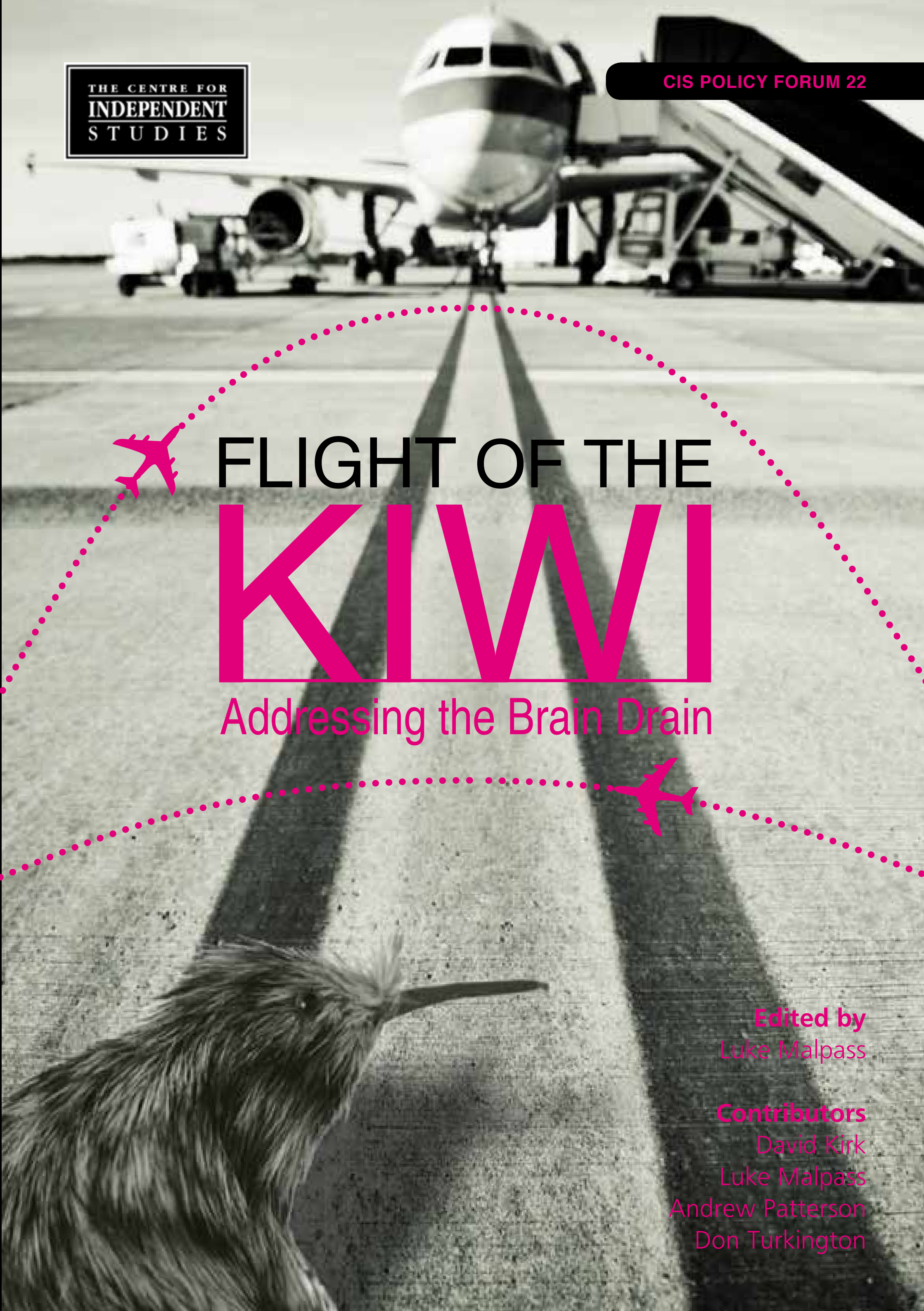

THE CENTRE FOR INDEPENDENT STUDIES

CIS POLICY FORUM 22

FLIGHT OF THE KIWI

Addressing the Brain Drain

Edited by
Luke Malpass

Contributors
David Kirk
Luke Malpass
Andrew Patterson
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Flight of the Kiwi:
Addressing the Brain Drain

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Introduction

New Zealand's political narrative over the past five or so years has been increasingly concerned with how the nation's economic performance compares with Australia. There are good reasons for this, although sometimes this healthy concern borders on a jingoistic obsession.

The primary reason why policymakers and the public are concerned about New Zealand's economic performance vis-à-vis Australia's is as simple as it is important: New Zealand is in direct competition with Australia for capital, labour and markets.

Unfortunately, New Zealand's economic fortunes compared with Australia have ebbed since the 1960s. Since then, there has been a reasonably consistent trend in migration across the Tasman—one not particularly favourable to New Zealand.

Permanent long-term migration from New Zealand to Australia has been rising to unprecedented levels, with a brief exception during the 2008–09 global financial crisis, when Kiwis decided to stay home to stick out the economic downturn. This migratory trend seems to confirm the attraction of the higher living standards enjoyed by Australians. And living standards are indeed higher in Australia. On average, Australians are paid a third more than their New Zealand counterparts in comparable jobs, so to attain wage parity would be no mean feat.

Much has been made of the mineral boom in Western Australia and the high salaries that accompany such work. Some rightly point out that New Zealand cannot compete with this kind of lucrative mining work—where driving a truck can earn a six-figure salary. However, it is not these jobs that are making Kiwis cross over but the regular jobs in urban centres on the eastern seaboard of Australia. These are comparable jobs and simply pay more.

While there has been a lot of rhetoric in New Zealand about what needs to be done to raise standards of living, little has been achieved on the policy front. This perhaps reflects among New Zealanders an antithetical attitude to growth, and the connotations of wealth carried with it.

Fortunately, however, the government seems to be taking seriously the task of 'catching up with Australia' insofar as it can be done. The further New Zealand's living standards drop in comparison with Australia's, the more difficult New Zealanders will find it to attract and retain those top professionals and productive workers going for the bigger cash and greater opportunities in Australia.

Some commentators ask: Why Australia? Why don't we compare ourselves to Singapore, China, the United States, Sweden or Canada? Why the arbitrary distinction? The answer is simple and is a mugging by reality. New Zealanders are not likely to migrate to any of those countries. The only country New Zealand is in competition with or comparable with—as far as institutions, culture and economy are concerned—is Australia. No visa is required to move there, and if you like sunshine and warmth, the weather is better there. All things being equal, Australia is a fine prospect.

The NZ government formed the 2025 Taskforce in early 2009, headed by former Governor of the Reserve Bank Dr Don Brash, to come up with policy solutions to bridge the income gap with Australia by 2025. The taskforce released its first report in December 2009 to poor public reception. The media dubbed it a 'back to future' type document as the report argued for cutting government spending, a bigger role for markets, and roll back of the state. As this approach is out of political fashion, the minds behind the report were portrayed as policy dinosaurs.

The situation for New Zealand is grim. About a million New Zealanders live abroad, half a million of those in Australia. That's one in nine. Before the global financial crisis, permanent long-term departures to Australia were running at close to 35,000 per year. That's almost 1% of the population moving to Australia per year. Eighty percent of New Zealand's skilled migrants come to Australia and are staying. Although that figure dropped during the global financial crisis, migration numbers have increased since then as the Australian economy continues to prosper.

Public policy think tanks like The Centre for Independent Studies play an important public role in facilitating policy discussions, airing different views, and ensuring that liberal ideas on bridging gaps are presented. Wellington and Canberra do not have a monopoly on ideas, and the CIS has a vital role in ensuring that governments don't monopolise policy debates.

It is in this context that The Centre for Independent Studies held the policy forum 'The Flight of the Kiwi' at the Macquarie Bank Theatrette on 5 November 2009. The event, which was held in Sydney, had the advantage of presenting the opinions of Kiwis living outside New Zealand—by those who moved to Australia for higher living standards and better opportunities, and by some who had moved back to New Zealand.

Four speakers helped explore why Kiwis are fleeing to Australia and what can be done to keep them home and entice them back. This publication brings together the updated speeches.

Greg Lindsay
Executive Director
The Centre for Independent Studies
Sydney
January 2012

Setting the Scene: New Zealand's Cultural Challenge

Luke Malpass

Kia Ora, Good Evening.

It's a rather delicious irony that a bunch of New Zealanders here in Sydney are meeting to discuss the brain drain.

There are two major factors contributing to New Zealand's economic performance: our policy settings and the cultural context in which those settings operate—which, as I've discovered living in Sydney, are subtle but different to those in Australia in important ways.

And while I'm immensely proud of my home country (Canterbury, in particular) and love a lot of what it represents, I won't be expounding some kind of New Zealand love-in as we New Zealanders sometimes tend to do.

To briefly outline the situation: New Zealand has gone from having competing living standards with Australia in the 1970s to being approximately a third behind today. One in nine people born in New Zealand live in Australia. Eighty percent of skilled New Zealand migrants live in Australia. Our diaspora is bested only by Ireland's.

This is great news for Australia: New Zealand cares, rears, educates and exports an increasing number of Kiwis to Australia—at no cost to the Australian taxpayer. Research suggests that New Zealanders are among Australia's most productive workers in their given professions.

The Knowledge Wave Conference 2001

To give some background to our policy malaise, I would like to start with the Knowledge Wave conferences. In 2001 and 2003, the government held the 'Catching the Knowledge Wave' conferences in Auckland to map a way forward for New Zealand based on a 'knowledge economy,' amid concerns that we were slipping down the OECD rankings on living standards. At the 2001 conference, Prime Minister Helen Clark pledged that her government would lift New Zealand out of the OECD slump. However, since then, New Zealand has actually moved backwards on that very measure.

Indeed, the very idea of a 'knowledge economy' is amusing because there is obviously no 'ignorance economy,' much less anyone advocating one. Market economies necessarily run on knowledge. It's similar to arguing that we don't need more but better regulation—as if anyone is arguing for worse!

These two conferences are worth mentioning because in many ways, they signalled New Zealand's departure from successful macroeconomic policies and continued microeconomic reform. Both conferences were steadfast in their insistence that New Zealand has 'other values' apart from economic growth, and that the drive for growth cannot come at the expense of everything else.

It seems as if a straw man has been set up: the idea that growth is a zero sum game. The natural extension is that if the proceeds of growth are concentrated more obviously in the hands of some, those people have somehow cheated their way to a position of advantage or that the advantage has come at the expense of others.

The Knowledge Wave conferences were notable for attempting to diagnose problems but not for offering helpful solutions. At the 2003 conference, Ms Clark laid out all the projects her government had begun funding and to what tune, as if the projects and funding somehow equalled success.

Notably, the rhetoric in her 2003 speech was markedly different from her 2001 speech. Instead of alluding to the undesirability of leaving large sections of the population behind during reform (a valid concern), her 2003 speech was an explicit attack on what was being termed as 'the failed policies of the past'—the past, of course, referring to the growth enabling framework, typified by the liberalisation and deregulation instituted in the 1980s and early 1990s, otherwise known as Rogernomics and Ruthanasia. These were certainly painful reforms for New Zealand, but were made necessary by Sir Robert Muldoon's hyper-regulation of the economy. By Election Day 1984, New Zealand was in such a bad shape that no foreign lenders would lend the government money, and we were days away from an IMF bailout.

For a time, our radical approach was the envy of the world, with journalists and delegations visiting New Zealand to see how we had turned things around. Don Brash was invited to give a prestigious lecture at the Institute of Economic affairs in London. Dr Oliver Hartwich, a German-born colleague of mine, recalls seeing a documentary in his German economics class on New Zealand rubbish collection deregulation and how great it was!

Painful as they may have been at the time, New Zealand's reforms are a case study in how to turn around a basket-case economy and get it growing again by lowering tax, removing protection, and making it face outwards.

However, at the 2003 conference, Ms Clark concluded that New Zealand did not have to go down a path where growth was the number one policy goal, and from which all other policies would follow. In many ways, her solution was to lead the nation towards what political journalist Colin James described as 'genteel poverty'; anything else was 'un New Zealand.' Worse still, repeated surveys show that New Zealanders are receptive to this message, and that we value lifestyle factors and the environment ahead of health, education and economic growth.

New Zealand exceptionalism

This is part of a trend towards New Zealand exceptionalism.

The bombing of the Rainbow Warrior by French secret agents (still New Zealand's only terrorist attack) and the ban on US nuclear-propelled battleships was a time for real nation-building in New Zealand. It spelled the end of ANZUS and more or less severed our diplomatic relationship with the United States, one that has recovered only in recent times.

It has, however, spawned a real political culture of what I call **New Zealand exceptionalism**, the practice of New Zealand doing what the rest of the world is not doing, or rather doing what we think the rest of the world 'should' be doing. This exceptionalism is supposed to 'show' leadership because 'we did it with the anti-nuclear stance in the 1980s.' This idea that we should lead the world on moral and symbolic issues is rooted deep in our history and psyche, beginning with the Treaty of Waitangi. We were the first to sign a treaty with an Indigenous population; the first to give universal suffrage in 1893; the first comprehensive welfare state; the first country with an anti-nuclear policy; the first to introduce radical reforms such as an independent Reserve Bank; and, more recently, the aim to become the first carbon neutral economy, a plan that has since been scrapped.

This entrenched idea that we are somehow exceptional and can lead the world on governmental initiatives increasingly serves as justification for government to follow any crazy old idea. Note that a lot of these firsts resulted in an increase in the role of government.

This seems to be a case of small island syndrome. But the key question is can we *really* lead on symbolic issues. *Why* do we want to lead? And what's wrong with just being the best at being New Zealand. We already kick well above our weight in many areas of life and produce outstanding, high-achieving individuals without having to lead on everything.

In the past 10 years, the idea of New Zealand exceptionalism has been most evident in our attempt to value 'non-economic' areas of life. If only we could try harder, apply more No. 8 wire, appear more self effacing, care more, and work harder, we would get there as a nation!

That's not how it works. New Zealanders work more hours than anyone else in the OECD; we are modest to the point of barely being able to acknowledge our own achievements (the ultimate end of which is the tall poppy syndrome); and the No. 8 wire myth—once a euphemism for a can-do attitude and making best of a situation—has become an excuse for ad hoc and two-bit behaviour in business and politics.

New Zealand is a great country, and it is unique, but it is not exceptional or an exception to the rule. We cannot beat the laws of economics, the rolling maul of globalisation, and the changes wrought by new, information rich technologies—any more than we can control the weather.

The growth conundrum

At the centre of this New Zealand centric approach has been a widespread underselling of economic growth as a concept and driver of prosperity.

Our growth has been sluggish at best, averaging 1.6% for the past decade. New Zealand's multifactor productivity has also been pitifully low for the past decade. The explanations are varied: overinvestment in housing, capital underinvestment, distance from markets, high exchange rate, high tax, an increasingly onerous regulatory environment, and our habit of developing businesses worth tens of millions of dollars before selling them to overseas investors and retiring for the BMW, boat and bach.

Some of these factors doubtless play a part, but the story is more complex and more incomplete than that.

My contention is that our problem is cultural or, indeed, socio-political. New Zealanders expect First World living conditions with an increasingly second-rate economy. We seem to think that for some reason, we have a 'right' to high living standards but without any of the pain or hard choices that are needed to achieve it.

Maybe New Zealand suffers from the supposed generation Y complex—we want it all, we want it now, and we want it at no cost.

This attitude belies a fundamental incomprehension about what makes nations prosperous. Large of parts of the populace (and certainly some politicians) seem to believe that government can just flip the switch and bring about better living standards for everyone. Unfortunately, this does not happen in the real world; otherwise, New Zealand would be dominating the world! Governments cannot create prosperity. While they do have key roles to play in infrastructure policing and providing public goods, they can only redistribute wealth with limited success. What governments *can do* is to set a limited, rule-based framework for economic actors in the private sector to get on with creating wealth.

There is a fundamental misunderstanding that economic growth is not a zero sum game but that it can only be achieved in the medium term by government limiting its operations and not crowding out the private sector. There is an almost aristocratic assumption that simply because our heritage is British, and we were once a prosperous colony with great post-War living standards, we deserve great living standards today.

This is wrong. Without significant policy and cultural change, we may indeed become what many in Australia feared they would become in the late 1970s—the white trash of the South Pacific.

Locking in the gains of reform

So why did this not happen to Australia? What are the differences between Australia and New Zealand? Why has Australia enjoyed more impressive growth and productivity? Why is its policy framework more stable?

Mining

It is appropriate to bust the myth about mining. Australia's prosperity is not due to mining or an abundance of natural resources. Mining accounts for only 5% of Australian exports, while New Zealand's primary sector (also resource based) accounts for 17%.

This has become a hobby horse for many in New Zealand, including the Key government, which has committed to exploring the national conservation estate for mineral wealth—lignite and nickel, in particular. Although mining is certainly not objectionable, and should be considered on a case-by-case basis, it is of concern that the Minister of Energy Gerry Brownlee said the current government sees 'resources as central to bridging the income gap with Australia by 2025.'

A remark by former Australian Treasurer Peter Costello may explain Mr Brownlee's interest in resources. After his retirement, Mr Costello remarked that the resources boom was probably the worst thing to happen to the Howard government. The government had so much money that it could throw hard-won fiscal discipline out of the window and buy off every electoral group from whom it might get votes.

So it is no wonder that Mr Brownlee and the Key government are so interested in the mining industry—it lands windfall taxes for government to spend or drop taxes without cutting spending; actually, mining taxes lead to political prosperity rather than automatic economic growth.

When it comes to growth, resources are not as valuable as brains, entrepreneurship or enterprise—the real factors that create the wealth of nations.

The underlying attitude to growth

A more fundamental problem is the underlying attitude to economic growth and progress. In Australia, the political economy of growth, deregulation and liberalisation is accepted across the political spectrum as a broad policy thrust. Kevin Rudd, a Labor leader, went into the 2007 election bragging about his credentials as an economic conservative committed to growth. Although Mr Rudd's rhetoric changed along the way, it was probably more the result of recasting himself as focus group philosopher king than a commitment to a different policy direction.

That aside, Australia has had 25 years since the election of the Hawke/Keating government to bed down a culture of positive reform for growth. Both Labor and the Coalition produced governments that wove a narrative in their own political traditions, were long-serving, and were something both sides could be proud of.

In a policy sense, this meant a steady commitment to a sound and stable macroeconomic framework, microeconomic reform, lower taxation, deregulation, and steady privatisation of under-performing state-owned assets. Although the policies have certainly not been perfect, and wrong turns have been taken, particularly near the end of the Howard government, the general direction has been sound.

In contrast, New Zealand had five years of a reformist Labour government that produced Rogernomics, a lot of hurt, and came apart at the seams with a great deal of bitterness, both within politics and the community at large. This was followed by three years of a National government that was considered to have broken promises and carried forward some of the more painful reforms, such as labour market deregulation and restructuring the welfare system.

The actions of both governments resulted in a new electoral system, MMP, and a fundamental move away from liberalising policies since 1996, with a couple of notable exceptions. Whereas in Australia, Labor and Liberals both lay claim to the reform tradition and credit for policies that encouraged growth and progress, the NZ Labour Party and the National Party seem to view the reform agenda as an unfortunate chapter in the history of the Labour Party, National Party, and of New Zealand itself.

In short, many New Zealanders view liberalisation as undesirable and unnecessary.

Why Australia?

Why, in particular, is the comparison to Australia important?

Because it's similar to New Zealand and it's easy to move here—you just get on a plane. A flight between Christchurch and Sydney costs little more than one between Christchurch and Auckland. No visas are required. The weather (although a constant) becomes more attractive if it comes with a 30% bigger pay packet.

All this *still* wouldn't matter if the myths about New Zealand's size, lack of distance, or mineral resources were true—we would still need to overcome these impediments. As it is, saying that there is nothing we can do is misleading and defeatist.

The government's goal of lifting living standards to those of Australia by 2025 is a worthwhile one; however, it does come with some important caveats. New Zealand and Australia, for all their similarities, are two distinct countries; viewing each other as flawed versions of ourselves is inadvisable.

The most important of caveats surrounds ill-considered talk about streamlining everything with Australia and combining currencies, business regulations, tax systems, and the like.

Although I can appreciate a want to reduce inefficiencies, lagging behind Australia means *better policies* suited to New Zealand—not just adopting Australian policies because they happen to be convenient for some businesses that predominantly trade there. To seek to streamline everything is for New Zealand to become one step closer to becoming the branch economy many dread. We share most elements of a common market with Australia, so we have to be competitive and play to our strengths to attract foreign direct investment. Openness and flexibility are crucial to making New Zealand an attractive place to do business and live in.

As for the oft-mentioned idea of a shared currency and central bank—there are regular rumblings from Western Australia that monetary policy is set 'for the eastern states.' More localised monetary jurisdictions can only generate healthy competition and be more responsive to local needs. This is necessary in New Zealand's case. How happy would our exporters really be if we shared Australia's current exchange rate?

On tax, our government waited to see what the Henry tax review turned up. Why? Just because the Australian Treasury Secretary endorses a certain set of tax laws doesn't mean they are appropriate for New Zealand, except to show where taxpayers get the better deal.

So while we should compare our outcomes with Australia, we shouldn't be automatically looking there for policy solutions.

Conclusion

Although net migration away from New Zealand fell in 2008–09, it was not a reversal of the migratory trend but the result of the global financial crisis. As the Australian markets recovered, migration levels have increased.

And although the New Zealand diaspora is a great asset for the nation, we have to address the drain to Australia with some serious policy realignments—no country can stay dynamic and healthy while losing 1% of its most productive citizens every year.

This is only a broad framework of what needs improving to create the right policies. Promoting these policies requires leadership, clear explanation, and powerful advocacy. It must be done soon or we may slowly slip into genteel poverty. Paul Keating once said about New Zealand: poverty in a picturesque setting is still poverty. It is that serious. And it is going to take some serious changes in cultural attitudes and political leadership to see the necessary policy changes through.

Reversing the Flight

Andrew Patterson

I would like to thank The Centre for Independent Studies for the opportunity to address you today and organising this forum, which is indeed timely, particularly in the wake of the NZ Treasury's sobering report *Challenges and Choices: Long-term Fiscal Statement* released last week and to which I'll return later in this presentation.

Quick bit of research …

- Hands up those born in New Zealand and now living in Australia ***[70 or so hands up]***
- Second question, keep your hand up if you have any plans to return to New Zealand in the next two to three years ***[only 15 or so hands remain up]***
- Final question. Of those with their hands still up, how many of you expect to be able to match your current salary package back in New Zealand ***[no hands left up!]***
- And that, ladies and gentlemen, is New Zealand's problem in a nutshell.

I speak to you today as a New Zealander who has worked on both sides of the Tasman with two stints in Australia totaling around seven years, as well as time spent traveling in 40 or so countries. I guess I fit the spec of the 'restless' Kiwi!

My perspective is one of having a strong affinity with both New Zealand and Australia—perhaps representative of the increasingly seamless platform on which the two economies operate, something that is laudable and will increasingly underpin the future of New Zealand.

As we all know, the two countries share a unique relationship forged over more than two centuries. In fact, a provision still exists in the Australian Constitution for New Zealand to become the seventh state of Australia if the NZ Parliament were to vote for such a move by a significant majority.

Although that is probably unlikely to ever happen, each time a poll is conducted, surprisingly, the number of New Zealanders in favour of the idea continues to increase. I recall that the last such poll showed a 30% support for joining Australia—well up from around 16% in the early 1990s—though I suspect the majority of those supporting the idea are not in fact rugby fans!

In this paper, I want to address the theme of this forum, 'The Flight of the Kiwi,' from a personal perspective and by providing some context around the issues that New Zealand is facing in terms of retaining its intellectual capital, getting those offshore to consider returning, and finally proposing a series of ideas that I believe would go a long way towards making New Zealand a more attractive place to do business for Kiwi ex-pats returning home.

New Zealand is at something of a crossroads. In fact, you could argue that the country has been standing at that crossroads for some time and is still grappling with which way to turn!

But it's hardly for the lack of analysis on the issue.

New Zealand could probably lay claim to the title of being the country that has conducted the greatest number of studies over the last two decades on how to improve its economic standing.

- The first ever national economic summit in 1984 was held after the election of the Lange government and ushered in a bold economic experiment in deregulation, eventually known as Rogernomics, named after then Finance Minister Roger Douglas.
- This was followed by the Bolger government establishing the Porter project in the early 1990s, which resulted in the study *Upgrading New Zealand's Competitive Advantage*, led by Harvard economics professor Michael Porter.
- Then came the Knowledge Wave conferences in 2001 and 2003, initiated by the Clark government, to focus on how technology

could bridge the geographic divide and contribute towards achieving a greater degree of economic growth.

- And more recently, in the run-up to the 2008 general election, the New Zealand Institute, a privately funded think tank, produced an extensive series of discussion papers focusing on a series of proposals to broaden the country's economic framework.
- There have been also countless other related studies by academics, economists, consultants, and other specialist researchers in a similar vein, most of them now tombstones occupying a large amount of space in filing cabinets.

Despite all this analysis, there has been only limited progress in addressing a fundamental re-engineering of the economy to achieve meaningful economic growth. I was struck recently on re-reading Michael Porter's book on New Zealand (published in 1990) by how many of the issues he highlighted remain essentially unresolved.

As Kiwis, I believe we tend to procrastinate too much. We'd rather keep arguing the point than make a decision and get on with it. I suspect that's one of the reasons so many Kiwis choose to make their home offshore … they get frustrated by inaction.

Just recently, we *finally* made it an offence to drive while talking on a mobile phone, one of the last Western countries, I understand, to do so. We argued about it for the better part of five years until mobile phone usage was found to be the cause of a series of road fatalities, and 90% of people supported the ban on using mobile phones while driving. The government finally made the call. Until then, there was no political courage to *make* the decision.

During my time in Australia, I came to appreciate how Australians tend to be more decisive and are intolerant of procrastination. Generally speaking, it tends to be the other way around in New Zealand. We are more cautious by nature, although we do revel in extreme sports and pushing ourselves to the limit physically. There's something of a dichotomy there.

Some of this may explain why, to a large extent, much of the long talked about re-engineering of the economy remains in the proverbial 'too hard' basket.

But in saying that, there is something of a new spirit of optimism emerging in New Zealand, probably helped by the change of government in 2008. We'll have to see whether it morphs into a real commitment to get the economy moving again.

However, I don't wish to appear unduly critical of our many successes in the last decade. We have, for instance, developed world class brands such as Icebreaker, which uses Merino wool to produce high-class fashion garments that have become highly sought after. A recent initiative to re-invigorate the wool sector, led by former Telecom CEO Theresa Gattung, offers some promising possibilities.

Our tourism sector, in which I worked for a short period, has forged ahead in leaps and bounds to the point that Tourism Australia now openly acknowledges the superior brand positioning that Tourism New Zealand has achieved with its '100% Pure' campaign initiated in 1999.

In fact, I would go as far as saying our tourism product is truly world class in terms of its infrastructure and use of technology. It employs roughly 10% of the workforce and has become the country's biggest export earner. In many ways, Tourism New Zealand's success is a case study of what happens when a sector gets its act together.

Dairy farming has become a highly sophisticated and technical business underpinned by a single dairy co-op in the form of Fonterra, which is probably the closest thing we have to a BHP. New Zealand has achieved global leadership in its dairy farming techniques, and the dairy industry provides a strong underpinning for the economy as a whole.

Our wine industry has also achieved similar success, although the vagaries of matching supply with demand make it a highly cyclical sector, as Australian producers know only too well.

And, of course, there are countless other positive advances in a range of sectors, including the government's commitment to accelerating the roll-out of a high-speed broadband network.

But the issue for New Zealand, in the context of today's forum, is scale. How do you provide an economy that is sufficiently attractive to not only retain but also provide incentives to Kiwis living offshore to consider returning to New Zealand?

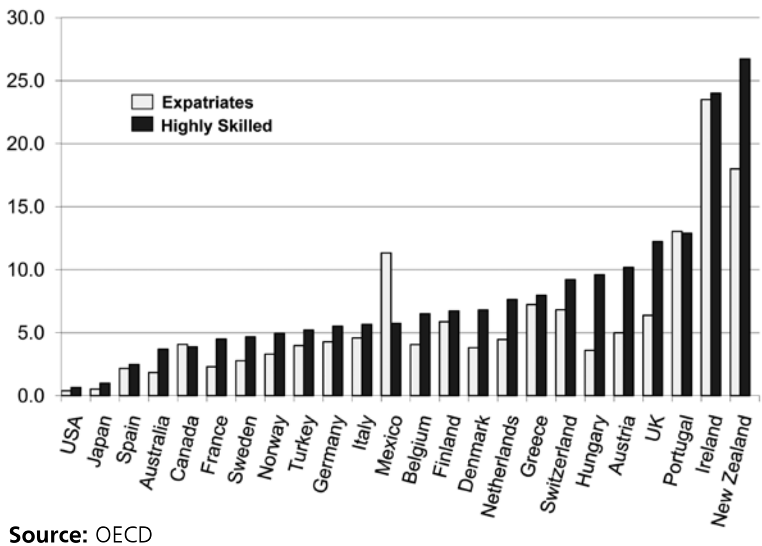
Before addressing that issue, I would like to share my experience on returning to New Zealand in early 2006. After working in the media in Australia for five years, I was ready for a change when I was asked to take on a more senior role as business editor at RadioLIVE, New Zealand's newest news/talk network. The role was sufficiently attractive to tempt me home.

However, I was struck by the number of people who expressed surprise if not astonishment that I had actually *chosen* to return to work in New Zealand. It was as though I needed counseling!

While updating my address details at the bank upon arriving in New Zealand, the teller basically asked me, 'Why on earth would you want to come back?' And this was well *before* the onset of the global recession!

New Zealand's exposure to the increasing international mobility of people

Chart 1: Expatriates as a % of total population and highly skilled population



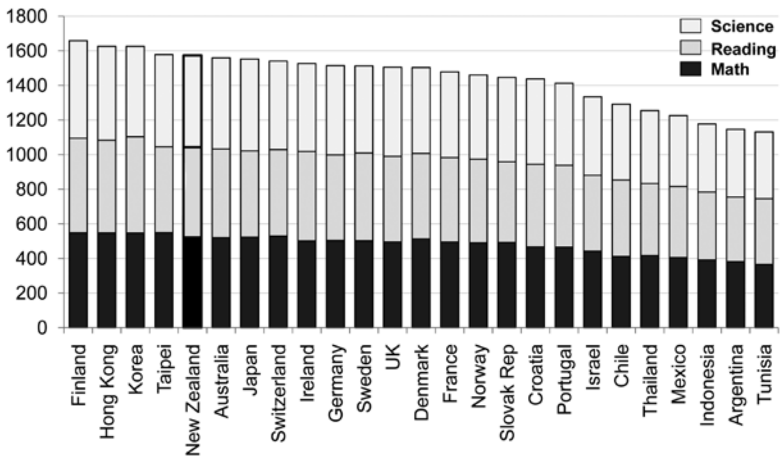
Source: OECD

So there's a certain acceptance that once you leave, you're not expected to come back. Well, that may be something of an exaggeration, but it typifies a feeling—almost a recognition of the fact—that once you reach a certain stage in your career in New Zealand, you'll be off and that'll be it … another Kiwi living offshore destined to become a statistic.

David Skilling, former CEO of the New Zealand Institute, one of the country's few think tanks, always got a reaction when he showed the chart above while explaining the NZ economy. New Zealand can lay claim to leading the OECD in really only one inauspicious category—we lead the field in the number of skilled citizens living *outside* the country, with one in four skilled graduates living offshore. (See Chart 2) The extent of the problem can be seen in comparing us with Australia, which is almost at the opposite end of the axis.

New Zealand's educational achievement among 15-year-olds is in the top quartile of the OECD

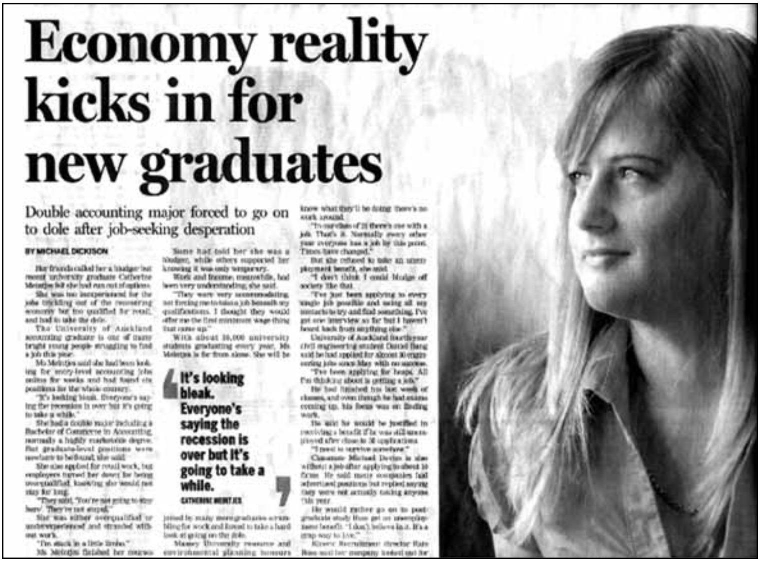
Chart 2: Aggregate Mean Programme for International Student Assessment (PISA) scores, 2006



Source: OECD

Our educational attainment is also in the top 20% of the OECD, but of course, as this forum has highlighted, we're not proving sufficiently attractive as an economy to retain those skills.

Economy reality kicks in for new graduates, The New Zealand Herald, 24 October 2009



Economy reality kicks in for new graduates

Double accounting major forced to go on to dole after job-seeking desperation

BY MICHAEL DICKISON

It's looking bleak. Everyone's saying the recession is over but it's going to take a while.

CATHERINE MEINTJES

This article from a fortnight ago in the *New Zealand Herald* somewhat typifies why many ex-pat Kiwis won't be returning home anytime soon. It tells of a commerce graduate with a double major in accounting who, despite extensive job searching in recent months, including applying for positions well below her qualifications, is being forced to go on the dole.

And while there's a temptation to blame her situation on the recession, it sums up the position that New Zealand now finds itself in and symptomatic of the problem we face as a small, geographically isolated economy living in the shadow of a larger neighbor increasingly wanting to expand its footprint in

New Zealand and with the investment capital to do so, thanks to its compulsory superannuation scheme.

The fact is, the vast majority of entry-level positions in accounting are now in Australia.

Before returning to the earlier point regarding the extent of our ex-pat population and some of the ways we could entice 'The Flight of the Kiwi' in a homeward direction, I want to share with you a few facts from the NZ Treasury's publication *Challenges and Choices: A Long-term Fiscal Statement*, released on 29 October 2009, and why some of the issues we're discussing tonight are of crucial importance for the country's future.

Following the release of the Treasury report, one commentator in New Zealand said that if you were a 21-year-old graduate and could be bothered ploughing your way through the 76-page document, you wouldn't even contemplate committing your long-term future to New Zealand.

The report paints a particularly bleak picture of decades of deficits. Our debt servicing cost is expected to exceed our health budget by 2025, while our debt to GDP ratio will be at 220% by 2050.

Of course, as the Treasury pointed out, such a bleak future is unlikely to come to pass. Action will be taken to avoid those mind-boggling statistics from becoming a reality. But what the Treasury does conclude is that if you take the country's existing demographics and rate of economic growth, apply some broad assumptions, and try to maintain status quo, then the bleak path is what we're sliding towards.

Of course, every OECD country is grappling with the same issues, but New Zealand has fewer choices compared to a country like Australia, given our dependence on a much more limited economic base and a superannuation scheme that isn't compulsory and is far less attractive than Australia's.

This leads me to the final part of my presentation, which is a call to action to address the proposition of this forum: What would it take to attract more of our intellectual capital home ... the need for which has never been greater. Maybe one of those

World War I recruiting posters, 'Your country needs you home, NOW!'

Before I talk about the six broad themes to reverse the flight of the Kiwi, I would like to mention one of the New Zealand Institute's proposals that I believe makes sense for a small progressive economy like ours—creating a 'weightless' economy with key underpinnings, such as agriculture and tourism, along with a number of smaller sub-sectors that rely on intellectual capital and support services to drive them.

First, New Zealand, particularly the government, supported by a united business community, must establish, map and articulate a vision for its future—a vision that creates a sense of excitement and an attitude that entices ex-pats to *want* to be part of that growth and momentum. This vision needs to be bold, forward-looking and expansive. In the same way that Ireland provided a platform to attract industry in the early 1990s, New Zealand must put out the welcome mat in a way that is almost a call to economic arms and creates a real sense that the time has come for the country to embrace all the good things it has to offer and get its motors revving rather than idling.

Second, we have to create a business culture and climate for entrepreneurs that New Zealand is the country of choice for those wanting to establish new startup business ventures as well as supporting existing businesses. Realistically, we're never going to attract the likes of Intel or Apple to set up in New Zealand, but we can offer a country that is virtually free of corruption, has one central government, is regularly voted as one of the easiest places to establish a business, and is well regarded for its 'can do' philosophy.

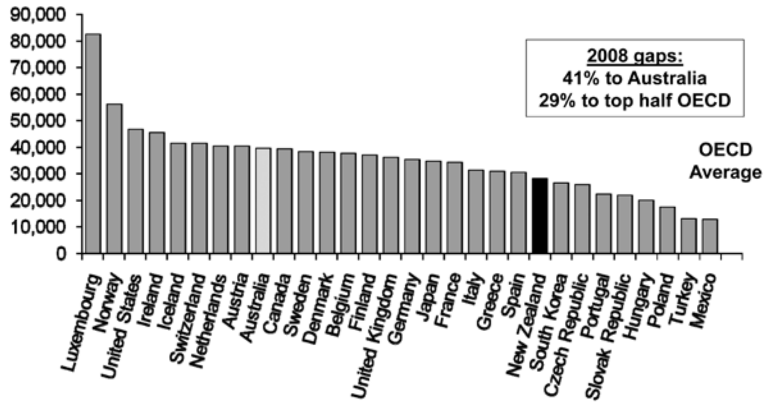
Just the other day, I discovered that one of New Zealand's fastest growing businesses is an international medical recruitment business based in the ski resort of Queenstown. That's the type of weightless business I was referring to earlier. It can operate from literally anywhere, and, Queenstown, as those of you who have been there know well, isn't such a bad place to base your business. In winter, you can ski in the morning and play golf in the afternoon!

Third, we have to deal with our highly inefficient tax structure, which probably acts as a disincentive to those wanting to return to New Zealand. It offers almost no incentive to promote business growth; encourages a culture of avoidance through the creation of specialist tax structures and shelters focused mainly on property investment; and is outdated, particularly because of the lack of a capital gains tax. Harmonising and aligning our tax structure with Australia probably also makes sense.

Interestingly, a recent survey by KPMG found that New Zealand is ranked in the top quartile of OECD countries for its company tax rate and the bottom quartile for its GST rate. It seems we've got them the wrong way round if we want to put the emphasis on growing the economy.

A large income gap remains between New Zealand and most other OECD countries

Chart 3: GDP per capita (PPP), 2008



Source: OECD

Fourth, we must attempt to close the wage and economic growth gap with Australia but also other OECD countries as well. Chart 1 shows where New Zealand sits in relation to Australia and how difficult it will be to close the gap. And Chart 3 shows how just about any profession in Australia offers a higher salary. Clearly, that is going to continue to disadvantage New Zealand. A compulsory super scheme similar to Australia and a first-home buyers grant would help reduce the economic gap between New Zealand and Australia.

Fifth, New Zealand needs to focus on growing export oriented SMEs and providing the best possible business operating environment for them by way of tax, support services and infrastructure, and incentivising their establishment. This may even involve offering ex-pats the opportunity to pitch their ideas from wherever they are and qualify for certain incentives and business development grants. We need to create thousands of new businesses led by driven entrepreneurs with a passion to succeed. Create the right environment for them and they will come …

And finally, we should create centres of excellence around what New Zealand already does best, such as dairy science and education, along with specialist training and support services. We need to identify what these are and find ways to make them central to the country's economic growth.

As Ernest Rutherford, one of the country's most famous sons, once said, 'We haven't got the money, so we have to think.' Well, we've been thinking for too long. If New Zealand is to embrace the future, as it must, then here is the challenge we face:

> To catch up with Australia, the NZ economy will have to grow at a rate 1.8% *faster* than that of Australia every year until 2025. Waiting just another three years until 2013 would mean New Zealand would have to grow at an average of 3.2% faster than Australia per year.

If New Zealand were to build that sort of momentum, I suspect Kiwis would be flocking home in droves. That's our challenge and if we fail to meet it, then I suspect future debates such as this will be focusing on why New Zealand, in the end, was *forced* to become the seventh state of Australia.

What Happened to New Zealand's Can-do Attitude and Why the Antipathy to Aspiration?

Don Turkington

There's long been a conflict in New Zealand between the can-do attitude of a frontier society and a quest for security engendered by smallness, remoteness, and I believe, the catastrophic losses of World War I. In 1942, William Ball Sutch wrote *The Quest for Security in New Zealand*, which became a bible for those wishing to erect protective walls against the world. In practice, this meant the centrality of the state.

Kiwis see themselves as highly innovative and take pride in their No. 8 wire attitude. This is the can-do attitude in a fairly basic form. And there lies the problem: the can-do attitude remains underdeveloped, while drive and innovation fail to get past the No. 8 wire stage. Realisation of products and ideas often occurs abroad or simply does not happen.

There are some notable examples of the can-do attitude in the economy: Sam Morgan and Trade Me, Michael Hill and Michael Hill International, Graeme Hart and the Rank Group, and Stephen Tindall and The Warehouse. But such examples are few and far between, and stand out like the proverbial. Much more common are the half-hearted and ill-conceived efforts to innovate and change, most of which go nowhere. The result is underdevelopment in many sectors of New Zealand.

One sector I am very familiar with is finance. New Zealand has had stock exchanges since the 1870s, but these were never really developed. On Tuesday, 20 October 2009, to pick a day at random, the NZX traded shares worth NZ$87.2 million compared to the ASX's AU$5.5 billion. That's 77 times greater while the population is only five times larger. Many other metrics of financial dynamic and health paint the same bleak picture. In the past two years, there have been no initial public offerings (IPOs) on the NZX, while in the financial year ending 30 June 2009 alone (not exactly a stellar year for global markets), there were 45 IPOs on the ASX.

Even recent efforts to harmonise trans-Tasman capital markets tell the same story. Since the introduction of mutual recognition of security offerings between Australia and New Zealand in June 2008, the new regime has been used 253 times by Australian issuers offering securities in New Zealand and only seven times by New Zealand issuers in Australia. The divergence in experience and scale is the same—be it equity markets, equity capital markets, debt, foreign exchange, derivatives of all sorts, and the like right across the board. And the disparity is long-lasting enough to be characterised as permanent.

In a field as dynamic as finance, opportunities for change obviously arise frequently, but the forces of inertia are solid. I can illustrate with an example from my own career. Some years ago, my firm was appointed the joint lead manager of the TENZ Fund, the IPO of New Zealand's first Exchange Traded Fund (ETF), which was designed to track the index of the 10 largest NZ stocks. While commonplace in major markets, this was an innovative move for New Zealand, ushering in its first exchange traded derivative, and I hoped it would help revolutionise our financial markets.

Others did not see it that way. Financial institutions objected to the NZX offering as a passive investment product competing with their own active products. The pressure to cancel the offering was intense to the point where the other lead manager undermined the IPO and refused to participate. In spite of this, the TENZ Fund was listed and did lead to some other ETFs. Not surprisingly, however, it did not revolutionise our financial markets, which to this day remain in a basic stage of development.

The lack of a can-do attitude in finance is surprising, especially given the obvious presence of such an attitude across the Tasman. Maybe it's a case of surrendering the field to our larger cousin and letting him get on with the job. That would certainly be consistent with a tendency to rely heavily on the state; this reliance has characterised New Zealand for the last century other than a respite of around 10 years from 1984. Much has been made of the nanny state of the last three Labour administrations, but smothering by the state has been the norm rather than the exception in New Zealand. It is difficult for a can-do attitude to thrive in such an environment.

Antipathy to aspiration can be viewed as the other side of the same coin. New Zealand is a society that emphasises security and redistribution over aspiration, particularly of the economic sort. Although certain kinds of aspiration, especially of a sporting nature, are fostered, aspiration in the economic sphere is limited to achieving the 'good life,' described by one of our leading businessmen as the three Bs: the BMW, the boat, and the bach (or beach house). And if these things have to be bought with debt, then so be it.

Finally, I would like to look at some policy prescriptions for change. We do have a Capital Markets Development taskforce, but I fear its focus is too internally oriented with an excessive emphasis on the No. 8 wire mentality. In finance, as in many areas, emulation is often one of the best forms of innovation. Be it venture capital, private equity, debt structuring, or programme trading, in my experience innovative foreign financiers are happy to talk to us in New Zealand because they see us as no threat.

In line with that, I would re-enter talks with the ASX. On the demutualisation of the NZX at the turn of the century, the two stock exchanges explored avenues of cooperation, including merger. The NZX got such a shock that it withdrew into its cocoon and set up barriers. I would restart those talks with an open and innovative mind to explore co-operation, joint ventures, mergers or even takeovers. This would build on the Closer Economic Relationship existing in most other areas of both our economies.

If it's too much to get into bed in the ASX in any form, I would talk to the Singaporeans.

Singapore is a small but innovative economy that has become a regional and financial powerhouse.

In addition to strong local listings, Singapore has become a platform for a truly global offering of securities. It has all manner of ETFs covering major foreign stock indexes, gold, emerging markets, soft commodities, you name it. The Singapore Stock Exchange (SGX) also lists securities of many other countries such as the United States, Malaysia, China, and so on.

New Zealand could take advantage of the four-hour time zone difference and being the first in the world to open the securities market. The NZX could host the SGX platform (and vice versa) with trading starting early Down Under. We need not confine ourselves to the securities markets but instead explore areas such as offshore banking, which could benefit New Zealand. The irony is that New Zealand has strong professional services firms in law and accounting. They just need to be hooked up to an engine such as the ASX, the SGX, offshore banking arrangements, and so on.

I would like to end with a few words on the New Zealand Regulatory Responsibility Taskforce, of which I am a member. The work of this taskforce is truly innovative and a world first. It has been charged by the government with developing a draft law that would improve the way all future regulation is made. Regulation is broadly defined to include everything from new Acts of Parliament to tertiary regulations made by government agencies under empowering legislation.

Our approach to regulatory reform is to specify the standards that all law or regulation should meet, and then provide for mechanisms to ensure that lawmakers and bureaucrats comply with those standards. The standards, which we call the principles of responsible regulation, specify essential liberties, particularly relating to property and economic freedom, and outline principles of good lawmaking. Mechanisms of compliance include certification, where sponsoring ministers and departmental CEOs certify that new laws comply with the principles. They also include the new right to petition the courts for a declaration that a particular law is incompatible with the principles. This declaration of incompatibility would not strike down law but would be very embarrassing for the government. Those whose property, broadly defined, is taken or impaired by government would be fully compensated.

Taken together, all this is rather novel; it remains to be seen whether the government will have the heart to constrain its regulation making in this way in the interests of better law.

The NZ Treasury website has a link to the New Zealand Regulatory Responsibility Taskforce draft bill and report. I highly commend it to you.

Enough with the Hand-wringing!

David Kirk

The three speakers before me have explained the challenges facing New Zealand. I will summarise what has been said so far and give a personal perspective on some of these issues.

Listening to all these descriptions of what's gone wrong with New Zealand over a long period of time and what we can or can't do about it has, for the first time in a very long time, just about made me mad enough to go back and do something about it! I'm not one for hand-wringing or worrying about the fact that we haven't done as well as we should have or that the future is all doom and gloom. But that's what New Zealanders do best.

When I was working for the Prime Minister's Office a few years ago, New Zealand was making plans for Africa. I should know. I wrote some of them! None of those plans is being implemented, which does tend to be the case with political documents. But they served a purpose at the time.

I want to draw on a couple of other interesting issues that explain, or at least give some colour to, New Zealand's woeful performance.

First, we should be honest about the current state of affairs. It's rubbish. Broadly speaking, New Zealand has performed poorly in terms of economic growth and looking after the health and welfare of its citizens. So let's not fantasise that we live in a beautiful place and everything will somehow come right in the future. We've given a very poor performance.

Second, and one of things that hasn't been discussed in detail tonight, is the fact that we cannot ignore the problem of New Zealand's electoral system. The MMP system is designed to drive people towards consensus, and in my view, towards mediocrity or tradeoffs that may or may not be based on consensus but are definitely not the sort of difficult decisions that need to be driven through, and for which the benefits will only become apparent later. In our three-year electoral system, political parties make tradeoffs and inevitably push towards a sort of mish mash of consensual-type policies.

This is a major issue. I was not an advisor to the Prime Minister when an MMP referendum was made an official policy of the National Party prior to the election, but I was there the election night of 1993 when the country voted for it and the day we had a hung Parliament in what was one of the most dramatic elections in New Zealand's history. I was at the Prime Minister's house counting the seats and figuring out who was going to form the next government. I kept coming up with a majority of one and I kept telling the Prime Minister, 'I'm sure, Mr Prime Minister, we've got a majority of one.' But the television sets, of which there were three, and two radios kept saying we were headed towards a hung Parliament. And I kept coming up with a majority of one until I realised Winston [Peters, former Member of Parliament] had jumped ship and was an Independent, so he couldn't be counted in the National Party. Indeed, there was a hung Parliament that night.

The third issue is the important and sensitive issue of the ethnic makeup of New Zealand, and the migration into and out of the country over a period of time. Australia has had waves of skilled migration from Europe after World War II, and more recently from Asia. These migrants come to Australia to create a new life for themselves and engage in entrepreneurship in an attempt to create wealth and security for their families. New Zealand has had less of skilled migration, and most people who move here are from Asia and the Pacific Islands. The ethnic makeup of New Zealand must be taken into account in creating policies that will build new avenues for their education and employment, and so they feel they have a stake in the entrepreneurial future of the country. We should be debating this question openly and without bias.

For example, the differing views about ownership of assets, particularly in the Maori community, have been dealt through the Maori Incorporation, a very old institution from the early twentieth century. Indeed, these economic structures have been very successful, particularly following the settlements and the Treaty of Waitangi, where significant amounts of money (but nothing like fair compensation) were put into Maori corporations. These corporations were very professionally run and have, barring the few hiccups here and there (as is always the case in such things), worked very well.

The two largest such corporations—Nai tahu and Tainui—are making considerable contributions to economic growth by working within the political and cultural structures in New Zealand. But on a recent visit to New Zealand, I was struck by how common it is for assets not to be held in the limited liability company structure. After all, that structure was created in Europe in the eighteenth century specifically to allow people to pool their money and have a limited liability if things went wrong. In other words, it was a structure to encourage the formation of capital and risk taking with that capital. Clearly, it has to exist in the context of a community environment but its sole aim was to maximise profits, which is to pool money and make as much profit as possible for the people who had pooled their savings to do that.

Quite a significant amount of assets in New Zealand are the property of Maori incorporations. Some of them arose from a different path and fulfilled a different need—a very important need. Indeed, I would argue in a different forum that the Maori incorporations have been a great structure for helping a dispossessed group of people make the transition to creating economic wealth.

This is not a criticism but an example of a structure where a significant number of assets are held without the aim of purely maximising profit, and it is probably the right thing. Another example are cooperatives—New Zealand's Fonterra has been successful around the world—despite the real issues with members of cooperatives not being comfortable with retained earnings that act as a buffer for bad times and the need to go to farmers to recapitalise.

Then there's public ownership through the government, which owns big chunks of electricity generation, insurance, land valuation, banks, and post offices, among others. A large chunk of corporations are in this structure. Finally, we have local government ownership, electricity distribution companies, even works companies (businesses that do construction work) and small works owned by city councils and regional councils. These are examples of poor structures that are not set up to maximise profits, but I can't point to them and say, 'There's an organisation that isn't doing its job properly,' seeing as I don't have the evidence to do that.

Finally, I would like to talk about underperformance. 'It's not plans,' would be the first thing I would say! Underperformance can be traced to two factors: one is what we talk about most because we can talk about it and we can develop the intellectual frameworks to analyse it, but it doesn't really matter if nothing happens. And that's policy settings. We can say, 'Oh, there are ownership issues' or 'there are other important policy settings, regulatory issues, competition issues, tax issues, and a whole range of stuff that we can look into.' Policymaking for businesses has definitely gone in the wrong direction in the last nine or 10 years, which has made it more difficult for businesses to make a profit, create wealth, and drive productivity.

Some of those things are subject to the political cycle and the challenges of the electoral system, and some of that stuff will now be fixed—mostly because New Zealand has now had five quarters of recession. And, as I said earlier, we had a really anaemic period of growth leading up to that. When things get really bad, people finally do something. So I think we are going to see some policy changes and relatively broad support for them. But that is not going to get the country very far.

You see, no one in this room remotely believes that New Zealand can close the gap on Australia. So talk about 'closing the gap' on Australia and putting a number on it is just dreaming. There's no chance of that happening without some radical changes, maybe not even with radical changes. That's because radical change is needed in policy, but there isn't enough leverage to do that. Policy changes alone cannot deliver that kind of economic outcome.

One of the difficult but essential things to get traction on is a fundamental change in attitude and culture about the importance of wealth creation. It's like a dirty thing in New Zealand to say, 'I want to get really wealthy' or 'I reckon being really rich would be really good.' People don't say that. It's like uggh! At the barbeque, everyone drifts away from the flash guy in the flash shirt talking about getting rich! Luke spoke about the zero sum gain mentality: If this guy's rich, he must have taken it off someone else; this guy has a good car only because this other guy has to have a bad car. The impetus to change this attitude has to come from our leaders, people who have credibility, people who are demonstrably balanced human beings—and not flashy people who just want to make money and rip off other people.

Frankly, I'm not terribly optimistic about it, and I don't like to do things if I'm not optimistic about being successful. So I won't be going around trying to convince people in their 50s, 60s, 70s and 80s, who think we all should be living a nice, easy-going life in New Zealand, of the need for change. Obviously, this is not going to work politically, so we've got to focus on the younger generation. We've got to create a new generation who believe in making money and creating wealth, particularly because that wealth will inevitably be redistributed, because it *has* to be redistributed. If you're employing people, they will be paid. If you're creating retained earnings in a business and paying dividends, that's being redistributed. If you're creating profits and paying taxes towards health systems and welfare, that's being redistributed.

So creating wealth through taxable company structures and then redistributed by government is the *only* way forward for New Zealand—it's an absolute truism. There's no other way but for the private sector to grow fast and develop significantly profitable organisations that can afford to pay New Zealand's best and brightest the sort of wages they can get in other parts of the world. Any other option is just daydreaming.

So how do we get that cycle going? Policy changes need electoral support, so politicians have to create an environment where people think, 'Yeah, that's a good idea' and 'I'll vote for these guys because they're doing the right thing when it comes to policy.' But it takes leadership to cut through the morass of 'it's all too hard' and apathy towards wealth creation. It takes people talking about it, taking courses in universities, celebrating entrepreneurship; it takes building a lot of small businesses, developing businesses, creating opportunities for capital formation. And when some of these attempts fail, and fail they will, we need an environment where people will say, 'It doesn't matter, they had a go.' They lost their own money, they lost the money of other people, and that's the way it is. We should celebrate people having a go, so long as they do it in a sensible way.

So if I can sum it all up, I would say that my fundamental thesis is I'm not interested in hand-wringing, I'm not interested in going to seminars where people talk about, 'Oh, woe is New Zealand, we're not growing fast enough.' That's bloody obvious, isn't it? But we need to do two things: introduce policy initiatives that the other speakers have spoken about and provide a new kind of leadership driven by people who can make a difference and are prepared to give their time and effort to focus on building a successful private sector environment in New Zealand. This means building successful business people and entrepreneurs who understand businesses, how to grow them, and how to turn them into big organisations. There's is nothing wrong with the culture of forming small organisations in New Zealand, but we need a stronger culture of turning them into big businesses.

There's still not very big business in New Zealand because New Zealand isn't very big. Of course, we could sell successful businesses to the rest of the world, but we are not good at doing that either. To grow as a country, we've got to grow a much stronger private sector that creates much more profitable companies, employs people on higher wages, pays more taxes, and creates a much bigger multiplier effect from all of that. The problem is not of capital but of ideas and competence to help make New Zealand prosperous.

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Flight of the Kiwi: Addressing the Brain Drain

In early 2009, the NZ government established the 2025 Taskforce to provide recommendations on closing the income gap with Australia, lift New Zealand's living standards to those in Australia and to retain New Zealand talent and entice it back home. This is obviously a difficult task considering incomes in New Zealand are a third less than in Australia.

In the forum Flight of the Kiwi, hosted by The Centre for Independent Studies in December 2009, four New Zealanders discussed the policy reforms that could entice Kiwis home. This collection brings together the updated speeches on issues such as wage disparity, tax structures, streamlining ANZAC business, career prospects, and social and cultural challenges.

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