

ON THE DRY SIDE WILL UNEMPLOYMENT EVER COME DOWN? John Hyde

Patrick Minford, one of the world's foremost thinkers on the phenomenon of unemployment, brought to Australia by the Centre for Independent Studies, does not believe unemployment need be stuck around 7 or 8 per cent. He argues that talk of unemployment always being with us and therefore being something to which society must adjust by compulsory part time work, early retirement and 'creative leisure planning' is 'rubbish'.

Unemployment can be divided into three categories. The first is frictional unemployment. In Britain a fairly consistent one third of the workforce change jobs each year. Many find a new job before they leave the last, but others search for a better job until the cost of being unemployed and searching outweighs the likelihood of a better job. In the 1950s the average time taken to find a new job was about three weeks and therefore the unemployment rate was 2%.

Major variations in the unemployment rate arise from the second category, 'cyclical' unemployment, caused by recessions. When activity contracts the jobs people want take longer to find. An accountant might still be able to get work washing dishes or accountancy at a dish washer's wage, but he will wait longer because the available work is less attractive. How long he will wait depends on, among other things, the benefit system. Business cycle recessions are in their nature self correcting.

These days when we talk about high unemployment we are unlikely to be referring to cyclical unemployment, but to unemployment that goes on and on through the ebbs and flows of business cycles. (Our government currently describes a circumstance where seven percent of the workforce is out of work as an economic recovery.) Four to five percent of the workforce are the 'induced' unemployed---induced by well meaning intervention in the labour market.

Attempts to help the poor by fixing minimum wages, by giving legal protection to monopoly bargaining and by raising the unemployment benefit injure the very group that the government intends to help. These ill advised policies increase unemployment among the poor. The unskilled workers' chances of getting a job are reduced. When they come to depend on handouts they are robbed of dignity.

Unemployment benefits were designed to protect people during recessions from the need to change work habits too drastically. However, if in normal times people take longer to find jobs, unemployment rises. In the case of Britain, which has a 32% labour turnover, when the average time taken to find a job increased from three to five weeks, unemployment rose from 1.9% to 3.2%.

Patrick Minford tells us that in those states of the United States where unemployment benefits are limited to only a few

months---not more than twelve---the effect is minimal but that in the United Kingdom and Belgium, where benefits go on indefinitely, the effect on unemployment can be dramatic. Australian benefits are like those of the UK and Belgium.

Low paid workers who lose their jobs have little incentive to take even lower paid work and become long term unemployed. They will be induced to work when real benefits fall or real wages, net of tax, rise. Both will probably happen eventually but it could take a long time. Jobs are destroyed in the unionised sector by high minimum awards and, in Australia's case, by low productivity caused by archaic and bloody-minded work practices. Displaced workers would move into the relatively small non-unionised sector forcing down wages in that sector until all were employed, but the 'minimum income' variety of benefit puts a floor under earnings at levels where unemployment remains high.

The portion of the Australian work scene regulated by awards is so large relative to the 'flex-wage' portion that I do not believe that 'induced' unemployment can be eliminated merely by reducing unemployment benefits. The excessive power of trade unions and wage arbitrators must also be reduced. Besides, laws (awards), and labour monopolies (unions), which prevent people from working so leaving them destitute are too unjust to seriously contemplate. Minford does not suggest that this injustice should be accepted.

From 1855 until the First World War British unemployment fluctuated wildly around an average of 5% but in spite of the unprecedented and arguably unrepeated technological advances of those times unemployment did not increase. We need not worry about micro-processors causing unemployment.

During the twenties unemployment averaged about 8.5%. This followed a sharp increase in benefits relative to wages and prices. Benefits seem to have been a major cause of the wage 'rigidity' in the twenties which Keynes made so much of in his General Theory.

Unemployment rose briefly to 15% in 1934 but vigorous recovery took place before the advent of Keynesian public expenditure policies.

Since 1970 Belgium and Britain, which offer displaced workers on-going income support, have much worse unemployment records than France, Germany and the US, which do not. Increased unemployment in Britain and Belgium coincided with substantial increases in union membership (now falling in Britain) and substantial real increases in benefits (still rising in both countries).

Minford says unemployment could be reduced to 4%, much more nearly the frictional rate, by 1990 by cutting the taxes of lower paid workers, cutting benefits to a lower percentage of take home pay and curbing union power. 'The price of cutting unemployment benefits---so lowering the living standards of the poor if they

remain unemployed---is cutting taxes on the low-paid, so that an unemployed man who takes a job will be better off working than he would have been before...a highly defensible position both politically and morally.'

Political leadership is persuading people of these things. Think tanks, such as the Centre for Independent Studies, without votes to lose, are more likely than politicians to do it. When they have won public opinion the politicians will follow. The argument has been partly won already; when the Fraser government reduced the dole paid to school leavers the Labor opposition cried, 'heartless'. Five years later Labor is talking of doing much the same.