



Migration reform priorities for Australia

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for The Economic Society of Australia

Migration policy is important

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But public debate isn't always nuanced or informed about *migration policy*.

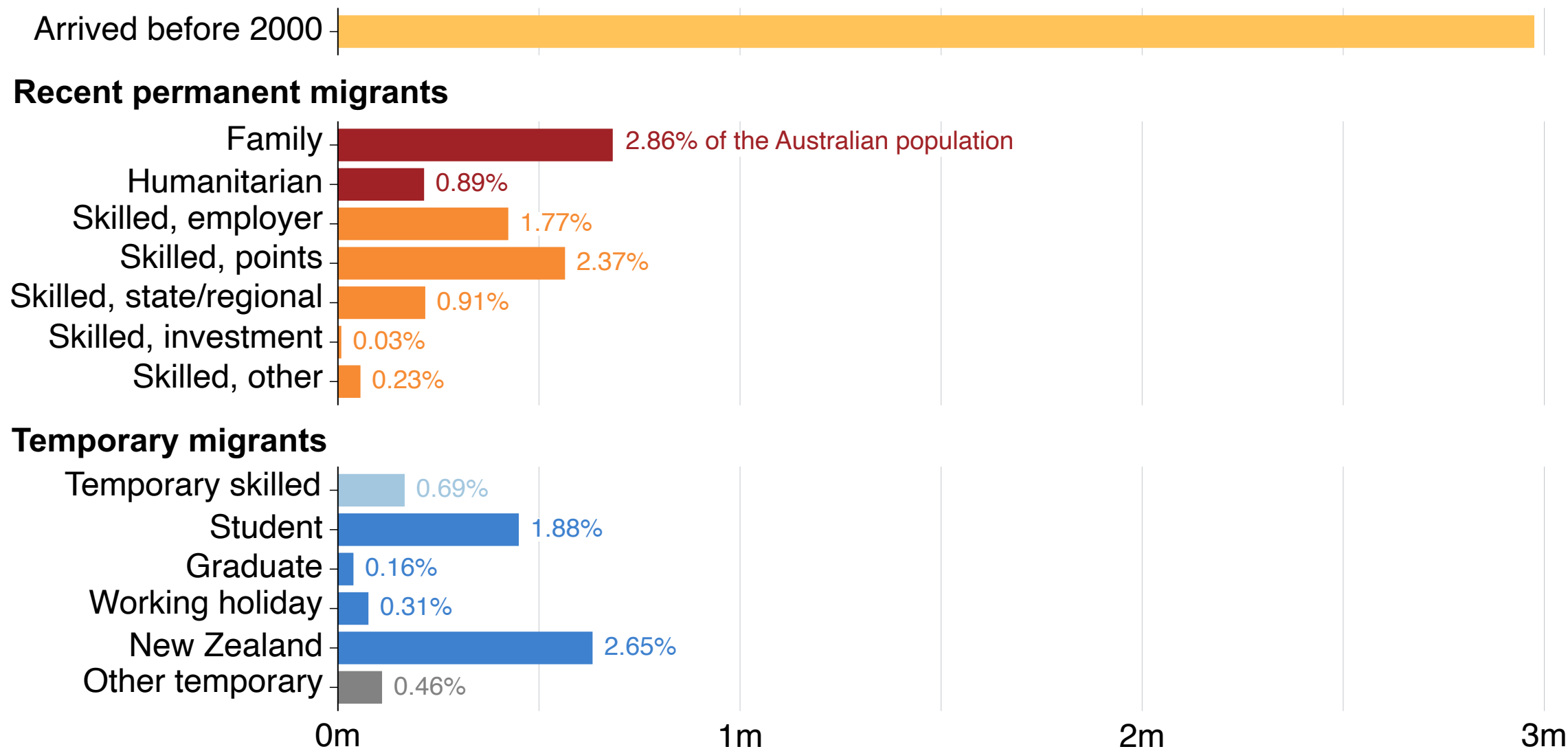
This means changes with substantial effects go largely unnoticed.

This lecture focusses on the detail:

1. **How the system works:** visa subclasses within Australia's migration program
2. **How to assess the system:** recent economic outcomes of migration policy
3. **How to make it better:** migration reform priorities
 - Abolish skills lists
 - Expand permanent employer sponsorship
 - Expand temporary skilled employer sponsorship
 - Abolish BIIP; properly evaluate Global Talent
 - Review points test
 - Do not expand skilled visas for short-term Covid labour shortages

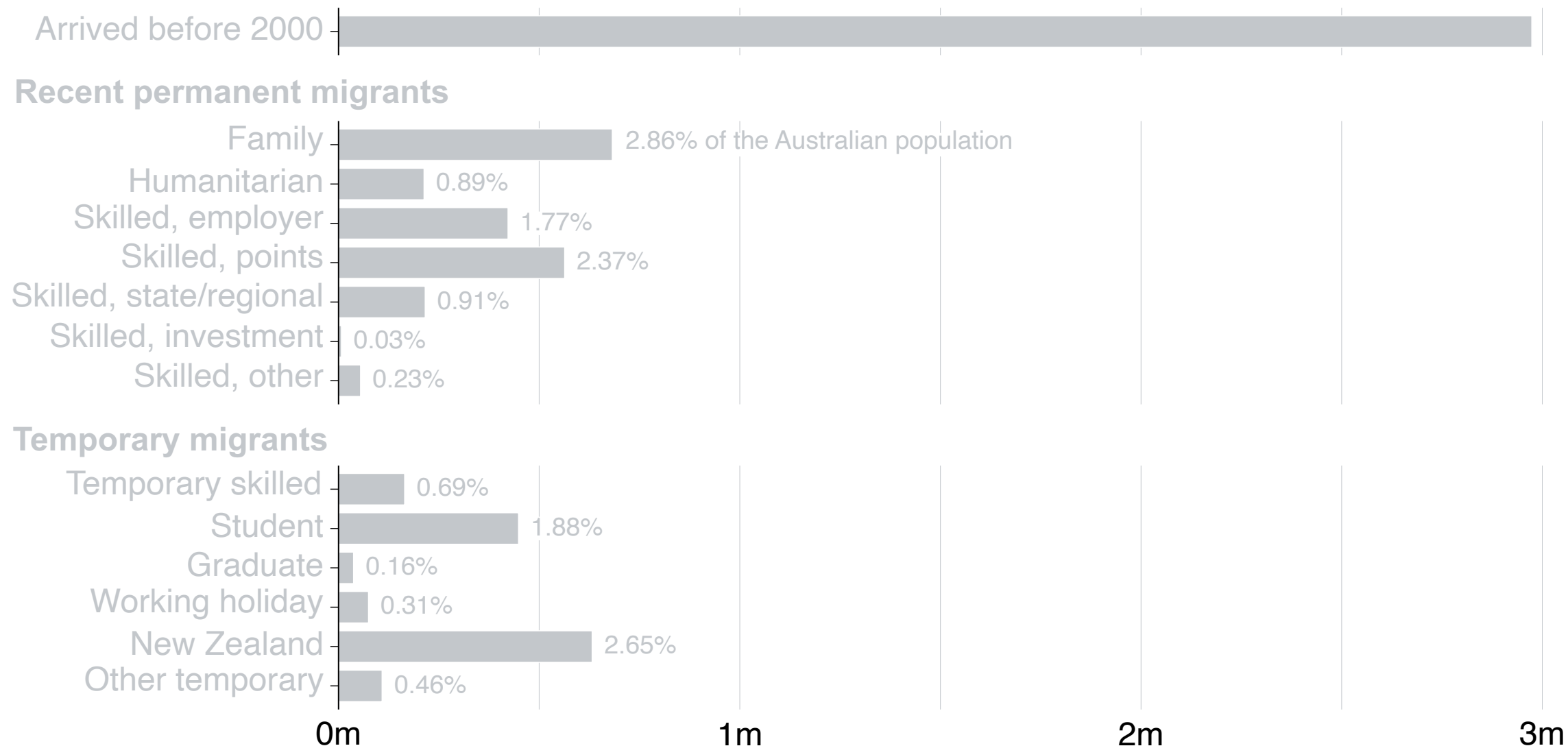
Australian migrants are on a wide range of different streams

Australian residents born overseas, 2016



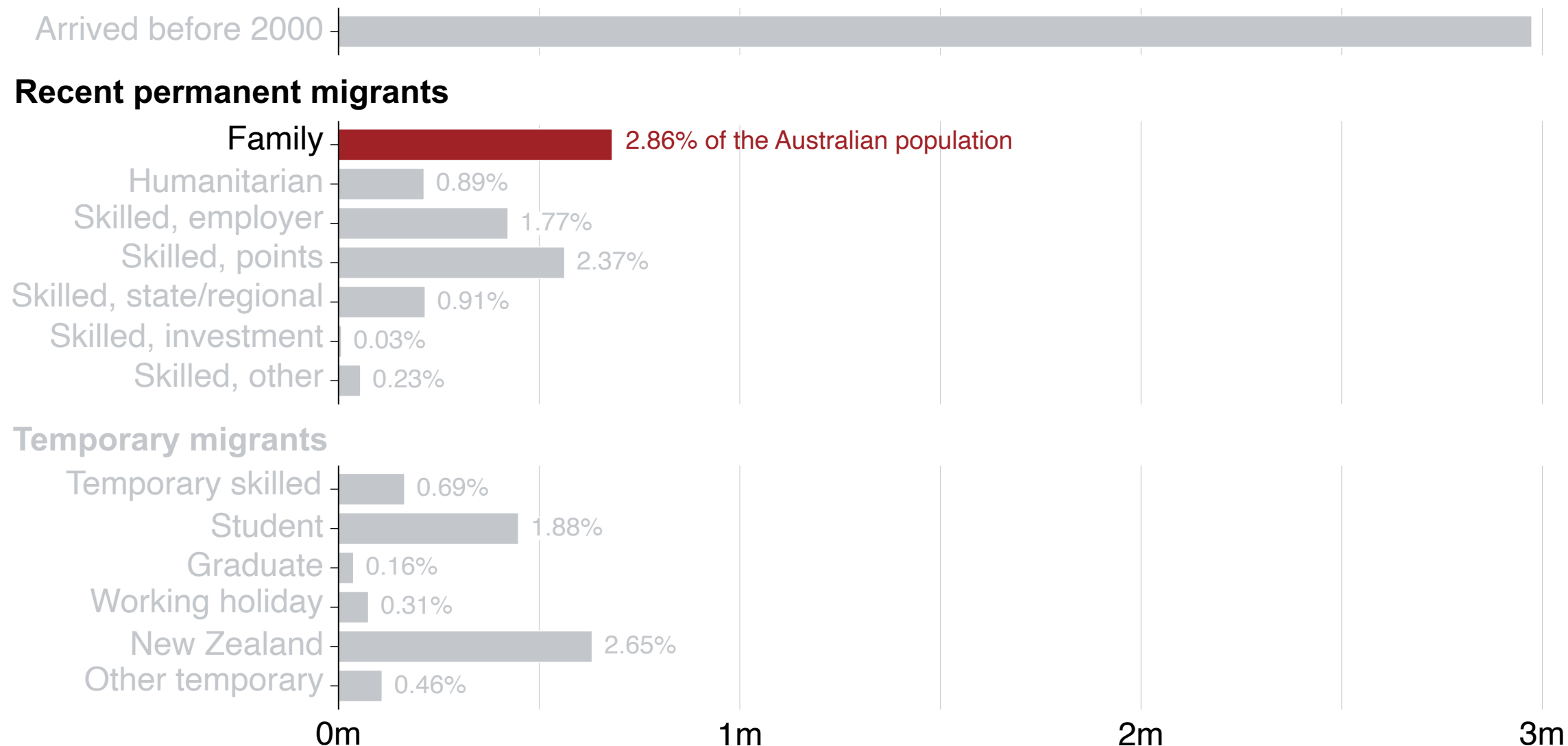
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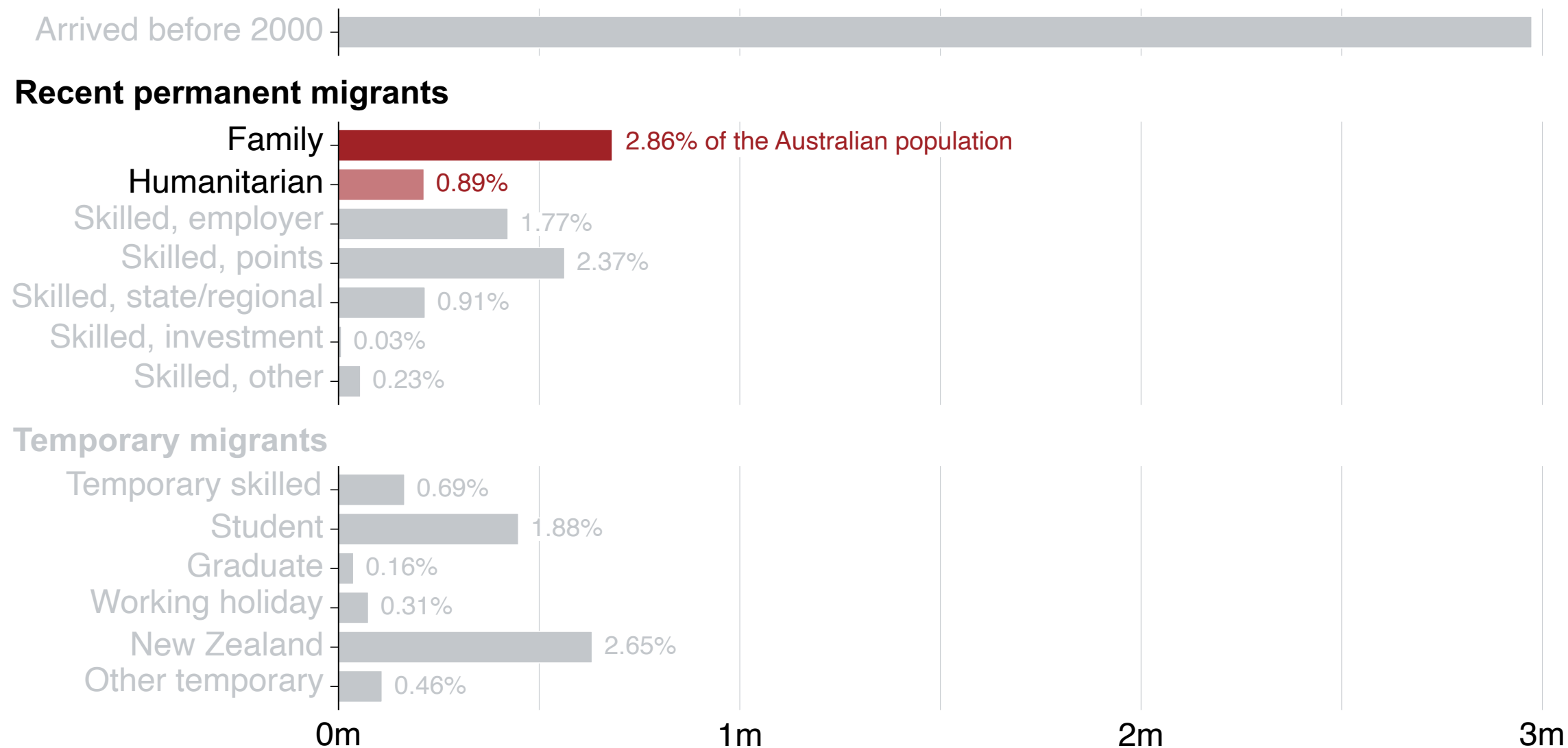
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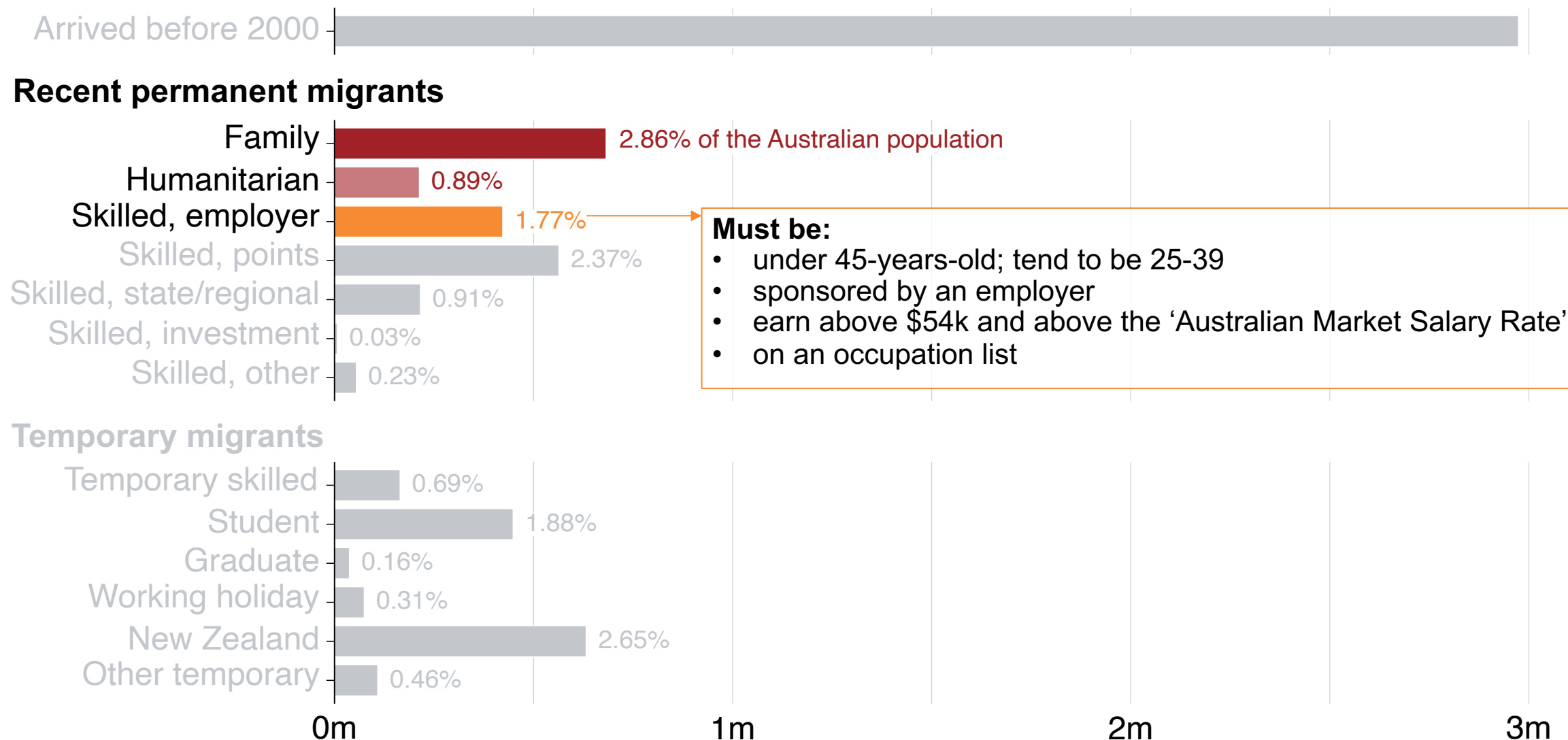
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Occupation lists determine which jobs can be filled by skilled migrants

Three separate occupation lists

Developed closely with stakeholders →

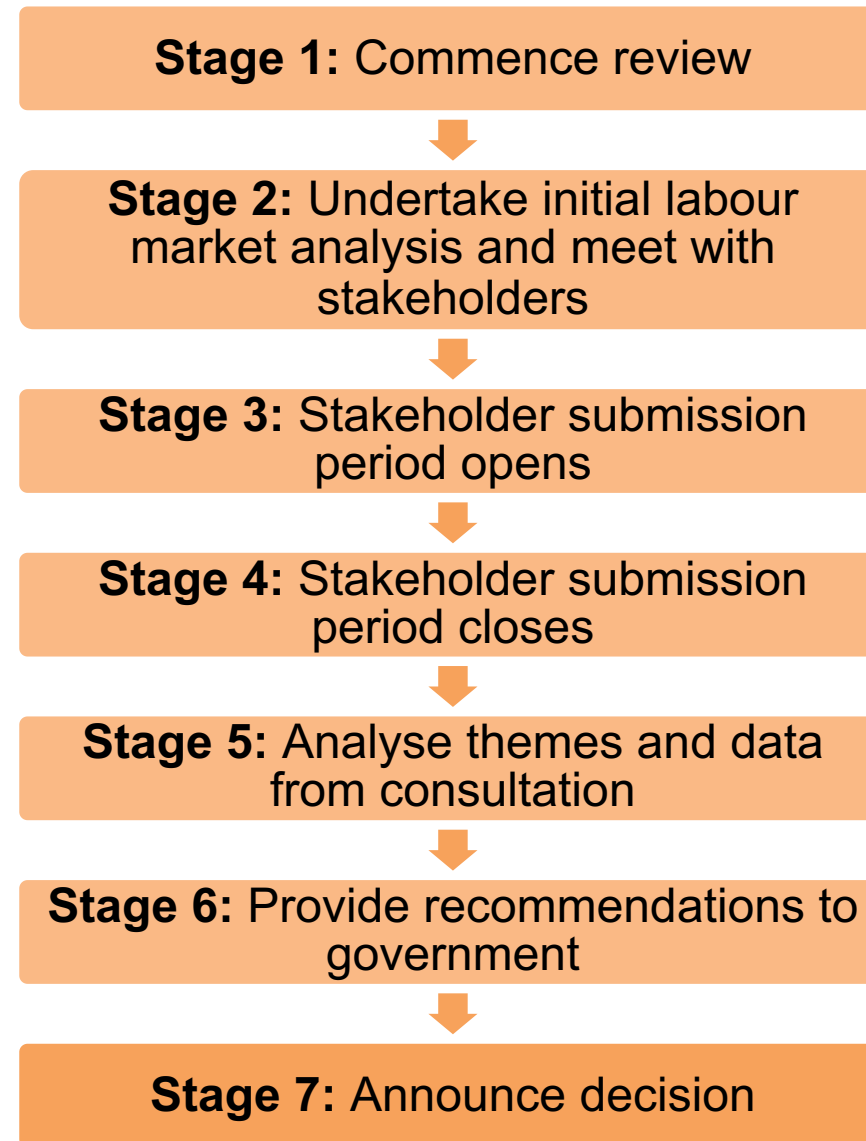
No timely occupation-level data

ANZSCO codes not frequently updated

What is a shortage?

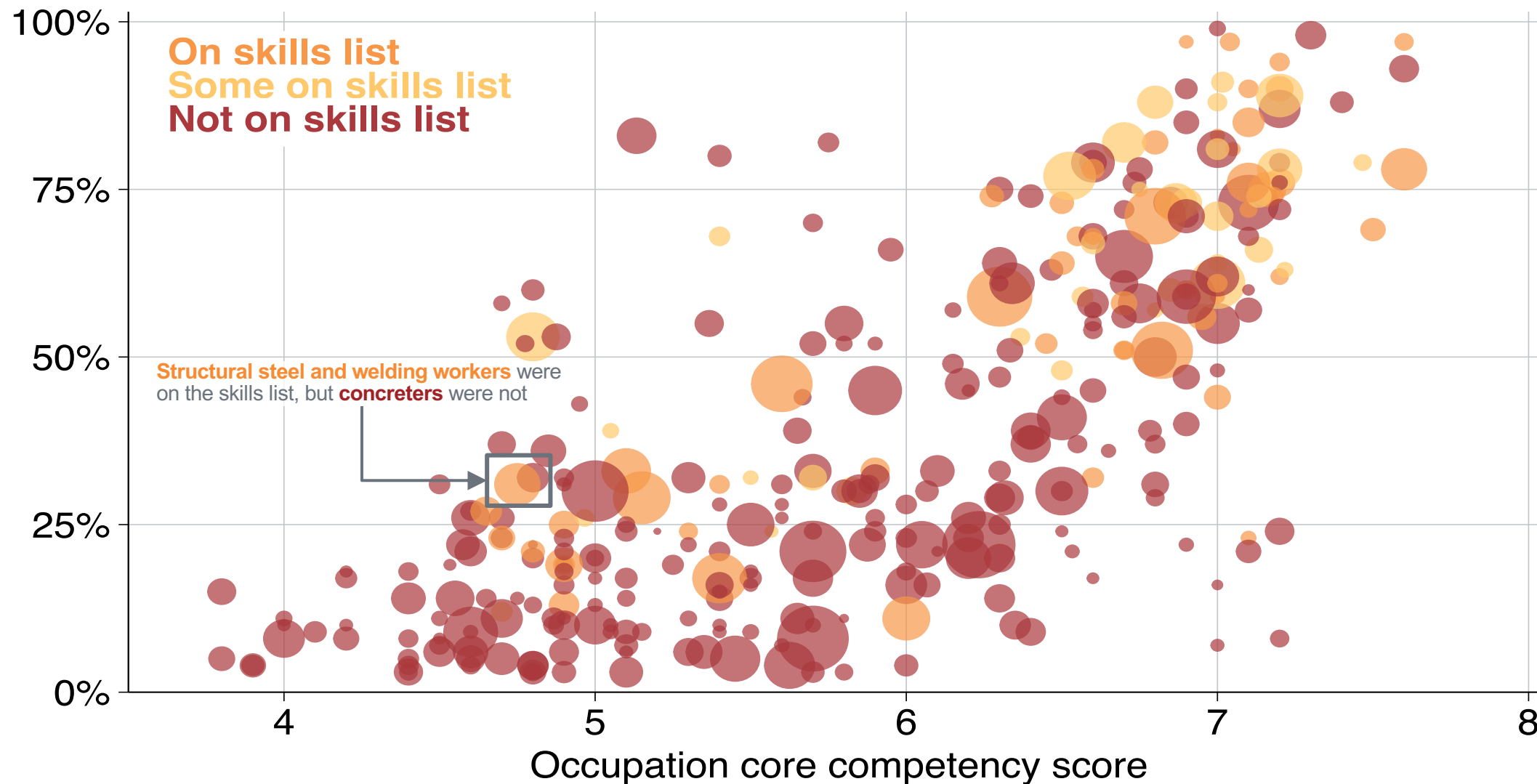
“Automotive electricians, panel beaters, and arborists have been in shortage for each of the 10 years to 2018, and hairdressers and sheet metalworkers for nine out of the past 10 years. A decade-long or more shortage seems difficult to explain for some occupations that rely on traineeships taking one to two years to complete.”

- Productivity Commission (2020)



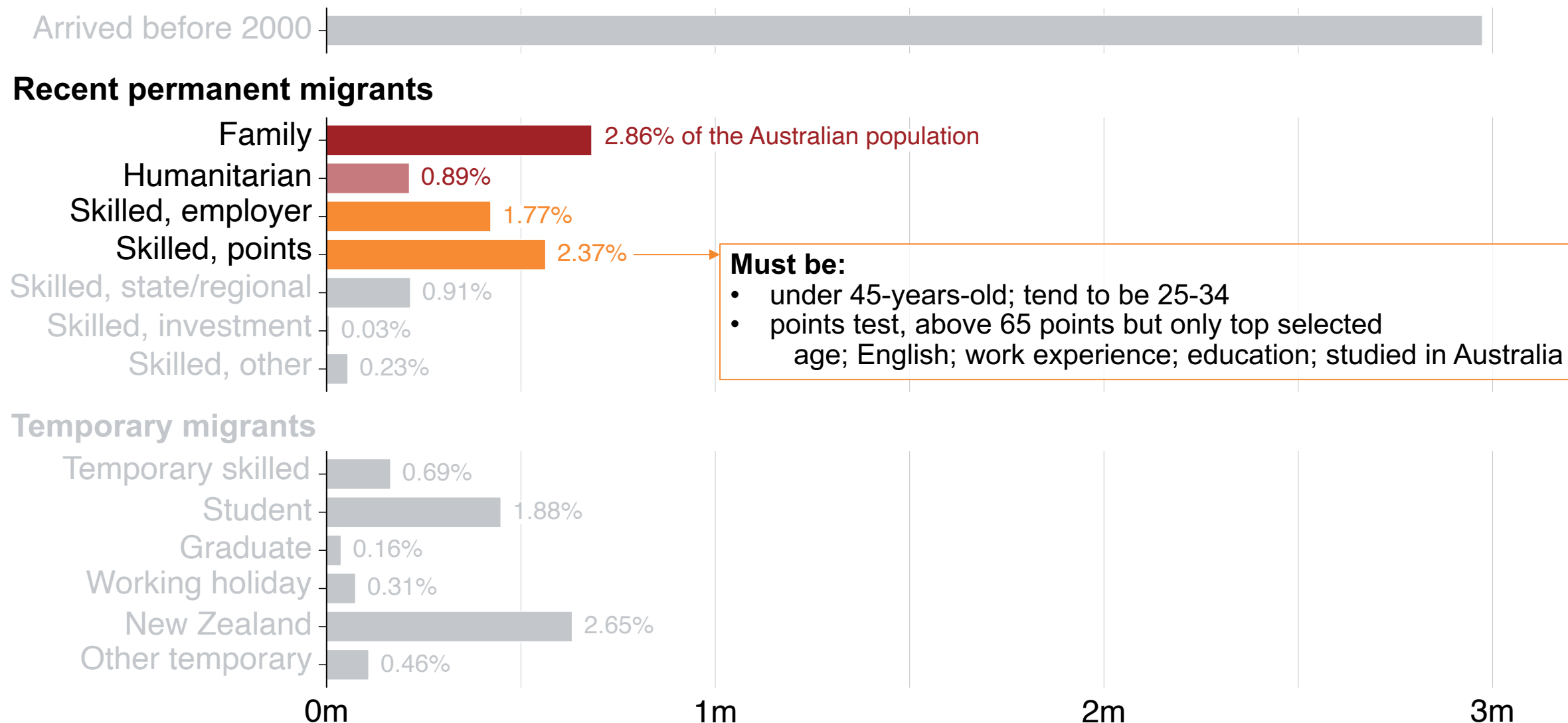
“Skilled” occupation lists are poorly targeted: many high-wage jobs are excluded; many low-wage jobs included

Share of occupation earning more than \$80,000



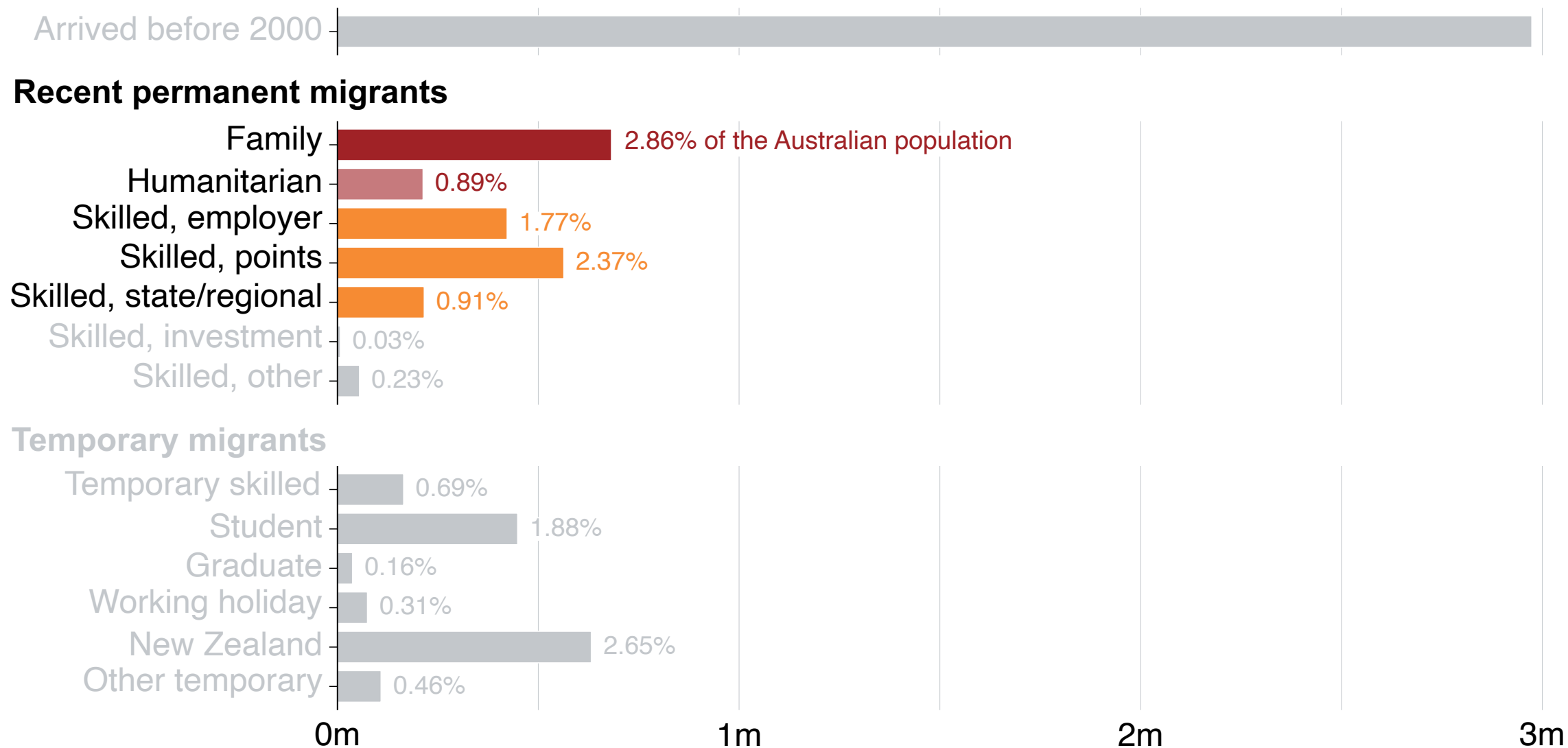
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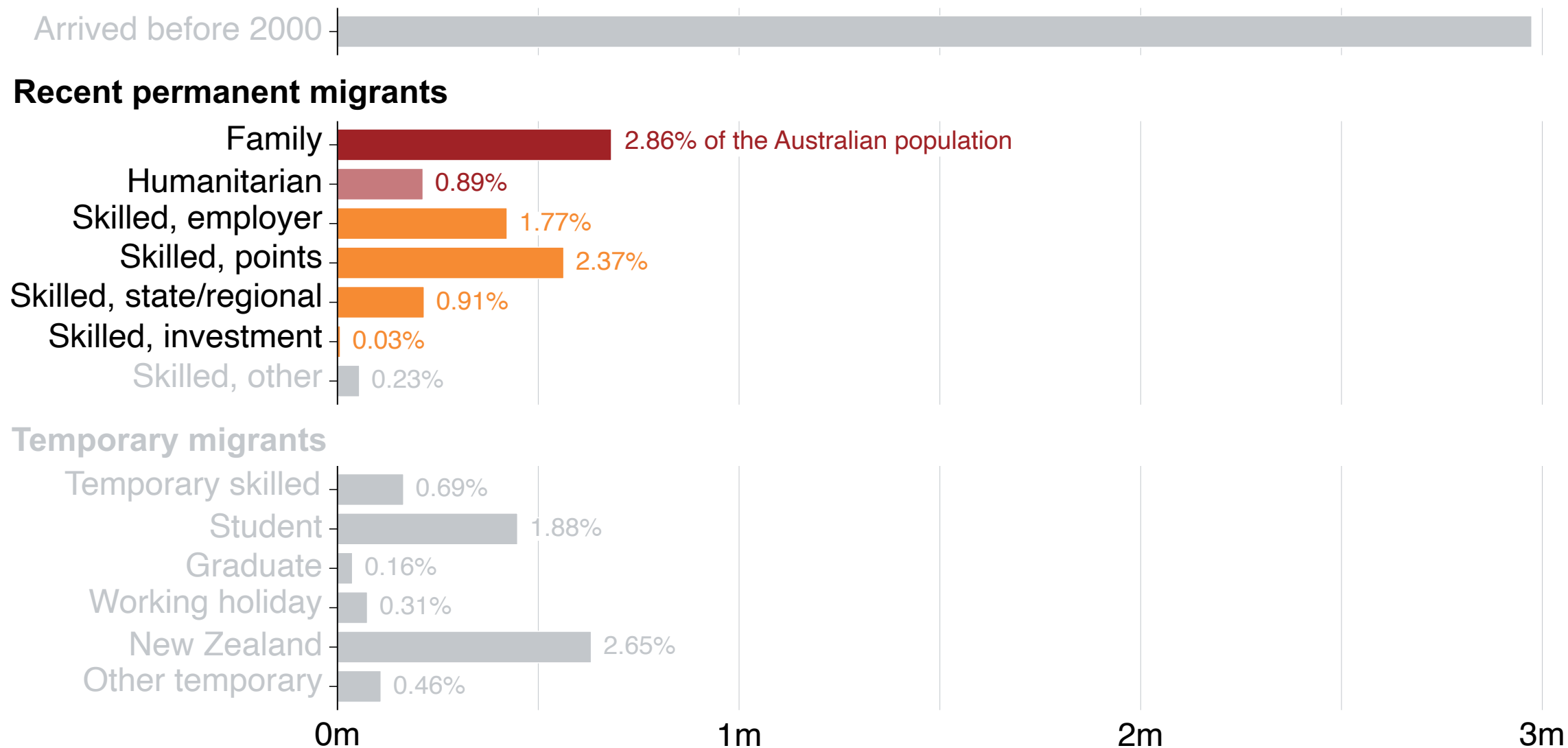
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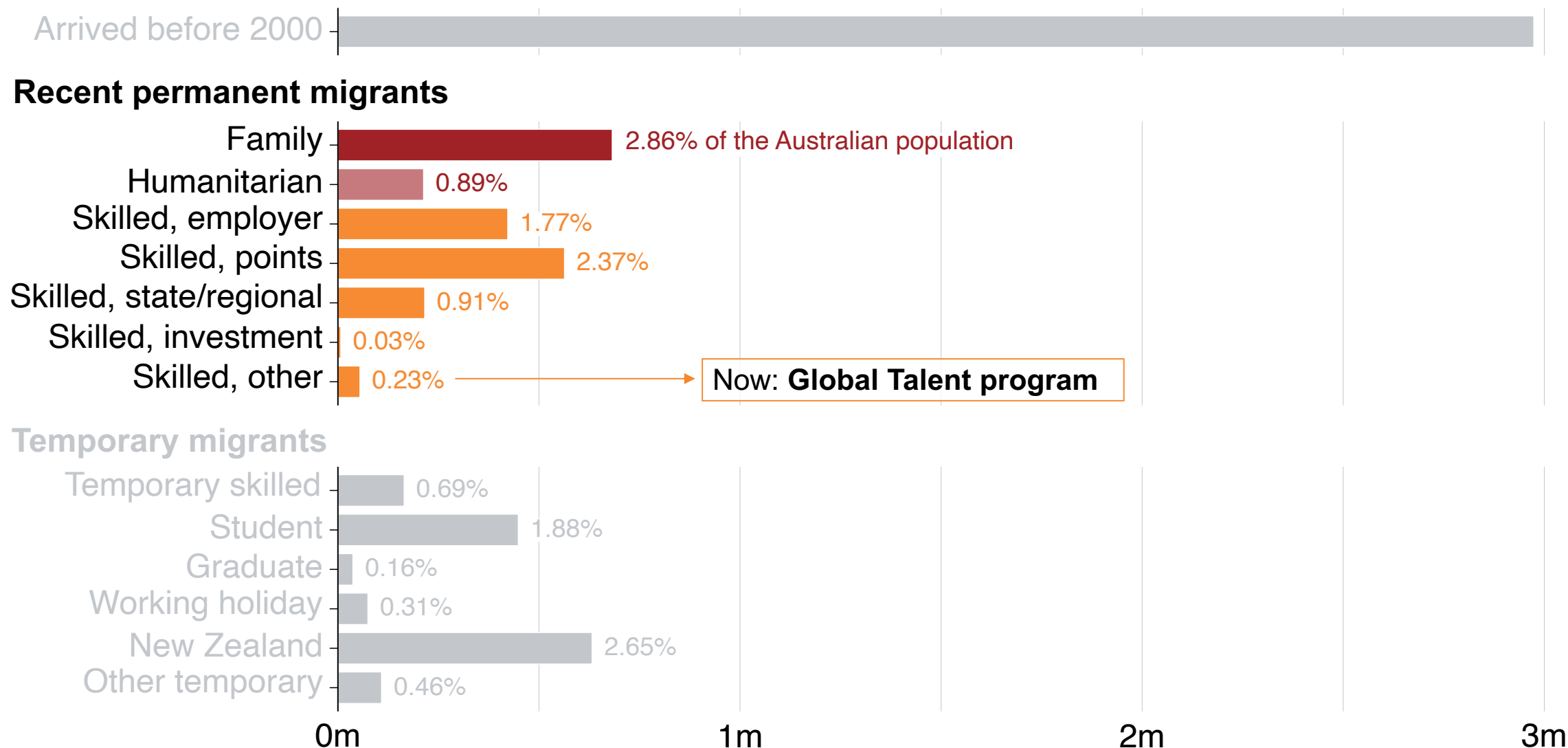
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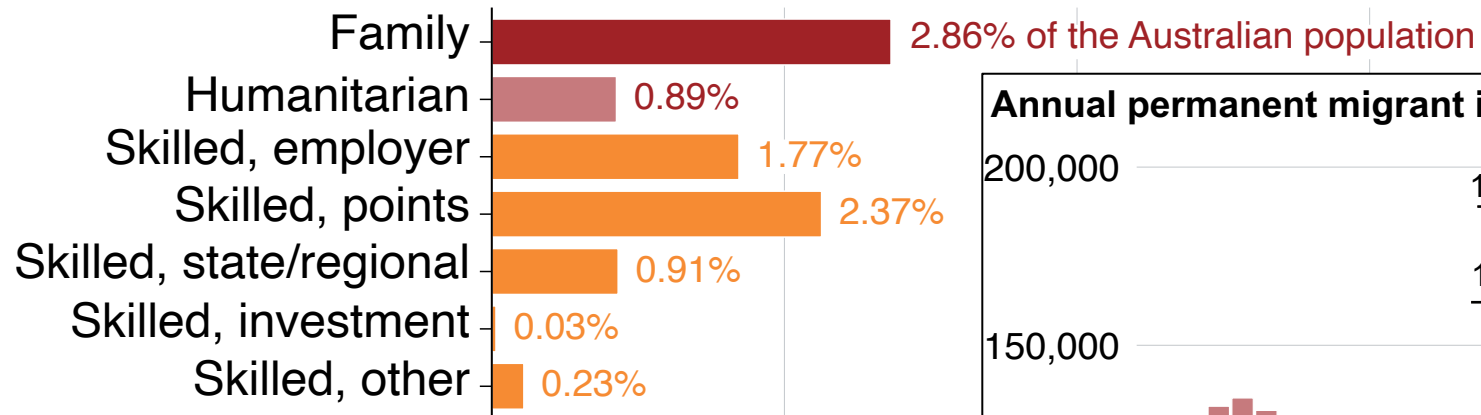


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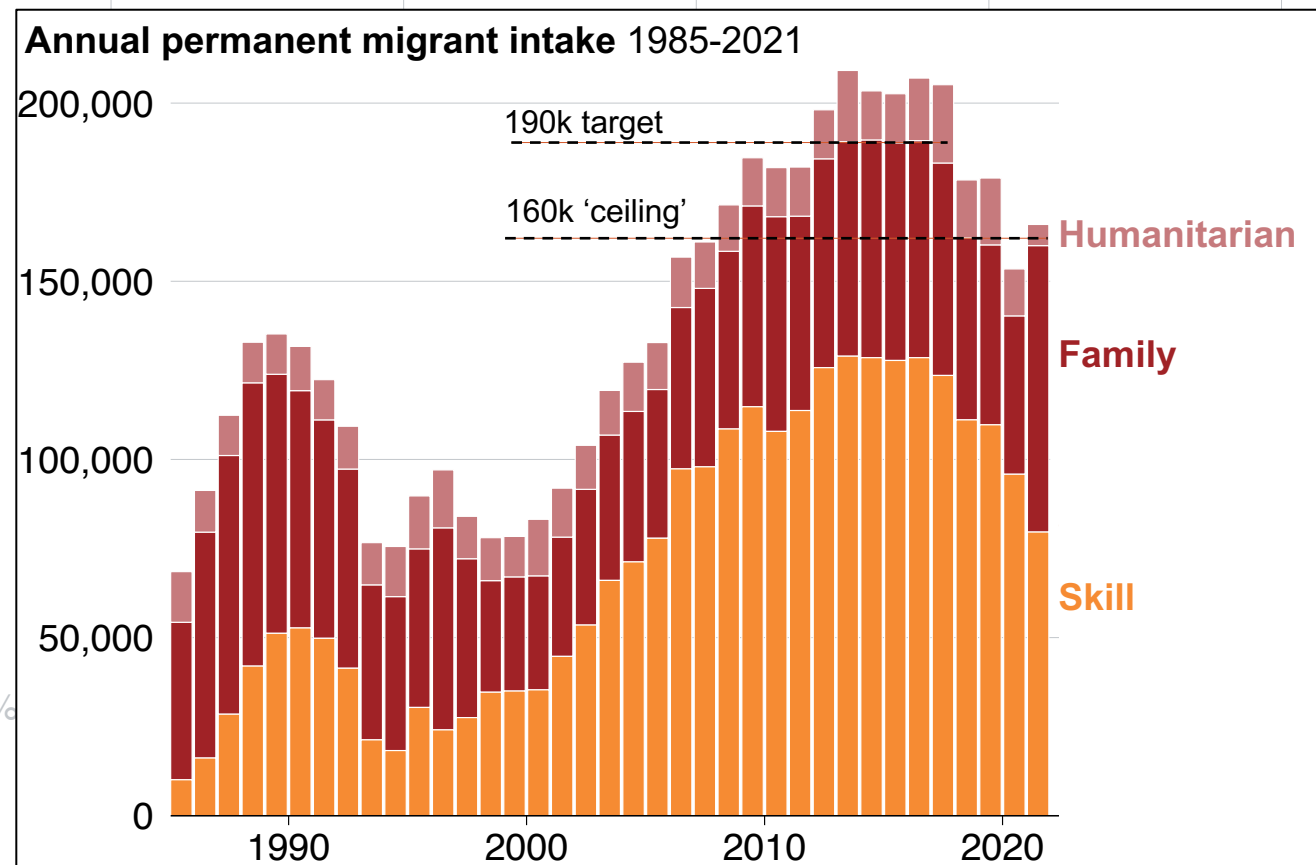
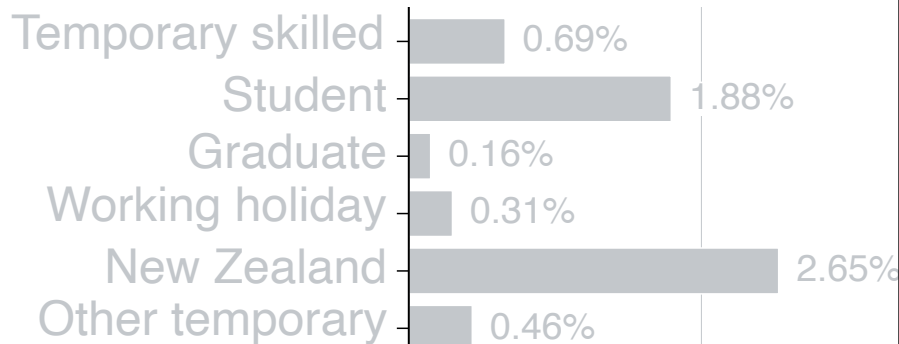
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Recent permanent migrants

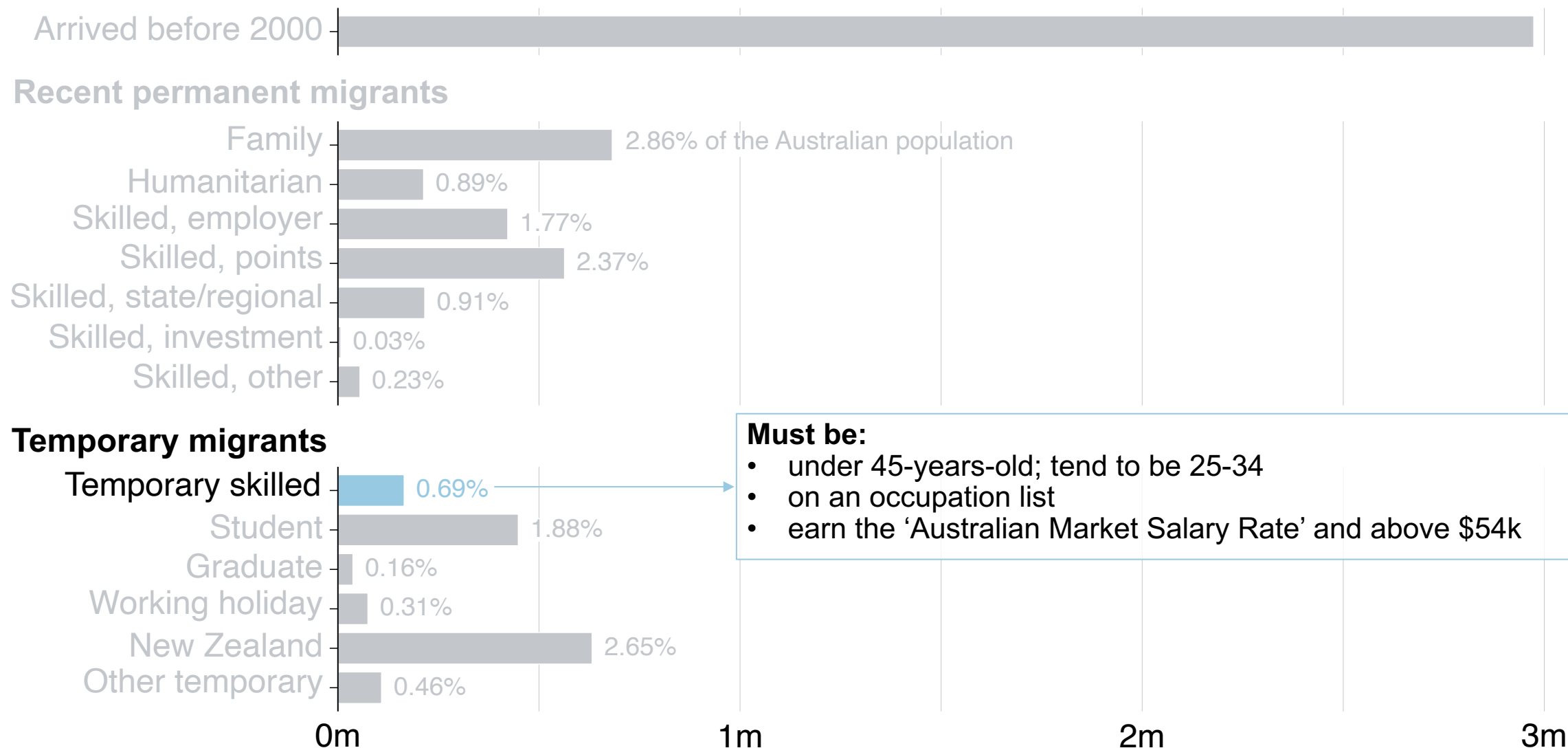


Temporary migrants



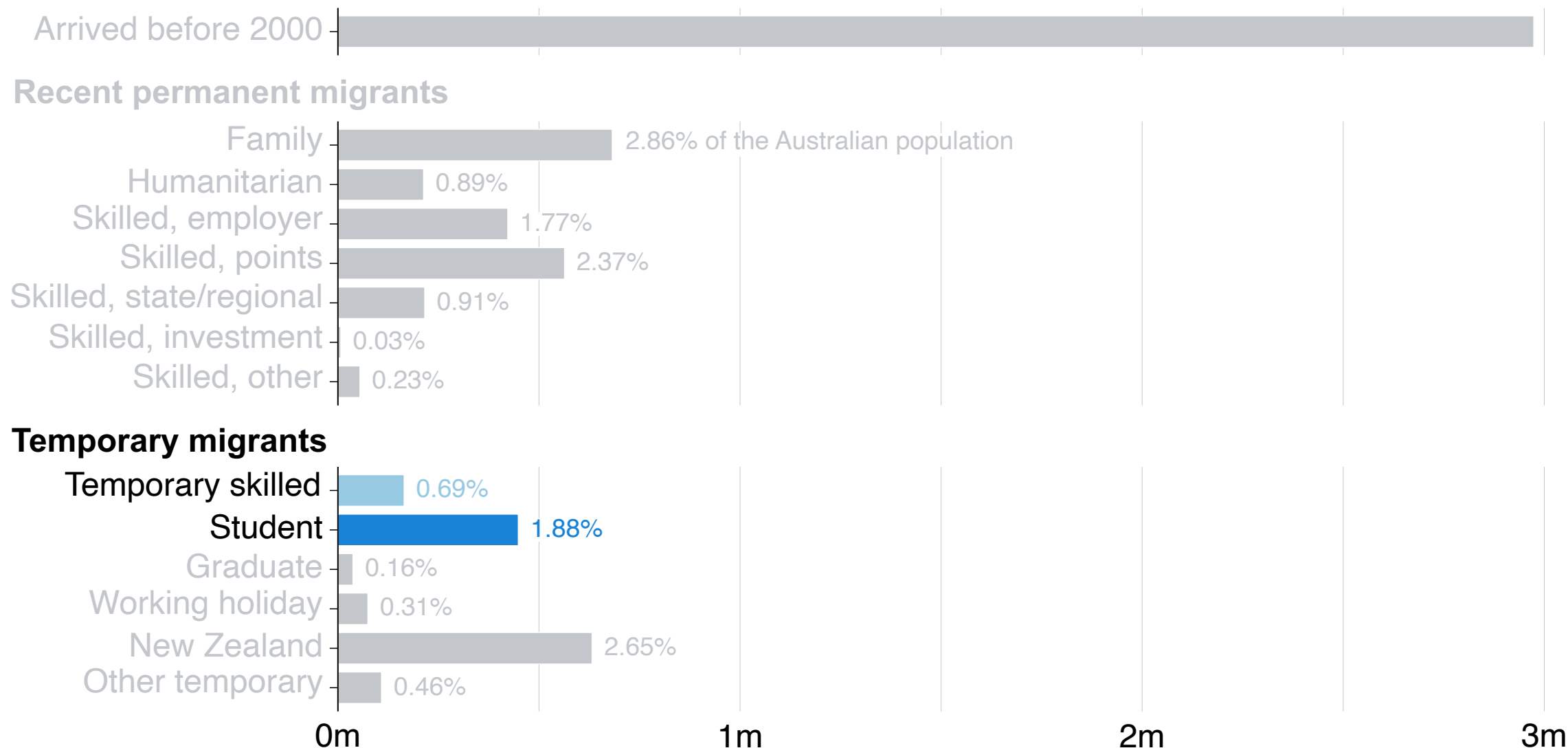
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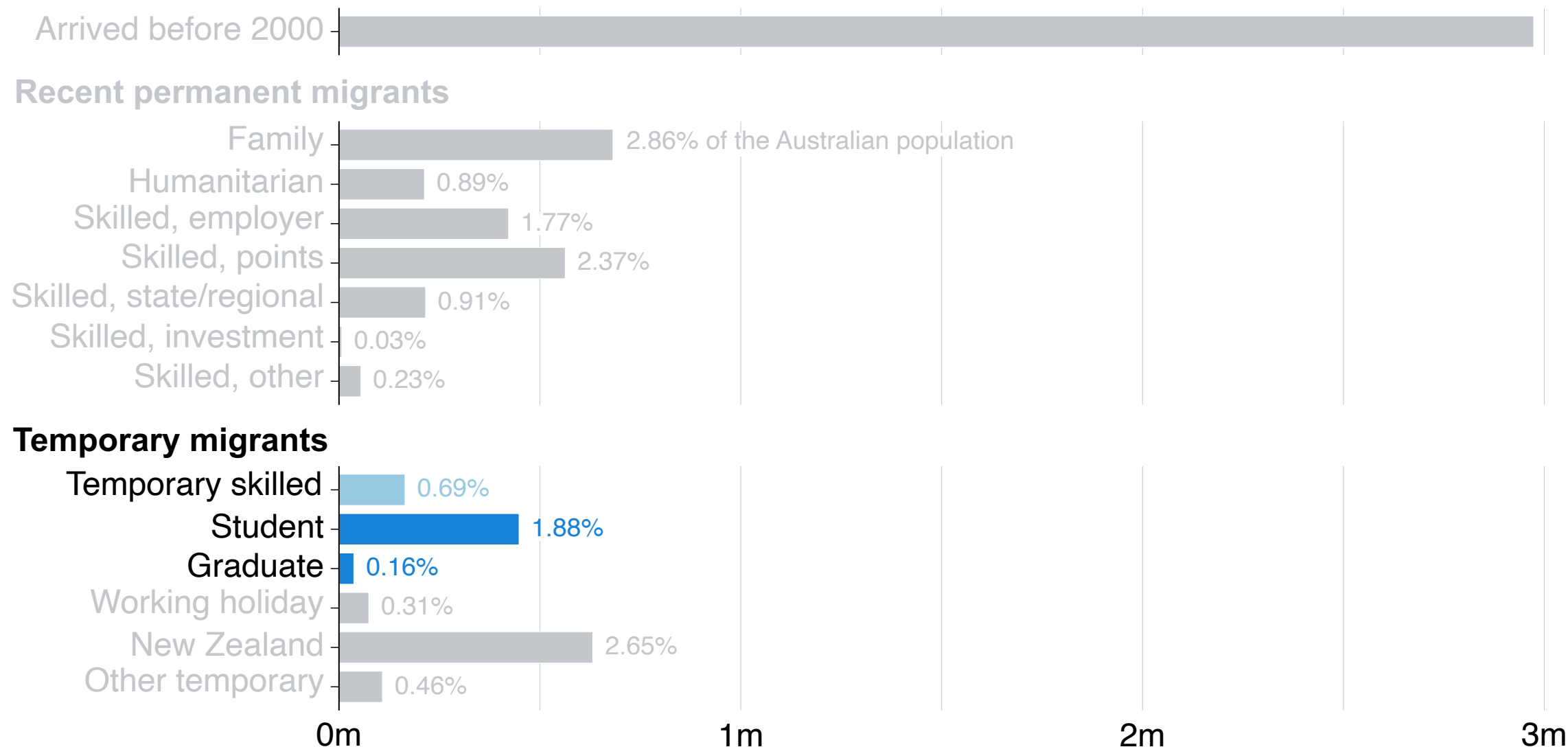
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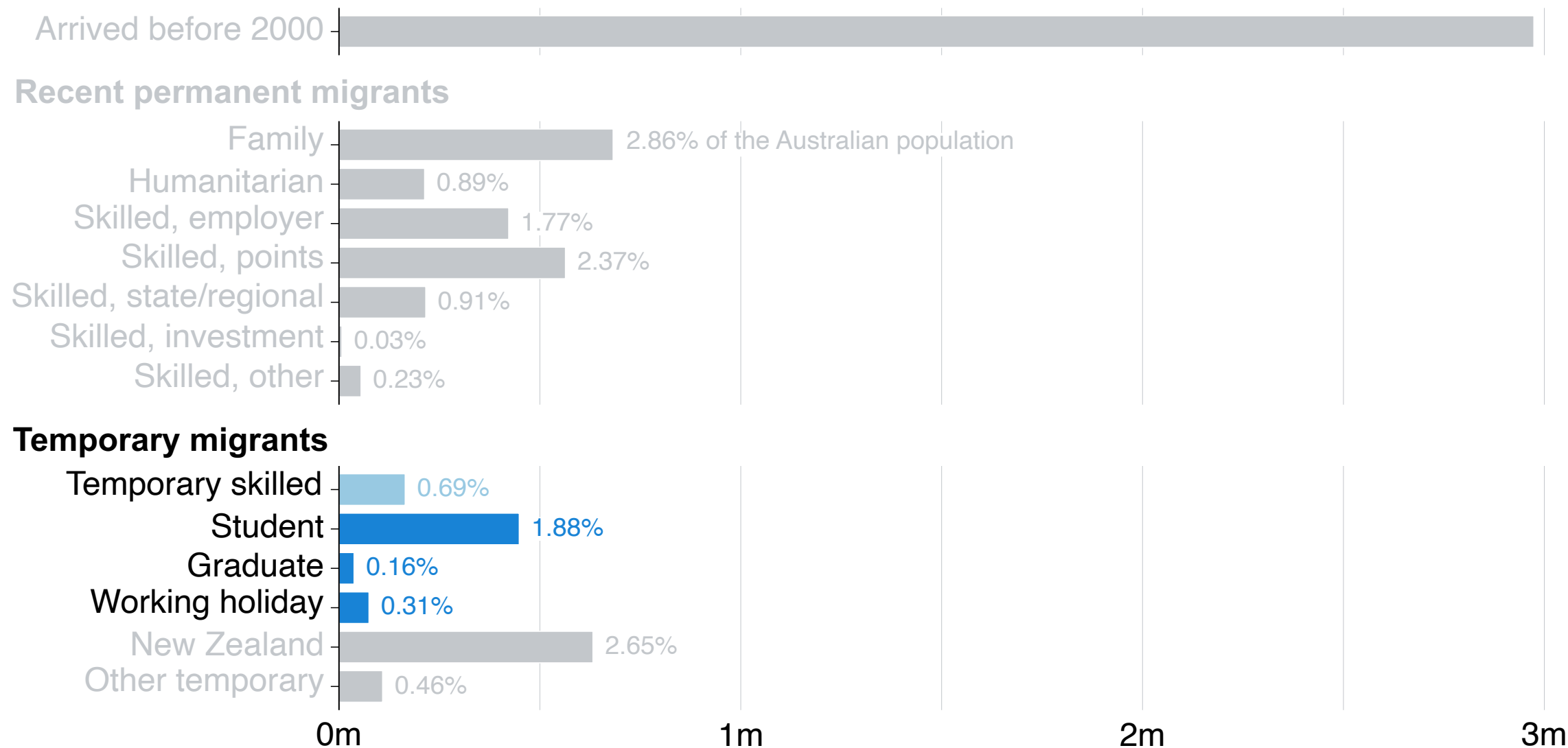
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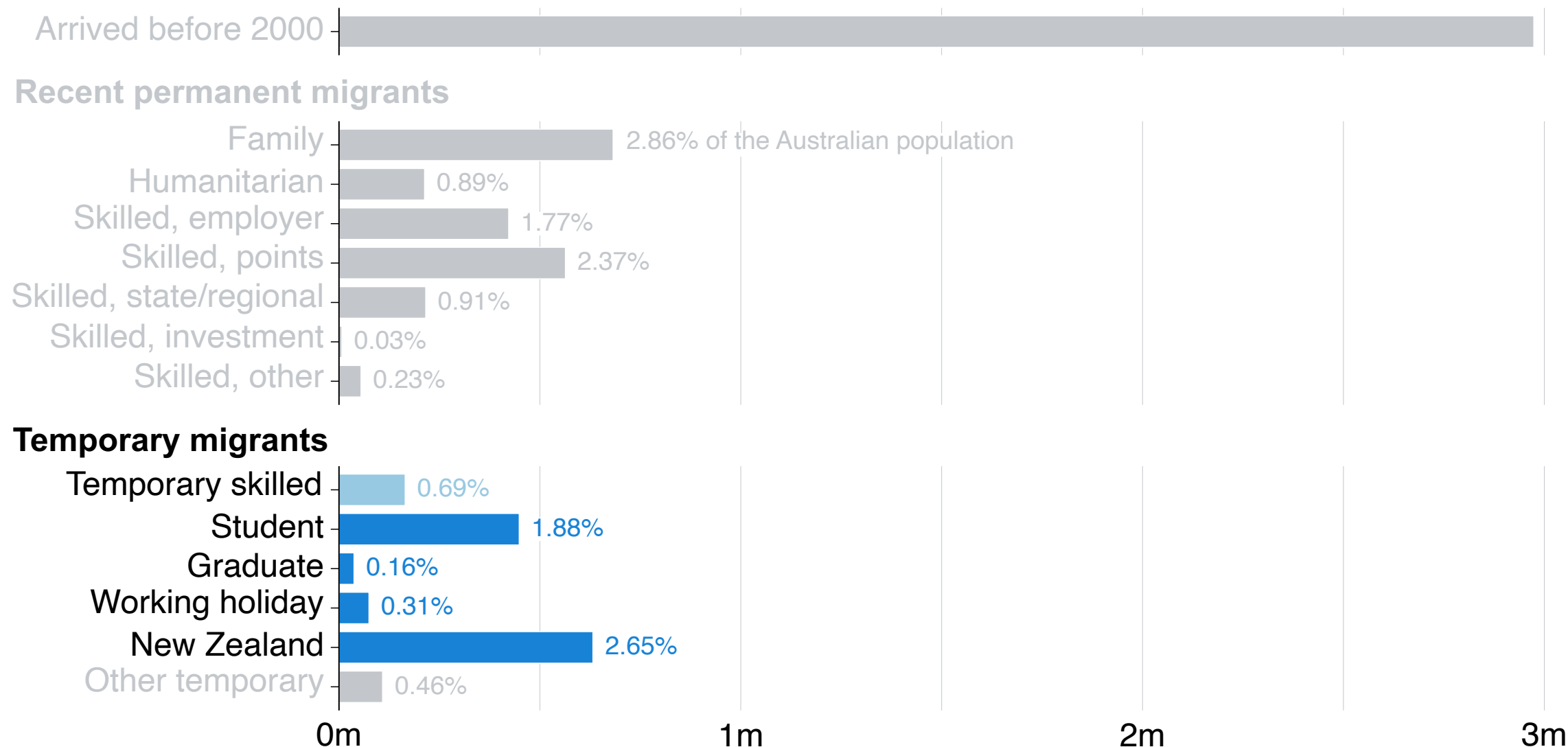
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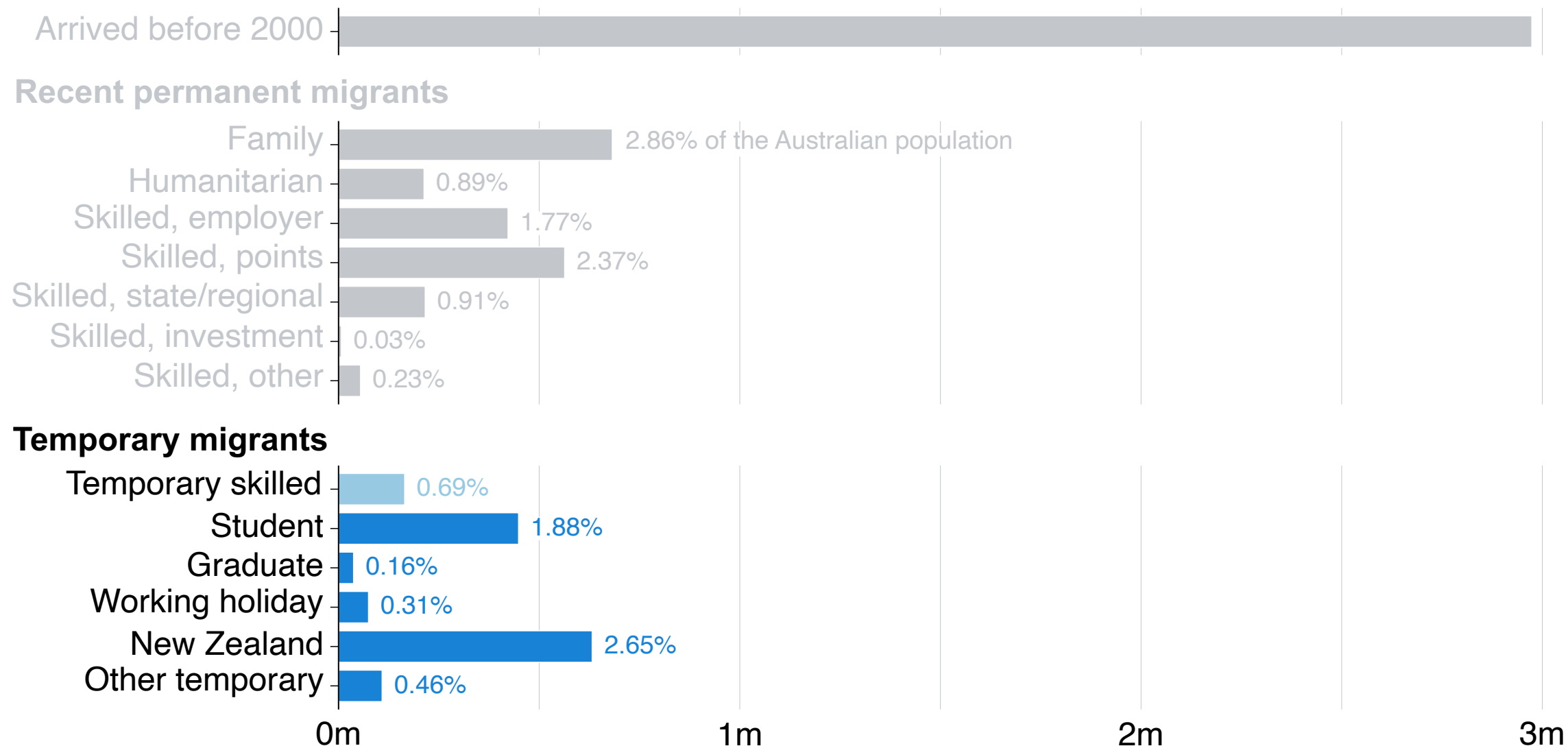
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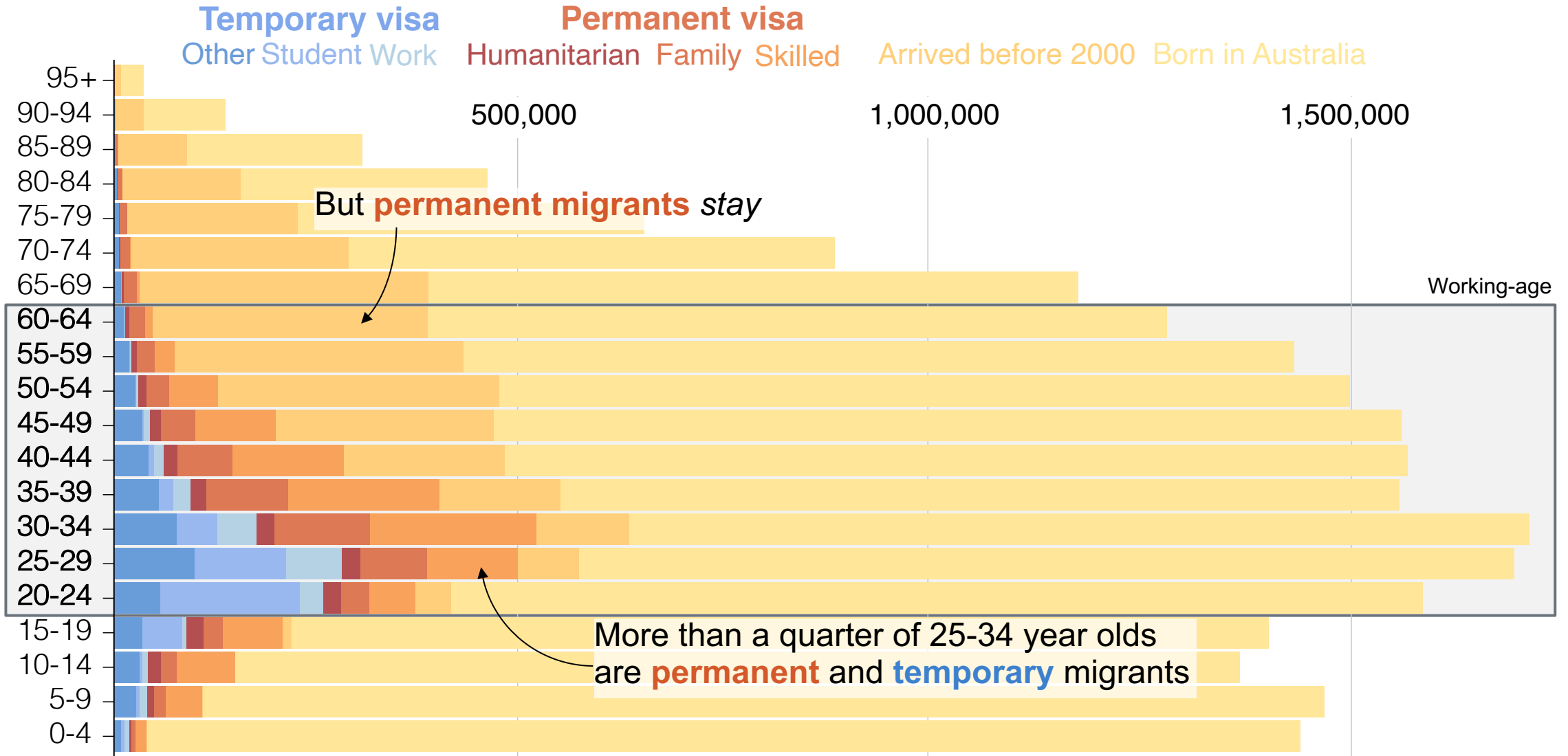
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Migration is big: more than one-in-four people in Australia aged in their 20s and 30s are recent migrants

Residents in Australia by age, 2016



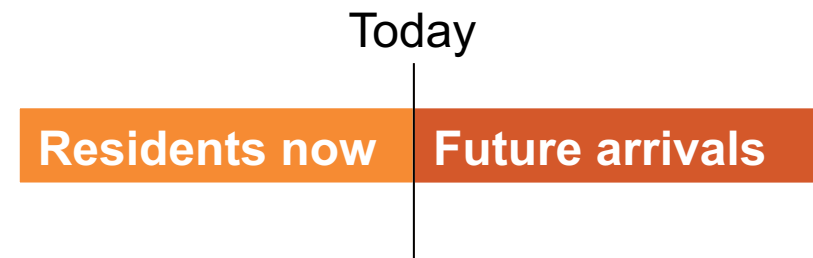
Notes: Counting residents of Australia during the 2016 Census. Overseas visitors are excluded, as are residents with an invalid year of arrival in Australia.
Source: ABS Census (2016); ABS Australian Census and Migrants Integrated Dataset (2016); ABS Australian Census and Temporary Entrants Integrated Dataset (2016).

How should we assess Australia's skilled migration program?

'The Australian immigration program should aim to **maximise welfare** of the **Australian community** along **economic**, **environmental** and **social** dimensions'

where:

- **Australian community** are Australian citizens and permanent residents, and their progeny, **at the point of decision making**.
- **Economic wellbeing** includes local labour-market, productivity, and fiscal effects.
- **Environmental wellbeing** includes natural resources, housing, and congestion. Largely driven by population effects.
- **Social wellbeing** includes social cohesion, safety, and public trust.



The **economic wellbeing** of the Australian community

How do recent migrants change incumbent wages and employment?

1. Migrant consumption
2. Concentration of immigrants in the labour market
3. Elasticity of substitution between immigration and incumbent labour
4. Adjustment from short- to long-run equilibrium
5. Productivity spill-overs

What is the likely net fiscal contribution of recent migrants?

1. Age of migrants
2. Subsequent lifetime income

The **economic wellbeing** of the Australian community

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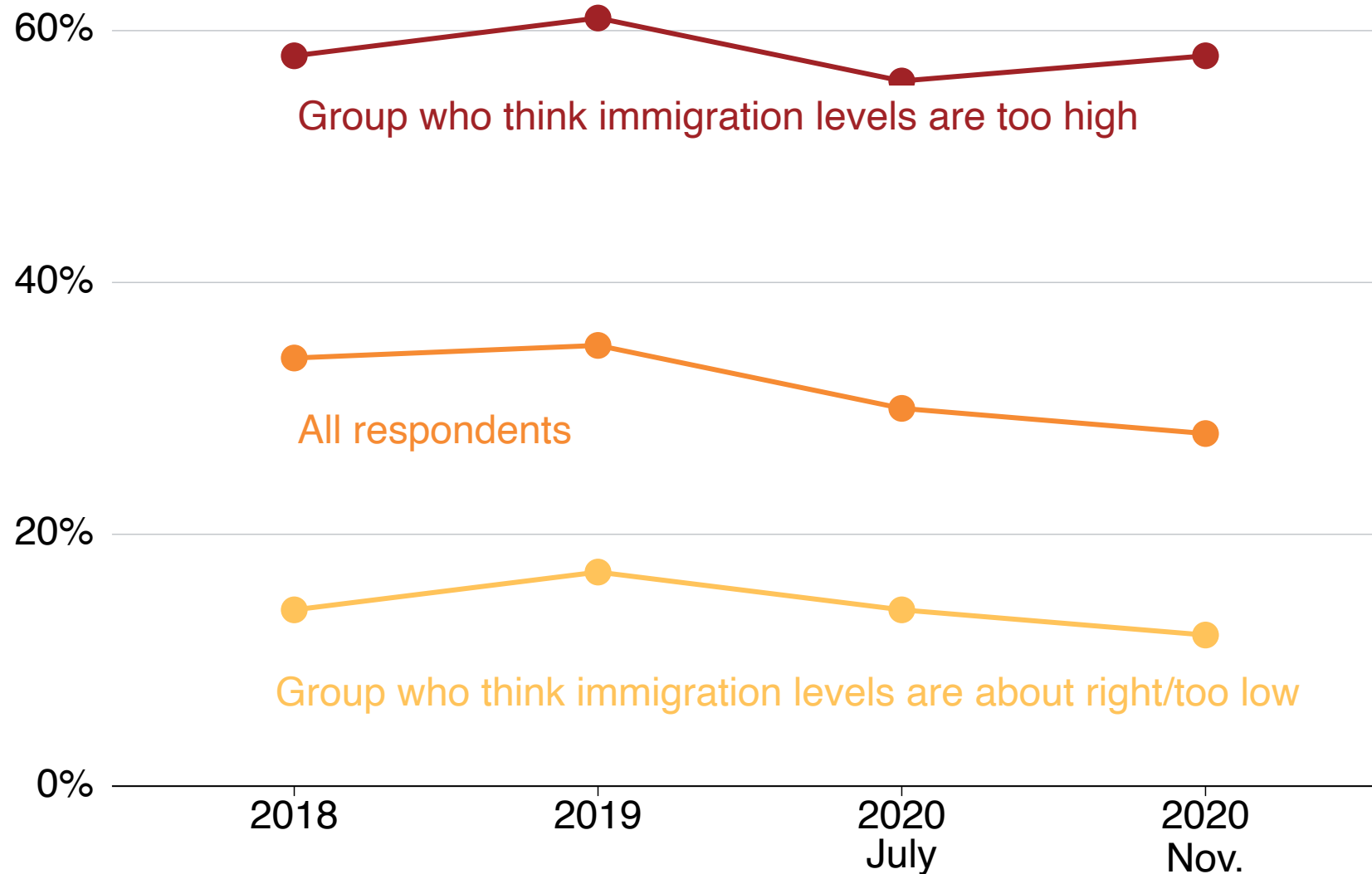
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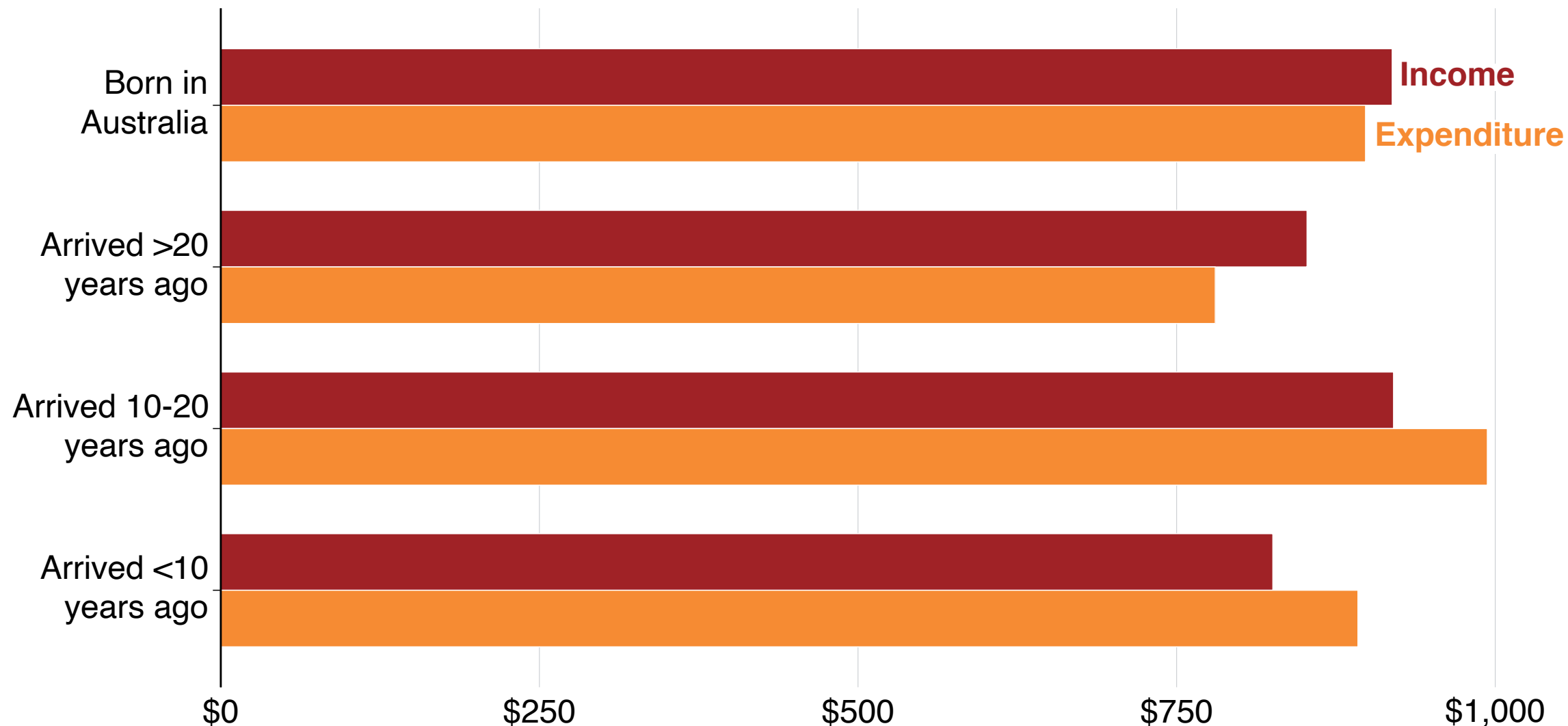
People who think Australia immigration levels are too high overwhelmingly think immigrants 'take jobs'

Proportion who agree that 'immigrants take jobs away'



Recent migrants spend more than they earn in Australia

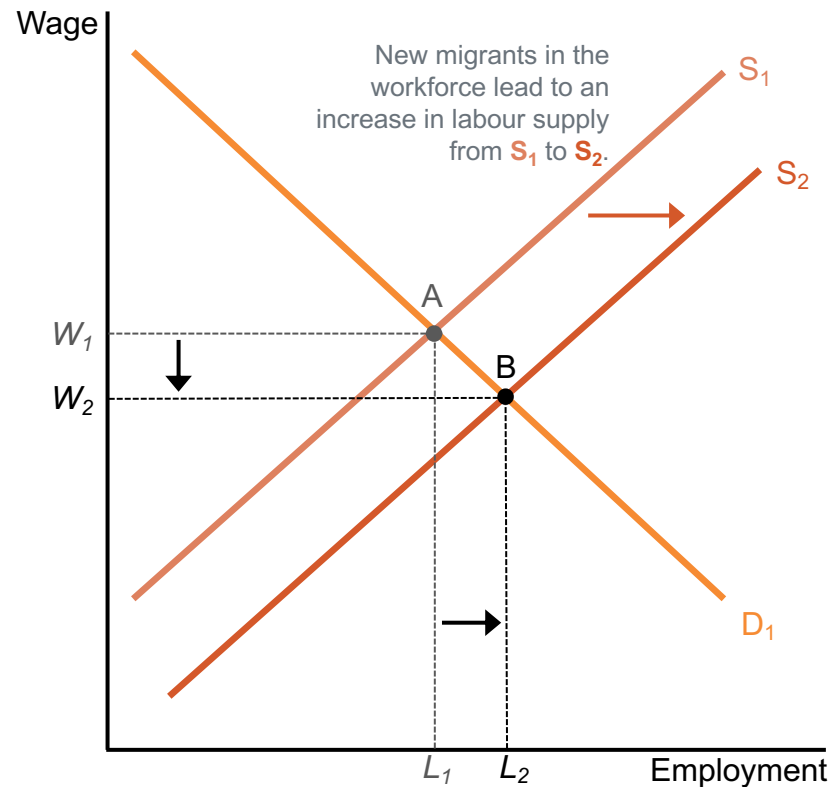
Average weekly household income and expenditure per adult, by year of arrival



Notes: Households with the reference person aged 18-65 only. Source: ABS (Household Expenditure Survey, 2015-16).

Immigrants increase aggregate labour supply *and* aggregate labour demand

Model A: Immigrants increase labour supply but **do not** consume

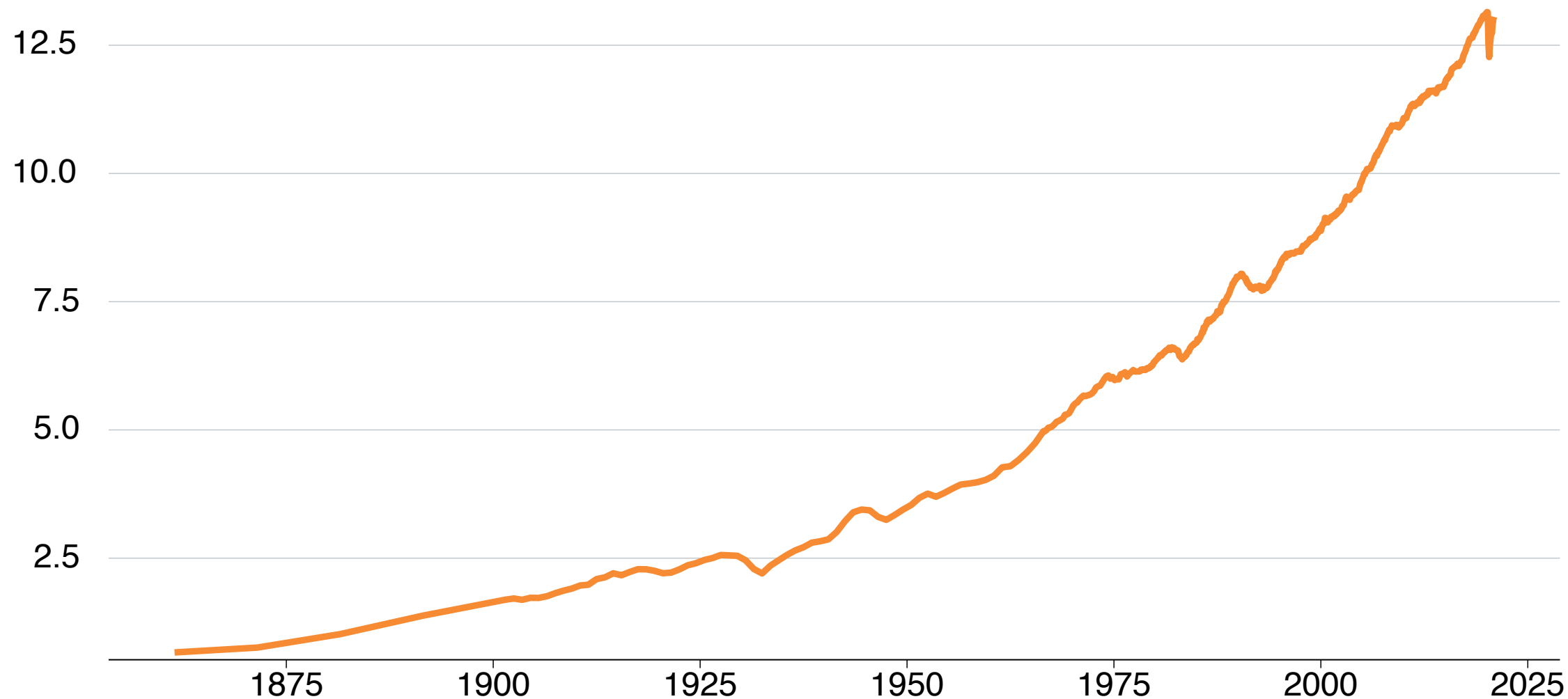


Model B: Immigrants increase labour supply **and** consume goods and services



The number of jobs in Australia is not fixed

Millions of employed people in Australia, 1861-2020



Theory

- **Aggregate impact on wages and employment is small/ambiguous**
- **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)

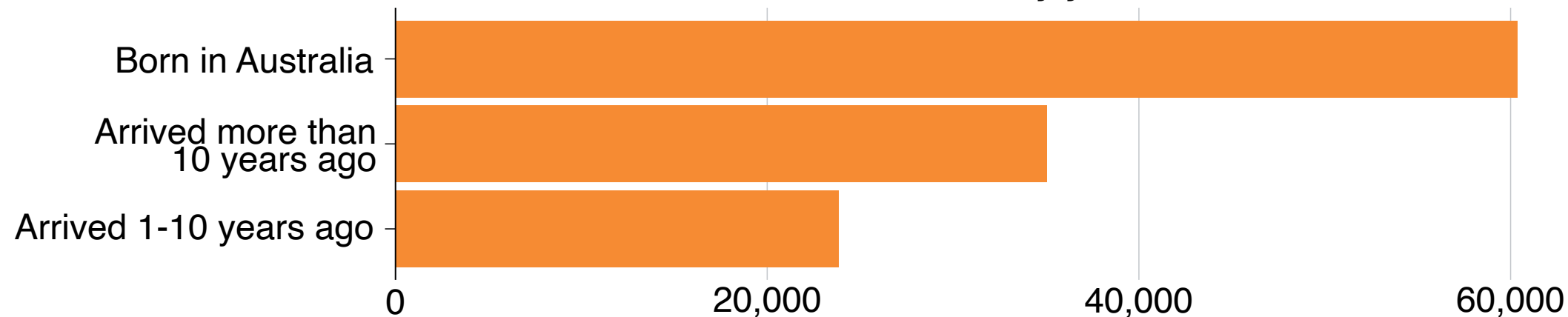
- ‘almost no evidence that immigration has harmed the aggregate labour market outcomes of...incumbents.’

Crown et al (2020):

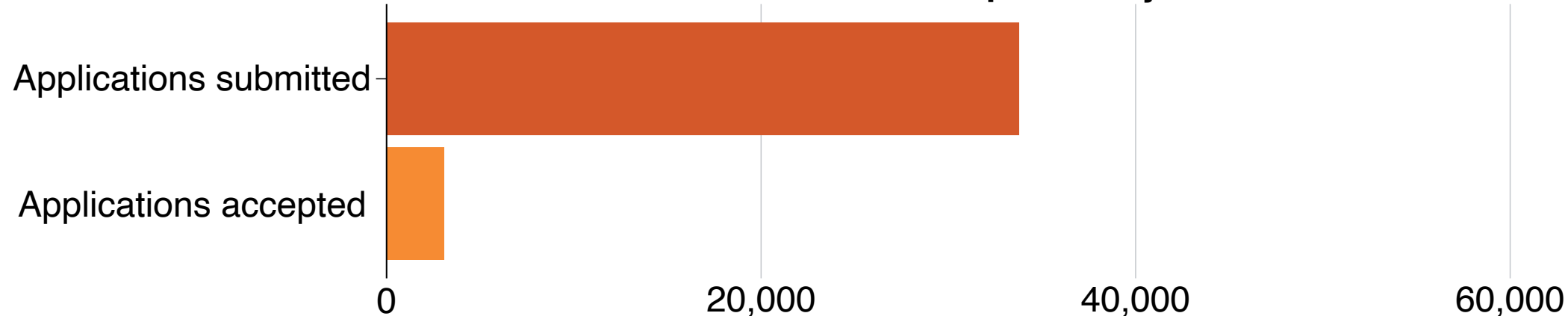
- Incumbents shift to tasks requiring greater communication abilities; higher wages
- Biggest gains for low-wage workers.

40,000 new accountants

Number of accountants in Australia, by year of arrival

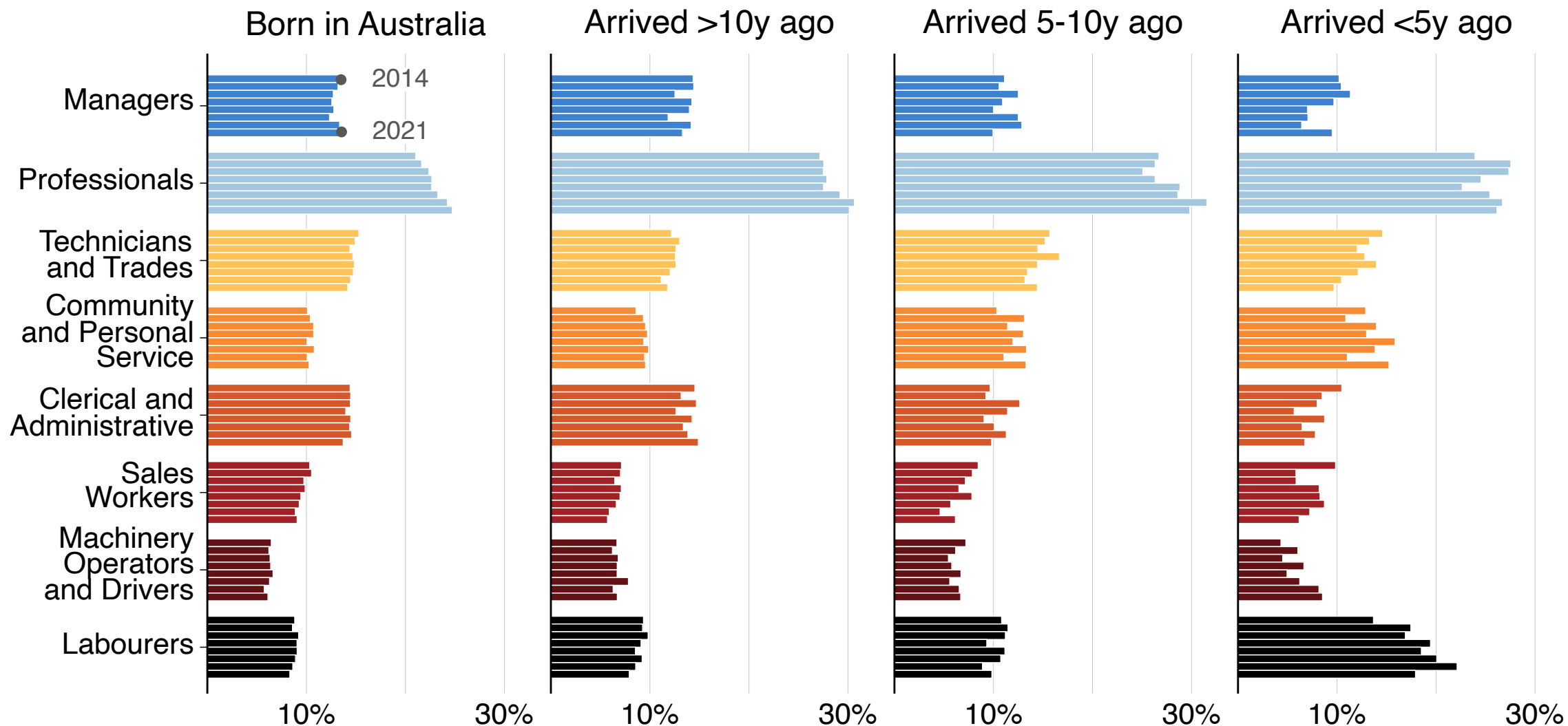


Independent (points) permanent migrant applications from accountants submitted in the past two years



Migrants work in broadly similar occupation groups to people born in Australia

Major occupation share by arrival group



The **economic wellbeing** of the Australian community

How do recent migrants change incumbent wages and employment?

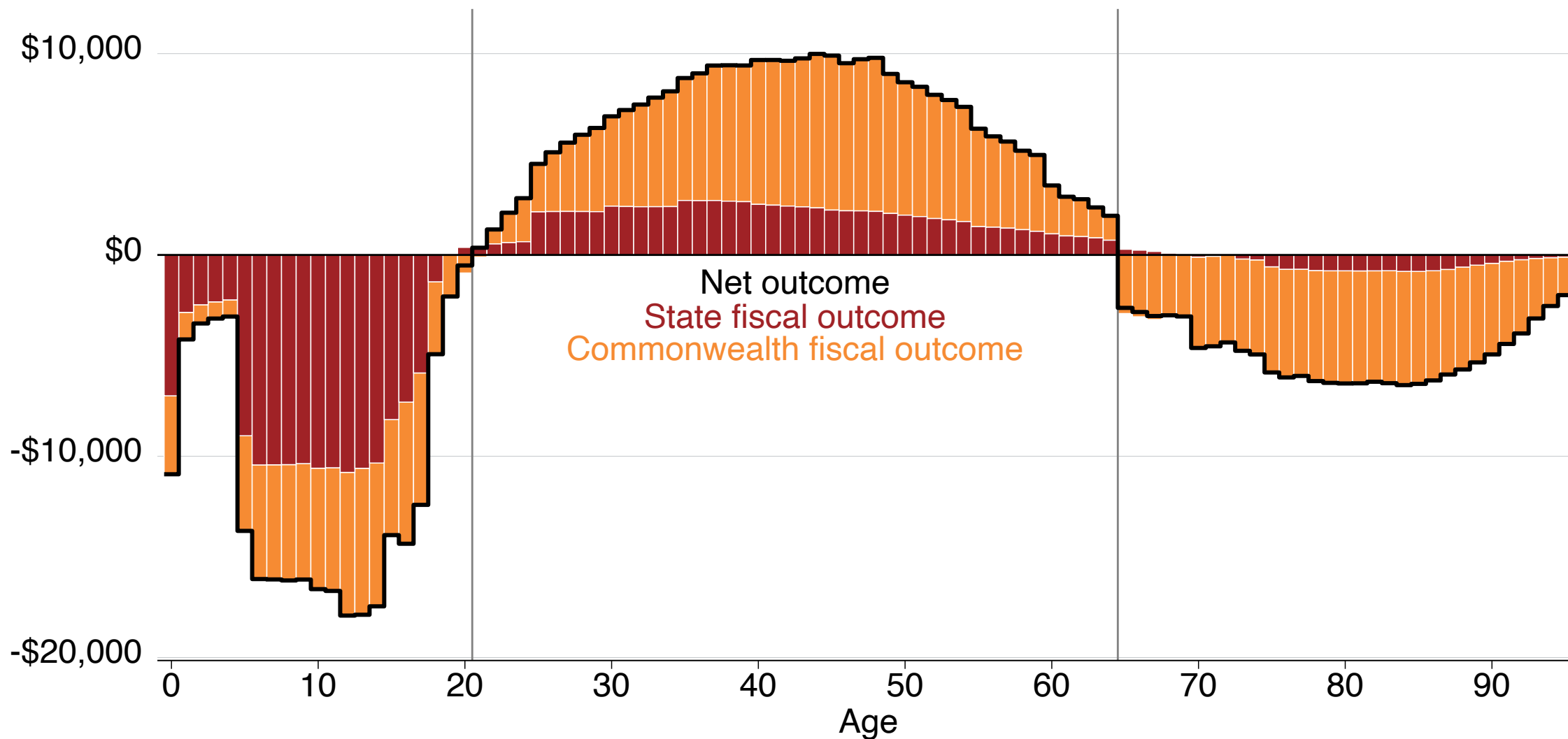
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1. Age of migrants
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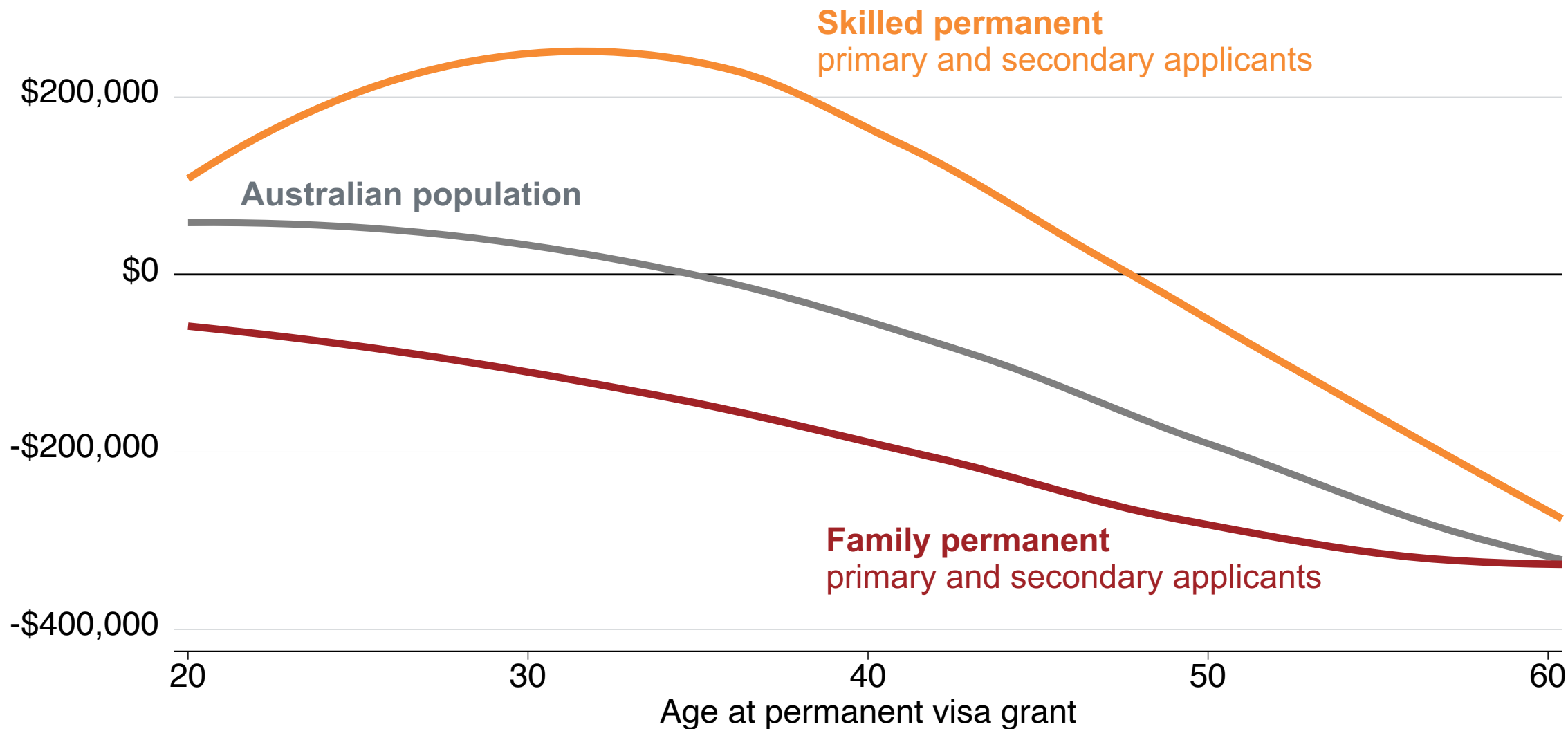
Individuals' fiscal contribution is largely driven by life stage

Average lifetime interaction with the Commonwealth and State tax and transfer systems



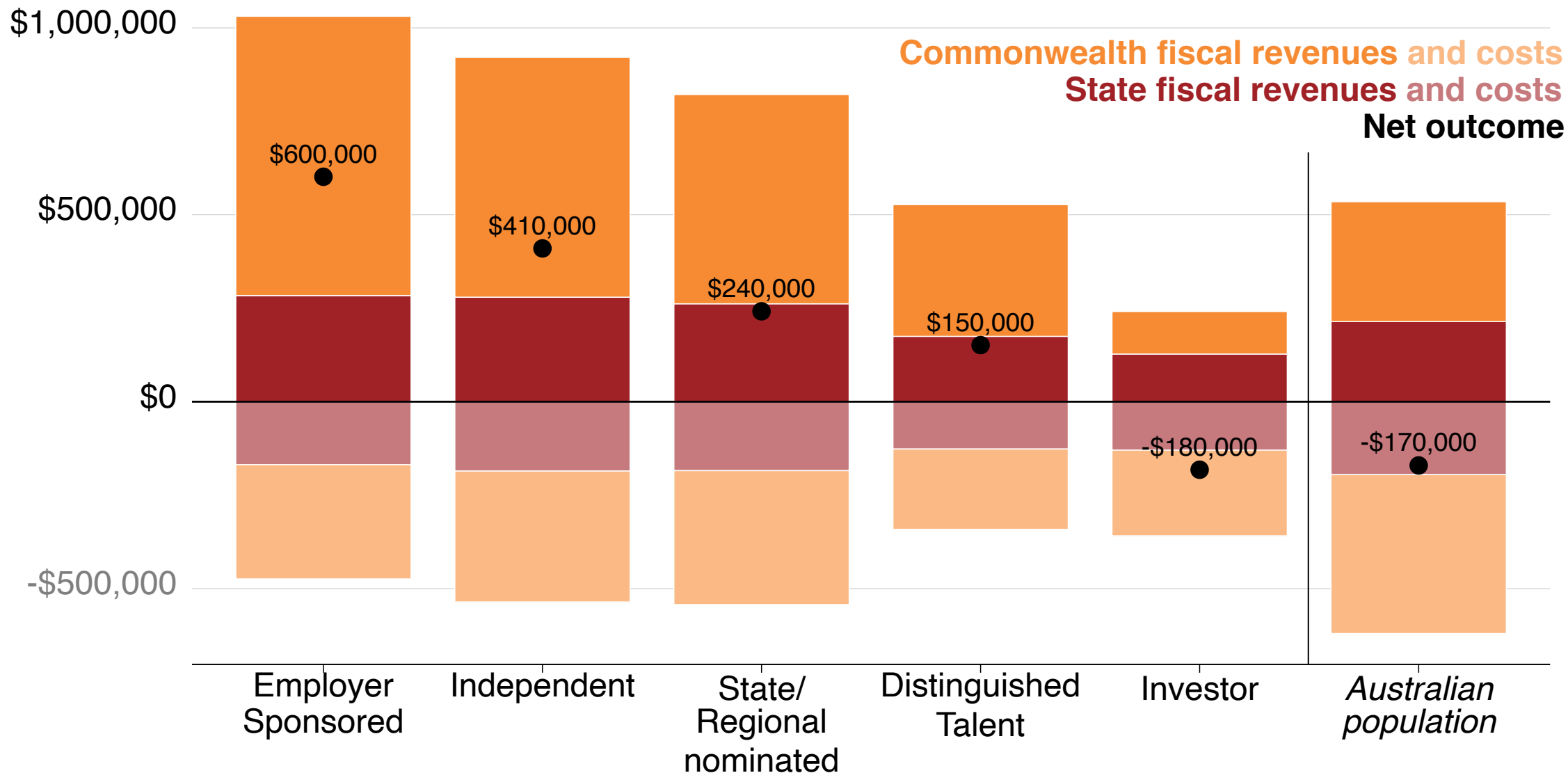
30-year-old skilled migrants tend to be best for lifetime fiscal outcomes

Average lifetime fiscal impact by age of permanent visa grant



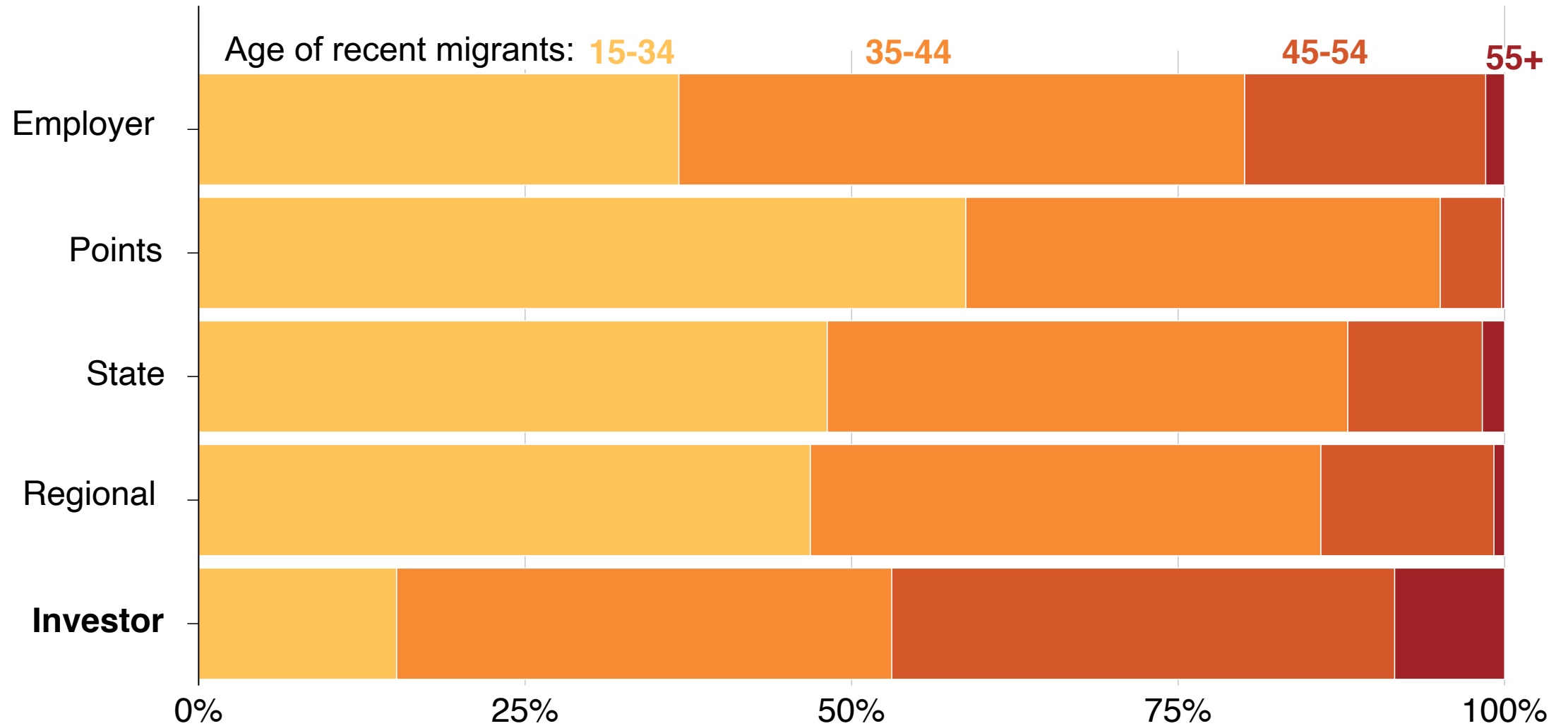
Investment visa holders have poor lifetime fiscal outcomes

Average lifetime fiscal benefit of skilled primary applicants



Points-based and employer-sponsored visa holders are overwhelmingly young; whereas investors are older

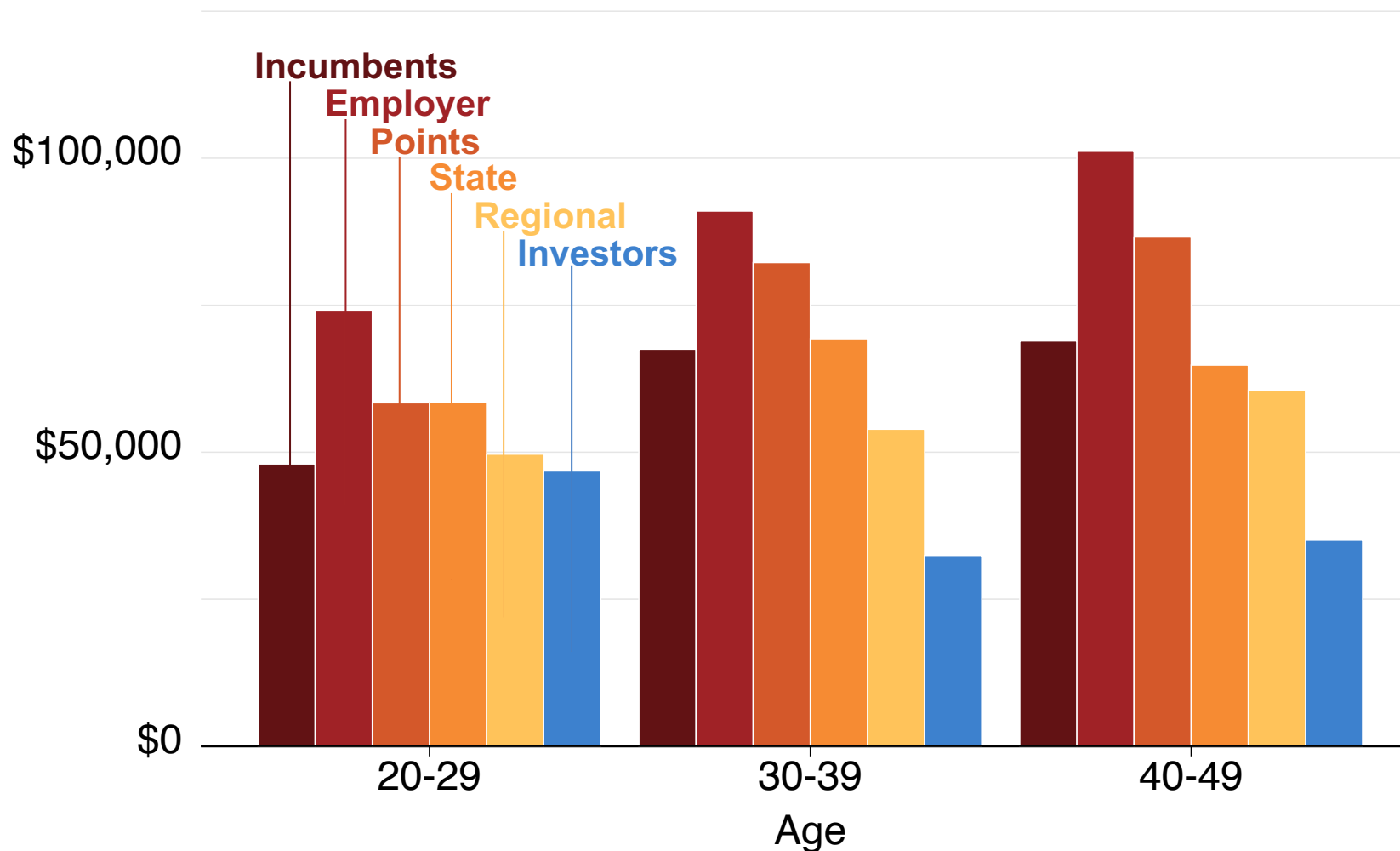
Percent of primary applicants by age and visa stream



Notes: Residents in Australia in 2016 who arrived on a permanent visa between 2012-2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded. Source: ABS Australian Census and Migrants Integrated Dataset (2016).

Employer-sponsored migrants earn the most, and investment the least

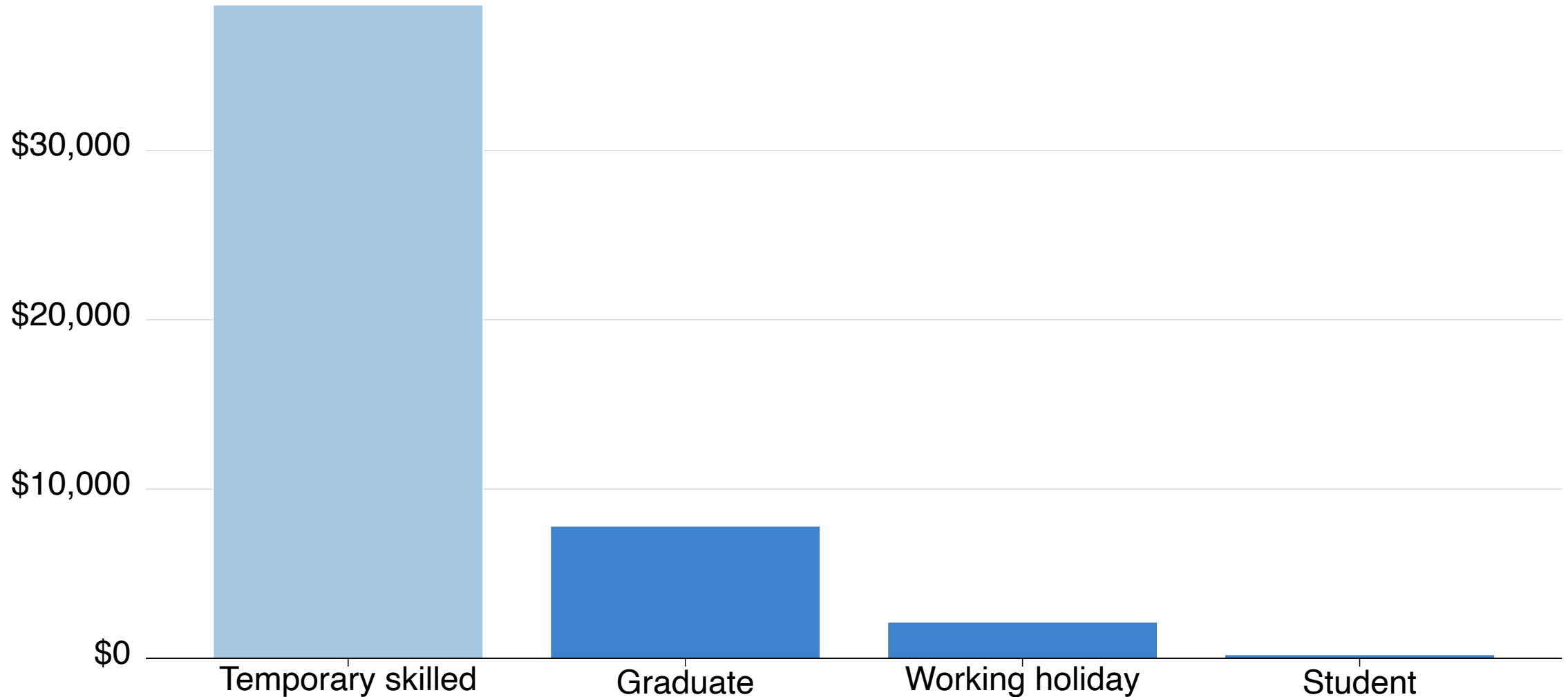
Median income of full-time workers, incumbents and primary applicants



Notes: Residents in Australia in 2016 who arrived on a permanent visa between 2012-2016. Visa class is the first permanent visa granted. Incumbents are residents born in Australia or those who arrived before 2000. Residents with an invalid year of arrival in Australia are excluded. Source: ABS Census (2016); ABS Australian Census and Migrants Integrated Dataset (2016).

Temporary skilled workers contribute more to Australia's fiscal position than other temporary groups

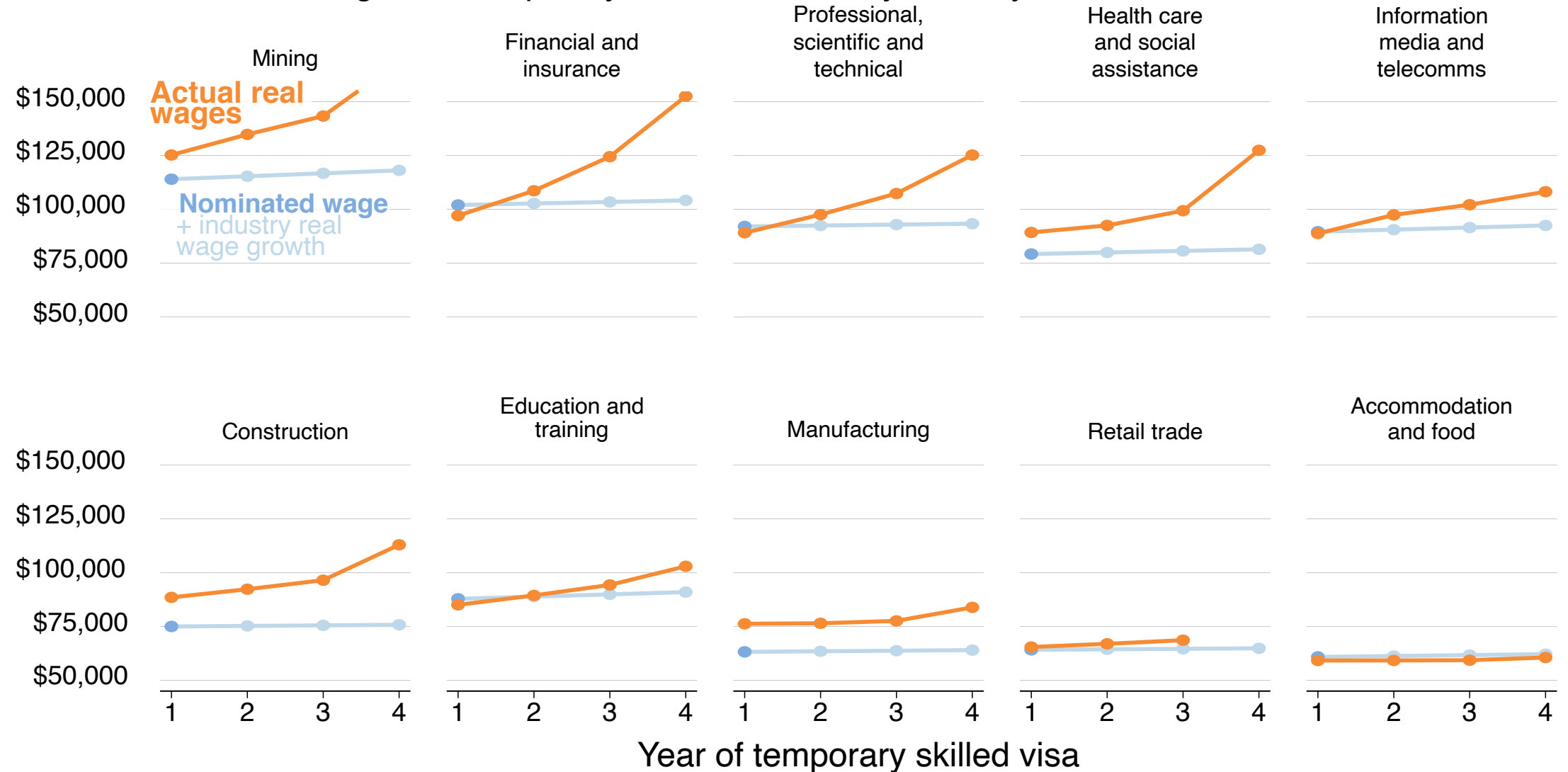
Fiscal impact per person by temporary visa subclass over duration of visa



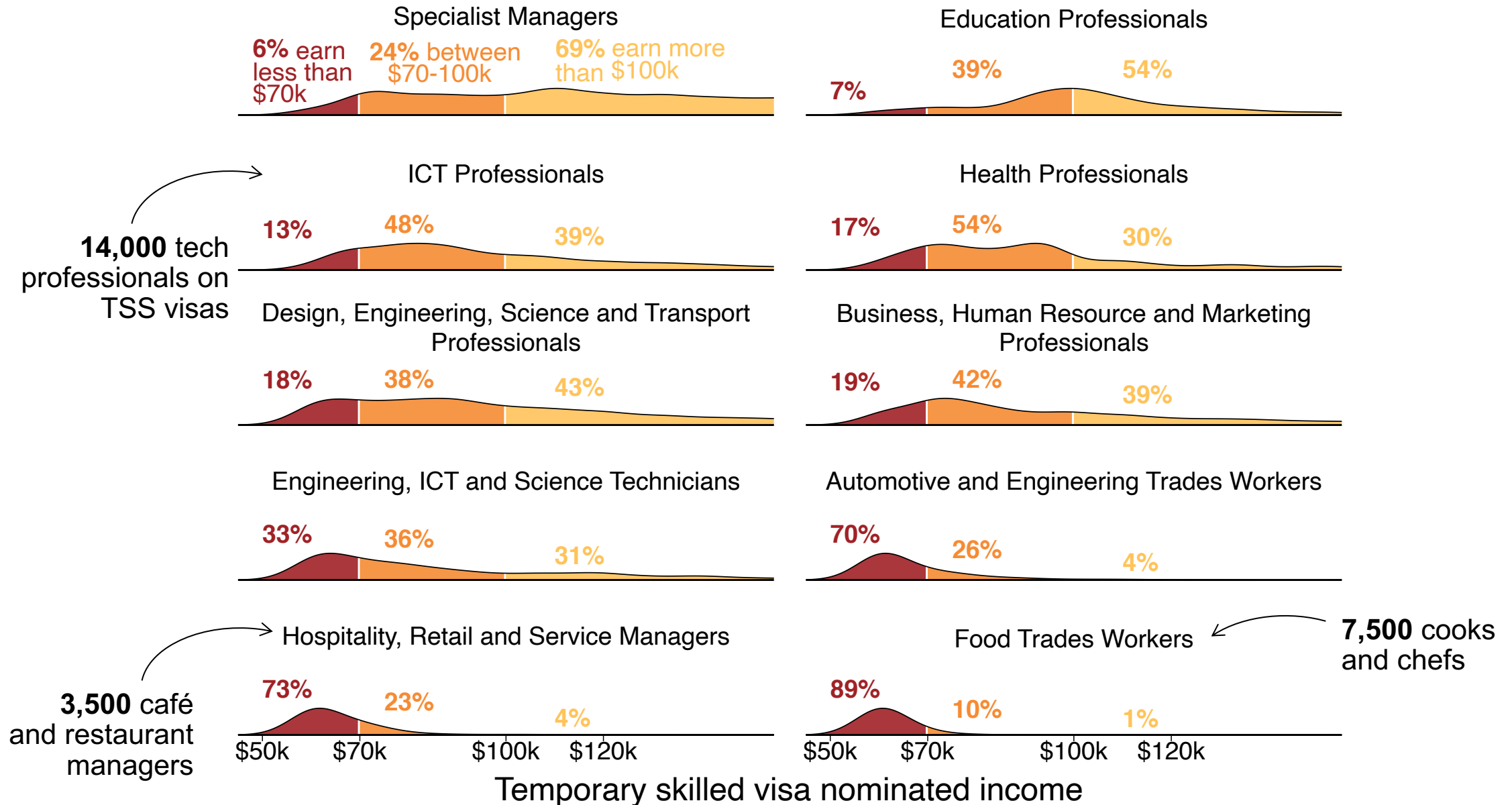
Note: Primary applicants only.
Source: Treasury FIONA model, Varela et al (2021, Table B2)

Workers see big wage increases over time – except retail trade and accommodation and food services

Median annual real wages for temporary skilled workers by industry

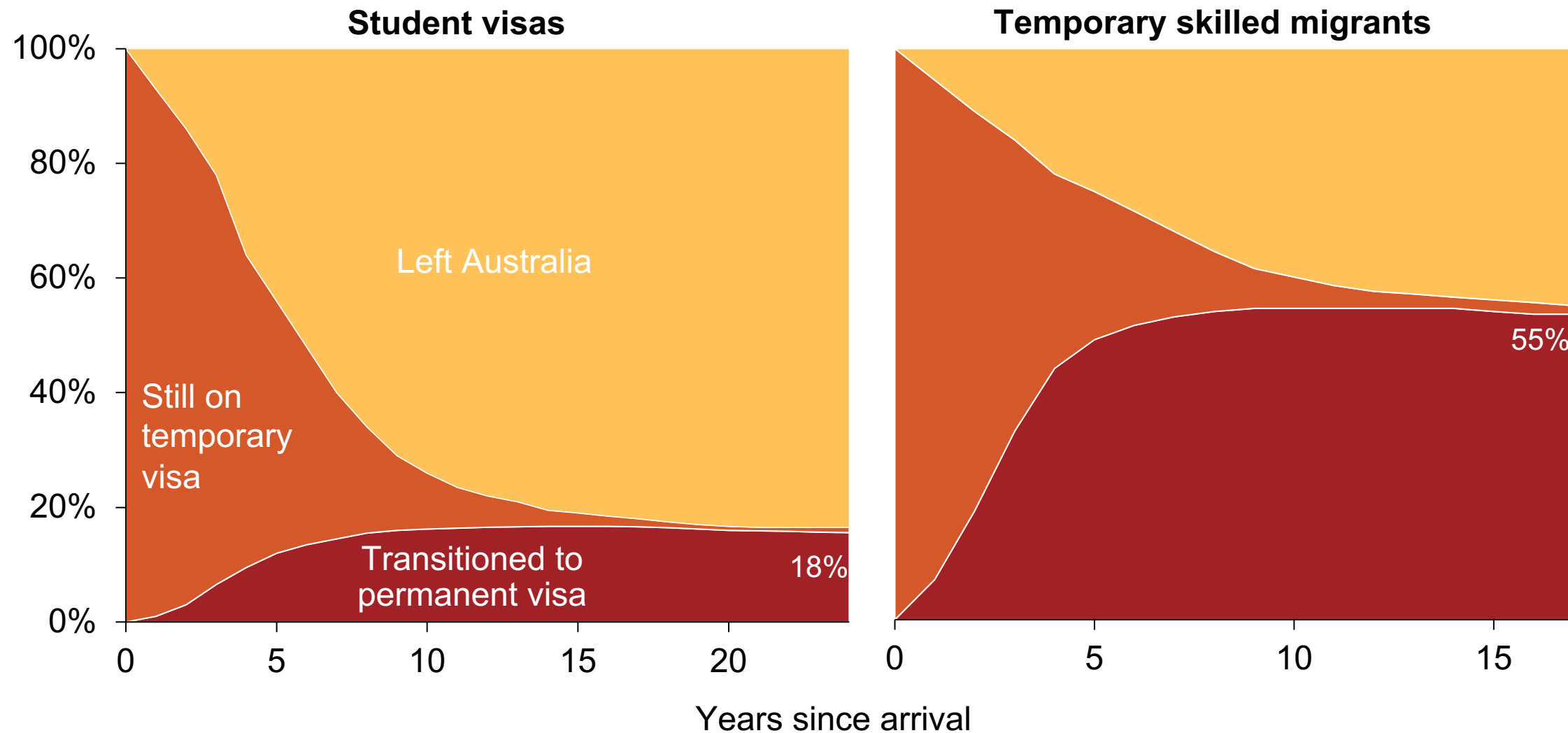


Nominated incomes of temporary skilled workers vary dramatically within occupations



Temporary migrations captures who comes, but permanent migration dictates who stays

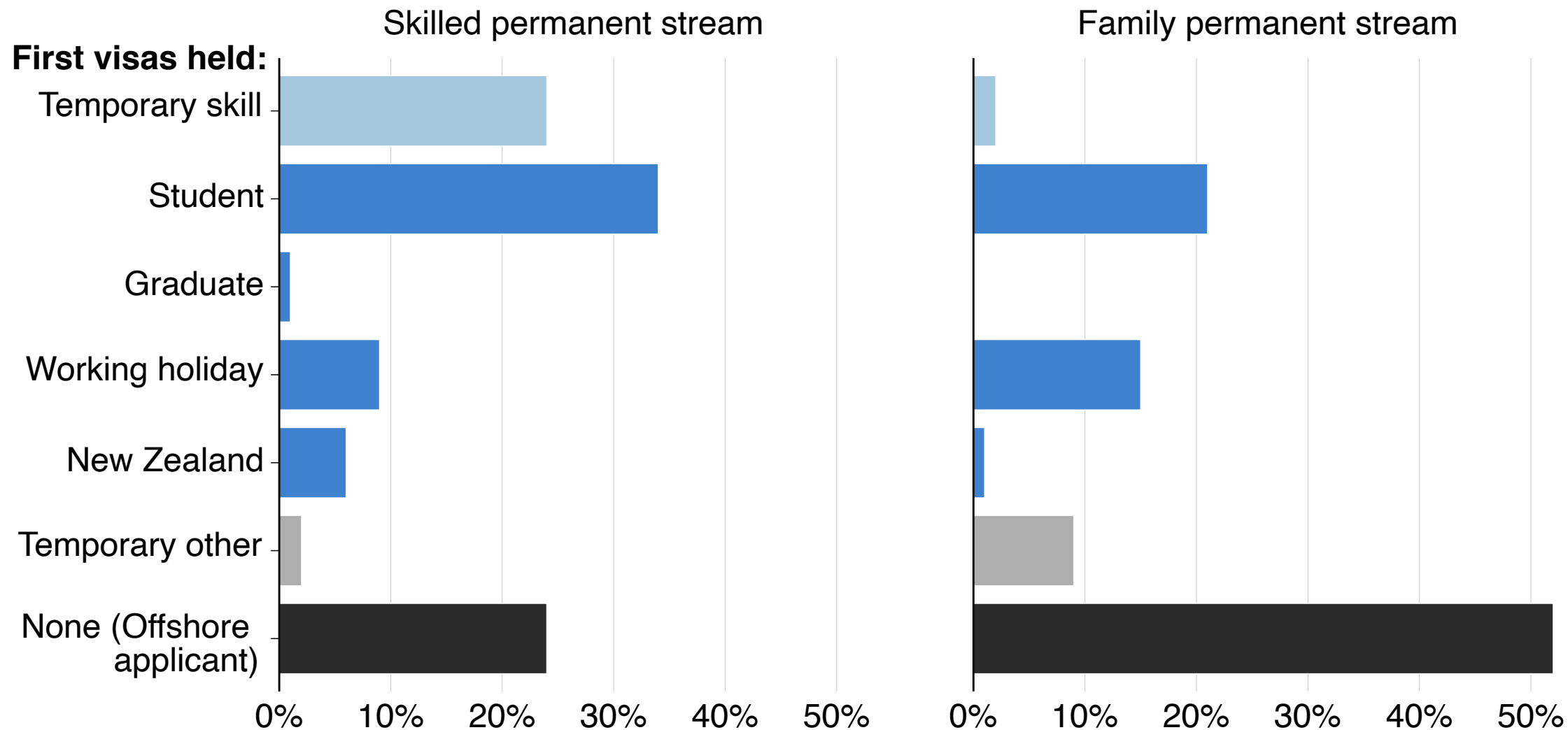
Share of visa holders



Source: Treasury / Department of Home Affairs, "Shaping Our Nation", Figure 18.

Three-in-four skilled permanent migrants come from temporary streams

Share of skilled and family permanent streams by first visa held



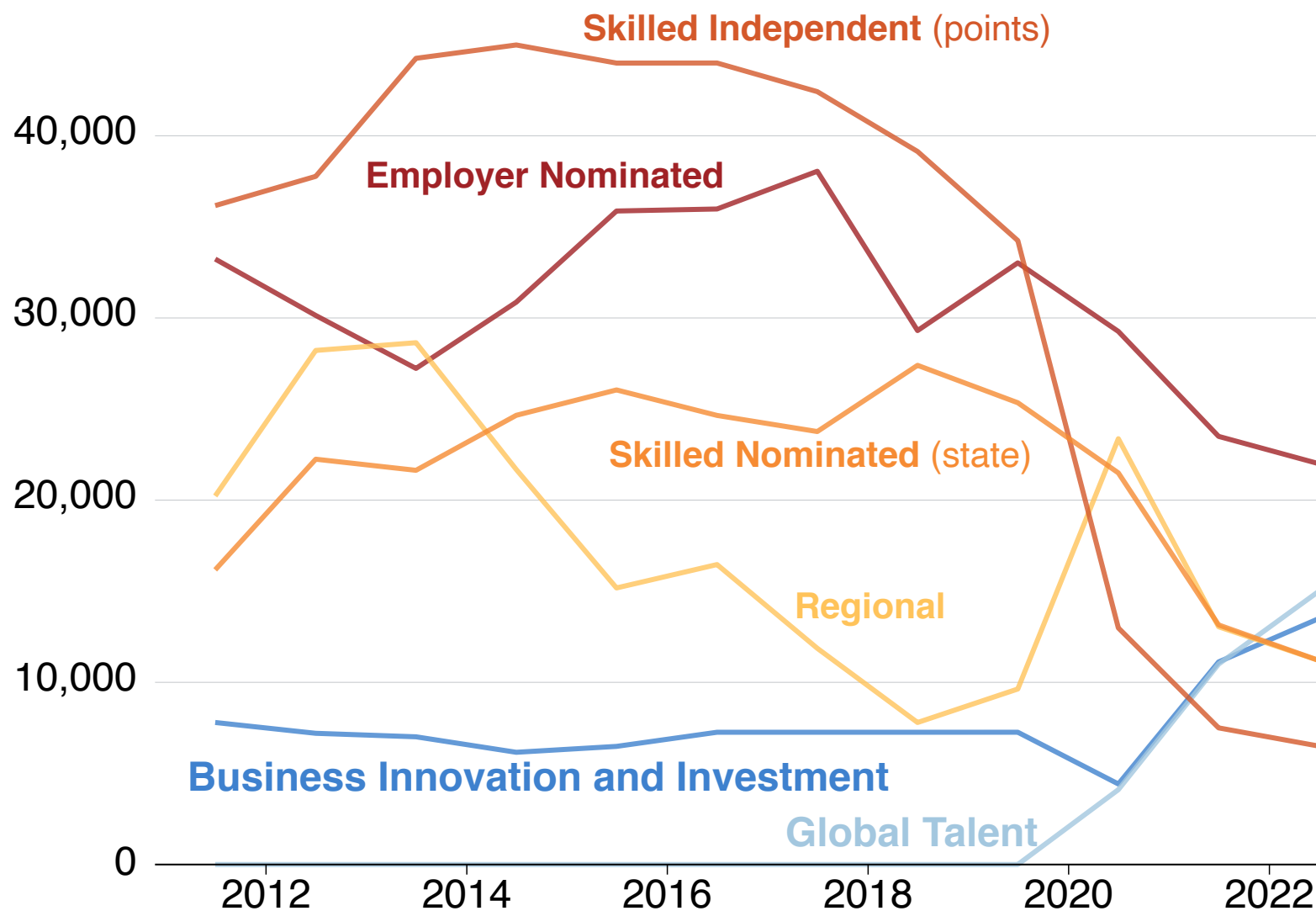
Reform priorities

Priorities for permanent and temporary skilled migration programs:

- **Abolish skills lists:** they can't identify "shortages", don't prioritise high-skilled
- **Expand permanent employer sponsorship:** \$80k wage floor, open to all occupations
- **Expand temporary skilled employer sponsorship:** \$70k wage floor, open to all occupations
- **Abolish BIIP:** not boosting innovation, big costs given age & low incomes
- **Scale back and evaluate Global Talent:** sound objective; untested at scale
- **Review points test:** remove points for domestic & regional study & "professional year"; should we keep separate state-nominated and regional visa streams?

Recent allocation announcements

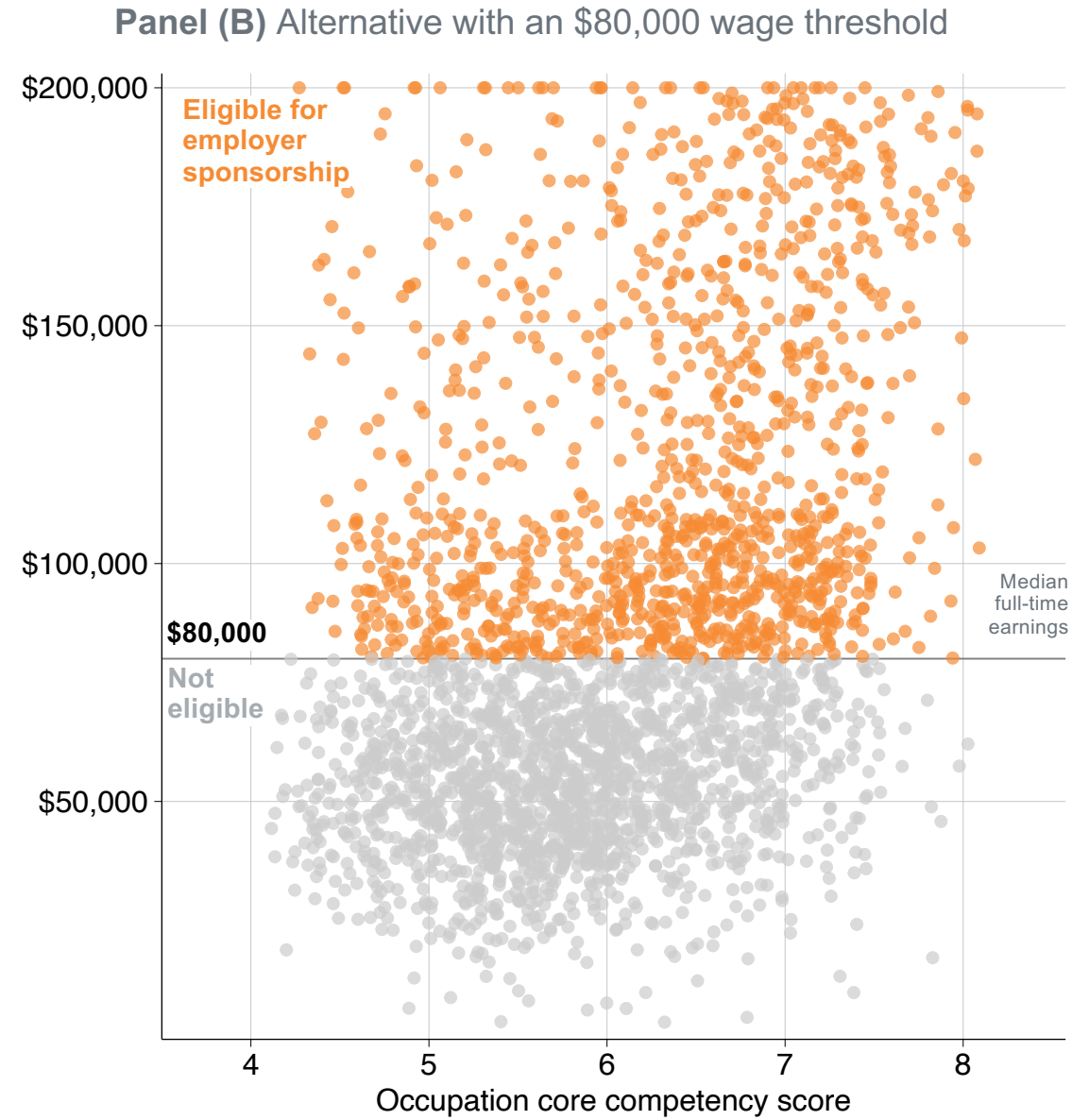
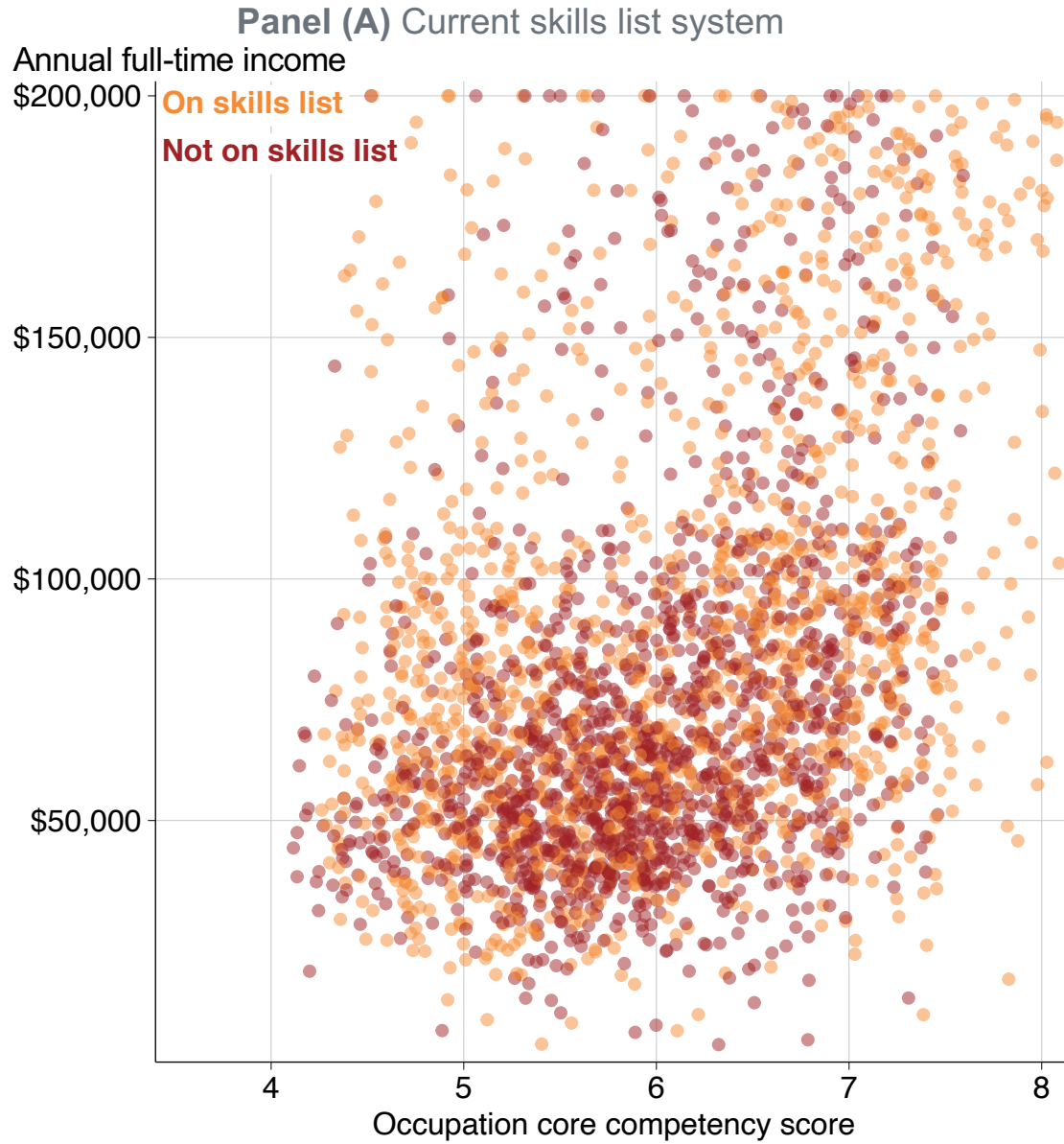
Annual permanent visa allocation



Notes: Figures for 2022-23 are planned. Original visa grant figures have been adapted to mirror the government's new categorisation, introduced in 2019-20.

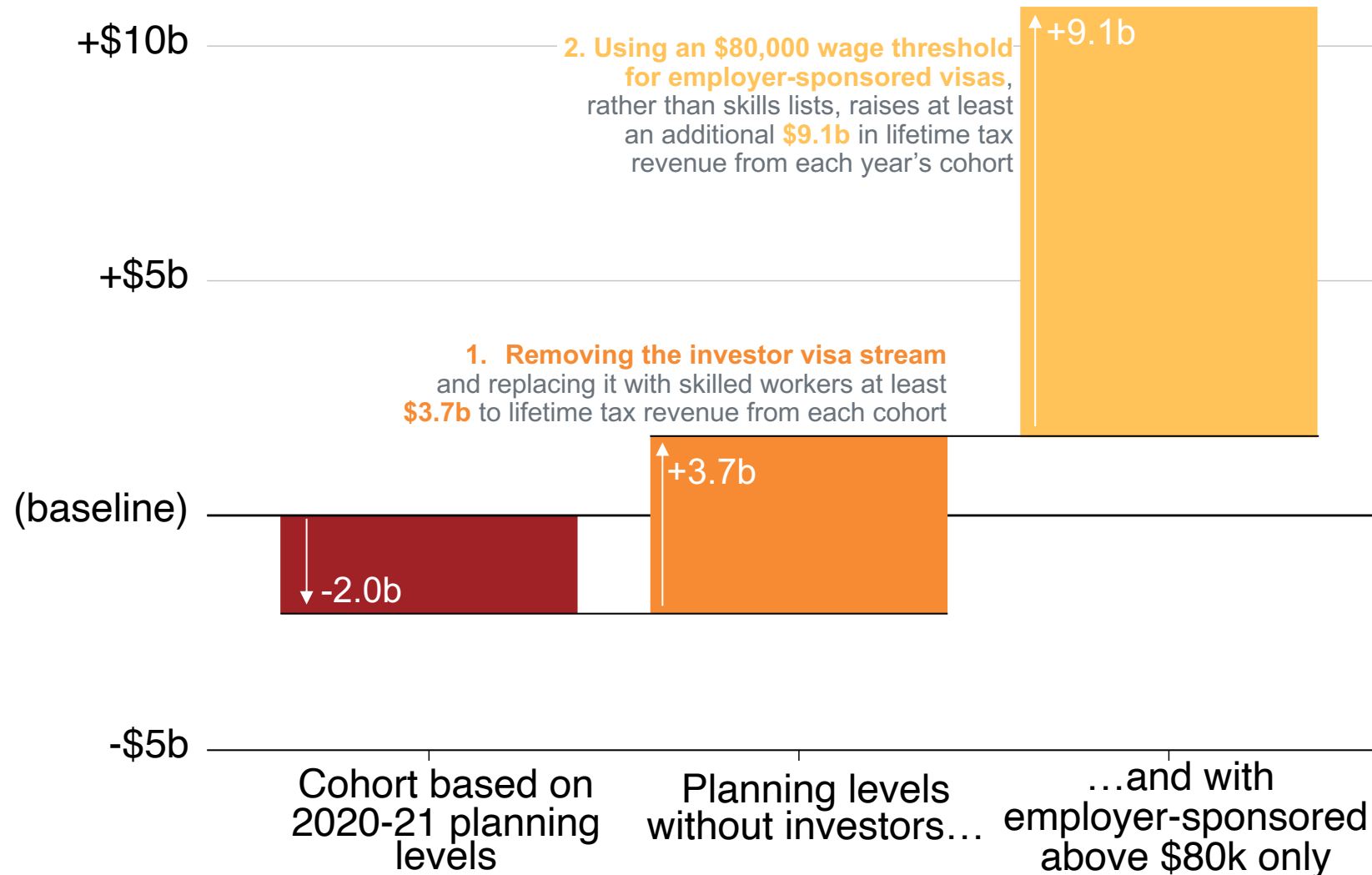
Replace occupation lists with income thresholds

Each dot represents 1,000 full-time jobs in an occupation by their income



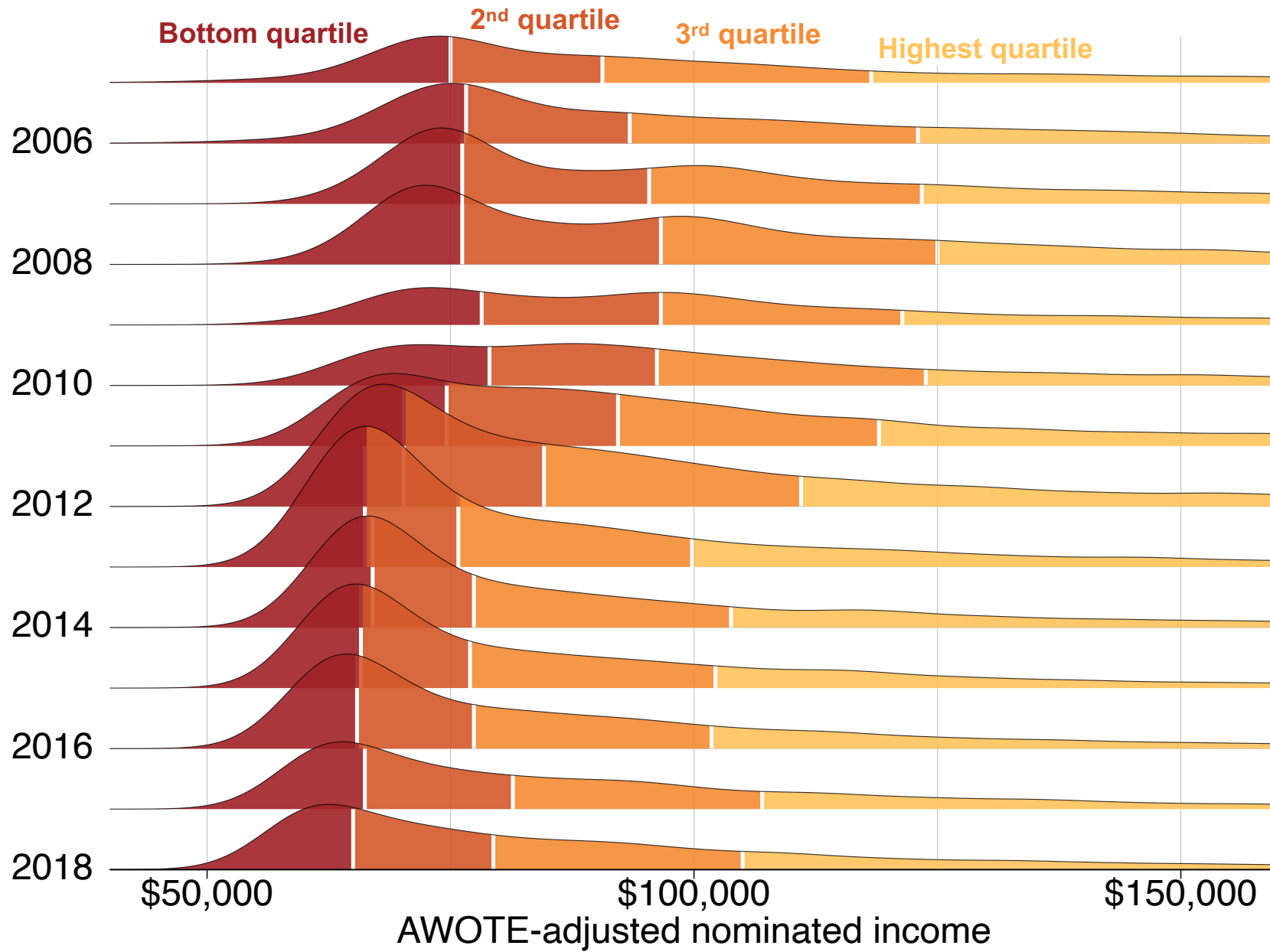
Improving how we select permanent skilled migrants will produce a big fiscal dividend in the long term

Estimated lifetime tax paid of permanent migrant cohorts, relative to recent (2013-18) cohort composition



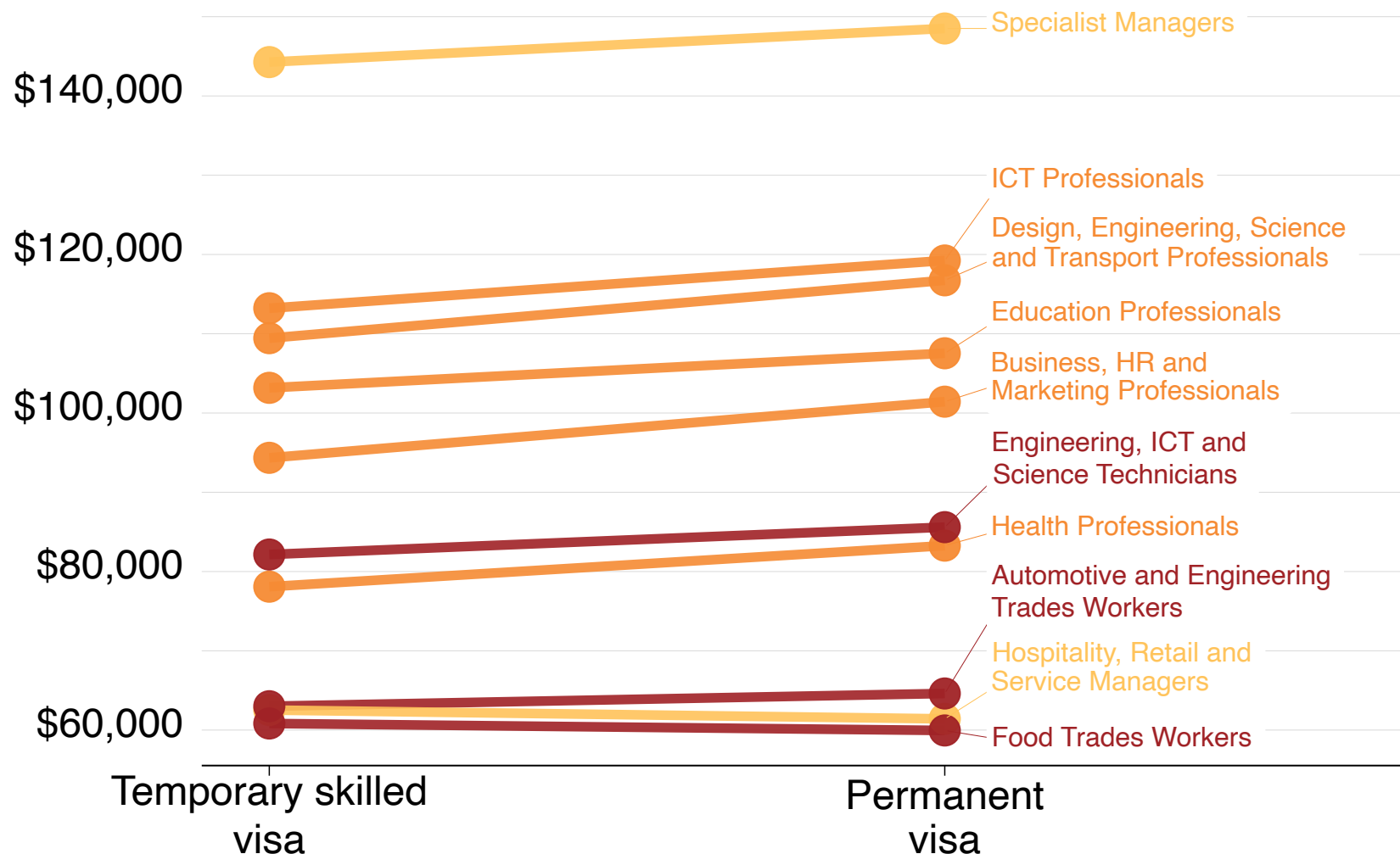
Notes: Assumes a real wage growth is 1% and a real social discount rate of 3%. Retirement age is 67. See methodology in Grattan's report: Rethinking permanent skilled migration after the pandemic.

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



High-wage TSS visas lead to high-wage permanent visas

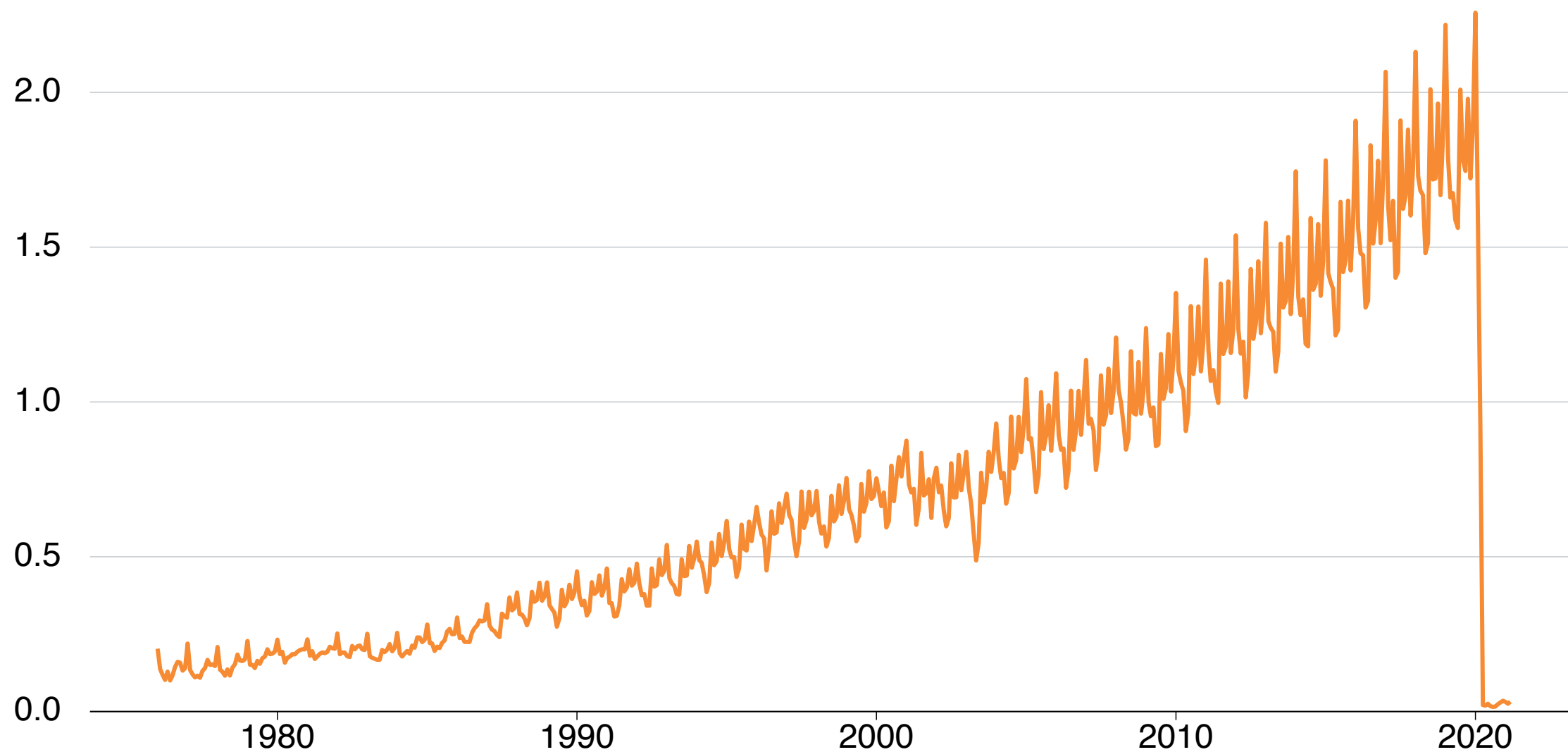
Median nominated income between TSS visa and permanent employer-sponsored visa



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.

Australia's border was slammed shut

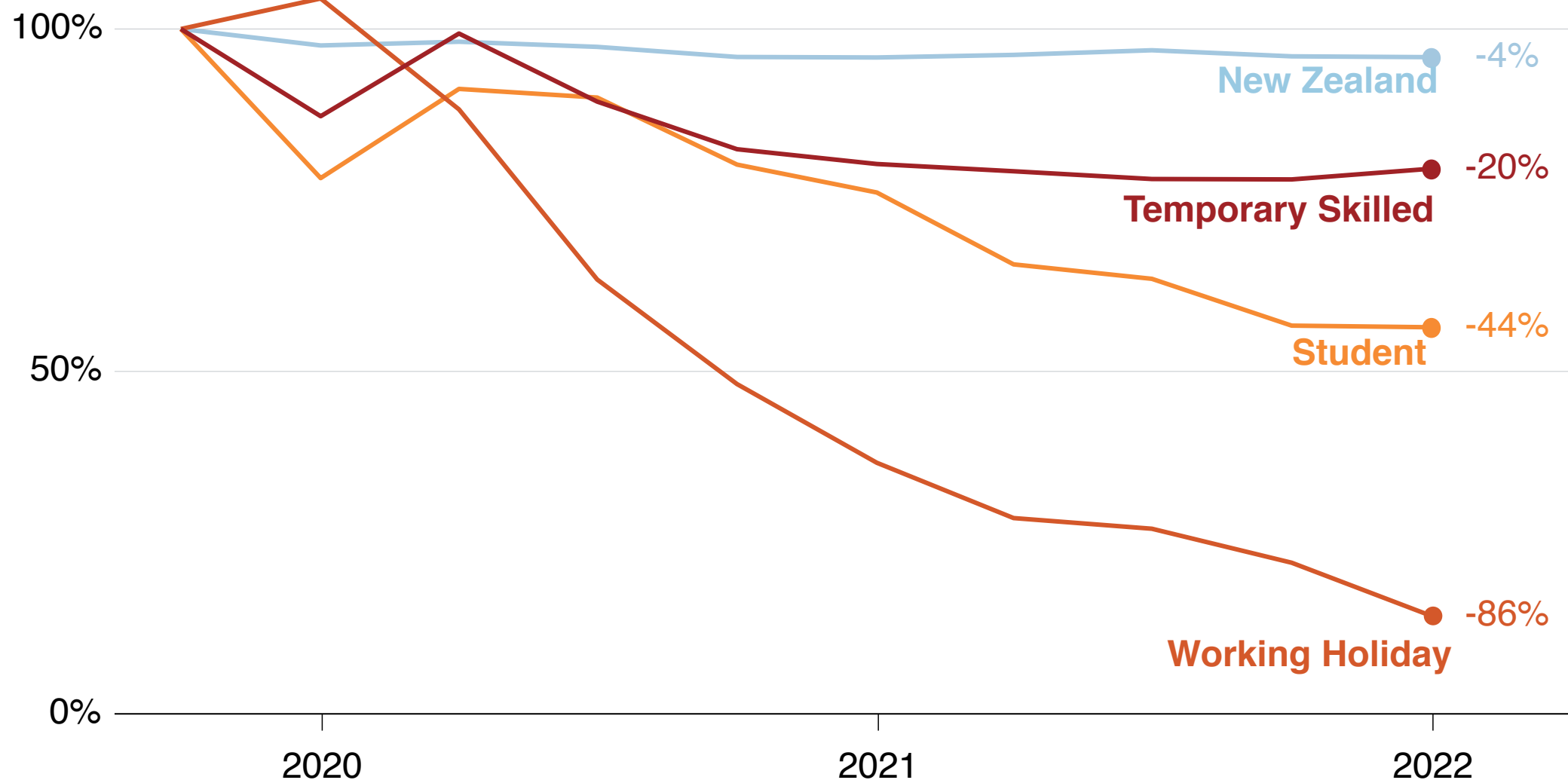
Total monthly arrivals in Australia, millions



Notes: Arrivals statistics record the number of movements of travellers across Australia's border, not the number of individual travellers. Total arrivals includes both residents returning and visitors arriving. Source: ABS, Overseas Arrivals and Departures, March 2021.

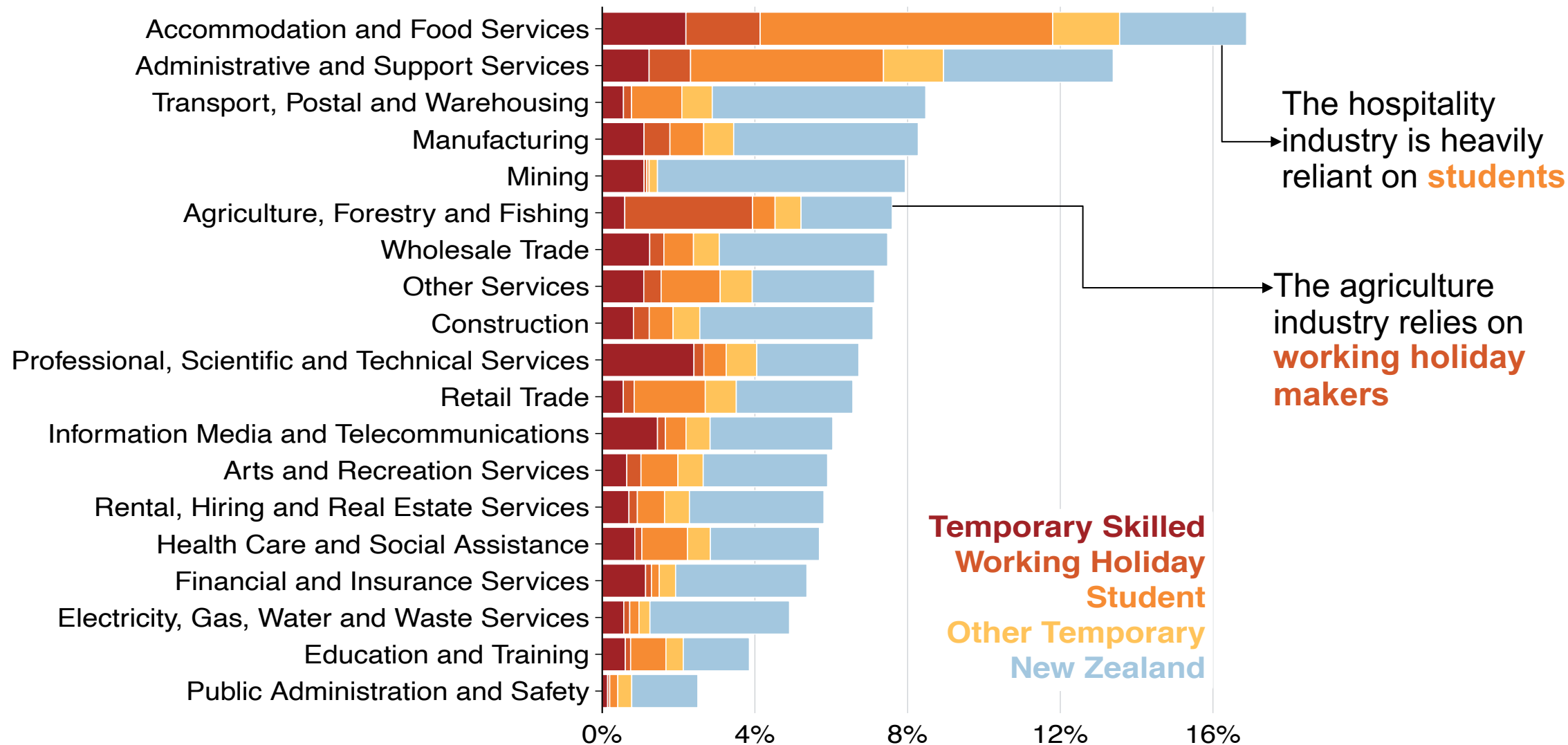
But temporary migrants didn't all disappear

Change in temporary visa-holders in Australia since 2019Q3



Some industry were more exposed to border closures than others

Temporary workers, share of industry



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