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Should We Worry About the Flight of the Kiwi?

In the year to July 2008, net emigration of New Zealanders to Australia (permanent and long-term) was 32,000. In the last three years, the figure was over 78,000 – nearly the population of Palmerston North.

Is this a problem? If so, what can be done about it?

The outflow needs to be kept in perspective. There were similar surges in emigration to Australia in 1979, 1989 and 2001. Finance minister Michael Cullen says it is a cyclical phenomenon and points to the importance of the Australian mining boom.

It is also the case that net migration to New Zealand remains positive – some 5,200 in the year to July, although this figure is well short of the 40,000 peak inflow in 2003.

But are these reasons for complacency? I don't believe so.

Some people think of a 'brain drain' as an exodus of university graduates and professionals. This is a rather snobbish notion. Everyone has talents, and enterprise can outweigh qualifications in terms of economic and social contribution.

What we are seeing is an across-the-board outflow to Australia of mainly young people including service workers, builders, electricians and truck drivers, as well as managers, doctors, IT technicians, teachers and the like. These are people New Zealand can ill-afford to lose.

Chronic out-migration does not make a country a happy place.

The mood in Ireland in the 1980s was gloomy as the economy deteriorated and large numbers left for the United States. It turned around in the 1990s after economic reforms dramatically lifted Ireland's level of prosperity.

Tasmania lost population in the 1980s and '90s as governments mismanaged the economy.

Australia is a barometer for New Zealand migration flows. We share a common labour market and some three quarters of our overseas diaspora live there.

What is noticeable about earlier surges is that they reflected the relative performance of the New Zealand and Australian economies. When GDP growth was markedly higher in Australia than New Zealand over a period of a couple of years or so, people sought better opportunities across the ditch.

This would appear to explain present trends. The Australian economy is slowing but New Zealand is probably in recession, and the growth differential this year and next looks likely to be significant.

Of further concern is the medium-term outlook. Dr Cullen is wrong to put Australia's performance primarily down to its resources boom. Less than 2% of the Australian workforce is employed in mining, New Zealand has also been enjoying high commodity prices, and Australia was growing strongly well before its terms of trade took off.

The main reasons for Australia's success are its relatively good institutions and policies.

Australia has been on a consistent path towards greater economic freedom through the Hawke, Keating, Howard and now Rudd governments. Total government spending, for example, is now down to around 33% of GDP (the second lowest ratio in the OECD) compared with 42% in New Zealand.

Not only are average wages now over 30% higher but Australia comes out well ahead on the broader UN Human Development Index (in 3rd place compared with New Zealand's 19th position).

Australia's economic directions are sound and its outlook for productivity and economic growth is robust at a time when New Zealand is experiencing a collapse in productivity growth and other economic stresses.

As one posting in response to a similar analysis on the blogsite interest.co.nz earlier this year put it, "I think the main difference now is the loss of hope amongst the productive people of New Zealand. Back through

the '80s, '90s and even into the early 2000s, people could see the possibility of New Zealand returning to being a very wealthy country. Now with 9 years of nothing more than mediocrity, there is a feeling that we are struggling to remain a developed country.”

Another posting argued that we need to pay people better to retain both our skilled and unskilled labour. This is true, but higher wages depend on achieving higher productivity, which in turn depends mainly on better institutions and policies.

There is no excuse for New Zealand's under-performance and the prospect of more Kiwis taking flight. New Zealand was once a wealthier country than Australia, and from 1992 (after our economic reforms paid dividends) to 2000 our productivity growth rate improved significantly and indeed slightly exceeded Australia's.

The University of Chicago law and economics scholar Richard Epstein put it well when he wrote in 2004: “the liberalisation that started in New Zealand under Roger Douglas in the 1980s arrested its long-run economic decline and paved the way for a strong recovery in the 1990s.

“But subsequent governments forgot the maxim that the policies that return you to prosperity are the only ones that will sustain that prosperity.”

To date, at least, Australian governments have not forgotten that maxim.

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