

# Immigration Policies that Would Enhance the Well-being of New Zealanders

## Introduction

Two stories wax and wane in New Zealand debates about migration. With record arrivals, falling departures and high net migration (Figure 1), current public concerns are around pressures on housing, infrastructure and publicly funded services like schools and health care. In 1979 people fretted about whether the last one to leave would be turning out the lights.

### Why have immigration?

Immigration is normally seen to be part of labour market policy and as a solution to problems of a shortage of labour or specific skills (an inability to find skilled employees is a consistent theme in the New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion). Where there is insufficient

domestic labour willing to relocate to address localised skills shortages, as occurred in Christchurch after the 2010–11 earthquakes, immigration can also reduce the need for economy-wide tightening of monetary policy to reduce wage pressures.

Immigrants boost international connections and can increase trade,

tourism and foreign direct investment. Working-age migrants bring significant short-term fiscal advantages, although longer-term impacts are negligible.

Immigration policy is also connected to population policy, and in New Zealand this is evident in discussion around migration replacing departing New Zealanders. As Figure 2 shows, non-citizen inflows have more than compensated for citizen departures since 1992.

Figure 2 also shows that the number of departures and arrivals by New Zealand citizens is a key driver of net migration in New Zealand. While the government can control the number of non-citizens who arrive in New Zealand, it has no control over the numbers of people leaving or the number of citizens (and residents with return rights) returning from overseas. These numbers are both material and volatile, and this makes planning difficult.<sup>2</sup>

Arguments for increasing the population highlight the potential benefits of scale and agglomeration: the idea that a larger population, especially in Auckland, our largest city, is a necessary, if not sufficient, condition for improving the

<sup>1</sup>Julie Fry is an independent economic consultant who divides her time between her homeland, New Zealand, and the United States. Peter Wilson is a Principal Economist at the New Zealand Institute of Economic Research who migrated to New Zealand from Australia.

living standards of all New Zealanders. This narrative is based on several themes:

- There are ‘agglomeration’ effects from cities that can be (only) captured in a larger Auckland.
- Related to this, high-paying jobs are created in the CBDs of big cities, and the bigger the city, the more high-paying jobs.
- Auckland must be larger to ‘compete’ with other regional cities, with Sydney and Singapore cited as examples. This competition includes attracting migrants, who are themselves a source of economic prosperity – so we have an ‘Auckland has to grow so it can grow even more’ element here.

More generally, more population is seen as helping firms counteract the disadvantages of New Zealand being small and distant from world markets; encouraging firm growth and innovation through increasing competitive pressure; and reducing the per capita cost of infrastructure with high fixed costs. However, increased scale is neither necessary nor sufficient to improve per capita well-being: there are small prosperous nations and large unproductive ones.

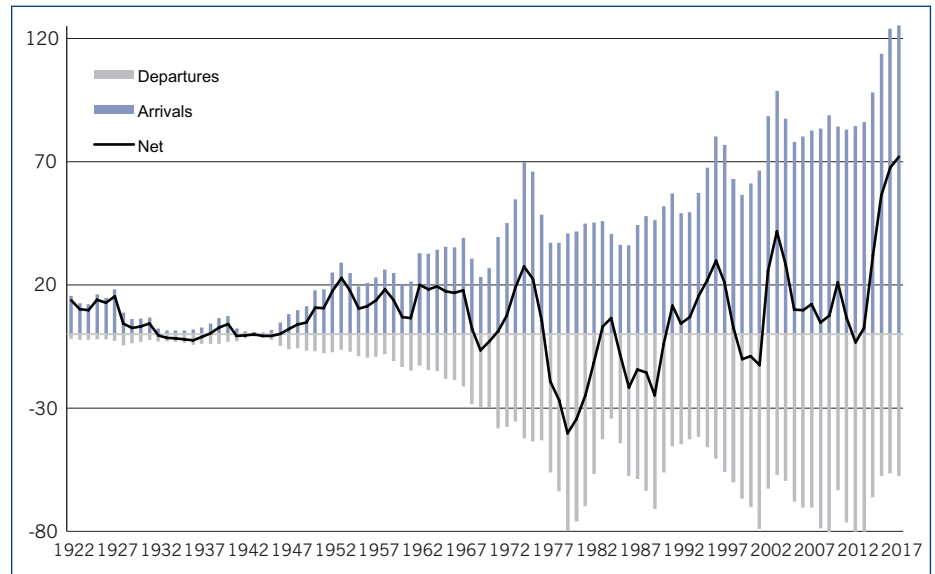
**The economic effects of current policy**

There is an extensive literature on the effects of migration on both migrants and the people and economy of the receiving country.<sup>3</sup> This literature mainly uses economic output (gross domestic product, or GDP) and components of GDP as the benchmarks against which migration should be judged. It concludes that when measured on a per capita basis, migration has a small positive effect on modern, developed host countries like New Zealand.

Immigration comes with costs, too. Migrants need somewhere to live and work, and at a macroeconomic level these demand effects can initially outweigh supply effects and lead to shortages, congestion and price rises.

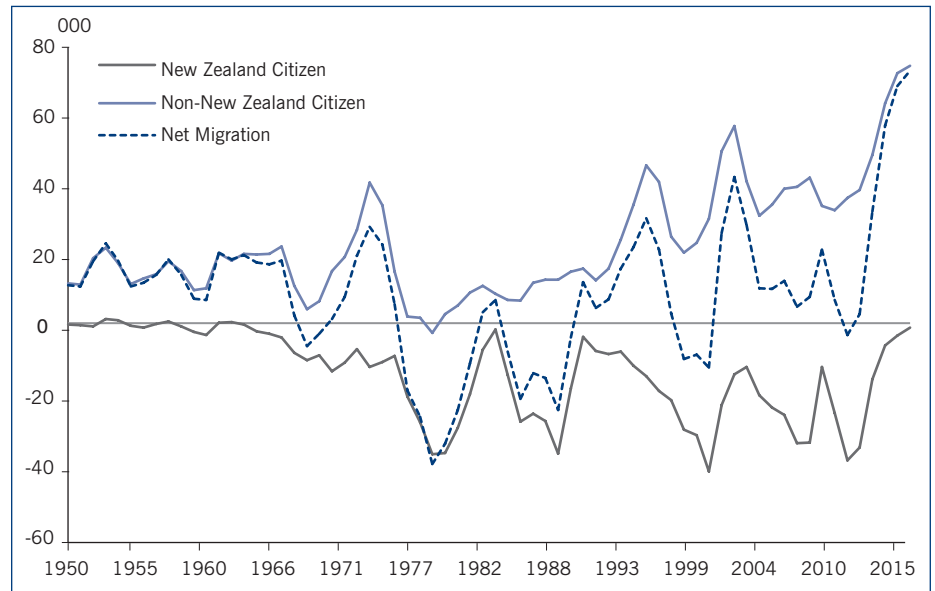
Because immigrants increase both demand and supply in the economy, their net impact on the wages and employment of others is modest. Immigrants increase the likelihood of employers finding suitable workers. Highly skilled migrants are more likely to have complementary skills that can make firms more productive, including

**Figure 1: Arrivals and departures (including New Zealand citizens)**



Source: Statistics New Zealand

**Figure 2: Net migration of New Zealand citizens and citizens of other countries**



Source: Statistics New Zealand

through ‘spillovers’, although whether this happens in practice depends on whether their skills can be used effectively in local industries. Less-skilled migrants are more likely to substitute for local workers.

**An alternative framework: migration and well-being**

GDP measures, in a single number with no double counting, the value of all the production in an economy in a single year. Its great utility is that it is comprehensive and comparable, both through time and between countries. Its drawbacks as a measure of welfare are well documented.<sup>4</sup> Some of the more important are that it ignores the distribution of income;

it only captures flows, not changes in stocks of physical capital; it does not capture the effects of production on the environment (other than measuring the costs of remediation); it does not measure consumer surplus; it only covers goods and services traded in markets; and all consumption is given equal weight. GDP says nothing directly about social cohesion or the value of norms and institutions.

Despite considerable effort, no single number approach has been developed to replace GDP.<sup>5</sup> There are, however, several multidimensional concepts of welfare that can be applied to test policies.<sup>6</sup> Measures have been developed which provide a richer definition of welfare, but at

**Table 1 Aspects of well-being related to migration**

Dimension	Migration policy objectives
Housing	The economy should have the capacity to house all migrants and existing residents to a standard that is acceptable.
Income	We should aim to select migrants who have higher than average productivity because they are likely to increase the overall incomes of New Zealanders.
Jobs	We should avoid bringing in large numbers of migrants with average skills or skills that are in reasonable supply locally, since they may have adverse effects for locals in the short- to medium-term (increased labour market insecurity and unemployment, decreased wages and employment).
Community	We should consider the quality of the support network that New Zealand can provide, since migrants, like everyone else, need social capital to thrive.
Education	We should manage migration flows so that we do not mask policy failures in the education system. Our goal should be to admit people who do not have skills that could be supplied by properly educated and trained locals.
Environment	We should aim to bring in migrants who will maintain or increase environmental quality. More research is needed to determine which factors are most important in New Zealand.
Civic engagement	We should explore whether there are interventions (such as access to settlement support) that will help migrants more quickly become engaged citizens.
Health	We should seek migrants who can supply skilled medical labour that cannot be supplied locally at reasonable costs. We should seek migrants (both individuals and in aggregate numbers) that the local health system can treat cost-effectively.
Life satisfaction	We should target migrants who increase the life satisfaction of locals, balancing the benefits migrants bring from skills, and the wider range of experiences greater diversity can provide, against concerns about safety, access to housing and any negative effects on the labour market.
Safety	We should target skilled migrants, who are likely to have a positive impact on public safety. We should minimise the numbers of unskilled migrants we bring in, and where feasible, ensure that migrants are supported.
Work-life balance	More research is needed to determine the impact of different groups of migrants on work-life balance in New Zealand.
Treaty of Waitangi	When setting migration policy, we should be mindful of the Crown's obligations under the Treaty of Waitangi.

Source: Wilson and Fry, 2017

considerable cost to tractability. Value judgements are inevitable to weight the dimensions and adding-up problems must be solved.<sup>7</sup>

We consider that a better way to assess migration is to examine well-being impacts. This does not make policymaking easier, but it includes more things that matter and makes trade-offs more transparent.

Amartya Sen defines well-being as the capability to lead the kind of life a person values and has reason to value.<sup>8</sup> Welfare increases when the set of capabilities each individual possesses increases (Stewart, 2013). Using the framework underlying the OECD's Better Life Index (see OECD, 2011a, 1011b), we have developed a tentative list of the features of well-being

that are relevant to migration policy in New Zealand today: see Table 1.

This framework is directed at improving the well-being of New Zealanders. This does not imply that we should adopt a 'beggar-thy-neighbour' approach, especially in relation to developing countries, which are the source of many migrants, both skilled and unskilled.<sup>9</sup>

#### What to do

Migration is here to stay. The world is increasingly interconnected, through trade, travel and the internet. New Zealand is a multicultural nation.

While we have international commitments that need to be honoured, including to refugees, the trans-Tasman travel arrangement, and reciprocal visa agreements and our special relationships with New Zealand territories and other Pacific states, as an independent country we have the freedom to decide what sort of society we want to be and what role migration policies should play in achieving our goals.

We now examine each of the dimensions of well-being relevant to migration in turn.

#### *Housing and the environment*

We know that, in addition to strong internal migration to the upper North Island, many migrants will want to settle in Auckland. If Auckland cannot or chooses not to provide sufficient new housing (and associated infrastructure) to accommodate people to the standard that we consider acceptable (in terms of quality and price and environmental footprint), then migration should be reduced, since preventing migrants (or indeed anyone else) living in Auckland is likely to be impossible.

#### *Income*

We should aim to attract migrants who have higher than average potential productivity and who will increase other dimensions of well-being if they settle here. Predicting who will be successful in increasing well-being is hard, because success is multidimensional. Being both more selective and willing to take calculated risks will require a nuanced,

discriminating set of criteria and an acceptance that not every migrant will make a positive contribution.

**Jobs**

Migration can be an effective way of ‘greasing the wheels’ of economic growth, by increasing the short-term supply of people with required skills. But in the long term we want to ensure that everyone in New Zealand has the freedom to live the life they value and to be able to make choices that translate their potential to be or do a variety of things into actual beings or doings.

In some areas, like health, where there are worldwide shortages of skilled professionals that New Zealand alone can neither correct nor be isolated from, migrants will continue to make a valuable contribution to providing the public services that New Zealanders value. But migration should not be a long-term substitute for the development of New Zealanders.

**Community and civic engagement; life satisfaction and safety**

Migrants, like everyone else, need social capital to thrive. We want migrants to lead a good life and enhance the lives of the communities they join.

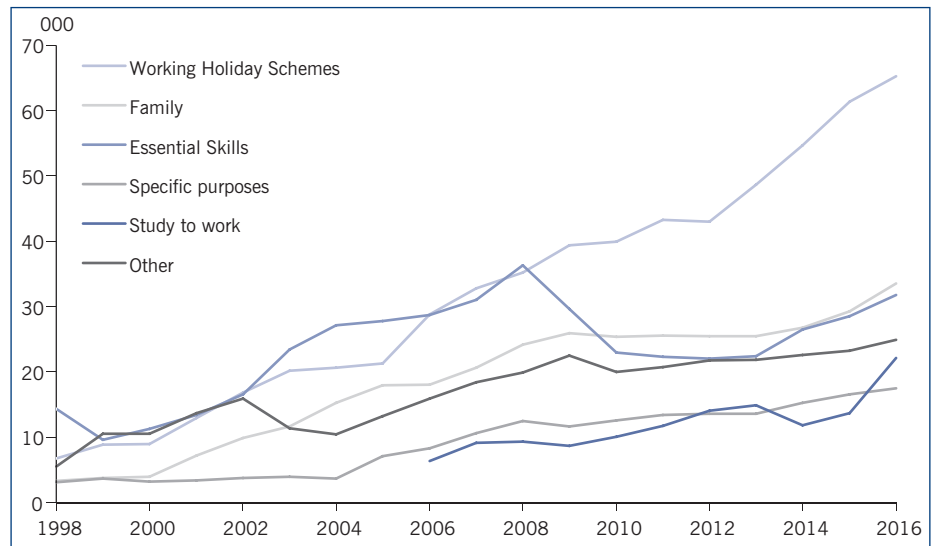
Apart from a limited number of refugees and asylum seekers, we expect migrants to either bring social capital with them (which often means coming from countries similar to New Zealand) or build it themselves once they arrive, often with the help of earlier migrants. We worry that if migrants do not behave according to the norms and institutions of New Zealand, the life satisfaction and feelings of safety of the country will suffer, yet we do little to promote those behaviours.

We should consider how to help migrants to develop the social capital they need to contribute to increases in well-being across all its dimensions. At the same time, we need to avoid monoculturalism, since inward-looking, isolated societies are less likely to flourish.

**Treaty of Waitangi**

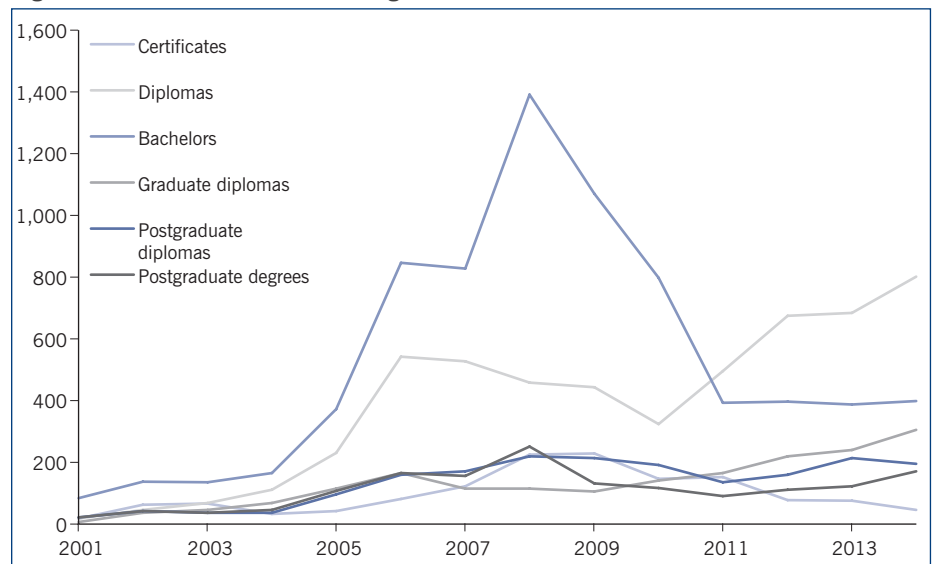
Migration is an area where the Crown continues to act as if the Treaty of Waitangi gives it carte blanche. Rangini

**Figure 3: New worker visa approvals by entry category**



Source: Ministry of Business, Innovation and Employment

**Figure 4: Qualifications of skilled migrants who were former students**



Source: Ministry of Business, Innovation and Employment analysis of IDI data from Statistics New Zealand

Walker, however, saw the Treaty as a contract between the British Crown and iwi which granted permission to bring in British subjects, but did not envisage the multicultural society that has resulted from policies directed at skill and labour shortages rather than based on country preference (Walker, 1993).

The liberal values that have led many Pākehā to see that the Treaty should be honoured are the same set of values that also saw the ‘white New Zealand policy’ as no longer appropriate. Expecting the Crown to be liberal when it comes to Māori but having a different approach to foreigners might be asking too much. Reconciling the Crown’s current migration policy with Treaty is an issue yet to be addressed.

**Policy changes**

Applying the well-being framework suggests three changes to policy:

- reducing flows of less-skilled migrants;
- increasing the calibre of skilled migrants; and
- targeting transformational migrants.

We need to consider both temporary and permanent flows. In the year to June 2016, 192,688 work visas were approved, compared with 52,052 residence visas (see Figure 3) (Ministry of Business, Innovation and Employment, 2016, pp.40, iii). Almost 5% of the New Zealand labour force hold a temporary work visa (Fry and Glass, 2016, p.58).

New Zealand does not have a shortage of unskilled labour: uncontrolled flows of

working holidaymakers and students with work rights are the result of foreign policy and export education objectives being prioritised over the well-being of locals. Reducing inflows of unskilled and low-skilled temporary migrants should be a priority. The skill level of both temporary and permanent ‘skilled migrants’ has been declining over time. As Figure 4 shows, successful applicants for New Zealand residence under the Study to Work category increasingly hold lower-level diplomas. These are lower levels of skills than were anticipated when the policy was designed.

It does not make sense to provide permanent residence to people working in low-earning retail management jobs or those in the tourist and hospitality industries. If there are areas of labour shortage, they are more appropriately dealt with through temporary visas, and through training New Zealanders.

Migrants who have the potential to enhance the well-being of New Zealanders across more than one of the dimensions of well-being should be a priority, although our ability to identify such people is low: at present we have difficulty selecting migrants who have the potential to contribute to GDP per capita.

Targeting people likely to make a bigger difference can involve greater risk, but there are ways to manage this. The Edmund Hillary Fellowship is currently recruiting the first cohort of 100 fellows who will be eligible to enter New Zealand on a three-year global impact visa. Rather than emphasising traditional screening measures such as age, previous experience and detailed business plans, fellows – who can include whole start-up teams – are being assessed based on recommendations from pro-social networks, their potential to develop ventures in New Zealand that could create global impact, and the extent to which their proposed ventures are consistent with New Zealand’s values and needs.

There would also be value in making the immigration process easier for small numbers of very highly skilled people. Although New Zealand may never be the first choice for the world’s most driven people, greater efficiency and certainty would make us more attractive to top talent looking for alternatives as other countries tighten their border controls.

### Conclusion

Migration has been good for New Zealand, but it has not been great. We

think using a well-being framework has the potential to make it better. Focusing on smaller numbers of more highly skilled immigrants, and considering important broader issues that a simple focus on per capita GDP allows us to ignore, should lead to more effective and more sustainable immigration policy for New Zealand.

- 1 Full disclosure: both authors are migrants. This article draws on work sponsored by the New Zealand Institute of Economic Research’s public good fund (Wilson and Fry, 2017), for which support we are grateful. We also thank Jonathan Boston for helpful comments on the draft. Any remaining errors are our responsibility.
- 2 Relative to our population, New Zealand has a large diaspora, with estimates of numbers living offshore ranging from 600,000 to more than a million (Fry and Glass, 2016, p.33).
- 3 Fry and Glass (2016) provide an accessible recent summary.
- 4 See Stiglitz, Sen and Fitoussi (2009) and the papers published at: <https://www.insee.fr/en/information/2662494>.
- 5 For a survey, see Fleurbaey and Blanchet (2013).
- 6 Some of the better known are the United Nations Development Programme’s Human Development Index and the OECD’s Better Life Index.
- 7 In measured GDP all production is converted to dollars using market prices and then summed. Multidimensional measures are often based on scales, like 10 to 1, meaning that the units of measure have no particular meaning.
- 8 For a good summary of the capabilities approach, see Dalziel and Saunders (2014).
- 9 The health sector is an example. The efficient operation of our public health system relies on migrant health professionals. At the same time, there is a worldwide shortage of such professionals, especially in developing countries. We need to have regard to the effects of our migration policies on such countries.

### References

- Dalziel, P. and C. Saunders (2014) *Well-being Economics*, Wellington: Bridget Williams Books
- Feldstein, M. (2017) ‘Underestimating the real growth of GDP, personal income, and productivity’, *Journal of Economic Perspectives*, 31 (2), pp.145-64
- Fleurbaey, M. and D. Blanchet (2013) *Beyond GDP*, Oxford: Oxford University Press
- Fry, J. and H. Glass (2016) *Going Places: migration, economics and the future of New Zealand*, Wellington: Bridget Williams Books
- Ministry of Business, Innovation and Employment (2016) *Migration Trends 2015/2016*, Wellington: Ministry of Business, Innovation and Employment
- OECD (2011a) *How’s Life: measuring well-being*, Paris: OECD Publishing
- OECD (2011b) *Compendium of OECD Well-Being Indicators*, Paris: OECD Publishing
- OECD (2014) *Recruiting Immigrant Workers: New Zealand 2014*, Paris: OECD Publishing
- Rawlinson, P., R. Tipples, J. Greenhalgh and S. Trafford (2013) *Migrant Workers and the Growth of Dairy Farming in Southland, New Zealand*, report for Dairy NZ, retrieved from: <http://www.onefarm.ac.nz/research/migrant-workers-and-growth-dairy-farming-southland>
- Stewart, F. (2013) *Capabilities and Human Development*, occasional paper 2013/03, United Nations Development Programme
- Stiglitz, J., A. Sen and J.-P. Fitoussi (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress*, European Commission
- Treasury (2014) *Holding On and Letting Go: opportunities and challenges for New Zealand’s economic performance*, Wellington: The Treasury
- Walker, R. (1993) ‘New Zealand immigration and the political economy’, *The Social Contract*, 4 (2), pp.86-95
- Wilson, P. and J. Fry (2017) ‘Migration, well-being and New Zealand: a new approach to an old challenge’ (forthcoming)