

SKILLS ECONOMY TOOLKIT

KEY TERMS

In a skills economy, having a shared language is essential for collaboration, clarity, and effective action. Whether you're a board member, workforce center leader, or partner organization, these terms underpin strategy, planning, communication, and service delivery.

We created a list of **key terms** that every Workforce Board member and partner should understand when working in and transitioning to a skills economy. This list provides definitions of key terms commonly used in discussions of the transition to a skills economy. It is designed to promote shared understanding and alignment among workforce development professionals, employers, educators, and policymakers.

What are skills?

Skills are the abilities, knowledge, and capacities that enable a person to *perform tasks, solve problems, or produce outcomes* effectively in a given context, whether at work, in learning, or in daily life. Skills are demonstrations of what a person can do. They can be learned, practiced, assessed, or evaluated, and applied, and they are often categorized as:

- **Technical skills:** Job-specific abilities (e.g., coding, welding, data analysis)
- **Soft or social skills:** Interpersonal or behavioral traits (e.g., communication, teamwork, adaptability)
- **Transferable skills:** Skills applicable across roles and industries (e.g., critical thinking, time management). These are also referred to as *durable skills and essential skills*.
- **Digital skills:** Competencies in using technology tools and platforms (e.g., spreadsheets, digital collaboration, AI literacy):

In a skills economy, these competencies become the primary basis for hiring, training, and advancement decisions.

Skills vs. Knowledge vs. Understanding

In workforce development, education, and hiring, clarity matters. Differentiating among skills, knowledge, understanding, and related terms enables people and organizations to more accurately define job requirements, design training programs, and assess readiness.

Term	Definition	Focus	Example
Knowledge	Information, facts, or principles acquired through learning or experience.	What you know	Knowing that Excel can create pivot tables.
Understanding	The ability to interpret, explain, or make meaning of knowledge.	Why and how it works	Explaining why pivot tables are useful for summarizing data.
Skill	The ability to apply knowledge effectively to complete a task or solve a problem.	What you can do	Creating and customizing a pivot table in Excel.
Competence	A combination of skills, knowledge, and behaviors applied successfully in context.	How well you perform in real settings	Analyzing sales trends using Excel and presenting insights to a team.
Ability	The capacity to perform physical or mental activities. Often innate or developed.	Your potential or capacity	Having the mental agility to learn new software tools quickly.

Source: Page (2026) and LWYL Studio (2025).

What is a skills economy?

A skills economy is an economy where skills, not just degrees, credentials, or other qualifications, are the main drivers of labor markets, productivity, and competitiveness. In a skills economy, skills are treated as valuable personal assets, like currency, that individuals can earn, apply, and leverage throughout their careers, and that employers and industries value and develop.

List of Terms

Term	Definition
Competency	A combination of skills, knowledge, and behaviors applied successfully in context, such as a specific job or role.
Learning and Employment Record (LER)	A record of an individual's learning experiences, skills, and credentials.
Microcredential	A short, focused credential that verifies a specific skill or competency. Typically, more flexible and faster to earn than a certification or degree.
Skill Signal	Any evidence or indicator that communicates a worker's skills to an employer or educational institution. e.g., credentials, portfolios, endorsement, or assessments.
Skills	Skills are the abilities that enable a person to perform tasks, solve problems, or produce outcomes effectively in a given context, whether at work, in learning, or in daily life. Skills can be learned, practiced, assessed, and applied.
Skills-Based Economy	A subset or practical framing of the skills economy. It emphasizes systems and practices that structure economic opportunity around measurable skills.
Skills-Based Hiring and Advancement	An approach to hiring and retention that includes a candidate's validated and verified skills as well as their qualifications, such as diplomas or prior job titles.
Skills Economy	An economy where skills, not just degrees, credentials, or other qualifications, are the main drivers of labor markets, productivity, and competitiveness. In a skills economy, skills are treated as valuable personal assets, like currency, that individuals can earn, apply, and leverage throughout their careers.
Skills Framework	A structured set of skills organized for a particular purpose, such as to express the range of skills relevant to occupations in a specific sector or organization. Frameworks may express relationships between individual skills.
Skills Gap	The disconnect between the skills employers need and those available in the labor market.

Skills Readiness	Skills readiness refers to the ability of a Workforce Development Board, employer, and its partners to prepare for and lead in a skills-based economy.
Skills Recognition Gap	A skills recognition gap refers to the disconnect between the skills a person possesses and the extent to which those skills are recognized, validated, or accepted by employers, educators, or systems.
Skills-First Economy	A movement or philosophy within the broader skills economy. It advocates a cultural and organizational shift in which employers, educators, and workforce boards prioritize skills in their decision-making.
Skills-Rich	Describes an individual, organization, or region that possesses or cultivates a breadth of validated, in-demand, and transferable skills.
Skills-Rich Economy	An economic state or region where the workforce possesses a high concentration of in-demand, validated skills across sectors, enabling adaptability, resilience, and innovation.
Skills Taxonomy	A structured classification of skills used to describe and organize labor market needs. Examples include O*NET, ESCO, and SFIA.
Transferable Skills	Skills that are applicable across multiple jobs or industries, such as communication, problem-solving, or project management.
Source: Page (2026) and LWYL Studio (2025).	

● Invite your board members to reflect on what they think of when they hear the terms ‘skills’ and ‘skills-economy.’ This will help uncover how your board and region view skills and the language they are most comfortable using. Always lean into what works best for your members and region.

Sources

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