

18th December 2015

Migrant Intake into Australia
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Productivity Commission Draft Report - Migrant Intake into Australia

Dear Commissioners,

I commend the commission on the release of its draft report on the subject of migrant intake into Australia, and its investigation of a price-based entry scheme. The commission has invested considerable time and analysis into the report, as evidenced by its 500+ page draft report. After reviewing the draft and some lodged submissions, I have prepared for the commission a further submission for its consideration.

A major finding by the commission was that a points-based system is more suited to migration selection and entry. However, there does appear to be a niche where pre-paid permanent visas (PPVs) will find a useful role within the current points-based migration scheme. Separately, there may also be scope for a 'near-but-not-quite-permanent' migration visa option that would allow a longer stay of up to 10 years to fill a space between temporary and permanent migration options.

I agree with the commission that many problems exist within the current migration scheme. For example, queues of "up to 30 years", high upfront fees "additional payment — the total charge can exceed \$47 000 per immigrant.", fees for migration agents to navigate the intricacies, USSR-style micromanagement / central planning (figuring out which industries 'need' which workers and how many using occupation lists), and enabling third-party vested interests to co-opt government to uphold barriers to workforce entry (e.g. 457-visa training fund requirements) are problems that should be solved.

I also would draw the commission's attention to a report by the EU, titled *A fact finding analysis on the impact on the Member States' social security systems of the entitlements of non-active intra-EU migrants to special non-contributory cash benefits and healthcare granted on the basis of residence*. I do this because the commission has expressed a number of concerns about free movement on page

435 of its draft report that appear to be contradicted by this EU report's findings. The link to this document appears later in this submission.

This is important because there is no charge for moving between EU member countries. So why does the commission believe EU-style free movement to Australia from a select, but increasing pool of other countries, would bring chaos to labour markets, health and welfare systems when this has not been observed within the EU *in the absence of any pricing or quotas*. It is something the commission should elaborate on further.

After many years of piecemeal changes, the migration scheme should be modernised to ensure that all pieces remain a coherent whole.

Yours Sincerely,

Name Withheld

Author, Submission #8.

Abbreviations

EU	European Union
HECS	Higher Education Contribution Scheme
ID	Identification, Identity
LDP	Liberal Democratic Party
NIMBY	Not In My Back Yard
PPV	Paid Permanent Visa
PTV	Paid Temporary Visa
SNCB	Special Non-contributory Cash Benefit (i.e. welfare payment)
UK	United Kingdom
USA	United States of America
USSR	Union of Soviet Socialist Republics

General Comments about the Draft Migrant Intake Report

Why are we having this inquiry anyway? The political context

This inquiry was held because it was instigated by Senator David Leyonhjelm (LDP). The senator and his party are proponents of a more open borders policy that would ultimately allow people to move more freely across national borders to live and work. Precedents already exist for this, for example, free movement and work rights are permitted between New Zealand and Australia, and between the 28 member states of the EU.

The Senator's vision appears to be one where prices are introduced as a way to transition away from quotas and ultimately to an uncapped free-movement regime (similar to the EU). The 190 000 migration places quota would ultimately be abolished. Paying a price would address concerns that migrants were coming to Australia to 'free ride' on taxpayer funded health, education and welfare systems. As countries would face competition with other countries for migrants, this competition would reduce the price to a low nominal fee over time. This transition would also be accelerated by instituting free-immigration agreements with other economically similar countries such as Canada, the UK and Singapore, where the price to migrate permanently would be zero.

However, free movement can be achieved without resorting to a fee based system. Simply uncapping the number of places offered for permanent residency would achieve the same goal. This outcome could be achieved incrementally by increasing the number of places available for permanent residency each year. Increasing immigration levels may alarm some people - indeed the commission has already received many submissions expressing what could be termed 'NIMBY' concerns. These concerns can be quickly dismissed by making comparison to the population of other countries such as Canada (35 million), United Kingdom (64 million), Italy (60 million), Spain (46 million), France (66 million) and Germany (80 million) which all have population levels far in excess of Australia (23 million). High population in a developed nation is also compatible with high environmental stewardship. For example, Germany is well known for its environmental consciousness, coming 6th in the world Environmental Performance Index.¹

¹ Environmental Performance Index <http://epi.yale.edu/epi/country-rankings>. This index is conducted by Yale University, USA and assesses a range of areas including health impacts, air quality, water/sanitation, water resources, agriculture, forests, fisheries, biodiversity and habitat, and climate/energy.

Australian cities are also far from 'full' from a population density perspective. Australian cities all appear at the very bottom of international city population density rankings, suggesting that large amounts of land are underutilised, and that large increases in migration can be absorbed by rezoning single family home areas to modestly increased densities.

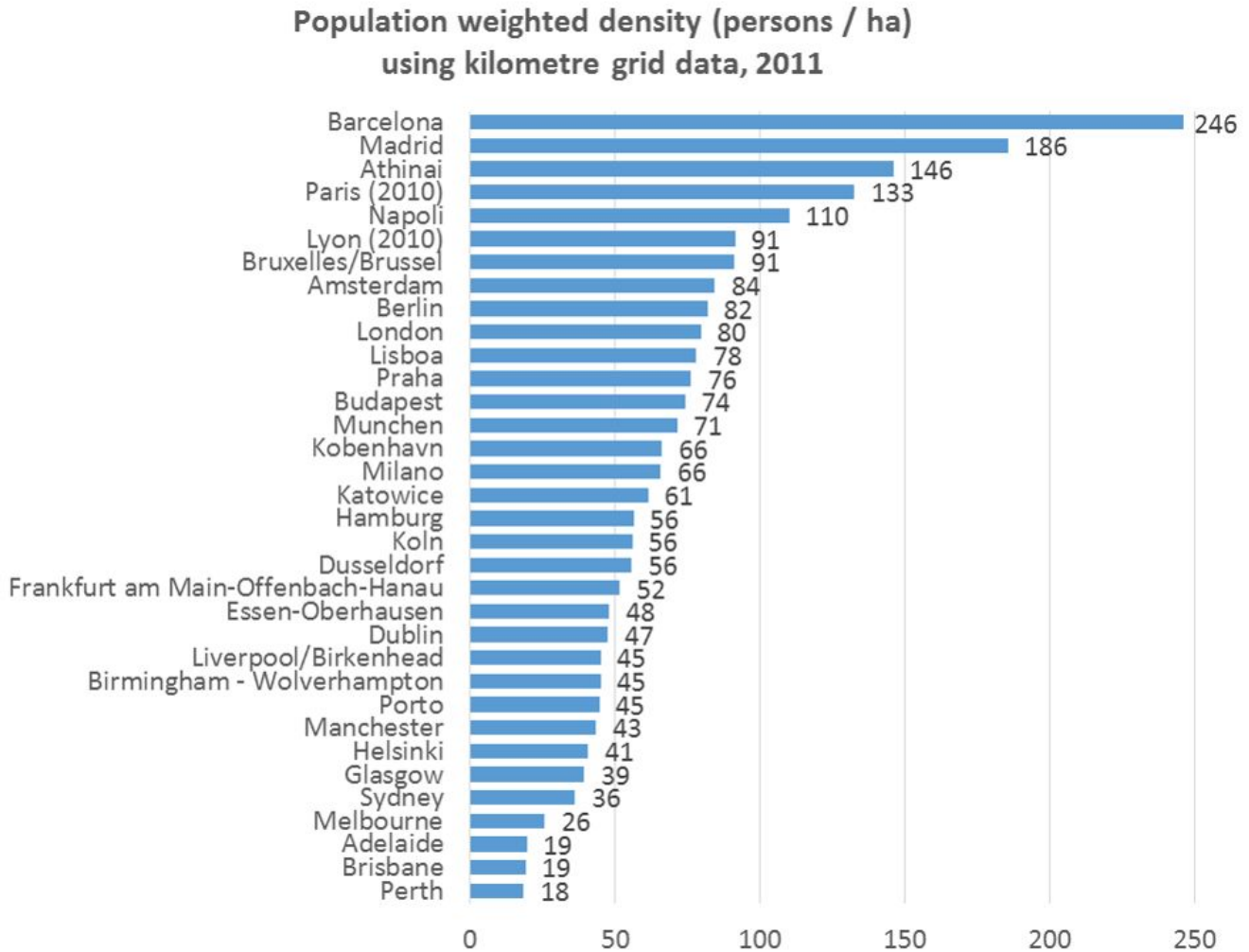


Figure 1: Plenty of space in Australian cities. All Australian cities have the world's lowest densities, which suggests that very large increases in population (and immigration) can comfortably be accommodated by permitting modestly increased housing density. Source: *Comparing the densities of Australian and European cities*, Chris Loader, Charting Transport Blog.²

As a benchmark, the commission should examine a scenario where there is no cap on migration places, but continued points testing, and estimate what immigration levels are likely to be.

² Comparing the densities of Australian and European cities, Chris Loader, Charting Transport Blog, <http://chartingtransport.com/2015/11/26/comparing-the-densities-of-australian-and-european-cities/>

The payment / fees entailed by a paid entry scheme is thus a way to placate NIMBY concerns and assure residents that migrants really are 'paying their way'. However immigrants who work also pay taxes and also are likely to require much less healthcare and education investment than persons born in Australia. HECS-style differential taxation through a PPV scheme is therefore an attractive collection method should contributions be desired in an increased immigration scenario.

In this context, it is worth noting that intra-EU immigration arrangements are simpler than those in Australia. Permanent residency usually follows after 5 years, and there aren't any attempts to diagnose 'skills shortages', work out what is and isn't a 'skilled' occupation, cap occupations, charge huge fees upfront or require contributions to an 'industry training fund' (i.e. to help local vested-interest groups uphold a barrier to entry). There is no immigration quota for intra-EU citizens. Once simply receives a job offer, presents ID and registers with the local authority. Any fees involved are nominal. The Australian system should move towards this direction, like it has already for New Zealand.

Modelling - doubled intake scenario and medium term migration

Modest extension of the existing modelling work should be undertaken to produce some key reference scenarios:

Medium term migrant visas

The commission should consider what the effect of a longer 'temporary' visa would be. This visa would be longer than a current temporary visa, but would not be permanent residency. This medium term visa would have an extended residency period - up to 10 years and uncapped. The primary mode of selection would be through a points-system, not a fee. Visa holders would have free choice of employer and would be free to leave their employer. Medium term migrant visas would fill a gap between temporary and permanent residency, and would likely reduce the demand for permanent residency.

Doubled intake scenario

The commission has rightly pointed out that it is the Australian Parliament that decides what the 'right' level of immigration is, and that the decision on a specific number is a subjective and political one rather than a technical one. However, many submissions to the commission took the view that 'Australia is full'. Despite the fact that intra-EU citizen migration is uncapped, and is a non-issue within the EU, an unlimited number of permanent visas is likely to cause political concern in Australia. *The*

next best solution is to simply increase the number of permanent residency visas under the current points system.

The commission should model a specific scenario where the number of immigration places is doubled from the current 190 000 places, to 380 000 per year. More extreme scenarios, such as tripling (570 000 places per year) or quadrupling (760 000 per year) should also be looked at to see if impacts are linear, non-linear, catastrophic or non-catastrophic. Note, the provision of supply does not mean that there will be demand for every single place. For example, the number of places for migrants from New Zealand to Australia is essentially infinite, however it is observed that most New Zealanders have preferred to stay living in New Zealand.

The role of fees in immigration

The commission has recommended retaining points-based qualitative assessment in preference to fee-based assessment as the primary way to ration the number of limited migration places. However, the commission cannot fully divorce itself from the role of fees and charges. Most visa applications already attract some kind of charge. It is also reasonable to include any additional fees paid to engage migration agents. Together, these costs are a price on immigration. Unless the commission is proposing to make visa applications free, there will continue to be some secondary role for some form of pricing in immigration visas. The commission should set out what it thinks that role could be - e.g. administrative cost recovery? discouraging 'too many' people from applying for a particular limited visa class?

The commission rightly identifies the current 'menu' of visas and application fees are a proverbial dog's breakfast. The commission is therefore well placed to recommend that visa fees be modernised and rationalised. The commission should also present a page or diagram showing all the visas that one can apply for within the current migration streams, selection criteria, costs and typical waiting times.

USSR-style 'Central Planning' elements

It is concerning that a number of areas already resemble USSR-style central planning such as:

- (a) which workers should be going into which industries
- (b) how many workers should be going into which industries
- (c) who a 'skilled' or 'unskilled' worker is
- (d) guessing which industries have the so-called 'skills shortage' (whatever that means)

(e) wondering if an employer will choose a foreigner over an resident Australian

In the real world government suffers from incorrect, incomplete and imperfect information. Information can also expire quickly, such as is the case with 'skill shortages'. The government will *a/ways* suffer from these problems. Gathering more information is costly, and is unlikely to improve the migration system if the real problem is system rigidity and overcontrol.

It is difficult to believe that that the government knows what a 'skills shortage' is, or whether it should even be involved in something that looks a lot like USSR-style centralised workforce planning. Employers should be able to hire whoever they want, as they actually know what their business needs are and bear the costs if they make a mistake. In addition, employees should be able to chose their employer and leave their employer if they want to. The power to resign is a strong employee protection against exploitation. Should an employer hire a permanent resident or a visa holder over a current citizen, it is because the employer perceived that person was better for the job. If there is a feeling that employers might be hiring foreign workers over resident Australians, the commission should enquire with such employers and publish the reasons why employers are doing so, and also review EU practice and research in this area.

Free movement?

The commission made an interesting comment regarding free movement.

However, unlike free trade in goods and services, free movement of people would likely have a very different — in fact, negative — impact on the wellbeing of the Australian community. It would place significant pressure on wages and the labour market. Further, given the Australian Government provides a wide range of services to the community, an open borders approach would also be of considerable fiscal and social risk to the Government. Since the advent of comprehensive welfare and health systems, no developed country has adopted an open borders policy. (Draft Report, p435)

It was surprising to read this paragraph because Australia effectively has an open border between itself and New Zealand. Has the NZ scheme caused catastrophe in Australia? In addition, the EU also has open borders between its 28 EU member states and this includes rights to work and rights to claim welfare and healthcare on the same basis as nationals. Evidence from the EU suggests that despite this, people move around for economic reasons, not to claim welfare. Indeed, this author

presented referenced EU reports on pages 4 and 5 in the first round submission that substantiate this claim.

The EU report was titled *A fact finding analysis on the impact on the Member States' social security systems of the entitlements of nonactive intra EU migrants to special non-contributory cash benefits and healthcare granted on the basis of residence*.³ To recap, the major findings of the report were:

- EU citizens from other Member States use welfare benefits no more intensively than the host country's nationals.
- Mobile EU citizens are less likely to receive disability and unemployment benefits in most countries studied.
- The vast majority of EU nationals moving to another EU country do so to work.
- On average, the expenditures associated with healthcare provided to nonactive EU mobile citizens are very small relative to the size of total health spending (0.2% on average) or the size of the economy of the host country (0.01% of GDP on average).
- There is little evidence to support the idea that EU citizens are migrating to collect welfare benefits.

It is also highly doubtful that significant pressure would be placed on wages or the labour market. The commission does not present compelling formation to substantiate such points. Information from the UK and Germany, both which are subject to free intra-EU migration do not appear to have experienced major downward pressure on wages or labour markets as a result of free immigration under EU rules.⁴

Key Points made by Ruhs and Vargas-Silva:

- “The impacts of immigration on the labour market critically depend on the skills of migrants, the skills of existing workers, and the characteristics of the host economy. Research evidence on the labour market effects of immigration is thus always specific to time and place.”

³ *A fact finding analysis on the impact on the Member States' social security systems of the entitlements of nonactive intra EU migrants to special non-contributory cash benefits and healthcare granted on the basis of residence* <http://ec.europa.eu/social/BlobServlet?docId=10972&langId=en>

⁴ The Labour Market Effects Of Immigration, Martin Ruhs & Dr Carlos Vargas-Silva http://www.migrationobservatory.ox.ac.uk/sites/files/migobs/Briefing%20-%20Labour%20Market%20Effects%20of%20Immigration_0.pdf

- “UK research suggests that immigration has a small impact on average wages of existing workers but more significant effects along the wage distribution: low-wage workers lose while medium and high-paid workers gain.”
- “The wage effects of immigration are likely to be greatest for resident workers who are migrants themselves.”
- “Research does not find a significant impact of overall immigration on unemployment in the UK, but the evidence suggests that immigration from outside the EU could have a negative impact on the employment of UK-born workers, especially during an economic downturn.
- “For both wages and employment, short run effects of immigration differ from long run effects: any declines in the wages and employment of UK-born workers in the short run can be offset by rising wages and employment in the long run.”

Similar findings that free movement within the EU member states has not led to significant wage depression or adverse labour market outcomes were made by Bauer et al. (2011). (bolding added)⁵

“This paper combines individual-level data from the German Socio-Economic Panel (SOEP) with economic and demographic postcode-level data from administrative records to analyze the effects of immigration on wages and unemployment probabilities of high- and low-skilled natives. Employing an instrumental variable strategy and utilizing the variation in the population share of foreigners across regions and time, **we find no support for the hypothesis of adverse labor market effects of immigration.**”

Does the commission consider the borders between the 28 EU member states open borders with free migration or not? If not, why not? In addition to this, what does the commission make of the EU field evidence presented in various reports that shows under free migration, the fears of a major suppression of wages, migration of large amounts of aged or sick people, and chaos in welfare and health systems have not eventuated? How can the commission claim these effects would be a risk for Australia when they have not been observed within the EU?

⁵ Labor Market Effects of Immigration: Evidence from Neighborhood Data IZA DP No. 5707 May 2011 Thomas K. Bauer, Regina Flake, Mathias G. Sinning <http://ftp.iza.org/dp5707.pdf>

Welfare tourism: Would paid entry cause a rush of health and welfare claimants?

It is worth looking at the level of health and welfare offered in Australia and asking why someone would pay \$30 000 for permanent residency so they could access these systems, rather than just use the \$30 000 to assist themselves or use their own home country's welfare systems. To make these comparisons, data from various welfare payments were taken from the Department of Human services website.

Table: 1: Welfare Payments

Name	Payment	Comments
Disability Support Pension - over 21. Maximum payments (includes supplements)	Single - \$867 per fortnight Couple - \$1307 per fortnight Couple (separated due to illness) \$867 per fortnight	Under a PPV scheme, it is likely such an applicant would fail the health test and be denied a PPV.
Age Pension Maximum payments (includes supplements)	Single - \$867 per fortnight Couple - \$1307 per fortnight Couple (separated due to illness) \$867 per fortnight	<p>Assuming a fee of \$30 000, it would take about 2-3 years before the migrants broke even. Australian system would also have to be more generous than the one in home country.</p> <p>Under a PPV scheme, it is possible an applicant would fail the health test and be denied a PPV anyway.</p> <p>An age limit could be applied (say 55 years) to a PPV scheme. It must be remembered that many aged persons have had a lifetime of work and thus if they move would also have assets to draw upon. EU information suggests that people do not move to claim aged benefits.</p>
Newstart	single, no children - \$523.40 single, with a dependent child or children \$566.30 single, aged 60 or over, after 9 continuous months on payment \$566.30 partnered \$472.60 (each)	<p>Assuming a fee of \$30 000, it would take about 4-5 years before the migrants broke even. They would be subjected to rigorous activity test requirements also.</p> <p>In addition to this, if the migrants had chosen the repayment through the tax system option, and had intended to stay on benefits the entire time, is likely they would fail to repay their PPV fee in full.</p>

	<p>single principal carer granted an exemption from Mutual Obligation Requirements \$731.20 for either:</p> <ul style="list-style-type: none"> ● foster caring ● non-parent relative caring under a court order ● home schooling ● distance education ● large family 	<p>This means the temporary visa issued would fail to convert to a PPV and the applicants would have to leave Australia. If a low- or no- refund policy were adopted, they would also have lost whatever fees they had already paid to the Australian Government.</p>
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Source: Department of Human Services website <http://www.humanservices.gov.au/>

It is difficult to see why anybody would want to come to Australia to claim welfare or spend up big on health costs under a paid migration scheme. The Australian welfare system is heavily means tested, contains significant waiting periods or activity tests and offers bare subsistence levels of welfare. In the case of Newstart, perhaps *below* subsistence levels. In the case of healthcare, at least under a PPV scheme, most applicants would likely fail the health test.

Even if successful, it would be many years before such persons even began to ‘break even’, assuming a fee of \$30 000. It is also likely such persons would be unable to pay back the PPV fee (if the deferred payment option was selected) and so would fail to be issued with a PPV after 5 years, also possibly bearing a low- or no- refund penalty. If the applicants had chosen to pay off the PPV cost over 5 years, they would actually be on a temporary visa during this waiting time and thus not be permanent residents and therefore not qualify for most of Australia’s health and welfare schemes. Most nations are also welfare states, so welfare would have to leave the migrant *significantly* better off compared to the systems available in their home country.

It is worth looking at the EU where people are free to move between the 28 member states AND can claim welfare on the same terms as nationals.⁶

“This study found little evidence in the literature and stakeholder consultations to suggest that the main motivation of EU citizens to migrate and reside in a different Member State is

⁶ A fact finding analysis on the impact on the Member States' social security systems of the entitlements of nonactive intra EU migrants to special non-contributory cash benefits and healthcare granted on the basis of residence <http://ec.europa.eu/social/BlobServlet?docId=10972&langId=en>

benefit-related as opposed to work or family-related. This is underpinned by data which show that in most countries, immigrants are not more intensive users of welfare than nationals.”

“Our estimations indicate that on average, the expenditures associated with healthcare provided to non-active EU migrants are very small relative to the size of total health spending in or the size of the economy of the host countries. Estimated median values are 0.2 % of the total health spending and 0.01% of GDP.”

“Overall, it can be concluded that the share of non-active intra-EU migrants is very small, they account for a similarly limited share of SNCB recipients and the budgetary impact of such claims on national welfare budgets is very low. The same is true for costs associated with the take-up of healthcare by this group. Employment remains the key driver for intra-EU migration and activity rates among such migrants have indeed increased over the last 7 years.”

These results from the EU appear to directly contradict the commission's concerns about risks to national health and welfare systems under a paid migration or free movement scheme. The commission should explain why its concerns are valid, and present evidence supporting its contentions, given that under the EU scheme between EU member states, no such ‘welfare migration’ effects have been observed at any significant level.

‘Insiders’ and ‘Outsiders’ in the labour market

The commission made note of labour market testing (interestingly it generally ignored intra-EU migration).

A range of requirements are used to determine the intake

In each country, all immigrants (temporary and permanent) are subject to health, character and security-related requirements.

Countries use labour market testing to ensure local workers are not displaced

Each country has rules to reduce the likelihood that employer-sponsored immigrants fill a position that could be taken by a local worker, similar to the labour market testing arrangements for some Temporary Work (Skilled) visa (subclass 457) holders in Australia. In Canada, employers sponsoring some types of permanent and temporary immigrants require a Labour Market Impact Assessment, which shows that there are no suitable local workers. In New Zealand, employers of temporary skilled

workers under the Essential Skills policy must prove that there are no suitable local workers available and Immigration New Zealand usually conducts a labour market test to confirm this. (Draft report p456)

Imagine a company wanting to import tomatoes into Australia. The importer applies for permission to import tomatoes, but has to first apply to a regulator for a 'Market Impact Assessment' proving that the tomatoes being imported will not displace tomatoes being sold by Australian farmers, will not undercut the prices of Australian tomatoes on the supermarket shelves or that there are no suitable local tomatoes already being sold in the area that the importer also wishes to sell tomatoes. Imagine further that the justification of such a law is that 'the import of foreign food into Australia might have negative economic and social impacts on the wellbeing of the Australian community, including lower incomes for Australian tomato farmers and retailers, disapproval from some community members, or pushing tomato farmers into unemployment and on to the welfare system'.

The purpose of so called labour market impact testing is to co-opt government powers to keep outsiders out, and insiders in. The intention is to restrict supply and thus push up their own wages, at the expense of everyone else. This is great for politicians because outsiders are, by definition, excluded from the political process and have no votes to offer politicians during election time. In contrast, insiders can offer both votes and campaign finance support.

It is also difficult to believe that a concern for displacement is the driving motivation. Displacement means moving sitting workers. Sitting workers already have a position and signed contract with an employer, and are thus not affected by what happens in the open labour market (a signed employment contract takes both employer and employee out of the open market). Rather than displacement, reducing competition from outsiders is the apparent goal. This runs counter to the idea that positions in society should be awarded on merit and not irrelevant factors such as where you were born, nationality, race etc.

It is also questionable why training fund requirements exist. Higher education and TAFE Courses at certificate IV level or higher are already subsidised by HECS-HELP schemes.

The requirements for businesses to show that (a) there is a genuine and systemic shortage of skilled workers, and (b) there are no suitably qualified Australian workers available, and (c) you have a commitment to training Australians, and (d) require contribution to training funds should be abolished.

Such rules do not exist in the EU, or apply to NZ citizens in Australia. The continuance of labour market testing should be questioned and subjected to hard economic study and scrutiny to prove or disprove its intended effects. The commission could do this by comparing the fates of New Zealanders who are not subject to these restrictions against immigrants from non-NZ sources.

Specific Comments about Paid Permanent Visas (PPVs)

The commission rightly identifies the uncertainty and lack of information around the different schemes. This is because the commission exploring new policy ground. This is not unprecedented - Australia has a rich history of economic innovation, for example Medicare, Superannuation and our world-famous HECS schemes. At some point in history these too were 'untested' and 'capable of causing community concern'.

Here is an opportunity to do the same with immigration policy. Economic modelling and theorising is useful, but ultimately there is no substitute for hard experimental evidence. The PPV scheme is versatile enough to be introduced as an experimental trial or become a permanent feature within the existing migration scheme. As it runs in parallel with the current migration scheme, it does not disadvantage anyone who prefers to use the current migration protocols.

A PPV would only apply health, character and security checks. On reflection of some of the commission's concerns, if it be so desired, these could be extended to include a basic Year 12 level of English and/or and a generous age limitation (say 55 years age maximum). Most visas already have these requirements as a basic standard already, so it is hard to see how PPVs would entail any additional costs to do these assessments.

To recap what a PPV is:

The central concept is that PPVs are paid for while applicants are on a temporary visa that permits working (effectively a probationary period for permanent residency). This allows applicants to use their skills and talents to earn Australian income and pay for permanent residency without having to pay the entire cost up-front, without applying to the Australian Government for a loan, and with the protection of knowing that if they face temporary unemployment, the repayments will stop and only start again when they have returned to the workforce. This scheme is shown in Figure 2

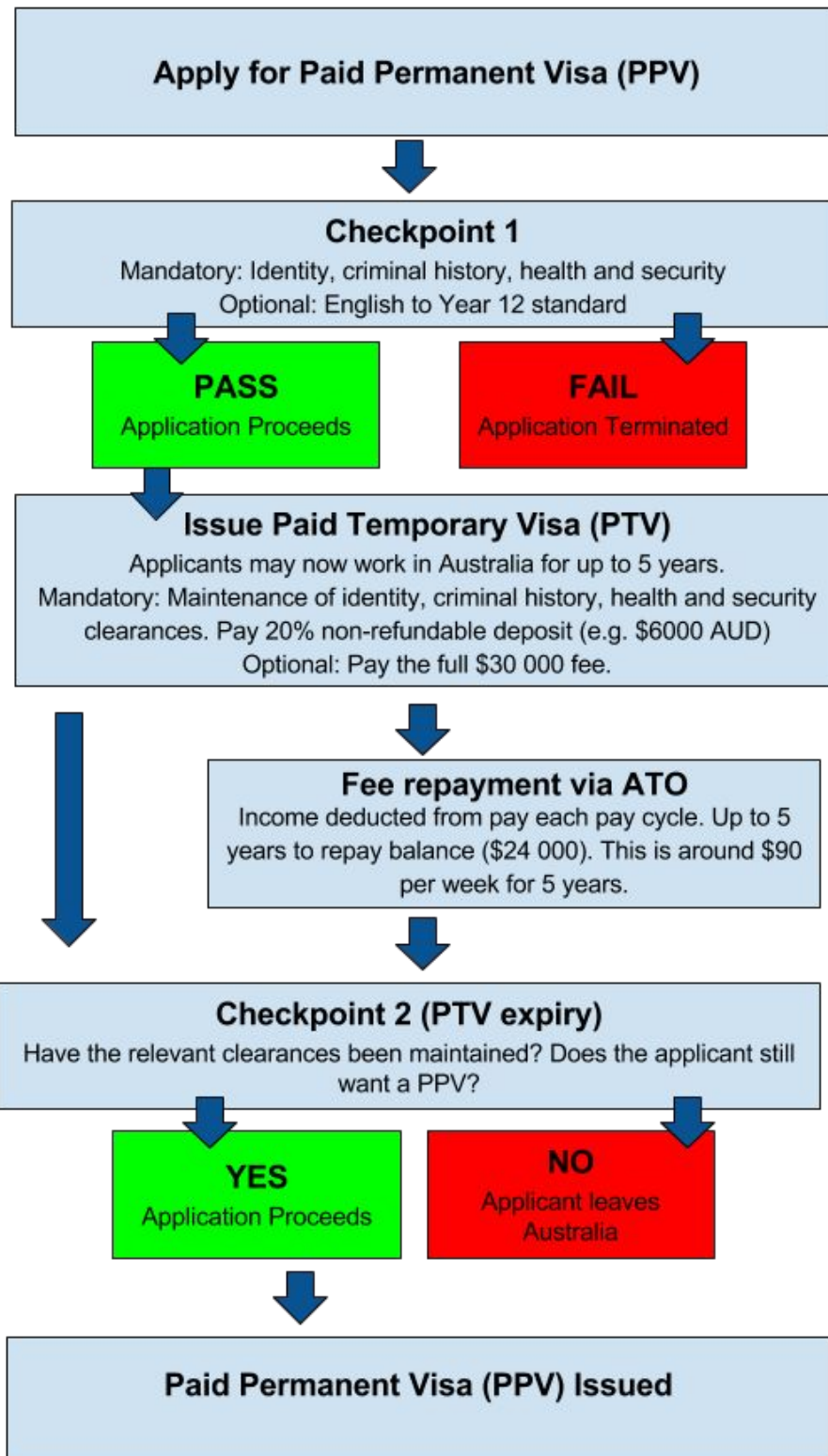


Figure 2: How a Paid Permanent Visa (PPV) scheme could work as a complement to the existing migration scheme. Permission is given to the commission to reproduce this image in its publications.

Would the introduction of PPVs entail 'moral hazard'?

Draft Report Statement(s)

However, there would also be a substantial fiscal risk to government through moral hazard — such a scheme would be attractive to potential migrants who expect never to earn an income above the repayment threshold. (p409, draft report, writing about HECS-loans)

(...)

This would involve similar moral hazard risks, and administrative complexity, as the income contingent loan above. It would also undermine the efficacy of the visa price to ration visa demand. (p409, draft report, writing about differential taxation and the PPV)

Author Response

The PPV scheme does not raise moral hazard issues similar to the income contingent loan. This is because when an applicant applies for a PPV, they are issued with a temporary visa until the PPV cost is paid in full. Should the applicant fail to pay the amount in full, the PPV is not issued and the applicant is compelled to leave Australia. In addition, the option exists to refund only part or none of the fee already paid. This would introduce a penalty element - therefore applicants would have to think long and hard about making a commitment to Australia and whether they could support themselves while in the country. The PPV requires no HECS-style loan component, so there is no direct financial cost or borrowing to the taxpayer if a PPV class of visa is introduced as a complement to the current migration system.

This author disputes the claim that a PPV scheme would be 'administratively complex'. The Australian Government already administers systems that are comparable or significantly more complex than what a PPV scheme would entail, including the day to day operations of Centrelink (including data matching and fraud detection), Medicare, the Australian Taxation Office, Immigration and Border Protection, HECS, university funding, school funding, the allocation of the GST by formula, the calculation of an 'efficient price' for hospital funding, courts of law and the Climate Change Reduction Fund, to give a few examples.

The author disagrees with the claim that a PPV scheme would '*undermine the efficacy of the visa price to ration visa demand*'. This can be insured against by adopting an optional low- or no- refund policy. By refunding only part or none of the fee already paid should the person fail to pay for the PPV after 5 years, this introduces a penalty which forces applicants to think about how well they would settle once in Australia. A 20% upfront deposit also will help ration demand. In addition to this, if the Australian Government faced high demand it could increase the price, increase the number of places, increase the upfront deposit amount, or uncap a quota, as it has the ability to do with existing visas.

If desired, the option exists that an applicant will have to choose between applying for a PPV or using the current points system, but not both at the same time. This is relatively easy to do if the application process is electronic.

Would a PPV 'potentially cost' millions of dollars?

Draft Report Statement(s)

Charge could be expected to be very high — potentially into the millions of dollars. Would likely change over time depending on demand. (Table 13.3, p442)

Author Response

It is unlikely that a PPV could cost millions of dollars.

Firstly, the PPV is in competition with the current system. It is expected that the bulk of applicants will continue to use the current system simply because it would be cheaper. This could be enforced by having applicants choose whether they want to be assessed under the current system or the PPV system.

Secondly, the price level within the informal / black market is a rough guide to what people are willing to pay. Although there are many potential basis for working out what a PPV 'should' cost, media reports suggest the maximum people are willing to pay in dire circumstances is c.a. \$30 000 - \$ 40 000. Charging more than what people are willing to pay is not revenue maximising and will strongly deter applicants. As has been noted by the commission, visas that already cost millions of dollars - the significant investor stream of visas - has had very small demand.

It is worth noting that the PPV scheme is explicitly designed NOT to be only for access by wealthy persons. On the contrary, the option of repayment through an income-contingent HECS-style collection via the tax system was proposed precisely to address certain MPs objections to prices on 'fairness' and 'ability to pay' grounds. (Interestingly, such objections do not seem to have been made against the existing visa fees or migrant agent fees on the same grounds). Because it is less bureaucratic, applicants will also save on migration agent fees.

HECS-style collection via the tax system makes the PPV affordable in the same way that HECS makes very expensive university degrees affordable. The Government's role here is to enable participants to borrow from their own future income stream to pay for a large 'lumpy' investment. For example, a full \$30 000 fee over 5 years works out to be around \$115 per week. Given the Australian before-tax income is around \$57 980 (ca. \$1115/week), this level of charge is comparable to a car loan repayment.

For the purposes and avoidance of all doubt, while the PPV scheme would have an option to pay back through the tax system (subject to deadline), it would NOT involve the Australian Government providing a loan.

Other concerns raised by the commission

The commission made a number of general comments, not specifically relating to the PPV per se, but here the author has responded to these concerns in reference to how a PPV scheme could address the said concern.

Commission Concern	Response
<p>A price-based system would favour immigrants who have already generated wealth, are from wealthier countries, or have family or communities that are willing to sponsor them.</p>	<p>A PPV scheme, if run alongside the current system, would be no worse than the current system. People with skill and no money could use the existing points system, or use the PPV option and choose to repay the fee from Australian earned income over 5 years.</p>
<p>A large component of the current system is designed to augment the Australian workforce by filling skills gaps through, for example, employer sponsorship. A price-based system may be less effective in targeting those who have the skills in need, are of an age where they still have a long working life ahead, or who have good English-language skills.</p>	<p>A PPV scheme provides a real-world test of how well a person settles in Australia (through issuing a convertible temporary visa) paid back via the tax system.</p> <p>Employers are in a better position than the Australian Government to determine whether they ‘need’ certain skills or not, so the test should be whether someone can get a job with their skills and talents, and pay back the PPV fee.</p> <p>Using skill lists and skill shortage areas opens up the migration system to empower professional industry groups and employee associations to take ‘gatekeeper’ roles and exert monopoly / cartel powers so as to increase their own member’s financial positions and costs for services on all Australians.</p> <p>This ‘trial period’ is similar to how EU citizens may reside in any EU country for up to three months without any conditions other than to hold a valid ID and passport.⁷</p>
<p>Amongst immigrants, unemployment rates could be higher and incomes lower. Despite the higher revenue that may initially be collected under a price-based system, tax collected over</p>	<p>If a PPV holder becomes unemployed, and they have not paid the PPV fee, there is nothing to pay while their income is too low. However, the fee must be paid in full by the PPV due date, which is a maximum of 5 years after</p>

⁷ Movement and residence http://ec.europa.eu/justice/citizen/move-live/index_en.htm

<p>the lifetime of an immigrant could be lower on average under a price-based system, and the loss of income (and other) tax revenue could be larger than the increase in revenue from the visa charge.</p>	<p>application.</p> <p>As there are many forms of 'price-based' system, It is difficult to refute the commission's broad, general assertion. It is not clear whether this issue that the commission raises would be relevant or not to a PPV scheme.</p>
<p>No other country allocates permanent visas on the basis of price. A price-based system would place Australia at a competitive disadvantage to other destination countries competing for highly skilled immigrants.</p>	<p>No other country replicates Australia's HECS system or superannuation schemes. The fact that no other country has done it simply means it hasn't been done yet. It speaks nothing to the level of merit or lack thereof.</p> <p>If a PPV scheme is run as a complement to the current migration scheme, then there is no such competitive disadvantage.</p> <p>Australia already faces a competitive disadvantage relative to EU countries where there is free movement and no artificial restriction on the number of permanent migrants. It is even more remarkable that this have been achieved between 28 different countries which all speak different languages and have different cultures. This suggests that 'lack of social cohesion' as a concern is perhaps overstated.</p> <p>These commission's assertion also overlooks the fact that if there was a disadvantage, the price could be reduced.</p>
<p>Conversely, the system could make it easier for people with nefarious objectives to sponsor workers with the intention of exploiting them. While the proposal for a price-based immigration system includes character and security checks, those checks relate to the migrant rather than a migrant's sponsor</p>	<p>The current system encourages exploitation because it makes the employee dependant on their employer sponsor. The usual protection of an employee resigning and finding another employer is obstructed. Thus the government is part of the cause as to why these employees are exploited in the first place. Employees should be free to leave to work for <i>any</i> employer.</p> <p>A PPV scheme allows employees to choose whatever employer they want, and leave their employer if they need to. That's a large incentive against exploitation. In addition, if the PPV holder is unemployed, no repayment fee is collected during this brief period.</p>

The Paid Permanent Visa as a temporary trial within the migration program

There is a lack of hard evidence surrounding how price-based entry could be practically implemented and its likely effects. Australian Superannuation and our unique HECS system are other examples of bold programs that may have faced similar 'first-mover' lack of information. Indeed, even current policy programs, such as the nature and effects of the minimum wage, or who really bears the incidence of company tax and in what proportion, are hotly debated by economists.

Without real-world information, it is nearly impossible for the commission to confirm or refute the hypotheses it has developed around paid entry or a PPV scheme. For example, EU information suggests that welfare migration is not a concern under an open border arrangement, and neither is depression of wages on the labour market. A limited and controlled trial of the PPV scheme would yield valuable practical information about how a larger PPV scheme may work. It would also be an opportunity for Australian Universities to publish world-first, cutting-edge social and economic research based on this unique trial. A trial would also permit statistical testing of assumptions and projections about cohorts being systematically different to those selected through a points scheme.

How could a PPV trial proceed?

It is suggested that the Australian Government create a new class of visa - the PPV- and accept up to 20 000 successful applicants to enter the trial program (ca. 10 % of annual migrant intake, additional to the current 190 000 quota). These PPVs could be released in batches of 1666 each month. Applicants would have to pass identity, criminal history, health and security checks, and pay a minimum 20% non-refundable deposit fee (\$6000) on application. Optionally, sufficient English may also be required at this point, and a year 12 level English standard is suggested. A paid temporary visa would then be issued granting work rights to the applicant for a specified period (5 years is suggested as per EU practice).

If the entire fee (\$6000 deposit + \$24 000 balance) has been paid, the paid temporary visa would apply for one year. If it has not, a balance remains, which is recovered through the tax system by deductions in each pay cycle. Based on a maximum 5 year temporary visa and \$24 000 balance, this works out to be around \$92.30 per week. If this is considered too small, a larger deposit, say 30% could be required up front (\$9000), which would bring the repayments down to around \$81 per week.

These repayments are reasonable in light of the fact that existing visas have large fees, migration agents charge fees and, this is likely to be equal or above what applicants would pay already. Indeed, it is significantly cheaper than what Australians are already paying for a car loan.⁸ In addition to this, because the places are new places and the PPV scheme is designed to work as a complement to the existing migration scheme, nobody is prevented from using the existing migration scheme should they wish to continue to do so.

⁸ As a comparison, a car loan at the Commonwealth bank, for a loan term of 5 years and earning an average wage of AUD \$55 000 would allow up to \$50 000 to be borrowed and charge \$290 per week in repayments at 14.77% interest (variable, weekly repayment, comparison rate). (Living expenses \$500/week, rent \$1000/month) Source: CBA website <https://www.commbank.com.au/personal/personal-loans/borrowing-calculator.html>

Shortly before the expiry of the paid temporary visa, a second check is performed to ensure that all clearances have been upheld. Applicants would be given the opportunity to pay any final outstanding balance in full. Applicants not meeting the eligibility criteria, or who have not paid the entire fee would have their paid temporary visa expire, and leave Australia. Applicants who have fulfilled all requirements would be issued with a PPV. In this way, the fee is enforceable and non-payment of the fee is not an issue.

The Paid Permanent Visa as a permanent feature of the migration program

As a potential permanent feature of Australia's migration program, the PPV would fill a niche within the migration program. Although the Productivity Commission suggests that a price based system (generally) could result in skilled migrants being dissuaded from coming to Australia, if the current points system is retained, this will not eventuate.

The creation of a new visa class- the PPV- would offer choice to future migrants - try for a limited number of capped places based on a points system, or prove themselves by working in Australia for up to 5 years and paying for a PPV.

The results of a PPV trial would obviously guide any future establishment of the PPV as a permanent feature of Australia's migration program. Should the first trial be favourable and the Australian Government decide to keep the program, the Australian Government would have two options.

Option A would be that it could keep the PPV program in parallel with the current points based system, perhaps deciding to expand it by granting a larger, capped number of places at a set price. Prices would be reset for new applicants at intervals (6-monthly or yearly seems appropriate) depending on demand.

Option B would be that it could keep the PPV program in parallel with the current points based system, but uncap the number of PPV places available. Prices would be reviewed at intervals (6-monthly or yearly seems appropriate). Applicants who had the skills, but not the financial means could simply choose not to apply for a PPV and apply for the capped places within the current points based system.

Some members of Parliament, have expressed concerns that pricing might dissuade skilled migrants from coming to Australia, particularly if migrants have choice of other countries. This is a poor argument, as the PPV runs in parallel with the current points system, fees are reasonable, fees can be paid over time, and fees can be reduced or increased depending on demand and competition with other countries.

--- End of Submission