

# The Australian

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## More migrants yes, but weigh the risks

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**IF you want a plot, watch *The Sopranos*, because you won't find one in the so-called population debate.**

But however mired in fudge that debate may be, there are real problems with a Big Australia that deserve to be better understood.

Start with the basics. Given present birth rates, population growth will depend mainly on immigration. By what criterion should we judge how high our immigration rate should be?

The logical criterion is the wellbeing of those already here. We should, in other words, maximise the welfare of existing Australians, taking into account their interest in the prosperity of future generations and humanitarian concern for the rest of the world.

That our focus should be on the preferences and welfare of present Australians may seem obvious but is crucial. For example, higher immigration would increase our national output. But it could diminish output per capita, and assuming foreign investors owned some of the added output, reduce per capita national income even more. And it might diminish the welfare of present Australians and their progeny, depending on how any increased national income was distributed between those who live here now and the new arrivals.

As a result, the choice of objective matters a great deal. The building industry wants to maximise the number of homes that need to be built and the mining industry the rents that can be extracted: but those objectives may not coincide with maximising the welfare of present Australians.

This point was stressed by economist Donald McDougall in a classic article he wrote while visiting Australia in the late 1950s. Those were years of record foreign investment. McDougall's question was whether that influx required a correspondingly higher rate of immigration.

McDougall argued that the increase in foreign investment had two effects: it made capital more abundant, lowering profits (as capital was invested in ever more marginal uses); and it made labour more productive, which increased wages. A matching rise in immigration would increase labour supply, causing wages to fall from that higher level. Total output would increase, but local incomes would not rise by as much, because some of the increase would go in higher profits to foreign investors.

In other words, output would rise, but unless a (potentially high) share of the resulting increased income was transferred to the initial residents, greater migration could make them worse off.

The risk of well-being declining is magnified if there are some resources that are costly or impossible to expand, such as roads in densely populated areas. Added congestion then harms users, aggravating any fall in living standards.

It is simply wrong to claim, as many economic commentators have, that proper pricing of those congestible assets (say, through road charges in CBDs) will avoid that fall.

To see why, imagine a swimming pool whose usage doubles. Assume also that prices are set fully efficiently, so that the lanes are always allocated to those who value them most highly. When demand doubles, prices must rise, and the more difficult it is to expand capacity, the greater the increase. The owner of the pool is better off but unless the increased income goes to the original users, they are unambiguously worse off. Indeed, if the pool is foreign owned, the gain will accrue overseas, while the costs will be borne entirely by local users.

The issue is even more acute with resources that are difficult to price (such as the untrammelled enjoyment of open spaces) or where political and social constraints make proper pricing unlikely (as in education and health). Then the costs of congestion may be high, and will fall largely on those users who can't afford any uncongested, more efficiently priced, alternatives. In Yogi Berra's deliciously illogical phrase, at a certain point "it's so crowded, no one goes there anymore".

Nor is building more infrastructure a panacea. To begin with, infrastructure decisions have never been more poorly made than at present,

with decision-making pathologies so deeply entrenched as to be encrusted. But even were investments better chosen, the unit costs of expanding infrastructure are often higher than those of the capacity already in place. If expansion is efficiently priced, prices must then rise, making existing users worse off.

All that said, immigration can still be highly desirable, for three reasons.

First, the mining boom. While mining is highly capital-intensive, new projects use lots of labour during their construction stage. With unemployment low, it can make sense to meet the temporary increase in labour demand through a temporary increase in the workforce, for instance by liberalising 457 visas. Although that can make local workers worse off, we avoid retraining and relocation costs and the structural changes otherwise needed to shift labour from other sectors.

Second, migration can bring in skills that complement those already here, increasing productivity. At the same time, in a labour market made more rigid by misconceived industrial relations legislation, it can inject much-needed flexibility and competition that benefits consumers.

Local nurses would prefer to operate as a monopoly and so oppose migration of nurses from The Philippines. But the loss local nurses would suffer is more than offset by the increased efficiency of local doctors (who are more productive if they have more nurses to assist them) and by gains to patients.

But the third reason is perhaps the most important. Historically, migrants have been driven by the desire to make a better life for themselves and their families. Settler economies have benefited from that ambition, as migrants have striven to give their children the future they dreamed of. But experience and analysis shows those benefits are far from guaranteed.

Specifically, nothing saps integration more than the welfare state, which can make it optional for migrants to find their way in the local society and labour market. Little wonder the great miracles of migrant absorption occurred in the Australia of the 1950s and 1960s, when income transfers barely existed. And little wonder Europe is now trapped in migrant ghettos and rampant xenophobia.

Overall, there is a compelling case for immigration. But high, sustained population inflows raise issues more troublesome than boosters of a Big Australia recognise. Those issues cannot be wished away, nor papered over with mealy-mouthed insincerities. Until they are properly addressed, our population debate will remain a pitiful sham.

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