

## **Growth and Diversity: How Immigration Presents Challenges and Opportunities for Australia and the United States\***

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Thirteen years ago, in summer 2001, I worked as a fellow here at the Progressive Policy Institute. Here I was lucky enough to co-author reports on digital government and the digital divide, attended stimulating seminars by resident and visiting experts, and even helped put on an ‘Aussie breakfast’ of bagels and vegemite.

I knew Americans tend to be pretty self-assured, but even so I was particularly struck by the confidence that the Progressive Policy Institute had a fresh idea to contribute to just about every policy conversation in this city – and you were right! Like a Gaul in Caesar’s Rome, I drank it all in.

Think-tanks play a vital role in our democracy. Located at the intersection of academia and politics, you help to make university research accessible, and forge new policy proposals based on the best available evidence.

The Progressive Policy Institute (with, at that time, the Democratic Leadership Council) has played a special role. After Democrats lost Presidential elections in 1984 and 1988, your organisations were crucial in reclaiming the notion that governments could lead from the ‘radical centre’.<sup>1</sup>

You showed that a belief in tackling poverty and inequality could best be realised by a commitment to open markets, a culture that fostered entrepreneurship, a commitment to strong economic growth, and rigorous evaluation of social programs. You reminded progressives that values must come first. I want to thank Will Marshall for his leadership of the Progressive Policy Institute, and for generously inviting me back here to speak today on the topic of growth and diversity.

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This year, both Australia and the United States played in the finals of the FIFA World Cup. Among the Australian team were players with names such as Špiranović, Božanić and Jedinak. The US team included Gonzalez, Diskerud and Wondolowski. Both had significant numbers of overseas-born players, including several German-born players on the US team. Ultimately, neither the US nor Australia advanced to the quarter-finals. But if either of our nations were closed to migrants, would we have been competing in Rio at all?

In this speech, I will look at the economic and social impact of diversity on modern developed nations, focusing particularly on the United States and Australia.

Progressives are often most comfortable making a political or moral case for anti-discrimination and tolerance, and build our support for diversity on that ground. We sometimes express this in the more cautious form that diversity is a necessary corollary of liberalism in a multi-ethnic society, and sometimes in the more optimistic account of diversity as a social good in itself.

I think that's an important and necessary element to progressive thought about diversity – but it's not enough. Why? For a start, too often the 'diversity is good in itself' argument retreats into homilies about how immigration is terrific because it gives us more choice about where to eat out on a Saturday night (confession: I've done a bit of this myself in 'less carefully prepared' speeches). Instead, we need to offer our people a fuller meal.

But even a more sophisticated and humane conception of diversity risks essentialising diversity as either good, or bad.

What my discipline, economics, can bring to progressive thinking on diversity is some ways to disentangle this complex phenomenon – to trace both its benefits and its costs.

I don't say that with a view to establishing if diversity is an economic 'plus' or 'minus'. Nor do I do that with a view to 'reframe' a social debate economically – to have a killer fact so we can say 'studies show'. I think diversity actually is a social good, and even if the numbers suggested it had net costs, I'd want to meet those costs, not abandon it.

Instead, I think tracing the benefits and costs helps us to establish what is good in diversity, the things which we should encourage, and what isn't, the things we need to counter. I also think tracing the benefits and costs helps us identify and then share lessons about the best way to do that – so today, I'll say a little about that too, about some of the things that Australia and the United States can learn from each other in this area.

This approach has long made sense, but is particularly urgent too because diversity matters a lot now and it will matter at least as much in the future. Sure, my discipline of economics has a 'mixed' track record for prediction. But here is one prediction that I'm pretty confident about: both Australia and the United States will be more ethnically diverse in a generation's time than they are today. The same most likely holds true for other developed countries.

Two big reasons I say this: the effect of lower transport costs, and the fact of 'chain migration', in which settled migrants both encourage others to follow them, and encourage the host government to facilitate their arrival.

To get a sense of how much more diverse our two countries are likely to become, consider a few facts.

- White Americans are now a minority in four US states: Hawaii, California, Texas and New Mexico (plus DC). Nationally, white Americans are already a minority among children aged under 5, and are projected to be a minority overall by 2043.
- Two of the top 10 most common surnames in the US are García and Rodriguez

- Intermarriage has increased massively in the US over the past generation, from 3 percent to 8 percent of marriages.<sup>2</sup> Two generations ago, over 90 percent of Americans disapproved of interracial marriage – today, that’s less than 20 percent.<sup>3</sup>

While at home:

- A quarter of all Australians are born overseas, and four in ten have a parent who was born overseas. This latter category includes my three sons – my wife Gweneth was born in Sandusky, Ohio. Our family of five travels with nine passports!
- One in seven Australians speak a language other than English at home (both Gweneth and I occasionally accuse one another of falling into this category).
- Among the 20 most common Australian surnames are Nguyen and Lee and pretty soon most Australians will be able to pronounce both names! Growing up in Sydney, a marker of rising diversity for me was that when I said my last name in the early-1980s, people often spelled it as ‘Leigh’. By the early-2000s, they invariably spelled it ‘Lee’.

You know diversity is big. Let’s turn to the central question: what are the benefits and costs of ethnic diversity?

I’ll consider some benefits first.

To see the positive entrepreneurial impact of diversity, you only need to go to Silicon Valley, where half of all start-up teams include a first-generation migrant.<sup>4</sup> From Russian-born Sergey Brin at Google to Hungarian-born Andy Grove at Intel, the Valley is full of entrepreneurs who benefited from moving to a nation that provided a better fit for their talents than did their country of birth – and whose new nation benefitted greatly as well. Immigrants do better than average among America’s Nobel Laureates, National Academy of Science members and Academy Award film directors – not just your soccer team.<sup>5</sup>

In Sydney today, diversity makes it possible to establish a business serving the Asia-Pacific region, drawing on a city where over 200 languages are spoken. In a diverse place, firms don’t simply draw on best-practice in their city, but instead have the potential to access the best from around the world. So there is an ‘excellence effect’, not just a global connectedness. In an ethnically diverse place like Sydney, an innovative firm can more readily hire a finance expert who’s worked in Hong Kong, a designer who’s worked in Milan, or a health expert who’s worked in Tokyo. There is even some empirical evidence, albeit for the US, that the incomes of native-born people rise faster in places with more immigrants (though there are distributional effects, which I’ll come to shortly).<sup>6</sup>

When I worked as an economics professor at the Australian National University, I saw this first-hand with my colleagues and students, most of whom were not born in Australia. I wrote journal articles using data from China and Indonesia, and supervised students working on problems as diverse as media bias in Sri Lanka and domestic violence in Colombia. I knew one of Australia’s top economists, Paul Frijters, who is himself Dutch-born. He recently told me that he has so many international co-authors that he has not physically met most of them. Higher education in Australia – like the US – achieves much higher standards as a result of its embrace of diversity.

Diversity also helps boost trade. Several studies show that when a country receives more migrants from a particular nation, it is more likely to trade with that nation.<sup>7</sup> This stands to reason: by understanding both cultures, migrants are particularly well placed to facilitate the flow of goods and services between their country of birth and their country of residence.

In the case of Australia, we have a particularly urgent job to take advantage of diversity to boost our export industries. As our mining boom transitions into the production phase, it will generate fewer jobs than it has done in the construction phase. As Australian economist John Edwards (not to be confused with the former US Vice Presidential candidate of the same name) has recently noted, ‘the issue facing Australia is whether and how we integrate into chains of production and consumption in Asia, beyond the successful but ultimately limited supply of commodities’.<sup>8</sup>

This was at the heart of Australia’s 2012 ‘Australia in the Asian Century’ white paper, which set a goal for all Australian high school students to be able to learn four priority languages – Mandarin, Hindi, Indonesian and Japanese. Some students would learn face-to-face from a teacher in their school. For others, technology would bridge the gap, with lessons conducted online or via videoconferencing. The more readily young Australians can engage with the Asia-Pacific region, the better we are positioned to take advantage of Asia’s growth.

These are important benefits to our nations.

Now, let’s turn to the costs.

Trust in strangers is a big one. This is a reality.

In a series of studies, across a multiplicity of different contexts, people have been shown to ‘hunker down’ in the face of difference. Trust is lower, friends are fewer, altruism is diminished, and community cooperation is rarer. There is less ‘social capital’ in diverse places.

In the United States, the best-known work on this topic is that carried out by Harvard’s Robert Putnam, who surveys communities across the US and asks respondents a battery of questions about their civic connectedness.<sup>9</sup> He finds a strong relationship between the ethnic diversity in a community and the level of trust. Perhaps surprisingly, this holds up even when Putnam asks people about trust in those of their *own race*. In diverse Los Angeles and San Francisco, only one in five white Americans say they trust people of their own race ‘a lot’. In homogenous South Dakota, three in five white Americans have a lot of trust in those of their own race.

Similar findings hold for other measures of community connectedness: in diverse parts of the US, people have less confidence in government and the media, are less likely to vote, are less likely to donate to charity, and spend more time watching television.

My own research for Australia comes to the same conclusion: in 2006, using a large social survey, matched to precise information about neighbourhoods, I found that Australians living in communities with more ethnic diversity are less likely to trust others.<sup>10</sup> The negative effect of diversity on trust is particularly pronounced when looking at linguistic diversity. The more languages are spoken in a postcode, the less likely its residents are to trust their neighbours.

This is a hard fact for progressives to confront – especially for those of us whose own cosmopolitan tastes and preferences put a premium on diversity in and of itself – but we must understand it in order to develop models of diversity which work for the long-term.

Another cost of diversity comes in the form of racism. Whether it takes the form of petty slights, racist taunts or an outright refusal to deal with someone, racism has an immediate cost to the victim, and a flow-on cost to society. And yet measuring racism has proven tricky, because of the challenge of separating out the particular impact of race (or ethnicity) from other differences.

One way to get an unbiased estimate of racism in the job market is to carry out an experiment with fake resumes. In these experiments, researchers mock up a series of fake CVs, and send them to prospective employers seeking entry-level job candidates. The question then becomes (as the title of one paper pointedly put it):

‘Are Emily and Greg more employable than Lakisha and Jamal?’<sup>11</sup>

We now have a range of studies for developed countries, which allow us to answer the question with some confidence: how many more resumes does a person with a non-Anglo name need to submit?<sup>12</sup> For African-Americans in the US, the answer is 50 percent more. For Indians and Chinese in Canada, the answer is 30-40 percent more. For Indigenous Australians, it is 35 percent more. For both Chinese and Middle-Eastern jobseekers in Australia, it is 60-70 percent more.

These audit studies can also be used in other contexts, such as measuring racism in the rental market, the car sales market, or in social situations (one Australian study tests for race effects in the willingness of bus drivers to let a passenger travel with an expired pass). Both Australia and the United States should encourage more studies of this type, recognising that without good estimates of the extent of racism, it will be harder to reduce it.

So, if we accept the moral and political arguments for diversity, and we understand that while benefits of diversity come in the form of economic vibrancy and trade, there are costs in the form of distrust and racism, what can we do to maximise the benefits and minimise the costs?

One important measure is to forge national identities based on values, rather than ancestry or stereotypes.

A values-based national identity is particularly important for reducing the impact of diversity on trust. Putnam, who gave us the depressing empirical finding about trust and diversity, suggests a cause for optimism:<sup>13</sup>

‘Growing up in a small Ohio town in the 1950s, I knew the religion of just about every kid in my 600-person high school ... When my children attended high school in the 1980s, they didn’t know the religion of practically anyone. It simply didn’t matter .... In my lifetime, Americans have deconstructed religion as a basis for making decisions. Why can’t we do the same thing with other types of diversity?’

When our nations draw on a sense of values – rather than stereotypes – they are more likely to gain from ethnic and racial diversity. Nations where children see race and ethnicity as like being left-handed or right-handed will have an advantage.

This is an area where I think Australia can learn a great deal from the United States. America is the most amazing factory for making Americans. Your belief in freedom, opportunity and tolerance (summarised by that great motto *e pluribus, unum*) is a great asset. As James Madison recognised centuries ago, stability does not come from a retreat to small homogenous units, but from institutions that value diversity, and check majority power.

In Australia, there is less consensus about our national values. For example, one study of university students distilled their understanding of national values into security, achievement, and hedonism, which seems a weak basis on which to build a community.<sup>14</sup> To my mind, values such as multiculturalism, egalitarianism and mateship would serve us better, but the point is that Australians exhibit less agreement about our values than Americans. The risk then is that we drift into a mix of old-fashioned ethnic and ‘lifestyle’ stereotypes, defining Australians as stubbie-carrying cricket fans, who drive a Holden, eat a meat pie... and are probably white.

In truth, ‘Norm’ is no longer the norm.

In that work of value-building and identity-making, we should remember George Orwell’s distinction between nationalism and patriotism. You can love your country without needing to claim that it is superior to the rest. This is a key progressive understanding we should never lose.

Another important measure is ensure that the benefits of immigration are shared across the community.

This especially matters in an environment of rising income inequality. Over the past generation, inequality has risen significantly in both Australia and the United States. For example, since 1975, real earnings for the bottom tenth of Australians have risen by 15 percent, while those for the top tenth have risen more than three times as fast. In the US, there is a divergence between the top and bottom, but real wages for the bottom tenth have barely budged since the 1970s.<sup>15</sup> So in Australia, the tugboats are rising more slowly than the ocean liners; while in the US, the ocean liners are rising, while the tugboats are sitting still.

In an environment of rising inequality, it does help to have a migration policy that does not widen the gap still further.

This is one area where the United States might learn from Australia (particularly given that last year’s allocation of H-1B visas disappeared in just five days!<sup>16</sup>).

Under the ‘points’ system Australia uses to select many of our migrants, an effective preference is given to prospective migrants who are younger, better-educated, have a stronger command of English or work in an occupation that is in demand.

The ‘employer sponsored’ migration system operates in much the same way.<sup>17</sup>

Consequently, Australia has avoided much of the downward pressure on low-skill wages that has accompanied US immigration. A simple illustration serves to make the point.

Part of the effect of US immigration is to increase the proportion of people who did not finish high school in the US. This pushes down the wages of similarly qualified workers, though it does make it cheaper for high-wage Americans to get a gardener or a childcare worker.

Conversely, the Australian system increases the proportion of higher-skilled and in-demand workers, putting downward pressure on wages in those sectors, and making it cheaper for low-wage Australians to see a medical specialist or accountant.

So we might learn something from you about national identity, while you might learn something from our points system. Meanwhile, both countries struggle with the issue of irregular migration.

In the United States, over 11 million undocumented workers are in the shadows. Last year, over 100,000 people were deported from the interior of the US – mostly to Mexico – sometimes separating parents from their children.<sup>18</sup> And yet prospects of an immigration deal appear to sit somewhere between slim and zero, with Eric Cantor's primary loss to a hardline anti-immigration candidate earlier this year showing that no Republican is safe.<sup>19</sup>

In Australia, the past decade has seen faster overall migration inflows than any other developed nation. And yet our national debate has been focused around boat arrivals. Refugees aren't choking Australia's roads, but the refugee issue is choking our migration debate, leading to populist claims that asylum seekers constitute a 'peaceful invasion'.<sup>20</sup>

How can the political distortions of this issue be explained?

In a seminal paper titled 'The Political Economy of Hatred', Harvard economist Ed Glaeser argued that hatred is supplied by political entrepreneurs to satisfy demand from citizens.<sup>21</sup> Extremist political figures sow hatred against minority groups as a means of gaining political support. Because many economic and other policies help one group, while harming others, politics usually requires trade-offs. Glaeser suggest that by fostering hate, politicians can seek credit for both those they help and those they hurt.

One important way to combat hatred is to name it when it emerges. But personal engagement matters too. While diversity may initially cause people to 'hunker down', my hope is that over the longer term, forces such as intermarriage will reduce the ability for ethnic hatred to be used as a weapon in politics. There is some evidence that this can be more than a hope – and here perhaps we can learn something not so much each from the other as from our own best selves. The melting pot works, but it may take some time to thicken into a delicious cultural stew.<sup>22</sup>

Finally, I haven't said much about population size, but it is unarguable that migration will give us not just a more diverse population, but also a larger one. Over the past decade or so, Australia's population grew at twice the OECD average, with a net two million migrants increasing our population by one-tenth.<sup>23</sup> I don't have strong views on the optimal population

size for the United States, but I argued earlier this year (in a speech at the Lowy Institute) that the economic case for a growing Australia is pretty solid.<sup>24</sup>

## **Conclusion**

In the 1950s, a cohort of young Australians set out to reshape how our nation saw the world. They included people like Jamie Mackie, whose first exposure to Southeast Asia came as a 19 year old naval gunner in World War II, and Herb Feith, a young Jewish man whose earliest memory was the horror of Kristallnacht.<sup>25</sup>

As Feith and Mackie saw it, Australia had to do two things: scrap racist immigration laws, and engage with the Asia-Pacific region. So they campaigned against the White Australia Policy, through writings and street marches. And they worked to establish Australia's international volunteering abroad program, working first with Indonesia. There is a hint of Johnson's civil rights reforms in the former, and a touch of Kennedy's 'ask not' Peace Corps in the latter. Racial equality and internationalism tend to go hand-in-hand.

The reason I know this story is that both Jamie Mackie and Herb Feith were family friends. In fact Herb was a key reason that my father, Michael Leigh, did his PhD at Cornell University. As I grew up in Malaysia, Indonesia and Australia, it was taken for granted that Australia was at our best when we were working to reduce discrimination at home, and improve engagement abroad.

I said we can learn from each other, and from our own best selves. There are lessons from that earlier era for Australia today – and perhaps even for the United States. In the decades to come, those nations that are likely to prosper most are those that can do the best job of harnessing the benefits of ethnic diversity – and minimising its costs. Domestically, that means working actively to build trust in ethnically heterogeneous communities, and identifying where discrimination is most prevalent so it can be curtailed.

Internationally, too, nations are at our best when we engage with multilateral forums – imperfect as they invariably are. From the G20 to the International Criminal Court, engagement sends a strong signal to the world about your commitment to an international rules-based order. Whether through commitment to peacekeeping missions or overseas development assistance, good countries export their values to the world.

Indeed, in the modern era, it's sometimes hard to separate diplomacy from domestic policy – or to disentangle the purpose of a virtuous national life from its consequences for global prestige. Travelling outside Australia, it is striking to me how often people mention Australia's 2008 apology to the Stolen Generations – Indigenous children who were taken from their families. The immediate consequences of the apology were purely domestic, but it inadvertently also sent a message rippling out to the world: Australia recognises that it did a great wrong to its original inhabitants, and is taking steps to make things better.

Since the earliest human communities, 'getting along' has been one of the central challenges for our species. Today, we live in nations that are more diverse than they have ever been – and getting more diverse by the day. That makes diversity both the great challenge, and the great opportunity, of our age.



It requires open minds and open hearts. But if we can get it right, both of our great countries will reap real benefits as our communities grow culturally, socially and economically richer — together.

## Notes

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<sup>1</sup> For a history of the DLC/PPI, see Baer, Kenneth S. *Reinventing Democrats: The politics of liberalism from Reagan to Clinton*. Lawrence, KS: University Press of Kansas, 2000.

<sup>2</sup> Wendy Wang, 'The Rise of Intermarriage: Rates, Characteristics Vary by Race and Gender', Pew Social Trends, 16 February 2012.

<sup>3</sup> Saulny, Susan, 16 February 2012, 'Interracial Marriage Seen Gaining Wide Acceptance'. The New York Times.

<sup>4</sup> Alex Salkever and Vivek Wadhwa, 'Why Entrepreneurship Needs Immigrants', *Inc.com*, 2012.

<sup>5</sup> Robert Putnam, 'E Pluribus Unum: Diversity and Community in the Twenty-first Century. The 2006 Johan Skytte Prize Lecture', *Scandinavian Political Studies*, Vol. 30, No. 2, pp. 137-174, 2007

<sup>6</sup> Ottaviano, G. I. P. & Peri, G. 2006a. 'The Economic Value of Cultural Diversity: Evidence from US Cities', *Journal of Economic Geography* 6, 9-44; Smith, J. P. & Edmonston, B., eds. 1997. *The New Americans: Economic, Demographic and Fiscal Effects of Immigration*. Washington, DC: National Academy Press.

<sup>7</sup> Gould, David M. 'Immigrant links to the home country: empirical implications for US bilateral trade flows.' *The Review of Economics and Statistics* (1994): 302-316; Head, Keith, and John Ries. 'Immigration and trade creation: econometric evidence from Canada.' *Canadian journal of economics* (1998): 47-62; Siddique, M. A. B. *Immigration and Trade: How Important is the Link?: Evidence from Australia*. Economics, University of Western Australia, 2006.

<sup>8</sup> John Edwards, *Beyond the Boom: A Lowy Institute Paper*, Penguin, Sydney, 2014.

<sup>9</sup> Robert Putnam, 'E Pluribus Unum: Diversity and Community in the Twenty-first Century. The 2006 Johan Skytte Prize Lecture', *Scandinavian Political Studies*, Vol. 30, No. 2, pp. 137-174, 2007

<sup>10</sup> Andrew Leigh, 'Trust, Inequality, and Ethnic Heterogeneity' (2006) *Economic Record*, 82(258): 268-280. See also Andrew Leigh, *Disconnected*, UNSW Press, Sydney, 2010.

<sup>11</sup> Bertrand, M. and Mullainathan, S. (2004). 'Are Emily and Greg more employable than Lakisha and Jamal: a field experiment on labor market discrimination', *American Economic Review*, Vol. 94, pp. 991-1013.

<sup>12</sup> For a summary of estimates (and fresh estimates for Australia), see Alison L. Booth, Andrew Leigh and Elena Varganova, 'Does Ethnic Discrimination Vary Across Minority Groups? Evidence from a Field Experiment', *Oxford Bulletin of Economics and Statistics*, 2011.

<sup>13</sup> Quoted in Goldsmith, W.M. (2006), 'Prof. Disputes Paper's Portrayal', *Harvard Crimson*, 26 October

<sup>14</sup> Feather, cited in Nola Purdie and Lynn Wilss 'People's Conception of What it Means to be Australian'.

<sup>15</sup> Andrew Leigh, *Battlers and Billionaires: The Story of Inequality in Australia*, Black Inc, Sydney, 2013.

<sup>16</sup> Jessica Leber, 'Silicon Valley Fights for Immigrant Talent', *MIT Technology Review*, 26 July 2013

<sup>17</sup> The employer sponsored visa program now accounts for a greater share of Australian skilled migration than the points program (formally known as the 'skilled independent' stream).

<sup>18</sup> Julia Preston, 'Amid Steady Deportation, Fear and Worry Multiply Among Immigrants', *New York Times*, 22 December 2013.

<sup>19</sup> As one study notes, 'We find this concern about immigration to be central to Tea Party ideology': Williamson, Vanessa, Theda Skocpol, and John Coggin. 'The Tea Party and the remaking of Republican conservatism.' *Perspectives on Politics* 9.01 (2011): 25-43.

<sup>20</sup> For a thoughtful analysis of this issue, see Richard Marles, 'Defining the values that drive modern Labor's immigration approach', Speech to the National Press Club, 27 May 2014.

<sup>21</sup> Glaeser, Edward L. 'The political economy of hatred.' *Quarterly Journal of Economics* (2005): 120(1): 45-86.

<sup>22</sup> Hatton, Timothy J., and Andrew Leigh. 'Immigrants assimilate as communities, not just as individuals.' *Journal of Population Economics* 24.2 (2011): 389-419.

<sup>23</sup> John Edwards, *Beyond the Boom: A Lowy Institute Paper*, Penguin, Sydney, 2014.

<sup>24</sup> Andrew Leigh, 'Does Size Matter? An Economic Perspective on the Population Debate', Speech delivered at the Lowy Institute, Sydney, 13 March 2014

<sup>25</sup> I spoke about Jamie Mackie's extraordinary life in the House of Representatives on 20 June 2011, and about Herb Feith (in a speech launching Jemma Purdey's biography of him) on 6 July 2011.