



**Liberal Democratic Party Submission  
to  
The Productivity Commission Inquiry  
into  
The Greater Use of Charges to Determine the Intake of Entrants to Australia**

The Liberal Democratic Party is delighted to provide its submission to this inquiry. Senator David Leyonhjelm sought the inquiry as part of negotiations over contentious immigration legislation.

With an issue as broad, complex and important as Australia's immigrant intake, the Liberal Democrats believe it is responsible to seek a review rather than an immediate policy change.

Replacing Australia's largely qualitative and quota-based immigration system with a more tariff-based immigration system is a long-standing policy of the Liberal Democrats. It is based on a proposal championed by Nobel Prize laureate Professor Gary Becker. It also mirrors the practice of replacing import quotas with import tariffs, which has improved living standards in Australia.

Senator Leyonhjelm specifically asked that the Productivity Commission undertake this inquiry because the predecessor to the Productivity Commission played a key role in the replacement of import quotas with import tariffs. The Commission also has the expertise in economic theory to determine whether a shift from quotas to tariffs with respect to immigration is likely to improve living standards in the receiving country.

The immigration policy of the Liberal Democrats can be found here: <http://ldp.org.au/index.php/policies/1156-immigration>.

**QUESTIONS**

*What criteria determine the current levels of visa fees? For which visa classes do the fees reflect the costs of administration and processing? For which visa classes do the fees differ from those costs, and how?*

Any assessment of whether visa fees do or should align with the administration and processing costs in the Immigration Department needs to take into account that:

- These costs would be lower if there were fewer qualitative criteria and no caps;
- The costs and benefits for taxpayers from granting someone a visa go beyond the administration and processing costs in the Immigration Department; and
- Such costs would be reduced if the eligibility of visa holders for government-funded services were reduced.

#### QUESTIONS

*What are the main factors influencing the demand for immigration to Australia now and into the future? Is international competition for prospective immigrants a material consideration for Australia's immigration policy?*

*Which countries are Australia's competitors in terms of potential migrants' destinations?*

*What factors are likely to change the relative attractiveness of Australia as an immigration destination?*

*What are useful examples of immigration policy settings in comparable overseas countries?*

The Commission ought to acknowledge that it cannot ascertain what drives immigration now and into the future, for the following reasons.

- Immigration is the result of many decisions by millions of individuals. No official within a Government agency could hope to aggregate these factors to arrive at a credible conclusion about the main factors influencing immigration.
- Officials in the Commission and those submitting claims to the Commission have biases.
- The future is uncertain.

If officials within the Commission adopt a mindset of humility, they will answer each of the questions listed above, and many of the questions posed in the Issues Paper, with "don't know". This in turn would prompt policy recommendations to reduce micro-management in immigration policy, which is essentially fumbling in the dark. The policy recommendation would essentially be "Keep it simple, stupid".

Moreover, asking whether and why prospective immigrants want to come to Australia over-complicates things. The Government should simply do things that only it can do and that generate a net benefit for incumbent Australians. This would best serve incumbent Australians and generate the happy by-product of making Australia a more attractive place to migrate to. To paraphrase "Field of Dreams", "If you build it, they will come".

#### QUESTIONS

*What are the current objectives of Australia's immigration policy? What should be the objectives of Australia's immigration policy? What do these objectives mean for the composition of Australia's immigrant intake? Is the current immigration policy in Australia broadly aligned with the objective of improving the wellbeing of the Australian community? Are humanitarian and altruistic considerations adequately reflected?*

*For immigration undertaken for economic reasons, what is the case for incorporating the benefits to prospective immigrants from immigrating into Australia into the objectives of the policy? What trade-offs could such an approach generate for the wellbeing of the existing Australian community?*

The objective of Australia's immigration policy should be to improve the living standards of incumbent Australians.

The composition of Australia's immigrant intake that best improves the living standards of incumbent Australians cannot be ascertained a priori. No central agency could credibly conclude that a particular mix of family reunion, skill-based and humanitarian immigration is better than many other combinations at improving the living standards of incumbent Australians.

More importantly, for any given mix of family reunion, skilled-based and humanitarian immigration, the result could be good or bad for the living standards of incumbent Australians depending on which individuals are allowed to immigrate under each of these categories. No central agency could credibly conclude that it knows which individuals under each of the categories would best serve incumbent Australians through migrating to Australia.

A decentralised approach that tests each potential immigrant is required. A tariff-based immigration system, where new entrants have only limited access to social security or subsidised education, housing or healthcare, is such a system. This would confine public servants to confirming that a potential immigrant satisfies qualitative criteria concerning health, character and security. The rest is left to the individual. If the individual believes that the extra after-tax earnings he or she can earn by immigrating to Australia exceed the tariff that must be paid, the individual will have a financial incentive to choose to immigrate.

This decentralised approach aligns with the objective of improving the living standards of incumbent Australians for the following reasons.

- The higher an immigrant's after-tax earnings, the higher the immigrant's tax payments. This, in conjunction with the payment of the tariff, helps reduce the tax burden on incumbent Australians and increase the capacity for government services of benefit to incumbent Australians.
- Provided the tariff exceeds the value of communal assets that the immigrant will come to share (like roads, mineral reserves, access to national parks) and any communal services the immigrant will access, then the immigrant provides a net benefit to incumbent Australians.
- Incumbent businesses will be able to attract the immigrant workers and investors they want by offering wages or returns sufficient to justify the immigrant's payment of the tariff, or by offering to pay the tariff on the immigrant's behalf.
- Australian workers and investors would not face a tariff, so incumbent businesses would prefer them over comparable immigrant workers and investors.
- The Government's commitment to protect refugees would remain, and no tariff would be imposed on such refugees. However this commitment does not adequately reflect the humanitarian and altruistic considerations of many Australians. Under the proposed tariff-based immigration system, those Australians would be able to fund the entry of people they consider to be in need, by paying the tariff on their behalf, whether as a gift or a loan.

Under this approach, the immigrants that best improve the living standards of incumbent Australians select themselves, or are selected by everyday Australians, in a decentralised fashion.

If it were considered necessary, the Government could offer to pay or lend the tariff on behalf of certain immigrants whose entry the Government did not want to leave to chance.

Some submitters may argue that the objective of Australia's immigration policy should go beyond the improvement of the living standards of incumbent Australians, to include the living standards of others. The Liberal Democrats disagree with this view. Australians wishing to be altruistic towards foreigners can do so through their own private actions, and are free to try to persuade other Australians to do the same. But making altruism to foreigners a role of Government involves forcing those Australia's who do not wish to be altruistic towards foreigners to make a contribution against their will.

That said, while the Government continues to take on a function of altruism to foreigners, and the Government has the option of delivering this function through immigration vis-à-vis foreign aid, tariff-based immigration policy could assist. For instance, suppose that the tariff were set to fully account for the costs to government of immigration. Suppose also that paying tariffs to allow certain foreigners to migrate to Australia was considered to be more helpful to foreigners than foreign aid of the same quantum. In such circumstances, some of the foreign aid budget could be diverted to funding immigration. For the sake of budget accountability between different functions of Government, this could involve one part of Government paying the tariffs associated with this immigration to another part of Government.

#### QUESTIONS

*What are the key distributional considerations from the present immigration policy? How could these be improved? How does the Australian immigration system compare to those overseas in its ability to provide net benefits to the Australian community?*

Government should limit itself to activities that generate a net benefit and that only government can provide (i.e. services where the benefits can't be restricted to those who voluntarily pay for the service, such that private sector provision would involve free-riders).

The adoption of this approach would involve a reduction in freely provided services (such as welfare payments and free access to roads amenable to tolling) and communal assets (like national parks and other public lands that could be privatised).

This would have the happy by-product of reducing the basis for incumbent Australians to complain about immigrants.

#### QUESTIONS

*What is the relevant timeframe for measuring the impacts of immigration on the per person incomes of the Australian community?*

*What have been the effects of immigration on the incomes of Australians so far? Which migration streams have resulted in the greatest benefits? To what extent have the effects in Australia been different to those in comparable countries with large migration programs?*

*How can the existing migration programs be improved to facilitate greater growth in incomes of the Australian community? What are the domestic policy impediments preventing a more positive contribution of immigrants to the incomes of Australians?*

*Is the focus on skilled migration optimal? What are the benefits and costs of skilled versus unskilled migration? What are the advantages and disadvantages of the investment visa classes (investor and significant investor streams)? Should Australia consider alternative pathways for low-skilled migration for low-skilled workers from pacific island communities?*

Given the issues of complexity, biases and uncertainty outlined previously, the Commission should acknowledge that it cannot ascertain the effects of immigration on incomes of Australians, or which migration streams result in the greatest benefits. After all, how can the benefit from an Australian being re-united with a loved one be compared with the benefit from a skilled new entrant commencing a highly productive career in Australia? Given this, there is a need to reduce micro-management in immigration policy, which is essentially fumbling in the dark. .

A tariff-based immigration system — with its advantage of decentralised decision-making — would be likely to facilitate greater growth of incomes of the Australian community. Under such a system, if a potential immigrant believes that the extra after-tax earnings he or she can earn by immigrating to Australia exceed the tariff that has to be paid, the individual will have a financial incentive to choose to immigrate. A potential immigrant without such prospects for after-tax earnings would have no such incentive. So a tariff-based immigration system would encourage the immigration of people with the greatest ability and willingness to earn, through a process of self-selection.

This contrasts with the current system of centralised control, where public servants play a large role in selecting the number, occupations and skills of skilled migrants. Given the complexity, biases and uncertainty associated with such selections, it would seem unlikely that the current system of centralised control maximises the impact of immigration on the incomes of the Australian community.

The significant availability to immigrants of welfare and subsidised healthcare, education and housing impedes a more positive contribution of immigrants to the incomes of Australians. Reducing the availability of these government services to immigrants would directly reduce the tax burden on Australians. Moreover, it would encourage migrants with strong work prospects and discourage less productive migrants with weaker work prospects.

It should not be assumed that unskilled migrants take jobs that would otherwise be filled by unskilled incumbent Australians. An increased intake of unskilled migrants could go hand in hand with increased jobs given that economies of scale in labour-intensive industries could be achieved, and complementary inputs to production like capital and entrepreneurship are internationally-mobile and could be brought to Australia as a result.

Some unskilled migrants may also be willing to do jobs that some unskilled incumbent Australians are unwilling to do, because such jobs are still superior to the migrants' other prospects.

Regulated minimum wages reduce employment (see Andrew Leigh's Australian Economic Review articles from 2003 and 2004). Other impediments to taking on new employees in industrial relations law — like restrictions on hiring and firing referred to euphemistically as unfair dismissal laws — are also likely to reduce employment. Such industrial relations rules consign both unskilled incumbent Australians and unskilled migrants to unemployment. They also hide the potential for larger numbers of unskilled foreigners to migrate to Australia, find employment and improve the living standards of incumbent Australians, as well as their own.

The investment visa classes are inferior to a tariff-based immigration system because these visas generate significant administration and compliance costs. Visas are inevitably granted to some foreigners who would invest in Australia irrespective of migration outcomes, and some investments would not generate a return to Government to match the certain gain of immigration tariff revenue.

## QUESTIONS

*What evidence should the Commission use to assess the impact of immigration on government budgets and balance sheets?*

*What has been the impact of Australia's immigration intake on government budgets and balance sheets to date? Which streams are likely to have been net contributors, and which have been net beneficiaries?*

*Are the current entitlements to government services and payments appropriate across Australia's immigration streams? Where and how could these be improved?*

The arrival of an immigrant dilutes the ownership of communal assets and reduces the share owned by incumbent Australians.

The impact of immigrants on government balance sheets could be assessed by estimating the net asset/liability position per incumbent Australian before and after immigration.

The Commonwealth Government reports that it has net liabilities. Immigration spreads these liabilities across a larger population, and so assists incumbent Australians. However, certain assets of the Commonwealth Government, such as offshore mineral rights, may not be fully captured on the Commonwealth Government's balance sheet. Moreover, the state governments maintain a strong net assets position. Given this, it would seem likely that, in the absence of a contribution to government finances from immigrants, immigration reduces Government-held net assets per person.

To the extent that there are communal assets beyond those reported on Commonwealth Government balance sheets, similar analysis could be undertaken using other balance sheets, such as the national balance sheet published in the National Accounts of the Bureau of Statistics (ABS 5204.10).

It would seem likely that a higher proportion of net beneficiaries would come from certain family reunion streams compared to certain skilled worker streams. But responding to this by reducing the intake from those family reunion streams and increasing the intake from those skilled worker streams would represent a clumsy, blanket response. It would unnecessarily harm those immigrants in the relevant family reunion stream who do not become net beneficiaries, and would help those immigrants in the relevant skilled worker streams who do become net beneficiaries.

A simpler approach that would guarantee reduced numbers of immigrant net beneficiaries would be to introduce a tariff-based immigration system and to reduce access to welfare benefits and subsidised healthcare, education and housing, either for the entire population or for new immigrants other than refugees. Under this approach, immigrants with family connections and immigrants with skills would migrate to Australia in the knowledge that access to welfare and subsidies would be reduced. As revealed by their actions, their migration would be to their benefit. This arrangement would reduce the tax burden on incumbent Australians.

Continuing access to welfare and subsidies for refugees, in line with the access for incumbent Australians, would be justified because there is little risk that genuine refugees choose to immigrate to Australia because of the availability of welfare and subsidies — genuine refugees typically have limited choices and more compelling motives for migration than merely the availability of welfare and subsidies.

For immigrants who gain permanent residence via a tariff based visa and subsequently become unemployed or otherwise unable to support themselves, there are a variety of policy

options that could apply. These include access to family support, a requirement for compulsory insurance, and cancellation of the visa with an obligation to return to their country of origin. For obvious reasons, any such conditions would need to be explained to prospective immigrants.

#### QUESTIONS

*What are the key factors influencing the administrative costs of Australia's immigration system? Is there scope to reduce the administrative costs without compromising the effectiveness of the regime in achieving its objectives? If so, how?*

*What are the key sources of compliance costs for prospective immigrants? What hidden costs do immigrants face under the current scheme?*

*How would the demand for particular visa classes change if all fees were set at a level that recovered the processing and administration costs to the Australian Government?*

*In which immigration streams or visa classes are the compliance costs greater than necessary for achieving the current policy objectives and what is the scope for reducing those costs without compromising the integrity of the immigration system?*

The Issues Paper suggests that annual departmental expenses incurred by the Department of Immigration and Border Protection in relation to the non-humanitarian permanent and temporary immigrant visas amount to only around 10 per cent of the Department's budget. This suggestion warrants scrutiny, as this figure does not appear to attribute a share of the Department's general expenses to the non-humanitarian visa function. If departmental expenses associated with the non-humanitarian visa function were significantly reduced, it would be irresponsible to not extract significant savings from the Department's general expenses at the same time.

The Commission should estimate the reduction in departmental expenses that would arise if all qualitative requirements and quotas under the non-humanitarian categories — other than qualitative criteria relating to health, security and character — were removed. At a minimum, all expenses associated with policy areas responsible for advising on different family re-union and skills-based criteria should be eliminated under a tariff-based immigration policy. Significant savings should also be achieved from areas responsible for creating and administering application processes that gather and discern the family reunion and skills-based criteria of potential migrants.

While immigration processing and administration costs should be a consideration in the setting of an immigration tariff or any other charge on migrants, any cost recovery arrangements should not mute incentives within the Government to constrain the costs of the monopoly visa processor that is the DIBP. Moreover, the costs of immigration processing and administration should not be the only factor determining a finalised immigration tariff or any other charge on migrants, as these are not the only costs and benefits from immigration.

The Commission's consideration of the compliance costs of immigration should take into account how:

- the complexity of current visa arrangements creates the industry of migration agents;
- the resources devoted to that industry could be better directed to improve the living standards of incumbent Australians; and



- the willingness of migrants to incur costs in order to get to Australia would be better exploited through a simple immigration tariff that boosts Consolidated Revenue, rather than used up through compliance costs and payments to migration agents.

Any criminal and unethical behaviour by people claiming to assist potential migrants to get a visa should be counted as a cost arising from the current complex visa arrangements.

#### QUESTIONS

*What are the key urban amenity impacts of overseas immigration? Which of those impacts could be most directly addressed through immigration policy? How could the existing migration policies be improved to reduce the adverse effects, and increase the positive effects, on the amenity of existing residents?*

Irrespective of whatever the population happens to be, congestion and scarcity should be addressed through:

- removing government-imposed supply constraints (e.g. land release for housing, planning and zoning restrictions);
- full-cost charging for certain services (e.g. on arterial roads and highways); and
- means-testing of subsidies for other services (e.g. health care, schooling, child care).

In a free country the population growth in particular locations varies over time in unpredictable ways. Any assertion that this is a problem, and that immigration policy could feasibly reduce variability and increase predictability, warrants close scrutiny.

While the Liberal Democrats would not endorse such an approach, should the Government nonetheless consider fewer or greater numbers of immigrants should be directed to particular locations, this could potentially be achieved through differential pricing of the immigration tariff.

#### QUESTIONS

*What has been the impact of Australia's immigration programs on the environment? How direct is the relationship between immigration policy and domestic environmental outcomes and how can the latter be improved through immigration policy?*

The Government's immigration policy should be that which best improves the living standards of incumbent Australians. Environmental impacts should be accounted for to the extent that incumbent Australians care about them.

Pollution, greenhouse gas emissions, biodiversity loss and the use of finite natural resources depend on policy settings, with various outcomes possible with a given population.



#### QUESTIONS

*What is the relevant timeframe for measuring the social and cultural impacts of immigration and what are the best indicators of those impacts? What are the most direct and effective policy mechanisms for influencing the social outcomes of immigration?*

*How important is social cohesion and integration to the wellbeing of immigrants and to the Australian community?*

*How effective is Australia's immigration system in promoting social cohesion? How positive has Australia's experience been to date with respect to the cultural and social effects of immigration? How important is the acquisition of English-language skills to social cohesion and how effective are current programs to improve language skills? How has it differed from the experience of other countries with large immigration programs? How can the current policy settings be improved?*

Reducing access for immigrants to welfare and subsidies for healthcare, education and housing would reduce the prevalence of negative attitudes to migrants from incumbent Australians. It could also reduce the prevalence of negative attitudes to incumbent Australians from migrants, as any migrants who currently enter Australia to avail themselves of welfare and subsidised services — while maintaining an attitude of contempt for the 'suckers' who pay for it — would no longer be able to do so.

The Commission should make clear the distinction between residence and citizenship. Citizenship should not be automatic for migrants who gain permanent residency. Instead, migrants should need to reside in Australia for ten years, to have a clean criminal record, to have passed a citizenship test, in English, testing for an understanding of the values of a liberal democracy, and to provide evidence of means to support themselves and of links to the Australian community.

Limiting citizenship in this way could reduce the prevalence of negative attitudes to migrants from incumbent Australians, by assuring incumbent Australians that citizenship and rights to vote will be reserved and protected. Limiting citizenship in this way could also reduce the prevalence of negative attitudes to incumbent Australians from migrants, to the extent that migrants who seek citizenship will need to strive for it, including by becoming engaged in the Australian community.

#### QUESTIONS

*What are the key factors behind the shift from permanent to temporary immigration in Australia? What, if any, policy issues does this create?*

*What are the respective roles of temporary and permanent immigration within the Australian economy? How do the impacts of permanent and temporary immigration streams differ?*

*What is the case for retaining the differential policy treatment of permanent and temporary intakes, such as the use of quotas for permanent immigrant streams, while leaving the temporary immigration uncapped?*

#### QUESTIONS

*What are the factors that the Commission should consider in assessing the interaction between temporary and permanent immigration?*

*Is it likely that, under present policy settings, the number of temporary immigrants will grow more rapidly than permanent immigrants? Should the level and composition of the two streams be jointly calibrated? Do current outcomes strike the right balance in terms of the relative size and composition of temporary and permanent immigration?*

*What are the benefits and costs to Australians of allowing temporary immigration to serve as a pathway to permanent residency? Are there any unnecessary impediments to the immigrants for their transition from temporary to permanent residency?*

*Are there any lessons (both positive and negative) from other countries on the interaction between temporary and permanent immigration that the Commission can draw on?*

The application of qualitative criteria in the permanent and temporary programs, other than criteria relating to health, character and security, is baseless. For instance, it is fanciful to think that public servants or Ministers implementing the family-reunion permanent migration stream can discern which family connections are more important than others. And it is fanciful to think that public servants or Ministers implementing the study, training and research temporary migration streams can discern which courses or programs should justify temporary entry and which shouldn't.

Moreover, the application of different qualitative criteria for the permanent and temporary intakes is baseless. Implicit in this is the fanciful idea that public servants can discern the skills that will be useful in the short term from the skills that will be useful in the long term.

Adverse health, character or security assessments should bar migration for any duration. No other qualitative criteria or quotas should apply, and an immigration tariff should be imposed.

The immigration tariff should cover any fixed costs, such as departmental administration costs, associated with the entry of migrants, be they temporary or permanent. It could also cover any expectations of ongoing net costs or benefits for incumbent Australians from a migrant's residency.

As expectations of any ongoing costs or benefits would differ depending on the duration of residence, this would provide a basis for different immigration tariffs for temporary and permanent migration. If a temporary migrant subsequently sought permanent residency, the Government could elect to charge the difference between the permanent-residency immigration tariff and the temporary-residency immigration tariff.

There may be merit in adopting a relatively low tariff for temporary residence, with a view to attracting substantial numbers of temporary residents who may then choose to become permanent residents informed by their experience living and working in Australia.

#### QUESTION

*What is the evidence that a substantial change to the current immigration regime, such as the adoption of new methods for determining immigrant intakes, is warranted?*

Economic theory indicates that restricting migration through tariffs rather than quotas would improve living standards in the receiving country.

The Commonwealth Government's budget deficits are persistent and significant. Its net liabilities represent around \$11,000 for every Australian.

Hundreds of million dollars of taxpayer funds are spent each year within the Department of Immigration and Border Protection administering various qualitative criteria and quotas for which no net benefit can be established.

Such unnecessary complexity generates significant compliance costs for prospective migrants. This discourages some prospective migrants, some of whom could make a significant net contribution to Australia. Compliance costs also generate an industry of migration agents, who represent a deadweight cost at best, and an opportunity for criminal or unethical behaviour at worst.

Certain immigrants maintain negative attitudes towards incumbent Australians and certain incumbent Australians maintain negative attitudes towards migrants. At the same time, other Australians believe that current immigration policy does not reflect their humanitarian and altruistic preferences.

All of this indicates that the living standards of incumbent Australians would be improved by replacing the current immigration regime, based largely on qualitative criteria and quotas, with a regime largely based on an immigration tariff, where migrants would have reduced access to welfare and subsidised healthcare, education and housing.

#### QUESTIONS

*Would an immigration charge as a primary basis for determining the intake of immigrants be consistent with Australia's current migration objectives? Are existing Australian residents likely to accept the scheme, and would the scheme assist in building public support for immigration?*

*To what extent is it appropriate to consider an immigration fee for the immigration streams currently in place in Australia? Are any of the streams more suited to this policy?*

*Are there material differences in the applicability of the policy to permanent and temporary immigrants, and what are they?*

*Are there any non-economic objectives in the current regime, particularly with respect to the humanitarian and family reunion streams, that could be compromised by a move to charging for entry? How could these non-economic objectives be preserved under a charging regime?*

*What exemptions would be required to comply with Australia's current international obligations? What is the likely international reaction to Australia introducing such a charging regime?*

*Should the Commission examine the policy scenario as a replacement or as an addition to the existing arrangements?*

Australia's current migration objectives are undefined. The objective should be to improve the living standards of incumbent Australians.

The proposed approach would be the best approach to improve the living standards of incumbent Australians — it would be likely to boost government budgets, boost after-tax incomes, build social cohesion, and provide opportunities for Australians to express their altruism.

Unlike the current migration regime, the proposed approach could be credibly and clearly promoted as the best approach to improve the living standards of incumbent Australians. And the proposed approach is simple to communicate. As such, provided that unsubstantiated claims from groups that are familiar with and rely on the existing regime (e.g. certain public servants, migration agents and bureaucracy-savvy businesses and non-government organisations) are rebutted, existing Australian residents are likely to accept the proposed approach. As the proposed approach succeeded over time, it would build public support for immigration.

A view that an immigration tariff should be applied only to certain immigration schemes defined under the existing regime (e.g. to the skills stream, while maintaining quotas for the family reunion stream) would imply that there is a compelling logic underpinning the current mix of streams and the current quotas. In fact, these quotas are more a product of history than logic.

There are no material differences in the applicability of the proposed approach to the temporary and permanent intake of migrants. The immigration tariff could cover any expectation of ongoing net costs or benefits for incumbent Australians from a migrant's residency. As expectations of any ongoing costs or benefits would differ depending on the duration of residence, this would provide a basis for different immigration tariffs for temporary and permanent migration. This would seem to be the only distinction between the temporary and permanent intake.

The Government has signed up to international treaties such that it is obliged to provide protection to refugees. It is unclear how the Government's quota on the number of refugees it will accept each year is consistent with this obligation. Nonetheless, the proposed approach would not disturb the Government's international obligations and no immigration tariff would be imposed on refugees.

There are no objectives outlined in legislation for the current family reunion migration stream against which to assess the stream or alternatives. Nonetheless, the proposed approach would be consistent with any reasonable objectives relating to family reunions.

The proposed approach could facilitate as many family reunions as under the current regime.

The key difference would be that family reunions would no longer be selected according to:

- blanket rules dictating which family relationships are more important than others;
- the discretion of public servants;
- a willingness and ability to incur considerable compliance costs; and
- rationing in the form of considerable delays — often in years — between applications and entry.

This method of selection involves substantial financial and non-financial costs, combined with arbitrariness, uncertainty and frustration.

Under the proposed approach, family reunions would be selected according to a willingness and ability to pay. This approach has advantages of simplicity and clarity, and there may be a

relationship between willingness to pay for a family reunion and the benefits that will come from the family reunion.

Some may find the selection of family reunions according to a person's ability to pay unpleasant. However, in the absence of an open-door immigration policy:

- a selection method is required;
- the accumulation of money is not an indication that a person is less worthy of achieving a family reunion;
- the current regime involves hidden financial costs; and
- the non-financial costs are just as unfair as the proposed, largely-financial approach.

As the proposed approach is superior to the current immigration regime, ideally the proposed approach would replace the current immigration regime after a reasonable period of notice.

However, if this were not pursued, the proposed approach could be introduced alongside the current immigration regime. For instance, prospective migrants who satisfy health, character and security requirements could either apply for existing visas or pay an immigration tariff to obtain residency.

- The immigration tariff in this scenario would presumably need to be set at a high rate so that the existing regime would remain relevant and planned or intended ranges of immigration are not exceeded.

Alternatively, charges for existing visas (other than visas for refugees) could be progressively increased towards the level of a well-considered immigration tariff.

- Where visas are currently subject to a quota, and where demand for these visas exceeds those quotas, then increasing the charges for these visas could reduce delays between applications and entry, and increase Government revenues.
- However, charge increases would need to be limited for those visas where no quotas apply, or where demand does not exceed current quotas. Otherwise, the combination of a high charge and qualitative criteria (beyond those relating to health, character and security) could reduce immigration to well below levels that would best improve the living standards of incumbent Australians.

#### QUESTIONS

*In a system that primarily relies on charging for immigrant entry, how much control should the government retain over the size and composition of the immigrant intake? How can this be reflected in the design of the policy?*

*Should the charging arrangements differ across immigrant streams? Should the charge apply on a per immigrant basis or should there be differential charging for those with a spouse and/or children?*

*Should the investment visa classes (significant investor and premium investor) continue under a charging regime?*

The Government has limited control over the size of the immigrant intake under the current regime. Various components of immigration are uncapped. Other components are subject to a planned intake, but these plans might be more about optics than control: if the eligible number of migrants exceeds the planned intake, then the intake may well exceed the planned intake.

The Commission should assess whether it is easier to determine the immigration tariff, or the overall immigration intake, that best improves the living standards of incumbent Australians.

If it is easier to determine the optimal immigration tariff, then this should be set by Government, and the overall immigration intake should be determined by how people respond to the tariff.

If it is easier to determine the optimal immigration intake, then this should be set by Government, and the immigration tariff should be set by auction.

This latter approach could also be favoured, at least at the outset of the new regime, if it is more politically advantageous to give assurances about the overall immigration intake. That said, it should not be forgotten that the Government has limited control over the overall immigration intake under the current regime.

The greatest gains from an increasing reliance on charging would come if Government control over the composition of immigration were concurrently reduced. Reducing controls over composition, while retaining qualitative requirements regarding health, character and security, would allow decentralised selection of migrants by the migrants themselves and by members of the Australian community. This would improve the willingness and ability of migrants to work, and would improve social cohesion. Reducing compositional constraints would also allow the immigration tariff to be increased for a given overall intake of migrants. The revenue boost to Government would further improve the living standards of incumbent Australians.

The case to reduce controls over composition applies equally to the Business Innovation and Investment Program. For example, under a regime where no such program exists, but an immigration tariff is set by auction, prospective investor-migrants and prospective skilled-worker-migrants would vie for entry by bidding up the immigration tariff. This process would provide greater assurance that the entrants who best improve the living standards of incumbent Australians are selected.

That said, an increasing reliance on charging while retaining control over the composition of immigration would provide a small benefit in instances where visas are currently subject to a quota, and where demand for these visas exceeds those quotas. In such instances, increasing the charges for these visas could reduce delays between applications and entry, and increase Government revenues, without having any impact on the quantum or categories of migration.

Whether immigration tariffs should be imposed on individuals or family units could depend on the Commission's analysis on the costs and benefits of migrants for incumbent Australians. For instance, if migrants are assessed to generate a net cost on average for incumbent Australians, and if this net cost does not vary between parents and children, then an immigration tariff to offset the net cost should be imposed equally on each parent and child.

Moreover, if the Government favours a hard limit on the overall immigration intake, irrespective of whether those migrants are adults or children, then an immigration tariff set by way of an auction should be imposed equally on each parent and child.

#### QUESTIONS

*What should be the key rights and obligations conferred by the visas issued under a charging regime?*

*What should be the extent and duration of any limits on access to social security and government services? Should those limits vary across visa streams or residency status? Are there any examples within the existing system, for example, the rights of New Zealand citizens residing in Australia, that could be used under a charging regime?*

*What should be the key elements of a policy on the transition between temporary residency, permanent residency and Australian citizenship under a charging regime? What would be the costs, benefits and practical issues in allowing secondary trade in immigration permits?*

Under an immigration tariff regime, qualitative requirements for entry and continued residence would be limited to existing health, character and security requirements. As such, if a migrant were convicted of a serious crime their entitlement to continued residence could be withdrawn.

With the removal of qualitative entry criteria relating to studies and jobs, continuing residence would not be subject to obligations to undertake certain studies, jobs or investments.

Qualitative requirements for the entry and continued residence of refugees, and government services and entitlements available specifically to refugees, would remain unchanged. Continuing access to welfare and subsidies for refugees would be justified because there is little risk that genuine refugees choose to immigrate to Australia because of the availability of welfare and subsidies — genuine refugees typically have limited choices and more compelling motives for migration than merely the availability of welfare and subsidies.

Under an immigration tariff regime, entitlements to new entrants who are not refugees should be substantially reduced. Existing public health, education and infrastructure access could continue, as could existing access arrangements for the Age Pension (which include ten year residence requirements) and the Disability Support Pension (which allow payments when the disability occurred while an Australian resident). However, access to other welfare, including unemployment benefits, rent assistance and public housing, could be significantly reduced. For instance, residency requirements for Family Tax Benefits and associated payments, and for income support such as NewStart, could be replaced with a requirement to be a citizen.

Moreover, the granting of citizenship could be limited to migrants who:

- reside in Australia for ten years;
- have a clean criminal record;
- have passed a citizenship test, in English, testing for an understanding of the values of a liberal democracy; and
- provide evidence of means to support themselves and of links to the Australian community.

Those who choose to become migrants in the knowledge of such arrangements would do so for their betterment.



Reducing the availability of welfare to migrants would directly reduce the tax burden on incumbent Australians. Moreover, it would encourage productive migrants with strong work prospects and discourage less productive migrants with weaker work prospects. This could reduce negative attitudes to migrants from incumbent Australians and vice versa.

Under the current immigration regime, a visa can only be used by the successful applicant and is not transferrable. Under an immigration tariff regime, a person who satisfies the continuing qualitative requirements regarding health, character and security, and who has paid the immigration tariff, would be entitled to residence.

This entitlement would be restricted to the person who satisfied the requirements, and would not normally be transferrable. If such an entitlement were transferrable, any entrant would need to personally satisfy continuing qualitative requirements regarding health, character and security. There would be nothing to prevent a person from paying the immigration tariff for another person.

There is no real reason to amend current arrangements regarding New Zealand citizens and their right of residence in Australia. Indeed, there are sound reasons to negotiate similar arrangements with other countries. The free movement of people between countries, provided there is little prospect of an overwhelming influx either way, will inevitably contribute to greater prosperity in both countries.

In relation to access to benefits, negotiated agreements with countries in which Australians may access similar benefits would be our suggested approach.

#### QUESTIONS

*If the level of the charge is determined administratively, what criteria and evidence might be relevant in setting the fee? How should the price be set, and how frequently should it be revised?*

*If the price is determined within the market, what should be the key elements of the mechanism for allocating permits?*

*Which parties should have the right to purchase an immigration permit? What would be the practical challenges and other implications in allowing non-immigrants to purchase the permits?*

*How effective have migration agents been in assisting potential immigrants? What should be the role of migration agents under a charging regime? What are the benefits and risks vesting migration agents with the right to assist their clients in obtaining finance for the entry charge or in purchasing permits on behalf of their clients?*

*What would be the challenges or impediments for Australia's capital markets in providing loans to finance immigration permits? Would there be distortions due to differences in access to capital markets for immigrants from different countries?*

*Should the charge be payable by instalment? Under what circumstances should the charge be refunded?*

*What are the costs, benefits and practical challenges in providing a government loan facility for immigration permits? What could be the key characteristics of such a facility? How could such a loan scheme be enforced?*

*Are there any other relevant considerations relating to how an immigration fee could be implemented in Australia?*

The terms of reference for this inquiry require the Commission to examine the way in which charges could be set and what they might be, to maintain the current levels of the migrant intake or to maximise the benefits to Australian citizens. Accordingly, the Commission should generate numerical estimates for immigration tariffs.

An immigration tariff that roughly maintains the current levels of intake could be estimated by calculating the difference between earnings available to skilled migrants if they stayed at home compared to their earnings (net of migration expenses) following their migration to Australia under the skills streams of the current immigration regime.

Information on migration expenses — both financial and non-financial (including waiting costs) — could assist in determining the minimum immigration tariff to roughly maintain the current levels of the migrant intake.

Estimating an immigration tariff that maximises the benefits to Australian citizens is more difficult, although still necessary. Working assumptions will need to be made, and made clear, regarding the impact of migrants under an immigration tariff regime on the incomes and wealth of incumbent Australians, on government services and taxes, on social cohesion, etc.

If the Government wishes to roughly maintain the current levels of the migrant intake, the immigration tariff could be adjusted annually in order to best meet this objective. If the Government wishes to maximise the benefits to incumbent Australians from the migrant intake, then the immigration tariff could be adjusted less frequently, in response to periodic reviews of the impact of migrants on the living standards of incumbent Australians.

An immigration tariff regime need not involve any greater practical difficulties or risks than the current regime and, indeed, difficulties and risks should be reduced.

- Under the current regime, prospective migrants must satisfy qualitative requirements regarding health, character and security. This would be unchanged under an immigration tariff regime.
- Under the current regime, prospective migrants must pay various visa charges. Such payment of charges is the defining feature of an immigration tariff regime, so poses no practical difficulties or risks that do not exist at present.
- There need not be any transferability of entitlements or secondary markets under an immigration tariff regime.
  - The benefits of an immigration tariff regime would be achieved without any transferability, and it is not clear what benefits would be offered through transferability.
  - Nonetheless, if there were such transferability, a requirement of a prospective migrant to personally satisfy qualitative requirements regarding health, character and security would remain.

The migration agent industry is a result of the massive complexity of the current regime, based largely on numerous qualitative criteria and quotas, which create the importance of know-how regarding when to get what forms in to whom. The removal of quotas and qualitative requirements other than those relating to health, character and security would significantly reduce the usefulness of migration agents.

There may be little need for migration agents under an immigration tariff regime. It is not envisaged that the immigration tariff would change from minute to minute or even month to month. As such, there would be no inside knowledge on when to best apply for residence. If a prospective migrant wishes to borrow money to fund the immigration tariff, a migration agent would have no particular advantage in offering finance compared to any other source.

Individuals and businesses in Australia and overseas who have no relationship with a prospective migrant may not wish, and would be under no obligation, to provide loans to a prospective migrant to fund the payment of an immigration tariff, particularly if such loans are unsecured. If some prospective migrants who wish to borrow to fund an immigration tariff secure a loan while others do not, this does not represent a 'distortion' to be addressed through Australian policy.

If it were politically necessary, the Government could offer to pay or lend the tariff on behalf of certain immigrants whose entry the Government did not want to leave to chance. However, any loan would likely be unsecured and provided on non-commercial terms. Moreover, provision of a government loan would counteract the benefit of the immigration tariff regime wherein migrants demonstrate a commitment to migration — without access to welfare — by having 'skin in the game'.

If an immigration tariff for temporary migration differed from an immigration tariff for permanent migration, a prospective migrant would have the option of paying an immigration tariff for temporary migration and then assessing whether a subsequent temporary or permanent immigration tariff should be paid towards the end of the initial period of temporary residence. If a temporary migrant subsequently sought permanent residency, the Government could decide to charge the difference between the permanent-residency immigration tariff and the temporary-residency immigration tariff. Under this arrangement, there would be no case for allowing payment-by-installment of an immigration tariff for permanent migration.

If an immigration tariff regime were introduced, no immigration tariff would be imposed on refugees. If the Government decided to continue to detain asylum seekers under the new regime, an asylum seeker who is detained may choose to pay a form of bail (equivalent to the immigration tariff) in order to get out of detention and to reside in Australia while awaiting a decision on his or her refugee status. If the asylum seeker is then granted refugee status and Australian residence, the bail would be refunded. If the asylum seeking is refused refugee status and chooses to leave Australia, the bail would also be refunded.

Other than in the aforementioned circumstances relating to asylum seekers, the immigration tariff would not be refunded. This would be consistent with the treatment of incumbent Australians, who do not receive a payment if they choose to cease being an Australian resident. Non-refundability would also make it more likely that a permanent migrant would commit to making Australia home. Migrants who would like to experience residence before committing to permanent migration would have an option to pay for a temporary-migration immigration tariff.

#### QUESTIONS

*How could the demand for immigration into Australia be measured? What is the evidence in Australia and comparable overseas economies on the willingness of immigrants to pay for immigration permits?*

*To what extent do the current administrative arrangements constitute an indirect charge for entry?*

*Under what circumstances would the revenue from the immigration charge not*

*constitute a net benefit to the Australian economy and how prominent are those factors likely to be?*

*What factors could influence the administrative costs of the regime? How might the likely costs compare to current administrative costs?*

In addition to existing visa charges, the current immigration regime involves considerable compliance costs (incurred directly by applicants and indirectly through migration agents) and waiting times which constitute an indirect charge for entry. These indirect charges involve considerable arbitrariness, uncertainty and frustration, but no contribution to Consolidated Revenue.

The Commission should estimate the reduction in departmental expenses that would arise if all qualitative requirements and quotas under the non-humanitarian categories — other than qualitative criteria relating to health, security and character — were removed.

At a minimum, all expenses associated with policy areas responsible for advising on different family reunion and skills-based criteria should be eliminated under a tariff-based immigration policy.

Significant savings should also be achieved from areas responsible for creating and administering application processes that gather and discern the family reunion and skills-based criteria of potential migrants.

If departmental expenses associated with the non-humanitarian visa function were significantly reduced, then it would be prudent to also extract significant savings from the Department's general expenses.

As various visa charges are already imposed on migrants, the collection of an immigration tariff should not involve additional administration costs. As the setting of an immigration tariff involves the same analysis as the setting of the overall immigration level, which is already a function of the Department, no additional administration costs should arise from the determination of an immigration tariff.

#### QUESTIONS

*What might happen to the composition of the immigrant intake if an immigration charge replaced the current requirements for skills and family connections? What kind of immigrants would this potentially attract, and what immigrants may be deterred? Would all prospective immigrants face a level playing field in their capacity to participate in the scheme? If not, who would this policy favour and who be disadvantaged and how?*

*Do any of the outcomes under Australia's existing migration streams provide useful evidence on the demand for a charging system among prospective immigrants, and the implications such a move would have on the composition of the immigrant intake? Can any lessons be drawn from the outcomes under the Business Investment stream?*

*What are the implications of the potential change in the immigrant composition for Australia's labour and capital markets?*

*What are the possible consequences for urban amenity and social outcomes for the Australian community?*

No credible prediction can be made about how a tariff-based immigration system — where new entrants have only limited access to social security or subsidised education, housing or healthcare — might change the composition of the immigrant intake. That said, the current composition cannot be said to be optimal at improving the standard of living of incumbent Australians. It is a result of bureaucratic rather than price-based ordering within individual migration streams, the biases and preference of public servants and those who lobby them, and historical inertia.

A tariff-based immigration system, where new entrants have only limited access to social security or subsidised education, housing or healthcare, is a decentralised approach that tests each potential immigrant. This would confine public servants to confirming that a potential immigrant satisfies qualitative criteria concerning health, character and security. The rest is left to the individual. If the individual believes that the extra after-tax earnings he or she can earn by immigrating to Australia exceed the tariff that must be paid, the individual will have a financial incentive to choose to immigrate.

This decentralised approach aligns with the objective of improving the living standards of incumbent Australians for the following reasons.

- The higher an immigrant's after-tax earnings, the higher the immigrant's tax payments. This, in conjunction with the payment of the tariff, helps reduce the tax burden on incumbent Australians and increase the capacity for government services of benefit to incumbent Australians.
- Provided the tariff exceeds the value of communal assets that the immigrant will come to share (like roads, mineral reserves, access to national parks) and any communal services the immigrant will access, then the immigrant provides a net benefit to incumbent Australians.
- Incumbent businesses will be able to attract the immigrant workers and investors they want by offering wages or returns sufficient to justify the immigrant's payment of the tariff, or by offering to pay the tariff on the immigrant's behalf.
- Australian workers and investors would not face a tariff, so incumbent businesses would prefer them over comparable immigrant workers and investors.
- The Government's commitment to protect refugees would remain, and no tariff would be imposed on such refugees. However, this commitment does not adequately reflect the humanitarian and altruistic considerations of many Australians. Under the proposed tariff-based immigration system, those Australians would be able to fund the entry of people they consider to be in need, by paying the tariff on their behalf, whether as a gift or a loan.

Under this approach, the immigrants that best improve the living standards of incumbent Australians select themselves, or are selected by everyday Australians, in a decentralised fashion.

Under the proposed approach, a migrant's willingness and ability to pay would assist their migration. This approach has advantages of simplicity and clarity, and there may be a relationship between willingness to pay and the benefits that will come to incumbent Australians from the migrant.

Some may find the relevance of a migrant's ability to pay unpleasant. However, in the absence of an open-door immigration policy:

- a selection method is required;
- the accumulation of money is not an indication that a person is less worthy of migration than someone who has not accumulated money; and
- the current regime involves hidden financial costs and non-financial costs that are just as unfair as the proposed, largely-financial approach.

Reducing access for immigrants to welfare and subsidies for healthcare, education and housing would reduce the prevalence of negative attitudes to migrants from incumbent Australians. It could also reduce the prevalence of negative attitudes to incumbent Australians from migrants, as any migrants who currently enter Australia to avail themselves of welfare and subsidised services — while maintaining an attitude of contempt for the 'suckers' who pay for it — would no longer be able to do so.

The Commission should make clear the distinction between residence and citizenship. Citizenship should not be automatic for migrants who gain permanent residency. Instead, migrants should need to:

- reside in Australia for ten years;
- have a clean criminal record;
- have passed a citizenship test, in English, testing for an understanding of the values of a liberal democracy; and
- provide evidence of means to support themselves and of links to the Australian community.

Limiting citizenship in this way could reduce the prevalence of negative attitudes to migrants from incumbent Australians, by assuring incumbent Australians that citizenship and rights to vote will be reserved and protected. Limiting citizenship in this way could also reduce the prevalence of negative attitudes to incumbent Australians from migrants, to the extent that migrants who seek citizenship will need to strive for it, including by becoming engaged in the Australian community.

#### QUESTIONS

*What are the key areas of uncertainty from introducing a charging regime for immigration and how significant are the risks?*

*If such a policy were to be implemented, what transitional arrangements should be considered in order to minimise the risks? Would it be helpful to implement a pilot scheme to test the robustness of the proposal? How should such a pilot scheme be designed?*

The Government has limited control over the size of the immigrant intake under the current regime. Various components of immigration are uncapped. Other components are subject to a planned intake, but these plans might be more about optics than control: if the eligible number of migrants exceeds the planned intake, then the intake may well exceed the planned intake.

If desired, the introduction of an immigration tariff regime could increase certainty regarding the overall immigrant intake. This would involve determining the overall cap and allowing the immigration tariff to be set by auction. The alternative of a Government-determined immigration tariff would involve uncertainty regarding the overall immigrant intake in that year, but this uncertainty may be no greater than the uncertainty under the current regime. Moreover, the immigration tariff could be adjusted annually if the Government wished to target a particular level of the migrant intake.

The introduction of an immigration tariff regime would replace the certainty of an arbitrary mix of migrant streams, with a composition of migrants with a largely self-selected composition that better improves the living standards of incumbent Australians.

As the proposed approach is superior to the current immigration regime, ideally the proposed approach would replace the current immigration regime. However, if this were not pursued, the proposed approach could be introduced alongside the current immigration regime.

For instance, prospective migrants who satisfy health, character and security requirements could apply for existing visas or pay an immigration tariff to obtain residency.

- The immigration tariff in this scenario would presumably need to be set at a high rate so that the existing regime would remain relevant and so that imagined ranges of immigration are not exceeded.

Alternatively, charges for existing visas (other than visas for refugees) could be progressively increased towards the level of a well-considered immigration tariff.

- Where visas are currently subject to a quota, and where demand for these visas exceeds those quotas, then increasing the charges for these visas could reduce delays between applications and entry, and increase Government revenues.
- However, charge increases would need to be limited for those visas where no quotas apply, or where demand does not exceed current quotas. Otherwise, the combination of a high charge and qualitative criteria (beyond those relating to health, character and security) could reduce immigration to well below levels that would best improve the living standards of incumbent Australians.

#### QUESTIONS

*What other intake mechanisms that have been tried in other countries and are materially different from current arrangements in Australia should the Commission consider? How would those mechanisms improve outcomes?*

An immigration tariff regime would not impose tariffs on incoming New Zealand citizens given the Trans-Tasman Travel Arrangement. Such Free Immigration Agreements improve the options for the citizens of the countries involved.

They could be negotiated with other countries that share our basic values (e.g. rule of law, democracy, market economy) where there is no expectation of a flood of immigrants in either direction. Citizens of countries with which Australia had a Free Immigration Agreement would be entitled to reside permanently in Australia while retaining the citizenship of their home country, and vice versa. Non-citizens of these countries would not have the same entitlement.