

POPULATE OR LANGUISH?

RETHINKING NEW ZEALAND'S IMMIGRATION POLICY

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This study was undertaken for the New Zealand Business Roundtable by Professor Wolfgang Kasper, Professor of Economics, University College (Australian Defence Force Academy), University of New South Wales, Australia.

**Standing room only?
A QUIZ QUESTION:**

*if all inhabitants of the earth were housed
in average, modest 4–6 person family homes
with a small garden —*

What area would all of mankind occupy:

- *the area of New Zealand?*
 - *the area of France?*
 - *the area of Thailand?*
- *the area of New South Wales?*
- *the area of British Columbia or all of Canada?*
 - *all of Europe?*
 - *all of Africa?*
- *all of Africa and Asia?*

For an answer to this question, turn to the last page

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Foreword

The origin of this study was an invitation by the New Zealand Business Roundtable to come to New Zealand and think about revamping immigration policy so that it might better fit in with the now fairly deregulated, outward-looking economic environment in New Zealand. This was a somewhat risky proposition in that 'parachute experts' may get things badly wrong when they deal with such intricate matters as immigration. Ultimately, immigration is about the future make-up of a society; it touches everyone, often in emotional ways. This inquiry should therefore be read as a piece that aims to provoke re-examination of set views and policies rather than giving definitive and prescriptive answers.

The perspective of the outside visitor may, however, help to see the wood for the trees and may not be burdened by collective historical memories that no longer apply to contemporary circumstances. And the outsider can contribute experiences from elsewhere that fit the New Zealand of the 1990s. There are still gains in the international trade of ideas. Guidance by international comparison - rather than historical, local experience - seems particularly appropriate when strategic policy reforms have thoroughly altered the basic socio-economic gameplan.

Extrapolations of historical trends, experiences and fears will then often mislead. It seems that the decisions and philosophies of the late 19th and early 20th centuries, which saw New Zealand as a model country that should keep the influences of an imperfect outside world at bay, created the rigidities, stagnation and inward-looking attitudes that still make it so hard to convert economic liberalisation into dynamic growth and job creation. An exclusivist, highly selective tradition of immigration policy - based on Malthusian pessimism about the opportunities for further economic growth - are part of the make-up of New Zealand that is now increasingly seen as untenable. This tradition is greatly at variance with the conclusions of other major immigrant nations where the influx of migrants - and the knowhow and enterprise they bring with them - is seen as a mainspring of economic progress.

Whatever the reader may gain from this inquiry, the author's education was greatly advanced by writing it. The exercise also reinforced my perception - gained on a number of previous visits over the past 15 years - that New Zealanders are friendly and helpful people. Generous and selfless help was offered freely by busy politicians, academics, officials and businessmen. They are too many to even enumerate. I thank them all, even where I disagree with their views.

Many people were good enough to read and comment upon a first draft. I owe particular thanks for this to Mr Winton Bates (Industry Commission, Canberra), Dr Penelope Brook,

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Very special thanks go finally to Ann, Penelope and Roger in the offices of the New Zealand Business Roundtable where I was made immediately welcome and felt at home right away, because I found myself in an intellectually rigorous, high-quality 'Academy of Thought about New Zealand'. They also helped greatly in getting this manuscript into readable shape and enriching its contents.

Wolfgang Kasper

Canberra

Executive Summary

- * Over the past ten years, the equivalent of nearly 10% of the New Zealand labour force left the country, many of them enterprising, young people and production workers. Not all of this loss was made up by immigration. This indicates that the New Zealand economy resembles the problem economies of Latin America which suffer from capital flight: for prolonged periods New Zealand has been incapable of retaining internationally mobile production factors that are essential for converting economic liberalisation into economic growth. A thorough reform of immigration policy can assist in achieving this goal.
- * The present problems of the New Zealand economy have a long pre-history. The philosophies shaped nearly 100 years ago have created rigidities, mental attitudes and institutions - like the pervasive regulation of international trade, capital, labour and product markets, and an over-governed society - which have frequently turned challenges into mediocre results. This is also true of immigration policy, which has been highly selective and exclusivist and has ultimately contributed to an insular social atmosphere.
- * However, the economic reforms of the past decade have done away with many of the traditional tenets of economic policy and have thus created entirely new pre-conditions for economic growth and immigration. New migrants now have more opportunities to make positive contributions to wealth and job creation, as the economy has been freed of many of its administrative shackles. Conditions for enterprising people with knowhow now resemble more closely those in countries like the United States than historical New Zealand conditions, and it is worth noting that Americans have always held that immigration helps to create jobs and raise living standards.
- * The basis for optimism about the economic gains from immigration in a liberalised economy is the well-established fact that modern economic growth owes much to the application of better knowledge - often seemingly petty, practical knowhow about production and marketing - as well as structural adaptability. An active immigration policy that attracts a larger and more diverse number of new citizens to New Zealand can make crucial contributions to the pool of practical knowledge and to raising the economy's responsiveness to market opportunities. A lightly populated country like New Zealand has the opportunity of attracting a crucial production factor to launch faster economic growth, but this must not be at the expense of neglecting the education and skill training of New Zealanders. With a flexible skill pool, improved technical knowhow and a more entrepreneurial climate, New Zealand is likely to become an attractive location for internationally mobile resources

(including people born here) and a virtuous circle of resource mobilisation, investment and growth could take shape. Immigration, and the return of expatriate New Zealanders, can assist in advancing the time when the arduous first phase of restructuring gives way to new growth opportunities.

- * In a world of greater international mobility and where dramatically growing numbers of young adults with a good education live in third-world countries, New Zealand is likely to need to ration the number of immigrants. But the question arises whether the tradition of rationing by arbitrary and frequently-changing administrative means, which are often influenced by the short-run concerns of particular interest groups, is the way to control immigration that is most conducive to accelerated growth. The major problem with administrative selection of economic immigrants is that bureaucrats must make assumptions which are not logically tenable, because people change and because the economic circumstances in which an immigrant contributes to the welfare of the nation are unpredictable. Immigration officials are not well placed to 'pick winners'.
- * Alternatives should be considered, such as admitting settlers by ballot or pricing devices (like auctions or a fee for 'settlement rights'). The latter would have the potential advantages of at least recompensing New Zealand residents for the infrastructure and welfare services they have created and of inducing the self-selection of people with resources who are likely to contribute skills and enterprise. But there are also disadvantages, so that mixed methods of rationing a migrant intake would seem preferable. Whatever selection mechanism is chosen, it will always be in the national interest to screen applicants for economic migration according to such factors as their criminal record, health and capacity to integrate economically and culturally (which would be facilitated by English-language skills). Different standards could of course be applied for humanitarian migration, family reunion and refugee categories.
- * A deregulated economy would greatly benefit from a more elastic supply of workers with skills and entrepreneurial attitudes. It would seem that an annual target of 30-40,000 permanent settler visas is compatible with the aim of accelerating economic growth and with the faster population growth which might occur if some New Zealanders who have left are attracted back by a more vibrant, more open, less regulated, and more rewarding New Zealand society.

Chapter 1

Economic Development: Reform, Knowhow, People and Migration

"The real duty of the economist is not to explain our sorry reality, but to improve it. The question of the best location is far more dignified than the determination of the actual one".

August Lösch, *The Economics of Location* (1954), p. 4

"I hope that you will now share with me the excitement of examining the economic effects of migration... of men, women and children who came here to improve their material life as well as to enjoy liberty and other spiritual benefits. They struggle for their own sakes and for the sakes of their loved ones, but inevitably they benefit the rest of us too."

J.L.Simon, *The Economic Consequences of Immigration*,
(1989), p. xxix

The Exodus of Young Skilled People

In recent years New Zealand has been losing large numbers of young and educated people through emigration. In the ten years to 1988, 157 active people departed for every 100 who were attracted by immigration. About 161,000 people declared that they were leaving permanently. Over 139,000 active people (or nearly 9.5 % of the current labour force) declared that they planned to settle elsewhere. The statistics may exaggerate the exodus, because many intending emigrants eventually return to New Zealand.¹ Some of the losses have been made good by immigration, including from the Pacific Islands and East Asia. Nevertheless, in the decade to 1990, New Zealand, traditionally regarded as a migrant-receiving country, experienced a net outflow of some 30,000 people, or about 0.9% of the mid-point population.

In this respect, the situation is comparable to that in certain Latin American countries with capital flight: New Zealand has been unable to retain some of the internationally mobile resources which are essential for continuing growth and job creation. A recent analysis of important determinants of the relative attractiveness of a country to people, capital and firms also indicated that New Zealand is fairly unattractive to internationally mobile resources.²

The central task for New Zealand's long-term growth policy should be to make the country a more attractive location for, and efficient user of, internationally mobile resources - such as skilled labour - which can improve the well-being of New Zealanders. The task seems urgent, not so much because the overdue economic reforms have brought the problem to a head, but because cheaper and faster intercontinental transport and communications have irreversibly made the New Zealand economy more open. New Zealand could not hope, even if it so

¹ J. Gould (1984).

² W. Kasper, S. Jackson (1990), p. 32.

wished, to become as remote and inward-looking again as it was in the era before cheap air transport, fax machines and a flow of news about living conditions and progress elsewhere penetrating daily into every household that has a television set.

In the 1990s it will not be possible to keep internationally mobile resources in a location like New Zealand either by prohibiting their mobility (for example, by means of capital controls) or by creating artificial short-term rents (for example, by creating sheltered employment). Such measures might stem the outflow of people and capital temporarily, but they would only undermine the country's long-run growth potential and lead to economic losses for such immobile resources as unskilled workers or land. If, however, the new openness is seen as a challenge and policy manages to make New Zealand attractive for mobile capital, ideas, entrepreneurs and skills, then the economy will grow at a fast pace, to the benefit of those who live and work here.

The intention of this paper is to stimulate debate about ways and means of making New Zealand more open and attractive to current New Zealand residents, to those who have left and to people from around the world who might want to join in a growing New Zealand economy. Its particular focus is on immigration policy. However, it should be borne in mind that the flow of people into and out of New Zealand is only part of the broader picture of flows of resources of all kinds - goods and services, ideas and capital - in and out of this country, each of which has a role to play in determining the present and future quality of life of New Zealanders. Getting immigration policy right is but one aspect of creating an economy in which New Zealanders can draw on the best of what the rest of the world has to offer.

From Reform to Growth

New Zealand has recently been actively pursuing a bold programme of economic liberalisation, although significant gaps in this programme continue to impede its performance. This is a dramatic break with the past; policies over the preceding 100 years were predominantly characterised by inward-looking protectionism, resistance to change and grudging, passive acceptance of changes imposed by the outside world. At the start of the 1990s, the economy has been opened up to worldwide influences and a process of profound adjustment of attitudes has begun. Adjustment will probably have to continue for some time before popular attitudes are in harmony with the new view of efficiency and equity as goals best achieved through openness and competition. And adjustment is unlikely to move in a straight line, since there will be resistance - as has invariably been the case in comparable situations overseas.

The motives for adopting these reforms were manifold. However, the realisation that the economy has been doing exceedingly poorly by any valid international comparison (Graph 1) that enlightened interventionism and the welfare state have not delivered the promised results and that many gifted, young New Zealanders are simply emigrating to more exciting and rewarding societies, must have played a key role.

The reforms have so far not led to much spontaneous economic growth. In part, this is a reflection of the incompleteness of the reform programme; in particular the failure to deal with highly restrictive labour market legislation, to reshape a number of welfare state institutions and to curb increases in government spending and taxation. The result has been an uneven sharing of the burdens of reform and the retention of important barriers to adaptation and growth. 'Balanced' growth - and growth whose benefits are not concentrated on a privileged few - will depend on improving the whole policy framework. Further, economic theory and historical evidence suggest that deregulated markets are a necessary but *not* a sufficient condition for economic growth. Market forces allow the spontaneous deployment of production factors to create higher living standards and more jobs, but they do not automatically mobilise or attract the critical production factors - like work, capital and skill accumulation, the development of natural resources, and the use and testing of knowledge by entrepreneurs. If a long period of regulation and paternalistic state provision has distorted entrepreneurial drive and work attitudes, economic growth is indeed unlikely to sprout immediately and vigorously.

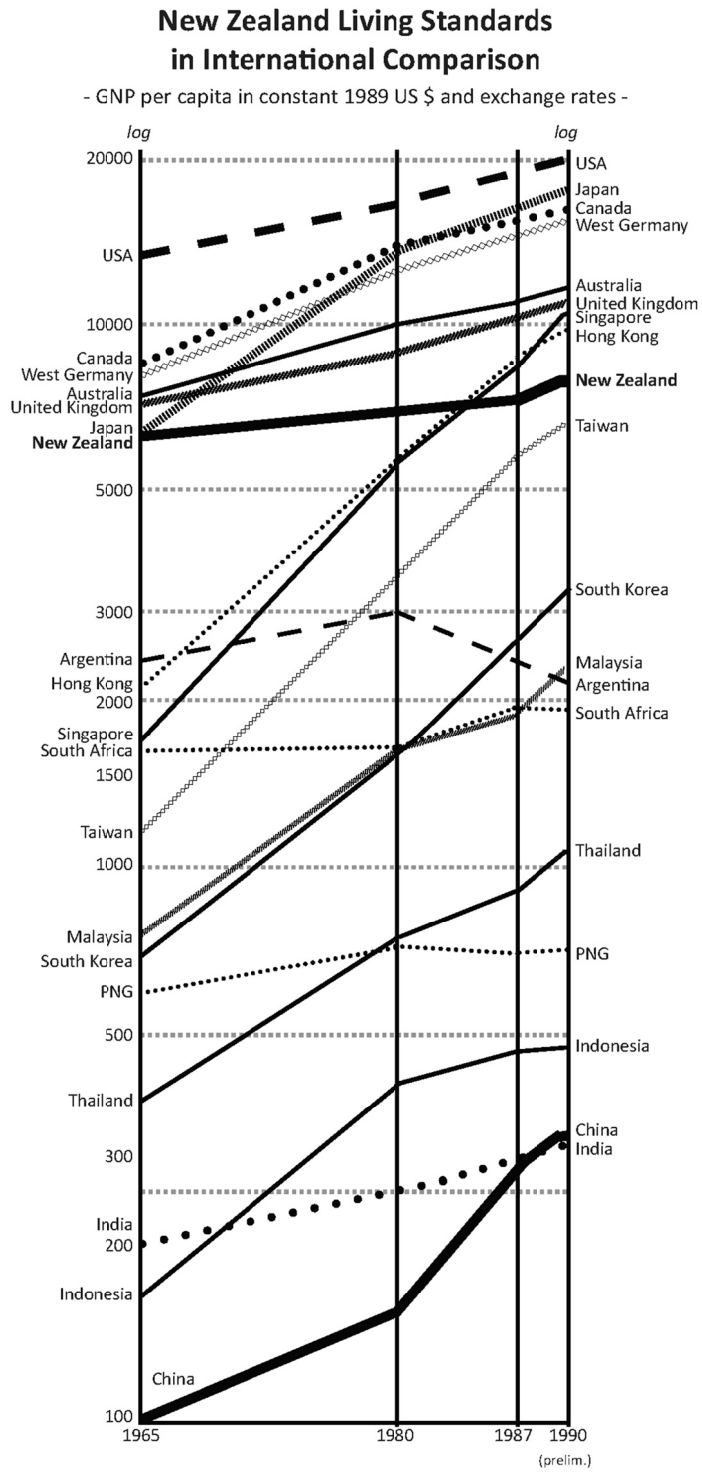
New Policies for an Era of Openness

In an era when economies are open to international trade, capital flows and migration, it is important not to thwart the prospects for domestic growth and well-being by creating artificial barriers or distortions not only to the flows of goods and services (through, for example, import licensing) but also to flows of capital, ideas and people. The reason for this concern with openness should not be regarded as a 'narrowly' economic one. As Annelise Anderson and Julian Simon have argued with regard to immigration policy in the United States, the objectives of a policy of openness are threefold: the promotion of peace, the promotion of prosperity, and the promotion of liberty. Peace, Anderson argues, depends importantly on the cohesion that comes from free trade, the free movement of people, and free access to labour markets.

Simon has made a powerful case that the prospects for economic prosperity - for all citizens - depend at least in part on the contribution of immigration and other resource flows to growth, jobs and competitiveness. And the success of immigration policy, like any other policy, will depend on the protection and enhancement of the essential rights and freedoms - the liberty - of citizens.³

³ A. Anderson (1988), J. Simon (1989).

Graph 1



Source: IBRD and own estimates (for 1990)

Openness to immigration, as well as to capital and trade, ensures that economic systems do not come under excessive and stifling political and interest-group controls which are at the expense of the long-run common good. Open economies can simply not afford counterproductive interventionism that responds to single-issue activists and political lobbying, since those interventions destroy the international competitiveness of individuals and firms. Those affected then move elsewhere. By contrast, heavily regulated systems (like the Soviet Union or New Zealand in the past) need to be closed to trade, international investment and the free movement of people. And openness undermines political control - as the recent developments in Eastern Europe have again demonstrated. In what may turn out to be a signal event of the new era of internationalism and openness, the mass emigration of young, skilled people from East Germany changed the repressive control system there, after decades of political pressure and government-to-government subsidies had failed.

The interdependence between openness, individual freedom and economic development was at the very root of European material success over the past three centuries. Trade and migration between the small European trading states forced their rulers in the 16th to 18th centuries to abandon the normal human tendency to rent-creation and rent-seeking in favour of developing a competitive economic and institutional order - based typically on property rights, the rule of law and limited government - because these small open states had to be attractive to mobile people and capital.⁴ The crucial importance of openness in limiting government and monopoly power becomes apparent when one compares Europe with the huge, comprehensive and closed states of the Orient, where technology was much more advanced but the rulers and the mandarins had unlimited power and entrepreneurs could not evade it by migrating elsewhere.⁵

It would not be the least benefit of international migration to New Zealand that it would help to impose durable and credible constraints on political decision making and direct the activity of government away from redistributive interventions in favour of special-interest coalitions. The gains will be not only in economic growth (as the former promote positive-sum economic gains whereas the latter reduce welfare), but also more individual freedom.

When an economic system is changed as dramatically as New Zealand's, international resource flows serve both as a catalyst for and a means to adjustment. Domestic rigidities may be reflected in trade deficits or dramatic international flows of resources, which are made possible by the new international openness that results from liberalisation. In many other countries, liberalisation has triggered new economic growth, and by doing so has spontaneously drawn in internationally mobile resources. But where liberalisation fails to lead to spontaneous growth - for example, because too many rigidities remain - it is also possible that internationally mobile production factors move elsewhere after liberalisation. Capital

⁴ D. North, R.P. Thomas (1972). The same development has now taken place with great material success in the small open economies of East Asia, Kasper (1989).

⁵ E. Jones (1981 and 1988).

flight or emigration of skilled people is then a visible signal that the domestic climate for growth is not good - that policy biases remain which are detrimental to the long-term welfare of the country's citizens.

The factors which determine the attractiveness of any country to capital, skills and entrepreneurs are to a large extent not given by nature but man-made - or, more accurately, government- or union-made. They include interventions as varied as taxation (especially that of businesses), regulations affecting labour costs and the flexibility of work practices, the orientation of the education and training system, laws supporting property rights (including intellectual property rights), resource management law, and regulations affecting the flexibility, reliability and cost of transport and communications. The existence of simple, transparent and predictable legal and regulatory rules, consistency of policy across-the-board and over time, and political and social stability are the prerequisites for efficiency in the flow of all kinds of resources - including people - in and out of the country. Policy makers can do much to shape these factors and, by doing so, create the expectations that will both attract the 'right' kind of resources from elsewhere (or stem their outflow), and ensure that these resources are used as efficiently as possible.

Over the past two decades, many East Asian countries have demonstrated how much a systematic policy of enhancing the attractiveness of their countries to internationally mobile resources through liberalisation and regulatory reform can achieve over a reasonably short time. And Europe now seems set to evoke a similar pattern of development within the freed-up internal market by systematically creating a regulatory framework attractive to capital and skills. There are good reasons why New Zealand policy should be governed by similar considerations.

Dynamically Changing, Often Petty Knowhow is Essential for Growth

It is widely accepted amongst economists that economic growth in the affluent countries owes much to the efficient and innovative use of knowledge, both in production technologies and in management. However, the available evidence strongly suggests that New Zealanders this century have, on the whole, made poor use of advances in knowledge, skills and technologies.⁶ It appears that both regulatory barriers and individual and collective resistance to the acquisition and exploitation of knowledge have been important factors in New Zealand's relatively poor productivity performance.

Nowadays, much economic progress is achieved by innovation and creative responses to never-ending new challenges to learn and adapt - not only in terms of what is produced, but how it is produced and marketed, and how businesses and work practices are organised. In

⁶ P. Marks (1984), A. Orr (1988). For an overview of international comparisons of these admittedly imprecise but nevertheless telling data see: OECD (1987), pp. 39-48, and H. B. Chenery, S. Robinson, M. Syrquin (1986), especially pp. 20-22.

complex post-industrial societies, economic success is to a large part determined by whether a society produces with result-oriented and flexible work practices and with productivity- and competition-oriented attitudes to work, and whether it strives continually to improve skills and technologies, specialises, and innovates by taking entrepreneurial risks. Much new technology is also made available when investment expands and the new capital goods incorporate improved technologies. Economic and social progress in post-war Europe and Japan, as well as the successes of the new industrial countries of East Asia, owe much to these kinds of factors. By contrast, such contributions to growth have been limited in relatively rigid, regulated economies, such as the United Kingdom (until recently), India, the socialist countries, and New Zealand.

What matters for economic growth is not purely technical knowledge - knowledge about how inputs can be translated into outputs more efficiently - but commercial/economic knowledge about where to find the best and cheapest production inputs, how and where to uncover demand in its myriad detailed manifestations, how to acquire relevant skills, how to manage the production and distribution process, and so forth. The first type of knowledge (about technology) can be fairly readily described and transferred. It is at the centre of the literature about research and development, and it can be transmitted to new countries by licensing agreements, by being embodied in capital goods, or by copying. But the second type of knowledge - practical commercial/economic knowhow - is not so readily collated and stored, or so easily transmitted. It is, however, critically important to success in the market place.⁷

Relevant commercial knowhow is normally specific to place and time, so that it cannot be readily concentrated in one spot, and is not easily taught through books or in schools or universities. Instead it is discovered, held and used by many diverse entrepreneurs and workers - each seeking those pieces of knowledge (and ways of using them) that will give him or her some advantage in the marketplace. To obtain and develop such 'knowhow' may require a long process of technical and commercial risk-taking, and there may be many failures along the way. This process is essential, however, if entrepreneurs and their companies are to win and maintain shares in domestic and international markets. This is one reason why trade protectionism is, in the long run, so costly to economic growth - without competition from international suppliers, domestic producers will have that much less ability and incentive to learn and to innovate. Similarly, restrictive, narrowly focused migrant selection, which limits the entry of genuine competitors for protected domestic producers, will have a restraining effect on the flow of knowhow.

The critical import of practical knowhow to growth can be gleaned from the fact that the 'economic miracles' in our lifetime have had a lot to do with innovation, knowhow and skills.⁸ The economies of western Europe managed high growth rates in the 1950s on the basis of their

⁷ F. A. Hayek (1945 and 1978).

⁸ S. Kuznets (1980).

skills and a culture that had long favoured practical skill acquisition (in technical universities and research centres, and by industry-supported apprenticeship schemes - which differ greatly from the restrictive, backward-looking British system of trade apprenticeships). The intense competition for shares in the integrating European market has been one of the driving forces of post-war growth in Europe. Likewise, the economic progress of post-war Japan has been driven by knowledge and skills, including the ability to learn and implement the new lessons. And the successful new industrial countries of Southeast and East Asia owe their spectacular economic advances at least in part to an inclination and ability to learn, based on a Confucian respect for learning, on pragmatism and a willingness to engage openly in competition.

It is no coincidence that growth economies systematically opened as many channels of learning as possible. They reformed their schools and introduced vocational high schools, which treat education as an investment and not a consumer good. They reformed apprenticeship schemes and tertiary education. They copied, sometimes illegally, or acquired licences, and often improved on the imported knowhow. They exposed their fledgling industries to the world market and benefited from the feedback of the market place. And they realised that feedback from the market can be as important for innovation and growth as research. Many of the fast-growing economies have thrust their markets open to multinational companies that bring in capital, great quantities of practical, often petty production knowhow, experienced management and market connections - paying great attention to making and keeping their countries attractive locations for internationally mobile producers.

The Socio-Economic Order and Advances in Knowhow

Evidence from many different societies shows how advances in knowledge depend upon and interact with the underlying social arrangements and rules within which social and economic life functions (in short, the 'socio-economic order'). This is so because the discovery of relevant knowledge is greatly determined by the costs and risks of discovery. If the broad framework of laws, traditions and social mores encourages risk-taking and the testing of new concepts and ideas, much useful knowledge will be found and used. For this to happen, entrepreneurs need an underlying order that affords secure property rights so that profits can be kept and a set of rules that gives entrepreneurs the confidence to experiment. Agreed and tested rules create a framework which reduces the transaction costs of entrepreneurial activity.⁹ Confidence in the rule of law and clear definition of private property rights and of the role of the state are of crucial importance. By contrast, policy reversals, corruption, complex and changeable regulatory frameworks, social confrontations and the like tend to increase the risks

⁹ The rules and conditions which determine the competitive order must be shaped by the state, as the state is most effective in doing so - as distinct from the competitive and allocational process, where government intervention tends to be counterproductive. The important distinction between 'competitive order' and 'competitive process' was made most notably by the 'Freiburg school' (Eucken (1950)) which laid the intellectual foundations for the German economic miracle.

and costs of entrepreneurial experimentation and hinder the advances in applying economic knowhow - and thus advances in the economic and social well-being of the country's citizens.

It is therefore not surprising that one can observe a strong nexus between economic growth and a society's chosen economic and social order. In this, domestic economic and political freedom and openness to the rest of the world go hand in hand. As noted, openness limits the primacy of politics over economic life, constrains zero-sum games of redistribution and promotes economic pursuits which result in positive-sum games. 'Good' domestic policy requires openness to the pressures imposed by and resources available on international markets - and good domestic policy is what makes a country attractive to internationally mobile resources, whether through international trade, travel, study, cooperation in multinational companies, licensing of overseas designs or - last, but not least - the migration of skilled and enterprising people.

How Can Labour Markets Contribute to Adjustment?

New Zealand's economic reforms have focused on the markets for products and capital, as well as on the role of the state. But the reforms have not simultaneously tackled the other important factor market, that for labour and skills. In this respect, the reform process in New Zealand differs from successful, comprehensive liberalisation exercises elsewhere, which range from post-war Germany in the early 1950s to Spain in the early 1960s and Britain in the 1980s, as well as those in many less developed countries - from Taiwan to Mauritius - which have embraced economic liberalism and free trade and achieved rapid economic progress. In each of these cases, a relatively free labour market has been one of the critical factors in generating sizeable progress in productivity, a constructive expansion of output and high capital formation. Economies with efficient factor markets have responded to relatively small profit incentives with more and improved supplies. And they have attracted internationally mobile resources. None of the countries mentioned has lost skilled people as a consequence of liberalisation policies.

At times of reform and rapid change, adaptable labour markets (together with flexibility throughout the economy within a stable, well-understood political and legal framework) are crucial in kicking off growth and job creation and in minimising the initial frictions created by adjustment. Such frictions occur because not all people change their expectations simultaneously, a myriad of 'rents' from previous regulations have to be unwound, and - most importantly - supply structures take time to adjust. After all, factories and machines have to be reorganised, new skills have to be acquired, new product ranges have to be developed, new management problems have to be solved and new supply systems and market networks have to be set up. All this takes time, even when adjustment processes are facilitated by open, well-functioning markets for capital and labour. Rigidities in the labour market (and political confusion) not only raise the costs of friction and anxiety, but also lengthen the period of adjustment.

As the experience during liberalisation exercises elsewhere has shown, labour market flexibility can not only secure many jobs, but create new jobs. This is so because most of the manifold and complex types of information about new job opportunities appear at the level of the workplace and within the firm. Workers and employers who are able to respond to new information quickly and flexibly, rather than having to wait upon the decisions of central employer and union organisations, can do much to advance their own interests, to cope with the pains of adjustment flexibly, thus preventing unemployment. The burdens of adjustment are distributed more evenly over all relevant product and factor markets and are therefore more easily digested. No sector should be exempted, certainly not such a key area as the labour market. If the labour market remains inappropriately regulated and subject to centralised (and therefore delayed) decision making, and if protection of traditional unions undermines the incentives for and ability of workers to adjust, the inevitable outcome of product market deregulation must be unemployment. As always, regulated markets respond to change predominantly by disemployment since price responses and other adjustments are prevented. New Zealand's increased rate of unemployment since deregulation demonstrates this general maxim.

Immigration and Socio-Economic Change

In a situation of comprehensive re-evaluation and adjustment of socio-economic strategy, it is not surprising that some New Zealanders also begin to query past immigration policies and ask how alternative immigration policies might complement the newly emerging economic and social environment. After all, immigration can be an effective way to import new ideas, skills and attitudes to work and competition, although it is certainly not the only way. When markets for products and capital are dramatically thrust open to world market influences, one might indeed ask about the possibility of doing the same with regard to people.

Rethinking immigration policy is not only a matter of asking whether a higher number of suitable migrants can ease the pain of adjustment and enhance the economic benefits of reform but also, and arguably more importantly, of investigating the non-economic effects of different long-term immigration strategies. Ultimately, the question of the size and structure of immigration is about a vision of society as a whole, about what sort of a nation the present generation will want to leave to its grandchildren. It is therefore a potentially emotional debate - embracing, amongst other things, sensitive ethnic and cultural considerations.

The pervasive influence of different migration strategies becomes immediately obvious if one compares differing immigrant nations, for example New Zealand with Australia or the United States. Differing environments have certainly played a role, but the dominant differences in cultural and economic dynamism and constructive, as well as destructive, social tensions are to an important degree a result of past immigration policies.

Most effects of migration take a long time to work out. It is therefore useful to approach the topic with a strategic, long-term vision and to judge it within the framework of decades, if not

generations. Immigration policy shapes the economic and social order and has pervasive effects on the evolving culture of a society. It greatly influences the size and structure of the labour force, where all change can only be gradual. Activist, stop-go policies in response to the emergencies of the day will prove ineffectual or even counterproductive. What is needed, rather, is a steady and consistent policy. The perspective of such a policy should be predominantly long-term - not preoccupied with short-term, tactical responses, as has generally been the case with New Zealand immigration policy (Chapter 2).

The immigration of people who hold diverse knowhow and skills, and who are prepared to adapt their knowledge to fit in with the particular conditions they find in New Zealand, would seem to be a very important and direct way to mobilise the growth in the available stock of knowhow. Immigrants may often serve as catalysts for change in static industries. What matters is not only their knowledge about processes and products, but also their attitudes and their often intimate connections to markets for inputs and outputs. The detailed knowledge of how to go about production quality control, service, distribution, and the testing and modification of these ideas in a new environment, often cannot be taught readily in ways other than by direct contact and by direct imitation. (It is simply easier to market food in Hongkong if one is familiar with Chinese mores and tastes, and speaks the language.) Immigration is, of course, not the only means of giving New Zealand citizens the benefit of such knowledge, but it is an important - and arguably an indispensable - component.

Another important channel for the transfer of relevant knowledge is by investment in modern equipment that embodies useful technology. But such equipment frequently depends, for its efficient use, on complementary skills and managerial knowhow. Many practical secrets of how to make modern equipment fully productive cannot be picked up from instruction brochures. What often matters more for capital efficiency are work practices, direct connections with markets, knowledge about changing prices and supply qualities, about where to turn for technical advice in an emergency, and so forth. Joint ventures may be used to draw directly on such knowledge, as may international travel by New Zealanders. But neither is a perfect substitute for the role that can be played by an injection of immigrant talent and embodied human knowhow in ensuring that modern technologies are used efficiently within New Zealand. Such an input will in some cases be the only way of ensuring that the efficiency of capital located in New Zealand not only matches that of competitors overseas, but achieves unit costs sufficiently below international levels for New Zealand-based producers to be able to break into new markets and overcome higher than average transport and communications costs.

Seen in the context of the urgent need to translate the economic reforms of the 1980s into accelerated and sustained growth in the 1990s, the dominant criterion for economic migration from the point of view of resident New Zealanders should be whether or not new migrants can be expected to help in raising the rate of productivity growth. Concerns about the distribution of initial costs and benefits should not be overrated, because the benefits will

eventually be distributed around by the competitive play of market forces once the overall growth rate is lifted.

A more active immigration policy cannot, of course, be a substitute for enhancing the skill base of domestic residents. In a competitive world economy, New Zealand will only be able to maintain high and growing income levels if New Zealanders find specialised market niches where high skills and entrepreneurship greatly matter. The future demand for skills in an open New Zealand economy will be much higher than in the protection-dominated past. The skills base will therefore have to be widened on all fronts, by better education and training, by flexible, market-oriented on-the-job learning (and work practices that promote this) and by importing skills through immigration.

A related aspect of economic adjustment to which more active immigration can make an important contribution is labour mobility and the flexibility of work practices. When so many tenets of product market competition change and capital markets are liberalised, powerful forces are set in motion to change job structures. If labour market law were reformed, workers and employers could respond by adopting new work practices and job specifications, raising both labour productivity and earnings prospects. To the extent that these adjustment mechanisms operate slowly or are hampered, international migration can enable speedier adjustment on the part of both individual workers and companies.

In a situation of general readjustment, labour market flexibility (in all its manifestations) is at a premium, and immigration can serve as a component of the required flexibility. It not only adds skills, but also encourages as yet footloose workers to move to areas where new opportunities arise. Many of the business opportunities which liberalisation is now opening up can only be developed if labour supplies are not artificially restricted. Stepped-up immigration can therefore assist adjustment and promote overall growth because numerous marginal profit opportunities would appear in a new and more promising light when more settlers arrive. This would set off chain reactions of expansion.

A new immigration policy along these lines would require considerable re-thinking in New Zealand and a significant departure from tradition. As we shall see in Chapter 3, traditional immigration policies have rationed immigration and tried to fit immigrants into pre-existing gaps in the labour market, if the existence of such gaps could be proved to the administrators. This policy reflects the attitudes of organised, rent-seeking supplier groups (who aim to preserve the cosy *status quo*), but tends to do little for the common good. Less restrictive immigration and a policy that debars interest groups from shaping it would have the potential for greatly enhancing the responses of the labour market to the new challenges and of helping launch New Zealand on to a path of sustained economic growth.

The New Zealand government appears to have acknowledged that accelerated immigration would be useful for New Zealand over the longer term, but argued that a relaxation of immigration controls in the economic recession of 1988-89 would cause anxiety and

disruption.¹⁰ The argument on the preceding pages has suggested, in contrast, that immigration policy is primarily a supply-side policy which should aim at long-term effects and not be geared to short-term business cycles. Moreover, there is considerable evidence from other countries that new arrivals boost demand (for example, to buy houses and household goods).¹¹ The United States Council of Economic Advisors concluded from exhaustive research that "immigration provides increased returns to a wide range of inputs - capital, land and workers with skills ... the presence of immigrants in labour markets is associated with increased job opportunities, including job opportunities for native-born minority groups".¹² It would seem that the time has come to contemplate a more active immigration policy in order to bring such benefits to New Zealanders.

¹⁰ See, for example, Hon David Caygill, *The Evening Post*, 23 February, 1989, p. 4.

¹¹ See US Congress (1986) for the American evidence and Norman and Meikle (1985) for the Australian evidence. The immediate demand effects of immigration in New Zealand were used by the Monetary and Economic Council (1966) to argue against more immigration.

¹² US Congress, *op. cit.*, p. 221. See also J. L. Simon (1986 and 1989).

Chapter 2

Migration to New Zealand in a Global Context

"... calculations and estimates indicated that there was no economic argument for the promotion of immigration ... the majority of migrants were from Britain and introduced little cultural diversity at all."

G.R. Hawke, *The Making of New Zealand* (1985), pp 188-9

"... the economic issue raises the question whether immigration, legal and illegal, contributes to U.S. economic growth and competitiveness. The answer of economists on this issue is a near unanimous yes."

A. Anderson, *Thinking about America* (1988), p. 394

A Thumbnail Sketch of Population and Immigration

Many facets of immigration policy have been surprisingly recurrent throughout New Zealand's short history. It therefore seems useful to review the stylised facts of New Zealand's history of demographic change and immigration and to place them in a wider global perspective.

Man was a 'migratory animal' long before *homo erectus* gave way to *homo sapiens*. Deep instincts have induced humans to migrate to new places, not only to find new natural resources, but also for the sheer joy of discovery of nature and one's own creative capabilities in coming to grips with a new environment. This drive for discovery long pre-dates tourism and the introduction of border controls. As recently as the end of the 19th century it was possible to travel from Lisbon to St. Petersburg without a passport, and last century identification papers were not needed to sail from Wellington to Melbourne or Perth. Border controls were introduced in the heyday of nationalism. They have not, however, defeated the innate migratory instincts which now help to drive the powerful forces of globalisation.

When the human species spread, probably from Africa, right around the globe, New Zealand was the last sizeable piece of untouched, habitable land to be claimed. It is likely that the Polynesian seafarers landed only about 1000 years ago. When the first white people began to make New Zealand their home at the start of the 19th century, these early Polynesian settlers had developed into Maori society and probably numbered around 150,000. By the middle of the 19th century, the then declining Maori and the rapidly growing white settler populations were of about equal size.

White settlers kept arriving. They were predominantly lower-middle class English and Scottish people, out to create a new existence in a remote land by exploiting the available natural resources with the help of imported European technology. A New Zealand tradition of relying mainly on natural resources for economic growth was begun. This tradition differs

from that of resource-poor countries (such as Scotland, Switzerland, Japan or Korea) where improved living standards are seen predominantly as the result of applying better knowledge.

Graph 2 illustrates the broad demographic and immigration trends since the 1850s. It can be seen that the population increase gradually slowed after the peaks of the gold rushes of the 1860s and the 'think big' strategy of Sir Julius Vogel in the 1870s, when immigration had made very large contributions to population growth. At that time, large numbers of people arrived and engaged in immediate, spontaneous wealth creation. These people created much of their own capital stock. No one seemed especially bothered about the 'absorptive capacity' for additional settlers. But the brief period of high immigration and dynamic pioneering experience has not left a significant imprint on popular philosophy, possibly because the experience was short-lived and because the second half of it, the Vogel episode, relied greatly on government initiative.

New Zealand's population has grown fairly rapidly this century, chiefly as a result of natural population growth (that is, births exceeding deaths, with longer life-spans thanks to medical progress). Only around the turn of the century and, to a lesser degree, in the 1950s and 1960s did immigration waves again make marked contributions to overall population growth. In the post-war period, immigration was relatively less important than in Australia where no less than half the population growth came from immigration. As Graph 2 also illustrates, population growth dropped in the 1930s (like elsewhere), when family starts were postponed and immigration was reduced to a trickle.

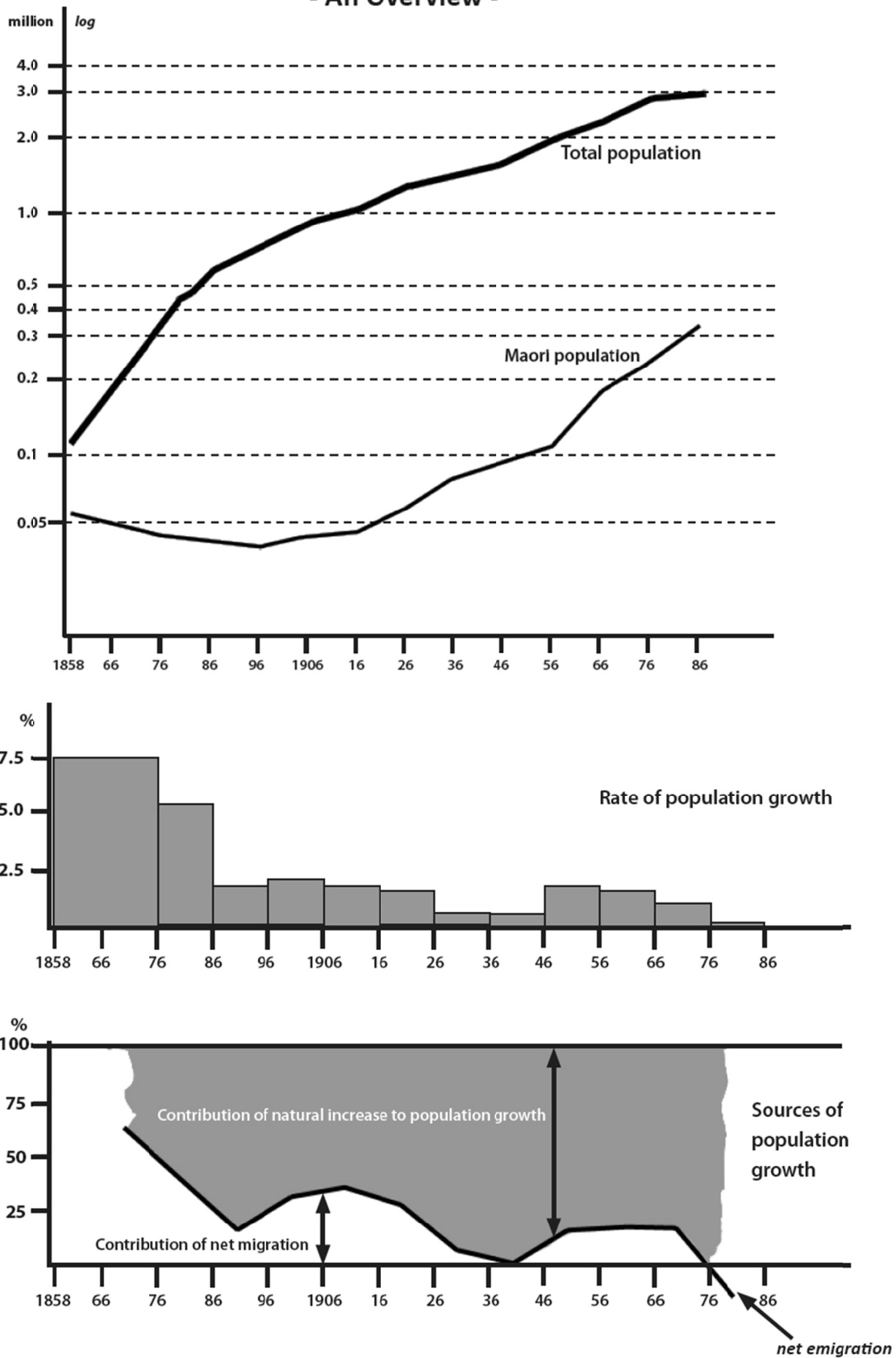
By international standards, migration to New Zealand during the main era of European emigration was relatively insignificant: 594,000 migrants settled in New Zealand between 1851 and 1932, when some 60 million people migrated from one continent to another.¹ A greater share of New Zealand population growth was due to the indirect effects of migration, as new settlers tended to be young and to raise large families after arrival.

New Zealand may not have received greater numbers of settlers because of its remoteness. In addition - as we shall see in the next chapter - a 'tradition of exclusivism' and inward orientation evolved in the late 19th century and has remained influential. One long-term consequence of this tradition is that New Zealand has not been able to retain some of its more enterprising, dynamic sons and daughters. There is a long history of emigrant and expatriate New Zealanders achieving success and excellence elsewhere. Indeed, many of the new settlers have always re-emigrated, in increasing proportions to the wider horizons and greater cultural diversity of Australia.

¹ Rostow (1978), pp. 17-23.

Graph 2

Population and Immigration - An Overview -



Sources: UN (ESCAP) [NZ] Department of Statistics.

After the second world war, New Zealand, like other developed countries, went through a 'baby boom' (in the late 1940s to early 1960s). This interacted in complex ways with economic expansion. The 'baby boom' has subsequently had important effects on the economy, first creating a demand for houses, furniture and schools and, by the mid-1970s, adding to the young segments of the labour force. In the late 1980s, the labour market is undergoing the delayed effect of the end of the 'baby boom'. Social changes, birth control and, increasingly, economic apprehensions have led to a falling trend in births. At the same time, people are living longer, and living longer in retirement, drawing on the production of those who work. This is not dissimilar to what is happening in most mature industrial societies, especially those in northwest and eastern Europe. The result is that the population and the labour force are aging fairly rapidly. The median age of the New Zealand population has increased from 25.6 years in 1971 to 29.4 years in 1985. As a result, social values are likely to shift in a more mature, more conservative direction and there will be less demand for schools and more for old-age homes. These trends are likely to continue well into the next century.

As the domestic population has grown, the relative importance of international migration has declined. At present about 15% of New Zealand residents are born overseas. The declining role of net immigration is due in part to activist, changing immigration policies, which restricted immigration when there were fewer job vacancies, and in part to the emigration of young New Zealanders who left in hard economic times. In the March years 1989 and 1990, no fewer than 70,941 and 56,019 New Zealand residents declared they were leaving permanently. These numbers far exceeded the number of permanent immigrants. Since the mid-1980s, about 25,000 predominantly skilled people appear to have emigrated each year. While many are young New Zealand-born professionals and skilled workers, New Zealand has also lost recent immigrants, including refugees from Asia. It is, of course, possible that many of those who declare they are leaving New Zealand for good will later return. But the extent to which this will come about greatly depends on the economic and social attractiveness of life in New Zealand.

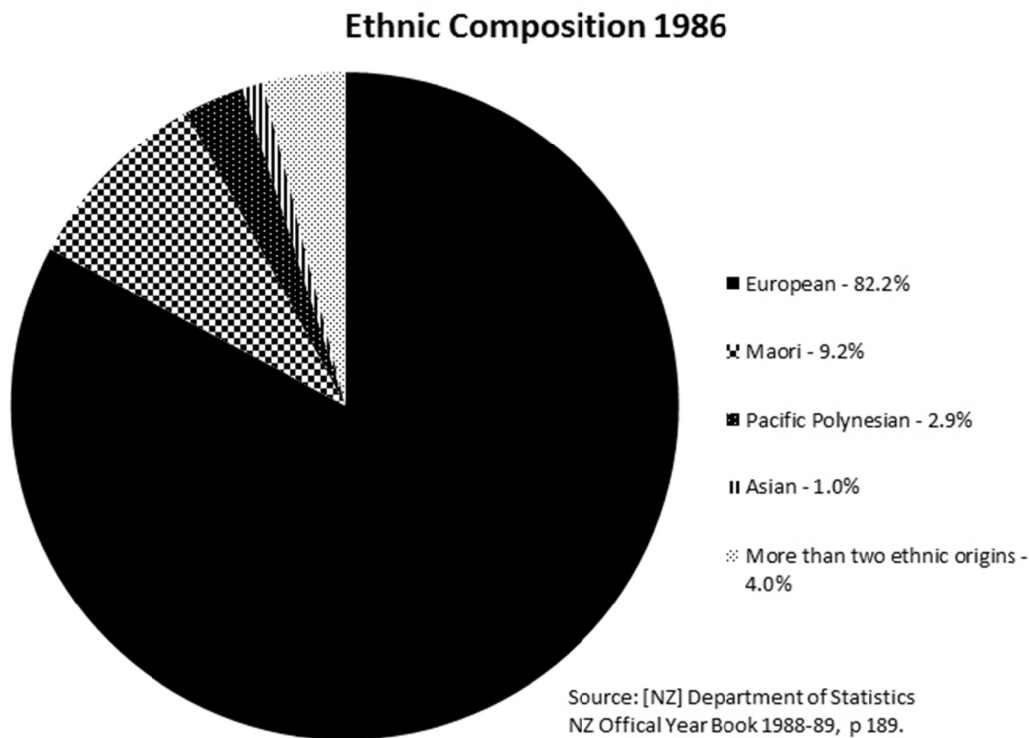
Considerable salary differentials have developed between New Zealand and the more dynamic economies around the Pacific where young New Zealanders are heading. But it is not only economic motivations that lead to emigration. Cultural interest and social diversity in the overseas centres also act as powerful magnets.

On the other hand, immigration policy has been somewhat liberalised since 1986 (Chapter 3) and the freeing-up of the economy has created new opportunities. The effects of this are reflected in higher numbers of arriving new settlers, which now appear to run at about 25-30,000 per year compared with 10,000 in the early 1980s.

The migration losses of young people may have been concealed to the superficial observer by a second wave of Polynesian immigrants, who have provided the protected manufacturing industries (especially around Auckland) with many unskilled process workers. The slowdown

in the growth of the traditional European population has also been partly offset by high (though now decelerating) growth in the Maori population (see Graph 2 above). However, talk of a 'browning' of New Zealand society is at the least premature (Graph 3). The effects of a changing racial composition are visible mainly in parts of Auckland and in labour-intensive manufacturing industries. Nevertheless the growing Polynesian population will undoubtedly influence New Zealand's collective psyche to become less English and more Polynesian, absorbing Pacific values and concepts.

Graph 3



The pattern of in- and out-migration indicates a considerable net loss of skills and entrepreneurial talent. This may be crucial at times of deregulation and rapid change. Imported 'embodied knowledge' will be needed to complement education and training of residents so as to move the country on to a path of sustained growth in incomes. In turn, immigration and income growth will be important factors in determining the attractiveness of New Zealand to would-be migrants.

Prospective Demographic Trends

A very real possibility of future population decline has emerged in the past decade. Actual population figures have regularly fallen short of official projections. The resident population is now close to reproductive replacement levels, but in most recent years there have been net migration losses.

Projections of future population are greatly influenced by assumptions about fertility and international migration. A wide range of such assumptions seems plausible, depending on the migration policies New Zealand adopts and, more importantly, whether the country manages to become and remain an economically and culturally attractive location for educated, internationally mobile people. Recent forecasts are that the population growth rate between now and 2021 may drop to around 0.5 % per annum,² a fairly dramatic drop below the historical 2% trend. Many people who make implicit or explicit plans for the future which are based on past demographic trends may therefore face surprises.

Current population projections for the labour force between now and 2016 vary from annual losses of 15,000 people to equally sized gains. This implies that only in 'high growth scenarios' is the growth rate of the labour force likely to approximate even remotely the growth of the late 1970s and early 1980s (a sluggish 1.7% per annum in 1976-86).³ This means that employers could face a much smaller available workforce than they have become accustomed to expecting.

The year 2021 (the present horizon of official population projections) may seem a long way off, but young people currently choosing their education or careers need to think further ahead. Many of the houses, investments in machines, shopping centres and hospitals now planned will still serve people well beyond 2021 (or may remain under-utilised). People who now save for their old age implicitly hope that sufficient workers and customers will be around to make their investments pay in 30 years' time. With a declining population, many will be disappointed. Should the population decline, they will discover that their savings capital, if invested in New Zealand, has a low productivity and a poor return. And they may make this discovery only when they are old and can no longer cope well with such disappointments.

The population pyramid has changed from the 19th century pattern of a young, developing country to that of an almost stagnant population and workforce, similar to population structures in the 'old' countries of Europe. In 1986, the share of people aged 60 years or older was 15%, but that share is projected to rise rapidly to around 30% by 2030.⁴ If New Zealand does not increase its attractiveness to productive and enterprising people born here or elsewhere, there is a real prospect of a society in which the old find fewer and fewer producers to share future income with them and to care for them. There are historical precedents for such stagnant, aging peripheral societies. To most minds, they depict a fairly unattractive scenario for the old who are left behind. The problems of a rapidly aging society will not arise in the next decades, but population projections beyond 2020 indicate such a pattern, even without the assumption of further accelerations in the exodus of young people.⁵ Because demographic aggregates change only sluggishly, these changes need to be tackled

² Department of Statistics, *Yearbook 1987-88*, p. 147.

³ Poot in Crothers-Bedford (1988), pp. 62-63.

⁴ Department of Statistics.

⁵ Poot, *op. cit.*, p. 63.

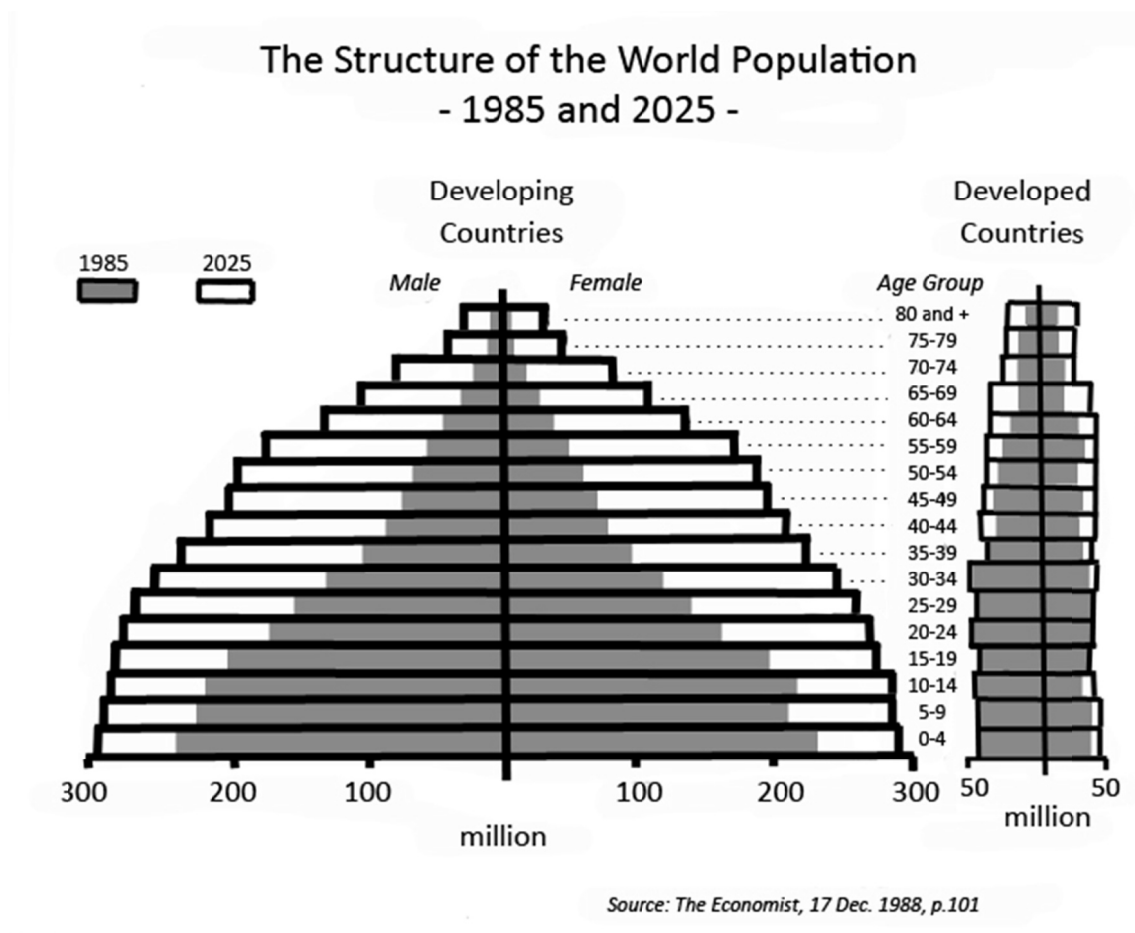
from now on if they are to be averted. Immigration cannot stop the aging process, but it can delay it, if sufficient numbers of young people are attracted. However, if immigration suffers from stop-start policies rather than long-term consistency, it can make aging worse. A sudden halting of high levels of immigration can accelerate the increase in age dependency at a later point in time.

The long-term future of New Zealand immigration must be considered in an international context. The population structure of New Zealand is similar to that of all developed countries (Graph 4). All of these countries will be exposed to growing population pressures from the developing world where the number of middle-aged people will double over the next 30 to 40 years, and where 85% of mankind will live by the year 2000. But unlike most developed countries, New Zealand will not be able to point to overcrowding or even high population densities.

It must be realised that New Zealand policy makers are not in control of net migration; they can only hope to exert a direct influence over inflows. But even control over immigration may slip from the exclusive influence of national governments. In the past it has generally been recognised that nations have the sovereign right to admit whom they want. But this may not remain the case forever. Many millions of people in Asia and Latin America, with better education, knowledge and mobility, are annually becoming potential inter-continental migrants. Over-population and social disorder in their home countries will make affluent, relatively empty countries like New Zealand increasingly attractive to them. Among some of this huge and growing number of people in poor countries, the urge to follow age-old migratory instincts will increase. An implicit assumption of current immigration policy may therefore one day be challenged as large numbers of illegal immigrants push their way in. New Zealand may eventually face migration pressures of a type and size not currently envisaged, just as northwest Europe and North America are now inundated with economic refugees from the third world. (It has, for example, been estimated that permanent illegal immigration into the United States approximates that of legal immigration.⁶) One should therefore not exclude the possibility of overt or covert, organised or random incursions by desperate new settlers into New Zealand.

⁶ US Congress (1986), pp 217-19; but some observers consider this a boon to the United States (Anderson, *op. cit.*, Simon (1989)).

Graph 4



Viewed from a global perspective, New Zealand certainly has the appearance of a place with much underutilised population capacity. The following comparisons, although unadjusted for climate and terrain, are striking:

	Land area (⁰⁰⁰ km ²)	1986 Population (mill.)	Population density (people/km ²)
United Kingdom	244	56.7	232
Italy	301	57.2	190
Japan	372	121.5	327
Taiwan	36	19.2	533
South Korea	98	41.5	423
Philippines	300	57.3	191
New Zealand	269	3.3	12

In the face of these basic geographic facts it may be wiser to think about anticipatory adjustments than to await forced change.

Chapter 3

Migration Policies

"Attention was given rather to ensuring the well-being of one class in the State than the development of the land as a whole... It was not long before the workmen began to eye with disfavour State immigration, which brought new hands into the Colony ... and they remained tied to the narrow and widely-held belief that there are definite amounts of both labour and wages..."

"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 under the Act..."

A. Siegfried, *Democracy in New Zealand* (1914), pp. 206-7

Immigration Policy: Constantly Changing, Yet Constant

Prior to 1840 when the country came under formal British administration, immigration to New Zealand simply happened. The canoes of Maori ancestors merely landed and land was taken. The early European arrivals - whalers, seamen and run-away convicts from Australia - behaved no differently. In the process, Maori gained from the transfer of new technical and other knowledge, but also lost as Europeans appropriated land. After 1840, private settlement schemes were organised, most notably by the New Zealand Company. Later, the immigration/settlement process was 'nationalised' with the provinces and the central government promoting migration, often by free or assisted passages. The short gold rush of the 1860s brought big, spontaneous flows of migrants, many of whom soon left again. All through this early period of European settlement, immigration policy was motivated by the notion that there were free resources to be taken into possession (for Britain) and that more people were needed to do that.

In the 1880s, a major recession occurred in raw material prices and demand. From this experience new and more lasting attitudes towards immigration emerged. Concerns about the 'absorptive capacity' of the country were raised in the 1880s for the first (but not the last) time. Those already in New Zealand began to fear for their job security and their claim on the country's communally held resources. This was based on the implicit view that the number of available jobs was somehow fixed and that the relevant productive resources were finite and should not be divided amongst ever-growing numbers of newcomers. Immigrants were seen as competitors who would substitute for resident workers rather than as complementary additions to the skill pool who might raise everyone's productivity and income. There was a fear that new migrants might surpass the locals, and little appreciation of the prospect that

people instead might flourish alongside prospering neighbours. This view had much in common with Malthusian notions that the population always has a tendency to outgrow available resources. In New Zealand, this 'zero growth mentality' was to become the dominant attitude towards immigration.

Pessimism about the availability of resources for economic growth was mixed with xenophobic anxiety about Chinese immigration and calls for a 'white New Zealand' policy.¹ A fairly lasting pattern of opinion about immigration emerged: the labour movement was predominantly anti-immigration and anti-Chinese, whereas what were then termed the 'professional and mercantile classes' defended immigration, including immigration from Asia. Gradually, the more inward-looking, anti-immigration viewpoint won out, starting with the Chinese Immigrants Act of 1881 and culminating in the Seddon Government's Immigration Restriction Act of 1899, which prohibited non-British immigration (with a few exceptions). In the recession of 1908, a comprehensive statute restricting immigration was enacted. It was to become the foundation stone of all subsequent immigration laws, up to the most recent Immigration Act of 1987.

Economic forces and political expediency ensured that immigration from Britain remained fairly free during the first decades of the 20th century. During this time New Zealand could often not compete for migrants with South Africa, Australia and Canada because of its remoteness and because its immigration guidelines were changed frequently in a spirit of petty interventionism. Many efforts were made to regulate such aspects as precise occupational skills or the number of children in a family. Early in the century, Premier Seddon avoided conflict with his electorate by keeping secret the fact that passages to New Zealand were subsidised - not the last time that officially declared immigration policy differed from its implementation!

In the first world war nationalistic, anti-Catholic and xenophobic notions became more dominant, and from 1916 all foreigners were required to present a passport when entering New Zealand. Up to that date, people had been able to travel from Hamburg, Melbourne or San Francisco without such a document.

In immigrant societies like the United States, Canada, South Africa, Argentina, Brazil or Australia, boisterous pioneer traditions took a dominant place in folklore and the popular imagery, even after these societies became (sub-)urbanised. In New Zealand, this tradition was relatively subdued, and there emerged a predominantly reformist vision of an isolated model society in which existing settlers ought to be protected from further migrant waves.

As far back as the start of the century, an eminent cosmopolitan observer accused New Zealand of harbouring odd Malthusian notions about migration.² As we have seen, this form

¹ Borrie (1938).

² Siegfried (1914), pp 204-218.

of pessimism had initially been triggered by concerns about job security at times of economic downturn. As elsewhere, the motive of the organised labour movement was to perpetuate labour scarcity and protect the high incomes of those in secure employment. The possible longer-term gains from dynamic growth and job creation were ignored. The prospect of cultural cross-fertilisation was frequently even feared. And there were subsidiary concerns about the sufficiency of existing housing, school places and public welfare services. The 'capacity to absorb' new arrivals became a recurrent theme in the immigration debate. Stop-gap solutions like the trailer camps of Australia or the American practice of disembarking new arrivals into the tenements of lower Manhattan were never acceptable to New Zealand thinking. Nor were notions ever entertained that new arrivals might be expected to earn their way into the emerging welfare state.

An inward-looking perspective on immigration has shaped social policies in New Zealand for most of this century. However, it has not gone unchallenged. Time and again proponents of more immigration have argued that there would be benefit for all in change and openness to competition, that resources are not a constant, pre-ordained quantity, and that intelligent, enterprising people can develop more resources by using advances in knowledge. This notion (which is much more in tune with the experience of modern industrial growth) has not, however, had a systematic and widespread airing in New Zealand. On the whole, immigration policy has remained relatively 'exclusivist' over much of the past 100 years, aiming to preserve cultural and racial homogeneity by giving preference to British stock. Even after the second world war, these biases - though modified - were adhered to much more strongly in New Zealand than was the case in Canada or Australia.

In the inter-war period, immigration policy became more planned and administration of the details more comprehensive. In this, the mutual interests of the 'Motherland' and the 'Dominion' were taken into account. An open nomination system for assisted passages was introduced. A New Zealand nominator (normally a future employer or a relative) guaranteed maintenance and employment of the new settler, and the prospective settler gave up his or her freedom to leave New Zealand for five years. But soon slow economic growth and unemployment led to the suspension of assisted immigration and after the onset of the 1930s' depression severe restrictions were imposed on new immigration. These were based on the theory that new settlers added to the supply of labour. Their added demand was ignored. Pressures from tradesmen's unions reinforced the 'exclusivist tradition'.

During and immediately after the second world war, New Zealand took a few refugees, but these were very carefully and cautiously picked so as to conform with existing interests.

At the end of the second world war, the New Zealand government established a Dominion Population Committee which recommended a carefully planned immigration policy to fill job vacancies. British immigrants were considered most satisfactory.³ In 1947 a programme of

³ United Nations (ESCAP), vol. 1 (1985), pp 63-66.

assisted immigration from Britain, favouring young people, was introduced and an Immigration Council representing major producer interests was established. In 1950 the National Party made a further cautious move to liberalise immigration. Selected non-British migrants from northwest Europe were allowed in, and the Dutch were deemed 'honorary British' and given preferred immigrant status. No efforts were made to attract southern Europeans, let alone Asians. The objective was always to ensure that immigrants could be readily integrated without upsetting or influencing existing New Zealand society and culture.

Migration targets and eligibility criteria were subject to frequent administrative changes in accordance with short-term domestic labour market 'needs'. This was in line with the then prevailing attachment to Keynesian demand stabilisation policies and optimism about the potential efficacy of stop-go policies. New Zealand developed no strategic, long-term vision for immigration policy, for example along the lines of Australia's concept of 'populate or perish'. During the 1950s and 1960s, New Zealand essentially continued to adhere to an approach shaped at a time when few people could afford the long sea voyage whereas, in reality, increasing numbers of people arrived by air at (in real terms) ever lower fares.

In the early 1970s, there was a temporary change in the pattern of the immigration debate. Unions and the government agreed on the desirability of more immigration as being culturally and socially enriching. A 1974 Immigration Policy Review stated that "generally life here is enriched by diversity". But it immediately continued with a familiar theme: "... on the other hand, those coming to live here must take the country as they find it and accept the rules applying to its citizens and other residents". In the economic downturn after the oil crisis, more exclusivist attitudes were re-asserted and the issuing of formal entry permits was again tightly regulated.

Since the introduction of frequent, cheap jet services, growing numbers of Pacific islanders with New Zealand citizenship have arrived to stay and many Polynesians from other island states have been admitted. This led to a second - controversial - wave of Pacific island immigration. Auckland now has by far the biggest urban concentration of Polynesians in the world. In addition, a few thousand Indo-Chinese refugees were accepted in the early 1980s.

The only exemption to controlled immigration was from Australia. Trans-Tasman migration remained free, creating a virtually integrated labour market for the citizens of New Zealand and Australia long before the unified product market was established. (Under the Closer Economic Relationship, free trade in goods was achieved from 1 July 1990, and deliberate moves to liberalise trade in services were only initiated in 1988.)

The Permanent Features of Immigration Policy

Over the years, immigration policy has often been changed amid much legislative or administrative fanfare, but underneath it has remained more or less constant. The dominant features have remained detailed, prescriptive controls to ensure easy absorption and to secure

the position of established local interests in the labour market, as well as a wish for a high degree of ethnic and cultural cohesion. Thanks to its geographic isolation, New Zealand was able to maintain effective control over migrant arrivals at a time when north America and western Europe were flooded with illegal immigrants, who created whole new sub-cultures and often thriving sub-economies. In America and Europe, the new migrant groups are seen as markets as well as sources of labour supply, whereas a still-recurrent theme in the New Zealand debate is that immigration is an addition to the workforce, but not to the overall capacity of the economy to produce and consume. Analyses in the United States and Australia have shown that new arrivals develop a high demand for housing, consumer durables and cars.⁴ New Zealand history, too, demonstrates a concurrence of rapid immigration and demand expansion. Yet new arrivals continue to be perceived predominantly as competitors rather than as additional consumers or complementary producers whose presence could help in raising overall living standards.

Immigration policy has always been subject to much fine-tuning and administrative change to suit changing demands in labour markets, rather than being based on a more comprehensive vision of nation-building and economic growth. As a result, there is little understanding of the inappropriateness of stop-go policies, or of the disruption that they can cause. Nor does there seem to be *genuine* appreciation of the fact that immigration could make the country culturally more exciting and economically more dynamic. The American notion of the 'melting pot' or the Australian recognition of the benefits of an ethnically varied society have little equivalent in the immigration debate in New Zealand.

Perhaps as a result, some of the more significant changes in migration patterns were almost forced upon New Zealand from the outside - and have been accepted reluctantly, passively and reactively. This was the case, for example, with Pacific island immigration since the 1960s and the growing emigration of New Zealand-born professionals since the 1970s.

In most respects, immigration policy of course reflected wider social and economic policies. Now that these have undergone a break with the past, it is worth asking whether immigration policy, too, should not shift to a more open, growth-oriented, long-term approach. Academics and employer organisations have raised this question repeatedly in recent times, and appear to answer increasingly in the affirmative.⁵

Controls on Immigration: Recent Developments

Between 1986 and 1988 a new set of administrative policies was put in place.⁶ The 1986 regulations conformed to past patterns; their adoption was no revolution. They covered three

⁴ Simon (1989); Vincent (1988).

⁵ Franklin (1978, 1985); Poot, Nana, Philpott (1988); Immigration Symposium organised by the Top Tier group of employer organisations, 22 March 1989.

⁶ For full details, see Burke, *Review of Immigration Policy*, August 1986.

categories of permanent immigrants: economic/occupational immigration, family reunification and humanitarian/refugee admission. The long-established freedom of movement of New Zealand and Australian citizens across the Tasman was maintained.

The objectives of the policy were to regulate immigration so that it was consistent with *current* economic and social policy, in particular to avoid additional stress to the labour market, housing and community services. Other objectives mentioned in official documents were to enrich the multi-cultural social fabric, to facilitate the full participation of immigrants in New Zealand life and to maintain the health, safety and good order of New Zealand society. The right to decide admission was retained by the government alone, subject to the 'principles of natural justice and fairness'. Immigration controls were framed in such a way as to give a fair amount of leeway to administrative decision making. The administration of immigration policy was the responsibility of the New Zealand Immigration Service of the Department of Labour.

– *Occupational Immigration*

The category of occupational immigration has, at least since the mid-1960s, been used as an instrument of labour market policy. Consequently, immigrant numbers under this category have fluctuated greatly, reflecting fluctuating labour market conditions and specific skill shortages, although with an inevitable lag.

In the first instance, intending migrants were required to have a firm job offer and to meet the requirements of the so-called Occupational Priority List (OPL), which contained designated occupations in which employers were allowed to recruit overseas without prior, case-by-case approval. The list was compiled and finely tuned on the basis of data obtained in the six-monthly nation-wide Job Vacancy Survey, in consultation with unions and employer organisations. Detailed information - on, for example, the phase-down of major projects, the availability of specific skills, and results of local training programmes - was also taken into account. In the words of the policy: "It is necessary here to strike a careful balance between ease of recruitment and encouragement of local training efforts".⁷ The rules were such that there was wide scope for arbitrary administrative decisions, as well as political and interest-group influence. New Zealand was not overtly operating a system of annual immigration quotas but it used the feedback from the labour market and from the organised interest groups as a quasi-automatic rationing device. The result - as in most other countries - was that open competition for jobs by immigrants was prevented and much labour market flexibility was sacrificed. In essence, this category of immigration worked as an industry-sponsored settlement scheme constrained by rules based on short-term labour market conditions.

There were some exceptions to the general requirement of conforming to the OPL: New Zealand employers could in specific instances demonstrate to the government that no New

⁷ *ibid*, p. 18.

Zealand resident was available with a specific, required skill or able to be readily trained. However, negotiations with the administration over such cases took time. Employers in a hurry to fill a vacancy therefore did not necessarily try this avenue to obtain skills and labour. Moreover, limited numbers of citizens of the Netherlands and Western Samoa could come in without the OPL test, if they had a firm job offer.

The basic logic and the practical administration of the Occupational Priority List was criticised widely. Its use implicitly assumed that an existing vacancy indicated a future contribution of a skill category to overall economic growth or that the officials who drew up the list had such foresight. Neither assumption seems justified - in reality, the fact that there is no reported job vacancy may only indicate that certain industries have not yet been created.

Indeed, the OPL seemed to be a piece of administration full of self-defeating and counter-productive detail, trying to centralise elusive market knowledge about supply and demand in thousands of different occupational categories. Much relevant knowledge was averaged out (for example, assuming that a foreign joiner is equivalent to a New Zealand-trained joiner, although much finer skill differentials may be of crucial importance to a specific job). The gathering of knowledge also took a long time, so that the current immigrant inflows reflected past rather than present skill shortages. Having demonstrated a vacancy by advertising, employers were expected to hold that vacancy open for a long time - an unrealistic imposition where markets are continually changing.

Administering the OPL procedure consumed scarce public resources and imposed excessive compliance costs on business. The apparent activism of regular consultation on the OPL formula may have helped to defuse conflicts whereas a more open, long-term strategy might not have been readily accepted. Its main merit may indeed have been to disguise by bureaucratic procedure a conflict between organised interest groups that had not been resolved in open, rational debate - or, rather, a conflict in which organised interest groups should have been granted no say at all because their interests tended to be at cross purposes with the national interest in overall economic growth and labour market competition. The OPL procedure took little account of the common interest of all New Zealanders in dynamic economic growth and ignored the fact that immigration is primarily a supply-side policy which should be guided by steady long-term strategies and not six-monthly stop-go tactical shifts. It only served to make New Zealand less attractive to potentially valuable migrants who were likely to grow impatient with administrative uncertainties and detailed, changing regulations.

In March 1990, the Minister of Immigration announced the elimination of the 'whole idea' of occupational immigration, including the OPL.⁸ Instead, the selection of immigrants is to be based on a general policy of attracting skilled people, using an as yet undefined points system encompassing qualifications and experience, family links, age and "ability to settle". Those

⁸ A. King (1990a).

qualifying would be able to enter New Zealand without first searching for a job. As an interim measure,⁹ she announced that permanent residence would be allowed to those not qualifying under the current occupational priority list if they could show a minimum level of skills and qualifications and an offer of a full-time job - either a job requiring a trade, technical or professional qualification that involved three or more years' training and at least two years' work experience, or a job requiring at least five years' training and/or work experience, including a minimum of one year of formal training.

Once fully developed, the new scheme should prove considerably more flexible than the OPL system. If the points system is simply constructed, it has the potential for reducing the amount of administrative resources absorbed in the selection of immigrants. The problems arising from interest group involvement in specifying acceptable categories of immigrants should also be reduced (although this depends on the policy adopted by the Immigration Service in 'valuing' foreign qualifications - including any consultation on such valuations). As a result of the emphasis on general skills rather than occupational categories, and the dropping of the requirement of obtaining a job offer before immigrating, the problems of lags in filling job vacancies through immigration should also be reduced. The new policy will also be more flexible with regard to changing skill requirements, and changes in the occupations of immigrants. Here again, however, its success will depend on the flexibility of definitions of skills, qualifications and experience used to assess the desirability of immigration applicants.

– *Immigration by Nationality*

In 1986 the government removed a vestige of the 'white New Zealand policy' by abolishing the rule that gave preference to migrants from 'traditional source countries' (defined to mean Britain, as well as northwest Europe and north America, but excluding other traditional migrant sources such as China, Greece or Yugoslavia). Since 1986, only strictly personal criteria like skills, English language ability, qualifications, adaptability to life in a multicultural society and capacity to settle have officially been regarded as relevant. As a rule, personal interviews are conducted with potential immigrants to evaluate these qualities.

This apparent change in policy has as yet led to little change in the composition of the migrant flow by country of origin. One reason for this is that New Zealand immigration officials are predominantly located in traditional centres of migrant intake overseas so that intending migrants from non-traditional sources face additional barriers to entry. They may not be able to obtain relevant information about the latest controls over immigration to New Zealand, and they have to apply in diplomatic missions in third countries (for example, Israelis who want to migrate must apply in The Hague).

⁹ A. King (1990b).

– *Business Immigration*

A separate category in economic immigration provides for the admission of entrepreneurs and businessmen. Traditionally New Zealand policy attracted people in waged or salaried employment who were sponsored by prospective employers. Since 1978, however, overseas entrepreneurs with a proven ability in self-employment have been allowed in irrespective of age, occupational or national-origin qualifications. In a way, the government has in this instance assumed a sponsorship role. Applicants are required to demonstrate to the government a "proven ability or record in business or industrial or managerial or technical fields on the basis of which the prospective immigrant could be expected to make a success of their chosen vocation in New Zealand".¹⁰ According to the latest set of policy instructions on the administration of the 1986 Immigration Act,¹¹ proposals for business immigration must be accompanied by a statement of intent to invest in a certain type of business activity. Bureaucratic scrutiny of such proposals can be a time-consuming administrative process which may well induce some potential immigrants to take their capital and expertise elsewhere. Intending immigrants must also show proof of being able to finance their initial personal establishment costs (at present NZ\$200,000, though most bring in more). In addition, intending business migrants are required to have access to substantial investment capital. According to private immigration consultants, 'passive investment' (in real estate or other property) is not favoured.

Since 1986 the policy has been applied more flexibly. Intending business migrants need no longer submit detailed predictions about profits and losses in their first three years. Once admitted, there is no requirement for the business migrant to proceed with the proposed investment venture. The freeing-up of business migration and the concurrent removal of controls over economic activity have led to a rise in business migration to about 1,500 annually, mostly from Hongkong and Taiwan.

The current rules on business migration still require officials to evaluate the prospect of business success by scrutinising an applicant's proven ability and track record in business or industry. This is reminiscent of the problematic post-war practice of bureaucratic licensing of private investments. The practice of screening business proposals assumes that past performance in the home country is a good predictor of future performance in New Zealand and that officials are somehow able to pick future winners in business. The reliance on a proven track record is likely to have biased the business migration programme against young entrepreneurs in favour of older people or people who wish to retire with their money in a pleasant environment. Further, business migrants cannot be forced to keep capital in New Zealand since international capital transactions have been liberalised. The reliance on a proven track record also ignores the fact that past business failures may produce particularly

¹⁰ *ibid*, p. 20.

¹¹ New Zealand Immigration Service, *Immigration Instructions, Part II* (Nov. 1988), *mimeo*, Chapter 7.

circumspect entrepreneurs who might become valuable members of the New Zealand community.

Several thousand business immigrants have been admitted over the past decade, but reports indicate that New Zealanders are critical of the fact that some such immigrants have chosen New Zealand as a place for semi-retirement, rather than dynamic job creation, or that they have failed in their New Zealand ventures - which is, after all, only normal in business.

– *Family Reunification and Humanitarian Admission*

A further category of immigration is family reunion with close relatives. Up to 1974 the bulk of family reunification (involving British and Irish families) was unrestricted. A concern with the limited availability of housing and welfare services led the government of the day to restrict such immigration to spouses and dependant minors of New Zealand residents, as well as parents and sole remaining members of the immediate family. These restrictions were further tightened in 1979 and modified again in 1986 and 1988. Parents may now move to New Zealand if the majority of their family reside here, and brothers and sisters of residents may come on certain restricted conditions. One problem with this category of migration has arisen because of the South Pacific custom of adopting children within the extended family. The administration now recognises adopted children in these cases as if they were natural offspring.

Humanitarian admission, mainly of refugees designated by the United Nations High Commissioner for Refugees, is the third large category of permissible immigration. A total of about 17,000 refugees have been accepted since the end of the second world war. To place this in perspective, it should be recognised that this constitutes only about 0.5% of New Zealand's present population, and that there are presently well over 10 million involuntarily displaced people in the world. Refugees are normally sponsored by voluntary organisations, mainly church groups, which do, however, receive taxpayer funds for this. The New Zealand experience seems to confirm the observation made elsewhere that voluntary organisations, by comparison with state bureaucracies, are relatively efficient in delivering support services and are capable of combining material support with the detailed information, direct advice and personal sympathy that make temporary welfare support effective. The use of voluntary community organisations also, of course, determines who is selected by the government under the refugee category: the readiness of New Zealand citizens to sponsor refugees and to respond with sympathy and practical support are critical ingredients in refugee programmes. The response naturally differs from one national group or race to another.

Administrative Issues

In addition to legal, permanent migration, there are of course many short-term visitors to New Zealand, in recent years about 1 million per year. Most are admitted without visas. New Zealand not only attracts many tourists, but also visitors from the small, isolated Pacific island

communities for whom New Zealand often serves as a point of contact with the wider world. Short-term visitors are as a rule not allowed to work, but there is some flexibility for young people and for visitors from Fiji, Tonga, Western Samoa, Kiribati and Tuvalu.

Temporary entry may of course lead to illegal overstaying. Current estimates are that there are about 15,000 such cases, mainly in the Auckland area. In the past, there have been occasional crack-downs and deportation actions, and New Zealand society - like many others - has had to come to grips with the conflicting aims of enforcing lawful limits to immigration and of adhering to a tolerant, welcoming and idealistic attitude. If visitor flows increase, and if travel continues to become cheaper and to come within the reach of more people from relatively poor countries, these conflicts will increase, as they already have elsewhere.

It has been mentioned that there has been an open labour market with Australia. New Zealand and Australian citizens are free to settle in either country, but the net flow has at least until recently been strongly in Australia's favour, especially in the case of young people. Despite official declarations to the contrary, it is probably true that New Zealanders see relatively more merit in the arrangement than Australians. This is not only a matter of relative size, but also reflects Australia's gradual re-orientation towards Asia. Australians are simply less concerned with New Zealand than is the case the other way round. This became evident in 1981 when Australia imposed a unilateral passport requirement on trans-Tasman travel.

In recent years there have been reports that intending migrants to Australia who cannot achieve direct entry first seek migration to New Zealand as a form of back-door entry to Australia. There have also been reports that some Vietnamese refugee settlers in New Zealand soon migrated onwards to Australia. As yet this 'open backdoor' to Australia has not been perceived as a problem, but the Trans-Tasman Travel Arrangement must be seen as imposing some limitations on New Zealand's sovereignty over its immigration policy. Were New Zealand widely seen as a distributor of settlement rights to Australia, the present freedom of movement across the Tasman would quickly come to an end. The trade-off between the freedom of New Zealanders to move to Australia and the freedom of the sovereign nation of New Zealand to reshape its immigration policy without constraints will play a role in the discussion of possible future immigration policies (Chapter 6).

It is easy to come by reports about problems with the administration of immigration policy. This is not surprising as any limitation of international migration will be seen as discriminatory by some people. There are reports of intolerable bureaucratic treatment of 'immigration supplicants', administrative delays in deciding specific cases and long queues in front of immigration offices. In some instances, business migrants from rich countries in Europe or Asia complain because they are used to higher administrative standards and do not readily accept having to wait in line with relatively patient Pacific islanders. These situations, along with complex, frequently changing administrative procedures, have created an opportunity for specialised, paid migration agents to deal with the immigration bureaucracy

on behalf of their clients. It has been reported that one Hongkong company specialised in migration to New Zealand employs no fewer than 17 people.¹²

At another level, there have been problems with the system for appeals when an application for residence is rejected - in particular the combination of the ability of applicants to remain in New Zealand while an appeal is being considered with the right to repeat appeals that have been officially rejected.

Changes in immigration policy announced in March 1990 may go some way to reducing these problems. The simplification of selection criteria should reduce the costs of deciding whether any application is likely to succeed, thereby reducing the transaction costs of administering the scheme and reducing the time spent on processing applications. The removal of the right to multiple appeals¹³ should also reduce administration costs - and the risk of 'bad' decisions should also be reduced by the simplification of selection criteria. Whether administrative savings are enhanced by the decision to accredit immigration agents will depend on the criteria for accreditation. Care will need to be exercised to ensure that this does not simply become a mechanism by which accredited agents can reap monopoly rents. (Agents will continue to be involved only in assisting in the preparation of applications and advising would-be immigrants on the likely success of their applications. Decisions on applications will remain the prerogative of the Immigration Service.)

The Process of Settlement

As soon as new settlers arrive they are considered as equals under the law and are given equal access to all welfare services. The cost of additional clients of readily available welfare services has frequently served as an argument against more open immigration and against immigration by groups who do not share the British restraint in welfare-taking or who are accustomed to living standards well below New Zealand welfare minima. This reflects a basic difficulty with maintaining the value of existing citizens' 'rights' in publicly supplied or collectively owned goods and services, be they benefit systems or 'free goods' like empty beaches and clean air. The real 'problem' here, however, is not with immigration, but rather with inadequate definition of property rights, and at times the inappropriate allocation of responsibilities for such services to the government rather than to private organisations. As a Canadian commentator has argued with regard to his own country's resistance to immigration: "My assessment is that Canada's problem regarding immigrants is not due to a shortage of liveable property but an excess of freely available resources. Looked at from the other side, we have an excess of unallocated property or property rights. The difficulty

¹² *The Evening Post*, 15 February, 1989, p. 27.

¹³ Here the proposal is to create an independent tribunal to review applications, although the Minister of Immigration will still be able to review 'exceptional' cases.

emerges from the fact that although they have no formal rights, many Canadians feel that they have traditional property rights in many of the unallocated areas".¹⁴

Unlike some other immigrant countries, New Zealand has not so far set up many specific migrant services paralleling services for existing citizens, except for an Inter-Departmental Committee on Resettlement and the public provision of English language classes. There is as yet no such thing as a Department of Ethnic Affairs, though a Ministry of Pacific Island Affairs has recently been created. Judging by experiences in countries that provide specific post-arrival services for immigrants, its mission - to serve as a guardian of Pacific islander interests in New Zealand and to close gaps in education, employment, health, housing and economic status - bears within it the seeds of positive discrimination and hence the potential for conflict with other New Zealanders. There is now also a more visible role for the government-supported Ethnic Affairs Council, again setting the stage for rent-giving and rent-seeking along racial-ethnic lines in exchange for political support. Such positive discrimination normally leads to conflict.¹⁵

In March 1990, it was announced that the government was looking at new measures for assisting in settlement, including arrangements for the teaching of English as a second language and education on aspects of the New Zealand way of life. This would be funded by a levy on the general category of immigrants. There is also a proposal for 'post-settlement' research aimed at assessing the economic and social effects of immigration. Such initiatives bear in themselves the seed of costly bureaucracy.

To date, treating new arrivals as equals - and in a friendly, welcoming manner - has undoubtedly promoted integration. Neither the new arrivals nor any bureaucratic interests have had a motive to retain their separateness in order to solicit tax funds to maintain ethnic groupings, as has been the case in the often divisive ethnic politics of the United States, Canada and Australia. As a consequence (and because the number and the diversity of new settlers was limited), New Zealanders have so far probably found it relatively easy to accept new settlers. They meet them as equals and on an individual basis, rather than encountering them as organised ethnic groups who are seen as clients of the state and a burden on the general taxpayer. Positive discrimination in favour of new settlers and bureaucratic meddling could easily change this fortunate tradition.

¹⁴ Walker (1988), p. 5.

¹⁵ Sowell (1990).

Chapter 4

Discovery, Growth and International Migration

"Market principles suggest that immigration in a competitive economy increases output and improves productivity."

US Congress, *Economic Report of the President* (1986), p. 221

"The [immigration] story is... less problematic in a modern economy such as the US is today, where land and other natural resources are relatively unimportant... The crucial capital nowadays is "human capital"... and migrants bring this human capital with them. Furthermore, nowadays much physical capital is created sufficiently quickly so that... an immigrant with average skills and earnings probably has a negative (partial) effect on natives' computed per-person income for only a short time. And the longer-run dynamics of the creation and replacement of physical capital are such that the whole community is eventually caused to be better off."

J.L. Simon (1989), pp 6-7

Policies affecting the long-term future of a nation, such as immigration, should be guided by a vision about what sort of a society the present generation wants to leave behind. Such a vision needs to be based on an understanding of how societies evolve economically and culturally. This chapter examines some aspects of social and economic evolution to clarify the context in which future immigration policy should be considered.

It is important to see the role of immigration policy from the broader perspective of the overall pattern of rules, traditions and mores that define the structure of societies and of social change. The function of this broader perspective is two-fold: it will help us both to understand where immigration policy fits into wider structures of government policy - including its place in the broader constitutional framework - and to perceive the significance of immigration policy, as distinct from other legislation or social structures, in determining the attractiveness of a country to prospective migrants.

Immigration policy is just one element in a range of policies that may influence the extent to which the citizens of any country can benefit from the existence and activities of the world beyond its borders. Traditional economic trade theory, for example, saw flows of goods between countries as a means of enabling them to take advantage of each other's different resources or knowhow and of raising and equalising living standards across countries. Such trade was seen as a *substitute* for the movement of either capital or people - trade could bring all the benefits of moving to greener pastures, without anyone actually having to leave home. A central argument of the present chapter is that trade and migration flows are *not*, in practice,

¹ The contents of this chapter follow fairly closely on W. Kasper (1988).

perfect substitutes for each other; instead, the *direct* interaction of people from diverse backgrounds and with diverse knowledge yields benefits over and above those which can be obtained by trade alone. From this perspective, trade, travel, joint ventures, the transfer of technical information or capital, and migrant flows should be seen as *complementary*. To draw the greatest benefit possible from interchange with the international community, we should therefore be pursuing excellence across the whole range of policies that affect these activities.

With regard to the second point, it must be remembered that the attractiveness of a country, both to residents who might otherwise leave and to prospective immigrants, is not determined by migration policy alone. Rather, it depends on the attractiveness of the much wider range of rules, traditions and attitudes that make up that country's cultural and economic order, as well as all aspects of government policy from environmental legislation, to labour market regulation, to the welfare benefit system - in short, on the full range of attributes of 'citizenship' of that country. An understanding of how these factors interact will be crucial to the design of immigration policy. This issue will be considered further in Chapter 6.

The Nature of Socio-Economic Evolution

A useful framework for understanding the long-term development of social and economic life is the theory of competitive, evolutionary learning about sets of values and solutions to human problems developed by the Austrian economist and philosopher Friedrich Hayek.² This framework is highly relevant to the New Zealand immigration debate. If society is opened up to varied immigration and people are free to pursue their interests subject to sound general legal and moral norms, they will observe that certain attitudes, institutions and solutions to production which immigrants implement are more successful than others. This can lead in turn to voluntary imitation of successful ways of doing things. People who compete with one another or work in close association learn from each other. Superior ideas - not only grand scientific discoveries, but also the million fragments of practical knowhow - thus spread in an evolutionary process.

This happens not by a centrally conceived prescription or someone's design imposed from above, but by spontaneous 'catallaxy' (the exchange between people) and imitation. What is considered to be good music, a good joke, a good product, a good production process, an efficient way of doing business or working, a good method of organisation to solve human problems - all this evolves in the competitive market of ideas and by the interaction of individuals. In the process of this voluntary, self-motivated interaction, diverse information and differing viewpoints are readily taken into account, and the direct participation of all members of society is facilitated.

Such learning processes can only be efficient if society fosters the institutions which facilitate the creation, testing and dispersal of useful knowledge, and which offer incentives to do so.

² F.A. Hayek (1979), especially pp 53-176. See also G. Radnitzky (1987).

Social institutions that reduce the transaction costs and risks of learning are, in particular, the rule of law and the equality of everyone before the law, a market free from inappropriate interventions by governments or cartelised groups of suppliers, price level stability, and secure and clearly defined property rights which ensure that people can enjoy the fruits of risk-taking and success in the market place. In conforming with these principles, the reforms of recent years have created many of the necessary preconditions for the evolution of this kind of spontaneous learning process in New Zealand.

A society in which progress is based on free choice and learning will contrast starkly with societies modelled on a collectivist, constructivist approach. Collectivists begin by constructing abstract models about the 'ideal' society - often in the form of cohesive ideologies - and then seek to impose them by moral suasion or force. This approach is sometimes called 'social engineering'. It played a dominant role in 19th century reformist thinking, not only shaping the policies which were to emerge in Eastern Europe and China, but also serving as the guiding vision of how to create a better, more perfect society in 'Western' economies such as New Zealand. Inspired, well-meaning leaders (however selected or appointed) took upon themselves the role of defining a more perfect social order - acting from above to coerce 'desirable' outcomes.

Collective ideologies often appear attractive. They tend to be simple and coherent, and are therefore readily preached and understood. They normally inspire those who hold them with a sense of superiority and mission. But they also tend to lead to xenophobic hostility against dissenters and outsiders. Hordes of gold miners, Chinese coolies, independent individualists, and disorderly people from diverse cultures, who do not readily conform with a mandated social order, have to be kept out because they threaten 'social cohesion'. They might even (heaven forbid) challenge the prevailing social model by becoming more successful than others. Reformist, constructivist systems therefore tend to be inward-looking, insular, and somewhat distrustful of deviant outsiders and individual success. Reinforcing this, changes in the world outside are often represented as chaotic and disturbing.

In extreme cases, constructivist ideological systems are presented as utopias in which everything is subordinated to one or a few dominant goals. But the subordination of everything under one or a few dominant goals also violates many other goals of a pluralistic society. Collectivist systems, which are inspired by grand utopian visions, thus tend to disregard, and indeed suppress, the great diversity of aspirations and goals held by individual citizens.

This is not to say that there is no room in any society for collective effort and planning: families and firms tend to act collectively and according to some central authority, whose power is moderated by solidarity and sympathy within the group and by commonly held long-term goals. On a small scale, sympathy, solidarity, knowledge and information unite all members of the group and are capable of informing collective or centralised decision making.

But the mistake social collectivists make is to transfer this successful model to a large modern nation and its infinitely more diverse and complex interests and needs - what Hayek calls the 'extended order'. Neither the necessary knowledge nor the common interest among all members can be mustered by any one person in order to make such a system work for a group as large and diverse as a nation.

The concept of progress by social evolution relies on human rationality. It trusts in individual judgment, and in the value of empowering all individuals to direct their own lives. It mistrusts absolute, sacrosanct truths that are exempt from examination (dogmas). And it leaves little scope for the rigid fanatic. The pragmatic adaptation of ideas to new circumstances is preferred to fundamentalist rigidity. People are seen as resourceful, self-interested choosers who successfully adapt traditions and institutions to newly evolving situations.³ This does not preclude altruism; evolution by competition is not driven exclusively by selfishness. Indeed, ethical rules that bind individuals to each other are themselves a result of social evolution.⁴

Social evolution normally requires openness to external influences. Insular societies can sometimes perpetuate abuse, counterfactual ideas and revalidate them despite the harm that they cause. Only access to knowledge from other societies may be able to dispel such myths. For example, Aztec society adhered for a long time to the myth that the rise of the sun depended on copious offerings of living human hearts. And many New Zealand and Australian citizens believed that copious strike activity was the way to raise the living standards of workers. In such situations, openness to the ideas of other societies can help to dispel harmful myths, as was the case when the Spaniards invaded Mexico and is the case now that more trade and migration links open New Zealand and Australian thinking to insights about how the well-being of workers is secured in reality. In this area, too, the demonstration effects of success are powerful. One demonstration of success, observed at close range, speaks more than a thousand learned treatises.

Another advantage of the evolutionary, competitive approach to economic progress is that changes are implemented experimentally and reversibly. If people imitate their neighbours, they may discover that a new way of thinking or doing things is not, after all, sufficiently rewarding. It can then be abandoned. Changes can also be made gradually by testing whether the cost of adjusting or imitating is commensurate with the reward. Different ways of doing things can coexist for long periods. And different people can coexist. The rich, chaotic social experiment of the American 'melting pot' and its great success in generating economic wealth even for disadvantaged outsiders was only possible in a market economy and in the absence of a system of welfarism. By contrast, collectivist regimes are often incapable of handling diversity and insist on cultural and racial homogeneity and orderly conformity. They

³ These views are similar to those of Karl Popper, who worked for some years in Christchurch, and Karl Brunner. See K. Popper (1945 and 1972) and K. Brunner (1983).

⁴ Hayek, *op. cit.*; Giersch (1989).

therefore tend to disadvantage minorities, work on an all-or-nothing basis, and stress cohesion and uniformity.

In some respects, one might describe this theory of individualist learning and evolution as a Darwinism of ideas and values. But it has nothing whatsoever to do with the group Darwinism preached by totalitarian regimes or political 'entrepreneurs' who organise racial or social groups according to some preconceived notion of their group superiority. The relevant competition and survival of the fittest is instead at the level of ideas. People can mix old and new ideas and will adapt their thinking if it is to their advantage. Whilst no one is protected from adapting, no one need be suppressed. Everyone is challenged to compete and learn. Individuals are free to modify their previously held values and knowledge.

Competitive evolution of course imposes its costs. Some people may not like to be challenged in their old, familiar ways. They may not like to discover that others have a more successful way of doing things. Conservatism has its attractions, as long as one is sheltered from direct confrontation and competition with progress in the rest of the world. Yet societies that are inward-looking and hostile to competition and innovation tend to rigidify and stagnate. Insular groups easily suffer from an 'inbreeding of ideas' and sooner or later have to discover that change is imposed on them in large and hurtful doses or that reforms, when eventually set in motion, are painful and disruptive. Static, insular groups also tend to suffer from losing young non-conformists to more open and dynamic societies.

By contrast, societies which are accustomed to continuing evolution and to the integration of new ideas from elsewhere tend to enjoy more vigorous cultures and economies. The case is convincing that the diversity, the cross-currents and changes of Europe's turbulent history have also been its greatest strength,⁵ and that the long-isolated Pacific island societies suffered from lacking the challenges of change. Britain benefited from the mingling of Celtic, Anglo-Saxon and Norman ideas, as did post-war Germany, Japan, Korea and Taiwan from the influx and absorption of refugees. Likewise, Japan and other countries in East Asia have become successful by adopting and adapting ideas from elsewhere, although in this case they did not, on the whole, transfer knowledge by immigration but rather by reforming their education and training systems and attracting foreign firms and licences from abroad. What has mattered for East Asian growth - and what will matter for New Zealand - is a receptiveness to change and an ability to integrate new ideas into the domestic culture. There is little insular xenophobia, backward-looking conservatism or hostility to new ideas in the dynamic new industrial countries of Asia.

For the competition of ideas to be fruitful, it is absolutely crucial that the basic rules of the game - the guarantee of basic civic and economic freedoms, democracy and the rule of the law - are upheld. The chances for creative learning are greatly reduced if a society has a social and legal order which suppresses the freedoms to move, speak and associate freely and to own

⁵ E. Jones (1981 and 1988).

and dispose of property, and if there is no rule of law, no equality before the law and no democratic government. Evolutionary development is also unlikely to deliver economic growth and job creation when enterprising people are prevented from reaping the rewards for their endeavours (for example because of high taxes or doubts about their property rights) or if people are featherbedded against the need to adapt (for example by means of welfare payments on a needs basis).

Immigration Can Enhance the Wealth of Concepts and Ideas

This analysis of social evolution can be applied to immigrant societies like New Zealand. Immigration of people with diverse skills and knowledge, which have already been tested in different traditional societies, is capable of endowing a country with an exceptional wealth of ideas and solutions. Immigrant societies have the opportunity to capture a much richer 'pool of genes' of ideas than societies without immigration, because much relevant practical knowhow is transferred best if it is embodied in experienced people. On the other hand, there is a natural tendency in immigrant societies which are insecurely established in a new environment, and which have not managed to recreate the full culture of the mother country, to cling to imported ways and values and to be more conservative than the metropolitan societies. But diversity in immigration, as in the United States or Australia, can overcome this tendency and trigger new evolutionary departures and discoveries.

Migration is, of course, not a sure-fire mechanism for the acquisition and distribution of knowledge. But it does have the potential to enrich the culture and economy and to serve as a filter selecting the more enterprising, imaginative and knowledgeable. This is, of course, less the case if migration policy is selective and narrowly focused. Moreover, where immigrants are attracted by assisted passages, more passive 'subsidy-seekers' tend to be selected. If migration is open to all comers, including the desperate pyramid climbers, more competition-oriented migrants will self-select. In that respect, more open, broad-spectrum immigration policies such as those adopted in the United States have worked very differently from the narrowly selective immigration policy adopted in New Zealand. The ideas which open immigrant societies now possess arguably constitute their greatest wealth.

The competition of ideas from different societies often does not begin immediately after the new migrants arrive. Initially, new immigrants tend to conform in order to secure their existence, test the water and learn about the new environment. At the same time, they hold on to many of their values and practices and try to pass them to their children. In countries like the United States, Brazil or Australia it is often the children who compare their parents' values and practices with the values and practices they encounter in the new society. They may have learnt from their parents that alternative work practices, different attitudes to the family and different savings habits are superior to those that they observe among their fellow citizens. In many instances it will only be the children who apply this knowledge in managing enterprises and marketing products. This is compatible with the observation that children of immigrants

have better-than-average economic success in Australia, Canada and the United States. In the United States, for example, children of foreign-born parents earn on average 5% more than children of native-born Americans with similar characteristics.⁶

Some long-time residents may begin to imitate the immigrants' ways. They may, for example, appreciate certain Italian, German or Vietnamese ideas of how to work or raise families. Rigid 'them-and-us' attitudes in the workplace or a readiness to strike, which have been derived from an English, Fabian-Socialist model of industrial relations, may not stand up where workers of different cultural backgrounds mix. Immigrant Mexicans in California or Vietnamese in South Australia, for example, simply organise their relationship with their employers differently; they see striking as a waste of production and a loss of income. Likewise, different cultural attitudes to product quality and delivery schedules tend to spread successfully in industry if that is an important factor in successful competition. New immigrants, bringing in new ideas, may quickly create a new generation of middle managers who can be crucial to economic success and growth. What matters greatly is that new migrant groups can often import a totally different 'business culture'. Newly immigrated workers and entrepreneurs can act as catalysts, as yeast in the dough of the incumbent population.

Evidence from relatively open immigrant societies like the United States also shows that much of the competition of ideas occurs in schools and universities where young people of different cultural backgrounds learn together with surprisingly little prejudice and friction. Someone who had a school friend of Chinese or Greek origin will find it hard to believe a chauvinist community leader who pretends that English ways of doing things are automatically superior, or that traditional English values need not be re-evaluated. In this way, everyone changes and adapts - imperceptibly and voluntarily. In due course, people discover which practices are more successful.

International and trans-cultural migration also stimulates the development of ideas because the challenge of the new environment tends to make people more enterprising. This is especially important in the case of members of minority groups who feel the need to prove themselves in the new surroundings by showing material achievement. Genuine, risk-taking and wealth-creating enterprise has been developed in many societies by outsiders and newcomers.⁷ Many migrants have been stimulated by a new country to discover their own full potential. They have often used bits of old knowhow and adapted it to the new setting, creating entirely new and highly useful knowledge.

This aspect is reduced if the migration process emphasises conformity of the migrants with the old settlers and if it selects only people who fit existing job-market niches. It is also reduced if selection prefers older migrants with proven track records, and the knowledge-generating potential of migration is enhanced when people migrate under their own steam,

⁶ US Congress (1986), p. 225.

⁷ F. Machlup (1962); P. Kilby (1971); R. Blandy *et al.* (1985).

rather than with a subsidy. If the costs of migration are borne by the migrant (either directly or indirectly in the form of an advance payment by a future employer), people with self-confidence and a higher potential to respond constructively to the stresses of settlement are likely to select themselves.

The Opportunities for Evolutionary Learning in New Zealand

Evolutionary cultural cross-fertilisation has of course taken place in New Zealand. Modern New Zealand began with the interaction of Maori and new European arrivals. Both had to test and modify their knowhow, and many Maori were quick to adapt to the opportunities of a market economy. Over the past 100 years, limited numbers of immigrants from different ethnic backgrounds have been allowed in, and have made many valued contributions to New Zealand. Many New Zealanders are even of the opinion that they belong to a truly multi-cultural society. However, compared with some other immigrant nations, New Zealand's population has remained relatively homogeneous. The full potential of open immigration does not appear to have been reaped. On the other hand, many of the preconditions for dynamic evolutionary learning have now been established by the process of regulatory reform. Moreover, New Zealand's relatively stable institutions of law and democracy afford the necessary framework for a livelier competition of ideas and social and economic evolution.

If the benefits of evolutionary change are understood, New Zealanders should not expect to fully assimilate new immigrants. In many subtle ways, traditional New Zealand values would be changed and adapted were immigration stepped up and broadened. New Zealanders would discover that most such changes are welcome ones. And initial learning experiences can whet the appetite for more change. As a result, New Zealanders would become more varied, open and cosmopolitan.

Adaptation and increasing familiarity with the experience of change could also make New Zealand society more perceptive to the needs and potential contributions of the Maori and Pacific island communities. Some representatives of Maoridom appear to be opposed to more immigration because of a fear that they would become a smaller minority and that land and other resources would, as in the past, be competed away. This attitude is unsurprising given New Zealand's history. But control over land and natural resources can ultimately be resolved only through a clarification of property rights, not indirectly by such means as immigration policy. And if immigration were from more diverse sources, Maori might no longer feel confronted by one dominant and fairly homogeneous block of population. They could instead live in a nation of many minorities, where the Maori minority fitted in much better as an equal social group. Greater cultural diversity could indeed facilitate the preservation and evolution of the Maori culture. Moreover, Maori share an interest with all other New Zealanders in a growing and exciting economy and they, too, lose when some of their young people migrate to Sydney or beyond (as is now the case). American research results are relevant in this

context: they suggest that if workers and employers are reasonably responsive to changing conditions, immigrants increase job opportunities, including for native-born minorities.⁸

Evolutionary change and integration can be either helped or hindered by the cultural and ethnic background of immigrants. There can be little doubt that some societies are more pragmatic and open to experimenting than others. People from closed societies who adhere to intolerant ideological views and are unprepared to expose these views to competition, and people who do not have the basic educational and cultural wherewithal to participate readily as equals in New Zealand society, are less likely to enrich the nation. Indeed, they could create costly division and ethnic conflicts in the future. One good test of the openness of a society would be to see how much free mixing and intermarriage of the young are tolerated or encouraged by groups of would-be immigrants.

East Asian and European societies do not, on the whole, adhere to inalterable dogmas and proselytising fanaticism. There are no castes and few religious barriers to social mobility, and a rather pragmatic approach is generally taken to life and society. Migrants from such countries could be expected to approach New Zealand society in a spirit of experimentation and adaptation, while tending to revalidate their own values and solutions where those are found to be superior. These can be argued to be the attributes of good fellow citizens.

Of equal importance to any migration policy will be the attractiveness of New Zealand to highly mobile, educated and ambitious New Zealanders. Sydney, Hongkong, San Francisco and London are full of gifted, skilled New Zealanders who find these places more exciting and rewarding and who greatly contribute to their host countries. Many may one day return and bring back valuable knowledge and drive. But that depends on the income differential between New Zealand and their adopted countries becoming narrower, through a restoration of high productivity growth in New Zealand, and on greater cultural attractiveness. More diverse immigration and an atmosphere of economic deregulation could help to create the right circumstances to attract departed New Zealanders back and also to retain young people who might otherwise emigrate. This would seem to be not the least of the arguments in favour of a more liberal and diverse approach to immigration.

The reforms of recent years, by opening up the economy and promoting individual resourcefulness, have created an important precondition for successful social evolution in New Zealand. Individual freedom and the freedom and responsibility of the market go together.⁹ It is fairly typical that most new immigrants try their luck and succeed in markets, whereas they have been under-represented in non-market areas like the public service or the military. In markets, people with differing habits and ideas can cooperate successfully and constructively, because they need only communicate via voluntary exchanges. When it comes

⁸ US Congress (1986), p. 223; Simon (1989).

⁹ Friedman (1974).

to the crunch, they do not even have to speak each other's language but can indicate their willingness to trade by sign language.

One great advantage of competitive markets is that competitors can ill afford to discriminate on racial or other grounds which have nothing to do with productivity. When product and labour markets are competitive, firms will only survive by hiring workers at rates equivalent to their current productivity. If they pay more, they will go out of business. If they pay less, they will lose workers to other competing firms. This enables people of many different backgrounds to be brought together and to cooperate in the workplace. By contrast, regulated and protected labour and product markets enable firms and unions to discriminate without bearing any of the costs of this discrimination. In a regulated environment, one can afford to discriminate against someone because he or she is Catholic, has a yellow skin or has blue eyes. Indeed, labour regulations are essential ingredients in any system of apartheid or caste structure.¹⁰ Extensive regulation of labour markets hinders social integration and evolutionary cross-fertilisation, whereas markets are blind to colour, race and sex, and thus promote the voluntary cooperation between diverse people that is essential to social cohesion.

Difficulties overseas with immigration from diverse sources have often been the result of barriers to the effective operation of markets or of the suspension of markets in favour of political mechanisms for resource allocation - such as the welfare state, minimum wage legislation, or positive discrimination along ethnic lines. New immigrants often start out with lower than average productivity, because they lack relevant knowhow about the new country. They often band together as a way of economising on the need for such knowhow and acquire it from other members of their own ethnic group. But if the wage system is flexible, they are provided with a market-conforming way of compensating for any initial handicaps by accepting temporarily lower wages. This not only gives them a foothold on the lowest rung of the 'productivity and learning ladder', but it also prevents them from being condemned to stay in permanent immigrant ghettos; they are instead given a means of climbing up the ladder and participating as equals in society.¹¹

It has to be accepted that some new immigrants may initially not generate enough productivity to 'earn' their full claim to existing welfare entitlements - that they initially pay less tax than they receive in goods and services provided by the government. This is commonly used as an argument against immigration. But in New Zealand there have recently been broadly-based moves to turn over to the market many goods that had previously been provided by the government, and to revalidate individual rights and responsibilities. In this sense, the problem of an 'over-abundance' of 'free' goods, mentioned in Chapter 3, is being

¹⁰ W. Williams (1989); T Sowell (1990).

¹¹ American research shows no income differentials for comparable activities between residents and immigrants that have been in the United States for more than five years. "[The evidence] implies that disadvantages of foreign origin diminish, while the favourable effects of self-selection and motivation remain." US Congress (1986), p. 225.

reduced. Recognising, however, that there will always be a legitimate role for the government in providing some collective goods and welfare services, immigration policy could stipulate that new immigrants should have limited access to welfare handouts for a period after their arrival. Such a stipulation, freely accepted as a condition of immigration, could not be regarded as discriminatory and already operates in the case of national superannuation.

To Hinder or to Welcome Change?

International migration will have a great deal of influence over New Zealand's future as a nation. In the final analysis, the nature of this influence will depend on whether New Zealanders welcome or hinder change. A successful, enlivening immigration policy will depend on new ideas and new neighbours being seen as an asset in meeting the challenges of an ineluctably changing world. Economic reforms promoting a shift from inward-looking conservatism to embracing change as something worthwhile have been initiated in New Zealand in the 1980s. This experience is, of course, new and incomplete.

Against the backdrop of a comprehensive vision of social dynamism and evolution, such as that presented here, it can be argued that the economic reforms would have a better chance of success if they were accompanied by a review of New Zealand's exclusivist immigration policies. Some marginal changes away from that tradition have already been made in recent years, but a thorough recasting of immigration policy would complement the comprehensive reform of economic policy to make up a cohesive strategy of nation-building.

Chapter 5

A More Active Migration Policy: Strategic Considerations

"Immigration has moulded our national characteristics as a Pacific country and given our community richness and cultural diversity. It has contributed to economic growth and prosperity... Immigration has been and remains an essential element of this nation's development."

K. Burke, *Review of Immigration Policy*, (1986), p. 9

The Argument So Far

In the preceding chapters, the following main arguments in favour of a more open immigration policy have been developed:

- More immigration would complement the recent economic reforms and could help to translate liberalisation into more economic growth and more jobs. Economic liberalisation and stepped-up immigration would create many new opportunities for enterprising people.
- Immigrants could introduce valuable skills, practical knowhow and entrepreneurship that would enhance the potential for growth. Like international trade and capital movements, the flow of people facilitates transfers of knowledge and efficiency gains.
- Immigration is likely to raise the returns to domestic production factors, such as land, capital and skilled labour. In many instances, scale economies might increase those returns further.
- Immigrants would raise demand and, especially if labour markets were made more flexible, employment. Additional demand would be generated directly by additional consumers who immediately need housing and durables, as well as indirectly by investors who now see higher returns on investment. The import content of higher demand could be financed by the capital which suitably selected immigrants bring with them or by spontaneous voluntary inflows of long-term capital.
- As a result of a more responsive supply potential and growing demand, per capita incomes are likely to grow faster.¹
- Immigrants from diverse sources would raise the tempo of life and make New Zealand more cosmopolitan and culturally attractive.

¹ Poot, Nana and Philpott (1988) estimate that real per capita product would be 3% higher by 2001 if immigration were speeded up moderately. This margin seems extremely conservative and underrates the potential for innovation in a deregulated economy, as the authors themselves recognise (chapter 4).

The net effect would be to make New Zealand a more attractive location for internationally mobile people, entrepreneurs and capital, both for people currently overseas and for New Zealanders who might otherwise leave. New Zealand developments could well reconfirm the famous dictum of an expert on long-term economic trends, Nobel Prize winner Simon Kuznets, that social optimism and population increases go hand in hand. After all, most people who come to New Zealand to make a new start would be driven by optimism about their life opportunities and would do everything in their power to realise their aspirations.

Stepped-up Immigration: Counter-Arguments and Doubts

Immigration of course offers no panacea for all of New Zealand's problems. And a reversal of demographic trends through a change in immigration policy, equivalent to Australia's decision in the 1940s to 'populate or perish', would have its downside, too:

- Depending on the selection criteria for immigrants, the likely effects of stepped-up immigration on the wages and job security of low-skilled New Zealanders are less clear-cut than the effects on overall prosperity. The initial effects may include some job replacement by new immigrants, especially if rigid wages and fixed work practices put resident New Zealanders at a disadvantage vis-à-vis immigrants who have less rigid attitudes about employment. Overall, however, immigrants may be expected to be complementary to most New Zealand workers. And the additional demand they generate will create jobs, from which low-skilled New Zealand workers can also be expected to benefit. That this will in fact be the case is validated by experience in the United States, where much research has been done on this issue. The Council of Economic Advisors concluded from a survey of research that "[s]tudies ... have found no specific evidence of unemployment among native-born workers attributable to immigration".² Econometric analyses in New Zealand suggest similar results.³ Regional case studies are also highly instructive. For example, Los Angeles County had enormous legal and illegal immigration during the 1970s. But these immigrants were quickly absorbed and the local unemployment rate, which had been above the national average in 1970, was below it in 1980.⁴ This outcome of course had much to do with the high degree of labour market flexibility in the United States.
- A degree of adjustment would be necessary on the part of resident citizens. Some new settlers would not accept New Zealand altogether as they found it, but would try to modify it. This would confront New Zealanders with the challenge - and the opportunity - to learn new ways of doing things. In the process, they might find that some old, cherished ways were no longer feasible, while others would be reinforced as valuable and worthy of preservation. This learning process should not be seen as a

² US Congress (1986), p. 223.

³ J. Poot (1986a).

⁴ K. McCarthy and R. Valdez (1986), p. 53.

threat to 'New Zealand culture'; instead, it is only through an ongoing process of testing and adapting, choosing what to preserve and what to transform or reject, that the culture will stay alive. Stepped-up immigration could play an important role in this process.

- New Zealand's legal and democratic system is undoubtedly sufficiently robust to cope with an increased migrant intake - particularly if immigrants come from many sources and are selected with cultural adaptability in mind. However, it is possible that some immigrant groups, especially those from very different socio-legal backgrounds, would challenge this system. The result could be ghettos and fringe groups isolated from, and even antagonistic towards, the basic tenets of traditional social life and the associated legal rules adhered to by existing citizens. In one sense, this can be seen as a challenge to the government to ensure that the legal system is clear, consistent and robust - to the benefit of all New Zealanders. However, the possibility that there will be some immigrant groups whose *modus vivendi* is fundamentally incompatible with the maintenance of the New Zealand legal system cannot be excluded. A legitimate function of immigration policy may therefore be to exclude individuals unprepared - for example out of inherited religious convictions - to conform with a general interest in preserving a system based on individual liberty and the rule of law.
- New Zealanders would also have to accept changes in many informal codes of conduct. The law is not only made up of formal legislation, but also of many tacit rules and maxims that are essential to effective human interaction. Rules of civility and civic virtues, like honesty and fairness, are important assets which are rightly valued by most New Zealanders. It is possible that large-scale immigration from diverse cultural backgrounds would put strain on this system and that, because of this, some aspects of public life might become more stressful. In less homogeneous societies frictions emerge because certain codes are not automatically shared by all. Some such frictions may well prove fruitful, but others may have to be counted as costs to society.
- Large numbers of new arrivals might exert fiscal strains on welfare services. One result may be pressure to supplement public welfare provision with more private schools, hospitals and charities. Another may be pressure to reform the welfare system so as to remove some of its more counterproductive incentives. Much will, of course, depend on how much public welfare new immigrants are entitled to. If the present welfare system were continued and New Zealand attracted too many poorly skilled people from less developed countries, great strain would be placed on the system.

The net fiscal effect of immigration - the net burden that it imposes on the public purse - will depend not only on immigrants' use of welfare and other publicly funded services, but also on their contribution, through the tax system, to government revenues. The findings of a study by the Council of Economic Advisors regarding recent American immigration are worth noting in this context: "Taxes paid by immigrants are estimated

to be higher after 10 years in this country, on average, than taxes paid by native born Americans... On the whole international migrants appear to pay their own way from a public finance standpoint".⁵

- Added population growth would have an impact on New Zealand's natural environment. Some land uses would be changed in favour of buildings and infrastructure. There would be more pressure on some environmental assets. However, the relationships between population and nature are not linear and mechanistic. A more dynamic and affluent society can spare more resources to protect the natural environment, and spend more to develop spaces for the enjoyment of people. After all, the most abominable destruction of a liveable environment can be found in poor countries, including the non-market Eastern bloc economies, whereas the rich Swiss have the resources to make their land attractive and self-sustaining. In this context, it must be remembered that environmental resources are not 'free' goods. The clarity with which property rights in these resources are defined, and the ability to transfer their ownership to those users who value them most highly, will therefore become increasingly important as immigration is stepped up. Reform of resource management law to enable greater use of market mechanisms may in this sense be seen as a corequisite of immigration reform.
- There would be more and larger concentrations of population. These are part and parcel of adding to cultural excitement - arguably most urban centres in New Zealand have not reached the critical mass for the cultural diversity and dynamism that New Zealand tourists appreciate when overseas. However, it would be wrong to extrapolate from the past experience of the disproportionate growth of Auckland, which is to a considerable extent the consequence of protection-based manufacturing growth and regulated land rents and not the inevitable result of national population increase. All countries with long-standing protectionist regimes have found that 'tariff factories' are massed at the main ports of entry. The massive conurbations of Sydney, Melbourne, Buenos Aires, Manila and many new cities in the developing countries are the direct consequences of tariff distortions and other government-created rigidities. In a less regulated market economy, by contrast, differential land prices will encourage many new arrivals to settle in distant and cheaper places, including the South Island. Many newcomers will seek a competitive opportunity where family homes and industrial land are cheaper. Much will also depend on the competitiveness of the transport and communications systems. (Indeed, the abolition of monopolies in public and private transport and communications is crucial to a more dispersed regional growth pattern.) The alternative to more immigration might be that numerous, formerly prospering, rural communities die out and that much valuable infrastructure becomes useless.

⁵ US Congress (1986), p. 232. This finding is further underpinned by J. L. Simon (1989).

- After 2010, New Zealanders who now work and save will be among the growing numbers of pensioners dependent on what might be a relatively small and stagnant workforce. This would give rise to increasing burdens on the current labour force, be it in the form of taxation to fund public support schemes, or through impositions to service private savings and amortise the capital owned by elderly people. It may indeed become necessary to raise the retirement age and rates of participation in the labour force. But the scope for these measures to counter the economic consequences of aging is limited. Immigration could help to rejuvenate the age pyramid and postpone the hard-to-manage pensioner burden. It could indeed make the problem of providing for the elderly permanently more manageable by helping to accelerate economic growth.

In the ultimate analysis, aging societies can only provide for old age in two ways: (a) by forming capital now and ensuring that skilled people will enhance capital productivity, so that future incomes will be high, and (b) by foreign investment, which places their savings in the hands of productive people elsewhere, who will repay interest and principal when the present savers go into retirement. Different arrangements about how the current savings are guaranteed (by the state or by commercial intermediaries) cannot avert the basic fact that present savers will in future only have that living standard which is supported by the incomes generated by a future generation, be it at home or overseas. Pensioners can after all only consume those goods and services produced during their retirement by those who are then active. The savings (the IOUs they hold) may give them some legal claim on part of that production, but no guarantee can protect them from the consequences of a lesser flow of production and a lower productivity of capital, if there are too few workers.

New Zealanders who expect to retire after about 2010, when the pensioner burden is likely to rise appreciably, must be greatly concerned with the number and productivity of workers in the labour force after that year. They must take a keen interest in having their pensions secured by the productive efforts and incomes of numerous younger people, including immigrants.

- Many established New Zealanders may not like the onslaught of competition from aggressive, acquisitive newcomers. Existing market niches and unearned rents will be challenged. Although many of these challenges are coming anyway, it would be easy to blame them on immigration. Other types of challenge might even be much more personal: people with greatly different living habits might become neighbours, new sports might replace old pastimes, one's grandchildren might look rather different... If we can go by experience elsewhere, these changes will lead to some initial bewilderment, social disharmony and hostility. However, in the longer term familiarity, cooperation in the market place and broader social interaction tend to erode hostility.

Alternative Paths to Economic Growth

Stepped-up immigration is of course not the only way for New Zealand to generate economic growth and job creation. Economic growth flows from many interdependent sources. Various complementary sources of growth will need to be combined if New Zealand is to catch up with the other OECD countries.

Economic growth could be achieved by much higher capital and skill accumulation at home, by borrowing capital from overseas for capital-intensive development or by a more intensive exploitation of New Zealand's abundant natural resources. New Zealand could also gain by seeking out further profitable niches in international markets. A small economy like New Zealand's does not need all that many market niches in the huge world market to prosper. Each of these approaches would help to raise productivity, and the prospects of their doing so has been enhanced by the economic reforms carried out to date.

A key problem in achieving high and sustainable growth, and thus ongoing improvements in the well-being of New Zealanders, will be to improve the mechanisms for acquiring relevant technical knowledge and specialised economic and commercial knowhow. Knowledge is central to growth in whatever shape or form, and this long-isolated economy does not have a great tradition of knowledge acquisition (Chapter 1). For a long time government protection and isolation has enabled New Zealanders to avoid the risky process of practical, growth-oriented learning that comes with exposure to competitive international markets. The acquisition and utilisation of relevant knowledge is costly and difficult if one lives in a remote island nation. An aversion to acquiring practical industrial knowledge was reinforced by a tradition of simply exploiting available natural resources and relying on the importation of additional knowhow by 'gap-filling' immigration.

This is not to say that New Zealand does not have education standards that are higher than those of many countries, even though New Zealand has slipped relative to countries like Germany, Singapore and Japan. But this on its own is insufficient; there is also a need for economically and industrially relevant knowhow and practical skills - and for continual development, testing and improvement of such knowledge and skills. This can only be stimulated by the constant pressures of competition for market shares; pressures that necessitate product and process innovation. New Zealand's entrepreneurial and industrial culture has had relatively little of this, except (typically) in those agricultural industries that have been exposed to world markets. A crucial task of regulatory reform is to create an industrial culture in which there are strong incentives for knowledge acquisition and for the continuing testing and adaptation of that knowledge.

The regulatory structure as a whole - not just the law with regard to immigration - is important in determining these incentives. Experience in New Zealand following reform in finance and product markets has already shown the potency of competition in generating incentives to innovate, and the effects of such innovation spread well beyond the markets

directly concerned. More immigration is certainly not a substitute for other sources of growth, but it does provide an important complementary factor of supply. Indeed, active immigration may serve as a powerful catalyst, given New Zealand's deeply entrenched tradition of reliance on protecting the second-rate and mistrusting excellence. The alternative could be a relatively long and slow haul to prosperity.

Possible Future Population Increases

On the balance of arguments for and against a more active immigration policy, we suggest that increases in migrant intake would be beneficial to wealth and job creation in the liberalised New Zealand economy of the 1990s. This then raises (inter-related) questions about the size and composition of immigration. It is not possible to state absolute, objective criteria for the actual size of the annual migrant intake or objective norms for a total population capacity. Even so-called 'overcrowded' places like Hongkong are capable of continuing to accept immigrants, because capital investment and technical change can raise their 'absorptive capacity'. In New Zealand, these questions are much less pressing, whatever population growth may be envisaged (Chapter 2). The limits to population growth are not primarily physical, but rather cultural and social, depending on the speed of social change that people are prepared to accept.

It is also hard to predict long-term natural population movements under an expansionist immigration policy, because new settlers may again prove to have a higher fertility than the inhabitants of long-standing and because emigré New Zealanders may return. But one may speculate that an annual addition of around 1% of the population by stepped-up immigration would be compatible with overall population growth of around 1.7%. (This may be compared with New Zealand's historical average population growth of 2% per annum.) A target of 1% population growth from immigration would at present seem to amount to an annual net intake of about 30-40,000 people. If liberalisation of the economy and of immigration were to trigger a population-driven expansion in the economy and in cultural life, many permanently departed New Zealanders might return and some Australians might be attracted to work in New Zealand. If the exodus of young New Zealanders were greatly reduced, annual gross immigration numbers could of course be adjusted to meet policy targets.

A target of 30-40,000 immigrants - which is less than what an old, relatively crowded country like France accepts every year by way of naturalisation - is in excess of most currently expressed views on New Zealand immigration. In a recent study, Poot, Nana and Philpott speak of a *net* inflow of 15,000 people annually,⁶ which approximates a *gross* intake of 30,000 on the assumption that the exodus of recent years continues unabated. If immigration is to be a means of breaking with the stagnant past, sizeable migrant numbers should be admitted and must be retained permanently.

⁶ Poot, Nana and Philpott (1988), chapter 3, Scenario V.

With an annual settler intake of 30-40,000 and an average population growth rate of 1.7% between now and the year 2021, the New Zealand population would then reach 6 million, which is above the present range of official projections (around 4 million). All these figures must of course remain in the domain of informed conjecture. They are only offered here to illustrate the orders of magnitude involved.

Fallacies about Immigration

In discussing immigration policy, priority should be given to the consideration of how the well-being of current New Zealand citizens can best be promoted. As we have already indicated at various junctures, this perspective shows up a number of major and lesser fallacies about immigration.

One such fallacy is sometimes employed to argue for more immigration. Some observers support more immigration on the basis that it will give New Zealand a more important place in the world. A nation's international standing, however, is certainly not related strictly to the size of its population. What matters much more is the originality and creativity of its people and its industries. Nor is it necessary for New Zealand to import more consumers and workers to achieve economies of scale. That argument may have had relevance at a time of protected, closed national markets, but the relevant market for many New Zealand producers since economic liberalisation is the world market. The scale of production need therefore not match the number of domestic buyers in an open economy. The level of industrial productivity has nothing whatsoever to do with the size of the population. Reference to the country with the highest manufacturing value-added in the world demonstrates this: the tiny Principality of Liechtenstein (27,000 inhabitants) has achieved the world's highest manufacturing productivity by specialising in a very few optimum-scale industries, like artificial teeth and sausage-skins!

Another frequently heard fallacy, which we discussed in Chapter 3, is based on the incorrect assumption that the stock of relevant resources or of available jobs in New Zealand is somehow fixed, so that more immigrants would reduce living standards.⁷ The latest embodiment of this view is the neo-Malthusianism of elements of the Green movement. It derives from the conditions of a stagnant, pre-industrial society and has little relevance to modern economies where knowledge is an increasingly decisive factor of growth. Living standards can be increased by more knowledge, without any pre-ordained limit. Where production factors such as space or agricultural land are limited, inventive people have always widened bottlenecks or found substitutes by using new ideas and technologies, as long as flexible prices created the incentive to do so and the economic order created the right framework.

⁷ G. R. Hawke (1985), pp 182-190.

We have dealt with the other durable fallacy of the New Zealand immigration debate, namely that immigrants displace present workers. Immigrants create demand as well as supply. If this assertion were not true, it would be hard to explain why high-immigration countries like Hongkong or the United States have had such extraordinary growth in wages, jobs and living standards. What matters for the nexus between immigration and job creation is that the economy is flexible and responsive, so that emerging disequilibria are self-correcting and all skills and hands are utilised efficiently to create wealth.

We have also addressed the related fallacy that stepped-up immigration would favour the rich and employers but disadvantage low-skilled workers. Income distribution depends on overall economic growth, upward mobility, regulations and taxation. If regulatory reform and immigration create a growing economy, everyone's economic opportunities will be enhanced. A growing society has more upward mobility, as is illustrated by the opportunities for the poor in relatively open immigrant societies like the United States or Hongkong. In these countries desperately poor Mexican or Chinese immigrants have often achieved considerable affluence and job security, because they have joined growing populations in lightly regulated economies.

An idea that has cropped up occasionally in the immigration debate is that immigration gives policy makers control over the size of the population. This is of course not true, since birth and death rates are largely beyond the government's control and emigration is open. The effect of immigration policy on the future size of the population is largely through indirect channels: whether immigrants contribute to economic dynamism, cultural diversity and social optimism. Going by past and international demographic experiences, these factors influence birthrates and international emigration in powerful ways.

A more general fallacy presents immigration as a panacea for all manner of social ills in New Zealand. It can, of course, be nothing of the kind. Slow growth, labour market rigidities, skill shortages, educational deficiencies, shortcomings in the economic order, insufficient enterprise, unresponsive supply systems and other economic rigidities can be alleviated by immigration of the right type, but they cannot be remedied solely by adding more settlers. Rather, the remedies must also embrace a continuation and extension of broadly based regulatory reform, aimed at clarifying property rights, facilitating the voluntary commercial and social interaction of citizens, and eroding statutory privilege. On the other hand, with any return to re-regulation of economic processes and the maintenance of labour market rigidities, more immigration might even *aggravate* New Zealand's problems and depress per capita incomes. The tenor of the preceding discussion of the pros and cons of active immigration was that many of the prospective benefits hinge on freed-up product and factor markets and the establishment of a clear and stable socio-economic order.

Many of the consequences of active immigration can be turned in New Zealand's favour by specific administrative arrangements for migrant selection. These will be considered in the following chapter.

Chapter 6

Criteria for Selecting New Fellow Citizens

"The problem of immigration puts us in a messy world: there may be no set of policies that meets all the objectives or embodies all the values we would like to achieve".

A. Anderson in *Thinking About America* (1988), p. 398

Why Limit Immigration?

One might ask why immigration controls should not be abolished altogether. After all, a nation that has quickly swapped one of the most regulatory economic regimes for a fairly deregulated economy might also be inclined to reform its immigration policy by a drastic step. From a domestic perspective, we might argue that the liberalisation of flows of capital and of goods and services should be matched by an equally substantial liberalisation of flows of people into and out of New Zealand. From an internationalist perspective - the same kind of perspective that argues for liberalisation of world trade in order that *all* countries might obtain the highest possible returns to their resources - we might argue that, by opening the borders to people who would be better off in New Zealand than in their homelands, New Zealanders could make a valuable contribution both to the national economy and to the wider world economy.

There are a number of reasons why, in practice, an open border policy might prove detrimental - and therefore why immigration should be limited or rationed in some way. There is a general concern that if New Zealand, alone among affluent nations, were to open its borders to all comers, many of the 4,000 to 5,000 million people in developing countries could probably muster sufficient resources to move to this country. Large numbers of them might have the inclination to escape from their present living conditions and make a new start in New Zealand, because they would expect to enjoy substantially higher living standards here. This would prove an intolerable strain on New Zealand society and current living standards.

This chapter begins by considering the factors that determine the attractiveness of New Zealand as a destination for immigrants. It argues that there are a number of institutional and regulatory features in New Zealand - from our relatively generous social welfare system to our attractive collectively owned environmental assets - that would indeed create problems were unlimited immigration to be allowed. In many instances, it is argued that these features should be the objects of the broader programme of policy reform, and that, if appropriately handled, such reforms would help to minimise the risks associated with a relatively liberal immigration policy. However, it is suggested that even after such reforms have been implemented, concerns about the short to medium term distribution of income and, more generally, about the maintenance of New Zealand's social fabric in something approximating

its present form, may lead to a legitimate desire to ration immigration. The second main task of this chapter is to discuss alternative means of rationing immigration and the factors to be taken into account in choosing between them.

The Attractiveness of New Zealand to New Settlers

In deciding whether there is indeed any need to ration entry to New Zealand, and, if so, in choosing a rationing mechanism, much will depend on how attractive New Zealand is to internationally mobile people with characteristics that make them desirable as fellow citizens.

Relatively little is known about life in New Zealand around the world. Many potential migrants may be attracted instead to the United States or Canada because these countries are nearer and aspiring migrants know more about life there. The recent easing of controls on business migration has, however, helped to spread information about New Zealand, partly through agents who assist applicants. It appears that the following criteria in particular make New Zealand an attractive place to move to: political stability, a moderate climate and an attractive natural environment, relatively cheap and desirable housing, lower taxation than in some other OECD countries, reasonably good education, friendly people, and high moral and civic standards.¹ To these may be added a relatively generous social welfare system. Negative factors appear to be New Zealand's remoteness, a relative lack of cultural stimulation, traditionally poor economic growth, poor labour relations, deficient reliability of suppliers and concerns about lasting inter-racial harmony.

A more objective and more substantial picture of New Zealand's relative attractiveness may be gleaned from systematic research on the competitiveness of various countries and locations in attracting skilled people, capital and businesses. The most time-tested and solid such piece of research has been done over many years by the highly respected Lausanne Business School IMEDE, in conjunction with the World Economic Forum, which analyses over 200 indicators for 32 countries. It can be seen from the table below that New Zealand was ranked 17th amongst the 22 OECD countries covered, only ahead of some Mediterranean locations. Often, new industrial countries in Asia rank far ahead of New Zealand. The table shows that New Zealand only scores reasonably well with regard to natural resource endowment, and is rated an unattractive location on most other indicators.

¹ *The Evening Post*, 15 February 1989, p. 27.

New Zealand's Relative Attractiveness out of 22 OECD Countries

Factors		New Zealand's place amongst 22 OECD countries	Front runners
I	Dynamism of the economy	17	Japan
II	Industrial Efficiency	17	Japan
III	Market Dynamism	16	US
IV	Financial Dynamism	18	Switzerland
V	Human Resources	13	US
VI	State Interference	14	Switzerland
VII	Natural Endowments	6	Norway, Canada
VIII	Outward Orientation	21	Switzerland
IX	Innovative Forward Orientation	19	Japan
X	Socio-Political Stability	10	Switzerland
Overall		17	Japan

Source: IMEDE/WEF (1989) p. 19

Such locational factors are, however, neither static nor pre-ordained. In many instances they are man-made and can be changed over time. For example, the economic reforms of the mid-1980s are arguably beginning to count among the assets in the location equation. Liberalisation is beginning to attract a type of migrant who sees opportunity in the freer economy. New arrivals in a country cannot normally expect to play the lobbying game in a regulated, politicised environment (except when they represent big players), whereas openness and freer markets favour newcomers with new ideas and different approaches who wish to pioneer new ventures. The increase in business migration in recent years seems therefore partly due to deregulation. If it proceeds and the economy begins to take off, New Zealand would become a much more attractive location for potential settlers and investors. At the same time, New Zealand would become attractive again to New Zealanders, both those who have departed and might return and those who may consider leaving.

On the other hand, there are a number of features in New Zealand's current regulatory and institutional framework that may make it an 'excessively' attractive destination for a certain type of migrant - or make it attractive primarily to migrants less likely to contribute to social cohesion and prosperity than residents might wish. There may be problems associated with the existence of relatively abundant, apparently 'free' goods, such as clean air, wilderness areas, water resources and other collectively owned natural assets. As the Business Roundtable has argued elsewhere, the ill-defined ownership of some of these assets has weakened the incentives to use them well, to strike a socially desirable balance between conservation and development and to make socially desirable trade-offs between competing

uses.² The problems potentially created by increased immigration in terms of increased pressure on natural and environmental resources would be greatly reduced by the introduction of resource management reforms aimed at clarifying property rights and facilitating contracts on the basis of these rights.

Another set of problems arises from relatively generous, readily accessible social welfare - and related incentives to free-ride on this system without contributing to its maintenance through taxation or insurance payments. This is not, of course, a problem that applies only in the case of immigrants; it applies to all citizens. The most appropriate response is social welfare reform aimed at encouraging personal responsibility and self-provision on the part of *all* residents, while ensuring the continuation of state benefits for those few who are genuinely unable to provide for themselves.

If there are any residual social welfare problems specific to immigrants, these will not necessarily be handled best by rationing immigrant intakes. It may be better to handle the problem of immigrants who might place strain on the social welfare system by policies directed at their participation in that system, rather than by refusing entry outright. For example, it may be more efficient to handle these problems by limiting the access of new immigrants to welfare benefits, instead of limiting the overall number of immigrants - as is the case with existing limits on access to national superannuation in New Zealand. Another possibility is some form of bond deposited by new immigrants that is repayable after a fixed period of residence if the immigrant has made no demands on welfare services.

If immigration were very high there may be problems with pressure on the general infrastructure of local and central government and the various services that these bodies provide. Again, this problem will be the greater, the more heavily are the various levels and arms of government involved in the day-to-day life of citizens. As we saw in chapter 4, immigration is likely to pose substantial problems for a highly centralised, bureaucratised economy, but rather less for an economy that relies extensively on markets and voluntary association and exchange. More generally, it is possible that a large inflow of people - and of people with low skill levels - would trigger destructive tensions and produce a levelling down of New Zealand living standards, at least in the short to medium term. While unbridled immigration might lead to much instant wealth creation, it might place what most citizens would regard as intolerable pressures on existing social structures. Tacit rules of interaction might collapse if large numbers of people from all around the world were to arrive within a few years.

Problems may also be perceived with regard to the implications of large-scale immigration for the domestic distribution of income, at least in the short run. The basic concern here is that large inflows of relatively unskilled workers will lead to a concentration of people at the bottom of the income scale and increased income disparities across the population as a whole.

² New Zealand Business Roundtable (1990).

The likelihood of this occurring - and of being sustained over a long period - would depend importantly on the ability of the labour market to absorb such workers and provide for the acquisition of the kinds of experience and skills that enable immigrant workers to earn increasing incomes over time. Thus labour market reform aimed at increasing the ability of workers to price themselves into work and training, and at enhancing worker choice over bargaining arrangements, would greatly reduce the probability of ghettos of low-paid or unemployed immigrants or of displacement of low-skilled domestic workers by immigrants. However, labour market adjustments take time and there may well be a general social concern about having a significant portion of the population subsisting on unacceptably low income levels in the short to medium term, even if it is expected that they will move up the income scale in the longer term.

If the kind of society in which we want to live guarantees a minimum level of income to all residents which is well above the earning power of workers in developing countries, immigration policy will - as we have noted - need to continue to involve some form of restriction on entry. Some sort of discrimination between potential migrants will also need to be applied. In the following section, we consider the range of rationing mechanisms that could be used to select migrants where immigration is so restricted.

How to Ration the Number of Immigrants?

The main criterion for migrant selection should be whether potential fellow citizens can be expected to enhance the welfare and living standards of resident New Zealanders. The purpose of any rationing mechanism must therefore be to select from all those who might like to come to New Zealand those migrants most likely to make a positive contribution to national welfare.

One factor to take into account here is the interaction between the mechanisms used to select migrants and other government interventions in the economy. As we have argued, direct reform is the most desirable government response to the adverse incentives for immigrants created by inappropriate regulatory regimes elsewhere in the economy - whether ill-defined rights in natural resources, barriers to labour market adjustment or incentives for welfare abuse. Such reforms will reduce the risks associated with relatively high levels of immigration and decrease the likelihood that immigrants are attracted to New Zealand who will be not interested in contributing much to overall welfare. They will also create a better environment for present citizens.

However, where such reforms are absent or incomplete, the effects of regulations will need to be taken into account in deciding how many immigrants to allow into the country, and which sorts of immigrants to select. The number of immigrants that New Zealand might readily absorb will, for example, be smaller in the absence of labour market reforms that increase the flexibility of employment. With regard to the type of immigrant that might be selected, it can

be argued that if the government wishes to continue to be involved in providing a lot of ostensibly 'free' goods, New Zealand is likely to attract a disproportionate number of people interested in consuming such goods. But with a more limited government role in the economy, immigrants will come who exercise initiative in making a way for themselves. There may therefore be a case for designing selection mechanisms which minimise the extent of such abuse. In this case, however, significant risks will arise in attempts to fine-tune immigrant selection so as to compensate for regulatory deficiencies elsewhere in the economy. Yet even in the absence of the wider reforms, a relatively simple rationing mechanism may prove most beneficial. More generally, it will be necessary to take account of the costs of administering the alternative rationing devices, compared to their prospective effectiveness in selecting desirable fellow citizens.

A range of options for immigration selection might be considered:

- administrative controls,
- ballots,
- charging a price, or
- some combination of these.

It is of course possible to imagine different variants of the three basic forms of rationing - for example using price rationing by auctioning settlement rights.

– *Administrative Controls*

Administrative controls have been used in the past to limit the number of immigrants and - when that number seemed deficient - to attract more migrants by subsidies such as assisted passages. Under the auspices of the Occupational Priority List, New Zealand immigration authorities used frequent fine-tuning of the required characteristics to match the supply of and demand for migrant visas, rather than, say, fixing quotas explicitly and selecting immigrants by a points system in which various criteria are weighted. The new immigration policy announced in March 1990 involves a shift towards the latter kind of administrative rationing.

The ostensible advantage of administrative rationing is that it enables new citizens to be selected on the basis of the specific interests of individuals or groups already in the country - assuming that these interests can indeed be translated into the criteria that can be included in a points system or defined on an occupational list. But there are major disadvantages to any administrative approach in terms of its cost, the potential for delays, the inevitable rigidity of criteria, and the danger of political influence and corruption. Administrative rationing may also turn away enterprising people who find it demeaning to queue and be supplicants.

The major logical and practical problem with administrative rationing is that administrators are required to treat certain characteristics of people as immutable and assume that they, or their political masters, know which categories of people can be 'picked as winners'. In reality it

is not possible to predict or pin down the precise benefits that a specific type of immigrant will bring to New Zealand in the future. Nor is it possible to identify selected groups, certain industrial skills or certain types of workers who will contribute most to the overall, complex process of economic growth. Economists, industry organisations and other groups sometimes claim that they are able to offer scenarios or elaborate models that help in the discriminatory picking of *future* winners, as part of New Zealand's long tradition of planning and fine-tuning interventionism. But neither an applicant's past track record nor specific types of work skills indicate his or her future contributions to overall productivity growth. Given the importance, stressed in this study, of complex 'embodied knowhow', greater diversity, and the need of the New Zealand economy for more capital, education and high work skills, general administrative rules should probably stipulate no more - and perhaps less - than the possession of some starting capital and of a good general education and skill training.

When potential migrants are selected, it is virtually impossible to know beforehand whether a certain person's approach will work out in the new environment or whether as yet totally unknown pieces of knowledge will prove to be crucial to a migrant's success. It is certainly naive to assume that an immigration bureaucracy, even when assisted by experts in other government departments, will be able to predetermine which people with what knowhow and background will be able to make a success of their planned ventures in New Zealand. Too many imponderables come into play. Coming to the New Zealand environment may stimulate a recently immigrated plastics manufacturer to go into making Chinese noodles for export; a French winemaker may develop a new brand of kiwifruit wine; a Finnish migrant might help to turn Maori designs into hot-selling Christmas decorations in California; the immigrant real-estate developer may uncover new tourist opportunities; the previously successful businessman may fail, and the illiterate hawker may build a great business empire. Someone who has gone bankrupt as a young man may have learned exactly the entrepreneurial skills to create a success in New Zealand. The world of business life is one of a myriad possibilities and opportunities which no selecting political authority, committee, or administrator can ever hope to foresee. Administrative rationing should not be based on the pretence of knowledge which no single authority can ever hope to have.

These realities mean that immigration guidelines must be general and non-specific if they are to minimise the risk of selecting the 'wrong' kinds of immigrant. The complexities of dynamic development and structural change - particularly at times of rapid adjustment like the late 1980s/early 1990s - are such that any formula for 'picking-the-winners' will be risky and inappropriate. All that one can try to achieve within the general framework of an administered rationing mechanism is to lay down some general policy guidelines about expected positive net contributions to national productivity growth and to screen out anti-social elements and free-riders. This is, arguably, the objective of New Zealand's new, simplified points system for selecting immigrants.

– *Ballots*

When demand for visas is far in excess of supply and administrative rationing would be too costly or controversial, a ballot offers an objective alternative means of selecting migrants. For example, in recent years the United States has decided to ease immigration pressures and to achieve a wider distribution of the migrant intake by offering each year a quota of immigration visas to people of good mental health and character from countries that have sent relatively few immigrants to the United States. A computer lottery then selects amongst all applicants. This ballot has been widely advertised by private agencies which prepare applications for a fee. The advantages of this method are ease of administration, improbability of corruption and delays, advertising the country's interest in new citizens, and objectivity. But some administrative screening, for example for criminal records, is still necessary. Ballots of course also miss the opportunity, if it exists in practice, of obtaining immigrants with more desirable characteristics than the average of self-selected applicants.

– *Pricing Settlement Rights*

Where there is a large demand for settlement permits relative to the number of places, access might also be rationed by a pricing mechanism. This could be done by tender at a price that is fixed every year, or by public auction. The proceeds could be used in a variety of ways - they could be part of general revenue, go into trust funds dedicated to some special purpose, or be a returnable bond for good behaviour or non-use of welfare services.³ Price elements also come into play where intending migrants are required to invest capital in the country, as is stipulated by the present business migration scheme.

The main advantages of rationing by price are that the intending migrant is asked to reveal and quantify his or her preference for coming, that it does not distribute free a valuable right of residence, and that new settlers make a material up-front contribution to the New Zealand economy. But selection by price also has its disadvantages: a would-be immigrant's ability and willingness to pay may not have all that much to do with the contribution that he or she might be able to make to New Zealand. Also 'undesirables', such as people engaged in criminal activities, may be able to buy their way in if no other screening were undertaken.

If a price is to be charged as a means of matching the demand for residence with what is deemed to be New Zealand's capacity to absorb new residents, we need to be clear about what that price is for. This will help us to decide such issues as how the price should be set and how the proceeds of selling settlement rights should be treated.

³ If there are any doubts about the willingness of people to pay a very high price for being able to live in a secure, free developed country with a good legal system, we should note the offer of a group of well-known Hongkong businessmen to pay an annual lease of US\$ 5 billion for a small piece of land in which Hongkong citizens might freely settle.

Most simply, the price fixed for a settlement right can be seen as a rationing device; as a means of allocating a privilege that - once we have decided to limit immigration - is scarce. The pricing of settlement rights might be a more efficient means of allocating these scarce rights among aspiring immigrants than a straight ballot in that it selects those who place the highest value on this right, revealed by their willingness to pay. Newcomers would in this way come as self-assured stakeholders in New Zealand life, with a vested interest in making the most of their 'investment' after coming here.

Alternatively, the price of a settlement visa can be viewed as the 'joining fee' to a club, namely the price for joining a society that existing citizens and their forebears have built with sacrifices and efforts. Newcomers get access to social infrastructures that New Zealanders have developed. There is, however, a need for care in taking this approach, in particular because the 'access rights' of existing citizens to these infrastructures are ill-defined. If such 'rights' are viewed narrowly as an exchange for contributions to the cost of government through taxation, it can be argued that immigrants can be expected to be net contributors to government over their lifetimes, so that a joining fee might not be justified. (We saw in Chapter 5 that immigrants to the United States have contributed more in taxes than they draw in publicly funded benefits.)

Another way of seeing this 'joining fee' is as a more direct payment for the chance to have access to New Zealand's 'free' natural resources. The best way of handling this problem is to clarify private or community property rights in a well-conceived resource management regime. However, a payment for settlement could be used to enhance the value of natural resources - for example, through improved pollution management or increased funds for the maintenance of national parks.

Thirdly, the 'joining fee' could be seen as a contribution to publicly provided welfare schemes - a payment entitling the immigrant to access to tax-funded welfare benefits at least in the early years of his or her residence. A variant of this would be to treat the settlement fee as a bond, repayable if, after a fixed period, the immigrant (and his or her family) had so far made no claims on the welfare state. There may, however, be problems in attempting to use pricing both as a rationing device and as a bond to prevent free-riding on society. A more appropriate means of minimising the risk of welfare abuse would be to limit access to the state welfare system in the initial years of settlement, for example by applying stringent criteria to recent immigrants.

There may be some concern that selling visas is inequitable, discriminating against potential settlers from relatively poor countries (especially if these people are unable to borrow in order to raise the price of a visa). It has also been argued that a settlement charge would discriminate against young people, who may have skills and entrepreneurial drive, but a lesser ability to pay. On the other hand, this is the group that is most likely to be willing to

borrow to meet the cost of settlement, in the expectation that the immigration expense will pay off over their working lives.

If borrowing is a problem in such cases (for example, because of regulatory constraints on capital markets in the migrants' countries of origin), the potential for 'discrimination' against the young and impecunious could still be overcome by sponsorship. New Zealand firms or business partners may pre-finance the entrance fee, which the immigrant could later repay by private arrangement. If firms are involved in sponsoring migrants, occupational skills, knowhow and character would be evaluated by those with a direct incentive and the information to evaluate these characteristics.

If some or all visas are to be sold, the question arises as to whether this should be by auction or by a set fee which could be varied from time to time. Both mechanisms have been used in other areas of allocation by the New Zealand government, for example with regard to the right to use government-owned forests or to import certain commodities. There is some case for preferring a fixed charge for a settlement right, in that auctioning may be seen by the public as an unacceptably blatant form of selling and raise greater sensitivities. A set fee also offers the advantage that the flow of immigrants could be processed without interruptions, whereas auctions would require applicants to wait for an auction date, say once or twice a year. However, this does pose the problem that the government has to fix an initial price, which is always difficult in the absence of clearly defined scarcity values. In the case of visas, the government might start by determining a loose and flexible quota and a price, which can then be varied in the light of experience.

One danger of selling settlement rights is that revenue-maximising fiscal behaviour may dominate decision making about the number and pricing of these rights. Governments have a long tradition of creating monopoly rights and artificial scarcities so as to sell 'rights' and licences to the highest bidder. Such behaviour might be used to restrict immigration below the level that is optimal in terms of the long-term benefits to present citizens. This danger must be kept in mind - though it is not clear *a priori* that price rationing will necessarily prove more restrictive than administrative rationing.

Which Selection Mechanism?

In deciding which kind of rationing device to use, a key factor will be the comparative costs of different options in respect of administration, and the comparative risks of selecting less than the best possible immigrants. With administrative rationing procedures - for example, a points system - the need for information gathering and validation by administrators is high. There is, however, no *a priori* evidence that more refined administrative methods of rationing, given the inevitable imperfections of administration, can generate superior outcomes to rationing by self-selection under ballot schemes or sales of settlement rights. It can therefore be argued that the major burden of rationing should be left to ballots or a price mechanism, so that

administrative burdens are greatly eased, without significant risk of obtaining a lesser quality of immigrant.

If immigrants were admitted by ballot or pricing, it would still be desirable to screen intending migrants administratively for certain characteristics. Some simple selection criteria have to be applied to all visa applicants, so as to reduce unnecessary costs and frictions to New Zealand society. For example, all arrivals should be screened for criminal background, as well as good mental and physical health. Exceptions to the latter criterion might be made in some cases of humanitarian admission. Since the ability and willingness to integrate economically and culturally are crucial to the amount of practical knowledge that migrants can contribute, it would also be desirable to find a proxy indicator for the capability to integrate. An indicator that is clear and simple and prevents excessive scope for arbitrariness in administration is English-language capability, an attribute which is in many ways directly important to the transmission of knowhow.

It is not the function of this inquiry to provide definitive prescriptions, but rather to contribute to an ongoing examination of approaches to immigration policy. Our basic finding is that there is a case for a more liberal New Zealand immigration policy. This does not translate in a simple way into any absolute criteria for determining either the size or composition of a desirable immigrant intake. Indeed, having regard to the primary policy objective of improving the well-being of New Zealand residents, it would not seem logical for the size of the intake to be determined independently of the quality of prospective immigrants. If a large number of applicants with highly attractive attributes were seeking residence in New Zealand, it would make sense to accept larger numbers than otherwise. The supply of desirable immigrants will also fluctuate from time to time in response to international events. While immigration policy should generally be steered by stable, long-run considerations, there is a case for flexibility to take advantage of favourable opportunities to enhance the migrant intake.

In respect of selection mechanisms, the concept of selling settlement rights, which could be regarded as a further development of the business migration scheme and which is similar to the longstanding practice in certain Swiss cantons, is worth exploring. New Zealand authorities might want to experiment for a number of years with attracting a share of the immigration target through marketing settlement rights. At the same time they could keep other channels of admission open. They could, for example, run ballots of, say, 10,000 immigration visas per year. If it were felt that the sale of settlement rights would bias the migrant flow excessively towards older people, a ballot might be biased towards young applicants. This could be done either by only accepting applications from people or families below a certain age, or, for example, by giving under-25-year olds three ballots, under-30-year olds two, and under-40-year-olds one.

Economic immigration would of course not be the only category by which permanent settlers are admitted, even if this were the biggest category. There will be a continuing call for humanitarian admission and family reunion. It may even be possible to mix humanitarian and family reunion considerations with a system of selling settlement rights and holding immigration ballots. In these cases, the settlement fee could be lowered or waived, or multiple entries could be offered in a ballot. Other prerequisites for permanent settlement, such as English language skills, could be waived or modified where humanitarian considerations rate highly. This would give a reformed immigration policy the necessary flexibility.

Whatever the selection device, the important task of screening potential immigrants is not cost-free. If immigration rules were reformed and simplified the tests of potential migrants would be few and limited. They mainly constitute a police problem, appropriately left with government agencies that have better access to information on criminal and other records in the country of origin.

Loopholes?

If ballots are to be used or settlement rights sold in any number, problems may arise at the interface with the present scheme of family reunion. Some immigrants who gain access by buying their way in may do so in the express anticipation of bringing in a large family, including unskilled dependents who could become a fiscal burden. Indeed, it may pay a family in a poor country to 'invest' in a visa for a young and acceptable member, and later use family reunion to obtain access for less self-reliant family members. The 'family reunion multiplier' has led several immigrant nations to clamp down on family reunion. One way of handling this problem in a revamped immigration policy might be to state explicitly that recipients of ballot visas or buyers of settlement rights will not be able to bring in people other than from their own nuclear families.

Another practical question is how the reform of New Zealand's immigration policy affects the present policy of trans-Tasman freedom of movement. The view might be taken that a New Zealand scheme involves the granting of settlement rights to, say, Queensland to people whom Australia would not admit under its own rules. This viewpoint might have some justification if many new arrivals were soon to relocate to Australia. In the somewhat unlikely event that immigration reforms adopted in New Zealand were interpreted by Australia as a violation of the spirit of the Trans-Tasman Travel Arrangement, New Zealand should evaluate whether the benefit from reformed and increased immigration might make it worthwhile to end the arrangement. However, there may also be a possibility that Australia would sooner or later emulate the New Zealand reforms. The same economic and social forces that suggest changes would benefit New Zealand are also at work in Australia, where many aspects of immigration policy have become controversial and where the situation is fluid as of 1990.

The present special arrangements with Pacific island nations need not be affected by the possible reforms discussed in this study.

Final Remarks

Some of the ideas canvassed in this study would, if pursued, amount to a major change in immigration policy. So far, immigration policy has evolved piecemeal from historical roots in response to interest group pressures and political contingencies. Access has been rationed by administrative means. The national interest in long-term economic growth and open competition has often played a secondary role to the more dominant role of the particular interests of well-organised supplier cartels. Reforms in immigration policy should change this and place greater emphasis on selecting people with resources of capital, skills and knowhow who can help to rejuvenate the New Zealand economy and society. Economic deregulation has now made it much easier for new citizens to contribute to a type of economic growth that is knowledge-driven, similar to developments in most European countries or several new industrial countries of East Asia. Mechanisms of migrant selection should be adjusted to maximise the contribution that migrants can make to this process.

All that an inquiry like the present one can attempt is to explore general, though possibly stimulating, ideas, and to examine whether their implementation is practicable. This study should suffice to show that stepped-up immigration and admission through devices other than administrative controls are not only feasible, but in some respects offer advantages over past policy.

Rational, detached analysis of immigration must never lose sight of the fact that this area of policy determines the lives of fellow human beings, who may be full of hope or despair when making the critical decision to move permanently to a new home country. The administration of immigration will therefore always require the capability to be humane and understanding. This requirement will be most easily met when rational analysis has clarified and simplified the principles on which a beneficial and humane policy is administered.

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Standing room only?

The answer to the Quiz Question
is owed to an inspiring and splendid book

by G. Sorman,

La nouvelle richesse du monde (The New Wealth of Nations),

(Paris: Fayard, 1987),

and it is dedicated to all Malthusian pessimists,

in New Zealand and elsewhere.

***If the 5 1/4 billion people lived in houses and gardens
with about 5 people,
all of mankind would cover something like 300 000 square miles.***

***This is roughly the equivalent of the land area of New South Wales,
or British Columbia,
or 1 1/2 times that of France or Thailand.***

***Alternatively, one third of all of mankind could have
their houses and gardens
on the land area of New Zealand.***