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Immigration the golden goose our economy needs

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Cutting the intake is no answer to the housing crisis

Immigration over recent decades has made today's Australians much better off — and further ongoing immigration is critically important if we are to maintain and improve our future living standards. Unfortunately, calls for immigration cuts tend to get louder whenever a politically sensitive issue that might somehow relate to immigration arises. Housing affordability is the latest such issue to prompt howls. However, we'd be mad to listen to them.

Unfortunately, those who favour immigration cuts have sometimes used fears that immigrants might steal our jobs or depress wages as Trojan horses to advocate for a position they help anyway. Concerns about housing affordability are widespread, but there are better ways to tackle it.

As the Productivity Commission noted recently, the impact of immigration on house prices has been exacerbated by state, territory and local governments' failures to implement sound urban planning and zoning policies. These failures have constrained growth in land supply and land use intensity. Easing these constraints would grow the size of the pie we can all enjoy. Cutting immigration wouldn't. It may reduce house prices, but would boost neither land supply nor land use intensity; therefore, it would simply transfer wealth from sellers to buyers. In fact, it would actually shrink our pie.

Some advocates of immigration cuts have played up fears about the extent immigration and its impacts on our economy. Australia's net overseas migration in the year-ended September 2016 (the latest available data) was 193,200. The NOM rate as a per cent of population was 0.8 per cent.

We don't have the highest NOM rate, nor the fastest population growth rate in the developed world. We rank 22nd on NOM rate and 86th on population growth rate. For example, Singapore has a much higher NOM, while Luxembourg and Qatar (which both have higher per GDP per person than us) outrank us on both measures.

Further, our NOM rate has almost halved since it peaked at 1.5 per cent in 2008. True, many developed nations have lower population growth than us. But those with slow-growing and ageing populations tend to face the biggest threats to future living standards and fiscal sustainability.

In any case, wouldn't we want to grow faster than the rest of the world? We're a tiny nation (population-wise) with relatively abundant resources. The world's population is growing at 1.1 per cent annually. Our natural annual population growth (excluding NOM) is only 0.7 per cent. NOM boosts our annual population growth to 1.5 per cent; as a result, our relative significance in the world will rise rather than sink further. Further, immigration actually makes existing Australian residents — not just immigrants — better off.

The evidence indicates that immigration raises GDP per person, even in the short run. The Productivity Commission has estimated that a 0.6 per cent NOM rate (Australia's long-run average) would increase GDP per person by 7 per cent (\$7000) in the long run. That's not to be sneezed at, but some advocates of immigration cuts have snorted.

A higher NOM rate would boost GDP per person further. The commission estimated that a 1 per cent NOM rate would raise GDP per person by 10 per cent in the long-run. A more recent study published in Oxford Economic Papers found that a 50 per cent increase in Australia's NOM rate (which would boost annual

population growth by about 0.4 per cent) would raise GDP per worker by 0.25 per cent in the short-run and by over 1.8 per cent in the long run.

Nor does the evidence support fears that immigrants steal locals' jobs and reduce wages. Consistent with the findings of international studies, the commission concluded that immigration has negligible effects on the wages, employment and workforce participation of local workers.

Some studies have found that immigration actually reduces unemployment rates (even in the short term) and raises wages of local workers. While immigrants add to labour supply, they also boost demand for goods and services and hence demand for workers to produce them.

Immigrants also improve labour market flexibility. As they haven't established roots, they're more willing to move to where jobs are. As immigrants have different skill sets — and on average have significantly higher skill levels — they complement local workers, thereby raising their productivity and hence demand for them. Nor does evidence support fears that immigration has negative fiscal impact. International evidence shows the fiscal impact is generally small and can be positive if immigration is highly focused on the young and highly skilled (as Australia's is).

Advocates of immigration cuts sometimes cite long-term absolute numbers that sound big to scare us. For example, our population might well grow to 40 million in 40 years' time. But you only need annual population growth of 1.3 per cent to get there. Such growth is eminently manageable; indeed, it will benefit us greatly.

In any case, the 2015 Intergenerational Report contained much more scary numbers. It estimated that our dependency ratio (ratio of working age population to population aged 65-plus) will fall from 4.5 per cent to 2.7 over the next 40 years (even with 1.3 per cent average annual population growth); this will put an enormous burden on workers.

As immigrants are much younger than locals, they help to ease this burden by limiting the decline in the dependency ratio. This "demographic dividend" of immigration (as the commission calls it) is enormously valuable.

We'd be mad to throw away the substantial benefits that immigration provides. Paul Kerin is adjunct professor, School of Economics, University of Adelaide.

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