



BRIEFING

Support for Displaced Workers – Proposed further work

Date:	30 September 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	01011 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree the recommendations	4 October 2019
Hon Phil Twyford Minister of Economic Development		
Hon Carmel Sepuloni Minister for Social Development		
Hon Iain Lees-Galloway Minister for Workplace Relations and Safety		
Hon Willie Jackson Minister of Employment		

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Jivan Grewal	Manager, Skills & Employment Policy	Privacy of natural persons	
Francis van der Krogt	Principal Advisor		✓

The following departments/agencies have been consulted
Ministry of Social Development and The Treasury

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



BRIEFING

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Date:	30 September 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	BR 01011 19-20

Purpose

This paper seeks your agreement to further work led by the Ministry of Business, Innovation & Employment (MBIE), in collaboration with the Ministry of Social Development (MSD), on the role of mandatory redundancy payments and / or social unemployment insurance in easing the adverse impacts on workers, their families, and communities arising from displacement, and other involuntary job loss.

Executive summary

Helping workers find and keep good jobs – and displaced workers in particular – is a priority item in the Government’s Future of Work and Transitions Work Programme. This is a priority for further work because the frequency of such transitions could increase, and because the support for New Zealand workers is currently relatively limited.

As a first step, MBIE produced a research paper earlier this year on the state of support for displaced workers, and the options to enhance that support. Consistent with other reports, the research paper found that support for displaced workers is limited, and that this likely contributes to high levels of post-displacement wage scarring in New Zealand relative to other OECD countries. Wage scarring is harmful to affected workers, and can contribute to productivity losses.

There is work underway that will help. The welfare overhaul and the Reform of Vocational Education are particularly important. Other relevant programmes include the Careers System Strategy, and the workforce element of Industry Transformation Plans.

The existing work will, however, only have a limited impact on the role that firms can play in assisting displaced workers. There are additional policy and regulatory options to consider that could make a substantial difference. In some other countries, there are well-established roles for firms in easing transitions, in particular through redundancy payments, and contributions to unemployment insurance schemes.

The 2017 Labour Manifesto committed to exploring the potential role for redundancy payments. Unemployment insurance is another option to consider, and one that could deliver positive additional benefits, such as increased commitment from employers to good employee outcomes.

Shortcomings in purely private insurance markets (such as “adverse selection” and “moral hazard”) mean that effective unemployment insurance schemes need to have some features of social insurance, such as compulsion and tax contributions. New Zealand lacks statutory redundancy payments, and there is only a small private market for unemployment insurance. Social

unemployment insurance schemes for redundant workers tend to be complementary to welfare systems. As such, in implementing an insurance scheme, an important consideration would be how such a scheme interacts with the welfare system. A poorly designed interface may well have significant adverse impacts on the welfare system. However, a well-designed scheme could significantly enhance the outcomes sought by the welfare system.

We propose a scoping study to assess the feasibility of these options. This would help fulfil the manifesto commitment, and support a Future of Work Tripartite Forum priority. The work would also inform the First Principles Review of Active Labour Market Policies that Labour Market Ministers have commissioned.

The proposed work will involve designing prototypes to understand the potential value proposition of unemployment insurance and statutory redundancy. This work would consider the costs, benefits, and wider economic impacts of such options.

If you agree, the next step is to report back to Ministers by December with the scoping study, and advice on whether more work on these options is worthwhile.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

1. **note** that helping workers find and keep good jobs – and displaced workers in particular – is a priority item in the Government’s Future of Work and Transitions Work Programme;
Noted

2. **note** that the support available to displaced workers in New Zealand is relatively modest compared to many other OECD countries, and this is likely to contribute to the more marked “wage scarring” effects experienced by New Zealand workers (as discussed in the attached MBIE research paper);
Noted

3. **note** that a number of existing and planned initiatives will contribute to smoother employment transitions, but none of these in their current form is likely to address the significant immediate loss of income arising from displacement for the majority of workers, or ensure that employers play a greater role in easing transitions;
Noted

4. **note** that redundancy payments and unemployment insurance are two significant tools for improving displaced workers’ financial security, and hence for easing transitions between jobs, following displacement;
Noted

5. **note** that increasing the coverage of unemployment insurance could potentially complement the role played by the welfare system, but decisions in this space may significantly impact the welfare system, and there would need to be careful consideration of their respective roles and the interface between them;
Noted

6. **note** that increasing the coverage of redundancy provisions and / or unemployment insurance are technically complex issues and would require an in-depth policy process to identify and evaluate choices and to socialise these with stakeholders, and with the business community especially;

Noted

7. **direct** the Ministry of Business, Innovation & Employment, in collaboration with the Ministry of Social Development, as an initial step, to conduct a scoping study on the potential for easing worker transitions through increasing the coverage of redundancy provisions and / or unemployment insurance, and to provide a report to Ministers by mid-December, to inform a ministerial discussion early in 2020; and

Agree / Disagree

8. **note** that the objective of that ministerial discussion would be to determine the scope of further work.

Noted

Jivan Grewal
Manager, Skills & Employment Policy
Labour, Science, and Enterprise, MBIE

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Hon Carmel Sepuloni
Minister for Social Development

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Hon Grant Robertson
Minister of Finance

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Hon Iain Lees-Galloway
Minister for Workplace Relations and Safety

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Hon Phil Twyford
Minister of Economic Development

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Hon Willie Jackson
Minister of Employment

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Involuntary job-loss can have adverse impacts on workers, communities and more widely, if steps are not taken to smooth the way to good jobs

1. Involuntary transitions between jobs (such as redundancies) can lead to poor outcomes for individuals and communities and can impede overall productivity. The immediate impacts of an involuntary transition can include unemployment, underemployment, and loss of income even when a worker is fully re-employed.
2. As the *Future of Work Tripartite Forum Strategic Assessment* notes, the future of work trends are widely expected to increase the incidence of involuntary transitions, including redundancy (displacement), and more precarious non-standard work. Displacement in particular could become more challenging for affected workers since there could be a widening mismatch between the skills of displaced workers, and the skills that employers demand. This could affect older workers in particular.
3. Reflecting these risks, “helping workers find and keep good jobs” is a key theme in the *Assessment*, and enhancing support for displaced workers is a Forum priority. The *Assessment* draws on OECD and Welfare Expert Advisory Group findings that the existing support for displaced New Zealand workers is limited.
4. Earlier this year, MBIE produced a research paper (attached) on the state of support for displaced workers, and the options to enhance that support. Consistent with those earlier reports, the research paper found that support for displaced workers is limited (especially employment and financial support), and that this likely contributes to relatively high levels of wage reductions upon reemployment (wage scarring) in New Zealand relative to other OECD countries. Disengagement from the labour market is a further risk.
5. Further, the costs associated with such displacement tend to fall primarily to the state and to individuals. There are also significant gaps in support for such displaced workers, such as access to employment advice and brokerage services. Increased financial support, with contributions from employers, could make a critical difference in easing worker transitions and facilitate improved labour market outcomes.
6. Enhancing the support for workers is desirable both for their wellbeing, and also to underpin the Government’s economic transitions agenda.

There is work underway that will help, notably the welfare overhaul and education-related reviews

7. As the attached MBIE research paper notes, smoother worker transitions can be promoted through combinations of:
 - financial support;
 - education and training;
 - brokerage and information services; and
 - employment opportunities.

8. A number of existing initiatives are enhancing these forms of support, and will contribute to smoother employment transitions.
9. The most important initiative is the welfare overhaul. Through the overhaul, the Minister for Social Development proposes to expand MSD employment services over time to support more people experiencing difficulty finding and staying in suitable employment. This is likely to include enhancing MSD's proactive responses to larger scale redundancies, and the availability of active employment services.
10. Over time, the welfare overhaul is also expected to enhance the adequacy of welfare payments, but such enhancements are not likely to be sufficient to replace substantially the incomes lost by middle income workers who become redundant.
11. A number of education and skills related initiatives will benefit displaced workers. The Reform of Vocational Education, will ease access to vocational training. MBIE, working with the Forum Partners, is exploring further measures to increase access to in-work training. The Careers System Strategy will improve the availability and quality of careers advice to workers.
12. Finally, workforce transitions will be an integral component of industry transformation planning, for both sunrise and sunset industries. Such planning will be an important part of proactively managing the risk of displacement through identifying workers at risk and mapping a pathway to new jobs.

The existing work programme is unlikely to address the gaps fully, and is not considering policy and regulatory options for firms

13. These initiatives will collectively enhance the support for displaced workers, and contribute to smoother employment transitions. None of them, however, is likely to address the significant immediate loss of income arising from displacement for a majority of workers, nor result in universal provision of employment services to the full breadth of people who may lose their jobs through displacement.
14. Further, it is likely that even an expanded MSD employment service will remain primarily focussed on people facing the greatest long-term labour market disadvantages, rather than people who have lost their jobs through redundancy.
15. Finally, the initiatives noted above may have only a limited impact of the role employers play in easing transitions. There are good reasons to consider additional roles for firms. Firms can support each of the elements that are important to worker adjustments – income security, education and training, job search, and creating employment opportunities.
16. Firms are especially important to the early interventions that can help to avoid the risk of displacement. Early intervention is desirable for workers since it offers a means of avoiding employment and income scarring effects. For the government, reduced displacement could help to reduce welfare and public employment service costs.
17. Firms are important to early interventions because business owners have more detailed and more timely knowledge of the risks (and opportunities) they face than government agencies, and because it is firms that decide when to retain or release workers, whether to expand workforces, and whether to invest in retraining and upskilling.

18. Firms also play a critical role when displacement does occur. Firms decide whether to offer redundancy payments, how much notice to give, whether to notify MSD, whether to support workers to find new employment, and how to work with unions.

Other countries have more explicit roles for firms, including mandated contributions to financial support

19. Contributions to unemployment insurance and redundancy payments are two standard ways that employers can contribute to easing the adverse impacts of displacement. These are commonplace in other OECD countries, but are less prevalent in New Zealand. The premiums for unemployment insurance can be met by governments, employers, and / or employees.
20. Consulting on improving minimum redundancy protection for workers affected by restructuring – giving regard to the recommendations of the *Ministerial Advisory Group report on redundancy and restructuring* – was a 2017 manifesto commitment. Unemployment insurance can substitute or complement redundancy payments, and is also presented as one option in the *Ministerial Advisory Group* report. These tools operate in different ways, drive different behaviours, and provide different benefits for workers.

Unemployment insurance

21. In northern European countries and the United States, well-established unemployment insurance schemes complement, rather than substitute, welfare-based support. Employees who become redundant and who are enrolled in such insurance schemes – often managed on a tripartite basis – can be entitled to insurance payments that substantially replace their lost income for a defined period.
22. Insurance can provide substantial income protection to displaced workers even if their household income remains relatively high (due to the contribution of an earning spouse for example). As a result, insurance largely maintains a household's pre-displacement income. This is a significant difference from welfare-based models, where even modest earned household income can mean that a displaced worker is not eligible for a main benefit, particularly where one earner is displaced in a two-earner household. These differences are illustrated by a comparison of the support provided through the ACC (individualised assessments) and welfare systems (household income means-tested assessments). An insurance model, therefore, can complement a welfare system by providing coverage for displaced workers who are otherwise not eligible for income replacement.
23. Although the two could have complementary roles, implementing an insurance model may have significant impacts on the welfare system. Designing any insurance model would need to involve careful consideration of the impacts on the welfare system, including the respective roles, interactions and consistencies between the two systems and whether, as an alternative, support for displaced workers could be addressed (at least in part) by making the welfare system more immediately available to displaced workers.
24. Workers receiving insurance payments are often obligated and supported to seek work promptly. This “activation” is especially important in insurance-based schemes, since the high income replacement rate can otherwise diminish incentives to return to work. Such “moral hazard” and “adverse selection” problems are a key factor inhibiting the functioning of fully

private markets for employment insurance. These shortcomings mean that effective unemployment insurance schemes need to have some features of *social insurance*, such as compulsion and tax contributions (behavioural features such as “auto-enrolment” and “opt-out” can be useful).

25. Where redundant workers reach the end of a period of insurance-based income protection without securing employment, they may transition to welfare-based support, if they are eligible.
26. The role for employers is substantial in insurance models since employers pay a share of insurance premiums. Subject to design choices, insurance models can incentivise employers to avoid redundancies (through retraining or redeploying staff, for example), since this can lower the premiums that insurers demand.
27. Further, particular models can incentivise insurance companies to invest in effective re-employment services to minimise their own liabilities, and to pass some of this saving back to employers through competitive premiums. In welfare systems, by contrast, employers have relatively little stake in the services provided to workers displaced from their business.

Previous consideration of insurance

28. Officials have not previously examined carefully how an unemployment insurance scheme could operate in New Zealand. The 2010 Welfare Working Group recommended adopting aspects of an insurance approach for the welfare system, but did not explore a standalone insurance scheme to complement the welfare system.
29. The OECD has previously recommended that New Zealand adopt a payroll-based insurance model (2017), and the Council of Trade Unions (2016) has endorsed the Danish flexicurity model, in which generous insurance cover (and strict activation) is integral. The *Ministerial Advisory Group* report identified four possible insurance options to consider. Neither the OECD nor the Ministerial Advisory Group’s recommendations have received serious consideration. In commenting on the OECD’s 2017 proposals, MBIE noted that the OECD’s recommendations would be considered by agencies in future assessments of employment policy settings to better support transitions between jobs for displaced workers.

Redundancy payments

30. Where insurance provides continuous support for a defined period or until a person returns to work, redundancy payments provide lump-sum compensation on dismissal, without regard for subsequent employment outcomes. Redundancy payments are therefore, less directly linked to employment support, and provision is not coupled with obligations to seek work, or sanctions for failing to do so.
31. Around half of the New Zealand workers made redundant receive redundancy payments, but this often excludes the most vulnerable workers.
32. Mandatory redundancy and unemployment insurance can operate as complements or substitutes. Both can complement welfare-support. New Zealand is unusual in the OECD in lacking either comprehensive unemployment insurance, or mandatory redundancy payments.

To assess the feasibility of these options, we propose to conduct some initial work

33. Increasing the coverage of redundancy provisions or unemployment insurance are technically complex propositions, insurance especially. These approaches would require an in-depth policy process to identify and evaluate choices and to socialise these with stakeholders, and with the business community especially.
34. Further, careful consideration would need to be given to the respective roles of insurance and welfare, and the interface between them. Since insurance and welfare serve similar purposes, there would be choices in the “balance” or “relative reliance” on these systems in supporting displaced workers.
35. Before committing to such detailed work, we propose to conduct a scoping study. The aim of the study would be to understand the insurance option in particular, and thereby inform a choice whether to look at this further. We would provide a report to the Future of Work Ministers by mid-December.
36. Specifically, the scoping study would:
 - sketch the options for a social insurance scheme to address the impact of displacement, and how this might interact with other sources of support, notably through the welfare system;
 - calculate (roughly) the likely cost to cover the wage loss incurred by displaced workers;
 - advise whether an insurance model could contribute to reduced wage scarring (ie through re-employment in a job with wages similar to pre-displacement earnings);
 - sketch the options for statutory redundancy; and
 - undertake a prima facie assessment of the statutory redundancy and social insurance options (in terms of impacts on workers, employers, and wider economic impacts) and advise what further work is worthwhile.
37. This scoping study would also contribute to First Principles Review of Active Labour Market Policy by exploring ways of increasing employers’ engagement in active labour market programmes.

Next steps

38. MBIE, in collaboration with the MSD and in consultation with the Treasury and other interested agencies, could deliver this in time for Ministers’ “summer reading”, ahead of a Future of Work Ministers discussion early in the New Year.
39. The purpose of that discussion would be to decide which options should be discounted, and which should remain under active consideration.

Annex: MBIE research paper on support for displaced workers

Enhancing support for at-risk and displaced workers: Assessment and policy directions

Purpose

This paper identifies policy choices for enhancing support for workers who are displaced by economic forces, or are at risk of displacement due to such forces. This is a first step towards developing a programme of policy work in this area.

The paper:

- discusses the impact of worker displacement in the New Zealand context, and the risks posed by the “future of work” trends,
- proposes a four-part framework for promoting smooth transitions,
- scans the support available for at risk and displaced workers in New Zealand, identifying strengths and weaknesses,
- notes how existing policy work and programmes provide opportunities to address those weaknesses, and
- identifies directions for further work

The paper is a response to several commissions from ministers, and is a contribution to both the Future of Work Forum programme, and the Welfare Overhaul.

Executive summary

Economic transitions can create employment and income risks for workers.¹ There is evidence that New Zealand’s institutional settings, while promoting rapid reemployment, can lead to significant income and employment scarring effects. Without policy interventions, the future of work trends – especially technological change – could magnify those effects.

This paper suggests a four-part framework for promoting smooth worker transitions. The framework is useful for assessing both how workers are currently supported, and also to identify opportunities to enhance support.

The framework comprises four forms of complementary support that are, ideally, provided proactively. The four forms of support are:

- financial support,
- education and training,
- brokerage and information services, and
- employment opportunities.

¹ This paper focusses on displacement arising from economic change – such as firm closures, or significant changes to the way work is undertaken. It is not directly concerned with the many other factors that can affect labour market participation, such as the effects of health conditions or disabilities. That said, in a broad sense, the supports that are effective for at-risk and displaced workers may be equally effective for other groups of disadvantaged workers, although the specifics of the response may need to vary.

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These forms of support are complements rather than substitutes for one another; they operate together to ease worker transitions. There are many policy options within each, so it is possible to devise policies that suit national policy contexts, traditions, and institutions. There are roles for each of the social partners.

A proactive stance is desirable because prevention and early intervention are more likely to be effective, and more likely to minimise income and employment risks for workers. *Early intervention* includes rapid responses once displacement is imminent, such as early career planning, skill assessments (including recognition of prior learning), training planning, job search assistance, and access to financial support (where needed).

Preventive measures include continual processes of retraining and upskilling, and labour force and career planning. Such measures not only help to insulate workers against the risk of displacement, but can also be part of a concerted economic strategy (industry mapping and industry policy) to raise productivity and incomes through a more highly skilled workforce with improved matching of skills to demand.

A scan of New Zealand's existing institutions against the four-part framework suggests a mixture of strengths, weaknesses, and opportunities. Table 2 in the conclusions section summarises this strategic assessment, including a range of options for further work.

Strengths in the New Zealand context include provision of non-time-limited welfare payments that are not limited by prior contributions or employment history; some active responses to large-scale redundancies; and affordable and high quality tertiary education with low barriers to entry and overall high levels of workplace training. Flexible labour market settings encourage firms to hire workers.

Weaknesses in the New Zealand context include low levels of financial support and coverage gaps; coverage gaps in employment, brokerage, and career services; and a formal education system that in some respects favours young people obtaining their initial qualifications. The New Zealand system is not well set-up to prevent the harmful effects of displacement through proactive upskilling and retraining, and provision of career advice. Industry mapping and work force development are only just emerging as policy tools.

This paper is a first step towards developing a programme of policy work. Subsequent steps could include establishing work-streams based on each of the four forms of support to examine and to evaluate the most promising options within each. Where appropriate, this work could be part of existing work programmes, such as the overhaul of the welfare system, or the Review of Vocational Education, and should actively include the social partners. The weight of effort could be directed towards incremental changes, while conducting a more cursory scan of the extensive changes.

Background

Internationally and domestically, concern about the impact of the “future of work trends” has heightened interest in the adequacy of support for displaced workers – and workers at risk of economic displacement.² Displacement can pose considerable income and employment risks to workers, and impede economic transitions.³

Support for displaced and at-risk workers is a feature of the Government’s economic, future of work, and labour market programmes. Advice has been commissioned in the context of each.

The Cabinet paper on *Economic Strategy to Build a Productive, Sustainable and Inclusive Economy* included a commitment to:

*investigate opportunities to... implement active labour market policies that support reskilling and redeploying workers affected by change.*⁴

The Minister of Finance has included this as one of four areas where Ministers see scope to do more to build a more productive economy. The Cabinet paper also noted:

Large businesses are increasingly recognising a duty to reskill existing workers and there may be a role for government to work with businesses to support this while ensuring that we help design solutions for small and medium enterprises with limited capacity or capability to reskill workers themselves.

The adequacy of support for displaced and at-risk workers is a key element of the future of work programme. Two of the Tripartite Future of Work Forum’s pillars - Just Transitions and Learning for Life - are particularly concerned with support for transitioning workers.⁵ The Forum is presently completing its “strategic assessment” of the future of work. This will include an assessment of policy implications. This paper is a contribution to that assessment.

Further, through its Confidence & Supply Agreement, the Government has committed to “overhaul” the welfare system. Amongst other priorities, the overhaul will consider the role of the welfare system in supporting at-risk and displaced workers. In the New Zealand context, the welfare system has a particularly central role in providing income support, and public employment services. This paper will help inform the overhaul.

The overhaul will be informed by the Welfare Expert Advisory Group Report. The WEAG report identifies weaknesses in existing support for displaced workers, and foresees an

² For example: International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*; and McKinsey Global Institute, (2017). *Jobs lost, Jobs Gained, Workforce Transitions in a time of automation*

³ OECD, (2018) *Employment Outlook 2018, Chapter 4, Back to Work, Lessons from nine country case studies to assist displaced workers*, p.124

⁴ Minister of Finance and Minister for Economic Development, paper for Cabinet Economic Development Committee, (2018), *Economic Strategy to build a productive, sustainable, and inclusive economy*

⁵ Minister of Finance, (2018). *Proposed Work Programme for the Tripartite Future of Work Forum*, <https://www.beehive.govt.nz/release/future-work-tripartite-forum-champions-skills-shift-programme>

increasing need for effective support as the future of work trends increase rates of displacement.⁶

Context: Displacement, the future of work, and scarring effects

Scale of the problem

A dynamic labour market that enables smooth transitions of workers between employers is desirable since workers' and employers' needs and preferences can change. A dynamic labour market allows for these changes through a continuous process of matching, and re-matching between workers and employers. The faster and more effectively this matching occurs the better for both parties and the economy, achieving high skills utilisation, maintaining workers' skills relevance and minimising disruption to worker income and business outputs, while allowing businesses and workers respond quickly and flexibly to market opportunities.

The vast majority of such transitions are voluntary, and require no direct government intervention. Involuntary transitions, however, such as redundancies, can pose considerable income and employment risks to workers. These risks appear to be greater in New Zealand than in other OECD countries, and could be exacerbated by the trends associated with the future of work. Ensuring effective support for workers transitioning between jobs is an important aspect of establishing an inclusive, resilient, and adaptable economy.⁷

New Zealand's labour market is dynamic, with flows into and out of employment in the top third of the all OECD countries.⁸ With the exception of the GFC, the rate of job creation has been higher than the rate of job destruction indicating more jobs are being created than destroyed. Worker displacement rates (involuntary job loss) are generally low and re-employment rates high by international comparison.⁹ Dixon and Mare find that the average annual rate of displacement for employees was 1.5% a year from 2003-2007. This increased in the GFC to 3.3%.¹⁰

Displaced New Zealand workers tend to be re-employed rapidly. On average, 84% of displaced workers are re-employed after two years.¹¹ This is one of the highest rates of re-employment in the OECD.¹² Similarly, New Zealand's long-term unemployment rate is half

⁶ Welfare Expert Advisory Group, (2019), *Whakamana Tangata: Restoring Dignity to Social Security in New Zealand*.

⁷ Minister of Finance, (2018). *Speech to the Productivity hub on The Future of Work: Adaptability, Resilience, and Inclusion*.

⁸ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, p.26.

⁹ OECD, (2013). *OECD Employment Outlook, Back to Work: Re-employment, Earnings, and Skill Use after Job Displacement*

¹⁰ Dixon, S., & Mare D. (2013). *The Costs of Involuntary Job Loss: Impacts on Workers' Employment and Earnings*, Motu Working Paper 13-03, Motu Economic and Public Policy Research

¹³ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, p.37.

¹² OECD, (2018) *Employment Outlook 2018, Chapter 4, Back to Work, Lessons from nine country case studies to assist displaced workers*, p.133

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the OECD average¹³, and has steadily declined over 25 years.¹⁴ These positive attributes are consistent with a flexible and generally buoyant labour market.

However that is not to say displacement is not a problem for New Zealand. Despite these positive outcomes, there is some evidence that displacements can be more disruptive to incomes and employment than needs to be the case and disproportionately affect groups of workers already vulnerable in the labour market. The limited New Zealand specific literature on worker displacement suggests that displacement disproportionately affects those new to the workforce and those close to retirement, Maori, single and less educated workers.¹⁵

Scarring

Displaced New Zealand workers tend to bear more significant income and employment “scars” than workers in other OECD countries. “Scarring” refers to the reduced levels of income and employment that displaced workers can experience following displacement, often over a period of years.

On average, the employment rate of displaced workers is 20-25% lower than non-displaced workers after one year, and 8-12% lower after five years.¹⁶ Incomes are 25-30% lower after a year, and 13-22% lower after five years.¹⁷ These effects are higher than OECD norms, and result from a combination of unemployment, insufficient hours of work, and lower wages.¹⁸ Scarring implies loss of income (hardship), additional costs (and lost revenue) for government, and poor matching (waste of human capital).

High levels of scarring effects relative to other jurisdictions also suggests weaknesses in New Zealand’s institutional settings, weaknesses that could be magnified in a future of work where displacement is more frequent.

The displaced workers most likely to bear these income and employment scars over time are once again workers who are older, younger and low skilled (without a bachelor level or higher qualification). Workers with longer job tenure prior to displacement and who have redundancy pay from their previous employer also suffer significant wages losses which persist over time – possibly because they have developed role specific skill specialities over time that are less transferable or because they spend longer out of the workforce due to redundancy payments reducing their need for immediate reemployment. In terms of returning to work, men and women have similar comparable outcomes.

¹³ OECD, (2019). *Long-term unemployment rate in OECD countries*

¹⁴ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, p.34

¹⁵ Hyslop, D., & Townsend, W., (2017). *The Longer Term Impacts of Job Displacement on Labour Market Outcomes*

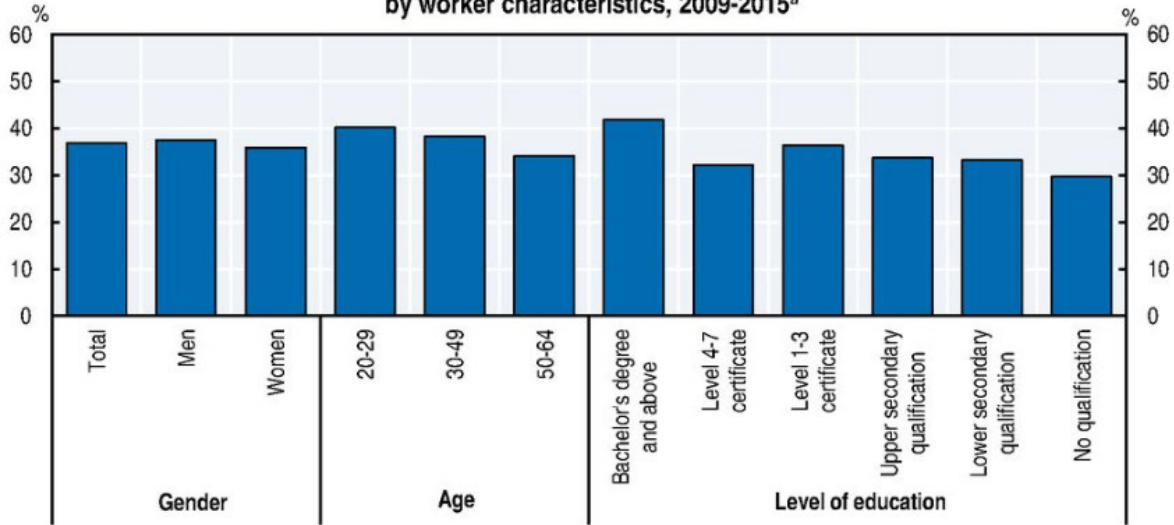
¹⁶ Hyslop, D., & Townsend, W., (2017). *The Longer Term Impacts of Job Displacement on Labour Market Outcomes*, p.3

¹⁷ Hyslop, D., & Townsend, W., (2017). *The Longer Term Impacts of Job Displacement on Labour Market Outcomes*, p.3

¹⁸ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers* p.40

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B. Percentage of displaced workers finding employment each quarter, by worker characteristics, 2009-2015^a



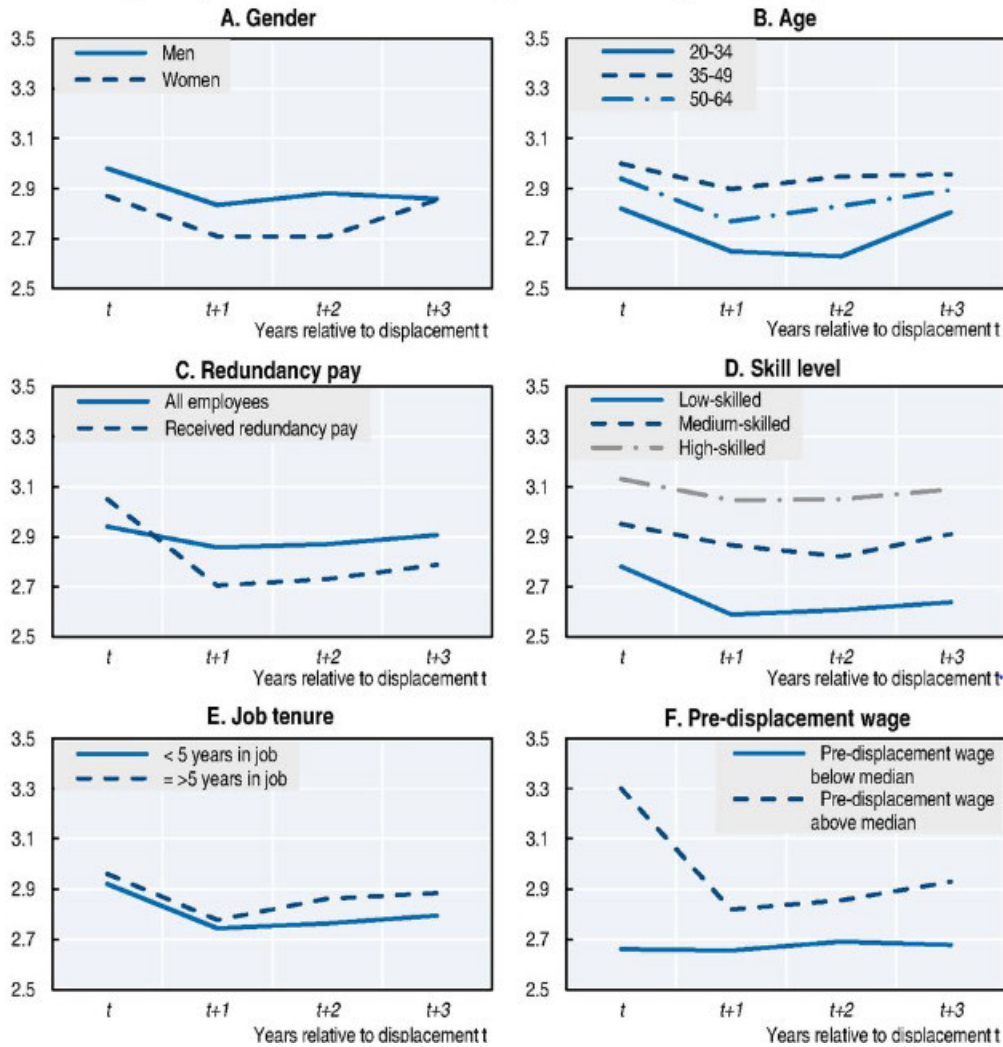
Note: Displaced workers are employees aged 20-64 who were not employed in the previous quarter and who reported being laid off, dismissed or made redundant from their previous job within the past five years.

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

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

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

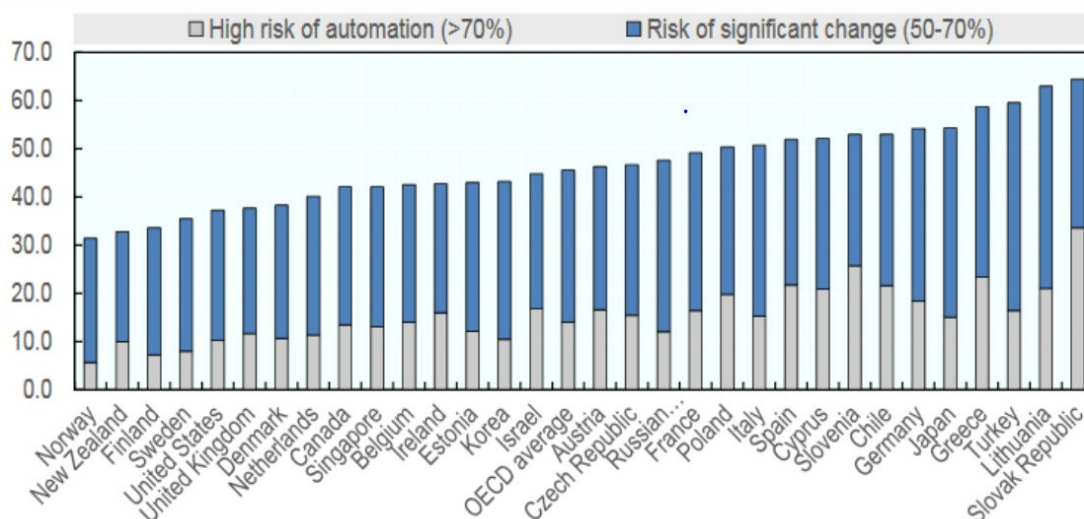


Future risk?

The future of work trends (such as technological change, globalisation, changing demographics and climate change) could exacerbate the incidence of job displacement (by both complete job destruction and substantial change within jobs). All things being equal, such trends are likely exacerbate the aggregate effect of worker scarring, where workers do not adjust well to a rapidly changing economy.

There have been a number of estimates of the impact of the potential for displacement arising from technological change, as the chart on the following page illustrates.¹⁹ The OECD has estimated that around 14% of all jobs, on average, across 32 countries analysed have a high risk of automation (70% of tasks automated).²⁰ Another 34% on average, however, may experience significant change (50% -70% of tasks automated). These estimates are shown in Figure 1. New Zealand sits towards the lower end in terms of automation potential, likely due to a lower level of routine jobs and relatively high education and skills levels. The McKinsey Global Institute has recently estimated that 21% of New Zealand jobs will be automated by 2030.²¹

Figure 1: Share of jobs at risk of automation or significant change



Notes: High risk – more than 70% probability of automation; risk of significant change – between 50 and 70% probability
 Source: OECD (2018), Survey of Adult Skills (PIAAC) 2012, 2015

¹⁹ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.19

²⁰ OECD, (2018). *Putting faces to the Jobs at Risk of Automation*

²¹ Treasury, (2019). *Future of Work Tripartite Forum: Evidence Base on the Future of Work*

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	SOURCE	ESTIMATES
Technology	Frey and Osborne, 2015	47 per cent of workers in the United States are at risk of having jobs replaced by automation.
	Chang and Phu, 2016	ASEAN-5: 56 per cent of jobs are at risk of automation over the next 20 years.
	McKinsey Global Institute, 2017	While less than 5 per cent of all occupations can be automated entirely using demonstrated technologies, about 60 per cent of all occupations have at least 30 per cent of constituent activities that can be automated.
	OECD, 2016	An average 9 per cent of jobs in the OECD are at high risk of automation. A substantial share of jobs (between 50 and 70 per cent) will not be substituted entirely but a large share of tasks will be automated, transforming how these jobs are carried out.
	World Bank, 2016	Two-thirds of jobs in the developing world are susceptible to automation.
	WEF, 2018	Nearly 50 per cent of companies expect that automation will lead to some reduction in their full-time workforce by 2022.
Transition to a sustainable environment	ILO, 2018c	Implementing the Paris Climate Agenda is estimated to lead to global job losses of around 6 million and job gains of 24 million.
Demographic change	UNDESA, 2017	By 2050, the total dependency ratio (ratio of population aged 0–14 and 65+ per 100 population aged 15–64) is projected to increase sharply in Europe (by 24.8 percentage points) and Northern America (by 14.4 percentage points) and moderately in Asia (by 8.5 percentage points), Oceania (by 6.8 percentage points) and Latin America and the Caribbean (by 7.6 percentage points). The total dependency ratio for Africa is projected to decrease by 18.7 percentage points and half of the region's population will be young (0–24). All other regions will have an aged population.

One of the key points of discussion is the *net effect* that the future of work trends will have on employment. This is a complex issue, since the future of work trends will lead to both job destruction *and* creation.²² The good news is that most analyses predict a *net increase* in jobs (job creation will exceed job destruction). The recent report from the Prime Minister's Business Advisory Council – *A Future that works* – for example, estimates net job growth of 200,000 jobs in New Zealand by 2030.²³ There seems to be little merit in contemplating a jobless future, one of the frequently cited rationales for a universal basic income.

²² This reflects the fact workplace innovation can have a range of effects – replacing workers, complementing workers, and creating demand for more workers. For a discussion of these effects, see Salmon, (2019), *Jobs, Robots, & Us*.

²³ Prime Minister's Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.10

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Moreover, historically, economies tend to return to full employment over time following periods of disruption. The IMF, for example, state that from a historical perspective there is no evidence that new technological advancements have a persistent negative effect on demand for labour.²⁴ In the long run the displaced workers can be expected to be reallocated to growth industries in the economy, or move to another region or economy, thereby restoring full employment.²⁵

However, even if the economy returns to full employment in high-value industries in the long run, events that cause significant job and skills transitions will give rise to short term adjustment costs, including unemployment. Furthermore, labour markets struggle to absorb very large shocks within short periods of time. These costs can be high, especially for displaced workers. Moreover, the so-called short run could last for many years. In other words, the future of work trends could lead to an exacerbation of income and employment scarring effects. This could be concentrated in particular regions, sectors, and populations.

A more managed transition – one that mitigates the risks to workers' employment and incomes – could reduce these adverse impacts, and possibly lead to a more optimal equilibrium than otherwise. The Business Advisory Council report, for example, recommends that the government, employers, and industry expedite the economic transition, while supporting workers to adjust.²⁶

²⁴ International Monetary Fund, (2018). *Technology and the Future of Work*

²⁵ For example OECD (2017) *Future of Work and Skills* expresses the view that trade will not result in a reduction in employment in the long run as resources will be reallocated to other industries.

²⁶ Prime Minister's Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.8

Supporting at-risk and displaced workers

The challenge is to promote the adjustment to a higher productivity economy while enabling smooth worker transitions with minimal scarring effects.

There is no universally accepted formula for effectively supporting workers through economic adjustments. Approaches vary across countries, reflecting distinct economies, values, and institutional settings. Each country needs to design a system that matches their specific context, including the risks they face.²⁷

Drawing on the academic and policy literature, this paper suggests a four-part framework for promoting smooth worker transitions. The framework is useful for assessing both how workers are currently supported, and also to identify opportunities to enhance support.

The framework comprises four forms of complementary support that are, ideally, provided proactively. The four forms of support are:

- financial support,
- education and training,
- brokerage and information services, and
- employment opportunities.

These forms of support are complements, rather than substitutes; they operate together to ease transitions. Financial support provides temporary assistance for people to meet their living costs and/or training costs while retraining or upskilling or looking for work; education and training ensures that people possess a set of skills relevant to the contemporary labour market; and brokerage and information services support people to make informed decisions about education and training whilst connecting them to employment opportunities.

There are numerous ways to deliver these forms of support, so it is possible for countries to devise approaches suitable for national contexts. There are roles for each of the social partners.

Table 1 summarises the approaches for managing transitions, and the following section describes them in more detail drawing on the academic and policy literature. The diagram in Annex 1 illustrates how the mix of support needs to evolve with a worker's labour market status.

²⁷ Evans-Klock, C. et al, (1998). *Worker Displacement: Public Policy and labour-management initiatives in selected OECD countries*

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Table 1: Forms of support for enabling smooth transitions	
Forms of support	Description
Financial support	<ul style="list-style-type: none"> financial security through transitions minimises hardship, and provides stability through job search & retraining
Advice and brokerage services	<ul style="list-style-type: none"> career / vocational / training and educational advice enables informed choices about career options, training pathways. Advice can be informed by skills assessments, and recognition of prior learning brokerage and job search assistance connects people with employment opportunities
Education and training	<ul style="list-style-type: none"> education and training equips workers with skills relevant to sustainable industries (so people can remain skilled for their current jobs, can make planned transitions to new jobs, and can transition to new jobs if displaced)
Employment opportunities	<ul style="list-style-type: none"> a business and economic environment that ensures availability of employment opportunities will ensure workers can move into (or remain in) employment

While these are the key elements for enabling workers to manage through economic transitions, strong evidence for what specifically “works” to support *displaced workers* back to work is limited. In summarising the results of its *Back to Work* series of country case studies, the OECD noted that “There is a surprising scarcity of rigorous evaluation evidence concerning what works for displaced workers”.²⁸ This is despite the existence of a large empirical literature on active labour market programmes more generally.

This lack of evidence for how to support displaced workers back to work further underlines the importance of proactive approaches that reduce the likelihood of disruptive transitions, and means that specific interventions should be developed with care.

Proactive approaches

The weight of the literature emphasises proactive action, to minimise the disruptive effects of economic adjustments. Proactive action is desirable for workers since it offers a means of avoiding employment and income scarring effects. For governments, early action that reduces periods of unemployment means avoiding welfare and public employment service costs. Early action is also more likely to be effective.

It is useful to distinguish between prevention, and early intervention. *Early intervention* includes rapid responses once displacement is imminent, such as early job search assistance or access to financial support (where needed). *Preventive measures* include continual processes of retraining and upskilling, and labour force and career planning. Such measures not only help to insulate workers against the risk of displacement, but can also be part of a concerted economic strategy to raise productivity and incomes through a more highly skilled workforce with improved matching of skills to demand.

²⁸ OECD, (2018) *Employment Outlook 2018, Chapter 4, Back to Work, Lessons from nine country case studies to assist displaced workers*, p.124

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Firms are important to proactive approaches because business owners have more detailed and more timely knowledge of the risks (and opportunities) they face than government agencies, and because it is firms that decide when to retain or release workers, whether to expand workforces, and whether to invest in retraining and upskilling. The key forms of proactive action are retraining and upskilling (prior to displacement), informed by reliable advice about future skills demand. The Prime Minister's Business Advisory Council has argued strongly for firms to invest more heavily in education and training, and to prioritise retraining and upskilling existing workers over recruitment of new workers.²⁹

Prevention and early intervention are key themes in the OECD's 2018 *Jobs Strategy*. According to the Strategy,

*The best way of promoting an inclusive labour market is by addressing problems before they arise. **This means that a shift in emphasis is required from remedial to preventive policies.** [emphasis added] This enables workers to avoid many of the social and financial costs associated with labour market risks (such as unemployment, sickness and disability); it contributes directly to economic growth by expanding opportunities for workers; and alleviates fiscal pressures by reducing the overall costs of social programmes.*³⁰

The ILO's *Global Commission on the Future of Work* also emphasises the importance of proactive labour market policies:

*To support people through increasing labour market transitions, governments need to increase investment in public employment services (PES), combining digital services with personal counselling and placement services and improving labour market information to support decision-making. **By making active labour market policies proactive, workers can be better prepared for these transitions.** [emphasis added] New mechanisms need to be found to reconfigure unemployment insurance, training and leave entitlements as "employment insurance", improving employability (e.g. training for employment, self-employment or entrepreneurship) and empowering workers to pivot in the face of job loss. Collaboration between PES and other partner organizations, including those in the private sector, needs to be reinforced.*³¹

Taking a preventive approach does not mean preventing economic adjustment through measures such as more restrictive employment protection legislation. Instead, the key policy reports recommend enabling economic adjustments through flexible labour markets while protecting workers through financial security, upskilling and retraining, good advice, and economic policy that encourages job creation. In short, they recommend protecting workers rather than existing jobs.

²⁹ Prime Minister's Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.56

³⁰ OECD,(2018). *Good Jobs for all in a Changing World: The OECD Jobs Strategy*, p.17

³¹ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future* p.33

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Proactive approaches also include rapid responses once a redundancy process begins. This includes extending public employment support services to displaced workers even if they are not in receipt of financial support.³²

³² OECD, (2018). *Employment Outlook 2018, Chapter 4, Back to Work, Lessons from nine country case studies to assist displaced workers*, p.125 and 154.

Financial support through transitions

The financial security category comprises workers' access to finance to ease economic adjustments. This can include payments to displaced workers to make up for the loss of income arising from unemployment ("social protection"), and payments to enable education and training (either for fees or living costs) for employed or unemployed workers. The cost of financial assistance can be met by governments, firms, or workers.

The International Labour Organisation's *Global Commission on the Future of Work* describes the purpose of social protection in the future of work context as follows:

*Social protection is a human right and essential to enable workers and their families to navigate future transitions. In the face of the transformations under way that will generate disruption and dislocation, social protection provides workers with freedom from fear and insecurity and helps them to participate in labour markets. Social protection is a productive factor helping people and economies to prosper.*³³

Ongoing financial support for displaced workers can take the form of "social assistance" (welfare), or social insurance:

- social insurance – contributions-funded, time-limited, and non-means-tested – acts as "income protection" that enables continuity of (close to) a worker's previous standard of living.
- social assistance or welfare – tax-funded, means-tested, and not linked to employment history or prior contributions – acts as "income replacement", that serves to mitigate hardship.

Redundancy payments provide lump sum payments from firms to workers on dismissal.

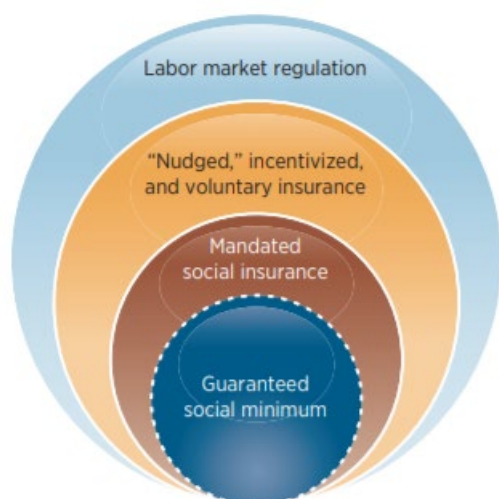
There is a broad consensus in the international policy literature that social or financial protection needs to comprise a first tier of insurance-based support, complemented by a more broad-based social assistance (welfare minimum). Social protection needs to be carefully designed so as to balance financial adequacy with incentives and practical support to return to work.³⁴

The World Bank illustrates the multi-tier concept with the following diagram, noting that "Enhanced social assistance and insurance reduce the burden on labor regulation of having to deal with risk management."³⁵ Reduced regulation in turn promotes labour market flexibility (that is, employer flexibility).

³³ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.35

³⁴ Denmark, which is well-known for its high social insurance income replacement payments, mitigates the moral hazard risks with well-funded active labour market policies, and strong obligations to return to work.

³⁵ World Bank Group, (2019). *The Changing nature of work*, p.106



Since insurance eligibility is often linked to prior employment status, and to particular employers, countries with well-established insurance systems are increasingly looking for ways to make insurance more portable, to extend coverage to non-standard employees, and to increase reliance on the more broad-based social assistance or welfare model. Calls for a universal basic income (UBI) are the most radical form of this thinking.³⁶ The World Bank, for example, calls for a mixture of social assistance and insurance protections, while noting the UBI debate:

Even in advanced economies, the payroll-based insurance model is increasingly challenged by working arrangements outside standard employment contracts. What are some new ways of protecting people? A societal minimum that provides support independent of employment is one option. This model, which would include mandated and voluntary social insurance, could reach many more people. Social protection can be strengthened by expanding overall coverage that prioritizes the neediest people in society. Placing community health workers on the government's payroll is a step in the right direction. A universal basic income is another possibility, but it is untested and fiscally prohibitive for emerging economies. Enhanced social assistance and insurance systems would reduce the burden of risk management on labor regulation. As people become better protected through such systems, labor regulation could, where appropriate, be made more balanced to facilitate movement between jobs.³⁷

The ILO's Global Commission on the Future of Work also calls for a multi-tiered system,

The future of work requires a strong and responsive social protection system based on the principles of solidarity and risk sharing, which provide support to meet people's needs over the life cycle. Governments need to guarantee universal social protection from birth to old age. This should include a social protection floor that affords a basic level of protection to all in need, complemented by contributory social insurance schemes that provide increased levels of protection. Individual savings can only be a

³⁶ OECD, (2017). *Future of Work and Skills: Paper presented at the 2nd Meeting of the G20 Employment Working Group*, p.16

³⁷ World Bank Group, (2019). *The Changing nature of work*, p.4

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*voluntary option to top up stable, equitable and adequate mandatory social insurance benefits.*³⁸

The OECD also calls for an expansion of non-contributory social assistance schemes to complement social insurance:

*Possible approaches for extending social protection coverage include: creating new, specially designed benefit schemes; expanding the role of non-contributory schemes; implementing minimum floors to social benefits; and making social protection more portable. A more radical solution would be to introduce a universal basic income (UBI), although it is unlikely that such a scheme could provide effective protection to all workers without significantly raising fiscal pressure or making some people worse off because of the need to cut other, well-targeted benefits to finance the UBI.*³⁹

Financial support to enable education and training is discussed below.

³⁸ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.35

³⁹ OECD, (2018). *Good Jobs for all in a Changing World: The OECD Jobs Strategy*, p. 18

Education and Training

Continuous up-skilling and retraining is widely recommended to ensure that workers' human capital remains economically relevant as technology changes the quantity and quality of jobs, and mixture of skills in demand. The hypothesis is that, through maintaining their human capital, workers are less likely to be displaced due to technological change, and more likely to find suitable work rapidly in the event of displacement.

"Increasing investment in people's capabilities" is one of the three pillars of action proposed in the ILO's *Global Commission on the Future of Work for a brighter future*. The Global Commission calls for:

*A universal entitlement to lifelong learning that enables people to acquire skills and reskill and upskill... Governments, workers and employers, as well as educational institutions, have complementary responsibilities in building an effective and appropriately financed lifelong learning ecosystem.*⁴⁰

The World Bank's report into the changing nature of work also emphasises investing in human capital:

*The most significant investments that people, firms, and governments can make in the changing nature of work are in enhancing human capital. A basic level of human capital, such as literacy and numeracy, is needed for economic survival. The growing role of technology in life and business means that all types of jobs (including low-skill ones) require more advanced cognitive skills.*⁴¹

According to the OECD's 2018 Jobs Strategy,

A first challenge is to equip workers with the right skills in a context where the demand for skills is likely to evolve rapidly and people continue working at a higher age...

*High-quality employment also depends crucially on having an effective education and training system, which equips workers with the skills needed by employers and offers opportunities and incentives for education and training throughout their working lives. To better match skills with labour market needs, it is important to develop stronger links between the world of education and the world of work and have robust systems and tools for assessing and anticipating skills needs.*⁴²

In Opposition, the New Zealand Labour Party's Future of Work Commission found that "The most important single driver of inclusion, resilience and adaptability in the future of work is education and training."⁴³

One of the most striking predictions is McKinsey's estimate that "in a rapid [technology] adoption scenario, an average of over 60,000 workers per year will need to upgrade their qualifications to change occupations altogether, totalling to over 900,000 workers by 2030."⁴⁴

⁴⁰ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.11

⁴¹ World Bank Group, (2019). *The Changing nature of work*, p.10

⁴² OECD, (2018). *Good Jobs for all in a Changing World: The OECD Jobs Strategy*, p.16-17

⁴³ New Zealand Labour Party, (2016). *Future of Work Commission*, p.12

⁴⁴ Prime Minister's Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.49

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Education and training is not just about acquiring the skills to work with cutting edge technology. It is also about the foundational skills that are highly transferable across settings, and that are a necessary basis for further skill acquisition. The top education and training priorities are literacy, numeracy and digital skills. These underpin lifelong learning. Transferable skills and adaptive mind-sets are a prepaid insurance policy against displacement and entrenched structural unemployment. Where experienced workers already possess a range of workplace-acquired skills, then “recognition of prior learning” can serve as a useful stepping stone between jobs.

While there is a broad consensus on the importance of retraining and up-skilling, there is also recognition that this is difficult to do well, especially for displaced workers (as distinct from retraining and upskilling employees). This could be because effective retraining and up-skilling depends on many factors. These include:

- the labour market relevance of the training,
- the quality and design of the training,
- the accessibility of the training (including modes of delivery, duration of training, programmes),
- financing for the cost of training (both formal fees, and also lost income); and
- recognition of learning.

Noting the difficulties, the World Bank argues that,

“only rarely do adult learning programs get it right. Adults face various binding constraints that limit the effectiveness of traditional approaches to learning. Better diagnosis and evaluation of adult learning programs, along with better design and better delivery of those programs, are needed.”⁴⁵

Similarly,

Bad design too often gets in the way. Adult learning can be improved in three ways: more systematic diagnoses of the specific constraints that adults are facing; pedagogies that are customized to the adult brain; and flexible delivery models that fit in well with adult lifestyles. Adult learning is an important channel for readjusting skills to fit in the future of work, but it would benefit from a serious design rethink.”⁴⁶

The OECD has noted that “Adult learning... has long been *the weak link* in lifelong learning systems”⁴⁷

The academic literature on the effectiveness of retraining for *displaced workers* is not encouraging. Dar and Gill’s analysis is representative:

⁴⁵ World Bank Group, (2019). *The Changing nature of work*, p.13

⁴⁶ World Bank Group, (2019). *The Changing nature of work*, p.81

⁴⁷ OECD, (2018). *Getting Skills Right: Future-ready adult learning systems*, p.15

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Are retraining programs for the unemployed more effective than job search assistance? Governments of the member countries of the Organisation for Economic Co-operation and Development have considerable experience with retraining programs in a variety of industrial settings. Evaluations of these programs show that the results are disappointing, however.

This article discusses the factors associated with retraining programs for two types of workers: those laid off en masse and the long-term unemployed. Evaluations indicate poor results for both groups: retraining programs are generally no more effective than job search assistance in increasing either reemployment probabilities or post-intervention earnings, and they are between two and four times more expensive than job search assistance”⁴⁸

Kodrzycki concludes that “The generally low (if not negative) earnings effects from training programmes are troublesome given the higher costs of training compared with job search assistance.”⁴⁹

The evidence of the effectiveness of *training for employees* is more positive. Blundell, for example, reports that employer-provided training provides higher returns than off-the-job training from other sources and has the longest lasting impacts. Further, trained workers are much less likely to change or quit their jobs or to be made redundant. Trained workers are much less likely to experience spells of unemployment.⁵⁰

Ok and Tergeist report similar results:

CET [continuous education and training] is positively associated with various performance criteria:

- *Participation in CET raises a worker’s probability of being employed, and improves re-employment chances when a worker has been laid off. By contrast, there is only weak evidence that CET hampers mobility of workers across different firms.*
- *Trained workers benefit from higher wages and faster wage growth than non-trained workers.*
- *The positive impact of CET on wage growth seems to be relatively constant regardless of educational attainment or type of CET.*
- *The wage-enhancing impact of CET seems to be strong enough to protect workers from possible wage loss arising from job change.*⁵¹

While this research is encouraging, it is likely confounded by selection bias in that the workers who receive training tend to be less vulnerable to displacement due to already possessing a high level of human capital, and other positive factors. As Ok and Tergeist

⁴⁸ Dar and Gill, (1998). *The World Bank Research Observer*, vol 13, no.1, *Evaluating Retraining Programmes in OECD countries: Lessons learned*, p.79

⁴⁹ Kodrzycki, (1997). *New England Economic Review*, *Training programmes for displaced workers: What do they accomplish?*, p.44

⁵⁰ Blundell et al, (1999), *Institute for Fiscal Studies*, *Human Capital Investment: The Returns from Education & Training to the Individual, the Firm, and the Economy*, pp.8-9.

⁵¹ Ok and Tergeist, (2003). *OECD Social, Employment and Migration Working Papers*, *Improving Workers’ Skills: Analytical Evidence and the Role of Social Partners*, p.3

have noted, low-educated and older workers are consistently under-represented in in-firm training programmes across OECD countries.⁵²

This suggests that – to offer the best chance of preventing disruptive displacements – upskilling and retraining needs to be directed to the employees at greatest risk, and needs to be adapted to their specific needs.

Costs can also be a barrier to education and training. These costs may include the direct expenses of training and education fees, and the opportunity cost of lost income (or output, from the employer’s perspective) during the period of learning. Those costs could be prohibitive.

Informed by human capital theory, the literature on vocational training identifies numerous market failures that lead to socially sub-optimal levels of provision.⁵³ These market failures help to explain the extensive intervention by some governments to increase the supply of training. Denmark is notable for the 60-80% wage subsidies it provides to firms to enable workers to undertake training while in employment.⁵⁴ The OECD has recently recommended that governments consider employer levies to finance adult learning, and described a range of design options.⁵⁵

The ILO sees financial security and lifelong learning as mutually reinforcing, arguing that “Workers are more likely to engage in adult learning where they are assured of continuity of income and labour market security.”⁵⁶ Specifically, the Commission proposes:

establishing a system of entitlements to training through a reconfigured “employment insurance” system or “social funds” that would allow workers to take paid time off to engage in training. Workers could be entitled to a number of hours of training rights, regardless of the type of work they do. Such a system has the advantage of supporting workers with the greatest need for continuing education, particularly the self-employed or workers in small and medium-sized enterprises who are less likely to benefit from employer-sponsored training.

A strong lifelong learning system, combined with universal social protection, enables workers to assume their responsibility to engage proactively in their own learning. This involves anticipating the skills they will need to remain employed, identifying how to

⁵² Ok and Tergeist, (2003). *OECD Social, Employment and Migration Working Papers, Improving Workers’ Skills: Analytical Evidence and the Role of Social Partners*, p.3

⁵³ For example, Stevens, (1999). *Oxford Review of Economic Policy, Human Capital Theory and UK Vocational Training Policy*

⁵⁴ Hummels et al, (2012), *American Economic Review, Offshoring, Transition, and Training: Evidence from matched worker-firm data*, p.425

⁵⁵ OECD, (2019). *Getting Skills Right: Making adult learning work in social partnership*, p.13

⁵⁶ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.11

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*acquire them and engaging in the necessary training, knowing that they can invest the time and take the risk.*⁵⁷

Policy-makers can choose from a wide range of possible responses to meet costs and increase incentives to train, including the following:

For employed workers:

- training leave
- wage subsidies
- “soft expectations” on firms (such as the Business Advisory Council Pledge for businesses to double their investment in employee training, retraining, and upskilling, and to disclose this annually⁵⁸)
- tax credits / tax breaks (for employers)

For unemployed workers

- variations to benefit obligations (such as substituting job search obligations with training obligations for displaced workers)
- access to insurance-based finance (possibly co-funded by business, workers, and government)

For either employed or unemployed workers

- student loans
- allowances (perhaps via individual learning accounts / personal learning accounts / individual development accounts)

These responses allocate costs in different ways. Loans, for example, are a cost borne (largely) by learners. Allowances, by contrast, are a cost borne by the government/taxpayers.

The Prime Minister’s Business Advisory Council report on the future of work discusses the potential to introduce tax credits for firms (modelled on research and development tax credits), tax breaks for individual learners, and individual learning accounts linked to Kiwisaver.⁵⁹

⁵⁷ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.31, 32

⁵⁸ Prime Minister’s Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.73

⁵⁹ Prime Minister’s Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.58 and 74

Advice and brokerage services

The advice and brokerage category is about providing reliable information to workers to enable them to make informed labour market choices, including training choices. Key types of information include labour market and industrial trends (rising and falling industries, areas of future labour demand), the training and education pathways into rising industries, and specific employment opportunities. Advice and brokerage therefore supports choices about what career path to follow, how to do so, and where specifically to work.⁶⁰ Advice and brokerage services can be bundled with other services, such as financial support, or skills assessments and recognition of prior learning, as a complete package for displaced workers.

There is often a private market for advice and brokerage services, available to those who can afford to access them. They are also usually provided by governments via public employment services, and career services. The International Labour Organisation has called for “public employment services to be expanded and support individuals’ decision making i.e. via digital services combined with personal counselling, placement services, and better labour market information.”⁶¹

Similarly, the Labour Party’s *Future of Work Commission* found that “With an increasingly dynamic labour market, communicating information about career choices and job opportunities is vital for people who are unemployed. As well as being in schools, careers advice for all professional levels needs to be a core component of the welfare system for people who are considered to be, or identify as, ‘employment-ready’.”⁶²

The OECD’s review of policies to support displaced workers notes that the role of the public employment services remain crucial, but they are generally not well set-up to meet the particular needs of displaced workers.⁶³ One reason is that, even though displaced workers are a heterogenous group, they are likely to face different and generally fewer barriers than the long-term unemployed. As the OECD has commented:

It may be difficult for employment services that have a strong focus on supporting relatively disadvantaged persons (eg low-skilled individuals with little or no history of stable and reasonably well-paid employment, including school-leavers and people with partial disabilities) also to serve effectively mainstream displaced workers who had experienced considerable employment security in medium or well-paid jobs prior to being laid-off and hope to find new jobs of similar quality. If both groups are to be served well, the specific support measures offered to displaced workers will need to differ in

⁶⁰ *Janesville, An American story*, illustrates the importance of providing workers with sound advice on their career and training options, and how retraining and upskilling can sometimes result in perverse outcomes, Goldstein, (2017).

⁶¹ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.11

⁶² New Zealand Labour Party, (2016). *Future of Work Commission* p.30

⁶³ OECD, (2018). *Employment Outlook 2018, Chapter 4, Back to Work, Lessons from nine country case studies to assist displaced workers*, p.153

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*important respects from those offered to many of the other jobseekers supported by the employment service.*⁶⁴

Opportunities to improve the effectiveness of public employment services for displaced workers include complementing general ALMPs for all unemployed people with services targeted to displaced workers; rapidly scaling up services when unemployment surges; and ensuring services are rapidly available even for displaced workers not accessing financial support.

Other approaches are possible too, such as establishing additional service providers to complement formal public employment services. Examples include Sweden's Job Security Councils, Ontario's Rapid Re-employment and Training Service, and Finland's Change Security Programme.⁶⁵ Such models often provide opportunities for close involvement by the social partners.

⁶⁴ OECD, (2018). *Employment Outlook 2018, Chapter 4, Back to Work, Lessons from nine country case studies to assist displaced workers*, p.153

⁶⁵ OECD, (2018). *Employment Outlook 2018, Chapter 4, Back to Work, Lessons from nine country case studies to assist displaced workers*, p.143

Employment opportunities

It is axiomatic that ensuring smooth worker transitions through periods of economic change requires the continued creation of employment opportunities in existing or new firms. This requires an economic strategy that promotes job creation, and employment policy that fosters a flexible labour market.

Industry mapping, industry policy, and workforce planning are tools for influencing the course of economic development, and ensuring a pipeline of appropriately skilled workers. These tools are well-developed in countries such as Singapore, Denmark, and Germany. Industry policy has moved away from direct government intervention towards enabling economic development, and fostering partnerships, including with social partners.

The OECD's 2018 Jobs Strategy encourages countries to "Promote an environment in which high-quality jobs can flourish". Two key actions under this heading are to:

- *Boost investment and productivity growth, and promote quality job creation by removing barriers to the creation and expansion of successful businesses, the restructuring or exit of underperforming ones, and by creating an entrepreneurship-friendly environment.*
- *Ensure that employment protection legislation generates dismissal costs that are predictable, balanced across contract types and not overly restrictive, while protecting workers against possible abuses and limit excessive turnover.*⁶⁶

Rather than calling for enhanced employment protection, most commentators stress labour market flexibility, complemented by effective measures to enable transitions.

The International Labour Organisation's *Global Commission on the Future of Work: Work for a Brighter Future* report is notable for the lack of discussion of employment protection legislation, such as notice periods, or redundancy/severance pay. The ILO does propose measures to improve the quality of work, under the pillars of "Increasing investment in the institutions of work", and "Increasing investment in decent and sustainable work."⁶⁷

When social or financial protection is provided, employment protection can be traded off in favour of flexibility. The World Bank argues that,

*Increasing flexibility for firms goes hand in hand with stronger social protection, intermediation and job search assistance programs, and arrangements for strengthening the voice of workers. Beyond basic regulations, protections would be provided to all working people no matter how they engage in the labor market as part of a comprehensive approach to social protection and labor institutions. This approach would provide additional protection to the many workers—often the most vulnerable—who are effectively excluded. This would be a shift away from protecting some jobs to protecting all people.*⁶⁸

⁶⁶ OECD, (2018). *Good Jobs for all in a Changing World: The OECD Jobs Strategy*, p.20

⁶⁷ International Labour Organisation, (2019). *Global Commission on the Future of Work: Work for a Brighter Future*, p.51

⁶⁸ World Bank Group, (2019). *The Changing nature of work*, p.116

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Similarly, the Bank comments that,

Spending on social assistance should be complemented with insurance that does not fully depend on having formal wage employment. The aim of this approach is to expand coverage while giving priority to the poorest people. As people become better protected through enhanced social assistance and insurance, labor regulation could, where appropriate, be rebalanced to facilitate work transitions.⁶⁹

At the same time, there are countries (such as Germany) with relatively strong employment protections that are able to sustain high levels of job growth and strong economic performance.

⁶⁹ World Bank Group, (2019). *The Changing nature of work*, p.14

Strategic assessment of support for at-risk and displaced workers

The previous sections in this paper described the risks posed by displacement, and proposed a framework of generic forms of support to ease transitions. The following section scans our existing institutions against this framework, identifies a mixture of strengths and weaknesses, describes the impact of existing work programmes, and identifies further opportunities for change.

Table 2, which appears in the final section in this paper, summarises the following discussion of strengths, weaknesses, and opportunities.

Assessment and options: Financial support

New Zealand's social security arrangements are unusual amongst OECD countries in that we rely entirely on a tax-funded, means-tested welfare system to provide financial support to displaced workers, and other qualifying people.

These arrangements stand in-contrast to the majority of countries that complement their welfare systems with contributions-based insurance systems that provide generous, non-means-tested, individualised income replacement payments. The ACC scheme is an example of such a social insurance scheme, with eligibility limited to income-loss arising from accidents, rather than the general condition of unemployment.

There are two notable strengths in the New Zealand system. The first is its (relatively) broad coverage: eligibility for welfare benefits not tied to employment history or prior contributions. The second is that access to welfare benefits is not time-limited. These are strengths relative to insurance models.

The relatively low rates of payment offered through the New Zealand welfare system, however, coupled with tight targeting based on household income, and low take-up of payments, is likely to contribute to the scarring effects that can affect displaced workers in New Zealand.⁷⁰ The Welfare Expert Advisory Group has identified significant shortfalls between transfer payment levels and the minimum costs of living.

It is probable that this limited financial support contributes to hardship, and increases pressure on displaced workers to accept work that is neither suited to their skills and experience, nor comparable to their previous incomes.⁷¹

Severance or redundancy payments can provide some financial support, but not all workers receive such payments, and they do not provide the security of an ongoing stream of income.⁷²

⁷⁰ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, pp.69-75

⁷¹ Otago Daily Times, (2018). *Big Read: Why being made redundant in New Zealand is so tough*

⁷² OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, pp.61-62

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Lack of income support could have a particularly pronounced effect where a key regional employer significantly reduces its workforce. Not only are those workers affected, but also the local businesses that depend on their consumer demand.

The Government's "overhaul" of the welfare system is an opportunity to review the adequacy (and structure) of income support for displaced workers. The overhaul will be a long-term reform, and its work programme is under development.

The Overhaul will be informed by, and will assess, the findings and recommendations by the Welfare Expert Advisory Group in their report, *Whakamana Tangata*. The report recommends strengthening the Ministry of Social Development's redundancy support policies to support displaced workers better (Recommendation 37).

This enhanced support could include a variation to the existing benefit eligibility rules such that the income of a redundant worker's partner is disregarded for a defined period (up to six months) and up to a cap (such as around \$48,000).

Widening eligibility in this way could ease hardship, allow more time for a considered job search, or allow time for retraining. Thought would need to be given to the obligations attached to the benefit, or whether any discrimination issues arise from effectively individualising benefit eligibility for one group of welfare recipients.

The Overhaul could also consider financial security options that are not part of the welfare system, such as redundancy payments, and introducing elements of a social insurance model. Where the cost of welfare is met solely by taxpayers, insurance and redundancy schemes can share costs more widely.

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Assessment and options: Information provision and brokerage

The main public providers of career information and employment opportunities are Careers New Zealand (part of the Tertiary Education Commission), and the Ministry of Social Development. Where Careers New Zealand focusses on providing information to inform career choices, MSD offers an employment service that ranges from vacancy listing and brokerage through to intensive employment case management coupled with income support.

The Careers New Zealand offering is currently heavily focussed on school leavers, and is largely limited to passive information services. The OECD has recommended that “To better support adult workers in their training decisions, the [New Zealand] government should develop easily accessible career guidance and training counselling services for adult workers.”⁷³

A wider range of displaced workers could benefit from active employment services than those currently served. The *Back to Work New Zealand* report found that only a small proportion of displaced workers seek employment assistance from MSD.⁷⁴ Moreover, active services for displaced workers are generally limited to large scale redundancies (such as factory closures) where MSD may establish a dedicated programme to support the affected workforce, where MSD has sufficient warning of the closure. Aside from large scale redundancies, displaced workers are only likely to receive an active service if they receive a main benefit. MSD also has relatively less experience supporting skilled displaced workers into new jobs.

The scope to provide early intervention is also limited by the lack of statutory notice periods, lack of mandatory notification of redundancy to MSD, and weak support from social partners to plan and manage transitions

The welfare system “overhaul” is an opportunity to review the adequacy (and structure) of employment services for displaced workers, and workers at risk of redundancy. As noted above, the Welfare Expert Advisory Group report, an input to the overhaul, is critical of the current offering.

The overhaul could consider:

- the appropriate “bundle of services” that could be offered to workers (such as a skills assessment, recognition of prior learning, careers and training, job brokerage, and navigation to other services)
- institutional/delivery arrangements (such as whether to provide services via MSD, an employment hub, privately, or through innovative arrangements with social partners – such as Job Security Councils), and ensuring the necessary capacity and capability to deliver those services
- how to reach (and what level of service to provide) displaced workers and workers at risk of displacement. (this could include outreach campaigns, notice periods, notification to MSD, and greater involvement of social partners)

⁷³ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, p.99

⁷⁴ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, pp.69-75

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As an example of an integrated service for displaced workers, the Prime Minister's Business Advisory Council has called for "mobility centres". The centres would have four functions:

- create a central information marketplace to give transparency on supply and demand for skills and jobs, expected income levels, and the effectiveness of retraining and reskilling efforts;
- determine the skills certification and credentialing required for future jobs, and cater to specific individual needs. The former would allow skill credentials to be more portable across sectors, and the latter would allow the prioritisation of workers' specific needs where possible. For example, a priority of not physically relocating could suggest retraining in a field of work that can be performed remotely;
- share risk with displaced workers. This could be done through safety nets or investment clawbacks for workers that invested in their own retraining for jobs suggested by the Mobility Centre, if work does not eventuate within a certain period of time; and
- create tracking mechanisms to measure and monitor the impact of retraining. The use of unified statistics could create the requisite transparency to better shape future policy based on empirical evidence.⁷⁵

More specifically, the Advisory Council anticipates that the centres would:

- deploy to regions prioritised because they will be more negatively impacted by automation than other regions;
- act as a sophisticated jobs information market place, careers and qualifications matching and brokering service;
- implement risk sharing schemes with training providers if their training does not result in employment for a displaced worker (the risk currently sits 100% with the individual); and
- provide targeted, case managed and individualised support so that a single view of a customer can be developed for a displaced worker, allowing the full suite of government schemes to be made available.⁷⁶

An enhanced information provision and brokerage function could leverage the significant improvements planned for the online Careers New Zealand offering under development via the Careers Strategy. The enhanced online tools – which will have a target audience of 7 – 74 year olds will:

- allow users and influencers to consider the breadth of the labour market, in particular, build awareness of occupations that are of strategic economic importance, newly emerging and/or may be misunderstood, eg skilled trades.
- provide easy access to education and labour market information and advice/guidance from well-trained, independent professionals in advance of key decision and transition points.

⁷⁵ Prime Minister's Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.67

⁷⁶ Prime Minister's Business Advisory Council, (2019). *A Future that works: Harnessing innovation for a more productive and skilled New Zealand*, p.76

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- target people from the most disadvantaged backgrounds for the greatest levels of agency support and intervention.

The enhanced online tools could also direct users to any additional support for displaced services available elsewhere.

Assessment and options: Education and training

Access to affordable, high quality, and relevant education and training is essential for workers making economic transitions. The future of work literature emphasises the importance of re-training and up-skilling so workers maintain the skills to remain in their jobs, or can readily move to new jobs. This is often expressed in terms of “life-long-learning”, whereby workers at all ages and stages can access education and training.

Since existing members of the workforce are generally older, have less time to train or study, and face higher living costs, their education and training needs are different from people who have yet to enter work. This means that education and training needs to be tailored to these circumstances.

The OECD has ranked New Zealand’s adult learning system amongst the “best overall performers” in the OECD, alongside the Nordics.⁷⁷ This assessment reflects New Zealand’s low (or zero) tertiary tuition fees, and low academic entry barriers, and mostly high quality training.

The OECD notes weaknesses in resourcing, and flexibility, however. They also note that while a country’s relative ranking may be strong, this can mask significant within-country weaknesses, such as access to education and training for disadvantaged groups (such as low-skilled workers).⁷⁸

The OECD’s assessment of work-place learning also presents a generally favourable picture, with New Zealand’s average scores ranking well above the OECD average for all learning and training rates, and achieving the highest score for participation in on-the-job training, and in seminars and workshops.⁷⁹ Apprenticeships and traineeships are one option for people to earn and learn at the same time, including older workers who seek to retrain or upskill. In 2017, for example, there were nearly 20,000 apprentices or trainees aged 50 or over.⁸⁰

At the same time, the survey notes that the people in the least-skilled occupations are the least likely to participate in training. This would be a particular concern if these same occupations are susceptible to rapid economic change.

While the education system appears to be delivering broadly adequate outcomes, the Productivity Commission has found that “the system is not well-placed to cater for a rapid growth in learners seeking to upskill or retrain” and is “moving away from supporting lifelong learning”.⁸¹

The Commission identified barriers to mid-career retraining, including “current funding and regulatory settings for tertiary education that focus on younger, full-time learners completing

⁷⁷ OECD, (2018). *Getting Skills Right: Future-ready adult learning systems*, p.7

⁷⁸ OECD, (2018). *Getting Skills Right: Future-ready adult learning systems*, p.7

⁷⁹ Ministry of Education & Ministry of Business, Innovation & Employment, (2016). *Skills at Work: PIAAC, Programme for the International Assessment of Adult Competencies*

⁸⁰ Ministry of Education, Education Counts, <https://www.educationcounts.gov.nz/statistics/indicators/data/student-engagement-participation/3756>

⁸¹ New Zealand Productivity Commission, (2017). *New Models of Tertiary Education*, p.316

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full qualifications, the design of the student support system, and funding rules that make recognition of prior learning difficult.”⁸² The commission noted the need for new “models at all levels of study that allowed students to combine education and work would improve the ability of the education system to meet the needs of employers”.⁸³

Since the Productivity Commission reached these conclusions, there have been important developments that address the Commission’s concerns in part. These include policy settings around micro-credentials, and the Review of Vocational Education (ROVE).

Micro-credentials - which may stand on their own or be “stacked” into more substantive qualifications - can be attractive for people with limited time since they can be completed swiftly. Changes to the quality assurance and funding of micro-credentials in the last two years mean that Industry Training Organisations (ITOs) and providers can develop micro-credentials aimed at transitioning workers from occupations in which there is falling demand, to occupations with unmet demand. So far, however, demand for micro-credentials remains low. This may in part be due to ITOs and providers remaining incentivised to offer longer, more lucrative courses.

The ROVE proposes a fundamental reform of the provision of vocational education. Key elements include merging existing industry training providers into a single New Zealand Institute of Skill and Technology, and making the institute responsible for arranging and managing workplace training, instead of the Industry Training Organisations.

If implemented as proposed, the ROVE could address a number of the concerns the Productivity Commission has raised, including by:

- extending industry and employers’ leadership role across all vocational education through the Industry Skills Bodies that will replace the ITOs,
- offering more flexible training delivery options through better support for workplace-based learners and more work integration for provider-based students, and since the future single institute will be able to draw on the strengths of its constituent parts – such as the Open Polytechnic - to deliver more distance and online learning, and
- potentially increasing the demand and supply of micro-credentials, since the Industry Skills Bodies will have less incentive to promote lengthy courses.

Further, the ROVE proposals note the possibility of establishing a “Centre of Vocational Excellence”. Such a Centre could investigate the training needs of displaced workers and those at risk of displacement, and work with providers on programmes and micro-credentials to meet their needs.

There are some important areas outside the scope of the ROVE.

Firstly, the ROVE excludes the university sector. Further work could be done to consider how well-placed universities are to support upskilling and retraining workers.

⁸² New Zealand Productivity Commission, (2017). *New Models of Tertiary Education*, Finding 4.9

⁸³ New Zealand Productivity Commission, (2017). *New Models of Tertiary Education*, Overview, p.3.

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Secondly, the ROVE structural reforms do not expressly address access to skills assessments and recognition of prior learning. As noted earlier, these are important tools for helping experienced workers to ensure their existing skills are more portable, and to identify gaps in their skills sets and how to remedy those gaps. Skills assessments and recognition of prior learning could be explored via the development of a “unified funding system”, which is being developed as part of the ROVE policy programme.⁸⁴

Thirdly, no changes to current student support and Fees-Free settings are specifically included in the proposed Reforms of Vocational Education.⁸⁵ Financial support for learners is an important consideration since lack of income while a person is retraining and upskilling could be a significant barrier. Access to student allowances is capped and income-tested, and there are age limits on student loan living costs and course related costs for those 55 years and older.

While it is not clear how much of a gap there is in student support, or could be, it is worth assessing whether there is a gap, given the aspiration to achieve a true life-long learning system that positions the workforce for the future of work. Such an assessment would need to recognise the diversity of firms (especially firm size), personal circumstances (skill levels, age, employment status, financial means, caring responsibilities), and the nature of the training (including the duration of the training, and modes of delivery). This assessment would both quantify any gap, and inform development of effective and well-targeted responses that ensure additionality, and minimise deadweight costs. Moreover, assessment of options would need to consider whether to direct support to employers (such as increasing incentives through wage subsidies), or to workers (such as lowering barriers with allowances). A range of potential interventions was noted in the earlier discussion on education and training (page 22).

The Ministry of Education will consider financial support for learners in the context of the ROVE proposal for a unified funding system for organisations delivering vocational education. This is an opportunity to consider some of the issues above. The next steps for Fees Free policy could also have benefits for displaced workers.

⁸⁴ Ministry of Education, *Proposal on a unified funding system Technical discussion document*

⁸⁵ Ministry of Education, *Proposal on a unified funding system Technical discussion document*

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Assessment and options: Availability of employment opportunities

A labour market that continues to create a stream of employment opportunities is an essential aspect of smooth worker adjustments to economic change.

We hold a number of advantages in this area, including a generally flexible labour market that is conducive to employers' willingness to hire new staff, positive macroeconomic fundamentals, and strong stable economic and other institutions. These are important but essentially passive features of the economy. Industry mapping and workforce planning are more active policy instruments. New Zealand's recent experience with this is limited, and the capability of the social partners to cooperate is only developing slowly. There is much to learn from more experienced practitioners in Singapore, Denmark, and Germany.

More positively, we do have a number of building blocks for workforce planning and economic development already in place, or emerging. But these need to work together. Those building blocks include:

- the Review of Employer Assisted Work Visas and Regional Workforce Planning, which is establishing a system of local labour market planning, including developing local planning bodies
- the Review of Vocational Education, which is seeking to increase employer input to the skills pipeline, and is also developing local planning bodies
- the Just Transitions approach that is taking a region-specific approach to transition regional economies to sustainable industries (early focus on Taranaki)
- the Future of Work Tripartite Forum sector mapping and industry deep dives (early focus on ICT, road freight, and manufacturing)
- the Provincial Growth Fund, which is investing in high potential areas in regional New Zealand
- the Green Investment Fund is being established to accelerate low emissions investment in New Zealand.
- growing investment – government and business – in research and development
- steps towards a government economic development and industry policy (and industry specific policies such as space, tourism, and R&D investments.)

While there is a much underway, we need to be more deliberate and coordinated, and to build our capacity for industry mapping and workforce planning.

Conclusion: Next steps

The main purpose of this paper has been to identify policy choices for enhancing support for workers who are displaced by economic forces, or who are at risk of displacement due to such forces. This is a first step towards developing a programme of policy work in this area.

Table 2 on the following page summarises the strategic assessment in the previous section, including options and opportunities to enhance support. It is clear there is scope to enhance each of the four forms of complementary support – finance, advice and brokerage, education and training, and employment opportunities.

The options for enhancing support to displaced and at-risk workers range from relatively modest adjustments to the status quo through to extensive reforms. At the modest end of the spectrum are changes such as widening eligibility for existing services (such as access to income and employment support through the welfare system). More extensive changes could include introducing new services and structures (such as social insurance and job security councils). None of these choices has been costed, but the more extensive changes would almost certainly be costly, and take longer to establish.

Choosing a preferred policy mix is difficult given high levels of uncertainty about the course of the "future of work trends", and uncertainty about the effectiveness of the alternative policy options. Moreover, some of the options may not be a natural fit for New Zealand - we lack the strong history of tripartite cooperation that prevails in northern Europe, for example.

One option is to increase support systematically as required. This could mean, for example, incremental changes in the short term (such as widening access to existing services) with more fundamental changes made subsequently if needed. This approach would reduce the risk of over-investing, but could also mean that the additional services are not available when they are needed. For this approach to be effective, we would need to understand both the lead times to introduce new services (such as establishing a social insurance scheme), and to monitor the leading indicators of rapid worker displacement.

The pace and extent of technological change should also influence policy choices. Rapid technological change that causes widespread skill obsolescence would provide a strong case for heavy additional investment in education and training, and upskilling and retraining existing workers especially. Equally, such an investment in education and training could also be part of a concerted economic strategy to catalyse and exploit technology adoption, as the Business Advisory Council recommends. In a world of less rapid technological innovation, with less risk of skill obsolescence, additional policy interventions might be weighted towards financial support, and brokerage and information services. Brokerage and information services could be a "least regrets" category, since these services are likely to be useful in any future of work scenario, and they are likely to be less costly than either increased financial support, or increased education and training.

Subsequent steps could include establishing work-streams based on each of the four forms of support to examine and to evaluate the most promising options within each. Where appropriate, this work could be part of existing work programmes, such as the overhaul of the welfare system, or the Review of Vocational Education, and should actively include the social partners. The weight of effort could be directed towards incremental changes, while conducting a more cursory scan of the extensive changes.

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Table 2: Assistance for workers through economic adjustments: Strengths, weaknesses, and opportunities

	Financial support	Advice and brokerage services	Education and training	Employment opportunities
Strengths	<ul style="list-style-type: none"> - eligibility for welfare benefits not tied to employment history (c.f. insurance models) - access to welfare benefits not time-limited 	<ul style="list-style-type: none"> - some active state responses to large-scale redundancies - revamp of online careers services underway via the Careers Strategy, better tools for a wider range of workers 	<ul style="list-style-type: none"> - highly subsidised fees, first year(s) fees free, low interest loans, student allowances - low academic entry barriers - mostly high quality training - overall high levels of workplace training relative to OECD - increasing employer influence over vocational training (ROVE) 	<ul style="list-style-type: none"> - flexible labour market encourages firms to hire - most forecasts expect net job creation - stable macro settings and sound institutions - economic development policies (PGF, GIF, R&D etc)
Weaknesses	<ul style="list-style-type: none"> - low replacement rates (and absence of first tier income assistance) - eligibility narrowed by household unit of assessment and low thresholds - system not optimised for frequent changes in income or work status - redundancy payments limited to voluntary arrangements 	<ul style="list-style-type: none"> - notice periods and notification to PES limited to voluntary arrangements - no dedicated service for small scale / individual redundancies - no active service for workers at risk of redundancy - little coordinated activity with social partners (business and unions) to plan and manage transitions - limited experience with supporting more skilled workers (seeking higher paying roles) - perceptions of current welfare & employment service 	<ul style="list-style-type: none"> - a formal education and training (modes of delivery, qualification types) that still generally favours younger people pre-labour force entry - workplace training still limited for the lowest skilled, and non-standard workers relative to other groups - weak foundational skills for a significant proportion of the adult workforce - possible gaps in financial support for living costs for retraining / upskilling workers 	<ul style="list-style-type: none"> - could still be scope to make labour markets more flexible - not clear that economic development investment is optimised for managing economic transitions (such as enabling emerging industries that will employ displaced workers) - limited experience of industry mapping and workforce planning

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<p>Opportunities / options</p>	<ul style="list-style-type: none"> - consider widening eligibility for income support (and ensure that entitlements are publicised to improve take-up) (WEAG recommendation) - consider mandatory redundancy payments - consider social insurance models - consider wage insurance models (whereby returning workers are compensated for accepting lower wages) 	<ul style="list-style-type: none"> - determine the appropriate “bundle of services” that could be offered to workers (such as skills assessments, recognition of prior learning, careers and training advice, job brokerage, and navigation to other services) - review institutional/delivery arrangements (such as whether to provide services via MSD, an employment hub, privately, or through innovative arrangements with social partners – such as Job Security Councils), and ensuring the necessary capacity and capability to deliver those services - review how to reach (and what level of service to provide) displaced workers and workers at risk of displacement. (This could include outreach campaigns, notice periods, notification to MSD, and greater involvement of social partners) 	<ul style="list-style-type: none"> - review access to skills assessments, and recognition of prior learning - explore barriers/incentives related to training – including financial barriers – as these affect both employers and workers (especially those workers least likely to access education and training). - review the evidence on the most effective ways to deliver education and training to <i>displaced workers</i> - continue to invest in foundational and portable skills (including literacy, numeracy, and digital skills) - consider establishing a Centre of Vocation Excellence in supporting workers in transition - consider the role of the university sector in support upskilling and retraining workers (excluded from ROVE reforms) 	<ul style="list-style-type: none"> - explore more intensive industry mapping and planning complemented with workforce planning
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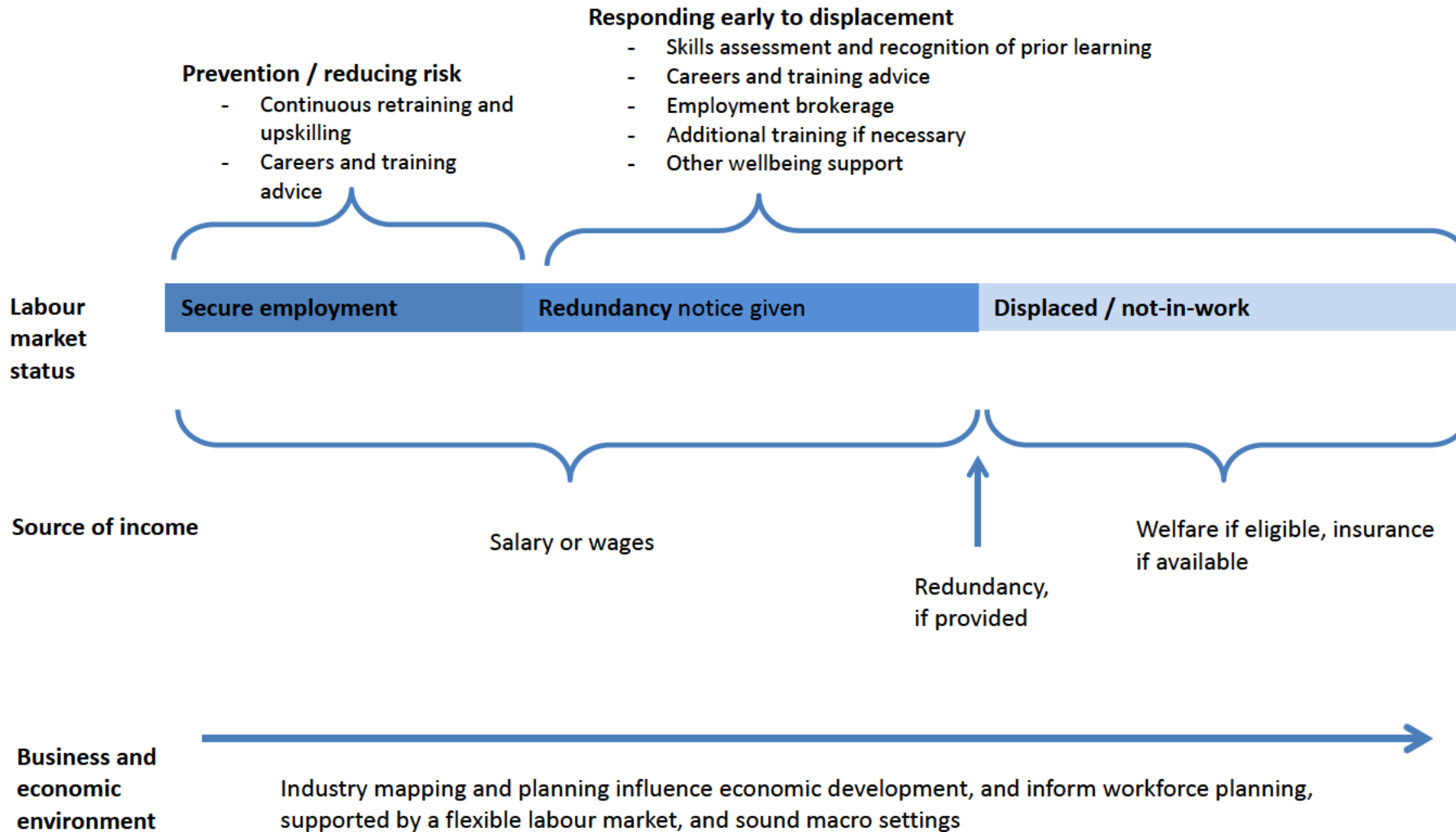
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Annex 1: Support for at-risk/displaced workers, by labour market status



Annex 2: What could we learn from others countries?

While New Zealand has some settings to support displaced workers that are comparable to other jurisdictions, there are many differences. Some examples of initiatives available in comparable jurisdictions include:

- Social protection or unemployment insurance (either state funded or funded through mechanisms such as tripartite bodies) – Scandinavian and many other European jurisdictions have additional social protection insurance (often time limited) that exist beyond the minimum welfare payment.
- Statutory redundancy regulation – This can include mechanisms such as statutory notice periods and statutory compensation. A range of European jurisdictions and places like Singapore and Australia have regulated for either one or both of these mechanisms
- Significantly higher investment in active labour market policies (specifically focused on training and re-training) – For example the UK has recently launched a national re-training scheme aimed at facilitating people displaced from roles as a result of automation back into the labour market. Equally Denmark spends approximately 3% of GDP on activation policies which are primarily focused on retraining.
- Public Employment Services that have a wider ambit than welfare recipients - Scotland's Partnership Action for Continuing Employment is a good example of a public employment service that is specifically focused on assisting any person back into the labour market.
- Industry mapping and labour force planning - tools for influencing the course of economic development, and ensuring a pipeline of appropriately skilled workers, designed and delivered with social partners

Annex 3: New Zealand's settings for worker transitions have been subject to critique

The OECD's *Back to Work New Zealand* report is the most recent thorough review of New Zealand's policies for supporting displaced workers.⁸⁶ The report concluded there are significant weaknesses in support for displaced workers. These identified weaknesses included low levels of income support, limited take-up and eligibility for income support, lack of statutory redundancy payments or notice periods, limited spending on active labour market policy, and limited direct support for displaced workers.

Summarising their findings, the OECD argued that,

*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.*⁸⁷

Specific recommendations were made to establish:

- minimum notice periods
- mandatory notifications to relevant authorities
- more dedicated services for displaced workers
- a mandatory active redundancy insurance system [social insurance]
- enhanced training guidance and counselling, and
- more substantial support through the welfare system

While the previous government simply noted the OECD's report, its finding and recommendations remain provide a starting point for considering the adequacy of support of redundant workers, and the available policy choices.

⁸⁶ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*

⁸⁷ OECD, (2017). *Back to Work New Zealand: Improving the Re-employment Prospects of Displaced Workers*, p.11

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Annex 4: Major work programmes enhancing support for at-risk and displaced workers

A range of policy programmes is underway that present opportunities to enhance support for at-risk and displaced workers, and to address the weaknesses discussed above. The most important are:

- the Welfare Overhaul
- the Careers System Strategy
- the Review of Vocational Education, and
- the Review of Employer Assisted Work Visas and Regional Workforce Planning

Their mandates are described in Table 3.

Table 3: Policy programmes relevant to enhancing support for at-risk and displaced workers.	
Review	Mandate
Welfare Overhaul, and Welfare Expert Advisory Group (WEAG)	<p>Under the Confidence and Supply Agreement, the Government has committed to overhaul the welfare system, ensure access to entitlements, remove excessive sanctions and review Working For Families so that everyone has a standard of living and income that enables them to live in dignity and participate in their communities, and lifts children and their families out of poverty.</p> <p>The report of the Welfare Expert Advisory Group is informing the Overhaul.</p>
Review of Vocational Education (ROVE)	<p>The ROVE is considering changes to the system for vocational education and training.</p> <p>One of the drivers for ROVE is the need to be well-prepared for a fast-changing future of skills, learning, and work.</p> <p>Consultation on proposed changes to the vocational education and training system has recently concluded.</p>
Careers System Strategy and Action Plan	<p>TEC is implementing a Careers System Strategy for ages 7-74 that will:</p> <ul style="list-style-type: none"> - allow users and influencers to consider the breadth of the labour market. In particular, build awareness of occupations that are of strategic economic importance, newly emerging and/or may be misunderstood, eg skilled trades. - provide easy access to education and labour market information and advice/guidance from well-trained, independent professionals in advance of key decision and transition points. - target people from the most disadvantaged backgrounds for the greatest levels of agency support and intervention.
Review of Employer Assisted Work Visas and Regional Workforce Planning	<p>The review aims to create better connections between the immigration, education, skills, welfare and employment systems to deliver better labour market outcomes for New Zealanders. There is a particular focus on increasing reliance on local labour supply, and this could include transitioning workers.</p>