Public policy and the labor market adjustment of new immigrants to Australia

Deborah A. Cobb-Clark
SPEAR Centre, Research School of Social Sciences, Bld. 9, Australian National University, Canberra ACT, 0200, Australia (Fax: +61-2-6125-0182; e-mail: dcclark@coombs.anu.edu.au)

Received: 16 January 2002/Accepted: 31 October 2002

Abstract. Two separate cohorts of immigrants to Australia are compared in order to assess the potential role of immigrant selection criteria, labor market conditions, and income-support policy in facilitating the labor market adjustment of new arrivals. Although these two cohorts entered Australia only five years apart, their initial labor market outcomes varied dramatically. The results indicate that changes in immigration policy may have led to increased human capital endowments that in turn resulted in higher participation rates and reduced unemployment. At the same time, improvement in Australian labor market conditions and changes in income-support policy over the 1990s – which most likely altered the returns to human capital – were probably instrumental in reinforcing the effects of tighter immigrant selection criteria. As much as half of the fall in unemployment rates among women and one third the decline among men appears to have occurred as the result of changes in the returns to demographic and human capital characteristics.

JEL classification: J6, J1

Key words: Immigrant, labor market assimilation, selection criteria, public policy

1. Introduction

International migration is an increasingly important economic phenomenon. The number of people worldwide living outside their country of birth now exceeds 120 million and more countries than ever are being classified as major
suppliers or receivers of international migrants (Stalker 2000). In the face of such massive movements of people, policy makers around the world are grappling with complicated issues surrounding the design and implementation of policies to facilitate the settlement of new arrivals.

Australia is an interesting case study for assessing the capacity of policy to promote immigrant settlement. First, Australia is a nation of immigrants. Nearly six million individuals have migrated to Australia since the post-war migration program began in October of 1945. Of the 18.3 million individuals enumerated in the 1996 Australian Census, 23.0% were foreign born and an additional 18.6% were first generation Australians (DIMA 1998). Second, a new data source – the Longitudinal Survey of Immigrants to Australia (LSIA) – provides a unique opportunity to study two separate immigration cohorts as they enter Australia and begin looking for work. Unlike standard labor force surveys and censuses which provide only limited information about foreign-born individuals, the LSIA was specifically designed to enhance our understanding of the immigration and settlement process.

This paper explores the role of labor market conditions, income-support policy, and immigrant selection criteria in promoting labor market adjustment. Two separate cohorts of new entrants to Australia are compared. The first cohort entered as new immigrants in the early 1990s (1993–1995) while the second cohort entered in 1999–2000. Although these immigrants arrived in Australia only five years apart on average, their early labor market experiences were dramatically different. The employment-to-population ratio six months after migration was only 31.5% for the first cohort, but 47.9% for the second. Labor force participation also increased between the two cohorts and the unemployment rate fell from 40.7% (Cohort 1) to 17.8% (Cohort 2).

A number of factors may account for these differences. In particular, there was substantial improvement in Australian labor market conditions over the latter half of the 1990s. Additionally, Australian immigration policy moved to place a greater emphasis on productivity-related skills in the selection process, while income-support policy was changed to exclude most immigrants from social welfare payments for the first two years after arrival. Our interest lies in assessing these factors’ potential role in promoting the labor market performance of new arrivals. The approach will be to use the detail of the LSIA data – in particular visa category, primary applicant status, gender, human capital characteristics, etc. – to pinpoint the source of the disparity in the labor market status and unemployment experience of the two entry cohorts. While not an identification strategy per se, this does allow us to begin to make progress in understanding the potential explanations for the improvement in labor market outcomes.

The results indicate that the 1999 changes to Australia’s skilled immigration program may have played a large part in the improvement in labor market outcomes. The cohort of individuals entering Australia in 1999–2000 was more educated and had better English language skills than the previous cohort. These changes in human capital endowments resulted in increased participation rates and reduced unemployment. Furthermore, the effects of changing human capital endowments were not uniform, but were concentrated amongst those groups most likely to be subject to the tighter selection criteria. At the same time, it seems clear that changes in Australian labor market conditions and income-support policy over the 1990s – which most likely altered the returns to human capital – were probably instrumental in