IMMIGRATION

THE KEY TO GROWTH?

INFLATION: THE KEY TO GROWTH?

BY PAUL MIRON

Australia has been blessed over its economic history, weaving and dodging through major financial crises relatively unscathed. It entered the COVID-19 pandemic, which has caused the most severe global economic shock since the Great Depression, from a position of extreme strength: the budget was in balance for the first time in 11 years, workforce participation at a record high and welfare dependency at its lowest in a generation.

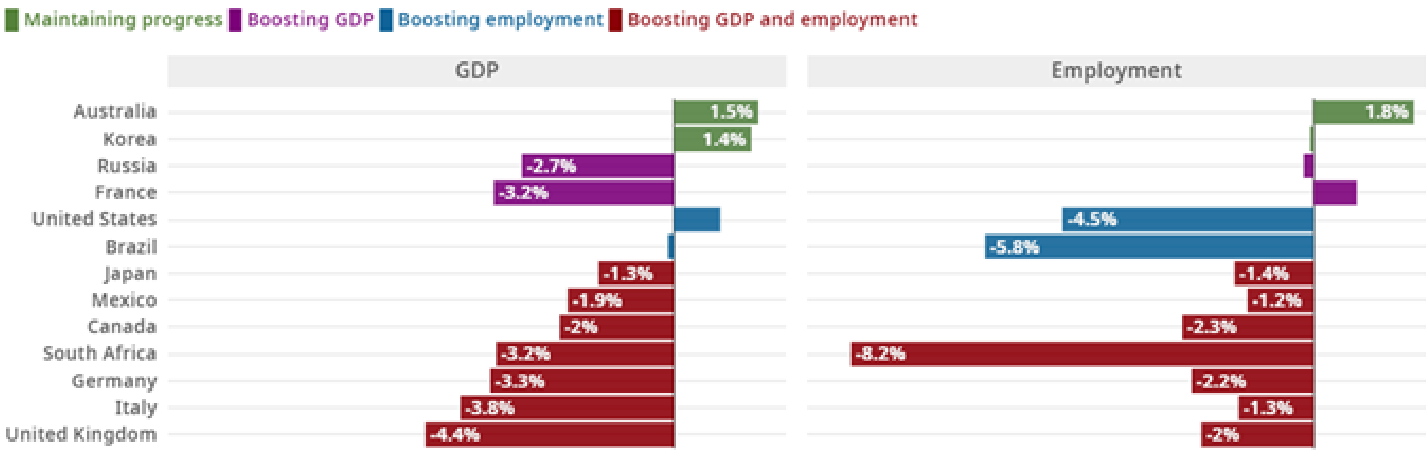
Australia was bathing in the glory of the most prolonged uninterrupted GDP growth worldwide in 30 years.

Australians also have emerged post-COVID as the wealthiest people per capita globally. Australia's economy is the most robust according to OECD as per below.

Learning from our past

In every significant economic challenge presented to Australia over the past 30 years, there seemed to be unexpected good fortune that allowed Australia to adapt and find new opportunities.

That was not always the case, as in the 90's recession we experienced a period of stagflation, reflected by high inflation of 5.5%, negative GDP growth, official interest rates of 12%, and unemployment of 12%, with the manufacturing industry being decimated.



Data refer to Q1 2021 (instead of Q2 2021) for GDP in Russia and South Africa. Employment: share of the population aged 15-74 that is employed. • Source: OECD Economic Outlook, Interim Report September 2021

At that time, Australia ranked extremely low within the OECD nations regarding income per capita. At the time, Singaporean Prime Minister Lee Kuan Yew berated Australia, warning Australians were on track to become "the poor white trash of Asia."

Despite the dire circumstances, Australia has used this era to introduce successful economic reforms that have served well for many decades. These included compulsory superannuation, RBA policy of inflation targeting monetary policy, privatisation, creating political independence with our regulatory pillars, RBA, ACCC and APRA, consumer protection departments, and the productivity commission—paving the way for robust policies to ensure Australia emerges competitive in a new era of globalisation.

Our economy adapted and prospered to new opportunities such as mining, tourism, and education. Fast forward to 2007-2008, whilst the world was haemorrhaging during the GFC, our stringent banking regulatory framework led to our four leading banks being amongst the top ten in the world at the time, cushioning the crisis and emerging even more robust post-GFC.

Industry Share of Output in Key Sectors

	June 1991	June 2020
Mining	5.2%	11.1%
Manufacturing	13.7%	6.1%
Construction	7.3%	7.7%
Finance	5.7%	8.9%
Health and Education	10.3%	12.8%

Present-day challenges

The emerging economic impacts of COVID have some similar traits to those of the '90s.

Once the inflation genie escaped from the bottle, we now see the latest inflation figure of 2.1% year on end at their highest. Importantly, this has been the case over the past six years and indeed inflationary economic indicators are not abating. Vigorous debate is brewing among economists and academics whether inflation is truly transitionary due to lockdowns. Other words such as stagflation, hyperinflation, sporadic, core inflation, deflation, and asset inflation have been added recently to our vernacular.

The genuine concern is that despite the RBA governor's assertions that interest rates will remain unchanged until 2023, it is unlikely that he will want to play chicken with the threat of inflation and so be unwilling to increase interest rates. By raising interest rates, nearly all assets will reverse their stellar fortunes, and deflate accordingly. The increased risk of an uncertain economic recovery and recessionary risks will continue to plague consumer confidence as a result.

Despite inflation being the main headline, there are other equally important economic challenges emerging for the Australian economy:

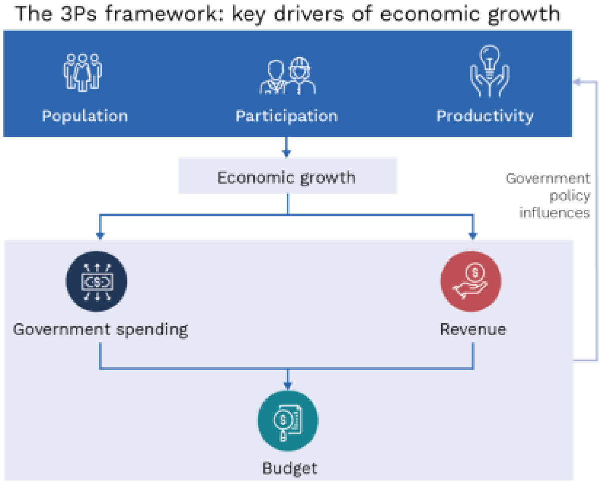
- The post-COVID global trend emergence of the “Great Resignation”, lambasting recovering businesses and adding to wage inflation and reducing profits;

- Geopolitical relationships with our most significant export partner, China, continue to sour as trade is now weaponized, with the emergence of a long-term cold trade war seeming more apparent;
- Ongoing supply chain disruptions;
- International energy supply shocks;
- Climate change policies and the shift away from carbon. With coal being the single largest export item on our trade balance it will impact our trade accounts;
- The tertiary sector industry has been devasted with our borders shut for two years and the inability to replenish new enrolments. It is a shame Universities splurged recklessly pre- COVID on mausoleum-like campuses while shredding 17,000 jobs in this sector due to lack of cash flow;
- Unbeknown impacts of social and economic effects of COVID are still emerging, e.g., data in US and Europe showing a lower consumption trend post-COVID.

The recent 2021 intergenerational report

It is a report commissioned by the government to explore the economic drivers for the next 40 years.

The 3Ps framework: key drivers of economic growth



Source: Treasury.

The report outlines the three pillars of Australian economic growth for the next 40 years.

Population: Increase by net migration, considers impacts of net deaths and births.

Participation: The workforce is defined by demographics and willingness to work, unemployment rate, or summed up as the total work hours of the output of the entire workforce.

Productivity: Is the average output per unit of input.

Productivity can be enhanced using technology and capital investment in creating efficiencies in the workplace.

The single item that governments can immediately impact is the level of migration that drives population growth. As markets are efficient and competitive, immediate advantages and adaptation of new technologies are therefore temporary. However, in conjunction with the balanced migration policy, these can further improve both participation and productivity, delivering positive economic outcomes.

The International Monetary Fund (IMF) has found that 1% growth to the subsequent migration adds approximately 2% to the national GDP. It also impacts productivity per worker as it complements the existing population and negates an ageing population.

Migration traditionally occurs early in one's working life, eliminating the incumbent government's education, infrastructure, and health costs.

In the USA migrants currently constitute 15% of the total population and make a significant financial contribution. 30% of all businesses, 40% of all fortune 500 companies, and 50% of unicorns (start-ups worth more than 1b) are founded by migrants. In the US, migrants are the most significant contributors to innovation and entrepreneurship, leading the US to the largest economy in the world.

Despite negative and false myths claimed by opponents of migration, migrants do not take locals' jobs and burden society, as confirmed by endless and ongoing economic research.

Australian economy wins through Immigration

Australia is considered one of the most prosperous nations globally, embracing migration from both a social integration of multiculturism and financial perspective. One-third of the entire population consists of migrants, the highest percentage of any country in the OECD. Australia's population has doubled since the '70s, and the economy has grown 22-fold as a result.

It comes as no surprise that Dominic Perrottet, former NSW treasurer and current Premier, is calling for net migration to increase from 160,000 (pre-COVID) to 400,000 persons yearly intake. This is to make up for a lost time during border closures as confirmed by the intergenerational report. A favourable migration policy will give the Australian economy an additional stimulus.

Additional immigration will also provide a cushion for the many other risks that our economy displays, such as inflation, boosting GDP, and especially alleviating labour constraints in hospitality, health, financial services, retail, agriculture, construction, property, and tech. Immigration enables the construction industry, making up 8.8% of our GDP, to continue and provides an essential multiplier effect on our broader economy. Construction in Australia has a multiplier effect of close to three: for every $1 million invested, an additional $3 million is generated in the economy as a whole.

Migration, in turn, increases productivity,creates further opportunities for innovation, and generates jobs.

The balance is altering migration to accommodate the current and future needs of the economy. Student visa programs require urgent attention, expansions to different regions, loosening up the financial dependency restrictions, scrapping the max 20 hours a week that students are allowed to work under the visa. Let's not forget education was the 3rd highest contributor to the nation's GDP before COVID hit; this should aid our ailing University sector and bolster our unskilled labour supply.

Historically Australia was the 2nd highest net migration nation, followed by Canada. Canada recently announced they wish to increase their net migration an additional 1% ($1m p.a.) to 2.8% of their population with an immigration blitz. Who is keen to capitalise on Scott Morrison's proclamation (Global Talent Initiative) of attracting the smartest and brightest in the world?

We need to plan for the future

We believe there will be an increase in volatility in the coming months, given the uncertainty with inflation, economic growth, and threat to asset prices, not to mention that the Australian economy needs to shift away from its dependency on China and mining.

Australia was Built on the Sheeps Back with wool being our main export from 1871 to the 1960s, Immigration allowed us to innovate and grow by maturing as a nation and building a diversified and innovative portfolio of industry's in which we excel.

Perhaps our history has shown that insufficient credit is given to immigration policy and its positive economic outcomes being one of the key critical elements allowing the nation to emerge from dire economic circumstances as demonstrated from the 70's crises to today's phenomenal economic success.

When it comes to the right migration policy, it needs to be creating diversity and combination, not just accommodating skilled labour, but also refugees, students and other temporary/permanent visa holders.

Politicians will be well-armed in the upcoming election selling the economic benefits in increasing migration to aid a post-COVID world. Conceivably it might be the secret ingredient in forging Australia past the next set of global challenges in a prosperous manner.

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