

New Zealand Initiative on immigration: Part 1: The place of Maori

[February 7, 2017](#)[March 21, 2017](#) [Michael Reddell](#) [Immigration](#), [New Zealand Initiative](#), [Uncategorized](#)

Last week, the New Zealand Initiative released their [advocacy report](#), making the case for continued – or perhaps even increased – high levels of non-citizen immigration. It is an unsatisfactory report in several respects – for example, the subtitle “Why migrants make good kiwis” seems to rather deliberately(?) miss the point that should guide policy; do migrants make existing New Zealanders better off – and I’ll have quite a bit to say about various aspects of it over the next week or two. But today I just wanted to focus on the treatment of the Maori dimension.

As the report notes

Many Maori too are concerned about immigration, seeing it as a threat to their unique position as the first people to settle in New Zealand

and

The Election Survey reveals that Māori are significantly less favourable towards immigration than other New Zealanders, and Māori are significantly more likely to want reduced immigration numbers. They are also less likely to think immigration is good for the economy, and more likely to see immigration as a threat. This finding remains even after controlling for age, religion, marital status, home ownership, household income, education, gender, and survey year.

The authors note

This is clearly a concern for New Zealand, where Māori and the Treaty of Waitangi occupy a special cultural and constitutional role in society and national identity. Given the low barriers to obtaining voting rights in New Zealand, there may be a fear that allowing migrants to express these views at the ballot box would dilute Māoridom’s special standing.

That is all fine, but what sort of response do they propose?

The range of policy responses to this problem are fairly limited. Cultural education programmes for migrants may sound appealing, but it is unclear how successful they would be in changing views. Some migrants may simply see it as a tick box exercise to be endured to gain entry into the country,

and may not have the intended effect on migrant attitudes towards Māori and their place in New Zealand.

Indeed, and even if it had the “intended effect” that wouldn’t alter the inevitable shift in the population balance. Maori – like others – might reasonably be assumed to want power/influence, not just understanding or consideration.

We have also considered a values statement, such as the one used in Australia. All visitors to the country are required to sign this document, affirming to abide by Australia’s largely Western values. Although this idea is appealing, it has two main weaknesses. First, New Zealand has yet to formally define its cultural values. Unlike Australia, or many other nation states, New Zealand does not have a single constitutional document. Instead, New Zealand’s constitutional laws are found in numerous documents, including the Constitution Act 1986, the Treaty of Waitangi, the Acts of Parliament, and so on. This allows the nation state of New Zealand to function, but does little to define what it is to be a New Zealander, and what set of national values need be upheld. Until this is done, it would be difficult to craft a robust and useful values statement. Even if it were possible, without constitutional protection, it would be subject to change according to political whim. Second, any values statement would still suffer from the pro forma weakness that a cultural education programme is subject to.

I don’t disagree that a “values statement” isn’t the answer, partly because in a bi-cultural nation there will be differing values – things that count, ways of seeing and doing things – even between the two cultures. But they go on.

A partial answer to this problem may be to shift the burden from the immigration system to the education system. The national curriculum, which acts as a reference guide for schools in New Zealand, places significant emphasis on learning Te Reo and the cultural practices of Māori. This may do little to address concerns about the attitudes primary migrants have towards Māori in New Zealand, but may influence the attitudes of second generation migrants. This is far from a complete solution, and monitoring attitudes of migrants to Māori, and vice versa, is advisable.

Indoctrination by the education system would seem equally likely to provoke backlashes, and – of course – does nothing to deal with the population imbalance issue. As the final rather limp sentence concedes, the report hasn’t actually got much to offer on this issue at all. They go on to conclude

There are also cultural dilution concerns of the Māori community regarding high levels of immigration threatening their unique constitutional position in New Zealand. These areas require attention from policymakers if the current rates of immigration are to be maintained.

But surely if think-tank reports are to be of any real value they need to confront these issues and offer serious solutions, not just kick the issue back to busy and hard-pressed policymakers?

By the time we get to the conclusion of the whole report, things are weaker still

Māori views on immigration policy should be welcomed. A more inclusive process is needed to instruct migrants on the key place Māori hold in New Zealand society.

It is both condescending in tone – both towards Maori and to migrants – while not actually substantively addressing the real issues, which aren't just about sensitivity, but about power.

It is difficult not to conclude that in putting the report together the New Zealand Initiative had a strong prior view on the merits of large scale immigration globally, but could do no more than handwaving when it came to an important consideration in thinking about immigration policy and its implication in New Zealand. Of course, libertarians – as most of the Initiative people would probably claim to be, or accept description as – tend to have little sense of national identity or sub-national cultural identity; their analysis all tends to proceed at the level of the individual. But most citizens, and voters, don't share that sort of perspective.

I don't want to sound like a bleeding-heart liberal in writing this, or to suggest a degree of identification with, or interest in, Maori issues and culture which I don't actually have. My family have been here since around 1850, but I have no family ties with Maori, whether by blood or by marriage, and am quietly proud of my own Anglo heritage. In many respects I probably identify more easily with people and cultures in other traditionally Anglo countries than I do with Maori. But this seems to me a basic issue of fairness, including a recognition that (empirically), there is such a meaningful group as Maori, and that on average they see some – but far from all – issues differently than non-Maori. No doubt there is about as much diversity among Maori as there is, say, among Anglo New Zealanders, but the differing identities are meaningful and show up in various places, including in voting behaviour. And the inescapable point remains that New Zealand is the only long-term home of Maori.

I'm not one for apologising for history, and of course we can't change history. But current policies changes the present and especially the future. Every temperate-climate region in the Americas and Australasia saw indigenous populations swamped in the last few centuries – between the power of the gun, and the prospects of greater prosperity that superior technology and economic institutions offered. Compared with, say, Canada, Australia, the United States, and Argentina, Uruguay and Chile, the indigenous population remained a larger share of the total in New Zealand.

This isn't mostly a post about economics. It is impossible to do a controlled experiment, but I think there is little doubt that the indigenous populations of all those countries of European settlement are better off economically today than they'd have been without the European migration – even though in each of those countries indigenous populations tend to underperform other citizens economically. But, those gains have been made, and at what cost have they come in terms of self-determination and control? It isn't easy for members of majority populations to appreciate what it must mean for a group to have become a disempowered minority in their own land. For some it is probably not an issue at all, for others perhaps it is of prime importance, for most perhaps somewhere in between, important at some times and on some issues, and not important at all on others.

If there were demonstrably large economic gains now, to existing New Zealanders, from continued (or increased) large scale immigration there might be some hard choices to make. Perhaps many Maori might even accept a further diminution of their relative position, as the price of much greater prosperity. But there is simply no evidence of such economic gains – whether in the New Zealand Initiative report or in other analysis of the New Zealand position. If so, why should we ask of – or simply impose on (we don't have a federal system, with blocking power to minorities) – Maori New Zealanders a continuing rapid undermining of their relative position in the population, and in voting influence in New Zealand?

Much of this comes to, as in many ways it always has, fairly crude power politics. But the quality of a democracy should be judged in significant part by how it protects, and provides vehicles for the representation of the interests of, minorities. A minority population, that was once the entire population of New Zealand, seems to have a reasonable claim to a particular interest in that regard. Advocates of large scale immigration to New Zealand – whether politicians or think tanks or business people- might reasonably be asked to confront the issue, and our history, more directly.

New Zealand Initiative on immigration: Part 2 Introduction

[February 27, 2017](#) [March 2, 2017](#) [Michael Reddell](#) [Immigration](#), [New Zealand Initiative](#)

A month or so ago, the business (and Wellington City Council) funded think tank, the New Zealand Initiative released their report on immigration. They called the report [The New New Zealanders: Why Migrants Make Good Kiwis](#), which seemed to – perhaps deliberately – miss the point. I'm sure most migrants – or at least they who stay longer-term – do become “good kiwis”, in some sense or other, and even when they don't – adjustment to a new country can be hard – their children and grandchildren typically do. But New Zealand government policy is, or should be, primarily about pursuing the best interests of New Zealanders. Those “best interests” involve assessing the economic impact of immigration, as well as the non-economic dimensions. But the central question for New Zealand policymakers should be focused on is do we, New Zealanders, benefit from immigration, and particularly do we benefit from one of the largest planned non-citizen immigration programmes run anywhere in the world? Or perhaps we would benefit more from even more immigration: if this extract from their report is to be taken seriously, the New Zealand Initiative certainly seems to think so.

Free movement of labour is a fundamental driver of the creative destruction process, just like free movement of goods and capital.

I've been a bit slow to getting round to commenting on the Initiative report. A few weeks ago I wrote about [the possible implications of continued large scale immigration for the relative place of Maori in New Zealand](#) – something the Initiative had touched on in their report, apparently found awkward, and then largely passed over in their enthusiasm for continuing, and perhaps even extending, our immigration programme. But since then I've been procrastinating.

Over the next couple of weeks I want to comment on the rest of the report. I'll work through it more or less section by section. My own interests have tended to be predominantly in the economic arguments – best encapsulated (but not exclusively so) in the question “has our immigration policy been adding, over the medium term, to the level of GDP per capita, and/or GDP per hour worked, of the native population?”. But reflecting the structure of the Initiative's report, today's comments are on points in the first couple of chapters, Introduction and Fictions and Facts.

Overall, I was quite disappointed in the report. When I first heard that the Initiative was going to do something on immigration, I was quite encouraged. I didn't really expect that we would end up in agreement, but the Initiative is very well-funded by New Zealand standards, and in the past some

Initiative reports (and, more often, those of the predecessor Business Roundtable) had shed fresh light on important public policy issues. I looked forward to seeing the strongest case that the pro-immigration people could mount. After all, there is little value in engaging with straw men, or with the weakest arguments of one's opponents.

Sadly, the finished report wasn't what I expected. There wasn't any fresh research – except perhaps for some insights on public opinion – and even on the economics there wasn't much sign that they had thought hard, and specifically, about New Zealand's economic performance, and the way in which large scale, not overly-highly-skilled, immigration had affected, and is affecting, New Zealand medium-term economic performance. Some time ago, in an exchange on this blog, the Initiative chairman conceded that there were no New Zealand specific studies demonstrating the economic gains to New Zealanders from large-scale non-citizen immigration. There still aren't.

I suspect that the Initiative allowed the approach of the election to shape their timetable to too great an extent. As a result, they ended up delivering something longer on rhetoric than on New Zealand specific evidence. Indeed, in the Introduction there is a telling comment. On the one hand while noting that “this report cannot definitively say whether immigration is in and of itself good for New Zealand”, they claim that they “could **deduce** [emphasis added] the objective economic effects”. These apparently “objective” effects can't be demonstrated empirically, rather they are simply “deduced” from some model or set of first principles the authors have in their tool bag. I'm not averse to models – we all use them – but when a large scale immigration programme, that the authors are relatively happy with, has been run for more than 25 years, you really should be able to do better, in making the case for the defence, than deductions from first principles, or some libertarian playsheet. In this report, they haven't done so. That is a shame.

There is evidence of this rather rushed politics-focused approach. In the Initiative's 3 February newsletter, one of the two authors of the immigration report, Jason Krupp wrote as follows:

Six months ago, when we started scoping the Initiative's immigration report, we had a very specific audience in mind: Winston Peters. Our aim was to assemble all the available research and have a fact-based conversation with New Zealand's most prominent immigration sceptic.

Now, to be frank, I don't believe them. No one writes reports expecting to change the minds of their most vocal opponents – very few humans change their minds that easily – instead, the aim is typically to influence those potentially wavering and perhaps those leaning towards support for the

other side (and in other places Eric Crampton has expressed concern that officials might be losing faith). But that is what the Initiative wrote about this report, and it certainly seems quite plausible that they were concerned about the apparently growing unease in New Zealand as to just what large scale non-citizen immigration was doing for New Zealanders.

In the introduction to the report itself, the aspiration seemed to be more modest.

Although we hope this report will win over the doubters, the real success metric will be in elevating the tone of the immigration debate.

Which might indeed be a worthy goal, if the Initiative had set the example. Well through the report, there is a suggestion that some of those who oppose large-scale immigration are really just equivalent to bad old eugenicists (a cause once favoured by many of policy and political elites around the Western world). But one doesn't even have to go that far. In the same newsletter, Mr Krupp goes on.

Judging by Mr Peters' comments on Facebook, which were re-published in the [Indian News Link](#) community newspaper, we have failed. Not only does it look as if the leader of NZ First failed to crack the cover of the report, but he also appears to be gathering his alternative facts from his local supermarket.

I'm not a big fan of Winston Peters, and have never voted for him or his party, but I thought the Initiative had reached a new low when Mr Krupp concluded his newsletter with this extract

Seen from this perspective, it is obvious why we called the report [The New Zealanders: Why migrants make good Kiwis](#). Based on the widespread media coverage and messages of support we have received over the week, many people agree with this sentiment.

Mr Peters is clearly not a part of this group. But as Upton Sinclair said: "it is difficult to get a man to understand something when his salary depends upon his not understanding it."

Agree with him or not, Winston Peters has been making his points around immigration in various ways for more than 20 years now (plenty of time for most politicians to have gone through several fresh stances on many issues). Perhaps he is right in his views, or perhaps not, but I've never heard anyone before seriously argue that Peters holds his views on immigration because to do so pays his salary. Of course, given that Mr Krupp appears to have been in New Zealand himself for only about six years perhaps it isn't surprising that he doesn't seem aware of the consistent stance adopted over

decades by Mr Peters. It is just offensive and unnecessary – and I suspect Mr Krupp and his Initiative colleagues would be (rightly) offended if someone suggested that they held the views they did just because they got paid by a libertarian think-tank. So much for their goal of elevating the tone of the immigration debate.

What about the report itself?

Mostly, I'm going skip over the Executive Summary now, perhaps to return to it at the end of this series of posts. But as I was reading through the report again on Saturday, I was struck by one line in particular under a heading "forgotten benefits".

Immigration can provide New Zealand consumers with a rich array of consumer products that would otherwise not be readily available.

I've been puzzling over it for a couple of days, but still have no idea what it is supposed to mean. Trade in goods and services simply isn't tied to movement of people. We can, and do, import French cheese, Danish butter, Spanish olive oil, and Iranian dates with, or without, any material number of immigrants from those countries. Same goes for clothes made in Bangladesh or Vietnam, electronics from Taiwan, or coffee from PNG or Brazil.

I can only assume this is simply a reference to ethnic restaurants – a defence of those many hundreds of chefs we give residency approvals to each year. Large-scale immigration from an increasingly diverse range of countries will increase the range of ethnic eating options. It is a gain, no doubt about that, but a pretty small one for most people. Most people, most of time, eat within their own culinary culture. And people at the bottom, those whose interests policymakers should be particularly looking out for, are unlikely to be frequent consumers of the services of ethnic restaurants.

But moving on to the Introduction.

The authors note

Policymakers may repeatedly assure the public they have struck the balance right, and that the benefits of immigration exceed the costs. Judging by the popular discourse, many New Zealanders are beginning to doubt this rhetoric. They are questioning whether keeping the door open to migrants will threaten the very things that make New Zealand special.

This scepticism is understandable. Immigrants account for about a fifth of New Zealand's population. What does it mean for the nation's identity and Kiwi culture if foreigners outnumber locals?

Immigrants actually account for just over a quarter of New Zealand's population – one of the highest proportions anywhere in the advanced world, and far higher than in, say, the United Kingdom or the United States. But it was the final sentence that really struck me.

I haven't run the numbers, and haven't seen anyone else do so either, but the overseas-[born share of the New Zealand population](#) has increased from an already-high 19.5 per cent at the 2001 census to 25.2 per cent in the 2013 census. Perhaps by next year's census, given that immigration policy in the last five years hasn't changed much, that might be getting up towards around 28 per cent (our residence approvals programme is equal to around 1 per cent of the population per annum). And in another 20 years if current policy continued would it be implausible that a third of our population might have been born abroad? I've heard no one suggesting running immigration policy sufficiently aggressively that the foreign-born might outnumber the locals – as has happened in various of the Gulf states. I don't think there would be much political/public support for such an approach here, but there is little or nothing in the Initiative report that suggests they would not welcome – or think beneficial – such an approach. The actual list of policy recommendations that they conclude the report with is modest, but the tone of the document is suffused with the sort of open borders/creative destructions thinking, captured in the quote above.

Chapter One of the report is headed "Fictions and Facts". I didn't have too much problem with most of it. It is important to distinguish between flows of New Zealanders (in and out), which aren't a matter of immigration policy at all and flows of non New Zealanders, and also to distinguish between short-term flows of non-citizens, and the rate at which non-citizens are approved for longer-term or permanent residence in New Zealand. Headlines often don't do that. The report cites what appears to be MBIE polling data that suggests that when the public is told the specifics of the scale of the residence approvals programme, they are a bit keener on reducing migrant numbers than they are when not given those details.

But it was one of the "spillovers" that caught my eye. Media commentary on the Initiative report made a bit of their use of a quick literature review done by a couple of pro-immigration academics, commissioned by MBIE (the ministry responsible to the – increasingly under pressure – ministers for housing and for immigration), which concluded that immigration didn't have much affect on house

prices and housing affordability. I'll come back to that paper in more detail in a later post, but for now I was interested in this comment

The spill-over effects of immigration can be seen in housing, particularly in Auckland. Residential property prices in New Zealand's biggest city have risen in double digits since 2011, such that the average house price recently breached the \$1 million mark. The median multiple, a measure of how many years of the median household income are needed to pay off the median house price, of Auckland shows how far affordability has declined. Economists consider housing to be affordable when the median multiple is 3 or lower. In 2013, Auckland's median multiple was 6.4, and in 2016 Demographia put it at 9.7. The Initiative's housing research blames restrictive planning policy and resistance to urban development. However, against a policy-induced, near-fixed supply, additional demand for housing must contribute to rising prices.

I couldn't disagree with any of that. I'm as keen as they are on fixing the supply side, markedly reducing regulatory restrictions on land use. But there has been little sign of that happening over the last 15 years, and little reason to be optimistic that is about to change, whoever wins this year's election. And so

against a policy-induced, near-fixed supply, additional demand for housing must contribute to rising prices.

When immigration policy has delivered another 45000 to 50000 people to New Zealand each year, around half of them to Auckland – a city which accounts for only about a third of the population – immigration policy “must” be exacerbating the house price affordability problem. In principle, the problem can be fixed at source – land-use restrictions – but if it isn't, the massive redistributions of wealth and opportunity that result from persevering with large scale non-citizen immigration have to be set against the benefits of those ethnic restaurants.

In passing, I was also struck by this under the heading Exploitables

The immigration system is open to abuse by unscrupulous parties. For example, the government is revoking visas issued to a number of Indian students. These students had paid an India-based third party to arrange the process, who then used false information to obtain the visas. Judging by the reaction in the media, this abuse of process clearly offends New Zealanders' sense of fairness,

Well, yes – and especially as it now seems pretty clear that many of the students were using New Zealand student visas not to get a first rate education, but as a pathway to residence. But the report talks – like some anthropologists studying an alien tribe – of “judging by the reaction in the media, this abuse of process clearly offends New Zealanders’ sense of fairness”. Did it not, one is left to wonder, bother the authors?

This post has got long enough already. Tomorrow, I’ll offer some thoughts on their chapter “The New Zealand Way” – a chapter which starts suggesting that it is all about issues of national identity, and ends stating that it has sought to answer “whether migration is making New Zealand less safe”.

New Zealand Initiative on immigration: Part 3 Culture and Identity

[February 28, 2017](#)[March 2, 2017](#) [Michael Reddell](#) [Immigration](#), [New Zealand Initiative](#)

Chapter 2 of the New Zealand Initiative’s immigration advocacy report is headed “The New Zealand Way”. It was a big part of why I’ve been procrastinating in writing about the report. My focus has tended to be on economic issues – and thus to be largely indifferent on that count whether the migrants came from Brighton, Bangalore, Beijing, Brisbane or Bogota. Almost all of my concerns about the economic impact of New Zealand’s immigration programme would remain equally valid if all, or almost all, our immigrants were coming from the United Kingdom – as was the case for many decades. Relatively calm and rational debate can, and often does, occur on those sorts of dimensions. Issues around “national identity”, “national security” etc, the sorts of issues the Initiative tackle in this chapter, are trickier. I could have chosen to simply ignore this chapter, but they chose to deal with the issues directly, even if (in my view) unsatisfactorily, so it would be a bit wimpish of me to avoid doing so. But in attempting, perhaps not successfully, to step through some of the minefields, without upsetting too many people unnecessarily, this post gets long and discursive.

The Initiative begin their chapter

While many of the concerns New Zealanders have about immigration can be assessed empirically, other concerns strike a deeper chord which evidence cannot prove or disprove – the concern that a large inflow of people from abroad could threaten our national identity.

I’m not sure why they think evidence can’t “prove or disprove” these other concerns, unless they have a particularly narrow conception of what is allowable as “evidence”.

As they rightly point out, there is no single definition of what it means to be a New Zealander. There are people who are legally New Zealand citizens who may never have visited the country (people born offshore to New Zealand citizens). And there might some people brought here by their parents as children, who have lived here for decades and never been naturalised. And although the legal status of someone naturalised yesterday and someone who has never left the country might be formally equal, in practice people in those two groups are likely to be thinking of different things when they label themselves “New Zealanders”. Gabs Makhoul and Peter Thiel – two recipients of pieces of paper labelling them New Zealand citizens, not having met the conventional requirements for citizenship – are New Zealanders for some purposes, but not for others.

But the fact that there is no single definition of a New Zealander does not mean that there is no New Zealand identity. And the same could be said of almost any country in the world – representative Dutch people are different from Britons who are different from Italians who are different from Poles. Of course, there is overlap – plenty in some cases – but senses of “how we do things here”, “what we value” etc differ from place to place, often in quite material ways. And those differences aren’t just incidental (though some may well be); they go to how effectively societies function together – to, for example, the trust and tacit knowledge that enables people to work effectively together, and feel secure. There are economic dimensions to this – trust is an integral part of a well-functioning market economy, and business cultures differ from place to place – but it isn’t only a matter of economics. We see the same thing with families – within the bounds of trust that typically come to exist within well-functioning families, mutually-beneficial or sacrificial actions and transactions will occur that simply wouldn’t occur voluntarily for outsiders.

The Initiative largely skates over all these sorts of considerations. Instead they pose the issue this way.

The public quite rightly wants reassurance that the kinds of migrants entering New Zealand are going to fit into our society and way of life. From the perspective of the authors (or at least as we aspire it to be), this way of life is characterised by meritocracy, freedom of association and speech, and equality before law. Within New Zealand, people are free to pursue their beliefs, be they spiritual or corporeal, provided these do not impose on other people’s pursuit of the same.

The authors appear to define New Zealandness by “meritocracy, freedom of association and speech, and equality before the law”. Perhaps those things do matter to most New Zealanders, but they wouldn’t mark New Zealand out from most other advanced countries. And yet New Zealanders aren’t

Dutch or Norwegian or French or Czech or even Irish or British. All of those seem like good and prosperous countries, inhabited mostly by good and decent people. And yet if a million French people moved to New Zealand, or 10 million Britons and French people swapped countries, the recipient countries would be distinctly different as a result.

The New Zealand Initiative just hasn't come grips with the idea that countries differ from each other in many, perhaps individually small but cumulatively important ways, and that people in those countries value those features. Not difference for difference's sake, but simply that the society that has evolved here is different to that in, say, Norway, and that both we and the Norwegians probably rather like it that way – even with a shared commitment to equality before the law, freedom of speech etc.

I've been loath to make the point, but in this context surely the backgrounds of the New Zealand Initiative people must be somewhat relevant. The Initiative has [eight policy/research/analysis staff](#). At least five appear to have been adult migrants to New Zealand. The ones I know are good and able people. But most people – even in New Zealand – aren't migrants. And the tendency of someone who has left their own country (temporarily or permanently) and voluntarily migrated, in at least two cases (including the Initiative's director, and one of the authors of this report) in just the current decade, must be to see things differently than people who are natives of a country. It isn't that those perspectives are invalid – indeed, often they will add something of considerable value – but that they make it difficult to see what is distinctive or tenaciously clung onto about New Zealand (or any other country), which the natives might wish to preserve. You can't easily share, or perhaps even identify, a national identity when it isn't your nation. The difficulty is compounded when you are based in downtown Wellington (or Auckland), probably interacting mostly with senior bureaucrats, politicians and business leaders.

The Initiative isn't open slather.

*The corollary of this expectation is the system should stop 'undesirable' people from moving to New Zealand. Undesirable is a broad term but in this context it means views and actions **antithetical** [emphasis added] to New Zealand culture. While broad, this definition would not exclude a law abiding person from settling in New Zealand simply because their race, creed or religious views differ from the majority. Our definition focuses instead on extremists who seek to impose their views on society by illegal or forceful means. An undesirable person in this context might be a white*

supremacist or a Muslim fundamentalist who wanted to move to New Zealand to break the law or incite others to do so.

So long as we **vote** our culture out of existence the Initiative apparently has no problem. Process appears to trump substance. For me, I wouldn't have wanted a million Afrikaners in the 1980s, even if they were only going to vote for an apartheid system, not breaking the law to do so. I wouldn't have wanted a million white US Southerners in the 1960s, even if they were only going to vote for an apartheid system, and not break the law to do so. And there are plenty of other obvious examples elsewhere – not necessarily about people bringing an agenda, but bringing a culture and a set of cultural preferences that are different than those that have prevailed here (not even necessarily antithetical, but perhaps orthogonal, or just not that well-aligned).

When governments facilitate the inward migration of large numbers of people – as ours is every year – they are changing the local culture in the process. Now, cultures and sense of national identity are not fixed and immutable things, but cultures also embed the things that the people of that country have come to value and which have produced value. Those people (“natives”) typically aren't seeking change for its own sake: the culture is in some sense the code “how we do things here”, that built what people value about the society in which they live. Whether it is comfortable or not to say so, in the last few centuries, Anglo cultures have tended to be among the most stable, prosperous and free. So it is far from obvious why should embrace change so enthusiastically, or why we would want to adopt the Initiative's stance, and only want to exclude those whose views and actions are “antithetical” to our own, or who might want to topple our society illegally.

Perhaps if there were really substantial economic gains to New Zealanders from bringing the huge numbers of non-citizens to live in New Zealand it might be different. At very least, we might face the choice – give up on some of our culture and sense of national identity in exchange for the economic gains. In some respects, that was the choice Maori faced when the Europeans came – a clearly more economically productive set of institutions etc, but on the other hand the progressive marginalisation of their own culture. Through [some mix of consent and coercion](#) – increasingly the latter as the 19th century went on – the choice was made, and then became effectively irrevocable. But if there are such large economic gains on the table now, from the sorts of immigration programmes the Initiative has supported, and continues to support, they simply haven't yet been demonstrated.

There is also a degree of naivete about the Initiative's take on culture and/or religion (and the two overlap to a considerable extent). Back in one of the earlier quotes, the Initiative argued that it was fine with people of whatever belief coming, and

Within New Zealand, people are free to pursue their beliefs, be they spiritual or corporeal, provided these do not impose on other people's pursuit of the same.

They don't seem to recognise that most people hold to beliefs that they think should influence how society is organised. Even libertarians do. This is particularly obvious in Islam, which has never had a very strong distinction between 'state' and 'church', but it is no less true of Christianity. Both are evangelistic religions, proclaiming what they believe to be true – and seeing truth as an absolute concept. Both can, and have, survived at times and in places as minority faiths, but neither has ever been content to believe that its truths are just for its people, and not for export. I'm not so sure it is really much different either for today's "social justice warriors", or for libertarians – whose proposed rule is, essentially, that we should all just leave each other alone (even though this has never been, and never seems likely to be, how human beings have chosen to organise themselves).

I'm not convinced that stable democratic societies can survive that long without a common culture and/or common religion (the two aren't the same, but they overlap considerably, and necessarily). It is hard to know. We don't have a long track record of democratic states – a few hundred years at most (even if one doesn't use universal suffrage as the standard), and then only for a handful of countries. And the great mass migrations of the pre WW1 era were among countries that shared substantial elements of cultures (at least once the indigenous minorities had been more or less suppressed or numerically overwhelmed). In the New Zealand or Australia (or Argentina, Uruguay, Chile) cases it was clear cut. In the United States and Canada less so – but the immigration was all from predominantly Christian countries, and severe immigration restrictions ended up being imposed when the foreign-born share of the US population was well below the foreign-born share of New Zealand's population today.

What of today? Perhaps the New Zealand and Australian stories are reasonably positive. But the European situation seems rather less so, and that with Muslim minority populations that are typically not as high as 10 per cent of the population. Sometimes federalism seems to help – as in Quebec, or in Belgium, or Switzerland.

Democracy involves agreeing to live by a set of common rules, agreed by some sort of majoritarian process. In almost any state, those rules include procedures for handling those least able to support themselves (whether it was Old Testament gleaning rules, the Poor Law, or the modern welfare system). In a democracy, the willingness to help and support others is likely to be limited, to a considerable extent, to those with whom one feels a sense of shared identity. The boundaries aren't absolute, but revealed preference – and introspection – suggests that almost all of us are willing to do much more for our own families, and then perhaps for friends or members of other close communities of interest (neighbourhoods, church groups etc), and then for others in one's own country, and only then for citizens of the world. Is it a desirable model? I'm not sure. But it is human one, one that seems fairly ineradicable at a practical level. Speaking personally, I don't feel a strong sense of obligation to support someone down on their luck just because they became a New Zealander yesterday. And I don't feel a strong sense of obligation to support someone who won't work to support themselves. But I'm much more willing to vote my taxes to support those people than I am to support those down on their luck in Birmingham or Bangalore. It is partly in that sense that "being a New Zealander" matters. Mostly, humans will sacrifice for those with whom they sense a shared identity – and generally that isn't just the Initiative's line about a shared belief in equality before the law, free speech etc etc (important to me as those things are).

Of course, what unites and divides a "country" or community changes over time. In the wake of the Reformation, divisions between Protestants and Catholics were sufficiently important to each to make it practically impossible for both groups to co-exist for long in any numbers in the same territory/polity. And, sure, multi-national multi-faith empires have existed for prolonged periods – the Ottomans and Habsburgs were two examples – but not as democracies. Prudent repression can maintain stability for a long time. But it isn't the sort of regime that Anglo countries (and many others) have wanted to live under.

But the New Zealand Initiative report doesn't seem to take seriously any of these issues, not even to rebut them. They take too lightly what it means to maintain a stable democratic society, or even to preserve the interests and values of those who had already formed a community here. I don't want stoning for adultery, even if it was adopted by democratic preference. And I don't want a political system as flawed as Italy's, even if evolved by law and practice. We have something very good in New Zealand, and we should nurture and cherish it. It mightn't be – it isn't – perfect, but it is ours, and has evolved through our own choices and beliefs. For me, as a Christian, I'm not even sure how hospitable the country/community any longer is to my sorts of beliefs – the prevalent "religion" here

is now secularism, with all its beliefs and priorities and taboos – but we should deal with those challenges as New Zealanders – not having politicians and bureaucrats imposing their preferences on future population composition/structure.

But the New Zealand Initiative report seems to be concerned about nothing much more than the risk of terrorism.

A commonly cited concern in the immigration debate is of extremism. The fear of importing extremism through the migration channel is not unreasonable. The bombing of the Brussels Airport in 2016, in which 32 people were killed, or the Bataclan theatre attack in Paris where 90 people were murdered, shows just how real the risk is.

The report devotes several pages to attempting to argue that (a) the risk is small in New Zealand because we do such a good job of integrating immigrants, and (b) that the immigration system isn't very relevant to this risk anyway.

The point they simply never mention is that in many respects New Zealand has been fortunate. For all the huge number of migrants we've taken over the years, only a rather small proportion have been Muslim. There is, no doubt, a good reason for failing to mention that, as on the Initiative's own criteria outlined above, they would not object to large-scale Muslim immigration.

Of course, there is something in what the Initiative says about integration, and it tends to help that although our immigration programme doesn't bring in very many highly-skilled people, it hasn't involved a mass migration of unskilled people either (who often find it harder to integrate etc). But it is an overdone point. They highlight Germany – perhaps reflecting the Director's background – where integration of Turkish migrants hasn't worked particularly well over the decades, while barely mentioning the United Kingdom which is generally regarded as having done a much better job, and yet where middle class second generation terrorists and ISIS fighters have been a real and serious threat. Here is the [Guardian's report](#) on comments just the other day from a leading UK official – the independent reviewer of terrorism legislation – that the UK now faces a level of threat not seen since the IRA in the 1970s. *Four Lions* was hilarious, but it only made sense in a context where the issue – the terror threat – is real.

But the Initiative argues that few terrorists are first generation immigrants, and some come on tourist or student visas (eg the 9/11 attackers) and so the immigration system isn't to blame, or the source of a solution. I'd largely agree when it comes to tourists, and perhaps even to students – although why

our government continues to pursue students from Saudi Arabia, at [least one of whom subsequently went rogue having become apparently become radicalised in New Zealand](#), is another question. But there are no second generation people if there is no first generation immigration of people from countries/religions with backgrounds that create a possibility of that risk. Of course the numbers are small, and most people – Islamic or not – are horrified at the prospect of terrorism, or of their children taking their path. But no non-citizens have a right to settle in New Zealand, and we can reduce one risk – avoiding problems that even Australia faces – by continuing to avoid material Muslim migration.

Having said that, I remain unconvinced that terrorism is the biggest issue. Terrorists don't pose a national security risk. Whatever their cause, they typically kill a modest number of people, in attacks that are shocking at the time, and devastating to those killed. But they simply don't threaten the state – be it France, Belgium, Netherlands, the US, or Europe. Perhaps what they do is indirectly threaten our freedoms – the surveillance state has become ever more pervasive, even here in New Zealand, supposedly (and perhaps even practically) in our own interests.

The bigger issue is simply that people from different cultures don't leave those cultures (and the embedded priors) behind when they move to another country – even if, in principle, they are moving because of what appeals about the new country. In small numbers, none of it matters much. Assimilation typically absorbs the new arrivals. In large numbers, from quite different cultures, it is something quite different. A million French people here might offer some good and some bad features. Same goes for a million Chinese or Filipinos. But the culture – the code of how things are done here, here they work here – is changed in the process. There is no necessary reason to suppose that those changes are in the interests of the native population. Perhaps some are, some times. At one level, I'm still convinced most Maori are economically better off as a result of large scale immigration here in the 19th century. But others won't be. We don't have a million French people here, or a million Chinese, but we do have 25 per cent or more of the population born abroad, increasingly from a range of countries with whom we have not historically shared a culture.

Is it a problem? Views will differ, but the Initiative simply doesn't confront what the large scale immigration they support might mean for the New Zealand of native New Zealanders. The real issues aren't about ethnic cuisine, or even buttressing the All Blacks, but about the values and priorities of the new arrivals, and just the ability of a common culture to facilitate life – economic and otherwise – together. There are plenty of advocates of cultural “diversity” and “superdiversity”, but little evidence that such diversity makes countries better for the ordinary native resident.

On which note, I was interested in [this piece](#) the other day from the generally pro-immigration Tyler Cowen

The assimilation problem in fact comes from the longstanding native-born Americans, often of more traditional stock. The country around them has changed rapidly, and they do not assimilate so well to the new realities. And since they are not self-selected migrants who know they will face hardship, they are not always so inclined to internalize a “suck it up” kind of attitude. Many complain, others settle into niches of failure or mediocre careers.

In this regard, encouraging the actual arriving immigrants to assimilate better or faster can make the actual assimilation problem worse, because it will change the home culture more rapidly too.

Often, the real impact of immigration is not on wages or electoral outcomes, but it is the assimilation burdens placed on some of the longer-standing traditional natives of the home country. And the more productive and successful the immigrants are, the more serious these problems may become.

Something to think about. Especially, perhaps, when as in New Zealand the key advocates of large scale immigration – be it politicians of both stripes, officials or the New Zealand Initiative – can’t actually show, whether by formal empirical studies or well-reasoned narrative economic history, that New Zealanders have benefited much, if at all, from the continuing large scale immigration programme.

And for anyone interested, I wrote a short piece on diversity, immigration etc for a forum the Goethe Institute ran in Wellington in 2015. My text is [here](#).

And now I can get back to the economics – arguments that apply (or perhaps don’t) whether the immigrants are from Birmingham, Buenos Aires or Beijing.

New Zealand Initiative on immigration: Part 4 Fiscal implications

[March 2, 2017](#) [March 2, 2017](#) [Michael Reddell](#) [Fiscal policy](#), [New Zealand Initiative](#)

The next couple of chapters of the New Zealand Initiative’s immigration advocacy report cover material closer to the core expertise of the Initiative and its staff – economics. Chapter 3 is headed “Population Pressures” and looks at the impact of New Zealand immigration on three areas:

- government finances more broadly,
- house prices, and
- the impact of an ageing population (ie improving life expectancy).

I want to focus today on the first two, but first some brief remarks about the ageing population issue.

The New Zealand Initiative tend to mischaracterise this issue. There are some specific fiscal pressures that arise from changing birth rates through time. Low birth rates in the 1930s, for example, gave us a considerable fiscal dividend for quite a while in the 1990s and 2000s – there just weren't that many people becoming eligible for NZS. On the other hand, high birth rates from after World War Two to the early 1960s mean that since around 2011 there has been quite a big increase in the numbers claiming NZS. But those effects tend to wash through over time. The much bigger issue – a cause for celebration mostly, even if it should prompt reassessment of some government spending choices – is the strong trend increase in life expectancy (I had some thoughts on this issue [here](#)). The issue isn't about baby-boomers, selfish or otherwise, but about the fact that we can expect to live much longer than our grandparents did (at a rate of improvement of towards two years a decade), and we might reasonably expect our grandchildren to live much longer than we do. There are technically simple appropriate policy responses to those trends – notably, it simply doesn't make sense now to be paying universal retirement benefits to people at 65, and the age of entitlement should probably be indexed to further trend improvements in life expectancy, as various other countries have started to do. When they aren't trying to defend immigration policy, the able people at the New Zealand Initiative know all this, and make these sorts of points themselves. And they (rightly) celebrate things like the gains in life expectancy. So what are they doing making over the top claims like this

policymakers need it [immigration] as the fiscal implications of baby boomer retirement become more acute

Not even a nice-to-have, but a **need**.

As it happens, in their more reflective moments even they are more hesitant

Although replacing the exiting workforce with migrants has merit, the idea should be treated with caution. International competition for skilled workers will increase as the world becomes more interconnected and the ageing problem worsens in developed countries. New

Zealand, while an attractive destination in its own right, will struggle to compete with markets offering higher financial and lifestyle rewards.

If we take lots of migrants we should do so because they increase the productivity and living standards of existing New Zealanders, not because they might temporarily help us avoid taking overdue sensible decisions on what proportion of the human lifespan we pay universal benefits to people for. We should bring in ever more people (since this isn't just a one-off issue) from elsewhere simply to ease pressures to change internal policy that almost everyone now knows are overdue for change? I think not. And nor, generally, would the Initiative. They are usually much better than that.

What of government finances more generally?

Here the Initiative is very confident. In the section headed "Fiscal Discipline", while acknowledging that in other countries immigration does seem to lead to net fiscal pressures, in writing about New Zealand they begin

Migrants tend to have a positive impact on the fiscal side of the government ledger.

They base this claim on [MBIE-funded work carried out by BERL](#). In that exercise, BERL take some aspects of government revenue and spending, and allocate them – quite carefully – across New Zealand-born and foreign born residents of New Zealand. On this snapshot basis, and on these components of government finances, they estimate that in 2013 the average foreign-born person contributed \$2653 to government finances in 2013, and the average New Zealand born person contributed \$172 to government finances. Overall, of course, in 2013 the New Zealand government was running quite a substantial fiscal deficit.

It is quite surprising that an economics-based think tank like the Initiative simply accepts and presents these results at face value. The BERL report – one of a series done over the last 15 years – has its own value (comparable data through time). But it isn't state-of-the-art in estimating fiscal impacts of immigration (as the authors note, they weren't paid for a literature review, but simply to slot new numbers into the existing methodology). It doesn't even cover quite a few major areas of government revenue and spending. And in a technical appendix to the report (obtained from BERL – it doesn't appear to be online), the authors explicitly note that

In addition, the estimates do not allow for life-cycle impacts of migrant characteristics. That is, the calculations are of a 'snap-shot' single year. Issues such as migrants' varying contributions and

expenditure claims over their lifetime are not captured. Dynamic micro simulation might be used to establish the lifetime contribution of a particular type of migrant, but such a technique is beyond the scope of this project.

Bring in a whole bunch of 25 year olds, and of course they won't involve much government health, welfare or education spending. But over time, they'll have children, and age. Bring in 50 year olds, and they'll (soon) be eligible for health and NZS spending, but won't typically have paid that much New Zealand tax over their lifetimes

I'm not criticising the New Zealand Initiative for not producing state-of-the-art estimates themselves (that is a very substantial project) but for not at least acknowledging some of the limitations of the estimates they choose to rely on.

I've commented [previously](#) on the BERL estimates, when Nigel Latta made great play of them in his TV documentary last year on immigration. Here are some of the points I made then.

But even in what it does look at, there are some quite severe limitations:

- *recall that the report estimates that both NZ born and immigrants made a net positive fiscal contribution to the government's accounts. Perhaps, but recall that in 2013 (the year studied) the government was still running quite a large fiscal deficit. In other words, even if the study is roughly accurately capturing the relative contributions of immigrants and the native-born, it isn't remotely accurately capturing the absolute contribution.*
- *The BERL exercise does not appear to recognize at all that much of the demand for increased government capital spending now arises from the immigration programme itself (as it notes, between 2001 and 2013, the New Zealand born population aged 25 to 64 actually fell slightly while the foreign born population of that age increased by 222000 people). Over those 12 years, 80 per cent of the total population growth has been among the foreign-born. Assign much of the (above-depreciation) government capex to the immigration programme and suddenly even the fiscal numbers will look quite different.*
- *These are snapshot effects rather than inter-generational ones. It is hardly surprising that an immigration programme that brings in relatively young people involves less government operating spending (per capita) than for natives – people that age are*

typically young and fit – but if we want to think about even the fiscal impact of the immigration programme as a whole it would be important to look at the impact not just of the immigrants in the couple of decades post-arrival, but (for example) at the impact as those people age, and the impact of their own children (many of whom will be New Zealand citizens, but still a consequence of the immigration programme).

- *perhaps most importantly, any sort of exercise like this is only meaningful if it deals with very small changes (when one can keep the rest of the economy held constant). By contrast, the potential for a large scale immigration programme to affect real interest rates, the real exchange rate, and the underlying structure of the economy, means these fiscal exercises offer no insight at all on the overall impact of immigration even on the fiscal accounts, let alone the wider economy.*

In addition, I think there are at least two other points worth making.

First, company tax revenue (and, I think, trust income) isn't included in the calculations at all. On the sort of snapshot basis used here, this is likely to skew the results against the native-born, because it is likely that the capital stock is disproportionately owned by natives rather than immigrants. (This is, in a sense, simply the flipside to the fact that the average migrant is younger than the average native). Perhaps as importantly, there is a reasonable argument that revenue that results from New Zealand's natural resources should be assigned to natives, rather than (implicitly spread across both natives and migrants). Those revenues – from farming or fishing or gas extraction etc – would have arisen regardless of whether we had any material level of immigration in the last few decades, and are unlikely to have been enhanced by the much-increased population (indeed, if my concerns about the real exchange rate are correct, they may have been reduced).

And second, it is important to remember that BERL is comparing the NZ born and foreign born populations in total. Although they do undertake some decompositions, it isn't really an attempt at a marginal analysis – looking at (ideally) the lifetime impact of the next 1 per cent of the population that comes in as migrants. The foreign-born of New Zealand today includes old people who came in the 1950s, the small numbers who came in the 1980s, as well as the huge numbers who have come in the last couple of decades. Research evidence – summarised in Julie Fry's [2014 Treasury working paper](#) – shows that, for example, migrants from the Pacific and Asia take much longer than, say, migrants from the UK to reach native-born levels of income (and presumably tax contribution) for any given set of qualifications etc. Moreover, even with the pool of migrants we take each year, there is wide range of skills and capabilities – some will end up making a big positive (economic and) fiscal

contribution, and others – especially, say, the parent approvals – will be a substantial fiscal drain. Since the policy argument now isn't about the stock of people already here, but about who, and how many, we should let in going forward, a more appropriate analysis – for current policy purposes – would focus on trying to better understand what level of immigration, of what sort of people, would maximise any fiscal gains, or minimise any fiscal costs. The BERL report doesn't attempt that sort of thing, and the New Zealand Initiative don't even note the relevance of the perspective.

For all these specific points, I've never made much of the fiscal issues around immigration in New Zealand. The comment I made a few months ago still reflects my position.

I've never made much of the fiscal issues around immigration. By international standards our residence programme, if large, isn't bad – if it doesn't attract many very skilled people, at least it does successfully focus on getting people quickly into the labour market. But precisely because in the end we are largely bringing lots of people quite like us – who can readily get jobs – it is very unlikely that in the long-run there will be much net difference in the fiscal effects between the contributions of those whose ancestors have been here for generations and more recent arrivals.

With an immigration programme like ours, the fiscal impact probably isn't much of an argument one way or the other. Although if there are fiscal gains on offer, we could probably maximise them with more demanding entry criteria than those we currently use.

On reflection, this post has got long enough. I'll tackle the housing issues in a separate post later in the day.

New Zealand Initiative on immigration: Part 5 House prices

[March 2, 2017](#) [March 2, 2017](#) [Michael Reddell](#) [Housing](#), [Immigration](#), [New Zealand Initiative](#)

The New Zealand Initiative starts their discussion of the implications of immigration for house prices in a quite reasonable manner.

Rising house prices is an increasingly discussed topic. Fast growing populations, particularly in urban areas, have increased the mean demand for housing. Migration is a major contributor to urban population growth. In an ideal world, the underlying market systems would automatically adjust, such

that as demand for accommodation rose and prices increased, developers built more houses. Likewise, cities would invest in infrastructure to accommodate more people.

However, that house prices have not stopped rising for a number of years means New Zealand has not reached this ideal place, and the system is not geared to cope with demographic shifts. The effect is most acute in Auckland, where about a third of the country's population lives.

Thus far, I imagine everyone is on much the same page. It was consistent enough with the [lines from the Introduction](#) that I quoted earlier in the week

Economists consider housing to be affordable when the median multiple is 3 or lower. In 2013, Auckland's median multiple was 6.4, and in 2016 Demographia put it at 9.7. The Initiative's housing research blames restrictive planning policy and resistance to urban development. However, against a policy-induced, near-fixed supply, additional demand for housing must contribute to rising prices.

It is pretty much ECON101: if the supply of something is largely fixed, at least in the near-term, and there is an increase in demand (especially an unforecast increase in demand), the price will increase. Quite how much will depend on the elasticity of demand. And the immigration contribution to population growth (and demand for accommodation) has been really large over the last 25 years, just as the land-use restrictions enabled by things like the Resource Management Act appear to have become more constraining. The Initiative regularly, and rightly in my view, inveighs against those restrictions. Without them, higher demand wouldn't result in higher (real) prices for houses and urban land.

I also get that the Initiative favours large scale non-citizen immigration, but what I don't get is why they won't just be straightforward and say something like, "in the presence of land use restrictions, we recognise that high rates of immigration have been markedly increasing house and land prices, especially in Auckland. But our best professional judgement is that the longer-term gains to New Zealanders from high immigration are sufficiently large, that we should overlook the distortions and arbitrary wealth redistributions that the high house prices, associated with high immigration have resulted in"

Perhaps there is a case to be made along those lines. It is, mostly, implicitly what the Initiative is saying. But they won't come out and say it directly, and instead have tried to shelter behind a [short piece from a couple of MBIE-funded academics, Cochrane and Poot](#), who attempt to interpret the

existing evidence to suggest that really immigration isn't much of a factor in (Auckland) house prices at all.

MBIE is responsible to the ministers for immigration and housing (and, of course, has institutional bureaucratic incentives to maintain a large scale immigration programme). Both ministers were presumably coming under pressure a year or so ago, and so MBIE commissioned Bill Cochrane and Jacques Poot to do a short review of the existing literature on immigration and house prices, and to draw some conclusions about what might have been going on in the last few years (as distinct, say, from the last 25). That report was released in April 2016. Some of it also appears to have been motivated by political concerns around non-resident purchases of New Zealand residential property, but as Cochrane and Poot note, the existing data don't shed much light on that issue at all.

The New Zealand Initiative summarise the conclusions of the Cochrane and Poot report, with no sign of any caveats or concerns, as follows

Economists Bill Cochrane and Jacques Poot surveyed available evidence on the impact of net migration in New Zealand, and suggest migrants are not to blame for Auckland's housing woes, rather New Zealanders are.

Personally, I hope no one wants to blame individuals at all – migrants or New Zealanders. The issues are about policy and big picture forces, not about individuals acting in their best interests given those policies.

What is important to bear in mind is that there is a handful of formal studies that everyone tries to make sense of. The Reserve Bank – which historically has no dog in the fight about whether or not immigration is “a good thing”; they just want “the facts” – has produced several studies over the years, each of which suggested really quite large impacts on house prices as a result of unexpected changes in migration. And, on the other hand, Stillman and Mare produced a paper suggesting, using quite different techniques, that the effects are quite small. That is the formal relevant New Zealand literature. There is also a variety of results across these papers on which flows might have matter more (eg NZ citizens vs foreigners, arrivals vs departures etc). On my reading the studies aren't very conclusive: many people who've thought the issues through probably think the various RB estimates seem a bit large (up to 10 per cent increases in national house prices for a one per cent change in population) and the Stillman and Mare ones are a bit small.

In her Treasury working paper on macroeconomic performance in 2014, Julie Fry summarised her take as follows:

On balance, the available evidence suggests that migration, in conjunction with sluggish supply of new housing and associated land use restrictions, may have had a significant effect on house prices in New Zealand.

Cochrane and Poot read, or report, things a bit differently. But it is important to remember that their mandate was to focus on the “last few years” – whereas the New Zealand Initiative generalise it to apply to our longer-term house price issues. And it is certainly true, that if we look at the big swing in overall PLT immigration in the last few years, a substantial chunk of that was about New Zealanders (net) not leaving at such a great rate, rather than about a change in immigration policy (ie the bit that governs foreign arrivals). Their summary is as follows (emphasis added):

*Overall, we find that the literature and the available data on population change suggest that visa-controlled immigration into New Zealand, and specifically into Auckland, **in the recent past** has had a relatively small impact on house prices compared to other demand factors, such as the strongly cyclical changes in the emigration of New Zealanders, low interest rates, investor demand and capital gains expectations. Consequently, changes in immigration policy, which can impact only on visa-controlled immigration, are unlikely to have much impact on the housing market.*

There is quite a lot to unpick there.

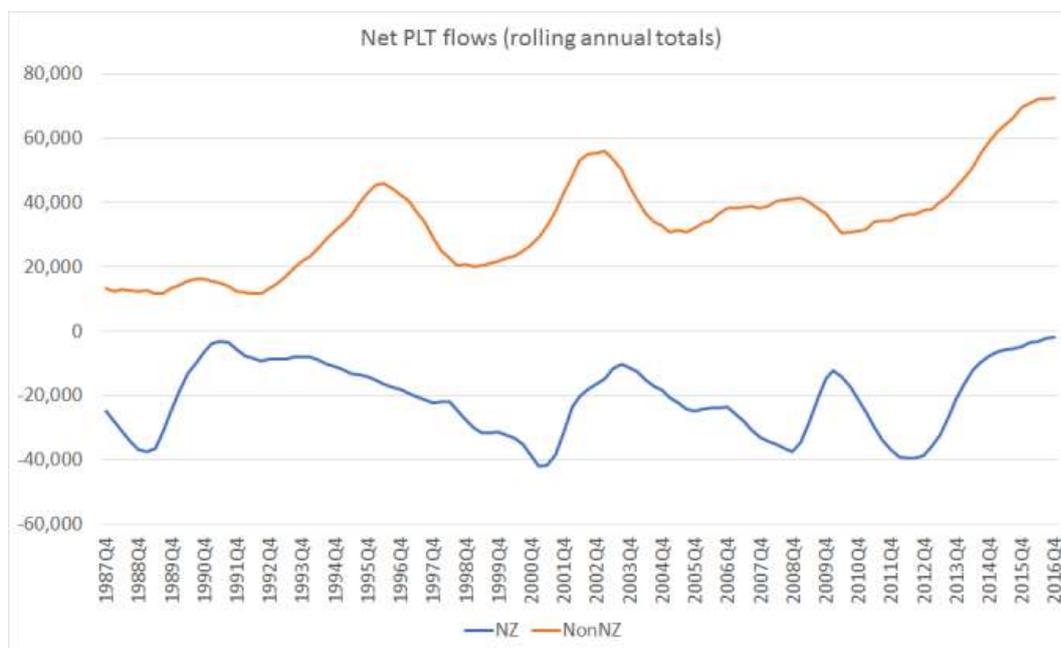
First, it is a specific observation about the “recent past” – when immigration policy (affecting foreigners) didn’t change much, and New Zealanders’ behaviour did.

Second, to talk of “investor demand and capital gains expectations” as distinctive factors is rather disingenuous. Presumably, investor demand was partly a response to increased underlying demand for accommodation, and capital gains expectations partly a response to the actual interaction of increased demand pressures in the face of restricted supply?

Third, if interest rates – which aren’t some random variable, but have been low for a reason – were a major independent factor, we wouldn’t have seen Auckland house prices rising so much more rapidly than those in most of the rest of the country (bits that mostly haven’t seen the same population pressures).

Fourth, the policy sentence is, literally, a non sequitur. It simply doesn't follow from what went before. If immigration policy hadn't been changed in the period they looked at – and it mostly hadn't – it gives you no empirical basis for concluding that a future change in immigration policy would have no effect on house and land prices. In fairness to the authors, in their text they elaborate, and highlight the lags in the process, and that short-term variations in immigration policy aren't a very reliable means of managing overall net PLT flows. I totally agree with them on that, and oppose such short-term immigration management, but it is a quite different issue.

But even over Cochrane and Poot's own period, it isn't clear that they have the emphasis right. Here are net PLT flows with New Zealanders and non New Zealanders shown separately.



Over the period from around 2006 to around 2013 most of the **variability** was in the New Zealand citizen net flows. And specifically, from around 2012 to 2014 much of the pickup in PLT inflows was the change in New Zealanders' behaviour – nothing about immigration policy – but over the last couple of years, there has also a huge increase in the net inflow of non-citizens, almost all of which is visa-controlled. It all represents additional demand for accommodation.

Cochrane and Poot note that much of the increase in non-citizen net arrivals has been from people without approval to stay permanently (ie students, and people on work visas).

the growth in inward migration has been particularly in temporary visa-controlled immigration (e.g. international students, temporary workers – including working holiday makers), as could be seen in

Figure 9. The latter types of international migration flows are likely to have had a quantitatively smaller impact on house prices and to have contributed little to house price increases observed recently. The lesser demand on the housing market of temporary migrants has been shown with respect to students by BERL (2008). Generally, research on the differential impact on housing markets between those arriving and staying on temporary visas, compared with those arriving on, or subsequently obtaining, permanent visas still needs to be undertaken.

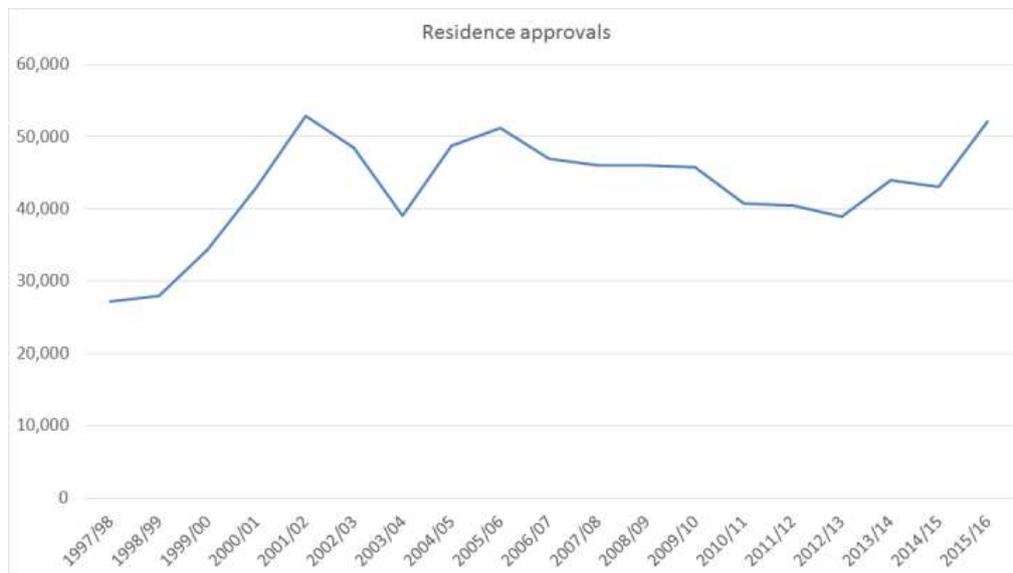
Most students probably aren't buying a house. Most work visa arrivals aren't either. But they all need a roof over their head, and add to the overall demand for accommodation, especially in Auckland. The authors play down this effect, noting that rents have increased much less than house prices have, but as I've illustrated previously, this divergence can be explained by the substantial fall in interest rates. When long-term interest rates fall, rental yields should be expected to fall. Absent population pressure, and in the presence of a well-functioning housing supply market, nominal yields should probably have fallen. Presumably expected demand for accommodation from students and short-term workers influences the willingness of investors to bid for properties, in turn pushing house price upwards. Population pressures don't affect prices simply dependent on whether or not the new arrivals (or non-departures) choose to buy rather than rent.

One of the big challenges in modelling house prices is the so-called endogeneity issue. A thriving city might see rising wages, and new people being drawn to that city. In the context, is it the immigration or the general prosperity that is raising house prices (given supply restrictions – real house prices tend not to rise for long without them)? It is an important in the short-term, but I'm less convinced that it is over longer-term horizons – eg the sort of 25 year period over which our immigration inflows and land-use restrictions have been interacting. Perhaps prosperity draws additional migrants in, but it simply isn't likely that house prices would have risen much and for long on prosperity alone, without the additional people.

An ideal test – for economists anyway – would probably involve repeated surprise changes in long-term immigration policy. We could do a clean test if, say, every few years a random number generator decided how many residence approvals to grant to non-citizens each year. This year it might be 45000 (the actual target), another years 75000, another year 10000, and so on. We could then study the response of house prices in the wake of that clearly exogenous change in policy.

When it comes to New Zealand immigration policy, there simply haven't been those sorts of changes researchers could study – other perhaps than the gradual opening up from the late 1980s to

the mid 1990s, a one-time event. Here is the chart of residence approvals each year that MBIE provides the data for, back to 1997/98.



There hadn't been a change in the target for 15 years until the very small cut announced late last year. And the actual variability in the approvals granted from year to year is mostly cyclical, and endogenous – dipping a bit when our unemployment rate was high, and then recovering lately. Econometricians use various clever tricks to try to deal with endogeneity, but the fact remains that at a policy level there have been hardly any exogenous changes at all. Just a very large net inward flow, varying a little from year to year, as a result of substantially unchanged policies. Trying to correct for endogeneity using recent data in particular might be a fool's errand

Those residence approvals over 19 years added up to 817231 people. As I showed yesterday, the data suggest that perhaps 60 per cent of foreign arrivals settle in Auckland – that would be around 490000 people. Not all of them stay, of course, but even if only 80 per cent stay in the long term that is still almost 400000 people, adding to the demand for accommodation in Auckland in 19 years, as a direct result of immigration policy. Yes, there is lots of variability in the NZ citizen flow – Cochrane and Poot's point – but over that 19 years, around 160000 New Zealand citizens (net) left Auckland for overseas. Again, as Cochrane and Poot point out, there has been considerable natural increase in Auckland's population too. But immigration policy – visa-controlled almost all of it – will have boosted Auckland's population in that time by almost 400000 people. And in a country – and city – which as they acknowledge does not have very responsive housing/land supply, that simply cannot have done other than put considerable pressure on Auckland house and land prices.

I'm still not sure why the New Zealand Initiative wants to avoid simply acknowledging that.

It is not as if this view is some contrarian Reddell-ite view held by no respectable or serious person. Read the speeches and reports of the Governor of the Reserve Bank and his staff, or those of the Treasury. Look at the analysis and reports of the IMF and the OECD – both generally supporters of immigration. It isn't even treated as contentious that immigration has played a material role in house price inflation, in places where land use restrictions are in place. Go across the Tasman, and listen to the Reserve Bank of Australia for example – a nice recent example is [here](#) – or look at the [IMF/OECD](#) reports on Australia too (with a similar mix of rapid population growth and land use restrictions). When supply is substantially restricted and demand for housing increases, house/land prices will rise. Population growth is a key source of additional demand, and immigration – whether exogenously influenced, or endogenous to the economic cycle – is a huge component of population growth, especially in Auckland.

Flows of New Zealanders matter just as much as those of foreigners, and are often much more variable in the short-term (because less controlled by policy). Immigration policy – affecting foreigners – can't sensibly attempt to stabilise housing market pressures in the short-term, but it can – and does – make a huge difference to housing demand over the medium-term. In a system with quite tight land use controls, that affect over the last couple of decades has been almost entirely deleterious – driving up house and land prices, and skewing wealth from the young to the old, the have-nots to the haves, and so on. Yes, we should fix land use regulations, but don't pretend – as the Initiative tries to in this report – that knowing continuation of high rates of non-citizen immigration, in the presence of those land use restrictions, isn't knowingly allowing urban house and land prices to be driven progressively further upwards, in Auckland especially, but not of course exclusively.

New Zealand Initiative on immigration: Part 6 The economists

[March 10, 2017](#)[March 11, 2017](#) [Michael Reddell](#) [New Zealand Initiative](#), [Uncategorized](#)

Chapter 4 of the New Zealand Initiative's immigration advocacy report is headed "It's the Economy, Stupid". In opening it, they note

While the effects of immigration are broad, the economic impacts often receive the most focus.

That is certainly true of economists, although I'm less sure it is generally true. But my background is in economics, and I came to thinking about immigration, and immigration policy, in the context of thinking about New Zealand's disappointing long-term economic performance.

In my previous couple of posts I've touched on the Initiative's treatment of the impact of immigration on [government finances](#) and [house prices](#). But chapter 4 gets to what many economists will think of as the most important economic dimensions of immigration: what it does for productivity and for material living standards. Economists often get queasy about distributional questions, but since we are talking about policies made by national policymakers I have no problem in narrowing down these questions mostly to the impact on the people already in the country ("natives"), rather than to the latest/next wave of migrants. As an economic matter, in any particular country policy-controlled immigration of non-citizens should benefit "natives" as a group. If it doesn't, the policy should be reconsidered. But answering that question, in any specific country or even more generally, isn't easy. There aren't that many countries that have had significant inward non-citizen immigration, and of course some of the most successful emergent economies of the last century have had very little immigration at all – Taiwan, Japan, and South Korea. Sample sizes get very small very quickly. Time and place probably matter quite a bit too. Most economic research suggests that emigration from Ireland in the 19th century materially benefited those left behind. But the dominant economists' argument today would assert that the Irish are now benefiting from substantial inward migration.

As the Initiative notes

By and large, economists favour immigration....

The Initiative's interpretation on this is that

...as migrants benefit the countries they move to through knowledge spill-overs and global connectedness. Growing the population through immigration also produces 'economies of agglomeration' (i.e. the abilities of larger, denser populations to support more commerce and knowledge exchange).

Their prior seems to be not only that non-citizen immigration will benefit natives, but that a growing population – whether from immigration or natural increase – will also raise productivity. And the impression I've taken is that they seem to believe this is necessarily (or at least almost certainly) true wherever the immigration occurs.

As a descriptive statement, I think there is little doubt that economists generally do favour a fairly open approach to immigration. But not all the evidence the Initiative adduces even on this point is quite as persuasive as it might first appear. For example,

An open letter emphasising the benefits of immigration to the US president and Congress in 2006 had no difficulty amassing more than 500 signatures, the majority from practising economists.

Which sounds quite a lot, but the US is a country of around 320 million people. In New Zealand – with 4.7 million people – the equivalent of that 500 signature open letter would be one signed by seven people. In the New Zealand Initiative’s own offices they just about muster that number, “the majority from practising economists”. I could probably find seven people, mostly practising economists, in New Zealand to sign letters for or against free trade, for or against capital gains taxes, for or against almost anything.

But there is better data than that.

The IGM Economics Experts Panel regularly surveys economists on policy questions. Almost all experts agree that high-skilled immigration benefits existing residents, and the majority agree unskilled immigration would benefit existing residents.

It is worth remembering that these surveys are of economists at US universities, answering in a US context. Looking through the list, many of the respondents are themselves immigrants, likely predisposed to believe their own migration was mutually-beneficial. And, in the US, of course the overall rate of legal non-citizen immigration is much smaller than that in New Zealand, and the selection criteria are strongly skewed towards family reunification, rather than emphasising skills.

I’ve seen three IGM questions about immigration.

The average US citizen would be better off if a larger number of highly educated foreign workers were legally allowed to immigrate to the US each year.

Of the respondents, 89 per cent agreed, and none disagreed. Of course, even sceptics of immigration might be inclined to favour more highly educated immigrants, if it were at the expense of the current family focus.

In asking about low-skilled immigrants, there were two questions. The first was

Question A: The average US citizen would be better off if a larger number of low-skilled foreign workers were legally allowed to enter the US each year.

52 per cent of respondents agreed (and most of the other responses were “uncertain”)

Question B: Unless they were compensated by others, many low-skilled American workers would be substantially worse off if a larger number of low-skilled foreign workers were legally allowed to enter the US each year.

Note that the phrasing is “substantially worse”, not just “slightly” worse. 50 per cent respondents agreed with this proposition, and against most of the other responses were “uncertain”.

There was a more recent poll specifically about the immigration of people with advanced degrees in science and engineering, again a two-parter.

Question A: Allowing US-based employers to hire many more immigrants with advanced degrees in science or engineering would lower (at least temporarily) the premium earned by current American workers with similar degrees.

71 per cent agreed with that proposition.

Question B: Allowing US-based employers to hire many more immigrants with advanced degrees in science or engineering would raise per capita income in the US over time.

86 per cent agreed with that proposition.

So that even among this panel of economists, who believe that US natives generally benefit from immigration to the US, there is quite clear recognition that low-skilled immigration would be likely to disadvantage substantially many low-skilled American workers. Consistent with this, they also appear to believe that importing lots of any particular type of worker will lower the relative returns of Americans working in that field (if it is true of people with advanced degrees in engineering and science, it is no doubt true to a greater or lesser extent in other specialities – including perhaps chefs and aged care workers?)

My point here is not to dispute that most economists are quite sympathetic to immigration. And even most sceptics of immigration won't have much problem with genuinely highly-skilled migrants. But when the reality is that the average migrants (and perhaps more importantly the marginal migrant)

isn't that skilled at all, then even in the US context, the views of economists suggest that distributional considerations matter. As Professor George Borjas, a leading researcher on the economics of immigration, at Harvard University's Kennedy School, put it in a [recent New York Times op-ed](#), in thinking about immigration policy a key question for policymakers is "who are you rooting for?" Borjas reckons there are small overall gains to natives as a whole from immigration to the US, but that the distribution of those gains is such that people at the bottom of the skill distribution are clearly worse off.

In typically flamboyant style, the Initiative talk of economists "loving" immigration, and pose the question "Why do they love it so much?". New Zealand doesn't get much specific attention in the Initiative's report, but it is as well to remember that in this country there was a long tradition of leading economists being really quite sceptical of the economic gains from immigration to New Zealand – I wrote about one prominent example [here](#).

But let's stick with the current overseas perspective for now. The Initiative seek to explain:

To understand why economists generally favour immigration, think of the opposite. If immigration was not generally beneficial, why stop at the national level? Migration flows occur far more significantly within than across nations. Would stemming these domestic flows improve outcomes? Would Wellington's economy improve if we prevent Christchurchians and Aucklanders flooding in?

And, of course, there is an important element of truth in this argument. The ability of people to leave Taihape or Invercargill as the economic opportunities declined in those places, relative to other places in New Zealand, has been an important part of internal adjustment. There is no actual evidence that natives of Wellington or Christchurch benefited from people migrating from Taihape or Invercargill, but we can be pretty sure the migrants themselves benefited (or they wouldn't have moved), and there are reasonable grounds to suppose that the people who stayed behind in those declining towns also benefited. One of the other basic insights of economics – not, I think, mentioned in the Initiative report at all, but strongly backed by [empirical research on, say, pre World War One migration](#) – is that mobility of resources encourages what economists call "factor price equalisation". In other words, wages in Wellington or Christchurch might actually be a bit lower than otherwise as a result of the internal migration.

Of course, we don't stop internal migration, because that is what being a country (or at least a free country) means. We share some sense of common identity across Auckland, Dunedin, Kawerau and

Westport, that we mostly don't share with people in other countries. It is the similarities that matter – we are 'New Zealanders', whatever that means when one digs down – and in particular it is the right to dwell in this land that is common to us all. It is an arbitrary line to some extent, but little different in concept to the notion, practised by us all, surely, in which we treat family differently than we do outsiders.

As the Initiative notes, economists (rightly) emphasise the potential gains from trade. Winding up the rhetoric they argue

Larger and more diverse markets of potential traders have more opportunity for specialisation and greater advantages from trade. These insights lead economists to broadly favour free movement of goods, capital and money – so why not labour, too?

Indeed, the arguments are similar – immigration improves economic performance for much the same reason international trade improves economic performance. Individuals vary in their capabilities, and freedom of movement allows people to move to where their skills are needed most. The fewer the constraints on labour mobility, the more countries prosper. So large is the potential prosperity gain that open borders are estimated to double world GDP. The implications of economic theory are clear: New Zealand can benefit from those who are like us and those who are not. Those who have skills similar to those of New Zealanders can help sectors that hold comparative advantage to reach efficient scale. Those with different skills can improve the market at the micro level by creating new industries or rejuvenating old ones with new ideas.

New Zealand benefits by embracing those who can offer new and challenging ideas and perspectives. Simply by being from another country, migrants help bridge the gap between New Zealand and the rest of the world. Global connectedness is vital for prosperity, and welcoming migrants can help New Zealand improve those connections.

There is a lot one could unpick here. Even if they won't actually call for it as policy, the New Zealand Initiative want us to think of "open borders" as the natural default, which only fear, racism, selfishness or whatever holds us back from.

But note that the exercise in which open borders – no immigration restrictions anywhere – could double world GDP assumes that massive numbers of people (hundreds and hundreds of million) migrate, and yet in doing so they do not change what it was – the culture/institutions etc – that made the country they migrate to rich and successful. No one takes that very seriously. People bring their

cultures with them – which isn't just tastes in food, but views about how things are and should be done. That the ancestors of today's European citizens of New Zealand did so is a big part of why New Zealand is a fairly wealthy country today. But that migration involved people moving from the then-richest, and most economically successful, culture/country to lightly-populated temperate New Zealand. In small numbers, there is little doubt that migrants from poor countries to rich countries benefit, often very considerably, and in doing so they don't change the recipient country/culture much. In large numbers, one simply can't make the assumptions the authors of that exercise did.

Note too that there is no sense in any of this that fixed factors of production might matter. Land and natural resources are the most obvious example. They may not be overly important in some places – one might think of Singapore or Hong Kong as examples, or at a city level somewhere like London. On the other hand, no one doubts that natural resources are hugely important to the prosperity of Norway or Australia – not the only factor of course (the human capital to exploit the resources matters a lot), but hugely important nonetheless. From memory, Norway had about twice as much North Sea oil and gas reserves as the United Kingdom, but with less than a tenth of the population of the UK, that natural resource might make much more difference to the living standards of the average Norwegian, than it did to the average Briton. The economics of adding lots more people to a particular place depend a lot on what that place has going for it. And yet the New Zealand Initiative pay no attention to this consideration at all – barely mentioning that New Zealand is the most remote significant economy in the world, and demonstrably still heavily dependent on fixed natural resources. There is simply no obvious reason why the economics of immigration should look quite the same for the United Kingdom or the Netherlands as for Kuwait or New Zealand.

Perhaps large-scale immigration to New Zealand – of the sort the Initiative champions – has been, and will be, beneficial to New Zealanders, but you can't just get away with asserting it, while largely ignoring key facets of the New Zealand economy.

Should alternative perspectives be welcome? Well, mostly yes. And so to that extent I'll agree with the Initiative when they claim that

New Zealand benefits by embracing those who can offer new and challenging ideas and perspectives

But the proportion of migrants who will actually offer “new and challenging ideas and perspectives” is inevitably pretty small – as no doubt it is for natives – and most ideas and knowledge simply aren't transmitted primarily by immigration. I'd be happy to see us welcome leading researchers as

migrants, but mostly you'd have to ask yourself – what no doubt they've already asked themselves – why would they come (to a small, remote, not-overly-prosperous corner of the world), rather than staying nearer global centres of knowledge-generation and dissemination. Typically they won't.

The Initiative goes on

Simply by being from another country, migrants help bridge the gap between New Zealand and the rest of the world. Global connectedness is vital for prosperity, and welcoming migrants can help New Zealand improve those connections.

Silly extreme examples illustrate how empty this rhetoric is. Half a million Syrian immigrants or Turkmen, Bolivian or Zambian immigrants would be exceptionally unlikely to strengthen our “global connections” in ways that enhance our national prosperity (they'd happily come, to a much richer country). In considering national policy, you simply can't – or shouldn't – operate at this sort of high level of generality. Evidence about New Zealand, and analysis of New Zealand, illuminated by perspectives from other similar countries is surely critical to reaching robust policy perspectives on what immigration policy we should adopt.

I should stress, as I have noted for many years, that my main interest is New Zealand (as I hope the New Zealand Initiative's is). So my main interest is not whether immigration is sometimes good for natives, or even generally good for natives, in some or most other countries. My interests is in whether modern (say, post-war) immigration to New Zealand has been, and is likely to be, good for New Zealanders. Since places differ, and location often matters in economics, one cannot simply assume that what is good in some places (even most places) is good in all places. As I noted, the number of countries with large scale immigration programmes (and hence the effective sample size in any study) is small. In an age when personal connections seem to matter more than ever, particular on the production of things other than natural resources, and when more and more production is done through global supply chains, there is at least a reasonable prima facie case for why conclusions one might reach about immigration to the Netherlands or Singapore might be different from those for New Zealand.

And all that is even before considering New Zealand's actual economic experiences over the decades of high non-citizen immigration, including the (barely mentioned in the Initiative report) huge exodus of our own citizens over recent decades. In my next post, I'll look at some of the papers the Initiative cites in their report, and look at their response to my own arguments, but it is worth remembering that

in no other country I'm aware of has there been both a huge exodus of natives, and a huge policy-controlled influx of non-citizens. A diagnostician would usually pay some attention to the voluntary market-driven outflow of natives in considering the prospect that government-led large inflows would benefit the natives who remained.

New Zealand Initiative on immigration: Part 7 Productivity and all that

[March 13, 2017](#)[March 13, 2017](#) [Michael Reddell](#) [Immigration, New Zealand economic performance, New Zealand Initiative](#)

Today I'm continuing on with the New Zealand Initiative's chapter four, on the (claimed) economic benefits to New Zealanders of large scale non-citizen immigration. I don't have the appetite to try to comment on every questionable claim in the report, so I start with a section headed "Agglomeration – Bigger is Better?" in which (despite the question mark) the Initiative appears to position itself firmly behind not just the proposition that immigration is good for us, but also the proposition that a bigger population is good for us.

There is no good evidence I'm aware of for the latter proposition. At a more informal level, I illustrated in [this post](#) that large countries (by population) haven't grown faster (per capita income or productivity) than small countries. And, of course, consistent with this impression, we have seen many more small countries emerge in the last few decades.

What there is little doubt about is that within countries people and economic activity tend to organise themselves in ways in which the higher productivity activities are increasingly more often found in larger cities. Cities exist in substantial part because it was found economically advantageous for them to do so. But it isn't all that way, by any means. Natural resource based production tends to occur where the natural resources are – be it farming, oil and gas extraction, mining, or whatever. And the observation that within countries an increasing share of high value economic activity is undertaken in cities, tells us little or nothing useful about comparative national economic performance, given the successful co-existence of highly productive large and small countries.

The Initiative seems keen to take the other view

Places, cities in particular, with large, dense populations face lower transport costs in goods, people and ideas. It is cheaper to supply capital or consumer goods and find good workers; there is a better

network for knowledge exchange across people. All vital components of economic growth. The existence of 'agglomeration economies' has been established in a number of studies. A meta-analysis of 34 studies found that the positive effects of spatial concentration on productivity remain even after controlling for reverse causality. Another meta-analysis highlights the importance of considering the various mechanisms through which agglomeration can produce benefits. New Zealand's low economic productivity is partly explained by our small population, says Phillip McCann based on economic geography and urban economics.

But, as they acknowledge, I've [pointed out](#) what appears to be a pitfall in the argument in the New Zealand context, at least when it is used to back encouraging large numbers of new people into Auckland – what I've termed, the 21st century Think Big strategy.

Reddell contends that Auckland's failure to produce significantly higher growth compared to the rest of the country contradicts this explanation.

Recall that Auckland's GDP per capita has been **falling** relative to that of the rest of the country for the last 15 years, and is quite low relative to that in the rest of the country when compared with other main cities in other advanced countries. Not only [hasn't Auckland outperformed](#), it appears to have quite badly underperformed. One could throw into the mix another point I've made previously: there is no major outward-oriented industry (exporting or import-competing) based in Auckland. It has the feel of a disproportionately non-tradables economy, servicing (a) the rest of the country, and (b) the physical needs of its own policy-driven growth.

How does the Initiative respond to this point?

However, a recent report highlights how standard measures can understate urban productivity differentials and estimates that Auckland's firms have labour productivity 13.5% higher than firms in other urban areas.

This is, frankly, rather naughty. The Motu study in question produces revised estimates of labour productivity in Auckland relative to the rest of the country that are not dissimilar to the estimates of the ratio of nominal GDP per capita in Auckland relative to the rest of the country. No one has questioned that GDP per capita in Auckland is higher than that, on average, in the rest of New Zealand. But, by international standards, the margin is quite small. And, more importantly for this debate, the margin has been **shrinking**, even though the theoretical literature the Initiative seeks to rely on suggests it should have been widening. More people, from increasingly diverse places,

generating more ideas, and as a result selling more stuff here and abroad, and investing to support those sales prospects. But it just hasn't been happening. Instead, immigration policy has been putting more and more people in a place that doesn't seem to have been producing the expected returns. And we know that New Zealanders, who presumably are best-placed to assess opportunities and prospects here, have (net) been leaving Auckland.

Frankly I was a bit surprised the Initiative didn't have a more effective response to these indicators of Auckland's underperformance and the troubling questions they appear to raise about the economics of New Zealand's immigration programme.

The next section in the chapter is headed "Macro impact and how we measure it". As they note

As a measure of living standards, GDP is not without its faults, but it does indicate how much a nation can produce and, ultimately, consume. The effect of immigration on GDP can be difficult to disentangle. There is little contention GDP increases with more immigration – that countries produce more with more people is a no-brainer.

Of more interest to economists is GDP per capita – how much the pie is growing relative to the number of people taking slices.

I'd add that the impact on the GDP per capita of natives is, or should be, of particular interest when it comes to considering immigration policy.

There is a surprisingly limited empirical literature on this point. There is a variety of papers which set up (calibrate) models for how the authors think the economy works, add an immigration shock, and then – surprise surprise – find that the model produces much the answer one expects. Papers in this class cover the range of results. Some are set up in ways that produce gains to natives of recipient countries, through some of the sorts of channels Initiative authors cite. But others, allowing for say fixed natural resources or sluggishly adjusting capital stocks, find that emigration tends to benefit the natives left behind, and slightly dampen the prospects of those in the recipient countries (the modelling the Australian and New Zealand Productivity Commissions used a few years ago in their review of the trans-Tasman relationship worked that way). In the recent Australian Productivity Commission report on immigration, the modelling work assumed that productivity growth in Australia would be mildly adversely affected by continuing relatively large immigration inflows (there is a somewhat jaundiced, but not inaccurate, summary [here](#)).

But in terms of straightforward empirical analysis of effects on GDP per capita or productivity, there isn't a large pool of relevant papers (and none at all focused on New Zealand, even though we've had one of the largest planned immigration programmes anywhere, over a long period of time).

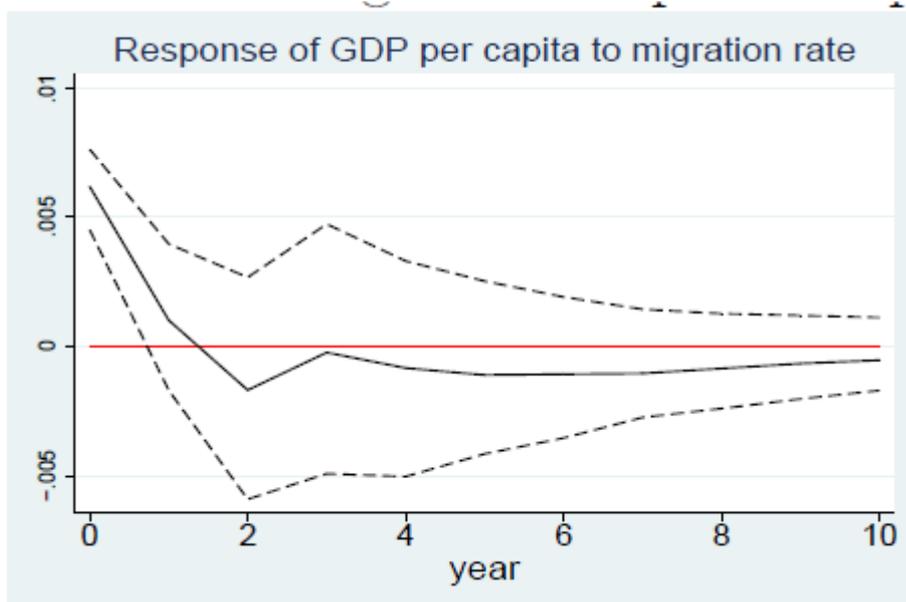
The Initiative authors refers to two papers. The [first](#) they summarise thus

A study of 22 OECD countries from 1987 to 2009 found migrants are not just attracted to countries with higher prosperity, they also help bring it about.

That sounds promising. The actual results don't quite match the promise.

The authors estimate four different version of their model. In each case, they show results for how GDP per capita respond to net migration, net migration responds to GDP per capita, and how the unemployment rate and net migration respond to each other.

Here is the impulse response function chart from the first version of the model



The solid line is the central estimate, and the dotted lines are the confidence bands.

There is a statistically significant response of GDP per capita to a change in the migration rate in the first year after the shock, but everything beyond that is (a) statistically insignificant, and (b) slightly negative – ie below the zero line. No one would be surprised by a positive effect in the first period, since in the short-term demand effects from unexpected immigration inflows will typically exceed the

supply effects. But over the medium-term, there is no evidence here of a sustained boost to per capita income. The pictures from the other three versions of the model all look much the same.

Before moving on, I should briefly highlight two other points about this paper:

- it uses net migration, whereas most of the theoretical arguments for possible gains from immigration relate to inflows of non-natives (new ideas, new skills etc). For most countries, the difference isn't that important, but for New Zealand it is very important.
- one of the key things the paper sets out to show is that immigration does not materially affect the unemployment rate. This is a point that the Initiative and I are at one on, and – for what it is worth – the results of the paper suggest, as we would expect, no statistically significant effect.

The Initiative then moves on to some [recent empirical work \(Number 8, October 2016\)](#) by several IMF staff researchers, which built on another recent paper, by Ortega and Peri, but focused only on advanced countries.

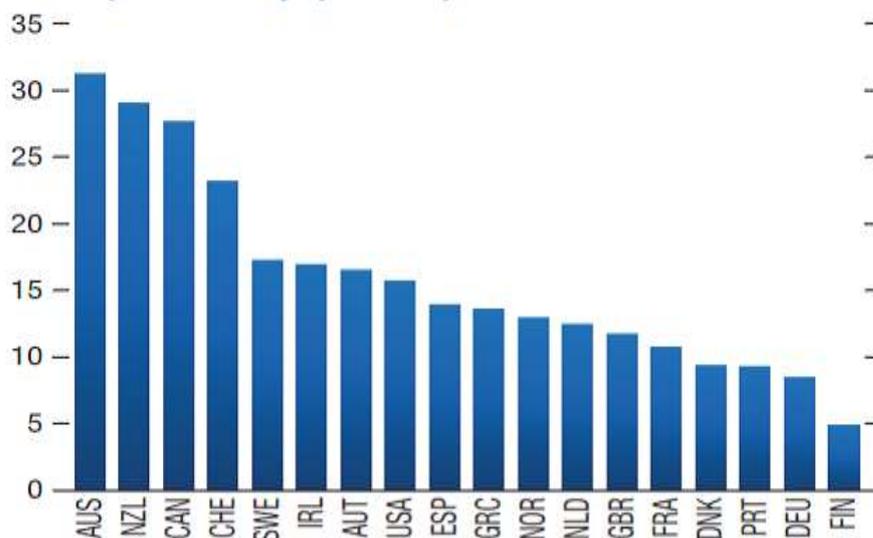
The study finds that a 1 percentage point increase in the share of migrants in the adult population can raise GDP per capita by up to 2% in the longer run and that the benefits from immigration are broadly shared across the income distribution.

As it happens, I [wrote about this paper](#) , somewhat sceptically, when it was first released, in conjunction with the IMF's World Economic Outlook, late last year.

Here is the summary version of why the results simply don't ring true.

This chart is from the paper (here “migrants” is the foreign-born share of the adult population)

2. Stock of Migrants, 2010 (Percent of population)



And this was my comment last year.

Think about France and Britain for a moment. Both of them in 2010 had migrant populations of just over 10 per cent of the (over 25) population. If this model was truly well-specified and catching something structural it seems to be saying that if 20 per cent of France’s population moved to Britain and 20 per cent of Britain’s population moved to France (which would give both countries migrant population shares similar to Australia’s), real GDP per capita in both countries would rise by around 40 per cent in the long term. Denmark and Finland could close most of the GDP per capita gap to oil-rich Norway simply by making the same sort of swap. It simply doesn’t ring true – and these for hypothetical migrations involving populations that are more educated, and more attuned to market economies and their institutions, than the typical migrant to advanced countries.

Or, we could turn it around, and think about New Zealand’s actual experience. Let’s say that the foreign-born share of New Zealand’s adult population increased by 10 percentage points since 1990 – I can’t quickly find the exact numbers, but it is likely to have been in that order of magnitude. If this model is correctly specified – and recall that New Zealand is included in its sample – that should have given us a huge lift in productivity and GDP per capita, say by around 20 percentage points. In fact, of course, despite having had probably the largest non-citizen immigration programme of any of these countries in that period (Israel, for example, isn’t in their sample), our productivity (GDP per hour worked – the metric the IMF authors use) has slipped further behind that of other advanced countries. Yes, perhaps there were lots of other particularly bad offsetting policies

undermining New Zealand's prospects – but over this period international agencies, including both the IMF and OECD, repeatedly stated that they thought we had pretty good policies in place.

Of course, as I noted on Friday, my main interest is New Zealand. If immigration to and among other countries has been productivity-positive, that is something to celebrate, but there is little evidence that it has been so for New Zealand.

One could take the critique and questions a bit broader. For example, note how the gains arise in this study. It is from having a large (increased) share of foreign-born people in one's population. But immigrants age, have children etc. Without a continuing inflow of non-citizen migrants, any initial boost to the foreign-born share will erode quite steadily over time.

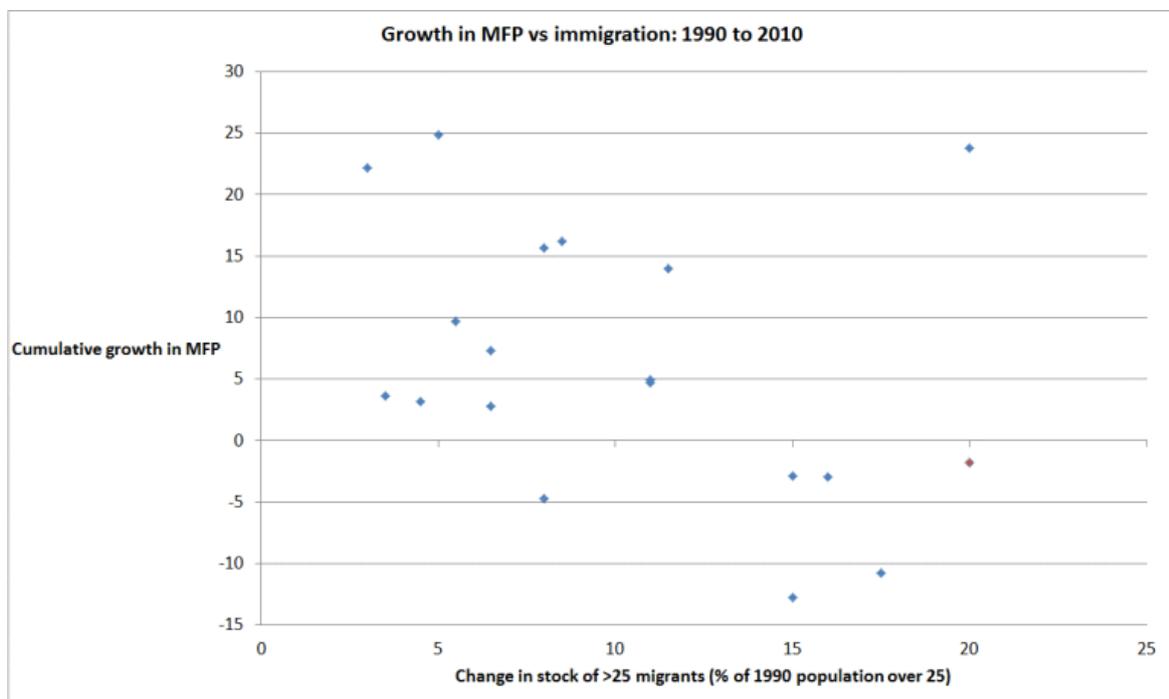
The US offers an interesting case study. Around the time of World War One, about 15 per cent of the US population was foreign-born. Immigration restrictions imposed in the 1920s, and in place for the following forty years, saw the foreign-born share of the US population fall to around 5 per cent by around 1970. There was nothing comparable in other large migrant recipient countries (eg Australia, New Zealand, Canada). All else equal, if the IMF model was correctly-specified, this huge reduction in the foreign-born share should have resulted in a substantial deterioration in the absolute and relative productivity position of the United States. There is simply no evidence I'm aware of to support such a proposition (and, in fact, [historical estimates suggest](#) that the US had some of its strongest productivity growth in history during these decades).

In my earlier write-up of the IMF paper I noted that

There are other reasons to be skeptical of the results in this IMF paper. Among them is that there is a fairly strong relationship between the economic performance of countries today and the performance of those countries a long time ago. GDP per capita in 1910 was a [pretty good predictor](#) of a country's relative GDP per capita ranking in 2010, suggesting reason to doubt that the current migrant share of population can be a big part of explaining the current level of GDP per capita (and some of the bigger outliers over the last 100 years have been low immigration Korea and Japan and high immigration New Zealand). In fact, I've pointed readers previously to [robust papers](#) suggesting that much about a country's economic performance today can be explained by its relative performance 3000 year ago. How plausible is it that so much of today's differences in level of GDP per capita among advanced countries can be explained simply by the current migrant share of the population?

If this is the strongest empirical support advocates of New Zealand’s approach to immigration can adduce, those who have been inclined simply to go along should surely be rethinking their unquestioning support for the policy approach – whatever merits it may or may not have for some other countries. I’m aware of a tendency for New Zealand Initiative people to think that the [onus of proof](#) isn’t, or shouldn’t, be on them, so obvious and “morally right” is the case for immigration. Quite where the burden of proof lies is probably more a political one than an economic one, but one might hope that the advocates could produce more evidence, or sustained analysis of the New Zealand case, than is evident in the New Zealand Initiative’s economics chapter. Especially when the policy approach they support has been tried for more than 25 years, and when even they concede some puzzles about New Zealand’s economic performance in that time.

The authors of the IMF paper, and the earlier Ortega and Peri, paper, hypothesise that the gains from immigration come largely through a total factor productivity (TFP) channel. Although they never explicitly say so, The Initiative seem to share this perspective, with all their talk of ideas, innovation, alternative perspectives etc. The IMF researchers didn’t test the connection between immigration and TFP. But in my earlier post I included this chart, using the same foreign-born population share data the IMF did.



If anything, over the period they looked at, the relationship was negative – a larger increase in the foreign-born population share was associated with weaker TFP/MFP growth. New Zealand is the red dot in the chart. The outlier – in the top right hand corner – was Ireland, which looks more positive

for the IMF/Initiative story, except that as I also showed in that earlier post, it is quite clear that the surge of migrants into Ireland came several years **after** the surge in TFP growth.

And, on the topic of TFP growth, in a [post last week](#) I illustrated again just how weak New Zealand's TFP growth has been relative to that in other advanced economies. Surely, serious think-tank advocates of New Zealand's large scale non-citizen immigration policy would want to engage with this sort of record, and the apparent inconsistency with the connections they have hypothesised?

Sadly, simply ignoring the actual record in New Zealand seems to be par for course in the economic chapter of the Initiative's report.

To their credit, they devote a couple of pages of the report to my hypothesis around the contribution of immigration policy to New Zealand's longer-term economic underperformance (pp 39 and 40 for anyone interested). As they note, I have argued that

- “given New Zealand's continued heavy dependence on natural resource based exports, New Zealand might not be a natural place to locate many more people, while still generating really high incomes for them all”, and that
- high levels of non-citizen immigration have helped explain persistently high real interest and exchange rates, in turn deterring business investment, especially that in the tradables sector, and thus tending to undermine productivity growth.

But they don't really know what to do with these ideas, and so end up largely ignoring them. There is simply nothing more, in this section or in the rest of the report, on the issues around a natural resource based economy, that is very distant for major markets/suppliers/networks etc. New Zealand may have many things in common with other advanced economies, but this is one probably very important difference.

And when it comes to New Zealand's dismal long-term productivity record, the limit of their comment is this

New Zealand productivity has been less than stellar for a long time – a concern to many economists and policymakers.

And that's it. There is no attempt at all to engage with the data, or to tell some alternative story of economic management and prospects over the last 25 years or so, in which for example, non-citizen immigration has played a more favourable role.

There is a little bit more on real interest rates – why they've been so persistently high relative to the rest of the world.

The hypothesis also cannot fully explain why the real interest rate has not converged to the rest of the world. Reddell says competing theories explaining the high real interest rate, such as a risk premium associated with New Zealand investment, do not fit with the evidence either, in particular with the persistent strength of the real exchange rate. He contends that the only explanation currently on offer is that the repeated shocks to domestic demand – not fully recognised in advance by market participants – must have been a big part of the story.

Clearly, the Initiative don't find my story persuasive, but there is simply no attempt to explain why, or to pose a credible alternative hypothesis for one of the most striking features of New Zealand macro data in recent decades.

The best they seem able to come up with is to point out that any sustained demand pressures will tend to put upward pressure on real interest rates. And that is quite correct of course. An economy with very strong productivity growth, and the associated investment in support of it and consumption in anticipation of the future income gains, will tend to have high real interest rates (relative to those abroad). And no one much will regard that as problematic – rather it is a mark of the success of the economy.

But that hasn't been the New Zealand story. Business investment has been quite low as a share of GDP (especially given our population growth) and productivity growth (labour or total factor) has been low. There is little, or nothing, to suggest that the high relative interest rates we've experienced in New Zealand over the last 25 years have been a desirable market-led phenomenon. They look anomalous not just relative to other countries, but also relative to our own underwhelming economic performance.

Here is the Initiative's attempt to fend off my analysis

The concerns raised by Reddell would apply more broadly than just on immigration. For example, tourists are foreigners who come to New Zealand, purchase our currency and goods, and use

infrastructure (they require accommodation, drive on the roads, may require police assistance, add waste to landfills. etc.). Hence, tourism also puts pressure on the real interest rate and real exchange rate.

As I've already noted, any persistent demand pressure – whether from exports or the domestic economy – will, all else equal, tend to put upward pressure on local interest rates.

But except for population-driven pressures (in a country with a modest savings rate) we just haven't had such pressures. As I noted just before, business investment has been lower than we might have hoped, exports as a share of GDP have been sideways or backwards, and the consumption share of GDP has been flat for decades. What hasn't been flat has been the population, and particularly the foreign-born population, the direct consequence of government immigration policy. Take their tourism example. SNZ has data on the average daily stock of foreign travellers in New Zealand (boosting domestic demand) and the average stock of New Zealand travellers abroad (easing domestic demand), going back to 1999. There are more foreign travellers here than New Zealanders abroad, on average, but the numbers aren't large. In 1999, there were on the average day 16000 more foreign travellers here than New Zealanders abroad. Last year, that number was 54000. 38000 (net) more travellers here is a helpful addition to net exports, and some pressure on demand. But

- the [overall export share of GDP](#) is less now than it was in 1999
- from 1999 to 2016, there was a net inflow of 759000 non-citizen migrants to New Zealand.

That is both a very large number, and a direct government economic policy choice. It has had consequences, and there seems a reasonable prima facie case, which the New Zealand Initiative has not attempted to seriously rebut, that that government-controlled influx has not been economically beneficial to New Zealanders as a whole.

This post has already got rather long, so just two final thoughts.

First, it is striking how little attention the Initiative gives to the large sustained outflow of New Zealanders over recent decades. That outflow is certainly at a low ebb at the moment, but there seems little reason to assume that the exodus has come to any sort of permanent end – as even the Initiative recognises, our productivity performance languishes. Whatever one thinks of immigration policy in the abstract, surely it is a somewhat relevant consideration to look at what New Zealanders themselves are doing – people best placed to assess opportunities and prospects here? There is, among some policymakers, a weird approach to this issue, in which immigration policy is

substantially about replacing those who leave. I don't think the Initiative subscribes to that silliness, but neither does it call it out. When individuals are making rational choices to move – to leave New Zealand – the burden of proof should really be on those who want the government to try to second-guess those judgements and choices. When people left Ireland, Italy, Sweden or wherever for the US in the 19th century, it benefited those who left and those who stayed. It would have been daft for the authorities in those places to have responded “woe is me, we need to find some poorer people from other places to bring in to replace those who've left”. A quite different approach would be to respect and respond to the market signals – movements of their own people – and try to fix up their own economies in ways that might make it no longer attractive for their own people to leave. It would have been a much better lesson for the New Zealand authorities to take. Residents of Taihape and Invercargill should be grateful governments didn't/couldn't respond to outflows of people from those towns by suggesting a pressing need to get other people from elsewhere in the world to move to Taihape and Invercargill, even though the economic opportunities had moved on from those places.

And second, in the IMF paper that the Initiative cite there are references to a [new paper by various Harvard researchers](#) on the economic effects of diversity (so recent that the references have been added since the version of the IMF piece that I commented on last year). The authors note that typically in studies to date “the negative effects of diversity seem to dominate empirically”. In this paper, they find more positive results, but they also look at what sort of diversity might produce benefits (p 26)

we extend our index of birthplace diversity and account for cultural and economic distance between immigrants and natives. The productive effects of birthplace diversity appear to be largest for immigrants originating from richer countries and from countries at intermediate levels of cultural proximity.

and

This suggests that a combination of culturally closer immigrants and richer origins (potentially a proxy for higher skills) can be particularly valuable.

If this model is robust, then it is perhaps unfortunate for the economic case for the immigration programme that very little of New Zealand's immigration is from countries richer than our own, and most of it isn't from countries with close or intermediate levels of “cultural proximity”. By contrast – and uncomfortable as it is to point it out again – all New Zealand's immigration in the mid 19th

century was from countries richer than us. As such, there is little doubt that if lifted economic performance and productivity for all New Zealanders. Whether the results are robust is something for others to look at, but it is the sort of specific results, that recognise that some immigration can be beneficial, but not all needs to be – it depends on various things, including time, place, and people – that the New Zealand Initiative should be engaging with rather than merrily asserting, with no New Zealand specific evidence – that the gains to natives are there simply because people have come among us from another country, any country.

New Zealand Initiative on immigration: Part 8 Labour market

[March 15, 2017](#) [March 15, 2017](#) [Michael Reddell](#) [Immigration](#), [New Zealand Initiative](#)

The New Zealand Initiative's chapter four, on economic issues, includes most of their treatment of the labour market. This isn't going to be a long post, and in a number of key areas we agree.

In particular, they are quite right to push back against the suggestion that immigration "takes jobs" from natives: there is no fixed pool of jobs, and if anything in the short-run immigration has tended to boost demand more than supply, so that in the shorter-term, it acts as a boost to (net) demand, and something that lowers the unemployment rate a bit. That is why, typically, the Reserve Bank is raising interest rates – or lowering them less than otherwise – when immigration surprises on the upside. In the medium-term, there is likely to be little or no impact on the unemployment rate, one way or the other. Labour market and welfare system regulatory rules play a key role in influencing the normal, sustainable, rate of unemployment.

And the Initiative doesn't seem to have signed on to the silly nonsense that we need lots of immigrants to ease "skill shortages" – a line touted by Business New Zealand and their affiliates, and by their predecessor organisations for many decades. I've dealt with this issue in various posts (including [here](#) and [here](#)). You have to wonder how other countries manage – including the many richer and more productive countries than New Zealand that haven't had anywhere near as much immigration over the years. Here is some of how I responded to that argument in one of those earlier posts

Business sector advocates often try to have us believe that key sectors just couldn't survive without reliance on large scale immigration. Set aside the inherent implausibility of the argument – how do firms in the rest of the world manage – and think about some specifics. Sure, it is probably hard to get New Zealanders with alternative options to work in rest homes at present. So, absent the

immigration channel, wage rates in that sector would have to rise. Were they to do so, I can see no reason why in time plenty of New Zealanders would not gravitate to the sector. It was New Zealanders who staffed the old people's home my grandparents and great aunts were in 30 years ago. Same goes for the dairy sector, or the tourism sector.

.....

Of course, none of this is obvious to an individual employer. They probably can't raise their wages to attract New Zealand workers instead, even if they wanted to. To do so would undermine that particular firm's competitive position. But again, this is the difference between an individual firm's perspective, and a whole of economy perspective – and the latter should be what shapes national policy. Cut back the immigration target, along the lines I've suggested, and we'd see materially fewer resources needing to be spent on simply building to keep up with the infrastructure needs of a rising population. We'd see materially low real interest rates, and with them a materially lower exchange rate. The lower exchange rate would enable New Zealand dairy farmers, and tourism operators, to pay the higher wages that might be needed to recruit New Zealanders into their industries, and probably still be more competitive than they are now. And plenty of New Zealanders now working in sectors totally reliant on an ever-growing population would, in any case, be looking for opportunities in other sectors.

The Initiative mostly stays away from this line of argument, and they are right to do so. Markets take care of incipient "shortages", whether of labour, tomatoes or whatever – prices adjust and, if necessary, over time production and/or structures and patterns adjust. The Initiative are generally supportive of letting markets work.

A lot of the empirical literature focuses on wages, and in particular on wages for those relatively more lowly-skilled natives who are, to some extent or other, in competition with relatively lowly-skilled migrants. As even the Initiative notes, a big influx of migrants looking for work in one particular sector will probably lower wages in that sector in New Zealand. They use "fruit pickers" as an example in their report. But one could probably use aged-care workers as another concrete example.

The Initiative's reaction to this, reasonably self-evident, proposition is to be (perhaps unconsciously) in two minds. On the one hand, they like to cite what is probably the consensus of the international literature, that if there are adverse effects of immigration on lower-skilled natives they are, in aggregate, relatively small. Perhaps that is true, although it probably isn't much comfort to someone

at the bottom end for whom every dollar in the weekly pay packet really counts. And recall that survey of US academic economists I [mentioned](#) the other day. Quite a few respondents were uncertain, but there wasn't much dissent from the [proposition](#) that in the US context (one of the strongest and most productive economies around).

Question B: Unless they were compensated by others, many low-skilled American workers would be substantially worse off if a larger number of low-skilled foreign workers were legally allowed to enter the US each year.

But on the other hand, the Initiative seems to want to celebrate how helpful even low-skilled immigration can be, even though almost the only way – even in theory – it can be helpful is by lowering domestic wages, at least for those who are near-substitutes for the migrants.

Here is what they say

Arguing for immigration restrictions to protect the incomes of New Zealand fruit pickers is as misguided as arguing for tariffs on fruit to serve the same purpose.

We cannot manipulate wages by distorting the market in the long run. Virtually anything can be imported today if there's the will. Cheap foreign labour already competes with New Zealand labour even if workers don't land on our shores. If wages in New Zealand for similar output rise much higher than foreign wages, we can only expect more outsourcing and exit of New Zealand firms.

Ultimately, wages are determined by the value of a worker's production at the margin and the willingness of the worker to forgo leisure for consumption. Bringing in productive migrants more willing to work than New Zealanders may lower wages for some in the short run, but it also means New Zealand can produce more goods and services cheaper.

For a start, it is simply incorrect that “virtually anything can be imported today” – try it for a hair cut, a cafe meal or coffee, aged care for your mother, or the bus trip home tonight. The boundaries between tradables and non-tradables are fuzzy, but it doesn't make the distinction economically irrelevant.

But what really staggered me was the starkness of the way they put it – we should be competing internationally on the basis of lots of migrants lowering wage costs. They really can't have it both ways: lower-skilled immigration might be largely harmless (if it doesn't have any obvious effects on

wages for natives), or there might be gains from trade from bringing lots of these people in, but if so only through a mechanism that involves lower wages (than otherwise) for the natives they are competing with. It surely has to be one or the other? No one pretends these people are where all the ideas and productivity spillovers are coming from.

Despite the literature they cite, the Initiative seems to be in the latter camp. Here was another comment on lower-skilled migrants, and why we shouldn't just focus on highly-skilled migrants.

Hiring migrant workers in the service industry, especially home production (childcare, cleaning, gardening), can free up time for workers in other sectors of the economy. This way, they can be an important complement to highly skilled workers.

It does that by lowering the relative cost of that type of work.

Earlier in the year, I [wrote about](#) an op-ed by a British economics academic that had run in the local papers, where she argued that low-skilled immigrants had been a great boon for professional women and their husbands. I summed up my reaction to that this way

Perhaps this wouldn't be (as) morally offensive if there was an entirely separable class of temporary guest workers, who didn't substitute at all for low-skilled domestic workers. The temporary workers would gain from the trade, and so would those employing them. But that (separability) isn't how labour markets operate. What Bateman is in fact arguing for is a policy designed to explicitly help people like her, at the expense of poorer less highly-skilled Britons (in fact, in the roles she talks of typically poorer relatively unskilled British women). No one person is ever an exact substitute for another, but there is a great deal of overlap. Even though she never says it, what Bateman is arguing for is a policy designed to increase the differences in incomes between the highly-skilled and the less-skilled – for the comfort of the highly-skilled (women and their spouses).

I don't see any gap between Bateman's stance and that of the Initiative.

In their conclusion to their economics chapter, the Initiative try to sum up. They begin

The overall impact of immigration on the labour market is small, but with a multitude of individual effects. Some individuals may experience wage reduction, some wage growth, and some may remain unaffected. The effect for each individual will depend on their own skills, the skills of the migrants, and the demands from the migrants.

I suspect that isn't too far wrong, especially when we recognise that much of the immigration to New Zealand isn't very skilled at all, and that those at the lower end of skill spectrum are those mostly likely to be losing.

But here's the thing. That summary really gives the game away. If even the key advocates of large-scale immigration can only end up arguing that the impact on the labour market is small, what happened to those large gains they were citing a few pages earlier in their report. [Recall](#) the recent IMF study they cited

The study finds that a 1 percentage point increase in the share of migrants in the adult population can raise GDP per capita by up to 2% in the longer run

If that was even remotely true, we'd have seen a massive increase in productivity, GDP per capita, and almost certainly wages as a result of the scale of immigration New Zealand has had over the last 25 years. Perhaps the lower-skilled would still have done relatively less well, but pretty much everyone's incomes should have lifted, and by quite a lot. The differences really should be quite easily discernible. As it is, even the advocates haven't been able to show those sorts of gains. In New Zealand's case – and recall that that is my focus – they just don't seem to be there, and there is a plausible case – weak productivity growth, high interest and exchange rates, weak business investment, weak exports, and a remote island location as personal connections have become more important – that we might mostly be worse off. Some people – some natives – are better off (anyone, for example, holding regulatorily-restricted land in Auckland 25 years ago), but a best guess – a best read of the New Zealand experience – is that the country as a whole isn't better off, and quite probably is worse off.

The economics chapter of the report ends with a line I quoted in one of the earlier of this series of posts

Free movement of labour is a fundamental driver of the creative destruction process, just like free movement of goods and capital. It can be painful for some but it improves outcomes for many. And if managed well, the pain can be short-lived and the benefits perpetual.

It is a statement of faith at best. We haven't had "free movement of labour" but we've had a lot more of an inflow of non-citizens – all policy controlled – than almost any other advanced country. And the perpetual benefits still seem, to put it mildly, very hard to spot. Perhaps they are there in theory, in particular specifications (models), of how economies work generally, but the

challenge for the Initiative should surely to have been to demonstrate that those gains are actually there for New Zealanders, amid the specifics of how this economy has actually worked in recent decades.

New Zealand Initiative on immigration: Part 9 The case for open arms

[March 20, 2017](#) [March 20, 2017](#) [Michael Reddell](#) [Immigration, New Zealand Initiative](#)

I'm getting a little tired of writing about the New Zealand Initiative's immigration report, and readers may be getting a little tired of reading about it. But when the best-funded pro-immigration advocacy group in New Zealand – Treasury and MBIE aside – produces a major report on the subject, then as a sceptic of New Zealand's modern immigration programmes I feel a certain obligation to keep on to the end. But I'm now down to the last five pages of the report.

Chapter 5 is headed "The Case for Open Arms", which sounded a lot as if it was going to be making the case for open borders – that libertarian idyll, not adopted anywhere, in which anyone who wants to can come, in any numbers. Because the Initiative seems torn between the practical (simply defending current policy – which, liberal as it is, is not remotely "open borders"), and the idealistic (let them come, let them come, in whatever numbers they choose, a policy that they know will never be adopted), the rhetoric and arguments often also aren't that consistent in tone.

They start by making a fair point

To the original tribes that inhabited New Zealand, European settlers would have seemed more foreign than today's migrants are to modern New Zealanders.

Different religion, different technologies, different governing institutions, and immensely richer and more productive. As the Maori did, apparently, so should we, for in the next sentence we are asked

Can New Zealand keep on accepting people who want to make this country their home?

Which seems to have rather lost sight of the hugely expensive wars, and mass (subsidised) migration, that were required to secure the European position in New Zealand. It was a power grab. I'm not sure it is a precedent I'd be wanting to invoke. And, as I keep pointing out, it isn't as if there are cultures that are (a) immensely more economically productive than the existing New Zealand

culture/institutions, and (b) people from those (largely non-existent) countries/cultures clamouring to come to New Zealand. Recall that paper I mentioned last week suggesting that if there are economic gains from increased diversity, they mostly arise when people come to your country from richer countries.

I'd be inclined to simply dismiss much of this as content-free rhetoric, but so much of the case for large scale non-citizen immigration policy seems to be made at that level. It certainly doesn't seem to engage with the actual specifics of New Zealand's economic underperformance, despite our fairly good institutions and talented skilled people.

The next piece of rhetoric is that "we are all immigrants anyway" line, as if it offers any insights on the current policy choices.

No matter how you slice it, few New Zealanders can trace their lineage to many generations before counting someone foreign-born. We are part of the New World. And we are a nation of migrants.

I presume the aggregate numbers are right, but my ancestors came in the 1850s and 1860s. It might be a different relationship with "New Zealand" than some Maori may have, but it is also very different than that of people who have come in the last five or ten years. This is "our place", and it is a matter for the voters of New Zealand to decide whether, and to what extent, we continue to take lots more immigrants. And there is nothing historically inevitable about it. Thus the observation that "we are part of the New World" is true enough, but meaningless for these purposes. Australia and Canada also have pretty liberal immigration policies – although even Canada is bit less open than we are. But the United States takes only about as third as many legal migrants (per capita) as we do. And the countries of colonial settlement in Latin America are not now known for their extensive immigration inflows. Perhaps the less said about South Africa – once often grouped with New Zealand, Australia, and Canada – the better. Newfoundland, once independent, was one of the first British colonies of settlement: [these days](#), something less than 2 per cent of the population is foreign-born. It is a choice.

The rhetoric then gets stranger still – indeed, they invoke the Golden Rule ("do unto others as you would have them do unto you").

It doesn't often get brought up in debate but the golden rule applies well to immigration. Treating immigrants the same way we would like New Zealand emigrants to be treated overseas is fair and sensible. Many New Zealanders benefit from travelling overseas to live and work. Some end up staying but many return, and there is value to New Zealand from both.

Which is a really strange argument to run when New Zealand has among the more open approaches to immigration of any country in the world. We all know how difficult it can be for New Zealanders to get migration access to, say, the United Kingdom. The number of permanent resident foreigners in China – now a middle income country – is staggeringly small. And even relative to Australia – where we have loosely reciprocal arrangements involving the ability of citizens of each country to live and work in the other – we treat Australians moving here far more generously than they treat the (many more) New Zealanders moving there. And OECD data cited by people like the Productivity Commission tell us that we have more short-term foreign workers living here than any other OECD country.

More generally, it has never occurred to me that I should have pretty free immigration access to any country I choose. There are plenty of fine countries out there, but I've never assumed I should have a right to live in them. So how is this argument remotely relevant to discussions of immigration policy in New Zealand? We could choose to be even more liberal than we are, or we can wind back immigration access quite a bit, and we would still be no less open than most other advanced countries – and much more open than most middle income and poorer countries.

The Initiative then devotes half a page to what we might call non-GDP benefits from “diversity”. I've made the point before that we don't need lots of immigration to enjoy Danish butter, French wine, Iranian dates, British books, American i-phones or movies, or Bangladesh or Vietnam-made clothes. We just don't. There are some products that are probably sold here only because immigrant communities are here, but if the rest of us had a taste for those products, New Zealanders could import and distribute them too. I'm not going to quibble with the taste for ethnic food New Zealanders have developed – especially as even the Initiative concedes that chefs (one of the more common skilled migrants categories) aren't exactly “critical economic enablers” (MBIE's description of our immigration programme). And perhaps the number of foreign-born players in the All Blacks is a gain to New Zealand, at least for some. Of their other sports stories, I don't begrudge Lydia Ko her success, but in what way is it a gain to (native) New Zealanders? And at least one of the other star cases they cite – Scott Dixon – was born overseas to New Zealand parents who returned to New Zealand when Dixon was very young. Two of my kids were also born abroad and came back very young – but whatever they might one day achieve, I won't be ascribing that to our immigration programme.

But about this point, they change tack again, with a sub-section headed “A Radical Idea”.

And what is their “radical idea”?

Often forgotten in the immigration debate is a consideration of the migrant as a human being. To borrow a phrase from the feminist movement, the strongest case for a liberal immigration regime is the radical notion that migrants are people.

I’m not sure who ever doubted it. The Initiative don’t tell us. Rather there is the implied superior tone “only we care about the people”.

No one ever doubted (or at least not that I’m aware of) that immigration usually benefits the immigrant. After all, they make a voluntary choice to move, and presumably do so because they think doing so will benefit themselves and their descendants. The hundreds of thousands of New Zealanders who have moved to Australia made that sort of assessment. (Of course, it doesn’t always work out as planned – 100 years ago or more Latin America used to offer much higher living standards than Spain or Italy, and migrants flocked to South America. They might, with hindsight, have been better to have stayed. For that matter, GDP per capita in New Zealand is now less than that in the UK.)

And I’m also quite comfortable with the proposition that immigration is more effective than foreign aid as a way of raising living standards of people in poor countries. Since, foreign aid is almost totally useless in that regard, it isn’t much of a comparison. Immigration can help people in poor countries in two main ways. The first is transplanting people into richer countries in which their skills can earn more than they would at home. And the second is remittances – migrants sending money back to families at home. The Initiative seems quite keen on remittance flows (a big issue in some small countries). I’m not. They help individual families in the short-run, but they also tend to overvalue real exchange rates in recipient countries, and make it harder for those countries to develop themselves, including developing internationally competitive industries.

The Initiative quote one libertarian economist as saying

“Immigration is the greatest anti-poverty programme ever devised”.

I think that is a distinctly questionable claim. In the short-term, and for relatively small numbers of people, it is probably the quickest such way.

In fact, that greatest anti-poverty programme ever devised is (a) for governments to stop doing stupid and evil stuff (one could think of the self-destruction of Chinese living standards for much of the 20th century), or the current Yemen war, and (b) developing market-friendly institutions and cultures that enable prosperity to take hold for the many, not just the lucky few. It isn't easy, it isn't quick. But it works. If the pro-immigration advocates want to argue that these countries/cultures can't do it for themselves, it is like some sort of 19th century case for enlightened imperialism/colonialism. I lived and worked in two such countries for a while. There is little real doubt that British control and administration did raise living standards, and improve prospects for future economic development, in Zambia. It wasn't a perfect regime by any means, but the story was often told that in the early 1960s GDP per capita in Zambia was around (or ahead) of that in South Korea or Taiwan. But most Zambians chose independence, and never showed any signs of regretting that choice, even through 20 pretty disastrous years from the 1970s to the 1990s. Very little about the prosperity of a society as a whole is down to luck, most of it is down to choices (conscious and unconscious) about how to organise society, what to value, what is taboo and so on.

Decades ago, while he was at the Reserve Bank, Don Brash used to get frustrated at various church leaders' comments on economics, many of which seemed to reduce to (sometimes quite explicitly) "the rich are rich because the poor are poor". We ended up setting up a dialogue with a group from some of the churches to at least better understand where each other were coming from. I'm not sure it ever achieved much, but it came to mind recently in thinking about immigration. From pro-immigration people we often hear the suggestion that the relative wealth of our society and the relative poverty of, say, India is down to good luck. It was a line run in *The Economist* just the other day

Americans and Europeans are not more deserving of high incomes than Ethiopians or Haitians.

But no one "deserves" a high income. Rather societies develop in ways which enable many of their citizens/residents to generate high incomes. European societies have achieved that to a remarkable extent over the last few hundred years, joined so far by a relatively small number of countries from other cultures. It is a precious achievement, that needs to be nurtured and safeguarded (and no doubt evangelised too). There is no suggestion that it is somehow genetic – other cultures held the technological (and material living standards) lead in earlier millenia. Does nature play a role? Well, no doubt. It seems unlikely that Saudi Arabia, Kuwait and Oman would have their current living standards without the good fortune of abundant oil. Navigable rivers, animals that can be domesticated, and so on all helped in the past. But Haiti's problems aren't rooted in natural resources,

but in Haitian society. The comparisons are particularly obvious in those pairs of countries that started not long ago with very similar backgrounds: China (no better than middle income) and Taiwan, or North and South Korea. Again, a common line is that individuals are “lucky” to be born in New Zealand rather than (say) China. But luck doesn’t come into it. People are born into a culture and society, and fostered and nurtured in the values, institutions of that society. That is how successful societies maintain themselves. Sadly, it is how unsuccessful societies (at least judged in material terms) replicate themselves. There is little random, or “lucky”, about it.

As they come to the conclusion of the chapter, the Initiative observes

If one accepts the notion that birth circumstance should not impose limitations on where people are allowed to live, then the burden of proof should fall on those arguing against immigration to show a detrimental effect.

That is a very big “if”. Very few people ever have. Very few do today. Humans are born within societies – small, but vital, ones like families, but also neighbourhoods, religious communities, cities, nations and so on. Often people can leave, but in view few cases is there any automatic right to join. Some of the boundaries are quintessentially natural and others somewhat arbitrary. My kids aren’t your kids and vice versa. Each face advantages and disadvantages in their particular birth and upbringing. But except in rare circumstances your kids can’t become mine, or mine yours. In older or more primitive communities much the same limitations applied to tribal or village groupings. No one thought that outsiders had an automatic right to make themselves part of that established grouping. Boundaries of countries are perhaps somewhat arbitrary, but even if at times they are drawn in somewhat arbitrary places – which isn’t the case for New Zealand – groups of people within those borders tend to develop (or have had for centuries) a sense of a common identity, shared interests, and a willingness to undertake mutual support and protection. We might choose to invite people in, but it is a choice. We recognise that, for the most part, being born in New Zealand gives you the right to be here and move about here, and being born somewhere else does not give you that right.

In that world – the real world – where people do think that birth circumstances can, and should, influence where one can choose to live, when governments are thinking of running large scale immigration programmes, the burden of proof should really be on our governments (and those who advocate) such programmes to show that natives will be better off if the outsiders come in. “Better off” doesn’t just have to mean in “economic” terms. It might be something as simple as responding to

the compassion of natives, in the face of a natural or political disaster elsewhere. But for an economics-focused programme, as the New Zealand immigration programme has been for decades, the case made is that natives are made better off by large-scale non-citizen immigration. Sadly, in their report, the Initiative made little effort to show that, as a group, we are indeed made better off or even that, if there are such gains, they are maximised at around the sort of current scale and composition of inflows. If they really believe the story – as distinct from just the ideology of something like “open borders” – applies to New Zealand here and now surely that is a missed opportunity?

New Zealand Initiative on immigration: Part 10 Recommendations and Conclusion

[March 22, 2017](#) [March 22, 2017](#) [Michael Reddell](#) [Immigration, New Zealand Initiative](#)

At last we get to the end of the New Zealand Initiative’s report on New Zealand’s immigration policy.

I don’t want to spend much time on the Conclusion page or so. Even in a short section, there is lots I could challenge or disagree with, but much of it is ground already covered. But I did want to highlight briefly the tone they adopt. It is not one that, say, respects the very wide differences in immigration policies found across time and across the countries of the world (even just among the relatively advanced countries). Or one that recognises that in some areas men and women of goodwill and decency might have different preferences as to how best to organise or govern societies. It isn’t even one open to the possibility that not all state-facilitated immigration – to any place, at any time – will necessarily benefit the natives of the place. Rather, the only things that can possibly lead to different conclusions than the Initiative are fear, confusion, racism and so on.

This is what I mean.

Such is the intensity of the fear and confusion among the public that many opposition parties have seized on this narrative, some naively and some opportunistically. The pro-immigration Key government too has tightened policy settings to appease the public.

No one, presumably, has engaged in a thoughtful or considered reassessment?

Radical changes to policy settings simply to appease populist fears is misguided and even harmful.

The only reason anyone might apparently consider change is “to appease populist fears”.

Which is all a bit odd because a couple of paragraphs on they come to the economic aspects of immigration – economics being the core expertise of Initiative people. And there, writing about New Zealand, they say (emphases added)

*Economic worries about immigration are **overblown**. There is no **compelling** reason to believe migrants are causing **major** detrimental impacts to the labour market. Although the empirical evidence is **less than conclusive**, there are good reasons to believe, as most economists do, immigration **can** make a positive contribution to economic growth.*

Note how weak the actual claims are. It isn't exactly a ringing endorsement of the contribution of New Zealand's immigration policy to the economic wellbeing of New Zealanders. After all, I'm happy to sign up to the proposition that immigration “can” make a positive contribution to per capita economic growth, productivity, NNI per capita or whatever. Pretty clearly it did in New Zealand in the 19th century. It is just that the Initiative, at the end of a major report, can point to no evidence that it actually **has** done so in recent decades, or is doing so now, in New Zealand.

But what of their specific policy recommendations? For practical purposes, they endorse roughly the current scale and structure of our immigration policy (with no attempt to assess whether New Zealanders would be better off if, say, the programme were 50 per cent larger, or smaller, than it is). There are, broadly, four areas of reform they suggest. As they argue – noting again the loaded language

Most of the low-hanging fruit have been picked, but policy can still be improved. And there are less harmful ways to placate those who demand an exclusionist policy.

The first is “giving business more of a say”. In some areas, I agree with them. For example

Rather than let government decide what types of skills the market needs, let the market reveal it through the price system. A market-driven approach could be to adjust the points system to assign points to the salary ranges of job offers rather than the specific industries migrants are qualified in.

I would favour something similar for our short-term work visa rules. Set age-related salary thresholds, and set them quite high, and use that as the main tool to decide whether or not to approve a work visa. I'd have no real problem in offering work visas fairly freely for any position (genuinely)

paying, say, \$100,000 per annum or more, subject to a limit of, say, three years. After all, in the Initiative's words – and ones I could have written myself

Skills 'shortages' can be rectified through higher pay rather than lobbying government to add the skill requirement to the list.

Where I depart from the Initiative is when they fall back on comparing people with pineapples.

The free market is a much better decision-maker on how many imported pineapples or cars New Zealand needs. Likewise, the number and types of skilled workers New Zealand requires is for businesses to decide without the strong hand of government.

What is being decided, in our medium-term immigration programme, is how many people, of what sort, will be able to come and join the polity that is New Zealand. Pineapples don't vote, pineapples don't come with cultures. People do. The Initiative seems largely indifferent to any notion of the state as agent of the collective preferences of its citizens, but most voters probably see it differently. I'd put their sentence the other way round:

“It is for the government, on behalf of the public, to make choices as to how many, and what type of, people to invite from abroad to become New Zealanders. Firms and employers will choose optimal production structures, remuneration patterns etc, in light of all the resources and constraints they face.”

The Initiative also explores the option of imposing a levy, “to limit the effects of migration on infrastructure costs”. One of the authors, Rachel Hodder, followed up this idea in an [article](#) on [interest.co.nz](#). As she puts it

Our recommendation then also stands as a challenge to political parties that have been using infrastructure burden as justification for cutting immigration. If that is the genuine reason you believe immigration policy needs to be adjusted, then why not explore this option first?

It is an interesting idea, and I don't think I'd have any objection in principle. It would increase the chances – although certainly not ensure – that large scale immigration would actually be benefiting New Zealanders in aggregate, although on its own it would do nothing to allay the distributional concerns (that relatively unskilled New Zealanders are losing out).

The Initiative proposes the idea of a levy without, as far as I can see, giving any sense of the possible size. One angle might be to look at the public sector capital stock, which presumably needs to be augmented, in much the same per capita amounts, for each addition to the population. As at last March, Statistics New Zealand estimated that the current value of the general government sector's capital stock was around \$41500 per person. But that is a depreciated value. Assume that all the capital was halfway through its life, and one could easily be looking at a per capita cost of putting in place the new public sector capital that new migrants require of \$80000. Some of the public sector capital is already financed by user-fees, but most of it isn't. I wonder if anyone is seriously willing to propose an \$80000 levy for successful applicants for a residence visa in New Zealand – even if, say, it could be paid as an income tax surcharge over the following 10 years? In principle, it should raise the average skill level of the successful applicants to some extent. It would certainly deter migrants with children.

I don't have a huge problem in principle with such a scheme but, rightly or wrongly, I suspect most people would judge that it was almost a "repugnant transaction" – they would prefer not to sell the right to become one of us. Is it different in character from inviting migrants in on the hypothesis that doing so will enrich us all (the current philosophy)? Perhaps not – and definitely not to the economist in me – but I can't see it finding a great deal of public favour, among supporters or sceptics of the immigration programme.

The Initiative also seems to endorse proposals for New Zealand to sign reciprocal free movement agreements with any willing countries, citing favourably ACT leader David Seymour's suggestion to promote such agreements with Canada and the United Kingdom, complementing the arrangements we currently have with Australia.

Doing so with the UK in particular would, of course, restore the system that operated for more than a century after New Zealand was first settled. It was only in the 1960s and 70s that free movement between the UK and New Zealand was no longer legally permitted. At a political level, I find the idea quite appealing (but politicians in the two countries are unlikely to). At an economic one, I don't. This simply harks back to my longstanding argument that the most important issue for New Zealand is the sheer number of immigrants we've been taking, not primarily what skills they've had or where they've come from. Most of our migrants in the early post-war decades came from the United Kingdom. At the time, material living standards here were better than those in the UK. But even now, decades on, no one has been able to produce studies – whether econometric ones or analytical narratives – demonstrating the productivity gains to New Zealanders from that large scale

immigration. Economists at the time was pretty sceptical. Those now just seem uninterested in New Zealand economic and economic policy history, and the possible lessons it should offer.

These days, of course, New Zealand is poorer than the UK, but the UK is so much the larger country that even a small outflow from the UK to NZ (as a share of the UK population) would be materially disruptive to New Zealand, and would further set back the chances of lifting productivity and living standards here back to those in, say, the top half of the OECD. There is, additionally, the adverse selection problem, that the people most willing to migrate from a rich hub to a poorer, but perhaps more relaxed and spacious, country are hardly likely, on average, to be those with the greatest desire to succeed, and the strongest likelihood of offering the vaunted productivity spillovers.

The Initiative's final suggestion for policy improvement is in the area of sponsorship for migrants.

A separate visa category could allow committed people to sponsor and support migrants in adverse circumstances, provided adequate checks and balances are in place. Canada allows community groups to sponsor refugees above the quota if they agree to be responsible for the basic care and support of the refugees, and New Zealand is laudably trialling this system for refugees here.

In principle, I'd have no particular problem with this suggestion. As they note

Requiring bonds from sponsors could ensure the sponsors are held to their commitment.

But I think it is an approach mostly best operated on a relatively small scale. Immigration policy is a collective decision about the number, and sort, of people we welcome to become future New Zealanders. I'm not sure we want motivated minorities – whether libertarians, evangelical Christians, Wahhabi Muslims or whatever – trying to skew the population balance over time by fundraising to bring in lots more of their own. Each group is, of course, welcome to evangelise and persuade, and perhaps if the libertarians ever persuaded enough of us we'd have open borders after all. But make it a contest of ideas, not of the power to buy more imported supporters.

In the end, it is a pretty modest list of suggested reforms. Much as they seem driven by a vision of open borders, in the end the Initiative is worried that New Zealanders might be getting uncomfortable with the grand Think Big experiment of New Zealand existing immigration policy over the last 25 or so years. It has delivered us a large increase in the population, and a lot more ethnic restaurants and higher house prices (to take the most obvious gains and downsides), but with little or no evidence that it has done anything to lift our overall economic performance. As the OECD noted again only the

other day, for the last quarter century our productivity – already low – has just drifted a little further behind other advanced countries. Perhaps it is past time to rethink this key dimension of economic policy.

My own preferred model would probably have these elements:

1. Reducing the residence approvals target from around the current 45000 per annum to, say, 10000 to 15000 per annum. In per capita terms, that would be about the rate of legal immigration the US has, and would be similar to the rate we had in the 1980s. Not exactly closing the door, but certainly pulling it over to some extent.
2. Within that reduced target I would look to focus much more strongly on demonstrably highly skilled people (who offer the best chance of fiscal and productivity gains) and thus would
 - revisit, reduce and potentially eliminate the current Pacific access categories,
 - permanently eliminate parent visas, except (and even then capped) where there is an enforceable, insured, commitment to full financial support from the parent, or their New Zealand citizen child.
 - leave the refugee quota as it is
 - eliminate the additional points provided for job offers in regional areas (a measure that is tending to lower the average quality of the accepted migrants)
 - eliminate additional points for New Zealand specific qualifications,
 - eliminate additional points for jobs in areas of “future growth” or “absolute skill shortage”
 - more strongly differentiate points in favour of higher level qualifications,
 - perhaps establish a category akin to the [US visa for those with extraordinary ability](#)
3. Eliminate the provision allowing foreign students studying here to work 20 hours a week. If New Zealand tertiary institutions really have a product worth buying – and some probably do – they should stand on their own feet, as other exporters are required to.
4. Reshape the work visa system with a view to (a) reduce the scope for lobbying and influence peddling, (b) reducing the total number of people here on work visas at any one time, and (c) provide much greater flexibility for employers to utilise work visa people for short specific periods in highly-skilled and well-remunerated roles. Since there would be many fewer residence approvals place open (see above) this path would in any case be much less popular with prospective migrants. Specific features might include:
 - no one could have a work visa for more than two three year stints

- use an age-based matrix in which in normal circumstances no work visas might be issued to anyone under 30 for a role paying less than, say, (an inflation-indexed) \$75000 per annum, increasing by (say) \$25000 in each five year age window up to a cap so that for a person over 50 to get a work visas they would need to be in a role paying \$200000 per annum or more.
- no doubt there would need to be some exceptions to this, and it would not apply to say approvals for roles of less than perhaps three months, but the point is to get the focus not on official judgements of “skill shortages” but on attracting people, if we do, who are capable of commanding high salaries (loose proxy for skill) on market.

Is it a perfect scheme? No, of course not. That isn't a meaningful test for any human institution. Is it a scheme for other countries. No. Some might find it useful, but for others – where there might be clear evidence of gains to natives from large scale immigration – it might be quite inappropriate. But for the specifics of where New Zealand finds itself now, it would be a huge step in the right direction. For a very remote place, in an age when personal connections seem to matter more than ever, it would give us a much better chance of finally beginning to close the income and productivity gaps, and offer New Zealanders – the inevitably fewer number of future New Zealanders than under current policy – the chance of achieving world class productivity and living standard here in their own place.