

Combating a skills shortage

Chandra Shah and Gerald Burke look at some causes of, and public policy responses to, skills shortages.

Employers, employees and policy analysts have varying perspectives on skills shortages and this lack of common understanding often obscures analyses of problems, their causes and possible solutions.

Public discussions often have as a sub-text the view that governments should 'do something' about skills shortages especially in regards to training and immigration. However, it is necessary to identify the shortage and its causes before responding to it. This paper provides a discussion of the varying views on skills shortages and some of the causes and public policy responses.

A skill is an ability to perform a productive task at a certain level of competence. Skills are often associated with a formal qualification though an individual can acquire skills in other ways such as informal learning and on-the-job experience. As a job involves doing a number of tasks, to perform in a job a person must possess a bundle of skills. 'Personal attributes' related to motivation, attitude, leadership and initiative are also considered desirable skills by some employers.

The Australian Department of Employment, Education and Workplace Relations (DEEWR) defines skills shortages as occurring when employers are unable to fill, or have considerable difficulty filling, vacancies for an occupation at current levels of remuneration and conditions of employment and reasonable location.

This form of shortage is distinguished from *recruitment difficulties* which may occur where there is an adequate supply of skills for the occupation but some employers are experiencing recruitment problems. This could be because of a lack of specific experience, or because pay and conditions are relatively poor.

Another form of shortage is called *skills gaps* which

occur where existing employees lack the required qualifications, experience and/or specialised skills to meet the firm's skill needs to perform in a job.

Different policy responses may be required for skills shortages, recruitment difficulties and skills gaps so it is important to be clear what the problem is before looking for a solution.

It is difficult to measure skills shortages and in Australia this measurement is rather ad hoc, apart from work by DEEWR. DEEWR's main source of data is a survey of employers who have recently advertised vacancies in selected skilled occupations. DEEWR does not provide any measure of the quantity of skills shortages or recruitment difficulties. The methodology by which the lists of skills shortages are constructed does not allow for reliable estimates of the number. So newspaper reports on the quantitative size of shortages are not based on official data.

Information on the existence of a shortage will not indicate the cause of that shortage. For this we need additional information on trends in relative wages, hours and overtime, production levels, job turnover, training expenditure by firms, hiring standards and migration trends.

CAUSES OF SKILLS SHORTAGES

Skills shortages occur when demand expands faster than supply. In a competitive economy, wages would adjust, reducing quantity demanded and stimulating more supply until the shortage is eliminated.

The available evidence on wages in Australia tends to show mainly small relative adjustments over a consider-

Public institutions' budgetary processes

Authorities' time taken to recognise needs

able time. At the end of the last century there was a clear jump in the relative earnings of computer professionals for a time, but such marked changes are fairly rare.

There are several reasons why such an adjustment may occur only slowly. In sectors, such as health and education, the government influence on the supply of, and demand for, skills is significant and the management of the market is more direct.

The main factors affecting the speed at which supply adjusts are the length of training required and the responses of the training institutions to changes in demand. In some occupations, education and training requirements can take a long time to complete although refresher courses for those who are returning to the same occupation after an extended period of absence from it can accelerate the process.

The time taken for training authorities to recognise a particular need, the internal budgetary processes in public institutions and the current staffing patterns mean that the number of places provided in areas that are in shortage adjust slowly. Making public funds for training contestable between the public and private providers of training has the potential to improve

response times but against this is a risk of poor quality if providers cut corners to win contracts.

Length of training required

Attracting students to trainee positions

The provision of publicly funded places is not the only factor affecting the numbers in training. Students must be attracted to take up the places and, in the case of apprentices secure a contract with an employer.

The number of students seeking to enrol in a particular program can decrease if the program traditionally attracted particular types of students who now have other more attractive employment alternatives. Nursing traditionally attracted females but nowadays wider career opportunities for females make it harder to fill nursing training places.

Net immigration affects supply too. Governments generally have more control over immigration than emigration. The time lag from the moment a particular skill shortage is identified and when the first migrants with those skills arrive can be long.

Temporary migration programs, which are becoming increasingly popular, usually begin as a short-

term solution to labour shortages in particular sectors or geographical areas but can become a permanent feature of the labour supply as the sector becomes dependent on them. Longer-term consequences may include the permanent flight of local labour from that particular occupation.

Immigration may help skills shortages in the receiving (or developed) country but often disrupts the labour market of the donor (or developing) country. When this happens in sectors such as health and education the impact can be detrimental to the developing country.

Assistance to encourage mobility may help alleviate geographical skills imbalances, but an important issue is that qualifications are recognised across the different regions. This has been largely achieved in Australia with the Australian Qualifications Framework and the development of nationally recognised qualifications. Internal migration programs are more likely to succeed if they are backed with comprehensive information systems, not only about the labour market but also about other services, such as schooling, health and housing.

Summing up, understanding the type of shortage and the causes of the shortage can help in developing policy responses. For example, if wages are sticky

then action could be taken to make them more responsive.

If training providers are slow to respond, some action can be taken to reduce reaction time, including increased competition in the training market. If inadequate numbers of people are training in a particular field then additional places in training institutions can be funded by government.

A multi-pronged policy response could be required. For example, increasing government-funded training places will not be effective if there are an inadequate number of people seeking training and if wages are relatively low. Action on several fronts may be necessary.

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