

SPEECH

Population and Prosperity

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Katie Lahey
Chief Executive



Population ageing and Australia's population outlook have been important areas of interest for the Business Council of Australia in recent years. The reasons are quite straight forward.

Population growth has underpinned Australia's economic development and prosperity.

Over the past 40 years, half of Australia's GDP growth is directly attributable to population growth.

In a broader sense, Australia's immigration policy has contributed to a diverse and multi-cultural country. Australia is a richer and stronger country as a result of our strong migrant intake.

There are three issues I would like to address tonight.

1. Why population is so important to Australia's future;
2. Why we need new thinking that encourages population growth in the 21st century knowledge economy; and
3. Why population growth and workforce participation are important in the context of our ageing population.

Let me be very clear at the outset – the Business Council's main interest in population growth stems from the relationship between population and economic growth. And there are also important links between population ageing and economic growth.

The Business Council's starting point is that Australia must aim for strong economic growth as the foundation for our future prosperity.

Australia has maintained an enviable record in terms of economic performance over the past decade. This has been achieved through a combination of both population and productivity factors.

Our strong economic performance has seen us outperform most of our economic peers. We're the fastest growing economy in the developed world and we've grown at about 3-4 per cent per annum for the past decade. This performance has delivered unemployment below 6 per cent and created 1.8 million jobs in the last decade.

And our strong economic performance has enabled us to punch above our weight globally – and we need to continue to punch above our weight just to get noticed. A small country needs to be growing faster than the “big boys” if it is going to attract investment and be more than just a blip on the global radar screen.

And why is this so important for Australia?

Australia is a small country distant from major markets. This creates challenges for us that are greater and different to those faced by other small countries such as Ireland and the Scandinavian countries.

These countries are located close to their major markets. Those who continue to cite these small countries as role models for Australia – neglect the importance of proximity to major markets.

Let me put this into context.

A 1997 study of 71 countries found that Australia was the second most remote from world economic activity. Of course we were pipped at the post for remoteness by our nearest neighbour New Zealand.

And surprise, surprise - Australia's ranking in terms of economic remoteness has not improved since that study was completed.

By comparison, the small countries that are seen as our role models are all in the top twenty in terms of proximity to world GDP.

For example, Ireland was the 9th closest, Finland 16th.

Australia is probably the only country in the world where our top four trading partners: Japan, US, South Korea and China – are all more than 8,000 km away.

By contrast, the distances to the major trading partners of Finland, Ireland and Switzerland are well below 2,000 km.

The benefits of proximity are significant – the cost of exporting a good to a country 1600 kms away is equivalent to a tariff of up to 17 per cent. So most of Australia's exports have an inbuilt cost disadvantage of 17 per cent. Effectively it means we have to be that much more productive than our competitors.

And the large distances between our internal markets simply adds to this challenge. Australia needs to be thinking about how it maintains its competitiveness in these circumstances.

From the perspective of the Business Council, part of the response involves sustaining modest population growth, and relatively high levels of skilled migration.

And tonight I want to share with you some of the new thinking and research on the relationships between population size, growth and composition, and economic activity.

While improvements in information and communication technology have brought Australia closer to the rest of the world in many ways, in other ways they have increased the tyranny of distance.

Recent research out of the US and UK suggests that the economic importance of distance seems to have grown with time. That is being further away from major markets has a greater negative impact on export performance than it did 30 years ago.

Other research points to the economic imperative of population size, growth and diversity, and provides solid reasons for sustaining population growth in Australia – at rates that exceed many of our international competitors.

This new research shows that as population and output increases, the spill over benefits of new technology are greater. These spill-over effects decline with distance however – a point which further reinforces the challenges of our distant and fragmented economy. Research shows that is the benefits that flow as people move from one job to another and as people chat over coffee about the implications of the latest technology and innovations are still important. Face to face contact is still necessary in modern business and can't be totally replaced by email.

Furthermore, studies overseas and in Australia show that social, cultural and ethnic diversity – the result of immigration and population growth - are key factors contributing to higher productivity and economic growth.

In other words, population - its size, growth and diversity - plays a significant role in driving and sustaining growth.

These are the new challenges Australia faces to remaining dynamic and competitive in a global market where knowledge and innovation are at the core of future productivity growth.

And, as much as some might like to deny it, research reinforces the fact that scale does matter and that larger markets support specialisation which in turn generate further payoffs in terms of growth and productivity.

In short, the inter-linkages between population and growth are becoming more not less complex.

Finally let me touch briefly on another challenge facing Australia – population ageing.

As Australia's population ages and population growth slows, the number of people in the labour force will shrink dramatically.

Currently, 175,000 new entrants join the Australian workforce each year. From 2020 to 2030 we can look forward to the workforce increasing by that much over the entire decade. In other words, labour force growth will be around one-tenth of what it is today.

This represents a massive potential brake on economic growth, and will have far reaching implications in terms of less tax revenue at the same time that demand for health and other services will rise.

Two things can help us to deal effectively with population ageing.

One is sustaining economic growth – which goes to the points I have already discussed.

The second is enhancing workforce participation.

If we can raise workforce participation over coming decades this will add significantly to economic activity, potentially to the tune of around 10 per cent of GDP.

Enhancing workforce participation, particularly of mature-age individuals, is important. It will require significant changes in attitudes and changes in workplace flexibility.

New technology and innovation may enhance our ability to support ongoing workforce participation – but this will require planning.

Finally, it is not just immigration but also emigration that we need to be thinking about. And specifically, how it is we intend to maintain an economy and community that attracts the best and the brightest – be they Australian or other nationalities.

Currently around 4 per cent of Australians reside overseas. For New Zealanders the number is as high as 20 per cent.

How large a diaspora will Australia have in the future?

Would it be feasible or desirable to have 20 per cent of Australians residing abroad? And how would we need to respond to that?

These too are important population issues for Australia to face.

The point I hope I have illustrated is that the population debate is, and should be multi-faceted. It requires lateral discussions if we are to arrive at lasting solutions.

The Business Council hopes that its views and public advocacy will contribute to Australia addressing the population challenges it faces and that policies like sustained strong immigration, that will benefit the nation, will not be held hostage to the rather limited views of Sydney with Premier Carr frequently declaring Sydney full-up.

The reality is that Sydney will continue to grow and needs to plan for that growth. Projections show that by the middle of the century, the city's population will have grown to almost 6 million.

Yet, the one-dimensional character of the current population debate means we cannot have objective discussions about important issues such as infrastructure planning, transport, housing, ethnicity and crime.

As a result, there is little or no acknowledgement of the imperative of growth and the choices available to pursue and manage it.

The Business Council fully acknowledges that a higher population future for Australia does present challenges in terms of better managing the environmental and infrastructure implications. These issues need to be addressed.

Equally however, it needs to be acknowledged that a future based on lower population growth also presents challenges, including how do we sustain economic growth and provide health care and other services for an ageing population.

Failing to have a serious debate on all of these issues poses risks not just for Sydney but for the rest of the country.

From our perspective, Australia must take charge of its population future and put in place a long term approach to managing both the benefits and costs of sustained population growth.

If we are not proactive, we will find ourselves on the back foot and ill-prepared in the face of demographic trends now in train here and around the globe.

Thank you for the opportunity to push the debate a little further tonight.