

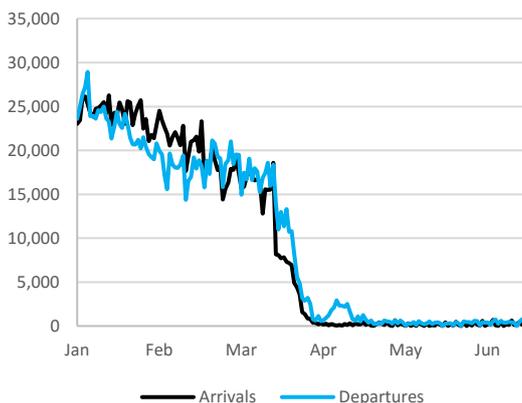
## Migration after Covid-19

New Zealand closed the border to prioritise the wellbeing of everyone here, and when we reopen it, we should have the same goal in mind

New Zealand has put up a ‘no entry’ sign. As well as stopping international tourism, we have turned off historically high rates of inward economic migration, forgoing what has been at best a small positive impact on GDP per capita.<sup>1</sup>

### Figure 1 Our border is closed

Daily cross-border air movements, all citizenships



Source: Statistics NZ

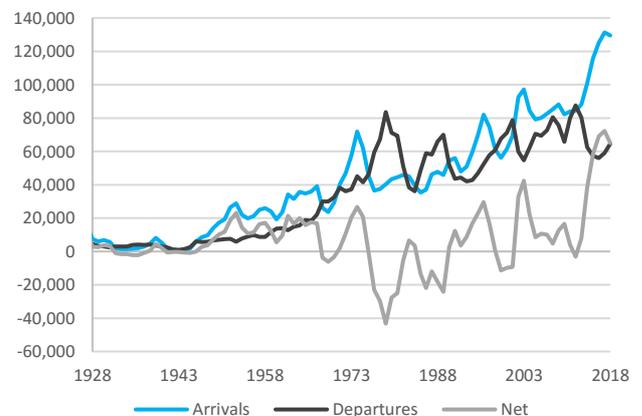
With pause pressed on inflows, immigration is presently all stock, with no meaningful flow across the border.<sup>2</sup>

### The effects of record immigration

The 2010 New Zealand Yearbook estimated that our population would reach five million in 2031. We got there eleven years early, in part because of the effect of long-running policy that responds to skill shortages by importing trained people rather than increasing the skills of New Zealanders.

### Figure 2 Migration this century has been historically high

Permanent and long-term migration, intentions based



Source: Statistics NZ

Behind the macro trend of an increase in net migration, we have also seen a change in the composition of migrants. The principal driver of overall net migration into New Zealand since 1979 has been the level of trans-Tasman migration (Fry and Wilson 2018, p. 49).<sup>3</sup> Since 2010 however, there has been a significant increase in the overall number of entry visas issued with work rights attached.

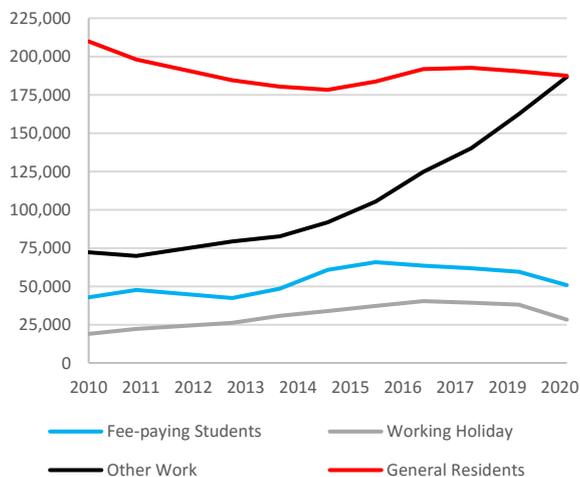
<sup>1</sup> There are different types of migrants, who can be classified by length of stay (e.g. visitors, temporary workers and permanent residents) and on motivations (seeking refuge, family reunion or seeking a new location to ply their trade or profession or to study). This Insight is concerned with what is commonly referred to as ‘economic migration’: people seeking to change countries principally to improve their economic situation.

<sup>2</sup> Holders of a work, student, visitor, limited or interim visa with an expiry date of 2 April to 9 July 2020 inclusive who were in New Zealand on 2 April 2020 had their visas automatically extended to 25 September 2020.

<sup>3</sup> One reason net migration has been so high in recent years is that the numbers of New Zealanders moving to Australia has fallen significantly.

### Figure 3 The changing composition of migration

Migrants in New Zealand, year to April<sup>4</sup>



Source: MBIE

### Better lives

Before we all rush back to the good old ways, we might want to reflect on whether everything in the past was really as good as it could have been.

As we set out in our book *Better Lives* (Fry and Wilson, 2018), economic immigration typically has small positive impacts on the GDP per capita of receiving economies. But GDP does not capture important wellbeing dimensions. Adding those dimensions, we would set immigration policy in a way that addresses several long-standing issues:

- the Crown's obligations under the Treaty of Waitangi
- the often-limited capacity of cities to absorb unexpected increases in population
- the impact of migration on the employment prospects of New Zealanders who are still developing their human capital
- the negative effects of insisting migrants settle without their wider family on the wellbeing of both migrants and the communities in which they settle.

**Over time, economic immigration has had a range of positive and negative wellbeing effects, which can get obscured by a primary focus on GDP impacts.**

Immigration has benefited migrants by providing jobs and access to the Kiwi lifestyle. It has helped employers facing skills and labour shortages. Wider New Zealand society has become more diverse. But there have also been wellbeing costs.

**Ready access to low-skilled immigration can bias investment toward low-skilled, labour-intensive production, away from high-skilled, capital-intensive approaches.** Fry (2014, p. 48) gives the example of the Australian wine industry, which has adopted more capital-intensive production techniques than the Californian wine industry, in response to relative differences in the availability of low-skilled labour. In New Zealand, capital shallowness has contributed to relatively poor productivity performance (Nolan et al., 2019).

**Immigration can reduce the labour force implications of a school system that allows thousands of people to leave without the skills needed to live a good life** (Fry and Wilson 2018, pp. 80-82 and pp. 84-85). Some New Zealand employers prefer to employ immigrants rather than the available untrained locals (Rawlinson et al., 2013).

One noticeable feature of migration policy settings since the mid-2000s has been the rapid increase in short-term migrants with rights to work in any job while they are in New Zealand (Fry and Wilson, 2018, pp. 76-82). Two large cohorts of migrants in this class have been working holidaymakers and full-time students.<sup>5</sup> Bringing in large numbers of migrants with average skills or skills that are in reasonable supply locally may have adverse effects for locals in the short to medium term through increased labour market insecurity and unemployment, and decreased wages and employment (Fry and Wilson, 2017, p. 24). **Have employers become accustomed to hiring skilled migrants at very low cost, and if so, what does this mean for New Zealanders who are still developing their human capital?**

**Despite numerous policy changes, to date there is no evidence that attempts to attract highly entrepreneurial migrants have been successful.** For example, Fry and Wilson (2018, p. 112) discuss how almost 40 percent of businesses created under the now closed Long Term Business Visa were in low-productivity retail and hospitality sectors. That said, the government's flagship Global Impact Visa is presently under review – so the jury is still out.

<sup>4</sup> Excludes Australians. The category 'General Residents' is people with a right to enter New Zealand with a general right to work not attached to a specific occupation or position. It includes refugees, the Pacific category, investors and entrepreneurs. The 'Other Work' category is people with work rights that are either attached to a specific sponsoring employer (e.g. essential skills), recent migrant students who have graduated and are looking for work and horticultural seasonal workers.

<sup>5</sup> Some of New Zealand's newer working holidaymaker schemes are bilateral. But the largest source countries (the UK, the US, Germany, Canada, Ireland and Japan) are not part of a formal agreement. We acknowledge that the agreement-based schemes may be less flexible in the short-term

In the short term, immigration increases demand more than it increases supply (Fry, 2014). **There is some evidence that repeated high migrant inflows (including a significant reversal in historical outflows of New Zealanders to Australia after 2011) appear to have contributed to observed house price increases in New Zealand** (Cochrane and Poot, 2016). Hyslop et al. (2019) also find a significant relationship between population size and house prices, but no evidence that a higher share of international immigrants in an area is associated with higher house prices, suggesting that international migrants do not have any greater effect on prices than, say, people relocating from the regions to urban areas. The share of returning New Zealanders in an area did, however, have an observed effect of house prices.<sup>6</sup> Reddell (2013, p. 28) suggests every new person requires an addition to the capital stock (houses, roads, hospitals, schools, electricity supply, offices, factories and shops) roughly equal to 3-4 years income to maintain the existing capital-output ratio.

**New Zealand has been wary of attracting migrants with costly dependents, and therefore has forgone the significant contribution older migrants can make** to the wellbeing of their families and the communities in which they live (Fry and Wilson, 2018, p. 35).

**Overall, policy and decision-makers have focused on the short-term economic benefits of immigration and paid little attention to its effects on wellbeing.** Past suggestions of even modest reductions to levels of immigration to address possible adverse effects have been met with protests: from the primary sector (who would pick the fruit or milk the cows?); from the construction sector (who would build the houses?); from the regions (we like having young families living here again); from the health sector (where are we going to get doctors, nurses and carers?); from the education sector (how else will universities run surpluses?); and from the tourism sector (we need working holidaymakers to take up low-paid, zero hour contracts).<sup>7</sup>

## Pause and effect

Since we moved to Alert Level 4, our border policy has been explicitly set to maximise the wellbeing of people in New Zealand.<sup>8</sup> The Government took swift action to keep us all safe, allowing restrictions on domestic activities to be

relaxed relatively quickly. However, because Covid-19 is still spreading internationally, border restrictions remain, which are intended to stop the reintroduction of the virus.

We expect the economy to be at least at Covid-19 Level 1, which includes a largely closed border, until a vaccine or effective treatment is available. A trans-Tasman travel bubble is being actively investigated and the current rules do allow some non-citizens to be granted visas, provided they agree to go into quarantine.<sup>9</sup>

'You can't just turn the tap off and then turn it on again' is as close to an official immigration policy mantra as it gets in New Zealand. But as one of our pre-eminent migration scholars, Professor Richard Bedford, says:

*One thing that the Covid-19 crisis allows the Government to do – in a way that it would find extremely difficult to do in any other context – is to really look very, very hard at immigration policy settings when it decides to open the border.*  
 (Fonseka 2020)

## An opportunity waiting to be taken

**Rather than just reopening the border with the same policy settings as in the past, we recommend looking more closely at what we want migration to achieve.** Recovery from the inevitable reduction in output due to the Covid-19 lockdown and capitalising on New Zealand's enhanced reputation as a well-governed and safe place to live, work and visit are important short-term considerations. But over time, migration policy has focused too much on providing short-term fixes rather than exploring long-term solutions. Our aim should be to have a sustainable wellbeing-maximising migration policy in place once the border is fully open.

We should be alive to nostalgia preventing a thorough policy review. We should not uncritically accept that pre-Covid-19 times were the good old days and reset to the last known safe point. We need to build a home-grown workforce that is fit-for-purpose, rather than focusing on short-term objectives that might lead to pressure to bring in migrants quickly.

<sup>6</sup> These findings imply returning Kiwis have stronger preferences as to exactly where in New Zealand they wish to live, while international migrants are less attracted to a specific area.

<sup>7</sup> Some people also have misgivings about calls to restrict immigration because they perceive the motivation for these calls to be, in part, based on racism.

<sup>8</sup> Note that the wellbeing of most temporary migrants holding work or study visas has been significantly reduced during Covid-19 because they are not entitled to receive benefits or welfare support. Their employers

were, however, eligible for the wage subsidy once the other conditions of that scheme were met.

<sup>9</sup> Most people who have been granted permission to enter New Zealand since the borders were closed are returning New Zealand citizens, non-citizen family members of citizens and people granted compassionate approval, for example to be with a dying relative. Non-citizens engaged in time critical projects of significant economic value, performing tasks that cannot be undertaken by a local, can also be granted entry.

## Wellbeing criteria will require different policy settings

**Wellbeing-focused immigration considers the wellbeing of both migrants and locals.** But New Zealand's pre-Covid-19 immigration policy settings have evolved in ways that gave priority to the short-term GDP boost from migration, with too little emphasis on the medium-term wellbeing costs. By providing ongoing increases in the numbers of Working Holiday and Essential Skills visas, combined with lowering of the skills thresholds for general skilled migration, policymakers have prioritised importing labour over finding domestic cures to skill and labour shortages.

Both employees and employers respond to changes in migration flows, often in predictable ways. For example, reducing the supply of migrants to a sector will initially push up wages in that part of the economy. This will attract local jobseekers, but employers will face higher costs. To maintain their productivity, firms will find more efficient ways of doing business, which might include investing in more capital.<sup>10</sup> We are already seeing firms adjust their business methods in response to Covid-19 – for example, through creating an on-line sales presence, and allowing staff to work from home.

**Firms that have used business models that rely on short-term migrants will have had to adjust to the reality of 'no new migration' over the course of the lockdown and border closure.**<sup>11</sup> Not all firms will survive Covid-19. There are real economic costs involved in securing the benefits of eliminating the virus. These transitions can be difficult, and we should be kind in dealing with the inevitable stress.

On the labour supply side, New Zealand's decisive response to Covid-19 may prove to be a drawback for highly skilled migrants and potentially large numbers of returning Kiwis, especially if there are 'second waves' of the disease. However, claims that New Zealand will suddenly become a haven for highly productive people need to be treated with caution. New Zealand may have become a slightly more attractive small, middle-income country a long way from centres of world commerce and enterprise, but the disadvantages of size and distance have proved to be remarkably strong.

As we return to safe international travel, rather than immediately looking for workers from abroad, **we can train locals, raise productivity and wages, and explore more capital-intensive production processes.**

<sup>10</sup> Capital deepening is increasingly viewed as a necessary path to higher productivity. The Productivity Commission's staff attribute New Zealand's poor productivity performance in part to capital shallowness reflecting fast population growth along with high long-term real interest rates and high off-the-shelf cost of capital goods (Nolan et al. 2019).

## Turning the tap back on

New Zealand has a clear opportunity to re-think migration policy before we reopen the border. Importantly, a wellbeing-enhancing migration policy would see the border reopened: isolationism is not in New Zealand's interests.

**We should consider the people and skills we want to welcome when the migration tap is turned back on.** A policy focused on wellbeing implies some subtle, but significant differences to a policy aimed at increasing GDP.

Research has shown that immigrants with different skills, knowledge and networks than locals can foster innovation and boost the productivity and creativity of locals (Maré et al., 2011). But finding ways to cost-effectively identify these people has proved challenging, and many existing skills thresholds are too low to generate these benefits.

The idea that New Zealand is an ideal place for entrepreneurs with global ambitions has been a consistent theme in migration policy. The reality is that despite being a specific target of migration policy since at least the mid-1990s, few working global business leaders have moved their place of abode to New Zealand.

Very large increases in grants of Working Holiday visas and Student visas with unconstrained work rights have occurred without any meaningful assessment of their impacts on locals, particularly those who are still developing skills.

Across all these areas, the absolute number of visas granted, their conditions, and any thresholds for skills or investment should be revisited, and their wellbeing impacts assessed.

**Principles of manaakitanga (showing reciprocal respect, generosity and care for others) should apply in setting wellbeing-based migration policy.**<sup>12</sup> This means being forward-looking and adjusting settings for new migrants, while continuing to welcome people who settled under previous arrangements. A careful and kind response to the significant difficulties faced by migrants stranded by border restrictions is a priority. We do not advocate cancelling any existing visas.

**We should also be mindful of wellbeing impacts beyond our borders.** For example, there is a worldwide shortage of skilled health professionals that New Zealand can neither correct nor be isolated from (Fry and Wilson, 2017, p. 25).

<sup>11</sup> The dairy sector, with financial support from the Government, has launched a campaign called "Godairy" to encourage people made unemployed by Covid-19 to move to employment in dairying: <https://www.godairy.co.nz/>.

<sup>12</sup> For an insightful view on Maori perspectives on migration, see Rata and Kukutai (2017).

New Zealand's response has been to seek migrants to fill the resulting employment gaps. A wider wellbeing approach would also consider the healthcare needs of source countries.

One of the clear public responses to Covid-19 has been a greater appreciation of the contributions of (mostly female) care workers, teachers and nurses. We have the opportunity to address the long-running issue of undervaluing and underpaying these professions, thereby encouraging more locals to work in these essential roles.

**A wellbeing approach also requires reassessment of the benefits of extended family to migrants (and by extension the communities in which they live).** For example, allowing grandparents entry could reduce childcare costs and stress for working parents. This might justify the relatively small fiscal costs involved (the number involved are likely to be small).

### Joined-up government is needed

Wellbeing-enhancing immigration reform has implications for other areas of policy. Improvements in the education and training systems could increase the number of skilled New Zealanders who, over time, could do work currently being done by migrants. Implementing the Productivity Commission's recommendations aimed at improving productivity in the public and private sectors would be a good starting point.

### Wellbeing should be paramount

Opening the border again with a wellbeing-enhancing migration system will both help us recover as quickly as possible from the large economic shock caused by the virus **and** build better lives for New Zealanders from now on.

Little good has come from Covid-19. Resetting immigration policy provides an opportunity to improve policy before we take down the 'no entry' sign. We should seize it.

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