

# Submission on Immigration, Productivity and Well-Being

## Introduction

1. This submission argues that:
  - New Zealand's capacity to benefit from immigration (from a productivity and economic growth per capita perspective) is limited, and
  - high rates of net immigration, such as we experienced from 2013 to 2020, are a drag on our productivity, growth per capita and well-being.
2. At the end of the submission I comment on several of the questions in the Productivity Commission's Issues Paper (June 2021).
3. My submission looks past the effects of Covid, except to the extent they are expected to be a factor in the time frames the Commission is considering.

## Background

4. As background to my argument, I take the following as "givens":
  - our export performance is critical to our economic well-being because we are heavily dependent on imports of goods and services (which we cannot provide domestically at an economic cost) for our prosperity and way-of-life
  - our export performance is relatively low (as a proportion of GDP and compared to other small OECD countries)
  - our productivity growth (again compared to other OECD countries) has also been poor for many decades
  - as a consequence our economic growth rates on a per capita basis have been poor for many decades and we continue to slide down the ranks in international comparisons
  - it is true that GDP per capita isn't everything (there's much more to life and life in New Zealand in particular than this). But it underpins our ability to provide for critical inputs to well-being, including education, health, environmental protection, quality housing, welfare for those who need it, and programmes to provide a good start in life. Moreover, there is a clear correlation

internationally between life satisfaction (which is similar to well-being) and GDP per capita.<sup>1</sup>

- the importance of GDP per capita performance is brought into sharp focus by the magnet that is Australia. Australia is notably wealthier than New Zealand, especially when purchasing power is taken into consideration, and can offer an attractive life-style. This puts pressure on our ability to retain skilled staff in crucial sectors and on expenditure in important areas (such as health) because New Zealanders look with envy at expenditure levels in Australia without taking into account relative wealth. If we can't at least keep up with Australia (and other OECD countries) we will endure a continuing erosion of our more skilled and entrepreneurial people and the corrosive effects of envy.

**Export performance depends on comparative advantage. New Zealand has a comparative advantage in grass-based agriculture, some horticulture, pine forestry, some fishing and nature-based tourism**

5. Our comparative advantages derive from:

- a temperate climate including (generally speaking) good all-year rainfall
- availability of land suitable for growing grass<sup>2</sup> and pine trees
- our southern hemisphere location, enabling off-season production for mass markets in the northern hemisphere
- fishing rights for a relatively large area
- historically, the availability of relatively inexpensive energy for down-stream processing
- an attractive, relatively un-crowded and clean outdoor environment (for tourism).

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<sup>1</sup> <https://ourworldindata.org/grapher/gdp-vs-happiness?time=2018>

<sup>2</sup> According to Professor Derrick Moot, Lincoln University, around 93 percent of the land we use to grow grass for cattle and sheep would not be suitable for growing any other crop due to it being hill country (and therefore hard to harvest economically using machines). Only about 6-8 percent of New Zealand's land is suitable for cropping.

Arguments that we should switch from animal to plant-based agriculture appear misguided, at least from the perspective of economic growth. It is hard to see that we would have a comparative advantage in plant-based agriculture as a substitute for animal-based agriculture, at least for hill country.

6. We have well-developed expertise in exploiting these areas of comparative advantage, with a highly skilled, innovative workforce, research facilities and (for primary products) first-level processing.

**Our growth prospects in our areas of comparative advantage (agriculture, horticulture, forestry, fishing and tourism) are constrained**

7. The constraints are:

- environmental, with tightening restrictions on greenhouse gas emissions and pollution of soils and waterways affecting both agriculture and tourism
- resource limitations, in particular land and water availability
- crowding (over-tourism) constraints in some of our best areas of natural beauty
- increasing energy prices, because:
  - low-cost generating capacity has already been developed (hydro in particular)
  - environmental and public-opposition constraints to new generation capacity
  - public opposition to the use of gas and (small scale) nuclear.

8. The CEO of Fonterra says that New Zealand has already reached “peak milk” and that little further growth in milk volumes can be expected.<sup>3</sup> This reinforces my point about the limits on our export growth potential given the extent to which the increase in dairy exports over the last 20 years has largely driven the (modest) growth in our total export earnings over that period.

**We do not have a comparative advantage in most other sectors and in many we have a strong comparative *disadvantage***

9. I briefly comment on other main sectors to illustrate this point.

**(a) Manufacturing**

10. Our small size combined with extreme remoteness and challenging physical geography (long, narrow, two islands, hilly/mountainous topography, geologically unstable, low population density) is a strong comparative disadvantage for

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<sup>3</sup> New Zealand Herald 14 July 2021

manufacturing. The exception is for domestic supply where remoteness limits the availability of competing import products (but this 'natural protection' limits the scale and productivity of such manufacturing).

11. Sometimes commentators argue that our small size should not be an obstacle, because other small countries, such as Denmark, are top economic performers. The comparison makes no sense. Denmark (for example) is part of a continent of over 750 million people. We are reportedly also part of a continent, but apart from us it's almost all underwater. Our nearest neighbour, Australia, which is also relatively small, is a similar magnitude distance away (Auckland to Sydney by sea) as London is to Moscow (by road and rail).
12. It is also becoming increasingly apparent that there are major economic advantages in being part of or in close proximity to large agglomerations of people and manufacturers and suppliers and supporting institutions, such as universities and research centres. Again we are at the wrong end of these economic advantages.
13. So manufacturing in New Zealand has to overcome huge disadvantages (except for local area supply where imports are infeasible). Some firms have done so, such as Fisher and Paykel Healthcare, but they are outstanding exceptions.
14. Historically we have had some relatively large-scale (for us) export-oriented manufacturing and processing plants based largely on relatively cheap energy and resource availability (such as aluminium, steel, pulp and paper, methanol, and oil refining) but these and their supporting industries in general are in decline or on their way out. There is a combination of reasons for this, including relatively old and small-scale plant compared to overseas suppliers, increasing energy and transport costs and environmental constraints (such as climate change).

#### **(b) IT products (such as software) and servicing**

15. This is sometimes touted as an export growth area in New Zealand, and there have been some outstanding, and admirable, commercial successes.
16. But again we do not have a natural comparative advantage in this area. To some extent the weightless nature of IT overcomes the "tyranny of distance" but this fact applies to all other countries too. Moreover, the economic advantages of proximity to large agglomerations of people (in this case working in IT) and supporting services and institutions applies, perhaps even more so than in manufacturing.

17. It is also sometimes argued that we have an advantage in a skilled and innovative work force, but I think we over-sell this to ourselves. It is hard to see that we have an advantage here compared to many other countries.
18. It is noteworthy that we have chronic shortage of skilled IT workers and that businesses clamour to import them from other countries.
19. A recent Dominion Post editorial<sup>4</sup> promoting the “tech sector” in Wellington inadvertently highlighted the issue. An advocate for the sector touted its vast export potential while at the same time seeking to be allowed to import more of its only resource (highly skilled workers) and touting for subsidies similar to those given to the film industry.
20. Similarly, a recent report on the role of immigration in the tech sector said that over 50 percent of new roles in the tech sector have been filled by immigration.<sup>5</sup>
21. It is hard to see that we have a competitive advantage in a sector that relies on importing its primary asset and that does not enjoy the advantages of being part of a large agglomeration of people and institutions in the tech sector.
22. Of course, IT is a critical input to everything we do these days including to the sectors in which we have a comparative advantage. Accordingly it is a vital sector, and it does generate worthwhile export opportunities.
23. It is notable however that many successful IT innovators in New Zealand get to a certain (relatively small) size and then are taken over by much larger overseas firms. Nothing wrong with this, and we benefit from the sale income, but it again highlights that we are at the wrong end of economies of scale and scope and proximity to agglomerations. And if great new inventions and ideas work well here they will be much more valuable in big overseas markets: hence the buy-outs.

### **(c) Minerals and oil and gas**

24. Again, we have very little advantage in this area. We are not well-endowed with mineral resources, in stark contrast to Australia and many other countries, and what relatively little we have is subject to strong environmental constraints and public opposition. We may have vast undersea mineral resources in our EEZ, but the likelihood of being able to exploit them is negligible.

### **(d) Education services**

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<sup>4</sup> 5 July 2021

<sup>5</sup> New Zealand Herald 9 July 2021

25. We do have some advantages in providing education services for overseas students at secondary and tertiary level, including our use of English, our relative safety and lack of corruption and reasonable quality of institutions. But *growth* potential is probably limited:

- we are not top-drawer in terms of attractiveness to overseas students (we rank well below the USA, the UK, Canada, Australia and much of Europe). If we were truly attractive on our own merits we would not need to offer work permits and dangle the prospect of residency to boost student numbers
- there may be an increasing trend to on-line learning post-Covid
- there are limits on our absorptive capacity for increasing numbers of students (see later comments on the costs of high immigration numbers)
- we are a relatively expensive destination in terms of accommodation, transport and living costs.

#### **(e) Other services**

26. We do have worthwhile export earnings from the provision of other services (finance, insurance, consultancy services etc) but as with other non-primary activities it seems unlikely that we have a sufficient comparative advantage in these sectors to generate sustained growth in their contribution to GDP.

#### **Our scope for further downstream processing and exploitation of our primary products (such as agriculture and forestry) is also limited**

27. Many commentators have argued over the years that we have significant potential in New Zealand to exploit our primary resources to move up the “value chain” by developing and manufacturing value-added and end-consumer products.

28. Much of this is wishful thinking. As noted, we have a comparative advantage in the production and first-level processing of a number of agricultural and forestry products. But that advantage usually only applies up to the point where the products can be processed (usually through the application of energy, often large amounts) for international transport.

29. Beyond that point our comparative disadvantages for manufacturing (poor economies of scale and scope and lack of proximity to agglomerations and mass markets) applies. We could prohibit the export of these primary products until

they had been further processed but that would be shooting ourselves in the foot, not least because the commodities we produce are widely available in international markets (we have few products that are unique to New Zealand).

30. Of course, we have developed many value-added products based on our primary products (such as specialist dairy products and wine), and some great work has been done in these areas. My point is simply that the scope for substantial economic gains here are more limited than we like to tell ourselves.

**What is the evidence that we have a relatively narrow range of major sectors with comparative advantage and that prospects for substantial and continuing growth in those sectors is limited?**

31. The main evidence is as follows:

- our exports are still dominated by primary products to the first level of processing plus tourism
- our exports (and imports) as a percentage of GDP are relatively low compared to other smaller OECD countries and are declining
  - in 2012, when our exports were around 30 percent of GDP, the Government's Business Growth Agenda set a target of 40 percent by 2025 as "critical to lifting New Zealand's productivity and economic growth"<sup>6</sup> and formulated a detailed programme of action to achieve it. Far from being on track to achieve the 40 percent target, our exports have now slumped to 25 percent of GDP (pre-Covid) and generally appear to be on a downward trend.<sup>7</sup>
- our rates of business investment (as a proportion of GDP) are chronically low compared to most other OECD countries and haven't changed much over time. If there were significant opportunities in adding value we would likely have seen an uptick in investment in these areas.
- these trends have occurred notwithstanding many conferences and plans and reports advocating investment, including Government investment and partnerships with industry and research bodies, in downstream development of our primary sector products and in high tech generally.

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<sup>6</sup> <https://enz.govt.nz/assets/Uploads/Building-Export-Markets-Progress-Report3.pdf> p7

<sup>7</sup> As part of the growth strategy the Government of the day allowed and encouraged high rates of immigration, a policy maintained by subsequent governments. My contention is that the decline in our export performance as a percentage of GDP over the same timeframe is unlikely to be a coincidence.

- for example, the Knowledge Wave Conference twenty years ago concluded that New Zealand “could no longer remain primarily a producer of agricultural commodities but instead [needs to] transform itself to a high-value, knowledge-based economy.”<sup>8 9</sup>

32. Of course one can argue that our performance would have been even worse without such initiatives and industry-assistance programmes, but on the face of it there is little evidence of sustained success let alone a step-change in performance.

**Given that**

- a) we are likely to remain dependent on a fairly limited range of major sectors for export earnings**
- b) growth prospects in these sectors are limited and**
- c) our domestic sectors are relatively or completely sheltered from competition and/or have relatively low scope for productivity improvement**

**high rates of net immigration have mainly negative consequences for our GDP per capita performance**

33. In the context of our relatively limited export prospects and our small, isolated economy and challenging physical geography, high rates of net immigration have a number of negative economic (and social) consequences. These include:

**(a) Huge pressure on housing**

34. Migrants need housing immediately. This puts upward pressure on house prices, unless supply keeps up. For numerous reasons the supply of housing in New Zealand substantially lags demand. This is unlikely to change materially in the foreseeable future given the magnitude of entrenched barriers to house building in New Zealand.

35. There is little doubt that the high rates of net immigration in recent years has been a primary driver of corrosive house price increases. (Another important driver has been the steady decline in interest rates, which get capitalised into asset prices, including, most noticeably, housing. More recently, with Covid, higher labour and material costs have added to cost pressures in the housing market).

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<sup>8</sup> [https://www.cie.auckland.ac.nz/cool\\_timeline/2001-knowledge-wave-conference/](https://www.cie.auckland.ac.nz/cool_timeline/2001-knowledge-wave-conference/)

<sup>9</sup> These conferences tend to be dominated by visionary and enthusiastic people (highly desirable characteristics, especially at a conference), but levels of business investment (the acid test) do not appear to have changed markedly in the subsequent 5 to 20 years.

36. A shortage of housing relative to demand puts upward pressure on both houses to buy and on rents.<sup>10</sup> This is really bad for well-being as well as per capita economic growth.

37. There have been some claims that the very high rates of house price growth over the last year while our borders were more-or-less closed to non-citizen immigration shows that immigration doesn't drive house prices. But:

- there is a big backlog of demand for housing from high rates of net immigration since 2013, including the extraordinary net influx of 95,000 people in the March 2020 year
- Housing takes a long time to ramp up, particularly given the difficulties and slowness of consenting and building new housing in New Zealand.

38. The pressures on the housing market can be seen in the four-fold increase since 2017 in the number of people needing social housing. Some of that overflow has been accommodated by emergency housing in motels. It is alarming to consider what would have happened to people needing emergency accommodation had overseas tourism, and therefore demand for motels, not come to an abrupt halt in early 2020.

### **(b) Huge pressure on infrastructure**

39. In addition to needing housing immediately, migrants need the infrastructure associated with housing and modern life generally. Infrastructure here is widely defined, and includes roads and railways, water services, electricity and other energy services, telecommunications, ports and airports, public transport, schools, hospitals, shops and a whole host of supporting and ancillary services. Crucially, it includes staff for all these services.

40. The incremental cost imposed by additional people is huge. It is hard to comprehend the scale of this. As one example, according to a recent report in the Dominion Post<sup>11</sup>, Wellington Water has calculated the incremental cost of supplying water services (drinking, waste and storm water) to the additional

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<sup>10</sup> Measures that don't address either total demand (the number of people wanting roofs over their heads) or supply (number of roofs available) are of little use in relieving the pressure on house prices and rents. This goes for measures such as bright-line tests, loan-to-value ratios, capital gains taxes and the like. All other things being equal if there was no excess demand caused by too many people (relative to available supply) there would be few capital gains to be had.

<sup>11</sup> Dominion Post 16 June 2021

82,000 people forecast over the next 30 years as \$3.6 billion<sup>12</sup>, which is \$44,000 per new person or \$132,000 per household assuming 3 people per household.

41. Following Australian research, it has been estimated that the cost of publicly-funded infrastructure for each additional person is about \$92,500.<sup>13</sup> In the light of the cost of water infrastructure alone, and the higher cost of infrastructure generally in New Zealand compared to Australia (given our physical geography), it seems this may be an under-estimate. The costs of privately funded infrastructure are additional to this.

**(c) There is a compounding effect. That is, the higher the rate of net immigration, the more immigration is required in future.**

42. This is because the new housing and infrastructure required to provide for migrants requires more people to build and service this infrastructure and provide services generally. These additional migrants in turn require more housing, infrastructure and services and so it goes on, creating pressure from businesses and service providers for further imported workers. That is, once the rate of immigration exceeds the capacity of the existing workforce to provide for it there will be strong pressures to continue with high rates of immigration.

**(d) The increasing demand for housing, infrastructure and services is a drag on overall productivity growth**

43. This arises because these sectors (construction and most service sectors) show relatively low productivity growth. They are not easily automated and have relatively low capital intensity. They are also sheltered from competitive pressures internationally and, in many instances, domestically. Many are publicly funded and accordingly lack capital market pressures and have the capacity to pressure national and local government to accede to wage and other demands.

44. Continuing to import more people to work disproportionately in non-tradable sectors makes the economy more inward-looking and dampens productivity growth overall, because non-tradable sectors in general show slower productivity growth than tradable sectors.

**(e) The increasing demand for housing, infrastructure and services has a negative impact on our export and other tradable sectors**

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<sup>12</sup> The report says “up to” \$3.6b, but our experience with physical infrastructure costs in New Zealand indicates this is more likely to be an under-estimate than an over-estimate.

<sup>13</sup> North & South March 2020, p50

45. Because these sectors (construction, infrastructure and services) are subject to little or no competitive pressure, they can and do out-compete tradable sectors (ie that are subject to competition) for resources, (land, labour, and capital). That undermines the profitability and competitiveness of our tradable sectors, and in particular the sectors in which we have a comparative advantage.

**(f) High rates of immigration put upward pressure on our exchange rate**

46. This arises through higher levels of demand for goods and services on the part of new migrants compared to the additional supply they provide at least over the short term (a few years), and the high levels of capital required, particularly from overseas, to finance new housing and infrastructure.<sup>14</sup> The effect of a higher-than-otherwise exchange rate is lower profitability for exporting and import substitution sectors.

**(g) High rates of immigration impose environmental costs and make it more difficult and costly to reach our environmental goals**

47. More people means more impact on the environment including higher greenhouse gas emissions. Meeting our zero net carbon emissions target by 2050 will be materially more expensive and difficult with a rapidly growing population.

48. A simple calculation shows the issue. If our rate of net immigration is 55,000 a year<sup>15</sup> our population would be nearly 1.3 million larger by 2050 than would be case if the rate of net immigration was 10,000 a year. All other things being equal (including that emissions scale with population numbers) that's a 25 percent increase in New Zealand's total emissions.

49. That makes the cost of achieving our emissions target much more expensive, and is likely to impact most severely on our primary and other tradable sectors (because they will find it much more difficult than non-tradable sectors to pass on costs).

**Conversely, the arguments in favour of high rates of (net) immigration are not very convincing**

50. Page 34 of the Issues paper cites a couple of possible benefits of rapid population growth, namely:

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<sup>14</sup> The Savings Working Group 2011 noted that high immigration rates push up the cost of capital and the real exchange rate. Cited in North & South, March 2020 p49

<sup>15</sup> The mid-point of the planning range for permanent residents for 2018-19. Issues Paper p37

- bigger, larger markets can support more firms, more competition, a wider range of goods and services and more specialisation
- bigger populations and markets may be better to able to meet the fixed costs of public service, innovation and infrastructure.

51. These are potential benefits, but they do not seem particularly compelling and in particular seem unlikely to outweigh the costs outlined above. This is because our markets are always going to remain very small regardless of high rates of immigration. That is, because of our isolation and physical geography we are unable to realise the benefits of large agglomerations of people (more competitive markets, more specialisation and so on).

## **Conclusions**

52. Regrettably, Governments (of all stripes) have an incentive to allow and encourage high rates of immigration. This boosts headline GDP numbers, including in comparison to other countries,<sup>16</sup> and makes their economic management look good. It also generates higher tax revenues allowing regular headline-grabbing announcements about increases in expenditure on worthwhile causes. The fact that our GDP per capita growth rates are chronically poor compared to most other OECD countries doesn't often see the light of day.

53. Similarly, businesses and their lobby groups have strong incentives to keep the immigration pipeline in full flow. This creates multiple profitable opportunities in the relatively sheltered domestic market and keeps costs low by avoiding the need to train and up-skill New Zealand's own labour force. The costs on the economy of high rates of immigration are borne by the economy as a whole, not individual business.

54. There is something amiss when our economy appears to need more and more people (as judged by newspaper headlines over many years on labour shortages) even though our productivity and growth performance (per person) has been dismal for many decades.

55. The main implications of the constraints on our per capita growth prospects, particularly in our export sectors, as argued in this submission, are:

- We cannot absorb high rates of net immigration on an on-going basis without negative impacts on our productivity growth, export growth and economic prosperity on a per capita basis relative to other OECD countries

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<sup>16</sup> And generates absurd claims from commentators and journalists who should know better that we have a "rock star economy".

- we need to restrict the quantum of net immigration, both permanent residents and the “stock” of temporary migrants
- simply adding more and more people to work in sectors in which we have a comparative *dis*advantage or which are largely or wholly sheltered from competition will not reverse our continuing slide down international rankings
- we need to prioritise migrants, whether skilled or semi-skilled, who are essential to the sectors in which we have a comparative advantage including essential services to the primary production sectors
- we will however continue to need skilled migrants to replace those we will continue to lose to countries that have done better than us in terms of economic growth, particularly Australia
- we will also remain a hostage to fortune in terms of our overall population numbers, given the numbers of New Zealanders who live overseas and our freedom of movement arrangements with Australia.

56. As a final comment I do not intend to imply in this submission that high rates of immigration are the only or even the primary cause of our poor economic performance. But they are one contributing factor which is amenable to Government policy that we can and should do something about.

## Responses to selected questions

*2 Is the Commission's proposed framework a useful way of thinking about the immigration system for this inquiry? What changes would you make?*

Figure 1 on p10 implies that there are only positive impacts from immigration (skills, innovation etc) and no weight or consideration appears to be given to negative impacts (such as on housing, infrastructure and exporting sectors). The "consistent with" box comes *after* the objective (growth in Net National Income per person) and is not the same thing as weighing up the costs and benefits of immigration as a contributor to productivity improvement.

*3 What should the overall objectives for the immigration system be?*

The Commission's overall objective (Growth in Net National Income per person) is correct in my view. I like its singular focus on trying to improve our dismal performance here, given that economic prosperity per person is the basis for our ability to deliver on all the other things that are important to us and that contribute to well-being.

*12 How should New Zealand's special relationship with Pacific Island nations be reflected in immigration policy?*

I do see a case for continuation of the RSE scheme for Pacific Islanders. This provides benefits to both New Zealand and the participants without many of the negative impacts applying to other immigration schemes. Specifically

- the participants do hard, demanding, essential work in a key sector (one which is largely export-oriented) and which New Zealanders (in sufficient numbers) do not appear to be willing to undertake for various reasons, notwithstanding special inducements offered during the Covid lock-down
- the work is primarily in rural areas, so does not cause the same problems as occur in urban areas in terms of pressure on housing and infrastructure
- the work is in activities that are likely to be hard to automate economically for a few more decades (it continues to be very difficult for robotics to achieve the same dexterity as the human hand in a complex environment)
- the work is seasonal and temporary, and the RSE visas do not come with rights to residence or to bring family
- potentially negative impacts on New Zealand and on the participants (undermining New Zealand employment conditions, crowding-out of domestic

labour, exploitation, sub-standard accommodation) are relatively easily remedied and policed

- it is good for participants and their families and communities. Participation is voluntary (voluntary contracts benefit both parties) and they can take worthwhile earnings back to the Islands. Working and earning income is far better for well-being than dependence on overseas aid.

However, *preferential* status for other types of visa (which is necessarily at the expense of a wider catchment and other groups) is likely to impact negatively on New Zealand's productivity performance. As the Minister of Finance says in his covering letter to the Commission, Pacific people are over-represented among New Zealanders who lack work experience and qualifications. They are also over-represented in other negative statistics including health, housing and incomes.

*13 Would there be benefit in requiring the Government to publicly announce its policy objectives for the immigration system? How often should the Government be required to make such a statement?*

Statements of Government objectives can be a double-edged sword. On the one hand, they can provide some certainty and stability for businesses and other interested parties. On the other hand they can be a grab-bag of fine words, try to be all things to all people and limit flexibility in responding to changing circumstances. They will certainly attract plenty of lobbying. On balance, however, it is desirable that the Government periodically announcing its planning targets for specific types of visa (eg residence visas).

*14 Currently, most employers have an obligation to prioritise the New Zealand labour force before recruiting temporary migrants. Do you agree with this obligation? Why or why not?*

*15 If not, are there alternative obligations employers should have if they wish to recruit temporary migrant workers?*

*16 What evidence, if any, should employers have to provide to prove they have made sufficient efforts to recruit New Zealanders?*

*17 Previously, ANZSCO has been used to define "high" and "low"-skilled jobs. Should immigration policy differentiate between "high" and "low"-skilled jobs? Is there a better way of defining skill levels?*

*18 What is the best way to identify workforce or skills shortages?*

*19 Prior to the pandemic, was the current system working effectively to address skills shortages while prioritising the employment of New Zealanders and ensuring the wages and conditions of New Zealand workers were not undermined? What evidence can you provide?*

Temporary migrant workers

The points system (combined with the requirement to demonstrate sufficient efforts to recruit New Zealanders) has a number of drawbacks, including incentivising lobbying and special pleading and high costs for employers and administrators.

The replacement system of high income/low income is probably better as it puts emphasis, rightly, on boosting the skill levels of our workforce especially skills that are in short supply (which would normally be reflected in high wages).

A disadvantage however, is that the non-tradable sectors (ie those not exposed to international competition) are much more readily able to pass on the costs of high wages/salaries. Sectors facing international competition, particularly exporters, can't do this, but may well have an acute need for relatively low cost labour, such as seasonal workers and dairy workers. New Zealand's experience has been that New Zealanders are not attracted to such work despite incentive schemes.

Economist Michael Reddell has proposed an alternative approach for essential skills visas comprising:

(a) a fee paid by employers of \$20,000 or 20 percent of the employee's annual salary, whichever is the higher<sup>17</sup>

(b) that such visas have a term limit of three years and that the holder must leave New Zealand for at least a year before being eligible for a new visa.<sup>18</sup>

Such a proposal may well be strongly opposed by employers, especially those employing relatively low-skilled workers, but it does have advantages, such as:

- being clear and predictable
- providing employers with a strong incentive to train and look hard for New Zealanders
- minimising the level of competition for low-skill, low-wage jobs
- reducing administrative complexity and costs for employers and administrators of the points-based system and proving sufficient efforts to recruit New Zealanders
- reducing the incentive for special pleading by businesses and lobby groups

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<sup>17</sup> It is unclear to me whether Mr Reddell proposes this as an annual or one-off fee for the duration of the visa. I see benefit in it being an annual fee.

<sup>18</sup> The corollary is that temporary work visas come with no rights to permanent residence. This is significant given that over half of temporary workers on essential skills visas obtained residence after the end of their work visa in 2016/17 (Issues Paper, box on p20).

- providing a funding source for policing to ensure that employers do not recover costs (or minimum wage requirements) from migrants via various back-door arrangements
- it may help cover some of the wider economic and social costs of immigration.

I have a concern however about the potential impact of a fees-based system on export-oriented (and other tradable) sectors, which have constrained capacity to pass on costs. In contrast, many domestic sectors are subject to little or no competition (and many are publicly funded) and can therefore absorb and pass-on costs over time far more readily (including through lobbying and public pressure) than tradable sectors.

I think this factor would require some sort of arrangement that provided a lower fee burden for our key tradable sectors (in particular farming, horticulture, forestry and fishing and directly-related servicing sectors and export-oriented processing).

Possible option: a lower rate for tradable sectors (eg \$10,000 or 10 percent of annual salary whichever is the higher). While this would add administrative complexity and costs, including boundary issues and scope for special pleading, they should be relatively limited.

Overall the total number (stock) of temporary workers is potentially an issue as shown in Figure 19 of the Issues Paper.<sup>19</sup> It is unclear whether charging employers a fee for essential skills visas would result in higher or lower numbers of temporary workers. It is possible the fee rate would need to be adjusted over time to take account of numbers, particularly depending on the numbers of skilled people migrating to Australia.

Removing most rights to work from student visas (see response to Q 24 -28) would also help constrain numbers.

*20 How successful have the Investor or Entrepreneur category visas been to date in generating value for New Zealand? How could this value be increased?*

*21 How should immigration policy acknowledge the fact that investment and entrepreneurship are inherently risky and that some efforts will not succeed?*

*22 What criteria (if any) do you think should apply to investor visas in terms of: level of investment, type of investment, duration of investment and obligations to New Zealand?*

*23 What criteria (if any) should apply to migrants wanting to establish or buy a business in New Zealand? How often should the business be reviewed against these criteria?*

### Investor or Entrepreneur category visa

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<sup>19</sup> This figure also need a 'total' so that the overall impact of temporary visas is clear.

Such visas seem a good idea in principle, although I understand there is little or no evidence internationally or in New Zealand that these types of schemes bring worthwhile benefits. I think it is true, as others have pointed out, that if someone wants to start a world-class business they would be unlikely to come to New Zealand to do so.

At minimum there should be much more focus on actually setting up a substantial business in New Zealand, especially ones with an export focus, with strict policing and enforcement. Allowing investment requirements to be met through investment in sovereign bonds or corporate bonds (box on p24 of the Issues Paper) seems ludicrous.

*24 Are the current criteria for obtaining post-study work rights satisfactory? What criteria should be added or removed (and on what basis)?*

*25 To what extent should international students have rights to work in New Zealand?*

*26 Should visa applicants who have gained a New Zealand qualification receive a special preference for residence?*

*27 Should there be any restrictions on the kinds of sectors or occupations students can work in during or after study? Why, or why not?*

*28 Should the level or nature of qualifications that students are studying affect work rights during or after study? Why, or why not?*

### Student visas

In my view, student visas should not allow students to work, nor should they include any rights or expectations of subsequent work visas. Attaching work rights to student visas, especially with a dangled promise of a path to subsequent residency, is problematic:

- working students provide competition for New Zealanders in the low skills, low wage part of the economy, thereby depressing wages
- it distorts motivations for coming here to study (that are not about study)
- it incentivises various rorts. This is not surprising: most of the countries supplying students rank far below New Zealand in Transparency International's Corruption Perceptions Index.
- student visas with work-rights, potentially including residence, subsidise universities (because the substantial costs of housing, infrastructure and services from increases in student numbers are largely borne by the economy generally). In this way, export earnings from education are

subsidised and the overall benefits to the economy are likely to be overstated.

*29 What should the objectives of working holidays schemes be (eg, fill temporary labour shortages, enhance international connections, encourage reciprocal overseas work opportunities for New Zealanders, attract longer-term migrants)? How well are the current schemes delivering on these objectives?*

*30 Do you think the number and set of countries New Zealand has agreed working holiday schemes with is set at the right level?*

### Working holiday visas

I look at this from the perspective of what is best for New Zealanders and in particular New Zealand young people. Working holidays provide a great opportunity for New Zealanders to see the world and gain work experience and cultural enrichment. This requires us to offer reciprocal rights to young people from other countries.

There are costs however from high numbers of working holiday visas including pressures on accommodation and infrastructure and competition for locals in the low skill, low wage parts of the economy.

There needs to be a cap on overall numbers, but I do not have a view on what it should be. It is notable that the number of working holiday visitors declined in the period 2016-19 after a period of sharp growth (Figure 11): it is unclear from the Issues Paper whether this decline was a result of caps or other factors.

*33 Do immigration settings for family visas (eg, parents, dependent children) have a material impact on a migrant's decisions to come to and stay in New Zealand?*

The availability of family visas will certainly have a material impact for many applicants. But family visas obviously add to total migrant numbers, and higher numbers have greater negative impacts. Moreover, because we are such a small market, a shortage of applicants for essential skills visas, notwithstanding an inability to bring family, seems unlikely.

Accordingly, in my view, we should not provide for family visas related to temporary work visas unless it becomes impossible to obtain specific skills without offering such visas.

*35 What effect has access to migrant labour had on training, job conditions and technology adoption by firms? What other factors explain firm practices? How can the Government support firms to change their practices?*

Firms will be able to provide any number of examples of where migrants have improved a firm's productivity. The key issue however is the overall economic and social impact of high rates of immigration, given that businesses do not directly incur the related housing and infrastructure costs. As argued in my main submission, I

think the overall impact of high rates of immigration is largely negative, both socially and economically, and acts as a drag on productivity improvement in New Zealand.

I am sceptical about Government programmes to support firms “change their practices”. We have had large numbers of Government programmes and incentive schemes to assist businesses over the years. If they have made a difference it’s hard to discern. In my view, it’s far more important for the Government to get its overall policy settings right (including tax, education, welfare, labour, infrastructure and competition policies) and then let normal commercial incentives work.

*37 How can New Zealand best leverage the diaspora to enhance productivity growth*

I am sceptical that our diaspora can materially enhance our productivity growth. Our diaspora (permanent overseas residents) have decided their prospects are better overseas and will be focused on making the most of those prospects. Moreover exporters are best placed, and have incentives, to seek out any New Zealanders overseas who can assist them in the hard grind of exporting. They can easily seek the assistance of New Zealand representatives overseas such as trade commissioners in identifying such people.

*38 Which costs and benefits of population growth are most important? Why?*

There are few if any net benefits to population growth in New Zealand given:

- the high costs of providing housing, infrastructure and services in New Zealand for a growing population
- the environmental and natural resource constraints on growth of our main export earning sectors (which is of crucial importance given our dependence on importing goods and services we cannot provide domestically at an economic cost)
- the additional cost pressures put on our export and other tradable sectors from high population growth. Those costs (from housing, infrastructure and servicing) are mainly incurred by non-tradable sectors which are able to out-compete tradable sectors for resources
- growing environmental costs from an expanding population, including greenhouse gas emissions and land and water pollution and biodiversity reduction.

Some of the supposed benefits of increasing population are illusory. For example:

- *overcoming labour shortages*. But bringing in more people to resolve specific shortages in individual firms and sectors creates further shortages in all the sectors needed to support additional people.

- *larger markets with more specialisation and competition.* We will always be a very small and very isolated market no matter the rate of feasible population growth. This means that our domestic markets are always going to be far behind mass markets overseas in their competitiveness and specialisation and productivity. Accordingly we cannot look to our domestic markets to increase the rate of our productivity growth and GDP per capita relative to other countries
- *supporting our aging population both financially (meeting projected increases in health and superannuation costs) and with care staff.* But this is relatively short-sighted, because new migrants will age and have families, adding to the care costs of an aging population in future years (especially if they are able to sponsor their parents) as well as the overall negative effects of an increasing population (see above). The only exception is coping with a temporary bulge in our aged cohort, but temporary (not residence) visas are appropriate for this purpose.

39 *What policy changes could help increase the benefits and reduce the costs of population growth?*

The only changes that will significantly increase the benefits and reduce the costs of population growth to the extent that it is driven by net immigration are:

- sharply limiting the number of permanent residence visas granted each year (to around 10,000 per annum) and
- imposing tougher requirements on temporary essential skills visas, including a maximum term of three years
- not providing work rights (or only limited rights) for holders of student visas.

40 *Could or should the Government use immigration policy (eg, visa conditions to settle in specific places) to ease pressures in some regions? If so, what would be the best way?*

It is unnecessary and undesirable to try to determine where people live if tight caps are placed on total permanent visas and if the arrangements for temporary visas are improved (see responses to Q 14 - 19). We want people to be able to go to where they can make the biggest contribution to productivity which may well include our large urban centres.

41 *Should the Government regulate the numbers of people given permanent residence? How and why?*

Permanent residence visas

Yes, there should be a cap on the number of people given permanent residence.

This is because of the compounding pressure of high rates of immigration on housing, infrastructure and services and the costs imposed on our tradable sectors.

Permanent residence visas should be restricted to those able to make the most worthwhile contribution to reversing our long, steady decline in prosperity per capita relative to other OECD countries. A points-based system, with high points for skills in short supply, seems most appropriate for selecting applicants.

A cap of 10,000 a year (rolling 3 year average), including partners and children (but not parents) seems likely to be able to be absorbed without negative effects outweighing contributions to productivity growth.

*42 Should the Government regulate the total number of people with temporary work rights? How and why?*

In principle yes, for the reasons covered in my main submission and in response to Q38.

However, if Michael Reddell's suggestions are taken up (eg charging employers the higher of \$20,000 or 20 percent of annual salary per skilled immigrant, three year limit on visas and no related residency rights) then it may be unnecessary to restrict numbers.

At the same time there may be a need to adjust the fee from time to time depending on whether the fees lead to a significant increase or decrease in numbers and on the extent to which we lose (or gain) skilled workers to (or from) Australia.

There may also be a need to put a cap on the number of working holiday visas (I don't have a number in mind). The reason for a cap is a concern about the extent of competition in the low-skills, low-wage part of the economy and the additional pressure an increasing stock of temporary workers puts on housing and infrastructure.

As noted earlier I also suggest that students visa should not have (or should have only very limited) work rights.

*43 If the Government does regulate volumes of permanent residents or temporary migrants, what should it be trying to achieve (eg, stabilising population, managing pressures on housing and infrastructure demand)? How feasibly can the Government achieve these goals through immigration policy?*

The sole objective should be increasing the prosperity of New Zealanders on a per capita basis.

It is not feasible to stabilise our population solely through immigration policy because New Zealanders have the right to travel and work overseas and to return home, and large numbers already live overseas (and therefore potentially may return at

relatively short notice). Historically we have experienced quite substantial swings in the rate of migration to (and to a lesser extent from) Australia and there is little reason to expect that to change in future.

Mike Lear  
16 July 2021