Australian Government
Productivity Commission



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1 December 2015

Outline of presentation

1. Terms of reference
2. Some context
3. Draft recommendations
4. Visa charging
5. PE modelling

Terms of reference: 3 key components

1. Costs and benefits of immigration with respect to the:
   - *budgets of Australian governments (entry charges, taxation, provision of services)*
   - *income, wealth and living standards of citizens (economic, social and environmental dimensions).*

2. Examination of alternative methods for determining the intake, including through an entry charge as the primary basis for selecting migrants.

3. Optimal interaction of temporary and permanent immigration.

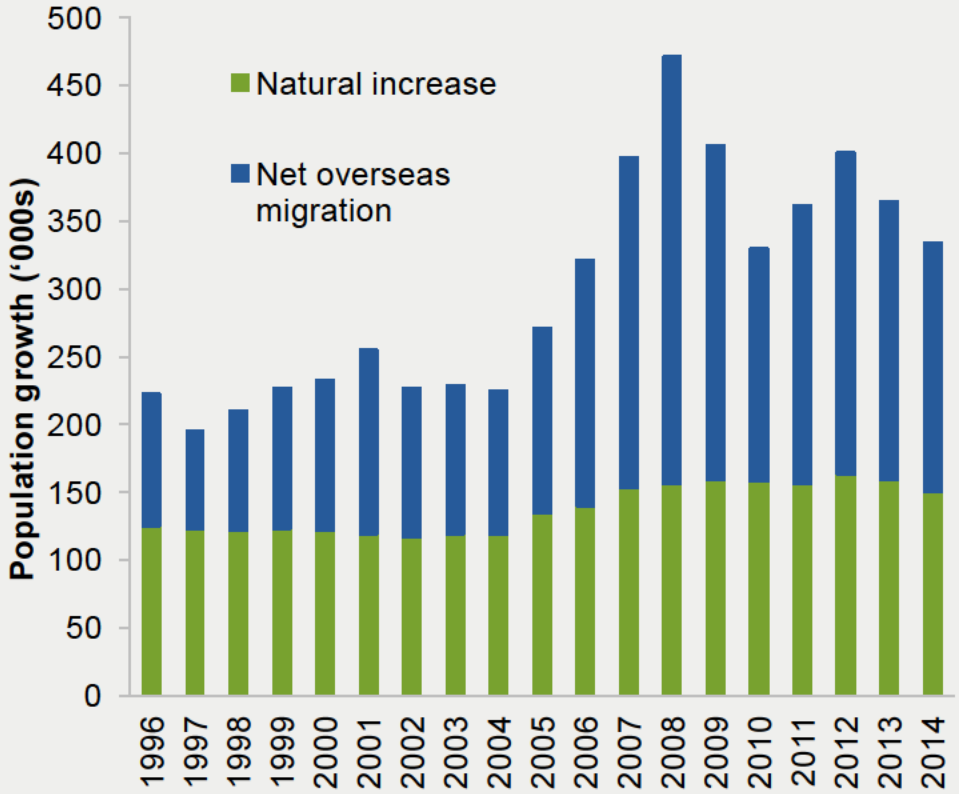
Our approach

- Assumes overarching objective of immigration policy is to 'improve the overall wellbeing of the Australian community'.

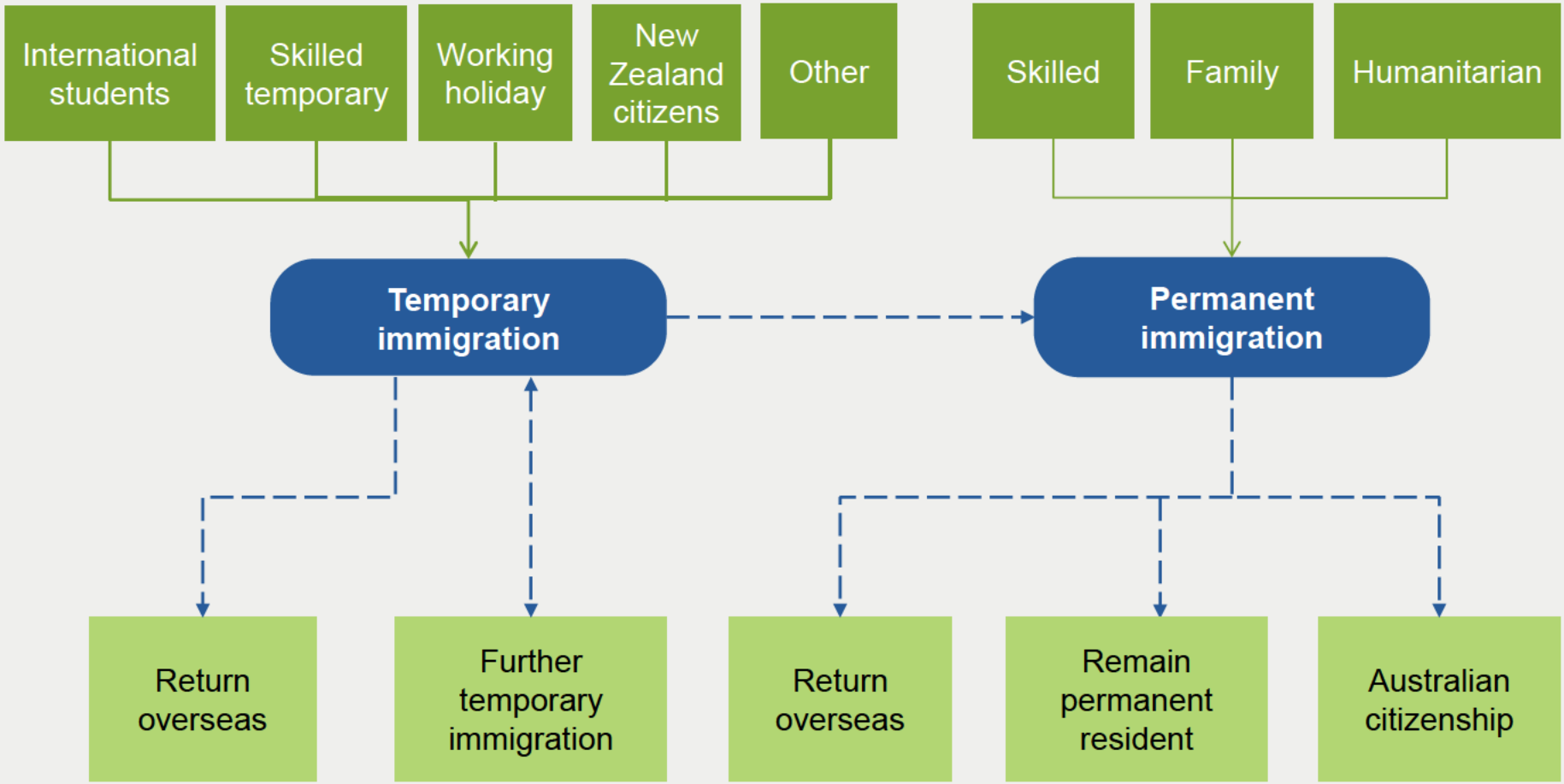
- Analysis includes a number of quantitative tasks.
  - *General equilibrium modelling to assess the economywide impacts of migration*
  - *Partial equilibrium modelling to assess the impacts of a charge*
  - *Commissioned analysis on labour market impacts of immigration*

Immigration has shaped Australian society

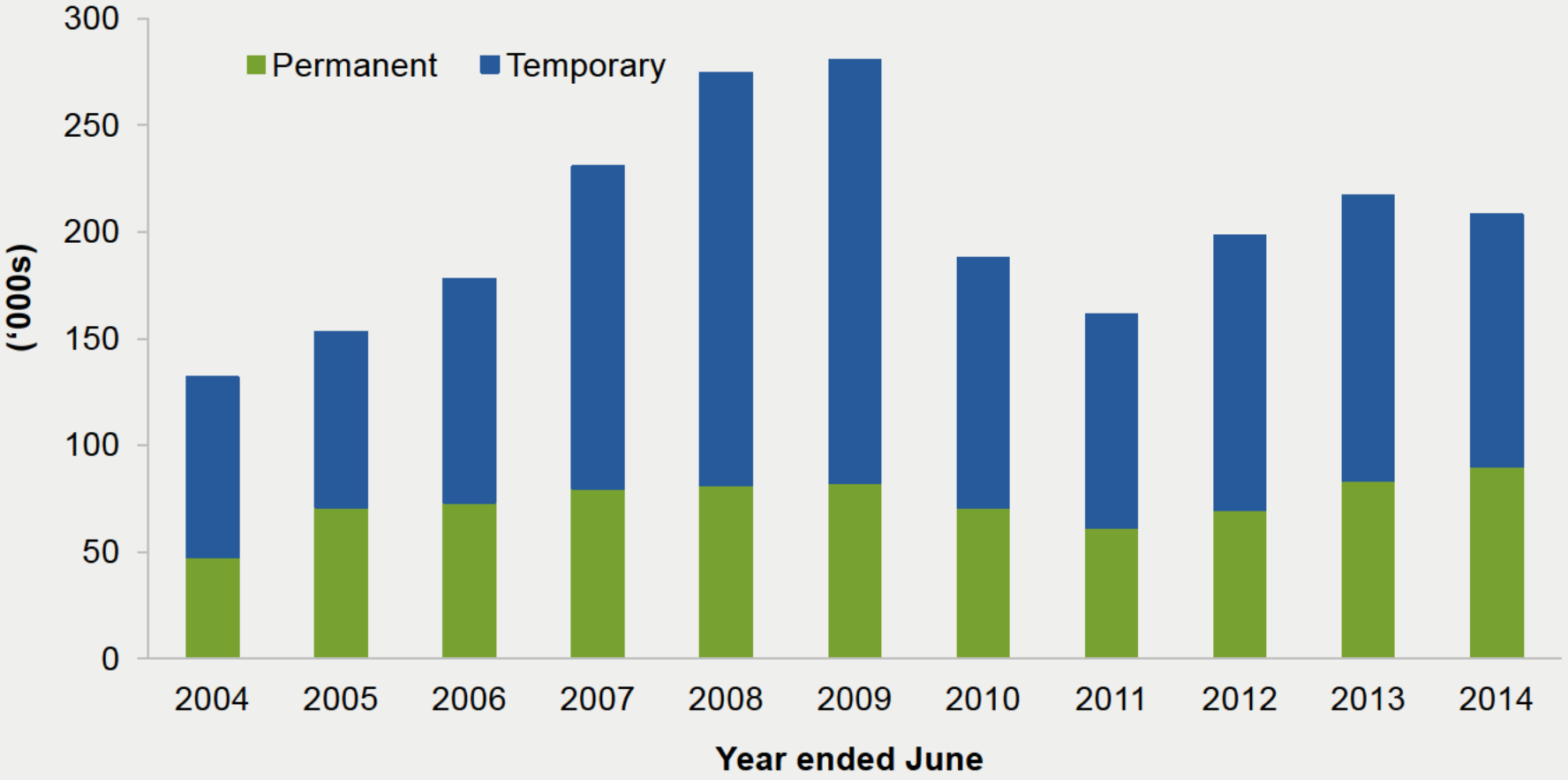
- ¼ of population was born overseas
- ½ of population has at least one parent born overseas



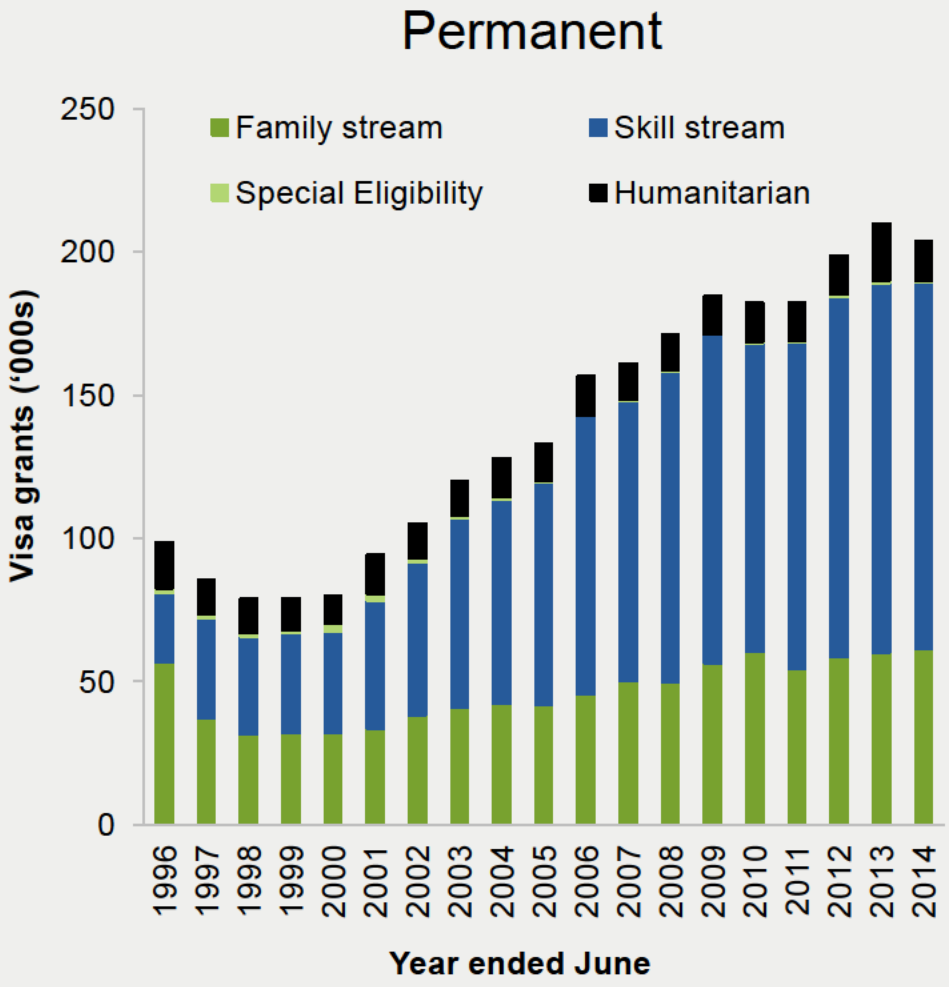
The current system

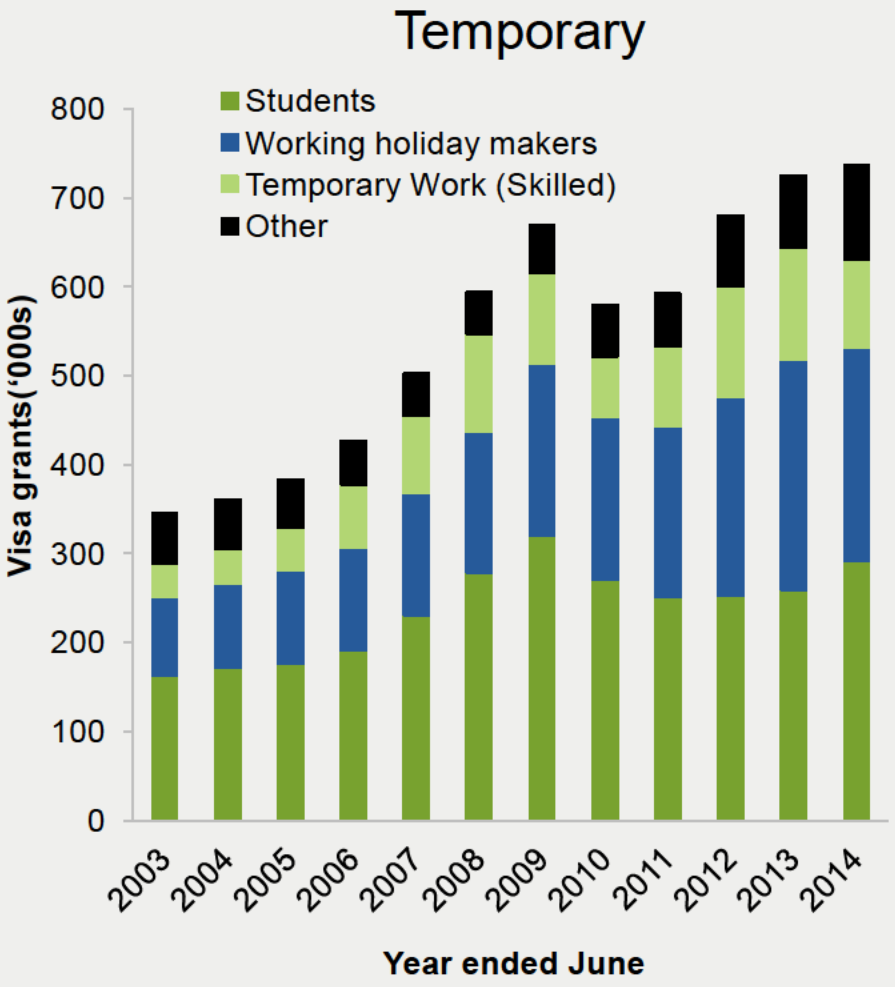


Recent trends



Recent trends





The current system is working well

- The current system has served the interests of the broader community well
  - *Skilled immigrants tend to integrate successfully and deliver good economic outcomes for Australia*
  - *Opportunities for family migration are important for the wellbeing of Australians and for Australia's attractiveness to prospective skilled immigrants*
  - *A separate quota for humanitarian immigrants contributes to Australia meeting its international responsibilities*
- However, there is scope for improvement…

Enhancing labour market, social and fiscal outcomes

- Improve the recognition of overseas qualifications obtained at high quality institutions, including through bridging courses
- Improve labour market and social engagement outcomes by reviewing the mix and extent of settlement services for immigrants
- Develop a better evidence base for immigration policy by improving the linking of and access to government administrative datasets

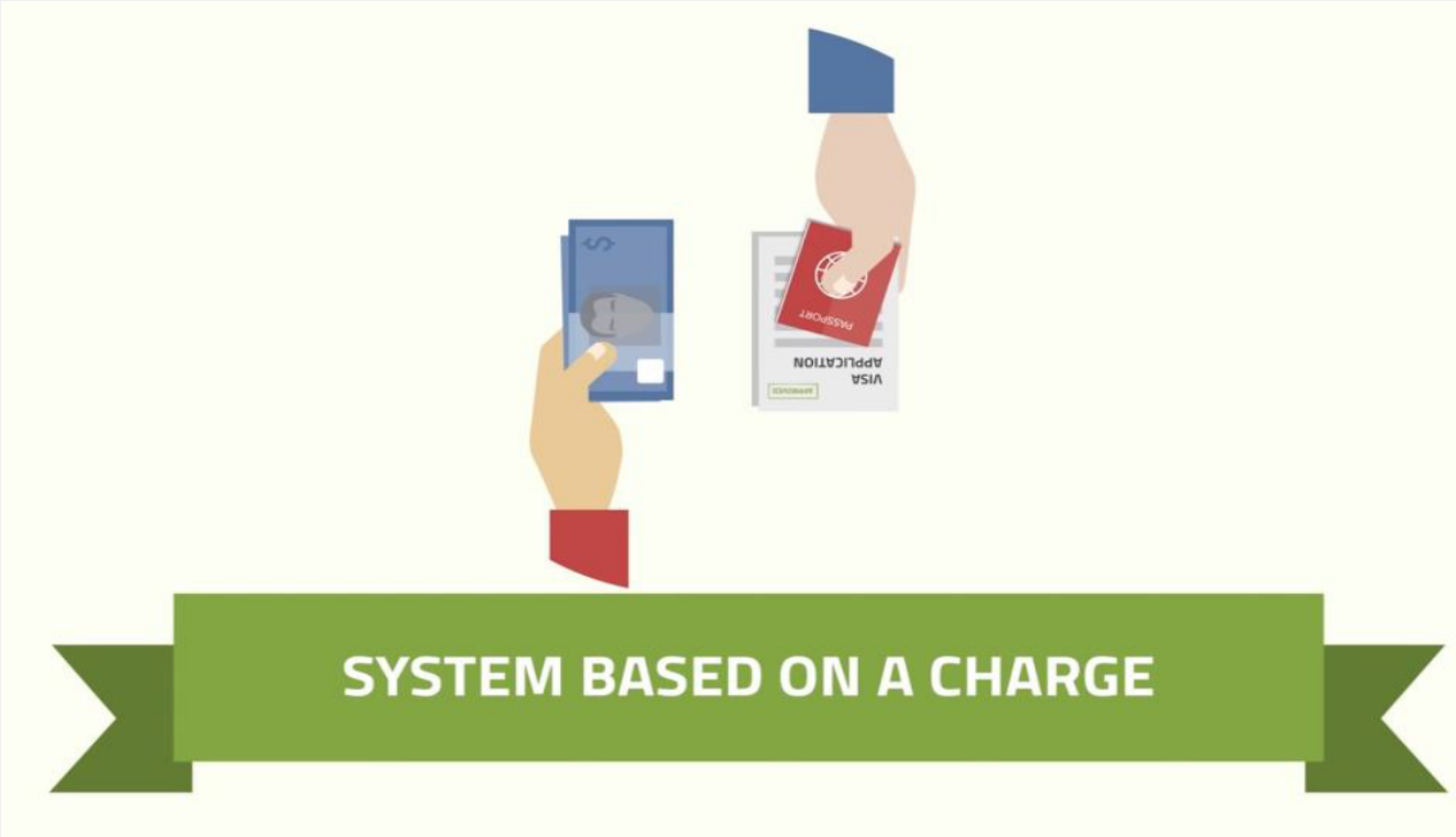
Managing temporary immigration

- Assess the economywide effects of work rights for temporary immigrants
- Assess the effectiveness of changes implemented as a result of the Azarias Review into the 457 visa program
- Better inform temporary immigrant workers of their work rights with a smart phone app

Managing permanent immigration

- Continue to collect information and assess the skilled immigration visa subclasses
- Seeking information on tightening the selection criteria for onshore independent skilled immigrants
- Abolish the Significant Investor Visa and Premium Investor Visa
- Looking at improving the administration of the system

A price-based immigration system



A price-based immigration system – our approach

- Focus on permanent visas only
  - *Charging for temporary visas would place Australia at a competitive disadvantage*
  - *Most temporary visas are uncapped*
  - *Temporary migrants are highly mobile*
- Current access and waiting periods for govt. services

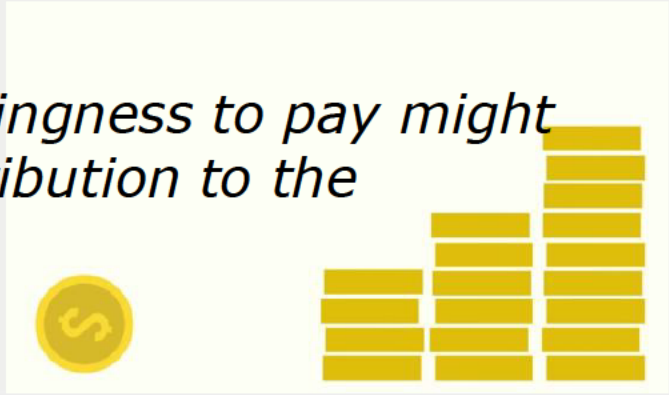
- A single charge scenario was examined
  - *Only for permanent visas in the Migration Programme*
  - *Current intake of 190 000 maintained*
  - *Visas allocated by willingness to pay*

- Qualitative analysis supported by quantitative analysis using partial equilibrium model

A price-based immigration system — advantages

- Price can be an effective rationing mechanism

- Proponents argue that a price-based system could:
  - *reduce administrative and compliance costs*
  - *reduce the need for migration agents*
  - *overcome rigidities and time delays*
  - *raise government revenue*
  - *discourage irregular arrivals*
  - *self-select migrants whose willingness to pay might be a good proxy for their contribution to the economy and society*



A price-based immigration system — disadvantages

- The immigration system is not well suited to a price-based approach
- Composition of the intake would change:
  - *Immigrants who are willing and able to pay but do not have the attributes that underpin successful integration:*
    - … Those who have already generated wealth
    - … From wealthier countries
    - … Have families/communities willing to sponsor them
- By changing the composition of the migrant intake, it could reduce the demographic dividend from immigration



A price-based immigration system — disadvantages

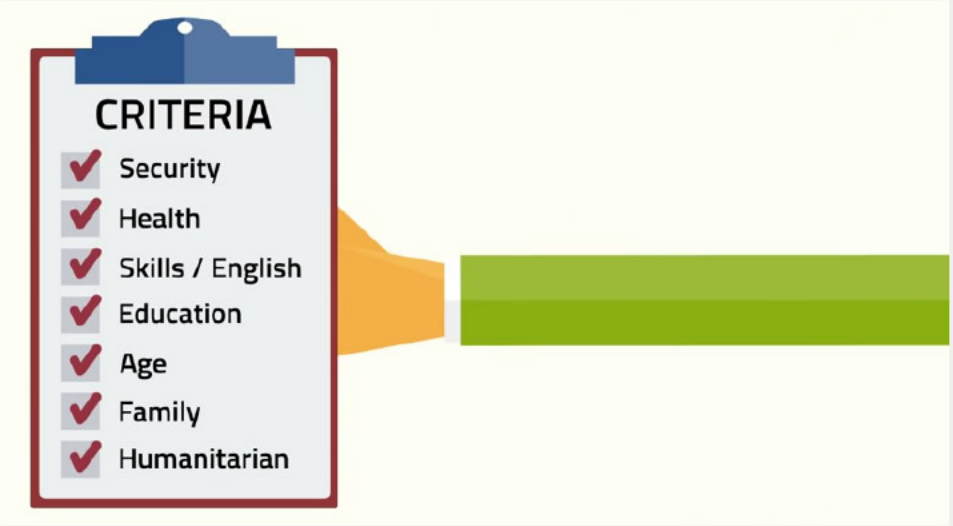


Other charging options

- The ToR request we look at *alternative approaches* for determining intakes
- A system of charges already exists, however,
  - *The current system is complex and lacks transparency, and the basis for charging appears inconsistent*
- Only the contributory parent visa charge recognises the high expected fiscal costs of parents, though it covers only a small portion of those expected costs

Five other charging options

- *Option 1: A market-based price for each visa subclass*
- *Option 2: A fiscally-reflective charge by visa category*
- *Option 3: A charge in exchange for relaxed selection criteria*
- *Option 4: A uniform levy paid by all skilled and family immigrants*
- *Option 5: A paid permanent visa*



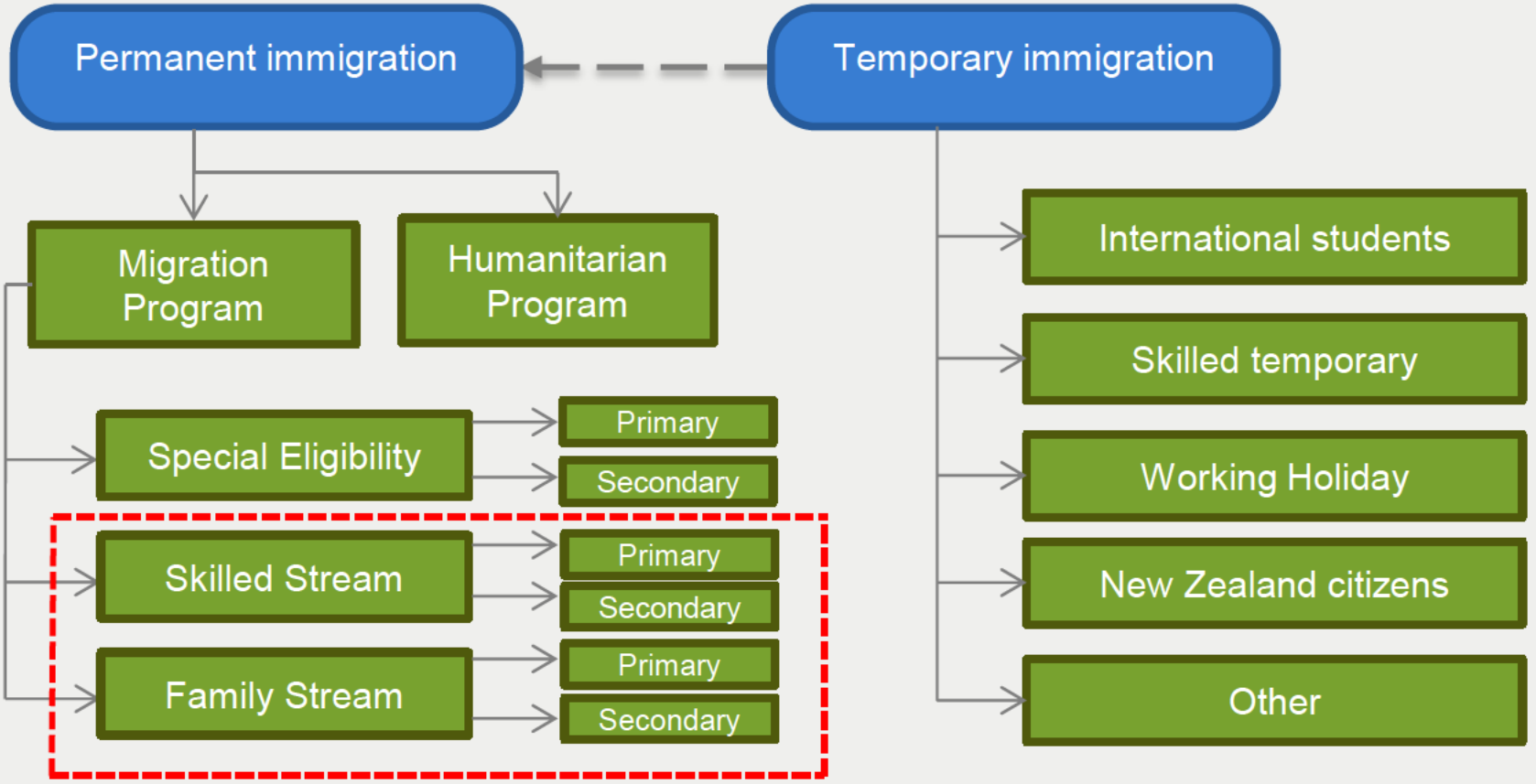
Each option has tradeoffs

- Scope to raise more revenue than current system
- However, potential compositional impacts
  - *(though to a lesser extent than the pure-price based system)*
- Some options are more administratively complex
- We are seeking feedback on these options

Partial equilibrium model

- Original work
- Purpose: explore *compositional* changes under different migrant intake policies
- Considerable uncertainty about WTP
- Key limitations:
  - *little information on non-income benefits and wealth of migrants*
  - *a focus on demand for Australian visas*
  - *uncertainty around fiscal impacts*
- Draft stage; further work for final report

Partial equilibrium model - scope



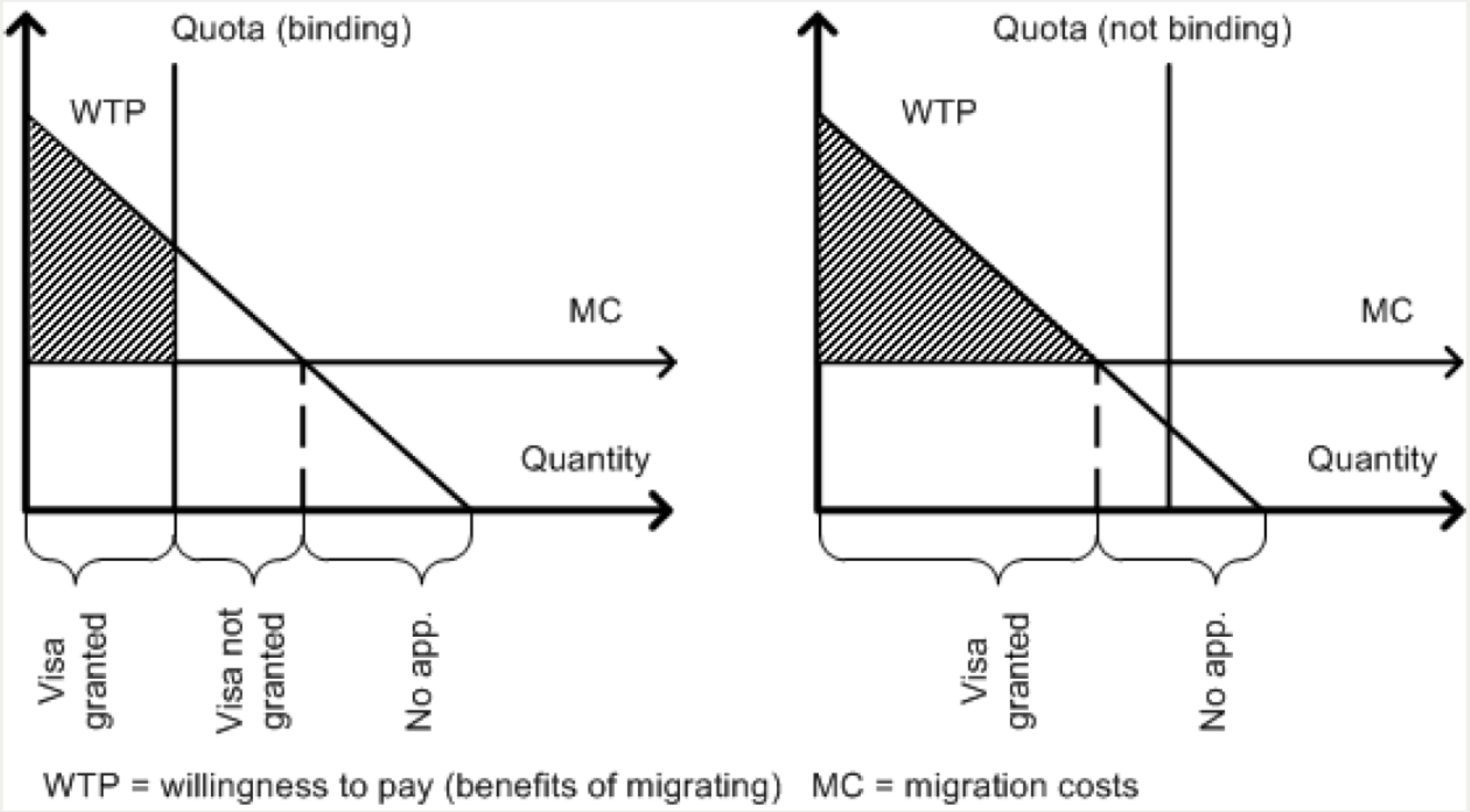
How does the model represent potential migrants?

- There are different 'markets' in the model, representing 3640 types of migrants:
  - *13 regions of origin*
  - *10 visa categories*
  - *4 skill levels (highest education)*
  - *7 age groups*
  - *3640 = 13 X 10 X 4 X 7*

Demand-supply framework

- The framework is similar to Bruns (2012)
- In each market there is:
  - *a demand curve*
  - *a marginal cost (supply) curve*
- In each market there are quotas
  - *some quotas bind*
- Visas allocated to migrants with the highest WTP, s.t. to quotas

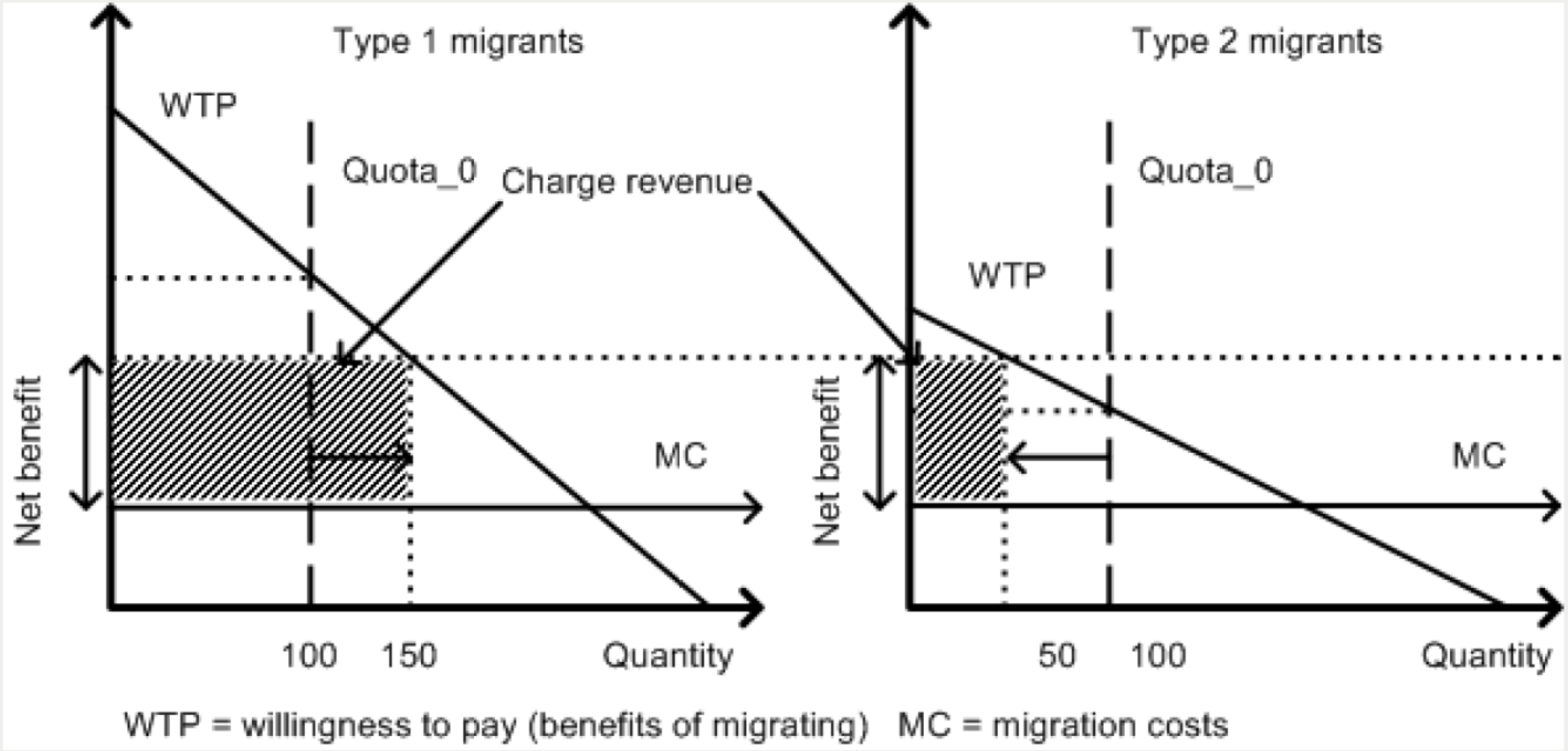
Equilibrium



Parameterising demand and cost curves

- Linear demand between estimated y and x intercepts:
  - *y intercept based on income differentials*
  - *x intercept (demand at zero price) comprises: baseline and additional demand*
- Costs of migrating based on:
  - *visa charges*
  - *transport costs*
  - *migration agent fees*

Visas will be reallocated to migrants with higher WTP



Preliminary results for single charge

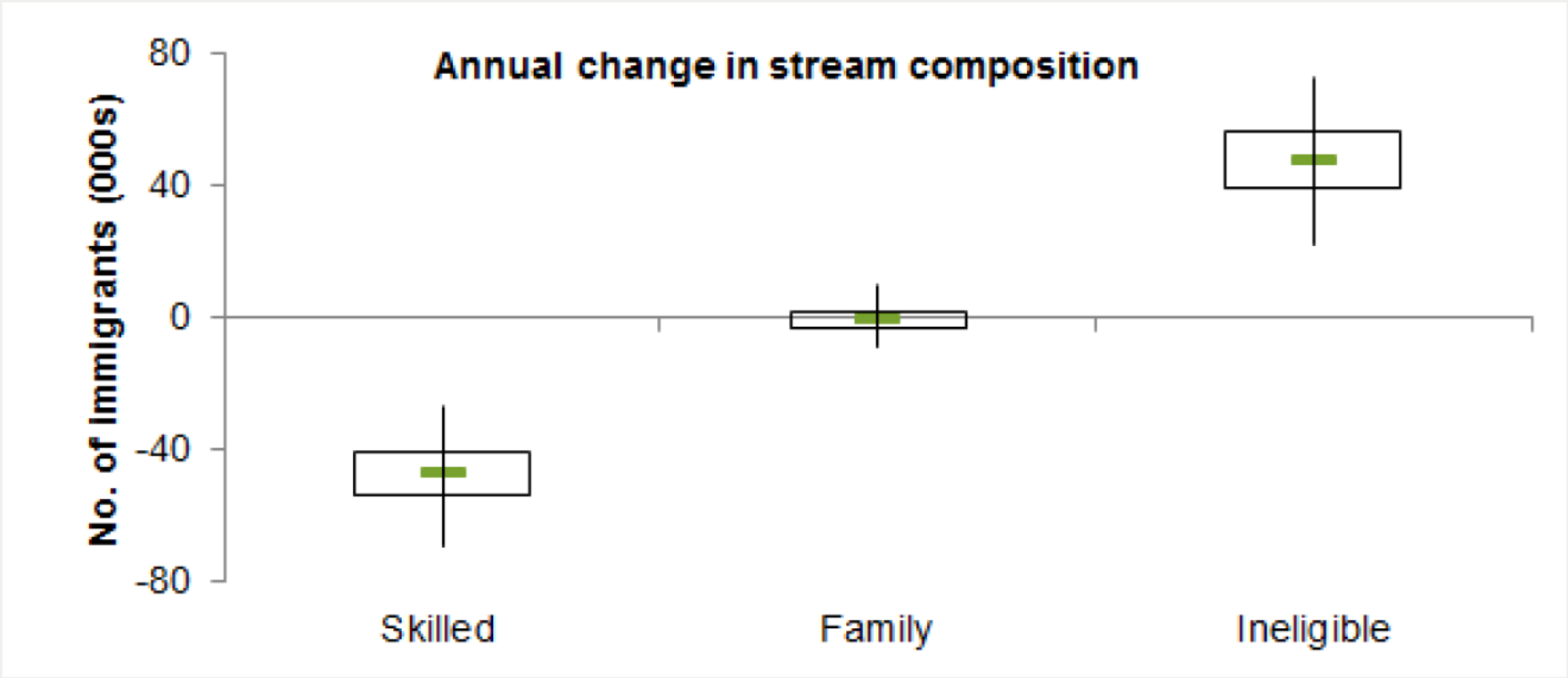
- Sensitivity analysis was undertaken. Results suggest that in the long run:
  - *a single charge of $35,000 to $45,000 would generate current intake level (190 000)*
  - *a single charge could:*

.. *generate substantial revenue BUT reduce tax revenue and increase fiscal costs*

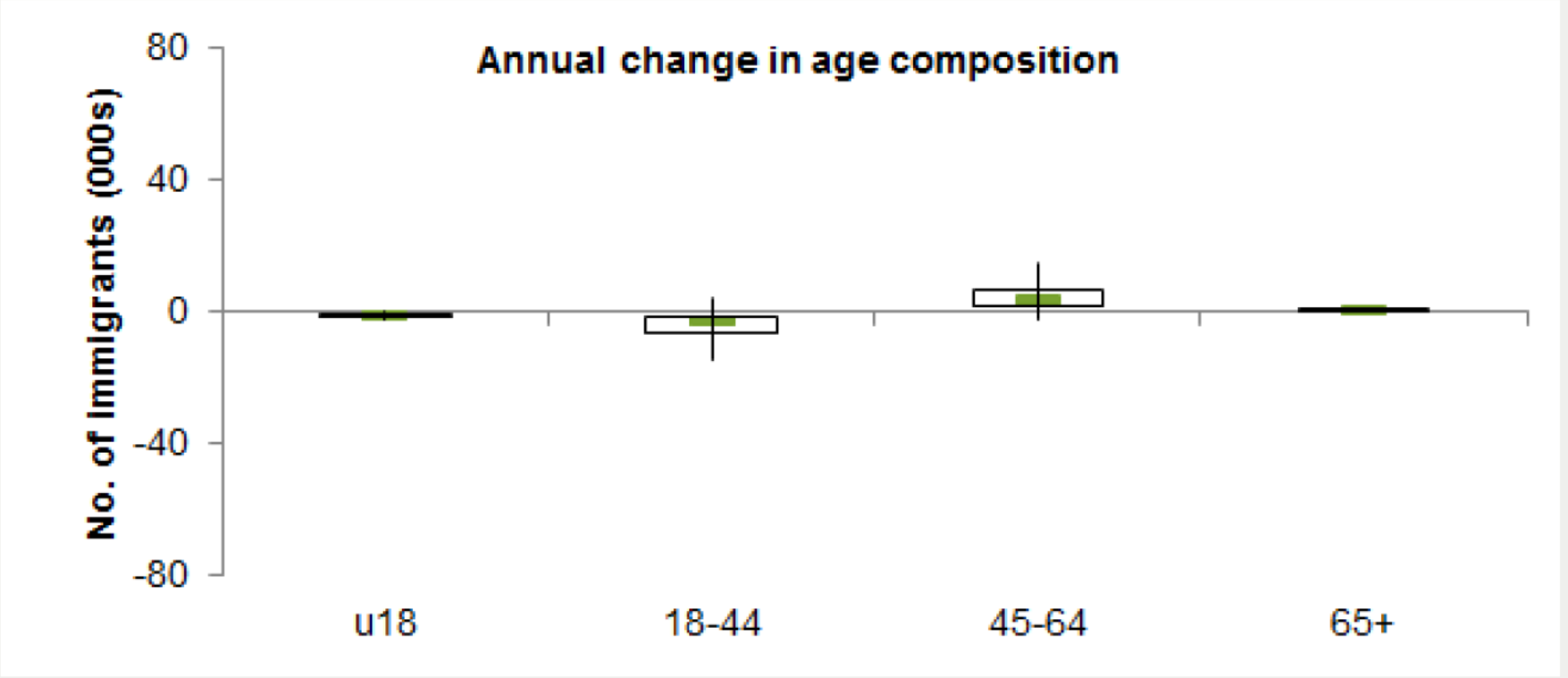
.. *reduce skilled migration and increase currently ineligible migrants*

.. *attract older migrants*

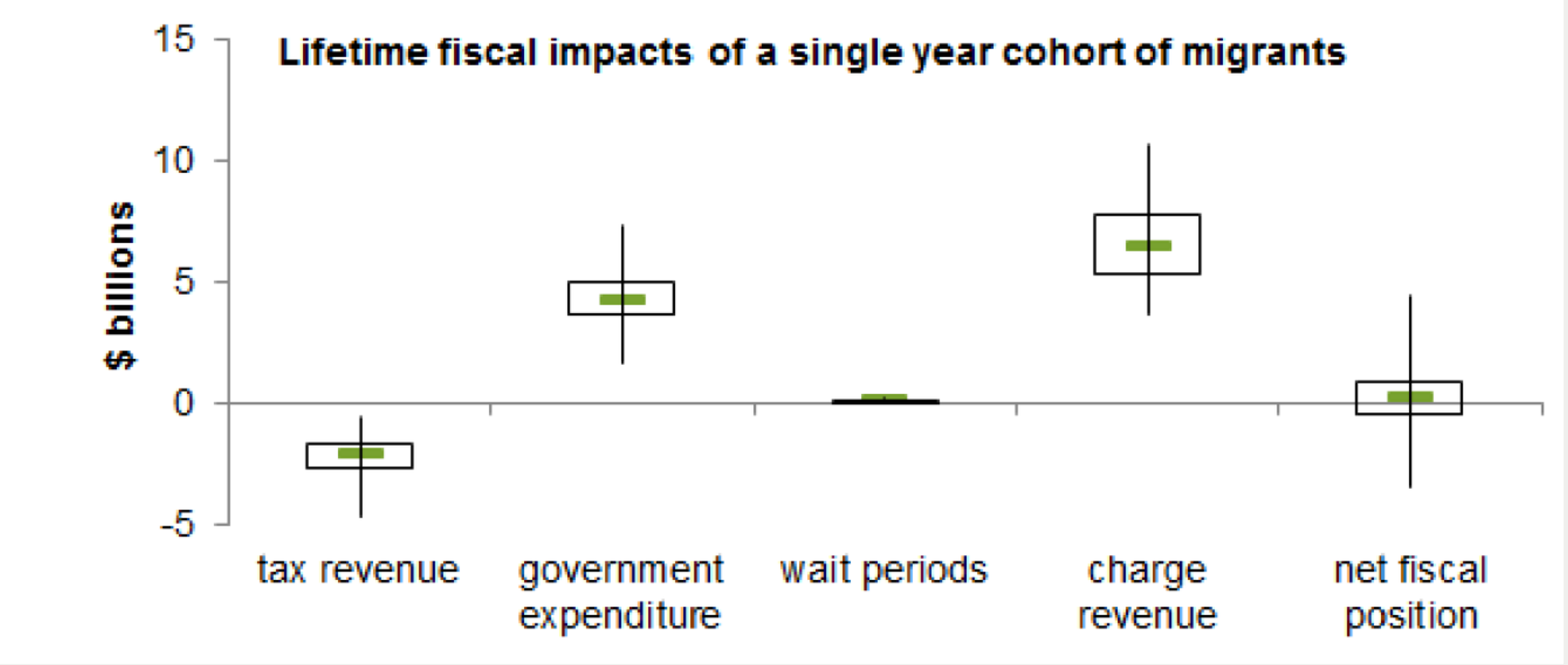
Stream composition



Age composition



Fiscal impacts of policy scenario, relative to current system



Where to from here?

- Further consultation
  - *submissions due 18 December*
  - *hearings in December*

- Final report to govt. in March