

## NEW ZEALAND

Growth in GDP per capita has risen markedly in the past decade, albeit not sufficiently for a catch-up with the top half of OECD countries. The large gap in labour productivity has widened.

### Policy priorities

#### **Strengthen incentives to move from welfare to work**

**Challenge and recommendations:** Incentives to move from welfare to work are weak. It was recommended that activation policies be strengthened and the *Working for Families* package monitored and adjusted if the labour supply response is not significant.

**Actions taken:** The government has agreed in principle to develop a single core benefit that would apply one set of criteria to all working-age beneficiaries and deliver employment assistance to clients based on their individual circumstances in terms of their work readiness, rather than their benefit category.

#### **Reduce barriers to foreign ownership**

**Challenge and recommendations:** Consent is required for foreign acquisitions of 25% or more of firms worth more than NZD 50 million. It was recommended that restrictions on foreign investment in business activities be removed and that other instruments for protecting sensitive land be examined.

**Actions taken:** The Overseas Investment Act 2005 increased the threshold to NZD 100 million but also tightened conditions for acquiring sensitive land.

#### **Reduce the extent of educational under-achievement observed among specific groups**

**Challenge and recommendations:** The under-achievement of some groups, particularly ethnic minorities, persists. It was recommended that early childhood education be expanded, that well-coordinated and effective early intervention programmes be developed, and that teaching quality be raised.

**Actions taken:** Funding for early childhood education places has been increased: from 2007, the first 20 hours per week will be provided free of charge for three and four year-olds (if sufficient capacity is available); and the childcare subsidy rates have been raised. The government is developing an approach to improving teaching quality in schools using evidence-based best practices.

#### **Ensure that employment relations legislation supports efficient labour market outcomes**

**Challenge and recommendations:** In view of their cost-raising effects, it was recommended that recent changes in employment relations legislation be re-considered to avoid undermining labour market flexibility.

**Actions taken:** Legislative changes in late 2004 have further raised labour costs and reduced labour market flexibility, although it is too early to assess the extent of roll-back. Some aspects of the new legislation, in particular for multi-employer collective agreements, have been clarified through evolving case law – albeit not necessarily in ways that enhance flexibility.

#### **Address infrastructure bottlenecks, especially in transport and energy**

**Challenge and recommendations:** The regulatory framework has made it difficult to address infrastructure bottlenecks. It was recommended that regulatory reforms be implemented to unblock investment.

**Actions taken:** The Resource Management Amendment Act 2005 has streamlined the procedures for obtaining resource consents and provided greater weight to national interests. The government has commissioned a study into road pricing options for Auckland. In energy, the plan for introducing a carbon tax has been withdrawn, leaving climate change policies and other regulatory uncertainties unresolved.