

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 taken 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.