

The Tyranny of Proximity

Australia in the 21st Century

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Australia's destiny, its prosperity and its security will be determined by how well we manage, if we manage them at all, the challenges that arise at the intersection of demography and geography; or put another way; at the intersection of proximity and fertility.

While distance and remoteness were defining features of Australia in years gone by, today technology has annihilated distance. As an open, medium sized, free market, English speaking society today it is our *proximity* which will dictate the courses of action we must set to ensure our prosperity.

Is proximity a tyrant? No more than was distance, I suspect. But unlike distance, which had few advantages, our proximity offers, and has conferred, great advantages. It also offers great challenges and in that sense great risks.

The single biggest challenge faced by Australia, and most developed nations, is the collapse in fertility and the consequent ageing of the population. How we respond to what in some countries could well be a terminally catastrophic phenomenon will determine not simply the prosperity of our society, but its survival.

Over the last two decades and especially in the last six years, sound policy decisions have ensured continued economic growth which in recent years has outstripped all of our major trading partners, including the United States. This growth is not an accident, or the result of good luck, but the result of gains in productivity driven by micro-economic reform, much of it unpopular. It has been in short, the dividend of leadership.

The policy options we have for the future require equally strong leadership but are constrained by proximity.

This policy direction should be continued with the focus on:

- Strong population growth, ideally driven by increased fertility and skilled migration.
- Promotion of the traditional family, recognizing that its decline has had negative social consequences over and above the decline in fertility.
- Focus on improving our national skill base by continued emphasis on greater productivity and investment in education, research and training
- Improving our international competitiveness especially in taxation and workplace relations.

The Tyranny of Distance

Throughout our history, Australians have seen themselves as being constrained by geography. Geoffrey Blainey's memorable phrase (and title of his best known book) "The Tyranny of Distance" seemed to sum up so many of our anxieties.

It was distance from Europe, our remote geography, which defined us. Indeed it was the only point of difference. We *were* British, we just happened to be here. Australia was, in Metternich's phrase, merely "a geographic expression."

I have always felt the motto of Sydney University (founded in 1852) captured that very well: Sidere Mens Eadem Mutato (The Same Mind under Different Stars)

The lack of a distinguishing connection between *who* we were and *where* we were continued well into the 20th Century, at least in the minds of many. Sir Robert Menzies famously observed in 1948 that "the boundaries of Britain do not lie on the Kentish coast but at Invercargill (in New Zealand) and Cape York."

Underlying much of our history has been almost a sense of diaspora; *our* Jerusalem was where we had come from.

The Americans by way of contrast saw themselves as creating a new society, their own Jerusalem, in a new land. They could have turned the University's motto on its head: "A new mind under the same stars" or perhaps the motto on the Great Seal of the United States says it all "Novus Ordo Seclorum": "a new order for the ages" [has begun].

Yet despite our lack of clear historical watersheds (I had hoped the republic referendum might be one!), modern Australia which began last century yearning for "Home" is now as comfortable in its own culture and geography as the Americans are in theirs. Americans have always celebrated their exceptionalism; a political culture distinctly different from their neighbours and from Europe.

While we are more circumspect in talking about ourselves; Australia too, I believe, has an exceptional political culture. Less trusting of the State and collectivism than the Europeans, but with a stronger sense of egalitarianism, of a fair go, than the Americans.

And ours is a society with rare, unique achievements. Consider just one: in an age marked by intolerance and division, we have the largest percentage of non-native born of any other comparable country; more than twice the percentage of the United States for example. This has been achieved with remarkably little friction, indeed in a recent study "...only 3 per cent of migrants said that they disliked racism in Australia and only 3 per cent thought Australians were unfriendly."¹

The Tyrant Overthrown?

The latter part of the last century saw an accelerating wave of technological innovation which revolutionized communications and travel. Journeys which had taken our ancestors many months could be accomplished in hours. International telecommunications went

¹ "The Settlement Experiences of New Migrants" Report for DIMIA by National Institute of Labor Studies, Flinders University. August 2002. This surveyed two cohorts of recent migrants. "Only 3 per cent of migrants said that they disliked racism in Australia and only 3 per cent thought Australians were unfriendly."

from being unreliable and expensive to cheap and ubiquitous. International bandwidth is now so cheap that the demand curve has lost almost all elasticity (much to the dismay of the owners of all those under utilized sub sea cable systems). Forty years ago there were only 16 international telephone calls in and out of Australia every hour, today there are over 9,000 calls on average each hour, outgoing alone.²

The arrival of the Internet transformed communications in ways we are yet fully to appreciate. What does distance and geography mean when people in Sydney read the New York Times every day and Australians abroad, far from being cut off, will read their local newspaper on the Web before its hard copy edition has even hit the streets?

In tandem with this revolution in communications have come substantial reductions in the barriers to the movement of goods, services, capital and people. The volume of world trade has outstripped growth in what we could call global GDP for many years.

Most of us imagined that these changes, especially that driven by the Internet, would benefit the periphery at the expense of the centre. We would all be at the centre; the global village would arrive and it would not matter where we worked. Telecommuters would exchange their drab downtown offices for well-wired mountain shacks and we would all disperse, much to the advantage of Australia.

The tyrant that was distance was overthrown.

But have we just replaced one tyrant with another. Have we replaced the tyranny of distance with the tyranny of virtual proximity?

The annihilation of distance has undoubtedly benefited the centre more than the periphery. New York and London are much more important financial centres (relative to others) than they were fifty or even twenty years ago. In what almost looks like a colonial time warp, London once more houses the headquarters of most of Australia's mining industry.

We have seen this phenomenon within Australia of course: the "Adelaide syndrome" has come to describe the way in which a city loses its head offices and business leadership to a larger rival. In our own region we can see that happening with Adelaide, Perth and increasingly Auckland and Wellington. When I was last in Auckland I asked a friend what was the financial capital of New Zealand expecting him to nominate Auckland or Wellington. "Sydney." He replied.

The point is that if you have a seamless, borderless global business environment with instantaneous telecommunications and cheap and fast air travel there is an inevitable tendency, all other things being equal, for businesses and talent to concentrate in the largest, most economically powerful centres. It is our challenge to ensure that Australia is one of those centres. We cannot allow Sydney to become to New York what Adelaide has become to Sydney.

² 1961 figure is from "Tyranny of Distance" by Geoffrey Blainey; current figures supplied by Telstra whose published statistics show about 800,000,000 minutes per year outgoing. At around 10mins per call, that would equal 80 million calls per year; or about 220,000 per day, or about 9,000 per hour

Populate or Perish?

Over the next fifty years, if trends continue, we are going to see an ageing of the world's population driven by a decline in birth rates on the one hand and an improvement in mortality on the other, especially in the developing world.

Those aged 60+ represent 10% of the world's population today, those aged 14 and below 31%. In 2050, the UN estimates the 0-14 age group will be 20% of the population and the 60+ group will more than double to 22%.³

This ageing phenomenon is particularly evident in all developed countries. The UN estimates that in developed countries overall by 2050 there will be twice as many people over 60 (33%) as there will be under 15 (16%)⁴. It is present, but to a lesser extent in the United States where the total fertility rate⁵ is 2.12, or replacement level⁶. In Australia it is about 1.7. It is important to note that even if our fertility rate had stayed at 2.1 we would still have an ageing problem because the bulge of baby boomers created when our mothers were having over three children each (on average) moves its way through the age cycle. A below replacement fertility rate, however, just ensures that the ageing problem is perpetual (until the population becomes extinct)⁷.

Within the lifetime of most Australians living today, the proportion of our population aged over 65 is going to rise from 12% to nearly 25% in 2042. Our working age population will decline from around 67% to about 60%.

As the Treasury's recent Intergenerational Report⁸ demonstrates, these trends, over the long term, mean that we can expect that it will be difficult to maintain social welfare levels in the future without significant increases in taxation. In all likelihood we could reasonably expect lower levels of welfare and higher taxes. Within 40 years the Treasury estimates Commonwealth expenditures would need to absorb an additional 5% of GDP or \$87 billion in today's dollars if current policies continue.

That is a very substantial sum. Total Commonwealth Government revenues in 2002/03 are estimated to be \$170 billion or 22.6% of GDP. Assuming this was not deficit financed

³ United Nations World Population Prospects the 2000 Revision. (UN 2000)

⁴ *ibid*

⁵ The total fertility rate is the sum of age-specific fertility rates (live births at each age of mother per 1000 female population of that age). It represents the number of children a woman would bear over her lifetime if she experienced current age-specific fertility rates at each age of her reproductive life.

⁶ The United States birthrate is influenced by the fecundity of the Hispanics. In 2001 the TFR for:

Non-Hispanic Whites was 1.867

Asians or Pacific Islanders 2.03

Blacks 2.1112, and

Hispanics 3.156 (an increase).

Of the 4 million babies born in America in 2001, 2.3 million were born to non-Hispanic whites, 604,000 to Blacks and 849,000 to Hispanics. (Source: National Vital Statistics Report June 6, 2002, Vol 50 NO. 10 US Department of Health & Human Services.

⁷ A major factor is the difference between the TFR during the boomer years and more recently. When Australian women were having 3 plus children in the 1950s, the Koreans were having 5 plus children. Hence their baby boomer bulge is considerably bigger (relatively) than Australia's; and as a result their ageing problem more severe.

⁸ Intergenerational Report. 2002-2003 Budget Paper No. 5 (Cwth of Australia)

an additional 5% of GDP would require the Commonwealth to increase taxation by nearly 25%.

This is largely driven by massive forecast increases in spending on the aged; largely in the area of health and that largely in the area of pharmaceutical benefits which will rise from 0.6% of GDP today to 3.4% in 2042.

(It is worth noting that in the current budget pharmaceutical benefits will absorb \$5.5 billion of Commonwealth revenues while, Higher Education, for example will absorb \$4 billion.)

This ageing phenomenon is not expected to impact budgets for at least another fifteen years, but given it is the result of long term demographic changes, the earlier it is dealt with the more likely the problem will be averted.

It is also important to note that these projections, while soundly based, have some quite optimistic assumptions including: fertility declines to 1.6 (whereas European experience suggests it could fall much lower⁹), net migration remains at around 90,000 a year and productivity continues to increase but at a lower rate (1.75% vs 2.0% p.a). An equally defensible but bleaker scenario could be painted by assuming lower fertility, less net migration (especially of skilled migrants) and more mundane productivity growth.

Another observation: be wary of those who claim that the increase in the aged is offset by a decline in the young. While young people are “dependent”, unlike the aged they are largely paid for by their parents. We accept responsibility for supporting, clothing and feeding (if not educating) our children, but at least nowadays we expect the community at large to support our aged parents.

A further observation: while there is potential for ameliorating the problem by increasing the labor force participation by people over 65 we need to recognize its limitations; the labor force participation of males aged 55-59 at 72.4% is about the same as for the population at large. For males aged 60-64, however, it drops to 46.9%. and has fallen from 50.6% in 1991.¹⁰ Australians work longer than in Europe (where early retirement programmes were introduced to alleviate unemployment) but not as long as the Americans.¹¹ Persuading sixty year olds that their retirement (and pension entitlements) are going to be postponed (even further) may be even harder (and certainly more politically sensitive) than persuading twenty something women to breed! Nonetheless increasing working life is likely to promote both economic and physical health. However, it must be recognized it has limitations and will be particularly challenging for those in less skilled occupations.

This decline in the birthrate is obviously a profoundly undesirable phenomenon. Some countries (Japan, Italy and Spain in particular) face the prospect of national bankruptcy.

⁹ 2001 TFRs: EU 1.47; Germany 1.29; Greece 1.29; France 1.9; UK 1.63; Italy 1.24; Spain 1.25. Source Eurostat Statistics in Focus 2002

¹⁰ Australian Social Trends 2002, Australian Bureau of Statistics p. 126. The figures for women are LFP 55-59 is 46.9%; 60-64 is 21.5%

¹¹ In the US labor force participation (2000) of men 55-64 is 59.2% and women 39.8%: source Monthly Labor Review Nov. 2001 “Labor force projections to 2010” by Howard Fullerton and Mitra Toosi

Consider Japan for a moment whose fertility rate is 1.4. You will recall that in 2042 the Treasury estimates our over 65s will be 25% of our population; in Japan it is forecast to be 33%, with 42.3% over 60.¹² Italy faces a similar prospect; its fertility rate is even lower than Japan's at 1.2.

The UN in its latest base case (medium variant) population projections estimates that a number of developed countries will lose substantial proportions of their populations over the next fifty years: Russia -28%, Ukraine -40%, Germany -14%, Japan -14%, Italy -25%, Spain -21% and Greece -15%. The over 60s element in the population will be, in some countries almost as big as the population 15-60. In 2050 in Japan and Italy the over 60s are estimated to constitute 42.3%, in Germany 38%, in Australia 28% and in the United States 27%.¹³ These projections are, like all projections, only as good as their assumptions. It is worth noting therefore that even in the countries with the most dramatic forecast drops in population, the UN is assuming significant increases in fertility over the period. Italy from 1.2 now to 1.6; Japan from 1.4 to 1.75, Germany from 1.3 to 1.6, Spain from 1.16 to 1.64. If the current rates of low fertility persisted rather than rose, then the demographic consequences would be even more severe.

Each of Japan and Italy are facing this massive increased demand for social welfare and health expenditure with an already bloated level of government debt. Currently both countries are running large levels of government debt as a percentage of GDP: Japan admits to 113%, Italy to 110%. It is widely accepted the Japanese figure is significantly understated¹⁴.

Australia on the other hand has since 1996 reduced Commonwealth government debt to just under 5% of GDP. As a result of good management, we have a great deal more fiscal flexibility than almost all other developed nations.

The Reason Why.

It would be a remarkable irony indeed if at the peak of our prosperity and technological achievement, the human race (or at least the more developed parts of it) lost the will to reproduce itself. That appears however to be the case.

I am strongly of the view that we have a very clear vested interest in promoting a higher birth rate. In some countries this has become a matter of intense urgency; but it is fair to say there is great uncertainty as to the causes for this dramatic decline and great controversy as to what policies can arrest it.

Without wishing to pretend to be a demographer, let me offer a few observations on the evidence so far and some recommendations as to what we might do.

Obviously the decline in fertility is directly connected to the transformation in the role of women in all developed societies. The ability to control conception, equal education and access to employment have both given women the means to prevent pregnancy but raised the opportunity cost of being pregnant.

¹² UN 2000

¹³ *ibid*

¹⁴ Goldman Sachs' economist Ken Curtis estimates the true figure to be 150%

In most countries, including Australia, the more educated a woman the less children she is likely to have¹⁵. Nowadays affluent women also tend to have fewer children, although that may be a function of education (and hence opportunity cost.) However, once again the statistics baffle. In Sweden and Norway, this is not the case and there is a correlation between education and second and third births.¹⁶

It is also clear that even in countries with very low fertility rates (like Spain and Italy) women express a desire to have, on average, more than two children. Yet they are clearly not realizing their aspiration.

Peter McDonald, who heads the Demography Program at the ANU¹⁷ has argued in many places¹⁸ that there is a subtle combination of social and cultural factors operating in which there is essentially a failure of both society at large, husbands and employers to recognize the difficulties of balancing commitments to family and work.

He uses this to explain one of the more intriguing demographic puzzles. Why is it that the lowest birthrates in the EC are to be found in Catholic or Orthodox, baby-adoring Italy, Spain and Greece? McDonald argues that in these countries the traditional male breadwinner culture has simply not adjusted to the new social reality which requires men to share family responsibilities and workplaces to provide flexible conditions for women with children. He notes that one of the reasons Melbourne's fertility rate is significantly lower than that of Sydney is because the large Italian and Greek communities there enjoy similarly low birthrates to those in Italy and Greece.

The thoroughly Protestant Scandinavians, on the other hand, have experienced the highest birthrates in Europe. McDonald contends this is due to the extensive programmes of Government support for paid maternity and paternity leave, part-time work, child support and generally a culture that does not regard the care of children and the home as being solely the responsibility of women.

McDonald proposes "The problems can be mitigated by government intervention to provide free or inexpensive child care facilities and facilitate temporary movements out of the workforce, and by a major participation in domestic tasks by husbands."¹⁹ He would point to the phenomenon of higher birth rates among the more educated as evidence that better accommodation of work and family will promote higher fertility.

Common sense would suggest that a contributing factor to fertility decline is the rise in divorce and the decline in marriage. Women, one would suppose, are less likely to conceive if they are uncertain of the security of their relationship. Yet in the United States with a high divorce rate and a high percentage of extra-marital births there is a relatively

¹⁵ Indeed 20% of women 45-49 with tertiary qualifications were childless in the 1996 Census vs 10% for women without a post-school qualification. See ABS Australian Social Trends 2002 at p.39

¹⁶ See Oystein Kravdal, Demographic Research Vol. 5, Article 6 11 December 2001

¹⁷ Professor McDonald is the head of the Demography and Sociology Program in the Research School of Social Sciences of the Australian National University. He is also co-director of the Australian Centre for Population Research.

¹⁸ For example see Caldwell, Caldwell and McDonald "Policy Responses to Low Fertility and its Consequences" Journal of Population Research Vol 19, No. 1, 2002 Caldwell, Caldwell, McDonald 2002

¹⁹ *ibid* p. 14

high birth rate. In Japan, Italy and Spain with a very low divorce rate and few extra-marital births we see a much lower birth rate.

Nonetheless, at times we should be careful to discount common sense in the face of statistics, especially international ones. The fact is that over the last forty years or so:

- the birth rate has halved²⁰,
- the divorce rate has risen to the point that half of all marriages will end in divorce²¹,
- from having one child in ten reared in a home without both natural parents, we now have a situation where a million children (about one in four) are reared without one of their natural parents (almost invariably the father)²²
- the percentage of ex-nuptial births increased from 5% to nearly 30%²³;
- juvenile (essentially young male) crime has increased tenfold in less than twenty years.²⁴

These are all momentous changes to the basic unit of our society; the family. They are relatively recent changes and it will be a long time before all of the consequences can be assessed. However if marriage is more precarious, and perceived as such, it is certainly not an environment conducive to fertility.

A certain contributor to the decline in fertility is the postponement of marriage and the birth of the first child (median age of first mothers is now 30)²⁵. If you have your first child in your early 30s you are unlikely to become a mother of four, even if you want to be. Only 12% of women born in 1960 have four or more children compared to 33% for those born in 1930²⁶. Another obvious factor is that the longer pregnancy is delayed, the further a woman advances in her career and, absent deliberately pro-natal workplace policies, the higher the opportunity cost of her taking time off work to have a child.

The amount of spending on family benefits and services (like child care) has a poor correlation with fertility with some high spending countries (Austria for example) having low fertility and low spending countries (United States²⁷) having higher fertility. There is

²⁰ ABS, Australian Social Trends 2002 TFR was 3.6 in 1961, 1.75 in 2000

²¹ indeed in 2001 there were 103,000 marriages and 55,000 divorces (ABS)

²² Jennifer Buckingham "Boy Troubles" CIS 2000 at p. 72

²³ ABS, Australian Social Trends 2002

²⁴ Jennifer Buckingham op.cit

²⁵ ABS Births 2000

²⁶ Work & Family Fact Sheets July 2002, Minister for Family & Community Services (citing ABS Births 1998).

²⁷ Note in the US, the largest provider of childcare (other than the mother) are grandparents: "Among the nation's 19.6 million preschoolers, grandparents took care of 21 percent, the report said. About 17 percent were cared for by their father (while their mother was employed or in school); 12 percent were in day-care centers; 9 percent were cared for by other relatives; 7 percent were cared for by a family day-care provider in their home; and 6 percent received care in nursery schools or preschools. More than one-third of preschoolers (7.2 million) had no regular child-care arrangement and presumably were under maternal care." US Bureau of Census August 1 2002

today, and has been all this century, a higher correlation with general economic conditions; declines in fertility are associated with a weak economy.²⁸

In short, this is an issue with very complex economic, cultural and social causes. Simplistic “throwing money” at the problem is most unlikely to be of long term assistance.

A key participant, albeit by proxy, in the Australian debate is Catherine Hakim whose book “Work-Lifestyle Choices in the 21st Century” has had a considerable influence on the Prime Minister and in the minds of some represents an antithetical viewpoint to that of Professor McDonald.²⁹ Hakim, simply (some would say simplistically) divides women into committed careerists, committed homemakers and “the others” an adaptive middle mixing both work and home. I am not sure how useful these categories are, especially as she concedes women move between them and the bulk of women are in the adaptive middle.

My own impression is that the differences between Peter McDonald and, for example, Catherine Hakim are not as stark as they are represented to be in the press.³⁰

What is to be done?

There are two approaches that one can take to the decline in fertility. One is to shrug it off and say there is nothing we can do about it. Now it is one thing to be blasé if the fertility rate is 1.7 as it is today, it is quite another if, in a few years, it is heading down below 1.5. The other is to do something about it.

We need to recognize too that national fertility rates can be very misleading. There are significant variations between different groups in the society depending on ethnicity, faith, occupation, education and geography. In Singapore for example there is an enormous difference between the low fertility rate of the Chinese population and the high fertility of the Malay population.

²⁸ *ibid.*

²⁹ see Anne Manne “Womens Preferences, Fertility and Family Policy, the case for diversity.” *People & Place* vol 9, n. 4 2001

³⁰ Professor McDonald recently summarized his perspective on policy:

“Fertility policy is about changing society so that decisions about having children are influenced at the margin. In Australia, we are talking about a policy regime that will support about 25% of women to have a child that they want to have but might not do so if the societal supports are not there. These women are ALL in ‘the other’ category, those who want to combine work with family.

“In Australia, the evident pattern here is for women to have very low labour force participation when they have a baby and to then look to return to the labour force part-time as their youngest child ages through one, two and three years. By the time their youngest child is aged four, a substantial majority are in the labour force at least part-time. This group is by far the largest in the society. This is why I talk about this group when it comes to policy formulation.

“These arrangements present women with high marginal tax rates when they want to return to the labour force. In a couple where the father is working 40 hours per week and the mother is at home and they want more income they are far better off if he works overtime than if she goes out to work part-time

“ (correspondence with the author September 2002)

My very strong impression is that far too little public attention has been paid to this issue in Australia in recent years and, most importantly, there has been far too little research. As a political person I am puzzled why there has not been an authoritative, detailed survey of women of different ages and backgrounds finding out what they think. Instead the literature in Australia appears to be full of official statistics and theories derived from them; together with relatively small surveys with statistically unrepresentative sample groups. A useful initiative would be to undertake in Australia a survey along the lines, and on the scale, of that undertaken by Catherine Hakim in the United Kingdom.

As a general principle however I believe a good litmus test to apply to the various family policies on offer is to ask the question: is this initiative worthwhile in and of itself? Is it equitable in the sense that it assists women in a wide variety of situations? Does it improve choice, or to use a trendy word, does it empower rather than disempower. If the initiative meets those tests, then it is a question of weighing its costs both as against other similarly directed initiatives and as against other budgetary priorities.

Paid maternity leave is a controversial case in point. Nobody would argue that paid maternity leave is anything but “a good thing”. Employers that provide it should be applauded. Nobody could be certain that it would increase fertility; although its impact would not be negative. The question is simply this: given the limited resources available to the community, is tax payer funded maternity leave the best and most effective means of assisting women balance the demands of work and family? Are there other equally positive, but more effective measures? Given the wide variety of women’s choices between work, home, part-time work etc, is there a risk that taxpayer funded paid maternity leave would assist only those women who were in full time work at the time of the pregnancy? Where does that leave women who have left the work force after having one child and are having a second or a third?

One thing is clear, and Catherine Hakim’s work³¹ reinforces this point: there is a vast diversity in women’s choices about work and family. One size does not fit all and additional public support for families must, as far as possible, be seen to support women with children without favouring those at home or in work or, as is the case with a majority, somewhere in between.

My own, admittedly inexpert, sense is that we should seriously consider replacing what is a fairly complex system of child and child care support with a single payment to each mother per child. In principle is there any reason why the State should spend differential amounts in respect of a child based on whether the mother of that child works full-time, part-time or cares for the child at home?

There are a number of other areas where we can usefully promote positive social values which may have an impact on fertility but, in any event, are worth doing in and of themselves.

- We must change our work culture to make it genuinely supportive of parents with responsibilities for children. In Sweden parents have a legal right to work at an 80% level (with 80% pay of course). I imagine Australians would take a lot of

³¹ Catherine Hakim “Work Lifestyle Choices in the 21st Century: Preference Theory” OUP 2000

- convincing to support any mandatory scheme of that kind, but certainly we should promote the wider availability of permanent part time work opportunities. You do not need to be a social scientist to recognize that while women may have broken through the glass ceiling it is all too often with the tacit proviso that they leave their children behind.
- One possible way of encouraging better workplace flexibility would be to require employer companies to publish in their annual report details of what if any measures they have taken to promote a pro-family workplace. This would be done in the same way companies currently disclose, for example, their corporate governance arrangements. Employers would be free to say “We have done nothing.” if they wish, but I imagine an initiative of this kind would result in most businesses thinking about the issue and trying to improve their employment practices. Business leaders who are fond of calling on the government to increase immigration, may usefully focus on making their workplaces family friendlier and in that way, make a positive contribution to population growth.
 - We should not be afraid to make the case for marriage. There is a very high correlation (higher than there is for race or poverty) in most of the research between the absence of the biological father and child poverty, juvenile crime and sexual abuse.³²
 - We spend millions urging people to give up smoking, drive without drinking and lose weight. We spend billions supporting single parent families and the social consequences of family breakdown. But we do far too little to promote marriage and discourage divorce. The situation is similar in the United States³³ but changing; organized programmes of marriage education and support have already materially reduced the divorce rates in the areas in which they have operated³⁴. A

³² see Barbara Defoe Whitehead “Dan Quayle was right” Atlantic Monthly June 1993; also “Thirty years of research suggests that the absence of the male parent is more likely to be the problem. The boys who are most at risk for juvenile delinquency and violence are boys who are *physically* separated from their fathers. The U.S. Bureau of the Census reports that in 1960 children living with their mother but not their father numbered 5.1 million; by 1996 the number was more than 16 million. As the phenomenon of fatherlessness has increased, so has violence. As far back as 1965 Senator Daniel Patrick Moynihan called attention to the social dangers of raising boys without benefit of a paternal presence. He wrote in a 1965 study for the Labor Department, "A community that allows a large number of young men to grow up in broken families, dominated by women, never acquiring any stable relationship to male authority, never acquiring any rational expectations about the future -- that community asks for and gets chaos." Christina Hoff Summers “The War Against Boys” Atlantic Monthly May 2000

³³ The Heritage Foundation estimates “ [US]...federal and state governments still spend about \$150 billion each year subsidizing single-parent families. This stands in stark contrast to the approximately \$150 million they spend each year in an effort to reduce out-of-wedlock births and divorce--the two principal causes of single-parent families in America.” See Encouraging Marriage and Discouraging Divorce by Patrick F. Fagan; Backgrounder #1421

³⁴ “Cities that have instituted a "marriage-savers" policy have seen their divorce rates drop over the past decade. Marriage Savers, a faith-based, non-denominational movement, has spread to over 180 cities across the country. Its presence is linked to decreased divorce rates citywide in 32 cities. Modesto, California, for

- recent, comprehensive survey (by social scientists from both sides of the political divide) concluded: “*Marriage is an important social good, associated with an impressively broad array of positive outcomes for children and adults alike.*”³⁵
- We know that children are in every respect better off if they are living with their biological parents, formally married (as opposed to cohabiting).³⁶ We know that there is a social cost (and not just in dollars) from marriage breakdown and single parenting. Should we not do more to promote the institution of marriage? Sex education in schools has taken on a new intensity in the context of AIDS. Yet we do not provide instruction about marriage, conception (as opposed to contraception) or divorce³⁷.
 - No-fault divorce is here to stay (for good or ill), but should we not consider instituting more extensive marriage preparation and a different, less unilateral, approach to divorce when small children are involved?³⁸ Or should not couples have the right, as they are able to do in some parts of the United States, to contract to a higher standard of marital commitment so that they voluntarily agree to make divorce harder?
 - Unemployment and underemployment of breadwinners is, of course, devastating for families. Despite a strong economy unemployment remains high relative, for example, to the United States. There is a substantial body of evidence that our over-regulated workplace actively works against the interest of low income families because by raising the bar to employment, they make it harder for the less skilled to get a job at all.

The Howard Government has significantly increased the support for families via the various Family Tax Benefits, the Baby Bonus and Child Care.³⁹

Take the example of a double income couple both on average earnings. If the wife stops work to have a baby family cash income drops by 38% notwithstanding about \$82 a week in cash payments from the Government. However in 1995 the fall in income would have been 48% as cash payments from Government were only \$49 a week and the income tax

example, has had a 47.6 percent drop in divorces, while its marriage rate has risen by 13.1 percent. Between 1995 and 1999, Kansas City, Kansas, and its suburbs saw divorces decrease by 44 percent on this program.” (Heritage Foundation, Candidates Briefing Book 2002) See also the very deliberate pro-marriage programme initiated in Oklahoma by Governor Keating; materials can be found at <http://www.governor.state.ok.us/marriageconf.htm>

³⁵ Doherty, Galston et al “Why Marriage Matters” 2002; Linda Waite, Maggie Gallagher “The Case for Marriage: Why Married People are Happier, Healthier and Better off Financially” Doubleday, NY 2000

³⁶ See Barry Maley “Family & Marriage in Australia” CIS 2001

³⁷ There is considerable momentum in this direction in the United States. For example “In 1998, the governor of Florida signed the Marriage Preparation and Preservation Act, making the teaching of marriage skills a part of the high school curriculum. The act also encourages premarital preparation by reducing the marriage license fee by 50 percent for those who complete a marriage preparation course.” Heritage Foundation Backgrounder No. 1421 March 26 2001

³⁸ See American proposals along these lines discussed in “Why is it in the Government's Interest to Save Marriages?” by Michael J. McManus, Heritage Foundation WebMemo #80 (2002)

³⁹ The Family Tax Benefit alone increased family assistance by \$2 billion last year.

taken out of the husband's pay would have been higher. So this family is \$33 a week better off than it was under the previous Government, nonetheless it is still a big drop in income.⁴⁰

However there remains a concern in many minds that the system of family support is too complex and, in some cases, inadequate. In contrast to Peter McDonald's focus on workplace and childcare, other economists (such as Lucy Sullivan and Barry Maley from the CIS) favour replacing all of the current support mechanisms with a single annual tax-free payment of \$4,000 per child.⁴¹ It is worth noting that if one assumes approximately 5 million dependent children and students, a \$4000 per "child" payment would equal \$20 billion or approximately the same amount spent on "assistance for families with children" in the 2002-2003 budget.⁴²

I struggle to see the flaw in this proposal; surely it gives the mother at home recognition of the work she does in looking after a child; it gives the mother at work the means to pay for childcare and it gives the bulk of mothers who are somewhere in the middle the flexibility to fund a diverse range of child caring solutions, formal and informal.

It is intriguing that this issue of family and population has become one of such abiding interest to the Liberal Party, but of apparently little concern to Labor. I was amused to see a demonstration of this recently on the ABC's Insiders programme. It gives two MPs about a minute each to give a quick political message. On this occasion the two were the Liberal Senator from South Australia, Jeannie Ferris and the Labor MP from Sydney, Anthony Albanese.

Senator Ferris argued for domestic child care to be tax deductible with a vivid reminder of the challenges of getting a car of children off to childcare on the way to work. Mr. Albanese on the hand was portrayed in a coffee shop and as he was handed a café latte he offered a Lathamesque denunciation of the Prime Minister's allegedly servile relationship with George Bush. I could not help reflecting that Jeannie Ferris was a little closer to the real concerns of Australians and, as it happened, to the long term concerns of our nation.

Immigration

It is not possible to talk about population without discussing immigration, and emigration. But first there are a few myths which need to be dealt with.

Immigration impacts only slightly on ageing. That is because the average age of immigrants is not significantly lower than that of the population at large. It is very common to hear people assert that immigration has kept Australia young. Professor McDonald in one of his numerous valuable contributions to this debate demonstrated this was not true. He looked at what our population might have been in 2000 if there had been zero net migration since 1945, if there had been no baby boom (assuming fertility

⁴⁰ Source: Work & Family Fact Sheets July 2002, provided by Minister for Family & Community Services

⁴¹ See Barry Maley "Family & Marriage in Australia" CIS 2001 esp. at 185-191

⁴² The majority of these expenses are paid through Family Tax Benefit (FTB) Parts A and B, Parenting Payments (Partnered and Single) and Child Care Benefit. This Sub-function also includes provision of further assistance to families through the introduction of the Baby Bonus, providing benefits of \$85 million in 2002-03, rising to \$510 million in 2005-06.

was 2.0 until 1977 and then fell in accordance with experience) and if mortality had continued at 1960s levels (instead of rising).

His conclusions were that if net migration had been zero our population would be 7 million less but the percentage aged over 50 years would be 29.2% versus 27.9% as actually experienced. If, on the other hand, there had been no baby boom the population would be 4.2 million less but the percentage over 50 would be 34%.⁴³

As long as fertility stayed around 1.6, levels of immigration somewhat higher than those we have today would serve to preserve the absolute number of our working age population, but it would have little effect on ageing. It is evident that to maintain current dependency ratios would require immigration on a massive scale which would be politically, if not practically, unfeasible.

Another myth is to imagine that immigration is like a tap which can be turned up to address a population deficiency whenever more people are needed. A few sobering facts:

- While we had a level of net migration of 107,000 per annum in 1999/2000, this was comprised of about 50,000 net permanent migration plus 56,000 excess of long term arrivals over departures. (Long term visitors have doubled in ten years, fueled particularly by foreign students.)⁴⁴ In years past the difference between long term arrivals and departures was modest⁴⁵, but in recent times arrivals have exceeded departures; at some point this should level off, and accordingly in order to maintain our current net migration levels we will have to consider increasing quite substantially our total immigration numbers. It is also worth noting that long term visitors are very sensitive to economic fluctuations; thus in 1991 when net permanent migration was 90,000, net long term movement was only 4,000.⁴⁶
- another factor is that a large percentage of our immigrants (a third in 1999/2000) are New Zealanders who come and go as they please under the Trans-Tasman Travel Agreement.⁴⁷
- Not all immigrants are alike. Skilled and business migrants are net contributors (they pay more tax than they consume in government services) from the outset and within ten years are contributing, on average, about \$14,000 a head net to the Federal budget.⁴⁸ Temporary business entrants are even more substantial net contributors. On the other hand humanitarian category migrants are a net expense throughout a ten year cycle. Family category migrants (spouses, family reunion etc) are marginally negative throughout the period. Overall, because of the

⁴³ Rebecca Kippen and Peter McDonald "Australia's Population in 2000: "The way we are and ways we might have been." People & Place vol 8 no.3, 2000 p. 10

⁴⁴ Long term arrivals and departures were: in 1990 110,700 and 100,200 respectively and in 2000 212,800 and 156,800. From 1987 to 1999 the number of full fee overseas students in Australia increased from 7,131 to 157,834. Source: OECD "Migration and the Labor Market in Asia" 2001

⁴⁵ In 1983 and 1984. for example, the difference was 7,300 and 2000 respectively. Source OECD "Migration and the Labor Market in Asia" 2001 at 109.

⁴⁶ *ibid*

⁴⁷ OECD "Migration and the Labor Market in Asia" 2001 at 121

⁴⁸ Chris Richardson "The Economics of Migration" given at "Migration: Benefiting Australia" Conference held by DIMIA 7-8 May 2002 in Sydney

substantial contribution from skilled migrants, the contribution from migrants to the federal budget is solidly positive.

It should be noted that the current immigration programme, unlike those administered during much of the Labor years in office, is focused on skilled migration.

In the last year of the Labor Government the family stream was more than twice as large as the skilled stream. Today the skilled stream (60,700 in total) is about 60% of the non humanitarian immigration programme. It should be noted that the Family Stream, today, is overwhelmingly made up of spouses, fiancés and children (39,500 out of 43,200).

Philip Ruddock therefore has changed our immigration structure so that our skilled migrants are younger (63% between 18 and 29 vs. 51% in 1995), have better English skills (90% with maximum points vs. 83% in 1995). Almost half our skilled migrants have Australian educational qualifications, and it is this change (mirroring a US practice) to recruit migrants from foreign students onshore that has significantly “improved” the quality of our migrant intake.

A Return to Proximity

Migration returns us to where we began: proximity. In our borderless global society, there has developed considerable competition for skilled immigrants. This is reflected in low-fertility, ageing European countries (traditionally countries of *emigration* not immigration) actively recruiting skilled migrants. In 1999 and 2000 net migration to Germany, the United Kingdom and Italy combined has been six times the level of net migration to Australia.⁴⁹

Permanent departures by Australian residents reached an all time high of 41,078 in 2000. This was 44.5% of permanent arrivals. In both 1999 and 2000 there were more Australian residents leaving on a long term basis (a year or more), although the surplus of foreigner long term arrivals over departures was very substantial.

Australians who leave on a permanent or long term temporary basis tend to be younger and better educated. They constitute in that sense a “brain drain”. Fortunately they are outnumbered by the number of skilled migrants into Australia.

However this could change. New Zealand has had three successive years of net loss from permanent and long-term migration notwithstanding a large scale immigration programme.⁵⁰ It is facing a very severe brain drain with no sign of being reversed.⁵¹

It is instructive too, to note, that based on a recent survey by Graeme Hugo⁵² the reasons given by Australians living abroad (of which there are 930,000!) are overwhelmingly financial and work related. On the other hand the reasons offered by those planning to

⁴⁹ Peter McDonald “Australia’s Population Futures” given at the DIMI conference in 2002 referred to above.

⁵⁰ *ibid*

⁵¹ in 1999/2000 for example New Zealand had net (permanent and long term) migration of -9,760. However the net loss of New Zealand born residents was 32,935.

⁵² Graeme Hugo “Emigration of Skilled Australians: patterns, trends and issues.” Paper given at DIMI Conference referred to above.

return are even more overwhelmingly based on lifestyle (88.4%) family (76.3%) with “work” at 20%.

Don’t ever let anyone imagine that maintaining our environment and a civilized lifestyle does not have a direct, economic payoff! Each of those more skilled, younger Australians who returns from abroad to live in Australia is returning to pay tax!

What comes around goes around.

It is clear however in a borderless world the pressures on Australia to remain competitive and productive are greater than ever. This is where geography and demography intersect.

Our children’s generation is more mobile even than we were. To them a move to London or New York or Hong Kong is not much different to moving from Sydney to Melbourne. (It is worth noting that in 2000 despite the slump in Asia 16,274 Australian born residents, overwhelmingly young and skilled, made a permanent or long term move to Asian countries.⁵³)

Why would it be otherwise, arguably most people in Sydney see more of, read more about and are more familiar with London or New York than they are with Melbourne.

Today human capital is almost as mobile as financial capital. We should not be complacent about the increasing global competition for talent. New Zealand’s brain drain could be followed by ours if we were to fail to continue the policies which have made us as competitive as we are today. Equally we cannot sit on our laurels; we are playing a relative game; consider income tax for example.

Australia’s rates of personal income tax are remarkably high and the threshold at which the top marginal rate cuts in is remarkably low.

Taxation Comparison - Single with no dependents

Country	Threshold (local currency)	Marginal Rate
Australia	\$60,001	47%
Singapore	\$320,001	22%
Hong Kong ⁽¹⁾	\$213,001	17%
UK	£34,516	40%

Country	Threshold (\$A equivalent)	Marginal Rate
Australia	\$60,001	47%
Singapore	\$331,841	22%
Hong Kong ⁽¹⁾	\$49,574	17%
UK	\$96,955	40%

Note: (1) Capped at 15% effective rate on Net Chargeable Income i.e. Gross income after deductions but before allowances)

⁵³ ibid

A single person earning \$A75, 000 will be left with net income of \$A52, 371. Earning that amount in Tony Blair's socialist paradise, he will be left with \$A62, 000. If he were in Singapore he would be left with \$71,000 and in Hong Kong \$69,000. If one considers a married person with two dependent children earning 100,000 Euro, he or she would be left with 68% of his income after tax in the UK, 78% in the United States, 89% in Hong Kong and 59% in Australia (ignoring the Medicare levy).⁵⁴

It must be remembered that the Government's recent attempts to raise the top threshold were frustrated in the Senate by the Labor Party and the Democrats who characterized anyone who earned more than \$60,000 as "rich" and deserving to have half their additional income taken in tax.

Now whether people deserve to keep more of what they earn is not the issue. At some point they will vote with their feet.

Jean-Baptiste Colbert⁵⁵ said "The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing." This was an accurate analysis of a situation where most income came from land which was immovable. Now, most income is generated by human capital, intellectual capital, which is highly mobile.

Of course tax is not everything. A low tax rate is not appealing if there are no jobs, or no well paid ones. Lifestyle is important and so are family ties. But equally we cannot pretend that tax is not of central importance in attracting and retaining the world's and our own best talent.

Conclusion

We face considerable challenges from demography. A population whose dependent aged is growing faster than its labor force faces serious budgetary pressure. If the response is to increase taxation there is a risk that we find ourselves, as New Zealand has, with a net brain drain; in other words the geese don't bother to hiss, they just fly off.

So our proximity to the world imposes real constraints on our budgetary responses. Australian governments, of both persuasions, have over the last twenty years been very conscious of the need to drive productivity and growth and to move towards a more competitive tax system. In recent times, I perceive on the Left, much less commitment to that realistic view of our position in the world and a tendency to return to a view of society in which wealth is seen as a static cake to be redistributed at the whim of Government.

It is also true that in the ageing stakes, we are far better off than many other countries especially Japan and most European nations. However, it is also true that the second biggest destination for our permanent emigrants is the United States and its population is not ageing as quickly as ours and, overall, is growing strongly. It too is increasing its active recruitment of skilled migrants.

⁵⁴ Source: Forbes Magazine "Forbes Global Tax Misery Index" 2002

⁵⁵ b.1619 d.1683. contrôleur general (minister of finance) under King Louis XIV of France

In conclusion then, Australians should focus keenly on ensuring that we preserve a more balanced demographic mix by promoting family, fertility and immigration that serves our national interest. At the same time we must not allow ourselves to become less competitive than we are today; in an age of borderless proximity the penalties for the uncompetitive are severe indeed.

