
General discussion

The discussion opened with some comments about Professor McDonald's argument that immigration is needed to meet increased demand for labour in the resources sector, and to prevent wage increases in that sector from increasing interest rates for the economy as a whole.

It was argued that Professor McDonald had neglected to draw a distinction between achieving growth in real GDP and increasing the living standards of existing Australian residents (i.e. excluding new immigrants). An increase in labour demand could be met either through additional workers or higher real wages — and from the viewpoint of existing residents, 'higher real wages is something we want'.

There was some further scepticism of the idea that interest rates would necessarily rise in response to demand-led increases in wages, and it was argued that the Reserve Bank, in setting monetary policy, would take into account the reasons for any observed wage increases. For example, one participant argued that the Reserve Bank would be expected to respond differently to wage inflation caused by an increase in the marginal product of labour as opposed to that arising from distortions in the economy or from policy settings that led to heightened inflationary expectations. Another participant observed that Professor McDonald's analysis focused on changes in the real economy while monetary policy is aimed at maintaining stable nominal prices.

Asked to comment on the relationship between temporary and permanent migration in Australia, Professor McDonald expressed the view that there is a strong link between the two as a result of a government policy, which facilitates moves by overseas students and skilled temporary migrants to permanent residency. He supported this policy approach — it was 'perfectly logical' that workers on temporary visas, being employed in a manner mutually satisfactory to both migrant and employer, would subsequently be granted permanent residency.

Responding to the earlier comments, Professor McDonald reiterated his view that growth in resources industries would draw skilled labour away from the non-resources sector, as the former would tend to offer higher wages; that this would result in a strong increase in the demand for skilled workers; which would lead to more migrants arriving on temporary (subclass 457) visas.