

# Skills in a global economy



**Chris Humphries**

## Introduction

Over the last 10 years, workforce skills have become increasingly important on government agendas around the world, as the realities of global competition have become clearer. Every nation now needs to be certain of where its strengths and unique opportunities for economic growth and security lie, and the challenge is for both developed and developing countries to find their place in a world in which the rules are rapidly changing.

At an international level we must strive to ensure that all nations are helped to benefit. At a national level, governments must ensure that the benefits of a strong economy can be accessed by the population as a whole, narrowing the gap between rich and poor.

## Omnipresent change

The drivers of economic change are many and they interact in complex ways, with countries at different starting points and with varying natural, economic and social strengths and weaknesses.

Each nation must understand its own position on the spectrum of change relating to each of the drivers. The crucial message is that the pace of change in different nations is extremely varied, as is their position in the change cycle.

Change is not just restricted to the political, technological and social arenas. Work and occupations are changing too. We cannot ignore these changes. In the UK we must raise our game, using advanced knowledge and innovation to add value and build a skills intensive, high added value economy.

## Skills matter

In a carefully controlled study (Barnes and Haskel, 2000), researchers found that doubling the ratio of high-skilled to low-skilled staff in UK manufacturing plants moved them from the lowest to the highest productivity quartile.

Further evidence of the crucial importance of skills can be found in KPMG's 2002 *Competitive Alternatives Report*, which asked all the significant multinational inward investors what factors they prioritised when they were deciding where to locate. The message was quite clear: availability of skilled labour was at the top of the list (Figure 1).

## The aging workforce

The UK workforce itself is going through a period of unprecedented evolution. The traditional workforce structure – with progressively fewer older workers – is becoming inverted, with fewer young people entering the workforce, so that by 2020 older workers will form the largest segment of employees.

## Industry and occupational change

Much of the impact of technological innovation over the last 20 years has been to change fundamentally the balance of industry and occupations that make up the economic landscape in developed countries.

Growth in the UK has been strongest in business services, followed closely by non-marketed (primarily public) services. Employment in engineering and manufacturing has declined (although these sectors still provide over 3,000,000 jobs) and employment in the construction industry has remained broadly constant (Figure 2).

The balance of occupations is undoubtedly changing over time, but there will be both a need for, and significant opportunities in, the widest spectrum of occupations for many years to come.

## The challenge of adult skills

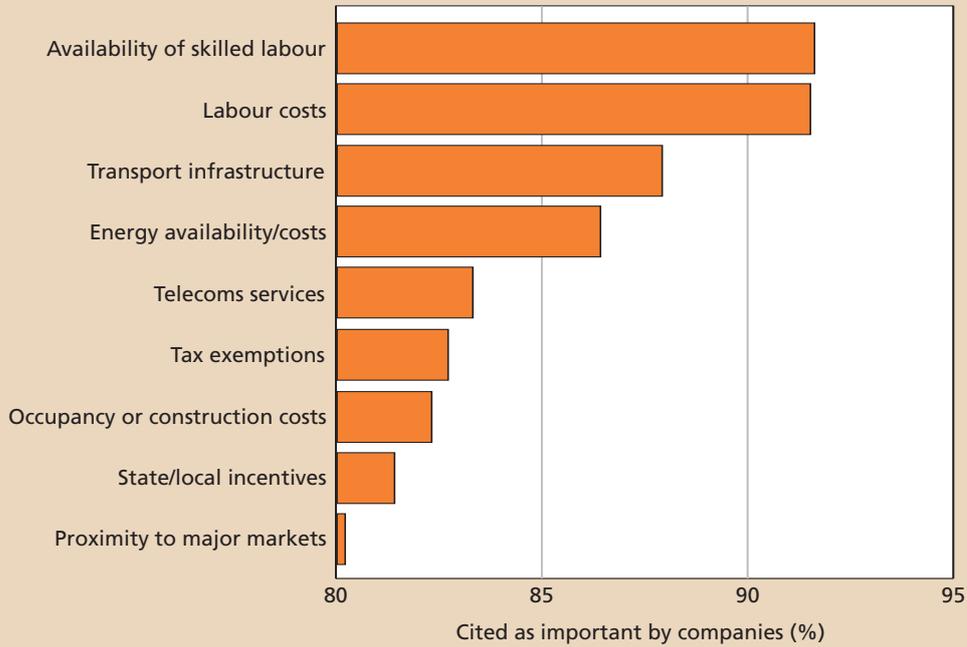
Our dependence on the skills of those adults who are already in the UK workforce is increasing rapidly, but just how good are the skills of our working-age adult population?

The short answer to this question is – not good! The latest (2005) OECD data show that the UK falls into the lower half of a listing of OECD countries ranked by the level of attainment (in terms of highest qualification held) of adults of working age.

Forecasts by business bodies like the Confederation of British Industry (CBI) suggest that by 2012 up to 75% of jobs are likely to require skills to at least Level 3: only 50% of the 2004 workforce had attained that level. This suggests that the skill level reached by 25% of the workforce – or 7 million people – needs to be raised from Level 2 (or lower) to Level 3 within the next seven years.

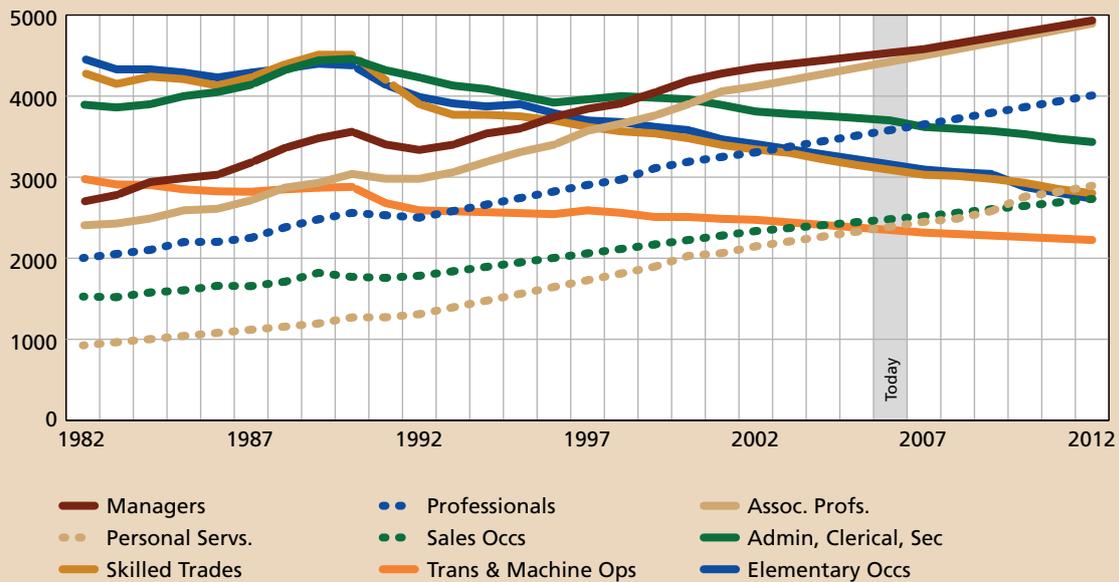


**Figure 1** Key factors for global inward investors



Source: KPMG Competitive Alternatives Report, 2002

**Figure 2** UK occupational trends 1982–2012



Source: DfES, Working Futures, National Report 2003-04, IER, 2004

**Figure 3** Hourly pay of adults by highest qualification



Source: *Skills in the Global Economy, HM Treasury, 2005, p11, derived from Labour Force Survey, Winter 2003*

### Engaging adults in learning

It is extremely difficult to raise the skill levels of adults of working age without their willing and active participation. The need to convince employees that learning is 'worth it' is as great as the need to convince employers that skills are assets worthy of investment, and are not just costs.

But learning does pay! The return to adults participating in formal learning in terms of hourly pay is significant and progressive, particularly as skill levels rise above the effective 'entry level' for employment (Level 2) (Figure 3).

### The employers' perspective

The last ten years has seen much debate over the balance in employers' requirements between technically specific occupational skills and generic employability skills.

The National Employer Skills Survey (a comprehensive survey involving 74,000 interviews with employers of different sizes across different localities in England) consistently carries a very clear message: generic skills are important, but the biggest skills shortage is of specific technical occupational skills. Employability skills are necessary, but not sufficient, for employer competitiveness.

### Implications for individuals and employers

The demographic trend across Europe will soon position young people in a sellers' market where they can potentially command recruitment premiums. The majority of vacancies in the labour market will have to be filled by persuading currently unemployed or non-employed adults to enter or re-enter the labour force.

Both young people and mobile adults will require access to reliable labour market information that properly identifies future

employment opportunities if they are to make informed choices and if, as a nation, we are to minimise skills shortages.

Employers too will face continuing challenges on skills, as the pace of technological and business change increases relentlessly. Companies in the developed world will have little choice but to compete on the basis of productivity, innovation, value added and responsiveness to market challenges.

The skill levels required for employment will continue to rise, while the flow of new skills and the extent to which skills will be provided by young recruits will diminish.

### Implications for nations

The success of national economies will depend on the productivity and competitiveness of their firms, and this in turn will be advanced or retarded by the skills of their peoples. Nations will fundamentally continue to compete on the basis of the strengths and weaknesses of their education systems, which must ensure not only that their young people achieve a sound foundation of learning for work and adult life, but that their adult workforce has continuing opportunities to develop and adapt their skills.

### Potential barriers to success

Merely advocating that UK businesses raise their game in the face of global competition will not produce change, and insufficient business ambition to move 'up market' will dramatically impede progress (Figure 4).

The majority of employers still see skills and training as costs to be reduced, rather than as assets which create genuine competitive advantage. Government too treats training as a cost in its tax treatment of corporate investment in skills and its removal of earlier tax incentives for individual investment in training and education.



## Figure 4 Potential barriers to success

- Insufficient business ambition for high value added
- Employers/government see skills as costs, not assets
- Failure to engage (all) adults in lifelong learning – and address basic skills shortfalls to enable participation
- Continuing narrow-minded academic bias and elitism
- Lack of portability of skills and qualifications
- ‘Asset poaching’ and a low skilled underclass – importing skills from developing countries
- Belief in the zero-sum game

Despite the growing requirement for a balanced workforce, public opinion in Britain still assigns low status and respect to practical learning and to vocational skills and occupations.

It is often suggested that the answer to our skills challenges lies in immigration, particularly from less developed countries. The problem with such a policy is that it increases the potential for high levels of social exclusion by blocking future work opportunities for low-skilled adults.

It is essential that policies and strategies devised to address the challenge of providing an adequate skilled workforce in the UK recognise and address the impact of these barriers to success.

### Priority initiatives for success

The following proposals may help the UK to anticipate and respond to the challenges that lie ahead and to ensure a secure future for our people, our businesses and our economy.

#### Tripartite responsibility for skills

The government should ensure that everyone has an equal opportunity to achieve a minimum foundation of learning. The state, employers and individuals should all contribute to the costs of lifelong learning in proportions commensurate with the benefits gained. A formal policy needs to be developed and agreed with employers and trade unions which sets out who should bear what share of costs for learning at the different levels and stages of working life.

#### Public funding prioritised to utility

The principle behind the use of public funding for most non-educational purposes is clear – the state should invest in such a way as to maximise the return to the nation from such investment. If higher productivity and competitiveness are key national goals, and if learning and skills are a key tool in achieving them, then public funding should be more clearly targeted on skills for employment, and the public subsidy in other, lower priority learning areas should be reduced as necessary to support that.

### Maximising youth success

The secondary school system should be fundamentally restructured to serve the needs of all young people, not just the academically able, and to separate university recruitment from the school assessment regime.

The full Tomlinson proposals, abolishing GCSEs and A levels, and offering a broader education across the full spectrum of general and vocational provision, should be fully implemented for all young people.

### Sectoral action with employers

It is increasingly clear that good Sector Skills Councils (SSCs) can have transformational effects. Many are already strongly engaged with the leading businesses in their sectors, developing skills foresight programmes, supporting employers in moving towards leading edge practice in training and development, and helping to devise new occupational standards and qualifications that are fit for the twenty-first century.

The coverage of all key sectors with highly capable and successful SSCs must be completed so that all employers can be helped to improve.

### Cluster programmes for small and medium enterprises

The skill levels of staff in smaller firms are significantly lower than those working in larger organisations. The skills challenges faced by workers in smaller firms are often greater; there are far more of such firms and they are difficult to reach.

The answer appears to lie in clusters. Many small firms can be reached collectively through carefully designed cluster initiatives (based geographically or via supply chains), bringing together local and sectoral organisations through effective partnership working.

### Reporting, incentives and employers

The UK needs to begin to change businesses’ perception of training from being a cost to being an asset.

The Treasury should work with the CBI, SSCs, the accountancy profession and other business organisations to investigate options for new reporting standards, tax schemes and incentives, and other mechanisms that can assist with repositioning skills as key assets in the corporate environment.

### Labour market information and guidance

The UK needs a much more effective, well informed and professional careers information, advice and guidance service, supported by a national interactive website of diagnostic, informational and advisory functions that makes all-age support nationally available.

Such a system should provide a key background information service to support locally tailored and locally based adult information, guidance and counselling support where required.

### Entitlements and skills priorities

The government should ensure that all citizens have equal opportunities to obtain a minimum foundation of learning that will ensure their future employability. It should also provide an entitlement for all young people to fully funded Level 3 training up to the age of 25, either through college courses, training providers or apprenticeships.

Beyond those entitlements, employers and adults should normally be expected to contribute to the costs of learning in a way that links their level of investment to the level of benefit received.

### 'Licences to practise'

All crafts and trades in the UK that impact upon public health and safety, or upon consumer protection and confidence, should be regulated through 'licence to practise' schemes. Evidence from around the world demonstrates that such schemes raise skill levels, increase respect for the occupations, improve quality and workmanship, and increase public confidence.

### Individual learning accounts

Individuals should be able to pursue learning when the time is right for them, and be able to locate the resources to support such learning when necessary.

An Individual Learning Account would entitle each citizen to so many hours of publicly funded learning throughout their lifetime, provide the capacity to save tax free for learning in the future and offer deferred borrowing on advantageous terms.

### Conclusion

The skills challenges facing the UK are increasingly understood. What is certain is that a policy of 'more of the same', or even of slow evolutionary improvements, will not produce the radical change in skills and productivity that is essential for the UK's continuing economic competitiveness and for ensuring a more inclusive society.

We must recognise the value of high level, high quality skills to our economy and our people, raise our sights beyond competence to excellence, celebrate and reward excellence in

skills and training, and re-establish the UK as a nation where the whole workforce is renowned for being genuinely world class.

The time is right for another step-change in policy and strategy, building on recent success, but with renewed innovation, energy, focus and commitment. I hope the proposals outlined here will contribute to making that step-change a substantial and successful one.

*For a copy of the full version of this report, first published in January 2006, please contact [skills@cityandguilds.com](mailto:skills@cityandguilds.com)*

### References

Barnes & Haskel (2000). In: *Developing Workforce Skills*. HM Treasury, 2002.  
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### Biographical notes

**Chris Humphries** was appointed Director General of the City and Guilds of London Institute, the UK's oldest and leading awarding body for Vocational Qualifications, in 2001.

This appointment followed high profile roles as Director General of the British Chambers of Commerce (1998–2001) and Chief Executive of the Training and Enterprise Council (TEC) National Council (1994–1998). Other recent positions include Chief Executive of the Hertfordshire TEC and Assistant Director of the UK's Council for Educational Technology. Chris has also worked in the private sector.

Over the last 20 years, Chris has worked with the UK government as an adviser on a wide variety of training projects, including the Open Tech Project, the Training Access Points system, the Prospects careers guidance system and other public projects, all aiming to harness the potential of new technologies in education and training.