Proposal: On the prospect of using income contingent loans, used by the federal Government, and administered through the Federal income tax system, as a solution to equity concerns associated with a move to a tariff-based rather than a quota-based immigration system.

The text below appears on the website, *The Conversation*, on 1 May 2015. (https://theconversation.com/au).

The main arguments in support of a shift to a tariff-based rather than quota-based system for immigration control are well known. As are the obvious benefits to Government revenue. The main problem is the politics, particularly the equity concern. But this is a similar problem to that of fee-based higher education. This should admit the same form of solution.

The novel idea here is to use an income contingent loan scheme, modeled on HECS. No modeling work is done here, and nor is a substantial case made. That, in a sense, would be the PC's job (or perhaps mine in the future). I am only suggesting looking further into the viability of this idea.

Sincerely,
Prof. Jason Potts
School of Economics, Finance & Marketing, RMIT University, Melbourne

April 30, 2015

Let's apply lessons of trade liberalisation to reform immigration - here's how

The most successful economic policy in the 20th century was the long, slow, persistent process of trade liberalization that took us from the closed and isolated depths of WWI and the great depression to the current era of open and prosperous globalization. This is something, as Greg Mankiw points out in a recent New York Times piece, with near unanimous agreement among economists.

The pathways for liberalization of trade both in capital and in goods and services did not jump immediately from autarky to perfect free trade, but followed a phased progression as complete barriers were converted into quotas, then those quotas converted into tariffs, and then those tariffs gradually reduced through each round of trade negotiations to the present point of near elimination.

The phased progression is more politically viable, and economic theory explains why tariffs are superior to quotas. Tariffs raise revenue for government, and are less prone to corruption and smuggling. Because they are a price mechanism, they affect incentives at the margin, leading to a more efficient allocation of resources and more effective development of specialization and comparative advantage, which drives productivity and wealth creation.

Exactly the same argument that applies to international flows of goods and services, and capital, also applies to labour, to the international flow of people. The world of global migration in 2015 is basically where the world of capital flows and trade in goods and services was in 1915.

Many of the current debates about reform of immigration policy in Australia are essentially about changing the conditions of the current quota system – tweaking it here and there for political expediency.

A better idea is to replace it altogether with a tariff system. This can be viewed as the first phase in a gradual sequence of reforms that will culminate in open markets for labour – just as we already have (and benefit greatly from) open markets for capital and goods and services.

This idea is not new, and was long ago proposed by Nobel Prize winning economist Gary Becker (a gated paper is here). The basic argument in favour of immigration tariffs (or related mechanisms such as an immigration auction or surtaxes) in preference to quotas is made here. One of the most compelling arguments in favour of immigration tariffs is that the tariff revenue goes to the government to be distributed among citizens, rather than to smugglers. This is a much fairer system, as the immigrant is basically buying their share of the public capital and infrastructure (including intangibles). My back-of-the-envelope calculation puts that at about $60,000 (per capita public sector capital stock, generously rounded-up).

Furthermore, using financial rather than discretionary means to regulate migration eliminates or mitigates many of the substantial harms associated with the quota system. These include the incentives to political lobbying and corruption (and the politicization of migration debate); the strong incentives to smuggling, the flows of revenues to smugglers, and the horrible human cost in failed smuggling ventures; the arbitrariness of the mechanism; fewer wasted resources devoted to the ‘immigration industry’.

However, the argument against such a line of reform usually gets immediately stuck on the equity issue of 'what about the poor people?' and 'who can afford that?' Let's ignore the substantial costs that the quota system imposes on immigrant individuals and Australian citizens, and that the current estimates of smuggling costs divided by probability of success is about $60,000 already. Let's also overlook that a tariff can be paid by family and friends, or even by charitable organizations, in a way that a quota system cannot (unless those are high-powered political friends).

Let's go straight to a possible solution inspired by a structurally similar problem that Australians brilliantly solved about 20 years ago in the context of the affordability of higher education, an idea now increasingly copied by the rest of the world – namely government issued "income contingent loans", otherwise known as HECS. Higher education is a good investment, as is Australian citizenship. Borrowing to finance the former is not that different to borrowing to finance the latter.

So let's shift from immigration quotas to immigration tariffs. Standards of language proficiency and good character can of course be maintained. All who meet those criteria and can pay the tariff would be welcome.

But those who couldn't pay would be offered (what I will call) Income Contingent Citizenship Loans (ICCLs) that would work in much the same way as HECS. Plainly, these immigrants would be encouraged into the labour force, rather than prohibited, and it is possible that various exemptions would need to be carved out of labour laws to enable participation. But the general principle would be that an inability to pay upfront would be no barrier to potential inward migration, just as with access to higher education.

A substantial body of economic theory and evidence indicates that migrants are a good investment for a well-governed nation, such as Australia. An equally substantial body of theory and evidence indicates that tariffs are a better migration control mechanism than quotas. Making ICCLs available would increase the viability of a tariff-based migration policy.

The Productivity Commission has called for an enquiry into new approaches to immigration policy, with a particular focus on the use of charges. This is an opportunity not to let slip by to fix something that has been broken for much too long. A broad shift from immigration quotas to tariffs will be a good start in getting the economics right. Income Contingent Loans could be an Australian policy innovation that could make this a political reality too.

Jason Potts is a Professor of Economics in the School of Economics, Finance and Marketing at *RMIT University*, and Adjunct Fellow at the *Institute of Public Affairs*.