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Understanding the Effects of Immigration on Innovation

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Introduction and Background

- Australia has a productivity problem: innovation is one of the keys to solving this
 - An often-overlooked source of innovation is migration – either through study (including PhD) or targeted programs
- Recent immigration trends in Australia cf skilled workers
 - Evidence suggests levels remain strong but there is a composition problem: we could do much more to boost our R&D workforce
- Australia's strategic opportunity given the current geopolitical environment

Key International Evidence

- The long-run effects of immigration on innovation are pretty clear:
 - German-Jewish emigres to the US in the 1930s boosted patenting (direct effect) and elevated entire fields through mentoring (indirect effect) (Moser et al)
 - Quotas restricting immigration from Eastern/Southern Europe in the US in the 1920s dramatically reduced innovation (Moser et al)
 - ‘Mobile’ (foreign-born and returning native) outperform ‘non-mobile’ scientists (Stephan et al)
- Why is this true?
 - People movement is one of the main ways in which tacit knowledge moves
 - Immigrants bring experience and knowledge from outside cultures and economies

“The best way to send information is to wrap it up in a person” (Oppenheimer)

Observations on Immigrants in Australia

- Some simple statistics on immigrants:
 - ~40% of hi growth tech firm founders are foreign-born (StartupAUS)
 - They are 3 times more likely to file a patent (IP Australia)
 - 40% of ASX-listed tech companies have at least one immigrant co-founder
 - 51% of all medical specialists and 42% of all university researchers are foreign-born (ABS Census; Universities Australia)
 - 1 percentage point increase in the regional employment share of higher-educated migrants relative to total employment leads to a 5% rise in regional patent applications in the medium run (5 years). (OECD)

Evidence on immigration-productivity in Aus

- Surprisingly little rigorous empirical evidence in Australia using available microdata, which is an issue given the uniqueness of our visa system
- What we do know:
 - Visa information linked to employer-employee data shows that (e61 Report*):
 - i) migrants are more likely to work in low productivity industries
 - ii) within industries, migrants are more likely to work in low productivity firms
 - iii) variation by visa type in migrant worker allocation: targeted visa (skilled workers) work in high productivity firms while untargeted (holidaymaker, students) work in low productivity firms
 - iv) alarmingly, both targeted and untargeted visa workers are working in lower productivity firms in 2020 than they were in 2011 (which feeds into aggregate productivity slowdown)
 - v) no evidence of offsetting ‘within-firm’ positive effects on productivity

*“Misallocated migrants: Immigration and firm productivity in Australia” by Dan Andrews, Erin Clarke, Lachlan Vass and Aaron Wong



Public Policy Implications

- Our immigration system is no longer fit-for-purpose:
 - too many visa types
 - too slow and bureaucratic (12-18 month average wait time for skilled visas)
 - too many 'permanent temporary' visa holders
 - too few 'targeted' visas (although the optimal mix is unknown and dynamic)
- Needs greater emphasis on innovation, entrepreneurship and productivity
 - National Innovation Visa is ineffective: 304 invitations from 9,000 EOIs
 - Support *Ambitious Australia* proposal to integrate education, innovation and immigration policy
 - Strategic opportunity at present to attract, develop and retain global talent: government and universities should do more (e.g. fast-track STEM star visas)