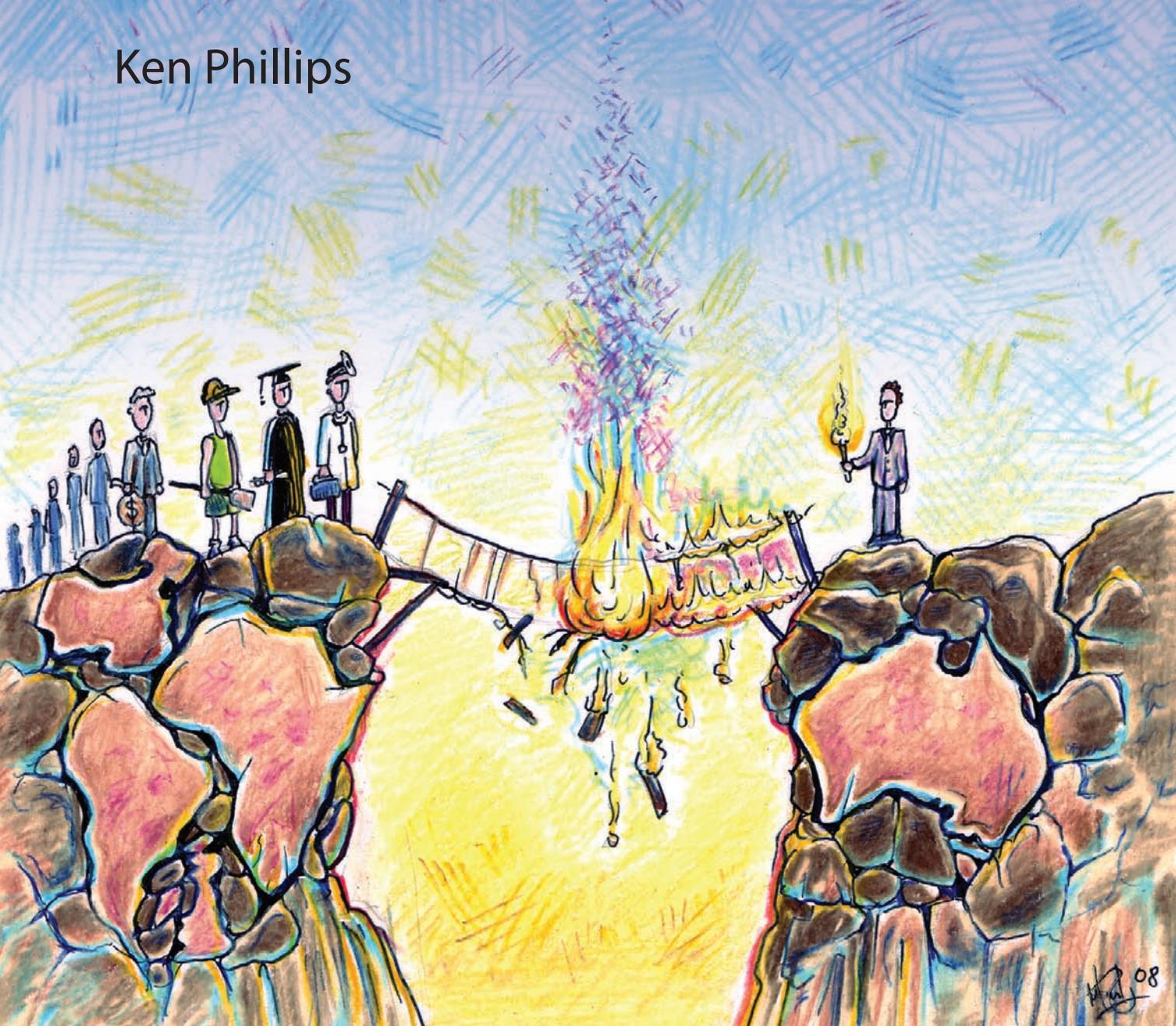


How the government and unions help maintain Australia's skills shortage

Ken Phillips



Australia is in the first phase of a demographically induced labour crunch. Labour shortages are not in the distance but are already upon us and will become worse.

These shortages are magnified because of the sustained economic boom being experienced particularly in the mining sector. But despite the manifest need for more workers, the Australian government has instituted a red tape laden system of temporary work visas which increases costs and restricts the ability to address the labour shortage.

The (global) skills shortage

In 2006 the oldest post war baby boomers turned 60. Consequently the biggest wave of workforce retirements since the Second World War has begun. Australian government figures predict a shortage of 195,000 workers by 2012 due to ageing alone.

At the same time the number of young people entering the labour market is collapsing. In 2006 about 160,000 new entrants came into the labour market. By 2012 that figure will have dropped to 50,000. It continues to decline and drops to a fluctuating low of between 20,000 and zero new job entrants each year for several decades after 2012. Over the next five years, Australia will be short 300,000 new job entrants when compared with existing numbers.

These immediate issues are dwarfed by the longer term trends. In 2002 there were 2.2 million Australians over the age of 65. That will increase to 6.2 million by 2042 representing close to 25 per cent of the population. In 2002 there were five working people to each person over 65. In 2042 there will only be 2.5 working people to each person over 65. We are confronted with a scenario of a boom in aged care needs with no one to care for the aged and comparatively few people working to sustain our economic wealth.

Fortunately, however, on the economic growth side Australia is surging but comments on this must factor in global unpredictability. The USA seems likely to experience a 2008 recession. Would this curtail China's export led growth or would domestic Chinese consumption take off to keep China expanding? These are just some of the unknowns impacting on Australia's economic health, particularly in the mining sector.

However mining expansion and investment is normally conducted on long term plans which factor in me-

dium term market gyrations. And the plans in Australia are big. The mining industry alone predicts it needs 76,000 additional workers to operate 110 new projects and has no labour estimates for 130 projects. This does not take into account mine construction requirements, which are enormous. The fastest growth will be over the next four years.

BHP Billiton's Roxby Downs uranium mine expansion is just one example. Construction is underway and presumably international market uncertainties will not stop the expansion. Global electricity demand is growing massively and large numbers of new nuclear power plants will have to be fed with uranium. Roxby Downs will need close to 1000 maintenance mechanics just to keep its fleet of mining trucks on the job. And the current expansion of the Gorgon gas project in Western Australia is anticipated to cost \$10 billion and need over 9,000 construction workers.

In the non-mining sector current and planned government and private, non-mining infrastructure spending touches \$300 billion. In the past five years the workforce in the housing and construction sector rose to more than one million. Further growth is locked in. Other sectors tell similar stories.

In this environment the challenges for the Rudd government are huge. It's perhaps the best and worst of times to be governing. What would appear to be locked in economic growth and almost predetermined further drops in unemployment could easily be blown away by uncontrolled breakout in wage costs, igniting inflation and causing the Reserve Bank to escalate interest rates.

What cannot be ignored is the need to continue and probably expand the skilled migration program. Most acute labour shortages are in skilled areas. These can be partly addressed through better training and improved alignment of technical and university education to job market demands. But the collapse in the availability of young people for work (300,000 fewer between 2006-12) means training alone will not stop an expanding skills shortage.

The skills problems exist in many areas with an almost endless list of occupations. This includes chefs, bakers, electricians, maintenance mechanics, welders, fitters, train drivers and airline maintenance mechanics. Engineers of every sort are needed including design, construction and chemical. Specialised information technology personnel are in short supply. The health area has long had a problem and this is set to worsen and teacher availability problems have only just begun and are set to explode.

What is rarely understood in Australia is the extent to which the skills shortage is global. The tragedy of poverty in developing countries is that globally jobs are available but the poor don't have the skills for the jobs that could be filled.

Globally the travel and airline industries are ex-

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On any international comparison, recruiting of temporary workers into Australia is very expensive, and consumes much time and red tape.

panding at a rapid rate. Order books for new airlines are huge with the new Boeing Deamliner and Europe's Airbus alone escalating the demand for skilled staff that can keep the planes flying. Canadian and USA airlines are competing with the Singaporean Asian airline maintenance hub, for experienced airline maintenance engineers and aircraft sheet-metal workers. Qantas has a significant emerging problem as does the Australian Airforce.

Even China is starting to feel a skilled labour shortage. China has moved 120 million workers from rural areas to cities and 80 million to smaller towns to feed their expanding manufacturing and construction. But the government is predicting labour shortages by as early as 2009. Partly in response, regulated minimum wages in China were increased in 2006 and more regulated workers rights have been implemented regarding work safety, redundancies and employment contract

fairness. But good managers and skilled workers are in short supply, even with an expansion of tertiary training and universities.

As developing economies expand, the demand for skilled workers will increase and the shortages will become progressively more global. The European Union has recently announced easing of restrictions on foreign skilled workers. Even with higher unemployment than Australia the EU has skilled worker shortages. This will worsen as the EU faces similar demographic issues to Australia.

How unions and governments encourage the skills shortage

For labour supply, Australia is operating in a fast moving international market. But our response has been bureaucratically overburdened.

In 1996-97 Australia's skilled immigration was 30 per cent of total migrant intakes. By 2002-03 that had in-

creased to over 60 per cent. In 2007 the number of permanent skilled migrants working in Australian exceeded 150,000. In 2006 the number of working holiday visas (backpackers) was 112,000 and student visas allowed to work up to 20 hours per work week was 190,000. These categories of working migrants into Australia have attracted little controversy.

Working students and backpackers have probably kept many coffee shop and tourist hotels operating, enabled much of our fruit crops to be picked and been the saviours of several domestic call centers. There have been little if any public campaigns alleging 'exploitation' of these people. But the temporary work visas known as 457s have been subject to extensive political campaigning against them.

The use of 457 visas has increased rapidly as skilled labour shortages has increased. In 2006 there were around 71,000 workers holding 457 visas, and

in 2007 that number had rocketed up to 97,000. Despite being able to work in Australia for up to four years, most fill shorter term vacancies. State and local governments account for 10% of 457 visa holders who work in 170 hospitals, 170 schools and colleges, 35 universities and 60 separate government agencies.

Unions have not liked these temporary visa categories. They have alleged that the use of 457s by employers forces down wages, lowers occupational health and safety standards and causes worker exploitation. Indeed, based on newspaper reports there have been damning instances of employers blatantly breaching their 457 obligations, in some instances withholding pay from workers. But allegations of misuse of 457 visas have been leveled against only 180 employers out of 10,000 businesses using the system, and of those, only 30 per cent of the allegations were found to have some basis to them.

In its last term the Howard government sensed it was under significant political pressure over the 457 issue. They responded in 2007 by tightening eligibility requirements and costs and obligations on employers. Significant fines are now possible on employers for breaching 457 requirements. Regulations and proposed legislation impose new English level requirements on applicants, and employers must pay all recruitment costs and airfares and cover all medical expenses. (Medicare does not apply to 457 visa holders.) A special minimum wage has been chosen for 457 visa holders (\$42,000 major cities and \$37,000 regional areas) but, which is conservative given that the average 457 salary is well above this at \$70,000.

The net effect is that recruiting of temporary workers into Australia is highly expensive on any international comparison and time and red tape consuming. Only one company worldwide is authorised to administer the English tests—as a consequence, delays of eight weeks to simply access testing are common. The total costs of recruiting and bringing in each employee on a 457 visa range from a minimum of \$17,000 up to \$30,000. And visa processing by the immigration department can take from three to ten weeks.

Political campaigning by unions has caused the government to increase 457 visa requirements and led to these significant cost and time increases. But many unions are motivated by their own self interest. Larger employers tend to seek temporary workers and this creates a competitive industrial relations situation for unions. Some unions believe they have a weaker industrial relations bargaining position when temporary overseas workers are used. The union strategy has been to tie 457 visa arrangements to union controlled labour agreements.



The New South Wales government assisted the meat worker union in 2007 in this regard by insisting they would not allow any 457 workers unless the meat companies signed NSW industrial arrangements, regardless of whether they were already registered with the federal industrial relations system.

The Howard government initiated a similar ploy just before the November 2007 election was called and effectively blocked the on-hire industry from using 457 visa holders. The government introduced surprise regulations that required on-hire companies to allocate 2 per cent of their total wages bill to training if they used even one 457 visa holder. This was effectively a discriminatory reintroduction of the failed compulsory training levy tried under the Keating government.

This move by the Howard government demonstrated just how politically panic stricken they were over the 457 visa issue and how totally ignorant the government was of practical business realities. For example in the information technology sector, most skilled technicians are engaged through multi-layered on-hire type arrangements a bit like a stock exchange process—a standard international industry practice. The on-hire companies specialise in managing the employment transaction and training is done either by the highly paid information technology (IT) specialists or the user companies. The new migration rules have effectively locked Australia out of the international market for IT labour, forcing significant IT projects offshore.

This sort of experience shows how the skilled migration issue needs to be handled with a calm attention to the labour shortages facing Australia.

Enabling skills shortages to be filled by overseas workers, is an important contributor to sustaining Australia's current economic wealth and growth without allowing demographic, political and demand pressures to ignite wage created inflation. It's an area where practical realities caused by demographic and economic growth pressures need to prevail over industrial relations power politics. It's a challenge no matter what the political colour of the party in government.

