

---

## PAST LEARNINGS

---

### **Fabellia Revisited: A Thought Experiment on the Regulation of Migration Flows**

**George Yarrow**

---

No. 6

January 2025

---

REGULATORY POLICY INSTITUTE

The Past Learning series of papers is predicated on the twin propositions that the great bulk of valuable knowledge about the principles of political economy is to be found in past work and that much of this knowledge is forgotten or ‘written off’ in the preoccupations of its current practitioners with their own, incremental contributions. Whilst the search for new incremental knowledge is admirable, the amnesia is not, because it implies a shrinking base to which the increments can be added. In consequence the total value of the associated, collective human capital applied to economic policy problems progresses more slowly than it could and is prone to major periods of regression. The contrast with the physical sciences in this regard is stark.

The aim of the series is to provide a mild corrective to the amnesia by re-presenting some of the older wisdoms and drawing attention to their direct and immediate value in application to today’s policy challenges.

*First published by the Regulatory Policy Institute*  
*9 Royal Belgrave House, Hugh Street, London SW1V 1RR*  
[www.rpieurope.org](http://www.rpieurope.org)

January 2025

© Regulatory Policy Institute

## Preface

This Past Learnings piece is an extensive re-working of a paper first published in September 2016, which was likewise a thought experiment on a potential regulatory approach to the control of migration flows. It was the second of two quick responses to the UK Brexit referendum (the other being *Brexit and the Single Market*) and was motivated by the view that it was feasible to develop UK immigration policy in a way that was consistent with the provisions of the European Economic Area Agreement (EEAA) on freedom of movement whilst, at the same time, providing a relatively high degree of policy control over aggregate migration flows. It argued that to presume otherwise would be a ‘fallacy of composition’.

The context of migration issues has changed substantially since 2016, but the incapacity of successive administrations to achieve the control over migration numbers promised to the electorate has not. This has been a longstanding problem, predating the referendum: it was as long ago as 2006 that the then Home Secretary, John Reid, told the world that the immigration section of the UK Home Office was “not fit for purpose”. It is an opinion that has been expressed many times by many others since then.

Recourse to a thought experiment (*gedankenexperiment*), based on the imagining of a hypothetical (observationally unsupported) situation is a familiar exercise in physics, perhaps most famously helpful in the development of Einstein’s theories of Special and General Relativity and, more recently, in the Bob and Alice imagining of theorists struggling to understand the properties of black holes.<sup>1</sup> It can also be used to help communicate the implications of an existing line of theorising to a wider audience, Schrödinger’s Cat being a prime example.

Usages of the method are much harder to find in public policy practice, though they do exist. For example, in the early, pioneering and innovative years of post-privatization UK energy regulation there was recurrent recourse to what were called ‘straw man’ scenarios which served to prompt, guide and clarify thinking about responsive policy design. The labelling in this case served as a warning not to confuse the imagined situation to be examined with an attempt to model realities.

Here the purpose takes its cue from the previous paper in the Past Learnings series which, in a nutshell, was concerned with ‘simplifying complexity’.<sup>2</sup> Faced with a complex, evolving and highly interconnected socio-economic system, there is a natural tendency to dive into the many problems the system presents at a given time, focus on a particular sub-set of them and then try to find solutions to them, one by one. There is more than a hint of ‘whack-a-mole’ about it, i.e. of the practice of trying to stop something that persistently occurs in an apparently random manner at the point where the occurrence is noticed.

It is an unproductive gestalt, because it grossly under-appreciates the interconnectedness of things, not only in the socio-economic system itself, but also in the responsive *policy system* that evolves to address the problems. The problems do not eventuate in consequence of a random process – they are manifestations of the functioning of a singular system – and a solution-by-solution approach tends to lead to disordered, incoherent and usually over-

---

<sup>1</sup> [Lost in Thought--How Important to Physics Were Einstein's Imaginings? | Scientific American](#)

<sup>2</sup> [Past Learnings: Simple stories, complex systems and corrupted economics - Regulatory Policy Institute](#)

complicated policy systems and sub-systems. See the UK tax sub-system or more or less any sub-system of business regulation for obvious examples.

In making progress away from such an unproductive gestalt we have, as is the case with many challenges in public policy, the reliable hand of Adam Smith to guide us. In *The Wealth of Nations*, alongside detailed analysis of the workings of the economic system itself, Book IV of the work is titled *Of Systems of Political Economy*. Here Smith focuses on examining *responsive policy systems*, the three major gestalts being *Mercantilism*, the *Physiocratic System* and his own, favoured *System of Natural Liberty* (an expression borrowed from his mentor at Glasgow University, Francis Hutcheson). It is systems analysis ‘all the way down’.

The current exercise is in this Smithian spirit. Fabellia is an imagined/hypothetical nation and what is presented is an imagined/hypothetical policy system. The chief purpose is to set out an example of a migration policy that is *designed as a system*, not a set of whack-a-mole responses.

At bottom, the policy exercise of interest is the replacement of one *policy system* by another, an exercise in *comparative institutional analysis*. Since the counterfactual policy arrangements are hypothetical whereas established arrangements are familiar, this requires a capacity to acquire and explore alternative gestalts, an exercise that is rarely easy. The developed counterfactuals and their implications can look strange or ‘off the wall’ when compared with the familiar.

Thus it was with Smith’s *System of Natural Liberty*: as John Kay put it, the idea that co-ordination of economic activities is better achieved by a system without a co-ordinator than by a system governed by a directing co-ordinator can appear “wildly counterintuitive” to many. The same could, of course, be said of Einstein’s theories of relativity and, *a fortiori*, of the quantum mechanics of Heisenberg, Dirac and Schrödinger.

The language and terminology of the paper reflect the requirement for an understanding of things that can be characterised as a new gestalt. Capping residency numbers (not immigration flows), providing for tradability of residency rights (grounded in the work of Ronald Coase), seigniorage revenues, deferral of the crystallization of those revenues, and so on, are not notions to be found widely in current public discussion of immigration policy.

It may also be worth stressing that, since the intention is to provide an example of a whole policy design, the numbers cited should not be read as carrying any heavy weight. A similar, imagined system with a different set of numbers could easily have been presented for examination. Nevertheless, the numbers cited have been chosen to satisfy a ‘realistically possible’ criterion and, in that sense, are not entirely arbitrary.

The development of the text owes much to conversations among Trustees and Research Associates of the Institute over a number of years and it is appropriate to acknowledge in particular the contributions to the development of thinking made by Renie Anjeh, Gerard Fox, and Harold Hutchinson. In the usual way of things, they should not be held responsible for any errors, nonsenses or infelicities in the text.

George Yarrow

Cambridge, January 2025

## Fabellia Revisited:

### A Thought Experiment on the Regulation of Migration Flows

#### 1. Fabellia and its governance

Fabellia is an imagined country that, in comparative global terms, can be characterised as a densely populated territory of around 35 million people, i.e. about half the population size of the UK, with both land and sea borders. It is home to a relatively prosperous commercial society<sup>3</sup> which is significantly interconnected with many other countries in the trading of goods and services. Those international linkages give rise to commerce-linked mobility of labour: significant numbers of foreign nationals come to live and work in Fabellia for durations of varying lengths, and significant numbers of Fabellian nationals do likewise in the reverse directions. More generally, the relative prosperity and the stability of its institutions makes the country an ‘attractor point’ for migrants from less prosperous and/or less well-ordered societies.

The country’s political system can be characterised as ‘liberal democratic’, but its governance is distinctive in having a small, dedicated ‘Strategy and Intelligence Service’ (“SIS”), wholly separated from its much larger, administrative civil service. The SIS was established following a comprehensive review of the whole government decision-making system/structure, triggered by a widely shared sense that it was becoming increasingly dysfunctional in the face of new, global challenges. Its attentional focus is on mapping/observing and understanding the functioning of the whole ecology of Fabellia.

That ecology is referred to as the ‘Land’, in a sense that goes well beyond the territory’s physical geography: it encompasses human aspects of the ecology, such as the nation’s social, economic and political institutions (using the sociological sense or meaning of the word ‘institutions’, i.e. *stable patterns of behaviour that define, govern, and constrain human action/conduct*).

The overarching aim of Fabellian public policy can be expressed as the *promotion of universal prospering in the Land*.<sup>4</sup> The reference to universality is important. It introduces a distributional element into the frame: it is not just a matter of seeking to increase average prosperity. However, this concern for universality is not principally drawn from the notions of equity to be found in political philosophies and ideologies, but rather from an appreciation of the interconnectedness of an ecological system. If the functioning of one part of the system is failing, that can have widespread, negative implications for the functioning of the system as a whole. The universality sentiment, therefore, derives from a desire to mitigate *systemic risks* to the well-functioning of the ecology as a whole.

---

<sup>3</sup> A term of art in classical political economy indicating a society in which there is ubiquitous reliance on exchange transaction for securing to each of its members what Adam Smith called the ‘necessities and conveniences’ of life, i.e. their material well-being.

<sup>4</sup> Smith referred to the progress of ‘universal opulence’, using opulence as a synonym for ‘wealth’, by which he generally meant what might now be described as ‘material wellbeing’.

## 2. The policy thinking

This general philosophy led Fabellian policymakers to recognition of the significance of migration flows for attainment of the overarching objective. If substantial, these flows don't just have direct effects on, say GDP or GDP per capita, they also have indirect effects through their implications for the functionality of other policy sub-systems. Housing, social security, work and pensions, health and social care, and the justice system are examples that spring quickly to mind. More generally, migration flows have the potential to affect the institutional structures (the *stable patterns of behaviour that define, govern, and constrain human action/conduct*) of the Land, and hence to affect the functionality of the whole system.

While these wider consequential effects were clearly non-measurable, they were nevertheless real possibilities that needed to be taken into account. The Government therefore naturally turned to the SIS for assistance in developing its migration policies, it being an institution established to address this type of challenge.

The SIS applied what had become a fairly well-defined framework of procedures for analysing the complexities of the Fabellian ecology (the Land), and only the bare bones of the thinking are summarised here.

The crucial first step was to frame thinking by reference to an obvious analogy: the locational movements of people *within* Fabellia itself. In moving from one residential location to another, a person or family may sell one house and buy another. Alternatively, in the case of renting, one contract will be terminated, and another contract will be entered. The person/family make the decision – they do not require the permission of a government bureaucracy – and will tend to weigh the costs and benefits, seeking out the most (net) beneficial (to them) of the alternatives. And the decision itself will typically involve some form of locationally specific divestment of an asset/obligation at the point of departure paired with an investment in an asset/obligation at the point of destination.

The decision taken is made by the individual(s) concerned, but it is constrained by prices. Residence in a spacious apartment in London's Belgravia might be attractive to many, but the costs of it will be a deterrent. In effect, prices serve to 'regulate' conduct (which in this case is a change in residence).<sup>5</sup>

This framing of the issues led the SIS to a series of diagnostic questions about why a residential movement across the Fabellian border was regulated in an entirely different way (from an internal movement), and about whether it could be rendered less different by a shift in migration policy. In turn, the questions produced some broad-brush answers/responses:

- Cross-border movement involved a move to a different ecology, a different Land, a much more radical shift.
- The Land of Fabellia was a public or collective good and its advantage was unpriced. Access to it (in the form of residency) was rationed by an administrative bureaucracy, 'regulated' by politicians and lawyers, not by price.

---

<sup>5</sup> As Hayek pointed out, (classic) economic liberalism is a social doctrine: it comes with its own system of regulating individual economic conduct. Its characteristic is that the important constraints or 'checks and balances' on individual economic conduct come not from a political tyrant, parliament or bureaucratic 'planner', but rather from the necessity of finding consenting counterparties to exchange transactions.

- That (leaving the movement unpriced) was a matter of choice, not of necessity.

The third of these responses was heavily influenced by the work of a British economist, Ronald Coase, aided by another of the SIS's routine, diagnostic questions: Have we seen a challenge like this before? The answer to the question, based on Coase's studies of the historical funding of light houses and the allocation of radio spectrum (both previously classified as public/collective goods) was: yes, we have.

From there, the SIS developed its own critical insight: that access to the Land and its benefits could, by judicious definition of rights and development of feasible enforcement systems, be the basis of a financial asset that could be tradeable, and the acquisition of which could be made a necessary condition of residency. That is, incomers could be required to make an 'investment in the Land' that could be cashed-in on leaving it. Iterative discussions with the political leaders served by SIS then followed, leading to the policy system outlined in the next section.

### 3. The migration policy system in outline

Fabellia's migration policy system has the following, major characteristics:

- i. A basic Residency Right ("RR") with well-defined entitlements, which every non-citizen residing in the country for more than one year is required to acquire.
- ii. Each RR issued is specific to an individual person, but, via the institutional arrangements established, it is tradeable, i.e. it can be both bought and sold.
- iii. The total number of RR's in issue at any point of time is capped, and changes in the cap can only be made if confirmed by an affirmative vote of citizens in a referendum.
- iv. The cap on residency numbers has, unlike a cap on immigration numbers, a direct and immediate influence on net migration: if the cap is binding, net migration is zero.
- v. The tradability characteristic means that RR can properly be regarded as a financial asset and analysed as such.
- vi. Without affecting the cap, the government can achieve a degree of control over the composition of the immigration flow by means of targeted state assistance in financing the acquisition of RRs.
- vii. The principal means of doing this is by deferrals of payments due on the acquisition of the RR.
- viii. The first acquisitions of RRs give rise to significant, potential seigniorage revenue for the state, part of which is used ('dissipated') in providing the targeted assistance.
- ix. Incremental financial penalties are imposed on detected illegal residents, to ensure that illegal entry is always significantly more expensive than legal entry.

- x. Enforcement is via a system of ‘entitlement cards’ (or biometric equivalents) issued to residents, coupled with standard, intra-country policing (both by the police force and by civic actors when they require ID information for transactional purposes).
- xi. The general purpose of the policy is to help the government resolve a trade-off between the commercial advantages of international labour mobility and the risks of wider harms to Fabellia’s social, economic and political institutions (which have historically served to sustain Fabellia’s relative, commercial success over a long period).

#### **4. The Residency Right (RR)**

Fabellian migration policy begins with a division of the country’s inhabitants into three categories: citizens, longer-term residents, and temporary residents who have visas to stay in the country for up to a year. The latter category encompasses tourists, those making extended stays with family members in Fabellia, short-term work assignments, seasonal workers, and students at approved educational establishments on courses of a year or less.

The focus of the policy is on the longer-term residents category. All those wishing to live and/or work in Fabellia for more than one year are, without exception, required to be holders of a RR.

The RR is a permanent residency right granted to a single, specific individual and it comes with a number of ancillary conditions. These detailed conditions could have been specified in a number of different ways according to policy preferences but, for simplicity, Fabellia’s government and parliament opted for them to be identical to citizens’ rights, save in the following, major respects:

- a) The RR carries no right to vote in Fabellian elections.
- b) The RR is conditional on the absence of a criminal conviction for a defined list of major offences.
- c) There is a requirement to actually reside in Fabellia for a specified proportion of the time since first acquisition of the right, referred to as the use-it-or-lose-it (UIOLI) condition.
- d) There are specified restrictions on access to a defined set of state benefits in the health and welfare systems.
- e) In the event of violation of conditions (b) or (c), the residency right is cancelled, and the relevant individual acquires immediate ‘illegal resident’ status.

#### **5. Trading arrangements**

RRs are created and offered to intending immigrants by the Residency Agency (“RA”), an institution created to act as a ‘cleared market exchange’, dealing in both the selling and buying back (the ‘cash-in’) of residency rights. Its *modus operandi* is to run a two-sided auction whereby individuals can either bid to buy a RR (if seeking to move to Fabellia) or offer to sell an acquired RR (if moving out of the country). The RA ‘matches’ the bids and offers, making back-to-back purchases and sales on its own account, acting as the relevant counterparty for both buyers and sellers alike.



This feature of the institutional set-up follows from the fact that the RR is person-specific, and hence not something that can be exchanged directly between different persons.

The system provides for broadly equivalent incentives for immigration and emigration.

The RA is, in effect, ‘owned’ by the Ministry of Finance, which has the power to transfer RA capital into its general funds as bid/offer-spread and seigniorage revenues (see below) accumulate.

## **6. Supply side policy**

Given a clear distinction between citizen and resident populations, a cap is placed on the number of RRs in issue at any one time.

The capped number (the ‘residency-ratio’) is set at 15% of the combined total of citizens and residents. The percentage that is fixed for an indefinite period and can only be changed by government if it is endorsed not only by a parliamentary majority, but also by an affirmative vote in a citizens’ referendum.

In any one period there will be a flow of surrendered RRs arising from three sources:

1. Deaths of established residents.
2. The acquisition of citizenship by established residents.
3. Emigration of established residents from Fabellia.

For each surrender of an RR, the RA will offer another RR on the market to potential buyers. This will, in effect, keep the number of RRs in issue constant: it is not the RA’s job to make policy decisions about the total number of RRs in issue. In effect, this is a net-zero migration position when the cap is binding.

However, the government of the day can instruct the RA, on an annual basis, either to (a) reduce the number of RRs in issue by ‘buying back’ a designated number of them, or (b) increase the number of RRs in issue by ‘minting’ a designated number of new RRs to be made available on the market, provided that any such instruction would not take the total number of RRs above the 15% cap. In this way, there is flexibility to adjust to changing circumstances.

Taken together, the arrangements give the government a direct control over the level of net migration (within the boundary of the 15% cap).

## **7. Demand side policy**

Fabellian migration policy also has a demand side dimension, aimed at counteracting an ‘adverse’ selection problem. Allowing anyone to bid for RRs would open up a legal route to residency for people engaged in, or particularly likely to be engaged in, major criminality. While that could be picked up and punished *ex post*, including by the cancellation of the RR, it was deemed expedient to establish an *ex ante* screening mechanism.

This takes the form of a two-stage ‘qualified persons test’, the first stage of which must be passed in order to participate in the market for residency. The primary purpose of stage one is to weed out those assessed as posing egregious risks of serious criminal behaviour or of causing equivalent levels of other social harms.

Those wanting to move to Fabellia are first required to identify themselves to a government representative located in the country from which they want to move, and to provide such information as would assist the Ministry of Internal Affairs (“MIA) in its screening assessment, alongside other inputs from the police and security services.

Those who pass the test, who comprise the great majority, are then free to participate in the market for a period of two years. If, within this two-year period, they are successful in acquiring a right to residency, they then face the second-stage test, which they are required to pass before the RR can be activated.

The procedure is as follows. Once the RA has matched a successful bid with a successful offer, it immediately remunerates the seller and collects revenue from the buyer but will also immediately send details of the transaction to the MIA. The number of people getting to this later stage being substantially smaller than at stage one, the MIA then has an opportunity to take a deeper dive into the backgrounds of those who, though they have passed the stage one test, have done so with a grading that indicates significantly greater risks than the average stage one grading. The MIA has up to two months from the RA ‘match’ to complete this process and decide whether or not to cancel the transaction. If cancelled, the RA returns the monies paid to the applicant.

## **8. Enforcement: the challenge of illegal residency**

It is a feature of the Fabellian system that it shifts a substantive fraction of enforcement efforts away from the policing of borders and entry points (such as airports) to routine inland policing, a development that occurred long ago in relation to the collection of import duties on goods. (Borders are porous: immigrants can cross into the country undetected or can enter on a tourist visa and then disappear.)

The system relies heavily on digital identification, initially in the form of a card containing information about the individual’s entitlements, including to social security, health services and the like, but later extended to encompass biometric forms of recognition. These ‘entitlement cards’ function in much the same way as bank cards do for quotidian exchange transactions. They are routinely asked for by banks (e.g. when opening an account or seeking to make a high value transaction), employers (when hiring) and public officials (e.g. in the supply of publicly provided services, and in routine policing).

With relevant adjustments of encoded information, entitlement cards are also available to citizens but are not compulsory. They have, however, enjoyed significant take-up, because of their convenience in use in providing identity information across a range of transactional activities, for example transactions likely to require anti-money-laundering checks.

A detected illegal resident faces (a) an immediate financial penalty set equal to the going rate for the RR and (b) potential extradition with the liability still attached. If they are able to pay the penalty, they then have the option of entering the legal process for acquiring citizenship, starting with the stage one qualifying-persons test. If successful in this, they will, in effect, have paid twice for the RR. If they fail in that process, they are extradited.

The same provision applies to those who are detected when attempting illegal entry at borders.

The intention of all this is to render illegal entry significantly more expensive than legal entry and hence eliminate the payoffs from it for both those who attempt it and for those who engage in criminal activity to assist the attempt.

## **9. Relation to citizenship**

Becoming a new citizen of Fabellia is contingent on prior possession of an RR. On acquiring citizenship, the prior residency right is surrendered, but in this case, the RR has no redemption value. Hence, the value of the RR at the relevant time has come to be referred to as the ‘price of citizenship’.

This ‘price’ reflects the incremental value of full participation in the political life of the country, the removal of the conditions attached to the residency right, and another significant benefit: in Fabellia, the citizenship of a newborn is determined by descent (*jus sanguinis*), not by place of birth (*jus soli*). Thus, a new-born child of parents who are both residents, will automatically become a new resident of Fabellia, not a citizen. For residents-turned-citizens, however, any children subsequently born to them will automatically become citizens.

## **10. Seigniorage**

Seigniorage is a term that, in its most frequent economic usage, denotes the difference in the face value of new money created by a sovereign government and the costs of creating it. In a coinage system, for example, it would amount to the face value of a coin less the value of the metal it contains and the other costs of minting it. The concept plays a large role in the design of the Fabellian system, not least because it provides a source of funding for various types of targeted financial support for the acquisition of residency. These add policy flexibility on top of what is intended to be a basically simple, stable and relatively rigid framework.

Money is a financial asset for its holder and a key insight of the designers of the Fabellian residency policy was that so is a residency right, *if tradeable*: hence its creation would lead to a form of seigniorage. The RRs could be created by the government and then used to raise revenue by means of their first sales. Once in circulation, the RR would have a surrender value to the holder, but that would not entail any liability on the part of the government. Any sale of the right to the RA would only happen in circumstances where the RA had a matching bid from an intending new resident.

What is striking about the seigniorage implied by the Fabellian system is its magnitude, and this was a point that the system designers did not miss. It struck them that, under its previous arrangements, the government was ‘minting’ new, valuable rights but then ‘giving them away’ to immigrants from other lands. Moreover, in doing so, it was creating a situation in which any aggregate benefits from immigration were tilted heavily towards the immigrants, not shared more equally among the inhabitants of the country, old and new alike. This was offensive to principles of horizontal equity and caused disgruntlement and some anger amongst the population.

In the event, residency rights have traded at an average price of around two thirds of Fabellia’s current per capita GDP, which is not an entirely surprising number given that it’s a lifetime right, with a re-sale option at any point (analogous to a house or apartment purchase). An immediate implication is that a residency number of 15% of the population, i.e. at the capped

level, translates into potential seigniorage equal to around 10% of GDP. Unsurprisingly, the Ministry of Finance was a keen supporter of the new system.

*At current prices, a similar outcome in, say, the UK would translate into a figure of around £280 billion. The UK-equivalent market-clearing price of a residency right would be around £27k per person.*

## **11. Deferred payments**

The basic policy design of the Fabellian system envisages immigrants/emigrants making/receiving payments at the time of entry/exit, but it also allows for the possibility of deferrals of entry payments to a later date.

In practice, the Government has made fairly extensive use of the deferral option to address a number of specific challenges, since deferrals do not undermine what it considered to be the number one priority, securing a mechanism for getting direct control of net migration.

In effect, deferral of payments for the acquisition of a RR amounts to a form of loan from the state to individuals in order to support them in acquiring an asset. As such it can be targeted on identified groups deemed worthy of support. Moreover, it does not necessarily entail any financial payments from the state at the time the loan is made: rather, at the aggregate level, it shifts the time profile of the crystallization of potential seigniorage revenues.

The state is obviously not the only possible source of finance for asset acquisition and this fact was also recognised by the developers of the new Fabellian system and by the politicians who have had to operate it. As expected, a number of new products and specialised markets have developed, in the way that they did earlier for asset purchases such as houses or vehicles.

## **12. The Transition to the new system**

Transitions from one way of doing things to another, different system almost invariably raise trade-off challenges of a political nature by virtue of their distributional effects. And so it was with the Fabellian reforms, because of the large number of residents granted prior ‘settled status’. What should be required of them was the question, and answering it involved a familiar trade-off between considerations of equity and incentives.

A number of options were considered, from requiring established residents to immediately enter the new RR arrangements to ‘grandfathering’ their existing rights without any further ado (which could be done by the digital encoding of same-looking ‘entitlement cards’ and simply issuing these cards, charge free, to each and all established residents).

In the event the political leaders’ favoured option was that settled residents would be entitled to stick with their existing rights for a period of 15 years, starting from the date of inception of the new system. This is known as the Settled Residency Right (“SRR”) and, having been freely distributed, it has no redemption value at the end of the 15-year period. Those wishing to stay longer have to acquire a RR.

### **13. Some specific aspects of the policy system**

#### ***13.1 Short term visas***

Short term visas of up to one year in duration are available for visitors, seasonal workers and short-term work or study. They are not included in the residency rights market arrangements, but charges for the visas are levied at rates derived from the market price of RRs via annuitization. The annuity rate currently stands at 4%, so if RR prices are running at a Fabellian currency equivalent of £27k, the cost of one-year work or study visa will be a sterling equivalent of £1,080. For a six-month visa for, say, seasonal work the sterling equivalent would be £540.

Overstayers automatically become illegal immigrants and hence liable to the penalty provisions that status entails.

#### ***13.2 Students***

Foreign students in Fabellia on courses lasting more than one year are required to acquire a residency right in the standard way and their numbers therefore fall within the residency total that is subject to the cap. There is, however, a government deferral scheme available to students attending one of a set of approved courses at educational institutions which defers payment for the RR until completion of the relevant course or courses. On departure from Fabellia on completion of studies, the deferred amount due is simply cancelled.

Longer deferrals are also available for a more limited set of courses, principally but not exclusively, in STEM disciplines, and also for post-doctoral work.

#### ***13.3 Children of adult residents***

The arrangements are similar to those for students in that children are required to acquire a residency right, but in this case deferral of payment extends to age 18, subject to proof of age. Deferral can then be extended by those going on to approved courses in higher education.

#### ***13.4 Asylum seekers***

Asylum seekers are encouraged to make their applications for residency from outside Fabellia and, if successful, a three-year deferral of payment for the required RR is granted (to give time for them to find their feet in the country).

Those making their application from within Fabellia are first classified as illegal immigrants. However, if, and only if, the application is successful, the penalty for illegality is waived and a three-year deferral of payment for the required RR is granted.

### **13. End comments: incentives and sentiments**

While the emphasis above has been on the financial economics of a counterfactual policy system (the thought experiment), it is appropriate in a series titled ‘Past Learnings’ to note the interplay between financial incentives and sentiments, not least because human conduct is so heavily influenced by such sentiments. See David Hume’s “reason is a slave to the passions” and Adam Smith’s argument that strongly held sentiments/attitudes/opinions can thwart attempts to introduce better systems of incentives (he specifically identified religion and

agriculture as examples).<sup>6</sup> In the current context, the most relevant sentiments can be described as sentiments toward the ‘Land’.

The value of the RR gives the holder a financial interest in the well-being of the Land – it will be higher the more attractive is residence in Fabellia relative to other nations. The effect of this on individual conduct, *considered in isolation*, can be expected to be small: the conduct of any one individual alone will generally have a negligible effect on the value of the RR, so changes in the value of the RR can be expected to have very limited effects on conduct.

However, the establishment of the same incentive structure for all residents will have social effects. The individual’s conduct can affect not just her/his own balance sheet, but that of family, friends, neighbours, and members of her/his community. Not only may the individual be directly concerned with *their* welfare as well as her/his own, but these effects on the well-being of others will bring forth expression of sentiments of approval or disapproval from them of the individual’s conduct – and these are of matters of importance to the great majority of people. Speaking very roughly, the commonality of an incentive structure amplifies its power of influence on individual conduct by way of changing the normative order in which the individual is embedded.

It is an old wisdom of classical political economy, now frequency neglected, that it is when the incentive structures established by a policy system are aligned with public sentiments that they have their most powerful effects, for good or ill. The last word on this interplay between sentiments and incentives is therefore left for Adam Smith, writing on the alignment between policy principles and the sentiments that govern individual conduct in the *Theory of Moral Sentiments*:

*“If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and it is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder.”*

---

<sup>6</sup> These 18<sup>th</sup> century arguments nowadays find considerable empirical support in the research of today’s cognitive neuroscientists and in brain science more generally.