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THE BLIND MARCH TOWARDS A 'BIG AUSTRALIA'

***Submission to the Department of Home Affairs' Managing
Australia's Migrant Intake Review***

About the author:

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Summary

At MacroBusiness we support immigration, but at sustainable levels.

Australia's immigration levels are too high - higher than our cities can absorb. The infrastructure costs of high immigration are excessive and Australia's infrastructure supply is not keeping up with demand, despite our best efforts.

The economic arguments frequently used to justify high immigration fail the evidence test. Empirical data does not support mass immigration. Excessive immigration also damages Australia's employment market and the environment.

It is time for an honest debate.

Currently, Australia's immigration program is overloading the major cities with tens of thousands of extra people each year to stoke overall economic growth (but not growth per person) and to support business (e.g. the property industry and retailers), despite growth per person stagnating.

Meanwhile, individual living standards are being eroded through rising congestion costs, declining housing affordability, paying more for infrastructure (e.g. toll roads and water), environmental degradation, and overall reduced amenity.

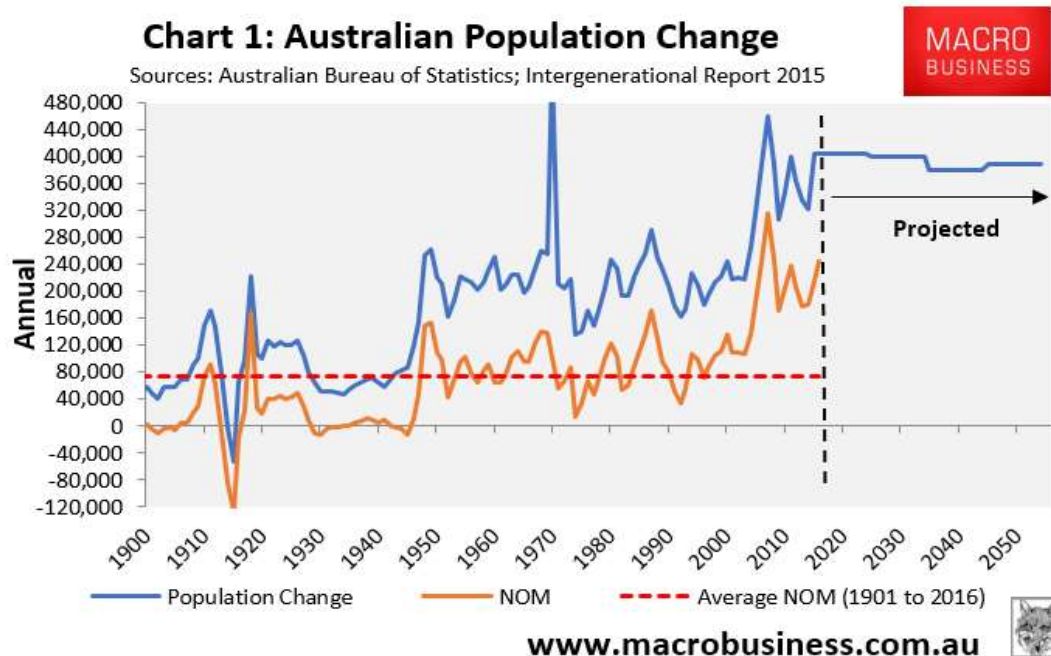
The economic evidence for the above is contained in this submission.

The Australian Government needs to stop ignoring these issues. Australia's living standards are at stake.

MacroBusiness urges the Australian Government to reduce Australia's immigration intake back towards the historical average of 70,000 people per annum.

1. Australia's immigration program is unprecedented:

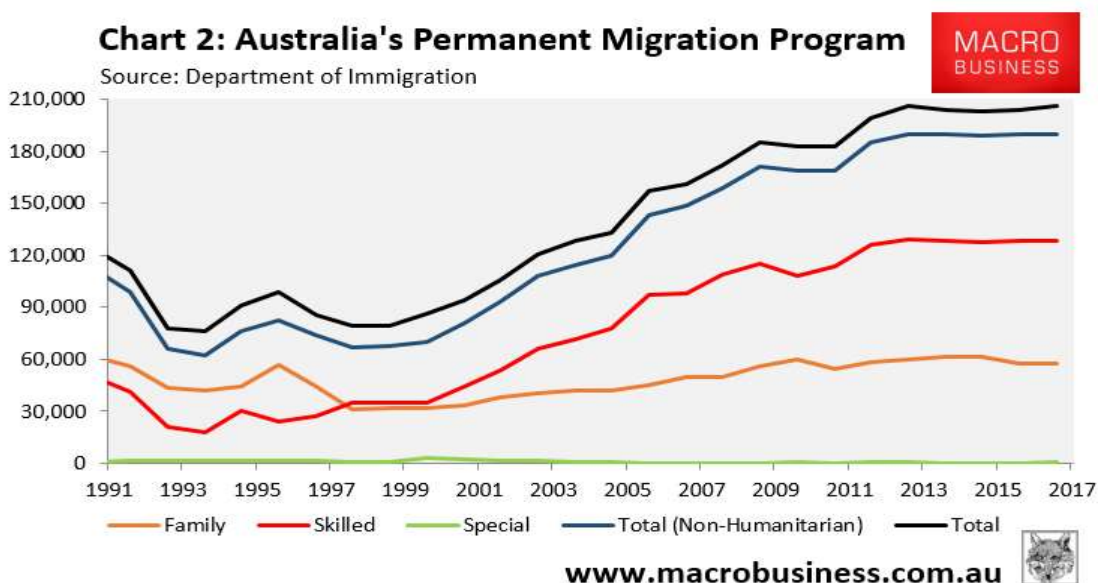
One of the most profound changes affecting the Australian economy and society this century has been the massive lift in Australia's net immigration, which surged from the early-2000s and is running at roughly triple the pace of historical norms (Chart 1).



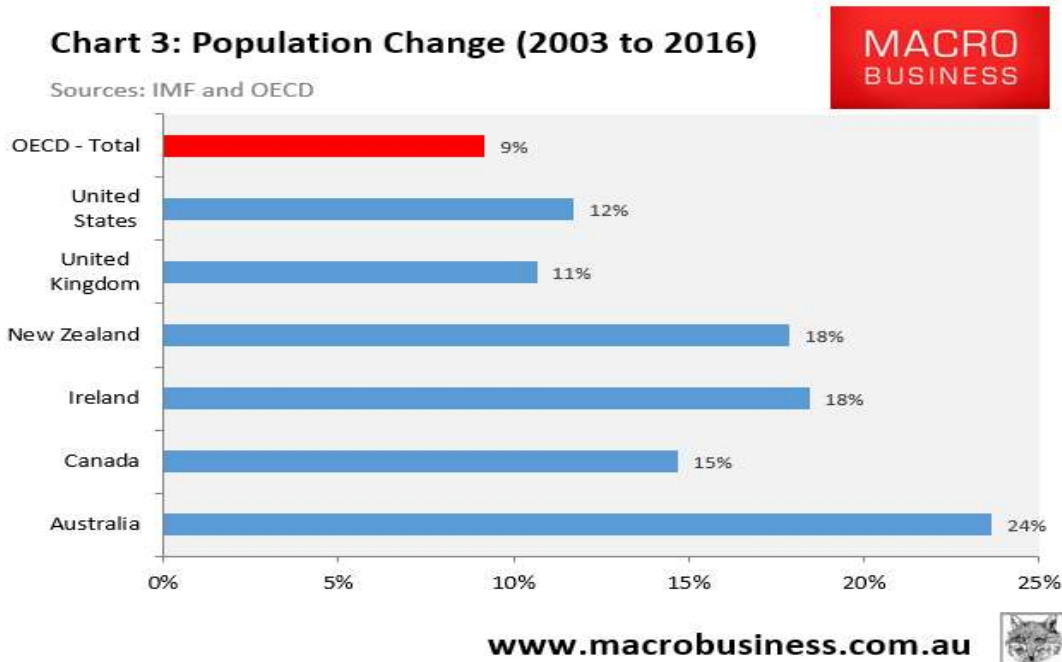
In the 116 years following Australia's Federation in 1901, Australia's net overseas migration (NOM) averaged around 73,000 people a year and Australia's population grew on average by around 180,000 people.

Over the past 12 years, however, Australia's annual NOM has averaged nearly 220,000 people a year and Australia's population has grown on average by 370,000 people.

The principal driver of Australia's population increase has been the Australian Government's permanent migrant intake, which has increased from 79,000 in 1999 to nearly 210,000 currently, including the humanitarian intake (Chart 2).



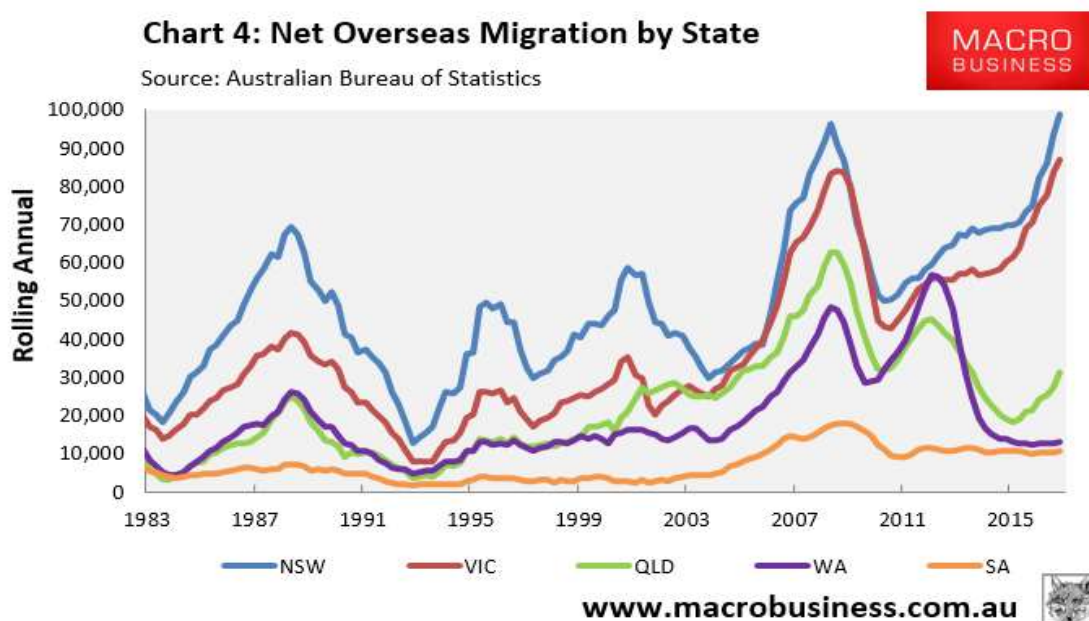
Due to this mass immigration 'Big Australia' policy, Australia's population has expanded at a rate that is more than 2.5 times the OECD average, easily the fastest of advanced English-speaking nations (Chart 3).



This rapid population growth is expected to continue for decades to come, with the Australian Government's *Intergenerational Report* projecting population growth of nearly 400,000 people a year – equivalent to one Canberra – until Australia's population reaches 40 million mid-century (see Chart 1 above).

However, the problem with Australia's mass immigration policy is not just the extreme volume, but also the concentration of migrants flowing to Australia's largest and already most overcrowded cities.

As shown in Chart 4, around three quarters of Australia's NOM has flowed to New South Wales and Victoria, principally Sydney and Melbourne:

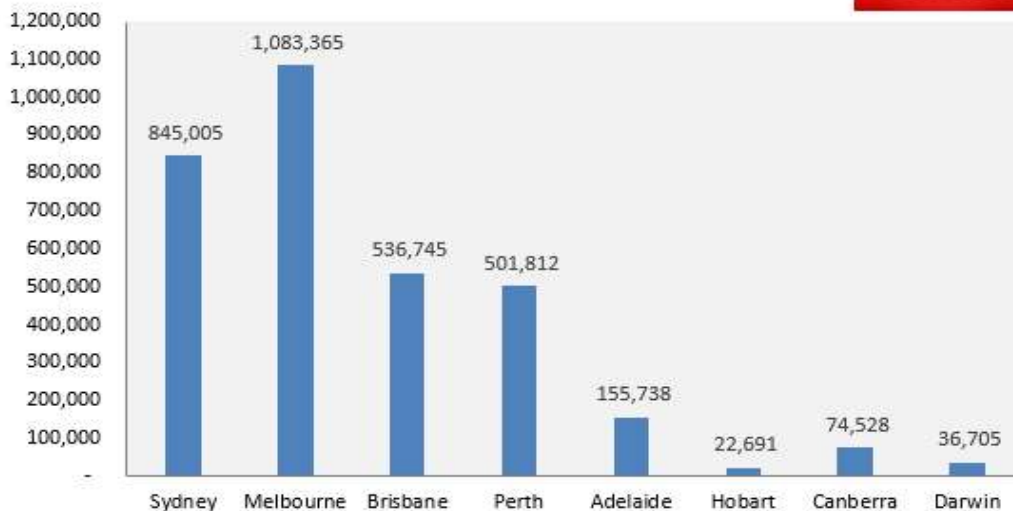


In the 12 years to 2016, Melbourne's population expanded by nearly 1.1 million (30%), while Sydney's population expanded by 845,000 (20%). There was also strong growth in Brisbane (537,000) and Perth (502,000) (Charts 5 and 6).

Chart 5: Population Change: 2004 to 2016

Source: Australian Bureau of Statistics

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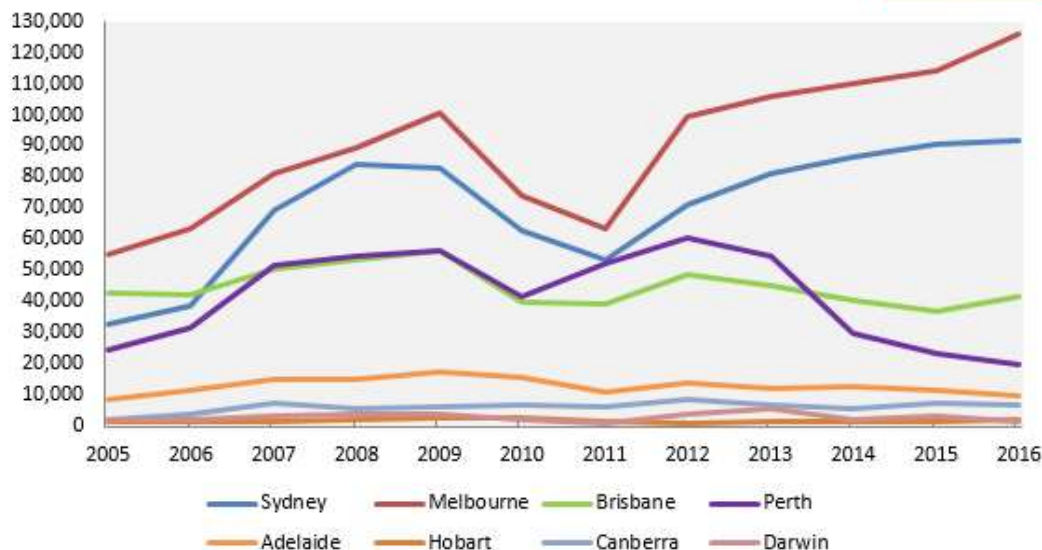
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Chart 6: Australian Population Change by Capital City

Source: Australian Bureau of Statistics

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The migrant influx helps to explain why dwelling price growth has been strongest in Sydney and Melbourne, and why housing is most unaffordable in these two cities (Charts 7 and 8). While the Australian Government and property lobby likes to blame a 'lack of supply', the problem rests primarily with excessive demand from mass immigration.

Chart 7: Capital City Dwelling Price Index

Source: CoreLogic

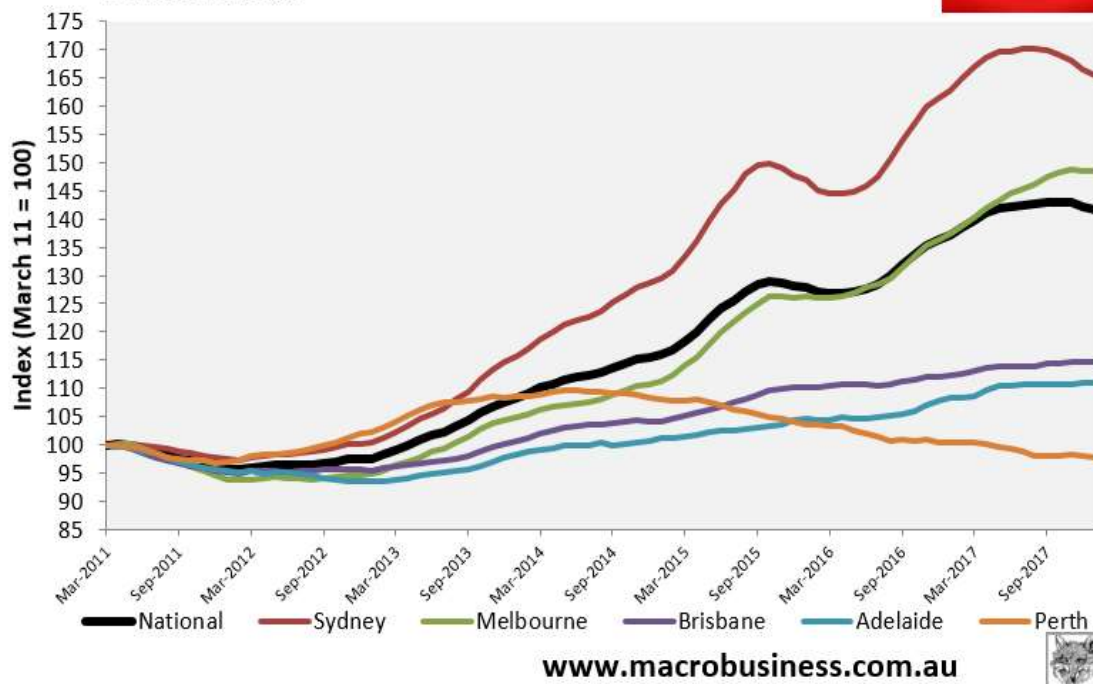
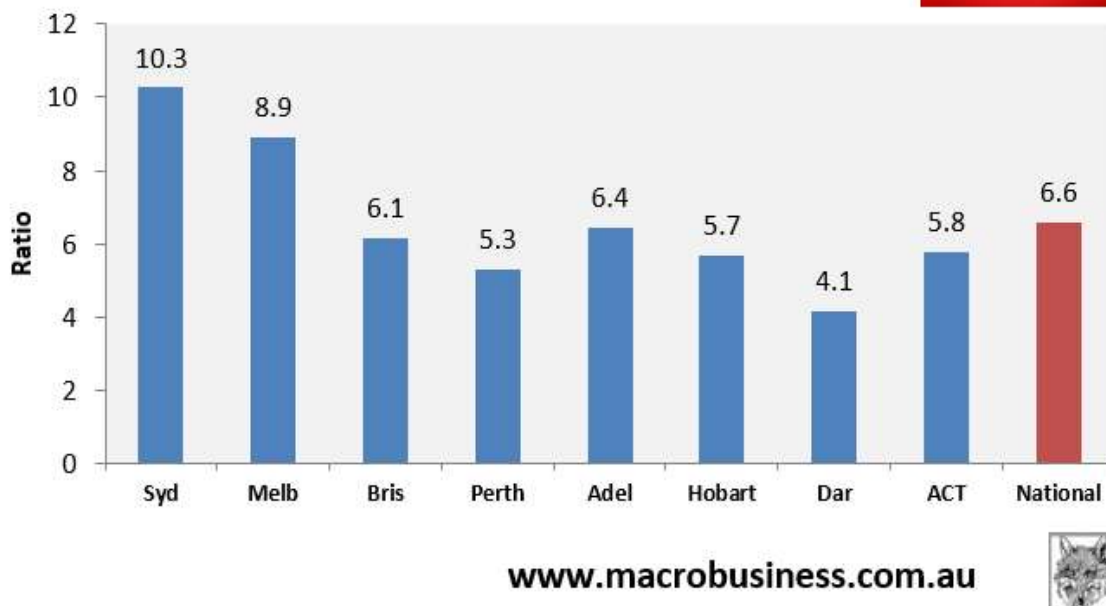


Chart 8: Median Dwelling Price to Household Income

Sources: CoreLogic, ABS



The chronic problems around housing and infrastructure will only get worse under the current mass immigration policy.

State Government projections have Melbourne's population expanding by 97,000 people each year (1,870 people a week) and Sydney's by 87,000 people each year (1,670 people each week) for the next several decades until both cities' populations hit around 8 million people mid-century.

To put this population growth into perspective, consider the following facts:

- It took Sydney around 210 years to reach a population of 3.9 million in 2001. And yet the official projections have Sydney adding roughly the same number of people again in just 50 years.
- It took Melbourne nearly 170 years to reach a population of 3.3 million in 2001. In just 15 years, Melbourne expanded by 34% to 4.5 million people. And the official projections have Melbourne's population ballooning by another 3.4 million people in just 35 years.

No matter which way you cut it, residents of our two largest cities will continue to feel the impact of this rapid population growth via: traffic gridlock; overloaded public transport, schools, and hospitals; pressures on energy and water supplies; as well as more expensive (and smaller) housing.

It is a clear recipe for lower living standards.

2. No economic bonanza:

Politicians and economists frequently claim that maintaining a 'strong' immigration program is essential as it keeps the population young and productive, and without constant immigration, the population would grow old and the economy would stagnate.

For example, Prime Minister Malcolm Turnbull has stated previously that *"anyone who thinks it's smart to cut immigration is sentencing Australia to poverty"*. In a similar vein, former KPMG partner and *"unabashed supporter of a bigger Australia"*, Bernard Salt, has produced reams of articles warning that Australia faces economic and fiscal catastrophe without ongoing strong immigration.

Economic models are often cited as proof that a strong immigration program is 'good' for the economy because they show that real GDP per capita is moderately increased via immigration, based on several dubious assumptions.

First, it is generally assumed in these models that population ageing will result in fewer people working, which will subtract from per capita GDP. However, it is just as likely that age-specific workforce participation will respond to labour demand, resulting in fewer people being unemployed, as we have witnessed in Japan, where the unemployment rate is below 3%.

Even if this assumption was true, the benefit to GDP per capita would only be transitory. Once the migrant workers grow old, they too will add to the pool of aged Australians, thus requiring an ever increasing immigration intake to keep the population age profile from rising.

Indeed, the Productivity Commission (PC) has for more than a decade debunked the myth that immigration can overcome population ageing. For example, in its 2010 submission to the Minister for Population, the PC explicitly noted that *"substantial increases in the level of net overseas migration would have only modest effects on population ageing and the impacts would be temporary, since immigrants themselves age"*.

Academic demographer, Peter McDonald, has also previously stated that it is *"demographic nonsense to believe that immigration can help to keep our population young"*.

Second, it is generally assumed that migrant workers are more productive than the Australian born population and, therefore, labour productivity is increased through strong immigration. However, the evidence here is highly contestable, with migrants generally being employed below the level of their qualifications, as well as having lower labour force attachment than the Australian born populationⁱⁱ.

Third, economists and their models generally ignore obvious 'costs' of mass immigration on productivity. Growing Australia's population without commensurately increasing the stock of household, business and public capital to support the bigger population necessarily 'dilutes' Australia's capital base, leaving less capital per person and lowering productivity. We have witnessed this first hand with the costs of congestion soaring across Australia's big cities.

Moreover, the cost of retro-fitting our big cities with infrastructure to cope with larger populations is necessarily very expensive – think tunnelling and land acquisitions – with costs borne largely by the incumbent population. This fact was explicitly acknowledged by the PC's recent *Shifting the Dial: 5 year productivity review*:

"Growing populations will place pressure on already strained transport systems... Yet available choices for new investments are constrained by the increasingly limited availability of unutilised land. Costs of new transport structures have risen accordingly, with new developments (for example WestConnex) requiring land reclamation, costly compensation arrangements, or otherwise more expensive alternatives (such as tunnels)"ⁱⁱⁱ.

Finally, while economic models tend to show a modest improvement in real GDP per capita, the gains are more likely to flow to the wealthy, whereas ordinary workers are made worse-off.

In 2006, the PC completed a major study on the *Economic Impacts of Migration and Population Growth*, which modelled the impact of a 50% increase in the level of skilled migration over the 20 years to 2024-25. The modelling found that even skilled migration does not increase the incomes of existing residents. According to the Commission: *"the distribution of these benefits [from skilled migration] varies across the population, with gains mostly accrued to the skilled migrants and capital owners. The incomes of existing resident workers grow more slowly than would otherwise be the case"*^{iv}.

Of course, there are other costs borne by incumbent residents from immigration that are not captured in the economic modelling, such as worsening congestion, increased infrastructure costs, reduced housing affordability, and environmental degradation – none of which are given appropriate consideration by politicians nor economists.

Adding a Canberra-worth of population to Australia each and every year – with 80,000 to 100,000-plus people going to Sydney and Melbourne - requires an incredible amount of investment just to keep up. Accordingly, Australia's infrastructure deficit has fallen badly behind over the past decade, and will continue to do so under Australia's mass immigration program, thus eroding residents' living standards.

3. Empirical data does not support mass immigration:

While the economic models might show small per capita gains from immigration-fuelled population growth, based on faulty assumptions, the actual empirical evidence shows no link between population growth and prosperity.

Since Australia's immigration intake was expanded in the early-2000s, trend GDP per capita growth has plummeted to recessionary levels, suggesting falling living standards (Chart 9).

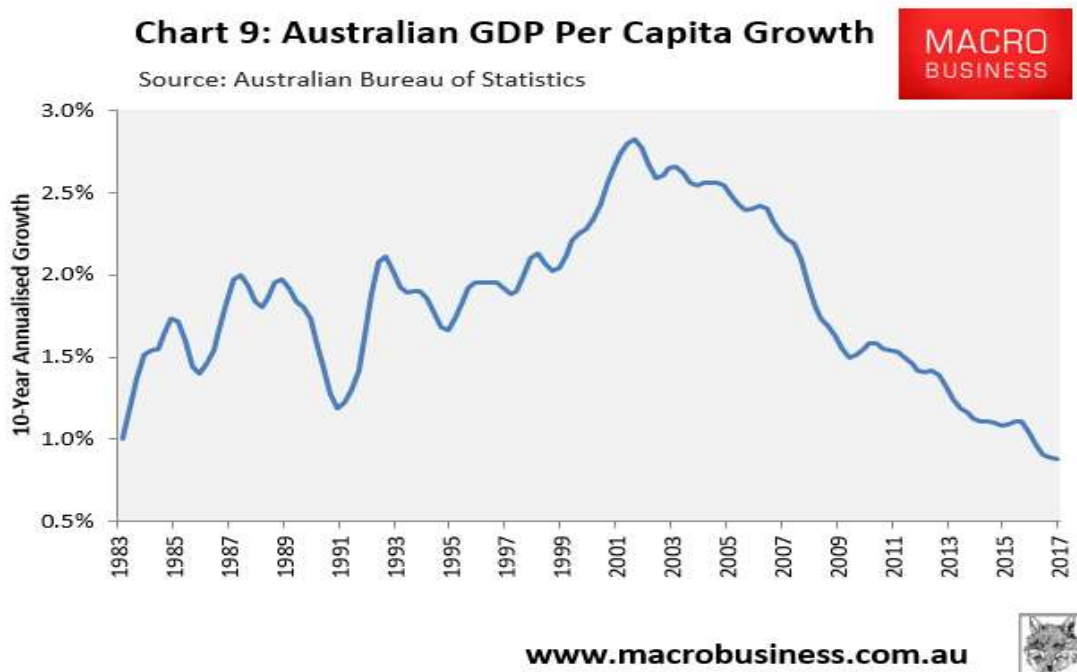
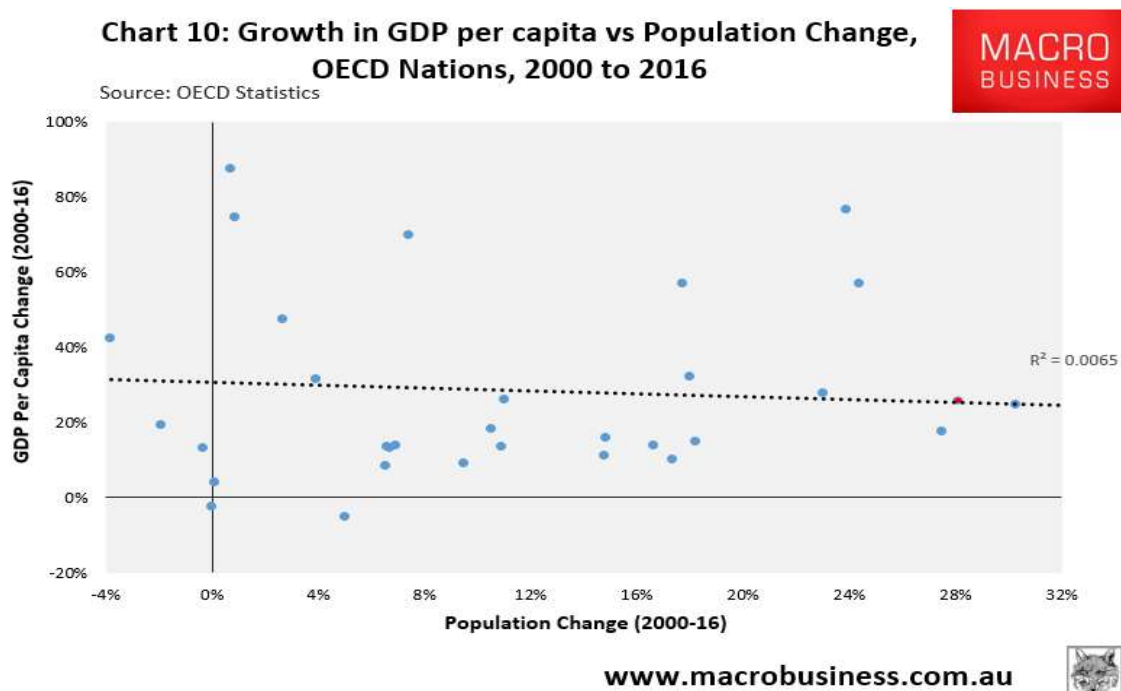
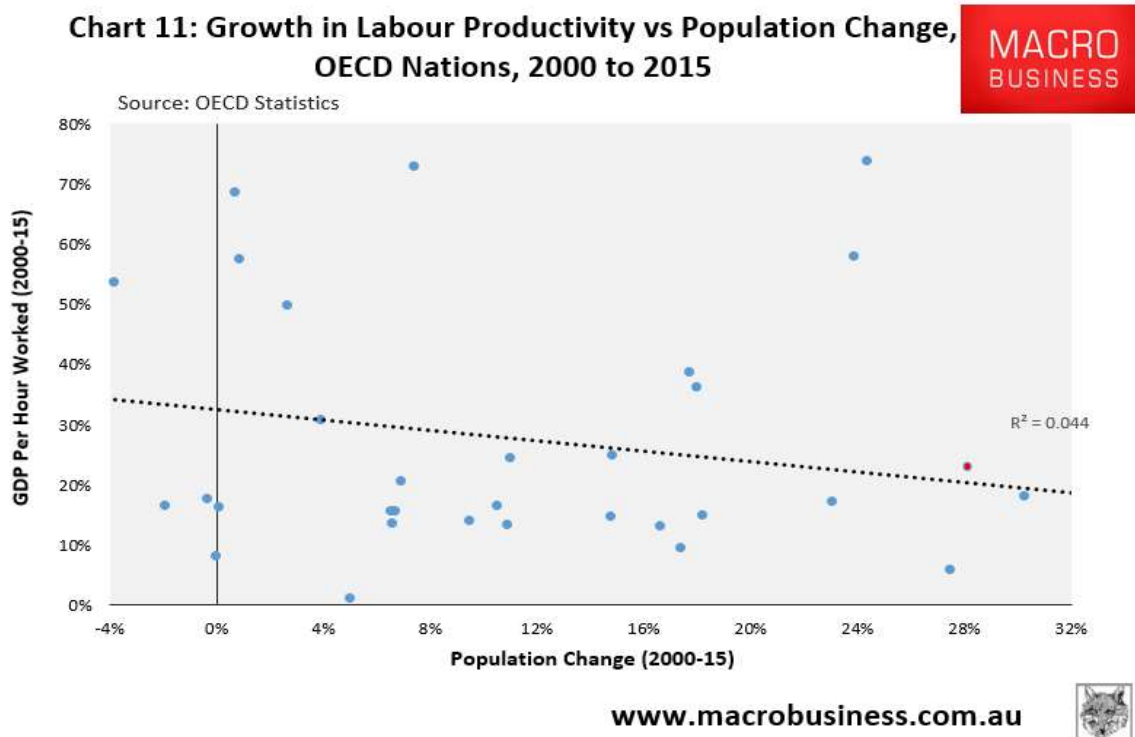


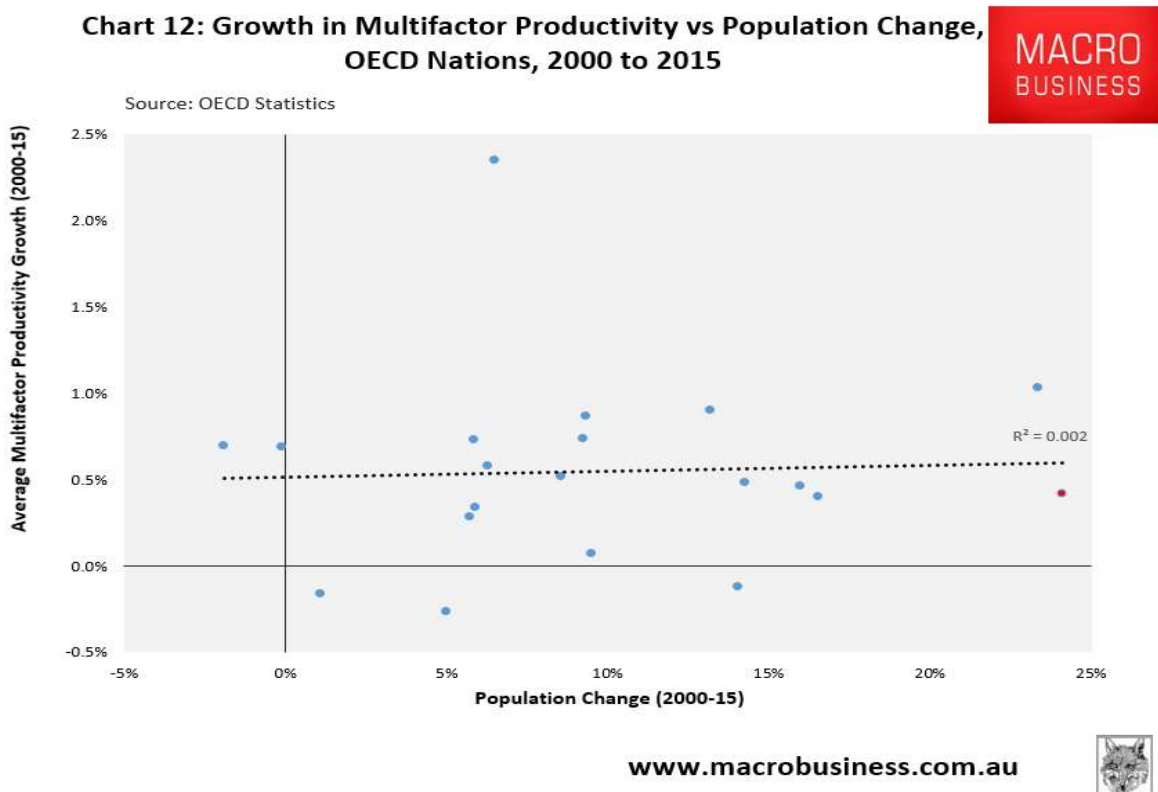
Chart 10 plots the growth in GDP per capita versus population change between 2000 and 2016 across OECD nations and shows no correlation (Australia denoted in red):



Meanwhile, there is a slight negative relationship between labour productivity and population growth (Chart 11):

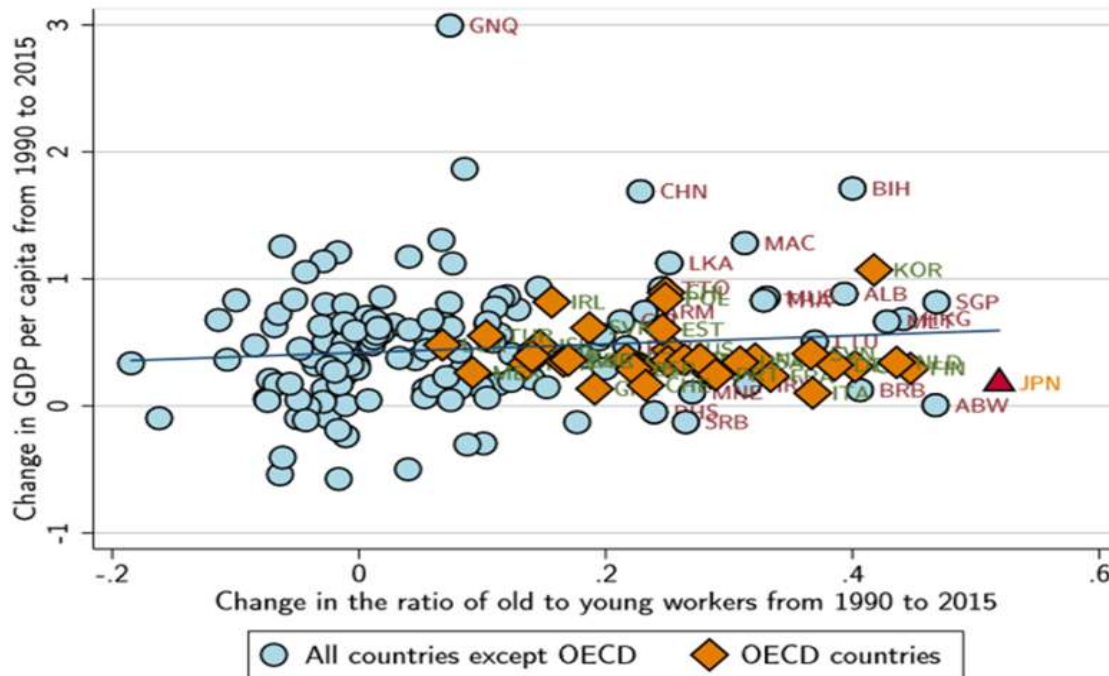


Whereas there is zero correlation between population growth and multifactor productivity across OECD nations (Chart 12):



A recent study by economists at the Massachusetts Institute of Technology (MIT) also found “that even when we control for initial GDP per capita, initial demographic composition and differential trends by region, there is no evidence of a negative relationship between aging and GDP per capita; on the contrary, the relationship is significantly positive in many specifications” (Chart 13).

Chart 13: Relationship between population ageing and GDP per capita

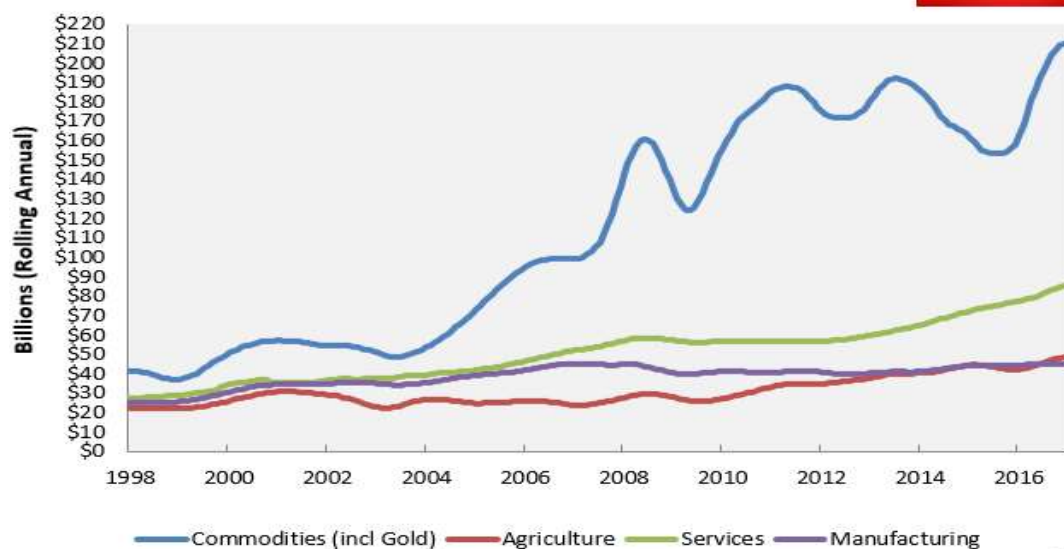


There is also evidence to suggest that mass immigration is partly behind Australia’s trade and current account deficits, as well as the nation’s ballooning foreign debt.

The lion’s share of Australia’s export revenue comes from commodities and from Western Australia and Queensland in particular (Chart 14):

Chart 14: Australia's Major Exports

Source: Australian Bureau of Statistics

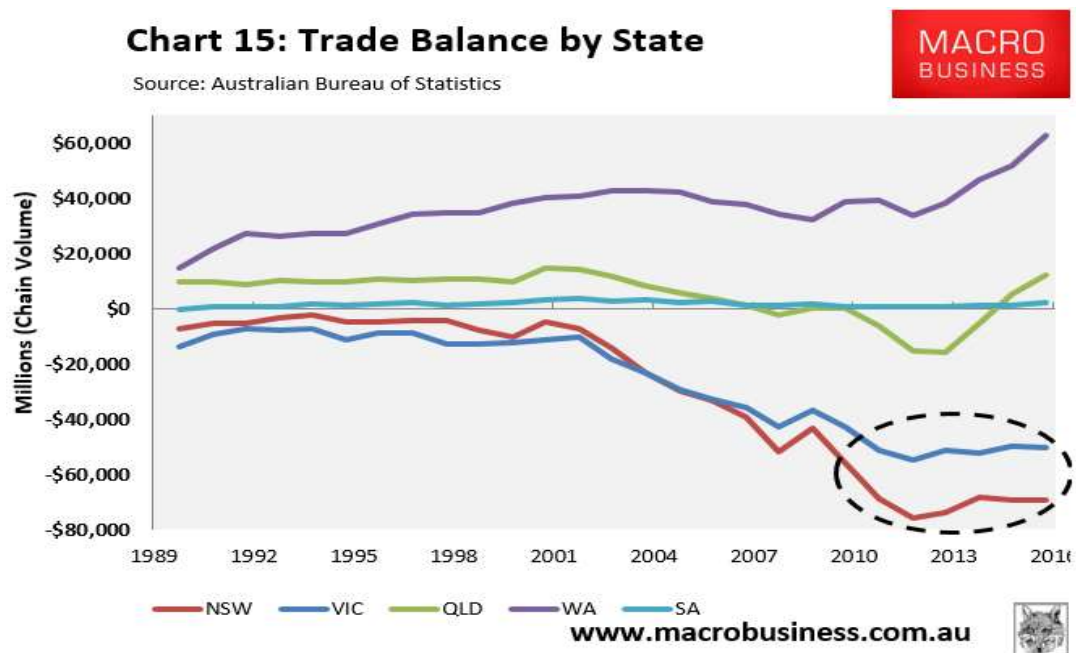


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However, the majority of Australia's imports and indeed private debt flows to our biggest states (and cities), New South Wales (Sydney) and Victoria (Melbourne). Sydney and Melbourne also happen to be the key magnets for migrants (see Charts 4,5 and 6 above).

Increasing the number of people via mass immigration does not materially boost Australia's exports but does significantly increase imports (think flat screen TVs, imported cars, etc.). Accordingly, both New South Wales and Victoria have driven huge trade deficits as the extra imports have far outweighed exports (Chart 15):



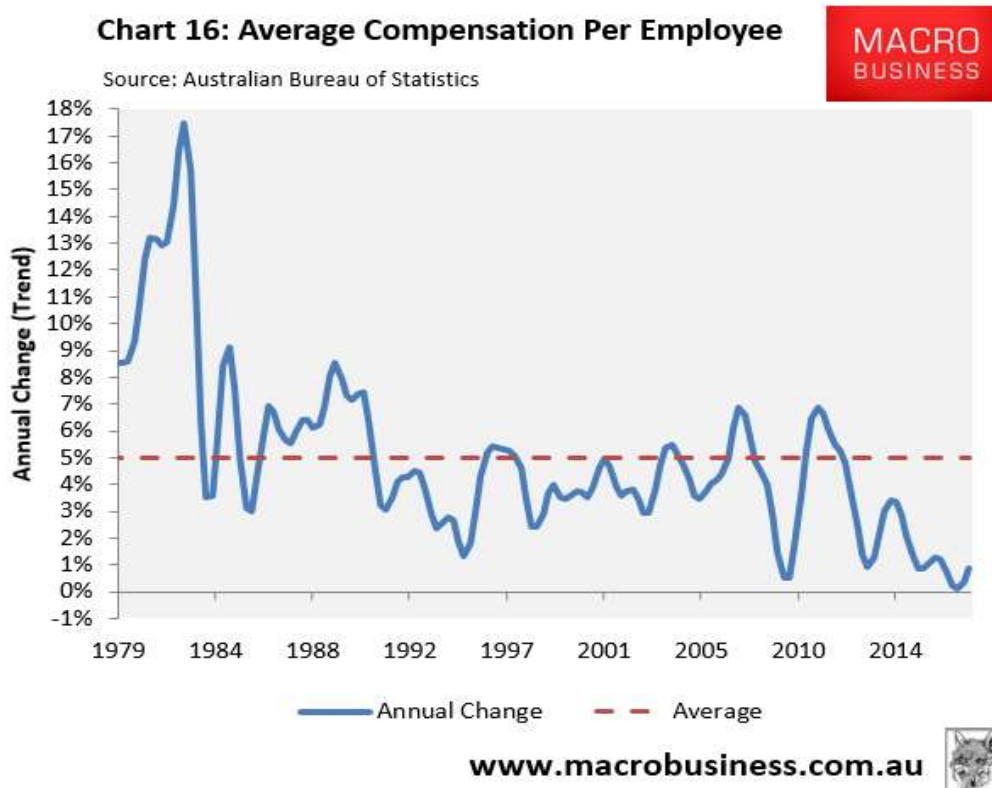
All of these extra imports must be paid for – either by accumulating foreign debt, or by selling-off the nation's assets. Australia has been doing both.

Australia would improve its trade balance and current account deficit, as well as reduce the need to sell-off assets and binge on debt, if it simply cut immigration.

Australia will ship the same amount of hard commodities and agriculture regardless of how many people are coming in as all the productive capacity has been set up and it doesn't require more labour.

4. Lowering immigration would raise wages:

Hand wringing over Australia's anaemic wages growth (Chart 16) hit fever pitch recently, with politicians, economists and media all searching for answers.



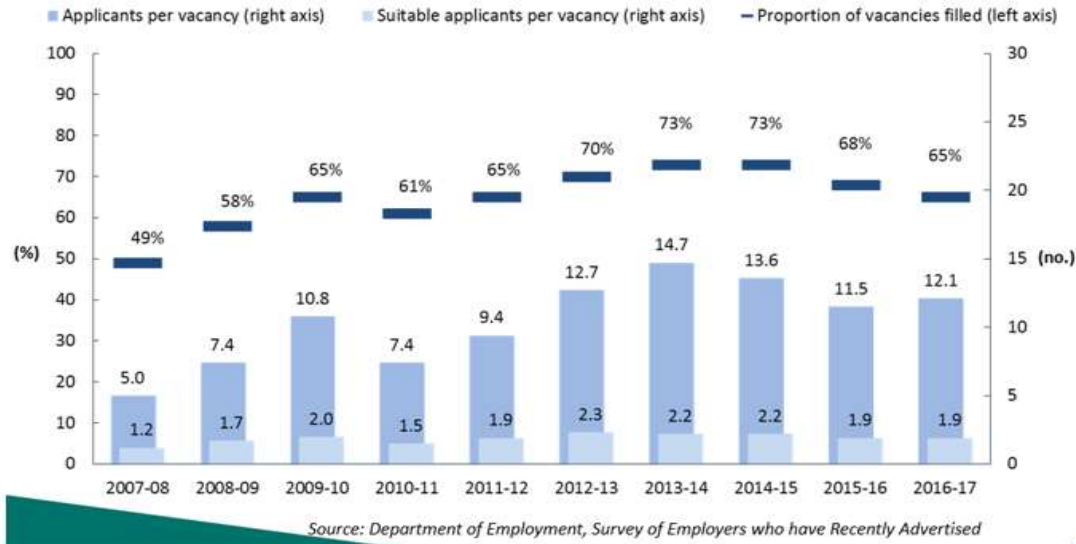
One cause that has received scant attention is the role caused by mass immigration in driving-up labour supply and reducing the bargaining power of workers.

Employer groups often argue that a strong 'skilled' migration program is required to overcome perceived labour shortages – a view that is supported by the Australian Government. However, the available data shows this argument to be weak.

The Department of Employment's 2016-17 Skills Shortages report revealed that Australian skills shortages "*continue to be limited in 2016-17*", and that there are a high number of applicants per job^{vi} (Chart 17):

Chart 17: Applicants per job

There are many applicants but significant numbers of vacancies remain unfilled

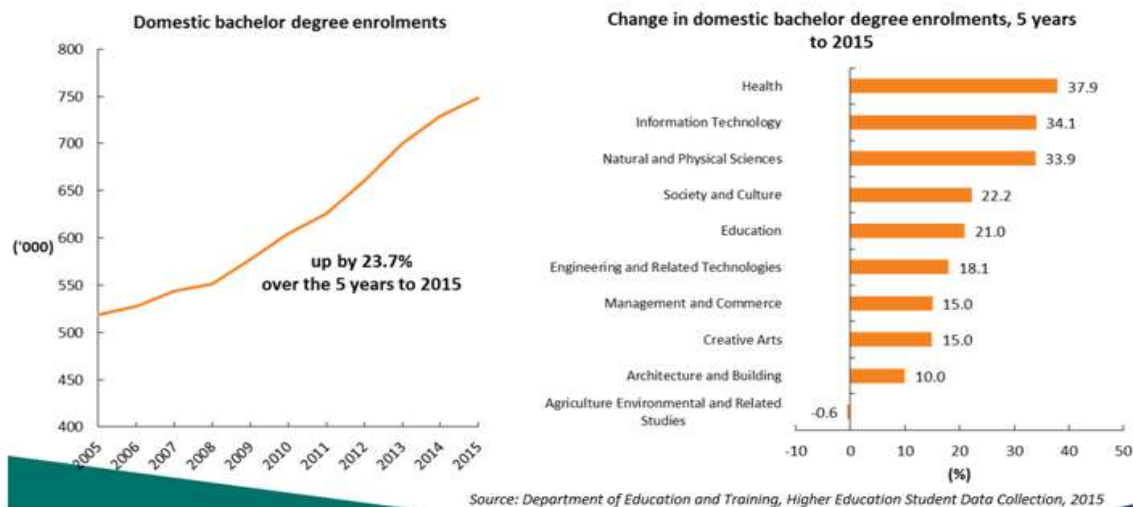


The Department of Employment also revealed a record number of Australians studying at university (Chart 18):

Chart 18: University enrollments

There has been strong growth in higher education

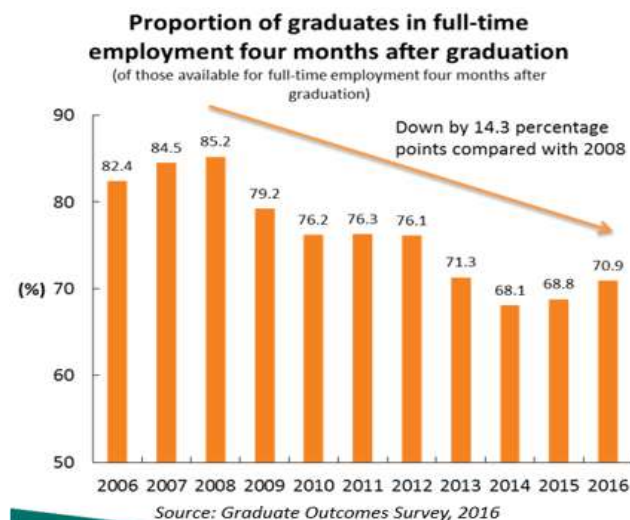
- In 2015, there were more than one million domestic students enrolled with higher education providers, with 748,100 enrolled in a bachelor degree



Of whom many graduates cannot gain meaningful employment (Chart 19):

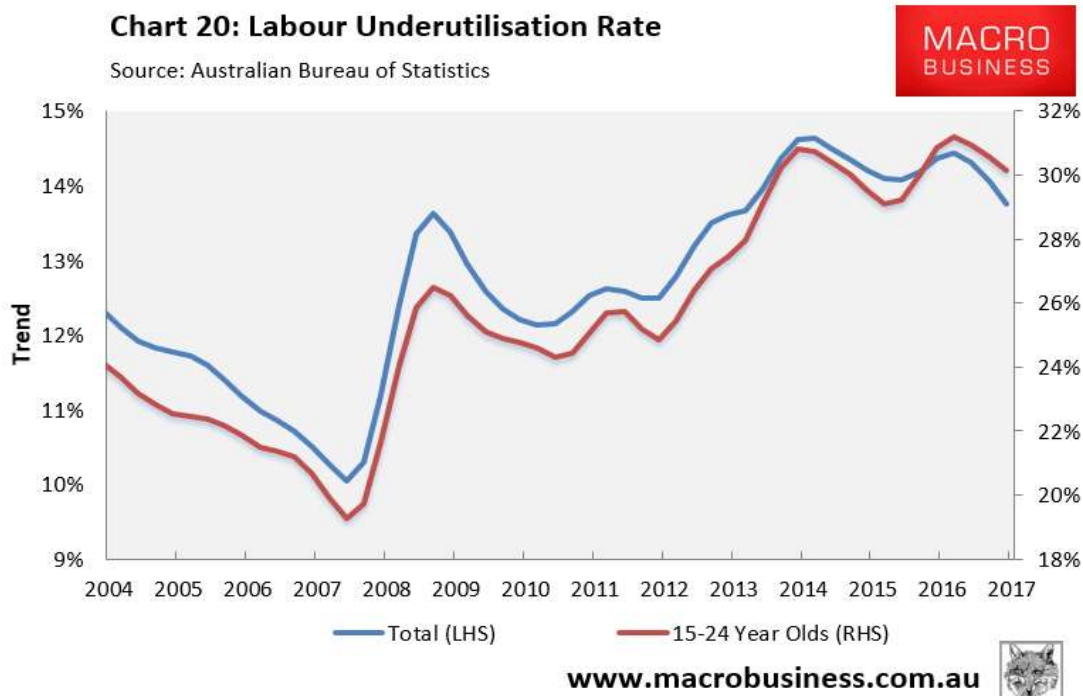
Chart 19: Graduate employment outcomes

Bachelor degree graduate employment outcomes have softened



- In 2016, 70.9% of bachelor degree graduates found full-time employment within four months
 - While employment outcomes are historically low, they have improved over the last two years
- There is evidence that undergraduates who find full-time work are often employed in lower skilled jobs
 - Of those employed full-time, 29.1% felt that they were not fully utilising their skills or education in their current position

The Australian Bureau of Statistics' labour force data also shows that Australia's underutilisation rate remains high, especially for Australia's youth, despite the recent improvement in the labour market (Chart 20).



Curiously, Australia's permanent skilled migrant intake is significantly higher today (128,550) than it was at the peak of the mining boom in 2011 (113,850). Why? Unlike then, labour shortages are "limited", wages growth is running near the lowest level on record, and labour underutilisation is high. What is the economic rationale for running the highest permanent migrant intake on record when economic conditions do not warrant it?

Standard economic theory claims that net inward migration has minimal long-term impact on wages. That is, when the quantity of labour increases, its price (wages) falls. This will supposedly increase profits, eventually leading to more investment, increased demand for labour, and a reversal of the initial fall in wages. Immigration, so the theory goes, will eventually enable the larger domestic population to enjoy the same incomes as the smaller population did before.

However, a recent study by Cambridge University economist, Robert Rowthorn, debunked this argument. The so-called 'temporary' effects of displacing incumbent workers and lower wages can last for up to ten years. And if there is a continuing influx of migrants – as is the case in Australia – rather than a one-off increase in the size of the labour force, demand for labour will constantly lag behind growth in supply^{vii}.

In other words, if the Australian Government was to stem the inflow of foreign workers, then workers' bargaining power would increase, as will wages growth. It is basic economics.

As noted in April last year by *The Australia Institute's* chief economist, Richard Denniss, the very purpose of foreign worker visas is to *"suppress wage growth by allowing employers to recruit from a global pool of labour to compete with Australian workers"*. In a normal functioning labour market, *"when demand for workers rises, employers would need to bid against each other for the available scarce talent"*. But this mechanism has been bypassed by enabling employers to recruit labour globally. *"It is only in recent years that the wage rises that accompany the normal functioning of the labour market have been rebranded as a 'skills shortage'"*^{viii}.

Australia's youth is effectively caught in a pincer by the Australian Government's mass immigration program. Not only does it hold down their wages, but it also inflates their cost-of-living via more expensive housing (both prices and rents).

5. It's time for a national debate and population policy:

The Australian Government under both the Coalition and Labor has long supported mass immigration and a 'Big Australia' on flawed economic grounds.

Behind the scenes, the 'growth lobby' of retailers, the banking sector, the property industry and erroneously named 'think tanks' all push the growth-ist agenda, while completely ignoring the cost burden on ordinary residents.

At the same time, many on the left pursue the globalist agenda of 'open borders' citing spurious social justice concerns.

Currently, there is no coherent plan other than to inundate the major cities with extra people each and every year to stoke overall economic growth (but not growth per person), to support big business (e.g. the property industry and retailers), and to prevent Australia from going into recession (despite growth per person stagnating).

Meanwhile, individual living standards are being eroded through rising congestion costs, declining housing affordability, paying more for infrastructure (e.g. toll roads, water and energy), environmental degradation, and overall reduced amenity.

Never have Australians been asked whether they want a population of 40 million-plus mid-century. Nor whether they want Sydney's and Melbourne's populations to swell to eight million mid-century.

Yet immigration and population growth affects every facet of Australian life, including: how long one spends stuck in traffic; whether one can get a seat on a train or a spot in hospital or school; and/or whether one can afford a good sized home within a decent commute to where one works. It is a key determinant of living standards above all else, yet is rarely questioned by the media nor politicians.

Without mainstream political representation on this issue, divisive elements like Pauline Hanson's One Nation party have emerged to wrongly use the ills of overpopulation to attack the small number of refugees arriving in Australia, as well as Muslim and Asian immigration.

As this submission has shown, there is strong justification to reduce Australia's permanent migrant intake back to historical levels primarily by slashing skilled migration, which has been the driver of the influx. This would take the strain off the major cities, put a floor under wages growth, and safeguard Australia's environment.

Australia could achieve such immigration cuts without affecting its global obligations via the humanitarian migrant intake. Indeed, much of Australia's 130,000 strong permanent skilled migrant intake comes from countries where skills are more desperately needed than in Australia. Australia's immigration program is depriving these countries of skills, and we have a moral obligation to limit the brain drain.

More broadly, Australia desperately needs a national debate and a population strategy, led by the Australian Government. The Government needs to conduct a population plebiscite asking Australians how big they want the nation to become, and then set immigration policy accordingly. The Australian Government also needs to provide a comprehensive plan detailing how and where it will accommodate all the extra people, while safeguarding incumbent residents' living standards.

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http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp9900/2000RP05#8

ii <https://www.macrobusiness.com.au/2017/07/migrants-productive-locals/>

iii <http://www.pc.gov.au/inquiries/completed/productivity-review/report>

iv <http://www.pc.gov.au/inquiries/completed/migration-population/monashmodel/monashmodel.pdf>

v <http://economics.mit.edu/files/12536>

vi <https://docs.jobs.gov.au/documents/skilled-labour-market-pictorial-overview-trends-and-shortages-1>

vii <http://www.civitas.org.uk/content/files/largescaleimmigration.pdf>

viii <http://www.canberratimes.com.au/comment/australias-fake-crisis-of-high-wages-20170421-gvpj8w.html>