

THE POPULATION CONFERENCE

**POPULATION, IMMIGRATION AND THE
LABOUR MARKET**

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1 Introduction

This paper argues that for policy purposes population is not an issue with major implications for the labour market, and that there is little point in attempting to limit the total size of New Zealand's population because of concerns over unemployment or other labour market outcomes. In particular, there is no evidence that immigration on a sensible scale adversely affects unemployment or wage levels in the destination country. A sound immigration policy has a positive economic impact, and thus a favourable net effect on living standards.

Section 2 discusses the fallacy that an increased population leads to higher unemployment. Section 3 points out that fertility rates typically dominate immigration as an influence on population trends. Section 4 discusses the benefits from sound immigration policy, and notes also that net migration levels can be seen as a judgment on New Zealand's attractiveness as a country. Section 5 stresses the importance of flexible labour markets in maximising the benefits from immigration. Section 6 briefly considers the age structure of immigration, while section 7 discusses other relevant issues. Concluding comments are given in section 8.

2 Population and the labour market

Many examples could be produced to illustrate the fact that the size of a country has comparatively little connection with how well its labour market functions. For instance, New Zealand has seen a steady rise and then a sharp fall in unemployment since the early 1970s, while its population has grown relatively slowly (and more slowly than in earlier years). The United States has the largest population of any developed country, yet its unemployment rate of 4.9 percent is currently lower than New Zealand's, and is much lower than the rates of many middle-sized countries in Europe such as Germany, France and Italy. Very low unemployment rates have been found in large countries such as Japan and small countries such as Hong Kong. The recent history of Hong Kong also demonstrates that rapid growth in population need not be associated with high unemployment: for the last few decades, strong population growth has coexisted with extremely low unemployment rates and rapidly rising incomes. Moreover, an unusually large share of Hong Kong's population growth has come from immigration.

In short, there is no empirical evidence that the size of a country has a significant influence on its unemployment rate. The common idea that more people means higher unemployment is usually based on the implicit assumption that the stock of jobs in an economy is fixed. It follows on this view that when more potential workers meet a fixed stock of jobs, unemployment will result. But the assumption that the stock of jobs is unchanging is an economic fallacy. People are consumers as well as producers. A larger population means there are more consumers demanding goods and services. The increased production needed to meet this demand leads to higher demand for workers in the industries supplying the extra goods and services. To the extent that the additional population saves its income, the demand for investment goods will also increase. Either way, jobs end up being created.

If anything, a population increase can probably be expected to have a slightly beneficial overall economic effect over the long run. That is the conclusion of American resource economist Julian Simon in his book, *The Ultimate Resource*.¹ The human brain, rather than natural resources, is the crucial creator of wealth in today's technologically advanced societies. A larger population can mean a greater critical mass of creative thinking, more specialisation and greater economies in production – factors which offset any short-run pressure on natural resources which an increased population might bring about.

3 Population trends

Demographers agree that it is difficult to predict population trends, and indeed many past population forecasts have proved to be wrong. In a country like New Zealand, the biggest influence on population is fertility rates. Yet human fertility is not something we should wish to centrally plan. In a free and open society, fertility rates result from the individual decisions and plans of numerous people. They change for all manner of economic, social and technological reasons, and historically have often changed in unanticipated ways. Recently fertility rates have been falling. Their unpredictability should not be seen as a particular problem, since there is no single optimal population level for which New Zealand's policy makers need plan. Certainly there are no economic grounds for believing New Zealand to be overpopulated. Views on the size and structure of an optimal population will differ between individuals, and it is hard to see how any government could form an objective view on the matter. Even if there were an optimal population level, it is

1 Simon, J L, *The Ultimate Resource*, Princeton University Press, Princeton, New Jersey, 1996.

doubtful it could be achieved without coercive methods of a type all of us would consider unacceptable.

The central importance of fertility rates for population trends means that even if we wanted to engineer New Zealand's population level, immigration policy would prove to be a blunt instrument for this purpose. Moreover, migration flows occur in both directions, and emigration levels can fluctuate considerably over time. Though we can plan a limited quota of immigrants with some rough numerical accuracy, we have no direct control over outward flows of people. At best we have some indirect control through the quality of the social and economic policies pursued by our elected representatives – policies which influence the attractiveness of New Zealand to native-born citizens.

4 Benefits of immigration

With no evidence that an increased population adversely affects average living standards or unemployment rates, and with immigration at any of the currently mooted levels likely to have only a limited impact on total population, we can conclude that immigration and population are essentially separate issues for New Zealand. Immigration can safely be evaluated in terms of whether a sensible policy (outside humanitarian and family reunion categories) can be expected to benefit New Zealand. The evidence is that it does.

Throughout history migration has played a generally positive role in spreading human resources, skills and positive cultural traits from where they are abundant to where they are in short supply, thus enriching the host countries of immigrants. According to Thomas Sowell in his recent study of migration, such a movement of people has been monumental in its consequences.² The injection of specific skills to the stock of a country's human capital is one aspect of the benefits from immigration. In addition, immigrants often bring positive entrepreneurial attitudes to their host countries, a strong work ethic, and valuable links with other cultures and markets. In America, leading economists have been almost unanimous in their view that immigration this century has benefited the US economy.³

A study by Julian Simon of the economic consequences of immigration in the United States is consistent with this verdict. It shows that immigrants participate more in

2 Sowell, Thomas, *Migrations and Cultures: A World View*, Basic Books, 1996.
3 Simon, J L, *The Economic Consequences of Immigration*, Basil Blackwell, Oxford, and Cambridge Massachusetts, 1989, Appendix C, pp. 357-361.

the labour force than native Americans. The gap between the amount immigrant families pay in taxes and the amount they receive in welfare benefits is larger than for native-born families. Immigrants apply more effort during working hours. They save more, and have a higher propensity both to start new businesses and be self-employed.⁴ The Council of Economic Advisors in the United States has reported that studies "have found no specific evidence of unemployment among native-born workers attributable to immigration."⁵

While no study as exhaustive as Simon's has been carried out for New Zealand, there can be little doubt that the inflow of skilled immigrants through the general skills and business immigrant categories in recent times has been positive for our economy. These immigrants bring with them knowledge, technological know-how and linkages to foreign markets. They also tend to have more entrepreneurial attitudes than native-born New Zealanders. Since immigration benefits the economy overall, native-born New Zealanders earn higher wages on average than would otherwise be available. The increase in immigration during the first half of the 1990s coincided with the sharp fall in New Zealand's unemployment rate in that period. It seems likely that the effect on unemployment has – if anything – been positive.

Migration flows can be seen as one measure of the quality of a country's policy settings. It is largely skilled labour which is internationally mobile, and its migratory patterns provide a barometer of success. Thus during the 1980s New Zealand had a significant net outflow of people: we were losing young, skilled New Zealanders, in part because they saw greater economic rewards abroad. In the early 1990s this situation reversed itself, as the economic reforms led to higher rewards for skill and effort, stronger economic growth, lower unemployment, and a more dynamic economy generally. The attraction of many migrants and the return of many New Zealanders was a vote of confidence in this new environment. More recently there has been a falling off in net migration. To the extent that this represents a changed view of New Zealand as a country welcoming immigrants, and as a country with a sound policy environment, this should concern us all.

When a country's economic performance falters, and it begins losing skilled people (often those whose education has been highly subsidised), the biggest losers are the unskilled poor. This group is made up of one of the least mobile factors of production, and will largely be trapped within a poor policy environment. That is

4 Simon, J L, 1989, *op. cit.*

5 US Congress, *The Economic Effects of Immigration*, Economic Report of the President, United States Government Printing Office, Washington, 1986, p. 223.

one reason why artificial constraints should not be placed on the rewards to skilled people. Such constraints drive internationally mobile labour offshore and all end up losers, especially the poor.

5 Importance of flexible labour markets

For human resources to be used most efficiently, it is important that labour markets be as flexible as possible. Where there is a high degree of freedom to contract between employer and employee, skill acquisition will be encouraged, virtually all workers genuinely seeking jobs will soon find them, labour will tend to flow to those areas of the economy where it is most needed, and there will be strong incentives for employers and employees to strike deals that maximise productivity. Cross-country studies have demonstrated the importance of flexible labour markets for economic growth and job creation.

As with human capital generally, flexible labour markets are valuable in maximising the benefits a country derives from immigration. To the extent that immigration ever increases unemployment, it can only be in those limited circumstances where serious labour market rigidities prevent displaced workers from moving into industries or sectors where they would otherwise be in demand. The correct policy response in these circumstances is to remove the labour market distortions, not change immigration policy.

In New Zealand's case the recent big fall in unemployment occurred after the major labour market liberalisation represented by the Employment Contracts Act 1991. But problems with our labour market remain, and provide no grounds for complacency. The minimum wage – which has recently been raised – prevents some of the most vulnerable potential workers from gaining a foothold in the labour market, since employers will not hire a worker whose value to the firm is less than the statutory minimum. The approach of the Employment Court has also harmed employment, particularly in its activist handling of personal grievance cases. Consequently labour market policy in New Zealand has gone backwards recently. At 6.7 percent of the labour force, our unemployment rate is still far too high. It exceeds the unemployment rates in the United States and the United Kingdom, and is much higher than those which have generally prevailed in recent years in countries such as Japan, Switzerland and the Asian 'tigers'. Further liberalisation is necessary if we wish to make renewed progress in this important area, as well as further attention to welfare benefit policy, including the nature of obligations on the part of beneficiaries to seek and accept available work.

One part of the labour market which does not seem to have been working satisfactorily is the market for immigrant doctors. Large numbers of doctors have gained entry to New Zealand but found their qualifications did not entitle them to practise here. Many are unemployed, and wait their turn to pass exams administered by the Medical Council. An efficient labour market depends on good information, and it appears good information has not always been provided to many of the prospective immigrants. There are also serious questions about whether immigrant doctors are facing excessive entry barriers to practising in New Zealand. Since the Medical Council consists in large part of practising doctors, it has a *prima facie* conflict of interest: potential competitors of the would-be doctors are sitting in judgment on whether those doctors are fit to practise. Such a situation is unlikely to be in the long-term public interest.

6 Age structure

In any immigration policy that employs administrative criteria, it is logical to put some weight on age as a factor: younger people, with a greater period of their working lives ahead of them, are a more attractive economic prospect than older people, other things being equal. Moreover, although we have difficulty in predicting population trends, there is widespread agreement that the average age of the New Zealand population will increase markedly next century, and that the elderly will become a growing economic burden on the working-age population. One means of cushioning this problem is to encourage immigration of younger people.

Young people predominate in temporary migration for the purposes of short-term work and the experience of life in other countries. Just as young New Zealanders working overseas benefit their host countries as well as themselves, we can expect young foreigners working in New Zealand to benefit our economy. Accordingly, a liberal regime for temporary as well as long-term immigration is in New Zealand's interests.

7 Other issues for immigration

Other rigidities besides labour market rigidities can compromise the benefits of immigration. For instance, New Zealand has many problems in its state education system; these affect the extent to which immigrants and their families can acquire new skills, and in some cases master a new language. Infrastructural rigidities can also be a problem, as has recently been the case in the Auckland region. As a result of the public sector reforms – including privatisation – at central government level,

there are now comparatively few difficulties with infrastructural services directly provided by central government or the private sector, with the exception of roading. Most of the problems concern services that are the responsibility of local government – water, sewage, urban roads. This reflects the more limited progress with market-based reforms made at the local government level.

Some may argue that the infrastructural problems faced in Auckland suggest a need to base our immigration policy on a regional plan. Such a temptation should be resisted: good public policy should be as neutral as possible with respect to where people live. So long as markets are allowed to work, and prices reflect the value of the resources people consume, New Zealanders will tend to make their locational decisions in a way that maximises broader community welfare. In other words we should let people 'vote with their feet'. If we override market signals, resources are employed in less productive industries and locational decisions are arbitrarily affected for the worse. For instance, the high import protection of former times artificially encouraged metropolitan growth, as well as the development of inefficient manufacturing industries.

Even if we wished to use immigration policy as a mechanism for regional planning, it could at best have only a limited impact on regional growth patterns. The scale of internal migration to Auckland in recent years illustrates this point.

8 Conclusion

The arguments in this paper suggest that population is not a significant issue for New Zealand's labour market, and should not be a barrier to the development of a sound immigration policy. The New Zealand Business Roundtable supports an open and liberal immigration policy, because such a policy increases the quality of human resources, and hence economic, social and cultural development, in this country. A target of around 30,000-40,000 immigrants each year – roughly 1 percent of the population – seems broadly appropriate, and should not outstrip the capacity of New Zealand society to absorb newcomers arriving from significantly different cultures.

Consequently, immigration policy in the 1990s can be said to have been broadly appropriate. There is room for fine-tuning: for example, it is doubtful whether there is a great deal of merit in retaining the business immigrant category as opposed to folding it into the general skills category. There is also good reason to explore the idea of setting a fee as the main means of determining entry, as suggested by

Wolfgang Kasper⁶ and other prominent economists. But any change to a fundamentally more restrictive policy is unwarranted, and cannot be justified by reference to population or labour market considerations.⁷

6 Kasper, Wolfgang, *Populate or Languish? Rethinking New Zealand's Immigration Policy*, New Zealand Business Roundtable, Wellington, July 1990.

7 For further argument on this point, see Kerr, R L, 'Population and Immigration', address to the New Zealand Association for Migration and Investment Annual Conference, 25 July 1997.