Research insight
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Industrial strategy and the future of skills policy

The high road to sustainable growth

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Foreword

The UK has record levels of employment, and we're seeing welcome signs of a return to growth. However, as this paper highlights, there are structural fault-lines running through the UK economy and labour market which could well undermine a sustainable recovery and the country's long-term competitiveness.

Skills supply and demand lie at the heart of the problems facing the UK. We have a higher proportion of very low-skilled jobs than many other developed economies. This has to change. And so too does the significant problem we have with under-employment, for example too many graduates and not enough graduate-level jobs.

The issue is not simply about increasing the supply of skills – a preoccupation of current and past governments. The solution to the challenges we face lies just as much with improving skills utilisation and demand for higher-level skills through increasing the number of higher skilled roles available. To do this, we need to encourage more employer investment in innovation and growth and the capabilities and skills needed to deliver high-performance workplaces which can better utilise the skills available and to generate opportunities, raise productivity and add value, which are vital to our long-term international competitiveness.

Unless we address the demand side of the skills equation, we will fail to improve our poor productivity or to achieve the sustainable increases in real wages that have become such a dominant feature of the current media and political narrative.

The UK is at a crossroads – one which requires us to think about the fundamental nature and direction of our economy. Are we taking the high road – of higher skills and value-added employment – or the low road – trying to compete primarily on low cost? Is it tenable for government policies on growth and industrial strategy to develop with such consistently tenuous and limited links to policies on skills, the workplace and employment relations?

In this paper, we argue strongly that we need policies that drive us clearly in the direction of the high road. And ones that bring different and often poorly integrated parts of the government machine together with business and employee representatives to develop shared and long-lasting policies and consensus about smarter investment in skills and skills utilisation. The future competitiveness and prosperity of the UK is at stake.

Peter Cheese
CEO, CIPD

Executive summary

Introduction

The UK faces significant challenges to achieve sustainable economic growth and development.

While there are now welcome signs of economic growth, the strength and sustainability of the recovery are subject to much debate, not least because the revival in activity is being driven to a large degree by household consumption rather than greater exports or enhanced levels of business investment.

The aim of achieving sectoral and regional rebalancing of the economy is also proving hard to achieve. These challenges are not new and applied as much to the previous Labour administration as they do to the current Coalition Government.

A key issue continues to be the weak levels of skills possessed by a large proportion of UK workers when compared with those held by their counterparts in other OECD countries, as well as poorly utilised skills. The UK has a higher proportion of low-skilled jobs than any other country in the OECD aside from Spain and the second highest level of over-qualification after Japan.

Intrinsically linked to the issue of skills are concerns over low productivity in the UK, falling real wages and the high incidence of low pay.

Historically the relationship between economic performance and skills is only viewed in relation to simple focus on supplying more skills. It is assumed that once this is achieved productivity will rise, low-paid work decline and economic performance increase.

The evidence suggests that this analysis is flawed given the weaknesses that have continued to dog our economy and labour market over the last three decades or more.

This paper explores these issues, highlights the links between them, and considers how government skills, growth and innovation strategies might address these challenges more effectively.

1 Current challenges

Skills

Despite continuous reform to the supply side of skills over the last three decades, the UK still finds itself languishing in the various international league tables of skill and qualification achievement.

According to the recent OECD (2013) survey of adult skills, the UK has the second highest (after Spain) level of demand from employers for workers who have not received education and training beyond compulsory schooling. The UK labour market also exhibits high levels of qualification mismatch and apparent under-utilisation of skills. About 30% of UK workers believe they are over-qualified for their jobs, the second highest proportion after Japan according to the OECD report.

Analysis by the UKCES published in 2010 concluded that problems in the UK's skills system lie largely on the demand side. *'The relatively low level of skills in the UK, the limited extent of skills shortages and the potentially low demand for skills relative to their supply, taken together, imply a demand side weakness.'*

Unfortunately, although UK national skills policy has offered a nod in the direction of this analysis, in reality attempts to do anything to stimulate underlying demand for skills or to improve the utilisation of existing skills have been regarded as too difficult to address in any very direct fashion by government.

What is lacking is an acknowledgement of the fact that, as the OECD observes, policies can shape demand rather than merely respond to it.

'Government programmes can influence both employer-competitiveness strategies (how a company organises its work to gain competitive advantage in the markets in which it is operating) and product market strategies, which determine in what markets the company competes. As companies move into higher value-added product and service markets, the levels of skill that they require, and the extent to which they use these skills, tend to increase.'

Productivity

Linked very closely to the issue of the supply and demand for skills is productivity, which continues to lag behind our international competitors.

Given the significant evidence highlighting the link between productivity and skills, the issue of skills will again come into the policy spotlight. However, in the real world, short-term economic challenges could discourage employers from investing in training and there is a lot of evidence that this has in fact happened. One danger is employers may substitute cheap, low-skilled labour for capital as they cancel or delay hard-to-come-by investment funding for plant or equipment.

Any such trend is liable to hold back improvements in productivity crucial to support economic growth and to generate sustainable rises in real wages for the bulk of the workforce. This brings us to our third highlighted challenge, the growth of low-paid work and the problem of falling real wages for many workers.

The growth of low-waged work

In the past it was a reasonable assumption that real wages for the majority of the working population would, aside from short-term fluctuation, rise over the long term powered by increasing levels of productivity.

This is no longer the case – on current projections real wages for large segments of the working population are likely to continue to stagnate or fall in the years ahead. It has been calculated by the Resolution Foundation that even if wages for low- and middle-income earners were now to grow by 1.1% above inflation, their average annual household incomes would take until 2023 to reach the same level as they stood in 2008.

At the same time, rising levels of part-time and/or low-paid employment may be adding to problems with earnings.

These trends have major implications for public policy as it relates to social mobility, child poverty and welfare reform.

Earnings trends also represent a major stumbling block to skills policy as the existence of a substantial mass of low-paid, low-skilled work, which often pays little regard to qualifications in the recruitment and selection process, weakens the case for employer investment in skills and makes it harder to encourage individuals to invest in their own skills.

2 Current policies

How far do the current growth and industrial policy initiatives go towards addressing these challenges?

The issue of industrial policy, after falling out of favour in the UK during the Thatcher and post-Thatcher years, has seen a strong revival following the 2008 financial crisis. Government needed to be seen to be doing something to get the economy moving again and, at a deeper level, to be addressing perceived structural weaknesses in the economic base of the country that had been revealed by the financial crash. There was a policy consensus that manufacturing's role within the economy required boosting and that future economic growth needed to be based more on investment than consumer spending. As the CBI put it, *'the debate is no longer about whether the UK needs an industrial strategy but getting the approach right.'*

Overall, the broad policy consensus around the emerging industrial strategy focuses on a limited number of themes or motifs. These include picking broad sectors (rather than winners), mainly in hi-tech manufacturing, which can lead an export drive, public subsidies to overcome market failure within these sectors, and improving manufacturers' access to investment funding. There is also a focus on traditional horizontal measures (that apply across the economy) such as 'red tape' busting and more education and training. Finally there is a greater role for the local dimension of policy, with employers and local government (plus other stakeholders) working in partnership to deliver growth.

Arguably, the broad approach to industrial strategy outlined above does not represent a radical departure from what has gone before. The Coalition Government appears more comfortable with vertical intervention in specific sectors than was the case in the recent past, but horizontal policies that apply across all organisations continue to follow well-worn lines. The long-standing emphasis on the importance of improving skill levels remains, as does a well-established enthusiasm for more and better science and technology-based forms of innovation. There is also a continuing and perhaps greater emphasis on the need to improve infrastructure.

A novel element of the rhetoric around 'new' industrial strategy is on rebalancing the economy and the need to grow the manufacturing sector to boost exports and improve the UK's balance of trade.

3 Tensions within what government is trying to achieve

Sitting above any specific initiatives are the Coalition Government's overarching policy aims that it believes will enable the economy to grow. These are making the UK the best place to start and grow a business, creating the most competitive tax system in the G20, encouraging investment as a means to rebalance the economy and creating a more educated and flexible workforce.

Although these initiatives of themselves are hard to disagree with, they don't provide a strategic direction in terms of the type of growth the Government is trying to encourage. The CBI assesses that, *'Tomorrow's growth requires a fundamental rebalancing toward investment and exports, reshaping the economy around high-value, high-skill activities that will enable us to pay our way in an intensely competitive global economy.'*

However, there are significant implications not just for the supply of skills, but for how skills are utilised and for the nature of employment relationship if the UK's future growth is to be based on higher skills and value products and services rather than on a low-skill and low-cost model.

In essence the Government's vision incorporates a deep-seated tension between two very different models of competitive strategy. These are:

- a 'high road' model of competitive advantage, wherein highly skilled workers deliver sophisticated, high-specification goods and services that are sold on the basis of their quality rather than their price, and where firms come to the UK because this is our model

- a 'low road' model of competitive advantage, wherein a disposable workforce produces relatively standardised goods and services that are primarily sold on the basis of low price, and where firms come to the UK because it is a cheap place to do business and taxes are low.

These two models of competitive advantage lead in turn to two alternative and arguably fairly incommensurable paradigms concerning employment relations and the role of people issues:

- *Paradigm 1* – people are our most important asset, the workforce and their skills are a/the prime source of competitive advantage and employers should manage and engage them in sophisticated ways in order to enhance their commitment and creativity, and support flexible ways of working.

- *Paradigm 2* – workers are a disposable factor of production or a cost to be minimised, and therefore their skills are inherently interchangeable and (in the main) of limited importance. Investing in them and seeking to engage is less important, and fear is an effective motivator. It should therefore be made as easy as possible for employers to fire staff.

The bulk of traditional, human-capital-based skills policy has been founded on the first paradigm, whereas the Beecroft Report (2011) on the future of employment relations, and the book *Britannia Unchained* by five leading backbench Conservative MPs (Kwarteng et al 2012) can be argued to represent the second.

In terms of the current state of play, evidence suggests that both models (and points in between the extremes) co-exist within the contemporary UK labour market and employment relations scene, even across different segments of the workforce within the same employing organisation. While current government policy seems to accept that a range of approaches and outcomes is inevitable (and possibly desirable), the public policy problems that accrue to the widespread adoption of 'low road' models are becoming more and more visible.

Not only does a drift towards a low-road labour market and economy make for unfulfilling working lives for many (with associated stress and health costs attached), it supports the increase of low-skilled, low-paid work, helps fuel the growth in 'in-work' poverty, and at least some of the costs of employers adopting such practices are being passed on to the taxpayer and government via in-working tax credits that top up low wages.

Unresolved issues from the Porter report

The need to move away from the country's traditional source of competitive advantage, based to a large degree on low costs and an efficient business environment, was emphasised by the government-commissioned Porter report on productivity a decade ago.

The report concluded, *'As countries develop and increase their prosperity, they have to upgrade their competitiveness. This upgrading process is especially evident in a transition, where the basis of a country's competitive advantage has to be redefined. Factors that were important for past success become barriers to further growth.*

'The UK has now reached such a transition point. Competing on relatively low input costs and an efficient business environment is no longer sufficient to achieve the levels of prosperity the country is aiming for. Lower taxes, less regulation, and even a smaller role for government are no longer the most critical elements for UK competitiveness…'

Porter emphasised the importance of an over-arching policy consensus on the direction of travel for the economy to help underpin reform in the public sector and to encourage more companies in the private sector to choose to *'upgrade their strategies and invest in the business environment'.*

Unfortunately, after a relatively brief initial flurry of publicity and debate, the Porter report was quietly forgotten and the fundamental strategic choices towards which it pointed were largely ignored.

4 Too narrow a focus public policy?

Another concern about current industrial strategy is that its boundaries have been drawn fairly narrowly. A key problem with its vertical element is that on the whole it focuses on sectors and sub-sectors that may have the potential to generate large amounts of exports but which are not all that likely to generate large volumes of direct employment and which will therefore cover but a relatively small proportion of the total national workforce and output.

Lord Heseltine, in his *No Stone Unturned* report on local economic development (2012), argued that:

'*We cannot ignore the performance and growth potential of the mass of businesses across all sectors, including construction, logistics, retail, hospitality and health and social care, which have traditionally provided a high proportion of the employment opportunities in this country.'*

Second, besides the vertical elements of the industrial strategy being too narrowly focused on a few 'winner' sectors of the future, while ignoring the bulk of current productive capacity and activity, there are major problems with the horizontal elements of the strategy as well. These horizontal measures make little direct connection with people management issues, such as employment relations, pay, workers' productivity, work organisation, job design or workplace innovation. In other words, the people element of production, service delivery, productivity and innovation is largely ignored and absent.

Any assumption that greater competitive forces, coupled with enlightened self-interest will, sooner or later, impel employers to adopt policies and practices that will alleviate problems in these areas, for example by increasing demand for skill, and utilising skills more effectively, may not be well founded.

Weaknesses in our model of innovation – the place of the workplace and skills

Innovation is a good example of why policy-makers need to consider the workplace. How work is organised and how people are led and managed are critical if new ideas and ways of working are to feed through into productivity improvements.

For a long time now successive governments' model of innovation has been based upon a fairly partial and increasingly old-fashioned understanding of what innovation is and how it takes place. In essence, government continues to conceive of innovation as being led by science, technological advances, patents, intellectual capital and technology transfer systems and processes.

There are a number of problems with this narrow, science-centric model of innovation. The first is that while it might work well for high-tech segments of manufacturing, it is much less clear that it necessarily engages well with large sections of mass services (that is, those parts of the economy where significant swathes of employment are located). Moreover, it ignores any potential for the kinds of incremental, bottom–up, workplace innovation that can change products, services and the means by which they are delivered.

Significant evidence referenced in this paper demonstrates the close link between different facets of organisational design and workplace practice and management that can either facilitate or militate against the creation of workplace environments that offer rich opportunities for learning, innovation and also the effective utilisation of skills. Consequently it would make sense for public policy to have a stronger and more explicit focus on the workplace, assisting organisations to improve their leadership and management capability and re-engineer their work processes to expand the range and quality of learning opportunities that are inherent in the day-to-day routines dictated by work organisation, job design and production processes and technologies.

The role of skills policy in tackling low pay

An industrial and growth strategy which includes a greater emphasis on the workplace as a means to boosting the demand for skills and improving skills utilisation would also link clearly to the issue of job quality and the problems posed by low pay.

The reality of falling real wages for a substantial proportion of the working population, coupled with renewed political interest in the issue of low pay, means that there is significant pressure for growth strategies (broadly conceived) to afford priority to this issue.

The Social Mobility and Child Poverty Commission (2013) has highlighted the importance of addressing the underlying causes of low pay in its latest report *Social Mobility: The next steps.*

It flags up the need for policy to start to confront issues to do with the lack of progression that is available in work, and to develop *'a proper low wage strategy'* and *'an explicit hourly pay progression strategy'.* The development of such strategies would inevitably entail the creation of a coherent vision of how the employment relationship might best be managed, and of the interventions (of whatever sort) around company pay systems and norms, the structure and nature of employment contracts, internal labour markets and progression systems and practices.

In other words, the conventional policy stance – under both New Labour and the Coalition Government – is coming under pressure. This stance has been that the market will ultimately decide how this critical issue plays out, and that, beyond a certain amount of exhortation, all government can do is to stand back, try to create a benign economic and employment environment, and keep its fingers crossed.

5 Conclusions

In conclusion, this paper argues that the most glaring absence at the heart of government policy is a coherent, integrated strategy that embraces growth, skills, innovation, employment relations and the labour market – that is, the demand side of the skills equation. Successive governments have failed to understand the importance to many public policy goals of how the workforce is managed, and have not developed and pursued any coherent view of what good employment relations looks like.

A key component within such a strategy would be a stronger policy focus on the workplace. As argued in this paper, such a focus would have many advantages.

A vital question is how such new policies might best be designed and delivered. The problem is that the current institutional landscape suffers from gaps and weaknesses. These, for example, include the absence of any public entity that has a primary focus on workplace productivity or workplace innovation. The weaknesses are represented by relatively small, fragmented and often under-resourced bodies such as LEPs and Sector Skills Councils (SSCs), which will struggle to engage with or deliver the kind of agenda sketched out in this paper.

The CIPD has developed some recommendations on about how some of these problems might start to be addressed. In order to improve the strategic co-ordination of policy-making on a range of issues which ultimately depend on what happens in organisations, the CIPD believes that a Workplace Commission should be established. This would have the objective of:

1. researching the nature of jobs and the evolving demand in skills for the future, to help shape a more integrated approach to policy and other interventions to encourage job and skills growth paths
2. understanding the issues and drivers of workplace productivity, including the quality of leadership and management, to encourage more systematic approaches to improving return on human capital within organisations
3. improving the quality of employment regulation and link it more securely to a 'good practice' agenda.

An approach that would be worth exploring is the development of industrial partnerships, an idea raised in the recent UKCES-commissioned Whitehead Review of Adult Vocational Qualifications (Whitehead 2013). The review recommended the establishment of industrial partnerships which *'would have responsibility for developing industry-led responses to market failures that encompass the supply, utilisation and demand for skills'*.

Such arrangements that integrated the skills agenda with wider economic development and business improvement roles at a sectoral level, and that were genuinely industry-led rather than simply government-sponsored agencies, would be a major step forward.

The longer that policy does not confront the need for a better balance between improving demand and utilisation of skills, with the supply of skills, the greater the concern that economic growth will not be sustainable in the long term or support all areas of the economy and the workforce. Without this, the public policy gains – social and economic – that are being expected of the recovery will not materialise.

Introduction

'Skills form the bedrock of every country's economy. They are not only linked to aggregate economic performance but also to each individual's success in the labour market. However, having skills is not enough; to achieve growth, both for a country and for an individual, skills must be put to productive use at work' (OECD 2013, p142).

The UK economy and labour market face many challenges. A key issue, highlighted by the recent OECD (2013) study on adult skills, continues to be the relatively weak levels of skill possessed by a large proportion of UK workers when compared with those held by their counterparts in other OECD states. Although the focus of media attention surrounding the report was on our poor international showing on adult literacy and numeracy scores, and on the finding that our 16–24-year-olds appeared to perform less well than their less well-qualified 55–65-year-old counterparts, the study contains pointers to other equally if not more disturbing problems. These include the fact that the UK labour market has a far higher than average demand for workers who have not progressed beyond compulsory schooling and that, at aggregate level, we have the second highest levels of over-qualification in our workforce. In other words, while we continue to have weaknesses in our skills supply, we are also experiencing major problems with underlying levels of demand for skill and with how well skills are utilised within the workplace and productive process. This paper will return to these issues below.

At the same time, there are wider concerns about economic performance. Although there are finally signs of economic growth within the UK economy, the strength and sustainability of the recovery are the subject of active debate, not least because much of the revival in activity is being driven by household consumption rather than greater exports or enhanced levels of business investment (Elliott 2013). The Government's aim of delivering a regional and sectoral rebalancing of the economy is proving hard to contrive (Froud et al 2011, Government Office for Science, forthcoming). For example, in terms of spatial rebalancing, the latest growth figures suggest that London and the south-east's already dominant position in terms of capturing gross value added (GVA) has actually increased, with London experiencing a 22.6% rise in GVA in the period 1997–2006, and 32.1% in the period 2007–11 (Chakrabortty 2013). It is also apparent that the UK faces major economic and social issues around declining real wage levels for a substantial proportion of the working population, that the onset of this trend pre-dates the recession and appears to be deeply rooted in the evolving structure of occupations and wage systems. At the same time, although the UK performed better on maintaining employment levels through the recession than might have been anticipated, there are very significant problems with our relative levels of productivity per worker hour, which have declined relative to the majority of our international competitors' productivity since the recession. The causes of this widening productivity gap are the source of much speculation and concern.

The vast bulk of policy debate tends to split the issues we have outlined above into separate boxes and to address them in isolation. For example, the relationship between skills and economic performance are only viewed in relation to a relatively simple and narrow focus on supplying more skills. It is assumed that once this is accomplished, economic performance will automatically improve, productivity will rise and low-paid work will decline. Unfortunately, life is not quite that simple (Keep et al 2006). If it were, most of the weaknesses that have dogged our economy and labour market over the last three decades or more would have long since been solved.

This paper seeks to address these issues in the round, to draw links between them and to provoke debate about how the Government's skills, growth and innovation strategies might be helped to better address these challenges. It also makes the case for there being a larger and more prominent role allocated to employment relations and people management issues (broadly defined) within the Government's thinking.

The paper will suggest that there are five key problems with policy as it currently stands:

1 There is an implicit tension within the Government's overarching objectives for the growth strategy that springs from its attempt to encompass two divergent models of the employment relationship and of the future development of the labour market and economy.
2 The strategy's (vertical) sectoral elements will impact on productivity in too few workplaces to make a fundamental difference to overall performance.
3 The growth and industrial strategy has relatively little to say about the workplace or how productive processes might be made more efficient.
4 The UK's current innovation strategy is heavily science-centric and places almost no stress on the type of employee-driven innovation or bottom–up workplace innovation that is a focus for policy in many other OECD countries.
5 Our approach to skills policy focuses too heavily on the publicly funded supply of more education and training, and tends to ignore the critical role of employer demand for skills, workplace learning and the influence of employment relations, work organisation and job design in determining how productively skills are deployed.

1 Current challenges

The Government's strategies around economic growth, innovation and economic development face a multiplicity of challenges. Some of the key ones include:

- getting the economy on a path to long-term, sustainable economic growth
- encouraging rises in real incomes for the bulk of the workforce
- increasing levels of innovation across the whole economy and also ensuring the development of new high-tech industries and firms
- increasing exports and rebalancing the economy between different sectors as well as regions and localities.

All of these are important, but we would highlight three areas that are particularly relevant to the issues this paper is trying to probe.

Skills

The story of English skills policy over the last three decades is one of manic activity, attended by real, but ultimately limited, success. Despite serial reforms to schools, colleges, universities, funding systems and the government agencies that supervise them, inspection and quality assurance regimes, skills planning and forecasting systems, education and training programmes and schemes, and qualifications systems and individual qualifications, we have improved the overall levels of qualification achievement across the workforce (UKCES 2010), but still find ourselves languishing in the various international league tables of skill and qualification achievement (UKCES 2010, OECD 2012a, OECD 2013). We are running faster, but so is everyone else, and the gap between the front-runners and ourselves has generally not narrowed all that much.

As we noted at the outset, the recent OECD report on the findings from its Survey of Adult Skills (OECD 2013) highlights a number of different facets of the 'skills problem', with media attention latching on to those pertaining to initial education and training, and the level and quality of publicly funded skills supply. The most widely reported finding was that in the UK, 16–24-year-olds performed far less well than 55–65-year-olds on literacy, despite being far more highly qualified (OECD 2013, pp31–2, 106–7), a feature not seen elsewhere, except in America.

What attracted far less media attention were other findings that go some way towards helping explain this situation. First, there was the observation that:

'In many countries, the fewer the jobs requiring low levels of education, the more the jobs requiring high levels of education. However, this is not always true. In Spain and England/Northern Ireland (UK), the distribution of jobs by educational requirements is highly polarised: there are many jobs with low educational requirements and many jobs with high educational requirements…' (OECD 2013, p168).

The OECD's figures echo those of Green (2009) and suggest that the UK is second from bottom after Spain out of 22 nations in terms of the percentage of jobs that require more than 'primary' education. Austria, Italy, Poland, the USA, Denmark, Cyprus, Canada and Finland all had between 5% and 10% of job openings requiring these low levels of education; while the Czech Republic, the Slovak Republic, Japan, Germany, Sweden and Estonia had 5% or less job openings in this category. In the UK, the percentage was over 22% (see OECD 2013, p168, Figure 4.24).

Second, the UK labour market exhibits high levels of qualification mismatch and apparent under-utilisation of skills. In terms of the incidence of over-qualification (workers whose highest qualification is at a level above that which they deem necessary to get their job today), the UK again finished second worst across the 22 countries (this time after Japan), with around 30% of workers covered estimating themselves to be over-qualified (OECD 2013, p171, Figure 4.25). Work by Felstead and Green (2013a), using data from the 2012 Skills and Employment Survey, suggests that the rising trend of over-qualification across the UK labour market has recently levelled off, and that at graduate level at least, there has been a slight decline. These trend figures notwithstanding, our levels of over-qualification remain very high by international levels, and, as the OECD report's authors observe:

'Over-qualification has a significant impact on wages, even after adjusting for proficiency. It also implies a "waste" of human capital, since over-qualified workers tend to under-use their skills' (OECD 2013, p181).

'The relatively low level of skills in the UK; the limited extent of skill shortages; and the potentially low demand for skills relative to their supply, taken together, imply a demand side weakness.'

The volume and distribution of employer-provided training is another source of concern. What indicators we have suggest that it is far from the case that many employers are straining at the leash to upskill their workforce to compete with the world's best. At an aggregate level the overall proportion of the workforce aged 16–64 who are being offered employer-provided learning opportunities has fallen back to levels last seen in 1993 (Mason and Bishop 2010; see also Felstead and Green 2013b, Green et al 2013). Moreover, this appears not to be the result of the recession. Workforce participation in training seems to have started to fall around 2000 and to have declined slowly but steadily since then.

The decline in the overall incidence of employer-provided training has, as Felstead and Green (2013b) note, been relatively gentle. More disturbing has been the considerably sharper reduction in the average number of training hours per worker per year. Data from a number of surveys indicate that the overall volume (measured in hours or days) of employer-provided training, has undergone a 'sea change' (Green et al 2013, p3), and may have fallen by as much as half between 1997 and 2012. Green et al (2013) suggest four possible reasons for this fall: better-educated young entrants take less time to train, there has been a massive increase in the efficiency of firms' training function, learning is taking place via experience embedded within work routines and therefore requires less overt training, or that managers are more pessimistic than hitherto about the value of training to their businesses. The evidence we have available does not allow us to judge which if any of these explanations is correct.

All of this suggests that we may well have major problems with education and training, but that these may not be confined to deficiencies within the publicly funded system of initial education and training for young people. Indeed the OECD's Adult Skills Survey findings are simply the latest instalment in a long-running series of unflattering comparisons of our levels of education and training compared with those of international competitors that date back to the mid-nineteenth century (see Keep and Mayhew 1988, Keep 2008). The longevity of the problem suggests that its causes are deeply rooted and cannot simply be ascribed to individual deficiencies in organisational structure of the contemporary education and training system. At least in part they have causal origins embedded within our distinctive conception of skill and occupations (Brockmann et al 2010), the structure and operation of our labour market, and the competitive and product market strategy choices being made by many organisations (Keep et al 2006).

Towards the end of New Labour's period in office, the UK Commission for Employment and Skills' (UKCES) analysis of the UK labour market concurred with this analysis and concluded that the skills problem:

'lies largely on the demand side. The relatively low level of skills in the UK; the limited extent of skill shortages; and the potentially low demand for skills relative to their supply taken together, imply a demand side weakness. The UK has too few high performance workplaces, too few employees producing high quality goods and services, too few businesses in high value added sectors' (UKCES 2009, p10).

The difficulty, as the authors have noted previously (Keep et al 2006, Keep and Mayhew 2010), is that if this is the case, traditional skills supply-led policies are liable to produce only limited improvement and may, through encouraging over-qualification and thereby making returns to learning more uncertain, contrive to worsen the situation (Keep 2009).

Unfortunately, although UK national skills policy has offered a nod in the direction of this analysis, in reality attempts to do anything to stimulate underlying levels of demand for skill or to improve the utilisation of existing skills have been regarded as too difficult to address in any very direct fashion, by government, at least in England (the story in Scotland is somewhat different, see Keep et al 2010). The main reasons for policy not adjusting to take full account of this new analysis have been a long-standing attachment to skills supply measures, which are well understood and offer the comfort of familiarity, coupled with a deep-seated ideological uncertainty about how government can legitimately and effectively intervene to bolster demand for skills (Keep 2011).

Another weakness has been that policy has tended to follow a central government-led model where the primary stress has been upon *'transformational state action designed to help individuals achieve their potential and respond to economic uncertainty'* (Lanning and Lawton 2012, p18), rather than upon intervention at firm or sectoral level. In other words, the focus of skills policy has often been atomistic – the individual worker rather than the enterprise or sector – and has therefore failed to connect with any wider elements of business improvement and economic development policy.

What is currently lacking is an acknowledgement of the fact that, as the OECD observes:

'policies can shape demand, rather than merely respond to it. Government programmes can influence both employer-competitiveness strategies (how a company organises its work to gain competitive advantage in the markets in which it is operating) and product market strategies, which determine in what markets the company competes. As companies move into higher value-added product and service markets, the levels of skill that they require, and the extent to which they use these skills, tend to increase' (OECD 2013, p40).

Research in Scotland (Ashton and Sung 2011a, 2011b) demonstrates that there are, even within the limits of current UK government policies, significant opportunities to influence organisations' product market strategies and thereby their demand and usage of skill. Unfortunately, all too often skills policies continue to be seen by government as a substitute for, not a component of, wider policies to address economic development, business improvement and workplace innovation (Keep 2002, Keep et al 2006, Keep and Mayhew 2010). This is a point to which we will return.

As a result, current policies are locked in to very traditional readings of what might be done, framed within an environment which is witnessing a sharp decline in public spending on post-19 education and training. The main response is yet further rounds of institutional, programmatic and qualification reform, coupled with a continued belief in the supply of more highly educated and skilled labour, largely funded by the state, but with a strong assumption that, if the offer can be made right, employers will be willing and able to do more to invest in skills. Thus the Coalition's main policy paper on skills and training (*Skills for Sustainable Growth*) argues that employers will be *'willing to invest – invest far more than they do at present – in the skills of their workforces if they can be sure that the training they buy will be of high quality and geared to their needs'* (DBIS 2010, p13). Unfortunately, the evidence to support this convenient assumption is not terribly strong. Employers in the UK are significantly less likely to invest in enhancing the skills of their low-skilled workers than they are in those in higher-skilled roles. What training that does exist for low-skilled workers is almost exclusively to help them do their existing jobs better and not to upskill them (CIPD 2014).

Productivity

Linked very closely to the issue of the supply and demand for skills is productivity. During much of the 1990s and 2000s, the UK finally began to close the long-standing productivity gap with its major overseas competitors that had been a major focus for policy concern. Unfortunately, the extremely deep slump that began in 2008 has thrown this trend into reverse and the relative difference in productivity as measured in output per hour with France, Germany and the USA is now nearly back to levels last seen in 1994 (see Table 1).

Table 1: G7 productivity per worker hour compared with the UK, 2012

Japan	–16%
Canada	+1%
Italy	+3%
Germany	+24%
France	+24%
USA	+29%

Source: Office for National Statistics

'On current projections, real wages for large segments of the working population are likely to continue to stagnate or fall in the years ahead.'

These figures reflect, at least in part, the better than expected levels of employment that the UK has been able to maintain despite the slump in output and consumer demand. Private sector firms have tended to hold on to labour rather than make workers redundant, and have created new jobs, albeit often on low levels of pay and offering a small number of hours (Blundell et al 2013).

What happens next is what will concern policy-makers and economists. First, it is unclear at what pace the recovery is sustainable in the medium term, and without stronger demand for goods and services, the productivity problems are liable to remain. Second, we do not know if, as the economy does pick up, productivity will start to increase in line with rising output.

Given the significant evidence (for example, Ashton and Sung 2011b) highlighting the link between skills and productivity, the issue of skills is also likely to come under the policy spotlight.

However in the real world, the short-term economic challenges facing organisations could discourage them from investing in skills as a means to improve productivity.

One danger is that difficulties with accessing bank lending to support capital investment, coupled with the relatively low cost of labour, may encourage employers to cancel or delay plans for capital investment in plant and equipment as they substitute cheap, low-skilled labour for hard-to-come-by capital (van Reenen 2013, Crawford et al 2013, Blundell et al 2013). Any such trend is liable to hold back improvements in productivity and, given UK manufacturing's already poor history of capital investment (Government Office of Science, forthcoming), would store up problems for the future. Moreover, unless and until we can achieve sustained improvements in underlying levels of productivity across the whole economy, it will be extremely difficult, if not impossible, to generate significant rises in real wages for the bulk of the workforce. This brings us to the third of our highlighted challenges: the extent of low-paid employment and the problem of falling real wages for many workers.

The growth of low-waged work

In the past it was a reasonable assumption that real wages for the majority of the working population would, short-term fluctuations aside, be on a long-term rising trend that was powered by increasing levels of productivity. This is no longer the case, and the structural shifts that have led to the picture discussed below in many instances started to take effect before the recession hit (Gregg and Machin 2012).

On current projections, real wages for large segments of the working population are likely to continue to stagnate or fall in the years ahead. The Resolution Foundation's calculations (Whittaker 2013) suggest that even if wages for low- and middle-income earners were now to grow by 1.1% above inflation, their average annual household real incomes would take until 2023 to reach the same level as they stood at in 2008. Moreover, the UK Government's Office for Budget Responsibility forecasts that real earnings will continue to fall into 2014. Experience in the USA illustrates that static earnings for the bulk of the workforce can become very deeply entrenched over extended periods. Between 1975 and 2009 the real earnings of the average US worker remained at best plateaued (Parker 2013).

At the same time, rising levels of part-time and/or low-paid employment may be adding to problems with earnings. Over the last decade, in-work poverty has risen by 20%, and now stands at 6.1 million living in low-income households (Aldridge et al 2012) and, as a result, *'it is in-work poverty that is becoming the modern face of hardship'* (Ramesh 2012). As Plunkett and Hurrell (2013, p5) note, *'one in five workers still earn below £7.49 an hour (two thirds of median pay), just £13,600 a year for working full-time and too little to afford a basic standard of living. This proportion has risen steadily over time and is markedly higher in the UK than in comparable maturing economies'*.

These trends have major implications for public policy as it relates to social mobility, the Government's targets for child poverty reduction, the scale of the drain on public finances represented by the in-work tax credits bill, and more broadly for the key assumption that underlies welfare reform, namely that 'work pays'. As noted above, relatively low wage costs may inhibit capital investment in plant and equipment, with deleterious effects on productivity. Earnings trends also represent a major stumbling block to skills policy, as the existence of a substantial mass of low-paid, dead-end work, which often pays little heed to qualifications in the recruitment and selection process and which demands limited skills, weakens the case for investment (of time, energy and money) in acquiring qualifications and renders it far harder to encourage individuals to invest in their own skills (see Keep 2009, Keep and James 2010).

To date, the policy response has been extremely muted. The main thrust has been on welfare reform to try to make work pay, coupled with exhortation to workers to seek better jobs and longer working hours as a means of boosting their income. The Low Pay Commission is mainly concerned with assessing the level at which the National Minimum Wage should be set, rather than considering any underlying structural causes that might be behind the increasing prevalence of low pay, such as the supply and demand for skills in the economy.

The failure to confront and address this issue matters because, as Buchanan et al (2013 forthcoming) note, *'In modern capitalist societies the material welfare of the bulk of the population is delivered through the labour market. The number of jobs, and just as importantly their quality, determines (and reflects) how the risks and rewards associated with economic development are distributed throughout the population.'*

2 Current policies

‘The debate is no longer whether the UK needs an industrial strategy, but getting the approach right.’

Given the issues outlined above, the section that follows sketches in the current growth and industrial policy initiatives. We then turn to the question of how well these are addressing the challenges that the UK now faces.

The historic backdrop

Industrial policy as a concept fell out of favour in the UK during the Thatcher and post-Thatcher years. The new ideological orthodoxy conceived of state interference in the workings of the market as inherently pointless and ultimately damaging. Moreover, state policy on industry had over time become associated with expensive and ineffective interventions within sectors and organisations, and it became the received wisdom that UK industrial policy in the 1950s, 1960s and 1970s, particularly as it related to backing particular firms or sectors, had more often than not failed to generate favourable long-term outcomes (Bentham et al 2013). Traditional policy was cast as ‘picking winners’, which with hindsight all too often proved to be ‘picking failures’. Moreover, industrial policy as it was pursued during the pre-Thatcher years came to be associated with nationalisation, various forms of protectionism and attempts to choose national champions in areas such as aerospace (Crafts 2012). In many instances such policies boiled down to attempts to prop up or revive struggling sectors or firms – shipbuilding and British Leyland – alongside more forward-looking policies, such as providing support to stimulate the aerospace sector, often with ambiguous results (Crafts 2012). The upshot was that industrial policy in the UK became, until recently, an unfashionable concept, at least at UK government level, although some bodies (such as the Engineering Employers Federation) consistently sought to stress the value of having such policies, and since 1999 the devolved administrations, particularly Scotland, have been trying to pursue the development of an industrial and economic development strategy more actively than has the UK state.

With the financial crash and the recession that resulted, interest in the concept of an industrial policy underwent a strong revival. Government needed to be seen to be doing something to get the economy moving again and, at a deeper level, to be addressing what were perceived to be structural weaknesses in the economic base of the country that had been revealed by the financial crash. One of these was an over-dependence on the financial sector as a source of growth and on easy credit and a housing bubble as a source of individual and household income. There was a policy consensus (see below) that manufacturing’s role within the economy required boosting, and that future economic growth needed to be based more on investment than consumer spending.

Added to these stimuli has been the rise of broader and rather longer-term concerns surrounding the impact of globalisation on the developed economies, the potential challenge posed by the rise of the BRIC economies, the problems being brought on by climate change and the need to develop a clearer understanding of the economic dimensions of sustainability. As a result, there has emerged a remarkably consistent policy consensus extending across the mainstream political parties, as well as the CBI and TUC, that a renewed interest in, and commitment towards, an industrial strategy is essential (Bentham et al 2013). As the CBI put it, *'the debate is no longer whether the UK needs an industrial strategy, but getting the approach right'* (CBI 2012, p7).

Vertical and horizontal dimensions to industrial policy

Before looking briefly at developments within UK industrial policy, it is important to note that policy analysts and economists tend to divide industrial policy into two dimensions – horizontal and vertical policies. The former describe those measures which apply generally across all sectors and organisations, such as regulatory requirements or employment legislation. Vertical policy describes interventions which are applied differentially across sectors or even firms within a sector. During the period stretching from the Thatcher government to the onset of the financial crisis, vertical policy was downplayed and even broader horizontal policies tended to revolve around seeking to provide a generally favourable environment for business rather than anything as direct as tax incentives or subsidies.

Recent developments

As shown by Mayhew (2013), the previous Labour Government had outlined a growth and rebalancing policy and, shortly after entering office, the Coalition published its own growth strategy in *Plan for Growth* (HMT and DBIS 2011). The strategy involved the following declared aims:

1. *'To create the most competitive tax system in the G20'*
2. *'To make the UK one of the best places in Europe to start, finance and grow a business'*
3. *'To encourage investment and exports as a route to a more balanced economy'*
4. *'To create a more educated workforce that is the most flexible in Europe'.*

While these policies appear horizontal in nature, on closer examination all four elements carry significant vertical components. There is particular emphasis on environmental and scientific initiatives. A Green Investment Bank has been created (with an overall initial allocation of £3 billion), and the Enterprise Investment Scheme and Venture Capital Trusts have been subject to reform. £600 million was made available for investment in science, and the Government has announced new attempts to use government procurement systems to support innovative SMEs.

The science and innovation agenda has been further boosted by government support for eight technologies such as big data, satellites and advanced materials.

In addition, new innovation Catapult Centres were created, including high-value manufacturing, offshore renewable energy and transport systems.

And at the same time, 'Strategic partnerships' have been established in several sectors, for example aerospace, nuclear, oil and gas, construction and professional business services.

Much of this 'new' industrial strategy essentially consists of continuing and expanding some very traditional supply-side policies that aim to provide business with publicly supported or financed goods – improved access to finance, a better educated and trained workforce, research and support for technology adoption, and an upgraded national infrastructure (for example transport and ICT). Only the first of these has much novelty (Bentham et al 2013). In essence, *'the proposal is that the state should take responsibility for doing things the private sector does not want to do (such as fundamental research, early stage innovation, or risky lending)'* (Bentham et al 2013, pp5–6).

Policy also has a spatial dimension. Across the world new industrial policies are characterised by the prominent afforded spatial considerations, as exemplified by smart specialisation strategies in the EU, and Regional Innovation Clusters in the US. The UK is no exception. The Coalition Government speedily announced the abolition of the Regional Development Agencies (RDAs) established under New Labour but, recognising that some sub-national gradation of policy was required, developed the Local Enterprise Partnerships (LEPs) as replacements. The LEPs were set up via a bidding process, and there are now 39 LEPs which together cover the whole of England – some areas are covered more than once. Their boards are made up of local business people, representatives of local government and other local players such as universities. The areas of economic development policy that their brief covers are broad and diverse but include identifying and helping to meet local demands for skills. They include multi-firm initiatives that promise high growth, infrastructure improvements (for example in transport and housing), renewable energy and other green projects, and activities *'consistent with other national priorities'* (improving the digital infrastructure, for example). Funding for the LEPs comes from a

'It could be argued that from the Thatcher years onwards, industrial policy was reduced in priority, but that its disappearance was more in name than in fact.'

variety of pots, including the Single Local Growth Fund (consisting of money taken from the national housing, transport and skills budgets), the EU Structural and Investment Fund, the Growing Places Fund, City Deals and the Regional Growth Fund. Most of it has to be bid for in competition with other LEPs. Core funding is limited and goes no further than supporting a small secretariat. The LEPs also lead 24 Enterprise Zones.

Already the LEPs have been subject to criticism. These criticisms include: funding that it is too short term; lack of appropriate accountability; doubts about their organisational capacity. For a useful discussion of the limitations of the spatial dimension of the industrial strategy, see Bentham et al (2013) and Ward and Hardy (2013).

Overall, the broad policy consensus around the emerging industrial strategy focuses on a limited number of themes or motifs. Adapting a model developed by Bentham et al (2013), these are:

1 picking sectors (rather than winners), mainly in hi-tech manufacturing, which can lead an export drive

2 public subsidies to overcome market failure within these sectors (for example around R&D)

3 improving manufacturers' access to investment funding

4 developing a coherent long-term vision for the economy that gives firms the confidence to invest

5 creating enabling conditions via traditional horizontal policies (for example 'red tape' busting and more education and training)

6 a greater role for the local dimension of policy, with employers and local government (plus other stakeholders) working in partnership to deliver growth.

Policy continuity?

As has been hinted at above, it is possible to exaggerate the newness of these developments, even when compared with the Thatcher and Major years (Bentham et al 2013). For example, science and technology initiatives have been around for many years. It could be argued that from the Thatcher years onwards, industrial policy was reduced in priority, but that its disappearance was more in name than in fact. The chief change, besides less political salience and fewer resources, was that policy was generally restricted to horizontal rather than vertical interventions.

While it is true that the Coalition Government appears more comfortable with vertical intervention than governments have been for some time, and is willing to pick particular sectors and technologies for investment, horizontal policies are following well-worn lines. Thus, the long-standing emphasis on the importance of improving skill levels remains undiluted, as does an enthusiasm for more and better science and technology-based forms of innovation. There is also now perhaps a slightly greater stress (at least at a rhetorical level) on the need to improve infrastructure broadly defined.

One relatively novel element is a more explicit emphasis than hitherto on rebalancing the economy and on the importance of this for a successful macroeconomic performance and a healthy position in international trade. Indeed, the balance of trade has reappeared as a policy issue for the first time in nearly a quarter of a century. In the mid-1980s the House of Lords Select Committee on Overseas Trade

(1985) noted with concern the UK's falling share of world exports in manufactured goods and asked what would replace them to sustain the UK's balance of trade. The response at the time was that growth in the export of services, coupled with well-regulated markets, would eventually resolve this problem.

In reality, this proved not to be the case. There remains a persistent deficit on the current account, which in 2012 was approaching 4% of GDP. Some commentators have suggested that a trade gap at this level might be unsustainable. At present, services and returns from overseas investments generate a net surplus, but this is more than offset by a net deficit contributed to by our performance on oil, gas, food, materials, transfers and manufactured goods (Coutts and Rowthorn 2013). If this situation is to be addressed, boosting the performance of manufacturing will be critical (Bentham et al 2013). As a result of this, contemporary policy emphasises rebalancing the structure of production and exhibits a more open preference for particular sectors. This is one reason why the vertical element of industrial policy has recently been given a greater prominence (Bentham et al 2013). This is a feature that can be also found in other OECD countries (O'Sullivan et al 2013).

Having surveyed what the Government's strategy aims to achieve, and the means by which these objectives are to be delivered, we now turn to explore some of the problems and issues that confront policy. What follows does not try to engage with all the possible topics that could be discussed under this heading. We simply seek to highlight a number that are most pertinent in relation to the management and deployment of the workforce.

3 Fundamental tensions within what government strategy is trying to achieve

'There are significant implications not just for the supply of skills but for how skills are utilised and the nature of employment relationships if the UK's future growth is to be based on higher skills and value products and services rather than on a low-skill and low-cost model.'

As stated previously, sitting above these specific initiatives are the Government's four overarching policy aims that it believes will enable the economy to grow:

1 Create the most competitive tax system in the G20.

2 Make the UK the best place to start, finance and grow a business.

3 Encourage investment and exports as a route to a more balanced economy.

4 Create a more educated workforce that is the most flexible in Europe.

Although these initiatives of themselves are hard to disagree with, they don't provide a strategic direction in terms of the type of growth the Government is trying to encourage. The CBI, in its report *Tomorrow's Growth: New routes to higher skills*, assesses that *'tomorrow's growth requires a fundamental rebalancing toward investment and exports, reshaping the economy around high-value, high-skill activities that will enable us to pay our way in an intensely competitive global economy.'*

However, there are significant implications not just for the supply of skills but for how skills are utilised and the nature of the employment relationship if the UK's future growth is to be based on higher skills and value products and services rather than on a low-skill and low-cost model.

There is a deep-seated tension between these two implicit potentially incommensurable models. These are:

- a 'high road' model of competitive advantage, wherein highly skilled workers deliver sophisticated, high-specification goods and services that are sold on the basis of their quality rather than their price, and where firms come to the UK because this is our model

- a 'low road' model of competitive advantage, wherein a disposable workforce produces relatively standardised goods and services that are primarily sold on the basis of low price, and where firms come to the UK because it is a cheap place to do business and taxes are low.

These two models of competitive advantage lead in turn to two alternative and arguably fairly incommensurable paradigms concerning employment relations and the role of people issues:

- *Paradigm 1* – people are our most important asset, the workforce and their skills are a/the prime source of competitive advantage and employers should manage and engage them in sophisticated ways in order to enhance their commitment and creativity, and support flexible ways of working.
- *Paradigm 2* – workers are a disposable factor of production or a cost to be minimised, and therefore their skills are inherently interchangeable and (in the main) of limited importance. Investing in them

> and seeking to engage is less important, and fear is an effective motivator. It should therefore be made as easy as possible for employers to fire staff.

The bulk of traditional, human-capital-based skills policy has been founded on the first paradigm, whereas the Beecroft Report (2011) on the future of employment relations, and the book *Britannia Unchained* by five leading backbench Conservative MPs (Kwarteng et al 2012) can be argued to represent the second. As Sisson and Purcell (2010) underline, both managers and policy-makers find themselves trapped between these competing visions, with many organisations and their HR functions facing economic incentive structures that tend to push in the direction of adoption of the 'low road'.

The current BIS policy agenda appears to revolve around trying to embrace both models at once. Thus there is some gentle support for greater employee participation and involvement in the wake of the Macleod Report (Macleod and Clarke 2010); a limited drive to reduce employers' attempts to flout the National Minimum Wage; and further deregulation/'red-tape busting' in the labour market around employers' ability to dismiss employees and individuals' rights of recourse to employment tribunals. The inherent problem is that in trying to simultaneously pursue the principles that underlie the Macleod Report and the Beecroft Report, the Government is seeking to reconcile completely different visions of how the employment relationship operates. Macleod argued that employee participation and involvement is what motivates people to give of their best and be most productive. The original (unpublished) version of the Beecroft Report started from a very different fundamental premise, namely that worker insecurity engendered via ease of dismissal can engender high performance because *'a proportion of employees, secure in the knowledge that their employer will be reluctant to dismiss them, work at a level well below their true capacity' (*quoted in Stern 2012). These two narratives hardly fit well together. For example, if the nature of the employment relationship comes to be seen even more in terms of easy come, easy go, hire and fire, the chances of securing long-term investment by firms in the skills of their workers becomes even less likely (Lanning and Lawton 2012).

It may well be that policy-makers are aware of this dichotomy and believe that different models will apply in different sectors and parts of the marketplace, but if this is the case, such awareness has remained well hidden from public view. The alternative is that underlying this bifurcated conceptualisation of competitive models and their resultant implications for employment is a broader set of tensions concerning policy-makers' understanding of the nature of work and the future of employment relations.

Put very simply, in thinking about the future and the policies that are needed to address it, there are two extremes (and between them a series of positions along a spectrum). At one end there are those who see the future of work as being about the development of a national workforce, the vast bulk of whom are highly skilled and educated knowledge workers, who undertake complex and demanding jobs with high levels of autonomy, and are well paid and well treated by their employer, or who can work as freelancers with considerable control over their working lives (REC 2009, CBI 2009).

At the other end of the spectrum sit what might be termed the 'trudge to bottom' tendency. They would endorse the vision held by the first group, but would expect it to apply to only a relatively small minority of the workforce. For the rest, the future is about working harder, for longer, and for more uncertain rewards within an even further deregulated market context, because this is the only way that we can hope to compete with other global powers (Kwarteng et al 2012). For some, by dint of hard work and/or luck, there may be possibilities to work their way up from the lower reaches towards the relatively sunnier uplands of employment, but for many this will not be possible. People should be grateful for a job – any job.

In terms of the current state of play, survey evidence (Wood et al 2013, Green et al 2013, van Wanrooy et al 2012, Inanc et al 2013, Felstead et al 2013, Gallie et al 2013) suggests that both models (and points in between the extremes) co-exist within the contemporary UK labour market and employment relations scene, even across different segments of the workforce within the same employing organisation. What is clear is that the take-up of elements of the 'high road' model appears to have stalled. While current government policy seems to accept that a range of approaches and outcomes is inevitable (and possibly desirable), the public policy problems that accrue to the widespread adoption of 'low road' models are becoming more and more visible.

In an era of continued pressure to maximise short-term profits, skills surpluses (at least in some areas and occupations), weak or non-existent trade unions, a relatively (by OECD standards) deregulated/ flexible labour market and high unemployment, it is not all that surprising that some commentators and employers perceive the opportunity to cut employment costs, embrace low pay, unpaid internships and zero-hours contracts, and embark on a trip down the 'low road'. There are problems for public policy with this. Not only does it make for unfulfilling working lives for many (with associated stress and health costs attached), it helps fuel the growth in 'in-work' poverty, and at least some of the costs of employers adopting such practices are being passed on to the taxpayer and government via in-working tax credits that top up low wages.

Unresolved issues from the Porter report

The hidden, unresolved tensions within BIS's four over-arching policy objectives around the employment relationship and how it might best be managed reflect a long-standing failure to confront a set of much wider, fundamental choices about the desired strategic direction that UK industrial and growth policy needs to take. More than a decade ago, the then Department for Trade and Industry (DTI), alongside the Economic and Social Research Council (ESRC), commissioned a major study entitled, *UK Competitiveness: Moving to the next stage* (Porter and Ketels 2003), from the leading Harvard business school 'guru' Michael Porter. As an expert on industrial clusters, Porter was viewed as being well placed to offer strategic advice on how industrial and economic strategy broadly conceived might need to develop. Porter and his colleague Christian Ketels concluded that:

'The UK economy has achieved a significant improvement in its competitiveness over the last two decades…. This successful phase of UK economic policy is now coming to an end. The returns to past policies are now becoming smaller, and the very success of the UK economy is undermining some of its past success factors.

'In our view, the current phase is a natural progression in the transition to the next stage of UK competitiveness. It is not indicating a failure of the past approach, nor is it signalling imminent danger to the UK's competitive position. As countries develop and increase their prosperity, they have to upgrade their competitiveness. This upgrading process is especially evident in a transition, where the basis of a country's competitive advantage has to be redefined. Factors that were important for past success become barriers to further growth.

'The UK has now reached such a transition point. Competing on relatively low input costs and an efficient business environment is no longer sufficient to achieve the levels of prosperity the country is aiming for. Lower taxes, less regulation, and even a smaller role for government are no longer the most critical elements for UK competitiveness…

'Broad consensus and a shared direction, embodied in an economic "strategy" are critical for two reasons. One is in setting policy in the public sector: new trade-offs need to be made about competing objectives. Without a broad consensus, these trade-offs will be made inconsistently…. A strategic perspective will also benefit the private sector. Many companies will have to make choices, both individually and jointly, to upgrade their strategies and invest in the business environment. An overall consensus on the country's direction is needed to guide these many individual choices' (2003, pp43–4).

Unfortunately, after a relatively brief initial flurry of publicity and debate, the Porter report was quietly forgotten and the fundamental strategic choices towards which it pointed were largely ignored. It may well be that as the new competitive model that Porter was advocating embodied a reduced emphasis upon lines of policy development (for example, low business taxes and deregulation as a lure to multinational investment) that had become totemic in ideological terms across a wide swathe of the mainstream political spectrum, rethinking policy in the ways being suggested was deemed too radical to be contemplated. As a result of this failure to confront choices, policy has subsequently tried to ride two horses at once, to cling onto a belief that Britain as a 'low cost base' from which to do business has merit, and to seek to marry together fundamentally divergent models of how the economy and labour market should develop.

4 Too narrow a focus for policy?

'It is tempting to focus on a few select, top-end sectors and on high growth companies. The fashion changes, but at the moment it is high tech and exports to new markets that are paraded as the easy solutions. They are important, but ultimately they are not enough to ensure a broad-based competitive economy.'

A second set of concerns that could be voiced about the industrial strategy is that its boundaries have been drawn fairly narrowly. Thus a key problem with its vertical element is that on the whole it focuses on sectors and sub-sectors that may have the potential to generate large amounts of exports and gross value added (GVA), but which with three exceptions (business services, education and construction) are not all that likely to generate large volumes of direct employment and which will therefore cover but a relatively small proportion of the total national workforce and output (Bentham et al 2013). As Crouch et al (1999) explained in their book *Are Skills the Answer?*, high-tech sectors are often extremely important for national economic success, but they are rarely great direct generators of mass employment opportunities. Moreover, as Froy points out:

'The fact that economic change often happens so unpredictably means that overly-rigid strategies which work towards the needs of a few particular industries are not always helpful, and can risk creating "regional lock-in", leading to a "progressive narrowing of education and training around economic activities that become obsolete" (James 2011). Past experience indicates that future growth is likely to come "sideways" from a type of product or market which no one could currently predict' (Froy, forthcoming).

Some academic commentators (Bowman et al 2012, Bentham et al 2013) have suggested that the industrial strategy needs to impact on a much wider swathe of economic activity and to target more traditional industries and areas of economic activity (what Bowman et al 2012 call the 'foundational economy'). They are not alone. Lord Heseltine, in his *No Stone Unturned* report on local economic development (2012), argued that:

'It is tempting to focus on a few select, top-end sectors and on high growth companies. The fashion changes, but at the moment it is high tech and exports to new markets that are paraded as the easy solutions. They are important, but ultimately they are not enough to ensure a broad-based competitive economy. We cannot ignore the performance and growth potential of the mass of businesses across all sectors, including construction, logistics, retail, hospitality and health and social care, which have traditionally provided a high proportion of the employment opportunities in this country' (Heseltine 2012, Para 5.15).

Rather than simply obsess about glossy new sectors, Bowman et al (2012) demonstrate, via the example of the pig meat industry, that other countries (the Netherlands and Denmark) are capable of configuring what appear to be relatively mundane and traditional industrial activities and their supply chains in a way that allows greater national self-sufficiency (reduced imports), larger profits for firms, greater industrial stability and better investment, and higher wages for workers. Bowman et al suggest that many of our problems stem from a predatory set of supply chain

'The horizontal measures within the industrial strategy make little direct connection with people management issues, such as employment relations, pay, workers' productivity, work organisation, job design or workplace innovation. In other words, the people element of production, service delivery, productivity and innovation is largely ignored and absent.'

relationships structured around an unstable form of 'spot market' for meat that undermines any hope of sustainable relationships and patterns of investment, and that the answer lies in:

'a new kind of industrial policy which engages with sector specifics and deploys a novel and targeted repertoire of policy instruments. The approach is quite unlike generic structural reforms through labour market flexibilisation and low taxes. Such generic policies appeal because they seem to offer answers that are independent of particular circumstances. But these generic remedies have been tried in the UK for 30 years with relatively little success. The reason for this is that they do not change specific business models in particular sectors, and the dysfunctional supply chains and embedded mentalities and practices that go with these.… In industrial policy, it is simply not the case that one size fits all' (Bowman et al 2012, p72).

Gaps in the horizontal elements?

Second, besides the vertical elements of the industrial strategy being too narrowly focused on a few 'winner' sectors of the future, while ignoring the bulk of current productive capacity and activity, there are major problems with the horizontal elements of the strategy as well. We have already noted the problems caused by attempts to incorporate divergent visions of how competitive advantage is to be secured and employment relations structured. To these difficulties can be added the fact that government policies – in the past under New Labour (Keep et al 2006) and now under the Coalition Government – have afforded only a very limited and weak focus on the workplace, employment relations, work organisation and job design. The horizontal measures within the industrial strategy make little direct connection with people management issues, such as employment relations, pay, workers' productivity, work organisation, job design or workplace innovation. In other words, the people element of production, service delivery, productivity and innovation is largely ignored and absent. As the CIPD noted as long ago as 2006, *'how well people are managed only has a walk-on part in public policy debate'* (CIPD 2006, p6). That part has not grown appreciably bigger in the period since.

The assumption seems to continue to be that greater competitive forces, coupled with enlightened self-interest will, sooner or later, impel employers to adopt policies and practices that will alleviate problems in these areas by increasing demand for skill, utilising skills more effectively, boosting workplace productivity and sharing the benefits through widespread wage gains. As has been noted earlier, such assumptions are likely to prove wildly over-optimistic. The upshot is liable to be that the strategy has minimal impact on either the overall levels of productivity and innovation across many sectors and for the vast bulk of the workforce.

Weaknesses in our model of innovation – the place of the workplace and skills

Innovation is a good example of why policy-makers need to consider the workplace, how work is organised and how people are led and managed if new ideas and ways of working are to feed through into productivity improvements.

For a long time now the UK Government's model of innovation has been based upon a fairly partial and increasingly old-fashioned understanding of what innovation is and how it takes place. In essence, government and its advisers continue to conceive of innovation as being led by science, technological advances, patents, intellectual capital and technology transfer systems and processes. As a result, the key driving force behind UK innovation is seen as being the university sector and public investment in scientific research therein (Wilson 2012, Witty 2013a, 2013b). By contrast, elsewhere in the developed world different and somewhat broader models pertain (OECD 2010a, 2010b).

There are a number of problems with the UK Government's narrow, science-centric model of innovation. The first is that while it might work well for high-tech segments of manufacturing, it is much less clear that it necessarily engages well with large sections of mass services (that is, those parts of the economy where significant swathes of employment are located). Moreover, it ignores any potential for the kinds of bottom–up, workplace innovation that can change products, services and the means by which they are delivered. This model of innovation is the point at which innovation policy moves beyond the skills and knowledge of a small elite of R&D researchers and becomes concerned with the skills of the broad mass of the workforce (Hoyrup et al 2012). As Froy notes:

'Local stakeholders in Niagara, Canada, for example, emphasize that in many of the industries important in their local region (tourism, hospitality, food processing, farming and light manufacturing) adding more value to products involved incremental innovation in processes as opposed to giant leaps driven by high technology' (Froy, forthcoming).

Within this model of bottom–up innovation, the manner in which work is organised, how jobs are designed and structured, how work processes are configured and people managed in performing them all have a profound impact on the volume, depth, breadth and overall quality of informal workplace learning (that is, learning that is embedded in the inherent challenge encoded in the productive process) (Evans et al 2006, Felstead et al 2009, Eraut and Hirsh 2007). The OECD's (2013) report on their Survey of Adult Skills stresses the close relationship between how work is organised and how people acquire and maintain skill:

'Beyond instruction, the opportunity to engage in relevant practices is important both for developing proficiency and preventing its loss. Within the workplace, for example, redesigning work tasks to maximise engagements in activities that require the use of literacy, numeracy and ICT skills should be considered in conjunction with providing training' (OECD 2013, p36).

'*The best way to develop and maintain skills is to use them.… Indeed, there is a two-way relationship between proficiency and information-processing skills and the practices that require using those skills: practice reinforces proficiency, and proficiency facilitates practice'* (OECD 2013, p212).

To a significant degree the extent to which these types of practices can develop is linked to leadership and people management skills. A 2012 report by the Department of Business, Innovation and Skills (BIS 2012) highlighted the importance of management capability firstly in the adoption of business strategies which focus on innovative products and services and secondly in organisations *'getting the best out of their employees and benefiting from the knowledge and skills they are not even aware they possess'*.

These factors in turn also have a material impact on levels of productivity (Sommerlad and Stern 1998, Fuller et al 2003).

Perhaps the key point is that there is another relationship that offers the chance for a genuine win/win/win outcome for both policy-makers and practitioners (Keep 2013). One of the key lessons to emerge from research on organisational performance and competitiveness over the last decade or so has been the demonstration of the close links between different facets of organisational design and workplace practice and management that can either facilitate or militate against the creation of workplace environments that offer rich opportunities for learning, innovation and the effective utilisation of skills (see Lundvall et al 2008, Ramstad 2009a, 2009b, OECD 2010b, Keep 2010, 2013). Workplaces that provide rich learning environments through the manner in which they structure tasks and processes, and manage staff, also tend to be better at bottom–up forms of process and employee-driven innovation. This is partly because the way work is structured and employees are managed produces a more skilled workforce that is better versed in problem-solving (Hoyrup et al 2012). It is also because this style of workplace organisation and management allows the space for bottom–up innovation (Lundvall et al 2008, OECD 2010b).

Given these research findings it would make sense for public policy to have a strong and explicit focus on assisting organisations to re-engineer their workplaces and work processes in a manner that expanded the range and quality of learning opportunities that are inherent in the day-to-day routines and processes dictated by work organisation, job design

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and production processes and technologies. In essence, in order to further workforce development, we need to place far greater stress, not on bolstering externally provided training provision, but on the wider development of the workplace (Keep 2013). As Campbell observes, *'investing in the workforce needs to be paralleled by investing in the workplace, in order to fully utilise the skills of the workforce and to turn the potential of skills into real improvement in performance'* (2012, p34). Such an emphasis would not only facilitate better learning, and learning which as it is embedded within work processes might be cheaper to deliver than off-the-job courses, but would also help support and enhance organisational capacity for workplace innovation. Many other countries have developed a substantial, publicly supported infrastructure to provide organisations with the expert help needed to reconfigure work organisation, job design and production processes and technologies to enhance their capacity to engage in workplace innovation (Ramstad 2009a, 2009b, OECD 2010b). The UK has done very little in this area (Keep et al 2006, Keep 2013).

Indeed, despite being drawn to the attention of policy-makers, the findings outlined above have had little or no impact on thinking within the UK Government. Policy on these issues remains disjointed, conducted in silos and based on very narrow interpretations of the nature of the problems to be tackled and the goals to be attained. Why does this continue to be the case? First, it can be argued that UK innovation policy may have partially been captured by the lobbying interests of scientists, their learned societies, the vice-chancellors of 'big science' universities (Witty 2013a, 2013b), and large pharmaceutical and aerospace companies that rely upon the publicly funded science base. Second, for workplace innovation to figure within public policy, that policy would need to have a coherent view about the nature of the workplace and policy instruments to influence what happened therein. As we have seen, this is an element absent in current government thinking. Third, given the current conceptual framing for innovation policy within government, those responsible for innovation have very limited contact or interaction with those responsible for skills policy. As a result, innovation policy continues to obsess about hard science, technology and top–down knowledge transfer rather than with what front-line workers do.

The role of skills policy in addressing low pay

An industrial and growth strategy which includes a greater emphasis on the workplace as a means to boosting the demand for skills and improving skills utilisation would also link clearly to the issue of job quality and the problems posed by low pay. In one sense, these issues can at least in part be seen as a further reflection of the consequences of the adoption of 'low road' product market and people management strategies by too many UK employers, though other factors do contribute (Crawford et al 2013).

As noted earlier, in recent times this topic has become a major issue within public policy and debate. The reality of falling real wages for a substantial proportion of the working population, coupled with renewed political interest in the issue of low pay and the rise of activity on the topic by think tanks and charities (such as the Resolution Foundation, the Joseph Rowntree Foundation, and the Child Poverty Action Group) means that there is significant pressure for growth strategies (broadly conceived) to afford priority to this issue.

A significant development for the future direction of policy, albeit one that attracted remarkably limited press coverage, was the recent report by the Social Mobility and Child Poverty Commission (2013), entitled *Social Mobility: The next steps.* This government-appointed non-departmental advisory body, which exists to monitor the progress of the state's attempts to reduce child poverty and increase social mobility, is chaired by ex-New Labour cabinet minister Alan Milburn and the deputy chair is the ex-Conservative cabinet minister Baroness Shephard. What is striking about their report, *Social Mobility: The next steps*, is that it goes beyond the usual fare of recommendations concerning better early years education provision, careers advice and raising aspiration and transitions from education into work, and moves into the less conventional territory of the lower end of the labour market. It flags up the need for policy to start to confront issues to do with the lack of progression that is available in work, and to develop *'a proper low wage strategy'* (2013, p5) and *'an explicit hourly pay progression strategy'* (2013, p29). The development of such strategies would be a radical step. It would inevitably entail the creation of a coherent vision of how the employment relationship might best be managed, and interventions (of whatever sort) around company pay systems and norms, the structure and nature of employment contracts, internal labour markets and progression systems and practices, the structure of occupational labour markets, and collective bargaining and other forms of wage-setting mechanism, such as the National Minimum Wage and the Living Wage (Brewer et al 2012, Bosch et al 2010).

In part, the Child Poverty and Social Mobility Commission's report echoes the conclusions of the initial report to emerge from the Resolution Foundation's new inquiry into the future of the Low Pay Commission and the National Minimum Wage about the scale and intractability of the problem of low-paid work:

'It is now clearer than ever that low pay will not solve itself through a light touch approach of pursuing growth and investing in skills. The lower half of the UK labour market simply is not creating higher quality jobs in the way that economists once anticipated. Demand for low paid service work is rising on the back of higher consumption. Together with new technologies and an aging population this is expanding employment in sectors like hospitality, warehousing and social care. While these trends are apparent in most advanced economies, the UK labour market is creating notably lower quality, lower paying versions of these roles than other countries' (Plunkett and Hurrell 2013, p6).

In other words, the conventional policy stance – under both New Labour and the Coalition Government – is coming under pressure. This stance has been that the market will ultimately decide how this critical issue plays out, and that, beyond a certain amount of exhortation, all government can do is to stand back, try to create a benign economic and employment environment, and keep its fingers crossed.

Conclusions

'In particular, we would argue that the most glaring absence at the heart of government policy is a coherent, integrated strategy that embraces growth, skills, innovation, employment relations and the labour market.'

This paper has argued that the Government's growth and innovation policies suffer from significant blind spots and gaps that may mean that, even if the policies work in their own terms, their impact on large parts of the economy and labour market may be quite limited. If this does prove to be the case, the danger is that we will not make the progress in national performance that is required.

We have also suggested that one of the central problems with the UK Government's approach to the policy areas reviewed above is its tendency to conceive of and tackle them in isolation from one another. Thus, policy on growth, employee relations (such as it is), skills, innovation and low pay are formulated and promulgated within different silos within government. Even within the skills agenda, there is limited interaction between those parts of BIS that deal with skills and further education (FE) and those that deal with higher education, and useful interaction between BIS (which deals with post-19 education and training) and the Department for Education (DfE) (which deals with pre-19 provision) is at best limited. Welfare reform policy is increasingly linked to the skills agenda; however, co-ordination between the Department for Work and Pensions, the Department for Business, Innovation and Skills and the UK Commission for Employment and Skills is similarly disjointed. This is a far from ideal state of affairs.

In particular, we would argue that the most glaring absence at the heart of government policy is a coherent, integrated strategy that embraces growth, skills, innovation, employment relations and the labour market. In turn, this absence reflects the fact that successive governments have failed to understand the importance to many public policy goals of how the workforce is managed, and have not developed and pursued any coherent view of what good employment relations looks like. This was true under the New Labour administrations and remains so under the Coalition. Rather than tiptoeing round the subject, government now needs to recognise the critical importance of how the employment relationship is managed (Coats 2010, Sisson and Purcell 2010) and seek to frame strategy with this notion clearly in mind.

A key component within such a strategy would be a focus on the workplace as the point at which publicly funded inputs (primarily research and skills) are mobilised to productive effect, and as the arena in which a range of policy objectives – higher productivity, greater employee-driven innovation, improved wages and career progression opportunities, better management of the employment relationship – are delivered (Keep 2013). Such a focus would have many advantages. For example, it would help move policy on from a long-standing obsession with simply boosting the supply of skills, and provide a meaningful context and framework within which to address skills supply, demand and utilisation in conjunction with workplace innovation and productivity in ways that are currently impossible.

It would enable policy-makers and practitioners to address how human capital is recruited, retained, motivated, developed and deployed in the round, and how the people element of business investment can be combined with physical and intellectual capital investments to maximum productive and competitive effect. The adoption of such a strategy would also align UK public policy with the kind of integrated approach that the OECD (2010a, 2012b) have suggested is the way forward for both innovation policies and skills strategies worldwide:

'The results from the Survey of Adult Skills also underline the need to move from a reliance on initial education towards fostering lifelong, skills-oriented learning. Seeing skills as a tool to be honed over an individual's lifetime will also help countries to better balance the allocation of resources to maximise economic and social outcomes. In turn, if skills are to be developed over a lifetime, then a broad range of policy fields are implicated, including education, science and technology, employment, economic development, migration and public finance. Aligning policies among these diverse fields will be key for policy makers to identify policy trade-offs that may be required and to avoid duplication of effort and ensure efficiency' (OECD 2013, p42).

A key question is how such new policies might best be delivered. The problem is that the current institutional landscape suffers from gaps and weaknesses. These, for example, include the absence of any public entity that has a primary focus on workplace productivity or workplace innovation. The weaknesses are represented by relatively small, fragmented and often under-resourced bodies such as LEPs and Sector Skills Councils (SSCs) that will struggle to engage with or deliver the kind of agenda sketched out in this paper, not least as they lack any substantive expertise in these areas and are unlikely to be able to provide the kind of business improvement and support services necessary to make new approaches work, especially in SMEs.

The CIPD has developed some recommendations on how some of these problems might start to be addressed. In order to improve the strategic co-ordination of policy-making on a range of issues which ultimately depend on what happens in organisations, the CIPD believes that a Workplace Commission should be established. This would have the objective of:

1 researching the nature of jobs and the evolving demand in skills for the future, to help shape a more integrated approach to policy and other interventions to encourage job and skills growth paths

2 understanding the issues and drivers of workplace productivity, including the quality of leadership and management, to encourage more systematic approaches to improving return on human capital within organisations

3 improving the quality of employment regulation and link it more securely to a 'good practice' agenda.

The underlying aim would be to:

- focus attention on 'good practice' in people management and development as a root source of productivity and innovation
- develop and promote the employee engagement agenda and sustainable high-performance working
- move the centre of gravity of government policy and regulation on employment issues closer to the workplace and reduce the amount of overlap and duplication of work among government departments on these issues.

Another approach that would be worth exploring is the development of industrial partnerships, an idea raised in the recent UKCES-commissioned Whitehead Review of Adult Vocational Qualifications (Whitehead 2013). The review concluded:

'To maximise our economic advantage and competitiveness, employers need to work in partnership to develop a shared vision for their industry that provides benefits over the longer term. Workforce development will need to be an integral part of this vision and industrial partnerships – coalitions of leading employers, unions and other partners – can ensure investment in people is optimised by aligning it to a broader economic strategy. To achieve this, government and other stakeholders need to create the space for employer-led partnerships to step up and take responsibility for workforce development in their sector.

'Such industrial partnerships would have responsibility for developing industry-led responses to market failures that encompass the supply, utilisation and demand for skills. Over time, industrial partnerships have the potential to develop an ambitious remit; for example encouraging more and better investment in people; working with government to create conditions that support those businesses wanting to move up the value chain; taking steps to reduce youth unemployment; reducing reliance on migrant labour and diminishing the productivity gap with competitor nations. They will look across a full range of measures to accomplish this' (Whitehead 2013, p25).

It is proposed that these industrial partnerships would go beyond skills supply, address issues raised by the industrial strategy and a broader growth agenda, have a remit beyond what is publicly funded, be accountable to and owned by the sector, and be representative of employees with union involvement encouraged.

It is important to note that the review is very clear that the industrial partnerships would be *'exclusive rather than inclusive: industrial partnerships will not give economy-wide coverage, they will emerge where there is need and business leadership…in sectors where no industrial partnership exists, alternative arrangements can be put in place to deliver aspects that government wishes to fund'* (2013, p26).

This model would help address at least some of the need for effective sectoral delivery mechanisms. Due to cuts in government funding, and in certain instances lack of support from employers, some SSCs have already collapsed, and others are now capable of only a very limited range of activities. Arrangements that integrated the skills agenda with wider economic development and business improvement roles at a sectoral level, and that were genuinely industry-led rather than simply government-sponsored agencies whose agendas were determined by ministerial whim, would be a major step forward.

The longer that policy does not confront the need for a better balance between improving demand and utilisation of skills, with the supply of skills, the greater the concern that economic growth will not be sustainable in the long term or support all areas of the economy and the workforce. Without this, the public policy gains – social and economic – that are being expected of the recovery will not materialise. Efforts directed at improving performance and innovation need to extend beyond a few cutting-edge sectors and firms, and to embrace areas such as retail, wholesale and transport (Bowman et al 2012). Skills policy needs to 'join the dots' between skills supply, demand for skills and how they are utilised (Keep et al 2006, Keep 2013). A more holistic, integrated approach to both policy and the machinery of government will be essential to delivering these objectives. This means better co-ordination within the BIS, and between the BIS and other departments. It also means developing government agencies' capabilities to support innovation and improvement in the field of skills, business improvement and economic development, and harnessing their efforts in ways that allow them to work together to achieve common goals and performance indicators that span more than one field of policy.

What has been outlined above is an ambitious agenda, but without movement in this direction much of the economy and labour market will continue to underperform to the cost of us all. This paper establishes a direction of travel and some broad general principles that could underpin policy. If these are agreed, further thought on the detail of their delivery would be required.

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