

Submission to the Productivity Commission Inquiry:  
**Migrant Intake into Australia**  
In response to the Draft Report  
Jane O'Sullivan, December 2016

Relationship between growth in GDP per capita and population growth rate

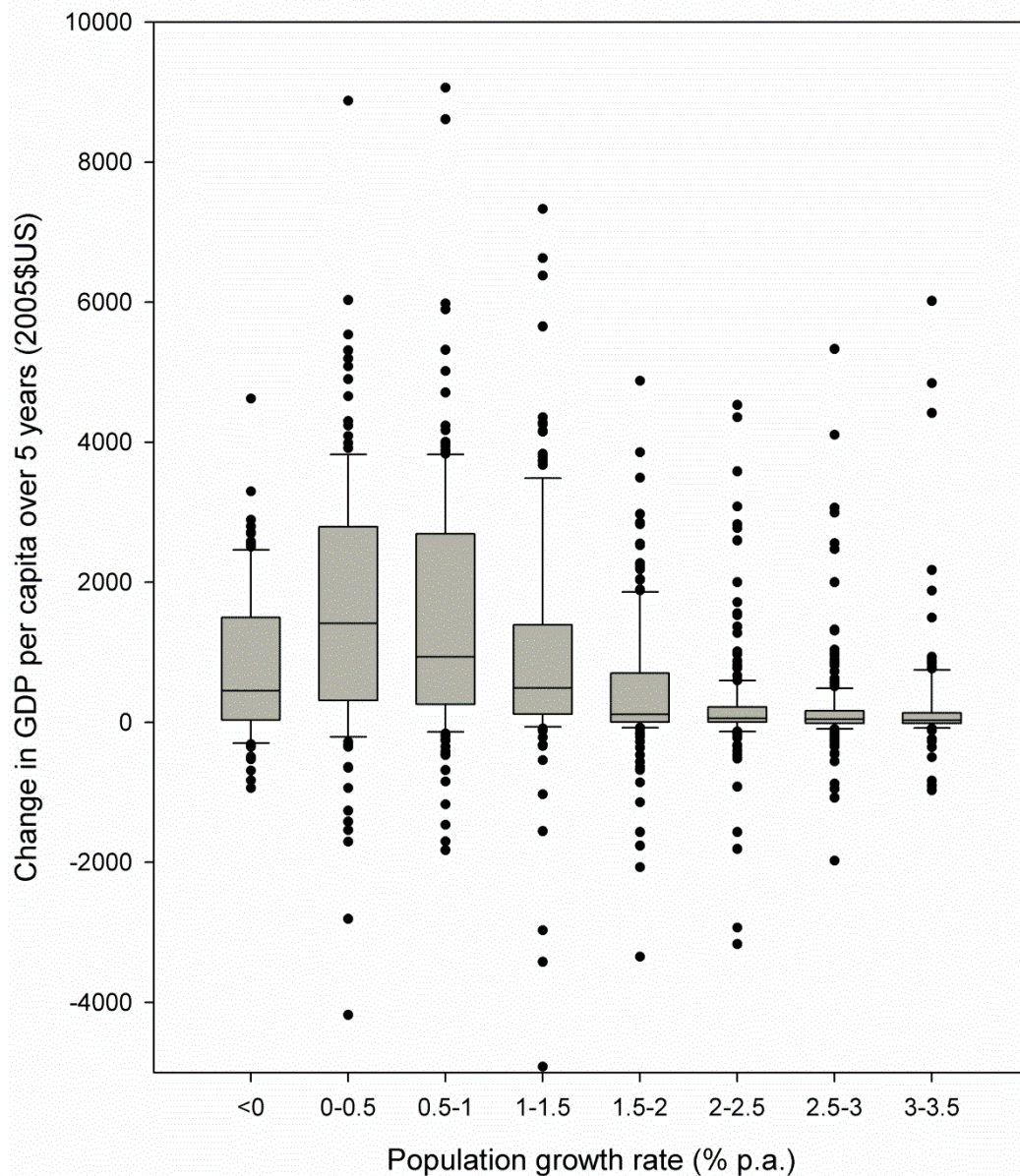


Figure 1. The relationship between population growth rate of nations and their change in GDP per capita over a five-year period. Each country is represented by multiple data points, one for each five-year period between 1960 and 2010. Boxes span the 25<sup>th</sup>, median and 75<sup>th</sup> percentile; whiskers extend to 10<sup>th</sup> and 90<sup>th</sup> percentile. Population growth data are from the United Nations World Population Prospects (2015 Revision); GDP per capita data are from the World Bank databank.

I commend the Commissioners on a detailed report, and some laudable recommendations.

I particularly endorse the recommendations:

- “*acquiring a better understanding of the labour market impacts of temporary migration programs, and improving the targeting of 457 visas to areas of genuine skill shortages*” [If done properly, this would demonstrate that most temporary workers are doing jobs for which there are willing and able Australian applicants, except where that work is exploitatively abusing immigrant status.];
- “*investing in cost-effective measures to mitigate the risks of exploitation faced by migrant workers and to better enforce regulation*” [hopefully preventing labour hire companies and migration agents from laundering the wages due to workers];
- “*abolishing the investor visa streams*” [These have achieved nothing but inflation of property values.];
- “*establishing a more systematic and transparent framework for visa charging*” [This needs to include finality, requiring failed applicants to return home rather than pursue endless visa-category switching]; and
- “*investing in data collection, integration and dissemination to support evidence-based policy*”.

These measures would go a long way toward freeing Australia’s migration program of the wilful blindness and ideological commitment to population growth that is harmful to our economy and quality of life.

It is a pity that most of the Draft Report is steeped in the same misconceptions which currently dominate immigration policy.

## **Evidence takes the back seat to prejudicial argument**

Statements such as the following demonstrate prejudicial rather than evidential thinking:

*“With more than one in four Australian residents born overseas, and close to half of the population with at least one parent born elsewhere, immigrants and their descendants make an important contribution to Australia’s human and social capital endowment.”*

Like all measures of wealth, human and social capital endowment should be conceptualised on a per capita basis. A qualitative improvement must be demonstrated. Simply adding to the number of Australians does not qualify – there is still exactly *one person per capita* in Australia.

When so many impacts of immigration, acknowledged at different times in the report, work collectively to diminish social capital, it is disappointing to see such assertions stated without circumspection.

For example, recent elevated immigration levels have been demonstrably associated with

- Housing inflation, greatly diminishing the buying power of the average Australian wage, and diminishing the choice most young people have about the type and location of accommodation they can call home.
- Putting downward pressure on wages, and shifting work conditions to increasingly insecure and casualised work, lacking all the peace of mind which Australian workers were used to enjoying, allowing them to build their home and family life around a stable job in a fixed location, to have time outside work hours to themselves rather

- than being pressured into unpaid overtime or on-call casual work, and to take well-earned vacations on pay rather than associating non-work days with financial stress.
- Cuts to government funding of social programs, from health and education budgets to women's shelters and legal aid, necessitated principally because of the increased need for infrastructure spending, to cater for our accelerated population growth rate. As detailed in my initial submission to this inquiry, the infrastructure needs just to keep pace with 1.5-2% p.a. population growth run to several tens of billions of dollars per year. The equivalent of an extra Canberra every year comes with high opportunity costs.

Each of these trends has escalated alarmingly in Australia in the past decade, since immigration numbers were expanded. The countries which have enjoyed little population growth in recent decades have not seen the same escalation of pressures, although the globalisation of labour (off-shoring of jobs) has had impact in all developed countries.

It is therefore disappointing to see the draft report presenting as fact, speculative hypotheses on how immigration may increase productivity or GDP per capita. It is easy enough to demonstrate such outcomes of an economic model, if the right assumptions are put in. Yet there is no actual real-world evidence that any such benefit has accrued in Australia or elsewhere.

The "Demographic Dividend" claimed to accrue from adding young workers to the population is also undemonstrated. The economic models which claim to demonstrate it assume that current age-specific workforce participation persists into the future, leaving jobs unfilled by a shrinking workforce. Every country that has actually aged has found that workforce participation automatically increases to take up the slack. (This is because labour is *oversupplied*, even in countries with increasing dependency ratios.) So these models are completely invalid and should not be cited in a report dedicated to evidence-based policy.

In 'Draft Finding 6.2' the report finds:

*"High rates of immigration put short-term upward pressure on land and housing prices in Australia's largest cities. Such upward pressures are at least partly the result of government failure to implement urban planning and zoning reforms."*

This is like saying nobody dies of leukaemia, only of failure to implement successful bone marrow transplant!

What is 'short term' about the impact, when the population growth is projected to be sustained throughout this century? Even where it to end, the upward pressure has a ratchet effect, with downward movement of housing prices resisted. The impact of the past decade's housing inflation will have a very long shadow. It has increased household mortgage debt from around 30% of GDP to around 100%, representing an average increase in indebtedness to the tune of 6% of GDP per year – far higher than the per capita growth in GDP. Thus Australia's recent claims of economic growth have been on borrowed money. An extra 3% of Australia's GDP is off-shored to service debt, compared with a decade ago.

The longer this 'upward pressure' is permitted to persist, the greater the pain for Australian households under the yoke of debt. It is insulting to claim that a projected rise in GDP will enrich them, without taking these changes into consideration.

The report:

*“suggests that there is no discernible effect of immigration on wages, employment and participation of incumbent workers. While there is some preliminary evidence to suggest that immigration may be a contributing factor to adverse outcomes in the youth labour market, this evidence is not conclusive and requires further examination.”*

Here we have a lack of proof being presented as an absence of effect. The Precautionary Principle should reverse the burden of proof: can it be shown that elevated immigration has *not* reduced wages, employment or participation of incumbent workers? The report does not contain such proof. It even states, on p 12, in direct contradiction of the above statement, *“Moderation of wage pressures is projected to be highest in the areas where the immigrant workforce is most represented.”*

In asserting that there is no ‘discernible’ effect of immigration on wages, several widely reported trends appear to be overlooked, for example:

- that wages for the lower quintiles have not kept pace with inflation in recent years;
- that university graduates are experiencing far greater difficulty finding employment appropriate to their qualification;
- that graduates are resorting to unpaid internships to improve their chance of employment;
- that the duration of youth unemployment has increased sharply;
- that housing unaffordability is preventing people from accessing work in certain areas;
- that the increase in total number of jobs has been barely more than the increase in number of immigrants employed, leaving the natural increase in ‘incumbent’ workforce with about one job per five additional working age people (see Birrell and Healy 2014: Immigration and Unemployment in 2014).

Further examples of ‘hypothesis as assertion’ are exhibited in this quote:

*“A common concern is that by adding to the supply of labour, immigration can reduce the wages of incumbent workers (or displace them). This concept of displacement is frequently a manifestation of the lump of labour fallacy — that there is a fixed number of jobs in an economy. However, immigrants may complement rather than displace incumbent workers. They also increase demand for local goods and services, which could enable local firms to benefit from economies of scale...”*

- This is a straw man argument. It is not “the lump of labour fallacy” to say that the ratio of labour to capital is increased, that natural resources are less available for productive conversion, nor that the effect of high population growth on household mortgage debt, in addition to remittances, reduces the per capita domestic consumption, supporting fewer and/or less remunerated jobs.
- Where is the evidence that an average immigrant causes more than one extra job to be created in the economy? This is a vital question to be answered, if the case for beneficial immigration is to be upheld. Yet no attempt is made to investigate it. All the theory and evidence stands against it.
- Where is the evidence that immigration enhances profitability of local firms through economies of scale? Australia’s population is more aggregated than almost any country, with a higher proportion of our population living in very large cities by international standards. Economies of scale are swamped at far smaller populations. Instead, we get the diseconomies of intense competition (where much effort is diverted to promotion), and inflated input costs due to real estate inflation.

The following statement is another example of prejudicial rather than evidential thinking:

*“The shift to a focus on skilled immigration, while maintaining opportunities for immigration by people who have close family connections, or humanitarian needs, has delivered relatively good economic and social outcomes overall, both for the immigrants themselves and for the broader community.”*

‘Good’ relative to what? The earlier programs of relatively unskilled migration, at a time when resources were abundant to generate new industries and jobs and to fund good, free, education systems levelling opportunities for the next generation, led to very good outcomes for immigrants, who quickly gained similar standards as Australian-born people. Since the mass-immigration of ‘skilled’ migrants in the mid-2000s, the outcomes for migrants relative to Australian-born have not improved, despite the same program reducing outcomes for Australian-born people. How is this a success?

The report asserts: *“a larger population offers opportunities for more efficient use of, and investment in, infrastructure.”*

Again, no evidence is given, and this statement conflicts with evidence put to the inquiry. There is no logical support for the idea that a larger population, with a consequently smaller endowment of natural resources per capita, should generate greater surpluses for investment in infrastructure.

My earlier submission to the inquiry details how *population growth rate* imposes additional costs, which are disproportionately large compared with any reasonable expectation of increased revenue (which, in any case, does not lift revenue per capita). For each 1% of population growth rate, around 6.5% of GDP is required to be spent to expand the provision of infrastructure, equipment and trained personnel. Government expenditure accounts for around a quarter of this, which means that it represents a similar percentage of government revenue (which is about a quarter of GDP). Thus tens of billions of dollars are diverted each year, with no benefit whatsoever to the incumbent population whose taxes have provided the funds, merely to create capacity for the year’s additional population.

## **Absent costs lead to false findings of economic benefit**

Yet the report announces in a major heading that:

*“The overall fiscal impact of immigrants is small and positive”*

...without any acknowledgement of the evidence presented to it on the very high fiscal impact of population growth rate.

In Draft Finding 6.3, the report acknowledges that:

*“population growth puts pressure on many environment-related resources and services, such as clean water, air, and waste disposal. Managing these pressures requires additional investment, which increases the unit cost of relevant services, such as water supply and sanitation.”*

But nowhere does it attempt to measure costs against benefits of population growth. Nor does it acknowledge that this “increase in unit cost of relevant services” manifests both as an increase in GDP and an increase in cost of living for all members of the incumbent

population. Hence the report's modelling of GDP per capita impacts is prone to count costs as benefits, giving a deceptive impression of the impact on Australians.

The fact that the costs of population growth so vastly exceed the economic benefits is born out globally, in the inability of any high-population-growth country to make rapid and sustained economic progress. Only resource-rich states, such as the middle-east oil states, have experienced high per capita GDP growth while enduring high population growth. Those which are now in the depletion phase of their resource, like Egypt, Syria and Yemen, are finding themselves in demographic overshoot with dire consequences for civil and political stability.

Figure 1 (above) illustrates this point. The probability of strong economic growth diminishes sharply as population growth exceeds 1% p.a. There is some reverse causation in this relationship, but it only strengthens the argument: countries experiencing strong economic growth (generally through a resource boom) tend to attract immigrants, if they allow it, and hence are becoming richer in spite of this impost, not because of it. Likewise, many of the data points with negative population change are in countries experiencing calamity and hence strong emigration. There is no evidence that merely a shortage of births compared with deaths, nor the accompanying ageing, has had any negative effect on GDP per capita.

This is illustrated in Figure 2, which relates change in GDP per capita over a 20 year period to the total fertility rate (births per woman, closely related to rate of natural increase), for all nations over the half-century from 1960 to 2010. The lowest fertility group includes countries which have experienced population decline due to natural decrease, yet it has the highest median per capita enrichment, and the least probability of low economic growth.

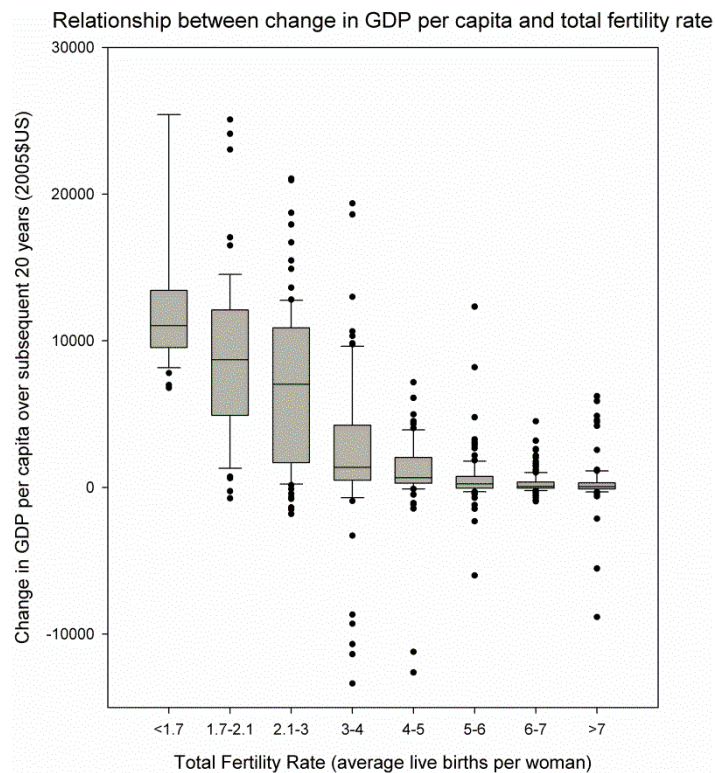


Figure 2. The relationship between total fertility rate of nations and their change in GDP per capita over the subsequent 20-year period. Each country is represented by multiple data

points, one for each 20-year interval with available data between 1960 and 2010. Boxes span the 25<sup>th</sup>, median and 75<sup>th</sup> percentile; whiskers extend to 10<sup>th</sup> and 90<sup>th</sup> percentile. TFR data are from the United Nations World Population Prospects (2012 Revision); GDP per capita data are from the World Bank databank.

## Conclusion

The Draft Report asserts:

*“There is no comprehensive empirical basis for setting an aggregate level of immigration over time that would improve the wellbeing of the Australian community.”*

I argue that there is indeed a strong empirical case, encapsulated in Figure 1 above. It finds that population growth above 1% p.a. is a significant drag on economic performance, while population stabilisation is not. Between 0 and 1%, it is probably the case that population growth is bearable, rather than beneficial, but ultimately reduces the resilience of the nation as natural resources are crowded and import dependence increases.

These facts override most of the ‘findings’ in the Draft Report.

I look forward to seeing a more balanced and rationally argued final report.

Jane O’Sullivan  
December 2015