



# **Rethinking permanent skilled migration after the pandemic**

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## ***Rethinking permanent skilled migration in one slide***

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### **COVID presents a unique opportunity to reset our migration program**

- Permanent migration determines who stays, drives long-term outcomes

### **Australia should target younger, skilled migrants for permanent visas**

- Younger, skilled migrants earn more, and therefore generate bigger fiscal benefits
- Migrants' impact on incumbent wages is small overall, but the distribution matters
- Productivity spillovers from migration are uncertain but more likely for higher-skilled
- Shouldn't target permanent visas at skills shortages in low-wage jobs

### **Recent changes to the permanent skilled intake go in wrong direction**

- Employer-sponsored & points-tested are younger, more skilled & earn more
- But recent policy changes re-allocate visas to Business Investment & Global Talent

### **Permanent skilled migrant selection needs a re-think**

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

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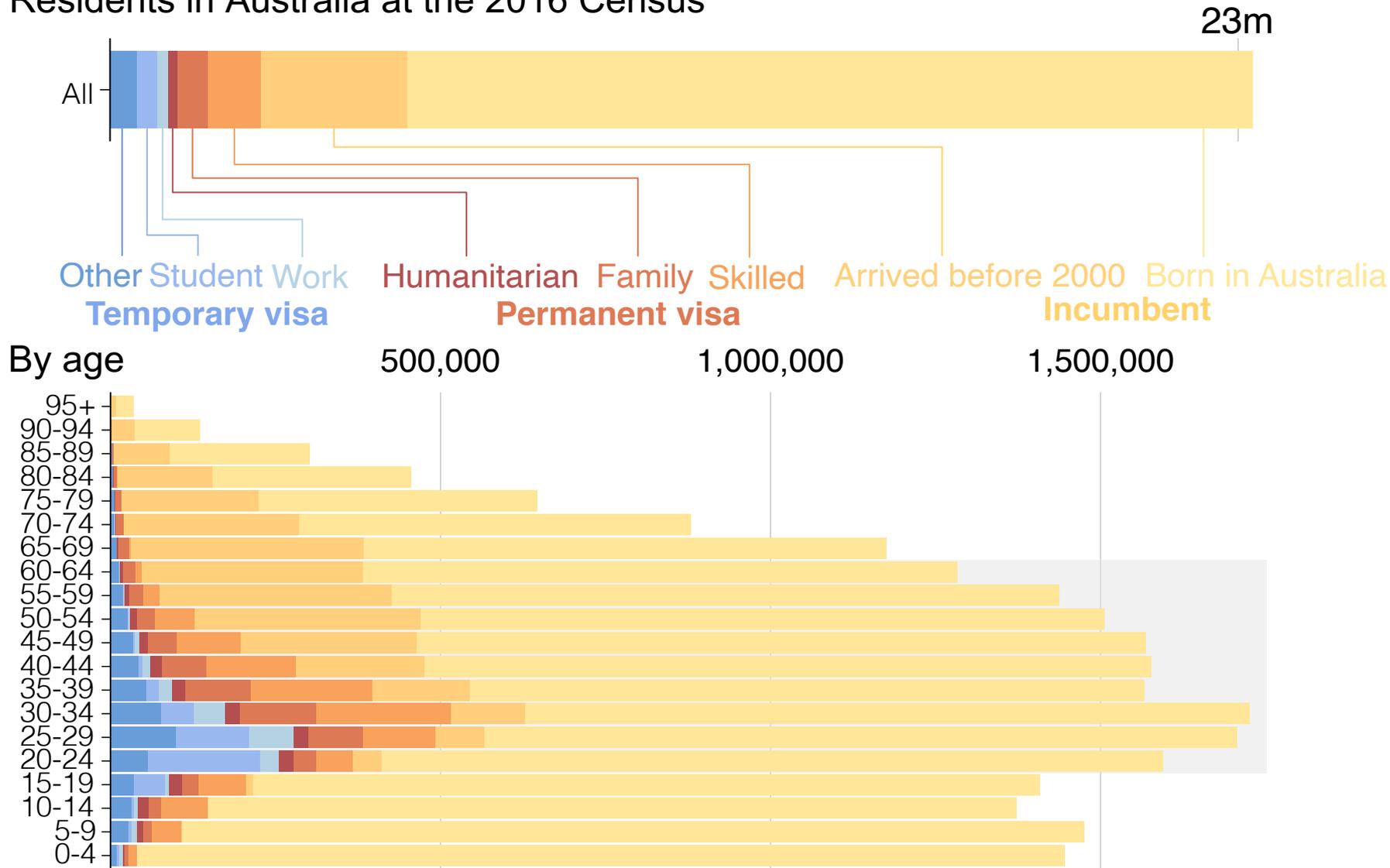
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# Migration is big: more than one-in-four people in Australia aged in their 20s and 30s are (relatively) recent migrants

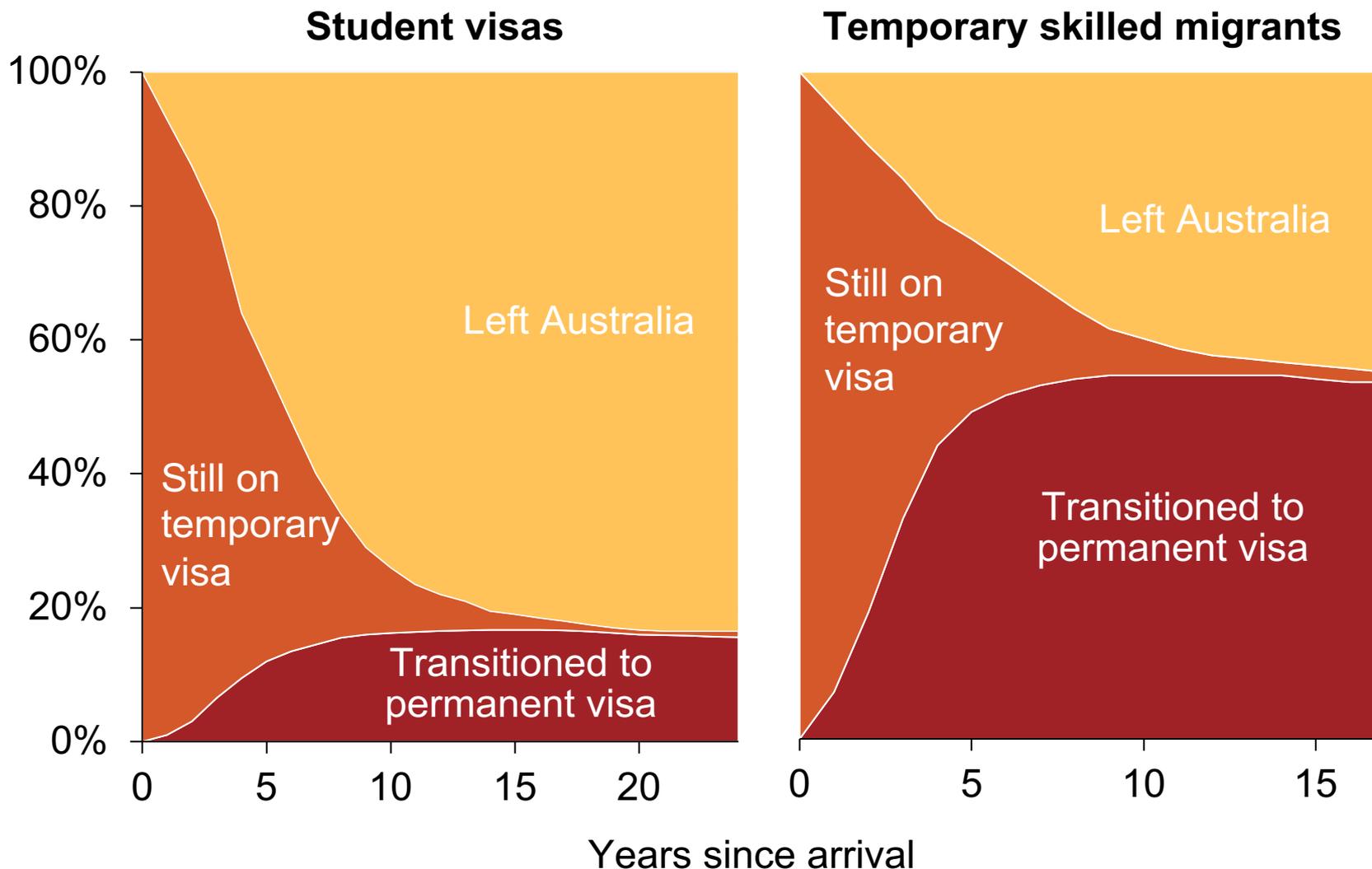
## Residents in Australia at the 2016 Census



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

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

Share of visa holders



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

## Theory

### Little aggregate impact on wages and employment

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

### Concentrated migrant inflows can have big distributional effects

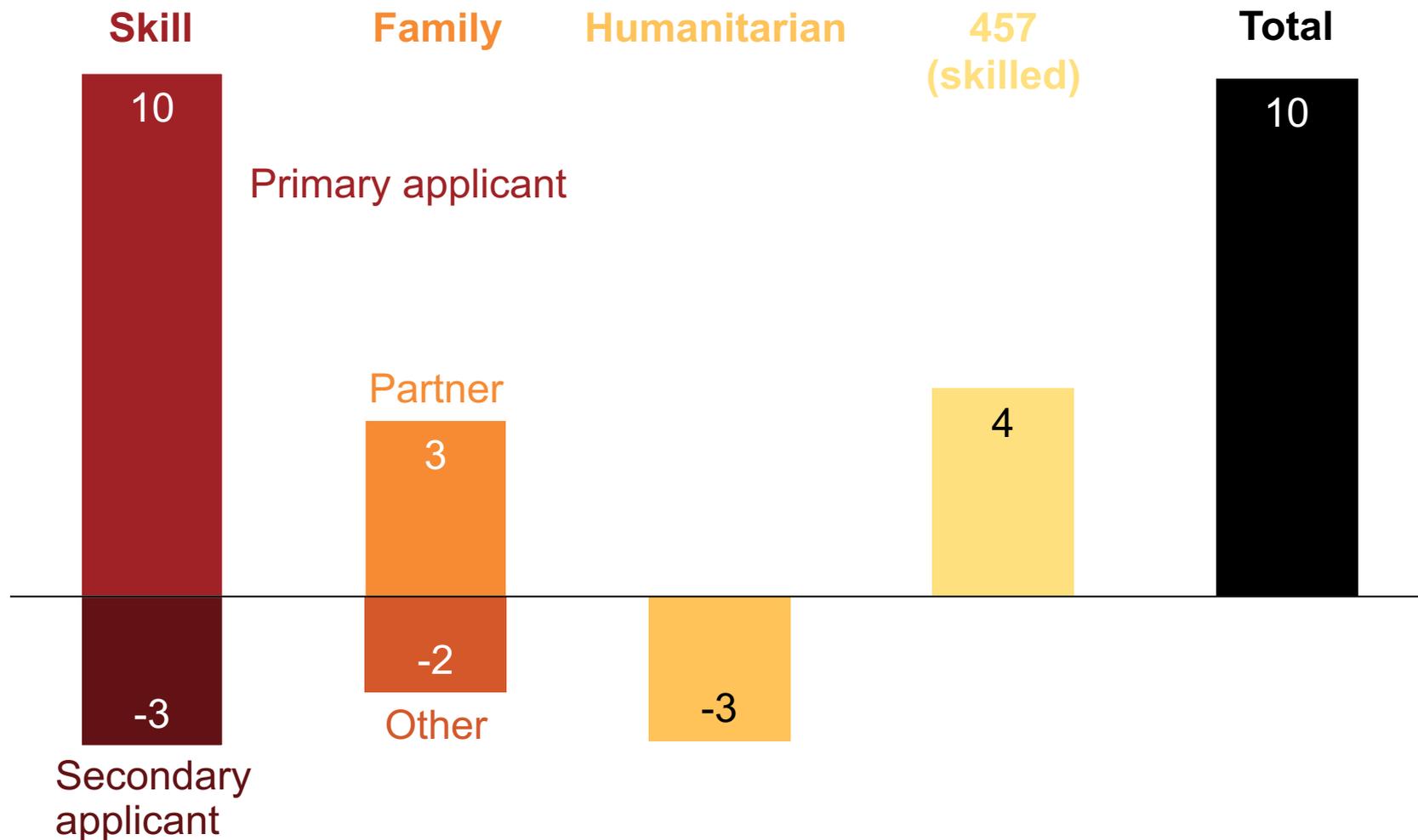
- **Winners:** higher wages for workers with complimentary skills
- **Losers:** lower wages for some with similar skills

## Empirical evidence from Australia:

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

# Modelling suggests migrants' net fiscal impact is positive, but varies substantially across visa classes

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



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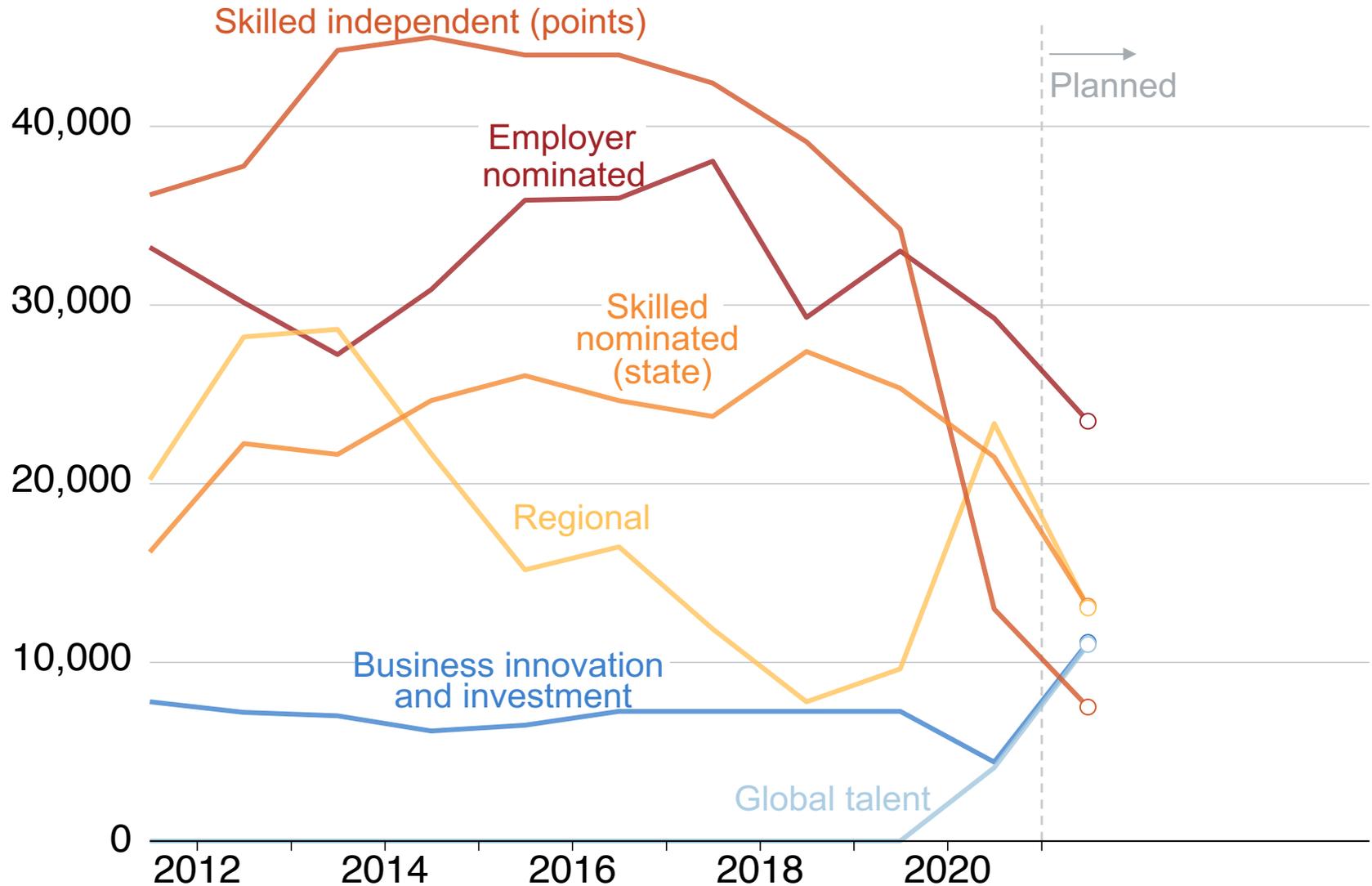
## Permanent skilled migrants are selected through a number of different streams

Visa type	Visa cap (2020-21)	Invitation required	Salary threshold	Age limit	Occupation listed (# listed)	Skills assessed	English (IELTS)
Employer-sponsored	23,500	No	> \$53,900, w contract	45	Yes (212)	No	6.0
Regional: employer	13,150 combined	No	> \$53,900, w contract	45	Yes (650)	Yes	6.0
Regional: points		Yes	No	45	Yes (504)	Yes	7.0 in practice
Points: independent	7,500	Yes	No	45	Yes (212)	Yes	7.0 in practice
Points: state nominated	13,150	Yes	No	45	Yes (415)	Yes	7.0 in practice
Global Talent	11,000	Yes	> \$153,600, w/o contract	55	No	No	N/A
Business Innovation and Investment	11,000	Yes	No	55	No	No	N/A

Notes: States can apply their own criteria. Some Business Innovation and Investment streams differ.

# Australia's permanent skilled migrant intake has shifted in recent years, often for the worse

Annual permanent visa allocation

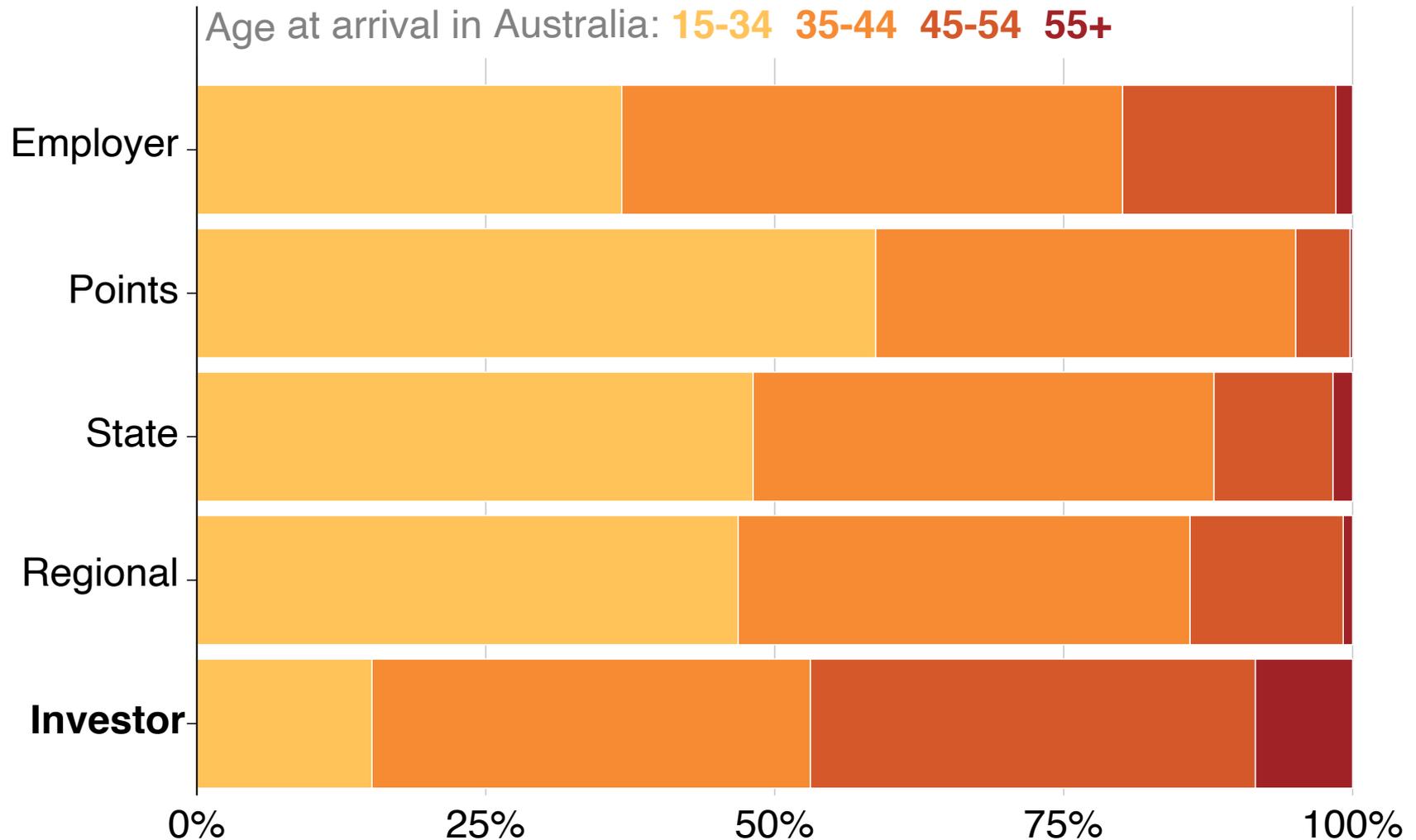


Note: Includes changes to the 2020-21 planning levels specified by Department of Home Affairs officials to Senate estimates on 24 May 2021.

Source: Department of Home Affairs; Hansard evidence 24 May 2021.

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

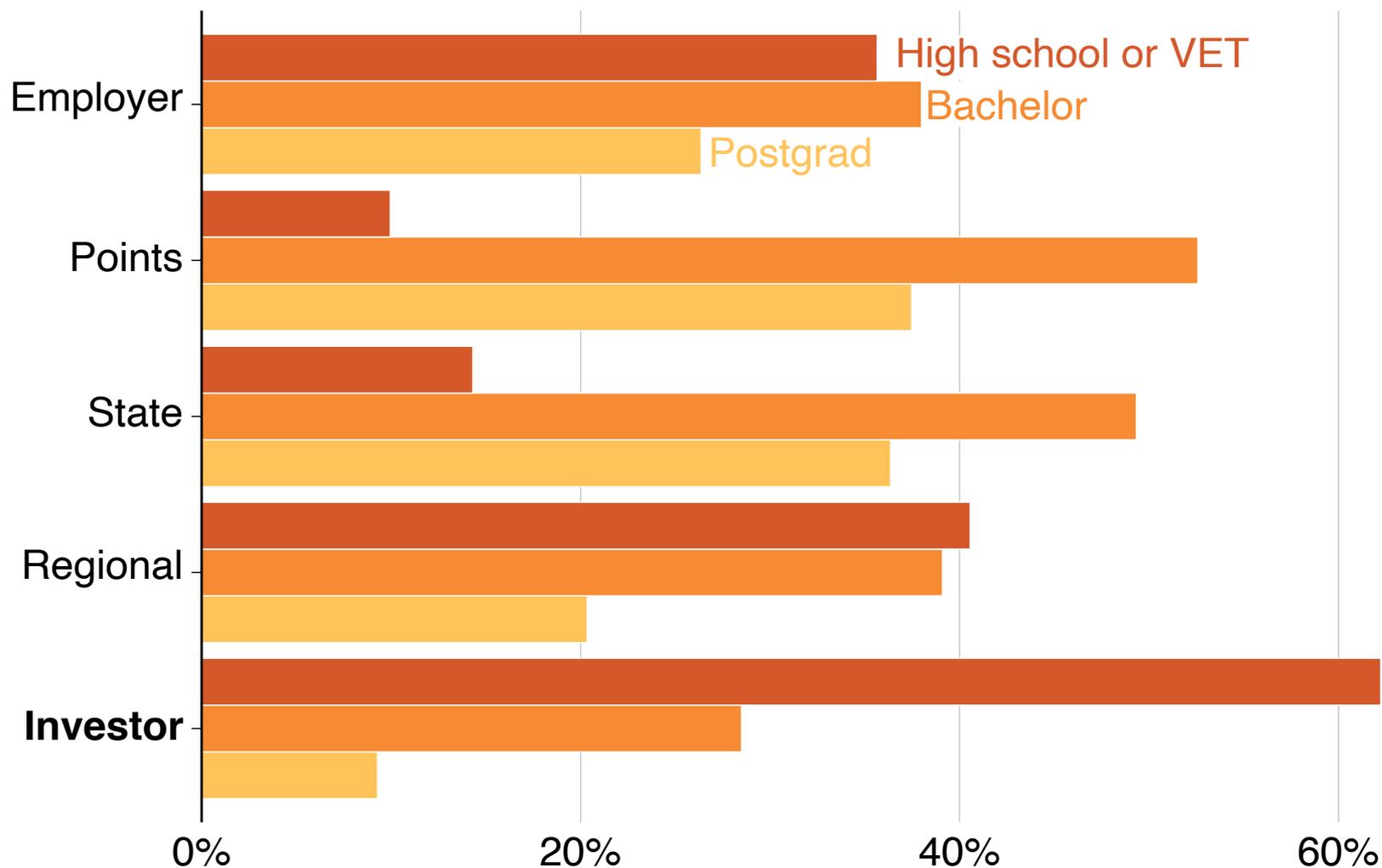
Percent of primary applicants by age and visa stream



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

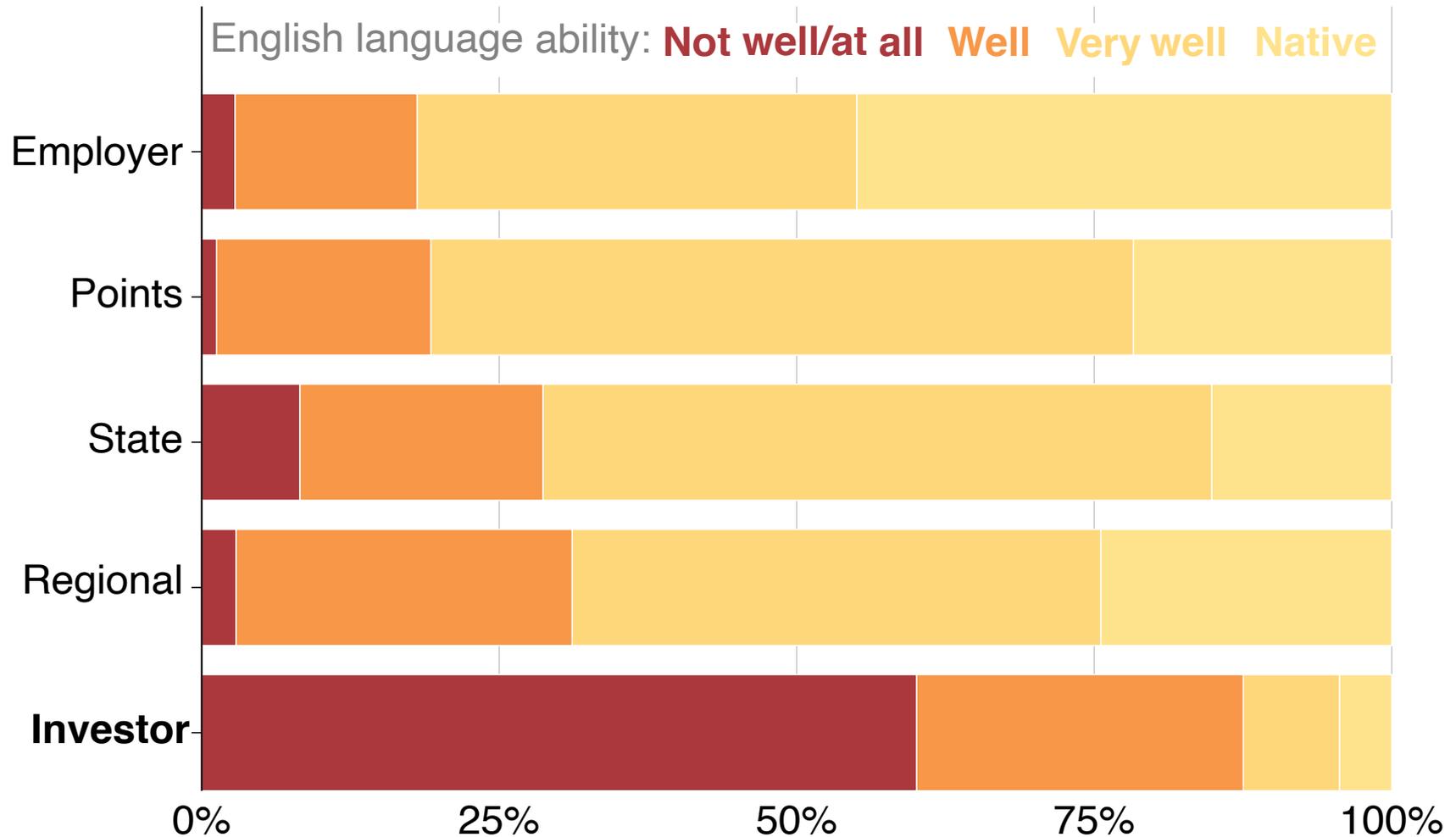
# Points visa-holders are more highly-educated than those in other streams, most investors are high school / VET only

Proportion of primary applicants by education level and visa stream



# Employer-sponsored and points-tested visa holders have good English skills, whereas investors do not

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

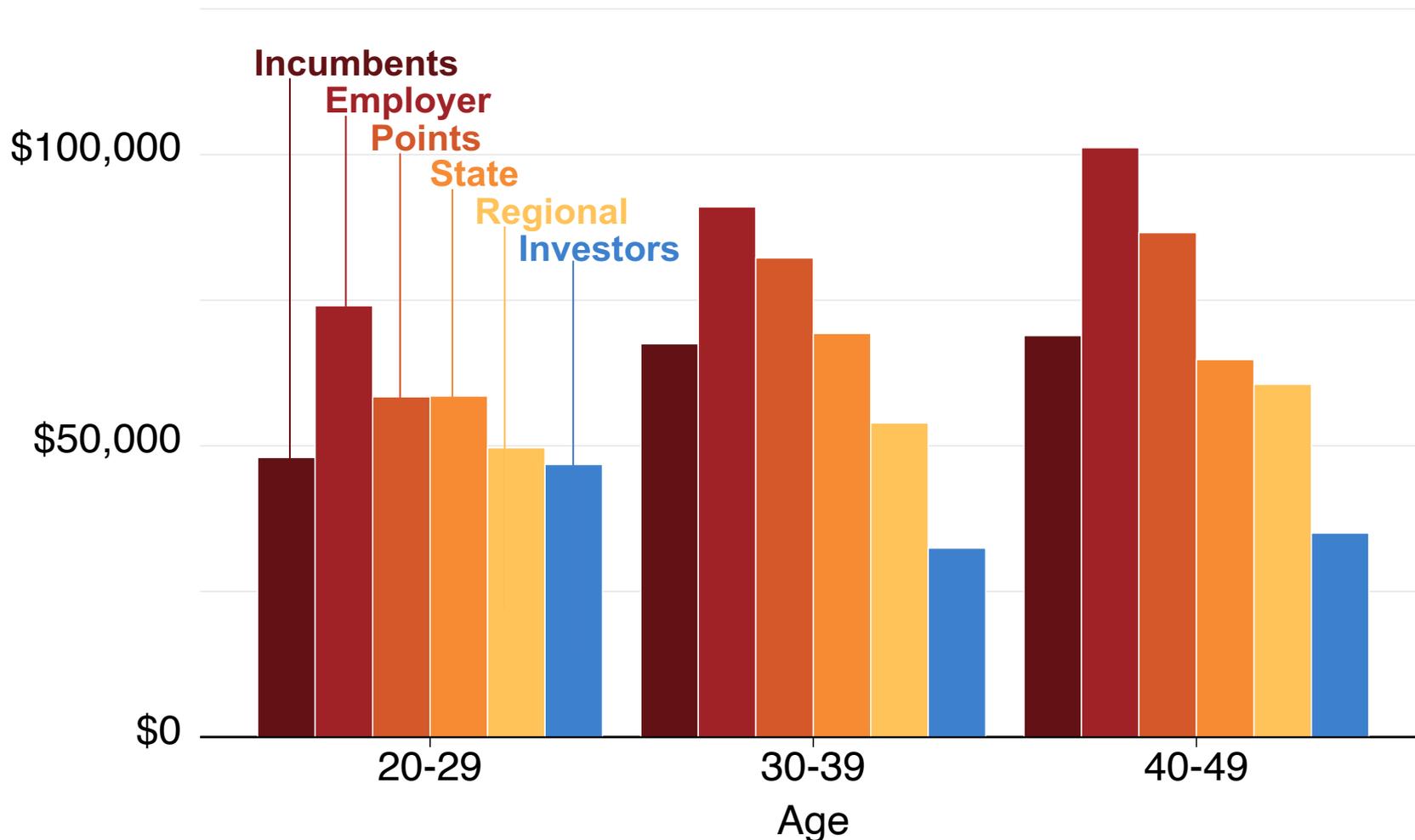


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Source: ABS Australian Census and Migrants Integrated Dataset (2016).

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

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

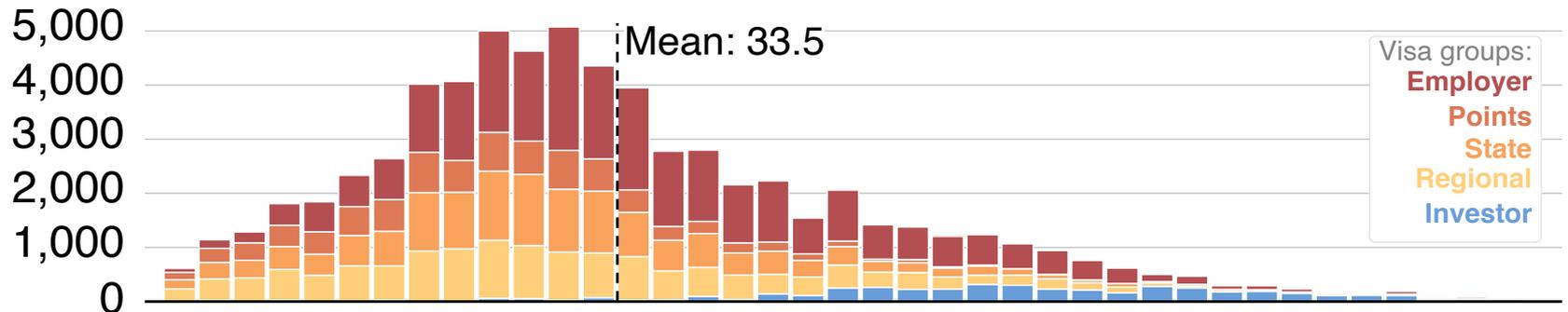


Notes: Residents in Australia in 2016 who arrived on a permanent visa between 2012-2016. Visa class is the first permanent visa granted. Incumbents are residents born in Australia or those who arrived before 2000. Residents with an invalid year of arrival in Australia are excluded. Source: ABS Census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

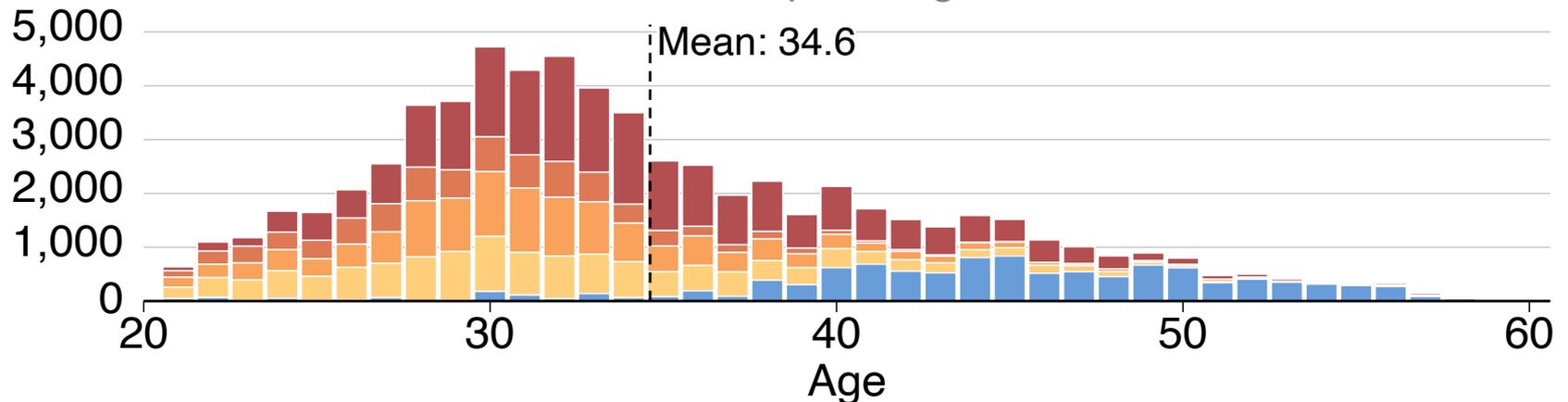
# The Government's proposed permanent migration plan significantly shifts the average of skilled migrants

## Age distribution of skilled primary applicants and their partners

Planning levels with historic investor visa allocation (4,400)



Cohort based on 2020-21 planning levels



Notes: Recent cohort composition assumes the same investor visa migrant intake as the 2013-2018 historical average. Both cohorts shown above exclude the Global Talent visa group. Source: Grattan analysis of CSAM (2013-2018), provided by the Department of Home Affairs.

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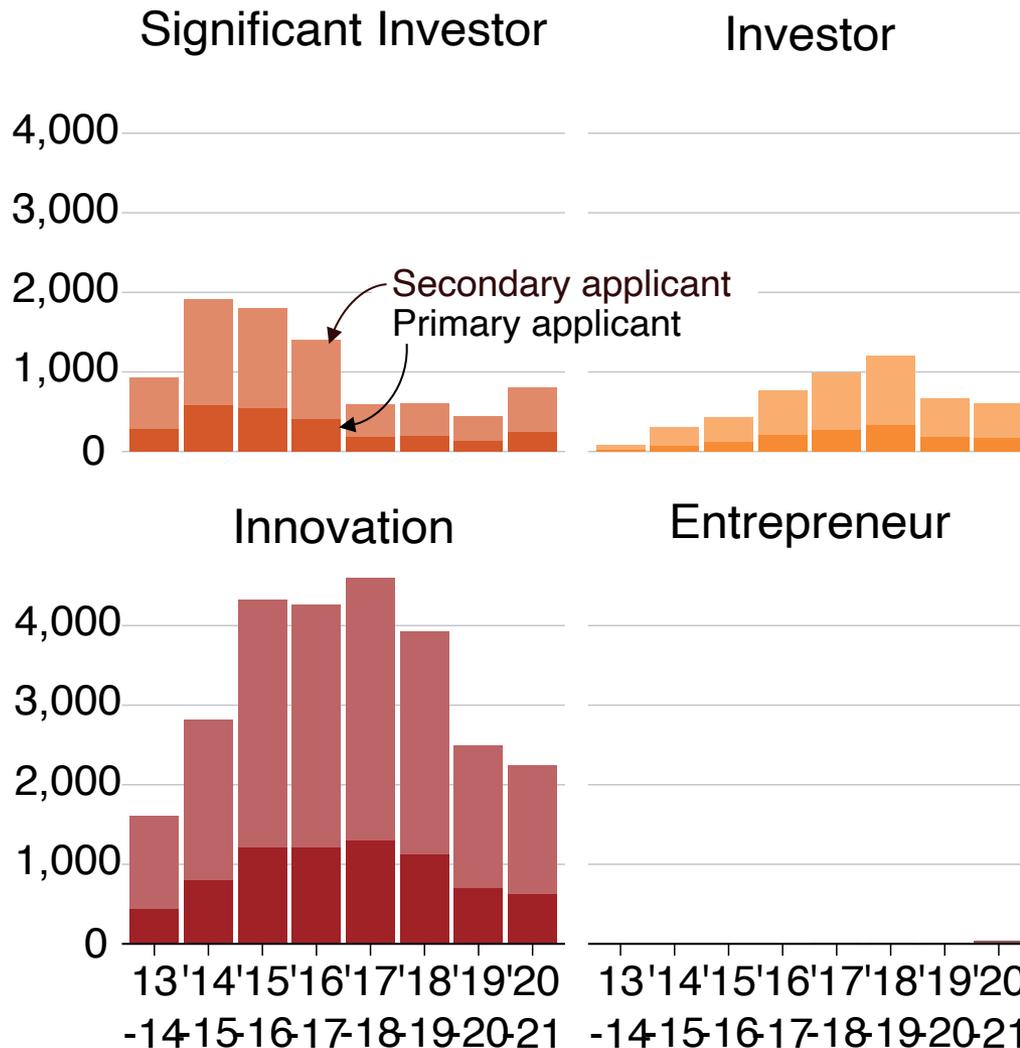
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# The innovation stream accounts for 70 per cent of visas issued via the BIIP

Annual visas issued within each stream of the BIIP



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

Selects migrants who:

- Are older
- Participate less
- Earn lower incomes
- Have poor English skills

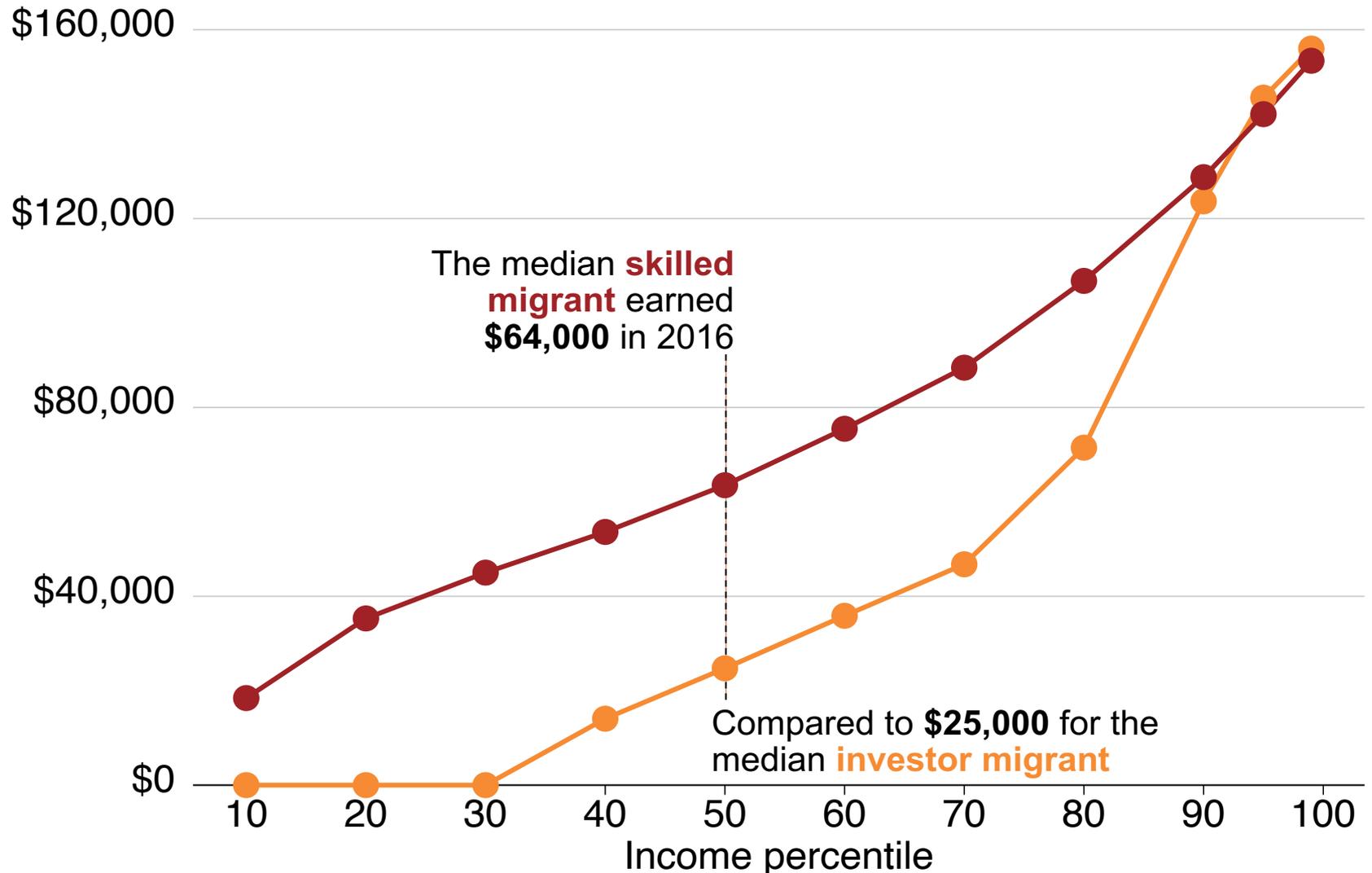
Investment visas not adding to capital stock

- Sizeable investment in liquid securities (NSW Treasuries)
- Some Venture Capital for 'Significant Investor' visa

Underlying rationale is flawed: Australia already has good access to capital markets.

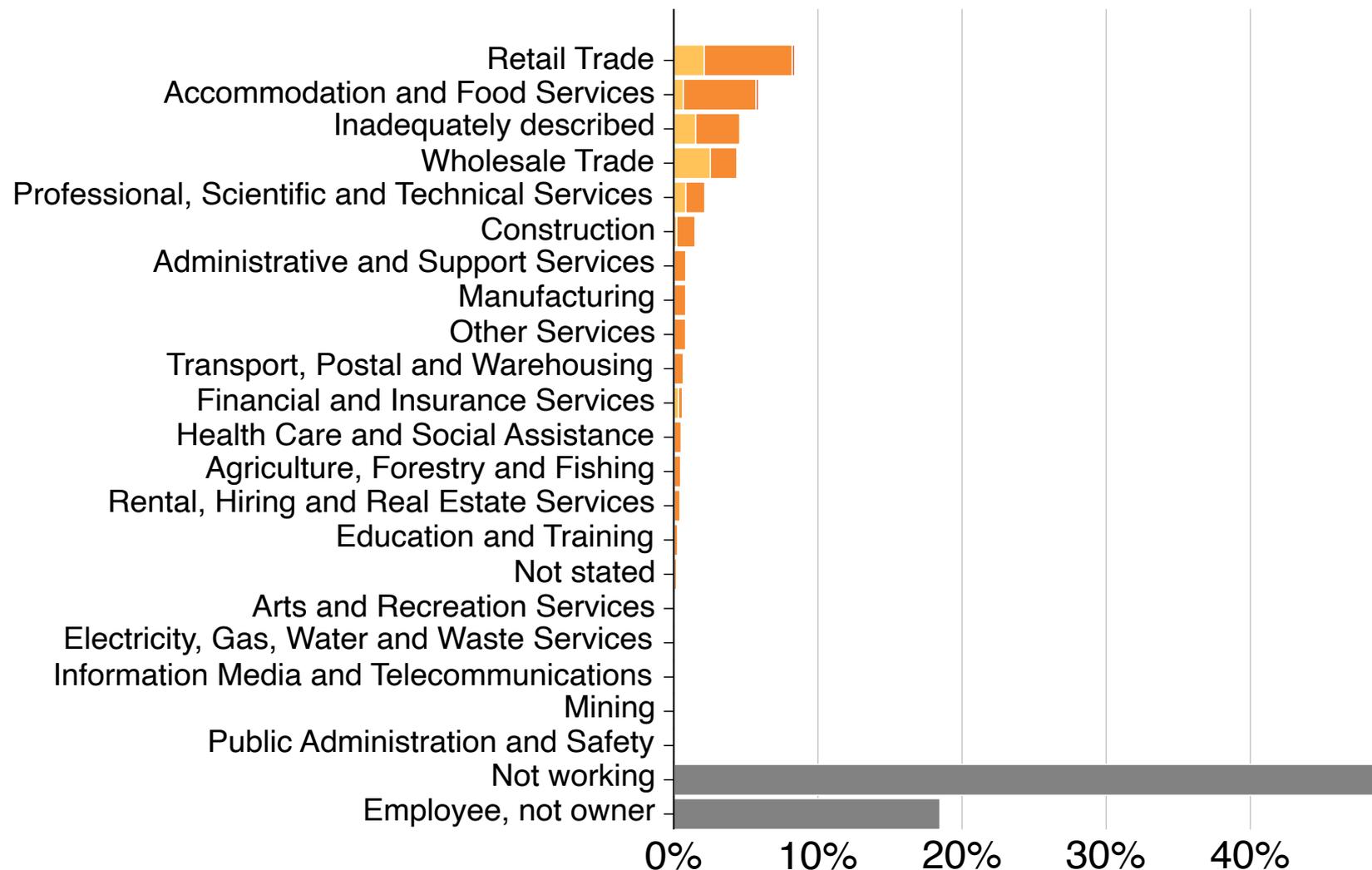
## Some BIIP visa holders earn high incomes, but most earn very low incomes

Total personal income by percentiles and visa stream (primary applicants only)



# BIIP visa business owners typically run small retail & hospitality firms with few employees

Proportion of investment visa business owners by industry



Note: Primary applicants who arrived between 2012-2016 only.  
Source: ABS Census (2016).

# Attracting Global Talent is a worthy goal, but unproven and big risks with increased scale

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## One in five permanent skilled visas in Australia now issued via Global Talent

- 2018-19: Pilot of 1,000 visas introduced (pilot model was employer-based)
- 2019-20: 4,100 visas (5,000 planned)
- 2020-21: 11,000 visas planned (recently revised down from initial 15,000 visas)

## Response to inflexible skilled worker visas

- Positive policy development to stop using occupation lists.
- Valuable to find talented 'superstars', hard to find so many.

## Key selection criteria raise red flags

- 'Have the ability to attract salary above \$153,600', but no contract needed
- Must have an internationally recognised record of *exceptional and outstanding achievement*. Yet terms not defined in migration law.

## Rapid expansion unjustified at expense of proven skilled-worker visas

### **Global Talent should be scaled back.** For 2022-23:

- Allocate no more than 5,000 places (2019-20 level) and evaluate.
- Alternatively, require evidence of a high salary offer (e.g. over \$153,600).
- Continue to invest in and test 'premium' service.

## More visas to skilled workers should replace these visa categories, but these visas also need a rethink

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Skilled workers are much more likely to have higher incomes, arrive in Australia when they are younger, and participate in the labour market.

Skilled workers could be better selected, to improve their outcomes over the long-term.

### Improving employer sponsorship

- Remove the role of occupation lists
- Open up employer sponsorship to all occupations with \$80k wage floor for sponsored workers
  - Existing compliance mechanisms, including the annual market salary rate (AMSR), would be retained

### Review the points test

- Bloated: too many characteristics valued.
- Poorly weighted (e.g. broad age bands)
- Remove state nominated and regional visa categories?

# Occupation lists targeting “skills shortages” shouldn’t be used to allocate permanent skilled visas

Occupation List	Rationale for listing an occupation	Occupation lists applicable for each skilled-worker visa			
		Employer sponsored	Skilled Independent	Skilled (state) nominated	Regional
<b>Medium- and Long-Term Strategic Skills List (MLTSSL)</b>	Occupations “of high value to the global economy”  Skills shortages lasting 4 years	Yes	Yes	Yes	Yes
<b>Short-term Skilled Occupation List (STSOL)</b>	Skills shortages lasting 2 years	No	No	Yes	Yes
<b>Regional Occupation List (ROL)</b>	Skills shortages of “medium term nature in regional areas”	No	No	No	Yes

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

It is not possible to objectively identify skills shortages

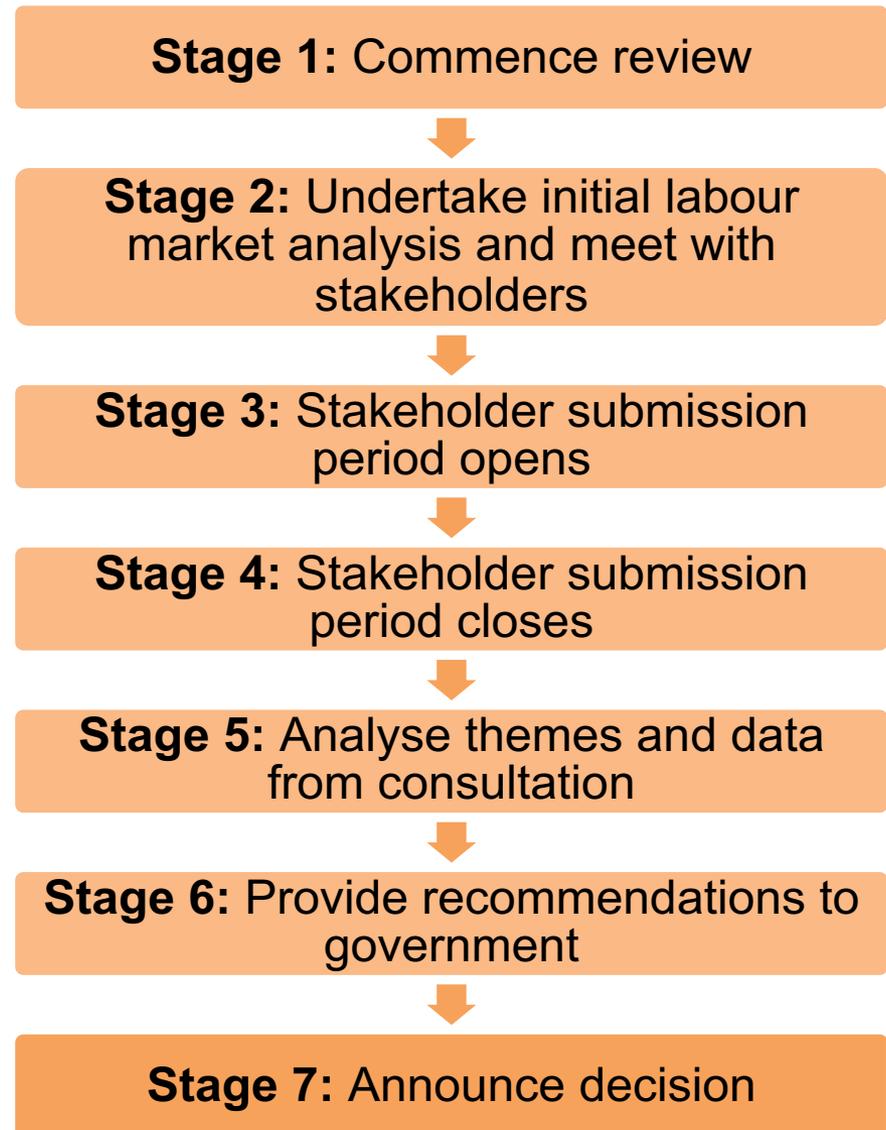
No timely data at ANSZCO 6-digit occupation level on:

- Wages
- Employment growth
- Vacancies

Instead lists appear to be driven by stakeholder lobbying.

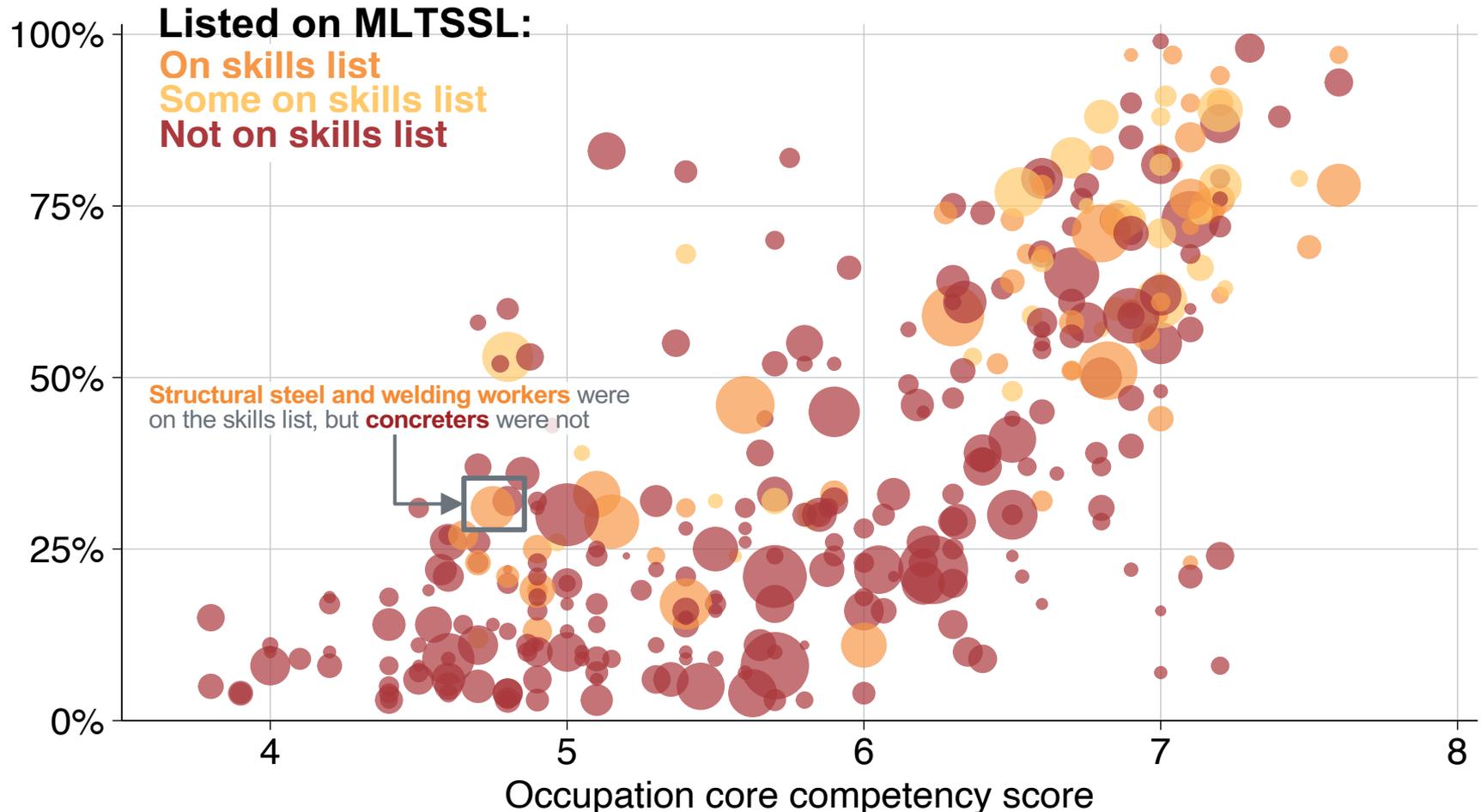
*“Automotive electricians, panel beaters, and arborists have been in shortage for each of the 10 years to 2018, and hairdressers and sheet metalworkers for nine out of the past 10 years. A decade-long or more shortage seems difficult to explain for some occupations that rely on traineeships taking one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

*- Productivity Commission (2020)*



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

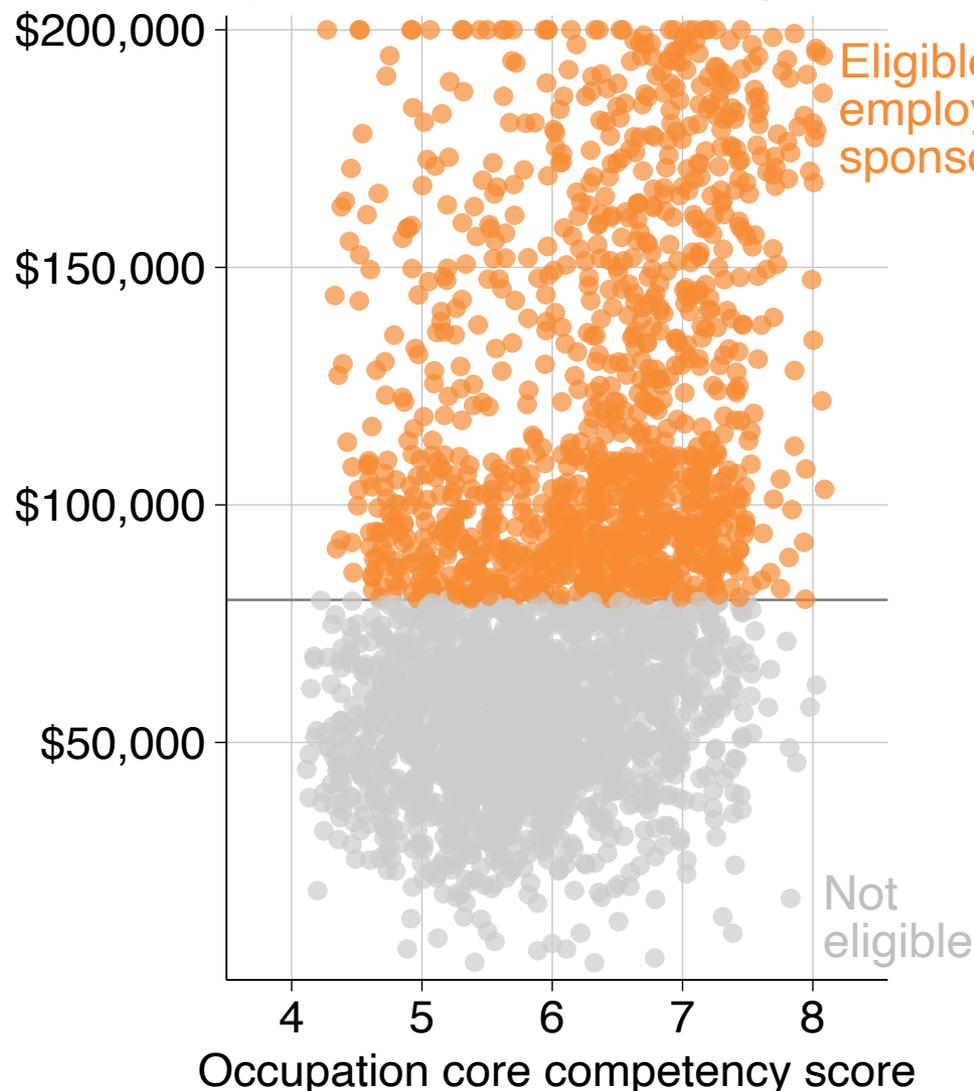
Each dot represents 1,000 full-time jobs in an occupation by their income



Notes: Full-time workers aged 19 and older in the 2016 Census. Competency scores are the average of 10 core occupational competencies – such as numeracy and problem-solving – developed by the National Skills Commission. Sources: Grattan analysis of ABS (2016a); National Skills Commission (2021b); Medium- and Long-term Strategic Skills List (2020).

## Instead, employer sponsorship should be available for all occupations provided workers earn \$80k+

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



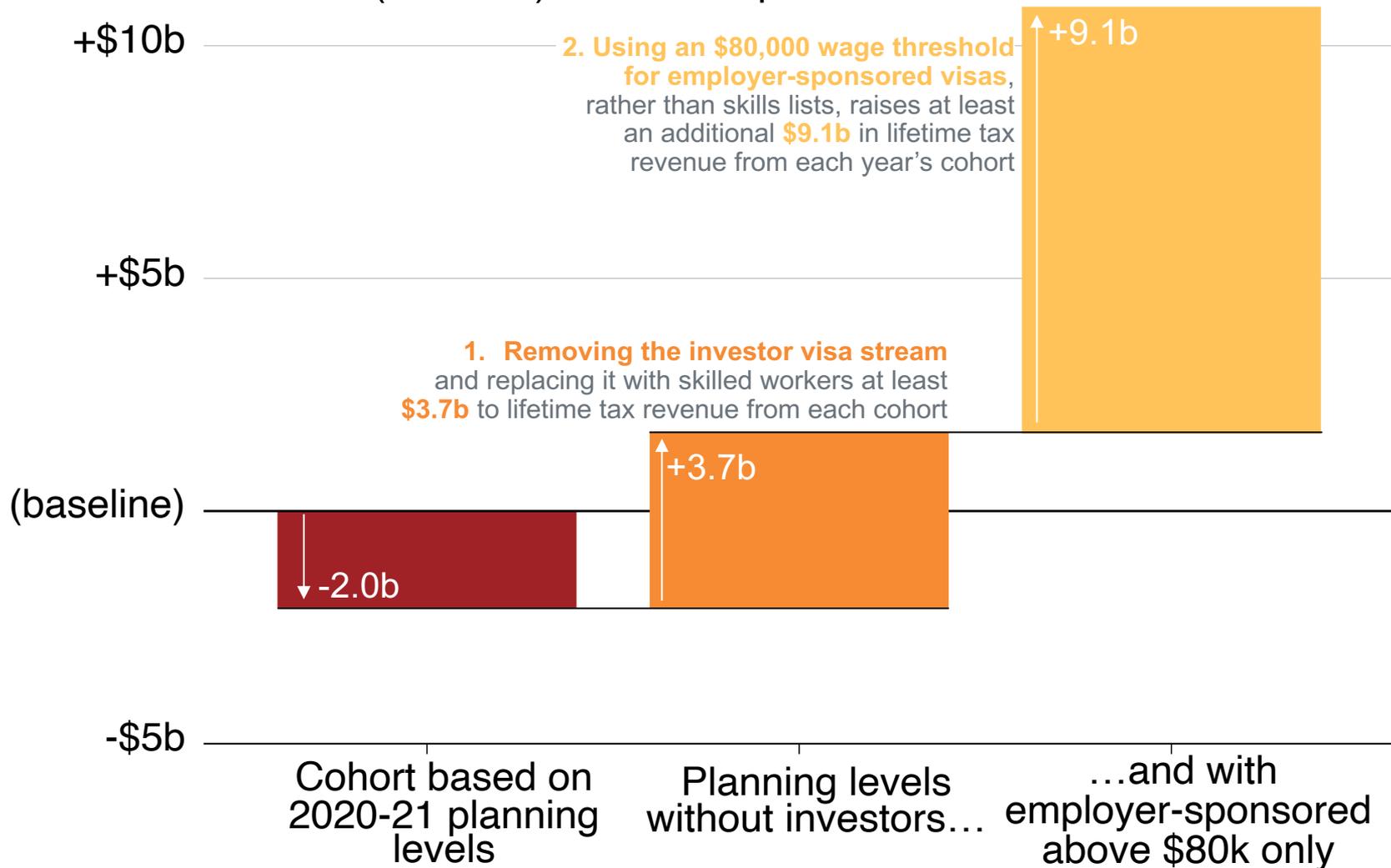
### Big benefits for employers:

- Access greater pool of skilled workers
- Greater certainty given clear wage threshold & no need to fit role to a listed occupation

High-wage applicants can be confident they will be selected.

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

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



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

## Review points-tested visas

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Points-tested visas have not been reviewed since 2006.

An independent review of the points test visa streams should consider:

- Removing occupation lists, use human capital approach instead.
- Re-weight for younger migrants and spouse skills.
- Removing unnecessary points: regional study; professional year, specialist education.
- Consolidating regional and state and territory nominations visa streams into a single points-tested visa.

Many interested parties:

- Link between permanent visas and Australia's higher education industry.
- State/territory governments enjoy current role.
- Communities relying on recent migrants on regional visas.