

Welfare Dependency Blights Too Many Lives: Working Group's Challenge

Yesterday the Welfare Working Group established by social development minister Paula Bennett to look at welfare dependency met for the first time. It has an important task and the open and consultative approach to its work that it has foreshadowed is commendable.

There are many misunderstandings about work and welfare that need to be addressed.

When a bill enacting welfare changes was introduced last month, Maori Party MP Hone Harawira was reported as saying "It's bloody ridiculous to make beneficiaries look for work when there aren't any jobs".

This is a common view. It is also a fallacy.

The same argument was heard many times over the last 25 years.

Protected manufacturers used to ask "Where will the new jobs come from?" if import licensing was removed. But jobs in protected industries were maintained at the expense of more productive jobs in industries that bore the costs of protection. Output and employment grew in more efficient industries as protection was reduced.

Pessimism about jobs reached a peak in the early 1990s as the cumulative effects of the disinflationary and restructuring policies of the 1980s, excessive wage increases and an international recession pushed the unemployment rate over 11%.

In response, prime minister Jim Bolger set up a task force on employment in 1994 chaired by National Bank chief executive John (later Sir John) Anderson.

At the time, minister of labour Bill Birch was quoted as saying New Zealand could not hope to see an unemployment rate below around 6% again. Although measured on a different basis, the unemployment rate from 1960

to 1967 was below 0.1%. Apparently something had happened to the economy in the meantime to make full employment an impossible dream.

What both ministers didn't realise was that actions already taken, namely reforms to labour market regulation and welfare policies, had set unemployment on a steeply falling path.

By mid-1995 the unemployment rate was down to around 6%. After a short upturn during the Asian economic crises, the decline resumed, reaching a low point of 3.2% in mid-2007.

Regrettably, unemployment climbed again as the economic mismanagement of the previous government followed by the global recession took their toll.

The unemployment rate now stands at 7.3%, well above Australia's 5.3% rate and the even lower rates of OECD countries such as South Korea, Norway and Switzerland.

Worse, the Maori unemployment rate is 15.4% and the rate for young people aged 15-19 years is 26.5%.

There is no reason to tolerate these appalling statistics. The world is not short of work. There is work to be done everywhere – in our factories, on our farms, in our classrooms, hospitals and retirement homes, in looking after our environment.

One of the first things economics students are taught is that society's wants are infinite but resources (of capital and labour) are scarce.

There is no excuse for unemployment. Allowing for the periodic ups and downs of the economy, anyone who wants a job should be able to find one. They may need to change location, gain new skills and take time to search, but there is no natural reason for unemployment.

Rather, as former Australian Secretary to the Treasury Ted Evans once famously said, "Unemployment is a political choice."

In other words, politically created barriers to employment, most notably labour market rigidities and perverse welfare incentives, mainly explain ongoing unemployment.

Most people understand that if the government were to legislate to, say, double all wage rates tomorrow, unemployment would skyrocket as firms collapsed and shed workers.

Yet we have seen the same outcome on a smaller scale with former Green MP Sue Bradford's legislation that replaced minimum youth wage rates with the adult wage. University of Canterbury economist Eric Crampton has estimated that this move has denied a potential job to some 12,000 young people.

The government seems unwilling to repeal this legislation – a clear example of a political choice.

Another major labour market rigidity is restrictions on hiring and firing which make it risky for employers to take on staff. The Global Competitiveness Report ranks New Zealand in 103rd place for hiring and firing practices.

When it comes to welfare, most people understand that if welfare benefits were doubled, or if people didn't have to present a medical certificate to qualify for a sickness benefit, many more people would decide not to work.

It should not be morally acceptable, however, for someone to quit a job or not take one because they would be little worse off on a benefit. Politicians and community leaders should condemn behaviour that results in taxpayers having to bear the cost.

The very successful welfare reforms in the United States under President Clinton fundamentally occurred when a political consensus was reached that work, not welfare, should be the norm for people capable of working.

While there may be little scope for reducing the level of the main welfare benefits, there are many other issues that the Welfare Working Group can look at.

They include more limited temporary assistance for sole parents, income management policies (assistance-in-kind) on Australian lines, and stricter eligibility rules for sickness and invalids benefits. Whanau Ora-type strategies for dysfunctional families also deserve consideration.

Few people disagree that there needs to be a robust safety net for people unable to depend on their own resources or those of their families. But Maori Party co-leader Tariana Turia is right to say we can't keep doing what we've done for the last two generations and expect different results.

We must hope the Welfare Working Group does solid analysis, explores options fearlessly and comes up with strategies to reduce dependency that blights too many lives.

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