



**Australian Government**  
**Department of Immigration  
and Citizenship**

# The Diversity Dividend: Making the most from cultural diversity



*A presentation made by Mark Cully, Chief Economist,  
at the South Australian Multicultural Forum,  
31 July 2009*

*The sources and calculations used to measure diversity and its association with other indicators are explained in the Appendix to this paper.*

## Introduction

I've been asked to speak to you today on the topic of cultural diversity and, presumably because I'm an economist, the economic value that accrues to Australia from it.<sup>1</sup> This is a topic which is more often assumed than proved, so provoked I agreed. I intend to steer clear of the current economic downturn as that seems less important to me than considering the benefits of diversity independent of the vicissitudes of the economic cycle.

It is evidently true that Australia prospers from migration. Migrants are enterprising, most find work quickly after arrival, and they are net contributors to the Budget bottom line. Their children do as well as those born here. There are a host of factors which account for that success, which can largely be summarised as: they select us and we select them.

But can that gain in prosperity be attributed to diversity as such? Sure, we all love strolling down Gouger Street for any form of chow. We need, however, to go "beyond sushiology",<sup>2</sup> beyond the notion of diversity as just greater food choices.

Why might diversity itself be of value? Two arguments are often made. One is that migrants are more likely to be innovative and entrepreneurial. More patents are submitted in the United States by migrants per head than by the native born. More Nobel Prize winners in the United States were born outside the country than within it. Both of these examples to me simply highlight the attractiveness of the United States for the world's best and brightest.

More credibly, there is evidence that migrants open up new trade channels. A recent New Zealand study found immigrants boost trade (and tourism) with the largest boost coming from migrants of developing countries. The study found imports grew more than exports, so it is something of a mixed economic blessing: good for consumers, bad for the current account.<sup>3</sup>

I want to explore the issue of the economic value of cultural diversity in a different way, teasing out the connection between cultural diversity, the human and social capital migrants bring with them, and economic performance.

It is in three parts, commencing with a look at the extent of cultural diversity in Australia, moving on to explore the association between diversity and the human and social capabilities in different locations of Australia and their economic success, then trying to unpick the role that migrants play in that success. I conclude that we may not be making optimal use of migrants' talents.

## How culturally diverse is Australia?

Australia is, as we well know, a nation of migrants and their forebears. Prior to World War II almost all came from the United Kingdom and Ireland. In the last pre-war Census of 1936, 97 per cent of people identified themselves as of British stock. Arthur Calwell, as the first Minister for Immigration,<sup>4</sup> introduced a large migration program as part of post-war reconstruction. It opened Australia, for the first time on any scale, to migrants from mainland Europe.

The White Australia policy, which political journalist Paul Kelly has characterised as one of the pillars of Federation,<sup>5</sup> remained intact, its last vestiges living on till 1973.

Since 1945 almost 7 million permanent settlers have come to Australia. The 2006 Census shows those identifying themselves of British ancestry is down to 35 per cent. We are now a polyglot nation, with new settlers coming not only from the United Kingdom – still our main source country for settlers (and also for temporary skilled migrants and backpackers) – but also from New Zealand, India, China, the Philippines, South Africa, Sudan, Malaysia, Singapore and Vietnam. These new arrivals are, of course, far younger than

those who came in the post-World War II influx. The median age of the Italian born is 66, three times that of the Sudanese born (24 years). The combination of the passage of time and new source countries for migrants will inexorably change the face of Australia in years to come.

Approaching half of the population was born overseas or at least one of their parents was. We shall tip over the half way point in our lifetimes, due to the combination of our below replacement fertility rate and the scale of our migration program. Last year our population grew by over 400,000, five in eight of whom were migrants.

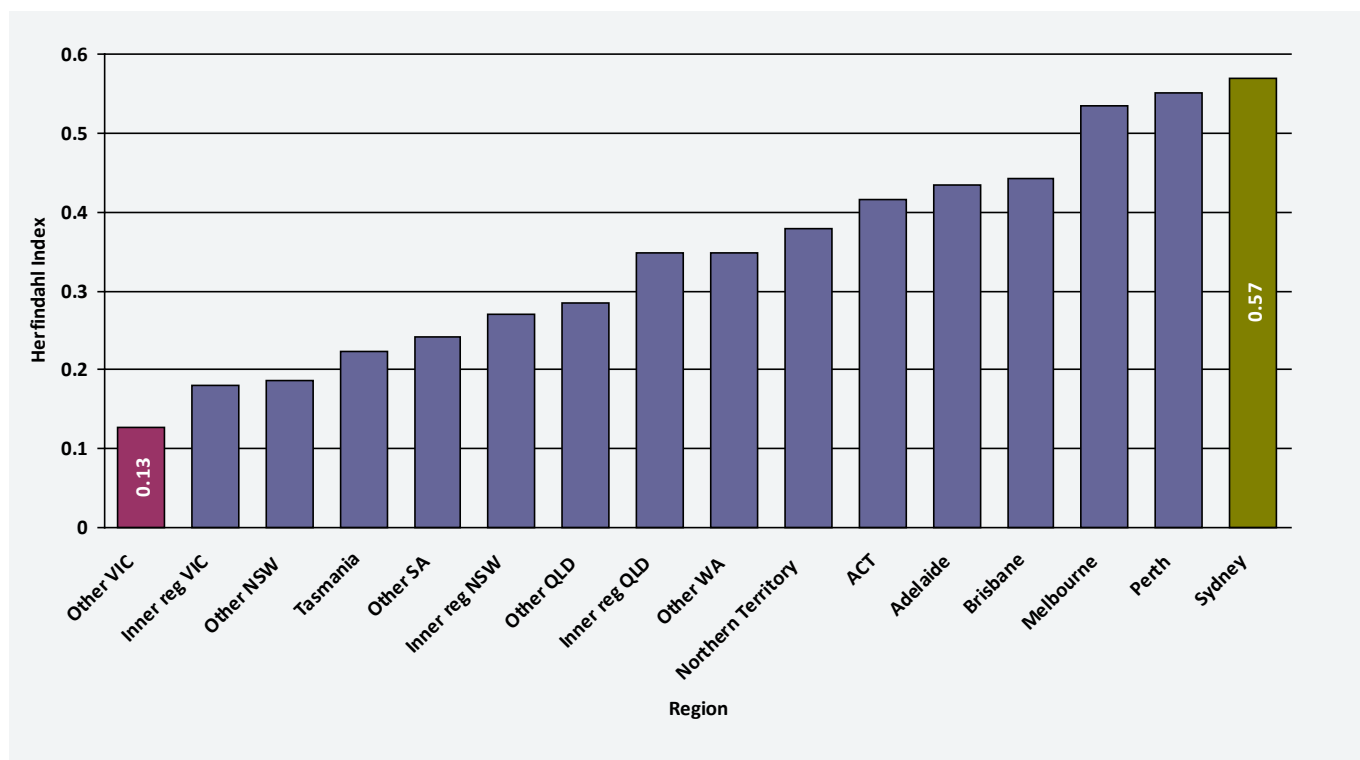
Of those 253 400 migrants, 16 100 went to South Australia, a bit below the State's population share benchmark of 7.4 per cent, but close to double the 8500 per annum overseas migration target in the State Strategic Plan.

Which are the most ethnically diverse parts of Australia? The Parliamentary Secretary for Multicultural Affairs and Settlement Services, Laurie Ferguson MP, likes to note that his electorate of Reid in western Sydney is the most diverse in the country, with half the population born overseas and 70 per cent speaking two or more languages.

In Figure 1 I show how culturally diverse different parts of Australia are, using a measure known as the Herfindahl Index,<sup>6</sup> which ranges from 1 (the most diverse) to 0 (the least diverse), based on the population mix of the top ten largest ethnic groups.

Sydney (with a score of 0.57) is the most culturally diverse on the index, country Victoria (0.13) the most homogenous.<sup>7</sup> Adelaide's score is 0.43, making it less diverse than Sydney, Perth, Melbourne and Brisbane. Our cities are more diverse than regional and remote Australia.

Figure 1  
Diversity Comparisons\*



\* see Appendix for derivation of variables

Figure 2

Diversity Comparisons (Country Victoria and Sydney)\*



\* see Appendix for derivation of variables

## Human and social capital, and the economic outcomes that accrue

Having established how cultural diversity varies across the country, I now want to explore the association between that diversity and human and social capability and economic performance.

My information is drawn from two ABS household surveys, the 2006 General Social Survey and the 2006 Adult Literacy and Lifeskills Survey. Let me offer a caveat before I proceed.

Cities and regions are dynamic entities, much more than the sum of the individuals they comprise. My analysis is focused on individuals residing within cities and regions. There is no quality data which might allow me to explore the social and productive relations between households, communities, firms and government, what would be needed for a thoroughgoing analysis of the economic value of cultural diversity. In particular, I have nothing to say about the workplace, the primary site for giving effect to what we used to call productive diversity.<sup>8</sup> It is in the workplace that the costs and benefits from complementarity come to the fore.

As I alluded to earlier, Australia puts much effort under the skilled migration stream into selecting “ideal” migrants. Preference is given to the young, the well-educated, and those with better chances of settling. This long-standing policy setting appears to work. In terms of what is commonly referred to as “human capital”, the more culturally diverse the area, the greater the human capital. This is a consistent and strong positive association (as shown by the  $R^2$  value) across several dimensions.

The more diverse the city or region:

- the greater is the proportion of young people who have complete Year 12 – as can be seen from the slope of the line of best fit;
- the greater is the proportion of adults with a university degree or higher; and,
- the greater are literacy levels.

My home city of Canberra, I note, leads the nation on all three measures.

Figure 3

Proportion of young people (20-29 year olds) who have completed Year 12\*

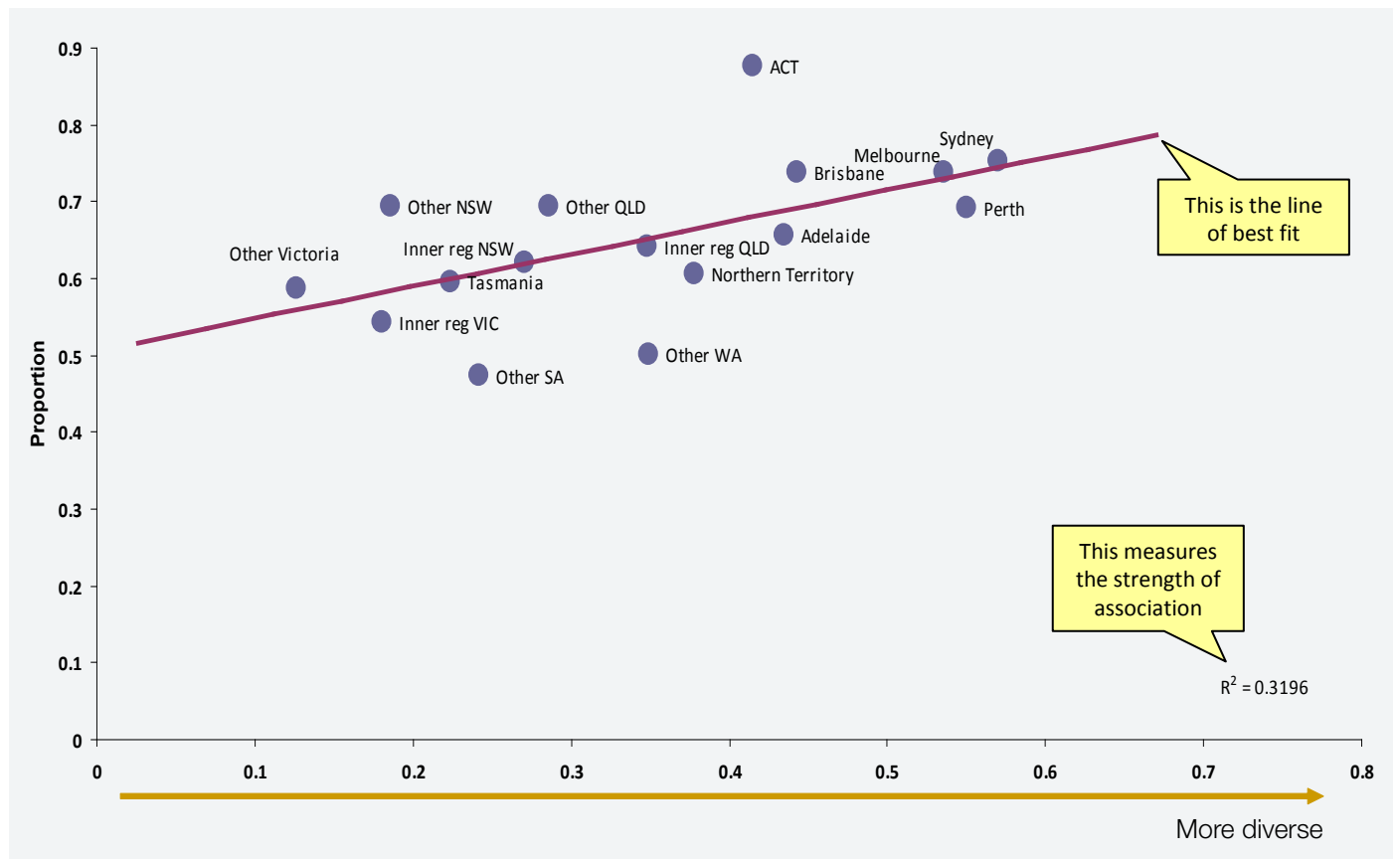
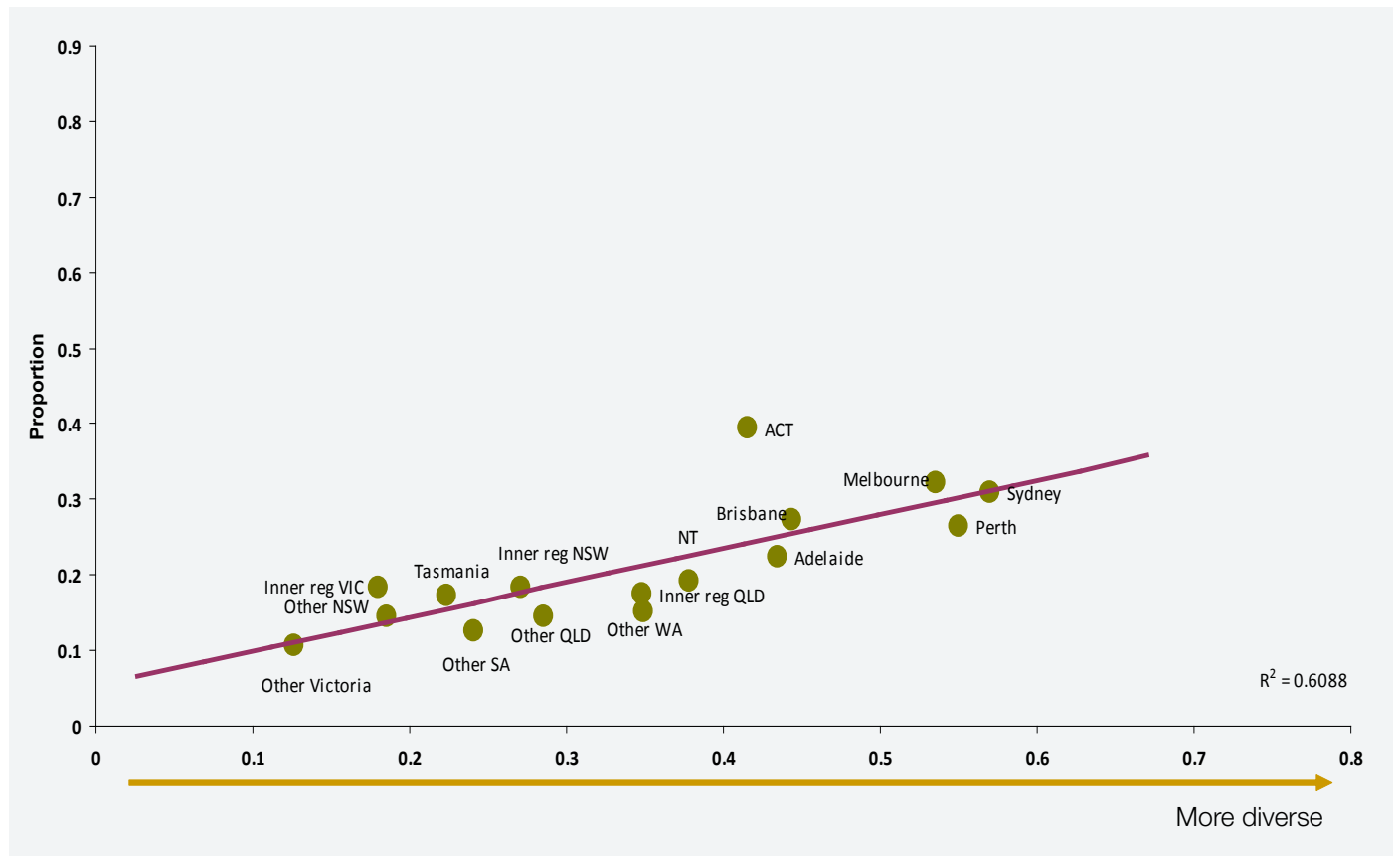


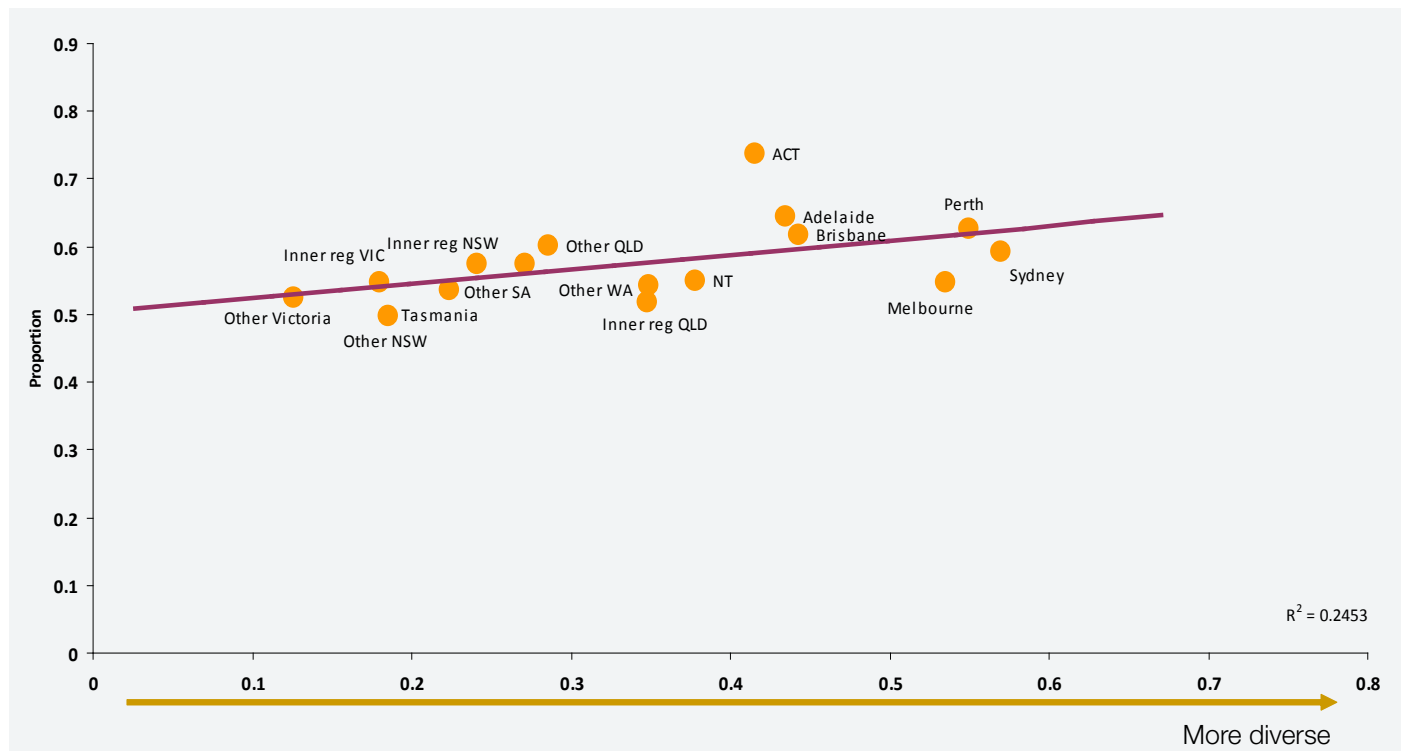
Figure 4

Proportion of adults (25-64 year olds) with a Bachelor degree or better\*



\* see Appendix for derivation of variables

Figure 5  
Literacy levels\*



\* see Appendix for derivation of variables

On the social capital dimension, the associations are less straightforward. First, there is no association at all between cultural diversity and the degree of trust towards one’s neighbours. That does not mean a mistrust of migrants. The 2007 Scanlon Foundation survey, Mapping Social Cohesion, found over two in three Australians agreed that accepting immigrants from many different countries makes Australia stronger.

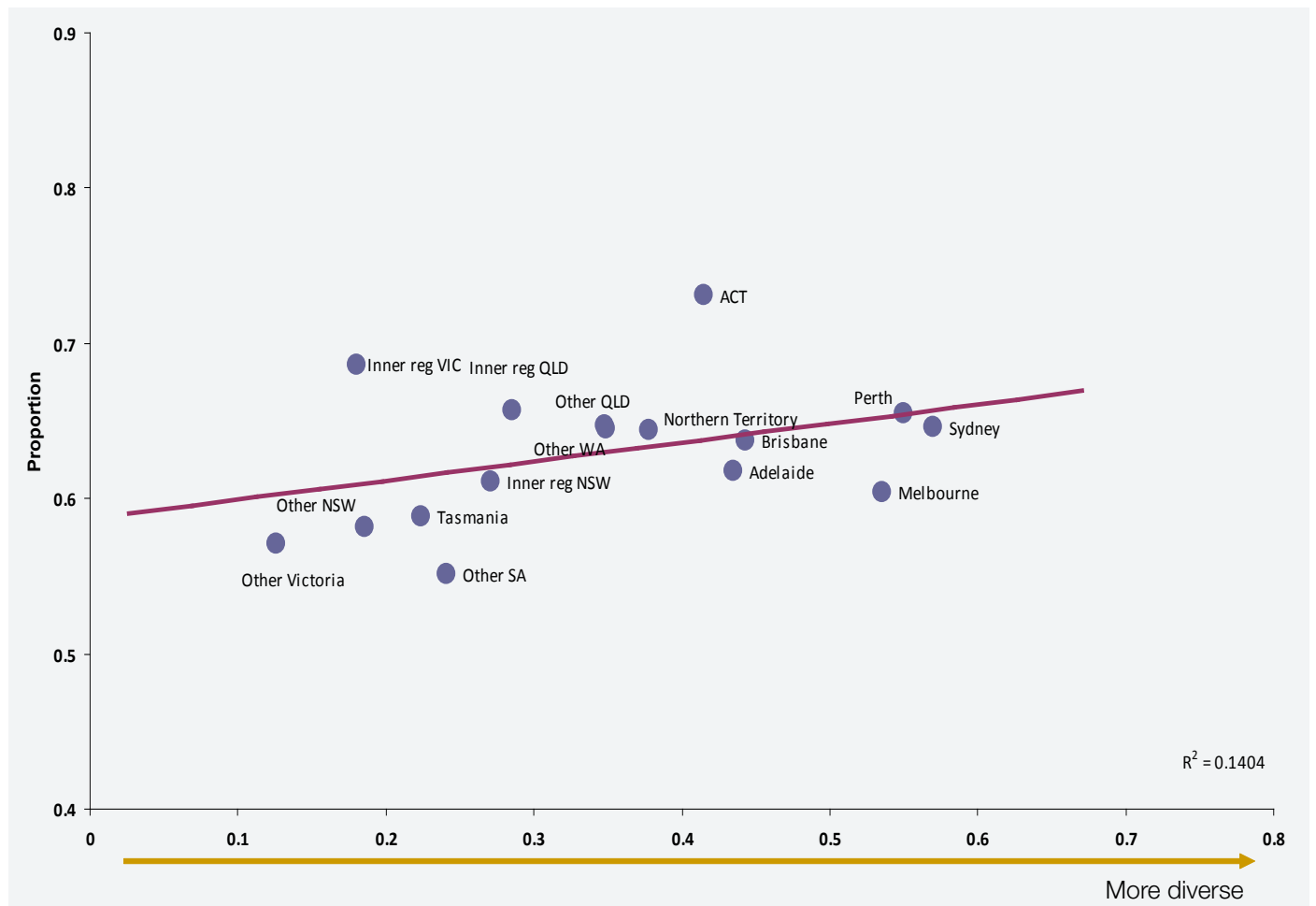
Other measures point in opposing directions.

On what might be termed “bonding and bridging” dimensions, greater cultural diversity is positively associated:

- weakly, with more involvement in social and support groups; and,
- strongly, with more likelihood of friendships extending across ethnic boundaries.

Figure 6

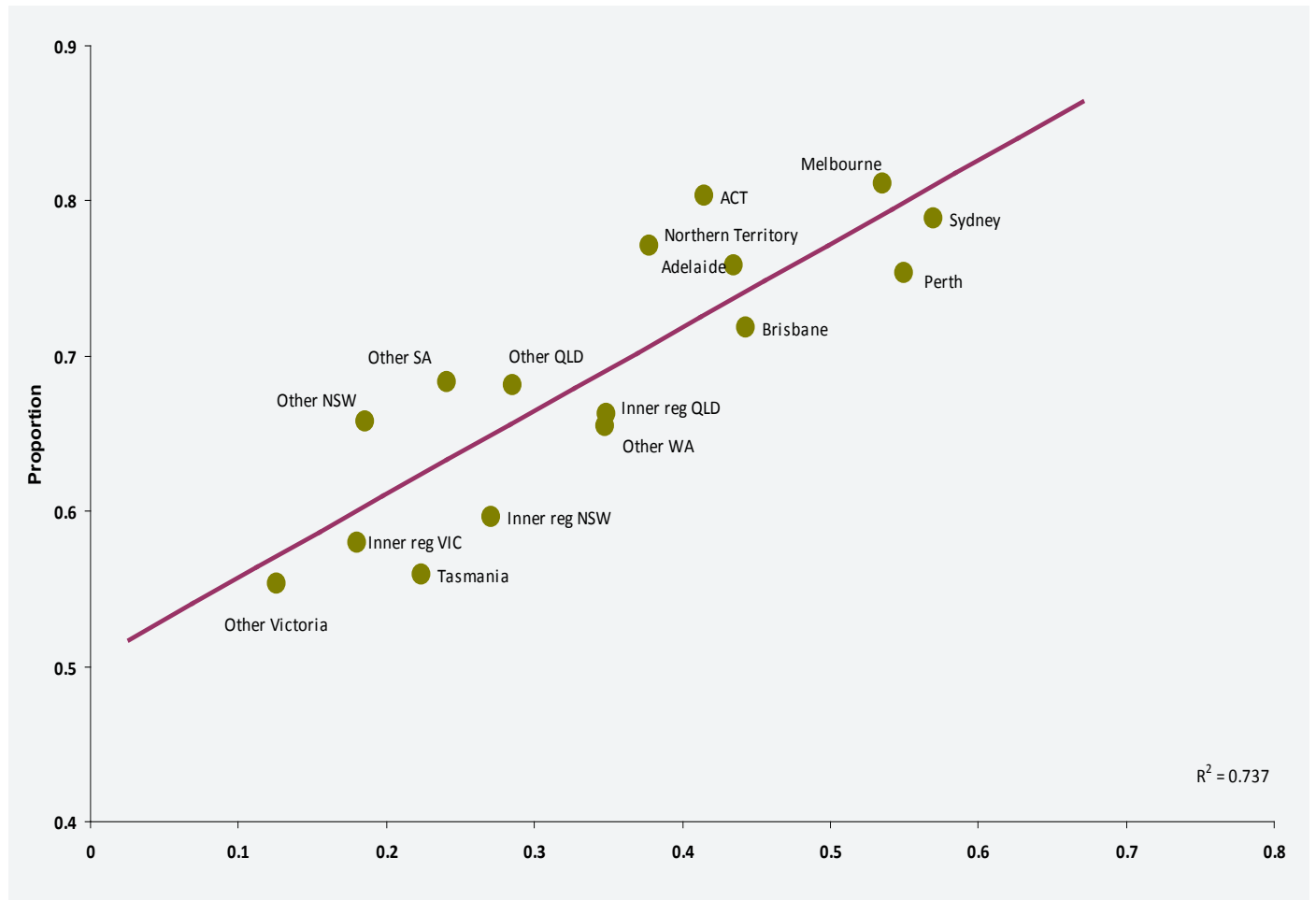
Involvement in social and support groups\*



\* see Appendix for derivation of variables

Figure 7

Likelihood of friendships extending across ethnic boundaries\*



\* see Appendix for derivation of variables

On the other hand, on what might be thought of as “social glue” dimensions, the more diverse the city or region:

- the weaker the involvement in civic activities; and
- the weaker the participation in voluntary activities.

Figure 8

Involvement in civic activities

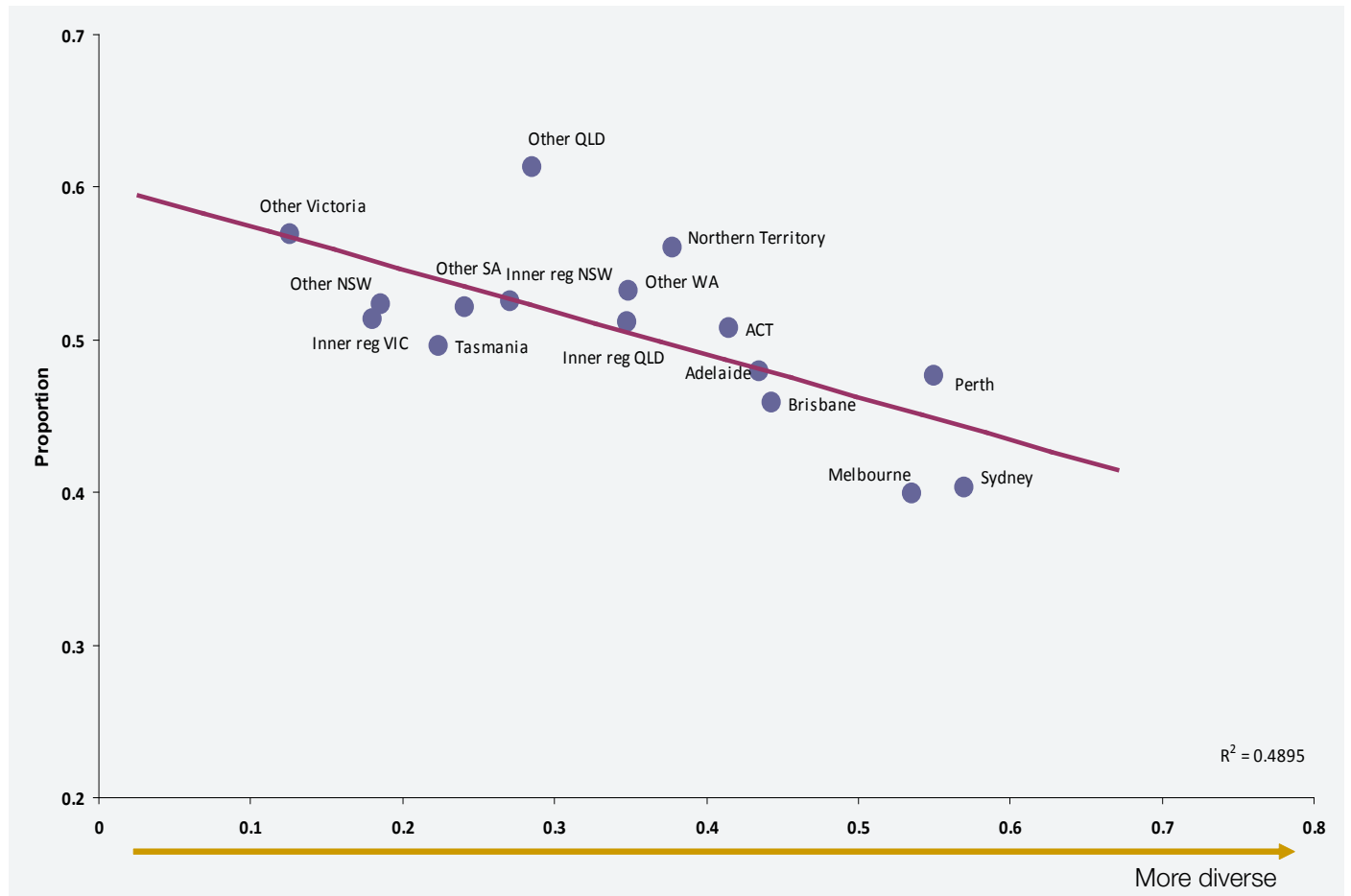
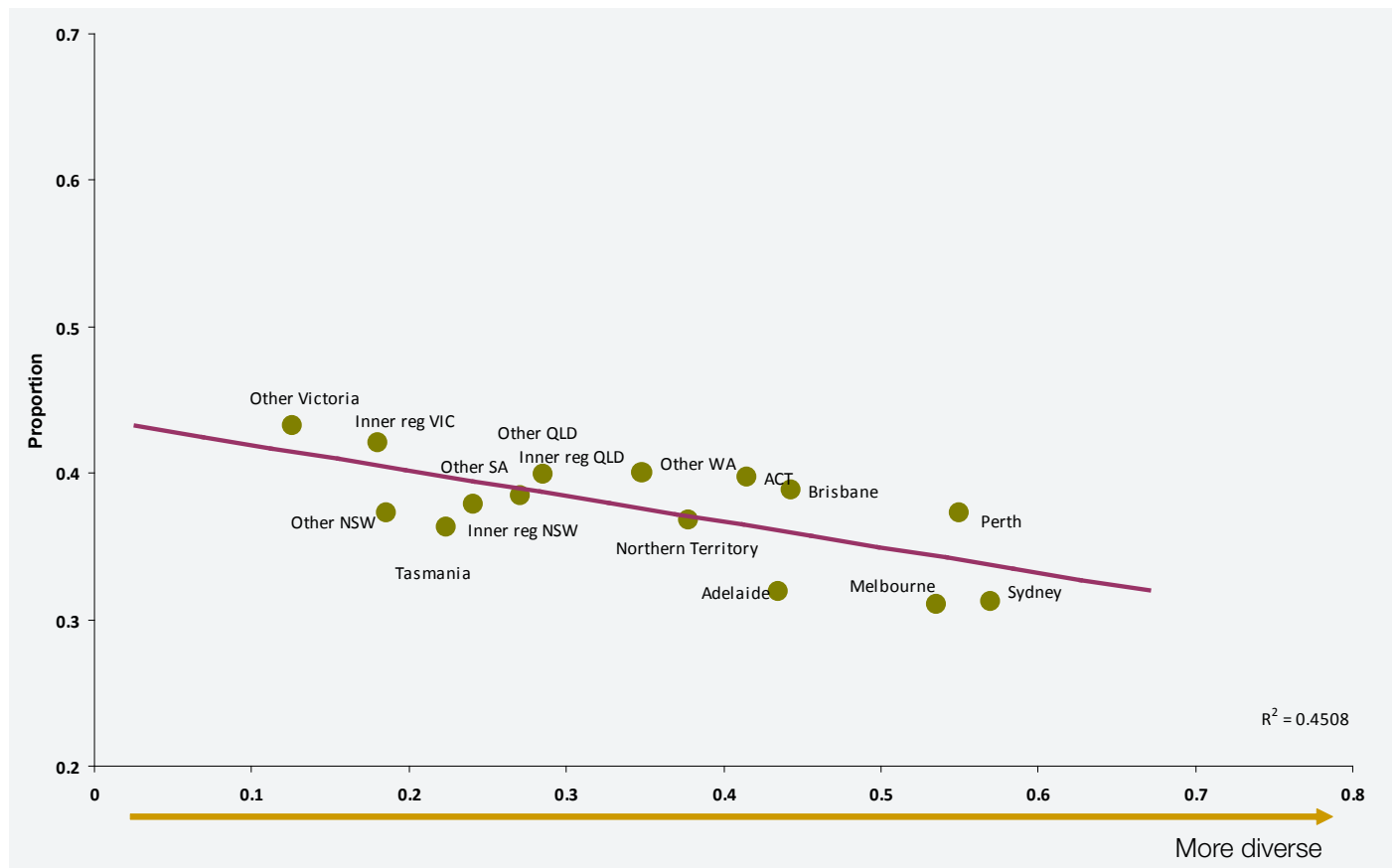


Figure 9

Participation in voluntary activities



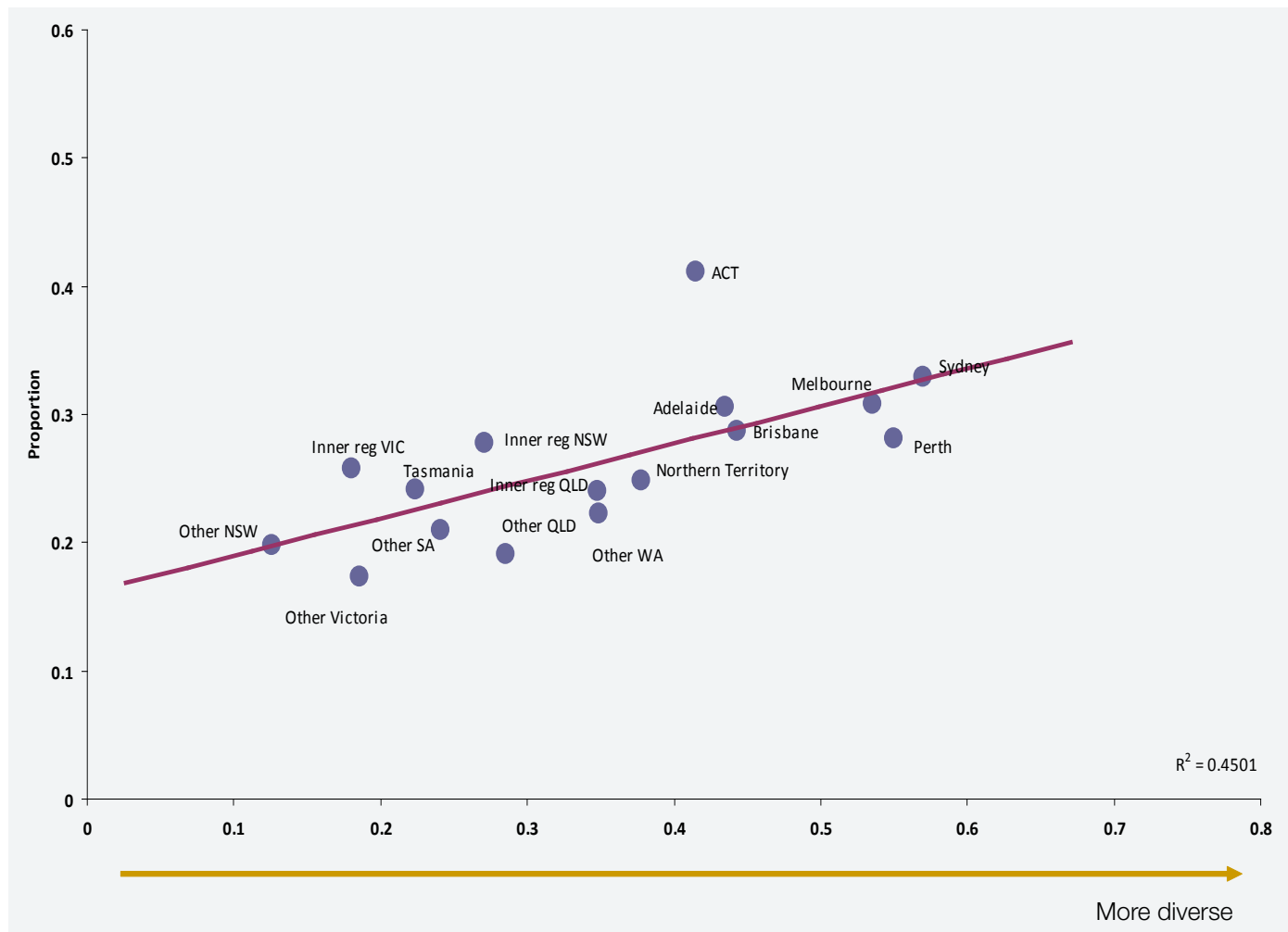
Most likely, this suggests that migrants are, like the rest of us who live in cities, rational and instrumental, placing more effort into what will advance their personal interests than their community interests.

When we examine economic outcomes across the population, we find the greater the cultural diversity:

- no difference in employment rates, but with a much greater chance of being employed as a knowledge (or highly skilled) worker; and,
- the greater the likelihood of being a high income earner.

Figure 10

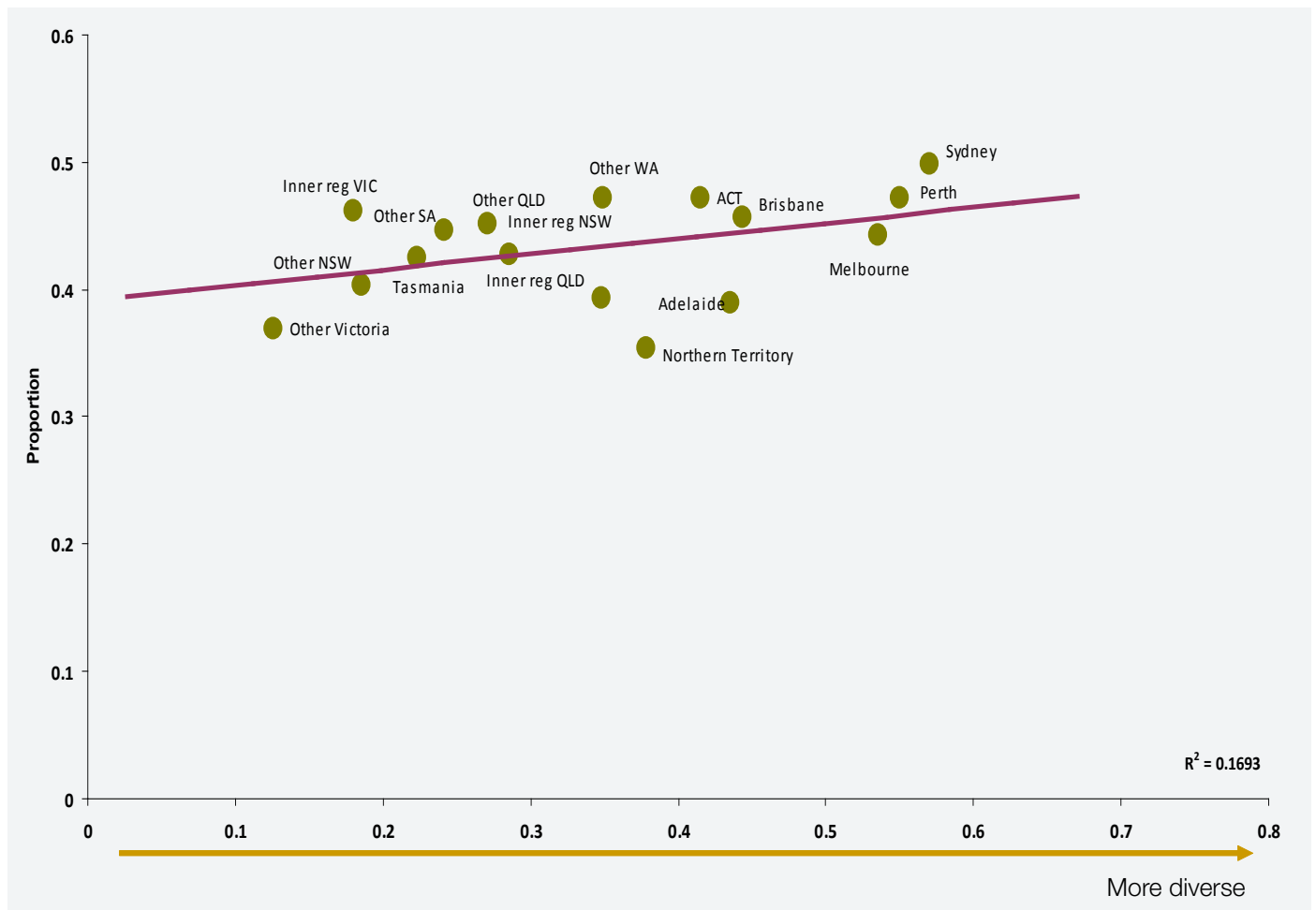
Employment as a knowledge worker\*



\* see Appendix for derivation of variables

Figure 11

Likelihood of being a high-income earner (greater than AUD50 000)\*



\* see Appendix for derivation of variables

Summing up across these different dimensions, the most diverse parts of Australia, our cities, are also the most economically dynamic. Is this something migrants make or something they are drawn to?

When I was first asked to speak on this topic, my mind turned to Richard Florida's *The Rise of the Creative Class*, a book that energised many a local government around the world, not least the City of Adelaide, to think about how it might attract more creative types.

Florida argued that localities which nurtured the 3Ts, those of technology, talent, and tolerance,<sup>9</sup> were those that prospered. Specifically, on tolerance, he claimed:

Places with diverse mixes of creative people are more likely to generate new combinations ... Greater and more diverse concentrations of creative capital in turn lead to higher rates of innovation, high technology business formation, job generation and economic growth.

In support of his argument Florida constructs a number of indices of tolerance which measure openness to gays, to bohemians and to migrants. These are then aggregated together in a Composite Diversity Index. Quite how these three factors coalesce in practice, I'm not sure. More to the point, I'm not convinced about the direction of causality. For migrants at least the research evidence is that causality runs the other way: migrants are drawn by the magnet of economic opportunity. They may add to it, they may enliven it, but they are not a pre-condition for it.

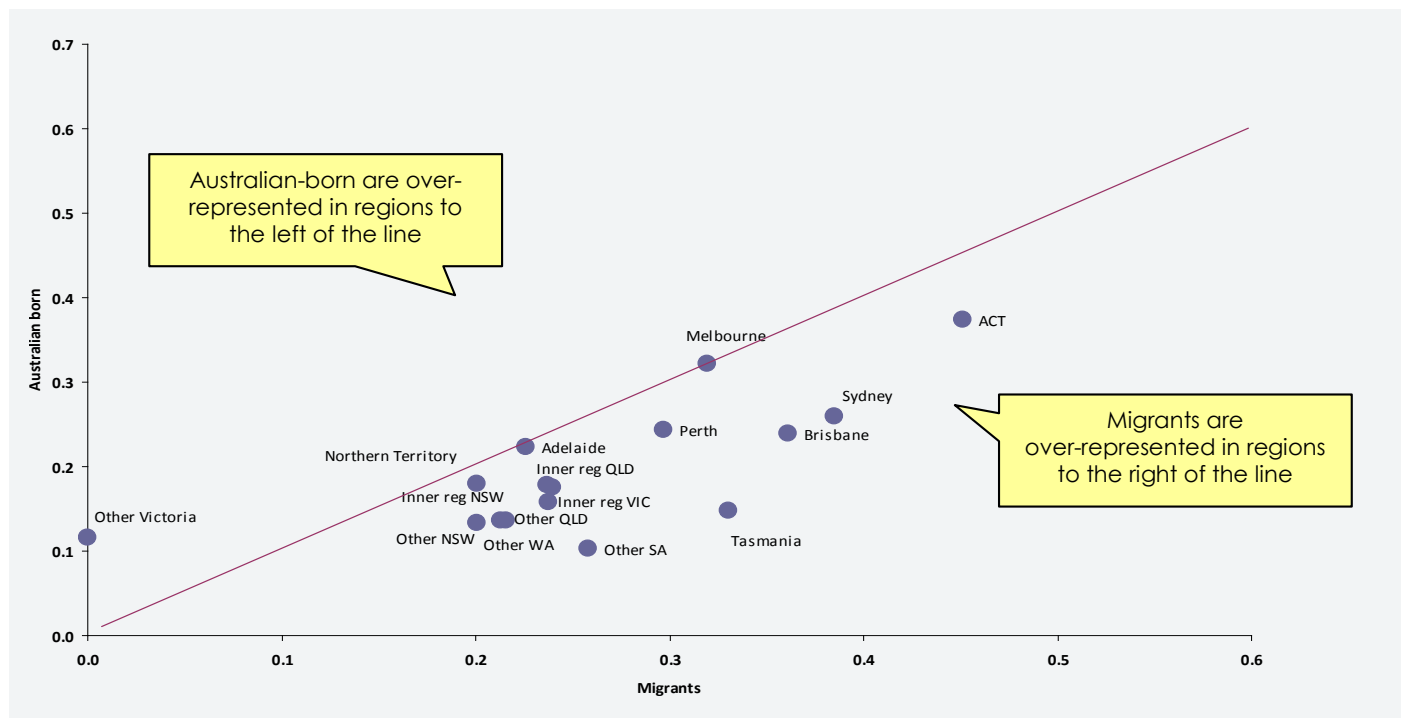
To what extent, though, are migrants adding to, and benefiting from economic dynamism?

My three final charts show:

- migrants with degrees are concentrated in our cities and are clearly over-represented relative to the Australian born – as can be seen from looking at locations lying to the right of the diagonal;
- in many parts of Australia, mostly in the regions, migrants are over-represented among those employed as knowledge workers, but they are under-represented in our two largest cities; and,
- no difference in those attracting high earnings.

Figure 12

Adults (25-64 year olds) with a Bachelor degree or better\*



\* see Appendix for derivation of variables

Figure 13

Employed as a knowledge worker\*

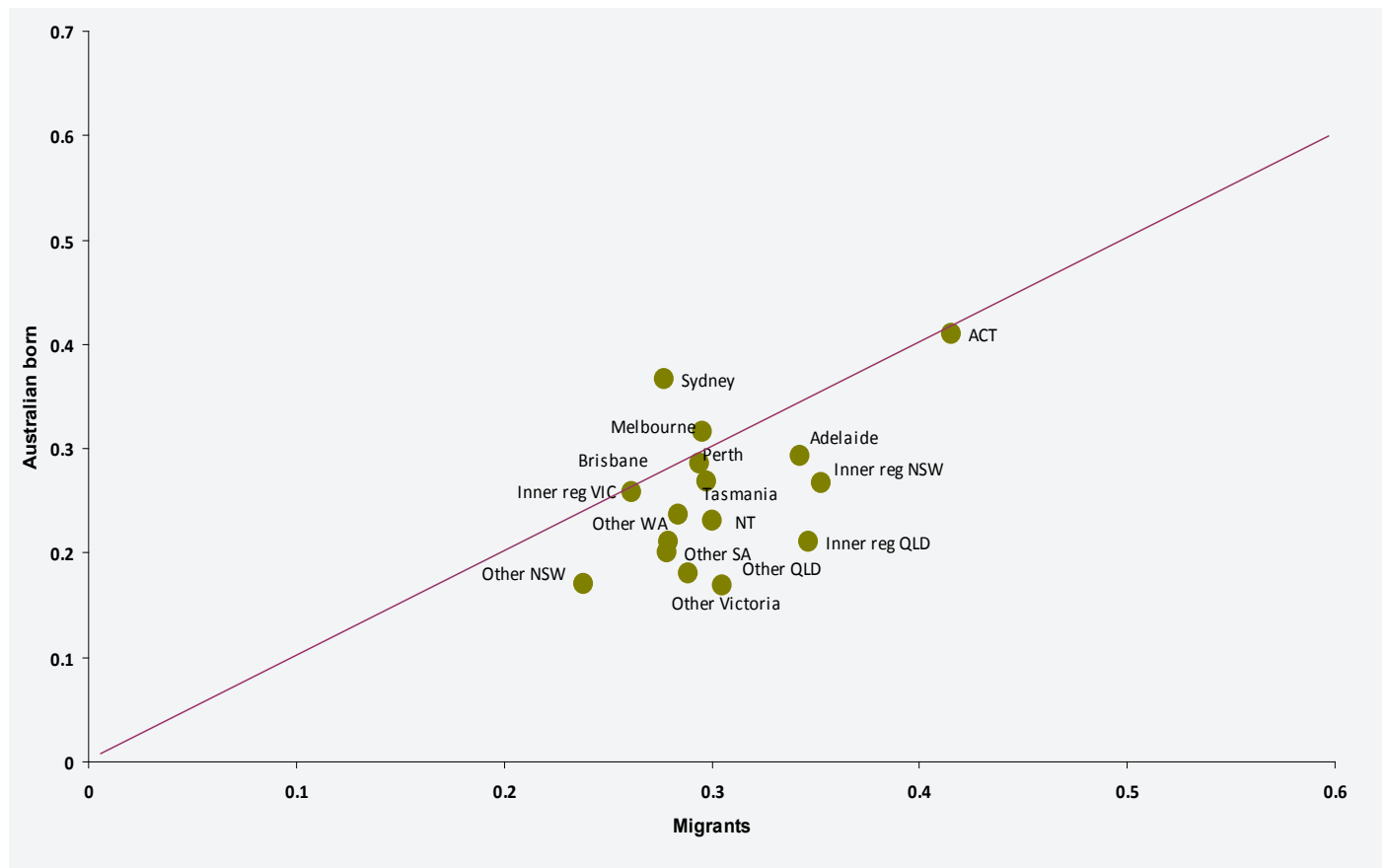
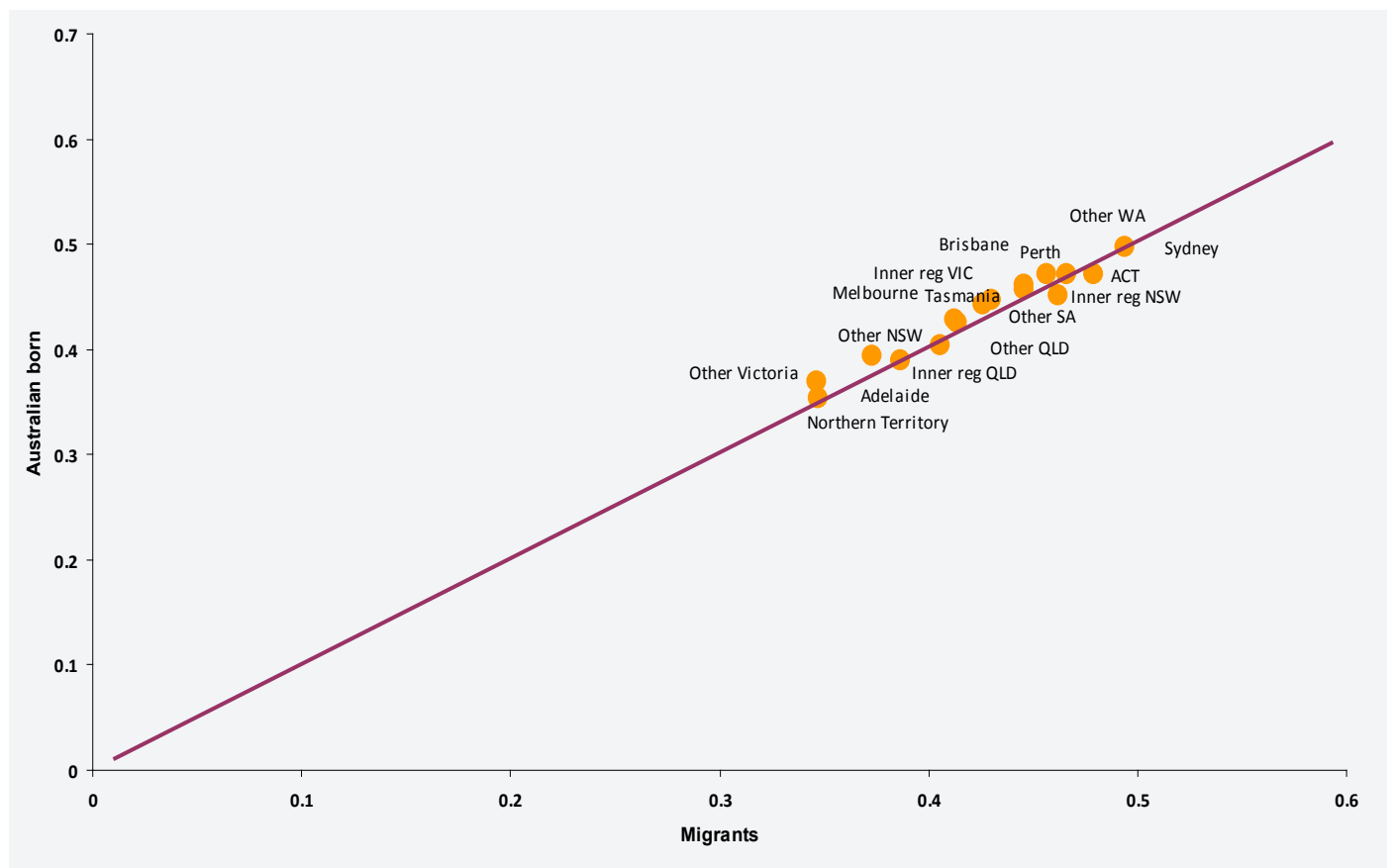


Figure 14

Likelihood of being a high-income earner (greater than AUD50 000)\*



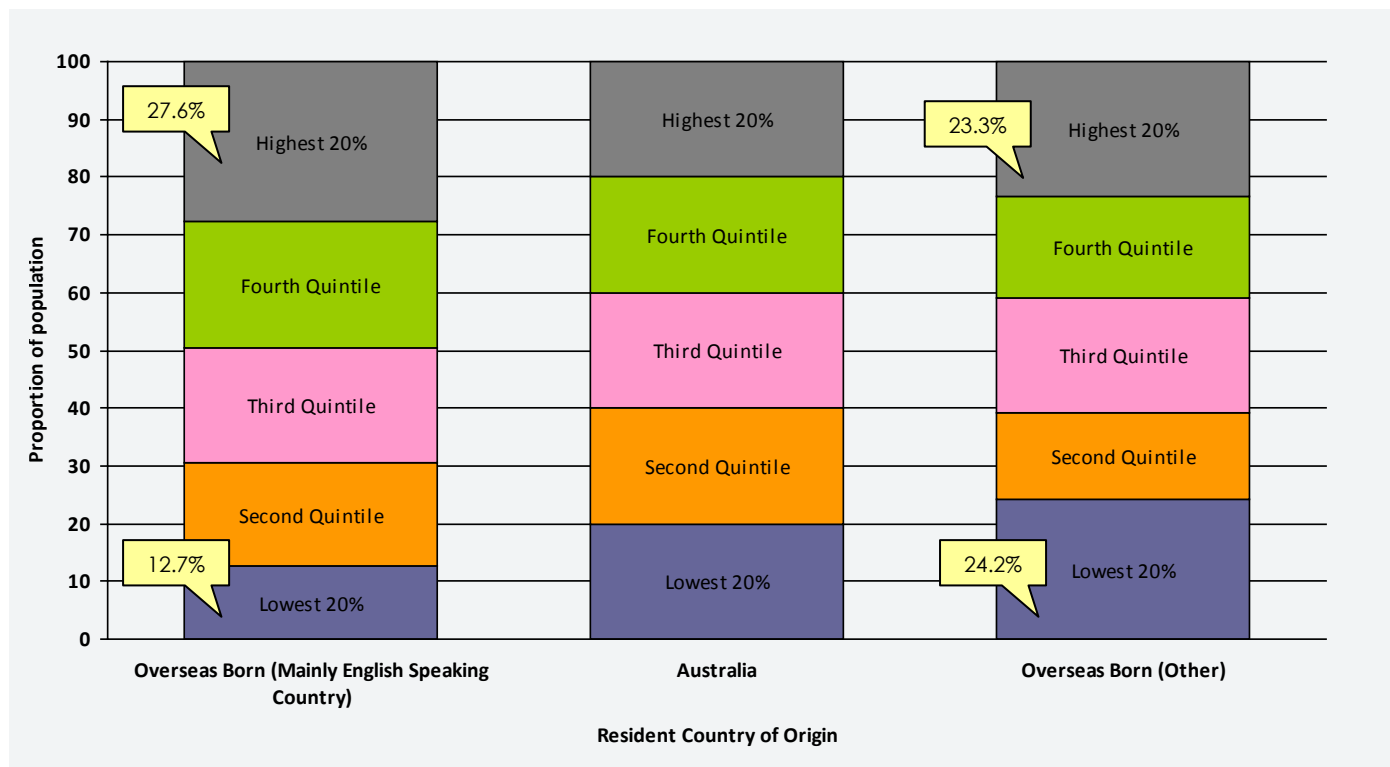
\* see Appendix for derivation of variables

Sydney illustrates the conundrum. After the ACT, Sydney has the highest proportion of adults with a degree, with migrants far more likely (38 per cent) to be degree holders than the Australian born (26 per cent). Sydney also has the second highest proportion of people employed as knowledge workers, but this time the relative standings are reversed. It is the Australian born (37 per cent) in Sydney who are more likely to be knowledge workers than migrants (28 per cent), even though as a whole their educational attainment is much lower.

These charts also disguise important differences in the migrant community, most marked by English speaking background. Migrants who hail from an English speaking country are far better off than the Australian born: 27.6 per cent are in the top socio-economic quintile, while 12.7 per cent are in the bottom quintile. On the other hand, migrants from a non-English speaking background are concentrated at either end, with 24.2 per cent in the bottom quintile and 23.3 per cent in the top.

Figure 15

Proportion of Australian and Overseas Born populations against residing area\*



\* see Appendix for derivation of variables

Put together with the Sydney story, this suggests there are many talented migrants who are missing out on prosperity, and thereby missing out on adding to it.

## Making best use of migrants' talent

Santina Bertone critiques the productive diversity concept for its lack of reciprocity in application: governments and employers wished to expropriate value from migrants' diverse talents, but failed, in her view, to adequately tackle discrimination.<sup>10</sup>

We know that migrants of a non-English speaking background fare less well economically than the native born and less well than migrants born in an English speaking country. In part this reflects proficiency in English and difficulty for some in having overseas qualifications recognised. But there is more to it than that. The evidence, from Australia (and abroad – we are not alone here) also shows discrimination occurs before migrants enter a workplace, and is amplified within it.

Several “mystery shopper” type studies have been done which show that name alone alters the probability of recruitment. The most recent of these, by Alison Booth and colleagues at the Australian National University,<sup>11</sup> involved submitting over 5000 fictional résumés in response to on-line advertisements for entry level jobs. Four different résumés and five different surnames were randomly assigned to each application. For those with Anglo-Saxon names, 35 per cent were invited for an interview compared with 32 per cent for Italian names, 22 per cent for Middle Eastern names and 21 per cent for Chinese names. Put another way, a Chinese person would need to submit five résumés to get an interview, compared with three for an otherwise identical person with an Anglo-Saxon name. They quote a young woman from Sydney who went to some lengths to remedy this:

After completing TAFE in 2005 I applied for many junior positions where no experience in sales was needed – even though I had worked for two years as a junior sales clerk. I didn't receive any calls so I decided to legally change my name to Gabriella Hannah [from Ragda Ali]. I applied for the same jobs and got a call 30 minutes later.

Econometric studies show there is a statistically unexplained difference in earnings between migrants and the native born. Given the pervasiveness of this finding across dozens of studies,<sup>12</sup> researchers reasonably conclude that discrimination is the unobserved and therefore unexplained factor.

The Australian Multicultural Advisory Council, chaired by Andrew Demetriou, has as part of its remit to advise the government on practical approaches to promote social cohesion and stamp out racism and intolerance.

Discrimination needs to catch up with the zeitgeist. We can't afford it. The twin imperatives of globalisation and demographics mean the reality for Australia, and for much of the developed world, is we need to embrace “hybridity”,<sup>13</sup> otherwise we shall wither. Nations that make the best use of their migrants' talents, that capture the diversity dividend, are those most likely to succeed in the 21st Century.

Thank you

## Appendix Definitions of variables used in Figures

Figure	Measure	How the measure was calculated
1	Diversity Comparisons	<p>Using a combination of State/territory and ABS indicators for capital city and remoteness - Australia can be divided into 16 regions, i.e. Sydney, Inner regional NSW, Other NSW, Melbourne, Inner regional Victoria , Other Victoria, Brisbane, Inner regional Queensland, Other Queensland, Adelaide, Other SA , Perth, Other WA, Tasmania , Northern Territory and the ACT.</p> <p>For each of these regions the expanded Confidentialised Unit Record file for the ABS 2006 General Social Survey (i.e. the GSS CURF) shows estimates of people born in the following individual countries: Australia, UK, New Zealand, Italy, Viet Nam, China, Greece, Germany, Philippines and India, as well number of people born in other overseas countries.</p> <p>This birthplace information can then be used to calculate a Herfindahl index as a measure of each region's cultural diversity. For each region this is done as follows:</p> <ol style="list-style-type: none"> <li>1. Calculate the proportion of 18-64 years olds from each of the ten individual birthplaces (above), as well as from other overseas countries. This will give you 11 proportions for each region.</li> <li>2. Square each of these proportions, for example a proportion of 0.2 becomes 0.04.</li> <li>3. Calculate the sum of these squares. This is the Herfindahl index, which will be a number between 0 and 1. The lower the index the more culturally diverse the region. For presentation purposes this figure was subtracted from 1, so that more diverse regions had a higher index than less diverse regions.</li> </ol>
2	Diversity Comparisons (Country Victoria and Sydney)	See description for Figure 1
3	Proportion of young people who have completed year 12	This information was sourced from the variable <b>Highest Year of School Completed</b> which can be found on the GSS CURF.
4	Proportion of adults with a bachelor degree or better	This information was sourced from the variable <b>Highest Educational Attainment</b> which can be found on the GSS CURF.
5	Literacy levels	This information was sourced from the five <b>Document Literacy</b> variables which can be found on the Expanded Confidentialised Unit Record file from the 2006 Adult Literacy and Life Skills Survey (i.e. the ALLSS CURF). Each of these five literacy represents a "plausible literacy score" for that respondent. The value of these variables ranges from a low of 1 (representing level 1 - the lowest literacy level) to a high of 5 (level 5 being the highest level of literacy). For the purposes of this analysis these 5 scores were averaged, and an average score of 2.5 or higher was deemed to be a literacy level of 3 or better.
6	Involvement in social and support groups	This information was sourced from the variable Active involvement in social or support group in the last 12 months by type of organisation which can be found on the GSS CURF. In the GSS, respondents can indicate participation in up to 8 different groups - anyone who participated in at least one of these groups was classified as 'involved' in the analysis.

Figure	Measure	How the measure was calculated
7	Likelihood of friendships extending across ethnic boundaries	This information was sourced from the variable Proportion of Friends of Same ethnic background which can be found on the GSS CURF. Respondents who stated that they either had no friends or only had friends from the same ethnic group were classified as having no ethnic friends, the remainder were classified as having ethnic friends.
8	Involvement in civic activities	This information was sourced from the variable <b>Type of civic activity engaged in, in the last 12 months</b> which can be found on the GSS CURF. Up to 8 activities can be nominated in the GSS - anyone who participated in at least one activities was classified as a participant in the analysis.
9	Participation in voluntary activities	This information was sourced from the variable <b>Whether did unpaid voluntary work in last 12 months through an organisation</b> which can be found on the GSS CURF. Respondents who said yes to this question in the GSS survey were classified as volunteers in the analysis.
10	Employment as a knowledge worker	This information was sourced from the variable <b>Occupation of main job</b> which can be found on the ALLSS CURF. Respondents who indicated that they were working as either professionals or technicians/associate professionals were classified as knowledge workers in the analysis.
11	Likelihood of being a high income earner (> AUD50 000)	This information was sourced from the variable <b>Weekly earnings in main job</b> which can be found on the ALLSS CURF. Respondents who indicated that they were earning more than \$1000 per week were classified as high income earners in the analysis.
12	Australian born to Migrants: adults with a bachelor degree or better	See description for Figure 4
13	Australian born to Migrants: employed as a knowledge worker	See description for Figure 10
14	Australian born to Migrants: likelihood of being a high income earner (>AUD50 000)	See description for Figure 11
15	Proportion of Australian and Overseas Born populations against residing area	For the GSS CURF each respondent's is assigned an Index of Relative Socio-Economic Disadvantage based on their geographic location. This index is represented using quintiles. Thus a person with an index of 1 is living in an area that is among the most disadvantaged areas in Australia - i.e. the bottom 20%. Similarly a person with an index of 5 is living in an area that is one of the most advantaged areas in Australia - i.e. the top 20%. This information was then tabulated against a three category birthplace variable (i.e. Australian born, Born in Mainly English Speaking Countries and Born in other countries).  The category born in mainly English speaking countries captures migrants born in New Zealand, South Africa, the UK, USA, Canada and Ireland.

## Endnotes

- 1 I thank my colleagues David Smith, Sanuki Jayarajah and Slavica Dale for their extensive contribution to this paper, and its title.
- 2 Peter Skerry, 'Beyond Sushiology: Does Diversity Work', Brookings Institution (2002).
- 3 David Law, Murat Genc and John Bryant, 'Trade, Diaspora and migration to New Zealand', New Zealand Institute of Economic Research, Working Paper 4, 2009.
- 4 Australia was the first country in the world to establish an immigration ministry. The Department of Immigration and Citizenship celebrates its 65th anniversary in 2010.
- 5 Paul Kelly, *The End of Certainty*, Allen and Unwin, 1992.
- 6 The Herfindahl Index was devised to measure the level of competition in an industry, based on the extent of market share held by the dominant firm and that by other firms. It has since been applied to other areas where the extent of concentration is of interest. For presentation purposes, I have switched the value of the Index, by deducting it from 1.
- 7 Index scores are computed by summing the squares of the proportion of the population aged 18-74 in the ten leading ethnic groups, and deducting from 1. See Appendix for details.
- 8 The last major workplace survey undertaken in Australia was in 1995.
- 9 Richard Florida, *The Rise of the Creative Class*, Basic Books, 2002, p. 249.
- 10 Santina Bertone, 'Productive diversity in Australia: bureaucratic aspirations and workplace realities', Victoria University, 2002
- 11 Alison Booth, Andrew Leigh and Elena Vargarona, 'Does Racial and Ethnic Discrimination Vary Across Minority Groups? Evidence From Three Experiments', Research School of Social Sciences, Australian National University, June 2009.
- 12 For a recent study which estimates the scale of earnings differentials that can be attributed to racial discrimination see Priscilla Hunt, 'Are Immigrants so Stuck to the Floor that the Ceiling is Irrelevant', Warwick Economic Research Papers, University of Warwick, February 2008. A recent Australian study identifies an earnings penalty to migrants of a non-English speaking background which is attributed to 'limited international transferability of human capital skills': Barry Chiswick and Paul Miller, 'Occupational Attainment and Immigrant Economic Progress in Australia', *Economic Record*, Vol. 84, 2008.
- 13 G Pascal Zachary, *The Diversity Advantage: Multicultural Identity in the New World Economy*, Westview Press, 2003.