



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

An analytical discussion paper

March 2008

Unlocking talent

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

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- Executive summary
- Chapter 1: Introduction
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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.

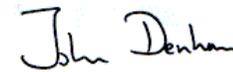
Ministerial Foreword

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*¹, 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

(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

Purpose of paper

- This paper **reviews the evidence** relating to helping adults to progress in work. It also highlights ambiguities and gaps in this evidence and suggests issues for further analysis
- The paper is intended to stimulate a **wider discussion** on how best to take forward research and to develop policy in this area
- 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

Contents

<i>1. Introduction</i>	Sets out the economic and social case for supporting people to progress in the labour market
<i>2. The changing labour market</i>	Reviews how technology, globalisation and other factors are affecting the UK labour market
<i>3. The importance of skills</i>	Sets out the latest evidence on the economic returns to different skills and qualifications
<i>4. The opportunities to get on</i>	Assesses how successfully different groups have been able to get into work and on in work
<i>5. The barriers holding people back</i>	Discusses the key barriers still preventing people from progressing within the labour market

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 met¹
 - 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

The facts

- The key **personal barriers to training** that people report are:
 - *Low motivation*. This is particularly associated with those with the lowest skills, probably because of their poor experiences when they went through school
 - *A lack of information*. This is a barrier for all, though again it appears to be worst for those with lower qualifications
 - *Time*. This is especially important for those already in work and with families and there are related issues around the availability of childcare
 - *Credit constraints*. These are a theoretical issue for all around training
- There may also be issues if **businesses do not provide enough training**, which would limit individuals' ability to progress
 - 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
 - Smaller firms generally provide less training as it is much costlier for them to do so
 - Finally training levels vary greatly between sectors. The public sector and the construction industry seem to train the most
- 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

Issues to consider further

- 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?

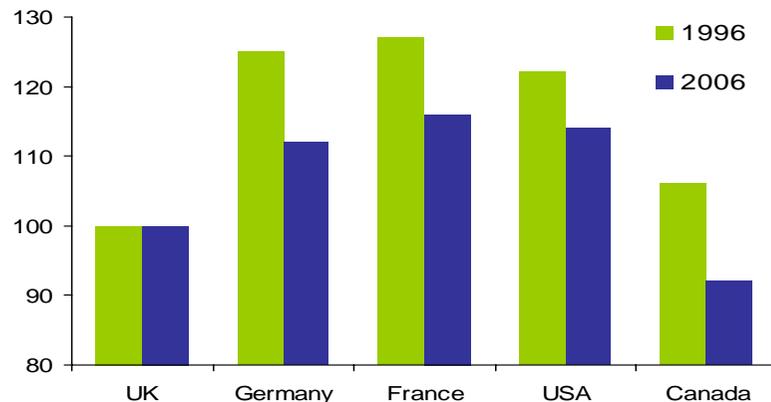
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Up-skilling and re-skilling the workforce to world class levels is crucial for the future economic prosperity of the UK

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

GDP per hour worked (UK=100)¹



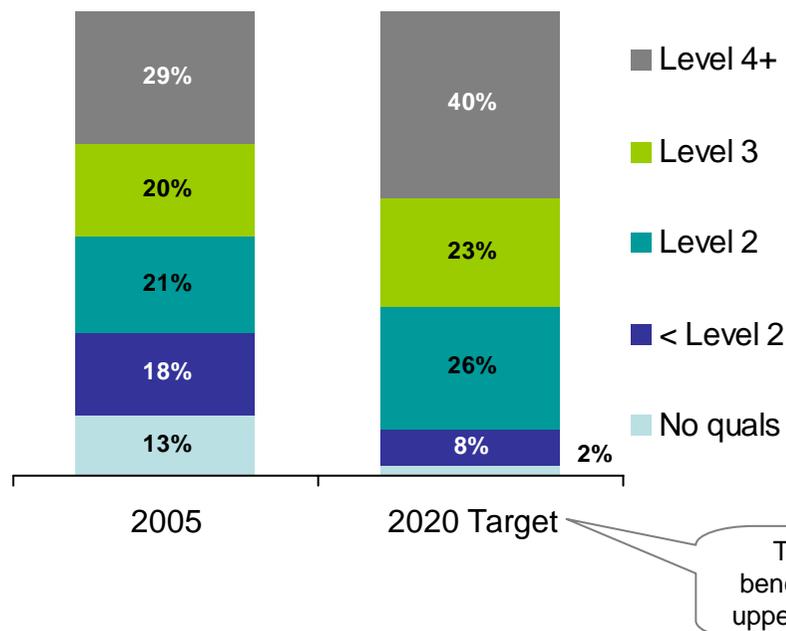
Skills and the productivity gap

- Some 20% of the UK's productivity gap with Germany may be accounted for by relatively low skills²
- 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 easily³
- For every additional 10 percentage points of the workforce trained there are on average 6% productivity returns⁴
- Achieving Leitch's vision for skills could add £80bn to GDP over 30 years by increasing productivity and employment⁵

(1) ONS; (2) O'Mahony, and de Boer; (2002) Britain's Relative Productivity Performance: Updates to 1999; (3) Booth and Snower (1995) Acquiring skills; (4) Dearden et al (2005) The impact of training on productivity and wages; (5) Leitch (2006) Prosperity for all in the global economy

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
Qualifications of those aged 19 to state pension age¹



Achieving these targets will require significant up-skilling and re-skilling between now and 2020¹

- 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

- 70% of the UK's 2020 workforce have already completed their compulsory education¹
- 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**

(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 degrees¹
- As well as being highly valued by employers, strong **management skills** may add 7% to wages for men, and 4% for women²

Intermediate skills

- Achieving **5 good GCSEs** (A*-C) shows high returns up to 30%³
- **Apprenticeships** offer strong returns at levels 2 and 3. An advanced apprenticeship offers wage returns of 35%⁴
- Wage returns to **level 2 vocational qualifications** are positive for specific groups, in certain sectors and when delivered in the workplace¹

Basic skills

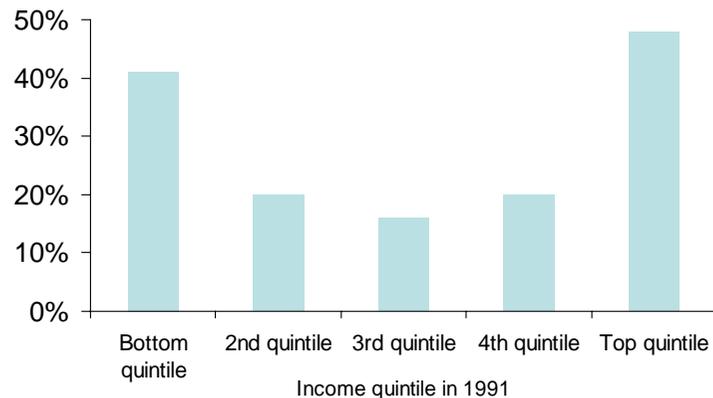
- Having basic **literacy and numeracy** can explain up to 10% of wage differentials⁵
- In a recent survey of London employers, 92% said they rated **employability skills** as the major factor in recruitment and promotion, over and above qualifications⁶

(1) Jenkins et al (2007) The returns to qualifications in England; (2) Felstead et al (2007) Skills at Work, 1986-2006; (3) McIntosh (2004) Further analysis of returns to academic and vocational qualifications; (4) Macintosh (2007) A cost benefit analysis of apprenticeships; (5) De Coulon et al (2007) The Value **15** of Basic Skills in the British Labour Market; (6) Experian, 2007, The voice of London employers

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

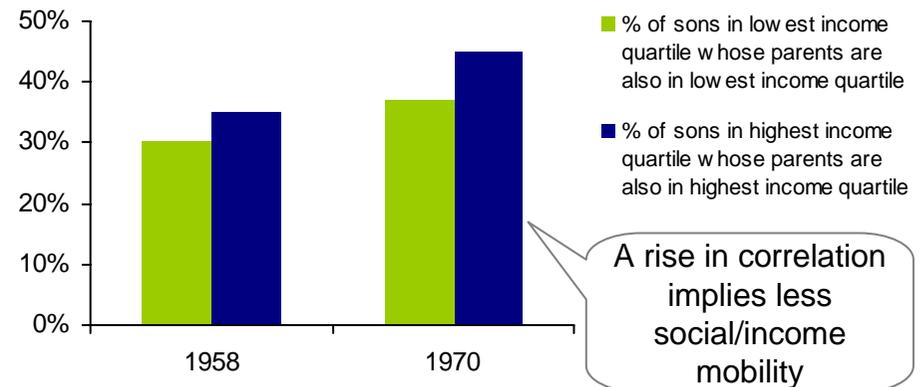
At the top and bottom of society there are sizeable groups who remain rich or poor over decades

% of individuals spending the majority of the years 1991-2005 in the same quartile as in 1991¹



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

Correlation between father and son's earnings (in early thirties) for 1958 and 1970 birth cohorts²



Social mobility

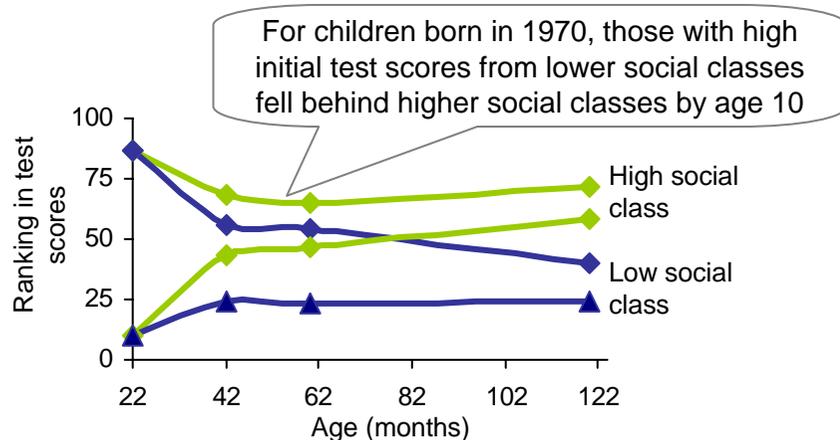
- Social mobility measured by parental class, rather than income, remained constant in the UK for those born between 1958 and 1970³
- For those born after 1970 social mobility by parental income in the UK appears stable²
- Other countries, particularly the Nordics, Canada and Australia, have higher overall intergenerational earnings mobility although mobility varies across the income distribution⁴
- **Providing opportunities for progression in the labour market should help to address social inequalities**

(1) DWP (2007) Low-income dynamics 2001-2005 (BHC); (2) Blanden and Machin (2007) Recent Changes in Intergenerational Mobility in Britain; (3) Goldthorpe et al. (2007) Intergenerational class mobility in contemporary Britain: political concerns and empirical findings; (4) D'Addio, OECD (2007) Intergenerational Transmission of Disadvantage

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

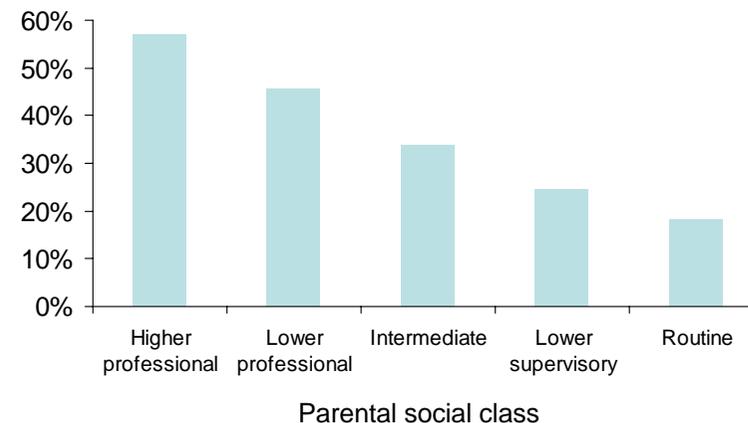
Today's adults from poorer backgrounds began to fall behind wealthier peers very early in life

Evolution of educational attainment by percentile and social class¹



And parental background remains a crucial determinant of going to university

% of 19 yr olds studying for a degree by parental class, 2007²



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)³
- Young people from poorer backgrounds are more likely to fall into risky behaviours such as youth offending⁴ or problems with alcohol⁵ during adolescence
- They are also more than twice as likely to drop out and be NEET at age 19² making a successful transition to work more difficult

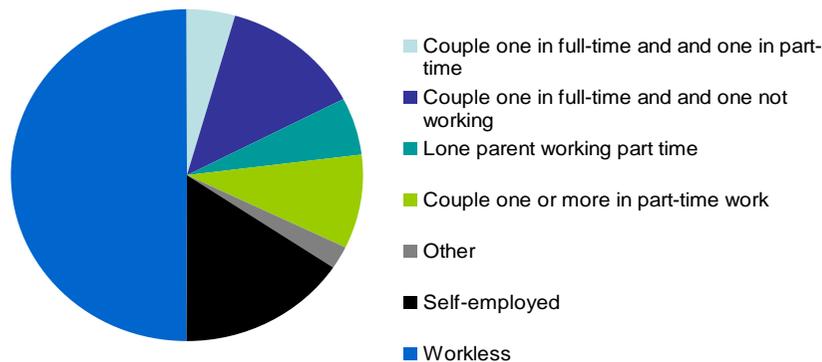
➤ **Giving adults opportunities for progression should help to address inequalities entrenched earlier in life**

(1) Feinstein (2003) Inequality in the Early Cognitive Development of British Children in the 1970 Cohort; (2) DCSF (2007) Youth Cohort Study sweep 12 SFR39/2007; (3) DfES (2006) Average test scores; (4) HO (2006) Offending, Crime and Justice Survey 2005; (5) DWP (2005) based on FACS (2005)

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

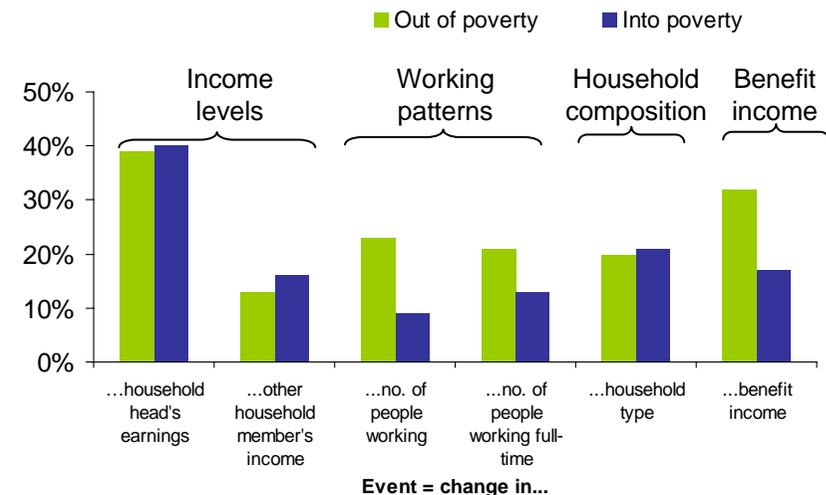
Although the risk of poverty is far higher in workless households, half of children in poverty live in households with at least one person working

Breakdown of children living in poverty by labour market characteristics¹



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 event²



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 poverty³

(1) HMT (2008) based on HBAI 2005/06; (2) DWP (2007) Low-income dynamics 2001-2005. N.B. events are not mutually exclusive; (3) Harker (2006) Delivering on Child Poverty: What would it take

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

Role of parental skills

Good parental educational attainment contributes positively to **child development**

Good parental educational attainment and participation in the labour market improve their **aspirations** for their children

Parents with skills have higher confidence and satisfaction which indirectly supports **child behavioural development**

Evidence of impacts on child outcomes

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

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

Parental aspirations and expectations for their children are strongly linked to their own educational attainment³

Teenagers' aspirations to stay on to A-levels are lowest among children of the unemployed and workless³

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

Youth offending and anti-social behaviour are associated with poor parental supervision⁵

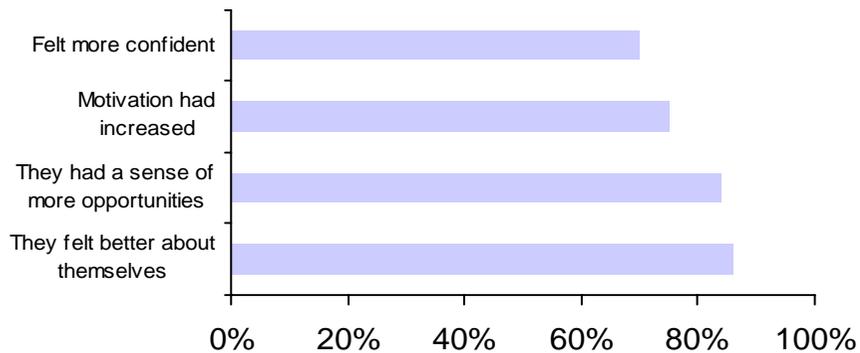
Acquisition of skills as a parent

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

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 course¹

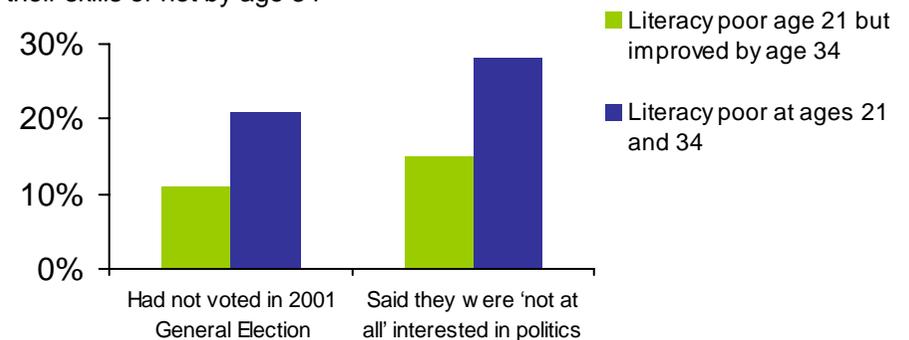


Benefits from skills for the individual

- Mental and physical health: People with higher skills are less likely to suffer from depression or back pain³
- 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 education⁴
- 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 poor²

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 34²



Benefits from skills for wider society

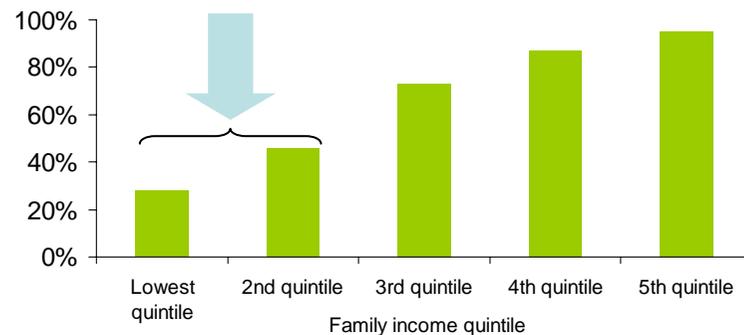
- Cohesion: Improved learning levels for adults in a community are associated with enhanced cohesion and social capital⁵
- Security: Men with poor literacy at age 21 were 50% more likely to have a criminal conviction by age 30 than those with good literacy skills⁶
- Civic participation: Half of learners in FE felt it had encouraged them to take part in voluntary and community activities¹

(1) LSC(2008) The impact of Learning on Employability; (2) Bynner and Parsons (2006) New light on literacy and numeracy; (3) Feinstein and Hammond (2006) Are those who flourished at school healthier adults?; (4) Dutton et al. (2007) The Internet in Britain; (5) Feinstein et al (2003) The contribution of adult learning to health and social capital and Green et al (2003) Education equity and social cohesion; (6) Parsons (2002) Basic Skills and Crime

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

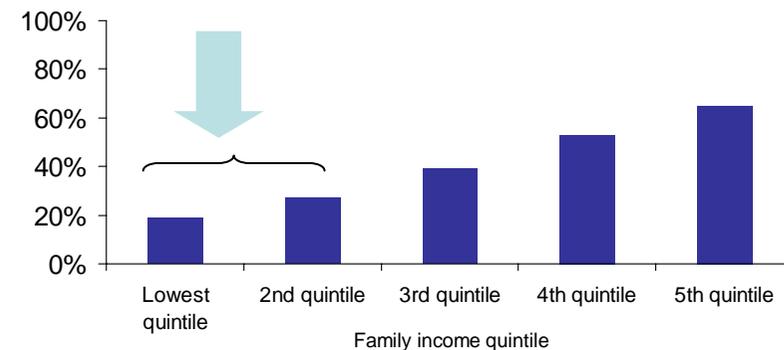
Less than half of low-income households are homeowners...

% of households where the occupants own the property by income of household¹



...and less than a third of them are saving regularly

% of households who say that they save regularly by family income quintile²



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 finances³
 - 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 incomes⁴
 - Income drops⁵ or being the victim of crime⁶ are harder to cope with for those on low incomes
- **Supporting progression is key to the Government's economic and social agendas**

(1) CLG housing statistics (2007); (2) DWP (2006) FACS survey 2005; (3) Financial Services Authority (2006) Levels of Financial Capability in the UK: Results of a baseline survey; (4) Family Resources Survey (2005/06); (5) Sodha and Lister (2006) 'The Savings Gateway'; (6) Dixon et al (2006) CrimeShare: the unequal impact of crime

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

Key policy areas	Features	Key milestones
Train to Gain	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Funding will increase from £520 million (2007-08) to over £1 billion (2010-11)
Adult advancement and careers service	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 2008-09: service trials start • 2009-10: further expansion of trialling • 2010-11: service fully operational
Further integration of welfare and skills	<ul style="list-style-type: none"> • An integrated employment and skills (IES) service including new skills screening processes, Skills Health Checks and Skills Accounts for Job Centre Plus customers 	<ul style="list-style-type: none"> • 2008: Skills screening in Flexible New Deal pilot areas (tailored support for the unemployed) • 2009/10: Pilot mandatory basic skills / job focussed training courses. • 2010/11: IES system fully operational
Welfare to work policies	<ul style="list-style-type: none"> • Next stages on activation policies for unemployed and inactive groups – Incapacity Benefit (IB) claimants and lone parents claiming Income Support (IS) 	<ul style="list-style-type: none"> • 2008: national roll-out of Pathways to Work • 2008: changes to lone parent eligibility for IS • 2009: roll-out of Flexible New Deal • 2010: work capability assessments for IB claims

➤ **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?

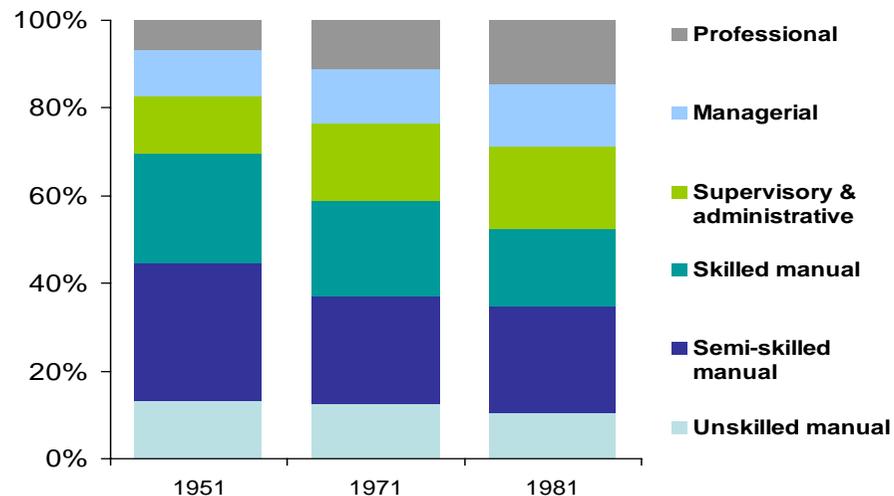
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Full employment and the changing types of jobs available in the UK in the three decades following World War II provided those generations with opportunities to progress in work

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, 1951-1981¹



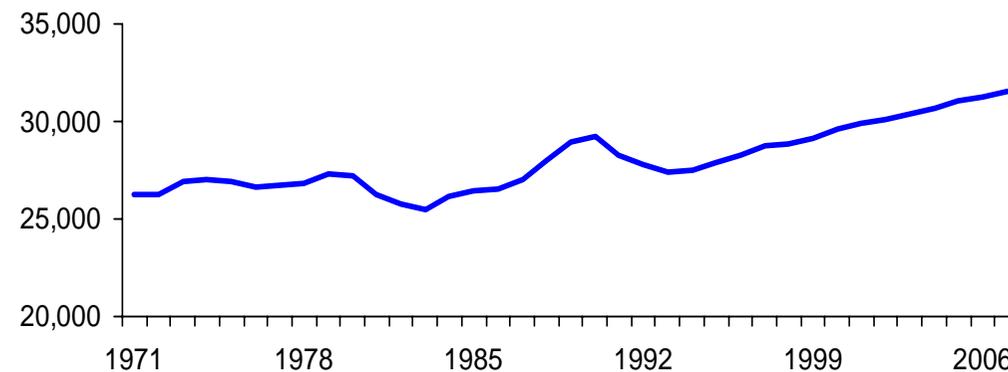
Changing types of jobs

- 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%²
- 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, thousands¹



Rising employment levels

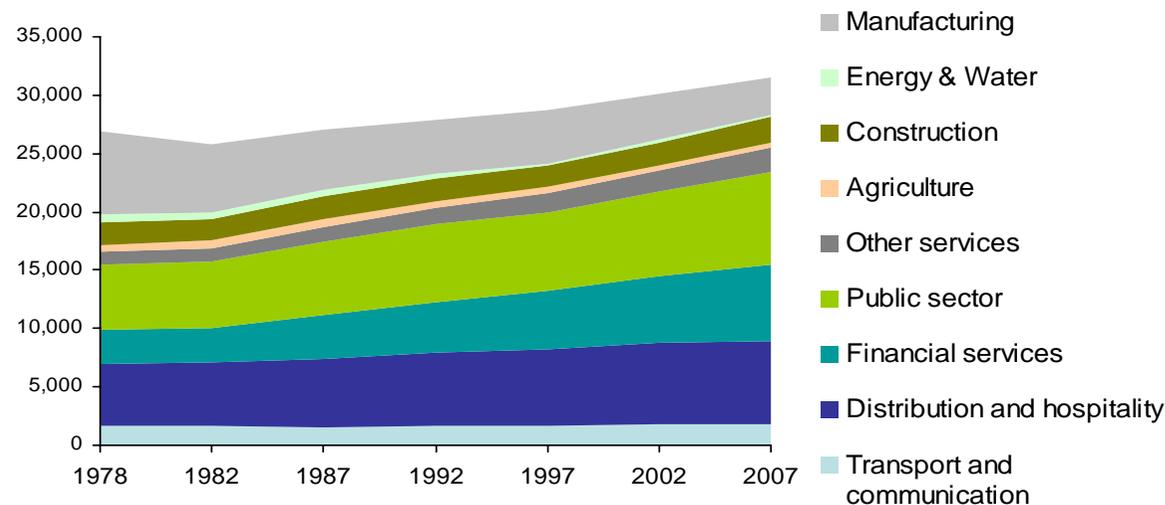
- In 2007 the number of people in work hit a record 29 million, up from 23 million in 1982. This represents an employment rate of 74.7%²
- At the same time unemployment has fallen to around 5.5% (International Labour Organisation definition), down from a high of 12.1% in 1984¹
- This compares to an average 66% employment rate and 6.9% unemployment rate for the whole of the EU³

(1) ONS data updated 7/12/2007; (2) National Statistics (2008) Labour Market Statistics February 2008; (3) Eurostat

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

Since 1978, the steady decline in the number of manufacturing jobs has been more than compensated for by large growth in service sectors

Absolute number of jobs by sector, 1978-2007¹



Changing industrial structure

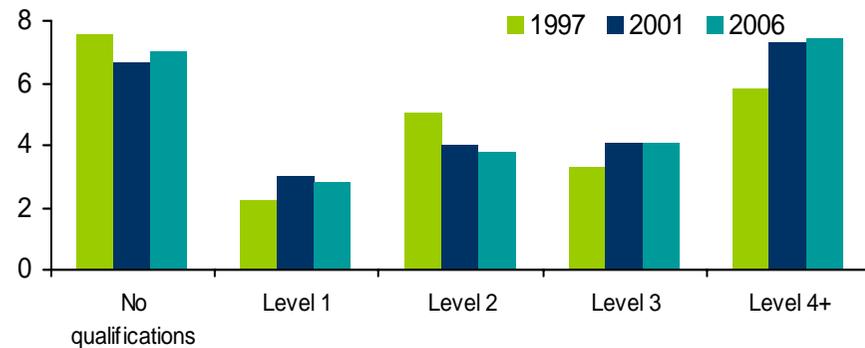
- Since 1978 the number of jobs in manufacturing has fallen by 55%
- Meanwhile the number of jobs in high-end services such as banking and insurance rose by 135% over the same period
- Other non-tradable services in transport & communication and hospitality & distribution (including retail) rose by 27%¹

(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

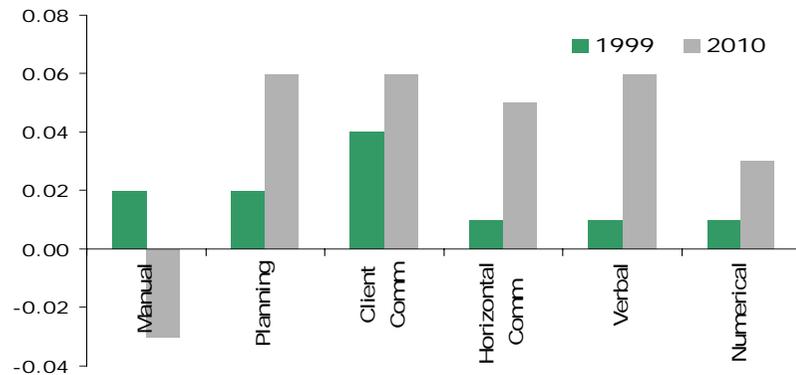
The level of skill required to do a job has generally risen

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



The type of skills demanded are also changing, from manual skills towards the 'soft' skills

Projected change in skill requirements to 2010²



Changing skills demand

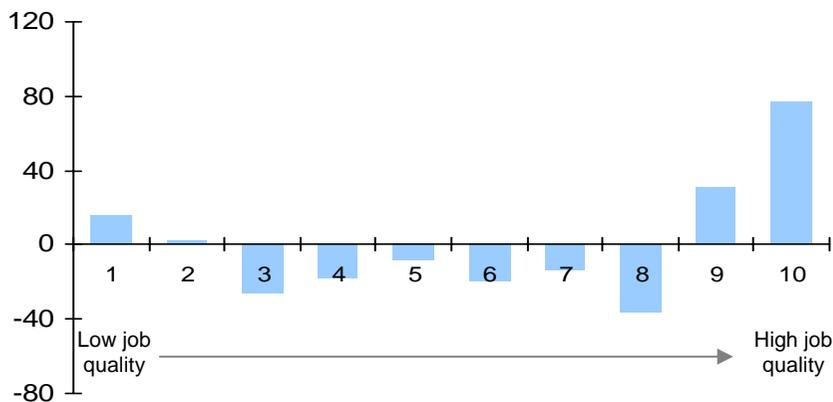
- 'Skills-biased technical change' (SBTC) is generally accepted to be the chief driver behind labour market shifts since the 1980s
- Technical advances, particularly the development of ICT, have allowed workers to be far more productive, but productivity gains have been strongly biased towards those 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 2006³
- 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 sectors²

(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

% change in share of jobs by 'job quality' decile, 1979-1999¹



However, analysis of jobs within sectors shows more even change in demand for different levels of skill

Growth/decline in numbers of jobs, by sector and skill level, 1978-2007 (000s)²



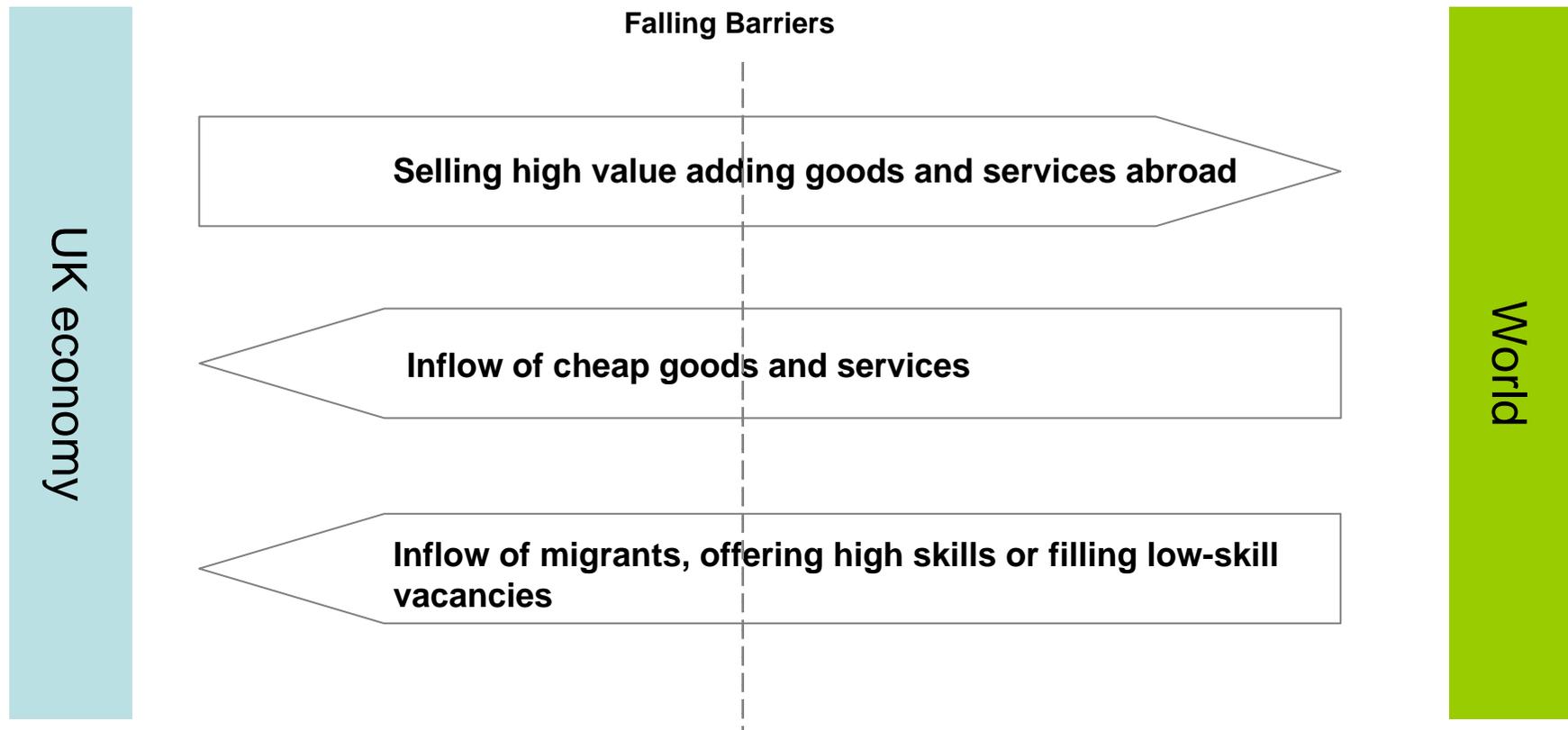
Polarisation?

- 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 spectrum¹
 - 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 2000s³
- **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**

(1) Goos and Manning (2003) Lovely and lousy jobs; (2) LFS (2007) Workforce Jobs; (3) DCSF analysis of ASHE dataset, 1997-2005

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

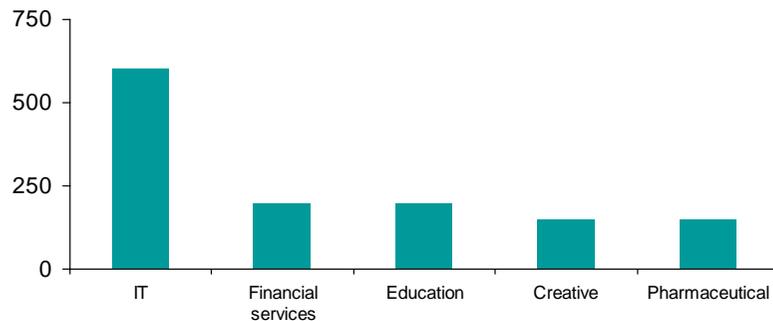
Globalisation is a phenomenon involving a range of different aspects including:



➤ 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

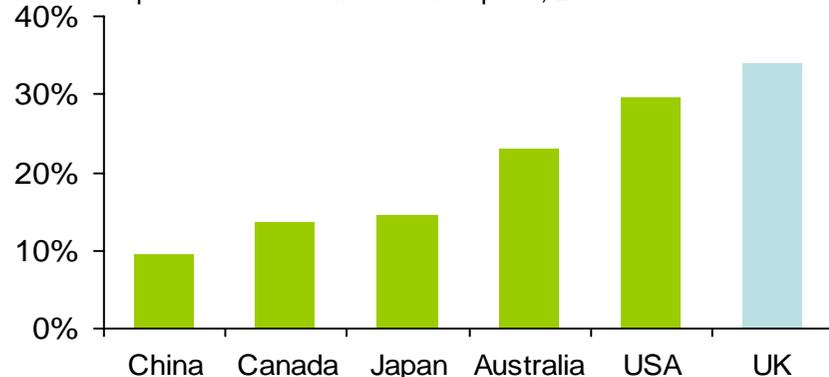
The increased trade in high-value services associated with globalisation is creating opportunities for the UK's high-skill sectors

Trade in high value-added services has soared, fed by higher demand and the use of technology
% worldwide increase in exports 1995-2005¹



The UK has a higher proportion of its exports made up from services than anywhere else

Service exports as a % of all national exports, 2006²



Britain must rise to the challenges and opportunities presented by globalisation

- 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%¹
- The UK is selling more high value-added services abroad. Between 1996-2006 export of services rose 8%.³ 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 markets⁴

(1) HMT analysis; (2) OECD (2006) Fact book and ITCS; (3) ONS Pink Book; (4) Leitch (2006) Prosperity for all in the global economy

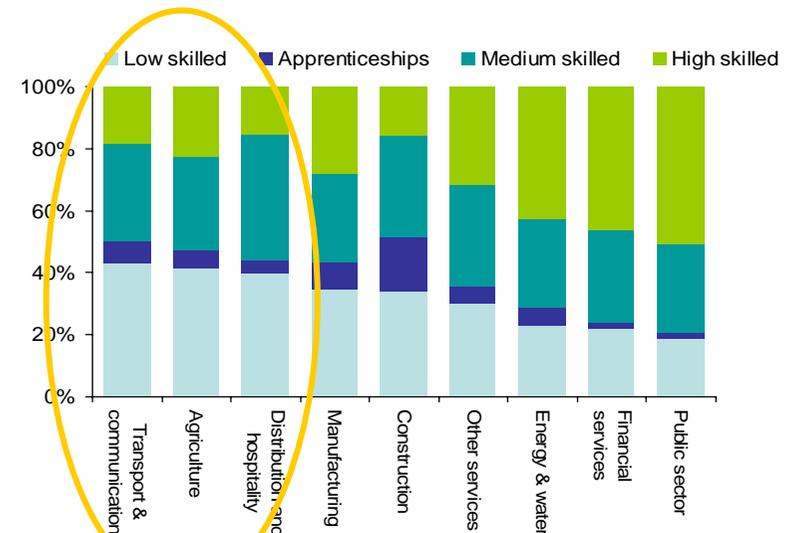
Global interdependence and the ability to import cheaper goods and services poses potential risks to those with lower skills

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 economy¹
- 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 industries²
- 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 future³

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

% Qualification in workforce, by sector and level⁴



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

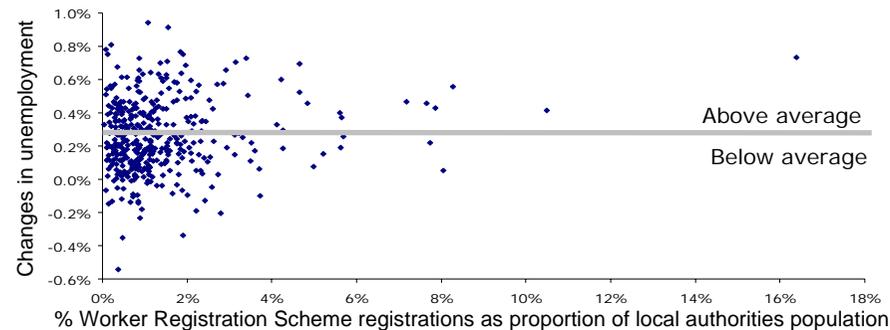
➤ **In the face of these risks, the Government is committed to up-skilling and re-skilling the whole of the workforce, including those with low skills**

(1) Freeman (2005) The great doubling; (2) Machin and Van Reenan (2007) Changes in wage inequality; (3) OECD (2007) Employment Outlook; (4) LFS (Q4 2007)

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 authorities¹



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 contention²
- 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 distribution³

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

(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?

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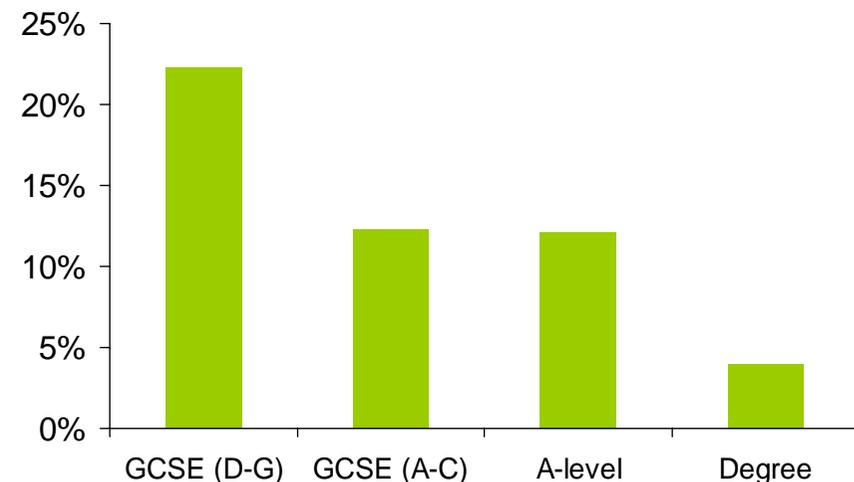
Raising skills drives up business performance, with growing businesses associated with more job and training opportunities

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 growing²
- 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 do³
- 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 workforce⁴



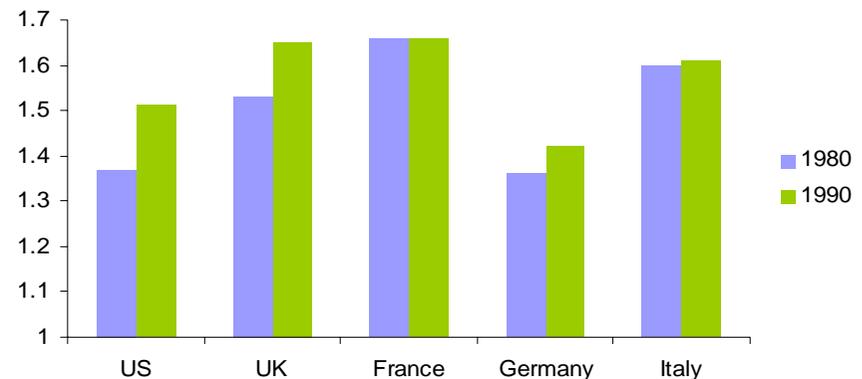
(1) Dearden et al (2005) The impact of training on productivity and wages: evidence from British panel data; (2) BERR and HMT (2008) Enterprise: unlocking the UK's talent; (3) Haskel and Galindo-Rueda (2005) Skills, Workforce Characteristics and Firm-Level Productivity: Evidence from the Matched ABI/Employer Skills Survey; (4) Collier et al (2007) Training and establishment survival, SSDA Research Report

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 or above, up from 22% ten years ago²
- Despite the expansion in the supply of skills, returns have remained relatively constant over time³ and may even be rising⁴
- However, with the available skills mix, the returns vary considerably between qualifications and for different people and sectors³

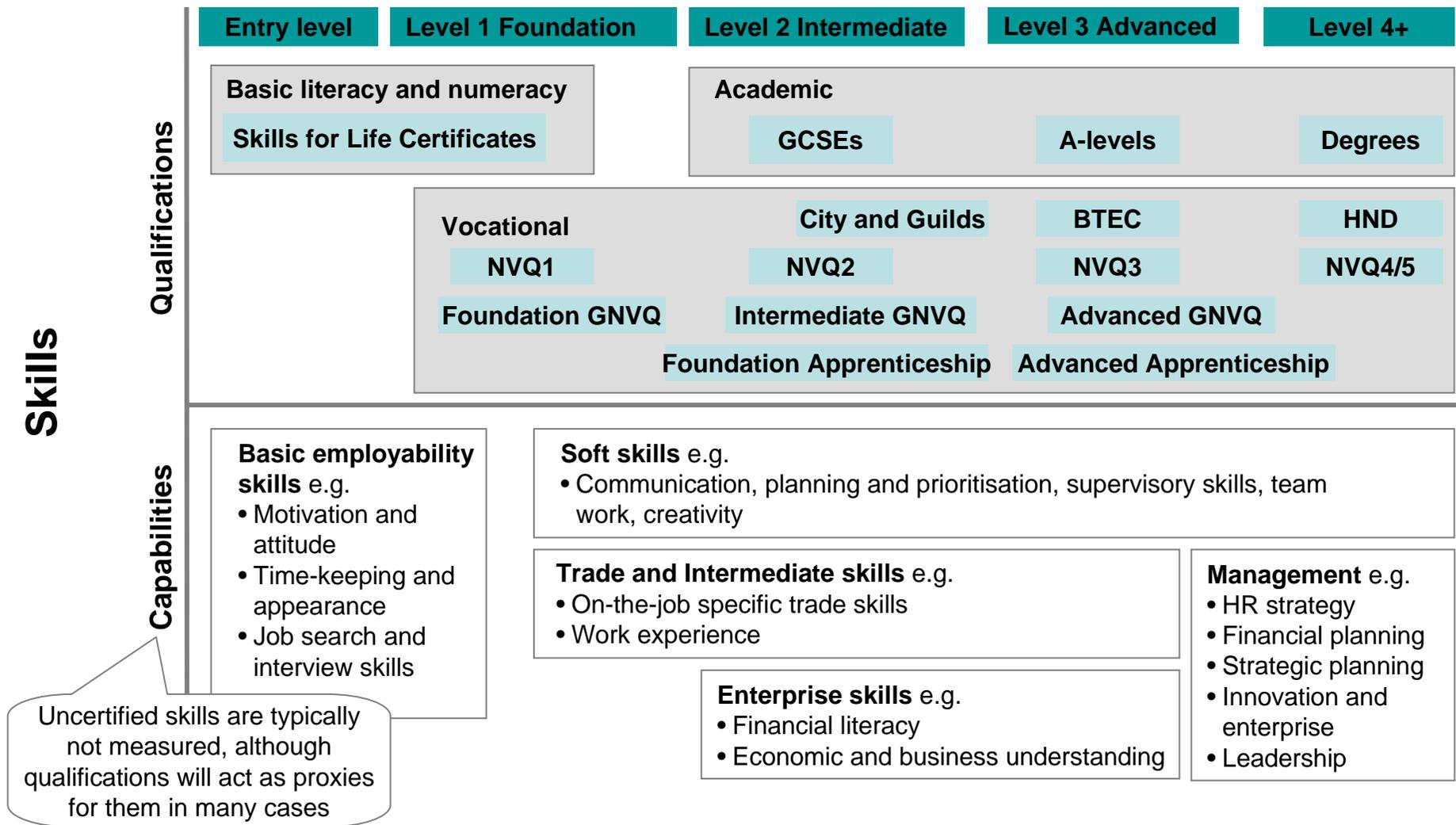
During the 1980s, wage returns to skills increased more dramatically in the UK and US than elsewhere
Ratio between low-skilled and high-skilled pay, 1980-1990¹



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

(1) European restructuring monitor, 2007. The earnings ratio is from men, using highest qualification as proxy for skill level; (2) Labour Force Survey; (3) Jenkins et al (2007) Returns to qualifications in England; (4) Felstead et al (2007) Skills at Work 1986 to 2006

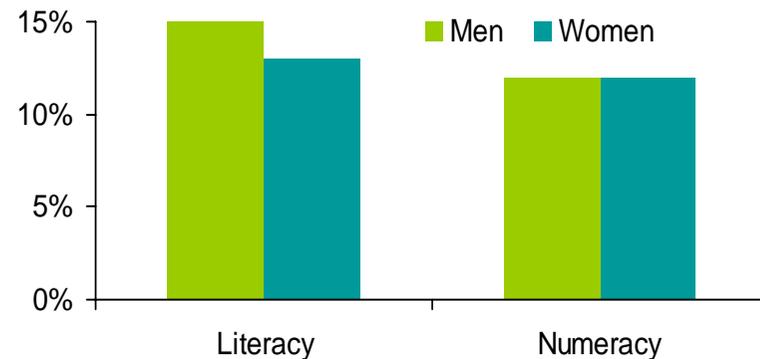
To further understand the importance of different types of skills, it is necessary to look in depth at the returns to various qualifications



There are strong employment and wage returns to basic skills

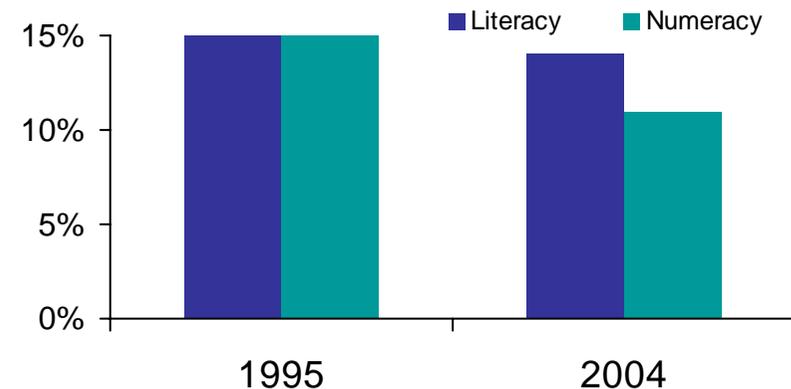
There are strongly positive wage returns to basic skills

% wage impacts from an additional standard deviation in literacy and numeracy¹



And these returns to basic skills appear relatively stable

% wage impacts from an additional standard deviation in literacy and numeracy¹



Economic benefits of basic skills

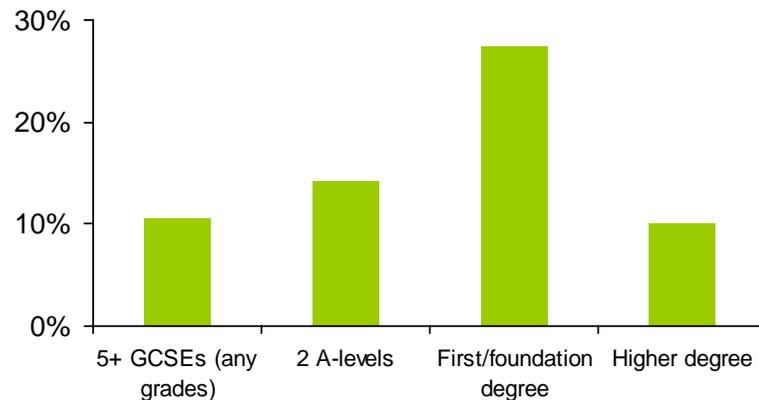
- **Wage returns:** Returns to basic skills remain stable despite a reduction in numbers with very poor basic skills (200,000 fewer people with very low numeracy skills over period 1995 to 2004). Differences in basic skills at age 34 can explain up to 10% of wage differentials¹
- **Employment effects:** Leitch found higher basic skills moved 185,000 people into work between 1994-2004², and basic skills are strongly linked to being in employment at age 34¹

(1) De Coulon et al (2007) The Value of Basic Skills in the British Labour Market Skills Survey 2006; (2) Leitch (2006) Prosperity for all in the global economy

Academic qualifications provide consistently strong wage gains

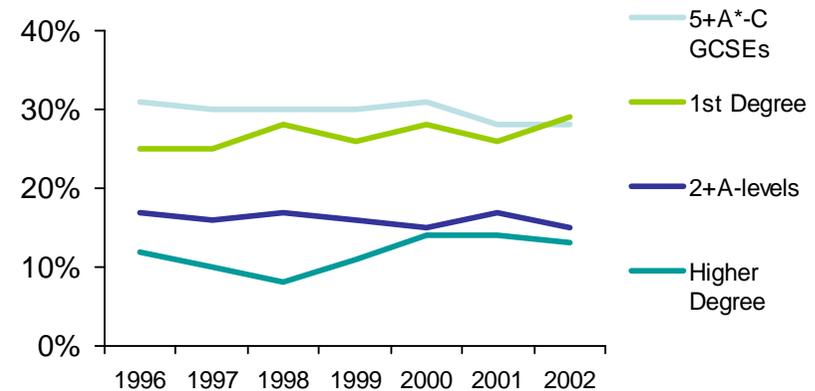
There are consistently high returns for academic qualifications, which are usually gained in school

Average wage return, 1997-2006¹



Despite increasing numbers with academic qualifications, returns have remained constant

Average wage returns²



Economic benefits of academic qualifications

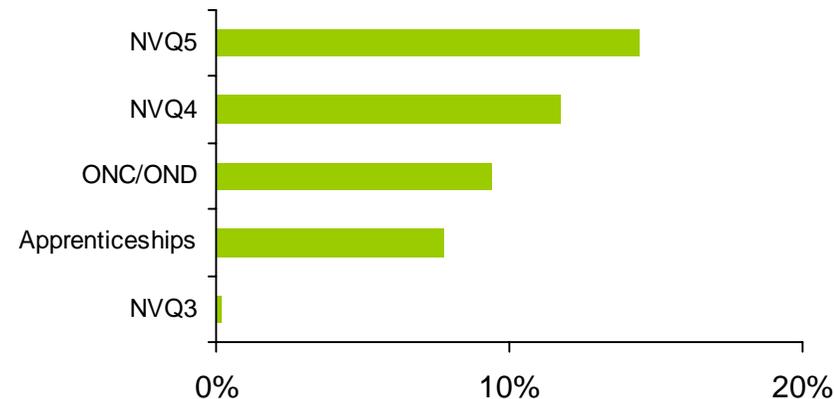
- **Wage returns:** Academic qualifications show highest wage returns. However, these are mainly gained at school age and those who miss out at this point may suffer a variety of disadvantages which must be controlled for when comparing gains from later vocational training³

(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

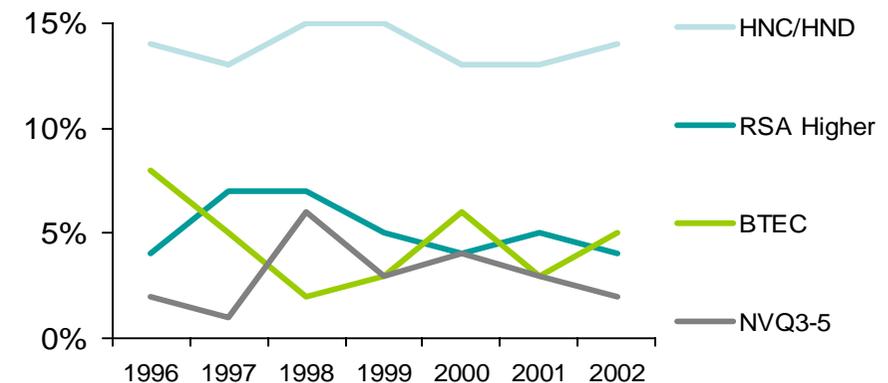
There are good wage returns to higher vocational qualifications, although these are typically lower than academic qualifications

% average wage return, 1997-2006¹



Returns to vocational qualifications have remained broadly constant since 1996

Average wage returns²



Economic benefits to vocational qualifications

- **Wage returns:** Most vocational qualifications offer good positive marginal returns to learners¹
- **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 respectively³
- **Employment effects:** NVQ3 may increase probability of entering employment by 2.3% (men) and 1.8% (women)¹

(1) Jenkins et al (2007) Returns to qualifications in England; (2) McIntosh (2004) Further analysis of the returns to academic and vocational qualifications; (3) Feinstein et al 2003, and Green et al 2003

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 qualification¹



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

- City and Guilds and BTEC² qualifications deliver strong returns (although returns may have declined 1997-2006)¹
- Few studies have found returns to NVQ2 on average, but there are positive returns if^{1,3,4}
 - 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 learning⁴

(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)

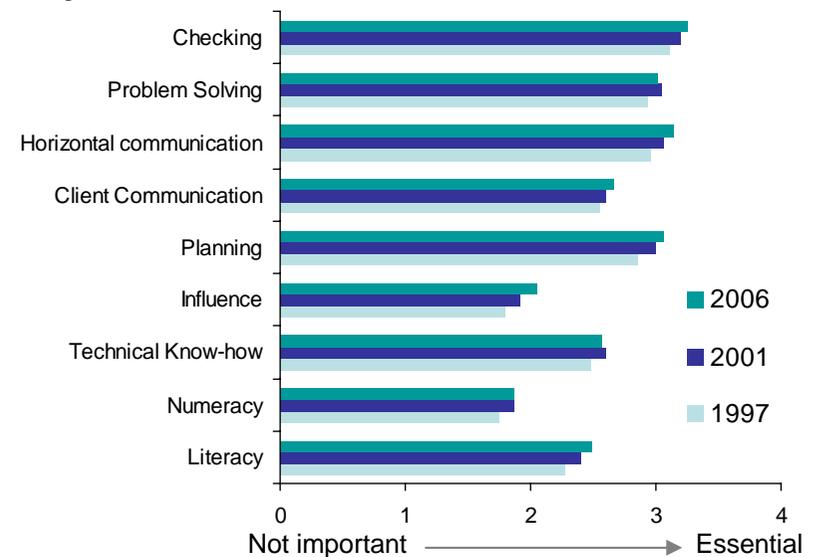
In addition to certified qualifications, soft skills are increasingly valued in the workplace

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 unfilled¹:
 - 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 qualifications²
- Employers of the low-skilled and unemployed are less likely to demand technical skills than capabilities such as motivation, punctuality and communication skills³

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

Average skills index score⁴

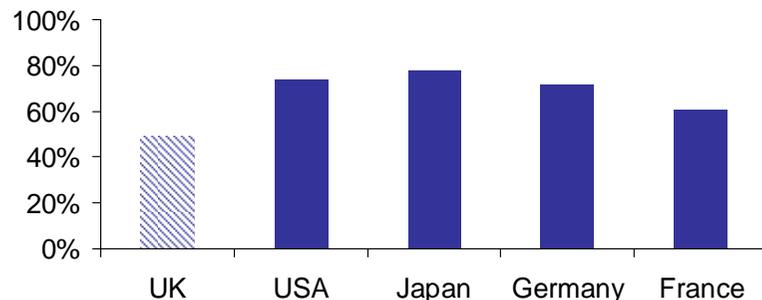


(1) LSC (2006) National Employer Skills Survey 2005; (2) Experian (2007) The voice of London employers; (3) Newton et al (2005) What employers look for, DWP RR295; (4) Felstead et al (2007) Skills at Work 1986 to 2006

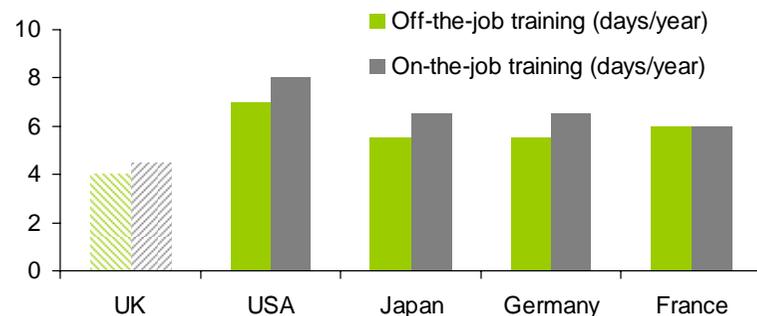
And, whilst we know less about returns to management skills, these are also important in helping the economy adapt

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

(1) Keep and Westwood (2003) Can the UK learn to manage?; (2) CBI (2006) Shaping up for the future; (3) Felstead et al (2007) Skills at Work 1986 to 2006; (4) N Bloom et al (2005) Management Practices across Firms and Nations, CEP; (5) McKinsey/CEP(LSE) (2007) Management Matters

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 approaches⁴. 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*⁵
- *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 barriers⁴
- Key issues revolve around programme quality, the number of people dropping out of courses, and the degree of mandation

Selected programmes

Detail

Evaluation results

2004

Mandatory training pilot

- Pilot to explore the impact of sanctions on people taking up and completing basic skills training to overcome problems with people dropping out

- 5% more claimants started provision in pilot areas
- Further longer-term evaluation needed to establish impact on job entry²

2006

Work based learning for adults

- Three employer facing training options for the unemployed

- *Employment*: Some positive impacts, although impacts vary by option and benefit claim³
- Further work necessary to ensure positive outcomes are cost effective

(1) Payne (1998) Evaluation of Training for Work; (2) Davis et al (2006) Evaluation of basic skills mandatory training pilot DWP rr 385; (3) Speckesser (2006) The longer term outcomes of WBLA DWP rr 390; (4) Work based training and job prospects of the unemployed, DFEE 1999; (5) US DoE (2002) Moving people from welfare to work

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

Selected programmes	Detail	Evaluation results
<p>2002 - 2005</p> <p>Employer Training Pilots</p>	<ul style="list-style-type: none"> • Encouragement to employees to train for a first <i>level 2</i> • Free/subsidised training, wage compensation for employers and advice and guidance • 200,000 employees involved over three years¹ 	<ul style="list-style-type: none"> • <i>Productivity</i>: participants reported being able to do job better (85%), gained relevant skills (80%), improved productivity (65%)¹ • <i>Additionality</i>: 10-15% of training taking place was additional and 1/5 to 1/3 of learners already had a level 2 qualification¹ • <i>Progression</i>: no robust evidence on wage/career returns but 46% of participants reported better pay as a result of participation
<p>2007</p> <p>Train to Gain</p>	<ul style="list-style-type: none"> • National service building on Employer Training Pilots and extending provision beyond level 2 	<ul style="list-style-type: none"> • 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)³

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

(1) Hillage et al (2006) Employer Training Pilots: Final evaluation report; (2) DfES (2005) Impact of Skills for life, RR701; (3) DIUS analysis

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?

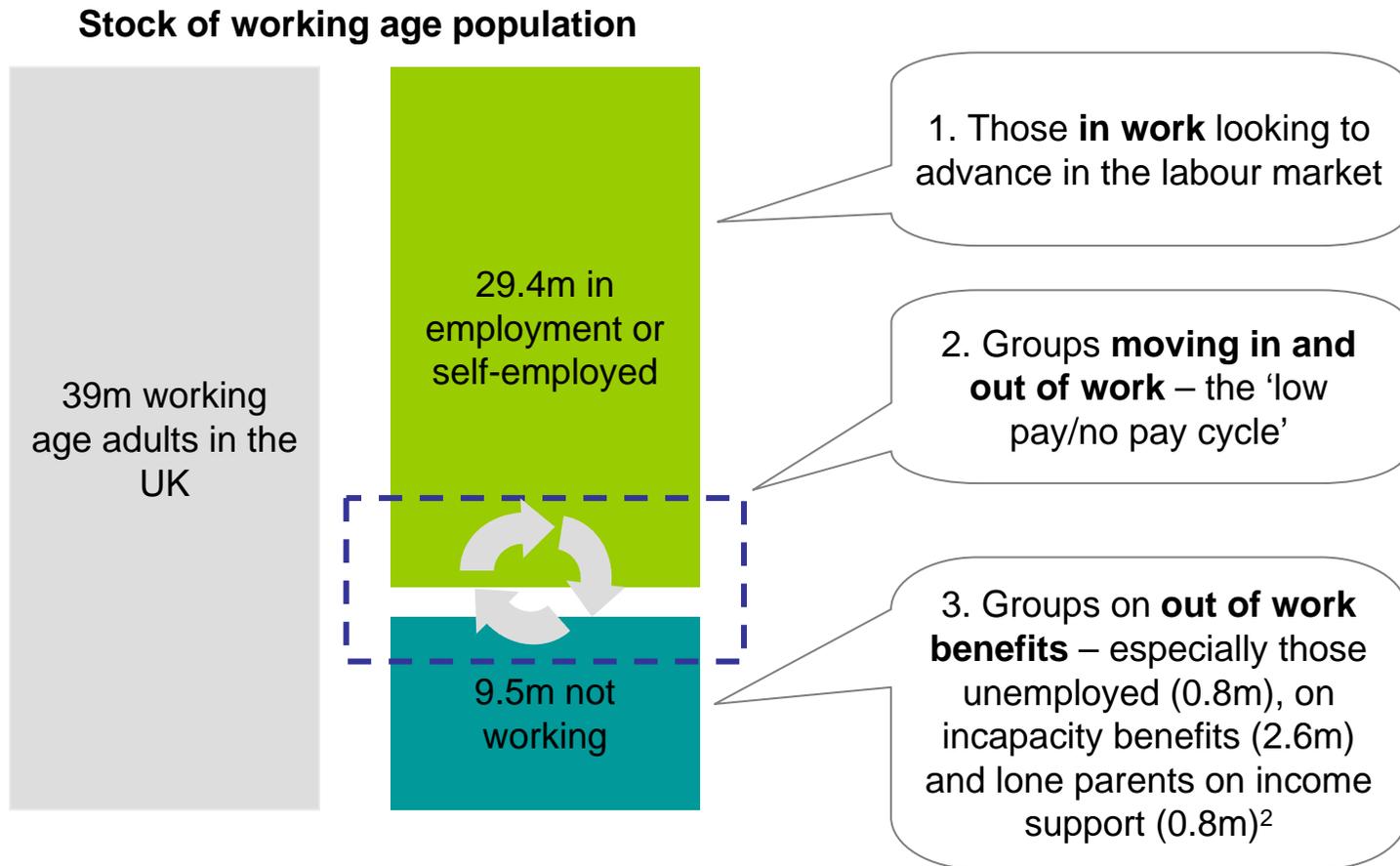
➤ How are the returns to soft skills likely to change in the future?

➤ What more can the UK do to build stronger entrepreneurial and managerial skills?

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This chapter explores opportunities in the labour market for three main groups

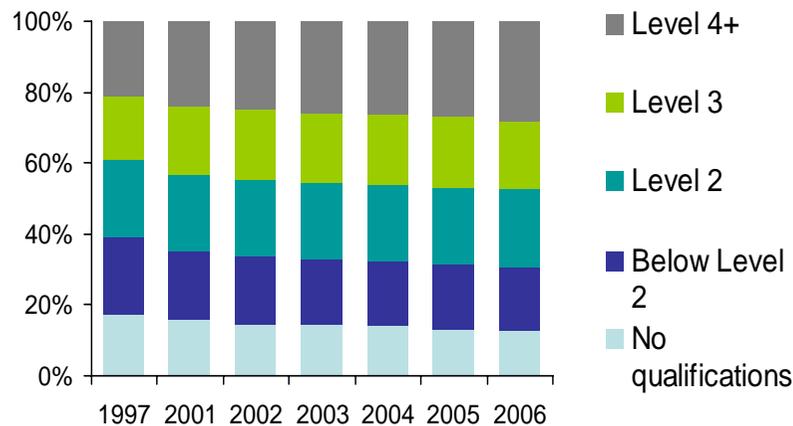


Note that "not working" groups include many who are not an immediate concern for labour market policy, such as parents caring for children who are not in poverty, students, etc

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

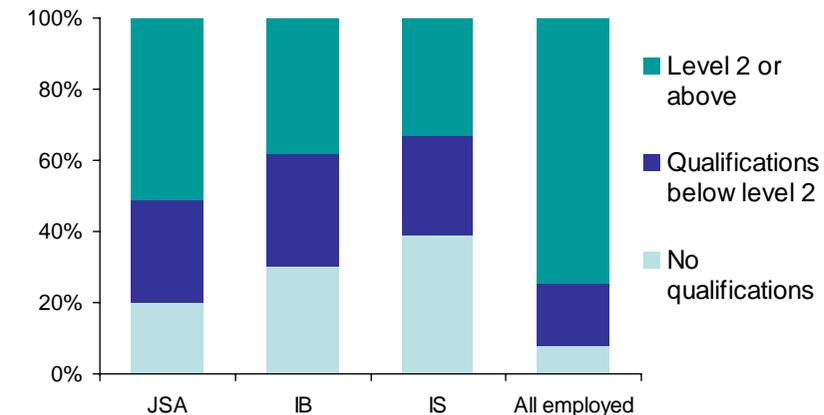
Skills in the UK have improved since 1997, with more people than ever gaining qualifications

% of all people of working age by highest level of qualification¹



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 qualification²



The UK's improving skills base

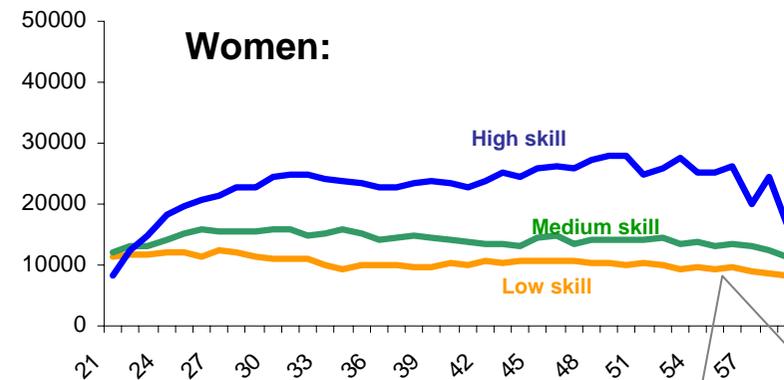
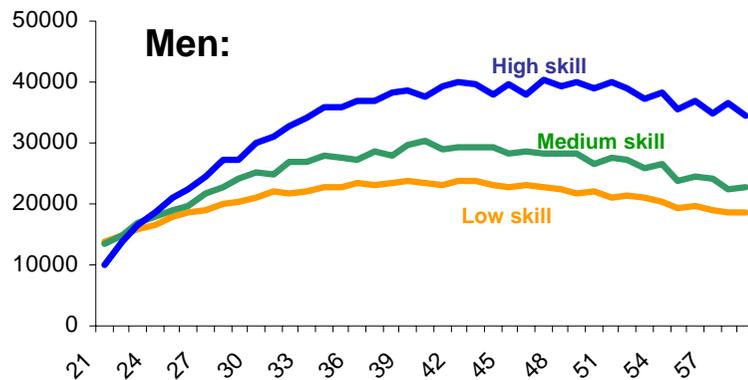
- Since 2001, over 1.75 million more adults have improved their basic literacy and numeracy skills³
- 74% of the economically active workforce, or 17.5 million adults, are now qualified to at least level 2, up from 16.3 million in 2002³
- However, despite improvements, nearly 5m people of working age still do not have any qualifications¹ and the employment rate for those without qualifications is below 50%²

(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 1994-2006¹



Limited wage progression over a lifetime for women, particularly low and medium skilled

A sizeable proportion of the workforce may struggle with wage mobility²:

	Men Approx No.	Women Approx No.
High Skill	3.8m	3.0m
Medium skill	4.6m	4.4m
Low skill	7.5m	5.6m

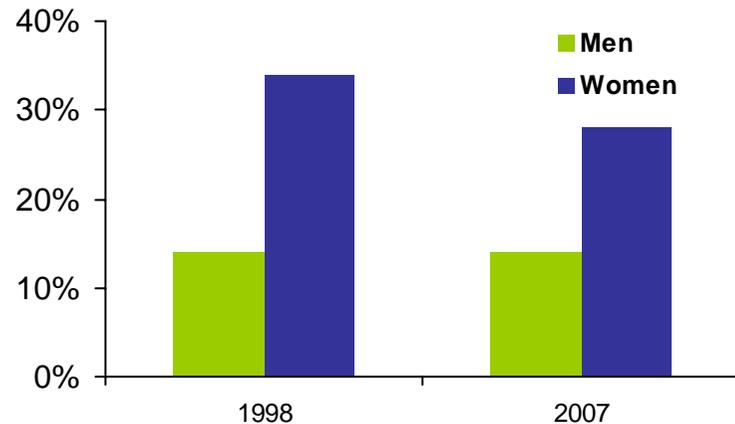
➤ Building a workforce with world class skills will help these groups to get on

(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...

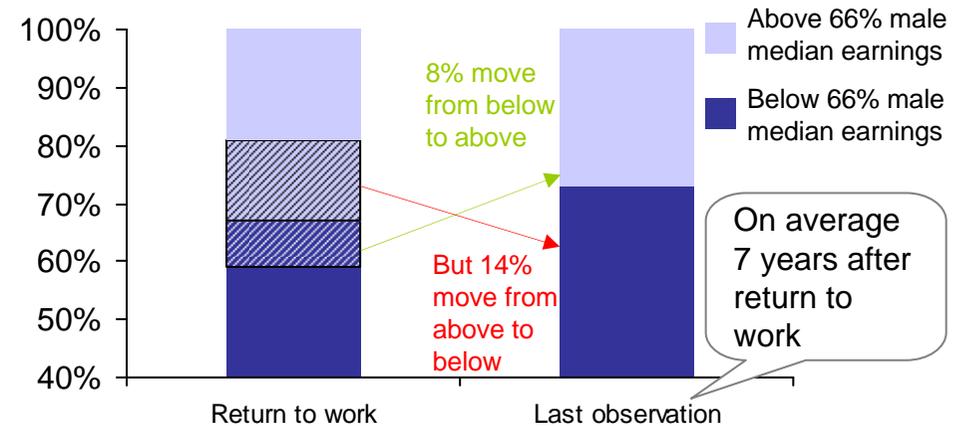
Although the proportion of women in low pay has fallen since 1998, female employees are still twice as likely to be in low pay than men

% of male/female employees paid less than £7/hour in 2007 prices¹



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)²



Ethnic minority women in the labour market

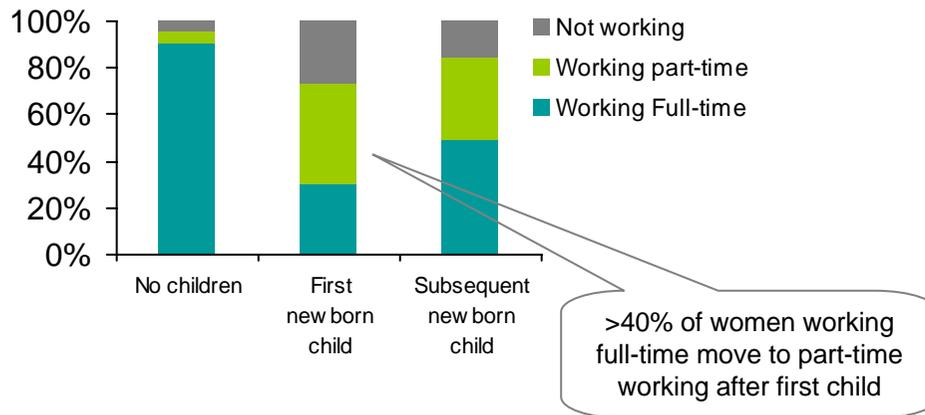
- Levels of female participation in the labour market and employment vary greatly by ethnic background
- Less than 30% of women of Pakistani or Bangladeshi origin are employed compared to more than 50% across all ethnic minorities and almost 70% of the general female population³

(1) New Policy Institute, based on ONS (2007); (2) Stewart (2007) Employment trajectories for mothers in low-skilled work: Evidence from the British Lone Parent Cohort; (3) Labour Force Survey 2007 Q1 in NAO (2008) Increasing employment rates for ethnic minorities

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

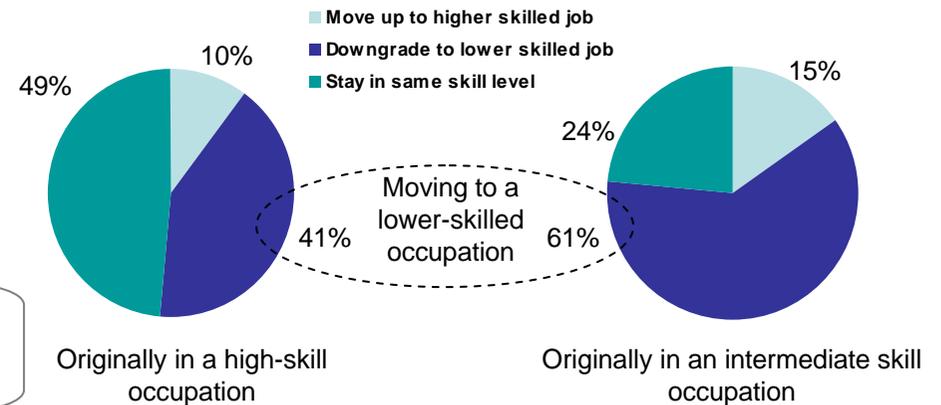
Many women move from full-time to part-time working after having children

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

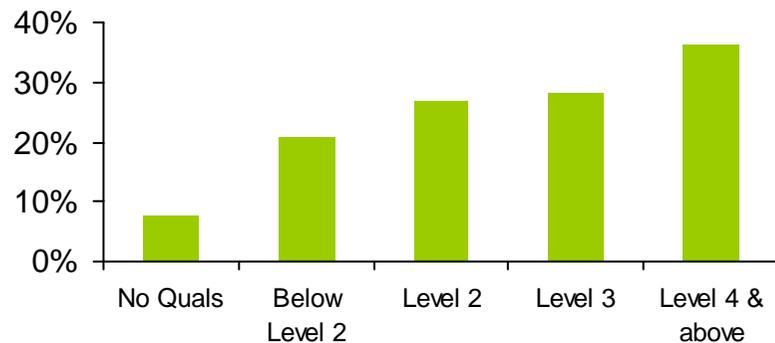
- Women who change to part-time working whilst staying with the same employer are only half as likely to downgrade into a job with lower skill requirements than women changing employer
- When moving to part-time work, 29% of corporate managers downgrade into lower skilled jobs such as clerical roles. 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

(1) Paull (2008) Children and Women's hours in work; (2) Connolly and Gregory (2008) Moving down: Women's part-time work and occupational change 1991-2001

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, 2007¹

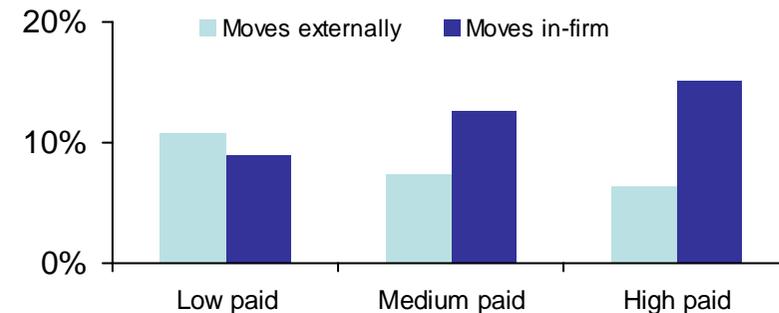


In-work training

- Employers are far less likely to train low-skilled workers, or to train staff likely to leave²
- Lack of training may in turn damage retention and ability to access within-job progression³

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, BHPS⁴

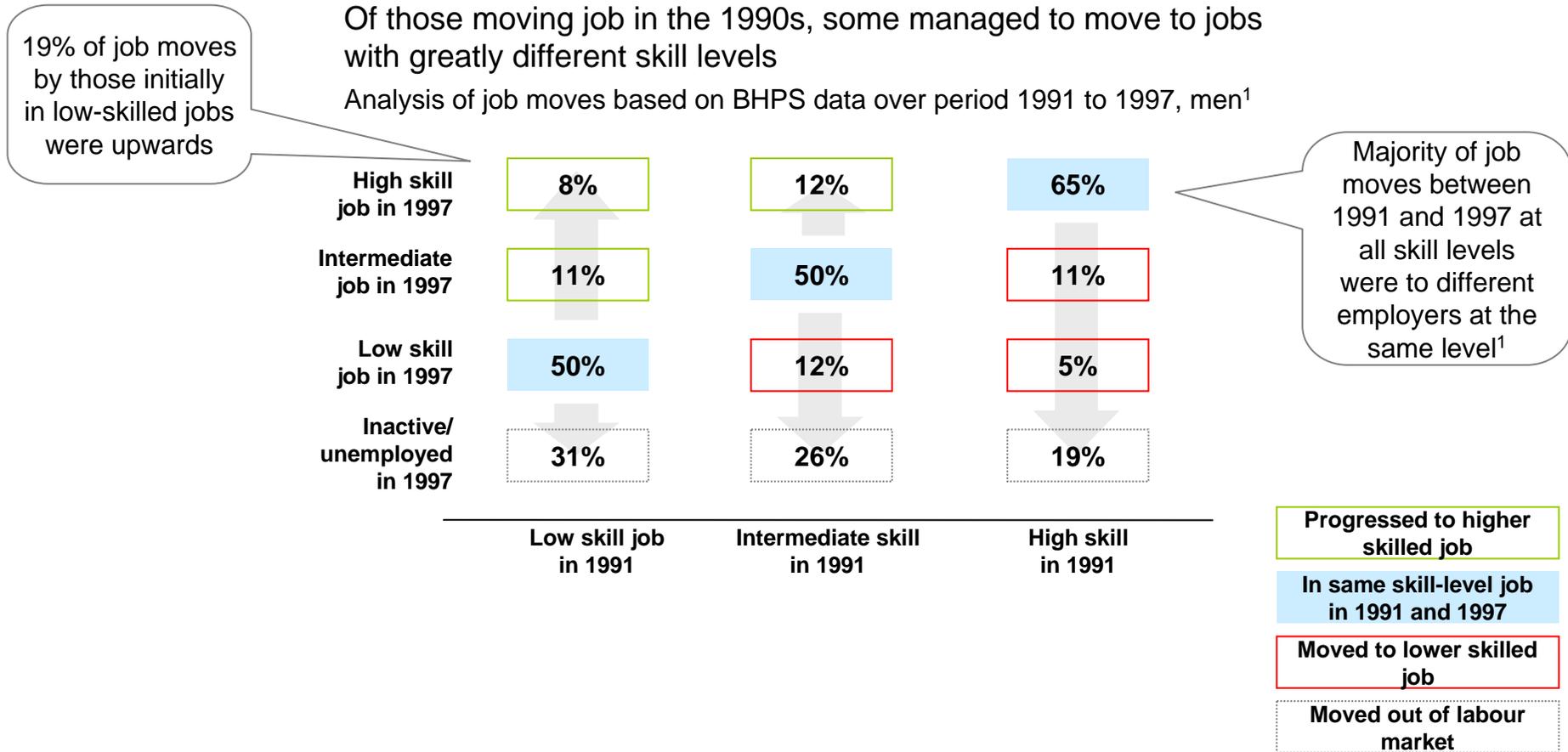


Progression in-firm vs. between firm

- The UK evidence is limited, but in the US low paid workers are more likely to improve their earnings by changing employer⁵
- Key to this progression was moving to a better firm, typically at the same occupational level but with better training opportunities

(1) LFS Q2 2007; (2) Blundell et al (1996), also LFS 2007; (3) Dearden et al (1997) Labour turnover and work-related training; (4) Pavlopoulos et al (2007) Job mobility and wage mobility of high and low-skilled workers; (5) Andersson et al (2005) Moving up or moving on

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



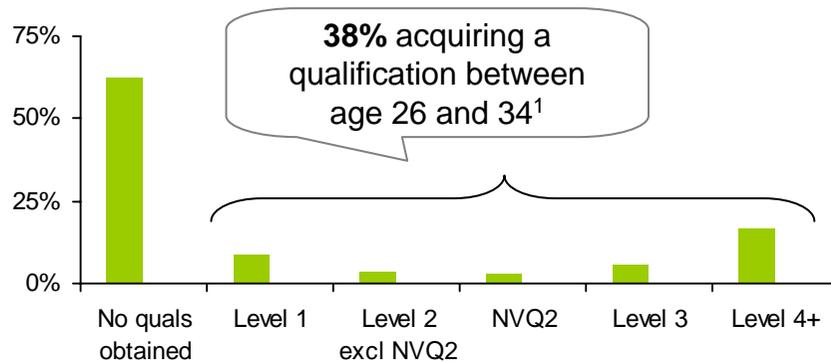
➤ However, we know relatively little about the mechanisms by which individuals are progressing

(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

Highest qualification acquired between age 26-34, BCS¹



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 returns¹
- 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

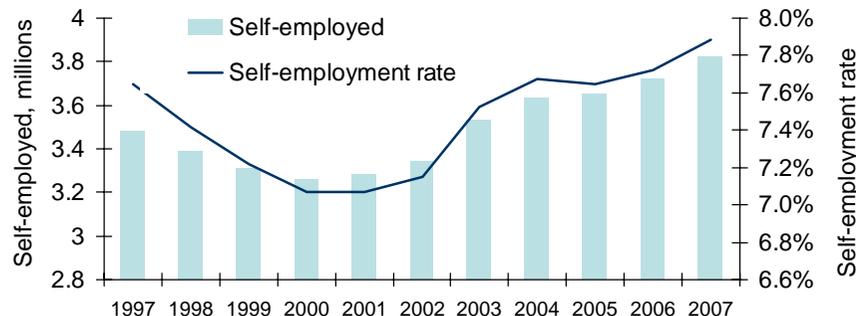
(1) De Coulon et al (2007) Analysis of the benefit of NVQ2 qualifications acquired at age 26-34 (forthcoming)

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

(1) BERR (2008) Annual Small Business Survey 2006/07; (2) ONS labour force survey; (3) Small Business Service (2005) Household Survey of Entrepreneurship; (4) Rebecca Harding (2007) Global Entrepreneurship Monitor UK 2006; (5) BERR and HMT (2008) Enterprise: unlocking the UK's talent

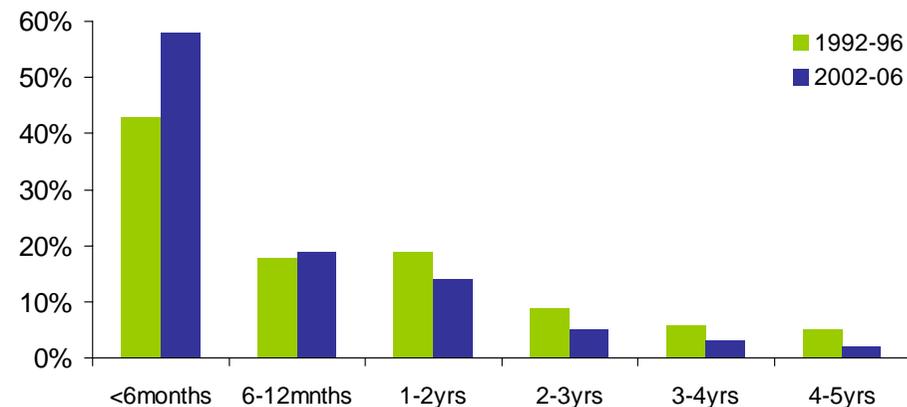
People face a reduced risk of cycling between no pay and low pay, largely because fewer people are now experiencing unemployment

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 2002-06¹
- 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

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 period¹



Redundancies

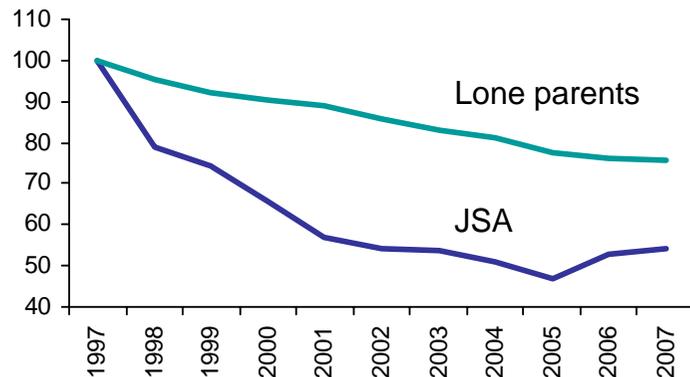
- Of those leaving jobs each year, less than 1 in 10 do so as a result of redundancy². Whilst this represents a historic low, each redundancy creates a difficult life for the individual affected
- Most people recover relatively quickly by finding new employment either themselves or with support from Jobcentre Plus or other networks.³ In cases where redundancies are large relative to local the labour market, additional measures may be required

(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

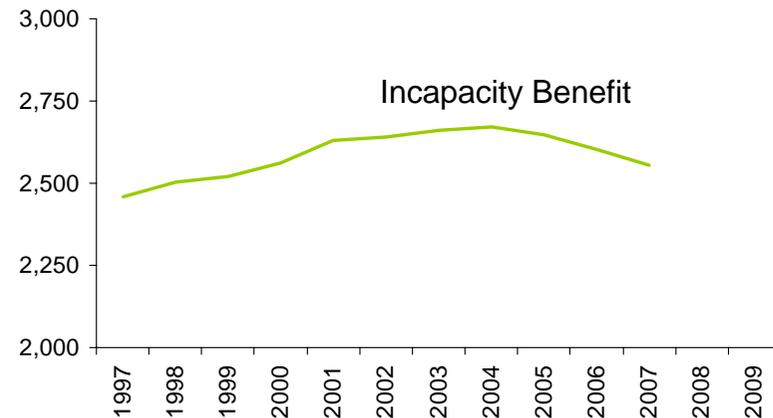
Good progress has been made in reducing both the number of unemployed and lone parents out of work

Benefit claimants by type of benefit¹



Numbers claiming Incapacity Benefit are also now starting to fall

IB/Severe Disability Allowance claimants of working age, thousands²



Progressing into work

- The employment rate, currently at 74.7% is one of the highest in the world³
- 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

(1) Number of claimants, 1997 = 100, DWP 2008; (2) DWP 2008; (3) National Statistics (2008) Labour Market Statistics February 2008

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?

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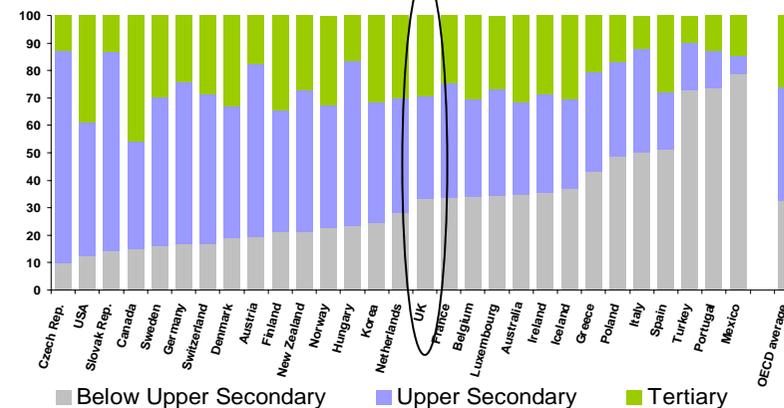
- Ministerial Foreword
- Executive summary
- Chapter 1: Introduction
- Chapter 2: The changing labour market
- Chapter 3: The importance of skills
- Chapter 4: The opportunities to get on in the labour market
- Chapter 5: The barriers holding people back

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 individuals¹
- 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 skills³

However the UK skills base is low compared to other countries¹



- UK employees only spend an average of 2 days a year in training, half that of Denmark⁴
 - 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 countries⁵
 - 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?**

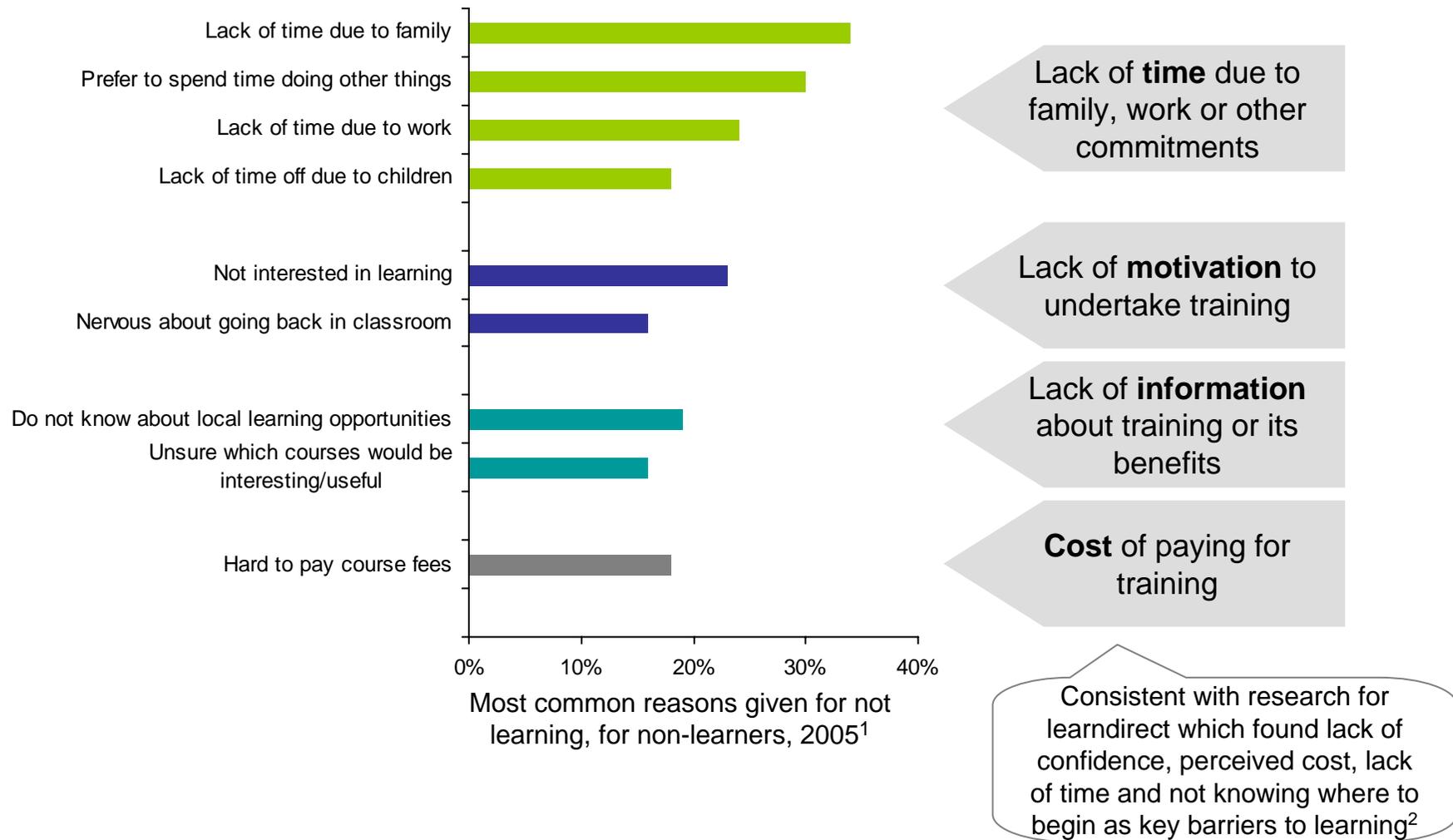
(1) Jenkins et al (2007) The returns to qualifications in England; (2) Dearden et al (2005) The impact of training on productivity and wages; (3) O'Mahony, and de Boer; (2002) Britain's Relative Productivity Performance: Updates to 1999; (4) Eurostat (2002) CVTS2; (5) OCED (2007) Education at a glance

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

	Possible barriers	Description
Why do <u>individuals</u> not invest in training?	Time	<ul style="list-style-type: none"> Individuals may find it difficult to balance training with other responsibilities/commitments in their lives
	Motivation/ Attitudes	<ul style="list-style-type: none"> Many lack motivation or think training is not relevant to them, possibly due to poor earlier experiences of education
	Information	<ul style="list-style-type: none"> Individuals may not be aware of opportunities for training or be able to calculate the likely returns
	Cost	<ul style="list-style-type: none"> Individuals may not be able to afford training/cost of income foregone. Returns to training may not appear cost effective
Why do <u>firms</u> not invest in training?	Market failures	<ul style="list-style-type: none"> There may be market failures limiting employers' demand for skills
	Small firms	<ul style="list-style-type: none"> Small firms face higher costs of training due to scale and may therefore be less likely to train their employees
	Sectoral issues	<ul style="list-style-type: none"> Employees in certain sectors – particularly the public sector – are more likely to receive training

➤ 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

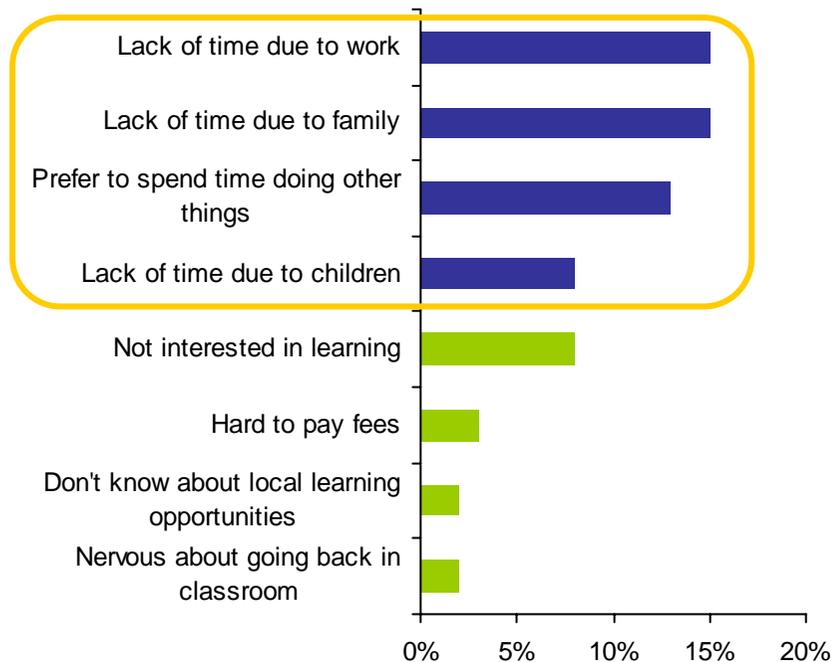


(1) NCSR (2006) National Adults Learning Survey, 2005, DfES rr815; (2) DIUS analysis

Balancing commitments to work and family is the most frequently cited barrier to training

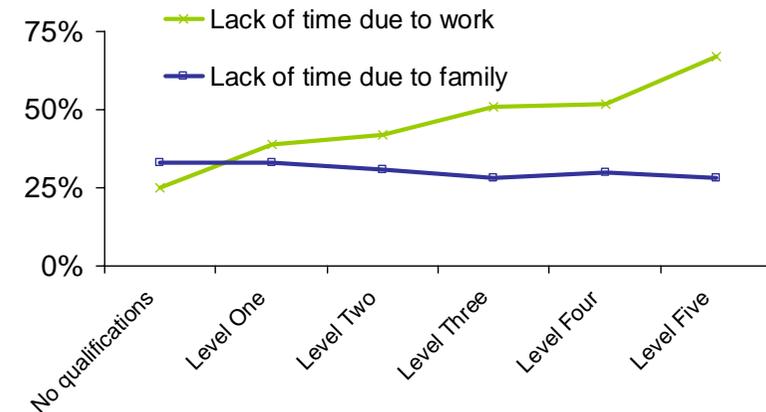
Time constraints most frequently cited as barriers to training

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



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

% reporting specific barriers to learning, 2005¹



Time constraints

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

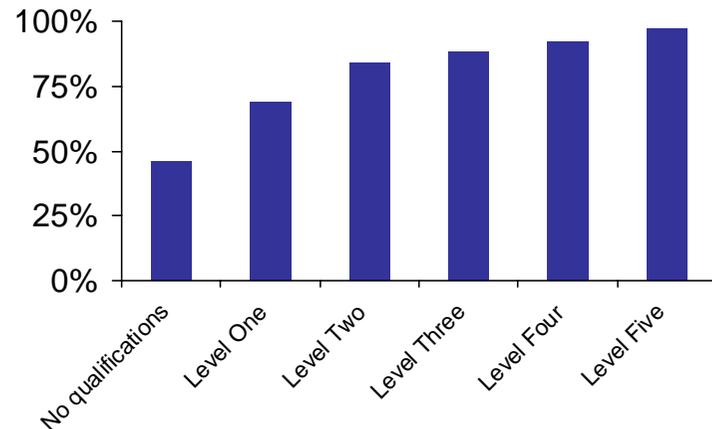
➤ **Is there scope for further increasing the flexibility of our training provision and extending support to help people overcome wider barriers currently limiting advancement in their careers?**

(1) NCSR (2006) National Adults Learning Survey, 2005, DfES rr815

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

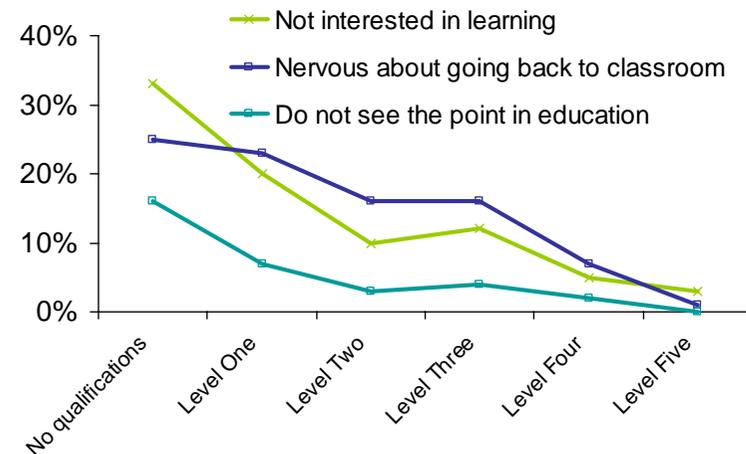
Those with no/lower qualifications have a reduced propensity to learn

% reporting learning in last three years by highest qualification, 2005¹



Motivational factors explain some of the variation in participation in training

% reporting barriers to learning by highest qualification, 2005¹



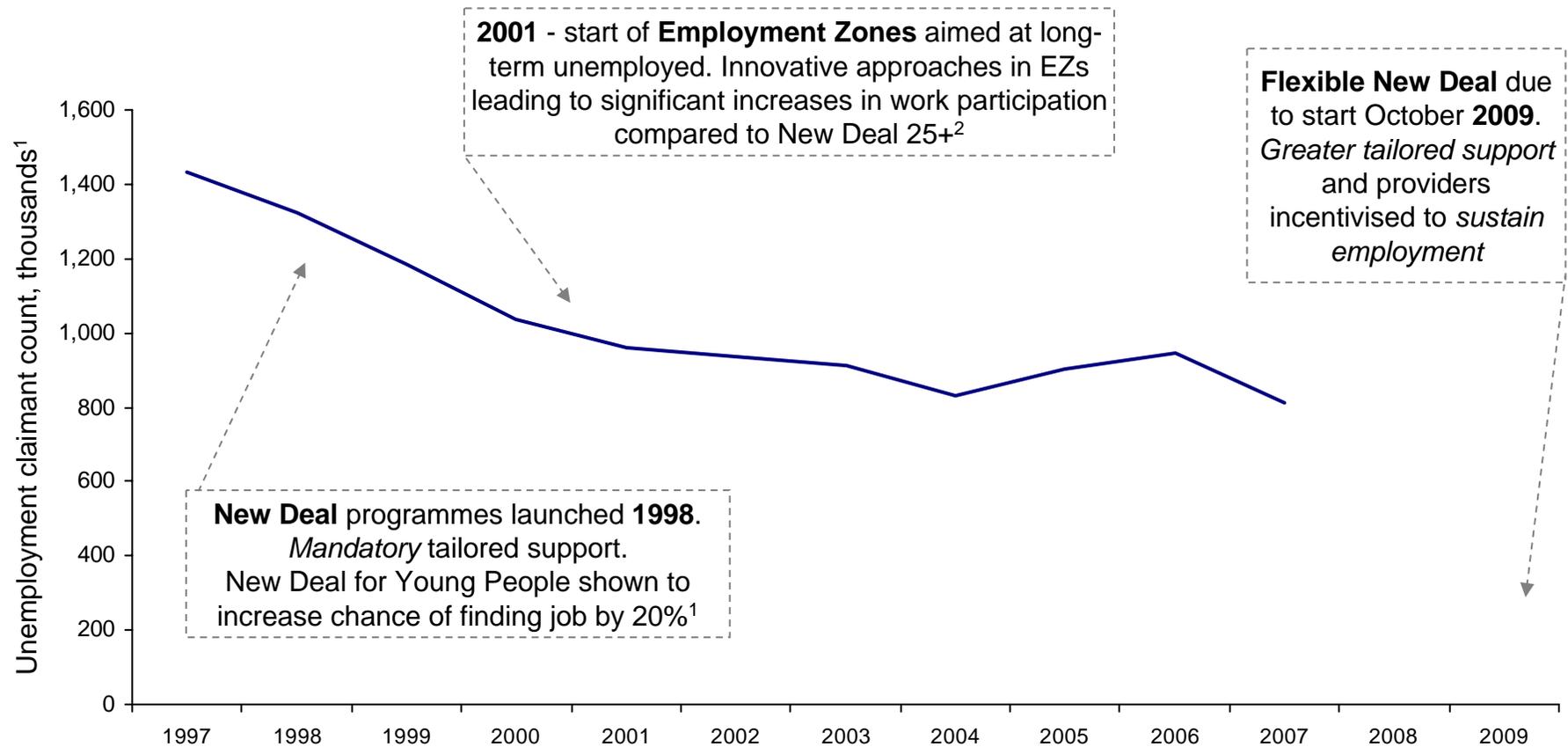
Motivation to develop skills is a particular issue for those with poor prior experiences of education

- Low participation in training is often associated with poor earlier experiences of education and training². Rates of participation in training are lower for those with fewer years in full-time continuous education¹
- **Can lessons from active welfare policies be applied to raise the skills of those in-work, particularly for those with no/low qualifications?**

(1) NCSR (2006) National Adults Learning Survey, 2005, DfES rr815; (2) PIU (2002) In demand, Adult Skills in the 21st century

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



(1) DWP (2007) Transforming Britain's Labour market, Ten years of the New Deal; (2) NSCR (2003) Evaluation of employment zones

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

	Workless	In sustained employment	Progressing in work
Target groups	Lone parents claiming Income Support on NDLP ¹ JSA customers on ND25+	Lone parents working part-time and receiving Working Tax Credit	
Programme	Up to 9 months pre-employment support aligned with New Deal interventions	In-work advisory support and access to discretionary payments to help transition and improve job security ² Retention bonus for staying in-work 13 out of 17 weeks – available up to six times	Payment of tuition fees and training bonus for completing training while employed
Impacts after first year	Reductions in benefit claims for both new deal groups NDLP 4 percentage points less likely to receive IS, ND25+ 5pp less likely to receive JSA	29% increase in earnings for NDLP group, with 7pp increase in likelihood of working full time Smaller effects on earnings for WTC/ND25+ groups	Increase in likelihood of combining training/education with employment. 14pp increase for lone parents on WTC, 5pp for NDLP customers, 3pp for ND25+

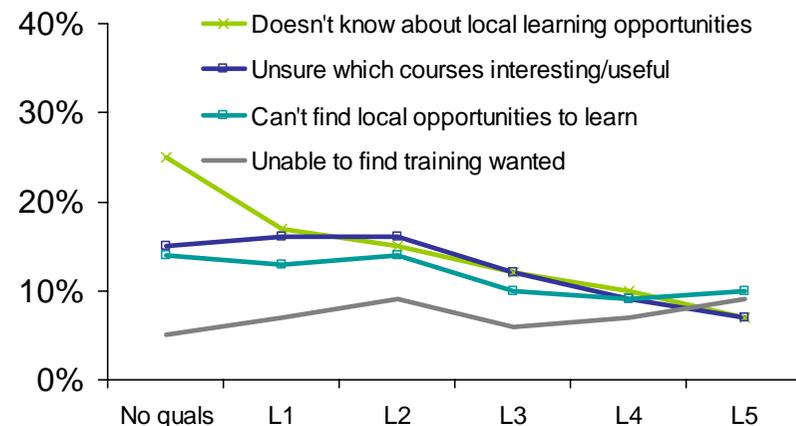
➤ **How can we extend active policies to encourage those in work to up-skill and re-skill?**

(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

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, 2005¹



Around 1 in 5 non-learners cite lack of information as a barrier to training¹

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 returns²
- However, available information on returns from training is **difficult to interpret**³
 - returns to different qualifications vary considerably, particularly for lower level vocational qualifications
 - information is retrospective and typically presented as averages hiding significant variations

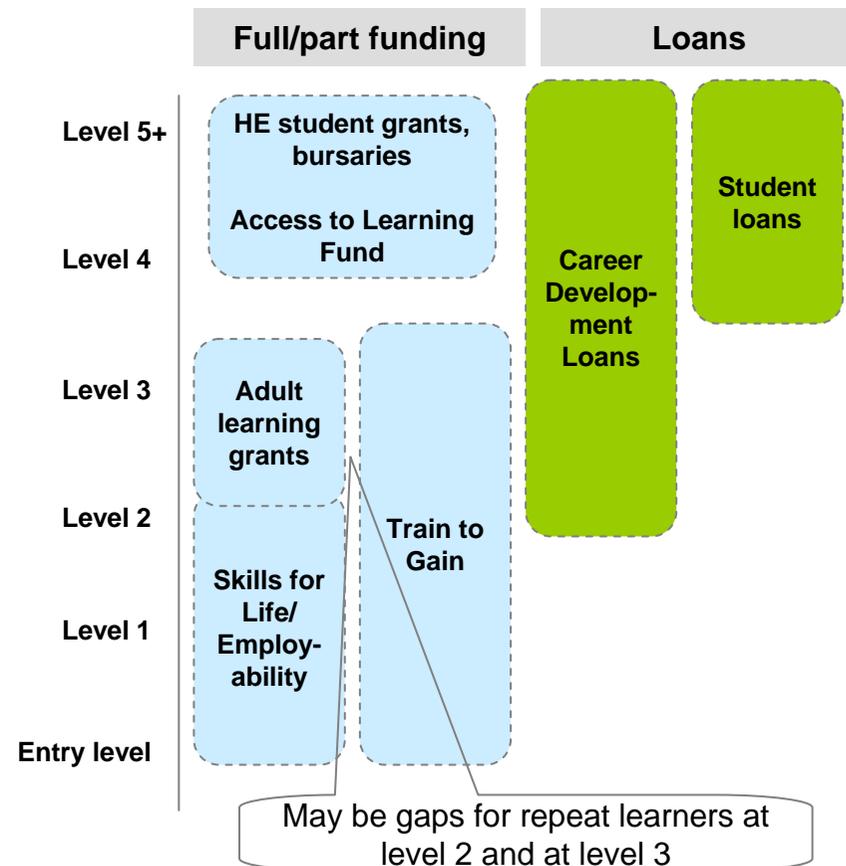
(1) NCSR (2006) National Adults Learning Survey, 2005, DfES rr815; (2) Keep (2006), Market failure in skills; (3) NSTF research referenced in 'In demand, PIU (2002) Adult Skills in the 21st century

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 training¹
 - However, a number of funding/loan schemes already exist
- **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



(1) DfES (2005) National Adults Learning Survey, DfES rr815; (2) Keep (2006) Market failure in skills

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

Possible barriers

Hypothesis

Empirical evidence

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

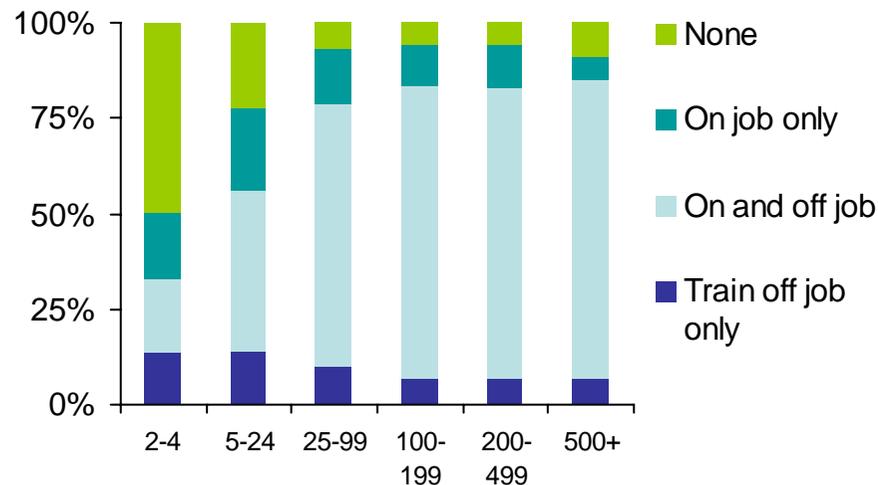
➤ **There is limited evidence that systematic market failures exist, but individuals in some parts of the labour market are less likely to receive training**

(1) Booth and Snower (1995) Acquiring skills; (2) LSC (2006) National Employers Skills Survey 2005; (3) Keep (2006) Market failure in skills, SSDA Catalyst; (4) Ananiadou et al (2003); (5) Barron et al 1999; (6) Leitch (2005) The Leitch review of skills – interim report

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, 2005¹



Scale may limit training undertaken by SMEs

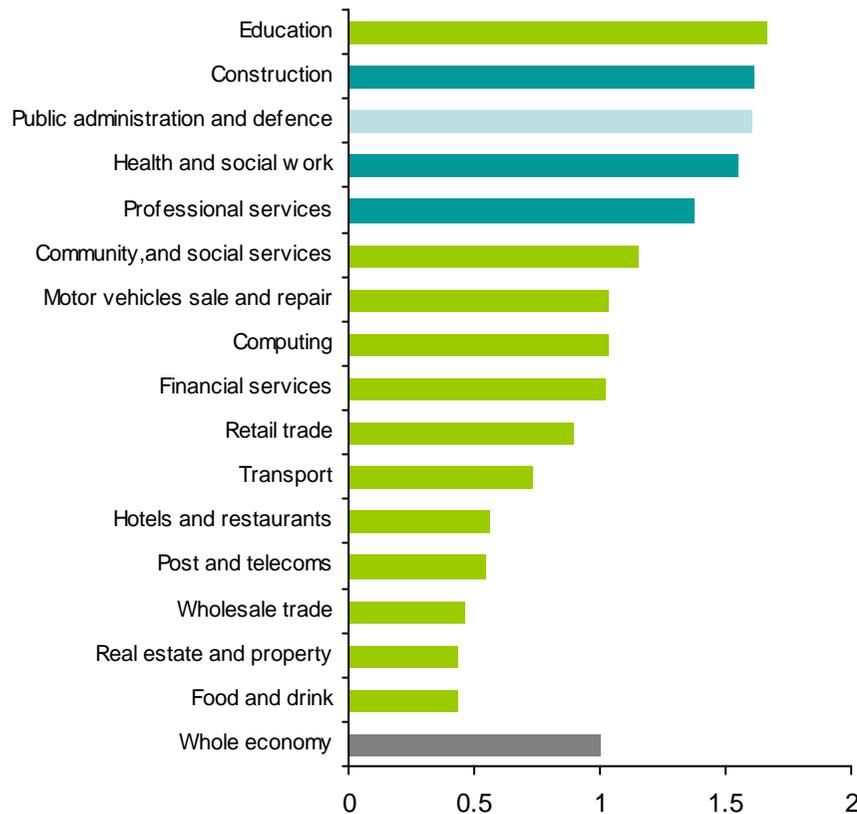
- Training costs £2,500 per trainee on average, and is more expensive for SMEs, at £5,650 for companies employing 2-4 people, and £3,220 for employers with 4-24 staff¹
- Only 20% of employers with 2-4 staff have training budgets, as opposed to around 90% of those employing 100+ people¹
- A smaller proportion 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+)¹
- Under new plans for apprenticeships, larger firms are being encouraged to train an excess of apprentices to support SMEs²

(1) LSC (2006) National Employers Skills Survey; (2) DIUS (2008) Apprenticeships Review

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

(1) Analysis of SSDA (2007) The Sector Skills Almanac, cited in Ross (forthcoming) LSE; (2) LSC (2006) National Employers Skills Survey 2005

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

	UK examples	Evidence of impact	Usage
Exhortation	<ul style="list-style-type: none"> • Skills pledge • Sector Skills Councils • Business Links 	<ul style="list-style-type: none"> • To-date over 1,200 employers have committed to the skills pledge¹ • Referrals for skills training via Business Links (accounts for 10% of TtG referrals)¹ 	Current UK policy focus
Subsidy or state substitution	<ul style="list-style-type: none"> • Train to Gain (TtG) 	<ul style="list-style-type: none"> • TtG: Employer satisfaction currently 85-86%¹ 	Current UK policy focus
‘Property rights’	<ul style="list-style-type: none"> • Employers able to reclaim investment if trainee leaves firm (e.g. law firms or employer-funded MBAs) 	<ul style="list-style-type: none"> • 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’	<ul style="list-style-type: none"> • Construction levy, film industry levy, National Skills Academies 	<ul style="list-style-type: none"> • 76% of employers reported the levy-grant system in construction as important for maintaining the level and quality of training in the industry² 	In some sectors and growing
Regulation and institutions	<ul style="list-style-type: none"> • Licence to practise in law, medicine, nuclear industry, social care 	<ul style="list-style-type: none"> • The requirement to have an NVQ2 in Social Care to work in the sector has led to an increase in training effort³ 	In some areas of the UK

➤ **Going forward, the UK Commission for Employment and Skills will review the case for statutory collective measures to support employer investment in training**

(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

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