

***Vocational qualifications and their
interaction with the labour market – the
challenges of weak incentives to learn***

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Central Thesis

My starting point for today's talk is the C19 picture entitled '**Man proposes, God disposes**' by Sir Edwin Landseer.

- The picture described
- The RHC picture gallery at exam time story

My central thesis will be that policy makers propose many different kinds of E&T reform, not least as they relate to VQs, and the labour market then disposes (tears to shreds) said reforms via the weak incentives to learn it creates.....

The traditional policy narrative:

Demand for skills is high, rising and unproblematic. The real issues lie on the supply side, requiring endless reform of the E&T system, funding, regulation, institutions and qualifications. There is a huge pent-up demand for upskilling among employers which will be released if we can only configure the E&T system correctly.

Skills for Sustainable Growth:

Employers are:

“willing to invest – invest far more than they do at present – in the skills of their workforces if they can be sure that the training they buy will be of high quality and geared to their needs”

(DBIS, 2010: 13)

The recent Labour Party Policy Review’s report on apprenticeship workshops at the same altar – a ‘something for something’ deal will see employers massively expand their provision of Level 3 apprenticeships.

The role of vocational qualifications

Within this model of policy, the role of reform of VQs centres on better fitting VQs to meet/reflect what 'employers really want' (assumed to be monolithic, uniform and easy to identify, despite the fact we have signally failed to do so in many instances for the last 30 years).

Once this is achieved, demand for VQs will rise, wage premia to VQs will rise, and everyone will live happily ever after.

The alternative view:

Many of the problems we face in E&T generally, and with VQs specifically, are reflections of wider difficulties with:

1. Wage systems and levels
2. Recruitment and selection practices
3. Job quality and design and resultant levels of demand for skill
4. Progression opportunities or the lack thereof
5. Particularly at the lower end of the labour market

To put it another way.....

We have a lot of bad jobs, which offer low pay, little opportunity for progression, which demand limited amounts of skill, and which are often accessed via R&S processes where VQs have a limited role. Their existence creates weak incentives to invest time, energy or money in learning for those who are destined (or believe themselves to be destined) to occupy such jobs.

If this second model is correct:

Reform of VQs will only work if it takes place alongside wider efforts to improve job quality, stimulate underlying levels of demand for skill, and improve progression for low paid workers.

In the continued absence of such an approach, VQ reform will have limited effects, as weak VQs ultimately reflect narrow and limited demand for skills in some occupations.

The structure of what follows:

1. The incentives to learn – where does the labour market fit in?
2. Limited employer demand for skill
3. Problems with lower end vocational qualifications
4. Complexity, risk and disengagement
5. Over-qualification, under-employment
6. Some suggested solutions?
7. Conclusions and final thoughts

Incentives to learn

Incentives set up by the labour market have a powerful feedback into the E&T system- Keep, 2009.

Type 1 Incentives – intrinsic to the learning process – e.g. pleasure in discovering new things

Type 2 Incentives – generated in wider society – work, culture.

If Type 2 incentives are weak, complex or uncertain, learners may not participate or succeed.

Examples of Type 1 incentives:

- Curriculum design and pedagogic styles that increase the intrinsic interest of learning.
- Forms of assessment that are designed to encourage further participation rather than ration access to the next level.
- Institutional cultures in schools and colleges that nurture potential and celebrate achievement.

Examples of Type 2 incentives:

- Wage returns to particular qualifications or skills.
- Other benefits (intrinsic interest of job, opportunities for progression, travel, etc).
- Social status from higher level occupation.
- Licence to practice and mandatory CPD regulations
- Cultural expectations within society or particular ethnic or class segments therein.
- Non-economic benefits to do with enhanced satisfaction in other aspects of adult life –sporting, cultural, parenting, etc.

The problem with 'bad jobs' and Type 2 incentives

Bad jobs can be defined as:

1. Low paid (less than 2/3rds median wage) – 20% at the moment – in work poverty is rising
2. Insecure/casualised
3. Lack of control
4. High stress levels (often with work intensification)
5. Dull, boring, repetitive (short job cycle times)
6. Lack of opportunities for progression

Low end jobs are not fading away

- Work by the IPPR (Lawton, 2009) makes it clear that the overall number of low paid jobs in the UK will not decline this side of 2020 and may rise.
- The New Economics Foundation (2012) show that the range of jobs available to non-graduates is shrinking and that most of the job growth for non-graduates is likely to be in the lowest paying sectors. Upskilling these workers will have marginal impact.

Low paid work is growing:

- Since 2009, the number of workers earning less than a living wage has rocketed from 3.4 million to 4.8 million in April 2012.
- *“It is in-work poverty that is becoming the modern face of hardship”* – Ramesh, 2012.
- This work will yield low returns to the VQs held by those who undertake such employment.

Access to such work may not depend on holding a VQ

As UKCES, via their Youth Inquiry, have noted, the growth in the number of SMEs has tended to magnify underlying trends towards greater use of 'informal' methods of R&S – e.g. word of mouth personal recommendation.

The role played by qualifications in R&S for many low end jobs is limited.

The Resolution Foundation's view on low paid work:

It is now clearer than ever that low pay will not solve itself through a light touch approach of pursuing growth and investing in skills. The lower half of the UK labour market is simply not creating higher quality jobs in the way that economists once anticipated. Demand for low paid service work is rising on the back of higher consumption. Together with new technologies and an ageing population this is expanding employment in sectors like hospitality, warehousing and social care. While these trends are apparent in most advanced economies, the UK market is creating notably lower quality, lower paying versions of these roles than other countries. (Plunkett and Hurrell, 2013: 6)

Limited progression opportunities out of low paid work exist

A hallmark of low job quality is a lack of progression opportunities (within an individual employer, or within the sector or occupation), which reduces incentives for learning once within employment.

SKOPE work on the café sector – small steps for low rewards, and qualifications play little or no role in securing these chances.

Employer demand for skill at aggregate level is limited

Unfortunately, Britain has long been caught in a low-qualifications trap....among European countries, only in Spain, Portugal and Turkey is there a greater proportion of jobs requiring no education beyond compulsory schooling” – Francis Green, 2009: 17.

The incidence of employer provided training across the 16-64 year old workforce in England peaked in 2000 and has been in slow decline since. We are back to training levels last seen in 1993. **This despite massive government subsidy and exhortation.**

As a result, too much aspiration is a bad thing!

“There is a mismatch between employer requirements and learner aspirations. We still have a large number of jobs which are at Level 2 or below. The drive for more and more advanced apprenticeships is creating an expectation among young people and parents who then become unwilling to consider the lower levels”

Shropshire Training Provider Network, 2012

The example of SASE

In 2009 the government consulted on the Specification of Apprenticeship Standards in England. There were 357 responses.

- A large majority (70%) rejected the idea that maths and English should be required in all frameworks.
- 68% did not want an ICT qualification in all frameworks.
- Only 53% agreed that all 6 of the Personal Learning and Thinking Skills were needed in all frameworks
- Only 35% thought 250 hours off-the-job learning was needed. Most wanted far less (and they got it – the government set the bar at 100 hours).

British employers have a distinctive conception of 'skill'

As research by Brockmann, Clarke and Winch (2011) very clearly demonstrated, British conceptions of vocational skill and knowledge are different from, and narrower than the norm elsewhere in Europe. Our model of VQs has tended to reflect this relatively impoverished conception of what is required to enter an occupation and advance within it.

To put it another way, we have 'i-shaped' VQs whereas many other EU nations have 'T-shaped VQs!

This goes a long way towards explaining.....

Why both the Richards Review of Apprenticeships, and the Husbands Review proposals on apprenticeships, face a huge uphill struggle. Anything better than the status quo is too demanding.

“The Husbands Review says apprenticeships should include a day of off-the-job training a week...this means 94 days of compulsory off-the-job training in two years. That’s another rigid requirement – more than some sectors need and more than some employers could offer” – David Harbourne, director of policy and research, the Edge Foundation.

The example of mass retailing:

Largest single occupational group in UK = retail assistants

- More people employed in retailing than in the whole of manufacturing
- Dominant model for other sectors – fitness centres, banking, etc.
- Morrisons is one of England's largest providers of 'apprenticeships' – vast bulk Level 2 in 'customer service' for existing employees.
- 52% of apprenticeship starts in the last year were in retail or business admin.

A dysfunctional sectoral labour market:

- Internal labour markets are limited, there are few upward rungs. Labour turnover is high, discouraging training.
- Those trying to climb them meet graduates cascading down from above – 29 per cent of all recent graduates working in management roles do so in retailing.
- Much lower end work is relatively de-skilled, and the specification of the vocational qualifications reflect this reality.
- Skill utilisation is often extremely poor (Wright and Sissons, 2012), with masses of over-qualified women returners.

Young retail employees responses to 'training':

- “This woman would come in once a week and review us serving a customer or something and then ‘wahey’ we got a certificate...[employers] are not sitting there saying ‘I hope someone with an NVQ in retailing comes along because we could really do with someone like that”
- They wasn’t actually giving us any training...It was a total waste of time. It’s like, if the government really wants everyone to have a qualification by their name, yeah sure it’ll work, but it’s not going to achieve anything”

(Steven Roberts, 2012)

And.....

For those who think/know they are heading towards such jobs they create weak incentives to participate and achieve in E&T.

No amount of adjusting Type 1 incentives inside the E&T system can fully compensate for the effects of weak/patchy/uncertain Type 2 incentives coming from the labour market. Many educationalists (and policy makers) do not accept this point!

If in any given labour market

- The number of jobs is finite and is exceeded by the supply of those seeking work
- And the number of good/desirable jobs is a finite sub-set of the jobs available

There will be losers. Some people will get jobs, but not good jobs, and some people will get no jobs at all.

E&T can move people up and down the job queue, but of itself will struggle to create more and/or better jobs. Raising educational attainment will not give everyone a good job. If everyone had a degree, there would remain many low paid jobs, that someone would have to do, degree or no degree.

Thus.....

1. The higher the levels of unemployment;
2. the higher the levels of inequality in terms of job quality across available openings;
3. the larger the pool of bad/poor jobs relative to the good ones (particularly in specific labour local labour markets);
4. and the weaker the returns (employment outcomes and wages) to qualifications

the more likely it is that those thinking of investing in learning will be faced by complex, patchy, uncertain and therefore risky incentives to learn. They will respond rationally!

Clustering and re-enforcement

- Bad jobs are often concentrated within specific local labour markets.
- They are also clustered within certain sectors/occupations – in the UK ones that are heavy recruiters of young people – hospitality, and retailing.
- In positional competition for the finite supply of good jobs, many people know that certain types of student tend to get this work, and that those from other social class/ethnic backgrounds are much less likely. Impact on incentives?

To put it another way....

- People perceive a pecking order
- Aspiration (in terms of jobs and careers) may reflect the material reality of how good and bad jobs are currently allocated – *“if there are no ‘better’ local jobs requiring higher level skills for higher pay, then it is entirely rational to stay in a low-level job without training”* (Gracey & Kelly, 2010: 9), rather than try to upgrade one’s skills.

Or....

Schoon, 2010: 100

In considering different possibilities for their future young people are aware of the barriers that may hinder their ambitions. The expression of educational expectations is intertwined with perceptions of opportunities and constraints and young people from less privileged backgrounds are generally less ambitious than their more privileged peers...

To raise ambition you may need to increase good opportunities in the labour market! From 'changing individual minds rather than collective circumstances' (Archer) to 'more and better jobs' (EU).

This brings us back to:

1. Strength of incentives that the labour market provides to young people and adults.
2. Design of lower level VQs, where employer input may be a brake on ambition concerning breadth, depth and transferability

Problems with low level VQs

In the UK, after 25 years plus of argument, the Wolf Review finally concluded that, *“the staple offer for between a quarter and a third of the post-16 cohort is a diet of low-level vocational qualifications, most of which have little or no labour market value”*. – the implications for participation and achievement are dire.

Competence based qualifications are sometimes very narrow and task specific, have little or no real general education (basic literacy and use of numbers), offer no foundation for citizenship/LLL/or return to academic learning, and often have limited hold on recruitment and selection.

VQs – complexity and risk

Many Type 2 Incentives are complex and uncertain - e.g. the **outcomes of acquiring a qualification** vary according to:

- Age
- Gender
- Type and level of qualification
- Subject and occupation it is related to
- Location in which learning takes place (workplace v. non-workplace) and status of learning provider and awarding body.
- Who pays for it.

Low level VQs = uncertain returns?

- Returns to many L2 VQs are variable, complex and sometimes poor.
- Returns to L2 NVQs are very low and uncertain.
- Average returns are very misleading, as there is huge variation around the average.

There are reasons for this

Labour market power = relative scarcity

Interns Anonymous website:

Posts that were previously being offered to new graduates are now being staffed by unpaid interns...why would a company fork out £15,000 to £20,000 a year for an entry-level fashion designer, when they have an endless supply of people willing to do it for free?

Wolf Review of Vocational Education, 2011: 31

Other things being equal, high (wage) returns to a particular form of qualification mean high demand for, or short supply of, the skills and qualities to which it attests

As a result

*“the proportion of degree qualified 24-29 year olds in the UK who are working in jobs that do not require this qualification is 26%....compared with an OECD average of 23%. This also occurs at intermediate level, but the extent is far lower (12%)....despite lower mismatch levels than at graduate level, when we look internationally the UK has the 2nd highest rate of under-employment at intermediate level in the OECD...**large proportions of young people risk being under-employed in terms of their skills while at the same time non-graduates are significantly disadvantaged**”*

UKCES Youth Inquiry, 2011: 14

Potential effects:

Under-employment/mis-match

1. Trading down to ensure getting a job
2. Widening dispersion in graduate earnings
3. Trading down displaces other young people
4. Scarring impact on lifetime earnings may be significant
5. Signs in student applications that prospective students are starting to look harder at the value of a degree.
6. Chilling effect on aspirations of those not aiming for HE
7. Increased uncertainty about outcomes of investment of time, energy and money in all forms of post-compulsory E&T

Policy overplays what upskilling can do

“.....in the short run, skills policy is unlikely to be able to able to move large numbers of individuals currently in lower and intermediate skilled jobs to appreciably higher skilled jobs, particularly given the short term constraint on the number of intermediate jobs in the economy”.

Vignoles, A, 2012: 20

And for the future....

UKCES and the Joseph Rowntree Foundation explored the future shape of the labour market in 2020. They wanted to see if hitting the Leitch targets would reduce poverty. It didn't!

They also found that by 2020, if nothing changes, in England across the lowest 3 deciles of earnings (the 30% of the labour force with the lowest wages), at least 30% of these workers will have an NQF levels 4-8 (i.e. sub-degree or above).

Complexity and uncertainty = risk?

Given the circumstances outlined earlier, those at the lower end of the ability range/labour market often face the weakest and most uncertain Type 2 labour market incentives.

For those who cannot aspire to enter Higher Education, the choices may be poor, and non-participation rational.

Those with limited resources:

- Tend to be more risk averse than those who have plenty of resources to support them.
- “Children from better off backgrounds can succeed because they can fail” – Soutro-Otero, 2012: 401.

Reform of VQs is good, but there are two big problems:

Problem 1:

In sectors like retailing, cleaning, hospitality, and care, what are the chances that, left to their own devices, employers will collectively design qualifications that specify high levels of broadly-based skill? Previous attempts at VQ design have often foundered on the arrival at a 'lowest common denominator' approach, whereby the laziest and least demanding employer dictates the 'floor' skill level at which the VQ is set.

Problem 2:

QUESTION: in some occupations/sectors (e.g. retail, care, cleaning, hospitality) is it possible to create lower level VQs (with whatever content) that would show any substantial real rate of return given current wage levels and progression structures?

Probably answer = NO!

To date, reforms have stuck at Level 3

DfE reforms to VQs and to learning programmes, have tended to focus most attention at Level 3 – i.e. they have done the easy stuff first.

What will happen at Level 2?

An acid test?

As a consequence of the Richards Review of Apprenticeships, employers will be constructing new L2 'apprenticeship qualifications' in areas such as cleaning, social care, child care, retail, hospitality, etc.

- Broader and more demanding VQs may be achievable.
- VQs that generate substantial wage gains may not?

Final thoughts 1: beware the fetishisation of qualifications!

Achieving a qualification - any qualification –it seems has become a proxy measure of successful outcomes over and above what people actually do in their job, what they are actually paid, what they can afford, or whether they have genuinely improved their capacity to be more productive”

Roberts, 2012: 6

Final thoughts 2:

Analysis tends to show that employers and the wage structures, occupational labour markets, R&S systems, and work organisation and job design that determine skill requirements are a major part of the problem. Policy makers continue to be obsessed with the idea that, if we ask them nicely enough, this time employers will provide the solution and specify really high quality VQs that command a significant wage gain. **Is this remotely realistic?**

Final thoughts 3:

As the Social Mobility and Child Poverty Commission has recently noted, we need:

- Higher national minimum wage
- Living Wage campaigns
- Labour market regulation and enforcement
- Programmes to assist employers to re-design work and jobs to boost job quality and progression opportunities
- New forms of collective bargaining and wage setting mechanisms
- Reassessment of social norms around low pay

Final thoughts 4:

Minimising unemployment, under-employment, credentialism, bumpy transitions and wasted public and private investment in E&T also requires:

1. Product market, innovation (broadly defined) and competitive strategies that drive rising demand for skills across the bulk of the economy.
2. Systems of work organisation, job design and employee relations that stress good skill utilisation, workplace skill formation and innovation.

Further Reading:

Atkins, L. 2010. 'Opportunity and Aspiration, or the Great Deception?', *Power and Education* 2 (3), 253-265.

Brockmann, M., Clarke, L. and Winch, C. (eds.) 2011. *Knowledge, Skills and Competence in the European Labour Market*, Abingdon: Routledge.

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Social Mobility and Child Poverty Commission. 2013. *Social Mobility: the next steps*, London: SMCPC