

Paper delivered at the 10th Biennial Conference of the
Australian Population Association
POPULATION AND GLOBALISATION:
AUSTRALIA IN THE 21ST CENTURY
Melbourne 28th November to 1st December 2000
Melbourne Australia

The Hon Philip Ruddock, Minister for Immigration, A
sustainable population future for Australia: economic,
environmental and demographic perspectives

Speech to the Australian Population Association biennial conference. Melbourne, 1
December 2000.

*The Hon Philip Ruddock, A sustainable population future for Australia:
economic, environmental and demographic perspectives*

Ladies and gentlemen

Firstly let me say how pleased I am to be able to give the final address to this conference. I have long been an advocate of informed debate on population issues and this conference has obviously been able to make a significant contribution to that debate.

The range of views and expertise that have been represented here is testimony to the level of interest in these issues in Australia, and to the strength and vitality of the Australian population association.

In bringing the conference to a close, I would like to talk about the government's perspective on what would constitute a sustainable population future for this country. And by that I mean sustainable in economic, social and environmental terms. Unlike a number of commentators, the government believes that we must seek a reasonable balance between all three of these objectives. And we have to do so in full knowledge of what is possible in terms of our demography.

To begin, let me make the point that the government plays a key role in population issues. It is a fallacy that governments only govern within the context of the electoral cycle. The most cursory glance at policy decisions in many fields including immigration, the environment, health and age care, retirement income and the labour market should demonstrate as much to any reasonable observer.

Many public policy decisions resonate over decades. Many, especially in the areas of family policy, immigration and the labour market have implications which need to be analysed and debated in a population context.

In taking this longer term perspective, we are perhaps a little different from many otherwise comparable countries. We are a relatively new nation that does not take its population course entirely for granted and we are still in the position of being able to learn from the experiences of others.

And, when we do look at some of these other countries, it appears that there are indeed some lessons to be learned. Take Italy for example. It currently has a fertility rate of 1.2 children per woman. It is projected to lose nearly 30 per cent of its population over the next 50 years. Or Japan, with a fertility rate of 1.3 which will see its population fall by around 16 per cent in the same period. Greece, Austria, Spain and Germany are all facing similar population futures.

Instead of welcoming this situation, as some in Australia would advocate, these nations are anxiously seeking ways out of their dilemma. However, it appears that once a country is caught in the low fertility trap, extrication is no easy matter. The major escape routes appear to be replacement migration and/or dramatically increased fertility rates. However, neither of these options is easy, particularly in the absence of a culture of immigration or when fertility has already sunk to very low levels.

It also appears that immigration is not an easy tap to turn on. Japan, where eligibility for migration is based on ancestry, not surprisingly has a very low level of legal immigration. It would need to bring in 340,000 people every year merely to maintain its current population size. However, in a nation where less than one per cent of the population is foreign born, large-scale immigration is virtually taboo as a subject for public debate.

Germany would have to bring in a similar number of migrants as Japan. However, the German government faces significant resistance to the notion of large-scale permanent migration. Italy would need 250,000 migrants per year. Its current legal intake is 63,000. Spain, with a fertility rate of 1.1 is experiencing friction between migrants and a native population which has difficulty in seeing Spain as an immigrant destination. And this is in a country in which foreigners represent only 1.8 per cent of the population. Even Norway has recently seen the rise of a populist party opposed to further migration.

The option of increasing fertility rates also appears to be highly problematical in these countries. In fact, there are no examples anywhere in the world where a nation has been able to recover significantly its fertility rate once it has reached the low levels we are discussing here.

Now, some would argue that there is nothing wrong with population decline, and, if low fertility merely meant fewer people, they might be right. However, population decline is inextricably linked with ageing.

Peter McDonald and Rebecca Kippen call this the coffin effect, because of the high number of old people at the top of the population structure, narrowing down as the numbers of people at younger ages diminish. Such an age structure demonstrates the insidious combination of low fertility and ageing and is something we should most decidedly avoid.

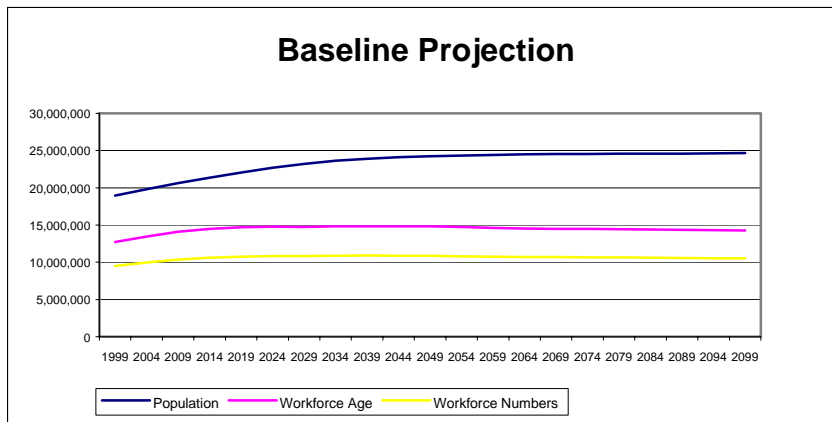
Ageing leads to the labour force diminishing as a proportion of the total population. This means fewer workers and more dependents. If the gap between the size of the labour force and the size of the population keeps expanding it will ultimately have very significant economic repercussions. The amount of economic output per person – GDP per capita - will be affected unless the output of each worker increases to make up the difference.

Public spending is also affected, with fewer workers paying tax and more older people calling on services such as health, age care and pensions. This is why countries such as Germany and Japan are currently attempting to reform their retirement income schemes. Without reform, Germany will be spending 18.5 per cent of GDP on pensions by 2035.

So, what are the prospects for Australia, and what can we learn from these overseas examples?

Let me say that I believe with our current fertility rate and expectations of long term net overseas migration levels, we are at the moment in a sustainable position.

Figure 1 (baseline projection)



As you can see, some widening of the gap between total population and the size of the labour force is projected over the next 50 years. However, if our fertility rate stops falling at say around 1.65, life expectancy continues to increase gradually and net overseas migration averages around 75,000 per annum, our population should all but stabilise at around 24 or 25 million by mid century and, crucially, so does the number of people of working age. I believe this would represent a sustainable population future for Australia.

Firstly, it would be sustainable in public expenditure terms. While our population would inevitably become somewhat older, the costs, especially in terms of health and retirement income support, should be manageable. A major reason for this is the means tested basis of the age pension. This, together with the compulsory old-age savings introduced with the superannuation guarantee, means that Australia faces very low rates of future public pension expenditure growth compared with many other developed nations, which tend to be encumbered with universal non-means tested pension systems.

Pressure on the public purse is more likely to come from health expenditures. These may rise by around 6 or 7 per cent of GDP by 2041. But even so, much of this growth will not be the direct result of an ageing population but changes in technology, demand and the price of drugs. This could be ameliorated by improvements in the health of older Australians. There may also be savings from new technologies and innovative practices – for example, shorter hospital stays and less invasive surgical techniques.

Naturally, an older population means increased expenditure on age care. However expenditure in this area is also expected to be manageable. A recent productivity commission study into the impact of the retirement of the baby boomers on age care services has estimated that long-term aged care costs are expected to remain around 1 per cent of GDP over the next three decades.

The productivity commission study also makes the important point that the wealth and incomes of the baby boomer generation will be significantly higher than those of the current older generation. This will also increase the capacity of society to meet the needs of this group. In other words, in the future, older people will be wealthier and more able to buy the services they need.

This scenario is also sustainable in economic terms, largely as a result of the stabilisation of both the population and the number of people of working age by mid century. After that, any increases in GDP per capita will have to come from productivity improvements alone. However, unless human ingenuity stops at the same time that the labour force ceases to increase, we can reasonably expect to see continued increases in GDP per capita.

This will be assisted by the fact that as the supply of labour slows, the price of labour will increase. Companies will invest more in machines and technology, leading to further productivity improvements.

Importantly, this scenario is feasible in terms of immigration. Australia stands in marked contrast to the many nations that do not have a history and a culture of immigration. We are able to absorb reasonable numbers of migrants, and indeed, we recognise the many benefits of a well-managed immigration program.

It will be critical for our population future that this public support for immigration continues. We have restored confidence in the migration program, particularly by increasing the intake of skilled young migrants with good English skills. There is widespread recognition that these migrants are demonstrably good for our economy and our society.

Our well-regulated immigration program is in fact a singular advantage in terms of our population future - an advantage that many of the countries I have mentioned would dearly love to emulate. Its major strengths are that it is non-discriminatory and that migrants are quickly and fully included in our society. It takes only two years to become an Australian citizen. This powerful symbol of acceptance is never vouchsafed to migrants in some countries, who in many cases are forever seen as foreigners.

The countries that will fare best in the future will be those, like Australia, which look outwards and accept a full role in the global economy.

A key part of our engagement with the world is through skilled migration, both temporary and permanent. These migrants not only build our links to other countries, they help ensure a sustainable and productive future for our nation.

In environmental terms, the challenge will be to ensure that we can limit further environmental damage and start the long process of repairing the damage of the past. A healthy economic future and a stable population should provide us with the resources to accomplish this.

There is a fallacy that lies at the heart of the argument that a smaller population equals a better environment. The fallacy is that the link between the size of the population and the environment is the most critical factor in environmental degradation. I do not believe that this is true. Nor did the national population council report of 1991 which pointed out that "...the environmental impact of any industry which exports a very large proportion of its output is only weakly related to domestic population needs and requirements".

Such industries include agriculture, only a small part of whose produce is consumed domestically, and aluminium smelting, which exports over 70 per cent of its product. I should also note that we are host to between three to four million overseas tourists each year.

It is hard to argue that the scale of any of these industries would be diminished if our population were smaller. Only about five per cent of our population works on the land. It does not take many people to smelt aluminium. A smaller population could readily

supply these labour forces. Their scale is dictated by world commodity prices, not the size of our domestic population.

I find it particularly telling that as the CSIRO has pointed out, the greatest damage to our forests occurred during the 19th century when our population was nowhere near the size it is today. Not to mention the damage done by plants and animals introduced at the same time.

I need hardly add that this government is far from sanguine about these issues. This is not the place to enumerate the very significant measures we are taking to improve and safeguard our environment. I merely make the point here that to cast the size of our population as a major environmental villain is simplistic, wrong, and dangerously misleading. Worse, it diverts efforts and attention away from finding real solutions to our environmental problems.

I mentioned earlier that the government has to give equal consideration to all three pillars of sustainability – economic, social and environmental. The dangers of becoming fixated on only one of these goals have been illustrated by professor McDonald and Rebecca Kippen. They have shown that two of the population policies most commonly advocated by environmentalists would have disastrous social and economic implications.

A stable population of 12 million within fifty years would require us to remove 100,000 people from Australia every year until 2048. Then, to keep the population at 12 million, we would have to start bringing people in again: 138,000 in the first year, 113,000 in the second year, and so on.

If we deliberately reduced the fertility rate to one child per woman and instituted a policy of zero net migration, as some have argued we should, we could look forward to our virtual extinction over the next century. There would be 5 million of us left in 2098, half of whom would be over 65 years old. This is not so much a population policy, more a prolonged suicide note.

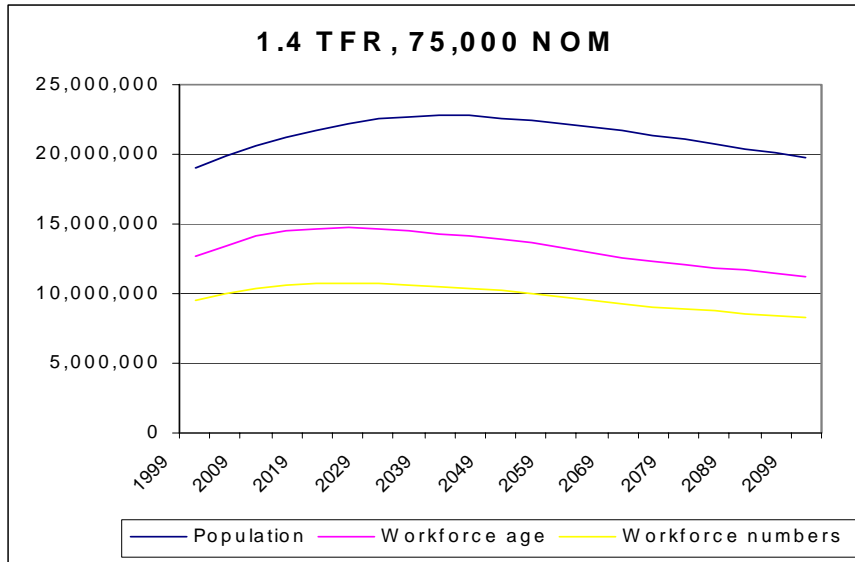
Of course, population stabilisation will bring environmental benefits, not least in terms of the pressures on Sydney and many of our coastal regions. On the other hand, we shouldn't forget that south Australia and Tasmania want more people. These states are facing the prospect of population decline, and, like the countries I have mentioned, they know that this is not good for their economic or social health.

This reminds us that a proper consideration of population issues, especially in an Australian context, is as much about distribution as it is about aggregate levels.

I have argued that our most likely population future is sustainable on economic, social and environmental counts. But what are the chances we will achieve it? To do so will require that we average at least 75,000 net overseas migration per year and that the fertility rate stabilises at around 1.65. While competition for those migrants who will provide the biggest benefits is increasing, if we maintain and enhance our efforts, we may be able to achieve these average levels.

The larger risk is that fertility could fall significantly below 1.65.

Figure 2



As figure 2 illustrates, if we achieved a long term average annual intake of 75,000 net overseas migration, but the fertility rate fell well below 1.65, say to 1.4, I do not believe we would be looking at a sustainable future.

The population would not be stable but in continual decline both in terms of size and age.

Is this a likely prospect? We simply do not know, but it would be prudent to be aware of the risk. Many developed countries have a fertility rate at or below this level now. If our fertility rate continues to fall at the same rate as in the past decade it would reach 1.5 in ten years time and 1.4 in twenty. Such falls would be difficult to reverse.

As professor McDonald has pointed out, the only reason our fertility rate is higher than Italy's is because more Australian women have three children. There are signs that that number is now falling.

Australian women are among the oldest in the world at the time they have their first baby. That has a downward effect on the fertility rate. There is also a strong correlation between increasing levels of educational achievement by women and decline in the fertility rate. We can be proud that women's education and workforce achievements have

improved over the past twenty years, but the implications for the fertility rate are not good.

Fertility at the level illustrated here would all but guarantee an in-built momentum of population decline, a declining workforce, a sharp increase in the proportion of the population aged over 65 and a still sharper increase in the proportion aged over 85. This is not a risk that any sensible nation should ignore.

Against the background of these scenarios, I would like to conclude by considering what our response should be. Firstly, we should not be alarmist. The most likely course for our population in the future is towards stabilisation at a sustainable level during the next half century. But we should be prudent and minimise the prospect of eventual population decline and a decline in the size of the labour force. To do this we should focus on three inter-related measures.

Firstly, we need to maintain and indeed enhance our comparative advantages in immigration management and in particular our ability to attract young, highly trained migrants with good English language skills. Such migrants have a highly positive impact on the labour force, the economy generally and the budget. Also, we should be aware that the number of skilled people leaving Australia is increasing, even at a time when the Australian economy is performing well. As the economic cycle turns, this trend is likely to rise. We will need well-established mechanisms in place to continue to attract skilled migrants, especially as we will be in increasing competition for them with countries in Europe in particular.

These mechanisms will be refined and improved through a process of continuous review. For example, last year we introduced a new points test following a comprehensive review. The results have been gratifying – we are succeeding in targeting the young, the skilled and increasingly, those with appropriate Australian qualifications.

We have also streamlined the employer nomination provisions and the arrangements for long-term temporary business entry. We have concluded a number of regional headquarter agreements and labour agreements.

Importantly, we have changed the rules to enable more overseas students studying in Australia to apply directly for permanent visas. This in particular has given us a further advantage over many other countries.

As we go forward, it will be critical that we continue this process of review and reform – it is the only way we will maintain our position as a leading migrant destination.

Secondly, we need to continue to encourage a higher level of labour force participation, especially by older Australians. However, there are likely to be significant rigidities which will work against major improvements in this area. These include widespread expectations of early retirement amongst baby boomers fuelled by increasing relative wealth and access to superannuation.

There may, however, be some scope to encourage greater workforce participation amongst this group and to improve employer acceptance and flexibility in regard to them. It may also be that the availability of superannuation will encourage a move to part time employment and self-employment amongst early retirees, especially given the quality of life expectations of this group.

The government is examining and promoting the role of older workers through the *national strategy for an ageing Australia*. The strategy highlights the economic and social contribution of older workers and seeks ways to increase their role in the workplace of the 21st century. We are also examining carefully the Nelson report which looks at ways of increasing the labour force participation rate and employability of older workers. Similarly, the government is considering the McClure report which looks, in part, at joblessness amongst older workers.

Thirdly, we need to reduce the possibility of further significant falls in our fertility rate, noting its current rate of decline. While a focus on net overseas migration and labour force participation rates is important, over the longer term the key to minimising the prospect of population and labour force decline is to minimise the extent of decline in our fertility rate. This is usually discussed in the context of implementing more family friendly policies. However, the causal links between family policies and the fertility rate, especially in the Australian context, are complex and require further investigation.

There is no clear, unambiguous pathway from family policies to changes in the fertility rate, and it is important to recognise the limits on any government's ability to influence fertility rates in any direct way. However, as even small changes in the fertility rate have very large long term impacts on the size and rate of growth of the population and the labour force, we need to remain conscious of the impact of government policies on the fertility rate.

Current research into this issue includes the Australian institute of family studies' *family panel survey* and the ANU's *negotiating the life course* project. In time, we hope that such research will provide a more sophisticated understanding of the factors underlying the fertility choices being made by Australian women. In turn, this will facilitate better-targeted policy interventions.

I should also note that the government already provides very considerable assistance to families. This totals around \$11 billion every year to 2.2 million families as well as \$1.4 billion in childcare benefits. Last year an additional \$2.4 billion was provided through the taxation reform package.

Ladies and gentlemen, as my talk today will have confirmed, population issues are important and complex. The government is addressing them across a range of portfolios, including my own. Even if there were no pay-offs in terms of our population future, these policies would remain worthwhile in their own right.

However, I believe that there will be long-term population benefits flowing from these policies. To ensure this, we must remain on the front-foot especially in terms of research and policy formulation.

The government is determined to maintain its focus in these areas and I look forward to a similar commitment from the professionals and academics who have contributed to making this conference a success.