

The Amazing Decade: The million people surprise

Migrants and jobs

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- The last decade has seen exceptional Australian economic growth
- The terms of trade lifted Australian per capita incomes above that of the US. The first time for at least a century. Per capita income is now falling back in relative terms
- The mining boom and its effects have attracted considerable attention
- Our research elites - RBA, Treasury academia - responded quickly with good and easily understood analysis, although much yet to be fully understood about this extra-ordinary event
- But there is another major macro economic shock to which our research elites have been slower to react
- Very large changes in the immigration program and immigration numbers.

Today's slogan

- ***Mining booms come and go but large population changes last forever***

A Brief History of a Major Policy Change

- Australian immigration program has changed profoundly over the last two decades. We have moved to a two step immigration program.
- ***The first step*** is to admit large numbers of temporary migrants with limited work rights. These numbers are largely uncapped – students, holiday makers, 457's and others
- The temporary migrant group may now account for 7-9 per cent of the Australian workforce on a per capita basis?
- ***The second step*** is that this group has become the major source of permanent immigrant status – perhaps 60-70 per cent of permanent visas
- Most permanent immigrants are chosen from those who are already in Australia
- We can think of this as a two sided “***try before you buy***” scheme

So who determines immigration policy?

- Temporary immigration is largely uncapped and determined by demand and supply
- Permanent immigration numbers are formally set by government
- If permanent visas were “independently” determined by government then Australia could at certain times have an increasing immigrant inflow (temporary and permanent) with work force rights and a decreasing permanent immigrant inflow. Any analysis of immigrant labour market interactions therefor can become increasingly complex.
- More likely of course that the number of permanent visas will respond to positively to temporary immigrant pressures and this has happened. So private demand and supply could essentially determine government permanent visa allocations.
- Was Howard right “we will determine who comes to this country”

There is remarkably little public and official analysis of these policy issues. The following comment illustrates some of the difficulties

John Fraser, Secretary of the Treasury, 27 February 2015

“A growing population *can be a source of dynamism* for the economy.

But it also places additional demands on government budgets in areas such as infrastructure, health and education.

I have seen this first hand in the United Kingdom where the *results are very sobering.*

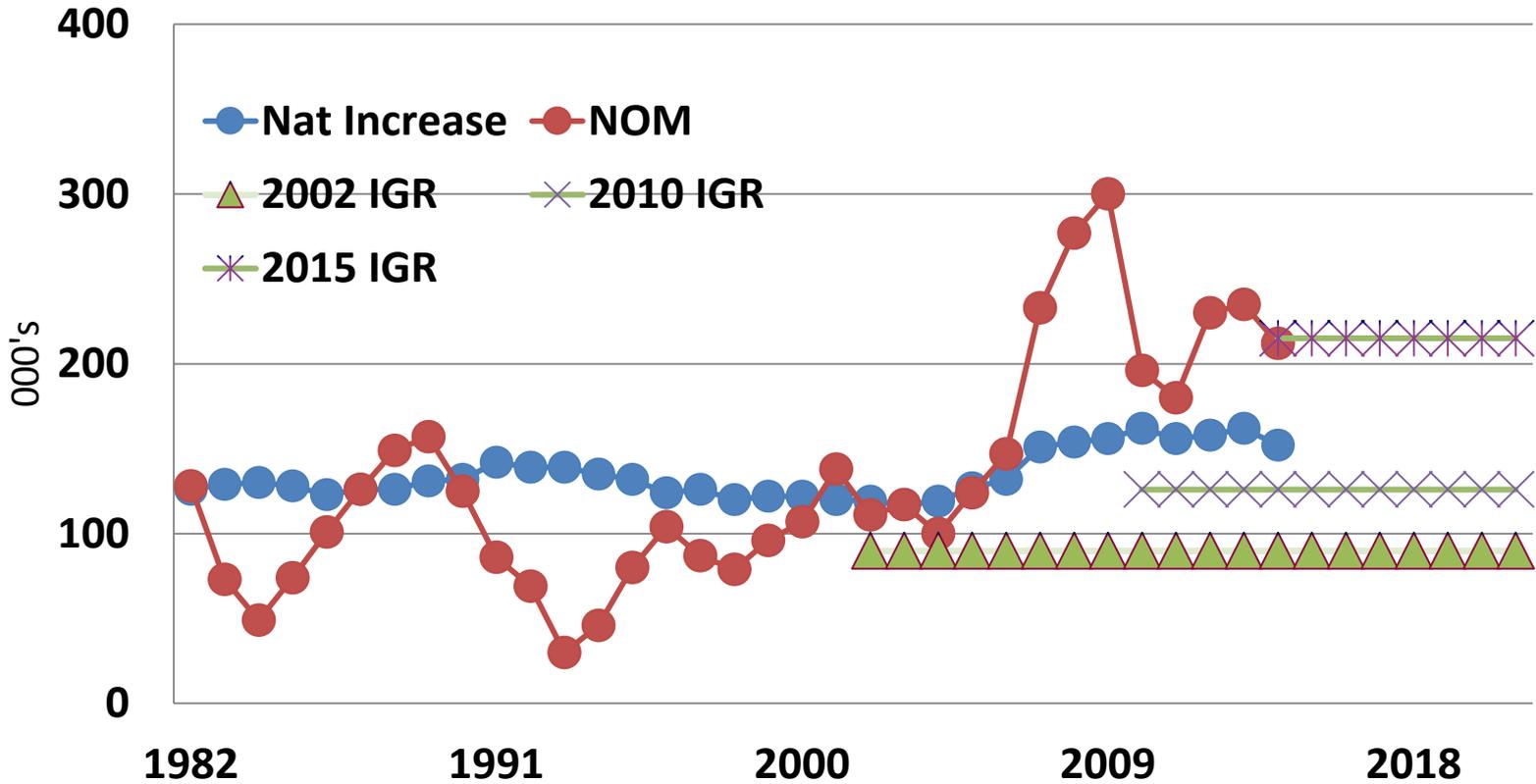
The population projections in the IGR will provide a basis on which governments can plan for the future“

What was the message? Too many immigrants (sobering results on government budgets – immigration should be a part of fiscal repair?) or Immigrants are a source of dynamism? or is this a judgment on governments ability to cope? Is the IGR important?

*“The population projections in the IGR will provide
a basis on which governments can plan for the
future”*

Is this true?

Natural Increase, NOM and IGR NOM Assumptions 1982 - 2021

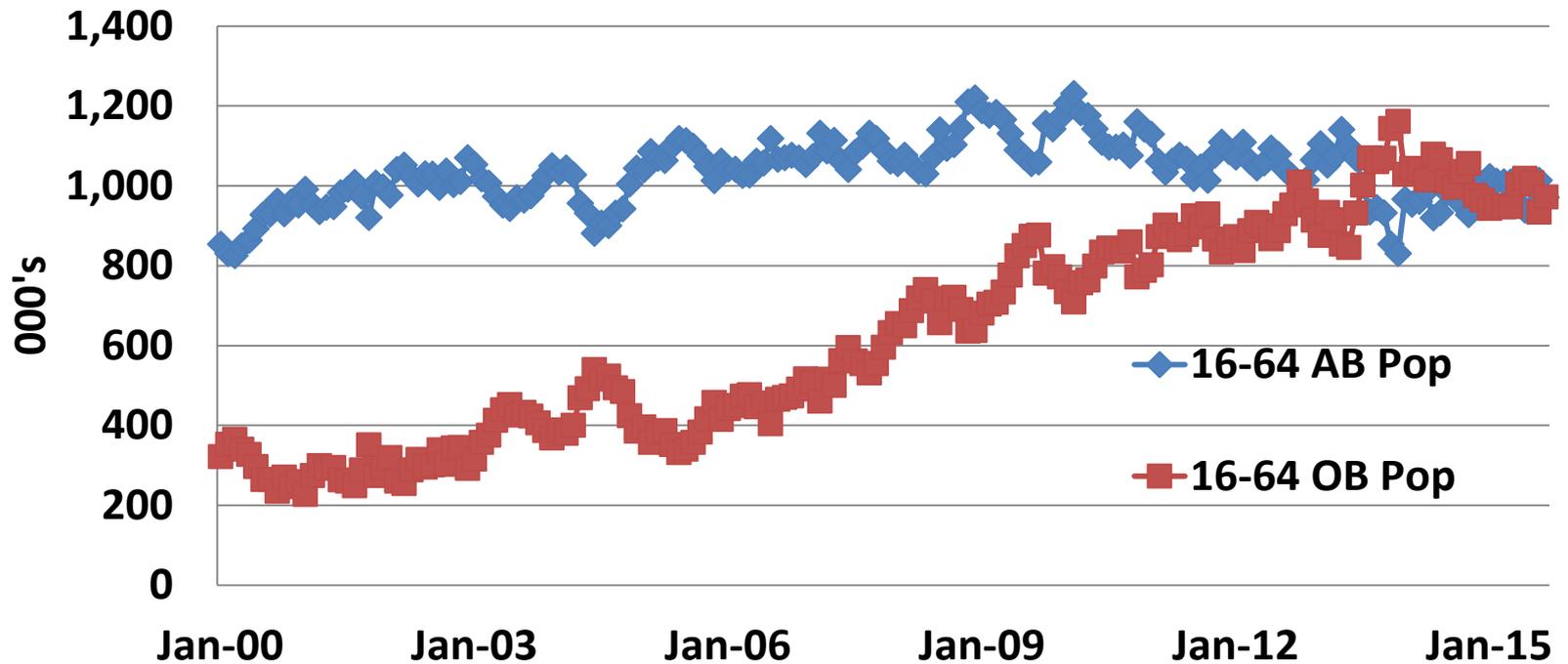


- IGR projections imply that we are about to enter a decade of extra ordinarily fast population growth which will lift the labour force growth by about an extra one million people a decade – relative to the projections of 2002. ***Why does RBA say potential growth will slow***
- A decade ago immigration was projected over the following decade to be half a million less than the natural population growth
- Today it is projected to be half a million more than the natural population growth
- The one million per decade “turnaround” has very large economic implications – I would argue that it has been and will be much more important than many other “reform” issues that are attracting more attention

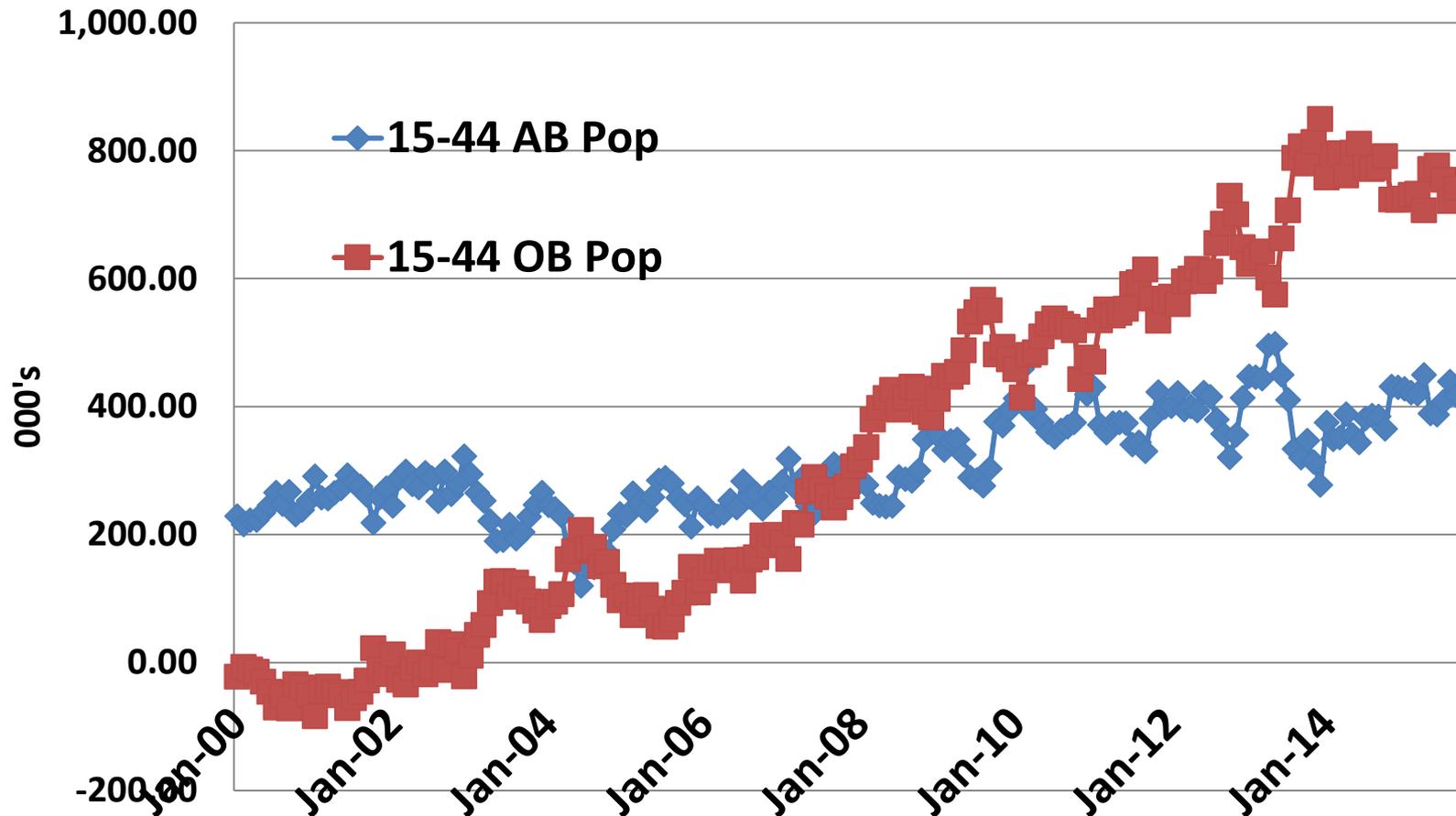
Actual Changes in the Work Force 16-64 years and the younger group 16-44 years

- Looking back over the decades immigration has increased the workforce age population by about 600-700 thousand per decade. not quite a million
- Not quite a million a decade but very large at the margin,
- Very large impacts among the younger age groups which is the prime immigrant inflow group. The ten year immigrant contribution to the 15-44 age group has increased by about 800 thousand compared to a decade and a half ago.

Ten year growth in population Australian and Overseas born 16-64 years



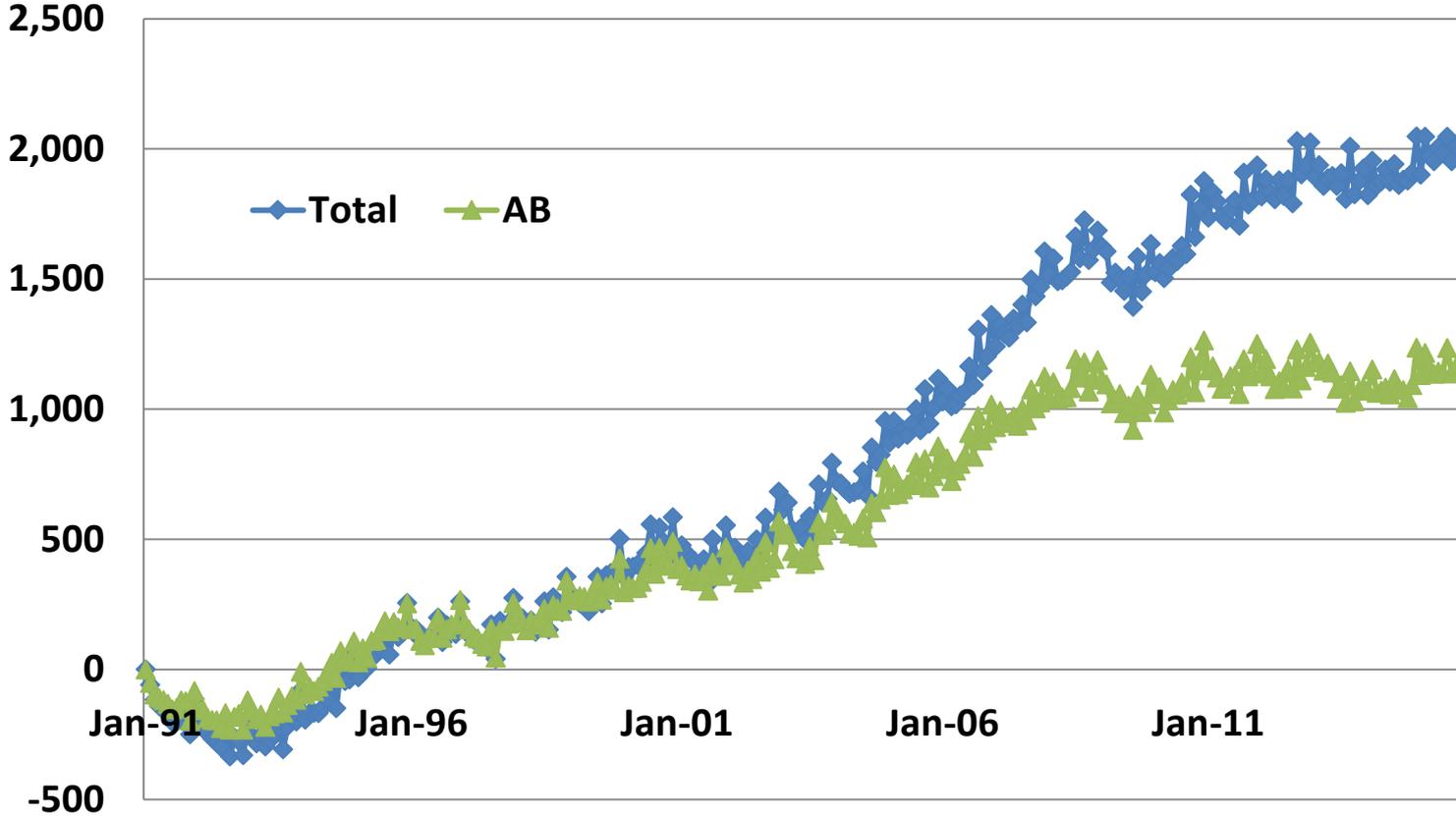
Ten year growth in Population Australian and Overseas born 16-44 years



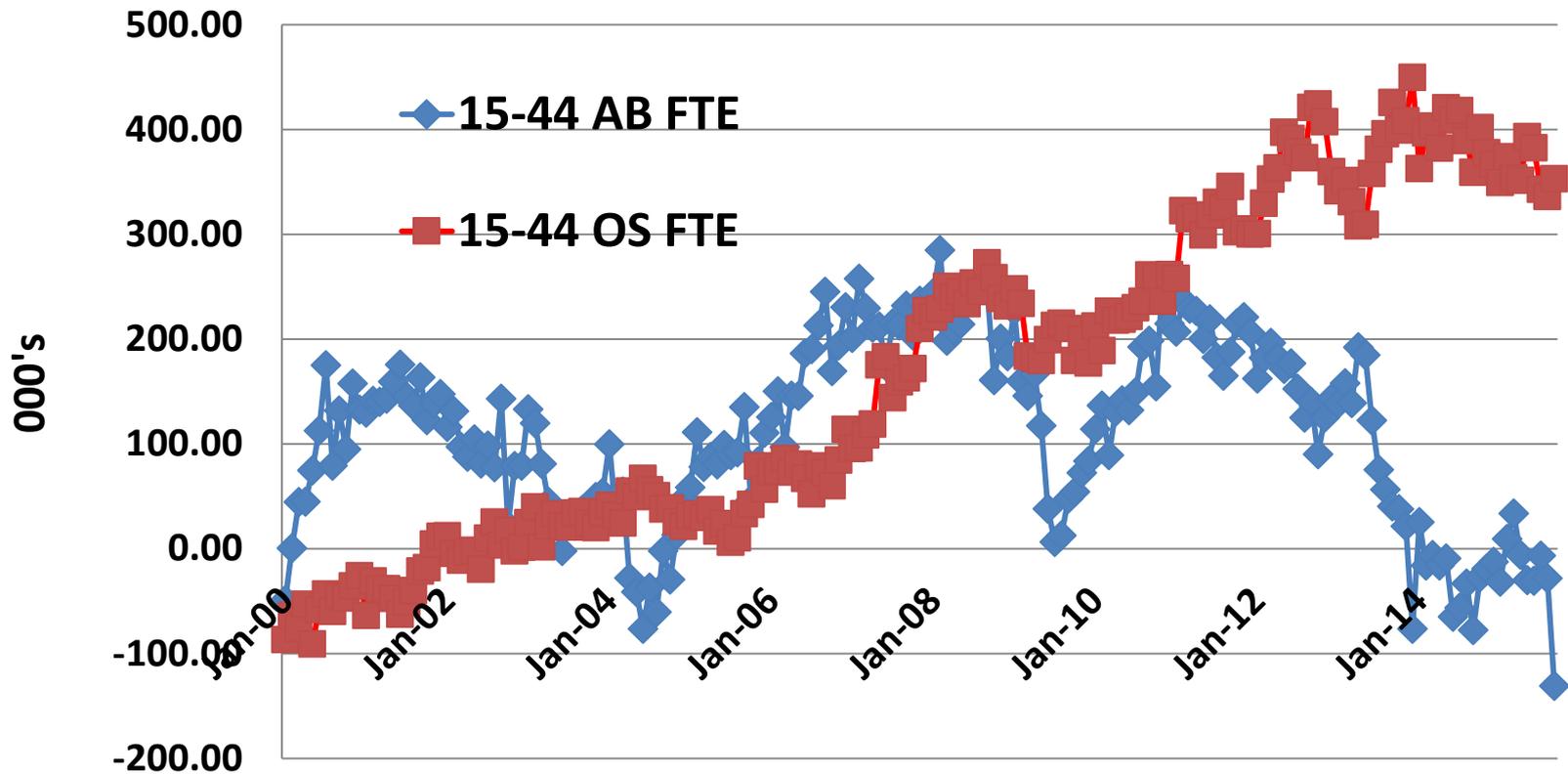
So what has happened to full-time jobs?

- Although only every second new job created over the last few decades that full-time I focus on full-time jobs for today's talk
- All the increase in full-time employment over the last decade has been accounted for by the immigrant group
- The following diagrams measure the change in full-time employment since 1991 for those 16-64 and since 2000 for those 15-44 years

Additional Full-Time Employment Total and Australian Born 15 years+



Ten year growth in full-time employment Australian and Overseas born 15-44 years



Concluding Remarks

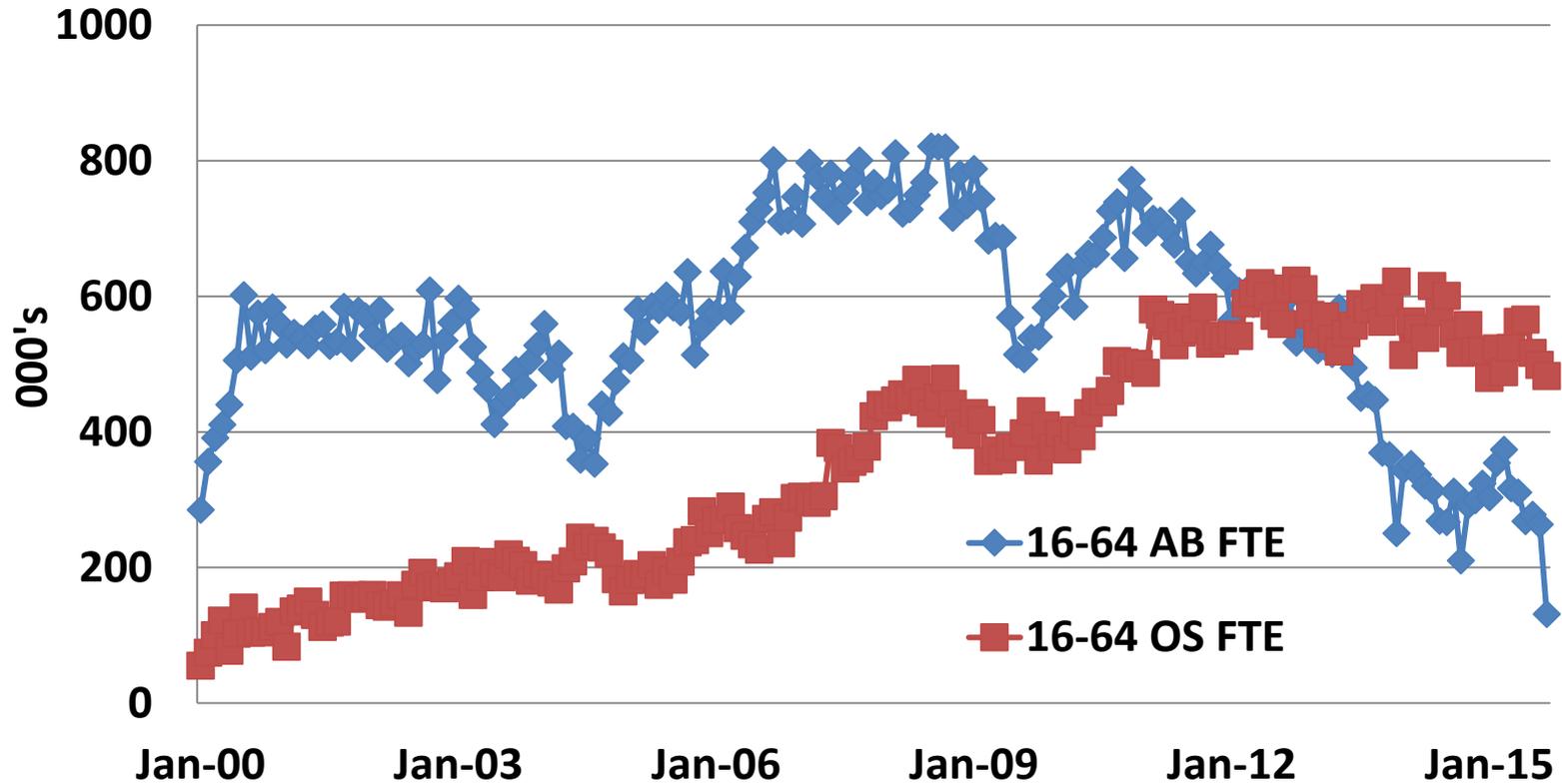
- Is it possible that the economic magnitude of the immigrant policy change over the last decade has been as large as the mining boom impact
- One million additional people is about five percent of the population. The expansion of mining value added as a fraction of GDP is about two per cent
- Australia's immigration program seems extra-ordinarily successful. This is another issue though. I have been thinking about the macro implications for growth and jobs. Obviously just a brief sketch today
- I would conjecture that our extra ordinary economic success since the GFC owes a great deal to the increased level of national income produced by the unforeseen population expansions generated by our new immigration program

Some Policy Implications

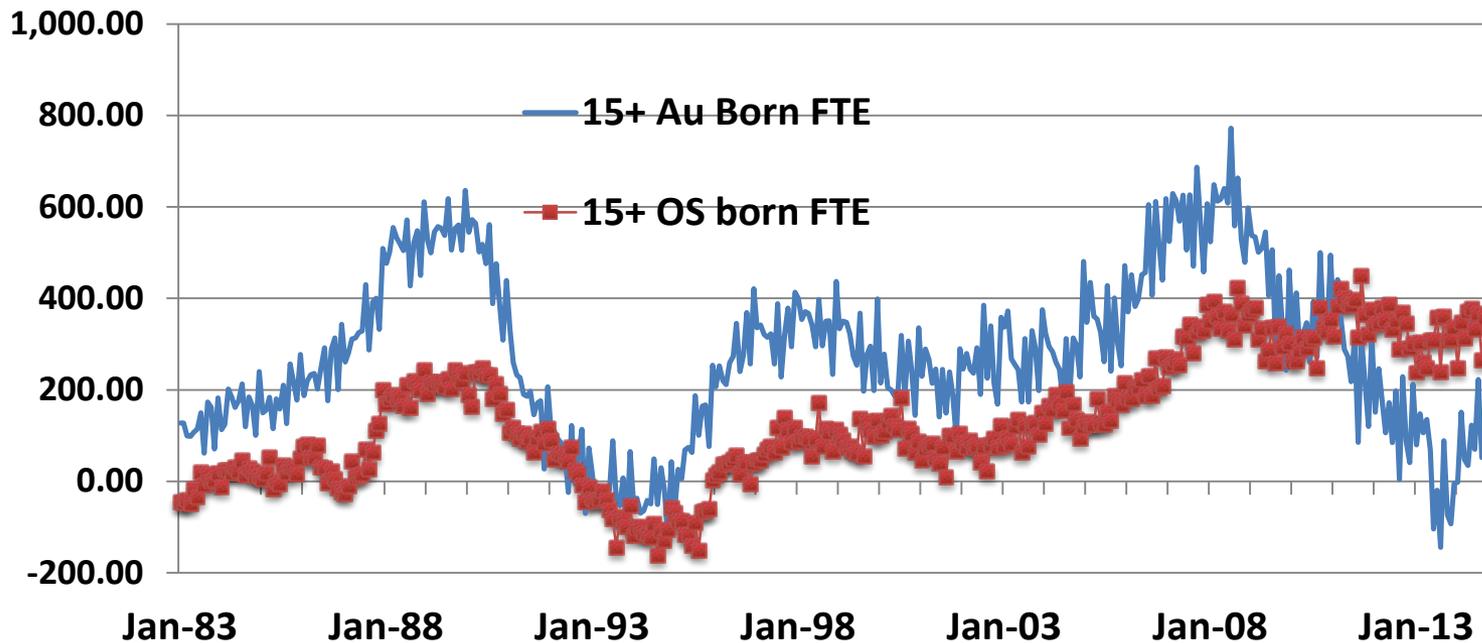
- The population change over the last decade and the future IGR projections require large INFRASTRUCTURE investments which will require additional government expenditure and decisions to increase taxation to some degree. This provides an opportunity to underpin job growth in the future.
- What would be the implications of a reversion to 90's policy and a decline in a million reduction in population growth relative to current projections.
- Of course it is as difficult to see such a reversion happening just as it was completely unanticipated that we would gain an additional million people
- Does it make sense to tie immigration to budget outcomes? Should we re-evaluate the impact of immigration on population ageing

The End

Ten year growth in full-time employment Australian and Overseas born 16-64 years



Full-time Employment Growth over Previous Five Years All Persons



So here is a longer run view of immigration so you can see the changing cyclical pattern?

You need to distinguish between stocks and flows of immigrants