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Will the Jobs Summit be about Jobs?

The government is convening a jobs summit in Auckland on 27 February.

Former finance minister Sir Roger Douglas has criticised the concept, saying the summit should be about broader policies for economic recovery and growth.

While the priorities can be debated, there is nothing wrong with a jobs summit provided it is understood that its objectives are about retaining jobs and mitigating the likely rise in unemployment, not wider economic objectives. The two objectives should not be confused.

This is easy to see. Low rates of unemployment can be associated with both high income countries (like Hong Kong today) or low income countries (like Hong Kong a generation ago).

Likewise high rates of unemployment can persist in high income countries (as in France today).

The relationship between economic growth and unemployment is not necessarily a close one either.

'Jobless growth' is possible, and there are countries like Switzerland that have grown relatively slowly for many years but have sustained quite low rates of unemployment.

The key insights here are that long-term economic growth is mainly about growth in the productivity of economic resources (like labour and capital) whereas employment and unemployment are mainly about the flexibility with which labour resources are used.

Given adequate labour market flexibility, low rates of unemployment can be associated with varying rates of growth, including nil growth.

Of course we want both high levels of employment *and* faster growth in incomes (based on rising productivity) but a jobs summit is presumably mainly about the former, not the latter (even though it may be somewhat easier to retain and create jobs in a growing economy).

There is another perspective that the jobs summit must keep in sharp focus.

An imperative at the present time is to shift resources from the domestic (non-traded) sector of the economy to the internationally competing sector to reduce the very large current account deficit.

This is putting at risk New Zealand's access to credit in international financial markets: lenders may become reluctant to fund ongoing deficits, or to do so only at high costs.

The depreciation of the (real) exchange rate is signalling the need for the shift in resources and facilitating it by making exports and import-competing activities more profitable.

But the depreciation will not work if it is nullified by wage increases, and the shift in resources will be impeded if other rigidities in the economy (like government spending on non-traded goods and the Resource Management Act) are not addressed. A key requirement is speed and flexibility in switching resources into internationally competitive activities.

All policy proposals should meet this requirement. Proposals that the NZX and others have made, such as to defer provisional tax and give tax breaks to returning New Zealanders, have little or nothing to do with either the resource-switching imperative or the employment objective.

Labour market flexibility was greatly increased by the passage of the Employment Contracts Act in 1991, with the result that employment grew, unemployment fell sharply and labour productivity also increased.

However, many moves by the last Labour government, such as the Employment Relations Act, legislation on holidays and parental leave,

steep increases in minimum wages, and labour cost increases with the restoration of the ACC monopoly, have made employment more difficult.

In the present tough economic climate, ways of restoring greater labour market flexibility must be a central focus.

Within some firms, managements and staff will have to explore issues such as shorter working hours, pay freezes and redeployment of workers.

Air New Zealand, for example, is reportedly looking to switch senior pilots from large to smaller aircraft with reduced pay to avoid large-scale redundancies.

At a policy level, the government has taken a small step in going beyond the Employment Contracts Act and introducing a 90-day probation period for small employers (to reduce the risks of employing marginal workers and facing costly grievance actions).

But there is no logic to confining this provision to small businesses (firms with over 100 workers account for 47% of all employment), and ideally it should be a matter of voluntary negotiation as to whether employment contracts include dismissal provisions or not.

The government is planning other changes to employment legislation, and more could be considered to make it easier for firms to retain and employ staff.

Besides labour market (in)flexibility, the other main unemployment issue is typically perverse welfare incentives. These should be addressed too, especially as the labour market improves.

The labour market is arguably the most important market in the economy. It accounts for around 60% of the total costs of production.

Unemployment is not a phenomenon of unknown origin and unknown cure: it is, as former Secretary of the Australian Treasury Ted Evans once said, essentially a political choice.

Vested interests will resist moves to free up the labour market, as they did with the Employment Contracts Act, and the government will need to stand up to them if it is to put the public interest first.

The jobs summit must focus on the functioning of the labour market (and the need to increase exports and reduce imports) if it is to be genuinely a jobs summit and contribute to clear thinking about employment issues.

Roger Kerr (rkerr@nzbr.org.nz) is the executive director of the New Zealand Business Roundtable.