**EDUCATION INTO EMPLOYABILITY: The role of the DfEE in the Economy**

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**INTRODUCTION**

1. In 1995, when the merger of the Education and Employment Departments was announced, I gather it came as a surprise, even to the then Secretaries of State. Many people raised questions as to whether such a marriage was based on a well-founded relationship and the prospect of divorce was speculated upon for months thereafter. Whilst the overlap on training issues was obvious, the rationale for a Department with a major contribution to the supply side of the economy has evolved and strengthened over the last few years as the demands of the economy for an ever-higher skills base have increased.
2. But does it actually matter what issues individual departments cover, as long as one of them does? The answer is yes - in the new Knowledge Economy it matters a great deal. In this pamphlet I examine the role of government and how the work of DfEE fits with a new economic imperative of supply-side investment for national prosperity. I then look at how schools policy feeds into this framework and at how a fresh (and historically informed) approach to the subject of vocational education – so often ignored by academics, politicians and the media – can strengthen both individual opportunity and economic growth. As I shall make clear, it is the existence of an integrated education and employment department that opens up this opportunity.
3. There are, of course, many alternative configurations and it is not my intention here to enter into the debate around the machinery of government. But a government committed to action, as opposed to old-fashioned intervention, has been able to take and use the present structure to achieve a radical, new, integrated approach. Having established the coherence and synergy of our policies, I turn to some of the key issues and economic factors involving adult skills and training policy, before examining how delivering an agenda of integrated supply-side investment can translate into labour market efficiency.

**INVESTING IN SKILLS FOR ECONOMIC GROWTH**

1. The role of government is increasingly to invest on the supply side of the economy. In the middle of the 20th century, Keynesian economic orthodoxy promoted the investment of public money in our traditional industries – coal, steel, shipbuilding - in the belief that this contributed to national wealth and kept work in communities. But our economy is changing, and fast. Today, its bedrock is know-how: ideas, creativity and the ability to turn those into goods and products. The demand on government today is for an ever-higher skills base among individuals producing the ideas and the designs and making the goods. In our schools, colleges and universities and in training the unemployed and the disadvantaged, we accept our role in equipping individuals and the country with the skills and the creative, inquiring minds that will drive our economy in this new century. That is about neither purely education policy nor purely employment policy: the two are indistinguishable in this Knowledge Economy.
2. This new role of government has yet to be fully enunciated or incorporated within economic thinking. From post-war policies to stimulate demand, Britain, along with many other Western countries, moved swiftly and harshly in to an era of *laissez faire* free-market thinking which dominated the last twenty years of the century. The doctrinaire libertarianism of Hayek and Friedman, which inspired Thatcherism, did not simply minimise government – it fostered a political discourse in which government activity was viewed as inherently inimical to public welfare.

**Learning from Keynes**

1. In moving on from this to a more equitable and cohesive society, it is clear that the new patterns of economic production and exchange prohibit a return to demand-side Keynesianism. But, in our rush to prove our modernity, let us not dispense with one of Keynes’ core principles – where government invests, it should do so to promote demand and growth.
2. Today, we see that demand can be stimulated through supply-side investment, whether in cutting-edge sectors such as information and communications technology or simply by making greater local and national economic activity viable through provision of the skills and education required to facilitate increased market demand. This is very much a ‘post-Keynesian’ approach, yet it retains the principle of investment for growth.
3. And we have invested in teachers and in schools, in helping the unemployed and in upgrading the skills of the workforce. This investment pays a long-term dividend for the individuals concerned and for the performance of the economy. It is investment which will increase people’s productivity and their wages, and hence the output of the economy and the demand created within the economy. It begins and supports a virtuous circle of economic success and increased economic activity. Crucially, this ‘post-Keynesian’ approach achieves these results in a long-term sustainable fashion, serving as a bulwark against the boom and bust that the free marketeers so conspicuously failed to address. As Gordon Brown has said:

*“The stop-go policies which were wrongly said to be Keynesian attempted to tackle high unemployment and slow growth by pulling the macroeconomic levers but reflected an approach Keynes thought appropriate for depression bound economies where the confidence of the 'animal spirits' was low. The mistake was to try to apply this prescription universally especially to inflation prone economies where the problem was not a lack of demand - Keynes' special case - but low productivity, inadequate levels of investment, unreformed labour markets, and generally short-termism, historically Britain's underlying problem.”[[1]](#footnote-1)*

1. The economic role of the Treasury will, under any government, be supreme. Determining overall macro policy and negotiating objectives and outcomes in terms of public investment is not in doubt. In this context, one of my central premises in this pamphlet is to underline the key economic role of the Department for Education and Employment in achieving the outcomes crucial to sustainable growth and stability. Other departments have economic functions too, of course, including DTI – the guardian of an efficient market for goods and services; the DETR –overseeing the infrastructure so vital for a modern economy; and the DSS, which is working jointly with DfEE on Welfare to Work policies. The Department of Health also plays a key role in maintaining a healthy workforce – and indeed faces a key issue in working with business and other departments to tackle the waste and low productivity which arise from poor or non-existent occupational health services.
2. And of course, government action and investment can – must - take an enabling form in many instances. A government committed to facilitating rapid economic change, whilst providing the support systems necessary to cope with the challenging transitions demanded by globalisation, must deploy a variety of means to enhance and balance the market. Businesses, unions and individuals must be seen as partners in this enterprise if there is to be any hope of success.
3. For all that the task of investing in our economic strength is a collective effort, the economic role of the DfEE is both uniquely important and worryingly underplayed. One might be forgiven for thinking of DfEE’s work solely in terms of qualifications and jobs, but a mere glance across the Department’s field of responsibility – from the half billion pounds already added to national income by the New Deal, to the impact of labour market efficiency and skill requirements on the decisions of the Monetary Policy Committee and the nation’s macro-economic outlook – tells a different story.
4. The unique importance of DfEE’s role stems from its responsibility for ensuring that the UK has a well-functioning labour market. It is here that we are clarifying the economic relationship between the citizen and the government – a relationship of rights and responsibility, with the goal of ensuring both economic efficiency and fairness for all. The underplaying of that relationship is a result of the historic machinery of government and the divorce of employment and education policies for so many years. As Mary Warnock put it back in 1979: ‘A divorce of education from the goal of utility, its separation from the work ethic cannot … be supported’. The decade that followed demonstrated with dreadful clarity the validity of her argument. Since the amalgamation of the Department for Education with the Employment Department there has been a much clearer national and international understanding of the synergy between education and employment policies, which is so vital to the global competitiveness of the British economy.
5. The continued integration of education and employment policy is essential to enabling us to confront head on the present and future skills needs of employers. This is recognised by the new Learning and Skills Council, which brings together for the first time education and skills training into a single planning and funding system – recognising the importance of linking learning to employment. It also implies a key role for vocational education in schools and beyond, alongside the development of academic skills. In a modern economy we must recognise the value of both forms of education, and promote entrepreneurship and knowledge in all their permutations.
6. The framework we currently have allows us to lay down those policies, which will enable individuals to become and to remain active citizens with a stake in society and the opportunity for continued employment. And in the longer term this means not just an opportunity to work, but well remunerated and personally satisfying employment for those who take advantage of the benefits to be gained from a high-quality and well-focused education system. That is the DfEE mission and it rests, in part, on the best possible educational start for our young people.

**SCHOOL EDUCATION**

1. A first-class education system must cater for all and it must recognise what is valuable in the labour market. We know that the individual returns from education are high and this reflects the needs of a large part of the modern economy.
2. There are substantial financial rewards to individuals from studying for and obtaining qualifications. Employers will pay employees higher wages if they are more productive. It follows that well-designed education policies are an important component of the economic well-being of Britain.
3. For example, men with good GCSEs have average earnings 40% higher than men with no qualifications. For women, the corresponding figure is 31%. Men with A levels have earnings 16% higher than men with good GCSEs (women 21%). For those with first degrees, men have average earnings 25% higher than men with A levels (women 21%).
4. Allowing fully for other factors affecting individuals’ earnings, such as underlying ability, men with GCSEs earn 12-21% more than those with no qualifications and for women the equivalent figure is 10-19%. Men with A levels earn an additional 15-18% over those with GCSEs, while women earn 18-23% more. For those with degrees, men earn 10-28% more than those with A levels (women 21-26%).
5. The point is simple. These figures demonstrate the *economic* importance of education to the individual. But the figures still understate the full benefits of education in a number of ways. Employers benefit directly from the increased productivity from which these earnings increments arise: one recent study found increases in productivity due to training were double that of the associated earnings increase. And there are wider benefits to the economy and society: indirect benefits include effects on improved health and reduced crime levels, and the impact of better educated and trained workers on international competitiveness, which benefits the whole economy.
6. In assessing the value of education to the economy as a whole, we need to weigh all these benefits against the costs. The DfEE has estimated the social rate of return to A level and degree-level qualifications to be considerably above the rate of return of 6% regarded by Treasury as the minimum for an investment to be worthwhile. And that is how we in the DfEE make policy. We invest because we know that the rates of return are positive, and they are positive because we are providing what the economy demands.
7. The latest provisional estimates for returns to A levels and degrees are given below:

**Social rate of return**

**Degrees** - men 8-10%

(Entrants aged 18) - women 10-12%

**A levels** - men 15-21%

- women 14-21%

**THE NEW VOCATIONAL LADDER**

1. Success in education, training and the labour market is progressive. By this I mean that the best predictor of success at any stage is success at the previous stage. So failure at the earliest points in education is closely associated with failure in the labour market many years later.
2. This is perhaps best illustrated by the clear links between educational attainment in the last year of the compulsory phase of education and future participation in full-time education. The Youth Cohort Survey confirms our expectations in this respect – in 1998, nine-tenths of those with five or more good GCSEs entered full-time education at 16, compared with two-fifths of those with no good grades. And over time we have observed a dramatic rise in participation in full-time education at age 16 from 47% at end-1987 to 70% at end-1999, just as the proportion attaining level 2 in the last compulsory year also rose strongly. In fact, research suggests that the introduction of the GCSE was the single most important factor in driving up staying-on rates in the late 1980s and early 1990s.
3. The relationship between attainment in the last year of compulsory education and future participation is, of course, affected by other factors, but more sophisticated analysis has shown that the strength of the relationship holds good even when these factors – such as parental education – are allowed for. Thus our policies for a better-skilled workforce will be given strong impetus if we can promote attainment in the educational phase.
4. But this is only part of the story. The historic challenge we face is to draw together the worlds of education and work in ways that have never before been achieved and, in so doing, create a robust and respected, world class system of vocational and technical education.

# An historical perspective

1. In the past, we have failed in this country to develop high standards and esteem for vocational and technical education to match the excellence of our academic education. In the 19th century, the state of technical education was criticised repeatedly, most notably in the Samuelson Royal Commission on Technical Education in 1884. Yet subsequent progress was very limited, and as historians of this period have noted:

*“The pattern of technical education that developed in the nineteenth century was not only institutionally marginalised from mainstream education; it was also intellectually adrift. Whereas in most of the more advanced northern mainland European countries, such as France and Germany, technical education was allied to general education, in Britain a sharp divide grew up between the two, separating skills and knowledge.”*[[2]](#footnote-2)

1. This divide was cemented in divisions between government departments and agencies that persisted throughout the 20th century. The Board of Education created in 1900 was to remain separate - as the Ministry or Department for Education and Department for Education and Science – from the Ministry for Labour and Department for Employment for almost the entire century. Only in 1995 were the departments finally brought together into the Department for Education and Employment.
2. Likewise, despite advances in the 1918 Fisher Act, and the 1944 Butler Act (which for the first time required local education authorities to provide further education), vocational and technical education failed to develop clear, high-standard qualification routes or institutions of study, linked to both schools and the labour market. Curriculum and qualification authorities for academic and vocational qualifications, and funding channels for post-school education and training, remained split.
3. The divide between education and employment was pervasive and debilitating. For example, the inability of schools and local education authorities to link education and work, and ensure an effective supply of vocational and technical skills, led to the creation of the Manpower Services Commission (MSC) by the then Department of Employment. The MSC subsequently mutated into the Training Commission and this was followed by the network of Training and Enterprise Councils in the 1990s.
4. The same ambition to draw schools into new relationships with the wider world of employment led to the creation of the celebrated Technical and Vocational Education Initiative by the Department for Employment in the 1980s. The Department for Education and Science only learnt of this significant investment in vocational school-based education - at its height, worth some £141 million a year in 1999/2000 prices - at the very last moment! It was widely welcomed by schools but had little impact on the thinking of the Department, and it was eventually phased out.

# The strengths of recent reforms

1. The integration of the departments for education and employment provided us, for the first time, with an institutional platform for overcoming this historic legacy. Subsequently, in 1997, the Qualifications and Curriculum Authority was established, with all-Party agreement, to bring together vocational and academic study and qualifications. It has also enabled us to establish the new Learning and Skills Council (LSC) - undoubtedly the most significant and far reaching reform ever enacted to post-16 learning in this country, and whose very purpose will be to bridge the historic divide between academic and vocational education, and to match learning to employment needs at national, regional, sectoral and local level.
2. In the past, reforms have been piecemeal or limited. Now, for the first time, it has been possible for the planning and funding of all post-compulsory learning below higher education to be fully integrated, cutting down on duplication, overlap, and wasteful competition, and providing the effective co-ordination and strategic planning mechanism needed to maximise the contribution of education and training to economic performance. The LSC will secure a major step forward in encouraging more young people to stay on in learning until at least 19 and to achieve at least a level 2qualification. It will increase the demand for learning by adults. And it will raise the skill levels of the working population as a whole, including helping those adults who lack even the basic skills needed for employment. The old departmental structure would have been incapable of effecting this reform. It did not recognise either the unity of purpose in the further education and training and enterprise funding systems, or their joint role in the economy, and served neither employers nor learners

# A new framework

1. These institutional reforms are critical, but they are just a means to an end. Our primary purpose is radically to improve the education and training available to our young people and adults – and, particularly, to secure an excellent system of vocational and technical education fit for the new century.
2. This is vital if we are to meet critical skills shortages that employers currently face. Research for the National Skills Task Force showed that the occupations with the highest level of skills shortage vacancies were craft and skilled trades and associated professional and technical jobs, which accounted for 22% and 17% of all skills shortage vacancies reported respectively. It showed that craft and skilled trade jobs require 120,000 new entrants every year. The Construction Industry Training Board predicts a requirement for 29,000 new plumbers and 35,000 new electricians over the next five years. This is a real skills challenge to our schools, colleges and training providers.
3. To begin with, we will develop clear new vocational options for young people, with new forms of vocational education in our schools and expanded apprenticeship opportunities. There is already emerging research evidence on the value of a work-related curriculum in schools. In the 35 work-related learning demonstration projects we have funded since 1997, work-related students got GCSE results at the same level as the average year cohort for their school (31 points compared to 32 respectively), but starting from a lower base of expected achievement. This shows just how effective vocational education can be at raising standards.
4. One reason for success in this area is the greater motivation and sense of hope that result from young people playing to their strengths and believing that there will be a job for them if they take the craft or vocational route. If, as was once the case with traditional apprenticeships, youngsters can see that the world of work offers sustainable employment and personal prosperity, they will take it. This is true for those who recognise that a knowledge-based economy does not reduce demand for electricians, plumbers, joiners or skilled building workers. Nor does it preclude success through the ladder of lifelong learning in hospitality, catering or other major service sectors.
5. I want to build on this as the first rung in a new vocational ladder for many more young people. In the future, vocational and technical education will be a positive choice, not a second-class fallback, with as much status and esteem as academic education. That is why, from 2002, 14-16 year olds will be able to take vocational GCSEs - in a broad range of subjects from art and design, to engineering and business studies. This will represent a major extension of vocational and technical education. I am not in the business of simply rebadging qualifications. The new vocational GCSEs will provide the highest standards – as good as the best in Continental Europe, against which they will be benchmarked as we develop the specifications.

**Case study 1: Devon and Cornwall: PEAKS Project**

Running in six schools with close to 1000 participating students, this project developed a variety of cross-curricular activities to enhance Key Skill learning opportunities, and led to a recognised accreditation of Key Skill units. It also raised awareness and expectation and enhanced teaching and learning styles. It delivered this through business mentoring, Key Skill portfolios, enhanced work experience and a “PEAKS challenge” inter-school competition featuring a business project with a Key Skills dimension.

The outcomes included:

1. raising the average percentage of pupils achieving five good GCSEs across five of the schools from 39.7% in 1996/97 to 45.5% in 1998/99;
2. actively involving 120 employers and training providers;
3. increased demand for teacher placements.
4. To make a success of vocational GCSEs, we need to draw together schools, colleges and employers in new partnerships. The LSC will be able to fund 14-16 year olds who undertake part of their vocational study in colleges of further education. This will give young people access to specialist vocational teaching expertise and to capital facilities in subject areas where high quality, leading-edge equipment is vital. Schools and colleges will also want to work with employers to ensure that young people can draw on the resources and expertise of local businesses. Teachers will need to make new links to the world of work, so that they understand the contemporary business contexts in which young people will use their knowledge and skills. Changes in the law in 1998 have made it possible for us to be much more imaginative and radical in the way that we can join up school and further education, but also the learning experience in the world of work, and we estimate 50,000 pupils are currently pursuing work-related learning at Key Stage 4. My guidance to the Learning and Skills Council, published on 9 November 2000, emphasise the importance of this.
5. We will support the development activity necessary to make these things happen with £18 million for work-related learning in 2002/3 rising to £20 million in 2003/4. This will enable us to expand significantly the programme of vocational opportunities at Key Stage 4. Specifically, the additional money will pay for:
6. up to 40,000 part-time vocational placements per year in FE/training and enhanced work placements;
7. support for local/regional planning and managerial and administrative support to schools and colleges;
8. training for teachers and co-ordinators in schools, both for planning and supervising vocational provision and teaching towards vocational training;
9. supporting young people, for example with travel grants, equipment costs and learning materials; and
10. funding for specialist courses for schools wishing to emphasise a particular subject area.

**Case study 2: Barking and Dagenham**

This project has developed pre-vocational pathways in specific industrial areas of art and technology, such as print, engineering, industrial model making or catering. The approach uses vocational GCSEs in eight secondary schools to emphasise the knowledge and skills of the field, while meeting the assessment criteria for the syllabus. The aim is to provide a thorough and high standard of technical education to fully exploit the potential of GCSE to enable the maximum number of pupils to gain success and recognition.

Pupils use industrial standards and equipment, while working to assignments which make commercial demands and provide access to the full range of grades A\*-G. For example, one pupil studying Engineering GCSE as part of the Design and Technology course at the Warren School designed a highly innovative double action clamp, using precision tooling techniques and achieved an A\* GCSE. The school is currently seeking a patent for his design.

Results from the projects have been very encouraging, with schools reporting attainment results above predicted scores for project pupils. In one school, 85% of pupils got an A-C GCSE grade in Catering, while in other schools 45% got A-C GCSE grades in Industrial Production, and 35% A-C GCSE grades in Construction – and the latter two were targeted at poor attenders. Additionally, schools reported pupils’ attendance and standards of work have been driven up in other subjects.

1. Playing a role that embraces schools and the LSC will be the new Connexions Service. It will make explicit for individual children the link between what they are doing at school and the options open to them for further education and in the labour market, including through work experience. It will also provide youngsters with the support they need to help them achieve their goals. Breaking down the barriers between academic and vocational education will also be helped by an emphasis on employability and high quality work experience for pupils of all ability. Academic success may enhance your future prospects but it does not shield you from the world of work or the need to make a meaningful economic contribution.
2. The extension of vocational and technical education represents an important modernisation of comprehensive secondary education. It introduces further diversity into the school system, allowing schools to build on their strengths, particularly where they have a relevant specialism. It opens up new choices for young people, enabling them to pursue individual programmes of study better suited to their aptitudes, abilities and enthusiasms. From 14 onwards, young people will be able to choose new vocational programmes, leading to high standard, well-understood and recognised qualifications. They will continue to reach high standards in literacy and numeracy and other subjects, as well as developing the reasoning skills, creativity and capacity for enterprise that are the hallmark of vocational and technical education at its best. Vocational education must stretch young people and add real value to their achievements, as much as any academic education does.
3. Young people will also study vocational and technical education in a school setting. Vocational options will be available to students across the ability range – those who excel at maths and the sciences, for example, will often want to study specialist engineering or design and technology options. But I am also clear that young people who want a future career based on vocational and technical skills should be able to choose predominantly vocational programmes of study from age 14. We will strengthen and clarify the vocational pathways available at Key Stage 4 to enable this to happen. In particular, we will consult on the scope for increasing the time available for vocational study within the statutory framework for Key Stage 4 of the National Curriculum.
4. In this way, the extension of vocational education in schools builds on our reforms to urban secondary education in the Excellence in Cities (EiC) programme. EiC is already beginning to transform secondary schools in some of our most challenging urban areas. The core principles on which EiC is built – high expectations of everyone whatever their background, extending diversity, promoting co-operation and extending learning opportunities for individuals – show how the themes I have set out in this pamphlet can be put into practice to make a real difference to real pupils. Learning Mentors are tackling the barriers to learning that pupils face and working with their families. Learning Support Units are reducing disruption in classrooms and reducing the need for schools to exclude. Gifted and Talented programmes are stretching the most able to achieve more and have higher aspirations. Beacon schools, specialist schools and City Learning Centres are increasing the diversity of secondary school provision and opening up new opportunities to learn.
5. Alongside this pamphlet, I am publishing our first annual report on the progress of the EiC programme. The results so far are encouraging. Standards in the first EiC areas are rising faster than those of schools nationally. The increase in those getting five good GCSEs or their equivalent this year was 2.3% compared with 1.3% for other areas. Perhaps even more encouragingly, the analysis shows that the biggest increases have been made in the most deprived schools – those with over half their pupils entitled to free school meals. Our policies are directly reaching those where the challenges are greatest. The numbers of pupils leaving school with no qualifications has fallen faster in the first EiC areas than in other schools – by 1% compared to half that rate in other schools. It is of course early days for the programme. The key issue will be whether these rates of improvement can be sustained over time.
6. By September 2001 one third of all secondary age pupils will be covered by the EiC programme – and for the first time we will be taking the EiC approach beyond the big cities to target smaller areas of deprivation, through new Excellence Clusters. Our reforms to vocational education will build on this approach by yet further extending learning opportunities and the diversity of education available to young people.
7. Young people choosing vocational study will be able to see a ladder of progression that gives structure, purpose and expectation to their lives, in the same way that a future pathway is clear to those who leave school to gain academic A levels and enter university. Over 16s in full time education will be able to take forward their vocational GCSEs into programmes of study that are predominantly vocational, or which combine new vocational A levels with academic A levels in a mixed programme of study. And just as we have created broader A level studies, so I want to be sure that vocational programmes are coherent, equipping young people with both broad knowledge and skills, and specialist expertise and competence. I will ask the Qualifications and Curriculum Authority to prepare advice on this issue. I will not tolerate large numbers of young people churning around on courses that are narrow, or which many persistently fail to complete. Weakness in standards and completion rates feed back rapidly to young people as poor quality options, which they then do their best to avoid.
8. As set out below, I also intend to have work-based routes which parallel full-time study. The transformation of the Youth Training Schemes into the new Foundation Apprenticeships will enable us to route back into the school, progression routes which provide solid basic skills and lead to level 1 foundation qualifications, giving confidence to youngsters to progress beyond the end of compulsory schooling. Advanced Modern Apprenticeships would then become feasible for those who, over time, have continued their studies whilst in work. In this way, for those for whom full-time study is clearly not appropriate, there would be the opportunity to enter the world of work and continue progressing and maturing in the way which traditional apprenticeships allowed for.
9. To ensure that the vocational qualification framework is clear, and well understood by parents, young people and employers, the QCA is currently rationalising the plethora of qualifications up to advanced level (level 3). It will complete this task by autumn 2001. The QCA will also ensure that vocational qualifications relate directly to the needs of employers.

# Case study 3: Wirral LEA: Work-related learning using the Laird Foundation

The Laird Foundation at Birkenhead - an innovative engineering training centre formed as a unique partnership between Wirral Borough Council, the private and voluntary sector - offers state of the art engineering, manufacturing, construction and heritage skills for apprentices, employees, and school pupils. As well as responsibility for 180 Modern Apprentices, it aims to improve progression of pupils into training and jobs. More than 250 pupils attend work placement programmes, where they work alongside Modern Apprentices in project teams, and study NVQ units and Key Skills. Additionally, schools send pupils for regular one or two morning sessions, to focus on engineering processes and enable pupils to work towards NVQ Level 2 competencies. A range of positive outcomes have been achieved, including improved employability through practical experience and training, an understanding of progression options post-16, the gaining of external qualifications and a better understanding of the relevance of the curriculum in areas such as Maths and English.

1. The ladder of vocational progression will also lead into higher education for those who meet the required standard. Having reached level 3 through a vocational route, it will be open to young people to study for membership of a professional body or, if they wish, to move on to higher level qualifications. Later this year, prototypes for new, vocationally-orientated Foundation Degrees will start. They will develop employment skills alongside rigorous knowledge and theory. Many of them will be linked to key areas of the new economy: Internet computing, e-business, software engineering and other high-technology subjects. They will also be available for part-time study by people in work, and indeed, at the workplace. Our future expansion of higher education will be focused heavily on Foundation Degrees, and vocationally-orientated study by those in their twenties. In this way, we are making a reality of the long-cherished aim that individuals should be able to progress through the technical and vocational pathway all the way to a degree. Choosing technical and vocational education will no longer be seen as an option which limits ambitions.
2. We are also expanding apprenticeship opportunities and strengthening and reforming Modern Apprenticeships as a key option for those young people who want to earn as they learn. Symptomatic of the divide between education and skills development for work was a limited conception of the knowledge and understanding needed for high standard apprenticeships. At their best, apprenticeships have always offered rich and substantial knowledge and skills, gained off-the-job as well as on it. But that has not always been the case in different sectors. So we are reforming the Modern Apprenticeship framework, at both Foundation and Advanced levels, to increase the taught element of underpinning knowledge and understanding needed for the job. An Apprenticeship Diploma will certify the attainment of specialist skills and competence, knowledge and understanding, and key skills.
3. In line with the above, I therefore intend to create an entitlement to a Modern Apprenticeship for all young people who have the ability, aptitude and enthusiasm for work-based learning. Where young people meet the right entry criteria, they will be entitled to an apprenticeship place. Those who cannot meet the criteria will undertake pre-apprenticeship programmes in what we term the Learning Gateway. This provision will be properly integrated, developed to focus on progression and achievement, and made available to young people by referral from the Connexions Service and other partners.
4. In essence, the new structure for work-based learning will consist of the Learning Gateway, Foundation and then Advanced Modern Apprenticeships. This will mean finally phasing out so-called Other Training: the residue of the old, failed Youth Training programmes. From September 2002, nobody will start on an Other Training programme. I recognise that this has practical implications and that we will need to extend apprenticeship frameworks to sectors where they do not currently exist. In addition, those young people who are not ready for the key skills requirements of the Foundation Modern Apprenticeship will have their basic literacy and numeracy skills addressed first, as a priority, by colleges and other providers. This will tackle the burden which I acknowledge the key skills requirements can sometimes place on young people and their employers, and ensure that basic skills weaknesses are remedied.
5. These are historic reforms. For the first time, we will have in place a vocational and technical education system that secures high standards, status and esteem. Schools and colleges will be linked to the world of work in new and productive partnerships. Employers will be able to recruit people with the specialist and generic skills they need at all levels of business activity.

**SKILLS**

1. The enhancement of productivity growth in the UK is a challenge we must meet.Although this country has performed impressively on the employment front in recent years, our performance on productivity has been less encouraging. GDP per worker in the UK remains significantly below that in the US, France and Germany.
2. There are many deep-seated and historical reasons for this productivity shortfall. In part it reflects lower investment in physical capital. But in part it also reflects less investment in human capital – a less well-educated, less well-trained workforce. We know, for example, that within manufacturing the highest productivity firms have proportionally more skilled workers than the lowest productivity firms – twice as many.
3. Recent research by Crafts and Mahoney at the National Institute of Economic and Social Researchsuggests that while we lag behind the US in numbers of highly skilled workers, when we compare ourselves to other European countries, such as Germany, our shortfall is in workers with intermediate skills. And there is other well-known evidence on the systemic under-investment in training in the UK - the National Skills Task Force reported that the UK had one third fewer people qualified to NVQ level 2 than France and Germany (former FRG) and only half as many people qualified to NVQ level 3 or above than had been achieved in Germany.

# Investing in training

1. A competitive economy will include firms that undertake a great deal of training without any government intervention. Our estimates suggest that, taking all costs into account, firms in this country spend over £15 billion a year on training and individuals fund one sixth of all off-the-job training themselves.
2. Such spending benefits both firms and their workers. Research by the Institute for Fiscal Studies (IFS) tells us that, other things being equal, even short periods of training appear to raise people’s wages by about 5% over quite long periods of time.
3. In a world where skills are fully transferable between employers - a world characterised by what my economists call “perfect competition” - that would be the end of the matter. But of course we do not live in such a world. In fact, employers also gain a lot from training their employees. Recent research, also from the IFS, suggests that a 5% increase in the proportion of employees trained is associated with a 4% increase in productivity within the firm.
4. This type of result is confirmed by further research I commissioned from the Centre forBusiness Research at Cambridge University, the first part of which was published at the very end of last year. It shows that between 1987 and 1995 small and medium-sized enterprises offering sustained training to their employees fared better in terms of employment growth than those firms which did not train their employees. The strong, positive impact of training on growth was closely associated with good human resource practices including quality circles, job rotation or performance-related pay. Importantly, this study demonstrates that the positive relationship between training and performance is not simply a matter of the more successful firms having the capacity to offer training; it concludes that training does provide a positive impetus to employment growth.
5. If we are to tackle the systemic culture of under-investment in skills in this country we need the benefits of training to be well known and well understood. Again, this brings us to the role of government. In few areas is that role so complex or critical as training. The government should intervene where the levels and types of training produced by the free market will be sub-optimal.
6. Where the skills a firm needs are wholly specific to that firm we would expect the firm to provide or pay for the necessary training. Where there are clear and significant returns to individuals, we would generally expect them to contribute to the costs of their own training, just as we now expect students to contribute to the costs of their Higher Education.
7. But left to their own devices firms and individuals will not engage in an optimum amount of training, for three key reasons:

a. on the firm’s side many of the skills that are needed are general skills, required by more than one company. So if a firm invests in training workers, they can easily end up seeing other firms reap the rewards;

b. for individuals, information problems are often daunting. It is hard for them to know what skills are likely to be required and what the costs and benefits to them of acquiring those skills will be;

c. finally, there are benefits to the economy from the possession by firms of trained workforces that run wider than individual firms will realise.

1. This provides an economic rationale for government intervention. We are not in the business of manpower planning. We are not in the business of replacing or paying for the specific training that firms themselves ought to be doing. But, through the new LSC and the new Connexions Service we will be putting huge emphasis on providing people and employers with information, help and advice so that they can not only access the training that is available but also do so as informed customers. And, joining together with the LSC, directing reskilling and training to meet immediate requirements and to provide portable and transferable skills is the challenge for the future. All this is a perfect example of government providing where the market cannot and does not.
2. Getting the right balance between central direction and individual choice is key here. We know that one of the best predictors of whether people are offered or take up training as adults is their education level: people who already have degrees are more than four times as likely to be receiving job-related training as those with no qualifications. This is a real instance of “to those that have, more shall be given”. Yet we know that the returns from vocational training to those with low educational achievement can be double those for high-ability individuals.
3. We are therefore promoting choice through making sure people are informed. And we have put power into the hands of the individual through Individual Learning Accounts. Over half a million accounts have now been opened across the UK, which means we have already met our target of 500,000 accounts opened by April 2001 and are well on the way to having one million account holders by April 2002.
4. And government can also play a key enabling role here. The work of the UnionLearning Fund (ULF) shows what can be achieved not through heavy-handed intervention but by government supporting those agents best placed to foster training and education in the workplace. The ULF, funded with £12.5m to the end of 2002, has just completed its third year and so far has supported 220 projects from over 66 unions, working in over 1,000 workplaces. The projects have ranged from basic skills to continuing professional development, and have achieved some impressive results, with over 6,700 people completing courses through the ULF, 2,000 union learning representatives receiving training and 91 accredited courses or qualifications established.

**The basic skills problem**

1. One of the many reasons why all parts of the education system are vital to our economic health is that people who lack basic literacy and numeracy are harder to train and less likely to be trained. Thus a vital part of our policies for training the adult workforce is ensuring that people reach it with a good grounding in basic skills. This is a very clear illustration of how sensible education and training policies are essential complements to an employment policy that places emphasis on fairness through giving everyone the skills they need for employability.
2. As many as seven million adults of working age in England cannot read or write as well as an average 11 year old. One in five adults of working age cannot look up a plumber in the Yellow Pages or read the instructions on a medicine bottle. Even more have trouble with numbers. One in four adults has difficulty calculating the change from a simple purchase at the corner shop.
3. We know that there are positive effects on earnings and job prospects from having better numeracy and literacy skills. **Only half of adults with poor literacy skills have a job. 49** out of 50 jobs are closed to people without entry level basic skills, whilst a half of all jobs are closed to those with only entry level basic skills. And a**mong families with low literacy skills, 1 in 12 have both partners out of work, compared with 1 in 50 of those families with good literacy skills.**  A recent study found evidence of a 6% increase in earnings from achieving level 1 numeracy skills; evidence on the effect of literacy skills on earnings is more variable but again the effects are positive.
4. And we are tackling this issue through a range of the Department’s programmes, including our work in schools outlined above. It is one of the reasons for our focus on literacy and numeracy strategies at the primary school level, and our push to raise standards at all stages of school education. This will feed directly into a better qualified workforce and a more effective labour market. It is vital that it also leads to greater achievement later on in education. All of which will make it easier for firms when it comes to training their workforce in higher level skills.
5. In the immediate term the Government has set a new target to reduce the number of *adults* who have difficulty with literacy and numeracy by 750,000 by 2004. An additional £24 million over three years will be available from the Government’s Welfare to Work budget for screening and assessment. DfEE intends to launch a set of pathfinder projects over the next nine months to test out how best we can deliver the proposed strategy in the years ahead. But we are clear of one thing. The need for this arises from the failure of previous policies to educate our young people and prepare them for the labour market. The policies we are currently pursuing in schools should fundamentally change the needs of adults in the future. As a single department we can see all too directly the impact of inadequate success at the primary school level not just on individuals when they reach the labour market, but on the success of the economy as a whole.

**EMPLOYMENT AND LABOUR MARKET POLICY**

1. A low level of unemployment and high employment are two of the central measures of economic success. Unemployment is at its lowest level for twenty years, at 1.04 million on the claimant count measure and down 578,000 since the last election.
2. Britain is also now a high employment country. The current employment rate – 74.6% - is now above the level inherited by the Conservative administration in 1979 and we are enjoying the longest period of positive annual employment growth for nearly 40 years, moving steadily towards the highest recorded employment rate of 75.7% in 1974. The benefits of this growth are widely spread. Every region in the UK has an employment rate which exceeds the EU average.
3. The UK labour market is now highly efficient and flexible. The stock of unemployed people is smaller than the size of the inflows of people to unemployment (some leaving employment, some entering the labour market after a period of inactivity) and the corresponding outflows from unemployment. For example, in 2000, the average unemployed stock was 1.1million, whereas the total inflow was 2.87million and the total outflow was 3.03million. Inflows to and outflows from unemployment are a natural consequence of a vibrant labour market, a labour market in which more than 200,000 new vacancies are notified to Jobcentres each month – more than 2½ million a year – with probably twice as many more being advertised in newspapers and elsewhere.
4. When the number of people leaving unemployment for jobs falls - as during the long upwards swing in the unemployment rate between 1980 and 1986 - longer-term unemployment starts to build up. Levels of long-term unemployment can (and did) remain stubbornly high for many years. Compared to 1986 the number of people who have been unemployed for over 12 months is down by over four fifths – 215,000 against 1.3 million. And there are now just 5,000 young people who have been claiming benefit for a year or more, compared to over 300,000 in the mid 1980s. In 1986, as many as a fifth of those joining the claimant count stayed out of work for a year or longer. At the date of publishing this pamphlet, that number is down to one in 10 and we are working hard to ensure that figure falls even further.
5. Now, with fewer people claiming unemployment benefits, and reduced lengths of claims, we have been able to cut the cost of failure and increase the available resources for investment in further success. As the Chancellor has noted, over the last 20 years, 42 pence of every additional pound spent went to debt interest and social security. This expenditure is now only 17 pence of every pound spent. This is the socially and economically responsible way to cut unnecessary public spending and divert it into productive and long-term investment, thereby reducing the need to raise resources from the same group of people by widening those who no longer need assistance, and at the same time gaining from them a contribution back into the community.

**Promoting an efficient labour market**

1. Employment opportunity for all – the modern definition of full employment – can only be fully realised if sustained growth can be maintained, and to do this it is necessary to broaden and make the labour market more flexible, both by getting the inactive back to work and by tackling long-term claimant unemployment. By making the benefit system more responsive and flexible, by recognising the value to employers and individuals of strong employability skills, and by insisting on a dual approach of rights in return for personal responsibility we are reducing both the fact and the fear of unemployment. The New Deal, with its “no fifth option” approach, is central. And the virtuous circle created by a successful labour market and a successful economy encourages many of the previously economically inactive to seek work. The Labour Force Survey shows that the number of discouraged workers – those who say they are inactive because there are not enough jobs around – has fallen by 38% since spring 1997. That figure represents a vital achievement - the start of an economic and social re-engagement that will be of incalculable collective benefit to us.
2. This Government believes that it is particularly important for those out of work to remain in contact with the labour market, not least so that vacancies can be filled as they appear. Preventing shortages of employment in this way allows expansion without bottlenecks and without upward pressure on wage and price inflation. And it gives people the best chance of progression within the labour market. We have made clear our commitment to a sustainable rise in the level of employment, not by unsustainable cuts in taxes or bursts of public spending, but by providing the right conditions and implementing policies that allow that contact to be maintained.
3. We have introduced a National Minimum Wage at a level that provides the right incentive to individuals to work without reducing the inclination of employers to employ. We have introduced a Working Families Tax Credit to allow families to make the transition from unemployment to work more easily. And my Department has increased dramatically the number of available childcare places to further ease this transition. The UK now has one of the highest female employment rates in the EU. We are endeavouring to make work pay.
4. There is a new contract between the state and the individual. Security for those who cannot work and practical help for those who cannot currently find work. The policies pursued by Gordon Brown have established a stable macro-economic framework within which the economy can flourish and employment can continue to grow. The Job Seeker’s Allowance provides the support individuals need to find work in return for accepting the responsibility to actively seek work. This is what I mean by a “something for something” approach: a balance of action by both state and individual.
5. This approach is at the core of our New Deal, and has underpinned its success. Independent evaluation (carried out by the National Institute of Economic and Social Research) of the New Deal for Young People (NYDP) shows that the initiative has raised national income by half a billion pounds, as I mentioned earlier. It has led to a massive reduction in long-term youth unemployment, which has fallen by around 75% since May 1997. But this success has not come at the expense of others in the labour market. Quite the reverse. NIESR found that employment among those over 25 has actually grown as a result of NDYP.
6. For NDYP attacks long-term unemployment. And we know that the long-term unemployed gradually lose their skills and confidence, and their ability to look for work efficiently. They become less effective in the labour market. Following the assistance provided by the New Deal, – the help offered in the Gateway, the training and education on offer to those who need it, and the stress on the importance of labour market attachment – participants are able to compete better in the labour market. Here again, we fit education and training as an option directly in to our key labour market programmes, because we are looking for the long-term gains for individuals and the labour market that flow from a skilled workforce. Firms have more potential recruits to choose from, wage pressure is diminished and non-inflationary growth is promoted. The economy as a whole benefits, not just those who have gone through the New Deal.
7. The success of the New Deal for Young People has led us to extend its principles to older long-term unemployed people – from April this year the New Deal for those aged 25+ will be updated and expanded to cover all those unemployed for 18 months or more.
8. But there is still much to be done. By 2020 in the United Kingdom, estimates indicate that the number of people of working age under 50 years old will have fallen by 2 million, and the number over 50 will have correspondingly increased by over 2 million. Age Concern calculates that one in four of the workforce will be 50 or over, compared to one in five in 1990. According to the Employers’ Forum on Age, those employers who fail to exploit the untapped wisdom of these older workers are wasting a resource worth some £26 billion per annum. That is why we have introduced the New Deal for those aged 50+ and a concerted campaign against age discrimination in the workplace.
9. Unless we can encourage older people to remain in work, and ensure that as many younger people as possible are actively participating in the labour market, there is a risk that we will face a labour shortage in coming years similar to that predicted in the United States.
10. And that is why our next task is to bring more people into the labour force. There are almost as many lone parents on benefits as there are unemployed, and 2.5 million individuals on long-term sickness and disability benefits. Many of these individuals would like to work, and those that do must be given the opportunity and the support to find work. As I announced in my speech to the Policy Studies Institute on 11 October last year, job retention and rehabilitation pilots starting this April will test different ways for people with prolonged illness or disability to regain and retain work.
11. In co-operation with colleagues at the DSS, and working with other partners, we have also been piloting the new ‘ONE’ service - an approach that ensures that all clients on benefit, not just those on JSA, receive help and support from the outset. By making it a condition of benefit to have a work-focused interview at the start of their claim we hope to help more benefit recipients back to independence through work. Published early findings show that clients in the first phase of the pilot service responded positively to this personalised, integrated, “one-stop” approach. They said they felt more self-confident and aware of their potential for work. There is also emerging evidence that ONE clients feel encouraged to undertake training and other steps to improve their work-readiness in the longer term.
12. Building on this, from April the Employment Service will provide work focused interviews for all lone parents on income support with school aged children. And later this year its successor body, the new Agency for people of working age will introduce work focused interviews for all working age people who make a new or repeat claim for benefits such as Income Support or disability benefits.
13. This work-focused approach is designed to tackle both social and economic problems. The best way of tackling the one is the best way of tackling the other. Children from lone-parent households make up almost half of all children living in poverty. Since the New Deal for Lone Parents was first piloted in July 1997, 193,000 have participated, with 75,000 finding work. From April, all new lone parent claimants to Income Support with children of school age will be required to take part in an annual work-focused meeting. The New Deal for Disabled People has also made an important contribution to the growth in labour supply – even though only operating on a pilot basis in a small number of areas, it has helped 6,000 people on disability benefits into work. And the voluntary New Deal for Partners of the Unemployed is ending the anomaly of partners being treated in every case as financial dependents.
14. These employment programmes, and in particular the New Deal programmes, are giving people the opportunity to learn and be re-skilled in a way that was never incorporated into previous schemes. Education and training are central to improving employment prospects, and our programmes are a testimony to that. Measures such as the job transition service deliver training, not to buck or second guess market forces, but to intervene to provide support and help in times of trauma and transition for individuals and their families. In this way, government is facilitating rapid change and providing the advice, opportunities to re-skill and personal counselling that people need to cope with that change. Employers must now look to their own working practices to ensure that everyone who can potentially contribute has the opportunity to do so.
15. Working to ensure equality is – contrary to what some might think – a key element in DfEE’s economic role. This is not political correctness for its own sake, nor even simply the important aim of creating a fair share of opportunity. Equality in this context is about harnessing talent and expanding the labour force to facilitate sustained, low inflation growth.
16. We must also create the best possible match between employers wanting people and people wanting jobs. This also means ensuring that the labour market, day to day, operates as flexibly and efficiently as possible. That is why the Employment Service has been investing so much time and effort in the past few years in improving its core service to employers and jobseekers. In many ways it has gone through a quiet but profound revolution.
17. Let me illustrate this step-change in just two key ways. First, we have encouraged and supported the Employment Service’s commitment to modernisation. Innovation, flexibility and the use of new technology have been key to this. Anyone who is without a job can now ring a single telephone number to gain instant access to the 300,000-plus job vacancies that the Employment Service has on its books at any one time. In the last two years, nearly 5 million people have done just that and every week 1,500 people find work through this service, all for the price of a local phone call.
18. Since last November all jobs advertised through the Employment Service can be found on the Internet. And in February we will be launching an even more revolutionary site called worktrain. It will bring together for the first time information on jobs, careers and training, giving people access to three major databases:
19. Learndirect, from the University for Industry, which gives details of more than 500,000 training courses and learning opportunities;
20. the Employment Service Internet Job Bank; and
21. information on careers and occupations.
22. Second, we have built on the Employment Service’s strength as a Next Steps Agency to foster much closer relationships with private sector companies. We have introduced account management for Britain’s top 300 companies, which means that they can deal with one account manager in the Employment Service for all their needs. And during the course of this year we will introduce, for the first time ever, a single telephone number that any employer in Britain can use to notify us of a job vacancy.
23. The Employment Service is tailoring its services to meet the needs of individual employers. In my own city of Sheffield, for example, the Employment Service and Dixons have been working closely together for over a year to fill vacancies at Dixons’ new call centre and the Employment Service has been running a comprehensive screening and interviewing programme tailored to meet the company’s requirements. Richard Edwards, Communications Manager for Dixon's group call centres, has described the experience of working with the Employment Service thus:

*"We came to Sheffield with ambitious plans to create 2,000 new jobs in a couple of years and the quality and scale of the Employment Service's operation has been tremendous.…from the very first meeting it was obvious the Employment Service had a lot to offer. The locally based knowledge has proved invaluable and the response was so quick we are sure no outside agency could have matched it'"*

Such comments are the best possible testament to the potential of government and its agencies, properly constituted, to help the labour market operate as efficiently and quickly as possible.

1. The emphasis of all our employment strategies is on partnership - on working together with employers, individuals, agencies and voluntary sector providers to ensure that present and future skills and recruitment needs can be met successfully. In particular, the new Agency for people of working age will build on the culture of innovation and high levels of customer service running through the Employment Service to further focus on the needs of clients and employers. It is these partnerships, combined with our education policies and our emphasis on continuous learning, that will help ensure that Britain maintains a stable economy and a strong position in the global marketplace.
2. The task of investing in skills and connecting individual advancement to collective prosperity begins with provision for our children. It culminates in real opportunity and jobs. This is now being achieved in partnership with the private sector, through the Employment Service, the new embryo Working Age Agency and Public Private Partnerships, such as Working Links or privately delivered Employment Zones. Greater flexibility, responsiveness and the tailoring of solutions to the needs of the individual and the local community are now bearing fruit. There has never been a greater opportunity to draw on the goodwill, as well as the hard-headed economic realism of employers. With 81,500 employers now signed up to the New Deal, employer coalitions working at local level and the development of work experience and Education Business Partnerships a reality across the country, we have an unprecedented opportunity to harness the goodwill and self-interest of everyone for future success.

**CONCLUSION**

1. In the parlance of Whitehall, DfEE is a ‘spending department’. It is a misnomer that betrays a shortsighted conception of the role of government, for this is very much a Department for wealth generation.
2. The policies of the DfEE are central to delivering this Government’s economic and social agenda. We are setting in place a coherent framework from school through to further and higher education through to employment and lifelong learning. We are creating a labour market that is both flexible and fair. And we are striving to give everyone the skills to prosper in the modern economy.
3. The DfEE’s application of the Keynesian investment ethos to the supply side of our economy enhances productivity and economic performance. Incomes can therefore rise and demand will respond to the enhanced supply side of the economy. The economy will be able to cope with increased demand without boom and bust, thanks to the efficiency of the labour market.
4. This process starts with getting the basics right in education. Failure to do that in the past explains our need to invest in basic skills training for adults. It also means giving children and young people appropriate ladders of opportunity that link education and their experience of it directly to the labour market. Our new strategy on vocational education and the Connexions Service are designed to do precisely that.
5. For post-compulsory schooling we need to ensure that different educational routes are fairly organised and funded and that all students going through them see how what they are doing relates to their future training and labour market opportunities. To do all this we look to the LSC.
6. And once in the labour market we need to ensure that those who have difficulty finding appropriate work are offered help through the Employment Service and our various labour market programmes. With this right to support, and with the opportunities, which the flexible labour market provides, comes the individual’s responsibility to take work when it is available.
7. This is good for the economy, but also vital for individuals, their families and their communities. Work is the best way out of poverty and, as our policies recognise, that is true not just for those in receipt of JSA but for many of those in receipt of other benefits as well.
8. We are addressing the outmoded concepts and policies in areas like vocational education, which have held our country back for too long. By ensuring a seamless approach to education and employment we are able to form a coherent strategy to build and strengthen our essential base for the sustained economic success that all desire and from which all will gain.
1. From the Chancellor’s lecture to the Royal Economic Society on 13 July 2000 [↑](#footnote-ref-1)
2. Green A, & Lucas, N: From Obscurity to Crisis: the Further Education Sector in Context, in Green & Lucas (eds) *FE and Lifelong Learning: Realigning the Sector for the Twenty First Century* London: Institute of Education, p13. [↑](#footnote-ref-2)