

2021



Arrivals  

A good match:

Optimising Australia's
permanent skilled
migration

About this publication

A good match: Optimising Australia's permanent skilled migration
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About CEDA

CEDA – the Committee for Economic Development of Australia – is an independent, membership-based think tank formed in 1960.

For 60 years, CEDA has identified the policy issues that matter for Australia's future and pursued solutions that deliver better economic and social outcomes for the greater good.

Working with our members, we deliver on our purpose by:

- Researching the most important issues affecting Australia;
- Informing and stimulating constructive debate of critical issues;
- Facilitating collaborative and innovative policy ideas and solutions;
- Influencing decision makers by delivering compelling evidence and recommendations and advocating in support of our positions.

CEDA has almost 700 members including leading Australian businesses, community organisations, government departments and academic institutions. Our cross-sector membership spans every state and territory. CEDA was founded in 1960 by leading economist Sir Douglas Copland. His legacy of applying economic analysis to practical problems to aid the development of Australia continues to drive our work today.

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Skills mismatch at a glance



NEARLY ONE IN FOUR permanent skilled migrants are working in a job **BENEATH** their skill level.



SKILLS MATCH

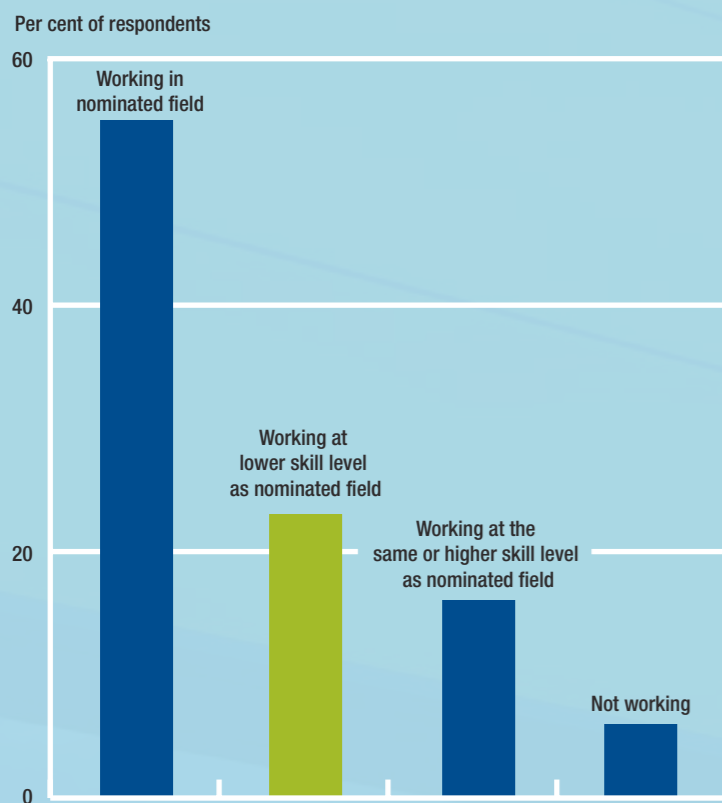
When a person is working in a job that uses their skills and qualifications and they are paid appropriately.



SKILLS MISMATCH

When a person is working in a job beneath their skill level. For example, an engineer working as an Uber driver.

Permanent skilled migrants working in nominated occupation



Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013-18

SKILLS MISMATCH COST AT LEAST

\$1.25 BILLION

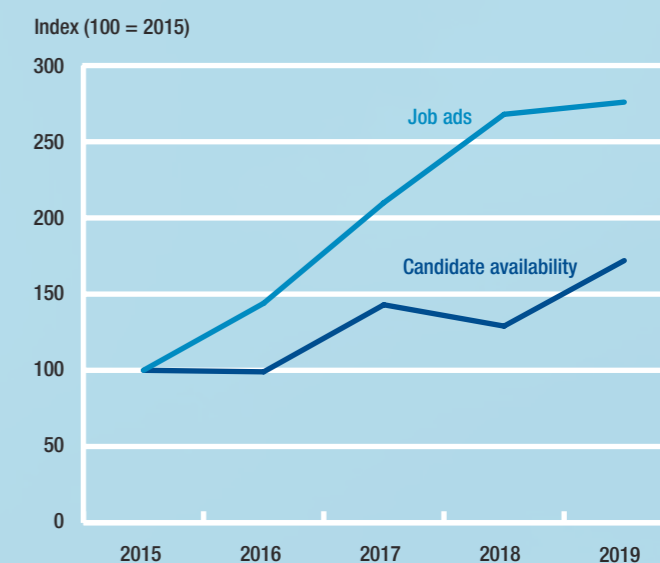
IN FOREGONE WAGES BETWEEN 2013-18

“Recalibrating the system to improve skilled migration outcomes is all the more important coming out of the COVID-19 recession, as employers say they cannot find workers with the skills they need due to closed international borders.” MELINDA CILENTO, CEDA CEO

“Many emerging occupations are not on Australia’s skilled occupation lists because occupation codes haven’t been updated since 2013, leaving little scope for migrants with cutting-edge skills to enter Australia.”

MELINDA CILENTO, CEDA CEO

Data scientist job ads vs candidate availability



Source: SEEK special data request, November 2020

Recommendations

- 1. **Establish** a new government-regulated online skills-matching jobs platform



- 2. **Comprehensively update** the Australian and New Zealand Standard Classification of Occupations Codes (ANZSCO) to ensure that migrants with vital and cutting-edge skills can migrate to Australia.

- 3. **More transparency** from the Federal Government about the data and methods they use to assess what occupations are in demand and included on the skilled occupation lists.

- 4. **Reduce** the Newly Arrived Resident's Waiting Period for unemployment benefits back from four years to six months.

Overview

Permanent migration has been a central feature of Australia's economic development over the last century. Australia welcomed more than seven million permanent migrants in the last 70 years, of which more than two million arrived in the last decade.

On average, these migrants are younger than the Australian population, more likely to hold post-secondary qualifications and facilitate important foreign trade and investment relationships. As CEDA demonstrated in its *Effects of Temporary Migration* report, recent waves of migrants have not had an adverse impact on the wages or jobs of Australian-born workers.

The permanent migration program has evolved over time in line with economic imperatives, political attitudes and societal expectations. However, it has retained a consistent focus on selecting migrants with the skills to complement the domestic workforce.

The skills focus has intensified in the last 25 years as skilled migration became the dominant stream of the permanent migration program and Australia's points-based skilled migration system became the envy of advanced economies around the world. Other nations such as the United Kingdom have sought to replicate Australia's program to maximise the benefits of migration and retain community support for it in the wake of Brexit.

Permanent skilled migration and the economy

COVID-19 has disrupted these long-term trends as the health response restricts offshore arrivals. Australia therefore confronts its first period of net negative migration since World War II. This will be a substantial drag on economic growth and exacerbate the long-term headwinds of an ageing population. At the same time, policymakers and the community will be focused on elevated rates of unemployment and helping domestic workers transition to new occupations, even as pockets of skills shortage persist in some critical sectors.

Australia's skilled migration system has served us well, but there are areas where it can and must be improved.

Despite the apparent success of the permanent skilled migration program, our 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.

The cost of this skills mismatch among permanent skilled migrants is significant. We estimate at least \$1.25 billion of wages foregone for permanent skilled migrants who have experienced skills mismatch between 2013 and 2018. 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.

Improving the system

As we emerge from COVID-19 and enter economic recovery, Australia's skilled migration system cannot stand still. As our rate of net migration growth begins to turn positive again in 2022, the skilled migration system must be calibrated to support the needs of growing industries, while also retaining community confidence. Access to the right skills at the right time and getting the right people into the right jobs is critical to enabling future investment and job opportunities, creating a vibrant and dynamic economy for the long-term.

The Federal Government recognises this, and has implemented changes such as the Global Talent Scheme. But band-aid measures in Australia's migration system perpetuate a complex revolving door approach, with less transparency and greater uncertainty for users of the system.

Instead, Australia must progress structural and sustainable change to the skilled migration system so that it responds and evolves quickly as skills needs change. CEDA makes four key recommendations:

1. Establish a new government-regulated online skills-matching jobs platform. This would allow permanent skilled migrants to register their skills, and let accredited employers hire migrants from within the platform. It would initially apply to a small proportion of the permanent skilled migrant intake before potentially being applied more broadly across the system.

2. The Australian Bureau of Statistics (ABS) should comprehensively update the Australian and New Zealand Standard Classification of Occupations (ANZSCO) codes to ensure that migrants with vital and cutting-edge skills can migrate to Australia and contribute to the maturing of our labour market. These codes have not been updated since 2013.
3. To retain community confidence, the Federal Government should be more transparent about the data and methods used to assess whether occupations are deemed to be in-demand and included on skilled occupation lists. Two options to achieve this include:
 - a. Periodically releasing the analysis that underpins the Federal Department of Employment's traffic light bulletin report for skilled occupation lists.
 - b. Establishing an independent committee similar to the UK's Migration Advisory Committee to undertake analysis, consultation and advice on the formulation of skilled occupation lists.
4. Reduce 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. Research suggests increases to the waiting period since the late 1990s have exacerbated skills mismatch, while delivering only modest annual savings to the federal budget.

The changes CEDA is recommending would help ensure permanent skilled migration is satisfying the skills needs of the Australian economy. This will help make the system work better for both employers and skilled migrants, with flow on benefits for the broader Australian community.

Over time, the skills-matching jobs platform could do more than just reduce the level of skills mismatch among permanent skilled migrants. As more employers use the system, it could provide a rich and detailed real-time database for government on skills in high demand that are not being filled locally. This could assist in both migration policy design and in allocating funds to Australia's training system.

Australia's permanent skilled migration system is not broken, but it is not realising its full economic potential. As Australia recovers from recession, the system must be recalibrated to improve outcomes for migrants and the economy. If Australia is to maintain its global leadership on this front, we must take the kind of creative and calculated steps outlined in this report to deliver the skills Australia needs to power its economic recovery.



Arrivals  

Australia's permanent migration system has evolved in line with economic imperatives, political attitudes and social expectations. Skilled migration has become the dominant stream, and is an important way for employers to find the talent they need to drive economic growth.

CHAPTER ONE

Permanent migration in perspective



Australia's long-running system of permanent migration has evolved over time, but at its core it has always been based on a set of eligibility criteria that determine entry and settlement in Australia on a permanent basis.

Hurdles throughout history

The hurdles to permanent migration have varied over time, based on factors including family reunification, economic conditions, political attitudes and societal expectations.

As far back as 1901, a dictation test was introduced that prevented non-Europeans from settling in Australia permanently; eligibility for permanent visas was effectively set aside for those of British origin. Even 40 years later, the immigration department saw Britain as the primary source of new migrants, with the then Minister for Immigration declaring: "For every foreign migrant there will be 10 from the United Kingdom".¹

From 1945, the post-World War II Assisted Passage Migration Scheme enabled British migrants to come to Australia for the price of ten pounds – these were the so-called Ten Pound Poms. The preference for Australia to be a "British Country with blood, ties and responsibilities within a British Commonwealth..." continued into the 1950s and 1960s, as the assisted migration scheme saw migrants from other countries arrive in Australia.²

In 1955, following the post-war Displaced Persons Scheme, the department sought to reassure the public that those chosen to live and work in Australia were "being carefully selected and would easily assimilate into the Australian way of life".³ Other programs included encouraging the sponsorship of British families, and what some might call an early version of the significant investor visa – a nest egg scheme allowing Britons with more than 500 pounds in savings to migrate to Australia.⁴

Australia's foray into a points-based system for migration began in 1977 with the introduction of the Numerical Multi-Factor Assessment System, which emphasised family ties, occupation and language skills.

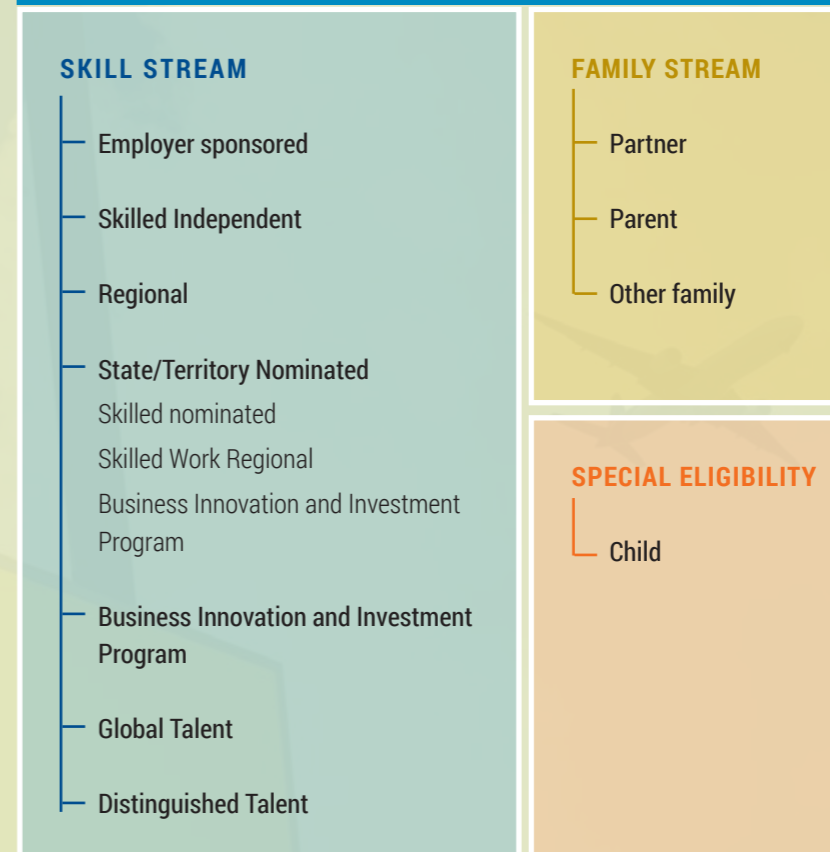
Today's system of skilled migration is a far cry from those established decades ago, but some similarities remain, such as the intention to create a skilled workforce that complements the skills of Australian workers, and to encourage migration from those who would fit in best. More recently, this has been assessed through English language ability, higher education degrees, possessing skills that are in demand and local qualifications.

Recent trends in permanent migration

The permanent migration program includes capped streams for skilled, family and special eligibility migrants as highlighted in Figure 1.1.

The number of people allowed to migrate permanently to Australia is set by the Federal Government's budget process and takes into account economic and employment forecasts, net overseas migration (NOM), international research, community views and economic and fiscal modelling.⁵ Between 2012 and 2017, this level was set at around 190,000 a year. More recently, in response to community concerns about the rate of population growth and pressures on Australia's largest cities, this was cut to 160,000 a year.

Figure 1.1
Permanent migration streams and categories



Source: Department of Home Affairs 2021 Migration Program Planning Levels

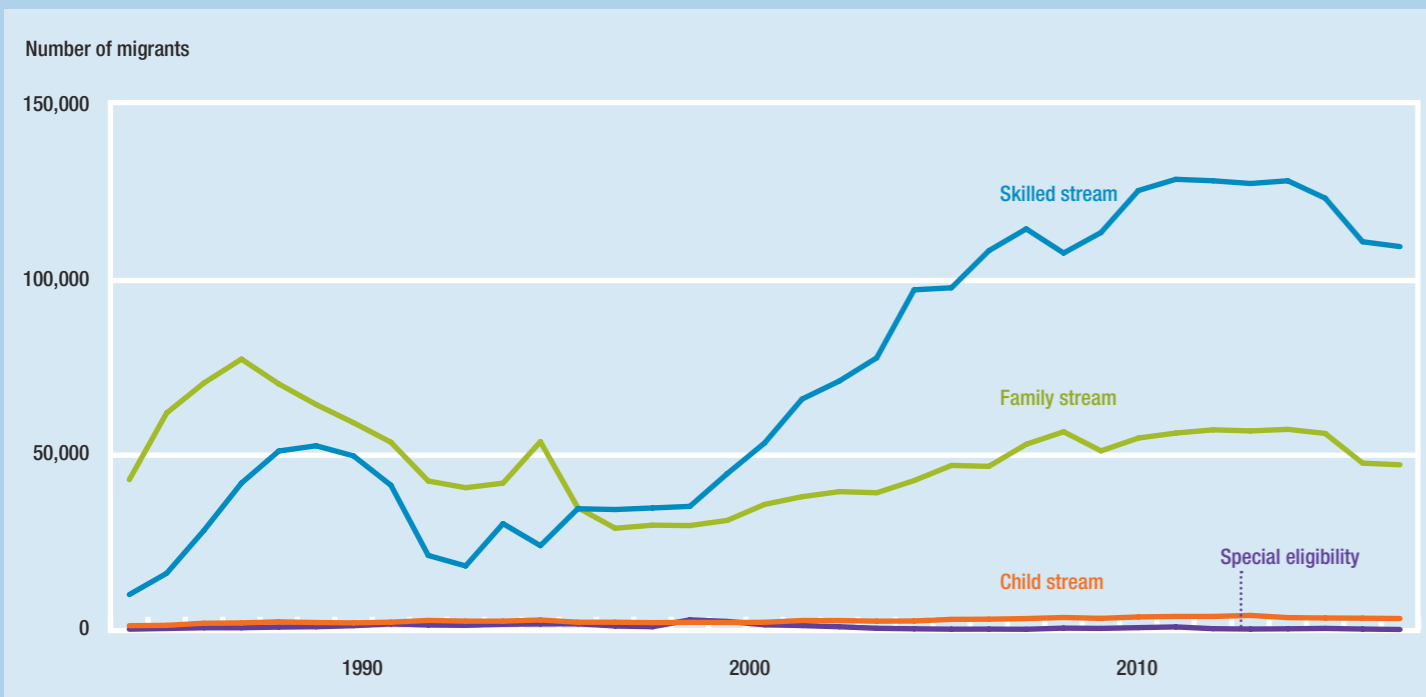


Permanent skilled migration

As evident in Figure 1.2, Australia's skilled migration program has grown significantly over the last two decades. In the initial years, the permanent skilled migrant intake was smaller than the family intake. Since about 1996, this has shifted, and Australia has increasingly accepted skilled migrants.

More recently, those granted permanent skilled visas are often in Australia already, for example as temporary migrants. It has become common over the last few years for migrants to arrive in Australia on a temporary visa such as a student visa, and then apply for permanency while in Australia.⁶ This is referred to as two-step migration.⁷ Temporary skilled migration has become a de-facto pathway to permanent migration, as highlighted in CEDA's *Effects of Temporary Migration*.

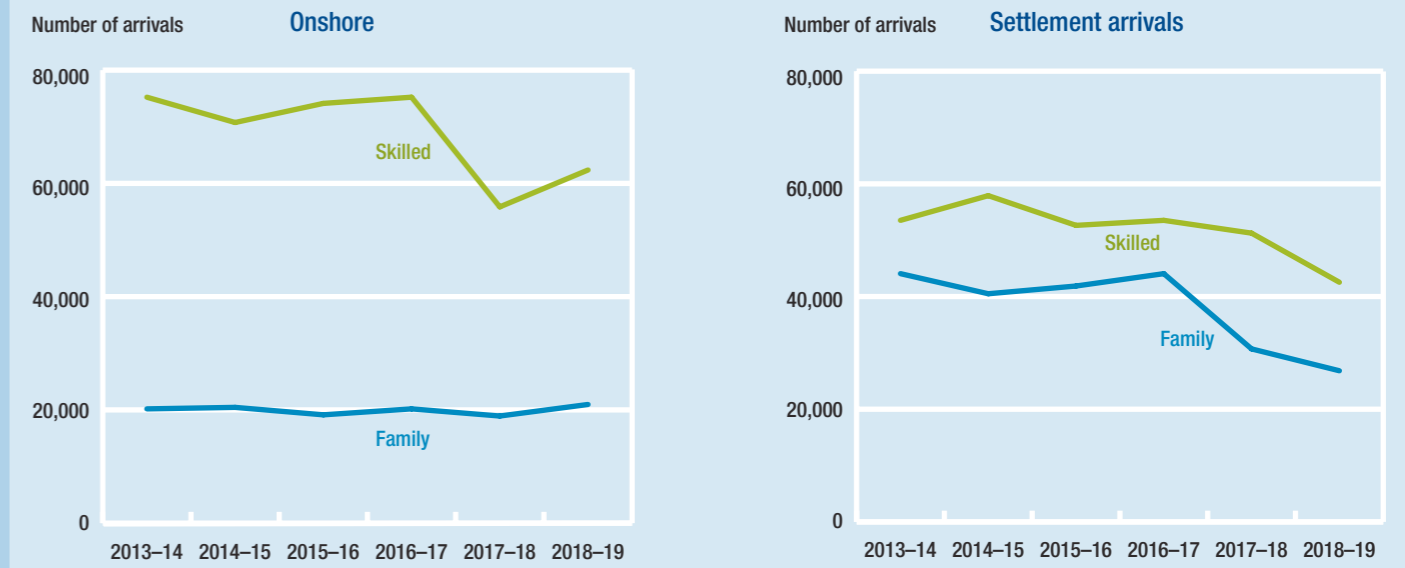
Figure 1.2 Australian permanent migration program outcomes



Source: Department of Home Affairs (2020) Australian Migration Statistics

This is evident in Figure 1.3. Between 2012 and 2018, the Federal Government awarded more permanent skilled visas to migrants already onshore than to those arriving from overseas. This reflects the growth of the temporary migration program over the period and the number of temporary migrants already onshore transitioning onto permanent visas.

Figure 1.3 Onshore vs Settlement Arrivals



Source: Department of Home Affairs (2020) Migration Program Outcomes

Categories of skilled migration

Skilled migration has changed over the years as the needs of the Australian economy have changed. The intake is also highly responsive to public debates around migration. For example, the regional visa subclass that encourages migrants to live and work in regional areas to gain residency was introduced in response to concerns about overcrowding in Australia's major cities.

In the early 2000s, the eligibility criteria for residency in Australia were very broad. However, due to long wait times that sometimes stretched out to years, and a desire to separate the immigration system from the higher education industry, the Federal Government greatly streamlined the process for applying for residency from 2013 and introduced the Expression of Interest system, outlined further in later sections of this chapter.⁸

The major categories of permanent skilled migration are outlined in turn below.

The Business Innovation and Investment program

This scheme allows entrepreneurs and those with business skills to operate an existing business or set up a new business in Australia. It also allows investors to enter Australia (those who can invest more than \$A1.5 million in a state/territory and are nominated by a government agency).



The Employer Nomination program

This scheme allows workers who are nominated by an employer to live and work in Australia provided they are working in an occupation on the relevant skilled occupation list. Applicants who have been on a 482 temporary skills shortage visa for three to four years (or a 457 visa for two to three years) can also be sponsored through this program.

The Skilled Independent program

The original points-tested visa, this program allows migrants who are on the skilled occupation list to migrate to Australia provided they meet the required threshold of points and work in a field that is on the skilled occupation list.

The State and Territory and Regional Nomination program

The State/Territory Nominated program allows migrants to apply for permanent residency through the Federal Government's online platform Skillselect, provided they obtain a nomination from a state or territory government. More occupations are listed for this program than for the Skilled Independent program.

The Regional program, which encourages people to move to the regions for work, has operated in some form for a long time. Under this scheme, migrants can become eligible for residency if they spend four years in regional Australia.⁹ It has recently gained prominence, with the government announcing in November 2019 an allotment of 25,000 for regional skilled visas.¹⁰

The visas have been a way to ensure that regional Australia also enjoyed the economic benefits of immigration, but questions have been raised about whether jobs would be available for skilled migrants.¹¹ The visa has been split into two streams – a Skilled Employer Sponsored Regional (Provisional) visa and a Skilled Work Regional (Provisional) visa.

Global Talent program

In 2018, the Federal Government announced 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. Global Talent Officers have been stationed in Australia and in key overseas locations to work with universities and industry associations to target top talent.

The program was touted as a fast-track to permanent residency for highly skilled migrants working in key emerging industries¹² including agtech, fintech, medtech, cyber security, energy and mining technology, space and advanced manufacturing, and quantum information, advanced digital, data science and ICT.

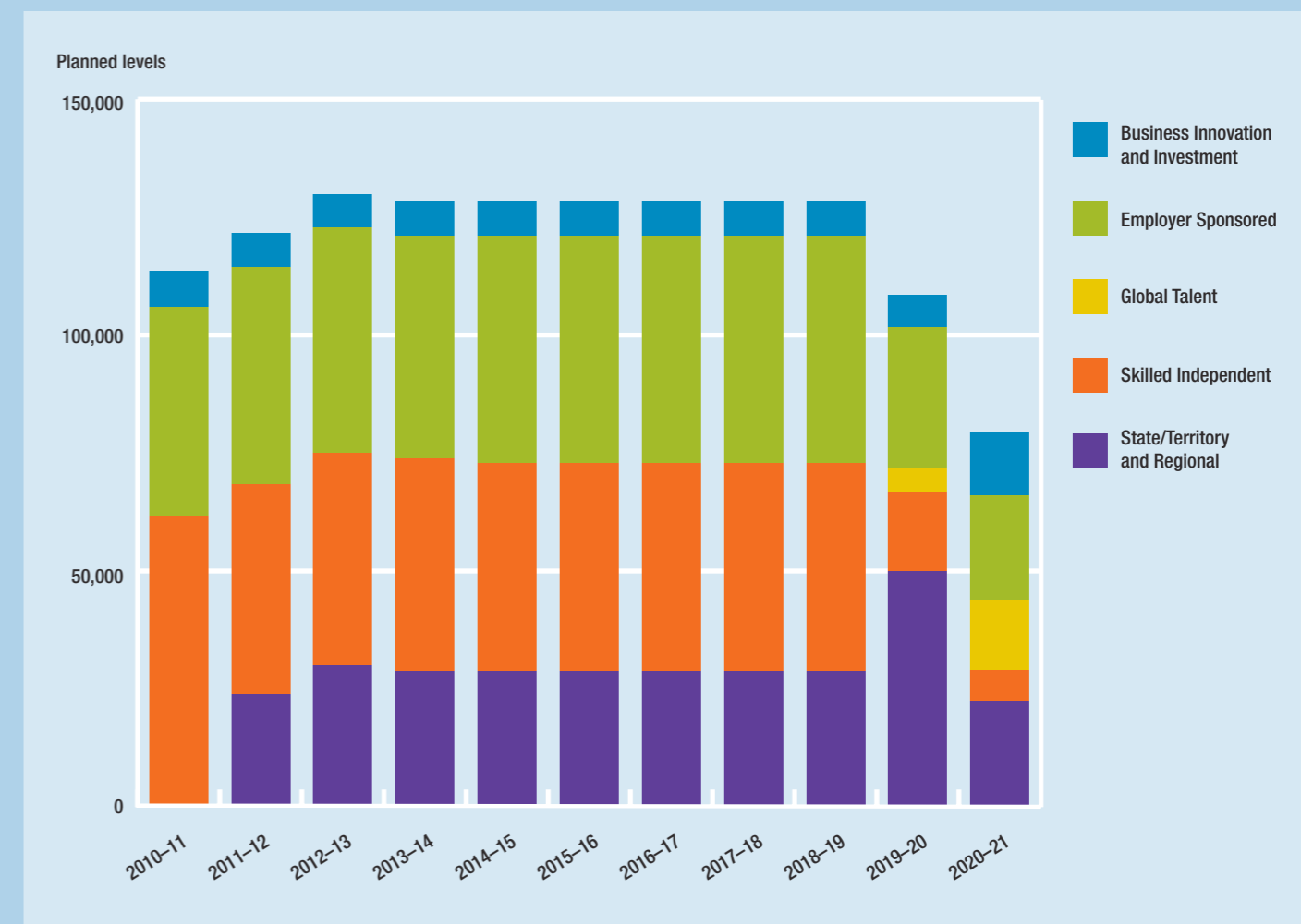
The eligibility criteria are very restrictive including a high-income threshold of \$153,600, nomination by a business or an individual and the nominee's ability to prove they are internationally recognised and have outstanding achievements in their field.¹³ The program started in 2019 with an initial allocation of 5,000 visas. In the 2020–21 Budget, that was expanded to 15,000.

Recent changes to the permanent migrant intake

Australia's migration planning level, which serves as a ceiling for new skilled migrant permanent visas, was almost 109,000 for 2019–20 as evident in Figure 1.4.

With COVID-19 effectively closing Australian borders, the Federal Government revised its planning levels for 2021 to allow more visas for family migration, particularly partner visas, representing an increase of approximately 30,000 new visas. The number of skilled visas has been

Figure 1.4 Planning levels for skilled migration 2010–2020



Source: Department of Home Affairs (2010–2020) Migration trend reports



reduced, particularly from the Skilled Independent visa category – a points-based visa subclass that allows people with certain qualifications to migrate to Australia – and the much-touted regional migration visa.

The Global Talent Independent Program was increased to 15,000 visas from its allocation of 5,000 last year. The number of regional visas allotted dropped to 11,200 places for 2020-21. There are also 13,500 visas for the Business Innovation and Investment Program.

With these changes, and the much-reduced occupations list of 17 key occupations, the government has signalled a move away from the Skilled Independent Program – once a stalwart of the migration program – and an increased focus to the Global Talent, Employer sponsored and Business Innovation program.

Why skilled migration is important

Skilled migration has delivered many benefits to the Australian economy. It is one of the most highly targeted streams of our migration program – applicants must meet many eligibility criteria including age, education and possessing skills that are in demand.

Many have noted that Australia's migration policy is its de facto population policy.¹⁴ Australian skilled migrants tend to be younger than the local-born population, they are more highly educated, and in some visa subclasses tend to earn more than the Australian population. This has influenced the nation's demographic make-up. As shown later in this report, they also have lower unemployment rates and higher labour-force participation rates.

Skilled migration can improve the nation's labour productivity growth thanks to the youth, skills and human capital accumulation of migrants. The Intergenerational Report 2015 also highlights the net fiscal benefit of migrants, with a high migration scenario (defined as NOM of 250,000 people a year) delivering higher gross national income (GNI) per person, higher participation rates and lower government spending on aged care and pensions.¹⁵

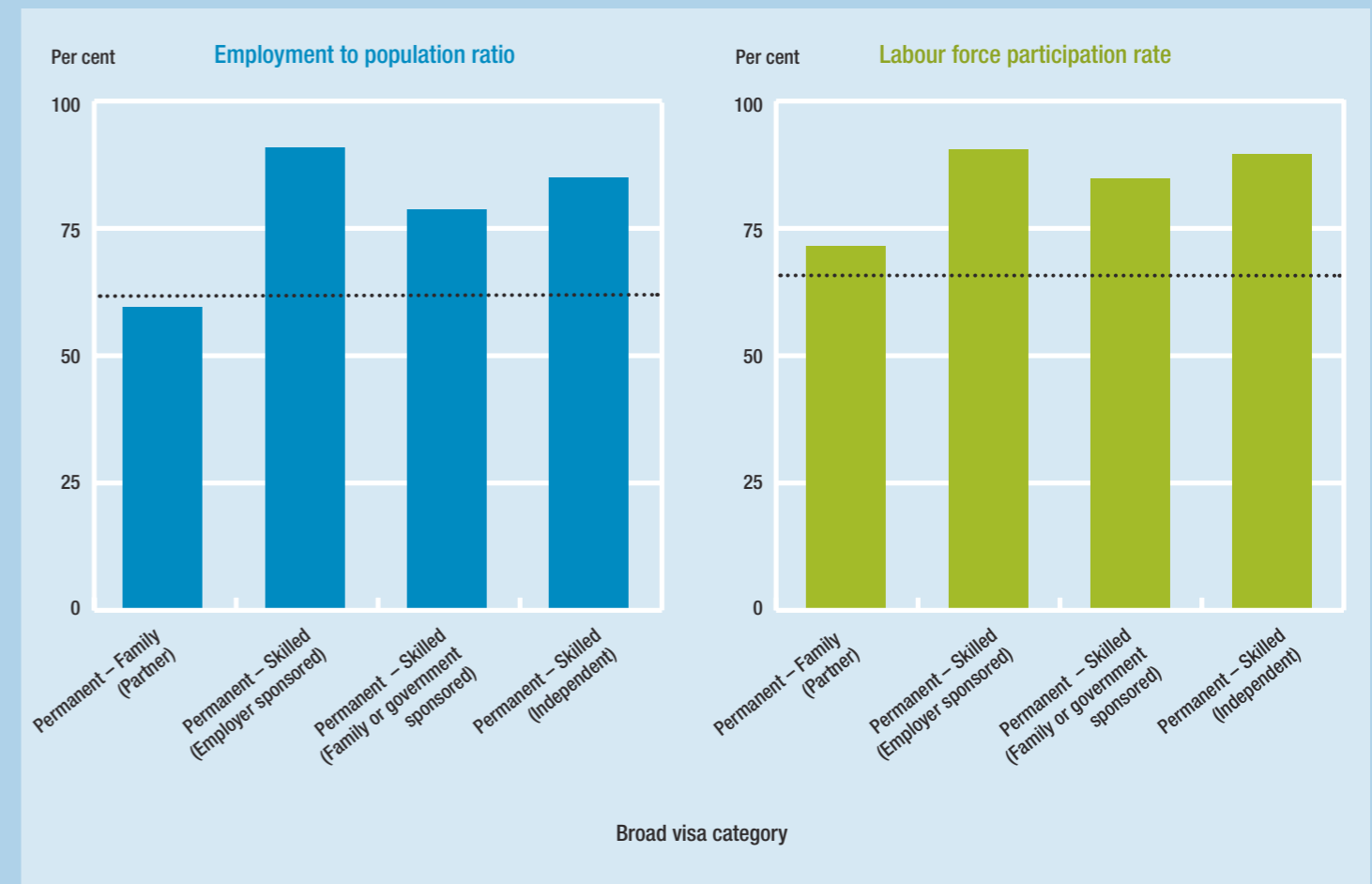
Migrants have supplied a third of the increased skills requirements of the Australian economy. This is a significant contribution. An industry-based analysis reveals that migrants' skills are increasingly being used in financial and insurance services, wholesale trade and the information, media and telecommunications industries. It is the latter industries where migrants have made the largest contributions to productivity growth.¹⁶

Skilled migrants have also boosted the nation's productivity by possessing higher levels of skills and qualifications than the Australian-born population. According to a study by the Australian National University, migrants account for 0.17 of a percentage point of annual labour productivity – equivalent to 7 per cent of the average rate of labour productivity growth between 1994–95 and 2007–08. However, it must be noted that this does not take into account the spillover effects caused by migration, which could be significant.¹⁷

Labour market outcomes for permanent migrants

Figure 1.5 below illustrates the differing employment outcomes for several types of permanent migrants. Among family migrants, employment rates are just shy of 70 per cent while for permanent skilled migrants it is 85 per cent. The employment-to-population ratio of the general population was about 62.6 per cent in 2019, while the labour force participation rate was 66 per cent (highlighted by horizontal lines below).

Figure 1.5 Labour market outcomes for permanent migrants



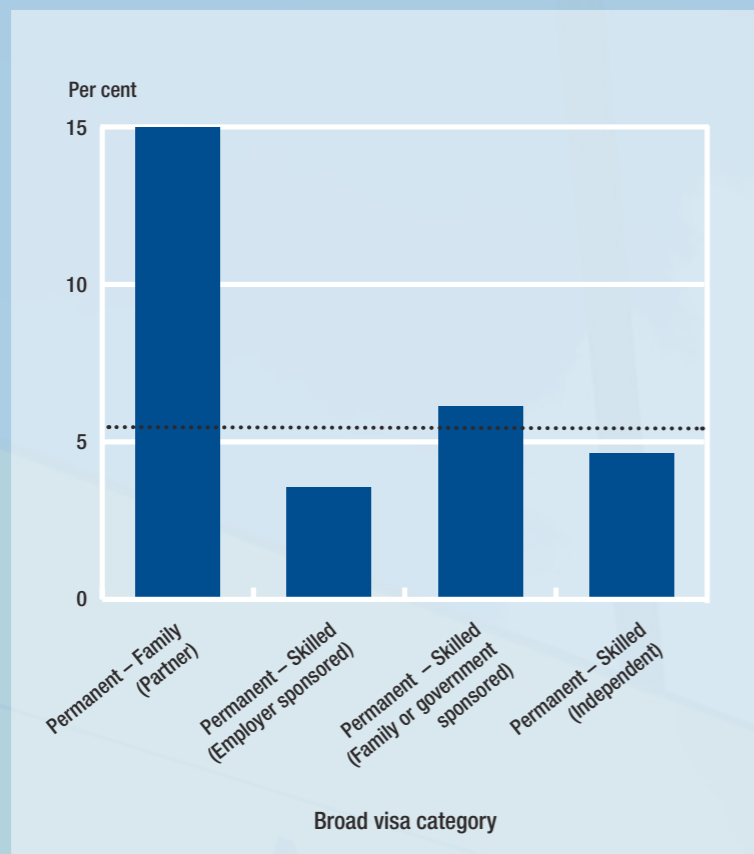
Source: ABS (2020) Characteristics of Recent Migrants 2019



We also see these differences play out in the unemployment rates of migrants as evident in Figure 1.6. Family migrants have unemployment rates of about 15 per cent, and permanent skilled migrants have relatively low unemployment of 4.6 per cent overall and 3.5 per cent among Employer Sponsored migrants. By contrast, the unemployment rate of the general population was 5.2 per cent at the time of the survey.

It is important to keep in mind that employment and skills are not the focus of the family stream. The aim is family reunification. As such, we should be careful about comparisons across visa subclasses.

Figure 1.6 Unemployment across different permanent visas

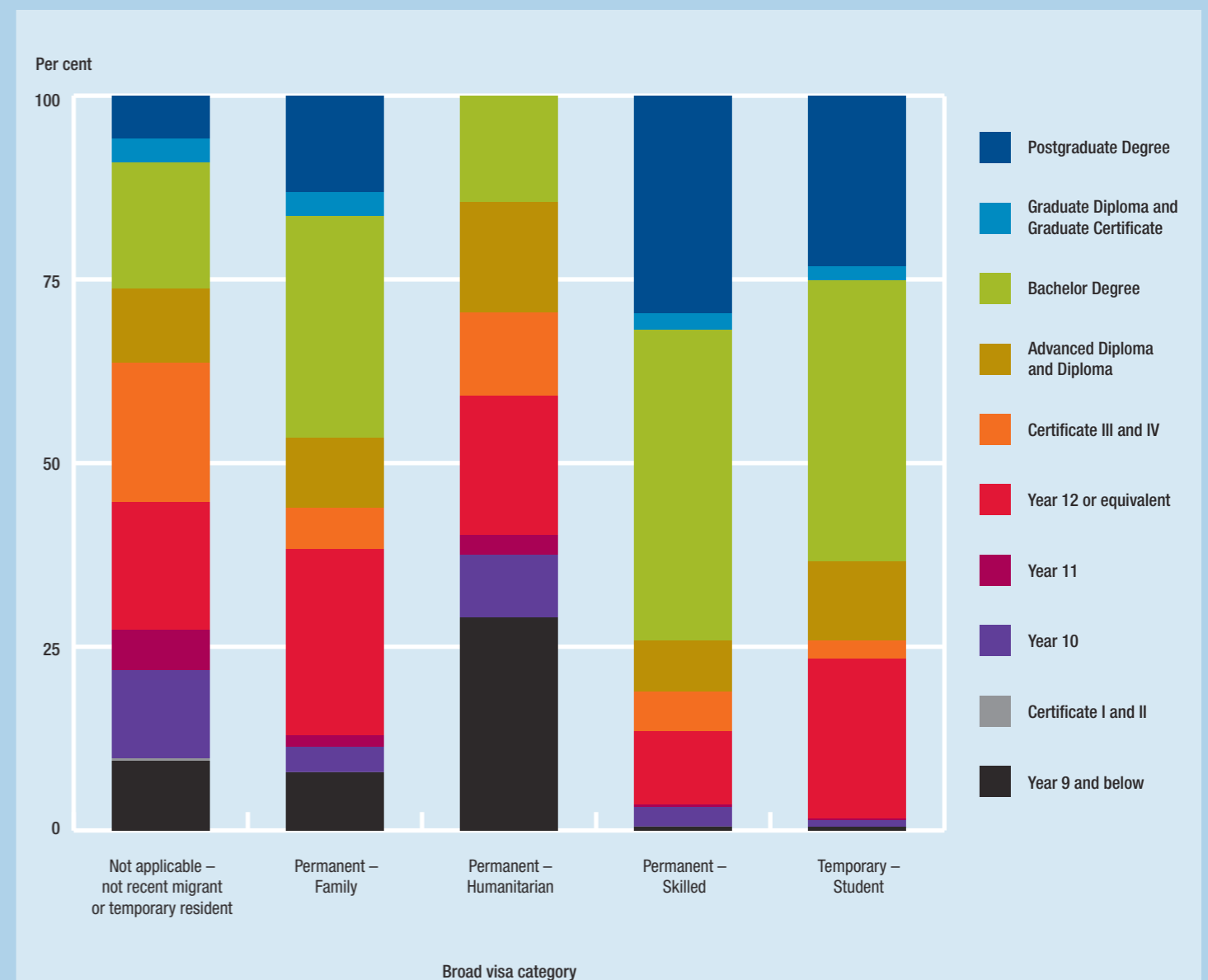


Source: ABS (2020) Characteristics of Recent Migrants 2019

Educational qualifications of permanent migrants

Permanent skilled migrants are, on average, more highly qualified than the domestic workforce, other types of migrants and incumbent migrants (those who arrived in previous waves). As evident in Figure 1.7, approximately 42.3 per cent of permanent skilled migrants held a bachelor's degree qualification, and 29.7 per cent held a postgraduate qualification when they arrived in Australia. This compares with six per cent of those who weren't either recent migrants or temporary residents who hold a postgraduate degree and 17.1 per cent with a bachelor's degree.¹⁸

Figure 1.7 Education qualifications by visa subclass



Source: ABS (2020) Characteristics of Recent Migrants 2019



Success criteria for Australia's permanent skilled migration system

Australia's points-based skilled migration system has been the envy of the world, and has been emulated by many other countries.¹⁹ The focus on skills, experience, age and language ability has allowed Australia to tightly control the migration intake, making it a tool to engineer favourable demographic and skills outcomes in the general population. The success of the program and recommendations for its improvement should be based on the following economic criteria.²⁰

1. High rates of employment, participation and skills utilisation

Full and active participation in the labour force is a key metric through which we gauge the success of the program.

Migrants exhibit high rates of labour force participation, employment and lower rates of unemployment than the native population. This is an important aspect of our migration system and runs counter to some of the narratives that suggest people come to Australia to "live on the dole". In fact, the Newly Arrived Resident's Waiting Period, which is the time permanent migrants must wait before becoming eligible for welfare payments, has steadily increased since about 1996, when it was increased from 6 months to 12 months. It was later increased to 24 months,²¹ and in January 2019 it was raised to 4 years.²²

This waiting period means that migrants who have nominated to work in a certain occupation – and cannot find a job that matches their skills immediately – might be forced to take any job initially, to keep themselves financially afloat. Hopefully, they find a job that matches their skills later but this may not always be the case. A study that looked at the effects of increasing the Newly Arrived Resident's Waiting Period found that in some cases, when the unemployment rate of migrants decreased, the incidence of skills mismatch increased.²³

2. Delivering the skills Australia needs

Skilled migration has created an important avenue for employers to source the critical talent that is necessary for Australia's economic growth and development. In Australia, skilled migrants are among the highest educated categories of migrants.

CEDA's 2019 report *Effects of Temporary Migration* found that a rise in the number of migrants was associated with positive outcomes for the local-born workforce. While the estimates do not allow us to say whether this effect is causal, i.e., whether the rise in the number of migrants leads to an increase in the employment prospects of local workers, it is well known that migrants contribute to economic growth through supplying their labour, and through consuming goods and services in their new country.²⁴

Recent reports have recommended changes to the skilled migration program, including updating the codes on which the eligible occupations are based.²⁵ This has been slow to eventuate. In response, and to ensure there was a speedy pathway for critical talent to enter Australia, the Federal Government launched the Global Talent Independent program. This allows for talented individuals working in seven select areas of future growth to migrate to Australia once they have been nominated by a peer (either an organisation or an individual). However, there have been reports of misuse and gaming of the scheme. In one instance, young workers were asked to provide nominations for migrants from overseas in exchange for cash.²⁶

3. Net fiscal benefit

The Productivity Commission's 2016 inquiry into Australia's immigration program, *Migrant Intake into Australia*, found migrants pay more into the welfare system than they take out of it. In part, this is again due to policies that have been designed to ensure this outcome, including the changes to the Newly Arrived Resident's Waiting Period.²⁷

Measured against the above metrics, Australia's migration system has exceeded expectations, but there is room for improvement. The pause to our migration program due to the COVID-19 pandemic provides us with a unique opportunity to take stock of the issues with the system and propose some improvements.

There have been a number of reports sounding the alarm about Australia's migration system and encouraging a reduction in our skilled intake. CEDA strongly cautions against this move. Migration is procyclical and when the economy starts up again and unemployment recedes, migrants will be attracted back to Australia. It is also evident that Australia's skills and training system continues to lag demand in key growth sectors such as IT, health and aged care. In the meantime, we should ensure that the appropriate systems are in place to make the most of new migrants' skills.

Box 1.1 Permanent skilled migration framework

Applicants for most skilled visa subclasses must meet the minimum threshold of 65 points and have an occupation deemed to be in-need.

The Federal Department of Education, Skills and Employment, in consultation with other government bodies, determines whether an occupation is in need. These recommendations are published in the department's Traffic Light Bulletin, which outlines the occupations included on the various skills lists, and proposes updates to the lists. Comment is then sought from business and other stakeholders.²⁸

Under Australia's points-based skilled migration system, points are awarded based on characteristics that increase employability such as: English-language ability; age; experience in Australia; level of qualifications; and working in an occupation that is in demand. For example, a Superior English rating (an IELTS score of above eight) gives a migrant 20 points, and being aged between 25 and 33 gives a migrant 30 points. Most visas in the skilled stream are points-tested. But applicants are not automatically eligible to migrate simply because they meet the minimum points threshold. Instead, people who have obtained enough points to qualify must still apply to immigrate through a system that assesses their application and then either invites them to proceed to the next step, or rejects their application.

Other countries, such as Canada and New Zealand, also use skills-based immigration, but how they select for skills varies widely.

Australia

Steps involved in migrating via the skilled independent stream:

- A candidate must undertake a valid skills assessment with the accrediting authority for their nominated occupation;
- They must have a police clearance certificate from Australia issued by the AFP, and a police clearance from every country they have lived in for more than 12 months;
- A candidate must have proof of English language competency – citizenship or a valid passport of the UK, New Zealand, Canada or the US; or the relevant competent English language standard (e.g. IELTS);
- They must check eligibility via the occupation list and obtain more than 65 points;

- Prospective skilled migrants and businesspeople are required to submit an expression of interest online to migrate to Australia using the Skillselect platform;
- For Independent Skilled and Skilled Regional visas, invitations are automatically issued through Skillselect to the higher ranking Expressions of interest (EOI);
- Once an invitation to apply has been received, documents such as English-language test results, identity, skills assessment, character and EOI documents are submitted;
- A visa application must be completed within 60 days of receiving an invitation.

Canada

- The Federal Skilled Worker program in Canada accepted approximately 360,000 migrants in 2019.
- Approximately 195,800 of these migrants were “economic migrants” – a combination of federal high-skilled workers, federal business workers and programs that allow provinces and employers to hire people to fill jobs that are difficult to fill locally.²⁹
- The government sets a low range value, a high range value and a target in its migration planning levels.
- Prospective migrants through the federal skilled-worker program apply through Express Entry – a system that allows migrants to submit an expression of interest. They first answer a series of questions to assess their eligibility and are then invited to make a formal application if deemed eligible.
- Candidates are assessed on several criteria/characteristics and are awarded commensurate points. The minimum number of points required to qualify is 67.³⁰

New Zealand

Applications for skilled migration to New Zealand were suspended at the time of writing due to the COVID-19 pandemic.³¹

- A minimum points threshold is required to qualify – 100 points out of a possible 160.
- Migrants with a job offer and who intend to work in an area of skills need are prioritised in applications for permanent residency.³²
- The New Zealand Residence Program national planning range set the number of permanent residents from 1 July 2018 to December 2019 at 50,000 to 60,000 approvals – a marked decrease from previous levels.

Box 1.1...continued

United Kingdom

- The UK operates a long-term work visa stream that allows the person, sponsored by an employer and in some cases working in an area of skills shortage, to stay in the country for up to five years and 14 days.
- The UK Settlement scheme allows people the right to stay in the UK indefinitely ('indefinite leave to remain') if they have been living and working in the UK for five years under the Tier 2 visas. Other avenues exist but are too numerous to list here.
- For the year ending September 2019, 87,441 settlement applications were granted.
- Since Brexit, the British Government has introduced³³ a points-based skilled migration system based on a person's ability to speak English, having a job offer from an approved employer and earning at least 25,600 GBP. Extra points can be earned if the migrant has advanced qualifications such as a PhD.

Table 1.1 Comparison of migration systems

	Points test	Employment offer	EOI system
Australia	✓	✗	✓
New Zealand	✓	✗*	✓
UK (new system)	✓	✓	✗
Canada	✓	✗	✓
United States	✗	✓	✗

* Not necessary but application is more likely to be accepted

Endnotes

- 1 Department of Home Affairs 2019 A history of the Department of Immigration, <https://www.homeaffairs.gov.au/about-us-subsite/files/immigration-history.pdf>
- 2 Page 29
- 3 Department of Home Affairs 2019 A history of the Department of Immigration, <https://www.homeaffairs.gov.au/about-us-subsite/files/immigration-history.pdf>
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CHAPTER TWO

Inefficiencies in Australia's permanent skilled migration program

Migrants have long faced barriers to full participation in labour markets. But for a system that seeks to strictly target skills that are in demand, it is surprising that many migrants to Australia end up in jobs beneath their level of skills and experience.

“Here’s to the security guards who maybe had a degree in another land...
Here’s to the laundry man at the Marriott who told me with the sparkle in
his eyes how he was an engineer in Peru.”¹

Ijeoma Umehinyuo, *Immigrants: First Generation*

Australia’s current permanent skilled migration system has been in place since 1996. Australia’s skilled migration system has become the envy of the world, with many countries attempting to emulate the program and capitalise on its success. Post-Brexit, the UK has expressed a desire for a program similar to Australia’s,² while other countries, such as Canada and New Zealand, already use a points-based program. The hunt for global talent is becoming increasingly competitive.

Migration has been central to Australia’s economic growth. Some estimates suggest it has contributed as much as 0.5 to one percentage point of our annual growth rate.³ Beyond its economic contribution, the permanent migrant intake has also allowed people from all corners of the world to “have a go” – to live, work and be part of the Australian migration story.

The numbers bear this out. Australia’s multicultural society is one of the most diverse in the world. With 28 per cent of Australians born overseas, and 50 per cent born overseas themselves or having at least one parent born overseas, our connections to other countries are stronger than those of many other advanced Western economies.⁴

Is skilled migration working effectively?

Since the late 1990s, most of the permanent migrants arriving in Australia have been skilled migrants. And the system has mostly worked well, with migrants having higher rates of employment, participation and wages than local-born Australians.

However, concerns have been raised about whether some categories of skilled migrants are required, and, in particular, the high levels of over-education among migrants.⁵ Migrants have long faced barriers to full and effective participation in the labour markets of destination countries.⁶ But for a system that seeks to strictly target skills that are in demand, it is surprising that many migrants to Australia end up in jobs beneath their level of skills and experience.

This chapter briefly explains the nature of skills mismatch and examines the data to identify:

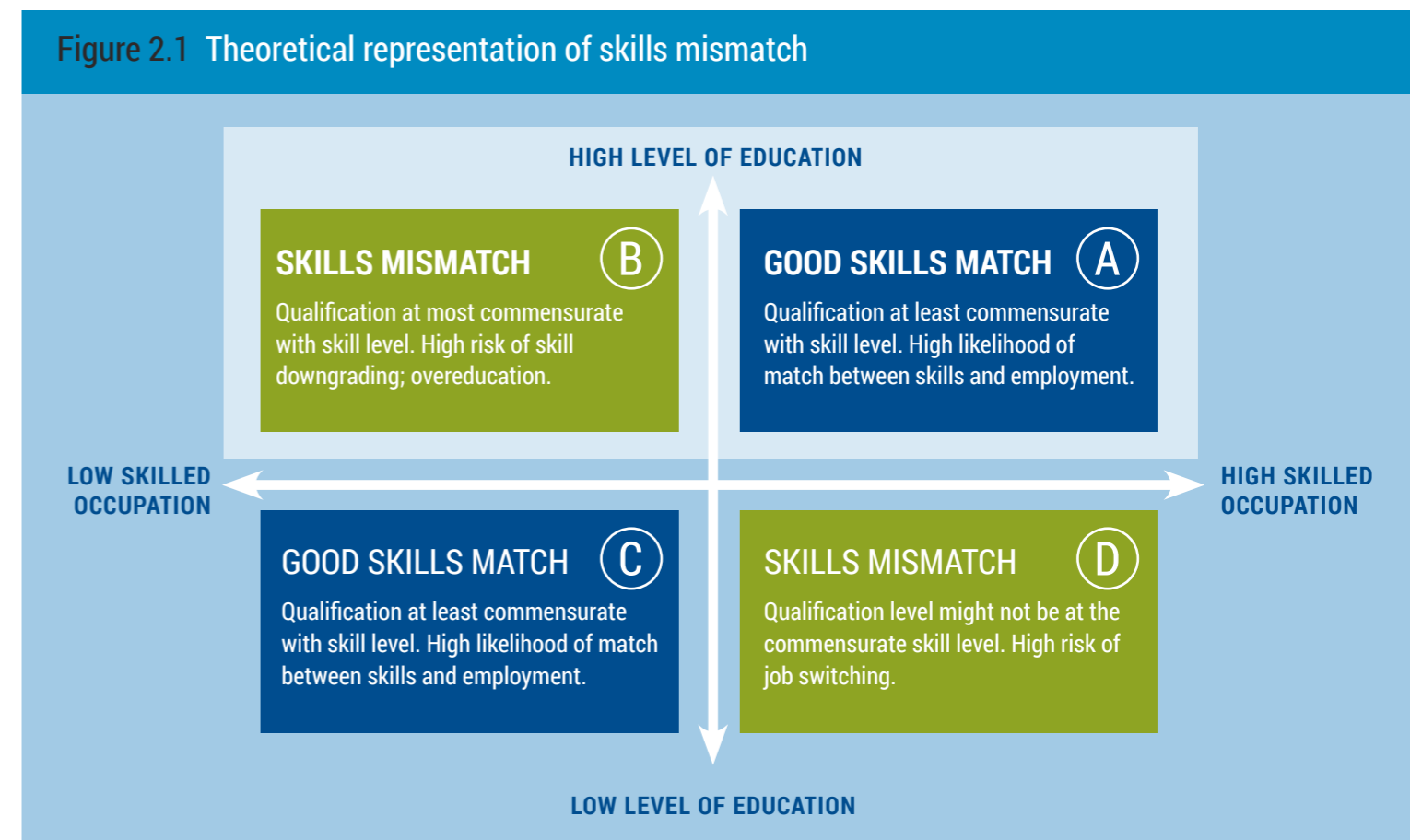
- The extent to which permanent skilled migrants have had difficulties finding work in an occupation that matches their skill level and the resulting cost to the economy;
- Possible explanations for the level of skills mismatch among migrants.

What is skills mismatch?

Before a skilled migrant arrives in Australia they must meet criteria regarding their occupation, skills, experience and age to be eligible for residency. However, there has been a growing number of cases where a recent arrival has not been able to find work in their field, and has instead had to work in a lower-skilled occupation than the one they nominated.

A good skills match occurs when a person is working in a job that uses their skills and they are appropriately compensated, see example A in diagram below. Skills mismatch occurs when a person is employed at a level that is beneath their skills and/or education, see B in the diagram below. For example, a postgraduate degree holder in physics working as a barista would be considered over-educated.

Figure 2.1 Theoretical representation of skills mismatch



In any labour market, there will be some degree of skills mismatch as the economy goes through the normal cycles of boom and bust, and new migrants experience some lag upon initial entry into the labour market. When a migrant is new to the labour market, there might be some frictional unemployment or underemployment as their skills and experience are translated into the Australian context.

There are not many studies that directly draw comparisons between the level of skills mismatch between skilled migrants and Australian-born workers as there is little data available on the extent to which this occurs among the Australian-born cohort.



The Graduate Outcomes Survey which surveys university graduates about how they are faring in the labour market, found that 28.1 per cent of full-time undergraduates were working in a job that didn't fully utilise their skills or education.⁷

Twenty per cent of graduates working full time said that insufficient jobs was the reason they were not working in a job that used their skills or education.

This provides a useful yardstick against which to compare our estimates of over-education, but we should also keep in mind that the two groups are very different. By virtue of the points system, skilled migrants will have some experience in the labour market, whereas the Graduate Outcomes Survey contains responses from undergraduate students who have recently left university, and as a result might not have as much experience in their field.

Further, given skilled migrants are specifically targeted for their occupation and education through a long-established process, we would expect they will have a lower level of skills mismatch than Australian-born workers and, in particular, graduate workers.

Box 2.1 The CSAM survey

The Department of Home Affairs' Continuous Survey of Australia's Migrants (CSAM) provides insights on the labour-market outcomes of permanent skilled migrants. The survey was first run in 2009–2011, and again in 2013–19. For this research, we use the second batch of respondents (2013–18).

CSAM is a longitudinal dataset and surveys migrants at two points in time. The first survey is administered within six months of settlement in Australia on a permanent or provisional visa, and includes those who might have been residing in Australia on a temporary visa in the last six months, before becoming permanent. These migrants are surveyed again 12 months later. The survey period referenced in this paper ran from 2013 to 2018.

The survey contains information about migrants' experience, including satisfaction with their time in Australia, whether they had difficulty finding a job and the reasons why. It also includes information about demographics, education, labour market outcomes and housing arrangements.

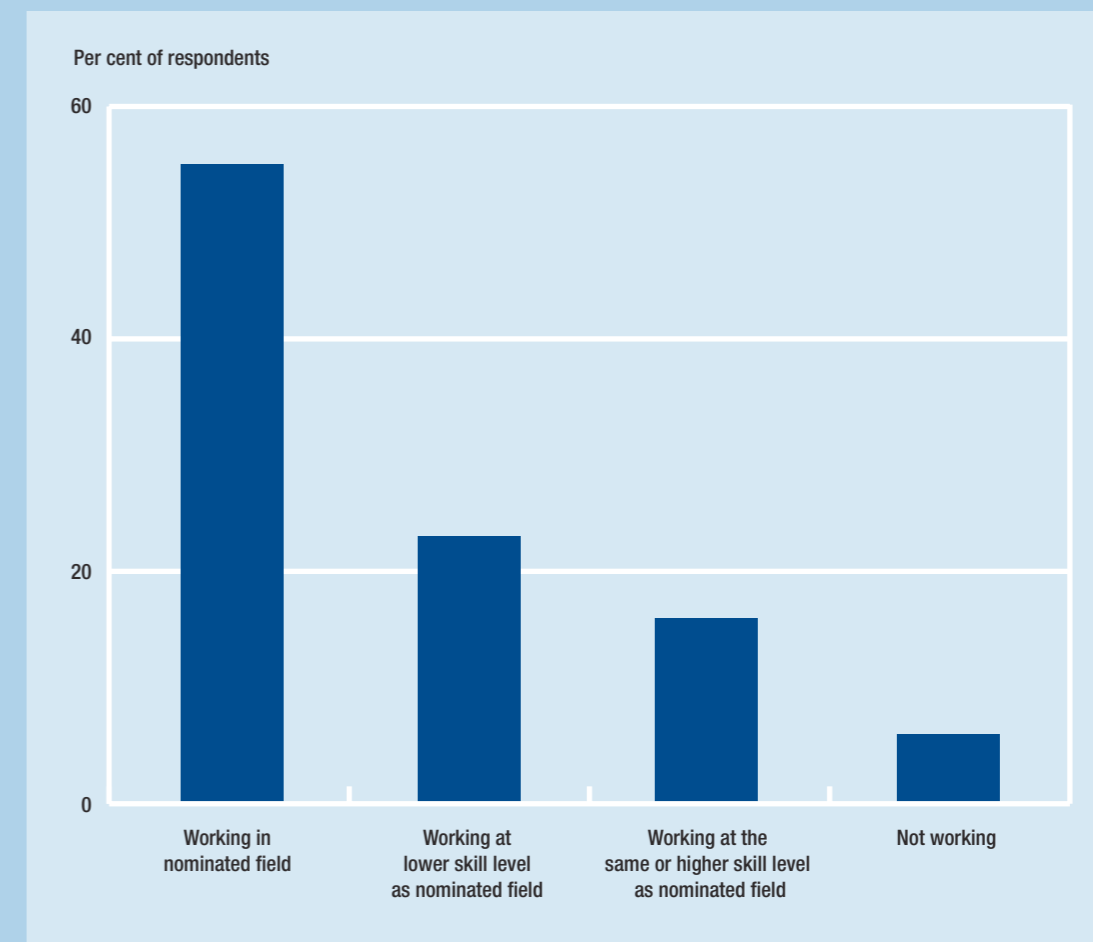
The survey's frequency at two points in time allows a more complete picture of whether the migrant was working in their nominated field 18 months after arrival.

Evidence of skills mismatch

The Continuous Survey of Australia's Migrants (CSAM) gives us some insights into the barriers faced by skilled and family migrants in their search for employment and a career in Australia. For the most part, it appears that our skilled migration system is working well, with about 71 per cent of people either working in their nominated occupation or at a skill level equivalent to or higher than their nominated field within 18 months after arrival. But this is not a universal experience: as Figure 2.2 shows, about 23 per cent of surveyed permanent skilled migrants experienced skills mismatch, that is, they found themselves in a job that was lower than their skill level 18 months after arrival.

Other studies show that migrants have over-education rates of up to 30 per cent compared with seven per cent among Australian-born workers. In other countries this difference was even more stark, with Canada reporting over-education rates of 30 to 50 per cent compared with the local-born population's rate of 12 per cent.⁸

Figure 2.2 Permanent skilled migrants working in nominated occupation



Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18

The estimated costs of skills mismatch

Now that we understand the extent to which skills mismatch is occurring among skilled migrants, it is worth asking how much this is costing us. Using the numbers of people experiencing skills mismatch, their skill level and median wages by skill level data, we estimate that skills mismatch identified through the survey is the equivalent of \$1.25 billion in foregone wages in 2018 for migrants arriving between 2013 and 2018. A 12-month duration for skills mismatch is assumed because the survey only identifies skill mismatch as it occurs in the first 18 months of arrival. There is no reliable basis upon which to estimate or assume how long that mismatch persists beyond that initial period. On this basis, the figure is a conservative estimate given that skills mismatch will persist for some and leave an earnings gap across their lifetime.

Estimates of how many people were experiencing skills mismatch were obtained from the CSAM data. The variable used contains responses from migrants during Wave 2 who were asked whether they were working in their nominated occupation. We can identify the skill level mismatch by looking at the difference between the skill level of their actual occupation and the skill level for their nominated occupation for permanent migration (ANZSCO skill levels 1 to 5). The skill level is measured by the level or amount of formal education, the amount of previous experience and the level of on-the-job training received.⁹

We then used ABS data to identify the wage differential that each skills mismatch brings about. That is, the difference between the median wage for the skill level of the occupation they nominated for and the median wage for the skill level of the occupation in which they are employed. More details of this calculation are available in the Appendix.

While our estimates use foregone salary earnings, we acknowledge this is not the only avenue through which skills mismatch negatively affects the Australian economy. While lower wages have a flow-on effect on tax receipts, we are unable to measure other impacts on the broader economy that occur through skills mismatch, such as unfilled vacancies, potential for crowding out in lower skill occupations, lower levels of productivity and innovation spillovers.

Deloitte Access Economics has estimated the potential economic losses caused by skills mismatch in Queensland.¹⁰ Their 2019 report examining this issue found that 50 per cent of all migrants in the state were not using their skills and experience. The report also found feelings of discouragement were high among migrant workers, with a number stating they felt misled about their likelihood of gaining employment in Australia. The report concluded that skills mismatch cost Queensland \$250 million in Gross State Product (GSP) over the 10 years to 2019 through lost wages and economic activity.¹¹

Migrants who are facing skills mismatch, in particular those who are over-qualified for their jobs, can also suffer mental health consequences. A 2012 study found self-reported mental health measures declined for both English and non-English speaking migrants who declared that they only used their skills rarely, sometimes, or never,

compared with those who used them often.¹² These effects persisted even after controlling for other characteristics such as physical health, country of birth, age and sex.

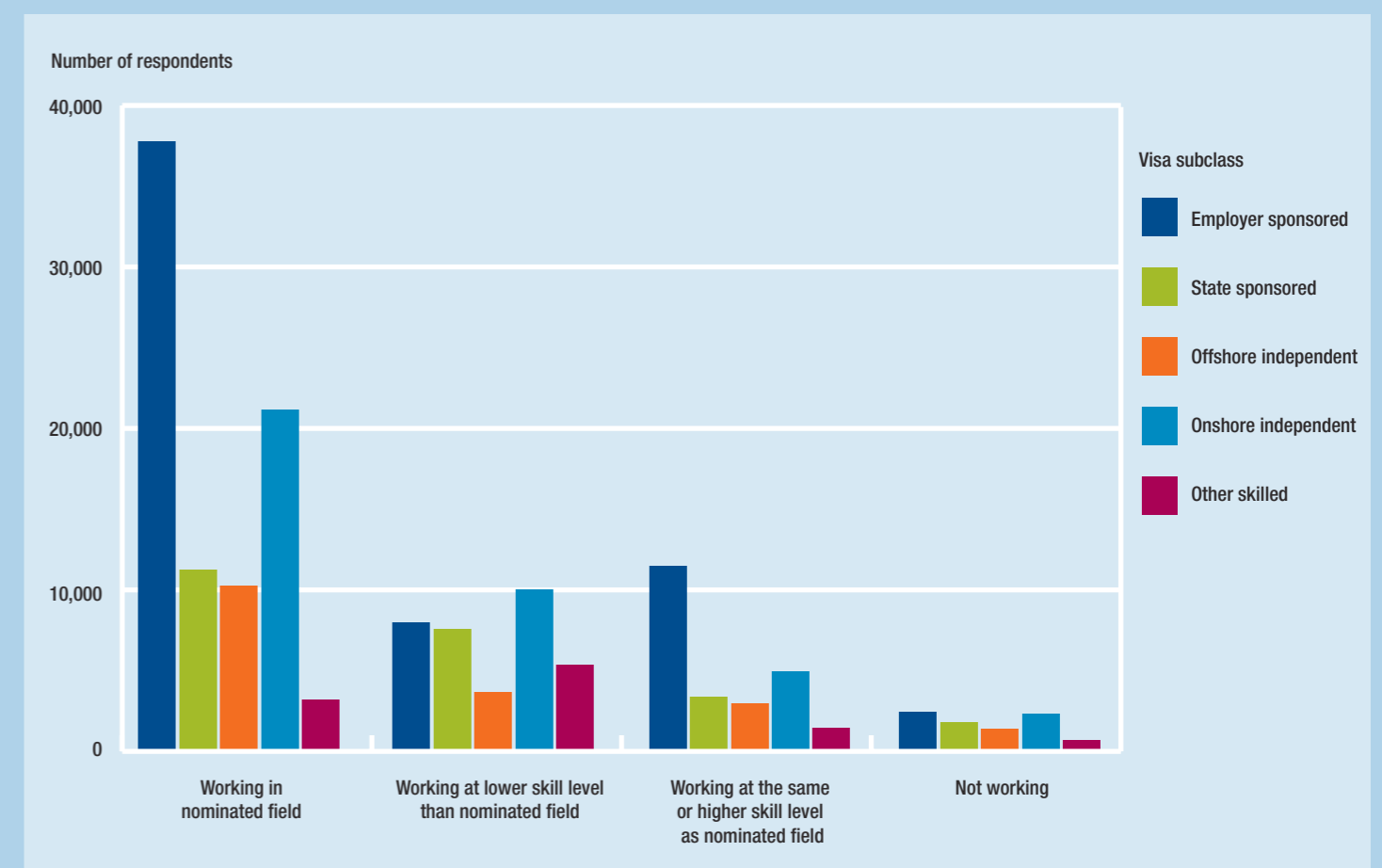
Possible explanations for skills mismatch

Categories of visa

As shown previously, overall the scheme is working reasonably well, with 55 per cent working in their nominated field, and even 15 per cent working at the same or higher skill level than their nominated occupation. Most of these successful matches are found in the employer-sponsored and onshore-independent schemes.

Among the 23 per cent of all skilled migrants working at a lower level than their nominated field, we find it is most common in the state-sponsored scheme, affecting 31.5 per cent of participants. That compares with 26 per cent in the onshore independent stream, 20 per cent in offshore independent and 13 per cent in the employer-sponsored scheme. Figure 2.3 illustrates the numbers of permanent skilled migrants according to work status in different migration categories.

Figure 2.3 Whether working in nominated occupation by visa category



Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18



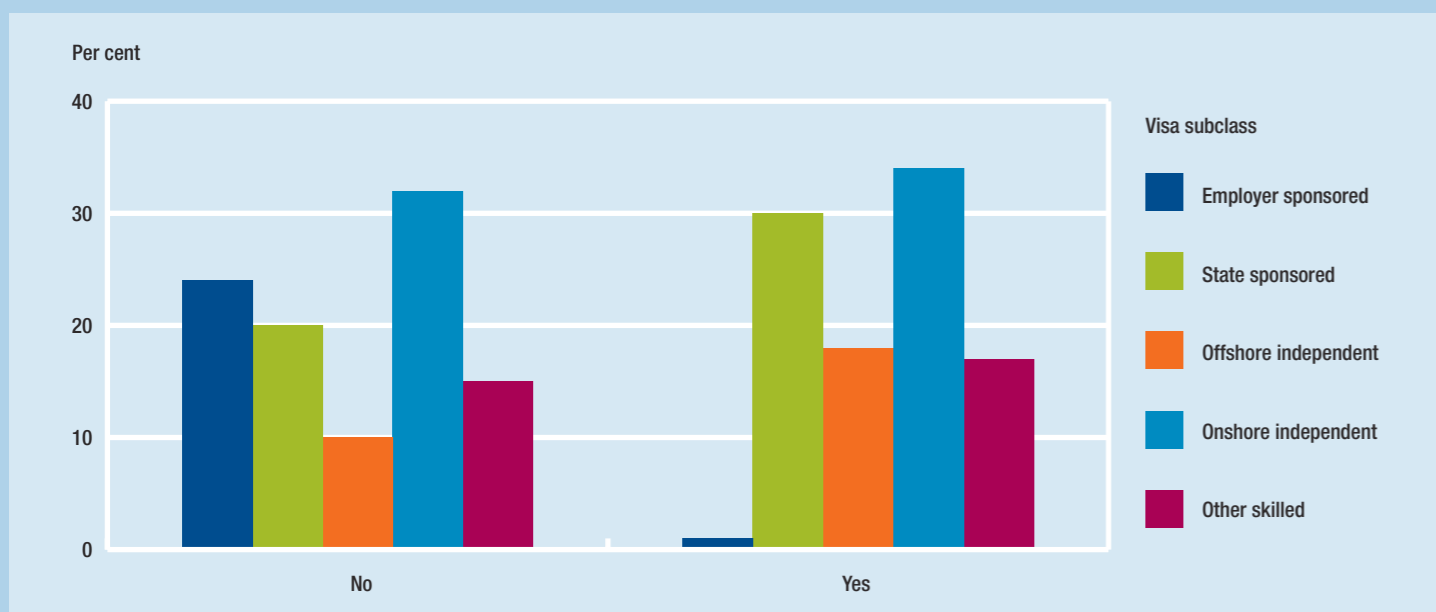
It is worth noting that the skills requirements of each state or territory will be different at any given time – an industry that is booming in NSW might not be booming in WA. The state-sponsored migration scheme therefore has a more extensive occupation list to account for these regional variations. However, this longer list applies uniformly across jurisdictions, which means that there are more occupations on the list than necessary in a particular state.

Another contributing factor could be that there is no ceiling on the number of visas approved per occupation in the state- and territory-nominated scheme, while there are monthly limits on visas in the skilled-independent and the regional-provisional schemes. With the increasing competition for points in the independent program, state-sponsored migration could be seen by aspiring migrants to be the easier option. For example, software application programmers encompass a range of skills, some of which are more niche than others. A person applying under this specialty who has a lower point score than an individual with generic programming skills will not be able to stand out from the crowd, even if they have skills that are in demand – they will be leapfrogged by the person with higher points.

The role of local experience and networks

Respondents to the CSAM cited insufficient experience as a major driver of skills mismatch and difficulty finding work. Of those who could not find work in their field, 17 per cent suggested this was due to insufficient experience. Of this group, 30 per cent were state-sponsored migrants, 33.6 per cent were onshore independent visa holders and less than 20 per cent were independent offshore visa holders (Figure 2.4). This finding is consistent with other research, including Cebulla and Tan (2019), who highlight a lack of local experience as one reason why migrants cannot find their first job in their chosen field.¹³

Figure 2.4 Not working in nominated occupation because of insufficient experience



Note: Figures could theoretically include those working at the same or higher skill level than nominated occupation.

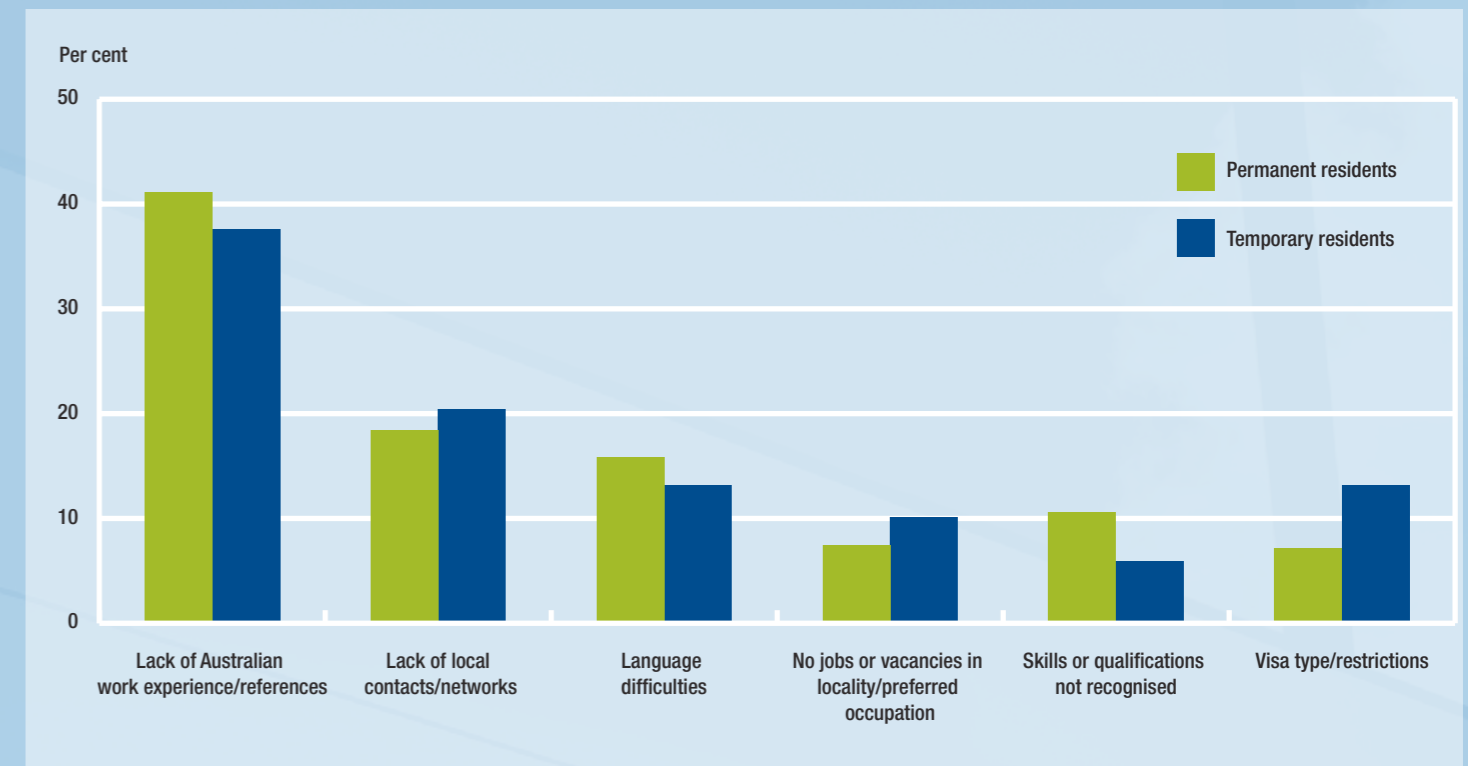
Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18

In addition to this, 33 per cent of respondents who had difficulty finding work in any occupation in Australia blamed having insufficient Australian experience.

Findings from the DHA survey are largely consistent with the ABS Characteristics of Recent Migrants survey, a survey of temporary residents and recent migrants.¹⁴ While the ABS survey focuses on a migrant's first job, the DHA CSAM survey instead focuses on any job the migrant had in the preceding 12 months.

While 53 per cent of permanent migrants surveyed appeared to have had no issues finding their first job, 26 per cent faced difficulties. The most cited issues were a lack of local work experience and a lack of local professional networks, followed by language difficulties, as evident in Figure 2.5 below.

Figure 2.5 Difficulties when finding first job in Australia*



* This does not add to 100 because for all migrants it could not be determined if they had a job or not

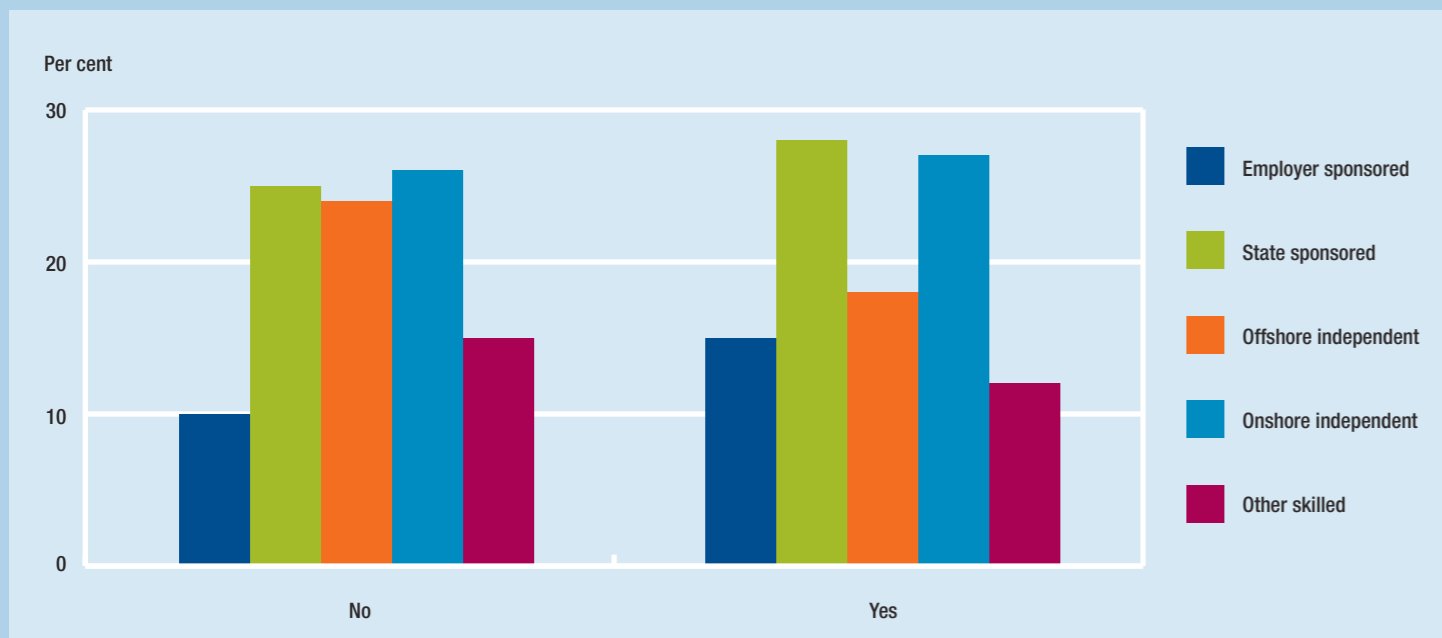
Source: ABS (2020) Characteristics of Recent Migrants 2019



Lack of jobs

Another potential explanation for difficulties finding a job is simply a lack of jobs in the nominated field. Of the migrants who cited not enough jobs as a reason for difficulty in finding a job in Australia, 28 per cent were state-sponsored migrants, 27 per cent were onshore independent and 17 per cent were offshore independent. As with most other metrics, employer-sponsored migrants do not report significant disadvantage in these categories as evident in Figure 2.6.

Figure 2.6 Difficulty finding job because not enough jobs



Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18

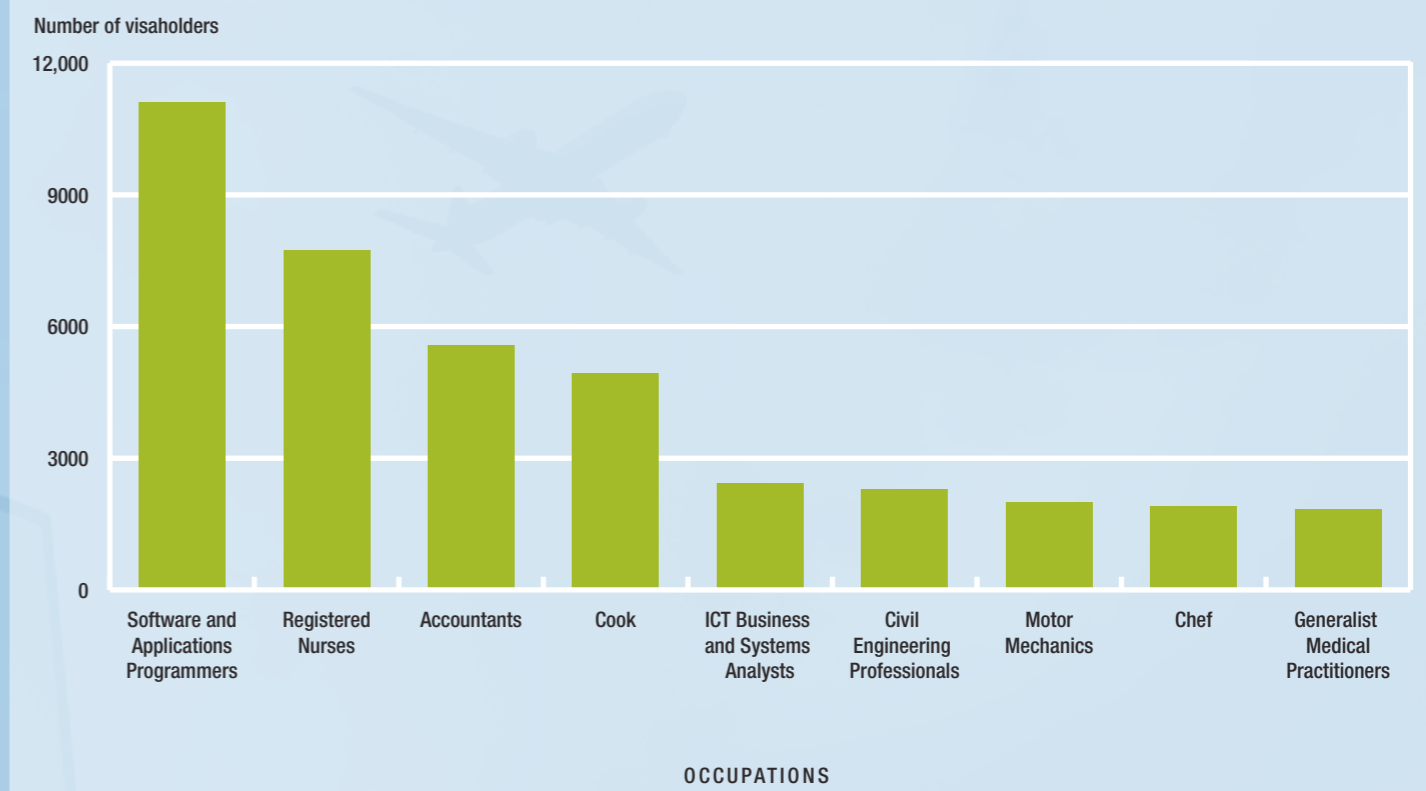
Which occupations fare best and worst?

The CSAM data also provides disaggregated data by occupation. Figure 2.7 shows that migrants were most likely to find work in their nominated occupation if they were registered nurses (77 per cent), motor mechanics (76.4 per cent) or software and application programmers (74 per cent).

In contrast, Figure 2.8 shows that migrants were least likely to find work in their nominated occupation if they were accountants (42.8 per cent working in lower-skilled occupations), civil engineering professionals (27.8 per cent) or cooks (25.7 per cent).

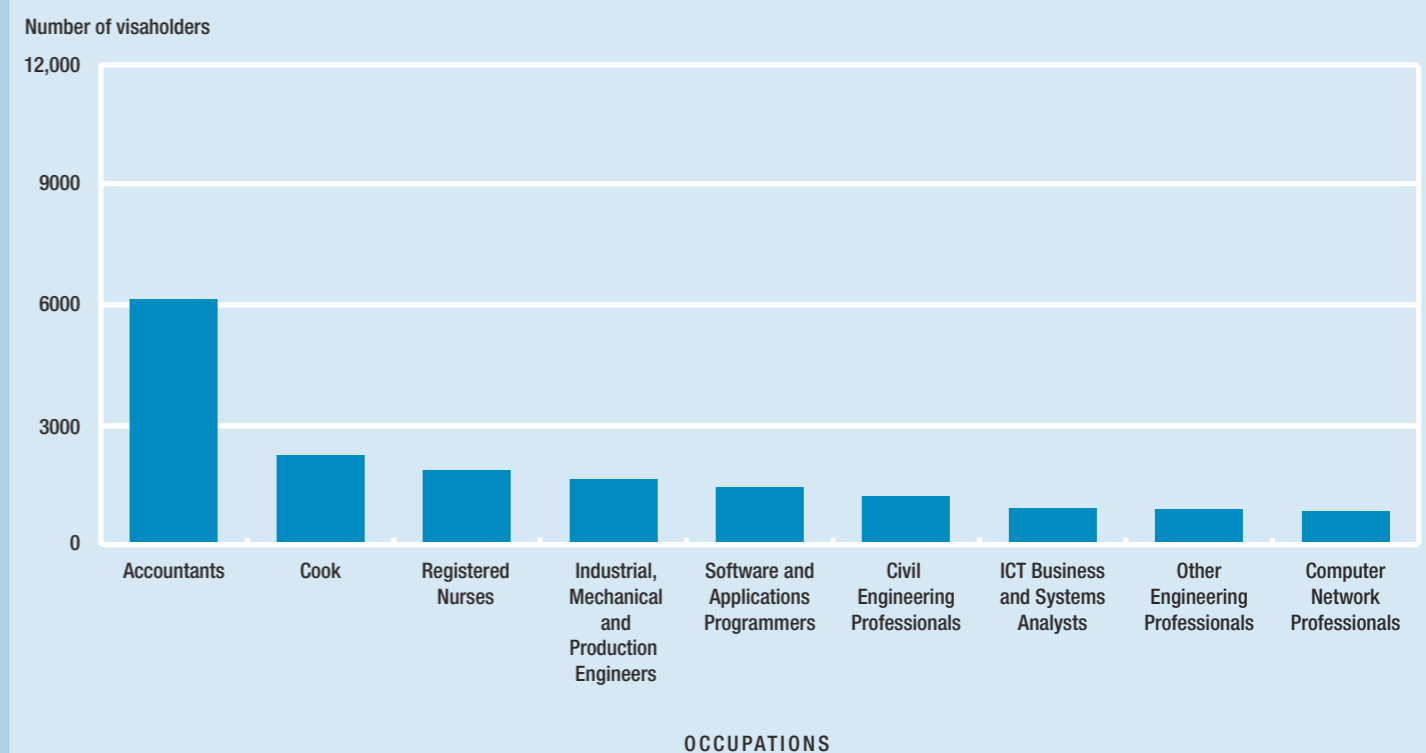
The Federal Department of Education Skills and Employment estimates show that over the last three years accountants have been shown to be in a no-shortage status.¹⁵ Civil engineering professionals were considered to be in shortage in some states and territories but not others. The list does not say whether cooks are in short supply, but chefs were considered to no longer be in shortage as of 2019.

Figure 2.7 Working in nominated field by occupation



Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18

Figure 2.8 Working at lower skill level by occupation



Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18

Explanations for skills mismatch in previous studies

The evidence presented here closely mirrors the findings of other studies. Researchers looking at state-nominated migrants in South Australia highlighted a slack economy and employer reluctance to hire candidates without local experience as some of the reasons why it was difficult for migrants to find work in their field.¹⁶ Respondents also highlighted issues with the recognition of skills and the challenges of a small labour market with insufficient jobs.

A 2007 study showed that migrants from non-English-speaking backgrounds had, on average, higher education qualifications than the local-born population, but were still more likely to be working in unskilled jobs than in the managerial roles their qualifications would suggest.¹⁷

A 2017 study found that awarding extra points and limiting migrants' eligibility for access for social security (including the adult English-language program) had no impact on their employment prospects, but might have had an effect on occupational downgrading for some groups.¹⁸ The author found a better way to improve migrants' employment outcomes was through improving coordination between immigration and employment departments.¹⁹

Researchers in the United States have suggested that there has been a long-term decline in the number of skilled jobs available for workers. A 2016 study found that skills downgrading in the US had been occurring since 2000, at the peak of the tech boom.²⁰ They theorise that the economy can go through cycles of boom and bust in the demand for technical and highly-skilled workers. The turn of the century has brought lower growth in demand for highly skilled individuals, and this has led to skills downgrading, that is, individuals choosing to work in occupations beneath their skill level. This has implications across the labour market, and in extreme cases can push low-skilled workers out of their jobs and into unemployment, or out of the labour force altogether.

This suggests skills mismatch may be occurring among migrants because they are recent entrants to the labour market, with lower levels of experience. This would not be surprising, as we know young, local-born university graduates face the same barriers to employment. A study from the UK found that over-qualification was highest among degree-level graduates. Thirty per cent of respondents declared that while a graduate degree was necessary to get their job, lower levels of qualification were required to do the job effectively.²¹

The role of policy settings

Forecasting skills needs

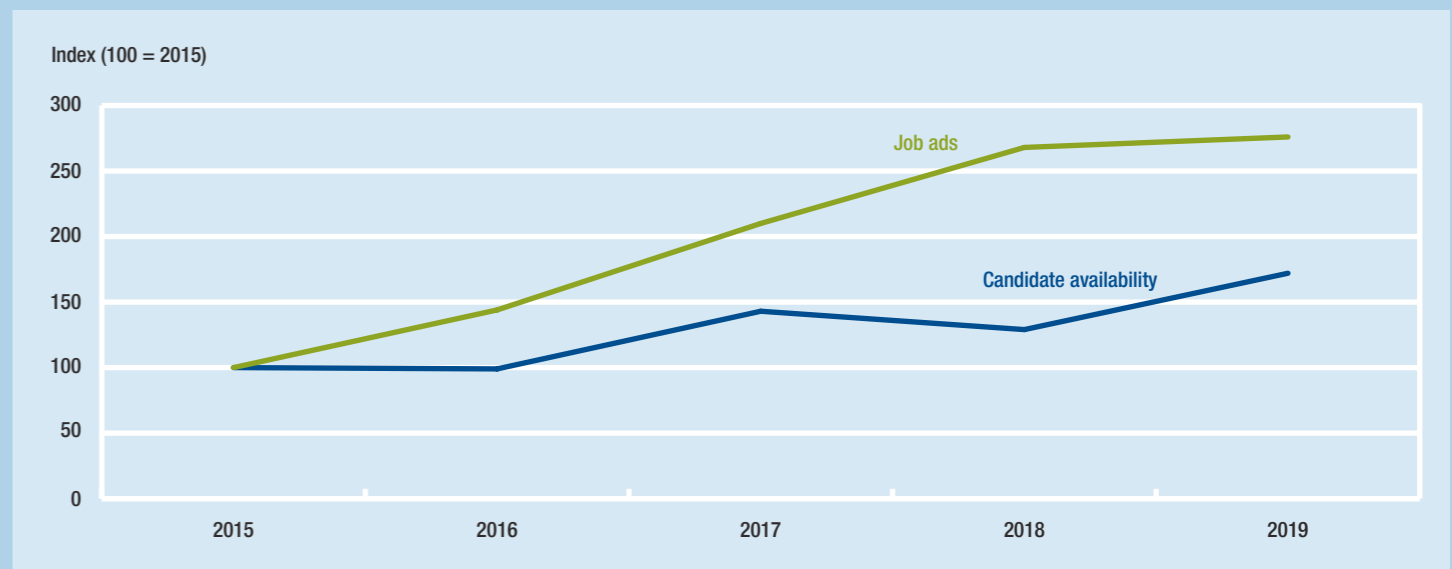
Predicting a country's skills gaps is difficult. Australia's approach has involved creating lists of in-demand occupations based on input from stakeholders including government departments, businesses and other industry bodies. More recently, the Federal Government created the National Skills Commission to help improve forecasting for both the skilled occupation list and apprenticeship funding.²²

The Federal Department of Education, Skills and Employment creates occupation lists after quantitative research on the skills needs of the economy.²³ Qualitative information from roundtables, meetings and online submissions is added to this analysis. The information is then made public in the department's traffic light bulletin publication, which notes changes to the lists and includes occupation removals (red), additions (amber) and movement between the short- and medium-long term lists.²⁴

As the department has noted, however, this process is hampered by the vague definition of what constitutes a skills shortage, insufficient data, the inherent inaccuracy in forecasting shortages and the time it takes to discover a labour-market shortage.²⁵

The occupations defined by the Australian and New Zealand Standard Classification of Occupations (ANZSCO) codes are outdated and inflexible, and have not been updated since 2013.²⁶ As a result, in-demand occupations that do not readily fit within these codes can fall through the cracks. For example, there has been rising demand for data scientists since 2015. Data provided to CEDA by job-search website SEEK shows that available jobs outstrip available candidates by a significant margin.

Figure 2.9 Data scientist job ads vs candidate availability



Source: SEEK special data request, November 2020



Despite this demand, the occupation of data scientist is nowhere to be found on the skilled occupation list.²⁷ In 2019, the Federal Government announced that data scientists would be classified as “information and organisation professionals NEC”, which also includes electoral officers and lobbyists. Such band-aid solutions result from a system that is slow to respond to labour-market changes. Reports have long shown that the occupation codes are in dire need of updating.²⁸ Without these updates, there is little scope for migrants with cutting-edge skills to enter the market.

By contrast, the UK’s Migration Advisory Committee conducts detailed analysis on how skills shortages are identified, and outlines in detail the methodology for each occupation on the final list. This list is reviewed periodically alongside analysis of the occupations that made it to the list and why they were included.²⁹ In short, the smooth operation of the system relies on almost perfect information about the skills needs of the economy and up-to-date occupation codes.

Selection of skills

As discussed in Chapter One (Box 1), in most points-based skilled migration systems, prospective migrants apply to emigrate by submitting an expression of interest (EOI) through a government website. These EOIs are then aggregated into a system where the relevant authority decides whether to invite a candidate to apply based on selection criteria that are ranked by the number of points they afford the candidate.

People applying to enter Australia under the skilled stream lodge an EOI through the SkillSelect portal. Through the process outlined in Chapter One, migrants are then invited to apply through SkillSelect if they meet the relevant points threshold and their occupation is in demand.

The system controls the number of candidates invited to apply by adjusting the occupation ceilings, which limit the number of invitations issued from a given four-digit occupation group. Notably, occupation ceilings do not apply to the state- or territory-nominated, or employer-sponsored or business-innovation investment visa subclasses.³⁰ Invitations are subject to monthly caps (yearly amounts averaged over a 12-month period).

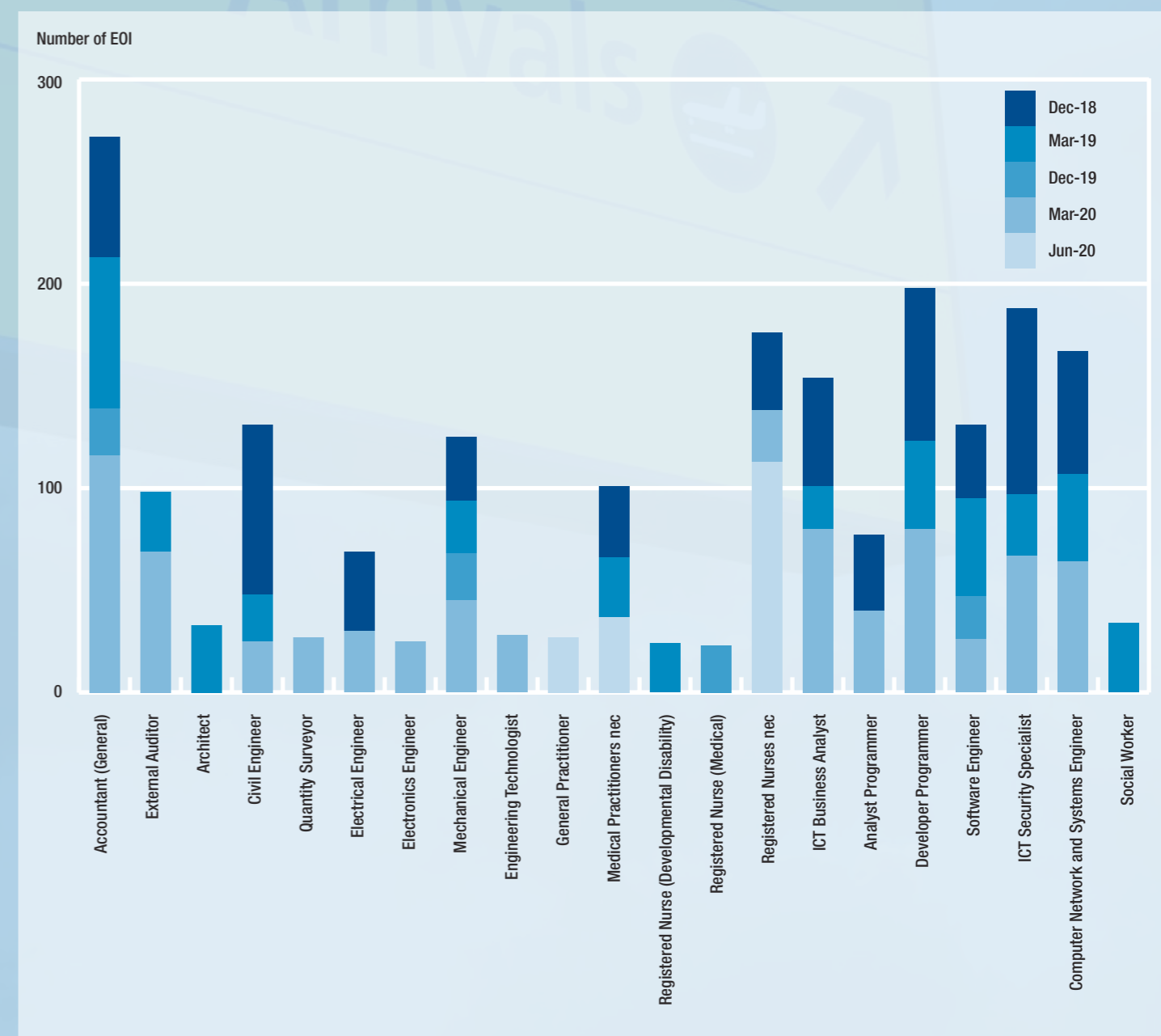
This system of restricted and staggered allocation is meant to ensure places are available throughout the year. However, it could also lead to situations where people continue to enter the labour market every month even though demand for their occupation is declining. Similarly, demand for a given occupation could spike rapidly, and the occupation ceilings may not be able to adjust quickly enough to cater for this demand.

The evidence suggests there is a significant level of skills mismatch in the permanent skilled migration system. Migrant surveys indicate a range of factors are at play, including a lack of local experience, local professional networks, not enough jobs where the migrant is living and language difficulties. Policy settings are also likely to be playing a role, including settings within the state-nominated stream, the

responsiveness of the EOI system and the formulation of skills shortage lists.

While Australia’s skilled migration system is world-leading, it is surprising that skills mismatch can happen in a highly targeted, points-based system like ours. The system is not meeting the skills needs of the economy as well as it should be, and is not sufficiently responsive to our dynamic labour market. This has led to band-aid policy solutions, such as those implemented to allow data scientists to migrate. The system has good foundations and served us well in the past but it can be optimised to ensure we continue to attract and retain the best talent.

Figure 2.10 Number of SkillSelect expressions of interest by occupation



Source: Department of Home Affairs (2020) SkillSelect data

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Arrivals  

CHAPTER THREE

Reducing **skills mismatch** in permanent skilled migration

Australia needs a new system of skills matching that improves the quality of job matches, so that migrants are using their skills and employers' needs are being met.



The previous chapter demonstrated that skills mismatch is occurring in around 23 per cent of the permanent skilled migrant intake. It is surprising this should be occurring given the strong focus on skills and tightly-defined occupations in the migration program. The surveys we analysed considered several possible factors contributing to this situation, including a lack of local experience and local networks, a lack of jobs in their nominated occupation and language difficulties. In addition to this we also discussed how the current policy settings and administration of the system amid changing skills demands can cause inefficiencies in the system.

The COVID-19 pandemic offers the Federal Government a unique opportunity to review the system and take stock. A priority for the permanent skilled migration system in the future should be to create more stable “matches”, so that migrants are fully utilising their skills and employer needs are being met.

Recent initiatives such as the Global Talent Scheme and the National Skills Commission have the right intent but Australia needs an integrated and transparent solution to bring both sides of the migration market together – skilled migrants and potential employers. This chapter focuses on how Australia’s permanent skilled migration system could achieve better and more stable matches in the future.

In the longer term, Australia needs a new system of skills matching that maximises the number of good employer-employee matches, and delivers better and more timely information about labour market demand to state and federal governments. In the meantime, the current system must be made more transparent, focus on keeping occupation codes up-to-date and regularly review how migrants fare in the labour market to ensure they are receiving adequate support. To help migrants who are already here, the government should also reduce the time migrants have to wait before they become eligible for unemployment benefits.

Talent matching

Hiring staff is expensive, and the cost of a bad match can be significant for both the employer and the employee. To address this issue, there has recently been a proliferation of talent-matching firms and startups that work to find the right roles for the right people.

A similar logic is at play for the matching that takes place between migrant and country.

Migrants invest a lot of money and effort into the process of moving their lives to a country such as Australia. Under Australia’s skilled migration system, a prospective migrant must complete numerous health and character checks in addition to qualification and language assessments and in most cases they must have skills that are in demand in Australia. Once in Australia, it is difficult and time-consuming to reverse the decision by either returning home or trying to make it in a third country.

Thus far, Australia’s migration story has relied heavily – but not exclusively – on a points-based system. Under a supply-driven scheme such as this, prospective migrants apply to move to Australia for work, and must satisfy a government-established set of criteria that are scored in a points system. Such systems can facilitate appropriate matches between employers and migrants, but there is still room for improvement.

Recent OECD research that looked at how to improve the use of skills in workplaces across the board, found demand-driven approaches – that is, employer-sponsored systems in which a business guides the hiring process – helped to better equip new graduates and workers.¹ The authors argued that a traditional supply-side focus – where graduates were supplied without taking note of the needs of businesses – often overlooked how workers’ skills were used in the workplace *in practice*. They found that better incorporating employers’ needs in the hiring process would greatly enhance the experience of both workers and employers.

The demand-side approach is one that many other countries have used in deciding on their migration systems. More countries are choosing to go down the path of allowing people to migrate only if they have a job offer, thereby making employment a condition of their continued residence in the country.

Australia’s permanent skilled migration system currently uses both approaches. It includes workers who are selected to arrive in Australia before they necessarily have a job offer, and workers who are sponsored by an employer. More recently, the Federal Government has improved the design of the skilled occupation lists to incorporate employers’ feedback and advice from government departments. But as evident in Chapter 2, there are still substantial mismatches between the skills of permanent skilled migrants and jobs in demand.²



A new platform to match permanent skilled migrants to jobs

CEDA proposes the establishment of a government-organised and regulated skills-matching platform that would allow employers to receive applications from, negotiate with and offer employment to overseas workers before they arrive in the country. Workers who receive a job offer on the platform would then be fast-tracked through the permanent residency (PR) process and be able to start their new job.

We do not propose that this platform replace the existing permanent skilled migration streams or the current system altogether at this time. Instead, this new stream would be accommodated within the Federal Government's permanent migration cap. The initial number of places offered would be relatively modest (about 2000), to allow time to assess the best technology for the platform and evaluate its success in achieving better labour-market outcomes.

If successful, this approach could be applied more broadly across the permanent skilled migration program. It could also be used to identify skills needs, for labour market testing and for temporary skilled migration. For example, as more employers use the system, it could provide a rich and detailed real-time database for government on skills in high demand that are not being filled locally. This could assist in both migration policy design and in allocating funds to Australia's training system.

Demand-driven migration

As discussed earlier in this chapter, migration systems can broadly be divided into two categories based on the requirements a migrant must fulfil to qualify for a visa: supply-driven and demand-driven. In a supply-driven system, a migrant who accumulates enough points, and meets other criteria such as character requirements, qualifies for a visa. Australia, Canada and New Zealand all use versions of this system but allow for some employer-sponsored (demand-driven) migration. In a demand-driven system, a migrant can receive a visa only if they have secured a job offer in the country or a cross-border intra-corporate transfer. The US and several Gulf nations use this model.ⁱ

Our proposal would introduce more demand-driven features to Australia's permanent skilled migration system. As the goal of the program is to increase the supply of skilled labour in particular job categories, an increased focus on the needs of employers should help address some of the current issues with the system.

Australia's skilled points-based visa system does not allow a potential migrant to qualify on points alone. They must also have skills on the occupation list. This represents a demand-driven feature, even if its implementation does not seem to be immediately responsive to the actual needs of domestic employers.

ⁱ Notably, the United Kingdom is investigating a similar model for its post-Brexit immigration system.

Building on existing approaches to skilled migration

Australia already uses some employer-sponsored permanent skilled migration. The Employer Nomination Scheme – Direct Entry (visa subclass 186) allows an employer to nominate migrants in certain high-skilled professions for permanent residency. As Chapter Two demonstrated, this visa subclass has the lowest levels of skills mismatch across the permanent skilled migration program.

If first having a job in Australia becomes a requirement for a visa, why not adopt the US model, where the job search is independent of the visa process and government? Firstly, we propose that the Federal Government pre-screens potential job candidates to speed up the visa process once a job offer has been made. This would help ensure robust participation by employers.

If an external search-and-matching process is used before the visa process begins, there could be delays. Employers would be loath to make a binding job offer if the new employee's visa takes several months to process (the current processing time for most PR visas is measured in months). These hurdles make international recruitment riskier for a business. With a government-sponsored platform that pre-screens applicants, a successful job applicant is more likely to receive a visa than if the job offer is made independently.

Table 3.1 outlines some of the differences between the current Skilled Independent and Employer Nominated programs, and our proposed Skills Matching visa. Among these only the Skilled Independent visa requires a points assessment. While our proposed Skills Matching visa would not require an occupation on the skilled occupation list, this is a requirement for both the Employer Nominated and Skilled Independent visas.

Table 3.1 Comparing new program with existing programs

Criteria	Employer Nominated	Skilled Independent*	Skills Matching Visa
Points requirement	No	Yes	No
Employer involvement	Yes	No	Yes
Requires occupation on SOL	Yes	Yes	No
Government fast-tracks applications	No **	No	Yes

* could also include other points-based visas such as Regional Provisional

** could take up to four months, with 90 per cent of applications finalised within six months



Historical precedent – Skill Matching Visa Subclass 134

The subclass 134 Skill Matching visa, which operated in the 2000s until around 2010, provides a precedent for the scheme that CEDA recommends. It was designed to help state and territory governments and employers access the hard-to-find skills and expertise needed to help their economies and firms develop.

Under this visa, prospective migrants could apply online provided they met the eligibility criteria for General Skilled Migration, including age, language skills, skills assessment for the nominated occupation, evidence of work experience and nomination by a state or territory government (if applicable). These details would be uploaded to a database that state and territory governments, along with prospective employers, could use to identify workers who met their specific skills shortage and apply to the Federal Government to sponsor them.

Sweeping changes to the system in 2010 spelled the end of the 134 visa, which had a low cap and relatively few applications.³ We believe, however, that this was partly because online recruitment platforms were far less common a decade ago than they are today. It is now the norm for many companies to use job-search websites for recruitment. Further, the launch of the Federal Government's online platform SkillSelect in 2012 substantially increased the number of skilled migration applications the Department of Home Affairs receives online.

Features of the new platform

Screening of applicants

Only jobseekers who meet certain predefined criteria would be allowed to participate in the new system. These could include holding a certificate of English-language proficiency or proof of educational attainment, and evidence of good character. This is to ensure a high average quality of job applicants and to keep applicants to a reasonable number. These requirements would not present a significant additional burden, as some are already part of the points-based program. Having such a filter in place should also streamline the creation of an expedited permanent residency process. Once they receive a job offer, a prospective migrant would then complete an expedited permanent residency process so they can move to Australia and start their job as soon as possible. Employers and prospective migrants would still have to go through a regular hiring process while using the platform.

More efficiently allocating jobs

In any program that relies on businesses for hiring workers, there is always a latent concern of misuse of the system both by employees and employers. In situations like this, the welfare of the employee should be a priority.

So while it may seem appealing to require migrants to remain with their sponsoring employer for a period after starting their job, we believe it is better to let them terminate their contract if needed, and begin searching for a new job, rather than limiting the efficient movement and allocation of labour. Tying migrants to their initial employer could lead to adverse working conditions and lower take-up of the program.

If the search-and-matching process on the platform is efficient and creates high-quality matches, the worker is likely to be happy with their new job and would not want to switch jobs shortly after moving to Australia. Once a sufficient number of new PR recipients go through the platform, the job-skill mismatch would be alleviated not only on the national level but also on the regional level, as migrants would, by default, be moving to an area with jobs that match their skill set.

Under the current system, some migrants fall victim to their lack of knowledge of the local labour-market conditions and migrate to an area with lower demand for their abilities. These decisions increase the cost of searching for a job and further exacerbate slack in the labour market, whether through underemployment or under-utilisation of skills.

Market stewardship

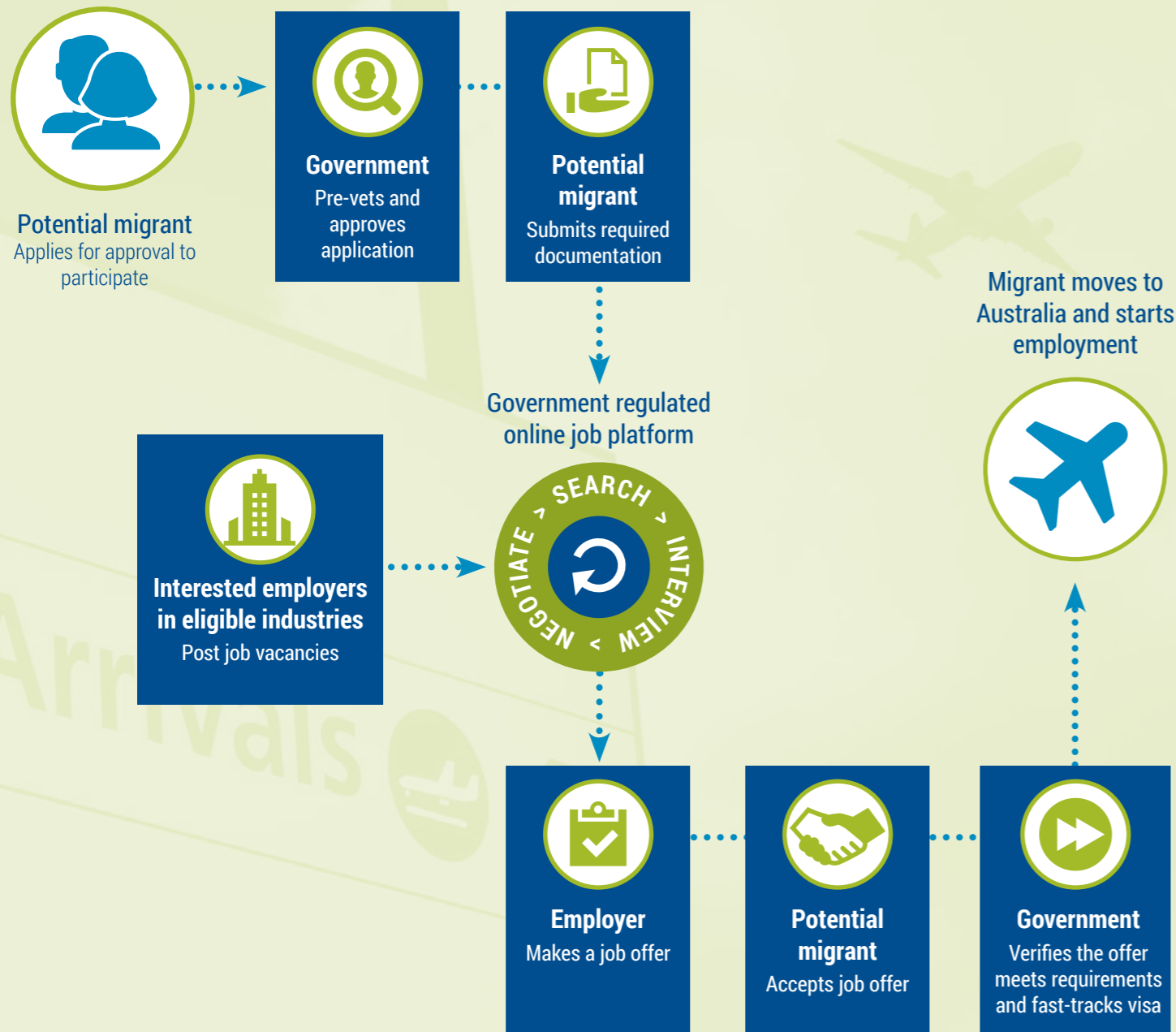
The other role the Federal Government would play in this system is that of a market designer or market engineer.⁴ The goal of government should be to provide a secure market environment that facilitates interaction between supply and demand. For instance, as we discuss below, the government plays an important role in monitoring employers' and employees' legal compliance.

This design would also facilitate information gathering. A central online platform would allow the government to identify high-end skills that are in demand, based on high-demand occupations. Additionally, the platform would be able to respond to shifting trends among both skilled migrants and employers. By observing applicants' outcomes and noting which characteristics are particularly valued by employers, the criteria for workers to participate could be continually refined.

For example, employers in certain industries might choose to be flexible on their requirements for English-language proficiency. This may be true in the market for aged-care nurses working with ageing foreign-born populations. In this instance, Chinese, Greek or Italian fluency may be much more highly valued by employers than the precise level of English-language ability. The platform's threshold qualification could then respond dynamically to these changing conditions and potentially lower English-language requirements for that occupation.

Such a system would better adapt to the evolving needs of the Australian labour market, filling shortages as required and guaranteeing that incoming migrants can start a job straightaway.

Box 3.1 How does it work?



Step 1:

Prospective migrants apply to participate in the program, submitting documents to the Federal Government including, for example, an anonymised summary of their education and employment history, and how their skills would be relevant. If approved, the candidates then register and submit their documents to the job search platform.

Step 2:

As this is occurring, businesses would register their interest in entering the platform after appropriate vetting from the Government.

Step 3:

Upon joining the platform and posting a job ad, businesses could begin searching for, interviewing and negotiating with prospective employees who meet their skills requirements.

Step 4:

Once a prospective migrant and employer have reached an agreement and an offer has been made, the Government will verify the offer and, if everything is in order, fast-track the application.

Note:

Because the Federal Government vets candidates and employers as they join the platform, and is responsible for approving and fast-tracking the visas, there will be a tight limit on the number of visas allocated via the platform.

Implementation issues

After an appropriate procurement process, the platform's technical implementation could be delegated to an expert such as an existing online job-search provider. Having an established online job search provider operate the platform should reduce initial and ongoing participation costs for employers as they are likely to be familiar with such providers. In this way, the process of posting a vacancy seeking foreign workers would be virtually identical to posting one targeting Australian workers.

The alleviation of the skills mismatch and the resulting increase in the dynamism of the domestic jobs market through the better matching of skills in the platform should more than justify the set-up costs. The platform can only be successful, however, if it has a good balance of migrants and employers. If it has few jobseekers or if their skills are not sufficiently varied, businesses would have little reason to participate. Similarly, if there are few potential employers or if they represent too narrow a slice of labour demand, migrants would have little reason to enrol in the platform, or they might find their search futile and drop out.

The platform has some clear advantages for potential migrants and employers, as shown in Table 3.1. This includes a fast-track process, no skilled-occupation-list requirement and no points testing. But the question of how to guarantee participation is crucial. The platform could start as a pilot project alongside the main permanent-resident intake in a single industry or state, or as a complement to the Global Talent Independent program. As the new pathway becomes more established, it would attract new participants on both sides.

Over time, as more employers and prospective migrants register for the platform and it becomes mature, it would operate like any other job site, such as by using algorithms that would nudge people to apply for jobs that meet their unique skill set or alert employers to new workers entering the system who might have skills they need. The program would use past information on successful matches to create more connections between prospective migrants and employers.

The platform would need safeguards to guarantee that existing Australian citizens and permanent residents are not disadvantaged by the availability of potentially cheaper overseas labour. To achieve this, it could be restricted to certain industries and broad occupation skill levels. But we must be careful not to make the lists too restrictive, to avoid replicating current problems with the system.

A mechanism to monitor and audit salary offers may also be necessary to prevent employers from offering wages significantly below market rates. Ensuring that any contract offers are genuine and will be abided to by both parties is crucial to protect local workers and incoming migrants. Another option could be to set an annual wage threshold (eg. equivalent to full-time adult average weekly ordinary time earnings ~\$89,000) to ensure that there is less incentive for employers to undercut wages.



Recommendation 1:

Establish a new 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. It would initially apply to a small proportion of the permanent skilled migrant intake before potentially being applied more broadly across the system.

Adjusting other policy settings

As noted previously, the way Australia is currently forecasting its future skills needs and formulating its occupation lists is also likely to be contributing to skills mismatch in skilled migration. These settings apply across both the permanent and temporary programs.

Forecasting a country's skills needs is difficult. Australia's approach has involved creating lists of in-demand occupations based on input from stakeholders including government departments, business and other industry bodies. More recently, the Federal Government created the National Skills Commission to improve forecasting for both the occupation list and apprenticeship funding.⁵

Our proposed method is a longer-term solution that will help to more directly attract top talent by incorporating input from employers. But there are other short-term solutions that will help make the permanent skilled migration system more responsive to the needs of the labour market.

In CEDA's *Effects of Temporary Migration*, we called for more transparency around the creation of the skills lists.⁶ There are just a few publicly available pages outlining the methodology underpinning the lists. Details of the government's stakeholder engagements are not widely circulated, which makes scrutiny of the system difficult. It is also unclear how the government weights the information it receives. For example, how does a submission from a consulting firm noting a shortage of accountants compare with a submission from a civilian stating that there are too many accountants? The UK Government's Migration Advisory Committee provides an example of how Australia could increase transparency around the skills lists.⁷



Recommendation 2:

The Federal Government should task the ABS with comprehensively updating the ANZSCO codes to ensure that migrants with vital and cutting-edge skills can migrate to Australia and contribute to the maturing of the local labour market.



Recommendation 3:

The Federal Government should be more transparent about the data and methods used to assess which occupations are included on skilled occupation lists. This could be achieved by:

- Periodic release of the detailed labour market analysis that underpins the Federal Department of Employment's traffic light bulletin for skilled occupation lists; and
- Establishing an independent committee like the UK's Migration Advisory Committee to undertake analysis, consultation and advice on the formulation of skilled occupation lists.



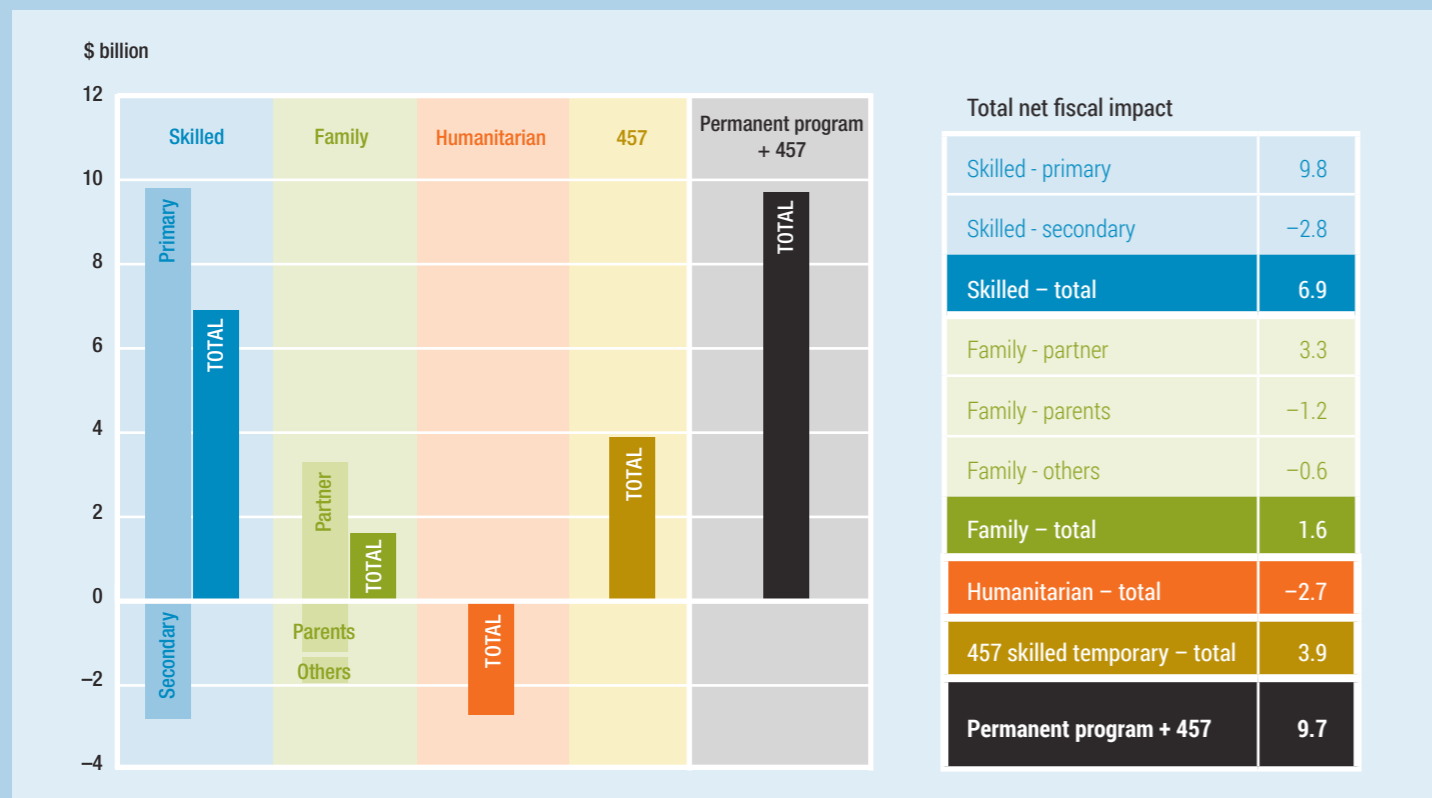
Local experience, networks and language

Newly Arrived Resident's Waiting Period

Migrants who arrive in Australia on a permanent residency visa face a waiting period to access any kind of unemployment benefits.ⁱⁱ Before 1996, it was six months (or 26 weeks). In 1997, it was increased to two years, with the Coalition Opposition at the time claiming savings of \$606 million to the Federal Budget over the following three years. In January 2019, it was extended from two years to four years, meaning that migrants had to wait four years on a permanent visa before they became eligible for benefits. This measure was introduced as a budget-saving mechanism, and was forecast to save \$202 million over five years.ⁱⁱⁱ

As a result of the waiting periods, migrants often have to take the first job they can find and might not be able to invest the necessary time and effort into a successful job search. Research at the time noted the uptick in employment as a win for the policy.⁸ However only later was underemployment cited as a possible result of the system shutting out permanent migrants from support for several years.⁹

Figure 3.1 Lifetime projected fiscal impacts of 2014–15 migrant cohort



Note: Up to 2064-65, end of life costs are included for some, but not all of the 2014–15 cohort.

Source: Treasury 2020 Shaping a Nation Report, Unpublished Deloitte Access Economics 2016 data

ii A two year waiting period applies to benefits such as paid parental leave, carers payment and dad and partner pay; Australian Government 2021 Social Security Guides: Newly arrived resident's waiting period, <https://guides.dss.gov.au/guide-social-security-law/1/1/n/70>

iii Note that the \$202 million costing was the cost of increasing the waiting period from three to four years as the MYEFO update had already costed for three years but was never legislated.

Permanent skilled migrants already contribute substantially to the Federal Budget. Estimates from 2014-15 (before the four-year waiting period was introduced), forecast a net benefit of \$7 billion to the budget from permanent skilled migration. This is the highest of the various categories of migration.

Extending support to migrants when they arrive is one way the Government can help them find a job that is well aligned with their skills.¹⁰ Green et al (2004) found that migrants who had arrived after the Newly Arrived Resident's Waiting Period was increased from six months to 24 months fared worse in terms of skill matching and skill utilisation, but fared better on other employment outcomes. This led the authors to conclude that this extension of the waiting period exacerbated levels of skills mismatch among migrants, and this effect was worse for those of non-English speaking backgrounds (NESB).¹¹

In recognition of the hardship faced by many workers during the COVID-19 pandemic, the Federal Government waived the waiting period for the following payments between 25 March 2020 to 31 March 2021:

- Jobseeker Payment
- Parenting Payment
- Special Benefit
- Youth Allowance
- Austudy

Our current policy settings do not give migrants the best chance of making it in the Australian labour market. It forces migrants to accept the first job they can get, rather than to wait for one that is more in line with their nominated occupation.



Recommendation 4:

Reduce the Newly Arrived Resident's Waiting Period to six months for unemployment benefits, to give migrants a better opportunity to find the right job.



Workplace culture and recruitment attitudes

This report has focused on measures to create better skills matches before permanent migrants arrive onshore. It does not address measures to alleviate skills mismatches for previous waves of migrants and barriers related to local experience, networks and language. Other organisations such as the Chartered Institute of Personnel Development suggest that a focus on employability and skills across the broader economy would also benefit migrants.¹² This focus on skills must occur in collaboration with the business community, with an increased focus on skills needs and use in the economy.

The literature also suggests that migrants from non-English speaking backgrounds fared worse on skills mismatch than those from English-speaking backgrounds. NESB migrants had a harder time translating overseas work experience into job opportunities in Australia. Some of this effect is evident in Chapter Two, which showed that migrants identified “insufficient Australian work experience” as one reason why they had difficulty finding a job. There appears to be some disconnect when NESB migrants enter Australian labour markets, which does not appear to be the case for ESB migrants.¹³ This is not altogether surprising. A study investigating whether job applicants were discriminated against based on their ethnicity found that applicants with a Chinese background had to submit 68 per cent more applications than their Anglo-Saxon counterparts to get as many interviews; for jobseekers of Middle Eastern backgrounds, this number was 64 per cent.¹⁴

There is clearly more work to be done to improve employer attitudes and recruitment practices to ensure that Australia is effectively utilising the skills and experience of migrants, particularly NESB migrants. The scope of this report has not allowed for a full analysis of these issues.

Conclusion

Australia’s level of migration skills mismatch is a surprising and unfortunate outcome of what should be a well-targeted permanent skilled migration system. No labour market or migration program is perfect, but the disruption caused by the COVID-19 pandemic presents an opportunity to try a new approach. We propose the creation of a skills-matching platform and visa through which potential migrants and employers could interact before an offer is made. This would also gather information from employers about skills that are in demand, which would also help forecast emerging skills needs. In addition to the creation of the platform, the Federal Government should task the ABS with updating the ANZSCO codes and should be more transparent about the creation of the skilled occupation list.

Over time, these changes may do more than just reduce the level of skills mismatch in permanent skilled migration. They could make the entire migration system more efficient and effective, generating better matches between migrants and the skills Australia needs to power its economy.

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Appendix

Estimating the foregone
wages from the
skills underutilisation
of migrants

Arrivals  



This appendix outlines the process followed to calculate the foregone wages from skills mismatch across the period of the survey (2013 to 2018) which featured in Chapter 2.

CSAM data on skills mismatch

The number of people experiencing skills mismatch is obtained from the Continuous Survey of Australia's Migrants. This survey questions migrants about their experiences when they first get to Australia or become a permanent resident (wave 1) and then again 12 months later (wave 2).

The data we used pertains to the usage of migrants' skills. These skill levels are measured by some combination of the level or amount of formal education and training, the amount of previous experience in a related occupation, and on-the-job training.

- Skill level 1 occupations have a level of skill equivalent to a bachelor's degree or higher qualification, or five years of relevant experience.
- Skill level 2 occupations have a level of skill commensurate with either an NZ Register Diploma or AQF Associate Degree, Advanced Diploma or Diploma.
- Skill level 3 occupations have a level of skill equivalent to one of:
 - NZ Register Level 4 Qualification,
 - AQF Certificate IV,
 - AQF Certificate III including at least two years of on-the-job training.
- Skill level 4 occupations have a level of skill equivalent to either:
 - NZ Register Level 2 or 3 qualification or
 - AQF Certificate II or III
- Skill level 5 occupations have levels of skill equivalent to:
 - NZ register Level 1 qualification
 - AQF Certificate 1
 - Compulsory secondary education.

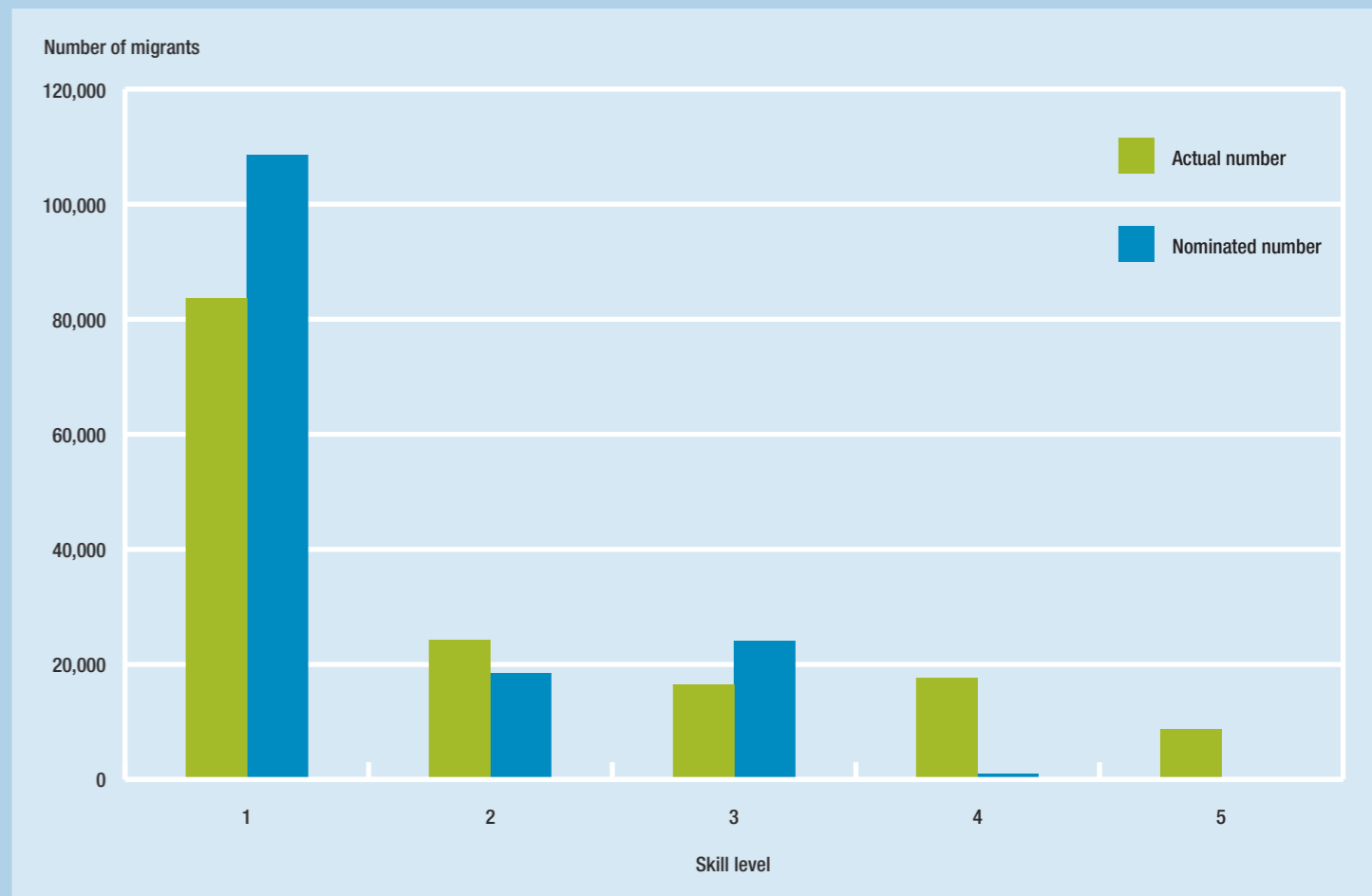
The variable in question asks if the migrant was working in their nominated occupation in Wave 2. From the CSAM data, we obtained weighted estimates of the number of migrants not working in their nominated occupation at each of the five skill levels (see Figure 4.1 and Table 4.1) over the time of the survey (between 2013 and 2018).

Table 4.1 Skill Level – Actual and nominated

Skill Level	Actual no.	Nominated no.
1	83,624	108,596
2	24,285	18,492
3	16,533	24,063
4	17,688	1057
5	8751	24

Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18

Figure 4.1 Actual occupation versus nominated occupation by skill level



Source: Department of Home Affairs (2020) Continuous Survey of Australia's Migrants 2013–18

ABS Characteristics of Employment

We obtain median weekly earnings from the second data source, the Australian Bureau of Statistics' *Characteristics of Employment* by skill level (see Table 4.2). We use the 2019 wages data because of the likely changes in composition that have occurred in the last year.

Table 4.2 Skill level and median weekly earnings

Skill Level	Median weekly wages (\$2019)
1	1863.3
2	1469.7
3	1313.3
4	1065.3
5	699.9

Source: Australian Bureau of Statistics 2019 Characteristics of Employment

Calculation

To calculate the foregone wages, for each skill level we calculated how much would be earned for everyone at the median wage working in the actual occupation and subtracted this from what would be earned at the median wage if they were working in their nominated occupation. Our calculation takes the total number of permanent skilled migrants who identified as experiencing skills mismatch 12 months after arrival over the period of the survey 2013 to 2018 and multiplies this by the median annual wage to estimate foregone wages in 2019 dollars.

We assume a 12-month duration of skills mismatch and use an annual wage. The survey does not provide an indication of whether migrants continued to experience skills mismatch beyond their first 18 months and there is no reliable basis upon which to assume or estimate what the average duration is beyond this initial settlement period. For some it may be persistent, and others may find a job in their nominated occupation. Regardless, it suggests that our estimate is likely to be a conservative one given that some people will experience a long-term earnings gap based on skills mismatch.

Table 4.3 Calculation of foregone wages

Skill Level	Actual No.	Nominated No.	Median wage	Total actual weekly median wages	Total nominated weekly median wages	Net difference in weekly median wages (Actual – Nominated)
1	83,624	108,596	1863.30	155,816,599.20	202,346,926.80	46,530,327.60
2	24,285	18,492	1469.70	35,691,664.50	27,177,692.40	8,513,972.10
3	16,533	24,063	1313.30	21,712,788.90	31,601,937.90	9,889,149.00
4	17,688	1057	1065.30	18,843,026.40	1,126,022.10	17,717,004.30
5	8751	24	699.90	6,124,824.90	16,797.60	6,108,027.30
Total weekly median wages foregone						24,080,472.90
Total wages foregone over 12 months						1,252,184,590.80

Caveats

- The estimates of people experiencing skills mismatch only cover those in the permanent skilled migration stream.
- These estimates are weighted by the population weights in the CSAM dataset provided by the Department of Home Affairs.
- Because Australian national median wages were used, our analysis doesn't take into account regional variations in wages, but we expect these differences would average out across the different skill levels.
- This analysis only takes into account wages lost. As such it makes no commentary on the broader economic costs due to lower economic activity and spillovers, etc.

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