

THE FUTURE OF GRADUATES IN THE GLOBAL LABOUR MARKET

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Dear Minister, colleagues and distinguished guests!

Thank you very much for inviting me to give this keynote this morning in these challenging circumstances that we face. Let me also say that it is rare that I have had a Minister of Education with whom I have agreed so wholeheartedly as in this particular case. I think the message here is one, which is actually very pertinent to what I have to say. I would also like to say that this university, I understand, is meant to be a model for the practices of higher educational institutions in this country. I think this particular conference is a model for the rest of the world as well. I have not been to a conference where I have seen the combination of academics, employers and those people who are trying to bring the two together – practitioners in that sense, but in a conference of this size and with so many guest speakers. I thank you very much for inviting me along for this conversation. The message I have to give today is one, which I hope, will set out the challenge and I shall overemphasize it, that means that I shall be polemical and I hope it will provoke some discussion.

Let me say before I begin – some of the headline points I want to make. The first is that the fundamental problem we have across the globe now in terms of skills and graduate labour is not skills. It is jobs. There simply are not enough jobs for graduates across the world. There has been a doubling of graduates in the world. We have now more graduates than we have ever had in history. I shall document from the data for the United States and Great Britain, there are exceptions which I will talk about, but as I will document, there are fundamental problems for the graduate labour markets in these countries. That in its turn is causing problems: as graduates are doing sub-graduate work so they are pushing the less skilled out of the labour market or down the labour market. It is called bumping down. These are the fundamental problems that we have to confront. But I am not going to be all pessimistic about this. There are ways in which we can address these issues. I shall come back to those at the end. I shall ask you a question and if you can answer it then you will be two thirds on the way through getting to a solution or at least addressing some of the problems.

So why then are we in this situation, whereby the fundamental problem is about jobs not skills? There are two sides to this. The first is that I want to look at is the global labour market and skills. Then I want to look at why it is that employers consistently tell us those skills, the ones that education produces, are not the right skills. I want to look at the structural factors behind this as well because we cannot simply take it, that this is the case; we have to see what lies behind this. In order to understand the nature of higher-level skills, graduate level skills in the world, I want to refer to the work that I have done with my colleague Phillip Brown in 2011. We published a book called *“The Global Auction”*. This is the global auction for jobs and we talked about it provocatively as the broken promises of education, jobs and income. Why is this? I will give an example story. The first interview we did was with a major German multinational engineering company in Southern Germany. I am sure it is present in this country as well. We talked to their director of HR and my question to him was, “Do you have a shortage of engineers?” I was expecting him to say “Yes” and he said “No”. I said, “Do you get them from Germany?” And he said “No”. I said, “Do you get them from the United Kingdom?” And he said “No”. You can see where my thinking in 2005 was. It was in Europe and then America because my next question was, “Do you get them from America?” He said “No”. I was getting frustrated. So I said, “Where do you get them from?” And he said, “We get them from China, we get them from India, we get them from Russia. Mathematicians and IT specialists from Bulgaria because during the Soviet Union Bulgaria was regarded as an IT specialist country.” And, all of a sudden, in that sentence he opened up a completely new vision to me of the way in which multinationals thought about sourcing labour, global labour. In that sense, what that meant was that instead of looking at

the multinationals in Germany, Britain or the United States, we were on airplanes and we were going to Korea, we were going to China, we were going to Singapore, to India. These are the countries in the study that we undertook. And the message was consistently the same with a few exceptions. The message was, "We source our labour at the cheapest possible price". It is fundamentally the first rule. It is not always the case, there are clear exceptions but, nevertheless, this is the general rule.

That is a part of the problem but it is only a part of the problem because the other part of this problem is that digital technologies are moving up the skills chain very rapidly – many of these digital technologies are moving up and taking over the work of the graduates and we have examples of that. Bank managers are very good examples of that if you reflect upon the practices of your own banks. Very often, you do not even see a bank manager these days. It is straight through banking, as they call it, through the technology. There is this kind of problem of demand for skilled labour. Not in all places. Germany, for example, has right now a shortage of roughly eight thousand of engineers at a PhD level. In some countries there is a skill but, that is a function of the nature of the industries and the skills demanded by these industries. In that case, we need to look at country by country despite this general global trend that I have been describing.

Let me now come to the employers. Why is it that employers in the past complained but not that much about the level of skills in the country? Why now? Well, I think there are a number of reasons. The first is that they are under enormous competitive pressure. With that enormous competitive pressure, the expense of time and training is something that they would rather not commit to: what they want is workers to plug and play. They want people who are ready – graduates – people coming out of education systems who are ready to play and who are ready to work. And this is often as the Minister suggested not an easy thing to do to put those things together especially since technologies and changing job structures are moving so fast that it is very difficult to plug in and play. Hence, there will always be some kind of friction between these particular sectors. There are exceptions. You will not find this problem in engineering. You will not find this is a problem in the health sector. But in many of the sectors it is the case.

Now let me talk a little bit about graduates. We all used to believe and ministers of education in my own country I think still believe that graduates will always do better than non-graduates in the labour market. The OECD believes it. It is correct but it is misleading. It is correct because graduates are now doing non-graduate work. Around 50% of graduates in the United States and the United Kingdom are doing non-graduate work. Let me give you a shocking figure: predictions by the Institute for Employment Research at Warwick University suggest that by 2020 around 30% in the bottom decile or a bottom group in terms of income in the United Kingdom will be graduates. The movement down the graduates and the lack of opportunities is increasing dramatically and it is really important that we try to engage with this particular issue wherever we are. Here is the problem.

Another problem when you actually disaggregate the data for graduate incomes, what you see is that they overlap with non-graduate incomes now because of the reasons I have just given, and what you see is a wide disparity in graduate incomes. Those in the 90th percentile, right at the top, those people do brilliantly. They absolutely take off in their careers in terms of their earnings. This is what multinationals call the talented. They are the people for whom the top jobs are allocated. They fish in very small university pools to get those people. Typically, they will go for the top four universities in a country to gain these people. This does not matter whether this happens in China, America or the United Kingdom. Again Germany is an exception because it has many research universities of equal standing and they recruit from across the board for them. But in other countries that is not the case. These people, who are talent, defined as talent, are given the Earth. But for that talent they have to be multilingual, multicultural and they have to have those soft skills, the things that we know so well: team work, communication and all

these sorts of things. It is simply assumed that they have the technical skills. This is not an issue of technical skills but these other skills. They are the people at the top and everyone else has to struggle beneath them that is the knowledge economy structure, only it is not a knowledge economy of course, it is a knowledge capitalism, it is a very different place to the imaginary of the OECD and my own education minister. Many will be stratified into routinized work. There will be people in the middle between who are talented – those who have permission to think and those who do the routinized knowledge work. This is the stratification of knowledge. My question then when I come to the end of this very short piece is this. How do we deal with this problem? It is a fundamental problem. How do we deal with it?

It will be different in different countries and we know that. It will depend on their educational systems and their industrial structure. But how we deal with this? Here is the question. I was in Singapore talking to 150 policy makers at the Singapore Management University. They wanted to know about this global auction stuff so I was telling them with my colleague Phil Brown. I turned to the audience and I said, “You, guys are really hooked on benchmarking, you guys are really hooked up on league tables. So, I asked you tell me which country in the world is most successful economically and at that stage only had one university in the top one hundred of the various global league tables”. They looked at me. They looked at each other and they found it very difficult to understand. I think they thought I was having a laugh but, of course, I was not having a laugh at all because the answer is Germany. Germany should then tell us something important perhaps. It is this. How is it possible that multinational companies from Germany can dominate in their particular sectors in the world? The source of their knowledge and their research, not so much anymore because it now spans across the world, but the original source of that knowledge came from their local universities. It was the local universities working with those companies that generated the technologies that drive your Audis, BMWs, Mercedeses and so forth. It seems to me that if you keep your eye on the league tables, you may well go wrong because I can ask you an alternative question. Which is the country, which has many universities in the top one hundred and is an economy in decline? The answer is of course, Britain.

What I think has become absolutely clear over the past twenty years is this. If you leave everything to the market, you will have a very large low skills sector in the workforce. It does not matter whether it is the United Kingdom or the United States and I have to say there is in Germany as well, but in the service sector there. If you have that large low skills, low wage sector, then how do you then address the issue I have raised previously about raising the demand for graduate work when so many are moving now into this low skilled sector, hugely overqualified. I think the only way we can do this is through industrial policies. If you look at the most successful countries economically – Korea, Singapore – outstanding, China, Germany, Brazil – you see they all have industrial policies of one sort or another. There is no template for this. You have to be smart and deal with your local circumstances in your trading position in the world. You cannot simply do it by saying, “This is the way we do it, and we do it”. It is difficult. It hard. You will fail. You will fail and then you will succeed. Just as you have market failures, then clearly you can have industrial policy failures. The lesson is unless we start to really think through how we can raise the demand for skills in our countries; we are going to have large numbers of young people who are unemployed or deeply discontented because they are doing work for which they are educated. That is a challenge for us in this conference from my perspective. I hope it has been challenging and I hope it engages in some conversation, some controversy. Thank you very much indeed.