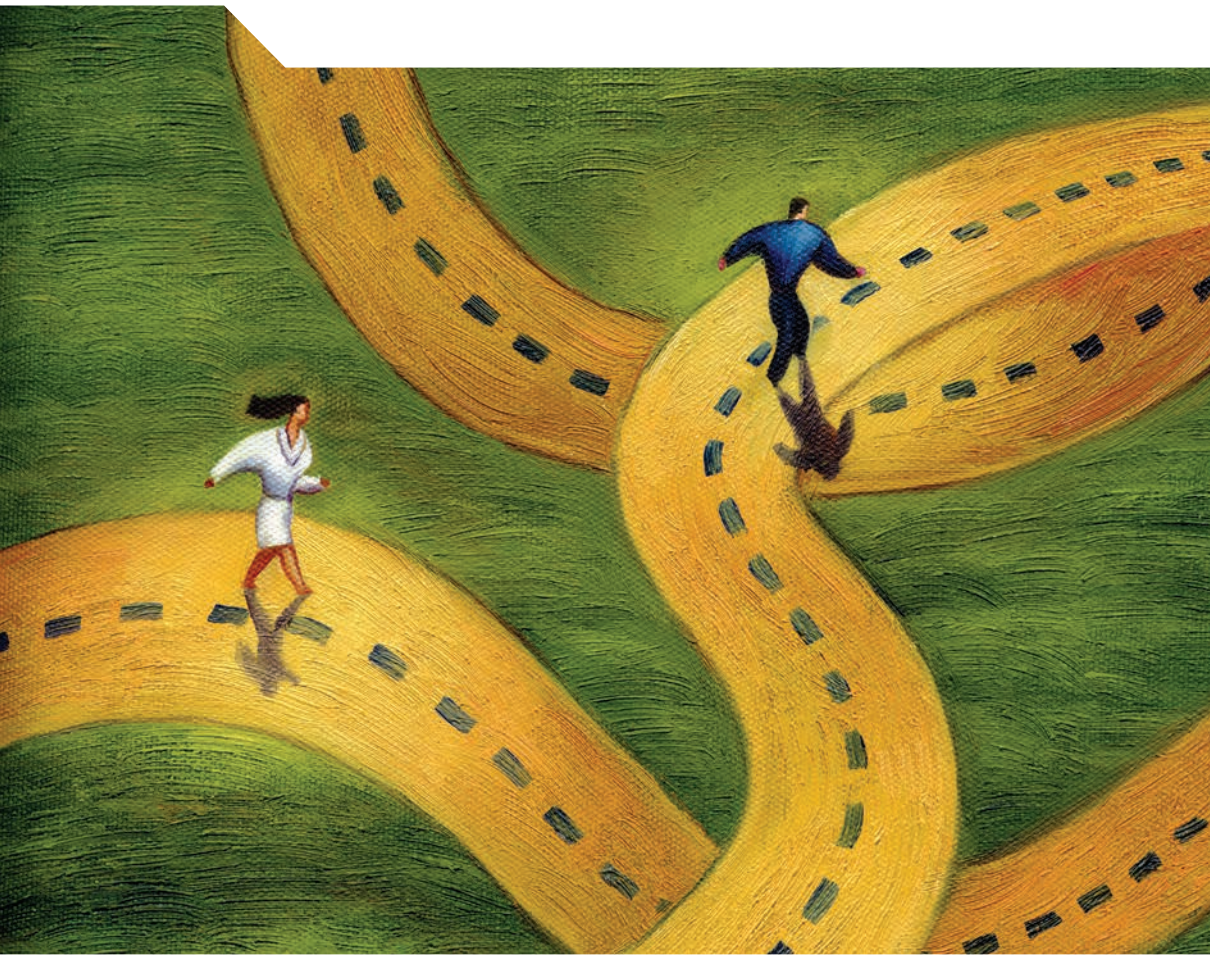
Back to Work

NEW ZEALAND

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS



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Back to Work: New Zealand

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD
BETTER POLICIES FOR BETTER LIVES

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Foreword

OECD labour markets are dynamic. Each year, around 20% of jobs in a typical OECD country are created or destroyed, and around one-third of all workers are hired or separate from their employer. These large job and worker flows are driven by a continuous process of labour reallocation, both across industries and between declining and growing firms within the same industry. This process is an important source of productivity gains, since more productive firms expand at the expense of less productive firms and earnings rise on average for workers changing jobs, particularly workers who voluntarily quit one job in order to move to another. However, high job turnover is also a source of insecurity for workers, especially those who are displaced from their jobs because their employer downsizes its workforce or goes out of business altogether. A common challenge facing OECD governments is thus to nurture labour market dynamism while keeping the adjustment costs that are borne by displaced workers as low as possible.

To address this issue the OECD Employment, Labour and Social Affairs Committee is carrying out a thematic review of policies to help workers who lose their jobs for economic reasons or as a result of structural change to move back into work. Nine countries participate in this review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

This report on New Zealand was prepared by Veerle Miranda from OECD's Employment, Labour and Social Affairs Directorate and Simon Chapple from the University of Otago, New Zealand, under the supervision of Christopher Prinz. Statistical assistance was provided by Dana Blumin and editorial assistance by Gabriela Bejan and Marlène Mohier. Valuable comments were provided by Mark Keese and Deborah Roseveare. The report benefited greatly from discussions with experts, government officials, employer federations, trade unions, academics and businesses during an OECD mission to New Zealand in March 2016, and from comments to an earlier version of the report provided by several ministries and stakeholders. The OECD Secretariat is extremely grateful to Statistics New Zealand for the provision of new data and tabulations on displaced workers.

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Acronyms and abbreviations

ACC	Accident Compensation Cooperation
ALMP	Active Labour Market Programme
CREC	*Comités d'aide au reclassement à entrées continues*
EPL	Employment Protection Legislation
ERA	Employment Relations Act
EU	European Union
EUR	Euro
FFTO	Foundation Focussed Training Opportunities
GDP	Gross Domestic Product
HILDA	Household, Income and Labour Dynamics Survey
HLFS	Household Labour Force Survey
ISIC	International Standard Industrial Classification
LEED	Linked Employer-Employee Data
LLTBR	Likelihood of long term benefit receipt
MBIE	Ministry of Business, Innovation and Employment
MPI	Ministry for Primary Industries
MSD	Ministry of Social Development
NRR	Net Replacement Rate
NZD	New Zealand Dollar
NZQA	New Zealand Qualifications Authority
PES	Public Employment Service
RPL	Recognition of prior learning
RRTS	Rapid Re-employment and Training Service
SMEs	Small- and medium-sized enterprises
SoFIE	Survey of Families, Incomes and Employment
STW	Short-term work
TEC	Tertiary Education Commission
TFW	Training for Work
UWV	Dutch Employee Insurance Agency

Executive summary

Workers who involuntarily lose their jobs as firms close or downsize in response to fluctuations in demand and production, can face substantial personal costs through periods of non-employment and lower wages in their new jobs. In early 2016, 1.1% of the New Zealand working-age population – or 29 000 workers – reported being laid off, dismissed or made redundant from their previous job. While the job displacement risk in New Zealand used to be amongst the lowest in the OECD in the mid-2000s, the impact of the economic downturn was stronger than in any other country, lifting New Zealand to the middle of the OECD ranking in 2009. Seven years later, the stock of displaced workers has not yet returned to its pre-crisis levels.

Strong cyclical fluctuations in displacement rates are consistent with the country's flexible labour market regulations, which allow companies to adjust their labour force more easily than in most OECD countries. Labour market flexibility also translates into higher re-employment rates: 84% of workers in New Zealand found a job within two years after displacement in the mid-2000s. These rates are higher than in many other OECD countries, though comparable with re-employment rates in the Nordic countries. The downside of flexible labour market regulations is that the costs of economic restructuring largely fall onto individual workers. Indeed, income and especially wage effects upon displacement can be considerable, even for those who successfully return to work, and seem to be more pronounced in New Zealand than in most other OECD countries.

The New Zealand labour market and social support framework places significant strategic weight on the creation and maintenance of flexible labour markets combined with a reliance on the family and private providers as the main support systems for displaced workers. As a result, social assistance and public employment support are reduced to a minimum and act very much as systems of last resort for displaced workers who end up in the welfare system.

In view of the non-negligible income and non-income consequences for many displaced workers and their families, and the small share of workers that benefit from income and employment support upon displacement, there may be room to strengthen the policy framework and extend income support, active employment measures and training programmes to a broader range of workers to help them maintain their job quality and living standards.

The OECD recommends to policy makers in New Zealand to:

- Strengthen employer responsibilities by requiring a longer minimum notice period and a mandatory notification of each redundancy to trade unions (if any) and the relevant authorities.
- Explore ways to reach out to all displaced workers in need of support, by 1) contacting displaced workers early on; 2) expanding employment services for better-skilled workers; and 3) providing incentives to public employment services to assist people who are currently not eligible for income support.
- Consider replacing the voluntary redundancy payments with a mandatory active redundancy insurance system. By combining financial support with pro-active employment support upon redundancy the focus would lie on reintegration and fast job-to-job transitions. The insurance scheme could cover all workers irrespective of their individual working arrangement and can be financed by a payroll-based levy.
- Strengthen training guidance and counselling for adults as well as the framework for recognition of skills acquired on the job.
- Ensure and sustain the adequacy of welfare payments and take-up of benefits among those who are eligible to avoid that displaced workers fall into poverty.

Assessment and recommendations

A continuous process of labour reallocation generates large job and worker flows across and within industries. Such reallocation of labour is an important source of productivity gains, as declining firms are replaced by more productive ones. At the same time, this process of economic restructuring can imply significant costs for the workers involved. This report analyses whether New Zealand's policy approach delivers satisfactory outcomes for displaced workers.

Flexible labour markets come with a considerable cost for displaced workers

Considerable job mobility and labour turnover characterise the labour market in New Zealand, mirroring the flexible employment regulation environment. New jobs are regularly created and around 15% of all jobs are ended each quarter. With 74% of the working-age population in employment, New Zealand ranks among the top four OECD countries. However, since the 2008-09 global financial crisis unemployment spells have become longer and the unemployment rate is only slowly recovering from its crisis-induced peak. With a harmonised unemployment rate of 5.1% in the second quarter of 2016, New Zealand is no longer among the best performing countries in the OECD area.

Prior to the global financial crisis, New Zealand had one of the lowest worker displacement rates among OECD countries for which comparable data was available. At the same time, the impact of the economic downturn on job displacement was stronger than in any other country, a result consistent with flexible labour market regulations that allow companies in New Zealand to adjust their labour force more easily than in countries with stricter regulations. The stock of workers who report being displaced due to structural and technological change has yet to return to its pre-crisis level, with the latest figures showing a stock of displaced workers of about 1.1% of the total workforce.

Job displacement can have significant costs for the workers involved and their families. While many displaced workers in New Zealand find a new job quickly, they tend to suffer from a considerable drop in wages, working hours and job quality. With a re-employment rate of 84% two years after job displacement, New Zealand performs better than many other OECD countries; comparable to the Nordic countries. At the same time,

wage losses for re-employed displaced workers reach 12% in the first year after displacement, compared with negligible wage effects in Germany and the United Kingdom and a loss of 6% in the United States and Portugal. While on average these wage losses are offset by redundancy payments in the first year after job loss, the average annual personal income for displaced workers in New Zealand (including government income transfers and redundancy pay) is about 20% lower in the second and third year after displacement than for non-displaced workers with similar characteristics.

To reduce the costs of economic restructuring for workers and their families, the New Zealand Government should consider how the support framework could be improved. Even in good economic times, many displaced workers need job-search support to overcome their often lower verbal, cognitive and interpersonal skills which make them more vulnerable and less employable than the average worker. Policies should seek to better identify these workers and help them finding a suitably-matched job, if needed in collaboration with private employment services. Current public policies are focussed on helping people who are far away from the labour market or have been unemployed for a long time while displaced workers are, to a large extent, left by their own to find a new job.

There are large inequalities in the support available for displaced workers

The regulatory structure in New Zealand places little emphasis on preventing employee dismissals and redundancies. Flexible labour markets, in which employers can easily hire and fire workers, are seen as the best guarantee for a dynamic economy with plenty of employment opportunities for everybody. The legal protection against dismissal provided by the labour and case law in New Zealand is more flexible than in any other OECD country. In particular, notification procedures in case of dismissals and the length of the notice period workers receive upon dismissal are both amongst the most relaxed ones in the OECD. In addition, there are no statutory requirements in New Zealand labour law to provide redundancy payment upon dismissal. As such, the costs of firing people in New Zealand are low compared with other OECD countries and firms can easily adjust their employment needs when confronted with fluctuating sales or evolving production technologies. The downside of this approach is that the costs of economic restructuring largely fall onto affected workers and their families.

Early support depends on the negotiated employment contract

The limited available evidence shows that about 70% of employees with an individual agreement had a notice period written into their employment contract in 2008. While white-collar workers seem to receive at least two weeks of

notice, blue-collar workers tend to receive only one to two weeks of notice. Employees covered by collective agreements (about 20% of all wage and salary workers in 2016) are typically entitled to at least four weeks of notice period. In addition, about half of all displaced workers received a redundancy payment from their employer, with an average payment equal to around 34 weeks of wages. While the level and coverage of redundancy pay in New Zealand seem to be comparable with other OECD countries, significant differences by age, gender, educational attainment and occupation suggest important inequalities exist between workers and that the actual protection in case of dismissal largely depends on a worker's bargaining power and the good will of the employer.

Inequalities also exist in the employment support workers receive upon redundancy. Without mandatory notification requirements for redundancies, early intervention largely depends on the voluntary initiatives of employers and employees, and the degree to which local offices of the public employment service, Work and Income, are proactive. While these offices seem to respond positively to information on larger-scale redundancies, individual dismissals and multiple small-scale redundancies go largely unnoticed. In addition, the very short notice period of dismissal that some workers may receive when they are made redundant reduces the authorities' ability to properly start organising the support these workers would need to find a new job.

Contacting Work and Income is not usual practice

Only few displaced workers will have contact with Work and Income after their displacement, at least in an initial stage. The New Zealand welfare system relies in the first place on individuals and their families to secure income upon job displacement and to reach out to private providers for employment support.

Unlike unemployment insurance systems in most OECD countries where benefit entitlements are based on individual contributions, the New Zealand welfare system acts as a safety net of last resort and provides only a flat-rate payment to people who have no income or no partner to support them. While redundancy payments and assets are not taken into account for the means test, the fairly low family income threshold implies that eligibility for welfare support is rapidly lost if a displaced worker's spouse is in gainful employment. In 2015, only about one-third of the stock of non-employed workers, laid-off or made redundant from their previous job reported welfare benefit receipt.

While non-eligibility for welfare benefits is one reason for not contacting Work and Income, several other aspects seem to play a role as well. First and foremost, the support Work and Income offers is typically targeted to assist disadvantaged jobseekers and the public authorities do not necessarily have anything to offer or any suitable vacancies for better-skilled

displaced workers. There may also be important information and stigma barriers inhibiting welfare take-up by workers who were made redundant.

Spending on active labour market programmes is limited

Work and Income does not have much direct interest or incentives to reach out proactively to displaced workers who are not entitled to welfare benefits. Resources for active labour market programmes are allocated according to the so-called investment approach and concentrated on those people where net inter-temporal fiscal savings in the welfare area are the greatest. Helping displaced workers who do not receive a first-tier welfare benefit would not generate any savings. Since displaced workers are not identified as such in the administrative data, it is unclear how much support they receive and how effective the support is to help them back into a job. Until recently, evaluations of active labour market programmes were largely focusing on getting people off benefits, rather than on the positive outcomes on employment and earnings; these elements have now been taking into account in the latest evaluation report.

In addition, resources committed to active employment programmes are low and have been falling over time. With 0.33% of GDP spent on active labour market programmes in 2014, New Zealand ranks among the bottom third of OECD countries. A range of welfare reforms in 2011 extended work obligations to a larger set of welfare beneficiaries, including especially lone parents and jobseekers with health problems. Yet, despite a significant increase in the number of participants in active labour market programmes, total public expenditure on such programmes further declined.

Displaced workers who do not contact Work and Income are very much left on their own to search for a new job or decide about a career change if they want or need it. While there are a number of government websites that help people in their search for training, there is no government agency, other than Work and Income, responsible for providing face-to-face counselling and guidance for adult training. Pre-training counselling is important to help workers understand better which training options are both possible and relevant to them, and increases post-training employment rates. Especially for less educated or older displaced workers, who are not necessarily comfortable with using internet or phone guidance, face-to-face guidance is vital. And it is important for displaced workers to have the skills they have accumulated on the job identified and recognised before choosing to retrain.

Towards more systematic support for displaced workers

Employer responsibilities should be strengthened

As New Zealand's labour market flexibility comes with a considerable cost for displaced workers and their families, the government should explore new ways to better support these workers. While expensive intervention programmes similar to the ones used in several OECD countries are not adapted to the New Zealand context, there are other ways to improve the existing policy framework.

To start, employer responsibilities should be strengthened to generate more equality among workers and reduce the costs of displacement for the affected workers and their families. A minimum statutory notice period for all workers – potentially using a job tenure scale as is common in many OECD countries – would give displaced workers a better chance to make a successful job-to-job transition. It would allow them to prepare for their redundancy and better utilise their on-the-job contacts and skills while avoiding considerable stigma sometimes associated with unemployment. Advance notice periods also give the involved authorities more time to organise support for displaced workers, which is especially important when the impact of a redundancy is likely to be large (e.g. because of mass redundancies or multiple small-scale redundancies in smaller communities).

A well-designed mandatory public notification system for all dismissals is also needed so that the authorities can reach displaced workers early on – that is, before they are laid off. An online notification system that informs the company's trade union (if such a union exists) and the local Work and Income office could minimise the administrative costs for firms and authorities. For large redundancies, also the Ministry of Social Development could receive a signal to ensure that additional resources are freed for the local Work and Income office. To ensure the collaboration of employers, sanctions for non-compliance need to be introduced. The online notification system would require only a couple of minutes work for the involved companies, but it would give case workers the opportunity to contact all workers before their displacement (and not only those that are part of a mass dismissal), hereby increasing the chance that they turn to Work and Income for support even if they are not necessarily entitled to income support. It would also be an easy way to create a strong information base about job displacement in New Zealand, in particular for the allocation of resources according to the needs of the affected workers.

Public support for displaced workers should improve

The number of displaced workers who have no contact with the public employment service is high, and this high share cannot be fully explained by their ineligibility for income support. Several other reasons have been put forward, including a lack of information about the services Work and Income provides; an over-estimation of ones re-employment chances; stigma; and the belief that government services are only for the most disadvantaged groups. There is a policy merit in further examining the barriers to welfare benefit take-up and the reluctance to contact Work and Income for employment support. An overview of the extent to which private employment services are used by displaced workers would also be helpful to better understand where the gaps in employment support are.

There are a range of possible policy options to encourage non-employed workers to contact Work and Income and to ensure that local offices improve their services for a broader set of clients. First, the adequacy of welfare payments should be improved by better taking into account the rise of household costs to avoid the erosion of benefits and to improve the living standard of welfare beneficiaries. Second, Work and Income should be given (financial) incentives to assist people who are not eligible for income support, for instance by using a cost-benefit approach to employment support, rather than the current investment approach. Such approach could avoid future, possibly much higher costs by helping displaced workers while they are still closely attached to the labour market. Third, the lack of appropriate services for better-skilled workers should be addressed. The support Work and Income offers is typically targeted to assist only very disadvantaged groups – such as the long-term unemployed – and local offices do not necessarily have suitable vacancies at hand for better-skilled displaced workers. In this regard, more extensive collaboration with private employment services could be beneficial.

To prepare for any future major economic downturn, the government should also consider a more extensive short-time work scheme than the one used during the global financial crisis of 2009-10. Due to strict eligibility conditions, take-up rates of the *Job Support Scheme* were very low at the time and the overall impact on the job market was therefore marginal. Well-designed short-time work schemes have proven quite successful in many OECD countries in reducing the social costs of a temporary downturn and of the global financial crisis in particular.

Training guidance for adults should be strengthened

Career advice and training guidance in the education sector are currently targeted at young people moving into the job market, while services

available to guide adults in need of (re-)training are limited. Counselling would help people to understand which training options are both possible and relevant to them, and hereby increase post-training employment rates. Without pre-training counselling, bandwagon effects are likely to emerge, whereby people simply follow their peers. Leaving the guidance to the training providers is not optimal since they may only have an in-depth knowledge of the programmes they offer and be unaware of other training options that might be more suitable for a particular person. The government should explore ways to strengthen training counselling and career guidance for adults, including face-to-face services, and ensure that such services are easily accessible for all. Rapidly changing skill needs in the economy require a continuous effort to guide adult workers to upskill and reskill throughout their working lives.

Recognition of prior learning is of high value to displaced workers who have no or few formal qualifications but have acquired considerable skills on the job. For workers who have a limited chance to find a suitable job easily, it is important to combine the recognition of skills previously acquired on the job with individual training counselling and case management, in order to design an effective training plan that fills any gaps in their skills set that prevent them from qualifying for a suitable job. For poorly-educated displaced workers, who are often reluctant to undertake training, there is a need to raise awareness of the benefits from training and structure the training in such a way that they can perform well. For those aiming to change occupation, combining training with work experience would enhance the chances of finding a suitable job.

Introducing an active redundancy insurance system should be explored

In view of the considerable economic costs of job displacement for the involved workers and their families and the lack of redundancy payment coverage for half of the workforce, the New Zealand Government may wish to strengthen the legal framework for redundancy payments and shift part of the costs of economic restructuring from workers to employers. Rather than introducing mandatory redundancy payments for all workers with minimum job tenure, New Zealand could build on recent policy initiatives and reforms in European countries that have been exploring ways to turn voluntary redundancy payment into a mandatory and more active allowance used to promote job-to-job flows. Instead of using the redundancy compensation as a way to dissuade employers to displace their workers too quickly and to compensate workers for loss of human capital, the idea behind more active payments is to encourage reintegration and retraining for displaced workers in need of support. The value of a redundancy support scheme combined with active labour market assistance was already put forward by the Public

Advisory Group on Restructuring and Redundancy in 2008 in their analysis of the adequacy of the redundancy law and provisions in New Zealand.

With one in ten employees in temporary jobs and the changing nature of work due to demographic shifts, globalisation and new technologies, a new redundancy insurance system should explore ways to cover all workers, irrespective of their individual work contract. For instance, New Zealand could opt for a system funded by a payroll-based levy that does not differ across employment types and contracts, so that workers with fixed-term and casual contracts are fully covered if employment durations warrant it. In addition, an active redundancy insurance scheme would provide an easy way to reach displaced workers early on, ideally before the actual dismissal takes place, to ensure that they have access to employment support if needed. All displaced workers can be informed about the existing employment services and be referred to the relevant services if needed. With such a system, there would no longer be a need to introduce the mandatory notification system proposed earlier.

The government could explore different ways to operate such an integration-oriented redundancy pay system. The obvious candidate to administer such redundancy insurance is Work and Income, the main public institution providing employment support. However, the small share of displaced workers actually contacting Work and Income and the lack of appropriate services for better-skilled workers speak against this solution, amongst other reasons. An alternative candidate for managing the active redundancy pay system is the Accident Compensation Corporation (ACC). The ACC already has a levy-based system in place and excels in supporting firms and workers to facilitate a fast reintegration of workers after a work accident. The ACC is also perceived as an institution for all workers and not only for disadvantaged ones, as opposed to Work and Income.

Regardless of the institution chosen, New Zealand can learn from policy initiatives in other OECD countries, like the *Rapid Re-employment and Training Service* in Ontario (Canada) and the Job Security Councils in Sweden. While these systems cannot be directly applied to New Zealand – for instance, given the heavy reliance on social partners in Sweden – there are elements in both systems that can be of interest to New Zealand.

While marking a major change, introducing a levy-based redundancy insurance system in New Zealand would not have to come with major additional costs for employers, at least not for most of them. Many workers in New Zealand already are entitled to redundancy pay and often at generous levels. A main objective of the proposed system would be to provide a level-playing field for all displaced workers, rather than supporting some workers generously and others – often those in need of support – not at all. The advantage of a levy-based system is that it collectivises dismissal risks and reduces the financial impact of dismissals on smaller employers.

Key policy recommendations

- To better guide labour market and social policy development, improve the measurement of job displacement in New Zealand and allow for comparison with OECD countries by adding targeted questions to the Household Labour Force Survey on an annual basis.
- Strengthen employer responsibilities by requiring a longer minimum notice period for all workers. A tenure scale can be used (the longer the job tenure, the longer the notice period) as is common in many OECD countries.
- Set up a mandatory notification system to inform local Work and Income offices about all redundancies, permanent layoffs, firm closures or (mass) dismissals. For large redundancies, also the Ministry of Social Development should receive a signal to ensure additional resources are provided to the local Work and Income office. The authorities should be notified at the start of the consultation process with employees and their trade unions (if any), to have enough time to organise support. To ensure collaboration of employers, sanctions for non-compliance need to be introduced.
- Explore ways to better reach out to displaced workers in need of employment support. Encouraging workers to contact Work and Income is essential, but it is equally important to expand services for skilled workers and provide (financial) incentives to local Work and Income offices to assist people who are not eligible for income support. Information about the use of private employment services is needed to identify gaps in support.
- Consider replacing the voluntary redundancy payments with a mandatory active redundancy insurance scheme that integrates early intervention support and redundancy payments. The insurance scheme could cover all workers irrespective of their individual work contract and can be financed by a payroll-based levy. It would be a way to ensure more equality in redundancy payments across workers, and allow the authorities to provide early intervention services and to direct displaced workers in need of more intensive support to the relevant services.
- Strengthen career guidance and training counselling to better support adult workers in their training decisions. Expand the recognition of prior learning for workers who have no or few formal qualifications but acquired considerable skills on the job. Raise awareness of the need for and gains from training for low-educated displaced workers.
- Ensure and sustain the adequacy of welfare payments and benefit take-up among those who are eligible to avoid that displaced workers fall into poverty. Identify and address barriers to take-up of income support by displaced workers, including lack of information and stigma.
- To reduce the social costs of an economic crisis, develop a better short-time work scheme than the Job Support Scheme that was used during the global financial crisis by lifting (or loosening) the limit on the maximum hour reduction and extending the coverage to all firms.

Chapter 1

Job displacement in New Zealand and its consequences

This chapter examines the prevalence and consequences of job displacement in New Zealand. The labour market in New Zealand has been less affected by the global financial crisis than in many other OECD countries and the employment rate currently ranks amongst the highest in the OECD area. Nevertheless, the negative impact of the economic downturn on unemployment persists and unemployment spells are lengthening. While the labour market is characterised by considerable job mobility and labour turnover, job displacement due to structural and technological changes has been low-to-average compared with other OECD countries. The majority of the displaced workers find a new job quickly, even though the impact on their post-displacement earnings and other job quality aspects can be considerable.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The labour market context

Labour market performance outpaces that seen in many OECD countries

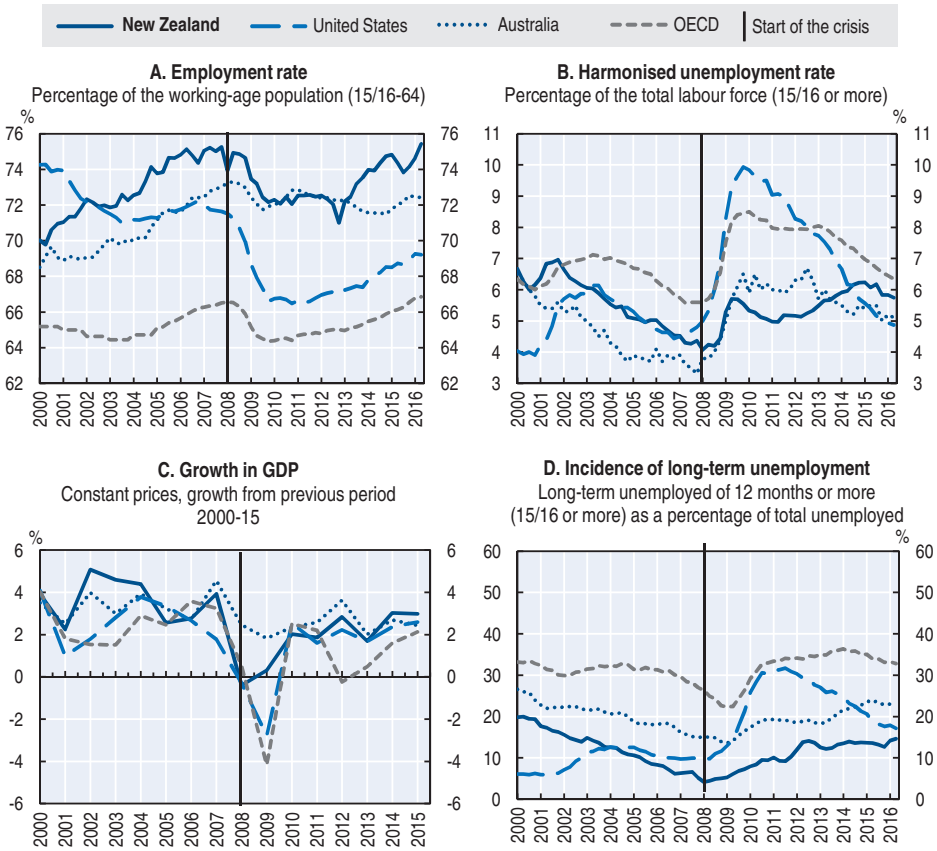
Strong economic growth in New Zealand prior to the global financial crisis translated into a considerable reduction in unemployment, from 6.5% in 2000 to 3.3% at the end of 2007, one of the lowest unemployment levels in the OECD at that time (Figure 1, Panel B), and a steady increase in employment. By the end of 2007, the employment rate reached 75.2%, about nine percentage points above the OECD average (Figure 1, Panel A).

The New Zealand economy weathered the global downturn better than most OECD countries, even though labour market conditions deteriorated temporarily. By the second quarter of 2010, the unemployment rate peaked at 6.5% and the employment rate dipped to 72.1%. Thanks to a large increase in the terms of trade, high net immigration, especially recently, the post-2011 earthquake reconstruction in Canterbury and construction activity in Auckland, economic growth quickly recovered to 2-3% annually (Figure 1, Panel C) – except for 2013 when a drought temporarily depressed growth (OECD, 2015a). Economic expansion pushed up the employment rate to 75.4% in the second quarter of 2016, above its pre-crisis level and fourth in the OECD ranking.

The decline in unemployment is taking more time. With a harmonised unemployment rate of 5.1% in the second quarter of 2016 (Figure 1, Panel B), New Zealand is no longer among the best performing countries in the OECD area (ranking 12th). Especially among people without educational qualifications and the Māori population, unemployment and inactivity rates remain stubbornly high. Unemployment spells have also become longer: about 14.7% of unemployed people have been looking for work for a year or longer, compared with just 5% at the onset of the global financial crisis (Figure 1, Panel D). While the incidence of long-term unemployment is very low compared with the OECD average of 32.8%, neither the unemployment rate nor durations are expected to fall significantly in the immediate future. Experience in other OECD countries indicates that long-term unemployed people often require additional assistance to return to the labour market (OECD, 2013).

Figure 1.1. **The New Zealand labour market weathered the global financial crisis rather well**

Key quarterly labour market trends and annual GDP trends in New Zealand and selected OECD countries, 2000-15/16



Note: For additional information, see http://www.oecd.org/std/labour-stats/44743407.pdf.

Source: OECD Short-Term Labour Market Statistics Database www.oecd.org/statistics/, OECD Key Short-Term Economic Indicators dataset and quarterly national labour force surveys http://data.oecd.org/emp/labour-force.htm.

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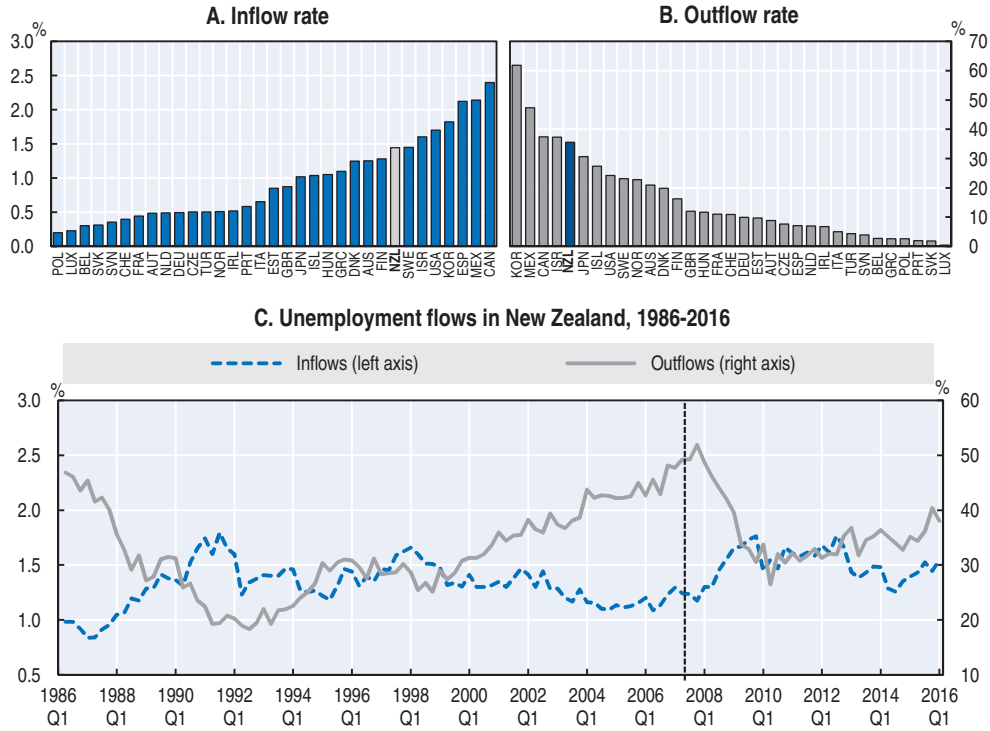
New Zealand has a flexible labour market

The New Zealand labour market is characterised by considerable job mobility and labour turnover. According to the Linked Employer-Employee Data (LEED) – a rich administrative database covering all workers in

New Zealand – the number of people joining or leaving employers each quarter was equal to 15% of the total number of jobs between the December quarters of 2010 and 2012 (Statistics New Zealand, 2014). Calculations based on national labour force surveys illustrate that New Zealand ranks among the upper half of OECD countries in terms of flows into and out of unemployment (Figure 1.2, Panel A and Panel B). These flows also display a strong cyclical trend and the impact of the global financial crisis is clearly visible (Panel C). It should be noted, however, that inflows into unemployment started rising again in 2014.

Figure 1.2. **Flows into and out of unemployment are frequent in New Zealand**

Inflows into unemployment (share of the labour force) and outflows from unemployment (share of the unemployment caseload), 1996-2016 and across countries in 2013



Note: The unemployment inflow rate is defined as the ratio of the number of unemployed who have been unemployed for less than one month over total labour force one month earlier. The unemployment outflow rate is defined as the ratio of unemployed who have been unemployed for more than one month over the total number of unemployed.

Source: OECD estimates based on national labour force surveys.

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The high labour turnover is to some extent related to the importance of temporary employment relationships. Data from the 2012 Survey of Working Life illustrate that one in ten employees were in temporary jobs, with casual workers accounting for almost half of all temporary jobs (Statistics New Zealand, 2014).[1] Around half of those working in temporary jobs said they would prefer a permanent job. The groups most likely to be in temporary jobs are workers in the cleaning, construction, factory processing, agriculture and food preparation sectors. However, the incidence of temporary employment is similar to the weighted average among OECD countries, where 11.8% had a temporary contract in 2012 (OECD, 2014).

The flexible employment legislation of New Zealand is the main reason for the high dynamism in the labour market – as discussed in Chapter 2 of this report. Job tenure in New Zealand is among the lowest in the OECD. According to the 2012 Survey of Working Life, 48% of all workers had been working for the same employer or were self-employed in the same business for five years or more, compared with 59% of workers in the OECD on average.[2] In addition, one in six permanent workers in New Zealand said there was a medium to very high chance that they would lose their jobs in the next twelve months.

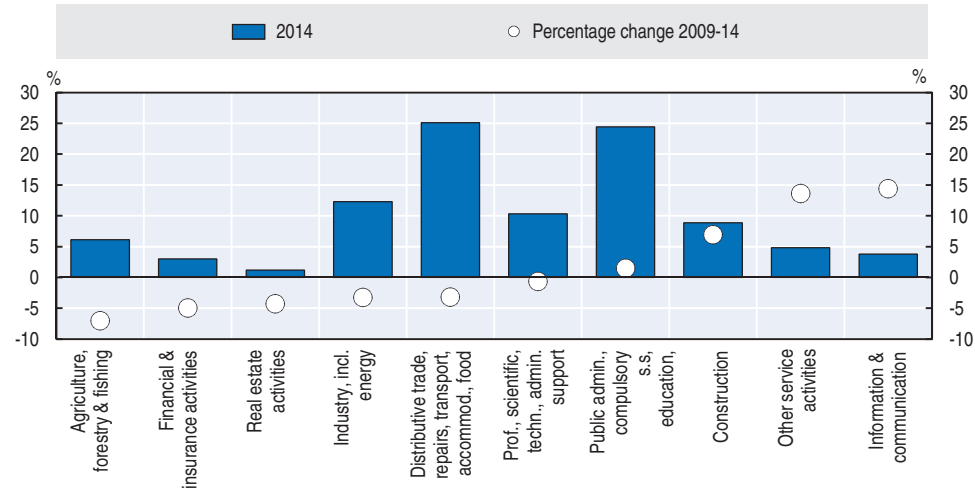
Structural changes favour higher-skilled jobs

The major employment sectors in New Zealand are distributive trade, accommodation and food services, and public administration, education and health. These two sectors accounted each for about one fourth of total employment in 2014 (Figure 1.3, Panel A). The sectors with the largest relative changes between 2009 and 2014 were construction, information and communication, and other service activities.[3] More than in many other OECD countries, agriculture, forestry and fishing continue to play a fundamental role in New Zealand, employing 6.1% of the workforce (Figure 1.3, Panel B). Looking ahead, business services and the hospitality sector are projected to be major drivers of employment growth in the coming ten years (MBIE, 2015).

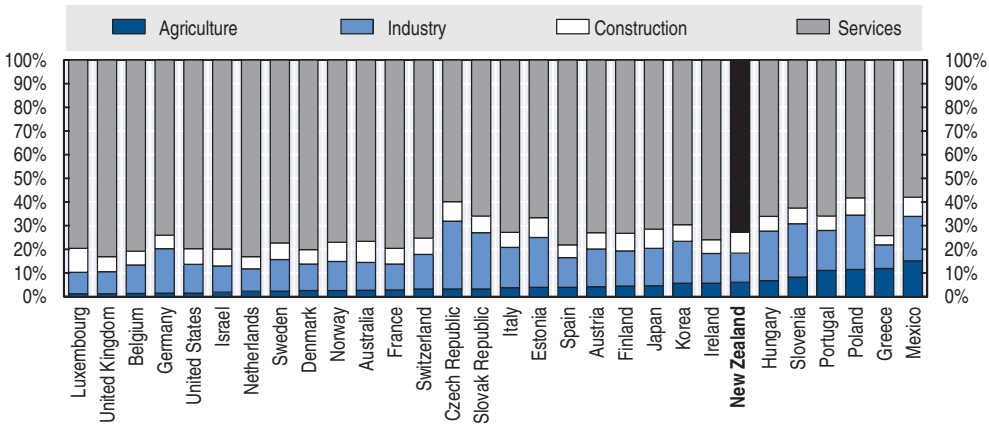
The occupational composition of employment evolved significantly over the 2000s, with job growth favouring skilled workers. The shares of managers and professionals have been growing, while a decreasing share of the labour force works as clerical or agriculture workers. The Ministry of Business, Innovation and Employment forecasts that employment growth will continue to be strongest for highly-skilled occupations, including managers and professionals, which are projected to account for nearly 60% of the total employment growth in the ten years to 2024 (MBIE, 2015). Opportunities for lower-skilled workers will be fewer, with annual growth of 1.3% over the years 2014-19 and 0.8% during the years 2019-24, compared with 2.5% and 2.1%, respectively, for highly-skilled workers.

Figure 1.3. **The service and construction sectors have gained importance while agriculture is experiencing a relative decline**

A. Percentage of total employment and percentage change by economic sector, 2009 and 2014[a, b]



B. Employment by sector, 2015[c]



a) Economic activities classification based on Revision 4 of the International Standard Industrial Classification (ISIC). Total employment broken down by main activities refers to domestic concept data.

b) Sectors are ranked by ascending change over 2009-14.

c) Data refer to 2013 for Australia and Mexico and to 2014 for the Czech Republic, France, Ireland, Japan, Korea, New Zealand, Poland and the United States.

Source: OECD Annual National Accounts Database, "Dataset: 3. Population and employment by main activity", http://dotstat.oecd.org/Index.aspx?DataSetCode=SNA_TABLE3#.

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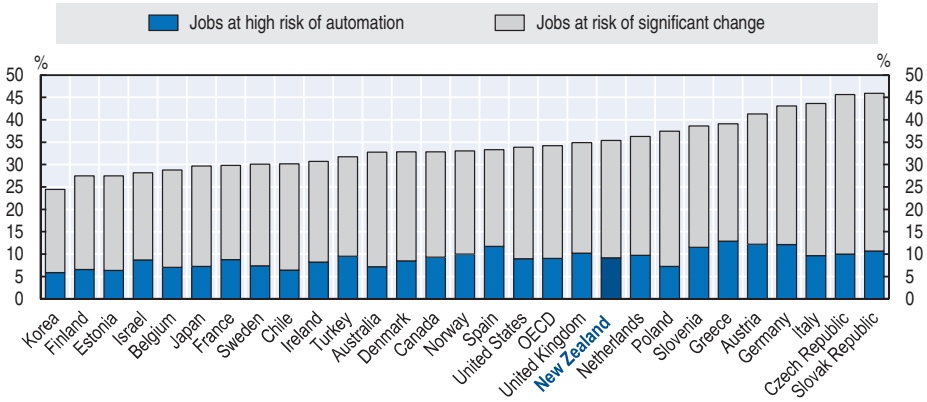
Demographic shifts, globalisation and new technologies will continue changing the nature of work and careers over the coming decades. In particular digitalisation is seen as a key influence on the future of work. While technological innovation is positively associated with employment in all groups of occupations (OECD, 2015b), artificial intelligence and digitalisation challenge high-routine jobs (Marcolin et al., 2016).

Using the approach of Arntz, Gregory and Zierahn (2016), it is estimated that about 9% of all current jobs in New Zealand are at a high risk of being automated (Figure 1.4). These are jobs for which at least 70% of the tasks are automatable. An additional 26% of jobs are at risk of significant transformation and workers will need to adapt. While these jobs will not be substituted entirely, an important share (between 50% and 70%) of the tasks that are part of the job are at risk of automation, which could radically transform how the jobs are carried out.

Figure 1.4. **One third of the jobs in New Zealand are challenged by automation**



a) Jobs are at high risk of automation if the likelihood of their job being automated is at least 70%. Jobs at risk of significant change are those with the likelihood of their job being automated estimated at between 50% and 70%.

b) Data for Belgium correspond to Flanders and data for the United Kingdom to England and Northern Ireland.

c) Data correspond to 2012 for countries participating in the first round of the Survey of Adult Skills: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Japan, Korea, Netherlands, Norway, Poland, Slovak Republic, Spain, Sweden, the United Kingdom and the United States. Data correspond to 2015 for countries participating in the second round of the Survey of Adult Skills: Chile, Greece, Israel, New Zealand, Slovenia and Turkey.

Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015); and Arntz, M., T. Gregory and U. Zierahn (2016), "The risk of automation for jobs in OECD countries: A comparative analysis", *OECD Social, Employment and Migration Working Papers*, No. 189, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933436908

A continuous process of labour reallocation, both across industries and between declining and growing firms within the same industry, is a feature of a well-functioning market economy and helps reallocating labour resources to more productive firms and activities, contributing to dynamism and growth. However, since workers with a lower education level are at the highest risk of displacement due to automation and digitalisation, these processes could reinforce existing disadvantages faced by low-skilled workers (Berger and Frey, 2016; and Arntz, Gregory and Zierahn, 2016). Supporting these workers to make a smooth transition to a new job, possibly through skills upgrading, is crucial for their well-being, as well as for economic growth and productivity more generally.

Displaced workers: Incidence and characteristics

Analysis in the *OECD Employment Outlook* showed that workers who involuntarily lose their job as a result of structural and technological change differ quite markedly from the average employee in terms of the skills they used in their pre-displacement job (OECD, 2013). The lower verbal, cognitive and interpersonal skills of that segment of the workforce may impede their ability to find work quickly after displacement, especially in light of the growing demand for the types of skills they were not required to use in their former job. These findings generate the question whether greater policy intervention to prevent long spells of unemployment or inactivity may be justified for this group of workers.

Defining and measuring job displacement

In this report, job displacement refers to workers involuntarily separated from their job as a result of structural and technological change – such as redundancies, permanent layoffs, firm closures or mass dismissals. The incidence and consequences of job displacement in New Zealand are calculated using two different surveys which have different strengths and weaknesses. The Household Labour Force Survey (HLFS) uses a large sample and provides a long and up-to-date quarterly time series, from 1991 to the first quarter of 2016, and it allows more detailed analysis of socio-demographic characteristics. However, the HLFS definition of job displacement differs from those used by other OECD countries, making direct comparison of job displacement rates impossible (see Box 1.1). On the contrary, the Survey of Families, Incomes and Employment (SoFIE), which was used by OECD (2013), utilises a definition comparable with surveys in other OECD countries but has a much smaller sample and most importantly the survey ended in 2010. The SoFIE is therefore largely used for comparative purposes.

Box 1.1. Measuring job displacement in New Zealand

Survey of Families, Incomes and Employment

The Survey of Families, Incomes and Employment (SoFIE), a longitudinal household panel covering the period 2003-10, was used by Dixon and Maré (2013) to identify job displacement in New Zealand and by OECD (2013) to compare it with job displacement in other OECD countries.[1] Job displacement was identified in the survey when an employee left a job and gave a reason for leaving that was coded as "laid off/dismissed/made redundant". The sample was restricted to employees who were aged 20-64 and had been employed for at least one year before being dismissed or made redundant. These age and job duration restrictions were imposed to minimise the proportion of job terminations that were due to dismissals (i.e. the ending of an employment relationship at the employer's initiative for reasons related to individual employee performance).

Household Labour Force Survey

The other survey used in this report, the Household Labour Force Survey (HLFS), covers quarterly data for the period 1991-2016 and asks non-employed people who have been employed within the last five years whether they have been laid off, dismissed or made redundant from their previous job. The HLFS job displacement statistics provided by Statistics New Zealand differ in two important ways from the job displacement statistics based on SoFIE and those available for other OECD countries:

- First, SoFiE and OECD statistics are restricted to workers with job tenure of at least one year to control for the fact that the ending of temporary contracts is not treated in the same way across countries. The job displacement statistics based on the HLFS provided by Statistics New Zealand do not control for tenure and are therefore not strictly comparable with job displacement statistics for other OECD countries.

- Second, SoFiE and OECD data include all job displacements that occurred in the past year, irrespective of the worker's labour force status at the moment of the interview. Instead, the HLFS only asks non-employed workers whether they have been laid off, dismissed or made redundant in the past five years, implying that re-employed displaced workers are not identified. As a result, the statistics presented in this report based on the HLFS data measure the prevalence of displacement, i.e. the stock of displaced workers who have not re-integrated back into employment at a point in time and their share in the total working-age population. Instead, the job displacement statistics based on SoFIE and those for OECD countries measure the incidence of displacement, i.e. the annual risk of a worker to be displaced from his/her job, or a flow measure of people losing their employment.

Box 1.1. **Measuring job displacement in New Zealand** *(cont.)*

Improving the measurement of job displacement in New Zealand

For future work, it would be recommended for New Zealand to generate better statistics on job displacement, ideally in line with those in other OECD countries to allow for international comparison and benchmarking. As discussed in OECD (2013), displacement in OECD countries is typically measured using household panel data or cross-sectional data with retrospective questions about job displacement in the past year for all survey respondents (including those who made a positive employment transition). In both types of surveys, workers who separated from their jobs in the past year (not in the past five years, as is currently the case in HLFS) are asked about the reason for having left their job, allowing job displacement to be distinguished from other types of separation. Since it is difficult to accurately identify voluntary and involuntary separation in a way that it is consistent across countries, the end of a temporary contract is not considered as job displacement in OECD work.

To improve the measurement of job displacement in New Zealand, Statistics New Zealand could consider introducing the following elements in their Household Labour Force Survey on an annual basis (with a one-year recall window to allow for comparison with OECD countries):

- An explicit question for all working-age people whether they were made redundant from their previous job in the past year (including those who made a positive employment transition).
- Number of working hours in the previous and current job.
- Industry/occupation of previous and current job.
- Geographic location of previous and current job.
- Type of contract of previous and current job (open-ended / fixed-term / casual / self-employed).
- Union membership and tenure at time of redundancy.
- Duration of time since redundancy (years / months).
- Receipt of redundancy pay (Yes / No), number of weeks of pay and NZD amount.
- Weeks of notification before redundancy.
- Any non-monetary assistance received from employer as a consequence of redundancy (like job-search activities, counselling or other).
- Work and Income contact/services sought as a consequence of redundancy – (this information could also be created via matching the respondent with the administrative data).

Box 1.1. **Measuring job displacement in New Zealand** *(cont.)*

- Subjective health status and psychological state through validated mental health instruments (e.g. the Kessler Psychological Distress Scale – K10; see OECD 2015).

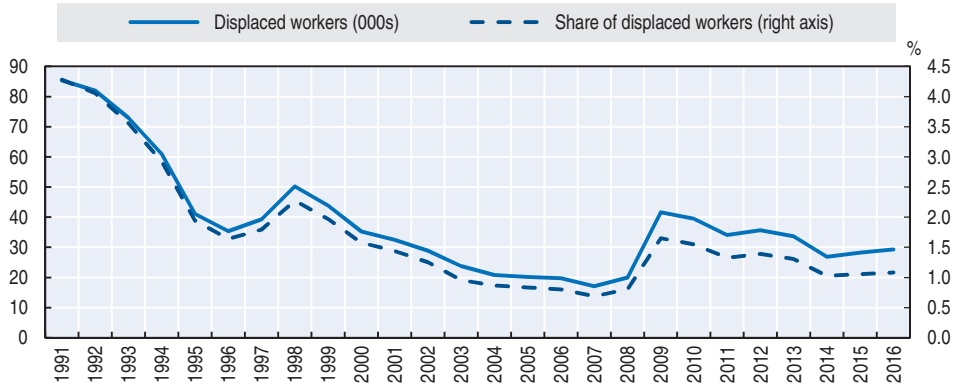
1. It should be noted that the statistical results published by Dixon and Maré (2013) and OECD (2013) are slightly different from each other as the OECD analysis imposed more restrictions on the sample selection to maximise the data comparability across OECD countries.

Source: Dixon, S. and D. Maré (2013), "The Costs of Involuntary Job Loss: Impacts on Workers' Employment and Earnings", *Motu Working Paper 13-03*, Motu Economic and Public Policy Research, Wellington; OECD (2015), *Fit Mind, Fit Job: From Evidence to Practice in Mental Health and Work*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264228283-en; OECD (2013), "Chapter 4: Back to work: Re-employment, Earnings and Skill Use after Job Displacement", in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

Over the past 25 years, the stock of displaced workers in New Zealand – defined as employees aged 20-64 who report being laid off, dismissed or made redundant from their previous job within the past five years and not employed in the reference week – declined from nearly 85 000 in 1991 to a little more than 29 000 in the first quarter of 2016 (Figure 1.5).[4] By the first quarter of 2016, displaced workers accounted for about 1.1% of the total working-age population, three percentage points lower than in 1991.[5] The data suggest that job displacement has a strong cyclical component and periods of economic growth and economic downturn are clearly reflected in Figure 1.5. The stock of workers who report being displaced due to structural and technological change peaked in 2009 during the global financial crisis and has yet to return to its pre-crisis levels.

Figure 1.5. **The stock of displaced workers fluctuates with the business cycle but has overall declined considerably over the past 25 years**

Employees aged 20-64 who reported being laid off/dismissed/made redundant from their previous job in the past five years and who were not employed in the reference week, in thousands and as a percentage of the total population, 1991-2016/Q1



Source: Calculations provided by Statistics New Zealand based on the Household Labour Force Survey (HLFS).

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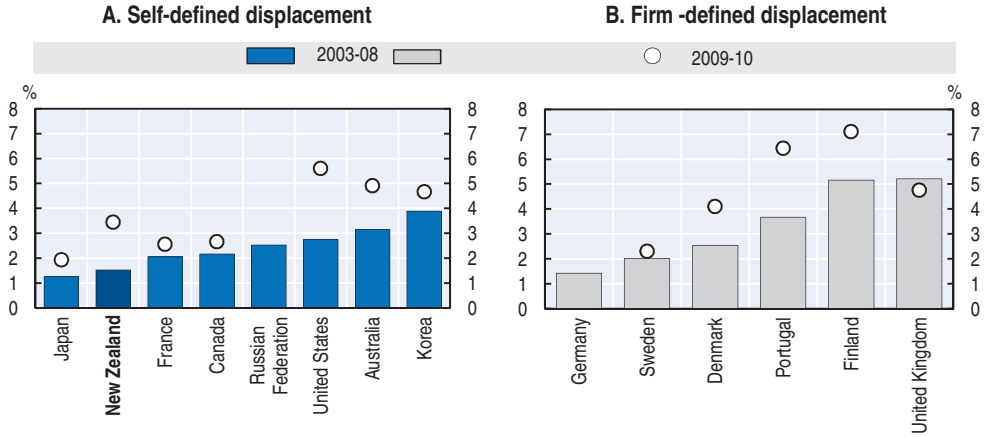
SoFIE data already published in OECD (2013) illustrate that, in the period 2003-08, New Zealand had one of the lowest worker displacement rates among OECD countries for which comparable data was available – with the displacement rate defined as the percentage of employees aged 20-64 who are displaced from their job from one year to the next (Figure 1.6). However, New Zealand experienced the strongest increase in job displacement during the global financial crisis, placing the country above Japan, France, Canada and Sweden in the 2009-10 ranking of displacement rates. The strong impact of the economic downturn on job displacement rates is consistent with New Zealand's flexible labour market regulations, which allow companies to adjust their labour force more easily than in countries with stricter regulations.

Figure 1.6. **The New Zealand displacement rate prior to the global financial crisis was very low compared with most OECD countries**

Percentage of employees aged 20-64 who are displaced from their job from one year to the next, averages, 2003-10



Note: See Annex 1.A1.1 for the years covered and Annex 4.A1 in the source below for details on the samples and definitions used for each country.

Source: Revised and updates estimates from OECD (2013), *OECD Employment Outlook*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en. For New Zealand, Survey of Families, Incomes and Employment (SoFIE).

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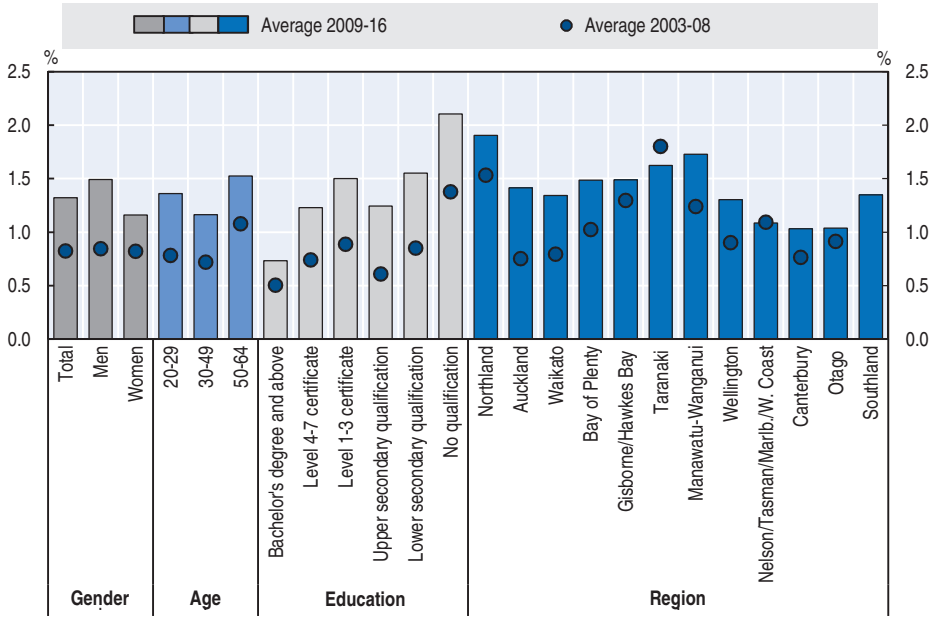
Which workers face the highest prevalence of job displacement?

Job displacement is not equally distributed and some workers experience a higher prevalence of displacement than others. Men in New Zealand are somewhat more affected by job displacement than women and workers aged 50-64 more than those aged 30-49 (Figure 1.7). The Northland region has the highest share of displaced workers in its total working age population, while the Auckland and Waikato regions experienced the largest increases after the global financial crisis in displacement shares compared with the period 2003-08. In Auckland, the average share of displaced workers as a percentage of the total working-age population over the period 2009-16 was nearly double the average over the period 2003-08.

Figure 1.7. **Workers without qualifications and those living in Northland face the highest prevalence of job displacement**

Employees aged 20-64 who reported being laid off / dismissed / made redundant from their previous job in the last five years and who were not employed in the reference week as a percentage of the total population aged 20-64



Note: Level 1-3 certificate indicates basic to some operational and theoretical knowledge in a field of work or study. Level 4-7 certificate refers to broad operational to specialised technical or theoretical knowledge in a field of work or study.

Source: Calculations provided by Statistics New Zealand based on the Household Labour Force Survey (HLFS).

StatLink http://dx.doi.org/10.1787/888933436939

The largest differences in job displacement shares can be found by level of education. The shares of displaced workers among people with lower secondary education or Level 1-3 certificates are double as high as among people with a bachelor degree or more, and the shares among those with no qualification are even three times higher (Figure 1.7).

These variations across population groups in displacement shares are broadly consistent with the patterns reported in other OECD countries (OECD, 2013). Nevertheless, simple comparisons of job displacement shares across groups do not give any information about the casual effect of different personal characteristics. It could be, for instance, that low-skilled workers are just more likely to be employed in high risk sectors than those with higher education levels.

To identify the personal and job characteristics most strongly associated with a higher risk of redundancy, Dixon and Maré (2013) and (OECD, 2013) estimated a logistic regression. While, barring tenure, all population characteristics were statistically insignificant in Dixon and Maré's study (partly related to the small size of their sample), multivariate analysis across different OECD countries confirms that age and education are important factors affecting the displacement risk or incidence (regional variations were not tested).

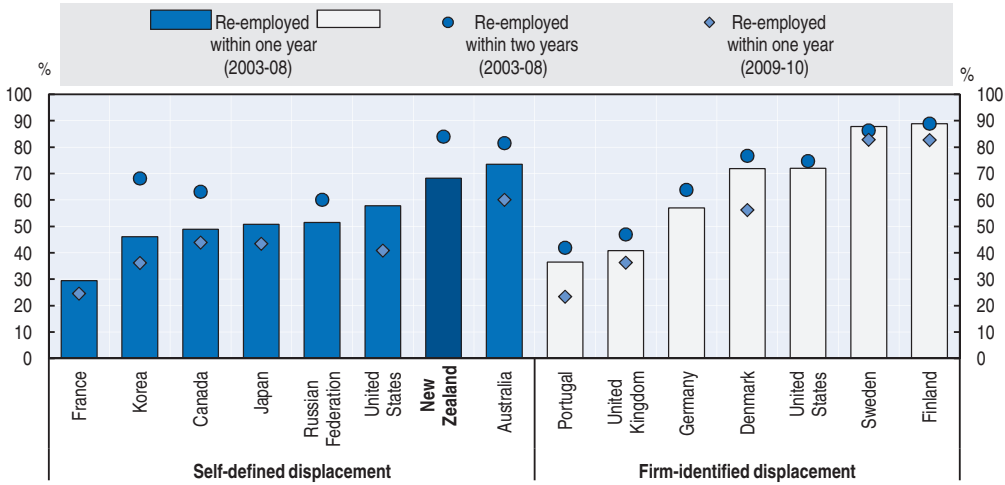
The chances of getting back into work

Figure 1.8 illustrates that on average 68% of displaced workers in New Zealand were re-employed within one year during the period 2003-08. Two years after displacement, re-employment rates rose to 84% on average. These re-employment rates were higher than in most other OECD countries and comparable to re-employment rates in the Nordic countries.

The impact of the global financial crisis on re-employment rates in New Zealand cannot be analysed using SoFIE data because the survey ended in 2010, but the eight-quarter rotating panel of the HLFS provides some evidence on the evolution of re-employment chances since 2008. The survey collects information on the labour force status of non-employed people who reported being laid off, dismissed or made redundant from their last job. The main caveat in the data is that there is limited information on the timing of the redundancy, except that it happened within the past five years.

Figure 1.8. **New Zealand has one of the highest re-employment rates of displaced workers among OECD countries**

Proportion of displaced workers who are re-employed within one and two years, 2003-08 and 2009-10 averages



Note: See Annex 1.A1.2 for the years covered and Annex 4.A1 in the source below for details on the samples and definitions used for each country.

Source: Revised and updated estimates from OECD (2013), *OECD Employment Outlook*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en. Data for New Zealand is based on the Survey of Families, Incomes and Employment (SoFIE).

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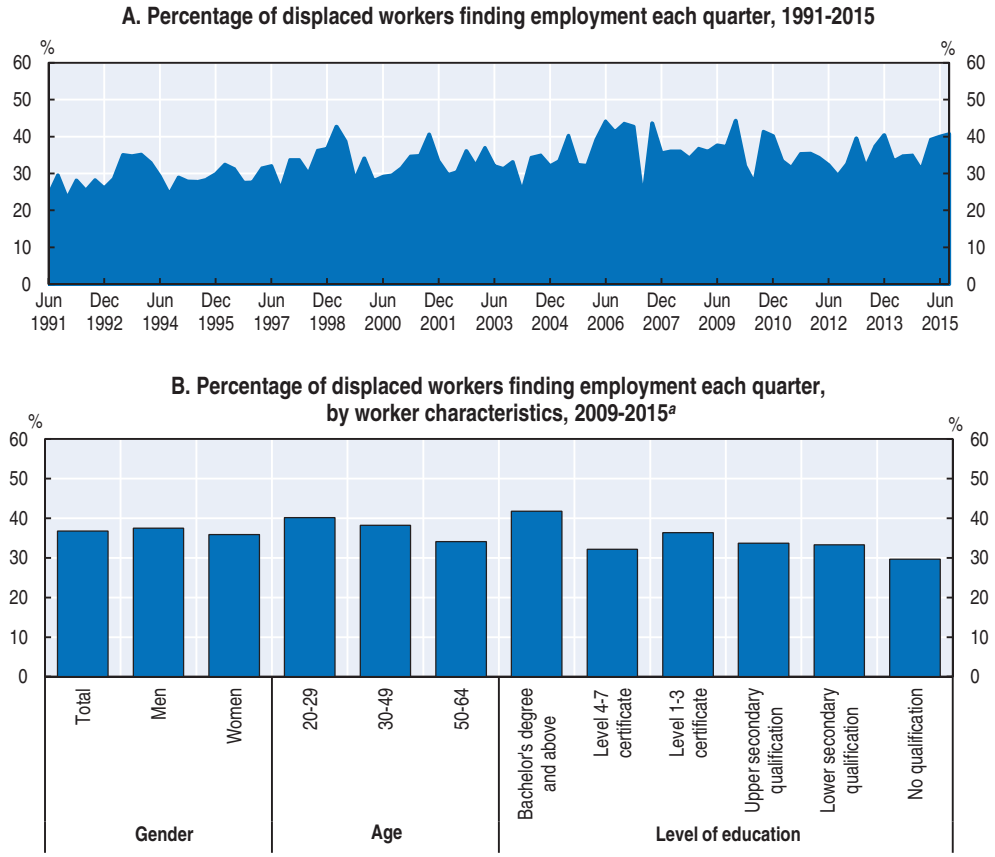
Figure 1.9, Panel A, shows that the percentage of displaced workers who returned to employment in the period 2009-15 is very similar to the share in the period 2003-08. In fact, the share of displaced workers finding employment is not affected by the business cycle (fluctuations result mainly from the volatility of the data). The chart suggests that some of the stock of non-employed displaced workers find a new job quickly but also that many of them do not and may need some help in finding a new job, even in good economic times.

Outflows to employment vary across demographic groups. While the share of people who returned to employment after their displacement in the period 2009-15 is about the same for men and women, the likelihood to find a new job after displacement decreases with age (Figure 1.9, Panel B). Re-employment prospects also increase with education. Displaced workers with a bachelor's degree or above have a much higher likelihood to return to employment than displaced workers with a lower educational qualification.

Figure 1.9. **Re-employment rates are not affected by business cycles, but decrease slightly with age and increase with education**



Note: Displaced workers are employees aged 20-64 who were not employed in the previous quarter and who reported being laid off, dismissed or made redundant from their previous job within the past five years.

a) The period for "level of education" is 2009-12.

Source: Calculation based on the Household Labour Force Survey (HLFS) provided by Statistics New Zealand.

StatLink http://dx.doi.org/10.1787/888933436952

Earnings, hours and working arrangements after displacement

Most displaced workers get back into a new job within one or two years. However, the effects of displacement on their pay and working arrangements can be longer-lasting (OECD, 2013). Recent information on these effects is not available for New Zealand, but Dixon and Maré (2013) compared the employment and income evolutions of workers who were displaced between 2003 and 2008 with non-displaced workers who were similar on all relevant characteristics prior to displacement using the SoFIE data.

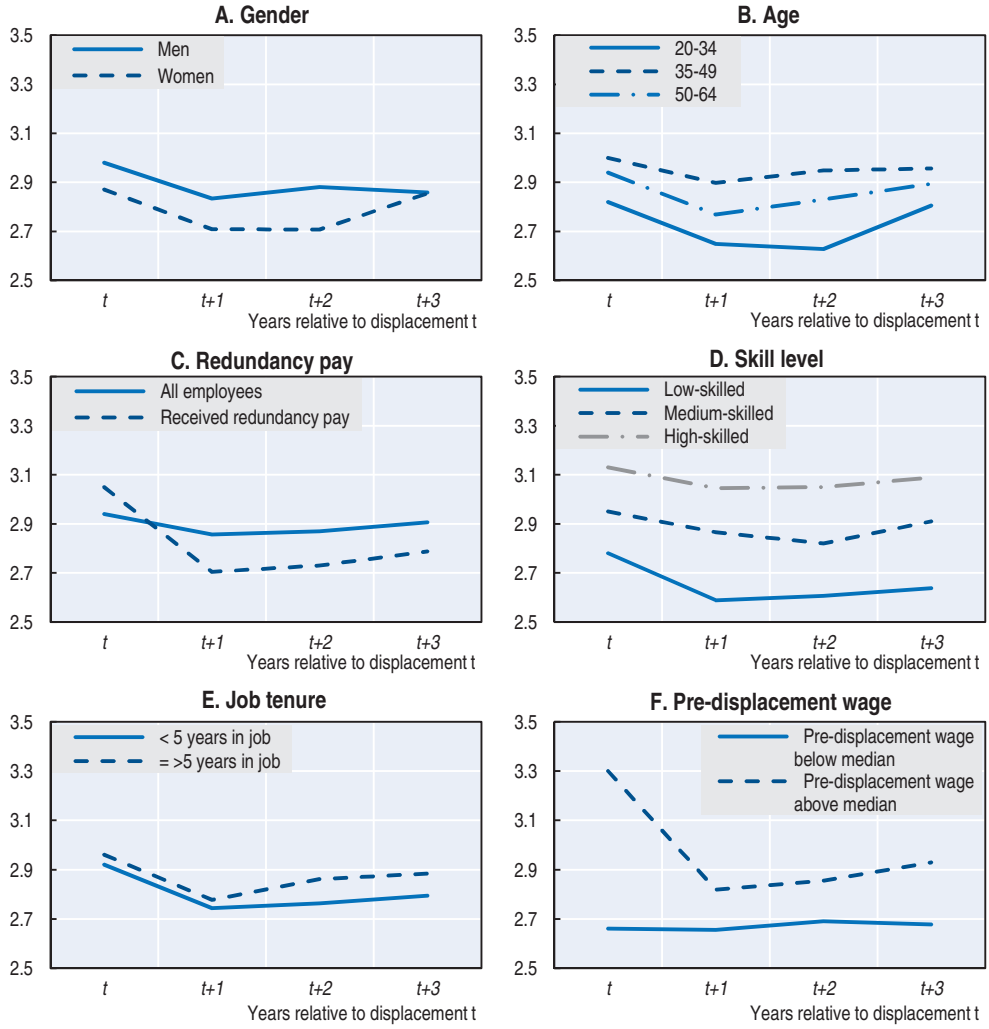
Figure 1.10 shows the differences between the average log wages of re-employed displaced workers and those of the matched comparison groups, for different worker characteristics. The estimated impact for all re-employed displaced workers was a 12% wage cut in the first year after displacement, an 11% reduction in the second year, and a 7% reduction in the third year. While not directly comparable with other OECD countries due to differences in data sources, wage losses in New Zealand seem to be large compared with OECD countries: post-displacement wage losses are negligible in Germany and the United Kingdom (OECD, 2013) and around 6% in the United States (OECD, 2016) and Portugal (OECD, 2013).

Figure 1.10 further shows that the wage effects are larger for younger, older and low-skilled displaced workers. Also workers with longer job tenure and those who received redundancy pay from their employer (which is again related to job tenure) suffer significant wage losses in their new jobs which tend to persist over time. Very similar wage effects were found by Dixon and Stillman (2009), who used administrative data from Statistics New Zealand's Linked Employer-Employee Data (LEED) over the period 2001-04 to study the impact of firm closure, although the stronger effect for older employees (50 years and over) is not confirmed by their analysis.

To assess the full impact of displacement on annual income, Dixon and Maré (2013) also estimated changes in working hours and government transfers, loss of earnings during periods of non-employment, and receipt of redundancy payments for workers that were displaced between 2003 and 2008 using the SoFIE data. Panel A of Figure 1.11 shows that 22% of displaced workers experienced an unemployment spell in the first year after job displacement, compared with only 1% among non-displaced workers. In addition, the average weekly working hours of re-employed displaced workers were about 2-3 hours a week lower than those of the matched comparison group, and the impact persisted over time (Panel C).

Figure 1.10. **Job displacement in New Zealand has a strong negative impact on wages**

The evolution of mean log wages for displaced workers who were re-employed in waged or salaried jobs, by worker characteristics, averages of workers displaced in the period 2003-08



Note: Low-skilled: No qualification or lower secondary school; Medium-skilled: Upper secondary or post-school qualification; High-skilled: Bachelor degree or higher.

Source: OECD compilation based on Dixon, S. and D. Maré (2013), "The Costs of Involuntary Job Loss: Impacts on Workers' Employment and Earnings", *Motu Working Paper 13-03*, Motu Economic and Public Policy Research, Wellington.

StatLink http://dx.doi.org/10.1787/888933436963

As a result of lower wage rates, fewer hours and longer unemployment spells, annual earnings of all displaced workers (including those who did not find a new job) were 21% and 40% lower in the first and second year after displacement than for the matched comparison group (Panel D).

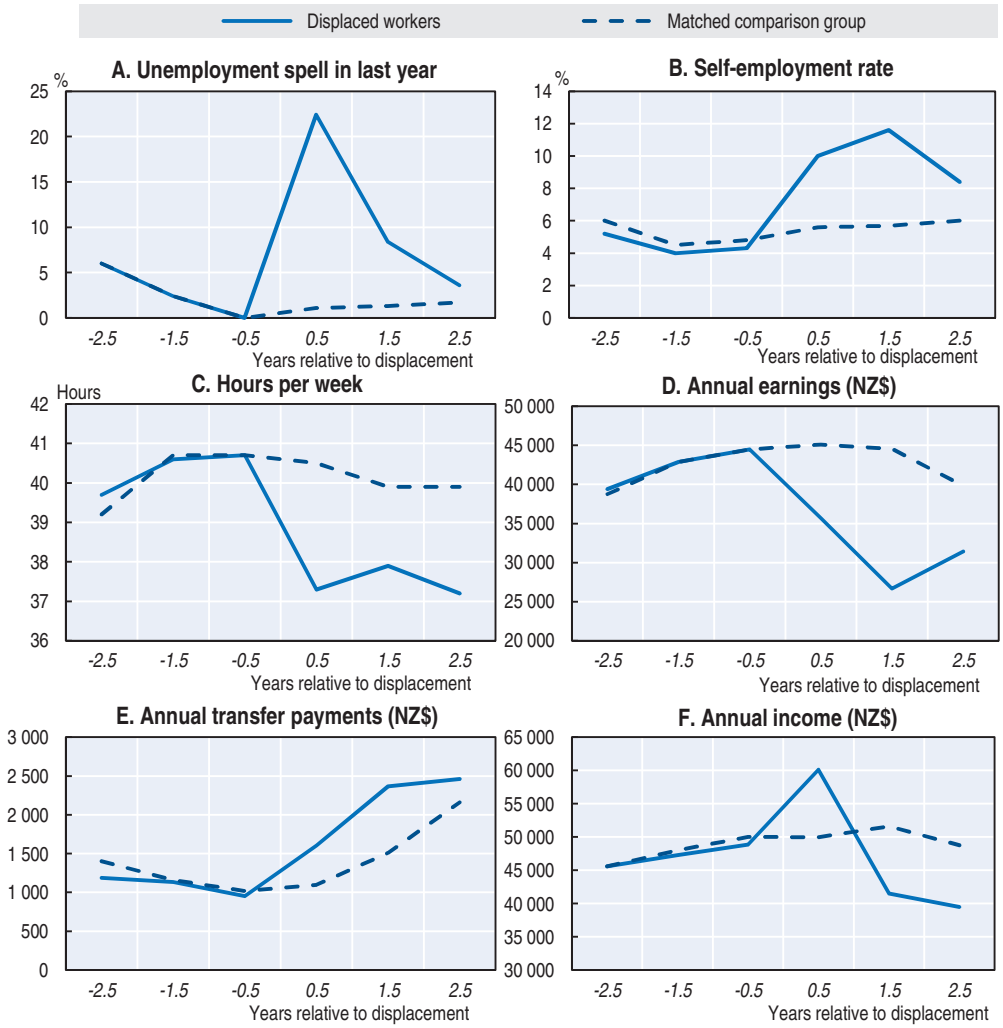
The estimated earning effects for workers that were displaced in OECD countries around the same period (i.e. 2003-08) are mixed: displaced workers in the Nordic countries experienced very small falls in earnings (2-8%); those in the United States had a 10-12% earnings loss; displaced workers in Germany and the United Kingdom faced larger earnings losses initially (32-34%) but much less so in the second year (12% and 18% respectively), and displaced workers in Portugal had earnings losses of 48% and 37% in the first and second year after displacement, respectively (OECD, 2013).

Part of the income loss of displaced workers in New Zealand was offset by redundancy payments and, to a lesser extent, income transfers from the government (Panel E). In the first year after displacement, total annual personal incomes (after transfers and redundancy pay but before taxes) were 20% higher for displaced workers than the matched comparison group (Panel F). As noted by Dixon and Maré (2013), this rise in income was due to the receipt of redundancy pay. Without such pay, income would have decreased by 5%. Moreover, the positive income effect disappeared in the second and third year after displacement, when annual personal incomes were 20% and 19% lower, respectively, and displaced workers can no longer compensate their wage losses with redundancy pay.

Earnings are a major dimension of job quality but other job characteristics also matter for workers' wellbeing. OECD (2013) showed that re-employed displaced workers are more likely to work in part-time or non-permanent jobs than prior to displacement. Other measures of the quality of post-displacement jobs, such as the incidence of work during non-standard times, the availability of paid leave and whether workers have managerial responsibilities, also suggest a decline in job quality after displacement. While not all job quality dimensions have been studied for New Zealand, Dixon and Maré (2013) found an increase in the self-employment rate among re-employed workers in the first and second year after displacement using the SoFIE data (Figure 1.11, Panel B). As argued by von Greiff (2009), people who become self-employed after displacement tend to be those with the poorest labour market prospects, while people who enter self-employment from employment are typically high-ability or high-wealth individuals.

Figure 1.11. **Displaced workers in New Zealand fare worse than non-displaced workers on a range of labour market indicators**

Mean outcomes for displaced workers and the matched comparison group, averages of workers displaced in the period 2003-08



Note: The unemployment spell measures the share of people who reported an unemployment spell in the previous twelve months. Earnings, transfers and income are expressed in March 2007 dollar values. Individuals with zero earnings are included in the measures of annual earnings, annual income and annual transfer payments, but not for the other indicators.

Source: OECD compilation based on Dixon, S. and D. Maré (2013), "The Costs of Involuntary Job Loss: Impacts on Workers' Employment and Earnings", *Motu Working Paper 13-03*, Motu Economic and Public Policy Research, Wellington.

StatLink http://dx.doi.org/10.1787/888933436977

Finally, OECD (2013) showed that a small sub-set of displaced workers experience "professional downgrading", where their new jobs use far fewer skills than their previous jobs. So, while the majority of displaced workers do not need retraining to find new, good-quality jobs, a small group could benefit from skills assessment at unemployment entry followed by retraining or intensive job-search support to improve the match between their skills and the new job requirements.

Conclusion

The New Zealand labour market has performed relatively well in recent years and was less affected by the 2008-09 global financial crisis than in many other OECD countries. Employment rates returned to their pre-crisis level and are amongst the highest in the OECD area. Despite the impressive employment performance, however, the decline in unemployment from its crisis-induced peak has been slow. Unemployment spells have become longer and inflows into unemployment recently started to increase again.

The labour market is characterised by considerable job mobility and labour turnover, in line with the flexible employment regulations and the importance of temporary employment contracts. Comparable data suggest that the job displacement risk in New Zealand prior to the global financial crisis was among the lowest in the eight OECD countries where it can be reasonably compared. At the same time, the impact of the economic downturn on job displacement was stronger than in any other country and the stock of workers who report being displaced due to structural and technological change has not yet returned to its pre-crisis level.

Re-employment rates in New Zealand are high compared with many OECD countries and seem to be little affected by the business cycle. Within one and two years after displacement, respectively 68% and 84% of displaced workers find a new job. Nevertheless, job displacement tends to have a persistent negative impact on wages, working hours and working arrangements after displacement. Especially wage effects tend to be stronger in New Zealand than in other OECD countries. In the first year after displacement, wage losses are offset by redundancy payments, but total annual personal income (including government transfers and redundancy pay) in the second and third year after job displacement is about 20% lower for displaced workers than for non-displaced workers with similar characteristics.

Reallocation of workers from declining firms and sectors to growing firms can contribute to economic dynamism and growth. However, the costs can be high for the affected workers and the New Zealand Government has to consider how income support institutions, active employment measures and training programmes can help displaced workers to maintain their job quality and living standards.

Notes

1. The law does not provide a statutory definition for casual workers, but a casual worker may be defined where the employee has no guaranteed hours of work, no regular pattern of work, and no ongoing expectation of employment.
2. *Source*: http://dotstat.oecd.org/.
3. Other service activities is a residual category and includes the activities of membership organisations, the repair of computers and personal and household goods, and a variety of personal service activities not covered elsewhere in the classification.
4. It should be noted that the high 1991 figure, the starting point of the data series, represents a post-war cyclical nadir for the New Zealand labour market occurring as a consequence of considerable reductions in border protection, privatisation and marketisation of major government corporates and macro-economic stabilisation.
5. The HLFS was re-developed for the second quarter of 2016 to improve the relevance and quality of labour market statistics (Statistics New Zealand, 2016). Also the definition of job displacement was slightly adapted. Instead of asking non-employed people (who had been employed in the past five years) whether they were laid off / dismissed / made redundant from their previous job, the re-developed HLFS asked whether they were not employed due to lay-off / redundancy / business closed. This change in definition did not result in a significant difference in the share of displaced workers in the total working-age population, which was estimated at 1.3% in the second quarter of 2016. Also the differences in displacement rates by worker characteristics are broadly similar to those displayed in Figure 1.7.

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Annex 1.A1
Supplementary tables

Table 1.A1.1. **Displacement rate coverage and definitions**

Definition	Country	Years covered 2003-08	Years covered 2009-10
Self-defined displacement	Australia	2003-08	2009-10
	Canada	2003-08	2009-10
	France	2004-08	2009-10
	Japan	2003-08	2009-10
	Korea	2003-08	2009
	New Zealand	2003-08	2009
	Russian Federation	2004-08	-
	United States	2003, 05, 07	2009
Firm-identified displacement	Denmark	2003-08	2009-10
	Finland	2003-08	2009-10
	Germany	2000-04	-
	Portugal	2003-08	2009
	Sweden	2003-08	2009-10
	United Kingdom	2003-08	2009-10

Table 1.A1.2. **Re-employment rate coverage and definitions**

Definition	Country	Years covered 2003-08	Years covered 2009-10
Self-defined displacement	Australia	2003-08	2009-10
	Canada	2000-08	2009-10
	France	2004-08	2009-10
	Japan	2003-08	2009-10
	Korea	2003-08	2009
	New Zealand	2003-08	-
	Russian Federation	2004-08	-
	United States	2004,06,08	2010
Firm-identified displacement	Denmark	2003-08	2009-10
	Finland	2003-08	2009-10
	Germany	2000-04	-
	Portugal	2003-08	2009
	Sweden	2003-08	2009
	United Kingdom	2003-08	2009-10
	United States	2000-07	-

Chapter 2

Easing the impact of economic restructuring on displaced workers in New Zealand

This chapter presents the rationale behind prevention and early intervention policies to support workers in the process of economic restructuring and describes how the impact of restructuring can be reduced through employment protection legislation, short-time work schemes and other early intervention measures used in other OECD countries. It then looks specifically at the income situation of displaced workers after their dismissal and the role of different actors (the family, the company, the public system and the insurance market) in this regard and at solutions that provide better income protection to all displaced workers in New Zealand.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

A firm's need for labour continually changes as sales fluctuate and production technologies evolve. Such changes can often be accommodated through internal adjustment, without having to hire and fire workers. For example, workers may be retained during a downturn by temporarily reducing their hours of work or assigning them to non-production activities (e.g. training or maintenance work). Even when a firm's labour requirements have permanently declined for a certain type of worker, it may be possible to retrain those workers and transfer them to other parts of the firm. However, not all jobs can or should be saved. In that case, compensation and support may be warranted to assist the affected workers. This chapter describes and assesses the most important policy measures in New Zealand that aim to prevent excessive job displacements, provide legal protection against dismissal, and ensure monetary compensation in the event of a job displacement.

Prevention of unnecessary dismissals

Many OECD countries have short-time work (STW) schemes to preserve jobs in firms experiencing temporarily low demand. The purpose of these schemes is to avoid "excessive" layoffs – defined as the permanent dismissal of workers during a business downturn whose jobs would be viable in the long run (Hijzen and Venn, 2011). Under such STW schemes, workers whose hours are reduced due to a shortened week or a temporary layoff are given partial income support, often provided via the unemployment insurance system. However, a major advantage of the STW schemes, as opposed to regular unemployment benefits, is that they reinforce the employment relationship between the company and its workers.

In principle, a well-designed STW scheme can promote both equity and efficiency: i) equity, by sharing the burden of economic adjustment more equally across the workforce; and ii) efficiency, by preventing transitory factors from destroying valuable job matches (OECD, 2009). Indeed, STW schemes played an important role in preventing workers from unnecessarily facing unemployment during the recent global financial crisis in several OECD countries, most notably Germany and Japan (Hijzen and Venn, 2011). Furthermore, deadweight effects (i.e. paying STW subsidise for jobs that would have been retained anyway) and displacement effects (i.e. preserving jobs that are not viable in the medium run) were modest compared with other types of wage subsidies, provided that they were scaled back quickly as the recovery gathered speed (OECD, 2010, Chapter 1).

Following the global financial crisis, New Zealand also introduced a STW scheme in 2009 – the *Job Support Scheme* (Office of the Minister for Social Development and Employment, 2009). The programme, which expired in December 2010, allowed firms to reduce working hours by one day in two weeks. Firms were paid a subsidy at the minimum wage level for every participating worker for a period of up to six months. Initially, the *Job Support Scheme* was only available to businesses with 100 or more workers, but later also to those with 50 or more (Starke, 2013). But take-up rates were very low and STW remained marginal in New Zealand. From March 2009 to December 2010, only 54 firms and 4 702 workers participated in the *Job Support Scheme*. The total cost of the programme was NZD 1.8 million (equivalent to about EUR 1.1 million). The number of jobs that were saved through the scheme, estimated around 700, were marginal compared with the 30 000 rise in the total stock of those not employed due to layoff, dismissal or redundancy over the same period. While there has been no evaluation of the reasons for the low take-up, the strict maximum permissible reduction in working hours (one day in two weeks) and the high firm size threshold have probably contributed to it.

Given the positive experiences with STW schemes during the global financial crisis in many other OECD countries (Hijzen and Venn, 2011; OECD, 2010, Chapter 1), the New Zealand Government may wish to consider lifting the limit on the maximum hours reduction for a future short-time work scheme, as was the case in the majority of OECD countries. Extending the coverage to firms with fewer than 50 workers could also improve the impact of any future scheme and further limit the social cost of an economic crisis. Another example of a STW scheme in New Zealand worth considering for future crises is the *Earthquake Support Subsidy* that was available to businesses affected by the Canterbury earthquakes in September 2010 and February 2011 (see Chapter 3 for a discussion).

Legal protection against dismissals

Employment legislation is less strict than in any other OECD country

Employment protection legislation (EPL) is the set of rules governing the hiring and firing of workers. It is typically designed to protect workers from unfair dismissals and increase job stability, with the aim of shielding workers and society from some of the economic and non-economic costs associated with job displacement. At the same time, a large body of research has shown that excessively strict or poorly designed EPL can hamper the economy by discouraging job creation, lowering productivity and strengthening labour market dualism (OECD, 2013a, Chapter 2). Striking an appropriate balance between allowing an efficient reallocation of labour resources and the need to protect workers is therefore a key challenge for policy makers.

In New Zealand, the rules governing hiring and firing of permanent workers are less strict than in any other OECD country (Figure 2.1). Protection against individual dismissals is low, especially in terms of notice periods and redundancy pay provisions. Only the United States, Canada and the United Kingdom have less restrictive rules than New Zealand (Panel B). In addition, contrary to almost all other OECD countries, there is no additional protection or notice period in case of collective dismissals (Panel C). Taken together, New Zealand currently has the lowest overall EPL index of all 34 OECD countries (Panel A).

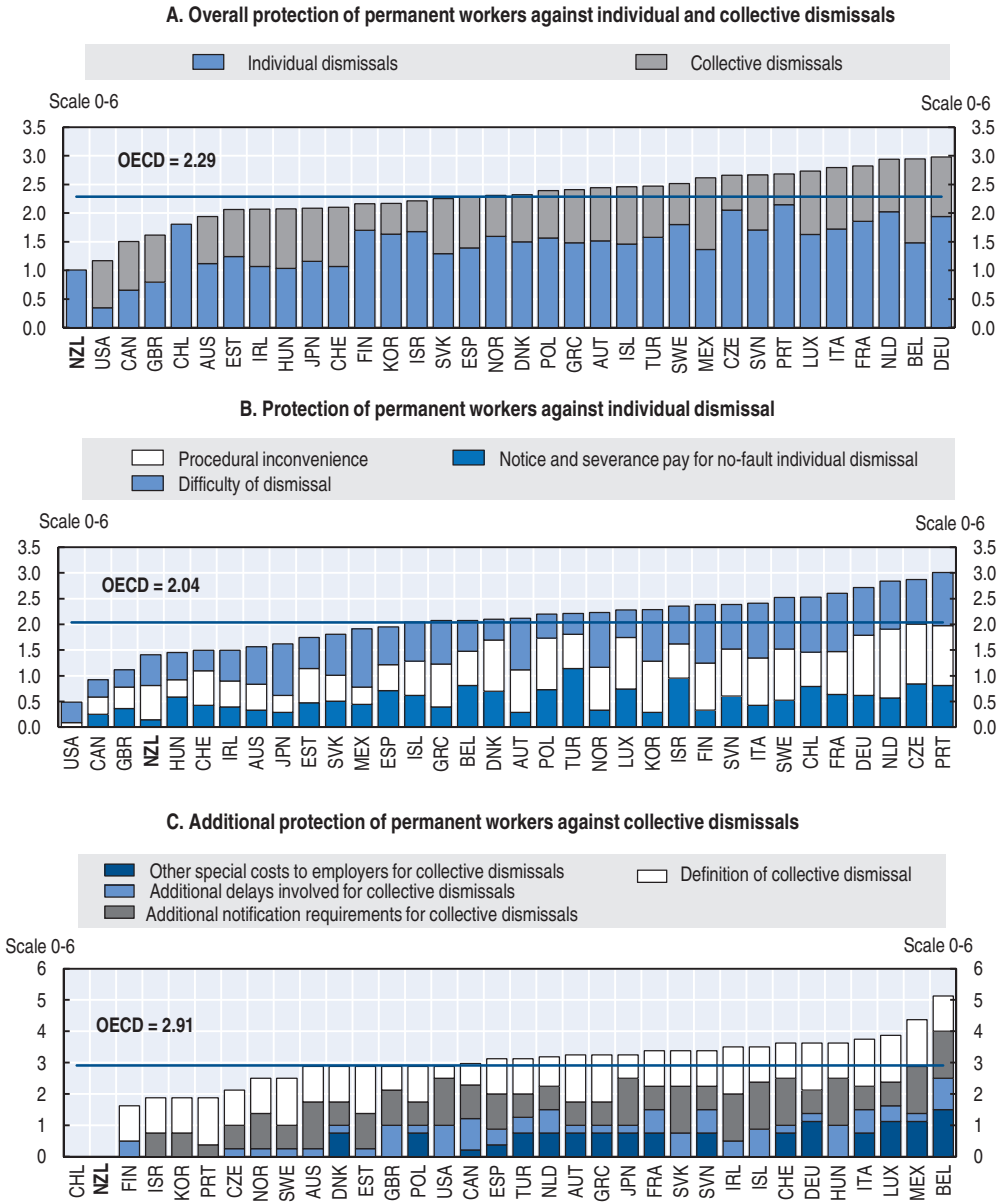
Redundancy notice can be very short

The Employment Relations Act (ERA) from 2000 is the principal statute governing employment relations in New Zealand. The ERA mandates all parties to an employment relationship to work together in good faith. A redundancy can only be made for genuine commercial reasons and good faith requires that firms must be able to demonstrate that these reasons exist. Genuine reasons for a worker's redundancy can include the introduction of a new technology, rationalisation of staff to increase business efficiency, restructuring of business operations, and closure or outsourcing of business. The duty of good faith also requires consultation with workers and unions on the changes that are being proposed before any final decision about redundancy is made. For small restructurings these conditions imply a consultation process of a few days or weeks, while for large changes it might take longer and be more time intensive (Atkins, 2012).

The ERA does not stipulate a specific period for notice of redundancy, but the good-faith principle requires that all employees are provided with reasonable notice of redundancy. The Courts have stated that a notice period is to provide employees with certainty on when their job will end and enable them to make plans. What constitutes reasonable notice depends on the facts of each situation. Factors that can help companies to determine reasonable notice include: the reason for the redundancy; the employee's length of service; the employee's seniority and/or remuneration package; custom, practice and industry norms; the employee's ability to find alternative employment; and the amount of any redundancy compensation being paid. There are also examples of where the courts have found that the notice period in the employment agreement is not reasonable and determined a different period.

Figure 2.1. **Employment protection in New Zealand is more flexible than in any other OECD country**

Scores of the OECD Employment Protection Indicator, 2013



Source: OECD Employment Protection Database, 2013 update, http:dx.doi.org/10.1787/lfs-epl-data-en.

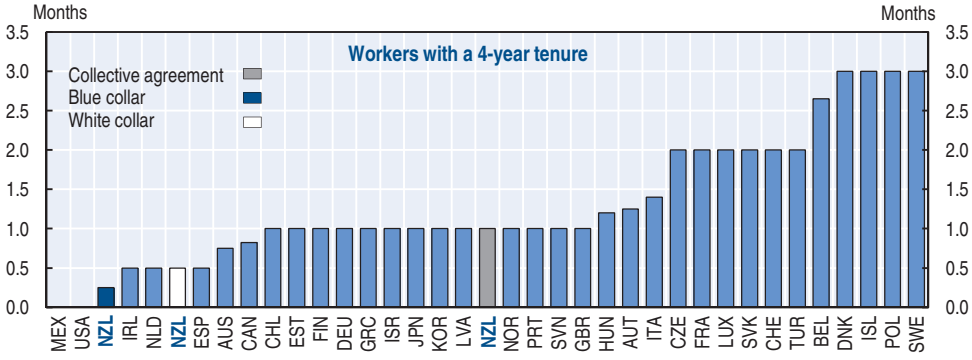
StatLink http://dx.doi.org/ 10.1787/888933436982

A survey of 5 500 small to medium-sized enterprises (SMEs), undertaken on the request of the Public Advisory Group on Restructuring and Redundancy (2008), revealed that 69% of workers with an individual agreement had a notice period written into their employment agreement. The survey did not provide information on the typical length of the notice period, but the information provided by the New Zealand authorities for the OECD EPL database (OECD, 2013b) suggests that blue collar workers tend to have 1-2 weeks of notice period, while white collar workers tend to have at least two weeks. Among workers with a collective employment agreement – which account for about one fifth of all wage and salary workers according to Statistics New Zealand (2016) – some 90% have at least four weeks of notice in case of redundancy (CLEW, 2016).

In sum, the available information suggests that there can be important differences across New Zealand workers in the length of notice period they receive upon dismissal. While one month of notice period is in line with the practice in many OECD countries, workers with only one or two weeks of notice period entitlement would be much less protected than workers in most other OECD countries (Figure 2.2).

Figure 2.2. **The notice period for individual dismissals in New Zealand is among the shortest in the OECD**

Notice period for individual dismissals in months, by type of contract, 2013



Source: OECD Employment Protection Database, 2013 update, http:dx.doi.org/10.1787/lfs-epl-data-en.

StatLink http://dx.doi.org/10.1787/888933436994

Certain categories of workers in New Zealand who work in narrowly specified sectors and in companies with at least 20 employees enjoy additional protection as "vulnerable" workers (see Box 2.1). When the business they work for is sold, transferred or contracted out, they have the right to i) transfer to their new employer on the existing terms and

conditions and ii) bargain redundancy payments. While these rights may be beneficial for the workers involved, the protection does not apply to many other workers who may be vulnerable, hereby perpetuating inequality in the New Zealand labour market.

Towards more equality in legal protection against dismissals

Overall, New Zealand's regulatory structures place little emphasis on preventing worker dismissals and redundancies. There is a labour market rationale for the relatively low regulation policy choice. In a forward looking environment, anything that raises firms' costs of firing workers will raise the costs of hiring workers, and hence discourage new employment. Low employment protection in New Zealand is designed to reduce the bargaining power of labour market insiders – those already employed – and enhance the power of outsiders – those more marginal to the labour market – thereby facilitating transitions into employment. At the same time, especially during a cyclical downturn or during periods of accelerated structural change, the ease of dismissal inevitably brings a trade-off, facilitating as it does higher numbers of job displacement (see Chapter 1). Broadly consistent with the evidence on very flexible employment protection by OECD standards, New Zealand has the fifth-highest rate of outflow from unemployment in the OECD, an inflow rate into unemployment at the OECD average, and the third-lowest ratio of long-term to total unemployment (Figure 2.3).

Shifting towards a more preventive regime is a policy option, but one at odds with the long-standing overall strategic approach to labour market regulation in New Zealand. However, New Zealand could consider generating more equality among workers. Although further statistical analysis would have to be undertaken to determine the exact distribution of notice periods across workers, the government should seriously consider requiring a longer minimum notice period – potentially using a scale based on the workers' tenure as is commonly done in many OECD countries. A minimum notice period of, for instance, one month would allow workers to better prepare for their redundancy, look for other jobs and seek assistance if and when needed. It would also allow them to better utilise their on-the-job contacts while avoiding the considerable stigma sometimes associated with unemployment (e.g. when prospective firms interpret unemployment as a signal of low productivity). Longer advance notice is particularly important when the impact of the redundancy is likely to be larger, like with mass redundancies or in small communities. It allows state agencies to organise appropriate support for displaced workers, as will be discussed in the next chapter.

Box 2.1. Additional employment protection for vulnerable workers in New Zealand

In 2004, the Labour-led coalition government introduced an amendment to the Employment Relations Act of 2000 to include the right for "vulnerable workers" to transfer to the new employer in certain restructuring situations. Vulnerable employees are narrowly defined as employees providing cleaning services, food catering services, caretaking or laundry services in the education, health and residential care sectors. These sectors were at the time subject to substantial restructuring and the consequences for workers in those sectors were perceived as unfair.

Vulnerable employees have special statutory protection when the business they work for is sold or the work is transferred or contracted out. They have the right to transfer to a new employer under the same terms and conditions of employment. They must be given a date to transfer by and a reasonable opportunity to make their decision. Firms must also provide to these vulnerable workers all the relevant information about the restructuring for making their decision.

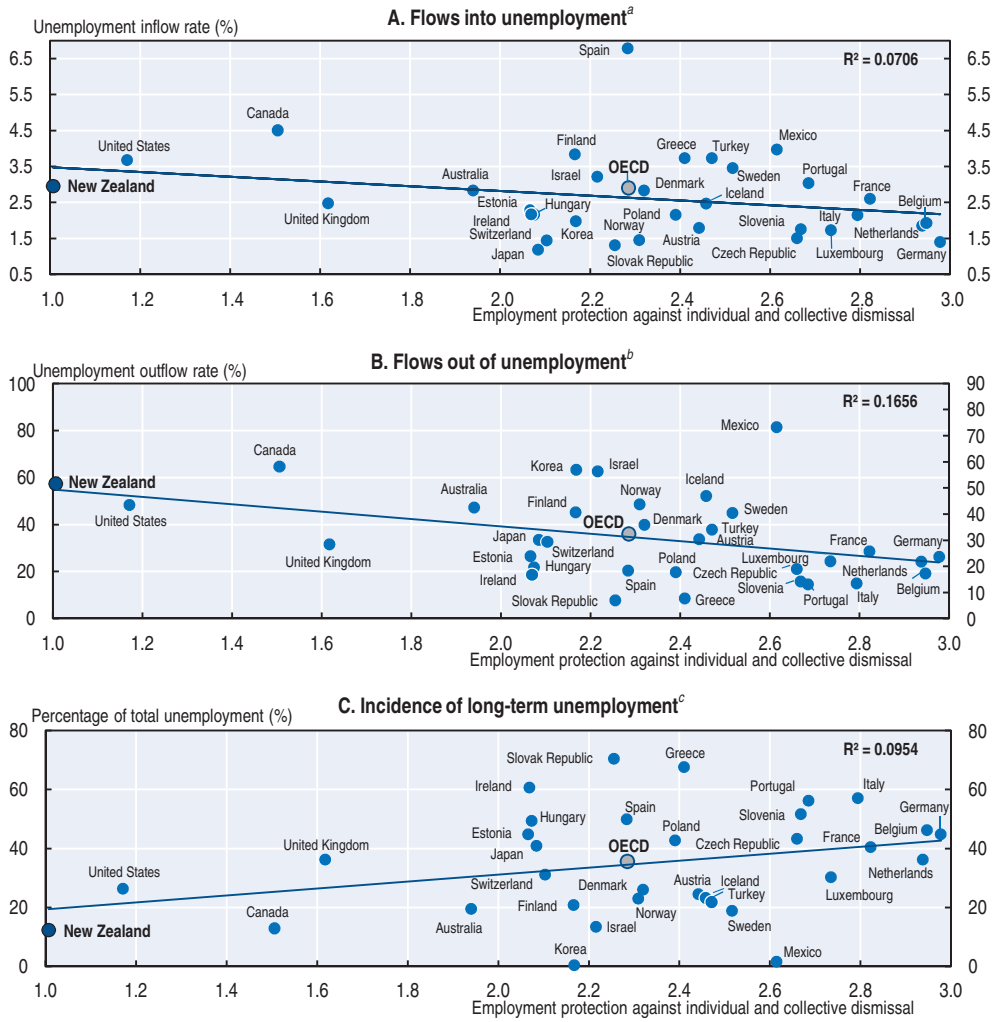
Under certain circumstances vulnerable employees also have the right to bargain for redundancy pay from the new employer if they are subsequently made redundant – provided their employment agreement does not already provide for redundancy entitlements or expressly exclude redundancy entitlements. In 2012, the Supreme Court held that vulnerable workers have the right to bargain for non-monetary redundancy entitlements, which could include re-training, job seeking assistance, assistance with résumé preparation or time off to attend job interviews. If reaching an agreement proves impossible, vulnerable workers have the right to appeal to the Employment Relations Authority. This authority is an independent institution whose role is to resolve employment relationship problems. It has the power to take legally binding decisions.

An amendment to the ERA was made in 2014 by the National-led coalition government, weakening the protection for vulnerable workers by making an exemption to the provision for businesses with fewer than 20 employees.[1]

1. More information on the changes introduced in 2014 can be found here: http://www.mbie.govt.nz/info-services/employment-skills/legislation-reviews/amendments-to-the-employment-relations-act-2000/law-changes-to-continuity-of-employment.

Figure 2.3. **Relatively high flows in and out of unemployment in New Zealand characterise flexible employment protection**

Employment protection, unemployment flows and long-term unemployment, 2013



a) The *unemployment inflow rate* is defined as the ratio of the number of unemployed who have been unemployed for less than one month to the number of employed one quarter earlier.

b) The *unemployment outflow rate* is defined as 1 minus the ratio of the number of those unemployed for more than a month to the total number of unemployed one quarter earlier.

c) Number of long-term unemployed (12 months or more) as a percentage of total unemployment.

Source: OECD calculations based on national labour force surveys; and *OECD Employment Protection Database*, 2013 update, http:dx.doi.org/10.1787/lfs-epl-data-en.

StatLink http://dx.doi.org/ 10.1787/888933437008

Monetary compensation upon job displacement

The role of ex-ante compensating wage variations

In a competitive labour market with forward-looking heterogeneous and rational firms as well as workers and with job-search costs, both firms and workers will be aware of the existence of risks of job displacement, before it occurs. They will also be aware to a certain extent of how displacement risks vary across both jobs and firms. If the above assumptions hold, the privately negotiated wage bargain will incorporate all of these risks, possibly in an efficient way, and build in the optimal compensating variation into wages. Under such circumstances, a higher pre-displacement wage will also include a compensating variation for running the risk of a shift to a lower wage path following re-employment.

However, compensating wage variations for redundancy risks may fail to arise out of imperfect information, lack of a forward-looking focus, cognitive dissonance or monopsony power. In addition, the outcomes generated by market bargains may be regarded as socially unfair or inequitable, either because of unfair variations in bargaining power, or bargains which result in an overall worker remuneration package which is considered inadequate.

International empirical evidence on compensating wage variations for job displacement risks is mixed (see for example Abowd and Ashenfelter, 1981; Mayo and Murray, 1991; Morreti, 2000; Lalive et al., 2006; Bonhomme and Jolivet, 2009; Akyol and Verwijmeren, 2013). And even if such variations exist, it is unclear whether their observed size is socially optimal. Market failure, creating sub-optimal outcomes for private labour market bargains, is an important theoretical rationale for government intervention to improve compensation for redundancy.

There are large inequalities in redundancy payments

Unlike in many OECD countries, there is no statutory legal requirement for firms in New Zealand to provide redundancy payments when workers are displaced. By way of example, Table 2.1 provides a comparison of redundancy legislations across selected OECD countries. Differences are large but most countries have some statutory requirements. In New Zealand, redundancy payments are only legally required to be paid if they are explicitly specified in a worker's employment agreement (in most cases, this will be individual agreements). Under certain circumstances, vulnerable employees defined as such under the ERA (see Box 2.1 above) have the right to bargain for redundancy pay from the new employer if they are subsequently made redundant.

Table 2.1. **Summary of major dimensions of redundancy pay schemes in selected OECD countries**

	Legal basis and eligibility for redundancy pay	Amount of redundancy pay set by statutory law or collective bargaining	Collective bargaining coverage	Interaction with unemployment benefit entitlement
Australia	Federal statutory law and provisions in collective contracts	Min.: tenure between 1-2 years: 4 weeks Max.: tenure between 9-10 years: 16 weeks	45% (2007)	Waiting period increased by number of wage weeks received in redundancy pay
Canada	Federal statutory law and provisions in collective contracts	Tenure of 1-3 years: 5 days for each year of tenure; thereafter 2 days for each additional year	29% (2012)	Waiting period increased by number of wage days received in redundancy pay
Denmark	Statutory requirement for white-collar workers and collective agreements only for blue collar workers	White collar minimums: 1 month > 12 year tenure 2 month > 15 year tenure 3 months > 18 year tenure Blue collar minimums: 1 month > 3 years tenure 2 months > 6 years tenure 3 months > 8 years tenure	85% (2007)	For blue collar workers the amount of redundancy pay is reduced by the amount of unemployment benefit
France	Statutory requirement for white-collar workers and provisions in collective agreements	Min. tenure 1 year: 2 months	90% (2008)	Waiting period increased if redundancy pay exceeds the legal minima, by days corresponding to the extra amount in redundancy pay divided by the prior daily wage. The total wait is capped at 75 days
New Zealand	No statutory requirements in Employment Relations Act. Except under some circumstances for a very small group of "vulnerable" workers	Paid if explicitly negotiated and included in individual or collective employment agreements.	20% (2016)	No interaction, except one week longer benefit stand-down (i.e. 2 weeks) if redundancy pay pushes prior annual income over the average annual income
Sweden	No legal requirement. General provisions established in collective agreements respectively for white collars workers aged over 40 and blue collar workers aged over 40 and with 50 months of employment over the last 5 years	White collar workers: complements unemployment benefits to a maximum of 70% of the previous wage for a period of 6 to 18 months dependent on age. Blue collar workers are entitled to a lump sum increasing with age	91% (2011)	Amounts depend on unemployment benefits for white collar workers
United States	No legal requirement. Provisions in collective agreements		13% (2011)	Waiting period for unemployment benefits or a reduction in the payments vary across states

Source: Based on Table 2.1 in OECD (2016), *Back to Work: Australia: Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264253476-en; and supplemented with New Zealand information from the Centre for Labour, Employment and Work.

Limited information exists on the proportion of employment agreements in New Zealand that include redundancy pay entitlements. Employment agreements are negotiated either individually or collectively, with a share of 80% and 20% respectively in 2016 (Statistics New Zealand, 2016). As discussed in Chapter 1, about one tenth of the employment agreements are fixed-term or casual contracts, for which there will be no redundancy entitlement by definition. A survey of 5 500 small- and medium-sized enterprises commissioned by the Department of Labour in 2008 found that 20% of firms with individual employment contracts included a contractual redundancy entitlement (Public Advisory Group on Restructuring and Redundancy, 2008). For employees working under collective agreements, the large majority – 94% in 2015 – were entitled to redundancy pay (CLEW, 2016). The amount of compensation in collective agreements depends on the years of services but varies greatly across agreements. For instance, for one year of service under a collective agreement, 15% of employees are entitled to a redundancy payment of 4-5 weeks, 37% to 6 weeks of pay and 29% to 7-10 weeks of pay.

Despite the lack of statutory requirements, a surprisingly large number of workers receive redundancy compensation upon dismissal. Data from the Survey of Family Income and Employment (SoFIE) suggest that about half of the workers displaced between 2002 and 2009 obtained some redundancy payment from their employer (Table 2.2). The average payment of those reporting redundancy payment was NZD 28 200, and the median payment was NZD 15 100, indicating a strong rightward skew in the distribution. With average weekly earnings of displaced workers prior to displacement at NZD 837 during the period 2002-09, the redundancy payment equalled about 34 weeks of pay on average. As one would expect from general data on wage differentials, males received higher redundancy payments than females and high-skilled workers higher payments than those with lower qualifications. Amounts paid were increasing with tenure and also showed the expected age and occupational gradients.

Table 2.2. **Many workers in New Zealand receive a relatively high amount of redundancy pay upon their dismissal**

Redundancy payment coverage and level for displaced employees aged 20 to 64 years with at least one year of tenure, by worker characteristics, averages over 2002-09

	Proportion of employees displaced	Proportion receiving redundancy pay	Mean gross payment (NZD 2012)	Median gross payment (NZD 2012)
All	1.8	53.5	28 200	15 100
Sex				
Male	2.1	52.0	33 100	16 300
Female	1.5	55.6	21 000	14 500
Age				
20 to 24 years	2.0	41.2		
25 to 34 years	1.7	42.2		
35 to 44 years	1.7	51.3		
45 to 54 years	1.8	58.9		
55 to 64 years	2.1	67.6		
Highest educational qualification				
No qualifications	2.2	47.5	23 700	15 300
Lower secondary school	2.6	47.4	20 900	14 500
Upper secondary school	2.0	56.1	21 800	13 300
Basic vocational	1.8	44.6		
Vocational	1.6	51.1	30 900	15 400
University degree	1.5	67.0	38 000	20 700
Not classified	1.5	67.4		
Job tenure				
1 to 2 years	2.1	33.6	15 600	9 800
2 to 3 years	1.9	50.5	12 100	8 800
3 to 5 years	1.9	49.1	20 300	12 100
5 to 10 years	1.8	62.0	32 500	16 600
10+ years	1.5	81.1	47 800	38 100
Occupation				
Managerial	2.0	67.5	45 100	28 700
Professional	1.1	70.3	37 400	23 800
Associate professional and technical	1.9	63.1	20 900	14 500
Clerical	2.3	52.4	16 200	10 800
Service and sales	1.4	32.7		
Agricultural	1.3	40.6		
Trades	2.5	34.9		
Machine operators and assemblers	2.3	49.2		
Elementary	2.4	35.5		

Note: Missing values in the table are due to cell sizes being too small. Numbers in remaining cells are still small and should be treated with caution.

Source: OECD compilation based on Table 2 and 4 of Dixon, S. and D. Maré (2013), "The Costs of Involuntary Job Loss: Impacts on Workers' Employment and Earnings", *Motu Working Paper 13-03*, Motu Economic and Public Policy Research, Wellington.

StatLink http://dx.doi.org/10.1787/888933437080

While this survey data gives an indication of the actual coverage rate of redundancy pay for those workers becoming redundant, it does not indicate whether the redundancy pay goes to those actually in need of financial support. The majority of displaced workers rapidly reintegrate back into the labour market, and hence have limited need for redundancy pay to maintain themselves and their families. The critical income support issue is not the overall rate of coverage and amount of redundancy pay-out, but rather the rate of coverage and redundancy pay-out for those workers who struggle to reintegrate back into the labour market. Given that those in higher occupational and educational categories are, first, more likely to receive redundancy pay and, second, receive a higher payment, and that these same groups are also less likely to struggle to reintegrate into the labour market, it is likely that both the coverage and the level of redundancy pay-outs for workers actually in need of income support is significantly lower than the overall observed averages suggest.

Redundancy payments in New Zealand are treated as income in some parts of the government system but not in others. For instance, while redundancy payments are subject to income tax, there are no deductions from redundancy pay for accident insurance, the pension system or child allowances. At the same time, redundancy payments may change annual income for the calculation of child support.

Redundancy payments have no impact on either welfare benefit eligibility or the amount of welfare payments people are entitled to, unlike in many other OECD countries (see Table 2.1). As a lump sum payment, redundancy payments are currently treated by the New Zealand welfare system as assets, which are only taken into account for second-tier housing assistance. Given that redundancy payments are intended to replace normal earnings for a defined period – even though they are typically paid as a lump sum for that period as a whole – it would be more consistent for policy to treat them as earnings. Until the mid-1990s, redundancy pay was indeed taken into account as part of the income test for welfare entitlement (Public Advisory Group on Restructuring and Redundancy, 2008).

Even so, the waiting period during which the welfare client cannot receive any benefit payment is affected (see Table 2.1). The length of the stand-down period depends on the client's before-tax average weekly income in the 26 or 52 weeks immediately before the potential entitlement date. There is a one-week welfare stand-down period for anyone earning less than the average wage, averaged over either the previous six or 12 months, whichever produces the shortest stand-down period. Otherwise, there is a two-week benefit stand-down period. The calculation of average weekly income over this period includes redundancy payments which were paid at the point of job separation.

In the case of a firm bankruptcy or liquidation, workers may receive less redundancy pay than they are entitled to. Section 7 of the Companies Act 1993, amended in 2006, sets out the preferences that must be followed when distributing available funds to creditors. With the exception of certain secured creditors, amounts owed to employees for salary and wages, holiday pay and redundancy pay are given preference over other amounts owed, including debts due to the Inland Revenue Department and unsecured creditors. However, there are some important restrictions which may affect a worker. The total gross claim of any single employee that is treated as preferential, which may include redundancy pay as well as accumulated holiday pay and unpaid wages, is no more than NZD 22 160. This amount may be altered from time to time by Order in Council according to earnings growth. Any amount of a worker claim that exceeds the threshold is an unsecured claim in the liquidation. While there are no data on the proportion of workers who were affected by the maximum threshold in the case of a bankruptcy or liquidation, the average redundancy payment of NZD 28 200 exceeds the threshold of NZD 22 160, indicating that many workers could be affected.

The role of private redundancy insurance is minimal

A number of private insurance companies and banks offer income protection insurance in New Zealand. However, 2011 evidence from an on-line survey suggests that overall only 20.5% of New Zealanders have income protection insurance (Naylor et al., 2011). The on-line evidence from providers suggests that such insurance is sold to cover situations of sickness where there is no coverage by the public accident insurance scheme, rather than to cover income loss due to redundancy.[1] Private redundancy protection exists but seems to be an optional and very minor add-on to a sickness-focussed income protection policy. Additionally, anecdotal evidence suggests that the private sector is withdrawing from the market for redundancy insurance. One big insurance company, Asteron, used to offer a stand-alone redundancy income protection policy, but no longer does. Another major market player in the finance industry, AMP, which used to offer mortgage protection redundancy insurance, also stopped doing so.

An on-line calculator comparing various insurance company products suggests that there is typically a stand-down period of one month for private redundancy insurance pay-outs; pay-outs have a maximum duration of six months; and the maximum pay-out is only 40% of gross earnings or 110% of mortgage payments, whichever is the higher.[2] By way of contrast, sickness income protection coverage typically pays out 75% of gross earnings and can last up to two years. The substantial differences in pay-out rates between redundancy and sickness income protection insurance, the restricted duration and the limited and, on some evidence, diminishing size of the market all suggest considerably greater moral hazard and adverse selection problems – classic insurance market failures – in the market for private redundancy insurance.

International evidence supports this conclusion for New Zealand of considerable adverse selection and moral hazard. For example, Hendren (2015) provides evidence of adverse selection in the private insurance markets in the United States for the purchase of income protection for job displacement. Workers' superior knowledge about their potential future job loss compared to that of insurance companies prevents the development of a profitable private market for redundancy and unemployment insurance. The private insurance market failure is one rationale for policy intervention to seek public solutions for the problem.

Towards a more active redundancy insurance system

Taking into account the considerable economic costs of job displacement for the involved workers and the lack of redundancy payment coverage for half of the workforce, the New Zealand Government may wish to consider strengthening the legal framework for redundancy payments. A more elaborated framework for redundancy payments may be justified in order to shift part of the costs of economic restructuring from workers to employers. As discussed in Chapter 1, even for displaced workers who manage to return quickly to a new job, wage losses can be considerable and tend to be larger than in other OECD countries.

One policy option would be to introduce mandatory redundancy payments for all workers with a minimum tenure, of e.g. one or two years. As is the case in many OECD countries (see Table 2.1), the amount of redundancy pay can be introduced as an increasing function of the years of service in a company. The advantage of such mandatory redundancy entitlements is more equality among displaced workers. The disadvantage of this approach is that it does not necessarily target those most in need of support. Employees with fixed-term contracts or casual workers are typically excluded from redundancy payments, as are employees with short job tenure. In a country like New Zealand, with a heavy reliance on

temporary employment contracts, there may be need for a more flexible system of redundancy compensation, especially given the changing nature of work and the emergence of new forms of work organisation - as for instance the 'platform' or 'gig' economy' which is largely based on non-standard work arrangements and independent work (OECD, 2016b).

In addition, New Zealand could build on recent policy initiatives and reforms in several European countries that have been exploring ways to turn redundancy payment into a more active allowance used to promote job-to-job transitions (European Commission, 2015). Instead of using the redundancy compensation as a way to dissuade employers to displace their workers too quickly and to compensate workers for loss of human capital, the idea behind more active payments is to target them at reintegration and retraining for displaced workers in need of support. For instance, severance payments in the Netherlands have been replaced by transition allowances that can be used by the employer (with consent of the employee) to facilitate the shift to a new job after dismissal (Verhulp and Bennaars, 2015). Active payments would also be a way to limit the disincentives for displaced workers with generous redundancy entitlements to find a new job straight after dismissal or to engage in early reintegration programmes.

A redundancy support scheme integrating monetary payments and reintegration support has already been proposed for New Zealand by the Public Advisory Group on Restructuring and Redundancy in 2008. At the time, the Advisory Group discussed extensively a variety of ways to introduce statutory redundancy payments in New Zealand, including: a) voluntary compliance with the Labour Code; b) a legal right to redundancy compensation with no specified payment formula; c) a statutory formula for notice and compensation; d) an insurance scheme to provide for redundancy compensation; and e) a redundancy support scheme integrating monetary payments and active labour market assistance. For each option they provided different implementation options (Public Advisory Group on Restructuring and Redundancy, 2008).

This report builds on these proposals and sees particular advantages in replacing the currently voluntary redundancy payments with a mandatory redundancy insurance scheme based on a payroll-based levy combined with active labour market assistance. While the employment support angle of such an insurance scheme will be further elaborated in the next chapter, the advantages of a levy-based funding system are discussed here.

In particular, a levy collectivises dismissal risks and thereby can reduce the financial impact on smaller employers. It may prove worthwhile to experience-rate levies according to industry and firm-related risks of redundancy, but such a system can only realistically emerge over time,

as historical information accrues on redundancy risks across industries and over the business cycle. A levy-based system could also ensure that a firm's inability to meet its contractual obligations for paying redundancy does not have an adverse impact on displaced workers.

In addition, such an insurance system could cover all workers irrespective of their individual work contract and, as such, overcome issues of adverse selection arising out of reliance on failing private insurance markets. The new system also ensures that all displaced workers would receive support upon redundancy, not just those with sufficient bargaining power or those fortunate enough to have an entitlement included in their employment contract. Finally, it would ensure that redundancy protection keeps pace with workers earnings.

Ideally, the levy would not differ across employment contract types so that workers with fixed-term and casual contracts are fully covered if employment durations warrant it. If a series of fixed-term contracts accumulatively gave a sufficient duration to ensure an entitlement, a redundancy allowance would be provided in the event of the contract ending because the worker can no longer be economically employed. This inclusion would have the additional advantage of simplicity in levying all earnings as well as providing no additional incentive for employers to favour casual or short-term contracts to circumvent the levy.

The introduction of a levy-based redundancy insurance system in New Zealand though marking a major change would not have to come with additional costs for employers, at least not for most of them. Many workers in New Zealand already are entitled to redundancy pay and often at quite generous levels. A main objective of the proposed system would be to provide a level-playing field for all displaced workers, rather than supporting some workers generously and others – often those in need of support – not at all.

The role of the tax-benefit system in providing for income support

Like its Australian neighbour but unlike many other OECD countries, New Zealand does not have any time-limited public unemployment insurance scheme for workers who are displaced from their jobs. Rather the core welfare system pays flat-rate, indefinite-duration welfare benefits, including for reasons of unemployment. Core or first-tier benefit rates are family-income tested and abated against family income. However, benefit rates are not asset-tested. The benefit rates paid in the New Zealand welfare system bear no relationship to previous or current labour market earnings, either at an individual or an economy-wide level. Consequently, equity and

efficiency issues for displaced workers in New Zealand are likely to be different than for most other OECD countries.

A range of public benefits are available for jobseekers

There are a variety of main or first-tier welfare benefits in New Zealand. The most relevant to displaced workers is *Jobseeker Support* which is paid to someone who is less than fully employed (less than 30 hours per week), actively seeking more work, and meeting the family income and other conditions for benefit receipt discussed in detail below. Also applicable to some displaced workers may be *Sole Parent Support*, if the displaced worker is a sole parent with a youngest child under age 14. If a displaced worker develops health problems, possibly as a consequence of their job loss, they may receive the *Supported Living Payment*, which is for people who have or care for someone with a health condition, injury or disability that severely limits their long-term ability to work. The time period taken to get a first-tier benefit (the stand-down period) is generally one week, but it is two weeks if the prior annual income of the benefit applicant is in excess of average annual income.

In addition to main benefits, several second-tier benefits may also be relevant to some displaced workers. The most important of these benefits in terms of value are housing-related benefits. Unlike main benefits, housing-related benefits are cash-asset tested. The current 2015 cash-asset limits for eligibility are low, measured in several thousand New Zealand dollars. Redundancy payments are treated as an asset, and hence influence eligibility for the Accommodation Supplement. Given the average and median amounts of redundancy pay reported in Table 2.2 exceed the upper limit of the asset test many displaced workers will be in families not immediately able to access housing benefits, even if they meet the income test. Again, consistent treatment of redundancy pay as a form of earnings, as discussed above, would eliminate these issues.

Finally, the New Zealand tax-benefit system includes in-work payments abated against family income and conditional on the presence of dependent children. In-work payments also require a certain amount of labour being supplied – 20 hours per week or more for a sole parent and 30 hours or more for a couple. The in-work payment system can function to maintain family income in times of job displacement for some families, especially if the displaced worker is a part-time secondary earner and the family is in the high income-abatement zone where net marginal tax rates are highest. To the extent that gross post-employment earnings are lower as a consequence of job displacement, in-work payments may function to maintain real family income for low or middle-income families despite workers shifting to lower earnings levels.

The role of family support in the welfare system

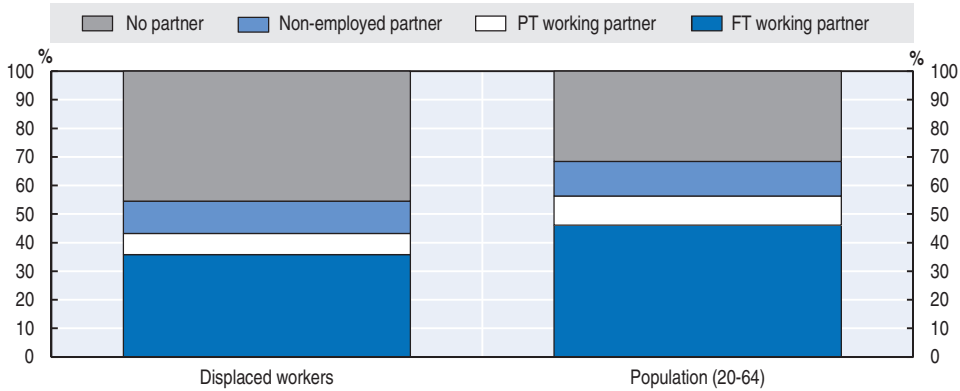
The New Zealand welfare system takes into consideration the ability of the family to provide income support for the displaced worker. By way of contrast, in OECD countries with unemployment insurance systems, payments are more strongly related to past individual earnings histories than to the current ability of the family to support the displaced worker. In New Zealand, the low family income threshold at which family abatement of welfare payments starts to take place means that welfare support is rapidly lost if the displaced workers has a spouse in significant gainful employment. Most recent information puts the gross family income cut-off point for displaced workers receiving no *Jobseeker Support* at NZD 616 per week for couples with children and NZD 581 per week for couples without children, compared with a weekly minimum wage for a full-time worker (working 40 hours per week) of NZD 610 in 2016.

Data from the Household Labour Force Survey of New Zealand show that less than half of all displaced workers have a working partner (Figure 2.4).[3] About 36% of workers aged 20-64 who reported to have been laid off, dismissed or made redundant from their previous job in the past five years and are not employed in the reference week have a full-time working partner, compared with 46% for the total working age population. The share of displaced workers with a part-time working partner is also lower (7.4% and 10.2%, respectively). These findings show that the family safety net is only part of the solution.

To compensate for the initial loss of family income caused by one family member's job displacement, family members may increase their working hours or take up a job. An increase in labour supply of other family members is known in the literature as the "added worker effect". There is evidence of an added worker effect – labour supply of a female spouse responds positively – to job displacement of the male spouse in some OECD countries, including the United States, Japan, Australia, and the United Kingdom (Hendren, 2015; Kohara, 2010; Gong, 2011; Harkness and Evans, 2011; Zhang, 2014), while other evidence shows less response in Sweden (Eliason, 2011) and Norway (Hardoy and Schøne, 2014). The New Zealand welfare system encourages such added worker behaviour, by making both the displaced worker and the spouse subject to a work test if they apply for welfare benefits. This rule is a good way to exploit the employment potential of the entire family.

Figure 2.4. **Less than half of all displaced workers in New Zealand have a working partner**

Family situation of workers aged 20-64 laid off/dismissed/made redundant from their previous job in the past five years and not employed in the reference week, compared with the family situation of the total working age population, average of 2009-16



FT: Full-time; PT: Part-time.

Source: Calculations provided by Statistics New Zealand based on the Household Labour Force Survey (HLFS).

StatLink http://dx.doi.org/10.1787/888933437013

Welfare benefit coverage for displaced workers is low

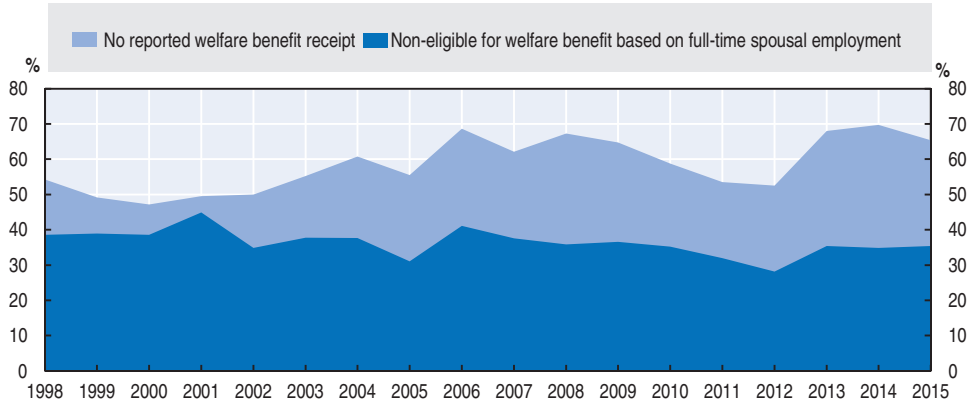
The majority of displaced workers do not receive or are not covered by welfare benefits in New Zealand. A time series of the stock of non-employed workers aged 20 to 64 who were dismissed or laid off or made redundant from their previous job and who do not report first-tier benefit receipt is shown in Figure 2.5. Around the year 2000, just under half of the stock of such displaced workers did not receive a welfare benefit of any type. By 2015, this figure had risen to two-thirds of all non-employed workers. Over the entire period, the average rate of non-coverage is about 60% among non-employed displaced workers. This figure is not surprising and consistent with qualitatively similar findings for Australia (OECD, 2016a), the OECD country culturally and institutionally most similar to New Zealand. It is also consistent with the much larger falls in employment than rises in benefit receipt occurring as a consequence of job displacement which was found on the basis of administrative data in Dixon and Stillman (2009).

Non-eligibility for welfare benefits due to full-time spousal employment (35.4% of displaced workers in 2015) can explain only about half of the coverage rate for welfare benefits. Part-time spousal employment (7.5%

of displaced workers in 2015) is insufficient to explain the remaining gap of 30 percentage points for that year. There are several other plausible, non-mutually exclusive explanations why a significant proportion of displaced workers are not accessing first-tier benefits. Some of these non-eligible workers will be in education and hence not eligible for welfare. Lack of information on eligibility or stigma against taking up welfare may also play an important role. In addition, household surveys tend to underestimate benefit-recipiency rates due to under-reporting. Evidence for Australia shows that the coverage rate of the unemployed is found to be much higher in administrative data (61%) than in the Household, Income and Labour Dynamics (HILDA) survey (36%) over the period 2002-13 (OECD, 2016a).

Figure 2.5. **Between one-half and two-thirds of displaced workers in New Zealand are not covered by welfare benefits**

Welfare coverage among workers aged 20-64 laid off/dismissed/made redundant from their previous job in the past five years and not employed in the reference week, June quarters 1998-2015



Source: Calculations provided by Statistics New Zealand based on the Household Labour Force Survey (HLFS) linked with the Income Survey.

StatLink http://dx.doi.org/10.1787/888933437022

Unemployment benefits systems in other OECD countries tend to offer income support to a higher share of displaced workers. For example, the overall coverage rate in Canada during 2000-10 was 61% (OECD, 2015a), while the coverage rate in Japan in 2012 was 74% for workers displaced in mass layoffs and 62% for other displaced workers (OECD, 2015b). In part, these higher coverage rates result from the adoption of a social insurance model that is explicitly intended to reduce income volatility due to job loss, even when family incomes do not fall below a general

minimum-needs criterion. However, it also reflects some tendency to single out displaced workers as a group particularly deserving of income support since the programme eligibility rules result in higher coverage rates for displaced workers than other job separators (e.g. 61% versus 38% in Canada). Japan also provides more generous unemployment benefits to displaced workers than to persons becoming unemployed for other reasons, since this group is considered to face particularly high adjustment costs.

The New Zealand policy community has placed little attention on the efficacy of the welfare system in generating high rates of take-up in general, let alone for displaced workers. It has placed a considerable emphasis, however, on welfare benefit take-up of the non-entitled. The impetus for dealing with issues of tax-benefit entitlements is placed firmly on displaced workers and their families. There is policy merit in examining the extent of take-up for displaced workers, considering the barriers to take up, and finding policy means to address what may be significant systemic issues. It would be worth matching the Labour Force Survey data for displaced workers to Work and Income benefit data to examine the extent to which low benefit coverage is due to under-reporting of welfare receipt in the Income Survey.

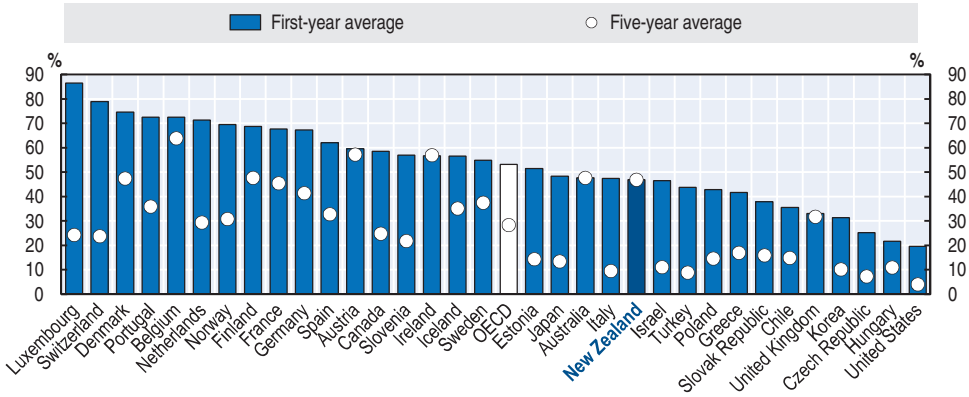
In addition, the issues of information and stigmatisation which may be preventing welfare uptake amongst displaced workers need to be addressed: first, by annually measuring and reporting the extent of the problem; and secondly, by providing incentives in the key performance indicators based departmental indicator framework for Work and Income to address any information and stigmatisation barriers, with a view to maximising take-up of welfare benefits by those displaced workers who are entitled to payments.

The adequacy of income support in the welfare system has fallen over time

Figure 2.6 provides an international comparison of the average net replacement rate provided to job losers by the countries' unemployment benefits. The generosity measure used is an average for workers with two levels of earnings on the lost job (67% and 100% of the average full-time wage) and four stylised family types (single and one-earner couples, with and without children). At 47% in 2014, New Zealand is in the bottom half of countries in terms of net replacement rates, although payment levels are higher than in some of the countries with a well-established unemployment insurance system, such as Canada and the United States.

Figure 2.6. **Net replacement rates of unemployment benefits in New Zealand are on the lower end initially, but amongst the highest in the OECD for long-term unemployed people**

Net replacement rates of unemployment benefits by unemployment duration, 2014



Note: The net repalcement rate (NRR) is the ratio of net income out of work to net income while in work. Calculations consider cash income (excluding, for instance, employer contributions to health or pension insurance for workers and in kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. Social assistance and housing related benefits potentially available as income top ups for low income families are not included. Family benefits are included, while entitlements to severance payments are excluded. NRRs are calculated for a 40-years old worker with an uninterrupted employment record since age 22. They are averages over four different stylised family types (single parents and one earner couples, with and without children) and two earnings levels on the lost job (67% and 100% of average full time wages). Due to benefit ceilings, NRRs are in most countries lower for individuals with above average earnings.

Source: OECD Tax-Benefit Models, www.oecd.org/els/social/workincentives.

StatLink http://dx.doi.org/10.1787/888933437030

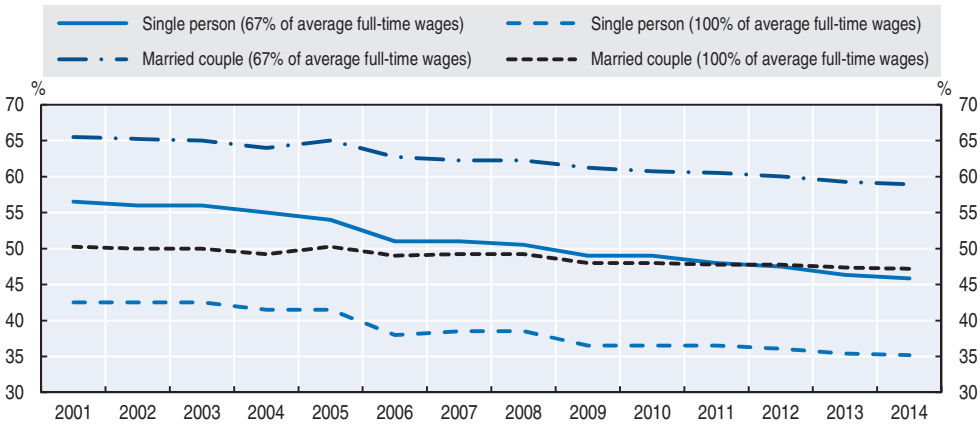
Unlike most OECD countries but similar to Australia, Ireland and the United Kingdom, the New Zealand system pays flat-rate, indefinite-duration welfare benefits. As a result, net replacement rates do not drop after the first year of unemployment and New Zealand ranks among the top five countries for the five-year average replacement rate for those entitled and long-term unemployed. In most OECD countries, unemployment insurance is limited in time and people who stay unemployed for several years have to move onto other and in most cases lower (and maybe also means-tested) welfare payments.

Net replacement rates of unemployment benefits in New Zealand have been steadily declining over time. The combination of real earnings growth and benefit levels that are indexed to consumer prices instead of wages

caused a drop by several percentage points in the net replacement rate since the early 2000s (Figure 2.7). In addition, welfare benefits were significantly reduced in nominal and real terms in the early 1990s. Notably, unlike Australia, the issue of benefit adequacy was not part of the policy discussion during recent welfare reform in New Zealand. The decline in replacement rates was particularly strong among single persons on welfare benefit. For instance, the net replacement rate for single persons previously earning the average wage was just over one-third of their previous wage by 2014, down from 43% a decade ago. Overall, replacement rates are much lower for singles than for married couples, and for those earning the average wage compared with those with low previous wage levels.

Figure 2.7. **The net replacement rate of unemployment benefits in New Zealand has been declining over time**

Net replacement rates of unemployment benefits, 2001-14



Note: See Figure 2.6. for details about the calculations of the net replacement rate. The rates are averaged over families with and without children, and over one and two earners for married couples.

Source: OECD Tax-Benefit Models, www.oecd.org/els/social/workincentives.

StatLink http://dx.doi.org/10.1787/888933437047

The policy of indexing welfare payments to the consumer price index intends to ensure that those receiving payments are able to purchase the same basket of goods over time. However, it seems that the consumer price index is not capturing some additional costs and payments are becoming less adequate to cover basic household costs. One reason may be that households on lower income spend a greater proportion of their income on some items, such as housing costs, which will not be captured in an aggregate measure such as the consumer price index. The Ministry of Social Development is

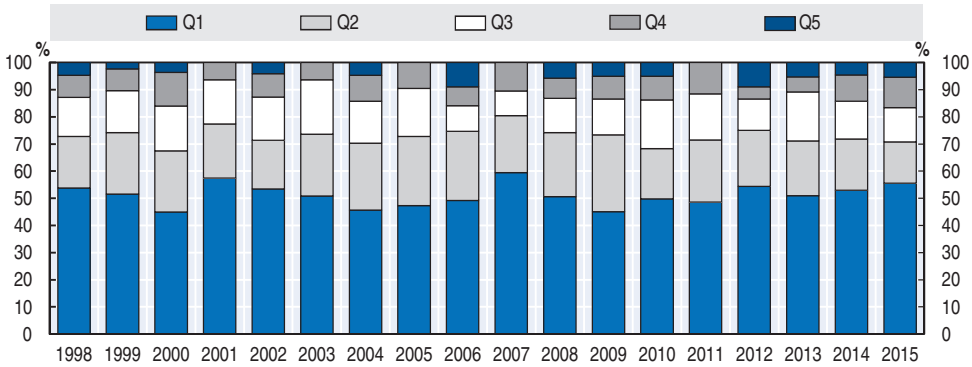
therefore reviewing the indexation of social welfare payments and will include consideration of the Household Living-Cost Price Indexes that were recently released by Statistics New Zealand. These indexes measure the actual costs that different types of households face. The review by the Ministry of Social Development will also explore the balance between income adequacy, work incentives and fiscal cost.

There is a high risk of poverty among displaced workers

The different societal mechanisms to mitigate the negative consequences of job displacement on income and consumption, including the family safety net, monetary compensation through the private sector and government welfare benefits, do not prevent that many displaced workers end up in poverty. By linking the Household Labour Force Survey with the Income Survey, the income distribution can be calculated for workers aged 20-64 not employed in the reference week who have been laid off, dismissed or made redundant from their previous job in the past five years (though excluding information on redundancy payments received or on taxes paid). Figure 2.8 shows that 51% of non-employed displaced workers live in families in the bottom income quintile and 73% in the bottom two income quintiles. There has been little trend change in this pattern over the period 1998 to 2015.

Figure 2.8. **One in two non-employed displaced workers in New Zealand live in families in the bottom income quintile**

Percentage by household income quintiles of workers aged 20-64 laid off, dismissed or made redundant from their previous job in the past five years and not employed in the reference week, June quarters 1998-2015



Source: Calculations provided by Statistics New Zealand based on the Household Labour Force Survey (HLFS) linked with the Income Survey.

StatLink http://dx.doi.org/10.1787/888933437054

Conclusion

New Zealand places little emphasis on avoiding excessive layoffs, through either stricter employment protection or more widely-used short-time work. Flexible labour markets, in which firms can easily hire and fire workers, are seen as guarantee for a dynamic economy with employment opportunities for everybody. However, this approach implies that the costs related to restructuring largely fall onto individual workers and their families. And while many displaced workers in New Zealand find a new job again relatively quickly, survey data presented in Chapter 1 demonstrated that wage and income effects can be considerable and are more pronounced than in other OECD countries, even for those who successfully return to work.

New Zealand also has a rather unique income support system which faces a number of challenges. First, private insurance against redundancy is used very little and the lack of statutory requirements for employers to provide redundancy payments leaves about half of all displaced workers without monetary compensation upon dismissal. Second, about two-thirds of non-employed displaced workers do not receive public income support via first-tier welfare benefits, be it because they are ineligible for payments or because of other factors, including stigma and information barriers, inhibiting welfare take-up by displaced workers. Finally, for workers who access income support, the practice of indexing welfare benefits to consumer prices rather than earnings gradually eroded the adequacy of welfare support.

In short, therefore, some displaced workers in New Zealand will find a new job quickly while others will not; some will receive often rather generous redundancy payments while others will not receive any such payment; and some will be entitled to welfare payments while others will not. New Zealand can do more to prevent unnecessary job displacement, to tackle inequality in entitlement for income support in case of redundancy, and to address the high poverty risk among displaced workers. The following changes would improve the situation:

- First, New Zealand should develop a better short-time work scheme than the Job Support Scheme that was used during the global financial crisis by lifting (or loosening) the limit on the maximum hour reduction and extending the coverage to firms with fewer than 50 workers. Short-time work schemes of this sort have proven successful in reducing the social costs of the recent crisis in many OECD countries, and they can also be helpful for both workers and employers in the process of rapid economic restructuring.

- Second, New Zealand should provide a level-playing field for all displaced workers by requiring a longer minimum notice period to ensure that all workers get the chance to better prepare for their redundancy, look for other jobs and seek assistance if and when needed.
- Third, the New Zealand Government should consider replacing the currently voluntary redundancy payments with a mandatory active redundancy insurance scheme that covers all workers irrespective of their individual work contract and is financed by a payroll-based levy.
- Fourth, the adequacy of welfare payments and take-up of benefits among those who are eligible should be improved to avoid that displaced workers fall into poverty. Data matching would allow improving knowledge about the actual take-up of public benefits by displaced workers and the factors that discourage them to claim their benefits.

Notes

1. On income protection insurance in New Zealand with a focus on sickness, see http://fsc.org.nz/Insurance/Q++A+Income+Protection+Insurance.html. For a general assessment of redundancy insurance see http://www.cab.org.nz/vat/money/in/pages/lifeandincomeprotectioninsurance.aspx.
2. See http://www.tobininsuranceservices.co.nz/redundancy.html.
3. Calculations based on the Survey of Families, Incomes and Employment (see Chapter 1 for a discussion of the differences between both surveys) show that 55% of displaced workers had a working partner in the period 2002-09, a slightly higher share than the estimates based on the HLFS, though covering a different period.

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Chapter 3

Re-employment support for displaced workers in New Zealand who struggle to find a new job

This chapter analyses employment support and training options for displaced workers in New Zealand. It presents the rationale behind current policy and the possible impact of the investment approach on displaced workers. The chapter looks at options to support workers who do not rapidly return to work, both before and after dismissal. Weaknesses of the employment support and training system are addressed and suggestions made, drawing on examples from other OECD countries, on how to fill the gaps in the system and possibly integrate early intervention and redundancy pay.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Personal income loss is not the only negative consequence of job displacement. Research has demonstrated the negative impact in many other ways, including life satisfaction, physical and mental health and developmental outcomes for children of displaced workers.[1] Income and non-income losses provide rationales for the provision of effective employment support to fasten the job-to-job transition for displaced workers. In addition to addressing displacement costs, employment support policy can also offset moral hazard issues related to the provision of welfare benefits which otherwise may reduce displaced workers' job-search efforts.

This chapter discusses the availability and effectiveness of employment services available in New Zealand after displacement, both services offered early on and those offered to people unemployed for a considerable time. It identifies systemic gaps and makes conclusions on policies that could mitigate these gaps. While the focus is on public employment services, the existence of private purchase of employment services by displaced workers funded personally or via the family is acknowledged.

Overview of the public employment service system

New Zealand relies upon general government-funded and sometimes also government-provided labour market programmes to assist people who have difficulty in finding a new job, including by implication displaced workers. There are no large-scale programmes specifically targeted at displaced workers. General government-funded employment assistance in New Zealand is provided directly and indirectly via purchasing services from private providers by Work and Income, a delivery arm of the Ministry of Social Development. As their institutional name indicates and as discussed in Chapter 2, Work and Income also jointly provides income support.

The manner in which Work and Income works is sometimes described as a "one-stop shop", because many people in need of employment assistance are also entitled to income support, in the form of welfare benefits, and many people entitled to income support are also in need of employment assistance. By jointly providing the two types of services it is believed that those in need of both services, and providers of those services, are jointly saved transactions costs. Thus income support and employment assistance can be better coordinated and supplied jointly to maximise their effectiveness. In addition, joint service provision makes it easier to design systems which are effective in offsetting the moral hazard involved with public provision of income support.

While the New Zealand system is centrally organised and funded, Work and Income provides its employment and income support services regionally. It has 11 regional offices and over 140 local service centres nationwide, serving a New Zealand population of over 4.6 million people. These service centres are the physical locations which provide face-to-face help to local beneficiaries, workers and firms. Service centre staff includes case managers, employment co-ordinators and work brokers, all of whom provide services to help people who contact the centres back into employment. Regional offices and their service centres have a significant amount of operational discretion in resource allocation so that they can adapt their services to local conditions and needs.

Prior to 1998, employment services and welfare benefits were provided by different government agencies. Following the 1998 merger of employment and welfare services, Work and Income has progressively moved towards a strong "employment first" approach to delivering the twin services of employment and welfare support. Before getting a work-tested welfare benefit in New Zealand, a welfare applicant is required to meet government-mandated employment-related requirements. The requirements include providing evidence of prior job search, attending a seminar on finding work, creating a resume and meeting with a case manager to discuss work options. Only following meeting these employment-related obligations (which may take only a few hours), does an applicant have a benefit entitlement. People will then receive their benefit at the start of the next weekly benefit payment cycle.

A person does not have to be a welfare benefit recipient to have a right to access Work and Income's employment services; being jobless suffices. Nevertheless, the onus on visiting a Work and Income service centre, and hence the employment service, is on displaced workers. Work and Income provides little information about the broader entitlement to employment services. There is also little in the way of incentives on the Work and Income side to reach out and provide services to displaced workers who do not access welfare benefits. Amongst displaced workers who are not on a welfare benefit there is likely to be limited information as to their service entitlement and to the range of services which do exist, compared with those who are on a welfare benefit and who therefore have visited a centre and gone through the compulsory job-focused pre-benefit activities and the various employment-related nudges. As Chapter 2 has shown, the majority of non-employed displaced workers – in the order of two-thirds currently - will not be on a welfare benefit and thus may not have been exposed to Work and Income information on employment services. Policy makers need to address this awareness and information gap.

Unlike Australia and several other OECD countries, there are no targeted programmes to cover displaced workers and workers exposed to trade liberalisation measures. Whether New Zealand should provide such policies is unclear. Trade liberalisation in New Zealand was concentrated in the 1980s and 1990s. Current and future levels of border protection are likely to be low and there seems little strong argument for specific programmes to target trade-driven displacement, as opposed to all job displacement, but there is also little in place in the New Zealand policy landscape to target the needs of displaced workers as a special group among the unemployed population.

The investment approach: Implications for displaced workers

In recent years, a range of welfare reforms have occurred in New Zealand. These welfare reforms have extended work testing and a work focus to a larger number of sole parents and to some health-tested benefit recipients. Welfare reform post-2011 has also seen the introduction of an "investment approach" as a central indicator of the performance of the welfare agency.

The investment approach focuses allocation of active labour market resources by the Ministry of Social Development on those people where net inter-temporal fiscal savings in the welfare area are the greatest. The approach predicts the likely long-term benefit costs of a person based on what has happened in the past to beneficiaries with similar backgrounds and circumstances, and targets resources to those groups with the highest estimated benefit costs.

The investment approach has significant implications for the treatment of job-seeking displaced workers. Given their recent work history, displaced workers who apply for welfare benefits are unlikely to be classified as those with a high risk for long-term benefit dependency. Gains from public investment in them would therefore be low, hereby reducing the probability that they will receive intensive support. In addition, non-employed displaced workers who are not eligible for a first-tier welfare benefit should attract no public active labour market programme investment under this allocation condition.

A report by the Controller and Auditor-General (2014) gives an overview of the case manangement approach used by the Ministry of Social Development. The large majority of Work and Income clients (72%) receives general case management without guarantee to see the same case manager at consecutive appointments. An estimated caseload of 366 clients for every case manager leaves very little time to each client, usually not more than half an hour, and the frequency of appointments is largely

in the hands of the client. In these circumstances, and with the investment approach as an underlying principle, case managers have no incentives to support displaced workers who are not eligible for first-tier welfare benefits, and only very little incentives to support those with a recent work history.

In addition, the investment approach does not take into account a person's social and economic well-being after moving off benefit. The model does not evaluate the employment or earnings outcomes of ex-welfare beneficiaries. In particular, the New Zealand investment approach is not a cost-benefit analysis to investment in employment support. It does not address a critical issue of employment policy: the efficient allocation of scarce employment support resource over time. Rather, by defining inter-temporal income transfers (welfare benefits) as a dollar-for-dollar cost in an accounting sense, and by not measuring post-employment programme earnings gains, it optimises the redistribution of resources away from net welfare beneficiaries and towards net tax payers through time (Chapple, 2013). In other words, it is a measure of inter-temporal income redistribution, not economic efficiency. A stronger policy focus in valuing off-benefit earnings and other outcomes, using economic rather than accounting concepts of costs, coupled with an explicit cost-benefit approach to employment support, is likely to yield a more efficient resource allocation – an argument that has also been put forward by the New Zealand Productivity Commission (2015) in its draft report on more effective social services. A cost-benefit approach would also lead to a much stronger policy focus on the employment support needs of displaced workers, especially those without a benefit liability.

A recent report on employment assistance by the Ministry of Social Development (2016) acknowledges this gap to some extent and proposes an adapted measurement of effectiveness rating for employment assistance programmes. While welfare independenc was the primary outcome measure in previous effectiveness reports, the Ministry included participant's earnings and employment outcomes in the most recent evaluation of employment assistance interventions for the 2014/15 financial year (see below for further discussion).

The provision of employment support to displaced workers

Public spending on active labour market programmes

Employment assistance provided or funded by Work and Income can be divided into a number of broad categories: 1) provision of a coordinating or brokerage role to connect jobseekers with government-provided education and training services; 2) collection of information on job vacancies and providing a variety of forms of job search assistance; 3) funding of

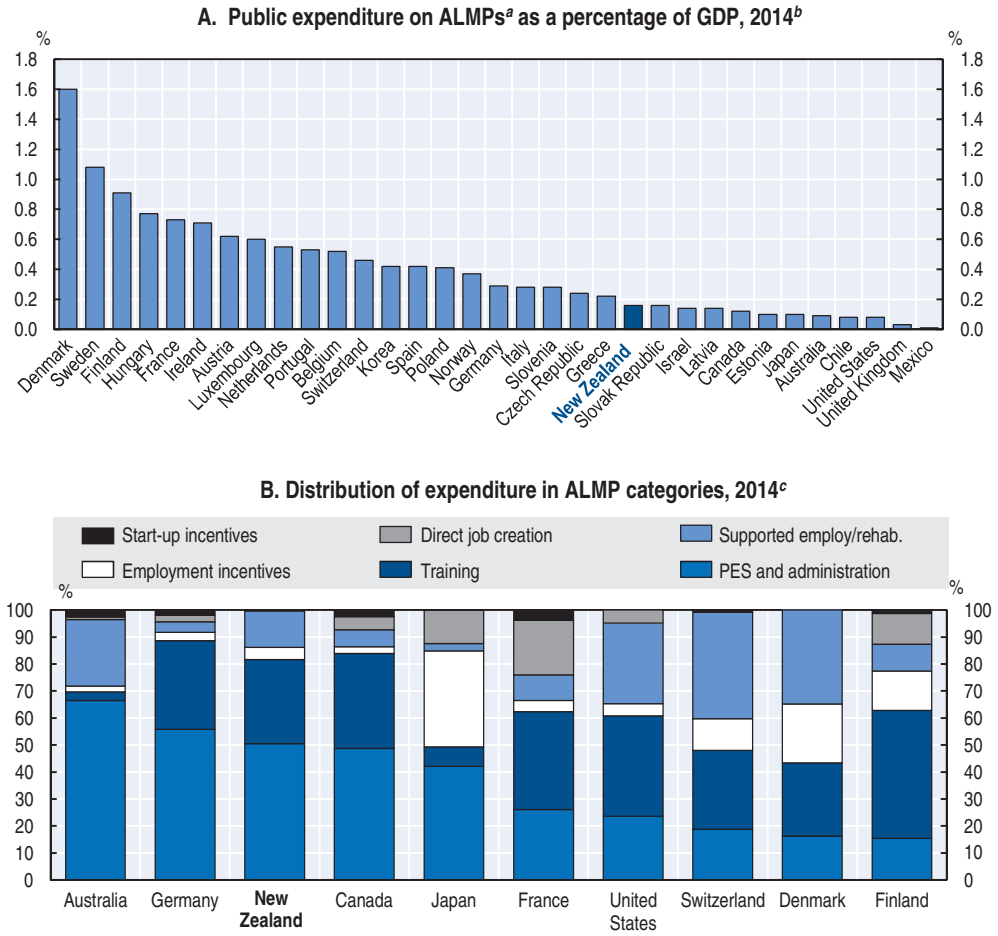
education and training programmes; and 4) offering a number of subsidised employment programmes.

Compared with many other OECD countries, New Zealand spends a relatively small share of its GDP on labour market measures. With 0.33% of GDP spent on Active Labour Market Programmes (ALMP) in 2014, New Zealand ranks among the bottom third of OECD countries according to the internationally harmonised data collected by the OECD (Figure 3.1, Panel A). The distribution of the different ALMP expenditure categories reveals that New Zealand spends a lot in comparative terms on administration and public employment services, as well as on training for unemployed people, but very little is spent on direct job creation and start-up initiatives (Figure 3.1, Panel B).

Active labour market spending has seen a continuous and significant decline over the past few decades. Public expenditure on active measures other than administration and public employment services declined from 0.65% of GDP in 1991 to 0.16% in 2014 (Figure 3.2). No new spending initiatives in these areas have been announced, so expenditure as a share of GDP may further decline over the coming years. The impact of the global financial crisis and the subsequent surge in the unemployment rate from 3.4% at the end of 2007 to 7% two years later (see Figure 1.1 in Chapter 1) was not reflected in the expenditure on active labour market measures. The lack increase in the ALMP participant stock in the years following the crisis suggests that the workers displaced during the crisis did not receive any active labour market measures. The 2012-hike in the participant stock is related to welfare reforms in 2011, when the number of beneficiaries who are the focus of employment support spending sharply rose**.** Welfare reforms extended work testing and the work focus to a larger number of sole parents and the recipients of some health-tested benefits, thereby raising the participant stock by 35% (Figure 3.2).[2]

In April 2016 (not shown in Figure 3.2), work obligations were further extended**:** 1) sole parent beneficiaries and partners of beneficiaries now have to look for part-time work when their youngest child turns three (previously five years); and 2) part-time work is defined as 20 hours per week (previously 15 hours). The change is estimated to affect around 18 000 sole parents and partners of beneficiaries with a youngest child aged three or four.[3]

Figure 3.1. **New Zealand's active labour market spending is on the lower end in the OECD ranking**



Note: ALMP: Active labour market programme. Countries are ranked by decreasing order of total expenditure (Panel A) and on training (Panel B).

a) Data cover categories 1 to 7 in the ALMP database. For more details about the categories, see Grubb and Puymoyen (2008).

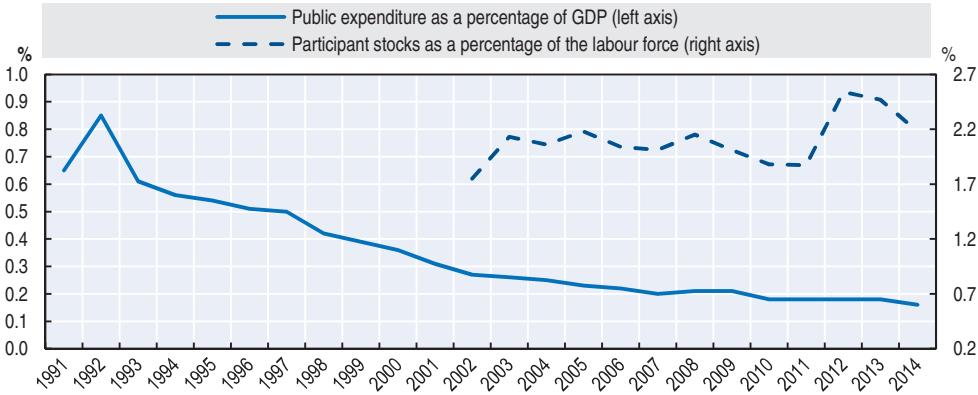
b) Data refer to 2010 for Greece; to 2011 for the United Kingdom; and to 2013 for Ireland, Poland and Spain.

c) Data refer to fiscal years 2013/14 for Australia.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en.

StatLink http://dx.doi.org/10.1787/888933437064

Figure 3.2. **Active labour market spending in New Zealand has seen a large and continuous decline in the past 25 years**



Note: Data cover categories 2 to 7 of active labour market measures. They do not include data on pubic employment service (PES) and adminstration.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en.

StatLink http://dx.doi.org/10.1787/888933437073

Early intervention upon job displacement

Redundancy support is not systematically organised in New Zealand. However, at a regional level, it is apparent from OECD site visits that Work and Income offices do respond positively on the ground to information on larger-scale redundancies. Local Work and Income offices often acquire such information from their informal contacts before the actual dismissal or from local media. They are also approached by pro-active employers who have made decisions about redundacy to come on-site and provide information on the income support and active labour market programme entitlements of displaced workers.

The lack of a statutory notice period and the absence of a legal requirement to notify the public authorities about forthcoming redundancies in New Zealand (see Chapter 2) mean that the feasibility of early intervention largely depends on voluntary initiatives of employers and employees, as well as the degree of proactivity of local Work and Income offices. Firms that downsize, as opposed to firms going out of business, are generally concerned about their public reputation and are likely more co-operative in providing early interventions for displaced workers. That incentive is lacking in the case of a total business closure, or business closures of a large multi-national, where reputation in New Zealand may be less relevant. In such cases firms

have less incentive to organise early interventions (see OECD, 2016, for a discussion and some examples).

The amount of resources devoted to displaced workers via local responses is unclear, and will depend very much on the operation of each particular regional office. In addition, such local redundancy support is not necessarily recorded in the official Work and Income spending data as such. In 2012-13, the total amount reported to be spent on the explicit redundancy support programme was miniscule: NZD 200 000 (or about EUR 119 000), equivalent to 0.05% of total ALMP spending (Ministry of Social Development, 2013). Information on the number of workers who are supported through the explicit redundancy support programme is not available.

Redundancy support primarily focuses on contact with workers, mediated through the firm. In the event of and prior to redundancies, a *Work for You* seminar can be delivered to the group of affected workers, typically on the premises of the company. The seminar is very similar to the one that all Work and Income clients receive to be informed about the importance of looking for work, the local labour market, current vacancies and work obligations, as well as about employment services and financial assistance that they are potentially entitled to.

In a policy sense, these forms of interventions are likely to be more effective if there was high quality information on all redundancies occurring across all Work and Income jurisdictions, preferably well in advance of their occurrence. Other factors determining the success of redundancy support are good information across firms of the services that Work and Income offer; opportunities for benchmarking and learning across Work and Income offices; and follow-up information generated about the labour market pathways of those workers who were subject to the interventions. The systematic creation of each of these elements should be actively considered.

For instance, an approach similar to the *Dislocated Worker Survey* of the State of Michigan in the United States may be worth considering in New Zealand. The survey is a good example of collecting information in a uniform way on dislocated workers, including i) a labour characteristics map illustrating where workers affected by the employment dislocation live; ii) worker demographics; iii) a list of available skilled labour by occupation and company; and iv) career pathway(s) for workers' skill sets for in-demand occupations within the region. The tool also allows for the aggregation and analysis of data, comparisons by dislocation, and examination of trends by region and/or industry. This information then feeds into designing tailored solutions and preparing intervention in a systematic and efficient manner (OECD, 2016a).

Training offered by Work and Income to a diverse group of clients

While overall active labour market spending is low and falling, relative to other components of employment assistance spending, New Zealand commits a high proportion of resources on training (Figure 3.1, Panel B). In terms of what is offered by Work and Income, the process of allocation of programmes to welfare beneficiaries and others who come into contact with Work and Income is to an extent a discretionary matter for decision makers at a regional level, and for the case managers dealing with clients on the front desk. Whether or not a welfare recipient gets a training programme will also depend on whether the client pushes for it, and in the case of a displaced worker who is not on welfare, whether they show up at Work and Income in the first place. Training programmes are allocated in part on the basis of the welfare client's likelihood of long term benefit receipt. Work and Income create a score using the socio-demographic characteristics of clients recorded in the administrative systems to predict the amount of time a person will be on benefit in the future. This allocation tool is likely to be correlated with welfare liability and thus indirectly linked into the investment approach (see above). Clients are triaged with either a high, medium, or low score on long-term benefit receipt (MSD, 2013).

The training programmes offered range from small programmes for the self-employed ("Business Training and Advice" and "Be Your Own Boss"), to training programmes targeted at young people, and Training for Work and Vocational Services, the two largest training programmes in terms of spending (MSD, 2013). Training for Work assists clients with a medium likelihood of long-term benefit receipt to acquire industry-related work skills. These courses have a maximum duration of 13 weeks. On completion they also include job placement and post-placement client support. Providers of Training for Work courses must be registered and accredited by the New Zealand Qualifications Authority, enabling learners to gain recognised qualifications. Vocational Services involves government contracting with community-based organisations to provide vocational services for people with disabilities.

Emergency employment support in a crisis situation

In 2010 and 2011 significant earthquakes struck Christchurch, New Zealand's second largest city, and its rural hinterland causing rock falls and land damage, widespread building and infrastructure damage and, in the 2011 case, loss of life. The financial cost of the damage, excluding business disruption and clean-up costs is estimated at 10% of New Zealand's Gross Domestic Product (APEC, 2013). Following these disasters, population size in Christchurch City fell about 6%, whereas nearby districts in the Canterbury region experienced population increases,

partly due to movement out of the city (Reserve Bank of New Zealand, 2016). Employment in Canterbury initially declined by 5% after the Earthquakes, but has since risen by about 16%, almost exclusively accounted for by the construction industry.

In addition to the provision of emergency benefits (see Box 3.1), the government also set up a range of employment services, on top of the existing general system, to accommodate workers displaced due to this natural disaster. To start, time-limited employment subsidies were implemented to support firms in retaining workers during the disaster recovery period. The *Earthquake Support Subsidy* was available to small firms, defined as having fewer than 20 workers, for six weeks, plus an additional two weeks. It paid eligible firms a flat-rate subsidy of NZD 300 per part-time worker (less than 20 hours per week) and NZD 500 per week per full-time worker – compared with the median weekly wage of NZD 800 in 2010-11. Overall, this subsidy was paid for over 47 000 employees or on about 16% of the workers in the greater Canterbury region in March 2011 (Recover Canterbury, 2013). The number included over 10 000 sole traders and over 8 000 employers. The total cost of this support was around NZD 200 million. According to the 2011 Canterbury Employers Survey, 57% of workplaces that received the subsidy said that it 'helped a lot' in keeping their business going (APEC, 2013).

Two further new labour market programmes were also introduced. The programme *Jobs for a local* was a wage subsidy programme for job seekers in the Canterbury region. The jobs created had to be full-time and permanent, and required the further development of a training plan. The second programme was an extension of the existing *Straight to Work* programme, where employers were encouraged to train workers to fill labour shortages.

Box 3.1. **The provision of emergency benefits after earthquakes**

The Canterbury earthquakes in 2010-11

Unemployment benefit recipients in the affected areas were exempted from normal pre-benefit job seminar requirements. Those people who lost income because they could not get to work or because their workplace closed could get a *Civil Defence Payment* for loss of livelihood, of between NZD 250 and 340 a week (Venn, 2012). This payment was a pre-existing policy for any person affected by any form of natural disaster who is not covered by personal insurance. The benefit is paid by Work and Income with an open duration. Given the minimum wage was NZD 13 per hour in 2011, it replaced income for a full-time person at less than the minimum wage. Unlike normal welfare benefits, this benefit is not means tested.

Box 3.1. **The provision of emergency benefits after earthquakes** *(cont.)*

People who were not on welfare benefit or *Civil Defence Payment* and whose employer had closed due to the earthquakes were eligible for *Earthquake Job Loss Cover* of NZD 240 per week for part-timers and NZD 400 for full-timers, paid for a maximum duration of six weeks (APEC, 2013). The Job Loss Cover was a new emergency benefit, and was also not paid if an earthquake support subsidy was received by their employers. This benefit was also not means tested, unlike normal welfare benefits. Over NZD 13.5 million was paid through this policy, or about 5 600 full-timers, assuming they were paid for the full six weeks. This number equaled about 2% of the workers in the Canterbury region in March 2011.

The *Earthquake Job Loss Cover* payment for displaced employees was later replaced with an *Individual Support Payment*. These payments were paid for up to six weeks to help people adjust to their change in circumstances. Over NZD 0.655 million was paid in *Individual Support Payments* to 1 894 people (Ministry of Social Development, 2011).

Recent earthquake in 2016

Similar emergency benefits were provided in the aftermath of the more recent earthquake, on 14 November 2016, as a number of businesses around the country were unable to operate for a significant period. The government offered immediate support to businesses, primarily through two measures. Firstly, the government removed a range of penalties for late payment of tax. Secondly, in order to keep workers attached to employment in businesses in the immediate aftermath of the earthquakes, the government paid an employee support subsidy to affected businesses. This subsidy provided money for each full-time and part-time employee for 16 weeks for businesses directly impacted by the earthquakes. Furthermore, the government also looks to provide funding to promote particular areas once they have recovered in order to attract business back to those areas.

Approaches to supporting businesses in crisis situations have tended to be ad-hoc. In 2017 the government will look to develop a range of business support measures that can be applied in different crisis situations.

Sources: APEC (2013), "Building natural disaster response capacity – Sound workforce strategies for recovery and reconstruction", Asia-Pacific Economic Cooperation, unpublished manuscript; Ministry of Social Development (2017), "Earthquake Support Subsidy", https://www.workandincome.govt.nz/online-services/eesp/index.html; Ministry of Social Development (2011), *Annual Report 2010/2011*, Wellington; and Venn, D. (2012), "Helping Displaced Workers Back Into Jobs After a Natural Disaster: Recent Experiences in OECD Countries", *OECD Social, Employment and Migration Working Papers*, No. 142, OECD Publishing, Paris, http://dx.doi.org/10.1787/5k8zk8pn2542-en.

There were also institutional responses to support employment in Christchurch in the aftermath. The *Canterbury Skills and Employment Hub* was established as a collaboration between the Ministry of Business, Innovation and Employment, the Canterbury Earthquake Recovery Authority, the Ministry of Social Development and the Tertiary Education Commission. The Hub provides job-matching, information-sharing, and immigration-

facilitation services. In actuality, much of the focus of the hub has been on immigration as a source of labour supply, and it has had little focus on matching displaced workers to the available jobs. Consequently, the lessons for addressing the issues of displaced workers in other parts of the country are limited. The Hub has achieved an additional placement rate of 16.3% over and above placements achieved by Work and Income. This percentage equates to the Hub placing an additional 275 Work and Income clients and 142 other job seekers into employment over and above the 2 561 placed by Work and Income.

The Ministry of Social Development (MSD) also introduced a *$3k to Christchurch* worker mobility subsidy in response to the earthquake. The subsidy connects beneficiaries nationwide to the Canterbury labour market by providing a non-taxable NZD 3 000 payment for applicants who need to relocate to secure sustainable, full-time employment. Applicants are not required to provide proof of costs. If granted, the money is paid as a lump sum. Applicants need a confirmed job before relocating. As at June 2015, 1 512 jobseekers were approved for $3k to Christchurch incentive payments, at a cost of NZD 4.6 million. Over 80% of the applicants were male, and over 35% were 24 years or younger. Some 8% returned to welfare benefit within three months of receiving the mobility subsidy. Between June and October 2015, a further 244 jobseekers were approved for $3k to Christchurch. Overall, more jobseekers than anticipated have taken up the opportunity.

There do not appear to have been formal evaluations of the effectiveness of any of the earthquake policies. In large part, the lack of evaluations is due to the need for rapid responses and the temporary nature of assistance. Planning and designing evaluations under such crisis circumstances is always unlikely to be a policy priority (Ministry of Social Development, 2011).

Evaluations of effectiveness of active labour market programmes

How effective is New Zealand's overall spending on ALMP services, both generally and specifically for displaced workers? There are limitations in the available evaluations of ALMPs, which are not unique to New Zealand. First, there are few randomised control trials of ALMPs, the gold standard for assessing programme cause and effect. Instead of randomisation, various statistical methods are typically used to create control groups, based on maintained hypotheses which may not be valid. Second, most evaluations are of a general nature. They do not address programme effectiveness for displaced workers, and for displaced workers of different demographic characteristics (e.g. younger versus older displaced workers, male versus female displaced workers). Third, little evidence is available on whether placements of non-employed workers create net overall job growth: any

negative employment effects of active labour market programmes which effectively place unemployed workers into work on untreated workers are not considered.

The Ministry of Social Development recently finalised the evaluation of employment assistance expenditure up to the end of the 2014/15 financial year (Ministry of Social Development, 2016). In that financial year, the Ministry spent a total of NZD 462 million on employment interventions, of which 41% was evaluated. The objective of the analysis was to identify whether the expenditure on employment assistance interventions were cost-effective. As opposed to previous evaluations, the 2016 report not only assesses the effectiveness in terms of welfare independence, but also in terms of employment and earning outcomes for the participants. Displaced workers – whether on or off benefit – are not separated out as they are not accurately identified by welfare benefit recording systems.

The results show that 64% of the evaluated interventions were rated as effective or promising, indicating that these interventions had overall positive impacts across the three main outcome domains. The effective interventions can be categorised into three broad types: job placement, intensive case management and work obligation focused interventions. Interventions with mixed effectiveness included employment placement initiatives, vocational services employment and limited service volunteer which all had a positive impact on earnings and employment, but a negative impact on welfare independence. Finally, health interventions, the work and income seminar, and activities in the community all had a negative evaluation. In comparing the effectiveness rating by assessment year (2012-2016), it can be noted that several programmes went from a negative or makes-no-difference rating in 2012-2015 to a mixed rating in 2016 (Ministry of Social Development, 2016). While this shift could indicate an improvement in the programme, it seems more likely to be an effect of the inclusion of employment and earning outcomes into the evaluation, hereby showing the importance of such social outcomes for evaluations.

Improving employment support for displaced workers

A major issue for employment provision to displaced workers is that the majority of displaced workers have no contact with the public employment services, at least not initially. As discussed in Chapter 2, the reasons for not contacting Work and Income are manifold: many displaced workers are not entitled to income support; others do not know that they are entitled to income and/or employment support or they do not contact Work and Income for stigma reasons; some displaced workers over-estimate their chances of

re-employment; and yet others believe that government services are for disadvantaged groups, which discourages them from making use of services to which they would be entitled.

There are several ways to better reach out to displaced workers in need of employment support and ensure a better transition for displaced workers: 1) introducing a mandatory public notification system to allow for systematic redundancy support; 2) encouraging employers and employees to contact the local Work and Income office for support; 3) ensuring that all people in need of employment support receive appropriate services; and 4) integrating early intervention and redundancy pay. Each of these options will be discussed in more detail below.

Introducing a mandatory public notification system for redundancies

To better exploit the possibilities of early intervention services and ensure more equality in the support displaced workers receive, the government could consider introducing a mandatory public notification system for redundancies, as had already been proposed by the Public Advisory Group on Restructuring and Redundancy (2008). To maximise the time to organise support the authorities should be notified at the start of the consultation process with workers and trade unions. Waiting until the redundancy is confirmed would only delay support. Establishing contact with workers who are already laid-off is not straightforward without co-operation from the employer.

Compulsory notification to a state agency could be introduced in several ways. One option is to impose notification for redundancies above a certain numerical threshold. Across the OECD, a wide range of thresholds is used: including 5 or more affected workers in Sweden, 10 workers or more in Denmark, 20 workers or more in the United Kingdom, and 50 workers or more in Canada and the United States (Federal Law).[4] Another option is to restrict the notification requirement to those regions and sectors where a redundancy would have a significant impact on the local community. For instance, these regions could be defined as those that are highly dependent on a specific industry or firm (see Box 3.2).

Box 3.2. **Identification of at-risk communities**

In 2008, the Public Advisory Group on Restructuring and Redundancy identified 61 at-risk communities across New Zealand potentially exposed to a company or industry restructuring and large site closures. These at-risk communities had more than 20% of employed concentrated in a single industry (which may or may not be concentrated in a single firm). In 15 communities, more than half of employment was concentrated in a single industry. While many industries have some concentration in small areas, two main industries dominate: meat and meat processing and dairy product manufacturing (Public Advisory Group on Restructuring and Redundancy, 2008).

An alternative way of identifying at-risk communities is proposed in a recent publication by Nous Group (2013). Based on an assessment of plant closures in Australia, they argue that the ability of a region to withstand a major firm closure does not only depend on the economic capacity (i.e. the degree of economic diversity, internal supply chain dependency, and the state of the local labour market), but also on the region's institutional capacity (i.e. the concentration of government services and other institutional resources such as universities, think tanks, etc.) and workers' capacity (i.e. their skill levels and adaptability).

Sources: Public Advisory Group on Restructuring and Redundancy (2008), "Restructuring and Redundancy", unpublished manuscript; and Nous Group (2013), *Lessons learnt from large firm closures – Main report (Volume 1)*, Report for the Department of Industry, Innovation, Science, Research and Tertiary Education, Australia.

The advantage of using thresholds or targeting certain regions is that scarce resources are concentrated on redundancies that are likely to have the largest impact on the community. The disadvantage is that multiple redundancies of few workers or in different firms (with potentially an equally negative effect on the local community) would not be reported and workers who are individually displaced may not receive the support they need, especially since so few displaced workers are contacting Work and Income, and even if they do, they do not necessarily receive extensive support if they are not entitled to income support. Given the small size of the average New Zealand firm, a mandatory public notification system for all redundancies (including individual ones) is probably most appropriate. The low number of workers displaced in a given year (see Chapter 1) suggests that the administrative burden of firms is likely to be limited.

The design of notification systems differs across OECD countries. In Sweden, firms have to notify the Swedish public employment service in advance of the dismissal. The notification period increases with the number of workers to be dismissed and ranges from two to six months (OECD, 2015b). In Canada, firms have to notify the provincial or territorial Ministries of Labour, which then start a different response process depending on the province (OECD, 2015a). In the United States, notice of mass dismissals has to be given to workers' representatives (i.e. a labour union where they exist), the local chief elected

official (i.e. the mayor), and the state dislocated worker unit responsible for co-ordinating the *Rapid Response Services* to help workers transition to new jobs (OECD, 2016a). In Denmark, firms give advance notification of mass dismissal to their regional labour market authority, which in turn contacts the *Jobcentre* of the corresponding municipality and the available rapid-response services (OECD, 2016b).

For New Zealand, an online notification system might be a low-cost solution, minimising the compliance burden on firms and the authorities. Such system can send a signal to the company's trade union (if any) and the local Work and Income office to give them the opportunity to contact workers before their displacement, hereby increasing the chance they receive employment support even if they are not necessarily entitled to income support. For large redundancies, the Ministry of Social Development could receive a signal as well, to ensure that additional resources are provided to the local Work and Income office. A mandatory notification system would also be an easy way to create a strong information base about job displacement in New Zealand.

Encouraging employers and employees to contact Work and Income

To improve employer incentives to co-operate with public authorities, several OECD countries have introduced sanctions for non-compliance with the legislation on advance notice. In the Canadian province of Quebec, firms can be fined up to EUR 1 000 for each week of delay in sending a notice of dismissal. In the United States, firms who violate the legislation are subject to a EUR 450 civil fine for each day of delay in providing notice. Nevertheless, enforcement of such sanctions is often problematic, either because it is difficult to determine the cause of non-compliance or because the responsible ministry does not have any investigative or enforcement authority (OECD, 2015a and OECD, 2016a).

Countries have therefore resorted to strengthening individual obligations to contact employment services early on. In Germany, workers are obliged to register as jobseekers three months before their job ends or, for those with shorter notice, within three days after receiving notice of dismissal (Mosley, 2010). This registration obligation allows the public employment service to make referrals to vacancies before the first unemployment benefit payment. As part of the required job-search efforts, unemployed Swiss workers need to give proof of job-search activities between dismissal notification and the first interview at the public employment service to receive unemployment benefits and are sanctioned in case of non-compliance (Duell et al., 2010). While such obligations are easily implemented in unemployment insurance systems, this is not the case in New Zealand. Instead, the government could, for instance,

encourage displaced workers to contact Work and Income upon dismissal through a registration bonus – a one-off monetary payment for people registering early.

To improve the chances that skilled workers contact Work and Income, the government should explore ways to improve their services for these workers. The support Work and Income offers is typically targeted to assist very disadvantaged groups – such as the long-term unemployed – and they do not necessarily have suitable vacancies for more skilled displaced workers. New Zealand may be able to learn from the CREC initiative (*Comités d'aide au reclassement à entrées continues*) of the Canadian province of Quebec, where the public employment services work together with private employment service providers that are specialised in supporting higher skilled workers. Local Work and Income offices should also be given incentives to serve clients that are not entitled to income support.

Offering guidance for adult training

Work and Income provides a range of services for jobseekers. Yet, displaced workers who do not contact Work and Income are very much left on their own to search for a new job and/or decide about a career change if they want or need to.

Careers New Zealand is currently government's main career advice and information agency, yet its focus is on young people who are moving into the job market and services are mainly offered through the internet. Careers New Zealand provides free online careers information; self-guided online career development tools and an advisory service to help people make informed learning and work choices.[5] The website also provides useful information on redundancy support for employees, as well as information for adult (re-)training options, including an overview of the different courses by region, options for financial help, and information on recognition of prior learning. Apart from its online services, Careers New Zealand has a small advisory service (with some five staff members) to deliver guidance by phone, email or webchat. Careers New Zealand's strategic emphasis on digital delivery reflects the reach it can achieve through such an approach, its cost-effectiveness and the increasing preference of Career New Zealand's customers, especially young people, to be able to access assistance digitally, when and where they need it.

In May 2016, the government announced its intention to transfer Careers New Zealand's functions into the Tertiary Education Commission (TEC), which is monitored by the Ministry of Education and the Ministry of Business, Innovation and Employment. The transfer aims to combine the strengths and networks of both organisations to make a more effective careers system in New Zealand and improve careers information for school leavers and students.

However, the question is how services for adults in need of (re-)training will evolve. Training counselling is important not only for young people but for any age group. Counselling helps people understand which training options are both possible and relevant to them, and it increases post-training employment rates (ILO, 2014). When there is no pre-training counselling, bandwagon effects are likely to emerge, whereby people simply follow their peers. Leaving the guidance to the training providers is not optimal since they may only have an in-depth knowledge of the programmes they offer and may be unaware of other training options that might be more suitable for a particular person.

To better support adult workers in their training decisions, the government should develop easily accessible career guidance and training counselling services for adult workers. Face-to-face guidance should not be restricted to those who are entitled to welfare benefits. Certain population groups, like low-educated or older (displaced) workers, may be uncomfortable with using the internet or phone guidance currently offered by Careers New Zealand and may be reluctant to contact private career practitioners who provide guidance for payment. Career guidance and training counselling would also benefit the economy more broadly as it promotes the development of skills in line with the needs of the country.

Recognising prior learning

To improve job-to-job transitions of displaced workers, recognition of prior learning (RPL) is crucial – in particular for those among them who are older and have longer job tenure and/or a low level of initial education. RPL is the process of certifying pre-existing skills and knowledge, particularly those acquired on the job, often informally. The purpose of RPL is to make the acquired skills visible to all stakeholders: the displaced worker (to create motivation for training), the education and training institution (to be able to select or offer the right training course), and the potential employer who would be more inclined to hire these workers.

Most tertiary education providers in New Zealand provide RPL, though it is not always promoted or visible. In addition, it can be quite expensive for individual workers to go through the RPL assessment since there are no

government subsidies available for it. It is much cheaper and often easier to just accept the course offered by the education institution rather than having skills recognised through a RPL assessment. In New Zealand, it is more common for employees engaged in an apprenticeship or similar workplace-based training to undertake an RPL process for part of a qualification.

Going forward, it may be worth making the RPL system more accessible to individual workers and also to subsidise the RPL process. To avoid inefficient use of government funds, it is necessary to check whether an individual would gain from going through the assessment process. Tertiary education organisations, Work and Income, and Careers New Zealand all play crucial roles in guiding education and training choices. Displaced workers need programmes that motivate them, make the most of their current skills, lead to qualifications demanded in the labour market and have a good prospect of leading to sustainable employment of good quality. In addition, there should be opportunities for workers, particularly those at greater risk of displacement, to gain early recognition of skills so they understand their own abilities and have the means to display them to potential employers. Previous employers could be involved in RPL to ensure that acquired job-specific skills are fully captured.

Integrating early intervention and redundancy pay

If New Zealand opts for introducing a levy-based redundancy compensation scheme, as discussed in Chapter 2, it would be an ideal opportunity to combine the new scheme with active labour market assistance. Instead of simply paying out redundancy pay, the scheme would provide an easy way to reach displaced workers and ensure they have access to employment support if needed. The scheme would be an alternative to the mandatory notification system proposed earlier in this chapter.

The government could explore different ways to introduce such active redundancy pay system. One way to develop reintegration-oriented redundancy insurance would be through Work and Income which is already responsible for delivering employment support to non-employed workers. The disadvantages coming with such an institutional solution are, however, non-negligible. Work and Income is currently not seen as a service for skilled workers and many non-employed workers do not contact Work and Income for a variety of reasons, including stigma and lack of appropriate services. In addition, local Work and Income offices currently do not have the financial incentives to give the needed extensive services to clients that are not on the benefit roll. If the government opts for giving Work and Income the task of developing an active redundancy pay system, these disadvantages would have to be addressed in a serious manner.

There may be benefits in making another institution responsible for such a new system, like in particular the Accident Compensation Corporation (ACC). ACC already has a levy system in place. The levy-based redundancy pay system could copy the ACC funding model whereby employers (and possibly also employees) pay a payroll-based levy to a centrally-managed fund which then pays out redundancy payments to displaced workers. Given the experience of ACC in the area of levies and the economies of scale available from utilising an existing infrastructure, the ACC would be a good alternative for Work and Income to run such a redundancy insurance scheme. Although the ACC has little experience in connecting workers with new jobs, it excels in supporting both firms and workers to reintegrate workers after an accident. The ACC is also perceived as an institution for all workers and not only for disadvantaged ones, as opposed to Work and Income.

Another advantage of giving an expanded ACC the role of early intervention support is that displaced workers across different firms would be treated more equally and no longer depend on the ability or goodwill of their firm to offer income and/or re-employment support upon redundancy. Displaced workers with a high risk of long-term unemployment could be identified faster since everybody would need to contact the ACC to collect their redundancy pay. The ACC could use this opportunity to run a simple identification tool (like, for instance, the Dutch Work Explorer questionnaire discussed in Box 3.3 and refer identified high-risk groups to Work and Income for more comprehensive services.

If the government opts for ACC to administer the active redundancy insurance system, inspiration could be found in the three-tier response framework used by the Canadian province of Ontario (see Box 3.4). For instance, ACC could initially focus on providing an immediate response to redundancies by delivering information sessions and raising awareness of the different employment services available to the workers who will lose their jobs. In a second step, the ACC could connect displaced workers in need of more intensive employment services with the local Work and Income office.

Box 3.3. **The Dutch work explorer: a tool to identify jobseekers in need of extra help to prevent long-term unemployment**

The Dutch Employee Insurance Agency (UWV) developed a digital questionnaire, called "work explorer", to determine the chances of a jobseeker to resume work within a year. Each jobseeker fills in the questionnaire electronically before three months of unemployment. The outcome of the questionnaire determines whether or not the jobseeker is entitled to intensive support as well as the kind of support that is necessary to increase the chances to find a job. The questionnaire consists of a list of 20 questions on hard factors (such as age, job tenure and knowledge of the Dutch language) as well as soft factors (such as personal view on the chance to return to work, health perception, active job-search behaviour and physical and psychological work capacity). The selection of the questions is based on an extensive literature review and an econometric analysis to select the questions with the highest predictive power (Brouwer et al., 2011).

Sources: OECD (2014), *Mental Health and Work: Netherlands,* OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264223301-en; and Brouwer, S. et al. (2011), *Eindrapportage voorspellers van werkhervatting. Een onderzoek onder werklozen in Noord-Holland* [Final Report on Predictors of Work Resumption: Research Among Unemployed in Noord-Holland], Rijksuniversiteit Groningen UMCG/UWV Kenniscentrum, Groningen/Amsterdam.

Another source of inspiration for a levy-based compensation system in New Zealand can be found in the Job Security Councils in Sweden (see Box 3.5). These Job Security Councils are financed through employer contributions and operate as a complement to the Swedish public employment service. The Job Security Councils are actively involved in the process of restructuring and provide comprehensive advice and consultation to employers, trade unions and individuals at an early stage in the process. In contrast, the public employment service will typically come in much later after job loss. The two very distinct functions of the two organisations lend itself to a sound support system for the majority of displaced workers in Sweden (OECD, 2015b).

Box 3.4. **The Rapid Re-employment and Training Service in Ontario, Canada**

The *Rapid Re-employment and Training Service* (RRTS) in Ontario provides an immediate response to large-scale layoffs with the objective of connecting individuals with Employment Ontario services to help them regain employment. The level and type of support offered is tailored to the severity of the layoff and the capacity of the local employment service provider. The type of services offered may vary from:

Tier 1: If local re-employment services have sufficient capacity to assist the affected workers, then the RRTS is limited to delivering information sessions and raising awareness of the employment services available to workers who will lose their jobs. These sessions may take place at Service Canada or by arranging Employment Ontario service providers to go on-site or extend their hours of operation so that affected workers can use services before layoffs occur. Anecdotal evidence suggests that around 90% of the layoffs are dealt with using Tier 1 service, but these tend to be the layoffs affecting relatively few workers.

Tier 2: In a situation where Employment Ontario service providers do not have sufficient capacity to meet demand, additional services can be arranged. Typically, this includes short-term training for affected workers; supplementing employment services with adjustment funding to provide outreach to affected workers or use of the *Adjustment Advisory Programme* to establish an Action centre to deal with large scale closures. Through these Action centres, displaced workers can access: i) job-search assistance; ii) financial counselling and personal counselling to deal with the stress of job loss; iii) individual and group needs assessment; iv) vocational and educational counselling, and v) referral to programmes of Employment Ontario including the *Second Career* programme. Every laid-off worker develops an action plan within 15 days of his or her initial assessment and will have access to customised training, skills upgrading, job placement and relocation services. In general, Action centres should not operate for more than a year.

Tier 3: When adjustment situations have an adverse impact on the local economy or the community, a larger and a broader inter-ministry approach is taken. A local adjustment committee is established and led by an independent chair, to co-ordinate the implementation of the Service Action Plan. This plan is put in place within 30 days of the initial response and outlines the roles of the service providers in the community who will be delivering the services. A key component of the process is the development of a multi-disciplinary Rapid Response team, which is formed at the local or regional level to provide timely, focused and integrated training and employment solutions to affected workers and communities.

Source: OECD (2015), *Back to Work: Canada – Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264233454-en.

Box 3.5. **Job Security Councils in Sweden often act before a dismissal**

Job Security Councils were first developed in the 1970s against the backdrop of the deteriorating economic conditions in Sweden in the late 1960s and the massive job loss of white-collar workers in the wake of the oil crisis in 1973. The public employment service was not regarded by employers as providing sufficient support for white-collar workers to find new jobs (Diedrich and Bergström, 2006).

The councils are based on collective agreements between social partners in a sector or occupational field, such as white-collar workers in the private sector. Job Security Councils are actively involved in the process of restructuring and provide advice and consultation to employers and trade unions at an early stage in the process. They also provide transition services and guidance to workers who are made redundant, through individual counselling, career planning, job-search assistance and outplacement services.

The councils' activities are financed through employer contributions fixed as a percentage of their total payroll. The contribution level is determined as part of the collective agreement (currently 0.3% of payroll). As such, the council operates as a form of insurance, distributing the risk and costs of restructuring among its members, which allows access for workers in small and medium enterprises (European Commission, 2010).

Job Security Councils themselves claim that around 90% of their participants found a solution within nine months: 78% found new employment, 8% started a new business and 6% chose to start longer duration education.

Sources: OECD (2015), *Back to Work: Sweden: Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264246812-en; Diedrich, A. and O. Bergström (2006), "The job security councils in Sweden", School of Business, Economics, and Law, Göteborg University and Institute of Management of Innovation and Technology (IMIT) report, www.imit.se/pdf/reports/2007_145.pdf; and European Commission (2010), "27 National seminars on anticipating and managing restructuring", EU Synthesis Report, International Training Centre of the ILO, Turin.

Conclusion

Arguably New Zealand is one of the more minimalist OECD countries in terms of employment supports for displaced workers. The policy framework places considerable strategic weight on the creation and maintenance of flexible labour markets joined to a reliance on family and private employment services as the main providers of support for displaced workers. As with the New Zealand income support system, the system of employment services acts very much as a system of last resort for displaced workers who end up in the welfare system. For the last generation, the focus of labour market policy has been on issues of welfare-to-work transitions, largely for lone parents, but also for those on health-related welfare benefits. This focus has inevitably led to a neglect of policy issues surrounding those displaced workers who do not reintegrate into

employment, especially if they do not end up on welfare, which is currently the case for a majority.

The lack of statutory requirements in the labour law to notify Work and Income about upcoming redundancies implies that workers are largely dependent on their own initiative and the goodwill of their employer to receive support. The often very short notice period of dismissal, if any, that workers receive when they are made redundant reduces the ability of Work and Income to pro-actively organise support before workers become unemployed.

At the same time, few displaced workers will contact Work and Income services at their own initiative, for a variety of reasons, including lack of information on available employment services, stigma against utilising welfare services, lack of appropriate services for skilled workers, and lack of (financial) incentives for Work and Income to support non-employed people who are not eligible for income support. It is also unclear what proportion of displaced workers makes use of private employment services. Career advice and training guidance are targeted at young people moving into the job market, while services available to guide adults in need of (re-)training are limited.

A range of policy options are at hand to strengthen the New Zealand system of employment support for displaced workers:

- First, the government should explore ways to better reach out to displaced workers in need of support. Encouraging workers to contact Work and Income is essential, but it is equally important to improve the visibility of their services among the general public, expand services for skilled workers, and provide (financial) incentives to local Work and Income offices to assist people who are not eligible for income support. Information about the use of private employment services is needed to identify gaps in support.

- Second, career guidance and training counselling for displaced workers and those at risk of displacement should be strengthened, in particular for those who do not contact Work and Income. Rapidly changing skill needs in the economy require a continuous effort to guide adult workers to upskill and reskill throughout their working lives.

- Third, a well-designed mandatory notification system for dismissals, coupled with sanctions for non-compliance, would allow the public authorities to reach displaced workers early on – that is, before they are laid off. An online notification system for dismissals would have limited administrative costs for all involved stakeholders (i.e. employers and support services).

- Fourth, if New Zealand opts for introducing a levy-based redundancy compensation scheme (as suggested in Chapter 2), it would be an ideal opportunity to combine the new scheme with active labour market assistance. An active redundancy insurance system would allow the authorities to reach out to all displaced workers at an early stage and ensure that they have access to employment support if needed. The scheme would be an alternative to the proposed mandatory notification system.

Notes

1. For research on negative non-income effects of job displacement see for example: on personal life satisfaction e.g. Winkelman and Winkelman (1998); on personal physical and mental health e.g. Black et al. (2014), Schaller and Steven (2014), Kuhn et al. (2009); on spousal mental health e.g. Mendolia (2014), Bubonya et al. (2014); on post-job displacement workplace injuries e.g. Leombruni et al. (2013); on developmental outcomes for children of displaced workers e.g. Brand and Thomas (2014); on criminal behaviour e.g. Bennett and Quazad (2015); and on trust and civic participation e.g. Laurence and Lim (2013), Laurence (2015).
2. https://www.msd.govt.nz/about-msd-and-our-work/newsroom/media-releases/2011/welfare-reform-fact-sheet-information.html.
3. http://www.scoop.co.nz/stories/PA1505/S00372/fact-sheet-1-extending-work-obligations-for-parents-on-a-benefit.htm.
4. In some countries, the thresholds change with the size of a firm. For instance, mass dismissals in Denmark are defined as dismissals where the number of planned dismissals within a period of 30 days reaches: i) at least 10 workers in firms between 20 and 99 employees; ii) at least 10% of the workforce in firms with 100 to 299 employees; or iii) at least 30 employees in large firms employing at least 300 employees.
5. http://www.careers.govt.nz/courses/study-and-training-options/adults-considering-training-or-retraining/.

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Back to Work

NEW ZEALAND

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

Job displacement (involuntary job loss due to firm closure or downsizing) affects many workers over their lifetime. Displaced workers may face long periods of unemployment and, even when they find new jobs, tend to be paid less and have fewer benefits than in their prior jobs. Helping them get back into good jobs quickly should be a key goal of labour market policy. This report is part of a series of reports looking at how this challenge is being tackled in a number of OECD countries. It shows that in New Zealand most displaced workers find a new job again, largely due to a strong economy and a highly flexible labour market. But many of them face large losses in terms of job quality and especially wages. And displaced workers facing difficulties in New Zealand are largely left on their own to find a new job, as the means-tested public benefit system only provides for people in need and employment services concentrate on helping people off benefit with limited focus on those not receiving a benefit.

Nine countries are participating in the review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

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