

Making better use of migrants' skills

CEDA found recent migrants earn significantly less than Australian-born workers, and this has worsened over time.

On average, migrants who have been in Australia for two to six years earn more than 10 per cent less than Australian-born workers.



Female migrants with a post-graduate degree have the worst wage outcomes, earning 31 per cent less than Australian-born women with similar education levels.



Many migrants still work in jobs beneath their skill level, despite often having been selected precisely for the experience and knowledge they bring.



Our failure to match the skills of migrants to the most appropriate jobs is holding back productivity at a time of historically weak productivity growth.



Ensuring migrants can use their skills within their first few years in Australia is crucial to addressing ongoing skill shortages across the economy.

If migrants earned comparable wages to similar Australian-born workers in their first six years in Australia, this would unlock around \$4 billion in foregone wages each year.



RECOMMENDATIONS

1

EXPAND ACCESS TO ENGLISH LANGUAGE TRAINING

Expand access to post-settlement English language training for skilled migrants, including occupation-specific training that enables them to achieve a competent or proficient level of English.

2

IMPROVE RECOGNITION OF INTERNATIONAL QUALIFICATIONS

Improve recognition of international qualifications and work experience by:

- Assessing professional capacity through direct assessment of competence, rather than a requirement to hold qualifications under a specific system; and
- Requiring occupational regulators to justify their decisions where they decide not to recognise a migrant's international qualifications, and to identify skill top-ups and bridging courses to close the gap.

3

SECONDARY APPLICANTS

Review the potential to give greater weight to the skills and work experience of secondary applicants to skilled migration visas, as part of the Federal Government's work towards a reformed points test for skilled migrants.

4

REDUCE MIGRANT LABOUR-MARKET DISCRIMINATION

Work to reduce labour-market discrimination against migrants through initiatives that build local knowledge and experience, together with pilot programs that reduce prejudice by emphasising individual diversity within all ethnic groups.



EXECUTIVE SUMMARY

On average,
migrants who have
been in Australia for
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more than

10%

less than otherwise
similar Australian-
born workers.

Australia is an immigrant nation. Around 30 per cent of the population was born overseas.¹ But we are still failing to make the best use of migrants' skills in our workforce. This is despite many migrants having been selected precisely for the skills and knowledge they bring in a system designed to target skilled workers.

Our failure to match the skills of migrants to the most appropriate jobs is holding back productivity at a time of historically weak productivity growth. In an economy facing widespread worker shortages, access to the right skills at the right time and getting the right people into the right jobs is critical.

CEDA research in 2021 found nearly a quarter of permanent skilled migrants in Australia were working in a job beneath their skill level (in other words, they were experiencing skills mismatch). The level of mismatch is substantially higher among migrants on Family and Humanitarian visas.

Our 2021 report recommended changes to the system to better target the right migrants to the right jobs before they arrive in Australia. In this report, we recommend changes to improve the labour-market outcomes of migrants already in the country, based on new analysis of ABS Census data.

We find that on average across all temporary and permanent visa types, recent migrants earn significantly less than the Australian-born population. This has worsened over time: the hourly wage gap between recent migrants and Australian-born workers increased between 2011 and 2021. On average, migrants who have been in Australia for two to six years earn more than 10 per cent less than otherwise similar Australian-born workers. Migrants' wages do catch up, but this process is slow, taking around 15 years.

There are big costs from not making the best use of migrants' skills. We estimate that if migrants who have been in Australia for two to six years earned comparable wages to similar Australian-born workers (allowing for weaker average English-language proficiency among migrants), this would unlock around \$4 billion in foregone wages each year.

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The hourly wage gap between recent migrants and Australian-born workers increased between 2011 and 2021.

Improving English language proficiency among migrants would unlock further gains. We find weaker English proficiency reduces wages for recent migrants by around nine per cent on average. The costs of weaker English are even greater for highly educated migrants. While this group has better English ability on average, they experience a bigger wage gap because strong communication, writing and comprehension skills are even more crucial in highly skilled jobs.

Currently, post-settlement English training is targeted at family and humanitarian arrivals, and those with very low English ability. Given the importance of English ability for the employment outcomes of all migrants, we should expand access to and funding of high-level, occupation-specific English training that meets higher standards to ensure they are finding work and pay that meets their skill level.

Recent female migrants suffer a bigger wage shortfall compared with similar Australian-born workers. The shortfall is largest for highly educated female migrants, including many entering under key high skilled visas. Almost half of the poorer wage outcomes for recent female skilled independent and employer sponsored migrants (compared with recent male migrants under these visas, based on wages measured relative to the Australian-born population of that genderⁱ) can be explained by the much higher share of women than men who entered as secondary visa applicants.

The skills of secondary visa applicants (such as a spouse or partner) are not assessed separately, and account for less than 10 per cent of the points used to assess a primary applicant's claim. Secondary applicants underperform in the labour market, even after taking into account that they are younger, less educated and speak poorer English on average than primary applicants. Reforms to give greater weight to the skills and labour-market attachment of secondary applicants could boost economic outcomes and gender equality in the labour market.

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Recent female migrants suffer a bigger wage shortfall compared with similar Australian-born workers. The shortfall is largest for highly educated female migrants and those entering under key high-skilled visas.

ⁱ For example, recent female independent skilled migrants earned 6 per cent higher wages on average than Australia-born females in 2021 – reflecting their higher educational attainment – whereas recent male independent skilled migrants earned 23 per cent more than Australian-born males. Just over 7 percentage points of this 17-percentage point gap is explained by the higher share of secondary applicants among females.

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Discrimination likely contributes to poorer employment outcomes for migrants. Discrimination occurs through an employer bias towards local work experience and networks. Reducing this bias requires initiatives that build local knowledge and experience.

Failure to recognise international qualifications also reduces job opportunities for many migrants, again despite many having been selected for their skills and experience. In particular, occupational licensing in fields such as healthcare, teaching, accounting and trades can be a barrier to migrants using their skills where their qualifications or work experience are not recognised. We find that recent migrants earn at least 20 per cent less than similar Australian-born workers where they are educated in a field that is subject to licensing but are not currently working in that field.

There are ways to improve skills recognition while protecting consumer safety, beginning by direct assessment of competence, rather than a requirement to hold qualifications under a specific system. When occupational regulators decide not to recognise a migrant's international qualifications for licensing, they should be required to explain why and to identify skill top-ups and bridging courses to meet job licensing requirements.

Finally, discrimination likely contributes to poorer employment outcomes for migrants. Discrimination can occur through an employer bias towards local work experience and networks. Reducing this bias requires initiatives that build local knowledge and experience. Previous research also indicates that discrimination against some ethnic groups contributes to lower wages among migrants. While entrenched bias can be hard to change, interventions that emphasise individual diversity within all ethnic groups can reduce prejudice in a low-cost and scalable manner.

By reducing skill shortages and boosting productivity, our recommendations to enable better use of migrants' skills can deliver a win-win through a stronger, more productive economy and greater wellbeing among migrants.