

Anna Valero: 'Automation has taken away mid-level skills jobs'

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As a Research Director of LSE's Growth Commission, Anna Valero spent part of the post-Brexit vote months studying the gaps between public policy and the new economic reality in the UK. In an interview with LSE Business Review's managing editor, Helena Vieira, she discusses what the UK could do to stimulate economic growth and fight inequality. The skills gap is one of her key points, but she also discusses industrial policy and the need to improve entrepreneurs' access to finance. "Now that there are additional risks from Brexit to the City of London, we thought we should revisit the issue of financial services and the role of the City in the future," she says.

Question: Is Brexit is the difference between the first Growth Commission report in 2013 and this one now?

Brexit is a key factor, obviously, because it created a difference in many of the areas of policy that we thought were stable, like our international relationships in trade, foreign direct investment and immigration. All those things that were considered stable back in 2013 are now up in the air. So in that sense it was a major policy shift, which necessitated revisiting the long-term issues facing the UK.

But other things have changed as well since the last growth commission report. First of all the fact that our productivity performance still wasn't any any better, which meant we had to go back and see why this is not happening, why our policies are not managing to start raising productivity.

There are also shifts in the global environment, such as the international recovery being slower than expected in other countries, as well as a slowdown happening now in China, which has ramifications in the UK. And also just what has been happening in the labour markets. Connected with productivity, real wage growth is really slow. Real wages are still below what they were pre-crisis. There's more of a need now to revisit what's going on in terms of inequality as well, not just looking at growth, but how the gains of growth are distributed amongst the population.

Question: And also the impact of technological transformation. How do you integrate technology and promote growth and employment at the same time?

Well, again, the effects of technological change on the labour markets are a long-running thing. Certainly over the recent decades it's been seen as one of the major reasons for changes in inequality. Largely because of the way technology has changed, it has favoured skilled people in the labour force, and there has been a kind of hollowing out of the middle – some kind of mid-level skills, which can be easily automated. I think the best way to deal with that is not to try and slow it down, but make sure that our workforce is skilled and able to adapt to changes. In the UK we have a long-standing deficit in skills so that kind of makes it even more necessary that we make sure that people acquire those skills – we call it continuous learning. People need continuous learning during their careers so that they are able to adapt to changes.

Question: What is the report's main recommendation for the government in continuous learning?

The government is actually currently looking a lot at the technical education offering in the UK, which is seen as worse than in countries such as Germany, and we've aspired to improve it for quite a while now. There is the Post-16 skills plan that the government is implementing. The recent industrial strategy document talks about that in the industrial context. But in terms of the growth commission, we recommend reforms that make the system of technical education more understandable to individuals choosing what course to do, in the same way courses in universities, with their career progression, are quite understood. So we need reforms to enable that – and that's what the government is doing.

But I would say that the main new thing that we're recommending in terms of life-long learning is to have some kind of tax credit so that employers are incentivised to invest in their people. Currently we have tax credit for capital investment, but there isn't anything equivalent in terms of training. If we incentivise firms to invest in their people, it should help address the issue. These technical skills can be acquired if either you invest in yourself or your company helps you to do that.

Question: Moving to other recommendations, what should the government be doing in terms of industrial policy?

The government is now moving forward with developing industrial strategy. They have a green paper out now and they're consulting on it. It's very important this industrial strategy is joined up ... basically everything affects industrial strategy and in a sense it is a growth strategy, because every part of the economy will affect how our industry performs, and our productivity.

So it is really good now that there is this concerted effort to develop an industrial strategy, but our main recommendation was to actually treat this policy differently. Over recent years there has been a succession of plans and documents that the government has published. In order to make sure that this new green paper isn't just going to be just another plan, we feel that there should be a strong institutional framework attached. We look at the way we govern other areas of economic policy in the UK, whether it's competition policy, monetary policy, or fiscal policy, with an office of budget responsibility established in 2010. We say, ok, industrial strategy should also have a similar framework. It should have a body, whether it's fully independent or somehow within government, but a body that's responsible for industrial strategy and is longer term and more isolated from political cycles than has been the case so far. It should issue publications every year showing the state of British industry, trying to evaluate policy so that we have a better understanding of what works. Just making sure there's more transparency and accountability in this area.

A real risk in industrial strategy now — now that the consensus is emerging that we should have targeted support for certain types of sectors or technologies — the risk is that there's some sort of capture to incumbents. Powerful firms, exactly because they have power, they get favours from politicians. So it's very important that everything is as transparent as possible so that we enable new entrants to be supported rather than supporting only existing companies or sectors.

Question: What are other key recommendations?

We have four chapters that cover the areas that needed revisiting since the last report. Lots of the issues that we identified in 2013 still hold. We have a chapter that updates the situations in all those areas. We look at the implications of Brexit, labour markets, finance and the City. We've dealt with the longstanding issues in terms of the ability of firms to access scale-up capital or for more risky innovative firms to access finance in the UK. And now that there are additional risks from Brexit to the City of London, we thought we should revisit the issue of financial services and the role of the City in the future.

So we set out some recommendations for how we might be able to support more innovative firms accessing finance. For example, we're trying to promote equity capital, because these small firms are over-reliant on debt in the UK. Maybe scaling up the activities of the British business bank. We also suggest that we should have a national infrastructure bank to try and support infrastructure investment, lowering the cost of capital for private investment in infrastructure projects.

Question: I imagine that one issue for start-ups and scale-ups after Brexit is attracting talent and keeping them here...

We recommend that despite Brexit the UK should maintain its openness to international talent. The problem is that even pre-Brexit the government was clamping down on non-EU skilled migrants. There were universities, including LSE, reporting that applications had fallen substantially from, say, Indian students. There were issues in terms of PhD students extending their time here. There have been lots of issues like that and actually the government, in light of Brexit, has set up an enquiry looking into the potential impacts on the university sector, because they've identified that as a risk. It's important that whatever is happening in terms of Brexit, the UK should still maintain its openness to EU and non-EU skilled people, because they have contributed a lot to the UK economy. And it's not just through them being productive in their jobs, it's got to do with them opening innovative companies or having innovative ideas in universities or research labs, which are then monetised and developed in the UK. I think that's something that's within government control, because post Brexit the government will be able to design its immigration policy and its framework, and it's up to government to decide how restrictive that should be.



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