

Australia's migration opportunity: how rethinking skilled migration can solve some of our biggest problems

Submission to the review of Australia's migration system

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Overview

After the struggles of the pandemic, Australia again faces a number of big challenges: sluggish productivity growth, a growing budget problem as our population ages, and a rapid transition to a net-zero economy. A better skilled-migration program can help address each of these.

Our migration program is not working as well as it should. Employer sponsorship is now both more complex and less certain, making Australia less attractive to globally-mobile talent. Fewer temporary sponsored workers and students now transition to permanent visas and those transitions are taking longer. Exploitation of low-paid temporary migrants abounds, undermining public confidence in migration. We risk squandering many of the benefits skilled migration offers.

We should start by rethinking our objectives for skilled migration. Only one quarter of permanent visas issued over the past decade actually assessed migrants' skills. Another one-in-three went to the families of those skilled migrants. The rest came via the family and humanitarian streams, reflecting the diverse objectives of our migration program.

Permanent skilled migration must therefore select younger, skilled talent to stay in Australia long-term, not address short-term skills shortages. Temporary skilled migration helps fill shortages, but since it also provides much of the applicant pool for permanent skilled migration it, too, should target high-skilled migrants. A less prescriptive system that helps attract the world's best and brightest is key to strengthening our sovereign capabilities in areas like cyber security.

Permanent employer sponsorship should be available for workers in any occupation earning more than \$85,000 a year. This would better target migrants with valuable skills, simplify and speed up the sponsorship process, offer clearer pathways to permanent residency for temporary sponsored workers and recent graduates, and boost Australian government budgets by \$125 billion over the next 30 years.

The composition of the permanent skilled intake must also change. The Business Investment and Innovation Program, which selects older and less-skilled migrants, should be abolished, saving government budgets \$34 billion over three decades. A single points-tested visa should replace the skilled independent, state-nominated and regional streams. Points should only accrue for characteristics that predict migrants' success in Australia. And more weight must be given to the skills of secondary applicants, who account for about half of all permanent skilled visas.

Temporary sponsorship should be available for migrants in any occupation earning above \$70,000 a year. Targeting higher-wage migrants would address most skills shortages, limit exploitation, simplify sponsorship for employers, and increase the pool of high-quality applicants for permanent residency. Labour-market testing should be abolished and sponsorship made portable across employers.

The government should avoid increasing the number of less-skilled migrants in Australia. Expanding less-skilled temporary migration could undercut the wages of low-paid Australians and further increase exploitation. It could also erode public trust in our migration program amid concerns about Australia becoming a 'guest worker' society. Many workforce shortages will ease now the borders are open as many temporary migrants who work in less-skilled jobs return to Australia.

It may be necessary to attract extra less-skilled migrants to meet care economy workforce needs in the short term but, given the risks, it is a poor long-term solution. Offering permanent visas could limit exploitation, but could see workers leave the sector unless wages rise, and costs the budget in the long term if it means fewer skilled visas are issued. Care-economy workforce shortages will only be fixed if wages increase to better reflect what these jobs demand of workers.

Recommendations

Permanent skilled migration

1. Abolish the Business Investment and Innovation visa program.
2. Independently evaluate the Global Talent visa program.
3. Make employer-sponsored visas available for workers in all occupations, provided the job pays at least \$85,000 a year.
 - Alternatively, adopt separate wage thresholds for permanent employer sponsorship based on the age of the applicant.
4. Replace separate permanent points-tested visa streams for skilled-independent, state-nominated and regional visas with a single universal points-tested program that targets younger, higher-skilled workers.
 - Give greater weight to the skills of secondary applicants for points-tested visas.
 - Add substantial points for applicants with a high-wage job offer.
 - Use linked administrative data to better calibrate the allocation of points to characteristics that predict migrants' success in Australia, or if the Review lacks sufficient time to do, commission a separate review of points-tested visas.
5. Use Single Touch Payroll data to ensure the salaries received by sponsored workers are above \$85,000 per year.

Temporary skilled migration

1. 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.
2. Make all jobs paying above \$70,000 a year, irrespective of occupation, eligible for temporary sponsorship.
 - Strengthen enforcement of the Annual Market Salary Rate (AMSR), which requires the nominated wage of sponsored workers to be equal, or above, the wages offered to Australians doing the job.
3. Improve visa portability:
 - Allow workers holding a TSW visa to switch jobs without losing their visa should they find better opportunities in Australia.
 - Allow TSW visa-holders who become unemployed to stay in Australia for up to 90 days.
4. Replace all upfront costs with a \$1,000 nomination fee and ongoing monthly fee based on the number of workers sponsored.
5. 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 \$162,000 a year

from the obligation to pay the annual market salary rate for that job.

6. Index all wage thresholds to average weekly ordinary time earnings (AWOTE).
7. Offer accreditation to employers who sponsor high-wage workers, and give accredited sponsors benefits such as five-day visa processing and fewer checks on intra-company transfers.
8. Abolish labour-market testing.
9. Better enforce the rules for sponsoring employers, with more compliance activity dedicated to random audits and continued investment in data-matching.

Less-skilled economic migration

1. Avoid expanding less-skilled economic migration solely for the purposes of work.
2. Commit to providing the additional government funding required for employers to raise wages and improve conditions to competitive levels for less-skilled care economy jobs.
3. Any new visa pathways for less-skilled care-economy workers should be time limited, with the explicit objective of meeting short-term workforce needs while the federal government commits to raise wages to competitive levels to attract sufficient staff.

- Any new visa pathway should be achieved by offering a new standalone visa.
- Rules for existing temporary and permanent skilled visas – such as the TSMIT – should not be relaxed to accommodate less-skilled care-economy workers.
- Any visa must be portable across employers, allowing visa-holders to change employers within the industry.
- If the visa offers a pathway to permanent residency, restrict it to younger workers under the age of 30 years.

Migration system governance and capability

1. Make a significant investment in equipment and personnel to improve IT systems within the Department of Home Affairs to improve visa processing.
2. Boost the analytical resources within the Department of Home Affairs to analyse detailed administrative data, such as that provided by the Multi-Agency Data Integration Project (MADIP), to better inform migration policy design.
3. Establish a new body, similar to the United Kingdom's Migration Advisory Committee model, to offer independent advice to government on visa policy changes and analyse the impact of migration on Australians' well-being.
4. Adopt a biennial review of visa charges, as previously recommended by the Productivity Commission.

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1 Australia's migration opportunity

Australia's migration policy is a critical, but often underappreciated, part of Australia's economic policy toolkit. Skilled migration in particular, if designed well, offers big economic benefits to the Australian community, including the prospect of lifting lagging productivity growth, boosting our international competitiveness and improving the long-term budgetary position. The federal government has enormous power to reap these benefits by shaping migration policy settings with little parliamentary oversight.

This submission to the review of Australia's migration system (the Review) outlines how Australia's skilled migration programs – both permanent and temporary – should change.¹ It shows how a revamped skilled migration program will help Australia meet the major economic challenges that lie ahead. And it also explains why the federal government should largely resist calls to expand lower-skilled economic migration.

Future Grattan Institute work will also focus on issues relevant to the Review, such as: the exploitation of migrant workers in Australia, and facilitating clearer pathways to permanent residency for international students and temporary sponsored workers to maximise their long-term success in Australia. Future work is also planned on reforming Australia's permanent family visa program.

1. For the purposes of this submission, temporary skilled migration refers to holders of Temporary Skill Shortage (TSS) visas. It does not include the Temporary Graduate (subclass 485) visa available to graduating international students, the Pacific and Agricultural entry-level work visas, or visas where migrants have work rights, such as the Working Holiday or International Student visas.

1.1 Australia faces a number of big challenges

After the struggles of the COVID-19 pandemic, Australia again faces a number of big challenges: sluggish productivity growth, a large and growing structural budget deficit as our population ages, and a rapid transition to a net-zero economy.

Slowing productivity growth and a lack of economic dynamism

Australia's productivity growth, the key driver of higher living standards in the long run, has slowed over the past decade.² Over the past 60 years, labour productivity improved at an average rate of 1.7 per cent a year. Over the decade to 2020, annual productivity growth averaged just 1.1 per cent. If per-capita incomes had continued to grow at their pre-2011-12 rates through to 2019-20, Australians' incomes would be about one-tenth higher (\$11,500 per person) today.³

This is not just an Australian phenomenon. The slowdown has been seen around the developed world, although our relative performance has also slipped down the international rankings.⁴ Poor productivity growth has been driven by:⁵

- the expansion of the services sectors, which generally have lower productivity
- a declining contribution from technological advancements
- diminishing gains from education

2. D. Wood (2022).

3. Productivity Commission (2021, Figure 27).

4. Productivity Commission (2022, p. 31).

5. D. Wood (2022).

- a reduction in economic dynamism and, related to that, greater market concentration and power.

At the same time, the rise of digital technologies has the potential to deliver significant improvements in productivity in services sectors where it has historically been harder to shift the dial. But Australia lags in the adoption of important digital tools and skills, such as data analytics and artificial intelligence.⁶

A large and growing structural budget deficit

Australia also faces a significant fiscal challenge. As things stand, Australia is expected to see a persistent structural budget deficit of about \$50 billion a year, or 2 per cent of GDP.⁷ The 2022-23 October federal Budget projects substantial deficits for the foreseeable future and a rise in net debt from 23 per cent of GDP to 31.9 per cent of GDP over the next decade.⁸ And longer-term budgetary challenges loom as an ageing population and rising spending pressures in health care, aged care, the National Disability Insurance Scheme, and defence place long-term strains on Commonwealth and state government budgets.⁹

Rapid transition to a net-zero economy

Australia has committed to reaching net-zero carbon emissions by 2050, setting the stage for unprecedented economic transformations. Achieving the target will require driving down emissions in every sector of the economy, and ensuring investments in the 2020s and 2030s do not lock in patterns of high emissions for decades.¹⁰ The transformative

change needed to meet global and domestic emissions-reduction targets will demand a new set of skills to harness new technologies, skills that are currently in short supply in Australia.¹¹

1.2 A better skilled migration system can help address these challenges

This submission focuses on how to improve Australia's permanent and temporary skilled migration programs. Australia runs a sizeable skilled migration program. Getting migration policy choices right will help address current and future economic challenges and greatly improve the well-being of the Australian community overall.

1.2.1 Australia has historically run a sizeable migration program

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 planned permanent migrant intake for 2022-23 is 195,000 (Figure 1.1).¹²

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. Commencing in July 2023, a new Pacific Engagement Visa for nationals of Pacific Island countries and Timor-Leste will be made available, which will grant up to 3,000 permanent visas.¹³

Australia's migration policy is also its de facto population policy. Net migration has accounted for an increasing share of Australia's population growth in recent decades.¹⁴ While many people arrive in Australia on temporary visas, it is Australia's permanent migrant

6. Ibid.

7. Australian Government (2022a, Table 3.1).

8. Australian Government (ibid, Table 1.2).

9. Treasury (2021).

10. See: D. Wood et al (2022a, p. 49).

11. Briggs et al (2020).

12. Department of Home Affairs (2022a).

13. Australian Government (2022a, p. 14).

14. Mackey et al (2022, Figure 3.3).

intake that ultimately determines who stays in Australia, and the bulk of long-term population trends (Box 1).

Skilled migration is the largest part of Australia's permanent migration program

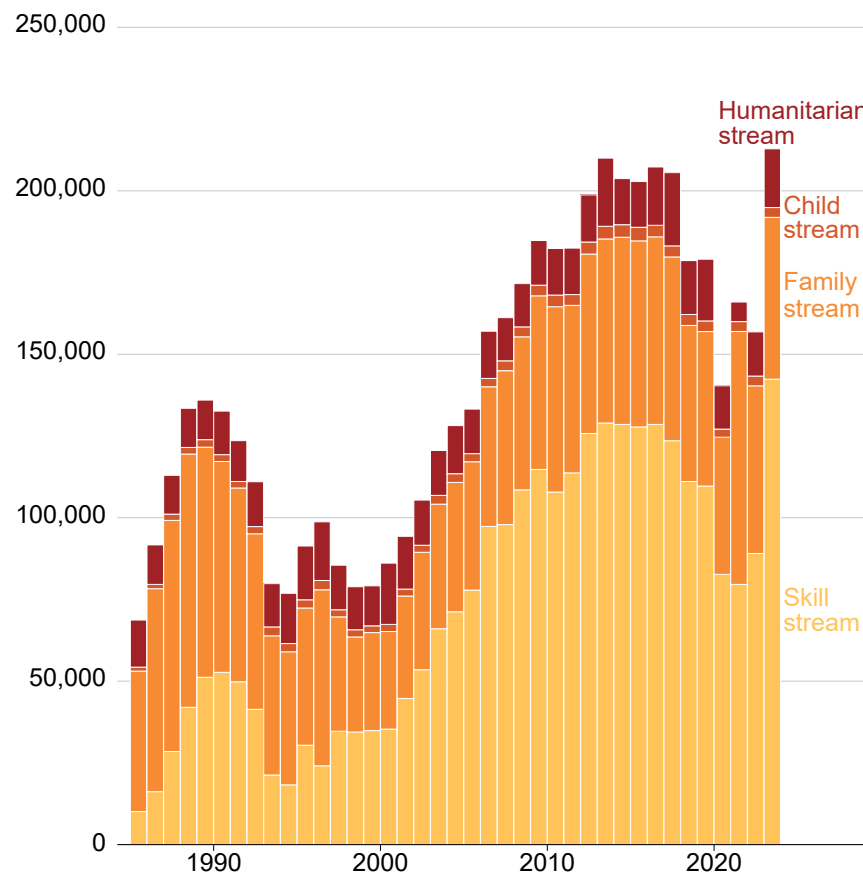
Skilled migration is the largest part of Australia's permanent migration program. In 2022-23, Australia plans to grant permanent residency to 195,000 people: 142,400 in the skilled stream and 52,500 in the family stream (Figure 1.1).¹⁵ The share of skilled migrants in the permanent program has increased substantially over the past two decades. Skilled migration increased from about half of the permanent intake in 2000 to 73 per cent in 2022-23. Permanent skilled migrants are selected through a number of different streams (Chapter 3). Family visas have also increased as the overall intake rose, but have declined as a share of the total. The total number of humanitarian visas offered each year has remained relatively stable in recent decades.

But the majority of Australia's permanent migration program does not select for migrants' skills

While the bulk of permanent visas are issued each year via the skilled stream, most permanent migrants are in fact not targeted on the basis of their skills. In addition to Australia's permanent family and humanitarian streams, where applicants' skills are not assessed, the spouses and children of applicants granted permanent skilled visas also gain permanent residency. Secondary applicants account for about 40 per cent of all permanent skilled worker visas issued each

Figure 1.1: Australia only offers a limited number of permanent skilled visas each year

Australian permanent visa grants, 1984-85 to 2022-23



Notes: Data for 2022-23 is the planned permanent migration program. Humanitarian stream includes a small number of 'Special Eligibility' visas. Planned humanitarian intake for 2022-23 includes 4,125 Afghan national places.

Sources: Australian Government (2018), Department of Home Affairs (2022a) and Phillips (n.d.).

15. From 2022-23, Partner visas will be granted on a demand-driven basis to facilitate family reunification. This will help reduce the Partner visa pipeline and processing times for many applicants. 40,500 Partner visas are estimated for 2022-23 for planning purposes, noting this estimate is not subject to a ceiling.

Box 1: Permanent-visa policy drives Australia's long-term population trends

Much public commentary focuses on the growing size of Australia's temporary migrant intake.^a Net Overseas Migration data reported by the ABS suggests that temporary migrants account for about three-quarters of Australia's migrant intake each year.^b 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.

Net overseas migration overstates the contribution of temporary migration to Australia's population growth. Many temporary migrants are never recorded as leaving Australia, as they are instead granted permanent visas and stay indefinitely in Australia. While the number of temporary visa-holders in Australia rose by just 50,000 people a year from 2007 to just before the pandemic, net overseas migration has averaged 228,000 persons a year over the same period (Figure 1.6).^c

It is Australia's permanent migrant intake that ultimately determines who stays in Australia, and so accounts for the bulk of long-term population trends. Most temporary migrants, such as students and skilled workers, either move on to a permanent visa or eventually leave the country (Figure 1.2). And more than half of migrants granted permanent residency are already in Australia on a temporary visa.

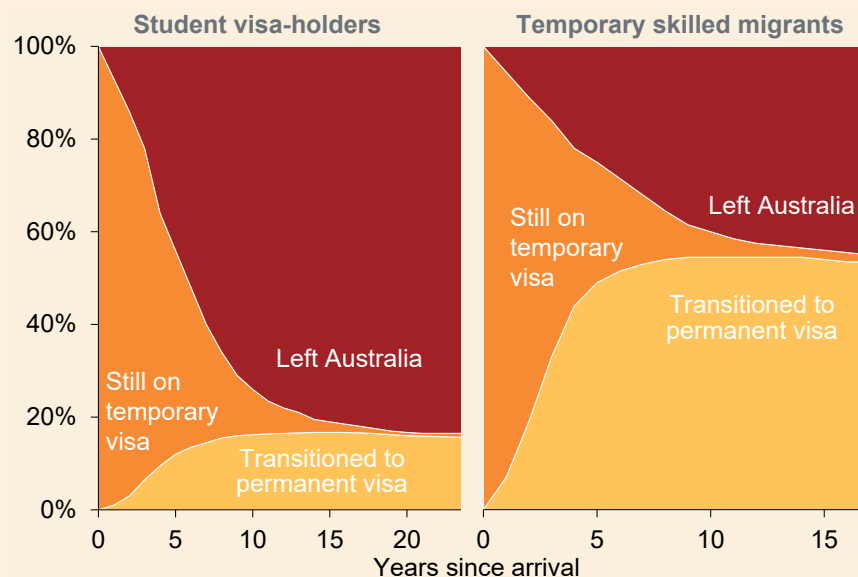
a. Garnaut (2021); and Hutchens (2021).

b. 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. See Coates et al (2021, Figure 2.3).

c. ABS (2021a).

Figure 1.2: People on temporary visas become permanent residents in Australia, or they leave

Share of visa-holders



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

year.¹⁶ Yet existing skilled visas give little weight to the skills and experience of spouses.¹⁷

Over the past decade, Australia's permanent migration program – skilled and family visas, as well as the humanitarian program – has averaged 191,000 visas per year. Just 28 per cent of permanent visas offered annually have gone to primary applicants who have been selected on the basis of their skills. Another one in three came as family members of those skilled migrants. The remainder were issued under the family and humanitarian streams, reflecting the diverse objectives of Australia's migration program. If the recent changes to the number of permanent skilled visas is made permanent, only around one-third of all migrants on permanent visas will be selected for their skills.¹⁸

In total, nearly 1.4 million permanent visas were granted over the past decade without any consideration of migrants' skills (Figure 1.3).¹⁹ Of those, over 900,000 were 20 years or older when they were granted a permanent visa. In 2016, 45 per cent of migrants who had arrived since 2000 on a non-skilled permanent visa – skilled secondary applicants, or those on family, or humanitarian visas – were working in a low-skilled job (occupation skill level 4 or 5), compared to 21 per cent of primary skilled visa-holders (Figure 1.4).

Migrants on a non-skilled permanent visa also typically have lower levels of education than primary-skilled visa-holders (Figure 1.5).

16. Coates et al (2021, p. 86).

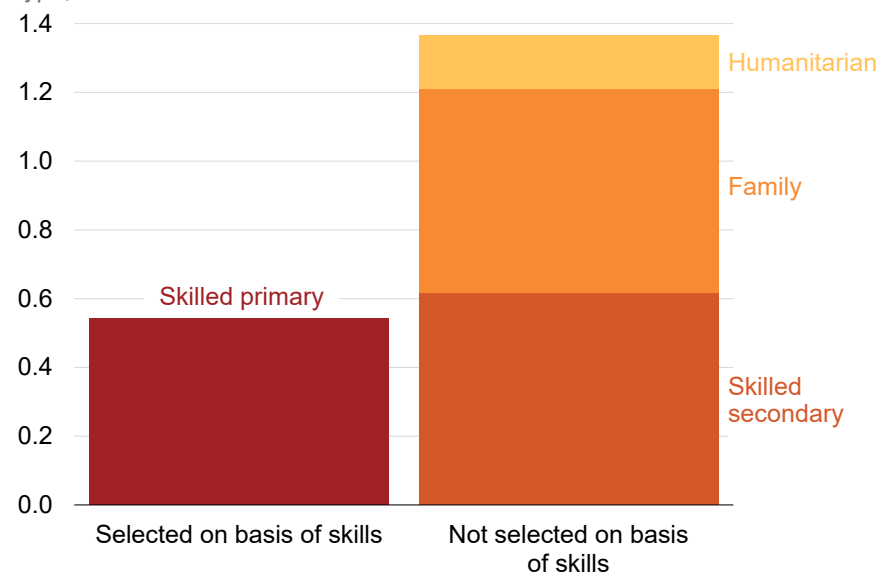
17. Secondary applicants tend to be much younger than primary applicants for permanent skilled visas since many secondary applicants arrive in Australia as young children. Secondary applicants to skilled visas aged 19 and older tend to have weaker English language skills and less education than primary skilled applicants, although they do have significantly more education on average than incumbent Australians of the same age. See: Coates et al (ibid, Section 7.9.3).

18. Based on the federal government's revised 2022-23 permanent migration intake.

19. There were also 137,000 temporary visa-holder secondary applicants in Australia in October 2022.

Figure 1.3: Most permanent visas are allocated without any assessment of migrants' skills

Number of permanent visas granted between 2011-12 and 2020-21, by visa type, millions



Notes: Family includes: partner, parent, child, other family and expert family panel (2012-13 and 2013-14 only). Humanitarian includes special eligibility visas. A small number of skilled primary visas were granted to people aged 19 or below.

Source: Grattan analysis of Department of Home Affairs data.

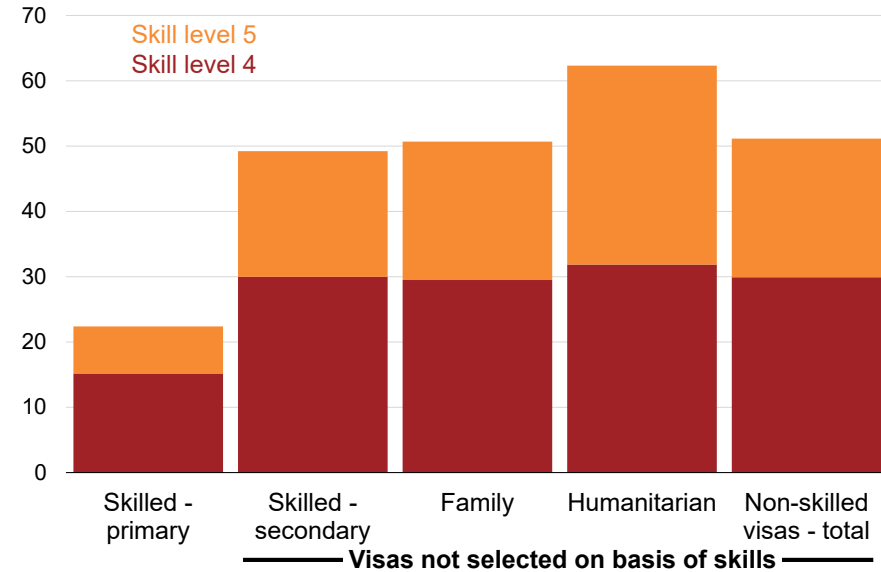
Adult migrants granted permanent visas via the permanent family stream tend to have comparable or higher qualifications than the typical working-age Australian citizen, whereas humanitarian migrants have lower qualifications.²⁰

The fact that the permanent migration program does not allocate most visas on the basis of skills reinforces the need to ensure that when

20. ABS (2016a).

Figure 1.4: Half of all working permanent migrants that weren't selected on the basis of their skills work in low-skilled jobs

Percentage of working permanent migrants, by occupational skill level and type of visa on arrival, 2016

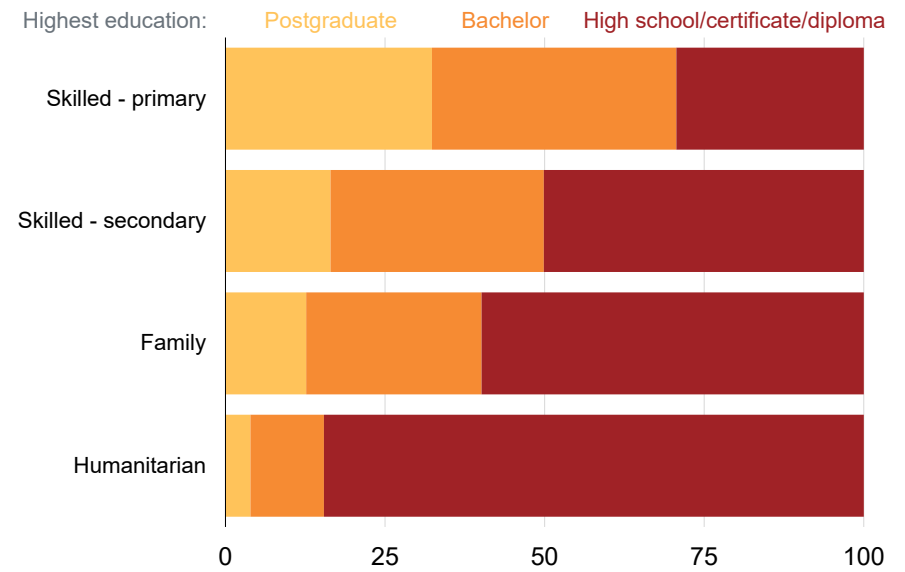


Notes: Skill level 5 is the lowest occupational skill level, skill level 4 is the second lowest (usually requires a Certificate II or III qualification). Family includes 'Other' visas.

Source: Grattan analysis of ABS (2016a).

Figure 1.5: Migrants selected on the basis of their skills typically have higher levels of education

Percentage of permanent migrants aged 20 to 59, by level of highest educational attainment and type of visa on arrival, 2016



Notes: Permanent migrants who arrived between 1 January 2000 and Census night 2016. 'Family' includes 'Other' visas.

Source: Grattan analysis of ABS (ibid).

selecting primary skilled visa-holders, in particular, the skilled program targets those high-skilled migrants best placed to make the greatest contribution to Australia.

Australia also runs a substantial, and largely uncapped, temporary migration program

Many migrants first arrive in Australia on temporary visas. Australia's temporary migrant intake is largely uncapped, except for limits on working holiday visas for some countries. Temporary migrants include overseas students, working holiday makers, skilled temporary residents, New Zealand citizens on the Special Category visa, seasonal workers, and others.²¹

These visas fulfil a number of different objectives for Australia's migration program, such as facilitating cultural exchange in the case of working holiday makers, and granting reciprocal settlement rights in the case of New Zealanders. Temporary migrants such as international students and temporary skilled workers typically remain in Australia for between six months and up to eight years.²²

Excluding the period of the COVID-19 pandemic, more temporary migrants have generally arrived than departed each year, so overall numbers have grown over time. An increase in temporary migration, or in the length of time temporary migrants stay in Australia, will therefore add to Australia's population. The number of temporary visa-holders in Australia rose from about 500,000 in 2007 to nearly 1 million a decade later – an annual increase of almost 50,000 a year, excluding New Zealand citizens and tourists (Figure 1.6).

21. Working holiday maker visa applicants from 20 countries, such as the United States, United Kingdom and others are not subject to quotas, whereas the remaining 27 countries in the Work and Holiday stream are subject to annual quotas. See: Mackey et al (2022, Box 3).

22. See: Coates et al (2021, Figure 2.4).

The number of temporary migrants fell significantly during the pandemic but is recovering quickly as students, skilled workers and working holiday makers return to Australia (Figure 1.6 and Figure 1.7). Thanks to this faster-than-expected recovery in temporary migrants, net overseas migration in the October 2022 Budget was forecast to recover to pre-pandemic trends two years earlier than was forecast in the March 2022 Budget.²³

Temporary visa-holders accounted for a modest share of workers across most Australian industries prior to the COVID-19 pandemic (Figure 1.8). International students make up a significant share of the hospitality and administrative and support services workforces, and working holiday makers are an important source of workers in agriculture in particular. But temporary migrants account for a minority of workers across most industries outside of hospitality. Between 20 and 40 per cent of the workforce of all industries were born overseas, with the bulk here on permanent visas, or as citizens.

1.2.2 A better-designed migration program offers big benefits to Australia

As this submission shows, an improved skilled migration program has the potential to spur innovation and lift the lagging rate of Australia's productivity growth.²⁴ Attracting younger, higher-skilled migrants will also increase Australia's knowledge base in the emerging low-emissions technologies and other cutting-edge sectors, including the digital economy.

23. Australian Government (2022a).

24. A growing international evidence base suggests migrants can create productivity spillovers via innovation, although Australian evidence remains more limited (see Section 2.4). Recent OECD analysis showed a positive relationship between migration and productivity in Australia, but this evidence does not represent a causal relationship OECD (2022a).

Skilled migrants in particular generate a fiscal dividend because they are typically younger when they arrive in Australia and pay more in taxes than they cost in public services, transfers and infrastructure investments. As this submission shows, the additional potential fiscal dividend from a better-designed skilled migration program that prioritises younger, higher-skilled migrants is enormous.

Improving the functioning of Australia's skilled migration programs – both permanent and temporary – will also help us meet the challenges ahead. In many cases, the skills we need to transform Australia's economy – often involving new and emerging technologies – are not well defined or understood. A less prescriptive and more flexible system will make Australia an attractive destination for scarce and globally-mobile talent. Making Australia more attractive to skilled migrants is critical to helping Australia develop the skills needed to help bolster the nation's sovereign capabilities, such as the capacity to defend ourselves against cyber attacks – in the context of a deteriorating geo-strategic environment.²⁵

1.3 Improving skilled migration is also about safeguarding the migration benefits we already enjoy

A better-designed skilled-migration program isn't just about reaping extra benefits. Migration policy reforms are also needed to safeguard the benefits we're already enjoying.

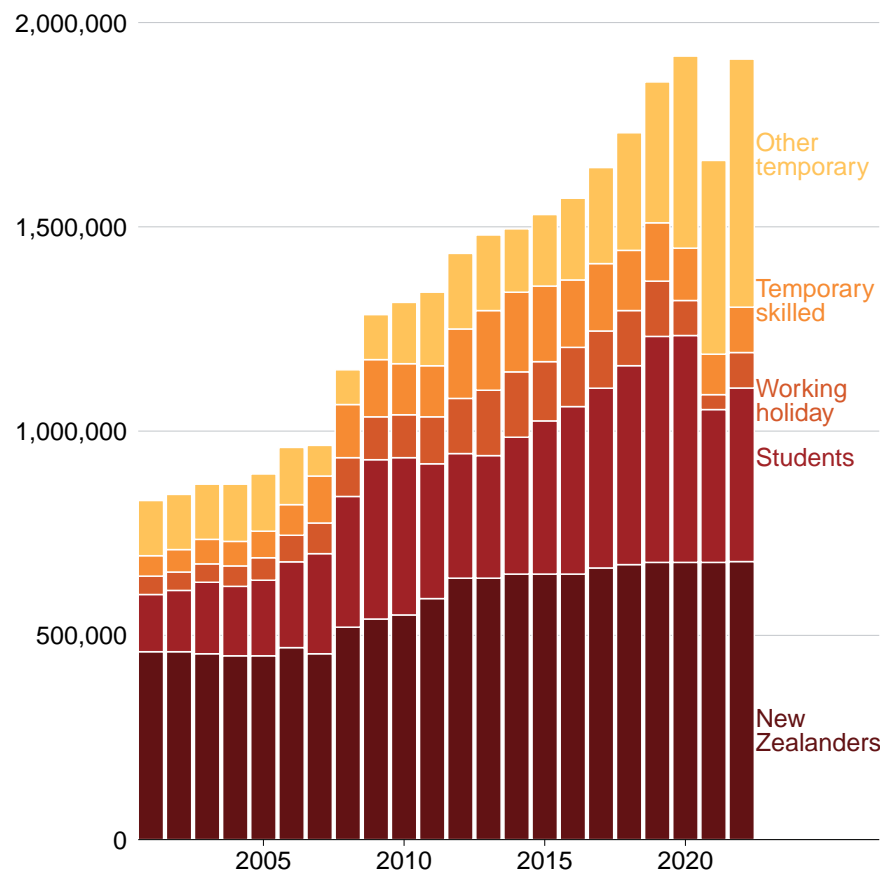
1.3.1 Migration policy affects Australia's attractiveness as a migrant destination

The federal government sets the selection criteria to choose between prospective migrants. But the migration program also depends on Australia remaining a top destination for prospective skilled migrants. While there is no practical limit on the number of people willing to

25. For example, see: Raphael (2022).

Figure 1.6: A growing number of temporary visa-holders reside in Australia

Stock of temporary migrants, excluding tourists



Notes: As at June each year, except for 2022 which is October. There is a series break in 2017 where the definition of 'Other temporary' changed. 'Other temporary' is made up of bridging, temporary graduate, temporary protection, other temporary employment and crew and transit visa-holders.

Sources: Australian Government (2018, Figure 16); Department of Home Affairs (2022b).

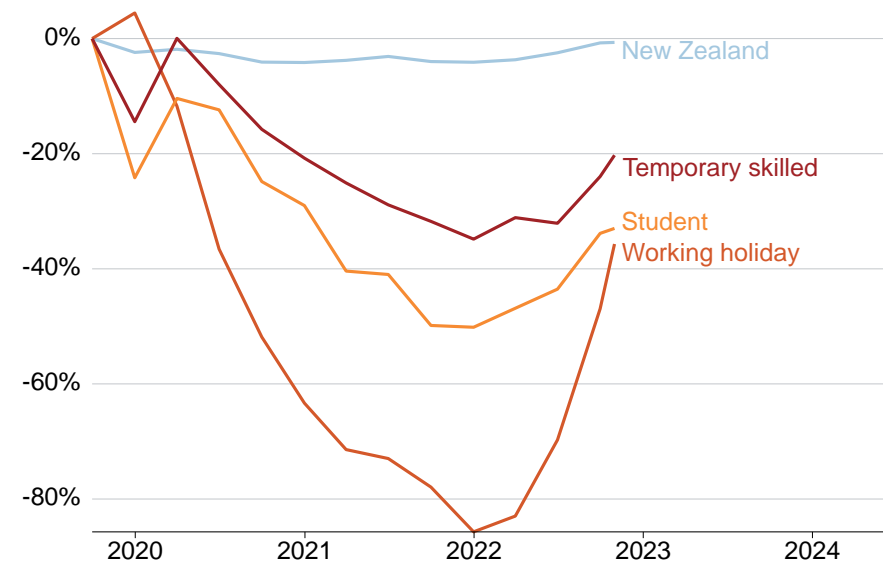
migrate to Australia, Australia's relative attractiveness as a destination for migrants can affect the type of migrants that apply. People decide to become a migrant, and also choose which country to migrate to.

We know little about the composition of Australia's migrant intake in terms of where individuals sit in a global distribution of migrant talent. However, before the pandemic Australia was the top-ranked destination country for higher-skilled workers (those with postgraduate degrees) and the seventh-most attractive destination for entrepreneurs, according to OECD talent attractiveness rankings from 2019.²⁶

There is early evidence to suggest Australia's approach to COVID-19 has not affected Australia's comparative attractiveness to higher-skilled migrants. There is a large pipeline of skilled migrants seeking to migrate to Australia and Australia ranked the third-most attractive destination in one survey of economic migrants in 2020 (the latest available date), up from fourth in 2018.²⁷ Similarly, a survey of the intentions of 14,000 international students found that one in five had changed their minds about where they wanted to study, with one in three who did change their minds opting for Australia.²⁸ Since early 2022, temporary visa-holders have also been rapidly returning to Australia, and this trend is likely to continue (Figure 1.7).

But while the global pool of highly-skilled people expressing a desire to migrate is increasing, Australia faces considerable competition in

Figure 1.7: Temporary visa-holder numbers are rebounding rapidly
Change in temporary visa-holders in Australia since September quarter 2019



Notes: Temporary skilled includes 457 visa-holders and Temporary Skilled Shortage visa-holders.

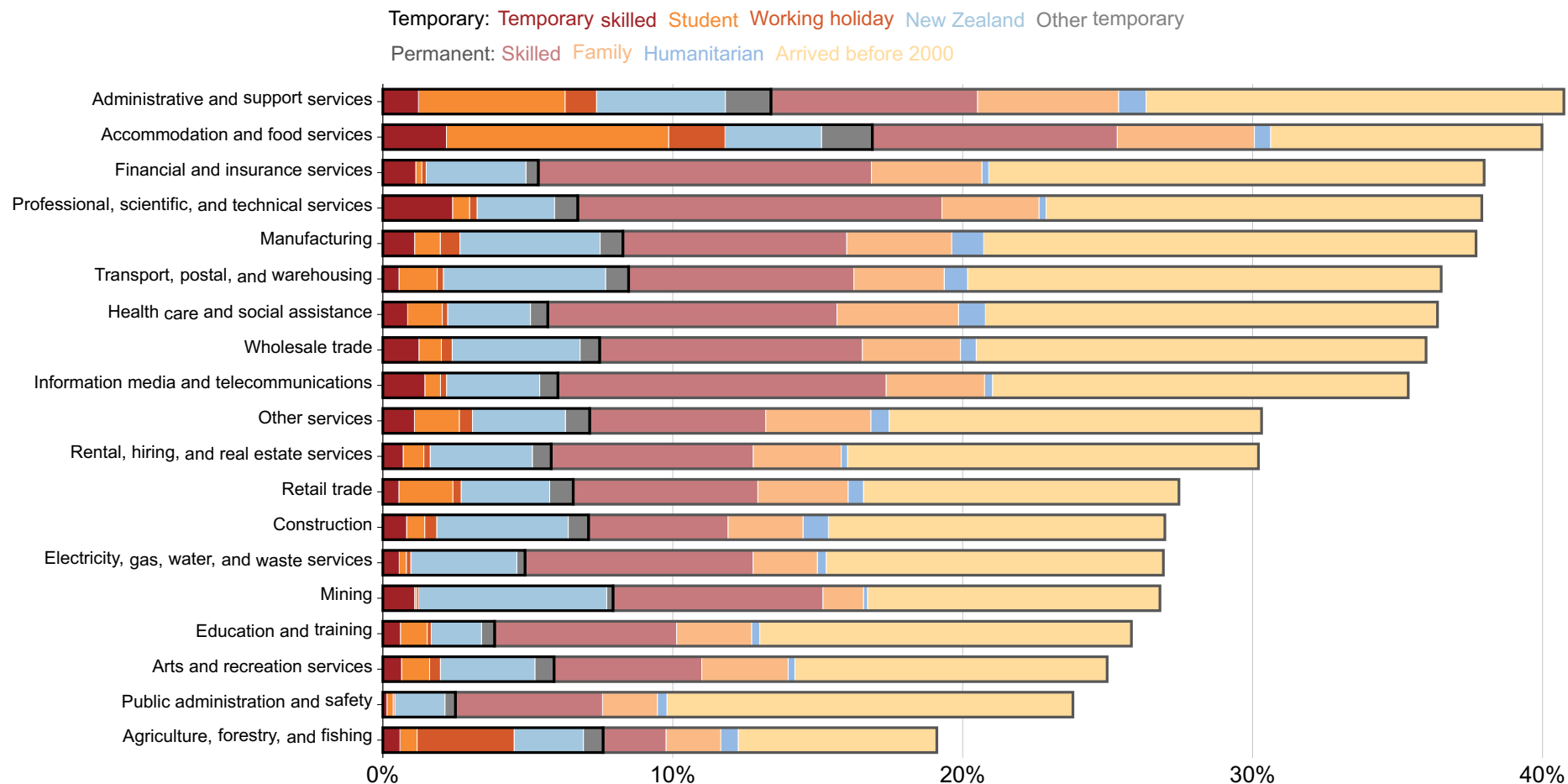
Source: Department of Home Affairs (2022b).

26. 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).

27. Based on a study of 209,000 people in 190 countries: BCG (2021, p. 5). This probably reflected Australia's early success in managing COVID compared to many competitor countries for skilled migrants, including the US, Canada, Germany, and the UK.

28. Hare (2022).

Figure 1.8: Temporary visa-holders make up sizeable share of workers in most industries – although many more workers are here on permanent visas
 Share of industry workers by migrant status, 2016



Notes: The remaining share were born in Australia. Permanent visa group are those who held a permanent visa between 2000 and 2016.
 Source: Mackey et al (2022, Figure 5.1).

attracting these migrants (see Box 2).²⁹ According to the Productivity Commission:

If Australia has become less attractive to migrants than prior to COVID-19, migration decisions in the future may be more sensitive to the compliance costs associated with the migration system. Such costs affect all migrants, including those with skills that are highly sought after, who are likely to have labour market options elsewhere in the world.³⁰

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. Lower visa fees will also help. Visa fees are high in Australia compared to other high-income countries and go far beyond recovering the cost of administering the visa system.³¹

1.3.2 Migration policy also matters for retaining public trust

A well-designed and well-run migration program also helps maintain public confidence. And maintaining public trust in the program is critical if Australia is to reap the potential benefits skilled migration offers. The best way to build public trust in our migration program is to ensure that it maximises the well-being of the community overall, and aligns with Australians' values.

For instance, Australians have historically rejected the notion of a 'guest-worker' society. Yet, as this submission shows, Australia's migration program is producing a growing number of low-paid temporary visa-holders who stay in Australia for extended periods.

29. Esipova et al (2015).

30. Productivity Commission (2016a).

31. Department of Home Affairs (2022c). The Productivity Commission (2016b, p. 46) has previously recommended a biennial review of visa charges.

Box 2: Australia faces growing global competition to attract and retain skilled migrants

Global competition for skilled migrants is rising. According to the OECD's *International Migration Outlook 2022*, '[n]ew pathways to attract highly educated migrants, remote workers and potential investors have become more widespread among OECD countries'.^a

The United Kingdom recently introduced a new temporary visa, the *High Potential Individual* visa, to target recent graduates from top universities regardless of their field of study and without the need for an offer of employment,^b and is considering cutting fees for skilled visas and changes to rules to speed up visa processing.^c

Several OECD countries have started using or are planning to adopt points-based immigration systems, similar to Australia's, to attract skilled migrants.^d The European Union has introduced flexible admission conditions, enhanced rights and the possibility to move and work more easily between EU members for highly-skilled workers.^e

Many countries have also changed migration laws to attract workers in industries such as healthcare and agriculture.^f

a. OECD (2022b).

b. Productivity Commission (2016a).

c. Strauss et al (2022).

d. OECD (2022b).

e. Ibid.

f. For example, the Health and Care Worker visa introduced in the United Kingdom in 2020 (see: UK Government (2022a)).

Increasing the numbers of lower-skilled temporary migrants, especially under the guise of a skilled program, threatens public confidence in the system. Similarly, there is a widespread belief in the community – albeit one based on largely anecdotal evidence – that many temporary migrant workers in Australia are exploited and underpaid. Such poor treatment of migrant workers risks undermining public confidence in the program as a whole.

1.4 The federal government has enormous power to shape migration outcomes, but needs more scrutiny

The federal government has the power to reap all the benefits of a better skilled migration program without the need for new legislation. The federal government has constitutional responsibility for migration policy.³² It is the federal government that decides the level of the migrant intake and makes decisions about visa streams and selection criteria. 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 an existing visa easily changed, without recourse to a Bill.³³ Instead, the Minister typically tables a set of amendments via the Migration Regulations 1994.

The federal government wields the power to shape migration outcomes with comparatively little oversight. There is also very little public scrutiny of migration policy choices. There are few actors interested in and actively monitoring migration policy and those who are tend to have skin in the game. Few media outlets have dedicated coverage of migration policy (outside of asylum policy).

32. 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.

33. 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 inquires and disallowance motions in the Senate.

Better migration policy is unlikely to emerge until we have a better informed public debate about the costs and benefits of migration policy choices. And that debate needs to be better informed by good data, and rigorous evaluation of migration outcomes. The federal government should establish a new migration advisory body, along the lines of the United Kingdom's Migration Advisory Committee model, to offer independent advice to government on visa policy changes backed by rigorous data analysis. And the Department of Home Affairs should invest substantial resources to boost its capacity to analyse detailed administrative data to better inform migration policy design (Box 3).

1.5 A guide to this submission

Chapter 2 examines how the objectives of Australia's skilled migration program – for both permanent and temporary visas – need to change. Australia's permanent skilled intake should prioritise younger workers with valuable skills, not tackle skills shortages. While temporary skilled migration can help address short-term skills shortages, it should also facilitate a high-quality pool of applicants for permanent skilled visas. Our migration program should support clearer pathways to permanent residency for temporary visa-holders, but without compromising the composition of Australia's permanent skilled intake.

Chapter 3 shows how permanent skilled migration should be reformed, building on the findings from Grattan's 2021 report *Rethinking permanent skilled migration after the pandemic*. Australia's permanent skilled intake has not prioritised younger, high-skilled migrants who can make the biggest contribution to the community. Chapter 3 details a proposed package of reforms to the permanent skilled migration program that offer an enormous economic and fiscal dividend to Australia.

Chapter 4 shows how temporary skilled migration should change, drawing on the findings from Grattan's 2022 report *Fixing temporary*

Box 3: Improving Australian migration policy requires better data and more rigorous evaluation

Despite the substantial impacts migration policy has on Australians, there is very little public scrutiny of migration policy choices.^a A lack of public scrutiny also makes it harder for good policy to win out against vested interests, especially where poor data allows stakeholders to play an outsized role in shaping migration policies, such as via the compilation of occupation lists.

The Ministerial Advisory Council on Skilled Migration (MACSM) is a tripartite body, comprising industry, unions, State and Territory government representatives and other members nominated by the Minister for Immigration, Citizenship and Multicultural Affairs. However, MACSM today effectively acts as a sounding board of interested stakeholders to put forward views on migration policy, rather than a source of robust, independent advice.

The Federal Government should reform MACSM, or establish a new body, along the lines of the United Kingdom's Migration Advisory Committee model, which can offer independent advice to government

on visa policy changes backed by rigorous data analysis.^b The federal government could refer policy questions to the Council, which would undertake independent analysis and provide advice to the federal government. Requests for advice and advice given by the Council would be made public, as currently occurs in the UK.

A reformed Council would be appointed by the federal government, comprising of independent experts with the capability to provide detailed assessments of aspects of skilled migration policy.^c It would also need the funding and resources to make use of extensive linked administrative data via the Multi-Agency Data Integration Project (MADIP).

The government should also boost the analytical resources within the Department of Home Affairs to analyse detailed administrative data, such as that provided by MADIP, to better inform migration policy design.

- a. Prior to the current review, the last major review of permanent skilled visas occurred in 2006. By comparison, temporary visa categories have been subject to more recent reviews. See the Knight Review of international student visas in 2011, and the Azarias Review of temporary work visas in 2014 (Azarias (2016)).
- b. The UK's Migration Advisory Committee (MAC) is an independent, non-statutory, non-time limited, non-departmental public body that advises the government on migration issues. Commissions are sent to the MAC from the Home Secretary, which are published along with a response from the chair of the MAC. The MAC 'bases all recommendations on what it sees as being in the interests of the resident population, taking account that migration has different effects on different groups'. See: UK Government (2022b).
- c. Appointments should be made by an independent panel, including a new Public Appointments Commissioner, to assess applicants against the selection criteria and provide a shortlist of suitable candidates to the minister. See: D. Wood et al (2022b).

skilled migration. It shows how temporary sponsorship has, over time, been used to recruit lower-skilled migrants, and allows unscrupulous employers to exploit workers. It shows how targeting temporary sponsorship at particular occupations makes sponsorship more expensive and uncertain than it should be, while increasing the risk that migrant workers will suffer exploitation in Australia.

Chapter 5 examines the difficulties and trade-offs involved in opening up migration to lower-skilled workers to meet workforce demands, especially in care industries. Increasing the number of less-skilled economic migrants working in lower-wage jobs risks taking Australia further down the path towards becoming a 'guest-worker' society, increasing exploitation, undercutting the wages of existing workers, and making it even harder to offer long-term temporary visa-holders pathways to permanent residency.

1.6 What this submission does not do

This submission focuses on improving how Australia's skilled program works – including both permanent and temporary visa programs. It does not set out to examine every issue relevant to migration policy.

This submission does not focus on the size of Australia's permanent migration program, consistent with the scope of the Review.³⁴ The size of the intake is not the only, or arguably even the most important, metric for assessing migration policy. A larger permanent intake would offer substantial benefits – such as a much larger fiscal dividend – but would also impose significant costs, such as higher housing costs, urban congestion and other environmental costs.³⁵ A single number

34. See: McIlroy (2022).

35. For example, recent Grattan Institute modelling suggests that increasing the size of the permanent intake from 160,000 to 200,000, and allocating those extra visas to skilled workers, could offer up to a \$38 billion boost to federal and state governments combined over the next decade. See: Coates and Reysenbach (2022a).

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.

This submission does not consider Australia's permanent family or humanitarian migration programs. These visa streams have significant economic impacts, including substantial fiscal impacts, but fulfill different objectives than those of the permanent skilled migration program. Permanent family visas – including partner and parent visas – will be the subject of a forthcoming Grattan Institute report.

This submission does not consider many aspects of temporary migration policy. Many temporary visa programs – such as students, working holiday makers and Pacific workers – grant migrants the right to work in Australia. But these visas fulfil objectives beyond simply allowing migrants to work, and remain beyond the scope of this submission.

While the submission examines the high-level trade-offs implicit in fulfilling the Review's tasking to recommend clearer pathways to permanent residency for the large stock of temporary visa-holders in Australia, we do not consider most aspects of the design of international student or Temporary Graduate visas. Similarly, the submission evaluates the contribution existing less-skilled temporary visa holders – including international students and working holiday makers – can make in alleviating workforce shortages in less-skilled jobs in the care economy. But the submission does not explicitly consider the design of these programs nor the merits of the objectives they seek to fulfil. Many of these issues will be the subject of future Grattan Institute reports.

2 It's time to rethink our objectives for skilled migration

The Review has the opportunity to reshape how Australians, and Australian policymakers, think about the purpose and benefits of skilled migration.

Australia's skilled migration programs should be designed to maximise the welfare of the Australian community.³⁶ While the system also provides opportunities for family reunion and entry on humanitarian grounds, Australia should select skilled migrants for their economic potential.

Granting a permanent visa allows a non-citizen to remain part of the Australian community indefinitely. Permanent skilled migration should therefore aim to maximise the long-term well-being of the Australian community. Rather than using the program to address short-term skills shortages, young, higher-skilled migrants should be selected for their long-term economic potential, and especially for their skills and age.

Temporary skilled migration needs to be flexible to help fulfill skills shortages and help the economy adjust to shocks. But an effective temporary skilled visa program also lifts the bar for Australia's permanent skilled migrant intake by increasing the pool of high-quality applicants.

As most permanent residents come from temporary visa-holders already in Australia, pathways to permanent residency must also be considered when setting temporary visa rules. The more higher-skilled migrants there are in the temporary intake, the more there will be in the permanent intake.

36. Coates et al (2021).

2.1 The objective of Australia's migration program should be to maximise the well-being of the Australian community

As argued in Grattan Institute's 2021 report, *Rethinking permanent skilled migration*, Australia's migration programs should be designed to maximise the welfare of the Australian community. The benefits and costs of the migration program should be evaluated on the economic, environmental, and social impacts on the Australian community.³⁷

- **Economic impacts:** how does migration affect Australians' access to economic resources? How does it affect the productivity of Australian workers? 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 Australians' access to environmental resources – such as housing, infrastructure, and natural resources?
- **Social impacts:** how does migration affect the quality of social connections between people?

It's clear that prospective migrants would benefit from migration to wealthy countries such as Australia. It has been shown, for example, that migrants entering the US from low-income countries can expect to see between a doubling and a 16-fold increase in their incomes.³⁸ But an 'open borders' approach likely runs contrary to the objective of the Australian Government to maximise the well-being of the Australian community.³⁹

37. Ibid (Section 3.2).

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

39. For example, while allowing free movement of labour across the economies of all nations would substantially increase global GDP, from the perspective of residents

Australia's migration program should not just reflect Australians' interests, but also their values. For instance, a majority of Australians expect migrants, including temporary migrants, to be treated well while they reside in Australia.⁴⁰ Australia's humanitarian migrant program, which offers resettlement for refugees and others overseas who are in humanitarian need, also reflects Australians' values as well as our agreed international obligations.

2.2 The objectives of Australia's skilled migration program need clarifying

The objectives of permanent and temporary skilled migration differ, but the type of migrants that Australia should select for both programs are similar: high-skill, high-wage, young workers regardless of their occupation.

2.2.1 Permanent skilled migration should prioritise skilled workers, not shortages

Choices about permanent skilled visas have the biggest impacts on 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 2.1). The policy choices we make about who gets a permanent visa have a bigger effect on the well-being of Australians than choices about who can come to Australia as temporary migrants but eventually leave.

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 (2016b, p. 88).

40. Essential Media (2021) found 67 per cent support for the statement 'Everyone who works in Australia should be entitled to the same pay and working conditions regardless of their visa status'.

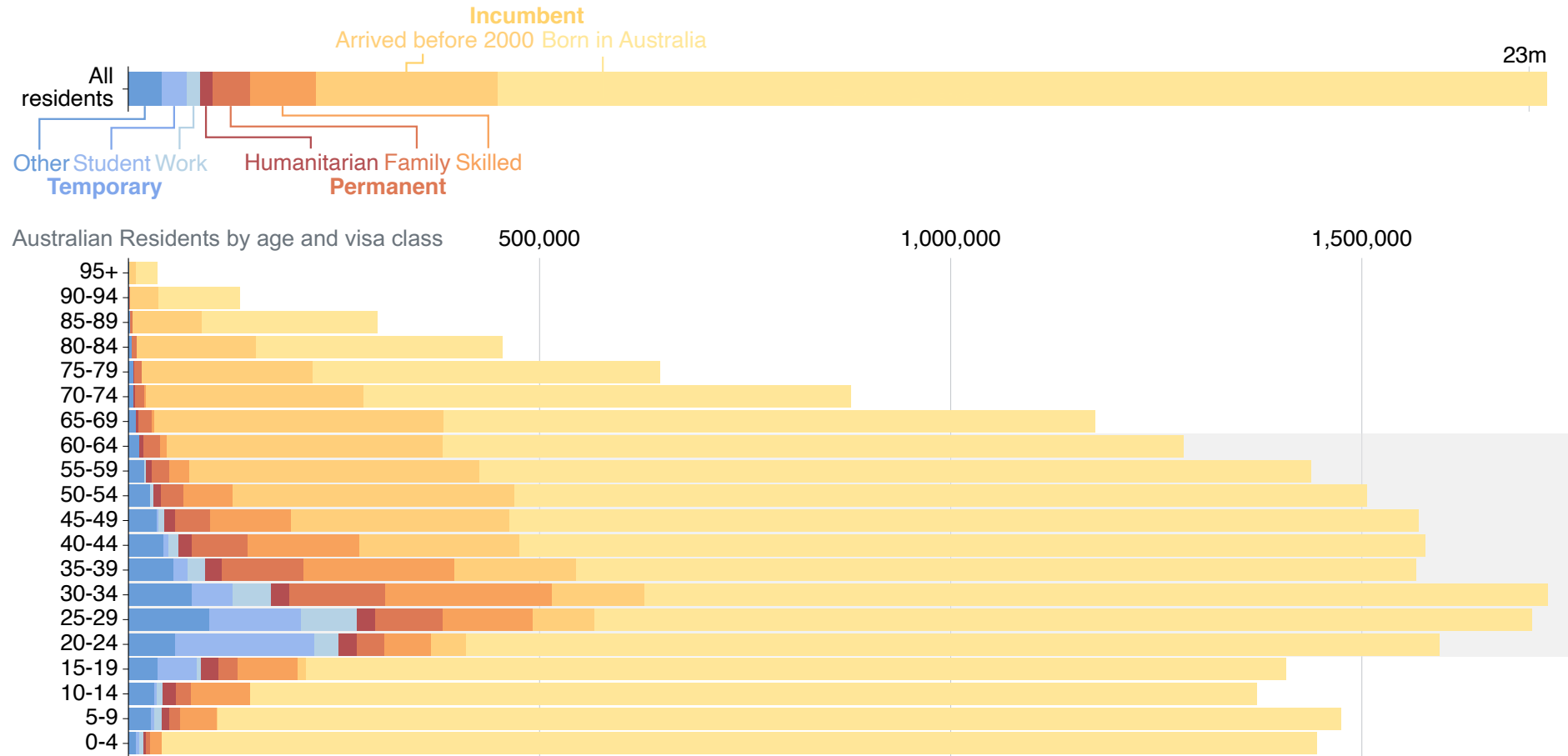
Even small improvements in the selection of permanent skilled migrants can have enduring benefits over an extended period. Conversely, mistakes made in selecting permanent skilled migrants will have long-lasting impacts on the composition of Australia's population, and the well-being of the Australian community.

Australia should prioritise young, skilled migrants for permanent visas

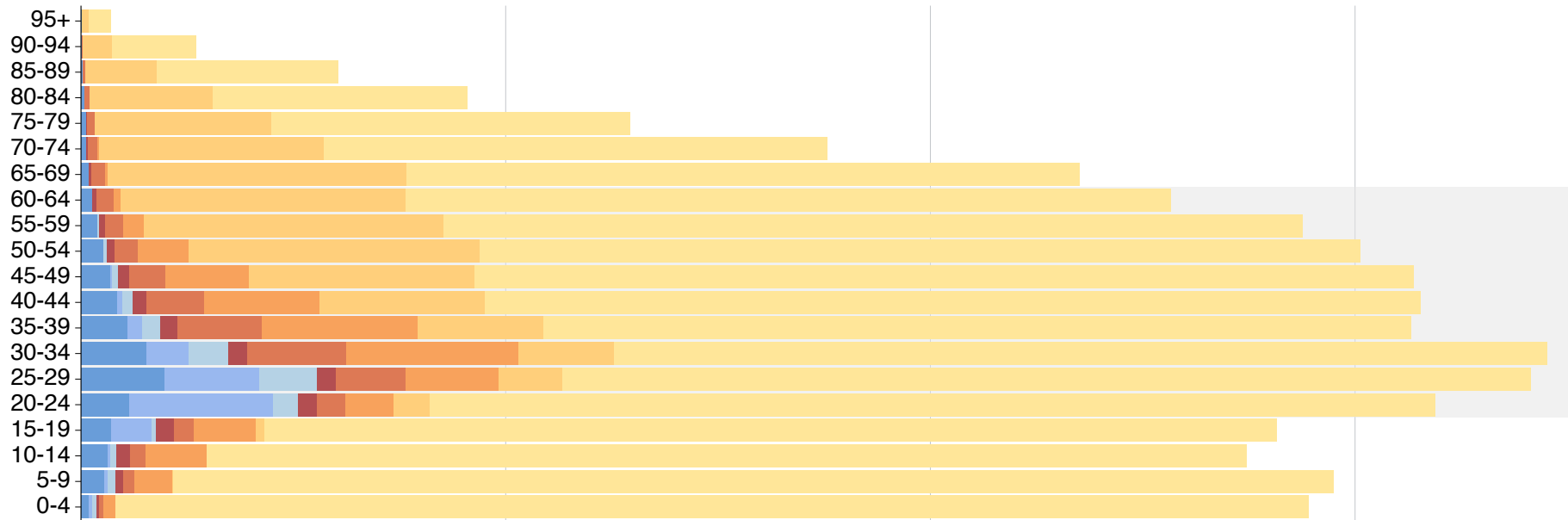
Australia should select permanent skilled migrants to maximise the well-being of the Australian community by selecting migrants for their long-term economic potential. Migrants granted permanent residency are likely to remain in the workforce for decades (Figure 2.1). Selecting younger, skilled migrants who are proficient in English and have good employment prospects is likely to maximise the benefits that permanent skilled migration offers the Australian community.

Figure 2.1: 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



Australian Residents by age and visa class



Notes: See Coates et al (2021, Appendix A) for further details of how visa-holders are classified.

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

The selection of migrants for permanent skilled visas shouldn't prioritise skills shortages.⁴¹ Permanent skilled migrants who arrive in Australia aged in their 20s and 30s will probably remain in the workforce for 30-to-40 years. Addressing short-term skills shortages will have a comparatively small economic contribution compared to the large contribution from permanent migrants using their skills and experience throughout their working life. Shorter-term skills shortages, where they emerge, are best addressed via Australia's temporary migration programs.

2.2.2 Temporary skilled migration addresses skills shortages, but also drives the composition of the permanent intake

In the current system, Australia's temporary skilled migration program seeks to fill skills shortages in the labour market. Temporary skilled migrants bring different skills and typically complement the work of incumbents rather than competing with them, boosting local workers' wages on average (Box 4). Addressing genuine skills shortages helps the economy, and the labour market in particular, to adjust to shocks such as the recent mining boom, which generated a rapid increase in demand for specific occupations.⁴²

But temporary skilled migration also drives the composition of permanent skilled migrant intake. One in four permanent skilled visas go to temporary skilled visa-holders already in Australia. More than half of migrants granted permanent residency are already in Australia on a temporary visa. The proportion of those already in Australia rises to more than 70 per cent for permanent skilled migrants and 90 per

cent of all permanent employer-sponsored visa-holders (Figure 2.2).⁴³ Therefore a second key objective of the temporary skilled migration program should be to target high-skilled migrants who will go on to form much of the applicant pool for permanent skilled migration.

Targeting high-wage jobs for temporary sponsorship is the best way to meet both objectives

Offering temporary sponsorship for high-skilled workers capable of attracting high wages is the best way to satisfy both these objectives (Chapter 4).

Targeting high-wage workers is likely to address most genuine skills shortages, since workers in genuine shortage are likely to attract a wage premium over time, and workers who attract high wages are likely to be harder to train quickly when in short supply.⁴⁴ Shortages are particularly likely to 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.⁴⁵ 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.⁴⁶

Moreover, identifying occupations in shortage and using temporary sponsorship to fill them is difficult, if not impossible, to effectively apply in practice. It is extremely difficult to quickly and reliably identify skills

41. See Coates et al (2021, Section 3.3.4).

42. The addition of many migrant workers to Australia each year reduces the need for Australian workers to change jobs in response to shifts in the labour market. Among other benefits, Australia's flexible migration program largely means that the non-accelerating inflation rate of unemployment (the NAIRU) – is likely lower compared to if Australia's rate of migration was lower. See: Lowe (2021).

43. Coates et al (2021, p. 10).

44. See Coates et al (2022, Figure 2.1).

45. See: Coates et al (ibid, Section 2.4.1).

46. Based on OECD Skills for Jobs Database of 40 countries, including Australia. Hard-to-fill jobs included managerial positions and highly skilled professionals in health care, teaching, or ICT: OECD (2018). Analysis done by the National Skill Commission found that Australia is facing the largest shortages in the Professionals, and Trade and Technicians occupations. National Skills Commission (2022a).

shortages in individual occupations. Australia's current approach which flags an occupation as being in 'shortage' in circumstances where wages need to rise and firms cannot attract staff at the previous wage rate is likely to overstate the number of genuine skills shortages in the economy at any one time.⁴⁷ Australian policy makers also lack timely data to identify skills shortages in real time. Crucial parts of the skills shortage story – such as wage data for occupation groups – are largely missing.

Instead, occupation lists appear to have been heavily shaped by vested interests.⁴⁸ As the Productivity Commission recently noted:⁴⁹

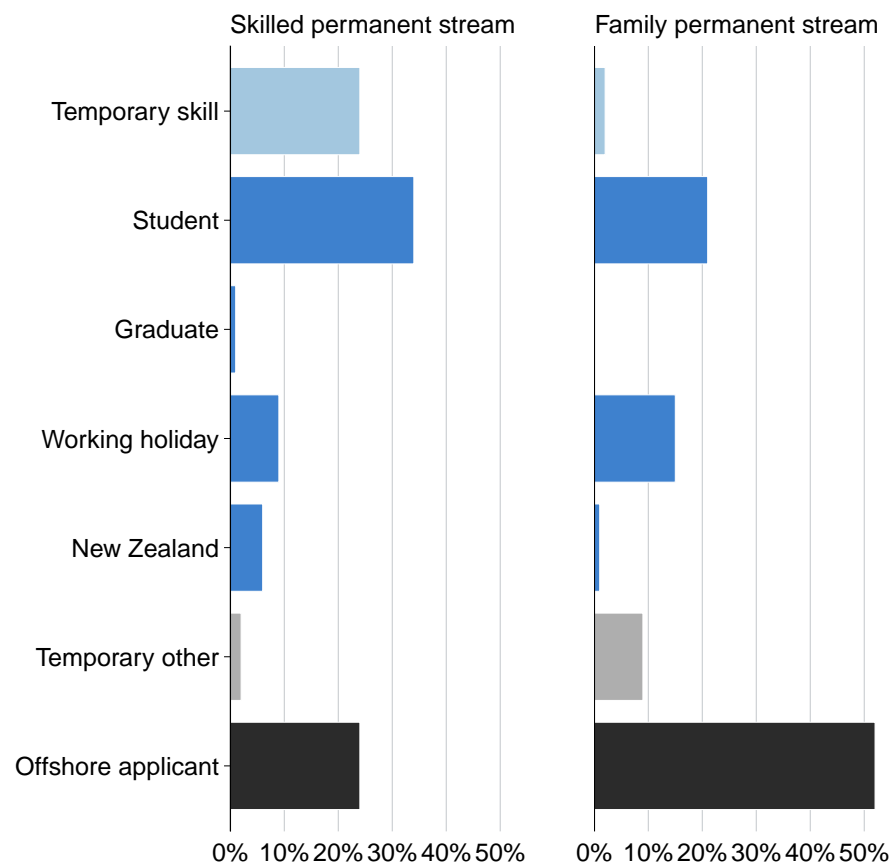
Australian government data suggest highly persistent skill shortages in a range of occupations. For example, automotive electricians, panel beaters, and arborists have been in shortage for each of the 10 years to 2018, and hairdressers and sheet metalworkers for nine out of the past 10 years. A decade-long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

Targeting skills shortages also opens the door to sponsoring many low-wage workers at risk of exploitation. Restricting temporary sponsorship to high-wage workers, who possess greater bargaining power, should reduce exploitation of temporary skilled migrants and help alleviate community concerns about the visa. And targeting higher-skilled, higher-wage workers for temporary sponsorship is likely to be effective in addressing persistent skills shortages where they do emerge.

47. See: Coates et al (2021). The current approach used by the National Skills Commission (now Jobs and Skills Australia) in compiling the Skills Priority List assesses occupations as being in shortage 'when employers are unable to fill or have considerable difficulty filling vacancies. Or they cannot meet significant specialised skill needs within that occupation, at current levels of remuneration,

Figure 2.2: Three-in-four skilled permanent migrants come from temporary streams

Share of skilled and family permanent streams by first visa held



Source: Varela et al (2021).

2.3 Prioritising younger, skilled workers will maximise the fiscal dividend from skilled migration

Giving priority to young, high-wage workers – for both temporary and permanent skilled visas – is likely to maximise the fiscal dividend from skilled migration.⁵⁰ Skilled migrants provide a bigger fiscal dividend since migrants typically pay more in taxes than they receive in benefits and public services.

Permanent skilled migrants offer a larger fiscal dividend since they pay much more in taxes than they receive in benefits and public services over their lifetimes in Australia. Younger migrants in particular arrive in Australia at the beginning of their working lives, when the costs of educating them have already been incurred abroad. Therefore there is an extended period when such migrants pay substantial taxes yet draw relatively little on government-funded services such as health, education, and aged care (Figure 2.3).

Temporary skilled migrants have a bigger fiscal impact than other temporary migrants. A recent Treasury paper estimated that temporary skilled migrants contributed, on average, \$38,601 more in taxes, as well as visa fees, than they receive in government services and benefits during their average stay of 2.4 years on the TSS visa in Australia (see Figure 2.4).⁵¹ Temporary skilled migrants are typically excluded from public supports such as unemployment benefits, Medicare, and

conditions of employment and in reasonably accessible locations'. See: National Skills Commission (2022b).

48. See: Coates et al (2021, Section 7.7).

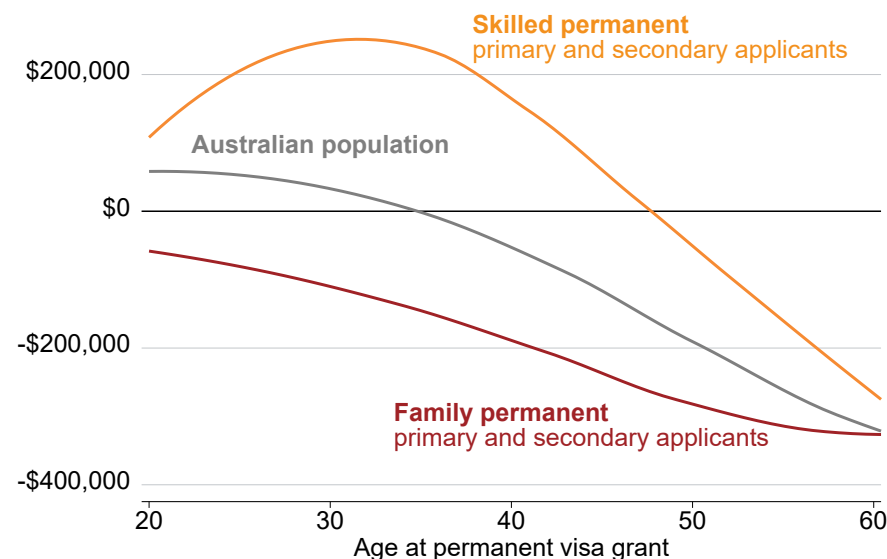
49. Productivity Commission (2020, p. 113).

50. For instance, a worker earning \$100,000 a year will pay \$13,000 more in personal income tax each year than a worker earning \$60,000.

51. Includes both primary and secondary TSS visa-holders. See Varela et al (2021). These figures suggest that the 103,600 TSS visa-holders in Australia (as at 30 September 2022) will contribute about \$4 billion to federal and state government budgets during their stay in Australia.

Figure 2.3: Skilled migrants in their early 30s tend to be best for lifetime fiscal outcomes

Average lifetime fiscal impact by age of permanent visa grant



Source: Varela et al (2021, Chart 10).

government-supported university places. These exclusions boost the short-term fiscal dividend from temporary skilled migration, although they may also reduce Australia's attractiveness as a destination for globally-mobile migrants with in-demand skills.

2.4 Higher-skilled migrants are more likely to boost productivity

A key task of the Review is recommending reforms to Australia's migration system that will boost productivity growth.

Migrants can lift the productivity of incumbent workers, boosting their living standards over the long term.⁵² High-skilled migrants, both temporary and permanent, are more likely to lift the productivity of incumbent workers, especially through the adoption of new technologies and business practices.⁵³ Perhaps unsurprisingly, higher-skilled migrants with work experience abroad are the most likely to generate the spread of knowledge and international best-practice.⁵⁴

Skilled migrants can also boost productivity growth by improving skills matching in the labour market.⁵⁵

Australian evidence of productivity spillovers from migration remains limited,⁵⁶ although new OECD research finds that regions with a higher share of migrants have higher levels of labour productivity.⁵⁷

52. See Coates et al (2021, Section 3.3.3) for a detailed discussion of the link between migration, innovation, and productivity.

53. Australia accounts for only a small share of the global economy, so the vast majority of innovations used in Australia are invented elsewhere, and then adopted or adapted here (Daley et al (2012, pp. 17–18)).

54. Döring and Schnellenbach (2006); Campo et al (2018); Alesina et al (2016); Gu et al (2020); and Fabling et al (2022).

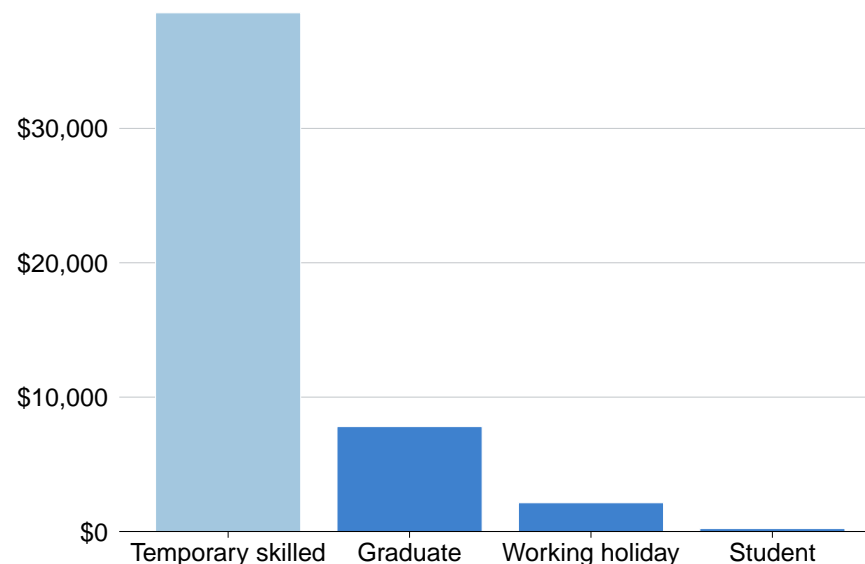
55. Productivity Commission (2016a).

56. Roodman (2014, p. 7). This lack of evidence led the Productivity Commission (2016b, p. 214) to conclude that migration is unlikely to have substantial spillover impacts on productivity or per-person incomes.

57. Forthcoming OECD research presented at the 2022 Australian Population Association conference (OECD (2022a)).

Figure 2.4: 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



Notes: Primary applicants only.

Source: Varela et al (2021) Table B2.

It is possible that temporary sponsorship of high-skilled migrants weakens firms' incentives to train local workers,⁵⁸ but there is little evidence to suggest that migration substantially reduces investment in the education and training of Australian workers.⁵⁹

2.5 Skilled migration boosts wages for lower-skilled Australians

The existing Australian evidence, albeit imperfect, finds little impact of migration on Australian workers (Box 4). The vast international literature examining the aggregate impact of migration on the labour market generally supports this story.

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. Where migrants are concentrated in certain sectors they will tend to reduce the wages of local workers with substitutable skills.⁶⁰ 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 incumbent workers 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.⁶¹

58. Lowe (2021).

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

60. 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.

61. Peri and Sparber (2009) find that foreign-born lower-skilled workers specialise in occupations intensive in manual-physical labour skills, while similarly-skilled

Australia's experience during the COVID-19 pandemic, when Australia's international borders were closed, is consistent with this story. Fewer migrants largely reduced both the demand for and supply of labour in Australia, and is likely to have had little impact on the employment prospects and wages of Australian workers at the aggregate (Box 5). But industries which were more reliant on temporary migrant workers pre-pandemic saw a much larger increase in job vacancy rates.

2.6 Skilled migration reduces the risk of migrant exploitation and reduces compliance costs

Targeting high-wage rather than low-wage migrants would reduce the risk that employers game the rules to recruit and exploit lower-skilled migrants. Higher-wage workers have more bargaining power and are better able to protect themselves from being exploited.

There is a documented history of exploitation of temporary skilled workers.⁶² This exploitation is much more likely to occur in low-skill, low-wage jobs than high-skilled, high-wage jobs (see Box 6).⁶³ Figure 2.6 shows that TSS visa-holders who earn less than \$70,000 on arrival get few or no pay rises, whereas those who start out on more than \$70,000 tend to get big pay rises. This suggests temporary skilled workers on lower wages have weaker bargaining power.

A skilled migration system that restricts entry to higher-skilled workers is less likely to result in exploitation of migrant workers. This allows for a lighter-touch, more streamlined regulatory system that is better for businesses as it is cheaper and they are able to recruit the workers they need more quickly and is better for migrants, who have more certainty and can move to Australia more quickly and start working.

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).

62. See Boucher (2019) and C. F. Wright and Clibborn (2020).

63. Boucher (2023).

Box 4: How does migration affect the wages and employment of local workers?

Some Australians worry that migrants are going to take jobs away or suppress wages. In 2022, about one in five Australians agree or strongly agree that 'immigrants take jobs away' when they enter the labour market.^a However, concerns about migrants taking jobs seem to have abated in recent years. In 2018, one in three Australians agreed or strongly agreed that 'immigrants take jobs away'.

There is limited evidence that immigrants 'take jobs' or materially reduce incumbents' incomes, at least in aggregate. 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.^b

The existing Australian evidence, albeit imperfect, finds little impact of migration on Australian workers.^c Breunig et al (2017) 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.^d Recent analyses arrived at similar conclusions.^e

The international literature examining the aggregate impact of migration on the labour market generally supports this story. 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'.^f

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.

The one high-quality study focused on temporary skilled migration to Australia confirms this account. Crown et al (2020) found that when the share of skilled temporary migrants in a particular labour market rose, low-skilled local workers saw the biggest wage gains.^g Economic modelling for the Migration Council of Australia suggests that a migrant intake focused on high-skilled workers will boost the wages of low-skilled workers and reduce the wages of high-skilled workers.^h

a. O'Donnell (2022). See also Coates et al (2021, Figure 3.1). A higher proportion of people who think that Australia's migration intake is too high think migrants take jobs away.

b. Migrants spend more than they earn, meaning migration adds to both the demand and supply of labour. See Coates and Reysenbach (2022a, Figure 3.3).

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

d. There was also no effect on wages for incumbents with less experience in the labour market: Breunig et al (2017, Table A.4).

e. Recent analysis by the OECD shows a positive relationship between migration and the wages and employment of incumbent workers: OECD (2022a) and OECD (2022c). Committee for Economic Development of Australia (2019) replicated the 2016 Breunig study and had similar results.

f. See also Roodman (2014).

g. 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. The OECD analysis also found that the wages of low-skill workers were positively correlated with high-skill migration, whereas the relationship was more ambiguous for high-skill workers.

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

Box 5: Border closures didn't drive Australia's strong labour market outcomes after the pandemic

The closure of Australia's international border in response to the COVID-19 pandemic led some commentators to conclude that border closures were the main driver of the rapid recovery in Australia's labour market.^a It's true that the number of migrants fell dramatically during the pandemic, and border closures meant that money that would have otherwise been spent overseas has been spent at home.^b

But fewer migrants largely reduced both the demand for and supply of labour in Australia, and is likely to have had little impact on the employment prospects and wages of Australian workers at the aggregate. Grattan Institute analysis showed that unprecedented fiscal and monetary stimulus, rather than closed borders, is the main driver of Australia's low unemployment rate (Figure 2.5).

Industries which were more reliant on temporary migrant workers pre-pandemic saw much larger increases in job vacancy rates, since the absence of migrants reduced labour supply in those industries much more than it did labour demand.^c

However, official wages growth in sectors where temporary migrants – especially students and working holiday makers – make up a large share of the labour force has been sluggish. The wage price index for hospitality increased by 2.7 per cent over the year to September 2022, compared to 3.1 per cent across all industries (before the pandemic, about one in six workers in hospitality were temporary migrants, many

a. See Hutchens (2021) for example.

b. Closing the border might have contributed \$28 billion to Australia's trade balance compared to 2019.

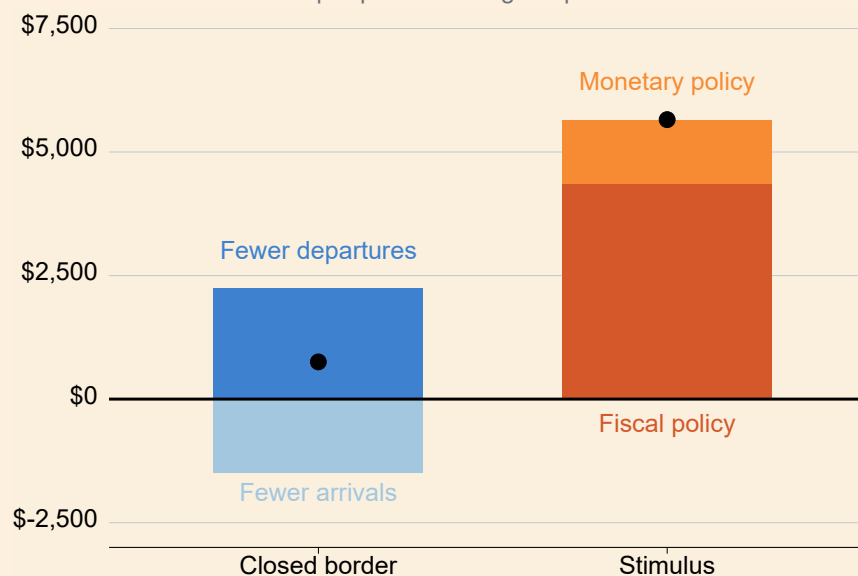
c. Buckley and Elias (2022).

d. A 4.6 per cent increase to the restaurant and hospitality awards took effect on 1 October 2022. There is no wage price index for agriculture, but other evidence indicates wages growth has risen.

of them international students). Wages in the retail industry rose 4.2 per cent over the year.^d

Figure 2.5: Fiscal and monetary stimulus, not border closures, drove the rapid economic recovery from the COVID-19 pandemic

Estimated addition to GDP per person during the pandemic



Notes: Estimates are in current Australian dollars per person per year and subject to revision. See detailed notes at Ballantyne (2022).

Source: Grattan analysis of ABS 5302.0 and various IMF and RBA publications.

2.7 A less prescriptive visa system is the best way to ensure that migration bolsters Australia's sovereign capabilities

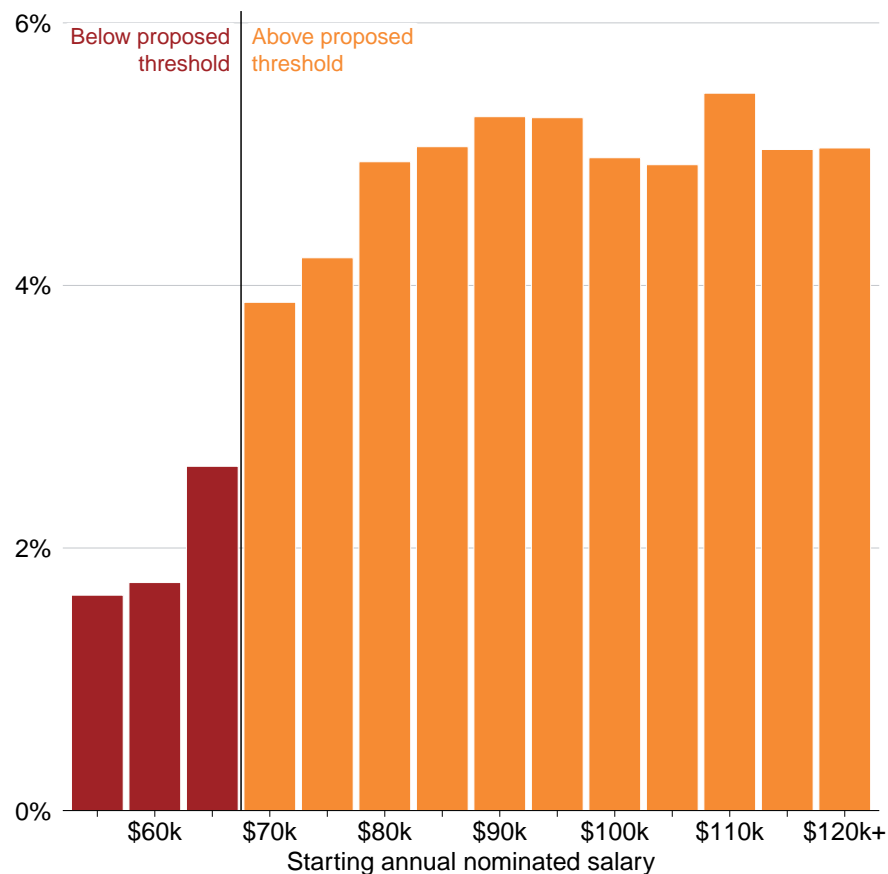
The Review's task to identify reforms to simplify and streamline visa rules is a crucial step towards building a migration program that will strengthen our sovereign capabilities, in areas such as renewable energy, digital technologies, medical research, cyber security, and defence industries.⁶⁴ As Australia's economy moves further towards highly skilled service industries, where new tasks and roles are advanced and updated regularly, the migration system needs to ensure that Australia can recruit migrants with in-demand skills to meet workforce gaps as they arise and spur technological innovation and adoption.

It's tempting to imagine that Australia can use visa rules to finely calibrate a skilled migration program that meets very specific skills needs from the outset. But a migration system that tries to directly target specific skills and capabilities, especially on a granular scale, is likely to prove counterproductive. Overly-prescriptive rules can make migration to Australia more expensive and less certain both for migrants and sponsoring employers, making Australia less attractive as a destination for the world's best and brightest – precisely those migrants with the skills to build our sovereign capabilities and maximise our economic potential.

Australia's skilled migration program is already complex. The process is difficult and uncertain for would-be migrants and expensive and slow for employers.⁶⁵ The use of occupation lists in particular creates complexity and uncertainty, especially for migrants on temporary

Figure 2.6: Temporary skilled migrants with higher starting salaries have stronger wages growth

Average annual wage increase during temporary skilled visa



Source: Grattan analysis of ABS (2021b).

64. Department of Home Affairs (2022d, p. 5).

65. The Home Affairs Minister recently described the current system as 'fiendishly complex'.

visas trying to transition to permanent residency.⁶⁶ This complexity contributed to a blow-out in visa processing times in 2021 and 2022.⁶⁷ The government has devoted more resources to visa processing and has made some progress in reducing processing times for some visas.⁶⁸

Processing times are only part of the problem. There can be long lead times between the point at which an occupation is identified as in-demand by industry and the point at which it is added to the occupation list. For example, 'data scientist' is a developing and in-demand professional field for service industries such as finance, banking, and technology.⁶⁹ 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.⁷⁰ The National Skills Commission has noted several other emerging occupations where ANZSCO does not reflect labour market trends.⁷¹

Nor is there any guarantee that migrants recruited to work in particular occupations will stay in those fields once granted permanent residency, especially if those jobs are not highly paid. For instance, less than 60 per cent of recent migrants granted a permanent skilled visa were working in their nominated field.⁷² Recent research by CEDA

also found that nearly a quarter of permanent skilled migrants in Australia were working in a job beneath their skill level.⁷³ Among working migrants that arrived in Australia between 2011 and 2015, around 80 per cent of migrants that started off working as managers, professional or technicians and trade workers were still working in those occupations by 2019. That figure fell to less than half of all working migrants that started off as machinery operators and drivers and sales workers.⁷⁴

A more streamlined system focused on skilled workers capable of earning high wages in any occupation would reduce red tape for both sponsoring employers and migrants, making it easier to recruit migrants to support Australia's sovereign goals. Those migrants with globally in-demand skills are, after all, likely to attract high wages wherever they work.

Instead, efforts to actively shape Australia's skilled migrant intake should focus on attracting applicants with valuable skills from abroad. For example, 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.⁷⁵ After all, even very modest improvements in the composition of Australia's permanent skilled migrant intake would pay for the costs of any investments in offshore recruitment of skilled workers many times over.

66. For example, the Australian company Atlassian says the lack of a residency pathway for some temporary workers 'makes it very difficult to attract high-level candidates in roles that are crucial to us'. See: Atlassian (2021).

67. For example, the median time taken to process a short-term TSS visa is now three months, up from 83 days in August and 53 days in March (Department of Home Affairs (2021a) and McIlroy and Read (2022)).

68. Chang (2022).

69. VETASSESS (2020).

70. Department of Home Affairs (2019).

71. National Skills Commission (2020).

72. Working in nominated field is determined at an ANZSCO 4-digit level. See: Department of Home Affairs (2020, p. 18).

73. CEDA (2021).

74. Grattan analysis of ABS (2021c).

75. Coates et al (2021, p. 54).

Box 6: Evidence of underpayment of migrant workers, especially working holiday makers and international students

There is evidence of persistent underpayment for temporary migrants on student and working holiday visas.^a Students and working holiday makers are the migrants most likely to be underpaid (Figure 2.7).^b Students and working holiday makers are concentrated in industries with higher rates of underpayment, notably hospitality and agriculture (Figure 1.8).

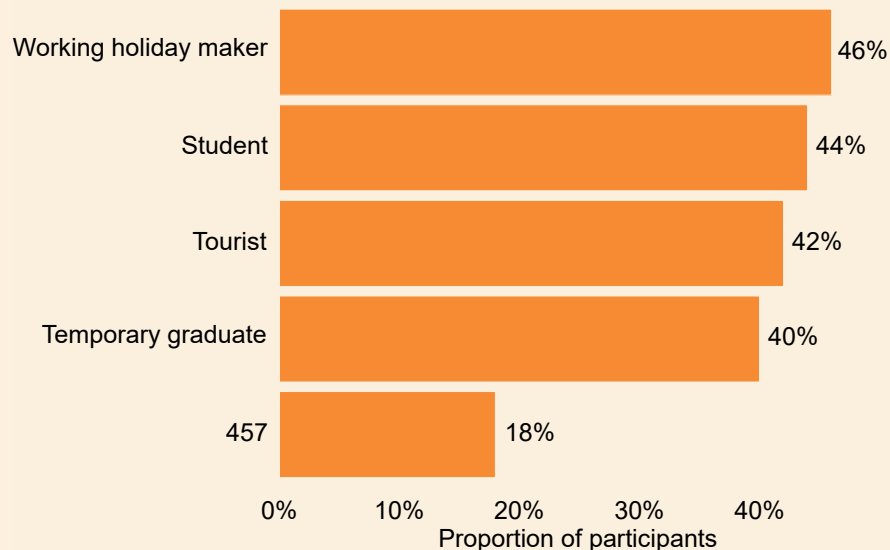
Visa conditions for students and working holiday makers weaken the bargaining power of many of these migrants, making them vulnerable to exploitation. For example, students have historically been limited to working 40 hours a fortnight during teaching periods, whereas working holiday makers must undertake 'specified work', typically in regional areas, in order to extend their stay in Australia to a second and third year.^c

However, the effects of visa-related policy changes are not always clear cut. For example, uncapping student work rights may not be an appropriate solution to reduce exploitation, since such a move risks turning student visas into a de facto low-skill work visa. As recent experience has shown, uncapping work rights has led to a big jump in student visa applications and higher rates of rejection.^d

A future Grattan Institute report will examine the extent of underpayment of migrant workers in greater detail, and assess potential solutions.

- a. For example, the Fair Work Ombudsman's investigation of 7-Eleven (see Clayton (2020)).
- b. Berg and Farbenblum (2017).
- c. Historically, 'specified work' included working in the horticulture, agriculture, forestry and fishing industries in regional areas, but the definition has been expanded in response to COVID-19 workforce shortages.
- d. Rizvi (2022).

Figure 2.7: Students and working holiday makers report more underpayment than other visa-holders
Participants earning less than \$15



Notes: The survey authors use \$15 as an indicator of underpayment. The minimum wage was \$18 in 2017, however, the survey asks respondents about their lowest ever wage which may have been several years earlier.

Source: Berg and Farbenblum (2017).

2.8 Skilled migration increases popular support for Australia's migration program

A focus on high-skilled migration, with pathways to permanent residency for temporary skilled migrants, is very likely to receive stronger public support.

Perceptions that temporary skilled migrants take Australians' jobs and undermine their working conditions make temporary skilled migration particularly unpopular.⁷⁶ One recent opinion poll found 72 per cent of Australians agreed that temporary work visas should cover genuine skills shortages, not provide cheap labour.⁷⁷ The Reserve Bank Governor, among others, has linked temporary migration to the problem of slow wages growth.⁷⁸

In addition to the harm caused to those being exploited and similar workers, the mistreatment of temporary skilled migrants also undermines public trust in the system, risking the benefits that a successful migration program offers the community overall.

2.9 Some benefits and many costs of migration are primarily determined by the size of the program, not its composition

Targeting younger, skilled workers is likely to maximise most of the benefits, and minimise many of the costs, that Australia experiences from skilled migration. That's because many of the benefits of migration increase with migrants' skills, whereas many of the costs of migrants – such as increased congestion, pressure on housing, infrastructure, and the environment – depend more on the size of Australia's migrant intake than its composition.

The overall size of negative impacts will therefore largely depend on whether reforms to skilled migration lead to an increase, or decrease, in the total number of migrants that arrive and stay in Australia. With a shift towards higher-wage migrants for both temporary and permanent skilled migration, many of these costs may increase per-person, because higher-wage migrants will use their incomes for housing and transport and compete with Australians for scarce environmental resources. But the benefits will also be larger.

Higher housing costs

Several studies have found that migration modestly increases Australian house prices and rents.⁷⁹ Researchers at the Reserve Bank estimate that the migration-led ramp up in population growth since 2005 led to housing rents being 9 per cent higher in 2018 than they otherwise would have been.⁸⁰ The federal government's decision to increase the size of the permanent migration program by 35,000 people for the 2022-23 financial year would, if made permanent, likely push up rents by a further 4 per cent over the next decade.⁸¹ Since high-wage migrants earn more, they are likely to add further to demand for Australian housing, modestly lifting rents and house prices, especially given that housing supply has historically failed to keep pace with demand from population growth.⁸²

Of course, whether a person wins or loses from rising house prices and rents depends on their circumstances. Older, wealthier Australians, who are more likely to own housing, will generally benefit from higher migration, since it boosts the prices of their homes and the rents those homes attract. Whereas typically younger, poorer Australians lose out, since they tend to pay those higher rents and house prices.

76. Coates et al (2022).

77. Lewis (2021).

78. Lowe (2021).

79. Bourassa and Hendershott (1995); and Otto (2007).

80. Tulip and Saunders (2019).

81. Coates and Reysenbach (2022a).

82. Daley et al (2018a, Chapter 3).

For this reason, any increase in the annual migrant intake must be paired with a renewed federal commitment to boost housing supply in our major cities via the federal government's new *Housing Accord*, as well as an immediate 40 per cent boost to Commonwealth Rent Assistance to help low-income renters cope with higher rents.⁸³

More urban congestion

Migrants tend to live in urban centres, and drive less than existing residents, but they use more public transport.⁸⁴

Immigration contributes to congestion in our major cities, although the extent of the impact is difficult to measure because Australians adjust to greater crowding by shifting where they live and work.⁸⁵ Australians adapt to keep their commutes tolerable. But these adaptations can be costly, since workers may forego better job opportunities to manage their commute.

Shifting skilled migration towards higher-wage migrants, without changing the size of the intake, would be likely to add marginally to urban congestion since high-income earners tend to drive more, and further.⁸⁶

Higher carbon emissions and other environmental impacts

Higher-skilled migrants, because of their higher incomes, are likely to place additional demands on scarce environmental resources.

Australia is committed to net-zero carbon emissions by 2050.⁸⁷ Each Australian emits on average about 20 tonnes of carbon per year.⁸⁸ Because the targets are based on total levels, not per-capita emissions, higher rates of migration, and also skilled migration, mean more effort is required to reduce per-capita emissions to achieve a given emissions reduction target.

Urban population growth also puts pressure on many environmental resources, such as clean water, air, and waste disposal. Managing these pressures may require additional investment, and these higher costs are typically shared by all utility users.⁸⁹

Some Australians are concerned about the impact of population growth on biodiversity.⁹⁰ Given the concentration of migrants in Australia's major cities, however, most biodiversity impacts of migration are likely to be limited to those specific locations.⁹¹

Strengthening Australia's defense capabilities

Other benefits of migration are also largely driven by the size of the program. For instance, by supporting a larger population, migration can build Australia's defensive capabilities since a larger population offers more manpower for defense. Although, targeting high-skill migrants also generates a larger economic base to fund defense expenditures.⁹²

83. Coates and Reysenbach (2022a).

84. Terrill et al (2018).

85. Ibid.

86. See Terrill (2022, Figure 4.3).

87. T. Wood et al (2021, Section 1.1.1).

88. Temporary skilled migrants are more likely to live in urban centres, meaning their transport-related emissions may be lower than average. However, they earn above-average incomes and therefore probably consume more than the average Australian.

89. Productivity Commission (2016b, p. 231).

90. Productivity Commission (ibid, p. 237).

91. Productivity Commission (ibid, p. 16).

92. The original aim of Australia's migration program was to build the population for defence purposes. See: Phillips (2006).

2.10 Creating clear pathways to permanent residency for long-term temporary migrants has both benefits and costs

The Review is tasked with providing recommendations to provide clear pathways to permanent residence and citizenship for temporary visa-holders.⁹³ This focus is welcome. Offering clear pathways to permanent residency is important for attracting and retaining the best talent, and supporting the success of temporary migrants who do stay in Australia for the long term.

2.10.1 Fewer temporary sponsored workers and international students are transitioning to permanent residency

Australia saw a growing number of temporary migrants before the COVID-19 pandemic. Fewer temporary visa-holders – such as international students and temporary sponsored workers – are making the transition to permanent residency. And transitions from temporary to permanent residency are taking longer than in the past.

But there are big trade offs in offering clearer pathways to permanent residency for long-term temporary visa-holders. In particular, the increase in the number of longer-term temporary visa-holders in Australia means it is simply not possible to guarantee everyone a pathway to permanent residency given the limited number of permanent visas available each year. Nor would all temporary visa holders be at the front of the queue for permanent residency if the permanent skilled migrant intake were expanded. Therefore offering clearer pathways to permanent residency, given existing selection mechanisms for uncapped temporary visa programs, risks compromising the composition of the skilled migrant intake.

93. This is a priority for the government, see Australian Government (2022a) and Clare (2022).

Fewer temporary skilled migrants are transitioning to permanent visas

A lower share of temporary skilled workers are transitioning to permanent visas than in the past (Figure 2.8). For example, 36 per cent of migrants who were granted a temporary skilled visa in 2014 had received a permanent visa after four years, compared to 42 per cent who were granted their first temporary skilled visa in 2008. Temporary skilled visa-holders who get permanent visas also stay in Australia on a temporary visa for slightly longer: those that received a permanent visa were in Australia for 3 years on average, compared to 2.8 years for those who did not receive a permanent visa.⁹⁴

From 1996 to 2017, there was an implicit pathway to permanent residency for almost all people on a temporary skilled visa from a temporary skilled visa to an employer-nominated permanent visa. And most TSS visa holders received permanent residency through this channel – over half of temporary skilled migrants arriving in 2006-07 had received a permanent employer-sponsored visa within ten years.⁹⁵ Yet the introduction of the Temporary Skills Shortage (TSS) visa in 2017 saw the creation of a new short-term stream, where occupations listed on the Short-term Skilled Occupation List (STSOL) were ineligible for permanent sponsorship.⁹⁶

94. Average time that a TSS visa-holder, whose last temporary visa expired between 2013 and 2018, spent in Australia. Changes to the temporary skilled program in 2017, specifically the short-term stream which is not eligible for permanent residency and only offers a two-year visa, are not reflected in these statistics and would likely make the trend more pronounced: Grattan analysis of ABS (2021b).

95. This includes regional-sponsored and employer-sponsored visas. 69 per cent had received a permanent visa within 10 years, of which 60 per cent received an employer-sponsored visa and 18 per cent received a regional employer-sponsored visa: Treasury (2022).

96. Since 1 July 2022 some short-term stream TSS visa-holders who were in Australia during the pandemic will be able to apply for a permanent visa through the Employer Nomination Scheme (subclass 186) Temporary Residence Transition stream. This pathway is limited to short-term stream visa-holders who were in

The growing number of temporary migrants (see Figure 1.6), combined with a cut in the permanent intake by the Morrison Government from 190,000 to 160,000 visas in 2019, also increased competition among temporary migrants for scarce permanent visas.

Fewer international students are becoming permanent residents

While the number of international students on temporary visas grew significantly in the decade pre-COVID, the number of permanent visas did not. Figure 2.9 shows that a lower share of international students are obtaining permanent residency upon graduation than in the past. Historically up to 25 per cent of student visa-holders transitioned to a permanent visa within 6 years of first commencing study in Australia. For more recent student cohorts that figure has halved to just 12 per cent.

In pursuing a permanent visa, students stay in Australia longer: those that received a permanent visa were in Australia for 4.9 years on average, compared to 2.6 years for those who did not receive a permanent visa. Students also cycle through more visas on the pathway to permanency: students that receive a permanent visa have three temporary visas on average, compared to 1.7 for those that did not receive permanent residency.⁹⁷

The decline in the share of international students transitioning to permanent residency reflects – at least in part – the decision taken in 2010 to decouple student visas from permanent skill visas. Under the new policy, graduating students were offered a new Temporary

Australia for at least one year during the pandemic and is only available for two years from July 2022: Department of Home Affairs (2022e)).

97. Students also get a variety of different visas. Students who received permanent residency were more likely to have received more graduate student visas, temporary skilled visas and student visas. The above statistics are based on the average time in Australia and the number of visas received of students whose last temporary visa expired between 2013 and 2018: Grattan analysis of ABS (2021b).

Graduate visa, which provides students with the opportunity to gain work experience before applying for permanent residency.⁹⁸ But again, the growing number of international students and recent graduates, combined with fewer permanent visas allocated via the points-test, resulted in intense competition for permanent skilled visas among international students.

2.10.2 Offering clearer pathways to permanent residency would offer some big benefits to Australia

Australia remains a very attractive destination for migrants (Section 1.3.1). However, making clearer pathways to permanent residency would increase Australia's attractiveness compared to other comparable nations. In particular, many international students are motivated to study abroad by the prospect of securing permanent residency in their study destination, while many highly-skilled migrants have families, including children.⁹⁹

A lack of a clear pathway can disrupt the careers of temporary migrants

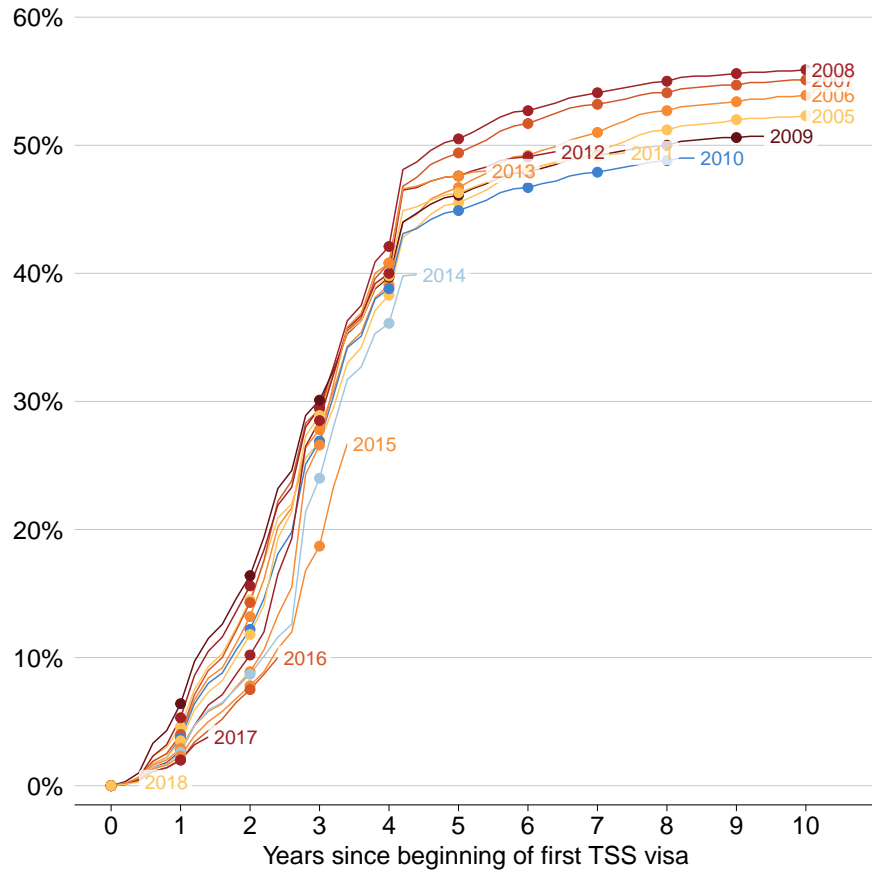
A lack of clear transition pathways can also compromise the career development of temporary skilled workers who do transition to permanent residency. Temporary skilled migrants with valuable skills who face an extended period on a series of temporary visas, especially

98. Prior to 2010, many international students could attain permanent residence if they enrolled in a course of study which would qualify them for an occupation deemed to be in national shortage. This led to a concentration of overseas students who were seeking permanent residency in the vocational education sector. See Spinks (2016).

99. In 2021, 68 per cent of undergraduate international students studying in Australia stated that the possibility of migrating to Australia was an 'extremely important' or 'important' reason in their decision to study in Australia (down from 78 per cent in 2012). The possibility of migrating to Australia was much more important for Indian students (81 per cent in 2021) than Chinese students (46 per cent): Quality Indicators for Learning and Teaching (2021, pp. 26–27).

Figure 2.8: The share of temporary skilled visa-holders who transition to permanent residency is declining

Share of TSS visa-holders who have received a permanent visa, by year of first TSS visa approval

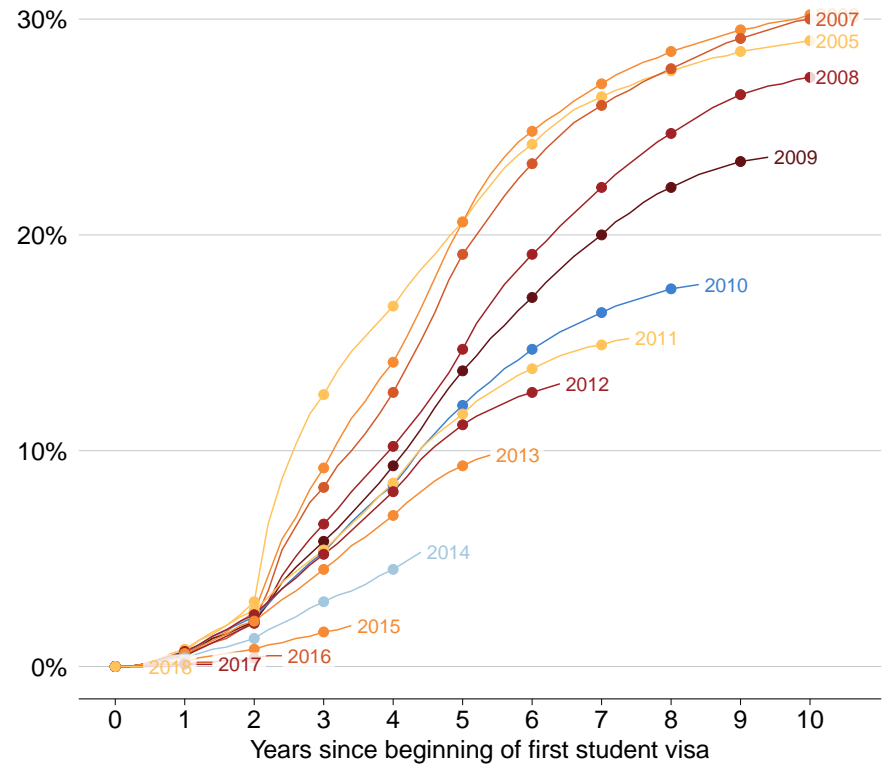


Notes: Includes people on the old temporary skilled worker visa (subclass 457).

Source: Grattan analysis of ABS (2021b).

Figure 2.9: Far fewer students are transitioning to permanent residency than in the past

Share of student visa-holders who have received a permanent visa, by year of first student visa approval



Source: Grattan analysis of ABS (ibid).

visas that limit where migrants can work or the occupations they can work in, are likely to see their skills degrade. As do constraints on temporary sponsored workers shifting employers, including while applying for permanent sponsorship, making them unable to take up opportunities in Australia that would best develop their skills and experience.

A lack of a clear pathway to permanent residency for international students appears to be a key factor behind their poor employment outcomes.¹⁰⁰ Despite their qualifications, a quarter of recent graduates are either unemployed or not looking for work. A further 17 per cent work in low-skilled occupations in retail, wholesale and hospitality.¹⁰¹ These poor outcomes persist even for graduates with technical skills: engineering graduates, for example, have an unemployment rate of 15 per cent (Figure 2.10).¹⁰²

Many leading Australian employers of skilled workers are unwilling to employ and invest in training temporary visa-holders. Employers instead prefer permanent visa-holders where they can be confident they can benefit long-term from the investments they make in upskilling workers.¹⁰³

There is a substantial literature showing that young workers who graduate into a weak labour market, or find themselves out of work for an extended period early in their careers, can find themselves

100. L. T. Tran et al (2022). Other factors may include students' lack of social and professional networks in Australia, employers' concerns about migrants' skills and English language proficiency, and racism, among other factors.

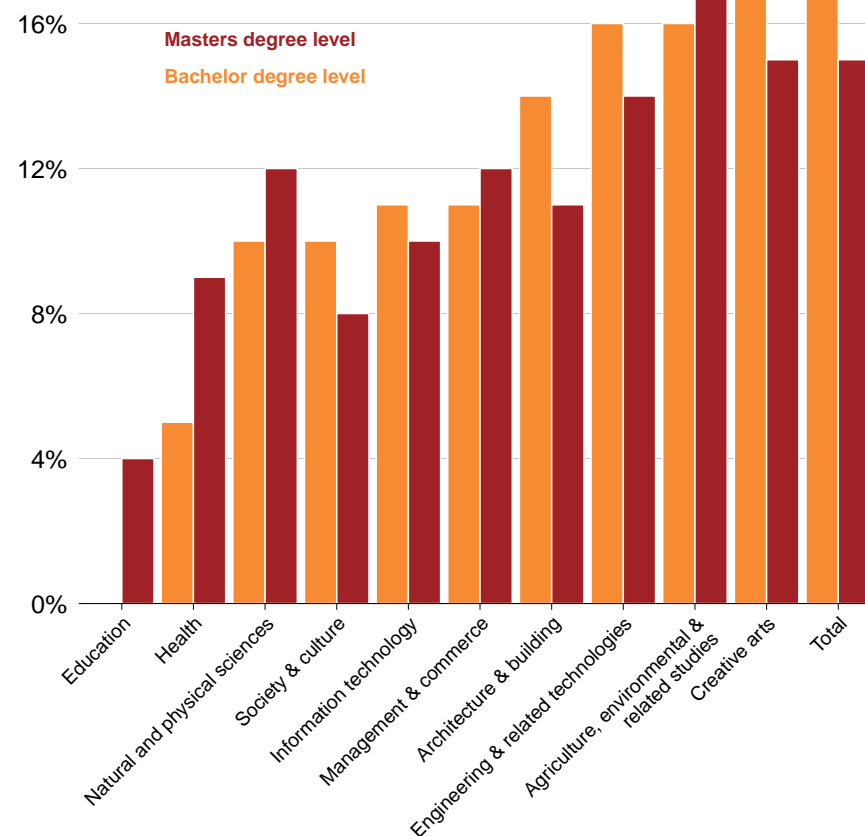
101. Coates and Reysenbach (2022b).

102. Following the Jobs Summit, the government extended the length of the temporary graduate visa for certain degree holders, including engineering, IT and nursing.

103. Only Australian and New Zealand citizens and Australian permanent residents are eligible to apply for graduate programs at large employers such as Coles, Woolworths, Australia Post, the major banks and the public service. The 'Big 4' professional services firms, KPMG, PwC, EY and Deloitte, only allow temporary visa-holders to apply for graduate positions in some limited circumstances.

Figure 2.10: Graduate student visa-holders have poor employment outcomes

Unemployment rate for primary graduate student visa-holder by level and field of study, 2016



Source: Chew (2019).

'scarred' by the experience, facing lower long-term earnings.¹⁰⁴ There are good reasons to expect that temporary visa-holders, where they face large constraints on their labour market participation due to prescriptive visa rules or a lack of certainty about permanent residency, will experience similar if not larger economic scars, impeding their long-term contribution to the community once granted permanent residency.

A permanently temporary class of people risks creating a 'guest-worker' society

As the number of temporary visa-holders grows – currently about 1.9 million people – so does the number of people in Australian society who live under a restricted set of rights, such as not being able to vote or get unemployment support (Figure 1.6).¹⁰⁵ While the impact is hard to quantify, the fact that a growing share of temporary visa-holders resident in Australia live without full political rights and other entitlements available to permanent residents and citizens, risks eroding our democratic norms and institutions over the long term.¹⁰⁶

Offering clearer pathways to permanent residency may also boost public support for Australia's migration program. Australia has historically rejected temporary 'guest-worker' programs like those that developed in post-war Europe, in favour of a permanent migration program where migrants enjoy the same rights and privileges and have the same obligations as Australian-born residents, although the number of temporary visa holders have increase substantially in recent

years (Figure 1.6).¹⁰⁷ A 2018 Essential Media opinion poll showed that when the phrase 'short-term' is used, support for migration halves.¹⁰⁸ Providing clearer pathways to permanent residency for temporary visa-holders would reduce the risks that migrants are exploited in Australia on temporary visas.¹⁰⁹

2.10.3 There are also big trade-offs in offering clearer pathways to permanent residency

Despite these substantial benefits, there are big trade-offs in offering pathways to permanent residency for temporary visa-holders. After all, many temporary visa-holders with few skills – comparatively less attractive candidates for Australia's existing permanent skilled visa – spend substantial periods in Australia. And many less-skilled migrants – those with fewer outside options – are often highly motivated to secure permanent residency in Australia.

Who should have a pathway to permanent residency and how certain should the pathway be?

Which temporary visa-holders should be offered pathways to permanent residency? It's clear that very short-term temporary visa-holders, such as those on tourist visas, should not be offered pathways to permanent residency. Therefore the Review should focus on pathways to permanent residency for visa categories that facilitate a longer-term stay in Australia, especially temporary sponsored workers and international students.¹¹⁰

104. For a detailed discussion of the Australian literature on labour market scarring see: Coates and Ballantyne (2022, Section 2.3.1).

105. More than 20 per cent of temporary skilled migrants are still on a temporary visa five years after arriving in Australia, and close to 40 per cent of student visa-holders: Coates et al (2021, Figure 2.4).

106. Mares (2017a); and Mares (2016).

107. See Mares (2016) and Markus et al (2010) for how Australia's temporary visa policies expanded over time.

108. Essential Media (2018).

109. Coates et al (2022, Chapter 1).

110. Other long-term temporary migrants include working holiday makers and New Zealand citizens – who already retain the right to live in Australia indefinitely, albeit without a guaranteed pathway to permanent residency.

But how certain should those pathways be? If we consider just higher-skilled long-term temporary visa-holders – international students and temporary sponsored workers for example – it is clearly not possible to offer all of them a guaranteed pathway to permanent residency.

It's impossible to guarantee all long-term temporary visa-holders a permanent pathway under the existing permanent intake

As shown in Figure 2.11, Australia's migration system can only ever prioritise two of: maintaining a limited capped permanent visa program, a set of uncapped longer-term temporary visa programs (including international students, temporary sponsored workers, working holiday makers and New Zealanders) and *guaranteeing all* those long-term temporary visa-holders a pathway to permanent residency.

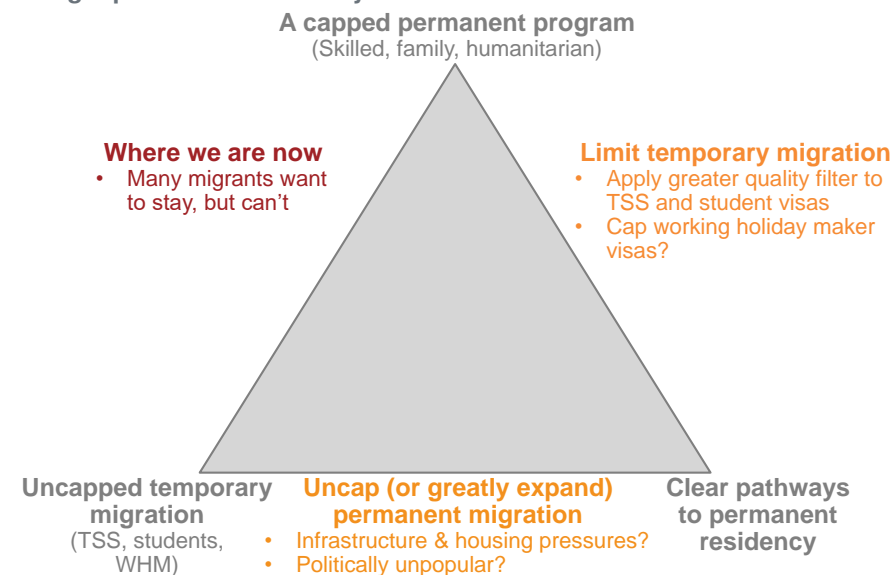
Currently only a subset of all long-term temporary visa-holders make the transition to a permanent visa: many temporary sponsored workers and international students eventually leave Australia (Figure 1.2), as do most working holiday makers.¹¹¹ While not all long-term visa-holders want to stay in Australia permanently, the large stock of outstanding applications for permanent visas from those currently in Australia and the willingness of a significant minority of temporary visa-holders to stay in Australia for up to a decade – demonstrates that there is unmet demand for permanent visas among temporary visa-holders.

Offering all long-term temporary visa-holders clearer pathways requires a much larger permanent intake

What would clearer and more certain pathways to permanent residency for temporary visa-holders mean for Australia's existing temporary and permanent visa programs?

111. Within 10 years, only 39 per cent of students, 69 per cent of temporary skilled workers and 32 per cent of working holiday makers had transitioned to a permanent visa. See: Treasury (2022).

Figure 2.11: Current migration settings mean not all temporary migrants can get permanent residency



Source: Grattan Institute.

Expanding the number of permanent visas on offer would allow Australia to offer clearer pathways to permanent residency while maintaining our existing temporary visa programs. But the increase in the permanent intake required to offer permanent residency to all the temporary visa-holders who wanted to stay, is unrealistic.¹¹² For instance, in the 2019-20 financial year, the federal government granted a total of 340,152 student visas, 149,249 working holiday maker visas and 55,060 temporary sponsored worker visas. And expanding access to permanent residency for temporary visa-holders would also further boost the number of people wanting to come to Australia on a temporary visa.

But even a smaller, and more realistic, increase in the size of Australia's permanent visa intake – to facilitate clearer pathways to permanent residency for just *some* long-term temporary visa-holders – would have both costs and benefits. An expanded intake would offer a fiscal dividend, provided that the extra permanent visas went to comparatively younger workers (Figure 2.3). But by expanding Australia's population in the long term, a larger permanent intake would also impose costs on the community, such as more expensive housing, higher levels of urban congestion and broader environmental impacts.

Whatever its merits, a big increase in the number of permanent visas offered each year would be politically difficult. A 2022 survey found that 24 per cent of Australians believe too many migrants are being accepted, and 52 per cent believe the current number is 'about right'.¹¹³ However, the proportion of people wanting fewer migrants has fallen from 44 per cent in 2018, likely in part because Australia has seen less migration over the past two years.¹¹⁴

112. A total of 1.9 million people, excluding tourists, were in Australia on a temporary visa as at 31 October 2022 (Figure 1.6).

113. 22 per cent want more migrants accepted into Australia. Data from O'Donnell (2022).

114. The 2022 Mapping Social Cohesion Survey found that overall, support for immigration and multiculturalism is high and growing. For example, the proportion

of people who agree or strongly agree that 'accepting immigrants from many different countries makes Australia stronger' increased from 63 per cent in 2018 to 78 per cent in 2022.

Even with a larger permanent intake, it's not clear that offering privileged pathways to permanent residency to temporary visa holders in Australia is in Australia's national interest. Many long-term temporary visa-holders in Australia are relatively unskilled.¹¹⁵ For example, many international students are in Australia studying VET qualifications, while many TSS visa holders work in less-skilled jobs earning comparatively low wages (Figure 4.1).¹¹⁶

Neither group would be near the front of the queue for permanent residency even if Australia were to expand the number of permanent skilled visas on offer each year. Unless Australia's permanent migrant intake is uncapped, offering clearer pathways to permanent residency for existing long-term temporary visa-holders would likely mean selecting lower-skilled temporary visa-holders in Australia over higher-skilled applicants from abroad.

Or reducing the size of Australia's long-term temporary visa programs

Alternatively, we could reduce the size of Australia's temporary visa intake to ensure those who do come to Australia have a pathway to permanent residency. After all, offering clear pathways to permanent visas for long-term temporary residents makes those temporary visa programs de-facto parts of Australia's permanent skilled migrant program.

For instance, more stringent quality filters could be applied to long-term temporary visa holders, such as a higher wage threshold for temporary skilled sponsorship (as recommended in Chapter 4), or limiting student

of people who agree or strongly agree that 'accepting immigrants from many different countries makes Australia stronger' increased from 63 per cent in 2018 to 78 per cent in 2022.

115. Daley (2019).

116. For example, of the 405,000 student visas granted in 2018-19, the last full year before the COVID-19 pandemic closed Australia's international borders, about 100,000 were granted for VET-level courses.

visas to more-valuable courses. Alternatively, caps could be placed on the number of temporary visas offered each year through some streams, such as for working holiday makers.¹¹⁷

Smaller temporary visa programs would also have costs and benefits. For instance, limiting temporary migration for temporary sponsored workers and international students would reduce the fiscal dividend Australia reaps from these programs today (Figure 2.4) and mean foregoing substantial fee revenues for our universities.

2.10.4 Australia should offer clearer pathways without compromising the selection of permanent skilled visas

Australia's migration program should continue to prioritise the selection of younger, skilled workers who are best placed to contribute to Australia in the long term.

Pathways to permanent residency should not be automatic, based on length of stay in Australia on temporary visas. But we can create clearer and more certain pathways to permanent residency for temporary visa-holders, and also boost the returns to skilled migration generally, by improving the existing selection mechanisms for permanent skilled visas.

The best way to strengthen pathways to permanent residency is to align them, and the incentives they produce for migrants, with the characteristics that best predict migrants' long-term success in Australia.

Our migration system should clearly signal what migrant characteristics will be valued by the permanent program, offering clear incentives for

117. For example, Committee for Economic Development of Australia (2016, p. 9) has previously recommended a cap on working holiday maker visas. However, capping the number of international student or temporary sponsored visas on offer is likely to be administratively difficult and create further uncertainty for temporary sponsorship in particular.

migrants who want to stay to invest in their own capabilities to clear those hurdles. And requirements for transition from a temporary visa to permanent residency should not, as far as possible, distort migrants' decisions beyond those they would rationally make to maximise their own lifetime prospects in Australia.

For instance, our recommendation to use wage thresholds in place of occupation lists for employer-sponsored permanent visas will make the pathway to permanency clearer for temporary sponsored migrants and international students (see Chapter 3). And allowing temporary skilled migrants to work in any occupation once they arrive in Australia – supporting better labour-market matching – will allow temporary sponsored migrants to best build their skills and careers in Australia before securing permanent residency (Chapter 4). But neither of these reforms would guarantee all long-term temporary visa-holders a pathway to permanent residency.

2.11 A gender lens is important, but it should focus on the gendered impacts of migration on Australians

A gender lens is an important aspect of public policy since economic policies affect men and women in different ways.¹¹⁸ Since the objective of our skilled migration program is to boost the well-being of Australians, the gender outcomes we should care most about are those affecting Australians. With this lens, an imbalance in the gender of those granted visas is not in and of itself a great cause for concern, unless it has differentiated impacts on the Australian community by gender.¹¹⁹

As it stands, Australia's overall migrant intake is very well balanced along gender lines, with men accounting for 52 per cent of people

118. D. Wood et al (2021, p. 9).

119. A strongly gendered migrant intake may also create social problems, especially in integrating migrants into the Australian community (see Grosjean and Khattar (2019) as an example of the long-run effects of gender imbalance.).

residing in Australia today who currently hold a temporary or permanent visa, or are a citizen who held a permanent visa since 2000. Among all temporary visa-holders there is a slightly larger gendered skew, with men accounting for 58 per cent of all temporary visa-holders in Australia.¹²⁰ Given these numbers, Australia's overall migrant intake is unlikely to create highly gendered economic outcomes among Australians, for instance by disproportionately affecting women's employment prospects.

But some visa streams have more gendered intakes. For example, 72 per cent of primary applicants for TSS visas are men, whereas 64 per cent of secondary applicants – those who are provided a visa alongside a primary applicant – are women. In total, 56 per cent of TSS visa-holders in Australia are men.¹²¹

Although a gendered visa intake does not mean Australian women are disadvantaged vis-a-vis men. Gender impacts of the program are driven more by the gendered composition of the industries into which migrant workers enter. For example, where there are many TSS visa-holders entering male-dominated industries, such as mining or construction, it is likely that the employment outcomes of women compared to men will improve, since migrants will add more to the supply of labour, competing with the existing male-dominated workforce, than they will add to labour demand in those industries.

Similarly, extending temporary migration to fill labour shortages in the low-income, female-dominated care industry is likely to work against efforts to raise wages in those sectors, and would widen the gender pay gap. After all, gender discrimination that undervalues work predominately done by women is a key factor in the low pay rates seen in strongly-feminised care-economy workforces today (Chapter 5).

120. Mackey et al (2022, Figure 4.1).

121. As at 2019Q3. Coates et al (2022, Figure 1.4).

2.12 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, especially when granting permanent visas, is likely to reduce the net benefits the community derives from skilled migration.

Grattan Institute has previously called on Australian governments to stop trying to divert population to regional Australia.¹²² Policies designed to artificially hold jobs or people in regional areas have not fared well in the past. Such policies may not be needed in the future anyway: the COVID-19 pandemic has resulted in stronger population growth in regional areas as more people work remotely.¹²³

Australia's five largest cities are more productive than the smaller cities and regional areas. Migrants who 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. In cities, it is more worthwhile to specialise, and working with specialists also helps people to develop more specialist skills themselves.¹²⁴ 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.

Requiring skilled migrants to live and work in regional areas is especially costly in the long term. Forcing migrants to move to regional areas will likely reduce their incomes, reducing the taxes they pay

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

123. ABS (2022a). Although more remote work has also contributed to higher demand for essential workers in regional areas.

124. Moretti (2012, pp. 126–127).

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.¹²⁵ 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 permanent migrant intake. And regional visa requirements also hurt the long-term career development of skilled migrants – including their spouses – by constraining their employment choices to regional areas early in their careers.

It also remains unclear how many migrants diverted to regional Australia, especially for permanent visas, actually remain there in the long-term. Many migrants who start out in regional Australia – often as a condition of their visa – don't tend to stay there long (Chapter 3). More than one quarter of recent arrivals who were living in regional and remote areas in 2011 had moved to major cities in 2016, compared to about 10 per cent for people born in Australia.¹²⁶

Australian governments should ensure people in regional areas have access to a reasonable level of services and infrastructure that takes into account 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.

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

126. Mackey et al (2022, p. 76). This is despite high levels of internal migration from the Australian-born population, which is largely towards major cities: Raymer and Baffour (2018).

3 How to improve permanent skilled migration

Permanent skilled migration should prioritise young, higher-skilled migrants who are best placed to succeed in Australia. But our migration program does not consistently target those migrants. Permanent skilled migration has also become more costly, cumbersome and uncertain. And far fewer long-term temporary migrants – especially international students and temporary sponsored workers – are transitioning to permanent visas.

The Business Innovation and Investment Program (BIIP) should be abolished. The typical BIIP visa-holder is much older and earns a lower income than migrants on employer-sponsored and points-tested visas, while few investors on BIIP visas are financing projects that would not otherwise occur.

The Global Talent program has expanded rapidly, yet its value remains unproven. The Global Talent Program should be independently evaluated before any decision is made about its future.

The number of skilled worker visas – allocated via employer sponsorship and the points-test – should be expanded in their place. But these visas also need a rethink.

Permanent employer sponsorship should be available for workers in any occupation who earn more than \$85,000 a year. This would better target migrants with valuable skills, simplify the sponsorship process and offer clear pathways to permanent residency for temporary sponsored workers and recent graduates.

A single universal points-tested visa that targets younger, higher-skilled workers should replace separate streams for skilled independent state-nominated and regional visas. Points should only apply to characteristics that predict migrants' success in Australia.

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

Australia selects permanent skilled migrants through a number of different streams, each with significantly different selection mechanisms and eligibility requirements. The federal government specifies a ceiling on the number visas allocated each year through each stream. Figure 3.5 shows the planning levels for each of the major visa streams over time. 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.¹²⁷
- **Employer-nominated:** requires applicants to be nominated by a sponsoring employer, subject to minimum thresholds for applicants' age, qualifications, and proficiency in English.
- **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.

127. Additional points are available for applicants nominated by state governments through the 'Skilled nominated' and 'Regional' visa classes.

3.2 Parts of Australia's permanent skilled intake fail to prioritise younger, skilled migrants

While Australia's skilled migration program typically selects skilled migrants who earn above-average incomes in Australia, some parts of the program do not prioritise younger, high-skilled migrants best placed to succeed in Australia.

3.2.1 Employer-sponsored visa-holders earn the highest incomes, BIIP visa-holders the least

Australia's permanent skilled migrant intake generally selects migrants who do well in Australia, going on to earn comparatively high incomes. Figure 3.1 shows the incomes of skilled visa-holders compared to incumbents. 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, which is about \$30,000 more than incumbents of the same age. Despite higher levels of education on average, state and regional visa-holders tend to earn less than employer-sponsored visa-holders.

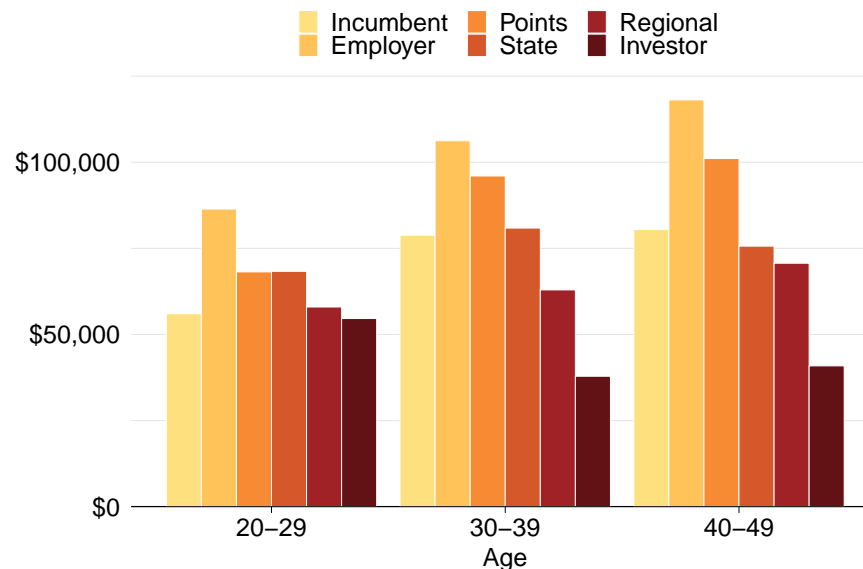
In contrast, BIIP visa-holders tend to earn very low incomes, including at older ages. While the BIIP is intended to attract high net-worth individuals to make substantial investments in Australia, most recent BIIP primary visa-holders report *lower* incomes than holders of permanent skilled visas.¹²⁸ 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 \$64,000.¹²⁹

128.Coates et al (2021, Figure 5.4).

129.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.

Figure 3.1: Employer-sponsored migrants earn the most, and those on investor visas earn the least

Median income of full-time workers, incumbents and primary visa 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 (2016b) and ABS (2016a).

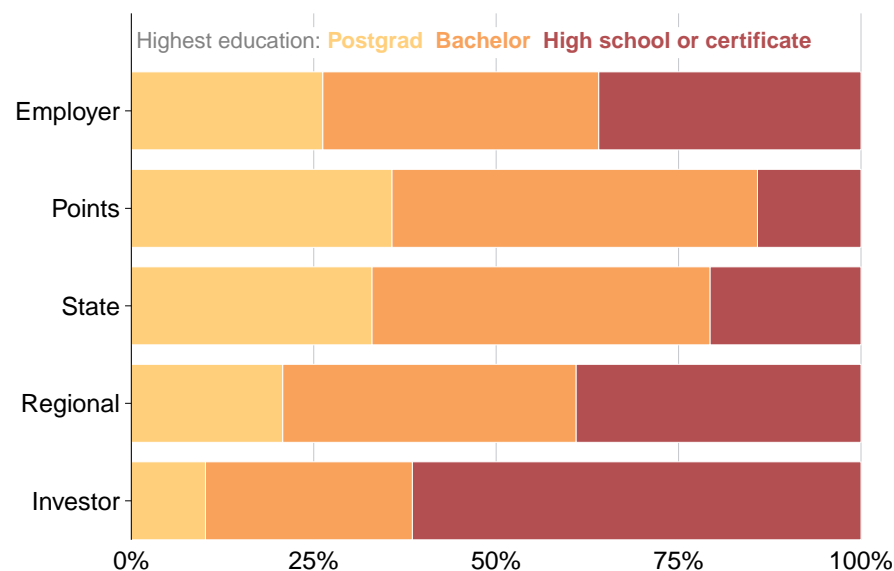
BIIP visa-holders are also much less likely to work than other skilled migrants, even as managers of the businesses or investments that they own. Just half of all BIIP visa-holders were in paid work as of the 2016 Census.¹³⁰ This is especially concerning given it is unlikely that the Innovation visa 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.

3.2.2 Permanent skilled migrants are typically skilled but BIIP visa-holders are not

As a whole, the permanent skilled migrant intake into Australia is highly educated. Almost one in three recent skilled visa-holders have postgraduate qualifications. A further half have a bachelor degree. Investor visa-holders are less qualified (Figure 3.2). Just one in 10 hold a postgraduate qualification. More than 60 per cent do not have a higher education degree.¹³¹

Figure 3.2: 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 (2016a).

Especially high-income migrants may generate additional fiscal benefits – via higher taxes – but only if that income (especially capital income) is subject to Australian income tax and the migrants' investment does not simply displace an investment that would have otherwise been made by another investor (who would also pay tax).

130. 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.

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

3.2.3 Points-tested visas select younger migrants, whereas half of all BIIP visa-holders are over 45 years old

As a whole, the permanent skilled migrant intake into Australia tends to be younger. Skilled workers selected using the points-test tend to be younger than other migrants. Figure 3.3 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.

In contrast, nearly half 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

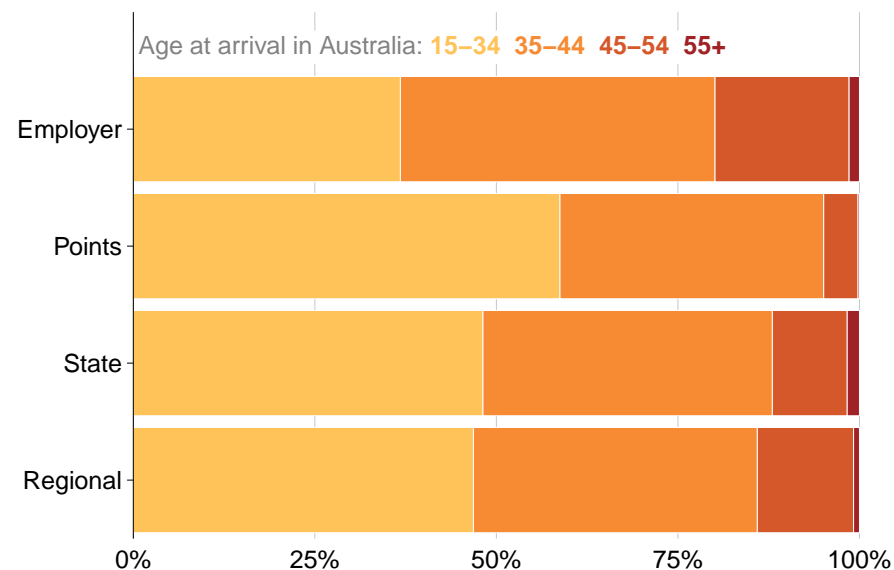
Global Talent visa-holders are likely to be older than skilled workers selected via employer sponsorship or the points-test as they are not subject to any age restrictions. However, we have been unable to assess the other outcomes of the program – such as the incomes that visa-holders earn – since the program was only established relatively recently.

3.2.4 Different permanent skilled visa-holders offer very different fiscal dividends

Among permanent skilled migrants, the largest fiscal dividend comes from employer-sponsored skilled migrants and skilled independent migrants. Each primary permanent employer-sponsored visa-holder offers a discounted lifetime fiscal dividend to the Australian community of \$560,000, and \$390,000 for each Skilled Independent permanent visa-holder. In contrast, each permanent visa allocated via the Business Investment and Innovation Program (BIIP) costs Australian taxpayers \$120,000 over their lifetime in Australia (see Figure 3.4).¹³²

132. Secondary visa-holders also have different outcomes across visa types. For example, each secondary permanent employer-sponsored visa-holder offers

Figure 3.3: Skilled visa-holders are overwhelmingly younger
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 (2016a).

3.3 The composition of Australia's permanent skilled intake must change

The composition of Australia's permanent skilled intake must change. The Business Innovation and Investment Program (BIIP) should be abolished and the Global Talent program scaled back and re-evaluated. Skilled worker visa streams – allocated via employer sponsorship and the points test – should be expanded in their place.

3.3.1 Recent shifts in the composition of the permanent intake are a step in the right direction

The new Federal Government has already made significant changes to the permanent skilled migration program that moves skilled migration policy in the right direction. The planned skilled intake for 2022-23 is 142,200 – significantly larger than in recent years (Figure 3.5). These visas have been redistributed by offering additional employer-sponsored and skilled independent visas, which offer a better economic and fiscal dividend to the Australian community, while reducing the number of BIIP and Global Talent visas.

3.3.2 The Business Innovation and Investment Program visa should be abolished

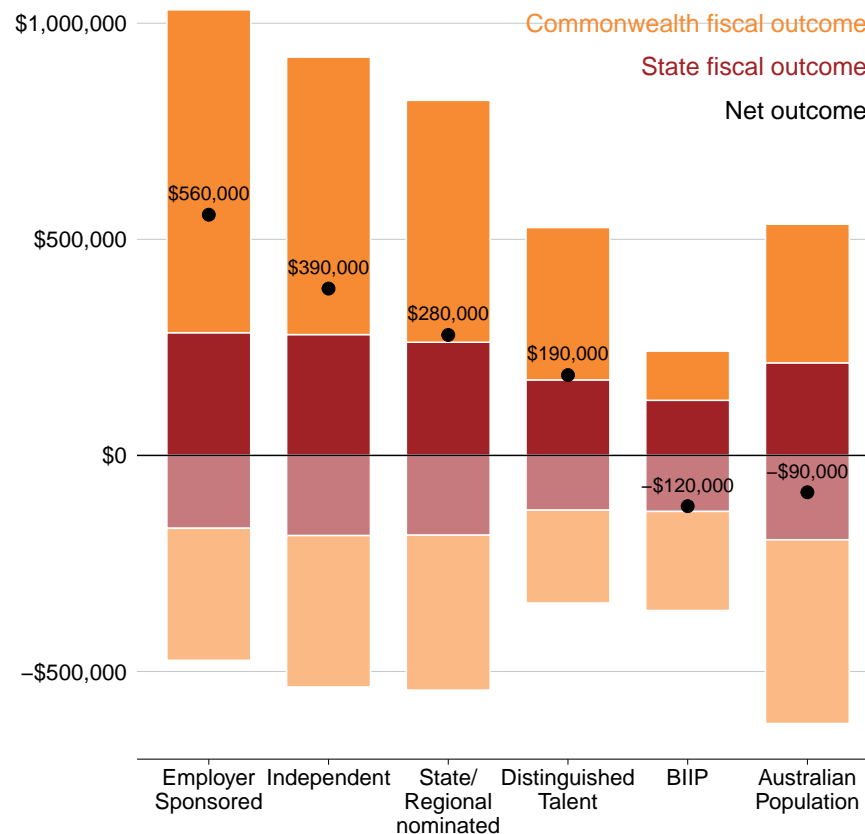
The BIIP is designed to select 'migrants who have a demonstrated history of success or talent in innovation, investment, and business'.

There are currently four streams within the BIIP visa. The Innovation stream accounts for about 70 per cent of visas issued via the BIIP, with

a discounted lifetime fiscal dividend to the Australian community of \$45,000, and \$24,000 for each Skilled Independent permanent visa-holder – whereas a secondary BIIP visa-holder costs \$65,000 – less than the fiscal cost of the average primary applicant for a BIIP visa, reflecting the fact that many secondary applicants for BIIP visas are children.

Figure 3.4: Different permanent skilled visa-holders offer very different lifetime fiscal dividends

Lifetime fiscal impact per person by skilled visa subclass, primary applicants



Notes: Primary applicants only. Includes fiscal impact for federal and state governments combined.

Source: Varela et al (2021).

an average of 3,285 visas granted (including secondary applicants) each year since 2013-14 (Figure 3.6).¹³³

Few investors on BIIP visas are financing projects that would not otherwise occur. Australia is an open economy with good access to capital, and hence investment visas are unlikely to generate much *additional* foreign investment. As the Productivity Commission noted in evaluating the business investment visa program in 2016:

‘Even if the program did genuinely stimulate some new jobs, an open question would be whether these related to existing Australians or to secondary applicants. Similarly, 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.’¹³⁴

Few BIIP visa-holders appear to be providing entrepreneurial acumen that will benefit the Australian community since they typically own small businesses in retail and accommodation and food services, industries that are not likely to be conducive to the program’s stated aim of boosting innovation.¹³⁵

As shown in Section 3.2, BIIP visa-holders are typically less skilled than other migrants and speak little English. They are also less likely to be employed than skilled permanent visa-holders.¹³⁶

Treasury estimates that, on average, each BIIP visa-holder costs the Australian taxpayer \$120,000 over their lifetimes because they tend to be older when they arrive here and earn much less than other skilled migrants (Figure 3.4).¹³⁷ These figures do not directly capture the taxes

133. 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.

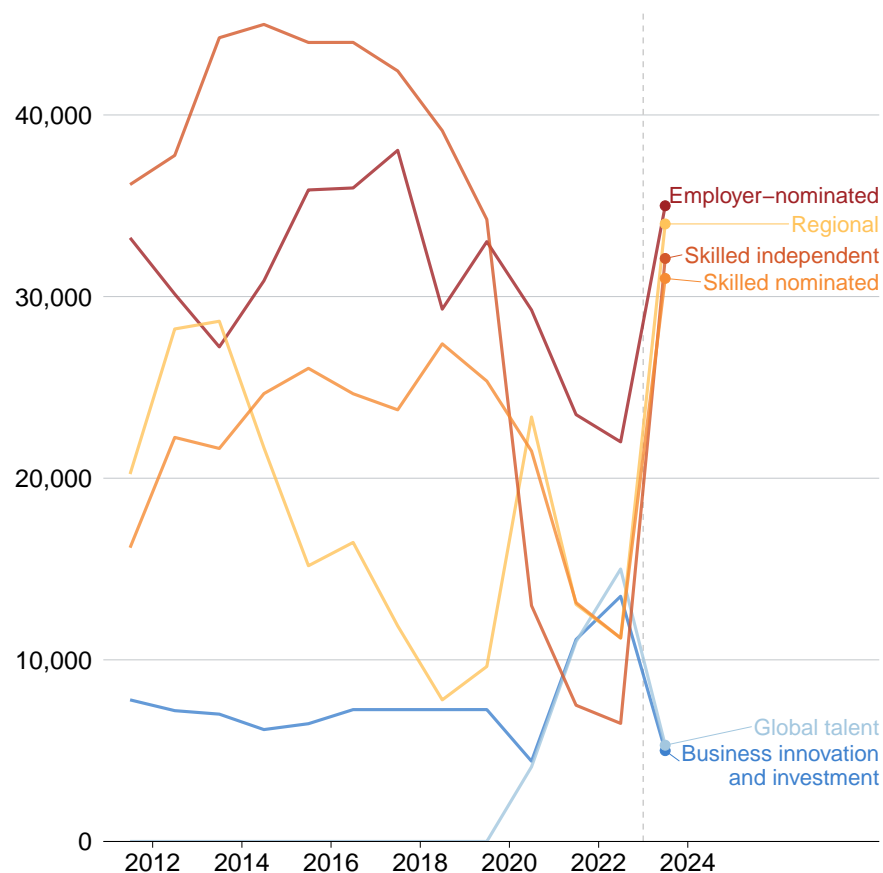
134. Productivity Commission (2016b, p. 464).

135. Coates et al (2021, Figure 5.10).

136. Coates et al (ibid, Figure 5.5).

137. Varela et al (2021).

Figure 3.5: Fewer BIIP and Global Talent visas are now on offer, while the employer-sponsored and points-tested programs have expanded
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.

Source: Department of Home Affairs (2022a); Department of Home Affairs.

paid by businesses.¹³⁸ However it remains unclear to what degree business taxes should be counted towards the fiscal contribution of BIIP visa-holders, especially if the investments made simply displace other investors who would have otherwise invested in the business. Australia's system of dividend imputation means that taxes paid by Australian companies on behalf of shareholders are reflected in shareholders' personal income tax returns.

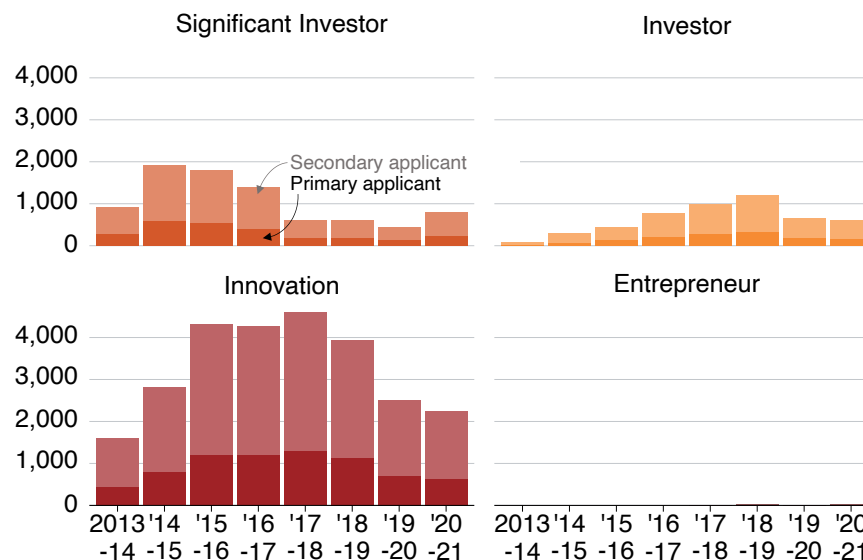
Visa-holders in the BIIP's Significant Investor stream report much higher incomes than those in the Investor and Innovation streams (Figure 3.7). However, given their much higher average ages upon being granted permanent residency, it remains unclear whether the typical Significant Investor visa-holder offers a larger contribution to Australia than the typical skilled worker. For instance, Treasury estimates that for a migrant granted permanent residency at age 50 to have the same lifetime fiscal impact as a migrant aged 30, they would need to earn an extra \$100,000 more per year.¹³⁹

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. The government has scaled back the BIIP allocation to 5,000 places in the 2022-23 planned intake, down the from 9,500 in 2021-22. This is a good first step, and will provide up to a \$31 billion fiscal dividend over 30 years.¹⁴⁰

But the government should go further and abolish the BIIP visa completely. It should re-allocate the additional places to employer-sponsored and points-tested visas. This change would save federal

Figure 3.6: 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).

138. Varela et al (2021, p. 21).

139. Varela et al (ibid, Chart 12).

140. Grattan analysis. See Figure 3.8 for model assumptions.

and state government budgets a combined \$34 billion (in today's dollars) over the next three decades (Figure 3.8).¹⁴¹

3.3.3 Review the Global Talent Program

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 grew to 15,000 in 2021-22. The new Federal Government has since scaled back the Global Talent Program allocation – as we recommended in our report *Rethinking permanent skilled migration after the pandemic* – to 5,300 places for 2022-23.¹⁴²

Targeting high-end talent is a worthwhile objective. But the Global Talent visa remains unproven. Instead of being defined by 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.¹⁴³

There has been insufficient data available to date on who has been issued a Global Talent visa, and what their outcomes are, to justify the large intake seen in recent years. 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 who succeed in Australia.

The Review should evaluate the effectiveness of the program, examining both how the EOI process functions in practice, how

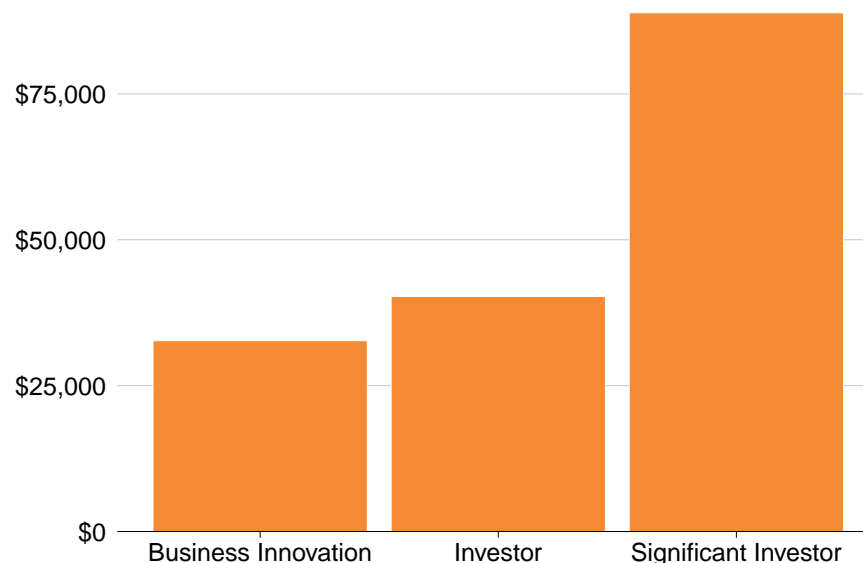
141. This figure differs from previous estimates produced by the Grattan Institute (see Coates and Reysenbach (2022c) for two reasons. First, the government announced changes to the intake that halved the number of BIIP places available. Second, the model uses a more conservative real growth rate assumption to estimate the other taxes and transfers, namely health care and aged care costs.

142. The 2022-23 planning level includes 5,000 Global Talent visa places and 300 Distinguished Talent places.

143. See: Coates et al (2021, Chapter 5).

Figure 3.7: Significant investor visa-holders report higher taxable incomes than other streams

Average taxable income of BIIP visa-holders, 2017-18 financial year



Notes: BIIP visa-holders defined as those who received a visa since 2000 and returned a tax return in 2017-18. This would exclude anyone who fell below the tax-free threshold.

Source: ABS (2021b).

officials select EOIs from the pool of applications and the outcomes of Global Talent visa-holders to date. It 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 than on internal departmental policy – is effective given a (now reduced) intake of 5,000 visas a year. The evaluation should also consider whether the Global Talent ‘Expressions of Interest’ should be subject to merits review.¹⁴⁴

It is also unclear if a separate Global Talent pathway is warranted in the long term, especially if – as this submission recommends – permanent employer sponsorship is made available to workers in any occupation provided the job pays at least \$85,000 a year.

3.3.4 Occupation lists undermine the selection of permanent skilled workers

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.

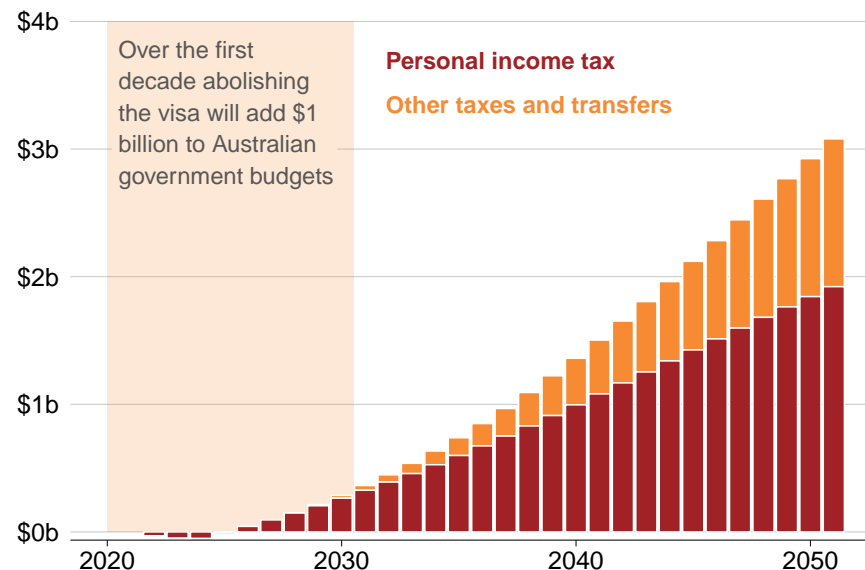
Figure 3.9 shows occupations with reference to the proportion of full-time workers earning above \$80,000 and the average competency score.¹⁴⁵ Accountants are included on the occupation list, yet similar occupations with a comparable level of skill or wages are excluded:

144. 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. See Coates et al (2021, Section 6.7.2) for more detail.

145. 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 (2021).

Figure 3.8: Abolishing the BIIP offers up to a \$34 billion fiscal dividend over 30 years

Annual fiscal dividend for Australian governments, 2022 dollars (billions)



Notes: Estimates produced by sampling Department of Home Affairs (2021b) to produce a cohort that simulates the current planning levels and a cohort where the BIIP program is replaced with points tested visas. Income taxes are modelled using wage-age paths from Parsonage and Young (2018) and calculating the taxes paid overtime, including stage 3 tax cuts in 2025, indexing the tax brackets using a 3.5 per cent income growth assumption, and the medicare levy threshold using a 2.5 per cent CPI assumption. Other taxes and transfers are modelled using Varela et al (2021, Chart 7) assuming a 5 per cent discount rate and a 2 per cent real income growth rate. Secondary visa-holders are included in the model, where our sampled respondents report that they have a partner in Department of Home Affairs (2021b). Model accounts for the counter-factual that a temporary visa-holder may choose to stay and work in Australia (and therefore pay tax) temporarily, even if they do not receive a permanent visa. It assumes 50 per cent of independent visas come from temporary visa-holders, a quarter of whom would have left Australia each year (including the first year) in absence of receiving a permanent visa. All cash flows discounted using a 2.5 per cent CPI assumption.

Source: Varela et al (2021), Department of Home Affairs (2021b) and Parsonage and Young (2018).

insurance surveyors, technical sales representatives, and building technicians. The same story plays out across the wage distribution for occupations.

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.¹⁴⁶ Figure 3.9 shows that many occupations where fewer than 25 per cent of full-time workers earn less than \$80,000 are excluded from the MLTSSL.

Even if reformed to target higher-wage occupations, occupation lists are a poor basis for targeting high-wage workers compared to a wage threshold. Occupations can represent a range of diverse jobs; even occupations with high average salaries can encompass many jobs with low salaries (Figure 3.10).

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.

A 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.

Figure 3.10 shows how this works in practice. 'ICT Professionals', a common occupation for jobs sponsored under the Temporary Skills Shortage visa, has 13 per cent of workers earning less than \$70,000, 39 per cent earning more than \$100,000, and the remaining 48 per cent in between. 'Food Trades Workers' are heavily concentrated in

Box 7: Occupation lists are a defining feature of Australia's permanent skilled migration program

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.^a

There are three main occupation lists:^b

- **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.

a. 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.

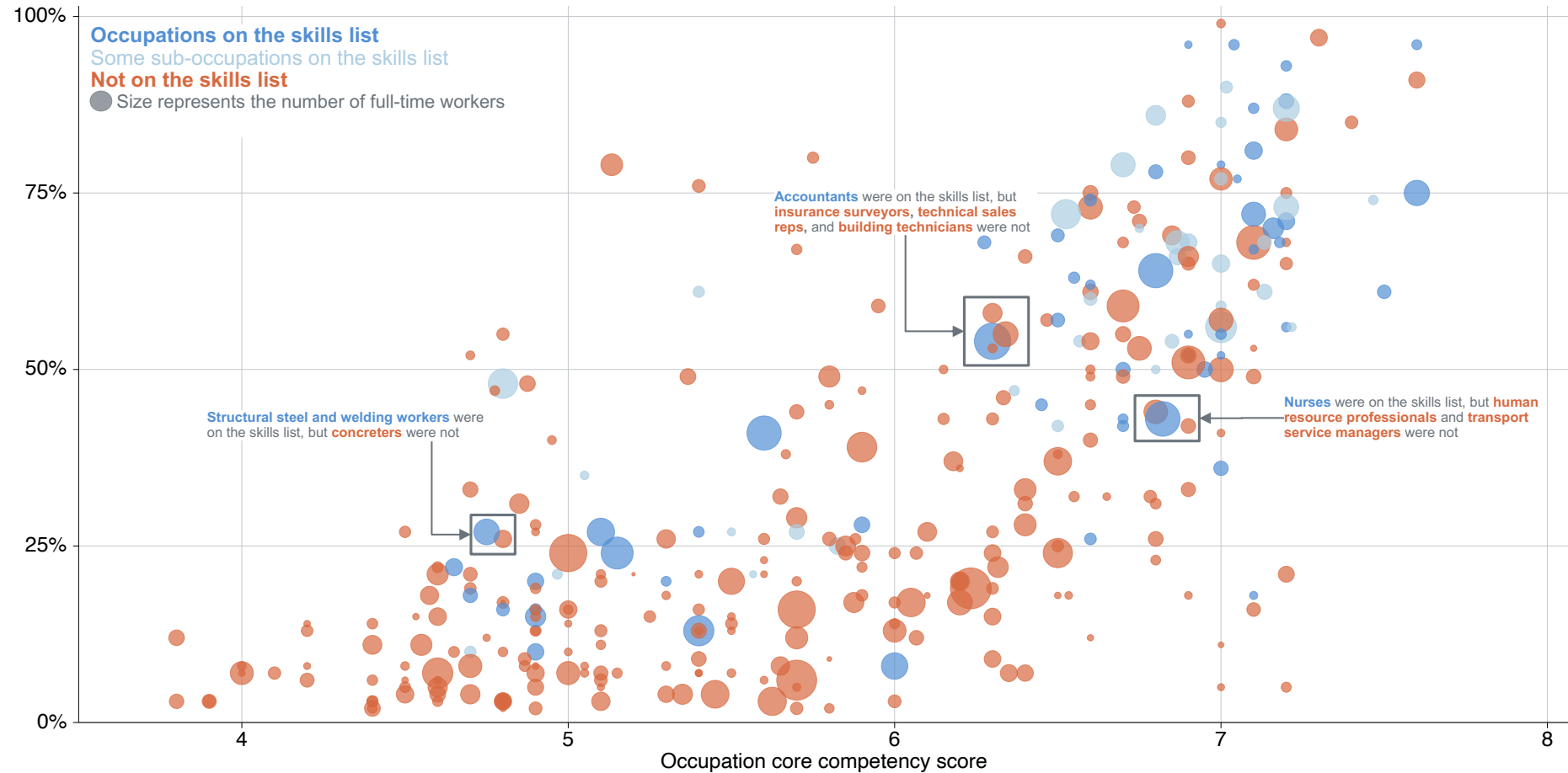
b. Department of Home Affairs et al (2019).

146. Coates et al (2021, p. 44).

Figure 3.9: 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.

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

low-wage jobs, with almost 90 per cent of workers earning less than \$70,000.

3.3.5 Occupation lists are administratively cumbersome and vulnerable to interest group capture

Using occupation lists to determine whether a job is eligible for temporary sponsorship is administratively cumbersome. Eligibility for temporary sponsorship under the existing Temporary Skill Shortage (TSS) visa is determined by three occupation lists (Box 7).

As mentioned in Chapter 2, defining a skills list by occupation is too inflexible in a rapidly changing labour market. It creates uncertainty for both migrants and businesses and can be unnecessarily slow and burdensome.

Industry and other interests also play a role in constructing occupation lists, a process described as a 'black box' by some experts.¹⁴⁷ Consultation does not, of course, amount to poor administration. Yet current data deficiencies raise questions as to what is driving the composition of occupation lists beyond stakeholder consultation.

3.3.6 A wage threshold of \$85,000 should replace occupation lists for employer sponsorship

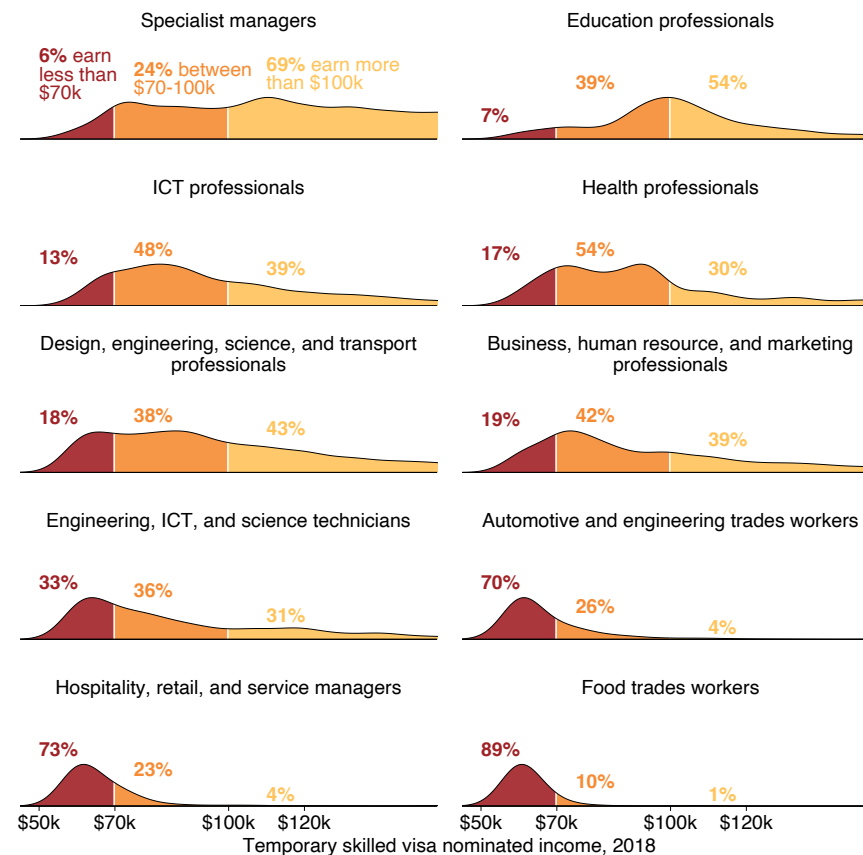
Employer-sponsored visas should be available for workers in all occupations, provided the job pays more than \$85,000 a year, which is the median income of full-time Australian workers in 2022.¹⁴⁸ A

147. Professor Anna Boucher, University of Sydney, discussion with authors, November 2020. See Coates et al (2021, Chapter 7) for a detailed discussion of how occupation lists are constructed.

148. This threshold was \$80,000 in Coates et al (ibid) and has been raised in line with wages growth. Median full-time annual earnings were \$83,011 in May 2021 (ABS (2022b)). Inflating this earnings growth between May 2021 and May 2022 equals \$84,704 (ABS (2022c)). A higher wage threshold than \$85,000 a year would lift

Figure 3.10: Incomes vary dramatically within occupations

Income distribution of TSS visa grants in 2018, by occupation group



Notes: The 10 most popular TSS visa ANZSCO submajor occupations in 2018 are shown. Wages inflated to \$2021 using AWOTE.

Source: Grattan analysis of ABS (2021b).

guaranteed offer of a high-wage job is a strong sign that applicants have valuable skills and will succeed in Australia long-term. Workers' wages in a given year tend to be a good proxy for lifetime earnings.¹⁴⁹ 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 migrants with valuable skills.¹⁵⁰ 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 of skilled-worker (employer-sponsored and points-tested) visas.¹⁵¹ 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.

Abolishing occupation lists would mean any occupation would be eligible for employer-sponsorship as long as the sponsored wage was above the minimum threshold of \$85,000 a year, as shown in

the wages of employer-sponsored workers. However doing so would simply shift a greater share of the fixed number of skilled worker visas issued each year into the points-tested streams, where migrants typically earn lower incomes.

149. Daley et al (2015, p. 33) showed, using HILDA, that people of prime working age who were in the top income decile in any single year spent 85 per cent of the 13 years in which data was collected among the top 30 per cent of income earners. Overseas studies confirm the finding that most high-income earners in a given year tend to stay towards the top of the income distribution for most of their working lives.

150. 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).

151. A total of 98,100 skilled worker visas would be available under the proposed new planning level, assuming 5,000 Global Talent and 300 Distinguished talent visas are issued each year.

Figure 3.11. Employers would still have to offer a wage above the relevant Annual Market Salary Rate (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.¹⁵² The Department of Home Affairs should use Single Touch Payroll data to ensure the salaries received by sponsored workers are above \$85,000 per year.¹⁵³

This reform would not reduce the total number of jobs eligible for sponsorship in the labour market (Figure 3.11). It would simply shift the pool of would-be jobs eligible for employee-sponsorship away from often arbitrary occupations and instead 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.¹⁵⁴

A wage threshold will also simplify the employer sponsorship process and provide greater certainty for both firms and workers.

3.3.7 Replacing occupation lists with a wage threshold of \$85,000 offers a large fiscal dividend

Lifting the incomes of skilled migrants has large fiscal benefits, even if the migrants are generally older (as they would need more experience to earn above the wage threshold).

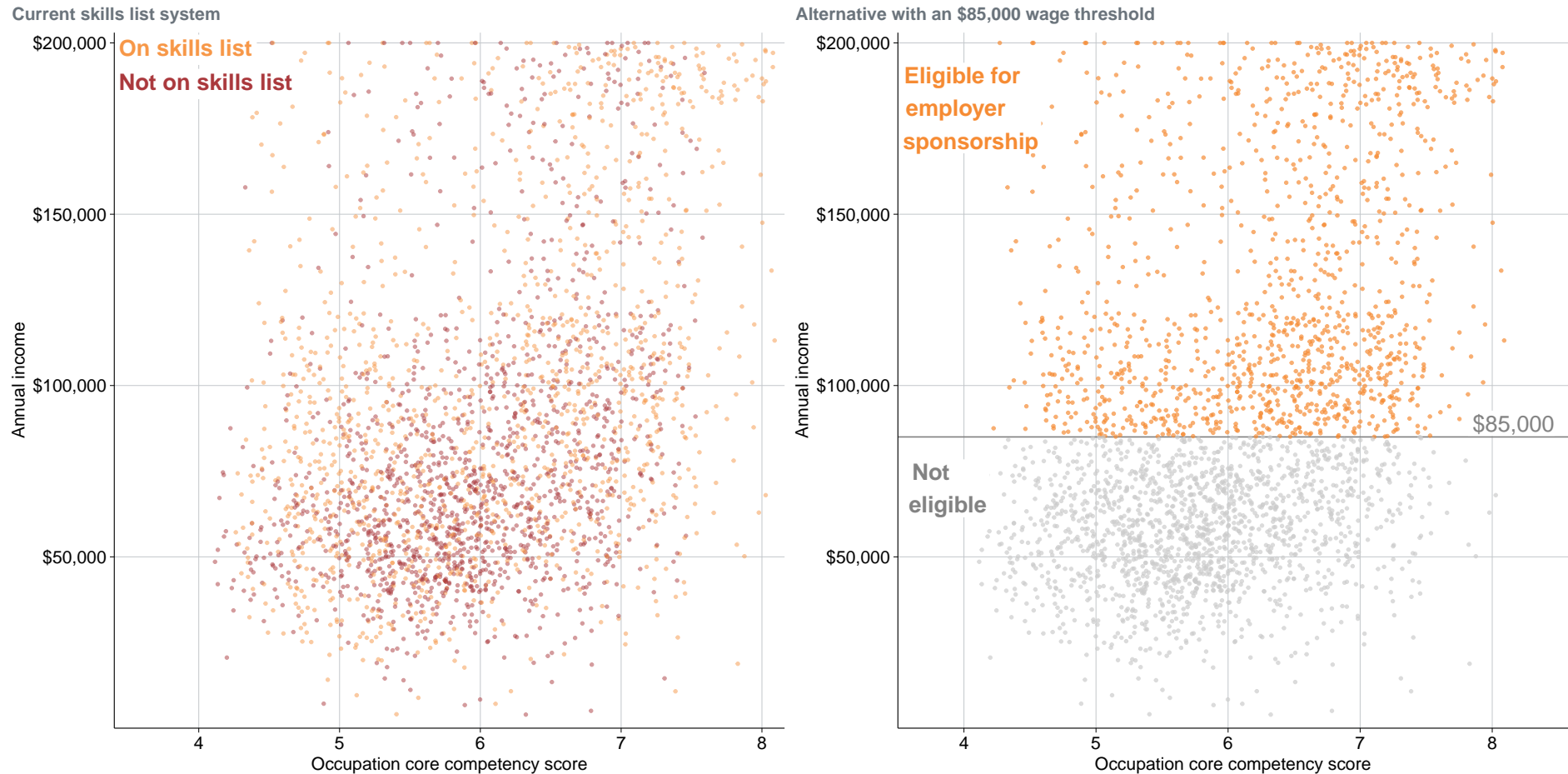
152. Department of Home Affairs (2022f).

153. There is a risk of fraud by unscrupulous employers and migrants, as there is currently with employer-sponsored migration based on occupation lists. The Department of Home Affairs will need to monitor employers and make sure migrants are being employed by legitimate firms and paid their nominated salary.

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

Figure 3.11: 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



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 (2016b); National Skills Commission (2021); and Medium- and Long-term Strategic Skills List (2020).

Replacing occupation lists with a wage threshold for permanent employer sponsorship would boost Australian government budgets by \$125 billion (in today's dollars) over the next three decades (Figure 3.12). Within the first decade alone, this reform adds \$26 billion to Australian budgets.¹⁵⁵

Alternatively, separate wage thresholds for permanent employer sponsorship could be applied depending on the age of the applicant. For instance, a wage threshold of \$85,000-a-year, or somewhat lower, could be used for workers aged below 35 years, and a higher wage threshold used for workers aged 35-44 years who could reasonably be expected to earn more if they are genuinely skilled. Such a change may better reflect the larger lifetime fiscal dividend of younger permanent skilled migrants, even if they earn lower starting salaries.¹⁵⁶

3.4 Skilled essential workers will remain eligible for employer sponsorship under our proposed wage threshold

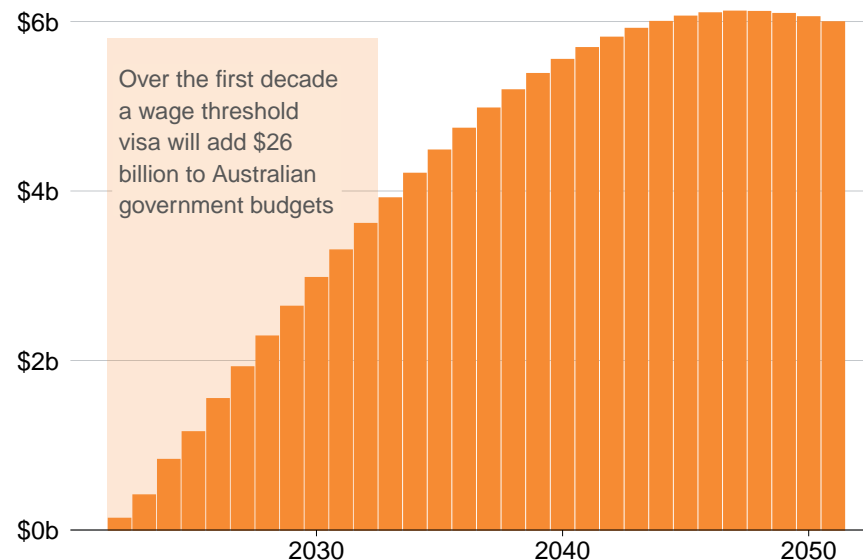
Experienced skilled essential workers such as nurses, teachers, doctors and allied health professionals would still be eligible for employer-sponsored permanent visas under our proposal. Most of

155. Grattan analysis. While the analysis accounts for both state and federal taxes and transfers, the benefit is mostly to the federal budget through increased personal income tax receipts.

156. Treasury modelling shows that for a 40 year old primary skilled permanent migrant to have the same discounted lifetime fiscal impact as a 30 year old, the initial earnings of a 40 year old need to be about \$30,000 higher (Varela et al (2021, p. 15).) But as less-skilled migrants will have a smaller fiscal impact than the average migrant, the reduction in the wage threshold for permanent employer sponsorship for a 30 year old compared to a 40 year old should be smaller, in the \$10,000 to \$20,000 range. The fiscal effect of secondary applicants for older, but more skilled migrants is ambiguous as there are many conflicting effects. An older primary applicant's partner might be older, but they may also be more skilled. Older migrants might also have more secondary applicants because they bring more children as secondary applicants, but the children of more skilled parents might also have more long-term success.

Figure 3.12: Replacing occupation lists with a wage threshold for permanent employer sponsorship would add \$125 billion over three decades to Australian government budgets

Annual fiscal dividend for Australian governments, 2022 billion dollars



Notes: See Figure 3.8 for base model assumptions. The model ignores changes to partners' incomes and ages from the introduction of a wage threshold. Model ignores secondary applicants that are children. The ages of our wage threshold cohort (primary applicants only) are produced by sampling individuals in CSAM who earn more than \$85,000 and aging them by 3 years. The incomes are sampled from the distribution of incomes above \$85,000 of occupations that are not on the skills list currently. This is more conservative than sampling incomes above \$85,000 in Department of Home Affairs (2021b) which are generally higher than the wages of occupations not on the skills list. Model accounts for the counter-factual that a temporary visa-holder may choose to stay and work in Australia (and therefore pay tax) temporarily, even if they do not receive a permanent visa. It assumes 90 per cent of employer-nominated visas come from temporary visa-holders, a third of which would have left Australia each year (including the first year) in absence of receiving a permanent visa. Model ignores any fiscal impacts of changes to the stock of temporary migrants in Australia from changes to permanent visa rules.

Source: Varela et al (2021), Department of Home Affairs (2021b) and Parsonage and Young (2018).

these professions, which require a bachelor degree or higher, earn at least \$85,000 after around five years of working (Figure 4.6).

Less-skilled workers in the caring economy typically earn below \$85,000. Skilled permanent migration should not be used as a long-term solution to fill workforce shortages for less-skilled jobs. Instead, the government needs to increase wages in these jobs so that they offer competitive wages commensurate with the skills and experience they demand of workers (see Chapter 5).

3.5 A wage threshold provides a clearer path from temporary visas to permanent residency

Our proposed 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, and temporary migrants would no longer be at the mercy of occupation lists that can change at any time. A higher wage threshold would also encourage employers to bid up their wage offers to prospective workers.

Making employer sponsorship available for workers in all occupations, provided they have a wage offer exceeding \$85,000 a year, would likely improve the overall skill level of temporary migrants in Australia. Temporary migrants able to earn wages of at least \$85,000 a year would be assured a pathway to permanent residency so would be more likely to choose to migrate to Australia. By attracting additional higher-wage temporary migrants, our proposed changes to 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 on lower wages from obtaining permanent residency, including many temporary workers already in Australia. However, this

problem already arises when occupations are taken off the various occupation lists, denying temporary workers, and international students training in those occupations, a pathway to permanent residency.¹⁵⁷

3.6 Start with a trial of wage thresholds for jobs earning more than \$125,000 per year while keeping occupation lists

As a first step towards replacing occupation lists with a wage threshold, the government could start a trial with employer-sponsored visas available for workers in all occupations, provided they earn a very high wage of at least \$125,000 a year.¹⁵⁸ The trial wage threshold would operate in addition to the current occupation lists, which would apply to sponsored workers earning between \$85,000 and \$125,000 a year.

After 12 months, the government could evaluate any trial. If there are no administrative problems, and the trial has proven successful at reducing complexity for employers and attracting highly-skilled workers, then the wage threshold should be reduced to \$85,000 and occupation lists abolished.

3.7 Points-tested visas need an overhaul

Australia's points-tested visas are broadly working.¹⁵⁹ In general, workers who gain a permanent skilled visa via a points test are younger and earn more than incumbent Australians (see Figure 3.4).¹⁶⁰

157. Mares (2016).

158. This is approximately the 80th percentile of earnings of all full-time employees in Australia in 2022 (ABS (2022b)).

159. Specifically, the subclass 189 skilled independent visa, subclass 190 skilled nominated visa, the subclass 491 skilled work regional (provisional) visa (which provides a pathway to permanent residency via the subclass 191 visa).

160. With the closure of borders few points-tested visas were granted in 2020-21 and 2021-22 (14,000 in two years compared to 34,247 in 2018-19) and many visa applicants turned to the state-nominated visas.

But the system can work better. Separate permanent points-tested visa streams for skilled independent, state-nominated and regional visas should be replaced with a single universal points-tested program that targets younger, higher-skilled workers. More consideration should be given to the skills of secondary applicants who account for roughly half of all permanent skilled visas granted each year. Points offered via the test for different migrant characteristics should be re-calibrated to reflect the contribution those characteristics make to migrants' contribution to the welfare of the Australian community.

3.7.1 Australia offers a number of points-tested skilled visas

Australia uses three permanent points-tested visa classes, with different eligibility requirements, to select skilled workers. These are:

- **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.

A total of 32,100 visas are available through the Skilled Independent stream for 2022-23. State and territory governments have been

allocated 31,000 permanent state nominated visas and 34,000 regional visas in the 2022-23 intake.¹⁶¹

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. Applicants are effectively ranked, and compete against each other for a scarce number of visas.

While state-nominated visas do use the points test, states are free to select who they wish. Ranked ordering is non-binding; 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. The occupation lists used for these visas are much more expansive, particularly for the regional points-tested visa, than those used for employer-sponsorship and the skilled independent visa.¹⁶²

3.7.2 A single universal points test should replace existing separate points-tested visa streams

A single universal points test should replace existing separate points-tested visa streams. Maintaining separate skilled independent, state-nominated and regional points-tested visa streams, each with their own fixed visa allocation each year, is both inefficient and arbitrary. The Productivity Commission has previously recommended shifting to a universal points test for the entire permanent skilled stream.¹⁶³

161. Department of Home Affairs (2022a). State and regional visas are the subclass 190 skilled nominated visa and the subclass 491 skilled work regional (provisional) visa (which provides a pathway to permanent residency via the subclass 191 visa).

The number of visas allocated to each state and territory is still being decided.

162. Coates et al (2021, Figure 7.2).

163. Productivity Commission (2016b, p. 25).

Migrants selected under the state-nominated and regional visa categories, where selection criteria are less stringent, are typically less skilled and earn lower incomes than migrants selected under the employer-sponsored and skilled independent visa categories (Section 3.2). Data on state-nominated migrant outcomes between 2013 and 2018 also shows that 31.5 per cent of state-nominated migrants are working in a job that has a lower skill level than their nominated field, compared to 13 per cent of employer-sponsored visa-holders and 24 per cent of independent skilled visa-holders.¹⁶⁴

The rationale for the state-nominated visa is that individual states can choose migrants with skills that the state needs. Yet state governments possess no greater ability to assess migrants' skills than the federal government. State governments are often conflicted in their role in selecting skilled migrants as major employers, especially in the health and education sectors, where they may prioritise their own interests to manage their wages bill over the state-wide or national interest.

State governments are also vulnerable to industry lobbying to prioritise granting permanent residency to less-skilled migrants in particular industries who are unable to secure permanent residency via more stringent pathways for permanent residency. This latter issue will become especially important should the wage threshold for permanent employer sponsorship rise to \$85,000 a year, as recommended in this chapter, denying permanent residency to temporary sponsored workers in industries such as hospitality.

The regional points-tested visa is used to fill skill shortages and bolster population growth in regional Australia. Yet as discussed in Chapter 2, permanent skilled visas should not be used to address skills shortages, especially at the expense of recruiting more-skilled migrants. And comparatively few regional visa-holders stay in the regional and remote areas in the long term. For instance, one recent study found

¹⁶⁴.CEDA (2021).

that migrants in a regional or remote area have a 'very low chance' of staying in that area, with most leaving within a five-year period.¹⁶⁵ Recent research found that 16.5 per cent of regional visa recipients between 2011 and 2018 did not settle in a regional area, rather settled in a major city, because the definition of region under this visa includes cities like Perth and Adelaide.¹⁶⁶ The same research found that around 50 per cent of migrants who settled in outer regional, remote or very remote areas had left within five years.

Moving 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 mean fewer migrants would move to regional areas, since permanent visa-holders are free to choose to live in major cities.¹⁶⁷

If the Federal Government ended these visa categories, state governments could instead sponsor permanent skilled workers directly via an expanded and more flexible employer-sponsored stream, as recommended in this submission.

State governments could redirect public servants currently employed to evaluate, nominate and process state-sponsored migrants to focus on attracting highly-skilled prospective migrants to work in their state. This could be as people employed directly by the state government, for example teachers and doctors, or by advertising the benefits of living

¹⁶⁵.Raymer et al (2020); and Snape and Mannheim (2019).

¹⁶⁶.Laukova (2022).

¹⁶⁷.Although a sustained increase in the share of people working remotely may mean more incumbents and migrants choose to live in regional areas than before COVID-19.

in a particular state.¹⁶⁸ Resources could also be directed to help new migrants settle into their new community.

3.7.3 The points offered for different migrant characteristics need re-calibrating

Younger workers should get more points

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

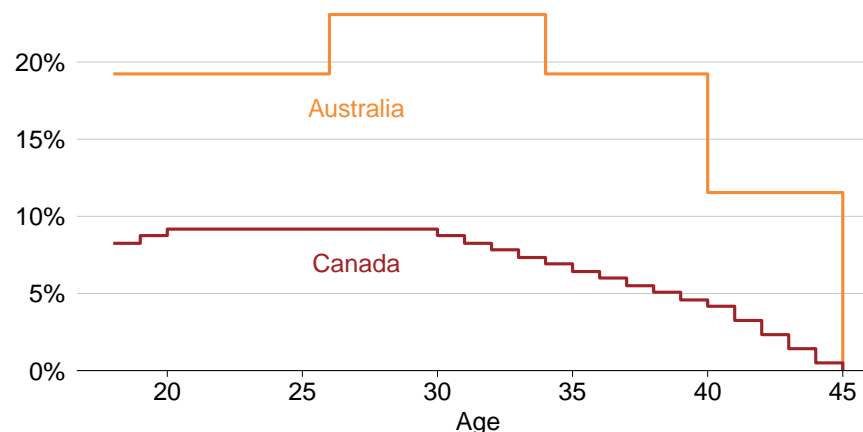
The points-test already weights age heavily compared to other selection factors, and points-tested migrants are significantly younger than those selected via other skilled-worker streams. Yet the distribution of points relating to age is poorly designed.

Currently, an applicant aged 25 gets only five points more than an applicant aged 39. Yet, all else being equal, the difference in future contributions from migrants of these two ages is substantial. 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 can be expected to pay more than \$500,000 in personal income tax alone over their lifetime, a 39-year-old earning the same amount contributes just \$190,000.¹⁶⁹

Canada applies a much more granular approach to allocating points for age, with age-related points dropping away quickly for older applicants (Figure 3.13).¹⁷⁰ Australia should consider adopting this approach to better reflect the lower lifetime contribution of older migrants. However, the precise number of points offered for migrants' age vis-a-vis other

characteristics such as skills and experience, should be informed by analysis of the relative contribution each of these factors make to migrants' long-term income-earning capacity, and by extension, their lifetime fiscal impact.

Figure 3.13: Australia should adopt Canada's points allocation for age
Proportion of total available points allocated to age



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

Skilled spouses should get more points

The current points test also does not give enough weight to the skills and experience of spouses. Since the adult partners of primary applicants account for a significant share of total visa allocations, it's important that the points test also assesses their skills and qualifications. Secondary applicants account for about 40 per cent of all permanent skilled worker visas issued each year.¹⁷¹

Secondary applicants aged 19 and older tend to have weaker English language skills than primary applicants (Figure 3.14). Adult secondary

168. A model that could be followed is the Department of Home Affairs Global Talent Officers that work to identify and attract people for the Global Talent program.

169. 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.

170. Canada offers 12 points for applicants aged 18-35 years, with each extra year over age 35 accruing one fewer point: Government of Canada (2021).

171. Coates et al (2021, p. 44).

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 3.15).

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. In the long term, the workforce participation and incomes of secondary applicants who are caregivers today is likely to rise and better reflect their skills and qualifications (Figure 3.16 and Figure 3.17), albeit remain lower than that of primary applicants.¹⁷²

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.

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 English-language proficiency, and more 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.

High-wage job offers for onshore applicants should attract substantial points

A universal points-tested visa should give greater weight to applicants with a job offer above a given wage. For instance, half of all points available in the Canadian points-tested visa accrue where applicants

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

have a firm job offer in Canada.¹⁷³ Some states have already incorporated wages into their selection of permanent state-nominated visas (Box 8).

A firm high-wage job offer when applying for permanent residency signals that a migrant has valuable skills, since a firm is willing to incur the costs of sponsoring and ultimately hiring them. As shown in Figure 3.1, employer-sponsored migrants, who have a guaranteed job when they arrive in Australia, earn the highest incomes of all permanent skilled visa streams.

Offering substantial points in the points-test would also offer an alternative pathway to permanent residency for highly-skilled temporary sponsored workers and Temporary Graduate visa-holders, especially if their existing employer is unwilling to sponsor them for a permanent visa.¹⁷⁴ Since a points-tested visa can better account for the skills of secondary applicants, points should accrue for job offers below our recommended wage threshold for permanent employer sponsorship of \$85,000 a year.¹⁷⁵ Alternatively, points could accrue where applicants can demonstrate they have earned above the wage threshold over the past two-to-three years.

The Review should use available administrative data to assess which migrant characteristics predict migrants' long-term success

The Review should consider how the points-test can be re-calibrated to better reflect which characteristics determine migrants' long-term

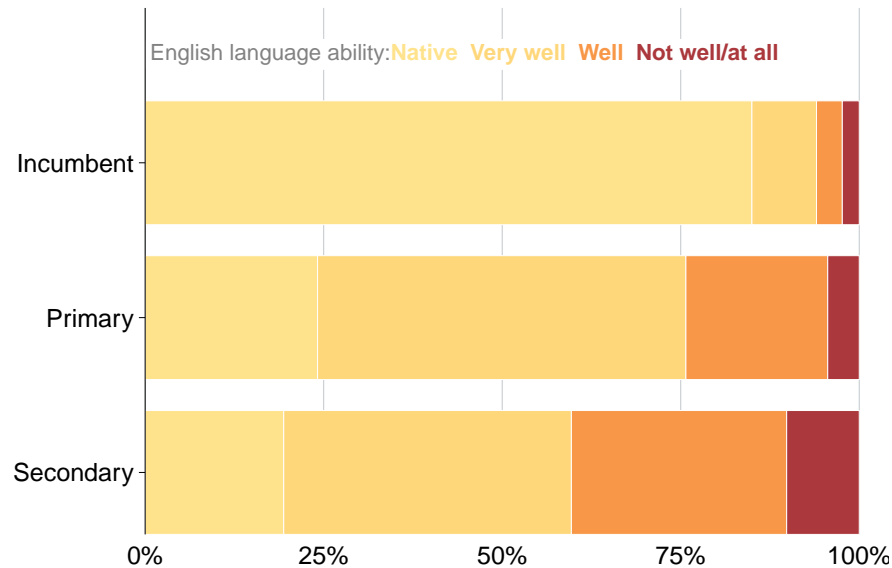
173. Productivity Commission (2016b, Box 13.3).

174. Anecdotally, the prospect of a permanent visa is one driver of exploitation of temporary sponsored workers, although this is much more likely to occur for less-skilled sponsored workers who tend to earn lower wages and have fewer alternative pathways to permanent residency.

175. For instance, points could begin to accrue for job offers with wages exceeding \$70,000-to-\$80,000 a year, with more points on offer for job offers above a higher wage threshold such as \$125,000 a year.

Figure 3.14: 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

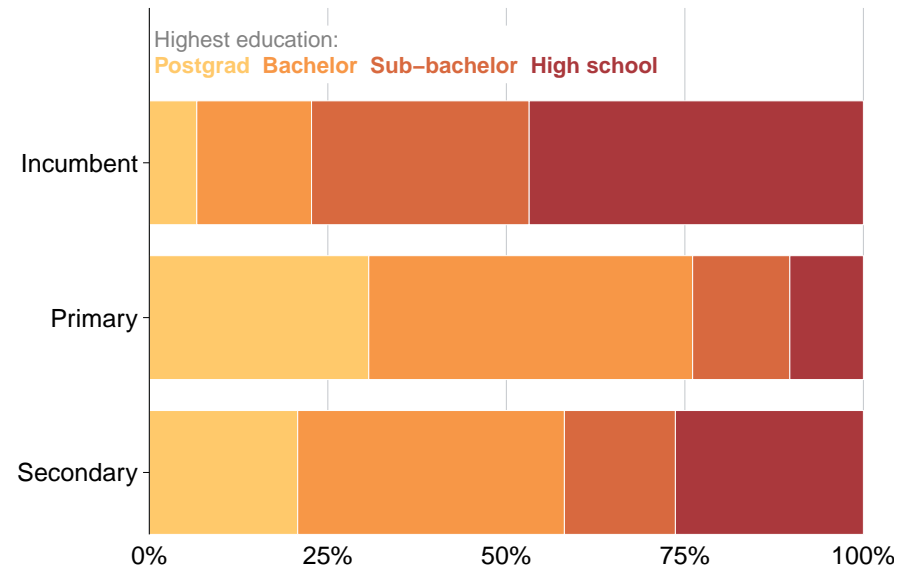


Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

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

Figure 3.15: Secondary applicants have significantly more education than incumbents

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

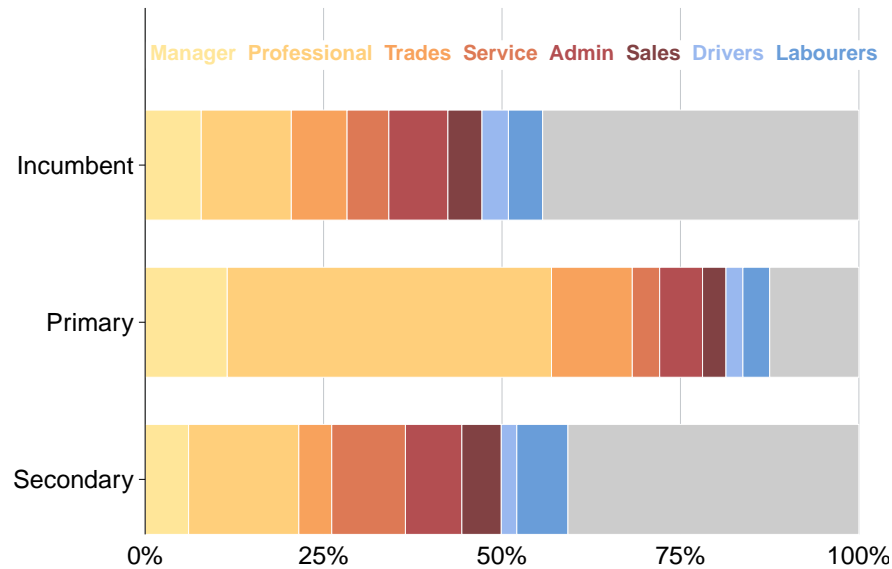


Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

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

Figure 3.16: Secondary applicants have labour-market characteristics similar to incumbents

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

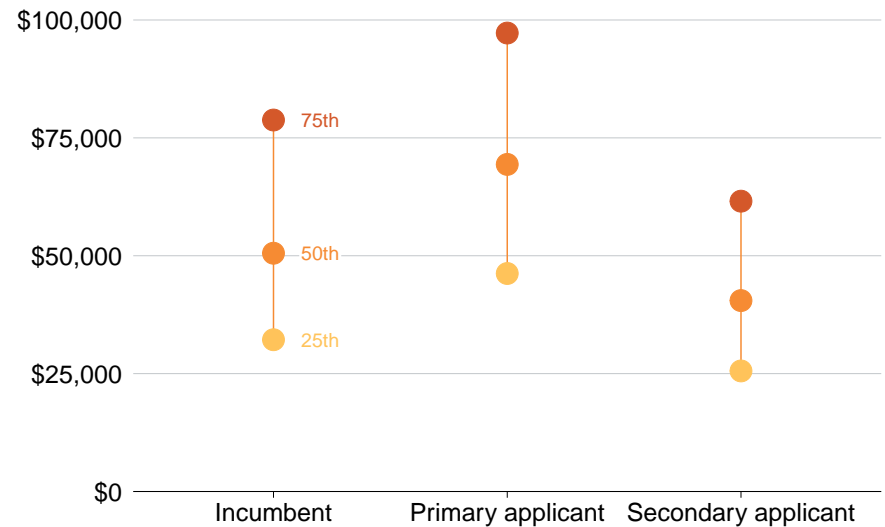


Notes: Residents in Australia aged 19 and older in 2016 who arrived on a permanent visa between 2012 and 2016. Visa class is the first permanent visa granted. Residents with an invalid year of arrival in Australia are excluded.

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

Figure 3.17: 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 (2016b) and ABS (2016a).

success in Australia and the contribution they make to the well-being of the Australian community.

The points-test appears increasingly bloated with migrant characteristics that are not well-correlated with migrants' long-term success in Australia. These include the points allocated for characteristics such as regional study, the 'professional year', postgraduate qualification in eligible STEM courses and studying at an Australian higher education institution.¹⁷⁶

The evaluation should use the Multi-Agency Data Integration Project (MADIP) dataset to determine which characteristics determine migrants' long-term success in Australia.¹⁷⁷ The points test should be changed to incorporate the findings of this analysis. Should the Review lack sufficient time to undertake this analysis, it should recommend a separate review into the points test.

3.7.4 The Review should explore alternatives to occupation lists for targeting points-tested visas

Points-tested visas, like employer-sponsorship, are restricted to applicants with qualifications and experience in listed occupations. Yet occupation lists do not prioritise high-skill, high-wage workers. This is because occupation lists appear to be distorted by industry lobbying and the fact any given occupation encompasses a diverse range of workers with different skills, and hence is a poor proxy for selecting migrants with valuable skills (Figure 3.10).

Abolishing the occupation list for points-tested visas is more complicated than abolishing it for employer sponsorship. For points-tested visas, a wage threshold cannot simply replace a list of eligible occupations. Further, the purpose of the skilled independent

176. See: Coates et al (2021, Section 7.3.2).

177. ABS (2021b).

Box 8: Some states have incorporated wages into their selection of state nominated visas

There are two skilled visas that state and territory governments can issue, the subclass 190 skilled nominated visa and the subclass 491 skilled work regional (provisional) visa.^a

States can apply their own criteria when selecting migrants under these schemes, as long as the applicant scores above the 65-point threshold, but typically choose migrants to address skills shortages.^b State governments choose migrants from Skillselect, the Department of Home Affairs' online system where potential migrants submit an expression of interest. When selecting migrants for nominations, some states ask for additional information, including information about earnings, on top of the information provided in Skillselect migrants.^c

Victoria requires potential migrants to submit a Registration of Interest in addition to the information provided on Skillselect.^d As part of this process, Victoria considers an applicant's salary.^e

In Tasmania potential migrants are ranked as gold, green or orange based on a set of attributes, in addition to needing to meet a minimum criteria. Gold applicants need to have skills on the critical list. Applicants can get a green ranking, the second highest, if their pay exceeds the Australian average.^f

- a. State governments can also nominate people for BIIP visas.
- b. The NSW Government publishes the minimum points requirement and years of work experience for different occupations to be eligible for nomination: Investment NSW (2021).
- c. Department of Home Affairs (2022g).
- d. Victorian Government (2022).
- e. Salary is only a selection factor for onshore candidates. See Victorian Government (ibid).
- f. Tasmanian Government (2022).

visa, and points-tests in general, is different to employer sponsorship. Points tests are designed to promote a long-term human capital approach to economic-based migration policy.

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.¹⁷⁸ Skills assessments could be used to certify whether education qualifications and related work experience are legitimate.

3.7.5 Employer sponsorship should be retained since it typically produces better outcomes than points-tested visas

Even with an improved points test that better selects young, skilled migrants who are likely to provide a large fiscal dividend, employer-sponsored permanent visas should continue to make up a large share of the permanent skilled intake. Employer sponsored visas have historically produced the highest-earning migrants, and the biggest fiscal dividend, followed by independent points-tested visas (Figure 3.4).

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.

Our recommended reforms to permanent employer-sponsored visas would facilitate a faster and more streamlined approval process for both workers and their sponsoring employers.

178. 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 \$85,000 a year.

In contrast, incorporating the employer-sponsored program into a single, universal points-tested visa with additional points allocated for applicants with a job offer above a given wage threshold – as previously recommended by the Productivity Commission – risks making sponsorship slower and less certain. Points-tested visas are allocated quarterly via the SkillsSelect system, where a quarterly quota of applicants are selected from the top of the points distribution. While high-wage migrants that accrue points for high-wage job offers would be likely to be selected quickly for permanent visas via SkillsSelect, the process is likely to remain slower and less-certain than retaining a separate permanent employer-sponsored visa, thereby reducing the incentives for firms to make the job offer in the first place.¹⁷⁹

But the absence of any assessment of secondary applicants' skills underscores the need to retain a high wage threshold for permanent employer sponsorship. A high wage threshold is important to ensure that existing applicants for points-tested visas who are unsuccessful due to a greater weighting for secondary applicants' skills don't simply switch to seeking a permanent employer-sponsored visa instead.

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

Our recommended reforms to permanent skilled migration would bring big benefits to the Australian community by shifting the 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. Re-allocating the 5,000 BIIP visas to points-tested visas would increase average incomes, reduce the average age of

179. Productivity Commission (2016b, p. 30).

permanent skilled migrants, and save federal and state government budgets up to \$34 billion over the next three decades (Figure 3.8).¹⁸⁰

Abolishing occupation lists and opening up employer-sponsored visas to all skilled workers, irrespective of occupation – provided they earn at least \$85,000 a year – could generate a \$125 billion fiscal dividend over 30 years and \$26 billion over the next decade alone (Figure 3.12). Together, these reforms offer up to a \$159 billion fiscal dividend (in today's dollars) over the next three decades, and \$27 billion over the next decade alone (Figure 3.18). The fiscal dividends from these reforms may be larger once other taxes and lower costs for means-tested government services and benefits are taken into account.¹⁸¹ And our recommendations to improve permanent points-tested visas would also offer a sizeable fiscal dividend, although these benefits have not been costed in this submission.

The fiscal dividend from our proposed reforms to permanent migration settings are large, around two-thirds of the savings from abolishing negative gearing and halving the capital gains tax discount over the next decade, and likely to be of a similar magnitude, or larger, over the next three decades.¹⁸²

The broader benefits of these reforms, beyond direct fiscal benefits, are difficult to estimate. But 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

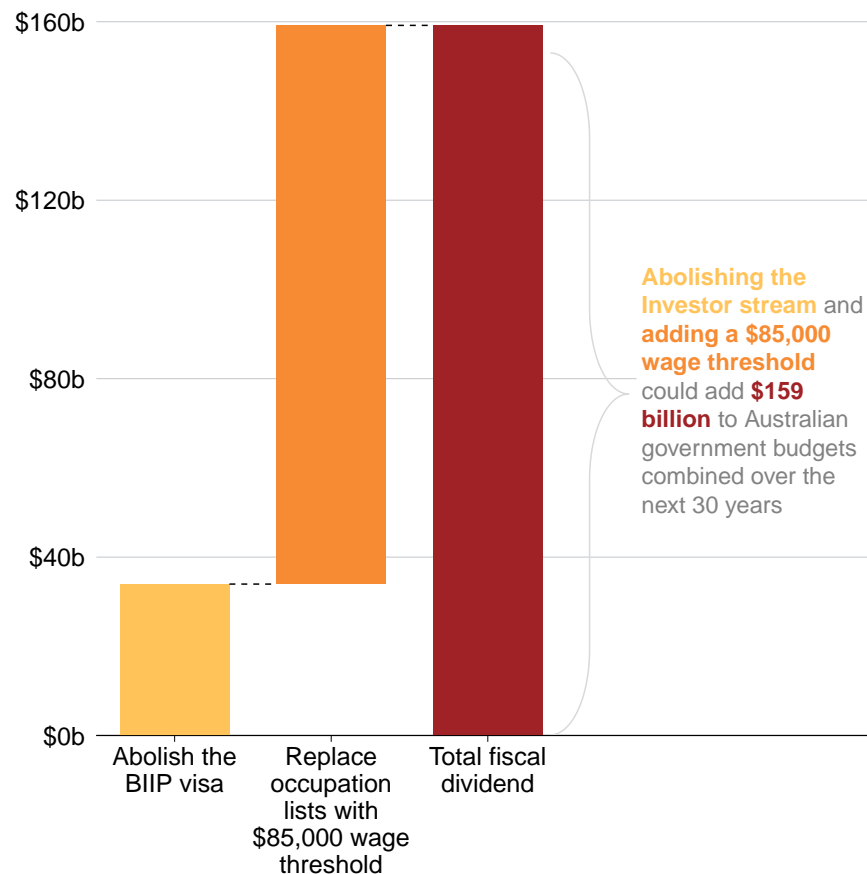
180. Reducing the BIIP intake from 9,500 to 5,000 saved \$30.5 billion. Scaling down the Global Talent Program, with excess visas re-allocated to the points-test and employer sponsorship, could generate further benefits, but these are difficult to quantify.

181. Clemens (2022) suggests the fiscal dividend from immigration is larger than cashflow accounting modelling when the capital taxes paid by the employers of immigrant labour are included (as firms that employ immigrants also purchase capital).

182. D. Wood et al (2022a).

Figure 3.18: Our recommended reforms to permanent skilled migration offer a very large fiscal dividend

Total fiscal dividend for Australian governments over the next 30 years, 2022 dollars (billions)



Notes: See Figure 3.8 and Figure 3.12 for model assumptions.

Sources: Grattan analysis.

via the adoption of new technologies and business practices. And prioritising high-skill, high-wage workers would probably further reduce any prospect that migration will hurt the wages of low-skilled Australian workers, and reduce the risk that migrant workers are exploited.

4 How to improve temporary skilled migration

Australia is increasingly squandering the benefits of temporary skilled migration. To get a better deal, Australia must rethink its approach.

Temporary skilled migration has two main functions. First, it acts as a 'shock absorber' for the Australian economy by quickly filling vacancies in sectors that are growing strongly. Second, it is an important source of permanent skilled migration, which offers a substantial long-term payoff to the Australian community (Chapter 3).

Australia's long-standing practice of using occupation lists to select which jobs qualify for temporary sponsorship should be abandoned. Instead, the focus should be attracting high-skilled migrants in any occupation. Doing so is likely to maximise the benefits from temporary skilled migration for the Australian community.

A new visa, the Temporary Skilled Worker (TSW) visa, should replace the Temporary Skill Shortage (TSS) visa. Instead of targeting occupations classified as being in 'shortage', the new visa would permit temporary sponsorship for high-wage jobs in any occupation. It is practically impossible to quickly and reliably identify skills shortages in individual occupations. Targeting skills shortages also opens the door to sponsoring many low-wage workers at risk of exploitation.

The new TSW visa should be made portable, so temporary skilled migrants could more easily switch sponsoring employers should they find a better job once in Australia. This would enable migrants to walk away from employers who mistreat them.

Exclusively targeting high-wage jobs for temporary sponsorship would mean sponsorship could be simplified for employers. A monthly fee should replace most upfront costs. Labour-market testing doesn't work and should be scrapped. And sponsorship should be streamlined for accredited employers who sponsor workers on very high wages.

4.1 Temporary skilled migration has become less skilled and more restrictive over time

Current Temporary Skill Shortage (TSS) visa-holders are typically young, skilled, and earn comparatively high wages in the Australian labour market. Most primary applicants for TSS visas are men between the ages of 25 and 44.¹⁸³

Yet the average wages of temporary skilled migrants in Australia have fallen over time relative to wages of Australian workers (Figure 4.1). After adjusting for inflation, the typical TSS visa-holder today earns about \$75,000, no more than the typical 457 visa-holder did in 2005, despite the wages of the average full-time Australian worker rising by about 20 per cent above inflation in that time.¹⁸⁴ Today more than half of TSS visa-holders earn less than median full-time earnings (\$82,000 a year), compared to just 38 per cent of temporary skilled visa-holders in 2005.

The declining wages of TSS visa-holders reflects, in part, the failure to index the Temporary Skilled Migrant Income Threshold (TSMIT) to changes in either prices or wages since 2013. The current TSMIT of \$53,900 is lower than the wages earned by about 90 per cent of full-time workers.¹⁸⁵ A 2017 review suggested indexing the TSMIT to the seasonally-adjusted Wage Price Index (WPI).¹⁸⁶ Figure 4.2 shows

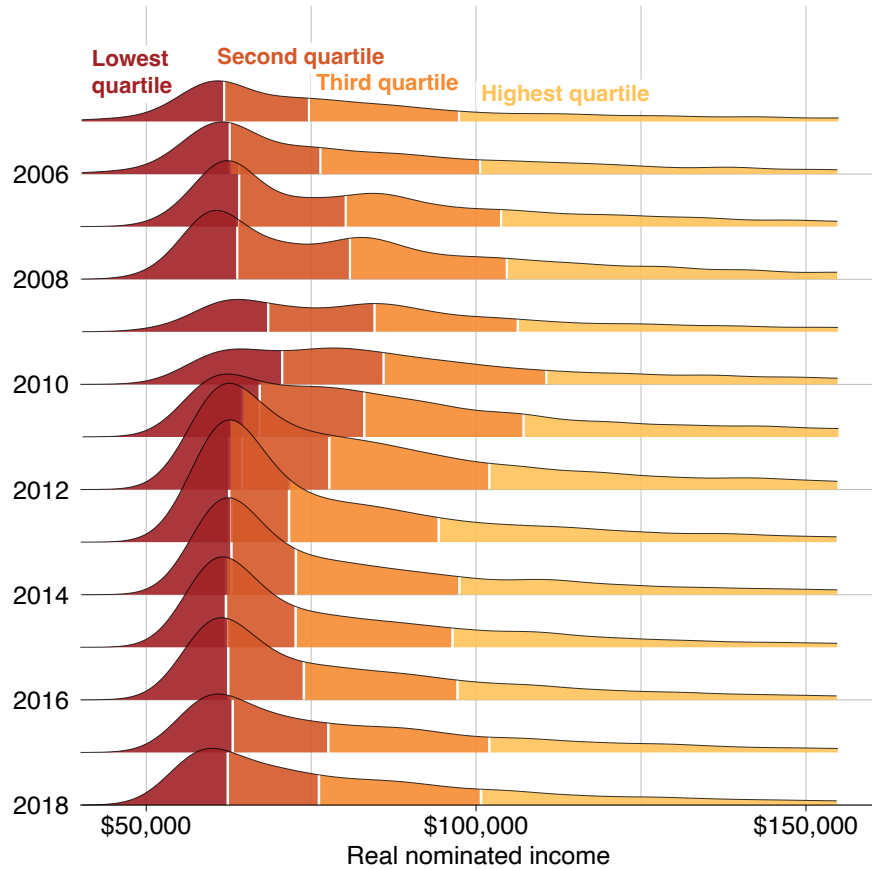
183. Part of the skew in primary TSS visa-holders towards men reflects bias in occupations eligible for sponsorship under the visa. For example, many trades occupations are eligible, whereas almost all care occupations are ineligible. Secondary applicants – those who are provided a visa alongside a primary applicant – are more likely to be women or children.

184. As measured by Average Weekly Ordinary Time Earnings (AWOTE).

185. ABS (2022b).

186. Azarias (2016, p. 6).

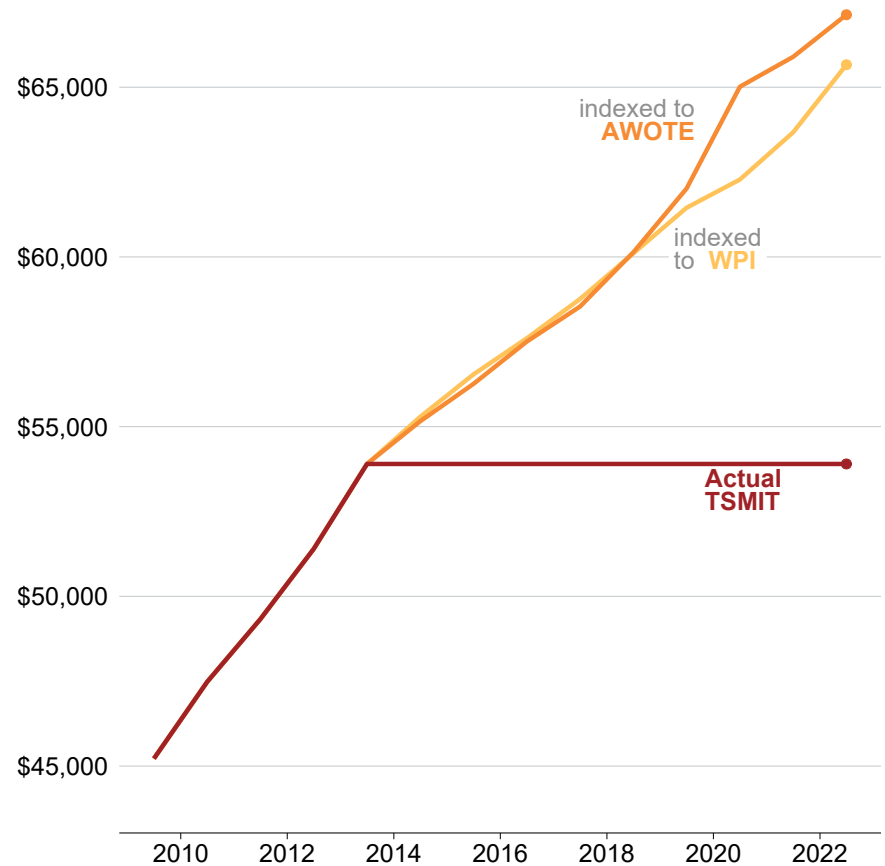
Figure 4.1: The typical Temporary Skill Shortage visa-holder earns no more today than 15 years ago



Notes: Inflated to \$2021 wages using the Consumer Price Index.
Source: ABS (2021b).

Figure 4.2: The Temporary Skilled Migration Income Threshold would be about \$17,000 higher today if it had been indexed to growth in average earnings

Actual TSMIT rates and if indexed



Notes: AWOTE = Average Weekly Ordinary Time Earnings. WPI = Wage Price Index.
Source: Legal and Constitutional Affairs References Committee (2019), ABS (2022d) and ABS (2022c).

that the TSMIT would be about \$67,000 today if it had been indexed to Average Weekly Ordinary Time Earnings (AWOTE) since 2013.

The decline in the number of temporary skilled migrants in Australia, the decline in the wages they earn, and the growing concentration of temporary skilled migrants in lower-wage occupations, reflect the end of the mining boom. But recent changes to temporary skilled visas have also had an impact.

In 2017, the Turnbull Government established the TSS visa, replacing the 457 skilled worker visa.¹⁸⁷ The shift to the TSS visa further restricted the number of occupations that could be sponsored on the visa.¹⁸⁸ The shift also limited pathways to permanent residency for some sponsored workers,¹⁸⁹ and expanded labour market testing requirements, among other changes. The decision was justified on the basis that it would better protect Australian workers from competition.¹⁹⁰

Table 4.1 shows that the share of full-time jobs in Australia open to temporary sponsorship fell from 4.7 million (52 per cent) in the 457 era, to 4 million under the TSS visa (44 per cent). Unsurprisingly, the changes coincided with further falls in the number of temporary skilled migrants in Australia. The number of jobs eligible for temporary skilled sponsorship would have fallen further – by another 300,000 to 41 per cent – if the TSMIT had been benchmarked to wages since 2013.

Changes introduced with the TSS visa in 2017 mean employers face greater barriers in sponsoring skilled migrants for higher-wage jobs. Some employers have been cut off from sponsoring highly-skilled workers, because the occupation they need has become ineligible for

187. Turnbull and Dutton (2017).

188. 216 occupations were removed from the eligibility lists. See Mares (2017b).

189. Migrants on the new 'short-term' TSS visa could not apply for permanent residency and had to attest to being a 'genuine temporary entrant' – that is, to having no ambition to stay long-term.

190. Turnbull and Dutton (2017).

Table 4.1: Replacing the 457 with the TSS visa reduced the number of jobs open to temporary skilled migrants

Temporary skilled migration visa conditions	Full-time jobs open to temporary sponsorship	Share of all full-time jobs
457 era	4.7m	52%
TSS era	4.0m	44%
TSS era today if TSMIT was set at \$65,000	3.7m	41%
Proposed TSW era: \$70,000 wage threshold and open to all occupations	5.9m	66%

Source: Grattan analysis, (see Coates et al (2022)).

the visa. Other employers struggle to attract skilled migrants because they can only offer a two-year visa that can only be renewed once.¹⁹¹ And while employers in Perth and Adelaide can sponsor certain workers in particular occupations, employers in Sydney and Melbourne cannot sponsor the very same workers.¹⁹²

In summary, Australia is now left with the worst of both worlds when it comes to temporary skilled migration. We have a restrictive and complex visa that foregoes many of the benefits of high-skilled temporary migration by making it costly and uncertain for firms to sponsor high-wage workers to Australia. And at the same time, because it permits less-skilled migration and fails to protect temporary migrants from exploitation, the design of the TSS visa feeds the perception that temporary skilled migration is not in Australia's national interest.

191. For instance, mathematicians are only eligible for temporary sponsorship under the short-term TSS visa stream.

192. For example, procurement managers, human resource advisers, and dentists are restricted to the Regional Occupation List.

4.2 A new Temporary Skilled Worker visa should replace the Temporary Skill Shortage visa

We recommend creating a new visa, the Temporary Skilled Worker (TSW) visa, to replace the existing Temporary Skill Shortage (TSS) visa, using the same employer-sponsorship model (see Table 4.2 for details). The streams within the current TSS visa would be abolished.

The new TSW visa would allow employers to sponsor workers in any occupation, provided the job had a salary of more than \$70,000¹⁹³ and the market salary rate was met. This wage threshold should be indexed to average weekly ordinary time earnings (AWOTE) each year.

The new visa would grant a person the right to remain and work in Australia for up to four years. There would be no restriction on renewal, and there would be a clear pathway to permanent residency.

Labour agreements would be abolished for the new TSW visa, since all occupations would be eligible for sponsorship, subject to a new annual wage threshold.

Sponsored workers would still be required to be proficient in English and have a minimum of two years' experience.

Under these changes, some employers would be unable to sponsor workers they currently do, but many other employers would gain access to workers in higher-wage jobs. A \$70,000 wage threshold would also reduce worker exploitation.

TSW visas should also be made portable, allowing migrants to switch more easily between sponsoring employers should they find a better job once in Australia. Current rules require migrants to stick with their sponsoring employer or lose their visa. This limits migrants' bargaining power and increases the risk that they will be exploited. Upfront fees

Table 4.2: Main eligibility criteria for Grattan Institute's proposed new Temporary Skilled Worker visa

	Temporary Skilled Worker visa criteria
Nominated wage	At least \$70,000
Fees	\$1,000 nomination fee plus an ongoing monthly fee
Age threshold	Any age
Eligible occupation list	All occupations
English	IELTS 5 (Vocational English), minimum 5.0 for any one component
Work experience	Two years in nominated occupation or related field
Skills assessment	As required for nominated occupation
Visa duration	Up to four years
Permanent residency	Pathway available
Renewable	Unlimited
'Genuine temporary entrant'	No

Note: Not every criteria is listed given the large number of rules.

Source: Grattan analysis.

193. Pre-tax, excluding compulsory superannuation contributions.

for temporary sponsorship should be reduced, and replaced with a monthly fee.

Existing administrative mechanisms should be retained to prevent fraud and underpayment. Incomes would require verification via certifying an employment contract. Employers would still have to offer a wage equal to, or just above, the relevant 'annual market salary rate', ensuring existing wages and conditions could not be undercut.

Targeting high-wage rather than low-wage jobs would allow the rules for sponsorship to be more flexible, further simplifying the sponsorship process for employers and migrants.

The federal government should offer a streamlined process to accreditation for employers that offer high wages. It should commit to processing visas within five days, creating a two-week end-to-end process from nominating a job to granting a visa. A simpler process will also make Australia a more attractive destination for migrants and enable firms to fill vacancies much faster.

Labour-market testing effectively acts as an additional tax on temporary sponsorship employers and does nothing to reduce exploitation or mistreatment of workers. It should be scrapped.¹⁹⁴

Introducing a new visa would be a big reform. As with any substantial change, some who rely on the status quo would lose out. Transition arrangements for changes to temporary sponsorship could alleviate these impacts, allowing affected firms and workers to adjust in a timely way.

194. Coates et al (2022, Section 5.4.2).

4.3 Temporary skilled migration should not be used to fill unskilled roles

Australia currently has a larger-than-usual number of shortages in lower-skill, lower-wage occupations, reflecting the accumulated impact of COVID-related border closures on all forms of temporary migration, but especially for international students and working holiday makers.¹⁹⁵ Border closures deprived many employers of their usual labour force of lower-skilled workers.¹⁹⁶

However, working holiday makers and students are rapidly returning to Australia (see Figure 1.7).¹⁹⁷ Australia should not seek to address short-term shortages in less-skilled jobs by lowering standards and easing criteria for temporary skilled work visas.

4.4 Targeting high-wage jobs for temporary sponsorship will fill most genuine skills shortages

Offering temporary sponsorship for high-skilled workers capable of attracting high wages is likely to address most genuine skills shortages, since workers in genuine shortage are likely to attract a wage premium over time, and workers that attract high wages are likely to be harder to train quickly when in short supply. Shortages are particularly likely to emerge where employers cannot find candidates with enough experience or with the appropriate intangible skills, a situation which

195. Job advertisements for low skill jobs (skill level 5) in September 2022 were 119 per cent above the 2019 average, compared to 41 per cent and 52 per cent for the highest and second highest skill level jobs (National Skills Commission (2022c)). See also Buckley and Elias (2022).

196. Renaldi (2022).

197. Student visa grants in July and August 2022 were at record highs (See: Hurley (2022)). And there are also a substantial number of international student visa-holders still offshore (mainly in China).

is not easily remedied by increasing the number of graduates with the relevant qualification.¹⁹⁸

Offering sponsorship for all high-wage jobs would allow firms to quickly and easily address shortages where they emerge for high-skilled jobs. Restricting temporary sponsorship to high-wage jobs would make sponsorship simpler, which in turn would allow firms to fill skills shortages faster.

Not all skills shortages will emerge in high-wage jobs. But skills shortages that emerge in low-skill, low-wage jobs are much more likely to be resolved quickly. Australia's flexible labour market and vocational education and training sector should be able to supply most in-demand skills, especially for lower-skilled jobs. After all, there are fewer barriers to entry for most lower-paying jobs.

4.5 \$70,000 is the right threshold

Temporary sponsorship should be available for workers in all occupations, provided they earn more than \$70,000 a year.

The current wage threshold for temporary sponsorship, the Temporary Skilled Migration Income Threshold (TSMIT), is set far too low at \$53,900 a year. If the TSMIT had been indexed to growth in average earnings since 2013, it would sit at about \$67,000 today (Figure 4.2).

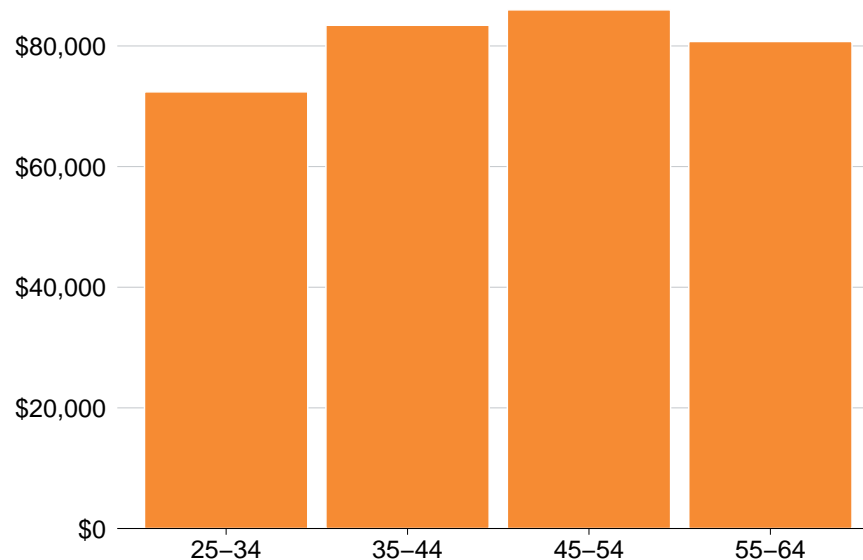
We recommend a \$70,000 wage threshold, which is below the full-time earnings of the median Australian worker of \$85,000 a year (see Box 9). The threshold is set below median full-time earnings since temporary skilled visa-holders are often younger, and therefore in the early stages of their career, earning lower incomes (Figure 4.3).¹⁹⁹

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

199. The median age for TSS visa-holders is currently 31 years, it is 41 years for all full-time workers. The median full-time wage for Australian workers aged 25-34 is around \$72,000. By contrast, \$90,000 is around the average full-time earnings of a person in the Australian workforce.

Figure 4.3: People start their careers on lower salaries, which grow over time

Annual income of full-time workers by age bracket



Notes: Incomes inflated to 2022 using AWOTE.

Source: ABS (2022e) and ABS (2022c).

Figure 2.6 shows that TSS visa-holders with higher starting salaries have much stronger wage growth while in Australia, especially those who started on more than \$70,000 a year. TSS visa-holders in most industries achieve strong growth in their real wages over the course of their temporary sponsorship in Australia. In contrast, TSS visa-holders in lower-wage industries such as hospitality and retail have flat or falling real wages.²⁰⁰

Alternatively, to reflect the lower wages earned by younger skilled workers, the federal government could set the TSMIT at different levels for workers of different ages. For instance, it could retain a \$70,000 wage threshold for workers aged below 35 years, and a higher wage threshold for workers aged 35-44 years who should reasonably be expected to earn more if they are genuinely skilled.

Currently, employers in some regional areas can sponsor a temporary migrant at a lower wage than the TSMIT, via a Designated Area Migration Agreement (DAMA).²⁰¹ We recommend ending the DAMA program. But to reflect the lower cost of living and lower wages in many regional areas, the government could consider a modest reduction in the TSMIT for some regions. But this should not be based on the current designated regional areas, which are most locations of Australia outside Sydney, Melbourne and Brisbane.²⁰² For example, Perth, and remote mining regions with high average wages, should not be the subject of a lower TSMIT.

200.Coates et al (2022, Figure 4.4).

201.A DAMA is formal agreement between the federal government and a regional, state or territory authority that establish a set of concessions from standard rules for a geographic area. There are currently 12 DAMAs in place: Department of Home Affairs (2022h).

202.Department of Home Affairs (2022i).

4.6 Targeting high-wage jobs would maximise the broader benefits of temporary sponsorship to Australia

Targeting high-wage workers for temporary sponsorship would also help Australia reap the broader benefits of temporary skilled migration. Highly-skilled migrants are more likely to bring knowledge and ideas, and generate big fiscal dividends because they pay much more in taxes but can't access most public services and benefits. An effective temporary skilled migration program would also lift the bar for Australia's permanent skilled migrant intake by increasing the pool of high-quality applicants.

Targeting high-wage rather than low-wage migrants would also reduce the risks that employers game the rules to recruit and exploit lower-skilled migrants.

4.7 Targeting temporary sponsorship at high-wage jobs offers a clearer pathway to permanent residency

Better aligning temporary sponsorship with permanent sponsorship by using wage thresholds would make Australia more attractive to skilled migrants, because the prospect of becoming an Australian citizen is attractive to many workers. Greater certainty about these pathways is particularly important for higher-skilled migrants, who typically have multiple destination options.²⁰³

The Australian company Atlassian has said that the lack of a residency pathway for some temporary workers 'makes it very difficult to attract high-level candidates in roles that are crucial to us'.²⁰⁴ The Law Council of Australia believes the current pathway from a TSS to a permanent visa dissuades talented individuals from considering a move to

203.A recent OECD publication on attracting talent found Australia and New Zealand relied more heavily than other OECD countries on the prospect of obtaining permanent residency. See Tuccio (2019).

204.Atlassian (2021).

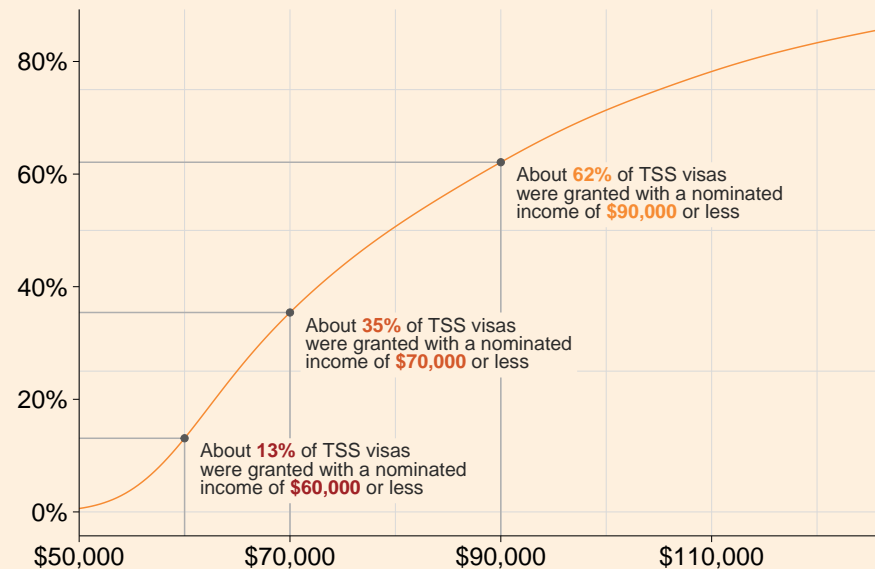
Box 9: A TSMIT of \$70,000 is the Goldilocks threshold – not too low and not too high

Lifting the TSMIT threshold to \$90,000, as unions propose, could cut out many of the younger skilled workers who form the bedrock of permanent skilled migration. Temporary skills shortage visa-holders are, on average, much younger than the typical Australian worker, and start out earning less (Figure 4.3).

A \$90,000 threshold would knock out about 60 per cent of recent temporary skills shortage visas granted, compared to 35 per cent for a \$70,000 threshold (Figure 4.4). Setting the TSMIT at \$90,000 would cut out many of the younger skilled workers who start out earning lower-than-average wages but go on to form the backbone of Australia's permanent skilled migrant intake and earn much higher wages in the long term.

A \$60,000 threshold is too low, because the wage threshold needs to reflect the fact that the temporary skilled program is, as the name suggests, a program for skilled migrants. Yet in the years since the TSMIT was frozen, more and more low-wage workers have come to Australia, notably in the retail and food and accommodation sectors. And despite the wages in these sectors growing, the evidence suggests that the wages of migrants working in these sectors have not.

Figure 4.4: A \$70,000 wage threshold would exclude about 35 per cent of TSS visas, a \$90,000 threshold would exclude about 60 per cent
Cumulative share of TSS visa grants by nominated income



Notes: TSS visas awarded in 2018.

Source: Grattan analysis of ABS (2021b).

Australia.²⁰⁵ Others argue the two-year length of the short-term stream TSS visa in particular makes the visa unattractive to skilled migrants.²⁰⁶

Under the existing TSS visa, prospective migrants can qualify for permanent sponsorship only if employed in an occupation on the Medium- and Long-Term Strategic Skills List (MLTSSL), which can change periodically.²⁰⁷ This creates uncertainty for the worker and the risk of mistreatment by employers. Experienced migration lawyers say this uncertainty is 'the single biggest issue' frustrating employers who use the visa.²⁰⁸

A \$70,000-a-year wage threshold for the Temporary Skilled Worker visa would offer an even clearer pathway to permanent residency if it were paired with our recommendation to replace occupation lists for permanent sponsorship with an \$85,000-a-year wage threshold (see Chapter 3). Workers would be confident they could increase their earnings by \$15,000 – from \$70,000 to \$85,000 – over the four years of temporary sponsorship, and therefore secure permanent residency.²⁰⁹

A clearer pathway to permanent residency would also sharpen incentives for sponsoring employers to invest in improving the skills of their staff.

205. Joint Standing Committee on Migration (2021).

206. See Belinda Wright (KPMG), in Joint Standing Committee on Migration (ibid).

Visas for occupations on the Short-term Skilled Occupation List are valid for two years and renewable only once before the worker must leave Australia to apply for a subsequent visa.

207. Coates et al (2021, Table 7.1).

208. Ajuria Lawyers (2021).

209. In addition to the wage threshold, other criteria for permanent sponsored visas would also need to be met (e.g. the age threshold).

4.8 A \$70,000 wage threshold would mean some low-wage jobs would no longer be eligible for temporary sponsorship

Introducing a new visa is a big reform. As is the case with any substantial change, some who rely on the status quo would lose out.

A \$70,000 threshold will affect some industries more than others (Figure 4.5). Based on historical sponsoring decisions, the accommodation and food services industry will no longer be able to access 90 per cent of its TSS visa pool. But although the flow of temporary skilled migrants into hospitality would slow dramatically, temporary skilled migrants made up just 1.8 per cent of the hospitality workforce in 2016. All other industries would be much less affected, potentially losing fewer than 1 every in 200 workers currently employed in the sector.

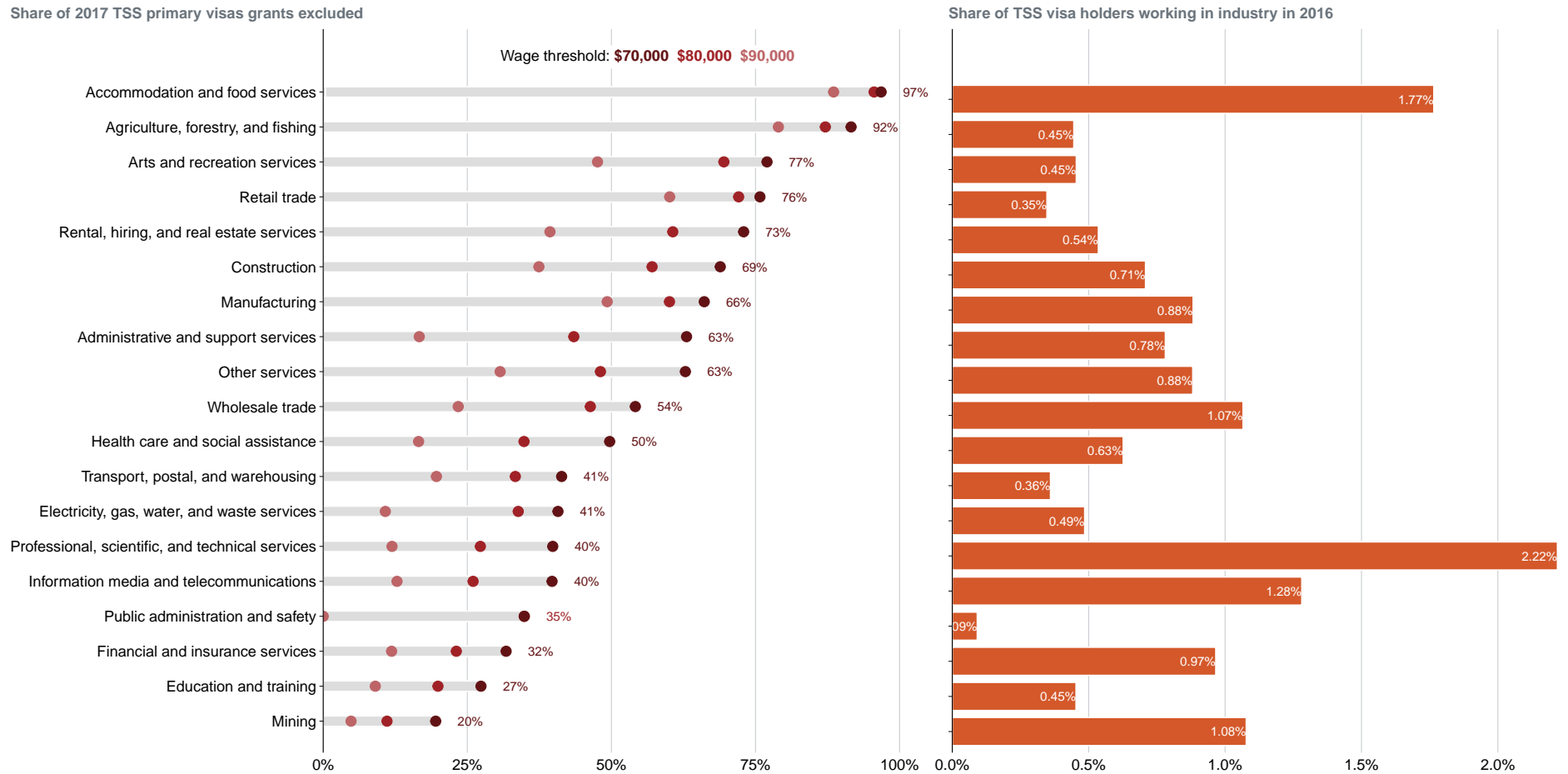
A \$70,000 threshold would inevitably disadvantage employers who already sponsor workers into jobs such as chefs, cooks, automotive trades, and construction trades. But in most occupations and without employers adapting to the changes, fewer than one-in-four jobs currently eligible would be excluded from temporary sponsorship under our proposed visa. And the proposed visa would not preclude employers from sponsoring affected occupations such as chefs or automotive workers, – it would simply require that those workers earn more than \$70,000.²¹⁰

Some occupations would be effectively excluded from temporary sponsorship under the proposed TSW visa. About 90 per cent of food trades workers sponsored under the TSS visa in 2018 had a salary below \$70,000, while three-quarters of sponsored hospitality, retail, and service managers were also below the proposed new threshold.²¹¹

210. A higher TSMIT could result in employers choosing to sponsor more experienced workers, or changing the pay structure for some roles (for example, offering higher base pay rather than bonuses or commissions). Employers may also seek to recruit working holiday makers or international students where possible.

211. Of TSS visas awarded in 2018. Grattan analysis of ABS (2021b).

Figure 4.5: A \$90,000 wage threshold will be much more disruptive to industries; hospitality would be the industry most affected



Notes: Share of applicants excluded from visas granted in 2018. Share of labour force based on census data. There may be differences between how DHA admin data classifies industries and how industries are classified in the census. Only primary applicants used.

Source: Grattan analysis of ABS (2021b), ABS (2016b), ABS (2016a) and ABS (2016c).

Some argue these occupations are in high demand and subject to skill shortages.²¹² But skill shortages are difficult to define, hard to measure, and more likely to occur for jobs experiencing wage growth. Low-wage sectors such as accommodation and food services and retail trade have particularly slow wages growth, with more than half of all sponsored workers in these sectors gaining nominal wage rises of less than 2 per cent a year.²¹³ Since these occupations experience among the lowest wage growth for workers on TSS visas, it is hard to argue these sectors were experiencing substantial skills shortages before COVID. In contrast, sponsored workers in most other sectors, where wages are typically higher to begin with, have much stronger wages growth while in Australia (see Figure 2.6).

4.9 A \$70,000 wage threshold would mean most skilled essential workers would be eligible for temporary sponsorship

Concerns that essential workers, such as teachers, nurses, doctors and allied health professionals (such as physiotherapists and social workers) would not be eligible for temporary sponsorship if the wage threshold rises to \$70,000 are overblown.²¹⁴

Annual earnings for most high-skilled essential workers, occupations requiring a Bachelor degree or higher, are typically above \$70,000 for someone with two years of experience (as the proposed TSW visa requires) (Figure 4.6).²¹⁵ After around five years, earnings are typically above \$85,000, meaning most experienced essential workers would be eligible for a permanent visa under our proposal.

212. Restaurant and Catering Australia (2021).

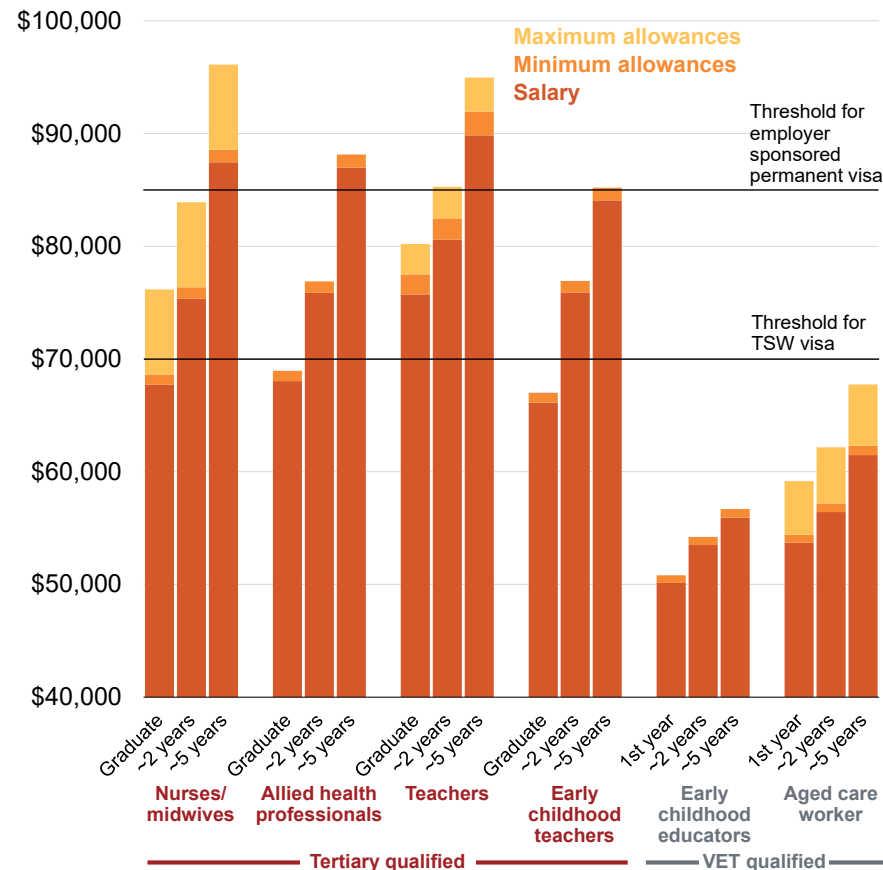
213. Coates et al (2022, Figure 4.7).

214. For example: No Borders Law Group (2022).

215. When additional allowances such as shift loadings, which are significant for nurses, and salary sacrifice arrangements are included total earnings are much higher.

Figure 4.6: Experienced skilled care-economy workers would qualify for temporary and permanent employer sponsorship

Health and care-economy worker annual salaries and allowances



Notes: Excludes salary sacrifice for health care workers, which is worth about \$3,000 per year. Allied health professionals include social workers, occupational therapists, physiotherapists and other occupations. Aged-care earnings are for a personal care assistant, based on the Aged Care Award and includes the interim 15 per cent pay rise ordered by the Fair Work Commission. All others based on Victorian Enterprise Agreements.

Source: Enterprise agreements; Aged Care Award (national); Fair Work Commission (2022).

However a higher TSMIT would have little impact on the less-skilled care-economy workforce. Current visa rules mean very few care-economy workers without a university degree, such as personal care assistants, child care educators or disabled carers, are eligible for either temporary or permanent employer sponsorship under standard sponsorship rules. These occupations are typically not on skills lists and earn well below the existing TSMIT of \$53,900 a year.²¹⁶

Some stakeholders have raised concerns that restricting temporary sponsorship solely to higher-wage jobs would make it harder for employers in the care economy to meet their workforce needs. This reflects a perception that low-wage jobs in the care economy are eligible for temporary sponsorship. But while many migrants work in less-skilled roles in the care economy, they do not hold temporary or permanent skilled work visas. Instead, they are mostly people born overseas who are now citizens or permanent residents (see Figure 5.4 and Figure 5.5).²¹⁷

4.10 Labour-market testing adds cost and complexity and should be abolished

Labour-market testing requires sponsoring employers to advertise a job before hiring a skilled migrant.²¹⁸ Labour-market testing fails to live up to its promise of ensuring Australians have the first opportunity to apply for jobs. Instead, it effectively acts as an additional tax on temporary

sponsorship employers. And it does nothing to reduce exploitation or mistreatment of workers.

Labour-market testing requires employers to place three job ads in English.²¹⁹ These ads must include the JobActive network, and a recruitment website with 'national reach'. The job ad must include a title, the skills required, the name of the employer, and the wage. The job ad must have appeared for at least four weeks and cannot be older than four months at the time of nomination.

According to the Department of Home Affairs, officials can be satisfied 'no suitably qualified or experienced Australian' was available for the role if these conditions have been met. Yet these conditions do not show whether a suitably qualified or experienced Australian was available for the role.

No government official can assess whether an employer has made a genuine attempt to hire an Australian worker first. It is not possible to know the intent of an employer. These processes and rules render labour-market testing a complicated box-ticking exercise. It is for these reasons the 2014 Azarias review recommended labour-market testing be abolished.²²⁰

Most employers clearly prefer to hire Australian workers, to avoid the cost and uncertainty of nominating a skilled migrant. After all, fewer than one in 200 workers in the labour market is sponsored on a Temporary Skill Shortage visa.

Nor will employers who prefer to hire people on temporary skilled visas be deterred by the labour-market testing process. Yet employers who attempt to act in good faith are undermined by the lack of flexibility. A strict time requirement of four months creates havoc for

216. The recent decision by the Fair Work Commission to award an interim increase of 15 per cent to the award wages of aged care workers will mean some aged care workers may eventually earn more than the current TSMIT, but not \$70,000. However the wage rises are likely to take several years to take effect. See: Fair Work Commission (2022).

217. Coates et al (2022, Box 3).

218. There are exemptions to the labour-market testing requirements when it conflicts with international trade obligations, for example where the nominated occupation is an Executive or Senior Manager (see Department of Home Affairs (2022j)).

219. See 'Temporary Skill Shortage visa – Nomination', Department of Home Affairs (2021d).

220. Azarias (2014).

workforce development and hiring processes. A small mistake – such as advertising the position with a generalist title – can result in the nomination being refused.²²¹

Some suggest labour-market testing boosts public confidence in temporary sponsorship – that it is ‘good politics’. But since labour-market testing does nothing to ensure existing workers are given preference, any boost to public confidence in temporary sponsorship it may inspire is illusory.

There was no labour-market testing between 2001 and 2013, arguably a more effective period for temporary skilled migration than the decade since.²²²

4.11 Labour market agreements should be abolished

Most labour agreements permit employers to hire workers in occupations not eligible under the standard program. In some cases labour agreements permit employers to sponsor workers at an annual salary as low as \$48,510 a year.

Opening temporary sponsorship to all occupations would make most labour agreements redundant. By using a wage threshold, any job would be able to be sponsored, provided it paid at least \$70,000 a year.

New labour agreements facilitating low-wage work should cease immediately. Abolishing labour agreements would also end the Designated Area Migration Agreement (DAMA) program.

221. Ajuria Lawyers (2021).

222. The requirement was abolished by the Coalition in 2001 and reintroduced by Labor in July 2013. The 2014 Azarias review found no compelling evidence that supported its reintroduction in 2013 Azarias (2014).

4.12 Make intra-company transfers easier

Intra-company transfers should be made easier, because shifting senior staff in large, multinational organisations can be costly.

The requirement that sponsored workers demonstrate English language proficiency should be removed for intra-company transfers of sponsored workers on wages exceeding \$120,000. This would help large multinationals who are located in non-English speaking countries.

Employers paying a sponsored worker more than \$162,000 a year should be exempt from the obligation to pay the annual market salary rate for that job.²²³

Further, sponsored workers coming to Australia via intra-company transfer should also not be subject to any work experience test, given they are already sponsored by the employer in a job with a wage higher than \$70,000.

4.13 Making the TSW visa portable across employers will reduce exploitation, enabling workers to fully utilise their skills

Current TSS visa rules require migrants to remain with their sponsoring employer or lose their visa. This limits migrants' bargaining power, results in many migrants not working in a role that best suits their skills and experience, and increases the risk of exploitation. Upfront fees for temporary sponsorship should be reduced, and replaced with a monthly fee.

4.13.1 TSW visa-holders should be able to more easily switch jobs

Under current rules, TSS visa-holders are tied to the employer that has sponsored them, which deliberately prevents labour mobility. Due to the

223. Coates et al (2022).

large upfront fees involved with sponsoring a TSS worker, employers wouldn't sponsor migrants if they were able to move jobs.

Allowing migrants to move to more suitable jobs should result in a better allocation of labour across the economy, boosting productivity.²²⁴

The prospect of greater mobility for temporary skilled visa-holders will also strengthen worker bargaining power, which could translate into higher wages or better conditions.²²⁵

The current system allows unproductive firms to survive via what is, effectively a subsidy of privileged access to the global labour market.

We recommend that TSS visa-holders be able to change employers if the new job also pays over \$70,000, with no requirement for a new visa to switch employers. Also, the time without an employer should be extended from 60 to 90 days.

Others have proposed an industry-sponsorship model to allow TSS visa-holders to change jobs. For example, Wright (2022) proposes that employer associations and unions in the relevant sector or region could be the joint sponsors of TSS visa-holders.²²⁶

This approach would offer those on temporary skilled visas the ability to change jobs within an industry without requiring a new visa. However, limiting workers to jobs in certain industries restricts portability unnecessarily, reducing the labour market matching benefits that greater portability offers. Under an industry-sponsorship model, for example, an accountant sponsored by a manufacturing firm would be tied to the manufacturing industry and unable to work in the finance industry; or a software developer sponsored by a bank would be

restricted to working in the finance industry, when their skills can be used in most sectors.

The industry approach to portability is also based on the flawed idea that skills shortages can be identified, and that visa-holders should therefore be tied to particular industries. In contrast, our proposed approach opens up movement between jobs in any industry while ensuring that it is still the employers, as the initial sponsors of a visa, who have the most skin in the game.

4.13.2 Replace large upfront fees with monthly fees

Sponsoring workers for temporary skilled visas entails substantial upfront costs. Becoming a sponsor costs \$420, and each time a job is nominated, the fee is \$330.²²⁷ The employer must also pay a Skilling Australians Fund (SAF) levy.²²⁸ The cost is \$1,200 per year of the visa for employers with a turnover of up to \$10 million, and \$1,800 per year of the visa for employers with a turnover of more than \$10 million.²²⁹

Visas are typically valid for two or four years, so total fees range between \$2,730 and \$7,530 per worker, equivalent to between 1 per cent and 3 per cent of the average wage for a temporary skilled visa-holder over the duration of their visa. All fees have to be paid upfront.

Fees are an appropriate price signal to encourage employers to find existing workers in Australia where they can. But rather than requiring employers to pay all the costs of temporary sponsorship upfront, the costs should mostly be spread over the life of the visa.

227. Department of Home Affairs (2022k).

228. There are concerns about the SAF, which provides revenue for training and skills projects delivered by state and territory governments. Victoria and Queensland have refused to participate in the program, saying it is unstable and inadequate (see Fentiman (2018) and Petrie et al (2018)).

229. Department of Home Affairs (2022k).

224. Productivity Commission (2016a) states that 'Labour mobility is also a key factor in labour market matching, and hence with growth in wages and productivity'. See also Engbom (2022).

225. Deutscher (2019) and Productivity Commission (2016a).

226. C. Wright (2022).

Sponsors should have to pay \$1,000 to lodge a nomination. All remaining fees and costs – including the SAF levy – should be bundled up into one fee based on the number of workers sponsored. This fee should be charged to employers each month, as occurs in Singapore.²³⁰

The monthly fee would be equivalent to the revenue raised by all upfront charges today, less the proposed \$1,000 nomination fee.²³¹ For a standard four-year visa, total upfront costs are about \$7,600 for an employer with revenue exceeding \$10 million, and \$5,200 for an employer with revenue up to \$10 million.

We propose replacing existing upfront fees with a one-off up front nomination fee of \$1,000 and a single monthly fee of \$110, to be paid by all employers per worker currently sponsored. These fees would be equivalent to about 2 per cent of the wage threshold of \$70,000.

Replacing large upfront fees with a monthly charge would reduce cash-flow constraints on businesses. And if portability induces additional job switching, the original sponsor will not be disadvantaged when a visa-holder switches to a new employer. There would be no need to provide refunds for rejected nominations, because the monthly fee would be levied only when a visa-holder is employed. If a worker then moves to a different employer, the monthly fee would move with them.²³²

230. Singapore imposes a levy on employers based on what sector they are in, how many workers they hire, and what proportion of workers are on a visa. In the construction sector, fees vary from \$300 to \$950 per month per worker. See Ministry of Manpower (2022).

231. Most visa policy decisions can occur via Executive discretion, without the need for a Bill to pass the Federal Parliament. The Skilling Australian Fund levy is an exception. The levy was legislated via the *Migration Amendment (Skilling Australians Fund) Bill 2018*, so switching to a monthly fee would require legislative amendments.

232. Workers are linked to sponsors via the nomination process, which could be used in the administration of payments.

Establishing a monthly payment system would involve some administrative costs, but the Department of Home Affairs already has systems in place for employers to pay invoices. Charging a \$1,000 nomination fee would protect the integrity of the nomination process and prevent spurious applications.

If a sponsor repeatedly failed to pay the fee, they would be barred from hiring workers on a TSW visa. As happens when an employer becomes insolvent or fails to comply with other sponsorship obligations, this would leave their temporary migrants without a sponsor and having to find alternative employment or risk losing their visa.

4.14 Strengthen compliance and penalties for employers who mistreat temporary skilled visa-holders

Unfortunately, some employers seek to extract profit by deliberately mistreating workers. Temporary skilled workers are more vulnerable to exploitation than Australian citizens and permanent residents, because they rely on their employer to remain in Australia.²³³

Employers who do the wrong thing should be punished. Existing mechanisms should be strengthened, and penalties strictly enforced.

Despite widespread allegations of worker exploitation, in the 2019-20 and 2020-21 financial years there were only three formal investigations of offences proscribed in the Migration Act. These three investigations resulted in two employer sanctions.²³⁴

There needs to be a general step-up of enforcement from the Australian Border Force and the Fair Work Ombudsman. There should be a shift in the philosophy of enforcement: away from conducting checks when visas are granted, to enforcing the sponsorship

233. A report on exploitation of migrant workers will be published by the Grattan Institute in early 2023.

234. Coates et al (2022, p. 54).

obligations of firms. At a minimum, for example, the Australian Border Force and Department of Home Affairs should be making random checks of sponsored workers' payroll against the ATO's single touch payroll database.

4.15 Transition arrangements for changes to temporary skilled sponsorship

We recommend that the three streams of the Temporary Skill Shortage (TSS) visa be merged into a single Temporary Skilled Worker (TSW) visa from 1 July 2023. The new TSW visa would be open to occupations on all three existing occupation lists, subject to the wage threshold. That wage threshold should be increased over two years, from the current Temporary Skilled Migration Income Threshold (TSMIT) of \$53,900 to the new TSW threshold of \$70,000.

On 1 July 2023, the TSMIT should rise from \$53,900 to \$64,500. On 1 July 2024, the TSMIT should rise again to around \$75,000.²³⁵ From 1 July 2024, once the wage threshold has reached \$75,000, the existing occupation lists should be abolished.

These arrangements would allow sponsoring employers time to adjust to the new rules. They would have time, for example, to train alternative workers, or adjust to higher wages.

Occupations not currently on *any* occupation list would become eligible for TSW sponsorship from 1 July 2024, provided the nominated salary was more than \$75,000. This would allow the Department of Home Affairs time to establish relevant Annual Market Salary Rates for these occupations.

²³⁵. Assuming nominal wage growth of about 2.5 per cent a year, the wage threshold would rise from \$70,000 today to about \$75,000 by 1 July 2024 to reflect benchmarking of the threshold to wages growth over the transition period.

Existing TSS visa-holders currently in Australia would retain the right to work for the remainder of their visa period. However, should their employer wish to renew their visa, the pay-rate must satisfy the prevailing wage threshold for the nominated occupation.

Greater portability of TSW visas should commence from 1 July 2024. Labour-market testing should be abolished at the same time. The new monthly fee should also commence from 1 July 2024.

Labour agreements should no longer be renewed after 1 July 2025.²³⁶

Existing TSS visa-holders who have a pathway to permanent residency – those with an occupation on the Medium- and Long-Term Strategic Skills List (MLTSSL) – should be able to pursue permanent residency, provided they have had an established employment relationship with their employer for longer than 12 months. These people made decisions and planned their lives under one set of rules, and it would be unfair to deprive them of the opportunity to seek permanent residency simply because the rules were changed.

²³⁶. Labour agreements that are currently in operation can be ceased or varied in accordance with the terms specified in each labour agreement.

5 Avoid expanding less-skilled migration to Australia

The government should avoid expanding less-skilled migration solely for the purposes of work, especially as many workforce shortages will ease now the borders are open. Expanding less-skilled migration – especially for workers on temporary visas – could undercut the wages of low-paid Australians and further increase exploitation. And it could also erode public trust in our migration program and amid concerns about Australia becoming a ‘guest-worker’ society.

Many less-skilled migrants are already granted permanent visas via the family and humanitarian streams, and as the spouses of skilled migrants. Many temporary migrants who hold student, working holiday maker, and Pacific visas – which fulfil objectives beyond simply allowing migrants to work – also work in less-skilled jobs.

Attracting extra less-skilled migrants may be needed to meet care-economy workforce needs in the short term, including meeting the new Federal Government's election commitments around aged-care staffing. But it is a poor long-term solution, and creates big risks and large potential costs.

Offering temporary visas to less-skilled care-economy workers would ensure that migrants actually work in the care sector, but at the risk of increasing exploitation of migrant workers and eroding confidence in Australia's broader migration program. And a substantial inflow of less-skilled migrant workers into the care economy, irrespective of their visa status, risks suppressing the wages Australia's low-paid and highly-feminised care-economy workforce.

Offering additional permanent visa places to less-skilled migrants in care-economy jobs would address many of these concerns. But doing so comes at a potentially large long-term cost to the composition of the permanent skilled intake. The government could find permanent

visas for care-economy workers by either expanding the number of permanent visas on offer each year to accommodate new permanent visas for less-skilled workers, or substituting them for existing, more skilled permanent visa-holders. In either case, the composition of the permanent intake would be less skilled than it could be.

Offering care workers permanent pathways would also see many workers leave the sector to take higher-paying jobs elsewhere once granted permanent residency. In the long term, workforce shortages in the care economy will only be resolved if wages increase to better reflect what these jobs demand of workers, including by helping break down longstanding cultural barriers to men working in the care economy.

5.1 The pandemic has intensified calls to expand less-skilled economic migration for the purposes of work

The closure of Australia's international borders at the onset of the COVID-19 pandemic has intensified employer demand for new visa pathways for less-skilled workers.²³⁷ Employers are struggling to find workers in almost all sectors due to the strong economic recovery from COVID-19, and the lagging impact of COVID-19 border closures in particular sectors that have historically relied on temporary visa-holders. Unemployment is at its lowest level in 50 years and numbers of job advertisements have doubled since January 2020.²³⁸

The federal government has already responded by committing to expand visa streams that encourage the migration of less-skilled workers to Australia, and allowing those already here to stay longer.

237. For example, see: Business Council of Australia (2022) and Spender (2022).

238. ABS (2022f); and ABS (2022g).

For example, the federal government has already committed to encouraging more migration from our region by reforming the Pacific Australia Labour Mobility (PALM) scheme and creating a new Pacific engagement visa – both of which are targeted at less-skilled migrants (Box 10). The Morrison Government committed to establishing a new Australian Agricultural Visa to meet agricultural workforce shortages, which the current government has committed to roll into the PALM scheme.²³⁹

Yet Australia should avoid making structural changes to our migration program to tackle short-term workforce shortages. Most pandemic-related workforce shortages are starting to ease now Australia's international borders have reopened (Figure 1.7). At the same time, the Australian economy is expected to slow as the impact of unprecedented fiscal stimulus fades and as the impact of eight successive interest rate rises this year starts to take effect, leading to an increase in the unemployment rate from today's historically low levels.²⁴⁰

5.2 Australia should avoid expanding less-skilled economic migration

The government should avoid expanding less-skilled migration solely for the purposes of work. Expanding less-skilled migration threatens to undercut the wages of low-paid Australians. 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 (see Box 4). And expanding less-skilled migration – especially by offering workers temporary visas – further increases the risk of exploitation, eroding

239. Department of Foreign Affairs and Trade (2022a).

240. The Reserve Bank of Australia expects unemployment to rise to from 3.4 per cent in October 2022 to 4.25 per cent by the end of 2024. See: Reserve Bank of Australia (2022).

public trust in our migration program amid concerns about Australia becoming a 'guest-worker' society.

Australia already facilitates the migration of many less-skilled migrants, typically via permanent humanitarian visas, the permanent family program – as the spouses of Australians – and as the spouses of permanent skilled migrants, as well as international students, working holiday makers, Pacific migrants and New Zealanders here on temporary visas (Figure 1.3).

In total, nearly 1.4 million permanent visas were granted over the past decade without any consideration of migrants' skills as skilled secondary applicants, or those on family, or humanitarian visas (Figure 1.3). Nearly half of all working permanent migrants who weren't selected on the basis of their skills work in low-skilled jobs (occupation skill level 4 or 5, see Figure 1.4). Migrants holding these visas – as well as less-skilled temporary migrants – already account for a significant share of the workforce across most industries (Figure 1.8)

While all these visas grant work rights to migrants who hold them, these visas also reflect other objectives. For instance, permanent family and humanitarian visas support family reunion and help refugees secure a safe home. Whereas working holiday maker visas also aim to facilitate cultural exchange, Pacific visas encourage closer ties with our region and residency rights for New Zealanders help secure reciprocal rights for Australian citizens to settle in New Zealand.

The fact that the permanent migration program does not allocate most visas on the basis of skills reinforces the need to ensure that when selecting primary skilled visa-holders the skilled program targets those migrants best placed to make the greatest contribution to Australia.

5.3 Less-skilled migrants may be needed to meet care-economy workforce shortages in the short term but there are big risks and costs

Persistent workforce shortages in less-skilled care-economy jobs have prompted calls to expand migration to fill these roles.²⁴¹ Yet adding less-skilled care-economy occupations – such as personal-care assistants – to the existing lists of occupations eligible for temporary or permanent sponsorship would not facilitate migrants moving into these occupations since they earn less than the existing TSMIT of \$53,900 a year (Table 5.1).²⁴²

There have been calls to create a new visa to facilitate the migration of lower-wage care-economy workers. The Committee for Economic Development of Australia (CEDA), for example, has recommended Australia create an 'Essential Skills Visa' to address Australia's significant care-workforce deficit.²⁴³ The United Kingdom has recently introduced a Health and Care Worker visa, which allows health and aged-care workers, including those with less than a university qualification, to work in the UK for up to five years.²⁴⁴ The federal government has also already expanded the Pacific Australian Labor

Mobility Scheme (PALM) to include aged care, hospitality and tourism industries in a bid to address workforce shortfalls.²⁴⁵

Yet there are big potential pitfalls in expanding migration to fill lower-wage, less-skilled jobs in the care economy. Doing so risks suppressing the wages and encouraging further exploitation of migrant workers. Offering care workers permanent pathways would reduce the risks of exploitation, but could see workers leave the sector unless wages rise, and would entail large long-term costs if they displace existing permanent skilled visas.

Commenting on the potential role of migration in filling workforce shortages in the social care sector,²⁴⁶ the UK Migration Advisory Committee recently noted:²⁴⁷

Immigration policy may be able to help alleviate some of the workforce problems that the sector is facing, but it is not the best solution to these problems. The real solution lies well beyond our remit, in the design and funding of the system itself. It would also be highly damaging for the sector in the long term if the necessarily limited and short-term relief brought by immigration policy were used as an 'excuse' not to address the more fundamental problems the sector faces.

241. The Committee for Economic Development of Australia (2022).

242. Under the Temporary Skills Shortage visa, the labour agreement stream allows some employers to sponsor workers at an annual salary as low as \$48,510 a year for occupations not on the skills lists. Some aged care and childcare providers have labour agreements in place, most commonly in regional areas, via company specific and Designated Area Migration Agreement (DAMA) streams. However full-time wages for personal care assistants in aged care start at around \$43,000 a year. See: Department of Home Affairs (2022).

243. The visa would offer a minimum four-year initial visa term, with commitment to renew for a further four years, or a pathway to permanent residency. And workers would be free to change employer or location of employment within designated caring sector. See: The Committee for Economic Development of Australia (2022).

244. Social care workers are eligible to apply from February 2022. See: UK Government (2022a).

245. Hegarty (2022).

246. 'Social care' is a term that generally describes the services that children, young people and adults who need extra support can draw on to enable them to lead fulfilling lives with dignity.

247. Migration Advisory Committee (2022).

Table 5.1: Low-paid caring jobs are typically not eligible for skilled visas under the current occupation list system and nor under Grattan's proposed system. Pathways to a permanent visa are complex for some higher-paid care workers under the current rules.

Industry and occupation	Skills list	Eligible for temporary sponsorship	Eligible for permanent sponsorship	Full-time median income (2021)	Percentage of full-time workers earning \$70,000+	Percentage of full-time workers earning \$85,000+
Health care, aged care, disability care						
Personal Care Assistant	None	None	None	\$51,243	15	7
Nursing Support Worker	None	None	None	\$51,880	17	7
Aged or Disabled Carers	None	None	None	\$59,954	33	17
Enrolled Nurse	STSOL	TSS (2 years)	186 (limited), 494/191	\$63,422	37	15
Registered Nurse (Aged Care)	MLTSSL	TSS (4 years)	186, 494/191	\$73,825	56	35
Social Worker	MLTSSL	TSS (4 years)	186, 494/191	\$84,725	78	50
Occupational Therapist	MLTSSL	TSS (4 years)	186, 494/191	\$85,567	80	52
Dietitian	STSOL	TSS (2 years)	186 (limited), 494/191	\$85,847	73	52
Registered Nurses	MLTSSL	TSS (4 years)	186, 494/191	\$86,071	75	52
Physiotherapist	MLTSSL	TSS (4 years)	186, 494/191	\$89,586	81	58
Pharmacist	STSOL	TSS (2 years)	186 (limited), 494/191	\$90,589	77	59
Nurse Manager	STSOL	TSS (2 years)	186 (limited), 494/191	\$116,850	95	87
Nurse Practitioner	MLTSSL	TSS (4 years)	186, 494/191	\$121,594	90	83
Dentist	ROL	TSS (4 years, regional areas)	494/191	\$167,578	95	92
General Practitioner	MLTSSL	TSS (4 years)	186, 494/191	\$185,539	97	93
School and tertiary education						
University Tutor	ROL	None	494/191	\$53,747	36	24
Vocational Education Teacher	ROL	TSS (4 years, regional areas)	494/191	\$91,311	80	60
Primary School Teacher	STSOL	TSS (2 years)	186 (limited), 494/191	\$92,160	84	63
Secondary School Teacher	MLTSSL	TSS (4 years)	186, 494/191	\$99,658	90	73
Middle School Teacher	STSOL	TSS (2 years)	186 (limited), 494/191	\$102,437	91	77
University Lecturer	MLTSSL	TSS (4 years)	186, 494/191	\$135,770	96	92
Early childhood education						
Child Care Worker	None	None	None	\$48,158	9	4
Nanny	None	None	None	\$51,557	17	7
Family Day Care Worker	None	None	None	\$55,852	30	15
Early Childhood Teacher	MLTSSL	TSS (4 years)	186, 494/191	\$73,498	56	34
Child Care Centre Manager	MLTSSL	TSS (4 years)	186, 494/191	\$76,835	63	37
Child Care Worker (Group Leaders)	ROL	None	494/191	n/a	n/a	n/a

Notes: STSOL: Short-term Skilled Occupation List. MLTSSL: Medium and Long-term Strategic Skills List. 186: employer sponsored permanent visa. 494: employer-sponsored regional (provisional) visa. The 494 visa is a provisional visa that allows a holder to live and work in regional Australia for up to five years and, if eligible, transition to permanent residency via the 191 visa (the skilled regional permanent visa). It replaced the 187 visa in 2019. Some TSS two-year visa-holders who were in Australia for more than a year during the pandemic will be able to apply for a permanent visa through the 186 temporary residence transition stream (available for two years from July 2022). All six-digit ANZSCO occupations, except pharmacists and registered nurses, which are four-digit 'unit groups'. Income is the total income a person usually receives each week, from the 2021 Census. Some occupations not on skills list, and therefore not eligible for employer sponsorship, or that are only on the ROL, are included in some Designated Area Migration Agreements (DAMAs).

Sources: ABS 2021 Census and Department of Home Affairs (2022).

Ultimately, Australia is unlikely to attract a secure and sustainable care-economy workforce unless wages rise to competitive levels, especially to retain the large migrant workforce in both sectors in Australia on permanent visas. Therefore any expansion of Australia's migration program to bring greater numbers of less-skilled workers into the care economy should focus on supporting workforce needs in the short term only.

5.3.1 Australia faces substantial workforce shortages in many low-paid care-economy jobs

Employers are finding it particularly hard to fill roles in healthcare and the care economy. Job advertisements for these sectors have doubled or tripled since January 2020, with lower-skilled jobs generally having increased the most (Figure 5.1). The pressures of COVID-19 have also burnt out a lot of care-economy and healthcare workers, exacerbating labour shortages in these sectors.²⁴⁸

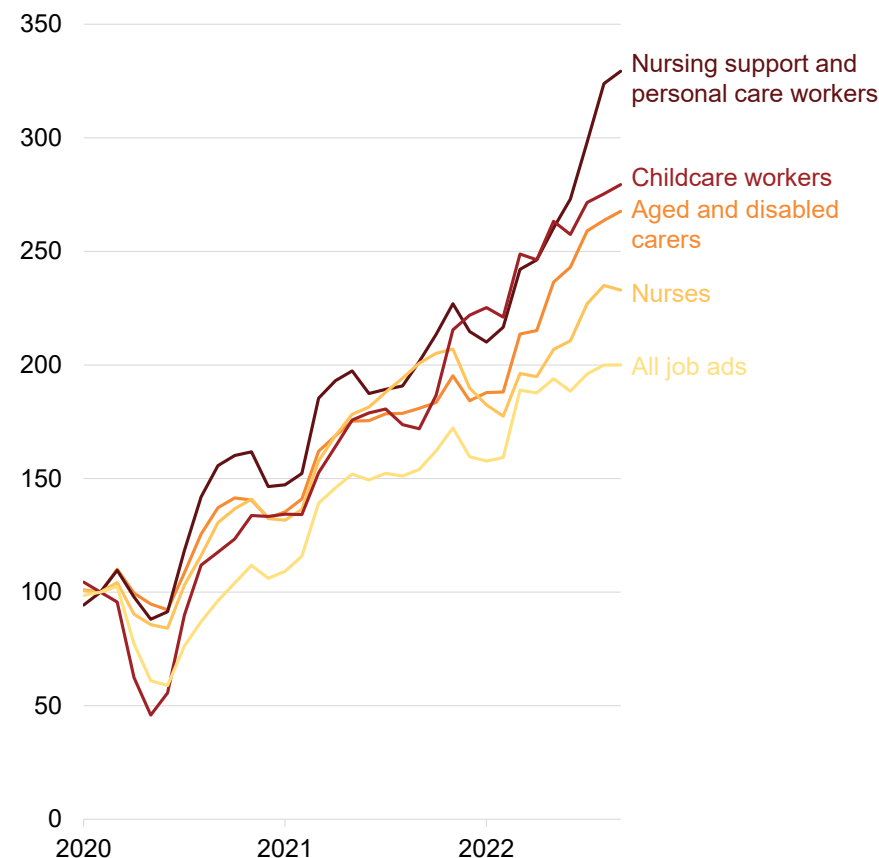
Over the longer term, there are concerns that Australia will be unable to meet its workforce needs in lower-paid care-economy roles as Australia's population ages. And recent government commitments will only increase workforce demands in disability care, aged care and childcare.²⁴⁹ The National Skills Commission forecasts a 'workforce gap' of over 200,000 full-time equivalent (FTE) positions by 2049-50 across the aged, disability and veteran care sectors alone. Forecast workforce shortages are expected to be focused in skill level 4

248. Dean and Massey (2022).

249. For example, the new Federal Government has committed to having a registered nurse on site 24 hours a day, 7 days a week and mandated that every Australian living in aged care receives an average of 215 minutes of care per day (as recommended by the Royal Commission). See Coulter (2022). Similarly, childcare subsidies are increasing from July 2023, so demand for childcare will rise further, increasing the need for more childcare workers.

Figure 5.1: Job ads for lower-skilled occupations in the care economy have increased significantly since the pandemic started

Selected job advertisements, index February 2020 = 100, three-month average



Notes: 'Nurses' includes nurse managers and registered nurses. 'Childcare workers' includes child carers and childcare centre managers. Four-digit ANZSCO unit groups'.

Source: Grattan analysis of National Skills Commission (2022d).

occupations such as 'aged and disabled carers' and 'nursing support and personal care workers'.²⁵⁰

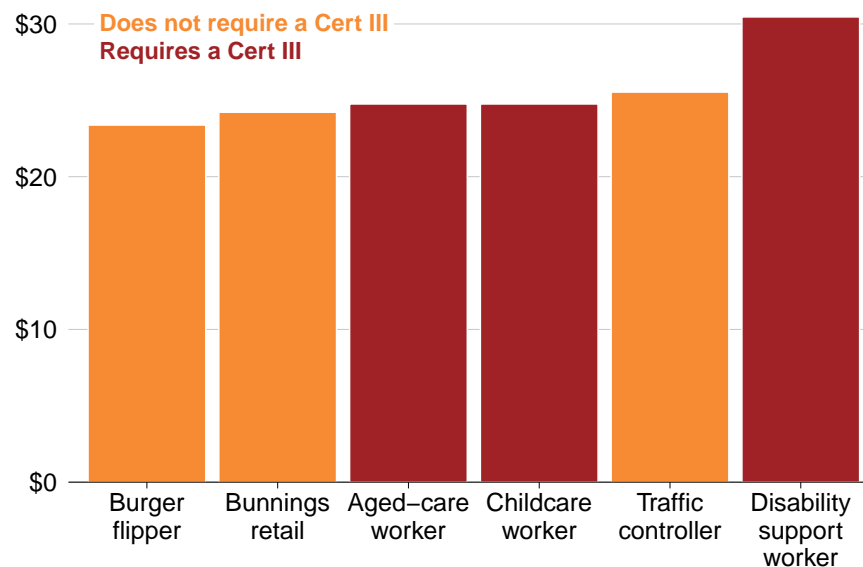
Workforce shortages reflect the low pay on offer in many less-skilled care-economy jobs

Many less-skilled care-economy jobs earn very low wages. For instance, the minimum pay rate for an experienced, full-time personal care worker who bathes and showers an older person at home is \$24.76 per hour – little more than is offered for starting-level jobs in fast food or at Bunnings, jobs that require no formal qualifications – and significantly less than a disability support worker earns (Figure 5.2). Unpaid additional work, split shifts and highly variable hours are common and expected in 'caring' roles traditionally associated with women, who account for the bulk of the care-economy workforce.²⁵¹

Aged-care and childcare workers report feeling underpaid and undervalued. According to a 2019 survey, pay is a key factor for two-thirds of aged-care workers when they decide whether to continue working in the sector.²⁵² One-third of childcare workers plan to leave the sector, and of those who are not planning to leave, half think about leaving regularly.²⁵³

Figure 5.2: Pay for burger-flippers and Bunnings workers is similar to care-economy jobs that demand VET qualifications, but not disability support work

Minimum hourly wages for permanent staff



Notes: Wages at October 2022. Bunnings workers fall under an enterprise agreement, all other occupations calculated using award wages. Childcare, disability support, and aged-care workers require Certificate III qualifications at these levels.

Source: Fair Work Ombudsman (2022) and Shop, Distributive and Allied Employees' Association (2019).

250. However, meeting workforce demand for some skill level 1 occupations such as registered nurses, health and welfare services managers and nurse managers, could also lead to projected shortages in those occupations. See: National Skills Commission (2022e, p. 10).

251. Duckett and Swerissen (2021).

252. Australian Nursing and Midwifery Federation (2019).

253. The main reasons for leaving are workload (73 per cent), low pay (63 per cent), and feeling undervalued (47 per cent) (see Big Steps (2022)).

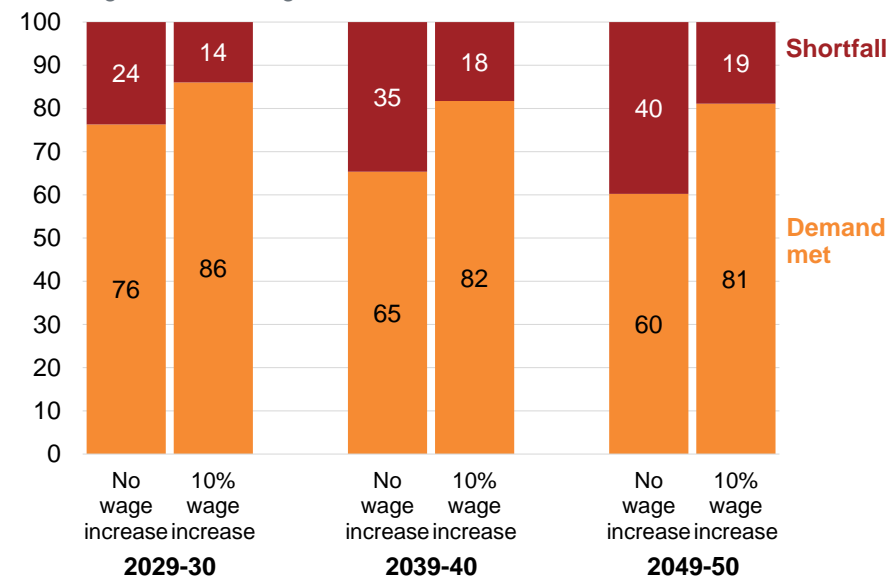
5.3.2 Offering higher wages would close care-economy workforce gaps in the long term

There is good evidence that offering more competitive wages for less-skilled care-economy jobs would close expected workforce gaps in the long term. After all, past shifts in 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, relatively higher wages in the disability sector seem to attract workers from the aged-care sector.²⁵⁴

Modelling done for the National Skills Commission projects that a permanent 10 per cent pay rise for aged-care workers would reduce the project workforce shortage in 2029-30 from 24 per cent to 14 per cent of projected workforce demand (Figure 5.3).²⁵⁵ The modelling suggests that a 25 per cent pay increase, as demanded by unions in a case before the Fair Work Commission, could almost completely close the predicted workforce shortages in the aged-care sector. However, this modelling assumes other care-economy sectors do not raise wages to retain workers, in which case a larger wage rise may be needed to fill workforce shortages across the care economy as a whole.

The Fair Work Commission has already approved an interim 15 per cent pay increase, but is yet to set out a timeline for its implementation.²⁵⁶

Figure 5.3: Higher wages will reduce care-economy workforce shortages
Percentage of aged-care workforce demand met, with and without a 10 per cent wage increase in aged care



Notes: Modelled 10 per cent permanent wage increase for three occupations: aged and disabled carers, nursing support and personal care workers, welfare support workers (which together make up approximately two-thirds of the total care and support workforce). Assumes wages are not raised in other occupations, and employers of workers moving into the care and support workforce do not attempt to retain their staff.
Source: Grattan analysis of National Skills Commission (2022e, Figures 330 and 333).

254. Community Affairs References Committee (2017).

255. A 10 per cent wage rise would reduce the projected aged-care workforce shortage by 2049-50 from 211,000 people (or 40 per cent of projected demand) to around 97,000 (19 per cent of projected demand). See: National Skills Commission (2022e, Figures 330 and 333).

256. Fair Work Commission (2022).

5.3.3 But government funding is the constraint on higher pay

Workforce shortages in many low-paid care-economy jobs appear to persist because government-funded health, aged and disability care services have historically been unable, or unwilling, to raise wages to secure additional workers, especially for lower-wage jobs.

Government aged-care regulation and funding effectively caps wages. Aged-care pricing is tightly regulated and government funds most of the cost – covering 80 per cent of the cost of residential aged care and around 90 per cent of home-based aged care.²⁵⁷ Federal government expenditure on aged-care costs is expected to rise rapidly in future, from 1.2 per cent of GDP in 2021-22 to around 2.1 per cent of GDP in 2060-61.²⁵⁸

Childcare providers have more pricing power than aged-care providers, but are still limited by fee caps set by the federal government as part of the Child Care Subsidy.²⁵⁹ A substantial increase in childcare workers' wages is likely to require further government subsidies to avoid raising effective marginal tax rates for secondary earners, including many women. Higher marginal tax rates for those workers would impede the government's objectives of boosting female workforce participation.²⁶⁰

Higher wages in growing sectors such as aged, health and disability care would add to the budgetary pressures of an ageing population. For example, recent Grattan Institute work suggests that a 25 per cent

increase in pay for less-skilled aged-care workers currently before the Fair Work Commission could cost about \$3.4 billion today, and much more in future as Australia's population ages.²⁶¹ Raising wages for aged-care workers may also encourage workers to shift from other sectors, notably childcare and disability care – unless wages in these sectors also go up.²⁶²

However, it is important to note that the budgetary cost of higher pay for many care-economy workers is not the true cost of those higher wages to the Australian community. That's because higher wages for care-economy workers, paid for by government, are essentially a transfer from all taxpayers to care-economy workers. In fact, the true economic cost of paying higher aged-care wages is the cost of raising the extra revenue via higher taxation and so reducing economic activity by distorting workers and firms' incentives to work, save and invest.²⁶³ Nonetheless, the direct budgetary costs to government of paying higher wages could be offset by the substantial additional fiscal dividend arising from prioritising higher-wage, higher-skilled workers for permanent skilled visas, as recommended in Chapter 3. In effect, this would see skilled migrants pay the higher wages of care economy

257. Commonwealth of Australia (2021). The persistent use of refundable residential aged care bonds gives many the impression that user outlays on aged care are large. But in practice bonds are effectively a pre-paid bequest and are returned to residents (or their estate) when they leave the facility or pass away. See: Coates and Nolan (2020).

258. Commonwealth of Australia (2021, p. 92).

259. The Australian Competition and Consumer Commission is undertaking an inquiry into the supply of childcare services in Australia and is due to report in December 2023. See: Australian Competition and Consumer Commission (2022).

260. See: D. Wood (2022).

261. Assumes wages rise by the full 25 per cent for all workers covered by the award, including those currently paid above the minimum award rate. This estimate excludes other employer costs such as payroll tax or workers compensation, which would add further to the total cost of the pay rise. See: Read (2022).

262. If care-economy wages rise, then workers might move from other low-wage industries, such as hospitality. Evidence from the United States suggests this would not create a persistent shortage of lower skill workers (see Clemens et al (2018)). When faced with labour shortages or higher wages, other sectors will invest in capital and other productivity improvements.

263. This is commonly referred to as the 'marginal excess burden of taxation'. For instance, the marginal excess burden for personal income tax – the most likely candidate for tax rises to pay for higher wages – is typically between 20 and 40 cents for each dollar of tax raised, according to recent Australian estimates. See: C. Tran and Wende (2017) and Nassios et al (2019).

workers, without the need to levy higher taxes on Australians to pay for it.

Yet even if wages for low-paid care-economy workers rise, it will take some time for the changes to flow through to workers' pay packets, and for Australia's labour market to adjust. For instance, the National Skills Commission projects that a 10 per cent wage rise in aged care would halve the projected workforce shortfall by 2050, but by only one third by 2029-30 (Figure 5.3).

5.3.4 Many less-skilled migrants already work in the care economy on permanent visas

Australia already facilitates the migration of many less-skilled migrants, typically via permanent humanitarian visas, the permanent family program – as the spouses of Australians – and as the spouses of permanent skilled migrants, as well as international students, working holiday makers, Pacific migrants and New Zealanders here on temporary visas (Figure 1.3). Migrants holding these visas already account for around 20 per cent of the aged care and childcare workforces (Figure 5.5). It should be noted, however, that migrants with experience in more-skilled roles in both sectors – such as nurses and kindergarten teachers – are already eligible for temporary and permanent skilled migration (Table 5.1).

Of the migrants working in aged care, most are here on permanent visas via the family and humanitarian programs, or as the spouses of permanent skilled visa-holders (Figure 5.4).²⁶⁴ Some aged-care workers hold a temporary visa, the largest group of whom are New Zealand citizens, followed by international students. But the aged-care sector has only a small number of workers who hold a

264. The story hasn't changed much since 2016: most aged-care workers were born in Australia or are long-term residents. See: Mackey et al (2022, Figure 5.5 and Figure 5.6).

TSS visa as a primary applicant, and these workers are in high-wage jobs such as managers and nurses. Carers, cleaners, and other low-wage jobs are currently ineligible for the TSS visa under standard sponsorship rules.²⁶⁵

The situation is similar in childcare, where only 6 per cent of the workforce are temporary visa-holders. New Zealand migrants make up about half of the temporary visa-holders working in childcare; other temporary migrants account for a small share of the workforce (Figure 5.5). Most of the migrants working in the sector in less-skilled jobs are partners of permanent skilled visa-holders or are the spouses of Australians who have moved here via the permanent family visa stream.

If the 2022-23 planned permanent intake of 195,000 permanent migrants and 15,500 humanitarian migrants is maintained over the next decade, about 1.4 million people will be granted permanent visas to Australia on a basis other than their skills, including around 1 million people over the age of 19 years. On past trends, nearly half are likely to work in skill level 4 and 5 occupations, such as low-skilled care-economy jobs (Figure 1.4). A sizeable share of this cohort is likely to end up employed in the care economy, provided that the wages offered are competitive.

5.3.5 Expanding less-skilled care migration would hurt the wages of our existing highly-feminised caring workforce

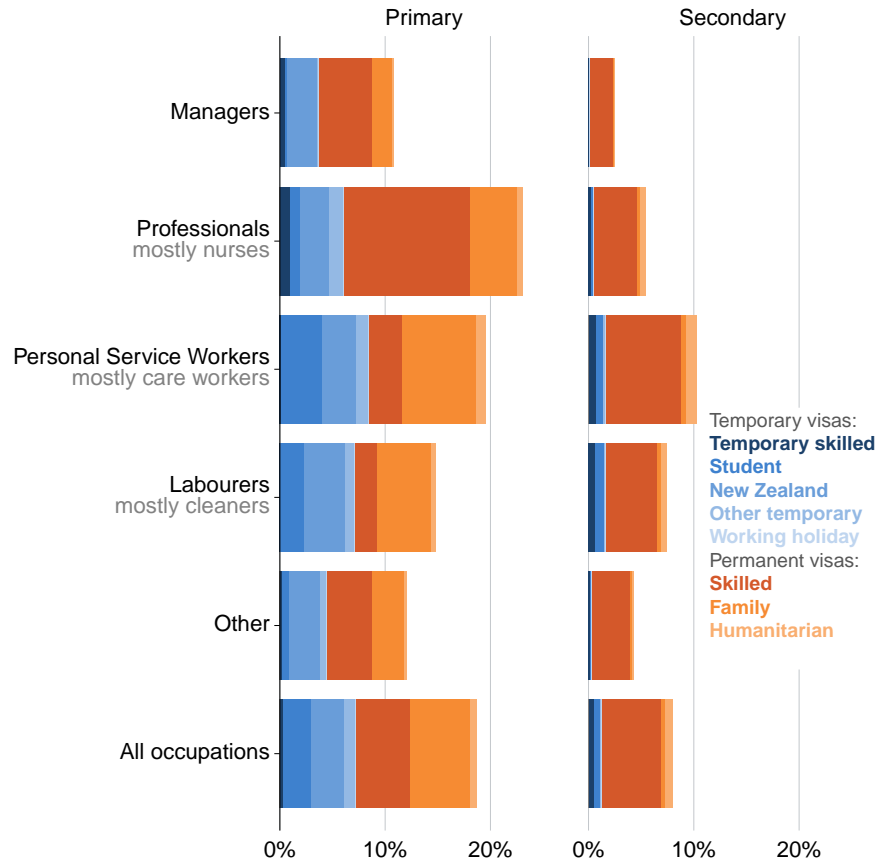
A large expansion in migration to fill less-skilled care-economy jobs risks suppressing the wages of Australia's already low-paid and highly feminised care-economy workforce.

In general, selective migration that gives priority to high-skilled workers tends to reduce wage inequality between high- and low-skilled

265. Except for a limited number of Designated Area Migration Agreements.

Figure 5.4: Most migrants working in the aged-care sector are permanent migrants, students or New Zealanders

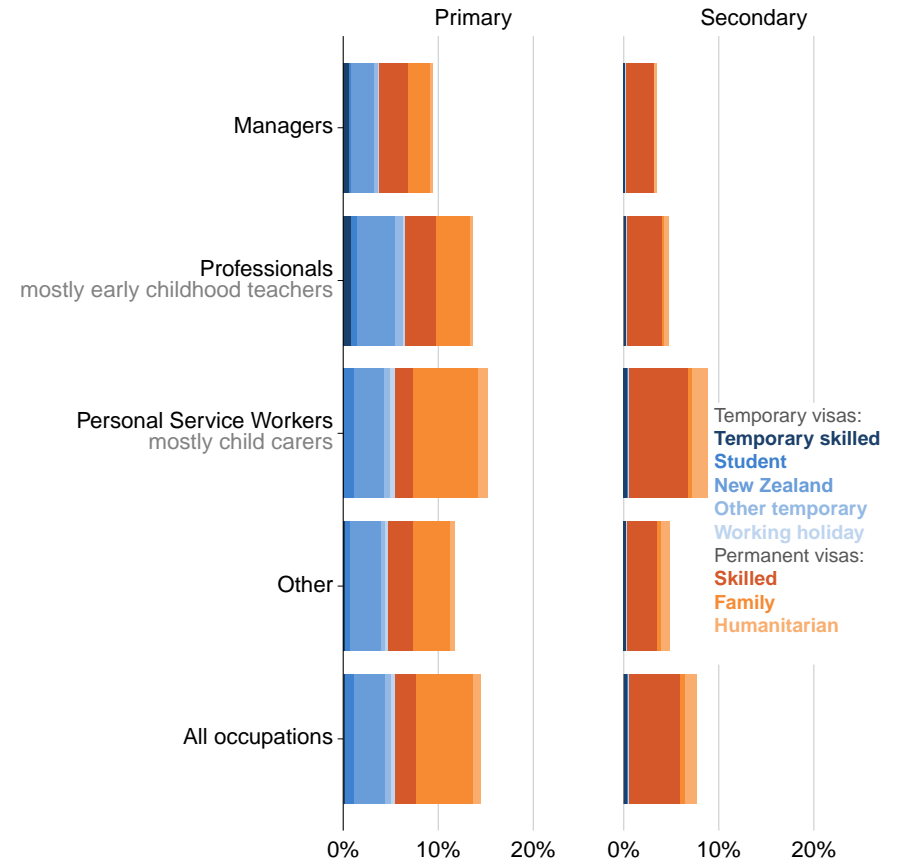
Share of employees in Residential Care Services by occupation, visa and applicant status, 2016



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

Figure 5.5: Most migrants working in the childcare and preschool education sectors are permanent migrants, students or New Zealanders

Share of employees in the Preschool Education and Child Care sectors by occupation, visa and applicant status, 2016



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

incumbent workers, whereas migration concentrated on low-skilled workers is more likely to suppress the wages of low-skilled incumbent workers (Box 4). If large-scale migration of care-economy workers was used to alleviate workforce shortages, it would also reduce pressures for governments to increase the pay of care-economy workers, forestalling pay rises for some of Australia's lowest-paid workers and hindering efforts to close the gender pay gap.

5.3.6 Expanding less-skilled migration risks increasing the exploitation of migrant workers

Recruiting more lower-skilled migrants to fill care-economy jobs in Australia increases the risk that they will be exploited once here. Where migrants' labour rights are not enforced, this can hurt the wages of similarly-skilled incumbent Australians employed in the same sectors. In addition to the harm caused to those being exploited, any increase in the mistreatment of temporary migrants also puts at risk the wider benefits to the community of a well-functioning visa program. Exploitation of migrant workers undermines public confidence in the system.

Exploitation is much more likely to occur in low-skill, low-wage jobs. Less-skilled migrants have less bargaining power and are not well placed to protect themselves from being exploited. Temporary sponsorship of low-wage workers, in particular, increases the risk of exploitation, especially if they are required to work in the care economy as a condition of their visa. As Chapter 2 showed, temporary sponsored migrants who start out earning less than \$70,000 a year – much more than is typically on offer in less-skilled care-economy jobs – see little or no real pay rises once in Australia (Figure 2.6).

The Pacific Australia Labour Mobility (PALM) Scheme, which targets low-wage temporary migrants, adopts a stronger regulatory

framework than the TSS visa (Box 10).²⁶⁶ Yet even under these more highly-regulated visas, exploitation and mistreatment occurs. Low-wage workers are poorly placed to protect themselves from employers who are prepared to break the law.²⁶⁷

Visa design may be able to reduce the chances that migrants are exploited. Allowing migrants to change employers if there are issues with their pay and conditions would reduce the likelihood of exploitation and help right the balance of power between employer and employee.²⁶⁸

5.3.7 Increasing the number of less-skilled temporary visa-holders would exacerbate concerns about a 'guest-worker' society

A new long-term, low-skilled temporary visa stream targeting the care-economy workforce would need to offer many visas each year if it were to tackle projected workforce shortages in any meaningful way. But a large program would add substantially to the number of long-term temporary migrants in Australia with limited political rights. It would move Australia closer to a traditional guest-worker model in which a cohort of subordinate, always-temporary migrants are continuously swapped out and replaced, before they can acquire the rights and entitlements that come with full membership of the community.²⁶⁹

These less-skilled temporary visa-holders would also sit at the back of the queue, or remain outright ineligible, for permanent residency, both under existing permanent skilled-visa pathways and under the

266. The PALM replaced the Pacific Labour Scheme visa and the Seasonal Worker Program visa. This visa is designed, in part, to fulfil Australia's foreign and development policy priorities. See: Department of Home Affairs (2022m).

267. Worker mistreatment under these visas is regularly reported in the media. See: Marie (2022).

268. Although not as much as if they were allowed to work in any industry.

269. Mares (2022).

proposed changes to employer-sponsored permanent visas outlined in this submission. There would inevitably be pressure to find a pathway to permanent residency for any less-skilled visa-holders working in the care economy.²⁷⁰

5.3.8 Offering pathways to permanent residency could resolve some, but not all, of these concerns

Offering permanent visas to less-skilled migrant workers in the care economy would partly, but not fully, alleviate many of the concerns about offering care-economy workers temporary visas. For instance, offering a pathway to permanent residency would reduce the risks that less-skilled migrants working in the care economy are exploited, since permanent residents are free to work in whatever industry they choose. But even if permanent residency is eventually offered, care-economy migrant workers would still experience an extended period in Australia on a temporary visa, during which they would remain vulnerable to exploitation.²⁷¹ Permanent residency, if only offered at the discretion of the sponsoring employer, may also increase employers' bargaining power, increasing exploitation risks.

Offering a pathway to permanent residency would also alleviate concerns that any care-economy migrant worker program would take Australia further down the path to becoming a guest-worker society. But creating a pathway to permanent residency may also encourage additional care-economy workers to migrate and to stay longer in Australia, unless the program is capped, increasing the stock of temporary visa-holders in Australia with limited political rights.

270. For example, the ACTU argues 'Australia's migration system must be reset to a system based on permanent migration, where migrant workers are given security, have their rights respected, and are able to settle here with their families and become a permanent part of our communities.' See: ACTU (2022).

271. For example, CEDA has recommended a temporary four-year Essential Skills visa, with the prospect of permanent residency at the end of that period. See: The Committee for Economic Development of Australia (2022).

Box 10: The Pacific Australia Labour Mobility (PALM) scheme is small

The Pacific Australia Labour Mobility (PALM) scheme allows Australian businesses to hire workers from nine Pacific island countries and Timor-Leste.^a The PALM replaced the Pacific Labour Scheme visa and the Seasonal Worker Program visa. It is designed to help to fill labour gaps in regional and rural Australia, while also fulfilling the government's foreign policy objectives.

Sponsoring employers, who must be in a regional or rural location, can access workers for seasonal work and for between one and five years. Once in Australia, Pacific workers are briefed by the Fair Work Ombudsman on their workplace rights and obligations.

As at November 2022, there were 33,713 PALM workers in Australia. Most work in agriculture and meat processing. Just 473 work in aged care.^b The government intends to increase the number of PALM scheme workers in Australia to approximately 35,000 by June 2023.^c A further 500 aged-care workers are expected to participate in the scheme, completing their Certificate III in Individual Support (Ageing), by the end of 2023.^d

- a. Australian Government (2022b).
- b. Data supplied by the Department of Employment and Workplace Relations. There is also a pilot scheme with Fiji to train Fijian aged-care workers under the PALM scheme, with 80 workers trained in 2022.
- c. Department of Foreign Affairs and Trade (2022b).
- d. Ibid.

Any move to offer permanent residency to less-skilled care-economy workers also entails large long-term costs. And unless wages rise to competitive levels, it would likely prove ineffective as a way of solving care-economy workforce shortages.

5.3.9 Compromising the composition of the permanent skilled migrant intake would have large fiscal costs

With the total number of permanent visas available each year capped at 195,000, granting permanent residency to less-skilled temporary visa-holders would mean either displacing visa-holders with more skills – which would leave the Australian community worse off overall – or expanding the size of the permanent intake (Section 2.10).²⁷² In either case, expanding the permanent migrant intake to alleviate less-skilled workforce shortages in the care economy won't be the best way to use the limited number of permanent visas made available each year.

For example, a targeted migration program offering just 5,000 permanent visas a year to fill workforce shortages in low-paid roles in the care economy, could entail significant costs or benefits to government budgets. The budget impacts will depend on where the extra visas come from (Figure 5.6).²⁷³

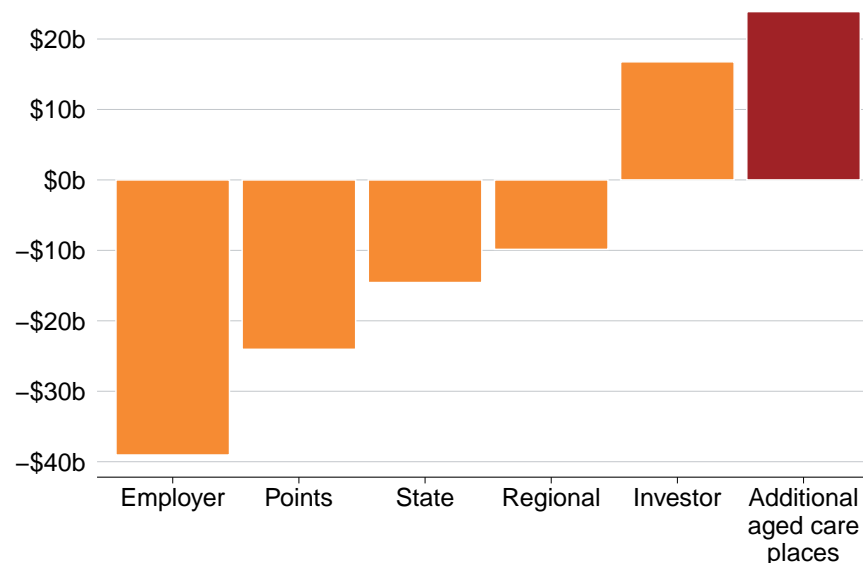
If the aged care visa was issued in lieu of other skilled visa streams, which select young and higher-wage migrants, then there would be very large fiscal costs. However, if the aged care visa were offered in place of the Business Innovation and Investment Program (BIIP) visa, the long-term fiscal impact would be positive. As shown in Chapter 3, the BIIP visa selects older people, who spend less time working in

272. Alternatively, permanent care-economy visas could replace part of Australia's permanent humanitarian or family stream intakes.

273. In practice, a much larger program would likely be needed to fill care-economy workforce shortages in the absence of significant pay rises to make these jobs attractive to Australians and migrants alike.

Figure 5.6: The long-term costs of a permanent aged care visa depend on where the additional visa places come from

Fiscal impact of 5,000 aged care visas over 30 years by which visa the additional places come from, 2022 dollars (billions)



Notes: See Figure 3.8 for base model assumptions. Assumes no changes to secondary applicants. Aged care visas are simulated using the age of state-nominated visa-holders and lifetime wage paths of workers with a Certificate III, Certificate IV, Diploma or Advanced Diploma. Ignores effects of temporary visa-holders choosing to remain in Australia, in absence of receiving a permanent visa.

Source: Grattan analysis of Varela et al (2021), Department of Home Affairs (2021b), Parsonage and Young (2018) and ABS (2022e).

Australia before they start drawing down on the aged care and pension systems.

Alternatively, expanding the size of the permanent migrant intake, and allocating those visas to less-skilled care-economy workers, would offer a fiscal dividend of over \$24 billion (in today's dollars) over the next three decades and \$3.5 billion in the first decade. But, as noted previously, increasing the intake would also impose other costs, such as adding to pressure on Australia's already tight rental markets and exacerbating urban congestion (Chapter 2).

In any case, Australia would be foregoing the much-larger benefits of a bigger permanent intake if those visas were instead allocated to more-skilled workers. For instance, expanding the number of Skilled Independent points-tested visas on offer by 5,000 a year would offer a fiscal dividend alone of nearly \$50 billion (in today's dollars) over the next three decades, more than double the dividend if those visas are instead offered to less-skilled care-economy workers.

5.3.10 Offering permanent visas reduces the program's capacity to address care-economy workforce shortages

Offering care-economy workers permanent visas would reduce the risks to Australia's migration program outlined above. However, once granted permanent residency, migrants would be free to choose to work in whatever sector they wish. Like most Australians they will likely choose higher-paid jobs in other sectors unless pay in the care economy increases. Among working migrants who arrived in Australia between 2011 and 2015, fewer than half of those who started off as 'community and personal service workers' were still working in that occupation by 2019.²⁷⁴

274. Grattan analysis of ABS (2021c).

So unless wages rise to competitive levels, care-economy workforce shortages are likely to persist in the long term. And in the interim Australia risks compromising the composition of Australia's permanent skilled migrant intake, with significant long-term costs for the Australian community.

Ultimately, changes to migration rules to allow care workers to come to Australia may help address workforce shortages in the short term. But in the long term, Australia will only resolve current workforce shortages if care-economy jobs offer competitive wages that better reflect the value to society these workers create and what they demand of workers.²⁷⁵

5.4 Any visa for less-skilled care-economy workers should be offered for a limited time while wages rise

This chapter demonstrates the big potential risks and costs of expanding less-skilled economic migration, including into the care economy. And it shows that raising wages of care-economy workers to competitive levels is the only way to alleviate workforce shortages in the long term.

Yet even if the federal government commits to raising care-economy wages, it may decide it has no choice but to facilitate additional less-skilled migration to overcome workforce shortages in the short term and ensure an adequate standard of care. Should that occur, any new visa pathways for less-skilled care-economy workers should be offered for a limited time, to maintain standards of care in the short term, and the duration of the visa program should be explicitly tied to a federal government commitment to raise wages to competitive levels as soon as possible.

275. Fair Work Commission (2022).

Minimum standards for existing temporary and permanent skilled visas should not be relaxed to accommodate less-skilled care-economy workers who earn well below the existing TSMIT of \$53,900 a year. Doing so will intensify demands from other industries to relax visa rules for both temporary and permanent skilled migration and secure additional less-skilled migrant workers.

Instead any move by the federal government to facilitate less-skilled migration should be achieved by establishing a new standalone visa explicitly aimed at the care economy. Applicants would need to work in an area of critical need such as aged care, childcare, disability or healthcare. Workers should not be restricted to a given geographic location and the visa should be portable so that workers may change employer or their location of employment.

Increasing the number of temporary migrants in Australia would inevitably lead to calls for migrants to be offered pathways to permanent residency. If permanent visas are offered to attract less-skilled care-economy workers, the visa should be limited to migrants aged under 30 years to maximise the fiscal benefits of any permanent visas offered.

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