New Zealand Journal of Employment Relations, 49(1): 1-13

Commentary: The coalition government during 2023-2025: Economic policies and labour market changes

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Abstract

There has been a radical change in economic policies under the current New Zealand coalition government in 2023-2025.[1] This has coincided with changes in other policy areas as well as significant changes in employment relations and labour market trends. A critical analysis of economic policies highlights negative economic impacts, emphasising the economic downturn prompted by monetary policy and how a fiscal 'straitjacket' prevents fiscal policy addressing economic, social and labour market impacts. While it is briefly suggested that the coalition government's economic policy thinking has bypassed how to tackle New Zealand's embedded economic policy problems (for example, poor productivity growth, ensconced inequality, and social issues), the commentary's focus is on employment relations and labour market implications. Employment relations have witnessed yet another phase of policy reversals and will result in further labour market pressures. Overall, it has taken the government longer than anticipated to get the economy 'back on track' and it is unclear how and whether the long-term negative labour market and social consequences will be compensated.

Keywords: employment policy, labour market trends, employment relations legislation, employment relations reforms, economic strategies, fiscal policy

Introduction

The National Party promised during the 2023 election campaign to overcome "Labour's economic mismanagement" and get New Zealand "back on track". While there certainly have been criticisms of the economic policy of the 2017-2023 Labour-led governments (see Easton, 2024), the current coalition government has pursued a very different economic policy which brings back memories of the neo-liberal, free-market spirit of previous National-led governments (Rasmussen et al., 2023). Although this policy approach appears less dramatic than the 1980s and 1990s economic changes, it is still an open question how much it will surpass the economic directions of the previous Key-English governments and what the longer-term economic and other impacts will be. This is partly because of the limited economic policies stipulated in the coalition agreements, partly because of

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[1] This commentary includes events and research up to and before the 2025 Budget in May 2025.

Editor's note: this article was amended on 11 November 2025 to change the word "contacting" to "contracting" in Table 1, row 6. This article was amended on 22 December 2025 to update the issue number.

diverse opinions amongst the coalition parties, and partly because of the unfolding nature of the government's economic policies.

Based on recent changes to economic and other policies under the current coalition government, there is a dual focus of this commentary on economic policies and their labour market effects. As such, the commentary draws on contemporary research, publicly available policy announcements and media commentaries. Although the ongoing lack of stability in policy interventions – each change in political power brings cancellation of the previous government's policies – will be highlighted, the commentary will focus on particular policy changes, including presenting an overview of changes in employment relations policies (see Table 1).

Although this commentary's analysis is descriptive and rather long, it is basically based on four inter-related arguments. First, it is argued that the direction of monetary and fiscal policies is not helpful both in terms of long-term economic prosperity and fostering positive labour market developments. Second, the focus on tight monetary and fiscal policies has hindered a considerate debate of embedded structural economic problems. Third, the government's economic policies have coincided with falling employment, rising unemployment and exodus of New Zealand citizens as well as many employment relations policy reversals which will have negative employment implications. Fourth, it advocates a different, more nuanced labour market understanding which promotes policy integration as well as dynamic regional and local labour market changes.

Economic policies: correct strategies and policies?

There is no doubt that the 2020-2022 Covid-19 pandemic created economic turmoil and negative economic outcomes. By the end of 2019 before the pandemic, most economic indicators painted a rather positive picture of the New Zealand economy (OECD, 2019). Economic growth was solid (2.3 per cent), while inflation (1.9 per cent) and unemployment (4.1 per cent) were low, and the government's fiscal position was healthy, with budget surpluses forecast for the coming years.

Interestingly, the economic policy of the 2017-2020 coalition government – the Labour Party and New Zealand First Party, with support of the Green Party – could be viewed as traditional with minor adjustments to monetary and fiscal policies. The main changes to monetary policy were making maximum sustainable employment a policy goal in 2018 and replacing the Reserve Bank Governor with a committee (Monetary Policy Committee) as the decision-making power. Neither change appears to have had a significant impact. The fiscal policy signalled a balance budget approach by meeting the Budget Responsibility Rules, with net core Crown dept stabilising around 20 per cent of gross domestic product (GDP) in 2018 and 2019 (Treasury, 2019). The main policy renewal was a focus on wellbeing, emphasising investments in child poverty, young people, especially those in the Not in Employment, Education and Training (NEET) category, health and vocational training.

The Covid-19 pandemic years and its aftermath changed social and economic pressures and thereby economic strategy. This included a massive fiscal expansion to support businesses and jobs. This fiscal expansion continued past the Covid-19 lockdowns in 2022. This raised concerns about high inflation rates, economic growth and the government's fiscal position. It was, therefore, a rather different economic situation when the general election campaign got seriously under way in the second half of 2023. While there were serious concerns about the direction of economic policies, the labour market indicators were still positive as employment levels were high, and unemployment levels were very low (MBIE, 2023). However, labour market pressures were building with an economic slowdown coinciding with the Reserve Bank's tight monetary policy and immigration recorded unusually high in- and outflows (Spoonley, 2025).

Monetary policy: reducing inflation through high interest rates and economic downturn

There appears to be broad political support around monetary policy, including the independence of the Reserve Bank. Still, the current treasurer, Nicola Willis, was very scathing about the performance of the Reserve Bank as she criticised the Reserve Bank for both allowing inflation to develop during the 2020-2023 period and not doing enough to reduce inflation more quickly (Beckford, 2025). Initially, the coalition government was supportive of the Reserve Bank's keeping official cash rate (OCR) levels high and thereby also the interest rates of banks. The Reserve Bank was clearly under pressure to achieve its one to three per cent inflation target range. This included the coalition government deleting sustainable employment as a policy goal.

It was celebrated by the Prime Minister and Finance Minister when the Reserve Bank announced the first cut in the OCR level in August 2024. The OCR cut was presented as an integral part of the government's economic strategy (RNZ, 2024). Prime Minister Christopher Luxon "credited the government's removal of the Reserve Bank's previous mandate to consider effects on employment, the reintroduction of 90-day trials and the cancellation of the so-called fair pay agreements legislation as contributing to price stability". (RNZ, 2024). These comments were clearly contentious and there was notably no mention of the associated economic downturn, weak labour market or the overseas exodus of New Zealand citizens.

While the current monetary approach towards inflation pressures has broad political support it must be asked – especially after prolonged economic and labour market downturns – whether there is another way of thinking about inflation and monetary policy? Bertram (2024) has suggested that combating inflation must distinguish between international (imported) inflation and inflation in non-tradeable sectors. Inflation in the non-tradeable sector was still above three per cent in 2024; and Bertram (2024) argues that many non-tradeable sectors are dominated by a few firms: "New Zealand's central pricing problem is the degree of monopoly in its non-tradeable sectors and the absence of any credible regulatory check on the monopoly power" (p.20). A similar focus on monopsony and inflationary pricing can be found in recent analyses of Peetz (2024, 2025) and the Council of Trade Unions et al., (2023).

This focus on price fixing in the non-tradeable sectors highlights at least two important points. First, monetary policy and inflation reduction will be faced with much harder challenges and must suppress economic activity further. This is because monetary policy will have limited effect on pricing in non-tradeable sectors as they are less conducive to the traditional raising of interest rates. Second, the influence of dominating firms in certain sectors has become a constant of current policy discourse. Both the National Party and Labour Party have raised concerns about limited competition in sectors, such as banking, supermarkets, electricity, and construction. Such state interventions would be at odds with the government's prevailing neo-liberal ethos and may explain why there have been more words than actions so far.

Fiscal policy: focus on budget deficits and public sector spending

The National Party saw tight fiscal policy, including public sector cuts, as crucial in getting the economy 'back on track'. However, there have been at least three changes in 2023-2024 which has made it more difficult to get the economy 'back on track'. The first change was the announcement of the National Party's economic plan during the election campaign. Pursuing tax cuts in an inflationary situation with considerable fiscal pressures were questioned by international and local commentators before and after the general election (Kiernan, 2024; Tibshraeny, 2023). The second important change saw the fiscal position being further undermined as the revenue side was diluted with the two Coalition Agreements (54^{th} Parliament, 2023ab). In particular, the controversial foreign buyers' tax – a 15 per cent tax on houses worth more than two million bought by foreign buyers – did not proceed (Elwela, 2023).

A third step towards a tighter fiscal position was the 2024 Budget which implemented tax cuts for both income earners and for landlords (Treasury, 2024a). The income tax cuts – costing over 14 billion dollars over a five-year period – were clearly signalled in the election campaign. The landlords' tax cuts, with an 80 per cent tax deductibility of mortgage interests from 1 April 2024 and then rising to 100 per cent in April 2025, were a result of the Coalition Agreements and expected to cost around 2.9 billion dollars over a four-year period. The 2024 Budget also revealed that it would be necessary to borrow more, with a slight delay of one year to reach a small surplus (1.5 billion dollars) on the operating balance before gains and losses (Obegal) and with no sight of getting Crown debt below 40 per cent of GDP as previously promised.

In short, the three steps above created a 'fiscal straitjacket' which left the coalition government little room to manoeuvre which became ever more obvious when the economic downturn continued throughout 2024. This was not expected by Treasury when the 2024 Budget was delivered: "Treasury is forecasting the economy to pick up in 2024" (Treasury, 2024a). Instead, New Zealand experienced the longest and deepest recession amongst OECD countries. According to StatsNZ (2024), GDP fell in the June quarter (1.1 per cent), September quarter (1.0 per cent) and was still lacklustre at the end 2024. If measured by GDP per person, the fall is even greater (based on a 2024 population growth). It is no wonder that the government declared by January 2025 that 'growth, growth, growth' was its new key objective (Small, 2025) as the 2023-2024 economic decline could not be compensated without substantial economic growth in 2025-2026.

Thus, it has taken longer than expected to get the economy 'back on track' and there are some serious question marks over the coalition government's economic strategy. The monetary policy has already been questioned, as have the fiscal policy developments in 2023-2024. While the timing of income tax cuts during a deflationary push is problematic, one has to wonder why giving large tax cuts to landlords was considered necessary when taxation of housing investments has been negatively highlighted in reports (Inland Revenue, 2022; MBIE, 2020). Maybe a focus on economic growth and job creation in the private sector would have been more appropriate?

Increasing further competition in non-tradeable sectors and an emphasis on collaboration in infrastructure areas could open for longer-term, broad policy strategies. So far, there has been more talk than actions. The government's intention to promote more overseas investment as well as drawing on superannuation savings could also stoke the growth agenda. However, overcoming the 'fiscal straitjacket' would also need a broader tax reform, seeking to create a 'level playing field' across various types of income-generating investments and move beyond the current excessive focus on working-based incomes. While the Labour Party is currently debating such tax changes, there are no signs that any form of substantial tax changes will be part of the current coalition government's economic strategy.

Economic strategies: employment relations and labour market changes

While this commentary focuses on economic policy changes and its negative effects on employment relations and labour market under the coalition government, it is also concerning that well-known problems appear to be bypassed. The cost-of-living pressures have been well covered in recent years as well as the numerous social issues such as homelessness and housing costs, poverty, working poor, food parcels and charity dependency, and wage inequality (Barber & Ika, 2025). These issues have been associated with a relative decline in New Zealand's living standards, related to the long-term problem of insufficient productivity growth.

This decline can be traced back to the late 1960s, but it has become embedded since the economic and social changes of the 1980s and 1990s, and appears to have become particularly pronounced since the 2008 Global Financial Crisis (Rasmussen, 2009; de Serres et al., 2014). The 'productivity problem' prompted the Key Government to establish the Productivity Commission in 2012, with the Commission producing a number of reports and analyses over the next decade (e.g. Treasury & NZ Productivity Commission, 2023, 2024). This has allowed for a stronger focus on lacklustre productivity growth and its reasons (see Conway, 2017), with some of the prevailing reasons being: low capital intensity, limited investments in Research and Development (R&D) and innovation, skewed resource allocation across sectors (including housing), and challenges related to geographical location and market size. However, there was little political appetite to address these fundamental productivity barriers, and recent estimates have suggested that New Zealand's productivity growth has averaged only 0.2 per cent a year in the last decade (Cook et al., 2024).

So far, the coalition government abolished the Productivity Commission in 2023, and it has been coy about how its economic policies will improve productivity growth. The move to a high skill economy is in jeopardy with vocational education and training (VET) reforms in limbo (Piercy-Cameron, 2025), investments in R&D, innovation and innovation adoption have not progressed (despite a 2024-25 structural re-organisation of Crown Research Institutes), the high wage economy has moved backwards in recent years as recorded by the real wage index, and the lack of job opportunities and sufficient incomes have enticed the exodus of young and middle-aged New Zealand citizens (Spoonley, 2025). While recent high international prices for agricultural outputs provide significant income growth in some rural areas, it is concerning when a leading productivity researcher suggest that overall "businesses don't appear motivated to make the investments needed to improve productivity in an isolated economy" (Brunskill, 2025).[2]

[2] From an interview with former Productivity Commission's Director of Research and current Chief Economist of the Reserve Bank, Paul Conway (see also: Conway, 2017; RNZ, 2025).

Employment relations legislative changes

While the economic policies have influenced labour market trends negatively, changes in employment relations have influenced the situation of low paid and marginal workers, collective bargaining and individual employment rights. There are also changes in social welfare, immigration, vocational educational and training and public sector employment. As shown in Table 1, changes to core employment relations policies have been wide-ranging, and more changes are being planned. As already mentioned, these changes were presented as being a positive economic influence by Prime Minister Christopher Luxon (RNZ, 2024). One has to wonder what empirical evidence of the 90-day trial changes and abolishing the Fair Pay Agreements legislation have contributed to price stability? In fact, it is rather at odds with the current positive evaluation of collective bargaining from international research (OECD, 2018; Peetz, 2024). Instead, it is probably another indication of the coalition government's ideological approach to employment relations, with a widespread reversal of legislation protecting individual rights and collectivism.

Table 1: Legislative changes implemented and proposed during 2023-2025

December 2023	Repeal of Fair Pay Agreements Act – this repeal means that there was no conclusion of any Fair Pay Agreements.
	Change to Employment Relations Act (ERA) - introduce 90-day Trial Periods for all employees (previously only employers with fewer than 20 employees).
	Statutory Minimum Wage to be increased by $0.45 to $23.15 on 1 April 2024.
January 2024	Worker Protection (Migrant and Other Employees) Act – protecting migrant workers from exploitation.
December 2024	Following consultation on changes to the Holiday Act 2003, the Minister of Workplace Relations and Safety, Brook van Velden, announces that a more wide-ranging reform will be attempted.
	The Minister of Workplace Relations and Safety, Brook van Velden announces an ERA Amendment Bill to be implemented in 2025. Makes distinction between employment versus contracting and implements a High-Income Earner Threshold (more than $180,000) for personal grievance cases.
	The Minister of Workplace Relations and Safety, Brook van Velden, announces that further reductions in legal remedies in case of serious misconduct heard by the Employment Relations Authority and Employment Court will be sought in 2025.
	Statutory Minimum Wage to be increased by $0.35 to $23.50 on 1 April 2025.
March 2025	Changes to the ERA make it easier for employees to demand a copy of their employment agreement.
May 2025	Amendment to the Pay Equity Act lift thresholds and changes comparisons methods. This brings a stop to 33 pay equity claims being considered in May 2025.

As discussed, the economic policies have followed a rather traditional neo-liberal path with a strong focus on low inflation, a smaller state with cuts to public sector expenditure and employment, tax cuts and seeking to boost private investments in mining and infrastructure (Barnett & Bagshaw, 2020). In employment relations, a reduction in collective bargaining and union influence is a key hallmark. This happened in the 1990s – especially the Employment Contracts Act 1991 – and during the Key-English Government in 2008-2017 (Foster et al., 2013; Rasmussen et al., 2023). A reduction in collective bargaining and union influence was also targeted in the early stages of this government where legislation on Fair Pay Agreements was abolished. Fair Pay Agreements were expected to have a crucial impact on low paid sectors with low levels of collective bargaining (MBIE, 2018).

With relatively low collective bargaining levels in the private sector, it is mainly the issue of collective bargaining and union influence in the public sector which could be a future test of the current government's approach. Besides the public sector staff cuts, the 2025 decision to amend the Pay Equity Act will have considerable impact on pay movements amongst female-dominated employee groups. The many pay equity claims under way over several years – including a large claim for nearly 100,000 in teaching – will now be paused and may or may not be resurrected when the details of new pay equity evaluations are implemented.

While most of the implemented and proposed legislative changes were foreshadowed in the Coalition Agreements, this was not the case with the amendments to the Pay Equity Act which was passed quickly under urgency. This sudden and reactive policy change process was "pretty awful", according to Alan McDonald from the Employers and Manufacturers' Association in Auckland (Young, 2025). It also opens for similar reactive approaches if there is a change in political power in 2026.

With the reduction in collective bargaining coverage, the curtailing of individual employment rights has become important in New Zealand (Foster et al., 2013; Rasmussen et al., 2023). This curtailing is documented in Table 1, where changes to Personal Grievance (PG) rights have figured prominently, including an extension of 'the 90-day rule' (new employees can agree to sign their PG right away) to all employers, a Bill on an income threshold of initially $NZD180,000 to bar highly paid employees from pursuing PGs, as well as a promise to 'simplify' PG processes. There are also planned changes to legal remedies as well as very small annual rises to the statutory minimum wage. Even the announced changes to the Holidays Act could be another cut to individual employment rights.

Table 1 indicates that there are many legislative changes in the pipeline. There also appears to be raft of further changes considered by the Minister of Workplace Relations and Safety, Brook van Velden. They would probably include the removal of the so-called '30-day rule' which stipulates that new employees who are not union members should be employed under the collective agreement's terms and conditions (if a collective agreement exists), as well as wide-ranging reforms in health and safety (targeting the Health and Safety at Work Act 2015 and the WorkSafe New Zealand Act 2013).

This broad sweep of legislative changes – implemented and announced - brings back memories of the 1990s where the radical Employment Contracts Act 1991 coincided with changes in health and safety, vocational education and training, accident compensation, and privacy laws. It is a far cry from the downplaying of employment relations change by the Key government in 2008, though subsequent post-2008 changes were much more substantial, partly fostered by re-election promises, adverse events in health and safety, and court decisions on pay equity. Overall, the current government's legislative programme will create a smaller state and, with changes in social welfare, a less benevolent state where people at the lower end of the labour market, at the fringe of the labour market, or outside the labour market will face income pressures and regulatory demands.

Labour market trends and understandings

As mentioned above, when the coalition government was formed in November 2023, the New Zealand labour market indicators were more positive as employment levels were high, and unemployment levels were very low (MBIE, 2023). While government subsidies had kept unemployment low during the Covid-19 pandemic years, this continued in 2023, despite an unprecedented spike in immigration to record levels (peaking at 134,400 in October 2023 – StatsNZ, 2024). During the December 2023 year, there was a high labour force participation rate (71.1 per cent), with the employment rate growing by 70,000 persons and with most of the growth being in full-time jobs (+51,000 persons) rather than in part-time jobs (+19,000 persons). Unemployment was recorded at 4.0 per cent in December 2023.

On that background, there was a considerable shift in labour market trends during 2023-2025. In light of the economic policies pursued, this should not be a surprise. In the December 2023 to December 2024 period, labour statistics show a decline in employment rates, a rise in underutilisation rates, and a rise in unemployment rates (MBIE, 2025). Interestingly, the deterioration in male labour market statistics have been stronger than amongst females, with the male employment rate falling by 27,000 people compared to 5,000 amongst females. The gender difference can partly be explained by industry differences – with construction, hospitality and retail industries leading the job losses – as well as the below discussed changes in part-time employment and migration.

The weakness in labour market demand was recorded in the rise in unemployment by 1.1 per cent to an overall level of 5.1 per cent in the December 2024 year. The reduced demand can also be detected in the shift from full-time to part-time employment. There was a decline in full-time employment by 41,000 but a rise by in part-time employment by 8,000 people. These labour market demand reductions have developed within the dramatic changes to migration patterns (Spoonley, 2025). While inward immigration – especially amongst migrants on temporary visas – started to decline strongly after the peak during the 2023 to mid-2024 period, the outflow of New Zealand citizens gathered pace in 2023-2025. This outflow hit record levels in 2024, with 72,900 New Zealand citizens leaving in the year to November 2024. It was a particular concern that it was not just young people leaving – a common pattern associated with the Overseas Experience (OE) tradition – but many New Zealanders in the 30-46 age bracket went overseas (StatsNZ, 2025). These 'mature' migrants would often take valuable education and work experiences with them.

Although the general employment, unemployment and migration figures are concerning, it is crucial to understand that these figures only tell a part of the story about the reactions to the shifts in economic policy and fortunes. The figures do not allow for understanding the specificity of labour and labour markets, and they bypass an in-depth understanding of individual people's reactions which drive the headline changes.

While research often highlights general trends across the New Zealand labour market, there are really a variety of labour markets (in plural) in New Zealand. This highlights the importance attributed to geography and locality in some employment relations research (Barratt et al., 2024) or is explained in Segmented Labour Market Theory (Rasmussen, 2009). In practice, it can be seen in the different unemployment rates across regions in New Zealand or in the devastating impact on smaller communities when major employers close or downsize their offices or production facilities. In 2023-2024, this happened with paper mills in Ohakune, Tangiwai, Karioi and Kawerau, meat works in Timaru as well as multiple construction, retail and hospitality businesses (Edmunds, 2024). With fewer job opportunities in their local community, people will have to seek jobs within commuting distance or relocate to another New Zealand or overseas labour market. This will further undermine the local labour market, decrease the available talent pool and hollow out local communities. It makes a sustainable recovery from the economic downturn and low productivity growth difficult.

Conclusion

This commentary has argued that monetary and fiscal policies have caused considerable damage to economic growth and labour market outcomes and that it is necessary to focus more on price setting in the non-tradeable sectors. The long-term impact of the economic downturn will take some time to recuperate as businesses have disappeared, private sector investments have been lacklustre and there has been an exodus of skilled new Zealanders. There are forecasts of more economic growth towards the end of the electoral cycle, but the economic and labour market downturns have been long and prompted negative economic and social consequences.

Despite the government's new emphasis on economic growth, it is unclear how this will happen and whether it will address key economic challenges, such as low productivity growth, inequality and social welfare issues, infrastructure investments, and an aging population. Addressing successfully these challenges will determine whether New Zealand can move towards the elusive high wage, high skill, highly productive economy and a prosperous labour market. At the moment, there is a move in the opposite direction of this elusive goal with real wages declining, skill formation in limbo and low, low productivity growth. Also, this commentary has highlighted the uneven effect across regional and local labour markets as well as different types of workers.

It has been argued that changes in core employment relations policies are another example of ideological policy reversals, and they have undermined pay and conditions, individual rights and collective bargaining. This has had a devastating influence on low paid workers, workers in atypical employment and workers on the fringe of the labour market where rising unemployment and drop in job opportunities have added further pressures. Thus, the long-term labour market effects will probably be very devastating as the corrosive effects of unemployment, failed job applications, pressure to move overseas and negative employment relations changes will take some time to be alleviated as will the reduction in living standards and business success.

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