

Introduction

1. This guide summarises and analyses *New industry, new jobs*¹, the Government's major industrial policy. It was published by the Department for Business, Enterprise and Regulatory Reform (BERR) in April 2009, shortly before that department was merged into the Department for Business, Innovation and Skills (BIS), which now has responsibility for the policy.

Background

2. *New industry* owes its genesis in large part to the ongoing economic crisis. The recession has compelled the Government to take a more active role in directing the economy. This has been most visible in the banking and financial services sector, but it also involves large-scale support for employment and training through a variety of initiatives, as well as planning for the eventual economic recovery. Indeed, it is the recovery that *New industry* is primarily concerned with, making plans to adapt to and shape the economy that will emerge when GDP and output begin growing once again.
3. In December 2008, Lord Mandelson, the business secretary, announced a new strategy of 'industrial activism' in a speech to the Royal Society for the Arts (RSA). This policy has five key elements:
 - *First, industrial activism does not mean propping up failed companies or running industries from Whitehall. No protection of industry from international competition – because we believe that competition is in our long term interests.*
 - *Second, industrial activism means being pragmatic about the ability of markets to enable companies and people to succeed in a rapidly changing global economy. Policy should be activist in the sense that it recognises that government can and must complement market dynamics to get the best outcomes for our society and economy.*
 - *Third, industrial activism is shaped not just by what we conventionally label industrial policy but by all government policies – regulation, planning policy, migration policy, transport policy and a range of others – as well as the way government spends money and encourages innovation and entrepreneurship. The central point about industrial policy is how successfully it aligns all these relevant policies to target and deliver industrial outcomes.*
 - *Fourth, industrial activism means looking strategically at each sector in the economy, not in order to apply top-down political patronage to companies in these sectors but to assess how horizontal policy can secure maximum benefits across all sectors and reinforce our particular strengths.*

¹ <http://www.berr.gov.uk/files/file51023.pdf>

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- *Fifth, industrial activism means engaging in Europe and globally to shape the institutions and policies that manage globalisation and global regulation and making sure British companies are exploiting open markets.)*
4. In April 2009, John Denham, then the skills secretary, introduced a complementary 'skills activism' policy. Mr. Denham called for Government to play a greater role in understanding how public spending influences demand for skills, and how skills demand is produced in the economy as a whole. Specifically, he said *'we need to understand'*,
- *What drives employer spending on skills and whether our current framework will maximise it;*
 - *Whether a system that responds to the demands of individual employers will produce the critical mass of learners with the right skills.*
 - *Whether government and business should work more effectively together in areas of strategic skills needs, and;*
 - *Whether national and local government themselves could do more to boost the demand for, and supply of, skilled labour.*
5. *'Above all', he added, 'we need to be more conscious about what drives investment in skills. After all, most skills investment comes from employers, not through my department. And we find that the same factors drive skills investment as other investment – certainty and predictability of market demand, effective and proper regulation'. He added, 'It will be an important part of the role of the new Skills Funding Agency to ensure that the skills system becomes sufficiently flexible and sufficiently incentives to meet such demands. The newly licensed sector skills councils must also play a role'.*
6. These 'activist' policies provide the theoretical underpinning for *New industry, new jobs*², which was published by the then-Department for Business, Enterprise and Regulatory Reform (BERR) in April 2009.

² The title is also the source of the acronym NINJA (*New industry, new jobs* – activism), which has become an informal name for the paper and the policies associated with it.

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Overview

7. *New industry* begins with a justification of the Government's more active role in the economy, which has increased significantly since the beginning of the crisis in the financial sector. *'The active policies implemented by the Government to date have proved to be essential. Over the last nine months, the banking system has been saved and stabilised, and Britain has won international approval for its action'*, (New Industry, p. 3) the paper notes. It goes on to describe the support the state is providing to individuals affected by the crisis: *'We have also worked to protect those who are most vulnerable to the recession's impact: raising pensions and child benefits, helping homeowners in mortgage difficulties and those who, through no fault of their own, have lost their jobs. We have maintained investment in the UK's infrastructure and public services, vital for families and for businesses'* (p.3).
8. Industrial activism also requires a better understanding of the public sector's role in the economy. *'What Government does – or does not do – when it taxes, regulates, buys goods and services or acts in any of a range of ways shapes the conditions in which British businesses and their employees develop and capitalise on their competitive advantages'*, it says. *'Government can promote investment, growth and jobs in Britain through more policy consistency across departments, greater regulatory certainty, smarter public procurement and a readiness to intervene where necessary'* (p. 20).
9. To do this effectively, all parts of Government must analyse their role in the larger economy, and participate in the broader strategy for economic recovery and reform. *'This means making Britain's economic and industrial renewal the remit not just of the Department for Business, but of all Government departments'*. (p. 5).
10. However, this new activism is not about suppressing the market in favour of state control. The strategy *'does not imply a fundamental change in our view of the relationship between the market and the state. The Government's essential view remains that this balance requires markets wherever possible complemented by state action wherever necessary'* (p. 20).
11. *New industry*, however, is mainly focused on planning for the end of the recession. *Britain's economy will look different in coming years'*, it says. *'Both consumer and Government spending will be more constrained than over the last decade. There will be an even greater concentration on value for money through reform and efficiency savings in the public sector, which is likely to involve the private sector more, rather than less, in service delivery. We will be depending more than ever on higher value goods and services to drive exports and growth'* (p. 4)
12. The second chapter of the report identifies several key trends that will shape the economy in the future. These include rising incomes in the developing world; new technologies; demands for green and more resource-efficient, low-carbon technologies, and; demographic changes that will lead to a graying of the population in developed countries, and a boom in the younger age brackets in developing countries.
13. *New industry* names four immediate priority areas for action and reform in Britain:
 - innovation;
 - skills;

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- finance, and;
 - infrastructure (p. 12)
14. It also identifies a fifth priority, *'to ensure that British businesses are able to access growing global markets'* (p. 12)

Priority areas

Innovation

15. The United Kingdom has *'one of the strongest science and research bases in the world'*, with more than £3 billion ploughed into research and development (p. 12). However, the UK has two major shortcomings in the innovation field. Firstly, *'both UK-based businesses and the Government itself continue to invest less in R&D as a percentage of GDP than other comparator economies'* – a bit more than 1 percent of GDP, which is considerably less than the United States or Germany, and less than half the proportion of GDP that Sweden and Finland spend on research (p. 13).
16. Secondly, *'our excellence in generating knowledge is not consistently translated into innovative and commercially successful goods and services'* (p. 13).
17. New industry commits to the innovation policies announced in the *Innovation Nation*³ White Paper of 2008, including *'stable, ringfenced Government funding and support for our science and research base'* and *'encouraging closer ties between the UK's growing pool of scientific and engineering researchers and industry and private investors'*. New funding is also being provided, including £10,000 Innovation Vouchers (p. 14).
18. On top of the *Innovation Nation* policies, the Government pledged the following measures in *New industry*:
- [To] *work with the research funding bodies to create a stronger framework to drive up the economic impact of the research they fund. From April 2009, grant applicants to all Research Councils will have to set out the economic impact of their proposed research;*
 - [That] *the Higher Education Funding Council for England will consult later this year on a new Research Excellence Framework (REF) that will take better account of the impact research makes on the economy. Decisions on the REF will be announced early next year and will create incentives for changed behaviour from that point, and;*
 - [That] *the Technology Strategy Board has had a successful start and will continue to spearhead innovation in areas where there are business opportunities for future growth, including advanced manufacturing, clean technology, life sciences and the digital economy* (p. 14).

³ http://www.dius.gov.uk/reports_and_publications/~/_media/publications/S/ScienceInnovation_web

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Skills

19. An innovative economy cannot function without a skilled workforce, states *New industry*. Specifically, *'we now need more systematically to address Britain's comparative weakness in low and intermediate skills, and in the specific skills such as handling information technology that are essential for a modern economy'*. The Government also commits to building a skills system that meets the needs of the economy of the future, with its different profile of industries and services (p.15).
20. Thus, although the Government will continue implementing the 'demand-led' reforms introduced by Leitch, it also acknowledges that *'we require a skills system that not only responds to demand but is also able to anticipate future growth in the economy in areas such as low carbon or bioscience, or in those driven by broader demographic change such as the care, hospitality and leisure sectors'* (p. 15)
21. Therefore, the Government will draft *'an 'active skills' paper, detailing how the skills system as a whole will support these developing policies'*, as well as a *'new Higher Education Framework that will set out how higher education in England will take a more active approach to building British competitive strengths through higher skills levels, research and knowledge transfer. We will also publish an 'active skills' paper, detailing how the skills system as a whole will support these developing policies'* (p. 16).
22. 'Key elements' of these papers include:
 - *Developing with employers, Sector Skills Councils and the UK Commission on Employment and Skills, the practical and analytical capability to collect, process and deploy intelligence on skills needs in key sectors and markets quickly and effectively;*
 - *Creating a new Skills Funding Agency to ensure that the skills system has the capacity and funding available rapidly to support development in areas of strategic importance to the economy;*
 - *Developing a rapid and more responsive approach to the development of new qualifications and apprenticeship frameworks so that employers in strategic sectors can access accredited learning which meets their current and future skills needs;*
 - *Strengthening the employer voice on employment and skills, including through Local and Multi-Area Agreements and Employment and Skills Boards, giving them leverage over provision in their areas to make it responsive to local needs while taking into account national and regional priorities;*
 - *Further integrating employment and skills policy so that those seeking jobs have the opportunity to move into those sectors that will drive future growth;*
 - *Ensuring our universities have clear incentives to respond quickly to support areas of potential growth, including by evolving our current funding models, and;*
 - *Ensuring that public procurement, regulators and regulatory frameworks all make a full contribution to raising skills levels.*

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23. The Government also renews its commitment to widening participation, including through raising the mandatory participation age.

Other priority areas

24. The financial crisis was in large part caused by a lack of liquidity in the financial system, which has also resulted in a shortage of capital for businesses. BERR (or the Department for Business, Innovation and Skills, now) will assure that capital will be available for businesses, especially for small and medium enterprises (SMEs). There will also be a *'review to consider whether and in what form further intervention could help increase the supply of long term growth capital to small and medium sized businesses'* (p. 17). This could take the form of a public-private partnership.
25. *'Effective modern infrastructure is fundamental to the competitiveness of British business'*. Therefore, the Government will open consultations from the summer of 2009 on National Policy Statements on Infrastructure⁴, which will eventually govern the decisions of an Infrastructure Planning Commission, which will be launched in the spring of 2010. There will also be regional infrastructure strategies, and plans for a renovation of the telecommunications infrastructure via the *Digital Britain*⁵ review, published in mid June 2009 (p. 18).
26. The United Kingdom will continue to participate in the globalised, trade-based economy that developed prior to the recession⁶. The report points out that three-fifths of productivity growth in the UK economy came from exporters in the period between 1996 and 2004 (p. 19). The Government will *'consult on a new facility to provide Government support for short-term trade finance through sharing risks with banks in confirming letters of credit'* (p. 20).

Implementation

Regulation

27. Many see the current downturn as a crisis of regulation. Unsurprisingly, the Government takes some space in *New industry* to discuss its regulatory philosophy, stating *'Government has a fundamental role in setting the regulatory and legal frameworks in which markets can operate fairly and effectively'* (p. 22). Government thus has a role in addressing market failures, situations in which:
- *Businesses are handicapped in competing effectively in markets through supply side constraints that are no fault of their own such as poor infrastructure or lack of skills;*

⁴ The paper does not mention Heathrow and its third runway in its discussion of infrastructure policy.

⁵ <http://www.culture.gov.uk/images/publications/digitalbritain-finalreport-jun09.pdf>

⁶ Indeed, this has been developing, arguably, since the Renaissance.

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- *The necessary finance for business investment is not available to some growing businesses for reasons that might include the cost structure of venture capital markets or preference among investors for short term investments;*
 - *Businesses hold back from investment in innovation or skills because the benefits do not accrue solely to the firm itself but to other businesses or the economy as a whole through staff movement;*
 - *Businesses lack the necessary information and expertise to enter new or overseas markets* (p. 22).
28. However, BERR/BIS also states that *'nothing that has occurred in the financial markets undermines [the] overall view'* that *'the Government believes that open markets are a source of efficiency and dynamism and that open trade and the discipline of competition are vital to innovation and growth'* (p. 21).

Changing the way government operates

29. A key plank of the new activism is a thorough study of Government's role in the wider economy, and the marshalling of the public sector's economic and political activities to support economic goals. *'Alongside the basic levers of taxation, regulation and expenditure, the interaction of public policies on infrastructure, planning, public procurement, innovation, education and skills, migration, consumer welfare, social welfare and trade, all influence the environment in which businesses operate, in some cases in crucial ways'* (p. 22). As a general rule, the Government wants to better link and co-ordinate its activities to business, to create a more vibrant economy overall.
30. Using the public purse to support the economy requires a number of changes in the way the state operates. For the Government to make effective use of its economic powers, *'all Government departments and agencies at national, regional and local level [must] work together across traditional boundaries in order to promote business competitiveness'* (p. 22). Government programmes must be designed to fit the needs of economic actors, and not the organigrammes of Government departments.
31. The Government must also plan its economic strategies more systematically, and better explain these strategies to the business community. It must design regulatory policies that support those industries that are likely to be central to the post-recession economy, such as low-carbon technology, wind power and nuclear power. The state should also take better account of how its regulatory duties create new skills and employment needs: *'For example, when the Government regulates standards in social care or low carbon requirements for building construction it has a direct impact on the demand for, and investment in, skills and certain technologies'* (p. 23).
32. The paper also proposes reforms to the way the state procures services. The UK Government commissions £175 billion in goods and services each year, giving it enormous economic power. *New industry* proposes that the Government *'think ahead about the shape and nature of its likely requirements for new products and processes'*, effectively convey its needs to the private sector and *'encourage new supply chains ... to ensure UK businesses of all sizes are able to compete'* (p. 24).

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33. The report adds that Whitehall *'will routinely consider skills issues and promote training through procurement across Government. For example, the Government reserves the right to require that successful bidders for public construction contracts provide training and apprenticeship opportunities for the project workforce'* (p. 24).
34. From this year, Government departments will produce Innovation Procurement Plans, *'that will embed a clear obligation to procure goods and services in a way that drives innovation, and to identify clearly the areas in which they are seeking to procure innovative solutions to help deliver their objectives'* (p. 24).
35. *New industry* proposes other *'cultural changes'* in Government, and will
 - *Ensure the consideration of business opportunities is part of every Department's policy making, starting with pilots in selected key areas. These will include an assessment of what the Government needs to do to enhance the capability of UK-based businesses and their employees to compete for industrial opportunities created by government action;*
 - *Deepen collaboration with industry sectoral groups in Britain to build up a clear and evolving picture of the capabilities of UK-based businesses to meet major shifts in market demand in Britain or globally in the years ahead. We will work in consultation with sectoral bodies to build that capacity where appropriate;*
 - *Create more sectoral or issue-based cross-departmental teams modelled on the Digital Britain initiative and the Office for Life Sciences with Ministerial champions at their heads to enforce a cross-governmental approach on major industrial policy issues, and;*
 - *Make greater use of the temporary recruitment of secondees from the private sector to provide necessary expertise in all of these areas* (p. 25)

Local and regional policy

36. *New industry* proposes a clearer division of duties between the national, regional and local levels of government. The national government will be expected *'to define a single set of strategic priorities for sustainable economic development for all national, regional and local bodies'*, which it plans to define in its proposals for *'integrated regional strategies'* later in 2009 (p. 25).
37. Regional Development Agencies (RDAs), the main organs of regional economic administration, will have *'a key role to play in driving sustainable economic growth within the English regions'*, through *'developing regional strategies in partnership with leaders of local authorities [they] will create a new and powerful means to align regional and local partners in delivering a coherent economic vision for their region'* (p. 26).
38. The local sphere should focus on realising the Government's strategies on the ground. *'Delivery at local and city-region levels should also meet regional and national strategies and priorities'*. The paper also notes that city-regions *'have the potential to also deliver a stronger focus on economic growth and to increase alignment in support of common objectives'*, and that the local strategies *'will need to reflect local and sub-regional concerns and aspirations'* (p. 26).

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Targeted measures for certain industries

39. Part of planning for the post-recession economy is identifying the growth industries and services of the future. BERR/BIS recognises that *'while it is not possible for government, or anyone else, to predict exactly the future shape of the economy or the goods or services in which UK firms will have a comparative advantage, it certainly is possible to identify areas where the UK has or may have comparative strengths'*. (p. 27). Therefore, it proposes several policies designed to support specific industries.
40. For example, the Government is developing a Low Carbon Industrial Strategy, and providing £250 million for the development of ultra low-carbon vehicles. Another £150 million will go towards *'advanced manufacturing'*, an umbrella term including aerospace, industrial biotechnology, plastic electronics and the development of composite materials⁷. A Life Sciences Industrial Strategy⁸ will be published in summer 2009 (p. 30-1).
41. The Government is also preparing for demographic changes, and will publish *'an action plan for business and Government on the economic opportunities presented by an ageing society by Spring 2010'*, to investigate the skills and medical needs of an ageing society, and how older workers can be integrated into the labour force (p. 32).

Implications for FE and skills

42. *New industry, new jobs* appears to occupy a central role in the policy and public discourse of the new Department for Business, Innovation and Skills (BIS). It does clearly establish the department's, and by extension the Brown Government's, broad economic philosophy, based on a faith in the markets tempered by a (perhaps newfound) recognition that the Government has a role in addressing market failures and actively supporting certain sectors of the economy.
43. It also heralds a more unified approach by central Government towards economic policies. Every Whitehall department will, in effect, be delivering economic policy. Although the idea of cross-cutting, cross-departmental initiatives is not new, this is one of the strongest and most influential expressions of that idea.
44. *New industry* is also significant because of its provenance. Lord Mandelson is widely acknowledged as one of the most powerful secretaries of state in Government, second perhaps only to the prime minister. His department is consequently seen as equally influential, and thus its proposals are quite likely to become key Government programmes.

⁷ Composites are, as the name suggests, materials made from two distinct substances. Fibreglass and Kevlar, for example, are composite materials. The Government predicts that composites will increasingly be used in place of metals like iron and steel (industries which are anyway in decline in the United Kingdom).

⁸ The Oxford English Dictionary defines the life sciences as *'the sciences concerned with the study of living organisms, including biology, botany, and zoology'*.

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45. However, *New industry* promises relatively little in the way of new policies. In many cases, it summarises policies that have already been implemented or planned, such as the creation of the Skills Funding Agency (SFA) and the integration of employment and skills policy. Many of the policy drivers it references, such as using procurement as a tool to achieve Government goals in innovation and skills, have been developed elsewhere. Although the department promises an 'active skills' paper, the policies that underlie that paper are not new, implying the resulting paper will not be a radical departure from previous practice.
46. That having been said, there is much of interest in *New industry*. Its section on national, regional and local strategies, though brief, is worth noting because of the accent it places on central control. The paper states that the role of the local and city-regional authorities is '[to] meet regional and national strategies and priorities' (p. 26). There is little talk of local autonomy or initiative, which have become increasingly prominent in other areas of public policy.
47. The paper could also have a major influence on a number of bodies in the sector. For the SFA, the clarification of the division between local, regional and national may help shape its role in the new system. *New industry* also has a strong focus on evaluating the economy by sector and supporting certain sectors of the economy, which will be of great import to Sector Skills Councils, and also for colleges and providers.
48. It is interesting to note that BIS is already conducting reviews of certain sectors of the economy. In late June 2009, the department announced new reviews into the space industry (space as in outer space – satellites, for example) and industrial biotechnology.
49. The paper also provides important signals about what sectors of the economy will be receiving increased Government support and financing in future. This will be of interest to FE providers, who will want to plan for and tailor their offerings accordingly. It may also give clues as to where skills funding might be directed.
50. It will be interesting to see how the new HE framework is developed. Many in that sector worry that placing business and HE under a single department will commercialise the higher education sector, to the detriment of its missions to encourage research and learning for its own sake. The framework may provide an opportunity for BIS to show how it will balance the business aspect of education with the research end, and to come to an accommodation with leaders in the HE sector.

Questions for LSIS

51. How should LSIS support providers in the key sectors identified by *New industry*, and which BIS is now reviewing (such as low-carbon technology, biotechnology and the space industry)? There would be advantages to providers in these key sectors to be pro-active in supporting the Government's strategic approach, for example by ensuring that their curriculum and operations align with industrial activism. Should LSIS have a role in supporting them to act collectively? For example, would it help providers in these key sectors to come together to get to grips with the industrial activism proposals, and to consider their implications and how to respond?

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52. How can LSIS help Government shape the proposed Innovation Procurement Plans, and help providers take advantage of the new contracting opportunities that these may offer them? How should we develop our own procurement and commissioning systems to incorporate the notion of innovation?
53. Is there an opportunity for greater synergy between skills and the world of business through their common administration by BIS? Could this allow the design of more business-oriented courses and qualifications? How can LSIS support closer work between business and the FE and skills sector?

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