In recent years, technological change, unemployment and industrial restructuring have highlighted training and the acquisition of skills as a policy issue. Throughout the industrialised world there is widespread concern that employees are insufficiently skilled. This deficiency can have serious economic consequences: high unemployment, deficient growth, lagging competitiveness, insufficient innovation and deficient product quality. These problems are likely to become particularly urgent over the coming years, as the dramatic increase in the share of temporary and part-time employment in the OECD leads to a decline in incentives to train in the formal sectors.

This book, from the Centre for Economic Policy Research, provides a systematic account of the causes, consequences and policy implications of failure in training provision and skills acquisition in the industrial world. Traditional human capital theory implies that the free market provides adequate incentives to train. This volume calls this conventional wisdom into question, arguing that since the markets for training are generally beset by imperfect competition and imperfect information, people generally do not receive adequate compensation for the training they acquire and provide. This book provides, for the first time, a systematic theoretical and empirical account of the causes, consequences, and policy implications of failure in training provision and skills acquisition in the industrial world.

In a world where unemployment is concentrated among the unskilled workers, where productivity growth, innovation and product quality rest critically in the hands of skilled employees, and where skill shortages can lead to inflationary pressures, the issues addressed in this volume have become increasingly urgent and important.
Acquiring skills
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1 July 1995
Acquiring skills
Market failures, their symptoms and policy responses

Edited by
ALISON L. BOOTH
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Preface

This book has three interrelated purposes.

The first, addressed in Part I, is to provide major reasons why the free market system may fail to provide adequate incentives for the acquisition of skills. For a long time mainstream economists used to believe that the Invisible Hand would invariably lead people to acquire skills as long as the resulting benefit to society exceeded the associated cost. Over the past decade, however, there has been an emerging realization that this is not so. But the new research is fragmented and the old views die hard. This book attempts to bring some of the most interesting and potentially significant market failures in providing skills – several of which have received little if any attention so far – under one cover. In doing so, it sets the stage for reasoned debate about government provision and regulation of training.

The second purpose, addressed in Part II, is to examine some salient empirical consequences of these problems using a portfolio of examples concerning the effects of different types of 'skills gaps', that is, deficiencies in the availability of trained employees. For brevity, these examples focus mainly on the UK and a limited number of other European countries. The consequences range from microeconomic problems, such as deficient productivity, insufficient innovation, and specialization in the production of goods that are of insufficient quality, to macroeconomic problems such as poor export performance, and insufficient competitiveness. They are meant to tell us what sorts of things to look for when we seek to assess whether a country's economic performance is impeded by insufficient production of skills.

And the third purpose, addressed in Part III, is to give a preliminary account of what policy initiatives are appropriate for dealing with skills gaps and their consequences. This is based not just on an analysis of market failures, but also on a recognition of important government failures in the process of policy design and implementation.

This book arose out of a conference organized by the editors under the
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