

**AUSTRALIAN CENTRE FOR POPULATION RESEARCH:
PUBLIC SEMINAR SERIES**

Honorable Philip Ruddock

If the fertility rate stabilises at around 1.6 children per woman and net overseas migration averages at least 75,000, the public policy dimensions of Australia's population future should be manageable. Our means tested age pension and the superannuation guarantee mean that we face very low rates of pension expenditure growth. Pressure on the public purse is more likely to come from health, but this may not be the direct result of ageing. Nor should anticipated changes to the size and age of the labour force present insurmountable problems. There would be significant economic and social implications, however, if fertility were to fall to European or Japanese levels, or if net migration, especially skilled, were allowed to decline. To help ensure a sustainable population future we need to: know more about the causes of fertility decline; continue to attract young, highly trained migrants with good English skills; and encourage older Australians to remain longer in the labour force.

I would like to begin tonight by thanking Professor McDonald for his invitation to speak in this series of public lectures on immigration and population. Peter is one of the leading academics in this field and his work has been of great value to my department and myself. I am pleased that the new Australian Centre for Population Research will provide a further forum for this work. I have no doubt that the Centre, as well as fostering academic work of excellence, will also generate valuable research and analysis of great relevance to public policy.

In keeping with the aims of the new Centre, tonight I would like to set out what I see as the key public policy issues relating to population and immigration. It is an often-repeated 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 force demonstrates that this is simply not true. Many public policy decisions resonate over decades. Indeed, the effect of some only becomes apparent years after they have been taken. It is therefore essential that governments

making these decisions understand and take into account the demographic context against which they will be played out.

Let me begin this brief overview by discussing the links between immigration and population. Of all the many issues that fall within my portfolio, this generates some of the most heated if not always enlightened debate. Australians have always been very conscious of population issues. Perhaps this is because we are a relatively new nation, built largely on planned migration. In fact, for a long time, immigration was seen as the principal means of populating the country. Quite naturally, this led to debate on how many people should ultimately live here. The physical nature of Australia, its climate, soils, size and natural resources, have also compelled us to look closely at how we should live in this unique continent. Part of my responsibilities is to ensure that our discussion of these issues is constructive and based on relevant and reliable information.

All too often, however, the population debate has suffered from a lack of understanding of demography. For example, as Professor McDonald has pointed out,

proposed targets of 12 million or 50 million in 50 years make very little demographic sense. To achieve 12 million we would need to remove 100,000 people net from Australia every year for the next fifty years. Then, to stabilise at that level, we would suddenly have to start bringing in over 100,000 people net each year. To achieve 50 million in 50 years, we would need to bring in 460,000 people net each year. To begin to stabilise at that level we would then have to remove 100,000 people net in 2048, falling to 30,000 in the following year. As such figures demonstrate the proponents of such targets simply pick the population level that best suits their interests and then stridently advocate it.

The reality is that demographic forces are slow but inexorable and very difficult to divert. The alignment of those forces at present strongly suggests that our population will grow increasingly slowly towards mid century when it may reach around 24 million or a little more. At that point or soon afterwards it will virtually stabilise in size and age. It seems certain that natural increase will fall below zero around the mid 2030s. After that, only net overseas migration will keep the population growing until mid century. Professor McDonald has demonstrated that this path is by far the shortest and most likely route to a stable population. Peter has also shown, in work for my department, that the first 80,000 net migrants per year make a reasonable contribution to the reduction of the ageing of the population. Net migration above that level brings rapidly diminishing returns.

Current trends in net overseas migration suggest that, over the long run, net migration may average out at around 80,000 per annum. We take these factors very much into account when setting the

annual migration intake. That is why, for example, when announcing the 2000-01 immigration intake, I also took care to inform Australians of the population impacts of the program. While the debate often gets no further than strident advocacy of impossible targets, what we really need to discuss is how we will adjust to what is by far the most likely population outcome. Within this demographic context, our objective should be to achieve an economically, environmentally and socially sustainable Australia.

As I have noted, part of my role as immigration minister is to ensure that the migration program is planned against this demographic background. But I must also ensure that the program retains the confidence of the public, so that it will be able to contribute to a sustainable population future. Just how valuable public support for immigration can be is illustrated by the dilemma now facing most other developed countries. In response to ageing and declining populations, some of these countries are for the first time considering planned immigration. However, where immigration has never been part of the culture, public resistance becomes a real issue. Notions of citizenship that, unlike Australia's, are based on ancestry and race, can compound this resistance. It is therefore essential that we maintain public support for the migration program and a welcome for those who wish to bring their talent and ability, their children, their experience and their diversity here, on either a temporary or permanent basis.

A culture and history of immigration is one of the reasons why the population news for Australia is relatively good. Another reason is that, although our fertility rate is below replacement, it is still considerably higher than in many comparable countries. The big question is, what will happen to it over the next half

century? Of course the answer to this depends on what influences the decisions of women and their partners to have children. Whilst there appears to be no clear cut answer to this question, it is apparent that the decline in fertility rates over the past few decades has been associated with significant increases in educational and labour force opportunities for women. As a consequence of these advances, many more women are now able to make real choices about the kind of lives they wish to lead, including the number of children they wish to have. These are real gains which benefit us all and no one would wish to reverse them. The challenge now is to protect and enhance these gains while at the same time guarding against the risk that fertility rates may fall to dangerously low levels.

These are difficult issues for a liberal democracy where anything that smacks of official interference in people's private choices is rightly viewed with suspicion. This is compounded by uncertainty about how much influence governments can bring to bear in this matter anyway. It is interesting to note here, for example, that Singapore's efforts over the past decade to encourage women to have more children have so far not succeeded. In fact it is difficult to identify any country where measures to increase fertility have had any clear effect.

At the very least, however, it makes sense for government to do three things. Firstly, government should continue to support policy and business practice that facilitates women and men combining work and family responsibilities. As a society we will have succeeded when having a successful career is entirely consistent with having a fulfilling family life. Australian women and men should not have to choose one or the other. I am,

of course, very much aware of the interest my colleagues Jocelyn Newman and Peter Reith take in these matters. Substantial assistance is provided for families with children through existing government programs and business is being actively encouraged to facilitate employees striking a better balance between work and family. Secondly, it would be prudent for us to continue to consider the potential impact of all policies on the fertility rate, specifically in terms of whether they constrain or facilitate choices about the number of children women wish to have. This would help to ensure that the risk of a negative effect on fertility is reduced. The third thing government can sensibly do in this area is to continue to support research into fertility choices. There is no doubt that we need to know a lot more about what influences the fertility rate, and the role of public policy in this critical area.

I would like now to turn to the links between population and the environment and the role of government in this equation. I noted previously that the question of how we can live sustainably within our unique environment is one that has concerned many Australians. This question has been examined by two major inquiries during the past decade: the national population council in 1991 and the house of representatives standing committee for long-term strategies, otherwise known as the Jones report, in 1994. Both reports found that environmental impacts are not only associated with population levels but also with technology, economic well-being, location, lifestyle and environmental management. Both inquiries concluded that an optimum population target is not appropriate for Australia.

It is also instructive to note that many of the big impacts on the environment including water usage, energy consump-

tion, tourism, greenhouse gas emissions and land degradation are more closely related to export activities than to the size of our domestic population. For example, around 70 per cent of all the water used in Australia is consumed by agriculture, but only a fraction of the food produced is consumed here. The rest is produced for export. Of the 22,000 gegalitres of water used in Australia every year, only 1,800 gegalitres or around eight per cent is consumed directly by the domestic population. Experience in the Hunter Valley and more recently in Sydney shows that even this level of domestic consumption can be reduced significantly through pricing and consumer education. Similarly, a large proportion of our electricity is consumed by export related industries such as aluminium smelting.

I am not attempting to diminish the seriousness of these environmental issues: far from it. But I am saying that it is simplistic to link environmental degradation solely to the size of our domestic population thus ignoring the complexity of the issue. It is misguided to assume that if only we could reduce the number of people living here, environmental problems would disappear. They would not. If we could suddenly and magically reduce our population to, say, 12 million, there is no reason why that population could not and would not engage in the same level of irrigated agriculture, mining, aluminium smelting and so on that occurs with the current level of population. In this context, I find it very telling that as the CSIRO pointed out in its submission to the Jones inquiry, the most ruthless devastation of Australia's forests occurred in the 19th century, at the end of which the population was less than one third its present size. I would go further and suggest that such beliefs are dangerous

because they divert attention away from the need to address environmental problems now, rather than waiting for the non-solution of population reduction.

In reality, the critical environmental issue in terms of the domestic population is often location. Where people live is as important as how many Australians there are in total. Once again, demography is of enormous assistance here, and once again it is often ignored by those who get no further than advocating particular population targets. Current projections indicate that over the next 50 years there will be continued growth of most major cities and the eastern seaboard, and depopulation of many parts of the inland. It has been estimated that by 2050, Melbourne, Brisbane and Perth may have increased by approximately one million people each. Sydney could have increased by nearly two million. In fact, the ABS projects that 75 per cent of all population growth will occur in the major cities. This has prompted some to argue that the upper bounds of population growth in Australia will be linked to the capacity of these cities to absorb more people and our ability to manage and re-shape them.

This issue is brought into sharp focus in Sydney which faces serious environmental challenges and whose population is projected to increase by up to 45 per cent by 2050. Sydney's physical expansion is constrained by the blue mountains and large areas of national parks to the north, west and south. Further urban consolidation is physically possible, but might bring its own problems, including greater pressure on existing infrastructure, more traffic congestion and increased runoff. Immigration is currently a major contributor to the growth of Sydney, as around 40 per cent of all overseas migrants settle in the city.

To encourage migrants to settle out-

side Sydney, I have introduced and expanded a range of state-specific migration mechanisms to enable state governments and major regional authorities to have a greater input into migrant selection. These mechanisms can be used to attract the skilled migrants they consider they need. The more that these mechanisms are used, the greater the prospect of reducing the proportion of the skilled intake settling in Sydney. Until our population stabilises, the pressure on our urban environments might also be eased by improvements in their management, the introduction of better technology such as low emission vehicles, better infrastructure and changes in consumption patterns such as the recent decline in per capita water consumption in Sydney.

In contrast to Sydney, South Australia and Tasmania are facing population losses, which may in fact generate bigger problems than population increases in other places. These states might have the environmental capacity to absorb greater numbers of people, but face difficulties in attracting them. Other cities, such as Perth, which is growing faster than Sydney, might also have greater capacity to accommodate more than its projected increase at relatively low infrastructure and environmental cost. The demographic and environmental differences between these cities underscore the fact that in Australia, population issues and concerns are highly locational in nature. Any consideration of population issues should take this regional dimension fully into account. As the potential futures of different Australian cities demonstrate, population problems can be associated with decline as well as growth.

This is evident when we come to consider our economic future, which will be deeply affected by decline in the

growth rate of the population. At the centre of this issue is the likelihood that the proportion of our population aged 65 and over will double in the next fifty years. Whereas it is 12 per cent now, in 2050 it will have increased to around 24 per cent. For every one of these older Australians there are currently five and a half people aged between 15 and 64. By 2050 there will be only two and half. This ageing of the population means that spending on pensions, health and age care is likely to increase. At the same time, taxation revenue is likely to be lower than it would otherwise have been.

While opinions vary about the magnitude of this issue, most commentators believe that it does not necessarily forebode a future public financing crisis. It has been estimated that, all other things being equal, social expenditure may increase its share of GDP from around 20 per cent today to up to 27 per cent by 2050. Health (and, to a significantly lesser extent, pensions) dominate this growth. Such estimates depend of course on what happens to labour force participation, productivity and unemployment rates, all of which will have an impact on the future rate of GDP growth. It should also be noted that child dependency, and its costs, will be falling at the same time as age dependency is increasing. Whereas in 1997 there were just over three people of working age for every child aged 0 to 14, in 2050 there will be nearly four people of working age to every child. When those in both the old and young dependency age groups are combined, the projected ratio of people of 'working age' to people of 'non-working age' was two to one in 1997 compared with 1.5 to one in 2051. A major reason why the ageing of the population may not present an insurmountable public financing challenge 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 other developed nations, and an expanding private pension asset base. Some estimates have pension costs increasing by 1.5 percentage points of GDP over the next 50 years. This is significantly less than the increases faced by those countries that have universal, non-means tested pension systems. Pressure on the public purse is more likely to come from health expenditures. It has been estimated that health costs may rise by 6.6 percentage points of GDP by 2041. But even so, much of this projected growth may not be the direct result of an ageing population but of changes in technology, demand and the price of drugs.

Population change will also have significant impacts on the labour force. As the population begins to grow more slowly, so will the number of people of traditional labour force age. In fact, labour force growth may decline even faster than the population growth rate. By 2040, the size of the labour force could have peaked after a long period of modest growth. According to the ABS, the annual growth rate of Australia's labour force has already slowed from 2.7 per cent in 1979-80 to 1.6 per cent in 1998-99. It is projected to fall sharply again to a mere 0.4 per cent in 2015-16. The labour force will also be growing older. Over the period to 2016, over 80 per cent of labour force growth is expected to occur in people 45 years and over, as the 'baby boomers' move into this age group. The slowdown in the growth of the labour force could be somewhat retarded if participation rates increased, particularly for older men.

These have fallen since 1973 when 88 per cent of males aged 55-59 years were in the labour force, compared with 74 per cent in 1998. The participation rate of men aged 60 to 64 has fallen from 76 per cent in 1973 to 46 per cent in 1998.

These changes in the participation rates of older men may be partly attributable to pension and superannuation arrangements that facilitated early retirement. They are also probably the result of a changing industrial structure, including the shift from manufacturing to the service sector that occurred over this period. The trend has been perpetuated by an increase in the number of older workers leaving the labour force because of retrenchment, ill health or injury. Today, less than half of all males aged 55-64 years work full time. One third of all people aged 50-64 receive some form of government pension or benefit — the most important being the disability pension and the age pension for women. Some 57 per cent of people claiming the age pension move to it from some other income support payment. Nevertheless, labour-force participation rates for men aged 60 to 64 have recently begun to rise again. Furthermore, older workers will be better educated and have more transferable skills. They may very well find it easier to re-train and find new jobs within an increasingly knowledge-based economy.

There would, however, need to be very significant shifts in participation rates to bring them back to levels that would sustain the current growth in the labour force. This would require the participation rates of people over 45 to increase from 44 per cent in 1998 to 68 per cent by 2016. While such a change is hard to envisage, on balance changes to the labour force may not present insurmountable problems. However, this will

depend heavily on changes to the size and age of the labour force being buffered by immigration at around current levels and fertility stabilising at around 1.6 children per woman.

It should be noted, however, that while immigration can help avert a fall in the labour force, it cannot maintain the current rate of labour force growth. To do so net overseas migration would need to increase to 150,000 next year, and continue increasing to 280,000 a year within the next two decades. A further strong fall in the fertility rate would not have an immediate impact on the labour force because almost all of the labour force for the next twenty years has already been born. However, it would have a very significant impact from in two decade's time. This in turn would have serious implications for the ratio of social expenditure to GDP.

As it is, the projected reduction in labour force growth will mean that Australia's rate of GDP growth will also begin to slow, unless labour productivity increases per capita growth. Opinions differ about our future productivity growth. Some commentators believe however that the slowing rate of labour force growth will also cause productivity to slow. Others, with the current U.S. experience before them, believe that major leaps in technology may enable greatly enhanced productivity per worker that could more than counter declines in labour force growth. The important issue here, is not total GDP growth but GDP per capita growth, since it is the latter that is more closely related to the living standards of the population.

There is a range of views on future levels of per capita GDP, but there is some consensus that it is expected to remain relatively high. For example, Steve Dowrick, Professor of Economics here at

the ANU, has estimated that a slowing of output growth could result in a reduction in GDP of 6.25 per cent over the next 25 years. This is, however, less than the decline in the rate of population growth. In other words, Professor Dowrick suggests that we might expect GDP growth rates to fall, but not quite as quickly as the fall in the rate of population growth. Thus, in this analysis, growth in real GDP per head might actually increase with the ageing of the population. Steve Dowrick's hypothesis accords with the view that population ageing is the result of rising levels of income. That is, as people become better educated and acquire more skills and knowledge, their incomes rise. This increases the opportunity costs of having children. Some economists argue that declining fertility and increased investment in education and research go hand in hand. The demographic consequence is an ageing population. The economic consequence is that real growth per capita may increase.

As this brief examination of some of the key issues demonstrates, population policy is far more complex than simply picking a population target and barracking for it. The challenge is to understand the connections between the issues and address them in a coherent and co-ordinated way. Our objective in doing so should be to achieve a future for Australia that is economically, socially and environmentally sustainable. To achieve this goal we must seek to minimise the prospect of eventual population decline and a decline in the size of the labour force. To do so we must firstly be aware that further significant falls in the fertility rate will have a big impact on our population future. Therefore we need to know more about what cause such falls and how we can avoid them.

Secondly, we need to maintain and

enhance the benefits of our immigration program. We need to continue to attract young highly trained migrants with good language skills. There is a wealth of evidence that such migrants contribute heavily to our economic and indeed our social benefit. Net migration up to a certain level will also have a worthwhile effect in moderating the ageing of the population and contributing to further population growth and stabilisation.

Thirdly, we need to encourage older Australians to remain longer in the workforce. This is highlighted by the fact that labour force growth is set to decline faster than population growth. The effect of this on GDP depends on what happens to productivity, but even in terms of having enough people to do the essential tasks in society, greater retention of older workers has to be a key task.

Fourthly, we need to ensure that the impact on our environment of future population levels is sustainable. Stabilisation of the population should contribute to this. We also need changes to consumption patterns, technology and environmental management policies. Coupled to this, the Commonwealth and States should cooperate wherever possible to ensure the best geographical distribution of our population. The state-specific migration mechanisms I have mentioned are a good example of such cooperation.

Although these matters may seem complex and somewhat daunting, I would

like to finish on an optimistic note. The population changes we are facing are in many ways the result of improvements in our society. We are living longer. We are more affluent. We are healthier. Women have many more opportunities and options. Compared with many other developed nations, we are looking at an achievable and sustainable population future. From an environmental perspective, all countries must eventually seek to stabilise their populations. Our good fortune is that this is entirely possible within the lives of many of you here tonight. We must seek to capitalise on these gains, for example by changing attitudes to older workers and by removing the rigid boundaries between work and retirement. We must also remember that population growth is not a prerequisite to per-capita economic growth. Many developed nations have indeed achieved substantial per capita economic growth without significant population growth.

Australia is fortunate also in having had a long held interest in our population future. If this and future governments can help focus and inform that interest, we look forward to a sustainable and prosperous future.

Notes

Address by the Honorable Philip Ruddock, Minister for Immigration and Multicultural Affairs, to the Australian Centre for Population Research at the Australian National University. 11 October 2000.