

Labour market outcomes for young graduates

Young people who have a post-school qualification earn more on average than those who don't, and have a better chance of getting a job. There is, however, a good deal of variation in the labour market experiences of young graduates.

Motu's Dave Maré and Yun Liang have been examining census data from 1996 and 2001 to build a picture of how young graduates fare around the time that they enter the labour market. The work has been funded by the Department of Labour through its Future of Work contestable research fund.

In 2001, about 200,000 eighteen- to thirty-year-olds had a post-school qualification—an increase of about 10,000 compared with 1996. The study report summarises the diversity of change that is evident across different fields of study and levels of attainment. As well as summarising overall patterns, it contains field profiles for each of 26 grouped fields of study.

The field profiles reveal starkly different patterns for different fields. Some, such as computer and information sciences and communication and media, experienced rapid growth in the number of young graduates, whereas the number of eighteen- to thirty-year-old engineering graduates declined by more than one-third between 1996 and 2001. The median incomes of young teaching graduates rose by 30%, whereas young automotive and electrical engineering graduates as a group had lower median incomes in 2001 than in 1996 (after adjusting for inflation).

Looking at outcomes by the age of graduates, we confirm that graduates' incomes grow relatively rapidly in the first 5–10 years after they graduate. Fields with low starting salaries, however, do not have faster income growth—fields with higher starting salaries tend to have

faster income growth during graduates' first 5–10 years of work.

For almost all fields, incomes are higher if the graduate works in the sort of jobs where people with their qualification are over-represented. In some fields of study, graduating opens the door to a wide range of jobs, whereas in others, almost all graduates secure similar jobs. For instance, young people with a qualification in office studies or business and management can be found in jobs in a wide range of industries and occupations, whereas those whose chosen field is beauty service and hairdressing, nursing, medicine, or teaching are predictably much more specialised.

We find only weak evidence that the outcomes of young graduates are more affected by changes in relative demand or supply for their field of study, although our ability to really pin down this relationship was limited.

Funded by: Department of Labour

The main report from this study is available from the Department of Labour's Future of Work website: <http://www.dol.govt.nz/futureofwork/>. The wealth of descriptive information contained in the report will be relevant to anyone interested in the tertiary education sector; whether they are policy advisors, educationalists, researchers, or young people trying to choose a promising field of study.

Access to the data used in this study was provided by Statistics New Zealand according to the security and confidentiality provisions of the Statistics Act 1975.

For more information refer to: Maré, David C and Yun Liang, "Labour Market Outcomes for Young Graduates", available online at <http://www.dol.govt.nz/futureofwork/skills-graduates.asp>



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Tribute to Dr. Grant Scobie



Motu is a rare organisation. It is a gem of excellence founded on a small number of outstanding people. Dr Grant Scobie was the Chair of Motu's Board of Trustees from 2000 to 2006, succeeding Sir Geoffrey Palmer, the Founding Chair, in 2000.

Readers will know that Grant's early interests lay in the economics of research and development, agricultural research, trade, growth, and development. He was Professor of Economics at the University of Waikato before becoming Director General of

the International Centre for Tropical Agriculture (CIAT) in Colombia. He also contributed to the work of the Consultative Group for International Agricultural Research (CGIAR). Now a Treasury Principal Advisor, in his spare time Grant is a Board Member for Save the Children.

Grant won the 2004 New Zealand Institute of Economic Research Economics Award, and is currently President of the New Zealand Association of Economists. His interests have included such topics as household ownership and affordability; research and development in agricultural productivity; savings; superannuation; population ageing; total factor productivity in New Zealand industries; food subsidies in developing countries; rice research; milk pricing; and cassava and kiwifruit.

Grant had faith in Motu from the beginning. Motu's founders saw its four main objectives as:

- having complete objectivity
- providing highest quality research
- enhancing debate on public policy
- enhancing New Zealand's research capacity.

During his chairmanship, Grant has nurtured and encouraged Motu so it

has become an established reality in New Zealand. Under his watchful eye, this young and vigorous organisation has become a leading centre for public policy research. Its outstanding staff, international links, and superlative output are all evidence of its valuable contribution in New Zealand.

Grant was an outstanding mentor for Motu's management and took every opportunity to promote and support Motu. As Grant wrote in this year's Annual Report, he has presided over one of the most rewarding challenges he has had: Motu's growth "from a fledgling group with an uncertain future to a strong independent organisation with a formidable record of output and a solid base of support".

The Board of Trustees owes Grant a tremendous debt of gratitude for his governance role in forming an organisation that has become a voice to be reckoned with in New Zealand public policy. During his 6 years as Chair, he has built a powerful platform for future success.

Dr. Steve Thompson
(Motu Chairperson)

Motu people

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Suzi, Roma, Norm & Manu in a market on Chiloé Island, Chile

Affordable housing in the Nelson, Tasman and Marlborough Regions: a solutions study

Research led by Motu presents a range of potential solutions designed to improve housing affordability in the Nelson, Marlborough and Tasman regions. Availability of affordable housing is vital for stability and productivity in the workforce, and for a population with an increasing number of retired people, young people and those needing special consideration. The research shows that the region requires improved access to affordable housing, improvements in quality and increases in the supply and diversity of accommodation types.

Deteriorating housing affordability in the region prompted a programme of research, oriented towards finding solutions, led by Motu (Dr Arthur Grimes and Andrew Aitken), in collaboration with researchers at DTZ NZ (Ian Mitchell and Steve O'Malley), CRESA (Kay Saville-Smith and Ruth Fraser), Public Policy & Research (Dr Bev James), and Dr Ralph Lattimore. After the release of five background papers the study culminated with 25 practical solutions being put forward for further action.

A surge in house prices of 70% between 2002 and 2004, and in population put significant pressure on the housing market in Nelson, Marlborough and Tasman; housing supply (both for owner-occupied and rental properties) has not kept pace with rising demand. The surge in population from increased employment (which doubled between 1986 and 2001) and internal migration (retirees and purchasers of vacation homes) has put pressure on the housing market. The population aged 65 and over is expected to increase by approximately 115% in the region between 2001 and 2026 leading to a demand for smaller houses. Other major concerns in the region include a decline in home ownership, problems of accommodation for viticulture workers, overcrowding and poor quality housing and a lack of emergency housing.

Housing development has been restricted by land availability, zoning, infill and density regulations, lack of infrastructure, natural hazards, the desire for green space and prohibitions over the use of productive farmland for housing.

Three bundles of solutions designed to address key issues identified in the prior research were proposed to improve access to existing affordable housing, improve the quality of the housing stock, and increase and diversify the supply of affordable



housing. Most involve changes to planning, infrastructure/transport, leasehold and other tenure options, and regulations on infill/density. Others address the needs of migrant workers, support from employers, overcrowding, poor quality rental properties and compliance with codes and consent processes.

Alternative tenure options can be explored that reduce affordability constraints faced by home buyers who lack equity. For example, where council owned land is developed for residential purposes, a percentage can be retained as leasehold with home owners being charged market rentals with the ongoing option to purchase the

land at the current ratable value. Facilitating greater density in the main urban areas in the region, which currently have low density, would increase the supply of affordable land and reduce calls on surrounding rural land for new housing.

Zoning restrictions can play a major role in constraining the amount of land available to be used for residential development; therefore one proposal is to allow horticultural land owners to build worker accommodation on existing property. Another strategy is to allow the construction of (low) multi-story, high density well designed housing on new greenfields or brownfields sites, and invite developers to tender for the right to develop land for mixed density residential use that includes a proportion of affordable housing.

Local agencies, including local government, employer and community groups, and central government agencies have been asked to examine and potentially adopt the solutions.

Funded by CHRANZ, the Ministry of Economic Development from the Regional Initiatives Fund and the Work and Income regional office for Nelson, Marlborough and the West Coast.

For more information go to: www.motu.org.nz/housing.htm

Publications

Working papers

For a complete list of publications go to www.motu.org.nz/pub.htm

- 06-07 Grimes, Arthur; David C. Maré and Melanie Morten, "Defining Areas: Linking Geographic Data in New Zealand."
- 06-06 Maré, David C; and Yun Liang, "Labour Market Outcomes for Young Graduates."
- 06-05 Hendy, Joanna and Suzi Kerr, "Land-Use Intensity Module: Land Use in Rural New Zealand Version 1."
- 06-04 Hendy, Joanna; Suzi Kerr, Troy Baisden, "Greenhouse Gas Emissions Charges and Credits on Agricultural Land: What Can a Model Tell Us?"
- 06-03 Hall, Viv B; C. John McDermott and James Tremewan, "The Ups and Downs of New Zealand House Prices."
- 06-02 McKenzie, David; John Gibson and Steven Stillman, "How Important is Selection? Experimental Vs Non-experimental Measures of the Income Gains from Migration."
- 06-01 Grimes, Arthur and Andrew Aitken, "Housing Supply and Price Adjustment."

Other publications

- Baisden, Troy. 2006. "Spatially-Explicit Agricultural and Forest Productivity for Modelling Policy Scenarios: Evaluating Approaches for New Zealand Greenhouse Gas Mitigation Policies," *Journal of the Royal Society of New Zealand*, 36:1, pp. 1-16.
- Fabling, Richard and Arthur Grimes. 2006. "Practice Makes Profit: Business Practices and Firm Success," *Small Business Economics*, forthcoming.
- Funk, Jason. 2006. "Māori Farmers Look to Environmental Markets in New Zealand," *The Katoomba Group's Ecosystem Marketplace*. Available online at ecosystemmarketplace.com.
- Grimes, Arthur and Andrew Aitken. 2006. "How Does Nelson, Tasman and Marlborough Housing Adjust?" Centre for Housing Research Aotearoa New Zealand, Wellington.
- Grimes, Arthur. 2006. "Intra and Inter-Regional Industry Shocks: A New Metric with Application to Australasian Currency Union," *New Zealand Economic Papers* 40, forthcoming.
- Grimes, Arthur. 2006. "A Smooth Ride: Terms of Trade, Volatility and GDP Growth," *Journal of Asian Economics*, 17:4, forthcoming.
- Hyslop, Dean and Steven Stillman. 2006. "Youth Minimum Wage Reform and the Labour Market," *Labour Economics*, forthcoming.
- Johnson, Robin; Weshah A. Razzak and Steven Stillman. 2006. "Has New Zealand Benefited from its Investments in Research and Development?" *Applied Economics*, forthcoming.
- McLuskey, William; Andrew Aitken, Arthur Grimes, Suzi Kerr and Jason Timmins. 2006. "Rating Systems in New Zealand: An Empirical Investigation into Local Choice," *Journal of Real Estate Literature*, forthcoming.
- Singleton, John; Arthur Grimes, Gary Hawke and Frank Holmes. 2006. *Innovation in Central Banking: A History of the Reserve Bank of New Zealand*, Auckland: Auckland University Press.
- Stillman, Steven; David McKenzie and John Gibson. 2006. "Migration and Mental Health: Evidence from a Natural Experiment," *Working Papers in Economics 06/04*, University of Waikato, Department of Economics, Hamilton.
- Stillman, Steven. 2006. "Trends in Youth Activity in New Zealand from 1985-2004," Department of Labour Working Paper, forthcoming.
- Velamuri, Malathi and Steven Stillman. 2006. "The Cost of Crime," *Report to the Ministry of Justice*, Wellington

Public policy seminars

Motu Seminars are free and open to all those interested. No registration is required, simply turn up on the day. If you would like to be included on the mailing list for these seminars please call Loren Evans on 04 939 4250 or email loren.evans@motu.org.nz

Next seminar

November

The Economics of Language

Presenter: Professor Barry Chiswick, Research Fellow and Program Director, Institute for the Study of Labour, Bonn, Germany,

Date/Time: Thursday, November 23

Time: 12.30 – 2pm.

Venue: Lecture Theatre 1, Victoria Law School, Old Government Buildings, Lambton Quay, Wellington.



The Seminar Series will be taking a break over the holiday season but will resume in February.



Recent seminars

October

Evaluating the Environmental Performance of Voluntary Programs: Experience with Climate Wise and Other Programs

Presenter: William Pizer, Senior Fellow, Resources for the Future, Washington DC, United States

September

Ethnicity and Wealth in New Zealand

Presenter: Professor John Gibson, Senior Research Associate, Motu Economic and Public Policy Research, and Department of Economics, University of Waikato

August

Experimental Evidence on the Impact of Migration to New Zealand on the Health and Wealth of Pacific Islanders

Presenter: Dr Steve Stillman, Senior Fellow, Motu Economic and Public Policy Research

July

Innovation and Local Labour Markets

Presenter: Philip McCann, Professor of Economics, University of Waikato

June

De-coding the Code Share: the Proposed Air New Zealand / Qantas Tasman Networks Agreement

Presenter: Professor Tim Hazeldine, Department of Economics, University of Auckland

Upcoming conferences

Australian Agricultural and Resource Economics Society Conference, February 14-16, Queenstown,

<http://www.aomevents.com/conferences/AARES07/>

The Australian Labour Market Research Workshop, February 8-9, Melbourne, <http://melbourneinstitute.com/forums/workshop>

Population Association of America, March 29-31, New York, <http://www.popassoc.org/meetings.html>

Social Policy, Research and Evaluation Conference 2007, April 3-5, Wellington, <http://www.conference.co.nz/index.cfm/spre07/home>

SOLE, May 4-5, <http://gsbwww.uchicago.edu/labor/2007.htm>

European Society for Population Economics 2007, June 14-16, University of Illinois at Chicago, <http://www.espe.org>

NZAE 48th Annual Conference, June 27-29, Christchurch, <http://www.nzae.org.nz/conferences/>

Seminar sponsors:



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Pacific Island–New Zealand migration survey

More than four million people emigrate every year in search of better economic and social opportunities. World Bank calculations suggest that restrictions on migration have larger welfare costs than the more widely studied restrictions on international trade. However, measuring the effects of migration is complicated by non-random selection of migrants from the general population, which makes it hard to obtain an appropriate comparison group of non-migrants.

The Pacific Island–New Zealand Migration Survey (PINZMS) is a comprehensive cross-country household survey designed and implemented by Motu Senior Fellow Steven Stillman, Motu Senior Research Associate John Gibson, World Bank Economist David McKenzie, Halahingano Rohorua, and Azmat Gani to measure multiple aspects of the migration process. The topics covered by the survey include household demographics, labour supply, income, asset ownership, food consumption, subjective and objective measures of health status, remittance transfers, expectations of future income and of future remittance patterns, and other questions about links between migrants and their families. The unique feature of PINZMS is that it is based on a special immigration category called the Pacific Access Category (PAC), which allows annual quotas of Pacific Islanders to emigrate to New Zealand without going through the usual immigration categories used for other groups, such as skilled migrants. More than ten times as many applications are received as the quota allows, so ballots are used by the New Zealand Department of Labour Immigration Service to randomly select participants.

PINZMS collects data from five groups of households:

- migrant households in New Zealand who were successful participants in particular PAC ballots
- households who were successful participants from the same ballots but who had not yet migrated
- households who were unsuccessful participants from the same ballots
- households who had never entered the particular ballots and who were sampled from the same villages as the PAC applicants
- households who were family members of the immigrants in New Zealand.

Collecting data on these five groups allows us to:

- generate experimental estimates of the impact of migration by comparing outcomes for migrants with those for individuals who applied to migrate, but whose names were not drawn in the ballot, allowing for the fact that some people whose names were drawn did not end up migrating
- examine migrant self-selection by comparing characteristics of individuals who apply to migrate with non-applicants from the same villages

- examine the effect of emigration on the family members of the immigrants, and on the communities in which these family members reside.

The research completed so far examines the impact of migration on the income and mental health of Tongan migrants to New Zealand who were successful participants in PAC ballots in 2002/03 and 2003/04, and who had migrated by the time of the survey in 2005/06. Accurately measuring the effect of migration on the income of potential migrants is a crucial factor in determining the impact that lowering barriers to migration would have on world income. We estimate that there is a 263% increase in income for Tongan migrants. While this is a large increase, this gain is only half of what a simple comparison of differences in per capita GDP would predict, and only 43% of the difference in manufacturing wages between the two countries. We also find evidence of migrants being positively selected in terms of both observed and unobserved skills, which means that simple comparisons of migrants to non-migrants will overstate the gains from migration.

A large literature suggests that migration can be a very stressful process, with potentially negative impacts on mental health reducing the net benefits of migration. However, these papers merely compare the mental health of migrants to that of natives in the destination country, which takes no account of any pre-existing differences between these groups. Our results show large positive effects of migration on mental health, especially for women and for individuals with low mental health. Thus, rather than there being a mental health cost offsetting some of the economic gains from migration in an overall welfare assessment, these results suggest that migration brings positive benefits beyond economic gains.

Funded by: the World Bank, Stanford University, the Waikato Management School, and Marsden Fund grant UOW0503.

The research papers discussed above are available at http://www.motu.org.nz/motu_wp_2006_02.htm and <http://ideas.repec.org/p/wai/econwp/06-04.html>

We thank the Government of the Kingdom of Tonga for permission to conduct the survey there; the New Zealand Department of Labour Immigration Service for providing the sampling frame; and in particular; the survey assistants and respondents. The study was approved by the multi-region ethics committee of the New Zealand Ministry of Health.

A new project for Motu: World Bank Governance, Corruption & Forestry Study

In the East Asia and Pacific region, huge rents are earned from exploitation of natural resources including forestry. The environmental and economic costs of such corruption include depletion of resource stocks, loss of economic opportunities and livelihood among populations and loss of revenues by government which could be spent promoting economic growth and poverty reduction. At the invitation of the Australian Agency for International Development (AusAID), the World Bank is leading a Study on Links between Governance, Corruption and Forestry in the East Asia and Pacific region.

Team Leader: Helen Sutch (World Bank)
Motu personnel: Suzi Kerr, Kelly Lock

Funder: Australian Agency for International Development
http://www.motu.org.nz/other_enviro.htm

Motu Research and Education Foundation

At Motu's recent Anniversary Function the Trust Chairman, Dr Grant Scobie, announced the establishment of the Motu Research and Education Foundation.

The Foundation has been established for the purpose of promoting research into public policy issues affecting New Zealand and to contribute to a better informed and reasoned decision making process for the benefit of New Zealand. Similar to the Motu Economic and Public Policy Trust, the Foundation will not adopt nor advocate an ideological or political position.

In addition to three Motu Trust trustees, the Foundation will have two further trustees drawn from the academic and commercial communities.

The Foundation will provide an effective avenue for organisations and individuals interested in supporting independent and internationally recognised research into issues of importance to New Zealand's future direction and growth to contribute financially to this research.

New Motu Chairman

Following the retirement of Motu's Chairman, Dr Grant Scobie (refer tribute on page 2), Dr Steve Thompson was elected as the new chairman at the Motu Board meeting held on 27th October.

Dr Thompson has been a Motu trustee since October 2002. He has a PhD in Agriculture and an Honours degree in Agricultural Science from the United Kingdom, a Masters degree in Economics from Canada, and is a graduate of Canada's National Defense College and the Queen's University Programme for Public Executives.

Dr Thompson was Chief Executive of the Foundation for Research Science and Technology from 1997- 2000, and is currently Chief Executive of the Royal Society of New Zealand.

At the Board meeting, Apryll Parata, a Motu trustee since October 2002 also retired as a trustee. In recognising the significant contribution which Apryll had made to the success of Motu, Dr Scobie particularly noted Apryll's work in helping Motu to build a strong professional relationship with the Maori research community and with key Iwi representatives.

The cost of remittances

Immigrants in New Zealand remit millions of dollars every year to family, community, and church groups in their home countries. Recent research by Motu Senior Associate John Gibson shows that some of the most popular remittance methods lead to very high transaction costs.

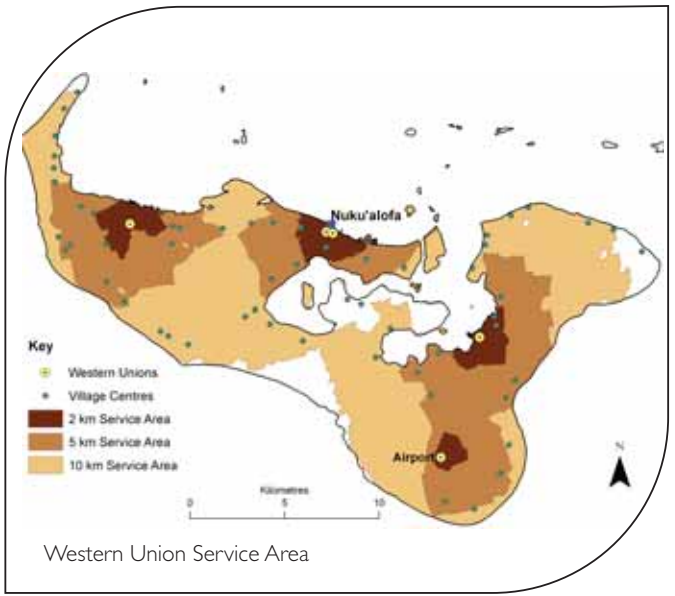
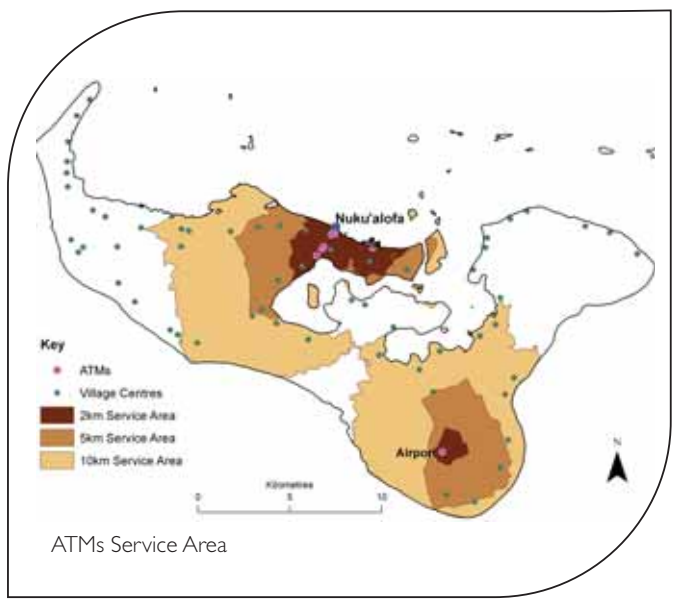
Transaction costs are especially important for remittance-dependent Pacific Island countries, such as Tonga where remittances are more than one-third of GDP. The most popular methods of sending money from New Zealand to Tonga include using international money transfer operators like Western Union, using a local company based on one of the Tongan churches, and using bank transfers.

The transaction costs for each of these methods is typically 15–20% of the amount remitted. The high level of transaction costs reflects both the exchange rate premium charged by these

companies and the impact of fixed fees to send (and sometimes receive) remittances. These fixed fees are typically in the order of \$25 and loom especially large because of the small amount remitted in each transaction. A survey carried out by Gibson in conjunction with collaborators David McKenzie and Halahingano Rohorua established that the median value remitted in each transaction by Tongan immigrants in New Zealand was only \$200.

Although these transaction costs are similar for remittances to some of the other Pacific Island
continued on next page

The cost of remittances continued from previous page.



countries, they are much higher than in many other remittance corridors. Money transfers from the United States to Central America and the Caribbean typically entail transaction costs of less than 10%. Other research has shown that these costs vary with the level of competition in each market.

The high cost of sending money to the Pacific is unlikely to be due to the small scale of the market. For example, Tonga receives approximately the same level of total remittances as Ghana (US\$65 million in 2003), but the transaction costs for money transfers from the United Kingdom to Ghana are less than 5%, compared with transaction costs of 15% for similar sized transfers from New Zealand to Tonga.

These high transaction costs are even more puzzling because cheaper methods exist but are not yet widely used. For example, transaction costs are less than 5% when the recipient uses an ATM card to withdraw funds from an account set up by the person sending money. One reason why this method may not be widely used is that ATMs in the Pacific Islands tend to be spatially concentrated and so are less accessible than outlets for popular money transfer operators, like Western Union. This pattern is shown in the two maps attached, which were prepared by collaborator Geua Boe-Gibson. A large number of villages in the main island of Tongatapu, containing one-quarter of the population, are more than 10 kilometres by road from the nearest ATM. In contrast, only 3% of the population live outside a 10-kilometre service area for Western Union outlets.

Further understanding the reasons for choice of remittance method will be important for ensuring that immigrants and their home communities gain the most from the opportunity to earn higher incomes in New Zealand.

Funded by the Marsden Fund, World Bank, Waikato Management School, and Stanford University.
 For more information go to: <http://www.pacificmigration.ac.nz>

Patrons

