

A COMMENT ON THE RECENT DEBATE ON THE ECONOMICS OF IMMIGRATION

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Some recent calls for higher immigration for economic reasons have pointed to the boost to the size of the economy from a larger population. However, this says little about average living standards. A recent study by Econtech has shown that the lower immigration flowing from the Government's 1996 reforms is compatible with higher average living standards. This is consistent with a large body of research which indicates that immigration does not have a substantial positive effect on living standards. Rather, the effect is small and could be positive or negative. The difficulty of boosting skilled immigration without lowering average skill levels reduces the economic attractions of higher immigration.

In 1998 and 1999 there were a number of calls from influential bodies and media commentators for higher immigration. These were often linked to claims that this would benefit the economy. The Government, however, announced a planned settler intake for 1999-2000 that was almost unchanged from the previous year.

This article concludes that there is a large body of research which suggests that higher immigration cannot be justified on economic grounds alone. (I have not addressed non-economic justifications for higher immigration. For simplicity I have not taken up the issue of whether GDP is an adequate measure of economic activity, and whether per capita GDP is the best indicator in all circumstances for assessing the impact of immigration. Brian Parmenter has made an argument that Gross National Product per capita of the pre-immigration population is a better indicator, as gains from future migration may flow to the migrants themselves, without necessarily benefiting existing Australians.)¹

An example of the recent proposals for higher immigration was that of the Australian Chamber of Commerce and Industry (ACCI). This body argues that immigration is good because it can expand the size of the economy. In its

February 1999 ACCI Review it argued that Australia should aim for a minimum annual net immigration intake of 0.67 per cent of the population, or around 123,000 persons for 1999-2000. The ACCI noted that 'while such an intake would be well above the historic-lows of around 68,000 persons² adopted by the Government in its first term, the economic dividends are likely to prove significant if the mix of the intake is appropriately determined'.³

The ACCI backed its case by citing econometric research commissioned by the Australian Government. They noted that this research showed that 'recent cuts in our immigration intake have the potential to reduce real economic growth nationally by more than one per cent....'⁴

However the ACCI was referring to the aggregate size of the economy, not to growth per capita. To judge immigration by its impact on the total size of the economy, and not on average living standards, is questionable. The research conducted by the former Bureau of Immigration, Multicultural and Population Research (BIMPR), for example, summed up its finding of a small but positive economic effect with reference to per capita incomes.

Lower immigration will lead to relatively fewer people and thus to a

relatively smaller economy, but might the lower population also lead to higher average incomes per person? This must be considered if we assume that the purpose of the economy is to provide economic welfare to individual Australians, rather than that the purpose of individuals is to benefit the size of the economy.

In this respect, the econometric research cited by the ACCI is significant. It found that the Government's policies since 1996 have indeed both lowered immigration and boosted average incomes.

This econometric research was a study by Econtech. It was commissioned by the Australian Government, and released in April 1998.⁵ It did show that the changes to the immigration program made by the Howard Government since 1996, involving a lower intake with a greater emphasis on skills and a lower family intake, would produce an economy that by 2007-08 would be about one per cent smaller than in the absence of the policy changes. However, the research also showed that these changes would boost consumption per capita, a broad measure of individual economic welfare, by around half a per cent.⁶

The boost to consumption per capita is driven by migrants having, on average, higher wealth than established Australian residents. This higher wealth flows from higher earnings (reflecting higher labour-force participation rates and above average skills) as well as funds transferred by the migrants to Australia.

Thus the Econtech modelling showed that the Government's changes to the immigration intake will produce slightly higher average living standards. While the boost to living standards is driven by the greater emphasis on skills, Econtech noted that 'it may have been difficult to achieve this improvement in the eco-

nomic quality of the intake, if the size of the intake had been maintained at its former level'.⁷

The Minister for Immigration and Multicultural Affairs has referred to the difficulty of increasing skilled immigration without reducing the average skill level of migrants. In his press release of 29 April 1999, he said:

There have been calls for a substantial increase in the Skill stream, with some advocates arguing for a 50,000 increase. However, such untargeted increases would only be possible by significantly diluting selection criteria.

This would irreparably undermine the significant economic, budgetary and employment benefits of skilled migration.

Indeed the Econtech research suggests that a reversal of the Government's cut to the immigration programme would have a slightly negative impact on living standards.

While the Econtech modelling is one of the most recent studies, its overall results are consistent with a wide range of economic research carried out in Australia over the past two decades. That research points to immigration having a small impact on average living standards that could be either positive or negative. There is no strong evidence of a substantial benefit to Australian living standards from higher immigration.

The BIMPR summed up its findings on the overall economic impact of immigration on living standards as small but positive, and did not indicate substantial benefits. While the BIMPR no longer exists, the 'BIMPR line' has again been promoted in a recent Housing Industry Association-funded book by commentators closely associated with the former BIMPR.⁸ The authors conclude that 'immigration has tended to marginally increase the average income of Australian

residents'.⁹ To be fair, the authors also note that 'no doubt our views have coloured the presentation of the arguments and evidence'.¹⁰

While some research is open to the interpretation that under some circumstances immigration could have a small positive effect on average income, a more reasonable view is that, while the effects are small, they could be either positive or negative. (Although there is evidence that the composition of the intake affects the economic impact of immigration, composition is not necessarily the primary determinant of whether the impact will be positive or negative. There is a range of other significant factors, including economies and diseconomies of scale, and natural and regulated rigidities in the labour market.)

There is considerable uncertainty in any attempt to measure the influence of something with many indirect effects and which itself is only one of a range of influences on the economy. Furthermore, there are a number of reputable studies, including those commissioned by the BIMPR, showing lower immigration slightly improves average incomes, and higher immigration marginally reduces average incomes. Rather than ignoring these studies and asserting that the impact is small but positive, it would be best to conclude that the impact of immigration is small but could be positive or negative.

Apart from the recent Econtech study discussed above, there are other examples of reputable studies showing a small negative impact of immigration. These include the Bureau of Immigration Research's 1992 Murphy Model simulation showing lower immigration boosting per capita GDP,¹¹ and a 1993 study by Matthew Peter¹² showing how published modelling that indicated immigration had a positive impact could, with the use of

alternative but reasonable assumptions, produce the opposite result.

While the 'BIMPR line' that immigration has a small but unequivocally positive impact on average incomes cannot be sustained as a general proposition, it is important to bear in mind that not even the BIMPR attempted to argue that immigration has a *substantial* positive effect on average incomes. There is clearly a wide gap between the findings of economic research and claims that immigration offers major economic benefits to Australians.

The absence of major economic benefits does not in itself indicate that lower immigration is better than higher immigration. However, the Government's decision not to increase immigration significantly has apparently been heavily influenced by concerns about the difficulty of attracting more skilled migrants without having to 'lower the pass mark' and accept migrants with relatively poor skills. As Glenn Withers once pointed out, 'large flows of unskilled migrants will threaten economic management and living standards'.¹³

I will briefly note some further issues. We have seen that research has not demonstrated any significant overall economic benefits from immigration. Yet the view is sometimes expressed that research has not properly addressed some difficult-to-measure economic benefits flowing from innovation and entrepreneurship, for example, induced by immigration. It has been suggested that 'these could well be among the more significant economic benefits of migration because of their pervasiveness and link to productivity'.¹⁴ However, there is no clear evidence of such benefits in overall economic outcomes. Such conjecture does not provide a sound basis for the development of immigration policy.

The high economic growth periods of the 1950s and 1960s are often cited as evidence of the boost provided by immigration. Indeed, Australia's economic growth in the 1950s and 1960s was strong compared to the 1970s, but in per capita terms it was poor compared to other developed countries. For every difficult-to-measure benefit of immigration, there may be a similar difficult-to-measure cost. There are also long-term economic issues arising from the effect of an expanding population on a fixed natural resource base that require more research.

Finally, we should note that the extensive debate about the effect of immigration on unemployment has provided no economic justification for large increases in immigration. There is no research suggesting that, other things being equal, immigration produces substantial falls in the unemployment rate. Rather, the effect of immigration on the unemployment rate is small, but there is no certainty that the effect is positive. For example, the recent Econtech study referred to above noted that the Government's smaller, more skilled immigration intake since 1996 'is likely to have reduced the sustainable unemployment rate to a degree'.¹⁵

Overall, economic research indicates that immigration has a small but uncertain effect on average incomes. This effect could be either positive or negative. There is no compelling case that Australians' living standards will benefit from higher immigration.

Note

The views in this article are those of the author and not necessarily those of Treasury or the Commonwealth Government.

References

- ¹ B. Parmenter, 1991, 'The economics of immigration', *Australian Economic Papers*, vol. 9, no. 2, 1991, pp. 39-50
- ² There is some confusion over exactly what levels of immigration the ACCI was proposing. The Government's 68,000 figure is a gross settler intake. It excludes humanitarian and refugee migrants and New Zealanders, and is not directly comparable with the net immigration of 123,000. Net immigration makes allowance for all immigrants, as well as emigration, long-term temporary movement and change of status, such as visitors overstaying. Nevertheless, it is clear that the ACCI is calling for substantially higher immigration with an emphasis on skills. (Since the June quarter 1996, average net immigration has been around 100,000 on an annual basis. Over the 24 years from 1972 to 1995 inclusive, net immigration was less than 100,000 in 17 calendar years. The historical low in annual net immigration during this period was the 13,513 recorded in the year ending December 1975.)
- ³ *ACCI Review*, February 1999, p.10
- ⁴ *ibid*, p.10
- ⁵ 'The economic impact of changes in the Migration Program between 1995-96 and 1997-98', Econtech, 21 April 1998. The report was published in *Review of the Independent and Skilled-Australian Linked Categories*, a report by the Department of Immigration and Multicultural Affairs and the External Reference Group, February 1999.
- ⁶ *ibid*, p. 16
- ⁷ *ibid*, p. 28
- ⁸ Stephen Castles et al., *Immigration and Australia*, Allen and Unwin, Sydney, 1998
- ⁹ *ibid*, p. 124
- ¹⁰ *ibid*, p. 120
- ¹¹ See, for example, the positive GDP per head outcome of around half a per cent for the lower immigration scenarios B2 and C3, as set out in Table 4.3 on page 23 of William Foster, *Macroeconomic Effects of Change in the Size and Composition of Australia's Migrant Intake*, BIR, November, 1992.
- ¹² M. Peter, 'The use of the ORANI model in the immigration debate', *People and Place*, vol. 1, no. 2, pp. 27-33
- ¹³ G. Withers, 'Immigration: the critical issues', *Quadrant*, May 1990, p. 45
- ¹⁴ Castles et al., *op. cit.*, p. 133
- ¹⁵ Econtech, *op. cit.*, p. 22