

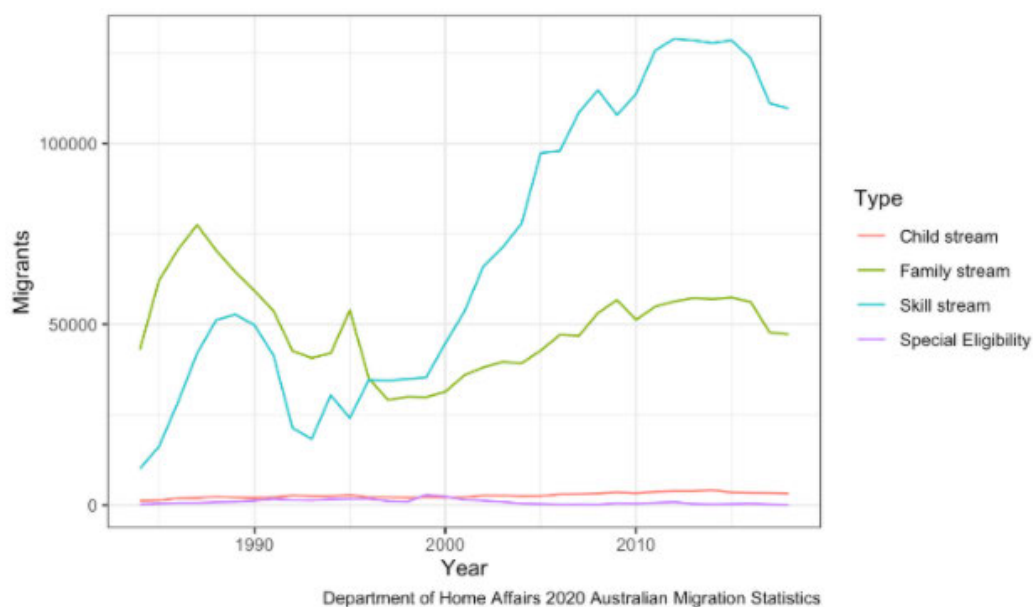
Inquiry into Australia's skilled migration program

The Committee for Economic Development of Australia (CEDA) is pleased to provide a brief submission to the Joint Standing Committee on Migration's Inquiry into Australia's skilled migration program. CEDA's submission draws on the findings and recommendations of our suite of recent migration research including *Effects of Temporary Migration, Immigration and COVID-19* and *A good match: Optimising Australia's permanent skilled migration*. There are five key findings of this research, which are outlined below.

Five key findings

1. Skilled migration has been critical to Australia's success

Australia's permanent migration program has served the country well, settling seven million people in Australia over the seven decades between 1945 and 2014, with two million arriving in the last decade of this period. Skilled migration has emerged as the key contributor over recent decades, accounting for most new migrants since 1996. This evolution of Australia's immigration program has significantly boosted Australia's skill base and human capital – migrants have supplied a third of the increased skills requirements of the Australian economy.ⁱ More broadly, migration is estimated to have contributed as much as 0.5 to one percentage point of our annual economic growth rate.ⁱⁱ



2. Skilled migration has not harmed Australian workers

CEDA's 2019 report *Effects of Temporary Migration* found that recent waves of migrants had not had an adverse effect on the job prospects of the local population. In fact, recent flows of migrants to Australia are in some cases associated with a positive effect on the participation rate of local workers, and the annual wages of local workers.

Other studies of Australian immigration have also found no evidence of negative effects from migration on the labour market outcomes of local workers.ⁱⁱⁱ

These outcomes are underpinned by the fact that migrants work and they consume, thereby creating demand for goods and services as well as adding to the supply of labour and boosting the skill level of our population. A 2015 report on the contribution of migrants to the Australian economy estimated that by 2050 the economy would be 40 per cent larger than otherwise due to migration, and GDP per capita 5.9 per cent higher.^{iv} Migration flows also move with the economic cycle and demand for labour. Australia takes in a higher number of migrants when the economy is doing well, and fewer migrants when growth is weak, with economic growth preceding periods of higher migration growth.^v

3. The skilled migration program has not kept up with rapid changes in the labour market

Selecting migrants with the right skills and characteristics to come to Australia has been integral to our skilled migration policy and has been managed through a points system and skilled occupation lists. This has served Australia well for the most part, but the current settings make it extremely difficult for governments to forecast skills needs in a timely fashion.

The ANZSCO occupation codes, which are used by the Federal Government to define in-demand skills and occupations, have not been comprehensively reviewed in almost eight years. These outdated codes therefore exclude migrants with the new and cutting-edge skills Australia needs, from migrating independently. For example, in 2019 the Federal Government announced that data scientists would be classified as “information and organisation professionals NEC”, a group that also includes electoral officers and lobbyists, because this emerging and in-demand occupation was not previously classified by ANZSCO. Such band-aid solutions result from a system that is slow to respond to labour-market changes. The very real risk is that this hinders the ability to leverage the rapid digitisation undertaken by many businesses during COVID, impeding business opportunities and growth at precisely the time we are looking to transition from a government-led to business-led economic recovery.

In addition to this update, more transparency on the formulation of skilled occupation lists is needed. The Federal Government’s six-monthly traffic light bulletins are a few pages long and amount to advice rather than analysis. This could be improved by periodically publishing the full labour-market analysis against primary and secondary factors, the weighting of different criteria and calculation of points.

Australia’s permanent skilled migration system has been functioning well for the most part, with about 71 per cent of skilled migrants either working in roles in their nominated occupation or even above their skill level. But there is also evidence that the system’s inability to keep up with changes in the labour market may be contributing to underuse of the skills of permanent skilled migrants. Our latest research highlights that nearly a quarter – or about 23 per cent – of permanent skilled migrants in Australia are working in a job beneath their skill level.

We estimate at least \$1.25 billion of wages foregone for the permanent skilled migrants who arrived in Australia between 2013 and 2018 and experienced skills mismatch. There are also broader economic costs, including lost productivity and innovation, as companies are unable to access the critical skills they need in rapidly emerging and high-growth occupations.

We found the permanent skilled migration scheme that had the broadest lists of eligible occupations and lacked employer involvement had the highest rates of skills mismatch. For example, more than 32 per cent of state-sponsored migrants were working at a lower skills level than their nominated field. In contrast, employer-sponsored migrants experienced the best outcomes – only 13 per cent were working at a lower skills level than their nominated field. Of those who had difficulty finding work in any occupation, 33 per cent blamed having insufficient Australian

experience. The most cited reasons were a lack of local work experience and local networks, followed by language difficulties.

4. Policymakers have scrambled to keep up, adopting ad-hoc policy changes

Policymakers have generally had the right intent in seeking to make Australia's skilled migration system work better to meet the skills needs of the economy. In practice, however, this has led to a proliferation of reviews, administrative changes and new visa categories, creating constant change and uncertainty for prospective migrants and business. For example:

- There have been more than 40 reviews and policy changes to the temporary skilled visa since 1996.
- The most recent substantive changes to the temporary skilled visa program, which saw the abandonment of the 457 visa and the introduction of a new Temporary Skill Shortage (TSS) 482 visa, took business and prospective migrants by surprise. Eligible occupations were reduced by one-third, and occupations were separated into two lists with different conditions.
- Governments and business have often resorted to new schemes or arrangements to address shortcomings in the system, rather than addressing the cause of the problems. For example:
 - Businesses have increasingly resorted to labour agreements with the Federal Government where standard temporary or permanent visa programs are not suitable to meet their needs, with 538 such agreements currently in place.
 - The Federal Government has introduced a new subclass of permanent visas – the Global Talent scheme – in response to concerns that Australia was losing out on access to highly skilled workers in fields such as advanced digital, data science and ICT.

5. Structural and sustainable change is now required

Changes to the skilled migration program must be implemented to ensure that the system evolves as Australia's skills needs change. CEDA's recommendations to bring about this change are centred on:

- Meeting the skills needs of Australian businesses where those needs cannot be met in the local labour market and are critical to driving future growth and investment.
- Creating community confidence that the system responds to changes in economic conditions, including in the current environment of both elevated unemployment and persistent skills shortages in several fields.
- Attracting the best global talent and effectively utilising the skills of our migrants.

Five recommendations

We outline five key steps below that should be taken to bring about this change, drawing on the recommendations of our recent reports.

Improve how skills needs are forecast

The Federal Government should strengthen identification of skill shortages and eligible occupations for skilled visas in the skilled occupation list to increase confidence in the process by:

- Being more transparent about the data and methods used to assess whether occupations are included on skilled occupation lists.

- Immediately conducting a comprehensive review of the ANZSCO occupation codes to ensure they align with current and emerging labour trends, particularly the impact of technology.
- Complementing the National Skills Commission with an independent committee (like the Migration Advisory Committee in the UK) to advise on the formulation and reporting of skilled occupation lists.

Streamline Temporary Skill Shortage (TSS) visa requirements

- The Federal Government should remove the requirement for labour market testing once the skills shortage list process has been strengthened. Labour market testing is an inflexible administrative requirement that continues to be imposed despite international policy makers questioning its effectiveness. Other safeguards will be in place to prevent displacement of Australian workers, such as more stringent occupation lists and the temporary skilled migration income threshold.
- The Federal Government should immediately introduce a dedicated, streamlined path for intra-company transfers of employees to Australia. This would enable trusted users of the migration system with a strong local presence to bring global executives to Australia to lead major business expansions and build local workforce capability.

Create a stronger nexus between temporary skilled migration and the education and training system

CEDA is concerned at the lack of transparency and assurance around the Skilling Australia Fund (SAF) levy paid by employers as part of the temporary skilled visa process. There is limited evidence that the funds are invested in addressing the skills needs that drive the use of temporary skilled visas in the first place. We therefore support the suggestion in the Joint Standing Committee's interim report that the Federal Government establish greater transparency over the use of SAF levy funds.

Embed regular independent reviews of the temporary skilled migration system

More systematic review and evaluation is necessary to reduce the constant flux in migration policy settings and enhance community confidence in the system. The Federal Treasurer should task the Productivity Commission with undertaking a review of the Temporary Skill Shortage visa program every three to five years to guide future changes to policy settings.

Establish better skills matches in the permanent skilled migration program

Most of Australia's skilled migration intake has focused on supplying the economy with skills that government agencies anticipate will be in demand. Migration systems in other countries approach this problem from the demand side with employer sponsorship the dominant and, in some cases, only way for migrants to be able to live and work in a country. A better solution would be to combine the two methods by creating a platform that allows employers and migrants to interact before migrants enter the country. This would ensure that there's a place for migrants whose skills are in demand to establish solid matches with employers before arrival and to use the platform to identify emerging skills needs in a timely fashion based on employers' postings on the platform.

To address the issue of permanent skilled migrants working beneath their skill level, CEDA recommends:

- Establishing a new government-regulated online skills-matching jobs platform that would allow permanent skilled migrants to register their skills, and give registered and accredited employers the opportunity to select migrants from within the platform. This would allow employers and migrants to interact before migrants enter the country, facilitating better skills matches. It would initially apply to a small proportion of the permanent skilled migrant intake before potentially being applied more broadly across the system.



In addition, further steps could be taken to assist both recent and future waves of migrants avoid skills mismatch. Research suggests that increases to the Newly Arrived Waiting period for unemployment benefits from six months to four years have not served migrants well. They have likely resulted in lower unemployment rates but higher underemployment rates and skills mismatch as migrants often take the first job they get (even if it is outside of their nominated occupation) to make ends meet. At the same time, the extension to the waiting period has only delivered modest annual savings to the federal budget. CEDA therefore recommends:

- Reducing the Newly Arrived Resident's Waiting Period for unemployment benefits from four years back to six months, to give permanent skilled migrants a better chance to find the right job.

Endnotes

ⁱ Parham D, To, H., Ratna, N., Regan, S. and Grafton, Q (2015) *Migration and Productivity in Australia*, Crawford School of Public Policy ANU College of Asia and the Pacific Australian National University, Canberra

ⁱⁱ International Monetary Fund (2017), 'Regional Economic Outlook: Asia and Pacific', *World Economic and Financial Surveys*, Washington DC.

ⁱⁱⁱ See for example Breunig, R., Deutscher, N., & To, H. T. (2017). The relationship between immigration to Australia and the labour market outcomes of Australian born workers. *Economic Record*, 93(301), 255-276 and RBA (2019) *Proceedings from the Conference on Low Wage Growth*, available at: https://www.rba.gov.au/publications/confs/2019/pdf/rba_conference_2019_panel_discussion.pdf

^{iv} Migration Council of Australia (2015) *The Economic Impact of migration*, submission to the impact of Australia's temporary work visa programs on the Australian labour market and on the temporary work visa holders.

^v The Australian Government the Treasury and the Department of Home Affairs (2018) *Shaping a Nation Report*, available at: https://cdn.tspace.gov.au/uploads/sites/107/2018/04/Shaping_a_Nation_1.pdf