

Rethinking immigration policy for a post-Covid New Zealand

Address to Wellington North Rotary Club

Wellington

17 June 2021

Michael Reddell¹

It is almost four years since I last spoke here². We were then close to the peak of a surge in net inward migration. Around a net 66000 non-New Zealanders had arrived in the previous year to stay for a long time or permanently. This century (to 2019) we averaged net arrivals of 48000 a year. It was the most aggressive contemporary non-citizen immigration programme I'm aware of anywhere³.

A lot has happened since then. Since Covid, all flows across our border have been tiny. For the year to April 2021 SNZ estimates that there was actually a net **outflow** of about 9500 non-New Zealanders who'd previously been here semi-permanently.

When I was invited back, I suggested that I pick up where we'd left off in 2017 and offer some thoughts on how immigration policy should fit into a sensible economic strategy as the world emerges from the pandemic.

Before diving into all that, there are probably a few points worth stressing.

- First, I'm speaking only about the economic implications of immigration policy choices,
- Second, I'm talking about immigration policy specifically for New Zealand,
- Third, none of this is about the individual immigrants, who are simply looking for the best opportunities for them and their families. My focus is on the broader policy settings,
- And, finally, my focus is on what is good for New Zealanders - the appropriate test for those making New Zealand policy.

And then a brief reminder of the gist of my story.

¹ After a career focused on macroeconomics and financial markets, Michael Reddell is now a semi-retired stay-at-home parent and independent economic commentator. His blog, focused on issues around New Zealand's long-term economic performance on the one hand, and macroeconomic policy and the Reserve Bank on the other, is at www.croakingcassandra.com.

² Text available here [an-economists-scepticism-about-large-scale-immigration-to-new-zealand.pdf](#)

³ Latterly, Australia and Canada were close, and Israel offers entry and citizenship to any Jewish person. In per capita terms, US and UK non-citizen immigration rates were about a third of those in New Zealand.

A decade ago, I started reflecting on the deeply underwhelming performance of the New Zealand economy in the decades after liberalisation. Our policy settings in many areas were often regarded as some of the best in the world. And yet our productivity growth remained weak and we'd made no progress in closing the wide gaps that had opened up over the previous 40 years or so. If anything, the gaps widened - notably to Australia (the easiest exit option for New Zealanders) but also to countries like Korea and Taiwan, and to a bunch of formerly Communist countries in Europe that for the first time in modern history were doing better than us⁴.

Business investment remained low and foreign trade as a share of GDP had started to fall when we should have hoped to see it rising. When more and more foreign trade globally was in services and in sophisticated manufactured products, New Zealand's exports were overwhelmingly based on our natural resources, including tourism.

Despite our low public debt, New Zealand real interest rates remained higher than in most countries, the real exchange rate stayed high, and...a large number of New Zealanders kept leaving for better prospects abroad, notably in Australia. About 535000 net left between 1991 and 2020.

But despite that big outflow the population was growing quite rapidly. Successive governments determined that they would seek out lots (and lots) of non-citizens and invite them to move here.

Lots more people meant scarce resources needed to be devoted to building the physical requirements people need - houses, roads, schools, shops. Those resources can't be used for other things. Higher (than otherwise necessary) interest rates and a high exchange rate do the crowding-out, and what gets squeezed is price-sensitive business investment, particularly in the internationally-competitive tradables sectors. Add to that, the fixed stock of natural resources just gets spread a bit more thinly.

Those championing the new immigration policy 30 years ago expected something quite different. At times there was talk of building highly productive global cities (in Europe and the US the biggest cities are often by far the most productive parts of those countries).

But whatever people expected, or hoped for, the outcomes have been poor. As just one example, the (already modest) gap between GDP per capita in Auckland and that in the rest of the country has shrunk, even as Auckland's population has grown rapidly. Measured GDP per capita is highest here in Wellington, a city now underpinned largely by the public sector (and large subsidies to the film sector).

⁴ Typically measured using data on real GDP per hour worked, converted using PPP exchange rates.

One of the challenges in thinking about the place of immigration to New Zealand is making sense of both past and present. It is pretty clear that 19th century migration to New Zealand and Australia lifted the incomes and living standards not just of the migrants but also of the native populations. Relatively abundant land meant that opening to the world, combined with new technologies, gave a huge lift to economic opportunities here⁵.

So what changed?

First the land was filled up. Of course, farm productivity now is far ahead of where it was 100 years ago. But there weren't any really big new "productivity shocks" or opportunities that specifically favoured places like New Zealand. If anything, it was the other way round, and as the decades went on economic activity globally seemed to be increasingly concentrated in big cities in regions close to lots of other people, skills, markets etc (whether Europe, North America or, increasingly, East Asia). And unlike Australia and Canada - neither of which is even close to being a productivity leader globally - the new natural resources firms were able to develop here were pretty small scale (we've had oil and gas discoveries, we still export some gold and iron sands, but it is all fairly peripheral in scale).

Large scale immigration really got going again - often still subsidised - after World War Two and that has been the dominant approach ever since, especially again since the early 90s. Drawing in lots of people as if it was the 19th century all over again, even as - from the late 1960s - the exodus of New Zealanders became increasingly evident. As a group New Zealanders have been (a) getting relatively poorer or (b) leaving.

Of course, New Zealand governments have adopted lots of other daft (productivity-defying) policies over the years. There were the import licensing/exchange control regimes that helped turned New Zealand more inward and hold back prospects for growing competitive export industries. But they've long gone. And for the last 20 years we've had governments increasingly uninterested in productivity performance or future living standards - in the case of the current government, too often actively working against productivity growth prospects with one new intervention after another. The education system has been allowed to deteriorate and the capability of our core government policy agencies has been actively degraded. But New Zealand policies often still don't rank too badly against other OECD countries (all of which have their own policy weaknesses).

⁵ One could run similar stories for Australia, Canada, the US (including the Midwest and West settled at similar times to New Zealand), Argentina, Chile and Uruguay.

What marks us out from most is the combination of rapid policy-led population growth and remoteness. Only two OECD countries come close: Israel (which for political reasons can't easily do lots of trade with - mostly quite poor - countries close to it) and Australia. Israel's productivity performance has been as poor as our own, and Australia - despite all the new mineral wealth it has been able to tap - remains well behind the OECD leaders (including similarly resource-rich, but small, Norway). Neither country has had a big exodus of natives.

Of course, you won't hear any of this from our political or business leaders.

From them we either get more of the "big New Zealand" fantasy that has been uttered by so many politicians all the way back to Vogel, or rhetoric about how firms can't survive without migrants - as if most OECD countries were not (a) materially more productive than us, and (b) materially less reliant on migrants.

From some you might hear loose references to international literature on benefits from immigration. I don't have time to treat that literature in detail but much of it is plagued with problems, much of it is about countries - and regions in countries - near the centres of global gravity. It rarely considers why (for example) few move to Nebraska or Scotland or Tasmania. Some of it just defies belief. As an example, there was an IMF paper a few years ago, highlighted in a flagship publication, in which the results taken literally suggested that both Britain and France would be hugely (40 per cent) richer if only 20 per cent of the people in each country moved to the other⁶.

And there is not a single serious piece of empirical work showing that New Zealanders have benefited (economically) from the large-scale immigration experiment (although there are a couple of papers where stylised models are built to show how, if there were benefits, benefits might show through). Support for large scale immigration to New Zealand is really based on little more than memory and wishful thinking.

What of the business comments? Unfortunately, most don't make the leap from thinking about a company to the quite different challenge of thinking about a country.

If you run an individual firm you have to take a great deal as given. You probably don't have much pricing power, and tax rates, exchange rates, interest rates aren't things you can do anything much about at all. You find yourself in a niche that allows you to make a profit given all the things you can't change. We can't hear from the businesses that don't exist but might have with different economic policy settings because...they don't exist. So what you get are the voices for the status

⁶ I wrote about it here [IMF advocacy for immigration: some caveats | croaking cassandra](#)

quo, a status quo that for decades now has been fairly ready access to migrant labour, rapid population growth, and a business environment where there are far more profitable opportunities domestically (servicing all that population growth) than internationally...even though really successful economies tend to ones with lots of new firms successfully taking on the world.

But the entire economy is quite a different story. The economy in a country that has population growth near-zero would be quite different than where population growth is 1.5-2 per cent per annum. Different firms, different sectors, will thrive. If the population is fairly flat, for example, we don't need as many people building houses (or roads, or shops, or schools, or hospitals). Those people are free to do other stuff. As it happens, cross-country data suggests that over recent decades, countries with a lower rate of population growth have actually devoted a larger share of GDP to business investment.

If we tried it in New Zealand the gains would come, in large part, through a much lower real exchange rate. That might not seem so good for consumers in the near-term, but actually it helps put the economy on a better footing to lift incomes and future consumption for all groups in society. And a lower exchange rate allows firms in the tradables sector to bid up wages to attract locals to work in those sectors that are likely to be becoming more important.

But I said I'd talk about policy in a Covid and post-Covid context. And right now, almost every day we hear stories from firms complaining that they can't get sufficient workers, and pinning the responsibility directly on the absence of foreign workers.

And here it is worth distinguishing two (really quite different) aspects of New Zealand immigration policy. My main focus is residency grants, which are what really make the difference to the population here: at 45000 a year, it takes only 22 years for the population to be a million people more than it otherwise would be.

But most of the headlines aren't about those people, but about people on shorter-term visas. Pre-Covid there were about 200000 people here on limited-term work visas, and another 80000 or so on study visas (which often have some work rights attached to them).

What have Covid border restrictions done to those numbers? Well, somewhat to my surprise, the number of people here on (so-called) Essential Skills visas – the core work visa programme - is almost exactly the same as at the start of last year (about 63000 people). Numbers of people on post-study work visas (about 34000) also haven't changed materially. Both numbers are far higher than they had been, say, five years previously.

The big changes are in people here on Working Holiday visas (quite seasonal, but at the end of May only about 7000, down from 33000 two years previously) and on student visas (down from about 80000 pre-Covid to 50000 now).

No doubt some firms have specific difficulties from the sudden dislocation. But there is something wrong with the story when it is seriously claimed – and this is the implication of what so many of these businesses are saying – that a low productivity economy, achieving underwhelming productivity growth, needs more and more immigrant workers each year just to function effectively. Such a story might - just might - have a modicum of plausibility if this was a dynamic fast-growing economy where more and more firms were finding more and more opportunities to successfully compete on a world-stage. But that is nothing like New Zealand's story.

So why the headlines? In addition to sympathetic stories about separated families, it is probably some mix of

(a) genuine disruptions for firms that had become used to using short-term migrant labour (eg the local Italian restaurant that relied on a succession of Italian backpackers for waiters),

(b) unexpected changes in the pattern of demand (Wellingtonians can't take their overseas winter holidays, so spent more on, say, home reservations, eating out or whatever) including for the resulting labour, and

(c) the fact that the economy has rebounded much more rapidly than most people had expected. ANZ Bank economists reckon the economy is now running basically at capacity. At capacity you'd expect labour shortages to start showing up, and for that to start being reflected in higher wages to attract workers. But the prudent response is not more migrants - which simply exacerbate overall capacity constraints (eg each new migrants needs somewhere to live) – but making a start on tightening macro policy (smaller deficits, stopping RB bond buying, thinking about raising the OCR).

A couple of weeks ago the Minister of Immigration gave a speech⁷ foreshadowing changes to policy settings around immigration, apparently with a focus on the limited period visas. There were no specifics, and there was no supporting analysis. There are probably some sensible changes that could be made, but like their predecessors, this government seems all too fond of having officials and ministers decide who should be able to use migrant labour, where and when. I'd rather go in the opposite direction and get officials out of things as much as possible.

⁷ Delivered for him by another minister, due to illness.

I would favour two main changes. First, I would reverse the decision a few years ago to allow students to work while here. If you are here to study, study, don't compete at the low end of the labour market. And I would get governments out of approved lists, or even salary thresholds, and replace it all with a model in which any employer could hire a person on a temporary work visa but that visa would be

- Subject to a fee, payable to the government (perhaps \$20000 per annum or 20 per cent of the employee's annual income, whichever is greater). That sets a clear and predictable test for whether non-New Zealand recruits are really required, and a genuine incentive on employers to search for and develop New Zealanders (especially for less well-paid positions).
- Subject to a term limit (no individual could be here on one of these visas for more than three years, without at least a one year return home)

But despite the headlines these short-term work visas are still the second order issue. Much more important is whether the government is willing to make any significant changes to the residency programme, or whether business as usual will shortly be resumed.

Neither the government nor the Opposition seem willing to engage on that issue. And if the government deserves a little credit for very belatedly asking the Productivity Commission to report on the New Zealand immigration model, strangely they seem to be proposing to make policy before the Commission reports.

What should they be doing?

First, we need to explicitly recognise that the residency programme (the driver of medium-term policy-led population growth) itself comprises several different types of people.

It includes people we are never going to restrict. If your daughter does an OE in London and finds a British man to marry, he'll be entitled to move here permanently. No one would want to restrict those numbers, and there is no quantitative limit.

It includes those we take in as refugees. There is no economic motive for the refugee quota, it is all about humanitarianism.

But the bulk of the programme is purely discretionary. And the numbers involved have borne no relationship to the rather limited (highly productive) economic opportunities here.

There are all sorts of myths about migrants to New Zealand. By international standards the skill levels mostly aren't too bad - being a distant island means you really only get in legally, and it is an economics (rather than family) driven programme. But the skill levels aren't spectacular. And why

would they be? Much as New Zealand is a pleasant enough, and peaceful, place to live it is (a) remote, and (b) now not very prosperous, and (c) small. The smartest and most ambitious and most driven of the potential migrants are much more likely to go to other migration-welcoming countries if they can get in. A country whose own people leave *en masse* isn't a great advert for abundant economic opportunities.

And we aren't even ruthless about demanding highly-skilled people. We run specific programmes for people from Pacific countries who don't have the skills/education to qualify as skilled migrants. And we give extra points to people who are willing to live outside the main centres, even though the main centres are where most of the economic opportunities and higher paying jobs are. We structure the system to subsidise NZ universities, by favouring applicants with NZ degrees and work experience even though NZ universities are nowhere near best in the world, and NZ's economy is a low productivity beast. And so on. There is talk from time to time about attracting the best tech people, but why would they come here - small, remote, not very wealthy, no great universities, no relevant centres of expertise or funding, and so on?

And so we bring in lots of pretty-average people, adding nothing systematically to NZers' prospects. There is nothing wrong with being "pretty average" – that's most people - but it isn't going to do anything to transform our productivity performance. Hasn't so far, and no reason to suppose it will any decade soon.

New Zealand's economy could do such much better. But all the signs are that it probably can't do match the best with a population that is growing rapidly - much more rapidly than the productivity frontier countries. Distance hasn't been defeated and if anything may have become more important. There is lots of wishful thinking around the New Zealand debate, but any serious confrontation with the stylised facts of New Zealand's experience, augmented with the experience of other former settler societies, is that large-scale immigration just hasn't helped for a long time. You might think the US is an exception, but it isn't really. It was - like us - one of the handful of richest countries in the world 100 years ago, and despite having had much more rapid population growth than European countries (and no ravages of war or communism) the gaps have narrowed. Denmark is probably the standout performer today.

If political parties were serious about reversing the decades of relative productivity decline - and there is no sign of it - there is a variety of things mutually reinforcing things that should be done, which together would prompt much more business investment and a more outward-oriented economy:

- We should take a much more open approach to foreign investment - I'd remove all controls in respect of investors from OECD countries.
- We should be lowering the tax rate on business investment - our company tax rate (which matters a lot for foreign investors) is in the upper part of the OECD range, and what you tax you get less of.
- We need to free up land use, within our cities and across the country.

One could list other things (GE issues for example).

But most importantly, we need to end the delusion - for that is what it is - that a very remote country, which lots of its own people leave, which has fallen steadily behind an increasing number of other countries, and where foreign trade is shrinking as a share of GDP, is a sensible place for government policy to promote large scale immigration. It wouldn't make sense for Taihape; it doesn't make sense for New Zealand. Immigration policy is one of the largest structural policy interventions in our economy. And now - before we reopen the borders - is the time to act.

So let's not go back to granting huge numbers of residency permits. Cut out the Pacific quotas - no reason to favour people from those countries any more than those from (say) Britain and Ireland (that we once favoured), and cut back the total approvals to, say, 5000 to 10000 really highly-skilled people (if we can find them) with no preferences given to NZ qualifications and experience, simply looking for the best and most energetic. Add in refugees and the spouses/partners of New Zealanders, and you'd be looking at an overall number of residency approvals each year of 10000 to 15000. In per capita terms that would be a similar rate to the US.

Successful countries make their economic success primarily with and for their own people. We can again do it here. We have talented and fairly well-educated people, we have reasonably open markets, we have a history of innovation, but distance really works against us and we will mostly prosper by doing better and smarter with (and investing more heavily in) the natural resources we have - things that really are location-specific. Lots of other bright ideas are, and will be, dreamed up by people here. But if those ideas work well, they'll typically be much more valuable abroad. You may not like it - neither do I really - but it is what experience shows. We'd be foolish to simply start up the same old model and expect better results in future.

Thank you.