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12 QUESTIONS TO HIGHLIGHT THE IMPORTANCE OF GOVERNMENT ACTION ON ESSENTIAL SKILLS

Canadians have a collective interest in understanding the determinants of productivity growth and the social and economic processes that generate inequality in the things that we value most: employment, income and health. The available data suggests an urgent need for investment that serves to raise both the economic demand for, and the supply of, language, literacy and numeracy skills.

The following document summarizes the logic that supports the case for investment in Essential Skills: the language, literacy and numeracy skills that adults need to apply their technical skills and knowledge to world-class level.

The underlying policy analysis was undertaken by DataAngel Policy Research.

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DATAANGEL'S LOGIC FOR INVESTMENT IN ESSENTIAL SKILLS

Q1: Has the global economy changed in ways that are a threat to Canada's ability to compete?
A: Yes, because of globalization of markets for raw materials, capital, production technology and R&D and the rising supply of worker skills. Foreign firms can match us on quality and beat us on price. Many jobs that only demand the routine application of procedural knowledge will move to lower cost labour markets.

Q2: What should firms do to respond to this threat?
A: Redesign their production processes and work organizations to be more knowledge and skill intense.

Q3: **Are Canadian firms increasing the knowledge and skill intensity of their work processes and organizations?**
A: Yes, at a rapid enough rate to outstrip expected growth in skill supply.

Q4: Is the rate of increase rapid enough to offset the productivity gap with lower cost but equally skilled competitors?
A: No, our competitors have access to enough equally skilled workers who work for lower wages than Canadian workers.

Q5: What is the impact of failing to increase the knowledge and skill intensity of jobs rapidly enough?
A: Many jobs that only require the routine application of procedural knowledge will be outsourced to lower cost jurisdictions.

Q6: What more should firms do on the skill demand side?
A: Firms should invest more in job redesign that serves to increase the level of knowledge and skill intensity demanded.

Q7: If firms were increase the knowledge and skill intensity of their jobs, is the supply of skill growing rapidly enough to keep up with demand?

A: Yes and no. Except for a few very specialized occupations, Canada's rates of post-secondary participation are high enough to ensure an adequate supply of technical skills and knowledge. The supply of key Essential Skills – language, literacy and numeracy – is well below the level needed to maintain our competiveness on global markets. For example, 40% of workers currently have literacy skills below the level needed to apply technical skills to globally competitive levels. Any increase in the level of skill demanded would increase the size of these Essential skill shortages.

Q8: Are literacy skill shortages a problem?

A: Yes, both economically and socially. Literacy skill shortages reduce rates of productivity growth, increase the demand for public goods and services, such as income support and health and increase the level of employment, wage, income and health inequalities.

Q9: Are firms likely to increase their investments in Essential Skills upgrading to reduce the size and negative economic impact of Essential Skills shortages?

A: No. Firms are reluctant to invest in essential skills upgrading because they don't know they have an Essential Skills 'problem', have no way to judge what level of investment would yield the best returns, and have no easy way to select a reliable training provider.

Q10: Is there a role for government in solving the problem of Essential Skills shortages?

A: Yes, there is an urgent need for government to take several measures:

- Governments should create financial incentives for firms to increase the knowledge and skill intensity of their jobs.

- Governments should introduce measures to reduce the number of youth leaving the secondary and post-secondary systems with essential skill levels below the level demanded by the target occupations. For practical purposes this means that students should leave with a minimum of Level 3 literacy and numeracy skills.
- Governments should pay for Essential Skills upgrading for the unemployed, a necessary pre-condition to them getting and keeping a job.
- Governments should create financial incentives for firms to invest in essential skills upgrading.
- Governments should insist on pre and post testing for the skill upgrading that they fund and publish program efficiency and effectiveness measures based on these data, a means of identifying quality training providers.

Q11: What would happen if government implemented these measures?
A: Individuals would be healthier, wealthier and more independent. Firms would be more profitable and competitive. Governments would recoup their investments through higher tax revenue and reduced income support and health costs. Governments would also benefit from higher returns on their investments in post-secondary education.

Q12: What happens if governments don't make these investments?
A: Firms would eventually adjust to the new reality, but not rapidly enough to keep our standard of living from falling. Employment and income levels will fall, prompting a decline in government tax revenue and an increase in income support and health costs. Wage, income and health inequality will rise.

A summary of the data that supports this conclusion can be found in **THE BUSINESS CASE FOR INVESTMENT IN ESSENTIAL SKILLS IN NUMBERS**, which is available to download from our website here: **www.dataangel.ca/resources**