

Unemployment Returns as a National Scandal

Last week's unemployment numbers were not good news.

Contrary to expectations, the overall unemployment rate in the December quarter of 2009 jumped to 7.3% of the labour force. The Maori unemployment rate has doubled since the middle of last year to 15.4%.

Worse, the unemployment rate for all young people aged 15-19 years is 26.5% and for young Maori in this age group it is a shocking 38.7%.

In other words, nearly 2 out of 5 young Maori are without a job.

What is it with this country that there is no public outcry about such statistics? After all, only a generation or two ago we prided ourselves as being a country of full employment.

I think there are several reasons why unemployment doesn't get the attention it deserves.

One is that with an unemployment rate of, say, 5% of the labour force, 95% of people are employed at that time. Politics is about numbers, and the unemployed are a small minority who are poorly represented in political debate.

Another reason is that the pressure from union representatives is almost always for higher wages for their employed members rather than jobs for the unemployed. Indeed, it suits unions if potential workers can be kept out of the labour market by restrictive employment provisions because employers then have to compete for a reduced labour supply and bid up the wages of those who are employed.

We can see these effects clearly by looking at trends in youth minimum wages.

Prior to 1994, no minimum wage applied to those under 20. Then it was increased to 60% of the adult rate. Next, 18-19 year olds were covered by the adult rate while younger people were on 70% or 80% of the adult rate.

Now, thanks to former Green MP Sue Bradford, everyone 15 and over is subject to the same minimum wage.

University of Canterbury economist Eric Crampton recently posted on his blog site, *Offsetting Behaviour*, an analysis of the impact of these changes.

Using a very simple model predicting youth unemployment rates as a function of adult unemployment rates, he found a large rise in the youth unemployment rate relative to the adult rate when the youth minimum wage was raised to the adult level. A conservative estimate based on this analysis suggests that the current youth unemployment rate of 26.5% would be seven percentage points lower if the youth minimum wage had not been abolished.

So Sue Bradford's gift to the nation is to deny a job to some 12,000 young people – a population roughly equivalent to the labour force of Horowhenua or Thames-Coromandel, and 80% of those employed in the Queenstown-Lakes district.

Following a trade union wage push in Australia, former prime minister Paul Keating said that unionists carried the albatross of 100,000 unemployed Australians around their necks. Why isn't Sue Bradford being equally pilloried for the totally predictable consequences of her actions?

All this is in line with elementary economics. As Professor Judith Sloan, a labour economist and member of the 2025 Taskforce, once wrote: "The causes of unemployment are well understood, with labour market inflexibilities and perverse welfare incentives being the main culprits." (A growing economy helps, but is a less important factor.) Sloan noted that labour and welfare policies can be changed: "unemployment is essentially a political choice".

New Zealand's labour market was made freer in the early 1990s, with stunning benefits in the form of fast employment growth, rapidly falling unemployment and higher productivity.

Since then it has atrophied. The Global Competitiveness Report now ranks New Zealand in 103rd place for hiring and firing practices. The Fraser Institute puts us in 96th place for the restrictiveness of minimum wages. Our ranking in a recent Ernst & Young globalisation survey was dragged down by restrictive labour market policies.

The 2025 Taskforce recommended that the youth minimum wage should be reinstated as a matter of urgency and that other steps be taken to free up the labour market.

Even Australia has freer provisions in some respects: for example, a grievance-free period of 12 months for small firms and 6 months for larger ones, compared with just 90 days for small firms in New Zealand. Australia's current unemployment rate is 5.5%. The Fraser Institute has Australia in 36th place for minimum wages and 43rd for hiring and firing.

Last year's Job Summit was largely a failure because labour market reform was off the agenda. In his statement to parliament this week, prime minister John Key gave some indications of moves in this area, as well as in welfare policy.

He can expect implacable opposition from unions, whose ludicrous ideas for closing the gap with Australia include raising statutory minimum wages. But for those of the 168,000 New Zealanders now unemployed who want to improve their circumstances, such reforms cannot come soon enough.

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