Immigration: a framework for assessment

The Australian Government has requested the Productivity Commission undertake an inquiry on *Migrant Intake into Australia*. The terms of reference (ToR) are summarised below.[1]

1. What are the *benefits and costs of permanent and temporary immigration* with regard to the budgets and balance sheets of Australian governments and the income, wealth and living standards of Australian citizens?
2. What is the *scope to use alternative methods for determining immigrant intakes* (including one specified scenario where entry charges are the primary basis for selecting immigrants) and what would be the effects of adopting them?
3. What are the mechanisms for achieving an *optimal interaction between temporary and permanent immigration*?

Answering these inter-related questions requires a coherent and comprehensive approach. This paper sets out the key elements of the Commission's proposed framework and seeks input on a number of them.

Some background: relevant concepts and features

How do we define immigration and who is an immigrant?

Immigration is commonly defined as the movement of people currently living in one country moving to another country in order to *settle* — either permanently or temporarily.

Measures of immigration in practice have different definitions. The ABS' Census definition of an immigrant is as follows:

> An *immigrant* is a person who has reported their country of birth as a nation other than Australia. This will include both permanent residents of Australia and temporary immigrants working, studying or staying in Australia for extended stays. People born overseas who report on Census night that they intend to stay in Australia for less than one year are considered to be an *overseas visitor* and are excluded from this analysis. (ABS 2014)

[1] The full terms of reference are attached (attachment A).

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Another definition used by the ABS when estimating net overseas migration is:

> … a person is regarded as a usual resident if they have been (or expected to be) residing in Australia for a period of 12 months or more over a 16 month period. The 12 month period of stay does not have to be continuous. (ABS 2015)

In practice this will mean that there will be some inconsistency between different measures of permanent and temporary immigration — for example, both of these ABS' definitions mean that it may difficult to distinguish between temporary and permanent visa holders as many temporary visa holders include those on 457s, students, working holiday makers and New Zealand citizens on indefinite temporary visas. Further, these ABS definitions also include foreign nationals holding a Visitor visa who remain in Australia for a minimum of 12 months. The second definition includes people returning to Australia after a period of 12 months or more in another jurisdiction.

Consultation question:	*For the purposes of this inquiry, how should the Commission define immigration and immigrants?*

Why do people immigrate and how do immigrants differ?

The decision to immigrate can be expressed as a cost-benefit decision. That is, people seek to immigrate if the expected net benefits of doing so exceed the expected net benefits of staying put, less any costs of moving.

Both 'pull' and 'push' factors affect immigration. Pull factors include better economic opportunities in destination countries (including higher incomes, cost of living, access to education and health services) and lifestyle and cultural considerations (including the desire for reunion with other family and community members). Push factors include political and social instability (including conflict and persecution) as well as climate and living conditions in their home country.

As a result, the characteristics of immigrants (both observable and unobservable) often differ from those of the resident population — although subsequent generations tend to become more similar to incumbent residents. Self-selection combined with the application of explicit selection rules (see below) explain much of these differences.

Immigration can affect different parties in different ways

Various groups of people are affected by immigration in diverse ways and over time, including:

- individual immigrants and their accompanying family members — for example, while immigrants may improve their earnings (compared with their home country) their potential economic and social contributions might not be fully realised due to lack of

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qualification recognition or through prejudice. However, the lifetime wellbeing of family members can develop over time as they gain appropriate qualifications and experience and as prejudice abates among existing citizens

- citizens (and other residents) of the country in which immigrants seek entry — for example, immigration may affect different sectors or groups in the economy, the wages and other income of some or all of the existing population, government budgets, the built and natural environment and social cohesion. Further, any benefits of immigration can take time to accrue as immigrants settle and develop full economic and social participation
- citizens (and residents) of source countries — for example, increased remittances offset to some extent the potential for a 'brain drain' and can be a major source of income for the source country.

Why do countries accept immigrants?

There are economic as well as social reasons for countries to accept immigrants.

The economic reasons primarily centre around the effect of immigration on different elements of the economy which, in turn, affect the size of the population, productivity and growth and income per person.

Social reasons include fulfilling altruistic desires of the community, which have been manifested in Australia ratifying various international treaties, facilitating family reunion (which can contribute to economic outcomes), promoting social cohesion and increasing cultural diversity.

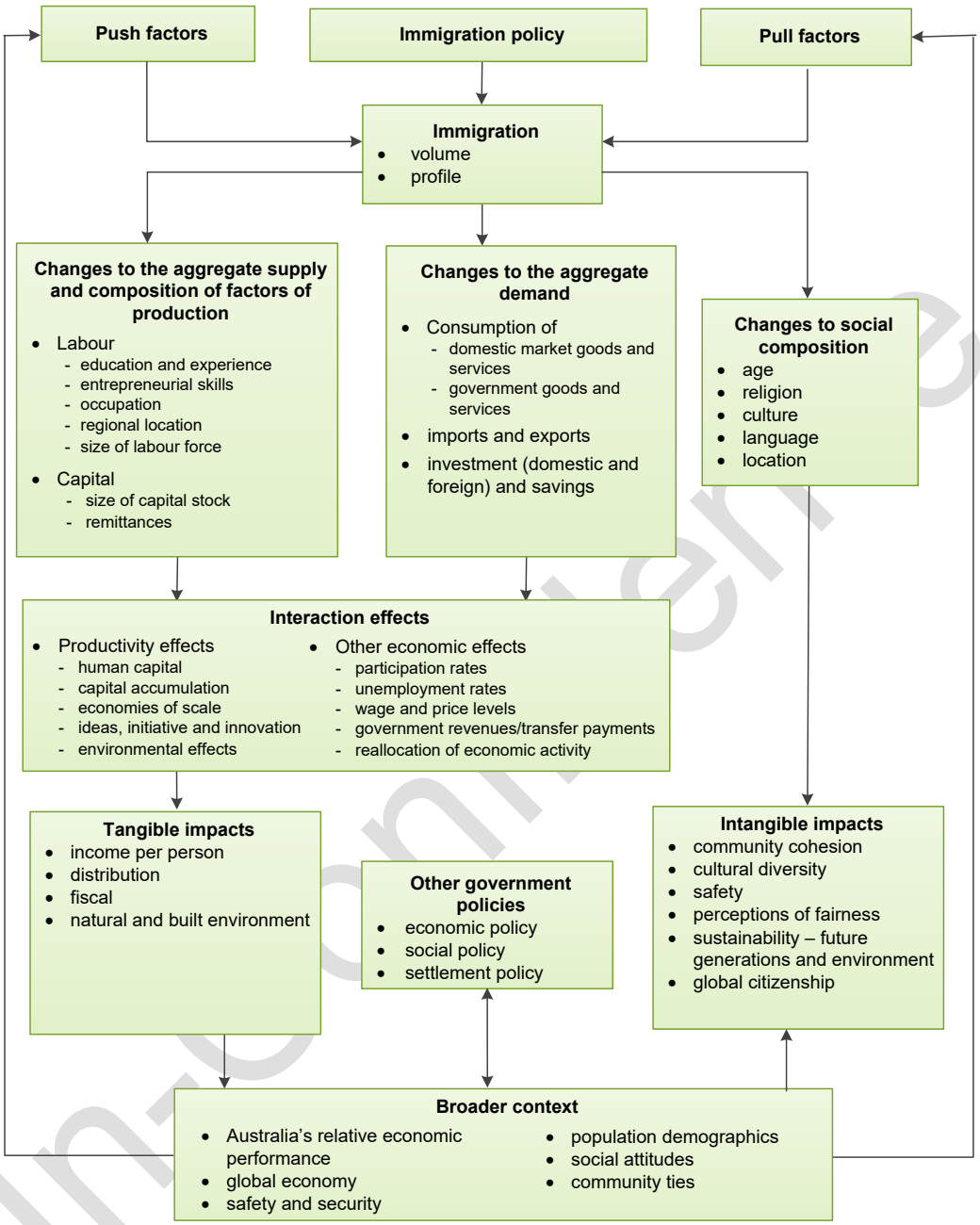
As shown in figure 1, the overall impact of immigration depends on the sum of these different elements — some of which can be positive and others negative — and is essentially an empirical matter (PC 2006). As immigrants are not homogenous, the net benefits to Australia will vary around an average net benefit.

The issue of population size is not in scope

Expanding the size of a country's population is also another reason why countries not only accept but encourage immigration. For example, nation building was one of the stated reasons for immigration post World War Two. Nowadays there are different views on this. Some see population size as important for national security, for others it is about the economic opportunities associated with a larger population. By contrast, others are concerned about the effect of the size of the population on the existing built and natural environment. This inquiry is not proposing to examine the issue of immigration from the perspective of population size, which would be determined by a wider range of policies, and beyond the scope of this inquiry.

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Figure 1 **Impact of immigration: an integrated approach**



What are the key features of immigration systems?

Government has a key role

Governments act on behalf of citizens to limit or expand the size of the population through immigration policies, set the rules of entry to a country and protect the country's borders.

Section 51(xxvii) of the Australian Constitution authorises the Australian Parliament to make laws with respect to immigration and emigration.

How immigration policy is enacted depends on the attitudes of citizens (expressed through political forces and subject to the Constitution). For example, one reason that governments manage — through quantitative restrictions and qualitative criteria — the entry of non-citizens and regulate the conditions of their stay is to protect citizens' safety (including national security, biosecurity and health, and long term social cohesion). As taxpayers fund social welfare supports and much of the public infrastructure, governments also need to manage and regulate immigration systems on behalf of taxpayers and citizens. Successive Australian governments have also entered into treaties and other international instruments, accepting responsibilities and obligations under those instruments.

There are also positive and negative externalities associated with immigration which should be considered by governments in their decision making.

Government involvement has typically led to rule-based selection mechanisms

As governments determine the rules of entry to the different visa classes, the 'price' that immigrants pay may not be readily observed, except for visa fees. This price can include a range of other components, such as time costs of the applicant and their transportation, documentation and agent costs. Applicants also may be required to purchase insurance and bonds.

Further, some of the 'costs' of admitting new immigrants may not be explicit (or measured) and/or they may be distributed unevenly across existing citizens and residents (including future generations). There are also costs associated with processing visa applications and screening for health and security risks (the risks of which cannot be eliminated under any prospective immigration system).

The rights and responsibilities of immigrants differ across residency status

Potential immigrants acquire a bundle of rights and responsibilities when they are granted residency in a country temporarily or permanently. The rights (which can also vary across different visa classes) allow access to social supports, infrastructure and participation in the Australian economy. Additionally, the visa class determines the period immigrants can remain in Australia and the scope to apply for other visa classes. The responsibilities include obeying Australian laws and meeting the requirements of the visa class. Those that progress to citizenship acquire the right and responsibility to vote, and to political participation, and thereby affect the changing Australian nation.

Further, there are often *implicit contracts* as the rights (entitlements) and responsibilities (obligations) which change as a person moves along a pathway from temporary to permanent residency to becoming a citizen. The rights and responsibilities can also change over time as a result of policy decisions.

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What are the objectives of immigration policy?

Immigration policy should seek to improve welfare …

Although it is rarely made explicit, improving the overall welfare of the Australian community should be a key objective of government policies, including immigration. In practice, governments typically enunciate more focused objectives for different areas of policy responsibility.

While the objectives of Australian immigration policy have sometimes been obtuse, they have also varied over time. Today the objectives of immigration policy are framed around economic, social and safety considerations (box 1). More detailed objectives also sit under the three main immigration-related programs (that is, the Migration, Visas and Humanitarian Programs). Further, these objectives are buttressed with objectives which support economic and social inclusion, citizenship and settlement, including multicultural affairs (box 1).

Setting aside the Humanitarian Program, the relative weight given to economic and social factors differs between the permanent and temporary programs, with more weight seemingly given to economic objectives in the temporary intake than the permanent intake. For example, family reunion is a feature of the permanent program but is not at the forefront of the objectives of the temporary program, with most temporary visa offerings centred around tourists, students, temporary graduates, temporary work (457s), training and research, working holidays, international relations, and skilled and business (DIBP 2013).

At the same time, to the extent that temporary visas offer a pathway to permanent entry, a mutual 'vetting' objective is also apparent (for both Australia and the potential permanent resident).

Consultation question:	*For the purposes of this inquiry, what should be the objective(s) of Australia's immigration policy?*

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Box 1 **Objectives of immigration policy**

Overarching objectives

The Department of Immigration and Border Protection states that its immigration-related outcomes are to:

> Protect Australia's sovereignty, security and safety by managing its border, including through managing the stay and departure of all non-citizens
>
> Support a prosperous and inclusive society, and advance Australia's economic interests through the effective management of the visa and citizenship programmes and provision of refugee and humanitarian assistance. (DIBP 2015, p. 11)

Detailed objectives and strategies

Sitting under these objectives are more detailed objectives and strategies. For example:

- within the Migration Program (which centres on **permanent entrants**), the Skill stream 'targets high quality migrants who use their skills and attributes to contribute directly to Australia's economic well-being' while the Family stream 'addresses an important social objective in enabling Australian residents to reunite with close family members from overseas' (DIBP 2014, p. 3)
- within the Visas Program (which focuses on **temporary entrants**), while the broad intent is to meet Australia's national interest (including national security and economic and social development) there are specific objectives for each visa class. For example, the international student program facilitates the export of education services onshore to non-citizens under an overarching objective of ensuring a 'sustainable international student sector' (DIBP 2015). By contrast, the Seasonal Worker Program has dual objectives of easing seasonal labour market shortages in selected industries together with international aid goals.
- the Humanitarian Program contributes to the resettlement of **refugees and those in humanitarian need** and to provide visa pathways for those needing Australia's protection (DIBP 2015).

Other objectives which support immigration objectives

The above immigration-related objectives are buttressed with policies which help to:

- support a prosperous and inclusive Australia and promote Australian citizenship (see DIBP 2013-14 annual report)
- improve the lifetime wellbeing of immigrants and refugees settling in Australia by responding to their specific needs, encouraging their independence and participation in the Australian community (DSS 2014).

But whose welfare should be considered?

A key question is: whose welfare should be considered when assessing the impact of immigration (and changes arising from varying immigration policies)?

- The ToR suggests the Commission should consider the income, wealth and living standards of *Australian citizens* as well as the budgets and balance sheets of Australian governments. It also provides for Australian citizens to be altruistic towards foreigners

including refugees and for Australia's international responsibilities and obligations to foreign residents to be met.

- In previous work, the Commission has defined the group whose welfare should be considered as *people living in Australia who are citizens or permanent residents* (PC 2006).
- The issues paper for this inquiry suggested it would be possible to include future generations of Australians, *including immigrants after they settle in Australia*.

Consultation questions:	*In assessing the benefits and costs of immigration, whose welfare should be considered? For example, should it be:* • *existing citizens* • *existing citizens and their descendants* • *residents (ie permanent resident visa holders and citizens)* • *residents and their descendants?* *Will choosing one group over another lead to significantly different policy decisions in practice?*

How should the Commission assess the costs and benefits of permanent and temporary immigration?

Gather evidence on the tangible and intangible impacts

As many aspects of welfare are difficult to define and measure, the Commission proposes to assess the impacts of immigration on welfare in terms of the effects on costs and benefits to [Australian citizens] in two broad categories: 'tangibles' and 'intangibles' (figure 2).

Tangibles include those elements whose value can be expressed through market prices (for example, wages, cost of living). But they also include some elements that do not have market prices, such as the costs of congestion and changes to social services. And while proxy measures need to be found to value intangibles, intangibles are nevertheless vital to take into account when gauging the impact of immigration on the community (for example, on social cohesion, safety and the like). Indeed, while intangibles cannot be easily monetised, some can be measured and quantified using a variety of measures.

Using this bifurcation will enable a wide range of views and measures to be canvassed and then assessed in terms of their costs and/or benefits alongside traditional economic modelling and other quantitative results. One of the challenges is to weigh the relative importance for the whole community of intangible outcomes such as social cohesion, environmental sustainability, aspects of equity / fairness, community preferences for immigrants that support a democratic process and separation of church and state, and the like.

Figure 2 **Weighing up the costs and benefits of immigration**

Tangibles and intangibles need to be incorporated



Care is needed to avoid ambiguity and double counting of the impacts on individuals and the wider community. For example, immigrant employment has both tangible and intangible outcomes — the former in terms economic output and the additional private and social consumption this supports, and the latter in terms of the non-monetary benefits from both social and economic engagement. From the point of view of citizens these intangible benefits are mostly in the form of reducing the potential negative externality associated with disengagement. Tangibles and intangibles are distinct but they are also joint outcomes and so both can be counted. But to also add taxation revenue to a measure of GDP would be double counting as it is already included (as is their income from employment).

Identifying the tangible and intangible impacts provides scope to incorporate the insights and findings from a range of academic disciplines, such as economics, demography, sociology and political science. In other words, contrary to many popular misconceptions, a broad economic approach is not simply about 'money, markets and materialism'.

To date much of the immigration literature indicates there are competing positive and negative impacts of immigration. In addressing the first question in the ToR, the first step is to identify and provide a general understanding of the key impacts of temporary and permanent immigration. The basic steps and broad information requirements involved in this task are detailed in figure 1. They include understanding:

- the factors which affect immigration (measured in terms of volume and profile)
- how immigration, in turn, affects various economic, social and environmental characteristics which, in turn, affects tangibles (including fiscal outcomes) and intangibles

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- the need to isolate the effect of immigration from other factors which also affect tangibles (including fiscal outcomes) and intangibles.

To elaborate on aspects of the framework (figure 1), the Commission intends to use theory and a range of data and evidence gathered from a variety of sources.

- Measures of tangibles will include at least: income (GDP and/or GNI per capita), wealth, employment/unemployment, real wages, budgets, congestion / access, and environmental services (in a static sense and over time).
  - CGE modelling will be used to help quantify elements of the tangible impacts (on the real wage, employment, GDP and fiscal outcomes), together with sensitivity analysis.
  - Historical evidence on the channels through which immigration affects other aspects of tangibles, such as congestion and pressure on public services, will also be incorporated.
- Measures of the intangibles may include: community cohesion, cultural diversity, safety, perceptions of fairness, sustainability of future generations and the environment, global citizenship and national identity.
  - The impact of immigration on intangibles is based on largely qualitative evidence but where it is available quantitative evidence will be drawn on.
  - Available historical evidence will also be used to help assess the impact of future immigration on a range of measures of intangibles.

In the face of a vast array of potential measures of impacts, maintaining tractability will be important. In selecting these measures, the focus will be on whether there is likely to be a significant impact on overall community welfare or on specific groups. When gathering, filtering and 'triangulating' the evidence, the Commission will consider:

- the quality, robustness and applicability of the evidence
- experts' advice on the relative importance of different channels and/or factors.

Consultation question:	*Which measures (tangible and intangible) should be the focus of the Commission's attention?*

What time periods should be examined?

The Commission will attempt to focus on first round/ direct effects and consider second round effects if they are gauged to be material.

The Commission is considering examining the:

- direct impacts — to capture the immediate (or initial) impact of immigrant arrivals on the Australian population and other economic variables

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- short term impacts — to capture the first round impacts of arrivals, say over two to five years after arrival
- subsequent and longer term impacts — to capture the life cycle impacts and second generation impacts of immigrants (perhaps over the intergenerational report's timeframe).

Consultation question:	*Are these analytical periods sensible and what impacts should be considered in each period?*

Allocating impacts into costs and benefits

Most tangible and intangible impacts will clearly be either a cost or a benefit from the perspective of citizens. While a full (monetised) cost-benefit assessment is not feasible, the cost-benefit framework provides useful guidance to support the Commission's thinking in assessing the impact of immigration.

Most policy options will have both costs and benefits to [Australian citizens] and so the net effect(s) will need to be considered. Without quantification this can be difficult, so the Commission will seek to identify policy options that dominate in the sense that they have greater benefits and fewer costs than the other policy options. To assist in this process, the Commission will consider the impacts of each policy option on proposed criteria which are outlined in box 2. However any criteria will be informed by the objective(s) of immigration chosen (see earlier discussion).

Ultimately it comes down to judgment as to which policy option offers the highest net benefit. This judgment will be tested through the Commission's normal processes of consultation and issuing a draft report.

To assist in this process, the Commission will seek to distinguish who is impacted positively and negatively, and whether these costs and/or benefits are private in nature or affect the community as a whole (or significant groups in the community).

Consultation questions:	*Are the proposed criteria appropriate? What other criteria should be included? What are the best indicators of outcomes and how can they be observed?*

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Box 2 **Potential assessment criteria**

Given the immigration-related objectives of the Department of Immigration and Border Protection are to:

> Protect Australia's sovereignty, security and safety by managing its border, including through managing the stay and departure of all non-citizens
>
> Support a prosperous and inclusive society, and advance Australia's economic interests through the effective management of the visa and citizenship programmes and provision of refugee and humanitarian assistance. (DIBP 2015, p. 11)

Potential assessment criteria include the following.

- Immigration delivers benign or favourable *economic* outcomes [to Australian citizens].
- Immigration delivers benign or favourable *social* outcomes.
- Any increased risk to *national security* from immigration can be cost-effectively mitigated
- The effects of immigration on the *natural and built environment* should be manageable through appropriate policy responses.
- The *integrity* of Australia's immigration programs is maintained or enhanced.
- Australia's *international obligations* are met.
- The *administrative burden* of immigration programs is the minimum necessary.
- There is broad *public acceptance* of immigrants and immigration policy.

How should the Commission assess the scope for using different policy options for selecting immigrants and their effects?

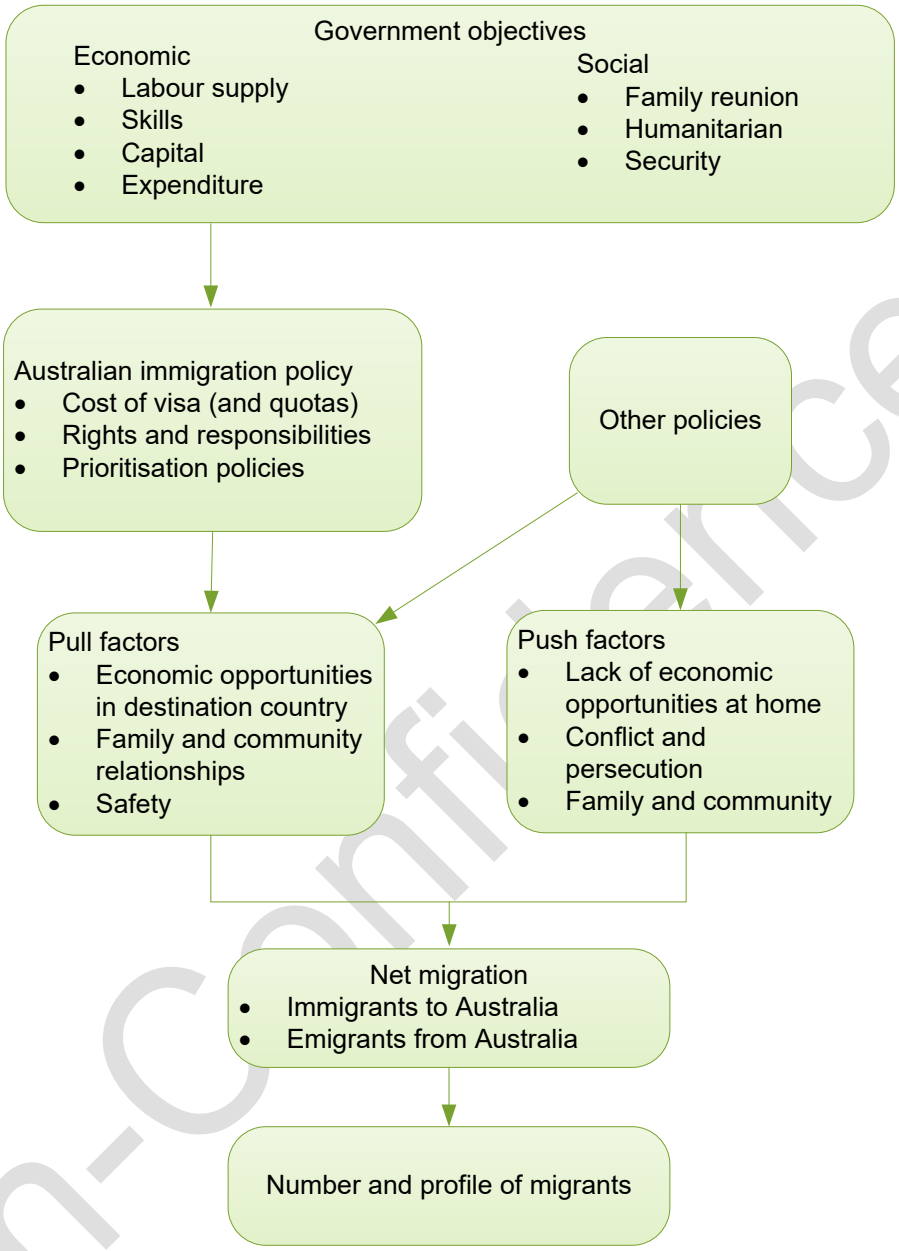
As a first step to answering this question, the Commission is proposing to follow the approach outlined in figure 3.

This approach requires a detailed understanding of how a change in immigration policy changes the push and pull factors and how potential immigrants respond to these changes. A partial equilibrium model will be developed to assist this analysis, which will allow various policy options to be assessed in terms of how they would change the number and profile of immigrants. Sensitivity analysis will also be conducted.

The effect of changing immigrant selection policy from a rule-based to a price-based selection approach will be assessed in terms of its effect on the composition of immigrant intake (as it will be assumed that immigration levels remain unchanged).[2]

[2] The ToR outlined two options: (i) maintain the current levels of the migrant intake or (ii) to maximise the benefits for Australian citizens. To make this task manageable, the Commission has chosen the first option.

Figure 3 **Factors impacting on the flow of immigrants**



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Alongside any evidence on the effects of similar types of policy changes in other countries (as well as Australia), whether there are theoretical grounds to expect a change in behaviour will also be considered.

The partial equilibrium modelling will focus on how the policy changes the profile of immigrants in terms of their age, gender and skills. But there are also intangible elements in assessing the scope to substitute prices for rules. For example, what might be the implications on notions of fairness and, in turn, the likely effects on acceptance of immigrants who enter under this arrangement.

How should the Commission assess the policy alternative(s)?

The Commission is required to assess at least one policy proposal as part of the ToR (see attachment A). However, the Commission may also assess a small number of other policy alternatives to the current system.

Consultation question:	*What other policy options may be feasible and desirable?*

In doing so, the Commission will assess the marginal impact of the policy change(s) on tangibles (including fiscal outcomes) and intangibles.

How should the Commission determine mechanisms for achieving optimal interaction between permanent and temporary migration?

Temporary immigration can be seen as a:

- pathway to permanent immigration
- strategy to cushion the effects of business cycle
- mechanism to facilitate export of services onshore (for example, international education services).

While the ToR has noted that temporary immigration is an established pathway to permanent immigration, there is also an economic cycle element to Australia's temporary immigration policies.

The 'optimal' interaction will depend on the objectives of permanent and temporary immigration.

The Commission is proposing to interpret an 'optimal' interaction between temporary and permanent as a system which achieves the following goals.

- The outcomes of temporary immigration programs should support the achievement of permanent immigration program objectives.
- In terms of terms of numbers, an appropriate balance between temporary and permanent immigration is achieved given other ongoing population (including emigration), demographic and economic change.
- The pathways from temporary to permanent immigration are effective in screening temporary immigrants who seek to become permanent.

Consultation questions:	*Are these objectives appropriate? Are there any other objectives that should be part of the Commission's assessment? How should changes in immigration objectives be contextualised with other population, demographic and economic change?*

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Terms of reference

MIGRANT INTAKE INTO AUSTRALIA

Productivity Commission Act 1998

I, Joseph Benedict Hockey, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake an inquiry into the greater use of charges relative to quotas and qualitative criteria to determine the intake of temporary and permanent entrants into Australia.

Background

The intake of temporary and permanent entrants is currently regulated through a mix of qualitative requirements (e.g. skills, family connections, refugee-status, health, character and security), quotas (e.g. the size of the Migration and Humanitarian Programmes, and of components within these Programmes) and imposts (including the cost of investing under the Significant Investor Visa).

The Australian Government's objectives in commissioning this inquiry are to examine and identify future options for the intake of temporary and permanent entrants that improve the income, wealth and living standards of Australian citizens, improve the budgets and balance sheets of Australian governments, minimise administration and compliance costs associated with immigration, and provide pathways both for Australian citizens to be altruistic towards foreigners including refugees, and for Australia's international responsibilities and obligations to foreign residents to be met.

Scope of the inquiry

In undertaking this inquiry, the Productivity Commission should use evidence from Australia and overseas to report on and make recommendations about the following:

1. The benefits and costs that the intake of permanent entrants can generate with respect to:
   (a) the budgets and balance sheets of Australian governments, including from:
      (i) entry charges;
      (ii) government services used (including public health, education, housing, social and employment services) now and in the future;
      (iii) taxes paid now and in the future;
      (iv) the dilution of existing, government-held assets and liabilities across a larger population; and

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(b) the income, wealth and living standards of Australian citizens, including with respect to:

(i) impacts on the salaries and employment of Australian citizens, knowledge and skill transfer, productivity, foreign investment, and linkages to global value chains;

(ii) cultural, social and demographic impacts; and

(iii) agglomeration, environmental, amenity and congestion effects.

2. An examination of the scope to use alternative methods for determining intakes – including through payment – and the effects these would have. This should include examination of a specific scenario in which entry charges for migrants are the primary basis for selection of migrants, such that:

   (a) there would be no requirements relating to skills and family connections;

   (b) qualitative requirements relating to health, character and security would remain;

   (c) all entrants would have the right to work;

   (d) entrants would have limited access to social security or subsidised education, housing or healthcare; and

   (e) the charge could be waived for genuine confirmed refugees, whose entry would remain subject to current constraints.

   The scenario should examine the way in which the above charges could be set, and what they might be, to maintain the current levels of the migrant intake or to maximise the benefits for Australian citizens. The scenario should also examine the impacts of such charges – based on assessment of the factors listed in (1) above and also taking account of:

   (f) opportunities for Australian citizens to be altruistic towards foreigners including refugees;

   (g) the administration and compliance costs associated with immigration, including costs associated with criminal behaviour and the use of migration agents; and

   (h) interactions with citizenship criteria and existing and potential bilateral agreements.

3. The benefits and costs of temporary migration with an examination of the use of charges as the primary basis for regulating the level and composition of this migration, having regard to:

   (a) complementarity with the Australian workforce; and

   (b) achieving flexibility in responding to structural and cyclical adjustments in the Australian economy.

4. Mechanisms for achieving an optimal interaction between temporary and permanent migration noting that temporary migration is an established pathway to permanent migration.

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Process

The Commission is to undertake an appropriate public consultation process including holding hearings and roundtables (where appropriate), and releasing a draft report to the public.

The final report should be provided within 12 months of receipt of these terms of reference.

J. B. HOCKEY
Treasurer

[Received 20 March 2015]

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