1 Introduction

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The Productivity Commission's Roundtables, held once a year at Old Parliament House, are an annual series devoted to discussion of important contemporary policy issues among key figures in the 'policy space'. The reasons for choosing this year's topic — on population policy issues — will be evident, I'm sure, to anyone who witnessed the lead-up to the Federal Election last year. The nature of the public 'debate' at that time has left a legacy for policy development today that can be likened to the old Irish joke about the traveller in the wilds of County Cork asking a local how to get to Dublin. Answer: 'I wouldn't start from here!'

Confusion and contention have reigned supreme. We have experienced a popular backlash triggered by the confluence of the escalation in boat arrivals, IGR(3)'s 36 million population projection, and Prime Minister Rudd's declaration about the desirability of a 'Big Australia' – all seemingly out of the blue. These drivers were further compounded by claim and counter claim about the merits or otherwise of immigration, and of different population scenarios. The public has heard various eminent Australians, including former political leaders and 'Australians of the Year', advocating quite divergent positions (for example, proposing population targets ranging from 15 to 100 million!).

A 'sustainable' Australia?

Coinciding with the election, this led all sides of politics to repudiate the Big Australia notion in favour of a 'sustainable' Australia. This has been welcomed by many in the community, but it has also been criticised for the vagueness of the concept, with some concerns that it might be synonymous with a *small* Australia.

Depending on how the sustainability objective is operationalised, however, this shift can be seen as a positive development, given the context just described. It keeps the 'wolves from the door' politically, while potentially also keeping a range of policy options and outcomes in play. Handled right, it could presage a more coordinated,

transparent and informed approach to policy development, rather than ad hoc, opaque decision-making that is more easily prey to the influence of pressure groups and that can yield erratic outcomes.

But this leaves us with the $64 question. 'Sustainability', post-Brundtland, has become a broad church, with different interpretations of its principles or strictures (from 'weak' to 'strong') and, therefore, different implications for public policy. However, at bottom, most would agree that it is about following a policy path that promotes ongoing improvements in societal wellbeing, with a destination that no future generation would regret, and for which, along the way, the policy benefits (broadly conceived) exceed the costs.

Another positive in using a 'sustainability' framework for policy is explicit recognition that the advancement of society involves more than economic considerations — that there are also social and environmental dimensions. Moreover, it suggests that there are interconnections between these and, at least in more benign interpretations of the concept, that tradeoffs among them will sometimes be called for.

Pursuit of a 'sustainable' Australia, therefore, need not rule out a 'big' (or at least substantially bigger) Australia, provided the appropriate tests are satisfied.

There are two further important implications of this shift to a sustainability paradigm in relation to population.

- First, it arguably requires us to give more attention to the *rate* of change than to some distant target *level*. That is, it puts the focus on what might best be called 'absorption capacity' (a dynamic concept) rather than static notions of 'carrying capacity'. It seems virtually impossible, in any case, to predict outcomes two or three decades into the future (as the 8 million disparity between the population projections in the last two Intergenerational Reports, just three years' apart, clearly illustrates).
- Second, a sustainability perspective requires that attention be paid not only to population pressures (the *demand* side), but also to the factors that determine how well these can be accommodated within our country (the *supply* side) — recognising that these supply-side factors (institutions, regulations, public administration) are amenable to policy action too, and possibly more so.

A final implication, related to all these, is that a shift to sustainability calls for a deliberative and consultative approach to policy formulation: one that can secure well-informed political judgments, beyond the (facile) input of focus groups and 'Hollow Men', in what could become a more benign or at least more neutral political environment for policy decision-making. This is important, because,

notwithstanding claims to the contrary, having a 'policy' is unavoidable. The only real choice is between one that effectively emerges by default — conceived in ad hocery or stealth — and one that is explicit and has been properly thought through, and is therefore explicable to the electorate.

That governments have not chosen this path (at least since the 1970s) tells us that it may not be an easy path to take – and even that it may be a politically hazardous one. But, as has been observed, so too is policy by default or reactive decision-making. In this area, as in others, good policy should also prove to be good *politics;* and good *process* is central to good policy.

A policy framework

Taken broadly, there are three core elements in an effective policy-development process:

- clarifying the policy objectives
- understanding the 'forces at work' within our economy and society, and thus the nature of 'the problem' and
- assessing the pros and cons of different options for dealing with these (so as to best meet the objectives).

The first of these is of course the most fundamental. The origin of many failed policies and programs in the past has been a failure to define the objective (and therefore, to understand the problem). Multiple objectives inevitably emerge in an area such as population policy. In practice, however, these could all be treated as subordinate to what has to be the overarching goal: namely, maximising the wellbeing of the community over time (and, invoking 'sustainability', across generations).

Community wellbeing has many dimensions. It includes measurable economic aspects, but also other determinants of quality of life, such as environmental and urban amenity and social cohesion. It is also important to note that the most relevant 'community' for national policy purposes at any point in time will generally be the *existing* population (and their descendants). Also, it should be the community as a *whole*, not just particular sub-groups (or those with the politically loudest voices).

There has already been considerable debate about whether population policy should focus on population itself (as part of a 'proactive' stance) or on making the host environment more accommodating ('reactive' or adaptive policy). It seems evident that it would need to address *both* sides of the (sustainability) equation.

The external forces

Looking at the *population* side first, a moment's reflection tells us that immigration is the only component of population growth that is really amenable to policy action.

'Native' population growth has two drivers — fertility and mortality. Experience is clear that it is very hard for governments to increase the former, and I'm sure that none of us would want to increase the *latter*!

It's true that Australia has experienced a surge recently in the birthrate (from 1.7 to 1.9 births per woman). But this appears to have been largely attributable to a rise caused by previously postponed decisions to have children — rather than a permanent increase. (Note that even the recent more elevated rate is still below what would be needed for population replacement).

Population growth has become increasingly reliant on immigration. It accounts for almost 60 per cent of population growth currently (despite our resurgent fertility and last year's decline in net migration). And it is projected to account for *all* of our population growth by the middle of the century (once the influence of the Baby Boomer generation has receded).

It has been said that governments have little room to move when it comes to immigration levels; that these are largely 'endogenous' — a reflection mainly of domestic economic and, particularly, labour market conditions. There is some truth in this, but only up to a point. It is true that the potential 'supply' of immigrants depends on the willingness of people to leave their countries, and the relative attractiveness of Australia as a place to live. It is also true that governments do not set caps on the numbers of temporary immigrants. Most of Australia's immigration in recent years has been of a temporary nature (although many of those immigrants subsequently used temporary visas as a stepping stone to permanent residence). Ultimately, however, it is government policy that determines the outcomes for prospective immigrants — it is the government that sets the criteria to be satisfied by applicants and that imposes caps on some categories (such as permanent residency visas).

Impacts of immigration

Turning to the impacts of immigration, while there are labour market benefits, these can be (and often have been?) overstated, especially from the perspective of the potential to enhance the local population's welfare. More people translates into more jobs, more output, more income and more consumption. A bigger domestic market and a bigger domestic economy. But, as noted, the real question for a

(sustainable) policy is whether existing citizens (and their descendents) will be better off as a result.

Ultimately (in the longer run) the impact of immigration on per capita incomes of the existing population depends on a combination of many forces. These include: the effects on labour force participation and productivity; whether there are any economies (or diseconomies) of scale in production and consumption; how the returns to Australia's natural resources are distributed; the effect on the government's net fiscal position; and how any fiscal gains or losses are distributed. It also depends on whether there are any distortions in the domestic economy that prevent an efficient adjustment to the changing size and structure of the population (to which I will return).

In a study for the Government in 2006, the Productivity Commission modelled a 50 per cent increase in the skilled migration program (an increase that eventuated in subsequent years.) That substantial increase in skilled migration was projected to yield an estimated gain in annual *per capita* income of just 0.7 per cent ($320) and only after 20 years. It was swamped by other, domestic drivers of productivity growth. Moreover, most of the aggregate gain accrued to migrants themselves — the average incomes of the population existing in 'year zero' actually declined slightly.

The finding that the effects are generally small is similar to that of previous studies, both here and overseas. There are two, commonsense, reasons for it:

- First, the 'flow' of (extra) migrants is small relative to the 'stock' of the existing population and labour force.
- Second, the forces that determine the effects on the incomes of the existing population often offset each other, and some of the effects wash out in the long run.

It is also a fallacy that higher immigration counteracts population ageing. Beyond an annual immigration level of around 100 000 people, the demographic benefits have been shown to diminish greatly, with migrants impacting much more on the *size* of the population than on its age *structure*. The main reason is that migrants age too! We would need to bring in increasingly more of them to 'backfill' the age structure over time. Indeed, the Commission calculated that to *preserve* the current age profile of the population, the immigration-to-population ratio would need to rise to three per cent (triple its peak of 2008-9). This would make Australia a population 'super-power' of 100+ million people by mid-century!

Modelling doesn't tell us the whole story of course. Models can only be constructs of the economy and can't encompass everything that matters. Ours left out scale

effects, externalities and dynamic influences — all of which can matter for economic outcomes — as well as social and environmental impacts (though their potential was acknowledged).

For example, a key influence on the actual productivity/participation outcomes for migrants will be their work ethic. Migrants forsake much culturally and socially to come here; their ambition is typically to achieve a higher standard of living, and hard work is part of that. Moreover they typically want a better life for their *children* and most see education as crucial. Indeed the children of migrants often realise their parents' ambitions for them, with statistical evidence demonstrating their above-average educational and labour market outcomes.

This also suggests that the impacts of migration should properly be considered over long time periods. For example, while concerns are often expressed about migrants being greater beneficiaries of the 'welfare state', the reverse is generally the case once the impacts are assessed over their lifetimes, let alone those of their children.

This is also relevant to the *social* impacts of migration. The first wave of any ethnic group generally has a tougher time and faces more community resistance than those who come later and, especially, their Australian-born descendants. (Think of the experience with the Italians, Greeks and Vietnamese.) That said, not all cultures and not all types of migrants are equally receptive to integration or assimilation within the host society, and many countries are increasingly being forced to confront the adverse consequences of this for the functioning of their societies.

The domestic forces

Turning to the *domestic* side of population policy, the first point to make is that population size *per se* is neither a necessary nor sufficient condition for economic prosperity. We can all think of poor countries with large populations and rich countries with small populations (as well as the reverse). The number of people is less important than how well they are utilised in an economy and society.

The potential economic benefits to be derived from Australia's post-war population boom, for example, were partly squandered by too many people working in highly protected and high cost manufacturing industries under rigid, centralised workplace 'rules' that lowered their productivity and participation. As a result, per capita income growth in this period was much lower than it could have been.

The domestic policy environment for a growing population in Australia has been much improved following the reforms of the 1980s and 1990s. But there is still resource misallocation and waste from poor regulation, unproductive industry

assistance and deficiencies in how we go about infrastructure investment and pricing. Reforms in these areas would yield a 'win-win' for incumbents and newcomers alike. Equally, going backwards on reform — re-introducing rigidities or anti-competitive regulation — could yield a *lose-lose* result. This is especially relevant to the labour market, which is the main conduit for (economic) benefit from migration.

Equally, the impacts of population/migration on Australia's resources and its environment depend not only on the numbers of people, but also on where they choose to locate, and the 'rules' and price signals that influence how they behave in their daily lives. Where natural resources are under-priced (as water generally has been, for example) the extra demand pressures from a larger population will obviously exacerbate shortages or depletion rates, and compound social losses from misallocation. The policy prescription? *Price resources properly*!

The same applies to environmental assets such as clean air, open space and 'amenity'. Pricing can be trickier for these, but there remain untapped opportunities, such as for road congestion within our capital cities.

An important point to keep in mind, however, is that even such 'efficient' responses do not guarantee that the welfare of the existing population can be maintained or improved. (In fact, the wellbeing of incumbents may decline as a consequence of imposing a price on a previously unpriced resource.)

At any rate, pricing can only do so much, and regulation will generally have a key role to play. But our regulatory legacy leaves much to be desired in terms of cost-effectiveness.

The low density of our capital cities is often seen as a 'problem'. It is, in large part, merely the legacy of regulation and planning decisions of the past. This makes it hard to change quickly. But it also raises questions as to how much change is really desirable from a social welfare perspective.

The pricing of government services is also relevant to the net benefits for the local population from immigration. Access of migrants to 'free services' can be resented by locals and become a source of societal tension. Greater reliance on user charges — where justified in its own right — would limit such distributional effects and encourage migrant participation in the workforce. (The waiting period of two years for most migrants to be able to access unemployment benefits reflects this.)

Implications

In sum, much can be done in domestic policy and structural reform that would enhance the benefits and reduce the costs of immigration from the perspective of the Australian population as a whole. This would also raise the absorptive capacity of our economy/society, and enable a higher rate of population growth to be 'sustainable'.

Achieving a sustainable population, therefore, demands attention to both sides of the equation. Working out the best combination of policy actions will be challenging, especially given that policy responsibilities cross jurisdictions in our federal system. Good process will be essential to understanding the tradeoffs and to achieving broad public support, or at least acceptance, of the policy decisions themselves. And evidence and analysis have an important contribution to make.

With all this in mind, and in the context of the Population Taskforce process established by the Government, this Roundtable provides an opportunity to discuss some of the key issues and thereby to promote a better understanding of the elements of good public policy in this area.

We are fortunate to have attracted a group of people who have expert knowledge and are well placed not only to participate in discussion here, but to carry the insights forward. We are especially grateful to our eminent international participants, Professors Barry Chiswick from George Washington University and Richard Arnott from the University of California, for venturing across the globe to participate in this Roundtable in Canberra.