

General Discussion of ‘Immigration and Wage Growth: The Case of Australia’

Much of the discussion focused on the potential role of underreporting of migrants’ wages on measured wages growth. One participant pointed out that – if actual wages earned by migrants were indeed lower than the reported (minimum) wage – the increase in immigrant employment over the past few years would suggest that actual wages growth might be lower than we think. Some participants also raised concerns about whether labour market surveys adequately capture short-term temporary migrants, which might weigh further on actual wages growth. While it remained unclear if this is an issue for key wage statistics such as the wage price index (WPI), collected by the ABS, participants noted that this likely affects longitudinal household surveys such as the HILDA Survey. Specifically, the pool of households in the HILDA Survey remains the same from year to year, which means that it becomes less representative of the entire population when immigration flows are large.

Participants further discussed the extent to which underreporting of migrant wages biased results of empirical studies on the effect of immigration on wages. It was noted that the most prominent Australian study (Breunig, Deutscher and To 2017) found little to no effect of migration on employment and wages of Australian-born residents. One participant noted that because the study only investigated wage outcomes of Australian-born residents and not of the entire population of Australian residents (including immigrants), the role of underreporting would likely be negligible. Another participant agreed that underreporting is unlikely to be the main source of bias, but emphasised that the approach used by the Australian study may instead be vulnerable to biases resulting from ‘downgrading’ – the observation that higher-skilled immigrants often fill low skilled, low wage occupations.

Focusing further on the importance of ‘downgrading’, one participant emphasised that it is crucial to account for the skill sorting of immigrants in the labour market when designing wage-setting policies such as minimum wages. Here, experience from other countries has shown that the downgrading of immigrants into low wage occupations may reduce the efficacy of policies designed to ‘protect’ the resident population from immigration inflows. As immigrants in low wage occupations are often highly skilled and more productive, the introduction or increase in the minimum wage may lead to resident workers in low wage occupations being laid off at higher rates as employers retain the high-skilled, highly productive immigrants first.

Participants then turned to discussing whether evasion of the minimum wage paid to immigrants and Australian-residents (who compete in the labour market with immigrants) would likely be widespread across industries and employers. Here, one participant noted that it is unlikely that large national employers pay below the minimum wage as they face higher risks of detection and reputational costs. While this should reduce the extent of underreporting, another participant noted that these employers frequently hire young, casual employees for whom the adult minimum wage does not apply.

More broadly, participants also discussed demand and supply factors driving immigration. One participant noted that interstate (internal) migration has often played an important role in Australia, for instance during the recent mining boom. Likewise, Victoria has recently received strong inflows of residents from other states whilst experiencing a tight labour market. This raised the question of to what extent it was possible to learn about the effects of immigration on wages from internal migration experiences. However, participants pointed out the experience from recent interstate migration patterns demonstrates the importance of establishing a counterfactual and controlling for labour demand factors when attempting to quantify the effects of migration on labour market outcomes. Additionally, one participant argued that housing price differentials may be key drivers of interstate migration, but not of immigration. Furthermore, it was noted that immigrants and residents from other states differ in important skills and characteristics that determine matching on labour markets. Consequently, the labour market effects of immigration are likely different from the effects on internal migration.

Finally, one participant flagged that much of the discussion around immigration focuses on immigration being a labour supply shock. However, it is important to note that immigration is often a result of increased demand for

labour. This makes it difficult to generalise empirical results as increases in immigration usually occur when the labour market is tight and wages are already rising. Moreover, it is important to remember that immigration also represents a demand shock for goods and services produced by the host economy. Accordingly, immigration not only increases labour supply, but also raises aggregate demand. Consequently, this may stimulate labour demand in itself and thereby attenuate or compensate for any negative effects of immigration on residents' wages growth.

Reference

Breunig R, N Deutscher and HT To (2017), 'The Relationship between Immigration to Australia and the Labour Market Outcomes of Australian-Born Workers', *Economic Record*, 93(301), pp 255–276.