

Bushnell, Peter; Choy, Wai Kin

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"Go West, Young Man, Go West!"?

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TREASURY WORKING PAPER

01/07

“Go West, Young Man, Go West!”?

Peter Bushnell and Wai Kin Choy *

Paper for the seminar “*Strategic Responses to Integration Pressures: Lessons from Around the World*”, Harvard University, 29-30 March 2001.

Abstract

Will economic integration lead to skilled citizens being drawn to the larger, richer economic partner? In 1983, Australia and New Zealand signed the Closer Economic Relations Agreement to ensure free trade in goods and services. Was this a modern equivalent of Horace Greeley's famous advice "Go West, young man, go West"? The evidence presented in this paper suggests that Greeley was right; many have indeed gone westward. However, a common labour market has not led to a brain drain. Paradoxically, the effect has been to increase the numbers of lower-skilled migrants from New Zealand and those with higher skills who are older or are not within the approved occupational groupings. The Trans-Tasman picture is further complicated by migration to New Zealand from third countries sufficient to offset the outflow of New Zealand citizens. The imbalance in net migration from New Zealand toward Australia has led to policy tensions. These are discussed briefly.

JEL Classification: F22 - International Migration; O15 - Human Resources; Income Distribution; Migration

Keywords: international migration, brain drain

* The Treasury, No. 1 The Terrace, Wellington, New Zealand. <http://www.treasury.govt.nz>
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DISCLAIMER: The views expressed are those of the authors and do not necessarily reflect the views of the New Zealand Treasury.

The focus of this conference is on economic integration. A concern expressed by some countries considering closer economic links is that it will result in their talented people leaving. The issue posed for this paper was that economic integration has led to a brain drain from New Zealand to Australia, and thus would be useful to consider as a case study in this context. As the paper reveals, the story is more complex than appears from just the bilateral flows.

The paper is organised as follows. We first provide an empirical background for discussion, by placing bilateral migration between Australia and New Zealand within an international and historical context. We then examine a few unilateral concerns with these migration flows, before examining two particular policy tensions that have arisen between the two governments. Following that, we shall provide an example of how integration can help domestic policies. The paper closes by looking to the future.

What is the evidence of a brain drainⁱ?

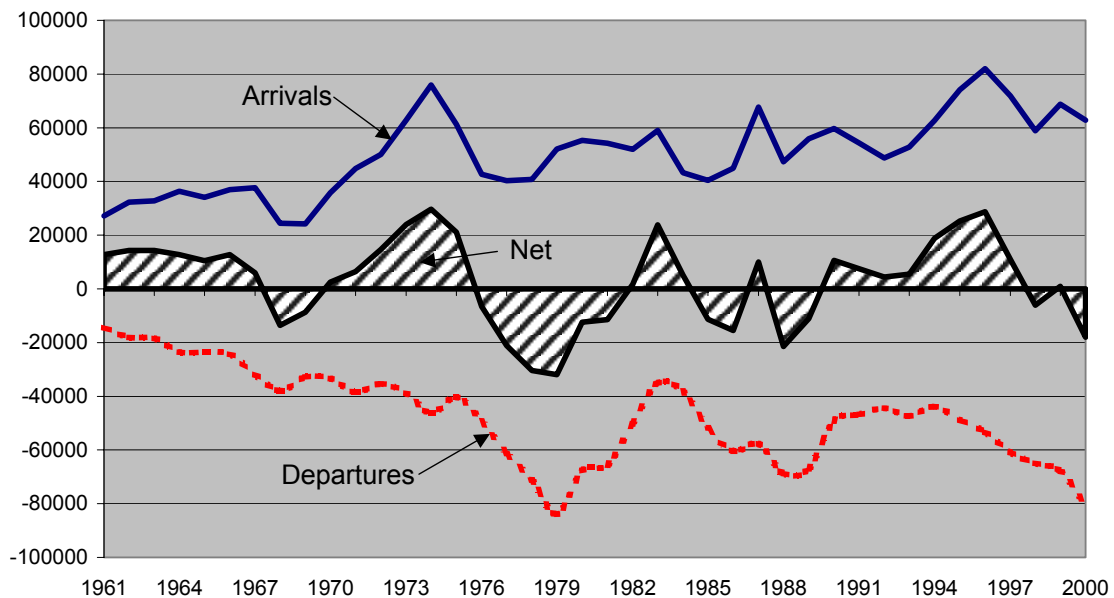
Before discussing the bilateral flows across the Tasman Sea, we shall look at total New Zealand migration with all countries (i.e. a global view). To put the numbers into context, in 1999, the resident population of New Zealand was 3.8 million and that of Australia was 19 millionⁱⁱ. For both the global and bilateral views, we shall examine first the brain drain story based on the total numbers of people migrating, and subsequently some quality aspect of migrant flows.

Global view: New Zealand and the Rest of the World

Number of migrants

Figure 1 sets out the permanent and long-term (PLT) migration flows to and from New Zealand over the past 40 years. While the data are derived from the intentions stated on arrival and departure cards submitted at the border, the flows shown below have been adjusted for subsequent changes in intentionsⁱⁱⁱ. The solid line shows arrivals into New Zealand who did stay more than a year, while the dotted line shows departures of those in New Zealand who did stay away for more than a year. The shaded area shows the net result.

**Figure 1: Total arrivals, departures and net migration 1961-2000
(years to September, adjusted data)**

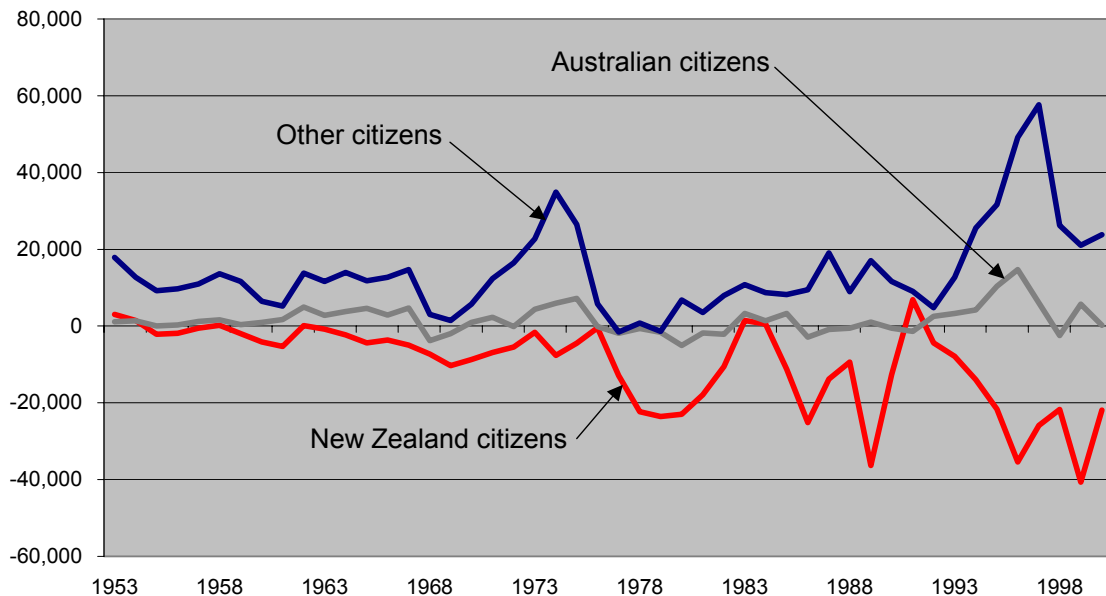


The key points are:

- *There is a net outflow just now* – In the year to September 2000, total departures exceeded arrivals by 18,038.
- *The current net outflow is relatively small and comes after a long period of net inflows* – In the current year, New Zealand has lost more people than it has gained. But this needs to be seen in context of a net gain of people in the rest of the last decade, averaging 7,810 per annum for the decade.
- *The long-term trend is for a reasonably-sized inflow* – Over the last 40 years total migration has added 115,389 people to New Zealand's population. Broadly speaking the 1960s and early 70s were periods of net inflow. There were large net outflows in the late 1970s and throughout the 1980s (particularly at the end of each decade). The greatest outflows were in 1978 (30,420) and 1979 (31,907), while the largest inflows were in 1974 (29,679) and in 1996 (28,697).
- *Arrivals and departures are both growing over time* – Both departures and arrivals have been gradually increasing over time in absolute size and relative to the New Zealand population. In the last three decades, annual gross flows have generally been more than 1 percent of the population. However, net flows are a small proportion of total gross flows.
- *Net inflows and outflows have been volatile* – Before the late 1960s inflows and outflows were small and stable compared with those since then. Large fluctuations in net inflows and outflows have been a feature of migration flows since the late 1960s (Bedford and Lidgard, 1999)^{iv}. Interpreting immigration trends based on a single year's data is a hazardous game at best.

To obtain a fuller understanding of the composition of these flows, Figure 2 breaks down net migration by citizenship.

**Figure 2: Total net migration by citizenship
1953-2000 (years to March)**



The main points are:

- *There is a long term trend for net outflows of New Zealanders* – Over the last 47 years, New Zealand has lost almost 484,000 New Zealand citizens, an average of just over 10,000 every year.
- *Growing departures by New Zealand citizens have been driving the net losses recently* – Permanent and long term departures of New Zealand citizens have been growing since 1993. They peaked at almost 60,000 a year in 1979 and again in 1989. They are now close to this level again. At the same time, permanent and long term arrivals of New Zealand citizens have been relatively static for the last 20 years.
- *New Zealand citizens are being replaced with citizens of other countries* – The 483,883 New Zealand citizens who have departed over the past 47 years have been replaced with 81,159 Australian citizens, and 676,257 citizens of other countries, for a net gain of 273,533.

While New Zealand has gained migrants, on average over the past 40 years, the net effect on human capital will depend on whether there are differences between the people leaving, and the people coming in. To the extent that such differences exist, migration may have a stronger influence on the characteristics of the population than it does on the total numbers. The usual key characteristics of interest in the brain drain debate are skill levels and age.

Skill composition

What were the skills of those coming into New Zealand compared to those who left? Unfortunately, there is only relatively unreliable information on the skills of migrants^v. In addition, comparable data is available only since 1992. Nevertheless, it is still potentially useful to examine whether these data support the brain drain hypothesis. Glass (2001) has classified permanent and long term migrants into three broad skill levels (high-skill, semi-skill, and low-skill)^{vi}. The following figure looks at the *net* effect of PLT migration.

**Figure 3: Net permanent and long term migration by imputed skill level
1992-2000 (years to September)**

Year	High skill	Semi skill	Low skill	NAE* or not specified	Total
1992	-446	-285	1,537	1,968	2,774
1993	2,710	185	222	8,460	11,577
1994	4,613	-29	356	13,538	18,478
1995	6,357	116	1,049	18,796	26,318
1996	6,891	275	1,556	18,546	27,268
1997	2,666	-666	-280	11,179	12,899
1998	-1,103	-1,946	-2,591	1,777	-3,863
1999	-3,079	-1,834	-3,488	-2,144	-10,545
2000	-4,197	-2,583	-3,108	360	-9,528
Total	14,412	-6,767	-4,747	72,480	75,378

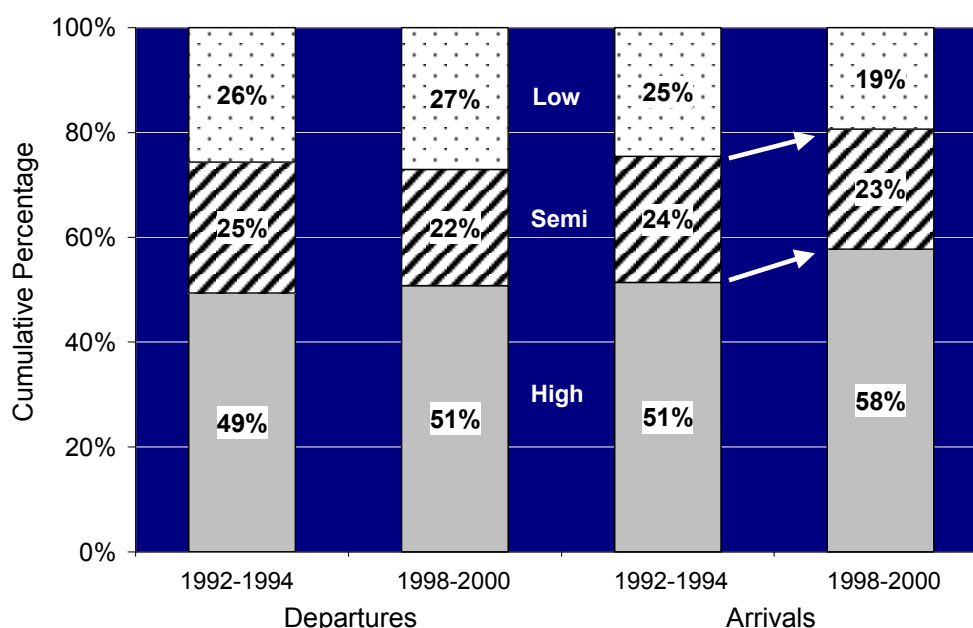
Note: *NAE = Not Actively Engaged

The key points from this figure are:

- *There is a small outflow across all skill levels recently* – Since 1998, more people have been leaving across all skill levels than have been coming.
- *This small outflow is dwarfed by the size of the inflow earlier this decade* – Across the whole decade, there has been a net inflow of those in high-skill occupations, and net outflows of those in semi- and low-skilled occupations.
- *The skill levels of most migrants cannot be determined* – About half of all migrants report unspecified occupations or that they are not actively engaged. Exactly how this response should be interpreted is unclear. Furthermore, since the cards are not checked on entry, the data is not very reliable.

While Figure 3 above reveals some useful points about the *net* effect, we need to test whether there has been a change in migration patterns across the skill distribution for those leaving and coming (i.e. the *gross* effect). Figure 4 shows the percentage of permanent and long-term (PLT) arrivals and departures in each skill category. It is noted that these are of proportions of all those who do specify an occupation that could be coded^{vii}. In particular, we compare the three-year average percentages at the beginning and end of the 1992-2000 period.

**Figure 4: Percentage of PLT arrivals and departures in each skill category
3-year averages at start and end of the 1992-2000 period (years to March)**



Note: The figures above are of proportions of all those who do specify an occupation that could be coded.

Analysis of recorded occupations seems to suggest the following key points:

- *The skill distribution of those departing has not changed substantially over time*
- *Arrivals are getting more skilled over time* – The proportion of arrivals accounted for by the high-skilled has grown substantially over time. At the same time, the proportion of low-skilled people arriving has fallen.
- *Arrivals are slightly more skilled than departures*

Another characteristic of migrants that is often analysed when examining the brain drain debate is the age, as discussed briefly below.

Age composition

The key points that Glass (2001) noted include the following:

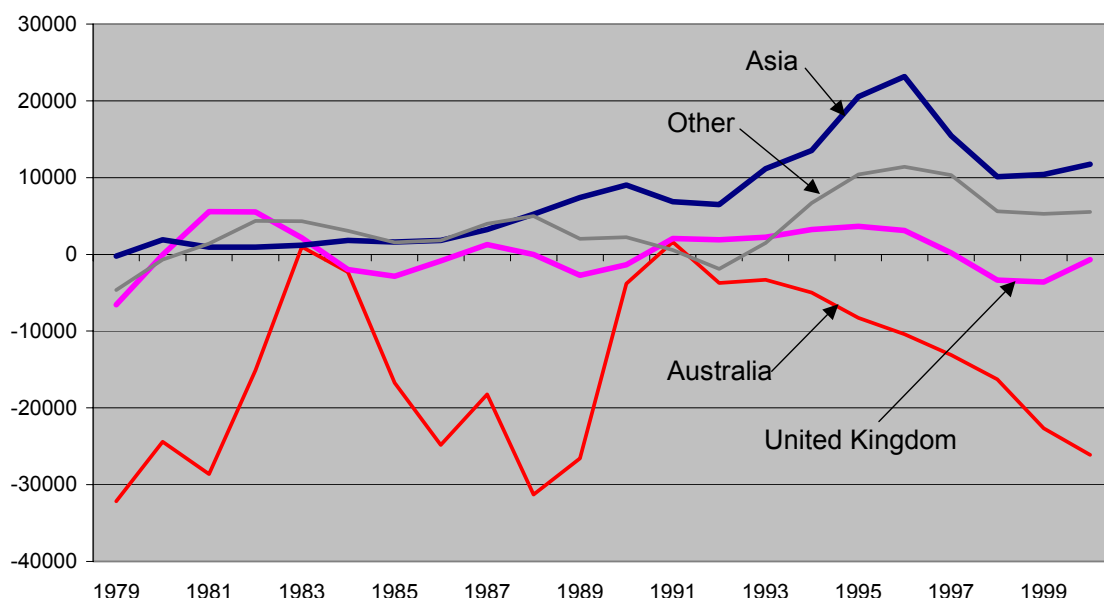
- *Younger people are leaving, while older ones are coming* – More 15-24 year olds have left for more than 12 months than have come almost every year for the last two decades. In contrast, the greatest inflows are generally the 25-39 year olds.
- *Permanent and long-term immigrants seem to be becoming older*
- *The age of those departing also seems to have increased*

The overall story is that there is a net gain to NZ from migration over the past 40 years, with departing younger NZ citizens being more than replaced by adult non-NZ citizens. These flows, however, are quite volatile. Next, we shall examine the source and destination countries for migrants arriving and departing.

Source and destination countries

The following figure sets out the net migration position for different source and destination countries.

Figure 5: Net permanent and long-term migration for different source and destination locations 1979-2000 (years to September)^{viii}



Key points to be noted from Figure 5:

- *Large numbers of New Zealand residents go to Australia* – In almost every year, New Zealand has lost more people to Australia than it got back, although the extent of the flow varied substantially over time. High levels of net outflows have occurred in the latter part of the 1970s, 1980s and 1990s. It is worth noting that the number of departures to Australia followed a far more erratic trend than that of departures to other countries.
- *Arrivals are diversifying* – New Zealand consistently gained people from Asia, and in the 1990s, this trend expanded considerably so that Asia is the biggest source region for permanent and long-term migrants. The picture with respect to the United Kingdom is more mixed with periods of net inflow and net outflow over the last 20 years (Bedford and Lidgard, 1997 and Lidgard and Bedford, 1999).

More disaggregated data shows that about half of all people leaving over the last 20 years have gone to Australia, with the United Kingdom accounting for another 20%.

As a result of these migration patterns, NZ-born in Australia now amount to about 10% of the current NZ population. (A further 1.5% live in the UK, 0.5% in Canada and the US, and 1.5% in other parts of the world.)^{ix} In summary, NZ-born people who are currently overseas are approximately 15 percent of the current NZ population, and a majority of them (about two-thirds) are in Australia.

In comparison, according to the 1996 census data, 17% of those living in New Zealand were born overseas. Most of these were from the United Kingdom and Ireland, and Australia. Overall, it is clear that Australia is a major migration “partner” in terms of

both an origin and a destination country. This leads us to the next subsection on trans-Tasman flows.

Bilateral view: New Zealand and Australia

Before discussing bilateral flows with Australia, it is worth providing a little historical background.

Historical context

There has been free flow of people since the earliest settlement. Freedom of movement of people was the norm internationally in the nineteenth century and only broke down following the First World War. New Zealand and Australia, however, maintained free mobility. NZ citizens could enter Australia freely to visit, live and work and vice versa.

In 1973, this was recognised in the Trans-Tasman Travel Arrangement, which codified the understanding.

More generally, the two countries shared many experiences in the nineteenth century, having common sources of migrants and a parallel pattern of economic development even to the point of their own gold rushes.

As Arnold (1986) puts it,

“There are few aspects of New Zealand history which make full sense without taking some account of Australasian dimensions.”

Over the last century there were a number of long-standing business links between the two countries. Particular examples were banking and farm servicing. Nevertheless there were many impediments to trade in goods and services.

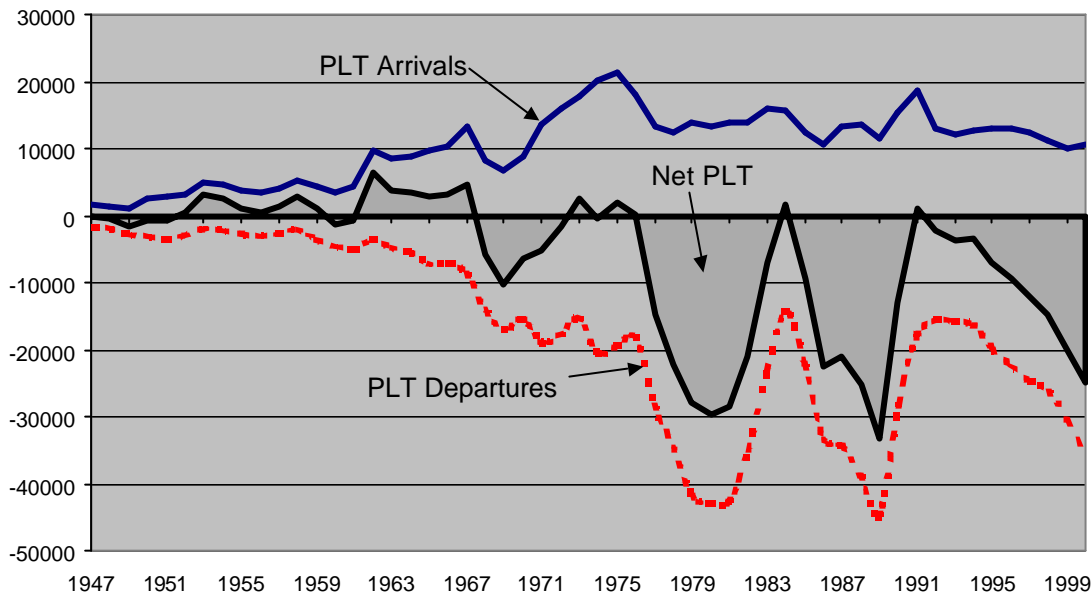
In 1983, the Australia New Zealand Closer Economic Relations Trade Agreement (CER) was signed with the goal of free trade in goods and services. Trade and business relations between the two countries have deepened since then.

In light of the long history of open labour markets between the two countries and the increasing economic integration, it should not be surprising that many of the departing NZ citizens go to Australia. In fact, over the past 20 years, about half of those departing have gone there. It should be borne in mind, however, that over the same period, Australia has been the biggest source country of gross arrivals to NZ.

Numbers of migrants to Australia

Figure 6 shows the permanent and long-term migration between New Zealand and Australia since 1947. The solid line shows arrivals into NZ from Australia intending to stay for at least one year. The dotted line shows departures of New Zealand residents to Australia who intended to be away more than a year. The shaded area is the net result^x.

**Figure 6: Permanent and long term migration with Australia
1947-2000 (years to March)^{xi}**



The key points from Figure 6 include:

- *Both inflows and outflows to Australia began increasing markedly from the 1960s*
- *Since the late 1960s, the net flow has been almost always from New Zealand to Australia – Before that, it was in the opposite direction.*
- *Large and volatile departures from New Zealand to Australia – There have been persistent and increasing flows from NZ to Australia since the late 1970s which has been very volatile, peaking in the late 70s, 80s and 90s. It is the variability in the flow from New Zealand to Australia that drives the pattern of net migration commented on earlier in this paper.*
- *Relatively steady arrivals from Australia to New Zealand – In contrast, the numbers moving from Australia to New Zealand have been less volatile, but still significant. Some of these will have been New Zealand citizens returning more than one year after departing^{xii} but others will be Australian citizens.*

Next, we discuss briefly the skill composition of the trans-Tasman flows.

Skill composition

The evidence suggests that emigration to Australia occurs across all skill categories roughly in the same proportion as the population as a whole (see Glass, 2001). In contrast, those departing to other countries tend to be higher skilled. The difference in the skill mix is likely to be due, in large part, to the free entry into Australia under the Trans-Tasman Travel Arrangement, which allows movement regardless of formal skills.

Furthermore, Humphris (2001) points out that when net outflows are high, the low-skilled make up a disproportionately large portion of the departures. We are currently experiencing high net outflows, and so, the trend of large net outflows in the low-skilled category may be showing up in the data.

Consequences of migration

Next, one might ask what the consequences of trans-Tasman migration, and the total migration flows to and from New Zealand, are for the country. There are both *unilateral* and *bilateral* concerns relating to these flows. We shall briefly look at a few *unilateral* concerns for New Zealand, before proceeding to the *bilateral* tensions between Australia and New Zealand. Furthermore, some possible positive effects are highlighted as well.

Unilateral concerns

The discussion in this subsection focuses on the economic effects of migration. The first unilateral concern discussed here is the alleged brain drain due to a net loss of workers across the Tasman.

Is there a brain drain to Australia?

Let's sum up the evidence of a brain drain related to economic integration. We suggest that the proposition is not supported on two grounds:

- the flow of New Zealanders to Australia is representative of the population of New Zealand and is not biased toward the high-skilled;
- the flow began in the late 1960s which predates the deepening of economic links that occurred in the 1980s.

The first point has been previously noted by others as well (for example St Hill, 1987; Bedford, 1987; and Brosnan and Poot, 1987b). The following quote sums it up nicely.

"... with respect to the brain drain, the population exchange appears to cover the broad spectrum of occupations... and the problem for New Zealand would thus appear to be a loss of human resources in general rather than a selective bias of the most highly trained persons." (Brosnan and Poot (1987b, p. 9))

Instead, what we have is the consequence of a common labour market. People of all skill levels have migrated because of employment and income prospects in Australia. This is not a brain drain, which implies the departure of only the most talented. In fact, the main effect of the common labour market has been quite different. It has allowed

the migration of a broad mix of New Zealanders who might otherwise have been screened out of Australia. The current Australian immigration criteria would exclude many of the lower-skilled workers, and also those more skilled workers who are older or who do not fit within the approved occupational list.

Nevertheless, there have been a few studies that have claimed that there is a brain drain (see for example, Reserve Bank of New Zealand (1986)). Poot (1993) suggests two possible reasons for the difference in results. One reason is the sensitivity to the level of disaggregation when recoding occupational categories into skill groups. When we look at specific occupations, migration appears to be more selective than the aggregate data suggest. Another reason for the difference is that some such analyses are done over a short period of time when shortages in specific labour market can play an important role. For example, during the 1980s, many nurses migrated from New Zealand to Australia in response to high pay, extensive vacancies and active recruitment, until economic conditions changed markedly in New Zealand. Carpenters and builders are another group with high mobility rates (Poot, 1993).

The second concern is that immigrants to New Zealand may not be good substitutes for the departing NZ citizens. This is discussed below.

Are immigrants to New Zealand good substitutes for NZ citizen emigrants?

As discussed earlier, we have some evidence that immigrants are likely to be more skilled. The critical question is whether all these skills are being productively used.

The unemployment rates of recent migrants are typically high. Winklemann (2000) gives an overall rate of 35% for migrants in the first year of residence in New Zealand based on 1996 Census data. Rates were substantially lower for younger age groups, and those from English speaking countries, and up to 59% for migrants from South Asia. Similar results are cited in Bedford et al. (2000) in relation to specific ethnic groups.

However, it is not surprising that unemployment rates for *new* labour market entrants are often very high. The key question is what happens over time. Poot et al. (1988) present evidence that the likelihood of immigrants being unemployed decreases as time in New Zealand increases. The income of the overseas-born who had been in New Zealand 10-14 years in 1981 could be “favourably compared” with the income of the New Zealand-born. Pacific peoples were particularly disadvantaged on arrival, but tentative evidence suggested that they experienced rapid declines in unemployment and increases in income over time. The explanation for the differences between overseas- and NZ-born focused on skills, and particularly on English language ability.

Results from Winkelmann and Winkelmann (1998a) take this point significantly further. Their findings indicate that immigrants have a hard time integrating into the labour market over time – particularly those from Asia or the Pacific who do not speak English. A typical immigrant, despite being relatively highly educated, was likely to have a lower income and lower probability of participation and employment than a New Zealand-born person of the same age and education level in the first years after arrival. This entry disadvantage diminished with years of residence in New Zealand. There is considerable diversity noted for different individuals within these results, and some suggestion that the premium for speaking English well has risen over the past decade.

These results suggest that while net migration has added numbers to the New Zealand population (over the longer term), the incoming migrants may, in fact, not be a complete replacement for citizens who departed (at least in the short run), despite being apparently higher skilled on average.

BERL (1999) conducted a wide-ranging study on the influences of immigration flows on human capital. They try to get behind the numbers to some estimates of the value of immigration flows. Using occupation-specific wage rates, BERL value the impact of the flows of immigrant skills over the 1992-1998 period on the total stock of New Zealand's human capital. In the year of peak net inward flows (1996) the impact reached 1%. But influences vary significantly across occupational groups – with an impact of 3.5% on the “Professionals” group in 1996. Gross flow impacts of immigration were, unsurprisingly, somewhat larger. The seven-year average gave an impact from inward migration of around 2.5%, with outward migration at about 2%. In both cases the impact was largest on the highest skill occupational categories. Inward migrants tend to be replacing losses rather than augmenting the existing stock of human capital. BERL also notes that while the impacts of immigration flows vary quite substantially from year to year^{xiii}.

A third concern in New Zealand is that there could be more generalised losses via the departure of NZ citizens, as addressed below.

Education and other fiscal concerns

Most education services are substantially funded by taxpayers, who therefore have an interest in getting a return on that investment in the form of taxes from the educated person over his/her life. To the extent that educated people take their accumulated education overseas with them, the implicit contract with taxpayers is thwarted. New Zealand taxpayers end up, in effect, subsidising the growth of other countries. And it is not necessarily solely a fiscal effect if there are positive externalities from having high-skilled people around (some kind of knowledge spillovers).

Other fiscal costs also may be relevant. New Zealanders qualify for subsidised health care by birth or by securing permanent residence. They can qualify for superannuation by working here for some years. There is a risk that New Zealanders will go overseas and avoid the tax that could be expected to fund these costs, and return to New Zealand for health care or for superannuation at the cost of the New Zealand taxpayer.

Other unilateral concerns

There are also positive effects from migration. Migration to and from Australia has provided an adjustment mechanism to shocks in the labour market (Poot, 1995). Trans-Tasman migration is sensitive to demography, the cost of travel and to relative economic conditions (earnings and employment opportunities)^{xiv}. Similar factors influence flows between states within Australia, although there is still a border effect affecting NZ movements (Poot, 1995). International labour mobility appears to be a more important channel for adjustment of the NZ labour market to an economic shock than is the case for Australia (Aynsley, 2001). Similarly, Easton (1980) has made a conjecture that the net outflow across the Tasman has contributed to New Zealand's relatively low unemployment rate.

Emigration and immigration affects New Zealand in many other ways. For example, migrants bring diversity of culture and networks to their host country. The act of migrating suggests they may have more initiative, and be more willing to take risks than counterparts who stay put in their native country.

We noted before the numbers of NZ-born who are now living overseas. What effect this diaspora has on NZ can only be speculated. Are there remaining links that are translated into business opportunities? What financial flows occur – for some countries these are known to be important, but in the case of NZ no information is available. Various commentators have looked to find some way of harnessing the potential of New Zealanders overseas, nothing has been identified so far.

No work is available which assesses all the impacts on NZ of these migration flows. With our current information, the result appears ambiguous.

Nevertheless, there are some clear policy challenges to deal with the effects identified above. These include:

- increasing economic performance in NZ to make it a more attractive location for NZ citizens;
- reducing adjustment frictions for immigrants (for example, by recognising appropriate qualifications); and
- defining and enforcing entitlements to social services and any associated obligations (such as the repayment of student loans).

In addition to this set of *unilateral* concerns, there have been several labour market tensions and opportunities that have arisen in the *bilateral* relationship with Australia. Three different sorts of bilateral issues that have arisen in relation to our common labour market are discussed below.

Bilateral tensions and opportunities

Over the past 30 years, the net flow has been almost always toward Australia from New Zealand. In this regard, the imbalance has probably been similar to that occurring from States such as South Australia or Tasmania to Western Australia and Queensland.

Successive Australian governments have reiterated their support for the Trans-Tasman Travel Arrangement. However, the large continuing imbalance has led to concerns about two areas where the relation between the Commonwealth and New Zealand differs from the Commonwealth's relation with the States.

These two areas are:

- the different criteria for third country migrants
- the fiscal costs of social security payments.

When the Trans-Tasman Travel Arrangement was signed in 1973, there were no special conditions set to deal with either issue. At the time, there had been approximate balance in migration. If that balance had continued, then it is likely that

neither issue would have arisen as a point of tension. In other words, integration plus imbalance equals tensions.

We shall discuss these two tensions, and then cover how integration can sometimes provide opportunities for improved domestic policy processes. For this, we discuss the treatment of standard setting.

Third country migration

We begin with migrants from third countries. Both Australia and New Zealand operate a point system to select skilled economic migrants. These are similar but not identical. The relative valuation of a potential migrant's characteristics is not the same. The Australian system gives preference to younger migrants with specific occupational skills, whereas the New Zealand system relies more on a "general skills" principle.

A second difference between the two country's immigration systems relates to migrants from Pacific countries. People from the Cook Islands, Niue and Tokelau are all NZ citizens by birth (the total population of these islands are approximately 22,200). New Zealand also allows an additional annual quota of 1100 (including dependents) from Samoa.

Concern has been expressed in Australia that some who would not have qualified under Australian criteria have been seeking entry through the "backdoor" by migrating first to New Zealand. They have stated that in the 8 months from July 1999 to February 2000, almost one-third of New Zealand migrants to Australia were not born in New Zealand.

Taking a slightly longer period from 1994 to 1999, the share of New Zealand migrants to Australia not born in New Zealand rose from about 15% in the 1980s to 24%, slightly above the share of non-NZ born in the New Zealand population.

It is unclear whether this concern about "backdoor" migration results from a view that:

- it causes Australia to lose control of the *numbers* of immigrants; or
- New Zealand *standards* for third country migrants is lower than those of Australia; or
- Australia would like to move away from the concept of a common labour market and "*cherry-pick*" migrants from New Zealand.

On the first point, net migration is what matters and Australia can't prevent its citizens leaving. Furthermore the flows involved are too small. At most, backdoor migration has amounted to around 10% of permanent migration.

On the second point, evidence has not been presented to justify a concern that New Zealand standards are lower. In the 1996 Australian census, those born in New Zealand earned a higher average income than other migrants or Australian-born. The data do not show incomes by citizenship at time of migration to Australia, thus we cannot test this possibility^{xv}.

However, the Australian Minister for Immigration, Mr Ruddock recently stated that he would like to see a common approach by Australia and New Zealand toward migrants:

“I’m anxious to have... common border arrangements... so that if someone is eligible to come to Australia they’re going to meet the same criteria if they go to New Zealand” (Philip Ruddock, September 2000)

In regard to the third point, should the average income of NZ migrants be even higher than that of other groups in Australia such as the native-born? After all, as economists, we all appreciate that what matters is the marginal migrant not the average one. Wouldn’t “cherry-picking” out the skilled migrants be a better policy for Australia? It is not the declared intention of the Australian government in respect to the Trans-Tasman Travel Arrangement. In fact, Australian ministers have declared continual support for the Trans-Tasman Travel Arrangement, as the following recent quote illustrates:

“Under the changes, Australian and New Zealand citizens will continue to be able to visit, work, study and live in each other’s country indefinitely as has been the case for many years” (Philip Ruddock, 26 February 2001).

The inability to select migrants from New Zealand has been a concern in relation to the fiscal cost of social security payments to migrants. Australian officials have argued that the fiscal cost is more than would have been the case if Australia had been able to select its New Zealand migrants. These fiscal costs include transfer payments made to those who are invalids and unable to work, single parents and those aged over 65. This fiscal cost issue is the second area of tension that has resulted from the large imbalance in migration flows, which is discussed next.

Income transfer payments

From 1969, there was a “host country” agreement under which Australians received immediate access to all New Zealand benefits and vice versa.

After the balance of migration tilted strongly towards Australia in the late 1970s, Australian governments sought changes to the arrangements. An agreement to reimburse costs was reached in 1988, and modified in 1994. Under this agreement, lump sum payments are made between the Governments to contribute towards the cost of some benefits paid to each other’s nationals^{xvi}.

This arrangement has just been changed. Both governments were concerned over the administrative complexity of the reimbursing scheme.

The Australian authorities were mainly concerned with the gross fiscal cost of making the payments net of the NZ reimbursement. A secondary argument was that if the Australians could be more selective in choosing migrants from New Zealand then fewer payments would need to be made.

The NZ response was to point to:

- the above average income, skill levels employment and participation rates of New Zealanders in Australia;
- the contribution that New Zealanders make to the Australian tax base;
- the investment that New Zealand taxpayers make in the education and training of people before they migrate; and
- the fact that when New Zealand immigrants who worked in Australia retire in New Zealand, the New Zealand government pays for their full retirement costs^{xvii}.

The Agreement reached recently by the two governments on the 26th of February 2001 has changed the basis for benefit payments^{xviii}. The new arrangements cover the pension entitlements for those who are retired and payments to those who are seriously disabled.

Individual beneficiaries will receive dual payments, one from each Government according to the proportion of the individual's working life spent in each country. Decisions on the entitlement to all other transfer payments (such as for single parents) are outside the agreement and are a matter for the Government concerned.

Social security schemes of the sort (up to recent times) in Australia and New Zealand do not cope well with high international mobility and large imbalances of flows compared with contributory schemes with accounts held in the names of individuals. With large imbalances, social security schemes risk making payments to people without having the full benefit of their tax contributions in the past. If there are substantial differences in social security policies, then people may choose to locate to maximize the benefits they receive.

A couple of solutions to this problem are to match policies or to move closer to an individualized insurance approach. Another, such as with the new Australia–New Zealand Social Security Agreement, is for each government to make its own payments based on the percentage of working life in a country directly to the recipient. This approach is amenable to being extended to any number of participating countries. It is likely to become more important in the future to accommodate rising international mobility when imbalances become increasingly likely.

We have just discussed two examples of tensions that arise in a common labour market with large imbalances. The next section looks at another sort of issue that arises in all joint markets. With integration, a decision has to be made on how to determine the standards that will apply to goods and services traded.

Standard setting

Three broad options for setting standards are listed below, which we label as political, bureaucratic and market, although there can be lots of variants that mix and match:

- **political:** reaching a political deal on common standards between the two countries then using separate domestic regulations and relying on domestic courts to enforce. Over time the standards can drift apart as a result of slightly different approaches by the two judiciaries, forcing a further political process to realign
- **bureaucratic:** forming a supra-national body – which transfers the routine exercise of sovereignty to an independent body. This has been done for food standards;
- **market:** allowing the decisions of firms to select which set of standards and associated processes will apply. Allowing for mutual recognition of standards set in either jurisdiction has done this.

The Trans-Tasman Mutual Recognition Arrangement (TTMRA), which came into effect on 1 May 1998, provides that goods that can be legally sold in one country can be sold in the other, and that people who are registered to carry out an occupation in one

country are entitled to practise an equivalent occupation in the other. This mirrors the arrangements that existed between Australian States.

While the Trans-Tasman Travel Arrangement confirmed the free flow of citizens between Australia and New Zealand, it did not deal with other regulatory impediments to the flow of skilled migrants between the two countries. In particular, differences in registration requirements for similar occupations often meant that individuals would need to meet registration requirements in the other country, despite the fact that the occupations were similar in both countries. For example, a nurse in New Zealand would be required to sit further examinations before being allowed to practice nursing in any state in Australia. In many cases, these differences in regulatory requirements simply reflect national historical or institutional arrangements, rather than the objective assessment of risks to public health, safety and the environment.

The TTMRA is a simple, low cost and low maintenance way of overcoming unnecessary regulatory impediments to flow of skilled workers between Australia and New Zealand. It avoids the need for harmonisation of all regulatory requirements, recognising that there may be legitimate reasons for differences between the countries, but at the same time encourages convergence of regulatory systems over time.

The TTMRA:

- increases opportunities for New Zealanders and Australians to work in each other's country;
- encourages greater cooperation between registration authorities in Australia and New Zealand;
- provides an impetus for both countries to consider the appropriateness of existing regulatory requirements; and
- provides greater discipline on regulators contemplating new registration requirements.

Although the TTMRA has been in place for close to three years, we are not aware of any formal work evaluating the effects of this Act. However, information to date suggests that the registrations of professions are coordinated more closely across the Tasman. For example, since the TTMRA was signed, 72 Australian domiciled patent attorneys have registered to practise in NZ, bringing the total number of patent attorneys registered to practise in NZ to 210. In other words, the TTMRA has led to a 50% increase in the size of the NZ patent attorney industry. Meanwhile, some 56 NZ domiciled patent attorneys have registered in Australia^{xix}. It is fair to say that in this industry, the TTMRA has resulted in a significant level of integration, at least from a NZ perspective.

In looking at policy issues, we have seen how integration has helped open up options for better policy design, but how tensions have arisen Trans-Tasman as a result of the continuing imbalance in migration. They have been resolved in the case of welfare payments by redesigning the underlying policies. In the case of migration from third countries small differences in criteria have been lived with so far.

What of the Future?

We have seen the tensions that have arisen in the past. They would probably have been minor if migration had been in balance. Whether these tensions continue, and intensify in the future, may well depend on New Zealand's economic growth.

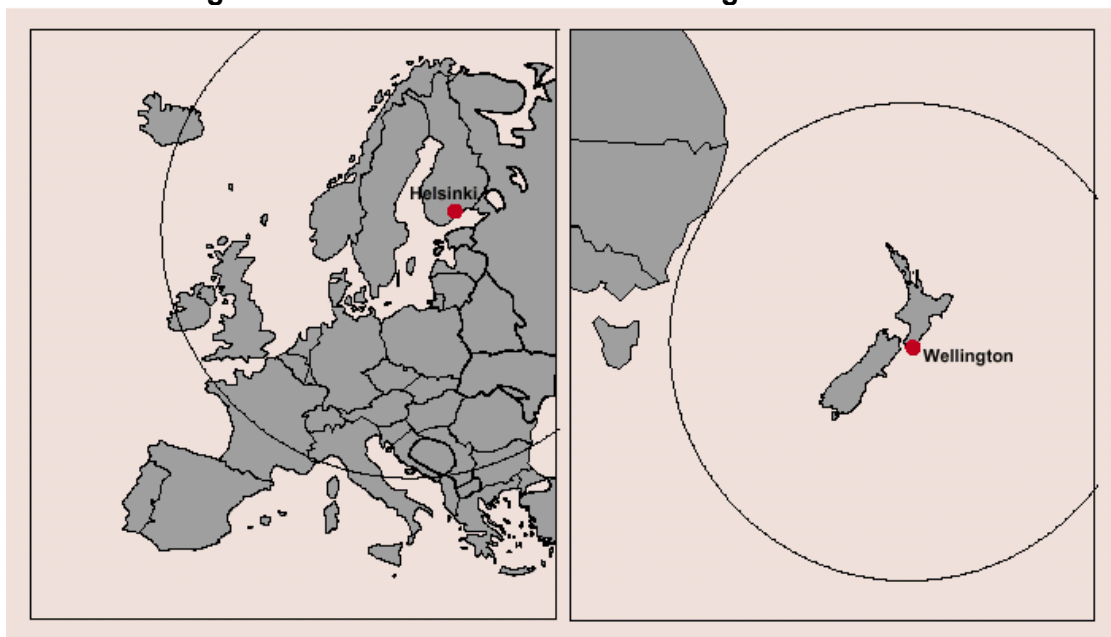
One can see two competing forces. On the one hand, we have the prospect of continuing reductions in the cost of information, transport and communications. For example, the cost of a trans-Tasman fare has dropped from 3 weeks of work at the average wage in 1950 to 1 week in 1985 (Brosnan and Poot, 1987a). Telecommunication costs have dropped even more significantly. People might be able to do business more easily from a distance. If so, then there would be more teleworking, the growth of smaller centres, and the growth of economic activity in places far flung from much of the population such as New Zealand. Our successful designers – from software to fashion to furniture – show that it's possible.

On the other hand, activity and people may concentrate increasingly in fewer, denser places. Recent economic research suggests that productivity and wages are higher in big cities, wages grow faster, there is more innovation and more opportunities for specialization and its attendant efficiency gains.

Higher population density leads to greater exchange of information, labour market advantages such as improved matching and greater security for workers because of the pool of employment opportunities. These factors may be more important over time as economies of scale increase and tacit information exchange becomes more important.

To see the implications for New Zealand, consider the following figure.

Figure 7: Common Radius From Wellington and Helsinki



It shows a 2,200 kilometres radius from Wellington which encompasses about 3.8 million people, with the same radius from Helsinki covering over 300 million, from 39 countries. We have chosen Helsinki as a comparator to Wellington because Finland is

another small country, whose economic performance is sometimes compared with that of New Zealand. If population density matters for growth then being in the middle of miles of ocean isn't a promising place to start.

We do not know which scenario will result and it is largely out of the control of governments anyway. Their choice is whether or not to pursue policies that result in strong economic growth and attractive living and working conditions.

Concluding remarks

In conclusion, we have seen how many New Zealanders have followed Horace Greeley and gone West (even if rather further West than he intended). This is not, however, evidence that a common labour market leads to a "brain drain". Higher-skilled workers in selected occupations would presumably have access to the Australian labour market even without the Trans-Tasman Travel Arrangement. The key effect of economic integration has been to increase the flows of those who would otherwise have been excluded. These include the lower-skilled and the higher-skilled older workers or those whose occupations were not in the approved occupational list.

In turn, departing NZ citizens are being replaced by a slightly larger inflow of immigrants who, on paper, appear slightly higher skilled although in practice this may not be the case.

The marked imbalance in migration between the two countries has led to tensions in relation to the fiscal implications of welfare payments and increased interest in ensuring common criteria for migrants from third countries. These bilateral tensions probably precipitated issues that would have to be faced eventually in a world with greater mobility over a working life.

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ENDNOTES

ⁱ This section on migration trends draws heavily from Glass (2001). Other references that also provide a detailed discussion of these trends include Bedford (1999) and Lidgard and Bedford (1999). Unless otherwise stated, the data used to derive the tables and to plot the figures in this paper are obtained from unpublished arrival/departure data provided by the Customer Services Division of Statistics New Zealand.

ⁱⁱ The figure for New Zealand was obtained from Part 1: Population Change and Structure in *Demographic Trends 1999* (Statistics New Zealand) while the Australian figure was sourced from Chapter 1: Population Growth and International Movement in *Population Flows: Immigration Aspects 2000 Edition* (Department of Immigration and Multicultural Affairs).

ⁱⁱⁱ People coming to and going from New Zealand are required to fill in a card. The arrival card records how long residents have been away from New Zealand or how long non-residents intend to stay. Departure cards record how long residents intend to be away or how long non-residents have stayed. Those who respond with intentions greater than one year are called long term and permanent migrants; others are short-term visitors. The permanent and long-term data used for Figure 1 has been adjusted to include those whose behaviour is different from their stated intentions, such as a resident who intended to stay away less than a year but actually was away longer. It is noted that the trends obtained from these adjusted figures are broadly similar to those from the PLT data, although there is more volatility from year to year according to the former. These adjusted figures suggest the “drain” is significantly more negative in the year to 2000 than the PLT figures, but they also suggest that in 1999, there was a net gain (in contrast to the PLT data). This point has also been echoed by Bedford (2001).

^{iv} This trend is also observed when we look at the trans-Tasman flows. The growing importance of migration as a labour market adjustment mechanism is probably true across other countries as well, which is not surprising since geographic mobility is much less costly now worldwide.

^v The Immigration Service reports limited data on the skills of non-New Zealand immigrants, and the only source of information on the skills of New Zealand returnees and those departing the country is the question on the departure and arrival cards that asks for travellers’ occupations.

^{vi} The classification Glass (2001) used is the same as that in Shevland (1999), who used the terms: Symbolic Analyst, In-person services, and Routine Production, in preference to high-skilled, semi-skilled and low-skilled. However, as noted in Glass (2001) and Humphris (2001), the use of the terms high-, semi- and low-skilled is not exact. The terms are used here for simplicity, rather than for precision.

^{vii} Since the proportion of travellers who do not specify an occupation or are “not actively engaged” is large (and growing), and we cannot tell the skill distribution of these people, the overall breakdowns and conclusions drawn here should be treated with quite some caution. Our working assumption is that people’s propensity to not fill in the form or to be “not actively engaged” does not vary across skill levels.

^{viii} It is important to keep in mind that this data is only for permanent and long term migrants. Short term flows and those who change their intentions are very important for source and destination country analysis (Lidgard and Bedford, 1999).

^{ix} These are preliminary estimates from Statistics New Zealand, obtained through personal communication.

^x For this figure, we have not had the opportunity to consider PLT migration figures adjusted for category jumpers.

^{xi} Pre-1979 data for this figure were sourced from Pool (1980, p. 29).

^{xii} For a discussion of the significance of returning New Zealanders, see Lidgard (1993, 1994).

^{xiii} It should be noted that the BERL (1999) estimates do not include the impact of temporary flows of workers on the stock of human capital or on the labour force. There are more work permits (for up to three years) issued each year than residence permits, so the impact might be reasonably significant.

^{xiv} The economic determinants of Trans-Tasman migration have been examined in, *inter alia*, Brosnan and Poot (1987a), Poot (1993, 1995), Nana and Poot (1996), as well as Gorbey, James and Poot (1999).

^{xv} The labour force data from the Australian Bureau of Statistics (ABS) are only available by birthplace, not citizenship. Consequently, we cannot really compare the unemployment rates and labour force participation rates for NZ-born and non-NZ born citizens from New Zealand.

^{xvi} These payments were originally calculated on a complex formula reflecting relative benefit levels and the proportion of working life that each individual covered by the agreement spent in New Zealand and Australia respectively. For further details, contact the Department of Social Security, for a copy of the “*Agreement between the Government of Australia and the Government of New Zealand on Social Security*”, which was signed on 7 September 1995. More recently, New Zealand and Australia negotiated an interim agreement with the yearly amounts agreed in advance, giving more certainty about New Zealand’s liability to Australia and avoiding the need for such detailed calculations.

^{xvii} This imbalance is addressed in the new social security agreement. The Australian government will pay age pensions for future New Zealand migrants who work in Australia then retire in New Zealand, based on their working life residence in Australia, and vice versa.

^{xviii} For more details on the recent changes to the social security arrangements announced on 26 February 2001, see the following pdf file http://www.immi.gov.au/general/newzeal_0201.pdf or visit the website <http://www.nz-oz.gov.au/>

^{xix} These figures were provided by Peter Mumford from the New Zealand Ministry of Economic Development.