

SPEECH

Australia's Population Future – Sustaining Population Growth & Supporting Participation

Address to the Australian Population Institute
20 April 2004
Melbourne

Katie Lahey
Chief Executive
Business Council of Australia

Business
Council of
Australia



Good afternoon and thank you for inviting me to speak today on one of the Business Council's policy priorities – sustaining population growth in Australia.

I suspect I am preaching to the converted today, but I hope to provide you with some new insights, at least in terms of the Business Council's thinking and research, and to do my bit in maintaining the momentum of the population debate.

It is interesting to take stock of where we are in terms of the population debate in Australia.

Population growth has underpinned Australia's economic development and prosperity – there's no denying this.

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

More broadly, sustained high migrant intakes have contributed to a diverse and multi-cultural country. We are a stronger and richer country as a result of our immigration policy.

Nonetheless, calls to sustain population growth still attract significant and vocal criticism.

This is even the case when the Business Council calls for population growth to be sustained at around 1.25 per cent. This is the modest rate which we have successfully maintained over the past decade.

Nowhere is criticism more vocal than in Sydney – a city which has undoubtedly benefited from migration and from its size and position as a global city.

So the situation is somewhat paradoxical. We find ourselves having to vigorously defend a policy which has so clearly benefited Australia, and which we believe will continue to do so.

Against this backdrop, I would like to talk to you about three issues today:

Firstly – outline why the Business Council considers population to be so important to Australia's future.

Secondly – explain why we need new thinking that encourages population growth in the 21st century knowledge economy.

And finally, outline why sustained population growth and supporting workforce participation are particularly important in the context of population ageing.

Why does the Business Council see population growth as so important to Australia's future?

Let me be clear at the outset – our main interest in population growth stems from its relationship with economic growth.

Collectively we must aim to sustain strong economic growth as the foundation for Australia's future prosperity.

Our record in terms of economic performance over the past decade has been first rate.

It's been achieved through a combination of both population and productivity factors.

We have outperformed our major economic peers. We have created over 1 ½ million jobs over the past decade, and our unemployment rate is well below 6 per cent.

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

Why is this so important for Australia? Well a small country needs to be growing faster than the 'big boys' if it is going to attract investment.

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.

Many critics of the BCA's position in support of population growth frequently cite these countries as 'small' role models for Australia.

In doing so, they ignore the proximity of these countries to their major markets and how important that is to their economic success.

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 the survey was conducted.

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.

Ireland was the 9th closest, Finland 16th.

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

By contrast, the distances to almost all 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 can be equivalent to a tariff of 17 per cent.

Effectively distance means that we have to be that much more productive than our competitors just to reach the starting line in global competition. And large distances between our internal markets simply adds to this challenge. So 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.

This is not about promoting 'lazy' growth – lazy growth is based simply on increasing the number of workers.

To the contrary, our views reflect contemporary 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.

Research out of the US and UK suggests that the economic importance of distance has 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. Although this may seem counter intuitive, in this internet age – distance still matters.

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– a point which further reinforces the challenges of our distant and fragmented economy. Face to face contact is still important in modern business and can't be totally replaced by email.

Furthermore, studies overseas and in Australia show that social, cultural and ethnic diversity 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 'smart' growth.

These are the new challenges Australia faces in 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.

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 that number will decline significantly with 175,000 new entrants per 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

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.

The population debate is, and should be multi-faceted. It requires wide ranging discussions and debate if we are to arrive at lasting solutions.

For those of us keen to push the population agenda along, a key challenge is how we can ensure that the policy debate will be national, co-ordinated across all State and Federal Governments and be broadly based.

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 advocated by some groups also presents challenges. Those advocating a population of six million for Australia need to recognise the challenges of sustaining economic growth and providing health care and other services for an ageing population.

For its part the BCA will be releasing a population publication in coming weeks that will clearly and strongly put these points.

Specifically, that publication will call for:

- population growth to be maintained at least of 1.25 per cent a year through natural increase and migration. This will see Australia's population grow to around 30 million by 2050;
- the establishment of a National Population Council. This will bring together governments, business, academics, unions and community groups to improve buy-in on population debate;
- the establishment of an Infrastructure Advisory Council to plan and develop long-term facilities such as roads, hospitals and schools in the right places to accommodate population growth;
- review of family support policies to ensure that they support family and workforce participation; and
- the development of policies to increase workforce participation, in particular by older workers and parents.

We hope that this publication and the policies proposed will spark a new level of debate and challenge some existing views.

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