

AN IMMISERIZING TRADE IN ECONOMISTS?

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*There has been a tightening of the Australian labour market for economists during the 1990s yet, despite this, there has been a continued substantial net inflow of migrants economists. The impact of this inflow has been particularly severe on the academic economist labour market, which is one of the weakest submarkets for professionals with training in economics...*

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INTRODUCTION

This paper continues this journal's focus upon looking at selected professional labour markets and how emigration and immigration flows impinge upon their fortunes. The much celebrated profession of economics makes an interesting case study. Using some rather appropriate tools of the trade this paper will use simple demand and supply analysis to generate some insight into the economists' labour market, especially the academic segment of it where immigration/emigration flows exert the greatest impact. Given the small size of the local profession, immigrant flows figure prominently in both its make-up and outlook.

Unlike the labour market for engineers or doctors, the aggregate labour market for economists is, in terms of numbers involved, quite small. The number of economists plying their trade in this country according to the 1991 census was a mere 2,151 souls - an obvious underestimate when one considers that there are some 400 economists working in the Treasury and Industry Commission alone. The caveat to note is that the designation 'economist' is, by and large, a self-appointed one; many Treasury or Industry Commission economists, to take one example, may have unwittingly classified themselves as public servants on their census forms. By the same token, university economists may well be classified under the rubric 'academics'. The directory of the Economic Society of Australia lists some 3,500 members; it covers business and public-service economists as well as academic economists. It does not, however, pretend to be an extensive listing. The Department of Employment, Education and Training's (DEET) latest figures, contained in the publication *Australia's Workforce 2005: Jobs in the Future*, indicate that the economist profession numbered 3,200 in 1993-94.

According to unpublished Australian Bureau of Statistics (ABS) data, eight per cent of the professional economist workforce in 1995 was unemployed.<sup>[1]</sup> Most of the respondents in this ABS survey either classified themselves as economists or had in fact undertaken economist-type duties in either public sector or private sector pursuits. This compared with a corresponding figure of two per cent unemployment for most other professions, suggesting

that, relative to other professions, the labour market for economists is somewhat over-supplied. The only official confirmation of any excess supply problem was in a briefing distributed by the Occupational Analysis and Migration Unit of the Victorian Labour Economics Office of DEET which, in 1995, found that newly-qualified economists seeking a job within either the public sector or the private sector in Victoria were likely to confront a 'minor oversupply' problem.<sup>[2]</sup>

The Occupational Analysis and Migration Unit just cited groups economists into four market segments. This is a helpful taxonomy and will be used below. The segments are:

1. the public-sector and research-institute economists involved in general or specialist applied economic research;
2. private-industry and financial market economists;
3. econometricians specialising in computer modelling and forecasting employed in government agencies; and
4. academic economists employed in research and teaching roles at higher education institutions.

There can, however, be some intra-industry mobility or transference between the four segments, particularly flows between the public service and private industry. From the mid-eighties onwards, many Treasury and Reserve-Bank economists were lured into high-paying positions within the corporate and financial sector.<sup>[3]</sup> But relatively few public service economists drift to the university cloisters; clearly the occupational pay differential of the private sector predominates over the supposed psychic-income compensations of academe. As there are few ABS data on intra-occupational pay differences for economists, either within public-sector or private-sector pursuits, some anecdotal evidence must suffice.

According to personnel consultants who specialise in economist placements within the corporate sector, young Treasury economists intent upon sharpening their skills in the corporate sphere can expect an entry point salary around \$55,000. A senior Treasury officer with, say, ten years experience might appropriate \$150,000 in a high-profile bank-economist position. Irrespective of the economic trade cycle, very few university economists are successfully breaking into these high paying jobs, mostly because corporate management tend to shun them as either too idiosyncratic or not commercially-focused. In other words, the high-flying corporate economists enjoy an immunity from the market forces they so enthusiastically praise. It goes without saying that migrant economists, even with a command of English, have little chance of securing employment in the corporate sector, given their lack of networks or familiarity with the peculiarities of the Australian economy. It is likely, however, that migrant economists will make a considerable impact upon the academic economists' labour market and for this reason the subsequent analysis is confined to this submarket.

## THE INS AND THE OUTS OF THE ACADEMIC ECONOMISTS' LABOUR MARKET

Judging by student enrolments, academic economics is in a state of some decline

Table 1

[Table 1] Certainly the dearth of new positions - as distinct from the advertising of contract renewal positions - might be taken as prima facie evidence of this. It is remarkable that the labour market which should interest academic economists most, has seen little, if any, studies of it. This reluctance to take an interest in one's own home turf might be taken as a display of professional detachment or perhaps reflect an easy complacency. It is not even easy to mount a head count of the number of academic economists practising their skills since many are involved in business studies. This classification problem assumes even greater weight when looking at the migration of economists into Australia. Some enter as economists, others, though they have economics training and are interested in university work, may simply describe themselves as university teachers. Another obstacle is the vexed question of just what it is anyway that makes an academic economist. Is it a bachelor's degree, a master's degree, a PhD, or years of experience at a university teaching post? Having the mandatory first degree in economics and perhaps some applied experience is the bare minimum to be defined as an economist.

Abundant anecdotal evidence, amplified by that infallible communication channel - the academic grapevine - recurringly informs one of strong fields of qualified candidates competing for even the humblest academic position.<sup>[4]</sup> More formal figurework for the unemployment-vacancy ratio is difficult to generate. In its absence one must ask how this suspected supply overload might be expressed. One tell-tale indicator of a market dogged by excess supply might be the number of staff furiously upgrading their qualifications by undertaking doctoral studies. Invoking property rights to the post or relying upon the old insider-outsider labour market dynamics will no longer suffice - one must have a PhD in one's repertoire. There has been a steady increase in doctorate enrolments in economics since 1990-91; the number has doubled in the four years since 1990.<sup>[5]</sup> While this outbreak of credentialism bodes well for the professional quality of the discipline, the critical problem is whether the eventual supply of PhD economic graduates will meet with an equivalent increase in the demand for their services.

In 1994 the total Australian enrolments in economics PhDs, both commencing or ongoing, was 212 students, 56 of whom were foreign students.<sup>[6]</sup> Many of these foreign students will head offshore upon completion of their doctorates. Some, however, contemplating the relative attractiveness of securing an academic position here and the attendant lifestyle, might be encouraged to stay especially following the Federal Government's decision in December 1989 to allow full fee-paying overseas students to apply for permanent residency after completing their studies in Australia. As a guide, a recent Bureau of Immigration, Multicultural and Population Research (BIMPR) study on that issue found that half of the foreign students surveyed were interested in seeking permanent residence.<sup>[7]</sup> Unfortunately

change-of-status data for foreign postgraduates studying economics here are difficult to quantify. But the potential addition to supply is clearly there.

I have argued elsewhere that Australian universities are wont to sponsor the permanent residency application for their best and brightest overseas students, especially now with departments facing unrelenting pressure to raise their research quantum.<sup>[8]</sup> Another in-built incentive that encourages foreign postgraduate students to apply for residency is that, where successful, they can switch to the much cheaper Australian-resident fee structure. Somewhat similar is the Employer Nominated Scheme (ENS) where an Australian university directly recruits an economist, either off-shore or on-shore, ostensibly because no local candidate meets the criteria required. The ENS has proven to be not insignificant with nineteen economists recruited over the past six years (see Table 2). In 1994-95 110 academics arrived in Australia under the ENS with some possibility of economists amidst their ranks. This raises again the difficulty of nomenclature; some economists would arrive into Australia as Independent-entry 'academics'. In that regard Baker et al. found that overseas academic recruits in all fields tend to be more highly qualified than their Australian counterparts across most levels of appointment.<sup>[9]</sup>

Table 2

[\[Table 2\]](#)

It is well known that the academic labour market is an internationalised one. Universities rightly pride themselves that merit or research profile rather than nationality are the proper grounds on which staff are selected. When it comes to the international advertising of vacant posts Australian universities are not newcomers. Sloan and others found that Australian universities were amongst the largest employers of overseas professionals with more than one-fifth of academics employed by Australian universities being born abroad. Between 1982-83 and 1990-91 the net annual figure of permanent settlers (permanent settlers minus permanent departures) in higher-education occupations entering Australia increased fourfold to nearly 400, though not all would have necessarily secured academic postings.<sup>[10]</sup>

[Table \[3\]](#)

Table [3] Birrell found that between 1993-94 and 1994-95 the number of academics coming here as independent settler arrivals more than double.<sup>[11]</sup> Economists will have figured in this growth. Focusing upon the economist profession, Table 3 looks at the aggregate inflow and aggregate outflow of economists over the six-year period, 1990-91 to 1995-96. Table 4 shows how by aggregating economist settler arrivals (col. 1) with Australian economists returning home (col. 2) and thence subtracting it from total permanent departures (col. 7) and long term resident departures (col. 8) the net accretion of economists was recorded by Australia, over this period was 724 souls. Australia has, so to speak, been singularly blessed with a bounty of hundreds of economists. These figures do not include any change-of-status cases resulting from long-term visitor arrivals (col. 3). In 1994-95, f

Table [4]

[Table \[4\]](#)

or instance, of the 53 economists who arrived in Australia on long-term visas, some 23 were students arriving to undertake higher studies. (The other major components in the make up of the long-term visa arrivals was in the 'exchange' category and 'specialist' category.) Since there has been a steady surplus of economists classified as long-term visitor arrivals over such visitors departing after a long-term stay in Australia, it is likely a number have stayed on permanently. Australia has therefore been enriched by a generous supply of overseas-born economist talent, from both permanent and long-term movements. It seems reasonable to argue that most of the new settler arrivals, provided they have a command of the English language, would target their job search, first and foremost, at the public service and academia.

Table 2 delineates the migration categories under which economists arrived in Australia whether as principal applicants or as accompanying family members. As argued, the designation 'economist' is, for the most part, a self-appointed one both for arrivals and departures. Independent settler arrivals, classified as economists, must meet the stringent test of having at least one degree and some years of experience to help accumulate the points needed for the skilled immigration intake. They would not have pre-arranged employment in Australia. They, like many other prospective academics, are merely engaging in the international job search for which the higher-education labour market is renowned. It must be pointed out, however, that over the same six-year period, the bulk of the migrant economists arriving here came in under either the family-reunion or humanitarian categories (see Table 2). The arrival of overseas economists, however, has not been compensated by any significant outflow of Australian-born economists

Table 5

[\[Table 5\]](#)

Destination data (not shown) shows rather interestingly that the burgeoning economies of Asia have so far attracted relatively few Australian-born or Australian-based economists, since most emigrants move to Europe or the United States.

These inward and outward flows of economic expertise are facilitated by job advertisements in the *The Economist*, the *Times Higher Education Supplement* and the ever accessible Internet. Australian academic positions, it seems, are still keenly contested given that local salaries compare favourably with most nations, except Singapore, Hong Kong and the United States.

Table 2 shows that, in 1995-96, of the 140 economists who arrived on Australia's shores, 35 per cent or 40 souls came as Independent settlers. Over the six-year period, the share of economists arriving here as Independent settlers was 36.5 per cent. Other than those entering

under the Employer Nominated Scheme, it is difficult to ascertain the employment status of those economists who have come to Australia as Independent settlers.

Many immigrants, however, who came under the Family Reunion or Humanitarian categories would have come from non-English-speaking background (NESB) countries which would preclude their immediate entry into the job market. This would be especially likely for the large numbers who hailed from Yugoslavia, the Baltic States and other parts of the former Soviet Union

Table 6

[\[Table 6\]](#)

In its latest labour force occupational growth projection contained in *Australia's Workforce 2005*, DEET places economists as one of the fastest growing service professions. The projected growth is from 3,200 employed in 1993-94 to 5,500 by the year 2004-05 - a growth rate of 70 per cent. In putting forth this projection DEET considers the higher-education sector to be a mere sub-market within a broader occupational group that encompasses industry, public service and finance. Contrary to common belief, DEET's labour force projections have no influence whatsoever upon Australia's immigration intake of skilled personnel since the Department of Immigration and Multicultural Affairs (DIMA) takes no account of total demand in its Independent selection system. This lack of liaison between these two Commonwealth departments in regard to the composition of the skilled labour immigration intake is regrettable. On what is a complex and politicised issue one can only comment that it is an area where all-conquering rationalist economics has made little foray. Given the pattern of the migration intake, the authenticity of DEET's rosy projections for the economics profession would perhaps be of secondary concern to the bulk of economists coming here.

## WHY DO THEY COME?

While Australia is potentially enriched by this net 'brain gain' there is no guarantee that the infusion of human capital will be productively used. In the past Australia has been a refuge to many an emigré economist, numbers of whom have gone on to make an outstanding contribution to the local economics community. In that light the inflow of economists, particularly from Asia, may provide insight and expertise into our new and burgeoning export markets. The rising levels of inflows and outflows of economics talent moreover befits an internationally-based discipline with an global cast of scholars. Economics has long been caricatured as a perpetually divided, balkanized discipline, with every economist having his or her passport close at hand.

True to their faith in the market mechanism, Australian economists, like their overseas counterparts, ostensibly set no barrier to entry to practise within their profession. Newly arrived economists here do not have to endure the indignity of not having their qualifications recognised. This however can have some drawbacks. Table 4 shows that Australia has



recorded a net influx of 724 economists over the period 1990-91 and 1995-96 (a figure which, for reasons set out above, is an underestimate). While this number is minuscule against the annual production of economics graduates, it compares much more significantly with the numbers of local students completing economics doctorates over that period. Like the conclusion reached by Smith in his study of the engineering profession, much of the state's training of young economist minds may go to waste, particularly those bent on an academic career.<sup>[12]</sup> While some of these economics PhD graduates are already gainfully employed, full-time doctoral scholars would find that academic jobs, especially in the big cities, are keenly contested. Since we have already established that there is in-built protection for private-sector economists, a corporate career would be almost out-of-bounds for these new PhDs.

One may ask why would economists want to come to Australia if their services are not likely to be sought after? Or indeed why newly-arrived economists or foreign-student doctoral graduates would covet an academic career when staff/student ratios are unfavourable, research infrastructures are being depleted and the university sector overall, following the budget cuts, is set to markedly contract.

Birrell argues that our skilled migrant intake reflects 'out-migration pressures overseas' rather than domestic considerations. Consequently the composition of Australia's skilled immigration intake:

...often had more to do with the country-specific situations where a surplus of professionals existed or where particular political problems were rife than any serious evaluation either by the Department of Immigration and Ethnic Affairs or by the applicant about the relevance of his or her skill in the Australian job market.<sup>[13]</sup>

In that light it is interesting to recall that about half of the 159 economists who arrived in Australia in 1994-95 hailed from Eastern Europe (see Table 6). Their first concern may have been more to gain permanent residence in a First-World country for their families rather than to find immediate employment. As risk-averse creatures, economists are nothing if not rational beings in plumping for a relatively prosperous, politically stable society regardless of the immediate employment situation or the relevance of their credentials and experience to any employer's needs. Admittedly the burst of economists entering Australia under the humanitarian part of the migration program is, as Table 2 shows, now winding down.

Australia's relatively liberal immigration regime therefore does unambiguously contribute to the supply potential of economists. Whether this supply is matched on the demand side is the key concern. Data on vacancies and job placements of economists are not easily obtainable. Despite the small numbers involved, a case might be mounted against Australia continuing to 'import' any further economic expertise. The poor employment prospects now for all economists in Australia is deterring the entry of new students into postgraduate studies in economics; enrolments in Masters degrees in economics have barely risen over the last few years. The demand for economics subjects at both undergraduate level and in high school has also fallen markedly with obvious employment consequences for economics educators at all

levels.[14]

Ironically one leading factor cited behind the falling popularity of economics both at schools and universities has been the real or, more critically, perceived dismal prospects in the professional economist job market.[15] Doctoral students either aiming at starting or preserving a career in academia are likely to face stiff odds especially when Australian universities express and act upon a preference for U.S. credentials via the ENS. A glutted academic labour market for economists has resulted in credential creep, as well as longer job durations and fewer job quits at senior levels of the academic profession. At the junior end of the market a casualisation of conditions is the lot of the under-credentialled. Up till now the public sector has remained a significant repository of economists. It has not been the case that the now privatised state enterprises have absorbed some of the excess supply for economists. Nor will the new Howard Government help the problem with its foreshadowed public service cut-backs. Universities too, in the same round of expenditure cut-backs, might see academic staffing levels pruned. In a more jocular vein, some commentators will see some poetic justice if the market for economists is undermined because economists' advice has led to much ruin elsewhere.

Supply does not create its own demand when it comes to employing economists. As in other over-supplied professions, there is a strong case for reviewing the practice of awarding entry to Australia on the basis of skill or knowledge without some prior evaluation of the situation in the labour market in question.

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