

Migrant Intake into Australia

Productivity Commission Submission

The policy and position of Australian government with respect to population issues is the most influential factor likely to impact on Australia's future sustainability and hence the prosperity of current and future citizens. Because of the bipartisan government position on population/immigration numbers it is all but impossible to engender an effective public debate on these issues. I therefore welcome this opportunity created by the Productivity Commission to have this debate in a manner that is untarnished by vested interests and scaremongering about perceived xenophobia.

The current fertility rate for Australian women is hovering at around replacement levels. This level decreased significantly in the decades leading up to 2000 and has substantially stabilised since then. I believe this choice by Australian families at once represents a level of confidence in future prosperity of the nation as well as a desire to ensure quality parenting that can be better delivered through smaller family sizes. Given a continuance of this statistic our population would stabilise at around 28 million. This is more than 20% higher than the level recommended by the Australian Academy of Science as a sustainable level while maintaining the current standard of living that all Australians expect to pass on to our descendants. The corollary to this statement is that our population growth levels are already such that they are compromising the prosperity of future Australians. Nevertheless, at this level the nation would be able to respond effectively to both positive and negative externalities that may impact on our future prosperity.

The major impediment in the way of us achieving this flexible and optimum outcome is our level of immigration. Immigration has been by far the most significant driver for Australia's rapid population increase over the last two decades.

Population increase as a result of immigration impacts the country in a number of ways:

- Upfront impacts to infrastructure congestion and costs
- Increased impact on the environment
- Dilution of wealth creating resources over an increased distribution
- Increased disparity of wealth
- Erosion of amenity and culture.

Having a local market is now irrelevant

Whilst there is some truth to the idea of innovation being enhanced by diversity the concept that increasing population of itself somehow makes us all more wealthy is simply unsubstantiated spin, put out by vested interests. In the past, Australia has benefited from growth to our critical mass of population. This has facilitated domestic industries to develop where a smaller population could not have sustained these industries. Those days are gone. With global capital, communications and distribution networks industries will develop and flourish where they incur the lowest costs. Through the internet, individual consumers now, and increasingly so in the future, will purchase directly from the lowest cost supplier and the lowest cost distributor in the world. Whether we agree with it or not, governments are actively ensuring that no legal or commercial barriers can be used protect local industries. Having a local market is now irrelevant. As such, any petition that argues that increases to our population will enhance local market strength should be dismissed.

Infrastructure Costs

Wealth and wealth generation and our standard of living in Australia is supported by an array of public infrastructure, much of which is owned and controlled by government. A review of the value of the government portion of public assets across the three levels of government indicates a total current value of approximately \$1.9 – \$2.0 trillion.

It is reasonable to argue that any increase in population resulting from immigration will need to be supported by a commensurate increase in this public infrastructure. This equates to a value in excess of \$83,000 per immigrant.

Note that the previous number represents a depreciated value of assets and not the current replacement value. It can be argued that migration necessitates the building of new infrastructure and so should be costed at the current value but I will ignore this argument for the sake of presenting a conservative position.

There are three major factors that impact on this argument:

- Higher population density will result in more efficiency in the utilisation of some assets.
- The cost of provision of supplementary infrastructure to provide additional capacity in an already built environment is significantly higher than the cost of the original assets ie. a tunnel costs far more than the above ground road it supplements.
- Provision of major infrastructure is almost always incremental. For a continually increasing demand, this results in an infrastructure complement that is always operating at either below or above optimum capacity. The more rapid the population change, the more severe the impact of this derogation in efficiency.

I believe in an Australia at the current time and with our current growth rates the last two of these negative factors will far outweigh the benefits of the first.

Environmental Costs

Australians currently are responsible for one of the highest GHG emissions of any country. On average we emit around 16T of GHG per person per year. The bulk of immigrants arriving here originate from countries with GHG emissions at a fraction of the Australian numbers. From a world perspective this flow of people therefore represents a huge negative impact on the effort to limit climate change.

Putting the world perspective aside and looking purely at the financial impact to Australia the immigration numbers will result in a significant increase in the costs this country will incur in order to meet our international obligations. Although GHG emissions are currently trading for around \$20 per tonne it is expected that this value will rise to over \$60 per tonne in order to meet the 2050 target of a 50% reduction. The price will continue to climb beyond this point.

Running an NPV analysis for a 30 year old on the basis of a GHG price of \$40 per tonne will yield an upfront cost of approximately \$16,000.

Note that this figure represents a small fraction of the total environmental cost of population increase but it is that portion that can be readily quantified and has a high degree of certainty in terms of our national cost obligation.

Dilution of Wealth Resources

A number of studies have been done in other countries to assess the net benefits of migration. Invariably these studies have determined that there was no net benefit to the existing population derived from immigration. The most definitive of the studies was conducted by the UK government that came to this same conclusion.

The most significant aspect where the Australian situation differs from the UK case is in the basis of the two economies. The UK derives most of its wealth through the leverage of labour whereas most of our core wealth is derived from exploitation of both renewable and non-renewable resources. The income that Australia earns from these sources represents around 80% of the amount we use to pay our way in the world.

The sources of this income are finite. The thinner we spread these income sources over our population the less there is for each of us to enjoy.

Assessment of the per capita value of national resources is quite a difficult exercise and subject to a range of assumptions regarding public and private returns from these resources. The diminution of per capita wealth through the dilution of resources cannot be ignored and should be the subject of a public enquiry by the Productivity Commission.

Total Financial Impact

Given the above factors each new immigrant costs the Australian public well in excess of \$100,000 per person in public infrastructure, environmental and dilution of public wealth. If the government's objective is to provide a net wealth benefit to its citizens through immigration, then this is the minimum that we should expect new migrants to return to Australian society.

Often there is an argument that new immigrants will pay back their upfront infrastructure costs through the taxes they pay during the course of their working lives. The trouble with this argument is, that the bulk of taxes simply go towards the costs of recurrent government expenditure. New infrastructure spending represents only around 4% of total government expenditure. Using this proportion and an NPV analysis on the tax payable by a 30 year old immigrant, in order to pay off the upfront infrastructure cost, they would need to pay over \$95,000 (present value) per year in tax over the entire course of their working lives. This level of tax is unlikely to be recovered from even the top 1% of new immigrants.

It therefore makes sense to recover the upfront costs from new migrants upon entry thus allowing market forces to dictate those immigrants that will be in a position to make a positive financial contribution to Australia's net wealth.

Increased Disparity of Wealth

The effect of population increase on labour prices can be analysed using the most well established economic tool, the cost demand curve. The greater the availability of labour in the economy the lower the price will be for that labour. Although we may want to pretend otherwise, the bulk of immigrants to Australia commence on the bottom end of the labour market. Even skilled migration applicants generally bring with them family members who will be taking entry level positions in the jobs market. It is undeniable that this will push down the price of the bottom end of the labour market.

At the same time there are substantial corporate benefits associated with increasing the population. Land development, banking, retail of consumer and whitegoods all derive the bulk of their profit growth from the growth in population. While in itself this is not bad. On a balanced playing field these profits would circulate into the economy therefore growing Australia's overall net wealth. The trouble is, there is not a balanced playing field. There is a disproportionate ownership of most Australian corporations by foreign owners. The extra profits generated are not recycled back into the Australian economy but instead are siphoned off to overseas investors. There are some Australian owners of corporations that have derived substantial wealth from population growth, but as a general rule, the greater the rate we stimulate the economy through population growth, the greater the rate that profits generated are siphoned off overseas.

The use of 457 visas only exacerbates the above effect. I know for a fact that the 457 visa scheme is being rorted in the computer programming industry. Indian programmers are being brought in on 457 visas at a salary of around \$25,000 per year. They have been used to replace Australian programmers who previously held these positions and earned around \$60,000 per year.

The major companies involved in this rort are following the government procedural process to the letter. They are advertising the positions in the Australian market making the low salary offered for the position very clear. Naturally they receive no applications at these low rates. They then use this information to justify that they cannot acquire employees in the local market and hence the need to import labour through the 457 scheme. Virtually all of the salaries earned by these 457 workers is being repatriated back to India. Meanwhile, there are hundreds of experienced Australian programmers either working as unskilled labour or collecting unemployment benefits.

So an industry that was entirely self-contained, training and employing local people to generate wealth has been replaced by one that has a net effect of draining wealth out of the economy.

If this is the known case in this one field then it is very reasonable to expect that this same practice is being utilised across all industries. How is this scheme beneficial to the Australian economy?

Both the importation of low skilled labour and the 457 visa scheme is eroding the earning capacity of the less well off in Australia. At the same time these arrangements are benefiting corporate owners. This practice has already diminished the egalitarian nature of Australian society and will cause further deterioration if allowed to continue.

Erosion of Amenity and Culture

It is very difficult to put measures on amenity, and even more difficult to quantify loss of culture.

The argument for the correlation of higher population and the erosion of amenity is obvious. Congestion on roads and public transport, the need to live further from places of work, lack of provision of government services once taken for granted, the overcrowding of beaches, parks and recreation areas are all the direct result of population growth. The counter argument is that much of this loss of amenity is due to low infrastructure spending. Higher relative spending will certainly fix some of the problems, but not all. And, as indicated above in the economic analysis, this higher spending is simply not financially feasible without governments going into higher debt or a higher tax regime.

While I am sure the advantages of a diverse culture will be put forward by proponents of high

immigration numbers, it is worth considering one negative aspect that is rarely discussed.

In the first half of the 20th century, Australia had by most standards a very homogeneous culture. Because of this homogeneity the various governments of the day were able to make bold plans for the future that were generally supported by a voting public that spoke with a single consistent voice. Over the last twenty years this capacity to make strong long term plans has completely disappeared from all tiers of Australian government. Politics is completely consumed by the need to satisfy small special interest groups rather than the focus on the general common wealth. Diversity of culture is not solely driven by immigration but immigration is the major contributing factor to it. Thus the capacity of governments to make consistent long term plans for the future has been significantly hampered by our growth in cultural diversity. The detrimental economic effects of this while indeterminate should not be ignored.

It is difficult to justify in a submission to the Productivity Commission the true value to the community of the freedoms we used to enjoy in this country. Freedoms that have been curtailed either directly due to the density of population or have come about as a result of necessary government rules and regulations to control society that has become both larger and more complex. It is these past freedoms that formed the core of what used to be Australian culture. Unfortunately, most such justification will be viewed simply as nostalgia.

I retaining an abiding wish to ensure that my grandchildren (as yet unborn) will enjoy the feeling of being Australian and proudly different from the rest of the world. These differences however, are being profoundly diluted as a direct result of the combined effects of immigration levels and the adoption of multi-culturalism. Through these policies we are consigning future children of our nation to be simply amorphous world citizens rather than uniquely Australian. That fact is deeply concerning.

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