

**Low skill traps in sectors and geographies:
underlying factors and means of escape**

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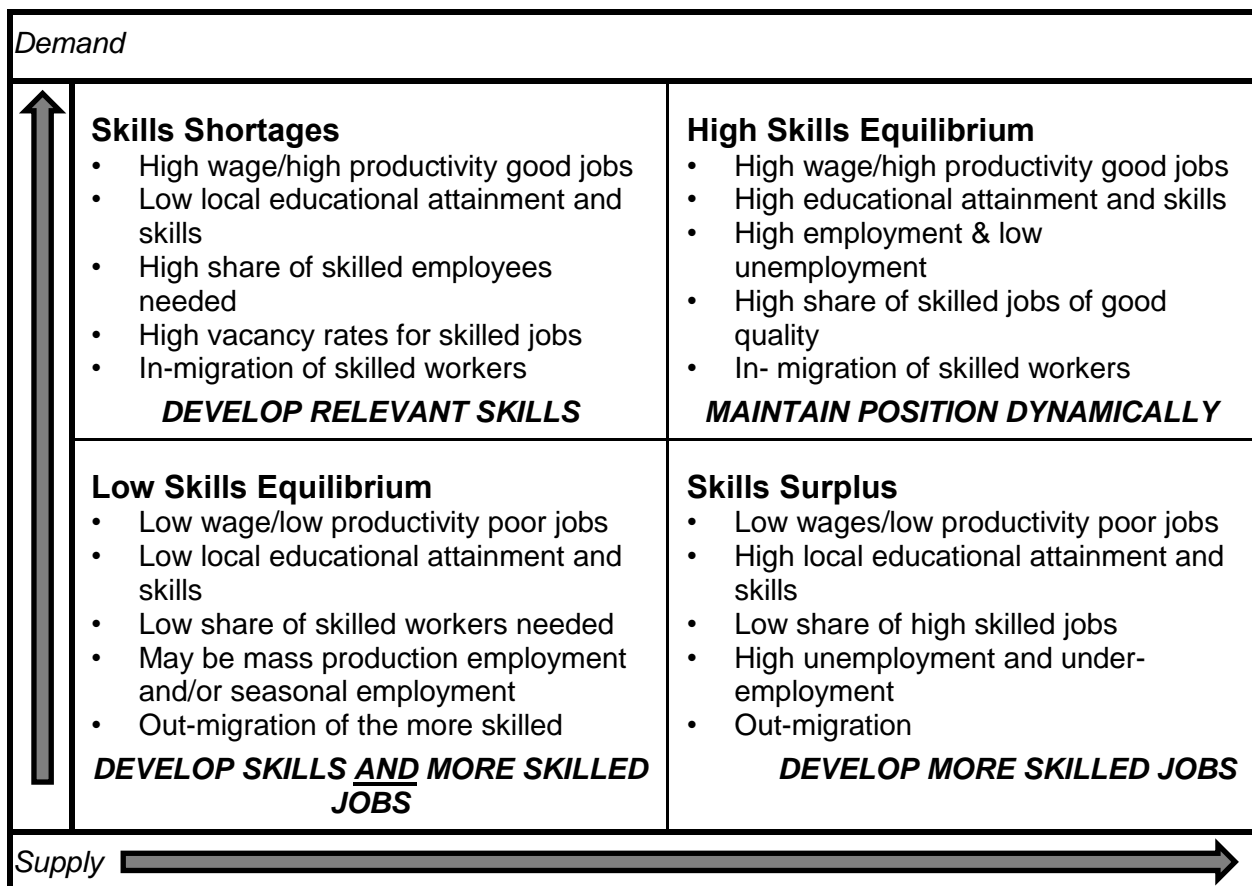
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1. The low skills equilibrium

Figure 1 shows a conceptual model of the four-fold outcomes a combination of low and high levels of skills supply with low and high levels of skills demand. The focus here is on the situation of a 'low skills equilibrium' (LSEq) (or 'low skill trap') where low supply of skills is combined with a low demand for skills.

Figure1: Inter-relationship between low and high levels of skills supply and demand



Source: based on Green et al. (2003); Froy et al. (2009)

The LSEq hypothesis was first proposed by Finegold and Soskice (1988) to account for the existence of relatively low productivity in national and sub-national labour markets. Hence the term 'LSEq' entered national and sub-national policy debates, with some areas (and some sectors) characterised by a LSEq, and others by skills shortage, a skills surplus or a high skills equilibrium.

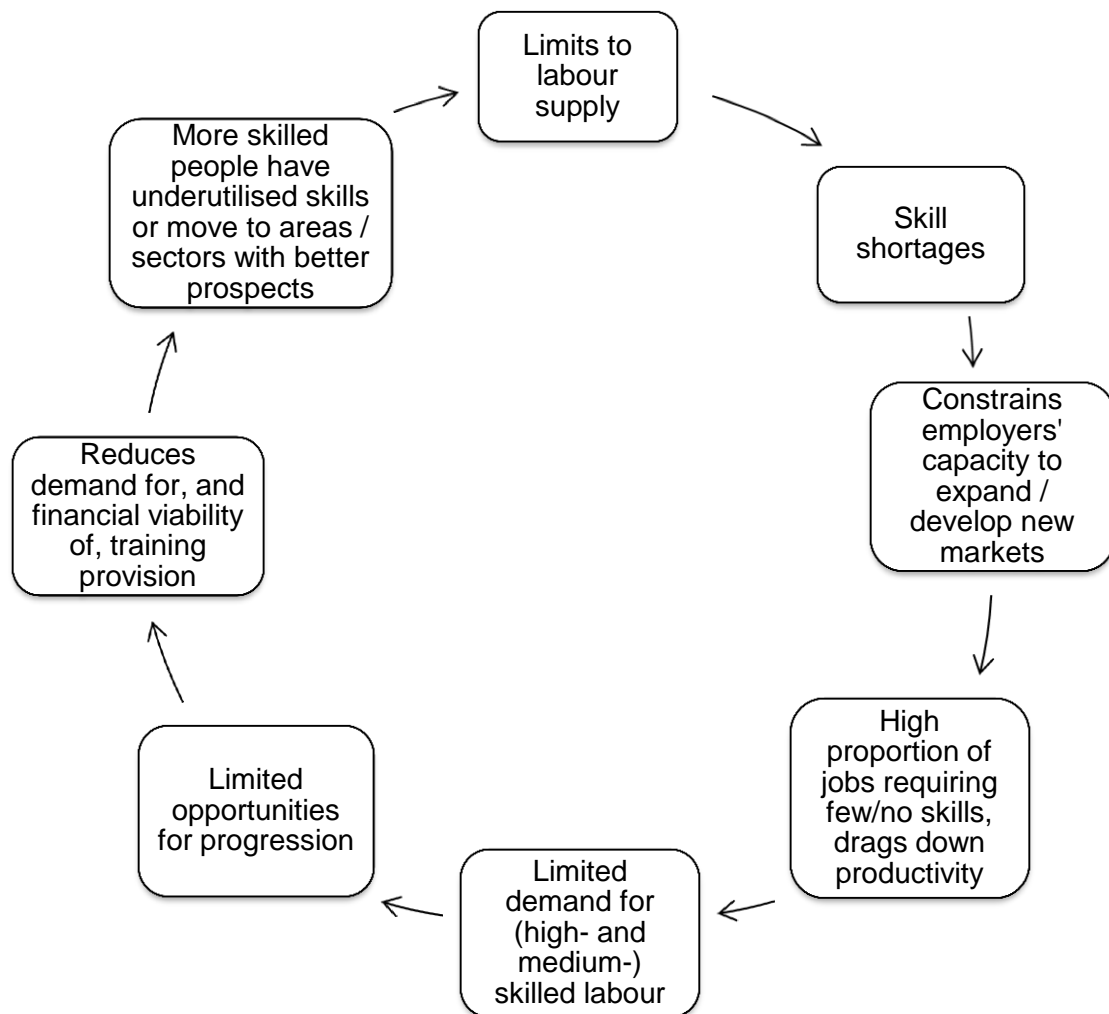
The LSEq can also be understood at the level of individual organisations (Wilson et al., 2003; Edwards et al., 2009), in terms of their trajectories in relation to the interplay between product market position and types of skills utilised / work organisation in place. This

suggests that there is no single or relatively fixed LSEq within a sector (or area), but rather a variety of positions, reflecting the characteristics and market positions of firms. So within sectors (e.g. hospitality and retail) and areas (e.g. peripheral rural areas) typically characterised by a LSEq there will be firms that have escaped the 'low skills trap', just as in sectors and areas not typically characterised as such 'low skills traps' may exist.

2. The 'low skills trap' – underlying factors

Wilson et al. (2003) defined a LSEq as occurring where “employers face few skill shortages in a predominantly low skilled workforce, where there is little incentive to participate in education and training and raise qualification levels and aspirations” (Wilson et al., 2003: 4). It describes a self-perpetuating network (i.e. a 'vicious circle') of societal and state institutions which interact to stifle improvements in skill levels and in productivity, as outlined in Figure 2.

Figure 2: The 'low skills trap' and economic development



Starting at the top of Figure 2, *limits to labour supply* may be quantitative (particularly in sparsely populated peripheral rural areas) or qualitative (in terms of the level or mix of skills available). In turn this can lead to *skill shortages*. This can constrain *employers' capacities to expand or take advantage of the development of new markets*. In turn this may have negative implications for *productivity* and also mean that a higher proportion of jobs than would otherwise be the case demand no/few skills. This means that employers specialise in production systems or delivery of services requiring a *limited demand for high- and medium-skilled labour*. Hence workers have *limited opportunities for, or role models of, progression in situ* (especially in more peripheral areas).

This can lead to the predominance of a short-term outlook, where what inter-firm and inter-sector mobility exists may be for short-term gains (such as marginal pay increases). In turn this may lead to what employers' training expenditure exists being accounted for by induction training. It also means that there is *reduced demand for training* from both the demand-side (employers) and the supply-side (individuals). This lack of demand for training means that for providers the *financial viability of training is reduced* – especially in rural areas where costs of work-based learning may be hard to sustain and travel costs to take up training elsewhere are higher, and in specialisms where costs of provision are higher.

Lack of demand for higher level skills and so of progression prospects, coupled with difficulties in accessing training, means that less skilled people are likely adjust to available opportunities by not seeking skills development. By contrast more skilled people face skills under-utilisation in situ or *move to areas (or sectors) with more and better prospects* (in terms of both the quantity and quality of jobs). This is particularly the case for 'dual career households' whose location and mobility decisions are influenced by opportunities available to both partners (Green, 1997). Likewise more aspirational young people may move away to take up education and training opportunities elsewhere. In turn this limits the supply of skills available, so perpetuating the 'low skills trap' – and the vicious circle continues.

3. The 'low skills trap' – means of escape

3.1 Supply- and demand-side approaches

A *supply-side push* alone in areas and sectors experiencing a low skills trap seems unlikely to be sufficient in effecting an escape from the low skills trap. While skills development through learning and training has a role to play, given that individuals with high education and vocational qualifications are less likely to experience low pay than those without, policies

focusing on the *demand for, and utilisation of, skills* may be more important than supply-side ones in escaping the low skills trap.

Ashton and Sung (2011) make an important conceptual distinction between:

- a company's *product market strategy* – which determines in what markets the company competes; and
- a company's *competitiveness strategy* – which outlines how it will gain competitive advantage in the markets in which it operates.

Reflecting the fact that skills are a derived demand, as companies move into higher value-added product and service markets, the levels of skills that they require, and the extent to which they use these skills, tend to increase. Hence targeting a company's product market strategy can be an effective way of increasing demand for skills. A company's competitiveness strategy may be an effective way to enhance skills utilisation.

Overall supply-side *and* demand-side approaches together are needed to escape the low skills trap.

3.2 Policy directions

Research on local skills strategies (Green, 2012; Froy et al., 2012; Sissons and Jones, 2014; Green et al., 2016) identifies several core features which together or separately are of relevance for policy:

- *A central role for employers* in helping shape skills provision, including direction of some funding for training through employers and/or sector skills councils. It should be borne in mind that employer-led policies may fail if steered by employers with low levels of ambition. The UK Futures Programme (Mackay et al., 2016; Thom et al., 2016) demonstrates what can be achieved by employers in the same or allied sectors working together, sometimes with a place-based focus, in sharing best practice and fostering collaboration and networking across firms to boost skills levels and to provide opportunities for progression. But the programme also illustrates the importance of:
 - management buy-in;
 - the role of well engaged intermediaries in bringing employers together; and
 - the difficulties of scaling up.
- *Flexible training provision* that is responsive to employers' needs and technical assistance and training so that workers' skills and the technology available are fully

utilised. An example is provided by the Black Country Skills Factory¹ which, working with local colleges and training providers, has used expertise in high value manufacturing to broker access to employer-led bite-sized courses to address skills shortages and gaps and has developed management and leadership training programmes.

- Opening up and fostering in-work progression through a *'dual customer' approach* involving supporting employers to develop more jobs with higher skills levels *and* assisting employees with progression. The 'dual customer' approach also links to a wider economic development aim of creating a pipeline of qualified workers, helping negate the development of skills gaps and increasing the competitiveness of local businesses. This approach has been trialled in the US, with findings suggesting that a sector-based approach can generate additional benefits (Maguire et al, 2010; Conway and Giloth, 2014);
- *Promotion of practices for more effective skills utilisation* (see for example Zeynep [2014] with regard to the retail sector), including:
 - job re-design;
 - employee participation;
 - greater worker autonomy;
 - job rotation; and
 - multi-skilling.
- Use of *public procurement practices* to foster training and skills development, and raise quality standards through *supply chains*;
- Promotion of the *public sector as a role model* in human resource management practices Use of a company's *competitiveness strategy* – which outlines how it will gain competitive advantage in the markets in which it operates;
- Working with *universities and local colleges / educational institutions* to encourage applied research, technology transfer and management training to help in the transformation to higher value-added product market strategies (as in the case of the footwear industry in the Riviera del Brenta in Italy [Froy et al., 2012]) and so to support local economic development;
- *Intentionally changing the local economic development model* – as in the case of San Antonio, Texas. Historically the city has been characterised as a low wage, low tax and low regulation economy. Economic development strategy was focused on recruiting new domestic companies from outside San Antonio, highlighting the city's low wages

¹ See <http://www.blackcountyskillsfactory.co.uk/about-us/background>

and non-unionised labour. It was recognised that 'low wage' economic strategy of attracting inward investors to the city was not sustainable, so the economic strategy was changed to one of very intentionally growing the San Antonio economy from within, with a tightly targeted sector-based policy focusing on better jobs in globally competitive sectors (Green et al., 2017).

At the heart of many of these approaches is effective *partnership working* – involving employers and employers' associations, colleges, universities, private training providers, local economic development agencies, the public employment service, local welfare providers, third sector organisations and others.

3.3 Policy domains beyond skills

Working across policy domains such as housing and health, as well as employment and education, is important. It needs to be recognised also that policies beyond those relating specifically to skills and economic development have implications for the persistence of, and possibilities of escape from, low skill traps. For example:

- The *nature of the housing stock* in particular places may attract people with low skills (and low incomes) into particular local areas, so affecting population dynamics and the composition of labour supply.
- *Welfare policy* may emphasise a 'work first' approach which may result in workless people being placed in any job (irrespective of the qualifications required in the job, other aspects of job quality and the skills of the individual), rather than a 'career first' approach which highlights potential for progression and skills development.

Likewise *immigration policy* has implications for low skill traps. A ready supply of immigrants willing to take low skilled jobs (whether or not they have higher level skills) may be a factor in perpetuating such traps. It follows that constraints on labour supply (whether through restrictions on immigration or otherwise) may be a factor in leading firms to increase pay and move to a higher value product market strategy demand higher level skills.

4. Conclusions

Supply-side and demand-side factors interact to create and perpetuate low skill traps. Weak institutions help to sustain them.

Low skill traps are not the sole preserve of particular sectors or places, but they may be more prevalent in particular sectors (e.g. accommodation and food services, and retail) and in particular places (e.g. peripheral rural areas) than in others.

A mix of demand-side *and* supply-side policies, which are sectorally and geographically sensitive, underpinned by collaboration and networking across firms, and broader partnership working, are needed to help escape low skill traps.

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