

---

# Employment and Skills: six critical priorities for the next government

---

Following this year's general election, whichever party takes office will be faced with a range of pressing policy issues on all fronts. However, high unemployment, the changing demands for skills, the need to increase productivity and to reduce expenditure on welfare mean that policies relating to employment and skills will be among the most important. As the UK emerges from recession, tackling these policy issues will be an urgent priority.

With over 40 years' experience of policy evaluation and labour market research in the UK and abroad, the Institute for Employment Studies (IES) has gathered a wide range of evidence on what are the most important issues that need to be tackled to raise employment and skills levels across the economy. IES has identified half a dozen important policy issues that will be first across the desks of the new ministers with briefs relating to education, skills, health, welfare and work and some of the solutions they will need to consider to help tackle these key issues.

## 1. Preventing long-term unemployment by incentivising job-seeking

Previous recessions left a legacy of long-term unemployment and, in many communities, worklessness affecting families across several generations. It is crucial to avoid this outcome as we emerge from the latest recession.

Low rates of economic growth and uncertainty in product markets are likely to produce relatively low hiring rates among employers. Many employers hoarded labour during the recession and will be able to respond to the forthcoming upturn with little need to turn to the labour market. Efficiency and equity require that such vacancies as do emerge are filled quickly and that access to them is reasonably well shared out among jobseekers. Public policy needs to ensure that:

- people do not become locked into long-term unemployment and inactivity, by maintaining incentives for newly unemployed to pursue active and effective job hunts, with the objective of securing speedy return-to-work, supplemented by:
  - providing more help with employability and vocational skills, such as literacy, IT and customer service skills as well as an aptitude for work, as unemployment spells lengthen
  - increasing conditionality and liability for benefit sanctions among longer-term unemployed to ensure that they take it up

- local geographical pockets of entrenched inactivity and unemployment are targeted, which may also require intervention on the demand-side (through job-creation programmes or subsidies for employers).

Much policy debate focuses on the institutional arrangements for active labour market policies (should they have a national or local focus? how far should they be outsourced to the private or voluntary sectors? etc.). International evidence, however, suggests that these arrangements are not as important as:

- a. appropriate incentive structures for those managing and delivering the return-to-work programmes for workless groups. As recent evidence has shown, poorly-designed performance incentives can lead to providers 'creaming' the easiest-to-place candidates.
- b. the degree of flexibility and individualisation in the support packages offered – a one-size-fits-all approach rarely meets the needs of the diverse range of people in unemployment.

Any policies on offer to reduce long-term unemployment must be tested against these two criteria.

## **2. Reducing youth unemployment with effective vocational training and personal support**

As young people stay on in education and as policy initiatives including the Young Persons Guarantee start to take hold, there is evidence that the proportion of 16 to 18 year old young people not in employment, education or training (NEET) is starting to stabilise, albeit at an historically high level. Meanwhile, the number of young people aged 19 to 24 who are NEET continues to rise as competition for the available jobs intensifies.

The penalties attached to being NEET are greater than ever before. To minimise the numbers, policy has to:

- a. reduce the flow of young people disengaging from the education and training system or the labour market
- b. support and encourage the one in ten 16 to 18 year olds currently NEET to re-engage with some form of education, training or employment.

The evidence shows that a wide-ranging, flexibly delivered curriculum adapted to personal need is important to stem the flow. That means offering effective vocational training from the age of 14, that is qualitatively different from traditional class-based academic education.

To be effective it must get employers involved in delivering the training to a much greater extent than has previously been the case.

Re-engaging young people requires personal support. If this is coupled with non-qualification-based and personalised development programmes, it can successfully get young people heading back towards work. Such measures are not cheap but will cost significantly less than consequences of the maturation of a 'lost generation'. More specific attention should to be paid to the 20 plus age group (almost one in five of whom are NEET) whose disengagement may be more entrenched than their younger peers.

### **3. Paying for higher education**

Demand for higher education is rising due to the recession, and is outstripping the country's ability to pay. Meanwhile, evidence mounts that the supply of graduates currently exceeds demand, and the wage premium enjoyed by graduates is starting to diminish and become more varied. The independent review of higher education finance, reporting after the election, will have to reconcile the increasing financial pressures on the university sector and public expenditure generally, with the financial concerns of potential students and the value placed on their higher education by employers.

In so doing they will need to take into account that the UK does relatively well in the international higher education league, that the system tends to produce a surplus of graduates, and in most cases anyway the higher wages that students earn more than compensate for the costs they incur while at university. The limited amount of state investment available is therefore likely to be better spent on the less well qualified where there are significant skills deficits and people are trapped in a low wage/low skill equilibrium.

However, although some students will be willing to incur greater debt in return for higher earning in the long term, young people from lower social classes are more inhibited by cost from going to university. Although recent changes to student support appear to go some way to mitigate their concerns, further effective support is required to ensure attending university does not further perpetuate middle class advantage, by getting young people with good school grades from disadvantaged backgrounds to raise their horizons and apply to the top universities, and supporting them financially with well-publicised bursaries.

### **4. Tackling demographic ageing and the growing dependency ratio**

In 1980, children outnumbered pensioners by 36 million, but now the total European Union population contains six million more over-65s than under-14s. In the UK, the dependency ratio (the number of non-working age people for each person of working age) is forecast to rise from 0.34 to 0.65 by 2040.

As the age at which young people leave full-time education or training increases, so working lifetimes need to be extended to contain the rising cost burden placed on prime-age taxpayers, and ensure there are enough people to meet expected future demand for workers.

This means that:

- legislation or other mechanisms are needed to encourage employers to train older people
- further and higher education funding need to change, and flexible part-time provision increase, to allow and encourage older people to acquire new skills
- pensions and taxation arrangements need to become more flexible to accommodate people drawing income from multiple sources
- new 'flexicurity' ideas need to be tested: for example, as in Austria, employers pay a proportion of payroll costs into a fund from which employees can draw either a redundancy payment if needs be, or if not, can supplement their pension.

## 5. Improving health at work

Research has demonstrated a clear and positive relationship in both directions between health and work: being at work can make people healthy, while healthy workers are more productive. People in employment lead healthier and wealthier lives than those who feel unable to work. There are wider benefits too, as the economy gains from lower dependency on incapacity benefits and health services, and from higher productivity.

However, keeping people who fall ill in employment requires a co-ordinated response across a range of agencies including:

- an active health and safety service that uses advice, exhortation and regulation to prevent unsafe and unhealthy work practices, but that does not inhibit productivity through excessive or misplaced bureaucracy
- encouragement for employers, for example through tax breaks, to offer occupational health services to reduce long-term absence
- a primary health care service that is geared up to help people back to work if it is in their best interests through active 'fit for work' programmes. Alongside this, early access to support for depression, anxiety and other mental health conditions is vital.
- a secondary health service that is much more responsive to the needs of working people, ie waiting times need to be further reduced, and access improved to

treatments for conditions such as mental ill-health and musculo-skeletal disorders

- the welfare system needs to discourage flows onto incapacity benefits, but still provide support to those genuinely unable to work and support people who wish to work but may find it difficult to do so through misperceptions of their capacity.

## 6. Skills for the future

Many new jobs and skills will be required as industry and services evolve and recover over the next 10 years. To mention a few:

- While the supply of graduates in most disciplines may exceed the quantity of jobs available, there is likely to be a rising demand for technicians in IT, in manufacturing, in maintenance services, in health services across a range of sectors driven by:
  - growing technological complexity – driving up skill levels across the production sectors
  - the growing attention given to higher value-added product market strategies – accentuating the need for higher skills at intermediate level
  - changing skill mix in some professions, including public and professional services.
- High levels of customer service skills are likely to attract a growing premium in the labour market, as employers seek competitive advantage. It is also likely to become of growing national economic importance as the skill-set forms a crucial ingredient of the nation's ability to attract repeat business from the potential influx of overseas visitors expected for a series of forthcoming international sports events.
- There will be a continuing demand for personal service occupations, in particular care assistants, as demographics and female participation in the labour market continue to stoke the demand for caring services for both younger (particularly pre-school) and older age groups. The level of service that carers have to offer will continue to rise with advances in assisted living for the elderly, and increasing attention paid to the impact of early years childcare on life chances. Growing skill demands will not be confined to front-line paid carers. With public expenditure likely to be under continual pressure over the next decade, the management of care services will require continual innovation, careful financial management and persistent commitment to providing a high quality service.

Potential employees at all ages and training providers alike, need access to effective information, advice and guidance to ensure supply is available to meet these and other emerging areas of demand for employment and skills.

April 2010

*Nigel Meager: Director, IES*

*Jim Hillage: Director of Research*

---

The Institute for Employment Studies is an independent, apolitical, international centre of research and consultancy in public employment policy and organisational human resource issues. It works closely with employers in the manufacturing, service and public sectors, government departments, agencies, and professional and employee bodies. For over 40 years the Institute has been a focus of knowledge and practical experience in employment and training policy, the operation of labour markets, and human resource planning and development. IES is a not-for-profit organisation which has over 70 multidisciplinary staff and international associates. IES expertise is available to all organisations through research, consultancy, publications and the Internet.



**Institute for Employment Studies**  
Sovereign House, Church Street, Brighton BN1 1UJ, UK  
Tel +44 (0) 1273 763400 Fax +44 (0) 1273 763401  
London Office: 30-32 Southampton Street, London WC2E 7RA, UK  
[www.employment-studies.co.uk](http://www.employment-studies.co.uk)