Distance still matters hugely: an economist's case for much-reduced non-citizen immigration to New Zealand

Presentation to Law and Economics Association of New Zealand (LEANZ)

Wellington

26 June 2016

Michael Reddell[1]

Most people live and die (and prosper or don't) not that far where they were born. Always have, and probably always will.

Perhaps it sounds a little strange to New Zealanders, when getting on for 30 per cent of those living here now were born in other countries, and many of those who were born here were themselves children of immigrants.

But globally, immigration remains a distinctly minority experience. Large scale non-citizen immigration, of the sort we experience year in and year out in New Zealand, is even more unusual. I know of no country in the world that actively tries each year to bring in more people, as a per cent of the existing population, than New Zealand does. Canada and Australia are getting close. The United States operates at one-third our scale – a million green cards each year in a country of 320 million people. The only exception is Israel - they would take as many Jews as would come, but for reasons of defence and national self-identity, rather than from economic motives. Other countries might, at times, be overwhelmed with refugees (think of Turkey or Jordan at present), but that is rather different - our inflows are managed and targeted as a matter of deliberate policy.

This address is mostly about New Zealand: about New Zealand immigration policies and New Zealand's economic performance, and trying to take seriously what New Zealand's very remote physical location seems to mean. It isn't, I should stress, a story about the migrants. They, like all of us no doubt, as just pursuing the best opportunities for themselves and their children. But it is a story that poses serious questions about the immigration policy successive New Zealand governments had adopted.

Having said that my focus will be on New Zealand and New Zealand's experience, I do want to take a brief excursion and consider the experiences of other countries. Why? Partly because a common line flung back at me is something like "but you are simply ignoring vast international literature in the area, which consistently shows immigration to be beneficial". But also because the experiences of other countries are an inevitable backdrop to thinking about the economics of immigration. Modern New Zealand, after all, came to be as part of the great pre-World War one migration to the New World.

---

[1] After a career focused on macroeconomics and financial markets, Michael Reddell is now a stay-at-home parent and independent economic commentator. His blog, focused on issues around economic performance and immigration on the one hand, and macroeconomic policy and the Reserve Bank on the other, is at www.croakingcassandra.com.

By the early 19th century, falling shipping costs etc were opening up land in temperate climates that had previously been largely irrelevant to the rest of the world. In places like Chile, Argentina and Uruguay, New Zealand, Australia, central and western Canada, and central and western United States, there were vast amounts of land and very few people. Changed economic opportunities and the military and technological dominance of the West changed that picture dramatically. The new economic opportunities saw people move, en masse.

There has been a lot of studies of the effects of this migration. At the time, very few people thought, or talked, of immigration as something that would benefit the people who were already there. All the emphasis was simply on the notion of abundant opportunities from the (fixed) natural resources. In parts of Europe, by contrast, there was a sense of over-population and constrained opportunities particularly in the places that were slow to industrialise. Resources moved in response, and in the process one expected to see something called "factor price equalisation" occurring. Labour and capital were complements to the fixed resource - land. And, as expected, the evidence is that the migration tended to dampen wage growth in the countries the migrants settled in, and boost wage growth in the economies they left. Of course, since the settlement countries were some of the very richest in the world, with the highest living standards for ordinary working people, the "factor price equalisation" tendency wasn't one that bothered anyone very much. We see this effect among Irish moving to mainland Britain, Italians moving to Argentina, Swedes moving to the United States, and Britons moving to New Zealand and Australia. It isn't particularly controversial, and isn't particularly surprising.

(Of course, there is the rather awkward element of the small indigenous populations of all these countries. Almost certainly, to the extent they didn't die of introduced diseases etc, the indigenous people and their descendants benefited economically - much more productive cultures and technologies moved in - but at what cost to their identity, self-government etc etc?[2]).

And, of course, no one has ever disputed that, on average, immigration would be expected to benefit the migrant. Of course, or otherwise they wouldn't have chosen to move. Over generations expectations don't always prove well-founded. Descendants of the Europeans who moved to Chile, Argentina, and Uruguay are now, on average, worse off than if their ancestors had just stayed at home.

The United States was by far the largest recipient of migrants in the first great age of migration. It was rich - but so were New Zealand and Australia - but what really worked in favour of the US was that it was so much closer to Europe. Whatever the opportunities here, it was simply very expensive

---

[2] But what about New Zealand specifically? To 19th century New Zealand, British settlers brought with them the institutions and technologies of the most economically advanced society of its day. As Easterly and his co-authors have shown, in the long run large scale migration involves migrants bringing their cultures and institutions with them: the destination society comes to resemble the origin one. That is surely so here.

One could do an interesting thought experiment about what New Zealand might be like today if there had been no non-Maori settlement (it is pure thought experiment given temperate climate, technological and military dominance, and the mindset of the colonial era). I assert, but can't prove, that Maori average incomes - even though today they are well below the national average - would be materially lower than they are today. It is hard to do the thought experiment - there aren't direct comparators because Australia, Canada, the US, Chile Argentina and Uruguay all went the same route we did. But perhaps South Africa helps illustrate the point. The technology and institutions were all available, but it seems to take an embodiment in people ("culture") to make the most of them.

to move to New Zealand or Australia, and quite a lot of public money went into subsidising people making the move. The first great age of immigration ended around World War One when the US largely closed the doors. Perhaps coincidentally, perhaps not, the decades that followed were those that saw the United States experience both peak productivity growth and peak economic and political influence in the wider world.

It is only in recent decades that immigration, as an instrument of public policy, has opened up again in a wider range of countries. The United States began opening up from the mid 1960s. The United Kingdom typically had very small sustained migration inflows until the Blair government came to office in the late 1990s. And of course the enlargement of the EU has given new impetus to studies in the area, as people in the poorer eastern countries sought to take advantage of the opportunities in the much richer countries in the West. Even among the old British Dominions, immigration has assumed new prominence - Australian immigration policy was changed to increase significantly the intake little more than a decade ago.

There are two broad classes of empirical literature on the more-recent experience (in addition to the model-based papers in which the models in practice generate the results researchers calibrate them to produce):

- Studies of how wages behave in different places within a country depending on the differing migration experiences of those places, and
- Studies that attempt to estimate real GDP per capita (or productivity) effects from a multi-country sample.

There are lots of studies in the first category, and not many in the second. And almost all[3] are bedevilled by problems including the difficulty of attempting to identify genuinely independent changes in immigration (if a region is booming and that attracts lots of migrants, higher wages may be associated with higher immigration without being caused by it, and vice versa). And even clear-cut policy changes around immigration don't typically arise in a political and economic vacuum.

I've never found the wage studies very useful for the sorts of overall economic performance questions I'm mainly interested in. Precisely because they are focused on different regions within a country, they take as given wider economic conditions in that country (including its interest rates and real exchange rates). They can't shed any very direct light on what happens at the level of an entire country[4] – the level at which immigration policy is typically set - at least if a country has its own interest rates. I've argued, in a New Zealand context, that repeated large migration inflows tend to drive up real interest rates and exchange rates, crowding out business investment especially that in tradables sectors. In the short-term, it is quite plausible that immigration will boost wages - the short-term demand effects (building etc) exceed the supply effects - but in the longer-term that same immigration may well hold back the overall rate of productivity growth for the country as a whole.

There really aren't many cross-country empirical studies looking at the effects on real GDP per capita (let alone attempting to break out the effects on natives vs those on the immigrants themselves, or looking at superior measures such as NNI per capita). Those that exist tend to produce what look like large positive effects. So large in fact that they simply aren't very plausible, at least if you come

[3] Which is why the rare clear-cut natural experiments, such as the Mariel migrants to Miami, attract so much attention.

[4] But might be very enlightening if a town in rural Nebraska is concerned about the effects of an influx of 5000 lowly-skilled migrants.

from a country that has actually experienced large scale migration. In one recent IMF paper[5], discussed in their flagship World Economic Outlook last year, an increase in the migrant share of the population of around 1 percentage point appeared to boost per capita GDP by around 2 percentage points. As I noted, if that were so it suggested that if 10 per cent of the French and British populations swapped countries - in which case the migrant share in each country would still be lower than those in NZ and Australia - both countries could expect a huge lift in per capita GDP (perhaps 20 per cent). Nordic countries could catch up with Norway in GDP per capita simply by swapping populations between, say, Denmark and Sweden.

And countries that were seeking to reverse decades of relative economic decline could reverse that performance by bringing in lots of migrants. Except, of course, that that more or less described New Zealand. Over the last 25 years we've had lots of policy-induced non-citizen immigration (and many of the migrants aren't that lowly-skilled by international standards). And we've made no progress catching up with the other advanced countries; in fact we've gone on having some of the lowest productivity growth anywhere. As it happens, Israel - with more migrants again than we had - had similarly dismal productivity growth.

I could go on. For example, a country like Ireland certainly experienced a huge surge in productivity, but it was half a decade before the real surge in immigration started. And, the way the model is specified, the per capita GDP gains are sustained only if the migrant share of the population remains permanently high - if the migrant share dropped back so would the level of GDP per capita. None of it rings true. It speaks of models that, with the best will in the world, are simply mis-specified, and haven't at all captured the role of exogenous policy choices around immigration.

You could also think of some simple (over-simple no doubt) historical comparisons. Compare France with say the United States or New Zealand over the last 100 years. By comparison, France hasn't had much immigration, the US has had more, and we've had a lot more. Over 100 years, France has become richer now than it was then relative to US (or NZ). In fact, more generally, 100 years ago many of the countries that were right near the productivity frontier were the colonies of settlement - all that abundant land. Today, among all those countries only the United States is even close to the frontier - and US GDP per hour worked is very similar to that in France, Germany and the Netherlands.

None of this is to assert that migration generally harms the nationals of the countries the migrants settle in. I don't have a strong view on that issue, and simply don't need to. My simple point - perhaps expressed at here too great length - is that the international literature doesn't yet shed much light on the sorts of issues New Zealand should be grappling with, and when it attempts to (the cross-country GDP studies) the results aren't that persuasive or compelling, even across a pool of advanced countries.

But let's turn focus now specifically on New Zealand's story. On my telling, we've had lots (and lots) more people over the last 70 or even 100 years, and not many (if any) newly distinctive economic opportunities. For all that technology has advanced, there haven't been distinctive new technologies that favoured New Zealand. And so a prosperity that was based largely on applying able people to a fixed factor – land - has been progressively eroded. Diminishing returns are a real phenomenon, wherever fixed factors of production are important. Unfortunately, fixed factors aren't something modern economics pays a huge amount of attention to - they aren't central to the

---

[5] Spillover Note No. 8 October 2016, "Impact of migration on income levels in advanced economies", International Monetary Fund.

modern fortunes of the US, UK, France, Belgium, Germany or Italy, but they do explain why (for example) resource-rich Australia is much less wealthy (per capita) than resource-rich Norway.

Over millennia there had been plenty of international trade in other places. Perhaps it was small in aggregate, but you can think of many examples: the Silk Road, or Egyptian wheat feeding the populous of Rome, the Hanseatic League, the Mali Empire and so on.

But in New Zealand - last major land mass on earth settled - there was, really, none at all. As Te Ara notes

> By then [European discovery], the settlers in New Zealand had been cut off from the outside world for centuries.

It was as if Maori had got off on the last bus stop before the Antarctica, but then not only was the bus service cancelled, but the whole road behind then was dug up and destroyed, as if forever. There was no trade with anyone else.

So what changed?

Some mix of the great age of exploration, of improvements in navigation, in overcoming scurvy, in reduced shipping costs on the one hand, and growing populations in Europe and with them pressure for resources including food.

The first phase of foreign trade from New Zealand was a series of fairly short-lived resource-depleting episodes. Timber - tall trees for mast were in increasingly short supply in Europe - seals, whales and so on. Those activities required/supported few people and even fewer settlers. But they were foreign trade, for the first time ever, despite the huge distances. Some of the early trade was with the almost equally remote east coast of Australia and the small British settlements/bases there.

Relatively early in both countries, people recognised the opportunities in grazing sheep for wool - a relatively high value low-weight durable that could economically be shipped to Europe. There were great opportunities for a few people - large sheep runs in the Wairarapa and Canterbury for example - but the masses weren't exactly flocking here. In 1858, the European population in the whole of New Zealand was 59000 (a net increase of less than 3000 a year since the Treaty was signed). There were 30 million people in the UK.

The situation changed markedly as the gold rushes - also seen in California, the Yukon, Australian - hit New Zealand. For a couple of decades, gold was New Zealand's largest single export by far. People flocked here, especially to the South Island. There were opera houses on the West Coast. By 1870, the European population was nearer 250000.

The gold generated big income flows for a time, and a lot of building off the back of it. But the resource was depleted - at least the easy pickings. Wool was the most important enduring export commodity.

And over the same period, the various phases of the North Island land wars were still going on, involving a massive commitment (both of money and British troops) to secure effective settler control of the whole country. And so was launched the massive, subsidised, Vogel immigration and infrastructure scheme. In Vogel's own words, it was in substantial part about consolidating effective settler control over the country. It took a huge amount of debt, and substantially boosted economic activity during the life of the programme itself - immigrants need places to live, the construction of rail lines demanded a great deal of labour. But having accumulated the debt, and acquired so many more residents, how was the country to support itself - service debt, but also find stuff to produce and sell from here that would support the sort of high living standards expected? Getting access to more land to raise wool - under questionable terms, and often not ideal sheep land – was something, but unlikely to be enough. Blainey wrote of the "tyranny of distance" - better perhaps to think of the constraints of distance. Life is full of constraints.

And that was where, to New Zealand's great good fortune, really big favourable technological shocks came in. As New Zealand economic historian J B Condliffe records[6], there were two critical developments: the first was the development of refrigerated shipping, and the second set were various technological developments that allowed for the factory production of butter. Together they allowed the development of previously impossible export industries in frozen meat and in dairy products. By 1910, meat and dairy were almost as important exports as wool (which kept on growing strongly). By 1920, they were almost twice wool.

There has been nothing like it since - idiosyncratic large resource or technology shocks specifically favouring us - in the whole of New Zealand history. But at the time, combined with strong institutions and able people, those "shocks" (productivity improvments) helped deliver us GDP per capita just prior to World War One as high as any country in the world, and far higher than those in most of advanced countries. And it did that hand in hand with really large net immigration inflows. There is no reason to think those inflows made existing NZers richer, but the productivity shocks - the favourable technological innovations, in a country that still had plenty of land - meant we could offer world-leading living standards to more people. Resources flow towards opportunities, and there were no restrictions at the time on Anglo or most European immigration to New Zealand. No doubt, factor price equalisation was at work, but NZers' own living standards were improving rapidly.

But really ever since then we've been losing our way. It wasn't that apparent until after World War 2. In part that was because, while we were fully involved in the two wars, they weren't fought on our territory, and we produced stuff others want (we were net Lend Lease suppliers to the US in WW2). But, in addition, we had quite modest net immigration over most of the period: not many people moved during wars, and we had net outflows back to the UK during the 1930s. In the 20 years to 1947, the average net migration inflow was 500 people a year. We might not have had many productivity shocks or discoveries specific to New Zealand, and the available land might now have already been being farmed. But in an economy that rest on applying the talents of its people to a largely fixed stock of natural resources, we didn't import lots more people to spread those resources more thinly.

Large-scale immigration got back into full swing after World War 2. Globally, the angst at the time was initially about the risk of falling future populations. We had the Dominion Population Committee set up to look at the issue, and various other countries had similar official initiatives. No one really foresaw or counted on the baby boom. In our part of the world there was also concern about the risk of a resurgent Japan - perhaps even revolutionary communist China. And so we - who had never had legal restrictions on British or Irish people moving here - resumed subsidising immigration. Most people didn't come subsidised, but a lot did - it was, after all, still very expensive to be off work for at least six weeks taking the boat to the Antipodes. But NZ - like Australia - was still richer than post-war Britain, and for many it looked pretty attractive to move if they could.

---

[6] *New Zealand in the Making,* p 240

I don't want to be misunderstood. During this period - from the late 1930s - we did a whole bunch of other crazy stuff in New Zealand. Most obvious were the high, but variable, protective barriers we set up with a view to some mix of "conserving foreign exchange" and "promoting an advanced modern economy that moved beyond reliance on volatile agriculture". In a country of not much more than 2 million people, we were assembling cars, making TVs, and so much else besides. It was startingly inefficient, although curiously it was a great way to attract some foreign investment - the only way into the New Zealand market for many overseas products was to manufacture here. It was a tax on our exporters, and on the living standards of New Zealanders. With no population growth at all, we'd still most likely have been slipping a bit down the league tables during this period. By the early 1960s reports from people like the new Monetary and Economic Council and the then-influential NZIER, were highlighting how weak productivity growth had been in New Zealand.

Rapid population growth - fuelled by high rates of immigration - compounded the problems. Even then, national savings rates seem to have been quite modest. Rapid population growth needs lots of investment just to keep up with the needs of the new people, let alone for any "capital deepening". In combination, it is usually a recipe for persistent inflationary pressures. These days, those sorts of pressures show up in high real interest rates and a high real exchange rate. In those days - with fixed exchange rates, tightly regulated interest rates, and little access (or willingness to access) capital from abroad - it showed up in balance of payments 'crises' every few years, tight control on who could get credit for what, periodic clampdowns on import licensing to prevent the "misuse" of "scarce foreign exchange". Through the period, the great age of rapid outward-oriented Western growth, New Zealand's trade engagement with the rest of the world shrank (exports and imports as per cent of GDP).

Through this period - the 1950s and 1960s - the mainstream of New Zealand economists was often quite sceptical about high immigration. If the language was different to the words I use today, the thrust of the arguments wasn't much different. People like Horace Belshaw and Frank Holmes - both leading academic economists with a policy bent - published material arguing that while immigration was undoubtedly boosting GDP, there wasn't necessarily much sign that it was boosting GDP per capita, or that it was likely to do so. I have on file speeches from Bryan Philpott, another leading academic of his day, responding to claims from business leaders that they need immigrants to fill vacancies - it has been a repeated refrain from business leaders for 100 years, such that you have to wonder how countries without much immigration ever survived and prospered - pointing out that even if a migrant eased an individual firm's situation, in the aggregate immigration didn't ease economywide constraint at all. After all, migrants are people too: the don't just produce, they consume, and need houses, schools, road, factories, offices, shops. High migration accentuated resource pressures, it didn't alleviate them.

The picture changed quite markedly in the 1970s. The Kirk-led Labour government finally removed the automatic right of entry for people from Britain and Ireland. As far as I can tell, it wasn't motivated by an opposition to immigration per se, so much as a desire to move towards treating potential migrants from all countries more similarly. But that step came at much time as a sharp deterioration in New Zealand's economic fortunes, mostly from events beyond our control.

- The UK entered the EEC
- Oil prices surged in first one (73/74) and then another (79) oil shocks.
- A sharp and sustained deterioration in our external terms of trade.

Of course, we didn't help ourselves. While there was some liberalisation going on across the economy, we had also let inflation get out of hand, run uncomfortably large fiscal deficits, and then launched into one of the most gigantic wastes of real resources ever seen in a modern peacetime advanced economy - the Think Big energy projects. (Relative to the size of the economy, they were as large as the Christchurch rebuild this decade, and almost every single one was uneconomic and should never have been started).

Throughout New Zealand history, when Australia has been doing well and we've been doing less well, there has been a net flow of people out of New Zealand to Australia (it had happened as far back as the 1880s, and as recently as the 1960s. From the mid-1970s we experienced outflows to Australia on a scale never seen before (or since) in an advanced country not ravaged by war, and which had only a couple of decades earlier offered one of the best material living standards in the world.

And then, of course, from 1984 the direction of policy changed again, quite dramatically.

Much of it was also hugely contentious and subject to extensive public debate. But one big series of changes that wasn't either hugely contentious at the time, or even very visible, were the succession of changes to our immigration policy. There was first a more explicit shift to a skills focus, and then in 1991 the points-system was introduced. From total non-citizen inflows of 10000 or less per annum for much of the 1980s (13000 as late as 1992), we experienced big increases in the 1990s (the first big wave peaking in 1996). Over 10 to 15 years of policy changes, we ended up with something like the current system around the turn of the century. In particular, the centrepiece of that policy is our residence approvals programme, which for many years sought to bring in 45000 to 50000 non-citizens per annum, using the provisions of the points system to ration the places left after (eg) residence had been given to non-citizen spouses of New Zealanders, and our refugee and dedicated specific quota. (That target - "planning range" - was reduced slightly to 42500 to 47500 per annum last year.)

What is striking is how little attention the issue initially seemed to get. I've gone through the memoirs and other books written about the late 80s and early 90s reforms. Immigration policy hardly gets a mention in any of them. Of course, historically the immigration portfolio has been a pretty junior one in any Cabinet.

And so it isn't fully clear what the proponents of the policy changes really thought they were doing. In trying to characterise what might have been in their minds, there is a risk of caricature. But it seems that there was a mix of ideas at work:

- Partly about "replacing" the New Zealanders who were continuing to leave in large numbers (a bit like restocking the shelves of the supermarket after the shoplifters have been at work),
- Partly a view that if we believed in free trade in goods and capital, well surely it would be a good idea in people too,
- Some of the reformers were probably a lot more focused on the details of the rationing mechanisms (our highly-praised points system) rather than on the question of "how many" - and if so, there was a certain logic to that as we'd never previously had quantitative restrictions, and had long been part of a common labour market with the UK and Ireland and Australia,
- And endogenous growth theory was coming to the fore, and perhaps some of the advocates of high non-citizen immigration really did believe in stories about potential productivity spillovers, economic gains from diversity etc.

Perhaps they were plausible stories (although frankly I've always found offensive - and extraordinarily central plannerish - the notion of governments "replacing" New Zealanders who choose to leave). The ideas were certainly given a good run. We've been running something like this immigration policy for 25 years or more now. Our points system was widely-praised in many circles - it had a skills focus rather than, say the family focus the US system has to this day - and although I'm critical of how moderately skilled many of our immigrants are, the OECD Adult Skills data suggest that we do better on that score than other OECD countries (the average migrant is less skilled than the average native, but the gap is less here than in other countries).

And we had lots of other things going right for us. We'd just shaken out lots of highly inefficient industries, and we'd opened up our external trade and domestic labour market. Sure we messed up our housing and land market at much the same time, but we weren't alone in that. So take back 25 years today's enthusiastic advocates of the scale and content of our immigration policy and I'm sure they'd be telling a story in which by 2017, New Zealand would have done really well, and the only real challenge (best left to academic researchers) would be disentangling quite what contribution our bold immigration policy had made to that productivity and prosperity, relative to all the good stuff that was being done. A young me might even had told the story myself: I recall sitting one day in front of Parliament's Finance and Expenditure Committee with Grant Spencer (incoming Acting Governor of the RB) telling MPs about the years of strong convergence growth that could reasonably be expected.

Instead, what do we have?

- There is still no sign of any labour productivity convergence (if anything, on average, real GDP per hour worked is falling slowly further behind),
- Total factor productivity is hard to measure, but on the measure there are we've kept on doing very badly there too,
- We've had 25 years of the highest average real interest rates in the OECD (which could be a good thing if we had lots of productivity growth, but we haven't)
- Not unrelatedly, even though our productivity has slipped behind over decades, our real exchange rate hasn't adjusted downwards in the way that standard theory would teach,
- We've had weak business investment (bottom quartile of OECD countries, even though population growth has been in the top quartile), even though we started with low levels of capital, and
- We are still experiencing weak growth in exports (unlike most countries, we've seen no growth in exports/GDP for 25 years or more) and weak growth in the tradables sector of the economy (in per capita terms, no growth at all this century.
- Among those exports, there is little sign of any sustained move beyond reliance on natural resource based exports.
- Oh, and our one half-decent sized city, Auckland, has experienced declining GDP per capita, relative to the national average, over the 16 years for which we have the data.

It is perhaps easy enough to make excuses for any single one of these items, but in combination they are a damningly poor record. They suggest that the architects of our economic policy simply have the wrong model for the specifics of this country, located where it is.

My argument is that the immigration policy is the biggest single component of that error.

When I talk about immigration policy, my focus isn't on the precise details of current practices. There is plenty of dubious stuff around the criteria for issuing work visas, the focus on issuing residence visas mostly to people who are already here, the liberal use of working holiday schemes, Pacific quotas, student work provisions, points for jobs in (declining) regions. It also isn't about whether the immigrants are mostly good hard-working people, or whether - depending how you calculate these things - they might even make a net contribution to the government budget.

No, the big issue, in my story, is simply that we are trying to bring in (offer residence approvals to) around 45000 new people each and every year. That is a huge number to try to bring in to a country that simply isn't doing that well. The issue isn't really whether people want to come - of course people from much poorer countries will want to come to richer countries if the richer countries let them[7] . It is about two things: the first is the quality of people we can attract to the last bus stop before Antarctica, and the second is the opportunities that realistically exist here.

As people often point out, there are 7 billion in the world, so 45000 doesn't look that demanding. But most people simply don't want to leave home. Most people don't even come close to having skills that would add value in a modern market economy. And, of course, at least 10 per cent of the world's population is already richer than we are. And then, of those who would like to move, who would choose New Zealand? Great place as we find it to live, it is small, and it is relatively poor. Of course, we don't have revolutions, civil wars, and we do have democracy and the rule of law. We even speak English. But most really able and energetic people will prefer the US, or the UK, or Australia, or Canada, or Ireland to New Zealand: why wouldn't you: bigger richer, closer to other things/people/markets or even just to "home". And if we have stuffed up urban land and housing markets so do most of those places too.

Would it be different if we could actually attract 45000 truly exceptional people each year? Even assuming we could recognise them, yes no doubt to some extent. But I suspect that in the longer-run it would make only quite a modest difference. After all, we New Zealanders are already some of the most skilled people anywhere in the OECD - perhaps anywhere in the world. And even if by some chance the truly exceptional came, in most cases they would be likely to find over time that there were even better opportunities for them - and their businesses, their professional skills, their academic expertise in other bigger richer places: San Francisco, Singapore, London, Paris, Shanghai or wherever. It isn't unique to us: if somehow Nebraska (or Tasmania, or Wales) could attract 45000 truly exceptional people per year, most of them would in time leave too.

After all, that is what the people who know New Zealand best - and actually have ties of home and family - have been doing for decades: leaving. Yes, there are plenty of cyclical fluctuations, but even in the last year, for all the talk of NZers returning, there has still been a net outflow of NZers, particularly to Australia, even when the Australian labour market is weaker than usual. The option to move to Australia seems to have been a safety valve for the underperforming New Zealand economy - in the same way that the ability to leave Invercargill or Taihape and move elsewhere in New Zealand has long been an internal safety valve for regions in relative decline (it has protected the living standards of those who stayed). In fact, this was what (CGE) modelling done a few years ago by the NZ and Australian Productivity Commissions suggested - net migration from NZ to Australia tended to raise living standards here and lower them (just a bit) in Australian. Recall the factor price equalisation tendencies in the 19th century? Things aren't that different today.

As it happens, it seems to be getting harder (and riskier) for New Zealanders to take advantage of the Australian safety valve.

---

[7] Even if Svalbard open-borders experiment suggest that isn't always true - if your climate is awful enough?! https://en.wikipedia.org/wiki/Visa_policy_of_Svalbard

So the real problem isn't that we simply need to find better migrants. We probably should do that if we are going to keep on with this craziness. The bigger issue is that there is no sign of great opportunities here that lots more people will help take advantage of to the benefit of us all. In his very first public comment on my arguments about immigration, Eric Crampton noted

> I agree with Reddell that immigration cannot solve underlying economic problems in the vast majority of cases, but with two potential exceptions: if agglomeration is becoming more important and size and distance are now hurting New Zealand more, a bigger country can help to solve that[8].

In principle that sounds fine. If it were working that way - new and better exports, especially city-based one, and if productivity were now rocketing away - there might still be arguments (reasonable differences of view) about how many migrants we wanted, social change etc etc - but there wouldn't be much of an economic disagreement at all. But there is just no sign of any of it, not matter how wishfully we think, or how much high-flown language bureaucrats (here or in places like the OECD) trot out.

For whatever reason, our exports are still overwhelmingly natural resource based. That means agricultural products, but it also means coal and oil, fish and timber, and it means tourism. People don't come to New Zealand for the great medieval cathedrals or stunning art. They don't come for what the cities have to offer - the cities are really just gateways – they come for the physical landscape and things one can do on, in, or around that terrain.

New Zealand firms export other stuff, of course, but it isn't becoming a consistently larger share of what we successfully sell abroad. In some cases it is just subsidised anyway – directly (one could think of the film industry) or indirectly (much of our export education industry). Anyone can boost exports with subsidies, but doing so makes us poorer over time, not richer. The market test is what matters, and there is little sign that people based here are succeeding in meeting that test in ways that make us all much better off.

For all the talk of "weightless economies" our services exports as a share of GDP (even with the recent tourism boom) are lower than they were 15 years ago, and are small by advanced country standards. There is plenty of talk of the internet reducing distance. In some respects it is true, of course, but not it seems in ways that have systematically favoured remote countries like New Zealand. If anything, modern economies with variegated products and services, seem to rely on personal contacts, connection and networks more than say might have been the case 100 years ago. I vividly recall the little exercise Phil McCann did a few years ago to illustrate the point: we all send large of emails etc, but most of them are actually to people really quite close by.

Of course, really energetic and smart people - NZers and immigrants - will start businesses here that seek to tap global markets (often going straight to the world, not starting with the domestic market). But experience suggests that for all those talents and ideas, it is (a) harder to base and build such businesses here than in many other places, and (b) even among those that succeed, in time most will be even more valuable and more successful based somewhere nearer the markets, supplier, knowledge networks etc. Mostly, it looks as though remote places will successfully specialise in production of things that are location-specific. Gold or oil are where they are. They aren't in London or San Francisco. Or Auckland. Much the same could no doubt be said for hydro power, or good dairy or sheep land.

[8] http://offsettingbehaviour.blogspot.com/2015/04/croaking-cassandra.html

And while there has been impressive growth in agricultural and pastoral production over the years, it is increasingly recognised that growth in these sectors in future is likely to be constrained to some extent at least by issues around water pollution, and greenhouse gas emissions. I'm sure there are plenty of opportunities for continuing productivity growth, but internalising some of those externalities is likely to be a drag. We aren't in the world of 1870, where there is still lots more land to be opened up.

In the great enthusiasm - that goes back decades - to drive up our population, there just hasn't been sufficient recognition of how important the fixed factor, land, is to New Zealand's prosperity, or anything like sufficient recognition of how - despite all the wishes to the contrary over the decades - that dominance of the fixed factor isn't changing. In part no doubt, it reflects the absence of fixed factors from much of modern economics. But also some mix of wishful thinking and wilful blindness. Surely we too can be London, Amsterdam, San Francisco, Singapore or the like? Fixed factors don't doom you to future poverty - and we are fortunate that much of ours are renewable - but they do mean that if you keep on with faster population growth than in countries where fixed factors aren't very important any longer (see that list of cities), you have to achieve faster underlying productivity growth than in those sorts of place just to keep up. We haven't. We aren't.

In many respects, things aren't that different in Australia. The composition of their exports is much like ours - almost entirely natural-resource based. The difference is that if natural resources are fixed, Australia became aware that there was much more there than they'd previously realised (all those minerals). That is a big boost to Australia's income potential. If we have such potential, we haven't identified or been able to use it yet - unusable resources aren't really resources at all. And recall that Australia too, while richer than us, has still been slipping down the global league tables. For all its mineral wealth, it now has so many people that its people are nowhere as wealthy as Norwegians. And there is little sign of other industries successfully developing in scale in such a remote location as Australia - on some OECD reckonings more remote than NZ.

To stand back then, while the coming of world-leading institutions and technologies, embodied in 19th century migrants benefited economically the indigenous inhabitants (whatever else it did to their place in their own land) there hasn't been a time since then in New Zealand history when immigration looks plausibly to have enriched New Zealanders. More than 100 years ago now, we had some asymmetric productivity shocks that enabled us to generate so much new wealth there was room for more people at top tier global living standards. Since them immigration looks to have been mostly a drag on the living standards and prospects of New Zealanders, holding back our ability to match and exceed other advanced countries eve as we have all got richer. It isn't a matter of budgetary pressures, or even of terrible quality people who have come. It is just, and quite simply, because this remote location - which sustained no international trade at all only 250 years ago - shows no sign, even in the electronic age, of being able to support top tier first world incomes for so many people. 4.8 million may not seem much - people keep talking about Japan and the UK - but we aren't where they are, and what else is going nearby seems to have mattered (perhaps always did).

I'm sure there are many areas of policy we could improve on, which would lift that relative performance but none of them, individually or in combination, look credibly like overcoming the limitations of distance. As I've pointed out previously, Stewart Island and the Chathams each have more land than Singapore and Hong Kong, but put 7 million people in each of them and I'm pretty convinced that (a) most would leave, and (b) if they stayed they'd struggle to produce anything like top tier OECD productivity and living standards. Place matters. Always has, and at least in our lifetimes looks like it always will.

We have to take the world as it is, and recognise that connections, distance and location matter. Wishing otherwise doesn't make it so. And "wishing otherwise" seems to be almost the definition of what lies behind our immigration policy. It simply defies the evidence. Our own people have been leaving for decades - it is what people rationally do, in their interests and those of their families, when economic opportunities are better elsewhere. Productivity here has languished, despite other policy frameworks that on average aren't bad by international standards. Attempting to grow a big city, and capture the claimed benefits, has also failed - for decades.

When politicians and bureaucrats attempt to populate a place regardless of the opportunities or evidence about that place, it is central planning to the fore, and likely to be just as corrosive of the opportunities for New Zealanders as central planning practised in other times elsewhere in the world. We need to abandon the hubris, and the wilful blindness, of our modern Think Big, stop trying to trade in one lot of New Zealanders for some other lots of people, and let talented and able New Zealanders build a prosperous future for a quite modest number of people. The counter, it appears, is something along the lines "we believe". That would be fine, if only there were some evidence that took seriously the specifics of the limitations of where these islands actually are and the constraints that location imposes.

Successful firms, families, and societies take account of, and work within, the constraints they face. Our political leaders, egged on by too many of the domestic business community, seem determined to ignore New Zealand constraints. They've been helped in that, unwittingly, by too much of modern economics. We need to refocus on the specifics of New Zealand as we find it, not waving round highly generalised models that may be very relevant for some places, but are quite unenlightening (or worse) for others.

Specifically, now we need deep sustained cuts in our immigration programme. I've argued for 10000 to 15000 residence approvals a year. Doing that wouldn't be terribly radical - we'd actually be putting ourselves more in the mainstream of international experience with immigration policy. Doing so would allow a rebalancing of our economy, and help us to meet pressing environmental challenges[9], in ways that would offer a credible promise of materially higher living standards for, say, 4.5 million New Zealanders. After 25 years - perhaps even 70 - when things have just gotten worse for New Zealanders relative to their peers in other advanced countries, it is past time to abandon the failed experiment - and radical experiment, not mainstream orthodoxy, it is - of large scale non-citizen immigration. A population growing as fast as ours is, driven up by government fiat when private choices are mostly running the other way (birth rates below replacements, net outflows of New Zealanders, in a location so remote, just doesn't make a lot of sense.

[9] Including the self-imposed emissions reductions targets, that are much harder (more economically costly) to meet because we have one of the fastest population growth rates in the OECD, even though our birth rate has also been below replacement for some considerable time.

Appendix

Some specifics of how I would overhaul New Zealand's immigration policy:

1. Cut the residence approvals planning range to an annual 10000 to 15000, perhaps phased in over two or three years.
2. Discontinue the various Pacific access categories that provide preferential access to residence approvals to people who would not otherwise qualify.
3. Allow residence approvals for parents only where the New Zealand citizen children have purchased an insurance policy from a robust insurance company that will cover future superannuation, health and rest home costs.
4. Amend the points system to:
    a. Remove the additional points offered for jobs outside Auckland
    b. Remove the additional points allowed for New Zealand academic qualifications
5. Remove the existing rights of foreign students to work in New Zealand while studying here. An exception might be made for Masters or PhD students doing tutoring.
6. Institute work visa provisions that are:
    a. Capped in length of time (a single maximum term of three years, with at least a year overseas before any return on a subsequent work visa).
    b. Subject to a fee, of perhaps $20000 per annum or 20 per cent of the employee's annual income (whichever is greater).