Life Chances: Supporting people to get on in the labour market

An analytical discussion paper
March 2008

This pack is a discussion paper. It is not a statement of Government policy
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Ministerial Foreword

The economic and social context in which we live is changing more rapidly than at any time in the last century. Falling barriers to trade, new markets and new technologies are creating new opportunities and challenges for all of us.

Unlocking the talents of all our people plays a central role in our response to this changing world. The proportion of low-skilled jobs is falling and our productivity depends on improving the number of people with intermediate as well as higher skills. So, improving skills is not just desirable for a fair society, it is also necessary for a competitive economy.

That means helping adults who have yet to realise their full potential to improve their skills and at the same time making sure that young people entering the labour market have the skills they need to succeed. It means helping low-skilled adults and those outside the labour market to develop the skills they need to find work. But getting into work is just the start.

We need to give everyone the chances they need to develop their skills so they can progress in work and improve the lives of themselves and their families, whether it be the 29 million people currently in work, the 800,000 people claiming unemployment benefits or, for example, the 1 million people the Government is seeking to support to come off Incapacity Benefit.
Ministerial Foreword

We must create a policy framework which enables everybody to find work, stay in work, and progress up through the labour market. That policy framework must be rooted in a clear understanding of the barriers that people face and the support and interventions that will be most effective in enabling them to develop their talent and progress.

Building on the analysis set out in *Future Strategic Challenges for Britain*, this paper highlights some of the key trends and issues we will explore as we develop and drive the implementation of our skills and employment strategies. It sets out to explore four key questions to help enhance our understanding of the issues:

- **How are external factors, such as technological changes and globalisation, changing the opportunities for progression in the labour market?**
- **What are the benefits, in terms of employment, wages and productivity, to having different types of skills?**
- **To what extent have people been able to access the opportunities in the labour market over the last decade or so?**
- **Given the available opportunities, what barriers are holding back individuals from progressing?**

This paper is intended to stimulate a debate about what works best in supporting people to get into work and get on in work. By working together to develop our response to future challenges, we can unlock our nation’s talent and build the right foundation for future success for all.

John Denham  
James Purnell

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(1) Strategy Unit, Cabinet Office (2008) Future Strategic Challenges for Britain
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This paper aims to inform the debate about how best to help adults to get on in the labour market

<table>
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<th>Purpose of paper</th>
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<tbody>
<tr>
<td>• This paper <strong>reviews the evidence</strong> relating to helping adults to progress in work. It also highlights ambiguities and gaps in this evidence and suggests issues for further analysis</td>
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<tr>
<td>• The paper is intended to stimulate a <strong>wider discussion</strong> on how best to take forward research and to develop policy in this area</td>
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<tr>
<td>• Over the coming months, the Strategy Unit will continue to engage with researchers and experts in the area to refine the Government’s evidence base</td>
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<td><strong>5. The barriers holding people back</strong></td>
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There is a strong social and economic case for providing people with opportunities to progress in work

**Context**

- The Government has set itself ambitious targets to achieve world class skills. Adults over the compulsory school leaving age will make up 70% of the 2020 workforce. So as part of this ambition, it will be necessary to provide adults in the current workforce with opportunities to get on in the labour market.

- Helping adults to progress through improving their skills, both by up-skilling and re-skilling, brings economic benefits:
  - There are estimated to be gains of £80bn to the economy over 30 years if the Government’s skills targets are met.
  - There are significant wage returns for individuals acquiring new skills.
- There is also a strong social case for extending opportunities for progression:
  - Giving people opportunities to progress in the labour market will help increase social mobility, helping to ensure that talent and hard work determine success in life.
  - Helping more parents to get on in work will have a direct impact on child poverty and boost the life chances of their children.

**Going forward**

- The Government is already pursuing a series of radical initiatives in this area, and these need to be developed with a clear understanding of some key analytical questions:
  a. How are external factors, like technological changes and globalisation, changing people’s opportunities to progress in the labour market?
  b. What are the specific gains, in terms of employment, wages and productivity, to having different types of skills?
  c. To what extent have people been able to access the opportunities in the labour market over the last decade or so?
  d. Given the available opportunities, what barriers are holding back individuals from progressing?

(1) Leitch (2006) Prosperity for all in the global economy
Factors like technological change and globalisation are generating further opportunities for higher skilled workers, but there is a need to guard against potential downsides.

The facts

- Over the last 15 years the economy has generated ever more job opportunities. And it is widely agreed that technological change since the early 1980s has provided greater opportunities for more skilled workers.
- There is an on-going debate about the degree to which technical change and the shift towards service sectors has led to a polarisation of the labour market.
- Globalisation is lowering trade barriers and expanding the global labour force, creating new challenges and opportunities for the UK:
  - The increased trade in high-value services represents further opportunities for high skilled workers.
  - The doubling of the global labour force, combined with the ability to import cheaper goods and services poses potential risks for those with lower skills.
  - Regardless of the impacts of migration, employers should not feel they have to seek migrant labour because of avoidable local skills shortages.
- In the face of these trends, the Government is committed to up-skilling and re-skilling the whole of the workforce and ensuring that local people have the skills to take advantage of labour market opportunities.

Issues to consider further

- To what extent is skill-biased technical change likely to continue into the future?
- Is the current labour market polarising between high and low-skilled jobs and, if it is, are there consequences for people’s opportunities to progress?
- What are the most likely scenarios around globalisation, and how can the UK ensure that the whole of its workforce is equipped to meet the opportunities and challenges?
There are opportunities for substantial gains, in terms of employment, wages and productivity, from increasing the skills of people throughout the workforce

The facts

- Raising skills drives up business performance, with growing businesses associated with more job and training opportunities. And the wage returns to skills in the UK are higher than in most other countries, suggesting greater opportunities for people to benefit from improving their skills.
- Below these headline figures it is clear that:
  - The wage and productivity returns to higher level qualifications seem to be greatest and there are consistently strong returns to academic qualifications.
  - At lower skills levels, there is clear evidence that having basic literacy and numeracy raises employability and wages.
  - There are on average positive returns to lower level vocational qualifications where these are delivered in the workplace. The returns tend to be greatest for more established qualifications (e.g. City and Guilds); qualifications in industrial sectors with a training culture (e.g. construction); and particular types of people (e.g. women in their thirties who are likely to be returning to work after having children).
- Business has expressed a clear demand for soft skills, ranging from basic employability skills (time keeping, etc) to more job specific skills (team working, customer relations, etc).
- And there is a need to ensure we have the entrepreneurial and management skills to allow business practices and product strategies to adapt rapidly to increases in skills and to facilitate new business development.

Issues to consider further

- How much more can be established about the types of skills that drive business performance, provide individuals with higher wages and greater chances of getting jobs?
- How are the returns to soft skills likely to change in the future?
- What more can the UK do to build stronger entrepreneurial and managerial skills?
While the Government has been successful in helping more people into work, there is still a big challenge ahead in ensuring everyone has the ability to get on in work.

**The facts**

- There has been a **significant rise in the qualification levels of the UK workforce** over the past decade.
- But a sizeable proportion of the current workforce may still face **relatively poor prospects for wage progression** and building a workforce with world class skills will be central to helping these groups get on. Low pay and poor progression is a particular issue for women, with many moving into part-time and lower-skilled roles when they have children.
- Moving job appears to be a key way to progress in the labour market. And some workers have been able to move from low-skilled to high-skilled jobs. **Lifelong learning and self-employment** are both important ways for people to get on.
- The **risk of experiencing unemployment has fallen sharply**, along with the risk of entering a cycle of low paid jobs punctuated by periods of unemployment. And the Government has provided greater support for those losing jobs, helping them to rapidly return to work.
- The Government’s welfare to work policies, delivered through Jobcentre Plus, have been very successful in moving large numbers of people into work, with sharp **falls in the overall numbers unemployed and on lone parent benefits** starting to be accompanied by falls in the numbers on disability benefits.

**Issues to consider further**

- How can we segment the progression prospects of the 29 million people in work further, looking at a broad range of specific life stages?
- How are people currently managing to progress in the labour market, including through acquiring skills, moving jobs and setting up their own businesses?
- How are wider factors influencing people’s opportunities to progress, such as housing options, the availability of childcare and local transport links?
Policies need to consider a range of barriers that hold people back from both being trained and more generally from progressing in the labour market

<table>
<thead>
<tr>
<th>The facts</th>
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<tbody>
<tr>
<td>• The key <strong>personal barriers to training</strong> that people report are:</td>
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<tr>
<td>• <em>Low motivation</em>. This is particularly associated with those with the lowest skills, probably because of their poor experiences when they went through school</td>
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<td>• <em>A lack of information</em>. This is a barrier for all, though again it appears to be worst for those with lower qualifications</td>
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<tr>
<td>• <em>Time</em>. This is especially important for those already in work and with families and there are related issues around the availability of childcare</td>
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<td>• <em>Credit constraints</em>. These are a theoretical issue for all around training</td>
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<td>• There may also be issues if <strong>businesses do not provide enough training</strong>, which would limit individuals’ ability to progress</td>
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<tr>
<td>• There are a series of theoretical market failures which might lead firms to under-train, including poaching of staff and the potential for low-skilled equilibrium, but the empirical evidence on this is much less developed</td>
</tr>
<tr>
<td>• Smaller firms generally provide less training as it is much costlier for them to do so</td>
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<tr>
<td>• Finally training levels vary greatly between sectors. The public sector and the construction industry seem to train the most</td>
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<tr>
<td>• We know relatively little about the role of other factors that are important for advancement (such as housing and transport), and how barriers around these affect people’s opportunities to progress</td>
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<table>
<thead>
<tr>
<th>Issues to consider further</th>
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<tbody>
<tr>
<td>➢ How can we go further to segment the life-stages around progression and understand which barriers are most important for which groups?</td>
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<tr>
<td>➢ Are there demand-side market failures that are limiting individuals’ ability to progress?</td>
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<tr>
<td>➢ Aside from training, what other factors are acting as barriers to progression and how can these be addressed?</td>
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Up-skilling and re-skilling the workforce to world class levels is crucial for the future economic prosperity of the UK

Comparative productivity in the UK is improving, but the gap with other countries remains large

Skills and the productivity gap

- Some 20% of the UK’s productivity gap with Germany may be accounted for by relatively low skills
- Skills are key to productivity and growth. Skills
  - Make individual workers more productive and adaptable
  - Allow capital equipment to be used more effectively, and
  - enable managers to introduce new and more advanced technology and systems more easily
- For every additional 10 percentage points of the workforce trained there are on average 6% productivity returns
- Achieving Leitch’s vision for skills could add £80bn to GDP over 30 years by increasing productivity and employment

To achieve world class levels of skills, it will be necessary to provide adults currently in the labour market with opportunities to progress

The Leitch report set ambitious targets for the UK to achieve world class skills by 2020

Requirements if 2020 targets to be met:

- **Basic skills**
  - 7.4m adults acquiring functional numeracy and literacy
- **Level 2**
  - 5.7m more adults reaching at least level 2
- **Intermediate skills**
  - 4m more adults acquiring level 3
- **Higher skills**
  - An extra 5.5m adults qualified to at least level 4

Achieving these targets will require significant upskilling and re-skilling between now and 2020\(^1\)

- 70% of the UK’s 2020 workforce have already completed their compulsory education\(^1\)

To achieve the skills ambitions set by Leitch it will be necessary to provide adults currently in the labour market with further opportunities to progress

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\(^1\) Leitch (2006) Prosperity for all in the global economy
There are significant economic gains for individuals from improving their skills

Summary of wage returns from acquiring skills

- **High-level skills**
  - A *first degree* adds an average of 25-30% to annual earnings, and these returns have not fallen as more people have gained degrees
  - As well as being highly valued by employers, strong *management skills* may add 7% to wages for men, and 4% for women

- **Intermediate skills**
  - Achieving *5 good GCSEs* (A*-C) shows high returns up to 30%
  - *Apprenticeships* offer strong returns at levels 2 and 3. An advanced apprenticeship offers wage returns of 35%
  - Wage returns to *level 2 vocational qualifications* are positive for specific groups, in certain sectors and when delivered in the workplace

- **Basic skills**
  - Having basic *literacy and numeracy* can explain up to 10% of wage differentials
  - In a recent survey of London employers, 92% said they rated *employability skills* as the major factor in recruitment and promotion, over and above qualifications

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Aside from the economic gains, giving people opportunities to progress in the labour market will help to increase social mobility.

At the top and bottom of society there are sizeable groups who remain rich or poor over decades.

And falling social mobility for those born between 1958 and 1970 suggests many of today's workforce faced an increased risk of intergenerational disadvantage.

Social mobility
- Social mobility measured by parental class, rather than income, remained constant in the UK for those born between 1958 and 1970.
- For those born after 1970 social mobility by parental income in the UK appears stable.
- Other countries, particularly the Nordics, Canada and Australia, have higher overall intergenerational earnings mobility although mobility varies across the income distribution.
- Providing opportunities for progression in the labour market should help to address social inequalities.

**For many adults, labour market opportunities were limited at an early age by their social background**

Today’s adults from poorer backgrounds began to fall behind wealthier peers very early in life.

Evolution of educational attainment by percentile and social class

And parental background remains a crucial determinant of going to university.

% of 19 yr olds studying for a degree by parental class, 2007

Social background has a significant impact on opportunities:

- Gaps in attainment start early and widen during the school years - they double for those on Free School Meals between ages 7 (Key Stage 1) and 14 (Key Stage 3)

- Young people from poorer backgrounds are more likely to fall into risky behaviours such as youth offending or problems with alcohol during adolescence.

- They are also more than twice as likely to drop out and be NEET at age 19 making a successful transition to work more difficult.

**Giving adults opportunities for progression should help to address inequalities entrenched earlier in life**

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Going forward, helping more parents to progress in work is likely to have a direct impact on child poverty

Although the risk of poverty is far higher in workless households, half of children in poverty live in households with at least one person working.

Breakdown of children living in poverty by labour market characteristics

Changes in the level of earnings are the most likely reason for falling into or escaping from persistent poverty.

% of individuals entering or leaving persistent poverty who had experienced a defined event

Progression and child poverty

- The risk of being in poverty is lower for working households (both lone parents and couples) and where both work full-time the risk of poverty is extremely low.

- Improving wage progression has an important role to play in tackling child poverty.

And by improving parents’ skills we can boost the life chances of their children

<table>
<thead>
<tr>
<th>Role of parental skills</th>
<th>Evidence of impacts on child outcomes</th>
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</thead>
<tbody>
<tr>
<td>Good parental educational attainment contributes positively to child development</td>
<td>Children of parents with only very basic numeracy (Entry Level 2) are twice as likely to be in the bottom 20% of aged 5 as those whose parents have Level 2 numeracy¹</td>
</tr>
<tr>
<td>Good parental educational attainment and participation in the labour market improve their aspirations for their children</td>
<td>Parental aspirations and expectations for their children are strongly linked to their own educational attainment³</td>
</tr>
<tr>
<td>Parents with skills have higher confidence and satisfaction which indirectly supports child behavioural development</td>
<td>Children who make stable and secure parental attachments with self-confident parent at 12 to 18 months are less likely to have later behavioural problems⁴</td>
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<td></td>
<td>Children with a good home learning environment (HLE) have a 20% higher average attainment in reading scores at age 10 than those with a poor HLE²</td>
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<td></td>
<td>Teenagers’ aspirations to stay on to A-levels are lowest among children of the unemployed and workless³</td>
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<tr>
<td></td>
<td>Youth offending and anti-social behaviour are associated with poor parental supervision⁵</td>
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</table>

Acquisition of skills as a parent

- Parents gaining higher basic skills increase their confidence when helping their children with homework and other learning activities (40%)⁶

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Providing second chances for adults to up-skill and re-skill brings wider social benefits

Individuals undertaking training report personal benefits in terms of raised confidence and motivation

% of learners on employability skills training who agreed with the following statements about the personal impact of attending the course

- Felt more confident
- Motivation had increased
- They had a sense of more opportunities
- They felt better about themselves

People who manage to improve their skills in adulthood are less likely to be disengaged from democratic processes

% of men with initially poor literacy skills aged 21 not showing democratic engagement grouped by whether they had improved their skills or not by age 34

Benefits from skills for the individual

- Mental and physical health: People with higher skills are less likely to suffer from depression or back pain
- Use of technology: Almost half of individuals with a basic education do not use the internet compared to only 10% of those having attended higher education
- Assets: Men with poor literacy skills aged 21 who improved them by age 34 were almost twice as likely to own their own home those whose skills remained poor

Benefits from skills for wider society

- Cohesion: Improved learning levels for adults in a community are associated with enhanced cohesion and social capital
- Security: Men with poor literacy at age 21 were 50% more likely to have a criminal conviction by age 30 than those with good literacy skills
- Civic participation: Half of learners in FE felt it had encouraged them to take part in voluntary and community activities

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And greater earnings and career progression provide opportunities to build up assets and financial security

Less than half of low-income households are homeowners…
% of households where the occupants own the property by income of household

...and less than a third of them are saving regularly
% of households who say that they save regularly by family income quintile

Wider impacts on financial security
- People in the lower income deciles or with qualifications below Level 2 are less likely to be planning ahead with their finances
- More than 60% of families in the bottom two income quintiles are not contributing to a non-state pension (although they may be in a non-contributory scheme) compared to only 31% of those with the highest incomes
- Income drops or being the victim of crime are harder to cope with for those on low incomes
  - Supporting progression is key to the Government’s economic and social agendas

There are already a large number of policies in place, or in development, to make progression a reality

<table>
<thead>
<tr>
<th>Key policy areas</th>
<th>Features</th>
<th>Key milestones</th>
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<tbody>
<tr>
<td><strong>Train to Gain</strong></td>
<td>• Impartial advice to help employers identify their skills needs, and source the provision that will best address them; public funding to sit alongside employers’ own investment</td>
<td>• Funding will increase from £520 million (2007-08) to over £1 billion (2010-11)</td>
</tr>
<tr>
<td><strong>Adult advancement and careers service</strong></td>
<td>• Universal, personalised service for people in and out of work. Advice and guidance to help people advance in their careers, including on skills, training, housing and childcare</td>
<td>• 2008-09: service trials start&lt;br&gt;• 2009-10: further expansion of trialling&lt;br&gt;• 2010-11: service fully operational</td>
</tr>
<tr>
<td><strong>Further integration of welfare and skills</strong></td>
<td>• An integrated employment and skills (IES) service including new skills screening processes, Skills Health Checks and Skills Accounts for Job Centre Plus customers</td>
<td>• 2008: Skills screening in Flexible New Deal pilot areas (tailored support for the unemployed)&lt;br&gt;• 2009/10: Pilot mandatory basic skills / job focussed training courses.&lt;br&gt;• 2010/11: IES system fully operational</td>
</tr>
<tr>
<td><strong>Welfare to work policies</strong></td>
<td>• Next stages on activation policies for unemployed and inactive groups – Incapacity Benefit (IB) claimants and lone parents claiming Income Support (IS)</td>
<td>• 2008: national roll-out of Pathways to Work&lt;br&gt;• 2008: changes to lone parent eligibility for IS&lt;br&gt;• 2009: roll-out of Flexible New Deal&lt;br&gt;• 2010: work capability assessments for IB claims</td>
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➢ The detailed design of these policies, and development of new ones, needs to be underpinned by a clear evidence base
The remaining chapters of the paper explore four key questions relating to supporting progression in the labour market

Chapter 2. The changing labour market
- How are external factors, like technological changes and globalisation, changing the opportunities for progression available in the labour market?

Chapter 3. The importance of skills
- What are the specific gains, in terms of employment, wages and productivity, to having different types of skills?

Chapter 4. The opportunities to get on in the labour market
- To what extent have people been able to access the opportunities in the labour market over the last decade or so?

Chapter 5. The barriers holding people back
- Given the available opportunities, what barriers are holding back individuals from progressing?
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Full employment and the changing types of jobs available in the UK in the three decades following World War II provided those generations with opportunities to progress in work.

The structure of the UK’s labour market has steadily shifted away from manual unskilled work towards managerial and professional occupations.

Proportion of workforce by type of job, 1951-1981

Changing types of jobs

- In the three decades following the end of World War II the number of ‘middle-class’ jobs in the UK soared.
- Most of this period also saw high to full employment, with unemployment rates of only 2-3%.
- This created more ‘room at the top’ for many workers, and enabled absolute mobility upwards.

In the 1980s and early 1990s two major recessions led to falls in the demand for labour, but over the last 15 years the economy has generated ever more job opportunities.

Numbers of jobs in the economy have been rising steadily since the mid 1990s.

UK workforce jobs, seasonally adjusted 1971-2007, thousands

Rising employment levels

- In 2007 the number of people in work hit a record 29 million, up from 23 million in 1982. This represents an employment rate of 74.7%.
- At the same time unemployment has fallen to around 5.5% (International Labour Organisation definition), down from a high of 12.1% in 1984.
- This compares to an average 66% employment rate and 6.9% unemployment rate for the whole of the EU.

Since the 1980s the industrial structure of the economy has changed, with declining opportunities in some sectors balanced by expanding opportunities in others.

**Changing industrial structure**
- Since 1978 the number of jobs in manufacturing has fallen by 55%.
- Meanwhile the number of jobs in high-end services such as banking and insurance rose by 135% over the same period.
- Other non-tradable services in transport & communication and hospitality & distribution (including retail) rose by 27%.

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(1) ONS (2007) Workforce jobs by industry
Over the same period, skills-biased technical change has provided greater opportunities for more skilled workers, and this is expected to continue into the future.

The level of skill required to do a job has generally risen.

Changes in qualifications required 1997-2006 (million jobs)\(^1\)

<table>
<thead>
<tr>
<th>Year</th>
<th>No qualifications</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>2001</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2006</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>5</td>
<td>3</td>
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</tbody>
</table>

The type of skills demanded are also changing, from manual skills towards the ‘soft’ skills.

Projected change in skill requirements to 2010\(^2\)

<table>
<thead>
<tr>
<th>Skill</th>
<th>1999</th>
<th>2010</th>
</tr>
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<tbody>
<tr>
<td>Manual</td>
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<tr>
<td>Planning</td>
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<td>Client Comm</td>
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<td>Horizontal Comm</td>
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<td>Verbal</td>
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<tr>
<td>Numerical</td>
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**Changing skills demand**

- ‘Skills-biased technical change’ (SBTC) is generally accepted to be the chief driver behind labour market shifts since the 1980s.
- Technical advances, particularly the development of ICT, have allowed workers to be far more productive, but productivity gains have been strongly biased towards those with the skills to adapt to and utilise new technology.
- As a result, high-skilled workers are in increasing demand by employers, and even low-skilled workers are increasingly expected to use ICT.
- SBTC has not only increased the skills demanded to do a job, but has also required workers to be more adaptable. 26% reported being required to learn new things in 1992. This increased to 35% in 2006\(^3\).
- The type of skills demanded by employers are also shifting as a result of industrial change, away from technical and manual skills towards soft skills that are used more in service sectors\(^2\).

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(1) Felstead et al (2006) Skills at work. This data adds the number of employees reporting level of qualification required for their job, plus number of vacancies by qualification required; (2) IER estimates base on Census and LFS data; (3) Felstead et al (2006) Skills at work.
There is an on-going debate about the degree to which technical change and the shift towards service sectors have led to a polarisation of the labour market.

A decline in the share of middle-quality jobs has been observed by some, however, analysis of jobs within sectors shows more even change in demand for different levels of skill.

Polarisation?

- Alongside skills-biased technical change there seems to have been a ‘hollowing out’ of the labour market. It is argued that “middling” routine jobs have been mechanised, but technical advances are unable to replace non-routine jobs. This has led to a substitution of intermediate jobs, with a proportionate rise in share at either end of the job-quality spectrum.
- The rise in low-quality jobs may also reflect demand for services from high earners at the top of the spectrum.
- However:
  - The fall is in the share of middling jobs, as defined in 1979 quality terms, not in absolute numbers. Analysis shows that industrial shifts have actually created many new middle-skilled opportunities.
  - This may be a historical phenomena which has not continued in the 2000s.

➢ While there is no evidence that polarisation has reduced people’s ability to progress by removing “rungs” from the progression ladder, it is important to ensure that opportunities exist for progression.

Globalisation is lowering barriers to what can be traded and is expanding the global labour force, creating new challenges and opportunities for the UK.

Globalisation is a phenomenon involving a range of different aspects including:

- Falling Barriers
  - Selling high value adding goods and services abroad
  - Inflow of cheap goods and services
  - Inflow of migrants, offering high skills or filling low-skill vacancies

Overall the UK has adapted well to these challenges to date, and must continue to make the most of opportunities to compete in the global economy.
The increased trade in high-value services associated with globalisation is creating opportunities for the UK’s high-skill sectors

Trade in high value-added services has soared, fed by higher demand and the use of technology
% worldwide increase in exports 1995-2005

• Technological and communications advances are bringing down barriers to the trade in high-skill services. Meanwhile emerging economies are creating new markets. Since 1995, global exports of IT services have risen by over 600%.

• The UK is selling more high value-added services abroad. Between 1996-2006 export of services rose 8%. The UK also attracts a strong flow of high-skilled migrants. This presents good opportunities for UK GDP and productivity

• However, the next 10 years will be critical to securing advantage as a provider of high skills, as emerging economies are also moving into more high-skilled industries

• Enhancing the UK’s skills base is crucial to competing effectively in these global markets

Britain must rise to the challenges and opportunities presented by globalisation

The UK has a higher proportion of its exports made up from services than anywhere else
Service exports as a % of all national exports, 2006

(1) HMT analysis; (2) OECD (2006) Fact book and ITCS; (3) ONS Pink Book; (4) Leitch (2006) Prosperity for all in the global economy
Global interdependence and the ability to import cheaper goods and services poses potential risks to those with lower skills

Globalisation has increased low-skills competition

- The global labour force has doubled as a result of the integration of China and India into the world economy.
- This has led to fears of competition putting downward pressure on low-end wages and jobs in the UK as cheap goods and services are imported.
- However, research suggests that global competition is not a significant driver of lower wages for the unskilled, with labour instead shifting towards higher skills, both within and between industries.
- And many remaining low-skill jobs are in non-tradable services such as hospitality and transport, which are currently less threatened by global competition. However, routes for progression for people in these sectors are essential.
- Technology acts to shift boundaries between what is tradable and non-traded. This might present future challenges to non-traded sectors.
- OECD analysis suggests that 20% of employment in OECD countries could be affected by outsourcing in the future.

Sectors with the highest proportions of low-skilled labour are typically non-tradable

% Qualification in workforce, by sector and level

- Industries such as transport, distribution (which includes retail) and hospitality have high proportions of low-skilled labour and are typically non-traded.

In the face of these risks, the Government is committed to up-skilling and re-skilling the whole of the workforce, including those with low skills.

Increasing people’s skills is important to avoid any potential negative economic effects from migration

There is no clear link between local movements in unemployment and inflow of East European migrants (A8)
Change in unemployment against % A8 workers for different local authorities

Low skills migration and unemployment/wages
• The impact of migration has been the centre of a debate in international studies, which have generally failed to find a strong effect on unemployment, while the localised effect of migration on wages and self employment is still a matter of contention
• For the UK, the most recent research suggests that, while migration might actually raise native wages overall, there may be a modest and localised negative impact on the wages of people at the bottom end of the earnings distribution

➢ Regardless of the impacts of migration, employers should not feel they have to seek migrant labour because there are avoidable local skills shortages

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(1) SU internal analysis; (2) See, for example, the work of Borjas which argues there is a negative effect; (3) Dustmann et al (2007) A Study of the Migrant Workers and the National Minimum Wage and Enforcement Issues
The changing labour market

Key issues for further consideration

➢ To what extent is skill-biased technical change likely to continue into the future?

➢ Is the current labour market polarising between high and low-skilled jobs and, if it is, are there consequences for people’s opportunities to progress?

➢ What are the most likely scenarios around globalisation, and how can the UK ensure that the whole of its workforce is equipped to meet the opportunities and challenges?
Contents

- Ministerial Foreword
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- Chapter 1: Introduction
- Chapter 2: The changing labour market
- Chapter 3: The importance of skills
- Chapter 4: The opportunities to get on in the labour market
- Chapter 5: The barriers holding people back
Raising skills drives up business performance, with growing businesses associated with more job and training opportunities

**Impact on business performance**

- A one percentage point increase in the proportion of people receiving training increases value added per hour by 0.6%\(^1\)

- Growing businesses are more likely to invest in training – 74% of growing businesses invest in training compared with only 56% of those that aren't growing\(^2\)

- Output increases with the level of skills, particularly higher level skills – productivity is 30% higher if all the workforce have a degree than if none do\(^3\)

- And there is a spillover effect from higher level skills – a 10 percentage point increase in the proportion of the local workforce educated to degree level increases business productivity by 13%\(^3\)

A higher skilled workforce improves the chances of business survival

Percentage of establishments closing between 1998 and 2004 by average educational attainment of workforce\(^4\)

---

And in general individuals’ returns to skills are high, and have grown faster in the UK than in other countries

Returns to skills are high and stable, despite greater supply

- Skills-biased technical change has meant that skills have been rewarded by higher wages from employers.
- The skills base of the UK has grown at all levels. 70% of adults are now qualified to level 2, up from 61% in 1997, and 30% have qualifications at degree level of above, up from 22% ten years ago
- Despite the expansion in the supply of skills, returns have remained relatively constant over time and may even be rising
- However, with the available skills mix, the returns vary considerably between qualifications and for different people and sectors

To understand the returns to different skills a more detailed analysis is required...

During the 1980s, wage returns to skills increased more dramatically in the UK and US than elsewhere

Ratio between low-skilled and high-skilled pay, 1980-1990

To further understand the importance of different types of skills, it is necessary to look in depth at the returns to various qualifications.

<table>
<thead>
<tr>
<th>Skills</th>
<th>Entry level</th>
<th>Level 1 Foundation</th>
<th>Level 2 Intermediate</th>
<th>Level 3 Advanced</th>
<th>Level 4+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic literacy and numeracy</td>
<td>Basic employability skills</td>
<td>Vocational</td>
<td>Academic</td>
<td>Management</td>
<td>Enterprise skills</td>
</tr>
<tr>
<td>Skills for Life Certificates</td>
<td>e.g.</td>
<td>NVQ1</td>
<td>GCSEs</td>
<td>e.g.</td>
<td>e.g.</td>
</tr>
<tr>
<td>Foundation GNVQ</td>
<td>• Motivation and attitude</td>
<td>NVQ2</td>
<td>A-levels</td>
<td>• HR strategy</td>
<td>• Financial literacy</td>
</tr>
<tr>
<td>Intermediate GNVQ</td>
<td>• Time-keeping and appearance</td>
<td>NVQ3</td>
<td>Degrees</td>
<td>• Financial planning</td>
<td>• Economic and business understanding</td>
</tr>
<tr>
<td>Advanced GNVQ</td>
<td>• Job search and interview skills</td>
<td>NVQ4/5</td>
<td></td>
<td>• Strategic planning</td>
<td></td>
</tr>
<tr>
<td>Foundation Apprenticeship</td>
<td></td>
<td></td>
<td></td>
<td>• Innovation and enterprise</td>
<td></td>
</tr>
<tr>
<td>Advanced Apprenticeship</td>
<td></td>
<td></td>
<td></td>
<td>• Leadership</td>
<td></td>
</tr>
</tbody>
</table>

Uncertified skills are typically not measured, although qualifications will act as proxies for them in many cases.
There are strong employment and wage returns to basic skills

**Economic benefits of basic skills**

- **Wage returns:** Returns to basic skills remain stable despite a reduction in numbers with very poor basic skills (200,000 fewer people with very low numeracy skills over period 1995 to 2004). Differences in basic skills at age 34 can explain up to 10% of wage differentials\(^1\)

- **Employment effects:** Leitch found higher basic skills moved 185,000 people into work between 1994-2004\(^2\), and basic skills are strongly linked to being in employment at age 34\(^1\)

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Academic qualifications provide consistently strong wage gains

There are consistently high returns for academic qualifications, which are usually gained in school

Average wage return, 1997-2006

Despite increasing numbers with academic qualifications, returns have remained constant

Average wage returns

Economic benefits of academic qualifications

- **Wage returns**: Academic qualifications show highest wage returns. However, these are mainly gained at school age and those who miss out at this point may suffer a variety of disadvantages which must be controlled for when comparing gains from later vocational training

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(1) Jenkins et al (2007) Returns to qualifications in England; (2) McIntosh (2004) Further analysis of returns to academic and vocational qualifications; (3) PWC, The economic benefits of higher education qualifications, 2005 shows that returns vary by type of HE degree in particular, but all returns are high
There are positive wage returns from higher vocational qualifications

There are good wage returns to higher vocational qualifications, although these are typically lower than academic qualifications

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Average Wage Return, 1997-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>NVQ5</td>
<td></td>
</tr>
<tr>
<td>NVQ4</td>
<td></td>
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<tr>
<td>ONC/OND</td>
<td></td>
</tr>
<tr>
<td>Apprenticeships</td>
<td></td>
</tr>
<tr>
<td>NVQ3</td>
<td></td>
</tr>
</tbody>
</table>

Returns to vocational qualifications have remained broadly constant since 1996

Average wage returns

<table>
<thead>
<tr>
<th>Year</th>
<th>HNC/HND</th>
<th>RSA Higher</th>
<th>BTEC</th>
<th>NVQ3-5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td></td>
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<td>1997</td>
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<tr>
<td>2002</td>
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</tbody>
</table>

Economic benefits to vocational qualifications

- **Wage returns**: Most vocational qualifications offer good positive marginal returns to learners
- **Apprenticeships** offer particularly strong returns at level 2 and 3. An advanced apprenticeship has a net present value (NPV) of over £100,000, and offers wage returns of 35%, with £70,000 and 39% for foundation apprenticeships respectively
- **Employment effects**: NVQ3 may increase probability of entering employment by 2.3% (men) and 1.8% (women)

And there are wage returns to vocational level 2 for certain groups and in specific sectors

Recent analysis shows that while not all NVQ2 qualifications carry wage returns, they do in specific situations

Marginal wage returns to NVQ2 qualification

- Skilled occupations
- Personal services
- Construction
- Public administration, health or education
- Delivered in workplace
- Under 25 and in last 10 years

Vocational level 2 can deliver wage returns to learners in specific circumstances

- City and Guilds and BTEC qualifications deliver strong returns (although returns may have declined 1997-2006)
- Few studies have found returns to NVQ2 on average, but there are positive returns if
  - delivered through the employer
  - for women between 26-34
  - in certain sectors, e.g. skilled/construction (men) or sales/personal services (women)
  - and if gained under the age of 25
- Level 2 qualifications also provide a stepping stone to further learning
  - Acquiring an NVQ2 has been shown to increase the likelihood of further accredited learning

(1) Jenkins et al (2007) Returns to qualifications in England; (2) Business and Technology Education Council (BTEC); (3) Dearden et al (2004), In-depth analysis of returns to NVQ2; (4) De Coulon and Vignoles (2007) Analysis of the benefit of NVQ2 qualifications acquired at age 26-34 (unpublished)
In addition to certified qualifications, soft skills are increasingly valued in the workplace

Value of soft skills

• While we know that soft skills are increasingly important in the workplace, they are hard to measure and evidence of returns to wages or employability is limited

• Employers report a lack of the following as causing vacancies to go unfilled\(^1\):
  • Communication skills 30%
  • Team working 34%
  • Problem solving 34%
  • Customer handling 38%

• In a recent survey of London employers, 92% said they rated employability skills as the major factor in recruitment and promotion, over and above qualifications\(^2\)

• Employers of the low-skilled and unemployed are less likely to demand technical skills than capabilities such as motivation, punctuality and communication skills\(^3\)

Measures of the importance of activities carried out at work suggest a strong upward movement in generic or ‘soft skills’

Average skills index score\(^4\)

<table>
<thead>
<tr>
<th>Activity</th>
<th>2006</th>
<th>2001</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problem Solving</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horizontal communication</td>
<td></td>
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<td></td>
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<tr>
<td>Client Communication</td>
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<td></td>
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<tr>
<td>Planning</td>
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<tr>
<td>Influence</td>
<td></td>
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<tr>
<td>Technical Know-how</td>
<td></td>
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<tr>
<td>Numeracy</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Literacy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Checking</td>
<td>3.5</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Problem Solving</td>
<td>3.5</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Horizontal communication</td>
<td>3.5</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Client Communication</td>
<td>3.5</td>
<td>3.4</td>
<td>3.0</td>
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<tr>
<td>Planning</td>
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<td>3.5</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Literacy</td>
<td>3.5</td>
<td>3.4</td>
<td>3.0</td>
</tr>
</tbody>
</table>

And, whilst we know less about returns to management skills, these are also important in helping the economy adapt

UK managers in general are less educated than our competitors…

% of managers who are graduates, 1999¹

... and receive less training which may contribute to short-falls in management skills¹

Returns to management skills

- 52% of employers believe that management skills are the most significant factors contributing to competitiveness (ahead of workforce skills at 50%)²
- There is some evidence of a premium on the use of management skills in a job, with a 7% wage increase associated with men who said the skills were very important to their job, and 4% for women³
- Research suggests that the skills of UK managers fall short of managers in other countries. It is estimated that differences in management skills between the UK and US accounts for at least 10-15% of the productivity gap between the two countries⁴
- A recent study scored the management practices of 4,000 medium sized manufacturing firms in the US, Europe and Asia. While the UK scored worse than many, the majority of difference was between UK firms rather than between countries, suggesting some firms in particular are under-performing due to a lack of management skills⁵

Given the importance of skills, it is essential that an evidence based approach underlies the development of training programmes for those out of work…

Key lessons from training programmes to get people into work:

- **Work-first approaches** are typically more effective than solely training first approaches. In practice, many of those out-of-work typically lack skills for work and have been shown to benefit from a mix of work and training based approaches.

- **Training should meet user needs**: DWP clients report training should be: (1) provided as soon as possible after becoming unemployed; (2) high-quality and job focused; and (3) flexible enough to work around other barriers.

- Key issues revolve around programme quality, the number of people dropping out of courses, and the degree of mandate.

### Selected programmes

<table>
<thead>
<tr>
<th>Year</th>
<th>Programme</th>
<th>Detail</th>
<th>Evaluation results</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Mandatory training pilot</td>
<td>• Pilot to explore the impact of sanctions on people taking up and completing basic skills training to overcome problems with people dropping out</td>
<td>• 5% more claimants started provision in pilot areas&lt;br&gt;• Further longer-term evaluation needed to establish impact on job entry²</td>
</tr>
<tr>
<td>2006</td>
<td>Work based learning for adults</td>
<td>• Three employer facing training options for the unemployed</td>
<td>• <em>Employment</em>: Some positive impacts, although impacts vary by option and benefit claim³&lt;br&gt;• Further work necessary to ensure positive outcomes are cost effective</td>
</tr>
</tbody>
</table>

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And that the Government’s understanding of effective training to support adults in work continues to develop

<table>
<thead>
<tr>
<th>Selected programmes</th>
<th>Detail</th>
<th>Evaluation results</th>
</tr>
</thead>
</table>
| 2002 - 2005 Employer Training Pilots | - Encouragement to employees to train for a first level 2  
- Free/subsidised training, wage compensation for employers and advice and guidance  
- 200,000 employees involved over three years | - Productivity: participants reported being able to do job better (85%), gained relevant skills (80%), improved productivity (65%)<sup>1</sup>  
- Additionality: 10-15% of training taking place was additional and 1/5 to 1/3 of learners already had a level 2 qualification<sup>1</sup>  
- Progression: no robust evidence on wage/career returns but 46% of participants reported better pay as a result of participation |
| 2007 Train to Gain | - National service building on Employer Training Pilots and extending provision beyond level 2 | - Initial evaluation results yet to be published but the proportion of employers not previously doing training now 75% (compared to 14% for Employer Training Pilots)<sup>3</sup> |

Changes that appear to have improved the performance of Train to Gain relative to Employer Training Pilots:

- *Overcoming deadweight*: new ‘hard to reach’ targets introduced to target employers least likely to train and tighter procedures to establish previous qualifications of potential trainees
- *Brokering*: extension of the employer brokerage service which was found to be particularly valuable with the hardest to reach employers. Train to Gain covering wider training needs given positive feedback from employers
- *Compensation*: restriction of wage compensation to small firms given that wage compensation had little relationship with overall take-up in Employer Training Pilots

The importance of skills

Key issues for further consideration

- How much more can be established about the types of skills that drive business performance, provide individuals with higher wages and greater chances of getting jobs?

- How are the returns to soft skills likely to change in the future?

- What more can the UK do to build stronger entrepreneurial and managerial skills?
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• Chapter 4: The opportunities to get on in the labour market
• Chapter 5: The barriers holding people back
This chapter explores opportunities in the labour market for three main groups.

Stock of working age population

- 39m working age adults in the UK
- 29.4m in employment or self-employed
- 9.5m not working

1. Those in work looking to advance in the labour market
2. Groups moving in and out of work – the ‘low pay/no pay cycle’
3. Groups on out of work benefits – especially those unemployed (0.8m), on incapacity benefits (2.6m) and lone parents on income support (0.8m)²

Note that “not working” groups include many who are not an immediate concern for labour market policy, such as parents caring for children who are not in poverty, students, etc.

Over the past 10 years the UK’s skills base has improved, allowing more people in work to share in the rewards and opportunities of higher skills.

Skills in the UK have improved since 1997, with more people than ever gaining qualifications:

- % of all people of working age by highest level of qualification

However, those without skills are at greater risk of missing out in the labour market, with high numbers of benefit claimants having low/no qualifications:

- % of claimant group by highest level of qualification

**The UK’s improving skills base**

- Since 2001, over 1.75 million more adults have improved their basic literacy and numeracy skills.
- 74% of the economically active workforce, or 17.5 million adults, are now qualified to at least level 2, up from 16.3 million in 2002.
- However, despite improvements, nearly 5m people of working age still do not have any qualifications and the employment rate for those without qualifications is below 50%.

(1) Labour force survey, Q4 of each year; (2) DWP (2006) Research report 392. Qualification data based on ALO base-lining survey. Sample representative of programme areas so should be treated as illustrative. ‘All employed’ breakdown from LFS Q4 2006; (3) DIUS (2007) Autumn performance report.
However, a sizeable proportion of the current workforce may still face relatively poor prospects for wage progression

Trends in average earnings over a lifetime suggest that women and less skilled workers often fail to progress

Gross median annual earnings by age for both men and women, disaggregated by skill level, using data from 1994-2006\(^1\)

A sizeable proportion of the workforce may struggle with wage mobility\(^2\):

A sizeable proportion of the workforce may struggle with wage mobility\(^2\):

\[
\begin{array}{c|c|c}
\text{High Skill} & \text{Medium skill} & \text{Low skill} \\
\hline
\text{Men} & 3.8m & 4.6m & 7.5m \\
\text{Women} & 3.0m & 4.4m & 5.6m \\
\end{array}
\]

Building a workforce with world class skills will help these groups to get on

---

(1) Adapted from LFS data used in Disney, Emmerson, Tetlow (2007) What is a public sector pension worth?, IFS. Definitions for skill level: Low - left school at or before compulsory school leaving age, medium- left school at 18, high- left full-time education after 18; Data derived using pooled cross-sections of the Labour Force Survey (1994-2006); (2) Workforce numbers based on Strategy Unit analysis combining results cited in Disney (2007) and workforce statistics
Low pay and poor progression can be a particular issue for women…

Although the proportion of women in low pay has fallen since 1998, female employees are still twice as likely to be in low pay than men.

% of male/female employees paid less than £7/hour in 2007 prices

![Bar chart showing percentage of male and female employees paid less than £7/hour in 2007 prices from 1998 to 2007.]

In the years after returning to work, more lone parents fall behind 66% male median earnings than manage to “overtake” this level.

% of lone parents with earnings above 66% of male median earnings (cohort study over 7 year period)

![Bar chart showing percentage of lone parents with earnings above 66% of male median earnings from return to work to last observation.]

**Ethnic minority women in the labour market**

- Levels of female participation in the labour market and employment vary greatly by ethnic background.
- Less than 30% of women of Pakistani or Bangladeshi origin are employed compared to more than 50% across all ethnic minorities and almost 70% of the general female population.

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…with many women moving into part-time and lower-skilled roles when they have children

Many women move from full-time to part-time working after having children

Evolution of working patterns over a two-year period for women working full-time initially according to children born during the period¹

As women move to part-time working, a sizeable group downgrade to a lower-skilled job

Occupational transitions by broad skill level of origin and destination for women moving into part-time work and changing to new employer²

Transitions to part-time work²

- Women who change to part-time working whilst staying with the same employer are only half as likely to downgrade into a job with lower skill requirements than women changing employer
- When moving to part-time work, 29% of corporate managers downgrade into lower skilled jobs such as clerical roles. 47% of other managers downgrade, typically into sales or service roles
- In contrast only 9% of teachers and 8% of nurses move to lower skilled jobs when they change to part-time working

Poor progression may be explained in part by the low-skilled being less likely to receive in-work training

The low-skilled are less likely to receive in-work training

% of employees who have undertaken job related training in the past 3 months, by highest qualification level, 2007

<table>
<thead>
<tr>
<th>No Quals</th>
<th>Below Level 2</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4 &amp; above</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
</tr>
</tbody>
</table>

This may explain why the low paid are more likely to change employer than move in-firm

Proportion changing job each year, averaged over 1991-2004, BHPS

<table>
<thead>
<tr>
<th>Low paid</th>
<th>Medium paid</th>
<th>High paid</th>
</tr>
</thead>
</table>

In-work training

- Employers are far less likely to train low-skilled workers, or to train staff likely to leave
- Lack of training may in turn damage retention and ability to access within-job progression

Progression in-firm vs. between firm

- The UK evidence is limited, but in the US low paid workers are more likely to improve their earnings by changing employer
- Key to this progression was moving to a better firm, typically at the same occupational level but with better training opportunities

At the same time, it is clear that some low-skilled workers do manage to move to better jobs

Of those moving job in the 1990s, some managed to move to jobs with greatly different skill levels

Analysis of job moves based on BHPS data over period 1991 to 1997, men¹

- 19% of job moves by those initially in low-skilled jobs were upwards
- Majority of job moves between 1991 and 1997 at all skill levels were to different employers at the same level¹

- Progressed to higher skilled job
- In same skill-level job in 1991 and 1997
- Moved to lower skilled job
- Moved out of labour market

However, we know relatively little about the mechanisms by which individuals are progressing

(1) Bradley et al (2003) Social exclusion and labour market transitions; a multi state multi-spell analysis using the BHPS
Lifelong learning may be helping some to progress, particularly at higher skill levels

Over a third of people may participate in accredited lifelong learning, particularly at degree level

Learning and progression in work

• Acquiring an NVQ2 before the age of 30 has been shown to increase the likelihood of subsequent learning for both men and women

• This suggests level 2 can act as a stepping stone to further learning which yields good wage and employment returns

• However, we still know relatively little about the characteristics of low-skilled workers who are managing to progress

• And there is little information on how lifelong learning interacts with other barriers to progression e.g. family commitments

(1) De Coulon et al (2007) Analysis of the benefit of NVQ2 qualifications acquired at age 26-34 (forthcoming)
And self employment is an important option for many, which could be expanded further through support for enterprise skills

**Self-employment is an important option, particularly for disadvantaged groups**

- 12% of new business owners in deprived areas were previously unemployed compared with 4% of all new business owners¹
- 7% of new business owners who are women were previously unemployed compared with 4% of all business owners¹

There have been increases in both the number of those self-employed and their share of the workforce²

There is a need for further enterprise training

- Those who have had some enterprise training are twice as likely to be seriously thinking about starting up a business³
- However, less than 50% of people think they have the skills, knowledge and experience to start up a business⁴
  - Only 40% of women have confidence in their enterprise skills compared with 60% of men
  - The proportion of those with confidence in their enterprise skills is lower than average in less prosperous regions e.g. 45% in the North West and Yorkshire & Humber
- The Enterprise Strategy announced a range of initiatives to strengthen enterprise knowledge and skills⁵

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People face a reduced risk of cycling between no pay and low pay, largely because fewer people are now experiencing unemployment

**Patterns of unemployment**
- The Job Seekers Allowance (JSA) regime, delivered through Jobcentre Plus, has been successful in moving large numbers of people into work.
- Fewer people now experience periods of unemployment. 10.4m experienced unemployment during the period 1992-96, falling to 6.4m for the period 2002-06.
- Of those who did become unemployed in the period 2002-06, just under 50% made more than one claim. This pattern does not appear to have changed since 1992-96.
- However, each of these individual claims were on average shorter in 2002-06 than in 1992-96, meaning that the total time spent unemployed was on average less in the later period.
- There is a need for more information on the degree to which people making multiple claims is part of a healthy, flexible labour market - where after losing their job people have to take a number of attempts at finding the right job - or represent people trapped in on-going low pay/no pay cycles.

**Redundancies**
- Of those leaving jobs each year, less than 1 in 10 do so as a result of redundancy. Whilst this represents a historic low, each redundancy creates a difficult life for the individual affected.
- Most people recover relatively quickly by finding new employment either themselves or with support from Jobcentre Plus or other networks. In cases where redundancies are large relative to local the labour market, additional measures may be required.

The total time people spend unemployed, adding together each of their individual unemployment claims, has fallen over the past decade.

Total time claimants spent unemployed during a five year period

(1) DWP analysis of claimant data; (2) DWP analysis of the Labour Force Survey; (3) Labour Market Trends 2003
And as the opportunities to work have expanded, the numbers on out-of-work benefits have fallen sharply

Good progress has been made in reducing both the number of unemployed and lone parents out of work

Numbers claiming Incapacity Benefit are also now starting to fall

Benefit claimants by type of benefit

Progressing into work

- The employment rate, currently at 74.7% is one of the highest in the world
- As employment levels have grown, opportunities to move from welfare into work have expanded
- Skills are a key barrier to employment for some, however for others there will be additional factors e.g. mental health, disability and drug misuse

The opportunities to get on in the labour market

Key issues for further consideration

- How can we segment the progression prospects of the 29 million people in work further, looking at a broad range of specific life stages?

- How are people currently managing to progress in the labour market, including through acquiring skills, moving jobs and setting up their own businesses?

- How are wider factors influencing people’s opportunities to progress, such as housing options, the availability of childcare and local transport links?
Contents

• Ministerial Foreword
• Executive summary
• Chapter 1: Introduction
• Chapter 2: The changing labour market
• Chapter 3: The importance of skills
• Chapter 4: The opportunities to get on in the labour market
• Chapter 5: The barriers holding people back
Despite skills providing significant returns to individuals, firms and society, the UK’s skills base remains relatively low by international standards.

There are clear returns to raising skills for both individuals, business and the economy:

- Marginal gains from acquiring new skills are almost always high for individuals\(^1\).
- Businesses also have a lot to gain. Research shows that an additional 10 percentage point increase in employees receiving job related training is associated with a **6% increase in productivity**, and a **3% increase in wages**\(^2\).
- The economy as a whole benefits greatly from higher skills. Some 20% of the UK’s **productivity gap** with Germany may be accounted for by our low skills\(^3\).

However the UK skills base is low compared to other countries\(^1\):

- UK employees only spend an average of 2 days a year in training, half that of Denmark\(^4\).
- The UK still has nearly 5m people of working age without qualifications, 7m adults with numeracy problems, 5m not functionally literate and a lower skills base than many other countries\(^5\).
- Employers and employees often fail to address their skills needs, suggesting various barriers are in play.

> **What is limiting investment in training by individuals and firms?**

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There are a number of reasons why individuals and firms might be under-investing in training

<table>
<thead>
<tr>
<th>Possible barriers</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>• Individuals may find it difficult to balance training with other responsibilities/commitments in their lives</td>
</tr>
<tr>
<td>Motivation/Attitudes</td>
<td>• Many lack motivation or think training is not relevant to them, possibly due to poor earlier experiences of education</td>
</tr>
<tr>
<td>Information</td>
<td>• Individuals may not be aware of opportunities for training or be able to calculate the likely returns</td>
</tr>
<tr>
<td>Cost</td>
<td>• Individuals may not be able to afford training/cost of income foregone. Returns to training may not appear cost effective</td>
</tr>
<tr>
<td>Market failures</td>
<td>• There may be market failures limiting employers’ demand for skills</td>
</tr>
<tr>
<td>Small firms</td>
<td>• Small firms face higher costs of training due to scale and may therefore be less likely to train their employees</td>
</tr>
<tr>
<td>Sectoral issues</td>
<td>• Employees in certain sectors – particularly the public sector – are more likely to receive training</td>
</tr>
</tbody>
</table>

What does the empirical evidence tell us about the extent to which these issues are real barriers?
Individuals report lack of time, motivation, information and cost as reasons for not undertaking training

Most common reasons given for not learning, for non-learners, 2005

- Lack of time due to family
- Prefer to spend time doing other things
- Lack of time due to work
- Lack of time off due to children
- Not interested in learning
- Nervous about going back in classroom
- Do not know about local learning opportunities
- Unsure which courses would be interesting/useful
- Hard to pay course fees

Consistent with research for learndirect which found lack of confidence, perceived cost, lack of time and not knowing where to begin as key barriers to learning

(1) NCSR (2006) National Adults Learning Survey, 2005, DfES rr815; (2) DIUS analysis
Balancing commitments to work and family is the most frequently cited barrier to training

Time constraints most frequently cited as barriers to training

Most important obstacles to learning, for non-learners, selected barriers for comparison, 2005¹

- Lack of time due to work
- Lack of time due to family
- Prefer to spend time doing other things
- Lack of time due to children
- Not interested in learning
- Hard to pay fees
- Don’t know about local learning opportunities
- Nervous about going back in classroom

Time pressures from work are a particular issue for those with higher qualifications

% reporting specific barriers to learning, 2005¹

- Lack of time due to work
- Lack of time due to family

Time constraints

- Non-learners report learning being available ‘at the right time’ as a key incentive to train¹

Is there scope for further increasing the flexibility of our training provision and extending support to help people overcome wider barriers currently limiting advancement in their careers?

Motivational factors are also cited as preventing individuals from addressing their skills needs, particularly the lowest qualified.

Motivation to develop skills is a particular issue for those with poor prior experiences of education:
- Low participation in training is often associated with poor earlier experiences of education and training\(^2\). Rates of participation in training are lower for those with fewer years in full-time continuous education\(^1\).

- Can lessons from active welfare policies be applied to raise the skills of those in work, particularly for those with no/lower qualifications?

Motivational deficits are already being addressed through active policies to help people back to work.

Active interventions were extended significantly with the start of the New Deal programme in 1998.

- New Deal for Young People shown to increase chance of finding job by 20%.
- 2001 - start of *Employment Zones* aimed at long-term unemployed. Innovative approaches in EZs leading to significant increases in work participation compared to New Deal 25+.²
- Flexible New Deal due to start October 2009. Greater tailored support and providers incentivised to sustain employment.

And demonstration projects are showing how active interventions can help people sustain work and progress

The **Employment Retention and Advancement demonstration** project is testing a package of support to help customers sustain and progress in work

<table>
<thead>
<tr>
<th>Target groups</th>
<th>Programme</th>
<th>Impacts after first year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workless</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lone parents claiming Income Support on NDLP&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Up to 9 months pre-employment support aligned with New Deal interventions</td>
<td>Reductions in benefit claims for both new deal groups</td>
</tr>
<tr>
<td>JSA customers on ND25+</td>
<td></td>
<td>NDLP 4 percentage points less likely to receive IS, ND25+ 5pp less likely to receive JSA</td>
</tr>
<tr>
<td>In sustained employment</td>
<td>In-work advisory support and access to discretionary payments to help transition and improve job security&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Retention bonus for staying in-work 13 out of 17 weeks – available up to six times</td>
</tr>
<tr>
<td>Progressing in work</td>
<td>Payment of tuition fees and training bonus for completing training while employed</td>
<td></td>
</tr>
</tbody>
</table>

(1) New Deal for Lone Parents (NDLP); (2) DWP briefing, sourced from Dorsett et al (2007) Implementation and first-year impacts of the UK ERA demonstration, DWP rr412; Figures statistically significant at 95% level

How can we extend active policies to encourage those in work to up-skill and re-skill?
Lack of information about training or its benefits is cited as a barrier preventing individuals from undertaking training

Information needs are higher for those without qualifications but exist across all groups

Obstacles cited for not learning by highest qualification held, 2005

- Doesn't know about local learning opportunities
- Unsure which courses interesting/useful
- Can't find local opportunities to learn
- Unable to find training wanted

Around 1 in 5 non-learners cite lack of information as a barrier to training

Difficult to interpret which training has returns

- Good quality information is recognised as essential for individuals to make sound choices about training based on the expected returns
- However, available information on returns from training is difficult to interpret
  - returns to different qualifications vary considerably, particularly for lower level vocational qualifications
  - information is retrospective and typically presented as averages hiding significant variations

Credit constraints can be a barrier to individuals undertaking training, though the empirical evidence on them is relatively sparse

Credit constraints

- Credit constraints may limit the extent to which individuals can raise loans, either to pay for the costs of training or make up for lost earnings
- The returns from training for any individual are uncertain and this may impact negatively on lenders’ willingness to lend
- Empirical evidence on the existence of credit constraints in skills market is mixed:
  - 18% of non-learners cite having to pay fees as a barrier to training\(^1\)
  - However, a number of funding/loan schemes already exist

\[\text{The extent to which costs limit training is unclear and the effects of gaps in current funding merit further consideration}\]

Financial support exists for adult learners across the qualification spectrum

- **Full/part funding**
  - Level 5+: HE student grants, bursaries
  - Level 4: Access to Learning Fund
  - Level 3: Adult learning grants
  - Level 2: Skills for Life/ Employability
  - Level 1: Train to Gain
- **Loans**
  - Career Development Loans
  - Student loans

Economic theory suggests a number of reasons why firms might under-invest in training, but again there is limited empirical evidence to support this in practice.

<table>
<thead>
<tr>
<th>Possible barriers</th>
<th>Hypothesis</th>
<th>Empirical evidence</th>
</tr>
</thead>
</table>
| Poaching externalities     | • Firms unable to effectively capture benefits of general training, which instead accrue to competitors, employees or wider society. But general and specific training imperfectly distinct¹  
• As a result, firms likely to under-invest in all types of training | • Employers still spend £38.6bn a year, mostly on training that is at least partly transferable²  
• Evidence of extent of fear of poaching is unclear, with survey estimates ranging from 1-38% of employers³  
• Research shows training may even improve retention⁴ |
| Information failures       | • Employers uncertain about which courses bring returns or under-estimate benefits training certain staff  
• Employers report that complexity of skills system makes it difficult for them to identify and access training opportunities | • Despite evidence of strong productivity gains to training at all levels, including basic and lower skills, training is far less likely to be targeted at the low-skilled or older workers suggesting information failure⁵ |
| Credit constraints         | • It is difficult for businesses to borrow to train, as gains are uncertain/unsecured  
• Anglo-Saxon shareholder model encourages a short-termist attitude to spend, in contrast to Japan and Germany which operate on a 'stakeholder model' | • UK spend on training as proportion of payroll is higher than the EU15 average⁶. Leitch notes that much of this training in the UK is specific or statutory e.g. health and safety  
• Only 12% of employers who don’t train cite time/money/information barriers as main reason² |

There is limited evidence that systematic market failures exist, but individuals in some parts of the labour market are less likely to receive training.

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It is clear that smaller firms are much less likely to invest in training for their employees, which may point to specific barriers.

Small and medium enterprises (SMEs) are less likely to offer training to their employees.

Proportion of employers providing training by employment size, 2005

Scale may limit training undertaken by SMEs

- Training costs £2,500 per trainee on average, and is more expensive for SMEs, at £5,650 for companies employing 2-4 people, and £3,220 for employers with 4-24 staff.

- Only 20% of employers with 2-4 staff have training budgets, as opposed to around 90% of those employing 100+ people.

- A smaller proportion of SMEs offer training. Of those who don’t train, most say this is because training is unnecessary, but 15% of those who employ 24-99 people cite time/money/information as main reason (vs. 6% of those employing 500+).

- Under new plans for apprenticeships, larger firms are being encouraged to train an excess of apprentices to support SMEs.

And there is significant variation in training investment between sectors

Average spend on training varies greatly by sector, reflecting different responses to market conditions.

UK sector share or national training budget: share of national output, selected sectors¹

Sector spend varies greatly depending on market conditions:

- **The public sector** has high levels of training spend.
- Spend in the private sector varies greatly:
  - The *construction sector* spends £2,450 per employee compared to an average of £1,550² across all sectors, despite being dominated by SMEs.
  - Other sectors such as food and drink have much lower training spends.
- Higher levels of investment may be related to the presence of collective institutions: the Construction ITB and Engineering Construction ITB have a levy-grant system to fund training.

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Current attempts to influence levels of employer training provision in the UK focus on exhortation and subsidy

<table>
<thead>
<tr>
<th>UK examples</th>
<th>Evidence of impact</th>
<th>Usage</th>
</tr>
</thead>
</table>
| **Exhortation** | • Skills pledge  
• Sector Skills Councils  
• Business Links | • To-date over 1,200 employers have committed to the skills pledge\(^1\)  
• Referrals for skills training via Business Links (accounts for 10% of TtG referrals)\(^1\) | Current UK policy focus |
| **Subsidy or state substitution** | • Train to Gain (TtG) | • TtG: Employer satisfaction currently 85-86\(^\%\)^\(^1\) | Current UK policy focus |
| **‘Property rights’** | • Employers able to reclaim investment if trainee leaves firm (e.g. law firms or employer-funded MBAs) | • This occurs in sectors such as accounting and law where investment in training high, suggesting important way to internalise benefit | In high-value add sectors |
| **Employer ‘clubs’** | • Construction levy, film industry levy, National Skills Academies | • 76% of employers reported the levy-grant system in construction as important for maintaining the level and quality of training in the industry\(^2\) | In some sectors and growing |
| **Regulation and institutions** | • Licence to practise in law, medicine, nuclear industry, social care | • The requirement to have an NVQ2 in Social Care to work in the sector has led to an increase in training effort\(^3\) | In some areas of the UK |

\(1\) DIUS analysis; \(2\) CITB- Construction Skills Annual report and accounts 2006; \(3\) Tuning up for training but who pays the piper? Geoff Hayward and Stephanie Sturdy, SKOPE, Department of Educational Studies, University of Oxford

Going forward, the UK Commission for Employment and Skills will review the case for statutory collective measures to support employer investment in training
The barriers holding people back

Key issues for further consideration

- How can we go further to segment the life-stages around progression and understand which barriers are most important for which groups?

- Are there demand-side market failures that are limiting individuals’ ability to progress?

- Aside from training, what other factors are acting as barriers to progression and how can these be addressed?
Next steps

• This paper has reviewed the evidence relating to helping adults to progress in work, highlighting ambiguities and gaps in this evidence and suggesting issues for further analysis

• Over the coming months, the Strategy Unit will continue to engage with researchers and experts in the area to refine the Government’s evidence base

➢ Comments on the analysis and the suggested issues for further consideration should be sent to the Strategy Unit by email to lifechances@cabinet-office.x.gsi.gov.uk or by post to Life Chances project, Strategy Unit, Cabinet Office, Room 4.17 Admiralty Arch, The Mall, London, SW1A 2WH

This paper is a discussion paper and is not a statement of Government policy. Every effort has been made to ensure accuracy and that the data used is the most recent available