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An underperforming economy: the insufficiently recognised implications of extreme remoteness

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“I do not know in political economy...a single practical rule that must be applicable to all cases; and I am sure that no one is at all capable of determining what is the right political economy for any country until he knows its circumstances” (J S Mill, House of Commons, 12 March 1868)

Introduction

New Zealand was the last major land mass to be settled, probably in the 1200s. The Maori population appears to have been almost entirely cut-off from the rest of the world, but enjoyed modest, largely subsistence-based, material living standards, aided by a temperate climate and ready access to lakes, rivers and the sea. But from the early 19th century, contact with western cultures and peoples opened up possibilities for foreign trade and then for settlement.

British colonial government was established in 1840 and over the decades that followed, particularly after 1860, there were large inflows of migrants (mostly from the United Kingdom), often with the active financial assistance of the state². By the late 19th century, the advent of refrigerated shipping, new technology in the dairy industry, and strong institutional, personal, and economic ties to the United Kingdom - then the world’s leading economy and financial centre - had combined to generate among the very highest levels of per capita income³ anywhere in the world, in its most remote corner. On the eve of World War One, New Zealand (then with a population of only 1.1 million), Australia and the United States had similar levels of GDP per capita, each well ahead of any of the countries of northwest Europe. Despite the extremes of distance, New Zealand held that top-tier

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² Being so remote, the costs of migrating to New Zealand (including opportunity cost of lost working time) were substantially higher than to, say, North America.

³ This and other pre-1970 estimates is drawn from the Angus Maddison collection of historical statistics at <http://www.ggdc.net/maddison/oriindex.htm>. A hundred years ago, even in the then-richest and most productive economies, material life for the average citizen was tough - short life expectancies, air pollution, high infant and material mortality, and the utilities, appliances and services now taken for granted (when available at all) were far from universal. See, for example, Reddell (2018)

rank for decades. It was, in many respects, a remarkable accomplishment, a testament to the fruit of the first great age of globalisation.

Anything that would today be thought of as economic policy was quite limited. There was no central bank (until 1934) and the (privately-issued) currency was largely tied to sterling. On the other hand, the key economic institutions (rule of law, democratic polity, private property rights) were much as received from the United Kingdom, and UK-based financial markets provided the key source of both public and private external capital. As befitted a fast-growing new country, extensive use was made of foreign capital, and estimates of a (negative) net international investment position with the rest of the world exceeded 200 per cent of GDP at peak⁴. Complementing foreign capital flows, foreign trade was central to New Zealand's prosperity. Contemporary writers talked of New Zealand exports per capita being the highest anywhere. The opportunities arose from the potential of the land for grassland farming, and ready access to the UK markets - the United Kingdom being more heavily dependent on imported farm products than any other country at the time. This world-matching prosperity and productivity was largely unchallenged through until around 1950, although with the benefit of hindsight the seeds of the next wave of challenges lay at least a generation earlier.

In more recent decades there has been a sharp deterioration in New Zealand's relative fortunes. New Zealand remains a relatively prosperous country - and much richer than it was even 50 years ago - with an impressive degree of macroeconomic stability and functioning open markets - but the decline in relative productivity/incomes has been stark. That decline and the failure of far-reaching reforms in the 1980s and 1990s to end it decisively, let alone reverse it, is central to this chapter. I document the decline, and some of stylised facts relevant to it, and offer some perspectives on why there has been no reversal. New Zealand's productivity and average incomes are now no better than fifth or sixth even in the Asia-Pacific region, and perhaps 30th in the world.

For decades, New Zealand's relative decline troubled policymakers, and there appeared to be political returns to promising action to reverse the (productivity and income) gaps that had opened up between (in particular) New Zealand and Australia. But in the last couple of decades even the will to explore the challenges and think seriously about steps that might reverse the decline appears to have faded. The capacity of the major economic institutions - a challenge to maintain in a small country - has been degraded.

As some other authors have done, I suggest that the extreme remoteness⁵ of New Zealand is an important part of the story. But it may matter in different ways that has been generally recognised. There is no other advanced country with economic opportunities and constraints quite the same as New Zealand's. That in turn makes the challenges facing New Zealand policymakers and advisers very different from those for small advanced or emerging countries in Europe in particular (for each of whom there are usually several good comparators).

There are many areas of public policy where physical proximity to or remoteness from other countries doesn't appear to matter greatly (one might think of education, health or even taxation), but productivity and overall economic performance appears to be one of the exceptions. Geography matters. For decades, research has highlighted trade happens most intensively between parties located close to each other (the predictions of gravity models appear to be broadly correct). New Zealand is close to nowhere, and yet foreign trade is the lifeblood, central to the prosperity, of any

⁴ B Wilkinson, *New Zealand's Global Links: Foreign Ownership and the Status of New Zealand Net International Investment*, New Zealand Initiative, Wellington 2013

⁵ A repeated theme in reflections on New Zealand over the years. See, for example, K Sinclair (ed), *Distance Looks Our Way: The Effects of Remoteness on New Zealand*, 1961.

small country (and most larger ones too). Ideas - central to so much of modern economic growth - can and do germinate in New Zealand, but more often than not good ideas seem to have been generate higher rates of return when applied/developed in locations nearer the centres of world economic activity.

Against that backdrop, New Zealand's continuing aggressive approach to immigration has come to seem particularly problematic. Using arms of policy to attract ever more people into such an isolated location where few internationally-oriented businesses based on anything other than the location-specific and fixed natural resources have successfully developed, and where there have been few asymmetric productivity shocks favouring those natural resources industries for decades, looks highly questionable. Policymakers typically ignore the signal in the revealed choices of New Zealanders: over the past 40 years a net 800000 New Zealand citizens have left permanently for better opportunities abroad.

Background

Although New Zealand's economic fortunes were heavily dependent on two-way foreign trade, the thrust of much of economic management after 1938 had been to reduce exposure to the world, by imposing high levels of protection for manufactured goods, which in turn saw the establishment of a large but inefficient domestic manufacturing sector, producing a wide variety of products once (and again now) typically imported. The associated "tax" on exports meant that, whereas New Zealand had once had the highest exports per capita of any country, foreign trade shares of GDP shrank in the post-war decades. By the early 1970s, the export share of GDP of around 22 per cent, less than in all small OECD countries other than Greece. And whereas for more than a century the net flow of people between Australia and New Zealand had been small, and had mostly just been a relative cyclical phenomenon, from the mid-1970s the (net) flow became large and unidirectional, as the gaps between Australian and New Zealand economic performance widened⁶.

The deterioration in New Zealand's relative performance in the post World War Two decades was recognised relatively early by careful analysts⁷, but it was not until at least the late 1960s, and more broadly probably until the late 1970s (with a sharp fall in the terms of trade, and the entry of the United Kingdom to the European Economic Community) that the deterioration began to impinge materially and consistently on political and public consciousness. Until then, despite lagging productivity growth, absolute living standards had remained attractive for most, and unemployment rates were usually extremely low.

The broad direction of policy in the post-war decades had come to be towards liberalisation, but it was a halting and hotly contested process, sometimes put into reverse. Progress in most areas was relatively limited until the quasi-crisis associated with the 1984 snap election. A run on the (then fixed) New Zealand dollar rate during the campaign culminated in a 20 per cent devaluation just days after the election. Official advisers believed that an overvalued real exchange rate had been a significant element in the story of New Zealand's economic malaise.

The 1984 devaluation ushered in a period, which would stretch for a decade under two different governments, of the most far-reaching structural reform and liberalisation New Zealand had ever experienced (probably more thoroughgoing in a shorter space of time than in any OECD economy

⁶ New Zealanders and Australians have had the freedom to live and work in the other country as long as the two countries have existed.

⁷ See notably Blyth (1960) and Monetary and Economic Council (1962)

until then⁸). A small group of visionary political leaders and senior officials, a sense of growing discomfort over the underperformance of New Zealand over the previous decade or so, and a system of government (single chamber parliament, dominant majority party) that made it relatively easy to implement change quickly, combined to bring about a concentrated wave of reform. Trade protection and industry assistance was substantially reduced, state trading assets were commercialised and (often) privatised, and many product and service markets (including the financial sector) were extensively liberalised. The key watchword was efficiency (Evans et al 1996)

The structural reform programme was accompanied by a stabilisation programme that resulted in markedly lower inflation - previously averaging among the highest in the advanced world - and returned the fiscal accounts to surplus. Institutional reforms⁹, affecting both fiscal and monetary policy, were designed to enhance transparency and accountability, and increase the prospects for durable macroeconomic stability.

Together the reforms were widely seen (among officials and sympathetic commentators in New Zealand, and among a galaxy of overseas admirers) as having put New Zealand on a secure foundation, that would enable the gaps that had opened up between New Zealand incomes (and productivity) and those in other advanced OECD countries to close. The pre-eminent comparison was with Australia - itself hardly a stellar economic performer at the time - where in the 25 years to 1990 a net 400000 New Zealanders had settled¹⁰, attracted by the widening gap in material living standards.

But with hindsight it was striking how little attention appeared to have been given in the course of the reform programme - much of which was conducted at high speed - to the specifics of New Zealand's situation. The unstated, but implicit, assumption often appeared to be that New Zealand was in no different a position than other (perhaps other small) OECD economies, and that provided the same sorts of policies were adopted in New Zealand - perhaps supplemented by reductions in global agricultural protectionism, a key cause at the time - outcomes as good as those in the rest of the advanced world could be expected¹¹.

This is notable in, for example, The Treasury's two-volume briefing prepared for the incoming government in 1987 (Treasury (1987)), but also in, for example, the advice provided to the New Zealand authorities in the 1980s and early 1990s by the OECD. That approach made considerable sense in many areas (notably macroeconomic stabilisation), but was carried over (perhaps almost unconsciously) to the analysis and advice around microeconomic policy and the prospects for productivity growth and the tradables sector.

Macroeconomic stability

In the decades since the reform era, New Zealand has had a reasonably good record of macroeconomic stability. The floating exchange rate, although sometimes volatile, has mostly served New Zealand well, particularly in avoiding the consequences (seen, for example, in Ireland, Spain and Greece) of injudicious pegs.

⁸ A description endorsed by the OECD in its 1991 *Economic Survey of New Zealand*.

⁹ See the Buckle chapter in this volume for details.

¹⁰ Even by 1990, New Zealand's total resident population was only around 3.3 million.

¹¹ The author was closely involved, from the New Zealand end, in the 1991 OECD *Economic Survey*. By then, there was already unease about the prolonged adjustment phase, and the lack of evidence of economywide productivity gains. But neither in the text, nor in the discussions in Paris, was there any suggestions that remoteness might matter, or might have material implications for appropriate policy design.

After a couple of decades in which it had been both high and volatile, inflation since around 1991 has been low and stable. That outcome is attributable both to the operationally independent Reserve Bank and (perhaps more importantly) to successive governments that have set the policy targets for the Bank and kept the policy focus on low inflation even when that focus became contentious in the political debate. The inflation target has been changed several times, and changes to the Reserve Bank Act or to the core policy target were called for by one or more significant political parties in every election from 1990 to the present day. Few other advanced inflation targeting countries had a similar experience, and in New Zealand the unease may have been as much a response to symptoms of the broader economic challenges - including high (by advanced country standards) real interest rates and a persistently high real exchange rate – as to any specific problems with the conduct of monetary policy itself.

The bipartisan consensus encompassed fiscal policy. For 15 years starting from 1994, across two different governments, New Zealand ran fiscal surpluses¹². New Zealand governments ran deficits for several years following the recession of 2008/09, exacerbated by the effects of a succession of destructive earthquakes in 2010 and 2011. The success of the model is not that deficits are always avoided, but that when deficits happen, there is a fairly strong shared commitment to close them. Operational surpluses are again an established feature, and in the most recent (2017) general election the two main parties had very similar aggregate fiscal policies, both offering surpluses into the indefinite future, from a starting point of a very low level of public debt¹³.

Fiscal and monetary stability has been complemented by a high degree of financial stability, at least after the exuberance-followed-by-aftermath period in the late 1980s that came hard on the heels of financial liberalisation¹⁴. Despite large increases in housing, farm, and business debt in the 2000s, the core financial system experienced only a fairly modest increase in the level of loan losses in the recession of 2008/09. The banking system (largely foreign-owned) appears to be strongly capitalised and resilient to demanding stress tests imposed by New Zealand and Australian regulators. In addition, the funding structures of banks are also now more robust (much less dependent on short-term foreign wholesale funding). That in turn partly reflects the considerably smaller current account deficits New Zealand has run over the last decade. After running up a troublingly large negative net international investment position in the 1970s and 1980s, largely reflecting the major fiscal imbalances during that period, New Zealand's net (but mostly private sector) dependence on foreign capital has remained high, but has fluctuated around a fairly stable level (share of GDP) for most of the last 30 years.

The macroeconomic stability New Zealand has achieved isn't unique - Australia and Canada for example have had similar records - and so one should be wary of putting too much store by New Zealand-specific interpretations. Low inflation has been a common experience for advanced economies (and increasingly for emerging ones) in recent decades. Nonetheless, on the fiscal and monetary side there is little doubt that New Zealand policymakers and advisers – and the political system more generally - had been scarred by the experience of the late 1970s and early 1980s. As late as 1991, New Zealand grappled with the threat of a double downgrade to its sovereign credit rating. That backdrop helped to create a constituency (across the core political divide between the

¹² On the operational spending and revenue balance measure introduced as part of New Zealand's adoption of accrual accounting for the public sector.

¹³ On the OECD general government net financial liabilities measure, 1 per cent of GDP in 2017.

¹⁴ With parallels to the (similar, if less marked) Australian experience at the same time, and in some respects to the Nordic experience in the late 1980s and early 1990s (the latter economies still having fixed exchange rates).

National and Labour parties) for a cautious approach to future macroeconomic management. The financial crisis of the late 1980s (in both New Zealand and Australia) may also have played some part in shaping more cautious attitudes among both lenders and potential borrowers. More generally, advanced floating exchange rate countries whose (a) whose governments stayed out of housing finance markets, and (b) whose banks did not have a superfluity of deposits, have avoided systemic financial crises in recent decades. New Zealand and Australia – with banks dependent on foreign wholesale funding for their (mostly) rather simple domestic loan portfolios - were two of those countries.

But if the headline macroeconomic stability numbers have mostly offered a pretty encouraging story, a set of continuing macroeconomic imbalances lurk just a little below the surface¹⁵. Most obviously perhaps, New Zealand real interest rates have for decades averaged well above those in other advanced economies.

Markets have long expected convergence between New Zealand and foreign rates (over decades this was implicit in the respective yield curves). But that convergence has never, enduringly, happened. At the time of writing (mid 2019), for example, when US short-term interest rates are unusually high relative to those in the rest of the advanced world, New Zealand short-term official interest rates are below those in the United States for only the second time in many decades. Record low absolute levels of New Zealand interest rates are still materially higher (in real and nominal terms) than those in most other advanced countries.

Simple explanations for the persistent difference in real interest rates have been unsatisfactory. New Zealand's government accounts are extremely solid (net debt among the lowest quartile in the OECD), the banks are strongly capitalised (and part of highly-rated banking groups), and New Zealand's negative net international investment position (as a share of GDP) has cycled around a fairly stable level for several decades now.

Productivity underperformance

A creditworthy advanced economy might still be expected to have persistently higher real interest rates than its peers if domestic productivity growth was persistently high. Rapid productivity growth tends to be associated with high rates of business investment (and associated pressure on real resources). Countries with strong productivity growth may also experience rapid consumption growth, in anticipation of future income gains. Both forces could be expected to put persistent upward pressure on real interest rates, and over time strong productivity growth would also be expected to be reflected in a trend rise in the country's real exchange rate (through Balassa-Samuelson channels).

None of that resembles the New Zealand story. There has been no sustained period since the reforms were undertaken when New Zealand's labour productivity growth has matched (let alone exceeded) that in the typical advanced country. At best, the rate of relative decline has slowed.

On some wellbeing metrics, New Zealand still scores rather well. But the revealed preferences of New Zealanders tells another story: between 1990 and 2015, another 530000 New Zealanders (net) left to settle abroad (mostly in Australia). On OECD estimates real GDP per hour worked in a group of leading advanced economies - in northern Europe (Germany, France, Belgium, Netherlands,

¹⁵ These have been recognised in official circles for some time. The Reserve Bank and The Treasury hosted a prominent conference on the issue some years ago <https://treasury.govt.nz/publications/conference-paper/new-zealands-macroeconomic-imbalances—causes-and-remedies-policy-forum-23-and-24-june-2011>

Denmark, and Sweden) and the United States¹⁶ - is now about two-thirds higher than that in New Zealand. There are no longer-term comparable historical productivity estimates available, but until around 1960 New Zealand had had higher per capita incomes than all of these countries except the United States for a hundred years.

Table 1: Labour productivity: New Zealand and a leading OECD group

	GDP per hour worked USD, constant prices, 2010 PPPs		
	1970	1990	2017
New Zealand	21.4	28.5	37.3
Netherlands	27.5	47.7	62.6
Belgium	25.0	46.6	64.8
Denmark	25.1	44.7	64.9
France	21.6	43.0	59.8
Germany	22.3	40.6	60.5
Sweden	27.2	38.8	61.7
United States	30.9	41.8	64.2
Median of seven	25.1	43.0	62.6
NZ as per cent of median	85.3	66.3	59.6

Various authors (including McCann (2009), Conway (2017) and Reddell (2013 and 2017) have attempted to make sense of New Zealand's disappointing productivity performance. A variety of other stylised facts often appear in these and other discussions, including:

- The persistently high average real interest and exchange rates,
- Persistently low average rates of business investment (per cent of GDP),
- Low rates of spending (per cent of GDP) on research and development,
- Flat or falling shares of foreign trade in GDP (and of tradables sector production),
- High house prices (and high price to income ratios),
- Low rates of foreign direct investment,
- A small, but quite rapidly growing, population, and
- Relatively low national savings rates

On the other hand, over the last thirty years (since the reforms) New Zealand has benefited from one of the larger increases in its terms of trade¹⁷ of any OECD country.

Towards making sense of the productivity performance

On most standard comparisons New Zealand looks as though it should have had a much better-performing economy:

¹⁶ There is a further group of idiosyncratic OECD countries (Luxembourg, Norway, and Ireland) with still higher average rates of labour productivity.

¹⁷ See Steenkamp (2014) highlights how different the business investment responses were in New Zealand and Australia following significant lifts in the respective terms of trade.

- **Institutions.** New Zealand is widely regarded as having low levels of corruption¹⁸, an effective independent judiciary, the rule of law, and has been one of the longer standing consistent democracies in the world¹⁹.
- **Natural resources.** New Zealand has a temperate climate, and has among the highest quantities of fresh water per capita, and fairly abundant land area per capita.
- **Skill levels (human capital).** On OECD cross-country skills metrics²⁰, New Zealand workers rank among the most skilled in the OECD, both natives and (to a lesser extent) the substantial immigrant population. New Zealand workers scored particularly strongly in problem-solving skills.
- **Standard OECD microeconomic policy prescriptions.** Even after a couple of decades with little fresh reform New Zealand still scores relatively well on many of the OECD's Going for Growth indicators. Indeed, in a paper written several years ago, several OECD researchers took a set of microeconomic policy indicators and estimated a cross-country model. That model suggested that real GDP per capita in New Zealand should be well above the OECD average²¹, not below that average. Clearly something important was missing from the model.

Some participants in the New Zealand debate have suggested that the size of government is a factor acting as a drag on productivity prospects (citing comparisons with places such as Singapore and Hong Kong) However, government revenue and expenditure in New Zealand are typically slightly below (share of GDP) the median for OECD countries, and are lower than was the case in the 1980s.

The continued disappointing productivity performance sometimes been described as the New Zealand "productivity paradox". Authors who accept this framing typically also take the view that New Zealand policy frameworks have been fit for purpose, hence the idea of a paradox (good policies, poor outcomes). The alternative interpretation is that the models such authors are using, whether more formal or narrative-based, are omitting one or more key explanatory variable.

New Zealand is one of the most remote countries in the world (perhaps the most remote independent country of more than a few hundred thousand people²²). It is not just that the distance between, say, Wellington and Canberra is greater than that between capitals of any other neighbouring countries, but that Australia itself is remote. A vivid image that has sometimes been used is of New Zealand as the last bus-stop before (uninhabited) Antarctica.

Foreign trade opportunities first opened up with the settlement of New South Wales after 1788 and the advent of whalers and sealers from the northern hemisphere, little more than 200 years ago. That trade was, of course, location-specific: the production occurred in New Zealand simply because the natural resource was there.

But the location-specific nature of New Zealand's exports hasn't changed very substantially since. Despite the typical importance of rising foreign trade in any successive catch-up and convergence growth phase, the export (and import) share of GDP is now very low for a country of only five million people. It is difficult to draw precise lines, but at least 80 per cent of total New Zealand exports -

¹⁸ Scoring consistently well on the Transparency International index

¹⁹ Representative government dates back to 1856.

²⁰ See, for example, OECD (2016).

<http://www.oecd.org/skills/skills-matter-9789264258051-en.htm>

²¹ Barnes, S. et al. (2013), "The GDP Impact of Reform: A Simple Simulation Framework", OECD Economics Department Working Papers, No. 834, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5kgk9qjnhkmt-en>

²² And even then probably only a few small, poor, Pacific Island states would qualify as more remote.

including the large tourism sector - could still reasonably be considered location-specific (the bulk of which is traditional pastoral production)²³. The number is similar for Australia and Norway but in much of northern Europe and in the United States that share might be no more than 25 per cent. In the Netherlands, for example, which is the second largest agricultural exporting country in the world, agricultural products make up only around 10 per cent total exports.

Of course, if we look beyond the OECD (or the IMF advanced economy group), there are a number of other high income countries that are heavily reliant on natural resource production and export. Eight of the top 25 countries in an IMF listing of countries by real GDP per capita (converted at PPPs) were predominantly oil and gas exporters, Qatar holding the top spot. A common feature of almost all of them is a small population (only Saudi Arabia, with among the very largest oil and gas reserves in the world, has a population larger than New Zealand's).

Most advanced OECD economies (and ones such as Singapore and Taiwan) do not prosper these days mainly by selling - however productively - the fruit of a (fixed stock) of natural resources. Rather, firms in those countries primarily sell abroad manufactured products and services that draw primarily on the ideas and talents of their people. In that context, more people can often mean more ideas, more opportunities, more exports, higher productivity²⁴. By contrast, in New Zealand (or Australia) where, despite considerable innovation applied in the various primary industries, most exports are still (directly or indirectly) products of the (fixed) land and sea. There has been little no success for decades in increasing the economic significance of non-natural resource sectors: exports of services and advanced manufactured exports are a smaller share of GDP than was so even fifteen years ago.

To a first approximation, the economywide production function of the tradables sectors of countries like the UK, Belgium, Netherlands (or emerging advanced economies like Slovakia or Poland) are adequately represented by two-factor models, in which labour and capital are both scalable, and capital can - over time - more or less fully adjust to changes in the number of people and changes in market opportunities. In New Zealand - or Australia or Norway - the tradables sector is better represented by a three-sector model, where the important third factor (natural resources taken together) is fixed. At least in respect of existing industries, diminishing returns are a material consideration. There would be no more oil and gas in Norway - but much less on average per capita - if Norway had 50 million people rather than five million²⁵.

It is hardly surprising that New Zealand produces a lot of natural resource based exports - with ample oceans, fresh water, temperate climate, and land. What might seem more surprising - at least based on the simpler standard models explaining comparative economic performance - is that more of other stuff (whether goods or services) is not sold from New Zealand. After all, New

²³ And some of the remaining sectors benefit substantially from explicit or implicit government subsidies (explicit in the case of the film industry and implicit - through bundling with the immigration system - in the case of the substantial export education sector).

²⁴ And consistent with this, GDP per capita in the major cities of advanced countries not dependent on natural resource exports is typically well above that in the rest of the country. That is not the case in New Zealand (or Australia).

²⁵ The implications of the fixed stock of natural resources has been substantially masked in both Australia and Norway. Fifty years ago neither country was a large minerals exporter. The resources were always there, but were either undiscovered or were uneconomic to extract. For practical purposes, the two countries can be treated as if they had had a considerable accretion of new natural resources in recent decades. New Zealand has found no comparable new natural resource opportunities.

Zealand has talented, innovative, entrepreneurial people, the rule of law, and tax rates that are not unduly high by advanced country (OECD) standards²⁶. And yet as a share of GDP total exports are modest - perhaps no more than half what might be expected for a country of New Zealand's size²⁷. And outside the natural resource-based sectors, not many other firms – domestic or foreign - have found that, without subsidies, New Zealand provides a remunerative location to base businesses that service global markets.

Over the last 15 years or so there has been increasing recognition of the potential importance of distance, not just in explaining where economic activity occurs within countries but in influencing on which countries activity occurs in at all. Cross-country work at the OECD by Boulhol and de Serres (2010), suggested that both Australia and New Zealand are handicapped by up to 10 per cent (in GDP per capita terms) by distance. With a microeconomic perspective, McCann (2009) argued that New Zealand's apparent economic underperformance should be no surprise given the rising importance globally of the economics of agglomeration and the growing importance of big cities, arguing that these pressures had only intensified since around 1990.

As it happens, there is little evidence to support the proposition that small countries have been growing more slowly than large ones (even among advanced countries), and McCann - an author focused mostly on Europe – largely ignores the distinction between natural resource dependent (advanced) economies and city-based (other) advanced economies. Nonetheless, New Zealand seems to be an illustration of the point made by various writers (including Baldwin (2016)) that the real effective costs of distance may be as large as at any time in the last 100 years, and may even be increasing. This issue here is not physical transport costs - the actual shipping costs on, say, a container of New Zealand lamb to London or Shanghai are pretty modest - and probably isn't much of an issue for simple homogeneous products (eg bulk minerals or milk powder). Rather the issue is partly about options for complex supply chains, in which numerous firms/plants play to their own expertise to provide different stages in the production of complex products from iPhones to Airbus aircraft. When your country²⁸ is the most remote land mass on earth, there are few such options - typically whatever could be provided from New Zealand could be provided more cheaply, and with fewer transport delays, from somewhere closer.

The other strand of this issue appears to be around centres of expertise (concentrations of specialised knowledge and professional services) and the personal connections that play a significant part in many modern products and services. Email and Skype are valuable innovations, but they rarely offer the same advantages the ability to meet personally, formally and informally, with someone whose expertise you are drawing in, or with whom you are in partnership. There have been many brilliant ideas dreamed up in New Zealand, but most - especially those not specific to New Zealand natural resource industries - will be more valuable to businesses based near the centres of the modern economy. Firms attempting to tap world markets from Cape Town, Melbourne, Santiago, Montevideo or Buenos Aires face many of the same issues, in a way that firms operating from Tokyo, London, Amsterdam, or New York do not²⁹.

²⁶ Although corporate income tax rates in New Zealand are in the upper part of the OECD range, and the level of competition in domestic services sectors (inputs to the tradables sector) is often quite limited.

²⁷ Bearing in mind that productivity in New Zealand is around 60 per cent of that in leading countries, and the export share of GDP (even of value-added in GDP) is less than one might expect for an advanced country of New Zealand's population.

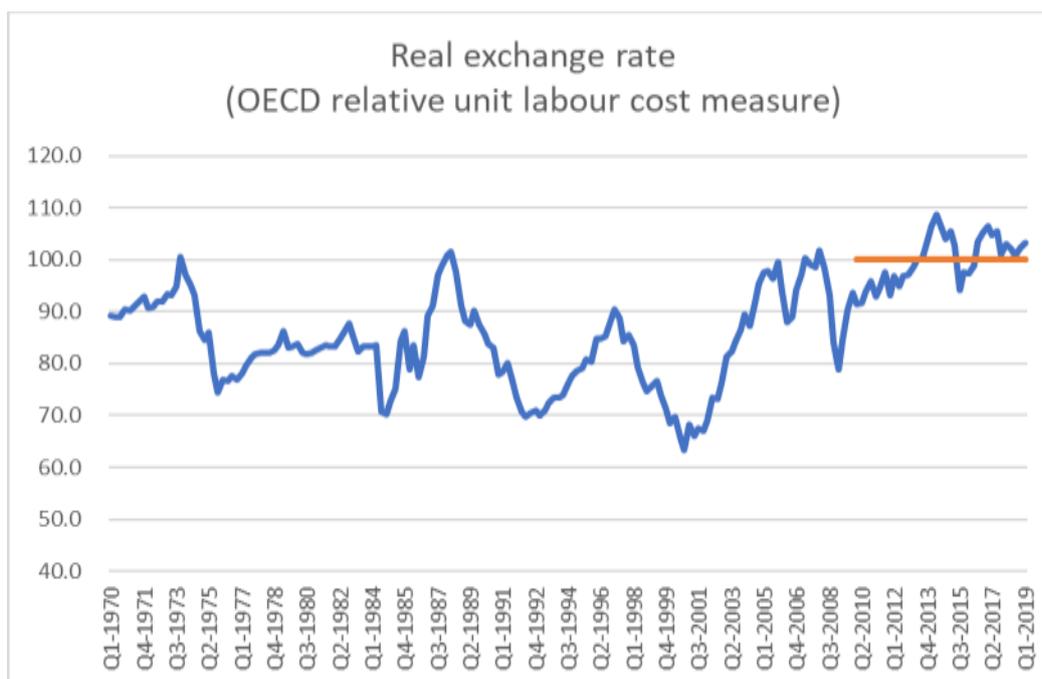
²⁸ But the same logic applies to remote areas of other countries.

²⁹ Consistent with this, estimates of GDP per capita in Auckland (and Sydney) are not much above those for the respective countries as a whole, quite different to the situation in major cities in Europe and the United States.

But the challenges of growing a large export sector from New Zealand have been compounded by at least two other considerations. The first is the limitations of a fixed supply productive land (including the growing domestic concerns about water pollution, and the fact that around half of New Zealand’s greenhouse gas emissions are from farm animals).

Probably of equal importance in recent decades has been the persistently high value of the real exchange rate. The continuing deterioration in New Zealand’s relative productivity performance might have been expected to be accompanied by a decline in New Zealand’s real exchange rate, through Balassa-Samuelson types of channels. Such a rebalancing would have resulted in more tradables sector firms being viable based in New Zealand. There were signs of such a rebalancing happening in the 1970s and early-mid 1980s – the period when productivity growth fell below “world” growth rates most starkly. But that was a period when there were numerous other fresh policy distortions adversely affecting New Zealand economic prospects. And any tendency towards a sustained real depreciation was more than fully reversed subsequently (although with considerable cyclical fluctuations). Using the OECD’s relative unit labour cost measure of competitiveness as an example, the average level of the real exchange rate this decade has been higher than in the early 1970s, a period when New Zealand’s relative productivity performance was much better (see Table 1).

Chart: OECD relative unit labour cost measure of the real exchange rate



The persistently high real exchange rate is likely to be related to the persistent (on average over the cycle) margin between New Zealand real interest rates and those in the rest of the world. The most compelling story suggests a common explanation for both sets of relative prices, one sourced in domestic (ex ante) savings/investment imbalances (see Reddell (2013) and Brook (2014)). Persistent repeated positive domestic demand shocks would tend to boost both real interest rates and the real exchange rate, skewing activity away from the tradables sector. That, in turn, may help to explain some of the stylised features of the economy discussed earlier, including low rates of business investment (in turn including low rates of business R&D spending). Firms invest when the prospective profits exceed the cost of capital. High interest rates and a high real exchange rate, all

else equal, hold back total investment and skew it away from the (outward-oriented) tradables sector.

A potential explanation: immigration policy

In an economy with relatively modest national savings rates, one candidate hypothesis (articulated in Reddell (2013) for such a repeated-demand-shock story is the very high rate of policy-driven inward migration of non-citizens. As has been recognised formally since the 1950 and 60s³⁰, whatever supply side benefits might in time flow from an influx of migrants, in the shorter-term the demand pressures associated with positive population shocks will typically outweigh those effects. More people mean a need for more physical capital (including housing), and the same resources can't be used for two things at once. In New Zealand, the capital stock is around three times GDP; in a stylised sense each new person needs three times as much new physical capital as their first year's labour will supply. Those pressures, repeated year after year, will push up the price of non-tradables relative to the price of tradables (in other words, raising the real exchange rate), at least relative to some unobservable counterfactual.

Immigration policy has been a central feature of New Zealand development strategies ever since colonial government was established in 1840³¹. With rare and quite short-lived exceptions, the focus has been on encouraging, and subsidising (directly or indirectly) immigration. A newly liberalised immigration policy was an integral part (although not widely discussed at the time) part of the microeconomic reform process of the late 1980s and early 1990s.

As already noted, the net outflow of New Zealanders over recent decades has been very substantial (on a scale, per capita, matched in few other politically stable countries). As in most advanced economies, the total fertility rate has been below replacement for several decades now. Had non-citizen migrant inflows been on a scale (per capita) with, say, a typical western European advanced economy, New Zealand's population would have grown only modestly in recent years. There would have been little pressure on non-tradables prices - or on domestic interest rates, which might well have been similar to (or even below) those in the rest of the advanced world.

If so, real interest rates and the real exchange rate would, all else being equal, have been materially lower - the former more in line with world real interest rates. Business production models would probably have been not only more capital-intensive, and business investment would have been more heavily skewed towards the tradables sector. As it is, New Zealand is one of only a very few advanced economies to have recorded no growth in the export/import share of GDP since 1990. Indeed, one rough proxy for a tradables/non-tradables breakdown of GDP³², suggests that in per capita terms, real GDP of the tradables sector has not grown at all this century.

The hypothesis that immigration policy may have played an important role in the story of New Zealand's economic underperformance reflects the interaction of three effects:

- First, New Zealand's annual permanent migration target (granting annual residence approvals of around 45000) has long been the highest of any advanced country (in per capita terms, Canada is now similar and Australia is also now not far behind). The only OECD

³⁰ Including in a New Zealand context Belshaw (1952), Holmes (1966a, 1966b, and 1967).

³¹ Note that as a distant island state, New Zealand has almost complete control of inward non-citizen migration.

³² Originally developed by an IMF Article IV mission 15 years ago. The tradables proxy includes the primary and manufacturing sectors, and exports of services.

country that consistently takes more migrants than New Zealand is Israel, where the policy imperatives (security) are different³³

- Second, the continued dependence of the economy on natural-resource based exports. The natural resource endowment is fixed, and more people will - all else equal - dilute the per capita benefits of that endowment. Australia and Norway face similar issues, but most north European countries don't.
- Third, the relatively modest national savings rates. It is unclear why national savings rates are relatively modest (despite fiscal policy typically being supportive) but the pattern has been apparent for decades. Thus, for example, high immigration to (say) Singapore is a different matter than for New Zealand - both because Singapore's rapid outward-oriented growth is not natural resource based, and because the national savings rates in Singapore are high (thus additional labour and high savings are in that sense natural complements).

Despite the avowed economic focus, New Zealand policymaking around immigration appears often to have not been based on particularly robust analysis or research, especially about economywide effects productivity effects. Even some of the more rigorous champions of high rates of immigration acknowledge the lack of specific New Zealand evidence on the macroeconomic impact³⁴. In part, that may reflect limitations of a small state, including limited data and small policy analysis community.

But it is also likely to reflect strong pro-immigration priors among the policy elites. Going back to the 19th century there has been a repeated political emphasis on the idea of growing New Zealand's population - at times to help secure European dominance³⁵, at times to accommodate perceived over-population in the United Kingdom, at times reflecting unease about Japan (following World War Two), and more recently ideas from endogenous growth theory suggesting the economy would do better (per capita) with more people.

Immigration policy was also influenced quite strongly by the large outflow of New Zealanders after the late 1960s (and especially from the mid 70s), which prompted the idea that policy should "at least replace those who are leaving". Although no serious analyst would have been likely to have applied this logic to an individual town or region where the opportunities were scant - standard policy prescriptions would then typically focus more on flexibility and encouraging people to move to where the new opportunities were - it has been a recurrent line in the discussion of New Zealand immigration policy.

Another recurrent theme in the debate - heard decades ago³⁶ and still today - was that local labour could not be found, and only by means of immigration could the labour market be balanced and employer needs met. Quite how countries with stable populations and little immigration managed was never made clear and official and business documents have rarely suggested that if a particular skill appeared to be in short supply, the market price for that skill should rise.

³³ Not that over recent decades productivity growth rates in Israel have similar (low) to those in New Zealand.

³⁴ See, for example, New Zealand Initiative (2017)

³⁵ See, for example, the quote from Sir Julius Vogel - an early premier who championed large scale assisted migration - here <http://nzetc.victoria.ac.nz/tm/scholarly/tei-Stout71-t31.html>

³⁶ See, for example, discussion in the New Zealand chapter of M Harper and S Constantine, *Migration and Empire*, Oxford University Press, 2010

High rates of non-citizen immigration, both in the decades after World War Two and again since around 1990, were policy-initiated and often policy facilitated³⁷. Those large inflows have meant that despite the decades-long exodus of natives, New Zealand's population has grown much more rapidly than those of, say, countries in northern Europe at or near the productivity frontier (those in Table 2 chosen for as having had largely unchanged boundaries over the period).

Table 2: Population growth

	Population (million)		Per cent increase
	1913	2017	
New Zealand	1.1	4.8	336.4
Norway	2.4	5.3	120.8
Denmark	3.0	5.8	93.3
Switzerland	3.9	8.6	120.5
Sweden	5.6	10.0	78.6
Netherlands	6.2	17.1	175.8
Belgium	7.7	11.3	46.8

Source: Maddison (for 1913), Conference Board and Statistics New Zealand

Lots more people, a fixed stock of natural resources, and few successful new outward-oriented opportunities appear to have combined to depress average productivity (relative to other advanced countries) in New Zealand.

Why have the outcomes (and the policies) been allowed to persist?

Whatever the precise set of factors that adequately explains New Zealand's productivity underperformance, one puzzle is why the relative failure has been allowed to go on for so long.

One relevant factor is that it is unusually hard to identify relevant comparator countries against which to benchmark New Zealand's productivity performance (and related policies).

Consider, by way of contrast, the former communist countries of eastern and central Europe. In the early 1980s, all of those countries had economies that were far from open and market-oriented. New Zealand and each of those European economies went through wrenching reform and adjustment in the subsequent 15+ years, with New Zealand beginning first.

Data inadequacies, especially in the former communist states (in some cases, components of larger, now-disappeared, groupings such as Yugoslavia and the Soviet Union) complicate earlier comparisons. But not one of those countries would have had material living standards, or average productivity levels, anywhere near those of New Zealand in 1984. Nor had any of them had comparable material living standards to those in New Zealand at any time in the previous century.

But on current (OECD) estimates, Slovakia and Slovenia already have real GDP per hour worked a bit ahead of New Zealand with Lithuania and Poland only a little way behind. Over the last decade, all

³⁷ Immigration was opened up again after the late 1980s. At the time, the reforms (including a points system) were regarded as being to the forefront of global immigration policy, designed to focus on bringing in skilled migrants.

eight former communist countries that are now members of the OECD - with the exception of Poland, all countries with small populations - have achieved faster growth in real per capita GDP and faster productivity growth than New Zealand.

At one level, the east European success story is probably about the natural complementarity (for the time being at least) between the economies of western and eastern Europe. The eastern European economies typically offer relatively well-educated workforces, including in technical areas, at much lower wage rates than those in western Europe. Given the geographic proximity, backed by low corporate tax rates (in several of the east European countries) and perhaps some additional certainty or confidence-building provided by EU membership, manufacturing industries based in western Europe were able to work eastern European locations into complex supply and value chains. Very large levels of foreign direct investment occurred to facilitate the part in those value chains played by countries such as Slovakia and Hungary.

But the policymaking environment - at official and academic levels - was probably supportive too. Most of these countries are small, and have small pools of official expertise, and none had exposure to running a market economy prior to 1989. But the environment for policymaking (indeed the associated contest of ideas) in those countries will have been assisted by having a group of countries in much the same situation, allowing the exchange of experiences and the meaningful benchmarking of performance (reinforced by the application process to the EU and subsequent membership of various EU for a). These circumstances provided a natural basis for building personal relationships and insights on other (relevant) countries' experiences, and for visible benchmarking (including through good statistical bases maintained by the OECD and Eurostat) with other, more advanced, European economies. The sheer physical closeness makes it easier for officials, academics, and other observers to attend conferences and workshops and exchange experiences and insights. OECD and IMF surveillance reports on these countries also had natural comparators to use in compare-and-contrast exercises.

The contrast with New Zealand is stark. Like most of the eastern European countries, New Zealand is small. That is reflected in policy-related institutions, such as The Treasury and the (relatively new and small) Productivity Commission where, at most, only a handful of people - often reflecting personal interests more than institutional priorities - give much specific thought to whole-economy productivity issues, despite the magnitude of the New Zealand productivity underperformance³⁸. There appears to be little expertise in economic growth and economywide productivity issues in New Zealand university economics departments. And although New Zealand is a member of many international fora - including the OECD and IMF - there is nothing akin to the close connections to the officials of other countries that accompanies, say, membership of the EU. Distance is likely to be an aggravating factor again.

Perhaps as importantly, there are no easy or natural obvious comparator countries. The natural historical tendency in New Zealand was to look to the experiences and systems of other Anglo countries - the United Kingdom first, then the United States, and more latterly Australia (with occasional glances at Canada and Ireland). But not one of those countries - not even remote Australia, because of the huge mineral endowments - is anything like as similar to New Zealand as many of the central and eastern European countries are to each other. Even if there are

³⁸ The 2025 Taskforce, in place in 2009 and 2010, to provide specific analytical and policy advice on closing income gaps to Australia had such a derisory level of resources provided to it that the one foreign member could not quite believe it. See 2025 Taskforce 2009 and 2010.

commonalities in, say, language and legal system, and cultural affinities (and similarly failing housing markets), the differences for economic purposes are stark:

- With the exception of Ireland, all the other Anglo countries are large (and Ireland is closely wound into the economies of the UK and northwest Europe)
- With the exception of Australia, all the other Anglo countries are not remote,
- None of the others is now heavily dependent on agriculture, and thus the economic structures are quite different.

More recently, there have been attempts to compare New Zealand with other small established OECD countries (eg Ireland, Sweden, Norway, Finland, Belgium, Denmark, Switzerland), or even with Singapore. OECD advice to New Zealand routinely seems to reflect what might be offered to a country of five million people if it were only a couple of hundred kilometres from Paris, not 19000. If New Zealand's remoteness is dealt with at all, it is typically only at a superficial level (lower trade barriers, increase international connections). In fact, of the small advanced OECD members, perhaps only Israel comes close to being as remote as New Zealand (political and cultural obstacles to trade and investment ties with neighbours). But there have been few attempts to compare and contrast, and very limited relations (official or academic) between New Zealand and Israel. And even if Israel were to prove a useful comparator, it is just one country and not a particularly successful one either. By contrast, the central and eastern Europeans have perhaps a dozen closer comparators to compare notes against, benefit from research on related economies etc).

New Zealand policy debate suffers from various other limitations of being a small state. At the political level, members of Parliament and parliamentary committees have very limited resources. A Productivity Commission, emulating that in Australia, was established earlier this decade, but is largely restricted to working on issues the government of the day asks them to focus on. And, as in all countries (but more immediately pressing in small countries) media typically have very limited resources, and are typically appealing to a broad mass market. It isn't a combination that promotes a ferment of ideas and a demand for better outcomes.

And because New Zealand is small, remote, and not that directly comparable to other countries, there is little incentive for people abroad now to attempt to make much sense of the New Zealand story. If anything, it is something of a curiosity, and for those who do dig a little, almost an uneasy embarrassment. Following the 1980s reforms – characterised, as they often were, by a high degree of rigour and intellectual coherence - New Zealand examples were often used rhetorically to show what was possible. In some areas - notably fiscal policy - that is still so. But in others, notably the lagging productivity performance, it is easier to simply ignore New Zealand, than to dig more deeply into the experience.

Because New Zealand is in the OECD its statistics, where they exist, are included in OECD databases (and thus in cross-country research drawing on those databases). However, New Zealand statistics are often not of a terribly good quality - perhaps the combined result of being both small and now a relatively poor advanced country - which limits even those research opportunities.

But if there is no easy supply of compelling answers, it is also striking that there has been increasingly little demand for such answers.

The reasons for that are also not clear. In part it may reflect the searing experience of the reform period (from 1984 to the mid-1990s), including a very sharp, and lasting, rise in the unemployment rate in a country that had had a decades-long experience of extremely low unemployment. But had the reform process led to a steady re-convergence of New Zealand incomes and productivity with

the countries in the upper group in the OECD, then by now the adjustment period when be little more than a historical - perhaps celebrated - memory. The reforms - flawed as they likely were in a couple of important dimensions - may well have slowed the rate of relative decline. But it is hard to make a compelling political case on the basis of (invisible) counterfactuals

Relatedly, perhaps, there was never a strong public consensus on the need for far-reaching change. If people recognised, sometimes reluctantly, the need for macroeconomic stabilisation, the wider microeconomic reform programme as a whole never commanded general enthusiasm, it split political parties, saw huge swings against the reforming governments (in both the 1990 election, against Labour, and the 1993 election against National) and led to the replacement of the longstanding mechanism for electing Parliament itself.

There is little real demand for reform from the business community either. From a regulatory and administrative perspective New Zealand remains, on many measures, among the less difficult places to do business³⁹, and the structure of the economy has adjusted over the decades to being heavily focused on the non-tradables sector. Many firms do very well out of an economy skewed that way, even if average economywide productivity is poorer as a result: productivity and profitability are rarely the same thing.

Perhaps the one indicator that does occasionally excite public and political angst, and hence a suggestion that something different might be needed, is the net outflow of New Zealanders to Australia. New Zealanders still have the ability to work in Australia without needing specific visa approval⁴⁰. But even this outflow has never been enough to provoke sustained demand for (or supply of) reform. That may be partly because the dynamics of the outflow are such that it tends to be greatest at the times when the Australian economy is doing best (and the Australian labour market is strongest) and given the cross-country correlation of economic cycles that is also often the time when the New Zealand economy and labour market are also cyclically strongest (as had been the case until, say, early 2008).

The gradual decline in the policy/analytical focus of the public sector (particularly The Treasury - once highly regarded for its energy and innovation in advancing the case for economic reform) appears to have had both supply and demand influences. Reduced capability limits the ability of The Treasury to adequately fulfil its self-described responsibility as “principal economic adviser to the Government”, but reduced capability itself appears to substantially reflect the preferences of successive governments and Ministers of Finance. Stronger leaders in the position of Secretary to the Treasury might have done considerably more, as their predecessors did in the early 1980s, to maintain capability, drive, and intellectual curiosity, even in the face of a lack of interest of the government of the day. Good advisers help create a market for excellent free and frank advice, even on very challenging issues. But governments influence the sort of people who are appointed as Secretary. At times, it appears that The Treasury in particular has itself come to regard the productivity underperformance issue as too hard, or even insuperable. Resources have been displaced in favour of other issues and perspectives⁴¹.

“Size and distance” are often, at times glibly, quoted in any list of factors helping explain New Zealand’s prolonged productivity underperformance.

³⁹ New Zealand is typically near the very top of the World Bank’s Ease of Doing Business index

⁴⁰ Although eligibility for Australian services and eventual residence have been gradually wound back, making the move a much risky affair for many, especially the lower-skilled or those with children.

⁴¹ For example, the Living Standards Framework championed in recent years by the New Zealand Treasury.

Globally, there is no evidence that small countries manage less productivity growth than big ones, and if anything in recent decades there has been an increase in the number of small countries. There appears to be no particular reason why a country with fairly abundant natural resources and good institutions and skilled people, should not be able to deliver top tier advanced country material living standards. But an extremely remote small country might only be able to do so for a very small number of people: thus 100 years ago a million people in New Zealand managed to have the best material living standards anywhere. Cross-border trade is a key element in national prosperity, especially for small and medium-sized countries, and trade is very strongly (negatively) correlated with distance.

Despite the best of intentions among policymakers during the reform era, the New Zealand policy mix has clearly not worked to achieve any narrowing in the productivity/income gaps. In fact, those gaps have kept on widening, including in recent years. And yet there appear to be few effective feedback loops to prompt serious rethinks, to identify the gaps in the analytical models, and to identify the list of things that might, on a credible narrative, make a serious difference to performance in this specific location.

International agencies have been no help in this regard, partly because they have struggled to think about, and identify, relative comparators. In particular, being based in countries near the centre of affairs, economies not much reliant these days on natural resources, and perhaps misled by a society that might appear quite familiar - to other Anglo countries, or the Nordics - they, like most New Zealand academics and commentators, have failed to appreciate the way distance starkly still constrains the number of people this land can support with top tier living standards or to think hard about the implications for policies actively designed to increase the population.

Kuwait with 1 million people would probably be much richer per capita than it is today, and with 10 million people now it would be materially poorer. The stylised New Zealand story would appear to be no different. It seems alien to those from most northern European economies because it is - a very different foundation on which economic prosperity could rest.

Instead of serious engagement with the implications of remoteness, New Zealand has been left with a scatter-gun approach⁴² (at best), responding to isolated symptoms (a subsidy here, a tax break there, targets ("raise exports to 40 per cent of GDP") with no credible policies, talk of "doing something" about skills etc) without any coherent narrative, let alone one deeply grounded in the specifics of New Zealand. Economic policymaking - once, briefly, towards the global forefront - has substituted for ambition managing (with considerable macroeconomic stability) continuing relative decline.

Conclusion

After the bold reforming period of the 1980s and early 1990s, official and political economic policymaking in New Zealand appears to have been at sea, without a tiller or compass, for at least a couple of decades. Much that was positive was done during the reform era, and various good institutional reforms were put in place. Much needed to be done, and in some respects it was to the credit of a small country that so much - initially attracting considerable international admiration - could have been put in place so quickly. Seared by the experience of the quasi-crisis of 1984, and rapid escalation of official debt in the previous decade, New Zealand has since enjoyed an enviable degree of macroeconomic stability: low and stable public debt, low and stable inflation, and

⁴² Thus the previous government has a Business Growth Agenda with five hundred items, but no overarching story or model.

domestic financial stability (even amid severe policy-induced upward pressures on house prices and household debt). Unemployment rates that are fairly low on average are another successful element. In those areas of policy, meaningful international benchmarks have provided a routine check of policy, and the external advice sometimes provided has typically been drawn from countries (small floating exchange rate countries), where the comparisons are apt and insightful.

But if stability has been successfully regained and maintained, on the wider counts of economic performance only a “fail” mark could possibly be assigned. Among the failures, policymakers managed to preside over reforms that have created artificial scarcity of urban land and sky-high housing prices, in common with many of their Anglo peers. But the productivity failure is more stark, because it is more specific to New Zealand. Despite numerous (de)regulatory steps taken to open the economy to international competition - and considerable increase in the real volume of exports and imports - foreign trade as a share of GDP has shrunk and with it the relative size of the tradables sector. The export sector itself remains heavily dominated by industries reliant on domestic natural resources (a fixed asset) - services exports have been shrinking as a share of GDP - and, despite rapid population growth, business investment has been modest at best.

To an outsider, perhaps the surprising feature of such an underperforming advanced economy is that population growth has nonetheless been quite rapid. Birth rates have been below long-term replacement rates for several decades now. But defying the revealed preferences of New Zealanders, who have left the country in huge (but cyclically variable) numbers over the last 50 years for 25 years now policy has been set to bring in one of the largest migrant flows (per capita) of any advanced country. Regularly presented as a skills-focused approach, it has remained difficult to attract many really talented people to a small remote country with lagging incomes and productivity⁴³ and there have been few (apparent or realised) outward-oriented economic opportunities in New Zealand for either natives or migrants.

Advocates and defenders of New Zealand immigration policy often attempt to invoke arguments and indicative evidence from other countries. Even then, the value of insights appears more limited than the champions believe: not one of the high immigration advanced economies (Canada, Australia, New Zealand, Israel - or the United States) has been at the forefront of productivity growth over the last 50 years, and only the US is now near the frontier in levels terms. But even if those arguments might have some validity in some other countries, there has been too little serious engagement with the specifics of the New Zealand situation: remoteness, lack of newly-exploitable natural resources, and the actual experience (lack of demonstrable gains for New Zealanders) following 25 years with a high level of (notionally) skills-based immigration. As by far the most remote of any advanced country, it is perhaps the last place one might naturally expect to see policy actively working (encouraged by local officials and international agencies) to support rapid population growth.

Looking ahead, if New Zealanders are once again to enjoy incomes and material living standards matching the best in the OECD, policy and academic analysts will have to focus afresh on the implications, and limitations, of New Zealand’s extreme remoteness and how best policy should be shaped in light the unchangeable nature of that constraint (at least on current technologies) Past experience - 1890s, 1930s, and 1980s - shows that policies can change quickly and markedly in New Zealand. But with no reason to expect any sort of dramatic crisis - macro-economic conditions are stable, unlike the situation in the early 1980s - it is difficult to see what might now break policy out

⁴³ OECD (2016) adult skills data suggest that although the gap between skills of natives and migrants is small, migrants to New Zealand are, on average, less skilled than natives.

of the 21st century torpor or, indeed, whether the economics institutions would have the capacity to respond effectively if there was to be renewed political appetite for change.

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