

THE ECONOMIC IMPACT OF 2000/01 MIGRATION PROGRAM CHANGES

This report was prepared for the Department of
Immigration and Multicultural Affairs by
Econtech Pty Ltd

12 February 2001

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Executive Summary

The Department of Immigration and Multicultural Affairs (DIMA) commissioned Econtech to update its earlier report of March 1998 on the economic impact of changes in the migration program since 1995/96. This includes the effects on demographic outcomes, living standards, employment and unemployment, and individual industries and states.

Main Findings

The changes to migration policy implemented since 2000/01 will gradually lead to higher living standards. By the year 2007/08, annual consumption per head is conservatively estimated to be 0.96 per cent or \$257 higher than if the old migration policy in 1995/96 had remained in place.

Underlying this gain in living standards is a shift in the migration program towards migrants who have desired attributes such as higher skill levels, strong English language skills, greater levels of wealth or aged between 20 and 45. This has been brought about through the following policy measures:

- a reduction in the Family intake partly due to capping of the parents component;
- increases in the Independent and Business Skills intakes; and
- changes to selection criteria for the Skilled Australian Sponsored and Independent intakes.

2. Recent Developments

Since 1995/96 there have been significant changes to migration policy to increase its economic focus. The level of Family migration has been cut, and Skill Stream migration and the general points tests have been refocused on employability attributes.

As shown in Chart 1, the Family intake, which is low-skilled, has dropped from 39,000 in 1995/96 to 23,000 in 2000/01. This is partly the result of the capping of the parents component. Over the same period, the greater focus on skilled migrants led to the increases in the intake for the Independent and Business Skills categories shown in Chart 1.

Other parts of the migration intake are driven by overseas demand or other factors rather than policies of the Australian government. One of these other factors is an actual and expected increase in asylum seekers onshore found to be refugees. This has resulted in the Humanitarian program intake offshore dropping by 5,000 migrants in 2000/01.

Non-program migration, mainly New Zealanders with an automatic right of entry, has risen from 18,000 to 33,000 and is not considered further in this report.

Skill Stream migration and the general points tests have been refocused on employability attributes explaining the increase in the skill levels of the Independent and Skilled Australian Sponsored shown in Chart 2. These changes meant that as a minimum, all applicants have to be less than 45 years of age, have vocational level English and have recognised skills (usually a qualification) for an occupation on the Skilled Occupations List (SOL). In addition, all applicants with the exception of recently Australian qualified students must have work experience in an occupation that appears on the SOL.

As shown in Chart 3, the age structure of the migrant intake has shifted towards the 20-45 age group to boost economic growth now and in the future. The age structure has been changed through the changes in points tests mentioned above, the capping of the costly parent component of the Family intake, and the increase in the level of the Independent intake.

Chart 1: Changes in Settler Arrivals

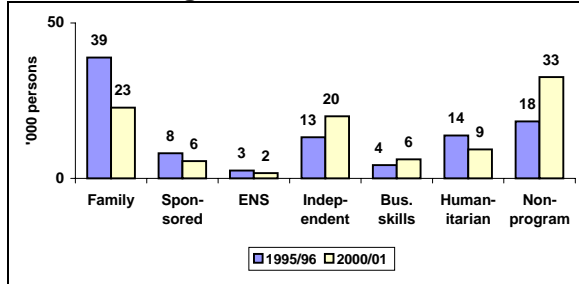


Chart 2: Changes in Migration Skill Index

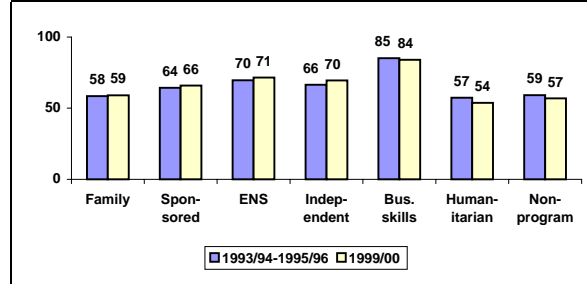
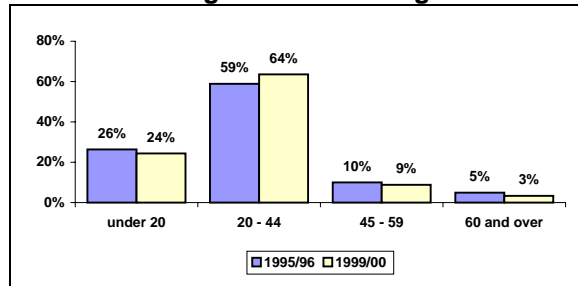


Chart 3: Changes in Arrivals Age Structure



3. Migration Program Scenarios

An Old Policy Scenario was simulated as a point of reference. It excludes changes in migration policy since 1995/96 by taking the migration policy that was in place in 1995/96 and continuing it to 2007/08. For this purpose, “migration policy” is defined to cover all categories of settler arrivals other than Non-program migration. That is, it covers all program migration and is measured in arrivals.

A total of three scenarios were then simulated to represent versions of the new migration policy. The results were compared with those from the Old Policy Scenario to analyse the economic impact of changes in migration policy since 1995/96. The scenarios for the versions of the new migration policy are labelled as Scenario 1, 2 and 3.

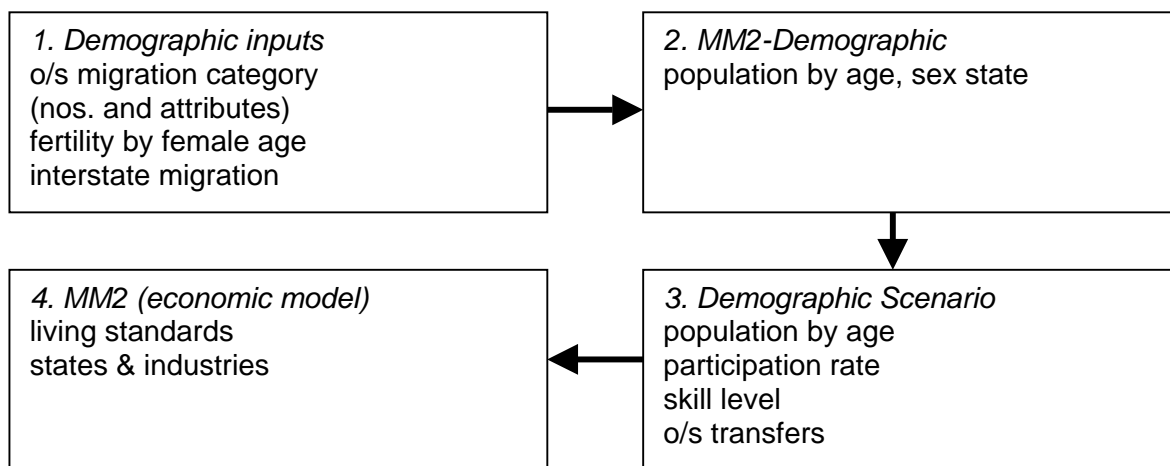
In Scenario 1, the migration policy that was in place in 1999/00 is continued to 2007/08. The results for 2007/08 under this policy scenario are then compared with the results for the same year under the Old Policy Scenario to assess the medium-term economic impact of the changes in migration policy that occurred between 1995/96 and 1999/00.

Scenario 2 is similar to Scenario 1 except it is based on the migration policy that was in place in 2000/01 rather than 1999/00. Again it is compared with the Old Policy Scenario to show the medium-term economic impact of the changes to migration policy that occurred between 1995/96 and 2000/01.

Scenario 3 varies Scenario 2 by also factoring in the previously proposed new permanent visa class for aged parents which was rejected by the Senate in November 2000.

Following the same modelling approach as in our earlier report, to make these economic assessments the modelling framework depicted in Figure 1 is used. In step one, the demographic inputs are revised to reflect the migration policy that is being modelled. In step two, these revised demographic inputs are fed into a detailed demographic model known as MM2-Demographic. In step three, a demographic scenario is extracted from the results. In step four, this demographic scenario is fed into a model of the Australian economy known as MM2. By this four-step procedure, estimates are produced of the economic effects of different migration policies.

Figure 1: Modelling Framework



4. Demographic Scenarios

The Old Policy Scenario and Scenarios 1-3 for the new policy are each based on their own assumptions about the migration intake. This involves using data drawn from the old and new policy regimes to vary the numbers of people in each migration category, the skill level for each migration category, and the age structure applied to permanent and long-term arrivals of each gender, as in step one of Figure 1.

The data being used for the new policy regime does not fully reflect the policy changes that have been made. The skill levels for migration categories and the age structure of the migration intake are measured from migration arrivals in 1999/00. However, many of these arrivals would have been assessed on the basis of criteria applying prior to the major changes to the general points test from 1 July 1999. As higher proportions of migrant arrivals meet the changed criterion in 2000/01, the skill level and age structure can be expected to improve further. For this reason, this report does not fully capture all of the economic gains from changes in selection procedures.

When these alternative migration assumptions are fed into the demographic model, corresponding alternative detailed demographic projections are produced as in step two above. These projections are produced using the cohort-component method, which is also used by the ABS to generate its population projections. The projections include the population cross-classified by sex, single year of age and state for each year until 2021.

From the demographic projections, seven variables are extracted to form the demographic scenario used by the economic model as in step three of Figure 1. This report concentrates on the medium-term effects, as projected for the year 2007/08.

First, Chart 4 shows how each version of the new migration policy affects, in 2007/08, the population divided into four age groups. By that year, the total population is between 0.8 per cent and 1.1 per cent lower than it would have been had the old migration policy continued to be in place. This reflects the small reduction in the total migration intake in moving from the old policy to the new policy.

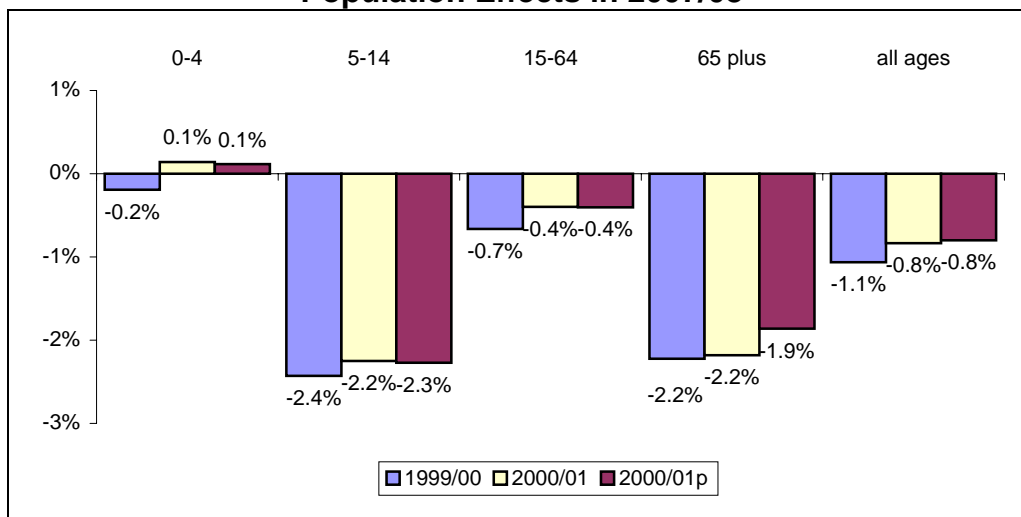
The age group to experience a large loss of population under the new migration policy compared with the old migration policy is the retirement age group of 65 years and over, with a loss of between 1.9 per cent and 2.2 by 2007/08. This reflects the capping of numbers in the parent component of the Family category under the new policy.

The age group with the smallest loss of population is the working age group of 15-64 years. The population loss for this age group is limited both by the changes to selection criteria for Independent and Skilled Australian Sponsored migrants that encourage migration of younger migrants aged under 45 years, and by the increase in the intake for the Independent category.

The end result is a younger population under all versions of the new migration policy.

Chart 4 shows that the three versions of the new migration policy each have similar effects on the population compared with the old migration policy, with the population loss ranging from 0.8 to 1.1 per cent. The small variation is because the size of the cut in the migration intake relative to the old policy varies between the three versions of the new policy. Chart 4 shows that modifying the 2000/01 migration policy by allowing for the previously proposed new permanent visa class for aged parents limits the loss of population for the retirement age group.

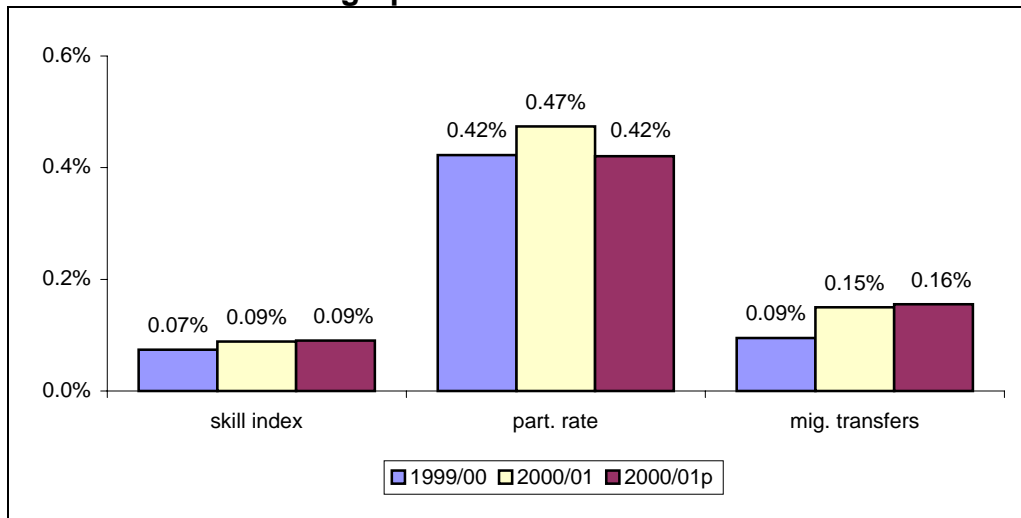
Chart 4
Population Effects in 2007/08



The remaining three national variables in the demographic scenario are shown in Chart 5.

Due to the younger population under the new migration policy, by 2007/08 the underlying national labour force participation rate is 0.42 per cent to 0.47 per cent higher than it would have been had the old migration policy continued to be in place. This reflects the shift in the age structure of the migration intake away from the retirement age group and towards the group aged 20-45 that was identified above where it was related to changes in migration policy.

Chart 5
Other Demographic Scenario Results in 2007/08



As seen in Chart 5, despite its cut to the overall migration intake, the new policy has boosted the level of migrant fund transfers from overseas as a percentage of national consumption by between 0.09 and 0.16 per cent. This is the result of the increase in Business Skills migration, easily the wealthiest of all migrant categories.

Finally, under the new policy, by 2007/08 the skill level of the workforce is about 0.1 per cent higher than it would have been under the continuation of the old policy. This is due to the shift away from Family migration to the more skilled Independent and Business Skills migration categories, as well as the higher skill levels for Independent and Skilled Australian Sponsored migration under the new points tests.

5. Living Standards

In the fourth and final step of the modelling shown in Figure 1, the demographic effects of the new policy summarised in Charts 4 and 5 were fed into the economic model known as MM2. The results from MM2 show the economic impacts of the new policy extending to the year 2007/08. These economic impacts reflect the implications of the new policy for the level and age structure of the population, the skill level and participation rate of the national workforce and the level of migrant transfers of funds from abroad.

The effects of migration policy on living standards are best measured by consumption per head. Chart 6 shows that by 2007/08, the new migration policy is conservatively estimated to raise consumption per head by between 0.89 and 0.96 per cent. For the version of the new migration policy that is in place in 2000/01, this represents a gain in annual consumption of \$257 per head. These estimates are conservative because, as explained in section 4, the underlying arrivals data does not fully capture all of the changes in selection procedures.

This gain in consumption per head can be broken down into three components: *GDP per employed person* (productivity), the *employed share of the population* and the *consumption share of GDP*. Each of these three components shows a gain that contributes to the overall gain in living standards. These gains, which are now considered in turn, can be related back to the changes in the demographic scenario due to the new policy.

Chart 6
Gains in Consumption Per Head in 2007/08

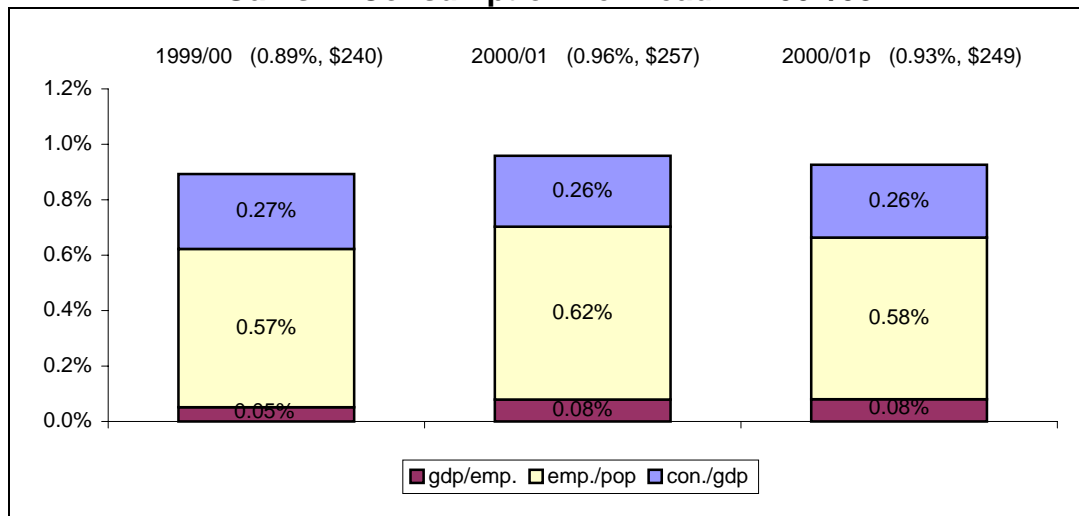


Chart 6 shows that, by 2007/08, *GDP per employed person* (productivity) under the new migration policy is up to 0.08 per cent higher than if the old policy had remained in place. This gain largely reflects the increase in the labour force skill index from the new policy that was shown in Chart 5.

Chart 6 also shows that, by 2007/08, the *employed share of the population* under the new policy this share is about 0.62 per cent higher than it would have been under the old policy. This gain in the employment share is due to two effects of the new policy on the labour force. Chart 5 showed a gain in the underlying participation rate, while Chart 4 showed a relatively large percentage loss in the population of non-working age group (aged under 15).

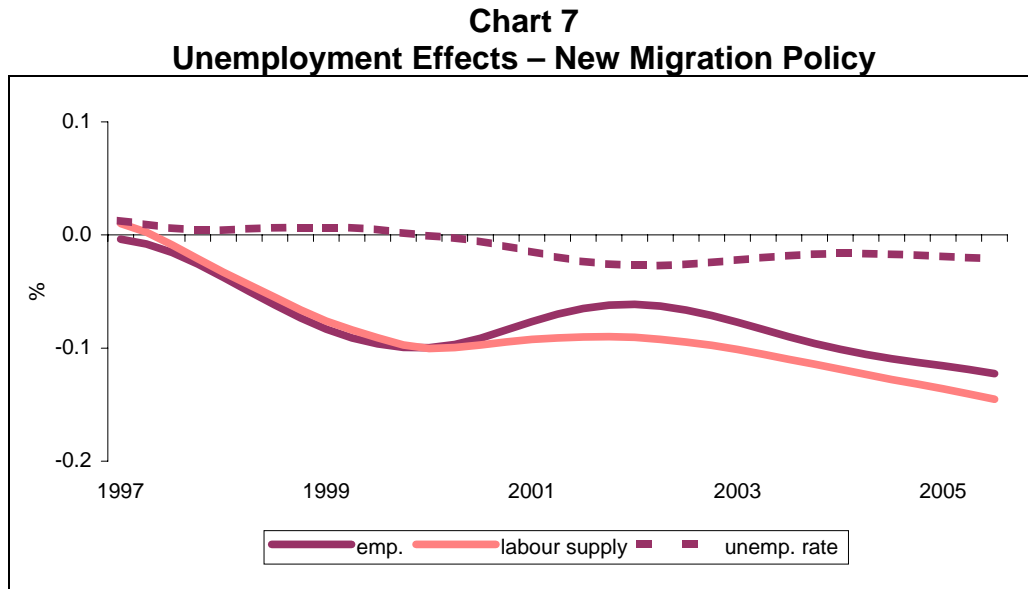
Finally, Chart 6 shows that, by 2007/08, the *consumption share of GDP* under the new policy is about 0.26 per cent higher than it would have been if the old policy had remained in place. This reflects the gain in migrant fund transfers from overseas shown in Chart 4.

The three versions of the new migration policy each show similar gains in living standards compared with the old policy. One small difference is that Chart 6 shows that the further changes to migration policy in 2000/01 boosted the prospective gain in living standards under the new policy from 0.89 per cent to 0.96 per cent. The major change in migration policy in 2000/01 was a further increase in the Skill Stream intake under the Independent category.

More broadly, the estimated gain in living standards from the new migration policy is because, compared with the old policy, it places a greater emphasis on migrants who have desired attributes such as higher skill levels, strong English language skills, greater levels of wealth or aged 20-45.

6. Employment and Unemployment

The results from the MM2 model also show the effects of the new migration policy on the labour market. For simplicity only one version of the new policy is considered from now on, namely the version in place in 2000/01. However, results for the other two versions of the new policy are similar.



Under the new migration policy, the total migrant intake is slightly lower than under the old policy leading to a slightly lower rate of population growth. Chart 7 shows how this leads gradually to a loss in the labour supply relative to the situation if the old policy had remained in place.

Equally, reduced population growth leads to lower growth in labour demand. Thus Chart 7 also shows that the new policy leads gradually to a loss in labour demand or employment relative to the situation if the old policy had remained in place.

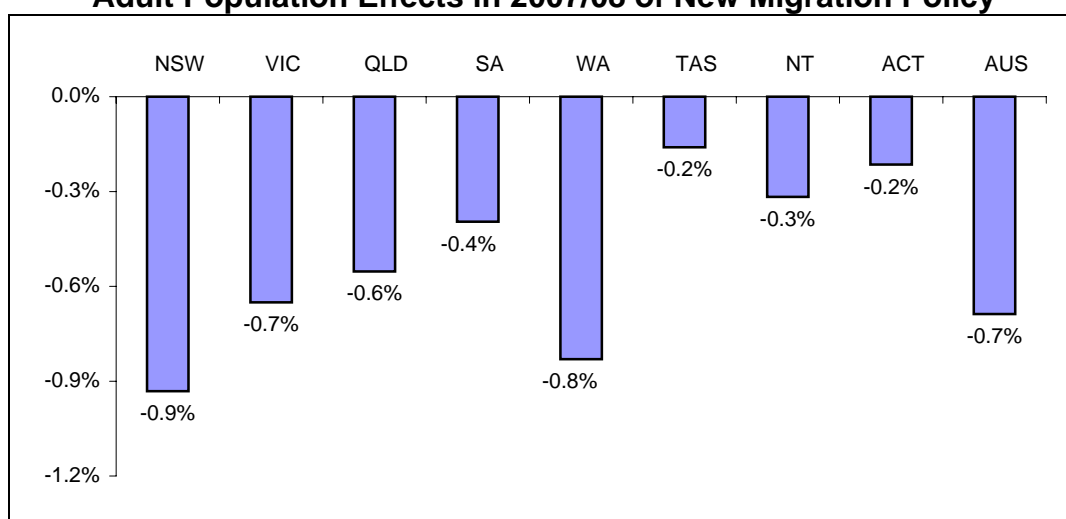
Because the losses in labour supply and employment are similar, the new policy has little net effect on unemployment, as shown by the perforated line in Chart 7.

7. States and Industries

The MM2 model also provides estimates of the effects of the new migration policy on states and industries.

Chart 8 shows how the continuation of the new policy will affect the adult population of each state by 2007/08. By that year, the adult population is between 0.2 per cent (Tasmania) and 0.9 per cent (New South Wales) lower than it would have been had the old migration policy continued to be in place. The small reduction in the migration intake under the new policy has a bigger percentage effect on the population of New South Wales, which receives more than its share of new migrants, than on the population of Tasmania, which receives less than its share of new migrants.

Chart 8
Adult Population Effects in 2007/08 of New Migration Policy



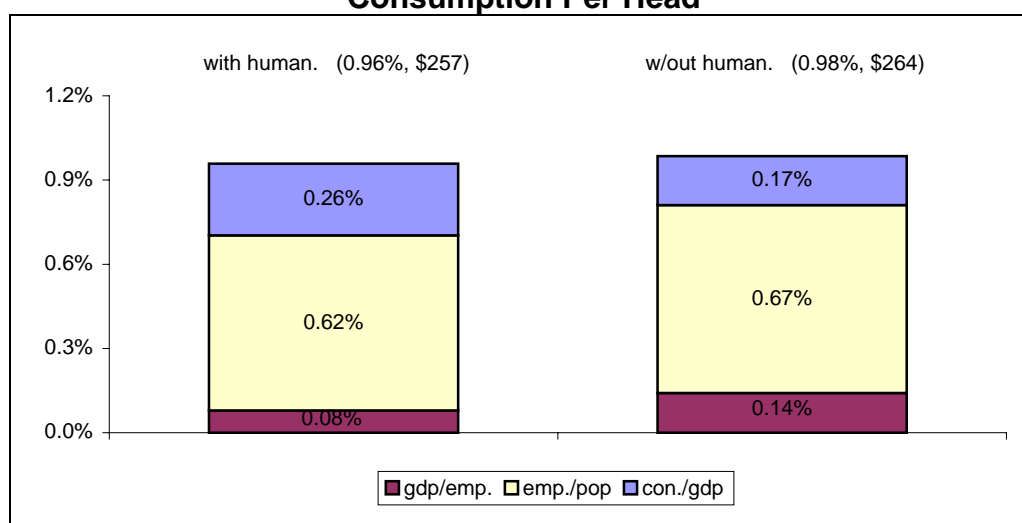
These effects on state population lead to similar effects on state labour supply and employment. This leaves little net effect on unemployment in each state, just as there is little effect on unemployment at the national level.

By slightly lowering the migration intake, the new migration policy leads to population and GDP being slightly lower than if the old policy had remained in place. By 2007/08, the loss of GDP is 0.14 per cent, and is no more than one per cent in any industry. More importantly, GDP per head and consumption per head both gain.

8. Excluding Humanitarian Migration

So far the analysis considers the economic impacts of all of the changes in program migration since 1995/96. While these changes have largely been due to deliberate changes in migration policy, this has not always been the case.

Chart 9
Consumption Per Head



Specifically, the changes to the Humanitarian Program shown in Charts 1 and 2 are the result of other factors. The Humanitarian program offshore has fallen, in response to an actual and

expected increase in asylum seekers onshore found to be refugees in 1999/00. In recent years the skill level for the Humanitarian program has dropped but this appears to only reflect fluctuations in the geographic origins of those entering under this program.

Because these changes to the Humanitarian program are due more to factors other than domestic policy, arguably these changes should be excluded in assessing the economic impact of changes in migration policy. For that reason, the analysis in this report was repeated excluding the effects of the changes to the Humanitarian program. This turns out to lead to only some changes to the main results.

As seen in Chart 9, excluding the Humanitarian program marginally raises the estimated gain in annual consumption per head in 2007/08 from the new migration policy. This gain increases from \$257 to \$264. Chart 9 also shows that the sources of gain are broadly similar.

1. Introduction

The Department of Immigration and Multicultural Affairs (DIMA) commissioned Econtech to model the economic impact of changes in the migration program from 1995/96 to 2000/01. This includes the effects on demographic outcomes, living standards, employment and unemployment, and individual industries and states.

To make these economic assessments, changes to the migration program are fed into a detailed demographic model known as MM2-Demographic which in turn is linked to a national economic model known as MM2. The resulting output from MM2 shows the economic impact of the changes to the migration program. MM2 was first released in 1988 and is widely used in the private, government and academic sectors for economic forecasting and policy analysis, while MM2-Demographic was originally developed under contract to the former Bureau of Immigration Multicultural and Population Research.

This study is mainly concerned with changes under each migration policy to program migration, which includes eligibility categories such as Family, Skilled Australian Sponsored, Employer Nomination Scheme, Independent and Business Skills, and Humanitarian migration. Non-program migration, which includes New Zealanders, is not covered in this report. As such the rate of non-program migration in each scenario, including the Old Policy Scenario, is set at the 2000/01-intake level.

This report is structured as follows.

- Section 2 sets out recent migration policy developments, including the size of the intake, the change in eligibility category composition and attributes.
- Section 3 explains the migration program scenarios that form the basis of the analysis in this study.
- Section 4 shows how these migration policy changes will affect demographic outcomes such as the total Australian population, the underlying labour force participation rate, migrant funds transfers and the skill level of the Australian workforce.
- Section 5 analyses the effects on living standards which are measured as consumption per head. The contributing factors to consumption per head are *GDP per employed person* (productivity), the *employed share of the population* and the *consumption share of GDP*.
- Section 6 explains the effects on employment and unemployment.
- Section 7 shows the migration policy effects on individual industries and states.
- Section 8 compares the effects on demographic outcomes, living standards and employment of the 2000/01 migration policy with and without Humanitarian migration included.

This report is mainly concerned with estimating the economic effects of the changes to migration policy from 1995/96 to 2000/01 i.e. from moving from the Old Policy Scenario (old policy) to Scenario 2 (new policy). However, to help unravel the contributions to these economic effects from the different changes to migration policy, scenarios have been constructed based on old and new policy settings.

There is an important qualification to the economic modelling in this report. This modelling does not take account of possible economies and diseconomies of a higher population.

While all care, skill and consideration has been used in the preparation of this report, the findings are based upon the strict instructions of DIMA and are designed to be used only for the specific purpose set out below. If you believe that your instructions are different from those set out below, or you wish to use this work or information contained within it for another purpose, please contact us.

The specific purpose of this report is to provide DIMA, in accordance with the Terms of Reference of this report, with estimates of the economic impact of 2000/01 migration policy changes. This includes the effects on demographic outcomes, economic outcomes, living standards, employment and unemployment, and individual industries and states.

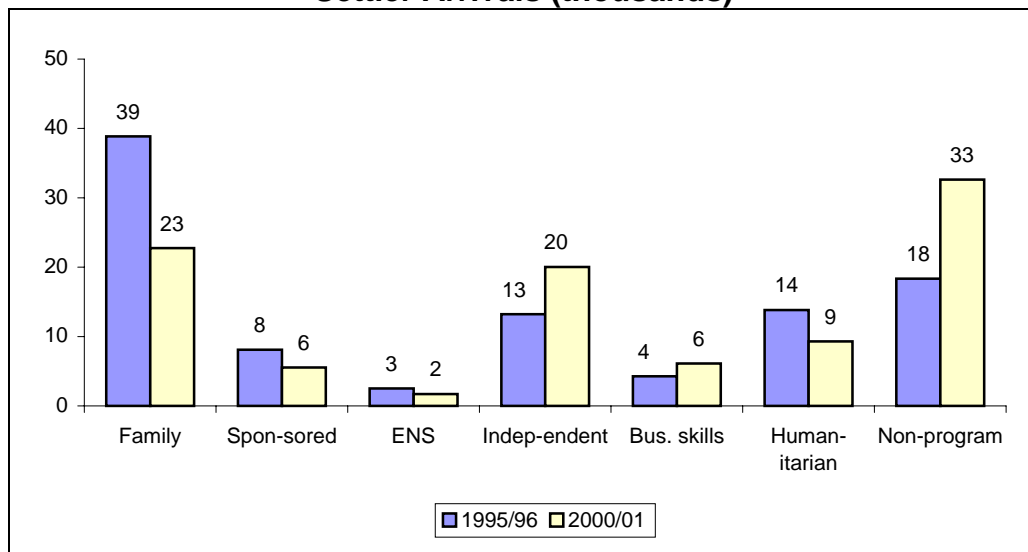
The findings in this report are subject to unavoidable statistical variation. While all care has been taken to ensure that the statistical variation is kept to a minimum, care should be used whenever using this information. Should you require clarification of any material, please contact us.

2. Recent Developments

Since 1995/96 there have been significant changes to migration policy to increase its economic focus. The level of Family migration has been cut, the level of Skill Stream migration has been increased, and points tests have been re-oriented.

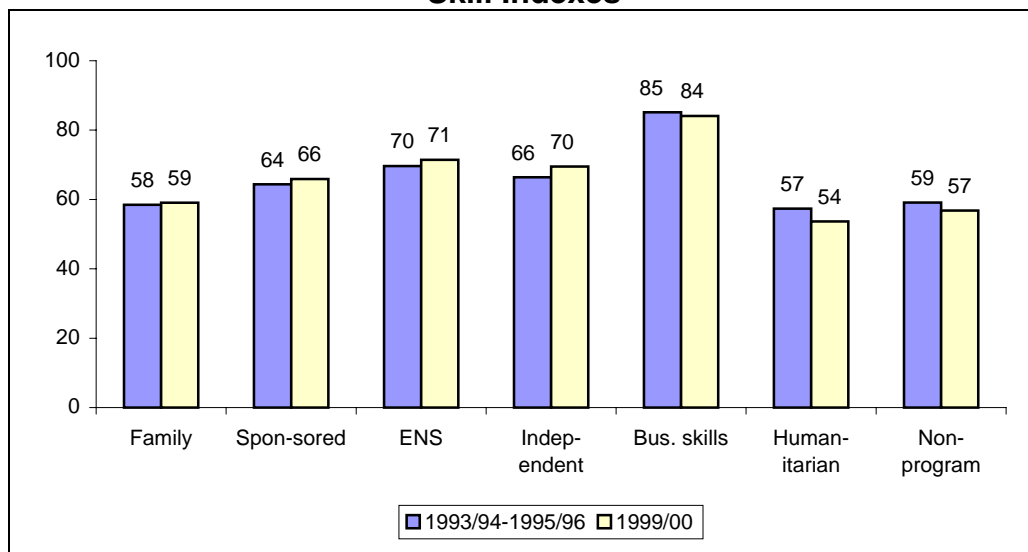
As shown in Chart 2.1, the Family intake, which is low-skilled, has dropped from 39,000 in 1995/96 to 23,000 in 2000/01. This is partly the result of the capping of the parents component. Over the same period, the greater focus on skilled migrants led to the increases in the intake in the Independent and Business Skills categories shown in Chart 2.1.

Chart 2.1
Settler Arrivals (thousands)



The drop in the Humanitarian program intake offshore of 5,000 is largely the result of an actual and expected increase of asylum seekers found to be refugees.

Chart 2.2
Skill Indexes



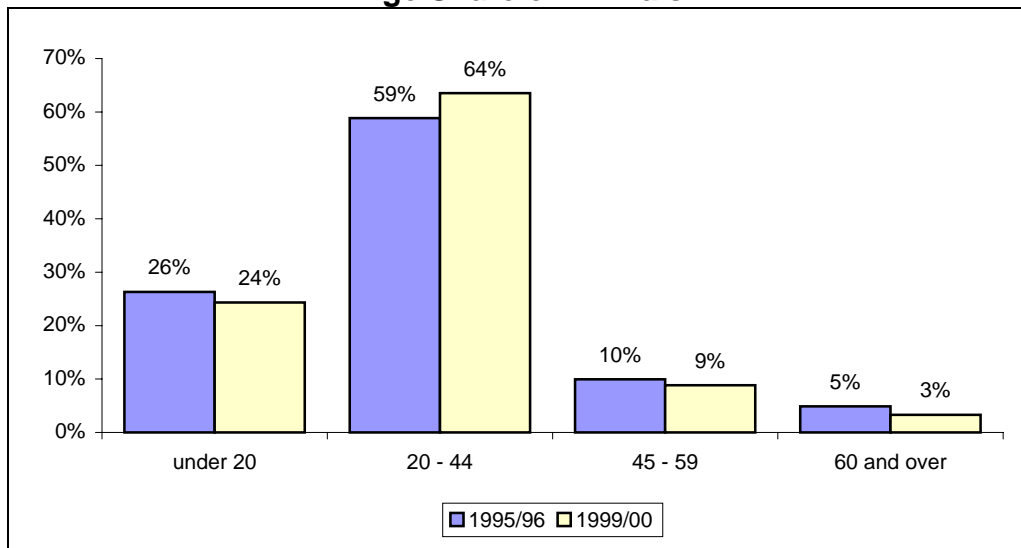
Non-program migration, mainly New Zealanders with an automatic right of entry, has risen from 18,000 to 33,000 and is not considered further in this report.

The general points tests have been refocused on employability attributes to increase skill levels, as shown in Chart 2.2. These changes meant that all new applicants as a minimum have to be less than 45 years of age, have vocational level English and possess recognised skills, and experience, with the exception of recently Australian qualified students, in an occupation that appears on the SOL.

The skill level of each migration category is calculated on the basis of its sex-occupation composition using data from passenger arrival cards. Occupations are inferred from expected occupations reported on arrival cards, but with a downward correction to take into account that these expectations have an optimistic bias.

As shown in Chart 2.3, the age structure of the migrant intake has shifted towards the 20-45 age group to boost economic growth now and in the future. The age structure has been changed through the changes in points tests mentioned above, the capping of the parent component of the Family intake, and the increase in the level of the Independent intake.

Chart 2.3
Age Share of Arrivals



Additional information about the nature of each migration policy is outlined further in Tables 2.1 and 2.2 below.

Table 2.1
Migration Policy Inputs: Categories

scenario	Old Policy	1	2	3
Program	1995/96	1999/00	2000/01	2000/01
Non-program	2000/01	2000/01	2000/01	2000/01
year	2000/01	2000/01	2000/01	2002/03
parents	no	no	no	yes
Total	113429	92272	98076	99076
Family (former Preferential Family)	38866	20027	22756	23756
Skilled Australian Sponsored	8103	9021	5541	5541
Employer Nomination Scheme	2513	1212	1698	1698
Independent	13225	16486	20022	20022
Business Skills	4270	5631	6124	6124
Humanitarian	13824	7267	9307	9307
Non-program	32628	32628	32628	32628
Family (former Preferential Family)	34.3%	21.7%	23.2%	24.0%
Skilled Australian Sponsored	7.1%	9.8%	5.6%	5.6%
Employer Nomination Scheme	2.2%	1.3%	1.7%	1.7%
Independent	11.7%	17.9%	20.4%	20.2%
Business Skills	3.8%	6.1%	6.2%	6.2%
Humanitarian	12.2%	7.9%	9.5%	9.4%
Non-program	28.8%	35.4%	33.3%	32.9%
Attributes: transfers ('000s of 99/00 dollars p.p.)				
Family (former Preferential Family)	3	3	3	3
Skilled Australian Sponsored	11	11	11	11
Employer Nomination Scheme	31	31	31	31
Independent	23	23	23	23
Business Skills	239	239	239	239
Humanitarian	0	0	0	0
Non-program	8	8	8	8
Attributes: skill index (maximum skill=100)				
Family (former Preferential Family)	58.5	59.1	59.1	59.1
Skilled Australian Sponsored	64.4	65.9	65.9	65.9
Employer Nomination Scheme	69.6	71.5	71.5	71.5
Independent	66.4	69.5	69.5	69.5
Business Skills	85.1	84.1	84.1	84.1
Humanitarian	57.4	53.7	53.7	53.7
Non-program	56.8	56.8	56.8	56.8

Table 2.2
Migration Policy Inputs: Age Shares for Long-term & Permanent Arrivals

	Old	New	Newp
Males:			
0-4	6.2%	5.2%	5.2%
5-9	6.0%	5.0%	5.0%
10-14	5.3%	4.3%	4.3%
15-19	9.1%	9.3%	9.2%
20-24	14.7%	16.8%	16.7%
25-29	14.1%	17.0%	17.0%
30-34	12.2%	12.6%	12.5%
35-39	9.5%	9.9%	9.9%
40-44	7.0%	6.8%	6.8%
45-49	5.2%	4.6%	4.6%
50-54	3.3%	3.4%	3.4%
55-59	2.5%	1.9%	1.9%
60-64	2.1%	1.3%	1.4%
65-69	1.4%	1.0%	1.1%
70-74	0.8%	0.6%	0.6%
75-79	0.4%	0.3%	0.3%
80-84	0.2%	0.1%	0.1%
85 and over	0.1%	0.1%	0.1%
All Ages	100.0%	100.0%	100.0%
Females:			
0-4	5.7%	5.3%	5.3%
5-9	5.8%	5.1%	5.0%
10-14	5.1%	4.5%	4.5%
15-19	9.4%	10.1%	10.1%
20-24	17.3%	19.0%	18.9%
25-29	16.5%	19.1%	19.0%
30-34	12.0%	11.9%	11.9%
35-39	8.6%	8.5%	8.5%
40-44	5.6%	5.5%	5.5%
45-49	3.8%	3.6%	3.6%
50-54	2.7%	2.4%	2.4%
55-59	2.4%	1.6%	1.6%
60-64	1.9%	1.3%	1.4%
65-69	1.3%	0.9%	1.0%
70-74	0.9%	0.6%	0.7%
75-79	0.4%	0.3%	0.4%
80-84	0.2%	0.2%	0.2%
85 and over	0.1%	0.1%	0.1%
All Ages	100.0%	100.0%	100.0%

3. Migration Program Scenarios

An Old Policy Scenario was simulated as a point of reference. It excludes changes in migration policy since 1995/96 by taking the migration policy that was in place in 1995/96 and continuing it to 2007/08. For this purpose, “migration policy” is defined to cover all categories of settler arrivals other than Non-program migration. That is, it covers all program migration and is measured in arrivals.

A total of three scenarios were then simulated to represent versions of the new migration policy. The results were compared with those from the Old Policy Scenario to analyse the economic impact of changes in migration policy since 1995/96. The scenarios for the versions of the new migration policy are labelled as Scenario 1, 2 and 3.

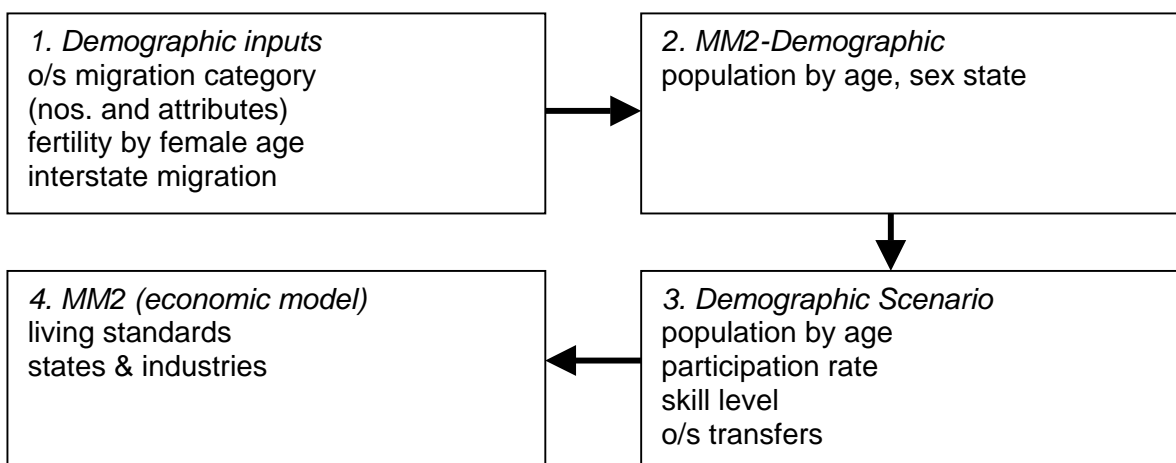
In Scenario 1, the migration policy that was in place in 1999/00 is continued to 2007/08. The results for 2007/08 under this policy scenario are then compared with the results for the same year under the Old Policy Scenario to assess the medium-term economic impact of the changes in migration policy that occurred between 1995/96 and 1999/00.

Scenario 2 is similar to Scenario 1 except it is based on the migration policy that was in place in 2000/01 rather than 1999/00. Again it is compared with the Old Policy Scenario to show the medium-term economic impact of the changes to migration policy that occurred between 1995/96 and 2000/01.

Scenario 3 varies Scenario 2 by also factoring in the previously proposed new permanent visa class for aged parents which was rejected by the Senate in November 2000.

Following the same modelling approach as in our earlier report, to make these economic assessments the modelling framework depicted in Figure 1 is used. In step one, the demographic inputs are revised to reflect the migration policy that is being modelled. In step two, these revised demographic inputs are fed into a detailed demographic model known as MM2-Demographic. In step three, a demographic scenario is extracted from the results. In step four, this demographic scenario is fed into a model of the Australian economy known as MM2. By this four-step procedure, estimates are produced of the economic effects of different migration policies.

Figure 1: Modelling Framework



4. Demographic Scenarios

The Old Policy Scenario and Scenarios 1-3 for the new policy are each based on their own assumptions about the migration intake. This involves using data drawn from the old and new policy regimes to vary the numbers of people in each migration category, the skill level for each migration category, and the age structure applied to permanent and long-term arrivals of each gender, as in step one of Figure 1.

The data being used for the new policy regime does not fully reflect the policy changes that have been made. The skill levels for migration categories and the age structure of the migration intake are measured from migration arrivals in 1999/00. However, many of these arrivals would have been assessed on the basis of criteria applying prior to the major changes to the general points test from 1 July 1999. As higher proportions of migrant arrivals meet the change criterion in 2000/01, the skill level and age structure can be expected to improve further. For this reason, this report does not fully capture all of the economic gains from changes in selection procedures.

When these alternative migration assumptions are fed into the demographic model, corresponding alternative detailed demographic projections are produced as in step two above. These projections are produced using the cohort-component method, which is also used by the ABS to generate its population projections. The projections include the population cross-classified by sex, single year of age and state for each year until 2021.

4.1 Old Policy Demographic Scenario

In the Old Policy Scenario, the settings in place in 1995/96 are maintained indefinitely. Under this scenario, the Australian population reaches 20.8 million by the year 2007/08. The Old Policy Scenario column of Table 4.1 shows how this population is divided between the four age groups.

Table 4.1 also shows that under this scenario in the year 2007/08 the underlying (or cyclically-adjusted) national labour force participation rate is 63.08 per cent.

Further the migrant fund transfers from overseas are the equivalent of 0.29 per cent of consumption.

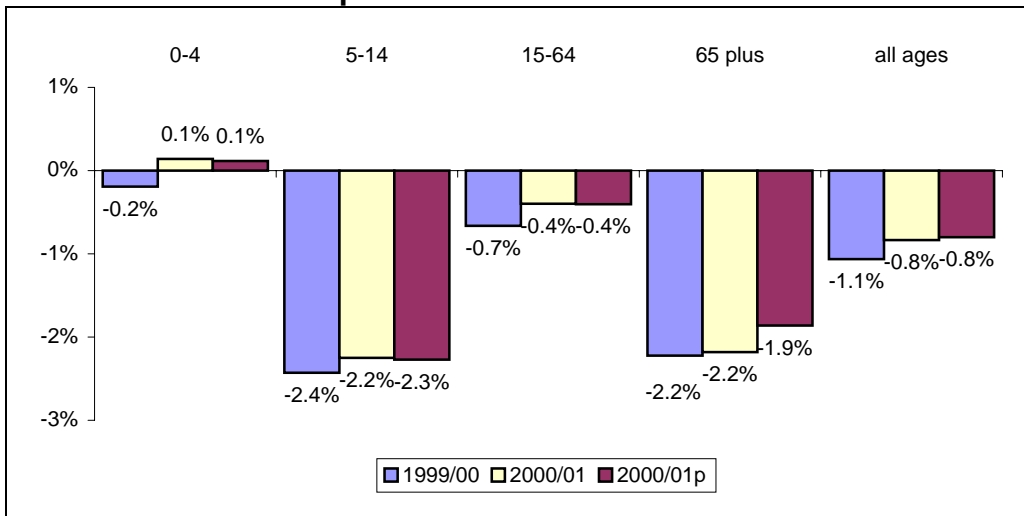
Finally, the skill index for the Australian workforce is 57.97 per cent.

4.2 New Policy Demographic Scenarios

From the demographic projections, seven variables are extracted to form the demographic scenario used by the economic model as in step three of Figure 1. This report concentrates on the medium-term effects, as projected for the year 2007/08.

First, Chart 4.2.1 shows how each version of the new migration policy affects, in 2007/08, the population divided into four age groups. By that year, the total population is 20.7 million. This is above the current population of 19.1 million, so it implies continued population growth under the new policy. However, it is 0.8 per cent lower than the projected population for 2007/08 of 20.8 million if the old policy had remained in place. The projected population is slightly lower under the new policy than the old policy because of a small reduction in the total migration intake.

**Chart 4.2.1
Population Effects in 2007/08**

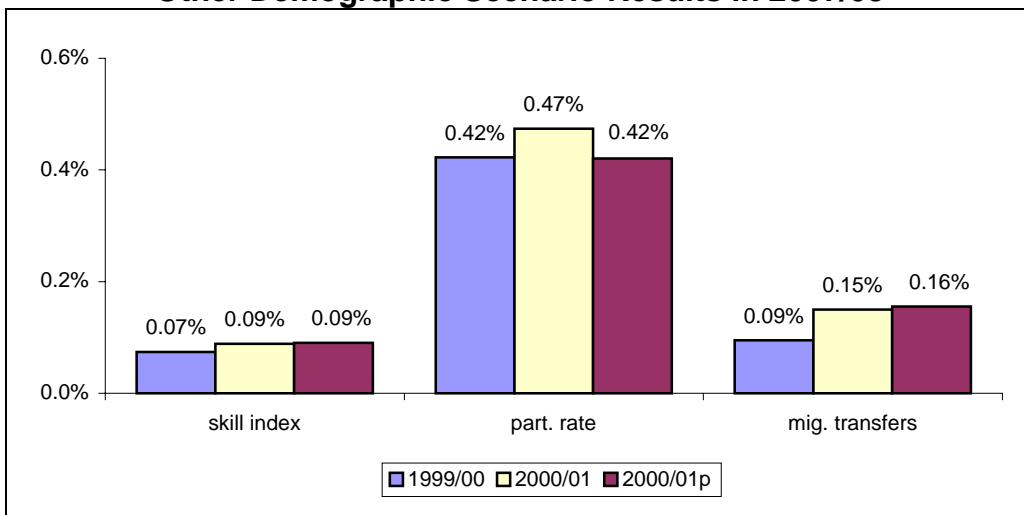


The age group to experience one of the largest losses of population under the new migration policy compared with the old migration policy is the retirement age group of 65 years and over, with a loss of 2.2 per cent by 2007/08. This reflects the capping of numbers in the parent component of the Family category under the new policy.

The age group with the smallest loss of population is the working age group of 15-64 years. The population loss for this age group is limited both by the changes to selection criteria for Independent and Skilled Australian Sponsored migrants that encourage migration of younger migrants aged under 45 years, and by the increase in the intake for the Independent category. As at 1 July 1999, changes to the points tested visa categories were introduced to further improve the economic and employment impact of migrants entering Australia.

The end result is generally a younger population under the new migration policy.

**Chart 4.2.2
Other Demographic Scenario Results in 2007/08**



The remaining three national variables appearing in the demographic scenario are shown in Chart 4.2.2.

Due to the younger population under the new migration policy, by 2007/08 the underlying national labour force participation rate is 0.47 per cent higher than it would have been had the old migration policy continued to be in place. This reflects the shift in the age structure of the migration intake away from the retirement age group and towards the group aged 20-45 that was identified above where it was related to changes in migration policy.

As seen in Chart 4.2.2, despite its cut to the overall migration intake, the new policy has boosted the level of migrant transfers as a percentage of national consumption by 0.15 per cent. This is the result of the increase in Business Skills migration, easily the wealthiest of all migrant categories.

Finally, under the new policy, by 2007/08 the skill level of the workforce is 0.09 per cent higher than it would have been under the continuation of the old policy. This is due to the shift away from Family migration to the more skilled Independent and Business Skills migration categories, as well as the higher skill levels for Independent and Skilled Australian Sponsored migration under the new points tests.

4.3 Differences between New Policy Demographic Scenarios

There are slight differences between the effects of each version of the new migration policy on demographic outcomes.

For instance, Chart 4.2.1 shows that the further changes to the migration policy in 2000/01 reduced the population loss from 1.1 per cent under the new policy in place in 1999/00 to 0.8 per cent. This is due to the smaller drop in the migration intake than the policy of the previous year.

Chart 4.2.1 also shows that modifying the 2000/01 migration policy by allowing for the previously proposed new permanent visa class for aged parents limits the loss of population for the retirement age group from about 2.2 per cent to 1.9.

Chart 4.2.2 shows, 2007/08, a higher underlying national participation rate under the version of the new policy in place in 2000/01. This is due to the further shift in the age structure of the migration intake away from the retirement age group and towards the group aged 20-45 compared to the two other versions of the new policy.

Additional details of the demographic outcomes of each scenario are outlined in Table 4.1.

Table 4.1
Summary Indicators of Demographic Outcomes in 2007/08

	Old Policy	Scenario 1	Scenario 2	Scenario 3
<i>Levels:</i>				
population aged 0-4 ('000 persons)	1264	1262	1266	1265
population aged 5-14 ('000 persons)	2654	2590	2594	2594
population aged 15-64 ('000 persons)	14193	14099	14137	14136
population aged 65 and over ('000 persons)	2732	2671	2672	2681
total population ('000 persons)	20843	20621	20669	20676
predicted migrant transfers (% of GDP)	0.29	0.37	0.41	0.41
underlying participation rate (per cent)	63.08	63.35	63.38	63.35
skill index (per cent)	57.97	58.01	58.02	58.02
<i>Deviations from Old Policy:</i>				
population 0-4 (%)		-0.2%	0.1%	0.1%
population 5-14 (%)		-2.4%	-2.2%	-2.3%
population 15-64 (%)		-0.7%	-0.4%	-0.4%
population 65 and over (%)		-2.2%	-2.2%	-1.9%
total population ('000 persons)		-1.1%	-0.8%	-0.8%
predicted migrant transfers (% of GDP)		9.5%	15.0%	15.6%
underlying participation rate (%)		0.4%	0.5%	0.4%
skill index (%)		0.1%	0.1%	0.1%

5. Economic Scenarios

The direction of the effect of the migration program on average living standards in Australia depends on the wealth of migrants compared to established Australian residents, taking into account both wealth from future labour income and existing financial wealth.

The wealth of migrants from future labour income depends positively on their labour force participation rates and their skill levels, and negatively on their probability of being unemployed. Consideration of the unemployment issue is postponed until section 6, while the influence of different migration scenarios on participation rates and skill levels of the workforce has already been analysed in section 4.

The existing financial wealth of migrants is reflected in the funds they transfer to Australia on migration. The influence of different migration scenarios on these fund transfers was also considered in section 4.

The overall influence of migration on living standards is best measured by its effect on (private plus public) consumption per head. Some commentators have used the cruder measure of GDP per head so it is useful to consider the connection between these two measures.

$$\text{consumption per head} = \text{GDP per head} \times \text{consumption share of GDP} \quad (1)$$

Thus consumption per head can increase either from an increase in GDP per head or from an increase in the share of GDP accounted for by consumption.

If migration increases average wealth from labour income this will increase GDP per head and, through the above equation, consumption per head. Thus, effects on living standards from changes in average wealth from labour income can be measured equally well by either GDP per head or consumption per head.

However, if migration increases financial wealth this will have little or no effect on GDP per head, but will raise the consumption share of GDP, as explained in more detail later in this section. Thus, effects on living standards from changes in financial wealth such as through migrant transfers, can only be measured using consumption per head, not GDP per head.

To understand the effects of migration on living standards, it is useful to further decompose the two variables on the right-hand side of equation (1) as follows.

$$\text{GDP per head} = [\text{GDP/employment}] \times [\text{employment/population}] \quad (2)$$

$$\text{consumption/GDP} = 1 - \text{investment/GDP} - \text{net exports/GDP} \quad (3)$$

Equation (2) says that GDP per head may rise for either of two reasons.

First, it can rise as a consequence of an increase in productivity, or GDP per employed person. As seen in section 4, each version of the new migration policy tended to slightly raise productivity because the average skill level of migrants slightly exceeded the average skill level of existing Australian residents.

Second, it can rise from an increase in the proportion of the population who are employed. This can come about either from a higher labour force participation rate or a reduced unemployment rate. As discussed in section 4, each of the three versions of the new migration policy raised labour force participation rates because participation rates for migrants exceed those for Australian residents due to the under-representation of the retirement age group in the migration intake.

Equation (3) says that the consumption share of GDP is what is left over from GDP after the investment share and the net exports¹ share have been taken out. Migration affects both of these shares.

Migration raises population growth and therefore economic growth, so that a larger share of GDP must be diverted to investment to provide for a higher rate of expansion of the stocks of business and housing capital.

On the other hand, migration also brings with it migrant transfers of funds which contribute to external balance. An increase in migrant fund transfers means that a smaller share of GDP can be diverted to net exports while still maintaining external balance.

Thus a high level of migration tends to raise the investment share of GDP while reducing the net exports share. As shown in equation (3), how these changes balance out determines whether the consumption share of GDP rises or falls.

For example, suppose migrants have higher levels of financial wealth than existing Australian residents. The funds they bring with them will then more than finance the extra investment in business capital and housing due to their migration. This means that the fall in the net exports share of GDP will outweigh the rise in the investment share of GDP, leaving an increased share for private consumption. Conversely, if migrants have lower levels of financial wealth than Australian residents do, high migration will reduce the consumption share of GDP.

In reality, although Business Skills migrants have high levels of financial wealth, other categories of migrants have low levels of financial wealth, thus migration may tend to reduce the consumption share of GDP.

5.1 Old Policy Economic Scenario

Consumption per head under the Old Policy Scenario, a measure of living standards, is \$26,780 expressed in 1999/00 prices. Following on from the discussion of equations (1) and (2) above, this figure can be built up from the following results in Table 5:

- GDP per employed person (productivity) of \$73,374 per head;
- an employed share of the population of 47.91 per cent; and
- a consumption share of GDP of 76.18 per cent.

That is,

- $\$26,780 = \$73,374 \times 47.91\% \times 76.18\%$

¹ Net exports is defined as exports less imports.

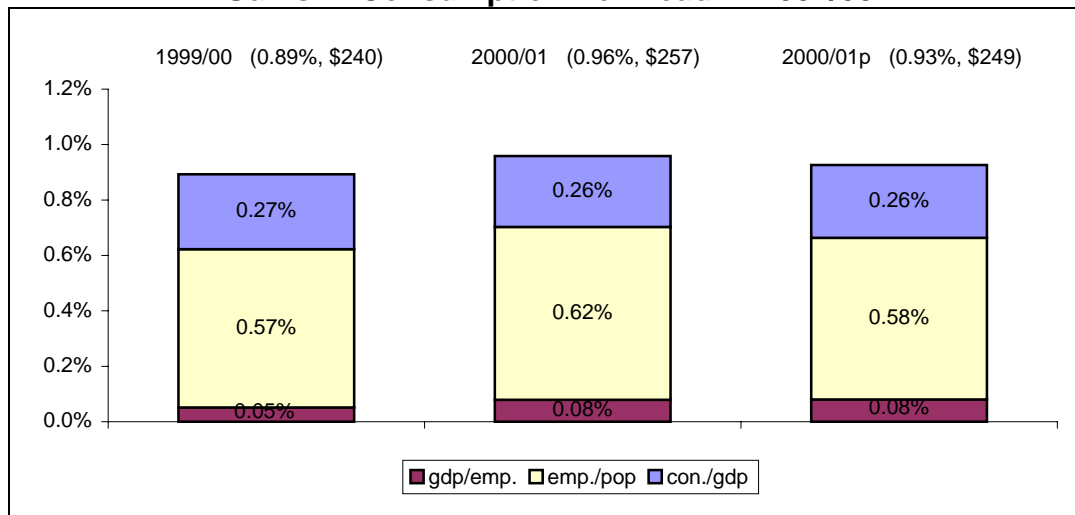
The alternative migration policy scenarios that follow affect this outcome for consumption per head by altering these three results that feed into it.

5.2 New Policy Economic Scenarios

In the fourth and final step of the modelling shown in Figure 1, the demographic effects of the new policy summarised in Charts 4.2.1 and 4.2.2 were fed into the economic model known as MM2. The results from MM2 show the economic impacts of the new policy extending to the year 2007/08. These economic impacts reflect the implications of the new policy for the level and age structure of the population, the skill level and participation rate of the national workforce and the level of migrant transfers of funds from abroad.

The effects of migration policy on living standards are best measured by consumption per head. Chart 5.2.1 shows that by 2007/08, the new migration policy is conservatively estimated to raise consumption per head by 0.96 per cent. For the version of the new migration policy that is in place in 2000/01, this represents a gain in annual consumption of \$257 per head. These estimates are conservative because, as explained in section 4, the underlying arrivals data does not fully capture all of the changes in selection procedures.

Chart 5.2.1
Gains in Consumption Per Head in 2007/08



This gain in consumption per head can be broken down into three components: *GDP per employed person* (productivity), the *employed share of the population* and the *consumption share of GDP*. Each of these three components shows a gain that contributes to the overall gain in living standards. These gains, which are now considered in turn, can be related back to the changes in the demographic scenario due to the new policy.

Chart 5.2.1 shows that, by 2007/08, *GDP per employed person* (productivity) under the new migration policy in place in 2000/01 is 0.08 per cent higher than if the old policy had remained in place. This gain largely reflects the increase in the labour force skill index from the new policy that was shown in Chart 4.2.2.

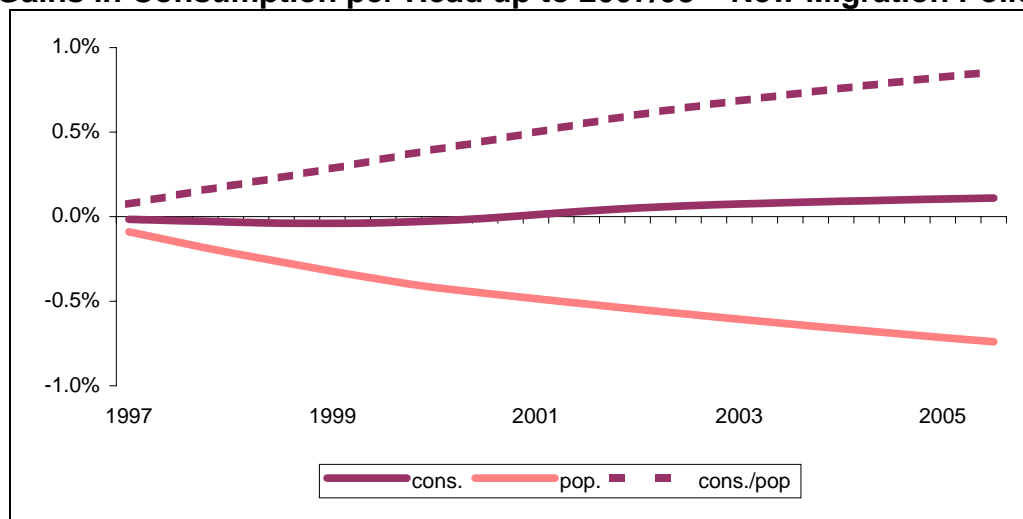
Chart 5.2.1 also shows that, by 2007/08, the *employed share of the population* under the new policy this share is 0.62 per cent higher than it would have been under the old policy. This gain in the employment share is due to two effects of the new policy on the labour

force. Chart 4.2.2 showed a gain in the underlying participation rate, while Chart 4.2.1 showed a relatively large percentage loss in the population of non-working age group (aged under 15).

Finally, Chart 5.2.1 shows that, by 2007/08, the new policy changes further increase the *consumption share of GDP* by 0.26 per cent above what would have been expected in 2007/08 under continuation of the old policy. Increasing the intake of wealthier migrants and the subsequent boost of migrant transfers, particularly from the Business Skills category, boosts the share of GDP available for consumption. By reducing the need to divert a considerable share of GDP into capital infrastructure such as housing for migrants, the external balance can be maintained with a lower net export share of GDP, leaving an increased share for private consumption.

Chart 5.2.2 shows the time profile of the higher living standards up to 2007/08 under the new migration policy compared what would have been expected under continuation of the old migration policy. Consumption per head rises steadily relative to the old migration policy to achieve the gain reported in Chart 5.2.1 and referred to above of 0.96 per cent by 2007/08. While consumption itself remains steady, population falls, so consumption per head gains.

Chart 5.2.2
Gains in Consumption per Head up to 2007/08 – New Migration Policy



More broadly, the estimated gain in living standards from the new migration policy compared with the old policy, is because it places greater emphasis on migrants who have desired attributes such as high skill levels, strong English language skills, greater levels of wealth or aged 20-45.

5.3 Differences Between New Policy Economic Scenarios

The three versions of the new migration policy each show similar gains in living standards compared to the old policy. However, the components of the consumption per head vary slightly.

For instance, Chart 5.2.1 shows that the further changes to the migration policy in 2000/01 boosted the prospective gain in livings standards under the new policy from 0.89 per cent to 0.96 per cent. The major change in migration policy in 2000/01 was a further increase in the

Skill Stream intake under the Independent category, which feeds through to affect two components of consumption per head. Firstly, the increase in Skill Stream intake boosts the skill level of the national workforce and subsequently productivity and secondly, the employed share of the population also gains from a greater proportion of migrants entering the workforce.

Chart 5.2.1 also shows that modifying the 2000/01 migration policy for the previously proposed new permanent visa class for aged parents would have resulted in a slight fall in living standards compared to the policy in place in 2000/01. This is mainly the result of the smaller gain in the *employed share of the population* shown in Chart 5.2.1 stemming from the increase in the intake of age migrant parents.

Additional details of the economic outcomes of each version of the new migration policy are outlined in Table 5.1.

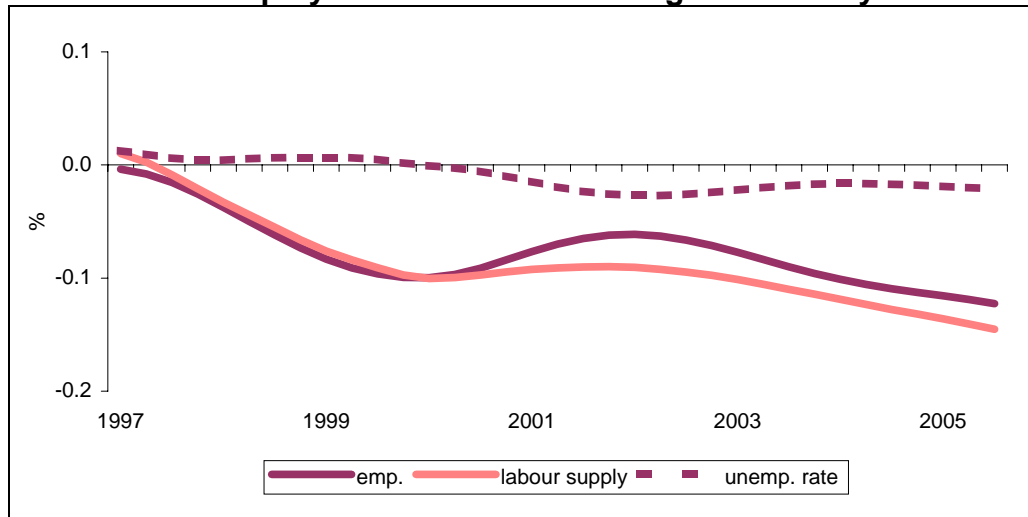
Table 5.1
Economic Scenario Results in 2007/08

	Old Policy	Scenario 1	Scenario 2	Scenario 3
<i>Levels:</i>				
Employment ('000 persons)	9986	9936	9965	9964
Population ('000 persons)	20843	20621	20669	20676
GDP (\$b, 1999/00 prices)	732.7	729.4	731.7	731.7
GDP/employment (\$'000 per employed person)	\$73,374	\$73,411	\$73,432	\$73,433
Employment/population (share)	47.91%	48.19%	48.21%	48.19%
GDP per Head (\$/person)	\$35,155	\$35,374	\$35,402	\$35,388
Investment/GDP (share)	16.93%	16.82%	16.90%	16.90%
Net Exports/GDP (share)	6.89%	6.80%	6.73%	6.73%
Consumption/GDP (share)	76.18%	76.38%	76.37%	76.38%
Consumption per Head (\$/person)	\$26,780	\$27,019	\$27,037	\$27,028
<i>Deviations from Old Policy:</i>				
Employment (%)		-0.50%	-0.22%	-0.22%
Population (%)		-1.06%	-0.83%	-0.80%
GDP (%)		-0.45%	-0.14%	-0.14%
GDP/employment (%)		0.05%	0.08%	0.08%
Employment/population(%)		0.57%	0.62%	0.58%
GDP per head of population (%)		0.62%	0.70%	0.66%
GDP per head (\$/person)		\$219	\$247	\$233
Investment/GDP (% points)		-0.11%	-0.04%	-0.03%
Net Exports/GDP (% points)		-0.10%	-0.16%	-0.17%
Consumption/GDP (% points)		0.21%	0.19%	0.20%
Consumption/GDP (%)		0.27%	0.26%	0.26%
Consumption per Head (%)		0.89%	0.96%	0.93%
Consumption per Head (\$/person)		\$240	\$257	\$249

6. Employment and Unemployment

The results from the MM2 model also show the effects of the new migration policy on the labour market. For simplicity only one version of the new policy is considered from now on, namely the version in place in 2000/01. However, results for the other two versions of the new policy are similar.

Chart 6.1
Unemployment Effects – New Migration Policy



Under the new migration policy, the total migrant intake is slightly lower than under the old policy leading to a slightly lower rate of population growth. Chart 6.1 shows how this gradually leads to a loss in the labour supply relative to the situation if the old policy had remained in place.

Equally, reduced population growth leads to lower growth in labour demand. Thus Chart 6.1 also shows that the new policy leads gradually to a loss in labour demand or employment relative to the situation if the old policy had been maintained. Because the losses in labour supply and employment are similar, the new policy has little net effect on unemployment, as shown by the perforated line in Chart 6.1. In part, this result reflects the *assumption* in MM2 that there is a sustainable or equilibrium unemployment rate to which the actual unemployment rate will always return in the long-term. This rate is currently estimated to be about 7.5 per cent and is independent of the size or nature of the migration intake.

In the short-term, it just happens to be the case in MM2 that the direct effects on labour demand of reduced migration broadly match the effects on labour supply. Reduced migration leads to lower demand for housing investment in particular, which flows through to lower labour demand.

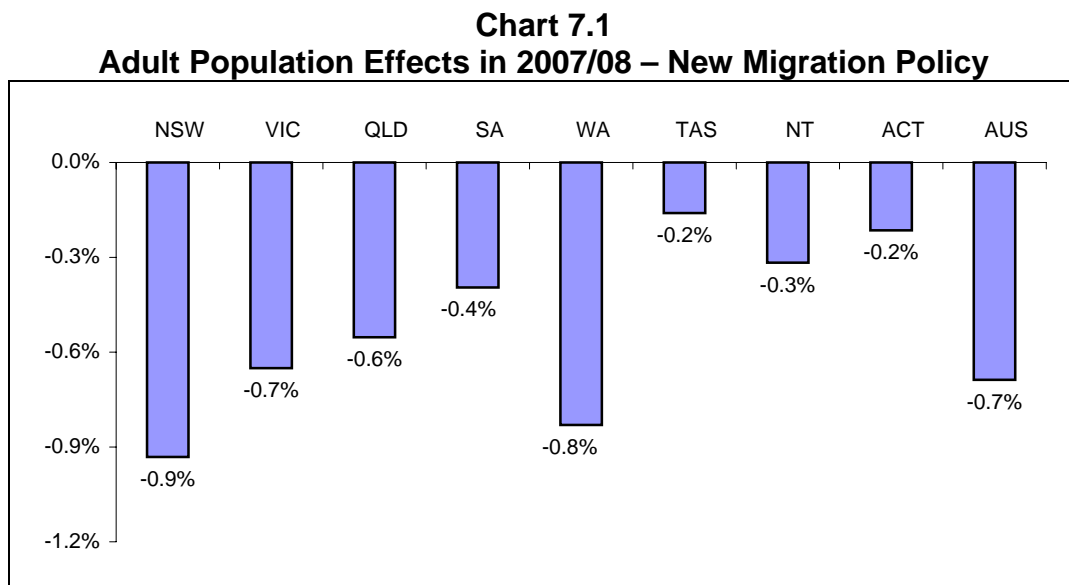
There is an important qualification to these results. In reality, to the extent that the labour market attributes of migrants differ from those of existing Australian residents, migration can have an effect on jobs-mismatch in the labour market, and as a result change the sustainable unemployment rate. For example, if migration were heavily focussed on unskilled workers, jobs mismatch would be likely to be increased by migration, as there are already too many unskilled workers in Australia for the limited unskilled jobs available.

7. States and Industries

The MM2 model also provides estimates of the effects of the new migration policy on states and industries.

Chart 7.1 shows that, how the continuation of the new policy will affect the adult population of each state by 2007/08. By that year, the adult population is between 0.2 per cent (Tasmania) and 0.9 per cent (New South Wales) lower than it would have been had the old migration policy continued to be in place. The small reduction in the migration intake under the new policy has a bigger percentage effect on the population of New South Wales, which receives more than its share of new migrants, than on the population of Tasmania, which receives less than its share of migration.

Note that the population effects shown in Table 7.1 relate to the adult population (ages 15 and over), and are therefore not totally comparable with the population effects in Table 4.1, which relate to the entire population of all ages.



These effects on state population lead to similar effects on state labour supply and employment. This leaves little net effect on unemployment in each state, just as there is little effect on unemployment at the national level.

At the national level, the new migration policy leads to higher GDP per head than would have been expected had the old migration policy remained in place. Chart 7.2 shows that all states share in this gain, with GSP per head higher in every state. Similarly, all states share in the national gain in consumption per head.

Chart 7.2
GSP per Head in 2007/08 – New Migration Policy



By slightly lowering the migration intake, the new migration policy leads to population and GDP being slightly lower than if the old policy had remained in place. By 2007/08, the loss of GDP is no more than one per cent in any industry.

Specifically, in 2007/08, GDP in export-orientated industries such as agriculture, forestry and fishing, manufacturing and mining is between 0.2 and 0.6 per cent lower than it would have been had the old migration policy continued to be in place. As summarised in Chart 4.2.2, in 2007/08, the changes to migration policy from 1995/96 to 2000/01 resulted in higher migrant fund transfers from overseas. By reducing the need to divert a considerable share of GDP into housing for new migrants, external balance can be maintained with a lower net exports share of GDP. The end result is less exports in 2007/08.

More importantly, GDP per head and consumption per head both gain. As discussed in section 5, the gain in living standards arises partly from higher productivity, and Table 7.2 shows that this gain in productivity (GDP/employment) is spread across all industries.

Table 7.1
State Economic Effects in 2007/08 (deviations from the Old Policy)

	Scenario 1	Scenario 2	Scenario 3
<i>Employment (%):</i>			
NSW	-0.81%	-0.46%	-0.45%
VIC	-0.43%	-0.15%	-0.16%
QLD	-0.30%	-0.07%	-0.09%
SA	-0.09%	0.09%	0.07%
WA	-0.76%	-0.46%	-0.46%
TAS	0.26%	0.35%	0.30%
NT	-0.08%	0.05%	0.02%
ACT	0.15%	0.29%	0.27%
AUS	-0.50%	-0.22%	-0.22%
<i>Population Aged 15 Years and over (%):</i>			
NSW	-1.23%	-0.93%	-0.87%
VIC	-0.86%	-0.65%	-0.61%
QLD	-0.73%	-0.55%	-0.52%
SA	-0.53%	-0.40%	-0.37%
WA	-1.10%	-0.83%	-0.78%
TAS	-0.23%	-0.16%	-0.15%
NT	-0.45%	-0.32%	-0.29%
ACT	-0.38%	-0.21%	-0.19%
AUS	-0.92%	-0.69%	-0.64%
<i>GSP (%):</i>			
NSW	-0.77%	-0.38%	-0.36%
VIC	-0.39%	-0.05%	-0.06%
QLD	-0.23%	0.03%	0.01%
SA	0.02%	0.23%	0.20%
WA	-0.75%	-0.44%	-0.44%
TAS	0.46%	0.52%	0.47%
NT	-0.08%	0.05%	0.02%
ACT	0.36%	0.46%	0.45%
AUS	-0.46%	-0.14%	-0.14%
<i>GSP per head: working-age population (%):</i>			
NSW	0.47%	0.56%	0.51%
VIC	0.47%	0.61%	0.55%
QLD	0.51%	0.58%	0.53%
SA	0.55%	0.63%	0.57%
WA	0.36%	0.39%	0.34%
TAS	0.68%	0.68%	0.62%
NT	0.37%	0.37%	0.32%
ACT	0.74%	0.68%	0.64%
AUS	0.46%	0.55%	0.50%

Table 7.2
Industry Economic Effects in 2007/08 (deviations from the Old Policy)

	Scenario 1	Scenario 2	Scenario 3
<i>GDP(P) (%)</i>			
A. Agriculture, Forestry & Fishing	-0.49%	-0.25%	-0.26%
B. Mining	-0.88%	-0.59%	-0.61%
C. Manufacturing	-0.64%	-0.36%	-0.38%
D. Electricity, Gas & Water	-0.44%	-0.09%	-0.10%
E. Construction	-0.74%	-0.17%	-0.16%
F. Wholesale Trade	-0.35%	-0.13%	-0.14%
G. Retail Trade	-0.25%	0.11%	0.11%
H. Accommodation, Cafes & Restaurants	-0.35%	-0.08%	-0.08%
I. Transport	-0.50%	-0.27%	-0.28%
J. Communications	-0.24%	-0.04%	-0.04%
K. Finance & Insurance	-0.55%	-0.08%	-0.08%
L. Property & Business Services	-0.50%	-0.20%	-0.20%
M. Government Administration	-0.05%	-0.02%	-0.02%
N. Education	-0.07%	0.03%	0.03%
O. Health	-0.17%	0.06%	0.06%
P. Culture & Recreation Services	-0.22%	0.04%	0.04%
Q. Personal & Other Services	-0.25%	0.02%	0.02%
R. Ownership of Dwellings	-0.24%	0.14%	0.15%
<i>GDP/employment (%)</i>			
A. Agriculture, Forestry & Fishing	0.13%	0.13%	0.14%
B. Mining	0.15%	0.14%	0.15%
C. Manufacturing	0.08%	0.06%	0.06%
D. Electricity, Gas & Water	0.14%	0.15%	0.15%
E. Construction	0.11%	0.12%	0.12%
F. Wholesale Trade	0.12%	0.12%	0.13%
G. Retail Trade	0.11%	0.12%	0.12%
H. Accommodation, Cafes & Restaurants	0.12%	0.13%	0.13%
I. Transport	0.10%	0.09%	0.09%
J. Communications	0.14%	0.14%	0.14%
K. Finance & Insurance	0.13%	0.13%	0.13%
L. Property & Business Services	0.11%	0.12%	0.12%
M. Government Administration	0.10%	0.11%	0.11%
N. Education	0.10%	0.11%	0.11%
O. Health	0.10%	0.11%	0.11%
P. Culture & Recreation Services	0.12%	0.12%	0.13%
Q. Personal & Other Services	0.10%	0.11%	0.11%
R. Ownership of Dwellings	NA	NA	NA

8. Excluding Humanitarian Migration

So far the analysis considers the economic impacts of all of the changes in program migration since 1995/96. While these changes have largely been due to deliberate changes in migration policy, this has not always been the case.

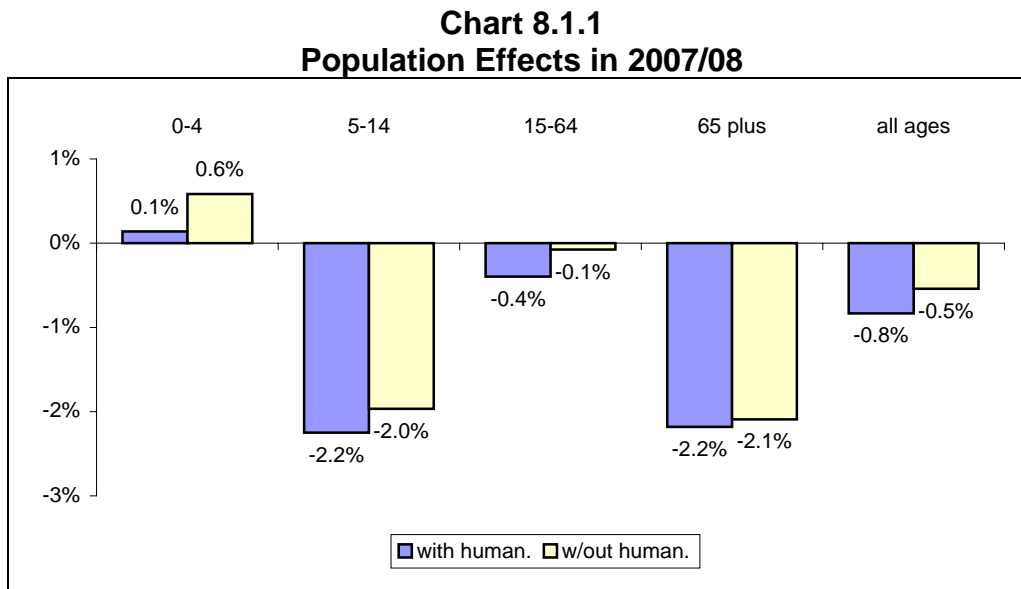
Other parts of the migration intake are driven by overseas demand or other factors rather than policies of the Australian government. One of these other factors is an actual and expected increase in asylum seekers onshore found to be refugees. This has resulted in the Humanitarian program intake offshore dropping by 5,000 migrants in 2000/01.

Because these changes to the Humanitarian program are due more to factors other than domestic policy, arguably these changes should be excluded in assessing the economic impact of changes in migration policy. For that reason, the analysis in this report was repeated excluding the effects of the changes to the Humanitarian program. This turns out to lead to only minor changes to the main results.

8.1 Differences in Demographic Scenarios

Charts 8.1.1 and 8.1.2 show how the seven summary indicators of demographic outcomes are affected by taking into account the exclusion of Humanitarian migration from the new policy in 2000/01.

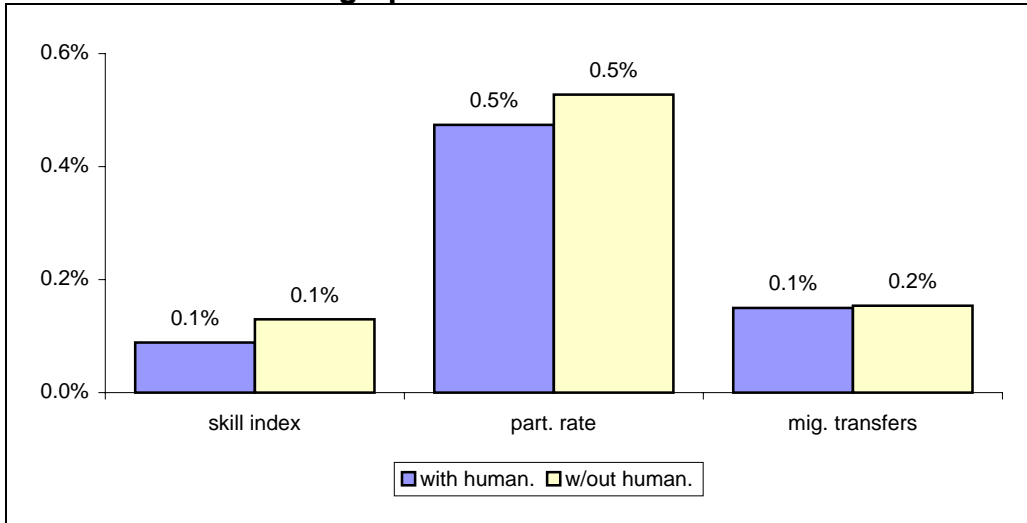
As shown in Chart 8.1.1, under the new migration policy with Humanitarian migration, in 2007/08, the Australian population is 0.8 per cent lower. In contrast, under the new policy without Humanitarian migration, over the same period the Australian population is only 0.5 per cent lower.



Both versions of the new migration policy generally show a reduction in the age of the population. This is the result of higher population losses in the retirement age group (65 plus) in Chart 8.1.1 compared to the losses of the population as a whole.

The remaining three variables appearing in the demographic scenario are shown in Chart 8.1.2.

**Chart 8.1.2
Other Demographic Scenario Results in 2007/08**

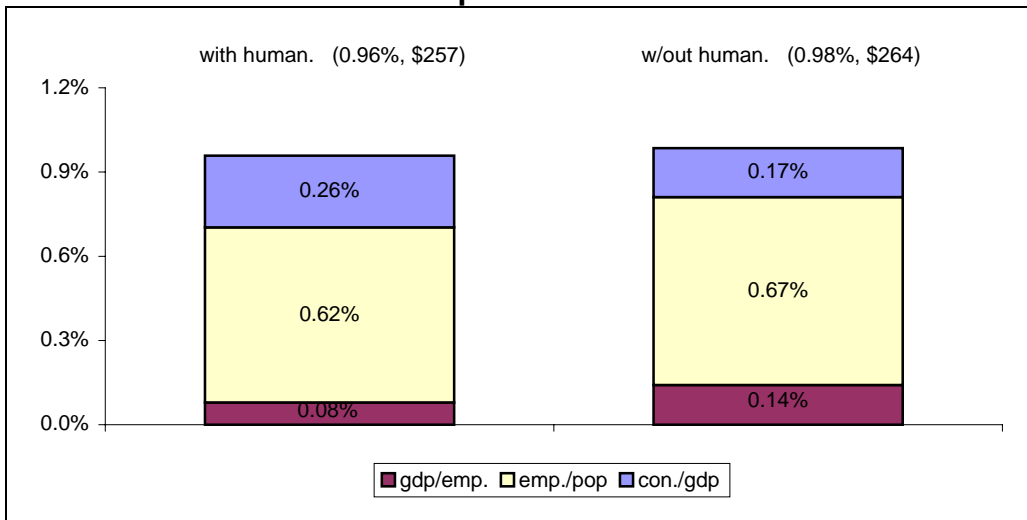


Due to the younger population, by 2007/08 the underlying national labour force participation rate gain is higher under the continuation of the version of the new policy that excludes Humanitarian migration than the inclusive version. This reflects the exclusion of migrants less likely to have an employment impact.

Furthermore, the gain in the labour force skill index in 2007/08 is also higher under the continuation of the new policy exclusive of Humanitarian migration. The difference is the result of excluding low skilled Humanitarian migration from the migrant intake.

8.2 Differences in Economic Scenarios

**Chart 8.2.1
Gains in Consumption Per Head in 2007/08**



The demographic effects of the two versions of the new migration policy summarised in Charts 8.1.1 and 8.1.2 were fed into the MM2 economic model. The results from MM2 show the economic impacts in 2007/08 of excluding Humanitarian migration.

The two versions of the new migration policy each show similar gains in living standards. As seen in Chart 8.2.1, excluding the Humanitarian program marginally increases the gain in annual consumption in 2007/08 from 0.96 per cent to 0.98 per cent. This represents an increase in the gain in annual consumption from \$257 to \$264 per head.

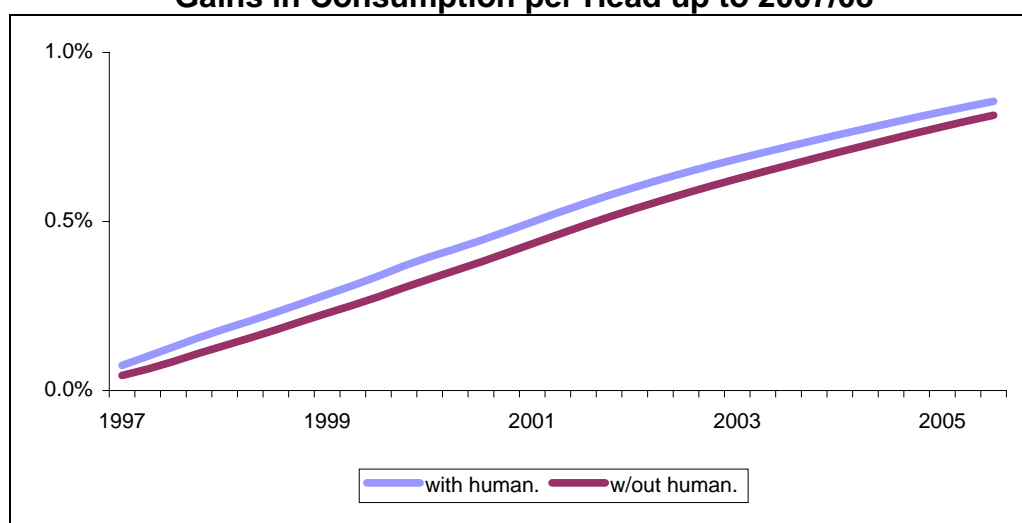
Although the overall gain in annual consumption per head is similar between the two versions of the new migration policy, there are some differences between the three components of the measure of living standards.

Chart 8.2.2 shows that comparing the two versions the new migration policy, by 2007/08, *GDP per employed person* (productivity) is higher under the version of the new policy that excludes Humanitarian migration. The larger gain, 0.14 to 0.08 per cent, reflects the larger increase in the labour force skill index that was shown in Chart 8.1.2 for this version of the new policy.

The only other difference of note is the higher gain in the *employed share of the population* in 2007/08 of 0.67 per cent under the version of the new policy exclusive of Humanitarian migration. This higher gain compared to the gain under the alternative version of the new policy of 0.62 per cent is due to two labour force effects. Chart 8.1.2 showed a higher gain in the underlying national labour force participation rate, while Chart 8.1.1 showed a relatively smaller loss in population of the non-working age group.

Chart 8.2.2 shows the time profile of the higher living standards up to 2007/08 under the new migration policy with and without Humanitarian migration. Under both versions, consumption per head rises steadily to achieve the gains in 2007/08 reported in Chart 8.2.1. Overall, each version has similar effects on consumption per head up to 2007/08.

Chart 8.2.2
Gains in Consumption per Head up to 2007/08



8.3 Differences in Unemployment

The results from the MM2 model also show the effects of each version of the new migration policy on the labour market.

As seen in Chart 8.3.1, neither version of the new migration policy has any significant net effect on unemployment. This is the result of labour supply losses being reasonably similar to losses in employment inclusive and exclusive of Humanitarian migration.

Chart 8.3.1
Unemployment Effects up to 2007/08

