

JMH.DO

ON THE DRY SIDE JOHN NURICK John HYDE

At the beginning of the sixties Australian unemployment was 2%; it is now 8.6%. "Too Few Jobs? Why Governments Can't Cure Unemployment" (AIPP: 25 Mount Street, Perth: by John Nurick) contends that unemployment is "iatrogenic": that is, a disease caused by the doctor.

Rising unemployment has gone hand in hand with substantial deficits, exploding money supplies and demand management policies. On the supply side, unemployment has gone with trade union activity, social security payments, employment protection, affirmative action requirements, and the arbitration system.

Anyone who links unemployment to the cost of employing people faces the wrath of the employed, who understand that their own privileges and emoluments are being called into question.

However, their wrath pales beside that of the professional bleeding hearts who live off the phenomenon of unemployment. They would have us believe that Australian workers are so steeped in the work ethic that they work irrespective of foregone leisure and foregone earnings - have us believe that there is no such thing as voluntary unemployment. To say that this is nonsense is not to criticise nor to make little of the hardships of the unemployed

Surely people work for earthly rather than heavenly rewards; and in the trade off between work and leisure ethical considerations are not uppermost in their minds.

John Nurick looks at unemployment through the eyes of a rational work seeker. Interference with the job market not only makes it impossible for employers to offer jobs to everybody but also makes it unprofitable for some people to accept work. It is not simply the difference between the dole and the minimum wage; tax must be taken to account, as must the fringe benefits of both employment and unemployment; jobs usually offer some opportunity to earn more later.

Most people expect to earn enough to compensate for the tedium of stitching shirts or shovelling sand. It is all very well for well paid new-class researchers with interesting jobs to insist that everybody wants to work but it is patronising to suggest this of a tedious job that increases disposable income by sixty dollars over the dole, of which ten or twenty must be spent on fares and expenses. "People on welfare may be poor but they are not fools!"

A married beneficiary with two dependant children has a disposable income of about \$186 per week from the various benefits. Tax on income from other sources means that his first \$10 of "other income" is worth only \$8.80; the next \$10 only \$7.00; each of the next, until "other income" reaches \$70, only \$6.50; and beyond that, until he is fully employed on \$218 per week, nothing. A fellow without dependants pays tax when "other income" reaches a mere \$10 and faces an effective tax rate of 100% when his "disposable income" (benefit plus other income less tax) reaches \$113. These figures exemplify the problems of designing a welfare system, but such is the state of the debate that many new-class welfarists will be more concerned that I chose the male gender to explain it.

R.E. Lucas of Chicago University noted that there is a voluntary element in all unemployment in the sense that however miserable one's current work options, one can always choose to accept them. This would not be true if all jobs were governed by minimum awards, but even in Australia some 10% of jobs are award free. These include commission selling, gardening, domestic work, baby sitting and several others at the margin between employment and self employment. While no one need be unemployed rewards in the award free ten percent of the labour market might be so low that a rational man will not CHOOSE employment.

Every year thousands of Australian kids invade the unofficial job market in London - the pay is lousy but how else to see London. The pay is low because so many Australians, Canadians, Yanks, Swedes, French and others compete in a market which, compared to their numbers, is small. In Australia the rewards in the unregulated market are similarly low because the sector is small (10% of the whole labour market) and there are so many (again about 10%) who have been rejected by the award covered labour market. Rational people might well prefer unemployment to employment in this sector, particularly if it is possible to supplement the unemployment benefit with a bit of undeclared income.

The problem is not that the price of no labour ever falls, but that the portion which can fall in response to market forces (the flexprice sector) is so small, and wages so high in the rest (the fixprice sector), that the flexprice sector is forced down until it is not an alternative to the dole. An unemployed person is no more likely to intentionally work at a loss than is anybody else. Wage regulation and social security between them cause unemployment by making work irrational. Although I know kids who will not accept the dole on ethical grounds the economists' presumption that man is rational is really very robust.

Since demand management has demonstrated its incapacity to prevent unemployment the flexprice portion of the labour market must become more attractive - there must be a greater reward between unemployment and employment. Life on the dole could be made more unpleasant by reducing the benefit; some form of negative income tax might supplement the incomes of those who work for small rewards; reduced government spending would obviate the need to tax low incomes or flexprice earnings might be induced to rise. None of these will be easy.

Flexincomes can rise only if the demand for workers is increased by allowing more incomes to "flex", or the supply of flexincome workers is reduced by letting more people hold jobs in the regulated sector. Both of these options demand deregulation of the fixprice (award) sector.

John Nurick suggests that an Accord Mark II might set aggregate wages consistent with a predetermined level of unemployment, leaving unions to negotiate relative wages. This would shift home unemployment to the unions, where it belongs, rather than to the government, and allow a measure of flexibility into the fixprice sector.

After listing those things which really should be done, under the heading "Politically-acceptable?", he describes such an accord as, at least a superior deck chair on the Titanic. The Arbitration Commission and the unions remain the icebergs and workers are the passengers and crew.
