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**QUALIFICATIONS, UNEMPLOYMENT AND YOUTH TRAINING POLICY IN  
THE UNITED KINGDOM**

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## **Introduction\***

This paper seeks to analyse some of the underlying assumptions that drove training policy during the 1980s and 1990s in the United Kingdom. Policies are not the product of ideas and their interaction with political preferences; a complex series of institutional and economic variables also have an influence. Although I am aware that ideas and assumptions constitute only a partial explanation, nevertheless it is on them that I focus.

Training policies are a part of active labour market policies and are a component of the strategy with which governments face the problem of unemployment. The aim of this paper is to analyse the type of labour market intervention whose objective is to affect the relationship that exists between the level of qualifications of the young active population and its level of unemployment. The strategy of the Conservative governments in the UK during the 1980s and early 1990s represents an adequate case for the study of the underlying assumptions about the causes of unemployment and the determinants of training.

Some of the relevant dimensions are the following: the degree to which policies are oriented towards the demand or the supply of qualifications; the groups or actors who have the responsibility for determining the content and certification of training; the system of incentives that policies face and that the policies themselves create; governments' analysis of the relationship between the pay levels, the qualifications and the unemployment levels of specific groups; the extent to which training policy is conceived as a measure to fight against unemployment or as educational policy. The results of the analysis are coherent with a type of policy whose principles are neoliberal but whose instruments are interventionist.

The way in which the Conservative governments understood the relationship between unemployment and qualifications in economic terms is essential for framing training policy within the broader labour market policy. The sources upon which the arguments are based include several interviews with politicians and policy-makers and will try to show some of

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the power relations dynamics that took place in the design of youth training policies. Finally, I will show some evidence of the results of initial vocational training policies in terms of qualifications and employment outcomes.

## **1. The relationship between qualifications and unemployment**

Since the 1980s, OECD labour markets have been hit by an important shift in the occupational structure of labour demand towards educated and skilled workers away from less educated and unskilled workers. Several developments explain this shift in relative labour demand (Heylen et al. 1995). In the first place, there has been a movement of production and employment from 'blue-collar' industries (manufacturing) to 'white collar' industries (services). Secondly, the introduction of new technologies and the rise in capital intensity in all industries. In the third place, the expansion of trade with developing countries which includes a growing penetration of imports of manufactured goods that are relatively intensive in unskilled labour from low-wage countries, and the relative rise in exports that are relatively intensive in skilled labour by the OECD to low-wage countries.

Figures 1 and 2 present, graphically, the economic thinking with which the Conservative governments faced the problem of unemployment and its relationship with shifts in demand during the 1980s in Britain. The changes in demand are represented by a downward shift of the demand curve for low-skilled workers and an upward shift of demand for high-skilled workers (shifts from  $Ld_1$  to  $Ld_2$  in Figure 1). In two hypothetical labour markets for the unskilled and the skilled, it was a starting belief of British neoliberal thinking that, if changes were faced with labour market flexibility, and relative wages of young and unskilled workers were allowed to decline substantially, whereas wages of skilled workers rose strongly, unemployment would be sustained. As a consequence of this wage flexibility (and rising inequality), equilibrium could be maintained in both segments of the labour market (point  $e'$  in Figure 1). In this model, though the quality of many jobs would be low, unemployment could be contained. The alternative, according to the prevalent economic view at the time, would be to allow the wage system to remain relatively rigid after the shifts (a

permanent  $w_1$  in Figure 2). As a result, the relative demand for unskilled workers would result in rising unemployment for this group (the distance  $e_x$  in Figure 2) and supply shortages in the skilled labour market. Several institutional factors such as union strength, government regulation, minimum wages, and unemployment benefits, were regarded as the main causes of wage rigidity.

Indeed, government interventions to affect these institutional factors have had implications for the UK labour market, which has developed specific characteristics that make it differ from the European Union (EU) average but not so much from the United States. Data illustrating these institutional characteristics are given in Table 2. Differences between the UK and the US are generally smaller than between the UK and the EU average. In the two first countries there is a greater proportion of low-wage earners and a greater gross wage dispersion. As for the underlying labour market institutions and policies, the data support the view that in the UK there is less employment protection, the power of unions has been undermined, there are effectively no minimum wages, and the unemployed benefit system is less generous both in terms of replacement ratios and length of the period.

The two main characteristics of the labour supply are in the first place its price, that is, the wage, and in the second place its quantity. Faced with a disequilibrium situation like the one described above, governments can opt for a strategy of reducing the supply of unskilled labour (instead of reducing its wage) and increasing the supply of skilled labour. For that option to work, it is necessary to improve education and training systems. It is my contention that the UK Conservative governments designed and implemented training policies as unemployment policy and not as skill-enhancement policy and thus they have been much more orientated to affecting the relative wage of low-skilled labour supply than its quantity.

Responses to the reduction in demand for unskilled workers can consist of a wage-based strategy or a skills-based strategy. The major component of the British response has been related to widening earnings and wage differentials. The trend is given in Table 3. The 1993 OECD Employment Outlook provides information about the growth in real wages of low paid workers over the 1980s. In the UK, the figure is 0.8 per cent between 1980 and

1982. The increase in earnings inequality has also been apparent across skill groups (Nickell, 1996). I now present some of the evidence from the literature on the issue.

Machin (1995) has found some evidence of a considerable shift towards the use of what may be termed 'more skilled labour' (away from manual work) and towards more highly educated labour in the UK. One might argue that the definitions of manual to non-manual unemployment are too broad to view the changes in the share of total employment of these two categories as a process of skill upgrading. Machin considers the alternative definition of employment structure based on relative shares of educated and non-educated labour in total employment. He divides the population into individuals with a degree, individuals with some educational qualifications below degree level, and individuals with no qualifications. The education-based shares are correlated with the non-manual share<sup>1</sup>. Two schools of thought have given explanations about the causes of the shift in the relative demand for skilled labour. One asserts that it was essentially due to product demand shifts that affected industries with a greater share of manual labour (the strongest case being the rise in import competition). The second asserts that skill upgrading occurred due to manual labour-saving technical changes. The results of Machin's analysis support the second explanation for the UK, and changes would have been centered on the use of computer technology.

In order to have an idea of the magnitude of the problem we are talking about, I now consider in more detail the question of how important the decline in the relative demand for the unskilled has been in explaining the increase in British unemployment in the last two decades. We would expect an increase in the relative unemployment rate of the unskilled and a fall in their relative wages, and also a concentration of the increase in unemployment among the unskilled (Nickell and Bell, 1997; 1995). Indeed, in the UK there has been a dramatic fall in the relative wages of the unskilled during the 1980s. But the UK is in a group, together with Germany, the Netherlands, Spain, Canada and others, in which the proportionate rise in high-education unemployment is also significant. When looking at the

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<sup>1</sup> For example, the correlation coefficient between the industry-based share of non-manual labour and the share of workers with a degree is 0.64 and the correlation with the share of workers with no educational qualifications is -0.54.

rise in unemployment in OECD countries during the 1980s (Nickell and Bell, 1995), there is a group of countries where the rise in unemployment is small and mainly due to the rise in low-skilled unemployment (Japan, US, Norway and Sweden) and a larger group, where there was a substantial increase in unemployment, a considerable part of which appears to consist of unemployment rates across skills groups arising from neutral shocks with a smaller part being due to excess unemployment among the unskilled. In this second group, and taking the average over all five countries, we find that over the 1980s, the skilled unemployment rate rose from 2.44 to 4.96 per cent (103.3%), the unskilled unemployment rate rose from 5.54 to 14.22 per cent (156.7%) and the total unemployment rate rose from 4.68 to 10.42 per cent (122.6%). Taking into account the percentage of the labour force that is unskilled and skilled, they conclude that for the group of countries in which Britain is included, somewhere between 15% and 25% of the increase in unemployment from the 1970s to the 1980s could have arisen from the collapse in demand for the unskilled. For Britain in particular, the figure is around 20%. Trends in unemployment by educational level are given in Table 1.

Nickell (1996) has studied the reasons why the situation of the unskilled workers has worsened in the UK. Compared with Germany and to some extent France (Blanchard, 1997), the reasons why wages have not shifted more against the unskilled in the latter countries is usually put down to wage setting institutions. However, the German education and training system makes it easier for the great mass of the working population to assimilate new skills and respond to shifts in the pattern of demand. This is identified as a key factor because of the high level of training embodied in the vast bulk of the German labour force. The German school system is geared to maintaining high standards for the bottom half of the ability range. This, combined with a comprehensive system of vocational training, can mitigate the adverse consequences of a shift in demand away from the unskilled, without an increase in earnings inequality. This suggests that moving its education system in the German direction would help the UK to resolve the low-skill, low-pay problem.

Snower (1994) provides a different explanation for why western countries, experiencing the demand shift from unskilled to skilled labour, responded differently during the 1980s, with earnings differentials growing across skills groups in some economies but remaining constant or even falling in others. His analysis suggests that countries' different

responses may be due to differences in opportunities for skilled employment, which may have arisen for historical or policy reasons. In countries that offer little support for education and training, and which contain a large proportion of unskilled workers, the market mechanism reinforces the existing lack of skills by providing little incentive to acquire more, whereas in countries with well-functioning educational and training institutions, and large bodies of skilled labour, the free market may do much more to induce people to become skilled.

There were a variety of responses over the 1980s to this demand shift. In terms of earnings differentials by education, occupation and skill, the greatest increase was in the UK and the US, while a modest increase took place in many other countries including Spain, France, Belgium, Portugal, and Sweden. The earnings dispersion remained unchanged in Norway, Denmark and Finland, and in Germany there was a small reduction in dispersion over that period (OECD, 1993). The usual way of explaining these diverse responses to the broad-based demand shift is through intra-country differences in (1) labour supply movements and (2) labour market institutions.

As an explanation of why countries responded differently to a common rise in the demand of skilled labour, however, the labour supply story is not wholly satisfactory. The accelerated entry of young participants into the labour force, and the slow-down in the entry of college-educated people which may have raised wages at the upper end of the distribution, are developments that many western countries had in common over the 1980s and thus cannot provide an account of why the countries had such diverse wage-employment experiences.

The other account rests on institutional differences such as minimum wages, wage bargaining structures, and social insurance institutions. This type of explanation has some insights but cannot explain why the earnings differentials in the UK have lasted for so long and why the unskilled have not been induced to become skilled. According to Snower (1994), Britain has suffered from a 'bad-jobs, low-skill trap'. In the UK, between 1977 and 1991, the real wages of the ninth decile of male workers rose by 54%; for median male earners the comparable figure was 33.8%, and for the first decile a mere 16.5%. Three broad sets of



explanations for rising inequality that can be isolated are given in Table 4 (Moll, 1992). In the first place, declining relative earnings for less skilled workers could reflect declines in the demand for their labour, reducing both relative employment and pay. In the second place it can be due to supply shifts. Against these supply and demand explanations, regulation factors associated with the weakening of the bargaining power of the unskilled can also widen the earnings distribution. According to Gallie and Vogler (1990), the UK labour force has polarised, with upskilling in the higher-level jobs contrasting with skill stagnation in low-level jobs, particularly those associated with manual work. The evidence in the UK is most compatible with the view that returns to skills have been rising due to a shift in the demand for labour towards the skilled and educated workers since the mid-1970s than to a fall in supply. A fall in the relative supply of skilled workers, by contrast, would produce similar outcomes regarding inequality of pay but would entail a shift in employment towards relatively unskilled workers, which simply has not taken place. On the labour market regulation side, the breakdown of the incomes policies of the 1970s and the Thatcher government's assault on the blue-collar trade unions worsened the bargaining position of certain types of workers. Reductions in employment protection have had a role as well.

## **2. Assumptions that underlie Conservative training policy**

The British Conservative governments during the 1980s pursued a reform of the labour market with the chief objective of deregulating it in order to remove the so-called 'rigidities' in the belief that this would make the British labour market more flexible. Unemployment was regarded as "classical" unemployment, reflecting excessive real wages. Accordingly, if mechanisms for keeping wages from falling were removed, workers would "price themselves back into employment" (DE, 1985)<sup>2</sup>. In the light of the 1979 election manifesto that eschewed reference to full employment, one would have expected the Thatcher government to abandon policy activism. On the contrary, in response to high

unemployment, the Thatcher government opted for a type of strategy that combined neo-liberal principles with an active state (Gamble, 1988). This active neo-liberal or market-centered approach combined activism in the form of labour market intervention, and neo-liberalism and its associated goals of reducing structural impediments to lower wages and increasing incentives for individual initiative as opposed to collective representative institutions.

More specifically, the labour market strategy of the Conservative government was designed around four main preferences (Blanchflower and Freeman, 1994) and two main desired outcomes. The preferences were the following: the reduction of union power, the deregulation of the labour market, the change of the welfare state to increase work incentives, and the increase of self-employment and skills of the active population. The two former policy areas were closely linked with the outcome of reducing impediments to lower wages. The latter two were associated with the outcome of reducing mismatch in the labour market. All these policy choices reflected a supply-side conception of unemployment.

British training policy needs to be analysed within this labour market strategy framework. Thus, in coherence with the overall labour market strategy, training programmes were essentially a way of intervening in the labour market in order to subsidise low-paid jobs both in the private and public markets, reduce the unemployment figures, and increase the earnings differentials between young and adult workers in order to 'price young workers into the market'.

I will argue that training policy in Britain has been based on what might be called a 'naive' version of the human capital theory<sup>3</sup>. A major development in the theory of training came with the distinction between the type of training which was relevant to a variety of tasks and across firms compared with training that was more specific to the job and the firm. A

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<sup>2</sup> According to the Chancellor of the Exchequer in 1984, the main cause of unemployment in the country had been the determination of monopolistic trade unions to insist on levels of pay that priced people out of work.

<sup>3</sup> According to the model, investment in education and training would be the most important predictor of enhanced earnings over the course of a person's working life.

standard result based on the general-specific definition of training concerns training finance. Becker (1975) argued that workers rather than firms should bear the cost of general training, and that firms would provide general training only if they did not have to pay any of the costs. Persons receiving general training would be willing to pay for these costs since training would raise their future wages.

One of the most important criticisms of the human capital idea came from the institutional view developed originally by Piore and Doeringer. One central idea in institutional theory is the distinction between the internal and the occupational labour markets (Doeringer and Piore, 1971). Occupational labour markets (OLM) follow the neoclassical analysis in which the wage is set by market demand and supply. Labour mobility ensures that wages will be equalized across firms for the same skill requirements. Workers seek security not from any particular employer but from the wider labour market, in association with certified skills and knowledge. The theory of internal labour markets (ILM) accepts that an external labour market explains some types of labour recruitment adequately. These parts of the hiring process are known as "ports of entry". However, once workers have been hired, the internal labour market is paramount. Workers will progress to different skill levels within the firm and inter-firm wages will vary because labour mobility is extremely low. Workers' training will be determined within the firm. Specific skills are an essential ingredient of an internal labour market. Workers gain security through claims upon particular employers rather than through possession of externally recognized skills. OLMs depend on externally certified knowledge. They tend to rely on some form of institutional agreement such as union-employer agreements or state-employer agreements. There are several important aspects of the relationship between labour market structure and the incentive to train. The emphasis in ILMs on specific rather than general skills may induce firms to reduce training costs by limiting the range, depth and accessibility of the training which they provide relative to the training for regulated apprenticeship with industry-wide skill qualifications.

In principle, OLMs are more likely to encourage broad-based transferable skills. First we need to think about the kind of skills that the policy is seeking to encourage. Training policies are associated with labour market structures. OLMs require the development and certification of skills on a basis wider than the needs, resources and inclinations of individual

employers. Internal markets, by contrast, involve more informal and limited training, provided largely at the workplace and oriented to immediate job requirement. OLMs have historically existed in Britain where an apprenticeship system was in place for decades. In this respect Britain was well placed to encourage intermediate general skills. The failure of the UK to achieve the development of an occupational initial training system is a puzzle which I will try to explain in what follows.

Becker and the proponents of the human capital theory asserted that general skills were to the benefit of individuals and should be paid for by the individual. If capital markets did not allow individuals to finance training, then some form of intervention could be necessary. Once we take into account the existence of market failures, human capital theory had three main implications for training policy. Firstly, if firms rather than trainees bear the cost of general training and this is not accompanied by a compulsory levy on all firms, there are potential benefits for firms undertaking less of their share if they are able to attract workers from other firms at the end of the training period. This is known in the economic literature as the firm-firm externality or 'poaching problem'. Secondly, where 'learning by doing is significant', there is a weaker case for expecting employers to offer a low training wage because there is very little reduction in productivity during training. Third, reliance on a market solution for the provision of economy-wide training is likely to lead to an underinvestment in polyvalent skill provision because of the existence of imperfect capital markets which both the individual and the firm face.

Analysis of official policy statements and interviews with several politicians and policy-makers reveal a series of interlinked beliefs underlying initiatives in the 1980s and early 1990s. I am going to focus on initial training policy. Initial training is oriented above all to the acquisition of what Becker characterised as general or transferable skills and competences. Training leading to the acquisition of general skills enhances the trainee's productivity to an equivalent extent in other firms as in the firms providing the training. It may be contrasted with specific training which increases the trainee's productivity to a greater extent in the firm providing the training than in other firms. A concern with the adequacy of market solutions to the provision of general skills underlay the creation of the Industrial Training Boards (ITBs) in the 1960s with the right to impose levies and to pay grants to

firms. The ITB system, which extracted a levy and used this to fund training, was regarded as a means of addressing the 'poaching problem'. The ITB system involved a levy for all firms and this "training fund" was paid out to firms who conformed to the training standards set by the ITB. Becker showed that under perfectly competitive labour market conditions, general training would be offered by firms if the costs were borne by the trainee in the form of a wage less than the trainee's value product during the training period. In case of firm-specific training the cost of training would be shared. The model had no room for "poachers" since firms providing general training would not incur net costs during the training period; any deficiency in the supply of general training was more likely to be due to labour supply factors, principally the failure of capital markets to provide funds to finance the investment in human capital (Becker, 1975)<sup>4</sup>.

The major market failures associated with the market model are, in short, that, once we accept that wages are usually set under imperfect competition conditions (with some firms exerting some market power), and that most skills are imperfectly transferable (so that 'poaching' is usually a possibility), it becomes obvious that the free market does not provide sufficient incentives for training (Stevens, 1996). It is also clear that this might be complicated by credit constraints. When the inability of the market system to provide sufficient training interacts with the shift in demand against unskilled labour, we have a more clear association between the free market model of training and unskilled unemployment levels.

At the beginning of the 1980s, the official government explanation of Britain's failure to provide enough initial training lay in the relatively high level of trainees' (apprentice) pay negotiated in collective agreements. The abolition of the ITBs in 1981 was partly motivated by the belief that redistributing the burden of training between firms was not an adequate

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<sup>4</sup> Shortcomings arising from the use of Becker's policy implications relate to the contradiction between the theory that the firm would not incur net costs in providing general training opportunities and the evidence from studies on apprenticeship training in the UK, the US and Germany.

response<sup>5</sup>. The alternative would seek to reduce the cost burden on firms of providing transferable initial training imposed by high levels of trainee pay. The Young Workers Scheme (YWS) and the Youth Training Scheme (YTS) both pursued that goal. Under the former programme, employers received a subsidy if the employee's earnings were under a ceiling, set significantly lower than the prevailing level of youth pay. Under the second, employers received a block grant for two years and this would cover training costs and the trainee's allowance.

**Thus, in the first place, it was assumed that employers would provide general transferable training if they did not have to pay for its costs.**

The decision to abolish the ITBs and then decentralize training policy to newly created organisations called Training and Enterprise Councils (TECs) has meant that the state no longer has a mechanism for overcoming the externalities associated with general and transferable training investment. The employer-led TECs are in keeping with the Conservative government's general desire to return to a voluntarist training tradition and this has been welcomed by the CBI<sup>6</sup>. TECs have no power to raise funds through a levy on employers in their area, nor do they have any means of enforcing training quality or quantity on companies that choose to free-ride on the system.

**The second major assumption was that there was no need for legislative backing, because the payoff from training, whether for the employer or the employee, would be positive.**

Let us analyse this assumption first from the individual's point of view. Several government reports have asserted that for the individual, investment in training is the best way to ensure job security and enhanced earnings over the course of their working lives (DE, 1988). Thus, reliance on a training market supported by individual investment carries with it

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<sup>5</sup> Interview with Sir Geoffrey Holland, May 1998. Sir Geoffrey Holland was the Director of the MSC during the 1980s.

<sup>6</sup> Interview with Tony Webb, CBI Education and Training Department, June 1998.

a conviction that a strong link exists between qualifications and skills and employment opportunities. The evidence to support such assumptions is in many instances weak. With the exemption of degree-level education, there was little evidence that the British pay structure was able to provide substantial incentives to the individual to acquire skills. The employment returns available to young people who invest in obtaining post-16 non-academic qualifications have often been extremely poor. Whereas degrees and higher level vocational qualifications have been found to enhance lifetime earnings, low-level vocational qualifications produce only very modest returns. Government White Papers during the 1980s and early 1990s have assumed that the job structures that pertain in professional jobs are also found in other forms of employment. Retailing, cleaning, distribution, hotels, food and tobacco, clothing and textiles, catering and leisure are examples of sectors where well-developed ILMs and career structures do not exist<sup>7</sup>. With respect to the incentives for employers, one of the most influential Manpower Services Commission (MSC) reports of the 1980s asserted that "we are not convinced that poaching of skilled labour is a major deterrent to the total volume of training undertaken" (MSC, 1984).

**The third assumption was that control of the training system should be vested with employers, who have the responsibility for deciding the nature and volume of training that is required<sup>8</sup>.**

Conservative governments created an institutional structure during the 1980s and early 1990s in which employers were given primacy. The creation of TECs, the National Council of Vocational Qualifications and the Industry Lead Bodies<sup>9</sup>, reflect the belief that

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<sup>7</sup> And still, many of the YTS places are found in those sectors (see next section). Moreover, this assumption ignores that the jobs available for training programmes' participants are jobs whose practice will not take them further than a National Vocational Qualification (NVQ) level 2, if that (Keep and Mayhew, 1998). When YTS was extended to two years, many of the firms that were using the scheme to recruit (with the exception of those that used the places to fund the first two years of an apprenticeship) were finding it difficult to fill the two years with content, given the low requirements of many of the jobs.

<sup>8</sup> Interview with Lord Young of Graffham, June 1998. Lord Young was the Chairman of the MSC in the early 1980s and Secretary of State for Employment from 1985 to 1987.

<sup>9</sup> These are organisations in charge of determining the content of vocational qualifications.

private sector managers have access to a set of knowledge which is not available to other sectors of society.

The emphasis on the individual employer (as opposed to any kind of corporatist industry-based organisation such as the ITBs) was present in the government's preferences from the early 1980s. During that decade, however, the decision to adopt a strategy based on the supply side of the skills problem, together with the electoral need to be seen to be doing something about youth unemployment, led to the political instrumentalisation of the MSC in order to finance the supply of skills through public programmes for the unemployed, with little or no attention to the demand side -that is, how employers were using those skills. The skills shortages that became apparent with the economic recovery of the late 1980s, together with some rather poor evaluation results of the policy, led to the belief that a shift in emphasis towards the demand of skills was necessary.

The institutional changes that took place in the late 1980s with the abolition of the tripartite national organisation in charge of training policies, the MSC, and the creation of the TEC structure, was, nevertheless, one of the policy options available to deal with the skill creation-utilization problem. The Government could have chosen to keep the MSC and redefine its functions so as to deal with the prospective evaluation of skills demands, an option that was disregarded in the belief that a decentralized structure inserted in local labour markets was best. The idea of an employer-led training system implied that the type and quantity of training should be determined by employers' needs. The move towards individual funding of training through training vouchers has not been, as it might seem, a departure from the concept of employer-led training. Allowing the decision about training to rest either on the individual or on the firm has two associated consequences. Firstly, the firm may have a bias towards firm-specific skills, and secondly the individual may find it difficult to judge which skills are needed by firms, both at present and, even more so, in the future. Thus, this assumption ignores the individual's imperfect information about the future value of training, and reinforces the idea that if employers do not have to pay for it (because of the subsidy) they will give general training.



**In the fourth place, it was assumed that employment opportunities were strongly influenced by formal skills and qualifications and that a competence-based approach to initial training was best suited to achieve the necessary progress (Keep, 1996).**

Skills acquired through vocational training are to be certified within the National Vocational Qualifications (NVQs) framework<sup>10</sup>. This system has been structured in units of competence to be certified on the job by the employer; this is complementary to the previous assumption and implies that the thrust of the British training strategy has been to provide a training system that meets the current needs of employers rather than to raise the level of training to that of other developed countries.

**A fifth departing point of the Conservative training strategy was the belief that the UK economy was suffering from what some economists have called the "high-wage, low skill trap".**

The argument was that when young workers received high wages, firms were unable to pass on the cost of training to them and therefore they provide little training. The assumption that underlies this argument is a parallelism between the situation in which the employer is willing to hire a worker (job offer) and the situation in which the employer is willing to train a worker. Both decisions would depend basically on a sufficiently low wage. A large scale training programme with a fixed low allowance of the kind that was adopted in the UK in the 1980s was only one of the possible options.

The so called high-wage, low skill problem could have been tackled through apprenticeship contracts, an option that was associated at the time with unions' restrictive practices. Employers, on the other hand, were against an option that involved employee status and a legal contractual basis. So the preferred way of dealing with the high-wage low-skill

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<sup>10</sup> An NVQ is a statement of a person's competence to carry out a specified range of work activities. Each NVQ is an aggregate of units of competence, normally 4-25 (average 5-15), and each unit itself is an aggregate of elements. Competence in an element is assessed against performance criteria in a working context. (MSC, 1988). The NVQ stipulates the minimum level of skill actually required to perform a job, rather than to allow broader-based learning that will provide the transferable skills to cope with change.

problem' was to a large extent the same used to deal with the 'high-unemployment high-wage problem', that is, the removal of institutional obstacles to widening wage differentials between the skilled and the unskilled. This was implemented by the Conservatives by dismantling certain aspects of job security legislation, reducing the power of labour unions, and encouraging decentralized collective bargaining. Apart from removing institutional obstacles, there was also direct intervention in the labour market in order to promote low-wage jobs in the form of subsidies to employers who hire workers below a maximum wage per week, together with the nationally-fixed trainee's allowance.

It is important to emphasise the fact that one of the most influential foreign models in British training policy during the last decade was the German one. A key ingredient in the success of the German model was thought to have been low apprentice remuneration, which reacted favourably on employers' training costs and which would increase their willingness to offer training places. British Conservative governments accepted the argument and urged the deregulation of labour markets and the reduction of trainee pay and labour costs in the UK. The results have been, however, very unimpressive. The generalization of low trainee pay and payroll costs by deregulation implies borrowing, in isolation, an element of the German model that is supported by a complex institutional structure. Low trainee pay requires, to be feasible, an explicit link to occupational labour markets and apprenticeship training, which both employer practice and government policy have eroded. Table 5 shows the evolution of the 16 to 18 year-olds' participation in national training programmes and in apprenticeship. The rise in the former and the decline in the latter are obvious. The Government asserted that with the YTS, a system of occupational initial training superior to the German one would be created. Indeed, in its design, the large-scale national training policy was to provide transferable, polyvalent training consistent with an OLM structure.

In Britain, wage differentials between the skilled and the unskilled have grown dramatically over the past decade and a half suggesting that the rising demand for skilled labour has not been met by an equally rising supply. As the fifth assumption implies, Conservative strategy has been wage-based, and some of the reduction in unemployment figures was achieved through the creation of incentives for the young unemployed to take up low-wage jobs and low-allowance training places.

In sum, an appraisal of the assumptions that underlie Conservative training policy shows that it has been based on a simplified version of the human capital model and its criticisms. That particular version has accepted the existence of market failures only on the side of the individual worker (derived, in some cases, from the restrictive influence of unions), but not on the side of the individual employer and the rest of the firms. Conservative policy has tried to address market externalities affecting the individual such as credit constraints by publicly subsidizing large-scale training programmes. It has also tried to overcome the so-called individual-firm externality that arises when the employer is not able to pass on the cost of general training through low wages by imposing a low trainee allowance in the programmes. Only in the early 1990s, there was an attempt to tackle another market failure coming from the trainee's imperfect information of the value of the training provided in the absence of formal certification of the skills acquired<sup>11</sup>. On the institutional side, the unemployment benefit system was thought to create market failures by creating training and employment disincentives. The way to tackle this in the mid and late 1980s was to link training subsidies to unemployment benefits and other welfare payments. This is the story as far as the acknowledgment of market imperfections is concerned.

The government assumed a clear distinction between general and specific training and took for granted Becker's idea that if employers do not have to pay for general training because it is subsidized or, more accurately, franchised (Chandler and Wallace, 1990), they will provide it. This assumed that the provision of transferable training is a question of financial incentives, but ignored the fact that it is also a question of knowledge and capability, which may simply be absent at least in small and medium firms. The Conservative strategy paid a considerable amount of attention to the 'high-wage, low-skill problem', but not so much to the low-skill, bad-job trap that happens when firms do not have incentives to train. In that sense, the government ignored the so-called 'poaching externality' that arises when non-training firms are able to appropriate the benefits of the general training provided by other firms in the absence of institutional arrangements.

The Conservatives abolished the Industrial Training Boards in 1981 in the belief that they were reducing employers' freedom of action. The ITBs were tripartite industry-based institutions with powers to raise a training levy and then redistribute grants from the central fund among the firms in that industry. They were adopted in the 1960s in the belief that the arrangement discouraged free-riding on the system and thus would avoid the 'poaching externality'. The Government, by contrast, maintained that the levy system discouraged employment because it reduced employers' freedom to dispose of the benefits of their revenue in any way they decided. Thus it was preferred to simply subsidize training through national programmes and finance them through taxes<sup>12</sup>. The reform was also consistent with the objectives of reducing public expenditure and diminishing the power of intermediate representative organisations. The centerpiece of the new institutional structure are the TECs, which have no powers to raise funds from firms.

### **3. Evaluation of the Conservative Youth Training Policy: design and outcomes**

Following the discussion about the assumptions that underlie the Conservative governments' training policy, I firstly analyse the power dynamics whereby the YTS model was adopted, and secondly, present some empirical results of some of the training policies that have been implemented. I have focused the analysis on the youth training policy because it is in this group where alternatives involving various degrees of educational and training participation are clearer.

#### **3.1. The Youth Training Scheme as a political option**

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<sup>11</sup> Only from 1990 did an accreditation mechanism begin to be required for YT whose participants have to aim at an NVQ level 2. NVOs, however, do not involve external assessment.

<sup>12</sup> Interview with Sir John Cassels, May 1998. Sir John Cassels was the MSC Director until 1981.

The Government's analysis of youth unemployment was based firstly on the idea that the level of their wages was too high and secondly on the belief that there were important welfare disincentives to youth employment<sup>13</sup>. Initially, the main principle underlying government policy was to reduce direct state intervention and public spending in this area and return responsibility of this area to the level of the individual firm. Market forces would then determine the scope, scale and style of training provision. The abolition of the ITBs was central to this strategy. However, in the case of youth training, the political urgency of the problem overrode this general policy stance. Any new scheme of sufficient duration to remove large numbers of people from unemployment would imply public financial support. The alternative was to impose the scheme on employers through legislation and that was anathema to the Government. The Government needed the cooperation of the employers.

The MSC maintained a position different from that of the Government. The Government's first priority was to be seen to be tackling the problem of youth unemployment whereas the MSC was keen on countering the growing emphasis on short-term measures and instead concentrate on strategic questions of competitiveness<sup>14</sup>. Of the New Training Initiative (NTI) consultative document, MSC Director Geoffrey Holland commented that its aim was to switch the debate and focus from social responsibility to economic development and growth. MSC policy statements had for several years pressed the case for an improvement in youth training provision and its senior staff were convinced that the country's long-term economic needs dictated that the UK had to catch up with its competitors. This view had a number of consequences for the structure of what was to evolve into the YTS. The scheme was to be about training and not about creating jobs. It also had to become a permanent institutional feature of the training landscape rather than another temporary measure. Thirdly, in all MSC statements there was a vision of the policy-making process that was predicated in a consensual tradition of operation. There was a strong and publicly expressed appreciation by the MSC that in order to achieve the change a strong consensus among the training community was needed.

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<sup>13</sup> Interview with Lord Young of Graffham, June 1998.

<sup>14</sup> Interview with Sir John Cassels, May 1998.

It was clear to MSC staff and it was stated that the key to the new scheme lay with the employers. The CBI's collective stance on training policy was strongly anti-interventionist and centered on a voluntarist, market-based approach to meeting training needs. Legislation to compel changes in training practices was to be avoided at all costs, as it was perceived as constituting an intolerable financial burden on industry. In response to the NTI document, the CBI went so far as to state that its preferred approach would be to rely upon the process of consultation and negotiation and upon voluntary initiatives by employers and their organisations. There were, however, two interrelated anxieties about the proposed training scheme. Firstly, if employers were not seen to cooperate with the Government plans, they could face the imposition of the levy or a tax administered by the MSC. The second was that some employers felt themselves as being given responsibility for what they believed was a remedial social measure aimed at correcting deficiencies caused by the failings of the secondary education system. They doubted the necessity for such a scheme and believed that its relevance to the needs of industry was going to be small. The CBI made clear at the outset of consultations that if it accepted the immediate need for a new training programme, it was not pledging any commitment to the permanent integration of the YTS into the national training system. On the positive side, if Government pronouncements were to be taken at face value, the new youth training package represented an opportunity to see the level of youth wages reduced.

There was, however, a considerable lack of consensus among employers. Some of them, along with the officials of the CBI, coincided with the MSC analysis about the lack of competitiveness and thought that the YTS could produce changes in the structure of the apprenticeship system. Yet an influential part of the CBI's ruling Council was committed to the re-election of the Conservative Government. Ronald Utiger, chairman of the CBI Economic and Financial policy committee, declared: "it is the best government we have, the alternatives don't bear thinking about".

Among the TUC, a degree of mistrust was evident. The substitutions of Richard O'Brien by David Young and of James Prior by Norman Tebbit were perceived as an overt act of political interference with the supposedly neutral status of the MSC secretariat.

Moreover, the TUC was not in agreement with the abolition of the majority of the ITBs and declared that it would jeopardise their cooperation with any future negotiations on the reform of training. Against this background, the TUC negotiators were anxious to secure two objectives. In the first place, they wished to see the overall standards of British training provision improved. The TUC wanted an integrated approach to education and training provision for the 16 to 19 age group and the introduction of education maintenance awards for those choosing to remain in full-time post compulsory education<sup>15</sup>. Secondly, there was a strong desire to avoid the type of exploitative, cheap labour traineeship with which the Youth Opportunities Programme (YOP) was associated. The TUC would expect to count with the support of the unions in the education sector.

There were three alternative models for the design of the YTS. The first option implied a model of reasonable quality, work-based general vocational preparation and was represented by the Unified Vocational Preparation Project (UVP), native to the UK. It was orientated to 16 to 19 year olds who were entering jobs which normally offered little or no training. There was no set length of training, but the average duration was 60 days spread over six months. The MSC, in its document "Agenda for Action", would declare that its preferred option was to build upon existing schemes, including the UVP. The problem was that the UVP's development and implementation had been in the hands of the ITBs now scheduled for abolition.

The other main source of inspiration was some other European models. The MSC original document would contain details of the vocational training schemes then operating in France and West Germany. When it came to considering the details of the YTS, the CBI's initial enthusiasm for the European experience waned rapidly. Very few British managers knew about the French system and it was almost totally ignored as a possible source of ideas. The West German example was very different. Largely as a result of the efforts of the Anglo-German foundation, the basic elements of the dual system were widely known by British training managers. When the Youth Task Group was working, the German model was

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<sup>15</sup> Interview with Bert Clough, TUC Senior Officer, May 1998.

widely accepted as feasible. However, on closer examination, a number of problems arose<sup>16</sup>. In the first place, the German system depended upon the work of 43 powerful Chambers of Commerce. In Britain this local focus was lacking at the time. Secondly, the role awarded to trade unions was very important. The CBI did not want to encourage developments along these lines. As the consultation process of the abolition of the ITBs had revealed, in some industries at least, there was a desire on the part of employers to dismantle training structures that automatically awarded equal influence to trade unions. The CBI also declared that large firms would not be able to provide all the places, so the participation of the small ones was required, and any overt trade union involvement in the delivery of the YTS would be seen as a strong disincentive for small firms to participate. The CBI also recognised that given the track record of some employers over job-substitution on the YOP, there was likely to be reluctance by some employers to involve unions. There was also the ideological obstacle coming from the Government's preference against reliance upon a framework of statutory rights and duties. In a similar way, the CBI's overall policy stance was to reduce the level of government intervention in business and to free industry from bureaucratic controls. That is why the CBI had explicitly rejected a statutory backing for the YTS in the initial response to the NTI document.

The government had rejected, in the interests of speed of implementation and because of the decision that the Department of Education would be involved as little as possible, any genuine attempt to produce an integrated education and training system that incorporated the period of compulsory schooling. Inside the Government the main thrust was to do with the unemployed element of the initiative. The Treasury would more easily agree to that than to an educationally expansive initiative<sup>17</sup>. Both the Government and MSC officials thought that if

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<sup>16</sup> Interview with Ewart Keep, March 1998. Ewart Keep was part of the CBI task group on the NTI during 1982.

<sup>17</sup> Interview with Sir Bryan Nicholson, May 1998. Sir Bryan Nicholson was the Chairman of the MSC during the mid-1980s and President of the CBI during the early 1990s.



the financial resources were to go to the Department of Education, the targets would not be achieved<sup>18</sup>.

The option which held more attraction for the CBI was to develop YTS upon the 'Working Experience in Employer Premises' (WEEP) places of the YOP. These were relatively low-cost; a work experience programme based on the workplace rather than the training center had substantially lower start up and running costs, and would enable trainees to make contributions to production through their wage-free added value. It was thus an upgraded form of YOP that came to form the basic element upon which development of the YTS proceeded. One thing was clear to the CBI: if they were going to provide the places, they should have the control over the design of the contents rather than the education sector<sup>19</sup>. This had consequences with respect to quality and content controls since employers did not want a prescriptive-content based programme that could be uniformly applied to all employers offering traineeship, but an output criteria that employers would have to meet. Retrospectively, the extent to which the CBI's preferences on this option were achieved is significant.

TUC participation in the MSC was its main institutional answer to mass youth unemployment. During the 1980s and due to the risks of job substitution, individual unions always gave priority to the question of trainees' payment than to other issues such as training content or recognition of qualifications<sup>20</sup>. With respect to the YTS places, some unions were uneasy about allowing the scheme to replace existing apprenticeship. In any case, the YTS appeared as an opportunity to recruit new members and the TUC finally gave its support. Despite increasing inter-union conflict about the programme, at the TUC Council level, remaining in one of the only two tripartite public institutions was always considered a priority.

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<sup>18</sup> Interview with Sir Geoffrey Holland, May 1998.

<sup>19</sup> Interview with Lord Young of Graffham, June 1998.

<sup>20</sup> Interview with Bert Clough, May 1998.

In May 1981 the MSC launched its discussion document on the reform of the British Training system. The consultation period for the NTI overlapped with the consultations over the future of ITBs. The MSC made clear that youth training was the priority of the Government and that it would involve reform of the existing arrangements of apprenticeship and aimed at a shift from time-serving to standards criteria.

After a consultation exercise with its membership lasting four months, the CBI Education and Training Division produced a confederation response to the NTI document. The most profound reservations about the new scheme concerned the brief references to the role of secondary education in vocational preparation. The Government objective was much more short-term and the ability of Government and civil servants to ignore calls from the CBI and educational interests to frame their plans within a wider perspective illustrates one of the processes by which the power of non-governmental actors in the tripartite planning was limited and the ability of Government or its agents to define the terms of the debate. By establishing the working agenda, and imposing extremely limited consultative time-scales, the governmental side of tripartite bodies could establish censorship over the range of issues to be discussed.

"An Agenda for Action" was published in December 1981 outlining possible courses for the future. It announced the setting up of the Youth Task Group (YTG) to plan the programme that would replace the YOP. Almost simultaneously, the government published its own paper "A Programme for Action". It highlighted the differences between the Government and the MSC, with the Government making clear that it intended the scheme to apply to the young unemployed and not to encompass those of the age group entering full-time employment. The MSC, seeing the scheme as more to do with training needs than with unemployment, hoped that it would cover both groups. The Government set up two preconditions. The first one was financial and involved a limit of one billion pounds per year. The second was regulatory and it implied the right to remove supplementary benefit for those

refusing a place<sup>21</sup>. Finally, the Government's objective of lowering youth pay was reflected in the preference for lowering the allowance that had been paid previously in other youth training programmes.

The YTG was given less than four months to submit its recommendations to the MSC and the Secretary of State for Employment. The overall results of the Government's tight timetabling was to rule out the possibility of any real attempt to design the scheme from first principles. The quantity of places and the speed of delivery was to be of greater importance than the evolution of any coherent view of how the scheme would fit into any wider continuum of the education and training provision for the age group.

The Government's intention to lower the amount of the allowance paid to trainees and its threats to withdraw supplementary benefit entitlement from those young unemployed who refused a place met with strong opposition from the TUC, which stated that the enforcement of such conditions would imply the withdrawal of its support and a boycott of the YTS at company and plant level<sup>22</sup>. It might have been expected that given the enthusiasm of some members of the CBI about the reduction of youth wages, the CBI would stand with the Secretary of State over this issue. But in fact this turned out not to be the case. Those CBI members who viewed the YTS as a lever for securing the reform of the traditional apprenticeship system realised that the industrial relations problems, as opposed to purely training related difficulties, facing such reforms would be exacerbated by the setting of an unrealistically low trainee allowance. Linked to this was a broader concern with the industrial relations implications that it was believed could arise from income disparities between trainees on an allowance who found themselves working alongside employees of a similar age who were earning far more per week in wages. Finally, a common statutory wage of

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<sup>21</sup> The compulsion element was not just Tebbit's personal preference; there were many Members of Parliament in his party who would agree with him. "He was a leader of toughness within his party but not a lone voice at all" (Interview with Sir John Cassels, May 1998). With the levels of youth unemployment of the early and mid-1980s, to make YTS (in its two-year version) compulsory would have been more expensive than the unemployment subsidy, so the Treasury was always against it and the Government had to postpone its preference (Interview with Lord Young of Graffham, June 1998).

<sup>22</sup> Interview with Bert Clough, May 1998.

remuneration for all young workers would have implied a degree of interventionism unacceptable for the Government at the time.

The Government accepted the YTG recommendation on the level of allowances with extreme reluctance, but it was initially intransigent with respect to compulsion. It became increasingly apparent to the CBI that the Prime Minister saw the issue as one of principles relating to the Government's overall social policy<sup>23</sup>. After the publication of the YTG final report, the CBI arranged several meetings with the TUC to discuss the issue of compulsion. From these meetings it became obvious that the TUC staff were under strong pressure not to back down, both from factions of their own ranks who would welcome the opportunity to provoke an open clash with the Secretary of State for Employment, Norman Tebbit, and externally from the various youth lobby organisations. The CBI staff tried to convince officials in the Department of Employment that the CBI felt obliged to oppose the proposals, not as a matter of principle but because it found it impossible to launch the new scheme with the opposition of the TUC. The Government was so concerned to have the scheme running in September 1983 that this strengthened the effective right of veto of the employers and trade unions.

The YTS was not only the design of a training policy, it was a complex industrial and political negotiation in which the Government had to postpone, until 1987, its preference for compulsion and the TUC had to accept a relative lowering of youth pay. The CBI strategy was very much focused on getting a large subsidy from the Government. The extension of the YTS from one to two years in 1986 represented a quite unusual case of Government-CBI collaboration. The TUC efforts to get the off-the-job training extended from 13 to 27 weeks were blocked, 20 weeks eventually being decided on. During the negotiations for the YTS extension, the CBI also got an increase of the checks that the MSC did on non-employer led schemes, reinforcing the dynamics whereby employer places would eventually represent 80% of total places.

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<sup>23</sup> Interview with Tony Webb, June 1998.

### **3.2. The Youth Training Scheme: an appraisal of the outcomes**

In this section, among other dimensions, I present evidence on the following areas: firstly, education and training expenditure; secondly, training qualifications, and finally, education and training participation. The main purpose of presenting this evidence will be to analyse Conservative training policy in the light of its relationship with educational and employment objectives and to compare its choice with other possible alternatives.

Data on education expenditure must be treated with caution and are probably of less value than comparisons of qualifications. The figures on expenditure as the proportion of GDP are extremely volatile and it is better to use cumulative changes. Training expenditure tripled during the 1980s, and although this rise might be seen as being at odds with the aim of the Government to reduce public expenditure, however the Treasury was willing to fund training, it was low-cost schemes for the unemployed, where the benefits could be balanced against savings in benefit payments and potential tax revenues, rather than policies to increase the skills of the workforce which, according to the Treasury's neoclassical model of the economy, are thought to lead to the substitution of one employed individual by another.

It is important to emphasise that while other European nations such as France, Germany and the Netherlands were careful to separate schemes for the unemployed from vocational education for intermediate and higher-level skills, in Britain, training programmes and unemployment were closely linked through the 1980s. This led to concentration on the quantity rather than the quality. It is important to compare the evolution of training expenditure with the trend in education expenditure. Table 6 shows that whereas training expenditure tripled, education expenditure rose by a mere 15% in real terms. The MSC by the early 1980s had a budget double the size of that of the University sector (Chandler and Wallace, 1991:94). To give an idea of the absolute size, the MSC budget was 727.1 million pounds in 1978/1979 and 3,232 million pounds in 1987/88.

National youth training policy was implemented through the Youth Training Scheme (YTS) in the 1980s and its renamed version, Youth Training (YT), in the 1990s. In its design, the YTS sought to universalize youth training by lowering youth pay and training costs, in particular in the many non-craft occupations in which formal training was previously absent. The announced principles of the scheme clearly corresponded to those of the occupational markets rather than of internal markets. It declared its intention to promote universal initial training with both foundation and occupational content, leading to recognised credentials (MSC, 1981; Marsden and Ryan, 1991). Young school leavers were recruited on two-year agreements which were formally distinct from employment contracts, receiving allowances fixed at around one-third of pay rates in regular youth employment. The allowance was paid by public subsidy. One fifth of the trainee's time was to be spent in off-the job training. Until 1988, YTS schemes had to be approved by the union officials at the workplace. All these elements, it was claimed, would provide a low-pay, high quality, high volume system, even superior to the German one. Indeed, the YTS sponsored by large firms or by the remaining ITBs provided high quality training during the 1980s. Construction, engineering and electrical apprenticeships were converted in their first two years to the YTS without a significant loss of quality (Raffe, 1990). Although apprenticeships have declined over the past two decades, it is difficult to know how many apprenticeships have been subsidized in the form of YTS places (see Table 5). What is clear is that the firms and sectors where this use has taken place are those in which there has been a powerful union<sup>24</sup>. Survey evidence (Chapman, 1993; 1996) suggests that the figure is less than 20 per cent.

However, apart from those areas, and although participation numbers increased over the 1980s, the coverage was limited. Thus, the policy failed to achieve the objective of universalizing training for all school leavers without a job. Only one-fifth of those leaving the schemes had completed their agreements<sup>25</sup>. National statistics suggest quality problems; the proportion who acquired a recognized qualification was only 29% in 1988 (Table 7) and even that limited count included many qualifications of dubious worth (Jones, 1988). Most of the

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<sup>24</sup> Interview with Bert Clough, May 1998.

<sup>25</sup> Department of Employment, Training Statistics.

qualifications that were gained were of a very basic character corresponding with the lowest level of the NVQ framework<sup>26</sup>.

Despite its declared orientation towards transferable skills, the operations of the policy corresponded to the requirement of the internal labour markets of the firms. While some young people used the scheme as a route for employment in the sponsoring firm, large firms used it to screen potential recruits. In any case, survey evidence shows that only one out of ten ex-trainees used skills certified on YTS to gain employment through the external labour market (Deakin, 1996). Training in transferable skills depends upon resources and knowledge, and the flat rate funding of YTS places meant that given the variability of training costs across occupations, training provision normally went away from costly options. A significant feature of the scheme in the mid-1980s was a concentration of places in Clerical and Administration, Personal Services and Sales, Installation and Maintenance, and Manufacturing and Assembly. Table 8 shows that in 1986, 73% of entrants were in these four occupational families, 45% were divided equally between the Clerical and Administrative and the Sales and Personal Services ones. Despite the declared intention that vocational training should be broad-based in character, surveys conducted in the late 1980s (Chapman and Tooze, 1987: 65) show evidence of skill-specificity in the eyes of participating employers. Within the small group of trainees who find employment in the external labour market, training appears to have been a very unimportant factor in recruitment (DE Training Statistics).

Evaluation of training policy in terms of enhanced employment opportunities or earnings has countless methodological problems (Dolton, 1992) which involve differences between the short and long-term effects. It has been widely recognised that employers could use government training schemes as screening devices<sup>27</sup>. This relates to the policy's

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<sup>26</sup> Of the qualifications mentioned by YTS leavers, most of them were at level NVQ1, 40% were at level NVQ2 and only 3% were at level NVQ3, which corresponds internationally with an intermediate technical diploma (Jones, 1988).

<sup>27</sup> Lord Young, Chairman of the MSC in the early 1980s and Secretary of State for Employment from 1985 to 1987, declared that: "with the YTS, employers had the opportunity to take young people, train them and let

displacement effects that occur because the presence of a scheme in which governments fund the employer to train affects the incentives of the employers. Displacement effects can be divided into the 'deadweight loss', where employers substitute programme trainees for, say, apprentices that would have been otherwise taken on, so that in effect the firm's training bill is paid for by the government with no net increase in training provision, and the 'substitution effect' where the programme trainees substitute some other kind of worker and unemployment is created elsewhere.

Deakin (1995) and Jones (1988) have attempted to estimate the magnitude of these effects. An abstract of their results given in Table 9 shows that results vary by firm size and are 42% of deadweight and 20% of substitution for firms of less than 100 employees and 28% and 4% respectively for firms with over 100 employees. As the British economy improved in 1987, and further in 1988 and 1989, the deadweight effect increased, particularly in large firms, where more than seven out of ten training places would have been created in the absence of the subsidy. The magnitude of the substitution effect affects the general youth wage level. One of the advantages perceived by the Government about youth training policy in times of high unemployment was its contribution to downward market pressure on the relative wages of young people. This factor was heavily weighted by the Thatcher Governments that wished to see youth wages decline with respect to adult earnings in order to reduce unemployment.

There is evidence of differentiation and of polarisation. The YTS has absorbed some of the previous apprenticeship, especially in the construction and engineering sectors in which trainees are expected to find employment in the jobs for which they are trained. At the same time, the YTS has developed a low-pay, low-quality, high-volume system, with very few instances of the low-wage, high quality, high-volume occupational training that the scheme was meant to universalize. The credentialising effect of the YTS, whereby the trainees do not expect to find employment with their scheme employer but the training has

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them work in their firms at the government expense, and then decide whether or not to employ them" (interview with David Young, 3 June, 1998). However, Begg's survey results (1991) suggest that employers undervalue government training programmes as leading to human capital creation and stress their role in the selection of the most able employees.



provided them with occupational skills that are in demand in the local labour market and certifies them in a way that is credible to other employers, is extremely small.

Thus a dual system emerged within the YTS. The majority of trainees were given some vocational preparation of the kind that they would have previously received as young workers, with little or no formal training and no certified qualifications. A minority enjoyed the benefits of vocational training along the lines of traditional apprenticeship with formal qualifications at the end. Interestingly, the latter took place in the sectors where the ITBs had been maintained and thus where union influence was higher. This hierarchy was only reinforced by the two-year YTS. The Government's view, that apprenticeship was to be replaced by an equivalent training system with low-pay for young trainees and high-quality initial training, remained largely unachieved.

The range of deregulatory policies that were adopted after 1979, including low trainee allowances, reduced social security entitlements, the removal of statutory wage minimums - with the announced goals of pricing young workers into jobs and training-assumed that employment and training objectives were congruent. Discounting for displacements' effects, Table 10 gives an appraisal of the policy net training effect in relation to the changing economic conditions. The evidence is that it decreased with the recovery.

The considerable degree of indifference towards educational objectives and the dominance of employment over the training aims of the Conservative strategy comes from various sources: first, the priority of places over training quality involved in the 'Christmas guarantee'<sup>28</sup> and thus the need for the scheme to adapt to the existing labour market practices to meet the numerical objectives; second, if one accepts the growth of internal markets and job-orientated training, as in France, Sweden and Japan, the expansion of upper secondary schooling, whether academic or vocational in content, appears as an alternative. Young people are then expected to leave school at 18 rather than at 16. An ILM strategy could have

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<sup>28</sup> The 1987 changes in unemployment benefit legislation for 16 and 17-year-olds were announced at the same time as the so-called "Christmas guarantee" whereby the Government committed itself to provide a

been achieved without low trainee pay since the vocational preparation would not have been based around the workplace. In this type of model, employers are not expected to provide general, transferable training, but they are expected to subsidize subsequent job-specific training.

A fiscally restrictive government was willing to expand the type of training it did because it represented a crisis measure, expensive but that was outweighed somehow by savings in benefit payments, and that could be switched off in times of economic recovery, but was not willing to engage itself in the long-term and permanent increase in public expenditure necessary to fund full-time education for all 16 to 18 year olds<sup>29</sup>. In contrast, the Treasury was willing to bankroll the YTS expansion in 1986 because the per capita costs of YTS places declined as the scheme expanded.

A strategy of deregulating the labour market might achieve the objective of lowering wages but it does not follow that it helps create an occupational initial training system. That strategy reinforces the internal dynamics of the firm that leads, quite clearly, to investment in job-specific training. If Education and Training at the Foundation level is left solely to the market, there is likely to be an underinvestment in foundation skills (Crouch, 1997).

The institutional arrangements for foundation training can be broken into two broad types, state-led and dual systems. In dual systems, most commonly identified with Germany, but also found in Austria and Denmark, responsibility for the provision of education and training for fifteen to eighteen-years olds is shared between the employers and the state, the majority of young people enter apprenticeships in a firm with mandatory release for general education. In the majority of advanced industrial countries, however, the state is the main regulator and provider of education from fifteen to eighteen years of age. State systems can be further subdivided according to the dominant mode of provision: general education

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training place to any 16 and 17 year old who was not in full-time or part-time education and who did not have a job.

<sup>29</sup> When the YTS was designed, one of the CBI proposals was this, because the organisation did not wish to engage employers in delivering what they regarded as 'remedial education', (interview with Tony Webb, June 1998).

(Japan, US) or broad occupational (France, Sweden). An additional group of countries, including Britain and Spain, fall between these ideal types, with no dominant educational and training route in either curriculum or mode of delivery for the majority of fifteen to eighteen year old who leave the academic stream. These mixed systems tend to have lower participation rates in full-time education and training than the other two types. Tables 11, 12 and 13 give information about educational and economic participation of the 16 to 18-year-old groups. One of the main concerns of the sixteen-plus youth labour market is the high drop-out rate from formal education. Educational participation of eighteen-year-olds is shown in Table 11. If we take training and education together, the relative position of the UK improves but this is largely due to young people's participation in government training programmes like the YTS.

If we look at the education and economic activity of young people aged sixteen (Table 12), that is, just after the end of compulsory education, only 45% continued in full-time education in 1986, and 26% were in the YTS, a figure five times higher than for 1980 (5%). While figures for full-time education remained similar over the period, those for the unemployed doubled, and those for the employed group decreased more than a half.

Occupational labour markets are associated with the dual or apprenticeship system for industrial sectors, and with school-based systems, with its inherent orientation towards broad transferable skills, for non-manual and service professions. In this respect, the separation of vocational training and education is one of the major institutional factors of the British system, a factor that is partly responsible for the fact that the primary function of further training in Britain is to compensate for the non-existence or inadequacy of initial vocational training.

## **Conclusions**

While the educational system has undergone major reorganisation in the last decade, apprenticeship, the primary method of training for technicians and for intermediate skills in

general, has been undermined by the twofold pressure of industrial recession and political changes. Apprenticeship was funded primarily by employers. As unemployment rose in the early 1980s, the policy shifted from promoting counter-cyclical measures which maintained the volume of apprenticeship to national schemes aimed at providing young people with initial training and work experience. With the NVQs, the criteria of certification and validation of achievements was to derive essentially from employers, and are often assessed by a supervisor in the work-place rather than an external assessor. This competence-based approach is being applied to all vocational qualifications (Tanguy and Rainbird, 1997).

The decision to give the MSC a leading role in developing and implementing a strategy for youth training was also a decision not to give schools (or the Department of Education) a central role. In contrast, France, when faced with a similar problem, chose to expand technical and vocational provision in secondary schools and, in 1986, introduced a vocational *Baccalaureat*, which provides a higher level vocational qualification and gives access to employment and to technical courses at university. The curriculum includes a common core of mathematics, French and foreign language, and combines broad vocational education with the mastery of a specialist area. A school-based model along the lines adopted in France held few attractions for the Government. It was the so-called inefficiencies of the school system that dominated the MSC's programmes.

In planning a new system of vocational education and training, the model provided by the German dual system held more attractions than the school-based model. The model was not adopted institutionally, partly because of opposition from the CBI that rejected the notion of co-determination in the field of vocational training. There was a very strong opposition to a trade union role in the YTS similar to that which the German trade unions had in the dual system. Nor was the CBI willing to accept a statutory framework underpinning youth training, with training contracts being legal documents. The CBI insisted on a employer-led scheme with the work-experience element being controlled by employers. The model is also task-focused, the only requirement for employers in the YT is that they ensure that all trainees follow a training programme which leads to a Level 2 NVQ. Given the process through which standards of competence are assessed in the NVQ framework, it is doubtful that it can incorporate transferable skills (Raggatt and Unwin, 1991).

The first problem is the narrowness of the approach. The lack of breadth or job-specificity would be understandable if the British workforce had benefited from a long period of general education prior to entering work as in the case of Japan. However, the participation rate of 16 and 17-year-olds is low in Britain (see Tables 11 and 12). In the absence of an extended and effective period of general education before entering work, it is necessary to emphasise breadth in post-school vocational training. This strategy is pursued in the German dual system. The tendency in Britain has been for specific company needs to direct training policy.

Chapman (1996) reports that the UK has a comparable record on training qualifications for Bachelor's degrees and Master's degrees compared with the US, Germany, France and Japan, but it is clearly behind in vocational qualifications of technician, intermediate and higher levels. Despite stating that the reform had produced a system superior to the German one, it is remarkable that the proportion of the workforce with technician level vocational qualification has remained constant from the mid-1970s to the late 1980s at a level of 30% for manual occupations and 25% for non-manuals compared with the German level of 60% for both categories (Prais, 1995: 17).

One of the National Education and Training Targets set at the beginning of the 1990s was that by 1998, 80% of all young people attained an NVQ level 2 or its academic equivalent (basically, the Certificate of Secondary Education) in their foundation education and training. If we look at data on unemployment levels by highest qualification for the group, it certainly seems a very modest target, and one that is not going to achieve much even in terms of employment outcomes. After the group with no qualifications, the group that shows higher unemployment rates over time is the one with YT (mostly at NVQ1 or NVQ2) or CSE<sup>30</sup>.

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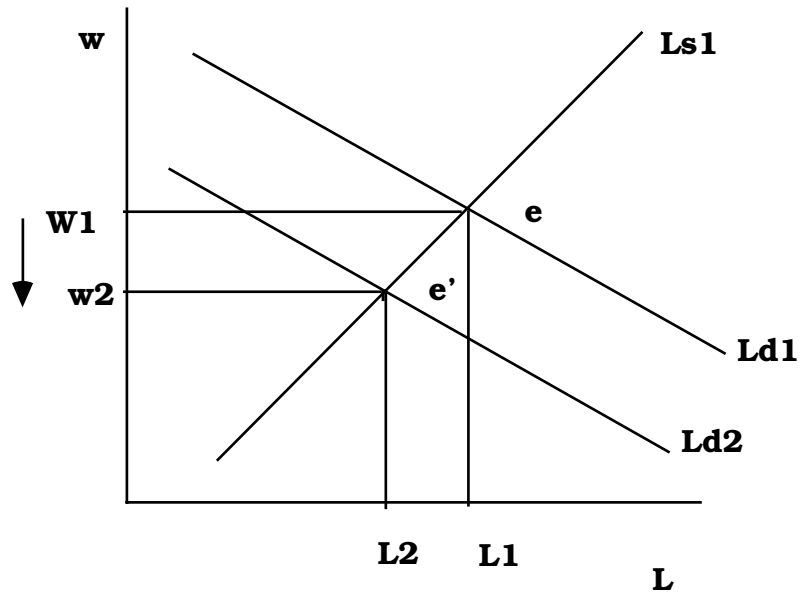
<sup>30</sup> In an ongoing paper, the author and Gavan P. Conlon are currently applying regression analysis to determine the effect of vocational and academic qualifications on employment outcomes.

Many, if not all, public British training programmes over the 1980s had, along with the skills-related declared objectives, a parallel unemployment management function. Youth programmes were meant to provide a safety net for school leavers who could not find jobs, and their availability was used to withdraw benefits in 1988 from 16 and 17-year-old unemployed. The Government's dislike of union regulated forms of training and its wish to reduce their wages led it to redefine youth unemployment as a problem of wages and lack of skills. In the public debate, the two objectives of the youth training programmes were assumed to be congruent. Reforms of the training system in Britain were coherent with the Conservative labour market strategy and implied institutional changes and erosion of institutional legacies. Training in Britain until the 1970s followed a corporatist model. This was gradually changed over the 1980s until 1988 when the abolition of the tripartite MSC and the creation of the TECs have turned the training system into one that fits within a "franchise model". Although the Government declared its aim to develop core and transferable skills by setting up occupational training families within which these skills were transferable, in what represents a new form of privatization, public youth training programmes were franchised to local employers and met firms' immediate needs. Although the YTS was intended to train people for OLMs, in fact it trains them for ILMs as the transferability is undermined by increasing employer control. As union control had already been removed by previous reforms, this effectively deregulated the training market. A low-wage, low-quality training system has been developed. We must remain critical about whether Conservative training policy has achieved much more than pushing down the unemployment figures and lowering relative youth wages.

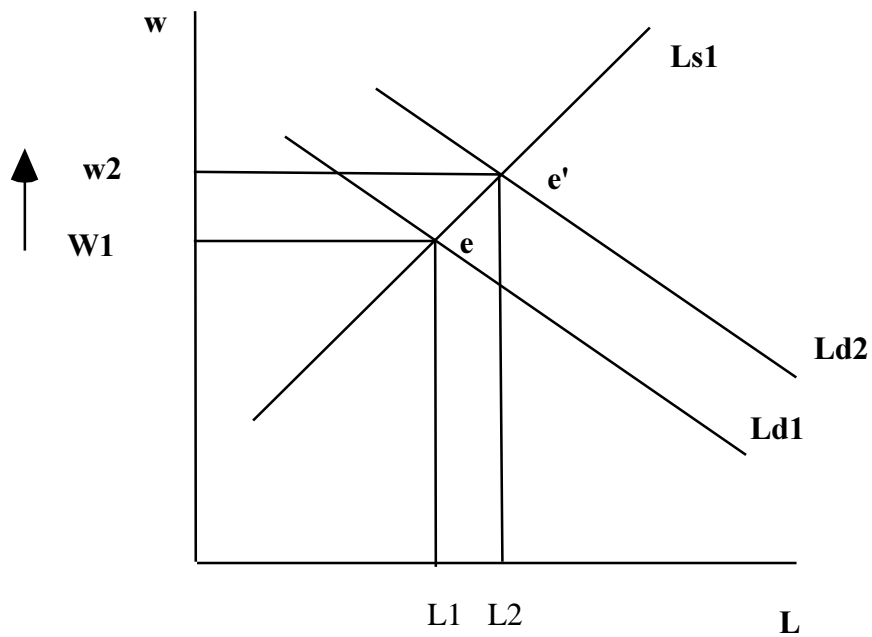
Figure 1

CONSERVATIVE POLITICAL ECONOMY: EFFECTS OF FLEXIBILITY

**Unskilled labour market: the effects of downwards wage flexibility in case of a reduction in demand**



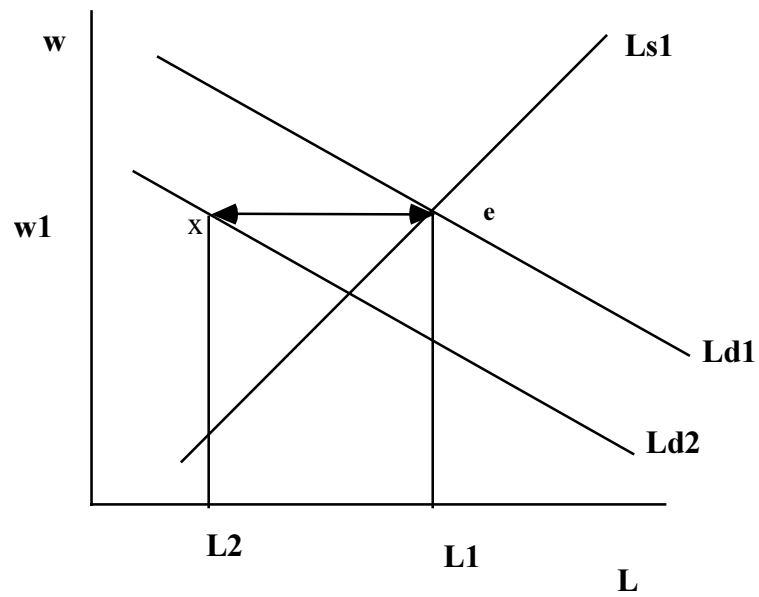
**Skilled labour market: effects of upward flexibility in case of a rise in demand**



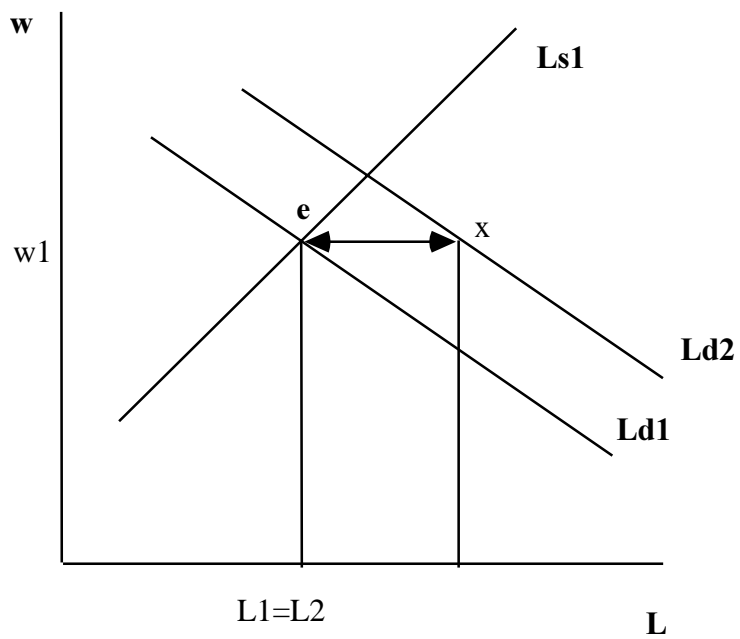
**Figure 2**

**CONSERVATIVE POLITICAL ECONOMY: EFFECTS OF WAGE RIGIDITY**

**Unskilled labour market: effects of wage rigidity in case of a reduction in demand**



**Skilled labour market: effects of wage rigidity in case of a rise in demand**





**Table 1.** Trends in unemployment by educational level in the UK, 1971-1992

Unemployment	1971-4	1975-8	1979-82	1983-6	1987-90	1991	1992
Total	2.7	3.8	6.9	9.6	7.0	9.0	10.3
High education	0.8	1.6	2.9	3.6	3.1	4.7	5.8
Low education	3.6	5.0	9.8	15.4	12.1	15.2	15.7
Ratio	4.5	3.1	3.4	4.3	3.9	3.2	2.7

Source: Nickell and Bell, 1996, Table 10.6.

Low education= without formal qualifications.

High education= Passed *A levels*, university degree, or higher vocational qualification

**Table 2.** *Labour market characteristics in the UK, the rest of the EU, and the US*

Country or group of countries	Earnings inequality		UNEMPLOYMENT SUBSIDY GENEROSITY		Labour market flexibility	Union power		
	Low-pay incidence <sup>1</sup> 1985-2	Earnings dispersion, 1990 <sup>2</sup>	Replacement rate, first year, 1991 <sup>3</sup>	Change since the 1960s <sup>4</sup>		Union density <sup>6</sup> 1990	Coverage <sup>7</sup>	Bargaining level
EU average	13.4	2.43	52.7	12.7	2.3	35.8	68.0	Sector
United Kingdom	20.0	3.21	23.0	-7.0	0.5	39.1	47.0	Firm
United States	26.0	5.55	23.7	3.0	0.4	15.6	18.0	Firm

Notes and sources:

1: percentage of full-time employees earning less than 66% of the median of earnings. Data refer to gross earnings. Source: OECD (1994, part I, p.22)

2:Ratio of the average wage of workers in the ninth decile with respect to the earnings of workers in the first decile. Source: OECD (1994).

3: Ratio of the unemployment subsidy before taxes with respect to the prior wage before taxes. Data are average for various types of unemployed, including contributory and non-contributory subsidies. Source: OECD (1994, part II, p.175).

4: Source: see note 3.

5: OECD average consisting in an index from 0 to 3. Higher values indicate a more extensive protection. Source: OECD (1994, part II, p.74).

6: Percentage of unionized wage-earners. Source OECD (1994a, p.10).

7: Percentage of wage-earners whose employment situation is covered by a collective agreement. (OECD, 1994 b.p.73).

Other sources: Moll, 1992.

**Table 3.** *Trends in earnings dispersion in the UK, 1973-1991 (Males)*

	1973	1975	1979-81	1985-86	1987-8	1989-90	1991
D9/D5	1.70	1.66	1.72	1.85	1.91	1.96	1.99
D1/D5	0.68	0.70	0.68	0.63	0.62	0.61	0.59
D9/D1	2.50	2.37	2.53	2.94	3.08	3.21	3.37

Note: D9, D5 y D1 are the upper limits of the deciles of the earnings distribution. Data represent ratios.

Source: OECD, 1993, Table 5.2

**Table 4.** *Increasing earnings inequality: theoretical explanations*

Type of evidence	Explanatory factors		
	Demand shift	Supply shift	Change in labour legislation
Skilled/unskilled wage differential	Rises, if the relative demand for skilled workers increases	Rises, if the relative demand for skilled workers decreases	Rises, if the legislation diminishes the bargaining power of unskilled workers
Skilled/unskilled employment ratio	Rises	Decreases	Decreases
Skilled/unskilled unemployment ratio	Decreases	Decreases	Decreases

Source: Moll, 1992.

**Table 5.** *Number of participants in YTS and apprenticeships in the UK, 1981-1990*

Year	YTS participants (000s)	Apprenticeship (000s)	YTS and apprenticeships (as% of the 16 to 18 age group)
1981	123.5*	147.6	
1984	277.0	82.0	22.15
1985	276.0	73.2	22.13
1986	274.0	61.3	21.75
1987	218.0	58.0	25.90
1988	393.0	55.7	33.60
1989	390.0	53.6	35.49
1990	507.9	53.5	

\* The figure for 1981 refers to the Youth Opportunities Programme (YOP) which was substituted by the YTS in 1983.

Source: Department of Employment Gazette, various issues.

**Table 6.** *Public expenditure in education and training in the UK, 1979/80-1990/91*  
(Millions of pounds, constant prices 1990-91)

Type of expenditure	1979-80	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Training <sup>1</sup>	991.3	1,352.8	1,559.7	1,616.9	1,691.1	1,872.8	1,987.7	2,350.9	2,842.5	2,704.5
Education <sup>2</sup>	19,896	20,423	20,513	20,270	19,882	21,128	21,920	22,039	23,114	23,011

Notes:

1: Includes expenditure in the Youth Opportunities Programme.

2: Includes the expenditure of the central government, the transfers of the central government to the Local Educational Authorities (LEAs) and the LEAs' expenditure.

Source: Department of Education, Training Statistics, 1991.

**Table 7.** *Participants in the YTS programme who did not get any qualifications, 1984-1993*

Year	% of all participants	% of those who finished the programme
1984/85	73	n.a.
1985/86	79	n.a.
1986/87	79	n.a.
1987/88	71	44
1988/89	59	33
1989/90	57	32
1990/91	62	39
1991/92	67	47
1992/93	68	46

Source: Department of Employment, 1994, YT/YTS Follow-up Survey.

**Table 8.** *Occupational distribution of trainees in the YTS in 1986<sup>1</sup>.*

<b>Occupational family</b>	<b>%</b>
1 Clerical and administration	<b>22</b>
2 Agriculture and fishery	4
3 Craft and design	3
4 Installing, maintenance and repairing	<b>13</b>
5 Technical and scientific	2
6 Manufacturing and assembly	<b>15</b>
7 Processing	1
8 Food processing	4
9 Sales and personal services	<b>23</b>
10 Health services	2
11 Transport	2
Unclassified	9
<b>Total</b>	<b>100</b>

Notes:

1: The percentage of participants in each occupational family is very similar to the percentage of approved places in each of them. They correspond to mode A places, that is, those located within a firm as opposed to those located in an education centre or a community project. 80% of the places were in mode A programmes since the early 1980s. Source: DE Employment Gazette, 1987.

**Table 9.** *Youth Training Scheme's Displacement effects (deadweight and substitution).*

	Firm size			
	1-99	100-499	500 and over	Survey total
<b>A. Deadweight</b>				
1986	42	49	29	29
1987	53	57	50	52
1989	53	73	76	71
<b>B. Substitution</b>				
1986	20	2	4	5
1987	9	4	1	3
1989	15	5	8	9
<b>C. Net training effect.</b>				
(100-A-B)				
1986	38	49	67	66
1987	38	39	49	45
1989	32	23	16	20

Sources: Jones, 1988. Survey data from Deakin and Pratten, 1987. Survey data from Begg et al. 1988, 1989.

**Table 10.** *Effects of YTS with respect to the economic conditions, 1986, 1987 and 1988 in the UK*

	Net training effect <sup>1</sup> (%)	Change in total employment (%)	Unemployment rate (%)	Unemployment rate of the 16 to 19 age group (%)
1986	66	+0.1	11.6	20.4
1987	45	+2.1	10.4	17.9
1988	20	+3.0	6.1	10.3

Notes:

1: Number of new training places less the numbers corresponding to the deadweight and substitution effects.

Sources: Net training effect: Table 9. Change in employment and unemployment: United Kingdom National Accounts; Youth unemployment: DE Employment Gazette.

**Table 11.** *18-year-olds' participation in full-time education, various countries, 1993 (Percentage of the age group)*

Germany	80.0	Sweden	55.7
Switzerland	75.9	United States	55.0
France	75.0	Spain	52.0
Norway	74.8	Ireland	50.1
Finland	73.4	Portugal	42.0
Holland	72.7	New Zealand	32.7
Denmark	67.6	United Kingdom	25.7
Canada	59.2	Turkey	24.6

Source: OECD, 1994. The OECD Jobs Study, part II.



**Table 12.** *Education and economic activity of the 16 year-old population in the UK, 1980-1990  
(percentages of the age group)*

	1980	1981	1982	1983	1984	1985	1986	1988	1990
Full-time education									
School	28	29	31	31	30	30	30	31	35
Post-compulsory education	14	15	16	17	15	15	15	16	17.1
Total	42	43	47	49	45	45	45	47	52.2
Youth Training Scheme	5	10	13	18	24	26	26	25	23
Unemployed	5	10	12	12	11	11	10	8	*
Employed	48	37	28	22	20	19	19	20	24.8*

\* In 1988, the unemployment subsidy was withdrawn from the 16 and 17 year-old group which stopped being counted for unemployment statistics purposes .

Source: Department of Education, 1991 and 1992, Training Statistics.

**Table 13.** *Employment and educational situation of the 16 to 18 year old in the UK in 1976 and from 1981 to 1990*

Year	Number of people (000s)	In full-time education (%)	Employed and other (%)	In youth training schemes (%)	Unemployed (%)
1976	2409	27	64	1	8
1981	2748	28	53	5 (YOP)	13
1982	2757	31	46	7 (YOP)	16
1983	2789	32	42	9 (YOP)	17
1984	2753	30	42	10 (YTS)	17
1985	2679	31	42	10 (YTS)	16
1986	2633	31	43	10 (YTS)	15
1987	2577	32	43	12 (YTS)	14
1988	2547	33	42	16 (YTS)	10
1989	2480	34	40	16 (YTS)	10 (1)
1990	3386	36	37	15 (YTS)	12 (1)

Notes:

1: From September 1988, 16 and 17 year olds were no longer eligible for unemployment benefit; the figures for 1989 and 1990 are estimations of unemployment rates that include the 18 and 19 year-olds.

Source: Education Statistics for the United Kingdom, 1992.

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