

Immigration – Fit for the future

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Overview



The Government asked the Productivity Commission to undertake an inquiry into working-age immigration policies for New Zealand’s long-term prosperity and wellbeing. This overview presents the Commission’s key findings and recommendations.

Immigration is neither the cause of, nor solution to, New Zealand’s productivity woes

New Zealand’s economy has grown strongly over the last two decades: experiencing significant and sustained GDP growth. But New Zealand’s productivity performance remains poor. Reconciling these facts might seem counterintuitive. Much of New Zealand’s economic policy and strategy – including immigration policy – has been focused on GDP growth rather than improvements in productivity. Yet it is productivity growth that matters most for improvements in living standards and wellbeing more generally.

This inquiry considers what working-age immigration policy settings would best facilitate New Zealand’s long-term economic growth and promote the wellbeing of New Zealanders.

The Commission’s overall conclusion is that immigration is not likely to be the solution to the productivity challenges facing 21st century Aotearoa, nor is it the cause or source of our productivity problems. This conclusion is consistent with what studies find overseas – mostly small positive effects of immigration on average levels of labour productivity. Several high-level findings stood out for the Commission in relation to productivity and immigration.

- New Zealand’s GDP growth has kept pace with other countries in recent years, but it has done so by working harder, rather than working smarter. GDP growth has relied on adding more people to the labour force, and by those workers (both locals and migrants) working longer hours compared with other OECD countries.

- New Zealand's labour productivity growth has been weak. Improvements to productivity require working smarter through innovation and the use of new technologies.
- The relationship between productivity and immigration requires a balance of trade-offs, and a consideration of short run and long run impacts. Migrants may increase the productive capacity of the economy in the long run, but this can take time to bear fruit. In the short run, there may be costs associated with the availability of appropriate physical and community infrastructure.
- Transitions to higher productivity activities do not happen overnight, requiring sustained investments in physical and community infrastructure alongside training and workforce development efforts.

Though the keys to sustained productivity growth are likely to lie outside of the immigration system, immigration policy can be fine-tuned so as not to hinder long-run productivity and wellbeing improvements.

What the Commission found in this inquiry

Immigration has played an important part in New Zealand's economic development

- New Zealand, over time, has lost large numbers of skilled people through outward migration, raising concerns about a 'brain drain'. Because the immigration system selects immigrants mostly on skill, immigrants are more likely to be tertiary educated than New Zealand-born residents and outnumber tertiary-educated emigrants. This means immigration more than offsets the loss of skilled New Zealanders.
- In the last decade, immigration has reduced the risk of labour shortages for employers in diverse sectors of the economy – from aged care to the dairy industry and the IT sector.
- Net migration (of non-citizens and citizens) generally moves in line with net job creation. An exception was the Global Financial Crisis (GFC) in 2009, when net job creation was negative but net migration increased. After the GFC, the Government used immigration policy to stimulate economic growth, supporting the tourism and primary sectors, and growing the international education sector.
- Skilled migrants (both those on residence and temporary visas) have contributed positively to firm productivity, in a similar way to high-skilled New Zealand-born workers.

On average, immigration is not driving down wages or replacing local workers

- Over the last ten years, New Zealand experienced large and unprecedented increases in net migration, and a shift towards more migrants on 'skilled' visas filling lower-skilled occupations. Yet during this time, the overall unemployment rate was low or falling, labour force participation high, and non-participation low.
- Immigration has had, on average, small and mostly positive effects on the wages and employment of New Zealand-born workers over the last 20 years.
- Despite positive impacts on average, there is evidence that immigration can have some negative impacts on employment and wages in certain populations. These negative impacts are not systematic, but occur in particular places at particular times, and the same population group can experience positive impacts in different periods of time.

- The absence of systematic job displacement may be due to the high demand for labour over the last decade. But concerns about displacement of local labour in the event of a future economic “shock” or cyclical down-turn in the economy are real. A downturn could result in the loss of jobs and greater competition for remaining jobs.

The immigration system currently uses a range of tools that may suppress wages, job creation, and productivity

- Labour Market Tests (LMTs) can have both positive and negative productivity impacts. LMTs must balance the need to be stringent enough to achieve their objective of managing displacement risks, without being burdensome to comply with. Burdensome LMTs may subdue normal business activity and additional job creation.
- By enabling firms to have easier access to migrant workers because the occupation is on a Skill Shortage List (SSL), SSLs can reduce the need for firms to raise wages to attract local workers or to innovate and invest in capital equipment to raise labour productivity. It can also disincentivise locals to train for these positions and discourage employers to invest in training locals.
- Enabling job to job mobility is one of the routes to improving productivity. The practice of tying migrants to a single employer can lead to negative labour market outcomes for both migrants (including through exploitation) and local workers.
- Managing low skilled migration involves trade-offs. There is a risk that in some cases limiting access to low wage migrant labour may forego an opportunity for higher productivity. However, not actively managing low skill migration risks simply expanding the economy while harming long-term productivity growth.
- Highly skilled migrants are more mobile and can choose to go elsewhere. The current residence policy does not sufficiently prioritise those who would make the greatest contribution to the future of New Zealand.
- The Commission recommends the Government:
 - reduce the use of SSLs for immigration purposes,
 - regularly review visa categories and the residency points system to ensure they sufficiently prioritise high skilled migrants, and
 - cease the practice of tying migrants to a single employer.
- To support the employment standards of all workers, the Government should ensure the Labour Inspectorate is adequately resourced to enforce minimum employment standards and any additional requirements for temporary visas (eg, the requirements for pastoral support and accommodation for RSE workers).

The supply of infrastructure is less responsive to population growth now than in the past

- Infrastructure owned or funded by the public sector has not kept up with population growth. The estimated value of New Zealand’s “infrastructure gap” – the value of what New Zealand should have built but has not – sits at an estimated \$104 billion.
- Increased housing demand (for example from population increases) has a larger impact on prices today than it did in the past. House prices now rise more rapidly because housing supply is slower to respond to demand. When demand for housing increases, New Zealand now builds one-quarter to one-third fewer homes now than the middle years of the last century.

- While accelerated population growth may have exacerbated New Zealand's stressed infrastructure and capacity issues, those stresses were present long before the migration surge experienced over the immediate pre-Covid period.
- In the short run, there may be pressures on physical and community infrastructure arising from unexpected increases in migration. Placing restrictions on immigration may provide some temporary relief from such pressure. But using controls on immigration as a primary means of managing these pressures avoids dealing with their root causes.

An immigration system fit for the future

The Government should publish a Government Policy Statement to improve the quality and transparency of immigration policy

- Commitments to increasing productivity require long-term thinking by both government and businesses. This long-term thinking is at odds with how the immigration system is currently run: reactive to short-term and sometimes conflicting priorities.
- A Government Policy Statement (GPS) would improve transparency, clarify the Government's objectives within the immigration system and its link to other Government objectives, improve the Government's accountability for achieving the objectives, and promote a longer-term focus.
- A GPS should require governments to state how the demand for temporary and residence visas will be managed taking account of significant pressures (if any) on New Zealand's absorptive capacity over the period of the GPS including:
 - specification of a planning range for the intake of new residents over the period covered by the GPS; and
 - the criteria for managing access to temporary work visas and projections of migrant flows based on these criteria, over the period covered by the GPS.
- A GPS would promote longer-term credibility about population projections and planning ranges for migrant volumes. It would increase certainty for the general public, businesses, communities and other stakeholders such as local government. This in turn would help these parties to plan and implement long-term investments.
- By requiring Ministers to make clear policy choices about migration (including fiscal and regulatory choices) a GPS would inform the public about how the Government will adjust migration and/or absorptive capacity should net population growth threaten to put damaging pressure on the latter.
- The Commission sees absorptive capacity as a broad concept, covering physical infrastructure (like transport, communications), land supply and housing infrastructure, core public health and education services, and broader community infrastructure. Absorptive capacity in the longer run is not a fixed constraint.

The Government should engage with Māori in good faith on how to reflect Te Tiriti o Waitangi in immigration policy and institutions

- Immigration policies and institutions have largely ignored Te Tiriti o Waitangi (Te Tiriti), and they are increasingly out of step with the evolution in the Crown Māori relationship.
- The Commission acknowledges that it has neither the mana nor the expertise to make definitive recommendations on how best to reflect Te Tiriti in immigration policy and institutions. It is also important to remember that Te Tiriti is a partnership; it is just as much about Māori inviting the Crown to their table as it is the Crown inviting Māori to its table.
- Engagement with Māori could become a fundamental part of the process of developing a GPS for immigration. However, questions remain over how to coordinate the local and regional character of engagement with Māori with the national structure of the immigration system and the international dimensions of immigration.
- The Government in partnership with Māori, should better reflect Te Tiriti and te ao Māori in settlement policy and practice, and increase resourcing for settlement activity.

Immigration policy needs stronger links with education and training policies

- Currently, no consistent feedback mechanisms exist to link skills shortages evident in the immigration system to potential responses in the education and training system. This limits the capacity of the education system to meet employer needs and weakens accountabilities on employers to train and develop local workers.
- The Government should require the new Workforce Development Councils to report on how demand for migrant labour and skill gaps are informing their training priorities, and should provide additional funding for education and training providers to respond to skill gaps.
- New Zealand's process for identifying skills shortages is opaque, ad hoc and open to lobbying. The Government should invest in more up-to-date labour market data and modelling to track and understand the supply of and demand for different skills. This investment will enable the Government to test employer claims of labour shortages, and inform decisions in response. It will also help identify opportunities and needs for immediate and longer-term skills development throughout the education and training system.

Don't restrict immigration to prevent potential job displacement, improve the prospects of local workers instead

- Restricting migration to prevent potential job displacement of low-skilled or low-paid workers may cause greater harm because migration, on average, creates more jobs than it destroys, and has a small net positive impact on wages and employment of local workers and on productivity. Even so, for those negatively impacted through job loss, the cost can be very high and felt by the individual, their whānau and community.
- The Government should monitor and evaluate the impacts of the immigration system, and where there is evidence of migration displacing local workers, the Government should empower displaced workers. Empowering displaced workers could include improved access to education and training; tailored active labour market programmes; and Industry Transformation Plans. Such an approach should be a primary focus regardless of the reason for displacement.



Read the full report: www.productivity.govt.nz/immigration-report