



# **Fixing temporary skilled migration: a better deal for Australia**

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## **The current TSS visa gives us the worst of both worlds**

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- Sponsored workers earn less on average than they did two decades ago
- Too many temporary workers are exploited; concerns over cheap labour
- Temporary migration is very unpopular: the status quo is politically untenable

## **Temporary skilled migration should target high-wage jobs, not shortages**

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- Targeting high-wage workers, not shortages, offers a big payoff:
  - Most *genuine* shortages are likely to occur in high-wage jobs
  - High wage workers offer big payoffs: fiscal; innovation; transition to PR
  - Employer sponsorship for low-wage jobs is fraught

## **Open temporary sponsorship to all higher-wage jobs**

- A wage threshold of \$70,000 should replace occupation lists
- Workers should be able to move jobs more easily once in Australia
- Strengthen compliance on employers: spot checks and data matching

## **Make temporary sponsorship easier for firms**

- Making sponsorship cheaper & more certain will increase benefits to Australians
- Introduce a monthly fee to replace upfront costs
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## The worst of both worlds

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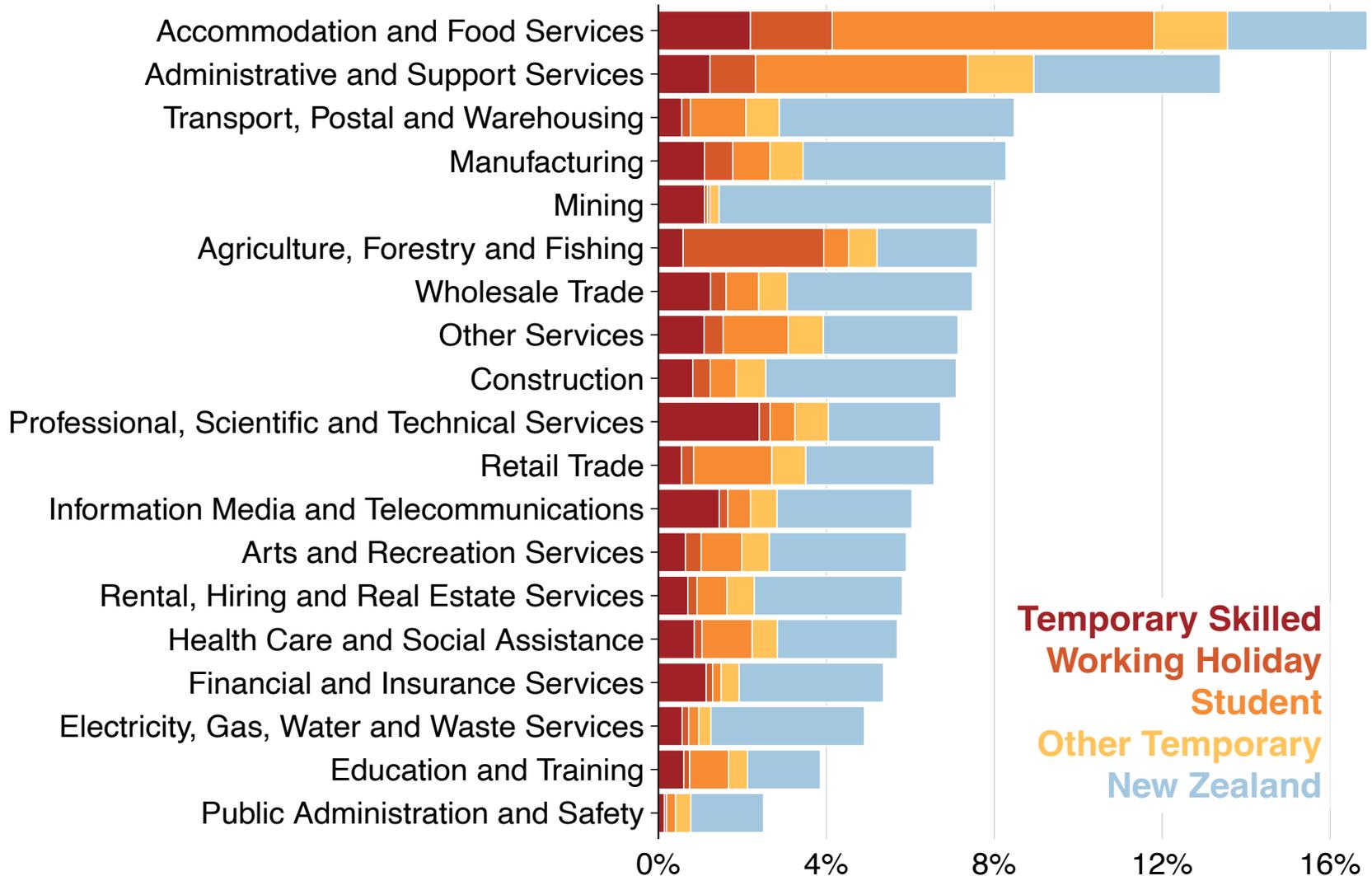
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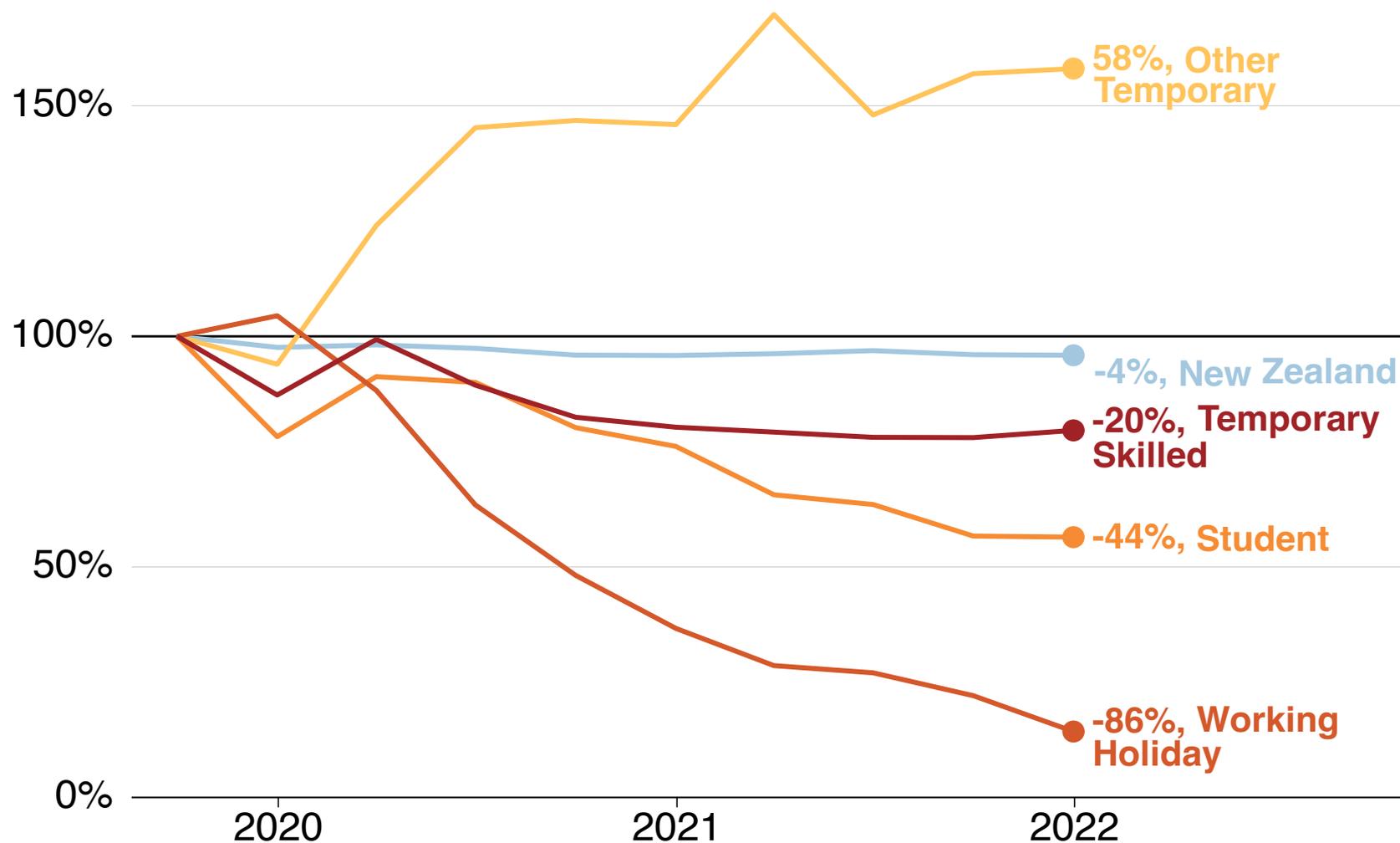
# Temporary skilled visa-holders are a small, but important, share of all temporary migration

## Temporary workers, share of industry, 2016



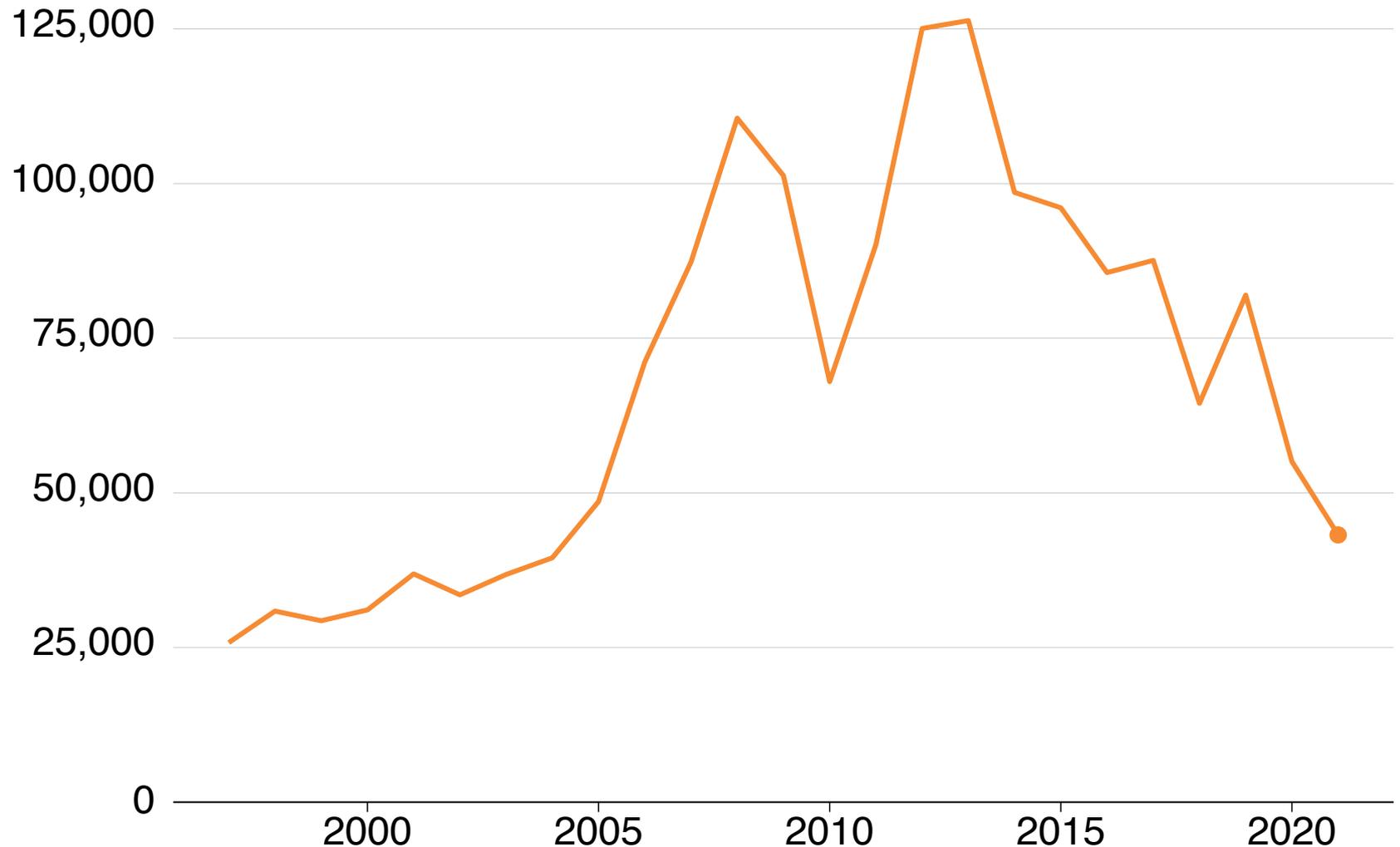
# Our report is about temporary skilled migration in the long term. What about current (low-skilled) shortages?

Change in temporary visa-holders in Australia since 2019Q3



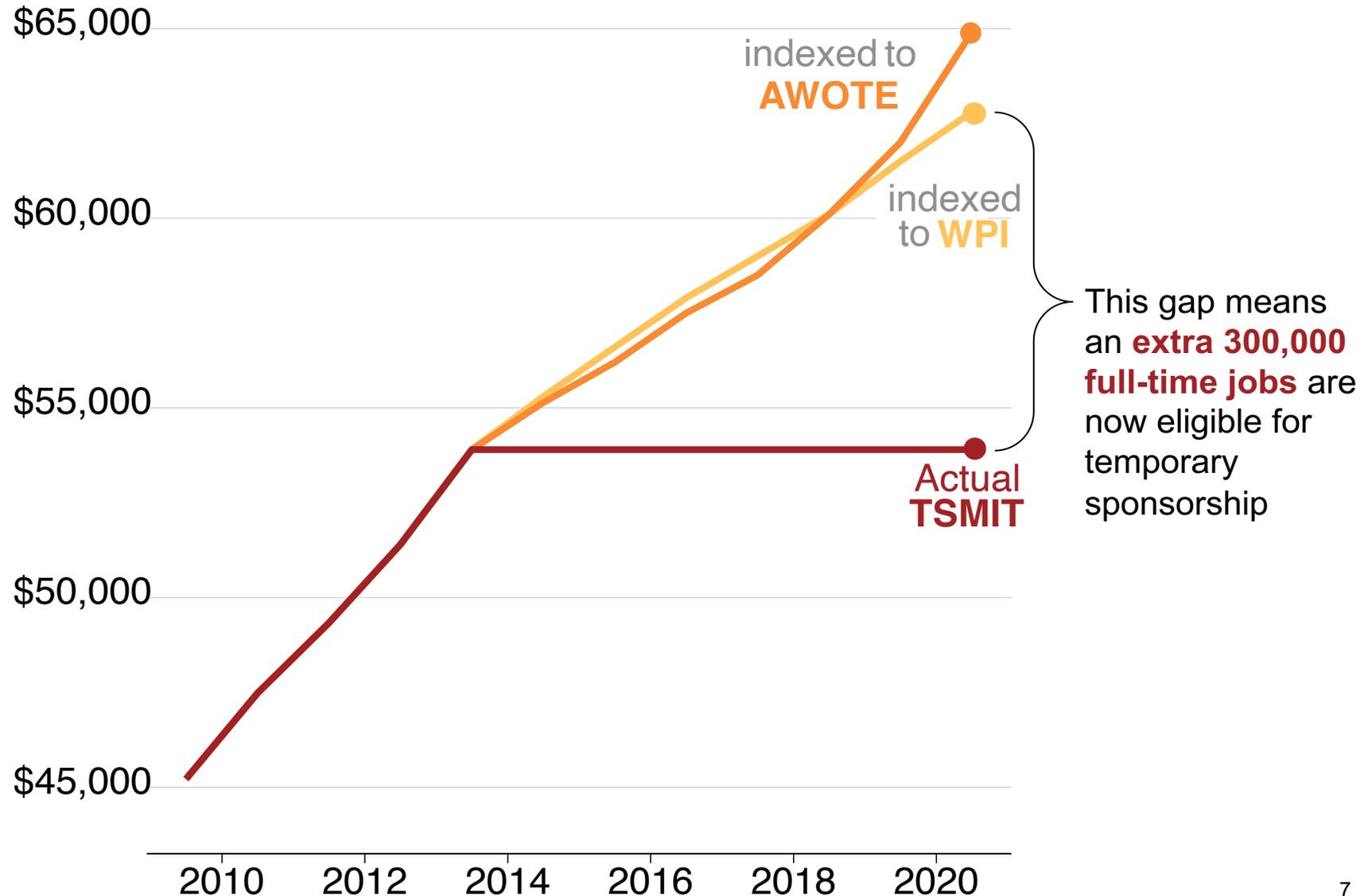
## Temporary skilled work visas grew over time before declining in recent years

Number of temporary skilled migrant visas granted annually



## The TSMIT has not been revised since 2013

### Temporary Skilled Migration Income Threshold (TSMIT)



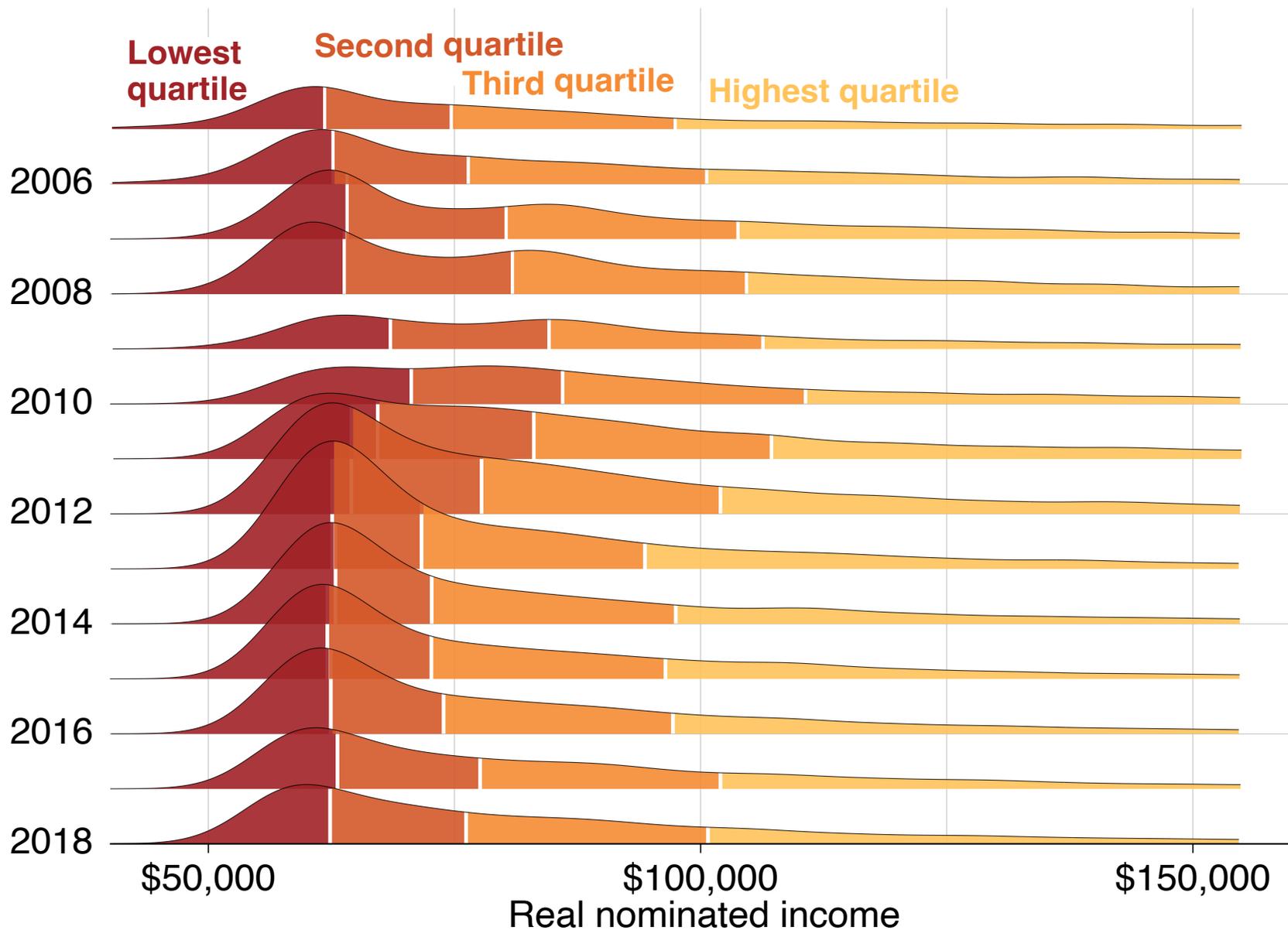
## Temporary sponsorship has become more restrictive in recent years

Temporary skilled visa rules	Full-time jobs in Australia open to temporary skilled sponsorship	Share of full-time jobs
457 visa (2001-2017)	4,700,000	52 per cent
<b>TSS visa (2017-current)</b>	<b>4,000,000</b>	<b>44 per cent</b>
TSS visa today if TSMIT was set at \$65,000	3,700,000	41 per cent

The Turnbull Government's (2017) changes to temporary skilled migration also:

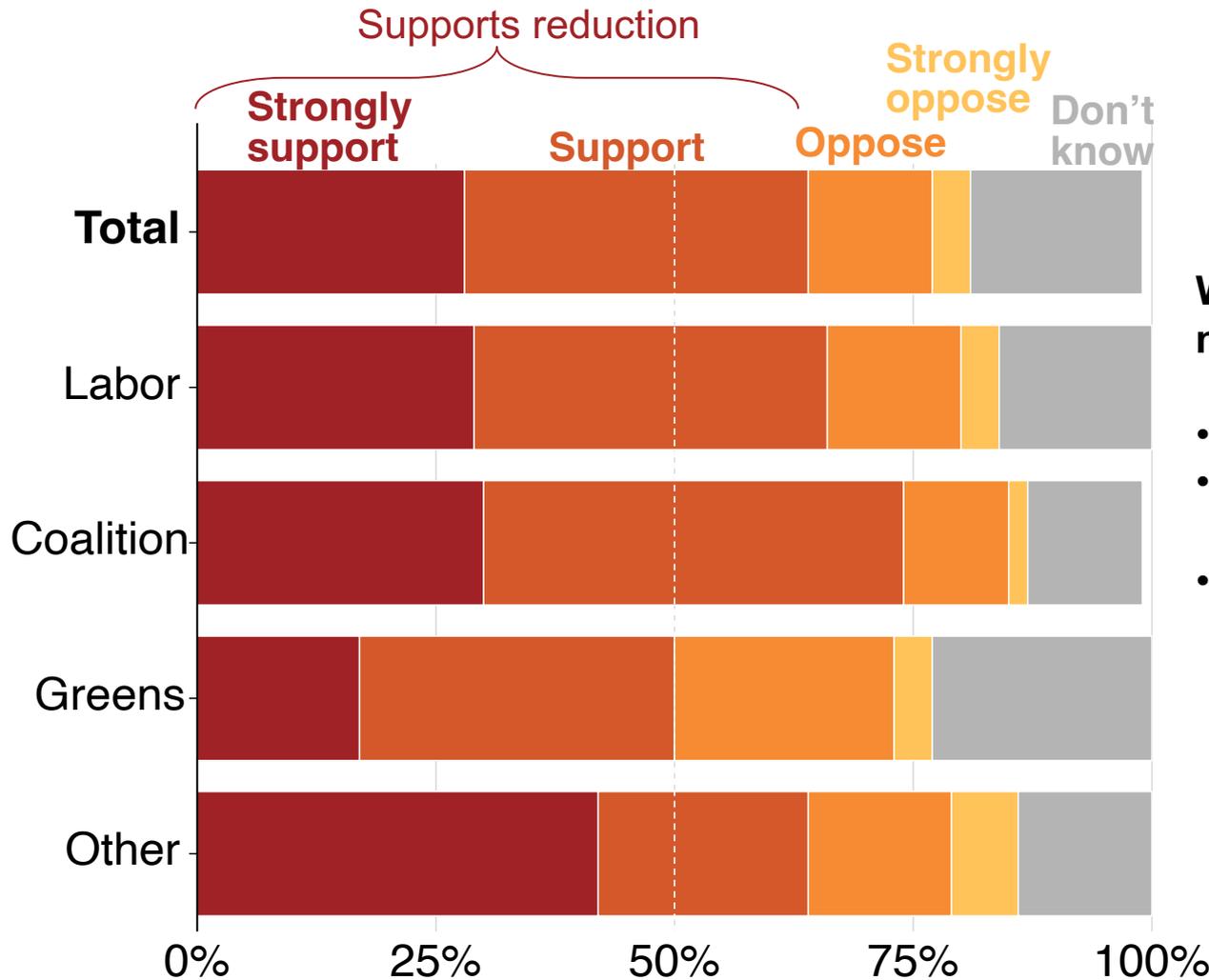
- Restricted some occupations to a single 2-year, non-renewable visa
- Expanded labour market testing
- Limited pathways to permanent residency for some sponsored workers

# The real nominated incomes for Temporary Skill Shortage visa holders have fallen in recent years



# Despite the small program size, temporary skilled migration is very unpopular

Support or oppose government legislation to **reduce** the number of overseas workers on short-term 457 visas



## Why is temporary skilled migration so unpopular?

- It's temporary
- Concerns that used for low-skilled / cheap labour
- Stories of exploitation

## Opposition to temporary skilled migration is exacerbated by concerns over “cheap labour” and exploitation

To what extent do you agree or disagree with the following statements about temporary work visas in Australia? (October 2021)

Share who agree	Total	Labor	Coalition	Greens	Other
Temporary work visas should be used to cover genuine skills shortages, not to provide cheap labour	72%	74%	77%	74%	64%
Everyone who works in Australia should be entitled to the same pay and working conditions regardless of their visa status	67%	71%	70%	75%	55%
Temporary work visas are essential for businesses to fill skills shortages	59%	63%	66%	63%	46%
Temporary work visas have been used to drive down wages and working conditions in Australia	47%	53%	44%	51%	46%

## Target high-wage jobs, not shortages

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# Migration appears to have little aggregate impact on wages, but the distribution of impacts matters a lot

## Theory

### Little aggregate impact on wages and employment

- Migrants add to both the demand and supply of labour
- Capital stock adjusts quickly

### Concentrated migrant inflows can have big distributional effects

- **Winners:** higher wages for workers with complimentary skills
- **Losers:** lower wages for some with similar skills

## Empirical evidence from Australia:

- **Breunig et al (2016):** ‘almost no evidence that immigration has harmed, over the decade since 2001, the aggregate labour market outcomes of...incumbents.’
- **D’Souza (2019):** updates analysis and draws similar conclusions.
- **Crown et al (2020):**
  - Matches 1 million **temporary work visas** from 2005-2015 with HILDA.
  - Incumbent wages rose in sub-markets where temporary migration was strong.
  - Biggest gains for low-wage workers.
  - Incumbents shift to tasks requiring greater communication abilities.

## Targeting skills shortages via occupation lists may be politically appealing but unworkable in practice

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### **Skills shortages are hard to define and even more difficult to measure**

- “Can’t get workers at prevailing wage” over-predicts “shortages”
- Serious data limitations: lack timely, detailed on wages in occupations

### **Occupation lists are cumbersome and vulnerable to lobbying**

- Many occupations have been on the lists for decades: how many are genuinely in shortage? How can we tell?
- Tasks within an occupation differ substantially (e.g. accountant)

### **Targeting skills shortages opens the door to low-wage work**

- If any occupation is eligible, both high- and low-wage jobs are eligible
- Growing concentration of low-wage workers: concerns of “cheap labour”

### **Low-wage work increases the risk of exploitation and mistreatment**

- Low-wage workers less able to bargain for themselves (fewer outside options)
- Hurts migrants, local workers and good-faith employers

### **Low-wage work is inappropriate for employer-sponsorship**

- Risks public confidence in the program via “cheap labour” and exploitation
- Can still access less skilled migrants via “non-economic” programs: family, humanitarian and (secondary) permanent skilled visa-holders

# Impossible to objectively identify “skills shortages”: instead, stakeholders dominate

It is **not possible to objectively identify skills shortages**.

No timely data at ANSZCO 6-digit occupation level on:

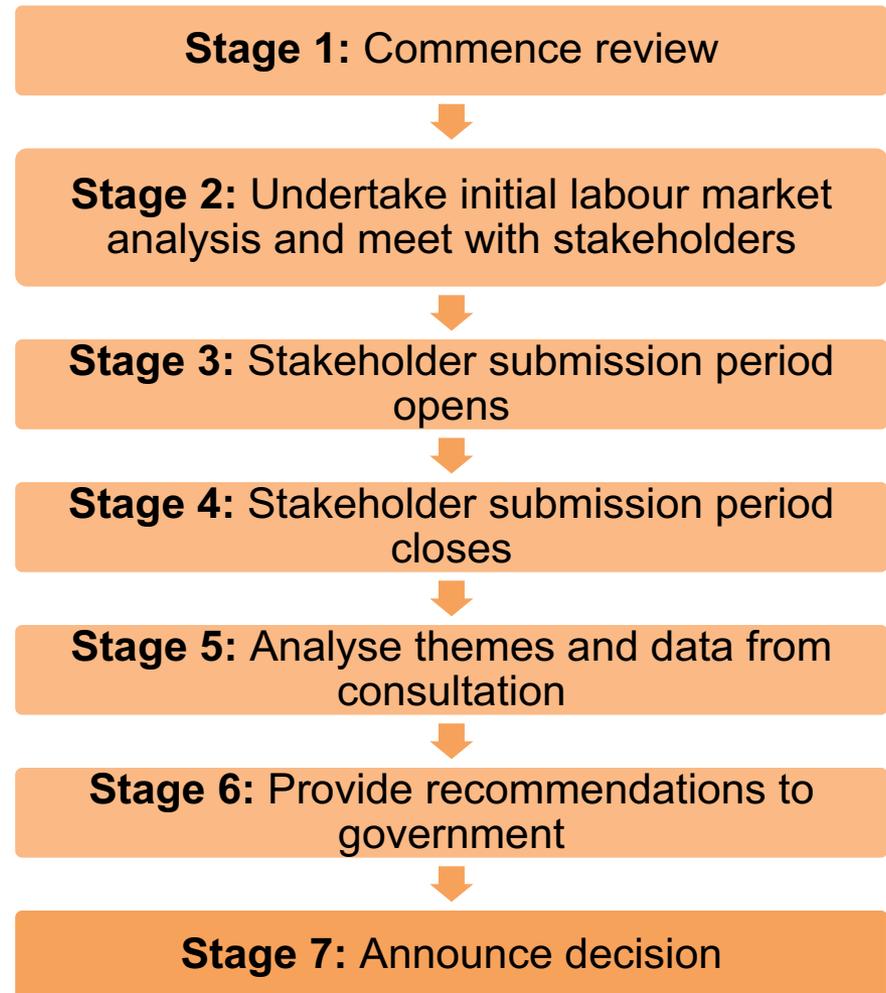
- Wages
- Employment growth (?)
- Vacancies

Instead lists appear to be driven by stakeholder lobbying.

*“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.”*

- Productivity Commission (2020)

## Overview of the process for reviewing the Skilled Migration Occupation Lists:



# Targeting high-wage workers for temporary migration has a host of benefits beyond addressing skills shortages

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## **More likely to address actual skill shortages**

- Most genuine skills shortages will be in high-wage jobs: takes longer to teach / train new workers for more-skilled jobs

## **More likely to generate new ideas and adaption of knowledge**

- Most innovation correlates with education and experience (i.e. wages)

## **More likely to generate strong fiscal outcomes**

- Higher earners pay higher taxes, can't access welfare / healthcare
- \$800m / yr annual boost to budget if program same size w \$70k wage threshold

## **Higher wages for lower-skilled Australians**

- High-wage migrants tend to boost the wages of lower-skilled Australians

## **More likely to unlock long-term gains via permanent residency**

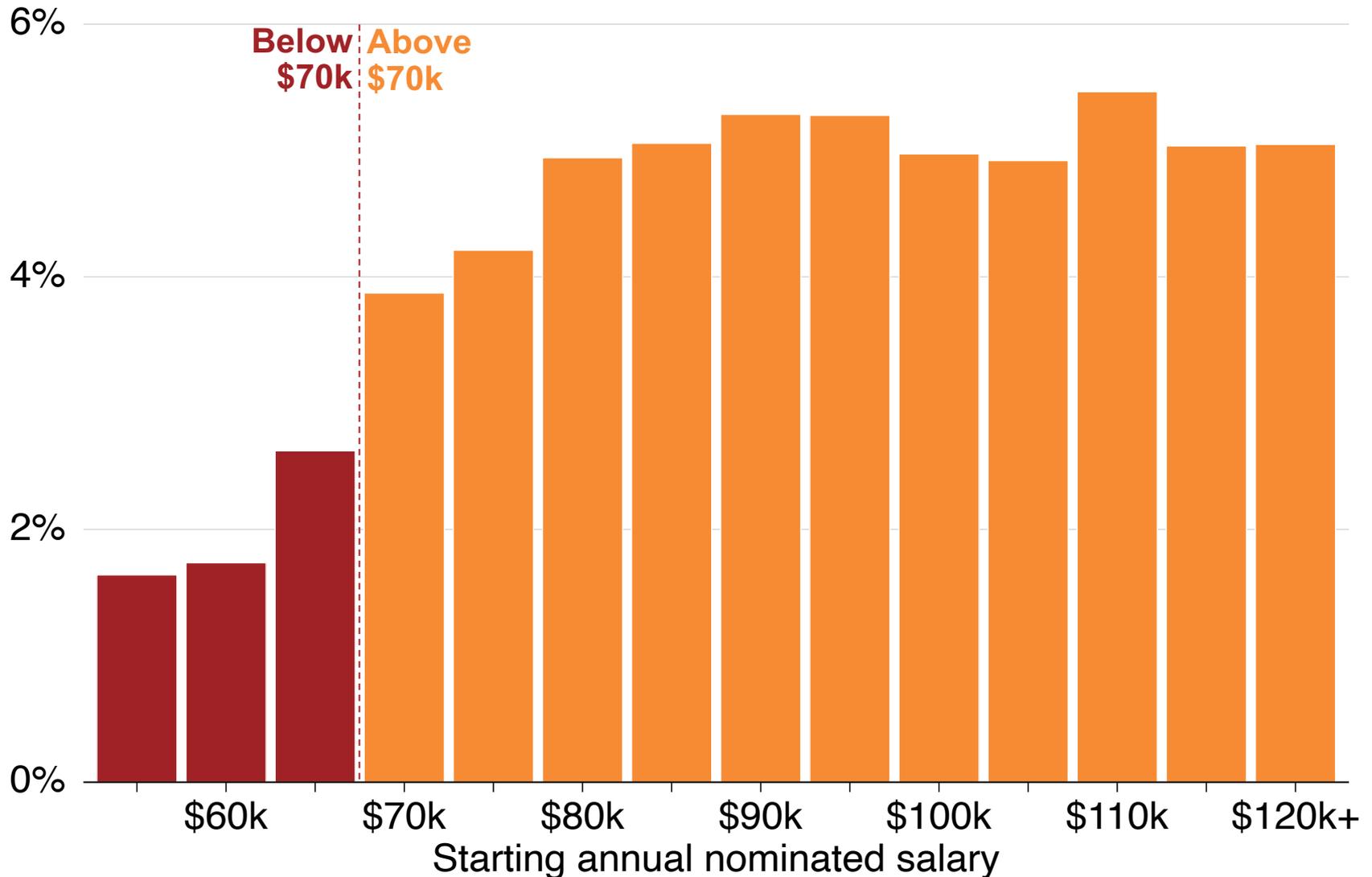
- Big long-term payoffs from attracting skilled migrants in occupations currently exempt from sponsorship under the TSS visa

## **Less exploitation of temporary skilled migrants**

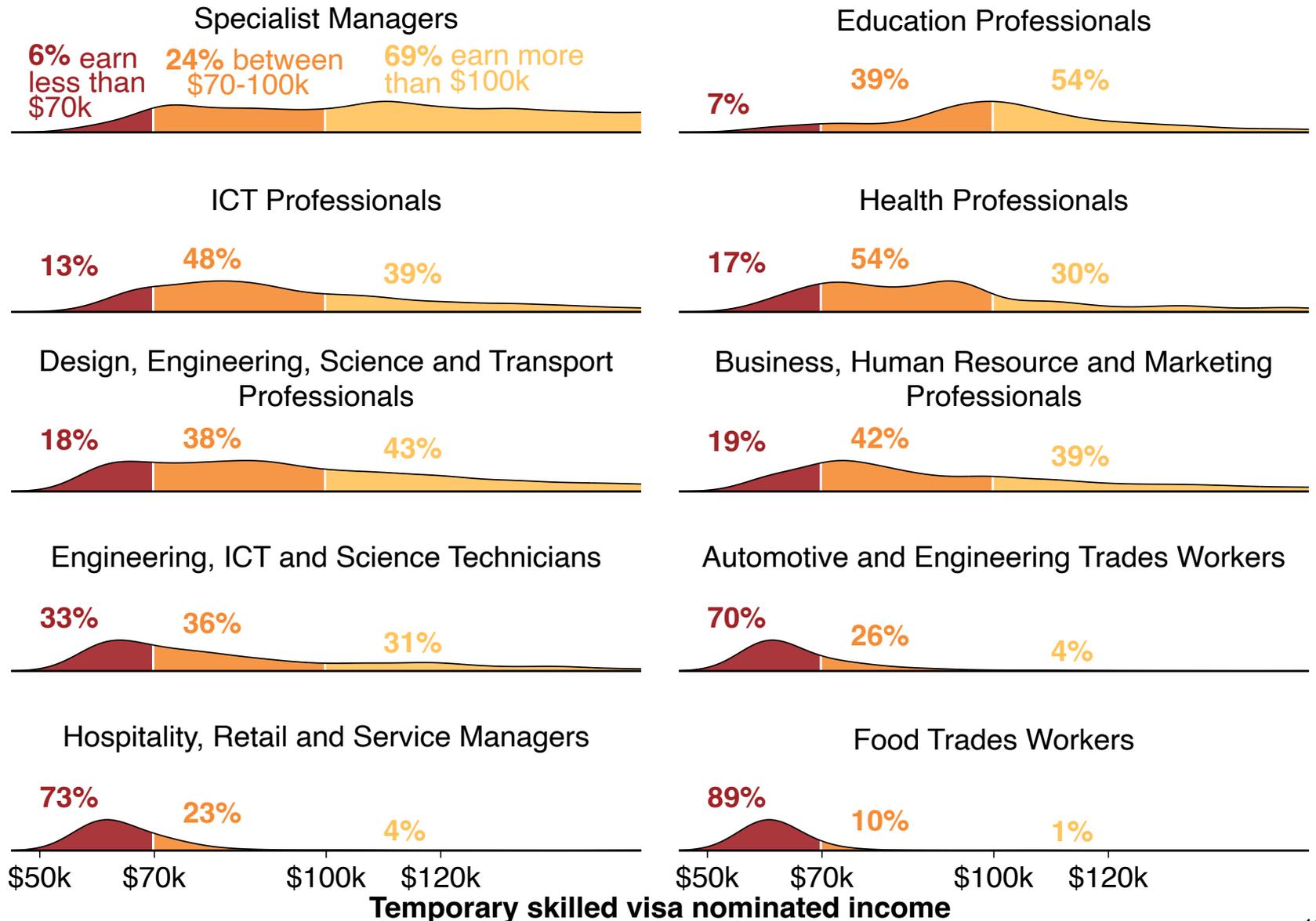
- Higher-wage (i.e. more-skilled) workers have more bargaining power, are better able to protect themselves from exploitation

# Temporary skilled migrants with higher starting salaries see strong wage growth, those on lower-salaries don't

Average annual wage increase during temporary skilled visa



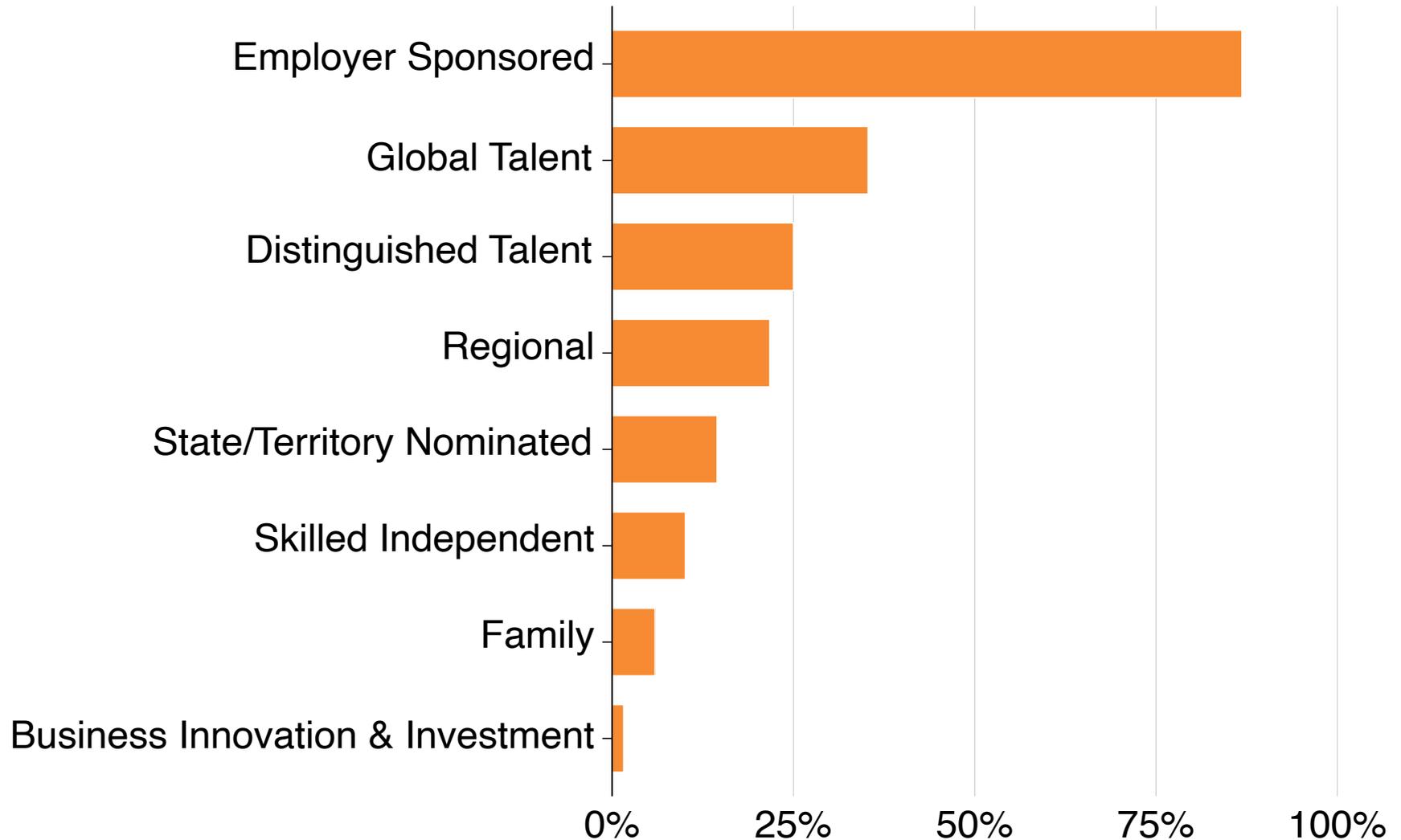
# Occupations are a poor way to target high wage jobs: nominated incomes vary dramatically *within* occupations



Source: Grattan analysis of ABS MADIP (2021).

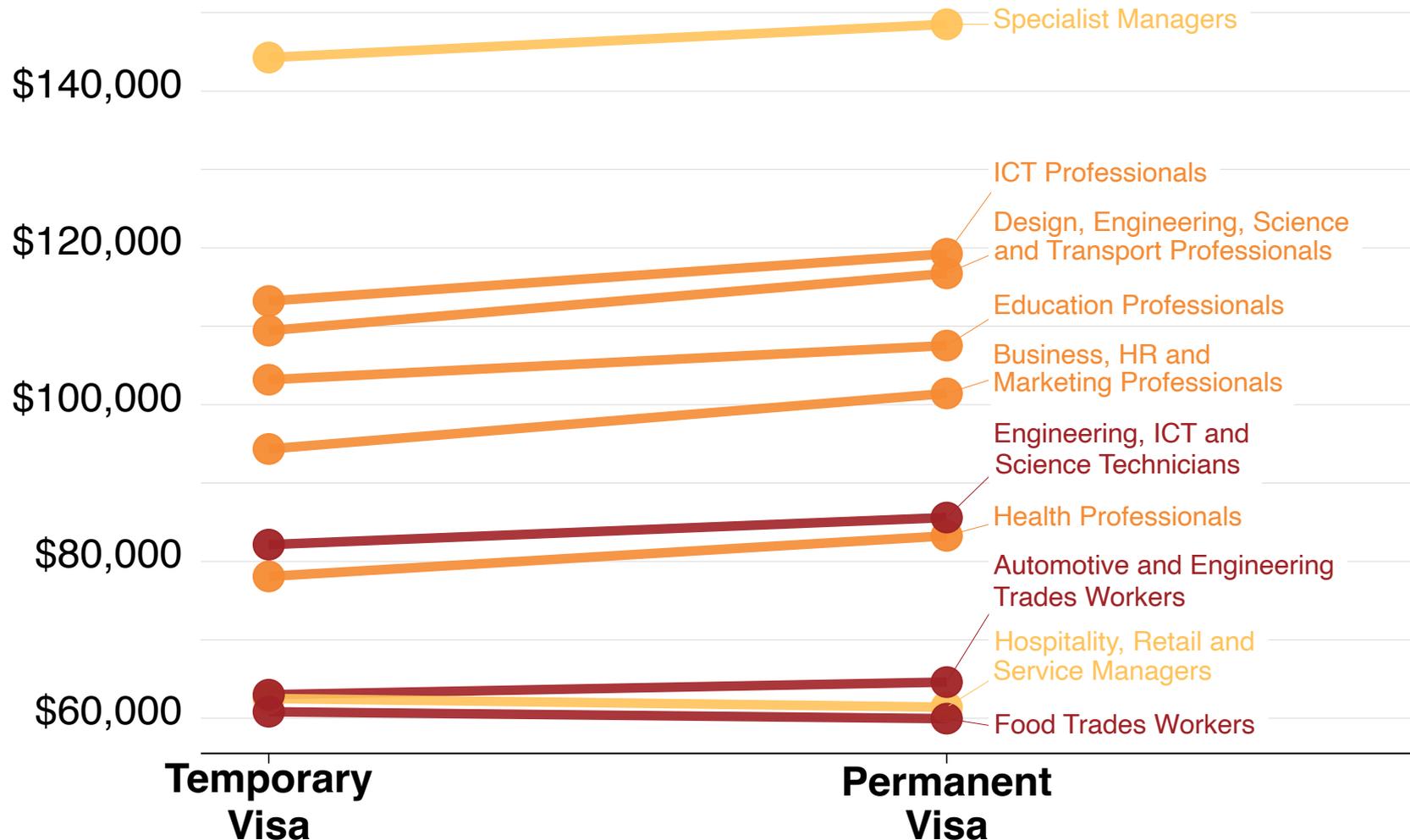
# TSS visa holders account for 77 per cent of the employer-sponsored permanent migrant intake each year

Share of permanent visas granted in 2019-20 who previously held a TSS visa



# High-wage TSS visas lead to even higher-wage permanent visas

Median nominated income between TSS visa and permanent employer-sponsored visa



Notes: Occupations are the ANZSCO submajor code of a person's first TSS visa. Dollars are adjusted to \$2021 with CPI. Only incomes for people who were granted a TSS visa and subsequently an employer-sponsored visa are shown.

## **Open temporary sponsorship to all higher-wage jobs**

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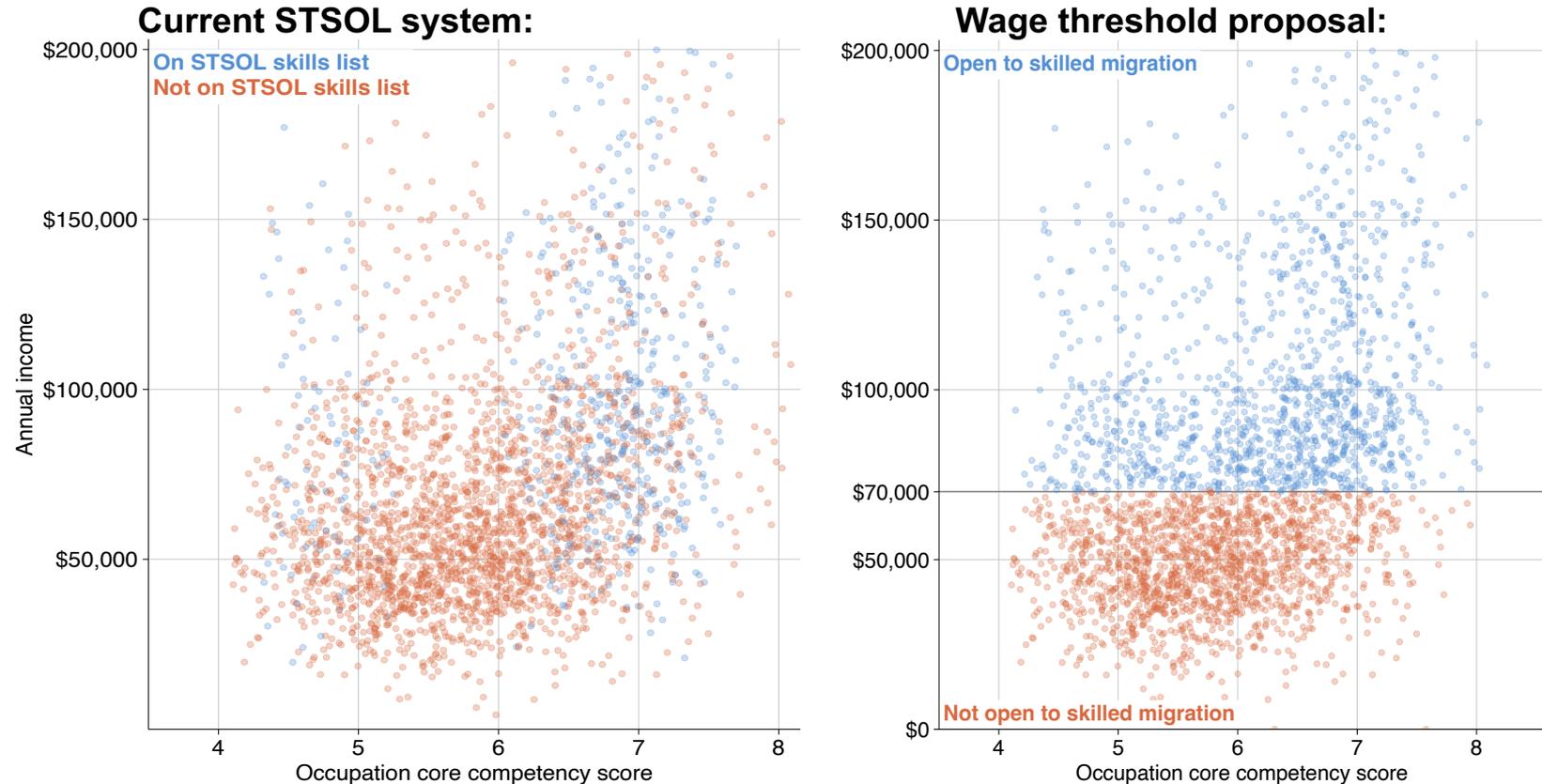
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# A new visa, the Temporary Skilled Worker (TSW) visa, should replace the TSS, for all jobs >\$70,000 a year

Each dot represents about 1,000 full-time jobs in an occupation



Source: Grattan analysis of ABS (Census, 2016); National Skills Commission (2021).

## Why \$70,000?

- TSW visa holders are younger, and median full-time wage for 25-34 yo's is \$70k/yr
- Pathway to permanent residency if can lift wage to \$80k

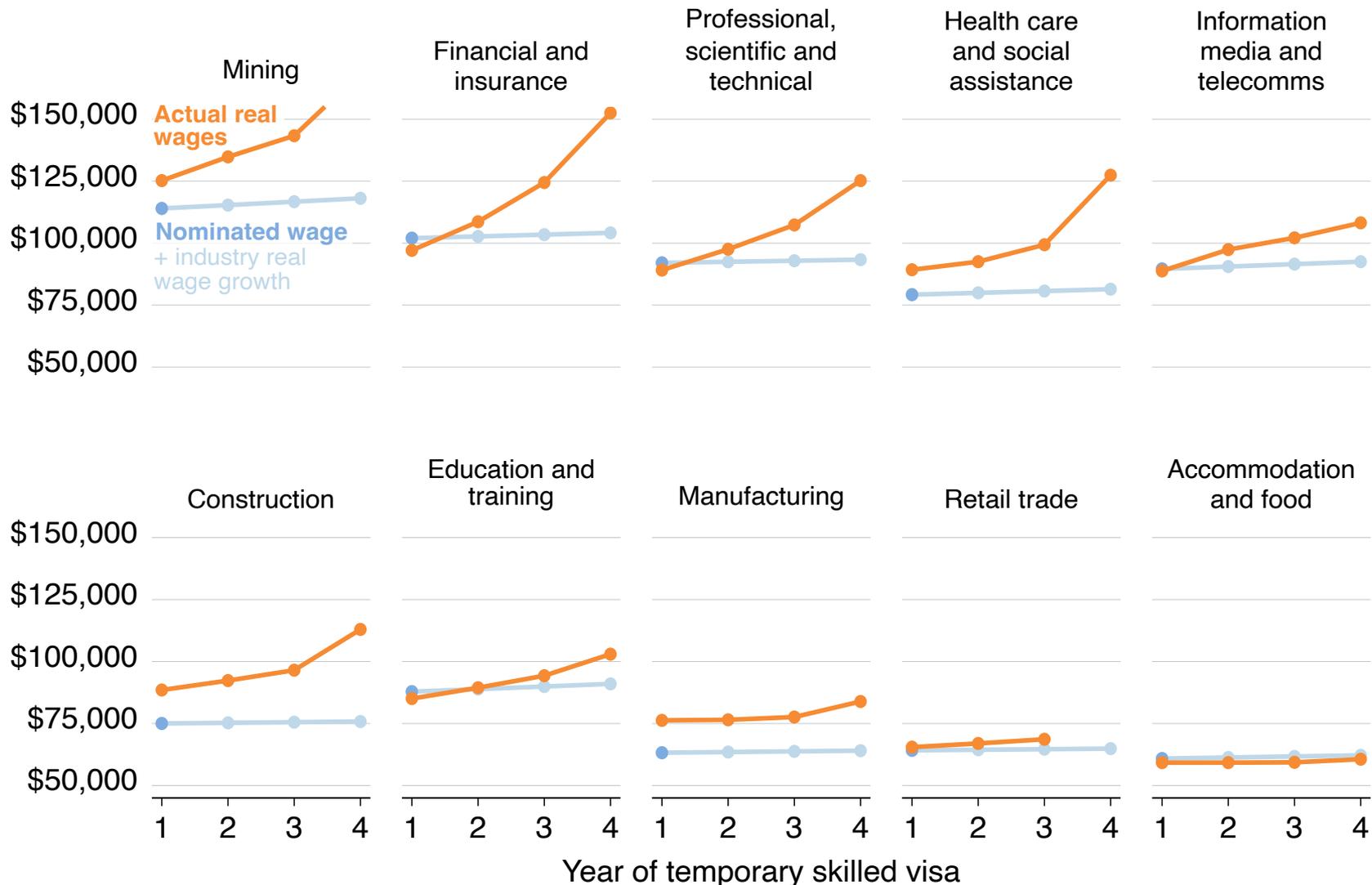
# Abolishing occupation lists and introducing a \$70,000 wage threshold would open up sponsorship

Temporary skilled visa rules	Full-time jobs in Australia open to temporary skilled sponsorship	Share of full-time jobs
457 visa (2001-2017)	4,700,000	52 per cent
TSS visa (2017-current)	4,000,000	44 per cent
<b>New TSW visa with \$70k wage threshold</b>	<b>5,900,000</b>	<b>66 per cent</b>

*Note: In practice some jobs that meet the new wage threshold for temporary sponsorship would face other barriers, such as occupational licensing (i.e. for many medical professionals) or requirements to be citizens (such as Commonwealth public servants). Source: Grattan analysis.*

# Temporary skilled workers in high-wage industries see strong wage growth, those in low-wage industries don't

## Median annual real wages for temporary skilled workers by industry



Notes: People in Australia on a 457 or 482 (TSS) visa between 2010 and 2018. Wage data is salary and wages from ATO personal income tax records, inflated using CPI. Only financial years fully covered by a temporary visa span are included. Source: Grattan analysis of ABS MADIP (2022). 24

# A \$70,000 wage threshold would exclude about one-third of TSS visas previously awarded

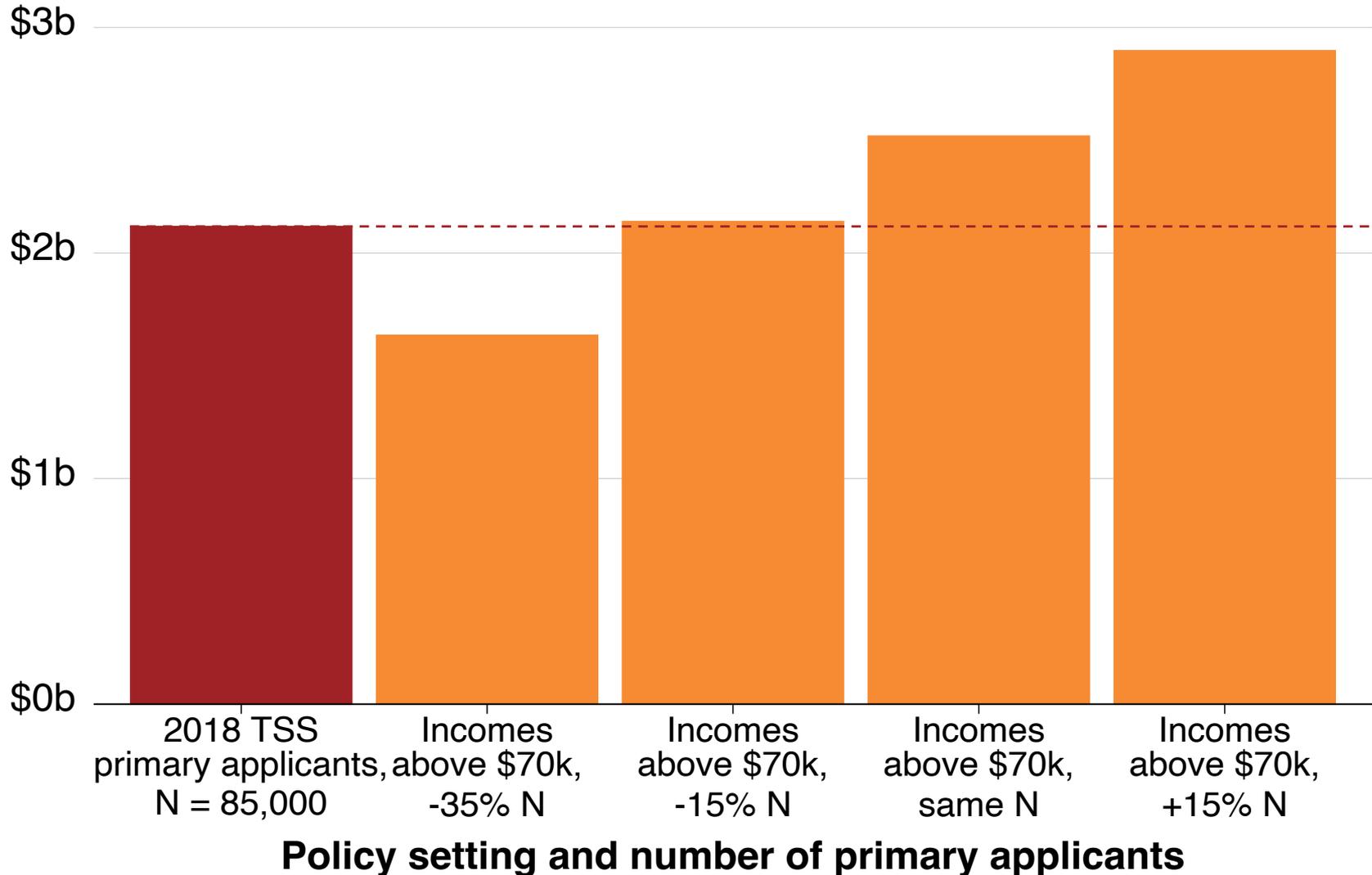
Cumulative share of TSS visa grants by nominated income



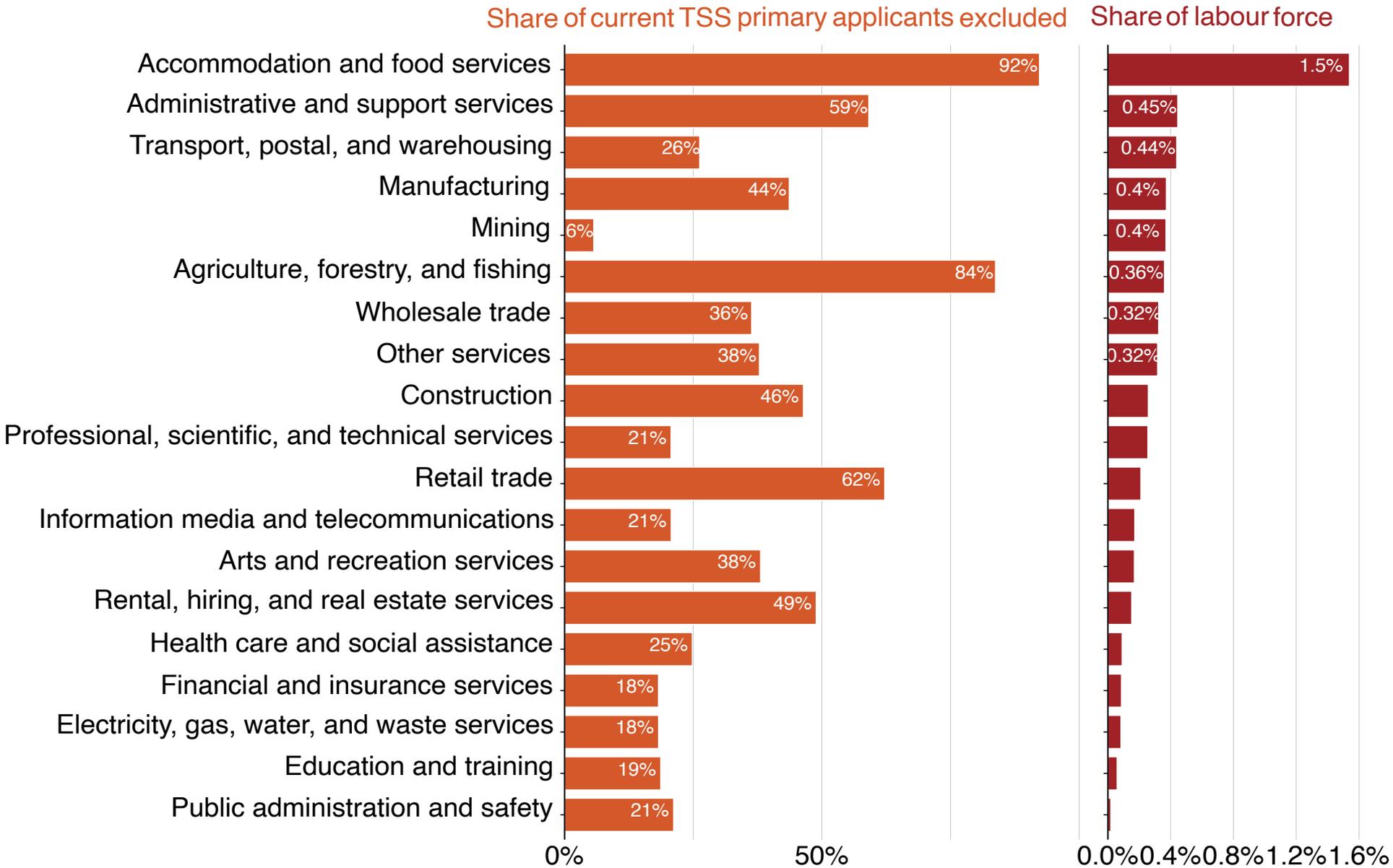
Notes: TSS visas awarded in 2018.

# The fiscal impact of our changes depends on what happens to the stock of temporary skilled migrants over time

Annual fiscal benefit of temporary skilled primary applicants, in **2018** and **with different intake sizes**

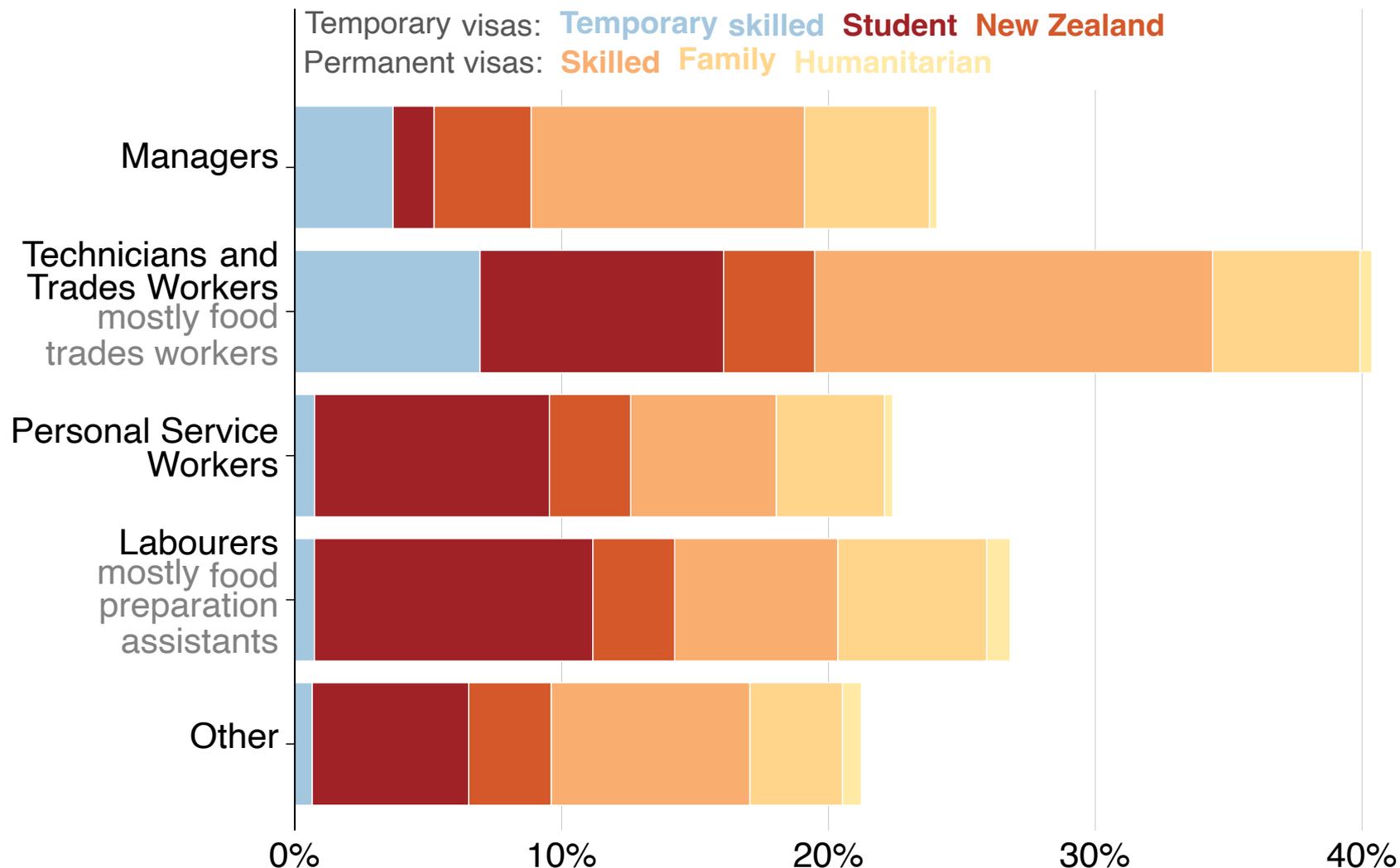


# Hospitality would be the most affected industry, losing 1.5% of it's current workforce; others would be less affected



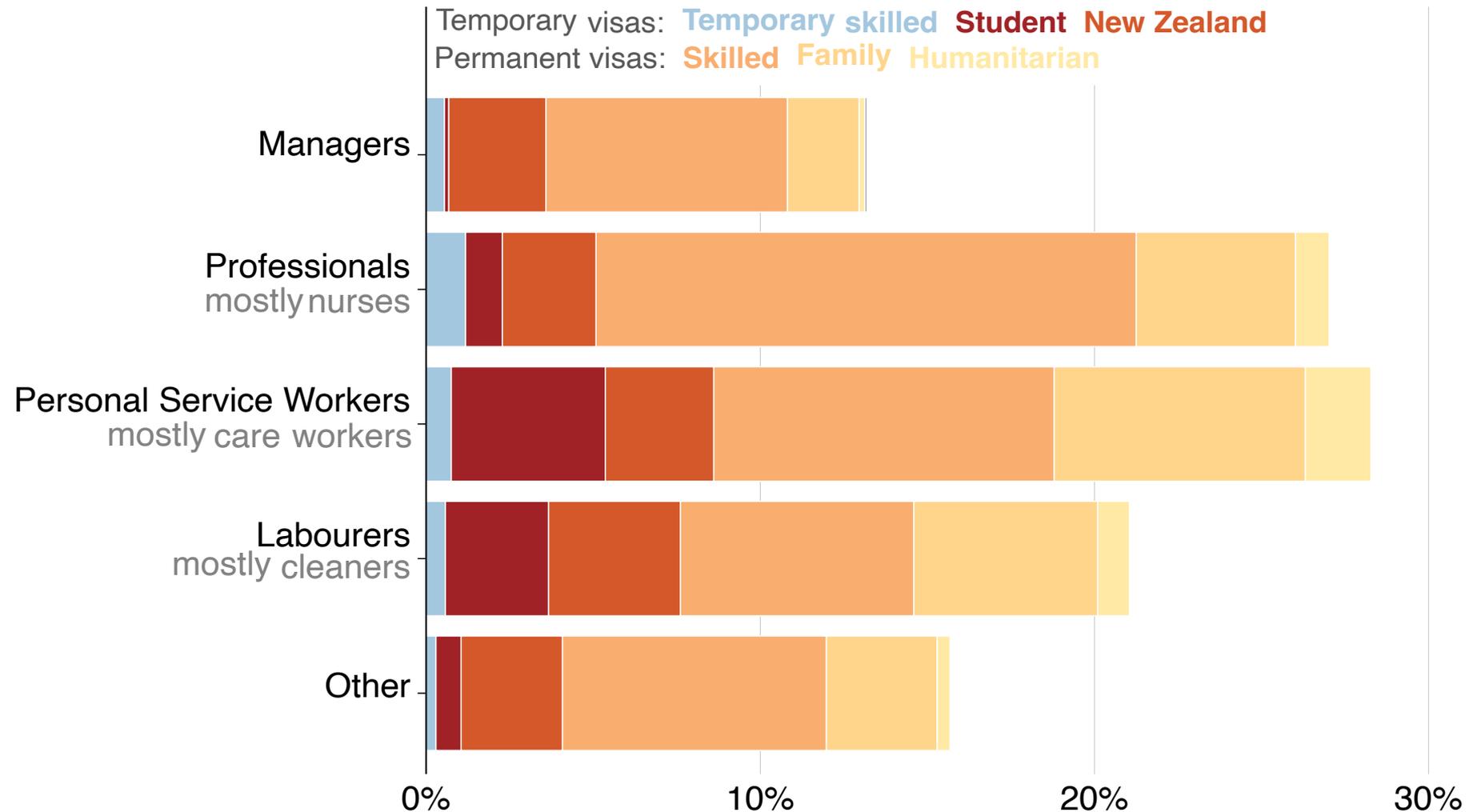
# TSS visa holders make up only a modest share of workers in **hospitality**; other visas are much more important

Share of total employees in Accommodation and Food Services by occupation and visa



# What about **aged care**? Most migrants are permanent migrants (family & secondary skilled), students or kiwis

Share of total employees in Residential Care Services by occupation and visa



Notes: 'Care workers' include all in the ANZSCO major occupation 'Community and Personal Service Workers'; 'Nurses and other professionals' are all in the 'Professionals' major occupation; 'Cleaners and labourers' are all in the 'Labourers' major occupation.  
Source: Grattan analysis of ABS Census (2016) and the Census Temporary Entrants Integrated (2016) datasets.

## Workers should be freer to move employers to support worker bargaining and escape mistreatment

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- More job mobility means faster wage growth, lower unemployment, and higher productivity (Engbom, 2022)
- But the rules of the TSS visa bind workers to firms, deliberately preventing labour mobility.
- Weaker bargaining power reduces potential for wage growth for those workers and other workers at the same employer.
- Allows unproductive/low-growth firms to survive via effective subsidy of privileged access to global labour market.

### Recommendations:

- Allow workers to change employer if new job also pays over \$70,000
- No requirement for a new visa to switch employers
- Extend time without an employer from 60 to 90 days

## There is little enforcement

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- 1,091 employer awareness activities in 2018-19, decreased to 585 in 2019-20.
- A total of 3 formal investigations for the entire 2019-20 and 2020-21 period under statutory offences outlined in the Migration Act.
- From January to September 2021, only 19 of the 202 publicly recorded instances of employer non-compliance with ‘sponsorship obligations’ resulted in a monetary fine.
- Employers know they are highly unlikely to face penalties for mistreatment or even exploitation of visa holders.

### Recommendations:

- A program of random audits for at least three per cent of all sponsored jobs
- Automatic processes for employers to provide records (e.g. payslips)
- Invest in Departmental capacity to monitor paychecks; better cross-matching of ATO tax data and employer records.

## Make temporary sponsorship easier

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# The process to sponsor a worker is far from straight-forward

## 1. Sponsorship (firm)

Firm must be an approved sponsor

Fee: \$420

### Standard

- Legal and operating business
- No adverse information (tax, industrial relations, OH&S, immigration)
- Demonstrated committee to employing local labour

### Accredited

- Priority processing
- Police checks

### Labour agreement

- Company-specific
- DAMA
- Industry (Dairy; finishing; meat; religion; labour hire; pork; fine dining; advertising;

## 2. Nomination (job)

Job must be an approved position

Fee: \$330

Eligible occupation

Market salary rate

Labour market testing

TSMIT

Skilling Australia Levy  
(\$1200 or \$1800 per year)

'Genuine' position

## 3. Visa (worker)

Worker must meet visa conditions

Fee: \$1290 or \$2690

English proficiency

Skills

Work experience

Bound to firm

Skills assessment

## Time to process TSS applications varies considerably

Proportion of visas processed	Short-term	Medium-term	Labour agreement	Sponsorship	Nomination
<b>25<sup>th</sup></b> percentile	36 days	33 days	36 days	29 days	1 day
<b>50<sup>th</sup></b> percentile	53 days	49 days	46 days	31 days	12 days
<b>75<sup>th</sup></b> percentile	5 months	3 months	71 days	62 days	39 days
<b>90<sup>th</sup></b> percentile	14 months	7 months	6 months	85 days	10 months

## **Raft of options to improve sponsorship process**

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### **1. Lower upfront costs plus monthly fee to replace substantial upfront fees**

- \$1,000 nomination fee
- \$110 per month per worker is roughly equivalent to remaining upfront costs

### **2. Scrap labour market testing**

- Forcing employers to advertise jobs does not help Australians into jobs

### **3. Expand eligibility for accreditation**

- Sponsors who hire high-wage workers with average salaries above \$120,000 should become accredited, regardless of their revenue

### **4. Accredited sponsors should receive five-day visa processing**

- A two-week nomination to visa grant period eliminates uncertainty for the employer and migrant.

### **5. Intra-company transfers should be more straight forward**

- Remove English proficiency and work experience tests for these workers

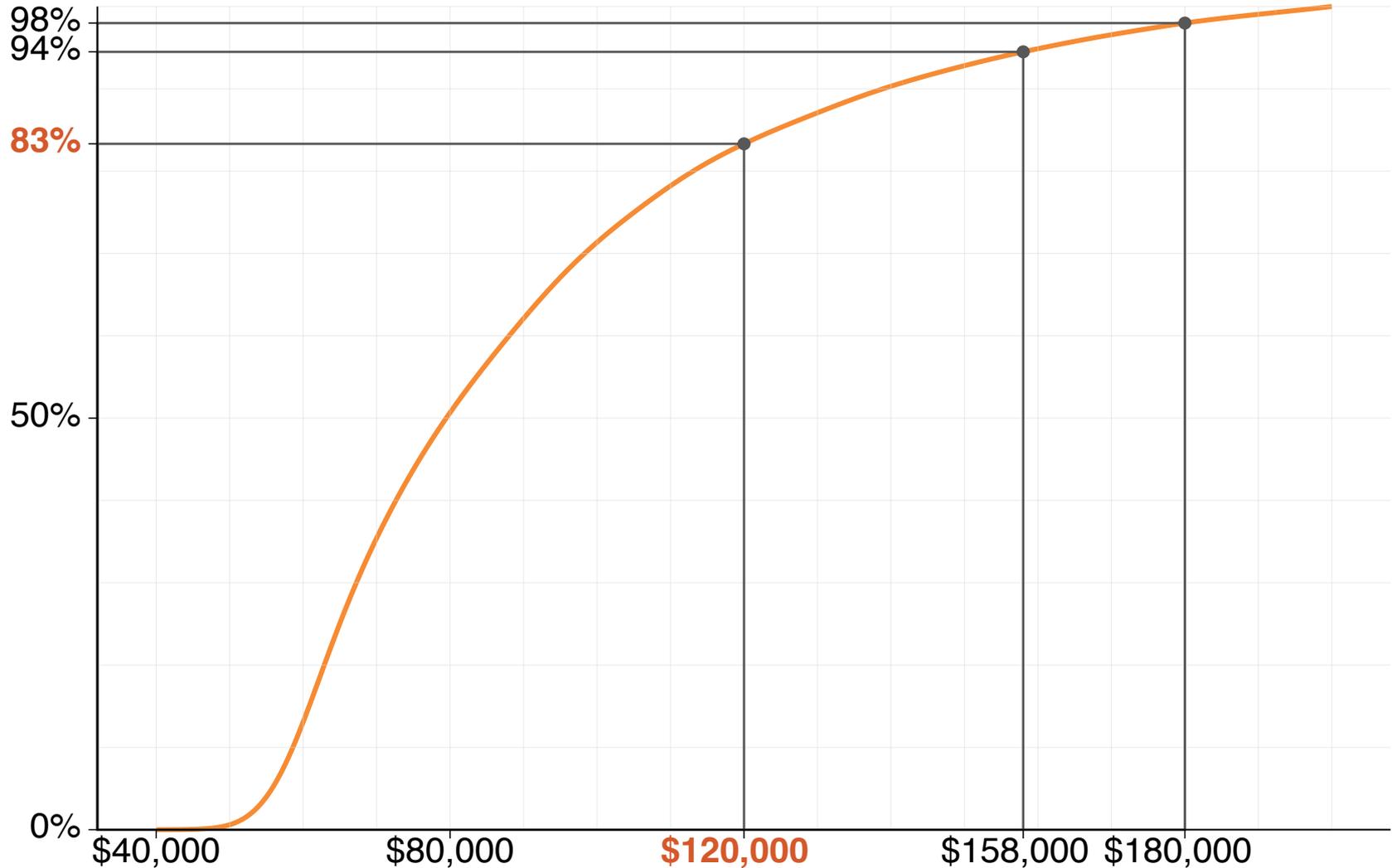
# Labour market testing is ineffective and should be scrapped

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- The **current rules** are extraordinarily prescriptive:
  - Three job ads in English with title of role, skills, employer name, and wage.
  - Must include the JobActive Network and publication with ‘national reach’.
  - Must be published for four weeks and cannot be more than four months old.
- If these conditions are met, Department of Home Affairs is satisfied: ‘*no suitably qualified or experienced Australian*’ available for the role.
- **Impossible** for government officials to determine genuine intent.
- Should be scrapped as it provides a false sense of security.

# About one-in-five TSS visas are for jobs with wages above \$120,000 a year

## Cumulative share of TSS visa grants by nominated income



Notes: TSS visas awarded in 2018.  
Source: Grattan analysis.

## Recommendations (1/2)

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1. Target temporary skilled migration at **high-wage jobs in any occupation**.
2. **Create a new visa**, the Temporary Skilled Worker (TSW) visa, to replace the existing Temporary Skill Shortage (TSS) visa, using the same employer-sponsorship model.
3. Make **all jobs paying above \$70,000 a year eligible** for temporary sponsorship.
4. **Improve visa portability**:
  - Allow workers to switch jobs without losing their visa should they find better opportunities in Australia.
  - Allow workers who quit or become unemployed to stay in Australia for up to 90 days.
5. **Replace current upfront costs** with a single \$1,000 nomination fee per worker and an ongoing monthly fee based on the number of workers sponsored. Total fees charged would remain unchanged.

## Recommendations (2/2)

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6. **Exempt sponsored workers earning more** than \$120,000 a year from having to prove English language proficiency, and exempt employers paying a sponsored worker more than \$158,500 a year from complying with the annual market salary rate for that job.
7. **Index all wage thresholds** to average weekly ordinary time earnings (AWOTE).
8. **Offer accreditation to employers** that sponsor high-wage workers, and give accredited sponsors benefits such as five-day visa processing and fewer checks on intra-company transfers.
9. **Abolish labour-market testing.**
10. **Better enforce the rules**, with more compliance activity dedicated to random audits and continued investment in data-matching.
11. Offer TSW visa-holders on more than \$80,000 a year **a clear pathway to permanent residency** by reforming permanent employer-sponsored visas as set out in our 2021 report, *Rethinking permanent skilled migration after the pandemic*.