

THE NAKED ECONOMIST Charles Wheelan Ph D (extracts)
<http://finance.yahoo.com/columnist/article/economist/5319>

I've chosen the "lump of labor" fallacy, which is the mistaken notion that the world has a fixed number of jobs and that therefore the best way to make workers better off is by protecting those jobs. For example, the French government passed a law in 2000 mandating a 35-hour work week for most workers while paying them for 39 hours. The primary intent was not to make life better for the affected workers but rather to create jobs for the unemployed.

Like most bad economic ideas that persist over time, the notion of a "lump of labor" has a certain intuitive appeal. The French policy assumes that the amount of work to be done in a modern economy is fixed, like a pie, and that cutting that work into smaller pieces - fewer hours per week - will provide slices for more people. If you've got six pieces of maple pecan pie to feed 12 people at Thanksgiving, then just cut each slice in half, right?

Not exactly. Requiring 39 hours of pay for 35 hours on the job makes workers more expensive relative to what they produce -- not unlike raising the minimum wage in the U.S. If workers become more expensive, firms will hire fewer of them, not more. French unemployment remains near 10%, roughly twice the rate in the U.S.

The problem is that fighting unemployment by making it harder to fire people is the equivalent of a department store deciding that profits would be higher if customers could no longer return merchandise. That logic ignores the important fact that if you can't return those pink Bermuda shorts from Nordstrom, you will be far more cautious about buying them in the first place.

Instead, the key to creating both jobs and wealth is a concept that economists refer to as productivity. As productivity goes up, as it has steadily in the U.S. for 200 years, we're able to make more and better things as a society. In other words, we get richer.

What are the keys to raising productivity in a modern economy? Innovation, education, specialization, sensible tax and regulatory policies, and so on. The problem with the French policies I described -- and most other labor policies rooted in the lump of labor fallacy -- is that they discourage innovation and productivity. Firms are less likely to take a risk on an employee -- or expansion in general -- if they can't fire their mistakes. Meanwhile, requiring employers to pay 39 hours worth of wages for 35 hours of work makes automation or outsourcing that much more attractive.

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Business Qualifications, Accreditation & Compliance Specialists

News & views from Summit Autumn 2006



STAPLES RODWAY EMPLOYER ADVISORY SERVICES

Summit Systems Ltd is pleased to announce a new operating partnership arrangement with Staples Rodway. Staples Rodway is New Zealand's largest independently owned and operated Chartered Accountancy and Managing Consultancy business, operating out of offices in Hamilton. They currently operate also in Auckland, Tauranga, New Plymouth (satellite office in Stratford), Hawkes Bay and Christchurch with further expansion plans in mind. They have a history of over 75 years in the Auckland region and are best known in Chartered Accountancy circles as the origin of the "Staples Guide", regarded widely as the authoritative source of NZ tax advice.

Staples Rodway Employers Advisory Service Ltd is a sophisticated human resources advisory company very well-placed to complement Summit's own activities in that area. We plan to refer clients seeking advanced HR systems and help desk services to Staples Rodway, while they will refer their clients to us for products and services mainly in quality management, health safety and injury prevention and basic human resource systems.

The arrangement will initially operate in the Waikato, Bay of Plenty and Taranaki regions, with the intention of extending nation-wide in due course.

We look forward very much to the opportunity to offer the mutually supportive services of both companies to an increasingly wide range of clients. Please feel free to contact Summit to discuss the exciting possibilities available.



DIPLOMA IN BUSINESS PLANNING

Summit intends to offer a Diploma in Business Planning. This will not be a national Diploma but it will cover all of the key areas that businesses must come to grips with in NZ and for that matter, overseas.

There are seven principles to cover:

1. State your Mission, Strategies and Values
2. Set the profit-maximisation goals
3. Regularly review marketing and selling
4. Analyse your financial performance properly
5. Check your competence and compliance levels
6. Plan your production and administration
7. Effectively advertise and promote your products and or services

The investment is \$800 plus GST and a correspondence option is available.



HEALTH AND SAFETY LANDMARK CASE (article from - SREAS newsletter)

A landmark OSH case is currently before the court in Auckland that may have a significant impact on any businesses renting, leasing or loaning equipment to other businesses.

George Carson, CEO of Summit Systems Ltd our strategic H & S partner, is representing the client, Eban Norman, in a prosecution brought by OSH in which the Project Manager, a Mr Brae Eagle, was buried alive. George Carson is regarded as a leading expert in Occupational Health and Safety Law within NZ.

In simple terms the case revolves around a drainage contractor by the name of Brae Eagle. Brae was requested by his brother Duane Eagle to make a replacement water main from the street to his house. In the process, Brae Eagle used a pneumatic boring mole tunneling tool that did not have a directional mechanism. It went missing, possibly deep into the earth.

Brae then hired and operated a digger to go looking for the missing tool. Unsuccessful, he hired a larger one but that was also unsuccessful. He then approached Eban Norman, a contractor, for the hire of a much larger digger with an operator. Brae Eagle made it clear that he was in charge of the project. Brae Eagle went down into the hole over 2 metres deep dug by Mr Norman's Operator. The hole was already about 2 metres deep when Eban Norman arrived.

The operator objected without avail. Brae went down a second and third time and then the hole slumped on top of him burying him alive. The fire brigade and ambulance staff did not consider it safe to try to perform a rescue and as a result Brae Eagle died.

As a result of Mr Eagle's death OSH laid charges against Eban Norman for not preventing the death. The implications of Mr Norman losing the case are horrendous in terms of potential expense for the average New Zealander.

If Eban Norman and Summit Systems lose, it will mean that all hire companies and contractors hiring out plant will require much higher hire charges to compensate for their increased risk, and these will flow on to the typical user. Basically it will establish that a sub-contractor can be held liable for the actions of the principal contractor, contrary to long-held principles. We intend to report on the outcome of this case.



ACCIDENTS CAUSING DEATHS

Some years ago we challenged the then Minister asking for an explanation of how we could possibly have less than 40 workplace deaths per annum when we had about 100 dying on farms alone. He then came out and declared that the number of workplace deaths was not 37 it was 173.

Currently, we appear to have the same old policy of denial and that there are less than 100 deaths. It may be true to say that just 100 die at work or on the job. If we look at the ACC yearbook we find that there are about 1100 deaths relating to accidents in NZ. The largest percentage relates to deaths at the workplace or arising from harms at the workplace. It is known that most of the workplace deaths do not happen at work, but in hospital or later on at home. This does not count the estimated 10,000 deaths that are pending arising from asbestos use and other workers to die in coming decades, for example, those who grind jade (or other substances containing silica) without using face masks.

SAFELY UNDERGROUND IN AUCKLAND

Contractors often don't call the utility companies, because if the company aren't able to give an exact location for the line (and sometimes they can't) it can take several hours for a representative to come out and locate it. Time is money, and contractors paid by the job not the hour have every incentive to just keep working.

A cut phone cable won't earn many friends, but it's pretty harmless. The same can't be said for gas, electricity and water strikes, which can be a serious hazard to contractors and others. That's why OSH Manakau got together with Metro Water's contractors to reduce the number of strikes.

Contractors were taken through the hazard task analysis process. 'They have a piece of A4 paper that shows the generic hazards and has room to fill in the new ones,' explains Jim Bell. 'Say if there's a kindergarten in the street, or it's particularly hilly. The generic hazards would include contacting other infrastructure companies to find out where their lines are - it's only a phone call.'



OSH STATISTICS RELATING TO PROSECUTIONS

The following data was obtained from the OSH website. It is common for officials to downplay the risk of prosecutions. We are informed by ACC that it pays out on 1.7 million claims p.a., plus 2.6 million GP visits, 2.3 million physiotherapist visits, and 1 million rehabilitation treatments.

We know from the ACC yearbooks that there about 1100 deaths relating to accidents per annum. We know that there are about 450 traffic related deaths. We also know that there are perhaps 200 relating to drowning, domestic and sporting. The balance we believe are workplace accidents. If this analysis is correct, the true number of workplace deaths is closer to 500 per annum than it is to 100.

We also estimate that for every attempted prosecution, there are about 100 cases investigated with a view to a prosecution. In our next issue, we intend to discuss the reasons why we handle the accident reporting function on behalf of clients.

<u>Year</u>	<u>Prosecutions</u>	<u>Successful</u>	<u>Year</u>	<u>Prosecutions</u>	<u>Successful</u>
92/93	1	0	99/00	304	248
93/94	194	154	00/01	255	195
94/95	392	307	01/02	293	145
95/96	477	341	02/03	166	105
96/97	321	245	03/04	106	85
97/98	246	216	04/05	98	78
98/99	320	278			

NZ CONTRACTORS FEDERATION AUCKLAND – HEALTH AND SAFETY AWARD 2006

We congratulate Mr John McLeay our Auckland Manager on his success at being appointed as the independent person to review and assess all Auckland Contractors who wish to contest for the Health and Safety award for 2006.

