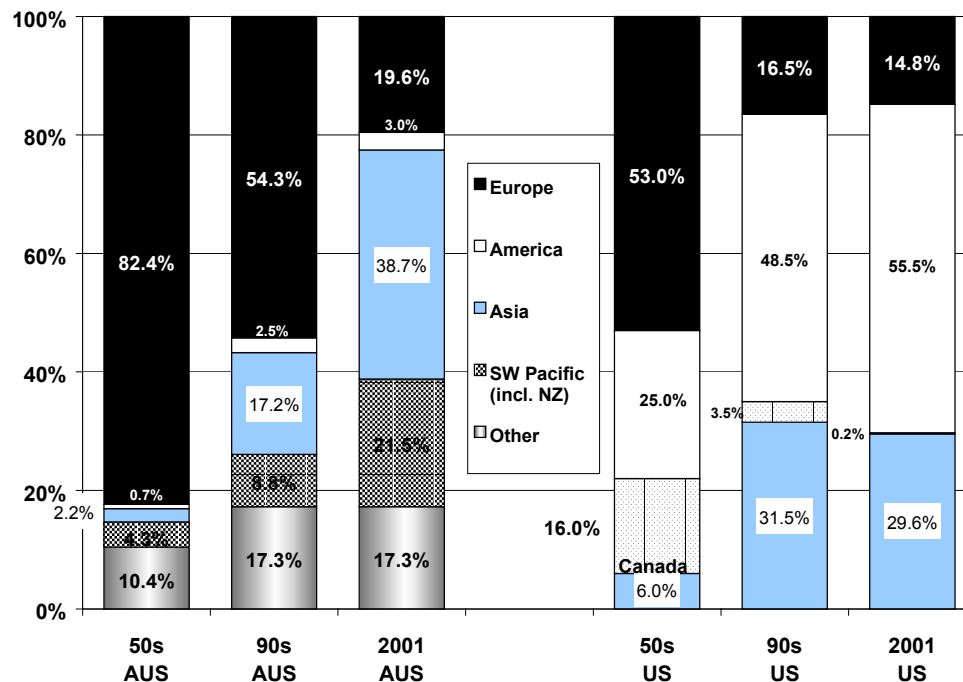


Notes and Sources: See Chart 1.

The focus on legal migration in Charts 1 and 2 misses the large and, late in the century, accelerating flow of illegal migrants to the United States, especially from Mexico.

Australia has experienced radical re-orientation in the sources of migrants since the early postwar period (see the first three columns of Chart 3). In the first half of the twentieth century, immigrants were drawn overwhelmingly from the British Isles. ‘The White Australia Policy’ from 1901 had been interpreted in practice before 1945 to discourage immigration from Southern Europe as well as to exclude it from Asia and the Pacific Islands. The British and Irish components were much lower after the Second World War, but over 80 per cent still came from Europe in the 1950s.

**Chart 3 Origin of Migrants over Time, Australia and the US,
1950s, 1990s and 2001 (arrivals in decade for 1950s and
1960s)**



Sources: DIMIA, *Immigration Federation to Century's End 1901-2000*, 2000.
 ABS, *Census of Population and Housing*; and *Australian Demographic Statistics*,
 various issues. Borjas (1999), p.10.
 US Immigration and Naturalization Service, *Statistical Yearbook of the INS 2001*
<http://www.ins.usdoj.gov/graphics/aboutins/statistics/immigs.htm>.

The broadening of the geographic base of European immigration to Australia was driven by recognition that the old sources of migrants could not meet the postwar demands for growth in population and the labour force.

The abolition of the White Australia Policy progressively between 1966 and 1973 was motivated by shifts in the ideological, social and political climate, but had large implications for the skill composition and economic effects of immigration. The much stronger focus on economically valuable skills in immigration in the late twentieth century would not have been possible without widening the sources of intake to Asia, supported by expansion of the supply of skills from Eastern Europe after the collapse of the Soviet Union at the

beginning of the 1990s. In the 1990s, Europe still contributed half the total, but with a much higher proportion from Eastern Europe and the former Soviet Union. The Asian share was 17.2 per cent, and higher again in the early twenty first century. ‘Other’ sources, with a large Middle East component in the 1990s, had also become large. By 2001, Asia contributed twice the number of migrants as Europe (Chart 3).

The sources of migrants to the United States diverged sharply from those to Australia in the 1990s. Latin America, led by Mexico, contributed about half, and Asia a majority of the balance. The Latin American dominance of legal immigration, and the more pronounced Mexican dominance of the large illegal movements, was associated with a lowering of the average levels of education and economically valuable skills amongst immigrants. By 2001, the Latin American share of total immigrants had risen further, at the expense of both Europe and Asia (Chart 3).

The proportion of migrants to Australia with low levels of education has been below that of the Australian-born at least since the early 1970s, and the relative proportion has been declining with each passing decade. Here, too, the tendency in the United States has been very different from that in Australia: the proportion with low levels of education has been much higher for migrants than natives in the United States, and has been rising over time. The proportion of migrants with high levels of education has been consistently higher than for natives in both Australia and the United States, but much more so in Australia. The educational differential in favour of migrants has been falling over time in Australia as the proportion of native Australians with high education has risen, but it remains substantial.

The age composition of immigrants has caused the average age of Australians and the proportion of old people in the total population to be moderately lower than it would otherwise have been.

2: Scale Effects of Immigration on Levels and Distribution of Income

Even if immigration had no effects on the average age and skill level of the population, it would affect the average level and distribution of incomes.

The size of the total population (that is, “scale”) affects the average levels of incomes through several mechanisms, of which two are of considerable importance in contemporary Australia.

One effect of scale that was much discussed earlier in Australian history, operates through diminishing returns in industries based on utilisation of natural resources, principally mining and rural industries. It arises out of the capacity of the natural resource-based industries to generate economic rent. The amount of economic rent in the natural resource-based industries in Australia is mostly determined by international prices that are not affected by the size of domestic demand. To the extent that this is the case, population growth leads to a given quantum of natural resource rents being divided amongst a larger number of people. This was an important effect when population was much smaller and the proportionate roles of the mining and rural industries much larger in the total economy. Today, the natural resource rent component of Australian incomes would amount to not much more than a hundred dollars per capita, so that even a doubling of Australian population would reduce average incomes from this source by a tiny fraction of one per cent.

The statement that the prices of natural resource-based products are independent of population size requires one qualification. Natural resource rents rise a little with domestic demand, since the prices at which natural resource-based products are sold to domestic markets are higher than those to which they are sold to international markets. This pricing difference reflects the fact that transport and trade costs are lower for domestic sales than for

exports. An expansion of domestic demand mostly makes only a small difference to average prices for mineral and farm products, since the increment in sales associated with an increase in the domestic market over any short period is usually small compared with total sales. Over long periods, however, the differences may be more important. The difference would be greatest for any industry which, with rising domestic demand, switches over from being a net exporter to being a net importer, so that the basis of domestic pricing switches from export to import parity. This crossover, with its magnification of price effects, was present in the grains industries during the El Nino drought of 1997, when it increased prices of some feed grains by around one quarter, and again in the drought of 2002-03. In both of these cases, the switch was caused by shrinking domestic supply rather than increasing demand.

Any increase in average sales prices of natural resource-based products associated with increased population has little effect on average incomes of all Australians. Rather, it affects distribution of income within the Australian population. Growth in population raises real incomes of farmers and, to a lesser extent, miners, at the expense of the remainder of the community of consumers.

A second and more important way in which population growth affects average real incomes arises out of the costs of providing public goods, some of which are of as much value to each of ten as to each of twenty or thirty million Australians. Public goods that can be supplied at lower average cost for a larger population are of importance at all levels of government. In the Commonwealth, they are significant in relation to defence and security, foreign affairs, development assistance, substantial parts of the justice and regulatory systems, the parliamentary and cabinet infrastructure and the overhead costs of administering the departments of State. The overhead costs of State Government administration are proportionately higher than for the Commonwealth (see Commonwealth Grants Commission 2001 for discussion

of the State government overheads). The main costs of services provided by local governments outside the cities, importantly roads and other transport infrastructure, do not rise proportionately with population, so per capita costs fall with larger population. The total effect of these scale factors on the supply of public goods would be to raise potential real per capita incomes by at least several per cent with a doubling of the population. The gains would be manifest through reductions in tax rates, increases in provision of public goods for which there had been a reduction in per capita costs (for example, defence), or increases in other areas of public expenditure.

A third way in which population growth affects average real incomes operates through economies of scale in industries providing non-traded goods and services through the business sector. Such economies of scale are especially important in a small (in population) and sparsely settled country like Australia. They are of large importance in transport and communications, and in many of the utilities, in which the difficulties of small scale arise partly out of the impossibility of generating effective competition. They are of critical importance in the many industries providing national and local cultural goods: the national media, graduate education and research, sporting competitions, literature and the arts. Indeed, in the latter, scale is so important that the range of national public goods that can be provided at all is severely truncated in a small economy: compare New Zealand with Australia, each of these with the United Kingdom, and all of these with the United States.

There is also an important link between population scale and its rate of increase, and the attractions of a country to talented young people, born in the country and immigrants alike. These factors, in turn, are closely related to the attraction of a country as a location for business leadership functions. (See the discussion in Withers, 2001). Discussion of the contemporary economic problems of New Zealand and the less populous Australian states, and the contemporary Australian discussion of the 'branch office economy' (Garnaut,

2002b), focus on the disadvantages of small scale, especially when combined with isolation from the main centres of world economic activity. These ‘dynamic’ factors seem to have become more important with the technological change and other factors generating contemporary ‘globalisation’. These effects operate in the direction of causing larger population size to raise average incomes, but are difficult to quantify.

I do not include amongst the ways in which scale affects average incomes any dilution of the per capita endowment of capital with increased population. In the contemporary world, capital flows to where perceived rates of return are highest, and per capita endowments of capital are determined by these perceptions rather than by the size of national accumulations. Indeed, international capital flows may cause per capita capital endowments to be higher in economies that are experiencing population growth in the context of generally strong economic growth.

The conclusion that, for Australia at least, there is a positive effect of population growth on average incomes is broadly consistent with the weight of recent economic opinion, although the standard economic modelling underplays the scale and dynamic effects (Withers, 2001).

Higher average incomes themselves have implications for the distribution of income. Most importantly, since several of the ways in which increased scale raises per capita income operate through public sector costs, higher average incomes increase the capacity of the State to expand social safety nets in various ways, including some that could feed back positively into economic efficiency (Garnaut, 2001, Chapter 13). Given the general tendency for Australian public expenditure to raise real incomes proportionately more for poorer than for richer Australians, it is likely that the easing of fiscal pressures on Commonwealth and State Governments would be associated with more equitable income distribution.

The pricing effects on internationally tradeable goods cause population growth to redistribute some income from consumers in general to producers of farm products. This also has the effect of redistributing economic activity from the cities to rural and provincial communities. In contemporary Australia, this tends to involve redistribution of income from higher-income to lower-income people.

Higher levels of immigration are also likely to generate some disproportionate increase in incomes of producers of non-tradeable goods and services. The most important redistribution of this kind derives from the tendency for population growth to increase economic rents from ownership of urban land. The precise nature of these effects depends on the eventual geographic distribution of the population increase associated with immigration. Land values in the great cities are highly sensitive to increases in population, especially since financial deregulation in Australia (Andrews, 2001). Rising property prices cause high levels of population growth to be associated with more dispersed settlement, despite the tendency for immigrants themselves to settle disproportionately in a few cities (Sydney, Melbourne and Perth). Established Australians move out to other parts of Australia where costs are lower.

Rising land rents, and more generally rising rents to established producers of non-traded goods and services, skew the benefits of migration strongly in favour of established Australians, who own most urban land and other assets producing non-traded goods and services. This factor reduces the gains to recent immigrants below what they otherwise would be. However, in the overwhelming proportion of cases, migrants receive large net economic benefits from resettlement, despite migration itself having raised the entry price through its effects on urban land rents.

Within the established Australian population, the influence of scale on relative prices has significant distribution effects. Increase in population size redistributes income from the community generally to owners of land and other assets producing non-traded goods and services. Some established Australians avoid these costs through resettlement within Australia. Ownership of urban housing is fairly widely distributed in Australia, and ownership of business assets producing non-tradeable goods and services in Australia increasingly so with the wider spread of superannuation. Nevertheless, there are potential losers from the scale effects of immigration, most importantly people earning low incomes in the large cities, who do not own their own homes. Whether or not this potential were realised would depend on how these 'losers' fare in the distribution of the fiscal dividend from immigration-related economic growth, and how the composition of the immigration affects the relative value of their skills in the labour market.

3: Composition Effects: Age

The age composition of the immigrants affects average incomes. The influence comes through two channels.

The first channel is the effect on the proportion of people in employment in the total population. The higher the proportion of work-age people in the immigrant population, relative to this same ratio for the native population, the higher are average incomes. Immigrants who arrive in the early years of entry into the labour force have an especially large positive effect on the proportion of the population in employment.

The second channel is through the relationship between age at time of entry and a migrant's contribution to and demands on government budgets. We can call the net surplus of taxation paid over the cost of benefits received from public goods, services and transfers the 'fiscal residuum'. An 'average' resident can be expected to generate a negative fiscal residuum during the years of full-time education, a positive fiscal residuum in the working years, and a negative residuum in retirement. The maximum positive fiscal residuum would be associated with a migrant who arrives at the beginning of the working years, and the maximum negative residuum with a migrant at an age close to the transition between work and retirement (see also Richardson, 2002).

These influences are best looked at in lifetime terms. Over the postwar period continuing to the present, they have caused the positive effects of migration on incomes to be larger than if the age structure of migrants had mirrored precisely that of the Australian-born (native) population.

There has been considerable debate about the capacity of immigration to ease or to delay ageing in future. Modelling by demographers has demonstrated that a steady level of migrants of 100,000 per annum (presumably with an age

composition similar to that of recent years), would reduce the proportion of aged people in the population through much of the twentieth century to about 4-5 percentage points below what it would be with zero net migration. This is a significant benefit at a time of concern about the economic costs of ageing (Costello, 2002). The gains are larger if the level of migration remains steady as a proportion of the established population from time to time and so rises with population, than if the absolute number of migrants is fixed (say at 100,000 per annum).

McDonald has observed that additional increments to the rate of immigration (in this example, beyond 100,000 per annum) contribute less to the vitiation of ageing than the first increment of similar absolute size. This observation reflects the arithmetic effect of the difference between the average ages of immigrants and the established population falling as the level of immigration increases (McDonald and Kippen, 1999). The more effective immigration has been in reducing the proportion of old people in the population, the harder it is to reduce it to even lower levels. The arithmetic demonstrates, nevertheless, that there are substantial additional benefits for the age structure of the population if immigration rises proportionately with population, over the case in which it is held constant at 100,000 per annum (McDonald, 2002, p.22). The economically favourable effects of immigration on the age structure of the population would be greater if the intake contained a higher proportion of people near the years of initial entry into the labour force.

4: Composition Effects: Education and Skills

The education and skill levels of immigrants have powerful effects both on average incomes and on their distribution. Immigration of people with higher levels of economically valuable skills than the average of the Australian-born tends to raise average incomes. In general, higher levels of education are associated with higher labour force participation, lower unemployment and higher average productivity and income from employment. All other things being equal, a well-educated person pays more tax and draws less on public services over the life cycle.

Changes in average incomes from varying education levels of immigrants may affect the distribution of income through the utilisation of the fiscal dividend from immigration. In addition, the skill composition of immigration has large implications through the labour market for the distribution of income amongst Australians. In general, an increase in the amount of a certain kind of labour skill (let us say labour with substantial education) reduces relative incomes of established Australians with similar skills (substantial education in this case) and raises relative incomes of other types of labour (in this case, relatively unskilled labour). Conversely, a disproportionately high proportion of unskilled workers in the immigration programme raises relative incomes of people with high levels of skill and reduces incomes of unskilled workers.

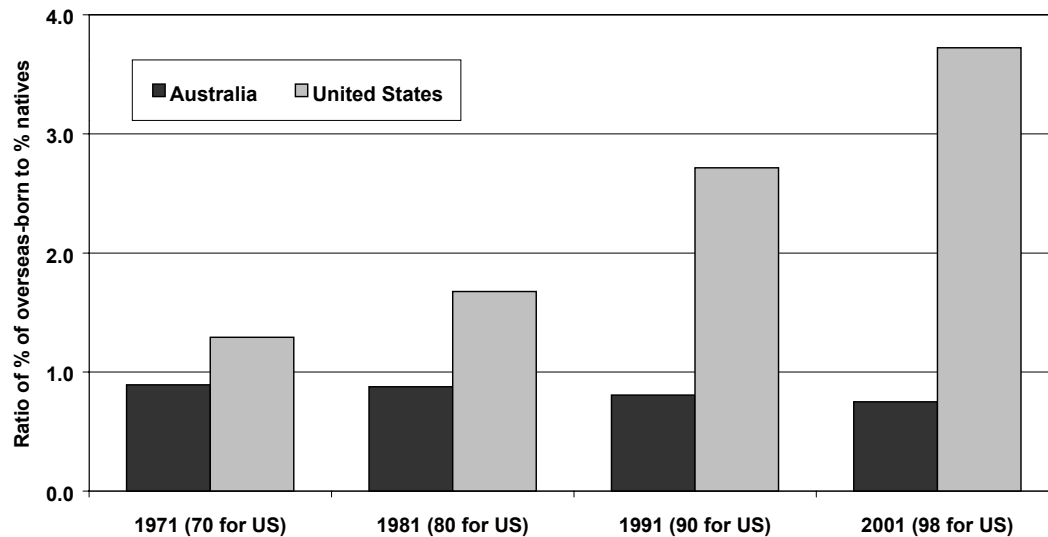
In Australia, with high and rigid minimum wages for low-skill workers, increased supply of low-skill relative to high-skill labour would lead to increased unemployment. By contrast, in the United States, with more flexible labour markets, it would lead to a fall in wages of unskilled labour (Camarota, 1998). Thus a large increase in the relative supply of unskilled labour would lead to lower incomes for people with few economically valuable skills in both countries, but through different processes. Because unskilled labour generally has relatively low incomes and wealth, the increase in relative supply of

unskilled labour would also lead to greater inequality in the distribution of incomes and wealth within the country (Camarota 1999). The obverse also holds: A large increase in the relative supply of highly skilled labour would tend to reduce inequality in the distribution of incomes and wealth.

The manifestation of inequality in higher probability of unemployment is probably more traumatic in its social consequences than lower wages for the employed. Thus Australian labour market institutions magnify the effects of the skill composition of migrants on income distribution. One special consequence of unemployment is that it prevents learning by doing and accretion of skills through the experience of employment. The experience of work can gradually compensate to some extent for absence of formal education — hence the tendency for unemployment of Australian males to be low in the middle work-age years, even if they have fewer years of formal education. For unskilled immigrants and their families, unemployment also slows the improvement of English language skills and more generally socialisation into Australian life.

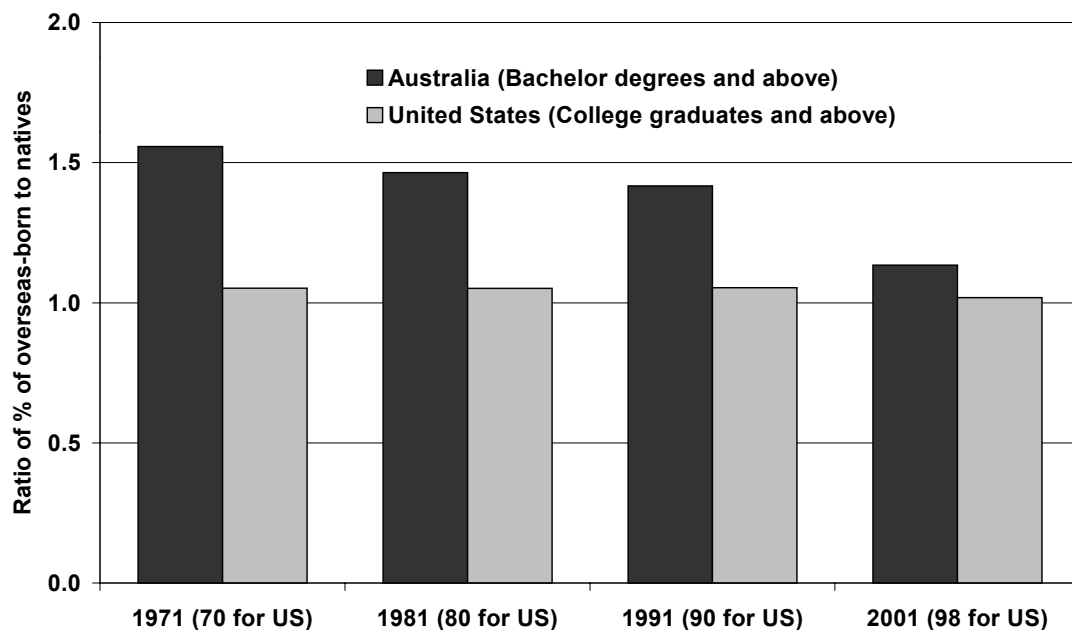
The diversification of the geographic origins of migrants to Australia away from Europe, in recent decades, has been associated with a large reduction in the proportion that has little education, relative to the Australian-born population (Chart 4a). This contrasts with the trend in the United States, where dominance of family reunion and the rising share of people with relatively low levels of education from Latin America have been influential (Borjas, 1999). In Australia, the proportion of migrants that has low education, ('high school dropouts' in the American terminology), relative to the proportion in the total population, was almost one in the early 1970s. It fell in each of the following decades. By contrast, in the United States the proportion of people which has relatively little education has always been higher in the immigrant than native populations, but has increased threefold since the early 1970s (Chart 4a).

Chart 4a Changing Education Characteristics of Unskilled Migrants, Australia and the US, 1971 (70 for US) - 2001 (98 for US): Ratios of Percentages of High School Dropouts Amongst Overseas-born to Percentages Amongst Natives



Sources: ABS, *Census of Population and Housing*, various issues;
Borjas, G. J. (1999), Table 2-1, p.21.

Chart 4b Changing Education Characteristics of Skilled Migrants, Australia and the US, 1971 (70 for US) - 2001 (98 for US): Ratios of Percentages with Higher Education Amongst Overseas-born to Percentages Amongst Natives



Sources: ABS, *Census of Population and Housing*, various issues;
Borjas (1999), Table 2-1, p.21.

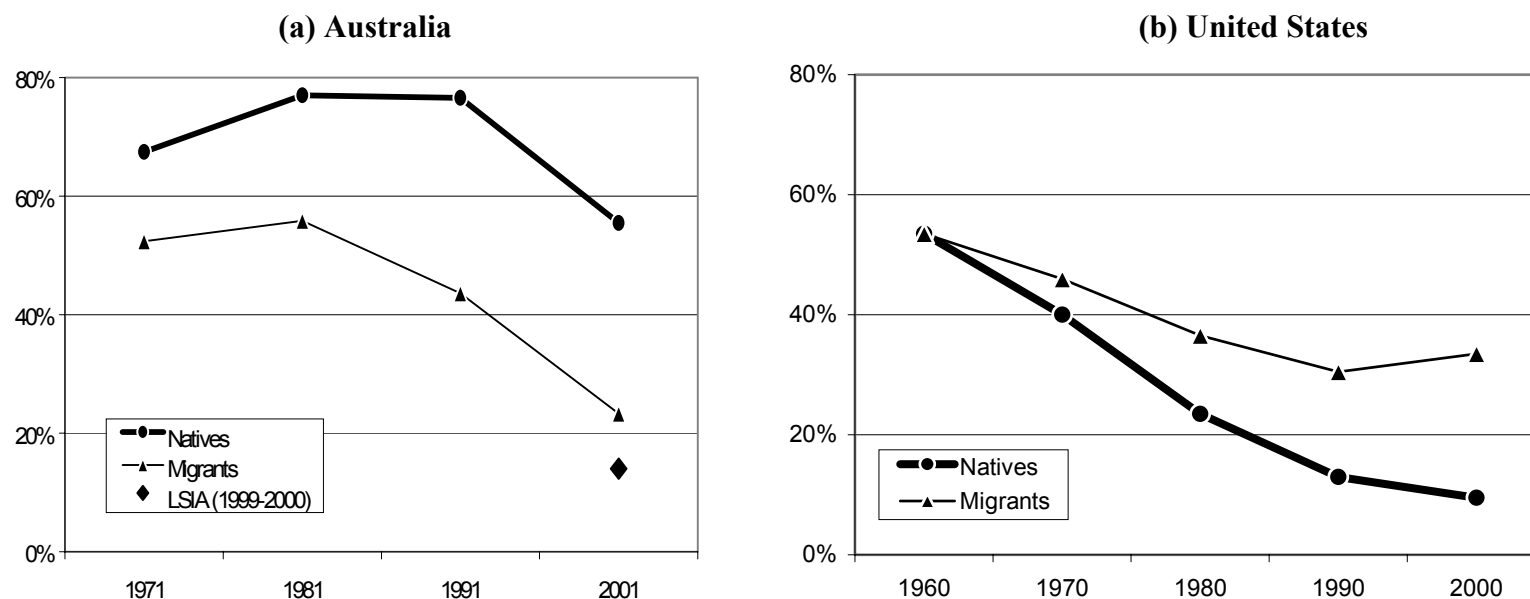
The contrast between the education levels of migrants to Australia and the United States, relative to natives, is also seen when the focus shifts to higher education. In Australia in the early 1970s, relative to natives, the proportion of people with bachelor degrees and higher levels of education was more than one and a half times as high in the immigrant than in the native population. This ratio fell in each decade to the present, but remains above unity. The fall was entirely the result of the rapid increase in the number of Australian native graduates of Universities in the 1980s and 1990s. The proportion of migrants with university degrees also rose considerably over the period. The proportion of overseas-born with College degrees to natives with degrees in the United States has been slightly above one and falling for many decades, and remains below the equivalent ratio in Australia (Chart 4b).

Chart 5 confirms that the proportion of migrants with little education has been low relative to the proportion among natives in Australia. The proportion with little education has been falling in the general population, and even more rapidly for immigrants over the past quarter century (Chart 5a). This fall amongst migrants has accelerated in recent years. Data from the Longitudinal Survey of Immigrants to Australia (LSIA) indicates that only around 10 per cent of all new adult male migrants to Australia in 1999-00 had less than year 12 education. This contrasts with the United States, where the proportion of 'high school dropouts' has been higher amongst immigrants than natives for the past several decades. In the United States the proportion of migrants with relatively little education actually increased in the 1990s (Chart 5b).

Chart 6 looks at the higher education end of the scale. The proportion of people with University degrees in Australia was similar for migrants and natives in 1971, but the proportion of new migrants with degrees rose rapidly thereafter, to become twice as great as the proportion of the Australian-born with degrees in the ten years to 2001. The proportion of new migrants with degrees continues to increase. According to LSIA data, some 43 per cent of

adult migrants in 1999-00 were tertiary graduates. The proportion with College degrees was also higher amongst migrants than natives in the United States, but there was little increase in the highly educated proportion of the migrant population after 1970. By 2000, there was little difference in the proportion of migrants and natives with College degrees in the United States.

**Chart 5 The Changing Skills of Successive Migrant Waves in Australia and the US, 1971-2001:
Proportions of Recent Migrants and Natives Who Are High School Dropouts (per cent)**



Notes: Australia: The data refer to males aged 15 and over.

The US: The data refer to male wage and salary employees in the civilian sector, aged between 25 and 65.

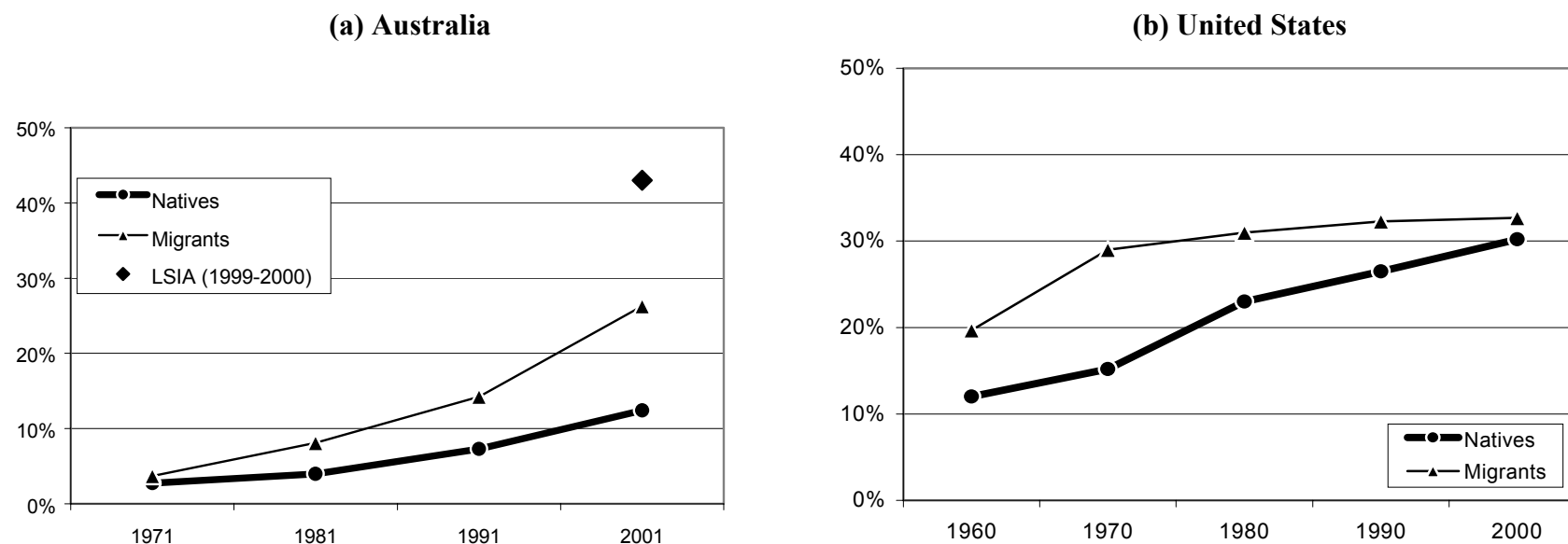
'Migrants' refer to 'most recent migrants' consisting of people who arrived in the country in the five-year period prior to the survey.

Sources: ABS, *Census of Population and Housing*, various issues.

Borjas, G. J. (1999), p.27.

Longitudinal Survey of Immigrants to Australia Cohort 2 – Primary Applicants and Migrating Unit Spouses.

Chart 6 The Changing Skills of Successive Migrant Waves in Australia and the US, 1971-2001:
Proportions of Recent Migrants and Natives Who Are University/College Graduates (per cent)



Notes: Australia: The data refer to male persons aged 15 and over.
The US: The data refer to male wage and salary employees in the civilian sector, aged between 25 and 65.
‘Migrants’ refer to ‘most recent migrants’ consisting of persons who arrived in the country in the five-year period prior to the survey.

Sources: ABS, *Census of Population and Housing*, various issues.
Borjas, G. J. (1999), p.27.
Longitudinal Survey of Immigrants to Australia Cohort 2 – Primary Applicants and Migrating Unit Spouses.

5: Immigration, Education and Incomes

How has the differing educational experience of immigrants to Australia and the United States affected income distribution and unemployment in the two countries? It is useful to look separately at the low and high ends of the education spectrum.

Borjas (1999) has attributed much of the widening wage gap between unskilled and other workers in the United States between 1979 and 1995 to the high proportion of unskilled workers amongst immigrants. It is not possible to replicate his work precisely for Australia, because census data which specify country of birth provide information on incomes rather than wages, and are available only for the census years 1991, 1996 and 2001. Nevertheless, the nearest comparisons are interesting (Table 1).

The differences between the numbers of immigrants with low education relative to natives with low education between Australia and the United States is striking. In the United States, 20.7 immigrant high school ‘dropouts’ arrived between 1979 and 1995 for every hundred native ‘dropouts’ in the established population (Table 1a). In Australia, 3.9 immigrants high school ‘drop outs’ arrived between the census of 1991 and 2001, for every one hundred native ‘dropouts’.

When the focus shifts to high school graduates, the comparisons are reversed. In the United States, 4.1 immigrant high school graduates arrived between 1979 and 1995 for every hundred native graduates. In Australia, 14.2 immigrant high school graduates arrived between 1991 and 2001 for every hundred native graduates.

Table 1a Number of Immigrants Completing and not Completing High School Relative to Number of Natives with Similar Education (percent)

	US	Australia
Number of immigrant ‘high school dropouts’ per hundred ‘dropout’ natives	20.7	3.9
Number of immigrant high school graduates per hundred high school graduate natives	4.1	14.2

Notes: US Immigrants Arriving 1979-1995 Australia Immigrants Arriving 1991-2001

Sources: US: Borjas, 1999, p.83.

Australia: Author estimates based on 1991 and 2001 Census data.

Table 1b Income Differentials Between “High School Dropouts” and High School Graduates, per-cent

	US	Australia
Percentage wage/income ^a differential between high school ‘dropouts’ and high school graduates in base year	30.1(1979)	24.3(1991)
Percentage wage/income ^a differential between high school ‘dropouts’ and high school graduates, end of period	41.0(1995)	33.9(2001)

Notes: ^a In the United States, wages. In Australia, incomes.

For Australia, the comparison is between high school ‘dropouts’ and completion of Year 12 or equivalent. For the United States the comparison is between high school ‘dropouts’ and all other education groups.

Sources: US: Borjas, 1999, p.83.

Australia: Author estimates based on 1991 and 2001 Census data.

There has been a large increase in differentials between market-place wages (in Australia, incomes) for high school ‘dropouts’ and high school graduates in recent years in both Australia and the United States. Borjas (1999, p.83) attributes almost half of the increase in the differential in the United States to the high proportion of high school ‘dropouts’ amongst immigrants. This cannot be the explanation in Australia where, to the extent that it was important, the educational endowments of immigrants tended to reduce differentials. Australian differentials were well below those in the United States throughout the period. It seems that in both countries, factors other than immigration were generating wider income differentials in the last decade of the twentieth century. Other research indicates that the most important of these other factors is technological change.

When attention is given to ‘College’ (United States) and University (Australia) graduates, the higher educational achievements of immigrants to Australia stand out again (Table 2a).

In the United States, immigrants from 1979 to 1995 with full high school but not full college education represented 5.6 per cent of the number of native Americans with similar levels of education. Immigrants over the same period who were college graduates represented 4.3 per cent of the number of native college graduates. In Australia, the nearest corresponding ratios were 7.1 per cent and 16.2 per cent.

Thus in Australia, immigration augmented the stock of natives most for people with the highest level of education and least for people with the lowest level of education. In the United States, immigration augmented the stock of natives by 4 or 5 times the proportion for high school ‘dropouts’ as for any of the other categories of educational attainment.

**Table 2a Number of Immigrants With High School or College Education
Relative to Number of Natives With Similar Education (percent)**

	US	Australia
Number of immigrants with full high school but not college graduates per hundred natives with similar education	5.6	7.1
Number of immigrants who were college graduates per hundred natives with similar education	4.3	16.2

Notes: US Immigrants Arriving 1979-1995 Australia Immigrants Arriving 1991-2001

Sources: US: Borjas, 1999, p.83.

Australia: Author estimates based on 1991 and 2001 Census data.

Table 2b Income Differentials Between High School Graduates and College Graduates, (per-cent)

Percentage wage/income ^a differential between high school graduates and college graduates, in base year	30.4	33.1
Percentage wage/income ^a differential between high school graduates and college graduates in final year	49.5	33.3

Notes: ^a In the United States, wages. In Australia, incomes.

For Australia, the comparison is between Bachelor degrees and above, and diploma and other certificates. For the United States, it is between high school graduates and college graduates.

Sources: US: Borjas, 1999, p.83.

Australia: Author estimates based on 1991 and 2001 Census data.

The income differential between college graduates and high school graduates increased greatly in the United States in the late twentieth century (first row, Table 2b). Similar ratios did not increase at all for Australia. The expansion of the number of university graduates relative to those with diploma and certificate level training, amongst natives and immigrants alike, contributed to this result in Australia — surprising as it is in times of economic globalisation and rapid technological change.

Table 3 presents data on education levels and incomes of migrants to Australia and the United States by country of origin. These relate to the stock of migrants, and so dampen the large increases in education levels of migrants to Australia through the late twentieth century. Education levels are a bit higher for immigrants to the United States than to Australia for most countries of origin. The exceptions are China, USA/Canada and Other America (most importantly, Mexico). The Other America exception is of great importance: the contemporary dominance of Other America in United States immigration, and the extremely low levels of education for immigrants from this region, now outweighs the educational advantage that the United States achieves from many other countries of origin.

Table 3 Education and Wages/Incomes of Migrant Males (25 years and above), by Country of Birth, Australia and the US

	Years of Schooling		% Differentials from Native Wages (US) or Incomes (AUS)	
	US	AUS	US	AUS
Europe				
UK	14.6	11.6	37.2%	15.7%
Germany	13.9	11.3	24.5%	1.4%
Greece	11.8	9.6	-0.9%	-28.4%
Italy	10.9	9.5	16.1%	-22.3%
Poland	12.8	11.8	-3.1%	-12.6%
Russia	14.2	13.4	6.2%	-5.8%
The Rest	<i>n.a.</i>	11.0	<i>n.a.</i>	-10.8%
Asia				
Japan	<i>n.a.</i>	14.0	<i>n.a.</i>	36.0%
China	12.8	13.1	-21.3%	-19.9%
Korea	14.3	13.8	-12.0%	-12.9%
India	15.9	14.0	17.6%	29.2%
Indonesia	<i>n.a.</i>	13.5	<i>n.a.</i>	-6.6%
Malaysia	<i>n.a.</i>	14.0	<i>n.a.</i>	41.9%
Viet Nam	12.3	11.7	-18.9%	-20.1%
Philippines	14.1	13.5	-5.9%	13.8%
The rest	<i>n.a.</i>	13.2	<i>n.a.</i>	6.4%
America				
USA and Canada ^a	13.8	14.2	24.0%	52.3%
The rest ^b	7.6	10.9	-39.5%	-14.4%
Africa^c	15.6	12.3	12.2%	6.3%
Oceania^d	15.2	11.7	33.0%	21.5%
Total	<i>n.a.</i>	11.7	<i>n.a.</i>	3.3%

Notes: 2001 data for Australia; 2000 data for the US.

Australia: income differentials (author estimates); The US: wage differentials.

^a Canada only for the US figure.

^b Mexico only for the US figure.

^c Egypt only for the US figure.

^d Excluding Australia for the AUS figure.

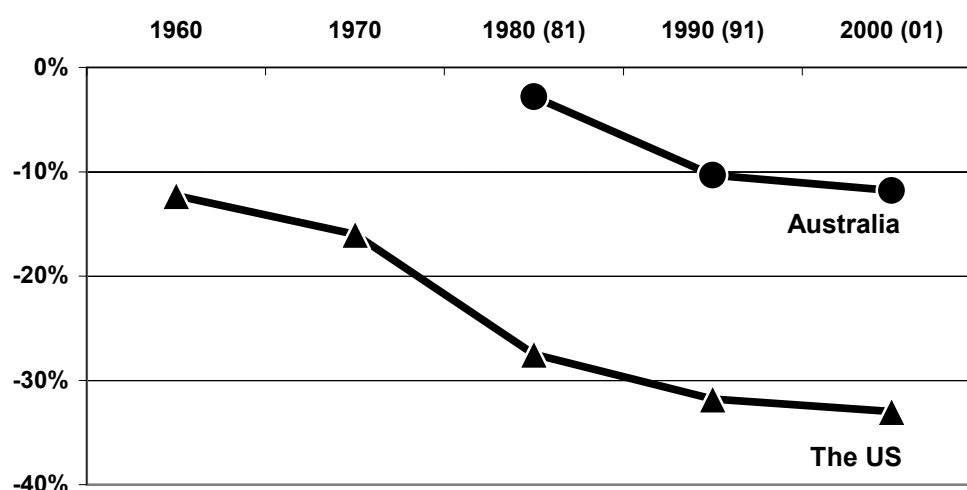
n.a. Not available.

Sources: ABS, *Census of Population and Housing*, various issues.

Borjas, G. J. (1999), p.43.

Wages and incomes of migrants by country of origin tend to follow the variations in average years of education. In the United States, Other American incomes are on average nearly 40 per cent lower than for native Americans. In Australia, the lowest average incomes are for immigrants from Greece and Italy, which have the lowest average years of education. There are some exceptions to this tendency: incomes are low despite above average education levels for some immigrant groups whose average period of residence has been short. The clearest example is Chinese in both Australia and the United States.

Chart 7 Entry Income/Wage Differential Between Most Recent Migrants and Natives in Australia and the US, 1960(70)-2000(01) (per cent)



Notes: Australia (Income differentials; Author estimates): The data refer to male persons aged 15 and over. Years in brackets refer to Australia
The US (Entry wage differentials): The data refer to male wage and salary employees in the civilian sector, aged between 25 and 65.
'Migrants' refer to 'most recent migrants' consisting of persons who arrived in the country in the five-year period prior to the survey.
Year in the brackets refer to Australia figures

Sources: ABS, *Census of Population and Housing*, various issues.
Borjas, G. J. (1999), p.27.

Chart 7, drawn from Borjas (1999) and Australian Census data, shows that migrants enter employment at lower incomes and wages than natives in both Australia and the United States and that the 'recent migrant discount' has been increasing in both countries. It also shows that the discount is very much larger

in the United States (about one third in 2000) than in Australia (a little over one tenth in 2001).

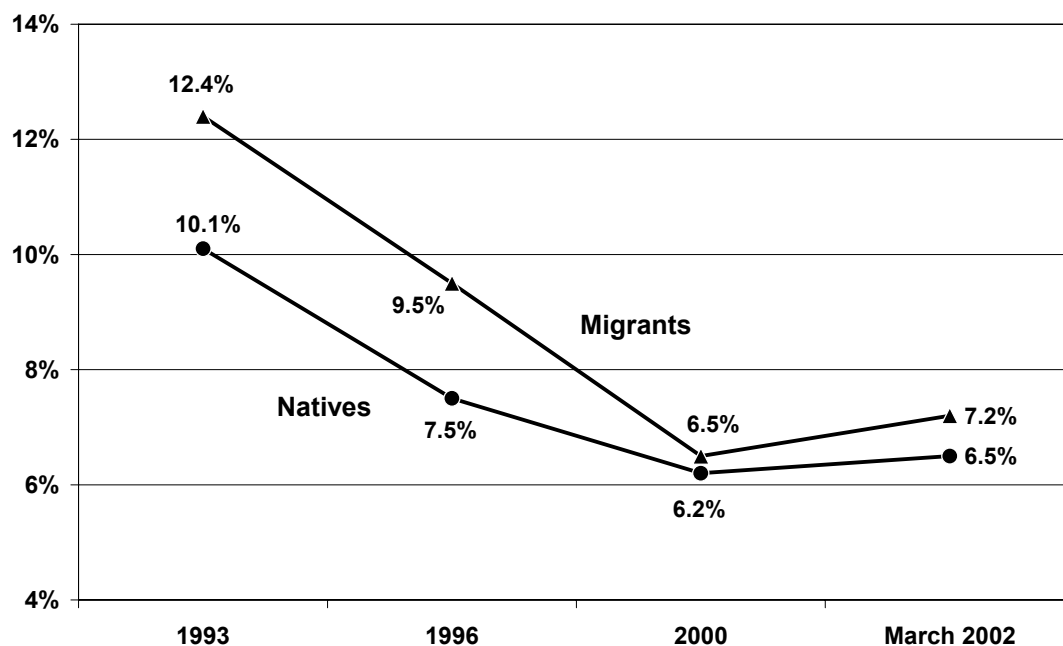
Miller and Neo (2003) have described another dimension of the comparative experience of migrants relative to natives in the Australian and United States labour markets. Migrant incomes in Australia commence below those of natives, but not nearly as far below as in the United States. Migrants who have been in Australia longer have higher incomes relative to natives, but on average remain a bit below those of native Australians even for immigrants who have been in the country for several decades. This contrasts with the American experience, where immigrants who have been resident for a decade or so have higher average incomes than natives.

The different compositions of immigrant cohorts in the two countries helps generate the differences observed by Miller and Neo. The relative experience of immigrants relative to natives may look different in future, when the increasing education levels of Australian and declining education levels of American immigrants in the late twentieth century have had their full effects. Nevertheless, the Miller and Neo study suggests the hypothesis that United States labour market institutions are more conducive than Australian to immigrants rapidly developing economically valuable skills and generating value for them through employment.

6: Employment and Unemployment

Unemployment rates are generally higher for migrants than for Australian-born (Chart 8). Chart 8 also shows that migrants are much more vulnerable to unemployment than native Australians in times of recession: the gap between unemployment rates for the two groups fell with the total level of unemployment through the 1990s and lifted again with the unemployment rate after 2000. These data reflect the stock of migrants and would be less favourable for employment of migrants than future data reflecting the higher educational standing of migrants in later years.

Chart 8 Migrant and Australian-Born Rates of Unemployment, 1993 - 2002
(per cent)

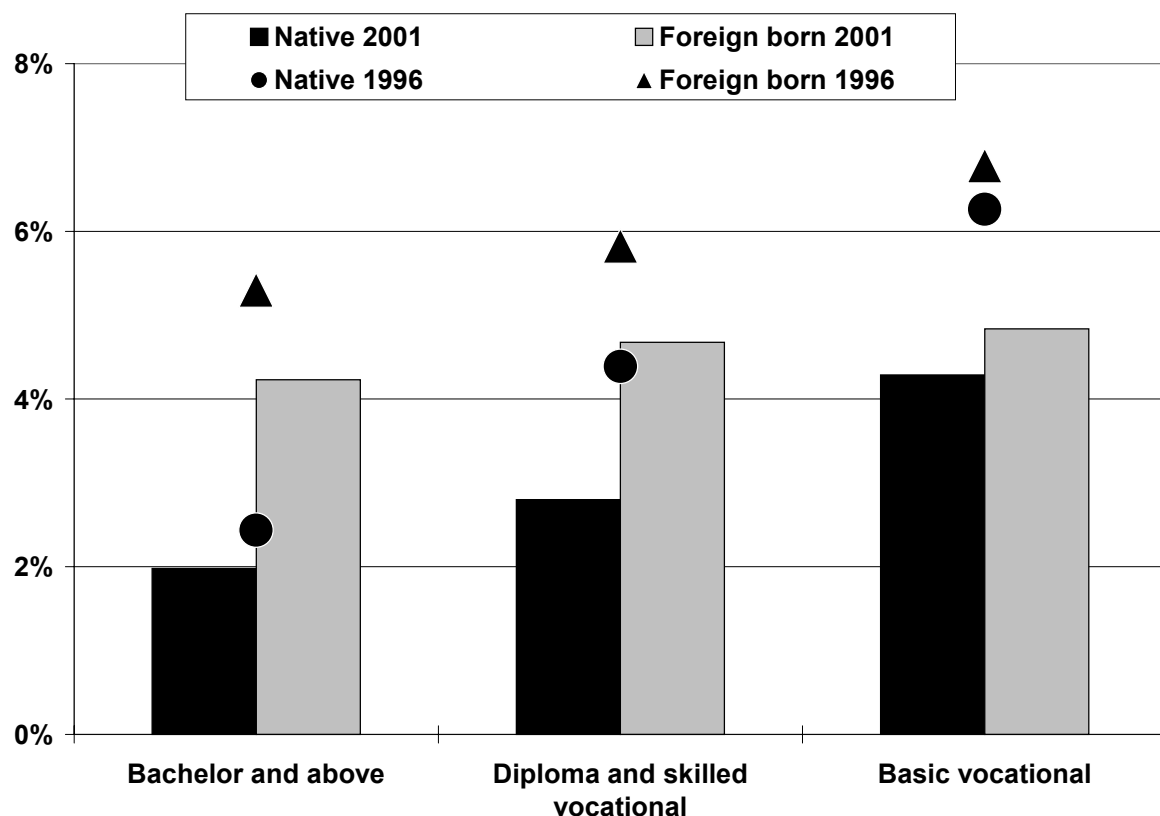


Sources: DIMIA, *Immigration in Brief*, 2000; and ABS, *Labour Force*, March 2002.

Chart 9 demonstrates that unemployment is closely linked to education levels in Australia. For native Australians and immigrants alike, unemployment is highest amongst people with little education. However, the difference between rates for migrants and natives is larger on average for people with higher levels

of education — a group in which there is almost no unemployment in average economic conditions for native Australians. This phenomenon warrants closer analysis. The first hypothesis would focus on the longer times required in search for employment by well-educated new immigrant entrants of the labour force. Another hypothesis would be based on the fact that employment, especially in the area in which a person holds qualifications, is highly correlated with English language ability. Many of the overseas born represented in Chart 10 would have migrated to Australia at a time when selection criteria placed less (or no) emphasis on English language.

Chart 9 Education Levels and Unemployment in Australia, 1996 and 2001
(ratio of unemployed to total population over 15 years in each category)



Sources: ABS, *Census of Population and Housing*, 1996 and 2001.

More detailed inspection of the labour force data reveals that the higher unemployment for migrants is concentrated in communities comprising high proportions of recent refugees. However, the major refugee groups of the late 1970s and early 1990s that revealed unusually high unemployment in earlier years, now have unemployment rates close to the average for Australia.

Viviani's analysis of the Indochinese refugee experience drew attention to the high unemployment amongst refugees from Vietnam, persistently around 30 per cent through the 1980s and early 1990s (Viviani 1996, p65). She observed that lack of education and recent arrival were associated with high unemployment in recession, and the settling down in Australia of the large Vietnamese refugee intakes was disrupted by the deep recessions of 1982-3 and 1990-91. Unemployment of people of Vietnamese origin fell rapidly through the late 1990s, and is now much closer to the Australian norm (12.8 per cent in March, 2002) (Australian Bureau of Statistics, March 2002). In March 2002, the unemployment rate for 'Southeast Asians', amongst which Vietnamese are the largest single group, was 6.8 per cent for those who arrived at the high tide of Vietnamese refugee flows between 1976 and 1980. This was similar to the national unemployment rate of 6.7 per cent.

There is some evidence that the children of Vietnamese refugees, at least, perform better than the average of the population in the labour market (Viviani, 1996, and personal communication, 2003).

The following conclusions can be drawn. Unemployment is closely associated with low education. It is highest amongst recent migrants who have relatively low education. The disadvantages both of low education and recent arrival gradually diminish through experience of employment. High unemployment in recession retards the accretion of experience and skills that would otherwise gradually remove the disadvantages of unskilled migrants, amongst whom there are a high proportion of refugees.

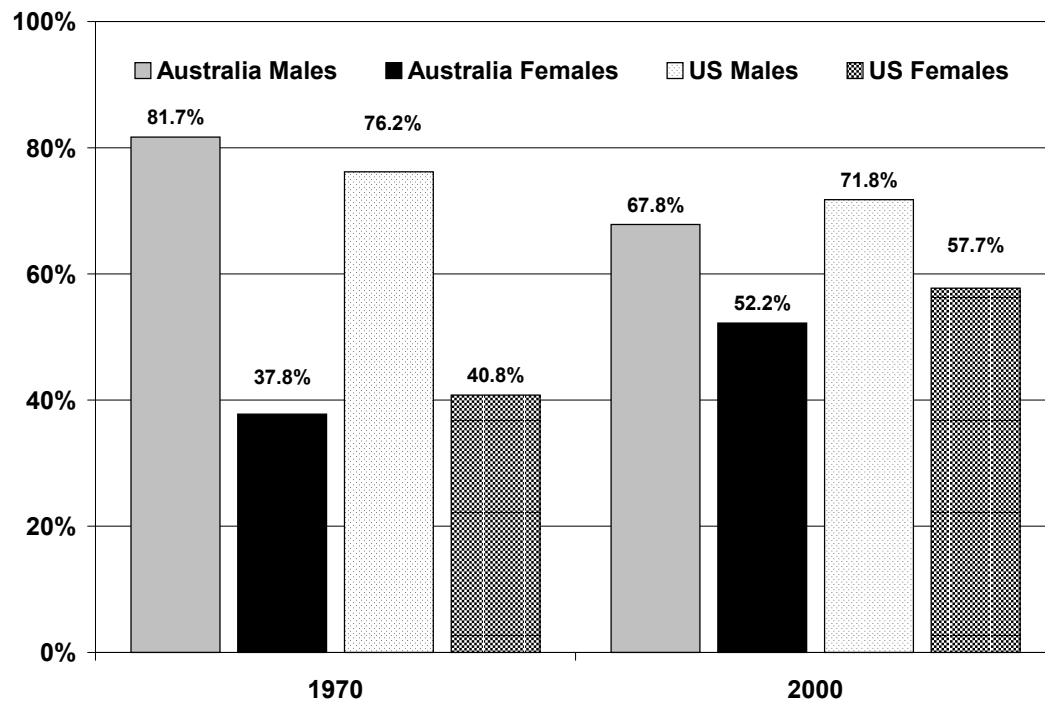
Unemployment measures the proportion of people who do not have jobs amongst members of the labour force. (The labour force is the sum of those who are seeking jobs and those who are employed). For some purposes, including assessment of the economic impact of migration on labour supply to the economy, and therefore on economic output, it is useful as well to examine the ratio of employment (numbers of people in jobs) to adult population. This is the focus of Charts 10a to 10d.

The data in these charts convey a disturbing picture of the contemporary performance of the Australian labour market relative to the United States, particularly in relation to the stock of migrants. Chart 10a shows that the ratio of employment to adult population three decades ago was similar in Australia and the United States. This ratio for males was substantially higher and for females a bit lower in Australia than in the United States. Today it is very much lower in Australia.

The difference between the contemporary employment ratios of the two countries is much greater for the stock of migrants than for natives (10b). Indeed, employment ratios are higher for female migrants than for female natives in the United States, but much lower for female migrants in Australia (10d).

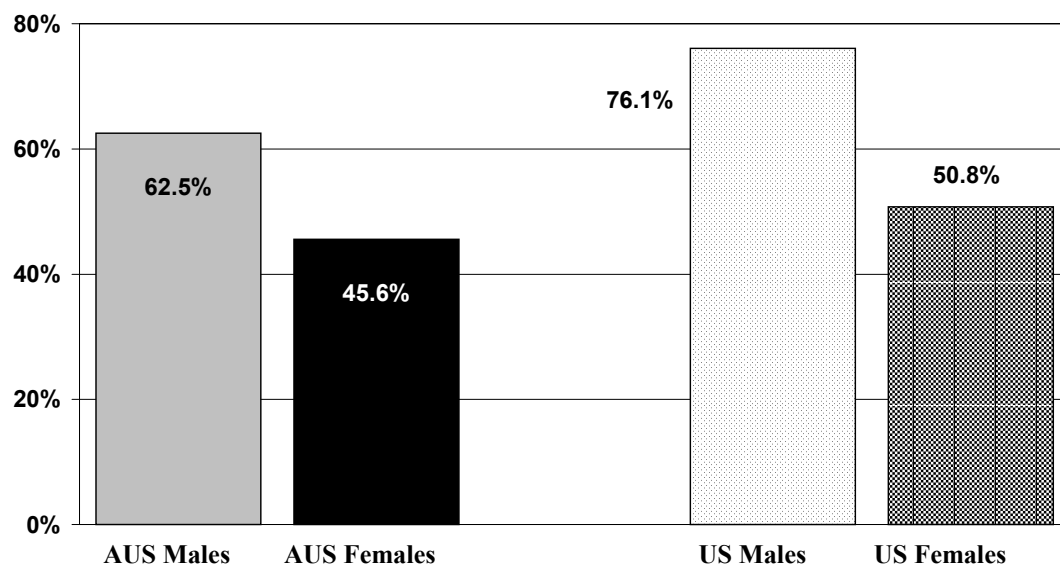
Chart 10c shows that the gap between the migrant and native employment ratios in Australia is quite small for migrants who arrived in the 1980s. This is a decade in which the educational qualifications of migrants was substantially higher than for earlier cohorts, and since which enough time has passed for migrants to have accumulated familiarity with Australian labour market institutions. It is likely that the high educational content of immigration in recent years will lead to higher employment ratios for migrants in future.

Chart 10a Ratios of Employment to Adult Population Over 15 Years by Gender, Australia and the US, 1979 and 2000 (per cent)



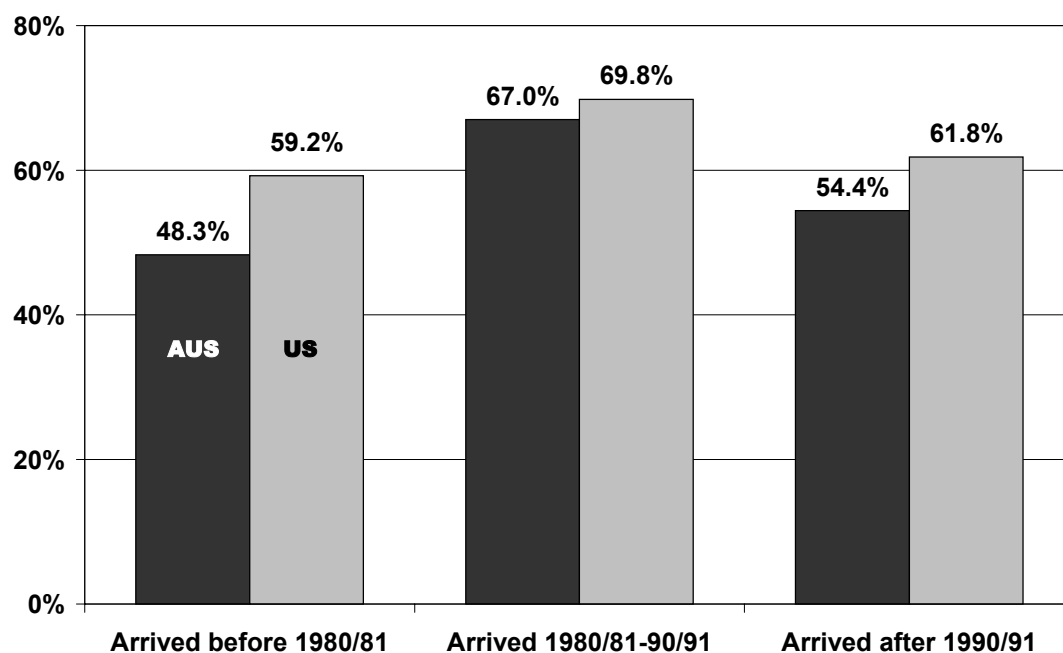
Sources: ABS, *Labour Force*, March 2002; and
US Bureau of Census, *Current Population Survey*, March 2000.

Chart 10b Ratios of Employment to Adult Population Over 15 Years for Foreign-Born Civilians by Gender, Australia (03/2002) and the US 03/2000) (per cent)



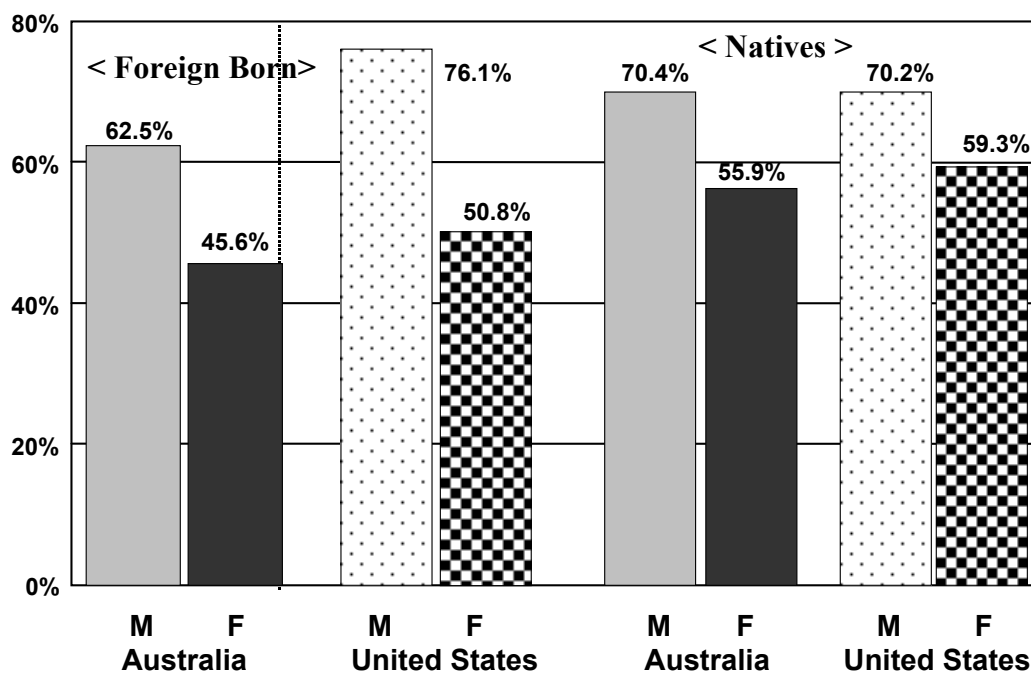
Sources: ABS, *Labour Force*, March 2002; and
US Bureau of Census, *Current Population Survey*, March 2000.

Chart 10c Ratios of Total Employment to Adult Population for Foreign-Born Civilians by Period of Arrival, Australia and the US (per cent)



Sources: ABS, *Labour Force*, March 2002; and
US Bureau of Census, *Current Population Survey*, March 2000.

Chart 10d Ratios of Employment to Adult Population over 15 years by Birth Place and by Gender, Australia (03/2002) and the US (03/2000) (per cent)



Sources: ABS, *Labour Force*, March 2002; and
US Bureau of Census, *Current Population Survey*, March 2000.

The data presented in Charts 10a to 10d are influenced by extremely low labour force participation rates of female migrants who arrived from Southern Europe up to the 1970s. Many of these migrants, along with males from the same region, had low levels of education and few English language skills, and their employment opportunities narrowed as a result of structural changes to the Australian economy in the later decades of the twentieth century. The participation rate in March 2002 was 27.4 per cent for Greece-born and 27.1 per cent for Italy-born females. These large groups were influential in the totals for migrants. Female labour force participation was also very low for females from major sources of recent refugees (36.3 per cent for Middle East and North Africa including 27.9 per cent for Lebanon). Female labour force participation amongst people from countries which had been sources of refugees in earlier years, notably the Indochinese countries was close to the average of all migrants.

By comparison, LSIA data show that migrants to Australia arriving in 1999-00 had participation rates equal to those of the resident Australian population only 18 months after arrival. However, the participation rates of Humanitarian migrants still remained much lower.

The examination of unemployment, labour force participation and employment ratios draws attention to the reality, that migrant contributions to the Australian economy are not as favourable as the age and education composition would suggest. One reason seems to be that Australian labour market institutions are not friendly to employment of unskilled workers, which represented a high proportion of immigrants in early post-war decades. Australian labour market institutions seem to have become more unfriendly to employment since 1970, and now compare very unfavourably with the United States for both males and females. The much higher educational levels of migrants from recent years will make these characteristics of the Australian labour market gradually less important in future.

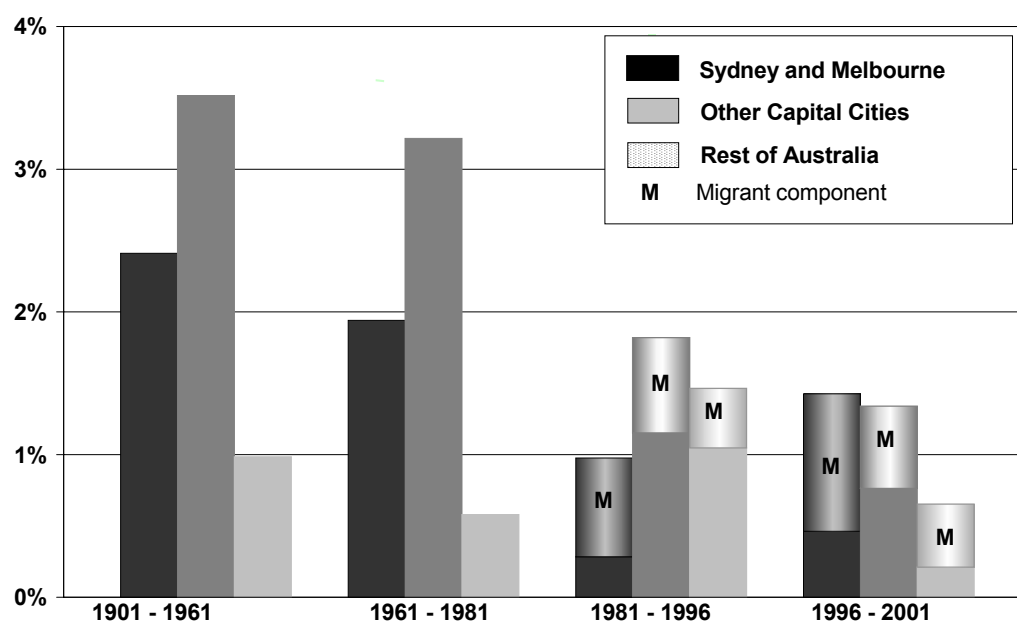
Part of the Australian story is the continuing effect of the low-skill European migration of the early post-war decades, especially women. The low employment ratios of low-skill recent refugees is also part of the Australian story. Past experience tells us that the latter effect will pass for individuals and particular refugee groups. But it will remain important for some new migrants. This will have disadvantageous effect on employment possibilities for Australian-born and earlier migrants with relatively little education.

The education composition of immigration to Australia in recent times has helped to raise the relative incomes of Australians who are poorly equipped to do well in the labour market, above what they would have been. The way that Australian labour markets function seems to have taken away part of that beneficial impact. The more important point, however, is that, given the nature of Australian labour market, a more American approach to immigration, with less emphasis on skills, would have produced less favourable outcomes for low-skill Australians, natives and immigrants alike.

7: Geographic Distribution of Migration and Population Growth

Chart 11 shows rates of population growth in three Australian regions. Australian population growth was concentrated in state capitals including Sydney and Melbourne through much of the twentieth century. But between the censuses of 1981 and 1996, Sydney-Melbourne had the lowest population growth of the three regions. Over this period, the 'Rest of Australia' grew more rapidly than in any period earlier in the century. However, the late twentieth century trends were reversed between the censuses of 1996 and 2001: population growth stagnated outside the main old cities and Sydney-Melbourne became the most rapidly growing category.

Chart 11 Twentieth Century Population Growth by Australian Region and Migrant Component (per cent per annum)



Note: Other Capital Cities include Brisbane, Perth, Adelaide, Canberra, Hobart and Darwin.

Sources: ABS, *Census of Housing and Population*, various issues; and
 ABS, *Australian Historical Population Statistics*, various issues.

What accounts for the new trend favouring population growth in regional Australia relative to Sydney-Melbourne between the early 1980s and the mid-1990s, and its dramatic reversal late in the century? Part of the cause of the decentralisation of population growth between 1981 and 1996 is that the old Australian policies of high protection for manufacturing industry concentrated economic activity and population artificially into the large cities. The dismantling of protection and internationally-oriented reform more generally supported decentralisation of Australian population.

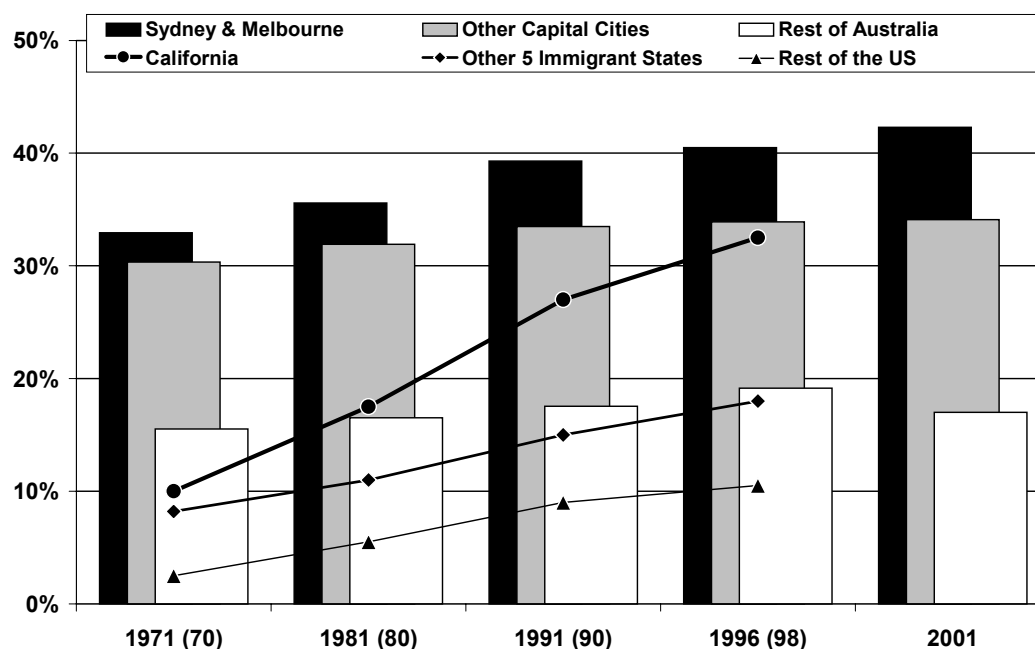
Why did the patterns evident between 1981 and 1996 go into reverse in the following 5 years? And is the recentralisation of population growth 1996-2001 likely to persist in the period ahead?

Sydney and Melbourne both experienced highly favourable conditions for growth in the late twentieth century. In Sydney, growth was boosted by the investment and general confidence effects associated with the 2000 Olympics, and a period of exceptional growth in financial services following deregulation. Historically low interest rates helped to convert this into an exceptional housing boom. Melbourne and Victoria were experiencing accelerated economic growth as the completion of fiscal consolidation and market-oriented economic reform helped to restore growth momentum after a deep and prolonged recession in the early 1990s. In Melbourne, too, a housing boom exaggerated the upswing — the more strongly for following a long period of stagnation. At the same time, drought conditions around 1997 and mostly low commodity prices up to the turn of the century dampened economic conditions in much of inland Australia.

The shading on Chart 11 shows that while migrant settlement 1981-1996 was concentrated most strongly in the two biggest cities, (although the percentage of overseas born was actually highest in Perth), Sydney-Melbourne was the region with the slowest total population growth.

The 1981-96 association of the highest rates of immigration with the slowest rates of population growth in the biggest cities is explained by internal migration in Australia. Australia-born residents moved out of the great cities almost as rapidly as migrants moved in. This is not an unusual pattern. The broad similarity in the pattern of migrant settlement in the United States to that in Australia is striking. Migration to the United States is concentrated first of all in California, which plays a role similar to that of Sydney and Melbourne in Australia. Much of the other migration is concentrated in five other States, some of which have below average overall population growth (Chart 12; Borjas 1999). The other 5 immigrant States play a similar intermediate role in migrant settlement to the other capital cities in Australia. Only a small proportion of migrants settle in 'Rest of Australia' and 'Rest of United States'.

**Chart 12 Migrant Geographic Concentration in Australia and the US,
1971-2001 (ratio of foreign-born adults to total adult population)**



Notes: For population aged 20 and over.
Years in the brackets are for the US.

Sources: ABS, *Census of Population and Housing*, various issues.
Borjas, G. J. (1999), p.65.

What was the motive for movements of native Australians out of the great cities almost as rapidly as migrants move in? For the United States, Borjas (1999) has drawn attention to the effects of large international migration of unskilled workers into the main cities and States of immigration lowering real wages of unskilled workers, and creating incentives for the American-born to move elsewhere (Borjas 1999). The internal migration spreads the low wages through the national economy and moderates the fall in wages in the places in which the migrants settle. This mechanism is not available in Australia: the system of wage regulation holds up wages for unskilled workers¹. In Australia, immigration to the largest cities has been associated with an increase in asset values (particularly for housing) and in prices (particularly house rents). Established residents of the big cities relocate elsewhere to save on housing costs, sometimes realising large capital gains in the process.

There are no obvious problems of population growth related to immigration in the main city of migrant settlement, Sydney. Sydney in 1981-96 was experiencing one of the periods of slower population growth in its history, and the first period since Federation when it was growing substantially more slowly than both of the other two regions identified in Chart 11.

In this context, how should we interpret the debate about pressures on Sydney, and at the extreme end of the discussion about reducing national rates of immigration because of excessive population growth in Sydney? The debate has not emerged from general problems of high unemployment and low incomes of migrants. The concern, to the extent that it has any basis in observable economic phenomena, would seem to have its origins in exceptionally high unemployment and low employment amongst particular groups of migrants, mostly recently arrived refugees, who, like all migrant

¹ While excess supply of unskilled labour generally is reflected in unemployment rather than low wages, in the great cities this is moderated by the facts that housing and some other costs to residents are higher, and minimum wages are set at the same nominal rates for the whole of Australia. Real wages are actually lower for unskilled workers in the great cities.

groups in the early years of their Australian experience, are heavily concentrated in a small number of suburban residential locations. The unhappy labour market experience of the recent Humanitarian Program migrants affects the prospects of others, Australian-born and overseas-born alike. This is quantitatively a small part of the income distribution effects of immigration to Australia, and therefore one that is, in principle, amenable to resolution. It warrants concentrated attention.

Does the return to centralised population growth at the end of the century change these conclusions? The turnaround in relative rates of population growth in the three regions is remarkable. The right-hand columns in Chart 11 show that in 1996-2001, Sydney and Melbourne absorbed substantially more migrants than in the immediately preceding period, while retaining a high proportion of the growth in their native populations. In this period alone of the four periods covered in Chart 11, Sydney-Melbourne experienced the most rapid population growth of the three regional categories. In 'Other Capital Cities', there was moderately lower growth in numbers of both migrants and native Australians. In 'Rest of Australia', the population increase due to migrants remained much as in 1981-96, and virtually the whole of the natural increase in native Australians moved out.

Some of the exceptional conditions that generated the late-century boom in Sydney and Melbourne and the stagnation in rural and provincial Australia had passed by 2002. The housing boom in the cities was moderating, but not before much higher housing costs had added considerably to incentives to move from the great cities. East Asian demand growth was generating high prices for many of the commodity staples of inland Australia. And the new industries spawned by economic reform were generating growth in larger provincial towns. In 2002 and into 2003, however, severe drought offset other sources of expansion in much of rural and provincial Australia.

8: Distributional Impact of Immigration: Australia and the United States Compared

The comparison of the experience of the world's main destinations for migrants over long periods is intrinsically interesting, and is useful for the light that it throws on the relationship between national institutions and policies and the economic and social effects of immigration. Here we bring together the threads of comparison that have been introduced in earlier parts of the paper.

Immigration as a proportion of the established population has been much larger to Australia than to the United States since the Second World War. The difference in relative scale has diminished steadily and was relatively small by the 1990s.

The sources of Australian immigration (principally Western European) were geographically much more concentrated than American in the early postwar period. By the early twenty first century, immigration to the United States had become much more concentrated, being dominated by Latin America and especially Mexico.

In the early postwar decades, Australian immigration was skewed towards people with little education and economically valuable skills relative to the average of the native population. The combination of rising living standards in Western Europe relative to Australia, and until 1966 rigid adherence to the White Australia Policy, gave Australia little choice but to accept people with, on average, few economically valuable skills, if it wanted large-scale immigration. This became part of the argument for policy that favoured labour-intensive, low productivity, protected manufacturing industry.

The end of the White Australia Policy and the commencement of large-scale non-discriminatory migration from the late 1970s made it possible to seek higher average levels of education and economically valuable skills in Australia's immigrants. This expanded possibility facilitated and was supported by the shift to internationally-oriented economic policy in the 1980s, with its more intensive use of advanced skills.

The opposite tendency in the skill composition of migrants to the United States was equally pronounced, although it had very different political origins.

General economic analysis suggests that the low and falling average skills of immigrants relative to natives would expand income differentials in the United States. Analysis suggests that the high average skills of immigrants relative to natives would compress income differentials in Australia. These divergent tendencies in Australia and the United States have had their effects against the background of ongoing technological change that has favoured greater inequality in earnings in the labour market in both countries as in all advanced economies.

The one area in which the expected tendencies are clearly apparent in the data is the different experience in the two countries with income differentials between College/University graduates, and high school/certificate/diploma graduates.

Different labour market institutions cause tendencies towards greater inequality in labour incomes in Australia and the United States to be reflected in very different ways. In the United States, they are reflected in relatively low wages for low-skill workers. In Australia they are reflected in relatively high unemployment for low-skill workers. The difference derives from the greater rigidity in Australian wages, associated with the large regulatory role played by public institutions.

It is arguable that unemployment is generally more damaging to its victims and to social cohesion than low incomes from employment — not least because low-income employees absorb skills on the job that increase their earning power over time. It follows that the contemporary United States pattern of immigration would be much more damaging to equity and social cohesion in Australia than it is in the United States.

The longstanding Australian commitment to egalitarian income distribution argues for an immigration programme with strong focus on high educational and skill qualifications. These same Australian political preferences would be served even better if an immigration programme that emphasises economically valuable skills were accompanied by policies that expanded employment and reduced unemployment for the Australian-born and immigrants alike.

Finally, there is striking similarity between Australia and the United States in the geographic distribution of the places of settlement of migrants and the economic and population with which it is associated. The dispersion of population growth between States is much greater in the United States than it is in Australia (Review of Commonwealth State Funding, 2002), with some American but not Australian states actually losing population over long periods. In both countries, high levels of internal migration of natives cause overall regional patterns of population growth to diverge widely from patterns of migrant settlement.

9: Thoughts About Policy and the Future

So who wins and who loses from past and current Australian immigration? Who would be likely to win and to lose from various future approaches to immigration policy?

Average incomes of Australians are probably higher as a result of past and current patterns of immigration, although to be sure of the past it would be helpful to look more closely at the detail of low ratios of employment to population amongst migrants. The effects of immigration in increasing the scale of the Australian economy are positive, as are age effects, and as a result of changes since the early 1970s, and especially in recent years, education effects.

These results are from averages of migrants. Refugees and family reunion components are less favourable in their economic effects, but have their separate and important rationales. What is clear is that discretionary expansion of the elements of the immigration programme that require high standards of skills to be met is likely to have strongly positive effects on the incomes of most Australians.

Immigrants themselves are for the most part large winners from their own relocation, although, pending their accumulation of a 'normal' quantum of housing and other assets producing non-tradeable goods and services, not necessarily from continued immigration of others after their own arrival.

Owners of urban land are especially big winners, and not only in the cities that receive large proportions of migrants. On a lesser scale, owners of businesses supplying domestic markets, including rural producers and businesses providing non-tradeable goods and services, receive disproportionate benefits. These include increasing proportions of Australians who hold these assets

through superannuation funds, although ownership is skewed towards the highly skilled and educated who have the most shares in these businesses and superannuation.

Australians with high education come out a bit less than even on labour market distributional effects. Their labour is relatively less scarce and valuable than it would otherwise be. This is the other side of the coin to the labour of less skilled Australians becoming relatively more scarce and valuable as a result of arrival of well-educated migrants. Any loss from this source, to Australians with large endowments of economically valuable skills, would be offset by gains from scale effects. In addition, well-educated Australians own a disproportionate share of Australian wealth and benefit from changes in asset prices. They are also likely to be in a strong position to utilise the special opportunities created by an expanding, more dynamic economy.

Some established Australians with low education could be below average winners in the labour market, and could be losers, especially in recession in some areas of regional concentration of low-skill immigrants, most importantly in parts of Sydney and Melbourne. There are also potential losers amongst people in the large cities who do not own housing, who would tend to be people earning low incomes in the labour market. These Australians, however, are likely to receive more than their shares of gains from scale effects operating through government budgets.

The overall distribution effects of current patterns of immigration depend on the allocation of the fiscal dividend from economic growth, between increased public outlays of various kinds and tax cuts. Certainly social security and taxation outcomes have held up disposable income of the lowest-income Australians through a period in which incomes of low-skill people have been falling in other developed countries over the past two decades (Harding 1997). But other established tendencies in the allocation of public expenditure,

including criteria for Commonwealth-State funding and State priorities, are not favourable to the particular Australians who may be disadvantaged by immigration. This makes a case for giving more weight to the delivery of services to areas of concentrated low employment and of concentrated residence of unskilled migrants (Review of Commonwealth-State Funding 2002), in the allocation of Commonwealth grants amongst the states, and in the allocation of state-level investment in services and transport infrastructure.

There are remedies for many of the adverse effects on some small groups that arise as side effects from an immigration programme that is advantageous to Australia as a whole and to most lower-income Australians.

The first and most important element of a remedy is to avoid recessions. This is a matter of monetary and fiscal policy, about which Australia has learned a great deal from recent bad (1990-91) and good (1997-98 and 2001-02) experiences (McFarlane, 2002).

A second element is structural policies to reduce unemployment in general. Unemployment happens to be overwhelmingly concentrated amongst low-skill workers. This provides one more reason to take seriously the ideas about how to raise employment and to reduce unemployment that are currently in the public policy market-place.

A third element is to take more seriously the problems of provision of urban services, and to recognise that the problems are highly concentrated in particular areas within the largest cities.

Within the immigration programme itself, a higher intake of well-educated young people is likely to be helpful to the circumstances of the unskilled Australian-born, earlier cohorts of which received the smallest benefits from postwar immigration. It is likely to be helpful to the unskilled migrants who

for good reason must continue to be an important part of the immigration programme, in the humanitarian category. In this context, there are likely to be large distributional as well as general economic pay-offs from recent liberalisation of entry of overseas students who have earned Australian qualifications. There is scope for greatly expanding the gains from this source, beyond those which will flow from changes in policy that have already been announced, by further facilitation of immigration by graduates of Australian tertiary institutions.

One cannot help but be struck by the contrast in recent decades between tendencies in Australian and United States immigration experience. Australia has been increasing while the United States has been reducing the education content of immigration. This is good for Australia. The Australian approach has been beneficial to growth as well as equity, and the United States' adoption of a different approach improves the competitive position of Australia in the market for skilled people.

There will be a continuing challenge to Australia in holding its talented young people and attracting more than its share of young talent from the rest of the world. This arises partly from the tendencies to globalisation of markets for high-skill labour, as advanced countries seek to expand immigration of scarce and valuable skills. In this, large cities in the Northern Hemisphere have advantages - for us, most importantly the cities of the United States, plus London, Hong Kong and Singapore. We have some special advantages of our own, including our success as a country of large-scale multi-racial immigration. But we will find it necessary to be sensitive in future to taxation treatment of internationally mobile human and financial capital, if we are to avoid the fate of New Zealand and the anxiety of Canada.

While immigrants to the United States are now, on average, less well endowed with economically valuable skills than immigrants to Australia, an Australian

cannot help noticing how the United States economy makes much more effective use of the human resources that are available to it. The flexible United States labour markets lead generally to much higher employment ratios, especially for migrants and especially for women. The cost in the United States is lower starting wages for unskilled workers. The experience of employment washes out this disadvantage over a number of years. Traditional Australian concerns for equity of a particular kind make it politically impossible for Australia to adopt American institutions. Fortunately, there are useful policy measures that could be introduced to assist entry into employment and that would not reduce disposable incomes of poorer Australians (Abbott, 2003; Dawkins, 2003; Reference Group on Welfare Reform, 2001; Garnaut 2001; 2002a).

Finally, the focus on more-or-less quantifiable economic issues in answering the question, Who Benefits?, is not meant to imply that non-economic dimensions of the issue, or economic dimensions that are not amenable to measurement, are unimportant. Different Australians would put different emphases on the various less tangible factors. We would emphasise especially the contribution that large-scale migration from many Asian countries has made to facilitation of Australia's productive economic, social and political interaction with the countries in its neighbourhood.

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