



# OFFICIAL INTEREST RATES SHOULD NOT BE RAISED

**T**he case for not raising rates is that putting interest rates up slows the economy and adds to unemployment. Strangely enough, the case in favour of raising rates is identical, that it slows the economy and adds to unemployment. The difference is this. Those who seek higher rates believe that lowering activity and increasing unemployment in the short term will allow the process of recovery to last longer and make it more durable. Those who oppose higher rates point to the interest-rate-induced downturn of 1990-1992, the deepest recession since the Great Depression, as merely one example of a general case, that encouraging such brush fires threatens the entire forest.

There are three independent sets of reasons against raising rates. There is, firstly, our experience from history. We have seen just how devastating an increase in rates can be. If it is remembered that the unemployment rate had fallen to 5.8 per cent by 1989, it will be seen how far we remain from where we had already been more than a decade ago.

Secondly, even in terms of the justifications used by those who seek higher interest rates, the case for raising rates is weak. The central criterion is inflation. The Reserve Bank has stated that it intends to keep inflation within the range of 2-3 per cent. It used to state that its intention was to stay within that range "over the course of the cycle" but those words add nothing. The Bank looks only forward, makes forecasts of the likely rate of inflation given current interest rates settings. If it believes that the upper limit of its range will be breached, the Bank raises rates to slow the economy and pull the inflation rate back into line.

This is the criterion. Yet there is little evidence of an accelerating inflation rate. Even with the economy having grown by more than four per cent for most of the past two years, and even with unemployment having fallen to the lowest rate since 1990, there is no evidence of inflation. The inflation rate may breach the RBA's lower limit, but – aside from the effects of introducing the GST – it is very unlikely to breach the upper limit of three per cent.

## I N S I D E

*Surveying the Effects of the 0.25% Interest Rate Adjustment.* On November 3 the RBA raised official cash rates by 0.25 percentage points. The consensus view was that it was a trivial increase and would have virtually no effect on activity or employment. The survey results contained in this article however show even small movements can and do have important effects. PAGE 6

*A Cure for the Common Cold – Ways to Address Skills Shortages.* Despite industry and governments adopting a range of approaches to address skills shortages, the issue never disappears. This is because the problem itself is complex and touches on all aspects of the economy. Solutions will require a comprehensive and coordinated approach allowing for responses at all levels PAGE 8

There is then, finally, the underlying theory. The theory behind variations in interest rates is that manipulation of the unemployment rate can be used to contain inflation. It has become a fundamental aspect of central bank decision making around the world that allowing unemployment to fall too low sets inflationary processes in motion.

Although the unemployment rate is only a crude proxy for the level of economic activity, the basic argument is that if the economy is allowed to expand at too rapid a rate, bottlenecks in production and shortages in labour are certain to develop which will push the cost of labour and the prices of other inputs ever higher. The result will be an acceleration in inflation and ultimately a deeper recession than the slowdown caused by raising rates.

The basic argument is that central bank action is needed to contain inflation. It is a "stitch in time saves nine" argument which contends that although the effects of raising rates are not good, they are better than the consequences of letting the economy run on until massive actions are required to drive inflation from the economy once again.

### A BRIEF HISTORY

There is no doubting that a decade ago Australia was beset by a rate of inflation which was excessive and entrenched. The savage increases in interest rates which occurred at the end of the 1980s and the start of the 1990s played a large part in leaching inflation out of the Australian economy.

A second contractionary dose of monetary policies was applied in

1994 when the Reserve Bank again became concerned with inflation. When the inflation rate actually rose, it remained uncertain whether it was a reflection of RBA forecasting technique or because higher interest rates are themselves a cost whose increase had pushed up the price of the goods and services in which they were embedded.

**"THE ECONOMY TODAY IS VERY DIFFERENT FROM THE INFLATION BOUND ECONOMIES OF THE PAST. THERE ARE SO MANY DIFFERENCES NOW OF CONSEQUENCE THAT THE POTENTIAL FOR RUNAWAY INFLATION APPEARS DEEPLY CIRCUMSCRIBED."**

In understanding the process by which inflation was driven from the economy, it is necessary to understand the concept of the NAIRU, the Non-Accelerating Inflation Rate of Unemployment. It is an acronym difficult to follow. It is the last two letters of the acronym which matter. The NAIRU is a particular rate of unemployment ("RU"); it is the rate of unemployment associated with a constant rate of inflation.

If the unemployment rate is at the particular unemployment rate associated with the NAIRU, then the price level will continue to grow at a constant rate. It is not a zero rate, but a constant rate. Thus, if unemployment is equal to the NAIRU and the inflation rate is five per cent, then the inflation rate would be expected to remain at five per cent continually.

If, however, the unemployment rate fell below the NAIRU, then the expectation would be that the inflation rate would accelerate. If

inflation were running at five per cent, the expectation would be that inflation would then increase, and would continue to accelerate so long as the actual unemployment rate were below the NAIRU.

If on the other hand, the actual unemployment rate rose above the NAIRU, the effect on inflation would be to slow it down.

The argument of the Reserve Bank is that what finally controlled inflation at the start of the 1990s was the slowdown in the economy engineered by higher rates of interest which pushed unemployment up (to over eleven per cent).

But whatever one might wish to argue about the methods used, there was no denying that Australia at the time did indeed have an inflation problem. Whether such methods were needed to reduce inflation remains a live issue in the management of the economy. (Was it really "the recession we had to have"?)

The point made by monetary authorities is that if we want to avoid having to return to eleven per cent unemployment, inflation needs to be stopped before it starts. It is therefore preferable to raise rates now by a relatively small amount than to have to drive them through the roof later on. Or to put it the other way round, it is preferable to keep unemployment at a higher rate than we might otherwise have moved to but it prevents our having to push unemployment much higher later on.

The fundamental point in this is that in pushing rates up the aim will be to stabilise the inflation rate by maintaining the unemployment

rate more or less where it now is. Somewhere within the Reserve Bank decision making process there is an estimate of the NAIRU, the unemployment rate consistent with a stable rate of inflation. Whatever that rate actually is, it is a rate below which the economy will be prevented from moving to.

Thus, if the NAIRU is estimated to be seven per cent, which is more or less the current rate, then the economy will be permitted to grow no faster than at the rate which will keep unemployment at seven per cent. If the community's aim is an unemployment rate significantly lower than the seven per cent rate estimated for the NAIRU, interest rate adjustments will be designed to frustrate continuously such reductions in unemployment.

**OVERHEATING**

The phrase commonly in play a decade ago to describe the need for remedial Reserve Bank action was that the economy was overheating. It was growing too fast for its own good and that by driving the economy faster than it was capable of producing, the inevitable result was uncontrollable inflation.

The question then is whether the Australian economy is, at this time, bursting its banks and being driven forward at such rapid rates that inflation is now inevitable if efforts are not immediately made to restrain our rate of growth.

The accompanying table shows the trend quarterly movements in GDP since the December quarter 1994. It is clear from the latest trend figures that the economy is slowing. Growth is still robust; there is nothing wrong with an annual increase of 3.9 per cent. It is just that it has come back a very

long way from the figure as at March 1998, for example, when the growth rate had been 5.0 per cent.

Higher interest rates are designed to slow activity. The latest figures are for September 1999, which were recorded for the period prior to the official increase in RBA cash rates which took place on November 3. So that even before the Bank commenced its action to slow the economy, the economy was already slowing.

There is a second point which is also worth pondering. The last round of increases in interest rates took place in the latter half of 1994. Yet if one looks only at the trend quarterly increases, it will be seen that the first evidence that the economy had actually begun to slow did not show up in the data until December 1995, more than a year after the first of the RBA's adjustments.

The lags in monetary policy are notoriously variable. The monetary brakes are pulled today and the economy slows down who knows when. There is no doubt that even the first of the increases has an effect on activity. It is just that the accumulated effects are delayed, often by more than a year, at a time when the actual circumstances of these effects are unknown.

So the effect of increases in interest rates now will not be felt in the Australian

economy, if the 1994 experience can be used as a guide, until the start to middle of 2001.

But what a contrast of then with now. Then the economy was in an upturn. GDP growth was accelerating. That is now no longer the case. The economy appears to be slowing so that any actions taken will accentuate a trend occurring already.

**IT'S A DIFFERENT WORLD NOW**

The rate of unemployment is, of course, not the only issue in whether an economy is in the process of creating an uncontrolled inflationary environment. Indeed, even in terms of the narrow conception of the NAIRU, it is not permanently at any one particular level but fluctuates across time. If

**GROSS DOMESTIC PRODUCT**  
Chain volume measures 1997-98

		GDP (\$m)	Percentage Change	
			Quarterly	Annual
1994	December	123856	0.6	4.8
1995	March	124933	0.9	4.0
	June	126313	1.1	3.6
	September	128072	1.4	4.1
	December	129614	1.2	4.6
1996	March	130881	1.0	4.8
	June	132097	0.9	4.6
	September	133143	0.8	4.0
	December	134172	0.8	3.5
1997	March	135539	1.0	3.6
	June	137124	1.2	3.8
	September	138984	1.4	4.4
	December	140757	1.3	4.9
1998	March	142327	1.1	5.0
	June	143789	1.0	4.9
	September	145382	1.1	4.6
	December	147010	1.1	4.4
1999	March	148521	1.0	4.4
	June	149863	0.9	4.2
	September	151086	0.8	3.9

Source ABS - National Income, Expenditure and Product 5206.0

the NAIRU has fallen to say five per cent, there is no reason even under the assumptions used by the RBA that the economy should not be encouraged to grow and unemployment brought down to that rate.

The odd part is that there is no simple way in which the NAIRU can be estimated. They are the product of large-scale computer modelling and are thus subject to all of the uncertainties which come from any such model-based forecasts.

But even leaving the NAIRU aside, the economy today is very different from the inflation bound economies of the past. There are so many differences now of consequence that the potential for runaway inflation appears deeply circumscribed.

- *The budget is in surplus.* There is no excess liquidity to for the bank to soak up. The traditional one-line definition of inflation, too much money chasing too few goods, is no longer the operative situation. The money creation process is no longer creating purchasing power without simultaneously creating the goods and services to be bought. One of the most important drivers of inflation is thus currently benign.
- *Public spending has been cut.* Not only has the deficit been converted into a surplus, but the flow of unproductive public expenditures has been wound back. There is thus a lower proportion of incomes being earned

without the simultaneous production of goods and services whose sale price covers their costs of production.

- *Wages growth is subdued.* During the periods in which inflation was at its worst, excess wages growth beyond the growth in productivity was clearly the largest

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reason why. Union militancy in pursuit of excessive claims drove inflation. The disappearance of such wage outcomes has been the single most important reason for the disappearance of inflation. There are many reasons for this change in wage outcomes but one of these is undoubtedly the fact that even with the much lower growth in wage outcomes, real wages are continuing to rise because inflation is now much lower. Keeping wage outcomes in line with the growth in productivity remains the central challenge in inflation control.

- *Investment rather than growing at unsustainably high rates is actually slowing.* While it is

questionable whether interest rates ought to ever be raised to slow investment, rapid investment growth is not currently taking place. To the extent that high levels of investment add to the inflationary demands for labour and other inputs, this is not now a problem in Australia. Moreover, the greatest impact of interest rate adjustment tends to fall on investment decision making. With investment slowing, raising rates would only make worse a situation which ought already to be of concern.

- *Lending by financial institutions remains temperate.* There are no indications that the financial system is lending in an imprudent way. To the extent that there was a problem that needed rectification in the late 1980s, it was the manner in which lending had allowed the creation of debt without proper security against assets or likely future earnings flows. There was a bubble which would anyway have burst at the time. Today, there is no evidence of an impending outbreak of intemperate lending.

• *The value of the dollar remains stable.* Import prices will rise on the back of a falling dollar and allow domestic import-competing goods to rise in price as well. The rising cost of imported inputs also puts added pressure on the price level. And while devaluation is always a minor contributor to the overall level of inflation, the fact is that at the moment the dollar is stable and there are no

pressures on the price level from that source.

- *Overseas inflation rates are subdued.* There is little likelihood Australia will import inflationary pressures. Whatever had been pumping excess purchasing power into the international environment has apparently gone, at least for the time being. But whatever else interest rate adjustments here in Australia may do, it will have no impact on overseas inflation rates.

Fixating on inflation may well be fighting the last war. It is towards establishing stronger growth and lower rates of unemployment that we should be concentrating on now. Actions to deliberately slow this economy would be contrary to Australia's current needs.

**A NOTE ON THE GST**

There is one additional matter. There is the distinct possibility that interest rates might be raised either prior to or subsequent to the introduction of the GST as a means of slowing the growth in wage rates or as the RBA states, to prevent "opportunistic" price rises from taking place. The introduction of the GST will inevitably lead to a large increase in the price level during the September quarter 2000. The question is whether other increases will take place under cover of the changes to the tax system or will induce unions to seek excessive increases outside the limits imposed by productivity growth.

Given the uncertainties created by the introduction of tax reform, the prospect that wage claims will trigger rate increases is deeply disturbing to business. The statement made by the Governor of

**"THE RESERVE BANK SHOULD NOT RAISE OFFICIAL RATES OF INTEREST. IF INDIVIDUAL FINANCIAL INSTITUTIONS WANT TO RAISE THEIR RATES IN A COMPETITIVE MARKET THAT SHOULD REMAIN UP TO THEM. BUT AS FAR AS AUSTRALIA'S CENTRAL BANK IS CONCERNED, OFFICIAL RATES SHOULD NOT BE INCREASED."**

the Reserve Bank, Mr Ian Macfarlane, that interest rates could rise during the period in which the GST is being bedded down, is a serious cause for concern. The following statement was made by the RBA Governor to the House of Representatives Standing Committee on Economics Finance and Public Administration.

"Monetary policy is based on a view that inflation will be within the target immediately before the GST is introduced and that it will be back within the target a year later. This view, in turn, is based on the assumption that there will be no second round effects due to higher wage outcomes or opportunistic price behaviour. If we started to observe behaviour that indicates that this assumption was not correct, then monetary policy would act upon it."

There is no doubt that wage claims will follow the introduction of the GST but other means must be found to ensure that such increases do not occur. Special emphasis will need to be placed on the role that personal tax reductions will

play in maintaining the purchasing power of the wage after all tax changes have been introduced.

**DO NOT RAISE RATES**

Australia is in the midst of a very promising recovery which should be allowed to continue without deliberate attempts being made to slow it down. Inflation has been a serious problem across the world and we are far better placed with our having finally rid ourselves of its effects.

But the prospect that interest rates are about to be raised with the deliberate aim of slowing the economy is a matter of the greatest concern. Higher interest rates will lower profitability, slow activity and increase unemployment. It will help maintain an exchange rate too high given our balance of payments problems. It will delay the recovery process, and if great care is not taken, may well stop recovery in its tracks.

The circumstances of the Australian economy are vastly different from how they were a decade ago. Low inflation, low wage outcomes, a budget surplus, a lower proportion of public spending in total outlays and little inflation across the world. The Australian economy is, moreover, slowing and investment growth is low. Unemployment remains high.

The situation is clear. The Reserve Bank should not raise official rates of interest. If individual financial institutions want to raise their rates in a competitive market that should remain up to them. But as far as Australia's central bank is concerned, official rates should not be increased.

# SURVEYING THE EFFECTS OF INTEREST RATE ADJUSTMENT

**The Reserve Bank on November 3 raised its official cash rate from 4.75% to 5.00%, an increase of 0.25 percentage points. The consensus was that it was a trivial increase which would have no effect on the level of activity or employment. Of course, if the increase would be expected to have no effect, the question remains why do it at all. The following survey results show that even small movements can and do have an important effect. The survey covered 254 respondents in all non-farm industries across all states and in firms of every size. The survey has been weighted according to industry distribution and firm size.**

In order to gauge the effect on business activity of even what appeared to be a genuinely small increase, ACCI attached a number of questions to its quarterly *Survey of Investor Confidence* dealing with the response to the Reserve Bank cash rate increase of November 3. The results are presented below.

## AWARENESS OF INCREASE

The first question dealt with whether business had been aware that the Reserve Bank had increased rates. This is an important issue because a very large part of the underlying intentions are that business is aware of a changed view by the central bank. From the data below, it appears that almost the entire business community had been made aware. As the data show, fully 98.3% of the sample were aware that interest rates had been raised.

<i>Aware of Increase</i>	<i>Percent</i>
Yes	98.3
No	1.7

## EFFECT ON BUSINESS

The second set of questions were the most important in the survey. The question asked, "thinking about this increase in rates, what effects has it had on your business?". There were three aspects of potential effects:

current production, future production and future employment.

Firstly had any businesses immediately reduced their level of production? As the table below shows, 3.9% of businesses had taken immediate steps to reduce their production levels. This should not be interpreted to mean that there was a 3.9% fall in production. The point was that 3.9% of firms had taken steps to lower production levels relative to their previous level. How far production overall was lowered remains unknown.

There has thus been the start of a process. Output levels are now lower than they would otherwise have been had interest rates not been raised. The 0.25 percentage point increase has not been without an effect.

<i>Current Production Reduced</i>	<i>Percent</i>
Yes	3.9
No	96.1

The second part of the question asked whether future levels of production would be scaled back as a result of this increase in rates. As the data in the table below show, 6.1% of the

responding firms stated that they would scale their future level of production back from the levels they had previously intended to undertake. Again the level of production loss is unknown, only that some loss has occurred.

Also it cannot be determined whether the reduction is due to the 0.25 percentage point increase or instead due to a view having been formed about the likely future direction and extent of interest rate adjustments. All that the survey shows is that because of that one increase, production levels will be lower than they would otherwise have been.

<i>Future Production Reduced</i>	<i>Percent</i>
Yes	6.1
No	93.9

The third part of the question asked about the effect of the 0.25 percentage point increase on future levels of employment. The survey showed that fully 8.2% of firms made decisions to lower their employee numbers as a result of this one increase in rates. This is not a statement that employment levels would fall by 8.2%. Only that 8.2% of firms had decided to scale back employee numbers. But what is shown is that the increase in

rates will already have had an impact on employment levels in Australia.

<i>Future Employment Reduced</i>	<i>Percent</i>
Yes	8.2
No	91.8

**INTEREST RATE EXPECTATIONS**

The next question asked about what business expected the Reserve Bank to now do. The question asked, "what is your current expectation for further rate increases during the next twelve months?".

It is clear that the vast majority of business people are expecting an increase in official rates and most expect an increase no higher than half a per cent. This, of course, cannot be interpreted to mean that they would welcome any such increase, but merely that the media coverage of rate movements has led to an expectation that the Bank will take such actions.

<i>Rate Increase Expected</i>	<i>Percent</i>
<i>No Further Increase</i>	4.3
<i>0.25% Increase</i>	27.2
<i>0.5% Increase</i>	36.6
<i>0.75% Increase</i>	9.4
<i>1.0% Increase</i>	14.0
<i>More than 1% but less than 2%</i>	5.1
<i>2.0% Increase</i>	0.4
<i>More than 2% Increase</i>	3.0

**EFFECT OF A RATE INCREASE**

The next set of questions asked about the effect on the expected increase in official rates on investment and employment.

In looking at the answers to this question, it is absolutely crucial to bear in mind that the majority of respondents would not factor in the second round effects of an increase

on the demand for their products from their own customers. They would almost invariably tend to look at their own firms and their current production levels and estimate the effect that higher rates would have based on their present sales volumes. The answers to these questions are therefore only the lower limits of the likely impact.

The first question asked, "what effect will the expected rise in interest rates have on your investment levels?". As the data show, almost half of all businesses would respond to an increase in official rates with a cut in investment. This is, as in previous questions, not to say that investment would fall by almost half. Only that half of firms would cut their investment levels.

The impact on the economy would nevertheless be clear. Capital formation would be held below levels which would otherwise have been achieved. In an economy in which investment growth is already low and slowing, the impact of higher rates of interest would be highly unfavourable.

	<i>Percent</i>
<i>Large Reduction in Investment</i>	6.8
<i>Small Reduction in Investment</i>	42.3
<i>No Effect on Investment</i>	50.9

The second part of this question asked about the consequences for employment if official interest rates rose to the level presently expected. The question asked, "what effect will the expected rise in interest rates have on your employment levels?".

	<i>Percent</i>
<i>Large Reduction in Employment</i>	2.6
<i>Small Reduction in Employment</i>	26.1
<i>No Effect on Employment</i>	71.4

Here again it is clear that the effect would be large. More than one quarter of firms would reduce their intended number of employees if rates rose by the expected amount. In an economy with seven per cent unemployment, this would present a serious setback to our efforts to get unemployment down.

**LEVEL OF CONCERN**

The final question asked about the level of concern should official interest rates continue to increase. The question was, "how concerned are you that the Reserve Bank may continue to increase official interest rates?".

Again it must be emphasised that almost all business respondents would look at interest rate adjustment within the context of a continuous level of demand for their products and services and would not build in the effect that higher interest rates would have on their sales. Only the effect on costs of production would be considered.

	<i>Percent</i>
<i>Extremely Concerned</i>	5.6
<i>Very Concerned</i>	16.2
<i>Somewhat Concerned</i>	24.8
<i>Slightly Concerned</i>	45.7
<i>Not at all concerned</i>	7.7

That said, it is crucial to note that over twenty per cent of respondents would find that increases in official rates would be

of very large concern while a further one quarter would be moderately concerned. We thus find a sizeable proportion of the business community would experience problems if interest rates were to be increased. There will be a differential impact on different firms and industries, but there is no doubting that a large proportion of firms would experience major problems in contending with higher rates.

Notwithstanding the number of businesses which are relatively unconcerned, almost fifty per cent are, with major potential consequences for the economy.

#### CONCLUDING COMMENT

Fluctuations in the cost of finance are, of course, one of the problems that business face. No one can or should attempt to relieve business

from having to deal with interest rate movements when they are the product of market forces. It is quite another matter, however, to compel businesses not only to deal with shifts in the market, but also with rate variations brought about by RBA considerations which take place outside the realm of the market.

This survey has shown that even the supposedly trivial 0.25 percentage point movement in official rates has had an effect on activity. The effect has not been large but it was also not insignificant. Moreover, the decision to cut back production and employment which have already been taken will have a slow but definite effect on other firms who are unaware that their own sales will be eventually affected by this adjustment to rates.

Further increases will only serve to make matters worse. With higher rates, more firms would eventually reach the conclusion that the higher costs being imposed mean that output will need to be scaled back. At the same time, the slowing level of activity will eventually overtake a far larger proportion of firms as their sales contract through a fall in demand.

Interest rate adjustments should be an outcome of market forces. Higher rates should occur naturally as our scarce capital resources are allocated amongst competing ends. Higher rates should thus come about because the economy is growing, not because someone decides that they want for whatever reason to slow the economy down.

## A CURE FOR THE COMMON COLD - WAYS TO ADDRESS SKILLS SHORTAGES

**D**espite industry and governments adopting a range of approaches to address skills shortages for many years, the issue is one which does not disappear but, in fact, is growing to be one of the most significant barriers to the continued growth of Australian industry. The reasons for this are that the problem itself is complex and touches on all aspects of the economy and the solutions require a comprehensive and coordinated approach across government and industry which allow for responses at all levels.

Skills shortages exist when employers have difficulty filling, or are unable to fill, vacancies in recognised occupations and specialisations or common occupational groups.

The extent of skills shortages is directly linked to business conditions, sales and profitability. In the January 2000 ACCI *Survey of Investor Confidence*, firms reported that the availability of qualified labour was the second most serious

constraint on investment after business taxes and government charges. This is the highest rating this issue has had since the Survey commenced nine years ago and also corresponds to the highest level of recorded business confidence. The graph on the following page outlines the rise in the importance of the constraint in the survey.

It is interesting to note that this issue was rated as a more

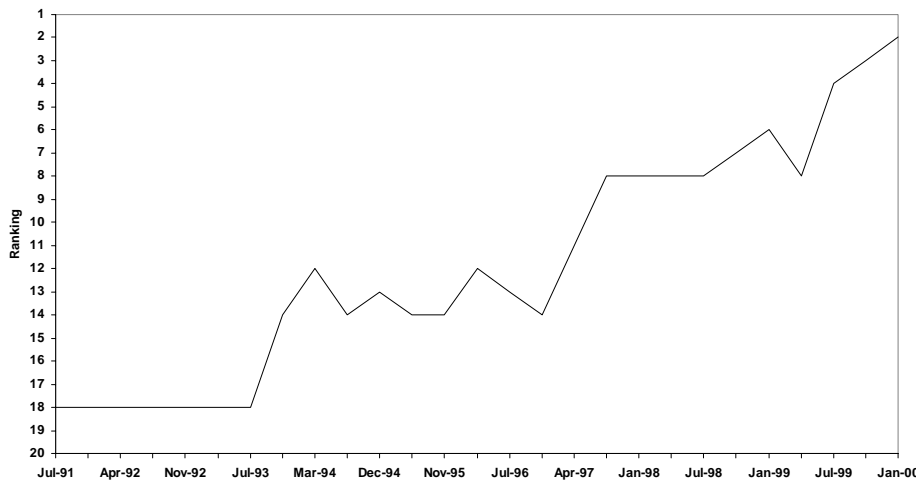
significant constraint to investment than wage and non-wage labour costs, State, Federal and Local Government regulations, insufficient demand and local competition.

The table also reflects data on employment growth, job vacancy series and major occupational demand trends which, in general, peaked in 1988 to 1990 slumped in 1991 to 1993 and then gradually increased to the current high levels.

## ACCI SURVEY OF INVESTOR CONFIDENCE

### Constraints to Investment

#### *Availability of Suitably Qualified Employees*



skilled workers including overseas sourced labour for specific projects under temporary visas.

The need for this approach remains today. The challenge for policy setters is the extent to which each of these levers can be used and when. What is evident is that each strategy has an important part to play.

In relation to the education and training systems and New Apprenticeships there are a number of key issues which need to be examined including:

However, skills shortages are more pronounced in certain industries and occupations. For the last ten years, shortages have tended to be in three broad occupational groups; the professions (including engineers, computing, registered nurses and teaching specialisations), trades (including metal, vehicle, construction, food and furniture) and service occupations (including child care workers).

With attention being paid to the professional areas in recent times, particularly computing, it is time to re-examine the nature of skills shortages in the trades. This is accentuated by different perceptions of employers and agencies of the uptake of apprenticeships and traineeships in the traditional trades areas.

Although there are fluctuations in skills shortages across the decades subject to economic factors, there is a startling consistency in skill shortages identified nationally by occupation. For example, the current priorities in the trades areas are most metal trades, motor mechanics, air conditioning and

refrigeration mechanics, general construction trades, chefs, cooks, furniture upholsterers and hairdressers. This list of trades required has been consistent for decades.

### ISSUES TO CONSIDER

One of the key findings of the ACCI Northern Australia Skills Shortages Report (1997) was that any response to skills shortages needed a three tiered strategy comprising:

- skilling up workers located in the immediate area where skills are in demand, including promoting the entry level opportunities to school students, particularly in Years 11 and 12, and the need for constant skills acquisition by existing workers;
- facilitating internal migration with those with the skills into the areas where those skills are required, or to return to industries or occupations in which they hold previous qualifications or experience; and
- immigration of appropriately

- examining the huge impact wastage has on skills shortages across industries and occupations. This is a critical problem in some industries and can be one of the most important impacts on the supply of labour. This may be the result of the structure of the work rather than any factor which can be altered (for example, the working hours of chefs);
- industrial relations issues particularly incorporating mechanisms to allow part-time apprenticeships and removing inhibitors to have more flexible arrangements;
- the establishment of a financial incentives regime which adequately encourages employers to move through the levels of the Australian Qualifications Framework, takes account of the changing work and recruitment practices, or differentiates between short term traineeship pathways and longer term higher qualifications;
- processes to gain further

industry acceptance and thorough understanding of the substantial benefits available to employers and individuals that can be derived from the reforms to the national training system and knowledge of future intake patterns of their industry and relevant occupations. The importance of engaging sectoral employer organisations in addressing skills shortages and developing innovative approaches is critical. There remains a considerable opportunity for training providers and other interested organisations to promote the huge potential of Training Packages providing much more flexible responses to meet employers needs;

- inconsistent recognition of prior learning practices, particularly by workplace assessors. This will assist in existing employees getting recognition for their skills attained at the workplace and provide a more cost effective way to upgrade those skills;
- a need for engagement of the emerging significant employers of traditional tradespersons to ensure the development of innovative responses by training providers and group employment companies. For example, some innovative cooperative models exist between labour hire companies and group training companies;
- the impact of outdated State/Territory training legislation and the failure of most

jurisdictions to remove declaration of vocations or, at the very least, implement appropriate processes to remove unnecessary administrative hurdles at the State or Territory level. These present hurdles for employers and training providers in developing innovative approaches to enable individuals to secure higher qualification completions (ie apprenticeships or longer term traineeships); clearer articulation of the benefits of investing in training and the cost implications of not undertaking joint investment by individuals, employers and government;

- perception problems by youth, parents, teachers and careers advisors on the opportunities employment offers in the traditional trades occupations. It is now widely acknowledged that the education system plays a vital role in career choice by young people and many employer organisations and larger employers see the benefit in establishing partnerships with schools to promote the employment opportunities available in the trades. Some employer organisations report that many people, including young people, are not aware of the significant changes that have been made to the type of work undertaken in the trades areas and the impact of technology;
- expanding the uptake of VET in Schools initiatives in the trades areas; and
- the difficulty in adequately

forecasting skill needs by occupation, industry or region. There is, however, considerable interest in developing approaches which make these projections more reliable and ensuring this information is made available to jobseekers, schools and parents.

It is not sufficient to say that the total response to skills shortages is through the education and training systems. Immigration will always play a significant part in the provision of tradespersons. In 1999 the ABS reported that around one quarter of all tradespersons in this country were born outside of Australia. The flow of skilled migrants must be linked to demand for labour. There has been some hysterical responses by some unions and commentators to calls for increases in skilled migration. This is despite the fact that business organisations advocate that skilled migration be linked to nationally recognised skills shortages and supplement domestic responses. A balanced policy response to skills shortages requires consolidation of all possible avenues.

**TOWARDS THE SOLUTION**

It is important that any activity in this area is underpinned by coordinated action by industry and government to develop a clearer understanding on the nature of intake patterns and existing and projected future skills and labour shortages at industry, occupation and regional levels. Considerable work has already been undertaken in some industries on this subject. All aspects of this research activity need to be drawn together by industry and government. The final step needs to be the development of an agreed approach to addressing

these issues in each sector and region with concrete initiatives lead by industry. The recent reforms to the national training system have also ensured that there is no significant structural obstacle within the system to prevent skills shortages being addressed.

ACCI and other employer organisations have recently commenced work with the Federal Government on addressing skills shortages. It was agreed to work initially on the engineering/metals, automotive, and electrical contracting and communication industries. Each industry will examine issues relating to skills shortages along the lines outlined above and develop an approach which suits them. This is an important

improvement over previous attempts because each sectoral employer organisation is taking the leading role. Key findings will be presented to a Skills Shortage Summit in March 2000 involving senior industry figures and government. The findings will then be rolled out around the country. If this approach is successful then other industries and occupations will be selected.

Companies can also examine the development of an overall strategy that addresses skills shortages which focuses on:

- skills development for existing and new employees;
- employment of apprentices/trainees;
- current intrastate and interstate recruitment practices used by companies to recruit skilled trades persons;
- utilisation of appropriate

- organisations involved in the recruitment process;
- establishment of a specific labour data base;
- the level of support for an assessment of skills at a potential employees point of origin;
- matching of skills; and
- the extent of overseas recruitment of skilled labour at the professional, technical and trade levels by companies using identified skills.

Whilst everyone will have their own form of cure to skills shortages, what is required are considered strategies which have flexible responses and are linked to economic cycles. Two things are certain – there will always be some form of skills shortage and there is no quick fix. The trick is to keep them from becoming an epidemic which is a major barrier to economic growth.

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