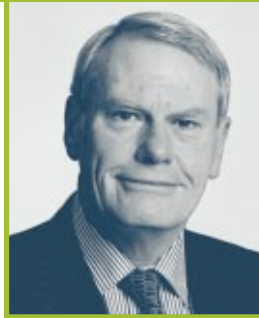


Skill shortages hold back growth

Simon Carlaw

Published in *New Zealand Herald*, 3 September 2002

For higher economic growth – to achieve the Government’s target of reaching the top half of OECD growth rankings – we need more and better skills.



Not since 1975 have businesses had as much trouble finding employees so they can expand. The Labour Department’s latest skill shortages report shows 39% of firms are finding it hard to find skilled labour (up from 33% in the last quarter and 25% the quarter before), with a quarter of all businesses in the upper North Island and over half of those in the South Island affected. If businesses can’t find the labour they need, the economy won’t grow.

Businesses do not want a ‘central planning’ response to skills shortages. No one agency is capable of gathering all relevant information and directing all participants into the required learning paths to meet the needs of a complex economy.

But there are a number of remedies for the short, medium and long term.

In the wider policy environment at least one short-term fix is possible. New Zealand has relative price inflexibility in wages, particularly at the entry level. Removing the exemption from the Minimum Wage Act for those in training will have added to the costs to firms, especially small ones, of developing skills – restoring it would help get more trainees.

Another short-term strategy is immigration. Far from ‘taking jobs from New Zealanders’, an effective immigration policy would enable businesses to grow and create further job opportunities. It may be too much to hope for imminent general agreement on how many and which immigrants should be encouraged, but in the absence of a more widespread scheme, at least one Immigration Service initiative, the ‘talent visa’ scheme, shows promise. It lets accredited companies employ people from overseas without having to go through the points or sponsorship systems; companies that are financially solid and have acceptable human resource practices can hire people from overseas relatively quickly and simply as long as those people fall within the scheme’s definition of ‘talent’ – businesses having trouble attracting skilled employees should consider it.

Businesses do not want a 'central planning' response to skills shortages.

In the medium term, industry training is critical. Our industry training organisations do a good job analysing and catering for specific skill needs and also fit well with the emerging school qualification system, but are hampered by under-funding, receiving \$90 million a year in comparison with the \$1.7 billion channelled into institutional tertiary education. A more rational distribution of funds across the wider tertiary/industry training sector would go a long way towards fixing skills shortages. The new Tertiary Education Commission, with its broad coverage including industry training, may be able to provide such rationalisation; at the very least it should ensure providers are meeting skill needs, and its 'charters and profiles' must include business and industry as stakeholders.

A step backwards occurred last year with the freeze in funding for new PTEs (private training enterprises) and new PTE courses. Letting accredited PTEs get the same government funding per pupil as polytechnics achieved increased training levels among adult, Maori and Pacific Island students throughout the 1990s, but the system's resources were cut because it duplicated too many polytech courses. It does not seem sensible to punish PTEs because of the failings of their competitors – restoring the level playing field between PTEs and polytechnics and closing down those that fail would let effective performers improve the supply of skills to the labour market.

As well as shifting funding within the wider tertiary/industry training sector, benefits may also be gained by shifting some funding from the tertiary to the secondary sector. An OECD report* last month on public spending in NZ noted that the returns from earlier education – such as shifting from no qualification to achieving a school qualification – produced

significantly higher returns than those from the tertiary level.

Within the secondary sector, the most straightforward way of fixing skill shortages

is by an unremitting focus on numeracy and literacy and on other core subjects taught by teachers paid on the basis of performance. This would bring both more ability and accountability for skills uptake in school.

It must also target the 20% of school leavers who currently exit compulsory education without any qualification whatsoever. Even a 50% reduction in this system failure would provide business and industry with thousands more potentially skilled workers each year.

In the long run, we also need to address the basic skill needs of those not even looking for work yet. This means addressing basic literacy, communication, maths and computing skills from primary school onwards.

This article does not necessarily reflect the views of the Education Forum.

Simon Carlaw is the chief executive of Business NZ and a member of the Education Forum.

* *Next steps for public spending in New Zealand: the pursuit of effectiveness*, David Rae OECD Economic Dept Working Paper 337 ECO/WKP (2002) 23; see also Alison Wolf's *Does education matter?* Penguin 2002

Education Forum

P.O. Box 10 539
Manners Street
Wellington, New Zealand
Telephone: +64 21 607 636
Fax: +64 4 471 1304
Email: info@educationforum.org.nz
Web: www.educationforum.org.nz