

## **Where Are The Jobs For Those On Benefits?**

When the Welfare Working Group's report came out last month advocating more work-focused welfare arrangements, some critics asked, "Where are the jobs for beneficiaries to go to?"

Such responses are not new. In the 1980s, many argued against the removal of import protection and state-owned enterprise reform on the grounds that there were no jobs for displaced workers.

Unemployment rose unnecessarily at that time because of opposition by unions and others to reforming the rigid labour market. When it was eventually freed up in 1991, New Zealand enjoyed the fastest employment growth in the OECD in the next five years and unemployment plummeted.

The WWG report noted that "if there are well-functioning labour market institutions, over the medium term the total number of jobs will expand to equal the number of people who are available and actively seeking work."

This astounded Green Party co-leader Metiria Turei who wrote, "I can't think of any examples, either in New Zealand or overseas, where nations' economies have magically responded to more people wanting jobs by creating one for everyone who wants one."

It is not a matter of magic, but examples are abundant.

As economist Julian Simon noted in 1990, "Hong Kong illustrates what happens when government does not hinder employers and workers from making a wage bargain. Hong Kong's population grew from 700,000 in 1945 to 5.6 million in 1987, faster labour force growth than any other country. Yet Hong Kong has never suffered from the kind of long-run unemployment problem many countries have today."

Earlier experience in Western countries was no different. New Zealand had virtually full employment for the 30 years up to the mid-1980s. At one point

in the 1950s there were only two registered unemployed people (although there were some government work schemes).

In the 1960s, the peak unemployment rate in Germany was 1.7% and between 1970 and 1990 it was below 1% in Switzerland and 3% in Japan.

Nor is it the case that high unemployment takes years to come down in flexible economies. After World War I unemployment reached 11.7% of the labour force in the United States in 1921 but fell to 1.8% by 1926, only five years later.

Ms Turei went on to say she accepted that “having more people competing for the same number of jobs has the effect of constraining wage levels, and that may in turn encourage employers to employ more people in the short term.”

But there is no fixed number of jobs. The world is not short of work to be done. The basic economic problem is one of scarcity: there are too few resources to meet unlimited needs. Houses need building, the sick and elderly need to be cared for, tourists require transport and hospitality.

Moreover, in the dominant service sector of modern economies, many jobs do not require advanced qualifications.

Unemployment and long-term welfare dependency are not like a plague of unknown origin that has hit New Zealand and other countries over the last two generations. Their causes are well understood, with labour market inflexibilities and perverse welfare incentives being the main culprits.

On labour market regulation, the New Zealand Chambers of Commerce told the WWG that “reforms to increase flexibility of the labour market and remove barriers to employment are possibly the single biggest thing the government can do to reduce benefit dependency.”

The WWG urged the government to address labour market barriers to employment, citing issues such as mandatory minimum wages, dismissal provisions and minimum leave entitlements.

In respect of welfare, we need a robust state safety net for people in genuine need without alternative resources, but clearer expectations on people in the welfare system to look for paid work.

A key welfare principle should be that beneficiaries should accept a job if offered one, other than in exceptional circumstances. It should not be regarded as acceptable for a job offer to be turned down on the grounds that it does not pay more than the relevant benefit or is simply not appealing. Taxpayers should be entitled to expect no less – if someone can be self-supporting, they should not be a burden on others.

Promoting employment and reducing welfare dependency have never been more urgent tasks, particularly at a time when New Zealand needs all the resources it can mobilise to assist recovery in Christchurch and get back on a growth path.

University of Auckland academics Keith Rankin and Susan St John have advocated that we should give up on full employment and “make creative use of the welfare system to efficiently allocate leisure to those who can make the most effective use of it.”

This is defeatist. Many thousands of jobs are created each year. Full employment is not an impossible dream. We should reject the arguments of politicians and academics who try to tell us otherwise.

Roger Kerr is the executive director of the New Zealand Business Roundtable. Check out his blog on [www.nzbr.org.nz](http://www.nzbr.org.nz)