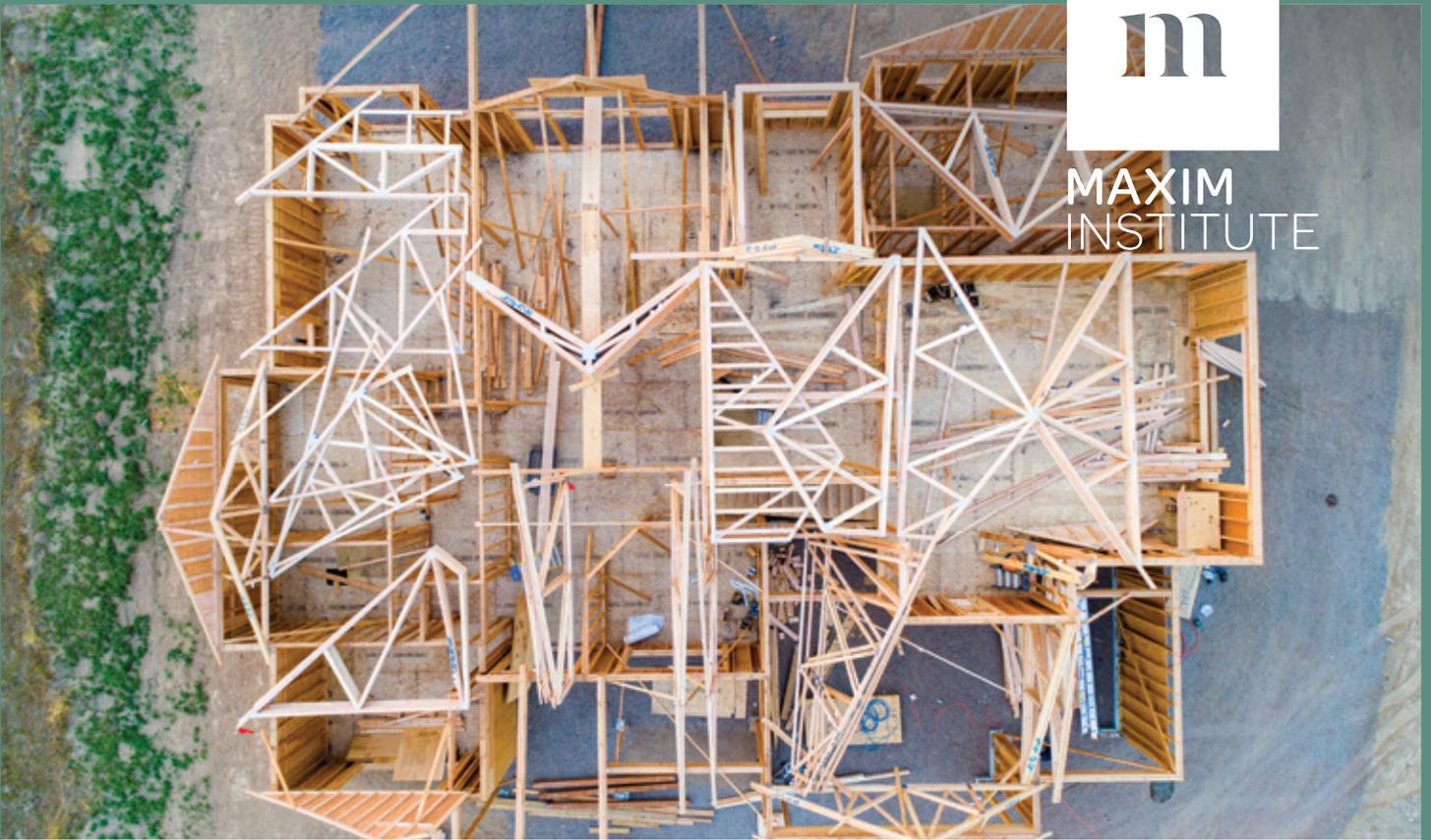




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POLICY PAPER

BACK TO WORK STRATEGIES TO STIMULATE EMPLOYMENT NOW AND IN THE FUTURE

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First published in August 2020 by Maxim Institute
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978-0-9951359-6-3 (Hard copy)

978-0-9951359-7-0 (PDF)

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BACK TO WORK: STRATEGIES TO STIMULATE EMPLOYMENT NOW AND IN THE FUTURE

JULIAN WOOD*

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**We would like to thank the following people whose feedback, advice, and ideas improved this paper: Jonathon Boston, David Bromell, Andrew Coleman, Michael Fletcher, David Rea, Bill Rosenberg, and numerous other academics, researchers, ordinary people who have taken the time to provide feedback on drafts of the paper and critically discuss the topic with the author. All errors and omissions are the author’s own.*

The paper in summary...

Nations around the world are expecting low or negative growth and higher unemployment rates as a result of fighting COVID-19. The supply side shock means that parts of the economy are in hibernation or struggling with a lack of demand, while other parts of the economy are struggling to find the right people to pick harvests or help with calving.

At this stage projections suggest that the economic recovery and transition to something new might take up to four years. In reality even this timeframe is uncertain, with the potential for unforeseen bumps along the way. At the same time, in the wake of the COVID-19 shock New Zealand's economy and labour market needs to pivot toward a future that seems beset by environmental, and technological change as well as population ageing and decline.

Government-led Active Labour Market Policies (ALMPs) are policies and spending that directly intervene in the labour market to improve the level and type of employment available. They also have the potential to help people transition to something new and help to shorten spells of unemployment. ALMPs have been extensively used in New Zealand (and overseas) as a way to soften the immediate economic blow of the pandemic (via wage subsidies) and different types are now being lined up as a way to continue to soften the blow in the future via training and infrastructure investments. Unfortunately, research highlights the returns to ALMPs are neither assured nor even always positive.

Key to their effective use is good design, and responsiveness to change. Recent meta-studies into the effectiveness of ALMPs offer us design insights and highlight that:

- ALMPs have better outcomes in times of high unemployment and low growth (meaning that now is the time use ALMPs);
- While average ALMP outcomes vary by programme type, many often have better effects in the long-run (meaning we should aim for these longer-term returns, which are often associated with investments in human capital, when considering what ALMPs to use);
- A mixed public-private delivery model for ALMPs achieves far better outcomes than the state going it alone (which means when we design our ALMPs using a mixed provision model is more likely to bring positive results); and that
- Average effects of ALMPs differ by participant characteristics (which means we need to highly target our ALMPs on those most likely to bring a long-term return).

When it comes to looking at specific options decision-makers should ensure that known issues around deadweight losses, political capture, and substitution effects are minimised. In many cases this means focusing on the longer-term and ensuring that we are investing in people's human capital as much as possible.

In regard to ALMPs aimed at improving labour demand:

- **Wage subsidies** can be a short-term buffer but lock-in historical employment arrangements that may no longer be viable, and have negative long-term effects.
- **Hiring subsidies** can be used to help pivot the economy toward growing sectors but come with risk of substitution and displacement effects. Continued effective use over time requires specific targeting of people most at risk of long-term unemployment.
- **Employment creation schemes** are best delivered in a mixed model and are better when combined with education and training schemes. There are issues with lags and timing.
- **Work sharing**, while best used at a firm level, if combined with training and education initiatives hold some promise for the future consideration.

In regard to the range of ALMPs aimed at improving labour supply:

- **Education and training programmes** show real promise both as a way to transition long-term unemployed people into work but also as a way to help the economy transform over time. This is especially so if these programmes can be linked to vocational training and future work needs. There are issues with lags and upscaling but these will be offset in the current environment. Uncertainty in regard to fit with the RoVE review will need to be managed.
- **Activation and workfare sanctions** if overused can introduce bureaucratic churn and slow down employment outcomes. The WEAG recommended changes here that need to be revisited by officials.
- **Mobility payments** can help but appear to be of limited help given the restrictions around their application in New Zealand.
- **Self-employment incentives** are unlikely to be helpful for the majority of beneficiaries but have positive impacts if used to help entrepreneurial beneficiaries into business.
- The findings in regard to ALMPs aimed at improving labour market matching including **matching services, counselling and mentoring and job search** assistance are all seen as relatively cost effective and provide strong short-term returns. This aligns well with current practice and policy expansion in New Zealand.

Overall, we recommend that the government should:

1. Use targeted time-limited hiring subsidies for newly created jobs;
2. Use training conditionalities as part of the approval process for the \$15 billion in shovel ready and infrastructure projects to ensure an increase in efforts by the private sector to address skills gaps;
3. Remove life-time student allowance limits for citizens so as to lower the living costs of retraining following redundancy now or the impact of technological change in the future;
4. Widen access to the “\$3k to work” mobility assistance grant so as to include unemployed people currently residing in Auckland or Christchurch who wish to take up work in the regions; and
5. Phase out the repeated use of temporary work visas as a way to meet ongoing labour shortages, thus ensuring New Zealand does not return to the pre-COVID-19 over-reliance on short-term or temporary work visa solutions as the economy and travel restrictions ease over time.

Taken together these changes will help ensure that ALMPs can hasten the economic and labour market recovery and improve employment and wage outcomes for New Zealanders over the medium to longer term. The focus, mix and style of delivery of ALMPs will need to constantly change over time, and in response to changing circumstances, if the payoff is to be maximised.

1. INTRODUCTION

New Zealand’s economy is in transition as it weathers the wide-ranging negative impact of COVID-19. The tourism sector is in hibernation as our international border remains largely closed. Other sectors like agriculture and horticulture are crying out for skilled workers as access to temporary migrant workers dries up. Like the rest of the world, our unemployment numbers are expected to rise over the coming years as we adjust to a new normal.

The Government, in response has rolled out a range of counter-cyclical Active Labour Market Policies (ALMPs)—all aimed at keeping workers attached to firms, softening the expected economic blow, and improving employment and earnings outcomes for New Zealanders.¹ These ALMPs range from the immediate use of wage subsidies, to the intermediate use of \$3 billion “shovel-ready” projects and free vocational training, and finally, the long term use of \$12 billion in infrastructure spending.

But the Government is also aiming to use this spending to shape our post COVID-19 future—a future beset by environmental, technological, and demographic change. As such, this paper asks the question: to what extent can ALMPs help improve employment and wage outcomes for New Zealanders now, but also into this uncertain future. The short answer is that it depends on the focus, mix, and style of delivery of the selected ALMPs. Over time this focus and mix will also need change to reflect the shape of the recovery process and these long-term pressures.

Our strongest finding is that the Government should invest in people—not just infrastructure—right now in order to make a difference for the long term. For example, it should use the current economic slack and transition in our labour market as an opportunity to use hiring subsidies to assist the long-term unemployed and others on the margin of the labour market into work.

The Government should also mandate that any successful bid for the \$15 billion worth of infrastructure or shovel-ready projects must include the delivery of vocational training with work-ready programmes for staff as a part of these projects’ overall goals. We also recommend that student allowance lifetime limits be removed as a way to start to prepare for the longer-term shifts in the future of work. In an effort to relieve the current pressure on regional employers, the current “\$3k to work” mobility assistance grants should be made available to people currently residing in Auckland or Christchurch who wish to try something new in the regions.

Furthermore, there must not be a return to the pre-COVID-19 over-reliance on short-term or temporary work visa solutions, as the economy and travel restrictions ease over time. We strongly argue that allowing local firms to once again fill their skills and labour shortages through the use of temporary short-term visas would lower the returns from long-term efforts to upskill and mentor those most likely to benefit from the huge investment in ALMPs today.

The evidence and rationale behind the above recommendations forms the remainder of this paper. Following a brief examination of the current context in Section 2, Section 3 outlines the broad theory of ALMPs, including their anticipated direct effects, indirect effects, and expected outcomes. Section 4 summarises the findings of recent meta-analyses into the impacts of ALMPs, paying particular attention to their use in an economic recovery before turning to examine the findings in regard to specific ALMP policy options in Section 5. This is all brought together in Section 6 where we outline our recommendations for ALMP options over the coming years.

2. THE COVID-19 (AND LONGER-TERM) CONTEXT

2.1. New Zealand’s growth—like that of our trading partners—is expected to be low or negative

As large parts of the world have gone into economic lockdown to fight the health impacts of COVID-19, New Zealand is feeling the impacts of this global supply-side shock consisting of:

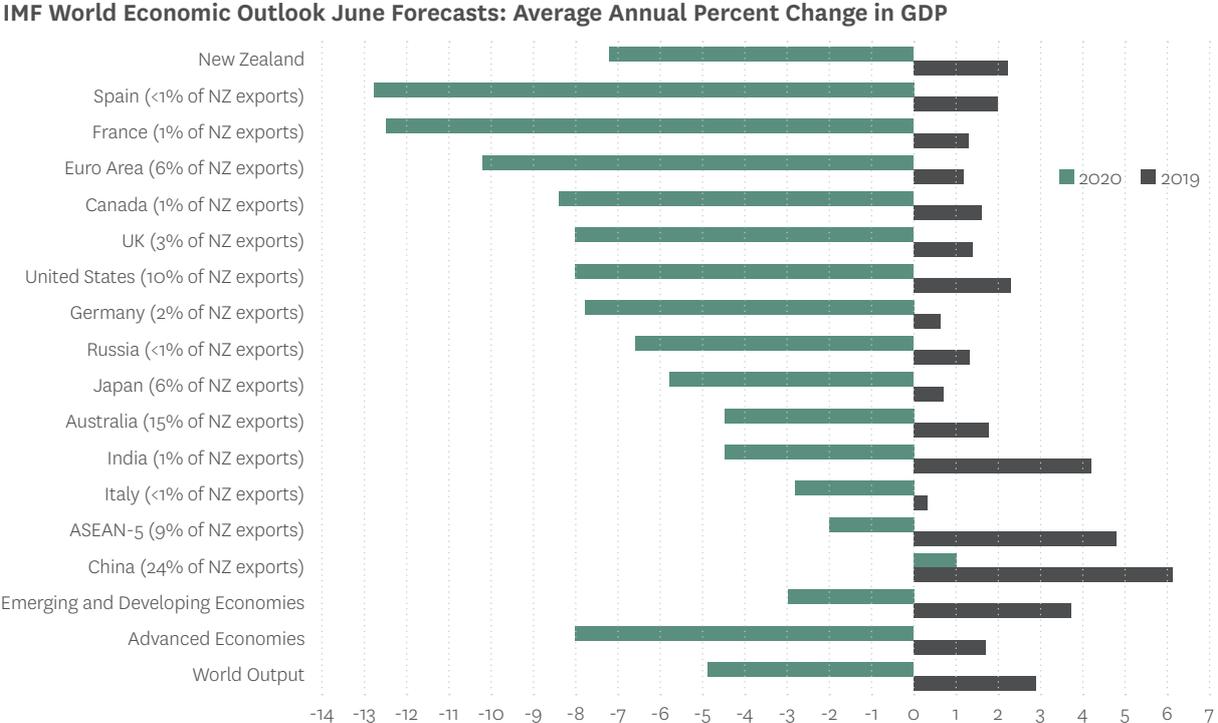
- a supply-side shock from our own “go hard and go early” domestic lockdown;
- a supply-side shock of our ongoing travel restrictions;
- a supply-side shock through the operation of the global production chains; and now
- a demand-side shock related to both our trading partners as they face their own COVID-19 fights and resultant economic challenges as well as the effects of domestic layoffs and restructuring as a result of the initial supply shock.

Nations around the world are expecting low or negative growth and higher unemployment rates in 2020 when compared with 2019 figures (see Figure 1 below). Incomes will be lower, unemployment higher, and both asset prices and currencies will fluctuate as we find the new global economic “normal.” The resultant uncertainty, overall wealth effects, and limited international travel will all impact on our own recovery.

2.2. The number of people on a benefit is expected to peak early next year

As a result, New Zealand’s economy and labour market are in transition. Border restrictions remain and people across the country are signing up for various forms of government assistance in record numbers. In early forecasts, Treasury anticipated that the numbers of New Zealanders on a benefit would peak in January 2021 at just under half a million (487,500). They also predicted that the numbers of people on a Jobseeker Support Work-ready benefit (JSS) will more than double from 135,000 to 317,300 people (although many of those made redundant since March 1 2020 will first move to the recently-announced COVID-19 income relief scheme

Figure 1: International Monetary Fund—June 2020 growth forecasts



Data Source: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020> and https://oec.world/en/visualize/tree_map/hsg2/export/nz/show/all/2017/

before moving to a JSS if they are unable to find work in the interim).²

In reality, the exact timing, peak impact, and recovery process of both GDP and unemployment are difficult to predict. This is clearly shown in the right-hand side graph in Figure 2 below, with wide variation in unemployment rate forecasts by the Treasury and the Reserve Bank, dependent on the scenario chosen. Any policy responses to the pandemic and its impacts in New Zealand, therefore, will need to remain adaptive to current circumstances as they unfold.

What is consistent, however, is that both the Treasury and the Reserve Bank are forecasting the unemployment rate to take over 4 years to return to pre-COVID-19 levels.³ So far, actual benefit data released by the Ministry of Social Development (MSD) is in line with early forecasts. There has, however, been some underlying compositional changes:

- people in the North Island, young people in their 30s, and those on lower incomes appear to have been disproportionately impacted;

- the previous earnings those entering the ranks of the unemployed are slightly higher when compared to those previously entering;
- A greater proportion of non-Māori are receiving a benefit than before.⁴

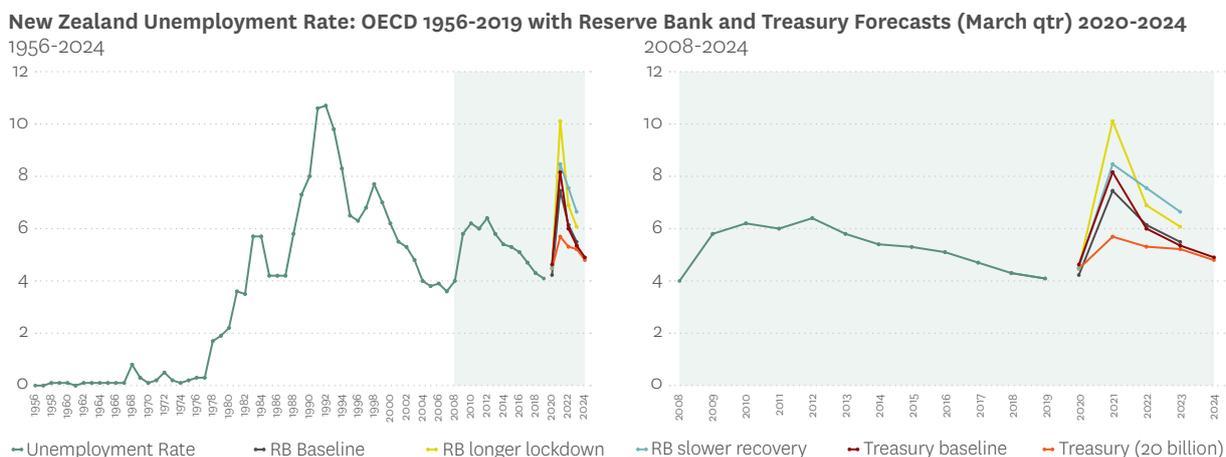
In contrast with these changes, the gender balance of these new beneficiaries appears to be similar to pre-COVID-19 ratios with slightly more males being impacted. Māori and Pacific people also still experience disproportionately high rates of unemployment overall.

2.3. The Government has rolled out a wide range of counter-cyclical ALMPs

As mentioned in the introduction, in response to the expected labour market impacts of COVID-19, the Government rolled out a number of counter-cyclical Active Labour Market Policies (ALMPs).

- In March, a 12-week, over \$10 billion, wage subsidy scheme was introduced covering around 60 percent of jobs. The Government also introduced a “Keep New Zealand working” website aimed at

Figure 2: New Zealand’s historical unemployment rate with current March quarter forecasts.



Data Source: <https://data.oecd.org/unemp/unemployment-rate.htm>, Reserve Bank May 2020 Monetary Policy Statement data tables and Treasury Report T2020/973: Economic Scenarios - 13 April 2020.

matching workers with work opportunities and the expansion of 35 new employment centres across the country.⁵

- In early May, Treasury was forecasting the impact of a \$20 billion fiscal recovery package on its baseline unemployment rate forecasts. This fiscal spend was predicted to lead to a significant lowering of the peak unemployment rate as well as keeping the unemployment well below 6 percent over the period (see Treasury (20 Billion) in the right-hand side Figure 2 on pg 3).
- By mid-May 2020, with employment outcomes worsening, the “Rebuilding Together” budget introduced a whole secondary range of ALMPs outlining a now expanded \$50 billion COVID-19 war chest, including:
 - an 8-week extension to the wage subsidy worth around \$3.2 billion;
 - bringing forward \$3 billion worth of shovel ready projects (in addition to its \$12 billion infrastructure planning announcements in January) to provide a pipeline of infrastructure jobs worth \$15 billion in total;
 - an environmental jobs package worth \$1 billion; and
 - a trades and apprenticeships training package worth \$1.6 billion.
- On May 25, a 12-week COVID-19 income relief payment for people made redundant since March 1 2020, (\$1.2 billion offset by \$635 million in benefit payments) was brought into being, creating a new two-tier welfare system.
- On 18 June, the Government announced a further \$390 million apprenticeship training subsidy open from August 2020. This training subsidy will pay employers training an apprentice \$1000/month over the first year of an apprenticeship, and then \$500/month over the second year of training. This is aimed at both lowering the costs of keeping an apprentice on in uncertain times and ensuring that a range of skill gaps can be met as the economy recovers.
- On 7 July 2020, the Government announced that there would be no extension of the wage subsidy scheme beyond 1 September 2020.

This policy response was unimaginable even in February 2020. In 2019, for example, while experiencing relatively low unemployment levels at a little over 4 percent, New Zealand was spending only a third of one percent (0.33%) of GDP on ALMPs—in the bottom third of OECD countries and well below that of comparable OECD countries.⁶ At the same time, New Zealand was choosing to relieve wage and production pressure on employers by actively bringing in short-term temporary workers from overseas to fill skills and labour shortages. Indeed, there was a stock of around 170,000 temporary workers in New Zealand at any one time in the 2017/18 year, which was roughly equivalent to 6 percent of New Zealand’s seasonally-adjusted total employment and larger than the population of the urban area of Tauranga New Zealand’s fifth largest city (See also Box 2).⁷

2.4. The future of work is changing rapidly due to environmental, demographic, and technological change

New Zealand’s workforce is facing a number of long-term pressures. The population is ageing, the fertility rate falling and many regions face an uncertain population future.⁸ Environmental pressures are also building and firms are needing to adapt their production and consumption patterns to new regulatory environments focused on lowering carbon emissions. The rising pace of technological change, what some are calling the fourth industrial revolution, means that jobs are increasingly becoming automated and skills quickly obsolete. There is some evidence that the COVID-19 pandemic has even hastened this final pressure with what some are calling the “Roomba effect,” whereby people with the means to do so are substituting human services with durable capital goods in order to meet their life needs.⁹

3. ACTIVE LABOUR MARKET POLICIES ARE PROPOSED AS A WAY TO IMPROVE THE FUNCTIONING OF THE LABOUR MARKET TO LOWER UNEMPLOYMENT SPELLS

ALMPs are policies that attempt to enhance the overall functioning of the labour market to improve overall employment levels and reduce the duration of unemployment. Lars Calmfors, a Swedish economist, summarised the theory of ALMPs drawing on economists' Richard Layard and Stephen Nickell labour market models of unemployment from the 1980s. He outlined the direct processes or effects by which these improvements can occur.¹⁰

3.1. ALMPs aim to increase the demand for, and supply of, labour and improve the matching of demand to supply

According to Calmfors, ALMPs can be used to increase employment and decrease unemployment through three direct effects:

1. Increasing the demand for labour—*the demand effect*—by increasing the numbers of firms/institutions looking for workers;
2. Increasing the supply of labour—*the supply effect*—by encouraging labour market attachment and job search, or by improving peoples' skills so that people will re-attach to the labour market and search for work; and by
3. Improving the matching of supply to demand—*the matching effect*—so that workers and firms find or stay attached to each other with reduced cost, i.e. increasing the workers' skills associated with job search or lowering the costs of finding a worker for firms.¹¹

3.2. However, in normal times, ALMPs tend to provide a low return

Unfortunately, as Calmfors has acknowledged, while the direct effects sound simple to achieve, the reality is far more complex. In a normal economic climate of low and steady growth, the research literature generally finds that:

- the overall impacts of ALMPs “are low but positive...display[ing] a limited potential to alter the employment prospects of the individuals they intend to help,”¹² but that
- the outcomes of ALMPs depend on the type of programme with ALMPs aimed at matching workers to firms and firms to workers being the most effective.¹³

3.3. The low return on investment is largely a result of the indirect effects of ALMPs, a focus on short term outcomes, and sometimes, political capture

To understand the overall impact of an ALMP, we must consider the wider or indirect effects of the policy alongside the direct impact of the policy that we hope will increase the demand for a particular type of unemployed person, in a particular place and in a particular timeframe. Any initial gains from a wage subsidy, for example, may be overwhelmed by losses due to substitution, deadweight, or cream-skimming effects. Alongside the three direct effects of ALMPs outlined above there are 15 possible indirect effects, summarised in Figure 3 below. These indirect effects will be referenced in the following analysis.

Figure 3: The indirect effects of ALMPs

+ INDIRECT EFFECTS	1. Competition	Insiders have market power to exclude outsiders. ALMPs may rebalance some of this insider power by increasing the supply of outsiders and lowering outsider wages in comparison to insiders wages.
	2. Threat	Making welfare entitlements conditional on ALMP participation can increase the participation in ALMPs and hence improve job seeker skills and employability.
	3. Transition	Participation can help someone transition to work by increasing skills, work habits and routines.
	4. Screening	ALMPs can lower firm costs associated with employee screening and thus enable a firm to hire outsiders or take a chance on a previously marginal employment decision.
	5. Budget	This is a positive impact if ALMPs increase employment by increasing tax revenue and lowering welfare payments. If ALMPs are funded via income tax revenue this will reduce the returns to work (all other government spending held constant) which conversely can lower job search and employment incentives.

ALMPs

- INDIRECT EFFECTS	6. Deadweight	The employment would have happened without the policy and so ALMP lower overall output by wasting resources.
	7. Cream-skimming	To improve the effect of the policy or their own metrics operational staff steer only the best of the unemployed into the programme thus encouraging more spending on poor outcomes.
	8. Displacement	ALMPs crowd out regular employment in that employers hire subsidised workers instead of unsubsidised workers, with no net gain. They drive a distributional change in who gets the work.
	9. Substitution	Firms substitute medium or high ability/skill workers with lower ability or skilled workers who attract a subsidy.
	10. Wage	Insiders via their strong bargaining, ensure that any ALMP subsidy is spent on insider wages rather than on the employment of outsiders.
	11. Skill-acquisition	If the subsidy is spent on low skilled workers, it can reduce the payoff to gaining higher skills thus reducing the incentives for people to acquire higher skills and reduce productivity in the long-run.
	12. Asymmetric information	Firms and individuals can use their asymmetric information to game the ALMP thus “capturing” the gains without there being any effect on employment.
	13. Lock-in	ALMPs increases attachment to a firm, which cements people in place and reduces job search. This is positive if the firm is viable and negative if the firm is non-viable without assistance going forward.
	14. Stigmatising	Participation in the ALMP signals to future employers that the participant is an extremely low productivity or skilled person which overall stigmatised the person making it harder for the participant to find work.
	15. Churning	Making welfare entitlements conditional on participation in an ALMP can mean participation in ALMPs becomes a box ticking exercise and overly bureaucratic. The overall impact of this churn means overall employment is lowered due to waste.

Source: Author’s summation of Brown and Koettl (2015)¹⁴

Similarly, it is critical to be clear about the types of outcomes expected. Take the example of placing someone into a training ALMP. This training could be considered a net loss due to other employment opportunities forgone and a longer stint of unemployment, but also a net gain if the person is upskilled, and earns a higher wage over their lifetime.

It is also important to understand the overall objectives of policy choice. For example, where distributional outcomes are the focus it would make sense to proceed with an ALMP that aims to assist those most affected by a downturn (often those on lower end of the income and earnings distribution), even though there is no gain to overall employment. In this case the decision-maker is making an explicit normative choice to assist some into work above others, for a distributional, equity-based, or political reason.

But theory only takes us so far. As Calmfors says: “[o]ne cannot from a theoretical analysis evaluate the net impact of these policies.”¹⁵ Rather, the ability of ALMPs to deliver on their objectives is an empirical issue based on real world evaluations of ALMPs in action. These evaluations are by definition an attempt to measure the direct (and sometimes indirect impacts) of a particular ALMP in a particular place and over a particular timeframe according to an agreed criteria—usually employment or earnings. It is a crowded academic space. By 2015 for example, when Trine Filges and colleagues undertook their literature review with the express aim of quantifying the employment effect of ALMPs, they found over 16,000 potential academic studies evaluating the impacts of individual ALMPs to draw on.¹⁶

3.4. We need to focus on “what works in a recession” if we are to find a way forward

To deepen our understanding of how ALMPs may work in the current economic climate, this paper will focus on drawing conclusions from the most recent literature on “what works” when an economy is in a recession. These findings will then be used to assess possible policy options to inform New Zealand’s use of ALMPs during the post-COVID-19 recovery period. This paper also extends the current New Zealand ALMP analysis by directly considering the role of immigration policy alongside active labour market policy within the New Zealand context.¹⁷

4. FINDINGS OF ALMP META-ANALYSES

Increasingly, academics undertake meta-evaluations as a way to navigate the vast quantities of published papers on ALMPs. The statistical nature of these meta-studies attempts to control for background macro-economic conditions, time lags, publication bias, as well as country and in some cases regional effects as a way to overcome some of the limitations of the individual, time-and-place bound evaluation studies. These individual, time-and-place bound evaluation studies tend to be unable to account for aggregate “deadweight loss and substitution effects, as well as any productivity and competition effects.”¹⁸

Somewhat remarkably, the main findings across meta studies over the last 10 years are broadly consistent. Four main points emerge:

1. ALMPs have better outcomes in times of high unemployment and low growth;
2. While average ALMP outcomes vary by programme type, many often have better effects in the long run;
3. A mixed public-private delivery model for ALMPs achieves far better outcomes than government-only solutions;¹⁹ and that
4. The average effects of ALMPs differ by people’s characteristics

We will discuss these findings in turn below.

4.1. ALMPs have better outcomes in times of high unemployment and low growth

Four recent meta-analyses have explicitly examined the role of the business cycle on ALMP outcomes,²⁰ together “suggest[ing] a positive correlation between ALMP effectiveness and the unemployment rate.”²¹ This is consistent with the theory that in times of economic slack there is less likelihood of the public sector crowding out the private sector. Hence, when GDP is operating below its potential output level, there is lower displacement and fewer deadweight issues to deal with. Similarly, when unemployment is high, the costs of reduced private sector job search on participants are lowered, therefore reducing negative lock-in effects.²²

Of particular policy interest is the finding that returns to investments in human capital (from education and training ALMPs) appear to be higher or more sensitive to the cycle than policies aimed at placing people into employment above all else.²³ There is also empirical evidence that the higher return to training programmes is particularly noticeable for the long-term unemployed.²⁴

Somewhat mitigating the above findings, however, are two compounding issues that the meta studies struggle to account for:

- First, despite the high correlation, causality is very hard to isolate because programme “expenditures for ALMP tend to be high in times of economic recession.”²⁵ It might just be that as more money is spent, outcomes improve;
- Second, there might simply be a quality improvement in the programme participants as more people enter the ranks of the unemployed during a recession.²⁶ There is some evidence for this changing quality narrative emerging in the current New Zealand context. A recent briefing paper from MSD highlighted that those becoming newly unemployed in April 2020, for example, have a higher earning loss on average than pre-COVID-19 beneficiaries and higher earnings are typically correlated with higher skills. The MSD report outlines that “[t]hese changes may reflect that this downturn is impacting a broader group of people than usual, with a greater cross section of society impacted.”²⁷

4.2. While average ALMP outcomes vary by programme type, many often have better effects in the long-run

As mentioned above, the findings of many of the individual evaluations suggest that the outcomes of ALMP policies vary depending on programme type. ALMPs aimed at helping people find a job or firms to find suitable workers (matching policies) appear to be the most effective. Matching or employment service ALMPs are also often cheaper than their subsidised employment or training alternatives, and therefore, more attractive due to the higher fiscal return.²⁸

Results can change over longer timeframes too, as meta-analyses have shown. In the short run, employment

service ALMPs are confirmed as the most effective policy choice, but in the longer run, other ALMPs tend to have more positive outcomes. When examining the longer-term impacts of subsidised labour for example, multiple meta-studies find that while the initial effects are negative (with deadweight and displacement effects outweighing any benefits), the outcomes often become positive after 12 months.²⁹

Similarly, when looking at the impact of training programmes, the meta-studies also find that “[c]lassroom and on-the-job training programmes appear to be particularly likely to yield more favourable medium-term than short-term impact estimates.”³⁰ This, once again, is a reversal of many of the short-term impacts of training. In the short-term the lock-in effects of training dominate, lowering job search and hence short-term employment impacts.

Overall then, while employment services have the greatest short-term positive effect, investments in human capital are seen as providing some of the largest medium and even long-term effects. As we will see below, these medium and longer-term effects are even larger for those who were long-term unemployed and/or potentially for women.³¹

4.3. A mixed public-private delivery model for ALMPs achieves far better outcomes than the state going it alone

The meta-analyses also highlight that when the programmes are delivered in partnership with the private sector in a mixed-provision model, outcomes are better than when they are delivered in a purely public way. Pure public employment creation is confirmed as the least effective form of ALMPs (as the time-and-place-bound evaluations suggest) with the meta-studies typically arguing that the overall impact of pure public employment creation schemes being negative.³² One meta-analysis in 2017, did find positive impacts from pure public employment creation schemes but only after 36 months.³³ Some smaller evaluations also make the valid point that public employment creation schemes can provide a short-term safety net in times of recession. We therefore consider that pure public employment creation schemes should still be up for temporary policy consideration in times of deep economic recession with very high unemployment rates. We do not think

the current crisis reaches this threshold, although this might change and the government should have a range of options at the ready to be able to respond quickly to a deepening recession.

4.4. Average effects of ALMPs differ by participant characteristics

The final conclusion from the meta-analysis confirms the findings from many of the individual ALMP evaluations—that the average effects of ALMPs differ according to the characteristics of the participants.

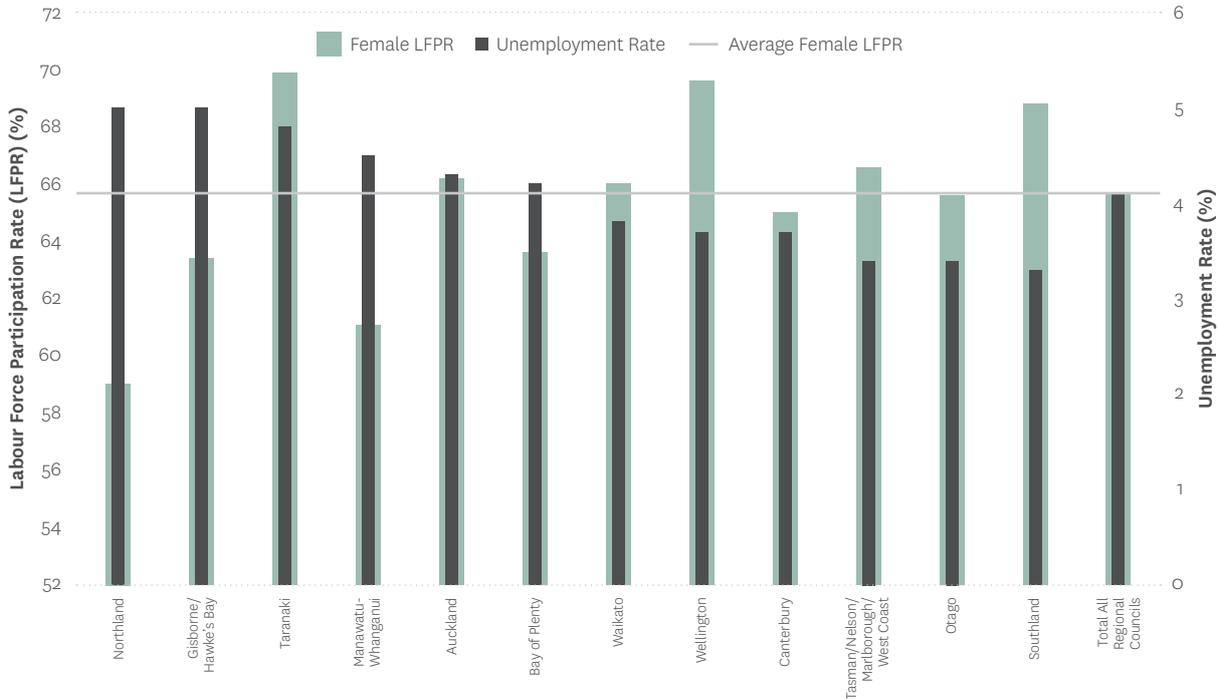
Researchers often find that ALMPs tend to lead to larger positive impacts for females when compared to males. In 2008, academics Annette Bergemann and Gerard J. van den Berg investigated the effect of ALMPs on women (based on data from Europe), finding that the relative positive impacts for women were most prominent for skills training programmes, but there were also positive effects from hiring subsidies, job creation, and job search assistance schemes.³⁴ They also found that the effects are larger in economies where the female labour force participation rates are lower.³⁵

While New Zealand female labour force participation rates are high by OECD standards, this finding may well be of policy importance at a spatial level in New Zealand. Four of the six regions (including Northland, Gisborne/Hawke’s Bay, Manawatu-Whanganui and the Bay of Plenty) with higher than average unemployment rates have lower than average female labour force participation rates (see Figure 4 below for a regional comparison of female labour force participation rates ranked by the regional unemployment rate).

The long-term unemployed (those who have been unemployed for longer than six months), often have greater positive outcomes when compared with the rest of the population, particularly around training programmes and especially in recessions.³⁶ Theoretically, this is because the ALMP enables someone on the margin of the labour market with poor expected lifetime outcomes to transition to work. This minimises the expected long-term scarring effects of ongoing unemployment for this person.

Unfortunately, older workers and youth are more likely to have lower relative returns from ALMPs.³⁷ Researchers

Figure 4: New Zealand Regional Female Labour Force Participation rates: ranked by regional unemployment rate (total both sexes): Annual March 2020.



Source: Statistics New Zealand Infoshare Table reference HLF052AA

argue that these lower returns for older worker arise because older workers are more likely to be attached to the labour market and work ready, so the deadweight and displacement costs of programme participation are higher.³⁸ Two important factors could be behind the lower returns for young people:

- The high stigmatising effects of programme participation. Delaying employment through ALMP programme participation for youth can mean that young people become “scarred” or stigmatised. In contrast to research that highlights that “youth who have been unemployed for less than six months seem rarely to meet negative employer attitudes,”³⁹ participation in an ALMP often signals to employers that the younger participant is of particular low skill or productivity; and
- Many youth who eventually end up in programmes have already struggled in the formal education system. Re-entering some form of formal education via an ALMP, therefore, is unlikely to bring any employment or income benefits because they will likely encounter similar educational challenges as before.

Hence for youth, vocational or on-the-job training are nearly always seen as preferable to other ALMP options, but these can be hard to obtain for long-term NEET youth, especially when the actual job requires some form of pre-entry qualifications.

One assumption here is that real jobs are available for older workers and young people to enter into, which is not necessarily the case in an economic downturn. If any person is in danger of persisting in long-term unemployment—and thereby losing work-readiness—then potential returns to ALMPs rise.

5. SPECIFIC ALMP POLICY CONSIDERATIONS

Drawing from the meta-analysis findings just discussed, we will now explore potential policy options within the current economic context that will inform our specific policy recommendations in the next section. We will assess the direct and indirect effects, and discern how effective each policy option is likely to be.

ALMPs can be categorised, as noted earlier, into three major groups depending on the direct effects outlined above:

- ALMPs that aim to influence labour demand,
- ALMPs that aim to influence labour supply, and
- ALMPs that improve the matching of labour supply to demand.

We will discuss these options in turn below.

5.1. ALMPs aimed at improving labour demand

There are four broad types of ALMPs aimed at improving labour demand:

1. wage subsidies;
2. hiring subsidies;
3. public and private employment creation schemes; and
4. work sharing.

5.1.1. Wage subsidies

Wage subsidies have been extensively used in the New Zealand COVID-19 counter-cyclical response package under Level 4, and have been extended through the shifts to Levels 3 and 2. Wage subsidies aim to improve labour market attachment and slow down the outflow of workers from firms that are struggling due to a temporary shock. As academics and researchers Alessio JG Brown from the Institute for the Study of Labor in Bonn, Germany and Johannes Koettl from the World Bank outline in their investigation on the fiscal returns of ALMP, broad wage subsidies can be useful at the beginning of a severe recession, but are expensive and can have negative long-term impacts.⁴⁰ These long-term impacts depend on whether the wage subsidies cover jobs that are not viable

long-term or when the subsidies are not phased out quickly enough, all of which slows down the movement of workers to more viable jobs.⁴¹ These negative impacts are compounded when negative lock-in effects impact workers whose skills are no longer as valuable in the non-subsidised sector post-economic shock. The wage-subsidy effectively lowers incentives for retraining and attempts to lock in a past that is no longer viable.

We would, therefore, not recommend their ongoing use in areas heavily affected by COVID-19 under Level 1 in the hospitality and tourism industries, for example. If there are large numbers of firms in hibernation due to the lack of tourism, it may well be preferable—depending on the length of hibernation—to assist the firm directly with its fixed costs while providing incentives for the workers to move to available jobs. When it comes to directly helping the workers, we would instead recommend moving to hiring subsidies or even retraining options as outlined below.

5.1.2. Hiring subsidies

Hiring subsidies are a time-limited way to support workers moving between industries by providing a subsidy to the employer to assist with the costs of hiring and retraining. They also assist the long-term unemployed to gain a foothold in the workforce, as firms can hire someone they otherwise would not have. The evidence suggests that hiring subsidies have high positive screening and transition effects.⁴² Furthermore, as hiring subsidies are time limited and by definition focused on new hires, they have substantially lower deadweight, substitution and lock-in effects compared to broader and ongoing wage subsidies. There are, however, negative displacement effects where firms hire subsidised workers instead of unsubsidised workers, which, when empirically examined, can be very high (up to 60%-70% of any benefits).⁴³

Having examined the outcomes of hiring subsidies used in New Zealand between 2003 and 2007, labour market researchers Sarah Crichton and Dave Maré found that “starting a subsidised job leads to significant employment and earning benefits for assisted jobseekers... with impacts still evident after 72 months.”⁴⁴ After a year, participants were “26 percent more likely to be employed and 24 percent less likely to be on-benefit than matched comparisons with [t]he retention of subsidised workers after the end of their subsidy contribut[ing] significantly

to the employment effect.”⁴⁵ Crichton and Maré also found that “[s]ubsidised workers [were] disproportionately hired into expanding firms”, with “only weak evidence that firms are reducing unsubsidised employment... and such substitution is evident only for the smallest firms.”⁴⁶

In the current environment, then, there is sufficient evidence to argue that hiring subsidies are a good option to help people to transition into new, viable roles. They can also assist firms who need to find new workers by covering some of the work-readiness and on-the-job training costs at the front end of employment via the subsidy. Hiring subsidies can be used to assist those at risk of long-term unemployment into work. Given this evidence, we recommend the use of hiring subsidies over the recovery period.

5.1.3. Public and private employment creation schemes

Employment creation schemes use public money to create jobs as way to mop up unemployment. These can range from smaller schemes like the redeployment of 160 forestry workers into biosecurity and conservation projects as announced by Offices of the Minister for Biosecurity and the Minister of Conservation on May 10 this year or larger and more long term focused like the proposed \$31 billion in roading infrastructure announced by the National Party recently as part of their “Plan to Get New Zealand Working.”⁴⁷

Typically, direct employment creation schemes have negative short-run impacts, due to large lags, deadweight and displacement effects, and negative stigmatising and lock-in effects for participants.⁴⁸ In the medium term, however, a mixed model where the public sector partners with the private sector, shows some promise. The poor results for pure public schemes, even over the very long-term, means the government should not consider simply “going it alone.”

Employment creation initiatives (often linked to hard infrastructure and regional development with expected longer-term payoffs in New Zealand) are both slow to get off the ground and expensive to run. Empirical support for a two-to-three-year time lag is found across multiple studies examining the peak impact of government spending multipliers over time rather than just the immediate impact.⁴⁹ In practice, employment creation schemes are simply not able to respond quick enough,

Box 1. The impact of the overall government debt burden on long-run fiscal multipliers

When considering the impact of overall debt burden on fiscal multipliers over 44 countries, International Monetary Fund (IMF) researchers find evidence that “attempts at fiscal stimulus in highly indebted countries may be actually counter-productive and their effects very uncertain.” They continue to say that, “the long run fiscal multiplier remains negative when the debt-to-GDP threshold is set to 60 or 70 percent of GDP, while it becomes positive for debt-to-GDP ratios of 30 or 40 percent,” and after experimenting with different thresholds, argue “that the 60 percent threshold was a meaningful cut-off, above which fiscal stimulus appears ineffective.”⁵⁰ New Zealand, with its government debt-to-GDP ratio well below 60 percent heading into the pandemic appears to be in the safe zone, with positive effects from fiscal stimulus likely.

with sufficient impact to adequately assist all of those recently made redundant. Indeed, there is the real danger that many of these schemes may only reach their peak impact around the same time New Zealand’s borders are re-opening, (assuming a vaccine is also on a 24-month timeframe) adding to overall labour market pressure and momentum toward the re-opening of immigration solutions (something we argue against in Box 2).

Having said all this, when severe recessions occur in economies that have debt-to GDP ratios lower than 60 percent (see Box 1), there is usually sufficient economic slack to minimise immediate deadweight and displacement issues. Accordingly, there will be an employment safety-net function in such policies if they are well designed and build or maintain long-term infrastructure.

Overall then, to respond to current challenges, employment creation schemes already announced as part of the infrastructure or shovel-ready projects in the New Zealand context should generally:

- run in partnership with the private sector;
- be focused on long-term infrastructure projects (building and maintenance);
- meet inter-generational cost-benefit requirements to avoid policies designed for short-term electoral advantage;⁵¹ and
- match needs associated with long-term demographic trends so that the spatial dimension of the repayment burden on future generations isn’t ignored.

Policies designed in line with these requirements would maximise the chance that there will be positive effects in the medium term (post one year). Furthermore, based on the findings of education and training ALMPs (discussed below), we think there is an opportunity to directly link these employment creation schemes to education and training opportunities through the use of training conditionalities. These training conditionalities require successful infrastructure or shovel-ready bids to include a provision for the training, upskilling and mentoring of both long-term unemployed and recently made redundant workers to meet skill gaps (see the section below on education and training initiatives for more detail). Based on the available evidence, we would also recommend against use of pure public work creation schemes where the government goes it alone.

5.1.4. Work sharing

Work sharing schemes are a type of ALMP that spreads or shares the work over the available workforce, including reduced hours or even a four-day work week. In the New Zealand context, these have most recently been discussed by the Prime Minister as a potential option that firms should examine on a case by case basis.⁵² Having said this, these work sharing measures can also be regulated economy wide, such as regulating a four-day work week instead of a five-day work week. We argue however, that compulsory schemes are of limited value in the New Zealand context because firms are highly likely to be using these measures already if they are valuable to their survival. OECD evidence highlights that, in response to COVID-19 “employers in a number of OECD countries made extensive use of hours reductions (“work sharing”) as an alternative to layoffs.”⁵³

Theoretical evidence suggests that while work sharing can be a way to maintain work readiness, attachment, and minimise temporary job loss following a temporary negative shock, if the firm is not viable, these types of schemes can have negative impacts on workers in the long-term. By entrenching workers in non-viable jobs (lock in-effects) workers are more likely to exhibit lower efforts at retraining or job search than they otherwise world.⁵⁴

One way to address these lock-in effects is to use work sharing arrangements alongside training initiatives. For example, people could agree to only work for four days per week and combine this with an ALMP training programme on the fifth day run by an industry association or training institute. There could be a role for the government to work alongside industries to assist with the costs of training or re-training or covering wages for the day of training. In the longer term this type of ALMP should be considered within the current Reform of Vocational Education (RoVE) (see also the section of education and training ALMPs below).⁵⁵

In a recession, however, work sharing schemes can be most effective if they are in place before the economic shock.⁵⁶ As such, the government has the current balance right, by promoting work-sharing at a firm level where the arrangement is valuable to both employers and employees.

5.2. ALMPs aimed at improving labour supply

There are five broad categories of ALMPs aimed at improving labour supply including:

1. policies aimed at education and training;
2. in-work tax credits;
3. activation and workfare sanctions;
4. mobility payments; and
5. self-employment assistance.

These are discussed in turn below.

5.2.1. Education and training

Education and training ALMPs aim to invest in the unemployed to upskill someone into an available role or skill gap or even to improve someone's work readiness and/or labour market attachment. Based on the meta-analysis above, education and training in times of recessions should be considered as a real policy option with positive results expected in the mid-to-longer term, especially for those already long-term unemployed and/or women who are in areas with below average rates of female labour force participation.

In May, the Labour-led Government signalled a \$1.6 billion Trades and Skills package as part of the 2020 "Rebuilding Together" Budget with \$320 million set aside for an increase in fees-free trades training.⁵⁷ In early June, the Government refined this announcement by indicating that in a range of industries the training courses will be fees-free for the next two and a half years, also signalling that these industry categories will be reviewed as the recovery progresses.⁵⁸ We think this targeting needs to be aligned with pre-COVID-19 situations where employers have been seen to disproportionately use temporary work visas to supplement their workforce. On 17 June, the Government also announced a further \$390 million apprenticeship training subsidy, open from August 2020 and paying employers training an apprentice \$1000 per month over the first year of an apprenticeship, and then \$500 per month over the second year of training.⁵⁹

Once again, there is an opportunity to fold the use of training conditionalities as a key policy option within the current RoVE reform.⁶⁰ Using these training conditionalities now would provide an opportunity to learn lessons and evaluate how these conditionalities could be used in the near future by Workforce Development Councils and Regional Skills Leadership groups, for example. This would enable these newly-formed institutions to work collaboratively alongside the private sector providers of in-work vocational training.

There is also a real opportunity to use hiring or training subsidies combined with conditionalities to assist long-term unemployed and recently-redundant people to transition to ongoing work opportunities. Measures should be taken to ensure that women are able to participate in the programmes, this would require policies to guarantee:

- firms are not acting in a discriminatory manner based on historical gender employment expectations;
- that these firms are sufficiently compensated for the on-the-job, work readiness, and skills gaps training and mentoring that may be required as they transition to a new workforce; and
- that the particular barriers to work women face (including but not limited to childcare) are identified and minimised through trialling policy or employment practice innovations (all in consultation with potential long-term unemployed female participants).⁶¹

When looking at reducing hurdles to retrain people made redundant, the most obvious candidate to explore is the current age-related lifetime limits on the student allowance. As it stands, the current New Zealand lifetime limits for the student allowance are age-related. Those under 40 can access a total of a Student Allowance for 200 weeks of tertiary study (around 5 years), while those over 40 can access a Student Allowance for 120 weeks of tertiary study (around 3 years), with this lower limit including any weeks of Student Allowance the person has had before.

This means that anyone over the age of 40 who already has a Bachelor's degree or higher will be unable to receive a student allowance while they study (although they might well be able to access the living-costs component of a student loan, once again dependent on the number of EFTS they may have already used). Relaxing these lifetime limits for people who have been made redundant in the current COVID-19 recovery period would remove this part of the financial barrier to getting people back into tertiary or vocational education at a time while tertiary institutions are unable to easily access the international student market.

An important caveat in regard to education and training programmes: supporting infrastructure must be available. Research from Sweden suggests that "it is a problem to expand training programmes very rapidly in a situation when the appropriate infrastructure is not there."⁶² Luckily in the New Zealand context, with many international students not able to travel to New Zealand, there should be sufficient room in the education space to accommodate those who wish to retrain. In addition, while the current RoVE is a strategic opportunity to

change how vocational education is being undertaken and funded in New Zealand, there is also the risk that the current economic climate brings significant instability to a sector already reeling from reform.

As such, in the current economic environment it is important to:

- have realistic expectations about the expansion of educational programmes and the reform of trades and vocational training as a way to combat unemployment;
- link the educational training programs to existing spare educational capacity with a view to growing capacity where appropriate;
- link vocational or on-the-job training to firms that have pre-existing skill gaps (as can be identified by their continuous use of migration pre-COVID-19);
- develop and apply training conditionalities to the current infrastructure and shovel-ready projects also use this as an opportunity to evaluate their ongoing use as part of the RoVE reforms and the development of Workforce Development Councils, Regional Skills Leadership groups;
- ensure that the long-term unemployed (and those most at risk of becoming long-term unemployed) are matched with job and training opportunities that may exist as part of the employment creation schemes outlined above and to use hiring and training subsidies as a way to encourage firms to take on someone they will need to invest in;
- focus on ensuring that women are not overlooked in particular trades and industries by removing barriers and actively encouraging women to participate in job and training opportunities that may arise as part of the above hiring and training subsidies;
- relax life-time limits on study allowances for people who wish to re-engage in tertiary study, even if they have already used their current limit; and
- balance, and potentially restrict, the use of short-term work migration as a way to ease labour specific market pressures that will return as the economy recovers over time.

5.2.2. *In work tax credits*

The Family Tax Credit (FTC), Minimum Family Tax Credit (MFTC) and In-work-Tax-Credit (IWTC), are all available for New Zealand employees with dependent children. These Credits increase the minimum income available with work (and non-work income in the case of the FTC). The incentives created by these tax credits are dependent on the level of income and the number and age of the children within the family. At low income levels they can increase the returns to paid employment and hence make it more likely for someone to seek employment. As the family income nears or reaches the abatement levels, high abatement rates can decrease the marginal incentive to work additional hours especially for the secondary earner in the household.

Under COVID-19 the Government relaxed the minimum hours of work requirements for the IWTC so that someone temporarily unable to work did not lose their tax credit entitlements. This was an income-related decision that, while softening the income blow from the Level 4 lockdown, will over time foster negative lock-in effects if it remains. This in turn could cause some to lose work readiness or lower retraining incentives. As such we would recommend that pre-COVID-19 hours of work rules be re-applied under Level 1.

5.2.3. *Activation and workfare sanctions*

Activation and workfare sanctions are ALMPs that require people on the benefit to actively seek work, attend a meeting, or participate in an ALMP programme to maintain benefit eligibility. The sanction means that failure to fulfil these “job-seeker” obligations will result in the person losing access to their benefit and or having to meet stand-down or re-activation requirements. In normal times this makes unemployment more costly for the participant, as participants are now introduced to threat and wage effects. When used judiciously, these types of ALMPs are a cost-effective way to increase the incentives to find work and hence shorten people’s overall unemployment duration.

The overuse of these sanctions, however, can introduce high bureaucratic churn to the benefit system and lower employment outcomes.⁶³ This is especially so when the compulsory nature of the sanctions becomes a box-ticking exercise or punitive exercise.

New Zealand makes use of a wide range of activation and workfare sanctions, including social sanctions⁶⁴ with on “average, in any given month in the year to June 2018, 4.7% of [MSD] clients with full-time work obligations, 1.6% of clients with part-time work obligations, and 0.4% of clients with work preparation obligations [having] a sanction applied.”⁶⁵ Unfortunately, even at these low rates there is evidence of bureaucratic churn within New Zealand system, with roughly 50 percent of all work related sanctions being disputed by benefit recipients and almost all (97.6 percent) of these sanctions being overturned though this disputes process.⁶⁶ In the end, the 2019 Welfare Expert advisory group recommended that these sanctions be removed or limited to a 10 percent loss in benefit, with a total loss of benefit only after “exhaustive consideration.”⁶⁷ Having said all this, it is unlikely, that either the removal or additional threat and wage effects on a job-seeker are able to influence employer’s hiring decisions in the current economic climate. Given the evidence of bureaucratic churn, it would be prudent for officials to re-consider the WEAG findings as a way to improve overall outcomes and reduce wasted resources.

5.2.4. *Mobility payments*

Mobility payments are a way of lowering the costs of a job seeker moving to take up a job in a location other than the one they currently reside in. There is already a “\$3k to Work” ALMP programme, which provides the job seeker with a tax-free payment of \$3,000 to assist with moving costs.⁶⁸ Potential recipients must have a confirmed full-time job offer that is at least 30 hours a week, longer than 91 days in duration, and starting within 28 days from when they apply for the grant. For people living in Auckland or Christchurch, they must “be either a Limited Services Volunteer graduate, or moving for social reasons” (e.g. family violence).

In the current climate, we think the restrictions for those living in Auckland and Christchurch should be removed so that people who live in these areas have additional incentives to work in available regional jobs. A recent report assessing the effectiveness of ALMPs by MSD noted that in 2016/17, MSD only spent \$3.09 million on these mobility payments, amounting to 1030 payments over the financial year.⁶⁹ While this is only a small component of the overall benefit system and one that might in light of other initiatives seem superfluous, an expansion of the “\$3k to work” programme in combination with other hiring

and training subsidies could give people an incentive to take a chance of a job in the regions otherwise seen as incompatible because of moving costs.⁷⁰

5.2.5. *Self-employment incentives*

Self-employment incentives aim to assist an unemployed person to transition to self-employment. In New Zealand, Work and Income options for beneficiaries include the:

- “Business Training and Advice grant” (a \$1000 over a year grant aimed at helping someone “developing a business plan, training in business skills, advice and project reports”);⁷¹
- “Self-employment Start Up Payment” (a \$10,000 one off payment to “Help with essential start-up costs, eg furniture or the first lot of stock”);⁷² and
- “Flexi-wage for Self-employment Benefit” that pays the minimum wage for 30 hours per week for a maximum of 52 weeks (\$29,484 @\$18.90/hour) as “a subsidy to help with living costs while you’re getting started.”⁷³

Unfortunately, while the research suggests these schemes are likely to have both large and positive transition and screening effects, they also need to be extremely well targeted on entrepreneurial beneficiaries, and as such are not an initiative that can be successfully increased in scale or size. Given the highly-niche nature of these ALMPs, they have limited applicability in normal times and potentially even a more high-risk option in economic downturns.

5.3. ALMPs aimed at improving labour market matching

As outlined in the meta-analysis above, labour market matching initiatives are often the most effective short-term ALMP measure. They are also relatively-cheap compared to many other demand or supply side ALMPs, making them an attractive policy option. Indeed, the current Government announced a large increase in matching services as the impact of COVID-19 on the economy became more evident.⁷⁴ These ALMPs typically fall into three categories: matching services, counselling and mentoring services, and job-search assistance and as the findings are robust and similar across the initiatives they will be treated as a single package below.

5.3.1. *Matching services, counselling and mentoring, and job search assistance*

All three initiatives aim to increase job search and matching efficiency. They are each seen to have high deadweight and cream-skimming effects but, overall, good short-term outcomes.⁷⁵ These programmes tend to have higher returns for disadvantaged workers or people on the margin of the labour market with there also being a stronger link to outcomes for both females and the long-term unemployed.⁷⁶

In New Zealand a range of matching, counselling, and mentoring assistance is available through community providers for youth NEETs.⁷⁷ As already mentioned, in early May, the current Government introduced a “Keep New Zealand working” website designed to match workers with work opportunities and expanded 35 new employment centres across the country.⁷⁸

Unfortunately, as outlined in the introduction, the current crisis is disproportionately affecting those in their 30s at the front end of their working life. Softening the blow for this group, may well require additional and tailored solutions. There are also additional gains to be made if matching, mentoring, and job search assistance can be focused on ensuring that both women and the long-term unemployed can participate in ALMPs.

Box 2. Our history of using short-term migration to overcome labour and skills shortages has undermined resilience and skewed the costs and benefits of ALMP options

In the midst of widespread redundancies and ever-increasing numbers of people on a benefit, a wide range of non-urban employers are arguing that they cannot find the skilled and unskilled workers they require to meet peak seasonal needs.⁷⁹ This mismatch ranges from highly-skilled and experienced machine operators or farm managers to vine trimmers, and fruit and vegetable pickers and packers the country over. Unfortunately, earlier choices to ease labour and skills shortages via immigration allowed the agricultural and seasonal industries to become path-dependent and over-reliant on temporary work visas. Nearly 1 in every 5 jobs in the Agriculture, Forestry, Fishing, Administrative and Support Services, and Accommodation and Food Services sectors have been undertaken by temporary migrants (compared to one in every 15 jobs over the whole economy).⁸⁰ Indeed, by 2018, two years before COVID-19, New Zealand had a stock of around 170,000 temporary workers in New Zealand on any one day. This is roughly equivalent to 6 percent of New Zealand's seasonally adjusted total employment and larger than the population of the urban area of Tauranga, New Zealand's fifth largest city.⁸¹

While New Zealand research into the impact of temporary migration has found that the net impacts of temporary migration are positive for most New Zealanders, there also appeared to be negative impacts on some, namely beneficiaries in non-main urban areas in horticultural regions, and negative effects on new hires of youth from the use of the temporary "Study to Work visas."⁸² Unfortunately, these effects were not visible enough or strong enough to outweigh the short-term gains to businesses. Now that our borders are closed, many seasonal employers are acutely vulnerable to a local skills mismatch and business models will need to adjust.

Under normal conditions, (low and steady growth with open borders) relying on an unlimited supply of highly motivated and work-ready, temporary overseas workers is the lowest-cost option for a seasonal business. The alternative is a costly investment in training, upskilling, and mentoring by firms whilst the government helps those on the margin of the labour market to work in New Zealand. Unfortunately, this type of thinking literally begets the substitution of an unlimited supply of international labour into profit and loss statements and skews employers away from the true costs of hiring and training.

Overall then, the current situation is an opportunity to change paths and start investing in a long-term domestic labour supply that will build resilience back into the system. There will be a cost, and industries, firms, and both local and central government will all need to factor these into their business and community investment decisions. Many of the education and training recommendations within this wider paper, for example, will require additional funding. To support this longer-term investment, it will be important to phase out the repeated use of temporary visas as the default way to meet ongoing skill shortages. Instead there should be a shift toward better long-term work migration solutions for workers who would wish to live here permanently.⁸³ This will mean a significant change in how we welcome people into our communities and in our responsibilities as hosts.

6. POLICY RECOMMENDATIONS

The Government's ALMP policies are likely only the front-end response to a three or four-year economic recovery, and have been largely focused on softening the immediate economic shock rather than re-envisioning what the future could be. As we face the impacts of technological change, the environment and demographic pressure, it is important we continue to fine tune these ALMP options over the next four years and beyond for our immediate recovery and long-term economic health. To this end, we recommend the following five policy options:

The government should:

Recommendation 1: Use targeted, time-limited hiring subsidies for newly created jobs. They should be:

- a. targeted at people most at risk of, or who have already experienced, a spell of unemployment for longer than six months;
- b. conditional on the job continuing post-subsidy period, and on the job meeting all the minimum requirements for pay and conditions; and
- c. linked to training conditionalities (outlined in 2 below).

Recommendation 2: Use training conditionalities as part of the approval process for the \$15 billion shovel-ready and infrastructure projects, to ensure an increase in efforts by the private sector to address skills gaps:

- a. To ensure sufficient scale and training takes place, additional funding for this training should be provisionally set at around 20 percent of each infrastructure project (with an expected total cost of \$3 billion over the life of the \$15 billion spend). This training needs to be built into the contract with explicit training targets agreed to as part of the pre-approval and monitoring process.
- b. To increase the overall impact of this investment, the long-term unemployed, and in particular youth not in education, employment, or training, (NEETS) and women should be targeted and supported to participate in training via government matching and counselling services provided by the Ministry of Social Development.
- c. To prepare for the long-term future of work, training conditionalities should be folded within

the current Reform of Vocational Education (RoVE). This provides an opportunity to evaluate how these conditionalities could give policy and funding options to Workforce Development Councils and Regional Skills Leadership groups.

Recommendation 3: Remove life-time student allowance limits for citizens to lower the living costs of retraining following redundancy now or technological change in the future. This will help prepare New Zealand for a future where later-in-life retraining is increasingly required due the impact of technology on the future of work.

Recommendation 4: Widen access to the "\$3k to work" mobility assistance grant to include unemployed people currently residing in Auckland or Christchurch who wish to take up work in the regions. This will help with the costs of relocating to take up regionally-based job opportunities.

Recommendation 5: Phase out the ongoing use of temporary work visas as a way to meet ongoing labour shortages, thus ensuring New Zealand does not return to the pre-COVID-19 over-reliance on short-term or temporary work visa solutions as the economy and travel restrictions ease over time. To promote local resilience, we should instead:

- a. encourage local employment options and training by the targeted use of hiring subsidies (see recommendation 1 above), training subsidies, and training conditionalities (see recommendation 2 above).

7. CONCLUSION

To soften the significant economic blow associated with fighting COVID-19, the Government, as part of a wide range of counter-cyclical fiscal policy, has announced close to \$30 billion worth of ALMPs over the last quarter. This is an unprecedented policy response.

Our research has found however, that ALMPs are not a perfect policy tool. One always needs to balance the direct outcomes of any ALMP intervention in the labour market against the full range of indirect outcomes. The international meta-analysis findings highlight that they can be costly, and especially in the short run have a small or even negative return. But when they are designed well and focus on the long term, they certainly have their place. They can also assist those on the margins of the labour market or those who are most likely to suffer from long-term unemployment into work. They can help firms find workers and workers find firms. The current climate provides an opportunity for ALMPs to not only soften the blow but also be an effective tool to invest in the long-term resilience of the domestic labour force.

While ALMPs can help in a recession, if the longer-term payoff is to be maximised, the focus, mix and style of delivery of ALMPs needs to change over time to be responsive to changing economic circumstances as well as longer term, environmental, technological and demographic pressures. The key here will be for the Government to invest in our human capital as much as they do the countries physical capital or infrastructure. Different people may well benefit from different ALMPs, but the primary ALMP focus over the long term should be investing in people's human capital (including vocational education and training).

APPENDIX A: CROSS COUNTRY COMPARISON SPENDING ON ALMPS IN 2016

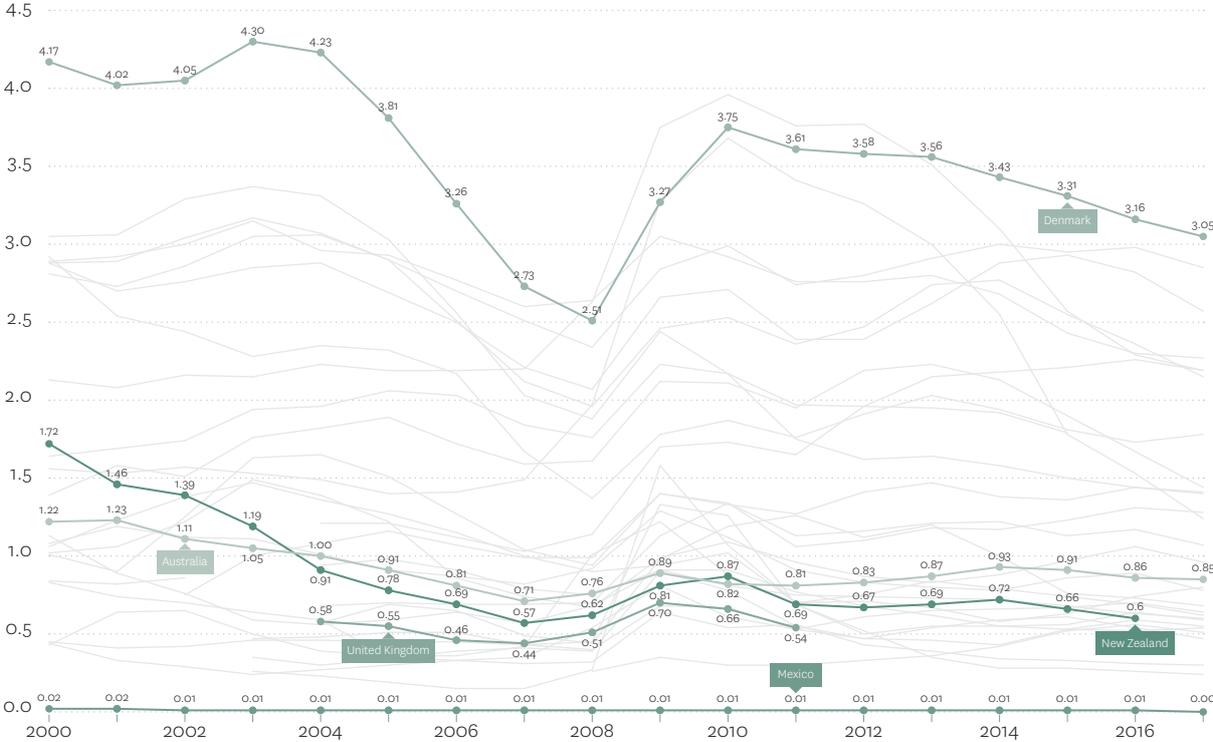
(categories 10-70) in 2016 as % of GDP broken down by major component as a percent of each countries total.

Annual Expenditure 2016	Public Employment Services and administration	Training	Employment incentives	Sheltered and supported employment and rehabilitation	Direct job creation	Start-up incentives	Total ALMP as % of GDP
Mexico	0%	0%	0%	0%	0%	0%	0.01
United States	18%	27%	9%	27%	9%	0%	0.11
Japan	47%	7%	40%	7%	0%	0%	0.15
Israel	19%	38%	31%	13%	0%	0%	0.16
Chile	18%	53%	0%	0%	29%	0%	0.17
Latvia	26%	42%	21%	0%	11%	0%	0.19
Australia	65%	4%	4%	26%	4%	0%	0.23
Slovenia	29%	4%	25%	0%	38%	0%	0.24
Slovak Republic	20%	4%	48%	16%	8%	4%	0.25
Canada	52%	28%	4%	4%	4%	0%	0.25
New Zealand	52%	31%	3%	10%	0%	0%	0.29
Estonia	43%	27%	7%	23%	0%	3%	0.30
Czech Republic	31%	3%	19%	28%	17%	0%	0.36
Korea	11%	8%	14%	5%	57%	5%	0.37
Poland	18%	2%	27%	39%	5%	11%	0.44
Portugal	13%	43%	34%	2%	9%	0%	0.47
Ireland	16%	39%	10%	2%	33%	0%	0.49
Norway	28%	23%	21%	28%	0%	0%	0.53
Spain	25%	20%	11%	14%	16%	16%	0.56
Switzerland	18%	30%	13%	38%	0%	0%	0.61
Germany	58%	31%	3%	5%	2%	2%	0.62
Netherlands	32%	10%	6%	51%	3%	0%	0.71
Belgium	28%	21%	28%	18%	7%	0%	0.72
Austria	22%	59%	7%	3%	8%	0%	0.76
Luxembourg	7%	23%	49%	0%	20%	0%	0.81
Hungary	6%	2%	9%	0%	82%	1%	0.93
France	26%	32%	6%	11%	23%	3%	0.94
Finland	15%	48%	10%	12%	13%	1%	0.98
Sweden	23%	11%	43%	22%	0%	1%	1.17
Denmark	20%	26%	12%	42%	0%	0%	2.03
Average	26%	23%	17%	15%	13%	2%	0.53

Source: OECD - Data extracted on 28 Apr 2020 02:45 UTC (GMT) from <https://stats.oecd.org/Index.aspx?QueryId=49447>

APPENDIX B: OECD (2020), PUBLIC SPENDING ON LABOUR MARKETS

Public spending on labour markets. Total % of GDP, 2000-2017



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8. ENDNOTES

- 1 ALMPs are distinct from passive labour market policies, like unemployment benefits, insofar as they are aimed at directly intervening in the labour market to improve employment and income outcomes for the unemployed and hence by default firms. Kia Piki Ake - Welfare Expert Advisory Group, 'Employment and Labour Market: Active Labour Market Policies in the New Zealand Context - Background Paper', 2019, <http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/29c1cc3696/Employment-and-Labour-market-010419.pdf> See footnote 6 on page 7.
- 2 Treasury BEFU forecast numbers 2020, see Ministry of Social Development: Benefit number forecasts and scenarios May 2020, <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/forecasts-and-scenarios.html>, accessed 28 May 2020. Some of these people will now presumably move onto the COVID-19 income relief payment scheme rather than a jobseeker support benefit.
- 3 Based on the amount of time it has taken for the unemployment rate to return to pre-shock levels in the past, it is likely that even this 4 year timing may be optimistic (as can be seen from the chart 2 on the left).
- 4 Eric Krassoi Peach and Julian Heister, 'Topic Brief: The Composition of Jobseeker Support Work-Ready Grants during the Lockdown in NZ to End April 2020' (Ministry of Social Development, May 2020), <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/index.html>.
- 5 *Radio New Zealand*, 'Govt Announces New Tools to Assist Job Seekers', 28 April 2020, sec. New Zealand / Politics, <https://www.rnz.co.nz/news/national/415306/govt-announces-new-tools-to-assist-job-seekers> see also: Keep New Zealand Working—connecting employers and people who are looking for work <https://www.jobs-during-covid.workandincome.govt.nz/hello>.
- 6 Kia Piki Ake - Welfare Expert Advisory Group, 'Employment and Labour Market: Active Labour Market Policies in the New Zealand Context - Background Paper', 2019, 5, <http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/29c1cc3696/Employment-and-Labour-market-010419.pdf> See also appendix (A) for a Cross country comparison of ALMP's in 2016 as % of GDP broken down by major component as a percent of each countries total.
- 7 Julian Wood, 'A Welcome That Works: Changing Migration to Build Our Regions' (Maxim Institute, 2020), 14.
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- 10 Lars Calmfors, 'Active Labour Market Policy and Unemployment: A Framework for the Analysis of Crucial Design Features', *OECD Economic Studies* 22 (Spring 1994): 41.
- 11 Calmfors, 'Active Labour Market Policy and Unemployment: A Framework for the Analysis of Crucial Design Features'.
- 12 Trine Filges et al., 'Active Labour Market Programme Participation for Unemployment Insurance Recipients: A Systematic Review', *Campbell Systematic Reviews* 11, no. 1 (January 2015): 60. They find that "[t]he overall impact of ALMP participation obtained using hazard ratios was 1.09, which corresponds to a 52 per cent chance that a treated unemployed person will find a job before a non-treated unemployed person. The overall impact of ALMP participation was associated with a risk difference of 0.07, which corresponds to a number needed to treat of 15; i.e. for every 15 unemployed people who participate in ALMP, an additional unemployed person will be holding a job approximately one year after participation.' p.6.
- 13 These matching or employment service ALMPs are often far cheaper than their direct employment creation, subsidised employment or training alternatives and so the returns are easier and faster to realise.
- 14 Alessio JG Brown and Johannes Koettl, 'Active Labor Market Programs - Employment Gain or Fiscal Drain?', *IZA Journal of Labor Economics* 4, no. 1 (December 2015).
- 15 Calmfors, 'Active Labour Market Policy and Unemployment: A Framework for the Analysis of Crucial Design Features', 36.
- 16 Filges et al., 'Active Labour Market Programme Participation for Unemployment Insurance Recipients', 33.
- 17 In terms of a strict definition of what constitutes and ALMP, Immigration policy is seen as out of scope or even the anti-thesis of ALMP. We consider this an unacceptable restriction, given New Zealand's choice to increase the supply of labour and ease worker search by firms over its modern economic history. This in our opinion, has altered the cost/benefit ratios for investing in domestic labour within the New Zealand context drastically.
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- 19 James J. Heckman, Robert J. Lalonde, and Jeffrey A. Smith, 'The Economics and Econometrics of Active Labor Market Programs', in *Handbook of Labor Economics*, vol. 3 (Elsevier, 1999), 1865–2097; Jochen Kluge, 'The Effectiveness of European Active Labor Market Policy', *Labour Economics* 17, no. 6 (December 2010): 904–18.
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- 22 Lechner and Wunsch, 'Are Training Programs More Effective When Unemployment Is High?', 14.
- 23 David Card, Jochen Kluge, and Andrea Weber, 'What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations', 919–20.
- 24 David Card, Jochen Kluge, and Andrea Weber, 'What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations'.
- 25 Filges et al., 'Active Labour Market Programme Participation for Unemployment Insurance Recipients', 14.
- 26 David Card, Jochen Kluge, and Andrea Weber, 'What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations'.
- 27 Eric Krassoi Peach and Julian Heister, 'Topic Brief: The Composition of Jobseeker Support Work-Ready Grants during the Lockdown in NZ to End April 2020', 5.
- 28 Brown and Koettl, 'Active Labor Market Programs - Employment Gain or Fiscal Drain?'
- 29 Melvin Vooren et al., 'The Effectiveness of Active Labor Market Policies: A Met-Analysis', *Journal of Economic Surveys* 33, no. 1 (February 2019): 125–49; David Card, Jochen Kluge, and Andrea Weber, 'Active Labour Market Policy Evaluations: A Meta-Analysis', *The Economic Journal* 120, no. 548 (1 November 2010): F452–77.
- 30 Card, Kluge, and Weber, 'Active Labour Market Policy Evaluations', F475.
- 31 David Card, Jochen Kluge, and Andrea Weber, 'What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations'.
- 32 David Card, Jochen Kluge, and Andrea Weber; Kluge, 'The Effectiveness of European Active Labor Market Policy'.
- 33 Vooren et al., 'The Effectiveness of Active Labor Market Policies: A Met-Analysis'.

34 Bergemann and Van Den Berg, 'Active Labor Market Policy Effects for Women in Europe—A Survey', *Annales d'Économie et de Statistique*, no. 91/92 (2008): 14.

35 Bergemann and Van Den Berg, 14.

36 David Card, Jochen Kluge, and Andrea Weber, 'What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations'.

37 David Card, Jochen Kluge, and Andrea Weber, 'What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations.' One assumption here is that real jobs are available for older workers and young people to enter into, which is not necessarily the case in an economic downturn. If any person is in danger of persisting in long-term unemployment, and thereby losing work-readiness, then the potential returns to ALMPs rise.

38 David Card, Jochen Kluge, and Andrea Weber, 'What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations'.

39 Klingvall, 1998 cited in Lars Calmfors, Anders Forslund, and Maria Hemström, 'Does Active Labour Market Policy Work? Lessons from the Swedish Experiences', *Swedish Economic Policy Review* 85 (2001): 114.

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- 76 Brown and Koettl, 'Active Labor Market Programs - Employment Gain or Fiscal Drain?'
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