

**Submission to the Productivity Commission's Inquiry into
Migrant intake into Australia
Jane O'Sullivan, June 2015**

Introduction

I am a researcher who has published on the economic impacts of population growth. I congratulate the Treasurer for the broad terms of reference of this inquiry, which provide an opportunity to explore aspects of Australia's immigration policy which have hitherto been neglected.

It is important to separate the impacts on existing Australians and Australia's national interest, from the impacts on immigrants, and on international communities from whom immigrants are drawn. All are worthy of attention, but too often attempts to discuss Australia's national interest, or even global interest, are shut down under accusations of being anti-immigrant. The inquiry's terms of reference, and the issues paper, provide explicit separation of these interests, which is welcome.

This submission is organised under the main items of the Scope of the Inquiry. Its main arguments may be summarised as follows:

1. Migration policy should be seen primarily as a component of population policy, and should serve the goal of attaining a stable and sustainable population at a level that ensures high quality of life and environmental health.
2. Nothing can grow forever. There must ultimately be a limit to Australia's population, so principles of good economic management should not be dependent on population growth. The lower the peak population in Australia, the more resources per person to sustain our quality of life into the future.
3. Even in the immediate term, the costs of increasing our population outweigh the benefits. These costs include crowding of public infrastructure and government services, housing inflation and unaffordability, more unemployment and insecure work, escalation of both public and private debt, environmental impacts including biodiversity loss and more carbon emissions, among many others. Most benefits are ephemeral, while most costs are cumulative over time.
4. The direct costs to the government bottom line include public infrastructure, which costs over \$100,000 per extra person across all government-provided facilities. Migrants in aggregate do not out-perform home-grown workforce to any extent, let alone to the extent that would repay this fiscal burden of growth.
5. The idea of auctioning places is of limited relevance, if our aim is to minimize net migration and population growth. Once we fulfil international obligations to accommodate refugees, allow reasonable access to family reunion and global recruiting for high-level expertise, there would be few if any places to auction.
6. Vested interests dominate the pro-growth advocacy. The property industry is a primary beneficiary and a major sponsor of both major political parties and of pro-migration peak bodies. Their speculative profits are at the expense of housing affordability for ordinary Australians. Employers seeking cheap and compliant labour have exaggerated skills shortages. The benefits that these groups claim Australia will get from high immigration have not been realised.
7. The benefits currently attributed to the skilled migration program can be achieved by better investment in young Australians.

1. Costs and benefits of the permanent migration intake.

The main effects of permanent net immigration on Australia's national interest may be considered under the headings of

- a) Population increase,
- b) Demographic age distribution and
- c) Availability of skills.

a) Population Increase

Immigration is the dominant driver of population growth in Australia. Currently, almost two thirds of the annual increase in resident population is attributable to net overseas migration (NOM), and around one third from 'natural increase' (the surplus of births over deaths). However, births to immigrants make up a large proportion of natural increase, and are an indirect impact of the immigration program on population increase. The 'demographic momentum' component of natural increase (where the older cohorts born before the fertility transition are replaced by larger cohorts of their children) is shrinking over time. Government policies and interventions do have significant influence over the birth rate, and this is relevant to overall population policy, but it is a relatively minor lever.

The question of whether population growth, of itself, is a good thing for Australia has been aired in previous inquiries. This debate has been coloured to a damaging extent by politically influential vested interests. There can be no doubt that the inflation of property values and the erosion of wages and conditions of employment are of benefit to an elite few in the near term. The challenge for objective inquiry is to filter these voices and scrutinize the contrived evidence they present with scepticism.

The enormous expansion of Australia's immigration program since 2004 constitutes a remarkable demographic experiment. It should be stressed that it is the current situation which is radical, not the call for moderation. There is no precedent in the developed world to demonstrate that the claimed benefits could be realised. A decade into this experiment, only the most die-hard growthists continue to contrive arguments that link it to any improvement.

Costs of population growth can be assessed under a number of categories, including but not limited to:

1. Impacts on Australia's environment, natural resources and endemic species.
2. Cost of providing infrastructure.
3. Impact on land values and its impact on cost of living, distribution of income between consumption, productive investment and unproductive speculative investment.
4. Impact on quality of life of citizens, including remuneration and security of work, amenity of surroundings, level of government service provision, choice in location and style of abode, impacts of rate of change and impacts of ethnic diversity.
5. Impacts on levels of debt.

Impacts on Australia's environment, natural resources and endemic species.

It is self-evident that the massive growth in the human population through the twentieth century has had more impact on biodiversity than any other single factor.

—Sir David King, as Chief Scientist for the UK¹

Australia's leading ecologists agree that population growth is a major driver of loss of species and degradation of habitats in Australia.² Successive national "State of the Environment Reports" have recorded ongoing deterioration of all environmental indicators.³ The commonly claimed by growth proponents that "Economic growth and strong environmental outcomes are complementary objectives" (2015 IGR, p xii)⁴ invokes the environmental Kuznet's curve, which theorises that, as societies get richer, all their environmental issues are more easily and better managed. Ecologist and mathematician, Professor Hugh Possingham, eloquently debunked this belief, in an address to the 2013 Fenner Conference of the Australian Academy of Science.⁵

Australia's resources, both renewable and non-renewable, are finite. Adding more people dilutes the per capita benefit Australians enjoy from the use of these resources, and hastens the day when crucial resources are depleted. In some areas, it directly reduces the resource base, such as through urban sprawl overtaking many of our most fertile and well-watered agricultural soils, and prime farmland destroyed by coal and gas mining, the imperative for which is elevated by our growing energy needs and our growing import bills. Competition for water between major cities and irrigation areas is intensifying, and has already forced the abandonment of highly productive orchards.

Apart from these aggregate considerations, our productivity is dependent to a significant extent on the resources to which we add value. This is particularly true of exports. Yet the intergenerational report omits any consideration of the dilution, depletion and degradation of our resource base, in its discussion of productivity and the impact of population growth on it.

Food, water and energy security are fundamental concerns, which are not reflected in modelling of future GDP, incomes and transfers. It is often claimed that some of the richest places on earth, such as the Netherlands and Japan, are among the most densely populated. However, the niches for densely populated rich countries are few, crowded and ultimately fragile. Export of food and energy to these obligate importers is among Australia's greatest strengths, if our domestic needs do not overtake these surpluses.

Cost of providing infrastructure.

Treasury has consistently declined to make any direct link between population growth and the cost of infrastructure. These costs are entirely absent from the Intergenerational Reports.

¹ Statement by Sir David King to a British Parliamentary enquiry, 3 July 2006.

<http://populationmatters.org/2007/press/leaders-urged-brave-population-growth/>

² See Goldie J. and Betts K. (eds), *Sustainable Futures: Linking population, resources and the environment*. CSIRO Melbourne;

Foran B. and Poldy F. 2002. *Future Dilemmas: Options to 2050 for Australia's population, technology, resources and environment: Report to the Department of Immigration, Multicultural and Indigenous Affairs*. CSIRO Sustainable Ecosystems, Canberra.

³ Department of the Environment: *State of the Environment (SoE) Reporting*.

<http://www.environment.gov.au/topics/science-and-research/state-environment-reporting>

⁴ Treasury 2015. 2015 Intergenerational Report: Australia in 2055.

http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2015/2015%20Intergenerational%20Report/Downloads/PDF/2015_IGR.ashx

⁵ Possingham H and Pannell D 2013. Biodiversity, People and the Environmental Kuznet's Curve. Presentation to the 2013 Fenner Conference.

http://www.population.org.au/sites/default/files/public/Hugh_Possingham_0.pptx

Indeed, the 2015 IGR⁶ explicitly delinks them: "Other areas of spending — such as defence, official development assistance and infrastructure — are not linked explicitly to demographic factors..." (p. 57). This is an absurd claim. Infrastructure Australia's recent audit of Australian infrastructure merely states the obvious, when it identifies population growth as a major source of infrastructure deficits and congestion.⁷

One of the reasons for ignoring the infrastructure cost has been the lack of direct means of measurement. O'Sullivan (2012) presented a methodology for quantifying the cost of fixed capital imposed by population growth rate.⁸ The estimation was refined using long time series in O'Sullivan (2013).⁹ This methodology has been widely acknowledged by unaligned economists, and assiduously ignored by those attached to vested interests in population growth.

These analyses show that acquiring the durable assets to support population growth has historically cost around 6.5-7% of GDP per one percent population growth rate. Thus, if Australia's growth is 1.7% p.a., around 11-12% of GDP is diverted to the task of acquiring infrastructure and other durable assets, merely to extend to the additional people the level of service already available to the existing population.

However, the recent doubling of Australia's population growth rate led to a more than proportional increase in spending on Gross Fixed Capital Formation (GFCF).¹⁰ It appears that a number of factors increasingly compound the cost per added person, as growth rate increases. These factors include the diseconomies of density (requiring more elaborate infrastructure, like tunnels and desalination plants, to cope with high volumes of demand), the high cost of retrofitting already-built-up areas, the need to over-cater in expectation of future growth, and the inefficiency of removing still-functional assets to replace them with higher-capacity versions (for example, in densifying suburbs, when a house is demolished to make room for two, we get one additional house for the price of two).

Spending on GFCF from 2007 to 2013 was 8.5% of GDP greater than that during the four decades from 1964 to 2004. If this increase is attributed to the increase in population added annually, it would appear that durable assets have cost over \$600,000 per person added (in 2013 dollars). It is not easy to estimate the impact on government expenses, as simultaneous privatisations have shifted part of the burden from public to private accounts. In general this has increased, not decreased, the cost of these facilities to Australians.

The direct impact on government fiscal balance is around a quarter of the total societal cost, and is well over \$100,000 per added person.¹⁰ The indirect impact includes the diversion of household spending of consumption to mortgages (constraining economic activity generally),

⁶ Treasury 2015. 2015 Intergenerational Report: Australia in 2055.

http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2015/2015%20Intergenerational%20Report/Downloads/PDF/2015_IGR.ashx

⁷ Infrastructure Australia 2015. *Australian Infrastructure Audit: Our Infrastructure Challenges*.

<http://www.infrastructureaustralia.gov.au/policy-publications/publications/files/Australian-Infrastructure-Audit-Executive-Summary.pdf>

⁸ O'Sullivan, J.N. 2012. The burden of durable asset acquisition in growing populations. *Economic Affairs* 32(1), 31-37. <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0270.2011.02125.x/pdf>

⁹ O'Sullivan, J.N. 2013. The cost of population growth in the UK. Report for Population Matters. http://populationmatters.org/documents/cost_population_growth.pdf

¹⁰ O'Sullivan J. 2014. Submission to the Productivity Commission Inquiry into Infrastructure provision and funding in Australia. http://www.pc.gov.au/_data/assets/pdf_file/0004/135517/subdr156-infrastructure.pdf

an increase in consumption of mostly-imported durables such as vehicles and furnishings (reducing balance of trade) and a reduction in saving capacity (ultimately increasing pension liability).

A fiscal burden of more than \$100,000 per additional person, or tens of billions of dollars per year, is a huge cost for the government to omit from its balance sheet of costs and benefits of population growth. The cost single-handedly accounts for all increase in government debt since the escalation of population growth from 2004. The Grattan Institute reported “unprecedented infrastructure spending by states and territories is largely responsible for a \$106 billion decline in their finances since 2006,” and “after a threefold increase in capital spending over the last 10 years, states are paying 3 per cent more of their revenues in interest and depreciation.”¹¹

These figures are based on what has actually been spent. It is evident that expenditure has not been enough, with congestion mounting in transport systems, hospitals, schools, prisons, housing and community facilities.

Impact on land values and its impact on cost of living, and on distribution of income between consumption, productive investment and unproductive speculative investment.

There has been no more destructive trend in Australian society over the past two decades than housing inflation. That this inflation has been presented by our leaders as enrichment is insulting to the younger generations, robbed of the ‘Australian dream’ of home ownership. The public are increasingly realising the obvious fact that housing affordability for the next generation and rising values of their homes are mutually exclusive. Yet the Prime Minister and Treasurer have both recently denied this link.¹² The result is that no more than lip-service is given to the notion of housing affordability, while the weight of government policy measures is devoted to destroying it. A large proportion of parliamentarians own investment properties – a clear conflict of interest with their sworn duty to advance the interests of their constituents.

A number of factors have contributed to this escalation in land prices, but chief among them is population growth. Australia’s ‘strong’ population growth is used by the property industry as a selling point to foreign investors. The inflow of speculative investment into the sector has contributed to its inflation, but is dependent on the growing underlying demand.

The argument that housing affordability is limited by supply is a shallow attempt to deflect attention from one side of the supply-demand equation. Supply is really only limited by people’s capacity to pay – the high prices are deterring housing starts by keeping would-be householders in shared accommodation or parental homes. It is far more the case that the development industry requires government to keep expanding demand, to force people to accept ever lower standards of apartment living and/or longer commutes for the price they would previously have gained a conveniently located home freehold.

Foreign investment adds to demand, not supply – even if it were in reality restricted to new stock, it does not increase supply to the extent that prices would fall. On the contrary, foreign investment has been used by the industry to sustain price rises (the investment bubble), above

¹¹ Daly, J. 2014. Budget pressures on Australian governments 2014. Grattan Institute.

<http://grattan.edu.au/report/budget-pressures-on-australian-governments-2014/>

¹² *PM wants affordability as well as rising house prices.* The Age, 02/06/2015.

the tolerance of owner-occupiers and renters. The acknowledged tendency of many Chinese buyers, in particular, to leave their property empty, directly removes these dwellings from supply.

Diversion of an increasing share of total income into housing constrains consumption spending and job opportunities. For an increasing proportion of households, it prevents voluntary saving. Combined with the casualisation of work and frequent breaks in employment which eat into savings, this is likely to have a far greater impact on government pension liability in thirty years' time, than the shift in proportion of retirees. With a stable population, those retirees would have a greater prospect of self-funded retirement, including home ownership at retirement.

The high returns on investment in housing has made investment in productive ventures and infrastructure unattractive. Australia is missing many opportunities for industry growth, through the diversion of capital to the real estate market. Increasing commercial rents are also reducing competitiveness of Australian businesses and contributing to pressure on wages of employees. Inflated investment returns also elevate the value of the Australian dollar, harming business competitiveness.

Impact on quality of life of citizens

Apart from the cost of housing, population growth has impacted negatively on many aspects of Australian quality of life, including remuneration and security of work, amenity of surroundings, level of government service provision, choice in location and style of abode, impacts of rate of change and of ethnic diversity.

Australians are increasingly feeling insecure and under pressure. Those older generations who own their home outright, have had stable employment throughout their careers, and amassed significant savings, are probably more comfortable than any previous generation, but the generations coming under them do not have the same opportunities. Unfortunately, most of our political leaders are of this privileged set, and out of touch with the intensifying pressures.

Population growth is not the only reason that work has become less secure and more demanding on lifestyles. Globalisation has meant Australians compete not only with foreign job seekers in Australia, but with workers overseas. Nevertheless, our extraordinarily high immigration rate has greatly intensified this situation.

Compounding the pressures of insecure work, increasing personal cost of education for job-readiness, and inflated housing costs, welfare and community services are being wound back due to the fiscal deficits caused by infrastructure spending. All these pressures are felt most by low-income people, driving widening inequality.

Impacts on levels of debt.

Due to the rising cost of housing, household mortgage debt has risen from 30% of GDP in 2003 to more than 100% today. As most of the finance comes from international borrowing, the interest payments on this extra debt constitute a drain of over 4% of GDP from the net national income of Australia. Low and middle income households are most affected, and these households have seen little if any real increase in income over the decade.

The impact of infrastructure expenses on government debt has been discussed above. Many commentators have argued that government should take on much more debt, to clear the infrastructure backlog. The reasoning given is that the facilities created will pay for themselves down the track.

It is vital to understand that ‘capital widening’ (building more stuff simply to cater for more people) is not beneficial investment that will pay for itself. It is simply ‘running in order to stand still’. Individual items of infrastructure may certainly yield beneficial services and improve productivity, but these only compensate for the loss of service and productivity due to crowding of pre-existing facilities. As long as population growth is sustained, at no future time does the need for infrastructure creation slacken, allowing us to pay down the debt. In every rational regard, this infrastructure burden is a recurrent cost, which must be funded from the current account if intractable debt is to be avoided. Only reducing population growth can reduce this burden.

Seeking foreign private capital to fund the infrastructure we need is no solution. The profits repatriated to these investors will increasingly drain Australia’s net national income. It is invariably more costly than direct borrowing by government. It may conveniently massage the budget for short-term political benefit, but at significant long-term cost. Australians are already feeling the pinch of past dependence on foreign capital.

b) Demographic age distribution

One of the arguments most used by vested interests is that Australia’s population is rapidly ageing, and high immigration is needed to sustain the workforce and balance the growing numbers of retirees.

There are two central assumptions in this argument:

1. That supply of labour is limiting economic development, delivery of services and/or wellbeing in Australia.
2. That immigration will significantly increase the proportion of people in the workforce.

Is the supply of labour limiting?

All available indicators suggest the opposite: that an oversupply of labour is harming Australian wellbeing. Rising levels of unemployment and under-employment are well documented, but don’t fully capture the extent to which those outside the workforce are forced out. The wages share of national income is declining. Businesses are investing less, not more, in the training and retention of staff. Mines are refusing to hire local staff, demanding all workers assemble at the same fly-in hub. Casualisation is requiring many workers to be available to work whenever called upon, but remunerated only when needed. Workers are expected to shoulder more costs of working, with an increasing risk that their investments in training or relocating will not lead to sustained employment.

The clearest evidence that labour supply is not limiting comes from comparing the employment-to-population ratios, across countries of different age structure. Figure 1 (A) shows that, contrary to the universal assumption, ‘older’ countries do not have fewer workers.

Australia is among the ‘youngest’ developed countries, but Japan, the oldest, has the same proportion of workers on a full-time equivalent basis.¹³

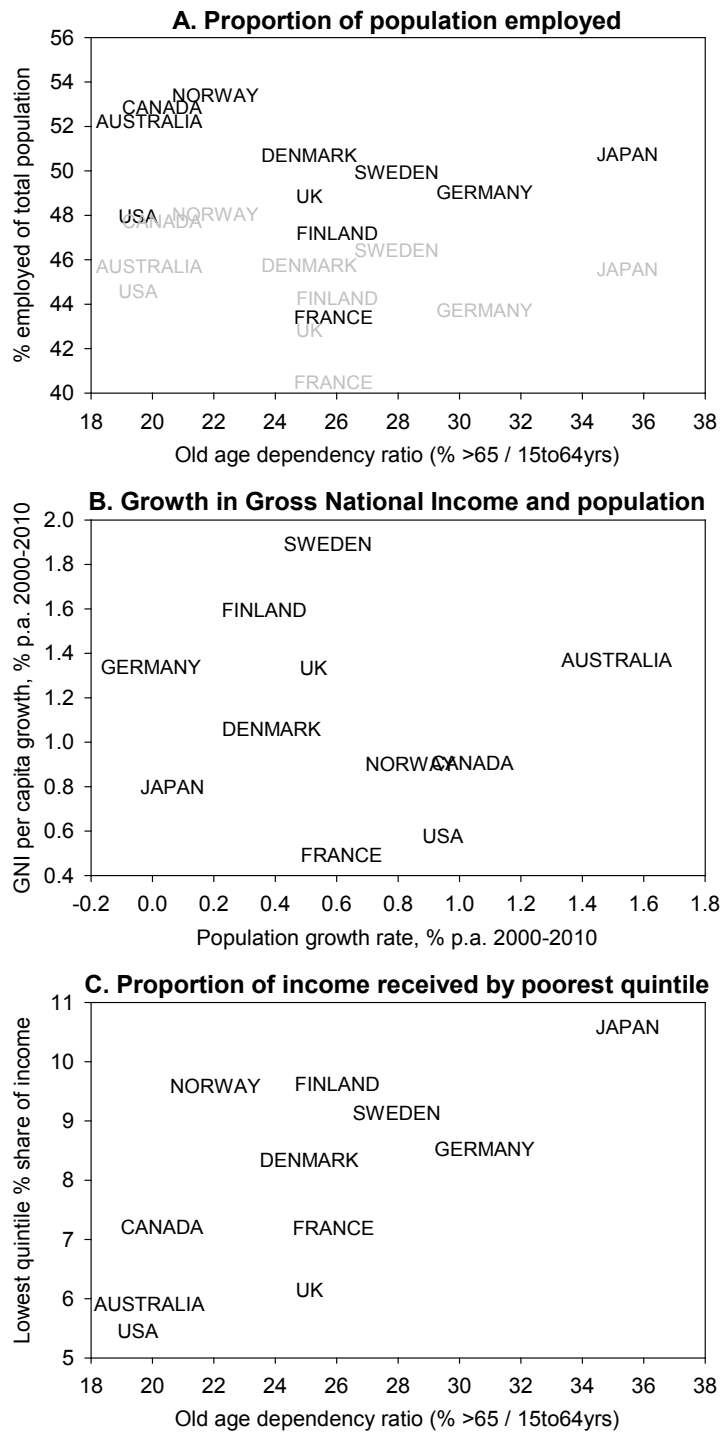


Figure 1. A. The proportion of total population employed (black), and the proportion of full-time-equivalent employment (grey), compared with the old-age dependency ratio for a range of wealthy countries. B. The relationship between growth in gross national income per capita and population growth rate, for the same nations. C. The relationship between old-age dependency and income share of the poorest quintile of the population. Data from World Bank databank (2013).

¹³ O’Sullivan J 2014. Ageing paranoia, its fictional basis and all too real costs. In Goldie J and Betts K, eds, *Sustainable Futures: Linking population, resources and the environment*. CSIRO Publishing. Pp 47-60.

Betts (2014) came to the same conclusion, including data across all OECD countries.¹⁴ Her slight negative correlation of ageing with proportion in the workforce (accounting for barely eight per cent of the variability) only existed because children under 15 were not included in the analysis. These analyses show that supply of labour is responsive to demand: as more people enter retirement, a higher proportion of working age people naturally enter or remain in the workforce.

The relationship between population growth rate and growth in gross national income per capita shows equally little trend (Figure 1 B). This offers no evidence that population growth improves productivity.

Perhaps more important than average income per capita, income inequality is a crucial determinant of societal well-being. A widely acclaimed study by Wilkinson and Pickett (2009) demonstrated that income inequality in developed nations is strongly correlated with worse physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage pregnancies, and child well-being.¹⁵ Figure 1 C shows a clear trend: the most youthful nations have the poorest poor. A similar trend is found using the GINI index of income inequality.

This is to be expected with an oversupplied labour market, and provides additional evidence of the extent of labour oversupply. As the Productivity Commission (2011, p. 7)¹⁶ stated, *‘Because immigration makes labour more abundant relative to the existing stock of capital and land, it tends to increase the returns to the latter at the expense of labour.’* In addition to depressed wages, youthful societies suffer elevated unemployment and underemployment, and high cost of living due to high housing and utility costs and poor infrastructure provision.

Most attempts to model workforce, including the Productivity Commission’s (2013) report “An ageing Australia: preparing for the future”¹⁷ assume that age-specific participation rates are governed by supply factors: the willingness to work of people at different ages and education levels. Wilkins and Wooden (2014) note the increase in workforce participation (up to the Global Financial Crisis), and suggest “if the age structure of the population in 2013 were the same as in 1993, the aggregate labour force participation rate would have been 2.2 percentage points higher.”¹⁸ The more likely outcome would have been that youth unemployment would be even higher than now, as the trend of older workers to remain in the workforce longer would leave fewer jobs open to young recruits. Likewise, in their analysis of National Transfer Accounts, Rice et al. (2014)¹⁹ projected aggregate lifecycle deficit of consumption exceeding income, assuming current age-specific earnings and welfare transfers persist – a completely unrealistic proposition since the increased workforce participation of

¹⁴ Betts K 2014. *The ageing of the Australian population: triumph or disaster?* Report for the Monash Centre for Population and Urban Research <https://katharinebetts.files.wordpress.com/2011/10/ageing-of-the-australian-populationv2.pdf>

¹⁵ Wilkinson R, Pickett K 2009. *The Spirit Level: Why More Equal Societies Almost Always Do Better*. Allen Lane, London.

¹⁶ Productivity Commission 2011. Annual Report 2010-11. <http://www.pc.gov.au/annual-reports/annual-report-2010-11>

¹⁷ Productivity Commission 2013. *An Ageing Australia: Preparing for the Future*. Research Paper, Canberra.

¹⁸ Wilkins R and Wooden M 2014. Two decades of change: the Australian labour market, 1993-2013. *The Australian Economic Review* 47(4): 417-431.

¹⁹ Rice JM, Temple J, McDonald P 2014. *National Transfer Accounts for Australia*. Crawford School of Public Policy, ANU. pp 18-19. https://crawford.anu.edu.au/sites/default/files/news/files/2014-07/nta_report_2014_r.pdf

working age people is a natural feedback from demographic ageing, driven by consumption demand.

Wilkins and Wooden (2014) note that employment-population ratios reached record high levels in 2008 (before the GFC). The subsequent drop is not due to ageing, as is sometimes claimed, but to reduced demand for labour. CEDA's newly released report "Australia's future workforce?" suggests that demand is likely to shrink dramatically, with the extension of automation, robotics and off-shoring making many current jobs redundant.²⁰ If they are right, a shrinking proportion of people of 'working age' may be a benefit.

Does immigration significantly increase the proportion of working age people?

We have already seen that the proportion of people of 'working age' does not determine the size of the workforce. The ageing justification for immigration is further discredited by the observation that immigration would make only a marginal difference to the proportion of working age, at the cost of rapid and perpetual population growth (toward an inevitable calamity – as Stein's Law says, "*If something cannot go on forever, it will stop.*").

Figure 2 illustrates this point. Australia is currently 'enjoying' the apex of our 'demographic dividend' – the temporary elevation of working-age proportion mid-way through the demographic transition. It is the current high proportion in working age which is abnormal, and it is by its nature ephemeral. A stabilising population would restore the working age proportion we had in the 1960s - hardly a cause for fear. A vastly greater population growth, doubling every 40 years or so (such as we currently have), would add only a few percent to the working-age proportion. It would have a much bigger impact on the "old age dependency ratio", which is a statistic designed purely to exaggerate the perceived risk.

A much higher immigration rate could conceivably hold ageing at bay, but at crippling cost in terms of infrastructure provision and social dislocation. The Productivity Commission's 2011 Annual Report noted "to maintain the age structure of 2003-04 in 2044-45, annual migration during that period would need to be above 3 per cent of Australia's population, leading to a population of over 100 million by the middle of this century."

Note that a more realistic projection for a stable Australian population would have below-replacement fertility and some net immigration. Such a scenario would have a higher proportion of working age than that depicted in Figure 2. The UK's low-fertility projection provides a suitable example²¹: fertility of 1.64 with top-up immigration (around 0.2% p.a.) and a pension age of 68 leads to stable ratios around Japan's current level (22% pension age, 62% working age). Even if population were allowed to contract, such as Japan's is forecast to do, the proportion of people over 65 may rise to a little over one third, but the working age population (15-65) would continue to exceed 50%. There is no evidence that such a society would suffer a shortage of workers. More likely, it would enjoy a shortage of unemployment.

²⁰ CEDA 2015. *Australia's future workforce?* Committee for Economic Development of Australia. <http://www.ceda.com.au/research-and-policy/policy-priorities/workforce>

²¹ Office of National Statistics 2011. Statistical Bulletin: 2010-Based National Population Projections. <http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2010-basedprojections/stb-2010-based-npp-principal-and-key-variants.html>

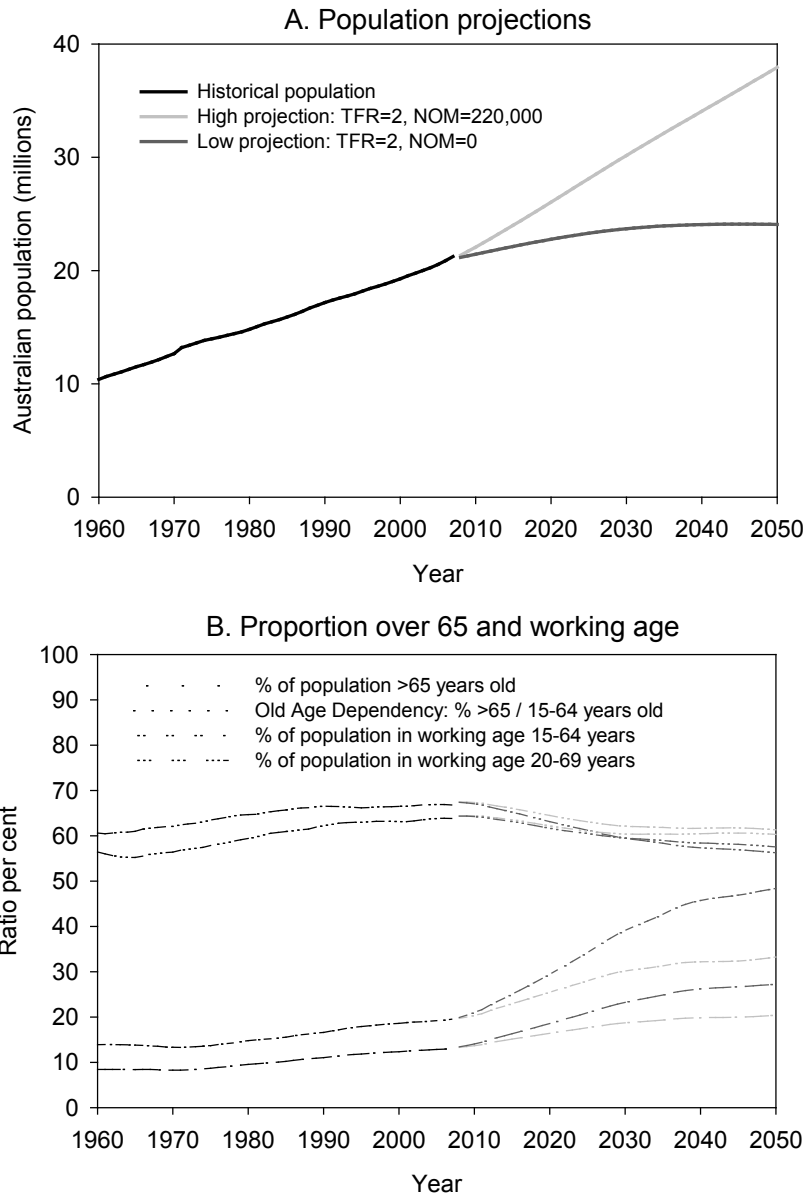


Figure 2. A. Australia's population since 1960 (black), and projected to 2050 under either high growth (light grey) or a stabilising scenario (dark grey). TFR = total fertility rate, NOM = net overseas migration. B. For each series, the proportion of people over 65, old-age dependency ratio and proportion of working age, defined both as 15–64 years and 20–69 years. Data from Australian Bureau of Statistics, Population Projections – Australia 2006–2100, Catalogue No. 3222.0, series 5 and 59.

c) Availability of skills

The claimed existence of skills shortages has been the basis for government refocusing of the immigration program since 1996, initially on permanent 'skilled' migration, and subsequently on temporary working visas. I have seen no objective study that defines criteria for determining skills shortages, let alone one which evaluates how well nearly 20 years of such programs have diminished skills shortages. The stridency with which employer groups claim the need for ever more access to immigrant labour suggests that the skilled migration program has not diminished skills shortages. Whether such shortages exist or not, there is

little basis for attributing to the immigration program any benefit on account of lessening them.

It beggars belief that the government is seriously motivated by skills shortages, when it chooses to incur tens of billions of dollars' worth of infrastructure liability annually, while simultaneously withdrawing funding from universities, TAFEs and research programs.

Recent media reports highlight the high and growing problem of graduate unemployment in Australia. The Age recently reported that 33% of nursing graduates failed to find nursing jobs, with many more finding only casual, part-time work, while thousands of foreign nurses were recruited.²² Another article reported that 20% of graduate dentists were unemployed, a similar proportion of graduate doctors had no internship place to finish their qualifications, and law firms were inundated with thousands of applicants for each position.²³ Unpaid internships are a growing form of exploitation of unemployed graduates.²⁴ Anecdotes abound from the IT industry, of Australian programmers required to train their Indian replacements before being retrenched. Desperate tradesmen have blockaded sites where they have been unable to apply for the jobs filled by foreign workers.²⁵ In a recent Crikey article reviewing the basis for relaxing 457 visa rules, David Llewellyn-Smith concluded "it would seem that the 457 visa system is not genuinely designed to alleviate skills shortages at all, but rather is aimed at reducing the need for businesses to train local workers, while at the same time maintaining the throttle on population growth."²⁶

Casualisation in the Australian workforce was reviewed in an excellent recent article by Ben Eltham, which draws on research from Veronica Sheen, the Victorian Trades Hall, and the Productivity Commission's 2005 report on the growth of labour hire employment in Australia.²⁷ These changes are a systemic response to the oversupply of labour and the ease of access to foreign labour pools, swinging the pendulum far in favour of employers' interests rather than employees.

It is understandable that businesses identify the cost of labour as a major constraint on their profitability. This is less to do with any change in the cost of labour, than with change in the other factors which squeeze their margins, over which they have less control, including globalisation, rapid technological change, escalating commercial rents, and consumer belt-tightening. The latter two are direct imposts of the rate of population growth, which their demand for access to cheap-but-experienced labour is fuelling.

Problems recruiting employees for particular industries in particular locations should be addressed by addressing the barriers to unemployed Australians accessing those jobs. Seasonal work is a good example, where it is commonly said that Australians simply won't do this work, while no effort is made to ensure transport and accommodation, viability of

²² <http://www.theage.com.au/business/workplace-relations/nurse-graduates-locked-out-of-workforce-as-migrants-get-jobs-20150607-ghi9c8>

²³ <http://www.theage.com.au/comment/were-educating-our-youth-into-unemployment-20150608-ghips0.html>

²⁴ PM, ABC Radio National, 17/06/2015.

²⁵ <http://www.theage.com.au/victoria/desperate-tradesmen-blockade-werribee-site-20130206-2dxjz.html#ixzz2K4qmQ1II>

²⁶ Llewellyn-Smith D 2014. Relaxing 457 visa laws will spoil the economic pie. Crikey 23/10/2014 <http://www.crikey.com.au/2014/10/17/relaxing-457-visa-laws-will-spoil-the-economic-pie/>

²⁷ Eltham, B. May 2015. From Suburban Cafes To The Fields Of Queensland, Worker Exploitation Is Rife In Australia. *New Matilda* 05/05/2015. <https://newmatilda.com/2015/05/05/suburban-cafes-fields-queensland-worker-exploitation-rife-australia>

retaining their regular home, ease of resumption of welfare payments when work ends, or ability to continue searching for appropriate stable work, with the assistance of government-funded employment agencies, while taking itinerant work.

Instead of viewing these barriers as a market failure worthy of government intervention, our government has chosen to leave these logistics to labour hire companies, who find exploiting foreign workers much more profitable. The culpable neglect on the part of the immigration department of the practices of these businesses and of the work circumstances of the immigrants they employ is disturbing. The Fair Work Ombudsman has just confirmed reports of flagrant exploitation of Taiwanese workers in Baiada chicken processing plants.²⁸ Their report finds that labour hire companies had skimmed the money and short-changed workers, that much of the work was unrecorded cash-in-hand, that the companies and people responsible were frequently untraceable as they dissolved to be replaced by new entities, and that no legal responsibility fell back on the factory itself.

This case was only investigated due to media exposure, yet such behaviour is clearly rife in the IT and horticulture industries, among others. Is not the persistence of such loopholes evidence of government disinterest in immigration outcomes, other than the outcome of swelling our population? How hard would it be, for the government to insist that all foreign workers (temporary or permanent) are employed on a PAYG basis, with their tax file numbers recorded by Immigration, and quarterly reports automatically generated by Treasury confirming what pay was received by each of them, and from whom? A period of three months without declared employment would constitute a breach of visa. How hard could it be to ensure that all employers have identifiable people with legal responsibility for observing IR laws? How hard to ensure that jobs are advertised and available to local applicants?

Benefits and beneficiaries of immigration

The many claimed benefits of immigration to the receiving community are largely hypothetical, lacking solid data.

It is often claimed that immigrants generate more jobs than they take up.²⁹ This claim is neither upheld in evidence nor in the laws of physics. Immigrants can spend only a part of their income on the wages of others providing them with goods and services, so this spending can only provide a fraction of one salary per immigrant. A short-lived exception to this may be if their immigration increases aggregate debt enough, that the extra borrowing generates more jobs. It is clear that high immigration has increased debt, but most of the extra borrowing has been sunk in inflating land values rather than in consuming the services of other employees.

Birrell and Healy (2014)³⁰ noted: “Net Overseas Migration (NOM) is running at some 240,000 a year. The result is that, as of May 2014, the number of overseas born persons aged 15 plus in Australia, who arrived since the beginning of 2011, was around 709,000. Most of these people are job hungry. According to the Australian Bureau of Statistics (ABS) Labour

²⁸ <http://www.abc.net.au/news/2015-06-17/foreign-workers-exploited-at-baiada-plant-investigation-reveals/6554570>

²⁹ Uren D. 2015. *Fertile grounds for big country*. The Australian, 26/03/2015
<https://plus.google.com/111790188086700309806>

³⁰ Birrell B and Healy E 2014. *Immigration and Unemployment in 2014*. Monash University Centre for Population and Urban Research, Monash University, July 2014.

Force Survey, 380,000 of these recent arrivals were employed as of May 2014. Over the same three years, the net growth in jobs in Australia is estimated by the ABS to have been only 400,000. This means that these recent overseas born arrivals have taken almost all of the net growth in jobs over this period.” It should be noted that the ‘natural increase’ in Australian workforce was strong through this period, with school-leavers outnumbering those turning 65 by around 120,000 per year. The increasing participation rate of older Australians further diminishes the net availability of jobs for young Australians.

The above passage also highlights that the workforce participation of recent immigrants (who are predominantly young adults) is lower than that of Australians of equivalent age. This may be partly due to the relatively low proportion of ‘primary applicants’ among entrants in the skilled migration program, and low workforce participation of their accompanying family members (who are often not skilled and face language barriers). Rowthorn (2014) also found that workforce participation in the UK was lower for African and South Asian immigrants than for UK-born people.³¹

Birrell and Healy (2013) also found that immigrants with university qualifications were more likely than Australian-born people to be unemployed or to be employed below their level of qualification.³²

The evident dominance of immigrants in low-paid work, particularly that which is poorly regulated and paid below Australian awards, means that their contribution to average productivity of labour is negative. For example, if Baiada’s exploitation of chicken processing workers makes chicken cheaper in Australia, it is simultaneously lowering the value added per hour of labour in that industry. There is certainly an argument that they may increase the profit going to owners of businesses. But this is purely by transferring income from labour to capital, a negative trend from the point of view of national interest.

On average, the multiplier effect of employment of an immigrant will be lower than that of a native-born person due to remittances. There is no convincing evidence that there are qualitative advantages of immigrants over native-born workers, to compensate for this net outflow from our economy. In almost all instances, localised skills shortages could be resolved to greater national benefit by improving incentives and accessibility of these jobs for Australians.

The Inquiry’s Issues Paper (p 19-20) appears to hold self-contradictory positions, that there may be circumstances where immigrants do not place downward pressure on wages, and that increasing the abundance of labour relative to the existing stock of capital and land could raise the returns from those factors of production. One of these outcomes can only be advanced by impeding the other. I suggest that the former may only apply to high-level recruits, and that the latter is highly undesirable, diminishing the position of all Australian wage-earners, not merely the low-paid immigrants. The Issues Paper also talks about economies of scale or density. It is generally agreed that such economies are exhausted in cities somewhere between 100,000 and one million. The growth of Australia’s major cities is characterised by considerable diseconomies of scale and density.

³¹ Rowthorn R 2014. *Large-scale immigration: its economic and demographic consequences for the UK*. Civitas: Institute for the Study of Civil Society, August 2014.

³² Birrell B and Healy E 2013. *The Impact of Recent Immigration on the Australian Workforce*. Centre for Population and Urban Research, Monash University, February 2013.

The Issues Paper suggests that “growth in labour supply could encourage increased investment in capital, and this could raise the productivity of labour and mitigate any initial adverse effect on wages.” This belief goes against normal understanding of equilibria, by anticipating an over-correction in response to disturbance. Cheaper labour is only likely to expand investment in the low-productivity opportunities to use this labour, increasing scale rather than productivity. Investments that increase productivity generally do so by shedding labour. This is the trend anticipated by the recent CEDA report.²⁰

Rowthorn (2014) also proffers this idea of compensatory response:

“In this model, immigration augments the supply of labour thereby intensifying competition for existing jobs. As a result wages fall. This leads firms to take on more labour so that both immigrants and natives are able to find work, although at a lower wage than before. However, this situation is only temporary. Lower wages mean higher profits. Firms will react to higher profits by investing in new productive capacity thereby increasing the demand for labour and reversing the initial fall in wages. After a time wages will return to their old level prior to immigration.” Such a scenario would only restore to initial wage levels if there were no other impacts of immigration on the cost structure for businesses. Increases in land value consume a share of profits into rents, and the attractiveness of land speculation draws investment away from new productive capacity. Diseconomies of density and congestion of infrastructure further undermine the competitiveness of businesses trying to operate in the crowded space. They are increasingly likely to place their higher profits into productive capacity elsewhere, leading to a downward spiral in local wages.

Furthermore, any notion that the impact of immigration is temporary depends on the idea that it stops, allowing a phase of readjustment. Where immigration rates are sustained, there is no prospect of correction. Rowthorn (2014) acknowledges *“if there is a continuing inflow of immigrants, the labour market may be in constant disequilibrium, with economic growth and new job creation lagging constantly behind the growth in labour supply due to immigration.”*

The Issues Paper (p 17) suggests that Australia competes with other net-immigration countries to attract immigrants. There are very few, high-level jobs for which this is true. The supply of prospective immigrants vastly outnumbers Australia’s annual quota. We turn away many more applicants or would-be applicants than we receive annually. There is no need for Australia to focus on creating more attractive economic opportunities or lifestyle options for immigrants, since we gain no net benefit by attracting them.

Many studies of the impact of immigration focus on the balance between government revenue through taxes and expenditure through welfare transfers. For the UK, Rowthorn (2014) (op. cit.) finds this balance to be near neutral, with only a fraction of one percent of GDP either positive or negative for European and non-EEA immigrants respectively. Such analyses overlook lower taxes from all workers affected by depressed wages and increases in welfare payments to native-born people forced out of the workforce. They further ignore do not consider the life-cycle liabilities as immigrants are currently under-represented among retirees. More importantly, they ignore the fiscal burden of creating infrastructure, which is greater than one per cent of GDP per one percent population growth rate, as discussed above. Rowthorn (pers. comm.) acknowledged that this is a significant game-changer in the analysis of net benefit.

There is also a tendency to argue that immigration makes it easier to service government debt. This argument contends that the debt, incurred by the smaller previous population, is

spread thinner over the larger resulting population. Rowthorn attributes all debt-servicing to the non-immigrant population in his analysis. Given the high fiscal burden of population growth rate, which is not spending on behalf of people already present but purely on behalf of people being added, this is an irrational attribution of debt. The experience of Australian State governments attests that immigrant-driven population growth increases rather than decreases fiscal debt (Daly 2014 – see footnote 11 above).

These lines of evidence lend weight to the conclusions that:

- Immigrants in aggregate do not increase the overall productivity of labour in Australia, and are more likely to lower it;
- Immigration of young working-age people has not increased workforce participation in Australia;
- Immigrants have reduced wages and job opportunities for Australians;
- Immigration contributes to the shift in wealth from wage-earners to owners of capital;
- Immigration increases the cost of doing business in Australia, reducing our competitiveness in all areas except wages;
- Immigration reduces the proportion of GDP that is retained as net national income;
- Immigration creates demand for imports while our resource-based exports are independent of immigration.

There can be little doubt that immigration benefits most immigrants. However, Australia's responsibility to non-Australians should see prospective immigrants as a subset of the community from which they come. The hardship which we might hope to relieve through migration can only be extended to a tiny fraction of these communities. It does little if anything to ease the pressures generating hardship. Because it is so costly to us, it diminishes our capacity to provide direct assistance to people where they live. We have seen this in the recent cuts to the Australian government aid program, triggered by deficits incurred providing infrastructure for our population growth.

To the extent that Australia poaches professional personnel, particularly doctors and nurses, we directly disadvantage the residents of poor countries. Whatever skill shortage we may claim to have in these professions, we have a far higher ratio of doctors and nurses per head of population than they do.

Each year, around 80 million people are added to the populations of developing countries. Even with our record high recent immigration numbers, we offer respite for only 0.3% of them. We would have much more capacity to help the other 99.7%, if we did not impoverish ourselves through high population growth.

A major source of the poverty from which they flee is overpopulation. It has been argued that, by moving to developed countries, these people adopt the smaller family sizes typical of their new home, and thereby reduce global population growth. There is significant evidence to the contrary: that the relatively privileged, middle class people who typically migrate from developing countries increase their family size by migration. Mexicans in USA have higher fertility rates than prevail in Mexico. South Asians in the UK have higher fertility than urban South Asians at home.

The Australian government's insistence that population growth is good for our economy is a huge disincentive for our poor and rapidly-growing neighbours to take action to contain their own population growth. For East Timor and Papua New Guinea in particular, population

growth is the greatest threat to their development and stability. They would benefit greatly from a shift in Australian policy favouring population stabilisation.

2. Examination of alternative methods for determining intakes.

The methods for determining intake depend greatly on the objectives of the program. On the basis of the above analysis, I suggest that appropriate objectives would be:

1. To steer Australia toward a population peak at the lowest level achievable given other objectives and obligations. This requires maintaining a near-balanced migration program, with immigration at a similar scale to emigration. Once population growth has ended, a higher net immigration may be used in combination with below-replacement fertility, to maintain a constant population, or to moderate its decline.
2. To provide refuge for a generous but limited number of political refugees annually, selected through UNHCR camps or off-shore application.
3. To allow for global recruitment of persons with high-level skills and experience, initially on strictly fixed-term visas and after demonstration that competitive remuneration was offered and that Australian candidates were sought and considered.
4. To provide a pathway to permanent residence for family members of citizens, and of people who have served at least two terms of temporary work visas performing highly valued work.
5. To provide opportunities for extended stays for young people for the purpose of study or working holiday. These visas should be strictly temporary, conferring no advantage in access to permanent visas, and allowing no on-shore application for other visa categories.

The scale of the permanent migration program therefore should be dictated by the scale of permanent emigration. Currently, the statistics for permanent emigration include repatriation of a number of fairly recent immigrants. With a reduced overall scale of the immigration program, the emigration numbers may also fall. Other countries are also reviewing their immigration policies in response to the rapid escalation of migrant flows globally, so overseas opportunities for Australians may be constrained. We might expect in the order of 40,000 to 80,000 emigrants annually, and thus 40,000 to 80,000 permanent immigration places. Of this, around 15,000-20,000 may be allocated for the humanitarian program (refugees and their family reunions), the remainder for citizen family reunions and on-shore conversion of temporary work visa holders to permanent visas.

Temporary work visas should be only for individual positions requiring post-tertiary qualifications (Masters or PhD) or recognised achievement (eg. CEOs, performing artists). The employer should be required to demonstrate that the position was advertised to Australian job-seekers at competitive rates and conditions, and that Australian applicants were considered. The term of the visa should be four years or the term of the work contract if shorter. No change of employment should be permitted without reapplication by the new prospective employer. The visa could be renewed for up to 8 years if work is continuing, and eligibility to apply for permanent residence would be permitted after 5 years, but would depend on available places within the permanent quota.

Student and working holiday places need not be capped. Students would not be permitted to obtain work visas after qualifying, and must return home to apply for re-entry under a work visa. Working holiday visas could be extendable up to three years.

Pregnancy or paternity should result in cancellation of a temporary visa and the visa-holder should leave Australia. Australia wisely does not allow the “anchor-baby” route which is commonly used by illegal or temporary migrants in the USA. However, it is unfair on a child to allow it to be raised in Australia without experience of its nation of citizenship, and this generates humanitarian concerns if Australia later seeks to deport the young person. Parenthood is not compatible with the intended activities of students and working holidaymakers, so this should be made explicit in the conditions of the visa.

Family reunions should only be allowed for Australian citizens. Migrants must obtain citizenship before qualifying to bring family members. Family reunion should not permit recent migrants to return home to take a bride. Such chain-migration strategies are an abuse of the immigration program. It is an act of racism to hold the position that Australians are unsuitable partners, and such a position should not be pandered to.

3. Benefits and costs of temporary migration, and the capacity to use charges to regulate the level and composition of this migration.

Benefits of temporary migration accrue mainly to the migrants, and to their employers. As discussed above, they contribute to the aggregate burden of population growth on Australian wellbeing and government budgets, while taking jobs which could be filled by Australians, albeit sometimes requiring additional investment in training or accommodating the needs of workers.

Nevertheless, it is of general benefit to Australia to be engaged actively in the global community, including facilitating travel and work abroad. A welcoming approach to temporary residence and limited permanent migration supports reciprocal accommodation of Australian citizens in other countries.

The relatively small current proportion who are recruited to individual positions requiring specific high level qualifications and expertise, such as researchers, CEOs and performing artists, a significant national benefit may be realised by accessing the global pool of applicants. This should be the main form of temporary work entrant, in a smaller migration program.

The willingness of international students to pay very high tuition fees, for courses they often do not intend to use, is testament to the value temporary migrants place on their visas. However, this willingness to pay is tied to an expectation of becoming a permanent resident. When the pathways to permanence were temporarily limited by the Rudd government, student enrolments quickly diminished.

The benefits to universities from the ‘education export industry’ are of value only in mitigating the withdrawal of government support to the tertiary education sector. This withdrawal constitutes an extremely perverse and harmful policy position. The cost to government of the increased infrastructure associated with this stream of immigrants alone, far outweighs the saving in allocations to universities. When the ‘export’ value is calculated on the basis of the total student fees, or even the total spending of students including their living costs, these calculations fail to deduct the proportion of spending that is funded from

paid work in Australia, doing jobs that would otherwise be available to Australians, and the flow of remittances by which ex-students repay their overseas backers.

It would be of far greater national benefit, if government support were restored for full tuition costs of Australian students. Previously, under the Columbo Plan, most international students from developing countries were supported either wholly or partly by the Australian government, as a valuable and highly successful element of Australia's aid program. These students generally returned to positions of responsibility and community service in their own country, and contributed to valuable diplomatic, research and business links with Australia. This program should be rejuvenated. Both could be done for less than the cost of accepting ex-students as permanent immigrants.

It is inappropriate for Australia to use charges as a means of rationing visa places. Such a move would add to the already worrying trends away from our egalitarian traditions toward a society in which opportunity must be bought. We should support equitable access to international experience for young people, and selection of international job recruits based on merit alone.

“Turning the ability to pay into a condition for citizenship risks undermining the very concept of political membership. It may in turn erode the civic bonds and practices that allow a democratic society not only to survive, but to thrive.” Schachar and Hirschl 2014, p 248.³³

4. Mechanisms for achieving an optimal interaction between temporary and permanent migration.

It should be acknowledged that permanent migration has been the primary aim of most temporary immigrants. For many prospective migrants, access to temporary immigration is considerably easier than obtaining a permanent visa, although it can be very costly. The expense and the hardship many are willing to endure to increase their chance of immigrating, without any guarantee of success, indicates the high value placed on immigration to Australia.

Under a reduced immigration program optimised to best serve Australia's long-term interests, all immigrants would be initially temporary. The transfer to permanence would be relatively automatic after a set period (eg. four years) for those on humanitarian and family reunion visas, unless their circumstances change within the temporary period (such as through divorce or separation, or through a change of circumstance in a refugee's country of origin rendering it safe to return). A temporary period is required to prevent abuse of these visa categories.

For those entering Australia to take up a job, conversion to permanent residence should be by no means automatic. Eligibility should only commence during a second visa term, where work is demonstrated to be ongoing. This class of working visa should enable family members to stay on the same terms, but fees for education in public schools may apply.

³³ Shachar A and Hirschl R 2014. On citizenship, states and markets *The Journal of Political Philosophy* 22(2): 231-257.

Student, working holiday or seasonal worker visa holders should not be allowed to apply for any other visa category while in Australia. It is necessary that these visas are explicitly short term, and carry no sense of entitlement to permanence. No accompanying family members should be permitted on these visas, although couples may simultaneously stay on individually-awarded visas.

Concluding Remarks

The Migrant Intake Inquiry appears to have been motivated by a hope that the government may capture a greater proportion of the benefit gained through immigration. I have argued that there is no net benefit to be tapped.

There is, however, an enormous opportunity to improve the government's fiscal balance and the economic security of Australians, by reducing immigration numbers substantially.

The main impediment to this action is the political influence of vested interests in the business and property sectors. They are using high immigration to redistribute wealth to themselves away from ordinary Australians. There is no demonstrable improvement in per capita income from this strategy, only expansion of per capita debt. Hence the impact on ordinary Australians is regressive, and the behaviour of these growth-proponents is parasitic on the wider society. Furthermore, it is in no way sustainable, as Australia's fragile resource base cannot support another doubling of population while climate change intensifies.

It is hoped that the Inquiry will be able to expose some of the myths surrounding benefits of immigration.

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