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Submission

Productivity Commission 5-year Productivity Inquiry: A more productive labour market

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Introduction

I welcome the opportunity to make a submission to the Productivity Commission's *5-year Productivity Inquiry: A More Productive Labour Market*.

The Productivity Commission's conclusions in its *Interim Report* for how to achieve a more productive labour market include:

- change the composition of the migrant intake
- remove barriers to skills utilisation
- remove barriers to enterprise bargaining

The Productivity Commission notes in its *Interim Report* that "the supply of human capital — skilled and experienced workers" is critical to productivity growth, and acknowledges the importance of education and training, industrial relations and immigration policy for achieving this.[1]

Many of the Productivity Commission's findings and observations are welcome, such as the statement that "skill shortages should be identified where employers have difficulties in hiring *in the context of wage increases over time* rather than 'at current levels'. Skill shortages are also subject to employer preferences" (emphasis in original).[2] The adoption of an official definition of skill shortages along these lines would go some way towards addressing current problems regarding how the Australian government measures skill shortages, as discussed in this submission.

However, other conclusions presented in the *Interim Report* focus on improving the supply of skilled human capital ('skills supply') to address employer's *immediate* skills needs, with less attention given to mechanisms that would address *longer-term* skills needs in ways that would benefit the workforce. For example, the Productivity Commission warns that "multi-employer agreements could morph into industry-wide agreements, undermining competition across industries, weakening the growth prospects of the most productive enterprises in any industry, and creating wage pressures that cascade into other industries".[3] This argument overlooks the potential benefits of coordinated multi-employer bargaining for skill investment and utilisation.

The *Interim Report* also suggests that immigration policies that "better enables employer-sponsored skilled migration, could better support productivity growth".[4] This observations disregards research evidence highlighting the problems of employer-sponsored visas in placing migrant workers at risk of employer mistreatment, and the labour market distortions this can create, for example, by discouraging employer investment in workforce development.

This submission calls upon the Productivity Commission to consider the potential benefits of stronger *coordination* of industrial relations, education and training, and immigration for addressing Australia's skills and workforce needs, which would lead to a more productive labour market in the longer-term.

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[1] Productivity Commission, 2022. *5-year Productivity Inquiry: A more productive labour market* – Interim Report. Canberra: Commonwealth of Australia, p. ix.
[2] Productivity Commission, 2022. *5-year Productivity Inquiry: A more productive labour market* – Interim Report. Canberra: Commonwealth of Australia, p. 14.
[3] Productivity Commission, 2022. *5-year Productivity Inquiry: A more productive labour market* – Interim Report. Canberra: Commonwealth of Australia, pp. 62-63.
[4] Productivity Commission, 2022. *5-year Productivity Inquiry: A more productive labour market* – Interim Report. Canberra: Commonwealth of Australia, p. ix.

Australia's current skills policies – encompassing industrial relations, education and training, and immigration – are weakly coordinated, in that they do not work together effectively to address skills and workforce needs. An example of this is misalignment between immigration policy on one hand and education and training and industrial relations policies on the other. The main immigration policy mechanism explicitly tasked with addressing skills shortages, the Temporary Skill Shortage (subclass 482) visa, is designed in a way that helps to address individual employers' recruitment difficulties, which may be the result of an employer offering uncompetitive wage rates and unattractive working conditions, rather than skill shortages that are experienced by all employers in the same industry. Furthermore, the design of the Temporary Skill Shortage visa does not take sufficient regard of industrial relations measures such as job quality, which can affect the responsiveness of labour market supply (i.e., prospective workers) to demand (i.e., employers who need those workers).

Current skills policies are designed to efficiently meet the short-term needs of employers. However, they are ill-equipped for addressing the longer-term needs of the labour market. These policies are the consequence of government reforms implemented since the 1990s that have prioritised flexible provision of skills and labour supply through 'marketised' training policies, 'demand-driven' immigration policies and industrial relations arrangements that have undermined workforce development and retention. Despite giving employers several different policy avenues for addressing their recruitment challenges, these arrangements have undermined the sustainability of skills policies for addressing longer-term labour market needs. This has made industries vulnerable to the disruptive effects of COVID and supply chain crises when certain avenues of skills and labour supply, notable via immigration policy, have been less available.

A central argument of this submission is that strengthening c*oordination* between industrial relations, vocational training and immigration policies would help to ensure that skills and workforce needs are addressed more reliably. International research demonstrates coordination is necessary to ensure that skills are developed and utilised in a sustainable manner.[5] Coordination is defined as the key components of a system (in this case: industrial relations, vocational training and immigration policies) and its stakeholders (in this case: employers, workers and their representatives) functioning in a complementary manner towards coherent goals. Coordination allows outcomes at the workplace level to be linked clearly to regional, industry and national goals.[6]

The submission presents recommendations for how these stakeholders, particularly employer associations and trade unions, can work together to jointly identify the skills needs of the industries they represent and develop effective strategies to address them. These recommendations focus on how coordination of skills supply can be improved, particularly through sector-wide collective bargaining between employer associations and trade unions. Sector-wide bargaining has been an important coordination mechanism in countries such as Denmark, which is internationally renowned for having institutions that develop and utilise workforce skills to strengthen industry productivity and competitiveness. As Professor Mark Stuart, a leading international expert on skills, argues:

> *Comparative evidence has consistently highlighted that those economies with strong coordinated relations and institutions between the social actors concerning skills tend to outperform those that have less of a tradition of social partnership or where employers have prime responsibility for training investment decisions.*[7]

[5] Haipeter, T. and Lehndorff, S., 2009. *Collective Bargaining on Employment*. Geneva: International Labour Organization.
[6] Soskice, D., 1990. Wage determination: the changing role of institutions in advanced industrialized countries. *Oxford Review of Economic Policy*, 6(4): 36-61.
[7] Stuart, M., 2019. The industrial relations of training and development. In: Guile, D. and Unwin, L., eds, *Wiley Handbook of Vocational Education and Training*. Hoboken: Wiley, pp. 165-185.

The submission argues that the Productivity Commission should consider the merits of a coordinated 'mutual gains' approach to skills and workforce development, underpinned by sector-wide bargaining. This would help to improve the internationally competitiveness of Australia's industries and workforce. The cooperation between unions and employer associations at the beginning of the COVID pandemic indicates that a mutual gains approach is possible.[8] Furthermore, the submission argues immigration policy arrangements that create inequities between migrant workers particularly those on temporary visas on one hand and permanent residents on the other need reform. While these policies may be efficient for employers in the short-term, they have made temporary migrant workers vulnerable to mistreatment and discouraged skills development and job quality improvement.

The rest of this submission examines the role of industrial relations, training and immigration as key component of Australia's skills policies and their roles in addressing current and future workforce needs. It then summarises the main arguments and presents recommendations.

Industrial relations

Australia's current industrial relations arrangements do not encourage employers and workers to work together to identify and address their skills and workforce needs. This is reflected in the prevalence of insecure work arrangements that discourage employee retention and employer investment in job quality, and institutions that have fostered hostility rather than cooperation between employers and unions. It is further reflected in the design of the enterprise bargaining system, which actively undermines attempts to coordinate skills and workforce development mechanisms on a sector-wide basis.

A useful distinction can be made between countries with strong coordination over training on one hand and weak coordination on the other. Countries with sophisticated systems of skills development tend to fit in the first of these categories. In Denmark, Norway and Germany, coordinated training is an integral part of their collective bargaining frameworks and a key mechanism for achieving 'mutual gains' outcomes that benefit both industry and the workforce.[9] In the Danish system, coordinated bargaining has been used to expand training provision comprehensively across the workforce. Employer associations and unions have established national and sector-wide agreements over training policy, which ensures that all employers 'buy in' to the system and reduces the scope for poaching. Through enterprise-level agreements, training leave provisions and the linking of wages to training gives workers an incentive to acquire new skills, which in turn benefits business by spurring innovation and productivity. Coordinated training has been a key factor enabling Danish industry to adapt successfully to external pressures and improve its international competitiveness.[10] When skills development is embedded in industrial relations arrangements via coordinated bargaining, like in Denmark, "training presents an opportunity to develop new integrative agendas around which unions and employers can cooperate and work in partnership", according to Stuart.[11] Furthermore, a benefit of sector-wide bargaining is to reduce the risks of poaching that deters employer investment. This stands in contrast with the collective action problems that typically arise in countries that rely on enterprise-level bargaining.[12]

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[8] Clibborn, S., 2021. Australian industrial relations in 2020: COVID-19, crisis and opportunity. *Journal of Industrial Relations*, 63(3): 291-302.
[9] Heyes, J., 2007. Training, social dialogue and collective bargaining in Western Europe. *Economic and Industrial Democracy*, 28(2): 239-258.
[10] Ibsen, C.L. and Thelen, K., 2017. Diverging solidarity: Labor strategies in the new knowledge economy. *World Politics*, 69(3): 409-447; McLaughlin, C., 2009. The productivity-enhancing impacts of the minimum wage: Lessons from Denmark and New Zealand. *British Journal of Industrial Relations*, 47(2): 327-348.
[11] Stuart, M., 2019. The industrial relations of training and development. In: Guile, D. and Unwin, L., eds, *Wiley Handbook of Vocational Education and Training*. Hoboken: Wiley, p. 170.
[12] Streeck, W., 1989. Skills and the limits of neo-liberalism: The enterprise of the future as a place of learning. *Work, Employment and Society*, 3(1): 89-104.

Countries with weak industry coordination over workforce development tend to make individual employers responsible for their own training arrangements and erect barriers to collective bargaining over such issues. These arrangements produce a collective action problem: when training is left to individual employers, rather than being coordinated on a sector-wide basis, an employer will be less inclined to invest in training. This is due to concerns that other employers may poach the first employer's skilled employees by offering these workers higher wages before the costs of their training investment can be recovered. This situation encourages firms to "buy" skills through poaching rather than "make" through training, thus producing a "chronic undersupply of skilled labour".[13] Where training does occur, it tends to be "increasingly narrow, firm-specific skills training. The pool of skilled labour with transferable skills is therefore likely to diminish over time: enterprise flexibility creates industry-level rigidities inhibiting the capacity of the industry to adjust to volatility".[14] Consequently, skills development and utilisation outcomes in countries with weak coordination tend to be poorer.[15]

Australia's fits into the latter group of countries,[16] as reflected in the design of its demand-driven training system and the enterprise-based nature of its collective bargaining system.[17] While most recently certified enterprise agreements contain provisions relating to general training arrangements,[18] substantive clauses that provide enforceable access to training leave or that link training completion to wage increases to encourage skills development and productivity improvements are rare.[19] Training provisions in enterprise agreements relate mainly to the acquisition of skills and capabilities specific to the enterprise that are not easily transferable.[20] Furthermore, it has been argued that the enterprise bargaining process encourages employees and employers to make:

> *"Wage-based trade-offs on skills, training and other employment issues… Discussion about job classifications and what training or qualifications are needed to perform job roles – the type of discussion that had been central to award restructuring in the 1980s – is disappearing from enterprise bargaining".*[21]

[13] Streeck, W., 1989. Skills and the limits of neo-liberalism: The enterprise of the future as a place of learning. *Work, Employment and Society*, 3(1): 94.
[14] Briggs, C., Buchanan, J. and Watson, I.R., 2006. *Wages Policy in an Era of Deepening Wage Inequality*. Canberra: Academy of the Social Sciences in Australia, p. 13.
[15] Finegold, D. and Soskice, D., 1988. The failure of training in Britain: analysis and prescription. *Oxford Review of Economic Policy*, 4(3): 21-53.
[16] Busemeyer, M.R. and Trampusch, C., 2019. The politics of vocational training. In: Guile, D. and Unwin, L., eds, *The Wiley Handbook of Vocational Education and Training*. New York: Wiley Blackwell, pp. 137-164; Wright, C.F., 2012. Immigration policy and market institutions in liberal market economies. *Industrial Relations Journal*, 43(2): 110-136.
[17] Briggs, C., Buchanan, J. and Watson, I.R., 2006. *Wages Policy in an Era of Deepening Wage Inequality*. Canberra: Academy of the Social Sciences in Australia.
[18] Furlong, M., 2021. *General Manager's Report into Developments in Making Enterprise Agreements under the Fair Work Act 2009 (Cth): 2018–2021*. Melbourne: Fair Work Commission.
[19] Howe, J., Clibborn, S., Reilly, A., van den Broek, D. and Wright, C.F., 2019. *Towards a Durable Future: Tackling Labour Challenges in the Australian Horticulture Industry*. Adelaide: University of Adelaide; Oliver, D. and Walpole, K., 2015. Missing links: connections between qualifications and job roles in awards. *Labour and Industry*, 25(2): 100-117.
[20] Sheldon, P. and Thornthwaite, L., 2005. Employability skills and vocational education and training policy in Australia: An analysis of employer association agendas. *Asia Pacific Journal of Human Resources*, 43(3): 404-425.
[21] Oliver, D. and Wright, C.F., 2016 Australia's shifting skills ecosystem: Contemporary challenges in education, training and immigration. In: Hancock, K. and Lansbury, R., eds, *Industrial Relations Reform: Looking to the Future*. Sydney: Federation Press, pp. 166, 171.

Changes in employment structures have also discouraged training. The proportion of the workforce engaged as contractors, casuals or via intermediaries such as labour hire firms and online platforms is relatively high in Australia.[22] While non-permanent employment arrangements allow employees to move more freely between jobs, and employers to hire and fire workers with fewer legal constraints, non-permanent workers are significantly less likely to receive structured training than those who are employed permanently. This is because employers are much less likely to invest in developing the skills and capabilities of workers whose future within the organisation is less certain. The relatively high rate of non-permanent employment has also eroded 'internal' labour markets enabling employees to progress their careers within an organisation and made employers more reliant on addressing their workforce needs by poaching workers from their competitors.[23]

Outsourcing has also eroded training. Large private and public sector organisations historically played an important role in directly providing skills by engaging large numbers of apprentices and trainees who subsequently moved across industries and to smaller private sector employers. However, widespread rationalisation of organisational structures through outsourcing, and engaging contractors to perform work once performed internally, have eroded the mechanisms within large organisations that once supported training and career progression.[24]

Low wages growth is another industrial relations factor that has affected the ability of employers in some industries to address their skills and workforce needs. While wage growth has been sluggish in many industries, particularly those with monopsonic competition,[25] it has been most pronounced in industries with low levels of enterprise agreement coverage and a prevalence of workers engaged via non-permanent employment arrangements.[26] These industries have typically struggled to retain workers enticed to higher-paid and more secure jobs in other industries. This has further compounded the challenges that certain industries face in addressing their skills and workforce needs.

Aside from changes in industrial relations policies, procedural changes have also impacted skills development. Employer associations and trade unions traditionally had significant oversight over skills supply via joint representation on skills councils, training boards and immigration advisory bodies. However, in recent years, governments in some states and at the Commonwealth level have removed union representation from these bodies or abolished them altogether. This has resulted in diminished consideration of the needs and interests of the workforce in training policy. Such moves, which have largely been ideologically motivated,[27] conflict with the findings of international research that joint input from both employer and worker representatives is necessary for the development of sustainable labour market policies.[28] In addition to marginalising unions, governments have also failed to consult employers over key policy reforms relating to skills supply, such as the abolition of the 457 visa. Government failure to engage with the representatives of industry and the workforce over skills policy decisions is short-sighted and self-defeating given these are the two most important stakeholders in the development and utilisation of workforce skills and capabilities.

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[22] Campbell, I., Macdonald, F. and Charlesworth, S., 2019. On-demand work in Australia. In: O'Sullivan, M., Lavelle, J., McMahon, J., Ryan, L., Murphy, C., Turner, T. and Gunnigle, P., eds, *Zero-Hours and On-Call Work in Anglo-Saxon Countries*. Berlin, Springer, pp. 67-90.

[23] Lewis, P., 2008. *The Labour Market, Skills Demand and Skills Formation*. Canberra: Academy of the Social Sciences in Australia.

[24] Fortwengel, J., Gospel, H. and Toner, P., 2021. Varieties of institutional renewal: the case of apprenticeship in the US, England, and Australia. *Journal of Vocational Education and Training*, 73(1): 71-94; Richardson, S., 2009. What is a skill shortage? *Australian Bulletin of Labour*, 35(1): 326-354.

[25] Peetz, D., 2021. Why don't farmers just raise wages to get workers? *Pearls and Irritations*, 5 August. Available at: **https://johnmenadue.com/why-dont-farmers-just-raise-wages-to-get-workers/**.

[26] Reserve Bank of Australia, 2017. *Statement on Monetary Policy – November*. Sydney: Reserve Bank of Australia, pp. 40-44.

[27] Wright, C.F. and McLaughlin, C., 2021. Trade Union Legitimacy and Legitimation Politics in Australia and New Zealand. *Industrial Relations: A Journal of Economy and Society*, 60(3): 338-369.

[28] Campbell, J.L. and Pedersen, O.K., 2014. *The National Origins of Policy Ideas: Knowledge Regimes in the United States, France, Germany, and Denmark*. Princeton: Princeton University Press.

Training

The training system has traditionally been the most important source of vocational trades skills in the Australian labour market. This system has changed profoundly in recent decades due to policy changes that have 'marketised' training by allowing private providers to compete with TAFE colleges for government training funds. According to Philip Toner, a leading expert on vocational training:

> *The creation of a 'training market' for publicly funded but privately delivered vocational education and training is one of the most transparent failures of neoliberal public policy over the last three decades. It is an exemplar of the great damage inflicted when a naive and idealised neoliberal conception of how markets work is the basis for public policy.*[29]

Toner traces the origins of these problems to reforms in the 1990s that allowed private operators to provide publicly funded training, shifted towards an 'industry-led' system aimed at addressing short-term employer demand, introduced flexible and customised training packages that "facilitated diminished quality and malfeasance among market participants", eroded regulatory oversight over training providers, and resulted in a real decline in spending per student hour.[30]

Marketisation has allowed employers more flexibility and control over training content and delivery and helped to address their immediate skills needs more efficiently. However, it has eroded the development of transferable skills and inhibited the ability of the training system to address skill shortages and longer-term workforce needs.[31] Despite having greater autonomy over their training decisions, employers have become more wary about training investment given the risks of poaching.[32] A 2020 report found that a higher proportion of employers who found it difficult to source required skills used external recruitment to address their skills needs compared to those who trained their existing workers.[33]

Trades training completions increased significantly between 1996 and 2014 due to the expansion of the apprenticeship system to encompass traineeships, increased government subsidies for employers and looser training regulations.[34] However, since then there has been a dramatic decline in trades apprenticeship and traineeship completions following the removal of certain traineeship subsidies to prevent misuse by employers and training providers.[35]

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[29] Toner, P., 2018. *How Economics Explains Failure of the Publicly Funded Privately Delivered Training Market.* Melbourne: University of Melbourne, p. 1.
[30] Toner, P., 2018. *How Economics Explains Failure of the Publicly Funded Privately Delivered Training Market.* Melbourne: University of Melbourne, p. 1.
[31] Fortwengel, J., Gospel, H. and Toner, P., 2021. Varieties of institutional renewal: The case of apprenticeship in the US, England, and Australia. *Journal of Vocational Education and Training*, 73(1): 71-94; Yu, S. and Oliver, D., 2015. *The Capture of Public Wealth by the For-Profit VET Sector*. Sydney: University of Sydney.
[32] Wright, C.F., 2012. Immigration policy and market institutions in liberal market economies. *Industrial Relations Journal*, 43(2): 110-136.
[33] RMIT Online/Deloitte Access Economics, 2021. *Learn, Work, Repeat: The Value of Lifelong Learning in Professional Industries*. **https://online.rmit.edu.au/insights/2020**.
[34] National Centre for Vocational Education Research, 2022. *Historical Time Series of Apprenticeships and Traineeships in Australia, From 1963 to 2021*. Adelaide: National Centre for Vocational Research.
[35] Noonan, P. and Pilcher, K., 2017. *Finding the Truth in the Apprenticeships Debate*. Melbourne: Mitchell Institute; Oliver, D. and Wright, C.F., 2016 Australia's shifting skills ecosystem: Contemporary challenges in education, training and immigration. In: Hancock, K. and Lansbury, R., eds, *Industrial Relations Reform: Looking to the Future*. Sydney: Federation Press, pp. 163-186.

The number of trades apprentices and trainees in training has increased notably over the past two decades, notwithstanding a decline in the early 2010, and have resurged since COVID due to an increase in government funding through the Job Trainer program developed as a stimulus measure in response to COVID, which involved the Australian government and state governments jointly subsidising vocational training places. However, when compared to the national workforce, the proportions of trades apprentices and trainees in-training, commencing training and completing training were all lower in 2021 than in 1990 and the proportion of those withdrawing from their training was higher.[36]

Various studies have highlighted declining quality of vocational training quality, particularly among private providers, and diminished "confidence among employers, unions and government in the capacity of the VET system to deliver the necessary quantity and quality of skills".[37] There are also inefficiencies of processes for adjusting vocational training curricular including to incorporate new skills needed due to technological change and international competition.[38]

The lag in the skills development pipeline is another shortcoming of the vocational training system. It typically takes three to four years to train an apprentice by which time there may not be a shortage anymore. This highlights the need for a more strategic approach to workforce planning to assess long-term skills and workforce needs and to ensure training pipelines are equipped to address them.

The 2019 Joyce Review highlighted the challenges of attracting young people to apprenticeships, particularly due to low training wages, as a key reason why the vocational training system often failed to supply enough skilled trade workers to address industry needs.[39] The lack of established pathways from vocational training into employment and the relatively stronger student preferences for university over vocational training were among the barriers identified in a recent Productivity Commission review into improving skills and training participation.[40]

The challenges of responding to the geographical unevenness of labour markets and the diverse workforce needs of different regions is another shortcoming of the vocational training system. One solution has been for employers to rely on labour hire companies to provide skills or to employ workers on a casual or contract basis. While this may help to address employers' short-term skills and workforce needs, it leaves long-term workforce development unaddressed. Another seemingly more sustainable solution has been the utilisation of group training organisations to reduce the risks of training investment and administration for small and medium employers. Group training organisations, which are often administered by employer associations, usually employ apprentices directly and lease them to individual employers. A third solution has been to utilise immigration policy, which is the focus of the following section.

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[36] Wright, C.F., 2022. *Bargaining for Skills: Strengthening Coordination of Immigration, Training and Industrial Relations in the Vocational Trades*. Sydney: University of Sydney.
[37] Fortwengel, J., Gospel, H. and Toner, P., 2021. Varieties of institutional renewal: the case of apprenticeship in the US, England, and Australia. *Journal of Vocational Education and Training*, 73(1): 87; see also Productivity Commission, 2020. *National Agreement for Skills and Workforce Development Review: Interim Report*. Canberra: Commonwealth of Australia; Toner, P., 2018. *How Economics Explains Failure of the Publicly Funded Privately Delivered Training Market*. Melbourne: University of Melbourne.
[38] Wright, C.F., 2022. *Bargaining for Skills: Strengthening Coordination of Immigration, Training and Industrial Relations in the Vocational Trades*. Sydney: University of Sydney.
[39] Joyce, S., 2019. *Strengthening Skills: Expert Review of Australia's Vocational Education and Training System*. Canberra: Commonwealth of Australia.
[40] Productivity Commission, 2020. *National Agreement for Skills and Workforce Development Review: Interim Report*. Canberra: Commonwealth of Australia.

Immigration

Prior to the closure of international borders during COVID, immigration policy had become significantly more important for addressing the needs of the Australian labour market. This is evident is the large increase in intakes via the main skilled and work visas in the years between 1996 and 2020.[41]

The increase in skilled and work visa intakes prior to COVID was the result of 'demand-driven' reforms aimed at improving the 'efficiency' of immigration policy. This efficiency has been achieved by making it easier for employers to recruit migrant workers to address their workforce needs and by introducing and expanding various temporary visa schemes that restrict migrant workers' access to government support and collective representation, limit their mobility between employers and curtail their pathways to permanent residency and citizenship.[42] While these reforms have benefitted the short-term interests of individual employers, the restrictions imposed on temporary migrant workers have contributed to a rise in reported cases of underpayment and other forms of mistreatment.[43] Furthermore, some industries have developed a structural reliance on temporary migrant labour and diminished the incentives for employers to invest in training, job quality and workforce development.[44]

These developments are the result of policy changes implemented since the 1990s. Prior to this period, an immigration program based almost exclusively on permanent residency granted migrant workers equal rights as Australian citizens and allowed them to move freely within the labour market. This was accompanied by an effective system of labour standards enforcement that protected migrant workers and ensured that employers could not recruit them to minimise their labour costs or to gain an unfair competitive advantage. However, this situation changed following the introduction a temporary skilled visa scheme in 1996 and changes to the international student and working holiday visa programs that encouraged large numbers of temporary visa holders into work.[45]

According to the Committee for Economic Development of Australia, temporary skilled visa schemes – the Temporary Skilled Shortage visa and the 457 visa that preceded it – have helped "to fill important skills gaps, with safeguards to prevent the displacement of Australian workers and undermining of pay and conditions".[46] Another study found "almost no evidence that outcomes for those born in Australia have been harmed by immigration. If anything, there is some evidence that immigration has a small positive association with outcomes for the Australian-born".[47]

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[41] See, for example, Wright, C.F. and Clibborn, S., 2020. A guest-worker state? The declining power and agency of migrant labour in Australia. *Economic and Labour Relations Review*, 31(1): 34-58.
[42] Clibborn, S. and Wright, C.F., 2022. The efficiencies and inequities of Australia's temporary labour migration regime. *Australian Economic Review*. 55(2): 254-262.
[43] Clibborn, S. and Wright, C.F., 2018. Employer theft of temporary migrant workers' wages in Australia: Why has the state failed to act? *Economic and Labour Relations Review*, 29(2): 207-227.
[44] Wright, C.F. and Constantin, A., 2021. Why recruit temporary sponsored skilled migrants? A human capital theory analysis of employer motivations in Australia. *Australian Journal of Management*, 46(1): 151-173.
[45] Wright, C.F. and Clibborn, S., 2020. A guest-worker state? The declining power and agency of migrant labour in Australia. *Economic and Labour Relations Review*, 31(1): 34-58.
[46] Committee for Economic Development of Australia, 2019. *Effects of Temporary Migration: Shaping Australia's Society and Economy*. Melbourne: Committee for Economic Development of Australia, p. 12.
[47] Breunig, R., Deutscher, N., and To, H.T., 2017. The relationship between immigration to Australia and the labour market outcomes of Australian-born workers. *Economic Record*, 93(301): 255-276.

However, there is reason to suspect that temporary visa policies that restrict migrant workers' mobility and access to government support, collective representation and permanent residency, which increases their reliance upon maintaining the relationship with their employer, may have encouraged some employers to favour immigration to address their workforce needs rather than investing in training and improving job quality. Single-employer sponsorship underpins the design of the temporary skilled visa scheme. The scheme allows an employer to sponsor a migrant worker to work in a managerial, professional or trades occupation, but only for that employer. If the employment relationship is terminated, the worker has 60 days to find another employer sponsor before they lose their residency rights.

This arrangement benefits employers who can use temporary skilled visas to address their skills needs with minimal risk that the sponsored worker will leave. This gives employers a degree of control over temporary skilled migrants that they do not have over other workers.[48] By contrast, there are often risks for an employer training non-sponsored workers if the worker leaves the employment relationship before the employer can recover the costs of their training investment. It is important to note that visa sponsorship involves considerable costs for employers. Tying sponsored workers to their employer to ensure the employer can recoup sponsorship costs has been cited to justify the single-employer sponsorship model that limits the ability of workers to leave their employer.[49] However, this arrangement can make temporary skilled migrants more vulnerable to underpayment and mistreatment.[50]

Furthermore, the single-employer sponsorship model can also result in employers developing preferences for temporary skilled visa holders over other groups of workers. An analysis of the reasons for why employers sponsor temporary skilled visas found that while many did so to address shortfalls of suitably qualified workers, in accordance with the scheme's objective, large proportions of employers in industries reliant on skilled trades workers used the scheme to recruit workers perceived as having certain 'behavioural traits'. These 'behavioural traits' related to the perceptions of employer sponsors that temporary skilled visa holders had better attitudes, stronger work ethics, and were more loyal and harder working than other groups of workers. The single-employer sponsored nature of the temporary skilled visa scheme was identified as a reason for these perceptions.[51]

Addressing skill shortages is the main objective of the temporary skilled visa scheme. However, as noted earlier, the design of the scheme allows employers to sponsor temporary skilled migrants to address their recruitment difficulties, which may not necessarily be skill shortages. Some labour economists define skill shortages as market-wide shortages of workers at the prevailing wage rate that cannot be addressed by attempts to stimulate supply, e.g., by raising wages or improving job quality.[52] Recruitment difficulties are when an individual employer struggles to attract workers because of circumstances within their control, for instance, by offering uncompetitive wages and conditions associated with poor job quality.[53]

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[48] Wright, C.F., Groutsis, D. and Van Den Broek, D., 2017. Employer-sponsored temporary labour migration schemes in Australia, Canada and Sweden: Enhancing efficiency, compromising fairness? *Journal of Ethnic and Migration Studies*, 43(11): 1854-1872.
[49] Ruhs, M., 2013. *The Price of Rights: Regulating International Labor Migration*. Princeton: Princeton University Press.
[50] Boucher, A., 2019. Measuring migrant worker rights violations in practice: The example of temporary skilled visas in Australia. *Journal of Industrial Relations*, 61(2): 277-301; Coates, B., Sherrell, H., and Mackey, W. 2022, *Fixing Temporary Skilled Migration: A Better Deal for Australia*. Melbourne: Grattan Institute.
[51] Wright, C.F. and Constantin, A., 2021. Why recruit temporary sponsored skilled migrants? A human capital theory analysis of employer motivations in Australia. *Australian Journal of Management*, 46(1): 151-173.
[52] Healy, J., Mavromaras, K. and Sloane, P.J., 2015. Adjusting to skill shortages in Australian SMEs. *Applied Economics*, 47(24): 2470-2487; Junankar, P.N., 2009. *Was there a Skills Shortage in Australia?* Bonn: Institute for the Study of Labor.
[53] Richardson, S., 2009. What is a skill shortage? *Australian Bulletin of Labour*, 35(1): 326-354.

Only 1% of surveyed employer sponsors of temporary skilled visa holders indicated they would increase wages to address their workforce needs, which suggests that they used the scheme to address recruitment difficulties rather than skill shortages. Even in situations where skill shortages did exist, low employer disclination to raise wages in response indicates these were unlikely to have been pronounced shortages.[54]

Immigration policy is an important mechanism for addressing short-term workforce needs, namely unanticipated shortages that cannot be addressed due to the inevitable lag in the training pipeline. However, governments have focused too much on maximising the efficiency of immigration policy, which has been achieved through regulations that restrict temporary migrant workers' mobility and access to representation, which make temporary migrants vulnerable to underpayment and mistreatment.[55] These regulations have resulted in some employers developing embedded preferences for using temporary visa schemes to address their workforce needs rather than investing in training and improving job quality to attract and retain workers. These problems highlight the need to improve coordination between industrial relations, training and immigration policies to ensure they complement rather than undermine one another.

Summary and recommendations

This submission has argued that current industrial relations, training and immigration arrangements are weakly coordinated and that this inhibits the development of a more productive labour market. While industrial relations, training and immigration play important roles in addressing current and future skills needs, they need to be recalibrated to ensure that the Australian labour market realises its productive potential.

- Prior to COVID, the various components of Australia's skills policies – industrial relations, training and immigration – were generally efficient at addressing employers' short-term workforce needs. However, the impact of international border closures and recent supply chain disruptions have highlighted that these arrangements have not always benefitted the workforce nor the longer-term needs of the labour market by not giving sufficient priority to developing future skills needs.
- International research indicates that collective bargaining, particularly on a sectoral basis, is an important mechanism for enabling employer and worker representatives to jointly assess and develop solutions in response to both immediate and longer-term skills needs.
- In Australia, the enterprise bargaining system has not promoted such attention to skills and workforce development. Bargaining over skills would be more productive and mutually beneficial if it occurred in a coordinated manner on a sector-wide basis, which would also help to reduce the risks and collective action problems that commonly occur when employers make training investment decisions on an enterprise-by-enterprise basis.
- The prevalence of non-permanent and low-quality employment in some industries has undermined skills development since casual, contract and contingent workers are much less likely to receive training.

[54] Wright, C.F. and Constantin, A., 2021. Why recruit temporary sponsored skilled migrants? A human capital theory analysis of employer motivations in Australia. *Australian Journal of Management*, 46(1): 151-173.
[55] Clibborn, S. and Wright, C.F., 2022. The efficiencies and inequities of Australia's temporary labour migration regime. *Australian Economic Review*. 55(2): 254-262; Coates, B., Sherrell, H., and Mackey, W. 2022, *Fixing Temporary Skilled Migration: A Better Deal for Australia*. Melbourne: Grattan Institute.

- The marketisation of the training system has given employers more flexibility and control over their training decisions, which has allowed them to address short-term needs more efficiently but produced various unintended consequences. Despite numerical increases in trades training enrolments and completions, trades training enrolments and completions relative to the overall workforce have declined. Collective action problems such as poaching, which make employers more wary about training investment, have been exacerbated. Confidence among industry stakeholders in the capacity of the training system to develop enough skills of sufficient quality has diminished.[56]
- Immigration policy has been disproportionately attuned to addressing employers' immediate workforce needs and insufficiently attentive to ensuring that employers do not gain an unfair advantage in utilising migrant labour. Barriers to temporary migrant workers' mobility and their access to government support, collective representation and permanent residency have made them vulnerable to underpayment and mistreatment. This has encouraged unscrupulous employers to address their workforce needs by mistreating temporary migrant workers rather investing in training and improving job quality.
- Regional areas typically face greater struggles than major metropolitan centres in attracting, retaining and developing skilled workers. The development of localised industrial relations, training and immigration policy arrangements – e.g., via collective bargaining – would help to address this.

In sum, Australia's current skills policies – encompassing industrial relations, training and immigration –have been designed to satisfy the immediate demands of individual employers. However, as the disruptive labour market effects of COVID have shown, they are less equipped for meeting longer-term workforce needs. The different components of skills policy are at cross purposes, as problems with the design of the temporary skilled migration scheme exemplify. Industrial relations, training and immigration policies all make essential contributions to the Australian labour market but need to be coordinated to ensure they complement rather than undermine one another.

There are various measures would help to improve the ability of skills policies to address future workforce needs. These include:

1. Utilise sector-wide collective bargaining between employer associations and trade unions to identify the immediate and longer-term skills and workforce needs of the sectors and regions they represent and jointly determine the solutions for addressing these needs. International evidence suggests sector-wide bargaining over skills reduces the risks of poaching, which can discourage employers from investing in training and workforce retention.
2. Redesign temporary skilled visa regulations to ensure they address skill shortages to improve productivity rather than individual employers' recruitment difficulties, which may be due to uncompetitive wages and poor job quality. An industry-sponsorship model should replace the existing single-employer sponsorship model, which is poorly equipped for addressing skill shortages (as distinct from recruitment difficulties) and increases the risks of underpayment and mistreatment. Under an industry sponsorship model, employer associations and unions in the relevant sector/region should be the joint sponsors of temporary skilled migrant workers. Since workers are best positioned to know how their skills can most effectively utilised, they should have freedom to move between employers so long as their work relates to their area of sponsorship. Worker mobility would further reduce the risks of mistreatment and underpayment and address skill shortages more effectively.

[56] Toner, P., 2018. *How Economics Explains Failure of the Publicly Funded Privately Delivered Training Market.* Melbourne: University of Melbourne

3. Remove restrictions on temporary migrant workers' mobility between employers, their access to government support and collective representation, and their pathways to permanent residency and citizenship. Under current regulations, these restrictions have directly contributed to problems of temporary migrant workers being underpaid and mistreated.
4. Increase funding of reputable training providers, such as TAFE colleges, non-profit adult and community educators and registered training organisations operated by employer associations and trade unions, to improve training quality and reliability.
5. Improve job quality – including among apprentices and trainees – to strengthen workforce attraction and retention by ensuring that wage levels and working conditions are competitive and compensate workers fairly, safeguarding workers' job security, and providing better opportunities for workers to acquire the skills and experience necessary to develop careers in the industry.
6. Develop strategies to improve workforce attraction and retention among Indigenous Australians, which could be achieved by employers working more closely with trade unions, community organisations and governments on this issue.
7. Reduce standard working hours to ensure that workers with care responsibilities can reconcile their work and family responsibilities. This would help to improve women's employment in male-dominated industries and their retention in industries with reputations for poor job quality.

Coordination of industrial relations, vocational training and immigration policies needs to be strengthened to ensure they function together more coherently to address workforce needs. As noted in this submission, international research indicates that sector-wide collective bargaining is an effective mechanism of skills coordination in Denmark, Norway and Germany. Unlike enterprise bargaining, which exacerbates the risks and collective action problems that can deter employer training investment, sector-wide bargaining can help to reduce these risks. It can also foster cooperation among employer associations and unions given their mutual interests in skills and workforce development as mechanisms for employee prosperity and advancement and business and industry competitiveness. Rather than potentially damaging productivity, as the Productivity Commission argues in its *Interim Report*,[57] a coordinated system of sectoral or multi-employer bargaining can enable a 'mutual gains' approach for employer associations and unions to work together to improve the productivity and international competitiveness of their industries.

[57] Productivity Commission, 2022. *5-year Productivity Inquiry: A more productive labour market* – Interim Report. Canberra: Commonwealth of Australia, p. 62.