

# Submission to the Productivity Commission

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## Objectives

- To demonstrate that there are additional economic impacts of immigration.
- To demonstrate that there are economic impacts that affect classes of Australians as a result of redistribution of income to the owners of capital.
- To demonstrate that some of the increase in GNP resulting from higher population does not add to material wellbeing.
- To demonstrate that higher population levels can have a negative impact on the quality of life, at least in large cities.
- To question whether Australia should accept a relative fall in GNP per capita over the short to medium term, trusting that by continuing with the same policies there would eventually be a compensating increase in GNP per capita.

## Material wellbeing

### *Foreign trade*

#### *Position Paper*

Position Paper, P115:

The expansion of the economy induced by migration increases the volume of imports. Increasing imports, together with increasing payments to foreign investors, exert negative pressure on the current account. To stabilise the current account, Australia would need to increase the volume of its exports. The increase in the volume of exports could lead to a fall in the terms of trade.

## Imports

### *Submission*

It is reasonable to assume that, at a constant exchange rate, imports for consumption would rise in direct proportion to any increase in population. The exchange rate is affected by the balance on the current account, at least in the longer term.

If exporters do not increase the value of exports in the same proportion and in response to the increase in imports, then with a floating currency there would be a sustained fall in the exchange rate.

## Consequent changes to import volumes

### *Submission*

As the population of our major cities increases, there will be consequent minor increases per capita in import volumes for some products. These will have some impact on our current account, but will not increase the average material standard of living compared to a lower population scenario.

For example, increased traffic congestion results in higher fuel consumption, due to greater distances travelled and poorer fuel consumption in heavy traffic. Oil imports could be expected to increase at a greater rate as a result of the population increase.

## Exports

### *Position Paper*

The Position Paper seems to make the naïve assumption that exporters would respond to increasing imports by, in turn, increasing the volume of exports – resulting in lower prices per unit.

### *Submission*

This is not our experience to date: Australia's imports and interest payments already exceed exports by a considerable and growing margin, yet exporters have not altruistically increased export volumes to the extent necessary to stabilise the current account.

Exporters will increase exports to the extent that goods or services can be produced and markets are favourable. They either will not increase exports in response to increased imports, or any increased volumes will be in response to a falling exchange rate. Therefore the effect of increased imports will have a **dual negative economic impact**: a fall in the exchange rate and a possible fall in (\$US denominated) export prices for some products where Australian exports can influence market prices.

Many of Australia's exports are limited by availability and overseas demand.

We can not export minerals unless we have mineral deposits and the infrastructure to exploit them. These factors depend on actual existence of the minerals, expenditure on exploration to find and delineate them and the construction of mines and transport facilities, none of which will occur any faster because our imports have risen. These industries will increase exports to the greatest extent possible, as long as it is profitable to do so. But they can not be expected to increase export volumes in response to increased imports, although in the longer

term there may be some expansion in response to a sustained fall in the exchange rate.

Many agricultural exports are probably already at maximum levels consistent with sustainable production, for example because no more land can be brought into production or no more water is available for irrigation. If changes to technology allow increased production, then production will be increased independent of the level of Australia's imports. These export industries can not be expected to increase export volumes merely in response to increased imports.

It may be possible to increase the volumes of some agricultural exports, by modifying land use, producing lower volumes of other produce - for example, wool and wheat are often alternative crops. This would occur as a result of rising export prices, in some cases as a result of a falling exchange rate, but surely not in direct response to higher imports.

Manufacturing and service exports are driven by self-interest, not national interest. However, they may increase in response to a falling exchange rate. There could also be some opportunities to develop new markets due to new skills and the international contacts immigrants bring with them.

My conclusion from the above is that exports will be largely independent of population growth, except to the extent that population growth drives down the exchange rate. A sustained fall in the exchange rate, a necessary eventual result of higher imports, is a pricing mechanism to share our inelastic export income over a larger number of people.

By disregarding the impact of higher imports on the exchange rate, **the Commission has possibly underestimated** the impact of high levels of immigration on our exchange rate and therefore on average material living standards. A fall in the exchange rate may have a greater effect on average material standards of living than a minor change in the terms of trade.

## ***Economies of scale***

### ***Position Paper***

Position Paper page 38 states:

If economies of scale are present, then the increase in population size could contribute to an increase in productivity and income per capita... An important issue is the extent to which the increase in population translates into an increase in demand for the goods or services of those sectors that exhibit economies of scale.

Appropriately, the Position Paper goes on to say, at page 99:

Assessing the effects of migration on productivity and economic growth arising from economies of scale is problematic. First, economies of scale are difficult to measure. Second, economies of scale are difficult to attribute to migration.

### ***Submission***

Business submissions appear to have played down the lessened importance of economies of scale in modern manufacturing. In comparison to manufacturing policy in the 1950s to 1970s, modern technologies such as Just in Time (JIT) encourage smaller batch sizes. In some industries, smaller plants now have similar cost

structures to much larger ones. And economies of scale were never that important for many service industries.

There are also diseconomies of scale, some of which could equally be attributed to population growth:

While economies of scale exist within a relevant range for passenger air transport, once an airport becomes congested and flight delays become more frequent or restrictions are placed on the times at which certain airlines or regional centres can be serviced, there are diseconomies of scale. With increasing congestion, a second airport becomes necessary. The construction and operation of a second airport would add considerably to our nominal GNP but not add anything to our material standard of living, compared to a single airport servicing a smaller population. In fact, transport costs and travelling time to a generally more remote airport would have further negative impacts.

Similarly, a firm servicing an entire metropolitan area must now service a geographically larger area and distribution costs can grow out of proportion to the area covered, even in the absence of congestion.

Nevertheless, population growth would no doubt achieve beneficial economies of scale in regions such as the Northern Territory.

### ***Position Paper***

Position Paper page 98 –

A larger domestic market might therefore contribute to lower transport costs. For example: An economy which can support only one production unit of a particular good must pay for it to be transported to the rest of the country. However if two production units operating at minimum efficient scale can be supported and they are located in different regions, such as Melbourne and Sydney, then transport costs may be decreased substantially. (Meikle 1985, p. 4).

### ***Submission***

In spite of increasing population, our experience is quite the reverse. Two examples:

The beer industry gradually closed production plants in regional centres, and now one of the two major suppliers to the Sydney market has closed its Sydney brewery and supplies the Sydney market from Melbourne.

Similarly, the major biscuit manufacturer, Arnotts, has closed its Sydney plant and now supplies the Sydney market from Melbourne.

A reversal of this trend would depend on other factors than population changes.

### ***Competition***

#### ***Position Paper***

Position Paper page 39 -

Finally, a larger population (and domestic market) might improve productivity by enhancing competition in domestic markets, by supporting a larger number of firms which compete against each other (BCA 2004; Corden 2003). This could reduce the misallocation of resources arising from monopolistic pricing behaviour.

### ***Submission***

But has this been our experience over the last half century of population growth? The Commission should consider in its research, the preference of medium and large businesses for mergers and takeovers, to the extent permitted by regulatory authorities.

Unless it is the view of the Commission that the regulatory authorities will become less willing to approve mergers and takeovers as the population increases, then the assumption should be that the number of competitors in each market will not increase because of increased market size.

### ***Illusory GNP***

#### ***Submission***

Modelling projects a possible additional GNP per capita of \$335 in 2024-25. But GNP includes:

- Goods and services that provide consumer satisfaction. An increase in production of these goods and services adds to our material wellbeing.
- Goods and services we buy because of externalities. A frequently given example is that if a house burns down, the rebuilding of that house adds to GNP but does not add to the owner's material wellbeing.
- Price increases.

If, as a result of increased population, water rates in major cities were to rise by, say, \$100 per year to discourage per capita use, GNP per household would rise by the same amount. But would the average household be \$100 better off? No, it would be exactly \$100 worse off, even though GNP increased. Of course, if this increased revenue were spent on increased Government services, there may be some compensating benefits that would flow through. But since this revenue would increasingly be spent on water production (recycling, desalination and other options) to sustain our growing population, our material standard of living would be reduced by \$100.

There is evidence that housing costs reflect population size for major Australian capital cities. The cost of new housing on the outer fringes may rise more in line with inflation, but housing at a desirable distance from city centres commands a premium price.

In consequence of metropolitan expansion, higher fares, infrastructure construction, tolls and greater fuel expenses add to the nominal GNP, without any increase in material wellbeing compared to the lower population model. On the other hand, time spent in travel is not measured in calculated productivity – we do not measure daily output per (hours worked plus hours travelled).

### ***Redistribution***

#### ***Position Paper***

Position Paper Page 37 –

The decrease in the real wage does not necessarily mean that the income per capita of existing residents decreases (Borjas 1995). The higher return on capital

can contribute to higher income per resident (to the extent that the capital is owned by existing residents).

Position Paper Page 168 –

And, according to the BCA, a reduction in tax rates is necessary to make Australia a more competitive destination for attracting and retaining immigrants.

### ***Submission***

It is interesting that lobby groups for the owners of capital, such as the BCA, support levels of immigration that the Commission has found would result in lower incomes for wage and salary earners, but increased incomes for owners of capital. Just as it is interesting that the same lobby groups find it necessary to reduce income taxes for high income earners, in order to attract skilled immigrants.

The commission should consider and report on whether it is equitable to pursue a policy that it finds would redistribute income away from the majority of Australian residents.

## **Quality of life**

### ***Submission***

A higher population has had a number of impacts on the living standards of average residents of Australia's major cities, in ways that may not be measured by GNP. These include:

### ***Poorer housing and longer travel times***

In the absence of Australia's post-war immigration boom, the Position Paper estimates that the national population would now be around 13 million. Sydney's population would perhaps be around 3 million people, with much closer boundaries, shorter travel distances and a higher proportion of the population living close to transport arteries.

Housing prices in new areas on the extreme fringe of the metropolitan area have grown moderately ahead of inflation, but as they become desirable compared to even more distant suburbs, the same housing escalates in price. This has no real economic benefit for residents who find their houses becoming apparently more valuable, but has made capital city housing unaffordable for many people.

Increasingly, residents in Sydney and other capitals are forced out of the market, or settle for:

- Poorer quality housing in established areas;
- Larger and subjectively more suitable housing in distant suburbs;
- Home units or town houses.

Another consequence of population growth and expanding metropolitan boundaries is the longer travel times and higher fares or running costs many people face, to and from their places of employment and entertainment.

## ***Water resources***

Water shortages are becoming a fact of life in Australian cities. This can be attributed to lower average rainfall in eastern Australia and to higher demand, resulting from higher populations.

The NSW Government has recently announced the availability of underground aquifers that can supply water equivalent to 5 per cent of Sydney's annual consumption. As a result, the proposed desalination plant, planned to supply around 7 per cent of Sydney's annual consumption has been deferred indefinitely.

But Sydney's water demand can grow by 5 per cent in less than 5 years, depending on immigration levels and population growth. Within such a short period, the city could return to near-emergency water restrictions, with demand growing faster than any feasible solution can be built, be it desalination, recycling or other.

Water shortages are not just an economic issue. Of course, wasting water is undesirable, whether or not it is in plentiful supply. But, when water was plentiful for a smaller population, using a hose when washing a car was not seen as improper. Now, Sydney residents must forego this activity, as not only temporarily illegal, but immoral as well. It is not a moral issue – it is a population issue, and Sydney's residents are the losers.

## ***Well-being index***

The latest Australian Unity Wellbeing Index, written by Professor Robert Cummins of Deakin University, shows that Sydney residents feel less connected and less safe, because of higher levels of population density. The population density in Sydney is 1900 per square kilometre, in Melbourne 1500 per square kilometre and in Brisbane 1200 per square kilometre.

## **Risks inherent in the modelling**

### ***Submission***

Figure 9 suggests that we would have to accept a relative fall in GNP per capita until around 2015-16, in the hope that the modelling is correct for later years. If there is not a subsequent relative rise in GNP per capita, Australians will have suffered that loss for no benefit. The Position Paper should provide an estimate of the level of inherent error in the estimate for the period beyond 2016.

By focussing entirely on a scenario of substantially increased immigration, the Commission can be seen as implying that there are no economic impacts of the existing level of immigration. My submissions show that high urban populations, resulting from high levels of immigration, have already had adverse economic and lifestyle impacts and that sustained high immigration will continue to do so.