

Migration balances wage pressure and jobs

Adding a new arrival to the workforce creates another job

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ONE of the marvels of the Australian economy is the absence of any wage pressure, in spite of the historically rapid growth in employment.

Reserve Bank governor Glenn Stevens pointed last week to the increased rate of migration, which he believes has helped plug the skill shortages and stopped them resulting in excessive wage settlements.

Skilled migrants have filled about a third of the 460,000 jobs created over the past two years but, if the research on migration economics is to be believed, keeping them fed, shod, housed and entertained has accounted for another third of the new jobs.

You start by hiring computer professionals abroad and soon you are heading back overseas to recruit chefs, car mechanics, nurses and teachers.

On average, the addition of a migrant to the workforce creates one additional job.

The Government never trumpeted a decision to raise the rate of migration and was indeed dismissive of calls from the Business Council in the late 1990s to adopt an explicit population policy. But it has quietly raised the number of permanent migrants from around 75,000 a year to more than 140,000 in the past five years.

It has also accelerated the program of temporary work visas.

With the ebb and flow of Australians going abroad to work, the net number of arrivals has risen from 100,000 to 150,000 since 2001.

The Productivity Commission delivered a lukewarm review of the economic benefits of migration last year, estimating that if there were to be a 50 per cent lift in the number of skilled migrants, there would be a gain in living standards of just \$383 per person

after 20 years, most of which would accrue to the migrants themselves.

For the first 12 years, the influx of migrants would lower living standards.

The time it would take capital to adjust to the influx of skilled workers would result in productivity being 0.3 per cent lower after 20 years, despite the fact that the migrants have higher skills on average than the residents.

The commission's economic modelling also predicted there would also be a loss in the terms of trade with increased exports produced by the migrants resulting in lower average export prices.

The commission's focus was on whether additional migration would raise the level of GDP per capita, or the average level of national wealth.

For business, a market of increasing wealth is nice to have, but a market of increasing numbers is also good. Raising the headcount raises sales.

This has been clearly recognised by the states. The effort by former NSW premier Bob Carr to shift the blame for Sydney's abysmal urban planning on to migrants with his claim that the city was "full" contributed to its economic stagnation.

The drift of population away from Sydney was also a product of its stratospheric house prices.

South Australia is marketing itself to migrants and was rewarded last year with 11,150 new settlers, up from a low of 2700 in 2002.

Victoria is also doing well, lifting the net migration from 23,600 to 42,000 over the same period.

Both state economies have performed remarkably well, despite the fact that they are the heartland of Australian manufacturing, which is being pummeled by Chinese competition and an appreciating exchange rate.

The Productivity Commission's modelling has been challenged both by other modellers and by those who believe models do not provide a complete guide to the economic future.

The Immigration Department commissioned consulting firm Econtech to replicate the Productivity Commission's research and it came up with a lift in living standards after 20 years of about \$600.

It said the commission's finding of a fall in productivity was not plausible, given the much greater skill level of the migrants, and argued that capital would adjust much more rapidly to the influx.

Econtech found that a 50 per cent lift in skilled migrants would lift productivity by 0.7 per cent over 20 years.

ANU professor Glenn Withers believes the gains from migration are greater, by the time one takes account of the knowledge skilled migrants bring to the country, their entrepreneurship and the international linkages and networks they open up.

In the popular mind, skilled immigrants are mostly tradespeople who would bring little by way of global networks, but a review of the 2004-05 migration program found that while there were 6100 tradespeople, there were also 6600 managers and administrators, 5900 building and engineering professionals, 5700 computer specialists and 4000 finance staff. Management and professional staff make up 70 per cent of the skilled migrant intake.

Equilibrium modelling cannot do justice to the quality of human capital and the benefits it brings. Withers also contends that with good institutions, a growing population brings benefits of scale. There are greater opportunities in a larger population.

Professor Max Corden, one of Australia's most esteemed economists, also argues that migration brings economies of scale, particularly in the non-traded goods and services sector. By allowing more businesses to operate at reasonable scale levels, it contributes to a more competitive environment with gains in living standards.

Since Australia's distance from key markets makes it less exposed to competitive pressure than nations such as Canada or the

Netherlands, Corden says achieving internal scale economies is particularly important.

John Maynard Keynes stressed the importance of immigration in the dynamism of the American economy, commenting “it was largely because of migration that

the US economy was always growing rapidly and outstripping capacity. There was consequently less risk in undertaking investment and capital formation was larger, more rapid and more confident”.

Withers says that even simple

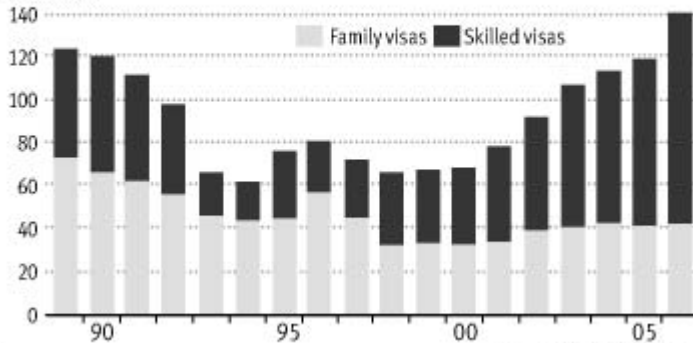
back-of-the-envelope calculation shows that migration rivals the resources boom in its contribution to the economy.

The population last year grew by 1.4 per cent, of which net migration contributed a little over half.

PRESSURE POINT

Composition of the permanent migration program

Persons '000



Source: Productivity Commission