

# **An Analysis of the Impact of Skilled Migration on the Current and Future Economic Well Being of W.A**

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by

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## **Abstract**

The presence of skill shortages has been the dominant rationale for the recruitment of trained foreign workers. Most Australian states have thus embraced the opportunities that the expansion and devolution of Australia's immigration program in recent times has given them. This paper examines the issue more closely by providing a conceptual overview of the economic case for the continuing need for skilled workers from abroad and discusses various related factors and considerations of relevance. Reference is also made to the current immigration policy and recent trends in skilled and business migration. This provides the context for a review of the contemporary economic impact that skilled migration has had in W.A and its likely future effects on the state. The anticipated future needs as indicated by the demand for skilled workers, the extent to which this demand is met by the resident workforce and the migration planning levels is also analysed.

## **1. Introduction**

The connection between immigration and skill shortages has a long and illustrious history. The large scale immigration to Australia can be seen as an expression of the collective view that the economic considerations and the wider social effects of immigration are positive and significant. In the case of Western Australia, successive State Governments have been strongly in favour of growth and development. This ethos remains as strong today as it has always been. It is based, partly on narrow economic reasons - that migrants are an important source of skill for such an isolated and relatively sparsely populated state - but mainly on a belief that growth creates opportunities that otherwise would not be available to people in Western Australia.

### *1.1 Economic Modelling*

A number of studies have sought to quantify the benefits of migrant labour. The most common approach has been to use a computable general equilibrium model to compare the effect of a higher migration intake against a base level scenario. Being aggregate models of the whole economy, such models can only take account of the most direct influences of immigration. On the other hand, such models take full account of the complex macroeconomic adjustments consequent upon a change in the level of migration.

The most recent Australian studies indicate that an expansion of skilled migration initially has a small negative effect on living standards (GDP per capita) (Productivity Commission 2006). In the longer run this negative effect is reversed to yield a positive effect of 0.7 to 1.1 per cent on average living standards. It should be stressed that this is a small effect. It represents the effect of increasing skilled migration by 50 per cent (about 39,000 per year) and then computing the effect of this higher level of migration after 21 years. Thus 800,000 new skilled migrants (a population increase of about 4 per cent) increases the average income by 0.7 to 1.1 per cent.

The two main effects incorporated in these models are the human and financial capital migrants bring. More human and financial capital increases the size of the host economy but this greater size has, by itself, little impact on welfare. Instead, the main benefits arise from the skilled migrants having, on average, a higher level of skill than existing residents. Thus more skilled migrants increase the average level of skill in the workforce. Likewise, business migrants who bring large amounts of financial wealth, increase the average level of wealth in the community.

For most purposes, a better indicator of the effect of migration would be to assess the effect of a higher level of migration on the resident population. This raises some technical issues, but the approximate effect is beyond doubt. Because the skilled migrants are more skilled than existing residents, the increase in average income is mainly due to their higher income. In other words, it is the migrants that capture most of the benefits. Furthermore, since the average effect on living standards is small, existing residents stand to gain very little and might even lose from the presence of more migrants. The Productivity Commission report puts a figure on this as well; the average income of residents would decrease by 0.15 per cent.

These findings are typical of other Australian and international studies on the economic impact of immigration using general equilibrium models. In the Australian debate, the term benign, meaning that migration has no significant effect on existing residents, has often been used to characterise the findings. The same qualitative result would be obtained if the effect of the skills and financial capital of business migrants rather than of skilled workers was analysed.

## *1.2 Microeconomic Effects*

Although computable general equilibrium models incorporate many effects of more migrants on an economy, it is fair to say that their most useful role is to work out the macroeconomic adjustments consequent on an increase in the level of migration. This is because a host of micro economic effects that cannot be quantified are omitted from the analysis.

These omitted factors include:

- Economies of scale
- Complementarities between migrant and resident labour
- Embodied technical change
- Economies of size or scale at a regional level
- Natural resources and environmental externalities
- Taxation and transfer payments
- Trade and technology transfer

While these effects can not be quantified there is nevertheless much qualitative evidence of (mainly) positive effects. Two of the above factors are particularly relevant to the Western Australian situation and are discussed in more detail below.

### *1.3 Complementarities and Skill Transfer*

Allowing for complementarities between migrant and migrant labour has been shown to have a large effect on the economic impact of migration derived from economic models. This is highly relevant to the Western Australian situation with persistent skill shortages. Absent migrants, in a competitive market such skill shortages would be eliminated by adjustments in the price of labour and the resulting supply and demand responses. Wages for skills in short supply would be driven up; the supply of labour, by increased participation in education and training would expand and employers would reduce their use of the now more expensive labour. While these adjustment processes may well be at work, the responses appear muted. Apart from the fact that they take a long time to work themselves out, the muted responses suggest that migrant and resident labour are not perfect substitutes. Rather there may be significant complementarities between the two. The wages of resident labour is not bid up because some of the shortage is for skills that the resident workers do not possess - they are not substitutes for migrant workers. Hence, shortages persist, as has now been the case in Western Australia for some time, until and unless they are filled by migrants. Furthermore, the complementarities mean that the productivity of residents is enhanced by the arrival of migrants.

This perspective is also strongly embedded in Australia's immigration policy. The rationale for temporary visas for workers in certain categories has always been rationalised by reference to the need for such workers, where need is understood to mean that the skills that they bring are not easily obtainable in Australia. Much the same applies to the Employer Nomination Program. The sponsoring employer has always been required to justify the sponsorship migrants by showing:

- That resident workers are not adversely affected - i.e. that resident workers are not substitutes, and
- That there are distinct benefits from sponsoring a migrant. One way such benefits are obtained is through the complementarities of the migrants' skills.

This line of reasoning is essentially a variation of the argument for free trade; existing Australian residents can hardly be worse off on average if they have the opportunity to trade with a larger group. This free trade argument is essentially the same whether it concerns the trade of goods or the trade of skills. The only reservation is that some existing residents might become worse off if their skills are close substitutes. However, if migrants are complements rather than substitutes this reservation does not apply. The complementarities mean that the productivity of residents is enhanced by the arrival of migrants.

At a micro economic level it is easy to appreciate that migrants with complementary skills can bring considerable benefit to resident workers. An obvious example is the chef with international experience who can transform a mediocre restaurant into a culinary haven. This might then set in train a dynamic process of developing the skills of other staff to leverage the benefits from the initial skill infusion. At the same time it is easy to think of many migrants who just bring another pair of hands to the job; no more or no less than the typical resident worker. The only hard evidence comes from a recent US study that challenges earlier findings. Most studies of the effect of immigration on the wages of US-born workers have found a large negative effect; implying that immigrants are substitutes for the US-born so that the

resulting inflow depresses the wage. Taking complementarities into account this result is reversed; immigration generates a large positive effect on the average wages of U.S.-born workers.

The benefits to residents can be further enhanced by any transfer of skills from migrant to resident labour. Again this is of particular relevance to Western Australia. At a more general level, skill transfer comes under the heading of spill over or external effects whereby the actions of one party has an effect (negative or positive) on another party. The extent of spill-overs has been extensively studied by economists in relation to innovation, foreign direct investments, and many other fields and is generally held to be an important consideration.

Like the degree of complementarity the extent of skill transfer is difficult to measure. There are few objective measures, and the best that can be done is to use well designed surveys to uncover the evidence. One such study was of migrants sponsored under the Employer Nomination Scheme in Western Australia. The employers in this survey thought that sponsored workers enhanced training opportunities rather than reduced the need to train Australian workers. The immediate supervisors of the sponsored stated that migrants are an important source of skill and are of particular importance to a small and relatively isolated state such as W.A. The organisations that were surveyed also said that almost two thirds of sponsored workers provided some training to their co-workers, and rated the usefulness of that training very highly. Equally positive was the assessment of the contribution of sponsored workers to the performance of the employing organisation. Overall, they were judged to make a moderate to high contribution to the productivity and performance of the organisation and particular value was placed on their technical skills.

#### *1.4 The Financial Wealth of Business Migrants*

Another benefit that is not really allowed for in economic modelling of the effect of migration is migrants' transfer of financial wealth. This is an important consideration, and partly a rationale, for encouraging business migrants to Western Australia. Like many other effects, the mechanism by which existing residents benefit is very indirect. The first point to note is that the business migrants who transfer some of their wealth to Western Australia continue to own this wealth and to receive the return it generates. In other words, the business migrant themselves are the direct beneficiaries of their own wealth. But it also adds to the total financial wealth of Western Australia which has some indirect benefits to existing residents.

Consistent with the way in which this additional financial wealth is treated in economic models, one might argue as follows. Suppose existing residents were to borrow from abroad the money that the business migrants bring with them. The net effect of this would be to increase the WA foreign debt (or decrease foreign assets). In turn this would have the effect of increasing the cost of borrowing from abroad although some of the effect would be reflected in a revaluation of the Australian dollar. In other words, the financial wealth that business migrants bring can be viewed as increasing the equity/debt ratio of Western Australia Ltd. Thus, abstracting from the business skills they bring, the recruiting of business migrants is essentially an equity raising activity. This additional equity benefits existing equity holders (residents) who otherwise would have to borrow the equivalent amount from abroad at a higher cost.

The limitation with this line of reasoning is that there is no real prospect of assessing the value of this additional equity. But to take the reasoning one step further the benefit can be approximated by the cost of a large equity rising by private corporations. A benchmark figure is 0.5 per cent of the capital raised.

## **2. State-Specific and Regional Migration**

The state-specific and regional migration (SSRM) initiatives were first introduced in 1996 with the aim of a more spatially balanced migration program. In particular, the initiatives were designed to:

- encourage a more balanced settlement pattern of the skilled migrant intake
- address the skill needs in regional Australia
- attract overseas business people to establish themselves in Australia

SSRM has enabled state and territory governments, employers and other bodies in regional locations to pursue regional development objectives by attracting skilled migrants. It has also provided encouragement for such migrants to locate in places where they are needed and wanted by relaxing the normal entry requirements.

Since first introduced in 1996, the SSRM initiatives have been modified and expanded in response to the experience of the initiatives and changing circumstances. It is generally accepted that these initiatives have been very successful. They have broken the link between population size and location of migrants. More specifically, the SSRM initiatives have relaxed the constraints that population pressures in Sydney and Melbourne once had on Australia's immigration program. Thus, much of the increase in immigration in recent years has been a direct result of, or driven by, SSRM initiatives. Nationally, SSRM visas have increased from a very small base in the late 1990's to over 25,000 in 2005-06. This level has been maintained since then. This figure corresponds to about 25 per cent of the skilled stream visas. In the case of Western Australia, the SSRM visas increased to over 3,000 in 2006-07.

The SSRM initiatives have given state and territory governments a much more significant role in the operation of Australia's immigration program. Thus state and territory governments now have three main roles:

- the identification of the need for skilled migrants
- the recruitment of skilled and business migrants to meet those needs
- maintaining the integrity of the immigration program

### *2.1 State Responses*

In response to these developments the Western Australian Government set up a Business Migration Program in October 2002. Initially, the primary role of the

Program was to provide information to prospective business migrants. Over time it came to play a more active role as changes in the SSRM initiatives gave state and territory governments a more prominent role in the recruitment of business migrants.

In 2004 the role of the Western Australian government was further enhanced by the establishment of a Skilled Migration Unit in the Department of Resources and Industry. These initiatives were associated with a significant increase in skilled and business migration to Western Australia. Further changes in the SSRM programs, in particular the state/territory sponsoring of skilled migrants, saw the two arms of business and skilled migration combined to form the State Migration Centre (SMC). This permitted a more efficient use of resources and an opportunity to streamline the services to prospective migrants. The State Migration Centre was set up in July 2006. It has now operated for a full two years allowing for a comprehensive view of its operation.

Similar developments have occurred in the other states and territories. South Australia, in particular has embraced the SSRM initiatives to transform its immigration program. Historically, South Australia has attracted a disproportionately low share of Australia's migrants. The SSRM initiatives, by classifying the whole of South Australia, including Adelaide, as a 'regional area', has dramatically changed this position as the South Australian Government has used its regional status to pursue a very active policy of recruiting skilled migrants. Instead of attracting only about 3 per cent of Australia's migrants, South Australia has accounted for almost one third of the SSRM visas. Other state and territory governments, with one exception, have also developed their capacities to make the SSRM initiatives a success.

**Table 1:** State-Specific & Regional Migration visa grants: Western Australia & Australia

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>New South Wales</b>	228	617	857	1303	1632	1900
<b>Victoria</b>	2,129	4,146	6,459	7,100	10,496	9,178
<b>Queensland</b>	272	649	1,483	2,412	3103	3,084
<b>South Australia</b>	703	1,324	2,071	4,951	8,182	7,158
<b>Western Australia</b>	341	584	968	1,786	2,401	3,025
<b>Tasmania</b>	204	197	291	459	503	512
<b>Northern Territory</b>	57	132	154	158	303	290
<b>Australian Capital Territory</b>	202	292	442	528	682	650
<b>Australia</b>	4,136	7,941	12,725	18,697	27,488	25,845

Source: DIAC, 2008a

As is evident from Table 1, the Western Australian take-up of the SSRM initiatives was a bit slow. In recent years, however, Western Australia has increased its share to more than 10 per cent through the initiatives undertaken firstly by the Skilled Migration Unit, and later the SMC.

In conjunction with the SSRM initiative, the number of visa classes has expanded considerably giving the skilled and business migration programs a more complicated structure. Table 2 sets out the various visa classes and identifies the visa classes for which the SMC has a direct responsibility as a sponsor. For skilled migrants the role of state and territory governments are limited to the four sponsored visa classes that in combination account for about 25 per cent of skilled migration. In the case of business skills, the SSRM initiatives have largely replaced the independent business migration initiatives. Thus almost all business migration now comes under the three state and territory sponsored visa classes 163/164/165.

**Table 2:** Skilled and Business Development Visa Classes

<p><b><i>General Skilled Migration</i></b></p> <p>Offshore permanent</p> <ul style="list-style-type: none"> <li>Skilled – Independent (subclass 175)</li> <li>*Skilled - Sponsored (subclass 176)</li> </ul> <p>Offshore provisional</p> <ul style="list-style-type: none"> <li>*Skilled - Regional Sponsored (subclass 475)</li> <li>Skilled - Recognised Graduate (subclass 476)</li> </ul> <p>Onshore permanent</p> <ul style="list-style-type: none"> <li>Skilled - Independent (subclass 885)</li> <li>*Skilled - Sponsored (subclass 886)</li> <li>Skilled - Regional (subclass 887)</li> </ul> <p>Onshore provisional</p> <ul style="list-style-type: none"> <li>Skilled - Graduate (subclass 485)</li> <li>*Skilled - Regional Sponsored (subclass 487)</li> <li>Skilled - Regional Sponsored (subclass 487) 12 month renewal</li> </ul> <p><b><i>Business Development</i></b></p> <p>For business people to establish a business in Australia, manage a new or existing business or invest in Australia. These are temporary visas that offer a pathway to a permanent visa.</p> <ul style="list-style-type: none"> <li>Business Owner (Provisional) (Subclass 160)</li> <li>*State/Territory Sponsored Business Owner (Provisional) (Subclass 163)</li> <li>Senior Executives (Provisional) (Subclass 161)</li> <li>*State/Territory Sponsored Senior Executive (Provisional) (Subclass 164)</li> <li>Investor (Provisional) (Subclass 162)</li> <li>*State/Territory Sponsored Investor (Provisional) (Subclass 165)</li> <li>Investor Retirement Visa (Subclass 405)</li> <li>Independent Executive Further Application Onshore (Subclass 457IEFAO)</li> </ul>
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With regard to the other states, South Australia has for a long time had a very low rate of population growth. It has been losing people to other states and lost its attractiveness to migrants. In 2000/01 it attracted only three per cent of Australia's migrants. As part of a concerted effort to transform the fortunes of the state, the South Australia Strategic Plan sets out a wide range of initiatives for securing a better future. Increasing the population of South Australia is an important part of this plan. Thus South Australia has embraced the SSRM initiatives to the fullest by a very active program to attract migrants. These initiatives have transformed the migration flows. The number of settlers to South Australia has more than doubled during the 2000/01-2006/07 period. The national share of overseas settlers coming to South Australia has increased from 3 to 7.2 per cent.

In contrast, New South Wales and Sydney in particular has long been a magnet for immigrants to Australia leading to significant population pressures. Consequently, and as a matter of policy, its state migration agency does little more than process applications for state sponsorship. Prospective migrants are on their own getting there. According to its state migration web page "The NSW Department of Industry and Regional Development does not provide advice and assistance service". The contrast with South Australia could not be starker.

Queensland has also followed a fairly low key approach but for different reasons. It attracts large numbers of inter-state migrants from New South Wales and Victoria. In addition, Queensland is the favoured destination of New Zealanders who account for almost half of the overseas migration to this state. Since most of its skill needs are met by these flows, the skilled migration program does not play a very important role. The Queensland Government's position statement on skilled migration simply states that the Department of Tourism, Regional Development and Industry will manage the skilled migration program in Queensland. As such it will develop strategies such as targeted marketing, promotion, sponsorship support services and whole-of-government coordination. However, even though at the policy level the approach may be low key Queensland has developed an active program of attracting skilled migrants.

Victoria has followed an approach that is perhaps most similar to Western Australia. In its population strategy developed in 2002 it set out explicit targets to use the SSRM initiative to increase its population and share of skilled migrants as well as to ensure that regional Victoria received a more appropriate share of migrants to the state. To achieve this, its migration agency has operated along lines similar to the SMC and with results similar to that of Western Australia.

While each state is different, and each has embraced the SSRM initiatives in different ways there is still much in common. Thus, with the exception of New South Wales all states and territories have set up agencies that undertake most of the following functions:

- Provision of information to prospective migrants
- Marketing the state as a destination
- Targeted marketing in overseas locations
- Provision of business related information to prospective business development migrants

- Development of information networks to identify state needs
- Assessment of state sponsorship applications
- Provision of, or links to, post-arrival services
- Follow up assessment of business development migrants
- Advice and inform other government agencies about migration issues

These developments in the role of state migration agencies constitute a significant departure from the past. It has given the states the opportunity to drive the migration to their state according to the specific needs of their state. Most states have sought to take up these opportunities resulting in a significant redistribution of migrant arrivals from New South Wales to South Australia, Western Australia and Victoria.

### **3. Population and Migration in Western Australia**

Western Australia is predominately a state of immigrants. While the Aboriginal community occupied the land for thousands of years prior to European occupation, the state of WA in its current form is a product of immigration. It was settled by immigrants, and its continued development has been driven by immigrants. The flow has varied over time in response to economic and political developments. However, even now, 170 years since first European settlement, immigration remains as important as it has ever been to the future development of the state.

Following a slow down of immigration during the early nineties, more favourable economic conditions have seen a continuing increase in the number of immigrants. Settler arrivals have increased dramatically since 2002-03 reaching to about 20,000 persons. In addition, there has been an even larger increase in permanent settlement of holders of temporary visas.

#### *3.1 Impact of Immigration*

In the past, the number of settler arrivals was the primary indicator of the impact of overseas migration on the population. However, this no longer applies. The large number of temporary residents, students and visitors and the increased mobility of permanent residents can present a quite confusing picture. While many of these come and go, many more now become permanent residents.

The period 2001-06 provides the most comprehensive picture of what has happened. Migration has overtaken domestic population growth as the largest component of population growth. At the same time, net internal migration, between WA and the other states, has been reversed, also making a positive contribution to population growth.

The impact of immigration over the 2001-2006 period is best summarised by the position in 2006. At that time there were 101,089 persons in WA who lived overseas five years earlier. About 40 per cent of these came from the three leading source countries, England, New Zealand and South Africa. In other respects, however, recently arrived migrants are surprisingly similar to the resident population along a number of indicators. Thus their employment rate is about the same as is the industry distribution of employment and earnings. Minor differences include their larger concentration in Perth compared to residents, their higher rate of unemployment and a greater concentration in professional occupations. The data indicates the highly successful settlement of recent arrivals. The higher unemployment rate is an almost inevitable consequence of their recent arrival and should not be taken to mean that they experience any particular problems in finding jobs.

The recent strong growth in the WA economy has also attracted persons from the other states and territories. This inflow, however, is balanced by a similarly large outflow of people from WA to the other states. Historically, the net inflow to WA has fluctuated considerably but at a quite low level. Since 2002, a small net outflow has turned into a small net inflow. However, there is no reason to believe that this recent increase in net inter-state migration represents a change from the fluctuating patterns that have prevailed over a long period.

Even if interstate migration has a small net effect it has a larger effect on the population in particular regions. Thus, the North West receives a disproportionately large proportion of interstate migrants to WA. One factor driving this is a highly mobile indigenous population. It also reflects that interstate migrants are a source of workers to the mining industry but the importance of this should not be overstated. By its location, the mining industry in the North West is always going to be dependent on movers wherever they come from - inter-state, overseas or intra-state.

The past decade in particular has seen a growing internationalisation of the Australian labour market which has been even more evident in Western Australia. Temporary flows of persons have become much larger and, to further obscure the picture, the permanent arrivals are increasingly drawn from this source. Because of this changing pattern, a simple and consistent set of figures from a single source can no longer be used to characterise the population effect of migration.

### *3.2 Skilled Migration*

The figures below relate only to the permanent visas in the skilled stream. Permanent migrants are now classified as 'permanent additions' to cope with the fact many arrived long before they gained a permanent visa. Thus there are now two categories; 'arrivals' and 'on-shore'. The increasing importance of the latter group is clearly evident - mainly overseas students who have now become an important source of skills to Australia.

**Table 3:** Settler arrivals- Skilled category permanent additions intending to locate in Western Australia

<b>Visa Class</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Sponsored	1,016	2,099	2,221	2,649
Employer Nomination Scheme	285	251	519	604
Business Skills	1,550	1,508	1,068	778
Independent	4,626	5,892	5,358	6,421
Total skilled arrivals	6,477	9,750	9,166	10,452
Total skilled on-shore (estimated)		1,957	2,820	3,096

Source: DIAC, 2008a

**Table 3 (continued):** Arrivals 2006 - December 2007

<b>Visa Class</b>	<b>2006-07</b>	<b>Jul-Dec 2007</b>
Australian Sponsored	1,377	721
Regional Designated Area Sponsor	506	160
Employer Nomination Scheme	684	593
Business Skills	794	317
Distinguished Talents	12	7
Independent	7,735	3,723
State/Territory Nominated Independent		468
Skilled Independent Regional	245	163
Total skilled arrivals	11,353	6,152

Source: DIAC, 2008a

**Table 3 (continued):** On-shore 2006 - December 2007

<b>Visa Class</b>	<b>2006-07</b>	<b>Jul-Dec 2007</b>
Australian Sponsored	174	97
Regional Designated Area Sponsor	17	8
Employer Nomination Scheme	1,799	1,410
Business Skills	620	225
Distinguished Talents	9	5
Independent	1,132	495
State/Territory Nominated Independent		
Skilled Independent Regional	17	12
Total skilled arrivals	3,768	2,252

At this level of detail the most striking aspect of skilled migrants is the concentration in a small number of occupational groups. The five occupational categories listed below, account for about two thirds of all skilled migrants to Western Australia:

- managers and administrators
- accountants
- building and engineering professionals
- registered nurses
- computing professionals

This pattern is not unique to Western Australia but a feature of skilled migration to Australia as a whole due to the large weight that the points test gives to a persons' occupation.

## **4. Western Australia's Need for Skills**

The mining and resources boom, as well as infrastructure investment and development, has created many opportunities for Western Australians. At the same time it has put great pressure on resources. Employment in Western Australia has been close to full capacity for some time now. Against the backdrop of a tight labour market labour shortages have become more prevalent and pronounced, particularly in certain skilled professions.

### *4.1 The Current Skills Shortage*

The Chamber of Commerce and Industry of WA (CCIWA) report that 76 per cent of surveyed businesses are now experiencing labour shortages. Skills shortages are now predicted in almost all industry sectors with particular emphasis on mining and resources, construction and manufacturing (CCIWA, 2007). Skill shortages are also being identified in such areas as information and communications technologies (ICT), particularly electronic engineers and electronic trades' workers. The forecasts are for increases in demand that the domestic supply from local educational institutions is unlikely to meet (CIER, 2008; DEEWR, 2008a). This chronic labour shortage is likely to constrain the growth of the Western Australian economy (ABS, 2006).

Another indicator of the strength of the state's labour market is the relatively high number of job vacancies that have been consistently reported across various industry sectors. ABS data for the September quarter of 2007 indicated that there were only 1.35 potential applicants for every job vacancy listed in Western Australia. According to the ABS, the greatest need is for tradespersons in the construction, metals, automotive along with the electrical and electronic industries (ABS, 2006). These trades are also in great demand in the mining and resources sector.

The survey undertaken by the Department of Education, Employment and Workplace Relations (DEEWR) in 2007 also found that employers across the Perth metropolitan region were experiencing significant skills shortages, particularly in the trades. Two thirds of employers found job applicants lacked suitable qualifications. Overseas migrants were filling many vacancies, particularly in the construction and manufacturing sectors. Around 38 per cent of employers surveyed by DEEWR indicated that they would be willing to recruit migrants in the future (DEEWR, 2007).

Within regional WA the labour skills shortage is understood to be worse than in the metropolitan region. DEEWR research undertaken in late 2007 within the South West found that 73 per cent of employers were experiencing difficulties recruiting skilled or suitably qualified employees. As with the Perth metropolitan area, the construction (91% reported skills shortages) and property and business services (88% reported skills shortages), were the most affected.

## 4.2 *Future Needs*

All reports on the likely future labour market conditions expect skill shortages to remain a significant problem. The *Sensis Business Index* of May 2008 found that small to medium enterprises (SME) in WA expected employment growth to increase by 2 per cent into 2008-09. While the total level of demand may be easing, chronic skills shortages in specific industries and regional areas are likely to persist.

The CCIWA's report titled "Building Human Capital" predicts that the state economy will need as many as 400 000 extra workers over the next decade. The report also asserts that WA's current and future projected labour market and population trends will not be able to accommodate these additional labour needs. The report thus affirms that without the implementation of effective measures to adequately expand WA's labour pool, the state is likely to face a shortfall of 150 000 workers by 2017 (CCIWA 2007, pg 47).

A report released by the Minerals Council of Australia (MCA) indicated that the enhanced demand for labour in the mining sector deriving from currently anticipated increases in output leading up to 2020 and assuming there are no significant changes in labour productivity, that the WA mining sector would need to employ 47 700 more workers. Another report published by the State Training Board of WA predicted that the demand for labour in the state would increase to such an extent that up to 17,800 extra skilled workers per year may be required in WA over the next decade. According to the results of the study the greatest demand is forecast to be for mechanical engineering tradespeople as well as electrical and electronic tradespeople.

A Monash University study commissioned by CCIWA found that the state was likely to experience a shortage of more than 3000 skilled workers across a range of occupations in key construction industries by 2009. The research also predicted that 20,000 more workers would be required each year until 2010 to accommodate the increase in overall labour demand within WA. More specifically the Monash University report predicted a shortfall of 2,170 mechanical and fabrication trades persons and 1,150 electrical trade persons by 2010.

## **5. Conclusion - Future Trends and Developments**

### *5.1 Immigration Policy*

Two important drivers of the SMC's operations are the level of immigration and the pace and direction of change to the state sponsored and regional migration initiatives. Both are under the control of the Commonwealth Government, but the developments that have already taken place means that the states and territories will be able to exert greater influence than in the past.

The planned level of migration for 2008-09 in the skilled stream is forecast to rise to 133,500. This is an increase of over 20 per cent over the 2007-08 level. Beyond 2008, the size of the immigration program will be driven by an assessment of the number of migrants that Australia can absorb. It seems highly unlikely, however, that the size of the program will decrease over the coming

years. The new Commonwealth government has taken a strong pro-immigration stance which is unlikely to be moderated. Furthermore, the increase in migration since 2001-02 has its own built in momentum and will drive the demand for more migrants in the future. Past experience also clearly demonstrates that migration cannot be turned on and off at will.

The SSRM initiatives are also likely to expand. Recently we have seen the somewhat unusual situation of the Commonwealth Government urging state governments to sponsor more skilled immigrants. In the case of Western Australia it is not for a lack of trying that state sponsorship accounts for only 10 per cent of skilled migration. What constrains state sponsorship is the occupational list that restricts WA from attracting the migrants it wants. This constraint is recognised by the Commonwealth and consequently it has been proposed that WA be allocated 500 non-list places in February. It is likely that the developments in the capacities of the states to manage their migration will result in further relaxation in the Commonwealth's control over the occupations of migrants. These and other developments might take place under a State Migration Plan suggested by the Minister of Immigration and Citizens Affairs and welcomed by the Western Australian Government. However, at this point in time no details about what such a plan might involve have been released.

## *5.2 Development in Other States*

As previously explained most of the other states have embraced opportunities that the devolution of Australia's immigration program has given them. There is also every indication that they will do so even more actively in the future than in the past.

A case in point is Victoria's migration strategy for the 2008-11, Global Skills for Victoria. This strategy provides some pointers for the future and might also serve as a benchmark for Western Australia. It is significant to note that this is a policy document is endorsed by the Victorian Government and is not just a plan developed by a government agency. The strategy sets out four objectives:

1. Expanding and enhancing Victoria's skill base
2. Marketing Victoria as the destination of choice for skilled and business migrants
3. Assisting skilled and business migrants to make the most of their skills
4. Attracting and retaining skilled migrants to provincial areas

Compared to the past, the objectives are given a broader formulation. Thus instead of just 'increasing skilled migration to Victoria' the revised formulation provides for 'expanding and enhancing Victoria's skills base'. Consistent with this, the range of actions under this heading expands on what was previously subsumed under the more simplistic 'increase migration' objective. In a similar vein, the activities to be undertaken to meet the other objectives are also more encompassing. The commitment to attracting migrants to regional areas is particularly strong and backed by a specific budget allocation.



The overall impression this strategy gives is that the Victorian Government is serious about attracting more migrants to the state and to make better use of their skills. This impression is reinforced by the budgetary commitment of \$15 million. This figure is more than double the \$6 million allocated to increase skilled and business migration over the 2003/04-2006/07 period.

### *5.3 Summary of Western Australia's Need for Skills*

During the past four to five years Western Australia has experienced exceptional shortages of skilled labour.

- The Skilled Vacancies Index has been stuck at around 200 points (twice the national figure)
- The number of trade vacancies has been running at around the 1000 mark
- The Scarcity Index, the percentage of employers saying that labour is scarce, has been around 70 per cent
- The Hudson index of permanent employment expectations was at it's fourth highest level in eight years in September 2008

Even if the shortages are most acute in the trades, the scarcity of labour is evident in most occupations and industries. Thus, two thirds of employers view the shortage of labour as one of their top three concerns. These shortages are not a temporary aberration. Over the next few years the boom is expected to continue. All the forecasts of GSP (Gross State Product) come up with figures in the 5-6 per cent range. Beyond that nobody really knows what will happen, but there is nothing to suggest that the export driven growth will come to a halt. Consequently, all projections of Western Australia's skill needs come up with very large numbers.

In summary, the most likely future is an environment with:

- A Commonwealth migration policy favourable to expanding migration to WA
- A continuing strong need for attracting more migrants
- Increasing competition between Australian states

It is abundantly clear from the scenario developed above that a passive approach to migration to WA is not really an option. Notwithstanding the strong pull from employment growth, given what the other states are doing, a passive approach by the Western Australian Government could lead to a significant drop in skilled migration. Currently, WA attracts about 18 per cent of permanent skilled migrants. However this share could easily drop to below the population share of 10 per cent.

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