



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

**Address**

**‘Migration as a policy tool to manage the global economic crisis’**

**The Australia and New Zealand School of Government**

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Canberra**

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[Slide 1]

**Introduction**

It is a great pleasure to be with you today.

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When I last spoke to an ANZSOG group, in 2007, our economy was bumping up against capacity constraints, we faced significant skill shortages which we were partly meeting with historically high levels of migration, and I was leading a comprehensive program of business and cultural transformation in my department.

Today, it’s a very different story.

We have had:

- the onset of the global economic crisis
- the \$10.4 billion Economic Security Strategy in October 2008, followed by a further \$42 billion Nation Building and Jobs Plan in February 2009, with further stimulus measures in the last budget, and
- an increase in the unemployment rate from 4.3 to 5.8 per cent over the year to June 2009.

We have seen demand for temporary skilled migration fall significantly and the government reduce the permanent skilled migration program for last year, with a further cut this year—this year’s program is 108 100 places.

The key idea I want to leave you with in how we got from then to now is ‘agility’.

And agility is how we will respond in the future to significant upcoming demographic change.

Today, I will outline Australia’s broad skilled migration story of the past few years in which we have moved from addressing skill shortages, to managing the impacts of the global economic crisis and preparing for future demographic challenges.

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Running in parallel to these developments has been the business and cultural transformation underway in my department over the past four years. There are a number of speeches available on our website at [immi.gov.au](http://immi.gov.au) which set out the history of these reforms and I'll be referring to some of these improvements at various points in my presentation today.

Before I get too involved in telling this story, I would like to make few quick points about what constitutes a crisis.

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As you see on the slide, one of the definitions of a crisis is a *turning point*. We shouldn't underestimate the psychological impact when 13 years of uninterrupted growth in demand and growth in the economy fell away as it has over the past year. Many well-established Australian businesses and many workers would have only experienced a growth environment.

Of course, Australia has weathered the global economic crisis much better than most. Nevertheless, one of the primary impacts to date has been a loss of certainty and a corresponding loss of confidence. As Franklin Roosevelt said in 1933 'the only thing we have to fear is fear itself'.

The Treasurer recently picked up on a comment by Westpac Chief Economist Bill Evans who said:

'the success which the government's stimulus package has achieved in boosting confidence will be a lesson to other governments ...the key is not the direct impact of increasing spending capacity...the key is to restore confidence'.

The Treasurer concluded 'it is this impact on confidence—both consumer and business—which has made our stimulus greater than the sum of its parts'.

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Australia's skilled migration programs have been closely managed for more than six decades to fill skill shortages and support the nation's economic activity and growth. The Snowy Mountains Scheme and the post-Second World War boom are two of many examples. The slide shows the last quarter of a century of careful adjustment of the skilled migration program (in green) to support our economic needs and objectives.

And as a department with around 100 offices across the globe, we are directly plugged into the world economy. The pool of skilled migrants we draw on comes from all parts of the globe, and we see changes in the global economy very quickly in the applications we receive to work or migrate here.

This means that the loss of confidence in the Australian economy after 13 years of growth and the current uncertainty in the global economy, translate into a loss of certainty in the operating environment for my department.

This uncertainty is having significant external and internal impacts on the organisation of 7000 or so staff that I lead. As I said, we are seeing changes in the pattern of migration applications across the globe and variations in demand and target numbers for our various skilled visa categories. This means we have to be flexible and agile in our processing operations and adjust our staffing workloads and locations accordingly. On this point, we are currently needing to be extremely agile in responding to irregular maritime arrivals so that we can assess their personal circumstances and resolve their immigration status quickly.

There have been a range of estimates over the past year for how high the unemployment rate may go as a result of the crisis. This is of particular concern for the number of visas we issue for overseas skilled workers to visit or migrate to Australia. The government's view is that their priority is to provide training and job opportunities for Australians. So we need to be ready to tailor our visa programs to reflect the unemployment rate, while still filling skill shortages in key occupations such as IT, health and engineering.

We have also considered the potential for the global economic crisis to have an impact on social harmony and cohesion, with funding available for community projects to address issues at a local level. Thankfully we have avoided the sort of unrest over foreign workers which caused strikes in Britain at the start of the year.

The welfare of international students has also been high on our agenda, recognising the obligation we have to support students to have a positive and fulfilling educational, social and cultural experience in Australia.

At the same time, my department is decreasing in size as an organisation, partly due to reduced funding linked to the reduced skilled migration program and the drop in temporary 457 visa demand which I shall discuss shortly.

So there are challenges on many fronts. I don't believe we are in the middle of a crisis as a department, but we certainly see a key role for ourselves in helping to support the nation to respond to the global economic crisis.

And *agility*—meaning having and deploying a flexible capability to achieve desired outcomes quickly—is the key to managing the uncertainty we face as a department at this time.

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I mentioned the business and cultural transformation I have led in my department over the past four years. Through substantial initiatives in cultural change and training, improved business systems, globally consistent processes, leadership development and many other areas, we have built an organisation much better placed to respond to the external and internal challenges I've already identified.

We are much more able to synthesise the expertise and insights from our different business units and teams across the globe to respond quickly to changes in our operating environment and develop proposals and responses that lie outside the boundaries of current activity.

Importantly, as a much more unified and integrated organisation we have a greater capacity to look forward and anticipate future changes in our strategic and operating environment. These are the capabilities that gives us the power of agility.

Let me tell you the story of how we have responded to the challenges of the global economic crisis and are preparing for significant demographic change.

### **Skill shortages and the global economic crisis**

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To understand this, we need to wind the clock back to the days of capacity constraints and widespread skill shortages. It seems a long time ago now, but I am talking about the first half and middle of last year! At this time, the constraints on the capacity of the economy to expand were a significant concern for the government.

And as mentioned, the government's view on filling skill shortages through migration is that their priority is to provide training and job opportunities for Australians. Our Minister, Senator Chris Evans, issued a media release a month ago to reinforce this point once again and outline new measures to ensure temporary skilled overseas workers are not employed ahead of local workers or used to undermine Australian wages and conditions.

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The slide gives an insight into the extent of the department's visa-related activities in 2007-08—the last full year of strong economic growth. The economy was chafing at capacity constraints and so were we in the Department of Immigration and Citizenship! There were very high intakes and caseloads across the categories of permanent and temporary skilled migration, working holiday makers, students and other visa classes.

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The next year, in 2008-09 the permanent migration planning levels were higher. The total permanent migration outcome was just more than 171 000 places, comprising a skill stream of nearly 115 000 places and more than 56 000 places under the family stream. The family stream meets broad social and family reunion objectives, with approximately three quarters comprising partners of Australian citizens and permanent residents.

The level would have been higher again except for the government's decision in mid March to reduce the permanent skilled migration program planning level by 14 per cent from 133 500 to 115 000 in light of the economic situation.

This was squarely aimed at protecting local jobs while ensuring that businesses and employers could gain access to skilled professionals in industry sectors still experiencing skill shortages.

The 2008-09 skill stream outcome of about 115 000 places accounted for 67 per cent of the total migration program and met the government's objective of targeting the needs of Australian industries and employers.

For example, the employer-sponsored component made up 33 per cent of the skill stream compared to 22 per cent in 2007-08 and 17 per cent the year before that.

The planning level for the skill stream of the 2009-10 migration program has been set at 108 100 places. This reflects a further softening and is on par with the skill stream outcome achieved in 2007-08.

We need to recognise that the actual outcome in 2009-10 may be lower than 108 100 because this is a ceiling, rather than an allocation. We rely on sufficient numbers of suitable workers to apply and we are in competition for these skilled workers with every other nation.

At the same time, I take some heart from recent statements by the Governor of the Reserve Bank, Glenn Stevens, which give a sense of cautious optimism for the future.

While we have increased the employer-sponsored component of the permanent skilled program in recent years, the non-sponsored element is still a strong contributor to our ability to fill skill shortages.

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One of the mechanisms we use is the Migration Occupations in Demand List or MODL.

Since its introduction in 1999, the MODL has been the primary targeting mechanism to select skilled migrants from the pool of visa applicants.

Applicants whose occupation is on the MODL get additional points to count towards reaching the points threshold for approval under a specific skilled visa class. These points add to those already accrued through English language proficiency or familiarity with the Australian labour market, or other strengths.

The Minister for Immigration and Citizenship takes advice from the Minister for Education Employment and Workplace Relations on which occupations to include on the MODL. This advice is in turn based on research undertaken by her department which includes wide consultation, including a survey of employers who have recently advertised for workers in skilled occupations and an analysis of a range of occupational supply and demand factors for each occupation.

However, the MODL is not as flexible as we would like to address a rapidly changing and uncertain global environment. In my view, one of themes of this century will be the increased mobility of people around the globe, and we need to manage this adroitly.

For example, there are significant lead times between evidence of an occupation being in shortage and the time migrants enter the country under that nominated occupation. This can be of the order of two years at which point it's possible the occupation will no longer be in shortage!

At the start of this year, our minister introduced a series of reforms to tightly target the skilled program to our needs during this period of weak labour demand. These reforms included further shifting of the focus of the program to employer and state sponsored migration.

Among the changes was the introduction of a Critical Skills List or CSL, so that unsponsored applicants whose nominated occupation was on this list were given priority ahead of other applicants.

It was supported by labour market research undertaken by the states and territories and reflects the differing regional economies that have emerged across the country. The demand for skills in the mining and petroleum regions of north-west Western Australia is very different to the skills needed in Hobart or regional NSW.

The Critical Skills List gave us increased flexibility. For example, in March, building and manufacturing trades were removed from the Critical Skills List, such as bricklayers, plumbers, welders, carpenters and metal fitters. As a result, the list now comprises mainly roles in the health and medical, engineering and IT professions. The minister has emphasised that the Critical Skills List will remain under constant review with the government removing occupations from the list if demand for those skills can be satisfied by local labour.

While this has been effective, the MODL and CSL are still fairly blunt instruments to manage what can occasionally be quite rapid variations in the demand for skilled labour. To address this need for flexibility in the longer term, we are undertaking a review of the MODL aimed at developing a better link between skilled migrant employment outcomes, the national training agenda and the work of Skills Australia. We want to ensure our skilled migration programs are responding to longer term skill needs which cannot be addressed through domestic training and skills development.

The question then is how we can best address shorter term labour market requirements.

The temporary 457 business visas allow approved Australian or overseas businesses to sponsor skilled overseas employees to fill temporary vacancies for up to four years. These are perhaps a more useful tool for adjusting to rapid labour market changes and future uncertainty.

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Since the global economic downturn began there has been a significant drop in 457 visa numbers. (In the slide, *primary* refers to the skilled applicant and *secondary* refers to their spouse and dependents. Often the dependents are of working age and add to the economic contribution of the primary visa holder.)

A key point is that the 457 program is demand driven. During the 13 year boom, there was generally annual growth in demand for the visa, with exceptions for the dot-com crash about a decade ago and the most recent 2008-09 program year.

This reflects the capacity of the 457 visa to act as a bit of a barometer for unsettled weather in the global and Australian economies.

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So at the beginning of 2008-09, when Australia still had relatively low unemployment and demand for Australian resources was strong, demand for 457 visas was high. The number of applications at September 2008 was 24 per cent higher than a year before.

After September 2008, there was a clear downward trend in the demand for the Subclass 457 program, and the number of 457 visa applications received in June was 40 per cent lower than the number of applications received in September 2008.

This reduction is even more pronounced when we see the number of offshore applications had fallen by 51 per cent from June 2008 to June 2009.

Onshore applications relate to 457 visa holders in Australia extending their stay with their existing employers or changing employers, as well as those on other visas in Australia moving to the 457 visa program. The number of onshore applications held up until March as employers retained their existing workforce. However, since March, onshore applications have also declined significantly, down 35 per cent in June compared to the previous year.

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This slide showing job advertisements measured by the ANZ Bank against 457 visa applicants over the past six years shows the close interaction of the 457 visa program with the domestic economy.

This means we need to be very careful about how the program impacts local workers and we also owe the workers who accept visas a fair and productive stay in our country. The increase in temporary visa numbers in recent years only reinforces the need for a well regulated and administered program.

In April, the minister announced reforms designed to level the playing field for overseas and Australian workers while streamlining processes for low-risk, high volume users of the program and ensure that those who are most vulnerable are not exploited.

These reforms included the implementation of formal skills assessments and an increase in the English language requirement for trade occupations, as well as a requirement that employers of temporary overseas workers attest they have a strong record of—or demonstrated commitment to—employing local labour and non-discriminatory employment practices.

In the department, we have also recently introduced 457 visa centres of excellence to provide faster and more efficient processing of primary applications.

Overall, we have a range of options to respond to the global economic crisis and to flexibly fill emerging or ongoing skill shortages. We are also undertaking reforms to the student visa program in conjunction with the Department of Education Employment and Workplace Relations and other groups to improve its effectiveness.

I should mention the spike in the 457 visa applications on the slide at June 2007. This corresponds to a more stringent English language requirement which came into force on 1 July 2007, and people applied to get in ahead of the change. This is a good illustration of how responsive employers and applicants are to changes in the program and the criteria for visa grants.

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To put all this in perspective, let me set out the key policy priorities developed to underpin the preparation of the skilled migration element of the 2009-10 Budget for the portfolio.

These were to:

- respond quickly to short term changes in demand
- augment long term skill needs
- address integrity and exploitation issues in key labour market programs such as the 457 visa program, and
- optimise our long term demographic and economic future

The slide shows a few of the more significant initiatives covered in the budget to respond to the first three priorities.

### **Optimising our long term demographic and economic future**

The last point—optimising our long term demographic and economic future—is a question we are giving much thought to in the department.

The issue is to look beyond the current skill shortages and the global economic crisis to lay down a solid long term planning framework in which migration provides the optimum boost to nation-building and filling future skill shortages.

One of the key outcomes from the four year business and cultural transformation we have undertaken is to build our evidence base for just these sort of decisions. So last year, I appointed a Chief Economist so that we can contribute more fully to debates about economic issues and I have also established a Policy Innovation and Research Unit to strengthen our evidence base across a broad range of issues.

On a related matter, it was a significant development that the Australian Government Budget for 2008-09 was the first one to include the revenue impact of migration, demonstrating that migration contributes to the bottom line.

In looking to the future, we should bear in mind migration has played a significant part in providing the population and building the nation we have today. The permanent migration of some seven million people since 1945, has resulted in nearly half of all Australians having been born overseas or having at least one parent who was born overseas.

Migration will be no less important in the decades to come.

Australia's population is ageing because of many years of below-replacement fertility rates and increasing longevity. As a consequence, in the near future more Australians will begin to retire than join the labour force. From that point, immigration will be the only source of net labour force growth.

A reasonable level of labour force growth is essential because it will reduce the ‘dependency ratio’ of people 65 years and older compared to those of working age (15-64). Treasury’s Intergenerational Reports have highlighted the very significant increases in health and welfare expenditure we face over the next forty years, arising in part from the ageing of our population. These reports have also identified the contribution of the three “P’s” of productivity, participation and population to address these future challenges.

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Well-targeted skilled migration can make a significant contribution to all of these as:

- it adds to the number of people of working age (population)
- it increases the proportion of people in work (participation), and
- GDP per capita is raised (productivity).

The greatest contribution, relative to other migrant streams, is productivity, as the higher the quality of immigrants, the greater the gain in productivity.

Up to now, I have been talking about inbound migration, but the fact is a significant number of people leave this country to take up opportunities overseas. In the past, this was called the ‘brain drain’—now we recognise the benefits and inevitability of movement as a result of having a highly skilled and in demand workforce.

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This slide shows you what we call net overseas migration or NOM, which takes into account a number of factors including Australians returning from overseas, skilled workers coming to Australia on temporary visas and foreign students and visitors who have been in Australia for a period of greater than 12 months.

[Slide 16]

And this is a slide I showed you earlier but now demonstrating the movement of people in both directions in these broad visa categories.

Some demographic and econometric analysis by Professor Peter McDonald of the Australian National University indicates that long term annual net overseas migration averaging between 150 000 and 230 000 will contribute most to the dependency ratio over the next forty years.

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Long term net overseas migration much lower than this range would incur considerable opportunity costs. NOM consistently higher than this range, while it would result in a bigger population, would have little additional impact on the dependency ratio.

The key point to recognise is that while immigration can partly attenuate the effects of an ageing population, it cannot hold back the tide.

Based in part on this analysis, the government is moving to develop a long term immigration planning framework. Within the framework, it will be important that the skilled migrants we choose are not only young and healthy but also have a high level of education, language proficiency and other skills. This will ensure that skilled migration contributes both to labour force growth and to the productivity of our labour force.

Thus the proposed reforms to skilled migration selection, including the review of the Migration Occupations in Demand List, are taking place within a larger and longer term demographic, economic and environmental context.

In the most recent Budget, NOM was estimated for 2008 as 260 000. Current selection policies, which encourage large scale permanent migration of applicants, many with low value skills, not only make an inefficient contribution to current labour force supply, they may also potentially expand NOM to unsustainable and undesirable proportions.

If NOM were to continue at its current level over the long term, we might not only incur population growth above what is optimal for the dependency ratio, we might also be increasing the population at an environmentally challenging rate. To examine this issue further, my department has commissioned research into the relationship between population growth under a number of NOM scenarios and Australia's built and natural environment.

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When our immigration and population future is discussed, several key issues are usually raised:

- labour force and economic growth
- the environment, including water, land use, food production, biodiversity, greenhouse gases and other airborne pollution
- urban development, infrastructure and amenity, and
- population growth and distribution across states and territories and between metropolitan and regional Australia.

This slide shows some of the assumptions made in the past about net overseas migration and details some of the uncertainty and the wide-ranging implications of these assumptions.

Against this background, the goal of the long-term migration planning framework is:

‘To ensure that immigration contributes to an optimal balance between Australia's population, labour market, economic, environmental and urban and regional development outcomes over the period to 2050.’

### **Conclusion**

One of the senior leaders in my department describes our challenge as driving a car with your foot on the accelerator for thirteen years straight. Suddenly, there are rocks on the road but you also know that the road is clear on the other side. So rather than bring the car to a halt, you tap the brake and steer cautiously through the rocks, ready to press the accelerator again when you are through the uncertainty.

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In summary, we are working towards immigration and citizenship programs that:

- encompass and balance the total contribution of temporary and permanent skilled migration
- contribute towards long term economic, demographic and environmental objectives
- are responsive to short term changes in the business cycle
- put migrants with critical skills into jobs that cannot be filled locally
- support employers, states and territories to directly sponsor skilled migrants faster and with greater flexibility.

These are not easy balances to find, and we will need to work cooperatively with all levels of government, industry, academia and the community to find the productive path that provides this optimal future.

We are looking forward to the task!

Thank you.