

Economic effects of immigration and the New Zealand economic histories

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Immigration has been a major element in the New Zealand story since British sovereignty was declared in 1840. Little New Zealand economic history is now taught in our universities and little research on New Zealand's longer-term economic history appears to be being conducted. But as part of my continuing work to better understand the role, if any, of immigration in New Zealand's sustained post World War 2 economic underperformance, I was interested to look back at the economic histories that have been published in recent decades, to see how those economist authors have treated the economics of post-war immigration in the context of narratives about New Zealand overall economic performance.

This brief note reviews what I found in the following works:

- W B Sutch, *Poverty and Progress in New Zealand: A Reassessment*, 2nd completely revised edition, A H & A W Reed, Wellington, 1969
- G R Hawke, "The Growth of the Economy", in *The Oxford History of New Zealand*, OUP, Wellington, 1981
- J Gould, *The Rake's Progress: The New Zealand Economy since 1945*. Hodder and Stoughton, Auckland, 1982
- G R Hawke, *The Making of New Zealand: An Economic History*, CUP, Cambridge, 1985
- B Easton, *In Stormy Seas: The Post-war New Zealand Economy*, Otago University Press, Dunedin, 1997
- G. Bertram, "The New Zealand Economy 1900-2000" in *The New Oxford History of New Zealand*, OUP, Melbourne, 2009

In addition, I briefly consider the June 1990 Reserve Bank *Bulletin* article, "Sources of Economic Growth" by Richard Smith and Arthur Grimes. The authors are not economic historians but their article was an attempt at top-down analysis of New Zealand's overall growth performance.

I do not include general histories of New Zealand only because, on checking, I found that none of them gave any material treatment to the economic aspects of New Zealand's post-war immigration experience. I have also not attempted to summarise here more specific works on immigration itself, although these are referred to by some of the authors we look at below.

I have largely attempted to report what the authors have written, rather than to interpret it, or apply it to current debates around economic performance. My primary purpose was documentary (having all the references in one accessible place) rather than argumentative.

Sutch (1969)

Sutch's *Poverty and Progress* is presented as a new edition of his original 1941 work, but in fact as the author notes "less than one third of this book consists of the original material". It is substantially a new work, and brings the history forward to the wrenching 18 months or so following the sharp

fall in the terms of trade in 1966 (which was followed by far-reaching domestic adjustment, a substantial devaluation - the first for almost 35 years - and an IMF programme).

Given Sutch's professional background, his strong interest in economic development and the import substitution strategy, and the significant literature on capital flows and migration flows between Britain and the colonies of settlement, it is striking how little coverage the book gives to immigration at all, including in the post-war period. There are no references to the assisted migration programmes at any stages of our history, or to any other dimensions of immigration policy.

Sutch devotes one paragraph to the rapid rise in population in the post-war period, noting that it arose from a "60 per cent increase in the birth-rate compared with the depression days and a heavy increase in immigration, both assisted and unassisted". He goes on to observe that "there was greatly increased demand for goods and services, and full employment provided a good deal of the production asked for. Keeping production on the stretch was good for New Zealand, but the trouble was that part of the increased living standards was provided not from New Zealand production, but from imports which the country regularly borrowed abroad to help pay for" (p337).

Sutch tended to be averse to imports (not just deficits), but to the extent that one can take any economic interpretation from this passage, it seems clear that he would have subscribed to the sense that the demand effects of a rapidly rising population were material, perhaps contributing directly to reduced unemployment. There is little here to suggest that Sutch thought migrants were adding to the sustainable rate of productivity growth.

Hawke (1981)

Hawke has fewer than 30 pages to cover the 40 or so years of economic history from 1938, so we should not expect any very sustained treatment of immigration issues, even though by the mid 1970s there had been a major reversal of the immigration policy that had persisted throughout most of the post-war period. Hawke does, however, include one paragraph which is worth quoting (p383):

"Ironically, the success with which full employment was pursued until the late 1960s led to frequent claims that labour was in short supply so that more immigrants were desirable. The output of an individual industrialist might indeed have been constrained by the unavailability of labour so that more migrants would have been beneficial to the firm, especially if the costs of migration could be shifted to taxpayers generally through government subsidies. But migrants also demanded goods and services, especially if they arrived in family groups or formed households soon after arrival and so required housing and social services such as schools and health services. The economy as a whole then remained just as "short of labour" after their arrival."

Gould (1982)

Professor John Gould's book on New Zealand's post-war economic history appeared in 1982. Gould, himself an adult immigrant, had written earlier pieces on immigration specifically. In the book he comments on immigration in various places, but in particular devotes a two page section (pp 83-86) to a discussion of immigration and the economy, with a focus on the experience in the 1950s.

He begins by noting that during this period “pressure on resources for capital investment continued to be felt, particularly in the fields of housing and “social overhead” capital¹. He goes on to note ‘in successive issues of the annual *Economic Survey*, released by the Minister of Finance as a prelude to the budget, a growing recognition that rapid population growth and high immigration rates might be partly responsible for these difficulties” commenting, somewhat acerbically, “it is somewhat astonishing that so obvious a conclusion should have resisted discovery for so long, for the basic economics of the relationship would scarcely test an able first year university student”, and proceeds to illustrate the point by a simple example contrasting the demand effects of the need for a higher housing stock, with the supply effects of the additional labour.

Gould continues his discussion illustrating some similarities and differences between population growth and immigration. He notes, for example, that temporary worker migration (as into northern Europe in the 50s and 60s) may result in much lower net demand effects, since the migrants may need little capital and be focused on saving to send remittances home, although even here he is sceptical that there is much net benefit to the host economy itself. But he points out that New Zealand post-war inward migration had not been of that type, and “hence it is likely that in post-war New Zealand the effect of net immigration on the balance between production and consumption has been closer to our simple “model” than to the case of post-war France and West Germany.”

Gould builds to a conclusion. “To have doubts about the ability of immigration to solve the problem of overfull employment one hardly needed to understand even basic economics. The seeds of doubt could have been sown by recognizing the failure of the much more ambitious programme of subsidised immigration to solve the problem of labour shortage in Australia. And closer to home one could have reflected on the obvious inconsistency between the clamour of manufacturers for more assisted immigration to fill vacancies, and their pleas for more protection to encourage the industrial expansion needed to generate an adequate number of jobs.” Gould notes Belshaw’s “critical appraisal of immigration” and observes that “official opinion was changing perceptibly” in the mid-1950s, with revisions downwards in target levels of migration.

Gould goes on to note that “from the vantage point of the early 1980s we can add the further reflection, that the period when net immigration added most percentage-wise, to the labour force – that is the first ten years after the war – was precisely the period of most acute labour shortage; whereas as that percentage addition declined, becoming negative in the late 1960s and again in the late 1970s, labour shortage eased and gave way to unemployment. The fact is that the pleas for more immigration in post-war New Zealand have been made by interested pressure groups playing on a deep-rooted prejudice in favour of population growth, a prejudice which has yielded only slowly to reason and to evidence.”

Gould repeats this general line of argument elsewhere in the book (eg pp61-63) but does note that to some extent overseas immigration has been “a substitute for internal migration in bringing about the regional shifts in the distribution of the labour force which the changing location of economy activity called for - though how far the settlement preferences of migrants caused the changes in that location, rather than merely responded to or facilitated them is a difficult question to answer.”

¹ As an aside, and given that I have often noted that migrants don’t typically bring physical capital with them, Gould notes that “some prefabricated houses were imported - this in a country with a huge surplus of building timber and a chronic balance of payments problem!”

Gould notes that in the US case, the near-cessation of external immigration after World War One had been “replaced” by increased internal mobility from the South (especially of the black population).

Gould comments specifically on the experience of the early 1970s (pp129-130), observing that the large net influx of migrants “exacerbated the inflationary pressures”. He observed “that the impact of immigration in the short run is inflationary was however by now well recognised” and noted that the government in 1974 removed the automatic right hitherto given to British citizens to permanently settle in New Zealand, and in 1975 the assisted migrant scheme was ended. “it is oddly ironic that these measures to reduce the flow of immigrants were introduced when that flow was already well past its peak and the country was on the brink of a period of massive and sustained net emigration”.

Hawke (1985)

Gary Hawke’s *The Making of New Zealand* is the most widely-cited work on the economic history of New Zealand, published in 1985, and presumably completed just as the post-1984 reforms were beginning.

Hawke’s most substantial discussion of post-war immigration is found on pp185f, where he introduces the discussion with the observation that “economists who examined population growth in post-war New Zealand were generally agreed that it was not conducive to economic growth when this was understood to refer to per capita incomes and not to nineteenth century ideas of extensive development,”. He notes Belshaw’s analysis, that of Gould from the 1960s, that of Frank Holmes from the 1960s, and reports from the Monetary and Economic Council 1966) and the report of one part of the official National Development Conference in 1973. He observed that “the economists’ arguments had been well published, but made only temporary inroads into the familiar popular assumptions” around the desirability of population growth.

Hawke articulates the arguments that underpinned the analysis of the economic effects of migration.

First, the idea of diminishing returns to the (fixed) natural resources of New Zealand. Second, “population growth was seen to exacerbate rather than to relieve the balance of payments constraint”.

Third,

Hawke continues noting that:

“the economic consensus is strong one. In essence it simply observes that productivity was highest in agriculture whereas population growth was catered for by the relative expansion of other activities. Population growth thus fostered expansion of relatively low-productivity activities and therefore tended to reduce average per capita income. The key assumption is that sectoral productivities would not have been even more unfavourable in the absence of population growth, and discussion of later chapters shows that assumption to be reasonable....Perhaps if less importance had been attached to full employment, or if a different exchange rate had been implemented, the sectoral productivity trends could have

been changed. Perhaps so, but population growth made it more rather than less difficult to effect those changes in policy, even if they had been desired, and, in terms in which it was debated, the economic case against population growth in the post-war economy was always a strong one.”

Hawke notes that it is “the persistence of popular attitudes against economic argument [that] needs explanation”. He notes arguments based on external defence, and on increasing diversity, but notes that “resistance to the economic case was fed mostly by fallacious arguments and prejudice. The most common example of the former was the fallacy of composition whereby the advantage of immigrants to individual employers seeking labour was equated to a gain to the community as a whole.....the clearest prejudice was simply the persistence of attitudes inherited from the past: building a bigger community was equated with development, even though that word has come to refer to growth in per capita incomes.”

Grimes and Smith (1990)

The Reserve Bank *Bulletin* article by Arthur Grimes and Richard Smith is an analysis of New Zealand’s post-1950 growth performance and of future prospects. The article is advertised as a summary of a forthcoming extensive survey, which never appeared². Grimes and Smith do not address the role of immigration directly, but do highlight the role of population, in the following extract:

Across the OECD, the post-war evidence is that higher than average population growth has been associated with a higher than average absolute growth rate, but also with a lower than average per capita growth rate. This is reflected in the New Zealand experience. Over the period 1950-1980, New Zealand’s average annual rate of population growth was 1.67 per cent, one percentage point higher than the OECD average. Cross-country studies have found, after accounting for the influence of other factors, that countries with a 1 per cent faster than average population growth rate have tended to have annual per capita growth rates up to 0.5 per cent lower than average. In New Zealand, the relatively high population growth rate was accompanied by a roughly average rate of capital accumulation; consequently, in line with international experience, per capita growth of capital stock and output were relatively low.

They present data for seven OECD countries and of them, New Zealand has the largest contribution of labour input to total GDP growth over the 1950-1985 period, and the lowest per capita GDP growth

Easton (1997)

Brian Easton’s 1997 *In Stormy Seas* also covers the (now rather longer) post-war period, with the benefit of being written as the era of far-reaching reform was coming to an end, and when a reoriented migration policy (and a much increased flow of non-NZ migrants) had been in place for some years.

² Arthur Grimes advised that a planned substantial Discussion Paper was never completed as Richard Smith left the Bank at about this time (and Arthur himself moved into a senior management role).

Easton does not give extensive coverage to migration and population issues, and does not appear to mention the reorientation of migration policy in the late 1980s and early 1990s.

In his discussion on the supply side of the economy (p192-3), Easton has some discussion on the relationship between population and (per capita) economic growth. He lists the possible channels: on the one hand, economies of scale in production and infrastructure, and on the other hand the possibility that population growth impedes capital deepening, and possible diseconomies of scale (eg congestion) and a reduction in the level of natural resources per capita.

Easton refers to the Poot et al 1988 CGE modelling which suggested “that the impact of technological growth was likely to be more important than either capital intensity or economies of scale effects”. Easton devotes more space to the Dowrick and Nguyen results, which suggested that if New Zealand’s population had grown at the OECD average since 1950, per capita GDP would have been 7 per cent higher in 1990 than it actually was (all else equal).

In commenting on this calculation, however, Easton observes that “given the wide margin of error of both the estimate of the impact of population growth, and of the GDP figures themselves, we can say that while the relatively higher population growth almost certainly had some depressing effect on economic growth, the total effect was not large, and is certainly insufficient to explain the larger part of the poor post-war economic performance.”

Easton treats all this as an historical issue, noting that after 1966 New Zealand’s population growth had been very close to the OECD average. Presumably his work was completed before it became fully apparent that New Zealand’s population growth had re-accelerated relative to that of the OECD as a whole.

On pages 206-208, Easton has a discussion of New Zealand’s TFP performance where he notes (but does not really elaborate) that “insofar as New Zealand’s TFP is slightly below the OECD median, it may be due to relatively higher population growth. (That effect was estimated to be about 0.17 per cent per annum)” and “we can rule out the supply side as a major explanation for the poor post-war economic performance, although high population growth in the earlier stage probably had a small depressing effect.”

Finally, on pages 276/7 Easton presents some data on the increasing population diversity, noting both the rise in the Pacific population on the one hand, and of the Asian population more recently on the other. He does not attempt to assess the economic impact of these changes, although comments that the rise in the Pacific population was a response to the labour shortages associated with the previous import substitution industrialisation strategy.

Bertram (2009)

Geoff Bertram’s chapter in the new Oxford history covers 1900 to 2000 in only 36 pages. However, it is far and away the most recent overview economic history of New Zealand.

The chapter has a strong focus on the ebbs and flows of international competitiveness and the importance of the tradables sector. However, there is relatively little on either population or migration. Bertram notes the very rapid rates of population growth in the 19th century and suggests,

in passing, that rapid population growth into the 1920s may have been acting as a drag on per capita growth then.

In the main part of his text, Bertram illustrates the fluctuations in New Zealand's net migration and observes that "a successful settler economy draws migrants in its boom phases but not during crises". He does not comment on either the numerous changes in migration policy over the century, nor on the economic impact of migration or population growth. A fairly brief exception is the observation (about the post-war period) that "as population growth outran employment opportunities in farming, and with settler economy expectations of continued high material living standards, the achievement of full employment entailed the expansion of non-farm economic sectors providing high-wage jobs. This in turn required a high degree of government regulatory intervention to keep economic activity high while preventing domestic demand spilling over to create balance of payments crises." (p557)

There is no mention, positive or negative, of the changes in migration policy or the economic impact of changes in (relative) population growth patterns over the last 25 years.

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