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7 June 2015

Mr Paul Lindwall  
Commissioner  
Inquiry into the Migrant Intake into Australia  
Productivity Commission  
GPO Box 1428  
Canberra ACT 2601  
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Dear Mr Lindwall

I note that the Treasurer has released Terms of Reference requesting the Productivity Commission to undertake an inquiry into the Migrant Intake into Australia.

The Terms of Reference are couched broadly in cost-benefit language. I am therefore writing to request that the Commission consider addressing an issue that is a critical first step in conducting a Cost-Benefit Analysis (CBA); that of ‘standing’.

Previous analyses of immigration issues have relied heavily on CGE (Computable General Equilibrium) modelling that has produced results focused on socio-economic impacts, rather than welfare effects. Part of the problem, I believe, is the lack of consensus on the issue of standing. In particular, it is not clear whether the benefits to migrants themselves should be included following their arrival in Australia. The issue is obviously also pertinent to any assessment of refugee intakes.

In their classic survey article, Prest and Turvey (1965, pp. 722-23)<sup>1</sup> raise a similar issue with respect to the inclusion or exclusion of consumption forgone by the deceased when estimating the value of statistical life. The issue revolves around the definition of standing, as explained in the article:

‘If society loses the production of the decedent, does it not also gain by not having to supply his own consumption? The answer is a matter of definition. If society is defined to exclude the decedent, the loss is confined to the wealth he would have accumulated and the taxes he would have paid less the transfers he would have received, and would be borne partly by his heirs and partly by the Government on behalf of all taxpayers. It thus constitutes the amount which society so defined would find it worthwhile to pay to save his life (leaving aside all non-materialistic considerations for later discussion). Now the society whose representatives decide whether or not to undertake a measure which would save lives includes those people who may lose their lives if the proposed measure is undertaken. Hence, so the argument might run, society is relevantly defined as including

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<sup>1</sup> Prest AR and Turvey R (1965) Cost-Benefit Analysis: A survey, *The Economic Journal*, December, pp. 683-735.

the prospective decedent, and his consumption is part of the social loss contingent upon his death.

In other words, one could add, rather than subtract, the value of consumption forgone by the deceased when estimating the social loss of a prospective fatality.

Migration raises an analogous issue. From the perspective of existing residents, one would not include any benefit to the prospective migrant. Popular (and populist) perspectives invariably focus on the potential benefits and costs to existing residents alone.

But it could also be argued that the popular approach is incongruous. The benefits to existing residents cannot be realised until after the migrant has arrived and become part of society. As more migrants arrive into the future, previous migrant cohorts need to be included in the basecase of existing residents because they, now members of Australian society, will also benefit from the contribution of the newer arrivals. Other benefits, for example any additional producer/factor surplus in the form of higher wages than would have been obtained in the country of origin, should also be included. That is, exclusion of benefits accruing to migrants might be justifiable if there were only a single pulse of migration, but not if the program is a continuing one.

If the Productivity Commission intends to undertake any cost-benefit analysis as part of its Inquiry, it would be highly desirable to clarify its own approach to the issue of standing at the outset of the analysis.

It may also be of interest to the Commission that some of the issues of relevance to the Inquiry were canvassed in the Centre for Independent Studies journal *Policy* in 1989 and 1990. I have attached my own contribution, despite its opening sentence and the comparative static nature of the analysis. The articles of interest are as follows:

Dobes, L. 1997, Privatising skilled immigration, *The Australian Financial Review* (op ed.), 28 July 1997.

Dobes, L. 1990, Rejoinder to Mark Harrison, *Policy* 6(4): 25.

Harrison, M. 1990, Immigration, quota auctions and the labour market: a response to Leo Dobes, *Policy* 6(4): 22-24.

Dobes, L. 1990, Australia's economic and social immigration policies: a labour market perspective, *Policy* 6(3): 18-21.

Logan, J. 1989, Privatising the immigration market, *Policy* 5(2): 28-29.

Harrison, M. 1989, Auctioning the immigration quota, *Policy* 5(2): 26-28.

Yours sincerely

Leo Dobes