

**Comments on the release of the report “Growing pains: The valuation and cost of human capital”,
by Greg Clydesdale, Department of Management & International Business,
Massey University – Albany**

Ministry of Pacific Island Affairs
May 2008

Background

A discussion paper by Dr Greg Clydesdale entitled “Growing pains: the valuation and cost of human capital” provided the basis for the lead story in The Dominion Post on 20 May 2008. The paper received extensive coverage from other newspapers and prompted radio, television and talkback radio items. It was also reported in Australia and the Pacific.

The Ministry of Pacific Island Affairs chose to make a formal response to the report. The Ministry was concerned about a number of aspects of the report and, as well as an internal review, invited academics with expertise in the field of migration to provide independent peer review. Reviews were provided to the Ministry by:

Dr Paul Callister, Senior Research Fellow, Institute of Policy Studies, Victoria University of Wellington

Associate Professor Robert Stephens, School of Government, Victoria University of Wellington

Associate Professor Paul Hansen, Department of Economics, University of Otago

This document provides a summary of the key points from the reviewers. The detailed reports provided by two of the reviewers can be found at <http://www.mpia.govt.nz/>

Key Points Raised by Reviewers

The key points raised by reviewers fell into the following categories; the process by which the report was released, the accuracy of information in the report, the rigour of the analysis in the report, the extent to which the data in the report supports the conclusions reached by the author. The reviewers also noted that the paper was a review of existing information rather than new research.

Report release process

Paul Callister has noted the differences between the way Dr Clydesdale released his report and what would be considered a ‘usual process’ for the release of academic reports and discussion documents. Both the method of release and difficulty in accessing copies of the full report have hampered debate on the report.

Accuracy of information

The quality of a paper such as the Clydesdale paper, which is based on a review and discussion of existing information, depends on the inclusion of the key literature and evidence in the field. Awareness and consideration of other literature on a topic is a key aspect of a robust academic process. As the reviewers have highlighted, a number of key papers are not referenced or discussed in the Clydesdale report, such as MED 2005; Poot, Nana and Philpott 1988. Missing references also hamper debate as it is important to be able to follow-up sources cited in a paper to assess how they have been interpreted. In addition, the data the report draws on does not include information readily available at the time of publication, such as statistics from the 2006 New Zealand Census. Other studies such as the first wave of the longitudinal study of migrants, while not available, are not referred to as sources of upcoming information.

As well as noting gaps in the literature, reviewers express concerns about the accuracy of the presentation of the data in the report and the definitions of some of the terms used in the report. For example, Dr Clydesdale swaps between the expression unskilled and low skilled without providing clear definitions. He also fails to draw on the literature available to accurately define the term 'underclass.'

Rigour of the analysis

Perhaps of more concern than the accuracy of the information in the report is the lack of analysis of the information that is included.

The analysis provided in Clydesdale's report is static with no attempt to look at trends through time. The data presented are mainly cross-sectional, that is they portray the Pacific population at specific points in time. Analyses are also essentially bi-variate (e.g. relationships examined between income and duration of time in New Zealand), rather than multi-variate (taking into account other factors which might explain any differences identified).

The simplistic analysis means that the report does not consider the effects of differences such as the younger median age of the Pacific population on other outcomes. There is a significant age-earnings profile, well documented in the human capital literature. On a family basis this profile is even stronger, as females enter the labour force when the children go to school. Both age structure and higher fertility can be the cause of lower family earnings, but lower educational attainment, especially of older Pacific people is an explanatory cause as well (Bob Stephens). As Paul Callister points out the age Pacific people come to New Zealand and the reason they came is also highly relevant in considering their employment and income outcomes after migration. Any differences between Pacific people born in New Zealand and those born elsewhere are also not a focus of the analysis.

A recent Treasury paper by Szeto and McLoughlin (Treasury Working Paper 08/01) has investigated the changing quality and changing composition of the labour force, including immigration, on labour productivity and thus growth. Bob Stephens points out that a look at ethnic group unemployment rates reveals that rates for Pacific people are not as bad as Clydesdale indicates: for the March 2008 quarter unemployment rates were 8.6 percent for

Māori, 8.2 percent for Pacific peoples, 6.0 percent for the 'Other' ethnic group, and 3.0 for European. The Pacific unemployment rate rose from 4.8% in Dec 2007, but labour force participation was lower. Quite a bit of this difference can be explained by age structure effects.

Dr Clydesdale notes that "Pacific people are over-represented in justice statistics with higher rates of conviction and prosecution than the total population." Paul Callister comments that if Dr Clydesdale had taken time to look at the official data he again would have found a complex picture: <http://www.corrections.govt.nz/public/research/offender-volumes-report-2007/documents/prison-sentenced-snapshot-trends.xls#Ethnicitytrend!A1>

For example, take the prison population, in June 2007, there were 2,345 Europeans in prison, 3,196 Maori and just 679 Pacific people. So on an absolute basis, Maori have the highest rate of imprisonment, followed by Europeans, then Pacific people. On a population adjusted basis (denominator those aged 16 and older) in 2007 just 0.4% of the Pacific population was in prison, compared with 0.1% for Europeans and 0.8% for Maori. While higher for Pacific people than Europeans (but lower than for Maori), the vast majority of Pacific people are hard working, law abiding citizens. This is not the story that Dr Clydesdale is trying to portray.

Conclusions reached in the report

One of the key points Dr Clydesdale makes in his paper relates to the contribution of immigration to economic growth. Paul Hansen sums this up as follows: "... one of the central premises throughout Clydesdale's paper – that the only goal of immigration is to generate economic growth – is questionable. Certainly it is *one* goal (maybe even the main goal), but there are others as well. If one accepts there are these other goals, then Clydesdale's subsequent discussion of the purported connection between immigration and the relatively poor economic growth performance of the Auckland region (and, by extension, the New Zealand economy) is less significant."

Paul Hansen also points out that it is impossible, from the analysis provided in the report, to conclude that high immigration to Auckland has caused its poor economic performance. As acknowledged by Clydesdale, other explanatory factors may be responsible (or not). The link Dr Clydesdale draws between slower economic growth in Auckland and the percent of immigrants is not justified by the evidence he provides. The report provides no evidence that confirms that extent to which immigration per se is the cause, or whether there are other explanatory variables, such as type of industry/occupation in Auckland compared to the rest of the country, and trends in growth and employment in those industries/occupations; or age structure. If Auckland has more elderly or more parents in a caring role due to fertility then the lower per capita figures would be explained by those factors, not immigration. In other words, rather than a partial literature search, a fuller analysis of likely impacts on growth, and the contribution of the migration component rather than other contributory factors is required.

Dr Clydesdale's argument on an underclass is very unfortunate - as Paul Callister indicates he gives no definition nor whether Pacific peoples fall into that category. Bob Stephens points out that Dr Clydesdale fails to recognise the whole notion of community and how Pacific people combine through the church to look after each other. If he had used the term 'intergenerational

transference of income' he would have been on much stronger grounds: the overseas data, and Fergusson's work in Christchurch, shows that there is a high degree of intergenerational transference - around 40-60% of children when adults with low income grew up in a family with low income. But he needed to indicate the number of policies that have been implemented to prevent such transference.

What's next

Despite concerns about the quality of Dr Clydesdale's report, the report and the subsequent debate have raised a number of issues about the economic and social outcomes for Pacific people New Zealanders and further debate is required. As Bob Stephens pointed out, as a group "outcomes for Pacific peoples have tended to be poorer than the rest of the population, and that poorer outcome does need analysis and rectification"...the explanation is not to curb migration but to ensure that Pacific people can achieve their potential - this underpins the Social Investment/Social Development strategy."

The need to ensure social and economic outcomes for Pacific people continue to improve highlights the need for further information to monitor trends over time and to explore factors influencing improved outcomes. To this end the Ministry is planning to update information about economic and social outcomes for Pacific peoples to include statistics from the 2006 Census and other data sources. Statistics New Zealand have also recently released a report on Pacific data from the 2006 census: <http://www.stats.govt.nz/census/2006-census-data/quickstats-about-pacific-peoples/quickstats-about-pacific-peoples.htm>

Extensive discussion about the issues raised by the release of Dr Clydesdale's paper has also prompted the Race Relations Commissioner to undertake a review. More details, including information on how to make a submission, can be found at: <http://www.hrc.co.nz/home/hrc/newsandissues/reviewpacificpeoplesinnewzealand.php>