

Skills for the 21st Century

**Presentation at a conference to celebrate the 25th
Anniversary of the establishment of the Institute
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Major challenges

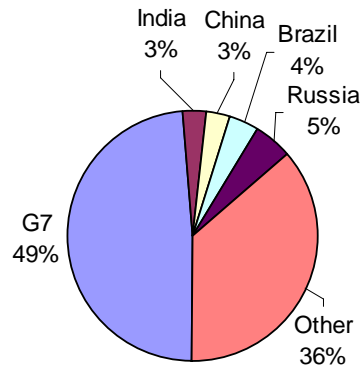
- **Productivity and competitiveness:**
 - Intensifying competition in the provision of goods and services
 - Need to keep improving productivity
 - Still a gap in productivity levels and growth rates
 - Skills are one of the keys to maintaining growth and prosperity
- **Social Exclusion:**
 - Much recent growth has been polarized in its benefits
 - Major risks of social division and exclusion
 - Skills are also a key factor in avoiding social exclusion and division

Global shifts: a smaller, “flatter” world?

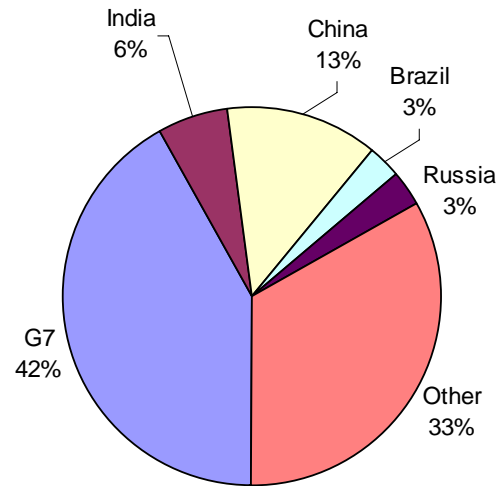
- The growing economic power of China and India
– ability to compete across the board
- Shifts in employment structure by sector and by occupation
- Skills at a premium (at all levels)

Changing balance in the world economy

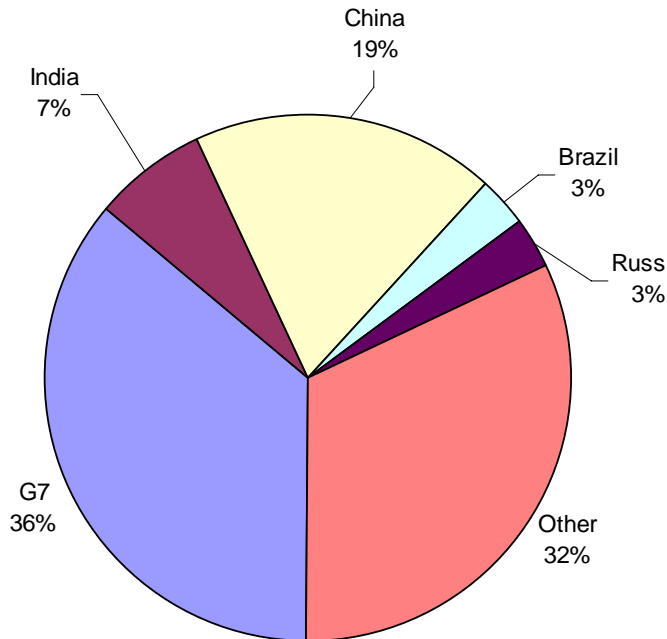
Shifting shares in global output
(Purchasing power parity)



1980



2004



2015

Areas indicate size of global economy.
Source: IMF, Consensus Forecasts, HM Treasury.

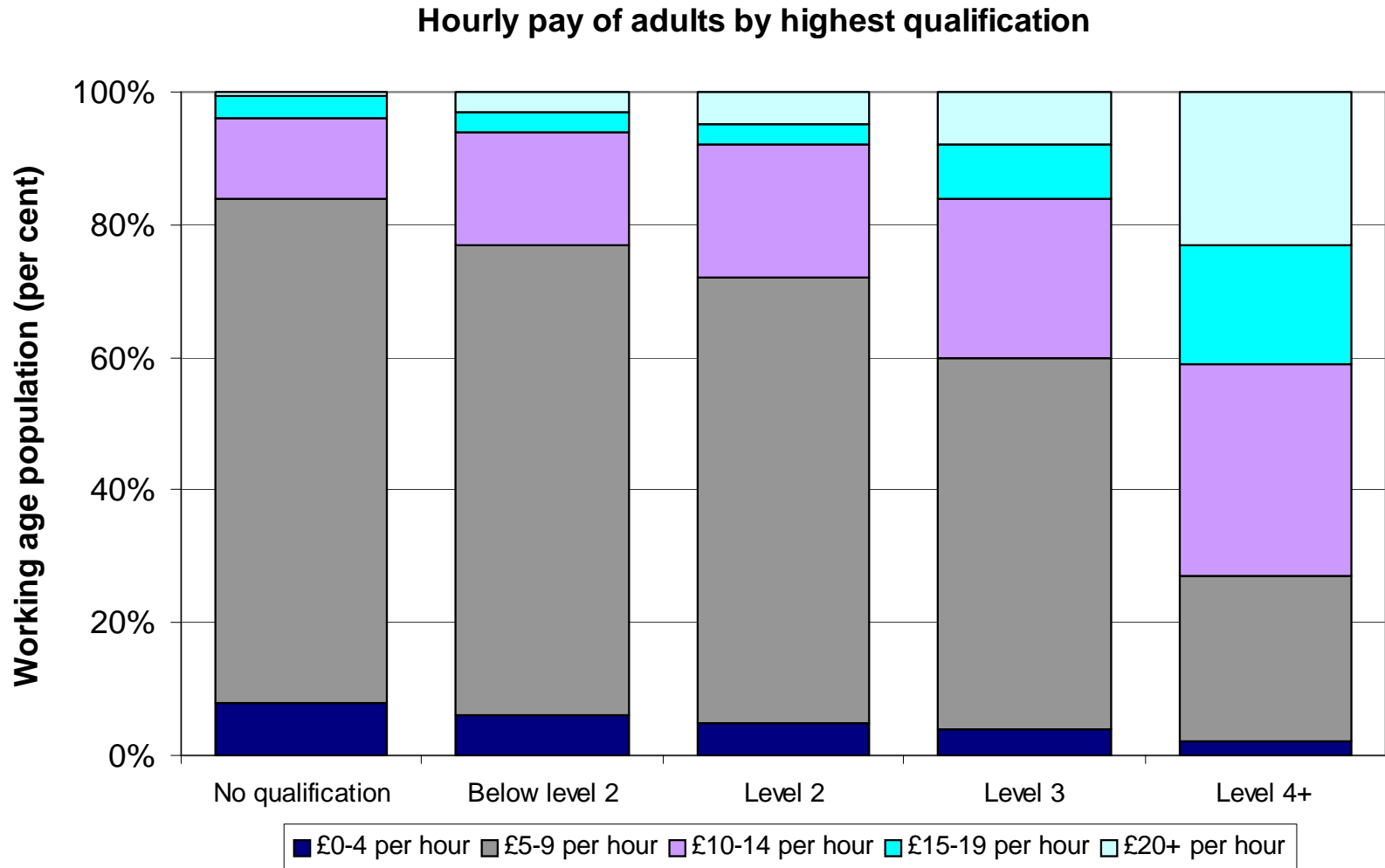
The demographic challenge:

- Increase in the average age of the population and workforce
- Falling numbers of young new entrants from the domestic population
- But migration flows rising

Why skills matter

- Individuals – improved pay and increased probability of employment
- Employers – greater productivity, higher profits and improved share prices
- Society - social cohesion
- The State - productivity and growth
- **BUT** skills are not a panacea and investing in the wrong areas can be costly

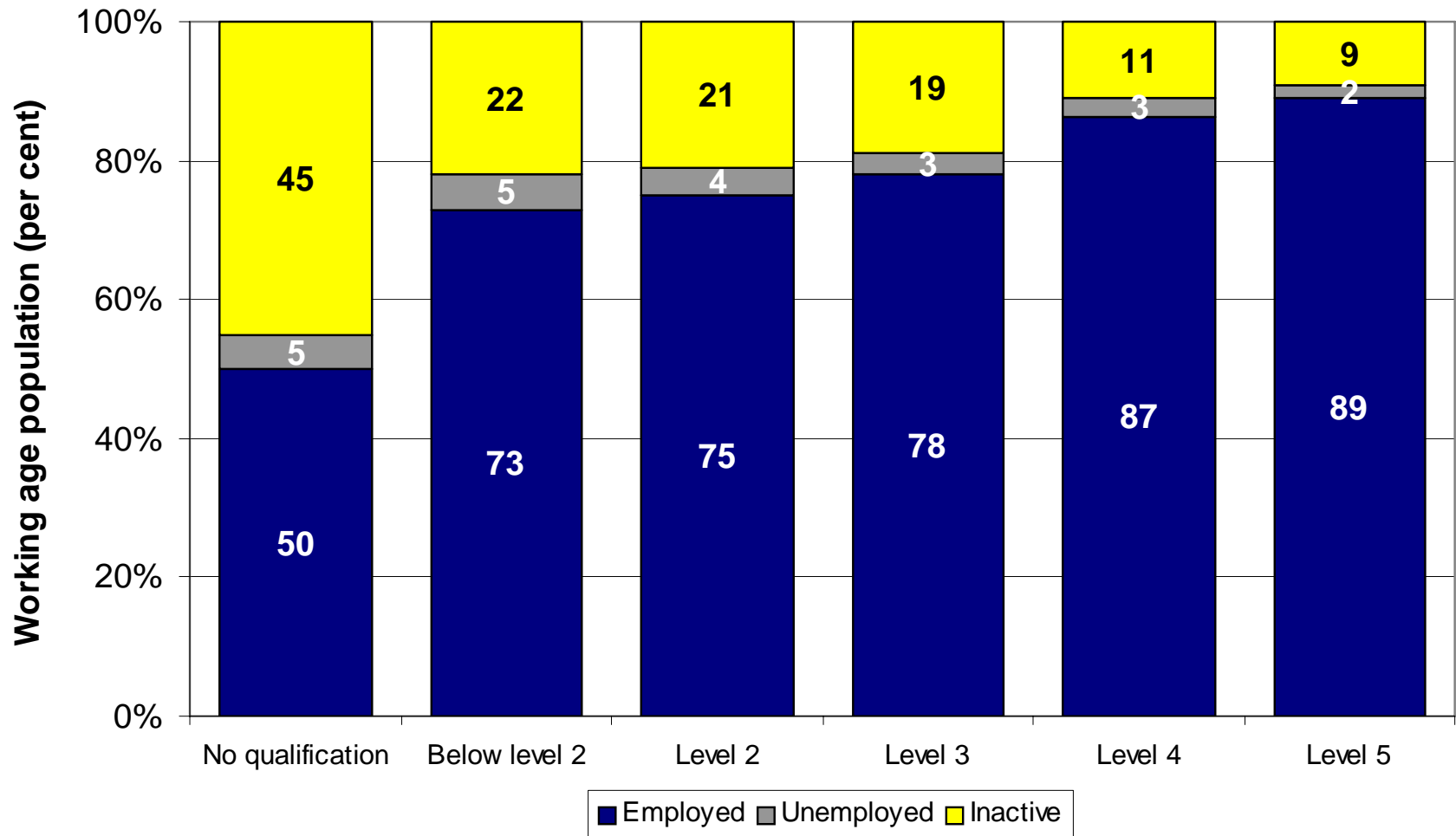
Higher pay



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

Social inclusion

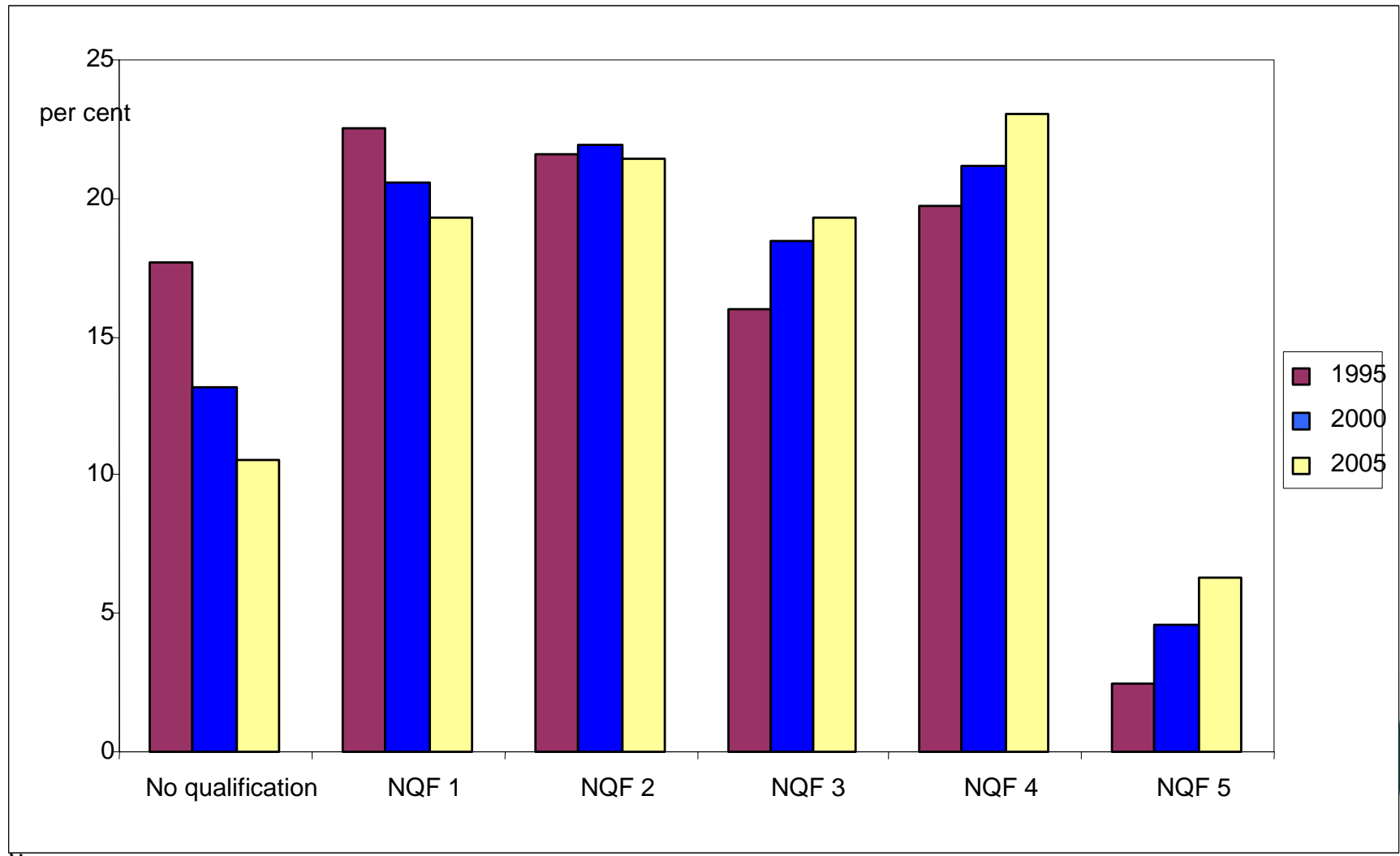
Economic activity by highest qualification, 2004



Skills are also crucial to employers:

- Higher productivity
- Attractive for investors
- Improving shareholder value
- and to competitiveness

The supply of skills is improving -an increasingly well qualified workforce



But significant problems remain

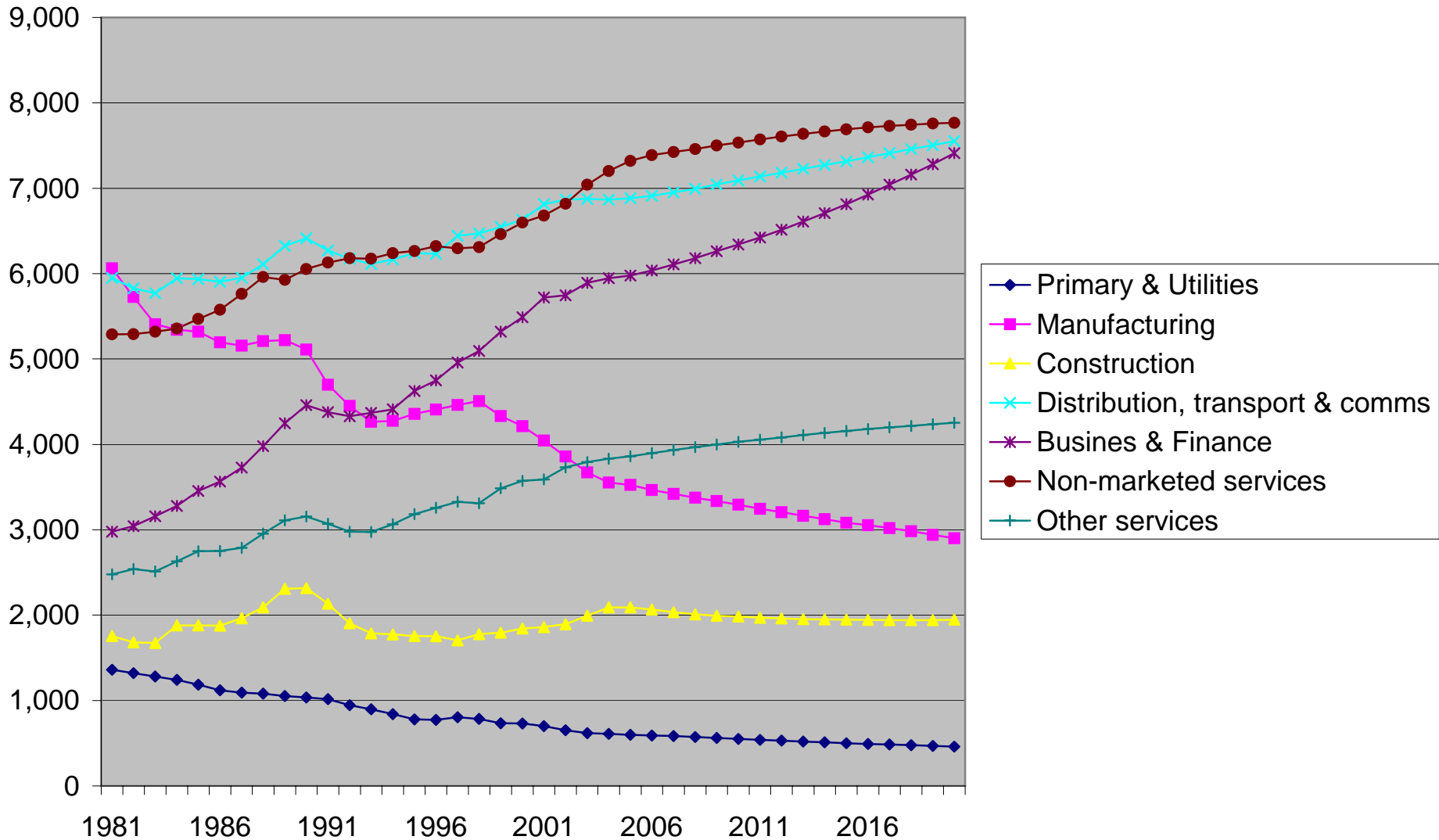
- **Leitch emphasises:**

- Still many with no formal qualifications
- Low levels of literacy and numeracy are still a major issue
- Poor international rankings, high proportion of unskilled adults

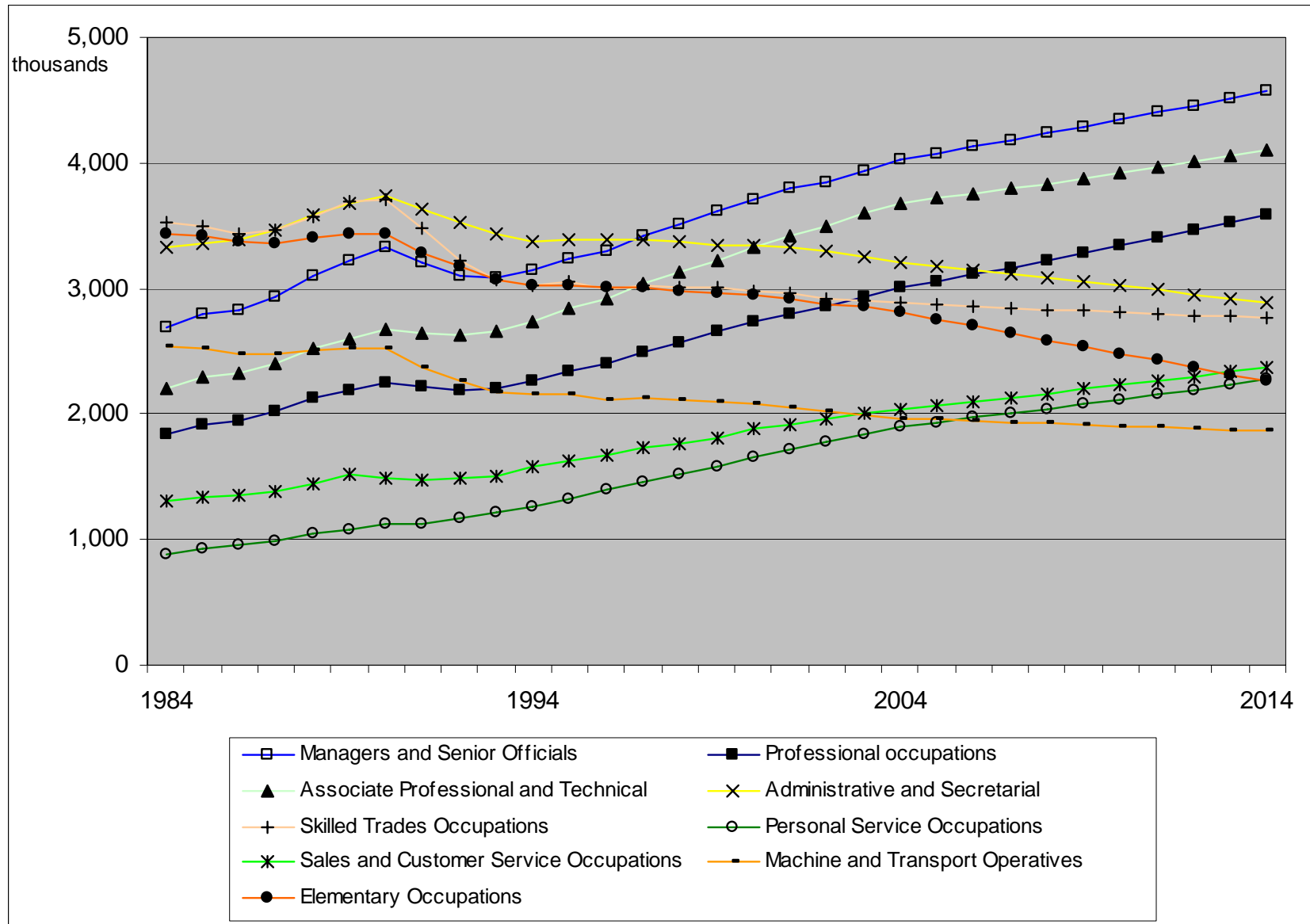
- **Need to improve:**

- Basic skills
- generic & transferable skills
- Maths. & science
- Intermediate & technical
- Higher level skills

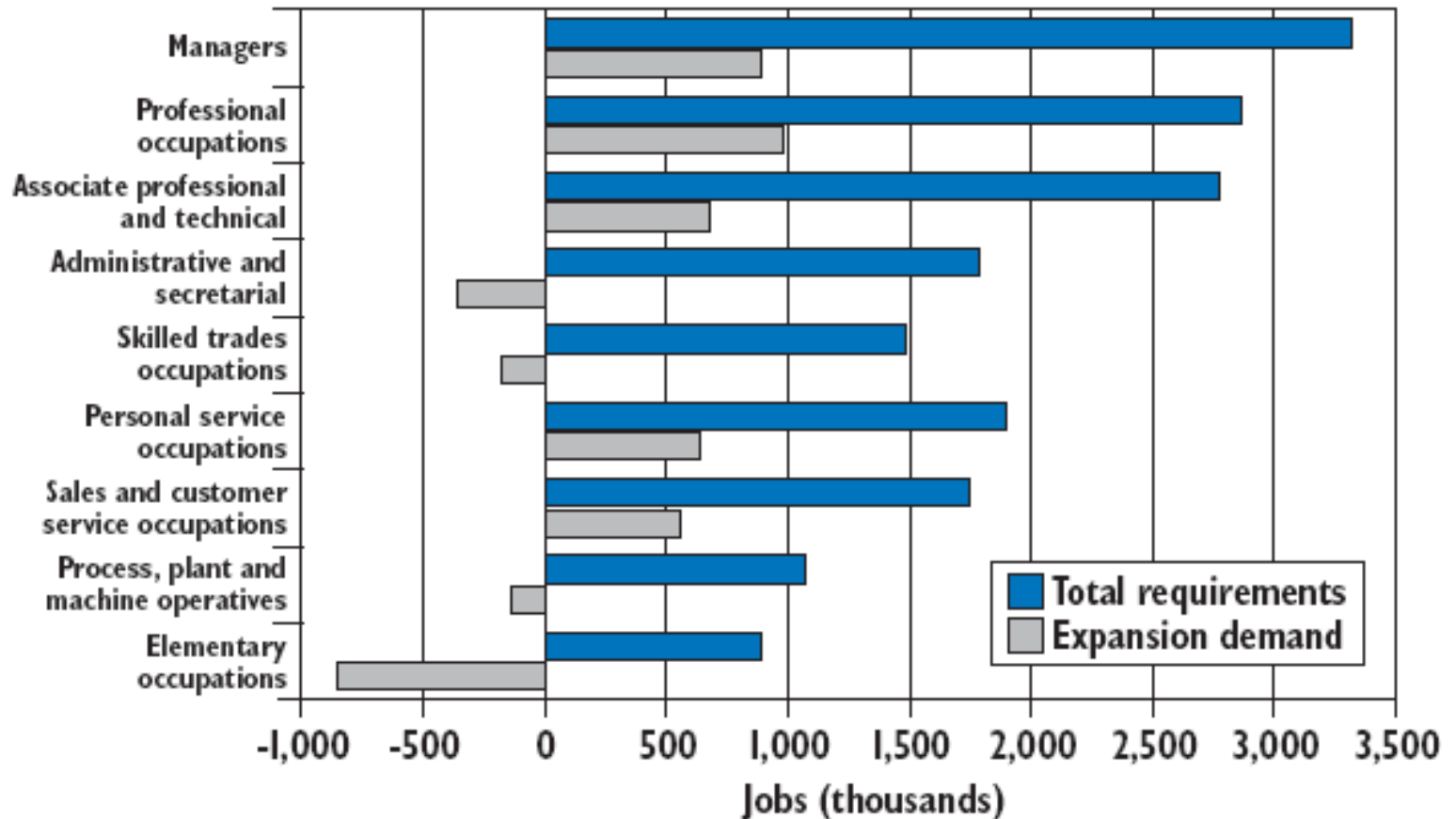
Past and Future trends by Sector



Past & Future trends by occupation



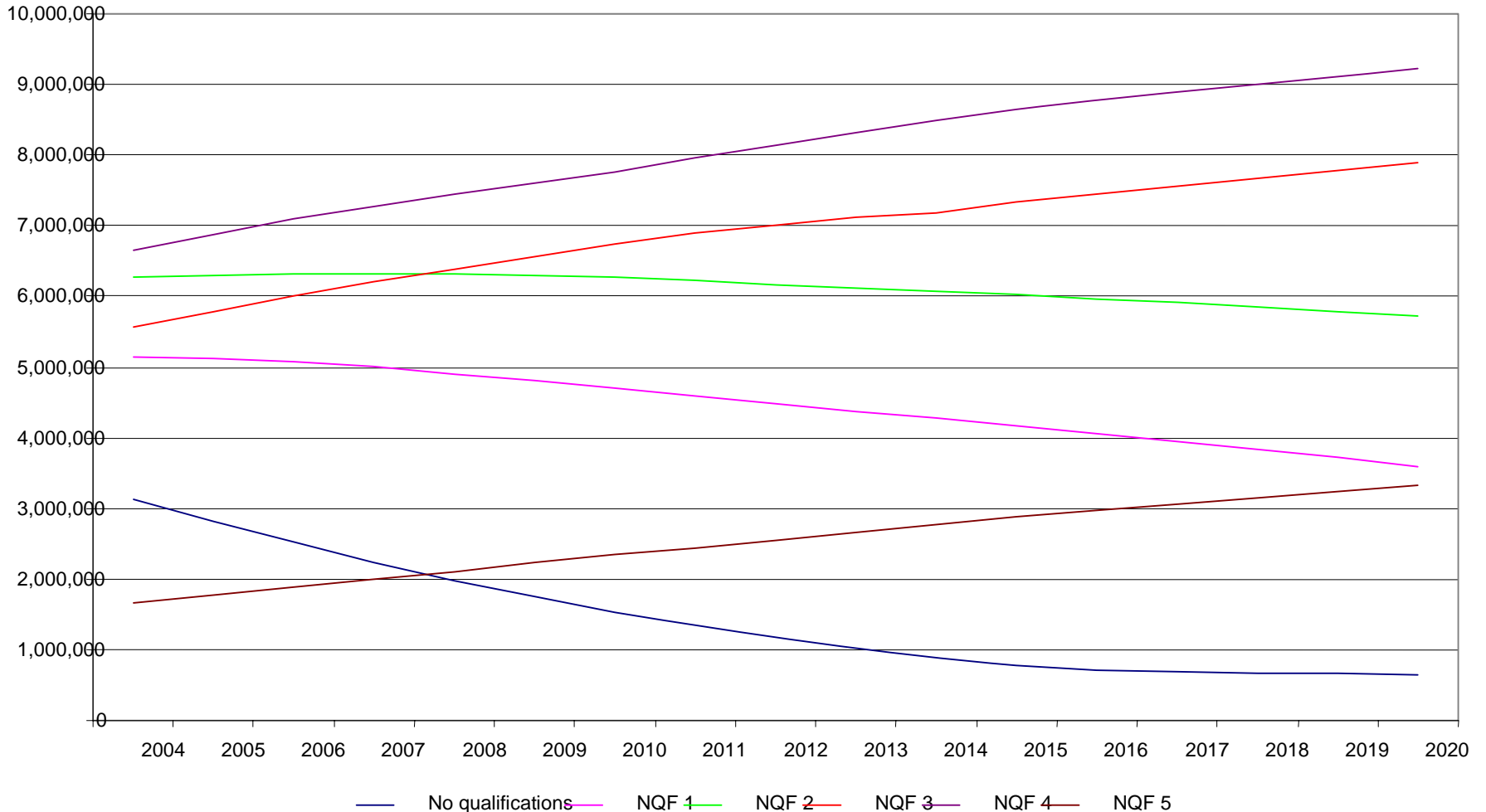
Projections of occupational change and replacement demands



Source: CEIR employment projections

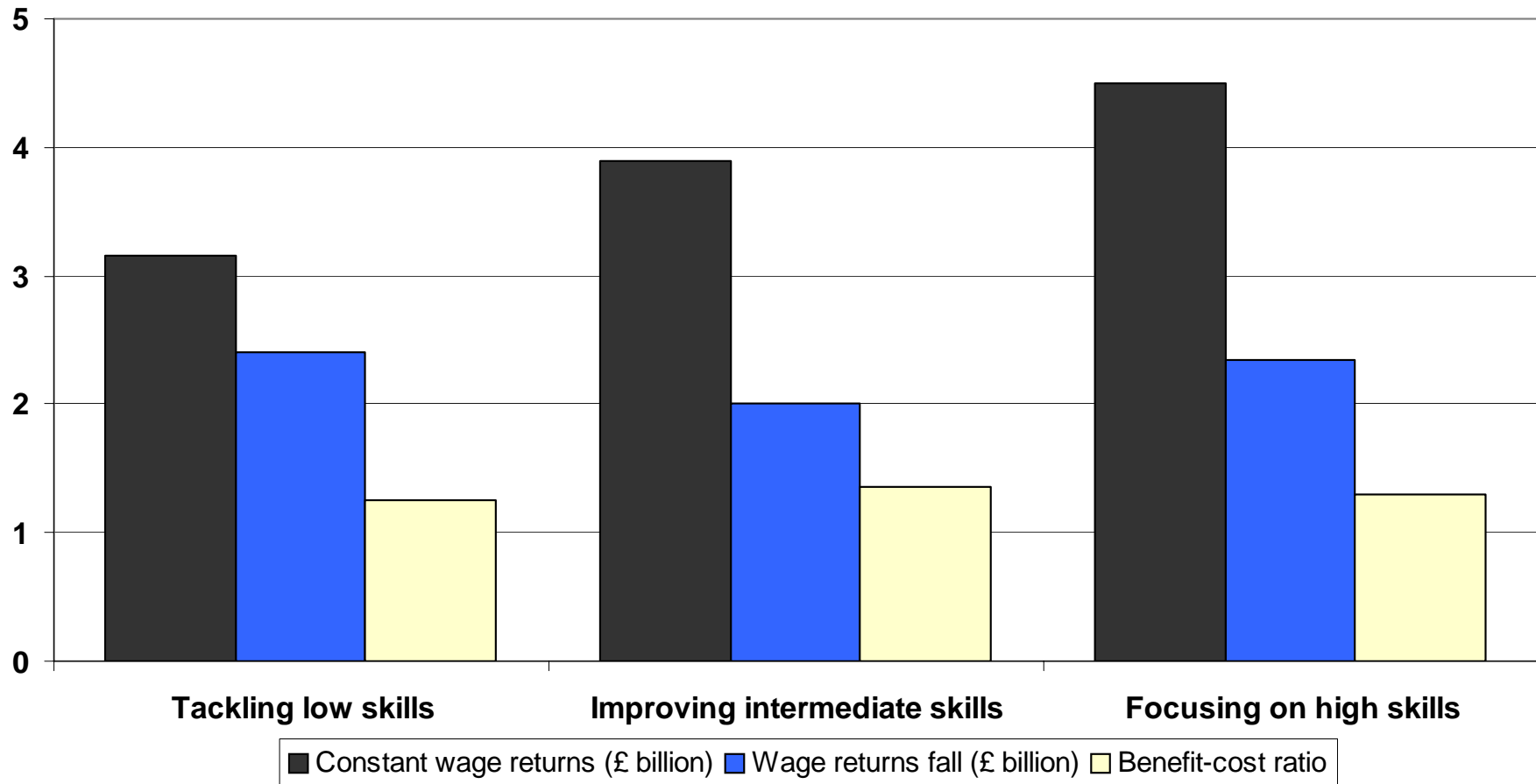
Further improvements in qualifications are projected

Changing Numbers with Qualifications, Benchmark Scenario

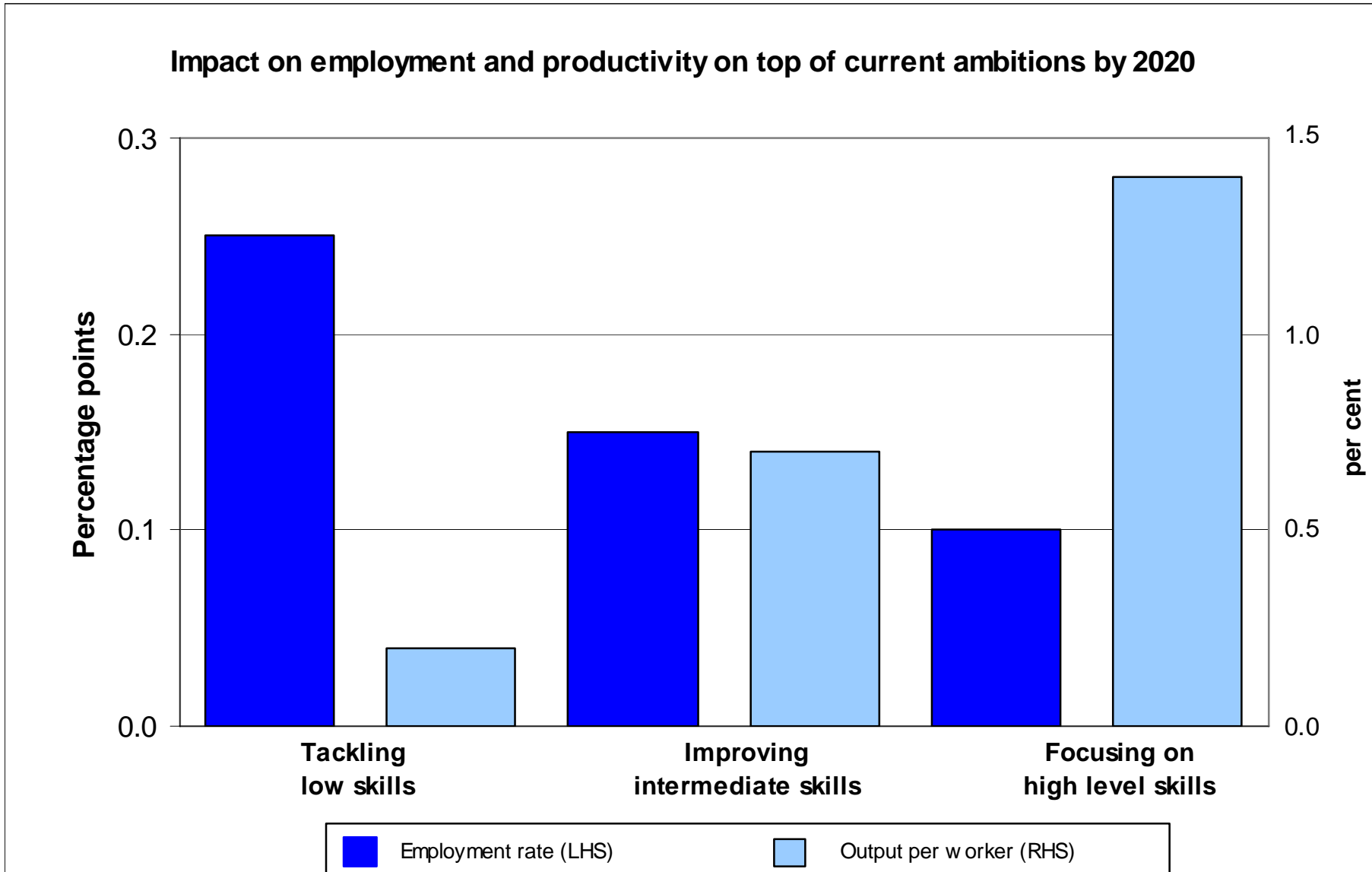


Possible returns from future investments in skills

Annual net benefit and benefit-cost ratios



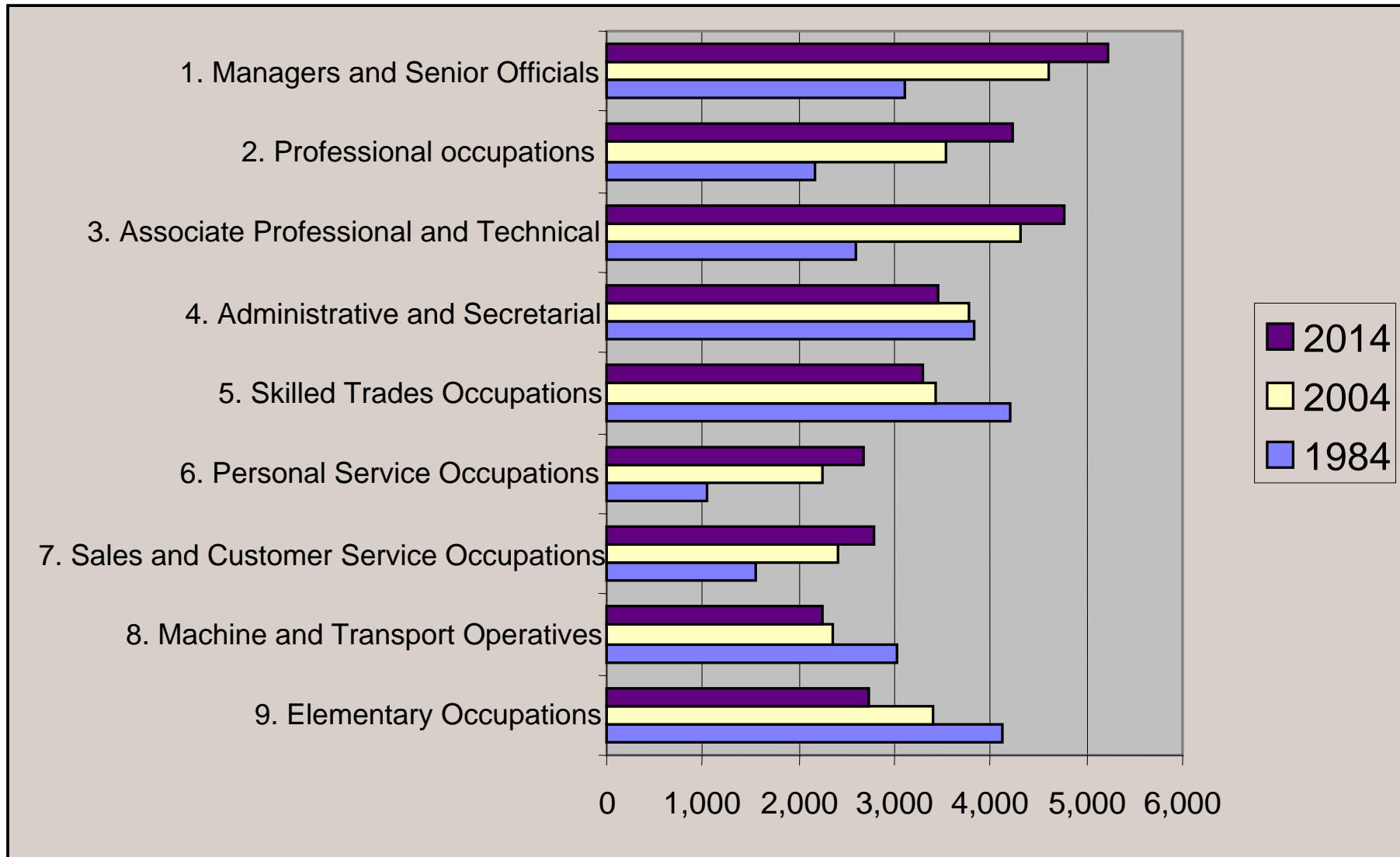
Efficiency versus equity



Polarisation?

- Polarisation - the “hour glass effect”
“the 21st century still demands quite a lot of people who can flip burgers, collect refuse, clean your house, mind your kids, wait table, care for the sick and elderly, clean your office, guard your buildings/cars/airports, serve behind the counter or at checkout in stores, or pull your pint”... Ewart Keep, 2003
- BUT this trend may have been exaggerated

Hour glass or top heavy?



Key points

- Skills matter: they are the key to addressing intensifying international competition and social exclusion.
- The overall demand for skills is projected to continue to rise
- The key drivers affecting the demand for and supply of skills are technology and demography.
- There have been improvements in UK skills levels but other competitors have increased at faster rates.
- There are a number of significant skill gaps, which need to be addressed.
- Not just more of the same – more emphasis on:
 - adults and basic skills;
 - on vocational as opposed to academic qualifications;
 - on training to meeting future skill needs.
- Perhaps the most difficult challenge of all is to raise the demand for skills from employers - supply side intervention by itself is likely to be ineffective
- Skills are not a panacea

Outstanding problems

- Much talk of raising sights and ambitions – but few policy levers to achieve this
- Need to raise standards:
 - Raise minimum wage; and
 - Licences to practice
- Employer engagement, diagnosis and response crucial - but only £50 million of £33 billion state funding goes to the SfB network
 - Engaging employers (sectors, SMEs, reporting incentives)
 - Engaging learners (LMI, careers guidance, entitlements, licences to practice)
- A key problem remains the poor skills of those already in the workforce
- Getting the balance right: academic / vocational, equity versus efficiency