

Rethinking permanent skilled migration after the pandemic

Brendan Coates, Henry Sherrell, and Will Mackey

May 2021



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Grattan Institute Report No. 2021-06, May 2021

This report was written by Brendan Coates, Henry Sherrell, and Will Mackey. Isaac Leeson, Arshiya Merchant, and Ragavi Jeyakumar provided research assistance and made contributions to the report.



We would like to thank the Susan McKinnon Foundation for its generous and timely support of this project.

We would also like to thank Andrew Norton, Chris Murphy, Chris Wright, Lavinia Mitchell, Madeleine Sumption, Michael Potter, Mike Keating, Nicki Hutley, Ryan Edwards, Saul Eslake, Sean Innis, and Stephen Kirchner, as well as numerous other government officials, academic researchers, and interested individuals for their input and feedback. The opinions in this report are those of the authors and do not necessarily represent the views of Grattan Institute's founding members, affiliates, individual board members, reference group members, or reviewers. The authors are responsible for any errors or omissions.

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This report may be cited as: Coates, B., Sherrell, H., and Mackey, W. (2021). *Rethinking permanent skilled migration after the pandemic*. Grattan Institute.

ISBN: 978-0-6450879-4-9

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Overview

Before COVID, Australia was one of the world's most open countries for migration. But COVID-19 travel restrictions have brought migration to a standstill. This report shows how Australia's permanent skilled migration program should change when borders are reopened.

Australia should select permanent skilled migrants for their long-term economic potential. Skilled migrants tend to be younger, higher-skilled, and earn higher incomes than the typical Australian. Skilled migrants generate a fiscal dividend to the Australian community because they pay more in taxes than they receive in public services and benefits over their lifetimes.

Recent Federal Government decisions have taken Australia in the wrong direction. They have shifted the composition of Australia's permanent skilled migrant intake away from visas with a track record of selecting younger, skilled migrants best placed to succeed in Australia. Today, a growing share of permanent skilled visas are allocated to boosting business investment and to the unproven Global Talent program. These changes should be reversed. They could reduce the lifetime fiscal dividend from each annual intake of permanent skilled migrants by at least \$2 billion.

In particular, the Business Investment and Innovation Program (BIIP) should be abolished. Few investors are financing projects that would not otherwise occur, or providing entrepreneurial acumen that will benefit the Australian community. BIIP visa-holders bring fewer benefits to Australia than skilled migrants selected through other streams, because they are older, speak little English, and earn lower incomes.

The Global Talent Program, introduced as a pilot of 1,000 visas in 2018-19, has expanded rapidly to a planned 11,000 visas in 2020-21.

Yet its value remains unproven. The Global Talent Program should be scaled back and evaluated before any decision is made to expand it.

The number of skilled worker visas – allocated via employer-sponsorship and the points-test – should be expanded. But these visas also need a rethink. Permanent skilled worker visas should no longer be targeted at skills shortages. Instead, permanent skilled worker visas should be targeted at younger, higher-skilled migrants who are best placed to benefit the Australian community in the long term.

Employer sponsorship should be available for workers in all occupations, provided they earn above median full-time earnings of \$80,000 a year. This would better target visas to people with the most valuable skills, and simplify the sponsorship process for firms and migrants.

Points-tested visas should be independently reviewed to ensure they prioritise younger, higher-skilled workers. Points should be allocated only for characteristics that suggest an applicant will succeed in Australia.

These reforms would deliver big benefits to the Australian community. Abolishing the BIIP would boost the lifetime fiscal dividend from each year's migrant cohort by at least \$3.7 billion. Reforming employer sponsorship could boost the lifetime fiscal dividend from each annual cohort by at least another \$9 billion.

COVID-related border closures present Australia with a unique opportunity to rethink permanent skilled migration. Let's not waste it.

Recommendations

Recommendation 1

- Abolish the Business Investment and Innovation visa program.

Recommendation 2

- Scale back and independently evaluate the Global Talent visa program.

Recommendation 3

- Avoid targeting permanent skilled worker visas at temporary skills shortages via occupation lists.

Recommendation 4

- Make employer-sponsored visas available for workers in all occupations, provided they earn at least \$80,000 a year.

Recommendation 5

- Commission an independent review of points-tested visas in order to better select younger, skilled migrants.

Recommendation 6

- Require the Department of Home Affairs to improve the administration of permanent skilled worker visas and accelerate processing times.

Table of contents

Overview	3
Recommendations	4
1 Australia's migration opportunity	6
2 Australia's permanent migrant intake determines who stays in Australia long term	7
3 What we should prioritise when selecting permanent skilled migrants	15
4 Recent government choices have taken permanent skilled migration in the wrong direction	31
5 The Business Innovation and Investment Program should be abolished	36
6 The Global Talent Program should be scaled back and independently evaluated	53
7 Skilled-worker visas should be expanded and their selection mechanisms improved	62
A Arranging Australia's residents into incumbents, and permanent and temporary residents	92
B Generating lifetime tax estimates	96

1 Australia's migration opportunity

Before COVID, Australia was one of the world's most open countries for migration. In 2019-20, 194,400 people were added to Australia's population via migration.¹

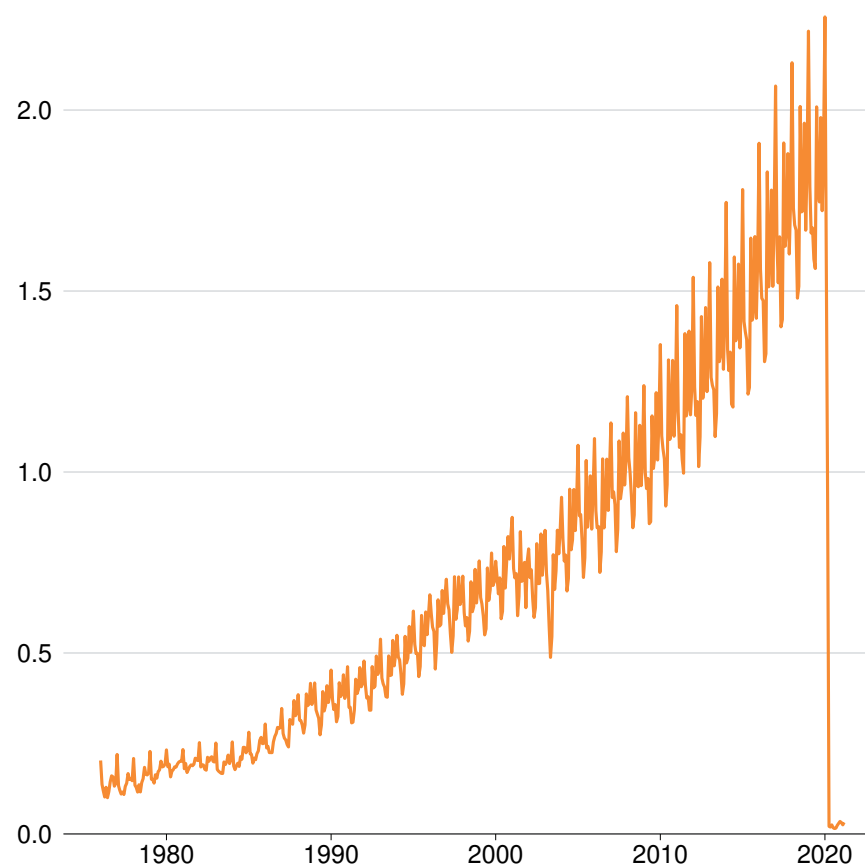
But COVID-19 travel restrictions brought migration to a virtual standstill. In the months leading up to March 2020, about two million people arrived in Australia each month, including returning Australians. In the year since, fewer than 260,000 people have arrived in Australia – just 23,000 per month on average (Figure 1.1). COVID-related border closures are expected to remain in place until mid-2022.² And migration is expected to remain constrained well beyond then.³

The closure of Australia's border to migration provides an unprecedented opportunity to take stock of Australia's migration policy settings. There are fewer constraints on migration policy reform when the border is closed. Policy makers are freed from day-to-day pressures and can step back and assess whether current settings are still fit for purpose.

This report is about how migration to Australia should change when Australia's borders eventually reopen. It assesses Australia's current migration policies – focusing on the permanent skilled migrant intake – and shows how Australia's migration program can be improved to better serve the interests of the Australian community.⁴

1. Based on Net Overseas Migration, which measures who arrives and who leaves Australia. A person must be in or out of Australia for at least 12 months out of the past 16 months to count as an immigrant or emigrant: ABS (2021a).
2. Maiden (2021).
3. The 2021-22 Federal Budget forecasts that declines in net overseas migration will reduce Australia's resident population by around 97,000 persons over 2020-21, and by a further 77,000 persons in 2021-22 before recovering to add 235,000 persons a year by 2024-25: Commonwealth of Australia (2021a, p. 45).
4. This report will use the terms 'Australian community' and 'incumbent' to refer to Australian citizens and permanent residents who live in Australia. See Section 3.1.

Figure 1.1: Australia's border has been slammed shut to migration
Total monthly arrivals to Australia, millions



Notes: Arrivals statistics record the number of movements of travellers across Australia's border, not the number of individual travellers. Arrivals include both residents returning and visitors arriving.

Source: ABS (March, 2021b).

2 Australia's permanent migrant intake determines who stays in Australia long term

Australia's migration policy matters. Granting a permanent visa allows a non-citizen to remain part of the Australian community indefinitely. While the stock of temporary visa holders has added to Australia's population in recent years, permanent visas are the main driver of Australia's long-term population trends.

This report focuses on improving the composition of Australia's permanent skilled migrant intake to deliver the largest possible benefits from migration to the Australian community for a limited number of permanent skilled visas. Skilled migration is the largest component of Australia's permanent migration mix and the Federal Government has enormous power to determine who can stay. Policy choices also shape prospective migrants' desire and capacity to gain a permanent visa.

2.1 Australia has historically run a sizeable migration intake

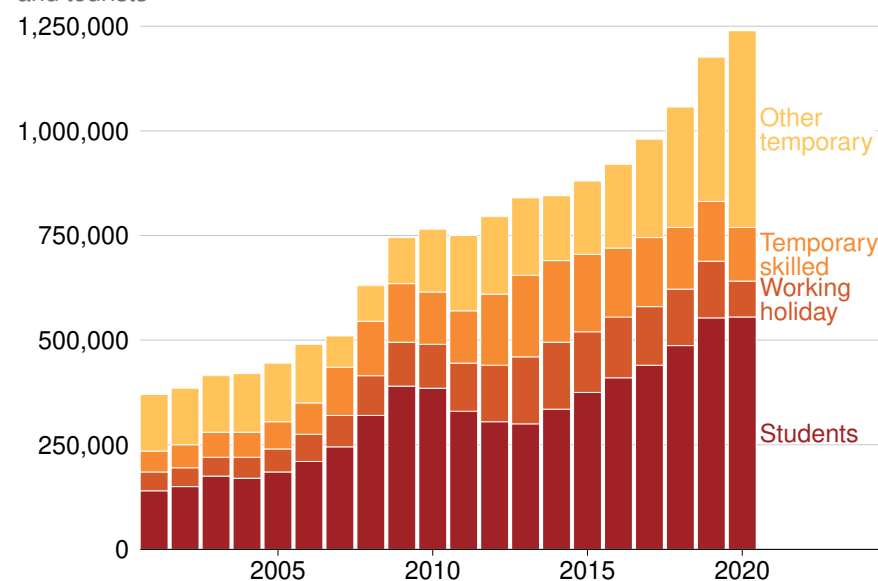
Australia runs a sizeable migration program, including both permanent and temporary migration programs. Getting migration policy choices right can increase the well-being of the Australian community.

The Federal Government manages the level and the composition of the permanent migrant intake, setting targets for the skilled, family, and humanitarian streams each year. Australia's permanent migrant intake is currently capped at 160,000 visas a year, down recently from 190,000 a year.⁵ Australia also grants a further 13,750 permanent visas via a separate Humanitarian Program as part of its international

commitments to assist dispossessed people at risk.⁶ In contrast, Australia's temporary migrant intake is largely uncapped, except for limits on working holiday visa grants for some countries. The stock of temporary migrants in Australia has grown quickly over time (Figure 2.1).

Figure 2.1: Australia's stock of temporary migrants has increased by about 50,000 each year over the past decade

Stock of temporary migrants, excluding New Zealand temporary visa-holders and tourists



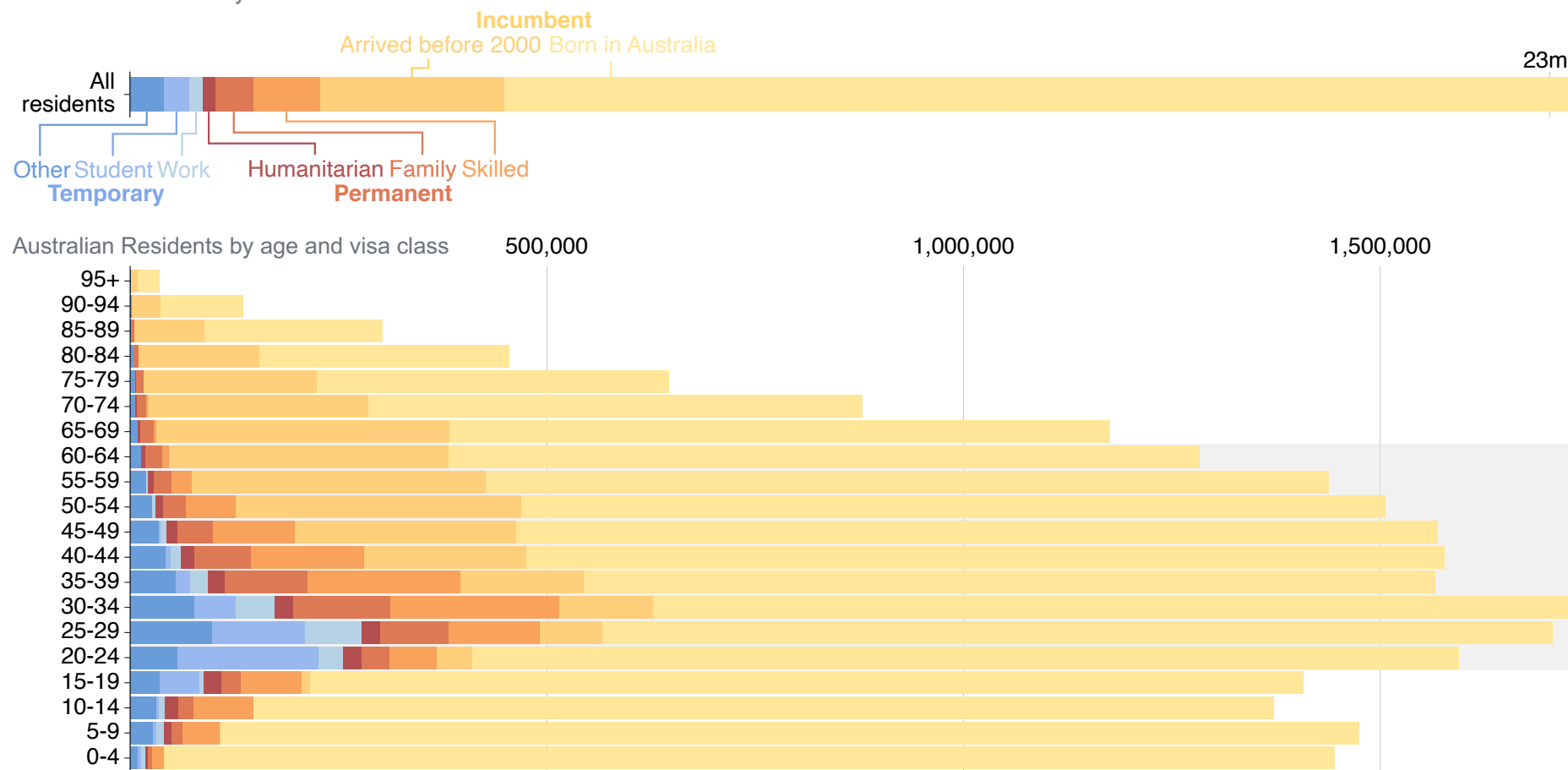
Notes: Excludes New Zealand citizens and tourists. "Temporary other" is predominantly made up of bridging visa holders. Sources: Commonwealth Government (2018, Figure 16); Department of Home Affairs (2021).

5. The intake was reduced from 190,000 to 160,000 visas in 2019: Murphy (2019). A total of 140,366 permanent visas were issued in 2019–20: Department of Home Affairs (2020a, p. 9).

6. In 2020–21, the humanitarian program was cut by 5,000 places, from 18,750 to 13,750, returning the program to its pre-2017 size. The humanitarian intake remains at 13,750 places for 2021–22: Department of Home Affairs (2021a, p. 14).

Figure 2.2: Migration is big: more than one in four people in Australia aged in their 20s and 30s arrived here in the past two decades

Australian Residents by visa class



Notes: See Appendix A.

Source: Grattan analysis of ABS (2016a), ABS (2016b) and ABS (2016c).

Temporary migrants include overseas students, working holiday makers, skilled temporary residents, New Zealand citizens on the Special Category visa, seasonal workers, and others. Temporary migrants typically remain in Australia for between six months and up to eight years.

2.2 This report focuses on the composition of Australia's permanent skilled migrant intake

This report focuses on improving the composition of Australia's permanent skilled migrant intake, and especially the selection mechanisms used to allocate a limited number of permanent skilled visas.

The composition of Australia's migrant intake – who comes to Australia, and when – largely dictates the benefits (or otherwise) that migration provides to the Australian community. One in four people in Australia aged in the 20s and 30s are migrants who arrived in Australia in the 21st century (Figure 2.2 on the preceding page). Permanent migration determines who stays in Australia long term, and skilled migration accounts for the largest share of the permanent intake. Therefore the selection of permanent skilled migrants has enduring impacts on Australia's economy.

Australia's migration policy is also its de-facto population policy. Net migration has also accounted for an increasing share of Australia's population growth in recent decades. But this report does not focus on the size of Australia's overall migrant intake. The size of the intake is not the only, or arguably even the most important, metric for assessing migration policy.

Grattan Institute has previously called on the Federal Government to set an explicit population policy.⁷ But it is too early to nominate the

optimal size of the overall migrant intake post pandemic. Migration flows will depend on the pace of Australia's vaccination program against COVID and how well those vaccinations continue to fare against new COVID strains. A single number may not be the answer, since the optimal intake in a given year will vary depending on the quality of the pool of prospective applicants, which in turn depends on Australia's relative attractiveness as a destination for migrants vis-a-vis competitor destinations, among other factors.

The findings of this report can help policy makers decide which parts of the program should get priority to ensure migration best contributes to the well-being of the Australian community.

2.2.1 Permanent migration determines who stays in Australia long term

Much public commentary focuses on the growing size of Australia's temporary migrant intake.⁸ Net Overseas Migration data reported by the ABS suggests that temporary migrants account for about three quarters of Australia's migrant intake each year (Figure 2.3). That's because Net Overseas Migration, the measure used for determining official population figures, records the visa that migrants hold when they first enter Australia, which is predominantly a temporary visa.

Temporary migration remains an important source of population growth in Australia. More temporary migrants have generally arrived than departed each year, increasing the stock over time. An increase in temporary migration, or in how long temporary migrants stay in Australia, will therefore add to Australia's population. The number of temporary visa holders in Australia has risen from about 500,000 in 2007 to nearly 1 million a decade later, or an annual increase of almost 50,000 a year, excluding New Zealand citizens and tourists

7. Daley et al (2018a, p. 4).

8. Garnaut (2021); and Hutchens (2021).

(Figure 2.1). In contrast net overseas migration has averaged 228,000 persons a year over the same period.⁹

Instead it is Australia's permanent migrant intake that ultimately determines who stays in Australia, and the bulk of long-term population trends.¹⁰ As Figure 2.4 on the next page shows, most temporary migrants, such as students and skilled workers, either move on to a permanent visa or eventually leave Australia.¹¹ More than half of migrants granted permanent residency are already in Australia on a temporary visa. This rises to more than 70 per cent for permanent skilled migrants.

Temporary migrant flows also depend in part on permanent visa policy settings, since some temporary migrants – especially skilled workers and students – are attracted to Australia by the prospect of obtaining permanent residency. Changes in permanent visa policy therefore affects the flow of new temporary visa holders.

Ultimately it is permanent migration policy that matters most for determining the composition of the migrant intake, and Australia's population, in the long term. The policy framework governing who gets a permanent visa means the people who stay typically have a bigger effect on the well-being of Australians than do temporary migrants who eventually leave. Even small improvements in the selected of permanent skilled migrants can have enduring benefits over an extended period. Whereas mistakes in setting permanent visa policy will have long-lasting impacts on the composition of Australia's population, and the well-being of the Australian community.

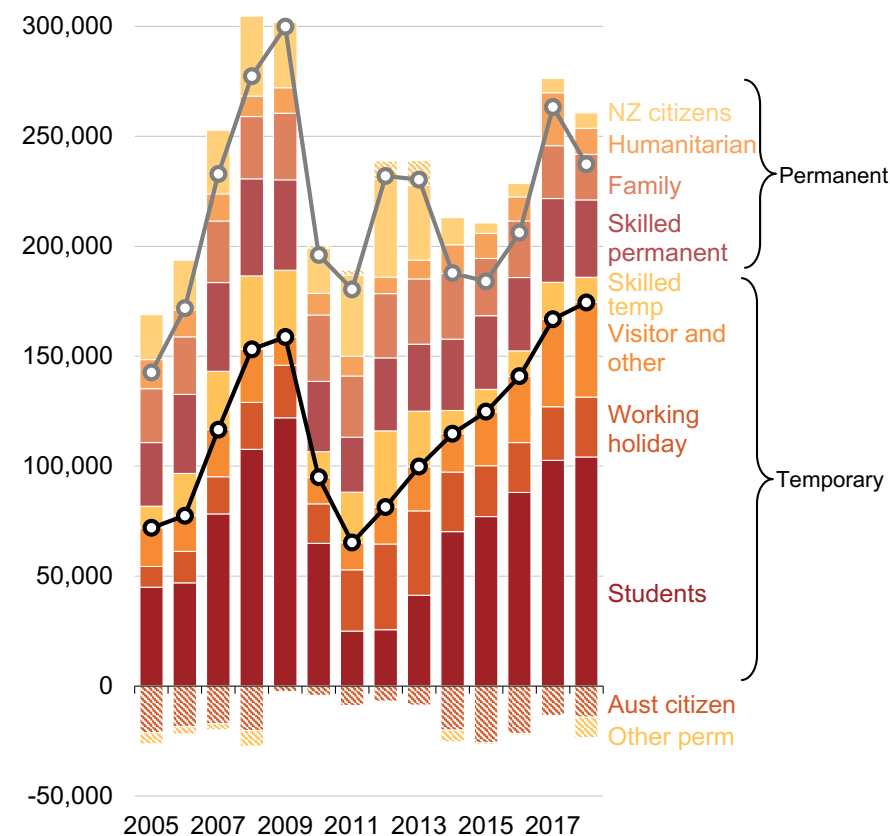
9. ABS (2021a).

10. Permanent residency offers a pathway to citizenship.

11. Although some temporary migrants can stay in Australia for a considerable period. Recent changes to permanent visa policy will have probably reduced the proportion of temporary workers and students that move on to permanent residency over time. New Zealand citizens are an exception because they retain the right to live in Australia indefinitely, albeit without permanent residency.

Figure 2.3: Recent growth in Net Overseas Migration has been driven by international students

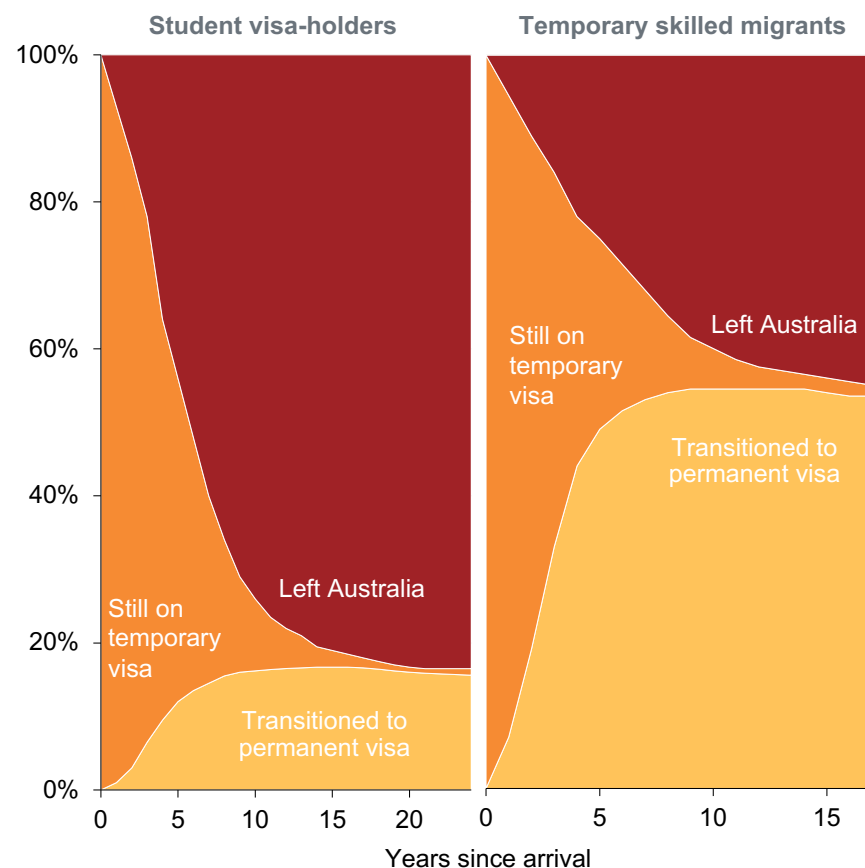
Net Overseas Migration, financial year ended



Source: Commonwealth Government (2018, Figure 16).

Figure 2.4: People on temporary visas become permanent residents in Australia, or they leave

Share of visa holders

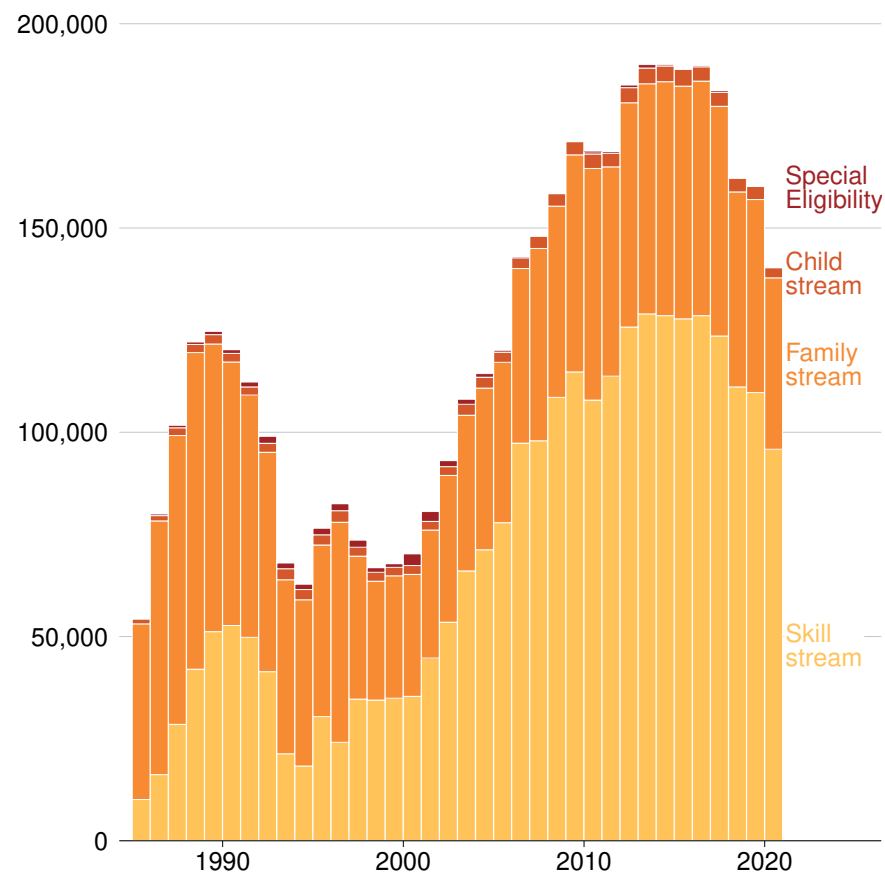


Notes: These visa transition figures are drawn from a joint 2018 Treasury and Department of Home Affairs publication, based on data from 2000-01 to 2013-14. The administrative data underpinning these figures are not publicly available. Given policy changes since 2013, it is highly likely a smaller share of temporary visa-holders are moving to a permanent visa at some point in the future, while a larger share of people remain on temporary visas for longer.

Source: Commonwealth Government (2018, Figures 18-19).

Figure 2.5: After rising for decades, Australia's permanent skilled intake has fallen in recent financial years

Permanent visas granted each year



Source: Commonwealth Government (ibid).

2.2.2 Skilled migration is the largest share of the permanent program

Skilled migration is the largest part of Australia's permanent migration program. In 2018-19, Australia granted permanent residency to 160,000 people: 110,000 for the skill stream and 50,000 for the family stream (Figure 2.5 on the preceding page).

The share of skilled migrants in the permanent program has increased substantially over the past two decades. Skilled migration increased from about half the permanent intake in 2000 to 65 per cent in 2018-19. Permanent skilled migrants are selected through a number of different streams (Chapter 4). Family visas have also increased over the same period that the overall intake rose, but have declined as a share of the overall intake. Meanwhile humanitarian visas have remained relatively stable in recent decades.

2.3 The Federal Government has enormous power to shape migration outcomes

The Federal Government has constitutional responsibility for migration policy, and enormous power to shape migration outcomes.¹² Being a large, remote island means Australia is well-placed to control its borders. Monitoring incoming air arrivals is well-regulated and resourced. The Federal Government decides the level of the migrant intake. Government decisions concerning visa streams and selection criteria determine who comes to Australia. And choices about work rights and welfare support all shape how recent migrants adjust to

12. Section 51 of the Australian Constitution enumerates immigration and emigration, as well as oversight of 'aliens', as Commonwealth powers. Constitution of Australia, Section 51(xix, xxvii), 1901. However, as noted by Freckleton (2015), the Migration Amendment Act 1983 changed the constitutional basis of the Migration Act 1958 away from the 'immigration and emigration' power (Section 51(xxvii)) to the Aliens power (Section 51(xix)).

life in Australia and therefore the impact they have on the broader Australian community.

The Federal Government wields the power to shape migration outcomes with little oversight from Parliament. The Migration Act 1958 was deliberately crafted to confer power on the Executive, specifically the Minister for Immigration. A new visa is easily created, or existing visa changed, without recourse to a Bill. Instead, the Minister typically tables a set of amendments via the Migration Regulations 1994.¹³

There is also very little public scrutiny of migration policy choices. The Migration Act and associated regulations are technical and complex, creating barriers to widespread public understanding. There are few actors interested in and actively monitoring migration policy. Those who are interested tend to have skin in the game. Few media outlets have dedicated coverage of migration policy (outside of asylum policy). The people who stand to gain the most – newly arrived immigrants – are not party to the conversation.

2.4 Migration policy affects the supply of potential migrants

The Federal Government sets migration policies, including the number of migrants allowed into the country as well as the selection criteria to choose between prospective migrants. But Australia's migration program also depends on Australia remaining a top destination for would-be skilled migrants. While there is no practical limit on the number of people willing to migrate to Australia, Australia's relative attractiveness as a destination for migrants can affect the type of migrants that apply. People decide to become a migrant, and also have to choose which country to migrate to.

13. A Bill passed by Parliament will over-ride tabled regulations for migration policy. The Medivac Act is a recent example. But in practice, the manner of formal parliamentary oversight is restricted to committee inquiries and disallowance motions in the Senate.

We know little about the composition of people who come to Australia in terms of their position in a global distribution of migrant talent. Yet Australia is the top-ranked destination country for higher-skilled workers (those with postgraduate degrees) and seventh most attractive destination for entrepreneurs, according to recent OECD rankings.¹⁴ But while the global pool of highly skilled people expressing a desire to migrate is increasing, Australia faces considerable competition in attracting these migrants.¹⁵

Many factors drive the supply of prospective migrants. Many of these are outside the influence of migration policy, such as the strength of the domestic economy, a tolerant and safe society, political stability, environmental and lifestyle amenities, the social safety net of the destination country and the relative attractiveness of alternative destinations on these dimensions.

Designing effective migration policies that lower the costs of migration, including by reducing wait times for visa applications and providing greater certainty that high-quality applicants will receive permanent residency, can help Australia attract skilled migrants. Visa fees are high in Australia compared to other high-income countries. An individual permanent skilled independent visa costs \$4,045, rising to \$8,090 for a family of four with two children under 18. For the same family to obtain an equivalent visa in Canada, the cost is CAN\$2,380 (around \$2,528 in Australian dollars).¹⁶ These costs go far beyond cost recovery

to administer the visa system. The Productivity Commission has previously recommended a biennial review of visa charges.¹⁷

It remains unclear how Australia's approach to COVID-19 will affect Australia's comparative attractiveness as a destination for higher-skilled migrants. Australia ranked the third most attractive destination in one survey of economic migrants in 2020, up from fourth in 2018. This probably reflects Australia's success in managing COVID compared to many competitor countries for skilled migrants, including the US, Canada, Germany, and the UK.¹⁸

Yet Australia's approach of closing international borders has reduced the flow of temporary migrants, including international students, who account for a significant share of the pipeline of permanent migrants.¹⁹ Australia's treatment of temporary migrants may also affect the attractiveness of Australia as a destination for migrants in future. People on temporary visas were largely excluded from JobKeeper. Labour market exploitation of temporary visa holders is commonly reported in the media. Nonetheless some commentators expect migration to rebound rapidly once borders reopen.²⁰

2.5 A guide to the remainder of this report

This report focuses on the composition of Australia's permanent skilled migration program, how skilled migrants are selected, and how that can be improved.

Chapter 3 evaluates what to prioritise in selecting permanent skilled migrants. It argues that migration policy should be set to maximise the well-being of the Australian community, and skilled migrants should be selected for their long-term economic potential. Rather than

14. Australia was also the sixth most attractive destination for university students. Rankings based on composite indicators of talent attractiveness compiled by the OECD using factors such as the unemployment rate and average earnings of higher-skilled, foreign-born workers, and the OECD's *Better Life Index*, among other indicators: OECD (2019, p. 5).

15. Esipova et al (2015).

16. Department of Home Affairs (2021b) and Government of Canada (2021a). Based on exchange rate as at 14 May 2021.

17. Productivity Commission (2016a, p. 46).

18. Based on a study of 209,000 people in 190 countries: BCG (2021, p. 5).

19. Hurley (2021).

20. For example, see: S. Wright (2021).

targeting permanent visas towards alleviating ‘skills shortages’, skilled visa policy should prioritise younger, higher-skilled migrants with strong English language skills.

Chapter 4 shows how the composition of the permanent skilled migrant intake has shifted recently, and in the wrong direction. It demonstrates the costs of this shift and potential benefits from our proposed reforms.

Chapter 5 argues that the Business Investment and Innovation Program should be abolished. There is little evidence that investors are financing projects that wouldn’t otherwise occur, or providing entrepreneurial acumen that would benefit the Australian community. Visa holders selected through the program are also much older and earn much lower incomes than skilled migrants selected through other streams.

Chapter 6 shows how the Global Talent Program has expanded rapidly in recent years while the selection mechanisms employed remain unproven. It recommends that the Global Talent stream be scaled back and the program evaluated before it is expanded.

Chapter 7 recommends that the independent points-tested and employer-sponsored visa programs be expanded. But these programs also warrant reform. It argues these visas should no longer be targeted at skills shortages. Instead employer-sponsorship should be available for workers in all occupations who have a job offer exceeding \$80,000 a year. Points-tested visas should be subjected to an independent review focused on ways to better select younger, skilled workers.

2.6 What this report does not do

This report focuses on improving the composition of Australia’s permanent skilled migrant intake. It does not set out to examine every issue relevant to migration policy.

As noted earlier, this report does not seek to establish a population policy for Australia, or determine the optimal size of Australia’s annual migrant intake.

This report does not consider Australia’s permanent family or humanitarian migration programs. Considerations in the design of these programs are materially different from the permanent skilled migration program, reflecting their different goals. Permanent family visas – partners and parents – will be the subject of a forthcoming Grattan Institute report.

This report does not consider temporary migration policy, beyond acknowledging its importance as a source of permanent migration via onshore applications. There are many important issues relating to temporary migration, including the selection of temporary migrants, the appropriate pathways from temporary to permanent status, and concerns that people on temporary visas often find themselves unable to bargain for their rights, often because of inflexible visa rules.

3 What we should prioritise when selecting permanent skilled migrants

The purpose of Australia's migration program should be to maximise the well-being of the Australian community. While the system also provides opportunities for family reunion and entry on humanitarian grounds, Australia should select permanent skilled migrants for their long-term economic potential.²¹

This chapter shows that selecting younger, skilled migrants who are proficient in English and have good employment prospects is likely to maximise the benefits permanent skilled migration provides to the Australian community.

Younger, higher-skilled migrants are more likely to provide a fiscal dividend to the Australian community since they are more likely to earn higher incomes over their lifetimes in Australia, paying higher taxes before they begin drawing down more heavily on government services later in life.

Contrary to perceptions that migrants take Australians' jobs and reduce their wages, recent research tends to suggest migration has had little impact overall on the wages of incumbent Australian workers. Concentrated inflows of migrants into particular sectors can put downward pressure on the wages of Australian workers with similar skills. Prioritising high-skilled migrants may therefore boost the wages of low-skilled workers, reducing wage inequality.

Migrants' impacts on other dimensions of well-being, such as housing affordability and the environment also matter. However, these impacts tend to be driven more by the size of the migrant intake and less by its composition.

21. Australia's humanitarian intake is comparatively large on a per-capita basis and is likely to impose net costs on the Australian community, instead reflecting both our values and international obligations.

3.1 Maximising the welfare of the Australian community

There are four broad groups to consider when designing Australia's immigration policy: Australian citizens, permanent residents, temporary visa-holders, and potential migrants – people outside Australia without a visa.

This report considers the welfare of Australian citizens and permanent migrants when setting permanent skilled migration policy. The Productivity Commission, in its 2016 report *Australia's Migrant Intake*, dubs this group 'the Australian community', and suggests policy makers should aim to maximise only their welfare.²²

Australia's migration program should aim to maximise the welfare of the Australian community – citizens and permanent migrants – including their future children.

It's clear that prospective migrants would benefit from migration to wealthy countries such as Australia. Migration from low-income countries to the US would provide for between a doubling and a 16-fold increase in the incomes of those migrants.²³ According to Gallup's global survey, two out of five people in low-income countries would move to high-income countries if they had the chance.²⁴ But an 'open borders' approach likely runs contrary to the objective of the Australian Government to maximise the well-being of the Australian community.²⁵

22. Productivity Commission (2016a, p. 94).

23. Clemens et al (2016, Table 1).

24. Leigh (2017, p. 57).

25. For example, while allowing free movement of labour across the economies of all nations would substantially increase global GDP, from the perspective of residents of high-income countries (such as Australia), local workers would be worse off while new immigrant workers and people who own capital and land in the host country would benefit: Productivity Commission (2016a, p. 88).

3.2 How migrants affect the well-being of the Australian community

This report evaluates the impact of migration on Australians across three key dimensions:

- **Economic impacts:** how does migration affect Australians' access to economic resources? And how do migrants affect the budgets of federal and state governments, and therefore the quantity and quality of public services available to the Australian community?
- **Environmental impacts:** how does migration alter access to environmental resources – such as housing, infrastructure, and natural resources – available to the Australian community?
- **Social impacts:** how does migration affect the quality of social connections between people?

Naturally there are often trade-offs between these dimensions, and not all costs and benefits can be measured precisely.²⁶

This chapter assesses how permanent skilled migrants affect the well-being of incumbent Australians along these dimensions, and how those effects differ depending on the age, skills, and incomes of migrants.

3.3 Economic impact of immigrants on incumbents

Migrants, especially skilled migrants, boost Australian GDP per person. Productivity Commission modelling found that if migration continues at the long-term historical average rate, and assuming the same young age profile as the current intake, then GDP per person will be

26. See Productivity Commission (2016a, Box 3.5) for a detailed discussion of this issue.

7 per cent higher in 2060 than if there were zero net migration.²⁷ Yet migrants, who have tended to be higher skilled, capture much of the increase in GDP themselves via their incomes.

This section focuses on the ways migrants can effect the economic resources available to incumbent Australians, via effects on their wages and employment, on their productivity, and on their impact on government budgets.

3.3.1 Migrants have only modest impacts on the wages of Australians in aggregate, but the distribution matters

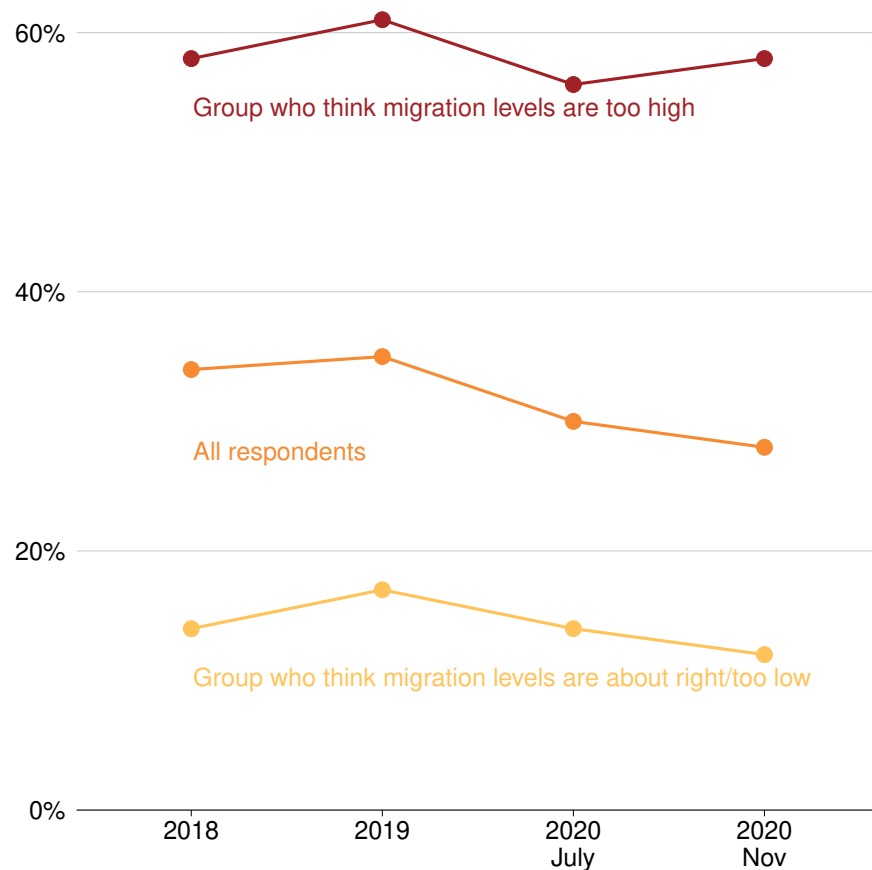
Many Australians worry that migrants are going to take jobs or suppress their wages. Figure 3.1 shows that about one in three Australians agree or strongly agree that 'immigrants take jobs away' when they enter the labour market. For people who think that Australia's migration intake is too high, about 60 per cent think migrants take jobs away.

But there is limited evidence that immigrants 'take jobs' or materially reduce their incomes, at least in aggregate. Migration adds to both the demand and supply of labour and capital adjusts quickly to migration. Overall migrants' impact on the wages and employment of incumbents appears small on average in Australia, consistent with the small effects found in most international studies. However, concentrated migrant

27. Productivity Commission (ibid, p. 458). Productivity Commission (2006, p. XXXII) produced similar results, concluding that 'the overall economic effect of migration appears to be positive but small', and that 'the negative contributions of the foreign ownership of capital, terms of trade, age, and lower labour productivity . . . are offset by the positive contributions from labour supply, skill composition, and lower consumption prices'. The impact on GNI is smaller than the impact on GDP because absorbing the extra immigrant labour requires additional capital, some of which is funded from abroad. Migration Council Australia (2015) estimates that, by 2050, migration leads to a 5.9 per cent gain in GDP per capita.

Figure 3.1: Australians who think Australian migration levels are too high overwhelmingly think migrants ‘take jobs’

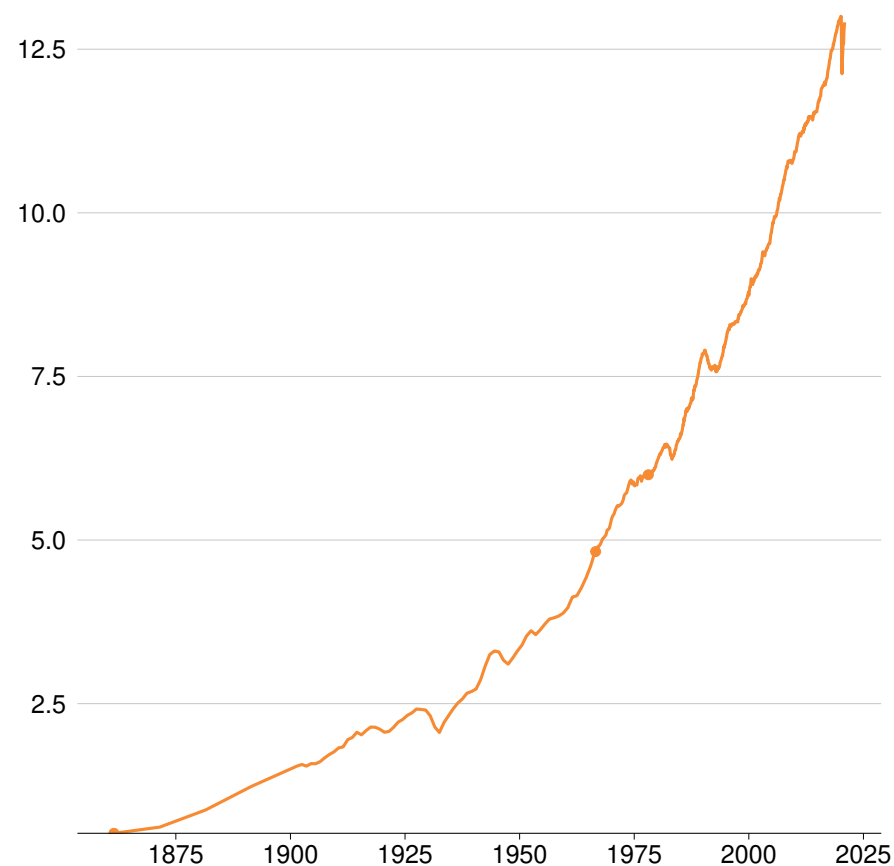
Proportion who agree that ‘immigrants take jobs away’



Source: Markus (2020, Table 29).

Figure 3.2: The number of jobs in Australia is not fixed

Millions of employed people in Australia, 1861-2020



Notes: Data are annual before 1966, quarterly from 1966-78, and seasonally adjusted. Monthly data thereafter. Series breaks are denoted with orange dots.

Sources: Butlin (1977), retrieved from Cowgill (2021); ABS (2007); and ABS (2021c).

inflows can have larger impacts on the wages of incumbent workers, depending on the skills of both migrants and incumbents.

Migrants add to both the supply and demand for labour

New arrivals to Australia don't just look for work. They also consume goods and services. In doing so, they add both to the number of people who work and the number of jobs available. After all, the number of jobs in Australia is not fixed, but changes in response to changes the population (Figure 3.2 on the previous page).²⁸

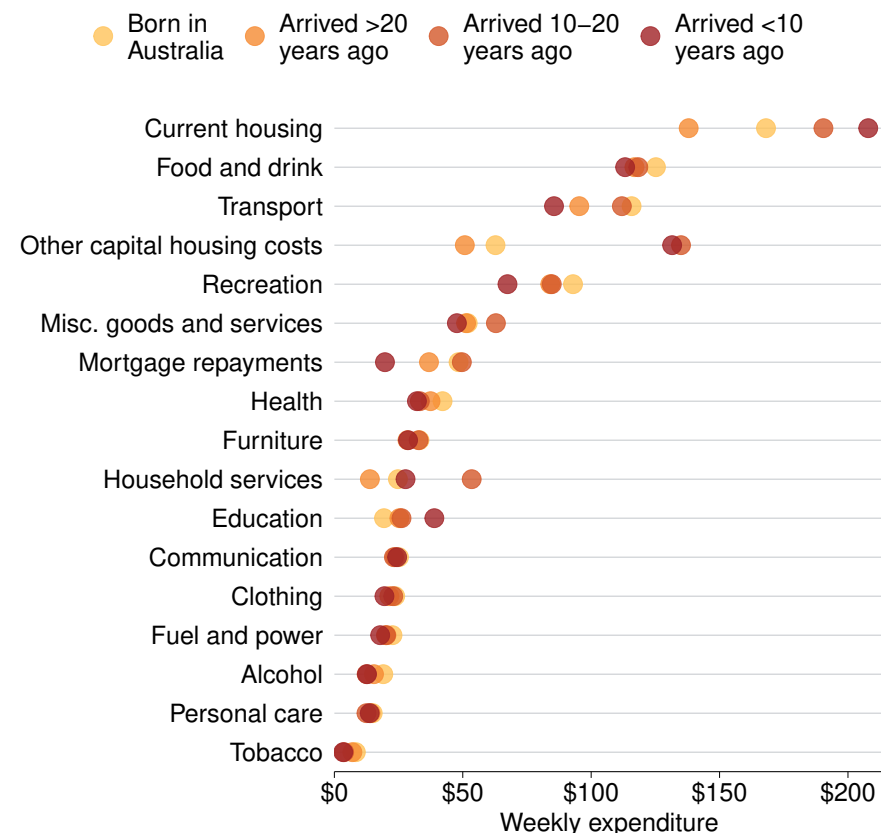
Migrants to Australia typically consume about as much as incumbents. Households of people born in Australia and of those who arrived in the past decade spend roughly the same as incumbent households. Figure 3.3 shows that, with a few exceptions, households consume a similar basket of goods. The notable exception is housing: incumbent households spend more on mortgages, while the newly-arrived group spend more on current housing costs, including rent.

Recently arrived migrants in particular tend to add more to labour demand than they add to labour supply. Migrants who arrived in Australia less than 10 years ago spend, on average, nearly \$200 less than they earn. In contrast, more established migrants tend to spend what they earn.²⁹

Capital investment appears to adjust quickly to migration

Some worry that Australia's comparatively high levels of migration reduce the amount of capital – the equipment, buildings, land, and other assets – that each Australian worker has to work with, thereby

Figure 3.3: The spending of migrants and incumbents is broadly similar
Average weekly household expenditure per adult, by year of arrival and age of household reference person



Notes: Data are in 10-year age groups, from 20-29, 30-39, and so on to 80-89. Dollars are per adult (aged 15 or older) and inflated to current dollars using CPI.

Source: ABS (2017).

28. The misconception that there is a fixed amount of work is known as the 'lump of labour' fallacy.

29. Households with the reference person aged 18-65 only. Grattan analysis of ABS (2017).

reducing their wages.³⁰ Yet capital investment appears to adjust quickly to, and often in advance of, migration that adds to the labour supply.³¹ Australia is a small, open economy with good access to global capital markets. Australia's capital stock per person has risen rapidly over time. Australia's current immigrant intake is planned ahead and, despite some yearly fluctuations, relatively consistent (Figure 2.3 on page 10).

Migration appears to have had little overall impact on Australian workers

The existing Australian evidence, albeit imperfect, finds little impact of migration on Australian workers.³² Breunig et al (2016) used several Australian data sources to explore the labour market response of incumbents' wages and employment to a change in the proportion of similarly-skilled migrants in the labour force. They found no evidence that migration harmed the aggregated labour market outcomes of incumbents.³³ Another more recent analysis using updated data arrived at the same conclusion.³⁴

These findings are generally consistent with the vast international literature examining the aggregate impact of migration on the labour market. In a 2019 literature review, Edo (2019) found that 'the impact of immigration on the average wage and employment of native workers is null or slightly positive'.³⁵

30. Garnaut (2021) and Borjas (2013).

31. Peri (2016).

32. See Brell and Dustmann (2019) for a recent summary of the Australian literature.

33. There was also no effect on wages for incumbents with less experience in the labour market: Breunig et al (2016, Table A.4).

34. Committee for Economic Development of Australia (2019).

35. See also Roodman (2014). These are aggregate effects. There may be distributional effects that lower employment or wages for some incumbents, e.g. in Dustmann et al (2017) and Edo (2019).

Concentrated migration can have larger impacts on local workers

While migrants may not affect incumbents' wages on average, migration that is highly concentrated in sectors of the labour market can have bigger impacts on the wages of incumbents working in those sectors.³⁶ Where migrants are concentrated in certain sectors they will tend to reduce local workers' wages with substitutable skills.³⁷ Whereas where migrants bring different skills and complement the work of incumbents rather than competing with them, migration can boost the wages of incumbent workers, especially in cases where they switch jobs.

In general, selective migration that prioritises high-skilled workers tends to reduce wage inequality between high- and low-skilled incumbent workers, whereas migration focused on low-skilled workers is more likely to suppress the wages of low-skilled incumbent workers.³⁸ However when faced with migrant competition, some similarly-skilled incumbents switch occupations to use skills where they have a comparative advantage, such as communication and knowledge about

36. Some Australian commentators have raised concerns that concentrations of lower-skilled temporary migrants in particular sectors such as hospitality are suppressing the wages of lower-skilled incumbent workers in those sectors. See: Garnaut (2021, pp. 77–78), Daley (2019) and Hutchens (2021).

37. For example, Borjas and Doran (2012) examine the impact of a large, post-1992 influx of Soviet mathematicians on the productivity of their US counterparts, finding that the influx reduced the number of pre-existing American mathematicians employed in US universities.

38. See: Edo (2019) for a review of the literature. Peri and Sparber (2009) find that foreign-born lower-skilled workers specialise in occupations intensive in manual-physical labour skills, while similarly-skilled incumbents pursue jobs more intensive in communication-language tasks. However, in some cases high-skilled migrants may have replaced incumbent high-skilled workers at lower wages. See: Doran et al (2015).

local markets. This shift in occupation can mitigate any downward wage pressures on incumbents from concentrated migration.³⁹

Australian evidence, albeit limited, is consistent with this story. For example, after examining data on more than one million temporary visas for high-skilled workers in Australia,⁴⁰ Crown et al (2020) found that when the share of skilled temporary migrants in a particular labour market rose, incumbents moved to occupations that used more communication abilities rather than physical abilities, and their wages increased significantly. Wages rose the most for low-skilled Australian workers.⁴¹ Similarly economic modelling for the Migration Council of Australia suggests that Australia's comparatively high-skilled migrant intake will boost the wages of low-skilled workers and reduce the wages of high-skilled workers.⁴²

Migrants' labour rights, if unenforced, can also affect Australian workers' wages

Migrants can suppress the wages of incumbent workers if the migrants' labour rights are not enforced, such as the right to award minimum wages.⁴³ For instance, a Fair Work Ombudsman review of 20 7-Eleven stores found that 60 per cent appeared to be underpaying staff, and record-keeping was inconsistent, incomplete, or misleading in 95 per cent of stores.⁴⁴ Allan Fels, appointed by 7-Eleven to investigate, said:

39. Peri (2016, pp. 13–14). Instead, negative wage effects resulting from an immigrant influx should be more concentrated on previous immigrants who usually are the closest substitutes for new immigrants.

40. More than 60 per cent worked in 'professional' occupations considered the highest skill level by the ABS (see Box 5 on page 69).

41. In other words, while the wages of particular *occupations* subject to intense competition from migrants may fall, the incomes of incumbent *workers* tend to rise as they adjust to that competition by shifting to other (often higher paid) jobs.

42. Migration Council Australia (2015, p. 20).

43. Daley (2019).

44. Fair Work Ombudsman (2016).

'My strong impression is that the only way a franchisee can make a go of it in most cases is by underpaying workers.'⁴⁵

Temporary visa holders are more at risk of exploitation than permanent visa holders, since the latter are no longer required to meet conditions – such as retaining employment – in order to remain in Australia or seek a permanent visa.⁴⁶ Where migrants' labour rights have not been enforced, this can hurt the wages of similarly-skilled incumbent Australians employed in the same sectors. However, these issues reflect problems with the design of temporary work visas and the enforcement of existing labour laws in settings where migrant workers are concentrated, rather than problems with the selection of permanent migrants. These issues are likely to be the subject of future Grattan Institute reports.

3.3.2 Younger, skilled migrants generate larger fiscal benefits

Migrants can generate substantial fiscal benefits over their lifetimes that benefit incumbent Australians in the form of more government services received for fewer taxes paid. Younger migrants in particular arrive in Australia at the beginning of their working lives, with the costs of educating them incurred abroad. Therefore they typically have an extended period where they pay substantial taxes yet draw relatively little on government-funded services such as health, education, and aged care (Figure 3.4 on the next page). Wealthy migrants can all generate substantial extra tax revenues, provided that the income from their assets are taxed in Australia.

Migration can also provide a *demographic dividend* over the medium run by increasing the proportion of Australians in the workforce, thus spreading the negative economic and budgetary impacts of an ageing

45. Ferguson and Toft (2015).

46. Productivity Commission (2016a, p. 29).

population over a longer period.⁴⁷ While immigration does not eliminate the costs of population ageing, since migrants themselves also age, it has smoothed out the baby-boom 'bump' that created a cohort much larger than the cohort born in the years before or after.

But Australia's migrant intake is also diverse, and the fiscal impacts of migrants can vary substantially based on their characteristics. In general, migrants who are relatively young, healthy, skilled, and proficient in English earn higher lifetime incomes, leading to larger net fiscal transfers to incumbents. Higher-wealth migrants will also contribute more to the tax base, and draw less in means-tested benefits such as pensions and family payments, provided that the income from their assets is subject to income tax in Australia.⁴⁸

The Productivity Commission estimated that cumulative lifetime fiscal benefits from migration peak for migrants that arrive in Australia in their mid-20s, before declining as migrants age and work for fewer years before drawing more heavily on government-supported pensions, health and aged care (Figure 3.5 on the following page).⁴⁹ Most migrants arrive after childhood and therefore the costs of childcare and school education are incurred by the migrant's home country. The

47. For example, the share of the population aged 65 and older is expected to increase from about 15 per cent in 2014 to about 25 per cent in 2060 if current levels of net migration are maintained, but to about 30 per cent if net migration is cut to zero. Sensitivity analysis conducted for the Intergenerational Report 2015 implies that cutting Australia's migrant intake to 100,000 a year would reduce the number of working-age Australians aged 15-64 for each Australian aged 65 and older (the 'dependency ratio') from 2.7 to 2.4 by 2054-55 and reduce real per person incomes by \$4,000 a year: Hockey (2015).

48. The tax payable by permanent residents depends, among other factors, on whether they are considered Australian residents for tax purposes.

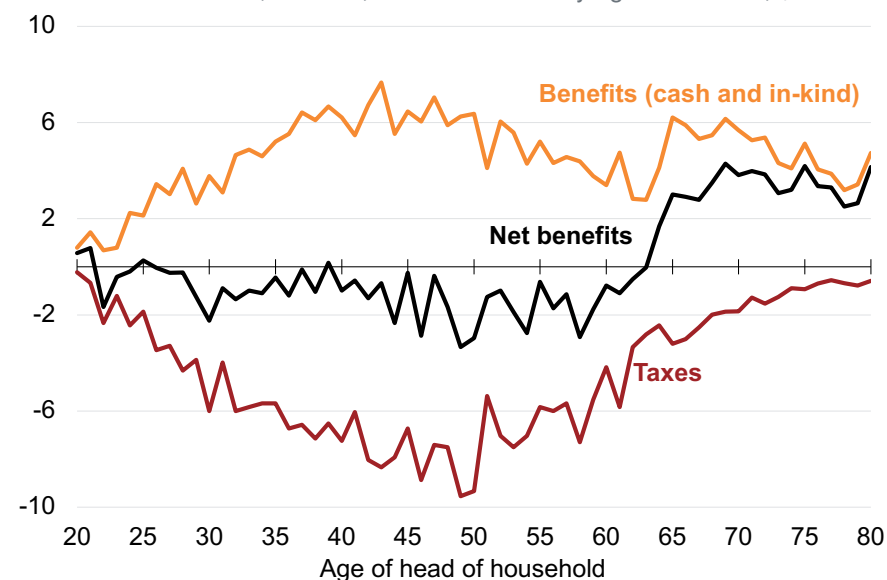
49. While the Productivity Commission estimates that, on average, skill-stream migrants have similar fiscal outcomes to those of the Australian resident population, immigrants in that stream include both primary and secondary applicants, and the latter tend to have worse fiscal outcomes given their lower average skills, incomes, and workforce participation.

fiscal impacts of migrants vary across various visa streams and are highest for permanent skilled migrants, reflecting their higher incomes. Yet migrants' age upon arrival, rather than income, appears to be the main driver of the size of net fiscal benefits from migration.

More recently, the Federal Government estimated that the 2014-15 cohort of the Permanent Migration Program, the Humanitarian Program, and the 457 temporary skilled visa program combined will contribute a net fiscal benefit to the Australian community of \$9.7 billion

Figure 3.4: Young Australians are net contributors to the budget; older Australians are net drawers

Total household taxes, benefits, and net benefits by age in 2015-16, \$ billions

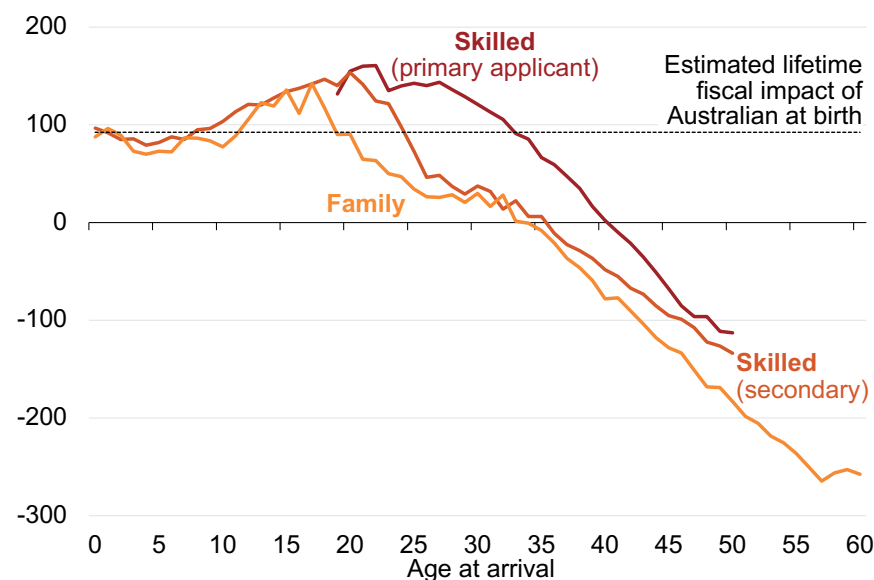


Note: Net benefits refers to all social transfers (cash and in-kind) minus all tax paid, equivalised for households of different sizes.

Source: Wood et al (2019, Figure 5.1).

Figure 3.5: Younger, skilled migrants generate the largest lifetime net fiscal transfers to incumbent Australians

Net present value estimates of fiscal impacts per average permanent immigrant, net overseas migrant intake, 2013-14 dollars

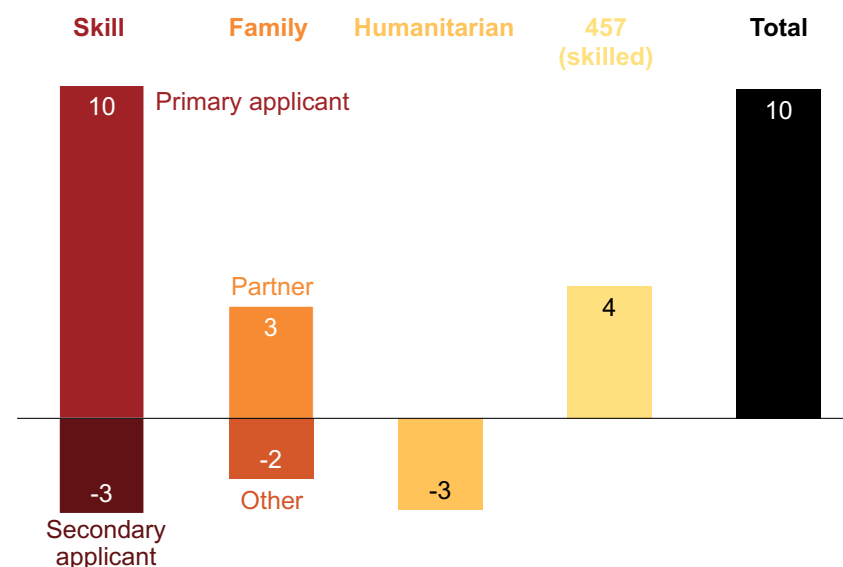


Notes: Different coverage of government revenues and expenditures would probably shift these curves vertically and alter the point at which these curves cross the horizontal axis. The general population curve relates to the lifetime fiscal impacts of an Australian citizen who would enter Australia at the corresponding age of arrival. Skill-stream migrants arriving after the age of 50 and humanitarian arrivals are not shown due to limited data.

Source: Productivity Commission (2016a, Figure 9.12).

Figure 3.6: Migration generates large fiscal transfers to incumbents, but these impacts vary substantially across visa classes

Projected aggregate lifetime fiscal impacts of 2014-15 migrant cohort, \$ billions



Note: Up until 2065, end-of-life costs are included for some, but not all, of the 2014-15 cohort.

Source: Commonwealth Government (2018, Figure 28).

over 50 years, or about 0.5 per cent of Australia's annual GDP.⁵⁰ These Australian estimates are in line with international estimates that suggest that migration typically produces net fiscal benefits to incumbents of between 1 per cent and 2 per cent of GDP.⁵¹

Yet the net fiscal impact of migrants granted permanent residency under the different visas varies dramatically. For example, the 128,000 migrants granted permanent skilled visas in 2014-15 were estimated to provide a lifetime net fiscal benefit of \$6.9 billion, or roughly \$55,000 per person.⁵² In contrast, each permanent parent visa granted – where migrants are on average much older – is estimated to cost the Australian community about \$138,000.⁵³

Both Treasury and Productivity Commission projections of the lifetime fiscal impacts of migrants appear incomplete. For example, Treasury projections of the lifetime fiscal impact of the 2014-15 migrant cohort, as shown in Figure 3.6 on the previous page, capture fiscal costs only to 2064-65. The full costs associated with the ageing of some younger secondary applicants, especially young children, will not be fully captured in such a calculation. Similarly, the Productivity Commission net fiscal projections, shown in Figure 3.5 on the preceding page, capture about 75 per cent of combined federal and state government revenues but only 50 per cent of expenditures.⁵⁴ Nonetheless it is clear

that selecting younger, higher-skilled migrants who are likely to earn higher incomes is likely to maximise the size of any fiscal transfers from Australia's migration program to the Australian community.

Migrants' access to government services also affects their fiscal impact. All migrants are obliged to pay taxes on their earnings, as well as indirect taxes such as the GST. But most permanent visa holders, with the exception of humanitarian migrants, have to wait for up to four years before they can get income support.⁵⁵ Medicare, public school education and Commonwealth-supported university places are available to all permanent residents, but government student loans are generally not available to non-humanitarian migrants unless they gain Australian citizenship.

3.3.3 Higher-skilled migrants are more likely to boost productivity

Migrants can lift the productivity of incumbent workers, boosting their living standards over the long term. A growing evidence base suggests migrants can create productivity spillovers via innovation, although these impacts are typically modest. Perhaps unsurprisingly,

goods (such as defence spending) does not rise with the number of migrants. See: Dustmann and Frattini (2013).

55. A four-year waiting period now applies before holders of permanent (non-humanitarian) visas granted since 1 January 2019 can get most income support payments such as JobSeeker, Youth Allowance, and Parenting Payment, as well as concessions such as the Low Income Health Care Card and Commonwealth Seniors Health Card. Shorter waiting periods currently apply for family payments, carer allowance, and paid parental leave, however the Government announced plans in the 2021-22 Budget to extend the four-year waiting period for government payments across most income support payments from 1 January 2022: Commonwealth of Australia (2021b, p. 179). The waiting period consists of time spent in Australia as an Australian resident. Any time away from Australia won't count towards the waiting period. Non-humanitarian permanent visa holders also have to wait 10 years to get the Age Pension: Services Australia (2021).

50. ABS (2020).

51. For example, OECD (2013) finds the overall fiscal impact of immigrants to be small for most OECD countries. See Productivity Commission (2016a, p. 301) for a recent summary.

52. Includes both primary and secondary applicants for permanent skilled visas. Each primary applicant granted a skilled permanent visa generated a net lifetime fiscal contribution of \$164,000, whereas each secondary applicant had a net lifetime fiscal cost of \$41,000, reflecting their lower rates of workforce participation, and lower earnings.

53. Grattan analysis of Commonwealth Government (2018, Figure 28) and DIBP (2016, Table 2.1).

54. Productivity Commission (2016a, pp. 17–18). Part of the rationale for attributing a smaller share of expenses than revenues is because spending on pure public

higher-skilled migrants with work experience abroad are the most likely to generate such spillovers.

Productivity matters because productivity growth is *the* main source of growth in Australians' incomes over time.⁵⁶ Even fractional increases in Australia's trend rate of productivity growth can generate large improvements in Australians' living standards in the long term.⁵⁷

By definition, innovation is central to boosting productivity – it is 'ideas successfully applied'.⁵⁸ Migration can affect innovation and therefore productivity through a number of channels.⁵⁹ Migrants can boost the rate of domestic invention through research and development, as well as commercialising that research. Migrants tend to be more entrepreneurial than incumbent Australians. Migrants can facilitate the adoption of technological and organisational innovations developed abroad. And migrants can increase exposure to, and opportunities for, international trade.

A growing international literature points to migrants boosting the productivity of incumbent workers.⁶⁰ In particular, Bernstein et al

(2019) find that while high-skilled migrants make up just 10 per cent of the US population, they account for 16 per cent of inventors, and contributed to 22 per cent of all patents produced. In fact almost one quarter of 'top patents', and a quarter of economic value created by patents, were generated by migrants.⁶¹ However, the US is in many respects a global outlier. As the largest global market, it can attract the kind of best-in-the-world talent that Australia will find difficult to attain. Such inventions are likely to be smaller contributors to innovation and therefore productivity growth in Australia.

As Australia accounts for only a small share of the global economy, the vast majority of innovations in Australia are invented elsewhere, and then adopted or adapted for local use.⁶² But migrants, particularly skilled migrants, may speed up the pace of adoption through the spread of knowledge and international best practice.⁶³ A diversified workforce is likely to have different skills and mindsets, which in turn is likely to boost business, technological, and cultural innovation. This is

56. See Parham et al (2015, Figure 2.2) for a framework for productivity and well-being in the Australian context.

57. For example, a 0.2 per cent increase in the annual rate of growth in productivity would lead to a 5 per cent boost to Australians' per-capita incomes over 25 years.

58. Dodgson and Gann (2010). A little more descriptively, the OECD defines innovation as 'the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation, or external relations'.

59. See Productivity Commission (2016a, pp. 211–212).

60. Parham et al (2015) find positive effects on scientists and engineers due to inflows of foreign STEM workers explain between 30 per cent and 50 per cent of the aggregate productivity growth that took place in the US between 1990 and 2010. Similarly, Gunadi (2019) finds that, in the US between 2000 and 2015, high-skilled STEM immigrants accounted for a 1 per cent increase in GDP. All of this increase can be attributed to the generation of new ideas and the development of new technologies that raise the productivity of US-born workers. Bernstein et al (2019) show that without incumbent/migrant collaboration in the US between 1976 and

2012, the total number of US patents would be dramatically reduced. Firms with migrant owners or partners are also more likely to introduce new products or processes. See: Qian et al (2013), Niebuhr (2010) and Saxenian (2002).

61. 'Top patents' are those within the top 10 per cent of patents from the same year and technology class in terms of citations received: Bernstein et al (2019, p. 6). Economic value is defined as the value of the stock market reaction on announcement of a particular patent: Bernstein et al (ibid, p. 7).

62. Daley et al (2012, pp. 17–18).

63. Döring and Schnellenbach (2006). For example, Campo et al (2018) examine migrant effects in the UK and find that migrants boost firms' productivity while also increasing the productivity of incumbents through training. Their results are particularly strong for high-skilled migrant workers in high-skilled occupations. Alesina et al (2016) find greater diversity of migrant country of birth increases output. Increasing the birthplace diversity of skilled migration in developed countries by 1 percentage point increases long-run economic output by 2 per cent. Gu et al (2020) find a positive association between the change in the share of migrant workers and firm productivity growth: a 10 percentage point increase in the share of migrants was associated with a 1.9 per cent increase in firm productivity.

particularly the case at the firm level, with firms with migrant owners or partners more likely to introduce new products or processes.⁶⁴ Among the people who run Australia's exporting firms, half are foreign-born: double the share in the general population.⁶⁵

Parham et al (2015) estimate that migration contributed 0.17 percentage points to Australia's annual labour productivity growth between 2006 and 2011. This finding is consistent with international research suggesting that migrants tend to boost GDP per person.⁶⁶ However the main driver of these results is the higher average human capital of migrants, vis-a-vis the Australian population. Therefore, like measures of migrants' boost to GDP per person, measures of the impact of migration on productivity growth will, at least to some degree, reflect increases in incomes captured by migrants themselves.⁶⁷

Australian evidence of productivity spillovers from migration remains limited.⁶⁸ This lack of evidence led the Productivity Commission to conclude in its 2016 study that migration is unlikely to have substantial spillover impacts on productivity or per-person incomes.⁶⁹ However prioritising higher-skilled migrants is likely to maximise a productivity spillover arising from Australia's permanent skilled migration program.

64. See: Qian et al (2013), Niebuhr (2010) and Saxenian (2002).

65. Chinnery and Silbillin (2010).

66. For instance, Jaumotte et al (2016) estimate that across advanced economies, a 1 percentage point increase in the share of migrants in the adult population can raise GDP per person by up to 2 per cent in the longer run, largely through increases in productivity. The authors find that both high- and lower-skilled migrants can raise labour productivity.

67. Although high-earning migrants will pay higher taxes, thereby providing a fiscal benefit to the Australian community (Section 3.3.2).

68. Roodman (2014, p. 7).

69. Productivity Commission (2016a, p. 214).

3.3.4 Migrant selection shouldn't address skills shortages at the expense of selecting high-skilled workers

Migrant selection shouldn't prioritise skills shortages if doing so comes at the expense of selecting high-skilled workers. Instead targeting higher-skilled, higher-wage workers for permanent visas is likely to be effective in addressing most persistent skills shortages.

The very concept of a skill shortage is difficult to define and even harder to measure.⁷⁰ A common definition of a skill shortage is where 'demand outstrips supply at prevailing market wages'.⁷¹ However, relying on prevailing wages levels in diagnosing a shortage removes the opportunity for firms to increase wages when faced with recruitment difficulties, rather than relying on non-wage solutions to retain staff.⁷² Although shortages may also emerge where employers cannot find candidates with enough experience or with the appropriate intangible skills, which may not be easily remedied by increasing the number of graduates with the relevant qualification.⁷³

Most skills shortages in a market economy are likely to be temporary. Australia's flexible labour market and relatively demand-driven higher education and vocational education and training sectors should lead to increased supply of most in-demand skills over time.⁷⁴

70. The term itself is 'a slippery concept with many meanings': Richardson (2007).

71. Leal (2019).

72. Leal (ibid). See also: C. Wright and Constantin (2020).

73. Productivity Commission (2020, p. 114).

74. The OECD classifies Australia's regulatory environment for worker protection as 'low regulatory protection'. Australia ranks in the top third of OECD countries for the flexibility of firms to dismiss workers. Australia has a low number of procedural requirements to dismiss workers, the notice period and severance pay are shorter than many countries, and the regulatory framework for unfair dismissals is more straightforward than elsewhere: OECD (2020, Chapter 3). See also: Productivity Commission (2020, pp. 114–116).

In contrast, permanent skilled migrants who arrive in Australia aged in their 20s and 30s will probably remain in the workforce for 30-to-40 years.⁷⁵ Therefore addressing short-term skills shortages will probably have a comparatively small impact on permanent migrants' lifetime economic contribution compared to their overall level of skills and experience. Shorter-term skills shortages, where they emerge, are best addressed via Australia's temporary migration program.

Some skills shortages can be persistent, such as those arising from systemic failures in education and training or occupational licensing, or where substantial on-the-job experience is required.⁷⁶ Yet endemic shortages mean workers with those skills are likely to be in high demand and therefore attract high wages. For instance, one recent OECD study found that half of jobs that are hard-to-fill (i.e. in shortage) are in high-skilled occupations. By contrast, just one out of 10 are in low-skilled occupations.⁷⁷

Skill 'shortages' may also persist where government-funded health, aged and disability care services are unable, or unwilling, to raise wages to secure additional workers, especially for lower-wage jobs.⁷⁸ Prioritising lower-skilled workers in government-funded sectors for permanent residency over higher-skilled workers in other sectors could lower the Federal Government's wage bill in the short term.⁷⁹

75. For instance, the average age of retirement among people aged 45 and older today is 67 for men and 66 for women. Younger, higher-skilled workers are likely to retire even later: Coates and Nolan (2020, p. 45).

76. Productivity Commission (2020, p. 115).

77. Based on OECD Skills for Jobs Database of 40 countries, including Australia. Hard-to-fill jobs included managerial positions to highly skilled professionals in health care, teaching, or ICT: OECD (2018).

78. Productivity Commission (2020, p. 115).

79. The extra wages paid to incumbent care workers would be an extra cost to government, but from the perspective of the Australian community as a whole they would simply be a transfer from one cohort of Australian taxpayers to a cohort of Australian workers.

However, such a choice would impose a substantial "shadow tax" on the Australian community in the long-term. For instance, granting permanent residency to a 30-year-old, lower-wage care worker earning \$55,000 a year over a higher-skilled migrant worker of the same age who earns \$80,000 a year would cost the Federal Government around \$373,000 in lower personal income tax receipts alone over the remainder of each migrants' working lives.⁸⁰

Another important consideration is the impact migration has on the incentives for firms to train their domestic workforce. But there is little Australian evidence to suggest that migration substantially reduces investment in the education and training of incumbents.⁸¹

3.4 Environmental impacts of migrants are driven more by the size of the intake than its composition

Beyond their impacts on Australians' incomes, migrants also have important impacts on the built and natural environment, which are important to incumbents' well-being. New migrants tend to cluster in our major cities – especially Sydney and Melbourne – adding to demand for housing and transport infrastructure (Figure 3.7 on the next page).⁸²

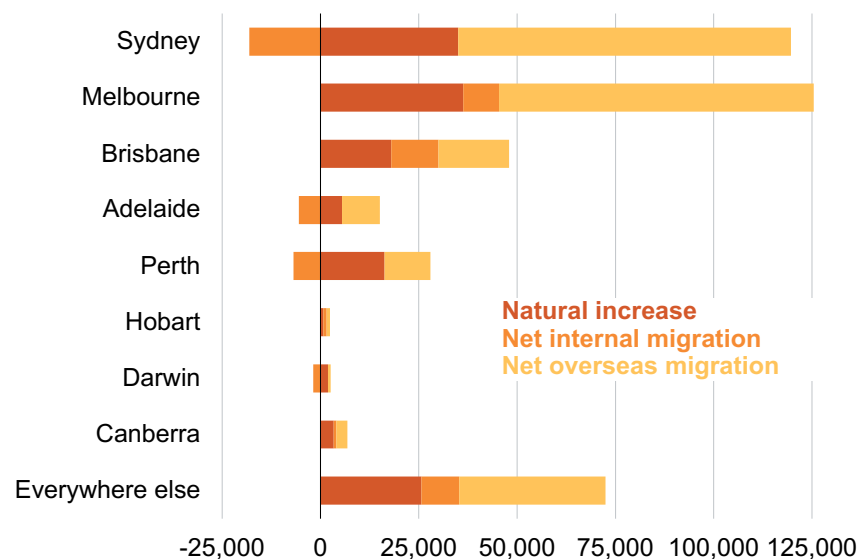
Yet migrants' impacts on incumbents' access to housing, transport infrastructure, and environmental resources are largely due to the effect of the migrant intake on Australia's total population, rather than the particular composition of any particular migrant intake.

80. Assumes retirement at age 67, real wage growth of 1 per cent a year and a marginal personal income tax rate of 32.5 per cent. Accounting for other taxes, and reduced use of means-tested public benefits and services, would increase the size of this gap.

81. Productivity Commission (2016a). Productivity Commission (2006) also found that migration appeared to have had only a small impact on the training levels of incumbent workers.

82. For example, see: Daley et al (2018a).

Figure 3.7: Most overseas migrants settle in Sydney or Melbourne
Population change, 2018-19

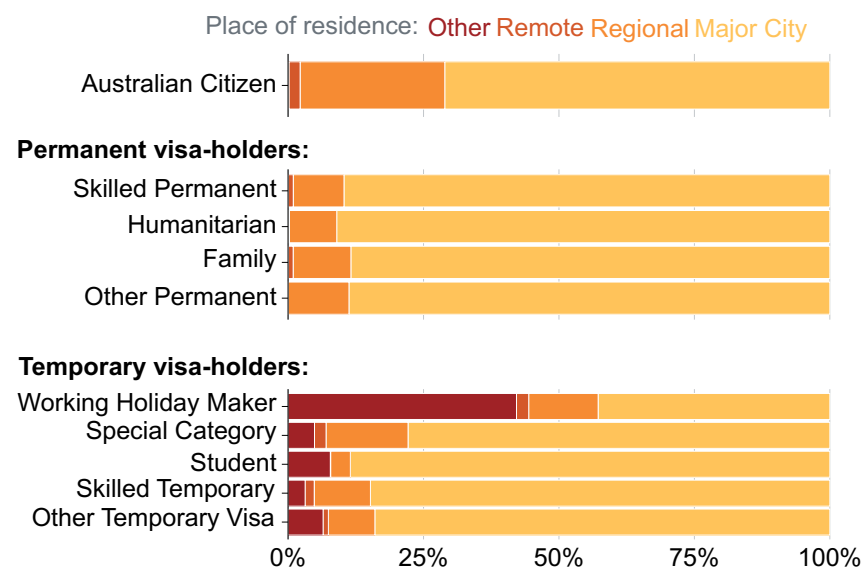


Notes: The ABS periodically revises these estimates.

Source: Terrill et al (2018, Figure 1.2).

Figure 3.8: Most migrants, irrespective of visa held, tend to reside in Australia's major cities

Migrants and citizens by visa type and remoteness of place of usual residence, share



Note: Other includes no usual address, not stated, migratory visas, and overseas visitors.

Source: Grattan analysis of ABS (2016a), ABS (2016b) and ABS (2016c).

Patterns of settlement don't vary much across visa classes. Permanent and temporary visa holders overwhelmingly reside in Australia's major cities, although a greater share of working holiday makers and Special Category visa holders (i.e. New Zealanders) reside in regional Australia (Figure 3.8 on the preceding page). Of course wealthier migrants will demand more housing, and consume more, drawing more on Australia's environmental resources.

3.5 Migrants' impact on social cohesion is largely driven by community attitudes

In addition to economic and environmental well-being, immigrants effect the social well-being of incumbents.

Social cohesion – the trust and engagement between people in a community – is important to the well-being of the Australian community.⁸³ New migrants can change social relations, experiences of attachment and belonging, and a community's orientation towards a common good. Measuring these effects, however, is fraught.

One prevailing narrative is that incumbents' views of migrants is driven by perceived economic threats of migration.⁸⁴ But a review of more than 100 studies on public attitudes to migration from 1993 to 2013 and found 'there is little accumulated evidence that citizens primarily form attitudes about immigration based on its effects on their personal economic situation'.⁸⁵

Instead, social cohesion appears to depend on the extent to which migrants themselves and the Australian-born population accept diverse ethnic identities as consistent with a common 'national' identity, which itself evolves over time.

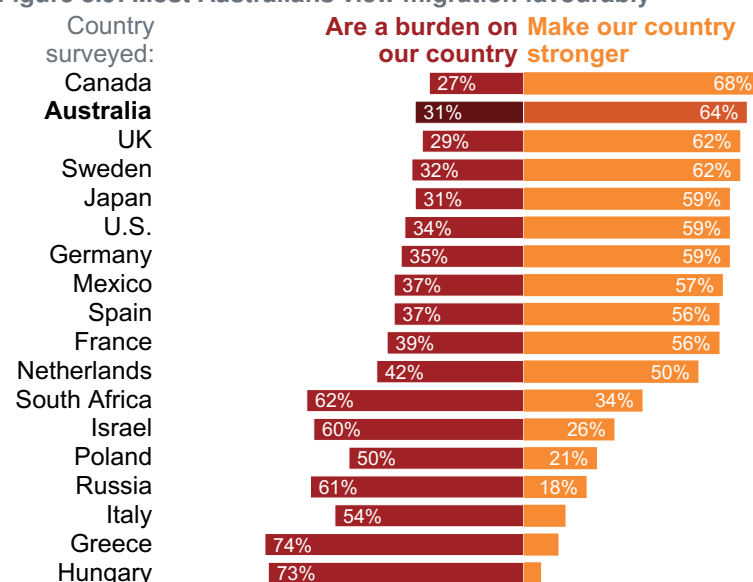
83. Stiglitz et al (2014).

84. Heinmueller and Hopkins (2014).

85. Ibid.

As a group, Australians have more positive attitudes to migration compared to other countries (Figure 3.9). About 80 per cent of Australians believe migrants bring new ideas and culture. At the same time, about 60 per cent of Australians agree with the statement 'too many immigrants are not adopting Australian values', although these values are left unstated.⁸⁶

Figure 3.9: Most Australians view migration favourably



Source: Pew Research Centre (2019).

86. Markus (2020).

Anti-migrant views are much more prevalent in regional Australia, even though there are far fewer migrants there, especially from Asia, the Middle-East, and Africa (Figure 3.10).⁸⁷ This suggests a *sense of threat* can be as important as the actual level of threat.

Social trust in migration also depends, albeit to a lesser degree, on how well migrants fit in. The evidence suggests that migrants' integration into the economy and society improves with their English-language skills, education, and employment, and is better in Australia than in many other countries.⁸⁸ These findings suggest that giving priority to migrants with stronger English-language skills will help migrants to integrate into the Australian community, which may support social cohesion.

3.6 Diverting migrants to regional Australia is likely to reduce community well-being

Migration is often seen as a way to support population growth in regional Australia. Yet diverting skilled migrants to regional areas is likely to reduce the net benefits the community derives from permanent skilled migration. Grattan Institute has previously called on Australian governments to stop trying to divert population to regional Australia.⁸⁹ Policies designed to artificially hold jobs or people in regional areas have not fared well in the past.

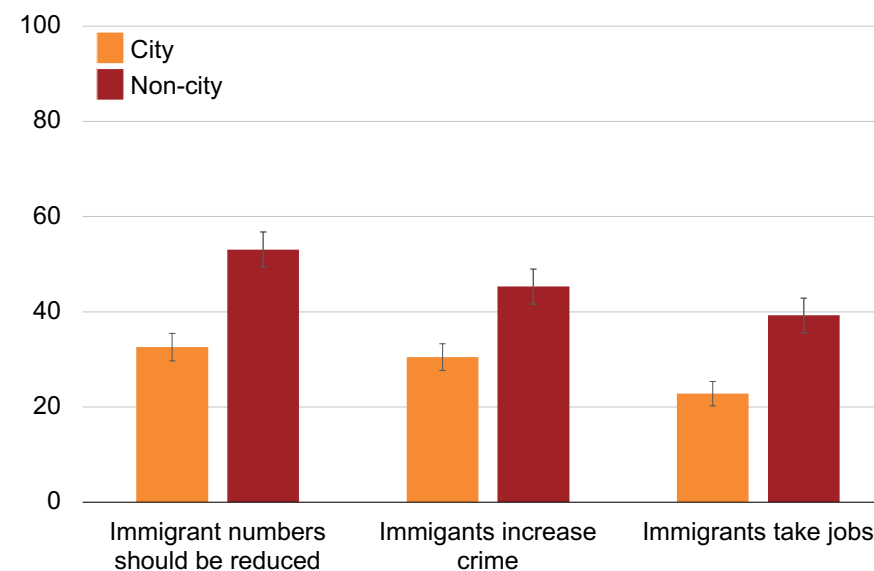
87. More than 40 per cent of people in regional Australia think that the number of migrants allowed into the country should be reduced, compared to just over 30 per cent of people in the cities. Regional Australians are also much more likely to believe that migrants increase crime and take jobs. Wood et al (2018, Figure 5.8).

88. In Australia, migrants tend to do have broadly similar rates of employment and only modestly lower rates of home ownership than Australian-born residents. In contrast, in many OECD countries, foreign-born residents tend to do less well than native-born residents on these dimensions. See: Productivity Commission (2016a, p. 262).

89. Daley et al (2019, p. 8).

Figure 3.10: Antipathy towards migration is higher in regional Australia where fewer migrants settle

Percentage of respondents who agree with selected statements, by location, 2016



Source: Wood et al (2018, Figure 5.8).

Australia's five largest cities are more productive than the smaller cities and regional areas. Migrants that settle in cities are more likely to find a job that they are willing and able to do, and if they lose their job, to find another one quickly. It is more worthwhile to specialise, and working with specialists also helps people to develop more specialist skills themselves.⁹⁰ Learning opportunities tend to be greater in bigger cities, as workers see what others are doing and imitate it. Much know-how is informal, and people are more likely to share informal knowledge face-to-face than through channels that operate at a distance. Because job turnover is faster in cities, people take their knowledge with them to new jobs more quickly than in regional areas.

Forcing migrants to move to regional areas will likely reduce their incomes, reducing the taxes they pay and therefore also the size of the fiscal dividend they provide to the Australian community, while increasing the cost of the public services they consume.⁹¹ Migration policies that require migrants to move to regional areas will also narrow the pool of prospective applicants – since most migrants would prefer to move to cities – reducing the benefits to the Australian community from a given migrant intake (Section 2.4).

Australian governments should ensure people in regional areas have access to a reasonable level of services and infrastructure considering the costs of providing them. However, any benefits that regional visas provide in supporting regions' access to important public services should be carefully weighed against the cost of such programs. In particular, it remains unclear how many migrants diverted to regional Australia actually remain there in the long-term.

90. Moretti (2012, pp. 126–127).

91. Social services – particularly health and education – are more expensive to deliver to dispersed populations: Daley et al (2018b, p. 55).

4 Recent government choices have taken permanent skilled migration in the wrong direction

Australia's permanent skilled migrant intake has historically been well targeted to younger, skilled workers. But some recent policy decisions have taken Australia in the wrong direction. Reforms to better target the intake towards younger skilled migrants with strong English and employable skills would deliver big benefits to the Australian community.

4.1 Australia selects permanent skilled migrants through a number of different streams

The size and composition of the permanent skilled program is set each year as part of the federal budget process. The Government specifies a ceiling on the number visas allocated each year through each stream. Figure 4.1 shows the planning levels for each of the major visa streams over time. In 2020-21, the permanent skilled migration program has 79,600 places allocated, down from 125,000 places on average over 2013 to 2018. The total size of the permanent skilled migrant intake remains at 79,600 places for 2021-22.⁹²

Australia selects permanent skilled migrants through a number of different streams, each with significantly different selection mechanisms and eligibility requirements. These streams are:

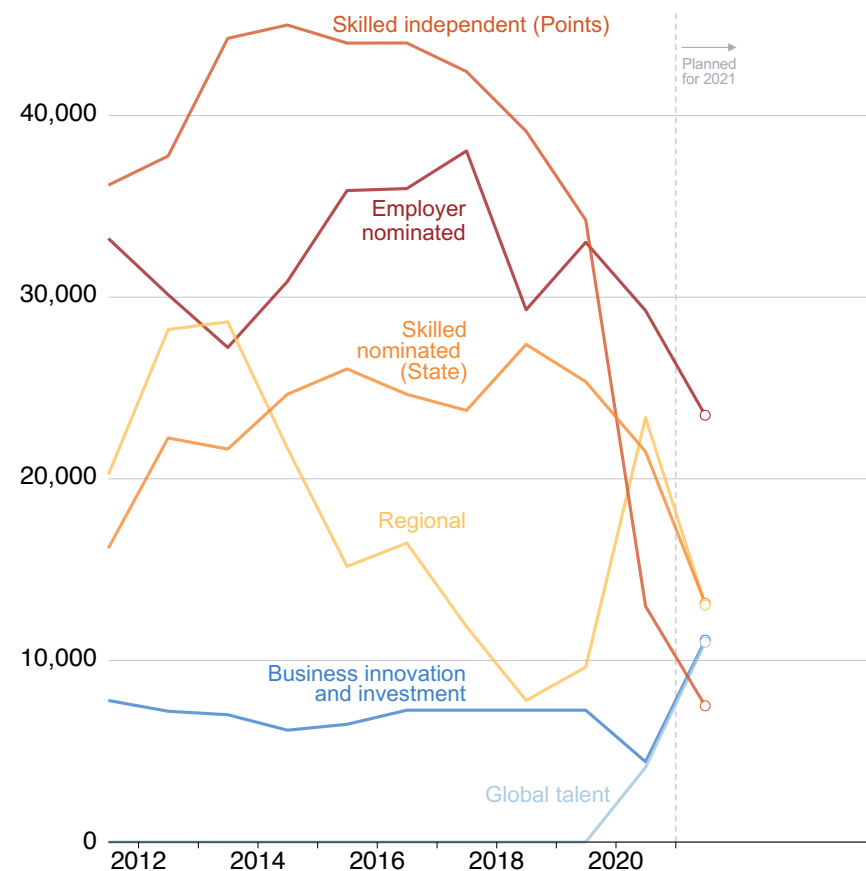
- **Points-tested skilled migration:** includes the 'Skilled Independent', 'Skilled Nominated', and most 'Regional' visas. Applicants are allocated points according to characteristics such as age, qualifications, skills, and English proficiency, and then ranked by their overall points.⁹³

92. Department of Home Affairs (2021a, p. 15).

93. Additional points are available for applicants nominated by state governments through the 'Skilled nominated' and 'Regional' visa classes. See Chapter 7.

Figure 4.1: The permanent skilled intake has shifted away from skilled workers and towards business investment and global talent

Annual permanent visa grants by category



Notes: Financial year ending. Planning figures for 2020-21 were updated by the Department of Home Affairs in May, 2021: Hansard (2021). Original visa grant figures have been adapted to mirror the Government's new categorisation, introduced in 2019-20. Sources: Grattan analysis of Department of Home Affairs (2020b); Department of Home Affairs (2021c); and Hansard (2021).

- **Employer-nominated:** requires applicants to be nominated by a sponsoring employer, subject to minimum thresholds for applicants' age, qualifications, and English language proficiency.
- **Business Innovation and Investment:** targets migrants who have a demonstrated history of success or talent in innovation, investment, and business. Most applicants are subject to a points-test but must also satisfy criteria relating to owning or managing a business in Australia, or investing substantial funds onshore.
- **Global Talent:** targets highly skilled professionals to work in 10 nominated sectors.

4.2 Recent shifts in the intake go in the wrong direction

The composition of the permanent skilled migrant intake has shifted in recent years. The 2020 Budget in particular increased the share of Australia's skilled migrant intake allocated through the Business Investment and Innovation Program (BIIP) and the Global Talent stream. Recent changes to the 2020-21 intake, announced in late May 2021, have somewhat reduced the planned rises in BIIP and Global Talent streams for 2020-21.⁹⁴ Nonetheless these extra visas come at the expense of the employer-sponsored and points-tested streams that have a proven record of selecting skilled workers. In particular, the 'Skilled Independent' stream has fallen from more than 40,000 visas a year from 2014 through to 2018, to just 7,500 visas for 2020-21

94. The 2020-21 planning level for the Global Talent stream was recently revised down from 15,000 to 11,000 visas. BIIP visas have been revised down from 13,500 to 11,000. Planning levels for the Skilled nominated, Regional and Skilled Independent streams have increased to offset the reduced planning levels for BIIP and Global Talent visas. See: Hansard (2021, p. 84).

(Figure 4.1.) The visa planning levels for each part of the permanent skilled intake for 2021-22 are yet to be announced.⁹⁵

To some degree, shifts in the composition of the planned intake in 2020-21 may reflect the impact of COVID-related border closures.⁹⁶ However the scale of recent shifts in the intake – especially the sharp increase in business investment visas – is hard to justify on the basis of COVID.⁹⁷ Most permanent skilled visas – especially for employer-sponsored and points-tested applicants – are issued to people already in Australia,⁹⁸ whereas the vast majority of permanent business investment visas (89 per cent) are allocated to applicants who have not previously held a temporary Australian visa.⁹⁹ The increase in business investment visas in 2020-21 appears to reflect an attempt to clear the growing backlog of business investment visa applications on hand.¹⁰⁰

95. Referring to the 2021-22 permanent migrant intake, the Department of Home Affairs Portfolio 2021-22 Budget Statement says that 'there will be a continued focus on skilled migrants who fill critical needs and those who introduce investment and innovation into the local economy'. Department of Home Affairs (2021a, p. 15).

96. For instance, onshore applications have been given priority in 2020-21.

97. By contrast, the Canadian Government has responded to COVID by prioritising permanent residency to temporary residents currently working in Canada. See: Government of Canada (2021b) and El-Assal and Thevenot (2020).

98. For instance, 76 per cent of all permanent skilled visas issued in 2019-20 were granted to people already in Australia: Department of Home Affairs (2021d, Table 9).

99. By comparison, 75 per cent of Skilled Independent, 69 per cent of state-nominated and 92 per cent of employer-nominated visas were issued to people who had previously held a temporary visa: Department of Home Affairs (ibid, Figure 12).

100. Demand for BIIP visas has been strong in recent years. As at 31 January 2021, there were 37,715 applications on hand: Department of Home Affairs (ibid, p. 32).

4.2.1 Recent shifts in the composition of the intake impose significant long-term costs

Shifting the intake towards older, less-skilled, and lower-income migrants generates substantial economic costs to the Australian community. We estimate shifts in the planned intake – particularly increasing the share allocated to business visas – will increase the average age of the cohort (Figure 4.2) and reduce the fiscal dividend from the 2020-21 permanent skilled migrant cohort by at least \$2 billion over their lifetimes, based on personal income tax receipts alone (Figure 4.3).¹⁰¹ In practice, the foregone fiscal benefits from this shift are likely to be even higher, after accounting for a broader range of federal and state government taxes, as well as increased access to means-tested public benefits and services. And increases in business visas are also likely to reduce any productivity spillovers from migrants to Australian workers, since business visa-holders tend to have lower skills and poorer English (Chapter 5).

The expansion of the Global Talent Program may also generate fiscal costs, since Global Talent visa-holders are older than skilled workers selected via employer sponsorship or the points-test, but estimating these effects is not possible using existing public data.

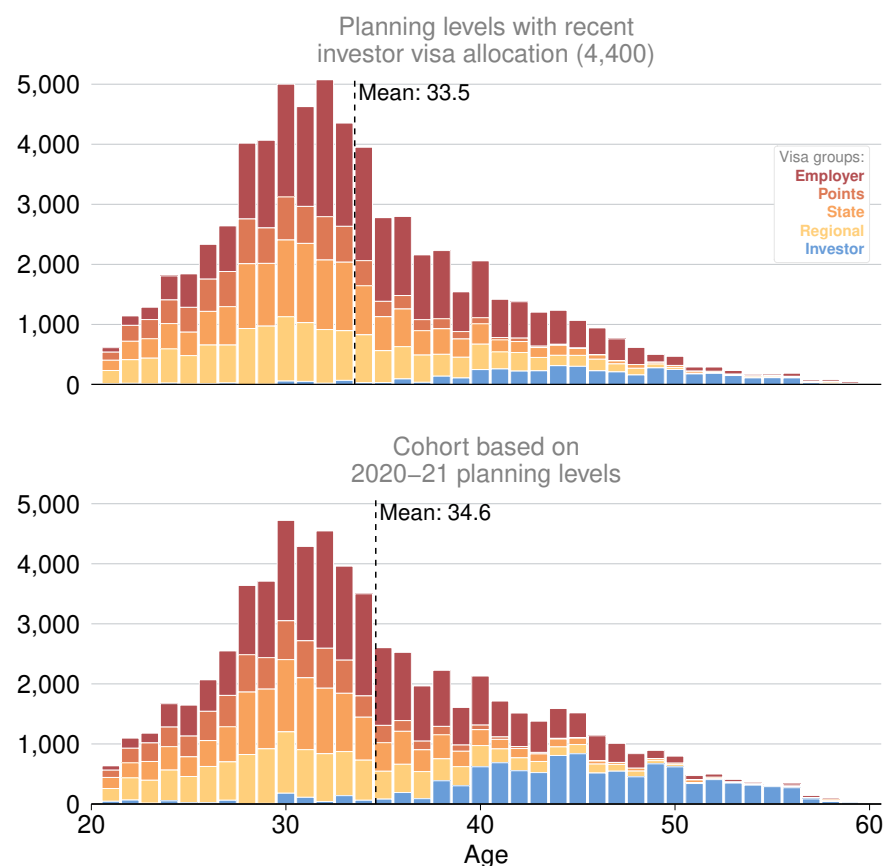
4.3 How to better select permanent skilled migrants

The remainder of this report recommends changes to Australia's permanent skilled migration streams to maximise the contribution of migrants by prioritising younger, skilled migrants with strong English and employable skills.

101. Based on comparing the composition of the permanent skilled migrant intake in 2020-21 to the average intake over 2013-17. Excludes shifts in intake towards Global Talent, because the outcomes for this new and growing cohort cannot be reliably estimated from available data. See Appendix B for further details.

Figure 4.2: The Government's changes are likely to lead to an older migrant cohort

Age distribution of skilled primary applicants and their partners, by planning levels



Notes: Grattan analysis of the Continuous Survey of Australia's Migrants (CSAM). Both cohorts shown above exclude the 11,000 Global Talent visa group. See methodology in Appendix B.

Source: Grattan analysis.

The Business Innovation and Investment Program (BIIP) should be abolished (Chapter 5), the Global Talent Program should be scaled back and independently evaluated (Chapter 6), and the number of skilled worker visas allocated via employer-sponsorship and the points-test should be expanded (Chapter 7).

Skilled worker visas should no longer be targeted at skills shortages at the expense of higher-skill, higher-wage workers. Employer-sponsorship should be available for workers in all occupations with an offer of a high-wage job. There should be a shift to assessing income instead of occupations.

The points-test should be subjected to an independent review focused on ways to better select younger, skilled workers. The review should consider abolishing occupation lists for points-tested visas, as well as points allocations for migrant characteristics that do not generate positive labour market outcomes. The review should also consider whether separate points-tested visa streams serving state governments and regional areas should be abolished, since these visa holders have fewer skills and earn lower incomes than those selected via the independent points-test.

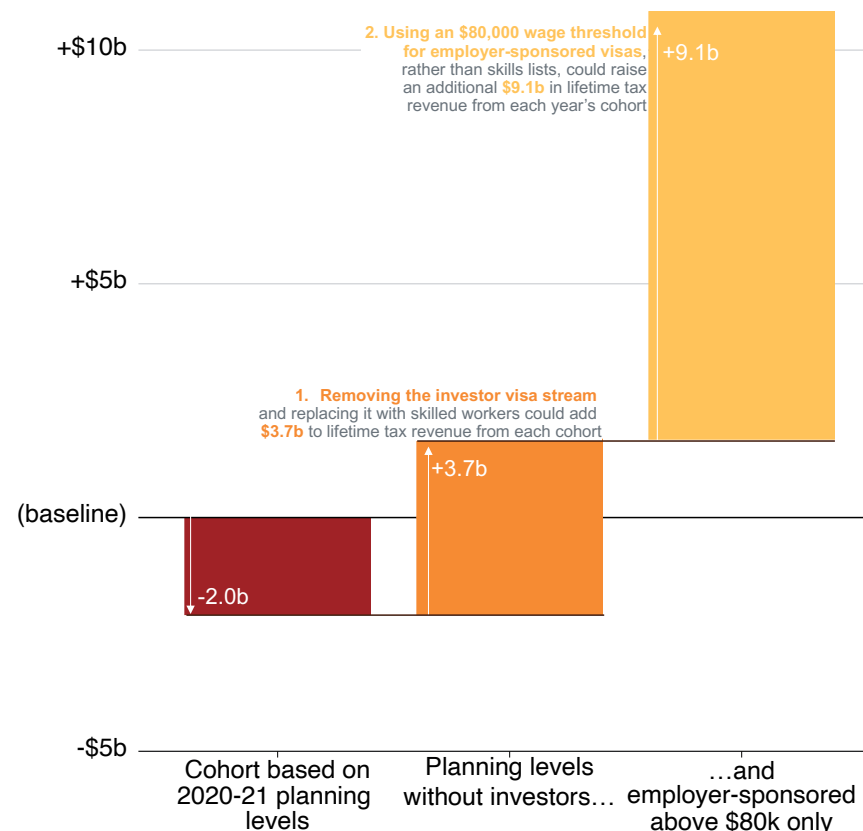
4.4 Our recommended reforms would deliver substantial benefits to the Australian community

These changes would bring big benefits to the Australian community by shifting Australia's permanent skilled migrant intake further towards younger, higher-skilled migrants.

Abolishing the Business Investment and Innovation Program alone would lower the average age of permanent skilled migrants by around one year, and increase average incomes because business visas would be reallocated to points-tested visas. Abolishing the BIIP would

Figure 4.3: Changes to the skilled visa composition would bring big fiscal benefits for the Australian community

Estimated lifetime tax paid of permanent migrant cohorts, relative to recent cohort composition



Notes: Assumes a real wage growth is 1% and a real social discount rate of 3%. Retirement age is 67. See methodology in Appendix B.

Source: Grattan Institute analysis.

generate at least an extra \$3.7 billion in extra personal income tax receipts over the lifetimes of each annual migrant cohort (Figure 4.3).¹⁰²

Abolishing occupation lists and opening up employer-sponsored visas to all skilled workers, irrespective of occupation, provided they earn at least \$80,000 a year, could generate an extra \$9.1 billion in personal income tax receipts over migrants' lifetimes (Figure 4.3).

In practice, the fiscal dividends from these reforms would be larger once other taxes and lower costs on means-tested government services and benefits are taken into account.

The broader benefits of these reforms, beyond direct fiscal benefits, are difficult to estimate. But prioritising high-skill, high-wage workers for permanent skilled migration would probably further reduce any prospect that migration will hurt the wages of low-skilled workers. And better targeting permanent skilled migrant visas at high-skill, high-wage workers would be expected to maximise any productivity spillovers from migration to Australian workers, especially via the adoption of new technologies and business practices.

102. Scaling down the Global Talent Program, with excess visas re-allocated to the points-test and employer sponsorship, could generate further benefits, but these are difficult to quantify.

5 The Business Innovation and Investment Program should be abolished

The Business Innovation and Investment Program (BIIP) is designed to select ‘migrants who have a demonstrated history of success or talent in innovation, investment, and business’.¹⁰³ Many countries have adopted similar visa programs to attract additional investment and promote innovation.¹⁰⁴ Planned visas issued under the BIIP have risen sharply (Figure 5.1).¹⁰⁵

Yet Australia is an open economy with good access to capital, and hence investment visas are unlikely to generate much *additional* foreign investment. Any extra capital investment attracted via the program appears insignificant compared to the sizeable costs of the program to the Australian community. Migration can encourage entrepreneurship and innovation (Chapter 3). But most BIIP immigrants buy established businesses in retail and hospitality, which together with their age, and generally poor skills, and lack of English proficiency, means they are not adding materially to Australia’s innovative and entrepreneurial capacity.

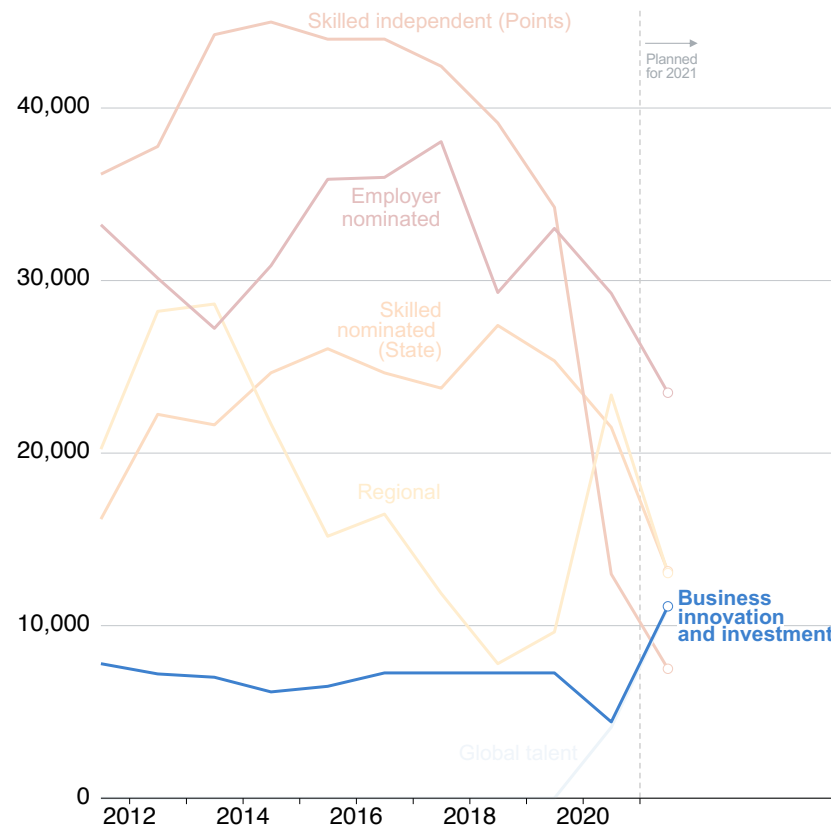
People offered permanent residency through these visa categories are older, participate less, have poorer English, and appear to earn smaller incomes than those issued with permanent visas via the points-test or employer sponsorship. Each visa allocated to the BIIP is a visa not allocated to skilled workers, who by virtue of being younger, more skilled, and able to earn higher incomes, are likely to make a larger contribution to the Australian community (Chapter 7). The BIIP should be abolished, and those visas reallocated to skilled workers.

103. Department of Home Affairs (2020c).

104. See Sumption and Hooper (2014).

105. Initially to 13,500 visas in 2020-21, although planning levels for 2020-21 have since been revised down to 11,000 visas: Hansard (2021).

Figure 5.1: The BIIP has expanded rapidly in the past year
Annual permanent visa allocation, financial year ending



Notes: Financial year ending. Planning figures for 2020-21 were updated by the Department of Home Affairs in May, 2021: Hansard (2021). Original visa grant figures have been adapted to mirror the Government’s new categorisation, introduced in 2019-20. Sources: Grattan analysis of Department of Home Affairs (2020b); Department of Home Affairs (2021c); and Hansard (2021).

Table 5.1: Business Innovation and Investment visas

	Significant Investor	Investor	Innovation	Entrepreneur
Selection mechanism	Investment based	Points-test	Points-test	Business plan
State nomination required	Required	Required	Required	Required
Age threshold	None	55	55	55
Investment	\$5 million	\$1.5 million	Not required	Not required
English	Not mandatory: IELTS 5; if no English, pay additional levy	Not mandatory: IELTS 5; if no English, pay additional levy	Not mandatory: IELTS 5; if no English, pay additional levy	Yes; IELTS 6
Provisional	Yes	Yes	Yes	Yes
Business	Not required	Not required	Purchase	Approved business plan
Employment	Not assessed	Not assessed	Not assessed	Not assessed

Notes: IELTS = the International English Language Testing System. At the time of publication, there is little public information about the proposed changes to the Entrepreneur stream of the BIIP except the removal of the \$200,000 funding agreement requirement. Different state and territory governments levy additional requirements when providing their nomination.

Source: Department of Home Affairs (2021e).

5.1 There are now four separate streams within the BIIP

First introduced as the Business Skills Program in 1992, the BIIP is a collection of several different visas. The current policy framework was introduced in 2012. From July 2021, there will be four streams within the visa.¹⁰⁶

- **Significant Investor:** targets investment capital, requires a person to invest \$5 million in complying investments for four years to qualify for a permanent visa, including a minimum of 10 per cent, or \$500,000, in venture capital, a further 30 per cent, or \$1.5 million, to fund emerging companies, and the residual balancing investment in eligible assets, including Australian-listed securities, eligible corporate bonds or notes, annuities, and real property.¹⁰⁷
- **Investor:** mirrors the Significant Investor stream in many respects, albeit with a lower investment threshold of \$1.5 million, which must be invested in Australia.¹⁰⁸ Applicants must also have net business, investment, and personal assets of at least \$2.25 million.
- **Innovation:** requires applicants to hold business assets of \$1.25 million and have an annual turnover of \$750,000. During the provisional stage of the visa, to progress to a permanent visa, applicants must show their 'substantial ownership stake in a

106. There are currently nine separate streams within the BIIP. This will be reduced to four from 1 July 2021 following a review by the Department of Home Affairs: Department of Home Affairs (2020c) and Tudge (2020). See Table 5.1 on the previous page.

107. The rules governing where a person can invest are the most important determinant for the visa. These rules are found in the 'Complying Investment Framework' (CIF): AusTrade (2015). These rules will be updated from 1 July 2021 to require a minimum \$1 million allocation to venture capital. See: Tillett (2021).

108. In practice, Investor visa holders have been required to invest in state Treasury bonds. Under announced changes to the Complying Investment Framework the investment requirement will increase to \$2.5 million. Tillett (ibid).

Box 1: State and Territory nominations in the BIIP

BIIP visas require a formal nomination from a state or territory government. The federal government allocates each jurisdiction a share of annual BIIP visas. States and territories can use the nomination process to require additional requirements from people applying for the visa. There are numerous examples of this, including:

The **NSW Government** requires a \$1.3 million threshold for an individual's net assets if they intend to live in Sydney. This is above the current baseline provided by the federal government of \$800,000. This applies for both the Innovation and Investment streams of the BIIP.

The **Victorian Government** mandates a minimum English proficiency score of 'Vocational English' for the Innovation stream (e.g. IELTS 5). This is despite the federal government allowing visa applicants to score zero for English language in the points-test, and pay an additional fee as a penalty: Victorian Government (2021a). Recently, the Victorian Government has essentially converted the Investment stream into a de-facto Significant Investor visa, by requiring a \$500,000 investment in Venture Capital and Private Equity. This requirement is in addition to the \$1.5 million investment in the Victorian Treasury Corporation: Victorian Government (2021b).

business in Australia’ and ‘take part in its day-to-day management, at a senior level’.

- **Entrepreneur:** introduced by the Turnbull government in 2015, requires applicants to be undertaking, or proposing to undertake, a ‘complying entrepreneur activity’ in Australia, having been nominated by a state or territory government.¹⁰⁹ Historically, Entrepreneur visas have required a funding agreement worth at least \$200,000 in a start-up business. However this requirement will be abolished from 1 July 2021.¹¹⁰

Applicants under the BIIP are granted provisional visas in the first instance, which include a direct pathway to permanent residency. Provisional visas are used to ensure visa conditions are met, such as criteria to hold investments and engage in innovation, before permanent residency is granted at the end of the four-year provisional period.

Each stream also requires a state or territory government to provide a formal nomination for each visa application.¹¹¹ This allows state and territory governments to overlay their own preferences and visa rules through the nomination process, above and beyond the ‘floor’ requirements established by the Federal Government (Box 1 on the preceding page).

109. A complying entrepreneur activity must relate to an innovative idea that will lead to either the commercialisation of a product or service in Australia, or the development of an enterprise or business in Australia. See Department of Home Affairs (2021f).

110. Tudge (2020).

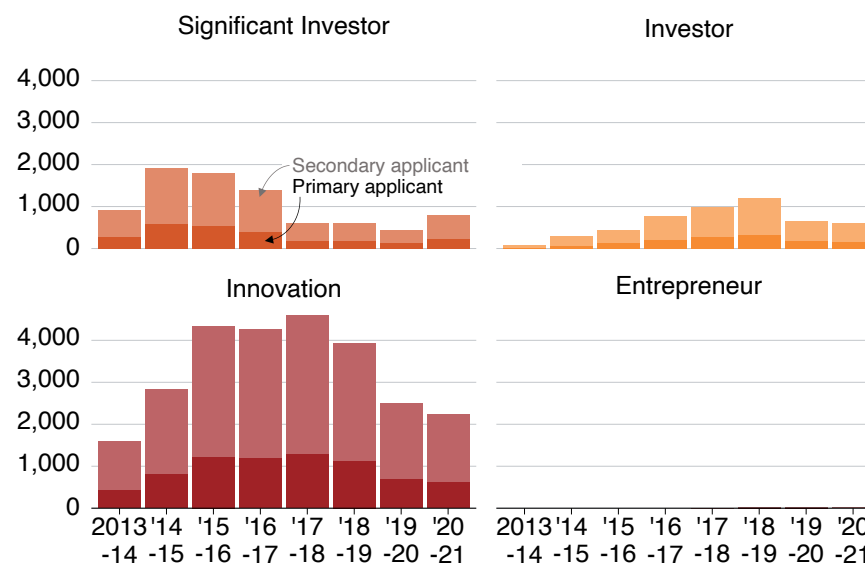
111. For the Significant Investor stream, AusTrade can provide a nomination in lieu of a state or territory government.

5.2 An increasing number of permanent skilled visas are now allocated via the BIIP

The Business Innovation and Investment Program remained fairly small for most of its history. In the decade to 2020, an average of 6,800 visas were granted each year (Figure 5.2). The number of BIIP visas granted has fallen short of the annual allocation in 2019-20 and so far in the 2020-21 financial year, reflecting, at least in part, COVID-19 border closures.

Figure 5.2: The innovation stream accounts for 70 per cent of visas issued via the BIIP

Annual visas issued within each stream of the BIIP



Source: Department of Home Affairs (2021).

The Innovation stream accounts for about 70 per cent of visas issued via the BIIP, with an average of 3,285 visas granted (including secondary applicants) each year since 2013-14. An average of 1,060 Significant Investor and 642 Investor visas have been issued each year over the same period. After peaking at nearly 2,000 visas allocated in 2014-15 (including secondary applicants), Significant Investor visas issued have fallen sharply to just 592 in 2017-18.¹¹² In contrast, just 17 Entrepreneur visas have been issued each year since the visa was introduced in 2015, reflecting the comparatively high \$200,000 threshold for early stage investment in new businesses.

These visa allocations reflect the annual caps in place over 2011-12 to 2018-19, which allocated an average of 7,077 visas each year to the BIIP. In 2019-20, the number of visas granted for the BIIP fell to 4,420, reflecting the impact of COVID. But the allocation was increased to 13,500 for 2020-21, before recently being scaled back to 11,000 visas a year (Figure 5.1).¹¹³

At the same time, demand for BIIP visas is much larger than the supply of visas each year, with about 15,000 applications being made in each of 2017-18, 2018-19, and 2019-20. Strong demand for business investment visas has resulted in a large and growing number of applications awaiting a decision. As at 31 January 2021, there were 37,715 applications awaiting a decision. This large number

of applications awaiting a decision may explain the decision in the 2020 Budget to increase the number of available visas in 2020-21.¹¹⁴ However, by keeping the visa open to future applications, it is likely people will continue to apply, making it hard to satisfy demand given current planning levels for the BIIP.

Such strong demand at the least suggests the eligibility criteria for these visas should be substantially tightened, if the BIIP were to be retained at all.

5.3 Migrants selected via the BIIP are older, less skilled, and less proficient in English than skilled workers

Recent migrants who hold BIIP visas are older, earn less, and participate less in the labour market compared to recent skilled migrants. This is not surprising. It reflects selection criteria for the visas, which are much less targeted at younger, higher-skilled migrants with strong proficiency in English. Applicants for Investor and Innovation visas need to accrue 65 points on the points-test (Table 5.2 on the following page). Unlike a quota of visas requiring ranked selection for skilled workers, BIIP visas are allocated on a first-come, first-serve basis for applicants who pass 65 points.¹¹⁵ There are no requirements for Significant Investor or Entrepreneur visa holders to satisfy a points test.

While the program continues to evolve, and recent changes have marginally strengthened some eligibility criteria, there is little reason to expect future applicants for the program to differ significantly, especially since key criteria on applicants' age, skills, and English language proficiency remain unchanged.¹¹⁶

112. This decline probably reflects a shift in the Complying Investment Framework requiring applicants to invest in more volatile and risky asset classes likely to stimulate further economic activity. The CIF, introduced in 2015, requires Significant Investor stream visa holders to allocate 10 per cent of their \$5 million in investments to Venture Capital and Private Equity and a further 30 per cent to emerging companies, with the remaining 60 per cent free to be invested in less risky assets such as listed equities and state and territory government bonds. Previously, there was no requirement to invest in Venture Capital and Private Equity.

113. Recent adjustments to planning levels for 2020-21 were cited by Department of Home Affairs officials in Senate Estimates on 24 May 2021 (Hansard (2021)).

114. Department of Home Affairs (2021d).

115. In practice, skilled workers offered permanent residency via the points-test typically qualify for points well above the minimum 65-point threshold, especially in recent years. See Chapter 7.

116. Department of Home Affairs (2020c).

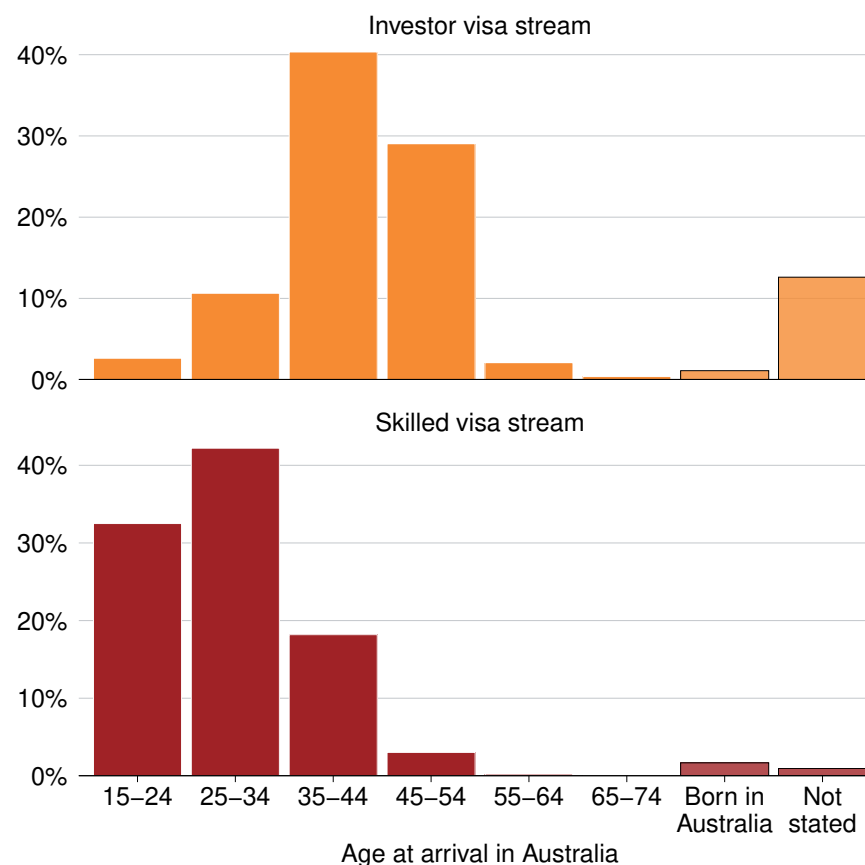
Table 5.2: Points awarded for the BIIP program

Age	18–24	20
	25–32	30
	33–39	25
	40–44	20
	45–54	15
English language ability	Vocational English	5
	Proficient English	10
Educational qualifications	Trade certificate, diploma, or bachelor degree	5
	Bachelor degree in business or STEM	10
Financial assets (net business and personal assets)	\$800,000 or more	5
	\$1.3 million or more	15
	\$1.8 million or more	25
	\$2.25 million or more	35
Business turnover	\$500,000 or more	5
	\$1 million or more	15
	\$1.5 million or more	25
	\$2 million or more	35
Business experience (Innovation stream)	4 years or more in the past 5 years	10
	7 years or more in the past 8 years	15
Investor experience (Investor stream)	4 years or more	10
	7 years or more	15
Business innovation qualifications	Registered patents or designs	15
	Registered trademarks	10
	Joint ventures	5
	Export trade	15
	Gazelle business	10
	Government grants or venture capital	10
Special endorsement	From the nominating state/territory government	10

Source: Department of Home Affairs (2020c, p. 6).

Figure 5.3: Investor visa-holders are much older when they arrive in Australia

Per cent of primary applicant group



Note: Primary applicants only.

Source: Grattan Institute analysis of ABS (2016b).

5.3.1 Business Innovation and Investment migrants are older

In an attempt to attract innovation and investment, standard age criteria for skilled visas are more generous for visas in the Business Innovation and Investment Program. For instance, applicants for the Investor, Innovation, and Entrepreneur visas only have to be younger than 55, compared to 45 for skilled workers. There is no age limit for the Significant Investor visa.

These more relaxed criteria are reflected in the characteristics of migrants who obtain these visas. Almost 30 per cent of BIIP visa holders in the 2016 Census were older than 45, so would not have qualified for other skilled visa categories. A further 40 per cent were aged 35-44, more than double the share of people of the same age in other skilled visa categories, as shown in Figure 5.3 on the previous page.

In general, migrants who are older when they are granted a permanent visa will contribute less to the Australian community over their lifetimes than people who are younger. They tend to spend fewer years in the workforce (or in business) before they retire, and therefore pay tax for fewer years before they begin to draw more heavily on publicly-funded health, aged care and other services. Migrants who are older on arrival in Australia are also less likely to contribute to their community in a social context, especially if they make fewer connections within the community before retirement.

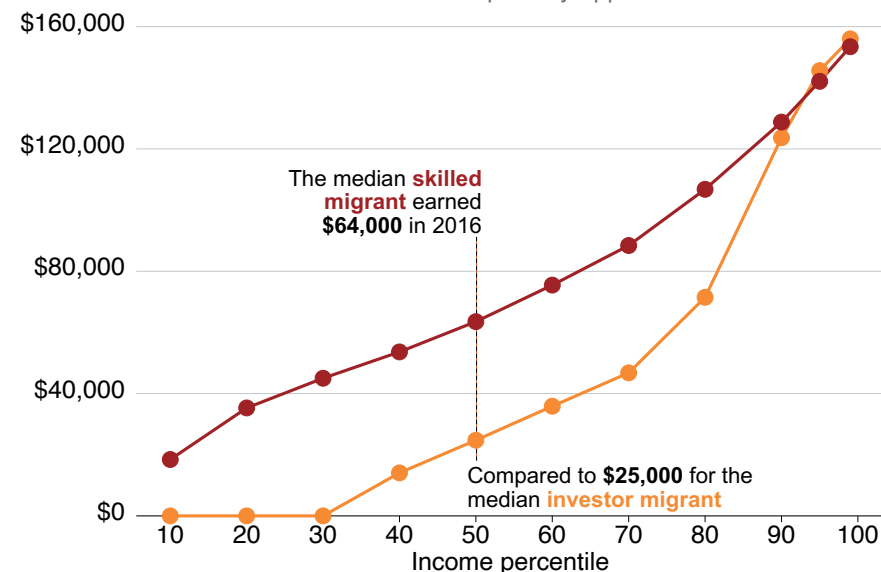
5.3.2 BIIP visa holders appear to earn low incomes

While the BIIP is intended to attract high net-worth individuals to make substantial investments in Australia, most recent BIIP primary visa holders report *lower* incomes than holders of permanent skilled visas (Figure 5.4). In fact the average BIIP primary visa holder reported an

annual income of just \$25,000 at the 2016 Census, compared to the average skilled worker who reported an annual income of \$64,000.¹¹⁷

Figure 5.4: People on investor visas earn much less than those on skilled visas

Income distribution of skilled and investor primary applicants



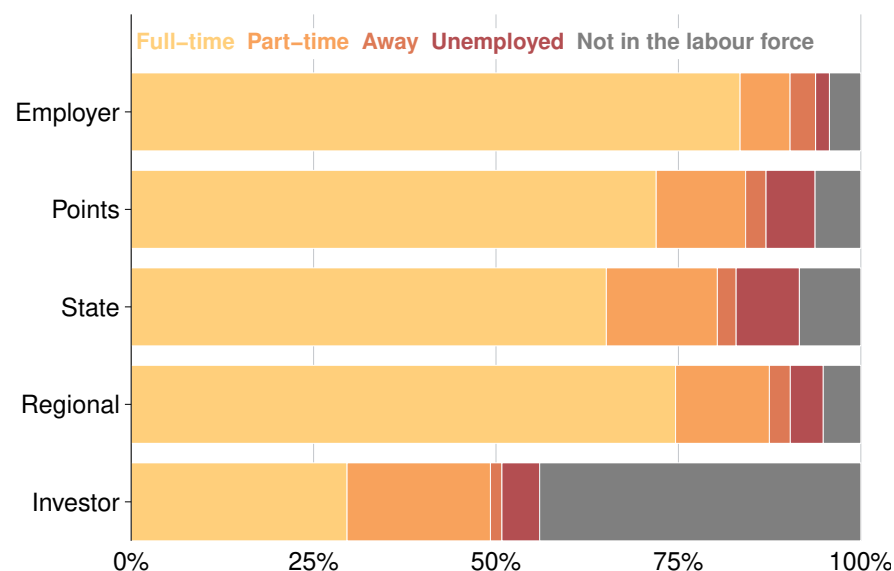
Note: Primary applicants only.

Source: Grattan Institute analysis of ABS (2016b).

117. Census respondents are asked to report all the income the person usually receives from all sources. See ABS (2016d, Question 33). The top annual income band in the Census is '\$156,000 or more' per year. In practice, and as with other visa classes, some BIIP visa holders – especially in the Significant Investor stream – may report relatively high incomes that are not well captured by the Census. Especially high-income migrants may generate additional fiscal benefits – visa higher taxes – but only if that income (especially capital income) is subject to Australian income tax.

BIIP visa holders also report far lower rates of workforce participation than skilled workers, with just half of all BIIP visa holders in paid work as of the 2016 Census (Figure 5.5). Importantly, this definition includes owner-managers of both incorporated and unincorporated enterprises, which suggests that most BIIP primary visa holders are not engaged in any of these activities.¹¹⁸ This is especially concerning given it is unlikely that the Innovation visa stream, which accounts for 70 per cent of all BIIP visas issued in the past decade, is fulfilling its objectives of promoting innovation and skills transfer when most applicants are not actively involved in the businesses they own.

Figure 5.5: Almost half of recent investor visa-holders are not working
Proportion of permanent migrants by labour force status



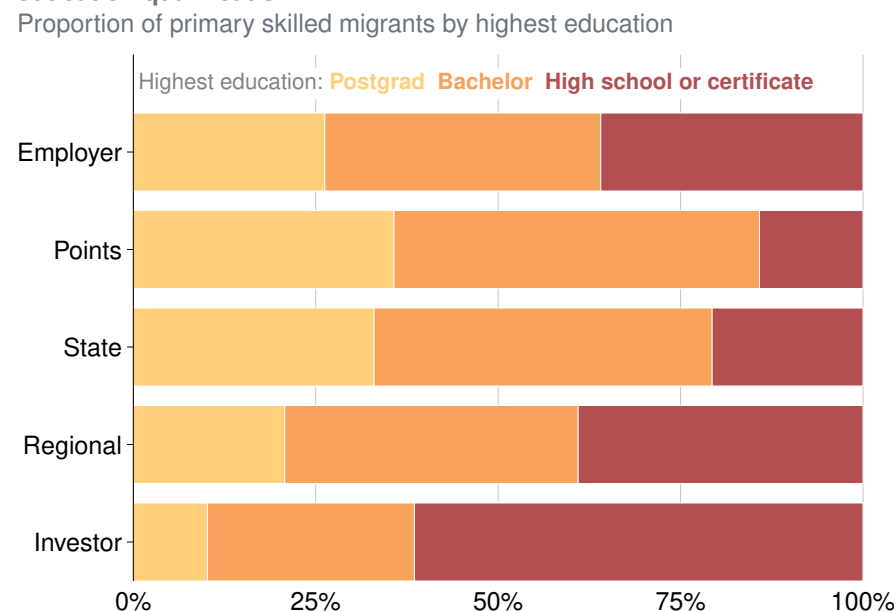
Notes: Residents in Australia in 2016 who arrived between 2012 and 2016 and were granted a permanent visa. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded. Source: Grattan analysis of ABS (2016b).

118. ABS (2018).

5.3.3 BIIP visa holders are typically low skill

As a whole, the permanent migrant intake into Australia is highly educated. Almost one in three recent skilled visa-holders – described in Chapter 7 – have postgraduate qualifications. A further half have a bachelor degree. Investor visa-holders are less qualified (Figure 5.6). Just one in 10 hold a postgraduate qualification. More than 60 per cent do not have a higher education degree.¹¹⁹

Figure 5.6: Fewer than half of investor visa-holders have a higher education qualification
Proportion of primary skilled migrants by highest education



Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded. Source: Grattan analysis of ABS (ibid).

119. This includes people with incomplete high school, Year 12, certificate levels I-IV, or diplomas as their highest level of education.

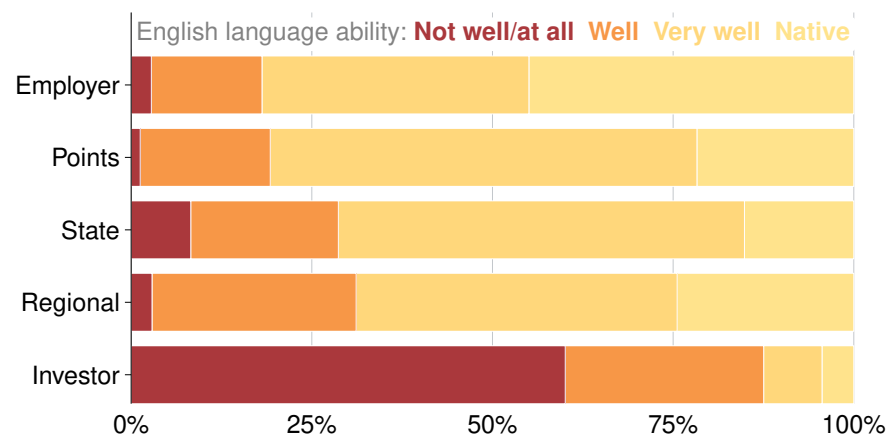
5.3.4 BIIP visa holders have very poor English language proficiency

Recently arrived BIIP migrants have poor English language skills, as shown in Figure 5.7. Even the most basic of English skills, vocational English, has a score of five points. Yet only 6-to-8 per cent of applicants claim the points available for English-language skills. In effect, applicants pay a fee and waive the need to demonstrate English language proficiency.¹²⁰

Entrepreneur visas must have at least ‘competent’ English, whereas there is no binding English requirement for the Significant Investor visa.¹²¹

Figure 5.7: Employer-sponsored and points visa-holders have better English language skills

Proportion of primary skilled migrants by English language ability



Notes: Residents in Australia in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded. Source: Grattan analysis of ABS (2016b).

120. For a detailed description of IELTS English language proficiency levels see Box 6 on page 74.

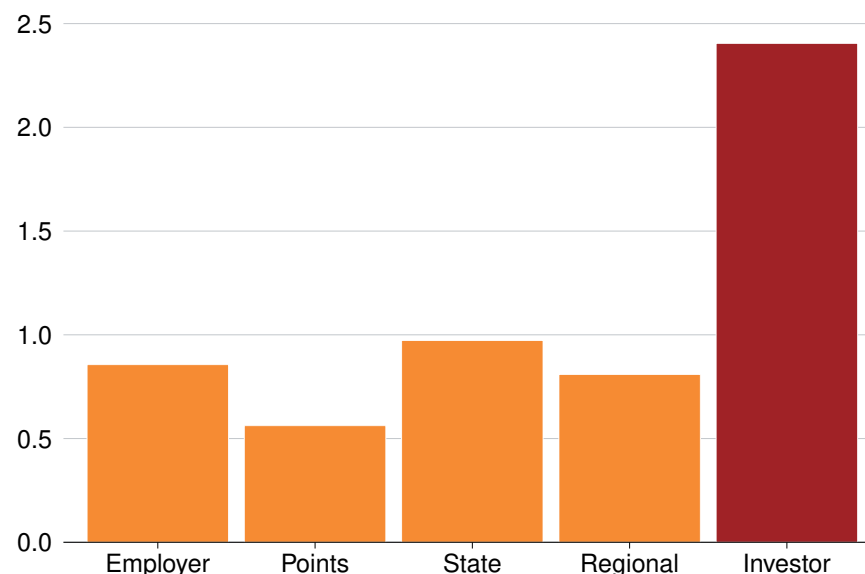
121. ‘Functional English’ is required, however this can be waived by paying a fee.

5.3.5 BIIP applicants bring more than twice as many secondary applicants as do skilled workers

Figure 5.8 shows that innovation and investor migrants have significantly more family members per applicant. Migrants granted permanent residency under the BIIP on average bring twice as many secondary applicants with them as do skilled workers. Applicants issued a BIIP visa between 2012 and 2016 brought an average of 2.4 secondary applicants with them, compared to an average of less than one secondary applicant for each primary applicant under the various skilled-worker visa streams.

Figure 5.8: Investor visa-holders bring more than two secondary applicants with them on average

Number of secondary applicants per primary applicant

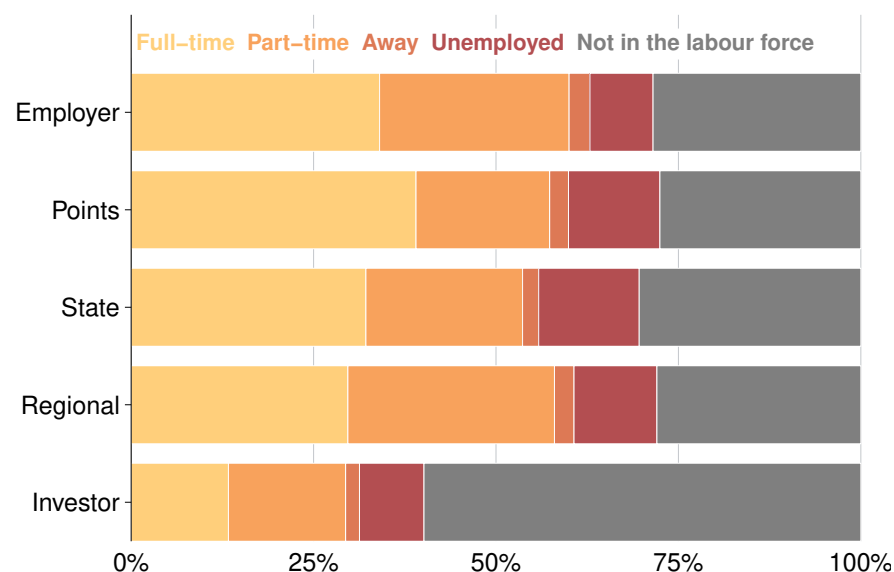


Notes: Residents in Australia in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded. Source: Grattan analysis of ABS (ibid).

The higher number of secondary applicants for BIIP visa-holders largely reflects their age on arrival. Many have dependent children. Most secondary applicants for BIIP visas are younger than 25, compared to about one quarter of secondary applicants on skilled-worker visas. Most working-age secondary visa holders under the BIIP report not being in the labour force. Only about 30 per cent are in paid employment – either full-time or part-time. In contrast, most people who hold secondary visas obtained via skilled worker visas are in paid employment (Figure 5.9).

Figure 5.9: Labour-force participation is lower for secondary applicants of investor visas

Proportion of secondary applicants by labour force status



Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded. Source: Grattan analysis of ABS (2016b).

5.4 There is little evidence that BIIP visas promote additional innovation and investment

Migrants who obtain visas via the Business Innovation and Investment Program are older, earn less, and have additional family members compared to skilled workers. These comparatively poor outcomes could be overlooked if the BIIP yielded substantial benefits via facilitating innovation and supporting additional capital investment in Australia. But there is little evidence of such gains.

5.4.1 BIIP visa holders do not appear to contribute much additional capital investment in Australia

Investment is important for economic growth.¹²² A core objective of the BIIP, and especially the Investor and Significant Investor streams, is to facilitate *additional* capital investment into Australia.

It's true that the Significant Investor and Investor visa streams have led those migrants to invest in Australia. For instance, the 2,264 primary Significant Investor visas (SIVs) granted between 2012 and 2019 resulted in about \$11.3 billion of SIV-related investments.¹²³ Yet there is little evidence that Australia faces significant difficulties in attracting foreign investment for profitable activities. Australia is a medium-sized economy with a flexible exchange rate and relatively free capital mobility between Australia and the rest of the world. As such, Australia has little trouble attracting foreign investment.¹²⁴ In fact, since 2012 Australia has been a net exporter of equity capital to the rest of the world.¹²⁵

122. Minifie et al (2017, p. 11).

123. Department of Home Affairs (2021g).

124. Since 2005, Australia's capital stock per person has grown by a third. Even excluding mining, capital per person has grown by more than 15 per cent. By contrast, in both the US and UK the capital stock per person grew by just 7 per cent: Minifie et al (2017, p. 3).

125. RBA (2021, p. 19).

At the same time, the global economy is awash with capital seeking decent returns, as demonstrated by the fact that real interest rates globally remain near record lows.¹²⁶ As the Productivity Commission noted in evaluating the business investment visa program in 2016, 'given Australia's capacity to attract capital from abroad, it is very unlikely that an inshore source of capital actually adds to aggregate domestic access to finance'.¹²⁷

For instance, the Investor stream of the BIIP currently requires a \$1.5 million investment, largely focused on state government Treasury bonds (Box 1 on page 38).¹²⁸ Yet state governments exhibit no obvious difficulties in financing their activities, given state government bond rates are near record lows. The three-year bond rate on Victorian Government bonds is just 0.32 per cent, lower than the expected rate of inflation over the next three years. The 10-year bond rate is 1.84 per cent.¹²⁹ These ultra-low bond rates imply there is a large number of investors willing to invest billions of dollars in Victorian Government bonds. With more than \$80 billion in outstanding debt on issue for the Victorian Government alone, it's unlikely that BIIP visa-holders are lowering the cost of debt for state governments.¹³⁰

The Significant Investor stream currently requires 10 per cent of a \$5 million investment be allocated to Venture Capital and Private Equity, 30 per cent to emerging companies, with the remaining 60 per cent free to be invested in less risky assets such as listed equities and

state and territory government bonds.¹³¹ Venture capital is valuable because it can provide the finance, at least initially, so that the ideas of innovators and entrepreneurs can be developed and brought to market. Yet the case for using visas to promote investment in private equity and emerging companies is weak, as the Productivity Commission also concluded in 2016.¹³²

In 2018-19, there were 192 provisional Significant Investor visas granted, resulting in \$96 million of funding for qualifying Venture Capital and Private Equity investment funds. That compares to the \$2.07 billion in venture capital funding provided to Australian firms in 2020.¹³³ And Australian superannuation funds alone allocated \$81.5 billion to unlisted (private) equity as of the end of 2020.¹³⁴ Firms in these categories have little difficulty attracting large-scale investment from institutional investors, both domestic and global, when they are performing well. The Productivity Commission has previously concluded there is little rationale for additional measures to stimulate the venture capital funds management sector.¹³⁵

Nor is it clear that the Investor and Significant Investor streams actually facilitate additional investment in Australia in the long term. The investment requirements for these two visas apply for the four-year period of the provisional visa. Yet these investment requirements cease the moment that applicants secure permanent residency. Fragoman, a global immigration advice firm, suggested people who apply for the SIV are not motivated by a return on investment, but a pathway to permanent residency:

126. Haldane (2015).

127. Productivity Commission (2016a, p. 464).

128. Increasing to \$2.5 million as of 1 July 2021. Investor visa holders will also be subject to the Complying Investment Framework requiring a 20 per cent allocation to venture capital / private equity and a 30 per cent allocation to emerging companies. Tillett (2021).

129. Treasury Corporation of Victoria (2021a). As of 31 April 2021.

130. Treasury Corporation of Victoria (2021b).

131. The Complying Investment Framework is being adjusted from 1 July 2021 to require at least a \$1 million contribution from Significant Investor visa-holders to venture capital or private equity: Tillett (2021).

132. Productivity Commission (2016a, pp. 466–67).

133. KPMG estimates that venture capital funding in 2020 totalled US\$1.6 billion, up from US\$1.48 billion in 2019: KPMG (2021).

134. APRA (2021).

135. Productivity Commission (2015).

In our view the investments required of applications in the Business Innovation and Investment program are generally not selected by investors based on their prospects of return of investment or associated risk. They are viewed by investor visa applicants primarily as the means by which they qualify for a BIIP visa, and thereby create a pathway to Australian permanent residency and citizenship for them and their family. The investment portfolio, and its performance over the period during which the investment is required, is a secondary consideration.¹³⁶

5.4.2 BIIP migrants appear unlikely to boost Australian innovation

Innovation, by boosting the rate of productivity growth, can increase Australians' living standards. Australia regularly performs poorly among advanced countries in its capacity for innovation.¹³⁷

On face value, there are grounds for a migration program that targets people who are not employees, but who bring their skills, finance, and entrepreneurial acumen through running businesses. Migrants that start successful businesses that expand rapidly and employ additional workers could generate substantial benefits to the Australian community provided at least some of those jobs wouldn't have been created otherwise. Yet it appears unlikely that the Innovation stream of the BIIP supports additional innovation by Australian firms and workers. Compared to allocating these additional visas towards skilled workers, as set out in Chapter 7, issuing visas via the Innovation stream of the BIIP probably reduces Australia's capacity for innovation.

136. Fragomen Worldwide (2020).

137. For example, the Global Innovation Index ranks Australia 22nd of 49 high-income countries: Global Innovation Index (2020). A recent report from the United States Studies Centre at Sydney University finds 'whether it is Australia's business expenditure on research and development, the level of Australia's high-tech exports, or its business-research collaboration – Australia ranks near the bottom of OECD countries, if not last': Mondschein (2020).

Figure 5.10: Investment visa business owners focus on retail and hospitality

Proportion of investment visa business owners by industry



Note: Primary applicants only.

Source: Grattan analysis of ABS (2016b).

Innovation stream migrants buy small businesses that exhibit little capacity for innovation

The Innovation stream of the Business Innovation and Investment Program does not directly target migrants on their capacity for innovation. Instead, it relies on prospective migrants establishing or purchasing a business that meets a turnover threshold of \$500,000 for two of the four years in the provisional period. This threshold is being increased to \$750,000 from July 2021. In addition, prospective migrants must have net personal and business assets of more than \$800,000, which is being increased to \$1.25 million from July 2021. During the provisional visa period, the migrant must continue to own the business and be a senior manager 'day to day'. The Department of Home Affairs says these are 'objective measures of business performance'.¹³⁸

These business rules are designed to select people who have 'business acumen'. In reality, they result in people purchasing business entities with turnover to meet the threshold. Figure 5.10 on the preceding page shows that BIIP visa-holders typically own small businesses in retail and accommodation and food services, industries that are not likely to be conducive to the stated goals of the program to boost innovation.¹³⁹

Some state and territory governments have established additional criteria designed to stimulate innovation. For example, Victoria now requires businesses to show either a product or process innovation, as defined by the OECD, to secure a state nomination for the Innovation stream.¹⁴⁰

138. Department of Home Affairs (2020c).

139. Smaller businesses are less likely than larger businesses to innovate: Productivity Commission (2015).

140. The OECD defines product innovation as: 'a good or service that is new or significantly improved. This includes significant improvements in technical specifications, components and materials, software in the product, user friendliness, or other functional characteristics.' A process innovation is defined

The points-test is weaker for the Innovation stream than for skilled workers

The best starting point for attracting innovative talent is to attract educated applicants with skills valuable to employers (Chapter 3). Yet the criteria used to select migrants for the Innovation stream of the BIIP are weaker than those that apply for skilled workers (Chapter 7).

Innovation stream applicants must gain 65 points in a bespoke Business Innovation and Investment Program points-test, which, like the test for skilled workers, offers points for characteristics such as age, English skills, and education.¹⁴¹ Additional points are also available under the Innovation stream points-test for applicants who hold financial assets, or satisfy various metrics for innovation, such as owning businesses with registered trademarks or patents. But since BIIP applicants are not ranked via the points-test, older applicants with limited English skills can qualify for an Innovation stream visa, even without meeting any specific eligibility criteria related to owning businesses engaged in innovation activities (Box 2 on the next page).

5.5 Planned policy changes will not change the story

In late 2020, Acting Immigration Minister Alan Tudge announced a set of changes to the Business Innovation and Investment Program, saying they would 'maximise the economic contribution of these high-value investors to get the best possible outcome for Australians'.¹⁴²

as: 'A new or significantly improved production or delivery method. This includes significant changes in techniques, equipment, and/or software': Victorian Government (2021a).

141. See Table 5.2, and Department of Home Affairs (2021h).

142. Cranston (2020).

These changes, scheduled to take effect from July 2021, at best tinker on the margins and, at worst, exacerbate existing problems with the program. The changes include:¹⁴³

- Reducing in the number of visa streams from nine to four.
- Allowing permanent status to be met within three years, not four.
- Allowing for longer extension periods to met investment criteria.
- Increasing the net assets required.
- Removing the \$200,000 funding requirement for the Entrepreneur stream.
- Changes to the Complying Investment Framework, including applying this to the Investor stream.

The reduction in the number of streams, allowing for more flexibility in provisional visas, and an increase in the net assets for applicants are welcome, albeit minor changes. But none of these changes is likely to increase investment or innovation in Australia.

Shortening the provisional status of the visa and allowing people to withdraw their investments sooner simply reduces the period over which Significant Investor visa holders need to invest funds in Australia.

Recently announced changes to the Complying Investment Framework will increase that applicants for Investor visas will need to invest in Australia from \$1.5 million to \$2.5 million as of 1 July 2021. The Significant Investor stream threshold will remain at \$5 million. The venture capital and private equity component of the Complying Investment Framework – which governs the amount investors need to invest – will be increased from 10 per cent to 20 per cent, with a further

Box 2: Profile of a hypothetical 65 points for the Business Innovation and Investment Program

The 65-point threshold for BIIP visas in the points-test is an especially low bar. For example, even an older applicant with only modest English language skills and an undergraduate degree could satisfy the minimum 65-point threshold with the following points:

- Age 45-54 (15 points)
- 'Competent' English: IELTS 6 (5 points)
- A degree obtained overseas (10 points)
- State or territory special endorsement (10 points)
- \$1.25m in net business and personal assets (5 points) (from July 2021)
- Ownership in a business with annual turnover greater than \$750,000 a year (5 points) (from July 2021)
- Owned a business for seven of the past eight years (15 points)

And since ranked selection does not apply for BIIP visas, applicants who satisfy the 65-point threshold are likely to be granted a visa.

143. Department of Home Affairs (2020c).

Box 3: Additional points-tested criteria for Innovation-stream applicants

Applicants for Innovation stream visas under the BIIP can qualify for additional points under the points-test, provided they have:

- An ownership interest in a main business/businesses that received either:
 1. a grant from a government body in your home country of at least AUD10,000 for the purposes of early phase start up of a business, product commercialisation, business development, or business expansion (10 points), or
 2. venture capital funding of at least AUD100,000 not more than four years before the time of the invitation for the purposes of early phase start up of a business, product commercialisation, business development, or business expansion (10 points).
- Patents or designs registered not less than one year before that time and used in the day-to-day activities of the main business (15 points)
- Trademarks registered not less than one year before that time and used in the day-to-day activities of the main business (10 points)
- An ownership in and day-to-day participation in the management of one or more main businesses operated under a formal joint

venture agreement/agreements entered into no less than one year before the time (5 points)

- An ownership interest in a main business/s that derives no less than 50 per cent of its annual turnover from export trade (15 points)
- An ownership interest in a main business/s not more than five years before that:
 1. had an average annualised growth in turnover that was greater than 20 per cent per annum over three continuous fiscal years, and
 2. in at least one of the three fiscal years employed 10 or more employees for a total number of hours that was at least the total number of hours that would have been worked by 10 full-time employees (10 points)

In principle, a number of these characteristics may be well suited to identifying migrants' capacity for innovation, especially attracting venture capital funding or the application of patents. But unfortunately there is no data available on what proportion of applicants attract points for business innovation metrics, because this information is not available on the department dashboard for the SkillSelect points-test.

30 per cent dedicated to emerging companies.¹⁴⁴ Yet it remains very unlikely that any benefits arising from additional capital investment in Australia under the new regime will be bigger than the benefits that would arise if those same scarce visas were used to select younger, skilled workers.

5.5.1 Recent changes to entrepreneur visas may be the exception

The Entrepreneur stream was introduced via the BIIP from 2015. It has been an abject failure, because the \$200,000 threshold for a funding agreement is too high for most start-ups seeking to migrate for entrepreneurial purposes.

The Federal Government has recognised this and piloted an alternative model, relying on state governments. States establish an ‘event’, a multi-year period where entrepreneurs, potential investors, incubators, and others in the start-up space are given support to find common interests.¹⁴⁵ The South Australian pilot used the Temporary Activity (subclass 408) visa, granting three-year temporary visas to prospective entrepreneurs whose business plan was approved by the South Australian Government.¹⁴⁶ There is little evidence yet as to whether this model is succeeding, but for the purposes of visa policy it is a much more flexible approach, using temporary visas and removing the major impediment to the Entrepreneur stream in the BIIP.

144. Tillett (2021).

145. Department of Home Affairs (2021i).

146. South Australian government (2021).

This approach solves a basic conceptual issue for the federal government, which is that many start-ups fail. However, providing a three-year temporary visa allows entrepreneurs time to test and adapt their business models before accessing permanent visas. Successful entrepreneurs can then be rewarded. This model should be pursued, but evaluated, before any decision is taken to expand the approach.

5.6 Abolish the Business Innovation and Investment Program

Under current policy, the BIIP provides visas to people who are older, participate less in the labour market, and earn less income than other skilled workers. There is no evidence to suggest these visas create additional investment or generate innovation.

These various visa streams facilitate a permanent visa to Australia via purchasing businesses or holding an investment. In many regards, this is akin to buying a visa. Yet instead of capturing substantial revenues for the federal government, the effective costs of the visa for applicants are low as they must simply hold an asset in Australia for a prescribed period. Meanwhile professional service firms charge fees to applicants to facilitate the process.

The BIIP should be abolished. Tinkering with eligibility criteria or the Complying Investment Framework will not generate sufficient gains compared to re-allocating these visas away from investment and innovation goals, and towards skilled workers. The only exception is the Entrepreneur stream, which is being re-purposed under a temporary visa approach.

The cost of allocating scarce permanent skilled visas to BIIP applicants is high: each visa granted through the program is one less visa granted to a skilled worker who, due to their age, can be expected to make a larger contribution to the Australian community across their lifetimes (Chapter 7). Given the poorer characteristics of BIIP migrants vis-a-vis other streams, we estimate that each BIIP visa holder will pay

\$200,000-to-\$400,000 less in personal income tax alone over their lifetimes compared to skilled worker visa holders.¹⁴⁷ The actual costs would be much higher.

Abolishing the Business Investment and Innovation Program would lower the average age of permanent skilled migrants by nearly two years, and increase average incomes because business visas would be reallocated to points-tested visas. Abolishing the BIIP would lift the lifetime net fiscal benefits arising from each annual permanent skilled migrant cohort by \$4 billion.¹⁴⁸

If the Australian Government wishes to continue with the BIIP despite the clear costs, then the program should be substantially reformed, and the number of visas issued scaled back.

Innovation visas in particular, which account for around 70 per cent of visas issued through the program, should be substantially scaled back. Any points-test for Innovation visas should include mandatory innovation factors, and visas should be allocated via ranked selection instead of using a simple pass mark.

The Complying Investment Framework should be radically tightened and better aligned with government goals. The current thresholds for investment are far too low and there should be no place in the Complying Investment Framework for bond purchases or listed equities. Consideration should also be given to requiring Significant Investor and Investor visa holders to commit to making their personal assets subject to taxation in Australia, including investments abroad.¹⁴⁹ Nonetheless it would be preferable to abolish all streams of the BIIP, and any particularly high-wealth or high-value applicants would likely still be

able to enter Australia via other visa streams, such as Distinguished Talent and Global Talent visas, if they are deemed likely to make a substantial contribution to Australia.

147. See Table B.6 on page 102.

148. See Figure 4.3 on page 34, and Appendix B for the methodology.

149. Such a reformed stream is unlikely to attract many applicants since the cost of subjecting substantial assets to Australian income tax may prove prohibitively expensive compared to competitor destinations offering permanent residency.

6 The Global Talent Program should be scaled back and independently evaluated

The Global Talent Program is designed to attract ‘highly skilled professionals’ to work and live permanently in Australia. From a pilot of just 1,000 visas two years ago, the scheme has grown to 11,000 in 2020-21 (Figure 6.1).¹⁵⁰

Targeting high-end talent is a worthwhile objective. But the Global Talent visa remains unproven. Instead of an explicit set of rules tabled in the Parliament, the Global Talent Program relies heavily on internal policy instructions within the Department of Home Affairs. There is no compelling evidence to justify expanding the scheme at such a rapid rate, especially at the expense of visas already with a strong track record of selecting skilled workers who succeed in Australia (Chapter 7).

The Global Talent visa should be scaled back to no more than 5,000 visas annually and formally evaluated before a decision is taken to expand the scheme any further.

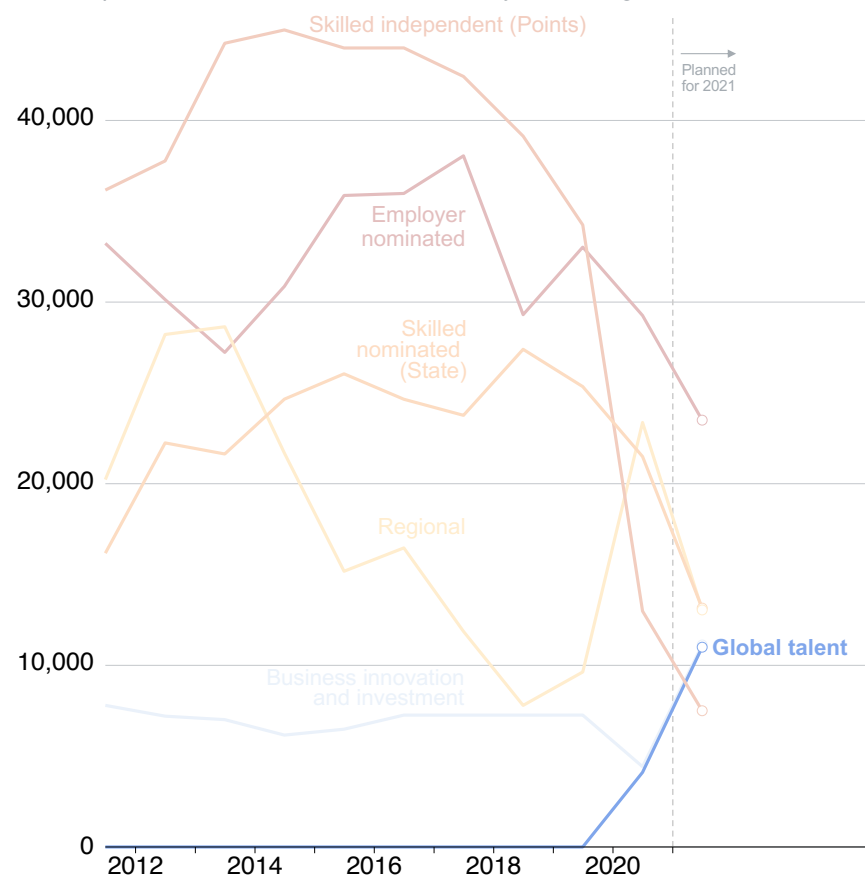
6.1 Attracting talent is a worthy migration goal

The Global Talent visa is a new visa based on an established idea. Most high-income, and increasingly some middle-income, countries chase ‘the best and the brightest’ via immigration policies.¹⁵¹ As discussed in Chapter 3, talent and skills can help boost economic gains from migration. Seeking more talent is a worthy policy goal.

150. An initial planning level of 15,000 visas in 2020-21, has since been revised down to 11,000 as of late May 2021: Hansard (2021).

151. Politicians and bureaucrats the world over use the term ‘the best and the brightest’ to describe skilled migrants, perhaps without realising the term originated as irony. First used in the 18th century, it was popularised by the title of David Halberstam’s book which detailed the US failure in the Vietnam War, highlighting the role of President Kennedy’s circle of intellectual advisers, derided as the best and the brightest.

Figure 6.1: The Global Talent Program has expanded rapidly
Annual permanent visa allocation, financial year ending



Notes: Financial year ending. Planning figures for 2020-21 were updated by the Department of Home Affairs in May, 2021: Hansard (2021). Original visa grant figures have been adapted to mirror the Government’s new categorisation, introduced in 2019-20. Sources: Grattan analysis of Department of Home Affairs (2020b); Department of Home Affairs (2021c); and Hansard (2021).

Entrepreneurs, and highly-educated and highly-paid individuals, are globally mobile. These individuals, and the firms who compete for their services, operate in a global labour market where competition can be fierce. Visa rules and uncertain residency status can reduce the attractiveness of a country for these people. Some prospective migrants may choose one country over another on the basis of whether their visa is permanent or temporary. Fees, waiting times, and bureaucratic flexibility are also factors which shape how people make their decision. After the pandemic, teleworking may increase the attractiveness of staying put.

6.2 The Global Talent visa is more flexible than the status quo

Starting as a pilot program with 1,000 visas in 2018-19, the Global Talent Program has quickly expanded to 5,000 visas in 2019-20 and to a planned 15,000 visas for 2020-21, although that level has since been revised down to 11,000 visas as of late May 2021.¹⁵²

The rapid expansion of the Global Talent Program is in part a response to challenges in attracting globally-mobile individuals through existing visa streams.¹⁵³

The Global Talent visa is expanding as firms relying on talent are frustrated by the lack of flexibility in skilled worker visa categories, especially following changes to temporary employer-sponsored visas in 2017.¹⁵⁴ There is some merit to these frustrations. About 75 per cent of permanent employer-sponsored visa take between 5 and 13 months to assess from application to decision.¹⁵⁵ These delays cause problems

for firms seeking to attract global talent, especially in innovative fields. By contrast, 75 per cent of Global Talent applicants were processed within two-and-a-half months.¹⁵⁶

As we show in Section 7.7, occupation lists restrict the type of workers firms can sponsor and are unable to deal effectively with change in the labour market. The Global Talent visa does not require an eligible occupation, creating flexibility for firms and prospective migrants.

Unlike most 'talent' visas globally, the Global Talent visa offers permanent residency immediately (Box 4 on the following page). The 'direct to permanent residency' feature of the Global Talent visa affords limited scope to assess the economic contribution or program migration outcomes.¹⁵⁷

6.3 The program invests in attracting applicants from abroad

Unlike the the permanent employer-sponsor visa category, the Global Talent visa does not require a formal sponsorship arrangement. Firms are not required to demonstrate they are a legal and ongoing entity, and they are not required to pay visa fees and levies associated with employer sponsorship. These fees range from \$3,000 to \$5,000 per permanent sponsored visa.

In addition, firms and visa applicants receive dedicated support from the Department of Home Affairs, going far beyond what is available to other visa categories. Departmental Global Talent officers in Australia and key overseas locations work with universities, professional associations, and businesses to identify and market the Global Talent Program to exceptional candidates in key target sectors. These characteristics help explain why the Global Talent visa enjoys broad

152. 4,109 visas of the 5,000 cap were allocated in 2019-20. Just 8,412 of the initially-planned 15,000 Global Talent visas for 2020-21 had been issued by 20 May 2021: Department of Home Affairs (2021d, Table 10) and Hansard (2021).

153. Coorey (2019) and Politt (2018).

154. Redrup (2019) and Sherrell (2018).

155. Some visa processing times have been affected by the COVID crisis, and applications may take longer to finalise. See Department of Home Affairs (2021j).

156. Department of Home Affairs (ibid, Table 12).

157. Other direct-to-permanent visas (such as the Business Talent visa) have been removed due to integrity risks and difficulty assessing migration outcomes: AusTrade (2021, p. 7).

support from the business community, and especially from technology firms.

6.4 The Global Talent visa process is unproven

Expectations for the Global Talent visa are high. Launching the program in 2019, Immigration Minister David Coleman spoke of the ‘transformative impact on the Australian economy’:

‘We want people from the best universities and the most successful companies. . . We want people with entrepreneurial ideas and deep skill-sets, who can drive innovation and create local jobs’.¹⁵⁸

Despite this worthy goal, the Global Talent visa process remains unproven. There is insufficient data available on who has been issued a Global Talent visa, and their outcomes, especially to justify such a rapid expansion. Each visa issued through the stream is effectively one fewer visa offered via the employer-sponsored or points-tested skilled worker streams – streams with a strong track record of selecting migrants that succeed in Australia (Chapter 7).

6.4.1 We know little about Global Talent visa-holders

The Global Talent visa is new, so there is little on the public record about who has successfully obtained a visa.

We do know that Global Talent visa holders to date are relatively young. Figure 6.2 shows a similar distribution to skilled workers who come via employer sponsorship arrangements.

Figure 6.2 also shows people working in technology sectors are a major component of the visa category.

The Global Talent visa is intended to attract elite talent from abroad. But to date most Global Talent visas are being granted to people

Box 4: Other countries seek global talent, typically using temporary visas

Many high-income countries have visa programs to attract globally talented individuals. Canada, Israel, and Singapore are among the most frequently cited examples. Each of these countries rely on temporary visas, in contrast to Australia’s Global Talent visa.

Canada’s global talent stream is embedded within the Temporary Foreign Worker Program. Migrants gaining a Global Talent visa must be employed by an organisation and earn above a wage threshold.^a

Singapore has recently introduced a new temporary talent visa – called ‘Tech· Pass’ – requiring prospective applicants to meet two of three criteria: a high wage, five years experience in a large tech company, or five years experience in tech product development.^b These criteria draw on objective metrics.

Israel is well known as a technology hub. Similar to Canada, Israel requires the sponsorship of a firm. This is facilitated through a tech-specific pathway within the standard B1 (temporary) Work visa. To classify as a Hi-Tech firm, organisations must meet R&D benchmarks and job offers must be twice the average wage.^c

a. Government of Canada (2021c).

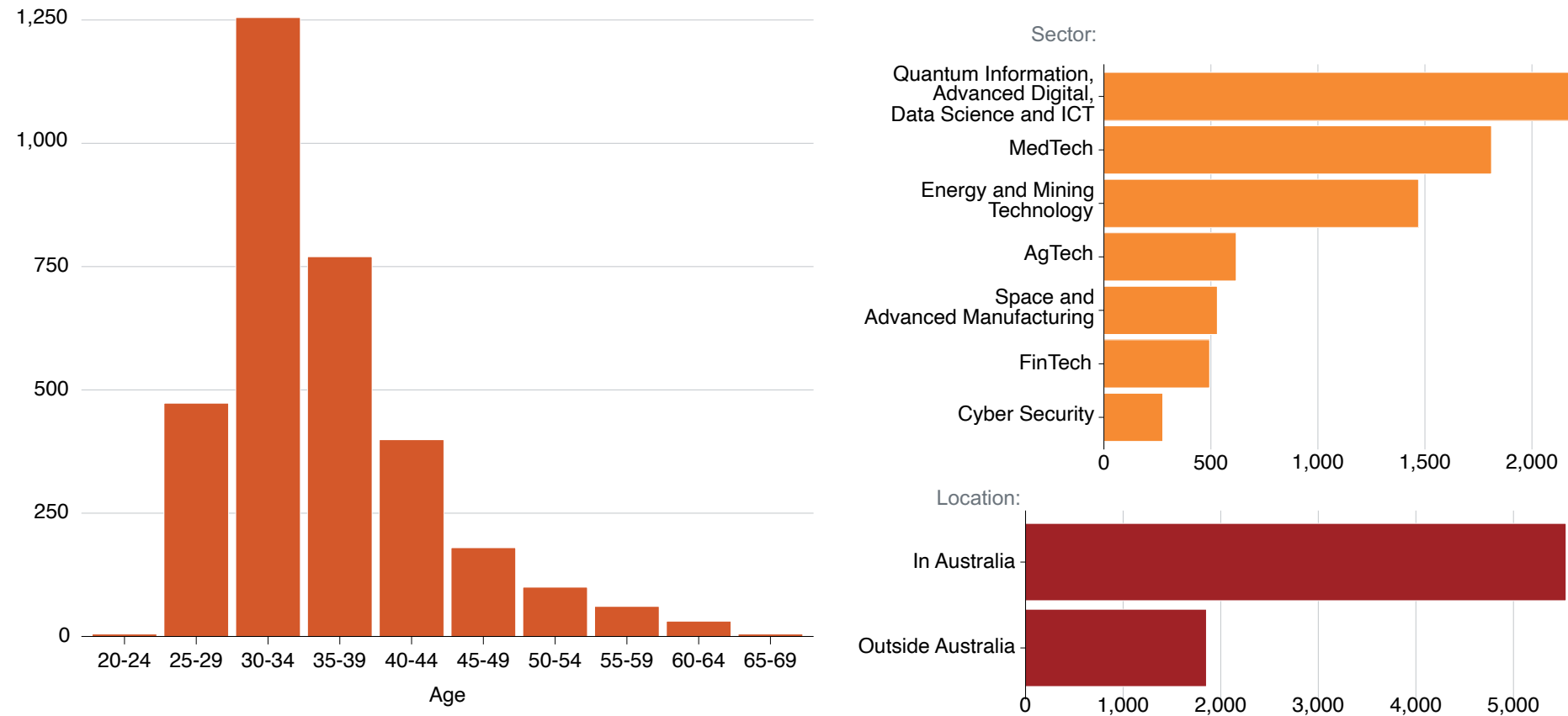
b. Singapore Economic Development Board (2021).

c. Iftach (2019).

158. Coorey (2019).

Figure 6.2: The first cohorts of Global Talent visas were relatively young, work in technology, and are often already in Australia

Number of Global Talent visas awarded between 1 July 2019 and 31 October 2020



Source: Department of Home Affairs (2020d).

already in Australia. About 75 per cent of visas to date have gone to people in Australia (Figure 6.2). These figures are partly explained by international border closures prompted by the COVID crisis. Yet even in 2019-20 only 770 out of 4,415 visas issued went to those outside of Australia at the time of application, despite borders only closing eight months into that year.¹⁵⁹ Similarly, 87 per cent of those issued a Global Talent visa in 2019-20 previously held a temporary visa to Australia.¹⁶⁰

6.4.2 We should know more

Data on Global Talent visa applicants is collected via the Global Talent Expression of Interest form.¹⁶¹ People submitting an EOI must state their employer, occupation, and salary. Yet in response to a Freedom of Information request, the Department of Home Affairs said there was no reporting available regarding the current salaries of Global Talent applicants.¹⁶² Given each person submitting an expression of interest has to state their salary if they have an employment contract, it is unclear why the Department does not make more salary information available.

Other FOI documents show that of the 1,447 people who submitted an expression of interest between 1 July 2020 and 24 February 2021 that progressed to a visa invitation, 974 had a salary above the Fair Work high-income threshold of \$153,600 a year.¹⁶³ This suggests a reasonably high proportion of those historically allocated a Global Talent visa earn a high income, although one third of successful applicants did not. But the number of Global Talent visa applications

has expanded rapidly, and applicants with a high income are granted 'priority processing'. It therefore remains unclear if visas granted to date are representative of the much larger pool of prospective applicants going forward.¹⁶⁴

There is much less information available about who is selected for Global Talent visas than about who is selected for more well-established visas. In particular, we do not know whether Global Talent visa holders are succeeding based on their employment and their incomes once granted a permanent visa to Australia.

6.5 There are risks in expanding the Global Talent Program so rapidly

Global Talent is Australia's fastest-growing skilled visa category. The Government has not presented any compelling evidence to justify expanding the scheme at such a rapid rate, especially since doing so comes at the expense of skilled worker visas with a strong track record of selecting high-skilled migrants, such as employer-sponsorship and skilled workers, who succeed in Australia (Chapter 7). Such evidence should have been made available before the scheme was expanded at such a rapid rate.

It is also unclear whether the selection mechanisms adopted can be scaled up to such a large intake. The rapid increase in the size of the program, together with the opaque method of selection, also raises program integrity risks.

159. Includes primary and secondary applicants: Department of Home Affairs (2020d, p. 6).

160. Some 47 per cent of applicants issued Global Talent visas in 2019-20 formerly held a graduate or student visa, and another 36 per cent previously held a temporary work visa: Department of Home Affairs (2021d, Figure 12).

161. Department of Home Affairs (2021k).

162. Department of Home Affairs (2020d).

163. Department of Home Affairs (2021l).

164. As at 31 January 2021, 4,429 applications for Global Talent visas had been lodged for 2020-21 and 5,423 visas granted (including applications made in the preceding financial year): Department of Home Affairs (2021d, p. 33).

Nomination from an organisation or individual

A person applying for a Global Talent visa must be nominated. There are two main nomination methods.¹⁶⁵

The first method is by an organisation or individual. However, unlike the nomination process used in permanent skilled worker visas, an organisation nominating someone for a Global Talent visa does not generate any obligations. Specifically, there is no requirement for the organisation to employ the person, meaning firms have no 'skin in the game'.

The organisation or individual nominating the applicant must have a 'national reputation'. This term is undefined in the Regulations and the Department of Home Affairs uses an internal procedural instruction to guide the assessment process.¹⁶⁶

'National reputation' generally means an image or opinion which is held by the Australian public about an individual or an organisation as being a leader or innovator in their field.

This is vague and subjective. People seeking to apply for the Global Talent visa may not have existing networks in Australia, yet still require an organisation or individual to nominate them. Peak bodies have begun to facilitate these nominations. The Australian Computer Society (ACS) charges prospective Global Talent applicants in the ICT industry \$500 for a nomination.¹⁶⁷ There is no requirement for the ACS to have had a relationship with the person applying for the visa. The ACS website tells potential applicants:¹⁶⁸

An ACS nomination will help strengthen your application. As the peak ICT industry body in Australia, the Department of Home Affairs will accept nominations from the ACS and considers the ACS as an organisation with a national reputation in the following target sector groups under the GTI program.

Nomination from the Prime Minister's Special Envoy for Global Business and Talent Attraction

The second method of nomination is to gain the endorsement of the Prime Minister's Special Envoy for Global Business and Talent Attraction.¹⁶⁹ The Prime Minister's Special Envoy for Global Business and Talent Attraction is a new position in the Department of Home Affairs.¹⁷⁰

This endorsement acts in lieu of standard visa criteria concerning education, skills, and employment. There is no public information about how the Special Envoy provides an endorsement. The position of the Special Envoy, and the endorsement process, are rarely mentioned in internal procedural instructions to officials. The Regulations state the Prime Minister's Special Envoy must grant their endorsement in relation to the applicant 'being likely to make a significant contribution to the Australian economy', yet this is undefined.¹⁷¹

The Department says this endorsement will be used sparingly, but the lack of process and transparency in the provision of endorsements has the potential to undermine confidence in the Global Talent Program.

165. There is also a third method, which allows for the Director of ASIO to provide a recommendation based on work performed for Australian national security.

166. Department of Home Affairs (2021m).

167. ACS (2021).

168. Ibid.

169. See Section 1113(3)(f) Schedule 1, Migration Regulations.

170. Currently held by Peter Verwer AO, a former CEO of the Property Council of Australia, who was appointed in August 2020 to lead the Global Business and Talent Taskforce.

171. See Section 858.229(1) Schedule 2, Migration Regulations.

International recognition and outstanding achievement

Global Talent visa applicants need to have ‘international recognition’, be ‘exceptional’, and have a history of ‘outstanding achievement’.¹⁷² None of these terms are defined in the Regulations.

There is some departmental guidance to officials granting and refusing visa applications, but it is not helpful in illuminating how to assess whether people meet the standard required to be considered globally talented.¹⁷³ It is difficult for bureaucrats to assess visa applications based on these terms.

No difficulty obtaining employment

Global Talent visa applicants must show they would have no difficulty obtaining employment. There is a straightforward way to assess this: whether a visa applicant is currently employed. Yet employment is not a criteria for the Global Talent visa. Instead, the applicant must demonstrate they are *able to gain employment*.

In addition, the website for the Global Talent visa states that people applying ‘should have the ability to attract a salary at or above the Fair Work high-income threshold of AUD153,600’.¹⁷⁴ This requirement sits outside the Migration Regulations and is not binding. This is an inherently subjective assessment since it requires bureaucrat to make

172. See Section 858.212(2)(a) in Schedule 2 of the Migration Regulations.

173. For example: ‘exceptional and outstanding achievement is the act of accomplishing something extraordinary that places the individual above the average. Individuals with an internationally recognised record of exceptional and outstanding achievement are usually those who are leaders in their particular field. It is anticipated that an applicant would generally have a record of sustained and multiple achievement. However, a single achievement by an applicant may still be regarded as a record of ‘exceptional and outstanding’ achievement if that achievement is cutting edge and highly innovative in nature.’

174. Less than 10 per cent of all full-time Australian workers earn such a high salary: Coates and Cowgill (2020).

a judgement based a person’s CV that that person will be able to gain employment at such a high wage level.

Target sectors

People applying for the Global Talent visa get priority if they are associated with one of 10 ‘target sectors’: Resources; Agri-food and AgTech; Energy; Health Industries; Defence, Advanced Manufacturing, and Space; Circular Economy; DigiTech; Infrastructure and Tourism; Financial Services and FinTech; and Education. This sits outside the Migration Regulations. Applicants outside these sectors are not given priority.

These sectors are not drawn from any existing industry classification, and their definition is unclear. It is also unclear why these industries were selected and not others.

Expression of Interest

Before lodging an application for a Global Talent visa, the Department of Home Affairs uses a screening process called an ‘Expression of Interest’. The EOI prevents people from applying directly for a visa, allowing greater control from the bureaucracy over how many formal applications are submitted.

The EOI process is not prescribed in the Migration Regulations. It is an internal bureaucratic process incorporating some elements of a visa application. If an EOI is approved, the prospective migrant is allowed to apply for a Global Talent visa.¹⁷⁵

175. Unsurprisingly, this process results in a very high approval rate for applications for this visa compared to other skilled visas.

6.6 There are risks the Global Talent Program will struggle at greater scale

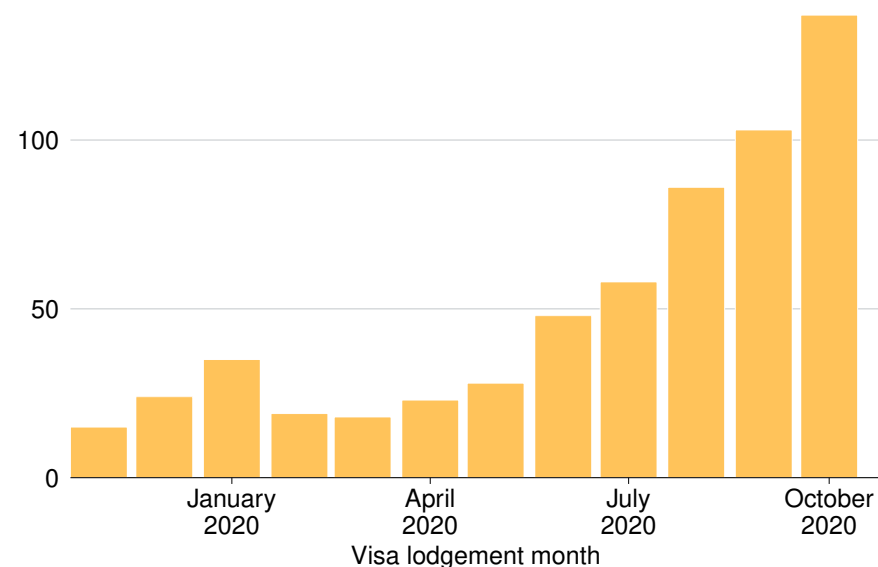
Many of the key terms being used to assess Global Talent visa applications are undefined and there is little information on how the Department of Home Affairs is making internal decisions. Guidance to meeting the statutory criteria is difficult to interpret and hard to apply across an expanding number of visa applications. The selection mechanism for allocating visas via the Global Talent Program risks decisions being made in the Department of Home Affairs in an ad-hoc manner and without reference to objective, transparent measurements. This approach stands in stark contrast to the more rigorous selection mechanisms adopted for employer-sponsored and points-tested visas (Chapter 7).

The rules of the Global Talent Program, combined with its rapid expansion, risk the program's integrity. It remains unclear whether the program can process such a large number of visa applications in a given year. Promises that these visas would be assessed in 'weeks, not months' are already proving difficult to meet as demand surges.¹⁷⁶ Figure 6.3 shows the number of days taken to assess an Expression of Interest is rising quickly. Administering the visa and selecting the 'right' expressions of interest from an ever larger pool will be increasingly difficult as the program expands.

6.7 The Global Talent Program should be scaled back and evaluated

Targeting high-end talent is a worthwhile objective. But the Global Talent visa remains unproven. There is no compelling evidence to justify expanding the scheme at such a rapid rate, especially at the expense of visas which select skilled workers.

Figure 6.3: Global Talent visas are taking longer to process
Number of days to process Expression of Interest, 75th percentile



Source: Department of Home Affairs (2020d).

176. Minister Coleman, see Coorey (2019).

6.7.1 Scale back and evaluate

The Global Talent visa should be scaled back to no more than 5,000 visas annually and formally evaluated before a decision is taken to expand the scheme any further. The ‘additional’ visas should instead be allocated to the employer-sponsored and points-tested streams (Chapter 7).

The evaluation of the Global Talent Program should examine how the EOI process functions in practice and how officials select EOIs from the pool of applications. It should consider the outcomes for Global Talent visa holders to date, including via data linking visas to ATO tax records and other data sources to evaluate the migration outcomes of the Global Talent Program. The review should also consider whether the selection mechanism for the Global Talent visa, which relies less on formally prescribed rules set out in the Migration Regulations, is likely to remain effective if the program is expanded.

If the program is maintained at currently planning levels, applicants should be required to demonstrate an employment contract earning at least \$153,600 a year.¹⁷⁷

Employers should have no difficulty obtaining employer-sponsored visas for talented individuals in the meantime, especially if the employer-sponsored scheme is opened up to all occupations, subject to an \$80,000 wage floor (as recommended in Chapter 7).

177. This rule could be inserted in the Migration Regulations, ensuring a greater level of parliamentary accountability and removing departmental discretion to avoid or waive the income threshold for individual cases. This change would remove the incentive for government officials to hit the expanding target of annual visa allocations for a high-profile Government policy, and ensure the program selected people with good prospects of succeeding in the labour market.

6.7.2 The Global Talent ‘Expressions of Interest’ should be subject to merits review

More than 99 per cent of people whose Expression of Interest was approved gained a Global Talent visa. The main administrative decision therefore is whether to accept an Expression of Interest. Yet the EOI is not a valid visa application under the Migration Act, and therefore the decision to accept or refuse an EOI is not subject to ‘merits review’ by the Administrative Appeals Tribunal (AAT).¹⁷⁸

When assessing formal visa applications, officials must consider only information that is ‘relevant, credible, and significant’. Officials are also required to put adverse information found to the person applying for the visa for comment. None of these formal processes apply to an Expression of Interest and, because the decision is not subject to AAT review, people whose EOI is rejected have few options for recourse. The only manner of appeal for someone rejected at the EOI stage would be to the Federal Court.¹⁷⁹

Adding review rights may increase the number of EOIs submitted. Given this, the Government should consider introducing a fee to discourage vexatious claims.

178. Administrative Appeals Tribunal (2021).

179. Such as contesting the decision with reference to the *Administrative Decisions (Judicial Review) Act 1977*.

7 Skilled-worker visas should be expanded and their selection mechanisms improved

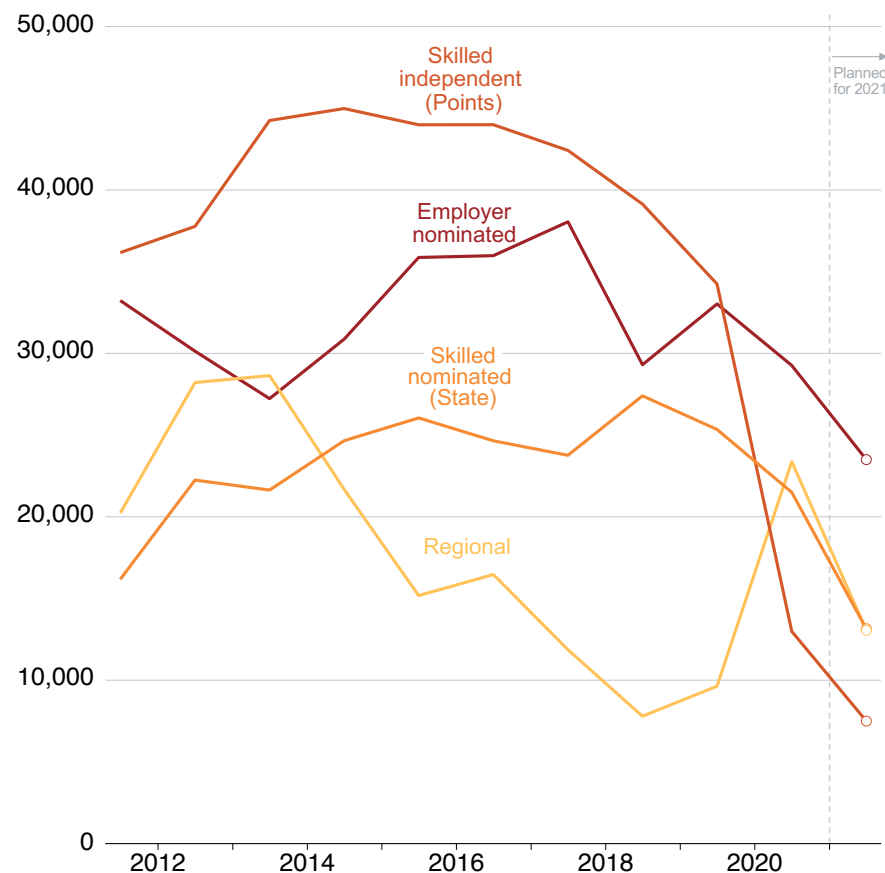
The number of skilled-worker visas has shrunk in recent years as the permanent skilled migration program has shifted away from targeted skilled-workers (Figure 7.1). This trend should be reversed, because the employer-sponsorship and points-tested visa streams have historically succeeded in selecting younger, skilled migrants best placed to make a positive contribution to the Australian community.

But the way Australia selects permanent skilled migrants needs to be improved. The Government should stop limiting permanent skilled worker visas to migrants with experience in occupations listed as being in skills shortage. Instead, as established in Chapter 3, these visas should be targeted at young, high-skilled workers with proficient English.

The Government should improve employer-sponsored visas by removing the occupation list and introducing a wage threshold. A shift to assessing income instead of occupation would better target permanent skilled migration at higher-wage occupations with valuable skills. It would also simplify the sponsorship process and provide greater certainty for both firms and workers.

The points-test should be subjected to an independent review focused on ways to better select younger, skilled workers. Points allocated for characteristics that do not generate positive labour market outcomes should be removed. The review should also consider whether separate state-nominated and regional points-tested visa streams should be removed, since those visas tend to select less-skilled migrants who earn lower incomes in Australia.

Figure 7.1: Skilled visa allocations have declined in recent years
Annual permanent visa allocation, financial year ending



Notes: Financial year ending. Planning figures for 2020-21 were updated by the Department of Home Affairs in May, 2021: Hansard (2021). Original visa grant figures have been adapted to mirror the Government's new categorisation, introduced in 2019-20. Sources: Grattan analysis of Department of Home Affairs (2020b); Department of Home Affairs (2021c); and Hansard (2021).

7.1 Australia selects skilled workers for permanent visas via a number of streams

Australia uses five broad visa classes, with different eligibility requirements, to select skilled workers (Table 7.1 on the next page):

- **Employer-nominated (subclass 186):** the migrant must be sponsored by an employer and employed in an occupation drawn from an occupation list. Applicants are not subject to the points-test, on the principle that the employer nomination itself filters potential migrants.
- **Skilled independent (189):** traditionally Australia's largest skilled worker visa. Allocations are made using the points-test, in conjunction with a list of eligible occupations. Prospective migrants do not require either a sponsoring employer or approval from a state or territory government.
- **Skilled nominated (190):** like the skilled independent visa, allocations are made using the points-test, in conjunction with a list of eligible occupations. Prospective migrants also require a nomination from a state or territory government.
- **Regional: independent (491):** allocations are made using the points-test, in conjunction with a list of eligible occupations. Prospective migrants also require a nomination from a state or territory government.
- **Regional: employer-nominated (494):** applicants must be sponsored by an employer based in a defined regional area, and the applicant must be employed in an occupation drawn from an occupation list.

7.2 The number of skilled-worker visas allocated has shrunk in recent years

Total visas allocated through skilled-worker streams has fallen from 118,300 in 2011-12 to a planned 57,300 in 2020-21 (Figure 7.1).¹⁸⁰ This fall is due to a reduction in the aggregate number of permanent skilled visas and a further shift in the composition away from permanent skilled-worker visas (see Chapter 4).

The biggest reduction has been in the skilled independent category. There were more than 40,000 skilled independent visas granted each year from 2013 to 2018. But today it is the smallest of the skilled-worker visa streams. The Department's 2020-21 planning level initially specified just 6,500 visas in 2020-21, although that has since risen marginally to 7,500 visas.¹⁸¹

Employer-nominated visas now make up the largest share of skilled-worker visas. But their numbers have also fallen, from about 35,000 a year over 2016-2018 to a planned 23,500 in 2020-21. There are planned to be 13,150 regional visas – independent and employer-nominated – granted in 2020-21. The employer-sponsored regional visas typical make up less than 15 per cent of the total regional allocation.

More than 70 per cent of permanent skilled-worker visas are granted to people already in Australia on some form of temporary visa. Within the skilled-worker streams, about half of visas granted are for 'secondary applicants' – partners and dependent children (see Section 7.9.3).

180. The total 2020-21 planning level for skilled worker visas was recently revised upwards from an initial planning level of 50,900 visas. Hansard (2021).

181. These figures stand in stark contrast to Canada, where the equivalent visa has been used recently to facilitate historically large numbers of people on temporary visas gaining a permanent visa: El-Assal and Thevenot (2020).

Table 7.1: Skilled visa subclasses are allocated subject to broad a range of eligibility criteria

	Employer-nominated scheme (subclass 186)	Skilled independent (189)	Skilled nominated (190)	Regional: independent (491)	Regional: employer-nominated (494)
Visas allocated in 2020-21	22,000	6,500	11,200		11,200 (combined)
Selection mechanism	Employer sponsored	Points-test: minimum points 65	Points-test: minimum points 65	Points-test: minimum points 65	Employer sponsored
Age threshold	45 years	45 years	45 years	45 years	45 years
Occupation list (total eligible occupations)	MLTSSL (212)	MLTSSL (212)	MLTSSL; STSOL; (427); state additions	ROL (504)	ROL (650)
Salary threshold	\$53,900	No	No	No	\$53,900
English	IELTS 6	Minimum IELTS 6; in practice IELTS 7	Minimum IELTS 6; in practice IELTS 7	Minimum IELTS 6; in practice IELTS 7	IELTS 6
State nomination required	No	No	Yes	Yes	No
Provisional	No	No	No	Yes; 3 years	Yes; 3 years
Must be in regional Australia	No	No	No	Yes	Yes
Work experience required	Yes; minimum 3 years	No minimum; in practice, 3-to-5 years required to pass points test on current allocation	No minimum; in practice, 3-5 years required to pass points test on current allocation	No minimum; in practice, 3-to-5 years required to pass points test on current allocation	Yes; minimum 3 years
Work in state	2-year obligation; rarely enforced	No	2-year obligation; rarely enforced	Yes; to meet provisional conditions	Yes; to meet provisional conditions
Skills assessed	Not mandatory for transition stream; mostly mandatory for direct entry	Yes	Yes	Yes	Yes

Notes: States can apply their own criteria for both the 190 and 491 subclasses by withholding a nomination until criteria are met. For Regional Australia definitions and categories, see Department of Home Affairs (2021n). MLTSSL is the Medium and Long-Term Strategic Skills List; STSOL is the Short-Term Skilled Occupation List; ROL is the Regional Occupations List; and IELTS is the International English Language Testing System.

7.3 Skilled-worker visas are allocated via an employer nomination, or a points-test

All skilled worker visas are allocated either via employer sponsorship, or a points-test – with points-testing accounting for a larger share (Figure 7.1).

7.3.1 Employer sponsorship requires a nominating employer

Employer sponsorship provides the Federal Government with a strong signal that visa applicants have employable skills, since a firm is willing to incur the costs of sponsoring and ultimately hiring them. Employer-nominated applicants are not subject to the points-test, on the principle that the employer nomination itself filters potential migrants. Applicants must however satisfy a minimum criteria for age, skills, and English language proficiency, among others (Table 7.1 on the preceding page).

Employer-sponsored visas are ‘demand driven’ up to a point. Total visa allocations depend on the number of employer nominations made, subject to a set of eligibility criteria. Yet they remain subject to an annual planning level cap, which was set at 22,000 visas for the 2020-21 year.

Employers who wish to sponsor a worker for a permanent visa and pay an annual salary less than \$250,000 a year must also meet certain salary conditions. First, the sponsored employer must be paid no less than the Temporary Skilled Migration Income Threshold (TSMIT) of \$53,900 a year.¹⁸² Second, the nominated worker can’t be paid less than an Australian worker would doing the same work in the same location, that is, the “annual market salary rate” (AMSR).¹⁸³

182. The TSMIT does not include non-monetary benefits such as accommodation or a car. Such benefits must be paid in addition to the TSMIT.

183. The AMSR is determined by looking at what sponsoring employers would pay equivalent Australian workers, based on relevant enterprise agreements or

Sponsoring employers are subject to a compliance framework: they must register and be approved to sponsor workers, and they face penalties if they fail to fulfil their obligations.¹⁸⁴ The business must be meet a number of checks, including that it is lawful, active, and has a genuine need to employ a skilled worker. The employer must pay a \$540 fee to nominate a worker for a permanent employer-sponsored visa, and pay a \$3,000 or \$5,000 ‘Skilling Australians Fund’ levy. These measures are primarily designed to ensure firms have a genuine need to hire a foreign skilled worker as opposed to an existing Australian resident.

7.3.2 The points-test weighs a broader range of migrant characteristics

A points-test allocates points to migrant characteristics. Countries that use points-tests commonly select migrants based on characteristics such as their age, language proficiency, education, and work experience.¹⁸⁵ As Chapter 3 demonstrated, highly-skilled, younger migrants with good English are most likely to confer gains for the Australian community.

Unlike employer sponsorship, Australia’s points-tested visas are not demand driven. The Government selects migrants from a pool of eligible applicants subject to an annual planning level (or cap) for each visa.

industrial awards, job outlook information, advertisements for the last 6 months in the same location, remuneration survey or advice from unions or employer associations: Department of Home Affairs (2021o).

184. Employers can also apply to be an ‘accredited sponsor’, whereby their nominating applications are processed within five business days: Department of Home Affairs (2021n).

185. See Papademetriou and Sumption (2011).

Up to 130 points are available in the points-test for the skilled independent visa, with 65 points required to be considered for a visa. Characteristics attracting points are:¹⁸⁶

- Age: up to 30 points
- English proficiency: up to 20 points
- Work experience: up to 20 points
- Education qualification: up to 20 points
- Partner skills: up to 10 points
- Australian study: up to 5 points
- Regional study: up to 5 points
- Professional year: up to 5 points
- Specialist education: up to 10 points
- Credentialed community language: up to 5 points

In addition, for the skilled nominated and skilled work regional (provisional) visas, points are available for being nominated.

Points-tested migrants are chosen via ranked selection

Once applicants reach 65 points, they enter the pool of eligible applicants. From this pool, the Federal Government issues a quota of invitations quarterly. Since the Gillard government introduced SkillSelect in 2012, the quota is selected from the top of the points distribution in the pool of applicants. This makes the points-test a ranked order, where applicants are competing for a scarce number of visas against each other.¹⁸⁷

186. Department of Home Affairs (2021p).

187. This is the process for the subclass 189 skilled independent visa. Someone can be in the pool of applicants for two years before their application expires.

The share of points-tested visa holders subject to ranked selection has fallen over time. Skilled nominated and the regional points-tested visa applicants require a nomination from a state or territory. Applicants are therefore not necessarily selected from an ordered ranking of all points-tested applicants, because states and territories have discretion over who they select.¹⁸⁸

Ranked selection has several benefits. It enables the Federal Government to select applicants with the most points in the pool at any given time,¹⁸⁹ and it ensures that those who have the most points gain visas quickly.

The invitation process also allows the Federal Government to keep tight control over both the supply of available points-tested visas, and the demand for visa applications, because people cannot apply for a visa unless they have an invitation.

The major drawback to ranked selection is the lack of certainty for prospective applicants. The number of points they require is determined by the number of invitations issued *and* the relative ranking of each applicant. Prospective applicants who gain the minimum 65 points do not know if they have the points required to gain a visa.¹⁹⁰ This uncertainty possibly makes Australia less attractive as a destination for skilled migrants, which in turn may reduce the quality of the pool of prospective applicants.¹⁹¹

188. Department of Home Affairs (2021q).

189. Before 2012, large numbers of applications were submitted each year who met the pass mark for the points-test. This created long waiting periods to gain a visa, and meant the government was unable to control how many prospective permanent skilled workers applied for a visa. See Mares (2009).

190. Boucher (2016); and Boucher and Davidson (2019).

191. Sumption (2019).

7.4 All skilled-worker visas are targeted via occupation lists

Occupation lists are a defining feature of Australia's permanent skilled migration program. Each permanent skilled-worker visa category uses an occupation list, restricting visas to applicants skilled in occupations on these lists (Table 7.2).¹⁹²

There are three main occupation lists:¹⁹³

- **The Medium- and Long-term Strategic Skills List (MLTSSL):** lists occupations 'of high value to the Australian economy' and aligned to the Government's longer-term training and workforce strategies. There are 212 occupations on this list.
- **The Short-term Skilled Occupation List (STSOL):** lists occupations selected to fill 'critical, short-term skills gaps'. This list has 216 occupations. A person who is qualified in an occupation listed on the STSOL cannot be sponsored by their employer to gain permanent residency in Australia unless they are in a defined regional area and first obtain a provisional visa.
- **The Regional Occupation List (ROL):** includes the same occupations on the MLTSSL and STSOL, and 77 other occupations.

192. For instance, regardless of how much income a truck driver earns, they are unable to apply for an employer-sponsored visa because 'truck driver' does not appear on any occupation list.

193. Department of Home Affairs et al (2019). A fourth list, the Priority Skilled Migration Occupation List (PSMOL), with 18 occupations relating to the health industry, has been created since the borders closed and is likely to be abolished after borders reopen.

Table 7.2: Occupation lists applicable to each permanent skilled-worker visa

	Medium- and Long-term Strategic Skills List (MLTSSL)	Short-term Skilled Occupation List (STSOL)	Regional Occupation List (ROL)
Employer-sponsored	Yes	No	No
Skilled independent	Yes	No	No
Skilled nominated	Yes	Yes	No
Regional	Yes	Yes	Yes

Source: Department of Home Affairs (2021r).

Announcing the introduction of the new occupation lists in 2017, the Prime Minister and the Home Affairs Minister said medium-term visas would 'only be issued for more critical skill shortages'.¹⁹⁴ But recent government publications create some conflict on this point. A 2021 National Skills Commission publication states occupation lists are not based on skill shortages 'per se'.¹⁹⁵ However, the most recently available public document from the Department assessing the methodology of the occupation lists states skill shortages are the rationale for both the short and medium-long term skills lists.¹⁹⁶

194. Turnbull and Dutton (2017).

195. National Skills Commission (2021a, p. 4).

196. 'The MLTSSL seeks to identify skill shortages of a medium term nature (around four years)': Department of Employment, Skills, Small and Family Business (2019, p. 2). Note that over the past few years, the administration of the occupation lists has been shifted from the Department of Home Affairs, to the

Each list reflects different policy goals. The MLTSSL is the primary list for both permanent employer sponsorship and the skilled independent visa. State-nominated visas draw on the STSOL, while regional visas permit a wider range of occupations with a greater diversity of skills, shown in Figure 7.2.

If a prospective migrant is qualified in an occupation not on the MLTSSL, they are restricted from gaining a permanent visa unless they gain nomination from a state government or are sponsored by an employer in a defined regional area.

The distinction between the MLTSSL and STSOL is designed to distinguish between short-term skills shortages and longer-term skills priorities.¹⁹⁷ To take one example, Cooks and Chefs have been sponsored extensively by employers over the past decade. Today, Cook is on the STSOL whereas Chef is on the MLTSSL, making a Cook ineligible for permanent residency via employer sponsorship unless it is via the regional stream.

Skills assessment

A skills assessment is a process to verify prospective migrants' qualifications and experience, with the goal of determining whether someone could successfully work in an occupation.

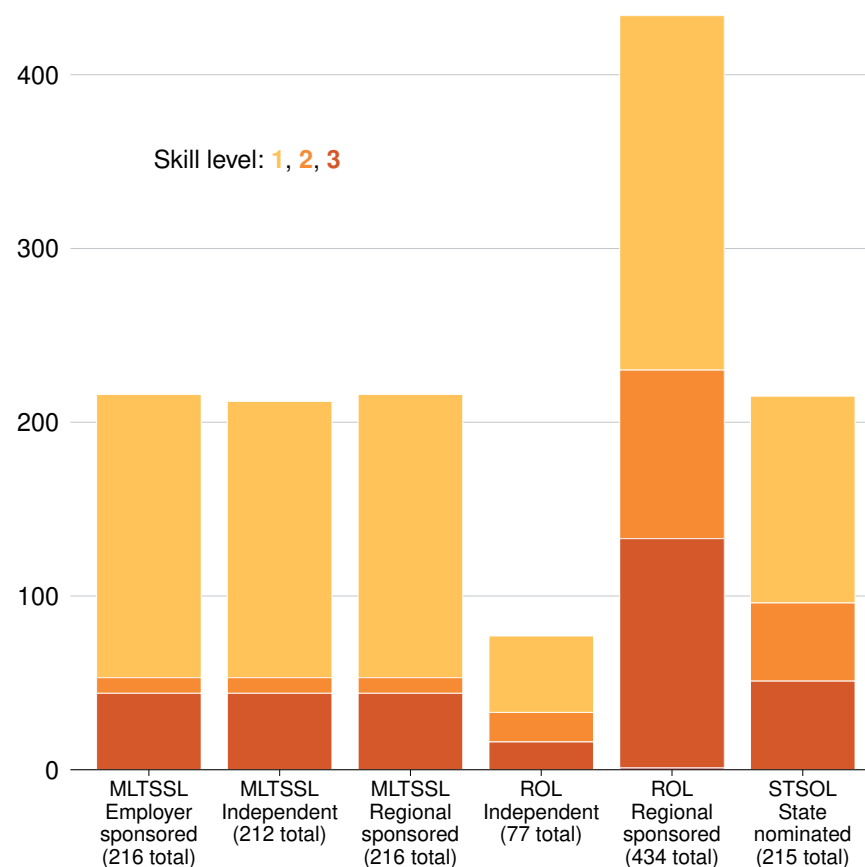
For visas using the points-test, skills assessments are mandatory. An authorised third-party certifies that a person has the skills to perform an occupation. The Department of Home Affairs authorises which third-parties are able to do skills assessments. These are a

then Department of Jobs and Small Business, and now sits with the National Skills Commission.

197. Department of Employment, Skills, Small and Family Business (2019); and National Skills Commission (2021a).

Figure 7.2: The Regional Occupation List includes a more diverse range of skills

Number of migration skills list occupations by ANZSCO skill level



Note: ANZSCO is the Australian and New Zealand Standard Classification of Occupations; see Box 5.

Sources: Migration (LIN 19/051: Specification of Occupations and Assessing Authorities) Instrument 2019; Migration (LIN 19/219: Occupations for Subclass 494 Visas) Instrument 2019; Migration (LIN 19/049: Specification of Occupations and Assessing Authorities-Subclass 186 Visa) Instrument 2019.

Box 5: Understanding the Australian and New Zealand Standard Classification of Occupations

ANZSCO has five levels: major group, sub-major group, minor group, unit group, and occupation. The occupation level is the most detailed and prescriptive. Groups of occupations form the unit group, and so forth up the levels.^a

A registered nurse is a well-known job. According to ANZSCO, a registered nurse is a 'unit group', with 14 specific occupations within it. These occupations are titled, for example, 'Registered Nurse (Aged Care)' and 'Registered Nurse (Community Health)'. According to the ABS, 'As it is rare for two actual jobs to have identical sets of tasks, in practical terms, an "occupation" is a set of jobs whose main tasks are characterised by a high degree of similarity'.

Registered nurses sit within the minor group of 'Midwifery and Nursing', which in turn sits within the 'Health professional' sub-major group. At the top of the hierarchy is the major group of Professionals.

a. ABS (2019a).

b. Ibid.

The major groups, also called one-digit ANZSCO codes, are: Managers (1), Professionals (2), Trades and Technicians Workers (3), Community and Personal Service Workers (4), Clerical and Administrative Workers (5), Sales Workers (6), Machinery Operators and Drivers (7), and Labourers (8).

Each occupation has a designated skill level. These skill levels, ranging from 1 to 5, are defined as 'a function of the range and complexity of the set of tasks performed in a particular occupation'. The bigger the range and complexity of tasks, the higher the skill level. The ABS measures this with reference to:

- the level or amount of formal education and training
- the amount of experience in a related occupation, and
- the amount of on-the-job training required to competently perform the set of tasks required for that occupation.^b

combination of professional industry bodies and stand-alone skill assessment organisations.¹⁹⁸

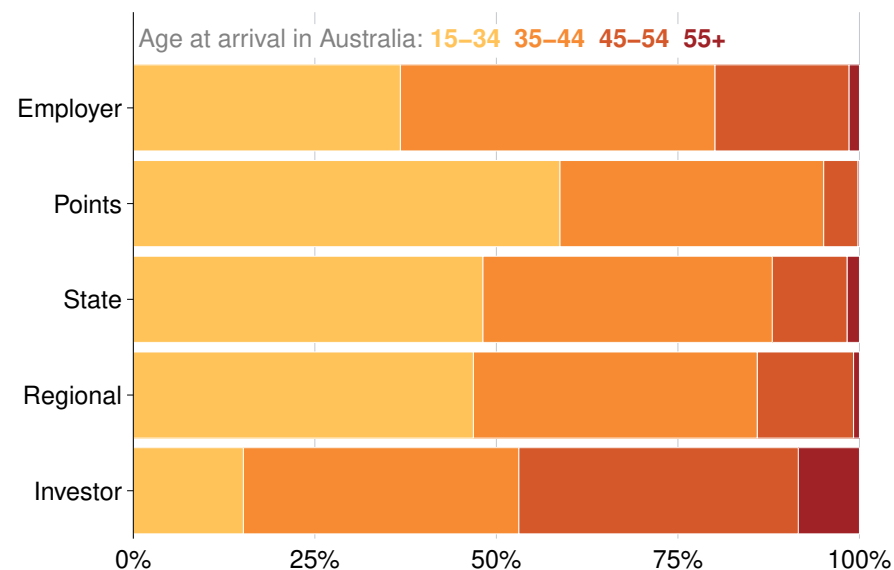
Skills assessment is an under-examined component of the visa process. The authorised assessing authorities sit outside the public service and are not subject to Freedom of Information or parliamentary accountability.

Employer-sponsored visas are different. In most instances, the Government accepts that if an employer decides to sponsor a skilled worker, the worker is able to perform the role. In general, this approach works well. Officials assessing employer-sponsored visa applications are able to request a formal skills assessment.

7.5 All streams select younger, skilled workers, but some streams perform better than others

Skilled workers selected using the points-tests tend to be younger than other migrants. Figure 7.3 shows this age distribution, with employer-sponsored workers having the oldest age profile. The older age of employer-sponsored migrants also reflects a preference for workers with more experience.

Figure 7.3: Skilled visa-holders are overwhelmingly young
Age distribution of primary applicants by visa stream



Notes: Residents in Australia in 2016 who arrived between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

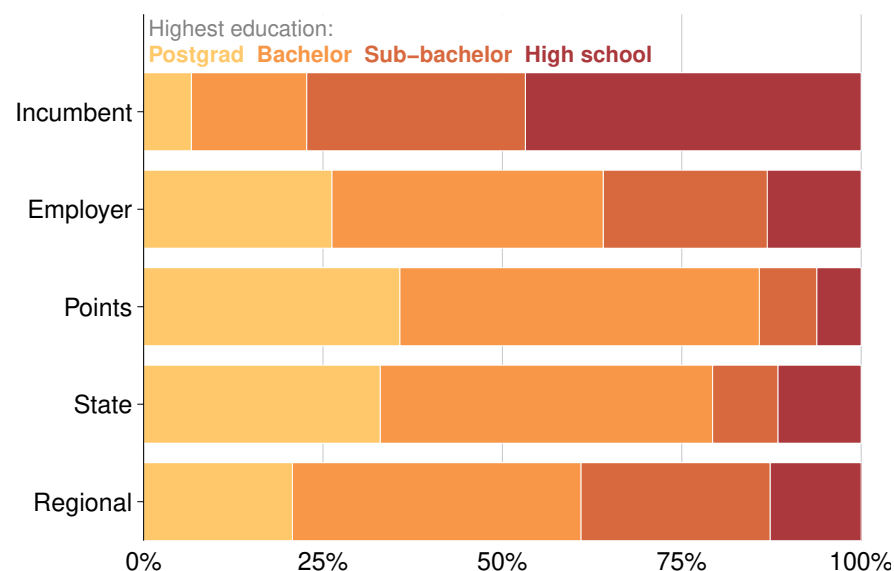
Source: Grattan analysis of ABS (2016b).

198. Commonwealth Government (2019).

Figure 7.4 shows that permanent skilled migrants tend to have higher levels of education than incumbents. About one in three people awarded a visa on points have a postgraduate qualification, and more than 80 per cent have a bachelor's degree. The rates are similar for people granted visas from state allocations. The rates of post-secondary education are lower for employer visa-holders, who are not assessed on their level of education.

Figure 7.4: Skilled visa-holders have significantly more education than incumbents

Proportion of primary skilled migrants by highest education



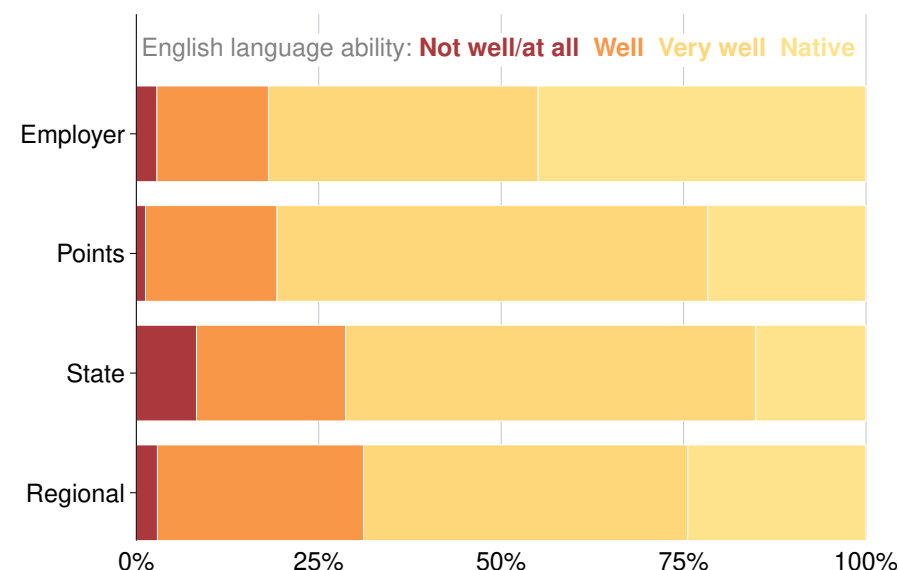
Notes: Residents aged 19 and older in Australia in 2016 who arrived between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded. Sub-bachelor includes certificates 1-to-4, diplomas, and advanced diplomas.

Source: Grattan analysis of ABS (2016b).

Minimum English language thresholds are required by all of the skilled visa categories, and English is relatively well rewarded in the points-test.¹⁹⁹ Figure 7.5 shows that a large majority of skilled visa-holders speak English natively or 'very well'.²⁰⁰ However, more than a quarter of state and regional visa-holders self-classify as speaking English only 'well', or 'not well at all'.

Figure 7.5: Skilled visa-holders tend to have strong English language skills

Proportion of primary skilled migrants by English language ability and visa stream



Notes: Residents aged 19 and older in Australia in 2016 who arrived between 2012 and 2016. Visa class is the first permanent visa granted. Overseas visitors are excluded, as are residents with an invalid year of arrival in Australia.

Source: Grattan analysis of ABS (ibid).

199. See Box 6 and Table 7.1.

200. As self-assessed in the Census.

High levels of education and English language ability mean that permanent skilled migrants in Australia are far more likely to work in managerial or professional roles than incumbent Australians, as Figure 7.6 shows. About 70 per cent of recent skilled migrants on employer-sponsored visas work in professional or managerial jobs, compared to just one in three incumbents.²⁰¹

Occupations in the managerial and professional categories require more education or more years of experience, and are more highly paid than others on the ANZSCO occupation list. Figure 7.7 on the next page shows that the incomes of skilled visa-holders compared to incumbents reflect this trend. Employer-sponsored visa-holders earn more than any other group, with a median income of more than \$100,000 for those aged 40 and older; about \$30,000 more than incumbents. Despite higher levels of education on average, state and regional visa-holders tend to earn less than employer-sponsored visa-holders.

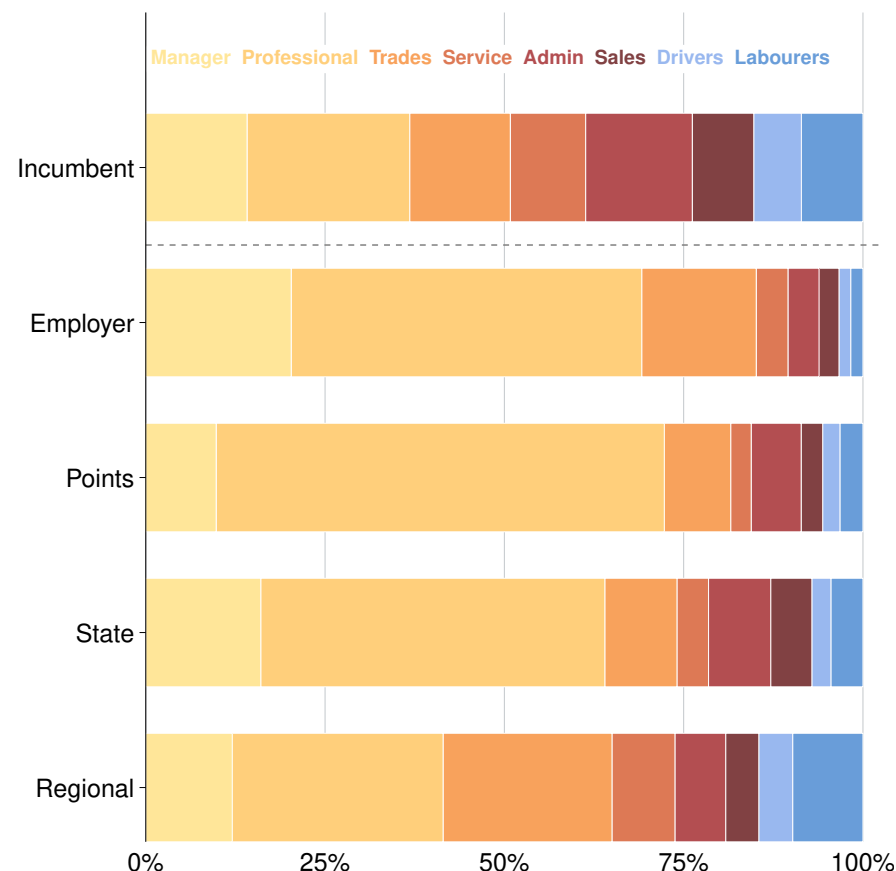
7.6 Improving the way Australia selects permanent skilled migrants

Compared to other skilled visa-holders, skilled workers are much more likely to have higher incomes, arrive in Australia when they are younger, and participate in the labour market. If the Business Innovation and Investment Program is abolished (Chapter 5) and the Global Talent visa is scaled back (Chapter 6) as per the recommendations in this report, more skilled-worker visas will be available, based on correct planning levels for the permanent skilled migration program overall.

201. Some dispute the direction of these findings. Bob Birrell argues employment outcomes for recent migrants are poor compared to incumbents, particularly for matching jobs to education qualifications. Birrell examines Census data and does not distinguish between permanent visa categories. He does not examine income, instead examining employment, education, and language variables. See Birrell (2018).

Figure 7.6: Permanent skilled migrants are far more likely to work in higher-skilled occupations than incumbents

Proportion of incumbents and primary skilled migrants by occupation and visa stream

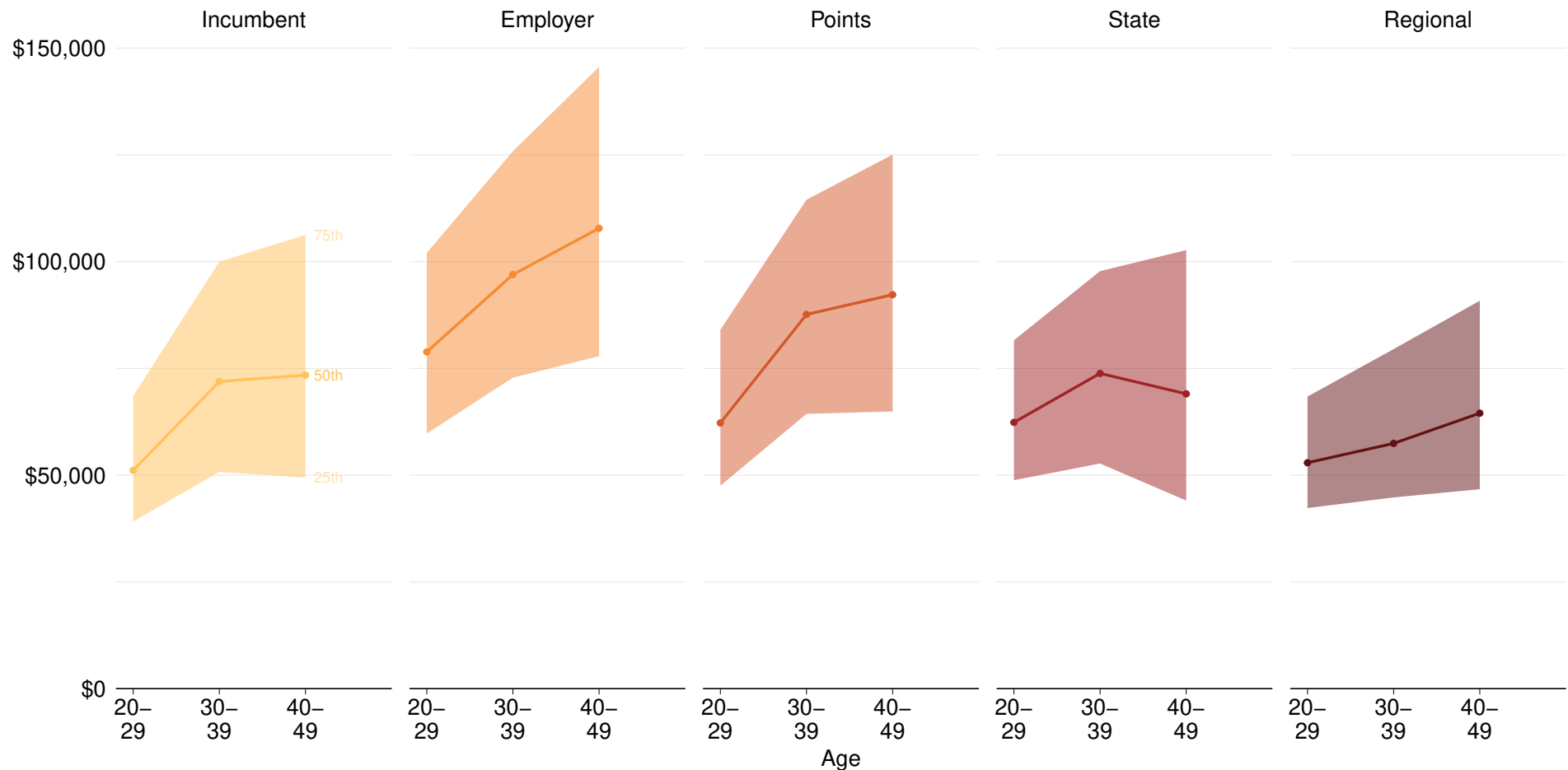


Notes: Residents in Australia in 2016 who arrived between 2012 and 2016. Visa class is the first permanent visa granted. Overseas visitors are excluded, as are residents with an invalid year of arrival in Australia.

Source: Grattan analysis of ABS (2016a) and ABS (2016b).

Figure 7.7: Workers on employer-sponsored visas earn more than any other group, including incumbents

Income distribution of full-time workers by visa group (median and inter-quartile range)



Notes: Full-time workers in Australia in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Overseas visitors are excluded, as are residents with an invalid year of arrival in Australia.

Source: Grattan analysis of ABS (2016a) and ABS (2016b).

Box 6: English language scoring system

Applicants for skilled visas sit a variety of formal tests of their English reading, writing, listening, and speaking. Their proficiency is ranked on five levels, drawn from the International English Language Test System (IELTS) framework:^a

- **Functional English (IELTS 4.5):** ‘The test-taker’s basic competence is limited to familiar situations. They frequently show problems in understanding and expression. They are not able to use complex language. They cannot respond without noticeable pauses and may speak slowly, with frequent repetition and self-correction. Mispronunciations are frequent and cause some difficulty for the listener.’
- **Vocational English (IELTS 5.0):** ‘The test-taker has a partial command of the language and copes with overall meaning in most situations, although they are likely to make many mistakes. They should be able to handle basic communication in their own field and usually maintain flow of speech but use repetition, self correction, and/or slow speech to keep going.’
- **Competent English (IELTS 6.0, minimum standard for permanent skilled worker visas):** ‘The test-taker has an effective command of the language despite some inaccuracies, inappropriate usage, and misunderstandings. They can use and understand fairly complex language, particularly in familiar situations. The test-taker is willing to speak at length, though may lose coherence at times due to occasional repetition, self-correction, or hesitation. They have a wide enough vocabulary to discuss topics at length and make meaning clear in spite of inaccuracies.’
- **Proficient English (IELTS 7.0):** ‘The test-taker has operational command of the language, though with occasional inaccuracies, inappropriate usage, and misunderstandings in some situations. They generally handle complex language well and understand detailed reasoning. They speak at length without noticeable effort or loss of coherence and use vocabulary resource flexibly to discuss a variety of topics.’
- **Superior English (IELTS 8.0):** ‘The test-taker has fully operational command of the language with only occasional unsystematic inaccuracies and inappropriate usage. They may misunderstand some things in unfamiliar situations. They handle complex and detailed argumentation well. They speak fluently with only occasional repetition or self-correction; hesitation is usually content-related and only rarely to search for language.’

a. IELTS (2021).

7.7 Occupation lists undermine the selection of permanent skilled workers

The long-standing tradition of using occupation lists to select skilled workers for permanent residency should be abandoned.

Current occupation lists, which notionally target skills shortages, do not prioritise migrants in high-skill, high-wage occupations likely to best benefit the Australian community.²⁰² Further, occupation lists are not well placed to identify skills shortages, since relevant data on wages are not available at a sufficiently detailed level. Instead, occupation lists are heavily shaped by vested interests. As the Productivity Commission recently noted:²⁰³

Australian government data suggest highly persistent skill shortages in a range of occupations. For example, automotive electricians, panel beaters, and arborists have been in shortage for each of the 10 years to 2018, and hairdressers and sheet metalworkers for nine out of the past 10 years. A decade-long or more shortage seems difficult to explain for some occupations that rely on traineeships taking one to two years to complete.

Permanent skilled-worker visas should be targeted to younger, higher-skilled migrants likely to make a lasting contribution to the Australian community. And permanent migrant selection shouldn't address skills shortages if doing so comes at the expense of selecting high-skilled workers (Section 3.3.4 on page 25).²⁰⁴ Most skills shortages are likely to be temporary, and therefore better addressed via Australia's temporary migration program. Whereas migrants granted permanent visas are likely to remain in the workforce for decades. Where skills are genuinely in shortage for an extended period, these skills should be in high demand and therefore attract high wages.

202. Department of Employment, Skills, Small and Family Business (2019).

203. Productivity Commission (2020, p. 113).

204. In any case, targeting higher-skilled, higher-wage workers for permanent visas is likely to be effective in addressing persistent skills shortages where they do emerge. See Section 3.3.4.

7.7.1 It's not possible to objectively target skills shortages when compiling occupation lists

To build an occupation list, the Federal Government relies heavily on the Australia and New Zealand Standard Classification of Occupations (ANZSCO). This is a useful labour market analysis tool, but it is a poor fit for prioritising occupations for selecting skilled migrants. In particular, policy makers lack data on wages at a sufficiently granular level to diagnose skills shortages in the 1,123 six-digit occupations in the ANZSCO framework. Some argue this could be mitigated by using four-digit occupations in the ANZSCO framework.²⁰⁵ But the same methodological concern holds.

There are also challenges in classifying the occupations of prospective migrants within the ANZSCO framework. Each six-digit occupation in ANZSCO has a list of common tasks and a designated skill level (see Box 5). Yet employers looking to sponsor workers, and general workers seeking employment, will probably do multiple tasks which do not neatly fit into such rigid classification.

Chefs are eligible for a permanent employer-sponsored visa, but cooks are not. An official assessing a visa application where a chef is nominated must decide based on the ANZSCO classification whether this person is indeed a chef, or whether they are a cook. This task is almost impossible to perform in an objective manner without relying almost entirely on what the employer is claiming.

After cooks became ineligible for a permanent employer-sponsored visa in 2017, there was a precipitous fall in the number of cooks sponsored by employers on temporary skilled worker visas. Figure 7.8 shows that at the same time, the number of chefs rose to the highest on record.

205. EY (2021).

Similarly, the ANZSCO framework is slow to respond to new developments in the labour market as technological change creates new jobs. ANZSCO was introduced in 2006 as a reiteration of the Australian Standard Classification of Occupations. The most recent substantive update was in 2013.²⁰⁶

The most startling occupation missing from ANZSCO is data scientist. Data scientists are becoming a core occupation across growing service sector industries such as finance, banking, and technology.²⁰⁷ Yet it was not until September 2019 that the ABS released advice to the Department of Home Affairs on how to describe Data Scientist and where it should be classified in ANZSCO.²⁰⁸ The National Skills Commission has noted several other emerging occupations where ANZSCO does not reflect labour market trends.²⁰⁹

7.7.2 Occupation lists do not prioritise high-skill, high-wage occupations

The main occupation list for permanent skilled workers, the Medium- and Long-term Strategic Skills List, is not well targeted towards higher-skill or higher-income occupations. Figure 7.9 shows that there are many high-skill, high-income occupations not on the MLTSSL, while there are a number of lower-skill, lower-income occupations that are on the list.

Some high-wage occupations are excluded

The Medium- and Long-Term Strategic Skills List excludes some high-wage occupations, yet includes some low-wage occupations.

206. The static nature of the classification framework is not a major issue for the core purpose of ANZSCO, which is a classification of the labour market.

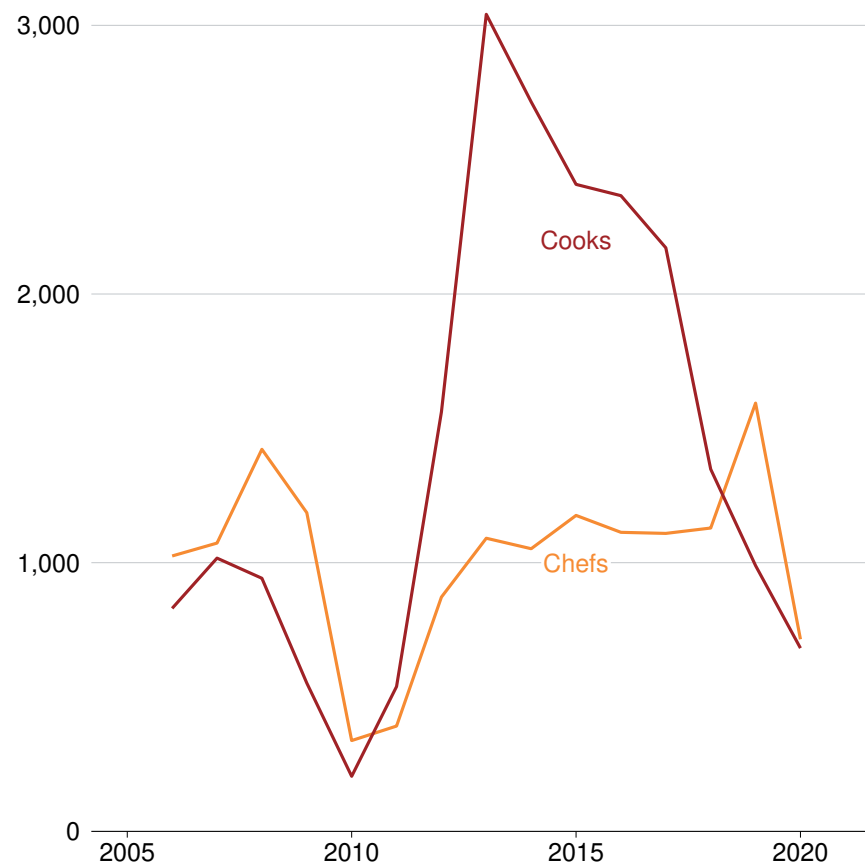
207. VETASSESS (2020).

208. See Department of Home Affairs (2019), noting the occupation is not included on the MLTSSL and therefore not eligible for permanent employer sponsorship.

209. National Skills Commission (2020).

Figure 7.8: The number of visas for chefs and cooks has fluctuated dramatically

Annual Temporary Skills Shortage visa grants

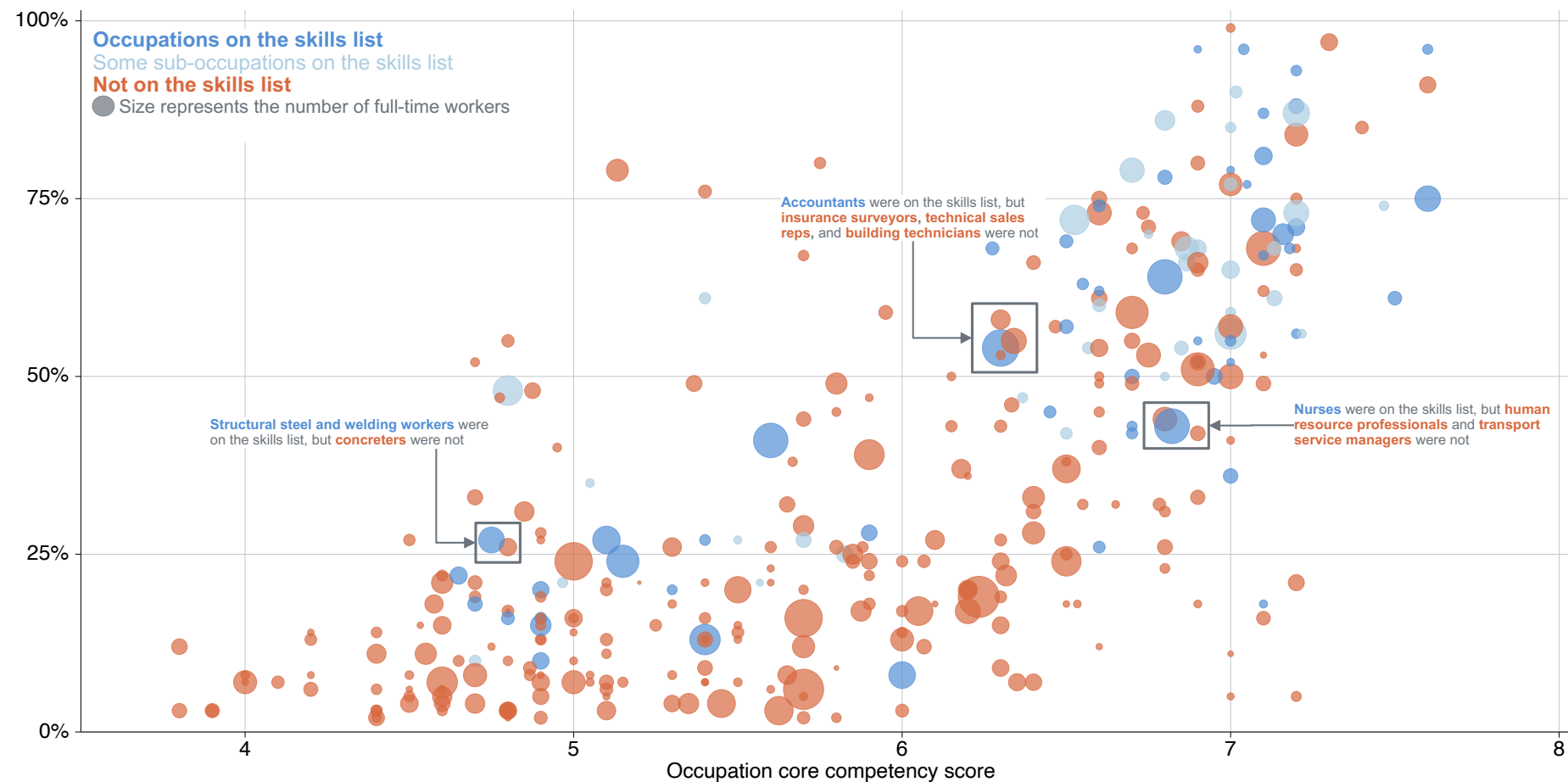


Source: Department of Home Affairs (2021g).

Figure 7.9: The Medium- and Long-term Strategic Skills List is not well targeted towards either high-skill or high-wage occupations

Occupations by proportion of full-time workers earning more than \$80,000, and occupational core competency scores

Proportion of full-time workers earning more than \$80,000



Notes: Full-time workers aged 19 and older in the 2016 Census. Competency scores are the average of 10 core occupational competencies – such as numeracy and problem-solving – developed by the National Skills Commission. See Appendix B.

Sources: Grattan analysis of ABS (2016a); National Skills Commission (2021b); Medium- and Long-term Strategic Skills List (2020).

Figure 7.9 shows occupations with reference to the proportion of full-time workers in each occupation earning above \$80,000 and the average competency score.²¹⁰ Accountants are included on the occupation list yet similar occupations that mirror the level of skill or wages of accountants are excluded: insurance surveyors, technical sales representatives, and building technicians. The same story plays out across the wage distribution for occupations.

Some examples are particularly egregious. According to Australian Taxation Office statistics, the second highest average salary for any occupation in 2017-18 was Anaesthetists, who earned on average \$380,000 each. Despite this extraordinarily high salary, Anaesthetist is not included on the Medium- and Long-Term Strategic Skills List. The occupation code designated for data scientist is also excluded.²¹¹

Many high-wage jobs are excluded

More than 50 per cent of full-time jobs with wages above \$120,000 are excluded from the Medium- and Long-term Strategic Skills List.²¹² Figure 7.9 shows many occupations where fewer than 25 per cent of full-time workers earn less than \$80,000 are excluded from the MLTSSL.

Jobs, and the wages they offer, are a better guide to skills than occupations. For instance, there were 40,000 full-time solicitors at the

2016 Census. While half of these jobs had salaries above \$120,000 a year, a quarter had incomes below \$80,000.

Some proportion of full-time positions in occupations excluded from the list will also earn high wages. This means high-wage jobs in low-wage occupations are excluded from employer sponsorship. The occupation Electronic Trades Worker had about 18,500 full-time jobs at the 2016 Census. About 75 per cent of these jobs had salaries below \$80,000 a year. Yet 10 per cent had salaries above \$100,000.

7.7.3 Vested interests can shape what occupations are included

Industry and other interests such as higher education play a role in constructing occupation lists. Figure 7.10 outlines how this occurs, a process described as a ‘black box’ by some experts.²¹³

Consultation of course does not amount to poor administration. Yet with data deficiencies, it is difficult to see how anything but stakeholder consultation is driving the composition of the occupation lists.

As one senior official from the Department of Jobs and Small Business put it:²¹⁴

A lot of the time we will have submissions and other views put forward by stakeholders, but there's not necessarily evidence or a dataset behind those. So it's as comprehensive as it can be.

7.7.4 Occupation lists can have significant unintended consequences beyond migration policy

In 2001, the Howard government introduced a suite of incentives for international students to study in Australia.²¹⁵ This included pathways

210. Average competency scores are sourced from the National Skills Commission JEDI framework, a better reflection of objective competencies than the ANZSCO skill level framework: National Skills Commission (2021b).

211. In 2019 the Federal Government announced that data scientists would be classified as “information and organisation professionals NEC”, a group that also includes electoral gofficers and lobbyists, because this emerging and in-demand occupation was not previously classified by ANZSCO: Committee for Economic Development of Australia (2021, p. 2). Such band-aid solutions result from a system that is slow to respond to labour-market changes.

212. See Appendix B.

213. Professor Anna Boucher, University of Sydney, discussion with authors, November 2020.

214. Department of Jobs and Small Business (2018, Chapter 3).

215. See Birrell et al (2006, Chapter 1).

to permanent residency via an occupation list called the Migrant Occupations in Demand List, or MODL. Analysing the effects of this occupation list through to 2006, Birrell et al (2007) pointed to a rapid increase in commencements of overseas students in private higher education qualifications centred on ‘services, hospitality, and transport’ due to hairdressing and cooking qualifying as eligible occupations.

The MODL link to higher education resulted in poor outcomes. Demand for low qualifications proliferated as overseas students sought a pathway to permanent residency via occupations on the MODL.²¹⁶

The most prominent contemporary example is accounting. In SkillSelect, there are tens of thousands of prospective skilled workers qualified in accountancy. As Figure 7.11 shows, the number of expressions of interest for a points-tested visa submitted by qualified accountants is equivalent to roughly one fourth of the total number of accountants employed in Australia today. People appear to be studying accountancy because it is on the list.²¹⁷

7.8 A wage threshold should replace occupation lists for employer-sponsorship

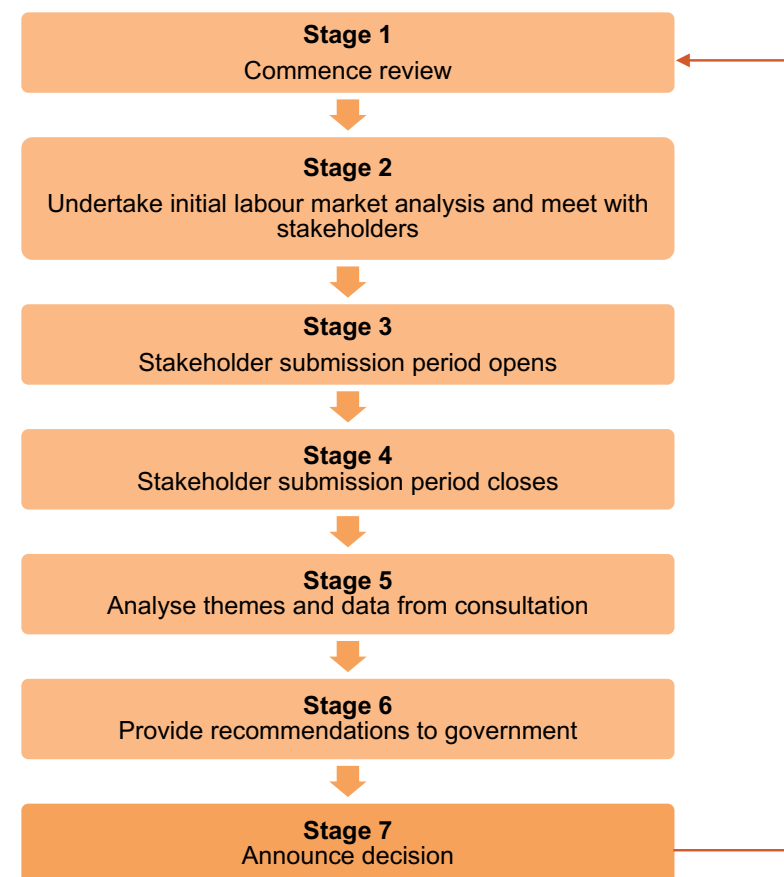
Employer-sponsorship should be available for workers in all occupations, provided they have a wage offer exceeding \$80,000 a year, or the median income of full-time Australian workers.²¹⁸ A

216. Baird (2010, p. 7) concluded that the prospect of a pathway to permanent residency had ‘resulted in some [education] providers and their agents being interested in “selling” a migration outcome to respond to the demand from some students to “buy” a migration outcome’. Today, the link between visa policy and higher education is less explicit. Yet it remains via the points-test.

217. Weller (2015).

218. Median full-time earnings were \$76,000 in May 2018, inflated by Male Total Average Weekly Earnings: ABS (2019b). A higher wage threshold than \$80,000 a year would lift the wages of employer-sponsored workers. However doing so would simply shift a greater share of the fixed number of skilled worker visas

Figure 7.10: The process for reviewing the Skilled Migration Occupation Lists



Source: Legal and Constitutional Affairs References Committee (2019, Figure 3.1).

guaranteed offer of a high-wage job is a strong sign that applicants have valuable skills and will succeed in Australia long term.²¹⁹ This wage threshold should be indexed in line with Male Total Average Weekly Earnings (MTAWE).

A shift to assessing income instead of occupation would better target permanent skilled migration at migrants with valuable skills.²²⁰ It would also simplify the sponsorship process and provide greater certainty for both firms and workers.

Current planning levels for permanent employer-sponsored visas would be abolished. Instead, employer-sponsored visas could be made on a 'demand driven' basis, up to the combined planning levels number of skilled worker (employer sponsored and points-tested) visas.²²¹ Invitations for points-tested visas would continue to be issued quarterly at a rate consistent with meeting the overall planning cap for skilled worker visas each year.

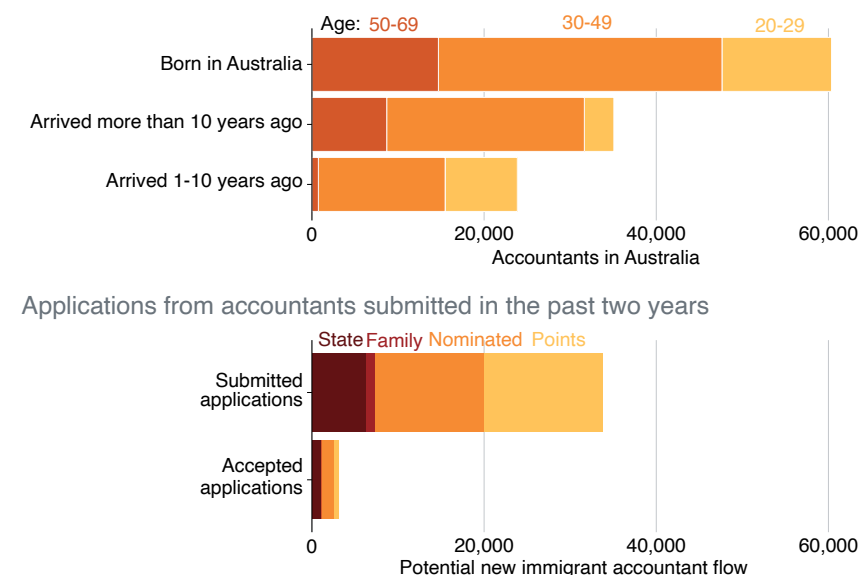
7.8.1 A broader group set of high-wage migrants would become eligible for employer sponsorship

By abolishing occupation lists, any occupation would be eligible for employer-sponsorship as long as the sponsored wage was above the minimum threshold of \$80,000 a year, as shown in Figure 7.12 on the

issued each year into the points-tested streams, where migrants earn lower incomes (Section 7.5).

219. Workers' wages in a given year tend to be a good proxy for lifetime earnings: Daley et al (2015). Although using a wage threshold can reinforce existing patterns of gender- and race-based discrimination: Boucher (2020).
220. Singapore already adopts a similar approach to skilled migration via its 'Employment Pass' visa for high-skilled migration. Sponsored workers must meet minimum salary thresholds, which rise with age, and the visa offers a potential path to permanent residency. See: Singapore Ministry of Manpower (2021).
221. A total of 74,250 skilled worker visas would be available under the proposed new planning level, assuming 5,000 Global Talent and 350 Distinguished talent visas are issued each year.

Figure 7.11: In the past two years there were more than 35,000 permanent visa applications from accountants
Australian residents working as accountants in 2016



Notes: Stock of accountants taken from the 2016 Census. Applications are those made between in 2019 and 2020 to the Department of Home Affairs SkillSelect.

Sources: Grattan analysis of ABS (2016a) and Department of Home Affairs (2021s).

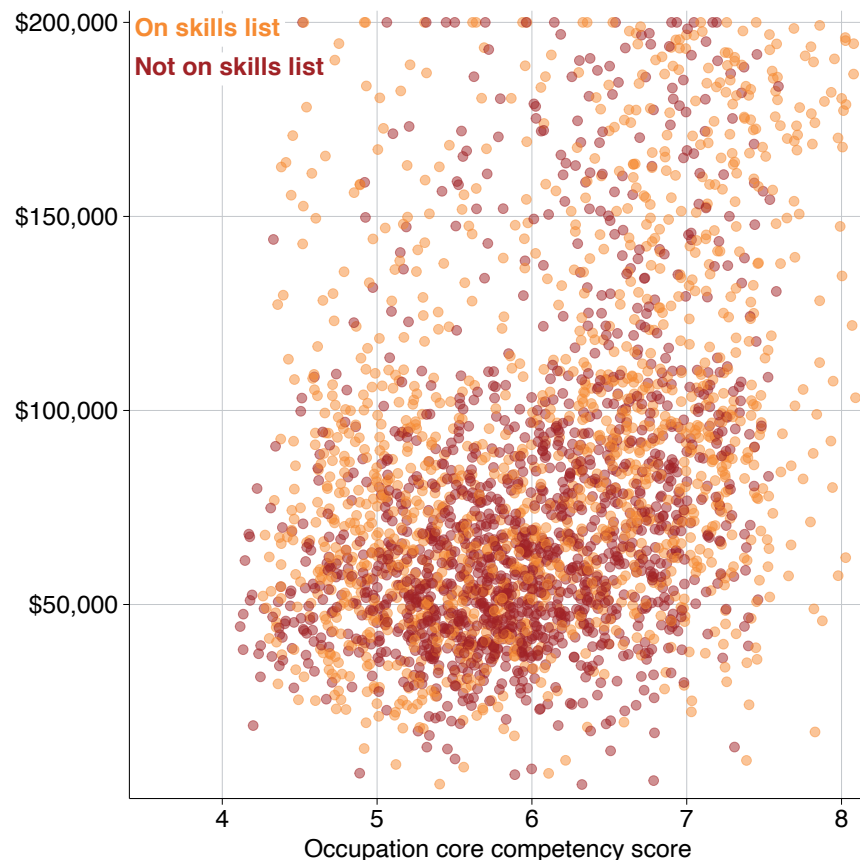
Figure 7.12: A wage-based selection rather than a skills list would serve Australia better

Each point represents about 1,000 full-time jobs in Australia by income and occupational competency score

Panel (A)

Current skills list system

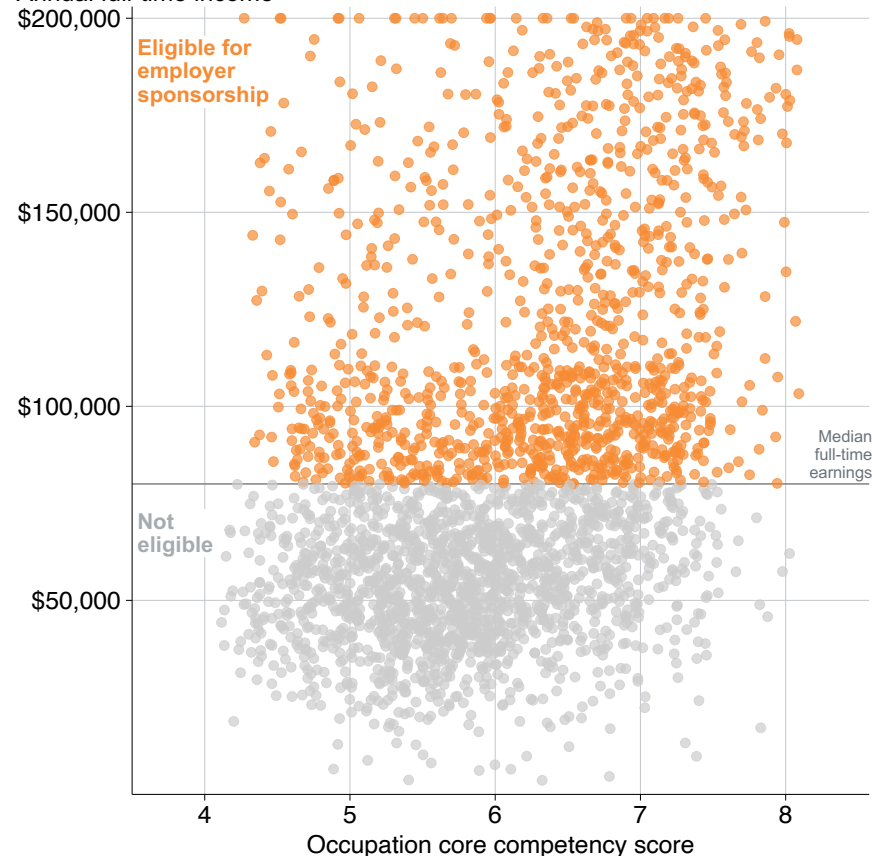
Annual full-time income



Panel (B)

Alternative with an \$80,000 wage threshold

Annual full-time income



Notes: Full-time workers aged 19 and older in the 2016 Census. Competency scores are the average of 10 core occupational competencies – such as numeracy and problem-solving – developed by the National Skills Commission. This average is taken to present a broad indicator of occupational skill, and is not a methodology used by the National Skills Commission.

Sources: Grattan analysis of ABS (2016a); National Skills Commission (2021b); and Medium- and Long-term Strategic Skills List (2020).

previous page. Although employers would still have to offer a wage above the relevant AMSR, ensuring that sponsored workers would not be paid less than an Australian worker doing the same work in the same location, including workers whose pay is set via an enterprise agreement or industrial awards.²²²

This reform would not reduce the total number of jobs eligible for sponsorship in the labour market (Figure 7.12). It would simply shift the pool of would-be jobs eligible for employee-sponsorship away from often arbitrary occupations to exclusively target workers capable of attracting high salaries. Additional high-wage occupations that would become eligible for employer sponsorship would include dental practitioners, finance managers, research and development managers, drillers, advertising and public relations professionals and nurse managers, among others (Table 7.3).²²³

This reform would create a simpler and more-certain pathway to permanent citizenship for both sponsoring firms and applicants. Firms would no longer need to fit the sponsored role into a particular listed occupation. A higher wage threshold would also encourage employers to bid up their wage offers to prospective workers.

7.8.2 Some existing firms would no longer be able to sponsor workers for a permanent visas

Inevitably some prospective migrants, and the employers that would hire them, would be disadvantaged by this change. Firms hiring temporary visa holders at below median full-time earnings would not be able to offer their workers permanent residency. Many roles in the hospitality, retail, and many care work sectors would struggle to

222. Department of Home Affairs (2021o).

223. Migrants seeking sponsorship for some jobs, such as anaesthetists and dental practitioners, would still require accreditation by the relevant bodies to practice in Australia.

Table 7.3: Removing the skills list will open the door to more high-skilled migrants

High-income occupations not currently on the MLTSSL

Occupation (ANZSCO 4-digit code)	Median income	Occupation size (full-time workers in 2016)
Anaesthetists	\$177,907	3,311
Dental Practitioners	\$162,599	8,088
Finance Managers	\$140,083	39,390
Chemical, Gas, Petroleum and Power Generation Plant Operators	\$136,772	6,853
School Principals	\$135,704	18,799
Policy and Planning Managers	\$134,881	17,166
Research and Development Managers	\$130,820	9,098
Air Transport Professionals	\$126,255	9,183
ICT Sales Professionals	\$122,011	13,573
Financial Dealers	\$121,601	13,984
Human Resource Managers	\$120,042	37,809
Other Building and Engineering Technicians	\$119,764	17,724
Drillers, Miners and Shot Firers	\$112,255	35,092
Financial Investment Advisers and Managers	\$111,217	25,434
Marine Transport Professionals	\$107,543	5,590
Train and Tram Drivers	\$107,215	9,580
Corporate Services Managers	\$106,065	5,952
Advertising, Public Relations and Sales Managers	\$106,027	96,072
Nurse Managers	\$103,582	11,510
Supply, Distribution and Procurement Managers	\$101,111	29,685

Notes: Excludes occupations for which Australian citizenship is a requirement (e.g. legislators, judges, etc.). Only occupations with full-time median income over \$100,000 are shown. Median income is derived from the 2016 Census and inflated to 2020 dollars.

Source: ABS (2016a); Medium- and Long-term Strategic Skills List (2020).

qualify for employer sponsorship given the low salaries offered. Fewer employers in regional areas, who tend to pay lower wages, would be able to utilise employer sponsorship to secure workers given the new \$80,000 wage threshold.

Similarly, employers seeking lower-wage workers in predominately government-funded health, aged and disability care sectors would not be able to offer permanent residency to attract foreign workers. There is substantial concern about future skills “shortages” in predominately government-funded health, aged and disability care sectors. The Morrison Government has already signalled plans to meet rising demand for nursing and aged care workers using temporary migration.²²⁴ Low-skilled visa holders are already an important part of the current aged care workforce. The role of temporary migration, as well as training and workforce development in meeting growing demand for workers in lower-wage jobs in care sectors will be considered in future Grattan Institute reports.

Alternatively, governments may need to offer higher wages to attract additional workers into these sectors.²²⁵ Higher wages in growing sectors such as age, health and and disability care would add to the budgetary pressures of an ageing population. However these costs could be offset by the substantial additional fiscal dividend arising from prioritising higher-wage, higher-skilled workers for permanent skilled visas (Figure 4.3 on page 34).

224. Coorey (2021).

225. Past shifts in the employment, such as from agriculture to manufacturing, and more recently from manufacturing to services, were driven by changes in relative wages offered between sectors. Even within care work, relative higher wages in the disability sector seem to attract workers from the aged care sector: Community Affairs References Committee (2017).

7.8.3 Existing compliance mechanisms to prevent fraud and underpayment should be maintained

Existing administrative mechanisms should be retained to prevent fraud and underpay in a reworked system. Incomes would require verification via certifying an employment contract. Employers would still have to offer a wage above the relevant ‘annual market salary rate’, ensuring that sponsored workers would not be paid less than than an Australian worker doing the same work in the same location.²²⁶ These checks and balances already exist, and should be retained under our reformed approach employer sponsorship.

The Department of Home Affairs would need to be on the look-out for employers trying to game the system by inflating an income to gain a permanent skilled visa. Standard monitoring and compliance activity within the Department is inadequate.²²⁷ Where fraud is found, employers should be named and shamed, fined, and barred from sponsoring workers in future.

A skills assessment is an important check to ensure workers are able to perform jobs for which they claim to be qualified.

Currently, skills assessments are performed by certified third-parties. Some of these third-parties have a conflict of interest, particularly member-based organisations.

An alternative approach would be to have skills assessments performed within the bureaucracy. This would help policy makers to glean information about how people gain qualifications and experience for the purposes of migrating to Australia. Bringing skills assessments in-house would be a large and initially expensive undertaking, but the information gained would greatly assist the National Skills Commission

226. Department of Home Affairs (2021t).

227. Rizvi (2020).

to better understand the link between the labour market, skills, and qualifications.

7.8.4 Implications for temporary visas

Making employer-sponsorship available for workers in all occupations, provided they have a wage offer exceeding \$80,000 a year, would likely improve the quality of temporary migrants in Australia. Temporary migrants able to earn wages of at least \$80,000 a year would be assured a pathway to permanent residency. By attracting additional higher-wage temporary migrants to Australia, our proposed changes employer-sponsored visas may have additional benefits to the Australian community, especially via a larger fiscal dividend from temporary migration.

Our proposed changes would also prevent some temporary visa holders earning lower wages from obtaining permanent residency, including many temporary workers already in Australia. Although this problem already arises as occupations are taken off the various occupation lists, denying temporary workers, and international students training in those occupations, a pathway to permanent residency.

Policy makers should think carefully about the effects of having many people living in Australia for long periods on temporary visas.²²⁸ The lack of a pathway to permanent residency is already an emerging policy issue as those sponsored workers with a visa on the STSOL struggle to gain a permanent sponsored visa if they work in Sydney, Melbourne, or Brisbane.

Future Grattan Institute reports will consider temporary worker and student visas in greater detail.

7.9 The points-test should be independently reviewed

Australia's set of points-tested visas are working. In general, workers who gain a permanent skilled visa via a points-test are younger and earn more than incumbent Australians (Section 7.5).

Yet points-tested visas, like employer-sponsorship, are restricted to applicants with qualifications and experience in listed occupations. As Section 7.7 showed, occupation lists do not prioritise high-skill, high-wage workers. Consideration should be given to abolishing occupation lists for targeting point-tested visas.

The points-test also appears increasingly bloated with migrant characteristics that are not well-correlated with migrants' long-term success. The points allocated for other characteristics, such as migrants' age, are not well calibrated to the degree to which these characteristics determine migrants' long-term success in Australia. And separate state-nominated and regional points-tested visa streams produce poorer outcomes, in the skills and incomes of selected migrants, than the independent points-tested visa.

The Federal Government should therefore commission an independent review of the points-test. The points-test has not been reviewed since 2006.²²⁹ The new review should consider:

- How an education benchmark should replace occupation lists in the selection of points-tested visas, including any flow-on impacts to Australia's higher education sector.
- Whether the current set of migrant characteristics in the points-test is appropriate, especially points allocated for regional and domestic study, and for a 'professional year'.

228. Mares (2016).

229. See: Birrell et al (2006). Many facets of the points-test were not addressed by the Productivity Commission report in 2016: Productivity Commission (2016a).

- Whether points weightings for the remaining migrant characteristics prioritised in the points-test can be re-calibrated to better reflect the degree to which these characteristics determine migrants' long-term success in Australia.

7.9.1 Education should replace occupation lists in prioritising points-tested visas

Abolishing the occupation list for points-tested visas is more complicated than doing so for employer sponsorship. A wage threshold cannot be used in lieu of a list of eligible occupations. Further, the purpose of the skilled independent visa, and points-tests in general, is different to employer sponsorship. Points-test are designed to promote a long-term human capital approach to economic-based migration policy. As discussed in Chapter 3, human capital is important for future economic growth.

The points-test could use an education threshold to prioritise applicants, replacing the role of occupation lists. A bachelor degree threshold would ensure applicants possess a minimum level of human capital.²³⁰ Skills assessments could be used to certify whether education qualifications and related work experience are legitimate.

7.9.2 Younger workers should get more points

In general, younger migrants will make a larger contribution than older migrants to the Australian community.

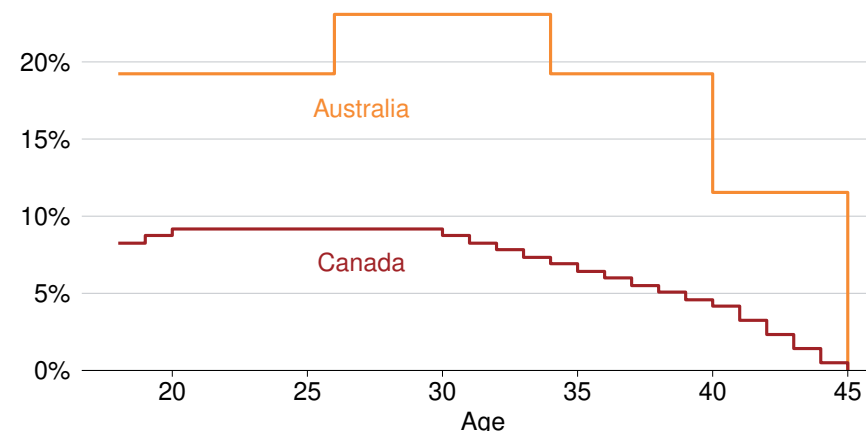
The points-test already weights age heavily compared to other selection factors, and points-tested migrants are significantly younger than those selected via other skilled-worker streams. Yet the distribution of points relating to age is poorly designed.

230. Workers with valuable vocational skills would still be able to secure permanent residency if sponsored by an employer and able to earn a wage of at least \$80,000 a year. See Section 7.8.

Currently, an applicant aged 25 gets only five points more than an applicant aged 39. The difference in future contributions from migrants of these two ages is substantial, all else being equal. For example, a 25-year-old migrant is likely to spend an extra 14 years, or roughly one-third longer, in the workforce than a 39-year-old migrant. While a 25-year-old earning \$60,000 a year is expected to pay more than \$500,000 in personal income tax alone over their lifetime, a 39-year-old earning the same amount is expected to contribute just \$190,000.²³¹

In Canada, points available for age drop away quickly as people become older (Figure 7.13). Australia should consider this aspect of Canada's approach, to better reflect the lesser lifetime contribution of older migrants.

Figure 7.13: Australia should adopt Canada's points allocation for age
Proportion of total available points allocated to age



Sources: Department of Home Affairs (2021p) and Government of Canada (2021d).

231. These differences are driven by the additional years in the workforce and the lifetime income curves for 25 and 39-year-olds with incomes of \$60,000. See Appendix B.

7.9.3 Skilled spouses should get more points

The spouse and children of applicants granted skilled worker visas also gain permanent residency. Secondary applicants account for about 40 per cent of all permanent skilled worker visas issued each year.²³²

Since the adult partners of primary applicants account for a significant share of total visa allocations, it's important that the points-test assesses their skills and qualifications.²³³

Secondary applicants tend to be much younger than primary applicants, since many secondary applicants arrive in Australia as young children (Figure 7.14). Secondary applicants aged 19 and older tend to have weaker English language skills than primary applicants (Figure 7.15). Adult secondary applicants have significantly more education on average than incumbents. But fewer secondary applicants than primary applicants have Bachelor or postgraduate qualifications, and more have only high-school level qualifications (Figure 7.16).

Secondary applicants have lower rates of workforce participation than primary applicants, in part because more secondary applicants are women who are outside the labour market because they are caring for children (Figure 5.9). In the long term, the workforce participation and incomes of secondary applicants who are caregivers today is likely to be higher, and reflect their skills and qualifications (Figure 7.17 and Figure 7.18), albeit lower than that for primary applicants.²³⁴

The points-test currently allocates 10 points for a skilled spouse who can speak English. A single person also gains these 10 points, so as not to disadvantage single applicants. Therefore the points-test

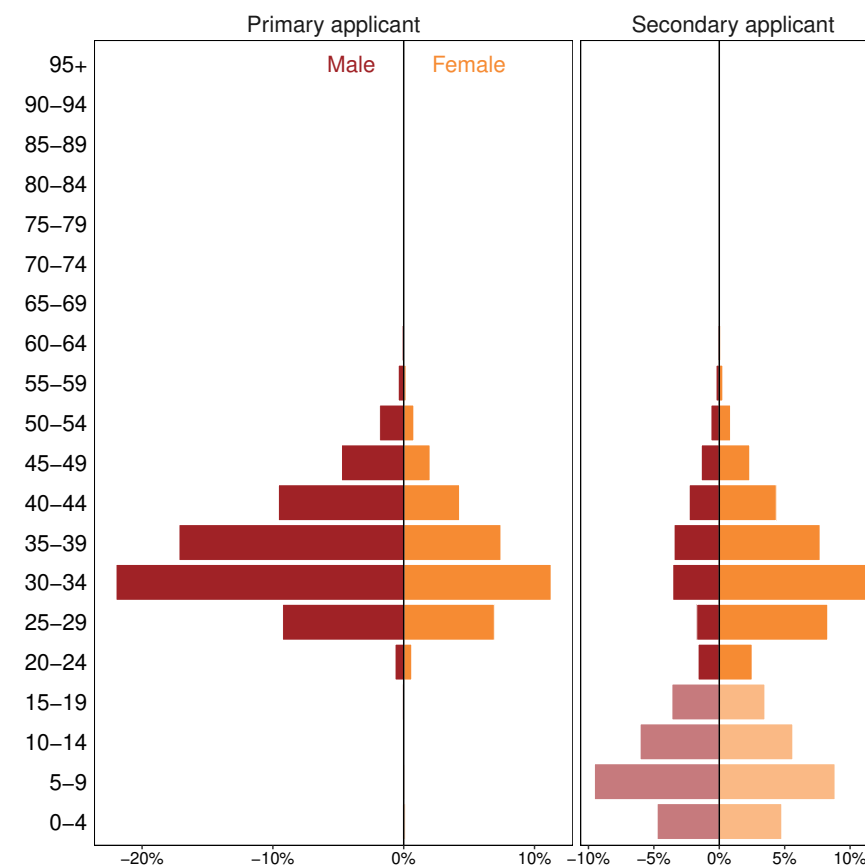
232. Department of Home Affairs (2020b).

233. In contrast, children of migrants can broadly be expected to offer similar, or sometimes slightly better, lifetime benefits to the Australian community than the children of incumbents: Deutscher (2020).

234. Australian women with children currently earn about \$2 million less over their lifetime on average than Australian men with children.

Figure 7.14: Secondary applicants are mainly female partners and children

Share of primary and secondary skilled migrants, by age and gender

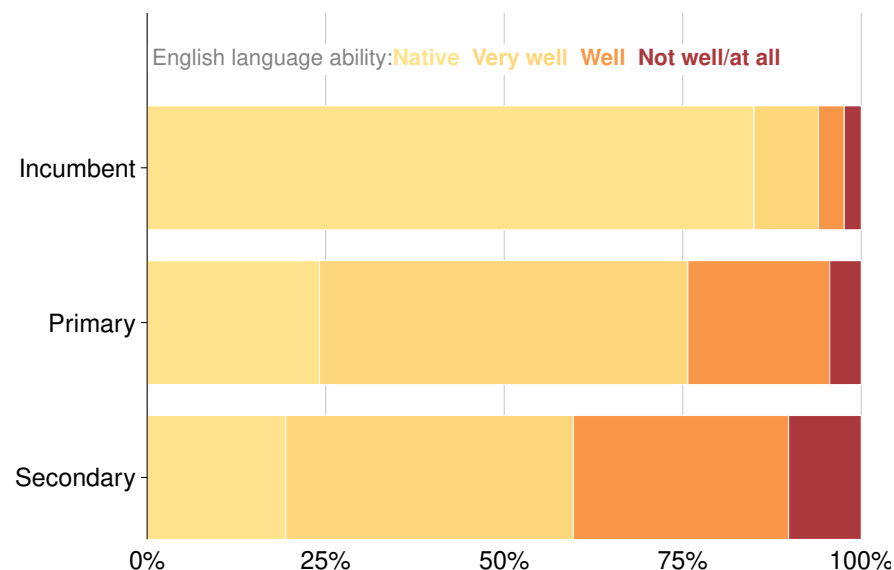


Notes: Residents in Australia in 2016 who arrived between 2012 and 2016 and were granted a permanent visa. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

Source: Grattan analysis of ABS (2016a) and ABS (2016b).

Figure 7.15: Secondary applicants have strong English language abilities, but not as strong as primary applicants

Proportion of incumbents, and primary and secondary skilled migrants, by English language ability

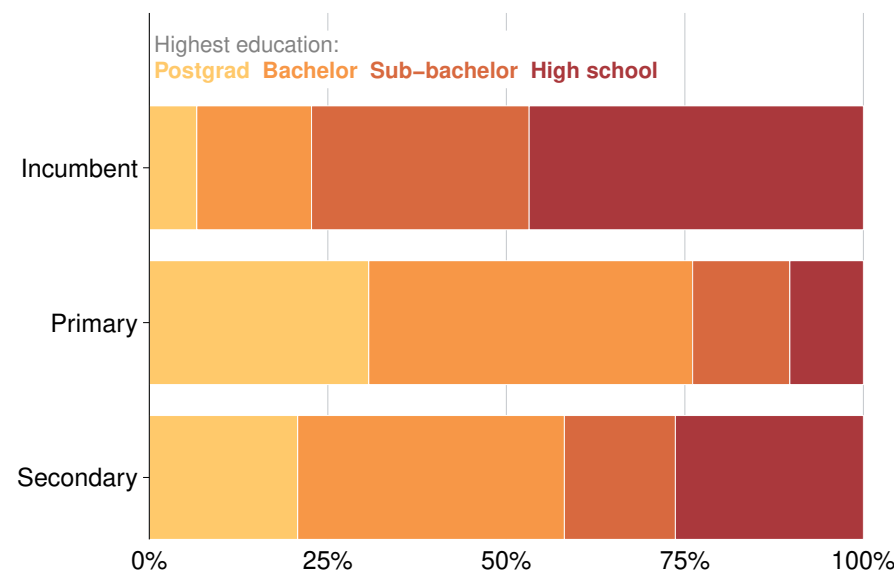


Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

Source: Grattan analysis of ABS (2016a) and ABS (2016b).

Figure 7.16: Secondary applicants have significantly more education than incumbents

Proportion of incumbents, and primary and secondary skilled migrants, by highest education

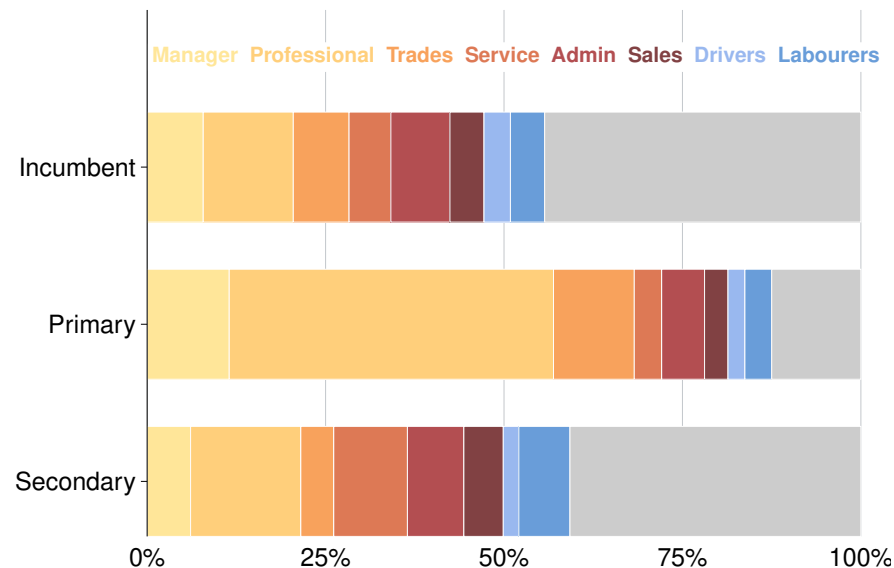


Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

Source: Grattan analysis of ABS (2016a) and ABS (2016b).

Figure 7.17: Secondary applicants have labour-market characteristics similar to incumbents

Proportion of incumbents, and primary and secondary skilled applicants, by occupation

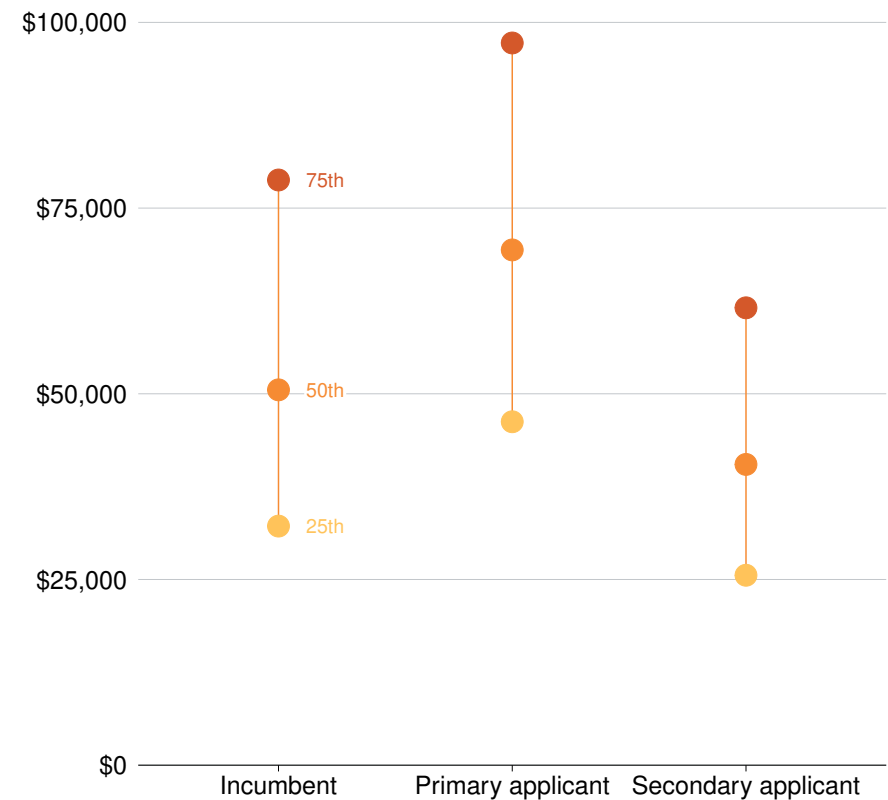


Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

Source: Grattan analysis of ABS (2016a) and ABS (2016b).

Figure 7.18: Working secondary applicants have lower incomes than working incumbents and primary applicants

Income percentiles of full- and part-time workers



Source: Grattan analysis of ABS (2016a) and ABS (2016b).

effectively penalises applicants with a spouse who cannot speak English well.

The number of points allocated to the skills and experience of spouses should be increased. This would shift the allocation of permanent skilled worker visas to include more partners with better skills and more English-language proficiency, qualifications, and job experience. High-skilled primary applicants with comparatively unskilled partners would be discouraged from applying to Australia, and would be less likely to be granted a permanent position if they did so.²³⁵

7.9.4 Regional study should not attract points

The five points available for studying at a regional university should be removed from the points-test. Assigning points to regional study is an implicit subsidy to regional universities. It makes them more attractive to overseas students who plan to apply for permanent residency to study in regional Australian universities rather than in major cities.

In SkillSelect, about 79,100 people have submitted expressions of interest for a skilled independent visa. About 10 per cent of those people claim five points for regional study. Yet 25 per cent of people who submit an expression of interest and then go on to lodge a visa application claim regional study points. It is clear that regional study has a material effect on the likelihood of being selected for a skilled independent visa.²³⁶

7.9.5 The ‘professional year’ should be abolished

The concept of a ‘professional year’ and its inclusion in the points-test has created a cottage industry. The ‘professional year’, introduced

in 2008,²³⁷ is a program to give overseas students ‘vocationally specific training designed to help applicants meet the requirements of Australian employers’.²³⁸

The professional year has been created exclusively for overseas students, who pay up to \$15,000 to take a course and gain five points. The vast majority of people who do a professional year do so to gain permanent residency.²³⁹ Yet there is little evidence to suggest a professional year generates gains for the Australian community via improved labour market outcomes for prospective migrants.

The professional year is riddled with vested interests. Fees for doing a professional year range from \$8,500 to \$15,000. The Australian Computer Society (ACS) is paid a royalty of \$3,600 per ICT student enrolled in the professional year. Engineers Australia retains \$6,000 of the \$15,000 fee per student.²⁴⁰

The internship component is particularly problematic. The most common tasks performed by accounting interns was data entry (80 per cent of employed respondents) and account reconciliation (75 per cent of employed respondents), as opposed to higher-value analytical tasks.²⁴¹ One recent study concluded the internship component for the accounting professional year had ‘no rigorous assessment criterion’

237. This was a response to a recommendation in an independent evaluation conducted by Bob Birrell, Lesleyanne Hawthorn, and Sue Richardson: Birrell et al (2006).

238. Ibid.

239. Jones (2018).

240. As at February 2021, there were 3,200 Software and Application Programmers, 1,810 ICT Business and Systems Analysts, 1,500 Computer Network Professionals, and 1,410 Database and Systems Administrators in SkillSelect who claimed the professional year for their expression of interest for a skilled independent visa. If the royalty fee remains, ACS earned \$28.5 million in fees, just for the people who are currently in SkillSelect. See Jones (ibid).

241. Ibid.

235. Productivity Commission (2016a, p. 455).

236. Grattan analysis of February 2021 data from Department of Home Affairs (2021s).

to determine whether internships increase skill capabilities.²⁴² One Registered Training Organisation (RTO) says sourcing and delivering internships is ‘a massive industry in its own right’ and that each internship can cost between \$800 and \$2,000 to place, with some RTOs relying on the recruitment industry.²⁴³

The professional year should be abolished.

7.9.6 Remove the specialist education qualification

The specialist education qualification confers 10 additional points for visa applicants who have a postgraduate qualification in eligible STEM courses. Less than 2 per cent of submitted expression of interests for the skilled independent visa claim these points. As at February 2021, there were 130 skilled independent visas lodged claiming a specialist education qualification.

But it is not clear that Australia suffers from a lack of postgraduate science skills. Employment directly related to science expertise is unlikely to increase substantially in the near future. And scientific and research skills are not a major on-going need for innovating businesses.²⁴⁴ Applicants with strong science backgrounds would probably be able to secure employer-sponsorship above the wage thresholds proposed earlier in this chapter.

7.9.7 De-linking the points-test from Australian higher education

Studying at an Australian higher education institution is worth five points in the points-test. Almost 70 per cent of people who have lodged an application for a skilled independent visa as at February 2021 claim Australian study points.²⁴⁵

242. Ibid.

243. Ibid.

244. Norton and Cakitaki (2016, p. 89).

245. Department of Employment, Skills, and Education (2021).

These points create an explicit link between Australian permanent visa policy and Australian higher education, providing an explicit subsidy for Australian universities. Yet there is little publicly available information about the size of this subsidy, or its cost in terms of poorer migration outcomes.

Obtaining a qualification implies living in Australia for an extended period. The education is delivered in English, improving migrants’ English skills, and students may develop a local network of similarly qualified people which may help them secure employment after graduating. But many Australian universities do not rank among the world’s best, so allocating points for domestic study may disadvantage more highly-qualified applicants who studied at better-regarded universities abroad.²⁴⁶

Yet promoting study at an Australian university may have benefits for the Australian community. Encouraging prospective migrants to choose Australian universities with the prospect of permanent residency likely sees more prospective students choose to study in Australia, promoting a key export industry. The course fees paid by international students help cross-subsidise research at Australian universities.²⁴⁷ Beyond whatever value is generated from that research, this research subsidy may also reduce demands for further public funding of university research.

The Federal Government should consider whether points for domestic study should be retained as part of the independent review of the

246. For example, Australian universities accounted for 6 of the top 100 places in the *Times Higher Education World University Rankings* for 2021. The University of Melbourne was the top-ranked Australian university in 31st place: *The Times Higher Education World University Rankings* (2021).

247. For example, see: Norton (2020).

points-test. The review should also examine the effects of immigration policy on Australian higher education more generally.²⁴⁸

7.9.8 State-nominated and regional visa categories

Migrants selected under the state-nominated and regional visa categories are less skilled and earn lower incomes than migrants selected under the employer-sponsored and skilled independent visa categories (Section 7.5). Yet recent years have seen a shift away from skilled independent visas and towards state-nominated and regional visas (Figure 7.1).

These visas tend to benefit smaller states, which use the visas to increase their population. From 2017-18 to 2019-20, South Australia (15 per cent), Tasmania (9 per cent), the ACT (6 per cent), and the Northern Territory (4 per cent) each gained far more visas than their share of the labour market.²⁴⁹ In contrast, Queensland and Western Australia accounted for a cumulative 15 per cent share of all regional and state nominated visas.²⁵⁰

The vast majority of workers selected via these categories are selected under the points-test. Therefore, a review of the points-test should include consideration of how these two visa categories function. The occupation lists used for these visas are much more expansive than those used for employer-sponsorship and the skilled independent visa (Figure 7.2 on page 68).

While state-nominated visas use the points-test, states are free to select who they wish. Ranked ordering is non-binding, and instead selection depends most on securing a state nomination, subject to

passing the 65-point threshold. The same applies for the regional points-tested visa.

Shifting away from state-nominated and regional visas would probably shift the composition of the permanent skilled intake further towards higher-skilled migrants who would earn higher incomes and therefore generate greater benefits for the Australian community. However, abolishing these streams would probably result in fewer migrants moving to regional areas, because permanent visa-holders would be free to choose to live in major cities where they are likely to be more productive and earn higher incomes (Section 3.6 on page 29).

If the Federal Government reduced these visa categories, state governments could instead sponsor permanent skilled workers directly via an expanded employer-sponsored stream. In the early 2000s, state governments were among the largest sponsors of temporary skilled workers, particularly nurses and other healthcare professionals.

248. See Simons (2019) and Szego (2019) for constructive discussions on the intersection of visa policy and Australian higher education.

249. Department of Home Affairs (2020b).

250. Ibid.

Appendix A: Arranging Australia's residents into incumbents, and permanent and temporary residents

Analysis in this report sorts people in Australia into three broad resident groups: incumbents, permanent residents, and temporary residents.²⁵¹

Incumbents are residents either born in Australia, or who arrived in Australia before the year 2000. Our primary data source for incumbents was the 2016 Australian Census, which we accessed via TableBuilder.²⁵²

Temporary residents are all people on a temporary visa as at the 2016 Census, excluding overseas visitors. Our primary data source for temporary residents was the 2016 Australian Census and Temporary Entrants Integrated Dataset (ACTEID).²⁵³

Permanent residents are those who arrived in Australia since 2000 and held a permanent visa at some point during that period. Permanent residents are sorted into five major groups: skilled, investor (Table A.5), talent (Table A.6), family (Table A.7), and humanitarian (Table A.8). Both family and humanitarian groups were out-of-scope for this report, but shown in Figure 2.2 on page 8.

Within the 'skilled' major group of permanent residents, we explored four sub-groups: employer-sponsored (Table A.1), points (Table A.2), state (Table A.3), and regional nominations (Table A.4). We defined these groups to allow for analysis of residents in Australia brought in under visa programs with similar goals.

The main source of data for the analysis in this report was the Australian Census and Migrants Integrated Dataset (ACMID), which we accessed via TableBuilder.²⁵⁴

We define visa groups on TableBuilder. We categorise all of the precise visa subclasses for permanent residents observed in ACMID into a Grattan visa group. The precise groupings of visa subclasses into Grattan's visa groups are shown in the tables that follow.

Table A.1: Visa subclasses for the Employer sub-group

Visa subclass	Residents in 2016
Employer Nomination (856)	151,847
Skilled – Employer Nomination (186)	106,198
Employer Nomination Scheme (121)	18,077
Labour Agreement (855)	8,166
Labour Agreement (120)	6,679
Senior Executive (841)	78
Senior Executive (161)	0

Source: Grattan analysis of ABS (2016b).

251. Residents are those who have been, or expect to be, in Australia for 12 months over a 16-month period. Overseas visitors are excluded from this definition, and from our analysis. See ABS (2021d).

252. ABS (2016a).

253. ABS (2016c).

254. ABS (2016b).

Table A.2: Visa subclasses for the Points sub-group

Visa subclass	Residents in 2016
Skilled – Independent (136)	176,550
Skilled – Independent (189)	103,227
Skilled – Independent (175)	76,331
Skilled – Independent Overseas Student (880)	71,399
Skilled – Independent (885)	63,692
Skilled – Australian Sponsored (138)	32,733
Skilled – Other Family or Government Sponsored (993)	31,395
Independent Entrant (126)	15,250
Skill Matching (134)	2,729
Skilled (805)	356

Source: Grattan analysis of ABS (2016b).

Table A.4: Visa subclasses for the Regional sub-group

Visa subclass	Residents in 2016
Regional Sponsored Migration Scheme (857)	56,470
Skilled – Regional Employer Nomination (187)	40,404
Skilled – Regional (887)	38,046
Skilled – Designated Area Sponsored (139)	30,513
Regional Sponsored Migration Scheme (119)	22,179
Skilled – Regional Sponsored (Provisional) (489)	12,586
Skilled – Designated Area Sponsored – Overseas Student (882)	4,168
Skilled – Regional Sponsored (487)	1,260
Skilled – Regional Sponsored (475)	920
Skilled – Designated Area Sponsored (Provisional) (496)	817
Regional Family Sub-Class – Regional Linked (106)	171
Skilled – Independent Regional (Provisional) (495)	55

Source: Grattan analysis of ABS (*ibid*).

Table A.3: Visa subclasses for the State sub-group

Visa subclass	Residents in 2016
Skilled – Nominated (Permanent) (190)	56,399
State/Territory Sponsored Business Owner (892)	15,151
Skilled – State/Territory Nominated Independent (137)	13,763
State/Territory Sponsored Business Owner (163)	12,454
State/Territory Sponsored Investor (165)	1,140
State/Territory Sponsored Senior Executive (164)	878
State/Territory Sponsored (846)	226
State/Territory Sponsored (Business Skills – Senior Executive) (130)	116
State/Territory Nominated Independent (135)	56
State/Territory Sponsored Executive (843)	6

Source: Grattan analysis of ABS (*ibid*).

Table A.5: Visa subclasses for the Investor major group

Visa subclass	Residents in 2016
Business Innovation & Investment (Provisional) (188)	7,439
Business Owner – Business Skills (127)	7,150
Established Business in Australia (845)	5,492
Migrants – Investment Linked (131)	2,786
Business Owner (890)	2,020
State/Territory Sponsored Investor (Residence) (893)	1,801
Business Talent (132)	1,198
Business Skills (Senior Executive) (128)	1,171
State/Territory Sponsored (Business Owner – Business Skills) (129)	314
Business Owner (840)	189
Business Innovation & Investment (Residence) (888)	152
Business Owner (160)	144
Investor (Residence) (891)	86
Investment – Linked (844)	84
State/Territory Sponsored Business Owner (842)	31
Investor (162)	5
Business – General (123)	0

Source: Grattan analysis of ABS (2016b).

Table A.6: Visa subclasses for the Talent major group

Visa subclass	Residents in 2016
Distinguished Talent (858)	1,159
Distinguished Talent (Australian Support) (124)	757
Distinguished Talent and Special Service (Independent) (125)	39

Source: Grattan analysis of ABS (*ibid*).

Table A.7: Visa subclasses for the Family major group

Visa subclass	Residents in 2016
Spouse (100)	253,330
Spouse (After Entry) (801)	205,218
Contributory Parent (143)	49,961
Spouse (Extended Eligibility) (820)	44,002
Spouse (Provisional) (309)	43,110
Child (101)	22,807
Parent (103)	10,280
Remaining Relative (115)	8,140
Prospective Marriage (300)	5,838
Carer (116)	5,792
Child for Adoption (102)	4,835
Child (After Entry) (802)	4,491
Orphan Relative (117)	3,788
Contributory Aged Parent (Residence) (864)	3,637
Aged Parent (After Entry) (804)	2,973
Preferential Family (104)	2,387
Interdependency (Permanent) (814)	2,283
Remaining Relative (835)	1,869
Contributory Parent (Temporary) (173)	1,646
Carer (836)	1,347
Designated Parent (118)	1,346
Interdependency (110)	1,232
Dependent Child (445)	1,124
Aged Dependent Relative (838)	576
Aged Dependent Relative (114)	533
Close Ties (832)	279
Confirmatory (Residence) (808)	197
Orphan Relative (837)	157
December 1989 (Permanent) (812)	107
Interdependency (826)	104
Interdependency (Provisional) (310)	82
Compassionate Grounds (Family & Other Close Ties) (806)	71
Designated Parent (859)	49
Prospective Marriage Spouse (831)	14

Source: Grattan analysis of ABS (*ibid*).

Table A.8: Visa subclasses for the Humanitarian major group

Visa subclass	Residents in 2016
Refugee (200)	79,622
Global Special Humanitarian (202)	70,405
Humanitarian – Other Special Humanitarian (994)	45,910
Woman at Risk (204)	12,880
In-Country Special Humanitarian (201)	2,002
Resolution of Status (Permanent) (851)	1,999
Citizens of Former Yugoslavia (Displaced Persons) (209)	613
1 November PRC (815)	581
Sudanese (Special Assistance) (212)	244
Burmese in Thailand (Special Assistance) (213)	106
Sri Lankan (Special Assistance) (215)	82
Emergency Rescue (203)	82
Ahmadi SAC (216)	78
Minorities of Former USSR (Special Assistance) (210)	23
Burmese in Burma (211)	4
Refugee (After Entry) (803)	0
Camp Clearance (205)	0
East Timorese in Portugal (208)	0
Cambodian SAC (214)	0
Vietnamese SAC (217)	0
PRC Citizen (Permanent) (809)	0

Source: Grattan analysis of ABS (2016b).

Appendix B: Generating lifetime tax estimates

This report estimates the lifetime personal income tax paid by permanent skilled migration cohorts of consistent size but varying composition.

We construct a model to ‘simulate’ plausible future cohorts of permanent skilled migrant groups based on planning levels under a number of scenarios.²⁵⁵

We then explore the characteristics of these modelled cohorts relative to each other, focusing on differences in age and estimated lifetime income and personal income tax paid.

The analysis is conducted using the Continuous Survey of Australia’s Migrants (CSAM) dataset provided to Grattan Institute in April 2021 by the Department of Home Affairs.²⁵⁶

The CSAM, also called the survey of recent migrants to Australia, measures the labour market outcomes of family and skilled migrants who have recently arrived in Australia or been granted a permanent or provisional visa since 2009. The CSAM is conducted by the Social Research Centre at the Australian National University. Conducted every 12 months, it comprises of three surveys capturing information at the 6-month, 18-month, and 30-month stages of settlement, with the 30-month survey first included in 2019.²⁵⁷

255. This analysis has been updated for recent adjustments to planning levels for 2020-21 announced by Department of Home Affairs officials in Senate Estimates on 24 May 2021: Hansard (2021).

256. Department of Home Affairs (2021u).

257. The 30-month wave is not yet available for any cohort.

B.1 Data used in our analysis

B.1.1 The CSAM dataset

The key CSAM variables we use in our analysis are shown in Table B.1, along with their official documentation.

Table B.1: Key CSAM variables used in Grattan’s analysis

Variable	Variable label
Second wave response	Whether respondent participated in Wave 2 – Primary Applicant
Wave 1 weight	Weighting for Wave 1 (State by Visa category, Gender by Occupation, Birthplace by Occupation, Age)
Visa subclass	Visa Subclass – Primary Applicant
Visa group	Grattan defined (see Appendix B.1.2 below)
Sex	Sex – Primary Applicant
Age	Age at arrival in years – Primary Applicant
Wave 1 labour force status	Labour Force Status at Wave 1 – Primary Applicant
Wave 2 labour force status	Labour Force Status at Wave 2 – Primary Applicant
Wave 1 earnings	Gross annual earnings from all jobs at Wave 1 – Primary Applicant; inflated to 2020 dollars
Wave 2 earnings	Gross annual earnings from all jobs at Wave 2 – Primary Applicant; inflated to 2020 dollars

Source: CSAM – Content Guide and Data Dictionary, May 2019.

B.1.2 Grattan-defined variables

We used six Grattan-defined visa groups in our analysis:

- Employer
- Points
- State
- Regional
- Investor
- Talent

A further two categories, Family and Humanitarian, are defined but not used in our analysis. The correspondence of these visa groups to visa subclasses are provided in Appendix A.

B.1.3 Accounting for inflation

Dollar figures are inflated from the survey year to quarter 4 of 2020 using the ABS-reported consumer price index (CPI).

B.1.4 Imputing partners' ages

CSAM contains information on primary applicants and, where applicable, their partners. Many primary applicants have partners, but not all partners are surveyed.

As a key variable for this analysis is age, and to reduce any bias from groups not surveyed, we impute the age variable for non-surveyed partners. The imputation is a simple linear model predicting the

partner's age based on the primary applicant's age and visa group:

$$\begin{aligned} A_2 = & \beta_0 + \beta_1 Age_1 + \beta_2 Age_1^2 + \beta_3 Visa \\ & + \beta_4 (Age_1 \times Visa) \\ & + \beta_5 (Age_1^2 \times Visa) \\ & + \varepsilon \end{aligned}$$

Weighted least squares (WLS) is used with the primary applicant's first wave weighting variable. The results are shown in Table B.2. The model has an acceptable fit, with an R^2 of 0.63. The imputed age is then used for each partner with a missing age value.

Table B.2: Model to impute partner's age

Primary applicant variable	Coefficient
(Intercept)	17.979***
Age	0.277**
Age squared	0.007***
Visa: <i>Employer</i>	(baseline)
Visa: Points	1.051
Visa: State	12.343***
Visa: Regional	2.464
Visa: Investor	10.827
Visa: Talent	-8.027
Age × Visa: Points	-0.159
Age × Visa: State	-0.832***
Age × Visa: Regional	-0.138
Age × Visa: Investor	-0.162
Age × Visa: Talent	0.431
Visa: Points × Age squared	0.003*
Visa: State × Age squared	0.012***
Visa: Regional × Age squared	0.002
Visa: Investor × Age squared	0.000
Visa: Talent × Age squared	-0.005
Observations	10,375
R ² Adj.	0.633

*: $p < 0.1$; **: $p < 0.05$; ***: $p < 0.01$

B.2 Defining the cohorts

We generated four cohorts of consistent size for analysis:

1. The Recent cohort: the first cohort based on the 2020-21 planning level, but maintaining a recent historical level of investor visas (4,400), with the rest distributed proportionally among employer-sponsored, points, state, and regional visa groups.
2. The Planned cohort: the 2020-21 skilled permanent migrant intake planning levels announced by Department of Home Affairs officials in Senate Estimates on 24 May 2021.²⁵⁸
3. The first constructed alternative is the No-investor cohort: a hypothetical skilled permanent migrant intake based on the planned cohort, but with the 11,000 investor stream places distributed proportionally among employer-sponsored, points, state, and regional visa groups.
4. The second constructed alternative is the No-investor80 cohort: investor visas redistributed as in the No-investor cohort, but with an \$80,000 wage floor for primary applicants on employer-sponsored visas.

The recent historical visa skilled permanent visa allocations are shown in Table B.3. Note that these figures include secondary applicants, and represent the total intake size of each visa group.

This analysis uses a fixed-size total skilled intake, based on the 2020-21 planning levels of 79,400. All cohorts include 11,000 spots dedicated to Global Talent visas, as per the 2020-21 planning levels. But, because there is not enough historical information to usefully simulate a Global Talent cohort, this group is not simulated and is ignored in this analysis.

²⁵⁸. Hansard (2021).

Table B.3: Permanent skilled migrant intake shares

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Employer	21.1%	24.0%	28.1%	28.0%	30.8%	26.4%	30.2%	30.6%	29.6%
Points	34.4%	35.0%	34.5%	34.3%	34.4%	35.3%	31.3%	13.6%	9.4%
State	16.8%	19.2%	20.4%	19.2%	19.3%	24.7%	23.1%	22.5%	16.6%
Regional	22.2%	16.9%	11.9%	12.8%	9.6%	7.0%	8.8%	24.4%	16.6%
Investor	5.4%	4.8%	5.1%	5.7%	5.9%	6.5%	6.6%	4.6%	13.9%
Talent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.3%	14.6%

Notes: Financial year ending. Planning figures for 2020-21 were updated by the Department of Home Affairs in May, 2021: Hansard (2021). Original visa grant figures have been adapted to mirror the Government's new categorisation, introduced in 2019-20. Sources: Grattan analysis of Department of Home Affairs (2020b); Department of Home Affairs (2021c); and Hansard (2021).

The visa group composition of the four cohorts used in our analysis is shown in Table B.4.

B.3 Drawing samples for each of the cohorts

We 'simulated' each of the four cohorts by drawing random samples with replacement from the 2013-2017 pool of migrants.²⁵⁹ Sampling was done using the wave 1 weighting variable.

For each visa group, we draw N primary and secondary applicants from the CSAM data, where N is shown in Table B.4.

Where the No-investor80 cohort restricts employer-sponsored visa holders to a minimum wage of \$80,000, the sampling dataset contains just employer-sponsored primary applicants earning \$80,000 or more.

²⁵⁹. The second wave data for the 2018 cohort has not yet been released, and so that cohort is excluded from our analysis.

Our simulation makes the following assumptions:

- Future migrants will have similar employment outcomes as past migrants from the same visa group. The regional cohort between 2013 and 2017 contained many mining-related positions, and is likely to over-state the labour-market outcomes of future regional visa-holders likely to be selected via the points test.
- We expect the same distribution of outcomes regardless of the size of the visa pool. This means that the first person drawn from, say, the points visa pool has the same expected labour market outcomes as the last drawn. In reality, we would expect that increasing the size of a visa pool would decrease the average labour market outcomes of the group, if only slightly.
- There are no child secondary applicants.

We then estimate the lifetime income and lifetime tax paid, as well as the age distribution, for each cohort.

B.4 Estimating lifetime income and personal income tax

We use a migrant's age, sex, and income – an average of their first and second wave incomes – to estimate their working-life income. We assume they retire at age 67.²⁶⁰ Based on observed incomes in the CSAM for migrants of a given age, we construct a lifetime earnings profile.

We obtain lifetime employment earnings profiles for each five-year age bracket and income percentile from ATO taxation statistics.²⁶¹ We

260. See: Coates and Nolan (2020).

261. This methodology is described in full in Daley et al (2018b, Section C.4.2). More recent updates to the model are provided in Coates and Nolan (2020, p. 31). We conducted additional analysis to create separate lifetime earnings profiles for men and women based on the ATO 2 per cent sample file for 2015-16.

Table B.4: Permanent skilled migrant cohorts used in Grattan's analysis

Visa group	Recent	Planned	No-investor	No-investor80
Employer	26,207	23,500	28,012	28,012
Points	8,363	7,500	8,940	8,940
Regional	14,665	13,150	15,674	15,674
State	14,665	13,150	15,674	15,674
Investor	4,400	11,000	0	0

Note: Figures include primary and secondary applicants.

assume a person will earn at roughly the same gender-age percentile for their working life. For example, we assume a 39-year-old woman earning at the 80th percentile for 39-year-old women will earn at the 80th percentile for women for the remainder of her working life.²⁶²

For each year of income over a person's life, we calculate an estimate of personal income tax, using the present rates for the Residence Tax Rate and the Medicare Levy.²⁶³ The model is run over a lifetime for a cohort at some arbitrary point in the future, so we ignore short-term offsets, such as the low-income tax offset.²⁶⁴

In practice, this approach will underestimate the overall net discounted lifetime fiscal impacts of changes in the composition of each annual permanent skilled migrant intake. For instance, personal income tax receipts collected by the federal government account for only about 40 per cent of total tax revenues collected by all levels of government in

262. Income in a given year tends to be a good predictor of incomes over a lifetime Daley et al (2018b).

263. The Medicare Levy threshold can depend on household income as well as individual income: Wood et al (2020, p. 70). But this complexity is ignored in our model.

264. The Medicare Levy Surcharge is also ignored.

Australia.²⁶⁵ Shifting the composition of the permanent skilled migrant intake towards younger, higher-skilled migrants will also reduce the discounted lifetime fiscal costs of migrants.²⁶⁶

We discount the net present value of lifetime incomes and taxes using a real social discount rate of 3 per cent per year.²⁶⁷ We assume real wage growth to be 1 per cent per year.²⁶⁸

We then run the lifetime income and tax modelling on each person in each cohort. The results are summarised in Table B.5 on the following page. Estimated lifetime tax paid by each cohort relative to the Recent cohort is shown in the final column. These are the key figures used in this report.

Table B.6 on page 102 separates the lifetime income and tax estimates by visa group using the preferred 3 per cent social discount rate.

265. For instance, the federal government collected \$214 billion in personal income tax in 2019-20, compared to \$552 billion in total tax revenues across all levels of government in the same year. See: ABS (2021e, Table 2) and Commonwealth Government (2020, Table 7).

266. Older migrants are likely to draw on publicly-funded benefits and services sooner after arriving in Australia than younger migrants, increasing the discounted net present value of those costs over their lifetimes.

267. This is consistent with Productivity Commission modelling of the fiscal impacts of migration. See Productivity Commission (2016b, p. 13).

268. See Daley et al (2018b, p. 112).

Table B.5: Lifetime income and tax by cohort

Real social discount rate	Cohort	Size	Average lifetime income	Average lifetime tax	Total lifetime income	Total lifetime tax	Total tax relative to 'Recent' cohort
1%	Recent	79,400	\$2,229,852	\$488,877	\$177,043,544,965	\$38,815,352,947	–
1%	Planned	79,400	\$2,095,153	\$453,351	\$166,346,750,492	\$35,994,259,083	-\$2,821,093,864
1%	No-investor	79,400	\$2,339,769	\$518,160	\$185,765,973,408	\$41,139,324,985	\$2,323,972,038
1%	No-investor ⁸⁰	79,400	\$2,748,360	\$668,829	\$218,206,047,435	\$53,101,693,050	\$14,286,340,103
3%	Recent	79,400	\$1,657,954	\$367,516	\$131,636,604,406	\$29,179,659,289	–
3%	Planned	79,400	\$1,561,815	\$341,372	\$124,001,825,432	\$27,103,568,869	-\$2,076,090,420
3%	No-investor	79,400	\$1,734,992	\$388,631	\$137,749,703,856	\$30,855,385,584	\$1,675,726,295
3%	No-investor ⁸⁰	79,400	\$2,049,331	\$503,851	\$162,706,633,348	\$40,003,279,056	\$10,823,619,767
5%	Recent	79,400	\$1,286,801	\$287,628	\$102,168,165,196	\$22,836,790,772	–
5%	Planned	79,400	\$1,215,027	\$267,580	\$96,468,297,143	\$21,244,778,595	-\$1,592,012,176
5%	No-investor	79,400	\$1,343,379	\$303,537	\$106,657,593,880	\$24,099,294,422	\$1,262,503,650
5%	No-investor ⁸⁰	79,400	\$1,593,799	\$394,944	\$126,539,633,100	\$31,356,562,523	\$8,519,771,751

Notes: A real social discount rate of 3%, shown in **bold**, is our preferred measure and used throughout the report. Size indicates the number of primary and secondary migrants in each cohort. 'Average' statistics refer to the average of each migrant in a cohort. 'Total' is the sum of lifetime income or tax for all migrants in a cohort. Real wage growth is assumed to be 1 per cent annually for all groups. All migrants are assumed to work from the year they arrive until they retire at age 67. Planning levels without investor visas proportionally distribute the 11,000 BIIP visas among the employer-sponsored, points, state, and regional visa groups.

Source: Grattan Institute analysis.

Table B.6: Lifetime income and tax by visa group and cohort with a 3% real social discount rate

Cohort	Visa group	Average years worked	Average annual income	Average lifetime income	Average lifetime tax
Recent	Employer	32.4	\$66,179	\$2,147,390	\$535,219
Recent	Points	37.3	\$50,917	\$1,897,558	\$424,523
Recent	State	35.1	\$45,113	\$1,583,002	\$330,596
Recent	Regional	34.9	\$43,028	\$1,502,749	\$296,761
Recent	Investor	22.0	\$30,722	\$675,592	\$111,206
Planned	Employer	32.5	\$66,181	\$2,153,205	\$536,344
Planned	Points	37.3	\$50,802	\$1,896,341	\$423,966
Planned	State	35.2	\$44,762	\$1,574,944	\$326,828
Planned	Regional	35.1	\$42,855	\$1,506,327	\$296,905
Planned	Investor	22.0	\$30,458	\$670,851	\$110,383
No-investor	Employer	32.5	\$66,444	\$2,157,865	\$538,779
No-investor	Points	37.3	\$51,389	\$1,917,397	\$432,096
No-investor	State	35.1	\$45,772	\$1,607,140	\$337,821
No-investor	Regional	35.0	\$43,130	\$1,508,489	\$298,412
No-investor80	Employer	30.6	\$100,074	\$3,057,826	\$868,399
No-investor80	Points	37.4	\$51,487	\$1,925,303	\$434,249
No-investor80	State	35.2	\$45,245	\$1,594,083	\$333,812
No-investor80	Regional	35.1	\$42,718	\$1,497,307	\$294,900

Notes: Sampling methods, described in Appendix B.3, result in slightly different average income and personal tax statistics generated from visa groups in different cohorts. Such differences are small. 'Average' statistics refer to the average of each migrant in a cohort and visa group. A real social discount rate of 3 per cent is used, and the relative results are largely insensitive to a change in discount rates (see Table B.5 on the preceding page). All migrants are assumed to work from the year they arrive until they retire at age 67.

Source: Grattan Institute analysis.

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