Rethinking permanent skilled migration after the pandemic

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Rethinking permanent skilled migration in one slide

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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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

By age

Notes: Counting residents of Australia during the 2016 Census. Overseas visitors are excluded, as are residents with an invalid year of arrival in Australia.
Temporary migrations captures who comes, but permanent migration dictates who stays

Share of visa holders

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- **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
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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

Notes: Up until 2065, end of life costs are included for some, but not all of the 2014-15 cohort.
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Permanent skilled migrants are selected through a number of different streams

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

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

Skilled independent (points)
Employer nominated
Skilled nominated (state)
Regional
Business innovation and investment
Global talent

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

Age at arrival in Australia: 15-34  35-44  45-54  55+

Employer

Points

State

Regional

Investor

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

Notes: Primary applicants who arrived in Australia in the five years leading up to 2016. Source: ACMID (2016).
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:

<table>
<thead>
<tr>
<th>English language ability:</th>
<th>Not well/at all</th>
<th>Well</th>
<th>Very well</th>
<th>Native</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Points</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>State</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Regional</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Investor</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
</tr>
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Notes: Residents in Australia in 2016 who arrived on a permanent visa between 2012-2016. Visa class is the first permanent visa granted. Overseas visitors are excluded, as are residents with an invalid year of arrival in Australia. Source: 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)

Mean: 33.5

Cohort based on 2020-21 planning levels

Mean: 34.6

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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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.

Source: Department of Home Affairs.
Some BIIP visa holders earn high incomes, but most earn very low incomes

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

The median skilled migrant earned $64,000 in 2016

Compared to $25,000 for the median investor migrant

Notes: Census respondents are asked to report all the income the person usually receives from all sources. The top annual income band in the Census is ‘$156,000 or more’ per year. Source: ABS Australian Census and Migrants Integrated Dataset (2016).
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

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

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

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

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

Source: Legal and Constitutional Affairs References Committee (2019, Figure 3.1); Productivity Commission (2020), “National Agreement for Skills and Workforce Development Review”, p.113.
“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

Listed on MLTSSL:
- On skills list
- Some on skills list
- Not on skills list

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

$200,000

$150,000

$100,000

$50,000

Occupation core competency score

Eligible for employer sponsorship

Not eligible

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.

Notes: Full-time workers aged 19 and older in the 2016 Census. Competency scores are the average of 10 core occupational competencies – numeracy and problem solving – developed by the National Skills Commission.
Improving how we select permanent skilled migrants will produce a big fiscal dividend in the long term

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

1. Removing the investor visa stream and replacing it with skilled workers at least $3.7b to lifetime tax revenue from each cohort

2. Using an $80,000 wage threshold for employer-sponsored visas, rather than skills lists, raises at least an additional $9.1b in lifetime tax revenue from each year’s cohort

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

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.