POLICY BRIEF

Institute for Policy Research

UNIVERSITY OF BATH

The global auction for high skilled work: implications for economic policy

About this research

It is commonly assumed that in the global knowledge economy there is a straightforward relationship between learning and earning. The key finding of research conducted by Phillip Brown (Cardiff University), Hugh Lauder (University of Bath) and David Ashton (University of Leicester) challenges this assumption. In contrast, they argue we have entered a global cut-price competition for brainpower. At the same time that some occupational elites have been able to use their market power to hike-up their salaries, many university graduates in Britain and the United States, confront a reverse or Dutch auction in which they will be competing with much cheaper graduates in countries like India and China.

The research focussed on the skill strategies of multinational companies and national policy makers in seven countries (South Korea, China, Singapore, India, Germany, the USA and the UK). It involved interviewing executives from multinational corporations (MNCs) in the automotive, banking, electronics and IT sectors.

Research findings in context

There are four global trends, the researchers have identified, that have created the reverse or Dutch auction for brainpower:

1. The Globalisation of High Skills

By 2007, university enrolments around the world had reached in excess of 140 million. This has led to a massive increase in the global supply of highly qualified workers, able to compete on price as well as knowledge. China now has many more students in higher education than the United States and is currently pursuing a 'talent strategy' with a target of increasing the numbers of graduates entering the labour market by an additional 10 million per annum between 2010 and 2020. Further expansion of higher education in India was also described by a senior policy maker in New Delhi as 'a gift to the world'. Although the quality of education will vary in these countries their graduates often cost in wages less than a tenth of the price of graduates in the West.

2. The Quality–Cost Revolution

Alongside the creation of a high skill, low cost workforce in East Asia, MNCs have created the platforms for high quality, low cost production of goods and services. This has significant consequences for Britain, parts of Europe and the USA. It undermines the assumption that low cost production is associated with inferior goods, and that a premium can be charged for high quality goods and services. The new competition is based on quality and cost.

Furthermore, our assumptions about the infrastructure needed to sustain high quality production are also being turned upside down. Although companies need a decent infrastructure (roads, communications), and a supply of well-educated and motivated workers, they are able to set up 'oasis operations' – high-tech factories, offices and research facilities – in low-spec locations.

This high skill, low cost model will squeeze the incomes of this and the next generation of graduates in countries like Britain and the USA. But this is only one force producing downward pressure on graduates' incomes; another comes from the ineluctable rise of computer routines that are increasingly being substituted for graduate workers.

Key findings

- Multinational companies have global skill strategies, which affect the job prospects of many graduates in the West.
- Many graduates in Britain and the USA are competing for jobs with lower cost graduates from East Asia.
- High quality, low cost goods and services can be produced anywhere, provided there are basic transport and communications infrastructures.
- Many 'knowledge' jobs are now standardized, routinized and digitalised. The rise of 'digital-Taylorism' has meant a further squeeze on graduate jobs.
- A few graduates from top universities are recruited as 'talent' and they will gain highly paid jobs with 'permission to think'. The majority in Britain and the USA will receive lower wages than their parents, unless a new business model is created.

3. The Rise of Digital Taylorism

While the rhetoric of the 'knowledge economy' has focused on the creation of new ideas, products and services, companies have used new technologies to globally standardise skilled jobs.

Terms such as 'financial services factory' and 'industrialisation' are being applied by leading consultancy companies to describe the transformation of the service sector. If the twentieth century brought mechanical Taylorism, characterized by the Fordist production line, where the knowledge of craft workers was captured by management, codified and re-engineered in the shape of the moving assembly line, the twenty-first century is the age of 'digital Taylorism'. This involves translating knowledge work into working knowledge through the extraction, codification and digitalization of knowledge into software prescripts that can be transmitted and manipulated by others regardless of location.

The work many graduates might have expected to do five years ago can now be done digitally. This has major implications for their labour market prospects but also for our understanding of the occupational structure and the way in which it stratifies knowledge work.

Digital Taylorism, therefore, takes the form of a power struggle within the middle classes, as future productivity gains will reduce the autonomy and discretion of the majority of managers and professionals. This encourages the segmentation of 'knowledge' work so that 'permission to think' is granted to a small proportion of employees responsible for driving the business forward

4. The Global 'War for Talent'

Taken together, these trends are intensifying the competition for credentials to gain access to elite universities, while at the same time denying the majority of graduates the job opportunities that their parents enjoyed. In America and Britain the expansion of higher education has been associated with an increase in wage differentials. This is not only between university graduates and non-graduates but within the graduate workforce itself. In Frank and Cook's *The Winner-Takes-All-Society*, they correctly argue that income inequalities are not the result of changes in the distribution of human capital – that some have invested more in their education and training than others – but due to the changing structure of the job market. Even within occupations requiring a college education, those at the top of the occupational pyramid receive a disproportionate share of rewards. These are individuals who, according to management ideology, are assumed to have exceptional 'talent'. This 'talent' is recruited from elite universities, further intensifying the competition for educational and job advantage.

It was McKinsey's who popularized the idea of a 'war for talent'. Despite the dubious merits of this argument, virtually all the HR executives the researchers spoke to in China, Korea, India and Singapore as well as the United States, Germany and Britain believed that they were in such a 'war', which was increasingly global. This war focussed on recruiting talent from a few elite universities in each country.

These trends are alarming and raise questions as to the appropriate policy response.

Policy implications

There are two broad policy responses to the challenge posed by The Global Auction.

- The first is to embrace the race to the bottom by reducing the numbers of students attending university. The immediate problem with such an approach is that Britain and the United States do not have a high level of reasonably paid intermediate jobs, as in Germany, due to deindustrialisation.

- The second policy response is to conclude that by itself the market cannot provide solutions to the lack of demand for graduate workers. The alternative, one embraced by most of the successful economies today, and particularly those in East Asia, is in the words of Robert Wade, to 'Govern the Market'. That is to develop industrial policies that will actively steer economies to create the demand for graduate level work.

We do not underestimate the challenge that creating sound industrial policy poses. Many countries that have fallen prey to market fundamentalism, in developed and developing economies do not have the skills or infrastructure to develop industrial policies.

In talking to policy makers in countries that do operate successful industrial policies, it is clear that it takes considerable time and experience to engage successfully in such policy making. Moreover, it requires a degree of consensus across political parties, because necessarily these are policies for the long term.

Despite these challenges, it is clear from the Global Auction, that if market fundamentalism persists, then many graduates in the developed and the developing world will not gain the income or quality of jobs that they might have expected.

Methodology

The study examined MNC skill strategies in 7 countries - Britain, China, Germany, India, Singapore, South Korea, and the United States. 125 company interviews were carried out (105 outside of the UK). The aim was to triangulate the views of those in Head Office with executives in their subsidiaries in different countries. These interviews were supplemented with interviews with senior policy makers (65 in total and 43 outside of the UK) to see whether they were abreast with MNC skill strategies. The research focused on the automotive, banking, electronics and IT sectors.

Contact the researchers:

Professor Hugh Lauder
Department of Education,
University of Bath
h.lauder@bath.ac.uk
www.bath.ac.uk/ipr/our-experts/hugh-lauder

Professor Phillip Brown
School of Social Science,
Cardiff University
Brownp1@cardiff.ac.uk

More on this research:

Brown, P., Lauder, H. and Ashton, D. (2011). The Global Auction: The Broken Promises of Education, Jobs and Incomes, New York: Oxford University Press

Lauder, H. Brown, P and Tholen, G., (2012) 'The Global Auction Model, Skill Bias Theory and Graduate Incomes: Reflections on Methodology', in Lauder, H, Young, M., Daniels, H., Balarin, M., and Lowe, J.,(eds.) (2012) Educating for the Knowledge Economy? Critical Perspectives, London: Routledge.