40 Million Aussies? The Immigration Debate Revisited

Max Corden

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Foreword

Richard Snape capped a long and distinguished career as Professor of Economics at Monash University with a new and accomplished career at the Industry Commission and then as Deputy Chairman of the Productivity Commission. In the eight years that he spent at the Commission before his untimely death last October, he played a pivotal role in overseeing our research program, as well as participating in major public inquiries, including presiding on national reviews of Broadcasting and Airport regulation.

This is the first in a series of lectures in memory of Richard Snape. With Richard's own interests and high standards in mind, the series has been conceived to elicit contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wider audience.

Choosing a speaker for the first Richard Snape Lecture was not a difficult task. Professor Max Corden's academic contributions to the theory of international trade and finance, his influence on the course of policy reform in this and other countries, and the fact that he is an Australian who was both professional colleague and friend to Richard, made him a natural choice.

I am grateful to Max Corden for agreeing so readily to devote the time necessary to prepare and deliver this, the inaugural Richard Snape Lecture. Professor Corden's choice of topic — focussing on the issues behind immigration policy — would I am sure have received Richard's approval.

Gary Banks
Chairman

October 2003

40 million Aussies?
The immigration debate revisited

Professor Max Corden

> *It is an honour for me, and also a sad occasion, to give the first lecture in memory of Richard. I am particularly glad to do this in the presence of Yvonne.*
>
> *In 1958, my first year as a University teacher, Richard was an outstanding student in the fourth year honours class in the Faculty of Commerce at the University of Melbourne. Like me he got his PhD at the LSE and wrote a thesis in the area of trade, though his was more applied than mine. We have been life-long friends since then, and have closely interacted. In the seventies he authored or co-authored several innovative articles in trade theory. He was also one of the first, possibly the first, to explain in publications and policy advice the importance of too high real wages as a major cause of unemployment in the seventies and early eighties in Australia (rather than blaming a lack of Keynesian aggregate demand). Later, when he was at the World Bank and I was at the IMF, we and our wives maintained close contact. He was editor of the Bank's two journals, and was extremely highly regarded at the Bank. He was a clear-thinking (dare I say it) 'rational' economist, one of the best Australia has produced. Apart from that, I believe his outstanding characteristics were his sense of responsibility to whatever institution he worked for, and his absolute integrity.*
>
> *For this lecture I have chosen a somewhat controversial subject, and possibly a controversial title for it. If Richard had still been with us, he is the first person I would have consulted; he would have been the first person to read my first draft of a lecture like this. One could always rely on his judgement. So, let me begin.*

In *The Great Divide*, a book on the politics of Australian immigration, Katherine Betts of Swinburne University (Betts 1999) distinguishes between Australian 'cosmopolitans' and 'parochials'. The former consist essentially of the University-educated middle class (or elite) that is internationally minded and pro-immigration, while the parochials are the rest, the great majority, who have put up with Australian bipartisan immigration policy until they revolted in the eighties. The book's arguments are quite subtle, but here I must admit right from the beginning that I am the ultimate cosmopolitan. Not only was I originally, many years ago, a child immigrant into Australia, but I have lived for lengthy periods in England and later in the United States. Hence I do see Australia both from the inside, having been brought up here, and from the outside.

The United States went through a process of massive multicultural immigration for a hundred years before Australia did, and has been a remarkable melting pot. While

in the USA I frequently thought about the comparison between the United States and Australia, so I decided to look into Australian experience and policy when I returned late last year. I have found my reading and research quite fascinating, yielding many surprises — at least surprises to me, even though they may not be surprises to experts in the field. There is a vast and informative literature in this area by demographers, sociologists, political scientists and economists. I make no claim to originality, and in this paper give my preliminary reactions to some of the central issues. But first, let me give some demographic facts, and then some facts about what makes up Net Overseas Migration.

Australia's total fertility rate (number of births per woman in her lifetime) has been declining since the mid-1970s, and especially during the nineties. It was 1.89 in 1992 and in 2001 was 1.74. A reasonable estimate is that it will fall to 1.65. That would still be higher than in many European countries. At present, births nevertheless exceed deaths — that is, the rate of natural increase is positive — because of the earlier baby boom that has raised temporarily the proportion of women of childbearing age. But this is likely to change around the mid to late 2030s, when the rate of natural increase will turn negative. From then on net migration will have to be positive just to keep the population constant, and any increase in the population must come solely from net migration.

This simple fact or estimate, based on reasonable assumptions about Australia's future fertility and mortality rates, quickly persuaded me to put a question mark in the title of this paper. In other words, if the population were to reach forty million any time this century it could only result either from a drastic reversal of the decline in the fertility rate or a very large increase in the rate of net migration from the current level. I shall come back to this extremely important issue later.

I encountered some surprises when I looked into the elements that make up 'Net Overseas Migration'(NOM), which is the figure that is usually cited when the impact of migration on population growth is studied. It is extraordinarily complicated and one really has to understand this to get any perspective on the issues. I shall ignore some categories with very small numbers here. Here I must emphasize that I do not vouch for any of the figures I cite, and they may well be revised, but they are the best I have been able to get.

First of all there is permanent immigration – resulting from visas that entitle migrants to permanent residence. Such migrants are called 'settlers' and one might think of them as the 'real' migrants. This category has three parts: migrants coming in under the Migration Program, those coming under the Humanitarian Program, and New Zealand immigrants. The Migration Program, in turn, consists of the Family Stream and the Skill Stream. In the case of the Humanitarian Program and the Migration Program one has to distinguish the projected figures - given when the

programs are announced by the Minister - from the actual immigration outcome figures in any one year under each category. New Zealanders have free entry so there is no 'program' and the numbers vary greatly year by year. In 2001-2002 (year ended June 2002) there were apparently 110 358 permanent immigrants ('arrivals') of all kinds, of which 82 168 came under the Migration Program, only 6 732 under the Humanitarian Program, and 21 458 were citizens of New Zealand.

Next, there are Permanent Departures, that is, emigrants. These consist of Settlers and of Australian born persons who say they are leaving Australia permanently. This is what they indicate on their outgoing passenger cards, though they may eventually come back to Australia. I suspect that when I left to take up a position at Johns Hopkins University in the USA I fell into this category. This category has increased sharply, even dramatically, since 1997. In 2001-2002 it was 48 241. When this figure is subtracted from permanent immigration we get net permanent migration of 62 117. My guess is that this figure is an understatement because of people like me when I went to the United States. We will have been recorded as permanent emigrants (departures) when actually, we would eventually return. On the other hand it could be an overstatement because of Australians (or settlers) who indicate on their passenger cards that they intend to go overseas temporarily but actually end up settling there.

This problem of measuring permanent emigration (and understanding the reasons for its apparent increase) is being researched (see Hugo et al. 2001), but if one takes the figures at face value, net permanent migration in 2001-02 was quite small. I have some estimates for 2002-03 (which should not be regarded as final) that show permanent arrivals having increased to about 134 000, permanent departures to have risen somewhat to about 50 500, and that therefore net permanent migration was about 83 500.

One might think that is where the story stops. But, surprisingly it does not stop here. There is a category called 'Long-term Temporary Arrivals'. The largest element here consists of so-called long-term temporary residents who have visas that allow them to stay in Australia for a specified period of more than a year. This category includes the large number of foreign students and working-holiday makers, as well as temporary business migrants. But are such people really 'migrants' ? I find it odd to describe a student who is here on a four-year visa as a migrant. But the inclusion of this 'long-term temporary' category in determining Net Overseas Migration does follow international statistical convention.

When these long-term temporary arrivals leave again they are counted as long-term temporary departures. In addition, Australian permanent residents (settlers and Australian-born) who have been abroad for more than a year and are returning to Australia come in the category of long-term temporary arrivals. Long-term

temporary departures include not only visitors who came in as long-term temporary arrivals but also permanent residents (Australian-born or settlers) who are going abroad and indicate on their departure cards that they would be away for more than a year but would return. Is all this clear?

In 2001-2002 the excess of Long-term Temporary Arrivals over Long-term Temporary Departures was the incredible (to me) figure of 93 025. Perhaps some of the long-term temporary arrivals actually converted to becoming permanent residents while in Australia. But the main explanation of this high figure is apparently the following. The number of long-term temporary arrivals has been rising rapidly while departures lag on the average by about three years. Thus the combination of the rising trend and the departure lag explains the big increase in net long-term arrivals. If arrivals stopped increasing year after year the net figure would eventually become zero (apart from the effect of long-term arrivals converting to permanent residence or to short-term departures while in Australia). In any case, when such net temporary long-term immigration of 93 025 is added to net permanent immigration of 62 117 we get 155 142, which is Net Overseas Migration (NOM), and that is the usual net migration figure that is cited.

Looking at the figures one notices the following.

Firstly, migrants who came in under the Migration Program (Family plus Skills stream) are a small part of the story. One must add the Humanitarian Program and New Zealanders. Then one must subtract departures, which are large. Finally, one must add Net Long-term Temporary Arrivals in order to get to NOM.

Secondly, the size of the Humanitarian Program seems to be very modest, considering the amount of boasting or worrying of which I have been reading. I certainly thought it was larger, and I am sure the community generally thinks so. In 2001-02 the number of persons who came in with Humanitarian visas for permanent residence granted outside Australia (that is, 'off-shore') were only apparently the figure I have already given, namely 6 732 while, in addition, about 3 900 visas were probably granted in Australia ('on shore'), some of which will have been for permanent and some for temporary residence.

The projected Humanitarian Program for 2002-03 is 12 000. If visas given under this program all turn out to be for permanent residence, then if we keep this up for ten years it would get to a total of 0.6 per cent of the current population.

With this background, let me come to the immigration policy debate. I find a classification into three approaches helpful.

The conservative approach

The first view – which I believe to be widely held - can be crudely summarized as follows. We are happy as we are. Why should we have bigger, more crowded, cities, more sprawl, more people on the beaches? Australia is a great country and gives us a great way of life. Some would say it is ‘ the best in the world’. We like our big gardens, our single storey houses, our freedom to build where we like, and our wide open spaces. Why change? Perhaps we once needed some population growth, but now it is time to stop. So keep the population constant or, maybe, keep net migration down to zero. Why go through the inevitable changes that migration and population growth bring. The motive for this view may be a concern about the environment, a fear that immigration increases unemployment, or just plain dislike of changes. In the last case it is truly a ‘conservative’ view. I do not personally subscribe to this conservative approach, but I believe it is widely held.

Some people holding this kind of view dislike some of the migrants that have been coming here, and expect more of the same if the immigration program continues. Or they may not object to the migrants who are already here, but think that further migration is bound to bring in people who will just be too different from ordinary Australians, leading to a disruption of social harmony. It has to be emphasized that it is possible to oppose more population growth for environmental reasons, and hence oppose net migration, without in any way being hostile to migrants who are now here. The existing migrants are now part of our community and we accept them, but we just don’t want a bigger community. One can love one’s own children without wanting any more of them.

It is worth thinking about the practical implications of this approach. Suppose the aim of policy was to keep net migration at zero, so that inward migration (perhaps primarily of New Zealanders and a few from the United Kingdom) was just balanced by emigration. Since emigration cannot be regulated, and is also difficult to forecast, it would be difficult to bring this result about year by year. But, over period of years, on the average it may be possible. As I have already explained, natural increase is, and will continue to be, positive for some years and then, because of the decline in the total fertility rate, will turn negative. This means that the population will first increase and then continually decrease. Alternatively, the aim may be to stabilise the population. In that case net migration would first have to be negative — through emigration exceeding immigration — and then turn positive. Various practical compromises could be worked out, always bearing in mind the difficulty of forecasting varying elements in immigration, and the whole of emigration.

We should also allow for the possibility that, if the spirit of conservatism makes Australia less attractive to the more skilled and internationally mobile minority, emigration may grow. If there is not to be a continuous and drastic decline in the population, some substantial positive gross immigration will then be inevitable, first to keep net migration at least at zero, and, in addition, to make it positive, and so halt population decline. This means that our 'parochials' may just have to live with more and more migrants.

The pragmatic approach

The next approach, the Pragmatic Approach, must inevitably play a big role in determining government policies. I believe it does so to a great extent at present, more so that in earlier years. The pragmatic approach has two elements. First, it focuses on short-term effects, especially effects of immigration on the labour market and on social strains. There is a particular concern to minimise the period of initial unemployment suffered usually by new immigrants. This leads to the emphasis on bringing in not just skilled migrants, or migrants with a high level of education, but specifically migrants with skills that are currently in high demand in Australia. Is this emphasis really a good thing? I shall return to that later. Recently I have seen mention of accountants, IT professionals and nurses. Recent policy has in this respect — in avoiding longer-term unemployment of new migrants — been very successful. Second, policy responds to various pressures and interest groups. I do not think I need to elaborate here. Conservative-minded public opinion is one of these pressures, and migrant organizations interested in family reunion visas and businesses benefiting from growth are others.

Now, in my view the pragmatic approach on its own, with its short-term emphasis, is not enough. When net migration is around 0.5 per cent of the population in any one year, as it has been in recent years, one would not expect many significant short-term effects, other than on the migrants themselves. But gradually effects accumulate, so it is important to think about the long-term implications.

I am not saying that the government is not considering long-term implications. Forecasts of population growth based on demographic estimates of fertility and mortality trends, and assuming various rates of net migration, are made. I have seen one Department of Immigration projection, with assumptions carefully stated and hedged, which assumes net migration (NOM) of 100 000 a year over the next 50 years, and projects a population of 25 million to 27 million by 2050, and then remaining relatively stable to the end of the century (DIMIA 2003). One might use this as a reference point for considering long-term implications. What are the likely effects of an increase in the population from about 20 million currently to

25 million? And what, for example, would be the implications — and indeed the arguments for and against — of a doubling of the population over that, or a longer, period, ie to 40 million?

This leads me to the third approach — the Radical or Expansionist Approach. Here one envisages an eventual increase in the population to 30 or 40 million.

The radical approach

Let us now consider the implications of the population doubling from 20 to 40 million. My discussion is primarily qualitative and very general, so the same issues arise in a move from 20 to 30 million, for example.

One must distinguish the stock from the flow comparison. Immigration and emigration are the flows, and the level of population at any time is the stock. I begin with the flow comparison. In order to achieve the higher population, given the rate of natural increase or decrease over the period, there would have to be an increase in net migration relative to what net migration is now. The new annual rate of net migration need not be constant (in absolute or rate form) but it would certainly be far higher than that of the nineteen nineties, when it was about 90 000 per year (average of 1995-6 to 1999-2000). From 1949 to 1986 the population doubled in 37 years, and from 1958 to 2001 it doubled in 43 years. But this could certainly not be repeated even if the net migration rate were the same as in those earlier years, because the rate of natural increase is so much lower and will eventually fall to zero and then become negative.

It can be roughly estimated that, if net migration were 200 000 a year for the relevant period, and given various plausible assumptions about fertility and mortality trends, Australia's population might reach about 34 million in 2051 and 40 million in about 2081 (These results follow from the assumptions of the DIMIA projections mentioned above). The estimates depend on predictions about trends in the total fertility rate as well as the mortality rate, and I do not vouch for the details. Orders of magnitude here are relevant. Also, over the period concerned the actual net migration figure could vary, as long as the average was eventually attained. Thus, even if one concluded that there would be net benefits from having a population of 40 million relative to a population of 20 million by about 2050, or later, one would have to consider the implications of a very large rise in the average rate of net migration. In fact, the calculation I have just given could be interpreted in a different way It might lead to the conclusion that politically plausible net migration rates in the future cannot lead to anything near a doubling of the

population in fifty or so years, if ever. Hence the question-mark in the title of this paper.

I now come to the stock comparison. It involves asking the question: what would be the gains and losses in having a population of 40 million at some future date relative to a population of 20 million. I am not suggesting that the government should choose a rigid population 'target' of 40 million, or some other figure, such as 30 million, nor determine a constant annual quantity or rate of increase of net migration to achieve it. Circumstances change, including the view of the future in many respects, the year-by-year availability of suitable migrants may change, and the political and pressure group environment will change. But the annual or periodic migration decisions (insofar as policy can influence net migration at all) do need to consider the longer-term implications of a series of short-term policies.

I have talked rather airily about benefits and costs, but have not specified exactly whose benefits and whose costs I am concerned with. Basically, I have chosen to be concerned with the aggregate welfare (net benefits or costs) of the existing permanent residents of Australia and their descendants. The immigrants themselves will gain, unless they have made mistakes in coming to Australia, perhaps through lack of good information, The question is: will the rest of us, who are now here - lucky enough to be in the Lucky Country — including earlier immigrants, and our descendants, gain? The freer we are with entry, and, in particular the bigger the Humanitarian program, the bigger will be the aggregate gain to those foreigners who are lucky enough to become immigrants. That is obvious and is left out of account here. In addition, there are some citizens or residents — indeed like myself — who would derive satisfaction from Australia having a much more generous Humanitarian program, even if it reduced the net gain (or increased the net cost) from the more narrow, selfish point of view on which I focus here.

Weak arguments for and against a higher population and immigration

There are numerous arguments that are or have been advanced for and against immigration or a substantially higher population. Some are weak or based on confusions, while others are, in my judgement, not decisive, or need to be heavily qualified. One could certainly take up much time going through them in detail. Here I will just list them with the briefest of comments, so as to move on to the issues that seem to me decisive.

'Populating the empty spaces of our vast continent' was a very popular argument for many years before the last war. It led to a series of failed policies designed to

develop rural agriculture, including closer rural settlement by first world war ex-servicemen. It led to expensive irrigation projects and advocacy of more of them. The truth is that the future of Australia is not in rural development, except for tourism and retirement homes. The future immigrants, like the existing population, will prefer to live on the coast and mostly in urban environments. They will be producing (or designing) high-quality or very specialised manufactured goods and, above all, services of various kinds, both for the home market and for export. Agricultural productivity, no doubt, will increase, but agriculture is unlikely to require more people.

'We need immigrants to reduce or moderate the ageing of our population which is in prospect because of the decline in the fertility and mortality rates'. It is true that immigrants have tended to be younger than the average of the Australian population. And this must have some temporary, beneficial effect. But immigrants themselves also grow older, so this can only be a temporary effect unless the rate of immigration continually increases. Demographers, notably McDonald and Kippen (1999), have shown that some immigration, perhaps the first 80 000 to 100 000 per annum can make a significant difference to the future age profile, but higher immigration beyond that has less and less effect. If one compares the current population with a later higher population level that is brought about by immigration, it is only the process of immigration, not the higher level of population, which has an effect. One cannot base an argument for a substantial increase in the Australian population on this temporary demographic effect. The technical paper by McDonald and Kippen has a rigorous exposition of this, perhaps surprising, message.

Now I come to the most popular argument against immigration – and presumably against a higher population. In its crude form it is completely fallacious. Nevertheless, public opinion polls have shown that it has been, and presumably is, popular, and I believe this to be true not just in Australia. The argument is that 'immigration increases unemployment'. To people who have not studied economics (or 'economic rationalism', as it is strangely but flatteringly described in Australia) it seems plain commonsense, is it not, that when immigrants come into the country looking for jobs this must increase unemployment? Now, here one must be precise. It is highly likely that many, or even most, of those immigrants who seek to enter the labour force will initially be unemployed, either because it takes time to find a job, or because they lack some necessary basic skills, notably mastery of the English language. The crude popular argument is that immigrants will take the jobs of some of the existing population. This argument is most popular at a time of recession.

In fact, not only supply but also demand for labour will increase. In the short term either demand or supply might increase more than the other, depending on many

factors, including associated fiscal and monetary policies. I will not trouble to spell this out here. There is certainly no presumption that only supply of labour will increase as a result of immigration. One could write a whole paper spelling out particular circumstances where demand or supply might increase more. Two simple things can be said at this stage. First, it is highly unlikely that immigration in any one year equal to, say, 0.5 per cent of the population (the Australian percentage before the recent 'long-term temporary' boom) would have a significant short-term effect either way. Second, it is more than unlikely, but a ridiculous idea, that if the population increased, say, from twenty million to thirty million over a period, and the initial rate of unemployment was 6 per cent, at the end of the period the unemployment rate would be 37.3 per cent. That would be the implication of a 50 per cent increase in the labour force combined with zero increase in the demand for labour.

Before I started this project I thought that the real limitation on population growth in Australia might be inadequate water supply. Of course, as economists we do not think in terms of absolute limits but in cost-benefit terms. There is plenty of water in the north, but that is not where Australians want, or will want, to live. The cost of piping it to the south would be very high, though of course it is a possibility. The question is whether additional water for, say, double the present urban population, could be provided primarily in the south-east.

This is a fascinating subject and I defer to the experts in this field. Two facts immediately hit me when I looked at this subject. Seventy-two per cent of the water used in the Murray-Darling basin area is used for irrigation. All other uses, including urban use for households and commercial and industrial purposes take just 28 per cent. I found that an amazing figure. Secondly, there has been a gross, unbelievable waste of water, including water resulting from the Snowy Mountains scheme, essentially because water has not been properly priced. This has led to extreme results, notably development of irrigated rice and cotton production. The waste is also in urban areas, notably for watering private gardens. Furthermore, environmental damage has been done through the excessive diversion of water from river flow into irrigation. This is a widely discussed issue now, and I will skip the details. The bottom line is that if water were properly priced, and hence incentives were set up for its more efficient use, both the water needs of environmental (river flow) improvements and for a much higher population could be supplied at a reasonable cost.

'A higher population would have bad environmental effects'. This is a common argument of the opponents of immigration, and it must be taken very seriously. It is also a large subject and I cannot do it justice here. It has to be remembered that large environmental problems, notably soil erosion, have been caused by rural

developments, often many years ago. To repeat what I observed earlier, the extra population should not, and will not, go into expanding agriculture. This is often forgotten.

Essentially, what one should worry about are the urban and the coastal environment. I have no doubt that sensible town planning and controls of various kinds on coastal development are crucial. These are needed in any case, even in the absence of population growth, as are measures to limit urban pollution. Indeed, a central message of orthodox economics is that externalities (that is, market failure) should be dealt with directly, for example through taxes, subsidies, sale of pollution rights, and so on. But if we continue to have uncontrolled (or weakly-controlled) coastal development, inadequate or unimaginative town planning, and fail to deal adequately with urban environmental issues, then population growth is more likely to have adverse environmental effects. To put it another way: the view that both water supply and environmental effects are not serious constraints on reasonable population growth, is conditional. The conditions are that water will be properly priced and that environmental problems (externalities) in general will be dealt with appropriately directly.

There are various other economic arguments for and against immigration that I have not time to deal with here, except to say that none of them seem to me conclusive. Often the argument can go either way, depending on a balance of considerations, where the outcome is unclear.

I will pass over an argument well-known to economists — and prominent in the economics of immigration - namely that a significant increase in population tends to increase capital values of land and fixed capital, including housing, and these gains go to the existing owners, who are likely in the main to be existing residents of the country. Basically there is a transfer of capital from migrants to these existing owners. In addition those residents who are not owners of such property or of companies that own property, and have demand for them, will lose, this being a redistribution within the initially-resident population, a redistribution that has considerable political implications. There are subtleties that I will not explore here.

The stage I have reached is this: two arguments in favour of immigration and higher population (to fill the open spaces, and to reduce the ageing of the population) I have, more less, dismissed. Various arguments against population growth I also regard as either fallacious (immigration causes unemployment) or as conditional. If water will eventually be correctly priced and if adverse environmental effects in general will be dealt with in obvious ways directly, potential water shortage and environment effects do not provide strong arguments against population growth. Obvious environmental policies include intelligent town planning (including the planning of new suburbs and new cities) and constraints on coastal development.

Now, here I must emphasize the following. One cannot defend the case for immigration and higher population just by showing that arguments against an expansionist policy are weak or inconclusive. One has to have an argument for immigration. If arguments on both sides were weak, then the conservative position must surely win. All changes are potentially troublesome, even if they take many years to come about. And why should we let in every year many foreigners to join our happy national family if there is not a strong and conclusive case that we will benefit as a result? Hence I now come to, what seem to me, the three crucial arguments on which a radical (ie expansionist) approach must be based.

Populate or perish

The first argument is the good old ' populate or perish' argument. This was explicitly the motivation for the great Calwell post-war migration program. But, does it still make sense? In relation to the vast populations of China and Indonesia it hardly seems to matter whether we are 20 million or 40 million people. It is not population but the size of the economy that matters, or may matter. We do not know exactly what kind of threat to our security, if any, we will face, and it is now widely accepted that the likelihood of straight-out invasion is low or zero. All one can say is that defence, whether forward defence, defence against terrorism, or whatever, costs money, and the need is unlikely to increase with population, but the capacity to pay for it will. Perhaps, in the case of terrorism the cost of defence may actually increase with population, but leaving that possibility aside and assuming that there is a given cost of defence, however determined, it will be a lower cost as a percentage of GDP the larger the workforce.

Furthermore, I have no doubt that Australia's influence, whether in the region or the world, would increase if it were a substantially larger economy, able to provide more funds in aid, in contributions to international organizations or in joint international action. There are many ways in which other countries can benefit or harm us, and also many ways in which we can do some good in the world — if that is our desire. I have spent thirteen years in the United States teaching in a school of international studies where such matters are studied closely and considered important. I will leave it at that here. Finally, focussing specifically on international economic policy and negotiations, Australia will carry more weight when it is a larger market for other countries' goods.

Scale, variety, choice and the tyranny of distance

The second argument for a radical approach to population policy is economic, in the broadest sense. I do not think it can be easily backed up or proven by formal econometric models of the type that economists love. One must just reflect whether it is reasonable, whether it is supported by international comparisons, and whether the economic logic on which it is based is sound. It may be that elements of it could be analysed empirically, and perhaps Australian economists have or will do so. In the broadest sense it is the economies of scale and specialisation argument. But I want to give it a special wrinkle here.

A larger economy allows for utilisation of economies of scale in goods and services that are not traded internationally. This includes transport and communication services, and public administration. Furthermore, it allows for more variety of products and hence greater available choice. In addition, by allowing for more producers who produce at reasonable scale levels it makes possible a more competitive environment. It also allows for more network economies All this does not apply to goods and services that are internationally traded at (close to) world prices. The net effect is, other things equal, to raise the standard of living (per capita GDP). If all goods and services produced and consumed in Australia were fully tradable internationally (with low transport costs) the argument would not be valid. One could think of many examples, and need just think of the choices available in the United States or in Europe compared to those available in Australia. The experience of Japan, and indeed many other countries, also suggests that a large home market can provide a platform for a take-off into quality exporting.

The special wrinkle is that this argument is particularly applicable to a country, such as Australia and New Zealand, which is in a remote location. What is internationally tradable in the Netherlands (a country with an economy of similar size as that of Australia) is not so readily internationally tradable (with low transport costs) in Australia. The special feature of Australia and New Zealand compared with European countries or Canada is the tyranny of distance. Cheaper air fares and faster air travel, email, and the Internet have not overcome this. It seems to me that the relative geographic isolation of Australia provides a strong case that a larger population and hence economy would be beneficial. Of course, at some stage diminishing returns, principally through environmental and congestion effects, will dominate these economies of scale and diversification effects. In my judgement, and it cannot be more than that, this would not happen much before the population doubled again. This is a judgement that is subject to the conditions about water supply pricing and environmental policies mentioned earlier, and it is, of course, no more than a rough judgement.

How many and what kind of immigrants ?

As I have already pointed out, if the future population is to rise to much above the 25 million where net migration at the recent rates would bring us, then the net migration rate would have to rise substantially. This means that we would need to have a much larger migration program. Would that be politically acceptable? At this point the Radical Approach, to which I subscribe, must be qualified by the fact that the majority of the public probably adheres to the Conservative Approach, while most governments adhere to the Pragmatic Approach.

Public opinion polls in the past have shown that rarely does a majority of the public favour higher immigration, and more often has wanted immigration reduced. An exception was the period immediately after the last war when the 'populate or perish' motive was widely accepted, and even then the public wanted primarily British migrants and not the multicultural mixture (with the British still the largest part) that the government actually brought in (Goot 1988). Much has been written on this divergence between public opinion and government policy (see, for example, Betts 1999). The interpretation of opinion polls is often not clear, and answers depend both upon the way questions are framed and the information that the respondents have. It seems that often the public has been happy in retrospect with earlier immigration — which it had opposed at the time — while it was opposed to levels of current immigration. Governments have been, and may in the future also be, ahead of public opinion.

In my naïve and idealistic view (a view articulated by Edmund Burke a long time ago) politicians are elected to govern in what they believe to be the national interest, making themselves familiar with all the relevant facts and arguments — something the average citizen cannot do but has delegated to them — so they need not govern by public opinion poll. Nevertheless, there are limits that a pragmatic government cannot ignore. I would like to be proven wrong, but I doubt that the rate of immigration required to bring Australia to 40 million this century, however desirable that end result may be, is feasible for that reason.

If we set high standards for the levels of education or skills required for immigrants, then, in addition to public opinion, the other limit to immigration is the availability of such 'high quality' immigrants. The higher our standards, the more we are in competition with other developed countries, notably the United States and Canada, but eventually also many European countries which have low fertility rates and an increasing interest in skilled migrants. Furthermore, the likely principal sources for such high-quality migrants, namely India and China, will probably become increasingly attractive themselves. On the other hand the growing size of the somewhat westernised educated middle-class in those countries will provide a

growing reservoir of suitable migrants. In any case, in my view, we should seize the opportunity now to bring in skilled and educated people.

We should not define 'skilled' too narrowly, and just with a focus on the short term. We need people who are flexible in the kind of work they can do, and who bring in a culture that they pass on to their children which values education. Taking a long view, a degree in English literature or history, or — dare I say it -even music, may be as valuable — or more so — as a degree in accounting. If I may slide in an unfashionable and no doubt very controversial thought, we might even bring in far more refugees not only because it is the right thing to do, but also because they are likely to be more grateful to Australia, and eventually more committed to it. Many of them actually have skills and good education levels, even though the skills may not be those that in the short term are in the highest demand. A crucial skill certainly is mastery of English (which many recent Humanitarian migrants seem to have lacked), though for younger immigrants that can certainly be learnt.

Skilled, educated, or entrepreneurial migrants are likely to earn higher incomes and raise the average productivity of Australia. The question is how these benefits, which will mostly go to the migrants themselves, would spread to the existing Australian population. Firstly, skilled immigrants with higher incomes will pay more taxes, which are then available for redistribution and the provision of public infrastructure and services. Secondly, they are less likely to be unemployed for long periods, and generally require less welfare, including unemployment benefits, and eventually old age pensions, compared to unskilled immigrants. Thirdly, there may be externalities, through effects on the national culture, perhaps inducing a stronger belief in education and related values among other Australians. But here we must be aware of the conservative approach: some of our fellow citizens will not regard the last as a benefit, and may prefer the national culture just as it is. And one can also think of adverse effects, notably resentment of success.

A fourth benefit is more subtle. It has been spelt out by Garnaut (2002) recently. Skilled immigration is likely to raise the relative real wages of the unskilled, through increased demand for labour services of various kinds. (Of course, all work requires some skills. I am referring here to those labour services which do not require extensive training). As a general point, if there were just two factors of production, skilled and unskilled labour, the more the skilled factor increases relative to the unskilled, the more the real wage of the skilled will fall and of the unskilled will rise. This is a redistributive effect, which may well give rise to complaints from existing skilled residents. But it is likely both to make the income distribution less unequal and to reduce unemployment of the unskilled, this being where most unemployment can be found.

Some might object that it is not desirable that immigrants reduce real returns to skill and thus reduce the incentive for Australians to acquire skills. They might prefer immigrants to be and remain unskilled (or low-skilled), and thus provide cheap labour to do work that Australians do not want to do. This approach would be akin to the European objective in importing guest workers from countries like Turkey. But it would be an approach quite contrary to Australian tradition. We have always wanted to avoid creating a permanent underclass because, unlike Europeans, we have seen immigrants as potential fellow citizens, or members of our national family. Perhaps the solution is then to bring in a mixture of immigrants with various degrees of skill, with the broad aim of not drastically changing relative real wages and real returns to various forms of training. Possibly, this is what, in practice, we have been doing without deliberately intending to do so.

Those people who really do not want more immigrants of any kind anyway can, of course, argue both that unskilled immigrants create an undesirable underclass and increase unemployment, while skilled immigrants compete 'unfairly' with skilled Australians and reduce the incentives for training. Such an argument might go well in a debate.

Finally, let me add something about unemployment of migrants. Lengthy periods of unemployment of migrants after they arrive, sometimes lasting more than a year, and even more than a year, have been common in Australia, notably (but not only) among those coming under the Humanitarian program. It is obviously caused by lack of English, by lack of familiarity with Australian conditions and requirements, as well as, sometimes, lack of initial education. Hence it is not surprising. It imposes great costs on the migrants themselves and also losses to Australian society owing to the cost of unemployment benefits, and even when these are not paid initially, through losses of taxes the migrants would pay if they were employed.

Here it is interesting to compare the situation with that of the United States, where new migrants tend to have lower unemployment rates relative to the national average rather than far higher ones, as in Australia. This means that in Australia migrants have far less opportunity to build up their 'human capital' through work experience (which is also often a way of learning English), and hence their adjustment to Australia is delayed. I base my comments here on an excellent recent article by Miller and Neo (2003) on labour market flexibility and immigrant adjustment.

In the United States migrants initially find work paying substantially lower wages than the national average. This is the way they are absorbed in the workforce and build up their human capital. Eventually their wages reach the wages of comparable non-immigrant workers. The Australian labour market system — the system of minimum award wages — prevents this from happening. Initial wages of those

migrants who are lucky enough to find jobs tend to be somewhat lower in Australia than the wages of comparable non-immigrant workers, though not relatively as low as in the United States. The US labour market avoids the initial high unemployment by allowing workers to be employed initially at markedly lower wages.

Hence, in Australia the adjustment of migrants, in terms of rates of unemployment and wage levels to the average of comparable workers is much slower than in the United States. The basic reason is the lack of initial Australian work experience. This is a cost, and not the only one, of our very old-established labour market regulation system.

Perhaps this system will be reformed in the next 50 or so years. But at present it is a reason why our pragmatic short-term orientated governments find it desirable to try and tailor immigrant selection closely to current labour demand. It is a reason — additional to the general argument in favour of skilled migration mentioned above — for favouring skilled migrants who will readily find jobs at the high Australian regulated wage rates.

The second generation success story

I would now like to draw on some Australian experience. This has important lessons for our future immigration policy. I am making use here of standard statistical sources plus two fascinating reports, one based on material in the 1991 census and the other on the 1996 census, both about so-called 'Second Generation Australians'. These are persons born in Australia whose fathers were immigrants. The reports are Birrell and Khoo (1995) and Khoo et al. (2002). The Second Generation is compared with the First Generation — that is, actual migrants (born overseas) — and with the so-called Third Generation, which consists of the Australian born whose fathers were also born in Australia. These are, mainly the traditional Anglo-Celtic Australians. (Incidentally, in most cases both parents were born in the specified country, but where only one was, the country of birth of the father is counted.)

The great post-war immigration program that was conceived at the end of the war and got going in 1947, and was originally master-minded by Arthur Calwell, the first Minister for Immigration, was meant to bring into the country primarily people from the United Kingdom and Ireland, but also Displaced Persons from European refugee camps. The motive for the program, which was supported by the Opposition led by Robert Menzies (who carried it on when he became Prime Minister in 1951), was 'populate or perish'. The intention was to have annual immigration equal to 1 per cent of the population.

Plenty of Britons did come, and the United Kingdom was by far the largest source of migrants right until the 1970s. At the 1996 census over one million residents were born in the United Kingdom. But in the 1950s the numbers willing to come to Australia from the United Kingdom were not enough even though the travel of British migrants was subsidised. So the Immigration Department turned to Southern Europe, principally Italy, Greece and Yugoslavia. Here I focus on Italians and Greeks.

The government did not ask the Australian people whether these 'dagoes' or 'wogs' (which were popular terms of abuse) should come in large numbers. In fact, they were not very welcome, as evidenced in public opinion polls (Both in 1964 and 1971 polls the majority did not approve of immigrants coming from Italy and Greece. See Goot 1988). The Italians came overwhelmingly from Southern Italy, and had peasant or small town backgrounds. The average level of education was low, and they came to work in Australian factories, notably the motor — car and clothing and textile industries. The same applied to the Greeks. They worked hard and built up strong local communities, particularly the Greeks. By the time of the 1954 census more migrants were born in Italy than in any country other than the United Kingdom. By the time of the 1971 census Greece was the third main source country. The 1996 census showed that 572 100 Australian residents were either first generation migrants from Italy or second generation with, at least, an Italian father. This was 3.1 per cent of the Australian population. The figure for Greeks was 280 500, which was 1.53 per cent of the population. So the country was never really flooded with these 'wogs', but they and their descendants are a significant element in the Australian population. It is true that there is still a tendency for the second generation to marry within the group. Thus, in 1991-92 46.5 per cent of second-generation Italian–Australian grooms (ie who had Italy-born fathers) married within the group, while the figure for Greek-Australian grooms was 60.4 per cent. But who would argue now that Australians of Italian or Greek descent are not fully integrated in the Australian community? I suspect (and hope I am right) that now there are not many Anglo-Celtic Australians left who would complain about that earlier 'flood' of Italians and Greeks.

It is particularly interesting to discover how the second generation in these two ethnic groups has not only far outshone their parents' educational levels (thanks to the financial support and encouragement of their parents) but also overtaken that of 'ordinary' Australians, ie the third generation (Australian born whose fathers were also born in Australia). I have a mass of interesting figures. Here is a selection. These figures come from the 1991 census.

Only 2.5 per cent of Italian and of Greek first-generation male migrants who arrived before 1981 had degrees. By 1991, 13.1 per cent of the Italian and 18.8 per cent of

the Greek male second generation had degrees. This compared with 10.8 per cent of ordinary Australian males. At the other end, here are figures for males with no post-school qualifications, not even a vocational qualification. The figures for the male 1st generation who arrived before 1981 was 83.8 per cent for Italians and 85.1 per cent for Greeks, and for the male second generation was 44.6 per cent (Italian second generation) and 48.3 per cent (Greek second generation). For ordinary Australians the figure was 48.4 per cent, so that in this case the second generation came close to the ordinary Australian level.

There are many more figures both for 1991 and 1996, including figures for females, showing the same broad results. Let me just quote one more set of figures, illustrating how Greek-Australians have seized their educational opportunities in Australia. Only 4.4 per cent of the 1st generation males had professional jobs in Australia in 1991, but 18.7 per cent of the 2nd generation had. The figure for ordinary Australians was 12.6 per cent.

I conclude from all this that migrants who came to Australia with limited skills usable in Australia, and often with very little English, but who had a work ethic, produced a second generation that became, on the whole, better educated than 'ordinary' Australians. If we are thinking of levels of education as indicators of useful skills, with all the advantages that improvements in skill levels bring to Australia, we should take into account the prospective second generation. If we are concerned about integration into the Australian community, we should take a relaxed attitude to the 1st generation migrants. They have difficulty with English (as many Australians have with French and Italian, which I have observed in France and Italy), they like to live close to where their fellow ethnics live (as Australians tended to congregate in Earls Court, London in the days when I was a student there), and if there are some streets where most of the shops belong to members of one non-Anglo ethnic group, then let us not worry. (Would we really want all the Italian restaurants in Lygon Street to be English?). The 2nd generation not only integrates, often it really assimilates, and sometimes we actually assimilate a little to their inherited culture (as with Italian food). Sometimes full integration may wait until the 3rd generation, as in the United States where the melting pot has nevertheless vigorously boiled.

I conclude by saying something about the Vietnamese. In the eighties there seemed to be some concern about this very visible ethnic minority. I have been reading a great deal about this.

They came to Australia in a relatively short period beginning in mid-1975, the first lot as refugees (boat people from Malaysian and other camps, and a few boat people who came directly to Australia), and later as family reunion migrants. By 1996 the flow was almost at an end, and the 1996 census recorded 151 500 residents whose

birthplace was Vietnam. In addition, there were 46 800 of the second generation, mostly in the 0–14 age group. This meant that the Vietnamese-born were 0.83 per cent of the population, while the 1st plus 2nd generation was 1.08 per cent. The latter figure made the Vietnamese (1st plus 2nd generation) the 6th largest non-English-speaking-background ethnic group. I must say I was again surprised by the smallness of that number. All that fuss about 1 per cent. The first generation adults had low education (with 76.5 per cent having no post-school qualifications), were in low-skill occupations and had high unemployment rates (26.3 per cent in 1987). There was also a small but visible minority involved with crime.

That is one side of the story. But there is another side. By July 2002 the unemployment rate was down to 9.9 per cent (approaching the Australian rate of 5.6 per cent). According to the 1996 census, of children aged 10 to 14, 88 per cent of those born in Vietnam (1st generation) and 98 per cent of those born in Australia of Vietnamese fathers (2nd generation) spoke English well. The most striking fact is by now well known to all teachers at schools and Universities, namely the strong attachment to education of the Vietnamese. This bodes well for the future. It will be interesting in ten or twenty years time to look back at the consequences.

In 1996, 79.8 per cent of 18–19 year old Vietnamese males were still studying, and 84.7 per cent of females. This can be compared with 41.3 per cent of ordinary (3rd generation) Australian males and 46 per cent of females. In the age group 20–21, 41 per cent of Vietnamese males and 39 per cent of females were at University, compared with 16.4 per cent of ordinary Australian males and 22.2 per cent of females. Again, I arrive at the conclusion that, however unskilled or uneducated the adult 1st generation is, and however slow they are at learning English (which probably explains much of the initial high unemployment), the children are the future, and they are certainly acquiring skills.

To summarise

Some arguments for and against immigration can be dismissed. In particular, the common view that immigration must increase unemployment of the existing residents is based on a fallacy and should be put to rest. The concern with the environmental effects is justified, but these concerns should be dealt with directly - even with the present population - by many measures which are certainly available but require political will. There are two arguments in favour of a substantially larger population that seem to be very persuasive but that are difficult to support conclusively with empirical research. I think that they should be discussed and researched further, even though they cannot lead to a precise population 'target'. In any case, such a target is not necessary. These two arguments are the 'populate or

perish' argument, broadly interpreted, and the economies-of-scale and increased choice argument when applied to a country subject to the tyranny of distance.

In addition, there are the probable benefits to be derived from immigrants with skills, a work ethic, and education. I have discussed three Australian case studies (Italians, Greeks, Vietnamese) and focused on the second generation. I have stressed that the concept of 'skills' should not be too narrowly interpreted, nor should one take too narrow a view about the need for assimilation by the first generation of immigrants, or even the second. Lessons here can be learnt from the United States.

In my own judgement, a substantially higher population attained within a period that allows plenty of time for adjustment, would be highly desirable. This is the Radical Approach. But the real constraint comes from the combination of two factors. First, there is the trend decline in the total fertility rate. Second, there is the political difficulty of bringing about the substantial increase in the rate of net migration that would be required. This difficulty, in turn, results from the combination of the conservative approach to immigration policy by the public and the pragmatic approach by governments. It is these two factors that lead me to believe that we will, after all, not have forty million Aussies by 2050 … though perhaps we will get to thirty.

Bibligraphic note

Unless otherwise indicated, all figures come from the websites of the Department of Immigration and Multicultural Affairs and Indigenous Affairs (Yes, there are indeed two 'and's in this title.) and the Australian Bureau of Statistics. There is a huge literature in this field. The best overview book on the history and politics of Australian immigration post-war is Jupp (2002). This also contains an extensive bibliography. On the earlier history, politics and general characteristics of Australian immigration, see Jupp (1966) and Birrell and Birrell (1981). Other fairly recent books on the broad issues, or with excellent overviews are Wooden et al. (eds) (1994) and Collins (1991). A book with (broadly) an anti-immigration standpoint is Betts (1999) and one with (mainly) pro-immigration contributors is Vizard et al. (eds) (2003). A major source of information is Committee to Advise on Australia's Immigration Policies, known as the Fitzgerald Report, (1988). Hugo et. al. (2001) deals with emigration from Australia, a subject that has recently attracted attention. On demographic issues, my own understanding has been much influenced by McDonald and Kippen (1999) and McDonald and Kippen (2002). The journal *People and Place* (published by the Centre for Population and Urban Research at Monash University, Melbourne) has numerous useful articles in the field.

Coming to the economics of Australian immigration (where there is also a large literature), up-to-date reviews of all the issues, and with long bibliographies, are OECD (2003) and Withers (2003a). An earlier survey is by Mark Wooden in Wooden et. al. (1994). Glenn Withers has written extensively on the subject, and his most recent paper is Withers (2003b).

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