

## **Demise of Australia's competitiveness**

The proposed draft legislation relating to the Living Away From Home Allowance (LAFHA) will diminish the foreign talent pool in Australia, and will mark the beginning of a long decline in Australia's competitiveness as a nation<sup>1</sup>. In today's globalized world and connected markets, talent move borderless and immigration is an indispensable piece of any strategy to boost economic growth and prosperity. Educational and workforce preparation systems in most developed countries like Australia continues to produce not enough of the workers competitive economies require. Foreign born workers are now 24% of the Australian labor force<sup>2</sup> and 35% of Australian employers are using foreign talent to meet skills shortages. In the Australian Services sector this rises to a high of 40% of employers.<sup>3</sup>

## **In what way does immigration affect the economy?**

The most direct effect of immigration is to increase the size of the population and of the labor force. This enlarges the economy and impacts the GDP, it delivers an increase in tax revenues and makes it easier to finance certain government outlays such as pension liabilities, debt payments and other public goods. The more important effects of immigration are technological advances, long term growth in productivity (widening the pool of talents to recruit from), consumption, standards of living and income. Even under the most favorable circumstances, domestic education and training systems simply cannot produce all of the skills that (global) employers demand. In particular for fast changing or growing industries, in very specialized occupancies or occupancies with global labor markets (Finance, Pharmaceutical, ICT, Health Care, Resources & Mining etc.), and where international experience in or relevant knowledge of the markets that companies are trying to expand. The share of highly skilled migrants in highly skilled workforce In Australia is 26%<sup>4</sup>.

Besides impacting the overall society and economy, the most skilled immigrants have an impact not only as employees, but also as knowledge creators, as innovators of change, founders of new companies (entrepreneurship), and business leaders. This fuels competitiveness of nations and its ability to attract, retain and develop talents.

This dimension seems lost, ignored or left out of the proposed LAFHA legislative changes. Economic competitiveness should be a recurring theme in the Australian government and immigration debate. Australia has been on the forefront to attract immigrants and talents to the country, boosting its global competitiveness as a nation. The notion that immigrants have the capacity to make Australia more competitive, more innovative and more prosperous is especially appealing at a time of deep insecurity about Americas and EUs economic future and their places in a changing global economy.

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<sup>1</sup> Definition: Competitiveness of nations analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises, and more prosperity for its people. Source: IMD World Competitiveness Yearbook 2011.

<sup>2</sup> [www.state.gov](http://www.state.gov)

<sup>3</sup> Manpower, The Borderless Workforce, Australia and New Zealand, 2011

<sup>4</sup> Stimulating Economies through Fostering Talent Mobility, World Economic Forum & Boston Consulting Group, 2010.

Naturally, immigration cannot singlehanded solve the economic problems Australia faces. Alongside investments in education and workforce training systems, R&D, public infrastructure and thoughtful regulatory policies that reduce barriers to employment, immigration policy can contribute directly to innovation, technological progress and rising human capital levels. It can offer employers access to the workers they require to build their companies' competitiveness and can increase the availability of vital services from health care to information technology.

Immigration policy shapes this contribution in a fundamental way. It actively determines which immigrants come to Australia and how they are selected, how long they stay and under what conditions, and what they can do while they are here. In other words, immigration policies can facilitate or detract from immigration's contribution to economic growth and prosperity, depending on how effectively and how strategically they are designed by Australian policymakers.

The proposed LAFHA changes are seen merely as a tax implication vehicle with a short sighted impact on the budget. Instead of policymakers asking how we can bridge the budget gap, the questions should be how to choose the right immigrants and how the best immigrants will choose Australia. Talent and Australia's competitiveness as a nation is left out of the discussion and is deleted from its core role in a proactive immigration policy that keeps Australia ahead of other developed markets. Currently, Australia is #6 on the WW Talent rank by Heidrick & Struggles<sup>5</sup>. This position will be challenged if talent is not welcome in Australia along the proposed changes to the LAFHA model impacting foreigners. Removing LAFHA for foreigners will detract not only talent from coming to Australia, but also encourage talent currently in Australia to choose a more competitive destinations like e.g. Singapore. Choice of destination for talent and skilled immigration workers are decided by<sup>6</sup>:

1. Presence of other talented professionals,
2. Capital infrastructure,
3. human-capital opportunity,
4. Fair and Generous social model,
5. Lifestyle and environmental factors,
6. Tolerant and safe society and
7. The total immigration package (visas, route to residency, recognition as foreigner, opportunity for family).

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<sup>5</sup> The Global Talent Index Report: The Outlook to 2015, Heidrick & Struggles, 2011

<sup>6</sup> Migration Policy Institute, [www.mpi.com](http://www.mpi.com)

Designing a proactive immigration policy to drive talent into the economy and leverage this asset to bolster Australia's competitiveness is not subject to whether Australia is in a recession or not. Pre-, during-, and post-recession, better-skilled immigrants are always seen as the valued economic assets they typically are. Australia is characterized often as a two-speed economy, with resources and mining sector raising the annual GDP to about 3% in 2012. This does not at the surface characterize Australia as being in recession.

## **But what does recession mean for competitiveness and immigration, and particularly high-skilled immigration?**

Recession or not, the fundamental underpinnings of economic competitiveness remain the same. Knowledge intensive jobs continue to underpin economic growth and competitiveness, and no country can fill all these jobs from the domestic labor pool even with sharply refocused training and retraining efforts. Interest for talent will continue to be robust, but interest in the most talented will grow even faster.

Services has grown from some 25% of Australia's GDP in the 1950s to be almost 71% of the GDP in 2010. Agriculture and Manufacturing have both declined their shares from being both around 30% in the 1950s to be 4% and 10% respectively in 2001.<sup>7</sup> Alongside Australia turning into a Service based economy, the aging population will land an underpinning need in the economy to have continuous flow of talent to fuel innovation and productivity.

Immigration policies that attract the most talented and those with scarce skills will be as relevant as they were during the pre-recession period of strong economic growth. What should be even more concerning for policymakers is that post any recession, the quest for talented foreigners will intensify and those countries that have not lost ground in terms of openness to foreigners during the recession are likely to come out ahead.

Adopting Beggar-thy-neighbor labor market policies that seek to protect the jobs of domestic workers above all else will prove to be shortsighted when it comes to the talent and competitiveness of nations.

If the Gillard government truly is focused on raising Australia's economic productivity to ensure the sustainability of growth, it should revisit the LAFHA strategy and setup to continue to attract and retain talent in Australia. Executing the proposed LAFHA legislation will be the beginning of the demise of Australia's competitiveness as a nation. Redoing this decision in 5 years where other nations are moving ahead of Australia, will be very challenging, and take up to a decade to make up for the loss of talent.

Temporary worker, trying to make a bet on Australia

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<sup>7</sup> [www.cia.gov](http://www.cia.gov)