

Submission: Immigration settings

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No long-term strategy

I agree with you wholeheartedly that there is no long-term strategy for immigration. I would like to expand on this point and say that, as a result, our current approach to immigration actually fuels NZ's current path dependency on a low economic growth path. This is my first suggestion, that is, immigration policies need to be tied to a clear productivity strategy for the country. But, of course, we don't have a productivity strategy. Hence, my second recommendation is that the country needs to create a productivity strategy that places NZ on a higher growth path.

For many years, New Zealand economists have been puzzled by our low economic growth, given that we perform well on all the basic indicators of a well-functioning economy, from transparency to competition. Helen Clark's government came to power with a goal of raising New Zealand to the top half of the OECD rankings. It failed dismally. Not only did we fail to advance, we actually went backwards. In 1999 we were ranked 20th, falling to 21st in 2004 and 22nd in 2006. John Key's government is also notable for its limited economic progress.

A key feature of these years is high level migration and promotion of Auckland as an international city. There also seemed to be a belief that ethnic diversity drives innovation. As a result, Auckland has grown immensely in population but we haven't seen the growth predicted in the models.

This can be linked to productive capabilities. You will not find many engineers in down-town Auckland which is characterised by retail and business services¹. That means the people have skills in 'Finance and Insurance', 'Communications Services', 'Property and Business Services' and 'Accommodation, cafes and restaurants'².

These industries are not known for their high level of innovation. In fact, a Ministry of Economic Development report found that retail, accommodation, cafes and restaurants were the sectors with the lowest levels of innovation and labour productivity³. Equally concerning is the discovery that construction also had a low level of productivity. But these are the sectors that soared under the Clark-Key governments. These governments have been fostering a low-growth economy.

At the Productivity Commission, you are tasked with explaining NZ's productivity – our productivity is determined by our productive capabilities and, if we have low-productivities, it doesn't matter how well we do on the other indicators. Immigration was meant to raise our productive capabilities. But it has done a very poor job of this. We need to focus more on quality and less on quantity.

I don't know how familiar you are with the concept of path dependency but I think it is the key concept to understand NZ's low growth. If you are not aware of this concept, again, I recommend my book *Industrial Development*. Basically, this concept says that the growth we achieve tomorrow is dependent on the investments we make today. By investments, I mean all resources not just financial and therefore including labour.

A person coming in to the country with skills running a restaurant will not have the capabilities to innovate in electronic or chemical engineering. Their skill-set sets them on a path

determined by their capabilities. They might have the ability to innovate in restaurants but the technologies in restaurants are mature with less opportunity for innovation. New Zealand has been building up skills in construction, retail and restaurants and, as a result, the country is travelling a slow growth path.

One of the reasons this has happened is that existing businesses select who comes in to the country. This is a perfect example of path dependency ie: the new resources we gain are determined by our existing resources. This is path dependency. This is another reason why I totally agree with your suggestion to **remove immigration restrictions that tie migrants to a specific employer**.

But we need to go further. To break this low-growth path dependency, we need to move from an immigration policy in which restaurant owners and department stores determine our migrants. We need a policy that targets resources in high growth industries, even if those industries are only small at the moment (there is nothing wrong with reducing immigration numbers and focusing on quality).

I was going to suggest the government create an agency similar to Singapore's Development Board, and Ireland's Industrial Development Agency. The problems with a policy to improve productive capabilities are high-lighted in my recent book '*Industrial Development*'. In particular, Governments and academics have a tendency to follow fashionable trends and can be increasingly out of touch with industry. Nevertheless, some minimal direction can be provided. The strategy needs to follow the KISS strategy (keep it simple stupid) and focus on raising productive capabilities to a higher growth path.

Obviously, I agree with your report in which you say that the **system doesn't adequately prioritise**. But you need to go further and put NZ on a higher growth path. In your figure 1.10, if you add up the numbers for wholesale, retail, construction, rental and real estate, accommodation and food services you have a large figure. When you add in temporary workers, the numbers in low growth industries explodes. People working in these industries do not raise NZ's GDP per capita. They are low paid jobs. While they don't add much to the GDP, they do add to the 'per capita'.

From my own observations, these are also the industries in which corruptions is most likely to occur. The accreditation of employers by the government was a good move. I don't know if this is being done but we need to track how many letters of support are given from the same employer. A \$30,000 input once a year can make a huge difference to a small retailer or café (see below).

Some years ago, when I went through the immigration figures, I noted that the Prebbleton Fruit store had supported three managers in five years. This was a low skill, low paying, activity and I cannot see how the government could have seen this as helping the NZ economy. Too much of our immigration has been of this type.

This leads to my next recommendation. Retail managers and restaurant managers should only come in one or two specialist regions like Queenstown which, due to their isolation, have trouble attracting sufficient hospitality staff.

When we consider the number of people that can accompany low skilled primary migrants the effect of immigration is even worse. In 2015/6, there were 52,000 resident approvals but only

13,096 were principle skilled migrants. When so many of our principle skilled migrants are working in retail, wholesale, renting and real estate that we must question what sort of capabilities we are building.

In 2017, I noted “the last five years, 2,500 café and restaurant managers were approved, along with 231 hairdressers. There have been thousands of migrants approved for marketing and customer service positions. We would like to think that this system successfully brings in migrants who have skills we lack. However, only twelve percent of applicants gained points in this area²⁵. In other words, eight-eight percent of work-skilled applicants were not addressing an absolute skill shortage.” It isn’t surprising that a Treasury report noted:

“...The large productivity benefits hoped for when the scale and skills focus of migration were increased in the early 1990s have not been realised...”⁵

The high rate of employment among NZ migrants is seen as a benefit of our immigration system. However, if those jobs are in low paying, low innovation, low export areas, there will be little long-term benefit to the economy.

Infrastructure:

As you correctly identified in your report, high levels of immigration put pressure on our infrastructure. I also note that some of your submissions have blamed the council for not spending more on infrastructure but there is a reason for that. In particular, **Infrastructure is a system – you can’t spend money here and there and expect the whole system to improve.**

For example, to improve traffic flow, we have spent money on highways so that they can now handle more cars. However, this means that the roads feeding the highways are now congested and with more migration, they will get increasingly so. This means that we will have to spend billions fixing these. Once we have done that, we will need to spend more on the roads feeding the feeders.

The problem the councils and transport planners face are systemic and their options are running out. There is a limited amount of space, and a problem solved in one part of the system creates a problem in another part, because the flow, driven by population growth, just gets bigger.

In the 1990s a report was done showing that congestion costs Auckland somewhere in the vicinity of \$750 million per year. A more recent report says that the cost is now \$1.3 billion⁶. The government has spent billions of dollars on roads in Auckland but the congestion remains. That is because what the new infrastructure adds, the new population takes away. To put it another way, infrastructure is a significant cost of migration that none of the early economic models included.

The consequence is, we are getting very little benefit from the money spent on roads. Infrastructural investment has become an immigration tax and it is depriving us the chance to improve Auckland’s congestion.

We are at the point where the council are running out of options and there is a significant dis-economy to immigration. With this I ask you, ‘are the Benefits of immigration great enough to counter this cost?’

Do not forget that congestion costs are not just economic, they mean people spend more time sitting frustrated in their cars instead of being at home with their families.

Focus on quality not quantity:

Many of the problems of immigration are a result of the large numbers. The question I have for you is **could we achieve the same benefits with less costs if we had fewer migrants?**

For example, in growth economics, the number of engineers in a population are often seen as a proxy for innovation, but when I examined our migrants only 1.5% of our migrants were engineers.

Both Key and Clark governments believed in letting industry decide our immigration needs, but this contributes to New Zealand's path dependency. Low growth industries say they need more workers to stay profitable so we let them bring in workers and, as a result, the low growth industries continue to dominate our economy. We get more people who add little to growth.

Scrutiny of the applications

I agree with your report in which you say that the system can't deal with large numbers of applications. One consequence of this is that it doesn't sufficiently scrutinise for corruption. Hence, I also agree with you that there are **troubling patterns of corruption.**

Corruption is rampant and it amazes me how slow the government has been to acknowledge it. This is a typical example - I knew a lovely Indian girl by the name of Indu who wanted a job in a café. She asked the café owner if the owner would support her application for a work visa. The café owner responded that she would but it would cost the girl \$14,000. Indu replied 'I only want a work visa not permanent residency'. The café owner answered "I know. I normally charge \$30,000 for PR". Please note the word 'normally' ie this is a regular occurrence.

It is not always the restaurant owners who are at fault. I know one restaurant owner who advertised for a kitchen hand. She got 1,200 applications and many of them would say that they would work under the legal wage if the restaurant supported their immigration application.

The resources dealing with immigration are not sufficient to reduce corruption. Your suggestion of removing the link between migrant and specific employer may help, but if the migrant still requires a letter of support, employers will still charge them money.

To ensure the department has the resources to audit and weed out corruption we either need to 1. Increase resources in the department or 2. Reduce the number of applicants, for example by raising the points necessary to 200-220 and making clear statements that people with less than that will not be approved.

How might a link between productivity strategy and immigration work?

This is just an example as obviously more work needs to be done, but you could raise the points needed for entry to about 200 or 220 and add another category for points based on industries identified by the Productivity Strategy. This would reduce the costs stemming from too many migrants and help to facilitate a shift from low growth to high growth industries.

Immigration reduces productive resources:

Each time we convert a farm into residential land, we are doing the equivalent of shutting down a small factory. In other words, each urban expansion reduces our rural exports with no corresponding rise in manufacturing exports. None of the models on immigration consider such losses. Consider the following:

Over the last 20 years, agriculture and forestry land has contracted from approximately 4.8 ha per capita to 2.8 ha Such a reduction has been caused by losses of productive land and the pressures of population growth. Indeed approximately 730 000 hectares (3%) of New Zealand's total land area is now taken up by urban areas, with a further 160 000 hectares given to transportation networks. Over the past 25 years, the rate of urban expansion has been of the order of 4–5% per year (i.e. 40 000 ha/yr) Some areas of lowest risk and highest-producing soils are the most valuable and vulnerable in terms of urban expansion and hence their losses are leading to restriction on land use options (e.g. Auckland to Tauranga). In fact, a disproportionate amount of Class 1 and 2 is being lost from around population centres....⁷

Reducing the Kiwi life quality and culture:

Thirty years ago, an Aucklander could drive for half an hour and have a beach to him/herself but, with population growth, that is lost. The economists never considered this as a welfare benefit of living in NZ. It was a big benefit of living in New Zealand that is being eroded around the country.

Similarly, we used to be able to say that traffic congestion happened elsewhere. Not anymore. This is a direct result of more population. What is the solution? - higher density housing. Kiwi children used to have their own lawns for kicking a ball about, their own trees to climb and make tree huts, and their own gardens to plant seeds and watch plants grow. A significant aspect of NZ culture is being lost. This is also tied to the NZ culture of individualism. Of course, the government can introduce programs at schools and provide public parks, but you can't build your tree house or plant seeds. Ironically many of these changes are promoted by migrant academics who have not had a NZ childhood. They want us to be more like Europe.

Greenfield Investment/Entrepreneurship

For the investment and entrepreneurship categories, the government needs to discern between greenfield investments that create new economic activity and buying a business which results in a change of ownership of an existing business. The government should only be supporting new activity that contributes to growth.

To make matters worse, migrants that buy existing businesses can distort market functioning. For example, many migrants are prepared to pay a higher price for a business than a kiwi would because the business is a ticket to immigration. Hence, they will add an immigration premium to the price and the final cost does not reflect the true economic value of the business.

The third problem with this is that in raising the price of the business so high, many kiwis can not afford to buy the business and achieve their self-employment dreams. Have you noticed how many cafes are run by migrants?

Education is a limited proxy for skills.

I have had taxi drivers who in South Africa worked as magistrates. Their qualifications will get them points, but does that convert to skills for the NZ economy?

I used to teach at Lincoln University and we had an agent in the Punjab who marketed the university's educational services. Some of the students told me how this worked. They were told that studying at Lincoln was the path for immigration. So, they would often get in debt to fund their NZ study. If not in debt, it certainly stretched their finances. A common pattern was for the wife would come to NZ first and enrol in the Graduate Diploma of Commerce even though she had no interest in business. The husband would come and join her a few months later. They would hope to get a temporary job which would then become permanent and get them a PR.

Only one in four of the women I taught from the Punjab had a genuine interest in learning about business (although the one that did was generally among my best students). The vast majority only enrolled in the course because it could give them points. Once again, their education is not a proxy for the skills they will bring to NZ as they have no desire to work in business here.

While studying, many of them would get jobs in Indian restaurants in Christchurch and I had a few come to me and tell me how the restaurant was ripping them off and under-paying them. (I seriously wonder how many badly-managed restaurants are being propped up by our immigration policy).

There is no doubt that many of them were unfamiliar with NZ employment law. I did my best to teach my students how to protect themselves but they were in a position of vulnerability and had been fed false dreams. The irony is the university actually presented their agent with a certificate of appreciation - the people he sent contributed significantly to the university's finances.

Immigration has become an industry and everyone's hands are in the trough. The consequence is people are using immigration for profit, not the betterment of the country.

The other point coming from this example is that people have different business cultures and this can affect the value of the skills brought to NZ. I first linked this to NZ in a 2011 paper⁷ and since then it has been accepted in a number of international papers that **human capital does not always transfer well between nations.**

The NZ point system doesn't recognise this. Consequently, the government's assessment of human capital often fails to reflect market assessment. Other reasons include systemic abuse, government valuation of qualifications that are not transferable, and insufficient value placed on language, culture, nor time required for adaptation. The best performing immigrants are those with similar business cultures to NZ.

The truth is that culture is important for managing staff. That is why so many Asian businesses prefer to only employ Asian staff. For example, my local café manager only hires Indian and Nepalese staff. He is not racist. If he was, I wouldn't go there. However, he finds his business runs more effectively and he has less hassles with staff who think like him and have the same behavioural norms.

Sadly, in some cases this means, some migrant-employers ignore NZ employment law which contributes further to corruption. Workers come to NZ for a better life and they find themselves

being employed under the same conditions as if they had never migrated. **Any migrant coming to NZ as a business owner should be made to do a compulsory course on NZ employment law and culture.**

Summary of Recommendations:

1. Immigration policies need to be tied to a clear productivity strategy for the country.
2. By definition, the country needs to create a productivity strategy that places NZ on a higher growth path.
3. Consideration should be given to establishing something like Singapore's Economic Development Board, and Ireland's Industrial Development Agency.
4. We need to focus more on quality and less on quantity. By reducing quantity, we instantly reduce the problems associated linked to population growth but by focusing on quality can retain the benefits of migration.
5. If the Ministry is going to be able to audit and weed out corruption, it needs to either increase resources in the Ministry or reduce the number of applicants. Reducing the number of applicants would also reduce pressure on infrastructure.
6. Increased population reduces productive land on the edges of the cities (and this land is often the best in the country).
7. Population growth is threatening core NZ lifestyles but, to date, no economist considers these a loss of welfare or culture.
8. Migrants should not be accepted in low growth professions such as restaurant or retail manager categories outside isolated areas like Queenstown. Real Estate and hairdressers should not be allowed anywhere. We need to move away from slow growth industries.
9. Infrastructure works as a system and will come under increasing strain as options are reduced. Reduced quantity will relieve pressure.
10. Migrants coming from countries with different employment cultures need to do a course in NZ employment law and culture.
11. Government policy needs to differentiate between green field entrepreneurship/investment and buying an existing company. The government should only be supporting new activity that contributes to growth.
- 12. I think you seriously need to consider:** Could we get the same or more benefits of immigration with fewer but better targeted migrants, and therefore reduce the costs that come with population growth?

I apologise for any mistakes – this was a bit rushed!!!

Greg

References

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