

# Low skills and social disadvantage in a changing economy

Briefing Paper Series

September 2011

# **Low Skills and Social Disadvantage in a Changing Economy**

**Chris Hasluck**

**Hasluck Employment Research**

**September 2011**



**Views expressed by the author of this Briefing Paper are not necessarily those of the UK Commission for Employment and Skills.**

# Foreword

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and promote economic growth. Our strategic objectives are to:

- provide outstanding labour market intelligence which helps businesses and people make the best choices for them;
- work with businesses to develop the best market solutions which leverage greater investment in skills;
- maximise the impact of employment and skills policies and employer behaviour to support jobs and growth and secure an internationally competitive skills base.

These strategic objectives are supported by a research programme that provides a robust evidence base for our insights and actions and which draws on good practice and the most innovative thinking. The research programme is underpinned by a number of core principles including the importance of: ensuring **'relevance'** to our most pressing strategic priorities; **'salience'** and effectively translating and sharing the key insights we find; **international benchmarking** and drawing insights from good practice abroad; **high quality** analysis which is leading edge, robust and action orientated; being **responsive** to immediate needs as well as taking a longer term perspective. We also work closely with key partners to ensure a **co-ordinated** approach to research.

Equality and employment is an important and well-researched field. The Youth Inquiry (UK Commission 2011) explored questions around the unemployment, recruitment and employer perspectives of young people. In May 2011, Joseph Rowntree Foundation published 'Poverty and ethnicity: a review of evidence' and is launching a fuller programme of in this area. In order to add value to the existing body of research, the UK Commission has developed a series of Briefing Papers with a focus on equality and skills in a changing economy. The aim of the series is to inform and enable connected thinking about how to enable opportunity in the labour market through skills. Each paper provides commentary and analysis for an equality group or theme, these are:

- Disability and skills in a changing economy;
- Gender and skills in a changing economy;
- Low skills and social disadvantage in a changing economy;
- Older people and skills in a changing economy;
- Spatial inequality and skills in a changing economy.

The research focussed on policy in England as the development of the papers received England only funding. However, in order to give breadth and strength to understanding of a subject area the review of literature and data drew on UK data and, occasionally, devolved policy, though not in the conclusions or implications.

Together the Briefing Papers in this series provide insight and understanding into the skills related challenges, needs and opportunities for individuals who are disadvantaged in the labour market. These outputs are only the beginning of the process and we will be continually looking for mechanisms to share our findings, debate the issues they raise and extend their reach and impact.

We would like to take this opportunity to thank all of the authors for their work in developing these papers and add extended thanks to Chris Hasluck provided a coordination and editorial role across the series of equality papers.

We hope you find this paper useful and informative. The other papers in the series can be accessed on the UK Commission's website [www.ukces.org.uk](http://www.ukces.org.uk). If you would like to provide any feedback or comments, or have any queries please e-mail [info@ukces.org.uk](mailto:info@ukces.org.uk), quoting the report title.

**Lesley Giles**

# Table of Contents

<b>Executive Summary</b> .....	<b>vii</b>
<b>1 Introduction</b> .....	<b>1</b>
1.1 Social disadvantage .....	1
1.2 Identifying social disadvantage .....	3
1.3 The labour market position of disadvantaged people .....	4
<b>2 The impact of recent economic change on the socially disadvantaged</b> .....	<b>8</b>
2.1 The skills of the UK working-age population.....	8
2.2 The declining demand for low skilled workers .....	11
Low skill employment.....	14
2.3 Low skills and the recession .....	15
2.4 Low skill, disadvantage and worklessness .....	18
2.4.1 Low skill and unemployment.....	19
2.4.2 Low skill and economic inactivity.....	20
2.5 The impact of disadvantage on households.....	22
2.6 Is the low skill penalty ‘a thing of the past’? .....	25
<b>3 Likely future economic developments including the impact of the Spending Review on people experiencing social disadvantage</b> .....	<b>27</b>
3.1 The future demand for skill.....	27
3.2 Improving job competitiveness through learning and training .....	29
3.3 Strategy to raise skill levels.....	32
<b>4 Employment needs and preferences</b> .....	<b>34</b>
4.1 Do low skilled people need more qualifications? .....	34
4.2 Raising aspirations.....	36
<b>5 The role of employers</b> .....	<b>37</b>
5.1 The link between product strategy and demand for skills .....	37
5.2 Workplace factors and the take up and utilisation of skills .....	38
5.2.1 Changing employers’ recruitment practices .....	39
5.2.2 Workforce development.....	40
5.3 The impact of economic growth.....	40
<b>6 The role of the system</b> .....	<b>42</b>
6.1 Introduction .....	42

6.2	The post 16 education and training system.....	42
6.3	Re-engaging the disadvantaged with the world of work .....	44
6.4	Future reform of the learning and skills system .....	46
<b>7</b>	<b>Key policy issues .....</b>	<b>48</b>
7.1	The nature of the low skill disadvantage .....	48
7.2	Some key policy questions.....	48
<b>8</b>	<b>Key messages and conclusion .....</b>	<b>50</b>
8.1	Key messages .....	50
8.2	Conclusion .....	52

# Table of Graphs and Charts

Table 1.1	Employment and earnings by socio-economic status .....	6
Table 1.2	Employment and earnings by highest qualification attained .....	6
Figure 2.1:	Highest qualifications amongst the UK working age population .....	9
Figure 2.2:	Proportion of people holding no or low level qualification at age 20 (UK working age population), 2006-2010 .....	10
Figure 2.3:	Qualifications held by the workforce in elementary occupations, UK, 2010...	11
Figure 2.4:	Employment rates by level of highest qualification and sex, UK working age group, 2010 .....	13
Figure 2.5:	Proportion of occupation with low skills (no qualifications or only Level 1), UK working age population, 2010 .....	14
Figure 2.6:	Top eight sectors employing people in routine occupations, UK working age group, 2010 .....	15
Figure 2.7:	Risk of redundancy by qualification level, UK working age group 2008-2010	16
Figure 2.8:	Employment change by qualification level, UK working age group, 2008-2010 .....	17
Figure 2.9:	Unemployment rates by qualification level, UK working age population, 2008-2010 .....	19
Figure 2.10:	Inactivity rates by qualification level, UK working age population, 2008-2010	20
Figure 2.11:	Broad reason for economic inactivity, UK working age population, 2010 .....	22
Figure 2.12:	Highest qualification, working and non-working households, UK, 2010.....	23
Figure 2.13:	Attainment of five or more GCSE grades A* to C by parental NS-SEC, 2007..	24
Figure 2.14:	“Likeliness of ever applying to go to university and do a degree” by parental NS-SEC, 2007 .....	25
Figure 3.1:	Incidence of employer offers of job-related training by NS-SEC, UK working age employees, 2010 .....	30
Figure 3.2:	Incidence of job-related training received in the last 3 months, by NS-SEC, UK working age employees, 2010 .....	31



# Executive Summary

## Introduction

This paper explores the link between social disadvantage and low skill. Social disadvantage is a wide-encompassing term that embraces economic, social and even political deprivation. This review considers the prospects for people who are disadvantaged by a lack of skill and/or qualifications. A low-level of skill or educational attainment is one indicator of social disadvantage of particular significance in regard to a person's economic and labour market status. Clearly a lack of skill is not the only factor that may disadvantage a person in the labour market and where individuals suffer from additional disadvantages such as disability, poor health or discrimination, their labour market position will be further weakened.

A useful analogy of the labour market is to think of it as a **job queue**. In that queue the disadvantaged are those who are ranked towards the lower end of that labour market queue. This is defined as the group whose employment opportunities are restricted to poorly paid and routine, elementary occupations, or who are excluded from employment (either unemployed or economically inactive). A lack of skills or qualifications tends to place people at the end of the labour queue, although other characteristics (such as age, gender, or ethnic origin) will also have an impact. While low skill/no qualifications is not a conventional definition of 'disadvantage', there is a strong association between low skills or no qualifications and those characteristics more usually seen as signalling disadvantage and which are dealt with in other equality and skills papers in the series<sup>1</sup>.

## Key findings

The paper reviews the evidence relating to the disadvantage in the labour market faced by people with low skills. Some of the conclusions to have emerged from that review are:

- The number of people of working age in the UK at risk of disadvantage because of low skills and/or no qualifications has fallen in recent years. This reflects the impact of past and current policy, particularly regarding education. Nonetheless, in 2010 there were still over 1.6 million working age people with no qualifications.
- Based on current trends in the acquisition of qualifications by young people, it is unlikely that the proportion of unqualified people in the working-age population will fall below 7-8 per cent for a long time to come. This long-term core of unqualified people is increasingly likely to consist of the 'hardest to help', often with additional disadvantages on top of their lack of skills.

---

<sup>1</sup> Other Briefing Papers in this series explore a specific dimension of equality or group.

- The prospect of employment for people with low skills has barely changed in recent years and has worsened during the recession, especially so for people with no qualifications. The employment rate gap between the unqualified individuals and people with Level 2 qualifications (and above) has actually worsened in the past few years.
- The long-term trend in the occupational structure of the UK has been a decline in the demand for elementary occupations in which low skilled people have predominantly found employment in the past. However, a large proportion of such jobs are held by people with qualifications - sometimes at intermediate and even higher levels – suggesting that low skilled and unqualified people have been competed out of such jobs.
- The displacement of low skilled people was exacerbated during the recent recession during which employers sought to retain more skilled members of their workforce and took the opportunity to raise their hiring standards. The recent large influx of EU migrants willing to work in occupations ranked lower in terms of skill content and wages than their qualifications would normally merit has put further competitive pressure on low skilled and unqualified UK born workers.
- The weak competitive position of low skilled people means that almost half are not in employment and of these around 80 per cent are economically inactive, that is they have withdrawn or been excluded from the labour market. The main reasons cited by the unqualified individuals for inactivity include ill-health, disability, care responsibilities and early 'retirement' but these additional disadvantages are unlikely to be absolute barriers to employment and it is likely many in this group cite such disadvantages to legitimise or rationalise their exclusion from the job market.
- The disadvantaged position of people with low skills is often reflected in the position of other household members. The benefit system provides many disincentives for partners of non-working people to take employment, especially if that employment is low paid. Many households (around 12 per cent) consist of two low skilled individuals where neither is working. In addition, the educational performance and aspirations of children and young people whose parents are low skilled are well below the average, suggesting that disadvantage related to poor skill is being reproduced across the generations.
- In terms of the future, the demand for skills is steadily increasing and even elementary jobs now make demands on employees that some of the unskilled/ unqualified are not able to meet. Nonetheless, there is likely to be a continuing demand for elementary or routine jobs. This does not, however, guarantee that people with low skills will be employed in such jobs. Competition for low skilled jobs

is likely from well qualified but redundant public sector workers and EU migrants.

This competition, taken in conjunction with the changing skill structure of employment means that the disadvantage experienced by people who are unskilled or unqualified can only worsen in the future.

- Employers' recruitment practices determine access to jobs and a range of practices, such as informal recruitment methods, use of qualifications to screen applications as well as overt discrimination, can disadvantage the unqualified jobseeker.
- The incentives for individuals and employers to engage in learning activities to raise the skills of the workforce appear weak. The weak link between qualification and occupation means that employers have considerable flexibility in recruiting while for individuals obtaining a qualification does not guarantee access to the specific type of job for which they are qualified. Creating ways by which an individual can capture a greater return to new skills, for instance by extending the notion of a 'licence' to practise in particular occupations would increase the incentive to acquire skills and qualifications. A closer link between skill, qualification and the right to practise would also reduce the ability of employers to evade the need to train for their skill needs by recruiting on the open market.
- Policy to raise the skills of the UK workforce has suffered from too frequent change and reform. There is also an emphasis on unemployed young people (particularly those not in employment, education and training, the so-called NEETs), with development of the older, employed workforce tending to take second place. The entitlement to learning at least to NQF Level 2 introduced in 2003 was an important development. That entitlement is, however, placed in question by the abolition of Train to Gain as well as proposed changes to the funding of adult learning.
- The need to integrate skills and welfare policy (identified by the Leitch and Freud Reviews (HM Treasury, 2006; DWP, 2007)) has proceeded only to a limited degree. It is unclear at present how far the new Work Programme that will replace the Flexible New Deal programme will take that integration.
- The latest skill strategy retains a commitment to an entitlement to learning up to Level 2 but this is fully funded only for people aged 18-23 and the unemployed on active benefits. It is expected, however, that adults will, eventually, have to co-fund learning at Level 2 and all groups will have to fund learning at Level 3 (co-funding for 19-14 year olds and loans for the full cost for adults aged 25 or above). The impacts of such changes on the cost of learning for individuals are not yet known.

## Key issues for policy

The inherently weak labour market situation of low skilled individuals has been exacerbated by the recent recession and raises a number of key issues for policy makers. These include questions such as:

- Is a certain amount of low skilled, routine or elementary work inevitable, given the strategic decisions of organisations about how they best meet global competition and other market forces? Does the lack of demand amongst employers indicate that they are indeed happier to settle for lower skill levels than is generated by many of our international competitors? If it is inevitable, is it appropriate to continue to spend resources (by the state, the employer and the individual) to encourage people to 'up-skill' when such additional skills and qualifications are not required in low skill jobs?
- If there is a continuing demand by organisations for jobs that are routine and require little more than elementary skills, are low pay, unstable employment or lack of career progression inevitable consequences. If not inevitable, what policies or interventions could change those outcomes?
- If low skill jobs are not inevitable (but result from employers' choice of product strategy) what can be done to encourage organisations who compete on cost alone to adopt a high value added, high skill strategy and move away from a dependence on low skilled workforce?
- If employers are successfully encouraged to shift to a high skill product strategy, how can it be ensured that low skilled and unqualified people are not excluded from such a development?
- How can un-qualified, non-working or inactive individuals be re-engaged with the world of work and helped to become more competitive in the jobs market? Should the focus of policy be on raising their aspirations, helping them improve their skills and qualifications or should it be on the other barriers and disadvantages that many of the non-working low skilled face?
- How can the incentives to engage in learning that will lead to improved skills be enhanced for the individual and the employer? Is the low demand for workforce development the result of a failure to appreciate its benefits or the result of systematic disincentives?
- Current policy reforms intend to shift the cost of learning away from the state. This being so, how sensitive are employers of low skilled workers and individuals with low level skills and qualifications to the increased 'price of learning'? Is there a 'tipping point' at which cost becomes a significant barrier to additional learning?

## Conclusion

People with low skills and no qualifications are at a significant disadvantage in the labour market. Competition for jobs means that this group is often at a disadvantage even when seeking employment in routine, low paid and, often insecure jobs and this can lead to an above average risk of unemployment or even economic inactivity. Although the number and proportion of unqualified people of working age in the working-age labour force is declining, a substantial, hard core of low skilled and unqualified people are likely to remain for the foreseeable future. That group is likely to be increasingly disadvantaged in the future. It will consist of the hardest to help combining a lack of skills with other disadvantages. It will face a future in which employers increasingly demand higher levels of skill even for jobs in traditional areas of low-skill employment. Finally, in the short-term, it will face increased competition for jobs the more highly skilled displaced by the recession and public sector spending cuts.

Policy for many years has sought to encourage the up-skilling of the UK labour force. The falling number of unqualified people in the labour force appears, however, more the result of a cohort effect as more young people leave school than it is of raising the qualifications levels amongst the older employed workforce. Some commentators have blamed weak incentives to undertake learning and frequent policy change for this. Whatever the reasons, the previous Government's own indicator of performance (the Public Service Agreement (PSA) target) suggests that the employment penalty for low skills and low level qualifications has barely changed over the past decade. Thus, this group continues to provide a dilemma for policy-makers. If the UK continues to shift towards a globally competitive, high skill, high value economy, what can be done about the increasingly uncompetitive position of the low-skilled? How can they be engaged and up-skilled in order to share in the returns from economic prosperity or, alternately, must they become a lost generation that is 'written off' pending their removal from the working age group by the passage of time? These are difficult and challenging issues for any government but they will be doubly so in a period of public sector austerity and reform of the welfare and skills system. Only time will tell which of these two alternatives will materialise.

# 1 Introduction

This section provides an introduction to:

- the concept of social disadvantage and why it matters;
- how disadvantage can be identified in terms of labour market outcomes;
- the concept of the labour market queue;
- the labour market position of disadvantaged people.

## 1.1 Social disadvantage

Social disadvantage – and its related consequence of social exclusion - represents a serious issue for any society and the divisions that result can threaten a breakdown in the social and political order, with severe economic consequences. Social disadvantage is a term generally taken to describe situations where people or areas suffer from a combination of linked and mutually reinforcing problems – such as unemployment, poor skills, low incomes, poor housing, high crime, bad health and family breakdown (Hills, Le Grand and Piachaud, 2002). Social disadvantage is thus a multi-faceted concept relating to a lack of, or limited, participation in key domains of modern life, including (Bynner, 2001; Burchardt, Le Grand and Piachaud, 1998):

- work;
- consumption;
- wealth;
- community life;
- citizenship.

Whatever form social disadvantage takes, it is often the consequence of a combination of linked and mutually reinforcing problems. These problems then lead to reduced access to, or even exclusion from, key aspects of life. Miliband (2006) draws a distinction between ‘wide’ and ‘deep’ social disadvantage. Wide social disadvantage refers to situations where a large number of people are socially excluded on at least one indicator of exclusion. Deep social disadvantage refers to situations where people experience multiple disadvantages. There are, for instance, around 1.45 million working age people in the UK who are 50 years of age or above and who possess no qualifications. Around 542,000 people of working age are simultaneously disabled, a member of an ethnic minority, and possess no qualifications. Over 63,000 people of working age are members of an ethnic minority group, are aged over 50, have a disability and no

qualifications. The latter groups are clearly at risk of 'deep' exclusion (Levitas *et al*, 2007) and the Cabinet Office estimated that 2-3 per cent of the UK population suffer from such 'deep and persistent exclusion' – or around 1.5million individuals (Cabinet Office, 2007).

A common approach to the analysis of social disadvantage is, as in the previous paragraph, to focus on 'disadvantaged groups' or 'disadvantaged areas' amongst whom, or within which, the incidence of disadvantage is disproportionately high. Groups such as members of ethnic minorities, people with disabilities or health problems as well as older people and young people may be variously identified as disadvantaged in this sense. This is the approach taken in the other papers in the *Equality and Skills in a Changing Economy* series.

The Equalities and Human Rights Commission (EHRC, 2010) also considered social disadvantage from the point of view of groups defined by personal characteristics in its first triennial review, '*How Fair is Britain*'. The EHRC review looked at a wide range of indicators across a large number of domains (health, employment, standard of living, education and so on) for a range of disadvantaged groups (covering age; gender; disability; ethnicity; religion or belief; sexual orientation and transgender status). Importantly, the EHRC Review draws attention to the link between social disadvantage and skills (measured by qualifications) and concluded:

The impact of multiple disadvantages in a more competitive labour market, which is less forgiving of low qualifications than a generation ago, cannot be underestimated. Trends are moving in different directions however: disabled men are substantially less likely to work than in the past, while the gender gap in employment has almost halved since the mid-1990s, from 10 to 6 percentage points (EHRC, 2010, p. 648)

While many individual, or household, characteristics are associated with social disadvantage, those disadvantages are increasingly exacerbated by a lack of skills and qualifications. Developments in the economy and the job market have placed an increasing premium on intermediate and higher level skills, and people with no formal qualifications, or who lack basic skills, are greatly disadvantaged and risk being left behind by such developments. Moreover, the relationship between a lack of skills and social disadvantage is likely to be bi-directional, with disadvantage leading to low educational attainment and limited employment opportunities. Moreover, the consequences of social disadvantage can be intergenerational, with the children of parents with low skills (either non-employed or working in low paid or precarious employment) being disadvantaged in the future as a result of the combined impact of poverty, poor housing, poor health (including diet) and a lack of aspiration and educational attainment.

## 1.2 Identifying social disadvantage

Social disadvantage is not directly observable but its consequences are, and they can be used to infer social disadvantage. These consequences can be manifest across a number of social domains, but the key domain in a market economy is that of paid work. Social disadvantage can lead to exclusion from paid work (unemployment or economic inactivity) or segregation into poor quality jobs, with low pay, poor working conditions, unstable employment and a lack of career progression. Work is a key domain because work in many respects defines who people are, and earned income from work determines household standards of living and quality of life. Disadvantage in the world of work can also lead to other manifestations of social disadvantage and social exclusion such as benefit dependency, poverty (especially child poverty), poor health and even anti-social behaviour (including criminality).

For the purposes of this paper social disadvantage is defined not by groups who are at risk but in terms of the consequences of social disadvantage. Three key indicators will be used. These are:

- people who are not in paid work;
- people at the lower end of the socio-economic spectrum;
- people with low level skills or low level qualifications.
- The rationale for each indicator is slightly different. Non-employment has crucial consequences for individuals and households and is a manifestation of exclusion from the world of work. Where people are in paid work, the socially disadvantaged can be expected to face limited job opportunities and be restricted to routine, low skill jobs offering low pay and, possibly, insecure employment. This can be measured in terms of the socio-economic class of individuals and households. Finally, a low level of skill (measured by qualifications) is an indicator of social disadvantage as it can be a consequence of disadvantage just as much as it is a cause. Of course, not everyone in any of these categories can be considered as disadvantaged but there is a greater risk of being disadvantaged if in these groups.



- Social disadvantage indicated by labour market outcomes overlaps with disadvantage indicated by group characteristics, but not precisely. Just as some members of 'disadvantaged groups' are not, in fact, disadvantaged, not all who experience a 'disadvantaged outcome' are members of a disadvantaged group. There is, nonetheless, a degree of correspondence. For instance, around 40 per cent of people with no qualifications have some form of disability (compared with just 15 per cent of people with qualifications at NQF Level 4 or above). Around 12 per cent of people with no qualifications are from a non-White ethnic background compared with around 7 per cent of people with most other levels of qualifications (except NQF Level 4 and above) while 15 per cent of people with no qualifications were aged 55-59 years of age (and 21 per cent of men aged 60-64 years) compared with an average of 9.8 (and 11 per cent) for the same age groups. Similar correspondence can be demonstrated in respect of socio-economic class and economic activity.

It is important to note that the identification of the 'low skilled' population is problematic. The notion of skill relates to an individual's competence to perform job-related tasks. Since such competencies are not normally directly observable it is necessary to use a proxy measure for skill (that is, something that is associated with skill and which is observable). A common proxy for skill level is level of qualification, although occupation may also be used. Qualifications are imperfect measures of skill because they do not fully take account of un-certificated skills that have been acquired through other learning activities, such as work experience. Occupation is even less precise than qualifications since jobs requiring little or no skills can be undertaken by people who have skills but choose such work or cannot gain access to alternatives that would use their skills. While imperfect, qualifications remain the only readily available measure of skill level (Bell and Hansboro, 2007).

### **1.3 The labour market position of disadvantaged people**

A convenient way to conceptualise the position of the socially disadvantaged in the labour market is to think in terms of a 'labour queue'. This concept, best developed by Lester Thurow (1975), starts with the proposition that employers control access to jobs. An employer can be thought of as 'ranking' potential workers in order of their attractiveness to the business. The employer then works their way down this labour queue, starting by hiring the most attractive first, the less attractive thereafter and so on until they have hired sufficient labour to meet the needs of their business. Members of the labour queue will be ranked in terms of their productivity and cost to the employer. High value workers will be placed at the front of the queue while the least value (or most costly) will form the tail of the queue. High value is likely to be associated with high productivity resulting from above average skill or competence for the occupation to which the employer is seeking to

recruit, although an employer may use qualifications or experience as a 'signal' or indicator of such skill. Low value recruits would be seen by employers as those with below average skills who would need additional training to bring them up to the required skill standard for the job.

An individual's position in the labour queue (to the front, to the rear) will determine their chances of employment. When the demand for labour is high, employers will recruit further down the labour queue than when labour demand is slack. In addition to poor skills - which could mean the business had to give additional training to recruits, provide greater supervision of work or even change its working practices - other characteristics that the employer believed (correctly or otherwise) would generate additional cost (such as poor work discipline, sickness record, a need for workplace accommodations, etc.) will also move an individual down the labour queue.

The basic proposition set out in this paper is that people with low level skills, signalled by holding no, or only low level qualifications, will be placed towards the lower end of the labour queue. As a consequence, many will only be able to find work in routine or elementary occupations or, in extreme cases may be so far down the queue that they are excluded from employment altogether. The previous section set out three indicators of disadvantage used in this paper: non-employment, socio-economic class and skill/qualification level. The labour market position of non-employed people is that some occupy a position in the labour queue such that they have an expectation of being able to secure employment (i.e. they are unemployed and seeking employment). Many others (in fact almost 80 per cent) are so far down the labour queue that they are classed as inactive and not seeking employment. Many of the latter can be considered as excluded by virtue of some form of disadvantage. In the UK in early 2010 almost 9,502,000 people of working age were inactive and either not seeking or not available for employment. The reasons for such inactivity are considered later in Section 2. Of the inactive almost two thirds (63 per cent) were women.

Table 1.1 provides a summary of two key indicators of the labour market position of the UK working age population differentiated by their socio-economic status (an approximate indicator of skill level).

**Table 1.1 Employment and earnings by socio-economic status**

	<b>Employment rate (%)</b>	<b>Gross weekly earnings (£)</b>
Higher managerial and professional	92.2	715
Lower managerial and professional	87.8	482
Intermediate occupations	83.9	298
Lower supervisory and technical	83.4	356
Semi-routine occupations	76.8	219
Routine occupations	74.3	260

Base: 24,110,312

Source: Labour Force Survey, January-March 2010

Table 1.1 illustrates how both the employment rate (the proportion of the working age population at each socio-economic status level) and earnings are positively related to socio-economic status and skills. Over 90 per cent of people in the higher managerial and professional class were in employment and their median gross weekly earnings were £715. This contrasts with an employment rate of just over 74 per cent and a gross weekly wage of £260 amongst people at the lower end of the socio-economic spectrum. The association between skill and labour market position is revealed even more sharply in Table 1.2. The table shows how the employment rate rapidly declines with level of qualification and, implicitly, skill. The employment rate of working age people in the UK with no qualifications is less than half (39.8 per cent) of that of working age people qualified to NQF Level 4 or above. A similar picture is evident in regard to pay, with the median gross weekly earnings of the unqualified group being less than half of that of the highly qualified.

**Table 1.2 Employment and earnings by highest qualification attained**

	<b>Employment rate (%)</b>	<b>Gross weekly earnings (£)</b>
NQF Level 4 and above	83.9	531
NQF Level 3	71.6	327
NQF Level 2	68.7	277
NQF Level 1	62.4	288
Other qualifications	68.3	312
No qualifications	39.8	250

Base: 24,110,312

Source: Labour Force Survey, January-March 2010

The remainder of this paper will examine in greater detail the relationship between labour market experience, skill and disadvantage, both in terms of the current position and likely future developments. It will then go on to consider the respective roles played by individuals, employers and the state in addressing the issue of social disadvantage and employment and identify some of the key issues for policy.

## **2 The impact of recent economic change on the socially disadvantaged**

This section provides a more detailed assessment of the recent labour market position of disadvantaged individuals and households in terms of:

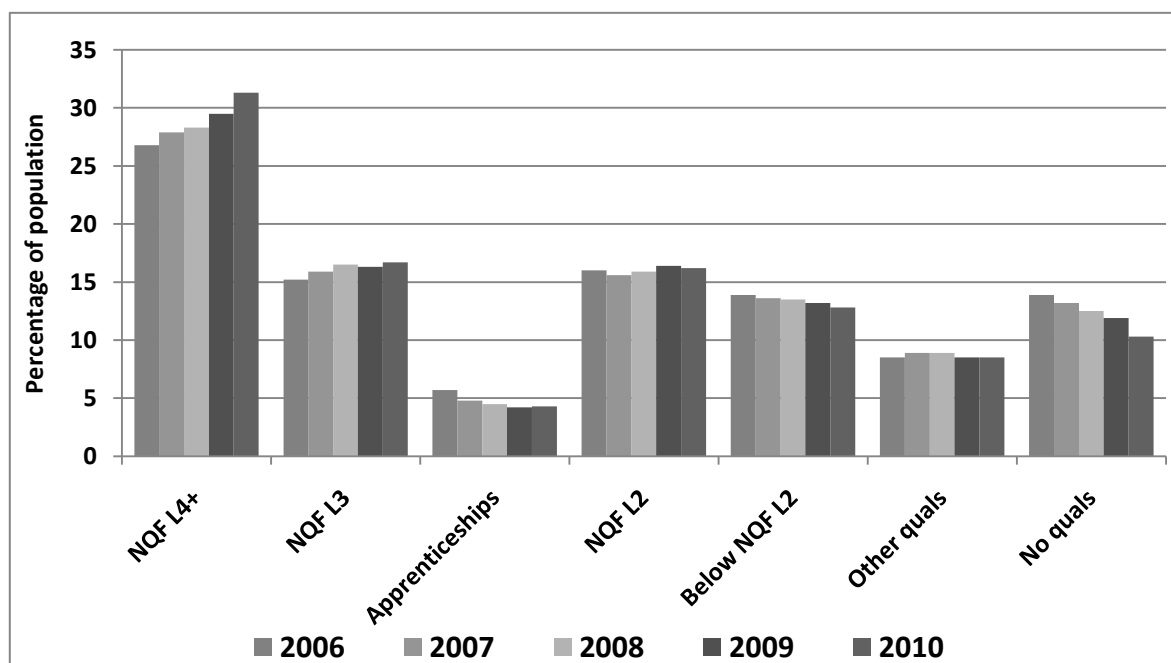
- the distribution of skills across the UK working age population;
- recent change in the demand for low skilled workers;
- the impact of the recent recession on low skilled people;
- the association of low skills and qualifications with low employment rates and worklessness;
- the impact of low skills on household members and inter-generational effects;
- an assessment of the extent to which the disadvantage associated with no or low qualifications has been reduced.

### **2.1 The skills of the UK working-age population**

According to the Labour Force Survey, the number of people of working age in the UK without any qualifications at the start of 2010 was just over 3.8 million and a further 4.8 million have qualifications below NQF Level 2. If NQF Level 2 is to be regarded as the minimum qualification and proxy skill level for the future, this suggests that nearly 9 million people (or just over 23 per cent of the working age population) can be regarded as low skilled and, thus, disadvantaged in the job market. To this number must be added a further 3.2 million who hold 'other' qualifications which are either at a low level, or are qualifications obtained outside the UK for which there is no recognised equivalent. On this measure of disadvantage, there is little if any difference between men and women.

While the proportion of low skilled in the working-age population appears large, it should be noted that the proportion has been falling in recent years. This is partly the result of a cohort effect, as older and less well qualified people leave the working age group and are replaced by younger entrants who are better qualified. This trend is evident in Figure 2.1 which indicates that the proportion of unqualified has fallen from a little under 14 per cent in 2006 to around 10 per cent by 2010. Both these figures represent a substantial decrease from the 20 per cent who were unqualified in 1996.

**Figure 2.1: Highest qualifications amongst the UK working age population**

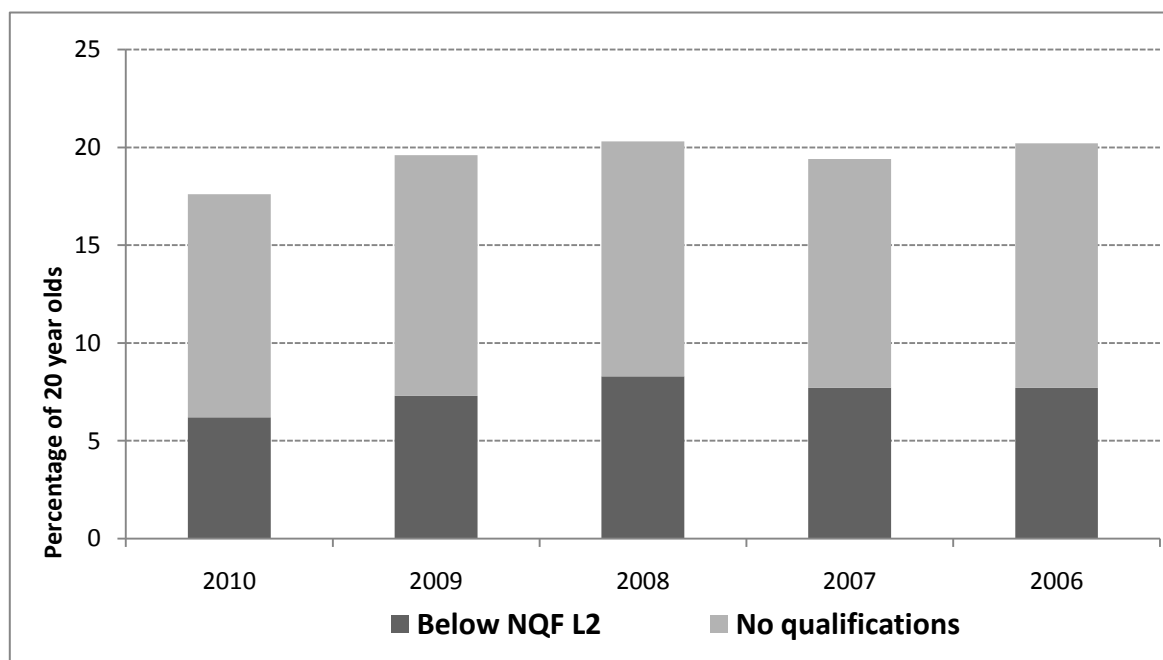


Base: 2010 - 38,081,256; 2009 - 38,081,256; 2008 - 37,712,504; 2007 - 37,544,069; 2006 - 37,207,063  
 Source: Labour Force Survey

Despite the reduction in the proportion of the UK working-age population holding no qualifications, there has been little improvement in the proportion of people with qualifications at NQF Level 2 or below. The proportion of people with an NQF Level 1 has fallen slightly over the period 2006-2010 (around one percentage point to 12.8 per cent) while the proportion with an NQF Level 2 qualification has barely changed (increasing from 16.0 per cent in 2006 to 16.2 per cent in 2010). It is at the upper end of qualifications spectrum (NQF Level 3 and, especially, NQF Level 4 or above) that has exhibited the greatest increases. Reflecting the continuing growth of participation in higher education, the proportion of working-age people with an NQF Level 4 or above increased in the five years to 2010 from 26.8 per cent to 31.3 per cent.

The substantial fall in the proportion of people with no, or low level, qualifications is a reflection of the large number of young people recently emerging from school or further and higher education, with qualifications. It might be inferred from this that the proportion of unqualified people will continue to fall in the future. While this is undoubtedly the case, two notes of caution should be sounded. First, there appears to be a fairly irreducible 'rump' of young people who still leave school without any qualifications. Figure 2.2 shows the proportion of people who have no qualifications or only an NQF Level 1 qualification. This is a point in the lifecycle when it could be expected that if young people were to acquire any qualifications, they would have done so by this time.

**Figure 2.2: Proportion of people holding no or low level qualification at age 20 (UK working age population), 2006-2010**



Base: 2010 - 38,081,256; 2009 - 38,081,256; 2008 - 37,712,504; 2007 - 37,544,069; 2006 - 37,207,063  
 Source: Labour Force Survey

Figure 2.2 suggests that during the past few years somewhere in the region of 7-8 per cent of 20 year olds held no qualifications, and that proportion has increased slightly since 2006. This suggests that there is probably a lower limit below which the unqualified proportion of the working age population as a whole will not fall (and that will be around 8 per cent) even in the long term. It is also likely that in the future unqualified people, who hold no qualifications despite the considerable efforts of the education system, will be considerably more disadvantaged and difficult to help than previous generations of unqualified people (who often attained skills through work experience rather than formal education). A second note of caution is that the extent to which a qualification at NQF Level 1 will meet the future demands of employers (see Section 6), even for elementary occupations, is not clear. However, it is likely to be insufficient. In any case, the proportion of young people qualified only to NQF Level 1 has remained fairly constant at around 12-13 per cent of 20 year olds.

The evidence suggests, therefore, that the recent fall in the number of low skilled people in the working age population (i.e. those with no, or only NQF Level 1, qualifications) represent a transitional effect as older age groups with large proportions of unqualified people are replaced by younger age groups with smaller proportions of unqualified people. It will take time for this effect to work through but it will eventually stabilise at a new and lower level. This low skilled group is likely, however, to remain a significant minority of the UK working age population and this is a cause for concern not just

because of the implications for productivity and competitiveness, but also because of the strong association between low skill levels, social disadvantage and social exclusion.

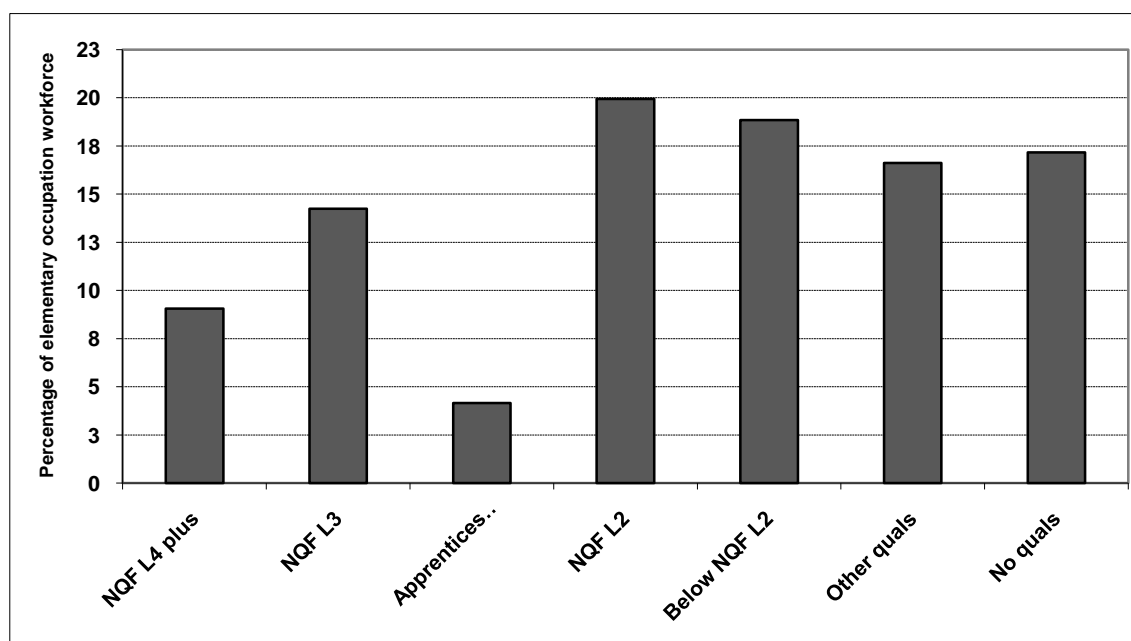
## 2.2 The declining demand for low skilled workers

People with low skill levels are particularly disadvantaged in the labour market because the long-term trend in the relative demand for unskilled and semi-skilled occupations has been that of decline. Employment in the UK has seen an increasing demand for higher level, white-collar groups such as Managers & Senior officials, Professional and Associate Professional & Technical occupations. Research by the UK Commission for Employment and Skills (UK Commission) also reports rapid increases in leisure-related and other personal service occupations and a decline in employment for Administrative, Clerical & Secretarial occupations, and most blue collar/manual occupations (UK Commission, 2008).

The decline in opportunities for low skilled and unqualified people has occurred on two fronts. Not only are traditional areas of employment, such as elementary manual jobs in decline, but other areas of employment growth, such as retailing or financial services, are demanding higher levels of skill, or higher minimum levels of qualification, than previously. Thus, even if employment increases in comparatively low level occupations, it is not certain that unqualified individuals will gain access to such job opportunities.

Figure 2.3 shows the highest qualifications held by employees in elementary occupations (SOC Major Group 9).

**Figure 2.3: Qualifications held by the workforce in elementary occupations, UK, 2010**



Base: 38,081,256

Source: Labour Force Survey



Figure 2.3 highlights the fact that even in elementary occupations (generally regarded as requiring only very low levels of skill), people without qualifications represent only 17 per cent of the workforce while almost half (47 per cent) of people working in elementary occupations are qualified to NQF Level 2 or above. One factor that might explain this apparent 'over-qualification' of the low skill workforce is the large volume of international migration in recent years, especially from the new European Union accession states. Establishing the total number of international migrant workers in the UK is a complex issue and controversial subject. The number of Eastern European EU migrants has been of the order of 200,000 per year during the mid-2000s, although the numbers fell sharply after 2007 as the impact of the recession reduced the inflow and many migrants returned to their home countries.

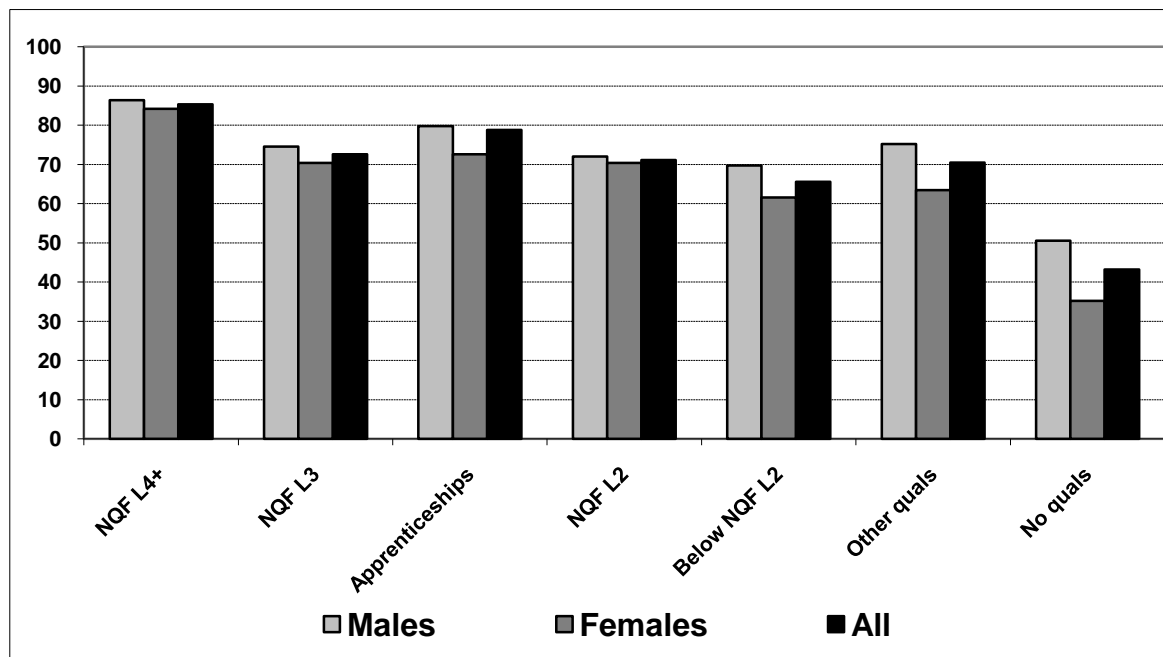
The cumulative impact of EU migration on the UK labour supply has been substantial and represents a major source of competition for the indigenous low skilled population. Clancy (2008) showed that migrants from the new EU accession states were concentrated in certain occupations, the largest number being in distribution, hotels & restaurants, followed by elementary occupations and process, plant & machinery operatives. As such they would be in direct competition for jobs with the UK born low skilled population. Moreover, such migrants have a competitive advantage. Dustmann, Frattini, and Preston (2007) found that recent EU migrants 'downgraded', that is they worked in occupations that were ranked lower in terms of skill content and wages than UK born workers with the same level of education.

The disadvantaged position of low skilled people in the job market is reflected in their employment rates. Figure 2.4 describes the 2010 employment rates of people of working age in the UK by their level of qualification. The chart indicates two clear trends. First, employment rates are highest amongst people holding qualifications at NQF Level 4 or above (just over 85 per cent), decline as the level of qualification declines, and are lowest amongst people with no qualifications (just 43 per cent, or around half the employment rate of the highest qualified).

The comparison across the whole of the working age range might be misleading because many people aged 16-25 years of age could be in full-time education and not seeking employment. Looking only at people aged 25 or above does not significantly change the overall picture, however, with the employment rate of people aged 25-59/64 with high level qualifications being just under 87 per cent while the employment rate of people aged 25-59/64 with no qualifications remains just as low, at just under 48 per cent. Only in the case of people with qualifications at NQF Level 1 or NQF Level 2 does restricting the age range to 25-59/64 have any impact on the employment rate: increasing it from 65.5 per cent to 71.9 and from 71.1 per cent to 79.1 per cent respectively. Clearly this group

contains many people aged 16-24 who are in the process of gaining qualification and who have not yet reached their final level of qualification. It is notable, however, that there is little change or improvement in the employment rates of people with no qualifications even when the most likely age group to be in full-time education is taken out of consideration.

**Figure 2.4: Employment rates by level of highest qualification and sex, UK working age group, 2010**



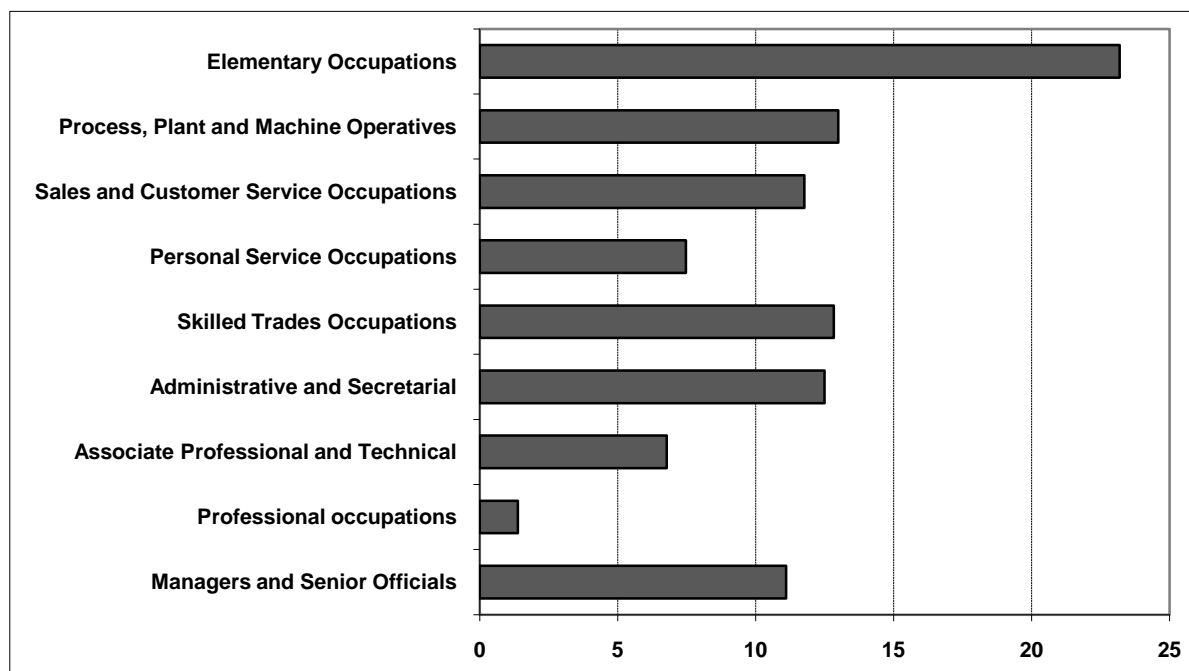
Base: 38,081,256  
 Source: Labour Force Survey

The second tendency revealed by Figure 2.4 is that women have a lower employment rate than men in each qualification category, but this difference is smallest amongst the highly qualified (NQF Level 4 or above) and greatest between women and men with no qualifications. In 2010, while the difference in average employment rates of working age men and women was just 5.5 percentage points, the difference between men and women without qualifications was almost three times that figure (15.3 percentage points). The employment rate of highly qualified women was very close to that of highly qualified men (84.2 per cent and 86.4 per cent, respectively). These gender differences in employment rates suggest that low skilled women are particularly at risk of social disadvantage (as indicated by exclusion from paid employment). This is especially the case if they are single parents or partnered by another low skilled person (Hasluck and Green, 2007).

## Low skill employment

While people with low skills (no qualifications or Level 1 qualifications only) can be found amongst all broad occupational groups, they are mainly found working in *Elementary Occupations*, *Process, Plant & Machine Operatives*, *Sales & Customer Service Occupations* and, to a lesser extent in *Personal Service Occupations* (see Figure 2.5 below).

**Figure 2.5: Proportion of occupation with low skills (no qualifications or only Level 1), UK working age population, 2010**



Base: 38,081,256

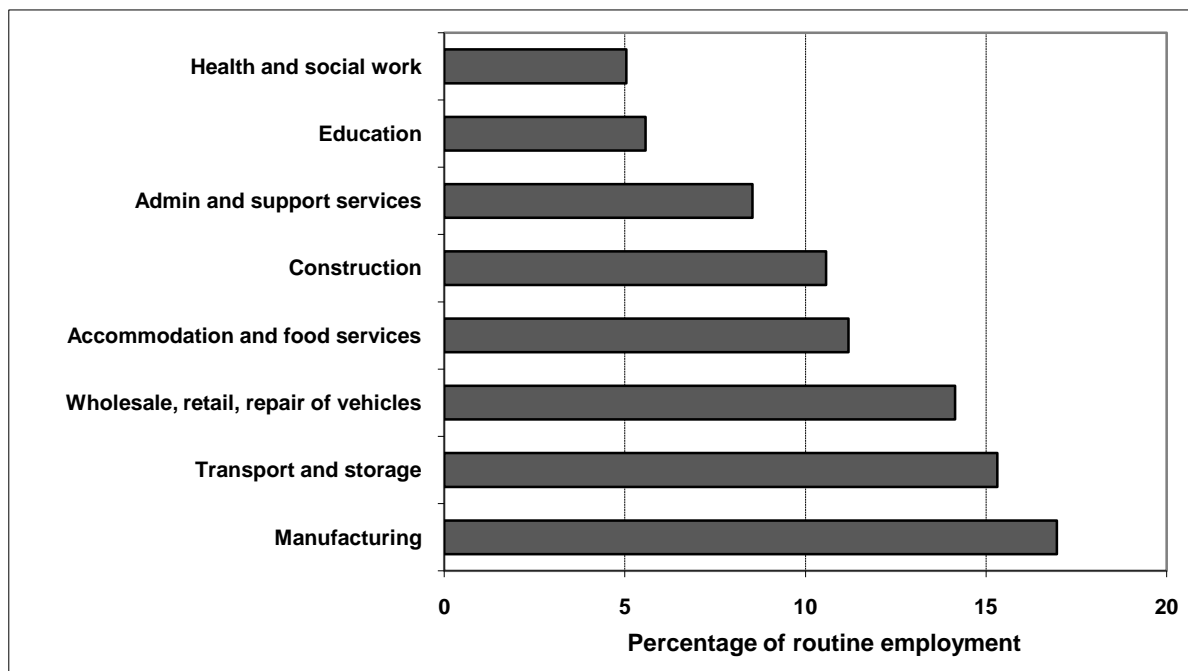
Source: Labour Force Survey

As might be expected, the proportion of low skilled amongst professional occupations is very small but a substantial proportion of *Managers & Senior Officials* (11 per cent) have qualifications only at Level 1 or even none at all. This may partly be explained by the presence amongst the managerial group of a number of sole proprietors but is still cause for concern as it raises questions about the capabilities and competences of staff responsible for running organisations.

Figure 2.6 considers people whose employment is classed as 'routine activities' (i.e. low skilled) in the socio-economic classification of the UK working age population. The chart relates to the top eight industry sectors in which such employment is located. Of the remaining 14 industry sectors, all but three accounted for less than one per cent of routine employment (while the other three all accounted for less than two per cent of routine jobs). The sector which accounts for most routine jobs is *manufacturing*, followed by *Transport & Storage* and *Wholesale, Retail & Repair of Motor Vehicles*. *Accommodation & Food services* and *Administration & Support services* are also

significant employers of people in routine jobs. Reflecting the industrial distribution of routine jobs, people employed in such jobs are more likely to work in the private sector rather than the public sector (86 per cent of routine jobs are in the private sector compared with a UK average across all socio-economic groups of 75 per cent).

**Figure 2.6: Top eight sectors employing people in routine occupations, UK working age group, 2010**



Base: 38,081,256

Source: Labour Force Survey

The proportion of the low skilled workforce employed in part-time jobs is somewhat above the average across all socio-economic groups (30 per cent compared with 25 per cent respectively). Despite this, routine jobs contain a disproportionate number of men, particularly in full-time jobs (82 per cent) but even amongst part-time routine jobs where the male proportion of the workforce is 33 per cent (compared to the average of 25 per cent). These figures can be contrasted with those of intermediate occupations where men take just 39 per cent of full-time jobs and just 10 per cent of part-time jobs, or lower managerial and professional jobs where 54 per cent of full-time jobs are taken by men and just 16 per cent of part-time jobs.

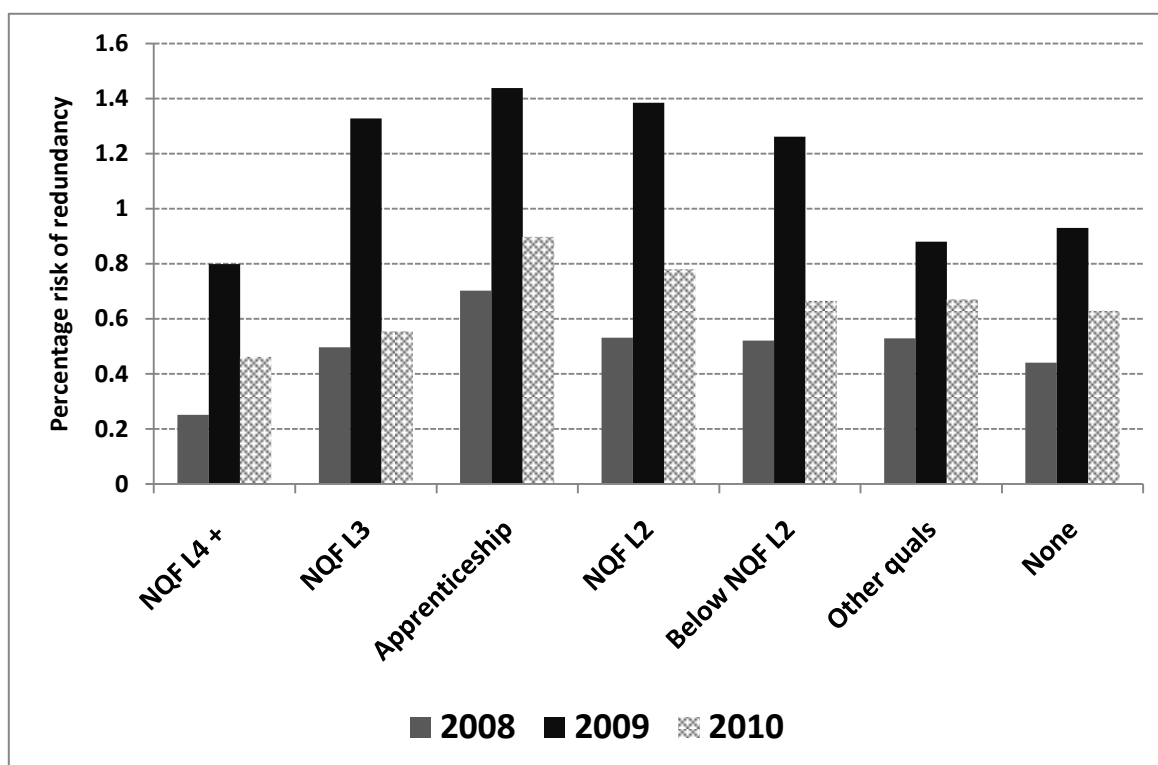
### 2.3 Low skills and the recession

In addition to the long-term decline in the demand for low skilled jobs, there is an additional short-term, or cyclical, factor. During an economic downturn, or recession, low skilled workers may be displaced from their jobs by better qualified workers. The processes leading to this outcome are varied. Employers may seek to retain (or hoard) that part of their workforce in which they have invested in specific training. Skilled workers are retained by employers but temporarily re-deployed to less skilled work in the

business (at the expense of the less skilled workforce)<sup>2</sup>. Alternatively, where skilled workers are made redundant they may have a competitive advantage over other unemployed jobseekers and are better able to obtain work, albeit work of lower skill than their previous occupation, than their less skilled counterparts. Thus, in a recession, the more skilled may displace the less skilled, ‘bumping’ the latter down ‘the job ladder’ or ‘job queue’. Consequently, people with low levels of skill tend to be ‘squeezed out’ of any low skilled jobs that do exist, reinforcing in the short-term the longer term decline in skill demand.

Evidence of this process can be found during the recent 2008-2009 recession. Figure 2.7 show the risk of redundancy, and how it changed, during early 2008, early 2009 and early 2010. The risk of redundancy is estimated as the proportion of working age people who reported they were in employment 12 months previously and who had been made redundant in the three months prior to being surveyed<sup>3</sup>.

**Figure 2.7: Risk of redundancy by qualification level, UK working age group 2008-2010**



Base: 2010 - 38,081,256; 2009 – 38,081,256; 2008 – 37,712,504  
 Source: Labour Force Survey

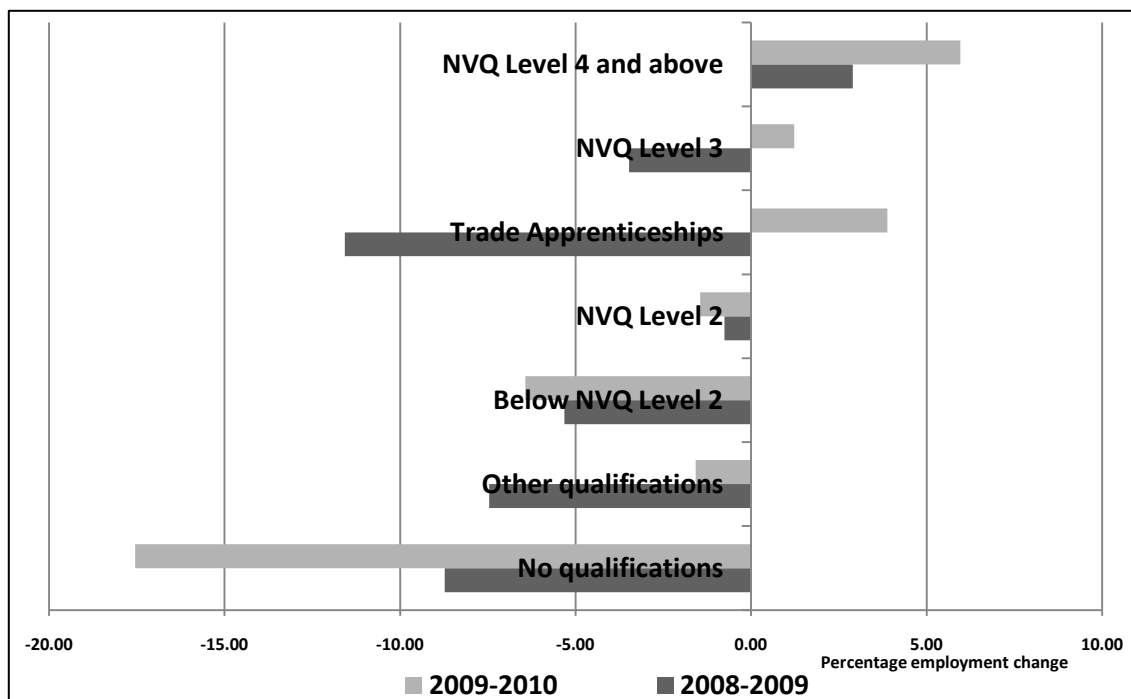
<sup>2</sup> This explanation has a long history – see Reder M. (1955) for a full discussion of this process.

<sup>3</sup> This measure is only an approximation of the risk of redundancy since it relates only to redundancy within the last three months (and does not detect redundancy prior to that period).

Figure 2.7 shows that the risk of redundancy was relatively low at the start of 2008 (before the recession commenced) although there was some variation by level of skill as measured by qualification level. Overall, the risk was less than half of one per cent (around 1 in 200) amongst employees qualified at NQF Levels 4 or 3 but somewhat greater amongst employed people with lower level qualifications. By early 2009, at the height of the recession, the risk of redundancy had increased sharply for all employees but especially for people with intermediate and lower level qualifications. It is notable, however, that after this 'shake out' in 2009, the risk of redundancy returned to much the same pattern as in pre-recession early 2008 but the risks remained greater than before the recession.

Of course there are many other ways that employers can make adjustments other than through redundancies. They can cease to recruit people to replace employees lost through workforce turnover, they can encourage older employees to take retirement and they can terminate the contracts of people working on temporary or fixed term contracts. Redundancy thus provides only a partial picture of the impact of the recession on low skilled workers. The overall impact on low skilled employment can be seen in Figure 2.8 which presents the changes in employment over the periods 2008-2009 and 2009-2010. These employment changes are the net outcome of all the adjustments referred to above.

**Figure 2.8: Employment change by qualification level, UK working age group, 2008-2010**



Base: 2010 - 38,081,256; 2009 - 38,081,256; 2008 - 37,712,504  
 Source: Labour Force Survey

Figure 2.8 shows that despite the recession, employment of the highly skilled (NVQ Level 4 and above) grew during both periods. Elsewhere, employment declined across all skill levels except NVQ Level 4 and above during the height of the recession 2008-2009. The greatest relative decrease in employment was amongst employees with no qualifications (where employment fell by over 8 per cent). There was some evidence of recovery during 2009-2010 as not only did employment of the highest skilled increase but employment growth resumed for those employees with intermediate level qualifications (apprenticeships and NQF Level 3). Despite this, employment continued to decline for employees with lower qualifications or skills, indeed the decline accelerated for those with the least skills. During the period 2009-2010 the employment of people with no qualifications fell by almost 18 per cent.

## **2.4 Low skill, disadvantage and worklessness**

If job opportunities for people with low level skills, especially those with no qualifications, are declining, then their disadvantage can be expected to be reflected in comparatively high levels of worklessness and non-employment. Of course a lack of skills is not the only source of disadvantage leading to non-employment. Based on an analysis of a nine-year sequence of Labour Force Survey data, Berthoud (2003) identified six sub-groups of disadvantaged people at high risk of non-employment. These six groups were:

- men and women without partners (especially lone parents);
- people with a disability;
- people in their 50s;
- those living in areas of weak labour demand;
- members of certain ethnic minority groups;
- those with low qualifications and skills.

This section concentrates on the association between low qualifications or skills and worklessness highlighted by Berthoud. In 2010, over a quarter (27 per cent) of working age people in the UK were not in employment. Of those, just over 6 per cent were unemployed on the International Labour Organisation (ILO) definition<sup>4</sup>, and around 80 per cent (or over 21 per cent of all working age adults) were classed as economically inactive, that is not actively seeking employment. While some of the inactive were so through choice (in full-time education or retired on an occupational pension) many were not in employment because they were unable to obtain paid work or the returns to employment are insufficient. Where non-employment results from multiple and

---

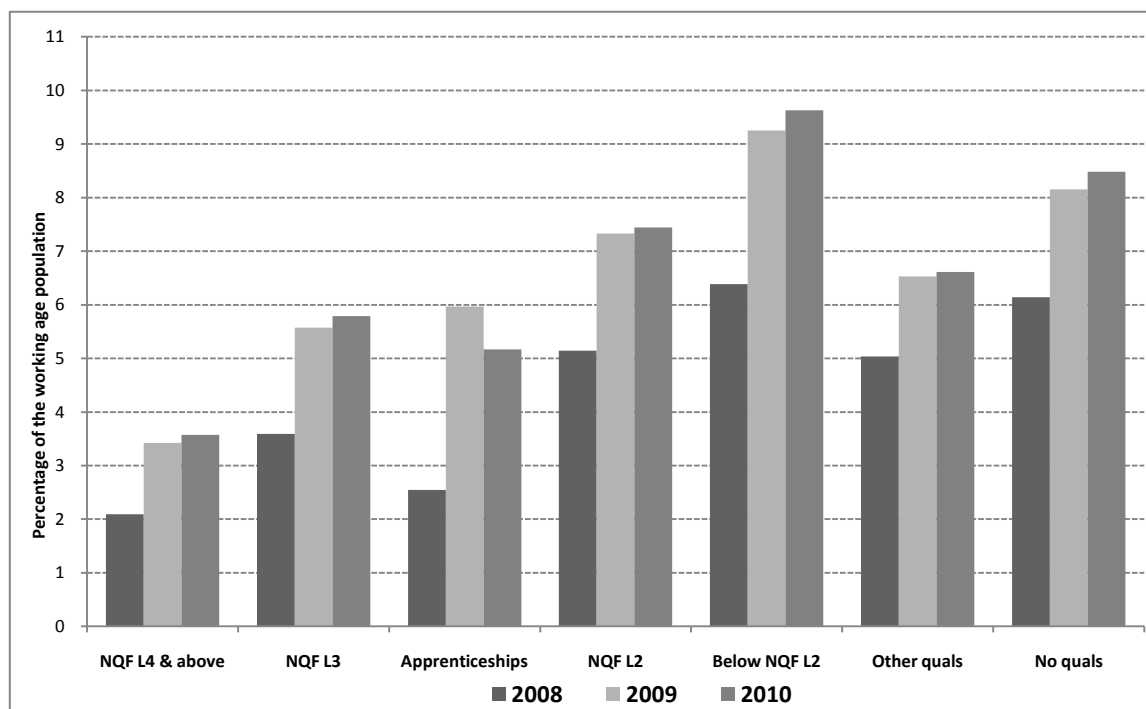
<sup>4</sup> The ILO definition of unemployment defines a person as unemployed if they are out of work, have been actively seeking work and are currently available for work (this includes students who are looking for work).

overlapping disadvantages, many people become discouraged and stop seeking employment and their exclusion from work can become entrenched.

### 2.4.1 Low skill and unemployment

Figure 2.9 shows the unemployment rates of working age people distinguished by their highest qualification<sup>5</sup>. The chart indicates how the incidence of unemployment increases as qualification levels decrease. The unemployment rates of people with below NQF Level 2 or no qualifications are particularly high, with the former having the highest rates of all. While people at all levels of skill experienced an increase in unemployment rates during the period 2008-2009 (albeit slackening somewhat in 2009-2010), the unemployment rate of people qualified only at NQF Level 1 appears to have increased sharply, reflecting the change in employment referred to earlier.

**Figure 2.9: Unemployment rates by qualification level, UK working age population, 2008-2010**



Base: 2010/2009 – 38,081,256; 2008 – 37,712,504

Source: Labour Force Survey

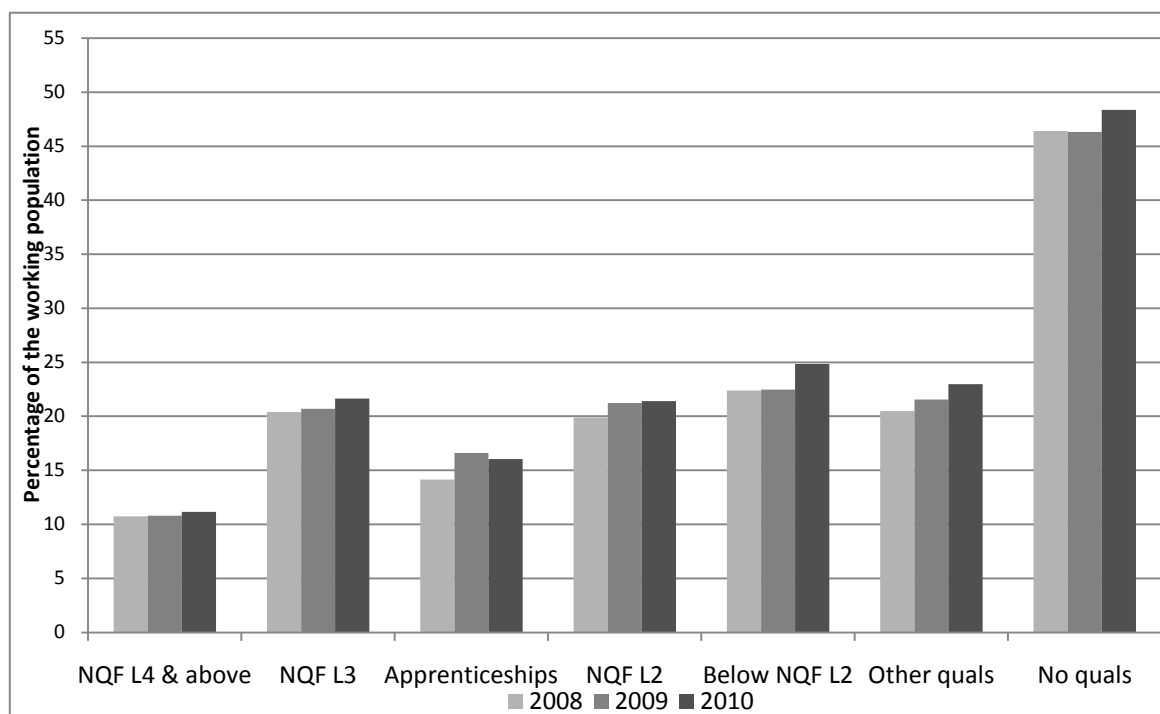
<sup>5</sup> These unemployment rates are not defined in the traditional manner (dividing the number of unemployed people by the number of economically active people over the age of 16). Here rates are measured as a proportion of the working age population as a whole. This difference does not affect the rankings but does mean that the rates are somewhat lower than the conventional measure.



## 2.4.2 Low skill and economic inactivity

As reported above, over 80 per cent of non-working people are classed as economically inactive. While the ILO defined unemployed are actively seeking employment, the economically inactive are not seeking, or are not available for, employment. Figure 2.10 shows the proportion of working age people who are classed as inactive over the period 2008-2010 and highlights the very high rate of economic inactivity amongst people with no qualifications compared with all other groups in the working age population (even those with NQF Level 1 qualifications). In 2010 over 48 per cent of the unqualified group were not in employment or unemployed and were not seeking work. Amongst people with high level qualifications (NQF Level 4 or above) the corresponding proportion was a quarter of that figure (just over 11 per cent).

**Figure 2.10: Inactivity rates by qualification level, UK working age population, 2008-2010**



Base: 2010 - 38,081,256; 2009 - 38,081,256; 2008 - 37,712,504

Source: Labour Force Survey

The reasons for economic inactivity are complex. The classification of a workless person as inactive rather than unemployed depends on whether or not they are seeking work and whether or not they are available for work. In some instances an individual may be close to the ILO definition of unemployment but classed as inactive because they fail on one or more aspects of that definition (they may not be actively seeking work or not immediately available for employment).

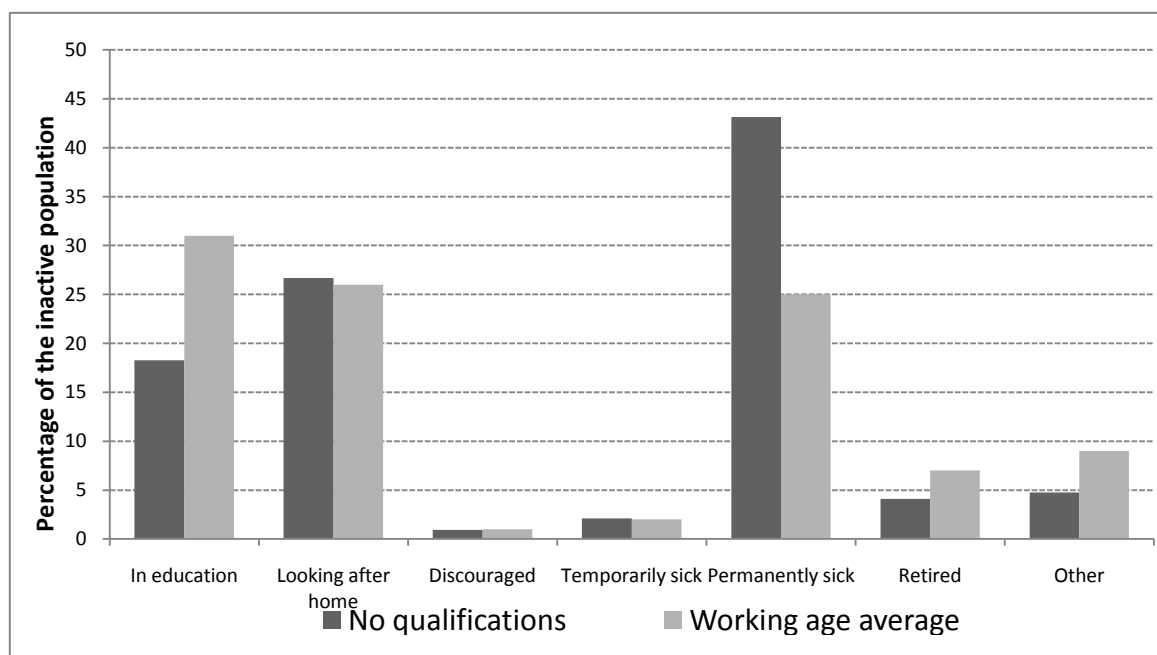
The main reasons for inactivity can be divided into a number of broad categories. These are:

- full-time education;
- caring for other family members;
- temporarily sick;
- disabled or chronically sick;
- retired;
- other.

The most commonly cited reasons for economic inactivity are being in full-time education, disability/long-term sickness and 'looking after family or home'. However, as Figure 2.11 shows, people with no qualifications are much more likely to cite disability/long-term sickness than the average and much less likely to cite being in education. These reasons were also significant amongst those with low-level qualifications (Level 1 and Level 2) but were much less so amongst people with higher level qualifications (for whom an assortment of 'other' reasons and retirement are most commonly mentioned).

The reasons for inactivity cited by people with low skills or no qualifications can be interpreted as a reflection of their disadvantaged position in the jobs market. Some may have been forced out of the market for low skilled jobs by their disability or caring commitments. Others may have opted for inactivity because the alternative of employment on low pay was less financially rewarding than life on welfare benefits. It is also notable that individuals who are unqualified are less likely to be in full-time education and thus less likely to be addressing their lack of skill or lack of qualifications.

**Figure 2.11: Broad reason for economic inactivity, UK working age population, 2010**



Base: 38,081,256

Source: Labour Force Survey

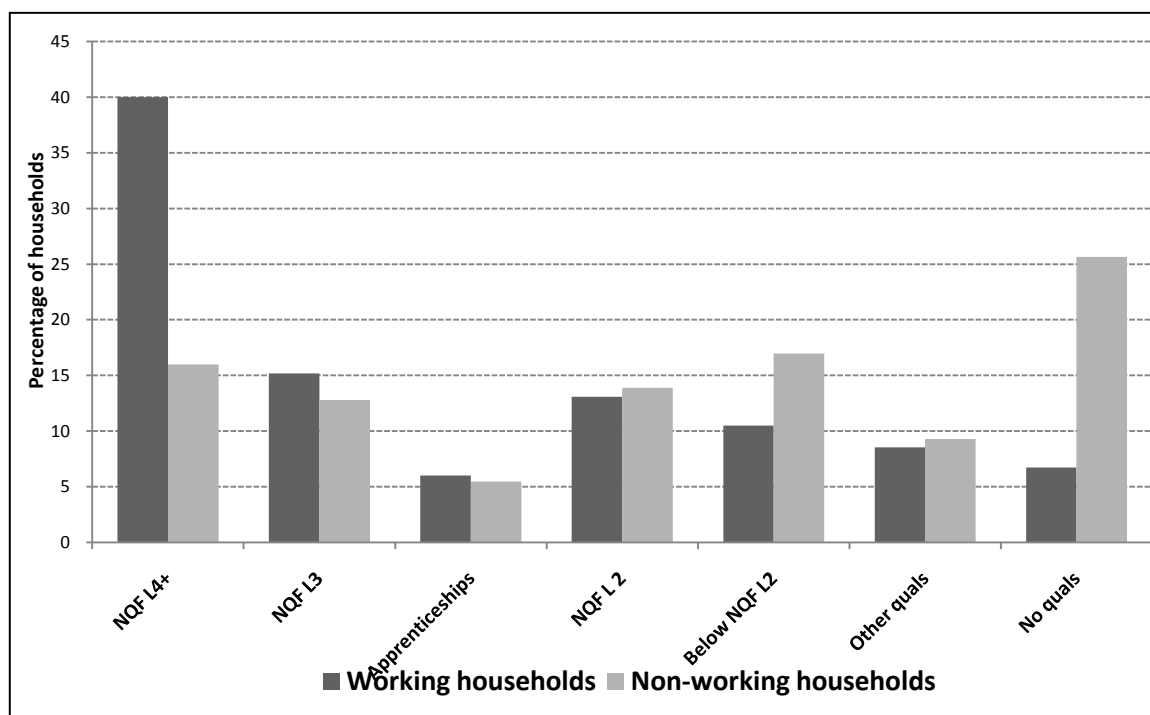
## 2.5 The impact of disadvantage on households

While many of the factors leading to non-employment (including a lack of skills) are associated with individuals, the consequence is often the social exclusion of the household. The proportion of households in the UK that contained no working adult peaked at almost 20 per cent in 1997 and while this declined for a while it now has increased again to reach just under 25 per cent in 2010. Of course many of these households contain older, retired people, and restricting the analysis to the working age population reduces the proportion in 2010 to 12.4 per cent. This is still one in eight households. While the majority of such households consist of a single adult, a substantial minority are households containing a couple where neither work (Gregg and Wadsworth, 2003). Moreover, the reasons for worklessness amongst couple households has changed over time, with unemployment being the most common reason during the 1980s but economic inactivity (where no paid work is sought) was the predominant reason for worklessness amongst couple households in the past decade.<sup>6</sup>

The economic and social situation of households reflects the characteristics of household members including their qualifications and skills. Figure 2.12 indicates that just over a quarter (25.4 per cent) of all workless households in 2010 contained individuals with no qualifications. This was roughly four times as high as households where at least one person was in employment (where the corresponding figure was just 6.7 per cent).

<sup>6</sup> See Hasluck and Green (2005) for a more detailed discussion of the factors driving the creation of workless households.

**Figure 2.12: Highest qualification, working and non-working households, UK, 2010**



Base: 38,081,256

Source: Labour Force Survey

Berthoud (2003) pointed out that men and women without partners (especially lone parents) are particularly at risk of worklessness. Almost 14 per cent of lone parents have no qualifications and a further 19 per cent only have qualifications at NQF Level 1. While older lone parent households are often the result of marital break-up or separation (and have a range of qualification levels), younger lone parents tend to have experienced an early disruption to their education and are more likely to be low skilled and less qualified.

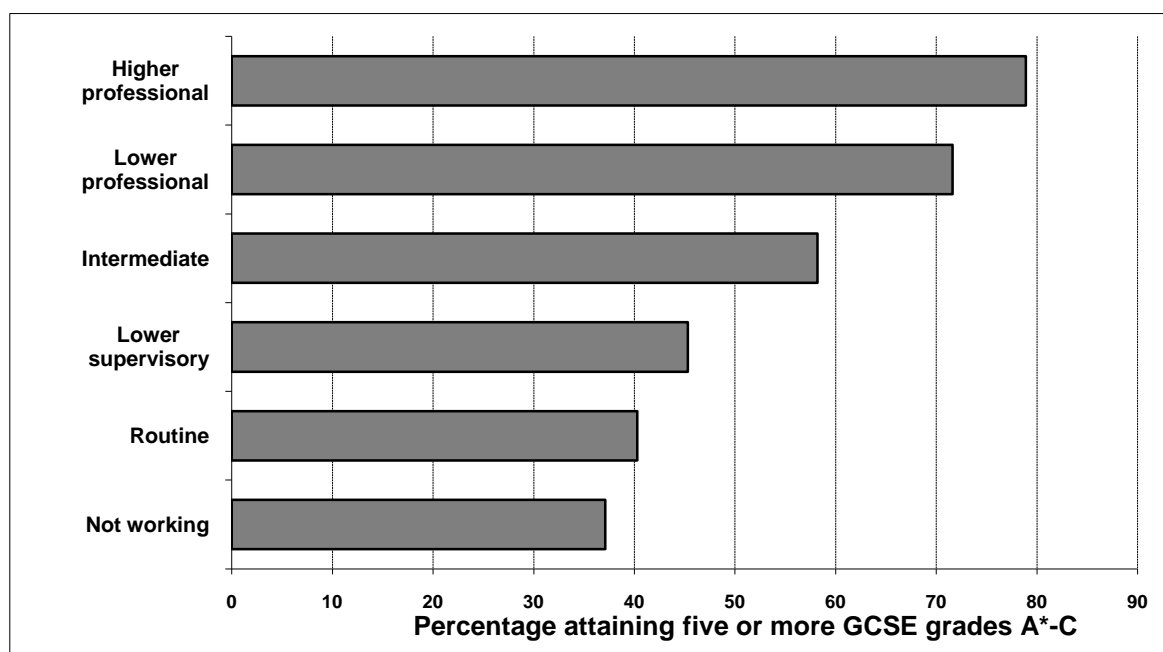
In couple households, the presence of a non-employed person can be reflected in the situation of partners who are also not in paid work. In part this arises from a tendency of people to partner others of a similar social and educational level (a process referred to as assortative mating) and, as a result, workless households often contain couples who share an equal educational or skill disadvantage. In addition the UK benefit system has for many years provided a range of disincentives for the partners of non-employed people to take low paid work (Evans and Harkness, 2010). Cohabiting couples represent a particularly dynamic household type, breaking up and reforming more frequently than married couples. Cohabiting couples are more likely to have left school early and are more likely to have lower level qualifications (Marsh and Perry, 2003).

Low skill and disadvantage in the jobs market not only impacts on other household members through a low household income. Parents' low pay, if in employment, or welfare benefits if not, can also establish a culture of worklessness in the household and low ambition leading to low educational attainment amongst children and the inter-generational transmission of disadvantage. Figure 2.13 describes the educational

attainment of children distinguished by the National Statistics Socio-Economic Class (NS-SEC) of their parents (a broad measure that provides an indicator of skill based on occupation). The chart measures the attainment of five or more GCSE passes at grades A\* to C. This is a basic measure of school attainment and a key threshold if a child is to progress to the next level of school qualification (such as A-Levels).

Figure 2.13 strongly suggests that, for whatever reason, the level of attainment of children at the most basic educational level increases as the socio-economic class of their parents increase. Only around 40 per cent of children from households where the parents are low skilled (employed in routine occupations or not classified) attained five good grades at GCSE whereas almost 80 per cent of the children whose parents were higher professionals attained such grades.

**Figure 2.13: Attainment of five or more GCSE grades A\* to C by parental NS-SEC, 2007**



*Note: Parental NS-SEC represents household SEC and is taken to be the SEC of whichever parent has the highest order NS-SEC.*

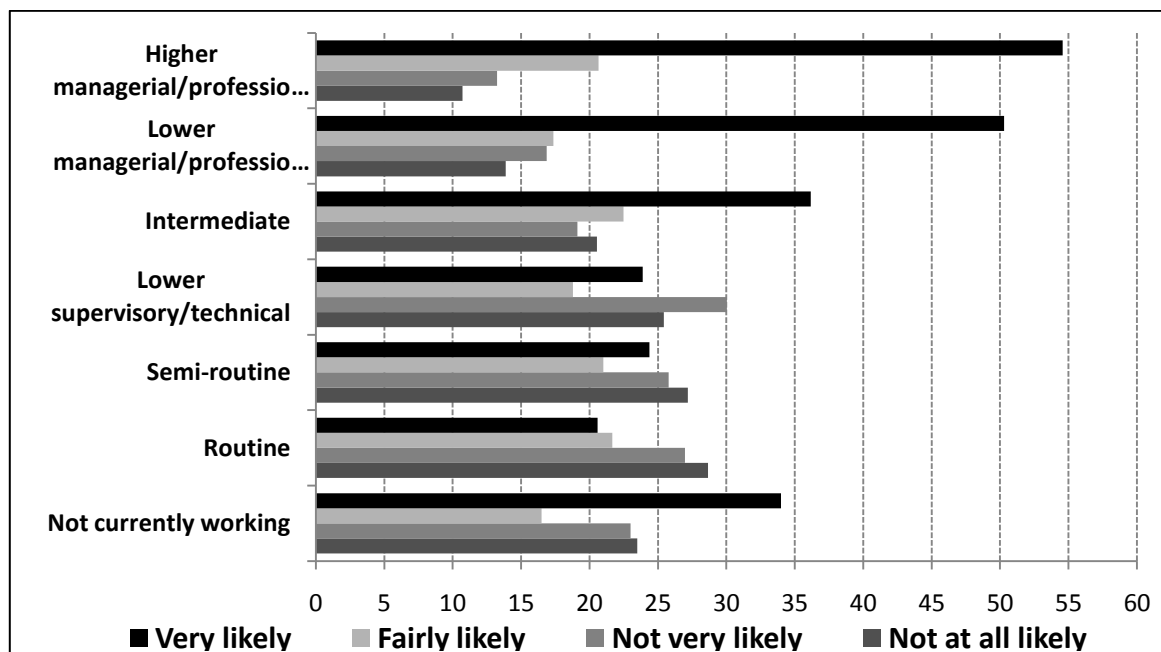
*Base: 7,525*

*Source: Youth Cohort Study 13, Sweep 1*

The importance of the evidence in Figure 2.13 is the suggestion that the pattern of skills amongst parents will tend to be reproduced amongst their children so that disadvantage and advantage pass from one generation to the next. A key factor will be the extent to which those children who do attain basic level school qualifications continue their learning and obtain higher level qualifications. In part this will be conditioned by the aspirations of children and their parents.

Figure 2.14 provides further insight into this process of selection. The chart shows the proportion of young people who aspire to go to university classified by the socio-economic group of their household. It is clear from Figure 2.14 that the aspiration to enter higher education exists amongst all socio-economic classes but is associated positively with the level of skill of parents. The aspiration to go to university is commonplace amongst young people whose parents are themselves highly skilled and well qualified (around 85 per cent of such young people think it highly or fairly likely that they will go to university) but is less common amongst young people whose parents work in low level, routine occupations (where only just over 40 per cent have that aspiration). The latter percentage is not substantially different from that of other young people whose parent's occupations are classified as semi-routine or lower supervisory/technical occupations.

**Figure 2.14: “Likelihood of ever applying to go to university and do a degree” by parental NS-SEC, 2007**



Base: 7,525

Source: Youth Cohort Study 13, Sweep 1

## 2.6 Is the low skill penalty ‘a thing of the past’?

The Labour Government’s *Modernising Government* White Paper of 1999 introduced Public Sector Agreement (PSA) as targets by which to manage the performance of Government Departments. A key PSA was PSA8 that required government to “*maximise employment opportunity for all*”. To measure progress towards that target a number of indicators were defined, of which Indicator 2 was the gap between the employment rates of a number of disadvantaged groups and the overall average employment rate. The performance of government departments were then to be judged in relation to the extent to which such gaps were narrowed.

One of the employment gaps covered by Indicator 2 related to “the 15 per cent lowest qualified”, a group that closely relates to the focus of this paper. Indicator 2 thus provides a good approximation of how well government policy has performed in regard to low skilled people. Evidence from DWP (DWP, 2009) shows that from 1997 to around 2007 the employment rate gap of this group was the only one of all the disadvantaged groups covered for which the gap widened (whereas it decreased for people with disabilities, lone parents, people aged 50-69, ethnic minorities and deprived areas). By late 2009 DWP was able to report that a small but statistically insignificant improvement in the employment rate of the lowest qualified had taken place (DWP, 2009).

Does the 2009 figure for Indicator 2 suggest that the tide has turned? The indicator takes the lowest 15 per cent of people ranked by qualification. This group contains people with no qualifications and some with low level qualifications and can be expected to improve merely because of the shift in numbers from no qualifications (who have a very low employment rate) to lower level qualifications at NQF Level 1 or 2 (who have a higher employment rate). However, if those with no qualifications alone are considered, there seems little evidence of any improvement. Since 2006 the employment rate of the unqualified group has declined steadily from 48.5 per cent in 2006, to 47.5 per cent in 2008 and by 2010 had fallen to just 43.1 per cent. The employment rate ‘gap’ has fluctuated over the period but remained approximately in the region of 27.5 percentage points (plus or minus around 2 points) until in 2010 it widened significantly to 29.4 percentage points. It would appear that while employment rates generally declined during 2009-2010, the employment rate of unqualified people declined at a greater rate than the average. This strongly suggests that the disadvantage experienced by the very low skilled has been exacerbated by the recent recession. Of course it is also important to note that over this period the number of unqualified people of working age fell by more than 553,000 but this still meant that in 2010 there were over 1.6 million working age people without qualifications and who faced disadvantage in the labour market.

In 2010, the new coalition government swept away much of the existing framework for monitoring and managing public service performance. The PSA system of national policy targets was an early casualty of the coalition’s reform agenda. There is, therefore, no policy target in regard to low skilled people or people without qualification, and tighter restrictions on eligibility for funding. This is unfortunate as the indicators used for the Public Service Agreement (PSA) target over the past decade does not suggest that the issue of low skills has been successfully resolved and the gap between the employment rates of low skilled people and the remainder of the workforce remains as great today as it ever did.

### **3 Likely future economic developments including the impact of the Spending Review on people experiencing social disadvantage**

This section looks at the future prospects for people with low skills and considers:

- the future demand for low skilled jobs;
- the short and long-term consequences for low skilled individuals;
- the extent to which skill levels can be enhanced;
- current skills policy as it affects low skilled people.

#### **3.1 The future demand for skill**

Assessing the future prospects of the socially disadvantaged is a complex matter given the heterogeneity of disadvantage. As elsewhere in this report, this section narrows the focus by considering the prospects for people who are disadvantaged by a lack of skill and/or qualifications. Clearly such disadvantage will be exacerbated where individuals suffer from additional disadvantages such as disability, poor health or discrimination.

The prospects for low skilled people will depend on several factors. The first is the demand for skills and structure of future occupational employment. As the previous section observed, the long-term trend has been for the demand for higher level skills to increase while the demand for low level skills and the jobs that use such skills to decline. This is, however, not the only factor determining the prospects for low skilled people. A key issue in the short-term is whether people disadvantaged by low skills and a lack of qualifications can retain access to such low skilled jobs that do exist or whether they will be squeezed out by people who are better qualified and have more skills and are thus more competitive in the job market. This is a critical issue in the aftermath of recession. In the longer-term there is also the issue of whether people currently disadvantaged by low skills can gain the skills they need to access the jobs of the future that demand new or different skills and qualifications.

*Working Futures 2007-2017* (UK Commission, 2008) provides detailed projections of future employment by sector and occupation. Although undertaken before the full impact of the recession could be gauged, *Working Futures* argues that the broad patterns of change projected will prevail over the longer-term whatever happens in the short-term. The report argues that a combination of globalisation and technological change will tend to increase the skill requirements of UK businesses as the nature of competitive advantage becomes more complex. Increasingly, competitive advantage in products and



in processes is the result of superior information and knowledge content. This has led to an increased emphasis on higher level skills and resulted in a decline in demand for unskilled workers. *Working Futures* (UK Commission, 2008) concluded that technological change (particularly related to ICT) had been a particularly important driver of change and that occupational shifts within sectors would be of greater importance in the next decade compared with previous decades. Nonetheless, it seems likely that both technology and growing world trade will continue to raise the demand for higher level skills and drive down the demand for lower level skills.

The pattern of occupational change for the next decade projected by *Working Futures* (2008) is expected to mirror that of the recent past, as the same basic forces are at work. Changes in the industrial structure of employment in favour of the service sector (industry effects) will tend to favour white collar, non-manual occupations, while the continued loss of jobs in manufacturing and primary industries will result in yet further job losses for many manual blue collar jobs. The impacts of information technology and other related organisational changes are likely to further reduce the demand for clerical and basic secretarial skills across all industries (occupational effects). Conversely, the management and operation of the new technologies will require greater shares in employment for managerial, professional and associate professional occupations, including technicians of various kinds. Changing technology does not always favour the skilled; many skilled manual workers in manufacturing are projected to be displaced as a result of the introduction of new technologies. Some de-skilling of work may take place with an increased need for machine operatives and low level customer service occupations that need some training, but not the long apprenticeship required of traditional apprentice-based craft skills.

Overall, the pattern of projected employment change over the next decade as set out in *Working Futures 2007-2017* (UK Commission, 2008) does not offer a great deal of hope that the employment prospects for low skilled people will improve. One crumb of comfort in the report is the suggestion that the structure of employment will become more polarised, that is while the bulk of job growth will be in highly skilled occupations, there will be some growth at the lower end of the occupational spectrum in regard to personal service and similar occupations where inter-personal contact cannot be replaced and inter-personal skills, customer service and the like will be at a premium. This proposition is consistent with that of Goos and Manning (2007) who argued that technological progress lowers the price of capital, allowing capital to be substituted for labour performing routine tasks. As such jobs tend to be found in the middle of the occupational structure, the occupational and skill structure becomes polarised, with more people employed at the extremes of highly skilled at one end and low skilled but non-routine jobs at the other (although some research has cast doubt on this trend – Holmes [2010]).

Whether the future occupational structure is polarised or not, the key question facing low skilled people is whether they can retain employment in occupations at the lower end of the occupational spectrum and gain access to new jobs when they are created. The threat to low skilled workers, especially those with no qualifications or lacking basic skills, is that they will be pushed down the labour queue by competition from two sources. The first threat comes from better qualified and more skilled workers who are displaced from middle order occupations and who may be more attractive to employers because of the skills they embody. The second threat comes from international migrant workers who may be skilled or well qualified (but willing to work in unskilled jobs) or who are perceived by employers to possess a superior work ethic. The latter threat may be diminished by any tightening of UK border controls and work regulation but will not affect competition from migrant workers from the new accession European Union states (such as Poland, Romania and others).

The extent of competition for low level occupations will fluctuate depending upon macroeconomic conditions. If there is significant job growth over the next decade then the extent to which intermediate and upper-lower skilled workers are displaced and competing for lower skilled jobs will be less than if the economy and job market stagnates. A particular concern here is the prospect of substantial job cuts in the public sector as signalled in the Budget of June 2010 and the Public Sector Spending Review of November 2010. Many of the projected public sector job cuts will affect public sector workers with intermediate and high level qualifications (e.g. police officers and police support workers, NHS employees, local government officers and so forth). Unless the private sector can absorb those made redundant into intermediate and high skilled employment, many of these public sector workers will end up competing for jobs at the lower end of the occupational spectrum that, while considered low skill nonetheless may suit the skills and experience of those leaving the public sector. Should this happen, then existing low skilled employees and those seeking to enter the job market with low skills and low level, or no, qualifications will be at a significant disadvantage and at increasing risk of being squeezed well down the labour queue and possibly out of work.

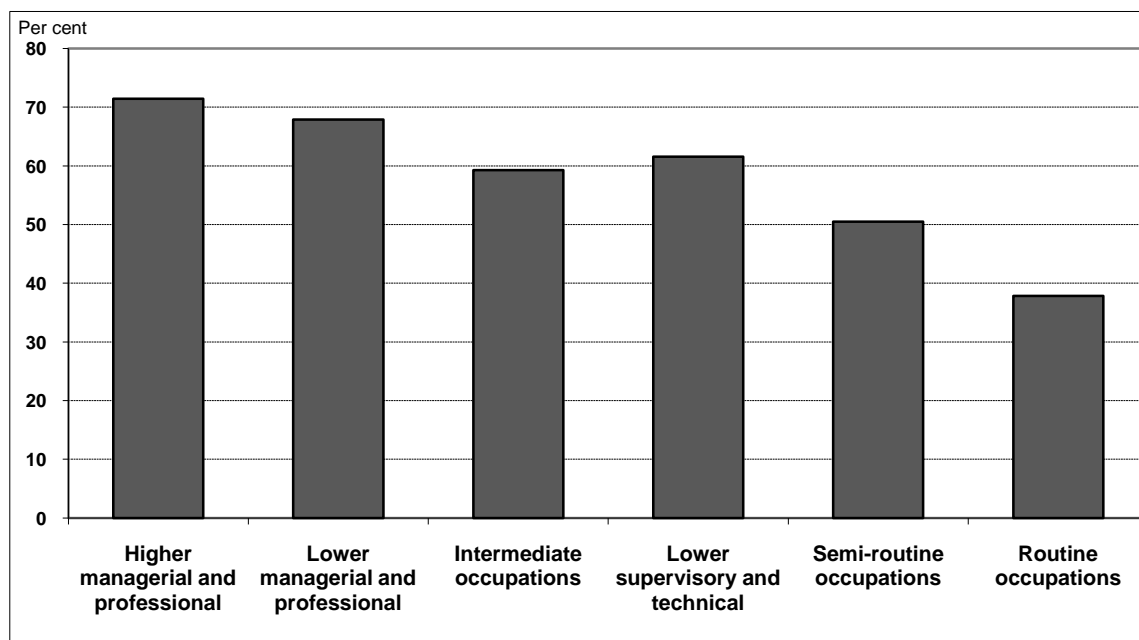
### **3.2 Improving job competitiveness through learning and training**

To what extent then, can low skilled or poorly qualified jobseekers defend themselves from competition by the better qualified by attaining new skills and qualifications? Unfortunately, as the previous section indicated, a large proportion of people who are low skilled or unqualified are not seeking employment, as they are economically inactive and while some are in full-time education, this proportion is below the average proportion of other inactive people. Individuals who are inactive for reasons other than participation in full-time education face considerable barriers to any form of learning (cost, time, domestic

responsibilities, benefit rules etc.). Unemployed people who are claiming Jobseekers Allowance have a better chance of undertaking some form of job-related training but such training tends to be of short duration, geared to facilitating job search and a return to work and is rarely aimed at obtaining any form of qualification. Indeed, in the era of the New Deal (1998-2010), the emphasis on 'jobs first' (the principle that the priority above all else was to get an unemployed person into a job) can cut across the need to provide full-time training for people who lack basic skills or require new skills. Such training was regarded by Jobcentre Plus as a delaying factor that would keep the claimant out of the job market for the duration of the training.

Where individuals are in work, the critical factor that will ensure they remain competitive and attractive to employers is the extent to which they can address basic skill deficiencies, obtain new skills and obtain qualifications (either certificating existing skills or reflecting new skills). Evidence from the Labour Force Survey (LFS) is not reassuring in this regard. Figure 3.1 indicates that employees in low skilled routine or semi-routine jobs are the least likely to be offered any job-related training. In 2010, less than 40 per cent of employees in routine occupations report that their employer had offered them any job-related training whereas such an offer was made to over 70 per cent of employees in higher managerial and professional jobs.

**Figure 3.1: Incidence of employer offers of job-related training by NS-SEC, UK working age employees, 2010**

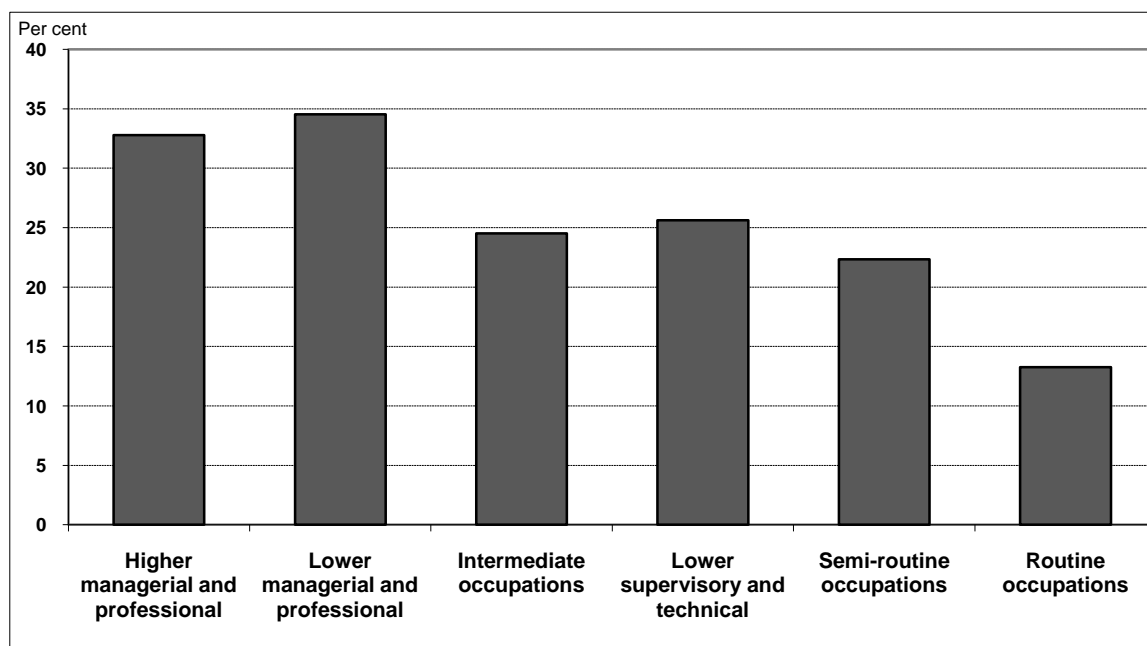


Base: 27,562,447

Source: Labour Force Survey

In terms of receipt of job-related training, a similar picture is evident in figure 3.2. This shows that less than 40 per cent of people employed in routine occupations had received any form of job-related training in the previous three months. The corresponding figure for higher managers and professionals was over 70 per cent. While these numbers relate to 2010, the situation was little different in the preceding years. Generally, the least skilled are the least likely to be offered or to receive job-related training and this tends to reinforce the weak competitive position of low skilled people in the job market. This finding is consistent with that of Bell and Hansbro (2007) who reported that a little over 5 per cent of unqualified employees in Great Britain had received any training in the previous four weeks compared with 15 per cent of employees who already had Level 2 qualifications. Since training in the workplace is associated with increased employment stability (longer job tenure) and higher earnings, it is clear that low skilled and unqualified people are likely to be excluded from better quality jobs with prospects of career advancement (Blundell, Dearden and Meghir, 1996). Thus, the pattern of workforce training in the UK has, in the past, reinforced, rather than remedied, the past failings of the education system.

**Figure 3.2: Incidence of job-related training received in the last 3 months, by NS-SEC, UK working age employees, 2010**



Base: 27,562,447

Source: Labour Force Survey

There is a particularly notable gap between the amount of training received by those with no qualifications or only NQF Level 1 qualifications and the training received by those with qualifications at Level 2 or above. Once workers achieve basic skills and Level 2 qualifications they appear more likely to receive training from their employers. This reinforces the conclusion that basic skills and Level 2 skills are the key for further progression. For that reason, helping people to achieve Level 2 qualifications has been

seen as a way to significantly improve their prospects in the longer-term and has become a priority for vocational training and workforce development policy in recent years. A range of initiatives have been introduced in the past to provide incentives for both employers to offer training to Level 2 and for individuals to take up such training where it is offered. An example of this is Train to Gain which offered a financial incentive to employers to release members of their workforce for Level 2 training.

The variation in the volume of training received by different groups in the workforce is matched by a variation in type of training received. People with low-skills are less likely to receive general, transferable skills than their more highly skilled colleagues. This leaves them with less flexibility and lower returns to their training. This is because the market does not value pure specific skills as those skills have value only to the employer who invested in the training. Workers with specific skills may receive pay that is little different from their unskilled counterparts, although they may be able to secure a somewhat higher wage because of the cost to their employer of training a replacement should they quit their job. A lack of more general skills may also prevent the less skilled from progressing up the jobs 'ladder' to better paid jobs through promotion.

### **3.3 Strategy to raise skill levels**

During the past decade there have been significant reforms of both policy and the institutions charged with delivering learning and skills policy. The reforms have addressed skills at all levels and it is beyond the scope of this paper to describe all of such developments in detail. Nonetheless, one significant reform of vital importance to low skilled people should be highlighted. The 2003 Skills Strategy White Paper *21st Century Skills: Realising our Potential* (DIUS, 2003) set out a commitment to help unskilled or low skilled adults to gain a platform of employability skills on which they could build for the future. Central to that commitment was an entitlement to fee remission for tuition to study for a first full Level 2 qualification, or in some cases a Level 3 qualification for eligible adults of 19 years and over.

Since *21<sup>st</sup> Century Skills: Realising our Potential* there have been many other developments in skills policy and the learning and skills system. Nonetheless, throughout those reforms the entitlement to Level 2 learning has been maintained. That commitment includes the latest round of reforms set out by the incoming coalition government in *Skills for Sustainable Growth: Strategy Document* (BIS, 2010a) and *Further Education – New Horizon, Investing in Skills for Sustainable Growth* (BIS, 2010b).

Again building upon the complex system already in place, the reforms relating to people with low skills and qualifications include:

- Fully funding training for young adults aged from 19 up to 24 undertaking their first full level 2 (GCSE equivalent) or first level 3 qualification when they do not already have one. Fully funding basic skills courses for individuals who left school without basic reading, writing and mathematics.
- Helping people who are on active job-seeking benefits to secure work through labour-market relevant training.

It should be noted, however, that while the commitment remains, eligibility for funding varies. Initially, from 2012-13, individuals aged 19-24 years of age will be fully funded at both Level 2 and Level 3 learning while adults (those age 24 years and over) will only be fully funded for basic skills provision. Learning for adults beyond basic skills will be co-funded with the individual expected to bear some of the cost. From 2013-14, however, adults learning at Level 3 will bear the entire cost of their learning activity which will be funded by loans. Similarly, individuals who are unemployed will be fully funded in 2012-13 but from 2013-14 only those aged 23 and under will be funded for targeted learning to address skills barriers while those aged 24 or above face the prospect of loans for any learning undertaken at Level 3 or above (BIS, 2010a).

## 4 Employment needs and preferences

This section considers skills and disadvantage in terms of:

- the debate about the impact of qualifications on labour market position;
- the aspirations of learners.

### 4.1 Do low skilled people need more qualifications?

It would appear self-evident that if a lack of skills (as measured by qualifications) is associated with disadvantage in the labour market and leads to an increased risk of non-employment or employment in low skilled and low paid jobs, then the need to be addressed is the acquisition of qualifications and qualifications at a higher level.

There is a substantial body of evidence indicating an association between education level and qualifications and the likelihood of being in employment and earning. The impact of qualifications on employment appears significant at an early age and is particularly evident for women. McIntosh (2004) found that unqualified school leavers who subsequently went on to obtain Level 2 qualifications were much more likely to be in employment than their peers who did not acquire any qualifications after leaving school. The impact of acquiring a Level 2 qualification was particularly great for female school leavers. A similar differential impact on the probability of women being in employment was noted by Dearden, *et al* (2000) and Jenkins (2004). Walker and Zhu (2003) found a high financial return to investment in higher education.

Much of the return to adult learning depends on the nature of the qualification obtained. Indeed, Keep and James (2010) have argued that the returns to a particular qualification are difficult to identify and complex since such labour market impacts vary according to:

- the age of the learner;
- their gender;
- the level of the qualification;
- the subject and occupation to which it is related;
- type of qualification and awarding body;
- workplace or non-workplace;
- the status of the learning provider;
- who pays for the learning.

Generally, vocational qualifications appear to have a lower impact than academic ones, particularly so in regard to low level vocational qualifications (Dickerson and Vignoles, 2007; UK Commission, 2010a). Both McIntosh (2004) and Dearden *et al* (2000) found the impact of vocational qualifications on the probability of being in employment was substantially greater for Level 3-5 qualifications than Level 1 or 2. In the case of Level 1 and 2, Dearden *et al* (2000) actually found that the acquisition of such qualifications by men was associated with a reduced probability of being in employment.

Once in employment, the impact of qualifications is less clear. There is mixed evidence as to whether gaining a qualification leads to more sustained employment. Some US evidence suggests that non-employed people who entered employment after gaining a qualification during participation in a labour market programme were more likely to remain in employment for longer than similar non-employed participants who did not gain a qualification (Dench, Hillage and Coare, 2006). There is little strong evidence for the UK one way or the other but that which exists indicates that where unqualified people were helped into work by means of training and gaining qualifications, they often entered unstable employment and frequently returned to unemployment or inactivity within a short space of time. People who return to benefit within the first three months of employment have tended to be those with low or no qualifications (Ashworth and Liu, 2001). The Leitch Review (HM Treasury, 2006) estimated the number of repeat claims from people with low skills and no qualifications at around 800 thousand per year, or around a third of all annual JSA claims. The main reasons for this were said to be that the opportunities on offer to those with no or low qualifications tended to be limited to low paid and temporary jobs, and the negative attitudes towards paid work of many low skilled job seekers who often felt that benefits provided a more stable income stream than paid work (Carpenter, 2006).

As with the likelihood of employment, there is also mixed evidence relating to the impact of qualifications on earnings. Jenkins (2004), for instance, found that adult learning had little impact on the earnings of women who had gained a Level 2 qualification. Dickerson and Vignoles (2007) also found little return to individuals from the acquisition of low level qualifications. They found the wage return to gaining a Level 1 qualification to be zero or negligible while the return to Level 2 qualifications depended critically on whether the qualification was an 'academic' or 'vocational' one. The returns were greatest if the qualifications were academic and much less so if the qualifications were vocational.



## **4.2 Raising aspirations**

It was noted earlier (see Section 2.6) that the children of parents who are low skilled are much less likely to aspire to enter higher education. This is a particular example of the low level of aspiration that can influence people whose experience of the job market is a mixture of low level, routine jobs interspersed with spells of worklessness. As noted above, many individuals in such situations do not see much point in undertaking additional learning or obtaining qualifications. Such feelings may be reinforced when those around them – other household members or the wider local community – share their sense of anomie (Fetcher, 2007).

Where aspirations are low, a narrow focus on learning provision may be insufficient on its own to raise skill levels. Some support could be focussed on individuals through information and support through outreach work. However, many of the factors depressing aspirations lie outside the sphere of the individual and are rooted in the reality of the local labour market and the wider social context. Ultimately, there has to be the realistic prospect of higher quality, better paid employment that will provide some return to any individual investment in learning.

## 5 The role of employers

Employers are the 'gate keepers' to employment. This section considers the role of employers in respect of low skilled workers, in terms of:

- where low skill fits into employer's product strategy;
- the impact of recruitment and workforce development practices in disadvantaging low-skilled individuals;
- the link between economic growth and the job prospects of low skilled people.

### 5.1 The link between product strategy and demand for skills

The skill requirements of an organisation depend critically on the business strategy it adopts. Typically, organisations do not face a single production technique nor do they serve a market for a homogeneous product or service. Business strategies involve choices about what products or services to deliver and the quality and price of those products or services. Some organisations may decide that their best competitive strategy is a focus on a high value added, premium product or service while others may choose a low specification product or service where the emphasis is keeping price and costs down. High value added, high quality strategies generally require higher skills, including the use of specialised and distinctive competencies. Low quality, low value added strategies typically have low specification products or services and require old production technology and low skills.

Globalisation and the associated increase in competitive pressures can lead businesses to respond in different ways. Some will opt for strategies that involve the introduction of new products or services, major changes in equipment and in working methods or workforce organisation. Such changes often generate a demand for new and higher level skills. Other organisations may respond to international competition by retaining traditional production technology and workforce organisation which, in the main, requires low skills. This product strategy often results in low pay (because of its emphasis on low value added and low production costs) and a lack of career progression (since the business only needs low skilled workers).

The link between business strategy, workforce organisation and the demand for skills suggests that many of the mechanisms for increasing opportunities for disadvantaged people with low skills are located within the workplace and thus unaffected by the actions of individuals themselves (even assuming that they wish to improve their skills and employment opportunities). It is a critical paradox that where employers have opted for a low value added, low skill strategy this creates a supply of low skilled jobs that

disadvantaged people can compete for but undermines any incentive to 'up-skill' both on the part of the employer or of low skilled employees. From the employer's perspective, this product strategy dictates the creation of routine, low productivity and low paid jobs and it would be illogical for them to generate jobs requiring greater skill or to facilitate the acquisition of new skills through training their employees. What the employer in such a situation requires is a steady supply of recruits on the open jobs market. From the employee's point of view, the employment on offer is often repetitive with limited discretion and little intrinsic interest and provides few opportunities for progression (Lloyd, Mason and Mayhew, 2008; Lawton, 2009). Those doing such work often see little point in training, since it is outside their experience, their employer does not require higher skills and the opportunities to progress are limited (Keep and James, 2010).

## **5.2 Workplace factors and the take up and utilisation of skills**

It follows from the discussion above that there is unlikely to be a significant change in the job opportunities available to those disadvantaged by low skills without changes in the workplace. So long as employers opt for a low skill, low value added strategy they will continue to offer low skilled jobs. It is much less certain, however, that the most disadvantaged will be able to gain access to those low skill jobs since employers are likely to be selective when they recruit to fill the jobs. The evidence from Section 2 is that employers often recruit people to elementary occupations whose skills and qualifications greatly exceed what is required and this tends to squeeze out the least skilled and any other group perceived to be more costly to employ than the average.

To encourage employers to adopt a differential, high value added, product strategy that will lead to workplaces that require higher skills and encourage workforce development both to meet current skill needs and the need for career progression is a considerable challenge. In the short-term a low skill strategy may appear rational so that it would be necessary to encourage employers to take a longer-term perspective. In other cases employers may be willing to adopt a different product strategy but lack the expertise or finance to bring that about. In those instances policy needs to address those barriers to change. In the absence of policy induced change, global competition will eventually bring about the shift required as organisations that have adopted a low value added, low skill strategy are driven out of business by cheaper production in emerging economies. Leaving such vital structural adjustments to the market may take a long time to achieve and, in the meantime, has significant economic and social costs in terms of poor quality and low paid jobs.

To bring about a change in employers' business strategies is a long-term endeavour. In the short-term there are more specific changes that employers can be encouraged to make to their behaviour.

### **5.2.1 Changing employers' recruitment practices**

Employers' recruitment practices are a critical barrier to employment for many disadvantaged people. There are several aspects to this. Employers recruiting to low skilled jobs often use informal recruitment channels such as hiring the relatives of existing employees, word of mouth and personal recommendation or signs outside the workplace (Keep and James, 2010a). Such recruitment practices are well known to be discriminatory. Not all individuals have access to them so that the range of job opportunities open to them is restricted. Recruitment through the Jobcentre and Jobcentre Plus provides a cheap and fair means of recruitment to which low skilled and disadvantaged people have equal access. Many employers do not, however, use this recruitment method, even to fill unskilled jobs. There is evidence that employers tend to polarise into those that use the Jobcentre to recruit and those that do not use it at all (rather than using it for some jobs but not others). The reasons employers cite for not using the Jobcentre often relate to the number and (un)suitability of people sent to them. In a recession, employers fear being swamped by a large number of job applicants for any vacancy.

A second aspect of the recruitment process is the basis on which the hiring decision is made. Some hiring criteria relate to the specific requirements of the job but others relate to things that the employer regards as a signal of the general suitability and attitude of the candidate. Qualifications are increasingly used as a means of selection even when the job does not require them as they are seen as an indicator of motivation and capability. This leads to a type of qualification 'inflation' with employers recruiting people with higher qualifications than necessary and skills that will be underutilised. On top of this employers may discriminate overtly or otherwise against low skilled people who possess certain characteristics. Employers do not appear prejudiced against people who are unemployed, provided that the spell of unemployment is short-term. They are, however, often reluctant to recruit the long-term unemployed as a long spell of unemployment is seen as a sign of poor motivation or attitude to work. Similarly, job applicants who present with health conditions or a disability or who have caring responsibilities may be avoided on a range of specious excuses (for fear of the risk or costs involved in employing such people). In some instances the postcode of an applicant is used to discriminate with people resident in particular areas (often social housing) not being considered (Nunn, Bickerstaffe, Hogarth, Bosworth Green and Owen, 2010).

### **5.2.2 Workforce development**

Many employers already offer some form of workforce development opportunity to their employees but such opportunities for employees to engage in learning and raise their skills are, as already seen, often inequitably distributed across the workforce. Those with the lowest levels of skills and qualifications are often the least likely to have such learning opportunities offered to them. A recognition by employers of the desirability of greater equity in workforce development would facilitate a reduction in disadvantage rather than reinforcing it as at present.

Of course it is not clear how an organisation that has adopted a low skill strategy could be persuaded of this, especially as many such organisations have a 'flat' organisational structure with few steps between 'shop floor' and top management and therefore limited opportunities for career progression within the business. The encouragement of internal labour markets in which employers seek to meet their skill needs through their existing workforce rather than recruiting on the external job market could help provide incentives for employers to offer workforce development programmes and for employees to engage with them.

Bringing about a greater level of workforce development for low skilled employees could be difficult to achieve when the majority of working people with low skills (53 per cent) work for firms employing fewer than 50 staff. Such small firms are generally regarded as less likely to provide training than larger firms. Over 90 per cent of firms with more than 200 employees provided some form of off-the-job training while only 36 per cent of those employing less than 25 did so. However, small firms are not heterogeneous and differ considerably in their characteristics and behaviour. Kitching and Blackburn (2002) classified small firms' approaches to training as 'strategic' (aiming for a high skill production strategy), 'tactical' (training when needed) and 'low' (no training undertaken. Edwards (UK Commission, 2010b) argues that in small firms of the latter type training may genuinely be unnecessary while those adopting a tactical approach may be responsive to specific initiatives, but only if those initiatives are relevant to their business needs rather than generic. He continues that too many UK initiatives have been generic in nature and thus do not encourage engagement by small firms.

### **5.3 The impact of economic growth**

One feature of the recruitment process and the employment of low skilled workers is that employers hiring standards tend to reflect prevailing economic conditions and the state of the labour market. Hiring standards are lowered when the labour market is tight, there are labour shortages and employers are desperate to recruit. Conversely, when the labour market is slack, hiring standards will be raised as employers can pick and choose

from an abundance of applicants. Similarly, in a tight labour market where it is difficult to recruit any employer experiencing a skill shortage is more likely to turn to their existing workforce and examine the extent to which that workforce can, with or without training, help meet those skill shortages. The best incentive to hire and develop people with low skills is thus to run the economy at full capacity and create a tight labour market. Unfortunately, the recent UK recession and the likely persistence of high levels of unemployment for the foreseeable future is likely to produce exactly the opposite effect and lead to raised hiring standard, a reinforcement of the discriminatory practices referred to above and a reduced incentive for employers to develop their workforce.

## 6 The role of the system

This section considers the learning and skills system as it relates to low skilled people. It looks at:

- the scale of the problem to be addressed;
- the nature of the post-16 education and training system;
- the disincentives inherent in the current system;
- the initiatives undertaken to re-engage workless individuals;
- current reform of the learning and skills system.

### 6.1 Introduction

Socially disadvantaged people are a very heterogeneous group, consisting of people who do not have the same opportunities to participate in society and the economy as others. There are many different factors, sometimes occurring together in multiple forms, which determine the nature and extent of this disadvantage and its consequences. This paper has focussed on a particular aspect of disadvantage, namely people with low level skills. It has argued that people with no skills, especially those with no qualifications, have a high likelihood of not being in employment or, if they are, to be in low status and poorly paid jobs. It was also noted that while the proportion of working age people with no qualifications has been falling in recent times, this still represented a substantial number of unqualified people and when Level 1 qualifications are taken into account there has been much less of a decline in the low skilled group. Given that this is so, it must be asked why the present educational and training system has not been able to make a greater impact on this disadvantaged group?

### 6.2 The post 16 education and training system

Policy to address the issue of low skills has proceeded on a broad front, embracing reforms to full-time education and further education designed to encourage participation in learning. It is widely acknowledged that the participation of young people in post-16 education and training has been lower than most OECD countries while achievements remain less than successive governments would wish (see, for instance, *Ambition 2020*, UK Commission [2009] or Pring, et al, [2009]).

Business leaders have persisted in claiming that the school system does not provide them with the young people possessing the basic skills that they require. Sir Terry Leahy, chief executive of Tesco, said in 2009 that the standard of school leavers was

“woefully low” while Sir Stuart Rose, chief executive of Marks and Spencers, claimed that businesses were “not always getting what we need” from the British education system which was producing people that were “not fit for work”. Sir Stuart said of some school-leavers: “They cannot do reading. They cannot do arithmetic. They cannot do writing” and added “There is a lot of money being spent [on skills] but we want to make sure that what is required is being met by what is produced. Sometimes there is a mismatch and we’re not always getting what we need.” (quoted in the Daily Telegraph, 24 November 2009). However, the National Employer Skills Survey (UK Commission 2010) opens the story up a little further; the overwhelming majority of employers who had recruited young people reported that these recruits were well or very well prepared for work.<sup>7</sup> Employer views on the degree of work readiness also increased with the age group of the young person.

Beyond the school system, the post-16 education and training system has also been subject to frequent reform, both in terms of who is responsible for that system and what it delivers. In the space of around 20 years responsibility for the further education system (excluding higher education) has passed from central and local government to the Further Education Funding Council, then to the Learning and Skills Council and now, under recent reforms, back to local government. During this time a range of strategy documents and White Papers have been produced by Government, including targets, pledges and a raft of initiatives to promote workforce training have been launched, such as apprenticeships in various guises and, more recently, Train to Gain which was intended to boost workforce training up to NQF Level 2 and 3<sup>8</sup>.

Despite the recent emphasis on workforce development, it remains the case that policy to raise skill levels in the UK remains disproportionately focussed on young people. This is understandable since older workers are more difficult to reach while the returns from investing in young people are greater because they will remain in the workforce longer than older workers and because unemployment whilst young can have a permanent ‘scarring’ effect on their future employment prospects. This emphasis may need to change in the future, given the increasing need to raise the retirement age and the relatively high levels of long-term worklessness amongst people over 50 years of age.

Even where support is provided to help those at greatest risk of social exclusion into employment, it tends to play down the role of long-term skill acquisition and qualifications and place more emphasis on short-term job search and related skills. While there is evidence that such support can help the non-employed into work, there is also evidence that such help is short-lived and jobseekers often fail to retain employment and soon return to benefits.

---

<sup>7</sup> Further analysis and evidence on employer views available, UK Commission (2011), The Youth Inquiry

<sup>8</sup> Train to Gain was one of the first programmes to be abolished by the coalition government upon taking office in 2010.



What might explain the persistence of such disappointing outcomes from so many reforms and initiatives? In part it could simply be the number of such reforms which have introduced further change to the system before the previous reforms and initiatives have bedded in and had an opportunity to bear fruit. Keep and James (2010), however, argue that the disappointing results arise from the confused and sometimes negative signals generated by the post-16 system. They argue that there has been a set of negatively reinforcing factors that have blunted the incentive for individuals to engage in learning at the 'bottom' of the job market. With reference to low skilled jobs, such negative factors include:

- a lack of well-defined occupational identities that associate a set of skills and qualifications with specific jobs. It is often unclear what job a qualification leads to while some quite specific qualifications will be accepted by employers for a range of jobs;
- a narrow conception of vocational skill and training, where training is focussed on preparation for a specific job and fails to provide significant general education that allows individuals to be mobile across the job market and progress within organisations;
- the development of competence-based qualifications which often represent the lowest common denominator in terms of the competencies that employers can agree upon;
- weak labour market regulation and labour market flexibility which tends to depress the financial return to individuals gaining a qualification;
- limited opportunities for progression which, again, reduce the return to the individual from investing in skills.

Keep and James (2010) argue that individuals faced with such conditions have little incentive to invest in acquiring skills and or qualifications. They suggest that if the UK is to raise the skill level of its workforce, it will be necessary to address these de-motivating factors (which are largely external to the individuals concerned).

### **6.3 Re-engaging the disadvantaged with the world of work**

Almost half of all working age people without qualifications are not in employment. A lack of basic skills is often seen as a critical factor leading to such non-employment. For that reason many programmes and initiatives designed to help benefit claimants get a job include an element of learning designed to improve basic skills or obtain the skills needed to retain and progress in employment once a job is obtained. Despite this, several assessments of labour market policy, notably the Leitch Review (HM Treasury, 2006) have highlighted the inconsistency of the approach of welfare to work programmes and

the approach of skills policy. Welfare to work initiatives give the highest priority to placing the individual into a job, an approach sometimes referred to as a 'work first' approach. Such an approach can run counter to the skill needs of an individual who may require time out from job search in order to undertake some form of learning and skill acquisition.

The Leitch Review (HM Treasury, 2006) concluded that current skills and employment services had different aims which meant that delivery was complex, with an array of agencies trying to give help and advice to people. Consequently, people often did not receive the full support they needed and were unsure how and where to access it. In light of this, the Review suggested that radical reform was required in order to produce an integrated employment and skills service. Leitch recommended a new programme to help benefit claimants with basic skills problems, which included the screening of all new benefit claimants; a new universal adult careers service; a new integrated objective for employment and skills services of sustainable employment and progression; and a network of employer-led Employment and Skills Boards to give employers a central role in recommending improvements to local services.

In 2006 the Freud Report (DWP 2007) presented an even more radical review of the welfare system and made a number of recommendations for the support received by workless people (DWP, 2007). These included: greater use of private and voluntary sector resources and expertise; a new focus on long term mentoring to tackle the problem of repeat benefit claimants; greater personalisation of employment support, with higher financial incentives for organisations to target resources at the hardest-to-help; retaining Jobcentre Plus's role in helping customers during the early stages of their period on benefit and creating a new role for the organisation to assess how much support individual claimants need before they are ready to return to work.

Many of the recommendations of Leitch and Freud were adopted by the previous Labour Government. Pilot initiatives offering an integrated employment and skills programme were set up in selected areas of the UK. Perhaps most significantly, the Government introduced a reformed JSA regime and a re-designed Flexible New Deal (fND). The fND embodied many of the recommendations of Leitch and Freud, in particular private and voluntary sector delivery and was introduced across half of the country in 2009. With regard to skills, the reformed JSA regime introduced explicit skills 'health checks' at regular intervals with a commitment that claimants lacking basic skills would be referred to appropriate training or work experience by Jobcentre Plus before being placed in employment or being passed on to private sector organisations delivering the fND.

One of the first actions of the new coalition Government when taking office in May 2010 was to cancel the further introduction of fND into the remainder of the country pending the introduction of a single Work Programme in the spring of 2011. One of the aims of the Work programme is to bring together all benefit claimants into a single programme designed to help them enter or re-enter employment. The extent to which this new programme will extend to addressing skill deficiencies rather than placing additional pressure on claimants to enter employment remains to be seen.

#### **6.4 Future reform of the learning and skills system**

The latest reforms were set out by the incoming coalition government in *Skills for Sustainable Growth: Strategy Document* and *Further Education – New Horizon, Investing in Skills for Sustainable Growth* (BIS 2010a; BIS 2010b). Again, building upon the complex system already in place, the reforms include:

- Expanding the number of adult apprenticeships available, so by 2014-15 there will be 75,000 more adults starting than under the previous Government's plans; 200,000 adults will be able to start an apprenticeship. £605 million will be invested in adult apprenticeships in the 2011-12 financial year.
- Fully funding training for young adults aged from 19 up to 24 undertaking their first full level 2 (GCSE equivalent) or first level 3 qualification when they do not already have one.
- Fully funding basic skills courses for individuals who left school without basic reading, writing and mathematics.
- Introducing Government-backed loans from 2013-14 for learners aged 24 and over undertaking level 3 or higher qualifications.
- Initiating a demand-led growth and innovation fund of up to £50 million of government investment a year, to support employer-led initiatives within sectors.
- Replacing Train to Gain with an SME focused offer to help small employers train low-skilled staff.
- Helping people who are on active job-seeking benefits to secure work through labour-market relevant training.

A number of observations can be made about these intended reforms. First, the emphasis on Apprenticeship (which is now seen as the main vocational training route) does little to address the issue of people with poor skills and no qualifications. Most, if not all, employers demand at least Level 1 qualifications (good GCSEs) for entry to an Apprenticeship. Moreover, since the demand for Apprenticeships greatly exceeds the number of places on offer by employers, employers are in a position to be very selective

and, if the usual recruitment practices are adhered to, it is likely that people with no qualifications or poor work histories will be disadvantaged in this regard just as they are more generally. Second, the replacement of Train to Gain has removed an important vehicle for encouraging employers with a low skill workforce to train up their employees to at least Level 2. It remains to be seen whether the proposed SME-focussed offer is as attractive to employers. Finally, the reforms need to be seen in the context of Government attempts to shift the cost of learning away from the state towards employers and individuals. This is especially so in regard to adults who will be fully funded only for basic skills training. Learning at Level 2 for adults will be co-funded (i.e. they will pay something towards their learning) while at Level 3 adult learners will bear the whole cost (funded by loans in much the same manner as students in higher education).

Details of the new funding arrangements are yet to be finalised but whatever their final form they will raise issues. For instance, since individuals holding only low level qualifications are likely to be employed in low paid work, their sensitivity to the 'price of learning' may be high with the consequence that a further disincentive to learning is created. This applies mostly to adults in the employed workforce who would have to pay more than at present for any learning at Level 2 or above. For employers, the new funding regime could create some dilemmas, as they will be faced with the prospect of charging employees for their training or absorbing the additional costs. The cost to the employer of absorbing the cost of training adult employees (that is those over 25 years of age) could be substantial since adults probably represent the largest share of most workforces. Whether that increase in cost would be sufficiently great as to deter employers from training adults remains to be seen. The alternative of charging adults for their training also poses a problem for employers. Since they probably employ both young people and adults the employer will be faced with the prospect of charging the over 25s for their training while offering it free to the under 25s. On grounds of equity, some employers might choose to cross-subsidise the training of adults by charging all employees an equal amount for their training regardless of age.

## **7 Key policy issues**

Previous sections have set out the current position of people who are low skilled and disadvantaged and their future employment prospects. Earlier sections also considered the needs of low skilled workers and that some employment practices can contribute to the disadvantage for that group. Finally, a review was undertaken of the extent to which the learning and skills system provides support for low skilled or poorly qualified individuals. During those discussions a number of issues were alluded to. This section highlights some of those key issues that policy-makers will need to address.

### **7.1 The nature of the low skill disadvantage**

The discussion thus far suggests that there remains a sizable number of working age people who possess no, or only low level, qualifications and skills. The number of jobs that require only low skills has diminished in recent years but still exist in substantial numbers, albeit offering low pay and generally poor conditions. The real issue is not that there are no jobs for low skilled people but that many of low skilled people, especially those with no qualifications, are unable to compete successfully for those jobs which are taken by others who are better qualified or have greater skills. Often unqualified individuals cannot compete successfully because they face other disadvantages (such as ill health or caring responsibilities) that place them at the end of the 'labour market queue'. The response by many unqualified people seems to have been to withdraw from the labour force altogether.

### **7.2 Some key policy questions**

The situation of low skilled individuals raises a number of key issues for policy makers. These include questions such as:

- Is a certain amount of low skilled, routine or elementary work inevitable, given the strategic decisions of organisations about how they best meet global competition and other market forces? Does the lack of demand amongst employers indicate that they are indeed happier to settle for lower skill levels than is generated by many of our international competitors? If it is inevitable, how far should the state go in spending resources to encourage employers and individuals to 'up-skill' when such additional skills and qualifications are not required in low skill jobs?
- If there is a continuing demand by organisations for jobs that are routine and require little more than elementary skills, are the consequences of low pay, unstable employment or lack of career progression inevitable? If not inevitable, what policies or interventions could change those outcomes?

- If low skill jobs are not inevitable (but result from employers' choice of product strategy) what can be done to encourage organisations to adopt a high value added, high skill strategy and move away from a dependence on low skilled workforce?
- If employers are successfully encouraged to shift to a high skill product strategy, how can it be ensured that low skilled and unqualified people are not excluded from such a development?
- How can non-working/inactive unskilled and unqualified people be re-engaged with the world of work and helped to become more competitive in the jobs market? What is the right balance to be struck by policy in terms of raising their aspirations, helping them improve their skills and qualifications or addressing the other barriers and disadvantages that many of the non-working low skilled face?
- How can the incentives to engage in learning that will lead to improved skills be enhanced for the individual and the employer? Is the low demand for workforce development the result of a failure to appreciate its benefits or the result of systematic disincentives?
- Current policy reforms intend to shift the cost of learning away from the state. This being so, how sensitive are employers of low skilled workers and individuals with low level skills and qualifications to the increased 'price of learning'? Is there a 'tipping point' at which cost becomes a significant barrier to additional learning?

These are likely to be challenging questions for policy makers to answer as the economy continues to face global competition, recovers from a recession, and operates in a period of public sector austerity.

## 8 Key messages and conclusion

### 8.1 Key messages

This paper has reviewed evidence relating to the disadvantage in the labour market faced by people with low skills. A number of key messages have emerged. These are:

- The number of people of working age in the UK at risk of disadvantage because of low skilled and/or no qualifications has fallen substantially in recent years. This undoubtedly reflects the impact of past and current policy on education and skills. Nonetheless, there are still over 1.6 million working age people with no qualifications. Moreover, based on the current trend in the acquisition of qualifications by young people, it is likely that a large group of unqualified people will continue to exist into the foreseeable future with the proportion of unqualified 'bottoming out' at around 7-8 per cent in the future. As the unqualified working population shrinks in size it is increasingly likely to consist of the most 'hard to help', exhibiting 'deep' social disadvantage with additional disadvantages on top of their lack of skills.
- The prospect of employment for people with low skills barely changed in recent years and has worsened during the recession (especially so for people with no qualifications). The employment rate 'gap' between unqualified people and those with Level 2 qualifications and above has actually worsened in the past few years.
- The long-term trend in the occupational structure of the UK has been a decline in the demand for elementary occupations in which low skilled people have predominantly found employment. However, a large proportion of such jobs are held by people with qualifications; sometimes at intermediate and even higher levels: suggesting that low skilled and unqualified people have been competed out of such jobs. This displacement of low skilled people was exacerbated during the recent recession during which employers sought to retain more skilled members of their workforce and took the opportunity to raise their hiring standards.
- A consequence of the weak competitive position of low skilled people is that almost half of those who are unqualified are not in employment and of these around 80 per cent are economically inactive, that is they have withdrawn from the labour market. This is not because they are engaged in learning activities (the proportion in education is lower than inactive people with qualifications) but is for a range of reasons including ill-health and disability, care responsibilities, early 'retirement' and so forth. Such additional disadvantages are, however, unlikely to be absolute barriers to employment except in the most extreme instances. While a small proportion of the unqualified and inactive population say they are not seeking work because they

believe there is no hope of a job (the so-called discouraged), it is likely that this situation applies to many others in that group for whom their other disadvantages would appear to legitimate their decision to withdraw from the job market.

- A disturbing aspect of the low activity rate amongst low skilled people is the impact it has on other members of their households. Around 12 per cent of households in the UK contain unskilled, non-working adults. An additional concern is that the educational performance and aspirations of children and young people whose parents are low skilled are well below the average, indicating that the pattern of disadvantage related to poor skill is being reproduced across the generations and may explain the persistence of the 7-8 per cent of young people who at age 20 still have no qualifications.
- The number of elementary and routine jobs requiring no more than low skills is, ultimately, determined by organisations' product strategies. So long as employers opt for a low value-added and low skill strategy then routine and elementary jobs requiring only low skills will continue to be required. This does not, however, guarantee that people with low skills will be employed in such jobs. Employers' recruitment practices determine access to such jobs and a range of practices may disadvantage the unqualified jobseeker (informal recruitment methods, use of qualifications to screen applications not to mention overt discrimination).
- The incentives for individuals and employers to engage in learning activities to raise the skills of the workforce appear weak. The weak link between qualification and occupation means that employers have considerable flexibility in recruiting while for individuals obtaining a qualification does not guarantee access to the specific type of job for which they are qualified. Strengthening the incentive for individuals to acquire skills means creating ways by which they can capture a greater return to new skills, for instance by extending the notion of a 'licence' to practise in particular occupations. In regards to employers, many feel they have no need to raise the skills of their workforce since they can recruit on the open market should the need arise. A closer link between skill, qualification and the right to practise would reduce the ability of employers to evade the need to train for their skill needs.



- In terms of the future, the demand for skills is steadily increasing and even elementary jobs now make demands on employees that some of the unskilled/unqualified are not able to meet. Recent years have seen unprecedented levels of international migration, especially from new EU member states and this new labour supply often has skills but competes at the elementary end of the job market, placing existing unskilled/unqualified at a further significant disadvantage. It is unlikely that any of these factors are temporary. Consequently the employment prospects for people who are unskilled / unqualified and their risk of social disadvantage can only worsen in the future.
- Policy to address the desire to raise the skills of the UK workforce has tended to focus on young people, with frequent reforms to school and the post-16 vocational education system. More recently there has been a growing emphasis on workforce development aimed at ensuring that all employees had qualifications at least to NQF Level 2. There has been an inconsistency between this policy and that relating to welfare to work and welfare reform. The Leitch Review proposed a more integrated system and steps have been made in that regard but are subject to uncertainty as the result of the new coalition Government's abolition of initiatives such as Train to Gain and Flexible New Deal and their development of the new Work Programme.
- Current proposed reforms remain committed to an entitlement to learning up to Level 2 but this is fully funded only for people aged 18-24 and the unemployed on active benefits. It is proposed that adults will, eventually, have to co-fund learning at Level 2 and all groups will have to fund learning at Level 3 (co-funding for 19-24 year olds and loans for the full cost for adults aged 25 or above). The impacts of such changes in the cost of learning are not yet known.

## **8.2 Conclusion**

People with low skills and no qualifications are at a significant disadvantage in the labour market. Competition for jobs means that this group is often at a disadvantage even when seeking employment in routine, low paid and, often insecure jobs and this can lead to an above average risk of unemployment or even economic inactivity. Although the number and proportion of unqualified people of working age in the working-age labour force is declining, a substantial, hard core of low skilled and unqualified people are likely to remain for the foreseeable future. That group is likely to be increasingly disadvantaged in the future. It will consist of the hardest to help combining a lack of skills with other disadvantages. It will face a future in which employers increasingly demand higher levels of skill even for jobs in traditional areas of low-skill employment. Finally, in the short-term, it will face increased competition for jobs the more highly skilled displaced by the recession and public sector spending cuts.

Policy for many years has sought to encourage the up-skilling of the UK labour force. The falling number of unqualified people in the labour force appears, however, more the result of a cohort effect as more young people leave school than it is of raising the qualifications levels amongst the older employed workforce. Some commentators have blamed weak incentives to undertake learning and frequent policy change for this. Whatever the reasons, the previous Government's own indicator of performance (the PSA target) suggests that the employment penalty for low skills and low level qualifications has barely changed over the past decade. Thus, this group continues to provide a dilemma for policy-makers. If the UK continues to shift towards a globally competitive, high skill, high value economy, what can be done about the increasingly uncompetitive position of the low-skilled? How can they be engaged and up-skilled in order to share in the returns from economic prosperity or, alternately, must they become a lost generation that is 'written off' pending their removal from the working age group by the passage of time? These are difficult and challenging issues for any government but they will be doubly so in a period of public sector austerity and reform of the employment and skills system. Only time will tell which of these two alternatives will materialise.

## Bibliography

- Ashworth, K. and Liu, W. C. (2001) *Jobseekers Allowance: Transitions to Work and Early Returns to JSA*. Department for Work and Pensions (DWP) In-house Research Report 80.
- Bell, S. and Hansbro, J. (2007) *A shared evidence base - the role of skills in the labour market*, Department for Education and Schools and Department for Work and Pensions, mimeo, January, <http://www.dwp.gov.uk/asd/asd5/rports2007-2008/roleofskillsreport.pdf>
- Berthoud, R. (2003) *Multiple disadvantage in employment: a quantitative analysis*. York: York Publishing Services.
- BIS (2010a) *Skills for Sustainable Growth: Strategy Document*, Department for Business, Innovation and Skills, London, November.  
<http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/s/10-1274-skills-for-sustainable-growth-strategy.pdf>
- BIS (2010b) *Further Education – New Horizon, Investing in Skills for Growth*, Department for Business, Innovation and Skills, London, November.
- Blundell, R., Dearden, L. and Meghir, C. (1996) *The Determinants of Work-related Training in Britain*, Institute for fiscal Studies.
- Bynner, J. (2001) 'Childhood risks and protective factors in social exclusion', *Children and Society*, 15, 285-301.
- Burchardt, T., Le Grand, J. and Piachaud, D. (1998) 'Social exclusion in Britain, 1991-1995', *Social Policy & Administration*, 33 (3), 227-44.
- Cabinet Office 2007. *Reaching Out: Progress on Social Exclusion*:  
<http://tinyurl.com/yjmh9x>
- Carpenter, H. (2006) *Repeat Jobseeker's Allowance Spells*, Department for Work and Pensions Research Report 394, 2006, ISBN 1 84712 105 5
- Clancy, G. (2008) 'Employment of foreign workers in the United Kingdom: 1997 to 2008', *Economic and Labour Markey Review*, Vol 2, No 7, pp18-30.
- Daily Telegraph (24 November 2009) 'Sir Stuart Rose: Schools are not providing workers with the right skills',  
<http://www.telegraph.co.uk/education/educationnews/6638699/Sir-Stuart-Rose-Schools-are-not-providing-workers-with-the-right-skills.html>

- Dearden, L., McIntosh, S., Myck, M. and Vignoles, A. (2000) *The Returns to Academic, Vocational and Basic Skills in Britain*, Skills Task Force Research Paper, Institute for Fiscal Studies.
- Dearden, L., McIntosh, S., Myck, M. and Vignoles, A. (2001) *The Returns to Academic, Vocational and Basic Skills in Britain*, DfEE Research Report, London: DfEE.
- Dench, S., Hillage, J. and Coare, P. (2006) *The impact of learning on unemployed, low-qualified adults: A systematic review*, Department for Work and Pensions Research Report No 375, Corporate Document Services
- Dickerson, A. and Vignoles, A. (2007) *The distribution and returns to qualifications in the Sector Skills Councils*, Sector Skills development Agency, ISBN: 978-0-9552029-8-8.
- DIUS (2003), 21st Century Skills: Realising Our Potential. Individuals, Employers, Nation, Department for Innovation, universities and Skills, July  
[http://webarchive.nationalarchives.gov.uk/+http://www.dius.gov.uk/skills/skills\\_strat egy/21st\\_century\\_skills](http://webarchive.nationalarchives.gov.uk/+http://www.dius.gov.uk/skills/skills_strat egy/21st_century_skills)
- DWP (2007), *The Freud Report, Reducing Dependency, Increasing Opportunity: options for the future of welfare to work*, Department for Work and Pensions, 2007
- DWP (2009) *Autumn Performance Report 2009*, Department for Work and Pensions, <http://www.dwp.gov.uk/docs/departmental-report-2009.pdf>
- Dustmann, C., Frattini, T. and Preston, I. (2007) *A Study of Migrant Workers and the National Minimum Wage and Enforcement Issues that Arise*, Report for the Low Pay Commission, <http://www.lowpay.gov.uk/lowpay/research/pdf/t0Z96GJX.pdf>
- EHRC (2010) *How Fair is Britain?: Equality, Human Rights and Good Relations in 2010, The First Triennial Review*, Equalities and Human Rights Commission, October 2010, ISBN 978 1 84206 313 2.
- Evans, M. and Harkness, S., (2010), 'The impact of the tax and benefit system on second earners'. *Journal of Poverty and Social Justice*, 18 (1), pp. 35-51.
- Fletcher, D. R. (2007) 'A culture of worklessness? Historical insights from the Manor and Park area of Sheffield', *Policy and Politics*, 35, 65-85.
- Goos, M. and Manning, A. (2007) 'Lousy and Lovely Jobs: The Rising Polarization of Work in Britain', *The Review of Economics and Statistics*, 89, 1 (01), 118-133.

- Gregg, P. and Wadsworth, J. (2003) 'Workless Households and the Recovery', in R. Dickens, P Gregg and J Wadsworth (Eds), *The Labour Market under New Labour: The State of Working Britain*, Palgrave Macmillan,
- Hasluck, C. and Green, A. E. (2005) *Workless couples and partners of benefit claimants: A review of the evidence*, Department for Work and Pensions Research Report 262, July, ISBN 1 84123 851 1.
- Hasluck, C. and Green, A. E. (2007), *What Works for Whom? A Review of Evidence and meta-analysis*, Department for Work and Pensions, Research Report 407, ISBN 978 1 54712 147 9, <http://www.dwp.gov.uk/asd/asd5/rports2007-2008/rrep407.pdf>
- Hills, J., Le Grand, J. and Piachaud, D. (2002) *Understanding Social Exclusion*, Oxford: Oxford University Press.
- Holmes, C. (2010) *Job Polarisation in the UK: An Assessment Using Longitudinal Data*, SKOPE Research Paper No. 90, SKOPE, University of Oxford, March, ISSN 1466-1535
- HM Treasury (2006) *Leitch Review of Skills, Prosperity for all in the global economy - world class skills*, London, December.  
<http://www.official-documents.gov.uk/document/other/0118404792/0118404792.pdf>
- Jenkins, A. (2004) *Women, lifelong learning and employment*, Centre for the Economics of Education, Discussion Paper 0039, September.
- Keep, E. and James, S. (2010). *What Incentives to Learn at the Bottom End of the Labour Market*, SKOPE Research Paper No94, July.
- Keep, E. and James, S. (2010a) *Recruitment and selection – A review of extant research and some thoughts on its implications for education and training policy*, SKOPE Research Paper No. 88, Cardiff: Cardiff University, SKOPE.
- Kitching, J. and Blackburn, R. (2002), *The Nature of Training and Motivation to Train in Small Firms*. DfES Research Report 330. DfES, Nottingham.
- Lawton, K. (2009) *Nice Work if You Can Get It*, London: Institute of Public Policy Research
- Levitas, R., Pantazis, C., Fahmy, E., Gordon, D., Lloyd, E. and Patsios, D. (2007) *The multi-dimensional analysis of social exclusion*, Social Exclusion Task Force, London.

- Lloyd, C., Mason, G. and Mayhew, K. (eds.) 2008 *Low-Wage Work in the United Kingdom*, New York: Russell Sage Foundation.
- Marsh, A. and Perry, J. (2003) *Family change 1999 to 2001*, Department for Work and Pensions Research Report 180.
- McIntosh, S. (2004) *The impact of vocational qualifications on the labour market outcomes of low achieving school leavers*, Centre for Economic Performance Discussion Paper 621.
- Miliband, D. (2006) *Social exclusion: The next step forward*, Office of the Deputy Prime Minister, London.
- Nunn, A., Bickerstaffe, T., Hogarth, T., Bosworth, D., Green, A.E. and Owen, D. (2010) *'Postcode selection? Employers' use of area- and address-based information shortcuts in recruitment decisions'*, Department for Work and Pensions Research Report 664, CDS, Leeds.
- Pring, R., Hayward, G., Hodgson, A., Johnson, J., Keep, E., Oancea, A., Rees, G., Spours, K. and Wilde, S. (2009) *Education for All – the Future of Education and Training for 14-19 year olds*, Abingdon: Routledge.
- Reder, M. (1955) 'The Theory of Occupational Wage Differences', *American Economic Review*, December 1955
- Thurow, L. (1975) *Generating Inequality*, New York, Basic Books.
- UK Commission (2008) *Working Futures 2007-2017*, UK Commission for Employment and Skills, London, 2008
- UK Commission (2009) *Ambition 2020 – World Class Skills and Jobs for the UK*, UK Commission for Employment and Skills London.
- UK Commission (2010a), *The Value of Skills: Evidence Review*, Evidence Report 22, UK Commission for Employment and Skills, July
- UK Commission (2010b), *Skills and the Small Firm: A Research and Policy Review*, UK Commission for Employment and Skills, June  
[http://www.ukces.org.uk/upload/pdf/100617%20PE%20Skills%20and%20the%20small%20firm\\_1.pdf](http://www.ukces.org.uk/upload/pdf/100617%20PE%20Skills%20and%20the%20small%20firm_1.pdf)
- Walker, I. and Zhu, Y. (2003) *Education, earnings and productivity*, Labour Market Trends, March,  
[http://www.statistics.gov.uk/articles/labour\\_market\\_trends/education\\_Mar03.pdf](http://www.statistics.gov.uk/articles/labour_market_trends/education_Mar03.pdf)

The five briefing papers in the Equality and Skills in a Changing Economy series are:

Disability and Skills in a Changing Economy

Gender and Skills in a Changing Economy

Low Skills and Social Disadvantage in a Changing Economy

Older People and Skills in a Changing Economy

Spatial Inequality and Skills in a Changing Economy

As part of its series of Briefing Papers, the UK Commission for Employment and Skills presents five papers which provide analysis and commentary on equality and skills in a changing economy. The aim of these papers is to inform and enable connected thinking about equality of opportunity and the role of skills. Each of the five papers focuses on a different equality group or theme and can be accessed on the UK Commission's website [www.ukces.org.uk](http://www.ukces.org.uk)

Produced by Hasluck Employment Research for the UK Commission for Employment and Skills.

**UKCES**

3 Callflex Business Park  
Golden Smithies Lane  
Wath – Upon – Dearne  
South Yorkshire  
S63 7ER

**T** +44 (0)1709 774 800

**F** +44 (0)1709 774 801

**UKCES**

28-30 Grosvenor Gardens  
London  
SW1W 0TT

**T** +44 (0)20 7881 8900

**F** +44 (0)20 7881 8999

This document is available at [www.ukces.org.uk](http://www.ukces.org.uk) under 'publications'

© UKCES 2011