

**New Zealand Migration and Investment Association Annual
Conference**

**Immigration Policy:
Have We Got it Right?**

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**AUCKLAND
26 MAY 1992**

IMMIGRATION POLICY : HAVE WE GOT IT RIGHT?

I welcome the opportunity to offer a few perspectives on the subject of immigration. Immigration policy is currently in a state of transition. Provided the practice matches the stated philosophy of the new Act, I believe immigration has great potential to benefit New Zealand both as an economy and as a place to live.

It is easy to see that a more welcoming attitude to immigration fits with the economic changes of the last decade. Their dominant theme has been the shift from a closed to an open economy. The process began with the first steps to free up import competition in the late 1970s and to move to free trade with Australia. Next came the removal of exchange controls, the floating of the exchange rate and the removal of virtually all restrictions on movements of capital. Trade in many services such as transport and communications was subsequently opened up. Finally governments moved to free up the labour market, including the liberalisation of our immigration rules.

These decisions have changed the economic landscape irreversibly. They were motivated by the recognition that decades of fortress New Zealand policies had led to economic stagnation, ever-increasing debt and mounting social problems. We are now becoming an open, competitive economy wedded to the world's fortunes. The benefits are clearly showing up in the much-improved economic outlook. Provided the government achieves and maintains a sound, consistent policy framework and the private sector grasps the new opportunities, we can look forward to a much better economic performance in the 1990s.

The lesson we learned - or I hope we have learned - is that a small economy cannot prosper by closing itself off to the influences of the outside world. This is as true of movements of people as it is of movements of capital and goods and services. Economic growth depends on openness - openness to new ideas, to entrepreneurial initiative and to competitive pressures to find ever-better ways to meet consumers' needs.

New Zealand's early and more recent history is a story of immigration. Last century the country prospered under European settlement, including the Maori community until the mistakes of the 1860s. Openness and mobility led to one of the world's highest living standards by the turn of the century. But protectionist attitudes slowly took over, in immigration as in so many other areas. Established interests sought to block change and competition, and migrant entry was increasingly restricted. By World War I a foreign observer was writing:

"So complete a collection of qualities was required of the immigrant that a humorist caused much amusement by saying that if Jesus Christ and his twelve Apostles were to come to New Zealand, they would certainly be classed as undesirable immigrants..."

Although immigration policy over the last 100 years has been subject to much debate and frequent administrative changes, it has remained basically inward-looking. The predominant concerns have been with absorptive capacity, competition for jobs and

national cohesion rather than - as in the case of countries like Australia and the United States - with economic growth and cultural enrichment.

Most of the fears commonly expressed about the effects of immigration have been shown to be unfounded by economic studies. The central fallacy is to view new arrivals predominantly as competitors rather than as additional consumers or complementary producers whose presence can help in raising overall living standards. Some of the recurrent findings of studies on immigration are as follows:

- Immigrants have a high rate of labour force participation, they work hard, they tend to save more, they have a high propensity to start new businesses and to be self-employed.
- Immigrants do not have a high propensity to commit crime or to be unemployed.
- Immigrants are not high users of welfare and social services, and they pay their fair share of taxes.
- Immigrants have negligible short-term effects on unemployment or real wages. Contrary to popular belief, the supply of jobs is not fixed. Immigrants not only take jobs, they also make jobs both with their spending and with the businesses they start.
- There is no evidence that immigration widens the income distribution.

Overall, the benefits from immigration even in the short term appear to be positive. But as the Business Roundtable's study on immigration argued, the much more important social and economic influences of immigration are long-term. Immigration has the potential to greatly enhance the know-how, the skills and the trading contacts that are so essential to modern economic growth. Immigrants bring new ideas, and challenge local ways of doing things. As our consultant, Professor Wolfgang Kasper, has written elsewhere:

"We have learned in economics that the wealth of nations in mature capitalist market economies grows mainly because of these 'software contributions to growth', especially human capital, and not because of physical capital accumulation - the 'hardware of growth'."

These findings about the effects of immigration on human capital, technology and productivity were confirmed in a major United States study by Julian Simon. He concluded that:

"Though the direct effect upon industrial productivity is hard to nail down statistically, in the long run the beneficial impact upon industrial efficiency of additional immigrant workers and consumers is likely to dwarf all other effects."

Not all are persuaded of these findings. One dissident, Brian Easton, recently alleged that "Kasper makes all sorts of unsubstantiated claims about the efficacy of immigration." But this is not the consensus view of leading economists. Simon reports the results of a survey of persons who have been president of the American

Economic Association, as well as those who have been members of the President's Council of Economic Advisers. In answer to the question "On balance, what effect has twentieth century immigration had on the nation's economic growth?" 81 percent answered "Very favourable," and 19 percent answered "Slightly favourable."

As Simon noted:

"This extraordinary consensus belies the public picture of the economics profession as being on both sides of all important matters."

To be sure, some of the arguments for more immigration do not carry great weight. For example, it is sometimes claimed that immigration increases the size of national markets and the economies of scale in production. But this is important only if we think in terms of a closed economy, rather than one oriented to world markets.

Moreover, it is clear that immigration can have negative effects if other domestic policies are in poor shape. If new arrivals (and other resources) are attracted into highly protected industries, if labour markets are inflexible and additional labour is not absorbed, or if welfare arrangements encourage immigrants to go on welfare rather than to work, the economy may well be harmed by higher immigration. The configuration of policies in earlier years when low skilled immigrants were attracted to jobs in highly protected industries did not work in the country's best interests. Obviously the solution to those problems is to reform domestic policies.

Now that many, though not all, domestic policies are indeed in better shape, there is a much higher probability that a more liberal immigration policy will benefit the economy. It is therefore encouraging that the period from Roger Douglas's term of office as minister of immigration to the passage of the new Immigration Act in November 1991 has seen a substantial and largely bi-partisan reshaping of policy. The most important change has been the shift from a short-term, gap-filling approach to immigration - exemplified by the old Occupational Priority List - to one based on a longer term strategy of increasing the productivity and supply capability of the economy by attracting skilled and enterprising people.

For the new policy to have substantial effects over the long haul, the crucial factors will be the *quantity* and *quality* of immigrants.

Clearly a sizeable inflow of new arrivals is necessary if immigration is to have widespread effects. It is simplistic to argue that we should concentrate on quality rather than quantity. Both matter. A handful of immigrants cannot make a difference in terms of introducing new productivity-enhancing ideas, market contacts and cultural diversity. The Kasper study suggested an annual target of 30-40,000 permanent settler visas. Higher numbers have been talked about within your association. The government has set an initial target for new arrivals of 25,000 per annum. This seems on the low side. I have not always been an admirer of 'think big' policies but in this instance I would encourage the idea.

With respect to quality, the key issue we need to bear in mind is that it is extremely difficult to determine in advance who will be successful immigrants. The reality of life is that people change, as do economic circumstances. Immigration officials are not well placed to pick winners.

I think it is fair to say that the new points system is a step forward as an administrative method of rationing immigration. The things that really matter under it are age and skill qualifications, and experience suggests these are important attributes of many successful immigrants. Yet we should be aware that while many applicants are more than meeting the points criteria, the jury is still out on overall numbers. Moreover, we are certainly denying ourselves some immigrants who would make highly desirable citizens.

For example, a member of the recent New Zealand investment mission to Asia who is one of the country's most successful entrepreneurs discovered that under the points system he would not have qualified as an immigrant long after his business had been fully established. And I am doubtful about the wisdom of having a compulsory requirement for English, as opposed to awarding points for competence in English as Australia does. It does not take long to learn a language (though any costs of language training should arguably be at the immigrant's expense).

Thus although the points system is an improvement and could be refined, I believe there would be advantages in the longer term in looking at alternatives, in particular a sale or auction of immigration rights as advocated by Kasper and Simon. This would still involve a negative screen to weed out people with criminal records or major health problems, for example, but it would avoid much of the complexity of administrative systems. As Simon puts it:

"A point system ... discriminates among potential immigrants by their economic worth. But a system of rationing by auction has all the best features of a point system and more, because it *self-selects* persons who have the best chance to make an economic success."

Under such a scheme immigrants need not be rich at the time of arrival; the admission fee could be repayable out of future yearly income. Other advantages would include a contribution to the public coffers for access to existing public amenities, an avoidance of unwarranted admissions on family reunion grounds, and a large reduction in the amount of subjective judgment now required of consultants, officials and politicians.

I do not profess to have a detailed basis for judging how the new policy is working out in practice. My impressions, however, from our experience in ASB Bank and from other reports is that New Zealand still has a good way to go in reflecting a more welcoming attitude to immigration in administrative practice. Clearly a major cultural change is required in immigration administration. Essentially this must involve a change from a border protection and policing mentality to one which promotes entry and processes applications with maximum efficiency.

However, while immigration officials may sometimes be fairly criticised for bureaucratic procedures, delays and red tape - and these problems must be vigorously addressed - I do have some sympathy for their position. Just as bankers are berated for turning down loan applications from wishful investors, immigration officers also cop flak from aggrieved applicants or consultants seeking to 'try on' the system.

A sound risk management policy is called for in both cases, and this does not involve taking no risks. If we genuinely desire a more liberal policy, politicians and the

public will have to accept that mistakes will sometimes be made and that we will end up with a few rotten apples. Certainly we should try to minimise this possibility, and we should be tougher about sending those making false declarations packing on the next plane. But in the final analysis we should accept the downside as part of the price of a liberal policy, and not call for bureaucrats' heads to roll every time a slip-up occurs.

Having said that, I believe you as people with a stake in immigration and the community in general have a right to demand performance in the administration of the new policy. Apart from the problems of bureaucratic inertia, departments of labour around the world have tended to reflect the interests of organised labour, which have often been hostile to immigration. Our Department of Labour was not a champion of the recent labour market reforms, nor - at least under its previous management - of the new immigration policy. It should be kept under the spotlight, and I believe experience with the Act should be reviewed after, say, its first year of operation.

At this stage, a possible concern is that the new policy is not meeting the modest target for new arrivals set by the government. While it requires time for the new systems to be put in place and the numbers have increased in each draw, there is still a sizeable shortfall in approvals in the general category. I hope this shortfall will be carried over, and there may be a need to examine whether the minimum points figure of 20 is too high. We need to remember that there is a large annual outflow of New Zealanders - some 44,000 in the year to March 1992 - and that net arrivals in that year totalled only a little over 4,000.

The new policy is drawing migrants from a broader range of countries than in the past, and I believe it is important to encourage a wide mix. However, there is still little representation from some regions such as Western Europe (other than Britain), Eastern Europe and the Middle East. More effort may be needed to tap these markets.

Two other areas which I believe warrant attention are the Business Immigration Programme and short term visa arrangements.

Business immigration schemes around the world have had a chequered history. Partly this is because, even more so than with immigration generally, it is difficult to determine in advance the attributes of success. Such schemes are also particularly vulnerable to influence-peddling and abuse. Political efforts to guide the location of investments made under them are likely to misallocate resources. The main distinguishing feature of such schemes is the amount of capital associated with the prospective immigrant. That being the case, there may be a good argument for allocating higher points for very large amounts of capital under the general category, and dispensing with special selection and monitoring arrangements for business immigrants.

With respect to short-term visas, New Zealand has had a sensible policy of developing a wide network of visa abolition agreements, but this is not yet complete. The absence of Taiwan and South Korea from the list, for example, is a glaring anomaly. In today's world there are close linkages between tourism, trade, investment and immigration. People may travel for leisure, but they often stop or

come back to invest or to live and work. As a country on the periphery, New Zealand must do all it can to facilitate linkages with the rest of the world.

Your association, dealing as it does with both migration and investment, recognises these linkages. I believe that many private sector interests have an increasing role to play under the new immigration policy. My understanding is that the government has a positive attitude towards the private sector role in immigration and wants to encourage a cooperative relationship and professional standards. The development of a code of ethics by the Association is a commendable initiative.

As I see it, there is a good basis for a sensible separation of roles over time. There is something of a conflict for a government service in both promoting immigration and being the ultimate arbiter of applications. The marketing role is well suited to the private sector. Attracting good quality immigrants in larger numbers will require drive and initiative. Private consultants should earn their place in the sun by performance in a competitive market, not by government accreditation or protection from competition. There is also scope for further private sector initiative in matching up potential business ventures with immigrants looking to invest in New Zealand.

For its part the immigration service should be held responsible for promulgating clear rules and information, enabling applicants and consultants to determine eligibility with confidence, and for efficiency in processing the increasing number of immigrants being sought.

Yours should be a growth industry. New Zealand is becoming a more attractive location in which to work and invest. Internationally, both capital and human resources are becoming increasingly mobile. With the new openness of the economy, a stable, low inflation environment, and a growing competitive edge, we should be capable of attracting our share of them. We must continue to work to eliminate impediments such as excessive tax and regulatory burdens. If we do, I am confident that new immigrants, as well as talented New Zealanders who would otherwise have left, will be encouraged to participate in a more vibrant, more dynamic and more rewarding New Zealand society.