OPINION

Our closed borders have turbo-charged the economy's recovery

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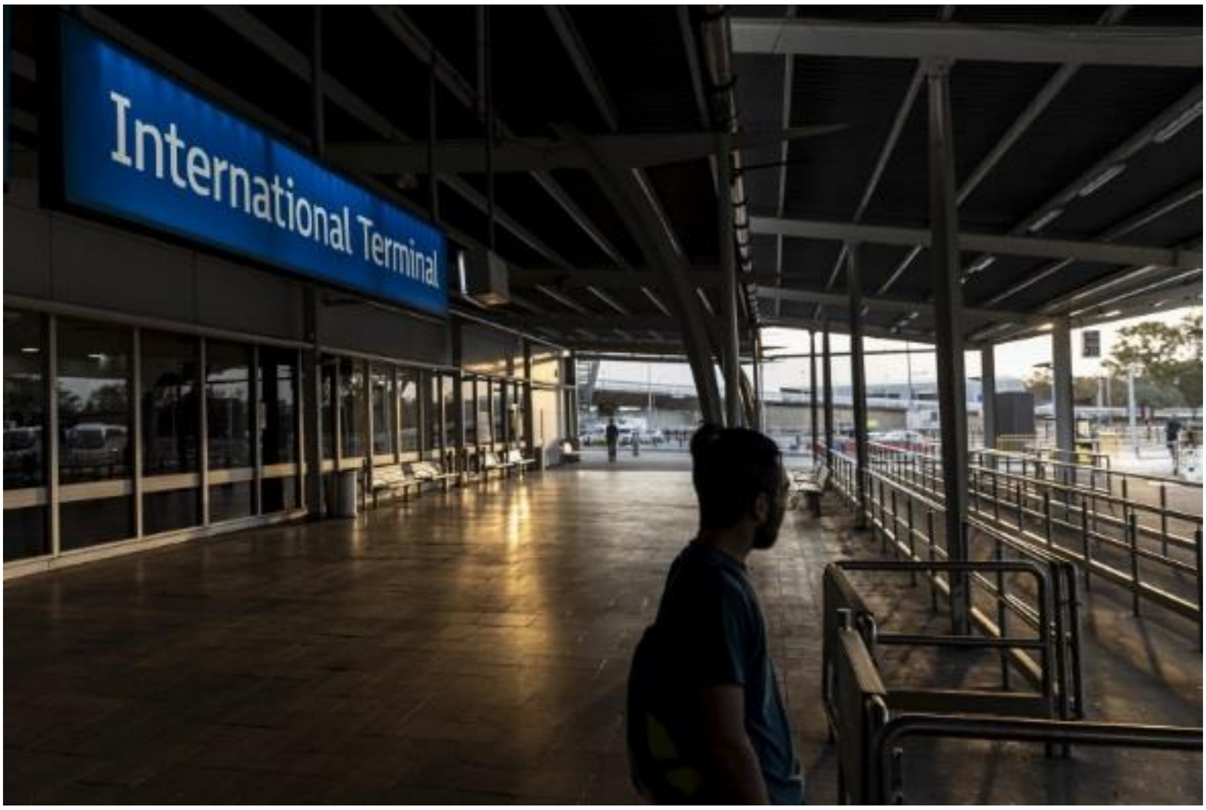
The economy's rebound from the lockdowns of last year has been truly remarkable – far better than anyone dared to hope. Even so, it's not quite as miraculous as it looks.

As Tuesday's budget leads us to focus on the outlook for the economy in the coming financial year, it's important to remember that the coronacession hasn't been like a normal recession. And the recovery from it won't be like a normal recovery either.



With the absence of immigration, the jump in jobs growth has reduced the unemployment rate much more than it usually would. CREDIT:BROOK MITCHELL

The coronacession is unique for several reasons. The first is that the blow to economic activity – real gross domestic product - was much greater than we've experienced in any recession since World War II *and* almost wholly contained within a single quarter.

The reason for that is simple: it happened because our federal and state governments decided that the best way to stop the spread of the virus was to lock down the economy for a few weeks. But because this was a government-ordered recession, the governments were in no doubt about their obligation to counter the cost to workers and businesses with monetary assistance.

So the second respect in which this recession was different was the speed with which governments provided their “fiscal stimulus” and the unprecedented amount of it: for the feds alone, $250 billion, equivalent to more than 12 per cent of GDP.

But there’s a less-recognised third factor adding to the coronacession’s uniqueness: this time the government ordered the closing of our international borders. Virtually no one entering Australia and no one going out.

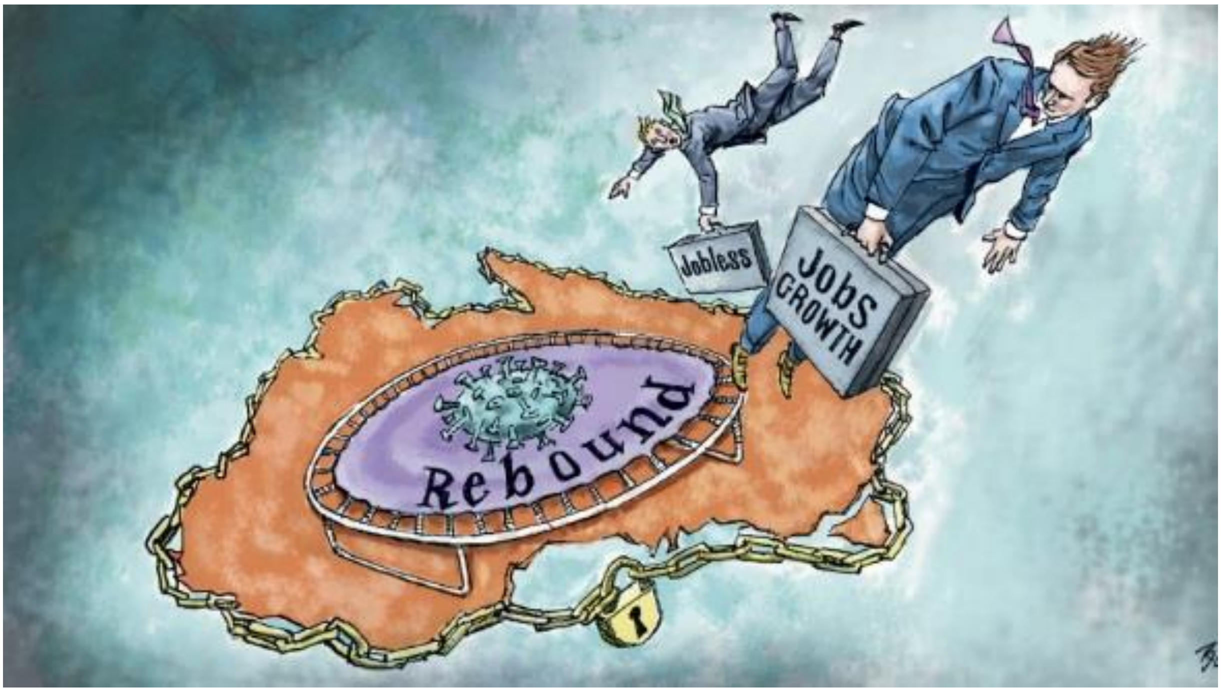
The independent economist Saul Eslake points out that “an important but under-appreciated reason for the so-far surprising rapid decline in unemployment, from its lower-than-expected peak of 7.5 per cent last July, is the absence of any immigration: which means that the civilian working-age population is now growing at (on average over the past two quarters) only 8,300 per month, compared with an average of 27,700 per month over the three years to March 2020,” he says.
This means that, with an unchanged rate of people choosing to *participate* in the labour force by either holding a job or seeking one, a rate that’s already at a record high, employment needs only to grow at about a third of its pre-pandemic rate in order to hold the rate of unemployment steady.

So any growth in employment in excess of that brings unemployment tumbling down.

Get it? It’s not just that the bounce back in jobs growth has been much quicker and stronger than we expected. It’s also that, thanks to the absence of immigration, this has reduced the unemployment rate much more than it usually does.

To put it another way, Eslake says, if the population of working age continues growing over the remainder of this year at the much-slower rate at which it’s been growing over the past six months, employment has to grow by an average of just 17,000 a month to push the unemployment rate down to just below 5 per cent by the end of this year (assuming the rate of labour-force participation stays the same).

By contrast, if the working-age population was continuing to grow at its pre-pandemic rate, employment would need to average 29,000 a month to get us down to 5 per cent unemployment by the end of this year.



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Now, it’s true that as well as adding to the *supply* of labour, immigration also adds to the *demand* for labour. So its absence is also working to slow the growth in employment. But this has been more than countered by two factors.
The obvious one is the governments’ massive fiscal stimulus. But Eslake reminds us of the less-obvious factor: our closed borders have prevented Australians from doing what they usually do a lot of: going on (often expensive) overseas trips.

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He estimates that this spending usually amounts to roughly $55 billion a year. But we’re spending a fair bit of this “saving” on domestic tourism – or on our homes.

Of course, we need to remember than, as well as stopping us from touring abroad, the closed borders are also stopping foreigners from touring here. But in normal times, we spend more on overseas tourism than foreigners spend here. (In the strange language of econospeak, we are “net importers of tourism services”.)

Eslake estimates that our ban on foreign tourists (and international students) is costing us more than $22 billion – about 1.25 per cent of GDP – a year in export income. Clearly, however, our economy is well ahead on this (temporary) deal.

Another economist who's been thinking harder than the rest of us about the consequences of our closed borders is Gareth Aird, of the Commonwealth Bank.

The decision by Scott Morrison and Josh Frydenberg to "continuing to prioritise job creation" and so drive the unemployment rate down much further, has led to much discussion of the NAIRU – the "non-accelerating-inflation rate of unemployment" – the lowest level unemployment can fall to before wages and prices take off.

Treasurer Josh Frydenberg and Prime Minister Scott Morrison . The budget will be delivered on Tuesday.*CREDIT:ALEX ELLINGHAUSEN*

The econocrats believe that little-understood changes in the structure of the advanced economies may have lowered our NAIRU to 4.5 per cent or even less. But Aird reminds us that, for as long as our international borders remain closed, the NAIRU is likely to be higher than that.
"If firms are not able to recruit from abroad then, as the labour market tightens, skill shortages will manifest themselves faster than otherwise and this will allow some workers to push for higher pay," he says.

"There is a lot of uncertainty around when the international borders will reopen, what that means for net overseas migration and how that will impact on wage outcomes."

But “in industries with skill shortages, bargaining power between the employee and employer should move more favourably in the direction of the employee and higher wages should be forthcoming,” he concludes.

Higher wages is what the government’s hoping for, of course. Interesting times lie ahead.

Ross Gittins is the economics editor