

# DEMOS

## **Confronting the Skills Paradox**

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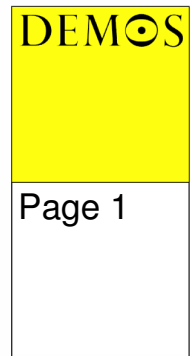
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## Context

Across the world – industrialised and developing – skills are now recognised as a basic component of future prosperity. The acquisition and productive deployment of skills have become mainstream policy objectives. As a result, governments everywhere have declared basic and general education as a ‘first priority,’ and have paid increasing attention to skill formation – through vocational, occupational and adult learning policies.

Moreover, as employment is seen as the primary route out of poverty, skills are also accorded a role in combating social exclusion and promoting greater social mobility.

In the UK this has resulted in three sets of policy priorities:

- **Basic skills** for work, designed to improve literacy and numeracy at school age and to bring adults closer to labour market participation.
- **Skills for the knowledge economy:** expanding ‘elite’ (higher) education and seeking to relate it to the opportunities and demands of a knowledge-based economy, including a growing focus on enterprise and innovation
- **New vocational learning:** extending, and in some cases rebuilding, vocational education and seeking to create new occupational pathways and work-based learning.

There has been active policy development on all these fronts, seeking to:

- reshape the 14-19 framework of education provision
- reinvigorate employer-based apprenticeships
- reshape the funding and institutional landscape for adult skill development
- invest in basic skills for the most marginalised young people and adults
- and, most recently, the Leitch Review has now reported on the long-term skill needs of the UK economy in preparation for the 2007 public spending review.

At best, these various investments and restructures have resulted in incremental progress towards a population better equipped to meet their own learning needs and contribute to the UK’s social and economic wellbeing. Despite the prominence of human capital in public service reform and productivity policy, there has been no radical improvement, either in formal participation or in informal readiness. As the Leitch Review of Skills found:

*‘the UK’s skills base remains mediocre by international standards. In OECD comparisons of 30 countries, the UK lies 17th on low skills, 20th on intermediate and 11th on high skills. 7 million adults lack functional*

*numeracy and 5 million lack functional literacy. 17million adults lack Level 1 numeracy – equivalent to a low level GCSE’.<sup>1</sup>*

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## The Skills Paradox

In particular, the various efforts to reform the systems that provide for improved levels of education and training have not so far provided a compelling answer to the **central paradox of skills in the early 21<sup>st</sup> century**: While maximising the talents of the whole population matters more than ever in creating economic and social success, the danger is that skills formation becomes a source of greater polarisation rather than an antidote to it. The paradox, in this situation, is that funding and investment in skill formation still follows a ‘trickle down’ principle, in which those already well endowed and enjoying privileged status within the education and employment system enjoy the highest levels of investment and subsidy both from the state and from employers:

The evidence bears this paradox out:

- less than one third of adults with no qualifications participate in learning compared to 94% of those with at least level 4 qualifications<sup>2</sup>
- only 52% of those with basic skills difficulties take part in learning compared to 83% of those without<sup>3</sup>
- people without qualifications are three times less likely to receive job-related training compared with those with some qualifications<sup>4</sup>
- a study by LSN found that the key characteristics of non-learners were that they tended to be older, in lower social classes, unemployed and qualified to a lower level<sup>5</sup>.

It is against this backdrop that we analyse the strengths and weaknesses of the emerging consensus – given expression by Lord Leitch in his review – around education and skills policy for the future.

This consensus involves strong agreement about the role of education and the need for a highly skilled workforce. In the UK, this is increasingly interpreted in terms of deepening the links between ‘learning’ and ‘working,’ strengthening the employer voice over the content and accreditation of education, and focusing on the production of ‘economically valuable skills.’ The rationale for the education

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<sup>1</sup> Leitch Review of Skills, Final Report (2006)

<sup>2</sup> National Adult Learning Survey 2002, DfES, (2003)

<sup>3</sup> Skills in England 2004, Volume 1, LSC (2005)

<sup>4</sup> <http://www.poverty.org.uk/summary/key%20facts.shtml>

<sup>5</sup> LSN Paying for learning study: Learners, tuition fees and the new Skills Strategy, LSDA (2005)

and training system therefore becomes a largely economic one, with beneficial social outcomes assumed to follow in its wake.

## About this paper

This paper argues that important elements of this consensus need to be challenged if the UK is to fulfil the laudable ambitions outlined in the Leitch Review and succeed in harnessing *the talents of the whole population*, including the following:

- policy makers need to make a distinction between the interests of individual employers and the needs of the economy and wider society
- strategies to encourage more personal investment need to be built on a more sophisticated model of how people make decisions which extends beyond perceptions of economic self-interest
- Government needs to find ways of boosting demand for skills which extend beyond simply reforming the supply of training and hoping that both individuals and employers will be ambitious and confident enough to spend time, effort and money taking up learning opportunities.
- although there is undoubted overlap between economic and social goals, there are wider social goals which may not have an economic rationale which should still be pursued. This will require political leadership and accountable decision making.

We explore and expand on this analysis before closing the paper with a series of policy options that are designed to provoke debate, and which we intend to interrogate further as part of a year-long study into the causes and possible solutions to the skills paradox.

# Challenging the Consensus

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## 1. ***Handing decision-making and funding over to employers is not the same as meeting the needs of the economy***

One of the underpinning principles of the Leitch review is that there must be a sense of shared responsibility, involving employers boosting investment in intermediate and higher level skills, while Government takes on responsibility for ensuring all adults achieve a basic platform of skills (in other words a first full Level 2 qualification). In return, it is argued, workers and learners obviously need to play their part as well.

The Review's rationale is that a (reformed) Education and Training system will deliver training effectively to those that require it, ensuring that demand for skills is not suppressed in the future. Leitch is confident that a less cluttered, more responsive, system will be more capable of providing high quality training – encouraging investment from employers and individuals.

Clearly a partnership approach, supported by a responsive training system, is best placed to tackle Britain's skill problem, but there is a danger in founding policy on a false assumption that there are no conflicts of interest between the interests of employers and those of individuals, employees and wider society. It is important to challenge the assumption that the enlightened self-interest of individual employers will deliver the social goods that government aspires to. There are a number of reasons to suggest this.

- i. First, it is assumed that an employer-led system will lead to the production of skills and qualifications that will improve productivity (for firms) and enhance labour mobility (for workers). But while a qualification to an individual worker may be his or her passport to another job, to an employer it may be a wasted investment and a way to boost the competition. For this reason, employers are always likely to invest in job-specific – or at least company-specific – training, rather than the kind of learning and qualifications that will empower employees to take up new and different opportunities in the labour market<sup>6</sup>.
- ii. Employers' interests are varied and competing – so there is no magic bullet around 'employer voice'. Employers are often described as if they are an homogenous group, but we know that individual employers within groups will compete for influence, whilst different groups will also compete with one another. Dialogue with 'employers' therefore has to be seen as a necessary but imperfect way of shaping qualifications.

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<sup>6</sup> See the recent study on training of music instructors for fascinating example of this. Contrasting two training offers, it found that: under one regime, training expands horizons and develops abilities, while under the second instructors are taught to conform and follow scripts written by others. [*Learning as Work: Teaching and learning processes in contemporary work organisations*, University of Cardiff (2006)]

- iii. Asking today's employers only gives you a snapshot of what the economy needs at present. Just as there is a danger of privileging the needs of some employers over others, there is also a danger of ignoring the skills of the future by basing provision solely on the present. Employers are (understandably) more concerned by *their* business (at the moment), than by the potential businesses of the future. This problem raises some questions over how to determine exactly *which* qualifications are likely to be economically valuable. And contradictions abound. Employers are continually asking for a workforce rich in creativity, communications skills and cultural understanding, all of which can clearly result from study that has no immediate claim to economic value.<sup>7</sup> Indeed, a recent work on innovation suggests that it is precisely the habits associated with a traditional liberal arts or humanities education, such as critical thinking, problem solving or resourcefulness, that are a vital, if neglected, element of current innovation policy<sup>8</sup>. All of which suggests that if the UK has aspirations to become a country of 'mass innovation', it needs an opening up of education, not a narrowing of it.
- iv. Third, it is far from clear that simply improving the responsiveness of the education and training system will be enough to unleash a wave of demand for skills among employers. The Leitch Review argues that Train to Gain has been a success in this respect, but the final evaluation of the Employer Training Pilots found that 'estimates would suggest about 10% to 15% of the training is additional training, and about 85% to 90% is deadweight.'<sup>9</sup>

This reflects the reality that many employers continue to pursue low-end product strategies which require relatively little skills development for employees – whether that development is funded by the state or not. The difficulty with voluntary, entitlement-based policies, therefore, is that they risk subsidising existing training rather than creating more of it.

As Martin Wolf writes: *'The new system is also to be built on already existing "employment training pilots"...it is not obvious why the state should subsidise the job-specific training that employers desire. Far more important are general skills. These are hard to acquire after someone leaves school. But if this is to happen at all, it is through individual effort. It makes sense, therefore, for any subsidy to go to individuals rather than employers.'*<sup>10</sup>

The big implementation question that arises from this analysis is what does 'demand-led' mean? Who should do the 'demanding' – companies, whose interests

<sup>7</sup> See for example, Business Council of Australia (2006) *'New Concepts in Innovation'*; The US Partnership for 21<sup>st</sup> Century Skills (2005) *'Learning for the 21<sup>st</sup> Century'*

<sup>8</sup> Lester & Piore (2004) *'Innovation: the Missing Dimension'* Harvard University Press

<sup>9</sup> The impact of the Employer Training Pilots on the Take-up training among employers and employees, DfES (2005)

<sup>10</sup> M Wolfe, 'Leitch adds little to the skills debate', FT (December 8 2006)

may be rational on an individual basis but less so when viewed as a collective, or individuals who may have a longer time horizon and a broader interpretation of what valuable skills might look like? What makes a flexible labour market really flexible? Job specific skills chosen by an employer or the skills chosen by a individual with a career, or number of jobs in mind? This is not to question the importance of employer voice in any well functioning education and training system, but it is to argue that employers are only one important custodian amongst many in the system.

## ***2. We can't rely purely on rational (economic) self-interest in getting individuals to invest time, money and effort in learning***

A further assumption in the direction of travel in skills policy is that rational economic self-interest will provide sufficient motivation for individuals to learn, as higher skills are demanded by employers in the UK. Yet it is far from clear that entitlements alone will create motivation among *individuals* if there are wider reasons preventing people from learning. The evidence suggests that simply increasing the rhetoric about rational self-interest will not re-engage people who may be facing a complex set of barriers.

At present, there is a significant group of people with no (apparent) desire for learning, who form a very hard to reach category for skills policy. According to a recent study, half of non-learners reported that they were not interested in pursuing learning, either for personal interest or for reasons related to their current or future job or career.<sup>11</sup> The same study found that 'There is really nothing one could offer the "Not at any price" cluster to encourage them to take up learning – 80% say none of the incentives suggested would have any effect.'<sup>12</sup>

Such a negative attitude towards training may be the result of a number of factors.

- i. First, there are the hard-edged realities of the British labour market. Leitch's description of Level 2 qualifications as a 'platform' for employability bears out the evidence that individuals often receive little or no returns on qualifications to this level.<sup>13</sup>

In this context, training to levels three and four may hold the *eventual* promise of financial return at an unspecified and uncertain point in the future, but may also seem a long way off for the 11.5 million adults currently lacking a Level 2 qualification. Mick Fletcher argues that those choosing not to learn may well be acting entirely rationally on this basis,

<sup>11</sup> *Paying for learning study: Learners, tuition fees and the new Skills Strategy*, LSDA (2005)

<sup>12</sup> *Paying for learning study: Learners, tuition fees and the new Skills Strategy*, LSDA (2005)

<sup>13</sup> *Gross weekly pay of full-time workers by highest qualification, England & Wales, 2001* (Labour Force Survey, Winter 2001)



suggesting: *‘One reason why young people in England leave school earlier than in many other advanced countries must be because they can get a job. It may be a dead-end job but, if you see a degree as beyond you, and a level 2 as not adding much to your chances, going for it makes a sort of sense. This analysis could also help explain why the indigenous working class appears to value education less than many recent immigrants. It's not cultural antipathy; they just know the English labour market better.’*<sup>14</sup>

- ii. To compound this, individuals may lack confidence to learn – preventing them from taking advantage of entitlements. Evidence from a renowned study in the US indicates that our own personal views on *the very nature of learning and intelligence* can predict (and create) levels of participation and achievement in learning. The study, which tracked levels of educational achievement over time, found that ‘Some people believe that intelligence is a fixed trait. They have a certain amount of it and that’s that. We call this an “entity theory” of intelligence because intelligence is portrayed as an entity that dwells within us and that we can’t change’. Others, the study found, view intelligence as malleable – something that can be shaped and added to over time.<sup>15</sup> The authors’ conclusion from the study was that ‘entity theorists’ not only make reluctant learners – but are even likely to pass up valuable learning opportunities, whilst those who regard intelligence as malleable were far more likely to participate and progress.
- iii. Third, perhaps the most deep-seated problem in British education and skill policy is the persistent lack of parity between vocational and academic qualifications, and the corrosive impact this has on the motivations and attitudes of distinct groups of learners in our system. Those successfully connected to the academic system see education, training and skills development as a natural and rational activity, integrated into their personal and professional lives, delivering clear economic and social benefits. Many outside of this group have been failed by the education system and are encouraged to see training as purely instrumental, often rooted in an unedifying churn of low wages and poor training products. This third factor may have the effecting of compounding a lack of confidence to learn, or a lack of faith in the eventual returns. If learning is seen only in instrumental terms, then the absence of clear benefits is likely to dampen any nascent desire to learn.
- iv. Fourth, vertical relationships between Government, employers and individuals are not the only factors affecting the decisions that people make around education and training. Peer-to-peer relationships can be extremely important in helping establish a culture that either reveres learning and its benefits, or resents it. The success of Union learning representatives is testament to this, as is the faith being put in the appointment of a former businessman as ‘skills envoy’. But could we take

<sup>14</sup> M Fletcher, ‘Qualified Success’, Education Guardian (June 20, 2006)

<sup>15</sup> C Dweck, *Self-theories: Their Role in Motivation, Personality, and Development*, Psychology Press; 1 edition (January 1, 2000)

the idea of peer-to-peer influence to a much greater scale? Relationships within families, communities, and networks between SMEs in particular may be fertile ground for experiments designed to create a culture more amenable to learning.

Businesses across the country are beginning to recognise the value of peer-to-peer relationships, from social software on the internet,<sup>16</sup> to ‘buzz marketing’,<sup>17</sup> in the commercial world and peer-to-peer recruitment in the labour market.<sup>18</sup> Malcolm Gladwell describes ‘tipping points’ created by peer-to-peer ‘epidemics’ – and this may be an under explored area in education and training policy.

Each of these reasons suggests that entitlements to training and a responsive system to provide it are necessary but not sufficient conditions of a successful strategy. A true appetite for learning, more deeply rooted in UK culture and society, will also be necessary.

### ***3. We need an approach which is more adaptable to personal and social circumstances if learning is going to be possible in practice***

Just as businesses and individuals frame their self-interest in different ways, our ability to act on our aspirations and preferences can also be stifled or supported by a wide range of factors.

Much economics is predicated on the existence of rational economic man (sic) and Leitch follows in a long line, by assuming that laying out the evidence on the returns to qualifications should help persuade both employers to invest and individuals to take up training opportunities. But the complexity of our everyday lives – whether in organisations, communities or families – mitigates the choices that look inevitable in a macroeconomic model created in Whitehall.

- i. Small businesses are a clear example of this. Investment in skills over time requires sufficient capital and resilience in companies to ensure that they can pay for training and cope with short-term losses in productive capacity. These are not always characteristics of SMEs, however, which often cannot draw on the economies of scale created by larger enterprises to provide either time off or funding for professional development. This is a particular challenge, given that 50% of workers with less than level 2 attainment work for firms with fewer than 50 employees.<sup>19</sup>

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<sup>16</sup> T O'Reilly, What is Web 2.0,

(<http://www.oreillynet.com/pub/a/oreilly/tim/news/2005/09/30/what-is-web-20.html>)

<sup>17</sup> E. Rosen, The Anatomy of Buzz: How to create a word-of-mouth marketing (2000)

<sup>18</sup> See ‘Can Britain produce a success like Youtube?’, Technology Guardian (16 October 2006) or [www.zubka.com](http://www.zubka.com)

<sup>19</sup> *In Demand*, Cabinet Office (2001)

The challenge here should not be underestimated, As Chris Humpries has written, *'Not only do smaller firms with less than 50 employees still employ over a third of the workforce, other research confirms that the skill levels of staff in smaller firms are significantly lower than those working in larger organisations. So the skills challenge in smaller firms is not only greater, there are far more of them and they are significantly more difficult to access.'*<sup>20</sup>

- ii. The self-employed are another group who this may apply to. Although the degree to which the labour market has changed in recent years can be exaggerated, a labour market policy should reflect the full range of work experiences, not just those of employment. Thus in sectors with high numbers of self-employed people or very small firms, such as the cultural and creative industries, or tourism, talk of 'employer-led' training can be almost meaningless. Funding needs to be available and learning needs to be accessible in a huge variety of ways for the self-employed and the part time.
- iii. Similarly, social and personal circumstance can affect the ability of many individuals to access training outside of work. Families are mentioned only three times in the Leitch report, but most of us are part of one and many of us have caring responsibilities. Seventy per cent of couples with dependent children are now both in work,<sup>21</sup> and with an ageing population many people are increasingly finding themselves part of the 'sandwich generation' – with responsibilities to care for their parents *and* children. Such commitments can mean that finance is not the only scarce resource preventing participation in education and training – time is too. As Beverley Hughes, the Minister for Children, Young People and Families, has commented 'What parents consistently tell us is that a lack of suitable flexible childcare is one of the major barriers to work and also to taking the educational training opportunities that will enhance people's prospects for work.'<sup>22</sup>
- iv. The question of dependence and responsibility for others also raises questions around where funding can best be targeted. It may be that those with the greatest number of dependents are also those most likely to require some financial support from the state – when public money has often been targeted at those much younger.

Any labour market response needs to consider the full range of barriers that prevent people taking up learning and develop sets of policies – on childcare and support for carers, on working hours and on increased funding for older learners – that help address them.

<sup>20</sup> C Humphries, *Skills in Global Economy*, City & Guilds (2006)

<sup>21</sup> *The Other Glass Ceiling*, Demos (2006)

<sup>22</sup> [http://www.surestart.gov.uk/\\_doc/P0001729.pdf](http://www.surestart.gov.uk/_doc/P0001729.pdf)

**4. *The evidence shows that simply pumping more skills into the economy won't move us up the value chain on its own***

Supply-side interventions can only go so far. One of the best-rehearsed and most profound criticisms of skills policy in the UK is that it is focused almost entirely on the supply side, pumping out qualified people into an economy that often cannot absorb them. For example, a study from Future Skills Scotland found that 'Scotland's labour quality stands favourable comparison with the world's best performing economies. In contrast, the quality of demand is not sufficient to employ the available labour. In the first instance, therefore, the quality of human capital is not a leading cause of Scotland's relatively low ranking in the economic performance league tables.'<sup>23</sup>

Compared to many developed countries, the UK has a relatively low-wage economy, particularly outside London and the South East, with a large number of poorly paid workers. Many people can only afford to buy goods and services on the basis of price rather than quality, customisation or specification. Satisfying this market produces competitive strategies based on price, thus employers' strategies are limited by low-end product strategies and the wider dynamics of local economies. The evidence suggests that skills policy can do little to address this; a labour market policy needs to address demand as well.

Government already accepts the limits of what skills can do on their own – the Treasury has five drivers of productivity: improving competition, promoting enterprise, supporting science and innovation, raising skills levels, encouraging investment.<sup>24</sup> A key question is whether there are other ways in which Government can help shift the UK economy up the value chain without losing jobs in the process.

**5. *There are wider social goals, which may not have an economic rationale – and we need to recognise the conflict and get on with addressing them anyway***

It has become axiomatic to argue that economic competitiveness and social inclusion are two sides of the same coin: improve one and you can improve the other; the weakness of one is a constraint on the other. But examination of the evidence on a whole variety of areas suggests that reality is more complicated than this. Inequality has grown in Britain (in part because of the growth of the super-rich) and levels of poverty remain stubbornly high.<sup>25</sup> Inter-generational social mobility has slowed, and is lower in Britain than most Northern European countries.<sup>26</sup>

<sup>23</sup> *International Comparisons of Labour Market and Skills Performance*, Future Skills Scotland (2006)

<sup>24</sup> *Meeting the Productivity Challenge*, HM Treasury (2001)

<sup>25</sup> Institute for Fiscal Studies, *Poverty and Inequality in Britain*, 2005

<sup>26</sup> Centre for Economic Performance, *Intergenerational Mobility in Europe and North America*, LSE (2005)

The insight that a strong economy can support social goals should not lead to the impression that there are *no* trade-offs in policy in this area. As Leitch demonstrated in his interim report, there are important *political* decisions to be made around where investment should be targeted in the future. For example, tackling low skills is likely to prioritise equality over productivity, whilst the costs and benefits of a focus on high skills would produce different economic and social results.

Whilst the report stresses that these are not necessarily competing options, the modelling clearly demonstrates the different competing value-based choices available to policy makers in the future.

This raises some important issues: first that political leadership – not just economic analysis – will be needed if, as a nation, we are going to be successful in creating a sense of agency and self-determination for all individuals, rather than just training people to be more productive in their present roles.

We need therefore to separate the social and the economic conceptually, and, in some cases, in policy terms. In other words, inequality is not just a problem because it is hurting our economic performance, but because it is unjust. And while improving skills levels and education may help our economic competitiveness, it will not necessarily address the issue of inequality. If we want social goods such as greater social mobility, better childcare or improved environmental sustainability, we may have to decide to pursue them as social goods, even if they don't improve our economic competitiveness.

Second, given the need for this political leadership, the suggestion in the Review that skills policy needs to be 'depoliticised', along the lines of interest rates, looks flawed. A skills commission to 'take the politics out' of skills policy seems likely to simply outsource the politics – deliberation around value-based decisions – to an unelected body unless politicians maintain the primary responsibility for setting the overall goals for the system.

## Conclusions

The analysis put forward in this paper suggests that a number of areas of policy will need revisiting if the United Kingdom is to construct a set of policies capable of realising the Leitch ambition. In this final section we offer some tentative suggestions as to the nature of those policies:

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### 1. **Implement the original Tomlinson proposals**

It must be asked whether the Leitch ambition can be achieved without the Tomlinson recommendations. It is hard to see how a skills policy can operate well without changes to the education system that underlies it. As the British Chamber of Commerce's Skills Taskforce found: 'Every young person needs training when they progress from full time education, whether they are a student moving on from a vocational degree to workplace training for a Level 5 qualification in the professions....The economy requires young people who are educated *and* trained not educated *or* trained.'<sup>27</sup> [our emphasis]

A key concern will be to explore how to ensure the skills system is built for 'adaptability' not 'functionality'. Our concern is that we have a flexible labour market policy but not a flexible education and training policy – built partly on the unknown and unknowable.

### 2. **Address the problem of adult skills levels**

This needs to be done on two levels: general and specific. The partnership between the state and employers therefore should be that the state continues to develop the generic education and skills at a high level – offering a range of potential routes – whilst the employer pays for the specific occupational training that their firm requires. Many employers whose skill requirements are at the higher level are most interested in the quality of the generic raw material that the education system produces.

### 3. **Introduce entitlements for individuals**

The years until 2010 will provide a key test as to whether a system based on entitlements for firms is ever likely to succeed in confronting the skills paradox. The analysis presented in this paper suggests that it will not. A 'post-voluntary system', as described by the Chancellor, built upon entitlements for individuals, may well be needed to ensure that investment (and time off) are available to all. History shows that market outcomes are skewed towards those already well endowed (as James C Scott argues, 'in markets, money talks, not people'),<sup>28</sup> indicating that even if there is an upsurge in the overall level of training, the paradox we have described may persist. There are, of course, gradations to measures regarding time off and practical issues about applying such an idea to small and medium sized enterprises. For those falling outside of that category, the principle of partnership between the state, employers and

<sup>27</sup> *Skills in Business*, Report of The British Chambers of Commerce Skills Taskforce, (2004)

<sup>28</sup> Quoted in 'Running Ever Faster Down the Wrong Road: An Alternative Future for Education and Skills', Professor Frank Coffield

individuals suggests that both employers *and* individuals would need to give up time for training to take place.

4. **Rethinking incentives for individuals and business**

Governments make markets – and can remake ‘self-interest’. A key question for the future is how could the Government imaginatively recast the market incentives around training for individuals and organisations? The issue here is one of innovation and balance. In terms of innovation, to date there has been little new thinking on how best to incentivise individuals and organisations – whether through tax breaks or other imaginative inducements. Leitch has already been criticised for a lack of imagination in this area.<sup>29</sup> In terms of balance, much of the focus of Leitch is on incentivising employers, firms and institutions, with the bulk of public funding, including some in higher education, routed through Train to Gain, not via individuals. Given how firmly personal interest can drive the desire to learn and subsequent economic activity, we would argue that we need to re-direct this focus, away from incentivising institutions and key agencies, to a more concerted attempt to incentivise individuals differently and to encourage them to develop new tastes and preferences for learning.

5. **Bite-size learning**

More work is still needed to provide flexible learning, in order to maximise take up and to offer greater opportunities for people to re-engage with learning. As a recent study found, ‘The rules are very confusing and hard to comprehend. For example, learners taking only part of a Level 2 course are not covered by the entitlement. Ironically, learning in bite-sized pieces – often a springboard for further learning and employment and easier to pay for – is excluded from the Level 2 entitlement (despite potentially contributing towards the overall ambitions of the Skills Strategy).’<sup>30</sup> In addition, many people also learn most effectively on the job, so we need more focus on accreditation of prior learning.

6. **Peer-to-peer programmes**

In acknowledging the full range of relationships that shape cultures of decision making, there may be lessons to learn from the private sector. A national peer-to-peer system, rewarding individuals, Unions, and other intermediaries for introducing friends and colleagues to (completed) modules of adult learning, might be one way of helping bring about a shift in attitudes to learning in the UK.

7. **Help firms to compete higher up the value chain towards business models based on high skills and high wages**

Given the long standing description of the UK economy as a low skill, low wage and low productivity economy, unsurprisingly there are no quick fix solutions in tackling this ingrained development trajectory. However, much more could be done. For example through interventions such as the Design

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<sup>29</sup> ‘Elevating the Practical’, Conservative Policy Review (2006)

<sup>30</sup> *Learners, tuition fees and the new Skills Strategy*, LSDA (2005)



Immersion Programme for manufacturers; providing advice on management and work organization, and public sector procurement policies can all help drive innovation and higher value-added strategies, increasing the demand for skills. Where the market works well, such as in areas of London, the South East and major metropolitan centres, there is less need for intervention, but a labour market policy really has to engage with the realities of Britain's regional divides.

#### 8. **Address regional disparities**

Despite much of the progressive-sounding rhetoric that has accompanied it, the focus of economic development on knowledge based sectors (finance and business services, science and technology, creative industries) has led to widening economic disparities in the UK, both between regions and inter-regionally. If one considers economic productivity measured by local authority area, only four of the top 50 districts in the UK are not from London, South East or East (sometimes referred to as the greater South East); none of the bottom 10 is from that region.<sup>31</sup> The political centralisation of the UK has a clear role in this, as is reflected in concentration of R&D, higher education, media, cultural spending, large Government sectors, technical and scientific institutions and so on. Rather than countering this, Government policy appears to support it, particularly when it comes to investment in R&D. Addressing these issues requires labour market policies that are sensitive to the differences between local labour markets; but also requires a more active regional policy to re-balance economic activity.

#### 9. ***The public sector 'knowledge economy'***

Somewhat ironically, in weaker regional economies, the public sector as an employer often plays a larger role than in stronger ones, making up, as it does, a greater percentage of employment, including employment of graduates. Thus the public sector's traditional commitment to training may be an under-calculated positive public externality of increased public sector investment, and the successful modernisation of public services, the future of procurement and e-government could have bigger economic implications in many areas of Britain than will the Government's attempts to create a new entrepreneurial culture.

The tensions and gaps identified above require further analysis: a deeper understanding is required of the wider conditions that help make learning an attractive and realistic proposition in practice. Beyond this provocation paper, the Demos project intends to undertake a series of case studies, looking in depth at particular sectors of the economy and at the way these dynamics and challenges play out within them. Rather than simply looking for 'good employers' (who train) and 'bad employers' (who don't), we aim to get beneath the surface of the incentives and barriers to learning at work and to understand the different and complex motivations of employers, workers and learners. In this way we hope to

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<sup>31</sup> *State of the Nation: The Geography of Well-Being in Britain*, Local Futures Group, 2006



inform the development of a more active labour market, and a more effective skills and training system.

We also hope to trigger a more vibrant approach to the ongoing development of education and skills policy. The Leitch Review has created a great opportunity. It has helped create an increased sense of political urgency about the need to tackle the UK's relative underperformance in skills, and has buttressed the case for increased levels of public investment. The challenge now is to connect its aspirations and recommendations to a hard headed but imaginative blueprint of how best to develop an education and training system that works for everyone, maximising the benefits to individuals, organisations and the economy. To that end, tackling the skills paradox would be a good place to start.