

# Public Policy and the Economics of Immigration

Case study prepared for Economics for Government

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## **Chapter 1: Introduction**

### **A brief history of global immigration**

The history of humanity is fundamentally about immigration, which continues to be an important factor in the modern world. The first humans migrated out of the African continent approximately 60,000 years ago in loose hunter gatherer groups (Tayag 2017). After this the picture is more complex, with numerous smaller waves of migration, resulting in complicated and extensive genetic drift, as these groups in turn spread out (Shriner et al 2018).

Motivators for human movements can be classified into passive and active factors. Passive factors include seasonal movements and food availability, while active ones include conflict (Lelievre 2015, p. 435) or climactic change. Early human movement was characterised by mobile and migratory hunter-gatherer societies. This shifted with the rise of the first city-states and agricultural production, with the earliest examples in the Fertile Crescent (modern day Syria) in 8500 BC (McTavish et al 2013, p. 1395).

The first restrictions on movement between nations appeared as tariffs. External trade was perceived as not beneficial, and goods were restricted under the protectionist economic policy of Mercantilism. Nations were typically incapable of, or uninterested in, policing human movement, and there was no need, as most people never left their local area. The exception was a small mercantile class who benefited from trade.

The restriction of trade was subsequently extended to the restriction of migration. Developments in transport permitted longer, quicker and safer travel, and the desire to migrate was fuelled by increased economic growth and social welfare in developed economies. This resulted in increased migration to these countries. In Britain for example, 14 per cent of the current population is born overseas compared to 1 per cent in 1856 (ONS 2018).

This mass, low-cost immigration to developed countries is typically from less developed countries. With low transport costs, mobility of labour has skyrocketed

and resulted in a new phenomenon called 'brain drain' where individuals with high human capital move to countries where they will be better compensated for their skills (Scott et al 2004, p. 1). This has had a positive impact on growth in developed countries, and has helped fill gaps in their economies, but has weakened the economies of less developed countries as skilled labour is removed from the workforce.

### **Economic arguments for government's role in immigration**

The fundamental argument for government intervention in migration is self-interest. In democracies, governments are elected by natives, and foreign migrants have no votes in the short-term. The incentive for government is to favour the perceived interests of residents. Government also has a role to promote the positive and mitigate the negative externalities of immigration, by adjusting the number and composition of immigrants (Productivity Commission 2016).

#### **Positive externalities**

As labour is the main product that most people sell, the movement of labour through immigration affects labour markets. When immigrants act as complements to native-born workers, immigration creates positive externalities. High skilled immigrants can increase productivity which also boosts economic growth (OECD 2014) and contribute more income tax through their higher wages. High skilled immigrants can also address the effects of an ageing population. Similarly, low skilled migrants working in markets can reduce the cost of production and increase the output of goods in low skill industries. The result is that more goods are produced, and new jobs are created. Other non-economic positive externalities include the benefits of greater diversity, such as more diverse culture, food, art and ideas.

#### **Negative externalities**

Negative externalities may arise if immigrants crowd out natives from the workforce. Simple demand-supply analysis suggests that, all other things equal, more immigration will create a greater supply of labour, resulting in lower equilibrium wages. Native workers would lose through lower wages. Low skilled migrants may be costly if their use of the welfare state outweighs their contribution to tax revenue. In this case, natives would have to bear a higher cost of taxation or a reduction in the

services provided by the state. Other non-economic negative externalities may include faster degradation of the environment, increased congestion and overcrowding of infrastructure

### **‘Free market’ solutions to immigration**

Two free market solutions to immigration, outlined below but not covered in further detail in this case study, are charging immigrants and unrestricted immigration with tax and transfer policies.

#### **Hypothetical free market solution – charging immigrants**

One free market solution is for government to sell the right to immigrate, with government setting the price each year based on the number of immigrants wanted or willing to pay the fee (see Becker 2011). A related, though not free market, approach is to set a quota of immigrants and let the market determine the price (Stark 2017).

Individuals that would benefit in this system would be those willing to pay the fee. This includes those who can substantially increase their income by moving, such as skilled workers, young people who will be able to recoup the investment, and immigrants willing to make a long-term commitment to the receiving country (Becker 2011, p. 28).

The direct benefit to the recipient country would be the increased revenue generated from selling visas (Becker 2011, p. 28), and a marginally reduced burden to administer the immigration system, compared with complicated point-based migration systems. The indirect benefits to the recipient country would be more efficient allocation of visas to those who value them most, more wealthy citizens and more citizens invested in the country (Zavodny 2015, p. 5; Freeman 2006). The market for labour would also operate more efficiently to address bottlenecks in skills, both surpluses or shortages, which would benefit businesses (Zavodny 2015, p. 5). The recipient country may also benefit from reduced illegal immigration (Becker 2011, pp. 30-31; Zavodny 2015, p. 5).

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Individuals that would lose from this system are those that would otherwise be able to emigrate under an alternative system. With the emigration of those who can pay and those who are highly skilled to the recipient country, the sending country may suffer brain drain (Boeri 2012). The recipient country may have poor long-term economic growth due to this system, as those able to purchase migration rights, such as managers or bankers, may not be those who generate positive productivity externalities, such as scientists (Zavodny 2015, p. 6).

### **Hypothetical free market solution – unrestricted immigration with tax and transfer policy**

Another solution may be for governments to remove all restrictions on immigration but uses tax and transfer policies to influence inward migration flows. The major barrier to this is the potential for mass immigration to overburden a state's resources and over-consume public benefits (Freiman 2014). To address this, differential tax and transfer treatment for migrants and natives could require migrants to pay a 50 per cent surtax on top of the standard tax liability imposed upon citizens (Caplan 2014). The government revenue generated through this could be reallocated to welfare payments or allow for income tax reductions. Furthermore, Nowrasteh & Cole (2013) suggest 'placing a wall around welfare' and reserving its use for natives only.

First mover migrants would benefit. If migrants identify markets that do not currently exist in another economy and have the means of establishing one, they will be able to capture significant market share. Migrant labour would also benefit as, in the long-run, migrants can seek out higher wages in countries where their skills are in high-demand, leading to increases in their incomes. Another beneficiary would be domestic economies, as increased migration of skilled labour would increase productive or innovative capacities and generate more economic growth. Finally, natives themselves would benefit from greater tax revenue.

Those that would lose are the low-skill native workforce. Without control over the level of immigration, developed economies may receive an influx of low-skill labour, increasing the supply of low-skilled workers and decreasing wages. Middle-low income natives would also lose from increased demand for goods and services, such

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as housing which may crowd them out of the market. Users of public goods and services would also lose, as an increased population may create congestion and overcrowding, which may result in reduced supply of non-essential public goods or increased taxes. Sending countries would also lose, with brain drain reducing available skilled human capital.

Dynamic effects could be more complicated. Sending countries could benefit if emigration forced improved policies and conditions in their own country. Those who stayed might then benefit from better policy.

## Chapter 2: Immigration policy and the facts about immigration

### Evidence from Australia and other OECD countries

Immigration levels vary widely across countries in the Organisation for Economic Co-operation and Development (OECD). The three charts below present migrant inflows, representation within the native population and outflows.

The first chart, taken from OECD 2014 (Figure 1), shows the number of migrant inflows by country.

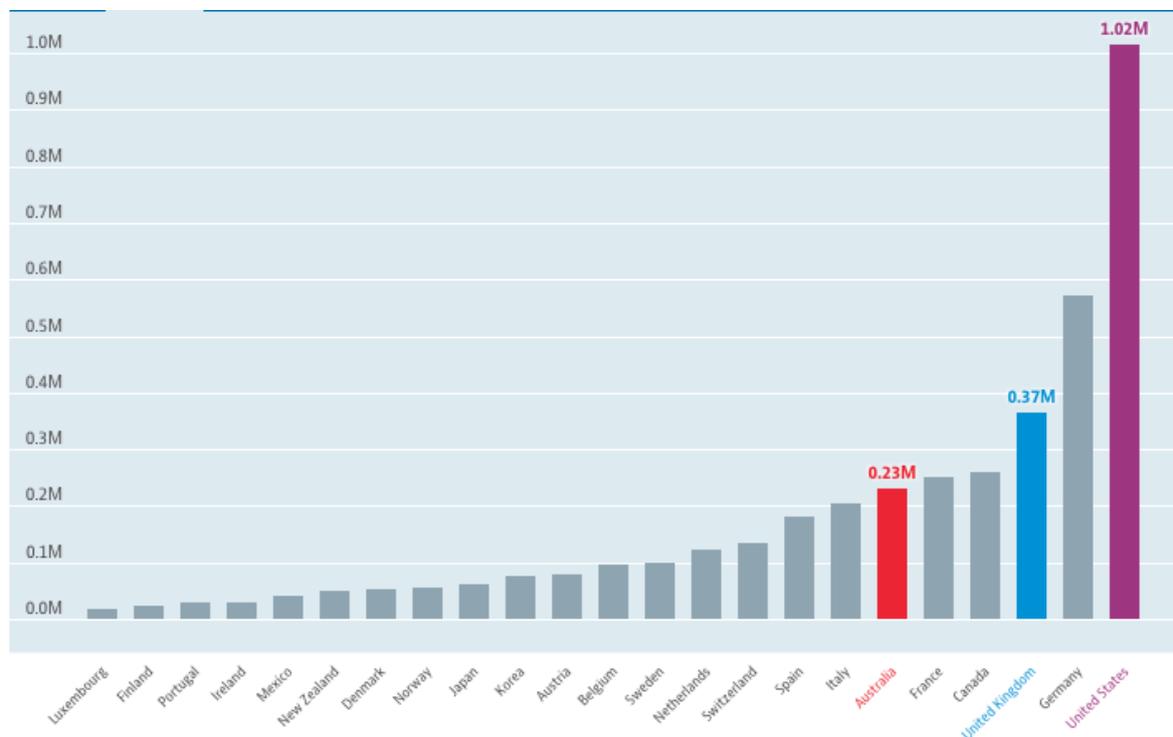


Figure 1: Migration inflows in OECD countries (OECD 2014)

The United States, with a population of 318.6 million in 2014, accepted 1.02 million immigrants, 0.3 per cent of total population. By contrast, the United Kingdom, with a population of 64.61 million in 2014 accepted 0.37 million immigrants, accounting for 0.57 per cent of total population. Australia's population in 2014 was 23.46 million, 0.23 million immigrants were accepted, accounting for 0.98 per cent of total population.

## Chapter 2: Immigration policy and the facts about immigration

The second chart, taken from OECD 2015 (Figure 2), shows the percentage of immigrants and native-born offspring of immigrants by country.

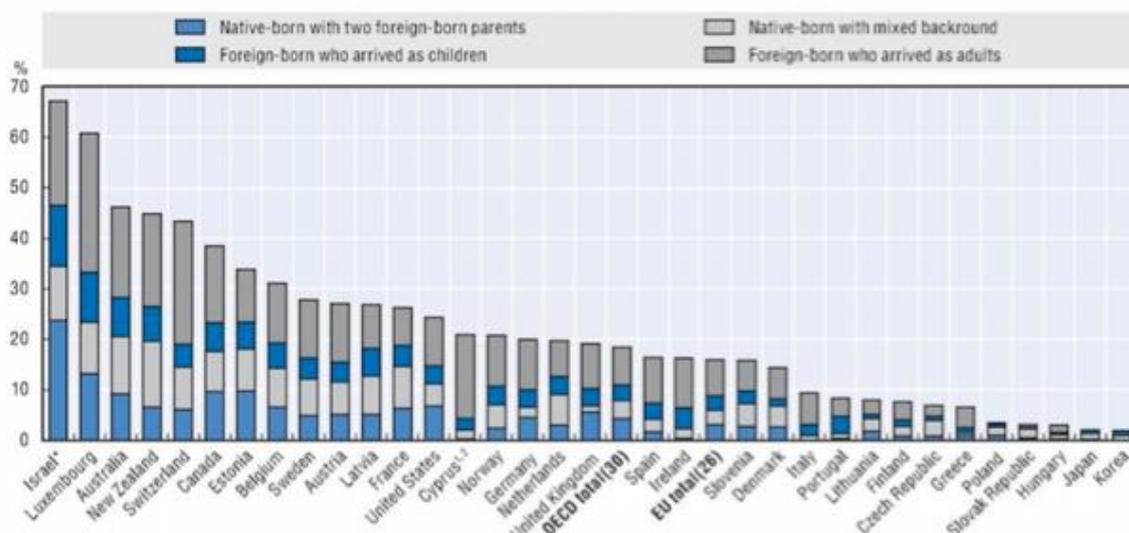


Figure 2: Immigrants and native-born offspring of immigrants, 2013 or most recent year (OECD 2015)

While the United States and United Kingdom migrant inflows are among the highest in the OECD, Figure 2 shows that the migrant population is relatively low as a proportion of the native population. On the other hand, countries like Australia and New Zealand have lower inflows, but migrants make up a significant proportion of the population.

The third chart, taken from the United Nations, 2017 (Figure 3), shows that India has the largest diaspora in the world, followed by Mexico and Russia. Syria's emigration has increased significantly because of the civil war.

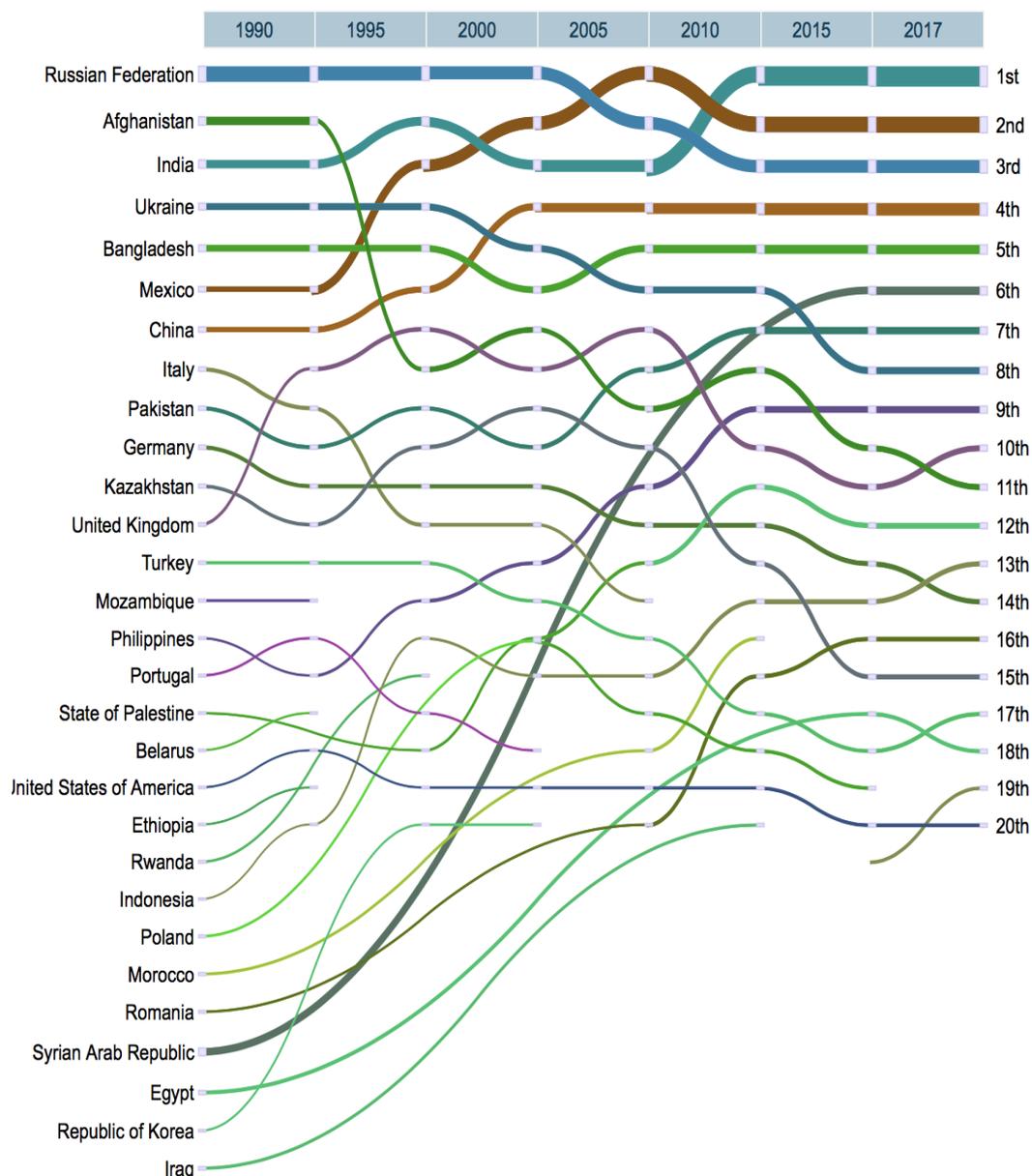


Figure 3: International Migration stock 2017 - 20 countries or areas of origin with the largest diaspora populations (United Nations 2017)

### How widely do immigration policies vary?

Immigration policies around the world are based on willingness to accept immigrants and how well immigrants are integrated into the domestic society (Segal et. al. 2010, p. 30). Although immigration policies vary, they typically classify immigrants into three broad categories: a family class, an independent class, and a refugee class. Countries also provide short-term visas for tourists, students and temporary workers (Trebilcock et. al. 2013, p. 782).

## Chapter 2: Immigration policy and the facts about immigration

Many countries (for example Australia, New Zealand and the UK) follow a point-based system, to admit immigrants with a high probability of economic integration. This tends to attract skilled professionals like professors, doctors and corporate managers (Harker 2013, pp. 58-62). For example, Japan has stringent immigration rules and does not allow low-skilled foreign labour (Abella 2012, p. 1140). By contrast, instead of a point-based system, the USA has historically given preference to migrants with a domestic job offer and has given greater priority to the family class. Two distinct features of the USA's system are the "Diversity Visa Lottery" and the visa for investors who invest more than \$500,000 (Twibell 2000, pp. 136-142).

While many countries target skilled labour, some countries such as Saudi Arabia (Bui & Dickerson 2018) and Russia (Bisson 2016, p. 8) target unskilled labour to fill shortages in construction, house-keeping and wholesale/retail trade. Migrants are not required to have qualifications but are temporary residents and have few rights. In both countries, employers must sponsor immigrants.

### **How do countries justify their immigration policies with economics?**

This section sets out the economic arguments for immigration used by the governments of Australia, the USA and the UK.

#### **Australia**

A recent Australian Government report (Treasury & Department of Home Affairs 2018) argued that migrants contribute to the economy through the demand side and supply side. As migration leads to population growth and additional consumption, it naturally leads to Gross Domestic Product (GDP) growth, though this may not extend to per capita GDP. By increasing labour, migration increases the returns to capital, and increases capital inflows from countries of origin. On the supply side, migrants impact the participation rate and productivity. As Australia focuses on skilled migration, many migrants are in their prime working age which positively affects the participation rate and, by increasing Australia's human capital, improve productivity. In fact, between 1994 and 2008, 7 per cent of the rate of labour productivity growth can be attributed to migration. Finally, migrants do not draw

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down on social services as much as the native population and pay more taxes on average. This leaves migrants with a small positive fiscal impact in Australia.

### **USA**

In the USA, the focus is on the positive effects immigrants have on innovation and business, which in turn have positive effects on GDP per capita. Immigrants are more likely to start small businesses and they are disproportionately represented in new patents and fields like science and engineering (Ewing Marion Kauffman Foundation 2017). These have positive downstream effects on GDP per capita as they ultimately increase workers' productivity. Another argument is that migrants boost the demand for local goods, increasing consumption and GDP.

### **UK**

Like Australia, the UK Government argues that migrants have a positive impact on growth and generate positive fiscal benefits (UK Home Department 2008). The UK Government directly links migration and GDP per capita growth, which is attributed to employers having a greater choice in a wider labour market. The UK Government also argues that migration allows workers to exchange idea with migrants, leading to increased productivity from new ways of working and new products and services. The UK Government reports a small positive impact on public finances for migrants.

### **A detailed description of Australia's migration policy environment**

Australia regulates permanent immigration through a set of criteria, including age, skills, health, character and financial capacity (Productivity Commission 2016, p. 4). Australia's permanent migration program selects people under three streams—skill, family and special eligibility (DHA 2017a).

- Skilled migrants must satisfy a points test. Points are collected through several measures including work skills, sponsorship from an employer and successful investment skills. This visa category is based on the merit that the migrant will bring to Australia through contributing to growth and innovation. Skilled visas represent the majority of Australia's intake with 128,550 placements in 2017-18 (DHA 2017b,f).

## Chapter 2: Immigration policy and the facts about immigration

- Family migrants are selected based on a family relationship with their sponsor in Australia. There are four categories; partner, child, parent and other family relationship. The Australian sponsor must be an Australian citizen, or permanent resident and must be at least 18 years of age. 57,400 placements occurred in 2017-18 (DHA 2017c,f).
- Migrants can also be selected under the special eligibility stream, covering a former residents criterion or where service has been given in the Australian armed forces before 1981. 565 places were recorded in 2017-18 (DHA 2017d,f).

Australia also operates a refugee and humanitarian migration program (DHA 2017e), for onshore protection and offshore resettlement. Onshore protection is for people wishing to apply for protection after their legal arrival in Australia, while offshore resettlement includes rehoming refugees “who are subject to persecution in their home country” (DHA 2017e). 17,555 placements were recorded in 2015-16.

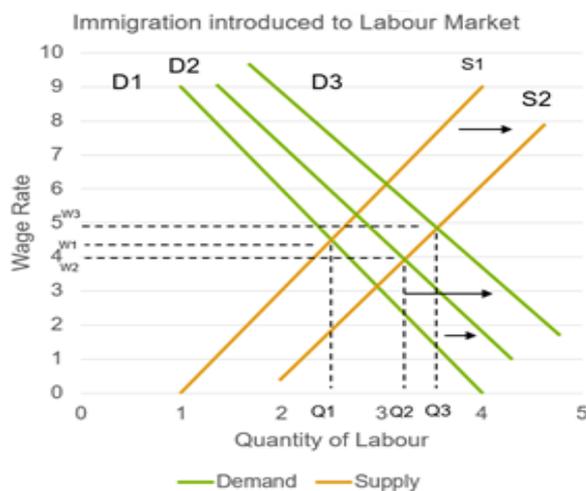
Australia also has a temporary migration program, providing temporary visas to enable those from overseas to visit Australia for specific purposes (DHA 2018b). This includes visitors/tourists, students, short-stay business people, people with specialist skills, people who make a social or cultural contribution, and people who contribute to international relations (such as diplomatic personnel or working holidays)(ibid). In December 2016, there were just under 2.1 million temporary entrants in Australia, with the majority comprised of 565,760 visitor visas, 355,760 student visas, 150,220 temporary work visas, and 148,500 working holiday visas (DHA 2016).

## Chapter 3: Immigration and the labour market

This chapter first introduces two distinct labour market theories: The theory of labour demand and supply and the dual market theory. It then showcases evidence from around the world on the impact of immigration on labour markets in Australia, OECD countries and non-OECD countries.

### Theory of labour demand and supply (Gans et al. 2018, pp. 423-437)

The demand curve in the labour market is the value of the marginal product of labour which is the price of a good multiplied by the marginal product of labour. The marginal product of labour is the relative output from an additional unit of labour and can be adjusted through productivity increases from human capital or innovation. The supply curve represents the opportunity cost of the trade-off workers make between utility from earned income and leisure time. It is an upward sloping curve because workers who receive higher income gain greater utility from more income, and it reflects the increasing value of leisure as income increases.



Supply of labour force increases with immigration which shifts Supply to right

- Increase in population from immigration increases demand for goods and shifts curve dependent on relevant factors to D2 or D3
- Dependent on shift in Demand & Supply curve new equilibrium will be at wage rate W2 or W3 with quantity Q2 or Q3

### Dual market theory (Piore 1979)

Certain industries require specialised employees and significant capital investment to retain and improve productivity. Other industries involve less skilled labour and increase production by employing more labour. Consequently, during periods of labour shortage and to avoid structural inflation, labour intensive industries hire migrant workers as substitutes for low skill natives. This forms a dual labour market

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in industrialised countries with distinct capital and labour-intensive sectors whose employer demands drive international labour migration. Low wages in host countries will not increase in response to decreases in immigration, but wages may decrease from increases in immigration. Similarly, the employment levels of unskilled native workers may drop due to increases in immigration.

### **Immigration and the labour market in Australia**

Anti-immigration rhetoric in Australian politics is prevalent and across the political spectrum there is strong support for protecting Australian jobs. Despite this, research investigating the effect of immigration finds little evidence that immigration negatively impacts the either wages or employment of Australian-born natives (Addison & Worswick 2002; Breunig et al. 2017; Chang 2004; Harrison 1984; Islam & Fausten 2008; and Productivity Commission 2016).

For example, Islam & Fausten (2008) found no significant effect of skilled immigration on Australian-born skilled worker wages. On the contrary, the authors found an inconclusive positive impact of skilled immigration on Australian labour market wages. More recently, Breunig et al. (2017) concluded that immigrants tend to end up in high-earning and low-unemployment skill groups and there is almost no evidence that the wages, rate of employment or labour-force participation of Australian-born workers is harmed by immigration. This analysis used Borjas' (2003) national labour market skill-based methodology to assess the impact of immigration on labour market outcomes for Australian-born workers based on Australian data.

Two key factors may account for this trend: that immigrants to Australia bring with them skills that complement those of Australian-born workers; and that the Australian labour market has particular demand and supply elasticities. The literature typically distinguishes between immigration impacting on incumbent labour as either a substitution effect (that is, where immigrants compete with locals for similar jobs, constituting an increase in labour supply) or a complementary effect (where immigrants create job opportunities for locals, constituting an increase in demand for labour) (Productivity Commission 2016). Australian immigration policy, with its focus on skilled migration, is likely to have a complementary effect on the

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Australian labour market. Furthermore, labour supply in Australia is highly inelastic and labour demand is highly elastic (Islam & Fausten 2008). An increase in labour supply through immigration would result in minimal wage depression with such a configuration of labour market supply and demand curves.

### **Immigration and the labour market in other OECD countries**

#### **Germany**

In the German wage-setting framework, immigration has moderate effects on labour markets. For example, a one per cent increase in the German labour force through immigration increases the unemployment rate by less than 0.1 per cent and reduces wages by 0.1 per cent (Brücker & Jahn 2011). The International Monetary Fund (IMF) analysis on the labour market performance of immigrants in Germany has found that new immigrant workers earn on average 20 per cent less than native workers. The gap is smaller for immigrants from advanced countries, with good German language skills, and with a German degree, and declines gradually over time (Beyer 2016).

#### **New Zealand**

There is no effect of immigration on labour market outcomes in New Zealand, with one study indicating the impact of immigration is close to zero (Tse & Maani 2017).

#### **United Kingdom**

Data analysis from the British Labour Force Survey shows that there is no strong evidence that immigration has overall effects on aggregate employment, participation, unemployment and wages in the United Kingdom for the period 1983-2000. However, there are negative effects on employment for people with intermediate educational qualifications but this balances in the aggregate by having positive effects on employment among the better qualified (Dustmann et al. 2005).

#### **Italy**

Barone & Mocetti (2011) examined the effect of female immigrants who specialise in household production on the labour supply of Italian women. Italy is an interesting case because it has experienced a recent and exceptional increase in low-skilled immigration. The authors found that with higher numbers of immigrants who

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provide household services, native Italian women spend more time at work. A higher concentration of immigrants who provide household services had a positive and significant impact on hours worked by native Italian women.

### **USA**

Immigration reduces wages and labour supply of competing native workers from the USA, with a 10 per cent increase in the size of a labour skill group (due to migration) lowering the wages of native workers in that group by 3 to 4 per cent (Borjas 2003; 2006). Borjas assumes that similarly educated workers with different levels of experience participate in a national labour market and are not perfect substitutes. Borjas also finds that the least educated workers are more vulnerable to immigration.

Overall, Jaumotte et al. 2016 find that the long-term effect of immigration in advanced economies is to increase GDP per capita in receiving countries.

## **Immigration and the labour market in non-OECD Countries**

### **Malaysia**

Ozden & Wagner (2014) examined the net effect of immigration in Malaysia. Malaysia's native labour force has high educational attainment while immigrants were significantly less educated (p. 18). However, a greater supply of unskilled labour from immigration to Malaysia led to an increase in demand for labour, which mitigated any negative effects of immigration on the native workforce. The decline in the cost of production resulted in output expansion and, for a given relative wage, firms employed more native workers (p. 31). Immigration resulted in a substantial reallocation of native workers across industries and regions but has only modest effects on average native wages (p. 46). Some negative effects were noted for natives with different levels of education. Immigrants, given their low level of education, decrease the demand for native workers with at most primary education, and increase the demand for all other types of workers (secondary education upwards) (p. 41).

### **Thailand**

Bryant & Rukumnuaykit (2013) study Thailand to examine the impact of immigration on the labour market in developing countries. Eighty-three per cent of

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Thai people believe that immigration reduces their wages (p. 785). The authors show that this belief appears to align with reality, as a 10 per cent increase in migrants has led to a 0.2 per cent reduction in the Thai worker wages (p. 795). But immigration did not reduce the labour force participation rate of Thai people, nor did it prompt Thai people to migrate elsewhere in compensation; any labour market impact occurred via wages (p. 795). Weak enforcement of minimum wage laws and the poor quality of social welfare in Thailand explains this, as these allow price competition between migrant and native labour and prevent workers from withdrawing from the market (p. 794).

### **South Africa**

Broussard (2017) examines the effects of immigration on labour market outcomes in South Africa. The study showed that immigrant inflows decreased the labour force participation rate and wages of black native-born South Africans (p. 392). These effects were pronounced in the formal sector, but non-existent for the same group in the informal sector. The results did show that immigration caused an intersectoral employment shift; black male South Africans moved into the formal sector, while black female South Africans moved into the informal sector (pp. 417-418). Women have been affected almost twice as much as men because of this shift.

### **France: the independence of Algeria**

In 1962, when Algeria became independent from France, 900,000 people of European origin returned to France within the space of a year. Hunt (1992) has examined the effects of this repatriation on the French labour market. The repatriation was considered relatively painless; repatriates did have some advantages not normally available to other immigrants. For example, repatriates had access to a year-long job search benefit, a lump sum towards housing costs, and were given priority for vacant jobs in October 1962 and March 1963 (p. 557). While repatriates experienced a high unemployment rate, they had a negligible impact on the unemployment of non-repatriates. At most, a one percentage point higher proportion of repatriates is associated with wages that were 0.8 per cent lower in 1967 (p. 569). The repatriation had no effect on the labour force participation rate of non-repatriates (*ibid*).

## **Conclusion**

Within the framework of the labour demand and supply theory and the dual market theory, we found some evidence that supported the predictions of either model. However, most of our findings were that the impact of immigration on host countries' labour markets was either insignificant or slightly positive.

## **Chapter 4: Social cohesion and immigration in Australia**

Australia has a strong migrant history, with almost 30 per cent of Australia's population of 25 million born overseas (Treasury & Department of Home Affairs 2018, p. iii). But despite evidence of the positive effects of immigration on Australia's economy (ibid, p. 1), there remains resistance to immigration based on the perceived impact of immigration on Australian communities, values and identity.

This chapter evaluates the evidence of the impact of immigration on social cohesion. First, it identifies common definitions of social cohesion, then outlines common methodologies and indicators for measuring social cohesion. It then comments on the determinants of social cohesion and, finally, it highlights public policy interventions adopted by governments to strengthen social cohesion.

### **Defining social cohesion**

Social cohesion has multiple and contested definitions. Woolcock describes social cohesion in relatively simple terms, as “the capacity of societies, not merely groups and networks, to peacefully manage collective action problems” (Woolcock 2011, p. 9). Other scholars define social cohesion with reference to positive attitudes and behaviours of members towards each other, and the growth of interpersonal connections (Friedkin 2004, p. 410). Sociologists define social cohesion as a product of the cleavages which form within a society, whether these be political, religious, ethnic or other cleavages (Easterly, Ritzen & Woolcock 2006, p. 105).

The OECD defines a ‘cohesive society’ as one that works harmoniously to achieve and enhance the wellbeing of all its members, combat marginalisation, promote social mobility and create social trust and a sense of belonging. The three core elements of social cohesion are *social inclusion*, *social capital* and *social mobility* (OECD 2011, p. 17). *Social inclusion* is the terms on which individuals and groups, particularly the poor and marginalised, participate in society. *Social capital* is the resources gained from people cooperating to achieve common goals, while *social mobility* is the capacity of individuals or groups to change their social status based on wealth, occupation, education or other variables (OECD 2011, p. 17).

## Chapter 4: Social cohesion and immigration in Australia

In Australia, like the OECD, the Scanlon Foundation defines social cohesion based on social capital, mobility and inclusion, as affected by economic factors like unemployment, income, population mobility, health, life satisfaction and responses of government to poverty and disadvantage. Similarly, political and socio-cultural factors, like political participation and social involvement, can affect social inclusion, while social capital, norms, trust and convergence on issues of local and national significance also impact the assessment of a society's cohesion.

### **Measuring and evaluating social cohesion**

The breadth and complexity of theoretical frameworks for social cohesion create measurement challenges. While “external shocks are relatively easy to quantify ... latent social conflict and institutions of conflict management are considerably more problematic” (Rodrik 1999, p. 386). There is also no consensus on the ‘ideal’ state of social cohesion or if an ‘ideal’ state exists (Koleth 2010). Some researchers measure social cohesion through in-depth analysis of individual indicators, while others take a multidimensional or multi-indicator type approach (Dandy & Pe-Pua 2015, p. 341). A common approach to measure social cohesion is measuring trust, membership of organisations and civic participation, and institutions.

### **Measures of trust**

Trust is a common indicator used to measure social cohesion (Easterly, Ritzen & Woolcock 2006, pp. 106-107). In the World Values Survey, developed countries score about 50 per cent or above on the trust question, while developing countries tend to score much lower (Easterly, Ritzen & Woolcock 2006, p. 107).

### **Memberships rates of organisations and civic participation**

Rates of participation in social organisations are also a significant predictor of community cooperation and income, with civic participation positively associated with regional economic performance (Easterly, Ritzen & Woolcock 2006, p. 106).

### **Institutions**

The structures and organisations which promote and preserve social inclusion, equity and efficiency have also been used to measure community cohesion. For example, Rodrik (1999, p. 386) used “measures of civil liberties and political rights,

the quality of government institutions, the rule of law, competitiveness of political participation, and public spending on social insurance” as a proxy for institutional strength. Rodrik observed that the sharpest drops in economic growth occurred in countries with high rates of social divisions and weak institutions (Rodrik 1999, p. 386).

### **Multidimensional**

The Scanlon Foundation Social Cohesion Index is a good example of a multidimensional approach to measuring social cohesion. The index tracks attitudes towards belonging, worth, social justice and equity, participation and acceptance as indicators of social cohesion in Australia over time (Markus 2017, p. 24), though the index has limitations as a survey-based research methodology but provides an opportunity to consider social cohesion in the context of macroeconomic events such as recessions, unemployment rates and economic growth.

As part of its 2017 report, the Scanlon Foundation reported consistently high levels of acceptance for immigration and cultural diversity amongst Australians, with over 60 per cent respondents agreeing that immigration from many different countries makes Australia stronger (Markus 2017, p. 2).

### **Determinants of social cohesion**

Geography is a strong determinant of the effect that migration has on social cohesion in Australia. Recently arrived migrants will choose to settle in locations which they believe will maximise their own benefit. Rural and regional areas are potentially ideal places to settle migrants, however they may be more affected by prejudices of natives. Older Australians in regional areas, who are less likely to have encountered recent migrants, are more likely to want a lower rate of immigration (Holton 1997, p. 1). This is unsurprising, as cross-cultural contact is a powerful driver of better social cohesion outcomes (Dandy, J, Pe-Pua, R 2013, p. 131).

In Australia, migrants generally settle in urban areas due to the better and more certain employment opportunities and proximity to family or other members of their community (Treasury & Department of Home Affairs 2018, p. 47). However, regional settlement programs have been successful in cases where migrants do not have

existing family within Australia and there are enough job opportunities available (ibid, p. 48).

Economic factors such as the employment opportunities and accessibility of essential services also affect social cohesion. Jupp (2007, p. 26) argues that sound economic performance is a greater driver for social cohesion than cultural and ethnic homogeneity. Holton (1997, p. 11) found that the primary reason for opposition to immigration was the perception that high immigration increases unemployment. At the time, the level of immigration from Asian countries was contentious, with political parties such as One Nation drawing a link between Asian immigration and economic disempowerment of the native population.

Holton (1997, p. 11) also found that those with higher incomes were less concerned about the level of immigration. Breunig et al (2013 p. 18) found that more recent migrants are closer to income parity with native Australians than previous cohorts of migrants, which reflects better labour market conditions in Australia and more favourable education and training preparedness of recent arrivals. Australia has a robust skilled migration program, with priority given to highly skilled migrants who seek to work in an industry with an identified skills shortage or a geographic area with skills shortages (Treasury & Department of Home Affairs 2018, p. 48).

### **Public policy responses**

Where immigration negatively impacts social cohesion, it imposes a negative externality, which government might intervene to mitigate or minimise. Government generally intervenes with two types of policies: policies to promote multiculturalism, to broaden acceptance within the host country residents of new migrants; or policies to promote integration, to encourage new migrants to adopt the language and cultural norms of the host country.

Australia pursues both multicultural and integration policies. For example, to promote multiculturalism, Australia has operated its *Living in Harmony Initiative* since 1998, to promote inclusivity, and a sense of respect and belonging for all Australians. While initially comprised of a community grants program, a partnership program and a media strategy (Museums Victoria 2018), the initiative today is

## Chapter 4: Social cohesion and immigration in Australia

support for Harmony Day, a day to celebrate multiculturalism (Department of Home Affairs 2018).

The Australian Government has also adopted policies to promote integration. For example, the Australian citizenship test assesses language proficiency and understanding of the Australian political system and cultural beliefs (Kainth 2017). Another example is the Adult Migrant English Program that provides eligible migrants and humanitarian entrants access to 500 hours of English tuition, to improve integration into Australian society (Department of Education and Training 2018).

Australia and Canada, as countries with comparative migrant histories, appear to prefer policies promoting multiculturalism, while other countries, like France, appear to prefer integration. In Canada, for example, the *Canadian Multiculturalism Act 1998* recognises all Canadians as full and equal participants in Canadian society. This reflects Canadian efforts to build social cohesion between diverse communities. By contrast, France adopts policies promoting integration to build a common identity and commitment to French values (Lacroix 2015). France's ban on headscarves in schools and on wearing of Muslim veils in public (Heneghan 2011) reflects this.

### **Conclusion**

This chapter has considered the idea of social cohesion and its relationship to immigration in Australia. While there is no common definition of social cohesion, there are some methods for measuring it. This chapter has commented on the determinants of social cohesion and scrutinised public policy interventions adopted by governments when strengthening social cohesion.

## **Chapter 5: Immigration and the wider economy**

Generally, evidence that migration can be beneficial to host countries by increasing economic growth. On average, a 10 per cent increase in the migrant population in a host country can result in a 2.2 per cent rise in income per capita (Felbermayr et al. 2010, cited in New Zealand Institute of Economic Research 2014, p. 2), and countries with better institutions and human capital, like Australia, reap the largest rewards from migration via increases to GDP per capita (Ortega & Peri 2012, p. 33).

Evidence from advanced economies shows the beneficial effect of migration. In Australia, migration has offset an ageing population, improved workforce participation and productivity, and alleviated short-term skill shortages (Treasury & Department of Home Affairs 2018, p. 24). From 2020 to 2050, the International Monetary Fund (IMF) estimates migration will contribute up to 1 percentage point to Australia's annual average GDP growth (IMF 2017), while the Migration Council of Australia (2015, pp. 2-3) estimates that by 2050, migration will contribute \$1.6 trillion to GDP, and will have added 5.9 per cent to per capita GDP growth.

Similarly, in the United States, migration is estimated to increase GDP per capita by over \$1,500 (Holtz-Eakin 2013, p. 1); similarly, in the UK migration is estimated to contribute around 0.15 per cent per year to GDP per capita (McGuinness & Hawkins 2016, p. 20). Likewise, in New Zealand it is estimated a net increase of 40,000 migrants each year for 10 years can increase GDP per capita by almost \$410 each year (New Zealand Institute of Economic Research 2014, p. 1).

This chapter evaluates the evidence of the effect of immigration on Australia's economy. First, it examines the link between migration and economic growth in the context of innovation and savings accumulation. It then draws conclusions about the fiscal impact of migration.

### **The link between migration and economic growth**

Migration inherently impacts the wider economy of the host country through population growth. Population growth, particularly that driven by migrants who are largely working age, leads to an increase in aggregate supply (i.e. labour and capital) and aggregate demand (i.e. consumption and investment) (Productivity Commission

2006, p. 36). This means more goods and services can be produced and consumed in the host economy, resulting in a volume increase in aggregate GDP.

While an immediate increase in GDP due to migration benefits the host country, the long-term impact of migration is increased economic growth, driven by increases in productivity. Migration can increase productivity in four ways: through human capital, capital accumulation, innovation, and economies of scale. This chapter will explore how migration has affected innovation and capital accumulation in host countries.

### **Innovation**

Of all the inputs to productivity, innovation, or “the development and application of ideas and technologies that improve goods and services or make their production more efficient” (European Central Bank 2017), is arguably the most important in driving economic growth and competitiveness. As innovation increases, individuals, businesses, and industries discover new ways of increasing their outputs with less inputs and thus, productivity is increased.

Direct and indirect mechanisms enable immigration of skilled workers to increase innovation. Directly, when skilled workers migrate to a country, the number of research and development (R&D) workers, who possess knowledge and skills often substantially different to native workers, increases. Indirectly, immigrant workers contribute to innovation through their different approaches and networks, creating knowledge spillovers (Jensen 2014, p. 241). However, this depends on workers migrating being skilled workers, as immigration of unskilled workers can decrease innovation by decreasing the incentive for firms to invest in R&D (Bratti & Conti 2014, pp. 22-23).

Measuring innovation can include measuring the number of new doctorate graduates, number of scientific publications, R&D expenditure (in both government and private sectors), partnerships between firms, or the number of licenses and permits approved by government. However, the most prevalent measure is through number of patents.

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At the individual level, immigrants are responsible for 24 per cent of patents in the USA despite representing 12 per cent of the population. When the proportion of university immigrants in the USA increases by 1 per cent, the number of patents per capita increases by 6.1 per cent (Hunt & Gauthier-Loiselle 2010, p. 40). At the firm level, using the Kauffman Index of Entrepreneurial Activity and the Longitudinal Business Database, immigrants have a strongly positive effect on entrepreneurial activity. States and industries in the USA with higher proportions of university-educated immigrants possess much higher rates of new business developments (Duleep et al. 2012, pp. 17-19). A recent aggregate study across 20 European countries observed an average increase in total patents and citations by 0.08 and 0.15 per cent respectively when the number of skilled migrant workers increased by 1 per cent (Bosetti et al. 2015, p. 316).

This trend does not extend to unskilled immigrant workers. Thai firms experience, on average, a 2.2 per cent decrease in technology and research and development investment when they increase employment of unskilled immigrant workers by 10 per cent (Pholphirul & Rukumnuaykit 2016, p. 304). Similarly, Italian patent applications decrease by 0.2 per cent in response to a 1 per cent increase in the proportion of low-skilled migrant workers (Bratti & Conti 2014, pp. 23).

### **Savings and capital accumulation**

Capital accumulation is another source of productivity – increases in total capital stocks also increase capacity to produce more goods and services. National savings is an important factor in determining the level of accumulation, as it determines the amount of domestic funds available. Some argue that, on balance, migration decreases the overall national savings rate which, for net borrowing countries like Australia, could create a larger current account deficit (Taslim 1996, p. 1).

Unlike innovation, no single variable determines whether the net impact of migration on a host country's savings rate will be positive or negative. Most arguments are based on migrants having poorer and less certain employment outcomes compared with natives. One common argument is that this will cause migrants to have a lower savings rate, as savings is dependent on income. By contrast, others argue that this means migrants are likely to save more than natives

for precautionary purposes (Dustmann 1997, cited in Amuedo-Dorantes & Pozo 2002, p. 49).

Evidence from former West Germany is mixed. Migrants were found to have an average savings rate of 5.4 and 7.0 per cent for permanent and temporary migrants respectively, lower than the 8.6 per cent savings rate for natives (Bauer & Sinning 2011, p. 10). By contrast, a study of the USA found migrants from every origin were more likely to save at a higher rate than natives (Carroll et al. 2000, p. 9).

For Australia, controlling for disparities in income, immigrant households save more than natives, up to \$25 more per week (Islam et al. 2013, p. 61). In aggregate however, immigrant households save less than native households, up to \$55 less per week.

### **Fiscal impact of migration**

Despite studies suggesting migration has a positive effect on GDP per capita, migration remains controversial. Two common economic arguments against migration are that migrants abuse the welfare systems of the host country, and that migrants do not contribute fairly to the tax system. In combination, these two arguments assert that migrants have a negative net fiscal impact on the host country.

On average, most OECD countries have found migration to have a minor impact on government budgets, varying between plus and minus one per cent of GDP (OECD 2013, p. 145). OECD Modelling found the average net direct fiscal position of immigrant households for most OECD countries is positive, though with wide variation between countries due to the varying age profile of migrants and differences in the design of tax and welfare systems. Switzerland, Iceland, Luxemburg, Italy and the USA are the largest beneficiaries while net contributions are negative in Germany, France, Ireland and several eastern European countries. For France and Germany, this is because of their old migrant populations who are likely to be receiving pensions.

A migrant's employment outcome is the single biggest determinant of their net fiscal contribution. Although migration has a net positive fiscal impact in most OECD

## Chapter 5: Immigration and the wider economy

countries, the impact is generally lower than natives (see Figure 4). The OECD explains this is due to lower taxes and social contributions paid by migrants, likely due to worse employment outcomes, not high dependence on society security. On average, migrant households receive lower overall social benefits compared to native households.

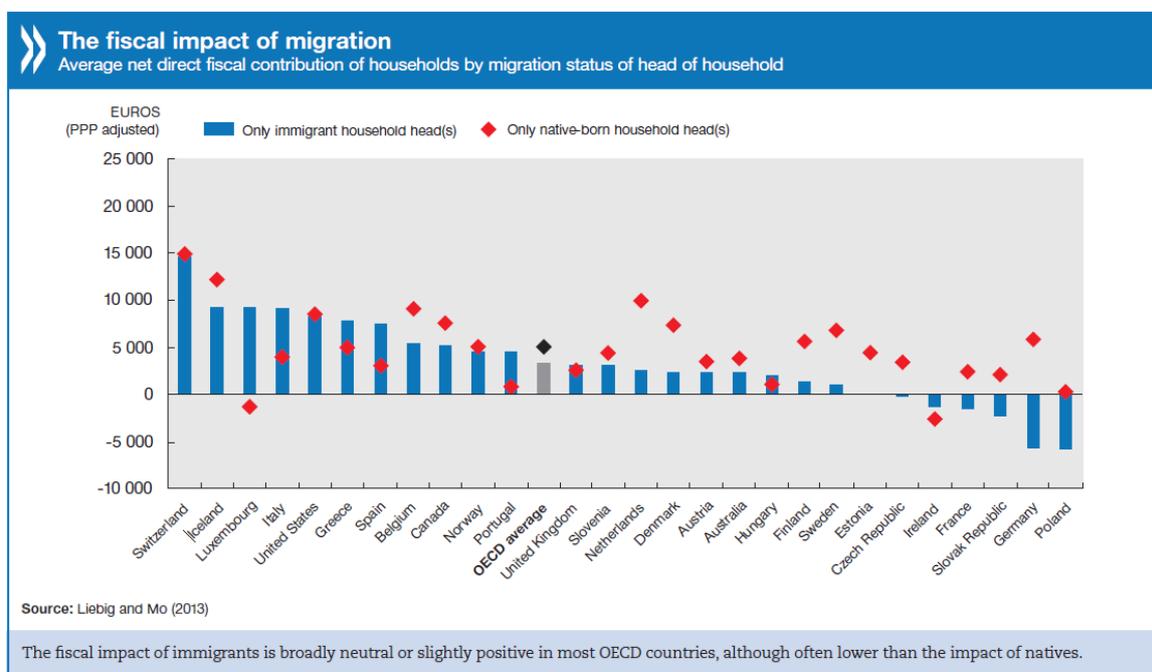
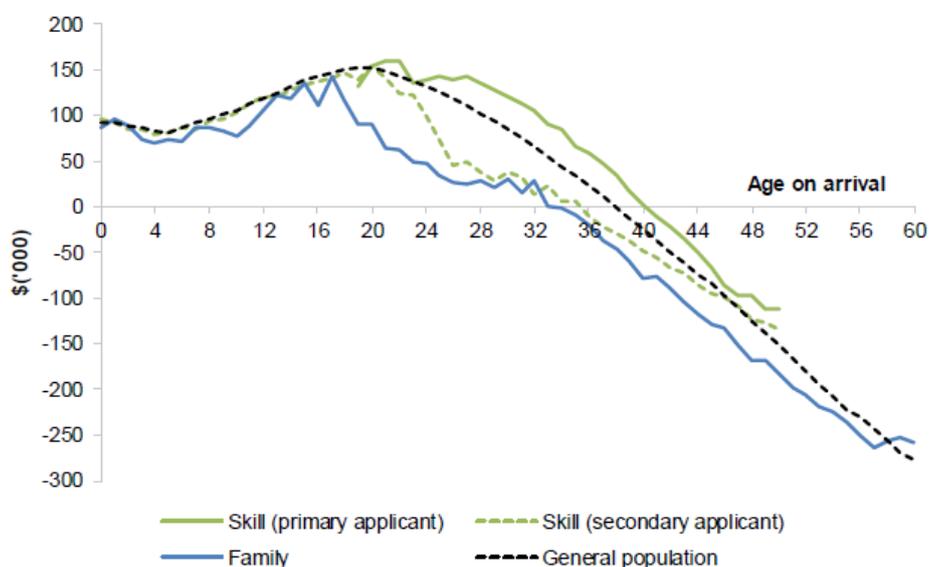


Figure 4 – Fiscal impact of migration by country (OECD 2013)

While static modelling, like the OECD modelling, allows for cross country comparison, longitudinal models are more accurate in measuring the net fiscal impact of migrants as they capture the impact of migrants as they transition from work to retirement. The Productivity Commission's lifetime fiscal impact model is one example, measuring the net fiscal impact of migrants in Australia over their lifetime. Like the OECD report, the Productivity Commission finds age on arrival is a key factor in the lifetime fiscal impact of migrants (see Figure 5)(Productivity Commission 2016, pp. 293-332).

**Figure 9.12 Key lifetime fiscal impacts by age on arrival<sup>a,b,c</sup>**  
 Net present value estimates of fiscal impacts per average permanent immigrant, net overseas migrant intake, 2013-14 dollars



<sup>a</sup> Different coverage of government revenues and expenditures would likely shift these curves vertically and alter the point at which these curves cross the horizontal axis. <sup>b</sup> The general population curve relates to the lifetime fiscal impacts of an Australian citizen that would enter Australia at the corresponding age of arrival. <sup>c</sup> Skill stream immigrants arriving after age 50 and humanitarian arrivals are not shown due to limited data.

Source: Productivity Commission estimates.

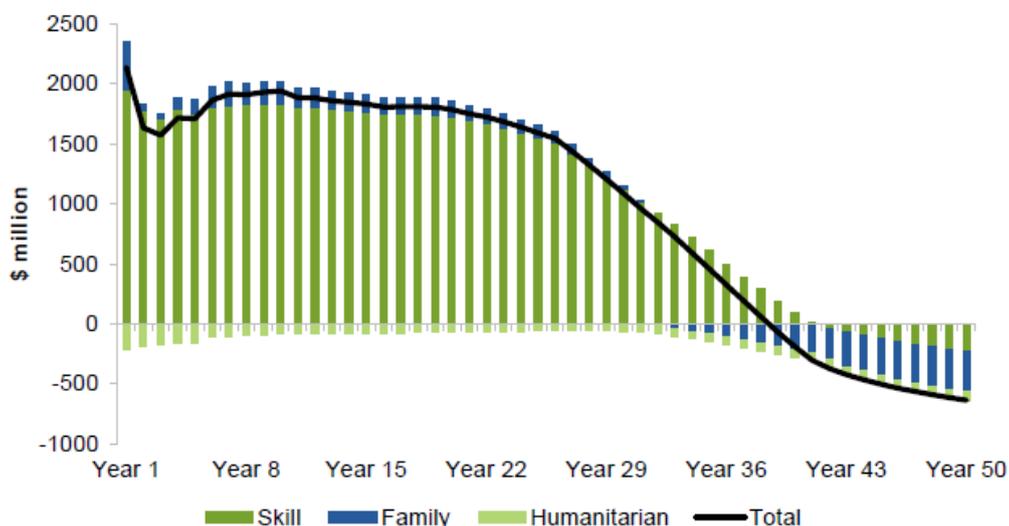
**Figure 5 – Lifetime fiscal impact of migration by age on arrival (Productivity Commission 2016)**

Those who arrive early in their working life are estimated to have the largest positive fiscal impact while those beyond their late 30s are expected to have negative fiscal impacts over their lifetimes. Second to age in importance of determining fiscal impact is visa type, with migrants from the skill stream having a larger positive fiscal impact compared to other visa categories.

Like the OECD, the Productivity Commission finds consumption of government services to be less of a factor in determining the net fiscal impact of migrants. Immigrants on all visas, except the humanitarian visas, receive less income support compared to the general population. Consumption of disability and education services is also lower, due to most migrants arriving as healthy adults (see Figure 6).

**Figure 9.3 The estimated net fiscal impact varies by visa category<sup>a,b</sup>**

Migrants' Fiscal Impact Model estimates of the 50 year impact on the Australian Government budget for the 2015-16 permanent migrant intake (\$ million)



<sup>a</sup> Current prices. Excludes broader revenues and expenditures and temporary immigrants. <sup>b</sup> Assumes tax bracket indexation and an immigrant attrition rate of 1 per cent per annum.

Source: Productivity Commission estimates based on Deloitte Access Economics (forthcoming).

**Figure 6 - Estimated net fiscal impact of immigration by visa category (Productivity Commission 2016)**

## Conclusion

In summary, this chapter has shown that migration has a positive impact on productivity and economic growth in many advanced economies. Evidence suggests skilled workers are likely to increase innovation in the host country. However, the impact of migration on savings remains unclear. Furthermore, migration is shown to have a small fiscal impact on the host country, with most OECD countries reporting a positive fiscal impact.

## **Chapter 6: Human capital and the migrant experience**

This chapter will discuss the role of human capital in immigration and the migrant experience. The first section summarizes human capital theory, the second section examines human capital inputs, the third section examines migrant outcomes and the last section concludes our study.

### **Features of human capital theory**

When applied to migration, human capital theory seeks to explain the differences between migrants' and native Australians' settlement, labour and wellbeing outcomes. It assumes that migrants, as rational decision makers, seek to maximise their individual earnings by investing in inputs, like education or work experience, that lead to greater productivity and individual returns (Ho 2004 pp. 239). With structured immigration policies, a host country can be enriched using the substantial positive externalities and spillover effect of human capital (Gans et al. 2018, pp. 601-602). The key features of the human capital theory pertinent to immigration are:

Firstly, the ability to master the host country's language impacts a migrant's assimilation and labour market outcomes (Basilio & Bauer 2010; Friedberg 2000; Schaafasma & Sweetman 2001). As new immigrants accumulate education, work experience and skills, language proficiency and local knowledge in a host country, their human capital tends to be more transferable (Basilio & Bauer 2010).

Secondly, 'transferability' of human capital tends to vary with country of origin (Akay 2016; Basilio & Bauer 2010). Immigrants from high-income countries tend to earn higher returns on their human capital (Basilio & Bauer 2010). For example, in Sweden, immigrants from Europe, Asia and Latin America tend to have better labour market outcomes than immigrants from the Middle East and Africa (Akay 2016).

Third, acculturation tends to be more successful when migrants move at an earlier age. In Canada, the foreign labour market experience of migrants older than 29 at entry does not yield positive returns. By contrast, immigrants who arrive before their teen years have no earnings deficit relative to natives (Schaafasma & Sweetman 2001). In Germany and Israel, foreign labour market experience also yields very limited returns for immigrants (Basilio & Bauer 2010; Friedberg 2000).

Fourth, assimilation is a lengthy but steady process. In Sweden, it takes 10 to 20 years for new immigrants' outcomes to converge with those of natives, and an employment probability gap of 10 to 20 per cent could persist (Akay 2016). However, the assimilation process can be more successful with a structured immigration policy. For example, Cobb-Clark & Khoo (2006) found that migration selection policies that emphasize the role of migrant capabilities can facilitate assimilation of immigrants.

### **Human capital inputs**

The four central inputs into a migrant's human capital are education, language proficiency, work experience, and health (Cobb-Clark & Khoo 2006, p. 208).

#### **Education**

Migrants tend to be more highly educated than Australian natives, as skilled migration is the focus of Australia's migration program (Productivity Commission 2006, p. 50). Despite working in more skilled occupations than Australians, migrants tend to be overeducated for the jobs they occupy (Ho 2004, p. 240; ABS 2017; Productivity Commission 2006, p. 54). For migrants that held a qualification prior to arriving in Australia and secured employment after arrival, only 53 per cent used their highest non-school qualification in their first job (ABS 2017). By contrast, before migrating, 74 per cent had jobs where they used their highest qualification (Ho 2004, p. 243). Only one third of recent migrants holding a non-school qualification had their overseas qualifications formally recognised in Australia (ABS 2017). This low rate of qualification recognition typifies the issue of human capital transferability.

Education is both an input into a migrant's human capital and an output representative of the migrant's experience, as the educational attainment of second-generation migrants can indicate settlement and integration success. Second-generation Australians are more highly educated and more likely to hold a bachelor's degree or diploma than Australian-born natives, despite other socioeconomic disadvantages (Cobb-Clark & Nguyen 2012, p. 558; Productivity Commission 2006, p. 68). This is internationally consistent, as, in the USA, second generation students whose parents are migrants complete 1.3 years more schooling

and have an 18.8 per cent higher probability of completing a bachelor's degree than natives (Siahaan, Lee & Kalist 2014, p. 5). However, despite greater educational attainment, second-generation migrants are more likely to have grown up in households with income support assistance (Cobb-Clark & Nguyen 2012 p. 560). This is consistent with the finding that migrants are overqualified for the jobs they hold, highlighting that although migrants and second-generation migrants have higher education attainment than Australian natives, this is not a proxy measure for socioeconomic advantage (Cobb-Clark & Nguyen 2012, pp. 560-565).

### **English language proficiency**

Speaking English poorly in Australia is strongly correlated with low income, and impacts integration and broader settlement outcomes (Productivity Commission 2006, p. 86). English language proficiency is particularly important to migrants for professional or clerk jobs, and to avoid 'slipping' into labourer jobs (Kostenko et al 2012, p. 4032). The English skills of migrant parents also influence the language skills of second-generation migrant children (Chiswick & Miller 2006, p. 121). In addition, a migrant's country of origin impacts settlement outcomes. Evidence suggests that migrants from a non-English speaking background (NESB) are overqualified for their positions more than migrants from English speaking backgrounds (ESB) (Green, Kler & Leeves 2007, p. 428). Regardless of occupation, there is a 10 per cent wage gap between migrants of an ESB compared to NESB (Islam & Parasnis 2016, p. 98; Productivity Commission, 2006, p. 86).

### **Prior work experience**

Work experience, particularly in the year before migration, also affects a migrant's human capital and productivity capacity (Cobb-Clark & Khoo 2006, p. 34). While some suggest prior work experience has an insignificant effect on wage outcomes (Friedberg 2000), others find it is significant for attainment of professional jobs (Kostenko et al. 2012, p. 4032). However, country of origin is again important. While prior work experience from Northwest Europe or ESB countries is valued equivalent to natives' experience, experience from other backgrounds does not translate into similar successful employment outcomes (Kostenko et al. 2012, p. 4024).

### **Health**

Human capital theory suggests that health is also a key factor affecting labour market outcomes, life satisfaction, and intergenerational transmission of economic status and earnings (Behrman et al. 1994; Currie & Madrian 1999). Other forms of socioeconomic disadvantage that migrants may face, such as discrimination, language barriers, and unfamiliarity with the systems, can all become a source of psychosocial stress with adverse health consequences (Jasso et al. 2004). In this way, a migrant's health status is a human capital input affecting their productivity and outcomes. After the introduction in 1999 of stricter criteria in Australia favouring migrants with greater human capital, migrants were more educated, had greater English proficiency, and were more likely to have professional work experience, leading to better labour market participation and successful settlement (Cobb-Clark & Khoo 2006, pp. 34, 49).

### **Migrant outcomes**

#### **Labour market outcomes**

The labour force participation rate is the percentage of the population employed or unemployed in the labour force (ABS 2004). Official labour force participation rates show that recent migrants have a higher participation rate (at 70 per cent) than non-migrants (at 66 per cent) (ABS 2016), though less recent figures find that labour participation rates are higher for the Australian born population (Cully 2013). Participation rates vary substantially by residency type: migrants who have become citizens have higher participation rates (80 per cent) compared to permanent residents (69 per cent) and temporary residents (65 per cent). Participation rates also differ by gender and level of education (ABS 2016).

By contrast, migrants have higher levels of unemployment than the Australian-born population at 7.4 per cent compared to 5.4 per cent, meaning that while more migrants seek employment, less migrants secure it. However, migrants who have become citizens since moving to Australia have lower levels of unemployment (3.3 per cent) than permanent residents (8.8 per cent) and temporary residents (8.6 per cent) (ABS 2016). This shows the diversity of migrant outcomes and the migrant experience. The size of the gap in employment rates between migrants and non-

migrants varies between countries: in Canada for instance, there is a bigger gap than in Australia (Clarke & Skuterud 2012 cited in Islam & Parasnis 2016, p. 90).

Migrants paying taxes have a higher median employee income (at \$48,400) than the median Australian taxpayer employee income (at \$45,700) (ABS 2017). However, academics differ on whether migrant incomes are higher or lower than native incomes. Most attempt to control for various observable factors, such as education, experience (age), gender, region, industry and English language ability (e.g. Productivity Commission 2006; Islam & Parasnis 2016; To, Grafton & Regan 2017). However, Breunig et al. (2013), which also controls for unobservable characteristics, finds that there is a wage gap, including for men from an ESB. Although the gap does get smaller, this happens slowly, particularly for those from a NESB (Breunig et al. 2013, see also Abramitzky & Boustan 2017; Islam & Parasnis 2016, p. 90). The income gap in Australia is smaller than that of the USA and Canada (Islam & Parasnis 2016, p. 90).

### **Health outcomes**

New immigrants to developed countries such as the US, Canada and Australia achieve better health outcomes in comparison to natives born in these countries, despite coming from source countries with worse life expectancy indicators (Antecol & Bedard 2006; Jasson et al. 2004; Juarez et al. 2017). This is known as the healthy immigrant effect (HIE). Literature suggests that the HIE might be a result of positive selection bias—more healthy individuals choose to migrate. It may also be that migration itself leads to better health (see Antecol & Bedard 2006; Farres 2016; Jasson et al. 2004).

Migrants generally enjoy better health than the population of both the source and host countries (Anikeeva 2010). However, the health advantage deteriorates over time across generations, as migrants adopt lifestyles of the host country's population through the process of acculturation. For example, by the third generation, the pregnancy behaviours and prenatal health of Hispanic immigrants to the USA had converged with native health outcomes, which is a deterioration from first and second-generation migrants' prenatal health (Giuntella 2012). The longer

immigrants remain in their host country, the less likely their children's health outcomes will resemble their mother's health outcomes (Yuksel & Kugler 2016).

### **Life satisfaction outcomes**

Set point theory suggests that significant life changes only have a temporary effect on subjective wellbeing (Brickman & Campbell 1971). However, researchers argue life circumstances matter, including migrating to a new country (Diener et al. 2006). In Canada, immigrants who came from countries with a low gross domestic product (GDP) experience significant improvements in life satisfaction in comparison to immigrants from nations with higher GDP (Frank, Hou & Schellenberg 2015). This study included immigrants who resided in Canada for up to 20 years, suggesting that changes in life satisfaction following migration persist over time rather than as a 'set point'. Different national conditions, like political stability, environmental conditions, health care access and gender and income inequality also influence average levels of life satisfaction (Diener et al. 1995; Bonini 2008). Therefore, an immigrant's ability to choose their new host country to maximise life satisfaction contributes to a nation's ability to meet basic needs of its citizens (Diener 2000). This is known as a nation's 'liveability', which impacts aggregate happiness and life satisfaction (Bartram 2011).

### **Conclusion**

The human capital of a migrant matters. Differences in a migrant's education, language proficiency, work experience and health lead to significantly different settlement, health, and labour market outcomes, which help or hinder assimilation. This suggests that countries benefit most from setting migration selection criteria to maximise a migrant's human capital to enable rapid integration. This is the approach adopted in Australia, where the Australian migration program currently incorporates a points system, giving different levels of importance to human capital inputs.

## **Summary of findings**

Overall, this case study has shown that immigration has affected and continues to affect Australia's labour markets, social cohesion, economic growth and human capital. However, this effect can be overstated. This case study summarised the past and potential future regulation of immigration (Chapter 1) and compiled the facts on Australia's immigration (Chapter 2). Using Australian and international evidence, this case study has shown that the effect of immigration:

- on labour markets is either insignificant or slightly positive (Chapter 3);
- on social cohesion is nebulous and ill-defined at best (Chapter 4);
- on the broader economy results in better productivity and economic growth, through more innovation (Chapter 5); and
- on the migrants themselves is highly dependent on the migrant's human capital (Chapter 6).

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