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Commentary

Australia should continue its current comprehensive population policy – at least for the next decade

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1. Introduction

The most recent official statement on a population policy for Australia concluded:

> It is more useful for governments, businesses and communities to focus on ways of improving our wellbeing, protecting our environment and making better use of the resources we have, rather than trying to determine an absolute limit to our population and focussing efforts on restricting growth in order to not exceed this 'limit' (Department of Sustainability, Environment, Water, Population and Communities 2011: 25).

In other words, Australian population policy does not take the form of specification of a target population level or even a target rate of population growth. Australia is not alone in this regard. While countries may have policies to increase or decrease the rate of population growth, usually because their fertility rate is regarded as too high or too low, no country in the world is aiming for a specific population number or a specific rate of population growth.

Does the absence of precise targets for total population and for the rate of population growth mean that Australia does not have a population policy? That seems to be the popular perception based on the current debate about population, and no less an authority than the Productivity Commission has recently called for a population policy for Australia. The Commission gave its view on what such a population policy should do:

> The primary objective of immigration and the Government's population policy is to maximise the economic, social and environmental wellbeing of the Australian community (existing Australian citizens and permanent residents and their future offspring) (Productivity Commission 2016: 108).

The first problem with this definition is that maximising the economic, social and environmental wellbeing of the Australian community is the raison d'etre of all policy, including tax policy, industry policy, energy policy and education policy and, indeed, of government itself. The second problem is

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that accurate modelling of all these outcomes at some undefined time in the future is impossible – that is why it hasn't been done. The third problem is that this statement provides no concern for the wellbeing of Australians and their children who arrive from the day after the modelling is done.

To be practical, population policy must have more modest objectives. Taking a more pragmatic approach, I argue that Australia already has a sophisticated, multi-faceted and effective population policy that has five components: maximising survival; supporting families to have the number of children that they want; moderating the speed and extent of population ageing; providing the skills that Australia needs to promote its economic development; and influencing population distribution.

2. Maximising survival

Australia aims to keep its population healthy and living long lives. This policy has been particularly successful from the 1970s onwards. Death rates below the age of 75 years are now so low that, for women, their total elimination would add only two years to the expectation of life of Australian women. Just as spectacularly, death rates for older Australians have plummeted since 1970. Mortality in 1970-72 was such that 54 percent of men reaching the age of 55 were dead by age 75. By 2014-16, this percentage had fallen to 20 per cent (McDonald 2017a).

This has come about through the promotion of healthier lifestyles and safer environments but also by greatly increased public expenditure on health. The National Transfer Accounts for Australia show that, between 1981-82 and 2009-10, real per capita health expenditure on persons aged 75 years and over in Australia increased by a factor of 6.4 times. As the Australia population aged 75 years and over increased three times in the same period, aggregate real public expenditure on the health of persons aged 75 years and over increased by an amazing 19 times (McDonald 2017b). Australia has been able to achieve this result without undue fiscal strain because government revenue increased during this period as a result of sustained economic growth. While the policy of maximising survival leads to a larger population particularly at older ages, there are no calls to reverse the trend.

3. Supporting families to have the number of children that they want

Today, many countries in the world express concern about the level of their fertility rate. Almost all countries with a fertility rate of 4.0 births per woman or more want to reduce the rate while almost all countries with a fertility rate below 1.5 births per woman want to increase their fertility rate (UNFPA 2018). Most countries would like to see their fertility rate fall in the relatively narrow range of 1.5 to 2.5 births per woman. This is very sensible because sustained high fertility leads to very rapid population growth which impedes economic and social development while sustained very low fertility leads to rapid population decline and excessive population ageing (UNFPA 2018). Planning to keep the fertility rate within this relatively narrow band is good policy (McDonald 2006).

In the case of Australia, the fertility rate has fluctuated between 1.7 and 2.0 births per woman – an ideal range – for the past 42 years. This excellent result did not just happen. Its achievement has been supported by the provision to women and men at low cost of the means to control the number of children that they have, that is, access to contraception and abortion. While there remains room for improvement, Australian governments have also implemented a range of policies to support families with children such as subsidised childcare, parental leave, social security payments related to

children, and public support for education. While Paul Ehrlich (Bateman 2016) and Sustainable Population Australia (White 2009) have called for a China-style, one-child policy for Australia, all governments, now including China, think that a one-child policy is not a great idea, leaving aside the human rights implications. Fortunately, there is strong political support in Australia for policies that support families to have the number of children that they want.

4. Moderating the speed and extent of population ageing

In the absence of migration, reduction of mortality and a fertility rate below the replacement level of around 2.06 births per woman leads inevitably to population ageing and population decline. At 30 June 2017, 15.4 per cent of the Australian population was aged 65 years and over. If Net Overseas Migration (NOM) was fixed at zero, this would rise to 26.8 per cent by 2051, a rise of 11.4 percentage points. With the level of NOM of 200,000 per annum continuing until 2051, 20.5 per cent of the population would be aged 65 years and over in 2050, a rise of 5.1 percentage points[1].

Thus, while sustained migration at the present level will not stop the population from ageing, when compared with zero migration, it reduces population ageing very substantially. Put another way, with NOM of 200,000 per annum between now and 2051, the number of people aged 65 and over would be only 427,000 more than if NOM was zero in the same period. That is, between now and 2015, the level of NOM makes almost no difference to the number of older people in 2051. In contrast, with NOM of 200,000 per annum, the number of people in the working ages of 20-64 years would be 6.8 million higher than if NOM was zero. Those additional 6.8 million people in the working ages will make a huge difference to the standard of living of older people in 2051.

NOM modifies population ageing because migrants are, on average, considerably younger than the Australian population but, more significantly, because migrants, before they themselves become old, will have had their children and their grandchildren. NOM of 200,000 per annum from today onwards would make almost no difference to the number of deaths in Australia over the next 40 years but a very large difference to the number of births. This is not because migrants have a higher birth rate than non-migrants per woman but because migrants add to the population of childbearing age. If fertility remains at 1.8 births per woman, with zero NOM, the Australian population would begin to fall around 2045.

The question then becomes: what level of NOM produces the best outcomes in relation to population ageing? To address this question, in May 2010, at the request of the Department of Immigration and Citizenship, McDonald and Temple (2010) conducted a study to identify if there was an 'optimal' range for NOM where the criterion for an 'optimum' was the impact of immigration on population ageing and, hence, upon the growth rate of GDP per capita. They concluded that this range was 165,000 to 210,000. In 2011-12, the Gillard Labor government set the migration planning level in the middle of this range at 185,000. A later study by the same authors set this range at 160,000 to 220,000 (McDonald and Temple 2014) and, from 2012-13 until now, the planning level has been set in the middle of this range at 190,000 making for a run of nine years in which the

[1] The projections results in this section are based on the June 2016 estimated resident population and assume that fertility is constant at 1.8 births per woman and that expectation of life rises by 2015 to 85.6 years for men and 88.3 years for women

migration planning level has been near-constant. The study showed that between 2013 and 2053, GDP per capita would be 12 per cent higher in real terms with NOM at 180,000 than it would be if NOM was zero across these years. For perspective, 12 per cent is larger than the overall increase in GDP per capita in Australia over the past decade.

An important consideration in this modelling is that NOM is not the same entity as the migration planning level. The annual planning level simply consists of the total number of people to be accepted as new permanent residents in the Skilled and Family Streams. In addition, for many years, the Australian government has set the annual permanent Humanitarian intake at about 13,000[2]. In contrast, NOM is the net outcome of numerous forms of temporary and permanent movement into and out of Australia as shown in Table 1.

Table 1: Components of Net Overseas Migration by Visa/Movement Type, Australia, 2004-05 to 2015-16 (12-Year Aggregate)

Visa/Movement Type	Visa Components of Net Overseas Migration, 2004-05 to 2015-16			
	Arrivals	**Departures**	**Net (number)**	**Net (%)**
Permanent	1,085,468	220,812	864,656	34.0
Skilled	*503,424*	*92,815*	*410,609*	16.2
Family	*398,153*	*62,543*	*335,610*	13.2
Humanitarian	*130,453*	*1,665*	*128,788*	5.1
Other	*53,457*	*63,808*	*-10,351*	-0.4
Temporary	2,733,004	1,187,117	1,545,887	60.8
Skilled	*416,795*	170,739	246,056	9.7
Student	*1,239,551*	447,445	792,106	31.2
Working Holiday	*461,312*	179,371	281,941	11.1
Visitor	*529,629*	185,910	343,719	13.5
Other	*85,707*	203,650	-117,943	-4.6
New Zealand Citizens	529,722	232,060	297,662	11.7
Australian Citizen	904,020	1,079,413	-175,393	-6.9
Other	162,600	154,269	8,331	0.3
TOTAL	**5,414,814**	**2,873,671**	**2,541,143**	**100.0**

Source: Australian Bureau of Statistics, Migration, Australia, 2016-17. ABS Catalogue No. 3412.0. *Notes*: Numbers do not add precisely due to ABS randomisation process. Persons may change their visa type between arrival and departure, thus affecting the net figure for any visa/movement type. For example, the relatively large negative figure for 'Other Temporary' mainly reflects people who left Australia when they were on a Bridging visa although they had arrived on some other temporary visa.

If the measured impact of migration on GDP per capita is based on the impact of NOM, how can this be reconciled with the setting of the annual permanent migration intake? The answer is that, although NOM fluctuates from year to year because of surges in temporary arrivals or departures, in

[2] The Humanitarian Program is temporarily at a higher level due to a special allocation of places to Syrian refugees

the longer term, temporary migrants can only remain in Australia if they are granted permanent residence through the permanent Migration Program. As the net impact of the combined movements of Australian and New Zealand citizens is relatively small (less than 5% of NOM from 2004-05 to 2015-16, see Table 1), in the long run, NOM and the migration planning levels are very similar (see Figure 1). Nevertheless, temporary migration serves the very important purpose of providing a ready pool from which the majority of permanent residents are selected. Over the past decade, by far the largest category of temporary residents has been international students and Table 1 shows that this category has made the largest contribution to NOM.

In sum, the level of NOM that has resulted from the government's migration planning levels over the past nine years, if sustained into the future, would have a highly beneficial impact on population ageing and hence on the level of GDP per capita in Australia in the years to 2051. By 2051, Australia would be among the youngest countries in the OECD. The offsetting factor is that, with NOM of 200,000 per annum, the total population rises by 2051 to 36 million compared with 26 million (and falling) if NOM was zero – but 70 per cent of the additional 10 million people will be in the productive working ages. The implications of an additional 10 million people are considered below.

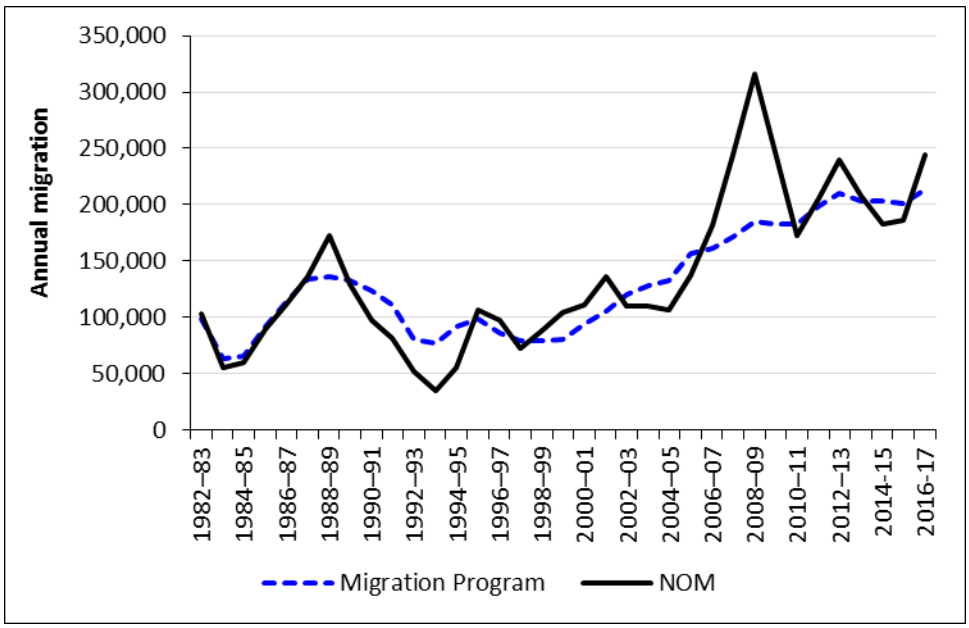


Figure 1: Annual net overseas migration (NOM) compared with the annual grants of permanent residence through the Permanent Migration Program including Humanitarian, Australia, 1983-84 to 2016-17

Sources: Department of Home Affairs; Australian Bureau of Statistics.

5. Providing the skills that Australia needs to promote its economic development

While the total numbers in the annual Migration Program may be set primarily on the basis of the impact of migration on population ageing and, hence upon GDP per capita, the composition of the Skilled Stream is determined by perceived skill shortages in the Australian labour force that cannot be met by the existing population. The Skilled Migration Program is restricted to managers,

professionals, para-professionals and skilled tradespeople to ensure that immigrant workers are persons with high labour productivity. Within these skill categories, the government identifies those occupations where domestic supply falls short of domestic demand and includes these occupations on the list of occupations eligible for skilled migration. A wider list of occupations is applied where the applicant is nominated by an employer or by a state or territory government.

The evidence is strong that the size and composition of Australia's Migration Program in recent times has been associated with strong labour demand across those years. Between June 2011 and June 2016, total employment in Australia grew by 739,000 people. This increase was composed of 613,000 migrants who entered Australia after June 2011, 278,000 additional workers over the age of 55 years who were present in Australia in June 2011 and a net fall of 152,000 among people aged under 55 who were present in Australia in June 2011 (McDonald 2017c). At the same time, the unemployment rate in September 2018 was at its lowest point since April 2012. Since 2011, the large immigration intake has been effectively absorbed into the Australian labour force. This could not have happened if there had not been an equivalent level of labour demand.

Looking to the next decade, Australia is facing a labour supply crunch as large numbers of baby-boomers retire at the same time as the young cohorts entering the labour force ages are smaller in number than their predecessors. With zero NOM from 2016 to 2026, the age group 20-34 would fall by 725,000; with NOM at 70,000 it would fall by 36 thousand; and with NOM at 200,000, it would rise by 413 thousand. At the same time, the population in the retirement ages would increase under all scenarios by about 1.35 million. The latest ABS job vacancies data (ABS 2018) show a continual rise in job vacancies from 2014 onwards, and vacancies are rising at the rate of 19.3 per cent per annum.

Australia has created an immigration system that is responsive to labour demand. This is nowhere more evident than in the recent trends in NOM at the state and territory level. When the mining boom was at its peak, NOM was historically high for the boom states of Western Australia and Queensland. NOM dropped off sharply to these states when the mining boom ended. Now, NOM is directed towards the boom cities of Sydney and Melbourne. This reflects shifts in the direction of investment by firms and a corresponding shift in labour demand.

All the indications are that the number of job openings in Australia over the next six years will be very high, that is, labour demand will remain very strong. Using econometric modelling, Shah and Dixon (2018: Table 4) have estimated that there will be 4.14 million job openings in Australia across the eight years 2017-2024. More than half of these openings (2.27 million) represent replacement demand driven almost exclusively by retirement of the baby-boom generation. Some of these openings will be filled by the next generation of young Australian workers, but migration at least at the current level will be required to meet this demand.

Shah and Dixon (2018: Appendix Table A1) also estimate that there will be very considerable change in the distribution of occupations over the period 2016 to 2024. This once more emphasises the need for young workers because it is much easier for younger workers, especially those who have not yet entered the labour force, to adjust to changes in demand for particular occupations. With zero NOM, the number of employed 15-34 years-olds would fall by 518 thousand from 2016 to 2026 (assuming

constant employment participation rates); with NOM continuing at 200,000, their number would increase by 425 thousand, a turnaround of close to a million young workers. Thus, migration greatly enhances the capacity for the occupational composition of Australia employment to respond to demand.

6. Population distribution, cities and regions

In Australia, residents are free to move and take up residence in another location. This means that the population distribution will reflect the preferences that they make. In recent times, residents, old and new, have displayed a distinct preference to live in the major cities of Sydney, Melbourne and Brisbane and in their satellite towns and cities. In 2016-17, 77 per cent of Australia's total population growth was in Sydney, Melbourne, Brisbane and their satellites (Newcastle, Wollongong, Central Coast, Geelong, Melton, Bendigo, Ballarat, Gold Coast, Sunshine Coast and Toowoomba). While Melbourne's population grew by more than 2,000 per week, the combined growth of the two fastest growing inland country towns (Dubbo and Albury-Wodonga) was just 2,000 a year.

As the global economy moves towards mega cities, there should not be an expectation that future growth of the Australian population, in the foreseeable future, can be redirected in anything other than a minor way to regional Australia. Such redirection is important in keeping regional Australia viable but, while the Australian economy remains strong, labour demand will be strongest in Sydney, Melbourne, Brisbane and their satellites. Accordingly, most of the growth of population will be in these cities. This has been recognised appropriately in the emphasis placed by the Federal and State and Territory governments upon investment in city infrastructure. It should also be remembered that, in general, the provision of urban infrastructure has lagged behind population growth in Australian cities. If you want the evidence, view the sombre (but highly entertaining) You Tube video on the 1954 Plan for Melbourne (https://www.youtube.com/watch?v=mRMOVhIJ34M).

Some have suggested that lowering the level of the Migration Program would provide a 'breathing space' so that infrastructure development could catch up with population growth. This is flawed logic because if, as argued above, labour demand remains very strong at least in the large cities, firms unable to fill that demand from international migration will draw instead upon the rest of Australia and on New Zealand. Wages and opportunities will be higher in Sydney and Melbourne and the best talent from the rest of Australia will be drawn to these cities. The infrastructure problem in the big cities would not have gone away and regional Australia will lose population. And major construction of infrastructure in the big cities requires labour just as mine construction phase did in Western Australia and Queensland during the mining boom.

Both Labor and Coalition Governments over the past decade have sought to ensure that economic growth remains strong. A wealthy Australia will be in a strong position to fund the services required by the growing population, to invest in new urban infrastructure and renewable energy sources, and to deal with environmental issues. In the coming years of the labour supply crunch, present Australian population policy is in keeping with these objectives and should be continued at least until 2026.

7. Key messages

- Australia has an effective population policy – and should stick with it at least to 2026.
- Australia is facing a labour supply crunch in the next decade as the baby-boom retires and because the future cohorts entering the labour force at young ages are much smaller than the current young working population.
- Labour demand is very strong and the growth in job vacancies is approaching 20% per annum.
- The occupational structure of the labour force is set to change considerably. Young workers are more easily able to adapt to these changes than are older workers.
- At present labour demand is strongest in the big cities. If this demand is not met by immigrants, it will be met by people moving from the rest of Australia and from New Zealand.
- The big cities will continue to grow. There is no substitute for investment in urban infrastructure.

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