

Rational solution to shortage of skills requires better data

EMPLOYMENT MARKET

Hoosen Rasool

THE ISSUES of persisting skills shortages reappear in the media regularly, with an ever-growing drumbeat of calls for the government to do more to address this problem. Not a day passes without political parties, employers and unions citing skills shortages as a major obstacle to economic growth and job creation.

The term "skills shortage" may appear to be straightforward: the supply of workers is not sufficient to meet demand at current rates of pay. Notions of supply and demand are very pervasive, indeed.

When applied simplistically, as in our case, supply and demand analysis can worsen the skills shortage and expose public skills funding to the inevitable risk of under- or over-investments. This is precisely what is taking place at the moment.

In South Africa there is no common understanding or reliable measure of what constitutes a skills shortage. As a consequence, the nature, scale and severity of skills shortages are often miscalculated, misunderstood, misdiagnosed and misused, resulting in bad policy choices, with concomitant high levels of wastage.

One prevailing misconception is to view the concepts of skills scarcity and skills shortage synonymously. The national skills list refers to scarce skills when in fact it is referring to skills shortages.

Scarcity measures the value of skills in the labour market, while shortage measures excess demand for skills at prevailing prices. This means that a skill may be scarce but there is no shortage of it, as long as the wage price is allowed to float to bring it into equilibrium with the market.

Conversely, a skill may not be scarce but shortages prevail because the wage price is fixed below its market clearing level.

Another major misconception is to lay the blame for skills shortages squarely on poor education and training. Thus, it is argued, the only way to remove shortages is to increase public investment in education and training.

Training is a necessary, but insufficient, response to alleviating skills shortages. An increase in the public provision of training may be appropriate if there is evidence of a decline in the ratios of persons being trained to local employment. These figures are not readily available in South Africa.

There are a range of other possible responses to alleviate skills shortages. These include freeing the wage price, developing a more robust skills immigration regime, reviewing labour market policy and managing industrial policy, to list just a few.

Issues such as foreign direct flows, trade penetration, technological advancements, competition, policy, monetary and fiscal policies also determine which skills sets are demanded in the labour market.

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A more comprehensive framework will not only strengthen the diagnostic capacity to analyse the labour market, it will also streamline the proliferation of education and training policies and new institutions. Ideally, the best solution is to frame a multiple package of sequenced responses that work in tandem across departments.

Skills shortages are exacerbated by poor labour market information systems and outmoded occupational forecasting models. A case in point is the controversy over the release of labour force data for the last quarter of 2008, showing declining unemployment in the face of a slowing economy.

Another example is the scarce skills list for 2008, which quite oddly identifies the following occupations as scarce and goes on to make point estimates of shortages: receptionists (745), secretaries (665), packers and handlers (310), general clerks (5 625).

Occupational forecasting of this nature is prone to large predictive errors because it fails to acknowledge the capacity of the market to adjust to skills shortages. The

market does a decent job of self-regulating occupational employment levels and skills training through an interplay with monetary value attached to a particular skills set. Occupational forecasting also suffers from requirements for timely, detailed and non-perturbed labour market data covering demand and supply of labour, which, in many instances, is not available.

The quality of labour force statistics in South Africa is generally poor, occupational statistics are of even poorer quality. In many situations, these statistics are available only in highly aggregated form. Moreover, forecasting assumes a fixed relationship between labour and the quantity of goods produced and between productivity and education level. Goods and services can be produced with more or less labour, or with labour of different kinds, depending on economic conditions and the relative prices of labour and capital. Except in occupations with rigid educational requirements, people arrive at occupations through diverse career pathways.

From another perspective, occupational titles are becoming increasingly blurred as the nature of work organisation and the demands of business change constantly.

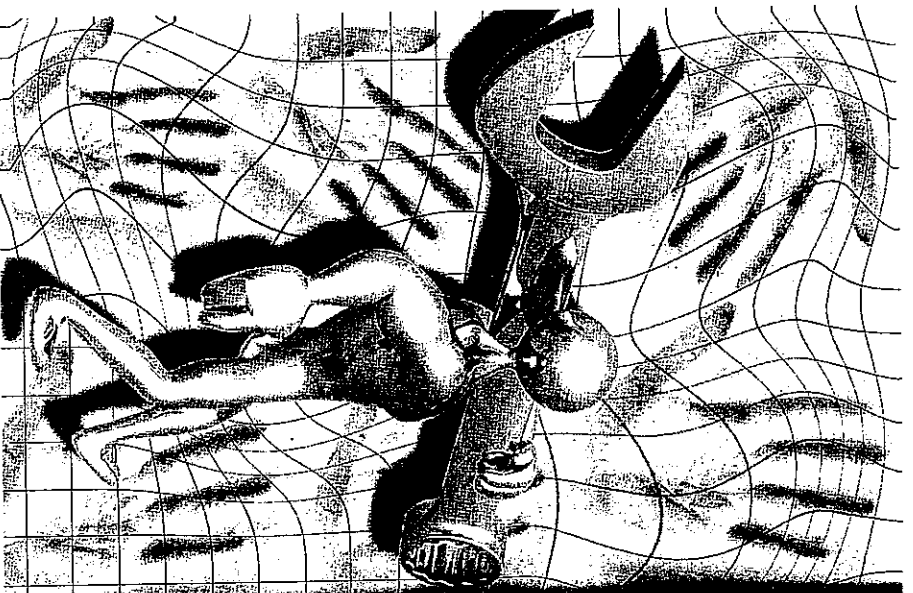
We are unable to match skills supply and demand for non-statutory occupations, which make up the bulk of the labour pool. But even with statutory professions - such as chartered accountants, lawyers, engineers, doctors, nurses and teachers - matching supply and demand is problematic because of imperfect labour market information.

There is no answer to the question of how many engineers the country needs; it needs as many engineers as it can afford. If there are too many engineers, we will know this because wages will trend south. If too few firms will take a range of measures to absorb these circumstances.

A considerable amount of labour market research is undertaken by private and public agencies, but it is uncoordinated and fails to give a holistic picture of the true state of skills shortages.

The US, New Zealand, Australia and Canada provide excellent examples of sound labour market information systems that support national policy making. For example, the US releases unemployment figures monthly, because it is a very strong indicator of the health of the economy. In contrast, we appear to be having problems releasing quarterly employment data.

Weak information systems mean wrong



signals are sent to the labour market. In the absence of reliable and transparent labour market data, policy making tends to fall prey to sectional interests, power groups, ad-hocism and anecdote.

Good policy choices require good statistics at different stages in the policy making process and business cycle. Reliable labour market information is necessary to:

- Provide reliable data for informed decision making
- Protect against duplication of policy priorities
- Signal imperfections in the labour market
- Make the labour market efficient
- Make the training system responsive.

● Improve competitiveness.

An investment in strong labour market information systems and intelligence is likely to generate better economic and social returns through better policy choices. The key to solving the skills crisis is for all the social actors to confront the looming issues of labour market and skills migration policies in a rational way. Until this happens, we will continue to hear the daily mantra of skills shortages.

Hoosen Rasool is the managing director of the Management College of Southern Africa. This is a summary of a presentation he delivered to the Meretsa Conference on February 25.