

# The case for Free Immigration Agreements

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Free trade agreements (FTAs) between nations are becoming increasingly popular. FTAs allow for the relatively free flow of goods and services between the member countries in the recognition that such agreements are often in their mutual interests. The same rationale can be used regarding the free flow of people.

Economists disagree on many issues, but the net benefit of trade is one area that has overwhelming agreement. When people specialise in doing what they are relatively good at doing and trade voluntarily, there will be a net benefit. This simple yet powerful argument doesn't just apply to trade in goods, but also extends to trade in capital goods—that is, foreign investment—and labour—immigration.

The economic benefits of immigration are clear—free trade in labour leads to a more efficient labour market and a more efficient allocation of resources. This results in higher average incomes and lower prices for consumer goods. But there is also the possibility of significant social benefits as people are freer to choose between lifestyles, communities, jobs, political jurisdictions and environments.

However, like free trade and open foreign investment, open immigration is not a politically viable option. While open immigration would provide a net benefit, it would also create winners (such as new immigrants, employers and consumers) and (at least in the short-term) losers. There is a fear that immigrants from developing countries will accept lower wages and therefore steal 'Australian' jobs

and drive down Australian wages. This will negatively impact on low-skilled Australian workers, who form a powerful political pressure group against open immigration.

But these concerns are very similar to the concerns held by some people about free trade. While unilateral and multilateral free trade creates unambiguous net benefits, those who think (correctly or not) that they will lose have presented an insurmountable political impediment.

The reaction with trade negotiations has been the explosion in the number of bilateral free trade agreements, which are politically easier to achieve. Between 1994 and 2004 the number of FTAs reported to the World Trade Organisation (WTO) went from around 50 to over 200. Australia already has agreements with New Zealand, Singapore, Thailand and America and is currently negotiating with India, Indonesia, Korea, Japan, the Association of South-East Asian Nations, Malaysia, the Gulf Cooperation Council, China and Chile.

## FIA's are better than FTAs

The argument for 'free immigration agreements' (FIAs) is actually stronger than the argument for FTAs. There are two reasons for this. First, the possibility of multilateral free trade is much more realistic than the possibility of open immigration in the near future. Therefore, alternative strategies are more important for those concerned about immigration.

Second, FTAs suffer from the possibility of trade diversion which can mean that they can create a net cost. This isn't true for FIAs. To understand why, it is necessary to understand what is meant by 'trade diversion'.

Trade diversion occurs when new trade with an inefficient country comes at the expense of old trade with an efficient country. For example, if we introduce an FTA with India, trade with India might

increase by \$1 billion. If nothing else happened, this would be trade creation. However, if trade with Pakistan decreased by \$1 billion then the trade has simply been diverted and there is no trade creation.

Trade diversion costs Australia when the benefit of the new trade (a lower price for consumers) is exceeded by the cost of losing the old trade (lost tariff revenue). It is important to note that if there are no tariffs then trade diversion is not a problem. The immigration restrictions in Australia are currently based on a quota system (not a tariff system) so there would be no loss of tariff revenue if we relaxed our immigration restrictions on some people. Consequently, free immigration agreements will not suffer from diversion and will always provide an economic benefit.

In addition to the above-mentioned 'trade' benefits of greater labour mobility, there are other potential consequences. There is a growing body of evidence that suggests that trade also leads to a dynamic 'competition' benefit. This occurs when new entrants into a market (in this case, the labour market) increase competitive pressure which leads to greater productivity. Ironically, this can sometimes lead to a situation where the previously protected market gains from lower protection.

One good example of this dynamic benefit is the removal of protection for farmers in New Zealand. In the 1980s the NZ government dramatically opened up the country to agricultural trade. The official prediction was for 10 per cent farm failures, but instead the industry grew by 40 per cent in 15 years, increased its full-time employment and saw productivity growth increase from 1 per cent to nearly 6 per cent per year.

Standard economic models would not have predicted this outcome because they ignore the potential dynamic benefits of increased competition. Likewise, standard economic analyses of immigra-

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tion have ignored the potential dynamic benefits of increased labour mobility. It is possible that greater competition in the labour market will lead to productivity increases by Australian workers which leave them better off, just as greater farm competition in New Zealand ended up helping the NZ farm industry.

If dynamic benefits are real, then the benefits from immigration will be higher than expected and the 'losers' might end up being the biggest winners from reform. However, it is important to remember that even if the dynamic benefits don't exist, immigration still provides a net benefit from the first-round 'trade' impact as predicted in standard trade theory.

The spectre of more immigration scares many people. In addition to the fear of new immigrants stealing 'Australian' jobs and driving down Australian wages there is a legitimate fear that new immigrants might fail to get a job and become a burden on our welfare system, and therefore on Australian taxpayers. Some people have concerns about the possibility of low-income ghettos, the undermining of our democracy, rapid social change and the potential for crime and/or cultural clashes.

It would be possible to introduce FIAs in a way that removed most of these costs, while providing the benefits of freer movement of people. FIAs could be negotiated with countries that share our

basic values (rule of law, democracy) and only in situations where there is no expectation of a large surge of immigration. In most cases, this would require that the partner country has a standard of living similar to Australia.

Another advantage of liberalising immigration through FIAs is that it can be done in gradual steps to allow the rate of social and cultural change to be managed, and let people see the actual benefits of free people movement in clear experiments.

Finally, migrants moving between FIA countries would be free to take on the rights of a permanent resident to live and work anywhere in Australia for an unlimited amount of time, but would retain the citizenship of their home country. This would mean that they could be deported if they committed a major crime and would not be able to subvert our democratic system through a sudden and/or coordinated movement of people.

It would also be possible to arrange the FIA so that welfare rights are limited to their country of citizenship, not residency. This would remove any concerns about people switching countries for higher welfare payments. In this regard, it is important to remember that the benefits of immigration come from the freedom to live and work wherever is most appropriate, not the freedom to move to high-welfare jurisdictions.

### The next step

The idea of FIAs isn't new. Australia already has a comprehensive FIA agreement with New Zealand as part of our free trade agreement called 'Closer Economic Relations'. The citizens of Australia and New Zealand can move relatively freely between the two countries to the benefit of both.

Future FIAs would be individually and carefully assessed on their merits. Like trade agreements, the devil is often in the detail, so it is impossible to know the relative merits of different agreements until the process has started. The suggestion in this article is that Australia should start to be pro-active in searching out appropriate partners for FIAs. Good potential candidate countries for an FIA include Singapore, Canada, Hong Kong, the United Kingdom, Ireland and the Netherlands among others.

The benefits of trade and immigration are clear and worth pursuing. The challenge for policy makers now is to find politically acceptable reforms that can move us in the right direction. The example of bilateral trade agreements shows that such agreements are potentially an easier avenue for real liberalisation. It is worth pursuing a similar tactic with immigration reform.

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