



National Research and Development Centre
for adult literacy and numeracy

RESEARCH SUMMARY

THE VALUE OF BASIC SKILLS IN THE BRITISH LABOUR MARKET

Anna Vignoles, Augustin De Coulon and Oscar Marcenaro-Gutierrez

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Policy-makers and many academics agree that the route to a high productivity workforce and a strong economy is via improvements in individuals' skills and education. An important dimension to a person's level of skill is his or her numeracy and literacy. On this dimension the UK has historically had a poor record in terms of the basic skills of its workforce. In his influential report on basic skills issues in the late 1990s, Moser (DfEE, 1999)¹ suggested that approximately 20 per cent of adults in England had severe literacy difficulties, whilst around 40 per cent had some numeracy problems. In fact the situation has improved somewhat in terms of the literacy levels of younger workers: around 8 per cent of 34-year-olds have severe literacy difficulties in 2004. Yet poor basic skills remains a problem for a significant minority of the UK workforce. Having such poor literacy or numeracy is potentially a great impediment to personal well-being and satisfaction with life. Having low skills may also have economic implications.

Research from the National Research and Development Centre for Adult Literacy and

Numeracy, and the Centre for the Economics of Education (CEE)², explores this issue by focusing on the economic value of basic skills in the current (2004) labour market. The work addressed the following central policy questions:

- Do individuals with better basic skills earn more in the labour market, and by implication, have higher levels of productivity?
- Do individuals with better basic skills have better employment prospects, i.e. are they more likely to be in work?
- Has the value of basic skills in the labour market changed over time?

The answers to these questions potentially provide a compelling argument for greater investment in improving the basic skills of the workforce.

The results from this work suggest the following:

- Literacy and numeracy continue to be highly valued in the labour market in the nineties.
 - Specifically, literacy and numeracy skills retained their high value in the UK labour market over the period 1995 to 2004.

¹ DfEE (Department for Education and Employment) (1999) *Improving literacy and numeracy: a fresh start. Great Britain Working Group on Post-School Basic Skills chaired by Sir Claus Moser*. London: DfEE.

² Both centres are based at the Institute of Education, University of London.

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- Although the population has become more skilled, in terms of literacy, the value of both literacy and numeracy remained high because the demand for such skills remained strong.
 - Literacy and numeracy skills are still very much valued in today's UK labour market.
 - Basic skills are important: 10 per cent of the variation in earnings at age 34 is explained by differences in literacy and numeracy skills.
 - The gains in the skills of the UK workforce over the last decade have not been sufficient to reduce the price paid for these skills by employers.
- Having better basic skills improves a worker's chances of being in employment.
 - Specifically, for women, higher levels of literacy are associated with a higher probability of being in employment, whilst men with higher levels of numeracy have significantly higher employment rates.

Our findings imply that literacy and numeracy skills are still very much valued in today's UK labour market. Even if there have been substantial gains in the skills of the UK workforce over the last decade, it appears that this has not been sufficient to reduce the price paid for these skills by employers. These results imply that continued efforts to improve the skills of the UK workforce are needed, and that investment in initiatives that

genuinely do improve individuals' basic skills are likely to yield relatively high wage (and potentially employment) returns.

The research highlights the fact that we do not as yet have good quantitative data on what works, in terms of improving adults' basic skills. Therefore the analysis relies on observing adults with good skills and determining how much better paid they are than their less skilled counterparts (or indeed how much more likely they are to be in employment). Until we have good data on the real impact of adult basic skill policy interventions, we cannot definitely say by how much we can improve adults' labour market prospects and their productivity by raising the level of their basic skills.

In summary, the policy implications of this work are:

- Despite an increase in education levels and skills across the generations we consider here (i.e. cohorts born in 1958 and 1970), the price of basic skills in the labour market remains high.
- This implies that the increase in the supply of educated labour, and by implication the supply of skill, has been matched by increasing demand for such skills.
- The evidence therefore supports continued efforts to improve the skills of the UK workforce, and initiatives that genuinely improve individuals' basic skills.

The full research paper on which this policy briefing is based will be published on www.nrdc.org.uk in March 2008.

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