The missing link – a labour market strategy

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An active labour market strategy is urgently needed to help manage the profound population changes we face. Such a strategy should embrace all types of work, and forms of contribution to society's welfare.

The state has a role to underpin this: in public ownership; in incentivising added value in enterprises generally; in taxation; health; education and housing, as well as NZ Superannuation and the other income supports that apply across the lifespan.

No single demographic ratio is sufficient for predicting the effect on labour supply of population change. Important influences on the future labour supply, whether it be for paid or unpaid work within the community or family, include population size and composition, geographic location, age and family structure, and education. An understanding of fertility patterns, including the age and geographic distributions of childbearing, mortality, including health and life expectancy, and migration is also relevant. The change in each of these elements and the consequences thereof is critical because their rate of change interacts directly with the flexibility and resilience within the system.

The major shifts now in train are primarily as a result of globalisation, information, communications and technology advances, biotechnology, environmental protection, social changes and the form and nature of government.

Already, we have reached the point where the population aged under 15, is gradually declining. They will become new entrants to the group aged 15-39 years who will dominate the technological revolution sparked by artificial intelligence, solar energy and environmental trade-offs. While this group is set to decline, Māori and Pacific are continuing to increase as a share from 29% in 2026, rising to 32.5% by 2048. This is an important potential resource that we neglect at our peril

[1] PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the PIE Hub. PIE invited commentaries on an issue topical to this year's budget, and to inform election debates. Len Cook, Statistician, was New Zealand's Government Statistician from 1992 to 2000, and the UK's National Statistician from 2000 to 2005. He was a member of the Royal Commission on Social Policy in 1987-88. He was chair of the board of Superu and is a member of the Remuneration Authority. Len is a PIE research associate.

Amongst the policy responses, education and training systems will have to enable this age group to adapt fast to changes in the nature of work, skill needs and organisation forms on a scale we have yet to conceive. Our closest neighbour, Australia, has become a significant magnet for international migrants for a widening range of occupations, for which we have no strategic answer. Investing in the education and training of Māori and Pacific communities clearly remains one unexploited critical contributor to ensuring that New Zealand can maintain the standard of living of the whole population. How will the accelerated ageing of the New Zealand labour force complicate the pace of AI based innovation?

Traditionally, women have been more experienced at managing the complexity of balancing family, community and workforce participation, and this has been natural in traditional Māori and Pacific communities. A future labour market strategy would facilitate the transition to and from different forms of economic contribution.

Despite knowable population and labour force dynamics, there is an obvious disfunction in major health and education labour markets, and the lack of recruits for partly skilled basic jobs such as truck drivers. Uniformed services including police, prison officers and the military experience recruitment and retention issues on a scale not seen for decades. Pay equity issues highlight how large, volatile migration flows have been needed for those parts of the labour market that have poorly adjusted to the growing need for persons in paid and unpaid roles. We have a lot to learn from the recent UK review[2], which noted that:

> *As an ageing population becomes increasingly reliant on the next generation to sustain it, every young person has to have more opportunities to learn or earn*.

Fiscal policy should not be narrowed to one consequence of an ageing population. In the absence of a coherent focus currently, the pathway we appear set on might crudely be described as a low wage economy, with persistent low productivity and limited investment in added value enterprise, alongside hope that AI, mineral extraction, asset sales and tourism will power the future.

To move beyond this pathway, we need to know how why and where that could change through stronger capital investment and technological innovation, including harnessing the potential of AI, and ensuring equity in access to education wherever children live. An active labour market strategy will be constrained by the scale and productivity of capital investment[3]. Where public policy itself brings uncertainty or volatility to public investment, disfunction will develop in the labour supply, with both short term and long-term effects.

An ideal solution to the leadership dilemma we now face would be to create a body to oversee investment in people that would be similar in attributes to the Infrastructure Commission, which itself has been established to remedy longstanding failings in physical investment.

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[2] Independent report: *Young people and work: interim report*. A Milburn June 2026

[3] www.nzier.org.nz/hubfs/Public Publications/Insights/NZIER Insight 127 Changes in economy wide firm investment appetite.pdf