



Immigration

Fit for the future

Final report

April 2022

Immigration – Fit for the future

The New Zealand Productivity Commission
Te Kōmihana Whai Hua o Aotearoa

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Foreword



Kei ngā kāwai nui, kei ngā kāwai roa, kei ngā kāwai whakapapa nō tawhiti, nō tata, tēnei ka mihi ake ki a tātou katoa.

In presenting the Productivity Commission's findings and recommendations on long-term settings for immigration, I feel a sense of privilege and responsibility. Responsibility is critical, to ensure sound, evidence-based advice is provided on a topic that is too often fraught with rhetoric. Therefore, this report sits alongside a suite of evidence, data, and accompanying research papers available on our website.

I recognise my privilege in contrast to tāngata whenua who have not had an opportunity to present their views on immigration policy since 1840. This is despite Te Tiriti being the principal vehicle that enabled immigration to Aotearoa following 1840. It is time to rectify this omission.

For long-term immigration settings, I am drawn to the title of a recent publication from the internationally renowned migration expert George Borjas: *We Wanted Workers*. This title was motivated by a quote from Swiss novelist Max Frisch: "We wanted workers, but we got people instead". This serves as a cautionary tale when devising immigration policy focused solely on "wanting workers". In response, invoking the "he tangata, he tangata, he tangata" phrase familiar to many may seem tempting. But, a more substantive perspective is reflected in the whakataukī from Te Aupōuri tīpuna Meri Ngāroto.

Hutia te rito o te harakeke

Kei whea to kōmako e kō?

Kī mai ki ahau:

'He aha te mea nui o te ao?'

Māku e kī atu:

'He tangata, he tangata, he tangata'.

This whakataukī talks of te rito, the central baby shoot of the flax bush, and what would happen if it was stripped away from its stronger outer leaves. The symbol of the baby as the heart of family, whānau, and hapū may resonate with many. Equally, the importance of the connections and relationships between generations, community and the ecosystem within which we reside – including the bellbird (kōmako) – should be crystal clear.

The priority for immigration policy is to be connected and consistent with government policy settings across the spectrum of facilities that make up a country's absorptive capacity. Some view absorptive capacity as a constraint, but I prefer to think of it as a "nest" that encompasses what's needed to nurture human capabilities. This nest includes a warm, dry, affordable house to live in; education, training, and health care; transport and communications networks; safe drinking water; community facilities; and a welcoming and inclusive society.

But our nest has become strained, with stresses emerging long before the immigration surge experienced over the immediate pre-Covid period. Our absorptive capacity requires both remedial and ongoing attention. Committing to the necessary investment now will ensure current and future migrants are able to actively make their contribution to future productivity and wellbeing improvements. The Commission's core recommendation is for the Government to more effectively manage absorptive capacity together with migrant inflows to ensure consistency with expected population growth.

As the child of immigrant parents, I reflect on the reasons my forebears came here – to be employed, to contribute productively, and to earn income while building better opportunities for future generations. I doubt it would be much different for all others who call Aotearoa home, including those who whakapapa to tīpuna from far away shores. It is incumbent on us to be laser-focused on making a nest that will attract and welcome migrants who will not only improve our productivity and wellbeing, but will also further decorate, enhance and adorn the nest for our mokopuna.

I sincerely encourage all to consider the Commission's findings and recommendations; and thank all those who contributed to this inquiry – everyone who made a submission, met with us, or who lent their experiences, wisdom, research or policy expertise – and with special thanks to the inquiry team.

Nāku, i roto i ngā mihi, nā



Dr Ganesh Nana

*Chair, Te Kōmihana Whai Hua o Aotearoa
New Zealand Productivity Commission,
Paenga-whāwhā 2022*



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

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

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

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

- New Zealand's GDP growth has kept pace with other countries in recent years, but it has done so by working harder, rather than working smarter. GDP growth has relied on adding more people to the labour force, and by those workers (both locals and migrants) working longer hours compared with other OECD countries.
- New Zealand's labour productivity growth has been weak. Improvements to productivity require working smarter through innovation and the use of new technologies.
- The relationship between productivity and immigration requires a balance of trade-offs, and a consideration of short run and long run impacts. Migrants may increase the productive capacity of the economy in the long run, but this can take time to bear fruit. In the short run, there may be costs associated with the availability of appropriate physical and community infrastructure.
- Transitions to higher productivity activities do not happen overnight, requiring sustained investments in physical and community infrastructure alongside training and workforce development efforts.

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

What we found in this inquiry

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

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

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

- Over the last ten years, New Zealand experienced large and unprecedented increases in net migration, and a shift towards more migrants on 'skilled' visas filling lower-skilled occupations. Yet during this time, the overall unemployment rate was low or falling, labour force participation high, and non-participation low.
- Immigration has had, on average, small and mostly positive effects on the wages and employment of New Zealand-born workers over the last 20 years.
- Despite positive impacts on average, there is evidence that immigration can have some negative impacts on employment and wages in certain populations. These negative impacts are not systematic, but occur in particular places at particular times, and the same population group can experience positive impacts in different periods of time.
- The absence of systematic job displacement may be due to the high demand for labour over the last decade. But concerns about displacement of local labour in the event of a future economic "shock" or cyclical down-turn in the economy are real. A downturn could result in the loss of jobs and greater competition for remaining jobs.

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

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

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

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

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

An immigration system fit for the future

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

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

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

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

Immigration policy needs stronger links with education and training policies

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

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

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

Part 1

This inquiry



Introduction

The Productivity Commission (the Commission) has been asked to undertake an inquiry into New Zealand's working-age immigration policies. The disruption caused by Covid-19 created a rare break in migration flows in and out of New Zealand, and therefore presents an opportune time to focus on immigration settings for New Zealand's long-term prosperity and wellbeing.

This inquiry's [Terms of Reference](#) provided an array of questions which included:

- how New Zealand should think about meeting future skill or labour shortages;
- the impact of large increases in net migration (and therefore rapid population growth) on housing markets and associated infrastructure, on social cohesion and on the natural environment;
- whether the value that New Zealand derives from migration is constrained by the complexity of our immigration system;
- the treatment of migrant workers by some employers, and concerns about the wellbeing of those workers; and
- the impact of migration on labour demand and wages in particular areas or sectors.

In this inquiry, working-age immigration settings broadly refer to temporary work visas, residence visas, student visas, investor and entrepreneur visas, and immigration that is the result of other working-age immigration (eg, partners, parents

and dependent children). The issues outside the scope of this inquiry were:

- policies for refugees;
- day-to-day operational immigration decisions and the funding of immigration agencies;
- decisions taken by the Government in response to the Covid-19 pandemic;
- the rights of Realm citizens (Cook Islanders, Niueans and Tokelauans) and Australians to freely enter New Zealand; and
- tourism, and other forms of international travel that do not involve rights to work, settle and invest in New Zealand.

The [Terms of Reference](#) asked the Commission to consider how concepts within te ao Māori can assist New Zealand in thinking about immigration policy. Te ao Māori refers to the Māori world view, which emphasises the interconnectedness and interrelationship of living and non-living things. Several te ao Māori principles expressed in the He Ara Waiora framework (The Treasury, 2021) align closely with the productivity and wellbeing contributions of immigration. These include close connections between people (whanaungatanga), predictability for people and business to make their own plans (mana āheinga) and have a strong sense of identity and belonging (mana tuku iho). These principles also flow through in our broader perspectives on absorptive capacity (alongside the concept of a 'nest').

Immigration's primary contribution to productivity comes through raising the long-term levels and diversity of human capabilities in New Zealand. Immigration can also promote wellbeing by supporting the achievement of other social and economic objectives (for example, supporting focused innovation ecosystems, expanding public infrastructure, and international relations).

It is the Commission's view that successful working-age immigration policy has several important characteristics.

- 1 Immigration policy should support and complement opportunities for local residents and workers and the development of their skills. Immigration that simply replaces or substitutes local supply of skills and experience will not raise the long-term levels and diversity of human capabilities, nor overall prosperity and wellbeing.
- 2 Policy needs to be flexible and adaptable to change. The sorts of skills, experience and capability that a country needs in one period are not necessarily the same that are needed later on.
- 3 Policy and practice should prioritise people who are most likely to make the greatest contributions to the country. The numbers of people who can be accommodated at any one point in time will always be limited. Given this, New Zealand should seek people who will make the largest positive impact, broadly considered across the various dimensions of wellbeing.
- 4 Policy needs to be sustainable over time, enjoying broad social licence and support.
- 5 Policy should aim to treat migrants well. This has both a practical and moral component. A country that treats its guests well is more likely to retain their capabilities and enjoy their long-term contributions, and hosts have manaakitanga obligations towards their guests.
- 6 Decisions on immigration policy should aim to minimise other social or economic costs that may result. This both helps maximise the contribution of immigration and maintain its sustainability.
- 7 Policy needs to be consistent with other government policies, and in particular those regarding education, training, workforce development, and absorptive capacity considerations.

The evidence base to support this inquiry

To conduct this inquiry, the Commission has undertaken internal research, commissioned research and reports from others, drawn on submissions to its Issues Paper and Draft Report, and learnt much from its many engagements with stakeholders and other interested parties. It has also drawn on substantial published research – both international and New Zealand.

Table 1.1 lists the internal and external research undertaken for the inquiry. The opinions, findings, recommendations and conclusions expressed in the externally commissioned papers do not necessarily reflect those of the Commission. The reports are, or will be, available on the Commission's website.

Table 1.1 Inquiry research reports

Publication	Description
Devine (forthcoming) <i>Migrant selection and outcomes</i>	The Commission's original research, examining migrant outcomes and whether the increased selection of residents from temporary visas has earnings or employment advantages in the short or longer term.
Fabling et al. (2022) <i>Migration and productivity</i>	The Commission's original research, examining the contribution migrant workers make to New Zealand firms.
Fry and Wilson (2022) <i>Planning for prosperity: Transparent and public immigration targets</i>	A report (undertaken by an external provider) providing supplementary research on how a government might implement a Government Policy Statement mechanism.

Publication	Description
Knopf (2022) <i>Case study: Aged residential care</i>	A case study (undertaken by an external provider) on the use of migrants in the aged residential care sector.
Maré et al. (forthcoming) <i>Missing migrants: Border closures as a labour supply shock</i>	A report (undertaken by an external provider) looking at the impact of the Covid-19 border closure on businesses that employ Recognised Seasonal Employer (RSE) workforces.
NZ Productivity Commission (2021) A series of supplementary papers to support <i>Immigration – Fit for the future</i>	The Commission produced six papers to inform its draft and final reports. The six papers drew on domestic and international literature.
NZ Productivity Commission (2022) <i>Immigration by the numbers</i>	A collection of graphs and commentary, noting the major trends in New Zealand immigration story, the characteristics of migrants, and the impacts of immigration on a range of economic measures. It includes a summary of some of the Commission's original work.
Schiff (2022) <i>Case study: Construction industry</i>	A case study (undertaken by an external provider) on the use of migrants in the construction sector.
Taylor Fry (2022) <i>Data-led approach to identifying skills shortages</i>	A report (undertaken by an external provider) scoping the feasibility of a data-based model of skill and occupational shortages in New Zealand.
Whāia Legal (2021) <i>Advice on immigration policy and Te Tiriti o Waitangi</i>	Legal advice (undertaken by an external provider) on how Te Tiriti relates to immigration policy.

Structure of this report

Part 2 looks at New Zealand's long-term history of immigration and the immigration system. It describes how the current system has evolved, and what forces have shaped its design and development. The part outlines some of the key patterns of migration to and from New Zealand since the signing of Te Tiriti o Waitangi, as well as structural changes in the New Zealand economy and migration policies pursued.

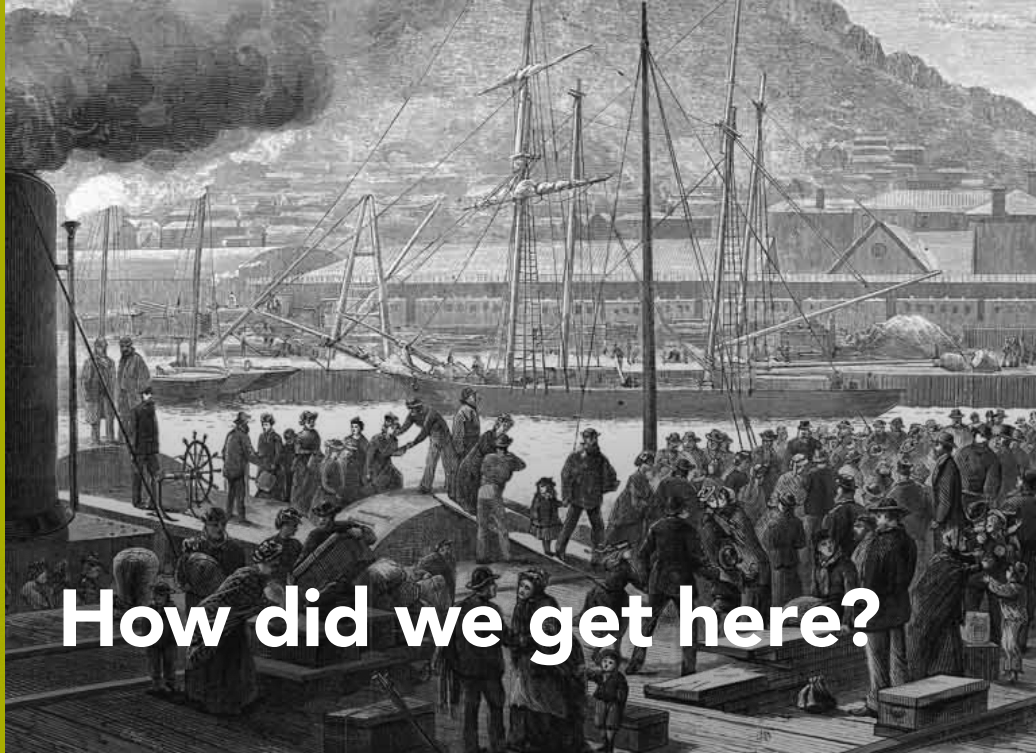
Part 3 describes the more recent history and impacts of the immigration system, looking at the period between the Global Financial Crisis (2007–08) and Covid-19 (2020). In particular, the part covers the impacts of immigration on: the local labour market; incentives for employers to train employees or engage with the education and training system; pressure on the country's absorptive capacity (including housing supply and infrastructure); and contributions to productivity.

Part 4 describes the main features of the current immigration system and makes recommendations for improving the effectiveness of immigration policy tools.

Part 5 considers the institutions needed to ensure the immigration system is fit for the future. One of the main institutional improvements that the Commission recommends is to require the Minister for Immigration to regularly develop and publish an immigration Government Policy Statement.

Part 6 considers the role of immigration in wider society. It discusses how the Crown can honour Te Tiriti o Waitangi and the mana of Māori in its development and application of immigration policy, and how immigration settlement policy can make the most of the investment in the migrants who choose to call New Zealand "home". The part also looks to the future, and how New Zealand's special relationship with the Pacific might evolve.

Part 2



How did we get here?

To make recommendations for a future immigration system, it is important to understand how the current system has evolved, and what forces have shaped its design and development. This part outlines some of the key patterns of migration to and from New Zealand since the signing of Te Tiriti o Waitangi (Te Tiriti), as well as structural changes in the New Zealand economy and migration policies pursued.

Te Tiriti o Waitangi and the early years of Pākehā settlement

Migration played an important part in New Zealand's founding

The arrival of non-Māori people in Aotearoa New Zealand in the late 18th and early 19th centuries, and the resulting disruptions, was one reason behind the signing of Te Tiriti. The English preambular text makes this clear:

Her Majesty Victoria Queen of the United Kingdom of Great Britain and Ireland regarding with Her Royal Favour the Native Chiefs and Tribes of New Zealand and anxious to protect their just Rights and Property and to secure to them the enjoyment of Peace and Good Order has deemed it necessary in consequence of the great number of Her Majesty's Subjects who have already settled in New Zealand and the rapid extension

of Emigration both from Europe and Australia which is still in progress to constitute and appoint a functionary properly authorised to treaty with the Aborigines of New Zealand for the recognition of Her Majesty's Sovereign authority over the whole or any part of those islands... (English version)

In its Wai 1040 report, the Waitangi Tribunal (2014, p. 258), commented that, to the Chiefs who signed the Treaty, it:

...seemed to offer them peace and prosperity, protection of their lands and other taonga, the return of lands they believed Europeans had wrongly claimed, **security from mass immigration** and settler aggression, protection from the French, and a guarantee of their ongoing independence and rangatiratanga. [emphasis added]

This context, and the text of Te Tiriti itself, has led Māori leaders and scholars in more recent times to describe Te Tiriti as "the first immigration policy document for this nation" (Turia, 2007) or the "original charter for immigration into New Zealand" (Walker, 1994).

Migration was used to grow the economy and ensure Pākehā dominance

In the 1870s and 1880s, immigration was a core part of an expansive economic development strategy. The New Zealand Government borrowed large sums of money on international markets to finance investment in infrastructure such as

railways, roads and bridges, and to subsidise immigrants. Immigration provided the labour to build these assets and to develop the (often Māori-owned) land opened up by the investment. This, in turn, increased production and economic growth and enabled the development of more technologically advanced sectors, such as manufacturing (Gardner, 1981).

The scale of inward migration that resulted was immense, by both contemporary and historical standards. More than 200 000 people entered New Zealand between 1870 and 1880. The peak year was 1874, when 43 965 arrived (McKinnon, 1996). This period, and the gold rush of the early 1860s, made up an outsized proportion of historical migration:

Of all net migrants over the period 1840–2000, 41 per cent had arrived before 1900, with 20 per cent arriving in just two quinquennia: 1861–65 and 1871–75. That means that a fifth of all migrants over that 160-year period arrived during 6 per cent of the period, with this enormous inflow occurring before 1876. (Pool, 2015, p. 49)

Large-scale European migration also served the purpose of cementing Pākehā control. A 1946 parliamentary report into population policy noted that the central government had become actively involved in immigration in the 1860s

in “recognition that peace in the North Island could be maintained only if a larger European population were available so that strong settlements in certain districts could be founded” (Dominion Population Committee, 1946, p. 24).

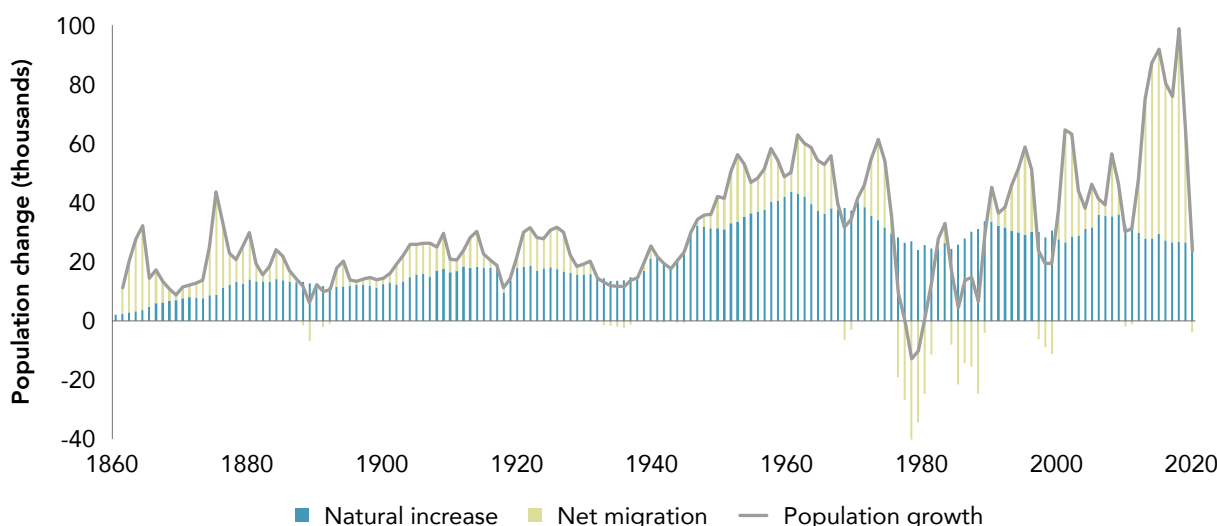
Trends in net migration

Until recently, migration has made limited contributions to New Zealand’s population growth

After the surges of immigration in the 1860s and 1870s, most population growth over the 1876–2000 period was due to natural increase (Pool, 2015). This was partly due to changes in policy and popular sentiment towards migration after the 1870s. For much of the century after, the focus of policy was on filling gaps in the labour market and protecting the position and opportunities of New Zealand workers against the risk of displacement.

Net migration only became the predominant driver of population growth in the decade preceding the 2020 Covid-19 pandemic. This reflected large inflows in temporary migration and declines in the fertility rates of New Zealand residents (Figure 2.1).

Figure 2.1 Changes in New Zealand’s population due to natural increase and net migration



Source: Data1850 (2019); Stats NZ (2022).

Trans-Tasman movements have been important

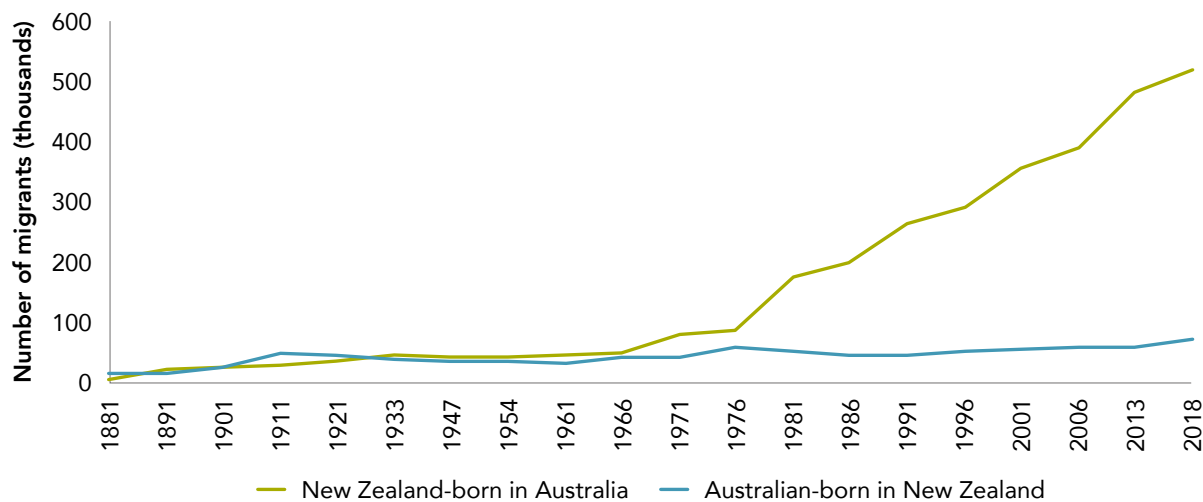
Until the mid-1960s, flows of people over the Tasman Sea broadly favoured New Zealand. Between 1858 and 1965, New Zealand had had a net gain of migration from Australia of over 123 000 people (Bedford et al., 2000). After this point, a divergence in the economic performance of Australia and New Zealand, higher wages across the Tasman, low barriers to entry and declining costs of travel led to large outflows of New Zealanders (Figure 2.2).

The turning point came in the mid-1960s when New Zealand’s economic circumstances took a significant hit with the collapse of international wool prices. Wool had been the backbone of New Zealand’s exports for much of the

20th century, but steady improvements in the quality of synthetic fibres and associated price decreases created wool substitutes. Things reached a critical point on 14 December 1966, when the auction prices for coarse wool fell by 40%. As Brian Easton has noted, this “was basically a cut of 16% in our total export revenue...one dollar in six went down” (Easton, 2019). The decline of New Zealand’s economic performance relative to other developed countries continued until the early 1990s.

New Zealanders who moved to Australia were less likely to return home than New Zealanders who moved to other countries. This means that a significant population of New Zealanders now live in Australia, especially in the eastern states of New South Wales and Queensland.

Figure 2.2 Stocks of trans-Tasman migrants, 1881–2018



Source: Australian Bureau of Statistics – Australian Census of Population and Dwellings; Stats NZ – New Zealand Census of Population and Dwellings. Compiled by Jacques Poot.

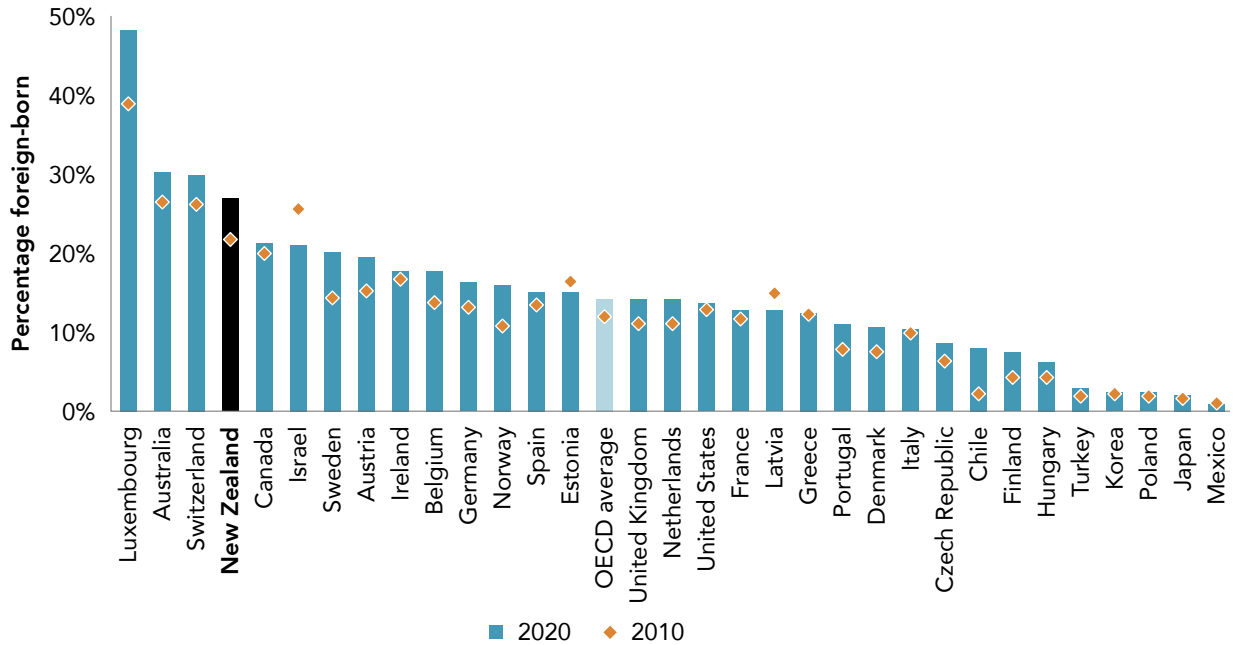
Note: Before 2011, Australian and New Zealand censuses were conducted in the same years. The New Zealand 2011 census was delayed by two years due to the Canterbury earthquakes. Since then, the New Zealand census has been held two years later than the corresponding Australian census.

High rates of both inward and outward migration

Over the last decade, New Zealand has had some of the highest rates of both inward and outward migration in the OECD (Figure 2.3, Figure 2.4). New Zealand has one of the highest diasporas in the

world, and it is growing. According to United Nations data, it has risen from 11% in 1990 to 17% in 2020. This is an unusually high proportion for an advanced economy (see *Immigration by the numbers*).

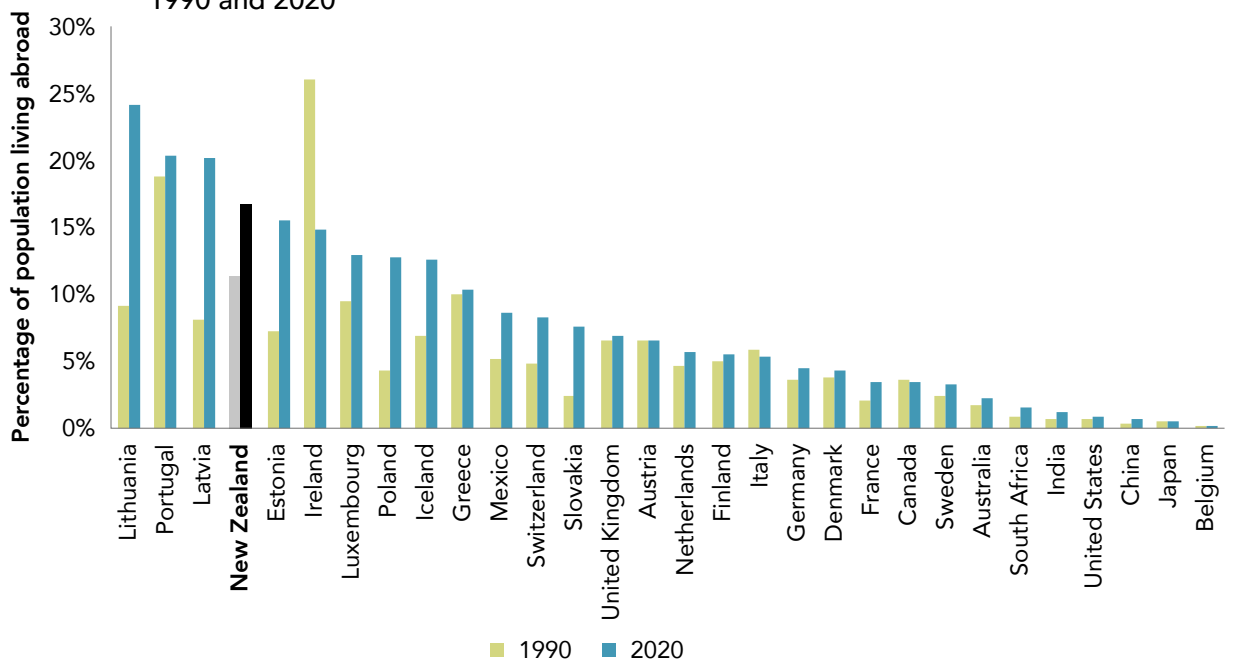
Figure 2.3 Proportion of foreign-born population across selected OECD countries, 2010 and 2020



Source: OECD (2021a).

- Notes:
1. Foreign-born residents are all persons who have ever migrated from their country of birth to their current country of residence, including those born abroad. This includes the children of New Zealand diaspora who have returned to New Zealand.
 2. Data refer to 2010 or the closest available year, and to 2020 or the most recent available year.
 3. The OECD average is a simple average based on countries presented. For Japan and Korea, the data refer to the foreign population rather than the foreign-born population.

Figure 2.4 Selected OECD countries' diaspora, percentage of the resident population, 1990 and 2020



Source: NZ Productivity Commission calculations using United Nations Population Division data (2020).

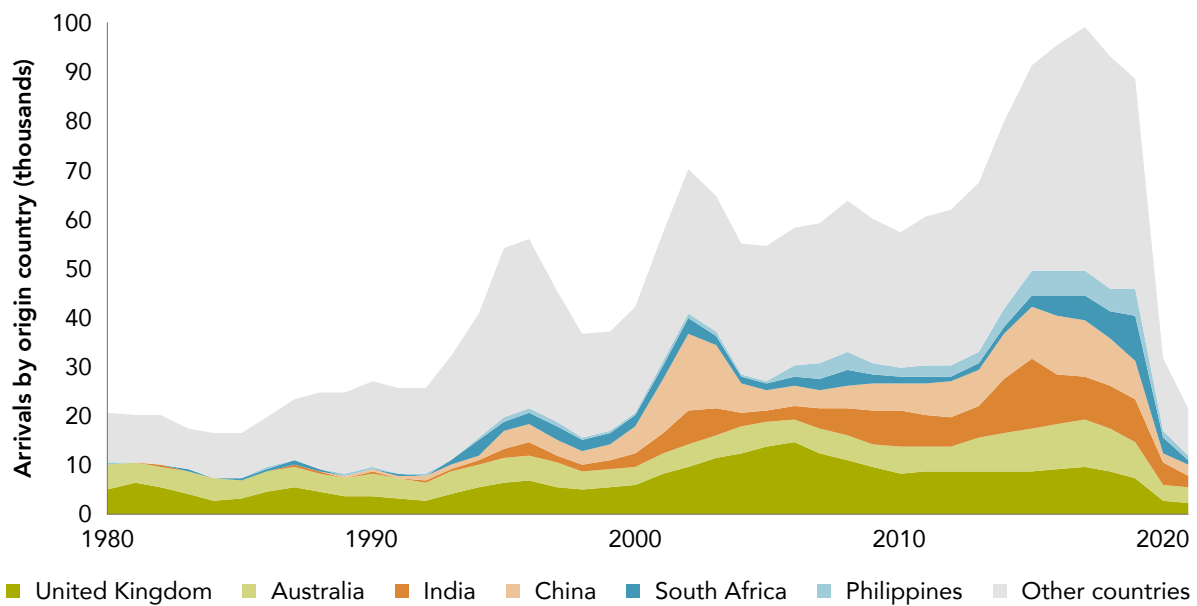
A shift in policy has made New Zealand more diverse

The abandonment of policy preferences for the “traditional source countries” over the 1980s and 1990s, and the associated shift to targeting migrants with higher skills, saw the ethnic composition of migrant cohorts – and New Zealand’s population – change significantly (Figure 2.5).

Immigration policy for most of the period following Te Tiriti explicitly favoured migrants from Britain

and northern Europe and restricted the entry of people from other countries, especially those in Asia. Starting from the 1880s and continuing up until the 1920s, a series of laws and policies were introduced to restrict the entry and naturalisation of people from non-European countries, especially China. The numbers of Chinese people who could enter New Zealand were limited and poll taxes were imposed (McKinnon, 1996). These restrictions tightened over time, with additional barriers introduced later (eg, English language reading tests, fingerprinting) (Box 2.1).

Figure 2.5 Permanent and long-term arrivals of non-New Zealanders by origin country, 1980–2021



Source: Stats NZ (2022).

Note: Stats NZ defines “permanent and long-term arrivals” as people who intend to stay in New Zealand for 12 months or more.

Box 2.1 Restrictions against Chinese immigrants, 1881–96

Year	Tonnage ratio	Tax per head
1881	A vessel could land only 1 Chinese person per 10 tons vessel weight.	£10 (\$1 877 in 2022) was to be paid in respect of every such person landed.
1888	1 per 100 tons vessel weight.	As above.
1896	1 per 200 tons vessel weight.	£100 (\$21 757 in 2022).

Source: McKinnon (1996, p. 26).

Note: The monetary conversions use the Reserve Bank of New Zealand’s inflation calculator.

Limited exceptions were made to permit the entry of workers from Pacific nations during the 1960s and 1970s to meet the needs of the burgeoning manufacturing sector, but this growth was always

conditional on positive economic circumstances. A downturn in the mid-1970s led to an infamous crackdown on Pacific “overstayers” (Box 2.2).

Box 2.2 The “Dawn Raids”

Since the 1950s, the New Zealand Government encouraged substantial emigration from several Pacific countries including Samoa, Tonga, and Fiji to fill a labour shortage caused by the post-war economic boom. The Pacific population in New Zealand had grown to 45 000 by 1971, with a substantial number overstaying their visas. During the late 1960s and early 1970s, New Zealand’s economy declined due to a fall in international wool prices in 1966, Britain joining the European Economic Community in 1973 (which deprived New Zealand of a major market for its agricultural products), and the 1973 oil crisis.

The “Dawn Raids” were a programme of intensive police enforcement against Pacific peoples in the mid-1970s, ostensibly to check migrants’ immigration status and arrest “overstayers”. The raids began in 1974 under the Third Labour Government and were part of a wider re-assessment of policy towards Pacific immigration. This included the establishment of a special Auckland police taskforce to enforce immigration laws, the suspension of the issue of entry permits for Pacific peoples in April 1974, a two-month amnesty for Tongan people whose permits had expired to register and seek an extension, and a deportation programme. The new National Government expanded and intensified the enforcement programme in 1976, including random street checks of people’s immigration status. These checks were intrusive, often public and extremely broad in scope. The National Government ended the Dawn Raids in 1979.

The Government formally apologised for the Dawn Raids on 1 August 2021, acknowledging that Pacific communities “at the time felt targeted and terrorised and there is clear evidence the raids were discriminatory and have had a lasting negative impact” (Prime Minister Rt Hon Jacinda Ardern, 2021).

Structural change in the economy, new jobs and skills

Decline in manufacturing and the expansion in services

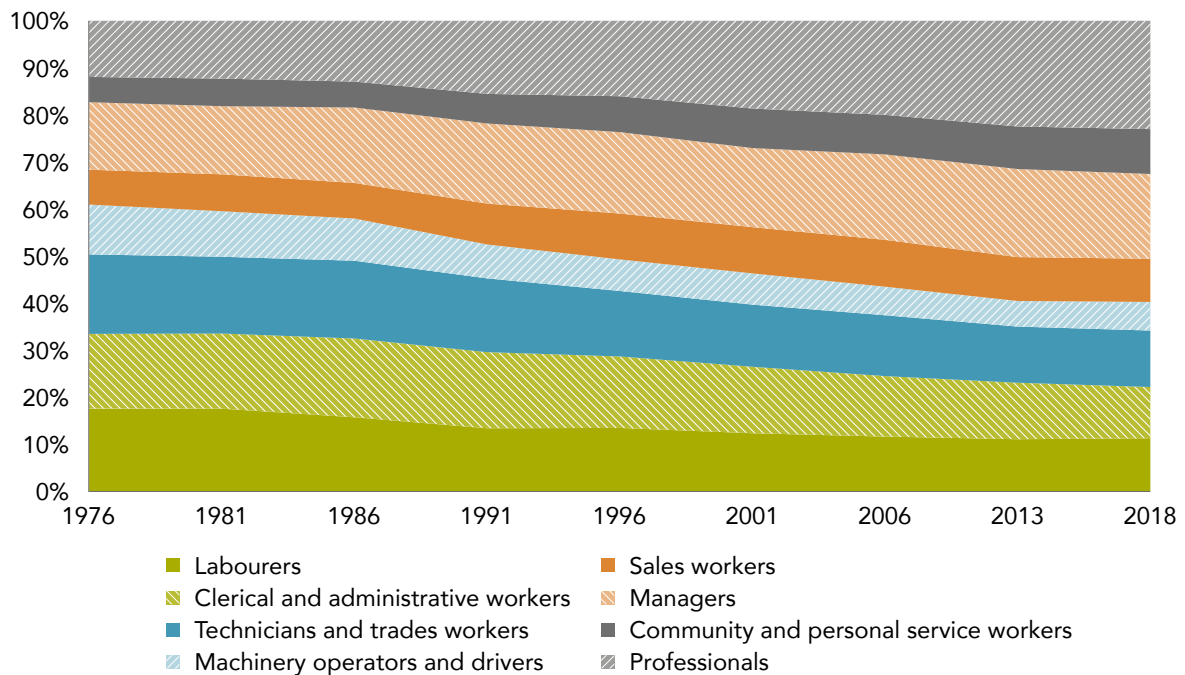
Coleman, Maré and Zheng (2019) documented the impact of the decline in manufacturing and manufacturing jobs in the 1970s and the expansion of the services sector across the country, which created different types of jobs, requiring different skills and capabilities (Figure 2.6).

Manufacturing employment had declined as a share of total employment in most developed countries from the 1950s, much earlier than in New Zealand. Liberalisation of the New Zealand economy hastened change in the country. Wide-ranging reforms in the 1980s and 1990s led to high unemployment and economic disruption in many regions. Many firms in manufacturing industries closed or reduced their workforce, and displaced workers often faced significant financial hardship. One of the consequences of the turmoil was an outflow of people (Figure 2.1).

The bulk of new jobs created over 1976–2013 in information-intensive and skill-intensive sectors, such as finance and professional and business services, took place in Auckland. Some regional centres, smaller towns and cities struggled to adjust and diversify as local

manufacturing employment declined. The places that adjusted most successfully tended to have other attractions, such as a favourable climate. Jobs growth in these places was concentrated in industries providing services to local consumers (eg, health, education) (Coleman et al., 2019).

Figure 2.6 Changing occupational shares, New Zealand, 1976–2018



Source: Maré (2019).

New Zealand has gained skills and other human capital from migration

Immigrants are more likely to be tertiary educated than New Zealand-born residents and outnumber tertiary-educated emigrants. This is important, as New Zealand has lost large numbers of skilled people through outward migration. As a result, immigration “has more than offset New Zealand’s brain drain, resulting in a ‘brain exchange’” (Carey, 2019, p. 18). Of those living in New Zealand in 2015–16 with high (ie, tertiary) education, 40% were immigrants. By contrast, of all New Zealand citizens living offshore (ie, emigrants), only 21% had a tertiary education. Therefore, net migration accounted for 19% of the tertiary-educated people in New Zealand in 2015–16 (Table 2.1).

Table 2.1 Percentage of the population aged 15 and over, by education and immigration status, 2015/16

	Immigration	Emigration	Net migration
High education	39.6	20.8	18.8
Low-middle education	23.9	12.6	11.34
Total	27.4	14.4	13.0

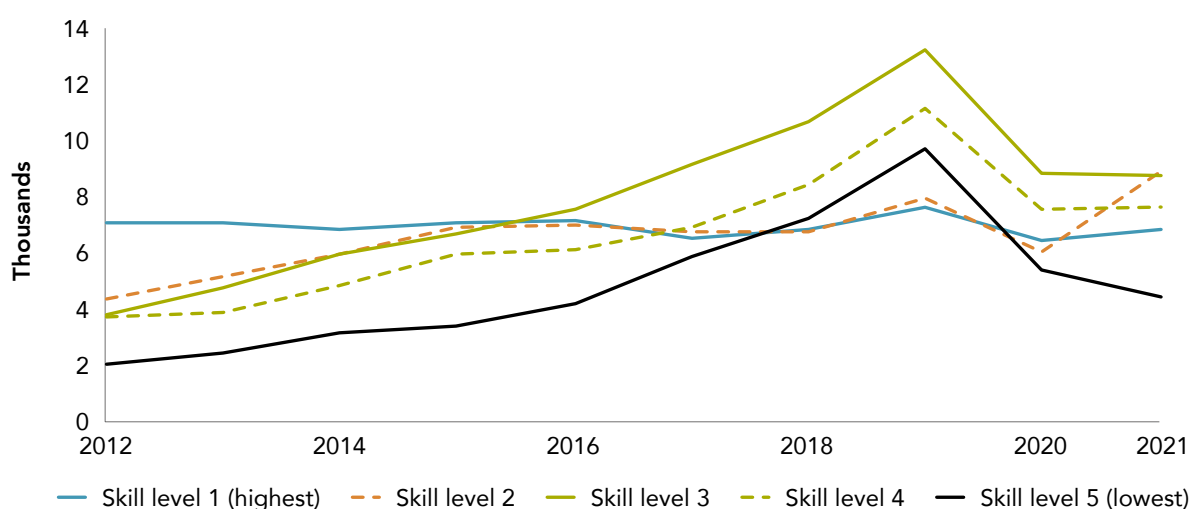
Source: Carey (2019).

Notes: 1. “Low education” refers to lower secondary education; “middle education” corresponds to upper secondary education and post-secondary non-tertiary education; and “high education” refers to tertiary education. 2. The last line of the table gives the sizes of the immigrant and emigrant groups as percentages of the total population in 2015–16.

However, in the decade before the 2020 pandemic, there was a shift towards migrants with medium- and lower-skill levels (as measured by the Australian and New Zealand Standard Classification of Occupations (ANZSCO)), particularly for those on temporary work visas. Figure 2.7 shows that for the largest of the skilled

temporary visa categories – the Essential Skills visa – approvals have seen a rise in the proportion of migrants at lower-skill levels (ANZSCO levels 4 and 5) since 2012, reducing the share of higher-skill levels (levels 1 and 2) which have remained very stable in number over the same period (see *Immigration by the numbers*).

Figure 2.7 Number of people approved on Essential Skills visas, by skill level, 2012–2021



Source: MBIE (2022b).

Finding 1

Since the 1970s, activity in the New Zealand economy has shifted relatively away from the manufacturing sector towards the service sector. More recently immigration has helped raise the overall skill and human capital levels of the working population and has more than offset the loss associated with the outward migration of higher skilled New Zealanders. Since 2012, an increasing number of people with lower-skill levels have been approved within both the Essential Skills and the Work to Residence visa categories. This means the skilled temporary visa categories have become relatively less skilled over this period.

Growth in the 2000s and a demand for labour

Sustained GDP growth since the early 2000s (except for the years where the economy was impacted by the Global Financial Crisis (GFC))

led to significant jobs creation in most regions of the country, resulting in high rates of labour force participation, low unemployment, and high levels of temporary migration (see Figure 2.11 and Appendix C). Just over 900 000 extra people were employed in New Zealand in the two decades to 2020.

Part 3 discusses how immigration policy was used to stimulate economic growth after the GFC, supporting the tourism and primary sectors, and growing the international education sector. At the same time, immigration has reduced the risk of labour shortages for employers in diverse sectors of the economy – from aged-care, to the dairy industry and the IT sector.

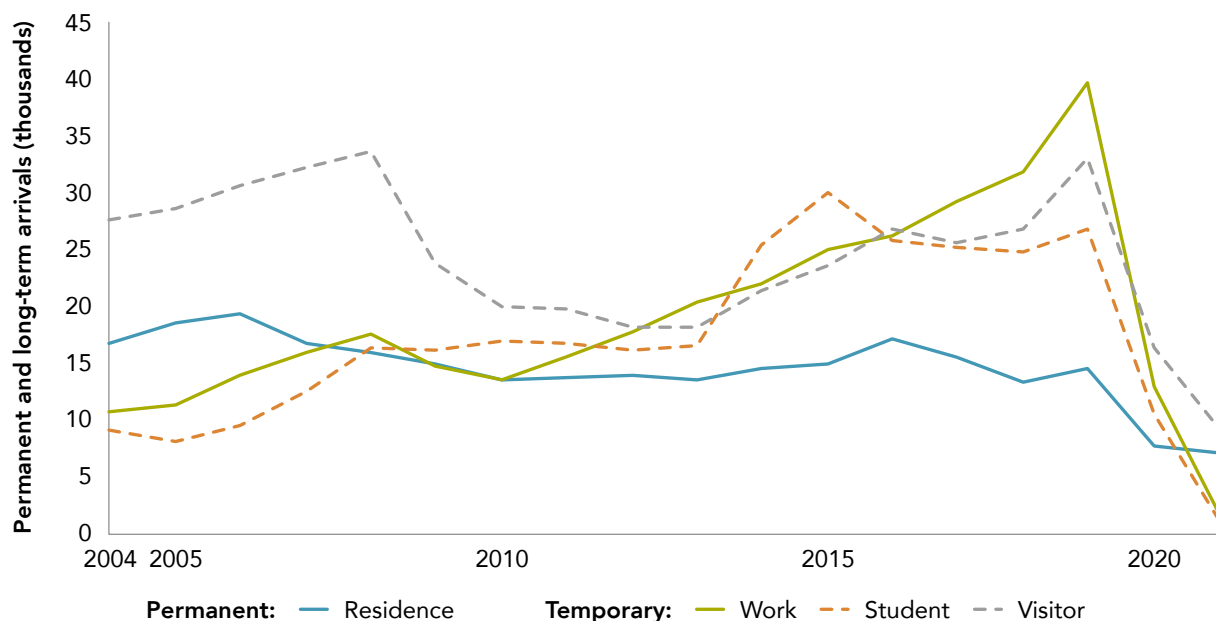
Migration flows into New Zealand have become increasingly temporary

Although immigration policy in New Zealand had traditionally favoured permanent settlers, since the early 2000s temporary migrants made up the bulk of those who arrived (Figure 2.8).

This reflected several policy choices, including:

- working holiday scheme (WHS) agreements, which give open work rights to people from selected countries for a limited period of time;
- expanding work rights for international students and foreign graduates of New Zealand tertiary institutions, as a means of making New Zealand’s export education sector more attractive;
- policy settings, like expanding Recognised Seasonal Employer (RSE) and other temporary visa caps which enabled firms to access foreign labour on temporary work visas more easily; and
- the increasing use of a two-step migration process, under which migrants enter on a temporary visa with the clear intention or hope of transitioning to a residence visa over time.

Figure 2.8 Permanent and long-term arrivals, 2004–21



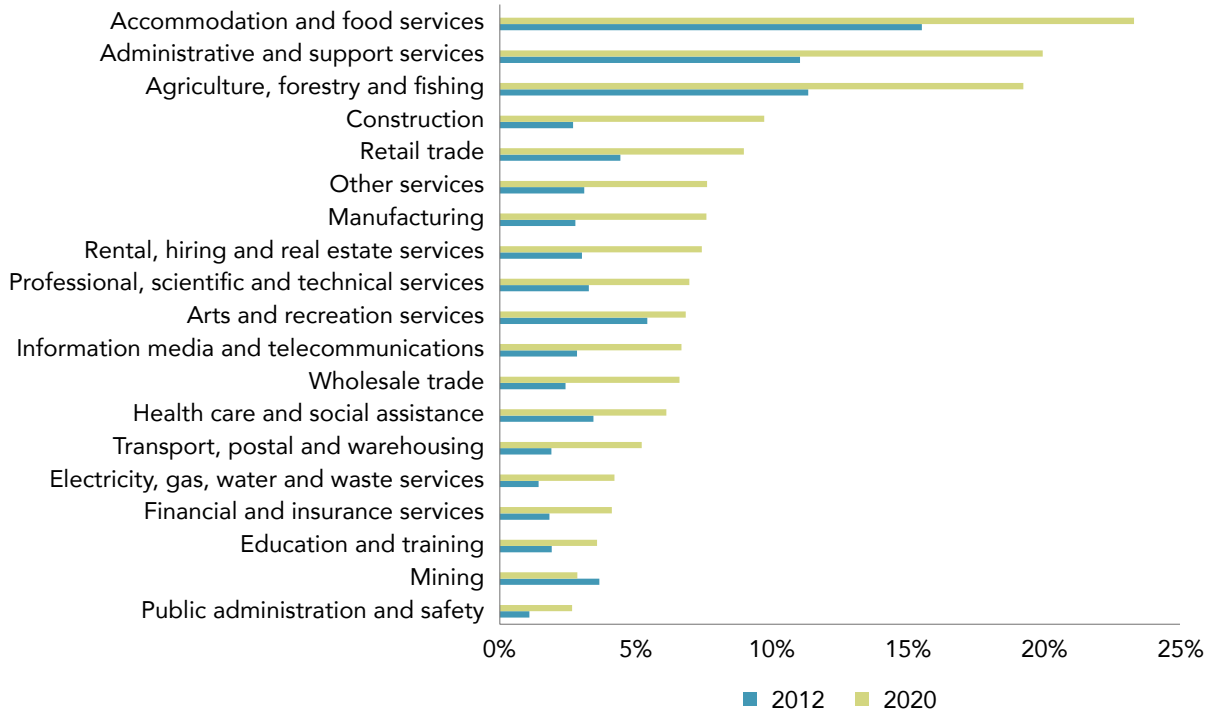
Source: Stats NZ (2021b).

Note: The graph presents the net annual migration of people who have been in the country for a total period of 12 months or more, during the 16 month follow-up period (outcome-based measure based on the “12/16 month rule”). The alternative measure is the number of people who intend to stay in New Zealand for more than a year (intention-based measure). The number of long-term visitors is heavily dependent on the method used, as many visitors stay longer than they originally intended.

The proportion of jobs held by temporary migrants in some industries grew significantly between 2012 and 2019 (Figure 2.9).

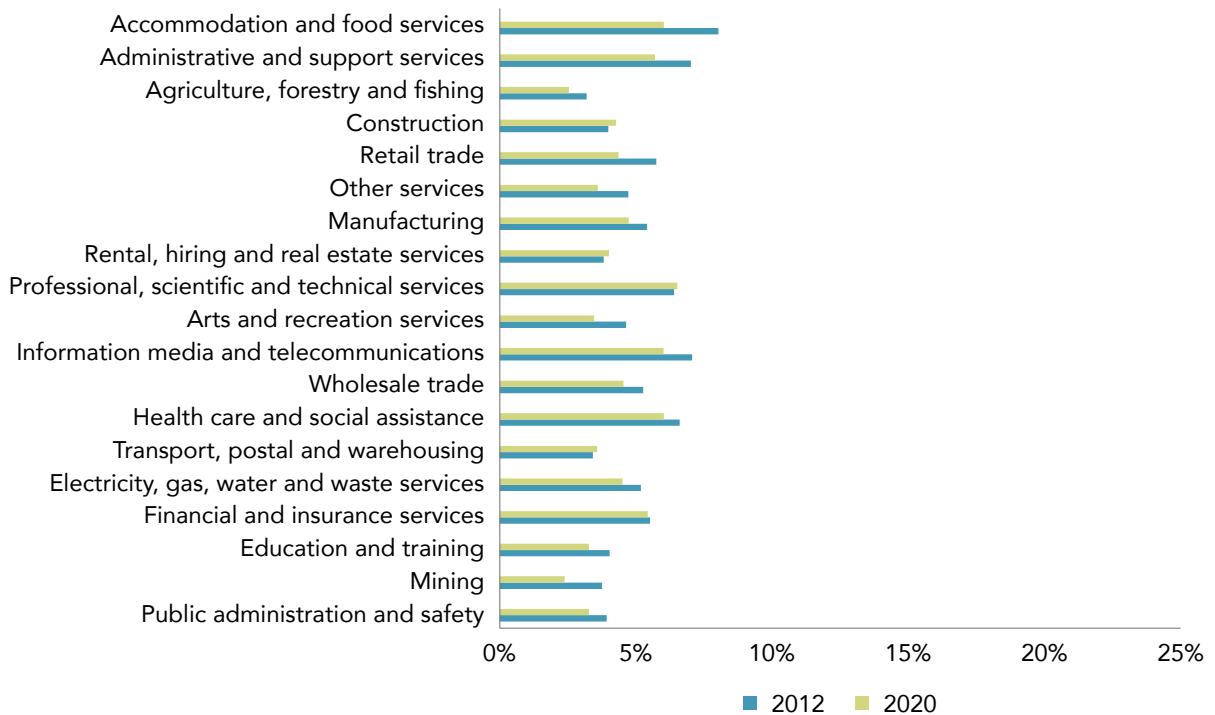
In comparison, recent resident visa holders are more evenly distributed across the economy, and now make up a smaller proportion of many industry workforces. Also, their shares of total jobs remained broadly stable between 2012 and 2019 (Figure 2.10).

Figure 2.9 Proportion of jobs held by temporary migrants, by industry, 2012 and 2020



Source: MBIE (2022b).

Figure 2.10 Proportion of jobs held by recent resident migrants, by industry, 2012 and 2020



Source: MBIE (2022b).

Note: Recent residents are people who have been in New Zealand for less than five years.

Finding 2

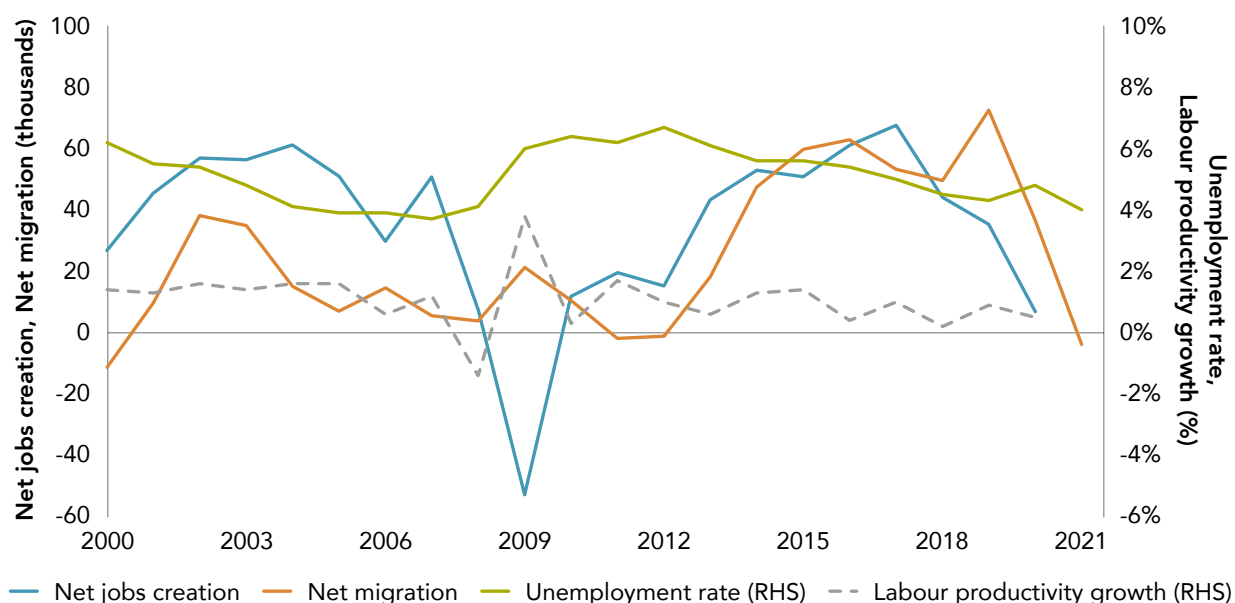
While immigration policy in New Zealand traditionally favoured permanent settlers, since the early 2000s, with the increased use of migration as a way to fill labour shortages, temporary migrants have made up the bulk of those who arrived. In the decade before Covid-19, the proportion of jobs held by temporary migrants grew significantly to become a substantial share of the labour force for some industries.

Job creation, high net migration and declining unemployment

Net migration shadows net job creation (see Figure 2.11), with the exception of the GFC period. In 2009, net job creation was negative, but net migration increased. The period from 2000 was one of low or declining unemployment, high and increasing labour market participation but sluggish labour productivity growth. Sluggish productivity growth was similar to the experience in most developed economies since the GFC.

The national pattern was seen across all New Zealand's regions (Appendix C), including Gisborne/Hawke's Bay and Northland. In such a tight labour market, the expansion in jobs created by the economy needed to be met from elsewhere. This suggests that, in aggregate, migrant labour has not displaced local labour, but rather has been driven by net jobs creation across the economy.

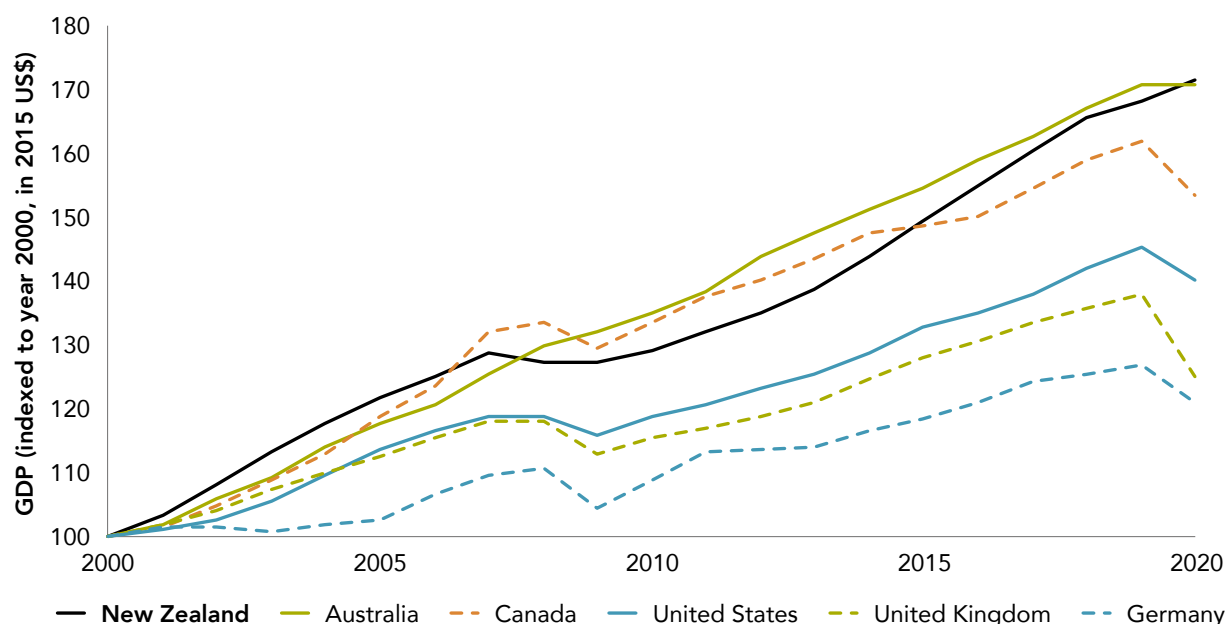
Figure 2.11 Labour market conditions, productivity and net migration



Source: NZPC using Stats NZ's Household Labour Force survey, migration, productivity, and linked employer-employee data.
Notes: 1. The graph presents the net annual migration of people who intend to stay in New Zealand for more than a year (ie, permanent and long-term migration), regardless of their citizenship.
 2. Net jobs creation is the difference between jobs creation and jobs destruction during the year. It captures the employment growth.
 3. Labour productivity growth is annual growth rate across the measured sector by financial year. The graph presents Stats NZ's official figure for the year ending March 2021 as year 2020, to enable better comparison with other measures presented.

Locals and migrants work harder yet produce less than workers in other countries

Figure 2.12 Locals and migrants work harder yet produce less than workers in other countries
GDP growth: New Zealand and selected comparator countries, 2000–20



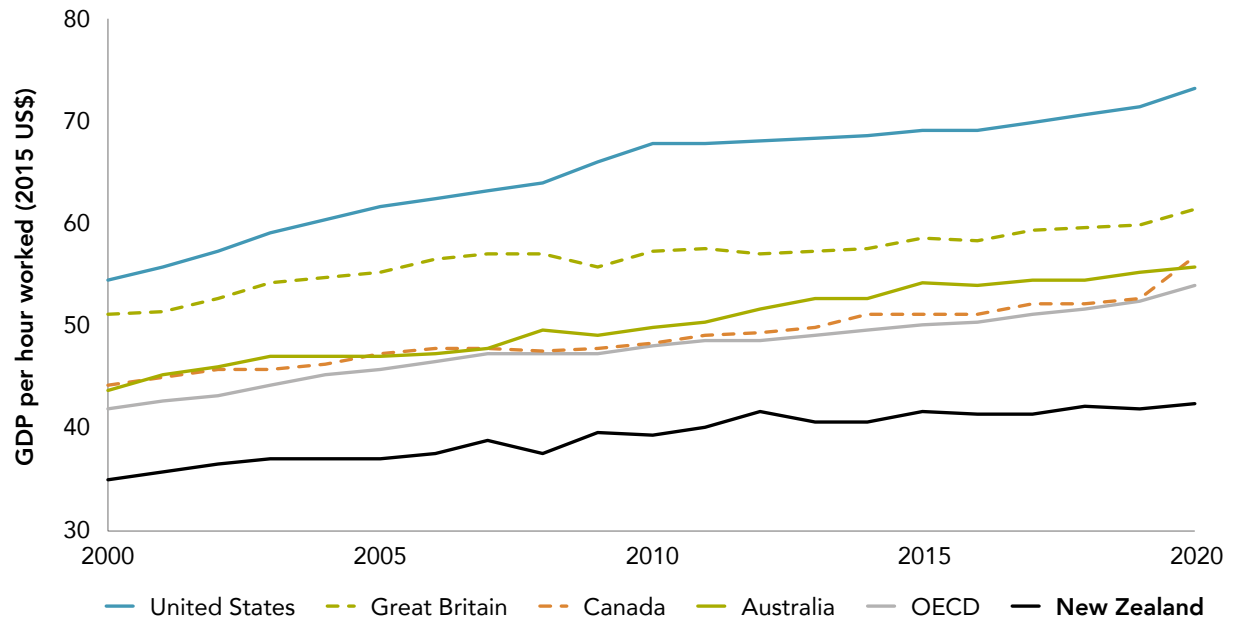
Source: The World Bank (2022).

GDP growth over the last two decades to 2020 has kept up with, or eclipsed, the growth rates of other OECD countries (Figure 2.12). But what matters for material living standards is not growth in GDP itself. It is output generated per person (GDP per capita) or per hour worked (labour productivity).

New Zealand’s GDP growth relied on adding more people to the labour force, and by both locals and migrants working longer hours.

As mentioned in the previous section, most developed economies have experienced sluggish productivity growth since the GFC. New Zealand’s labour productivity has been weaker than the average OECD, and has not improved over the period (Figure 2.13). New Zealand produced less output an hour (\$68) compared with the OECD average (\$85) in 2019/20 (NZPC, 2021f).

Figure 2.13 Labour productivity growth: New Zealand and selected comparator countries, 2000–20



Source: OECD (2022).

Note: The OECD data are a weighted average of all OECD countries.

Finding 3

New Zealand’s output growth over the last two decades to 2020 has kept up, or eclipsed, the growth rates of other OECD countries. However, New Zealand’s labour productivity has remained well below the OECD average, and the gap has widened. Output growth has been driven by adding more people (both locals and migrants) to the labour market, and by working more hours, but achieving less output for every hour worked than in many other OECD countries.

Part 3

The recent past: between the GFC and Covid-19

Policy debates from the pre-pandemic period

The policy and political preference for using migration to meet the demand for labour and support industry development generated increasing concerns before Covid-19 that this path:

- heightens displacement risk for local labour, especially employment opportunities for New Zealanders who lack work experience and qualifications;
- dampens employers' incentives to train employees or engage with the education and training system;
- puts pressure on the country's absorptive capacity, including housing supply and infrastructure; and
- does not contribute to improved productivity, dampens incentives to adopt new technology, and creates imbalances in the macroeconomy.

These concerns are articulated in this inquiry's Terms of Reference, in submissions, engagement meetings and public commentary, and, with respect to the impact on productivity, in debate among the economics profession.

After describing the recent past in more detail, this part discusses these issues and what the Commission has found about each of them. The last section highlights that these concerns are in fact perennial issues of the sort that typically arise

whenever one arm of the government responds to short-term issues without the requirement to consider the impacts on future governments' policies or longer-term objectives.

Immigration to meet labour shortages and support industry development

Governments since the early 20th century have used migration as an instrument to meet labour shortages and support industry development (Brooke et al., 2018). To grow the economy, the primary focus for most of New Zealand's history has been on permanent migration and settlement. The last decade has seen three significant events relevant to net migration: the GFC, the end of the Australian mining and employment boom, and the Covid-19 pandemic.

Facilitative migration policies supported economic growth after the GFC

After the GFC, the Government eased migration settings to support GDP growth. It created new visa categories, increased approvals for various visa categories and left some visas uncapped or with volumes only lightly controlled. It created bespoke working holiday schemes (also tied into international trade objectives) in targeted

international markets. The number of schemes and the number of migrants on them continued to expand up to the Covid-19 border closures.¹

Migration stimulated demand in tourism, retail, hospitality, and the international education sectors. The growth of temporary migration also met employers' demands for skilled workers, particularly following the Canterbury earthquakes. Sectors that relied on international visitors grew. Easier access to both skilled and unskilled labour bolstered regional economic development.

After the GFC, the Government relaxed the ability for international students to work while studying in New Zealand and for a limited time after graduating. The relaxation led to a large increase in students enrolled in private training establishments, and concerns that the primary reason for people arriving within this visa stream was not to study, but to work and have a chance at getting residency. Between 2016 and 2018, the Government gradually tightened the policy and flows slowed. Yet over the period, international education became, until the Covid-19 pandemic, the fifth largest export sector in New Zealand.

But net migration was also boosted by fewer New Zealanders leaving to live in Australia

As outlined in Part 2, Trans-Tasman people flows tend to reflect the relative economic performance of New Zealand and Australia over time. The end of the mining and employment boom in Australia around 2015 meant a significant drop in

the numbers of New Zealanders leaving to live in Australia and a rise in Australians arriving to live in New Zealand. As Figure 2.1 shows, this drop in outflows to Australia, combined with a large increase in temporary migration (based on the response to the GFC), saw net migration soar to levels unseen for many years, if at all, just before the Covid-19 pandemic.

Closing the borders in March 2020 because of Covid-19

Closing the borders in March 2020 saw net migration drop to levels not seen since the GFC and exposed the reliance on temporary migration of several sectors of the economy. Of note was the drop in revenue of the tertiary education sector and the reported difficulties experienced by the horticulture sector in finding staff to pick and pack produce.

Migration, job displacement and wage effects

The overall employment impact of immigration on the local labour market depends on whether migrants are substitutes or complements for local workers. Displacement occurs when migrants take the place of local workers. Immigration, however, can also increase the demand for local workers when migrants' skills or roles complement those of the local workforce (Box 3.1).

¹ Most working holiday schemes are capped, such as those for Brazil (300 places), China (1 000 places) and Korea (3 000 places) however, 14 schemes, including those covering our largest source countries, are uncapped. These are for citizens of the United States, the United Kingdom, Canada, Italy, Sweden, Denmark, Belgium, France, Germany, Norway, Finland, Ireland, the Netherlands and Japan who meet the scheme criteria (Fry & Wilson, 2022a).

Box 3.1 How migrants can act as substitutes and complements to local workers and earlier waves of migrants

Migrants can bring new ideas or skillsets into an economy, creating better ways to work and new opportunities for local firms to grow their markets and profits. When a migrant brings specialised skills that are critical to a project but hard to hire (eg, tunnellers for large infrastructure projects, snow groomers for ski fields, or experienced horticultural workers), this can overcome bottlenecks, allowing the firm to grow and increasing the demand for local workers.

Migrants can enable local workers to specialise and become more productive. Lower-skilled migrants such as care workers, for example, can allow higher-skilled nurses to undertake more specialist work.

Where migrants and local workers are substitutes, that is they have similar skills, experience and other characteristics relevant for a job, employers may hire them instead of a local, leading to displacement of local labour.

Even when migrants hold the same qualifications as local workers, it does not always mean they are perfectly substitutable. Adjusting to a local labour market can take time. Evidence from New Zealand suggests that this transition takes between 5 and 15 years (Stillman & Maré, 2009). During this time, migrants are “imperfect substitutes” for local labour. International research highlights that during this period migrant workers often face stiff competition for work opportunities from workers most like them in qualifications, but who also have experience in the local labour market. These are often earlier waves of migrants (Card, 2009).

The wage effects of immigration depend on the skill levels of migrants, their bargaining power, and wage levels in source countries which partly determine the reservation wage² of migrants when they are new to New Zealand. Workers who come from countries with lower average wage levels than their destination country may be willing to accept lower pay rates for their level of skill, at least until they adjust to local labour market conditions. New Zealand, in comparison with other OECD countries, has drawn a higher proportion of its skilled migrants from non-OECD countries – with over 40% of migrants in 2018 sourced from countries with substantially less than half of New Zealand’s GDP per capita (NZPC, 2021b).

Views from submissions and engagement meetings

Several submitters to the inquiry raised the issue of whether migrant workers displace local workers. Those submitters expressed a wide range of views (Box 3.2) including:

- concerns about the negative impacts that immigration could have on wages and conditions;
- concern about negative outcomes for Māori (and, less frequently, Pacific peoples);
- temporary or seasonal migrants can enable higher wages or permanent or high-skilled jobs for New Zealanders and the development of industries;
- New Zealanders do not want to do, or cannot do, some jobs, despite wage increases; and
- some of the country’s regions have few jobseekers.

2 The reservation wage is the lowest wage acceptable to a worker to participate in the labour market.

Box 3.2 Views on the impact of immigration from submissions and engagement meetings

“Your reports claim migration doesn’t affect wage rates, I can’t accept? Market prices (including for labour power) are governed fundamentally by supply and demand. If the reserve army is reduced, bargaining power increases. If the reserve army becomes the world labour pool, then wages will be impacted.” (Mike Treen pers. comm. 12 December 2021)

“What you do see is people living in poor accommodation, ‘we would not live in it’ but migrants get to live in a ‘holiday park’ all year round, and this means local Māori don’t get the local jobs as they are priced off the market through being unwilling to live in cheap accommodation. ‘Migrants they don’t have alternatives.’” (Laures Park, NZCTU Rūnanga pers. comm. 1 December 2021)

“One company, after investigating and realising that only 7% of Māori in Waikato earn more than \$50,000 a year, made a real difference to their predominantly Māori community by genuinely engaging with them and asking what they needed to do to attract workers. Following feedback from this engagement, they lifted wage rates by 17%.” (Jax Oldham, NZCTU Rūnanga pers. comm. 28 April 2022)

The additional cost of employing only New Zealand workers was 5% of the company’s bottom line. “Could have made 14% return on investment but I only made 9%.” People were constantly telling Liam to employ migrants. This is because migrants, when tied to an employer, reduce the employee churn rate to 0%. His company’s churn rate in forestry was 45%. There were also motivation issues for local workers, which required additional costs to overcome. On top of this, employers who use migrants were able to provide them food and accommodation at cost plus profit, not just cost. (Liam Dickson and Lyndon Drake pers. comm. 10 February 2022)

“While the opposite is often claimed, our experience reflects the finding that in most instances immigration has not led to wage restraint for New Zealand-born workers over the last 25 years, and that in some instances immigration has had positive effects for wages.” (sub. DR180, FIRST Union)

“The kiwifruit industry relies on temporary migrant labour to fill predominantly seasonal (ie, for a few months) and regional jobs, where there is [sic] very few available New Zealand workers, and which complement and enable a significant number of permanent and high-skilled jobs for New Zealanders. Without access to temporary migrant labour, the industry would be unable to grow and there would be fewer permanent high-skilled jobs for New Zealanders.” (sub 55, NZ Kiwifruit Growers Incorporated)

“Almost all (more than 90%) animals in New Zealand are processed in the halal manner. Almost half (43%) of total red meat exports (by volume) are halal certified, earning \$3.3 billion for New Zealand. Without halal slaughter, and the increased value provided, the industry would not be commercially viable. This means that the industry is dependent on just a very small number of workers doing a key role –halal slaughterers.” (sub. DR156, Meat Industry Association of New Zealand (Incorporated))

“The pool of potential workers in rural areas is limited and over recent years it has been even more limited by very low unemployment in many rural areas. We constantly hear from farmers that there are virtually no unemployed people in their areas available for work, especially in places like rural Southland, Otago, and Canterbury.” (sub. 60, Federated Farmers of New Zealand)

MBIE's study of the impacts of temporary migration on employment and earnings

MBIE (2018) used data in Stats NZ's Integrated Data Infrastructure (IDI) on monthly employment and earnings of all employees in New Zealand linked to information on the migration status of workers. The study looked at the effects of temporary migration on employment and earnings across a full 15-year period and for three five-year sub-periods. The study looked separately at the effects on all workers, all those over the age of 25 years; youth (aged 16 to 25 years) and beneficiaries.

The study found:

- no effects overall of temporary migration on employment and new hires; and
- some positive effects of temporary migration on the earnings of New Zealanders aged over 25 years, but not of youth.

However, when looking at different periods and different subgroups, a range of positive and negative effects emerged that were not evident in the overall results above. For example:

- temporary migration increased new hires of youth in 2006–10 and 2011–15 by 2.3% and 3.6% respectively; although, when looking at the impact in food services, temporary migration directly increased the employment of New Zealanders generally (11.1%) and youth (16.4%);

- the employment of "Essential Skills" and "Family" visa holders each had negative effects on new hires of New Zealanders as a whole;
- international students had positive effects on new hires of youth; and
- "Study to Work" visa holders had negative effects on new hires of youth.

The study found both positive and negative effects of temporary migration on beneficiaries depending on the timeframe and temporary visas under consideration.

- Temporary migration reduced new hires of beneficiaries by 8.9% in 2001–05, but not in later periods.
- Using data pooled from 2001–15, the study found that temporary migration reduced new hires of beneficiaries outside the main urban areas (-2.3%) and in horticulture (-4.5%). Employment of temporary migrants in the family category reduced new hires of beneficiaries (-3.0%). Yet employment of international students had small, positive, direct effects on new hires of beneficiaries (+0.3%).

Case studies of industries reveal a mixed picture

The Commission undertook four case studies of sectors where migrants make up a substantial share of the workforce, to examine the effects that migrant workers have had on wages and conditions – dairy farming, construction, aged care, and software (Box 3.3).

Box 3.3 Case studies

Dairy farming – In dairy farming, the evidence about complementarities and substitution with local labour is mixed. Over the past decade, the share of entry-level roles occupied by migrant workers increased a lot. Migrants made up half of new entrants in 2019, up from 10% in 2010. This may indicate displacement or simply reflect difficulties the sector faces in attracting New Zealanders to work in remote regional areas (Federated Farmers, sub. 60; DairyNZ, sub. DR168, p. 6). Also, the use of migrants in managerial and operations roles has grown, potentially enabling further local employment in entry-level roles.

Construction – Construction work is volatile, and the sector makes use of temporary migrant labour as a source of flexibility and growth in times of high demand. Large increases in the volumes and share of migrant workers do not appear to have discouraged training, although training is a known issue within the sector. The number of people in apprenticeship programmes increased substantially from around 11 000 in 2011 to 25 700 in 2020, with much of this increase occurring after 2016. Since 2019, the Construction Accord has combined with changes in government procurement requirements around training and the “Apprenticeship Support Programme” – to further accelerate apprenticeship uptake.

Skilled migrants are also used to provide specialist skills for specific projects (eg, tunnelling engineers for public transport infrastructure projects in Auckland). Jaffe and Chappell (2018) found that firms with more workers who were recent migrants tended to be around 8% to 14% less productive, but that this appeared to be due to characteristics of the firms rather than characteristics of the migrant workers.

Concerning reports have emerged that note the abuse of migrant workers in the construction sector, although it is difficult to determine whether exploitation is occurring at a higher rate than in other industries.

Aged care – Migrants make up a significant share of critical roles in the aged-care sector, especially carer staff and nurses. New Zealand is not unusual in this regard, with aged-care sectors in most developed countries relying on labour from other countries. Internationally, the OECD found that population aging is outpacing aged-care workforce supply, even in countries with high unemployment rates (OECD, 2020b). The use of a migrant workforce in aged residential care is not about bringing in unique specialised skills, but about filling workforce gaps.

Software – The software industry has been growing rapidly and paying high wages to attract both local and international workers. Even with these high wages, the industry argues that the lack of a supply of suitably skilled and experienced labour remains a constant constraint on growth. Overall, anyone suitably qualified and experienced could find employment, which strongly suggests that migrants are not being substituted for, or replacing, existing local workers. Given rapid growth, high wages and labour shortages, a key question is whether firms’ access to migration is discouraging them from training the next generation of software workers. The industry acknowledges issues with graduates finding their feet in the industry and career progression in the industry. In partnership with the Government, the industry has developed an Industry Transformation Plan that addresses these challenges among others (Lewis et al., 2021).

Lack of systematic displacement effects may be due to the high demand for labour

Although the rate of temporary migration was high in New Zealand over the decade preceding the 2020 pandemic, national and regional labour market data presented in Part 2 and in Appendix C do not provide much evidence of immigrants displacing locals. Rates of net migration have closely matched rates of net jobs creation while unemployment rates were falling (Figure 2.11), and rates of economic inactivity in the labour market were stable or falling (Appendix C). These trends are also consistent

with the results found in the MBIE (2018) study previously described.

New Zealand's GDP grew strongly in the decade to 2020. This growth created high demand for labour and, in some cases, persistent labour shortages for some skills and occupations, at prevailing wage rates, and in some regions. This high demand for labour has likely negated any potential adverse impact of high levels of migration on employment and wages.

Even so, concerns about displacement of local labour in the event of a future economic "shock" or cyclical downturn in the economy are real. A downturn could result in the loss of jobs and greater competition for remaining jobs.

Finding 4

Before the 2020 pandemic, the overall unemployment rate was low, labour force participation high, and non-participation low. Job creation and net migration matched each other closely over a decade, suggesting that, in aggregate, no systematic displacement of local labour occurred, and that employers were able to use migrant labour along with local labour to fill new jobs.

In aggregate, immigration has had small and mostly positive effects on the wages and employment of New Zealand-born workers over the last 20 years. However, there have likely been some negative impacts on the employment prospects of beneficiaries and others in some local labour markets in particular places at particular times. These results arose within a buoyant phase of the economic cycle. The same outcomes would not necessarily hold in a downturn of the economic cycle.

Rather than place restrictions on immigration, policy should aim to improve the skills and employment prospects of locals

Migration, on average, creates more labour market opportunities than it destroys, and has a small net positive impact on the wages and employment of incumbent workers. This overall finding, however, merges two very different experiences of migration: on the one hand the employment and wage opportunities that open up for some people due to migration, and on the other the disruption that other people

experience. Overall, more people are better off than worse off.

This means that for some people, especially for those with low levels of skills, education, and experience, where more Māori and Pasifika are prevalent, the overall finding of a net benefit conflicts with their individual experience. For them, the cost can be very high and felt by the person, their whānau and their community. Stating that, overall, other people are better off is no help to those people experiencing difficulties, and might even fuel negative sentiment towards migrants on their part (Dustmann & Preston, 2019).

Finding 5

Restricting migration to prevent potential job displacement of low-skilled or low-paid workers may cause greater harm because migration, on average, creates more labour market opportunities than it destroys, and has a small net positive impact on wages and employment of local workers. Even so, pointing out that, overall, other people are better off does not compensate those people experiencing difficulties. For people negatively impacted through job loss, the cost can be very high and felt by the person, their whānau and their community.

When a person loses their job, they may face retraining or a move to a new location for work. New Zealanders are generally highly mobile for work, including across regions (Coleman & Zheng, 2020; NZPC, 2019a); yet some barriers to mobility exist, including attachment to place and inter-generational living (Sin & Stillman, 2016). Other barriers can take the form of an economic trap such as high house prices elsewhere, or growing up in an environment of persistent socioeconomic disadvantage. The Commission is investigating persistent disadvantage in another inquiry, *A Fair Chance for All*.

By preparing children for success in the labour market, the education system has the potential to improve outcomes for children from disadvantaged backgrounds, and especially for Māori and Pasifika students (NZPC, 2020). The emphasis should be on “first chance” education because evidence suggests that outcomes associated with second chances, in lower-level tertiary education and training, are mixed. Several studies, for example, find that completion of qualifications at NZQF levels 1–4 after leaving school provides only small income benefits to graduates, but sometimes offers employment benefits (Crichton, 2009; Crichton & Dixon, 2011; Tumen et al., 2018). Studying at higher levels (certificates or diplomas at NZQF level 4 or above) does provide some graduates with higher earnings, although results have varied by gender, age, and subject field (Crichton, 2009; Crichton & Dixon, 2011).

In its report *Training New Zealand’s Workforce* (NZPC, 2019b), the Commission noted that some innovative labour market interventions are worth considering for youth at risk of long-term poor employment outcomes.

- Targeted programmes for young people in long-term limited employment would include those in minimum-wage jobs, those frequently underemployed, and those underemployed for long periods. Such people may not be current or frequent clients of the Ministry of Social Development.
- Active labour-market policies (rather than education interventions aiming for qualifications) for low-skilled, at-risk young people, would help them achieve sustainable employment and economic independence.

Alongside these types of programmes, Industry Transformation Plans could provide a mechanism for coherent training within industries and open up further training and employment options for people impacted by job displacement or lack of job opportunities given their current skills.

Recommendation 1

To address particular cases where evidence exists of immigration displacing local workers, the Government should implement policies to empower displaced workers, such as improved access to education and training; tailored active labour market programmes; and Industry Transformation Plans. An approach that included such policies should be the primary focus regardless of the reason for displacement (eg, economic shock, or automation).

Short-term support policies or programmes, or bespoke interventions, may need to be considered to protect particularly vulnerable people. Policies aimed at improving the employment prospects of displaced workers or workers at risk of displacement are more likely than restrictions on immigration to deliver positive and long-lasting labour-market and wellbeing outcomes.

The risk of displacement (alongside absorptive capacity, productivity impacts, and the working conditions of migrants) should continue to be a consideration in the design of future immigration policy.

Access to migrant labour has pros and cons for training locals

Access to skilled migrant labour could potentially undermine incentives for firms to train and develop New Zealand workers (Treen, 2021). On the other hand, trained migrants can sometimes be used to upskill and pass on knowledge to local workers. Submissions to the inquiry commented on the

impact of immigration on workforce training and argued both sides of the training coin.

- Skilled immigration has positive effects on training and upskilling by employers, because it brings in new knowledge or more experienced staff who can train New Zealanders.
- Employers sometimes take on migrants instead of training locals because they cannot find suitable trainees, or afford to train locals.
- It is more profitable to hire trained people.

Box 3.4 Views on the impact of immigration on training and findings from submissions

In the meat processing industry "...migrant workers do not reduce training but enable it. The provision of highly skilled workers allows other highly skilled workers to be taken off the chain to enable them to train new or unskilled workers. The provision of lower skilled workers allows New Zealand workers to be taken off the chain and receive training. This has been graphically shown in the past year, where the supply of migrant workers has been strangled due to Covid-19. As a result, the numbers of workers doing NZQA recognised training has plummeted from more than 5 000 a year to barely 2 000 in 2021." (sub. DR156, Meat Industry Association of New Zealand (Incorporated))

Box 3.4 continued

“We have observed that our migrant workers have had greater experience managing certain [technology] applications. They have used this knowledge to grow the capability of internal employees. Strong policy to attract these high impact migrant workers presents a great opportunity to adopt technology and improve the training of the New Zealand workforce.” (sub. 25, Trustpower)

“With skilled candidates scarce in the country, and few jobseekers to attract into vocational training, employers are left with no option but to hire from overseas.” (sub. DR154, Motor Trade Association)

“Access to migrant labour does reduce training and upskilling by employers. This differs across industries, but is particularly clear in industries like healthcare, construction and some parts of healthcare and manufacturing. In the construction industry, for example, the cost to firms of apprenticeship training compares disfavouredly [sic] with the cost of engaging already skilled migrant workers.” (sub. DR180, FIRST Union).

Mixed evidence from case studies

The impact of immigration on training in the Commission’s cases studies is mixed:

- In the construction, training and apprenticeship numbers have increased since 2016 – with significant increases in recent years prompted by the Construction Accord, government procurement requirements changing to include training, and the “Apprenticeship Support Programme” introduced in response to Covid-19 (Box 3.3).
- In the dairy case study, the amount of credentialled training has significantly dropped off corresponding with the rise in employment of migrants. Industry analysis highlights the view held by many farmers that the training offered is not a good fit with farm needs, and that many farmers do not have the spare labour capacity for training given the labour shortages they face on the farm.
- The rapid growth of the software industry has created a range of issues with its talent pipeline. These issues are highlighted in the draft Digital Technologies Industry Transformation Plan jointly developed by

the Government and the industry. Firms that are growing rapidly prefer to employ experienced staff from overseas rather than face the costs associated with investing in training inexperienced staff. While nearly 3 700 information technology professionals received visas to immigrate to New Zealand in 2019 (MBIE, 2022a), many young graduates struggled to gain an internship or an entry-level job (NZTech & New Zealand Digital Skills Forum, 2021). Only 352 students gained internships in 2019 after 2 699 registered for the opportunity.

Professional workers are more likely to take part in training

New Zealand workers in professional occupations are more likely to take part in training than workers in other occupations. Professionals (71%) and community and personal service workers (68%) have the highest rates of participation in education and training. The lowest participation rates were for labourers (43%), and machinery operators and drivers (48%) (Stats NZ, 2019).³

3 The OECD survey of adult skills (PIAAC) reported similar occupational patterns of participation in on-the-job learning (Ministry of Education & MBIE, 2016).

Characteristics of firms matter for whether training is offered

Larger established firms are more likely to be in a position to train workers than small firms, start-ups or rapidly growing firms (Barnes & Dixon, 2010). Casual workers are less likely to receive education and training paid by employers (Blumenfeld et al., 2016). Industries that employ high numbers of temporary migrants are more likely than other industries to employ locals under casual or temporary arrangements. As a result, employers in those industries are less likely to provide training to workers.

Institutional issues with the training system in New Zealand

In its inquiry into *New models of tertiary education*, the Commission commented that where employers can access experienced labour at comparatively low wages through immigration, they have weak incentives to hire new graduates from the domestic tertiary education system, or to work with tertiary providers to lift domestic skill supply. This can create a vicious circle in which employers find domestic supply unsatisfactory but lack incentives to improve that supply (NZPC, 2017). Some sectors in New Zealand may be operating in a low-skill, low-wage labour market trap (Box 3.5).

Box 3.5 A low-skill, low-wage labour market trap?

Strong migration inflows may potentially restrict wage growth, making some jobs less attractive to local workers, which in turn encourages or reinforces some firms and industries to rely on low-cost (and low-skill) labour.

Evidence on a low-skills equilibrium in the United Kingdom has identified a concentration of employers operating in a low-skills, low-wage trap in particular sectors and geographies (Wilson & Hogarth, 2003). Eastern European migrant workers in Birmingham, at least initially, filled low-skilled roles, even if they had higher-level qualifications (Anderson et al., 2006). In New Zealand, strong employment growth has previously kept pace with strong immigration inflows, but many immigrants are low paid and working in unskilled occupations in lower-productivity industries (see *Immigration by the numbers*).

In theory however, a firm's willingness to train and a person's willingness to invest in developing their skills are both related to the expected returns from doing so. Even so, risks exist for both parties. For a worker, part of their expected returns depends on employer characteristics and firm choices outside their control. For a firm, a trained worker becomes more valuable not only to the firm paying for the training but also to other potential future employers.

Returns to education in New Zealand are among the lowest in the OECD and have declined over recent years (Conway, 2018). Falling returns to education suggest a disconnect between the education system and the skill requirements of firms. Low expectations of firms and workers can combine to suppress investment and productivity improvements, possibly working against efforts to increase the skills and employment opportunities of lower-skilled New Zealanders. Under this scenario, fewer workers invest in education because fewer skilled vacancies are available, and firms supply fewer skilled vacancies because fewer educated workers are available.

What to do about this chronic underinvestment in training is less clear. The appropriate policy response to under-investment is a matter of debate – options range from focusing on labour supply and either limiting access to low-wage migrant labour and/or facilitating access to higher-skilled workers; to policies that incentivise training workers.

Box 3.5 continued

With training, the balance of evidence suggests that policy discussions should focus on encouraging employers, rather than employees, to increase training (Brunello & De Paola, 2004; Brunello & Wruuck, 2019). Having said this, a question remains about effective ways way to help those workers least likely to be trained under employer schemes (Brunello & De Paola, 2004).

Work is under way to build institutions that may improve links and information flows between industry, education and immigration. Plans being implemented include the establishment of the Regional Skills Leadership Groups, Workforce Development Councils and Te Pūkenga (the New Zealand Institute of Skills and Technology). Recommendations to strengthen these links are in Part 5.

Pressures on absorptive capacity harm migrants and locals

As the population of a country grows, whether from natural increase or net migration, so too does the need to expand housing supply,

transport and communications infrastructure, and health and education services – all the basic things required to enable people to live well and work productively. The wellbeing of both migrants and locals is harmed when population growth exceeds absorptive capacity. Absorptive capacity has many dimensions (Box 3.6).

On many of these dimensions, New Zealand performs well. Over the last two decades, for example, the labour market has generally had low unemployment, high levels of labour utilisation, and has employed nearly 900 000 extra workers (Figure 2.11 and Appendix C).

Community comfort with immigration has been widespread. Regular surveys of community opinion run by MBIE consistently show very low negative attitudes toward migrants as a whole (MBIE, 2020a).

Box 3.6 Absorptive capacity

Absorptive capacity relates to both social outcomes, such as cultural and social cohesion, and to economic opportunities, including the ability to make use of people's skills and talents. Absorptive capacity also relates to a country's physical ability to house new people within available housing and infrastructure to a standard that society is comfortable with. Since new capacity can be added with sufficient time and prior investment, absorptive capacity is not a fixed constraint, over the longer term. In the short term, however, absorptive capacity depends on a mix of factors that influence the ability to maintain and build social and human capital, as well as fund and build the right amount of physical infrastructure, such as roads and houses, in the right place at the right time.

Concern about absorptive capacity has been a recurring theme in New Zealand

Concern about the ability of New Zealand's society and economy to absorb large numbers of migrants has been a recurring theme in public debate over immigration. Economic pressures arising from large-scale inward migration were visible as far back as the 1870s, where the need to house new arrivals diverted investment away from export- and income-generating sectors (Gardner, 1981).

In 1946, the Dominion Population Committee noted the likely impact of large-scale immigration on demand for schools and cautioned that any such increase would require prioritising the building of new schools over houses, lowering accommodation standards for schools, using untrained or partially trained teachers and potentially reducing the "length of the school-life of the average child". The Committee concluded that "large-scale immigration involving children cannot be achieved within the next few years without a reduction in the standard of the education that is offered to children already in New Zealand" (Dominion Population Committee, 1946, p. 103).

Statements of government immigration policy in 1974 and 1986 emphasised the need to remain within New Zealand's capacity "to provide employment, housing and community services" (Department of Labour, 1986, p. 3). Official policy also favoured limiting immigration volumes to manage pressures on wider resources. Work by the Monetary and Economic Council and others

raised concerns that too much immigration "would be inflationary, induce a balance of payments deficit and increase labour shortages through the excess aggregate demand effect" (Poot, 1986, p. 13). Some economists expressed concern that overly rapid population growth would dilute the amount of capital available per worker and undermine living standards (Brooke et al., 2018).

Absorptive capacity concerns in the decade before the pandemic

The rapid and sustained increase in New Zealand's population in the decade before Covid-19 exacerbated existing pressures on housing supply and public infrastructure including hospitals and schools, and other public services. Infrastructure supplied by the private sector (eg, telecommunications, energy, and airports) has largely kept up with demand, with the obvious exception of housing infrastructure (eg, build-ready land, and water connections).

However, infrastructure owned or funded by the public sector has not kept up. The Treasury's 2022 Investment Statement cited the Infrastructure Commission's recent estimate of New Zealand's infrastructure challenges. This includes an "infrastructure gap" – the value of what New Zealand should have built but has not – of \$104 billion. The Government also has a "future infrastructure gap" of \$106 billion over the next 30 years, which is the difference between what the Government is currently planning to spend and what it would need to spend to keep up with demand (The Treasury, 2022).

Finding 6

Strong inward migration of non-citizens can combine with return migration and low rates of emigration by citizens and permanent residents to create high rates of population growth that put pressure on the country's ability to successfully accommodate and settle new arrivals and that harm the wellbeing of both migrants and locals.

Restrictions on immigration: temporary relief for a supply-side problem

Placing restrictions on immigration may provide some temporary relief from pressures on the capacity of public services, but using controls on immigration as a primary means of managing these pressures avoids dealing with their root causes. These include population growth running up against political forces that constrain investment. Examples include:

- decisions by politicians that reflect popular demands to keep taxes or property rates low or which fail to take account of essential but scarcely visible assets (eg, underground pipes);
- existing residents of cities resisting the changes and costs that come from a growing local population and urban expansion; and
- central government fiscal policy, which has prioritised keeping the budget deficit and public debt low rather than adding infrastructure assets to the Crown’s balance sheet and increasing the capacity of public services.

Failure to deal with the root causes of limited absorptive capacity (including inefficiencies in infrastructure construction) also risks creating more severe bottlenecks and constraining long-term productivity growth, limiting the ability of the future economy to use new labour and capital (Brooke et al., 2018). While migrants create additional demand-side pressures upon arrival that dominate their supply-side effects, over time migrants become net contributors to the community and economy’s productive capacity. Therefore, a balance must be struck between managing the short-term pressures and obtaining those longer-term contributions.

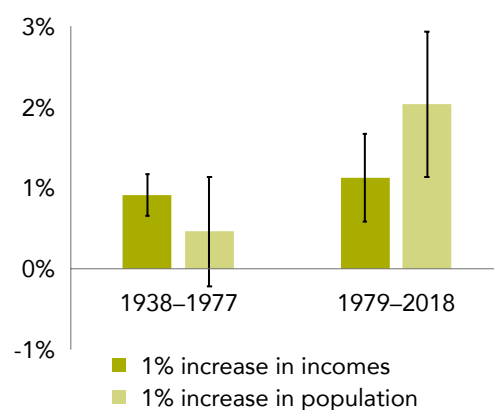
The Infrastructure Commission has found that infrastructure is less responsive to population growth now than in other periods of New Zealand’s history. It is also more expensive to provide relative to many other countries (New Zealand Infrastructure Commission, 2022). These issues are not caused by immigration and will need to be addressed regardless of New Zealand’s immigration settings (Box 3.7).

Box 3.7 The supply response to demand for housing

Population and incomes, which drive housing demand, grew more rapidly in the middle of the 20th century than in recent decades. However, house prices have risen more rapidly in recent decades and new housing construction has slowed. Increased housing demand has a larger impact on prices than it did in the past. Between the late 1930s and late 1970s, a 1% rise in population caused house prices to increase by roughly 0.5%. Between the late 1970s and late 2010s, a 1% rise in population caused house prices to increase by roughly 2.0%. Income growth also had a larger impact on prices over recent decades.

Prices now rise more rapidly because housing supply is slower to respond to demand. When demand for housing increases, New Zealand now builds one-quarter to one-third fewer homes than the middle years of the last century (Figure 3.1).

Figure 3.1 How much do house prices increase in response to a 1% increase in housing demand?



Source: New Zealand Infrastructure Commission (2022).
Note: Bars indicate estimated model coefficients, and black lines indicate one standard error ranges around estimated coefficients.

Since the 1990s, immigration policy has not been required to consider the country's absorptive capacity – what's needed to ensure successful outcomes for new migrants and existing residents – in decisions about the number of people allowed to enter the country, their speed of arrival, their composition, or how well they are likely to settle. A disconnect has emerged between immigration policy and the investment to expand capacity in the infrastructure needed to support population growth.

Finding 7

There is a disconnect between immigration policy and the investment to expand capacity in the infrastructure needed to support population growth.

Absorptive capacity will not always be under pressure. But the Government, through immigration and investment policies, needs to be aware of and responsive to absorptive capacity and have the means to deal with pressure on absorptive capacity when it occurs or threatens to occur.

Finding 8

By paying attention to absorptive capacity, the Government could more effectively manage migrant inflows to avoid exacerbating pressure on existing capacity, and invest and remove obstacles to provide enough future capacity for desired future immigration volumes.

Recommendation 2

The Government should introduce the concept of the country's absorptive capacity when setting its objectives for immigration policy.

The Commission is recommending that the concept of absorptive capacity is incorporated into the process of developing a Government Policy Statement for immigration (Recommendation 13).

Recommendation 3

The Government, in an Immigration Government Policy Statement, should describe:

- what the Government considers New Zealand's absorptive capacity to be (based on a range of indicators);
- where and how short-term immigration flows are likely to put additional pressure on that capacity (if at all); and
- how the Government intends to invest to expand capacity (if needed) to align it with expected population growth over the medium to long term.

Migration, industry-level productivity and the macroeconomy

Commentators have noted that temporary migrant workers make up a substantial share of the total labour force for some industries, and some firms appear to have business models that depend on having ongoing access to migrant workers (especially those on temporary visas). Commentators have argued that this access has permitted firms to grow without increasing their wages or capital investment (Hickey, 2021; Treen, 2021).

This section presents the Commission's work for this inquiry on the impact of migrants on productivity at both firm and industry levels. It also discusses the choices that firms make around hiring a migrant and investing in new capital, and macroeconomic perspectives on population growth and productivity.

Where migrants work

Migrant employment within New Zealand is related to the opportunities available in different sectors of the economy. Figure 3.2 plots the relationship between the overall share of migrant employment (ie, people who were born overseas) in each industry against its labour productivity, averaged over the period 2005 to 2019.

Migrants work across the New Zealand economy but are concentrated in some places more than others. A group of low-productivity industries have high shares of migrants (the bottom-right quadrant of Figure 3.2). Several high-productivity industries also rely on migrant labour (the top-right quadrant).

The relationship between productivity and the use of migrant labour is not a simple one.

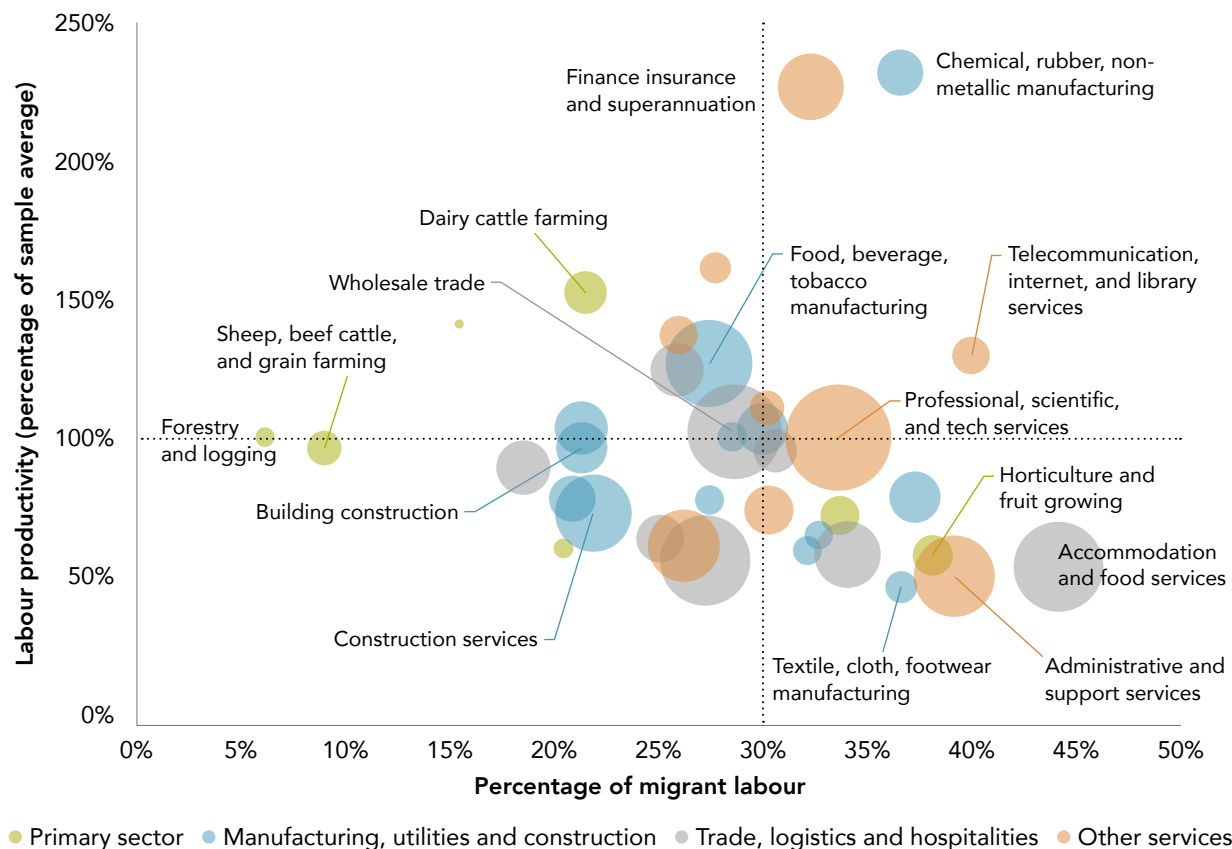
Research by the Commission (Fabling et al., 2022; *Immigration by the numbers*) examines the contribution that migrant workers make to New Zealand firms. Alongside the uneven use of migrants across industries, the Commission found that the skills of migrants within and across industries varies considerably.

Skilled migrants (both those on residence and temporary visas) and migrants who have lived in New Zealand for five or more years are similar to high-skilled New Zealand workers, in that they provide a greater contribution to New Zealand firms, relative to their medium-skilled workers. Migrants working on "other" visas, such as student visas, the Recognised Seasonal Employer or working holiday schemes, are similar to low-skilled workers who are New Zealanders. In most industries, regardless of whether the worker is a migrant on a visa or New Zealand-born, the difference between the worker's productivity and the wage they are paid is not significant. In the few instances where a difference exists, high-skill New Zealanders generally have a productivity premium higher than their wage premium while skilled migrants generally have a productivity premium lower than their wage premium. The fact that businesses in some sectors are willing to pay higher wages to attract skilled migrant workers is consistent with the existence of shortages of local labour with appropriate skills.

Finding 9

The selection of skills has been effective and resulted in skilled migrants contributing (positively) to firm productivity. Skilled migrants (both those on residence and temporary visas) have contributed to firm productivity in the same way as high-skilled New Zealand-born workers.

Figure 3.2 Migrants' contribution to New Zealand industries



Source: New Zealand Productivity Commission calculations based on the Integrated Data Infrastructure (IDI) and Longitudinal Business Database (LBD).

- Notes:**
1. Size of the bubble represents FTE employment in the industry.
 2. Dotted lines represent the average proportion of migrant labour and of labour productivity in the sample.
 3. Productivity is calculated using data defined according to the Fabling & Maré (2015, 2019) method:
 $\text{Labour productivity} = \text{Value added} / \text{Labour input (VA/FTE)}$
 $\text{Value added} = \text{gross output} - \text{intermediate consumption}$
 Labour input is rolling mean employment adjusted to approximate a full-time equivalent measure.
 4. Two extremely high-capital sectors – mining and utilities – are removed, as they distort the chart. Both have below-average migrant labour shares.

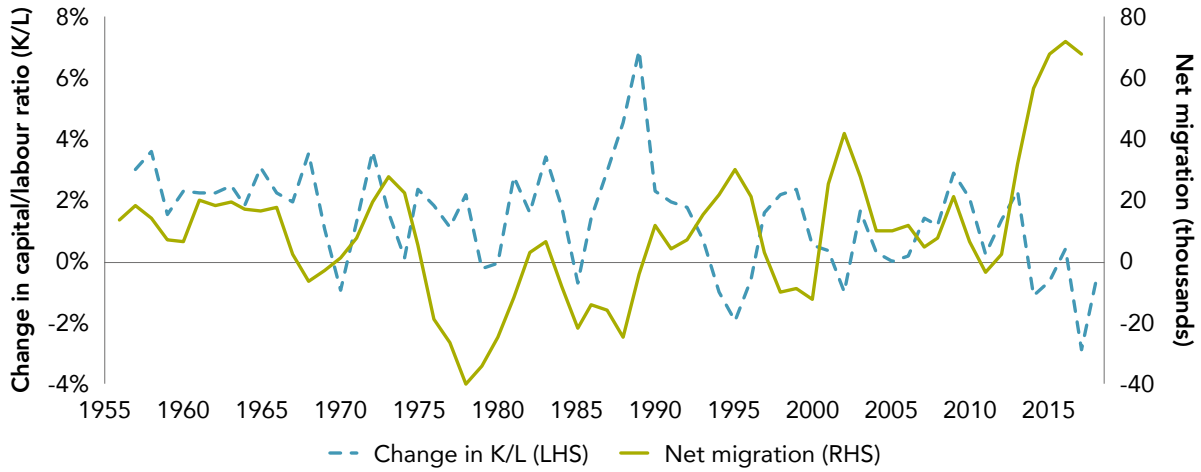
The ratio of capital to labour and fears of capital dilution

One concern about migration is capital dilution. The argument is that migration is like any other sudden increase in population. With fixed capital, this will lead to lower capital per worker, causing labour productivity to fall and the return to capital to increase in the short run. But capital is not fixed. The increase in the return to capital will attract more investment. Also, it is possible that migrants come to New Zealand because the demand for labour has risen along with businesses' capital investment. If an increase in net migration were unrelated to economic activity

in New Zealand, the amount of capital per person would fall when migration increased. But if the two are related, capital per person would remain constant or even increase with net migration.

Changes in the capital-labour ratio (K/L) are shown in Figure 3.3. This ratio of total capital available per unit of labour indicates the extent of an economy's capital intensiveness. Growth in the ratio indicates capital deepening. Net migration and the change in the capital-labour ratio (K/L) are both highly variable (see Figure 3.3). At times the relationship is positive (ie, positive net migration occurs at a time of positive growth in K/L); at other times positive net migration occurs when K/L growth is negative.

Figure 3.3 Net migration and change in capital-labour ratio, 1955–2018

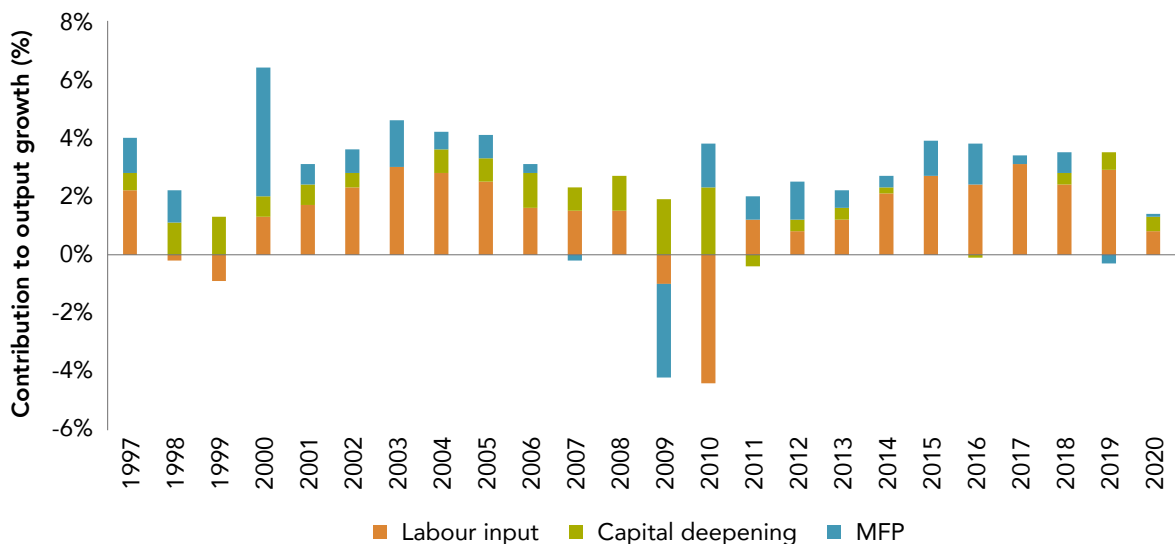


Source: Capital: University of Groningen and University of California, Davis, Capital Stock at Constant National Prices for New Zealand (Feenstra et al., 2015).
 Employment: Data1850 (2019).
 Migrant population: United Nations Population Division, Trends in Total Migrant Stock updated with Stats NZ population estimates.

In the second half of the decade to 2020, New Zealand experienced several years of almost unprecedented net migration (the combination of high immigration and reduced emigration). It is not surprising to see some signs of this feeding into a falling capital-labour ratio. Certainly, New Zealand has a low capital intensity, relative to other developed countries (Hall & Scobie,

2005; Mason & Osborne, 2007; NZPC, 2021f). It is a concern that the growth in output in the last decade has been driven mainly by increasing labour (and some growth in multi-factor productivity (MFP), rather than capital deepening, as has tended to happen in the past (Figure 3.4). MFP is a productivity measure that relates value-added to primary (capital and labour) inputs.

Figure 3.4 Contribution to output growth, 1997–2020



Source: NZPC (2021f).

Several scenarios can explain the relationship between the use of migrant labour and investment in capital.

A firm might hire a migrant because the migrant has the skills to work with new capital. If the firm is adopting a new type of technology (capital), no local workers may have the skills to use the technology until suitably trained. The firm might hire the migrant ahead of the investment, or invest in capital and then hire the migrant with the requisite skills.

On the other hand, low-skilled, low-wage migration might be used instead of investments in more productive technology. When the low-skilled migrant labour is withdrawn, firms invest in capital to maintain output. One example referred to often is when the United States stopped the inflow of Mexican “Bracero” workers to pick crops in certain US states in the early 1960s. Where technology existed to substitute for these workers (such as for picking tomatoes), employers quickly

substituted this technology and maintained output. For crops where such technology did not exist, employers simply reduced output (Clemens et al., 2018). Interestingly, the hoped-for rise in the wages and employment of local workers did not happen, but incentives to develop new technologies increased.

A third possibility is that investment in some types of low-skilled labour might be complementary to investment in capital. The New Zealand horticulture industry provides an example where the employment of lower-skilled migrants appears to have aided the expansion of an export industry, further investment in technology, more intensive use of existing plant and greater yields per hectare of land. Such developments are likely to have raised productivity in the industry and increased the incomes of New Zealanders employed in more skilled jobs. Box 3.8 describes how T&G’s (formerly Turners & Growers) use of the scheme gave the business confidence to invest in new technologies.

Box 3.8 RSE workers support productivity improvements in the New Zealand apple industry

T&G Global is a New Zealand-based business growing and exporting fresh fruit and vegetables to 60 countries. T&G state that their ability to access reliable workers through the Recognised Seasonal Employer (RSE) scheme has enabled it to invest in productivity-enhancing technology to develop their business model and expand their operations.

RSE workers provide a reliable, productive and certain workforce

T&G’s allocation of RSE workers has grown over time, in tandem with the overall growth in the scheme, and the expansion of the company’s operations. The number of RSE workers T&G has employed rose more than fivefold from 160 in 2007–08 to 824 in 2019–20.

Because of the conditions of the RSE workers’ visas and employment, T&G can be confident that the workers will be available when needed and will work the whole season. Experienced, returning RSE workers require little introduction to the tasks they perform.

Several research studies have found that RSE workers are more productive than locals and that returning RSE workers and locals are more productive than first-time workers. Bedford (2014) examined around 200 seasonal employees working during the apple harvest on a single orchard in Hawke’s Bay in 2011. This group comprised RSE workers, regular locals and casual workers (backpackers, students, and people referred by Work and Income). RSE workers were more uniformly productive, with less variability across earners. Two case studies by Gibson and McKenzie (2014) found similar results.

Box 3.8 continued

In a new study using T&G data on 970 workers employed over three years (2019, 2020 and 2021), NZIER found that RSE workers had higher productivity than other workers. This productivity was reflected in higher hourly wages paid to RSE workers compared with the earnings of other workers (Fry & Wilson, 2022b).

Expanding production, investing in technology and developing a more skilled workforce

T&G's RSE workers undertake common but essential tasks in a commercial orchard – hand-picking fruit using tall ladders and placing fruit in canvas bags that are then emptied by hand into bins. Strength and endurance, combined with the ability to select and pick ripe fruit are the skills needed in orchards. Other tasks are pruning and thinning, which require knowledge of the appropriate techniques, as well as the ability to work safely at height for long hours.

T&G production has increased from increased planting and employing more workers. But having reliable workers available to prune, thin, pick and pack all their crop gave T&G enough certainty and scale to invest in new technologies and business processes. Innovations have included:

- using an increasing number of mechanical picking platforms, rather than the traditional ladders, to pick fruit;
- planting new trees in “2D” configurations (where the branches are trained to grow horizontally, rather than in a conventional bush shape), which allows the use of mechanical-picking platforms to pick more fruit and prepares the orchards for robotic pickers should the technology become economically and technically viable in the future; and
- investing \$100 million in a post-harvest facility which will be able to operate in manual, fully automated, and hybrid modes as needed.

These investments allow T&G to increase the scale of its operations while proportionately reducing the labour needed to produce given levels of output (ie, higher labour productivity).

Workers' roles are also evolving, with RSE employees developing skills and capabilities through the Vakameasina Programme, including literacy, numeracy, leadership and business skills, with some of those employees going on to lead RSE teams and support post-harvest activities.

At the same time, the number of people willing to undertake seasonal fruit picking is declining in New Zealand and, indeed, across many advanced countries (Taylor and Charlton, 2019).

Source: Fry and Wilson (forthcoming).

Finding 10

Migrants can be complements or substitutes for local labour, or between labour and capital. Complementarities can exist at all skill levels (although are more likely at higher skill and wage levels).

A macroeconomic perspective on population growth and productivity

Some arguments from a macroeconomic perspective suggest that fast population growth may have suppressed New Zealand's productivity growth. These contested arguments propose that this suppression occurs largely through the diversion of resources (eg, capital, labour, and materials) from export production and production that competes with imports to activities stimulated by high rates of population growth. Firms exposed to international trade are typically more productive than other businesses because of the need to be competitive and the potential to lever investments in innovation through economies of scale.

The diversion of resources resulting from migration and population growth occurs through events in the "real" economy to which the monetary authorities respond to avoid overheating. First, the supply and demand effects of migration occur at different paces. When people arrive in a country, they have needs or demands that must be met in the short term (eg, housing and associated infrastructure⁴). Meeting this demand requires a lot of resources such as labour and construction services.

Migrants also increase the productive capacity of the economy, but this can take longer to get results, as people search for jobs and acclimatise to their new roles. In the short term, therefore, the demand effects of migration typically outweigh the supply effects. As a result, monetary policy may need to tighten – meaning higher interest rates to bring the economy back into internal balance.

Higher interest rates typically entail higher exchange rates, which increase the ability of the economy to meet demand through imports but reduce the international competitiveness of export and export-exposed sectors. Such a short-run monetary policy response may potentially subvert long-term expansion in capacity by restricting the required investment in infrastructure and related productivity-enhancing technology.

Over time, an economy may adjust to a short-lived increase in population growth, as the short-term demands are met, and resources flow back towards the sectors exposed to international trade. But if an economy experiences ongoing high population growth, or repeated "shocks" of unexpected increases, this rebalancing may lag and restrict investment and innovation in the export sector over extended periods.

While a direct empirical test of these arguments is difficult, aspects of New Zealand's economic performance over the past 30 years are consistent with them, including a persistently high real exchange rate (despite poor relative productivity growth which would tend to push the exchange rate down), a flat or falling share of exports to GDP, slow rates of productivity growth, and high real interest rates compared with other developed countries. Immigration is unlikely to be the primary or sole cause of these trends, but the symptoms are consistent with it being one of several contributors.

Proponents of the view that these macroeconomic shifts are significant argue that moderating population growth by managing immigration inflows could lift New Zealand's lacklustre productivity growth (Reddell (2021); sub. DR144, Michael Reddell; subs. 32 and DR108, Mike Lear).

4 New arrivals in the country may not live in new houses, but the net effect of more people and households is to require more houses in total or to put pressure on the existing stock.

Difficulties weighing and assessing trade-offs and long-term impacts

Immigration policy since the GFC, but also in other periods of New Zealand's history, has been used to meet labour shortages and support industry development. When economic conditions change, immigration policy has also tended to be reactive to short-term concerns and pressures. The issues explored in this part have potentially significant long-term impacts including:

- the impact of migration decisions taken today on the labour market in an economic downturn;
- the cumulative effect of employers' demands for migrant labour on the structure of the economy;
- the time and investment needed to train and upskill young people for work, compared to hiring ready-trained migrants; and
- governments not responding in a timely way to signals that new investment is required to cater for the needs of a growing population.

These concerns arose in the decade before the pandemic, but they are perennial issues cropping up in various forms in the past and in different spheres of policy. They are all examples of short-term instead of long-term trade-offs.

Such trade-offs occur when decisions taken today, that seem beneficial, create negative impacts later.

They often occur in public policy because governments typically have short time horizons with few incentives to consider the long-term consequences of their actions. Such trade-offs can also occur when one arm of government, in responding to short-term demands, is not required to consider the impacts on other government policies or longer-term objectives.

Such problems can constrain the choices of future generations. For example, the large and rapid increase in the population through immigration in the decade before the pandemic, without commensurate investment in housing and other infrastructure, exacerbated pressures on house prices. Migrants, legitimately working in New Zealand, were blamed for a problem not of their making, and the effects have been felt in the form of widening wealth inequalities between those older New Zealanders who own property, and those younger people who do not.

The solution in the case of immigration lies in developing and using better policy tools and institutional arrangements as proposed in Parts 4 and 5.

Finding 11

The current immigration system:

- lacks transparency, clear objectives;
- struggles to make trade-offs between employment, productivity, absorptive capacity, and other goals;
- has a very short-term focus; and
- takes incremental decisions that fail to take account of cumulative or wider impacts or other government policy objectives.

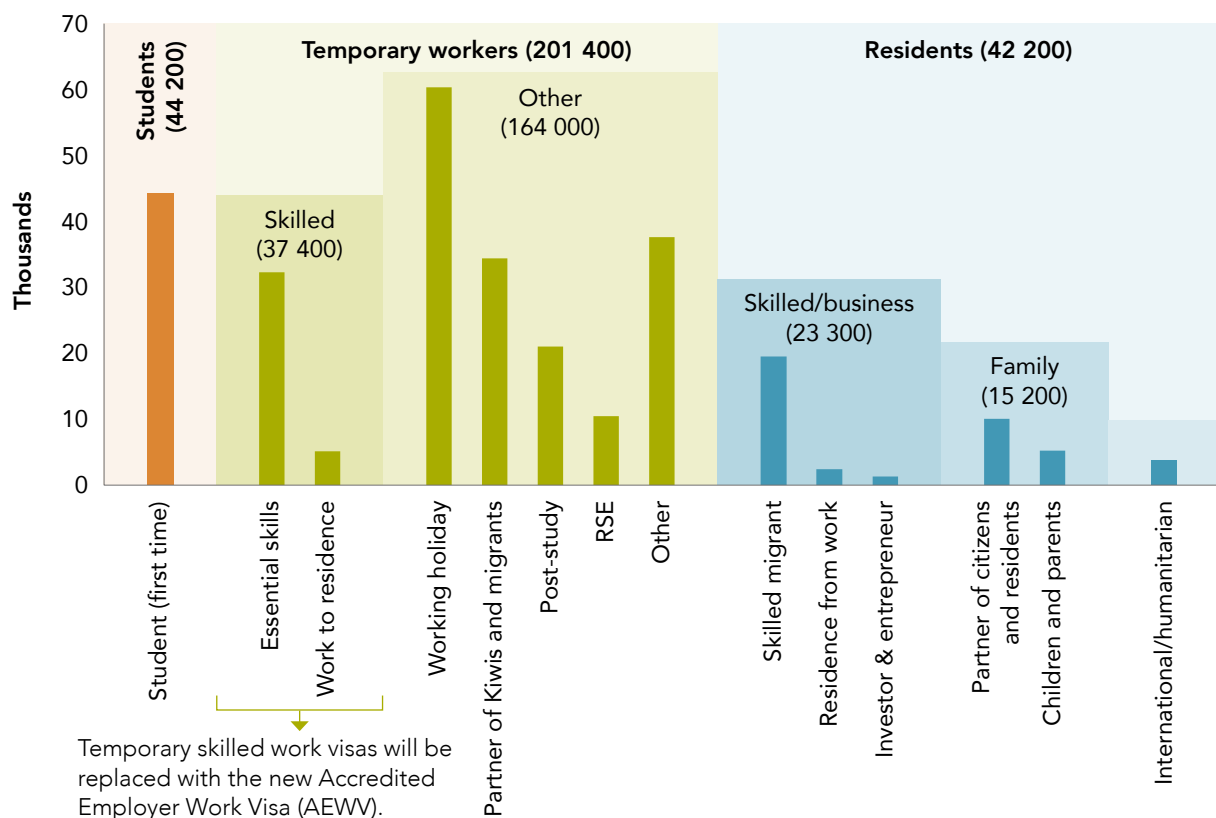
Part 4

Better immigration policy tools

An interconnected system of tools

The immigration system has a wide range of visa types and categories (Figure 4.1). Aside from visitor visas, the three main categories are residence visas, temporary work visas, and student visas.

Figure 4.1 Grouping visa categories: average annual approvals, 2012–19



Source: MBIE Migration Data Explorer (2022b).

- Notes:**
1. The new Accredited Employer Work Visa (AEWW) will replace temporary skilled work visas from mid-2022.
 2. Post-study work visa approvals include open and employer-assisted visas. However, employer-assisted post-study work visas were closed in 2018. All post-study work visas are now open work visas.

The main lever: managing demand for residence with two-step selection

The main lever for controlling immigration, and influencing long-term population growth, is through the New Zealand Residence Programme (NZRP). Within the NZRP, a planning range provides direction to officials on how many residency applications to approve, what kind, and over what period. The last NZRP ran from 1 July 2018 until 31 December 2019 and included a planning range of 50 000 to 60 000 residence approvals. Skilled/business migrants were estimated to be 60% of places in 2019, family members of New Zealanders approximately 30%; and people who come under New Zealand's international and humanitarian commitments less than 10%.

The Skilled Migrant Category (SMC) is the largest residence category, allocating visas through a points-based system. Points are allocated based on characteristics related to employability and likelihood of successful settlement. The points system also reflects other government objectives by allocating points for certain attributes. New Zealand rewards points for local work experience, meaning most residents are selected from a pool of migrant workers already living in New Zealand. The process has two steps: one step when employers select migrants for a temporary visa (a demand-driven selection), and one step when the government selects for residence – rewarding an overall package of qualities that it considers New Zealand society most values.

The planning range has the effect of signalling to visitors and to temporary workers their likelihood of being allowed to settle in New Zealand. Migrants wanting to apply as a skilled migrant must have at least 100 points to enter the Expression of Interest (Eoi) pool. Immigration officials maintain the Eoi pool to select people to fill the planning range. Applicants in the Eoi pool who reach 160 points receive an invitation to formally apply for residence.

When demand for residency is high, officials can tighten both eligibility to enter the Eoi pool and eligibility to be invited to apply once in the pool. The second threshold had been 140 points for about a decade until it rose to 160 in 2017. The SMC closed before the pandemic and has remained so, leading to a large pool of prospective residents waiting to formally apply under the SMC. Because applicants are not ranked once they reach the 160 threshold, many have a similar number of points, making high-skill selection based on points ineffective.

A benefit of the two-step system is the opportunity for both migrants and employers to test the quality of the employment match, as well as life in New Zealand. Yet a disconnect can arise from an uncapped temporary visa process feeding into a capped number of residence approvals. Over time, this has meant ongoing excess demand for residency (by people who meet the entry requirements and become part of the Eoi pool). This has resulted in long queues, uncertainty and frustrations for migrants about attaining residence.

Finding 12

Large increases in the number of temporary migrant visas, and queues of applicants for residence visas, have contributed to uncertainty and frustrations about the path of migrants to residence. This has left many migrants in flux and unable to settle.

Resident visa holders can apply for permanent residency after two years if they have demonstrated a commitment to New Zealand. Permanent residents can then apply for citizenship if they have been living in New Zealand as a resident for at least the last five years. Both resident and permanent resident visas allow the holders to live permanently in New Zealand: the main difference is around travel conditions.⁵

Temporary visa categories affect total migrant volumes and composition

Having a range of visa categories reflects that people arrive in this country with different intentions, and allows New Zealand to attract various kinds of migrants for various reasons. For example, the RSE visa category was introduced in part because of an increase in demand for labour in the horticulture industry during seasonal peaks, at a time when governments in the Pacific Islands were seeking more work opportunities for their people (Gibson & Bailey, 2021).

Visa categories with or without caps to limit volumes are the main way the Government controls the entry and composition of temporary migrants. The ability to add or remove visa categories allows the immigration system to be adaptable to new opportunities or respond to changing circumstances and events. However, adding new categories, particularly new categories without caps to limit volumes, can lead to future growth in volumes as holders of temporary visas apply for a new visa or for residency (see Table 4.1). Most temporary migrant visas, including those that attract the highest volumes of migrants, are not capped.⁶

Apart from controlling the number of visa categories, governments can also use eligibility criteria for the visa categories to control migrant volumes and composition. For example, tightening eligibility to lower volumes could be achieved through raising salary thresholds, lowering maximum age limits, more stringent English proficiency or a higher minimum qualification level. To influence the composition of migrants, governments can adapt visa eligibility criteria. For example, to change the skill mix of migrants, governments might adapt the skill or minimum-wage requirements for work visas.

The different visas in Figure 4.1 confer different sets of rights for migrants, especially around expectations of residency, visa duration and the ability to reapply, the ability to have partners and family join them, and work rights. These rights are often related to the objectives of the visa. Work rights may have additional conditions such as limitations on the number of hours international students can work, and who can hire temporary work visa holders. Workers on a “skilled” temporary work visa (previously Essential Skills and Work to Residence visas) can only work for specific employers or can only work in specific occupations. Employers would typically have to meet criteria such as an obligation to advertise locally for a position first.

In contrast, some “other” temporary work visas (like the working holiday scheme visas) confer open work rights, meaning visa holders can work for any employer in New Zealand. Employers of visa holders with open work rights have no obligation to recruit locally first.

5 Residents are only allowed to travel outside New Zealand for a specified period of time (usually 24 months), while permanent residents have no time limit on travel conditions (Immigration New Zealand, n.d.-b).

6 The temporary visas that are capped include some working holiday schemes, the RSE scheme, and some of the special work stream visas.

Box 4.1 Changes to the employer-sponsored temporary visa system from mid-2022

A new Accredited Employer Work Visa (AEWW) will be available from mid-2022, replacing six temporary work visas, including the two major temporary work categories: the Essential Skills visa and the Work to Residence visa. The new visa system is intended to address some of the problems with the current employer-assisted temporary work system, including that it:

- is needlessly complex;
- is unable to respond appropriately to regional and sectoral variation;
- does not create an incentive for industry to look to train suitable workers already resident in New Zealand;
- is unable to provide information back to other government systems to support domestic investment and responses; and
- does not adequately screen out employers with poor track records of compliance.

The AEWV will require a three-step process, involving the approval of the employer (employer accreditation), approval of the migrant (visa application), and approval of the job the migrant would undertake (job check). Under this visa category, all jobs must pay at least the median wage (therefore acting as a wage threshold) and employers must advertise the job to New Zealanders before offering the position to a migrant applicant. At the time of writing, the Government is considering whether to allow exemptions to the median-wage threshold.

Source: Immigration New Zealand, n.d.-a; Office of the Minister of Immigration, 2019.

Temporary visa categories also influence future residency volumes and composition

Examining the pathways of migrants who arrived in 2010, Table 4.1 highlights that most of the cohort (78%) arrived on some form of temporary work or student visa. After five years, 68% of the cohort and 78% of temporary migrants (excluding visitors) had left New Zealand. But it would be a mistake to view the temporary and resident categories (and the skilled and other categories) as entirely separate from each other including, for example, for the following reasons.

- Some temporary visas have clear pathways to residency, as evidenced by 37% of temporary skilled workers transitioning to a skilled/business or other residence visa five years after entering New Zealand in 2010.
- Some migrants on temporary work visas can end up staying in New Zealand for lengthy periods without any assurance of being able to remain permanently. Nine percent of temporary skilled workers remained on some form of a temporary visa five years after entering New Zealand in 2010.
- Most international students who stay in New Zealand after graduating remain on a post-study work visa for up to three years; a small proportion then transition to Essential Skills or other work visas. Of people who arrived as students in 2010, 17% obtained a resident visa in five years.
- Although migrants who gain a resident visa can stay permanently in New Zealand, many choose to travel across countries. Over 20% of all 2010 skilled/business migrants left New Zealand within five years.

Table 4.1 Presence and visa status of immigrants in 2015, five years after arriving in New Zealand

		Temporary					Residence		
		Left NZ	Student	Skilled worker	Working holiday	Other worker	Visitor and other temporary	Skilled/Business	Other resident
Temporary	Student	68%	6%	3%	0%	4%	1%	13%	4%
	Skilled worker	55%	0%	7%	0%	1%	1%	34%	3%
	Working holiday	92%	0%	1%	0%	1%	1%	3%	2%
	Other worker	74%	0%	1%	0%	6%	1%	10%	8%
	Visitor and other temporary	47%	4%	2%	1%	4%	7%	15%	21%
Residence	Skilled/Business	20%	0%	0%	0%	0%	0%	79%	0%
	Other resident	18%	0%	0%	0%	0%	0%	0%	82%

Source: New Zealand Productivity Commission calculations using Stats NZ’s IDI data.

Notes: 1. A very small proportion of “Visitor and other temporary” visa holders are interim, limited, military and other special category visa holders. “Other resident” visa holders include family and humanitarian categories.
 2. Percentages may not add up to 100% due to rounding.

Migrant movements within the immigration system have important implications for how to think about influencing the volume and composition of migrants. For example, movements affect how long migrants stay in the country and can affect the stock (the cumulative number of migrants in the country at a point in time). Movements in the system can also affect the composition of migrants, by providing pathways for migrants to stay in the country. For example, some migrants on a student work visa may find opportunities to work in New Zealand and move up the job ladder to eventually be eligible for skilled residency.

Immigration policy is decided in a “black box”

The overarching legislation that sets the framework for immigration laws is the Immigration Act 2009 (the Immigration Act). The purpose of the Immigration Act is “to manage immigration

in a way that balances the national interest, as determined by the Crown, and the rights of individuals” [s 3(1)]. Because the Government is not required to clarify or define what constitutes the “national interest”, the purpose of immigration policy can be ambiguous (NZPC, 2021e).

The primary mechanism to implement policy decisions is by amending immigration instructions (with the Minister of Immigration’s certification). Immigration instructions are statements of government policy, but are not legislative instruments. This makes changing immigration policy easier and faster compared with laws made by Parliament. However, not being a legislative instrument also means that immigration policy faces less scrutiny and accountability than laws passed through the standard policymaking system. Several steps in the standard policymaking process are often skipped, including: performing a Regulatory Impact Assessment (RIA); select committee processes; and the public submissions process for draft Bills.

Box 4.2 What is the value in conducting a Regulatory Impact Assessment?

Most new immigration policies have no direct legislative or regulatory implications and therefore require no RIA. The New Zealand Treasury notes two main benefits of conducting an RIA.

- A stronger evidence base to inform decisions about regulatory proposals – to ensure that all practical options for addressing the problem have been considered, and that the benefits of the preferred option not only exceed the costs but will deliver the highest level of net benefit.
- Transparency – the presentation of agencies' free and frank advice to decision makers at the relevant decision points provides reassurance that the interests of all sectors of the New Zealand public have been considered. Impact Analysis also aims to encourage the public to provide information to enhance the quality of regulatory decisions, to further inform the evidence base. (The Treasury, 2017)

Major immigration policy decisions are not subject to an RIA process. Examples include what kind of migrants the immigration system should prioritise, whether to introduce or cancel a visa category, and the criteria for obtaining a certain visa. This fact means that major immigration policy decisions miss the following layers of scrutiny:

- being explicit about what objective the policy change is trying to achieve, and how it will achieve that objective – this also involves defining the problem that the policy is trying to solve, and assessing its magnitude;
- evaluating and balancing trade-offs between policy priorities;
- considering which options are least costly, or would be most beneficial, which requires identifying the full range of feasible options; and
- acknowledging existing legislation and regulations that the policy proposal is related to, including relevant decisions already taken (eg, legislation that has not yet passed).

Finding 13

The current immigration system has a lot of flexibility, but does not undergo the same level of transparency, public scrutiny and robust policy assessment that most other public policies require. Immigration policy can be changed without consideration of (or public reporting on) other policies that could achieve the same objective, how the policy balances certain trade-offs, or what evidence the policy is based on.

The current system focuses on managing displacement risks and filling skill gaps

New Zealand's temporary work migration system has a strong focus on managing risks to the local labour market (displacement), as well as enabling employers to fill skill shortages. In its published advice to employers, Immigration New Zealand describes current immigration policy as:

New Zealand's immigration policies are designed to enable employers to access the skills they need to fill gaps in their workforce. And great care is taken to ensure that New Zealanders with comparable skills are not displaced. (2021b)

Displacement risks refer to situations where migrants compete with local workers for jobs, potentially displacing local workers if migrants are more attractive to employers because they are willing to accept lower wages and conditions compared with local workers.

In practice, the immigration system uses various tools to support these objectives, including:

- Labour Market Tests (LMTs)
- Skill shortage lists (SSLs)
- Limiting mobility – the ability of migrants to change jobs while retaining their visa status.

Tools to manage displacement risk have been a common feature of New Zealand's recent immigration system, and are a common feature in immigration systems overseas (NZPC, 2021a).

Labour market testing can be a slow and cumbersome way to manage displacement risk

LMTs require employers to make a genuine attempt to attract and recruit suitable workers in New Zealand and to be satisfied that no suitable local workers are available before that job is offered to a migrant worker. LMTs were a major feature of the Essential Skills visa (the highest-volume temporary worker visa category). The

matters that a visa or immigration officer must consider when determining whether an LMT is satisfied include evidence of the employer advertising (or using another recruitment avenue), advice from the Ministry for Social Development (MSD) on the unavailability of suitably qualified local jobseekers, and labour market advice from industry groups.

LMTs can have both positive and negative productivity impacts, some of which depend on how stringent the test is. The design of the LMT must balance the need to be stringent enough to achieve its objective, without being disproportionately resource-intensive.

For example, during times of high sustained local unemployment (either at a national level or within certain groups), LMTs could have economic and wellbeing benefits by checking that local workers get opportunities before allowing further additions to the labour force. If the LMT is an easy tick-box exercise, then the LMT is not likely to achieve its objective of reducing the risk of displacement.

If the LMT is difficult and resource intensive (for either businesses or for immigration administration), the LMT will add to overall costs and uncertainty. Administrative costs, delays, and uncertainties can turn into real economic losses if a business cannot get ready access to the workers when it needs them. In such cases, inefficient LMTs can subdue normal business activity and additional job creation.

A system that allows carve-outs reduces incentives for wages to rise

Skill shortage lists (SSLs) are a feature of the current system, acting as a more efficient form of the LMT. SSLs cover occupations where skills are evidenced to be not readily available in the local labour market. They suit occupations so specialised that training for them in New Zealand may not be justified. They enable employers to forego individual LMTs for filling jobs in those occupations. They are therefore a "carve-out" from general immigration rules that require LMTs.

Current rules use SSLs at both the temporary and resident stages of immigration policy. The three SSLs before the pandemic were:

- a long-term shortage list (where there is a sustained and ongoing shortage of high-skilled workers both globally and throughout New Zealand);
- a regional shortage list; and
- a construction and infrastructure shortage list.

The occupations on SSLs are decided according to information provided by affected industries, employers, unions and other interested parties (eg, occupational licensing bodies). Consulting with various parties is a process intended to identify unmet labour demand and test whether employers are doing enough to attract workers from the local labour market.

Given the importance of consultation to inform the SSLs, and that the diagnosis of a “skill shortage” is contestable, the process entails a large degree of judgement. Indeed, the very concept of “skill shortages” can be questioned given that the normal economic response to a shortage is for the price to rise (in this case the “price” is wages) until demand equals supply.

By enabling firms to have easier access to migrant workers because the occupation is on an SSL, SSLs can reduce the incentive for firms to raise wages to attract local workers or to incentivise locals to train for these positions (or for employers to invest in training locals). In economic terms, SSLs reduce the likelihood that wages reflect scarcity, and the likelihood that workers are filling the jobs where they can add the most value (because they can inhibit the allocation of labour to its most productive use).

Finding 14

Creating exemptions from general immigration rules for industries, firms, and/or occupations reduces the likelihood that wages rise to reflect scarcity and inhibits the allocation of labour to its most productive use.

This problem is made worse because SSLs used for immigration purposes have no formal connection to New Zealand’s education and training system. Therefore, no formal mechanism exists to support increased training of local workers in these occupations and avoid the occupations remaining on an SSL indefinitely.

That said, the existence of SSLs emerged for a reason. For businesses, SSLs reduce wage costs. SSLs also provide a politically pragmatic pathway when employers demand exemptions from general immigration settings. As a result, SSLs can become highly prone to lobbying from employers who want occupations on the list, and worker representatives who want occupations off the list so that wages can rise.

Finding 15

Overly stringent settings related to temporary work visas will increase claimed labour shortages and the demand for exemptions. However, exemption lists can become cumbersome, open to lobbying, and are (by their nature) backward looking, in that they aim to solve yesterday’s labour shortages.

Although the diagnosis of a “skill shortage” is subjective and requires a large degree of judgement, the robustness of SSLs can be improved by relying less exclusively on information provided by the affected parties. The use of empirical data and transparent indicators including vacancy data, wage movements, and patterns of demand for migrant labour would improve SSLs. SSLs should be reviewed regularly, and occupations removed by default, with the burden placed on interested stakeholders to provide sufficient evidence to justify their continued placement on the list. Occupations that have not shown sufficient labour market reaction (such as wage movements), have high

turnover rates, or a continued reliance on temporary migrants, should not remain on SSLs indefinitely.

While SSLs reduce short-term risks of skill shortages and the potential for unfilled vacancies to cause disruption and hinder economic growth, they have longer-term costs from holding down wages and making the roles less financially lucrative. The effect is to make occupations on any SSL less attractive for training or upskilling future workers. Part 5 contains more analysis of how empirical data and transparent indicators should inform the identification of skill shortages, training incentives, and broader labour market monitoring.

Recommendation 4

The Government should encourage wages to reflect scarcity, rather than exempt specific industries, firms, and occupations from general labour-market rules.

Recommendation 5

The Government should reduce the use of shortage lists for approving temporary work visas and design them to inform education and training priorities, active labour market programmes, careers advice, industry strategy, and future resident-selection priorities. These lists should be data-driven and based on a set of indicators including vacancy data, wage movements, and demand for migrant labour. They should be monitored and updated regularly and reviewed every two years.

Limiting who migrants can work for reduces competition and weakens productivity

The Essential Skills visa category (which the AEWV will replace, as outlined in Box 4.1) required the migrant visa-holder to work for a particular employer, a practice commonly known as “tying” to an employer. One reason why tying occurs is because those employers’ job positions had either undergone a LMT or the occupations were on an SSL. Tying is an attempt to minimise the risks of displacing local workers.

Despite the intent to reduce risks of displacement through tying, the requirement can be negative

for productivity and wellbeing for both individual migrants and for broader labour-market outcomes. For migrants, being tied to a single employer significantly weakens their bargaining power and raises the risk of their exploitation. This occurs because migrants depend on a single employer in order to maintain their visa status in New Zealand.

In economic terms, tying migrants to a single employer increases the monopsony power of employers. Monopsony power refers to labour markets with a single (or very limited) choice of employer for workers. For example, if there is only one hospital in a region, that hospital may have monopsony power for a range of medical professionals.

Finding 16

Requiring migrants to essentially be “tied” to a single employer carries significant risks for both the individual migrants and for broader labour-market outcomes.

In well-functioning labour markets, both workers and employers have some bargaining power to negotiate wages and the conditions of employment. The bargaining position of workers improves when they have more options for alternative employment. However, in labour markets where employers have monopsony power, they become the single “purchaser” of labour. This can drive down wages and conditions for migrants as well as for local workers. As Norlander argues,

[e]conomists have scrutinized guest worker programs as sources of potential monopsony power, or the power to set wages below competitive levels. In comparison to a competitive labor market, in which firms are unable to recruit with wages below the market rate and where workers quit bad employers, workers in a monopsonistic labor market have difficulty quitting for better opportunities. Job-to-job mobility is impeded when an employer must pay to sponsor a visa for a worker to change jobs. (Norlander, 2021)

It is well established in the international literature that job-to-job mobility is one route to improving productivity (OECD, 2021b). When monopsony power is enabled by regulation (such as requiring migrants to stay with a single employer), workers may not be working in firms where they can be most productive. Migrants in particular might enter into poorly matched employment relationships for several reasons, including facing incentives to accept the first convenient employment offer rather than the best employment match, or being unfamiliar with the local labour market. Finding the best match can take time and experience.

In addition, employer monopsony power can lead to needless reductions in employment and output, where some workers who would have been willing to work at the competitive market wage are never hired.

Finding 17

Enabling job-to-job mobility is one route to improving productivity. When monopsony power is enabled by regulation (such as requiring migrants to stay with a single employer), workers may not be in firms where they can be most productive. Tying migrants to a single employer can lead to negative labour-market outcomes for migrants (including through exploitation) and local workers by increasing the monopsony power of employers.

An employer-sponsored visa system that allows migrants to change employers is likely to lead to better labour market and productivity outcomes (compared to strict tying), but carries some risks for the immigration system. Immigration authorities and policymakers can find it harder to

understand where migrants are working, and the possible impacts they might have on the local labour market. The Labour Inspectorate also appears to lack key resources to monitor migrant-dominated workforces (see Part 5).

Finally, allowing migrants to change employers poses a potential moral hazard, where both migrants and employers could game the system. For example, an employer could agree with a prospective migrant to an employer sponsorship so the migrant can migrate to New Zealand but without intending that the migrant remain in that employment relationship. To mitigate these risks, the Government should require some form of employer accreditation, actively monitor migrants' movements within the employment system and resource the Labour Inspectorate to ensure the effective enforcement of all work-related regulation.

In the Commission's view, the AEWV change (outlined in Box 4.1) is an opportunity to enable greater migrant job mobility while managing some of the risks. The AEWV requires a check on employers, and has the potential to create better systems of information management to keep track of the employers that are hiring migrants, and migrant movements within the AEWV system. Keeping the costs of compliance with the new requirements low, for both employers and for migrant workers, will be vital.

Recommendation 6

As part of the design of the Accredited Employer Work Visa (and/or future employer-sponsored visas), the Government should enable migrants to move between any accredited employer with minimal government-imposed transaction costs for the migrant or employer. Information on migrants' movements within the employment system should be collected to monitor for risks of gaming the system and for risks of poor employer behaviour.

A shift towards managing low-skilled migration

To manage the risk of displacement, recent immigration policy has increased its focus on low-skilled migration, including from a concern that low-skilled migration also may be holding back productivity growth. The Government has proposed a "rebalance" of the immigration system, with a strong emphasis on reducing the inflow of low-skilled migrant workers. A Cabinet Paper has described the objective of the rebalance as

...to incentivise businesses to lift working conditions, improve the skills training and career pathways for workers, and contribute to greater productivity by encouraging investment in higher skill levels and technology. This will also help to reduce the economy's reliance on lower-skilled migrant workers while the flow of people across borders will remain uncertain, even after our borders are reopened. (Office of the Minister of Immigration, 2021)

As part of the Government's proposed rebalance, the AEWV will limit employers' access to migrants if the migrant is paid below a wage threshold (which is currently proposed to be the median wage). At the time of writing, the Government is considering whether there will be any exemptions to pay at least the median wage, and whether to introduce restrictions for some other roles (Immigration New Zealand, n.d.-a). In the AEWV system, wages are used as a proxy for skill level. Before this, skills were assessed using the Australian and New Zealand Standard Classification of Occupations (ANZSCO) (see Box 4.3).

Though complementarities between migrants and local workers are more likely at higher skill and wage levels, opportunities exist for complementarities at all skill and wage levels. Limiting access to low-wage migrant labour risks shortages that local labour cannot fill, leaving society the poorer for being unable to use the services or by not creating more jobs.

That said, not actively managing low-skilled migration risks expanding the economy in the short term, while disincentivising opportunities

that support long-term productivity growth and leading to low-skill, low-wage business models (see Box 3.5).

Box 4.3 What does being “high skilled” or “low skilled” mean?

Immigration New Zealand uses the Australian and New Zealand Standard Classification of Occupations (ANZSCO) to assess the skill level of most occupations. ANZSCO sorts occupations into five levels, with 1 and 2 being “high skilled”, level 3 “skilled”, and levels 4 and 5 “low skilled”. In ANZSCO, “skill level” is defined as a function of the range and complexity of the set of tasks performed in a particular occupation. Skill level is measured by the:

- level or amount of formal education and training required;
- amount of previous experience required in a related occupation; and
- amount of on-the-job training required to competently perform the set of tasks required for that occupation.

Concerns have emerged that ANZSCO is a blunt tool for indicating the skill levels of individual workers, and that it has not been updated in recent years to reflect the changing labour-market landscape.

In the upcoming changes to the temporary migrant visa scheme (see Box 4.1), a simple minimum remuneration threshold set at the median wage will replace the assessment of skills. The terminology has also changed from “high skilled” to “high paid” and from “low skilled” to “low paid”.

At the time of writing, ANZSCO skill levels will continue as indicators for “skilled employment” when applying for residency under the SMC.

Finding 18

The extent to which employers have access to low-cost migrant labour is a strategic choice for governments with trade-offs that cannot be avoided.

Unregulated access creates the potential for high volumes that:

- may stretch absorptive capacity;
- could reduce incentives for employers to raise productivity by upskilling local workers, and adopting new technologies; and
- may reduce employment opportunities for local low-skilled workers.

Placing limits on low-skilled migration that are too stringent risks going without productivity enhancing benefits from complementarities with new technologies and employing locals in higher-skilled jobs. Some industries may have labour shortages that local workers cannot fill despite improvements in wages and conditions.

Almost all temporary low-skilled visas can be limited or managed, and a number of policy tools could be used to limit or manage them. These tools differ in their effectiveness in achieving the objective, and their impacts on productivity.

Blunt tools to limit low-skilled temporary migration do not account for the diversity of firms and their use of migrant labour.

- The use of wage thresholds to limit employers' use of migrant labour could lead to less job creation.
- Numerical caps (on certain visa categories or on employers hiring migrants at certain skill levels) are likely to be arbitrary and inefficient at the margin. The next migrant beyond the cap would not be employed even if they would create value to the employer and the economy more than any costs they might impose.

Rather than limiting low-skilled migration, if governments did seek to limit inflows of low-skilled migration, a more efficient and less risky tool would be one that influenced employers' incentives. An example of such a tool is a flat-rate levy on all migrant labour. Because it would apply across all firms, the cost of the levy would be a larger proportion of wage costs for firms with mostly low-wage roles. The levy would therefore disincentivise firms from hiring low-wage migrant labour if the workers are not likely to add value that significantly exceeds their wage costs. This may induce firms to:

- switch toward low-wage non-migrants (which may cause a loss in productivity but gain in local employment, depending on the characteristics of the individual workers); or
- switch to a new technology (which could well achieve productivity gains); or
- cease some activities (which carries the potential to free up resources for higher productivity activity, should capital be scarce); or
- pay the levy for low-wage, low-skill migrant labour if that labour is of high value to the firm and no equivalent local labour is available.

Unfortunately, a flat levy is not a perfect solution. A flat levy could raise employer costs to such an extent to discourage the use of low-wage yet highly complementary migrants such as fruit pickers who enable apple orchardists to invest in automated packing technology and employ higher-paid technicians. By raising the cost of doing business, a levy could also discourage overall entrepreneurial activity or – unless there are other strong reasons for the investment to occur in New Zealand – raise the chances of firms locating offshore. For these reasons, the Commission does not recommend a flat-rate levy. The Commission accepts, however, that such a tool could be preferable to wage thresholds to limit low-skilled migration since levies would allow employers more flexibility to get the workers they need while incentivising the use of higher-productivity resources.

Finding 19

While a wage threshold would represent an improvement on trying to determine outcomes based on skill or occupational definitions, its use as a blunt tool to manage low-skilled migration would not be a good fit with the diversity of firms and their use of migrant labour.

Finding 20

A flat-rate levy on all temporary migrant labour, while being a blunt tool to manage low-skilled migration, could be a better alternative to a wage threshold because it would not exclude low-skilled yet highly valued migrant labour.

Recommendation 7

The Government's proposal to introduce wage thresholds is a likely improvement over selection based on the use of skill and occupational shortages. However, the Government should consider and evaluate the full range of alternative tools to manage the composition of low-skilled migrants on temporary visas. It should use the tool or tools with the greatest net benefits for productivity and wellbeing.

International agreements to manage future volumes of working holiday scheme visas

As noted previously, working holiday scheme (WHS) visas are temporary visas with open work rights. Visa holders mostly work in low-skill jobs such as in food and accommodation services. At their 2017 peak, more than 70 000 WHS visa

holders were in New Zealand (Fry & Wilson, 2022a). These schemes are often linked to international trade agreements, so, it is difficult to manage (ie, limit) their use or change conditions unilaterally should there be a desire to do so. Given these risks, the Commission recommends a careful assessment of the likely net benefits before additional visa availability is committed to in international agreements.

Recommendation 8

Before visa availability is committed to in international agreements, the Government should assess the likely net benefits and note the risk that additional visa availability may be hard to manage, limit, or remove in the future.

Managing demand for residency

Getting the temporary and the permanent parts of a two-step migration system out of alignment harms the wellbeing of migrants (giving them a false sense of hope regarding settlement) and raises productivity risks. Too many temporary workers able to enter the EoI pool (and therefore having a hope of residence) risks diluting the average skill level of prospective resident migrants and making ongoing selection harder.

Immigration has helped raise the overall skill level of the working population. Policy since the 1990s has deliberately targeted people with professional and advanced skills for residence (Part 2). Yet the

threshold for entering the EoI pool has become disconnected from the limit created by the residency planning range.

The Government should be clearer with prospective migrants about their likelihood of attaining residency in the SMC by linking the residency criteria to the planning range. To do this, the Government should revise each year the points threshold for entering the EoI pool (currently set at 100 points); and/or enable applicants to continue to accrue points past the current 160-point threshold for residency consideration and select applicants from the EoI pool with the highest points first. The Government should publish the points ranges of successful applicants to emphasise that minimum thresholds for considering applications are not the targets for selection.

Finding 21

The design of the Expression of Interest pool works well to select skilled migrants for residency, but the threshold for entering the pool has become disconnected from the limit created by the residency planning range.

Recommendation 9

The Government should be clearer with prospective migrants about their likelihood of attaining residency in the Skilled Migrant Category by linking the residency criteria to the planning range. To do this, the Government should:

- revise each year the points threshold for entering the Expression of Interest (EoI) pool; and/or
- enable applicants to continue to accrue points and select applicants from the EoI pool with the highest points first.

Each year the Government should publish the points ranges of successful applicants to emphasise that minimum thresholds for considering applications are not the targets for selection.

New Zealand should aim to attract those with the highest potential

Attracting the best requires less complexity and clearer labour market signals

A more long-term problem arises from allowing the temporary and permanent migration systems to get out of balance through processing delays

and uncertainty. Highly skilled migrants are more mobile and can choose to go elsewhere – particularly if other countries can make their paths to residency clearer and easier. Some other countries are more proactive in their use of points and offers of employment to favour migrants with desirable mixes of skills, entrepreneurial talent and capital. When a country fails to update its immigration policies, either to maintain the operation of its selection system, or to improve employment outcomes for migrants waiting for residency approval, other countries start to look comparatively attractive.

Finding 22

New Zealand's current residence policy does not sufficiently prioritise migrants who would make the greatest contribution to the future of New Zealand.

Any difficulties that migrants experience in getting qualifications and credentials recognised creates further delays and increases the risk of losing their skills to New Zealand. Care should be taken

that immigration and other policies affecting immigration applications are consistent with the objective of keeping New Zealand competitive in the market for highly skilled migrants.

Recommendation 10

The Government should speed up processing and increase the certainty of visa status (including rights to residence and the recognition of comparable foreign qualifications) for highly productive and highly paid workers by reducing complexity and administrative discretion.

Another way to enable clarity and improve the alignment of residency selection with the temporary system is to evaluate SMC migrant outcomes and to regularly update the SMC point system criteria and weightings based on their association with good labour-market outcomes. Criteria not found to be strongly associated with good labour-market outcomes should be considered for removal or reduced weighting.

These updates and re-weightings should also flow into the entry requirements for the EoI pool. The Commission's research examining migrant outcomes will provide a useful basis for more systematic SMC evaluation. It explores how the selection of residents from temporary visas may result in earnings or employment advantages (Devine, forthcoming).

Recommendation 11

Immigration New Zealand should more regularly update the SMC points system criteria and weightings based on systematic evaluation of migrant outcomes. Criteria not found to be strongly associated with good labour-market outcomes should be considered for removal or reduced weighting.

Attracting the best also means focusing on quality over quantity in the international education market

After the GFC, the Government supported the international education sector to stimulate economic growth. The number of international

students enrolled with New Zealand providers increased by more than 40% in eight years, reaching over 130 000 students in 2016. "The economic contribution of the sector peaked at up to \$5.23 billion in 2019, including \$1.21 billion directly paid in tuition fees to providers" (NZQA, 2021, p. 6).

Box 4.4 International students to New Zealand: visa pathways and employment

International students have an important role in the New Zealand labour market. Trained in New Zealand with relevant skills and existing links to the community, they form a significant part of New Zealand's capability. Yet, more than two-thirds of international students leave after study or after several years in New Zealand to return home (MBIE, 2018a).

On average, 40% of international students work while studying, mostly in retail trade and in administration and support services. Students typically work more hours during their extended summer breaks (Universities New Zealand, 2021).

Most international students who stay in New Zealand after graduation do so on a post-study work visa. Yet most of these graduates have left the country after two years. Of those graduates who remain for five years or longer, many have transitioned to a residence visa.

During study, students most commonly work in administration and support services, and in retail trade (both having low median earnings). After five years, students are more likely than before to be employed in professional, scientific and technical services, finance and insurance, and manufacturing. Median earnings increase for students employed in those industries after study if they remain in New Zealand in those industries for five or more years.

Source: *Immigration by the numbers*, NZPC (2022).

While the number of international university and polytechnic students also grew over the period 2014–16, the number of students in Private Training Establishments (PTE) spiked. This spike raised concerns about high volumes of students studying in poor-quality programmes, possibly more as a pathway to residence than study. These concerns prompted the Government to review immigration policy settings several times between 2016 and 2018 and adopt the New Zealand International Education Strategy in 2018 (ENZ, 2018).

- Changes made in 2016 and 2017 for example made it more difficult for lower-skilled migrants (including those who study in lower-level programmes) to gain residency under the SMC; applicants needed to meet a higher threshold to gain points for "skilled work" as well as needing more points overall.
- In 2018 eligibility for post-study work visas was also changed so that students who graduated at a sub-degree (vocational) level could only work in New Zealand for up to one year. This compared to up to three years for graduates at university level or higher. The changes

created a sharper distinction between levels of qualifications, again making it more difficult for lower-level tertiary graduates to gain residence.

Combined, these changes have led to a significant reduction in international student enrolments at sub-degree level since 2016.

Moving from volume to value

Government policy on international students is now shifting the focus from numbers of inbound students to high-value students. This recognises that, while educational tourism and tuition fees provide immediate economic value, enduring long-term benefits come from students who increase New Zealand's human capital and labour productivity. For example, these students may undertake high-quality research, create knowledge, and help build focused-innovation ecosystems (NZPC, 2021d). When the pandemic ends, the Government aims to rebuild the sector on value, diversity, and quality (Minister of Education (Hon Chris Hipkins), 2021; NZQA, 2021).

Focusing on very high skills and top talent

Another important way the immigration system can support higher productivity is by attracting very highly skilled and talented people to New Zealand. In its *Frontier Firms* inquiry report, the Commission recommended that New Zealand should, as a complement to broad-based innovation policies (which aim to benefit all firms), focus on a limited number of areas of economic activity that can scale through export growth and sustain world-class productivity performance. In these areas, government, businesses, researchers, skilled workers, and educators would all play their part in building innovation ecosystems that nurture, and are nurtured by, globally competitive firms (NZPC, 2021d).

These focus areas would need to attract and retain people with the appropriate talents and skills. The target would include “migrants with needed expert research and technical skills, as well as entrepreneurs, investors and experienced business leaders” (NZPC, 2021d, p. 160). To target “high-impact” individuals, the Government has experimented with new visa types such as the Global Impact Visa. But international competition for these people is stiff, and immigration rules are only one factor in their decisions to move countries (NZPC, 2021c).

Other countries do similar and different things to attract high-impact migrants. Two examples are Singapore and Australia. Singapore has been very successful in recruiting outstanding scientists and business experts to build areas of economic strength. Australia has a Global Talent visa, as distinct from its general investment attraction visas that appear poorly targeted (Box 4.5).

Box 4.5 Australia’s approach to attracting top talent: the Global Talent visa

Australia has several visa categories for permanent skilled migrants, including a Global Talent visa that targets highly skilled professionals to work in 10 nominated sectors.

The Global Talent visa is the most specific visa for attracting those with the greatest potential for encouraging innovation and the diffusion of knowledge and ideas. To be eligible for a Global Talent visa, a person must:

- prove they are internationally recognised, with evidence of outstanding achievements;
- still be prominent in their field of expertise;
- provide evidence that they would be an asset to Australia, in their area of expertise;
- have no difficulty obtaining employment or becoming established in their field; and
- have a recognised organisation or individual with a national reputation in the same field in Australia nominate them as global talent. (Australian Government, Department of Home Affairs, 2021)

Candidates must meet a high standard and show an exceptional track record of professional achievement such as holding senior roles, patents, professional awards, international publications or memberships, or being PhD graduates with international recognition.

Source: Coates et al. (2021).

An easier path to residence may attract some top-talent migrants, but shorter stays of months or one to two years may well interest others. Both permanent and temporary options should be available. As well as being sources of ideas and knowledge in the focus areas, top researchers and other experts can help forge vital international connections.

For innovation ecosystems to work – and specially to work well – the different parts must play their complementary roles including regulation,

research, business, skills, and “soft” and “hard” infrastructure. The immigration system is another important part that must perform its role. Straightforward options exist to ease the entry of top talent to New Zealand. Some options do not require the creation of separate visa categories. For example, in the case of residency, a prospective migrant who is highly skilled in one of the designated areas could be awarded additional points.

Finding 23

The immigration system has an important role in helping to develop innovation ecosystems in areas of economic activity on which New Zealand is focusing to achieve superior productivity performance (in line with the Commission’s recommendations in its *Frontier Firms* report). This role would encourage the entry of top talent (eg, world-class entrepreneurs and well-regarded scientists), as well as smart capital, and migrants with strong global connections.

Recommendation 12

The Government should make it easier for top talent to enter New Zealand to help develop innovation ecosystems in areas of economic activity on which New Zealand is focusing to achieve superior productivity performance (in line with the Commission’s recommendations in its *Frontier Firms* report). Immigration New Zealand should work with businesses, researchers, educators, iwi and other stakeholders to identify, prioritise and refine over time the conditions of entry of top talent. Top talent consists of migrants with the skills, knowledge, smart capital and connections needed for the innovation ecosystems to become world class.

Part 5

Better institutions for long-term productivity and wellbeing

An Immigration Government Policy Statement

The Commission has found that the current immigration system:

- lacks transparency and clear objectives;
- struggles to make trade-offs between employment, productivity, capacity, and other objectives; and
- has a short-term focus and takes incremental decisions that fail to take account of cumulative or wider effects, or other government policy objectives.

Improving productivity, in particular, is a long game. Technology needs to be developed and adopted or adapted, business models might need to change, and the kinds of work people engage in might change. Commitments to increasing productivity require long-term thinking by both government and businesses. This long-term thinking is at odds with how the immigration system is currently run: reactive to short-term and sometimes conflicting priorities.

Approaches for keeping a focus on the future

Two broad policy approaches can help governments focus on the longer run.

A first approach removes decision-making powers from elected officials and places them in the hands of people or organisations with clearly specified, long-term objectives. One example of this is the Reserve Bank Act 1989, which shifted responsibility for monetary policy and setting interest rates from Ministers to an independent central bank. By law, the central bank must conduct monetary policy with a medium-term public interest goal (originally “stability in the general level of prices”). The Government could influence the goals pursued through a Policy Targets Agreement, but in general the bank has operational independence. This arrangement sought to remove the temptation for elected officials to set interest rates to boost short-run economic growth at the cost of increasing longer-run inflation.

A second approach is to encourage or direct the actions of elected officials towards specified, longer-term goals, through greater transparency. This approach can take various forms.

Legislated targets or objectives: governments must pursue and regularly report progress on legislated targets or objectives, but have considerable freedom in how they carry them out. Examples in New Zealand include the Climate Change Response (Zero Carbon) Amendment Act 2019, and the Child Poverty Reduction Act 2018.

Independent advisory bodies: these bodies provide public and expert advice on how the Government should respond to specific issues, which creates pressure to act. Examples include the Climate Change Commission, Parliamentary Commissioner for the Environment, and the New Zealand Productivity Commission. One migration-related example is the United Kingdom's Migration Advisory Committee, which advises the UK Government on policy settings for migration and whether an occupational shortage is "skilled", in "shortage" and "sensible" to resolve through a migration policy response (Migration Advisory Committee, 2008).

Guiding goals or principles: the Government must meet certain guiding goals or principles in its conduct, but has considerable scope to define or interpret them. One example in New Zealand is the principle of "responsible fiscal management" in the Public Finance Act 1989, which specifies how governments should conduct fiscal policy, but which leaves open to individual administrations to determine exactly what "prudent levels" of debt and other outcomes mean. The Public Finance Act also requires governments to spell out their interpretation and set clear targets in accountability documents such as the annual Budget Policy Statement and Fiscal Strategy Report.

Which approach works best depends on the issue at hand. Where value judgements are involved and where different governments may wish to take different approaches, transparency and flexible approaches are generally preferable to removing decision rights from elected officials.

Publish an immigration Government Policy Statement

The Commission recommends that the Government regularly publish an immigration Government Policy Statement (GPS). It believes such an innovation would improve transparency, clarify objectives, improve the Government's accountability for achieving the objectives, and promote a longer-term focus. In greater detail, a GPS has potential to deliver several outcomes.

- An immigration GPS could promote longer-term clarity and credibility about population projections and planning ranges for new visa numbers. It would increase certainty for the general public, businesses, communities and other stakeholders such as local government. This in turn would help these parties to plan and implement investments that typically take a long time to come to fruition.
- An immigration GPS could require Ministers to make clear policy choices about migration (including fiscal and regulatory choices). A GPS would inform the public about how the Government intends to manage pressures on absorptive capacity by either or both slowing new arrivals and expanding capacity to accommodate future population growth. Expanding capacity would include infrastructure planning, core public health and education services, and working with local government, land supply and housing infrastructure.
- An immigration GPS could begin a process of the Government working with Māori on how to reflect Te Tiriti o Waitangi in immigration policy and institutions, engaging in good faith, and allowing Māori to define their own interests (Part 6).
- An immigration GPS could enhance the Government's accountability to the electorate for immigration policy. In particular, through setting up performance measures and other indicators, the GPS would help the public monitor and assess the longer-term implications of government decisions and how they play out.

Connections between immigration and other policy objectives should be clear and coherent

To realise the potential benefits of immigration policy on productivity growth, or to mitigate any potential negative impacts on wider wellbeing, immigration policy needs clear and coherent links with other relevant policy objectives. It needs to be connected with other systems such as the provision of public infrastructure and the skills, education and training system. Overall, immigration policy needs to align with New Zealand's economic and social goals and priorities.

An immigration GPS would require governments, in consultation with the public, to consider the immigration system as part of its overall policy programme, and would allow:

- the public to engage over immigration policy goals and priorities; and
- the Government to set clear objectives for the system as a whole, including its fit within the education and training system and the Government's wider economic and fiscal strategies – against which decisions and trade-offs are made.

An immigration GPS developed by the government of the day and looking ahead for a period of 5–10 years would, in the Commission's view, be a suitable mechanism to achieve these benefits and those noted in Part 4.

An immigration GPS would provide enough flexibility to recognise that different governments will have different goals and priorities, while also providing enough detail and specificity to enable trade-offs, the measuring of performance, and to improve predictability.

Two possible legislative guides for an immigration GPS

Several public management tools are available in the New Zealand state sector that could serve as guides for an immigration GPS. The two that the Commission thinks best to consider are the Government Policy Statement (GPS) in the Land Transport Management Act 2003 and the fiscal responsibility provisions of Part 2 of the Public Finance Act 1989 (Box 5.1).

Box 5.1 Two potential models for an immigration Government Policy Statement

Land Transport Government Policy Statement

The land transport GPS sets out the objectives the Government wishes to achieve for the land transport system over the coming 10 years, its strategy for achieving those goals, and the measures that will be used to assess performance. A new GPS is developed every three years, with public submissions sought. An ongoing monitoring and evaluation programme supports the GPS.

In specifying the Government's objectives and a strategy for achieving them, the GPS provides direction for many players in the land transport system – particularly for the Crown agency Waka Kotahi (the New Zealand Transport Agency). The GPS enables the combination of Government high-level direction with the operational independence of Waka Kotahi. Fry and Wilson (2022a) argue that, because immigration policy is carried out directly by Ministers and their officials in a government department (MBIE in the case of immigration), the land transport GPS is not as suitable a model for an immigration GPS as the fiscal responsibility provisions in the Public Finance Act 1989.

The fiscal responsibility provisions of the Public Finance Act

The fiscal responsibility and wellbeing provisions of Part 2 of the Public Finance Act (PFA) require the Minister of Finance, on behalf of the Cabinet, to issue detailed statements of Ministers' priorities, intentions and expected results. These statements take the form of the annual Budget Policy Statement and the Fiscal Strategy Report. The government of the day decides on the "anchor" objective of a target level of government debt, but this choice is subject to the Act's concept of "a prudent level of total debt" and a set of principles of responsible fiscal management.

Box 5.1 continued

The Fiscal Strategy Report is a statement of policies that both the government and government departments commit to implement. Supporting this statement are a set of robust reporting and accountability systems woven through the fabric of Part 2 of the PFA. While the PFA has been amended in small ways over time, its basic architecture and workings have proved robust across a range of governments with different priorities and policies.

Source: Fry & Wilson (2022a).

Recommendation 13

The Immigration Act 2009 should be amended to require the Minister, in consultation with the public, to regularly develop and publish an immigration Government Policy Statement (GPS). These amendments should specify that a GPS must include:

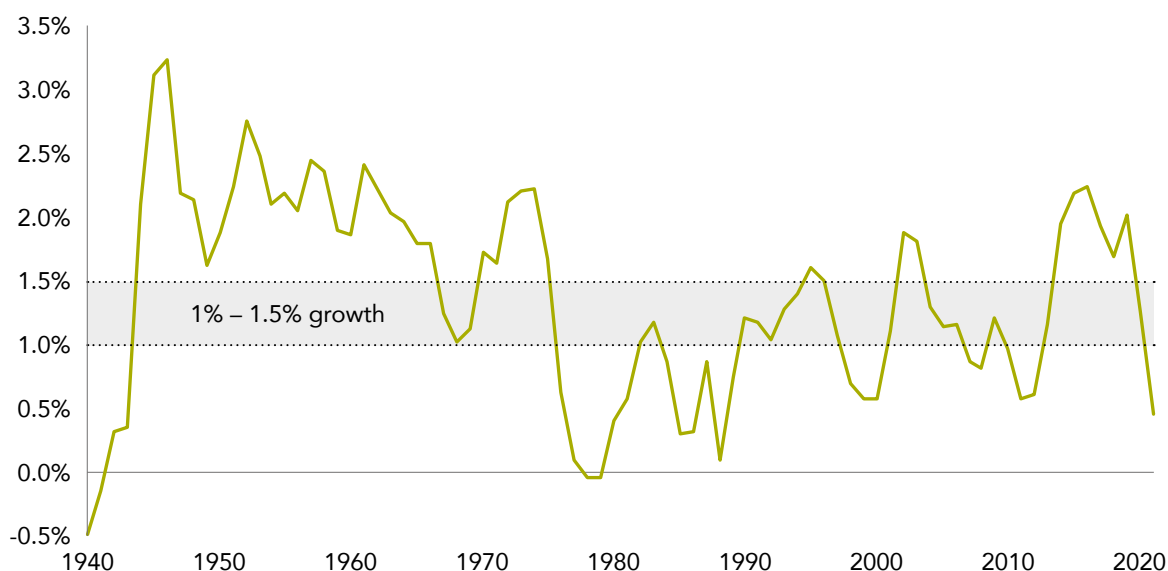
- short-term and long-term objectives, and relative priorities;
- performance measures or indicators;
- how, in partnership with Māori, immigration policy will reflect Te Tiriti o Waitangi;
- how the demand for temporary and residence visas will be managed taking account of significant pressures (if any) on New Zealand's absorptive capacity over the period of the GPS including:
 - specification of a planning range for the intake of new residents over the period covered by the GPS; and
 - the criteria for managing access to temporary work visas and projections of migrant flows based on these criteria, over the period covered by the GPS;
- a description of how the residence planning range and the criteria for selecting migrants for temporary and residence visas will contribute to the objectives of the GPS as well as other government policy objectives, including but not limited to links with education and training.

How could an immigration GPS change behaviour?

What would have changed if an immigration GPS had been in place over the last thirty years? Governments would have been tracking a broad range of indicators with an eye on the population growth rate and pressures on absorptive capacity. Figure 5.1 shows population growth rates over the last 80 years. Hypothetically, if the government of the day made investment decisions based on a planned annual population growth range of between 1% and 1.5%, and the rate was

threatening to exceed that over several time periods, the government of the day and other parties could have adjusted their migration and infrastructure investment decisions. Of course, any tightening of criteria to lower migrant inflows would need to assess the costs and benefits of doing so (including taking into account short-term effects in the labour market and on macroeconomic demand pressures).

Figure 5.1 Annual growth rate in total population, 1940–2021



Source: Productivity Commission using Stats NZ (2012) (years 1940–1990) and Stats NZ (2022) (after year 1990).

It is also clear that applying a simple rule across time without understanding underlying causes would be unwise. For example, since the Second World War, New Zealand’s population growth has been a story of two halves. In the first half, to

around the 1980s, New Zealand’s population grew largely from natural increase. In contrast, in the second half the population grew mainly from net migration (Figure 2.1).

Informing the GPS through better data and evaluation

Evaluate existing and proposed visa categories

Several visa categories have been created to fill gaps and meet specific local demand in an incremental and ad hoc way, without examining their cumulative impacts. A number of claims have been made about the benefits of specific visa categories or programmes, but few have

been rigorously evaluated. Two exceptions are the RSE scheme, which has been the subject of several studies (Bedford et al., 2020; Gibson & Bailey, 2021; Nunns et al., 2019, 2020), and the Global Impact Visa, which is part-way through an evaluation (Bellett et al., 2018). Beyond that, little hard evidence is available on the impacts – positive or negative – of specific visa types.

Finding 24

Several visa categories have been created to fill gaps and meet specific local demand in an incremental and ad hoc way without examining the cumulative impacts.

Formal evaluations of specific visa categories would be valuable to assess the net benefits of each category, and make trade-offs across visa categories if governments wish to prioritise within a constraint. For example, if a future government sought to limit numbers of temporary work visas or significantly slow the flow of migrants to ease pressure on absorptive capacity, the evaluation programme could help inform what visa categories to prioritise, and make the motivation behind policy decisions more transparent.

The Commission recommends that MBIE should develop a rolling programme of independent evaluations for major visa categories, to assess their productivity and other economic and wellbeing impacts. These evaluations should be published and should inform immigration policy and any future immigration GPS. The following major visa categories should be evaluated as part of this rolling programme: likely starting with the student, working holiday scheme, and investor categories.

- Student visa and post-study work visa:** the student visa has several objectives. A key conflict in student-visa policy is between international education as an export industry, and international education as a form of pre-selection of candidates for future rights to work visas and residence. International education has long been an important source of revenue for education providers and became more so between 2013 and the onset of Covid-19. The system needs to be clear about what it is trying to achieve, given the complex funding incentives at play in the tertiary education system, in addition to the labour-market effects of immigration.
- Working holidaymakers:** though working holiday scheme visas are primarily bilateral arrangements between New Zealand and other countries, the visa category has become an increasingly important source of labour for some employers. The visa has not been assessed against economic objectives.

- **Investor categories:** these categories have historically rewarded investment in passive assets for which there is no shortage of funds (eg, bonds, shares), and which do not obviously contribute to productivity growth in New Zealand. Though some reforms of this visa category are on the way, regular evaluation of the category is necessary as a fine balance needs to be struck between acknowledging the typical migrant investor lifecycle (start off with low-risk investments, move to higher-risk investments later), and seeking to attract investors who are likely to contribute to New Zealand's productivity growth.
- **Employer sponsored categories** (eg, the imminent Accredited Employer Work Visa): as argued in Part 4, tools to manage the risks of local worker displacement can have both positive and negative impacts on productivity. Regularly evaluating whether the visas are balancing the trade-offs between managing risks and enabling employers to fill important skill shortages is therefore important.
- **Recognised Seasonal Employer:** though the RSE scheme is one of the better-evaluated immigration programmes, regular evaluation is important to ensure the scheme remains consistent with wider international development goals, technology development, and the acceptability of the scheme treating RSE workers differently from other migrants and workers.
- **Partners and family visas:** partner and family visas have both wellbeing and economic objectives. Care is needed to consider first-round benefits (the benefits that accrue to those particular visa-holders) and second-round benefits (the benefits that arise because the visas encourage the primary visa-holder to stay in New Zealand).

Recommendation 14

The Ministry of Business, Innovation and Employment should develop a rolling programme of independent evaluations for major visa categories, to assess their productivity and other economic and wellbeing outcomes. These evaluations should be published and should inform immigration policy and any future immigration Government Policy Statement.

Access to data improves the robustness of evaluations and immigration-related studies. These evaluations and studies support evidence-based policy making. The Commission discusses

and makes recommendations in the next section about how modest further investment in migration, skill modelling and wider labour-market data would add significant value.

Better labour market institutions

The immigration system fits within the wider labour market and its regulatory, monitoring and enforcement environment. Ensuring that wider labour market systems work well alongside the immigration system will not only reinforce and improve the operation of the immigration system but also increase the confidence that people have in the integrity of the overall workings of the labour market.

Actively monitor the labour market for displacement risk

While studies like that undertaken by MBIE in 2018 are very helpful in empirically testing the

impacts of migration on the employment and earnings of locals (see Part 3), the Commission notes that that study was based on data from 2000 to 2015. From 2015 to 2020, the economy experienced relatively high rates of economic growth and job creation which likely have minimised risks of migration displacing the jobs of local workers. However, job displacement may happen in less buoyant economic times.

Given that the long-term costs associated with unemployment and or underemployment, whatever their proximate cause, are high, MBIE should regularly monitor for any systematic negative impacts associated with migration. Alongside this monitoring, MBIE should regularly update its empirical analysis of migration's impact on employment, wages and earnings to provide an empirical basis for policy refinement.

Recommendation 15

The Government should actively monitor the labour market for impacts on particular groups or communities over the economic cycle, with a particular focus on times of significant changes in immigration policy and/or migration flows at a regional or national level.

If indicators of job displacement are found, the Government should undertake further work to understand their cause (for example, by applying the methods undertaken in the Ministry of Business, Innovation and Employment (MBIE) 2018 study). At the same time, the Government should address any impacts through improving access to education and training, tailoring active labour market programmes, and through Industry Transformation Plans. The Government may need to consider short-term support policies or programmes, or bespoke interventions, to protect those particularly vulnerable.

In addition, MBIE should regularly update its analysis of migration, employment and wages to assess the impact of current migration on local wages and employment. MBIE should undertake this analysis at the aggregate level, as well as with a distributional lens.

Enhance the integrity of the enforcement system

Enforcing minimum employment standards and additional requirements for temporary visas (eg, the requirements for pastoral support and accommodation for RSE workers) is important not only for migrants on temporary visas but

also for employment standards for all workers. Unfortunately, recent migrants and especially those tied to employers through their visa, are more vulnerable to abuse and exploitation. The imminent move to the new AEWV should be accompanied by more effective enforcement of labour-market minimum standards.

Box 5.2 MBIE's best estimate of migrant exploitation

Most migrants report positive experiences with their employers in New Zealand, but a small yet significant number report troubling behaviours related to abuse and exploitation that harm their wellbeing. In 2020, MBIE provided their best estimate of the exploitation problem based on an extrapolation of the results from New Zealand's Migrant Survey in 2018. It found that 8% of temporary migrant workers (about 20 000 workers) had not received one or more of their minimum employment rights or had been asked to pay money to their employer to get or keep their job (Office of the Minister for Workplace Relations and Safety & Office of the Minister of Immigration, 2020).

This level of migrant exploitation not only harms New Zealand's international reputation (Public Service Association, sub. DR145; Human Rights Commission, sub. DR159) but also runs the risk of contributing to wage suppression and job displacement in lower-paid industries with the most vulnerable New Zealand workers (such as Māori and young people) (Office of the Minister for Workplace Relations and Safety & Office of the Minister of Immigration, 2020).

The Government has recently made several immigration policy and operational changes including a shift toward the accredited-employer system (ie, the imminent AEWV) to minimise, and ease reporting of exploitation, and making improvements to the Labour Inspectorate's monitoring capacity.⁷ The Minister estimated that these changes would double the number of reported cases of exploitation (Office of the Minister for Workplace Relations and Safety & Office of the Minister of Immigration, 2020).

Yet resources dedicated to the monitoring of firms and workers in the labour market and enforcing the rules, especially in the case of migrant workers and firms employing them, remain low (MBIE, 2019). For example, in stark contrast to the estimated 20 000 cases of migrant exploitation (see Box 5.2), the Labour Inspectorate completed

only around 530 investigations each year across the entire workforce between 2013 and 2019. The majority of these cases (58%) involved a migrant worker, and in 2018–19 nearly half of the cases investigated were classified as serious exploitation (MBIE, 2019).

Finding 25

The Labour Inspectorate has insufficient resources to enforce minimum standards across the labour market, particularly in areas relating to migrant exploitation. Having a strong enforcement system is key to the integrity of the accredited employer scheme, as well as maintaining public confidence in the immigration system.

⁷ In 2016, the toolkit and powers of the Labour Inspectorate were expanded. The period 2019–20 saw the introduction of a specific six-month visa category to allow migrants to leave exploitative situations, a dedicated 0800 phone number and a web form to make reporting cases of exploitation easier (MBIE, n.d.).

One way to give some scale to the resource shortfall is to use international benchmarks. The International Labour Organisation (ILO) expresses concern wherever the number of inspectors is lower than one inspector for every 10 000 workers in industrial market economies; lower than one inspector for every 20 000 workers in transition economies; and lower than one inspector for every 40 000 workers in less-developed countries.

Over 2015–19, New Zealand had one inspector for every 40 000 workers, or about a quarter of the number recommended by the ILO for effective enforcement of labour standards in industrial market economies. Increasing the funding of the Labour Inspectorate would help move toward the goal of one labour inspector for every 10 000 workers over the next three years.

Recommendation 16

The Government should fund the Labour Inspectorate to support labour-market regulation, the proposed accredited employer scheme, and the integrity of the immigration system. Resourcing should increase over the next three years to match the International Labour Organisation benchmark of one inspector for every 10 000 workers.

Better links between the education and training systems and the immigration system

Part 3 discussed ways in which immigration can affect the training of local workers and weaken employers' incentives to work with tertiary education providers to lift domestic skill supply. Work is under way to build institutions that may improve links and information flows between industry, education and immigration, such as the Regional Skills Leadership Groups (RSLGs), Workforce Development Councils (WDCs) and the establishment of Te Pūkenga (the New Zealand Institute of Skills and Technology). Parallel processes are also available for encouraging greater productivity and innovation in selected industries (Industry Transformation Plans), which may have implications for immigration settings.

How well these institutions will work, how they will interact, and what information they will use to inform their investments and other decisions is not yet clear. Yet, it is known that WDCs will

work with their industries to develop and maintain a strategic view of the skills their industries require now and in the future. They translate these needs into expectations of what the vocational education system will deliver. Education and training providers – Te Pūkenga, Private Training Establishments (PTEs) and te Wānanga – will be expected to respond to these expectations. (TEC, 2021)

It is also outlined that, to deliver their core functions, WDCs will engage or partner with RSLGs, the Tertiary Education Commission, the New Zealand Qualifications Authority, Centres of Vocational Excellence and Providers (Wānanga, Private Training Establishments and Te Pūkenga). Unfortunately, aside from an indirect link to local labour market shortages and opportunities through the RSLGs, currently no consistent feedback mechanisms are evident to link skill shortages in the immigration system to potential responses and training expectations by WDCs. To encourage such feedback, the Government should require WDCs to report on how demand for migrant labour and skill gaps are informing their training priorities and expectations for training providers, if at all.

Finding 26

Currently, no consistent feedback mechanisms are evident to link skill shortages in the immigration system to potential responses in the education and training system. This inconsistency limits the likelihood that the education system will meet employer needs and weakens accountabilities on employers to train and develop local workers. Workforce Development Councils have no direct link to the immigration system and are not required to consider how their training objectives align with employer demand for migrant labour.

In its report *New Models of Tertiary Education*, the Commission outlined a potential pilot programme to enable tertiary education institutions to set higher fees provided they use this extra revenue primarily to lower fees for lower-socioeconomic students (NZPC, 2017). This would reduce study costs for lower-socioeconomic students and therefore enable the institutions to attract more of them into tertiary training. This pilot programme could also be trialled in a way that encouraged training in areas experiencing long-term skill shortages.

In the same report, the Commission noted that current regulatory settings limit eligibility for

student allowances for students aged 40 and over, which creates training barriers for mid-career workers. The Commission highlighted that many mid-career workers may need to retrain due to technological advances making certain skills and occupations obsolete (NZPC, 2017). An opportunity exists to trial more liberal eligibility criteria for occupations and skills with unmet demand, to test if making eligibility criteria more liberal would induce people to retrain in these areas.

Both opportunities (the pilot and the trial) would require additional funding.

Recommendation 17

The Government should require Workforce Development Councils to report on how demand for migrant labour and skill gaps are informing their training priorities. The Government should provide additional funding that incentivises education and training providers to respond to skill gaps identified through labour-market modelling.

Invest in improved labour-market information

New Zealand faces competition for skilled, specialised workers from other countries. It is common internationally, and current practice in New Zealand (as discussed in Part 4), to create skill shortage lists of occupations that receive priority in the migration system – through exempting them from labour-market tests before approving temporary work permits, or through awarding extra points as part of selection for residency.

Many countries have invested significant resources in labour-market modelling, to understand the changing dynamics of labour demand in their economies, and to signal opportunities for the supply of desired skills (NZPC, 2021a). This modelling is then used to target policies to smooth shortages. In contrast, New Zealand's process for identifying shortage occupations appears opaque and haphazard. Peak industry bodies can and do advocate for adding or removing a particular occupation from a skill shortage list; smaller firms and other

occupations often lack the coordination to advocate for this.

The Commission also notes that no process appears to exist for assessing when to remove an occupation from a skill shortage list, for instance by systematically observing labour-market information to check whether a shortage persists.

With these deficiencies in mind, the Commission contracted Taylor Fry to identify what options exist to use data to develop a more data-driven methodology to estimate skill shortages in New Zealand (Taylor Fry, 2022). A transparent empirical methodology for estimating and monitoring skill shortages, using mostly existing data sources, would be desirable from several perspectives.

- The methodology could indicate future demand for skills and help prevent shortages – both locally through recruitment and upskilling, and internationally through seeking new sources of migrant labour.
- Even if a skills list was not used to implement specific immigration policies, having good information about what skill shortages were emerging over time would still be valuable. For instance, particular regional or occupational shortages might persist despite substantial immigration.
- The methodology could provide a package of indicators with demographic splits (such as by gender or ethnic group) that could be monitored to provide further insight into the labour market.
- Even though the Commission recommends moving away from using explicit lists of shortage occupations to prioritise temporary work visas (Part 4), skill shortage lists and occupational definitions are a current feature of immigration policy. They may be used in some form in future to create carve-outs or exemptions from general requirements such as a wage threshold for temporary work visas. For example, at the time of writing, the Government is considering whether to allow exemptions to their proposed median-wage threshold under the new Accredited Employer visa scheme (see Part 4). And shortage occupations may continue to be used as a way of prioritising residency applications.
- In some cases, unfilled jobs could result in a loss of societal wellbeing. That is, society may gain benefits overall if these jobs are filled – beyond what an employer may be willing to pay. Using skills shortage models provides a more objective starting point for judgements about a shortage list for these types of jobs than relying exclusively on stakeholder feedback.

Recommendation 18

The Government should invest in more up-to-date labour market data to identify skills supply and demand to:

- test and inform decisions in response to employer claims of labour shortages; and
- identify opportunities and needs for immediate and longer-term skills development.

Taylor Fry reviewed a range of data sources for a potential primary measure of skill shortages and potential predictors of skill shortages (Taylor Fry, 2022). Unlike in Australia, which has been surveying employers and monitoring vacancies

for many years, no good primary indicator of skill shortages exists in New Zealand. As a result, no target variable is available to use to estimate a predictive-shortage model in New Zealand, or for ongoing validation. New Zealand does, however,

have a very good range of secondary indicators to draw upon to build a weighted-indicator model.⁸

Overseas research efforts to understand skill mismatches and shortages have extended into measurements of both skills and skill-uses and a range of taxonomies is available. The Programme for the International Assessment of Adult Competencies (PIAAC), compiled by the OECD, provides a uniform cross-country methodology for surveying, assessing and analysing adult skills. A finer-grained occupation list like the Australian and New Zealand Standard Classification of Occupations (ANZSCO) can pick up regional variations and so offer some advantages. Other national categorisations exist, such as the

Standard Occupational Classification (SOC) used in the United States.

The Occupation Information Network (O*NET), an online US database, among other things, maps skills onto occupations (Taylor Fry, 2022). Practically, ANZSCO is used for most current statistical work around occupations in New Zealand and is the most realistic option for skills-shortage modelling. The Australian Government recently announced a review of ANZSCO as part of its 2022–23 Budget (Australian Bureau of Statistics, 2022). This provides an opportunity for New Zealand also to review and update existing categories to recognise the evolving labour market and newer occupations.

Recommendation 19

To support more up-to-date labour market data, MBIE and Stats NZ should:

- evaluate options for adding vacancy indicators of skill shortages to the Business Operations Survey; and
- update statistical definitions of occupational categories in the Australian and New Zealand Standard Classification of Occupations to reflect functional skill.

One further data difficulty could have an easy solution. Currently, estimating how many foreign nationals living overseas possess a New Zealand Permanent Resident visa is difficult, because researchers are unable to accurately distinguish citizens from permanent and long-term residents who have not taken up citizenship. The Department of Internal Affairs (DIA) maintains

a comprehensive dataset, covering about one million citizenship certificates by grant and nearly 300 000 by descent, as well as all citizenships by birth (DIA, pers. comm., 11 March 2022). However, this dataset is not integrated into the Integrated Data Infrastructure (IDI). DIA's citizenship data in the IDI are limited to those born in New Zealand after 2006.

Recommendation 20

Stats NZ should work with the Department of Internal Affairs to add citizenship data to the Integrated Data Infrastructure to enable evaluation and research into outcomes for citizens and permanent and long-term residents.

8 A weighted indicator model for creating skill shortage lists gathers a range of relevant indicators of skills shortages by giving each indicator some weight (possibly equal) and combining them into a single score.

Part 6

Te Tiriti o Waitangi, settlement and future risks and opportunities

This inquiry's Terms of Reference asked the Commission to consider:

- how the Crown can honour Te Tiriti o Waitangi (Te Tiriti) and the mana of Māori in its development and application of immigration policy, to ensure it reflects the interests and aspirations of tāngata whenua as whānau, hapū and iwi;
- how immigration policy, institutional arrangements and other settings can support successful settlement of migrants in New Zealand; and
- the important role that immigration plays in underpinning New Zealand's international connections and relations with other countries, especially the Pacific where immigration also supports development objectives in the region.

Reflecting Te Tiriti o Waitangi in immigration policy

Immigration was a significant motivation behind the signing of Te Tiriti and continues to be relevant to the relationship between the Crown and Māori. The preamble in both versions highlights the importance of immigration to the agreement (Walker, 1994), and immigration has the potential to this day to have disproportionate impacts on Māori, engaging the Crown's duty of active protection and duty to engage in good faith. Yet immigration policies and institutions

have largely ignored Te Tiriti, and they are increasingly out of step with the evolution in the Crown–Māori relationship.

Explicitly reflecting Te Tiriti in immigration policy and institutions has support from submitters to the inquiry (eg, Restaurant Association of New Zealand, sub. DR97; E tū, sub. DR120; BusinessNZ, sub. DR179), advice received by the Commission (Whāia Legal, 2021), and from Māori scholars and commentators (Kukutai & Rata, 2017; Quince, 2021).

In Aotearoa New Zealand, tāngata whenua should play an integral role in formulating immigration policy. Currently, immigration legislation does not mention Te Tiriti, suggesting an ongoing reluctance by successive governments to begin charting a course in this contentious discussion (Restaurant Association of New Zealand, sub. DR97).

However, the Commission acknowledges that it has neither the mana nor the expertise to make definitive recommendations on how best to reflect Te Tiriti in immigration policy and institutions. It is also important to remember that as partners, the partner relationship is as much about Māori inviting the Crown to their table as about the Crown inviting Māori to its table (Rata, 2021). Māori may well have hesitations about working with the Crown, given the lack of genuine engagement on immigration (Fry & Wilson, 2022a), and the experience of Māori working with the Crown to date (Houghton, 2021).

With these caveats in mind, the Commission is making some specific recommendations as a starting point for future engagement with Māori, instead of presenting a blank slate. While several issues remain on the exact way to implement

these recommendations, it is also important that outcomes are not predetermined so that there is substantial room for good faith engagement between Māori and the Crown.

Finding 27

Te Tiriti o Waitangi (Te Tiriti) is fundamentally connected with immigration. Immigration policy and institutions should reflect Te Tiriti. The Commission has neither the mana nor the expertise to make definitive recommendations on how to achieve this, but the Commission is making some recommendations as a starting point.

In particular, the Commission is recommending that a procedural reflection of Te Tiriti be achieved by making engagement with Māori a fundamental part of the process of developing a Government Policy Statement for immigration (Recommendation 13).

However, questions remain over how to coordinate the local and regional character of engagement with Māori with the national structure of the immigration system and the international dimensions of immigration. There is potential to

engage with existing organisations or to create a new body specifically designed for engagement on immigration like Ngā Toki Whakarururanga, the Māori body being established to enable Māori influence in trade negotiations (Waitangi Tribunal Claimants & Ministry of Foreign Affairs & Trade, 2020). Such a procedure would create dedicated space for Māori and the Crown to work together on reflecting Te Tiriti in immigration policy.

The Commission suggests that Te Tiriti become a core part of migrant settlement policy.

Recommendation 21

The Government should work with Māori on how to reflect Te Tiriti o Waitangi in immigration policy and institutions. This engagement should be in good faith and allow Māori to define their own interests. As a starting point, engagement with Māori should be a fundamental part of the proposed Government Policy Statement process.

Settlement – making the most of the investment in people

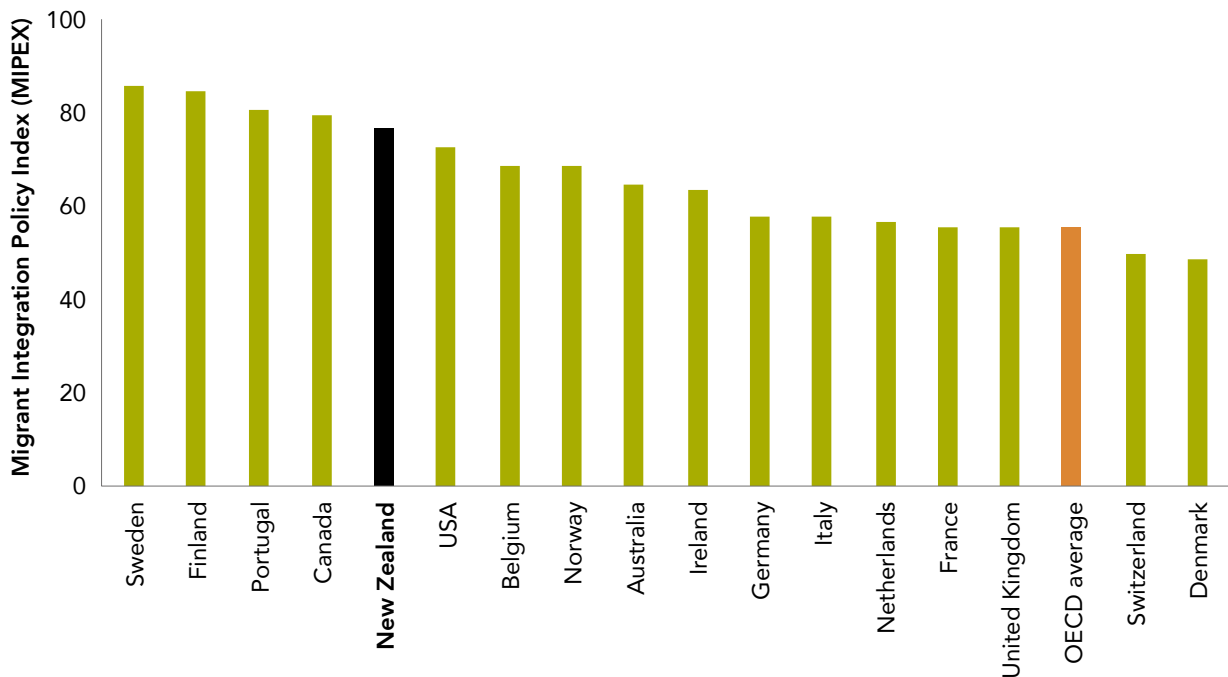
People thrive when they have a strong sense of identity and belonging (mana tuku iho) and can participate and connect within their communities and fulfil their rights and obligations (mana tauutuutu). So how can Aotearoa New Zealand provide migrants with the social infrastructure to live a good life, to prosper and grow their capabilities and skills?

New Zealand has been comparatively successfully in selecting and supporting migrants to settle.

New Zealand's settlement policy settings rank in the top 10 countries examined in the international Migrant Integration Policy Index (MIPEX) and well above the OECD average (Figure 6.1).

However, given uncertainty following the pandemic and the likelihood of increased competition globally for both high-skilled and low-skilled migration, it is also important not to become complacent or backward looking.

Figure 6.1 International comparison of overall MIPEX scores in 2019



Source: Migrant Integration Policy Index (2020).

Submitters identified several barriers to, and opportunities for, successful settlement within the current settings. These included issues around English proficiency and the settlement of families, particularly spouses/partners trying to find work.

Overall feedback we have received regionally from employers is that support is needed to provide pastoral care and that there are ongoing concerns with some migrant's [sic] English language capabilities. The challenge with both English language and pastoral care is who is responsible, what capacity and capability do workplaces have and overall, who is going to resource it financially? (sub. DR124, Central Economic Development Agency)

However, partners often find it harder to settle, with many not having their skills adequately recognised. The barriers they face include a lack of professional and business networks, prejudice from employers and others, not understanding the job application process and a lack of confidence about English language skills. (sub. 59, Venture Taranaki)

[S]uccessful settlement must involve the entire family not just the individual. (sub. 64, Ashburton District Council)

Decisions to remain within a country (and resulting retention rates for migration) therefore often depend on the success of the whole family and not just the principal applicant.

Finding a job is one of the areas where the experience of the spouse plays a key role in longer term retention. "In the Netherlands, for example the probability of high skilled labour migrants staying five years after arrival is 18 percentage points higher if the spouse is working rather than inactive or unemployed." Similarly... "[i]n Norway, labour migrants with an inactive partner are more likely to leave the country than those with an employed partner, no matter the country of origin and the gender of the principal migrant. For [male migrants in Norway], the retention was almost twice as high when the spouse was working." (OECD (2014, 2016) cited in Wood (2020, p. 20))

Comparing settlement policy settings with other countries highlights that New Zealand could make wider use of civics courses and personalised settlement plans (Shields et al., 2016; Wood, 2020). In addition, submissions highlighted a need for more realistic information about living and working in New Zealand, noting that while a lot of information is available, it often fails to mention some of the challenges associated with the high cost of living in New Zealand or how school zones work.

Recommendation 22

The Government should increase resources for settlement support to improve the retention of migrants and promote economic and social inclusion and acceptance of migrants in communities. Settlement initiatives could include business mentorship, civics courses, personalised settlement plans, and information on the labour market and living in New Zealand.

While international comparisons and benchmarking of settlement policy are important, settlement policy also needs to reflect the unique country circumstances into which migrants are being invited. As such, the Commission suggests that settlement policy is an area that should reflect Te Tiriti and te ao Māori.

Box 6.1 Support from submissions for reflecting te ao Māori in settlement policy

Several submitters suggested incorporating te ao Māori concepts and increasing Māori involvement in settlement activity would improve both settlement policy and outcomes for migrants and Māori. Many submitters identified manaakitanga as a te ao Māori concept relevant to migrant settlement and suggested it should be incorporated into immigration policy.

The value of manaakitanga is critical in Māori society and has direct relevance to how we welcome foreigners to this country. Showing hospitality and generosity and being respectful and generous in ways that enhance the mana of newcomers arriving in New Zealand, and enhance the mana of our people and country, needs to be a central part of the immigration process. (Victoria University of Wellington, sub. DR99)

We see manaakitanga as an important value to represent our responsibility for hosting migrants, and their contribution to our communities – the relationship is reciprocal. (sub. 64, Ashburton District Council)

The Commission heard the sense of belonging and understanding that comes from opportunities to learn about and engage with te ao Māori. Yet it also heard that partnerships with iwi to provide these opportunities also need to be fully resourced and supported by the government. Opportunities for migrants to connect with tāngata whenua and learn about te ao Māori and Aotearoa New Zealand's cultural context are an important component of the Welcoming Communities programme. However, funding is required to ensure these opportunities are not lost as the programme expands. Priority One Western Bay of Plenty submitted an example of the role iwi have played to date.

Of particular note, is the key role of mana whenua in this process. Earlier this year, local iwi – Ngāi Te Rangi, hosted more than 500 local migrants from around the world with a traditional pōwhiri onto Te Whareroa Marae in Tauranga. The Matariki gathering was for tāngata whenua to welcome those from afar who have become New Zealanders, giving them an authentic Māori world view and thank them for their contribution to Aotearoa... In return, the groups shared their respective cultures with the marae. (sub. 71, Priority One Western Bay of Plenty)

Beyond providing opportunities for migrants to connect with iwi, there is also potential for positive recognition of migrants' own voluntary efforts to learn Te Reo Māori (Te Reo) and about te ao Māori as part of encouraging migrants to connect with te ao Māori, reflecting Te Tiriti and promoting Te Reo. Any such policy would need to recognise the fundamental connections between Te Reo, tikanga and te ao Māori more broadly. Exactly how this recognition would work and whether it is the best use of Te Reo teaching resources should be determined in partnership with Māori.

We urge government to consult and partner with mana whenua – Reo educators and Tiriti experts – in developing the best process for establishing and recognising these efforts made by migrants, and how to incorporate them in the residence approval process. (sub. DR112, New Zealand Council of Christian Social Services)

Finding 28

Te Tiriti o Waitangi needs to be at the heart of migration policy and should be reflected in immigration policy and institutions.

Recommendation 23

The Government in partnership with Māori should seek to reflect Te Tiriti o Waitangi into settlement policy with first steps such as these.

- Direct Immigration New Zealand to work with Māori on actions to incorporate manaakitanga and other relevant te ao Māori concepts within the design and implementation of activity included under the Settlement and Integration strategy.
- Increase funding for iwi involvement and partnership in the expansion of the Welcoming Communities initiative, so that migrants have opportunities to connect with and learn about te ao Māori as part of the expansion.
- Engage with Māori on how the immigration system could positively recognise migrants' voluntary efforts to learn Te Reo Māori and about te ao Māori.

Encouraging migrants to make a stronger commitment to New Zealand

New Zealand's ability to retain talented migrants is far lower than its ability to attract talent, according to the World Economic Forum's Global Competitiveness Index 2017/18 (Box 6.2). Immigration system settings could partly explain New Zealand's poor retention ranking. Unlike other developed countries, New Zealand does not limit the ability of Permanent Residents to re-enter the country after they re-migrate; nor are Permanent

Residents expected to return to New Zealand regularly to retain their right of re-entry. Migrants only need to stay in New Zealand for two years after gaining their Resident visa before they can move on to a Permanent Residence visa (which provides the unlimited right to return). As a result, re-migration rates increase notably after the two-year period. "Skilled migrants in Australia and Canada must renew their right of return every five years and migrants with residence and work rights in the US risk losing them if they are outside the country for more than 365 days without a re-entry permit (730 days in the UK)" (Krassoi-Peach, 2013).

Box 6.2 New Zealand struggles to retain talent

New Zealand's capacity to retain talent was ranked 22nd in the World Economic Forum's Global Competitiveness Index 2017/18 (World Economic Forum, 2017). The survey asked over 14 000 business executives (in 137 countries) to what extent their country retains talented people. New Zealand's score was 4.6 (out of 7). Almost all of New Zealand's competitor countries have a higher capacity to retain talent: Switzerland, United Arab Emirates and the United States were the top three (with scores of 5.7 to 6), followed by Norway, Singapore, and the United Kingdom. Scandinavian countries of Finland, Sweden and Denmark were ranked 11, 17, and 20. Canada was ranked 15. Australia was ranked 23.

Around one-quarter of Skilled Migrant Residents re-migrate to other countries within five years (Krassoi-Peach, 2013) and attrition rates continue to grow beyond this period (Wood, 2020). Re-migration rates of Skilled Migrants have been highest for residents aged under 30; residents from the United States, Canada and China; residents without children; and former students (Krassoi-Peach, 2013). Recent evidence suggests that five-year retention rates for all Residents and Permanent Residents increased from 80% in 2001 to 89% in 2012–16 (MBIE, pers. comm., 21 October 2021; MBIE (2018b)), yet this may not be the case for skilled migrants due to the increasing mobility of international talent (NZPC, 2021c).

On one hand, offering Permanent Residents an unlimited right to return may help boost New Zealand's attractiveness to talent which might be important looking forward as New Zealand faces tougher competition for skilled migrants in the future.⁹

On the other hand, placing limits or additional conditions on the right to return of new Residents, such as requiring them to regularly renew their Resident visa, increases the opportunity cost of leaving and reduces the likelihood of someone simply obtaining New Zealand permanent residency as either a bolthole or a back-up plan (Mike Lear, sub. DR108).

Overall, requiring new Residents (not current Residents and Permanent Residents) to regularly renew their visa is likely to encourage some

skilled migrants to make a stronger commitment to New Zealand, and to become a citizen (Wood, 2020; Partridge, 2017). As the Central Otago District Council note: "the benefits to New Zealand from migration are less likely to be realised if the person does not reside in New Zealand for a reasonable proportion of time... [For instance,] investor migrants are less likely to invest in New Zealand if they are not here" (sub. DR142, p. 7).

One way to maintain the attraction of New Zealand relative to Australia and Canada (while also placing residency or other limits on new residents' rights) would be to require less frequent renewals of Resident visas (eg, every six years compared to every five years for both Australia and Canada).

⁹ The higher mobility of these skilled workers might also have spillover benefits if this mobility helps New Zealand's innovative firms and research institutions improve their international connections, which is key in growing innovation ecosystems. The vibrancy of these ecosystems will in turn improve New Zealand's ability to attract and retain overseas and local talent, and enables this country to offer competitive living standards (NZPC, 2021c).

New Zealand has large numbers of Permanent Resident visa holders offshore.¹⁰ This situation increases the risk of future population volatility and makes planning for housing, infrastructure, and public and private services more difficult. These problems are compounded by foreign-born migrants being more likely to return to major cities, compared to the New Zealand-born diaspora (Stats NZ, 2021a).

Any unforeseen flow of returnees due to overseas inter-state or civil conflicts, natural events or economic downturns could put intense pressures on public infrastructure and services. Managing such a population surge could be a significant challenge for policymakers and create wellbeing, productivity, and fiscal costs and risks (NZPC, 2021c). As noted, the current settings allow Permanent Residents, even those on long-term absence, to return to New Zealand at any time and make use of a range of public services, including healthcare and schooling for their children. Requiring new Residents to renew their visa every six years would limit these risks, should a person decide not to stay or renew their visa.

Submitters noted that several countries do not allow dual citizenship, and/or restrict the freedom to travel or the ability to purchase or hold assets for those who do. Yet, several submitters highlighted that valid reasons exist to remain overseas for long periods, such as for family

support or career development. The Commission agrees and notes that living in New Zealand should not be the sole measure of a migrant's commitment to New Zealand. Eligibility criteria for Resident visa renewal could include measures of commitment beyond residence, similar to the current measures for obtaining a Permanent Resident visa.¹¹

New Zealand allows residents who are not citizens to vote (Electoral Act, 1993). Allowing non-citizens to vote may have some risks, yet also many benefits. It facilitates civic education and political participation, helps prepare incipient New Zealanders for eventual citizenship, improves social cohesion, and makes the country more inclusive, fairer, and safer for all (Abrahamian, 2021; Barker & McMillan, 2017; Berlatsky, 2020).

Voting is also an entitlement that increases the attractiveness of New Zealand to global talent, and the wellbeing of migrants (Pacheco & Lange, 2010). In addition, allowing migrants to vote creates a barrier to any political party acting against the interests of migrant residents. This policy may have reduced anti-immigration rhetoric and strengthened New Zealand's culture of welcoming migrants. Anti-immigrant political parties could evolve if migrants – even those living overseas – were not allowed to vote (Barker & McMillan, 2014; McMillan, 2015; Palmer, 2007).

Finding 29

New Zealand is unusual in giving Permanent Resident visa holders an unlimited right to return, even if they have re-migrated elsewhere in the world. Other countries either require residents to return at regular points or remain in the country for specified periods if they wish to retain or renew their Permanent Resident visa.

10 MBIE estimated that over 110 000 Permanent Resident visa holders had been overseas for at least six months at the end of February 2020 (just before the border closures due to the pandemic) with almost 80% of them being overseas for more than two years (MBIE, pers. comm., 18 March 2022). Moreover, Immigration New Zealand issued an average of around 40 000 residence class visas every year from 2011 to 2019. If this trend continues, another one million people will obtain New Zealand residency over the next 25 years – suggesting that the number of Permanent Resident visa holders living overseas is likely to reach 200 000 in a couple of decades.

11 The current measures include having tax-residence status in New Zealand for two years, investing NZ\$1 million in New Zealand for two years, buying or starting a successful business in New Zealand for a year, and the rest of the family living in their own house in New Zealand.

Finding 30

Requiring new Residents (not current Residents and Permanent Residents) to regularly renew their visa is likely to improve retention rates by encouraging migrants to make a stronger commitment to New Zealand. It will also limit New Zealand's risk of future population volatility – the risk of population surges, and the associated negative fiscal impacts – and align the country's immigration settings with international practice.

Recommendation 24

The Government should discontinue the issuance of new Permanent Resident visas for new Residents and require new Residents to renew their Resident visas every six years. Eligibility criteria for this renewal should include residence (eg, a minimum of two years residence in the last six years) and other measures of commitment (eg, investment, running a business, or having the rest of the family living in New Zealand).

The Commission notes that the definition of Permanent Resident in the Electoral Act 1993 is different than the definition in the Immigration Act 2009. For electoral purposes, a person is a permanent resident if they reside in New Zealand legally and are not required to leave within a specified time (section 73 of the Electoral Act). This does not set a minimum length of stay. Many former permanent residents are eligible to

vote as long as a) they have lived in the country continuously for 12 months at some time, and b) they are or have been in the country in the last 12 months (section 74 of the Electoral Act). Data are unavailable on the numbers of people residing overseas (whether or not they hold New Zealand Residence visas) who are eligible to vote in New Zealand.

Finding 31

The definition of permanent resident in the Electoral Act 1993 is not consistent with the definition in the Immigration Act 2009.

Strengthening New Zealand's relationships in the Pacific

In the past, immigration policy preferred migrants from the United Kingdom and Europe, where many New Zealanders had family ties, as well as trade relationships and strategic interests.

In the 1980s and 1990s, the focus changed to encouraging migrants based on skills and qualifications regardless of country of origin. This change in focus has been successful. Migrants to New Zealand tend to be better qualified, on average, than locals and overseas-born adults in the working-age population. These migrants are more likely to have a degree or postgraduate qualification, and are less likely to have no qualifications at all.

A significant number of OECD countries follow this focus on skills and qualifications regardless of country of origin as they now compete in a global market for skills. Yet in most longstanding

destination countries, in Europe, the United States, Australia, and New Zealand, migrants are overrepresented in services sectors. A large percentage of these migrants are in low-skilled employment, and often come from poorer neighbouring countries (OECD, 2020a).

The changing geopolitical landscape will likely see New Zealand wanting to strengthen its relationships and ties in the Pacific region in the interests of regional stability and security. Country of origin could once again become an important consideration in migration policy.

Do future trends signal the need for a new approach?

The Commission identified broad trends that might affect the demand for and supply of migrant labour in the future (NZPC, 2021c). Box 6.3 describes trends of particular relevance to New Zealand situated in the Pacific region.

Box 6.3 Looking ahead – trends affecting migration

- Population ageing in the developed world is expected to continue to increase the demand for both high-skill migration and lower-skill migration in the health and aged-care sectors, and for low-skill but physically demanding work, such as in the horticulture industry.¹² At the same time, population ageing, economic development, and improved living standards in many traditional source countries for migrants could limit the future supply of workers.
- Rising sea levels and temperatures and more frequent and damaging weather events are already putting pressure on communities and economies in the Pacific and could ultimately make some low-lying island nations unviable. New Zealand may need to accept more migrants from the Pacific, given proximity, history, and current family ties.

Source: NZPC (2021c).

One way forward is to admit low-skill migrant labour from preferred source countries, but invest in institutions around them. Examples are Michael Clemens' Global Skill Partnerships and Martin Ruhs' temporary migration programmes (Clemens, 2015; Clemens & Gough, 2018; Ruhs, 2005). Such programmes have the potential to work with poorer

countries to protect migrants, allow them to send money back to family in their home country and to develop the workforce that the host country needs.

New Zealand already has such a scheme in the seasonal horticultural industry (Box 6.4).

12 Even so, both the aged-care and horticultural industries are looking to technology to replace low-skilled labour in the longer term.

Box 6.4 The Recognised Seasonal Employer Scheme

The RSE scheme allows the New Zealand horticulture and viticulture industries to recruit workers from Pacific countries for seasonal work if they cannot get New Zealanders to do the work. Although RSE workers are technically temporary workers, the objectives of this policy are different from other temporary work visas. These include:

- promoting best practice in the horticulture and viticulture industries to support economic growth and productivity of the industry, while ensuring that employment conditions are protected and supported;
- encouraging economic development and good governance within the Pacific;
- ensuring workers recruited under these instructions are adequately paid and financially benefit from their time in New Zealand; and
- ensuring outcomes which promote the integrity, credibility and reputation of the New Zealand immigration and employment relations systems (Immigration New Zealand, 2021a).

A new approach could consider pathways to residency and/or return to the source country so that the approach is based not only on the needs of New Zealand but on the needs of source countries. The approach could also be used to develop pathways for workers at a range of skill levels. Developing such pathways, however, would require investing in institutions at both ends of the migration journey – in source countries and the destination country.

Adopting such an approach in New Zealand would require meeting labour market regulatory obligations to guard against exploitation, access to ongoing training and development of migrant skills and capabilities, and settlement support. Such an approach requires both state capacity and a willingness to have a presence offshore. The Commission acknowledges that achieving this can be complex and costly, and risks “baking-in” existing institutional structures and business models. Even so, this approach is worth further consideration in a changing global environment.

Finding 32

Partnering with source countries to develop a pathway for future workers requires significant investment in institutions at both ends of the migration journey; and the government to have the capacity and willingness to have a presence offshore.

An opportunity exists for New Zealand to strengthen relationships with its Pacific neighbours through strategic immigration policy.

Whether and how New Zealand accepts climate-change migrants from the Pacific will ultimately be a decision for future governments in the years to

come. Even so, it would be sensible to take steps now by offering Pacific nations workforce training opportunities that align with areas of likely high labour demand in New Zealand, subject to what Pacific countries consider are their skills needs and objectives (NZPC, 2021c).

Part 7

Concluding thoughts



The Commission has used this inquiry as an opportunity to take a broad look at the parts of New Zealand's immigration system that focus on working-age migrants. It has asked what outcomes the country wants to achieve from immigration now and in the future, and what would need to change in current arrangements to realise those outcomes.

The future is always uncertain, but it is never more so than now in the wake of the unprecedented and almost total closure of New Zealand's borders for the last two years and several months owing to the Covid-19 pandemic. Two major uncertainties with border re-openings are the levels of net emigration of New Zealand residents, and net immigration of non-citizens. Will the numbers spring back to their pre-pandemic patterns, will they return to those patterns only slowly or will new patterns emerge and become the norm?

A key conclusion of the Commission is that New Zealand's immigration system should be configured to have the flexibility, resilience and clear strategic direction to navigate through these large uncertainties (however they turn out) and achieve outcomes that maximise net benefits for New Zealanders – as gauged by productivity in the economy and wellbeing in the wider society.

Therefore, the Commission has recommended a Government Policy Statement (GPS) to allow the government of the day to set a clear strategic direction yet allow the GPS to adapt when significant changes occur and show how

immigration policy fits with its other objectives. Businesses need to know their access to migrant labour for planning purposes. Prospective migrants need to know what New Zealand can offer them, and a realistic idea of their prospects for either eventual residence, or as a destination where they can live, contribute, and enjoy for a limited period.

The main dimensions of immigration that impact productivity and wellbeing can be simply stated: the total number of migrants in the population; the flow rate of new migrants who arrive (as an important component of net population growth); the make-up or composition of migrants in terms of skill and other characteristics; and the settlement of migrants. The following paragraphs state briefly where the Commission has landed on each of these.

Number of migrants in the population:

New Zealand's future population will not rise much and may well decrease from natural reproduction and the net migration of citizens alone. Therefore, a significantly larger New Zealand population would have to come from New Zealand attracting and accepting many new migrants. But deciding how many and having a target population size would require a population policy. Developing such a policy was not part of this inquiry's Terms of Reference and the Commission has not recommended one. Yet the Commission notes that a GPS would allow a government, if it so wished, to develop and announce a population policy.

In addition, the Commission has found that migrants generally make positive contributions to wellbeing. Noting the need for consistency with absorptive capacity and other government objectives, a larger population is likely to be a good thing for productivity through larger markets, economies of scale and scope, greater competition and specialisation, and more innovation. So, the Commission welcomes increases in New Zealand's population through migration, without taking a position on the size of that increase.

The flow rate of migrant arrivals: The question of what is a desirable rate of increase is separate from deciding population size – a large size is achievable with a low rate of arrivals; it will just take longer to get there. The Commission's key recommendations about arrival rates are that governments need to pay attention to the country's absorptive capacity (Recommendation 2) and that the GPS should set out how they intend to manage net population growth – including how they will adjust migration or absorptive capacity should net population growth threaten to put damaging pressure on the latter (Recommendation 13). Absorptive capacity is fixed only in the short term and governments should invest to lift future capacity to accommodate larger flows in future if that would produce net benefits for the existing population.

Another important aspect of migrant flows is that the fast rate of arrivals before the border closures in early 2020 was dominated by temporary migrants. Although many temporary migrants leave within a few years, a significant proportion remain and gain residence. Yet the system has struggled to cope with the number of migrants wanting to be considered for residency, which has left many likely migrants disappointed and frustrated. The Commission is clear that reform must remedy this problem to improve outcomes for both migrants and locals. It has made several recommendations which it believes will achieve this.

Composition of migrants: Much of this inquiry has focused on the question of what is the best mix of new migrants for New Zealand and how can an immigration system deliver that outcome sustainably and without excessive cost? The Commission has found that the available evidence is that migrants do not, on the whole, cause local workers to lose their jobs or suffer lower wages. For those local workers at risk, it is better to use the training system and Active Labour Market Policies to improve their skills and opportunities rather than restrict immigration.

That issue aside, the best composition of migrants is the mix that will contribute most to productivity and wellbeing in New Zealand.

Selection is at two levels – for temporary visas and for permanent visas. Yet the two levels are intimately connected. Most people who end up on a permanent visa arrive and live for some years on temporary visas; and, as noted, people admitted on temporary visas with hopes of gaining residency far exceed available places, which causes frustration for migrants and pressure on processing capacity. The tensions between the two levels must reduce to more tolerable levels.

Selection of temporary migrants is a balancing act. It needs to walk a fine line that admits the most productive migrants at low cost and allows them to be flexibly deployed. At the same time, the selection of temporary migrants should not exceed short-term absorptive capacity, or undermine either incentives for training locals, or for businesses to invest in capital and technology that raises long-term productivity growth.

It is important to have a selection system that does not encourage low-wage, low-skill business models and industries, but rather leans against them. The Commission was unable to make detailed recommendations on the best tools for selecting temporary migrants, but it has proposed some ideas on how the system could and should move away from uncapped visa categories based either on unsatisfactory skill shortage lists and labour-market tests, or on unrelated foreign policy objectives.

On selection for residency, the Commission endorses the basic features of the current system but recommends using them more effectively. Full use should be made of the planning range for the number of resident visas, including better use of points to select the best migrants, and ongoing research that improves understanding of what migrant characteristics translate into better resident outcomes.

Settlement: Surveys of both migrants and locals indicate that migrant settlement in New Zealand works well but could work better. In Part 6, the Commission makes several recommendations to improve the settlement of migrants. The Māori value of *manaakitanga* – the idea of hosts welcoming and looking after those who arrive, and arrivals learning about and respecting the *mana*, history and culture of the hosts – underpins these recommendations.

At a more pragmatic level, successful settlement and treating migrants well (including through reducing exploitation by enabling migrants to move more freely between employers and bolstering the enforcement of labour rules for all) makes sense because it lays the ground for migrants and local workers to flourish and stay in New Zealand.

Connection with other government policies

A recurring theme of the Commission through this inquiry is that too often immigration settings are disconnected from other important Government policies and aspirations such as education and training of local people, housing and infrastructure or social investments to enlarge absorptive capacity, or creating conditions for innovation and high-productivity workers, businesses and industries.

While poor coordination across different parts of the government is by no means confined to the immigration system, the Commission strongly argues for improvements. It argues that the GPS will provide an important opportunity

for the government of the day to articulate how immigration settings will contribute to and fit with other important objectives.

Te Tiriti o Waitangi

Te Tiriti o Waitangi is the key founding document of Aotearoa New Zealand and immigration lies at its heart. Yet the Commission has been struck by the disconnect between how immigration policies are set and the lack of opportunity for Māori to have input into them. While, in this area, it is not the Commission's place to be prescriptive, it recommends that the Government engages with Māori on immigration policy to work out the best way that the Te Tiriti partners can meaningfully work together.

Seven important characteristics of a good immigration system

At the beginning of this report, the Commission set out seven important characteristics that it sees as key for New Zealand's future immigration system. Without repeating them in full they are:

- 1 Immigration policy should support and complement opportunities for local residents and workers and the development of their skills.
- 2 Policy needs to be flexible and adaptable to change.
- 3 Policy and practice should prioritise people who are most likely to make the greatest contributions to the country.
- 4 Policy needs to be sustainable over time, enjoying broad social licence and support.
- 5 Policy should aim to treat migrants well.
- 6 Decisions on immigration policy should aim to minimise other social or economic costs that may result.
- 7 Policy needs to be consistent with other government policies.

The Commission offers this inquiry report with its advice on how to achieve these characteristics. As a final remark, it commends the metaphor that the Chair introduced in his Foreword — of thinking of the country as a “nest” that will nurture the human capabilities of all who live in Aotearoa New Zealand, both those who have lived here for many generations and those who have arrived more recently. The country has the privilege of being able to select migrants while being conscious that top talent is in demand and many countries compete for that talent. A nest that attracts migrants with diverse and productive talents for the fertile ground that is Aotearoa New Zealand, and which nurtures both migrants and locals, will improve future productivity and wellbeing and further enhance the nest.

All findings and recommendations

How did we get here?

Finding 1

Since the 1970s, activity in the New Zealand economy has shifted relatively away from the manufacturing sector towards the service sector. More recently immigration has helped raise the overall skill and human capital levels of the working population and has more than offset the loss associated with the outward migration of higher skilled New Zealanders. Since 2012, an increasing number of people with lower-skill levels have been approved within both the Essential Skills and the Work to Residence visa categories. This means the skilled temporary visa categories have become relatively less skilled over this period.

Finding 2

While immigration policy in New Zealand traditionally favoured permanent settlers, since the early 2000s, with the increased use of migration as a way to fill labour shortages, temporary migrants have made up the bulk of those who arrived. In the decade before Covid-19, the proportion of jobs held by temporary migrants grew significantly to become a substantial share of the labour force for some industries.

Finding 3

New Zealand's output growth over the last two decades to 2020 has kept up, or eclipsed, the growth rates of other OECD countries. However, New Zealand's labour productivity has remained well below the OECD average, and the gap has widened. Output growth has been driven by adding more people (both locals and migrants) to the labour market, and by working more hours, but achieving less output for every hour worked than in many other OECD countries.

The recent past: between the GFC and Covid-19

Finding 4

Before the 2020 pandemic, the overall unemployment rate was low, labour force participation high, and non-participation low. Job creation and net migration matched each other closely over a decade, suggesting that, in aggregate, no systematic displacement of local labour occurred, and that employers were able to use migrant labour along with local labour to fill new jobs.

In aggregate, immigration has had small and mostly positive effects on the wages and employment of New Zealand-born workers over the last 20 years. However, there have likely been some negative impacts on the employment prospects of beneficiaries and others in some local labour markets in particular places at particular times. These results arose within a buoyant phase of the economic cycle. The same outcomes would not necessarily hold in a downturn of the economic cycle.

Finding 5

Restricting migration to prevent potential job displacement of low-skilled or low-paid workers may cause greater harm because migration, on average, creates more labour market opportunities than it destroys, and has a small net positive impact on wages and employment of local workers. Even so, pointing out that, overall, other people are better off does not compensate those people experiencing difficulties. For people negatively impacted through job loss, the cost can be very high and felt by the person, their whānau and their community.

Finding 6

Strong inward migration of non-citizens can combine with return migration and low rates of emigration by citizens and permanent residents to create high rates of population growth that put pressure on the country's ability to successfully accommodate and settle new arrivals and that harm the wellbeing of both migrants and locals.

Finding 7

There is a disconnect between immigration policy and the investment to expand capacity in the infrastructure needed to support population growth.

Finding 8

By paying attention to absorptive capacity, the Government could more effectively manage migrant inflows to avoid exacerbating pressure on existing capacity, and invest and remove obstacles to provide enough future capacity for desired future immigration volumes.

Finding 9

The selection of skills has been effective and resulted in skilled migrants contributing (positively) to firm productivity. Skilled migrants (both those on residence and temporary visas) have contributed to firm productivity in the same way as high-skilled New Zealand-born workers.

Finding 10

Migrants can be complements or substitutes for local labour, or between labour and capital. Complementarities can exist at all skill levels (although are more likely at higher skill and wage levels).

Finding 11

The current immigration system:

- lacks transparency, clear objectives;
- struggles to make trade-offs between employment, productivity, absorptive capacity, and other goals;
- has a very short-term focus; and
- takes incremental decisions that fail to take account of cumulative or wider impacts or other government policy objectives.

Recommendation 1

To address particular cases where evidence exists of immigration displacing local workers, the Government should implement policies to empower displaced workers, such as improved access to education and training; tailored active labour market programmes; and Industry Transformation Plans. An approach that included such policies should be the primary focus regardless of the reason for displacement (eg, economic shock, or automation).

Short-term support policies or programmes, or bespoke interventions, may need to be considered to protect particularly vulnerable people. Policies aimed at improving the employment prospects of displaced workers or workers at risk of displacement are more likely than restrictions on immigration to deliver positive and long-lasting labour market and wellbeing outcomes.

The risk of displacement (alongside absorptive capacity, productivity impacts, and the working conditions of migrants) should continue to be a consideration in the design of future immigration policy.

Recommendation 2

The Government should introduce the concept of the country's absorptive capacity when setting its objectives for immigration policy.

Recommendation 3

The Government, in an Immigration Government Policy Statement, should describe:

- what the Government considers New Zealand's absorptive capacity to be (based on a range of indicators);
- where and how short-term immigration flows are likely to put additional pressure on that capacity (if at all); and
- how the Government intends to invest to expand capacity (if needed) to align it with expected population growth over the medium to long term.

Better immigration policy tools

Finding 12

Large increases in the number of temporary migrant visas, and queues of applicants for residence visas, have contributed to uncertainty and frustrations about the path of migrants to residence. This has left many migrants in flux and unable to settle.

Finding 13

The current immigration system has a lot of flexibility, but does not undergo the same level of transparency, public scrutiny and robust policy assessment that most other public policies require. Immigration policy can be changed without consideration of (or public reporting on) other policies that could achieve the same objective, how the policy balances certain trade-offs, or what evidence the policy is based on.

Finding 14

Creating exemptions from general immigration rules for industries, firms, and/or occupations reduces the likelihood that wages rise to reflect scarcity and inhibits the allocation of labour to its most productive use.

Finding 15

Overly stringent settings related to temporary work visas will increase claimed labour shortages and the demand for exemptions. However, exemption lists can become cumbersome, open to lobbying, and are (by their nature) backward looking, in that they aim to solve yesterday's labour shortages.

Finding 16

Requiring migrants to essentially be "tied" to a single employer carries significant risks for both the individual migrants and for broader labour-market outcomes.

Finding 17

Enabling job-to-job mobility is one route to improving productivity. When monopsony power is enabled by regulation (such as requiring migrants to stay with a single employer), workers may not be in firms where they can be most productive. Tying migrants to a single employer can lead to negative labour-market outcomes for migrants (including through exploitation) and local workers by increasing the monopsony power of employers.

Finding 18

The extent to which employers have access to low-cost migrant labour is a strategic choice for governments with trade-offs that cannot be avoided.

Unregulated access creates the potential for high volumes that:

- may stretch absorptive capacity;
- could reduce incentives for employers to raise productivity by upskilling local workers, and adopting new technologies; and
- may reduce employment opportunities for local low-skilled workers.

Placing limits on low-skilled migration that are too stringent risks going without productivity enhancing benefits from complementarities with new technologies and employing locals in higher-skilled jobs. Some industries may have labour shortages that local workers cannot fill despite improvements in wages and conditions.

Finding 19

While a wage threshold would represent an improvement on trying to determine outcomes based on skill or occupational definitions, its use as a blunt tool to manage low-skilled migration would not be a good fit with the diversity of firms and their use of migrant labour.

Finding 20

A flat-rate levy on all temporary migrant labour, while being a blunt tool to manage low-skilled migration, could be a better alternative to a wage threshold because it would not exclude low-skilled yet highly valued migrant labour.

Finding 21

The design of the Expression of Interest pool works well to select skilled migrants for residency, but the threshold for entering the pool has become disconnected from the limit created by the residency planning range.

Finding 22

New Zealand's current residence policy does not sufficiently prioritise migrants who would make the greatest contribution to the future of New Zealand.

Finding 23

The immigration system has an important role in helping to develop innovation ecosystems in areas of economic activity on which New Zealand is focusing to achieve superior productivity performance (in line with the Commission's recommendations in its *Frontier Firms* report). This role would encourage the entry of top talent (eg, world-class entrepreneurs and well-regarded scientists), as well as smart capital, and migrants with strong global connections.

Recommendation 4

The Government should encourage wages to reflect scarcity, rather than exempt specific industries, firms, and occupations from general labour-market rules.

Recommendation 5

The Government should reduce the use of shortage lists for approving temporary work visas and design them to inform education and training priorities, active labour market programmes, careers advice, industry strategy, and future resident-selection priorities. These lists should be data-driven and based on a set of indicators including vacancy data, wage movements, and demand for migrant labour. They should be monitored and updated regularly and reviewed every two years.

Recommendation 6

As part of the design of the Accredited Employer Work Visa (and/or future employer sponsored visas), the Government should enable migrants to move between any accredited employer with minimal government-imposed transaction costs for the migrant or employer. Information on migrants' movements within the employment system should be collected to monitor for risks of gaming the system and for risks of poor employer behaviour.

Recommendation 7

The Government's proposal to introduce wage thresholds is a likely improvement over selection based on the use of skill and occupational shortages. However, the Government should consider and evaluate the full range of alternative tools to manage the composition of low-skilled migrants on temporary visas. It should use the tool or tools with the greatest net benefits for productivity and wellbeing.

Recommendation 8

Before visa availability is committed to in international agreements, the Government should assess the likely net benefits and note the risk that additional visa availability may be hard to manage, limit, or remove in the future.

Recommendation 9

The Government should be clearer with prospective migrants about their likelihood of attaining residency in the Skilled Migrant Category by linking the residency criteria to the planning range. To do this, the Government should:

- revise each year the points threshold for entering the Expression of Interest (EoI) pool; and/or
- enable applicants to continue to accrue points and select applicants from the EoI pool with the highest points first.

Each year the Government should publish the points ranges of successful applicants to emphasise that minimum thresholds for considering applications are not the targets for selection.

Recommendation 10

The Government should speed up processing and increase the certainty of visa status (including rights to residence and the recognition of comparable foreign qualifications) for highly productive and highly paid workers by reducing complexity and administrative discretion.

Recommendation 11

Immigration New Zealand should more regularly update the SMC points system criteria and weightings based on systematic evaluation of migrant outcomes. Criteria not found to be strongly associated with good labour-market outcomes should be considered for removal or reduced weighting.

Recommendation 12

The Government should make it easier for top talent to enter New Zealand to help develop innovation ecosystems in areas of economic activity on which New Zealand is focusing to achieve superior productivity performance (in line with the Commission's recommendations in its *Frontier Firms* report). Immigration New Zealand should work with businesses, researchers, educators, iwi and other stakeholders to identify, prioritise and refine over time the conditions of entry of top talent. Top talent consists of migrants with the skills, knowledge, smart capital and connections needed for the innovation ecosystems to become world class.

Better institutions for long-term productivity and wellbeing

Finding 24

Several visa categories have been created to fill gaps and meet specific local demand in an incremental and ad hoc way without examining the cumulative impacts.

Finding 25

The Labour Inspectorate has insufficient resources to enforce minimum standards across the labour market, particularly in areas relating to migrant exploitation. Having a strong enforcement system is key to the integrity of the accredited employer scheme, as well as maintaining public confidence in the immigration system.

Finding 26

Currently, no consistent feedback mechanisms are evident to link skill shortages in the immigration system to potential responses in the education and training system. This inconsistency limits the likelihood that the education system will meet employer needs and weakens accountabilities on employers to train and develop local workers. Workforce Development Councils have no direct link to the immigration system and are not required to consider how their training objectives align with employer demand for migrant labour.

Recommendation 13

The Immigration Act 2009 should be amended to require the Minister, in consultation with the public, to regularly develop and publish an immigration Government Policy Statement (GPS). These amendments should specify that a GPS must include:

- short-term and long-term objectives, and relative priorities;
- performance measures or indicators;
- how, in partnership with Māori, immigration policy will reflect Te Tiriti o Waitangi;
- how the demand for temporary and residence visas will be managed taking account of significant pressures (if any) on New Zealand's absorptive capacity over the period of the GPS including:
 - specification of a planning range for the intake of new residents over the period covered by the GPS; and
 - the criteria for managing access to temporary work visas and projections of migrant flows based on these criteria, over the period covered by the GPS;
- a description of how the residence planning range and the criteria for selecting migrants for temporary and residence visas will contribute to the objectives of the GPS as well as other government policy objectives, including but not limited to links with education and training.

Recommendation 14

The Ministry of Business, Innovation and Employment should develop a rolling programme of independent evaluations for major visa categories, to assess their productivity and other economic and wellbeing outcomes. These evaluations should be published and should inform immigration policy and any future immigration Government Policy Statement.

Recommendation 15

The Government should actively monitor the labour market for impacts on particular groups or communities over the economic cycle, with a particular focus on times of significant changes in immigration policy and/or migration flows at a regional or national level.

If indicators of job displacement are found, the Government should undertake further work to understand their cause (for example, by applying the methods undertaken in the Ministry of Business, Innovation and Employment (MBIE) 2018 study). At the same time, the Government should address any impacts through improving access to education and training, tailoring active labour market programmes, and through Industry Transformation Plans. The Government may need to consider short-term support policies or programmes, or bespoke interventions, to protect those particularly vulnerable.

In addition, MBIE should regularly update its analysis of migration, employment and wages to assess the impact of current migration on local wages and employment. MBIE should undertake this analysis at the aggregate level, as well as with a distributional lens.

Recommendation 16

The Government should fund the Labour Inspectorate to support labour-market regulation, the proposed accredited employer scheme, and the integrity of the immigration system. Resourcing should increase over the next three years to match the International Labour Organisation benchmark of one inspector for every 10 000 workers.

Recommendation 17

The Government should require Workforce Development Councils to report on how demand for migrant labour and skill gaps are informing their training priorities. The Government should provide additional funding that incentivises education and training providers to respond to skill gaps identified through labour-market modelling.

Recommendation 18

The Government should invest in more up-to-date labour market data to identify skills supply and demand to:

- test and inform decisions in response to employer claims of labour shortages; and
- identify opportunities and needs for immediate and longer-term skills development.

Recommendation 19

To support more up-to-date labour market data, MBIE and Stats NZ should:

- evaluate options for adding vacancy indicators of skill shortages to the Business Operations Survey; and
- update statistical definitions of occupational categories in the Australian and New Zealand Standard Classification of Occupations to reflect functional skill.

Recommendation 20

Stats NZ should work with the Department of Internal Affairs to add citizenship data to the Integrated Data Infrastructure to enable evaluation and research into outcomes for citizens and permanent and long-term residents.

Te Tiriti o Waitangi, settlement and future risks and opportunities

Finding 27

Te Tiriti o Waitangi (Te Tiriti) is fundamentally connected with immigration. Immigration policy and institutions should reflect Te Tiriti. The Commission has neither the mana nor the expertise to make definitive recommendations on how to achieve this, but the Commission is making some recommendations as a starting point.

Finding 28

Te Tiriti o Waitangi needs to be at the heart of migration policy and should be reflected in immigration policy and institutions.

Finding 29

New Zealand is unusual in giving Permanent Resident visa holders an unlimited right to return, even if they have re-migrated elsewhere in the world. Other countries either require residents to return at regular points or remain in the country for specified periods if they wish to retain or renew their Permanent Resident visa.

Finding 30

Requiring new Residents (not current Residents and Permanent Residents) to regularly renew their visa is likely to improve retention rates by encouraging migrants to make a stronger commitment to New Zealand. It will also limit New Zealand's risk of future population volatility – the risk of population surges, and the associated negative fiscal impacts – and align the country's immigration settings with international practice.

Finding 31

The definition of permanent resident in the Electoral Act 1993 is not consistent with the definition in the Immigration Act 2009.

Finding 32

Partnering with source countries to develop a pathway for future workers requires significant investment in institutions at both ends of the migration journey; and the government to have the capacity and willingness to have a presence offshore.

Recommendation 21

The Government should work with Māori on how to reflect Te Tiriti o Waitangi in immigration policy and institutions. This engagement should be in good faith and allow Māori to define their own interests. As a starting point, engagement with Māori should be a fundamental part of the proposed Government Policy Statement process.

Recommendation 22

The Government should increase resources for settlement support to improve the retention of migrants and promote economic and social inclusion and acceptance of migrants in communities. Settlement initiatives could include business mentorship, civics courses, personalised settlement plans, and information on the labour market and living in New Zealand.

Recommendation 23

The Government in partnership with Māori should seek to reflect Te Tiriti o Waitangi into settlement policy with first steps such as these.

- Direct Immigration New Zealand to work with Māori on actions to incorporate manaakitanga and other relevant te ao Māori concepts within the design and implementation of activity included under the Settlement and Integration strategy.
- Increase funding for iwi involvement and partnership in the expansion of the Welcoming Communities initiative, so that migrants have opportunities to connect with and learn about te ao Māori as part of the expansion.
- Engage with Māori on how the immigration system could positively recognise migrants' voluntary efforts to learn Te Reo Māori and about te ao Māori.

Recommendation 24

The Government should discontinue the issuance of new Permanent Resident visas for new Residents and require new Residents to renew their Resident visas every six years. Eligibility criteria for this renewal should include residence (eg, a minimum of two years residence in the last six years) and other measures of commitment (eg, investment, running a business, or having the rest of the family living in New Zealand).

Appendix A Public consultation

Submissions

Submissions on the inquiry's issues paper are given a plain number in order of receipt.
Submissions on the inquiry's draft report are numbered with a DR prefix.

Individual or organisation	Submission Number	Individual or organisation	Submission Number
ACE New Zealand	DR170	Central Economic Development Agency	DR124
Adam Irish	003	Central Otago District Council	DR142
Alec Waugh	027	Christchurch Educated	DR151
Allan Fong	034	ChristchurchNZ	066
Andrew Turner	058	Christina Stringer – The University of Auckland Business School	DR165
Angel Association New Zealand	DR102	Christopher Horan	006
Anonymous	DR082	Clive Thorp	063
Anonymous	DR091	ComVoices	DR117
Anonymous	DR103	Creative Cuisine Limited	004
Anonymous	002	D	024
Anonymous	008	DairyNZ	043, DR168
Anonymous	018	Daniel Maier-Gant	DR083
Anonymous	078	David	DR096
Archer Wang	009, 068	David Essery	DR089
Ashburton District Council	064	David Miller	DR085
Association of Salaried Medical Specialists	040	David Robinson	010
Auckland Council	DR135	David Wang	031
Auckland University of Technology – Joint Submission	DR133	Dieter Katz	057
Belong Aotearoa	073	Dr. Roger Lewis	075
BNZ	037	E tū	DR120
BusinessNZ	DR179	Edmund Hillary Fellowship	DR106
BYATA	DR161	Education New Zealand	DR138
Canterbury Employers' Chamber of Commerce	067	Engineering New Zealand	DR118
Canterbury Mayoral Forum	DR123	Export New Zealand	DR136
Caritas Aotearoa New Zealand	DR166	Express Immigration (NZ) Ltd	DR107

Individual or organisation	Submission Number	Individual or organisation	Submission Number
Federated Farmers of New Zealand	060	Methodist Mission Southern	DR134
Felix Lee	DR086	Michael Reddell	DR144
FIRST Union	DR180	Migrant Investor & Entrepreneur Association (MIEA) Ltd	DR104
Foodstuffs NZ Ltd	DR141	Mike Lear	032, DR108
Gary Wills	016	Ministry for Pacific Peoples	076
Greg Clydesdale	DR129	Ministry for Primary Industries	DR181
Greig Brash	021	Ministry of Housing and Urban Development	DR130
Halswell School	DR125	Monty Cunningham	045
Hospitality New Zealand	DR139	Motor Trade Association Inc (MTA)	DR154
Hugh Anderson	042	Multicultural New Zealand	DR152
Hyedi Greig	052	Natalie Baird and Tina Yee (University of Canterbury)	DR115
Individual - PR restriction	DR087	National Council of Women of New Zealand	DR121
Jan Gillespie	DR174	Nauman Shah	DR094
Jason Scott Wills	012	New Zealand Aged Care Association	069, DR157
Jeff Murray	047	New Zealand Apples and Pears Inc	DR172
John Fung	005, DR090	New Zealand Council of Christian Social Services	074, DR112
John Smith	036	New Zealand Council of Trade Unions	DR167
Joint Submission: Non-Profit Organisations	079	New Zealand Human Rights Commission	DR159
Joshua Pietras	DR100	New Zealand Medical Association	049
Keith Jones	039	New Zealand Nurses Organisation	DR163
Keith Robinson	DR093	New Zealand Public Service Association Te Pūkenga Here Tikanga Mahi	DR145
Kerry Bateman	044, DR088	New Zealand Society of Anaesthetists	DR158
Kim Stevenson	046	New Zealand Trade and Enterprise	DR111
Kirill Kirichai	019	New Zealand Winegrowers	DR150
Laura Williams	DR113	Nick	022
Leigh Anderson	051	NZ Apples and Pears Incorporated & Horticulture New Zealand Incorporated	DR147
Lincoln University – Joint University Submission	DR116	NZ Kiwifruit Growers Incorporated	055
Marc Galle	017	NZ Thoroughbred Racing	DR153
Margaret	023		
Martin Fletcher	041		
Meat Industry Association of New Zealand (Incorporated)	DR156		

Individual or organisation	Submission Number	Individual or organisation	Submission Number
NZAMI New Zealand Association for Migration & Investment	DR131	Te Puni Kōkiri	DR140
NZKGI Zespri and Māori Kiwifruit Growers Inc	DR177	Terry Moore	DR081
NZTech	DR137	The EMA	050
OceanaGold	DR171	The English Language Institute, Victoria University of Wellington	077
Pakistan and Friends Hawkes Bay Association Incorp	080	The Fair Initiative	061
Peter Davis	DR110	The Gama Foundation	054
Philanthropy New Zealand	062, DR149	The Icehouse	070
Presbyterian Support NZ	DR126	The Royal New Zealand College of General Practitioners	065, DR164
Priority One Western Bay of Plenty Inc.	071	Tianyu Xu	DR098
Professional Visa Solutions	001	Tim Edwards	DR084
Queenstown Lakes District Council	DR148	Tim Makarios	DR114
Ray Henderson - unpublished	DR178	Tom Robertson	026
RCSA	DR162	Tourism Industry Aotearoa	056, DR146
Reina Tang - TC Consultants	DR175	Transpower NZ Ltd	DR132
Restaurant Association of New Zealand	DR097	Troy Hanley	030
Rex Beer	038	Trustpower	025
River Origin Limited	DR173	University of Canterbury Te Whare Wānanga o Waitaha	DR127
Rob Wardle	007	University of Otago - Joint Submission	DR119
Ross Bicknell	013	University of Waikato - Joint Submission	DR128
Rowan Kyle	014	Venture Taranaki	059
Roy Blake	DR109	Victoria University of Wellington	DR099
Sally Chen	072	Wai Hospitality Group	020
Sam	028	Waka Kotahi NZ Transport Agency	DR176
Sarah Lini	011	Warwick Alexander	DR092
Study Group NZ Limited	DR122	Wellington Chamber of Commerce	DR155
Sunit Prakash	033	Wenkai Zhang	DR095
Sylvia White	029	Will Shannon	DR160
T C O'Rourke	DR105	William Walsh	015
Tailrisk Economics	DR169	Xiaojing Liu	DR101
Taylor Fry	053	Xingbo Liu	035
Te Pūkenga	DR143	Yoselyn Salcedo Bolívar	048

Engagement meetings

Andrew Coleman
 Arthur Grimes
 Asia New Zealand Foundation Te Whītau Tūhono
 Australian National Skills Commission
 Bank of New Zealand
 Business NZ
 Callaghan Innovation
 Carwyn Jones
 Christchurch City Council
 Civil Contractors New Zealand+
 Climate Change Commission He Pou a Rangī
 DairyNZ
 Dave Maré
 E tū
 Economic Development NZ
 Edmund Hillary Fellowship
 Education New Zealand
 Federated Farmers
 FIRST Union
 Francis Collins
 Grattan Institute
 Horticulture New Zealand
 Hospitality New Zealand
 Immigration New Zealand
 Independent Tertiary Education New Zealand – ITENZ
 Infrastructure Commission Te Waihangā
 Iron Duke Partners
 Isabelle Sin
 IT Professionals New Zealand
 Jacques Poot
 Julie Fry
 Liam Dickson
 Lyndon Drake
 Māori Economic Development Advisory Board – MEDAB
 Meat Industry Association of New Zealand
 Melanie Morton
 Michael Reddell
 Migrant Investors and Entrepreneurs Association – MIEA
 Ministry for Pacific Peoples
 Ministry of Business, Innovation and Employment
 Ministry of Education
 Ministry of Housing and Urban Development
 Ministry of Social Development
 Ministry of Transport
 New Zealand Aged Care Association – NZACA
 New Zealand Apples & Pears Incorporated
 New Zealand Association For Migration And Investment – NZAMI
 New Zealand Council of Trade Unions – NZCTU
 New Zealand Council of Trade Unions – NZCTU Rūnanga
 New Zealand Ministry of Foreign Affairs and Trade
 New Zealand Nurses Organisation
 New Zealand Red Cross
 New Zealand Technology Industry Association (NZTech)
 New Zealand Thoroughbred Racing Inc.
 New Zealand Winegrowers
 Parliamentary Commissioner for The Environment
 Peter Wilson
 Quality Tertiary Institutions – QTI
 Reserve Bank of New Zealand
 Retail NZ
 Serge van Dam
 Steven Stillman
 Taituarā – Local Government Professionals Aotearoa
 Te Arawhiti
 Te Pūkenga – New Zealand Institute of Skills and Technology
 Tertiary Education Commission Te Amorangi Mātauranga Matua
 The Icehouse
 The Treasury
 Tourism Industry Aotearoa – TIA
 Universities New Zealand – Te Pōkai Tara
 University of Waikato
 Victoria University of Wellington
 Wakatū Inc.
 Zespri International Limited

Appendix B Key visa categories

Table B.1 Key temporary visa categories

Temporary visa category		Detail
Temporary workers: Skilled	Essential skills (to be replaced by Accredited Employer Work Visa – AEWV)	Migrants can be granted a visa if the job is on the skill shortage list or the employer can demonstrate through a labour-market test that no suitable domestic workers are available to train, and that the employer is paying the market rate.
	Work to residence (to be replaced by AEWV)	Temporary visa options that provide a pathway to residence status providing a migrant worker can stay in prescribed fulltime employment for at least 24 months. The three main pathways were Work to Residence – Long-Term Skill Shortage List; Work to Residence – Talent (Arts, Sports and Culture); and Work to Residence – Talent (Accredited Employer).
Temporary workers: Other	Recognised seasonal employer (RSE)	Seasonal work in horticulture and viticulture. Employers must be accredited. A visa is granted for up to 7 months in any 11-month period for citizens of eligible Pacific and southeast Asian nations. Citizens of Tuvalu and Kiribati who also live there can stay an extra two months. Capped.
	Post-study work	Open work visa of 1–3 years depending on the qualification previously studied on a student visa.
	Working holiday schemes (WHS)	Available to young people, usually aged 18–30, but 18–35 in a select few countries. Allows travel and ability to work in New Zealand for up to 12 months, or 23 months if you are from the United Kingdom or Canada. New Zealand has 45 schemes, 13 are uncapped.
	Specific purpose	Facilitates entry for a specific purpose or event where entry presents no risk of negative impact on opportunities for NZ citizens or residents. Common purposes include: entertainers, actors, musicians and support staff; sports people; seconded business people; installers of equipment.
	Partner of a NZ citizen or resident	For partners of NZ citizens and residents where there is a genuine relationship. Can work fulltime in any employment.
	Partner of a worker or student	The partners of some workers and some student visa holders are able to obtain an open work visa for the same length as their partner’s visa. No requirements to have lived together prior to the application.
Students	Dependent students	For dependent children of workers. Must be in compulsory education and in some cases their parents must earn over a threshold.
	International students	International students can be granted a visa provided they have an offer of place at an NZ institution that is a signatory to the Code of Practice, have sufficient funds to support themselves, and can meet any course prerequisites. Most tertiary students are allowed to work 20 hours a week, and study and work fulltime during semester breaks.
	Other students	For example, exchange students, dependents of NZ citizens.

Table B.2 Key residence visa categories

Residence visa category	Detail	
Business/skilled	Skilled migrant category (SMC)	Points-based system, with points awarded for age, qualifications, work experience and skilled employment or offer of employment in New Zealand.
	Residence from work	For people who have held a Talent (Accredited Employer) Work visa and have worked for an accredited employer for two years.
	Investors	Two categories: Category 1 requires investment of \$10 million for three years. Category 2 is a points-based system that requires at least \$3 million for four years.
	Entrepreneurs	For people who have successfully run a business in this country for two years that has benefited New Zealand.
Family	Partnership	For partners of NZ citizens and residents where there is a genuine relationship and the couple have lived together for 12 months.
	Parent	For parents of NZ citizens and residents who have resided as residents for at least three years. Parents must be able to support themselves.
	Dependent child	Dependent children up to 24 years of age of NZ citizens or residents.
International/humanitarian	Samoaan/quota	Applicants who are citizens of Samoa can be granted residence through a ballot provided they have a job in New Zealand.
	Pacific access	Applicants who are citizens of target countries can be granted residence through a ballot provided they have a job in New Zealand.
	Refugees	Includes Refugee Quota, Refugee Family Support Categories, Refugee and Protection, and Refugee Emergency.
	Other	Includes victims of domestic violence, ministerial direction, Christchurch Response (2019).

Source: MBIE (2020b) *Introduction to the immigration system – Data and evidence*.

Notes: 1. Most categories are not currently active for offshore applicants due to the border closure in response to Covid-19.
2. 'Residence' is not the same as 'permanent residence'. People granted residence visas must spend the majority of two consecutive years within New Zealand and meet their other visa conditions, or risk losing their residence. Permanent residents can enter and leave New Zealand without restriction.

Appendix C Regional migration and economic conditions

Figure C.1 Regional migration and economic conditions, 2000–19



Source: NZ Productivity Commission using Stats NZ's Household labour force survey, migration, and linked employer-employee data.

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