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One Step Forward, Two Steps Back? Skills Policy in England under the Coalition Government

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Editor's Foreword

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Abstract

Traditionally, skills policies in the UK have focused primarily upon boosting the supply of skills as a route to improved economic prosperity as well as social inclusion/mobility. However, some academic commentators have argued that this approach is insufficient and that more attention needs to be given to addressing problems of weak employer demand for, and utilisation of, skills. Recently, some of these ideas have begun to be taken up by sections of the policy community. Issues around skills demand and utilisation figured prominently in Scotland's 2007 skills strategy, and are now beginning to inform new forms of policy experimentation. The UK Commission for Employment and Skills has also argued that 'the future employment and skills system will need to invest as much effort on raising employer ambition, on stimulating demand, as it does on enhancing skills supply'. In light of these developments, the paper examines some of the challenges confronting skills policy in England under the new Conservative-Liberal Democrat Coalition government, and considers the prospects for a more integrative and holistic approach to tackling the 'skills problem'. It argues that the political and ideological space for such an approach is limited in England with skills policy likely to focus mainly upon skills supply, albeit with vastly diminished state funding/subsidy.

Introduction

In his recent Mansion House speech, the business secretary, Vince Cable, cited Einstein's famous definition of insanity as 'doing the same thing over and over again and expecting different results' (Cable 2011). He was referring to the need to break decisively with New Labour's debt-fuelled growth model, which he alleged had culminated in a 'near-death experience of financial collapse' and plunged the UK economy into recession. Cable went on to reaffirm the commitment of both parties in the UK Conservative-Liberal Democrat Coalition government to, what he called, 'liberal economic policy' and a 'growth strategy' based on 'free trade; deregulation; removing the barriers to investment', along with 'skills and cutting edge innovation.'

This paper argues that when it comes to skills policy, the Coalition's strategy for England remains tightly bound up with a well-worn set of policies in relation to the economy and the labour market, and, as such, is also in danger of falling victim to Einstein's maxim. Put slightly differently, skills policy in England, at least for the duration of the present Government, seems liable to be tied to a set of fixed policy positions which raises serious questions about its ability to take the economy and society to where the Government would seemingly wish it to be. But this is to get ahead of ourselves. First, we need to understand how skills policy has evolved in the UK, and in particular, England, over the last three decades, and what lessons have emerged through experience and research.

From Skills Supply to Supply, Demand and Utilisation

The general thrust of skills policies in the UK over the past 30 years has been to bring about a 'skills revolution', with publicly-funded improvements in the *supply of skills* seen as key to international competitiveness, productivity growth and improved living standards. This approach reached its acme under the last Labour government (1997-2010), with the publication in 2006 of the Leitch Review of Skills and the adoption in England of ambitious qualification targets aimed at equipping the UK with a 'world-class' skills base by 2020 (Leitch 2006). More recently, however, a new kind of thinking has begun to emerge, alongside the dominant narrative, which emphasises the need to pay much greater attention to the issue of employer *demand* for, and *utilisation* of, skills (see Buchanan *et al* 2010).

This re-framing of ‘the skills problem’ began in academia (see Finegold and Soskice 1988, Keep and Mayhew 1996, Keep and Mayhew 1999), but has recently been taken up by sections of the UK policy community. In Scotland, policy makers have become increasingly concerned that despite outperforming the rest of the UK in terms of the supply of higher-level skills, Scottish productivity continues to trail behind that of England. In 2007, the newly elected Scottish National Party (SNP) administration responded with a skills strategy that was strongly committed to improving skills demand and usage as well as supply (see Scottish Government 2007, Payne 2009).

In addition, the UK Commission for Employment and Skills (UKCES), established initially to oversee progress towards the Leitch targets, has also placed skills demand and utilisation firmly on the policy radar. In its first state of the nations’ report, *Ambition 2020*, the Commission indicated that the supply of high skilled workers in the UK is growing faster than the capacity of the economy to absorb them into high skilled jobs, and argued that, in its view, the ‘skills problem’ confronting the UK:

> …lies largely on the demand side. The relatively low level of skills in the UK; the limited extent of skill shortages; the potentially relatively 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 employers producing high quality goods and services, too few businesses in high value added sectors. This means that in order to build an internationally competitive economy, the future employment and skills system will need to invest as much effort on raising employer ambition, on stimulating demand, as it does on enhancing skills supply. (UKCES 2009b: 10)

It went on to add that, ‘there is little value to an organisation having a skilled workforce if the skills are not used well’ (UKCES 2009b: 11). This analysis points towards the need for a more balanced and integrative policy mix around skills, one which forges closer connections with other policy areas, such as economic development and industrial policy, innovation, and business improvement.

The UKCES approach was strengthened by the fact that Scotland had already given a lead on skills utilisation. In 2008, the Scottish Government established a Skills Utilisation Leadership Group, specifically to oversee strategy in this area. A range of policy activity is now underway, including 12 ‘action research’ projects, funded by the Scottish Funding Council, which are designed to test the role that universities and colleges might potentially play in improving skills utilisation in Scottish workplaces

(Payne 2011). UKCES is supporting these developments with research, and is placing particular emphasis upon the role of 'high performance working', together with improved leadership and management, as a *potential* vehicle for improving skill utilisation (UKCES 2009a, 2010).

With skills policy in England now in the hands of a Con-Lib Coalition (formed following the May 2010 general election), how will it respond to the challenges identified above? Now is a good time to begin to examine the trajectory of skills policy under the new administration, and the connections with other key policy areas. The Government has published its skills strategy (DBIS 2010a), already set about reforming the governance arrangements for sub-national economic development in England (HM Government 2010a), and has recently produced a *Plan for Growth* (HM Treasury/DBIS 2011). The paper examines these developments and considers the prospects for a more integrative approach to skills policy in England which 'invest[s] as much effort on raising employer ambition, on stimulating demand, as it does on enhancing skills supply' (UKCES 2009b: 10).

Past Imperfect – Skills Policy under New Labour

Before turning to the Coalition's skills strategy, it is useful to begin with a brief reminder of how skills policy developed in England under the (New) Labour government between 1997 and 2010. Like the Conservative governments of Thatcher and Major which preceded it, New Labour rejected public ownership, capital controls and an active industrial policy, proclaiming instead the virtues of a 'flexible' (deregulated) labour market and insisting (to an even greater extent than its predecessors) that in the modern global economy it was education and skills which held the key to national and corporate prosperity as well as individual social inclusion/mobility (see Blair 2007). Having originally set up the Leitch Review in 2005 when Chancellor of Exchequer, Gordon Brown, the Prime Minister, readily embraced its central message that 'skills is the most important lever within our control to create wealth and to reduce social deprivation' (Leitch 2006: 2). The adoption of the Leitch targets as the centrepiece of skills policy in England chimed with Brown's view that Britain was locked into 'a global skills race' (Brown 2007) in which economic supremacy would go to the country that amassed the biggest stockpile of certified units of human capital (see Keep 2009).

The role of the state then was to act as a *lubricant* of economic growth, through publicly-funded R&D and by helping individuals to improve their skills in cases where there was assumed to be 'market failure.' While the state withdrew from direct industrial intervention, the role of central government in determining the shape, direction and management of the education and training system increased enormously during the New Labour years (see Keep 2006, 2009, Coffield 2007). Essentially, the government set targets in terms of the proportion of the workforce expected to hold qualifications at various levels and then directed funding accordingly. These targets, which were arrived at without meaningful consultation, reflected the Government's view of what constituted legitimate 'training' or 'learning' and what, in its mind, the state, employers and learners *ought* together to be aspiring towards. Supporting this was a complex infrastructure of multi-level planning mechanisms, designed to match skills supply and demand (from both learners and employers), together with top-down interventionist forms of performance management and control to ensure the responsiveness of colleges and other providers (see Keep *et al* 2006, Coffield *et al* 2008, Coffield 2008).

Borne in a period of economic growth, New Labour's skills project was driven primarily by the expansion of publicly-funded initial education and training (largely through further and higher education), and relied heavily upon large doses of public subsidy (see Keep 2009). In terms of adult skills, the government funded adult learning entitlements framed mainly around level 2 (which it regarded as a minimum platform for employability in the labour market) and established the *Train to Gain* programme to provide subsidy to employers who helped staff gain recognised vocational qualifications, initially at level 2, and then later at level 3 (DBIS/LSC 2009).

New Labour's skills strategy rested upon three fundamental assumptions. First, the belief that increasing the publicly-funded supply of qualified labour would, of itself, enable employers to shift 'up-market' and adopt higher value-added, higher productivity, higher skill production strategies, what might be termed a 'supply-push' effect (see HM Treasury/DfES 2002, Keep and Mayhew 2010). Second, that increasing the qualifications of low skilled individuals would allow them to move off welfare, enter employment and progress in the labour market, thereby contributing to the Government's agenda around social inclusion/mobility/justice. Third, that public subsidy could be used to leverage the additional employer 'buy-in' and investment necessary to meet the state's ambitious targets for developing a 'world-class' skills base, particularly in the case of intermediate and higher level qualifications.

All of these assumptions were, and remain, problematic (see Keep and Mayhew 2010). The first because it tends to overlook what may be perfectly rational reasons as to why many UK employers continue to seek competitive advantage through low value added strategies using a predominantly low skilled, low waged workforce (see Finegold and Soskice 1998, Wilson and Hogarth 2003, Mason 2004, Keep *et al* 2006). The second because in an economy where 22 per cent of the workforce are low paid (defined as less than two thirds of median earnings) and many low-end jobs lack real progression opportunities (see Lloyd *et al* 2008), training away low qualified labour does not, of itself, 'magic away' such jobs, which insofar as they remain[1] must be performed by someone. In addition, the qualifications usually on offer to low end workers (such as an NVQ level 2) tend to yield at best very poor wage returns (Wolf *et al* 2006, Dickerson and Vignoles 2007, Jenkins *et al* 2007), have limited traction in the labour market, and are seldom strong enough to provide the expected platform for progression and social mobility (see Keep and Mayhew 2010, Lloyd and Mayhew 2010). The third assumption – that employers would commit their own hard cash to help meet the Government's targets – has proven to be far easier said than done, a prime example being the *Train to Gain* level 3 pilots, which struggled to secure employer and individual 'co-funding' (House of Commons, 2007). When push came to shove New Labour tended to fall back on rolling out more subsidy as a means of 'squaring the circle' between its own aspirations and what employers themselves have been willing to fund and deliver (see Keep 2006, Payne 2008). In turn, employers have become increasingly 'savvy' at securing public monies to pay for training requirements they would otherwise have had to find out of their own pockets, as illustrated by the high levels of 'deadweight' associated with the *Train to Gain* programme as a whole (Abramovski *et al* 2005; DBIS/LSC 2009).

Why then was a supply-led skills strategy so appealing to New Labour? One answer is simply to say that New Labour believed its own rhetoric, namely that under conditions of globalisation and the purported shift towards a 'knowledge-driven economy', skills were one of the few remaining policy levers available to government to address key social and economic problems (see Lloyd and Payne 2002, Keep

[1] Research suggests that low paid jobs, rather than diminishing, are set to increase in the future (see Lawton 2009)

2006). At the same time, the emphasis upon skills supply fitted very well with New Labour's conversion to a broadly neo-liberal growth model in which the commitment to a flexible, lightly regulated labour market took centre stage, an active industrial policy was thought (for the most part) to have no place, and direct forms of redistribution were heavily downplayed (see Lloyd and Payne 2002, Keep 2009). Focusing upon education and training allowed New Labour to sidestep controversial measures, such as using labour market regulation to block-off low cost competitive strategies and the reform of corporate governance arrangements necessary to embed a long-term investment ethic into the UK economy. On the social front, the strategy enabled New Labour to promise action on 'fairness' and social mobility without addressing material structures of inequality, both inside and outside the education system. As such, it did little to constrain the ability of the already privileged to use their wealth and cultural capital to secure places in 'elite' schools and universities for their offspring, thereby affording them an unfair positional advantage when competing for a finite supply of 'good jobs' (see Brown and Hesketh 2004, Keep and Mayhew 2010).

Towards the end of New Labour's period in office, however, the limits of a supply-led skills strategy were becoming increasingly clear. The Leitch 2020 targets were, in the main, judged to be unattainable, and levels of 'over-qualification' and 'skills-mismatch' were rising as demand for, and usage of, skills in the economy struggled to keep pace with the outputs of the education system (UKCES 2009b: 114-122)[2]. For most of its period in office, however, New Labour resisted arguments in favour of a more 'demand-side' approach to skills, even when those arguments came from within the policy community (see Cabinet Office 2001, Coffield 2002, Lloyd and Payne 2003). It was only as the administration was forced to grapple with the fall-out from the 2007-08 banking crisis and the subsequent economic recession that New Labour's stance began to shift. To begin with, there was an acknowledgement that the economy had become over-reliant upon financial services and the City of London, and that a more balanced approach to economic growth was needed, with the UK's manufacturing base given greater prominence. Industrial policy, previously dismissed by New Labour as 'picking winners/backing losers', was partly rediscovered, with the

[2] By 2006, nearly four in ten (39.6%) of the UK workforce were estimated to hold qualifications at a higher level than those needed to obtain their current job (Felstead *et al* 2007). Other research, using data from the 2004 Workplace Employment Relations Survey (WERS), finds that over half of workers sampled feel their skills are not being fully utilised (Sutherland 2009).

business secretary, Lord Mandelson, referring to what he called the new ‘industrial activism’ (BERR 2009). While the government remained wedded to the Leitch targets, the issue of skills utilisation also began to be discussed within policy statements (DBIS 2009), albeit in rather hushed and muted tones (see Keep and Mayhew 2009).

However, the most pressing challenge to a supply-led skills strategy came from the damage to the public finances dealt by bank ‘bail outs’ and the ‘quantitative easing’ of monetary policy as the Government sought to avoid a deep economic recession. By 2010, the public deficit had risen to over 10 percent of GDP. Even before New Labour was defeated in the May 2010 general election, it was evident that with the public finances under increasing strain, trying to spend/subsidise one’s way to victory in the ‘global skills race’ – even if one believed this to be possible – was no longer an option for any government. With the arrival of a new Con-Lib coalition government, led by David Cameron, the question was not would skills policy in England change, but whether, in doing so, it would be able to come to terms with the implications of the UKCES analysis and develop policy actions capable of addressing issues of skill demand and usage.

The Coalition Government

The Coalition Government inherited an economy from New Labour which had proven particularly vulnerable to the global financial crisis, an economy heavily reliant upon the ‘City of London’ as a world financial centre, where economic growth had come to depend upon a booming housing market, over-leveraged banks and unsustainable levels of private debt. The economy’s trade deficit (which emerged under Conservative Governments in the 1980s) had grown to be the third largest in the world. Manufacturing industry contributed around 11 percent of GDP and employed less than one in ten of the workforce. These imbalances were compounded by significant regional disparities, notably between the London super-region and the rest of the UK (see Froud *et al* 2011 for further details).

The Coalition took office vowing to tackle what it described as Labour’s ‘debt crisis’, restore order to the public finances and rebalance the economy, with the emphasis on saving rather than borrowing, reinvigorating export-led growth and reducing the nation’s reliance upon financial services (see HM Government 2010b). While all of the major political parties were united on the need for cuts in public expenditure, the Coalition would cut faster and deeper, insisting that this was vital to the nation's economic recovery. The Comprehensive Spending Review outlined cuts in public expenditure of £81 billion over four years, significantly higher than the £50 billion planned by Labour (HM Treasury 2010). In terms of individual departmental budgets, the Department for Business, Innovation and Skills (DBIS) would face the biggest reduction of all, with a cut of 25 per cent. The budget for further education will be reduced by a quarter, from £4.3 billion to £3.2 billion by 2014-15.

While the Coalition insisted that there could be no going back to the debt-fuelled past, it was clear that there would not be any fundamental break with the neo-liberal growth model established by Conservative governments in the 1980s and 1990s and subsequently retained, in large measure, by New Labour after 1997 (see Lloyd and Payne 2002). In addition to fiscal rectitude, the new Government remains firmly committed to the UK's flexible labour market, which it sees as an 'intrinsic strength', and favours further de-regulation of business, along with lower business taxes (HM Treasury/DBIS 2011). The Government has already taken steps in this direction, deciding for example not to extend the right to request time-off to train to businesses with fewer than 250 employees, and lowering corporation tax, which will fall to 23 percent by 2014. Its vision is of a 'more productive… high tech, highly skilled economy' in which 'private sector growth must take the place of government deficits', one that is 'much more dynamic, less burdened by pointless barriers, and retooled for a high-tech future', with a 'more educated workforce that is the most flexible in Europe', and where 'prosperity must be shared across all parts of the UK' (HM Treasury/DBIS 2011: 2-5).

The Coalition's skills strategy

The Government has set out its skills strategy in a white paper, *Skills for Sustainable Growth* (DBIS 2010a), described by skills minister, John Hayes, as 'one of the most important documents yet published by the coalition Government.' The strategy is informed by three key principles:

- Fairness – helping 'those least able to help themselves';
- Responsibility – with employers and individuals taking 'greater responsibility for ensuring their own skills needs are met'; and
- Freedom – moving away from 'stifling bureaucracy and meaningless targets' and 'trusting people to do their job' (DBIS 2010a: 3).

Skills supply – still a case of great (and unrealistic) expectations

Perhaps the first point to note is that in terms of the overall *importance* being afforded to skills supply, there is a strong line of continuity with the position adopted by the previous Labour government (Keep 2011). It is clear, for instance, that the Coalition continues to see skills as a key policy lever for delivering both economic performance and social mobility:

> Our ambition is that the UK should have a world-class skills base that provides a consistent source of competitive advantage... Skills are not just important for our global competitiveness, however. Skills have the potential to transform lives by transforming life chances and driving social mobility. (DBIS 2010a: 5)

The measures outlined in the white paper are, as Vince Cable and John Hayes note in their foreword, designed to 'fuel opportunity and power prosperity' (DBIS 2010a, foreword, 3). Indeed, Cable insists:

> If we are to achieve sustainable growth, nothing is more important than addressing the current failings in skills training…

The white paper also goes on to affirm that:

> We still have too many people in this country whose lack of appropriate skills prevents them from finding sustainable work with prospects for progression. (DBIS 2010a: 33)

The Chancellor, George Osborne, has also suggested that with the UK remaining behind France, Germany and the US in relation to workforce skills, skills is 'probably the biggest problem facing our economy in the future' (Osborne 2011).

This is not quite the same rhetoric as that used by New Labour and Leitch. The Coalition's statements are more qualified when it comes to the central importance of skills, with the Government also talking-up the need to unleash a spirit of enterprise and business dynamism (HM Treasury/DBIS 2011, Osborne 2011), but that said it is very close. It is clear for example that skills policy continues to shoulder a very heavy burden of expectation when it comes to both supporting international competitiveness and helping individuals to avoid unemployment and 'bad jobs' by providing them with the means to progress in the labour market. Here then it is very much a case of '*plus ça change*…' What has not changed are the aforementioned limitations of such a strategy given the way in which many UK firms choose to compete and the structure of the labour market.

Funding priorities

Skills may still be key to the Government's growth strategy but, as Vince Cable made clear bringing down the deficit means that it is 'not in a position to throw money at the problem'. This means hard choices, prioritisation and a re-balancing between state, businesses and individuals when it comes to *who pays* for training.

In terms of funding priorities, the Government is strongly committed to expanding apprenticeships, which now has the status of a flagship policy, and has stressed that it wants to see level 3 apprenticeships become the level 'to which learners and employers aspire', with 'clearer progression pathways' to level 4 apprenticeships and higher education (DBIS 2010a). The white paper promised £250 million to fund an additional 75,000 adult apprenticeship places on top of the previous Labour government's plans. In the March 2011 budget, the Chancellor allocated an additional £180 million over four years to fund a further 50,000 apprenticeships, including 40,000 new apprenticeship places to help the young unemployed (HM Treasury/DBIS 2011). The sum of public money set aside to support these ambitions is, however, relatively small beer compared to the estimated £14 billion (at today's prices) that the previous Conservative Government ploughed into the Youth Training Scheme (YTS) in the 1980s.

Public funding will also be used to support basic skills acquisition and is to be targeted at the *most* disadvantaged groups. Full funding will be maintained for young adults, aged 19-24, taking a first full level 2 qualification (GCSE equivalent) or first level 3, and for all adults taking basic skills courses who left school without functional reading, writing and maths abilities. For learners aged 24 and over, there will be some co-funding at level 2, together with a new system of government-backed loans to support those wishing to take level 3 or higher qualifications. The Government also plans to invest £210 million in adult and community learning as part of a commitment to a wider and more liberal vision of lifelong learning.

An end to central planning and targets

The white paper also emphasises the Government's determination to move beyond Leitch and to end the 'culture of bureaucratic central planning and regulatory control' that grew under New Labour, whereby the state sets 'targets for the number and type of qualifications that ought to be delivered, and with learners and colleges following funding, rather than colleges responding to the needs of employers and the choices of learners' (DBIS 2010a: 5). The emphasis will henceforth be on demand-led funding, with the Skills Funding Agency (SFA) routing funding to providers in accordance with the purchasing choices of learners and employers, in what will, in effect, be a training market. The Government also promises greater freedom for providers to respond to local needs, along with more flexible and streamlined performance management mechanisms. Colleges judged to be 'outstanding' will be freed up from inspections, but those which are found to be 'failing' could find themselves being taken over and run by the private sector (DBIS 2010a: ch.4). The Leitch targets have been duly consigned to the policy dustbin, but 'the Leitch ambition of developing a world-class skills base' remains (DBIS 2010a: 13).

In terms of skills supply, some of above policy moves are to be welcomed. The shift away from top-down targets and centralised planning, the re-valuing of apprenticeships, the desire to promote a broader liberal vision of adult lifelong learning, the commitment to funding basic skill needs and the expectation that employers will need to contribute more, are all positive, as is the recognition of the role that trade unions can play in supporting learning at work, and the continuing place afforded to UKCES which is expected 'to become a true vehicle for economic growth and social partnership, with employers, trade unions and others coming together to give effective leadership on skills' (DBIS 2010a: 13). All the early indications are that there is a clear determination on the part of the new administration to move away from New Labour's model of centralised control and take a more hands-off approach, with providers given more freedom over how they allocate and use their budget, even if this is likely to prove something of a culture shock for civil servants who have become rather used to dictating matters from the centre. At the same time, however, the strategy also raises a number of questions as well as some potential risks and pitfalls.

Potential risks

If there is one lesson to come out of the New Labour years, it is that making any kind of real progress on the Government's *idea* of where the economy needed to be in terms of skills depended very heavily on the power of the public purse. With state funding/subsidy being radically scaled back, 'developing a world-class skills base' will now depend more than ever upon the willingness of individuals and employers to undertake and pay for more training. Having ruled out state-imposed training levies or any significant extension of license-to-practice arrangements, except where they have the support of the majority of employers in a sector (DBIS 2010a: 23), the white paper places its faith in a combination of voluntarism, markets and private investment.

A central assumption running throughout the white paper is that there is a *latent or pent-up* demand for education, training and skills, on the part of both employers and individuals, that is currently being blocked by the system of centralised planning/control and which can therefore be released through the operation of a more effective market for education and training. Thus, when it comes to employers, the white paper confidently asserts that they 'are willing to invest – to 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 high quality and geared to their needs' (DBIS 2010a: 12-13). This is a bold assertion, but unfortunately one which the white paper does not back up with any evidence.

History might suggest a more sobering assessment. Those with long memories may cast their minds back 30 years to the previous Conservative Government's *New Training Initiative* (MSC 1981), with its aim of creating a 'permanent bridge between school and work' and a Youth Training Scheme that was intended to rival the German 'dual apprenticeship' system, and then to the numerous reforms and revamps to apprenticeships which followed as successive governments sought to develop a 'world-class' work-based training route. Despite some successes with some employers in one or two sectors, the outcomes have, on the whole, been somewhat disappointing (see House of Lords 2007, Fuller and Unwin 2009, Wolf 2011).

Overall, there has been an increase in apprenticeship numbers in general and some improvement in completion rates (albeit from a low start). However, as the Wolf Review makes abundantly clear, for school leavers the route remains marginal, with recent growth confined mainly to adult apprenticeships (25+) and those aged over 18. Apprenticeships for 16-18 year olds have actually declined as a proportion of the total in recent years, and account for somewhere between five to seven per cent of the age cohort (Wolf 2011: 166). Demand for places far outstrips supply, a situation which is unlikely to change even if the Government's targets are met.

There are also quality issues. The majority of UK apprenticeships are still to be found at level 2, which would not be recognised as an apprenticeship in countries such as Germany, Demark and Norway, where the system is underpinned by more extensive license to practice arrangements (at level 3). In 2009-10, less than one quarter of 16-18 year olds starting an apprenticeship in the UK were on a level 3 programme (Wolf 2011: 168). Furthermore, although precise data is hard to come by, the vast bulk of UK apprenticeships are managed not by employers but by private training providers or colleges, with most employers simply offering work placements (Fuller and Unwin 2004, 2009). Also, unlike in Europe, there is no component of wider 'general education' within the apprenticeship framework, other than the weak surrogate of 'key skills' (see Green 1998), which makes progression to higher education particularly difficult. In some sectors, such as retail, apprenticeships often involve little or no off-the-job training (Spielhoffer and Sims 2004). Not surprisingly, some commentators have begun to question how far the term 'apprenticeship' still has meaning in the UK (Fuller and Unwin 2004).

Notwithstanding the huge sums of public money that have been invested in this project down the years, the vast bulk of employers have to date been unwilling to support the development of a vibrant, high-quality work-based route for new entrants to the workforce. In part, the problem may reflect a realisation on the part of employers that if they did not train themselves, the Government would step in and do this for them through an expanded further and higher education system. While reforms to university funding will shift the cost onto individuals, this issue remains and the white paper provides few clues as to why employers will now look to 'co-fund' more level 3 apprenticeships when they can source the skills they need, cost-free, in the form of level 4 degrees. From 2012, the government expects that for post-19 apprenticeships, either the employer or the individual trainee will need to offer the training provider a sum equivalent to at least 50 per cent of the training costs as an up-front payment before government support will be offered. Individuals are expected to apply to the student loan company for an income-contingent loan to cover this contribution; employers are expected to reach into their own pockets.

Previous attempts to get employers to co-fund training at level 3 through New Labour's *Train to Gain* programme encountered real problems on this score. Such problems may be indicative of the relatively low demand for level 3 vocational qualifications in the UK compared to some of its major competitors (see Dickerson and Vignoles 2007). None of this bodes well for the present Government's plans to expand apprenticeships and make level 3 'the level to which learners and employers aspire'. The fact that the Government is trying to do this in the midst of an extremely fragile economic recovery, when employers are likely to be even less willing to take on apprentices, simply adds to the scale of the challenge.

More generally, the state has found it extremely difficult in a 'voluntarist' training system to achieve influence over employers' training decisions. One can go back to Coopers and Lybrand's highly influential report, *A Challenge to Complacency* (1985), which emphasised the need to transform employer attitudes towards training and which set the foundations for future policy in this area and to the Conservative Government's white paper, *Employment for the 1990s* (DE 1988), which created the Training and Enterprise Councils (TECs), and its belief that an employer-led, locally-focused training system would bring about a revolution in adult training provision. Despite endless exhortation, large rafts of government subsidy and endless attempts to convince employers that 'training pays', there has been very little progress on this front. Indeed, recent research by Mason and Bishop (2010) suggests that the incidence of employer-provided training across the workforce aged 16-64 has been falling since 2000 and is now back to the level it was at in 1993.

It is not just past experience, however, which casts doubt on whether employers – or indeed individuals for that matter – will respond in the way policy makers expect. As noted above, the white paper assumes that there is a problem of skills supply that can be rectified through a more efficient and responsive education and training market. This analysis is valid to the extent that the diagnosis of 'the problem' is the correct one. However, it is likely to fall short if the skills problem, as UKCES has argued, 'lies largely on the demand side'.

There is now a considerable body of research evidence which suggests that many organisations in the UK have, for perfectly rational reasons, developed strategies which do not require substantive levels of skill from the bulk of their workforce (see Keep *et al* 2006). One manifestation of this problem is that UK employers tend to require lower educational qualifications for labour market entry. As Green (2008: 17) notes:

> Unfortunately, Britain has long been caught in a low-qualification trap, which means that British employers tend to be less likely than in most other countries to require their recruits to be educated beyond the compulsory school leaving age. Among European countries, only in Spain, Portugal and Turkey is there a greater proportion of jobs requiring no education beyond compulsory school.

This situation, in turn, tends to weaken the incentives for many adults and young people to engage in education and training (Keep 2009b). It is interesting to note that in the consultation document which preceded the white paper, the Government acknowledged that:

> The overall demand for skills in the UK reflects a general tendency by many employers to compete in lower value and less intense markets requiring lower level skills. (DBIS 2010b: 23)

However, this analysis does not appear in the white paper itself which offers no such over-arching diagnosis of the causes of the skills problem.

Insofar as the UKCES analysis remains valid, however, it suggests that relying upon the motivation and willingness of employers to boost their investment in training may be far easier said than done. The question remains then: *'how in a voluntarist training system and de-regulated labour market, and given existing levels and patterns of employer demand for skill, can employers be persuaded to substantively increase their investment in training this time round?'* As noted above, voluntarism, training markets and employer-leadership are, after all, nothing new; they were the watchwords of skills policy under Conservative Governments in the 1980s and 1990s. The white paper can be read as an attempt to give voluntarism yet another roll of the dice, only this time without the massive injections of public subsidy deployed by New Labour. Given past experience, this looks to be a pretty big gamble. The risk is that private investment falls and England finds itself trailing further behind other leading OECD nations in terms of it skills base.

Skill utilisation

When it comes to skill utilisation, the white paper acknowledges that, 'we will not achieve sustainable growth unless people are able to make full use of their knowledge and skills in the workplace' (DBIS 2010a: 44). The acknowledgement that skills utilisation *matters* is significant and welcome, particularly as a reminder of the limits of what is likely to be achieved through skills supply measures alone and the need to take account of the workplace context in which skills are developed and deployed. At one level, however, this is simply a statement of *truth*; the real challenge being to design viable policy interventions which are capable of making a difference.

In addressing this issue, emphasis is placed upon the role of the 'high performance workplace' (HPW) and effective employee engagement. Thus the white paper states:

> …we want employers, employees, employee representatives and others to work together to create modern high-performing workplaces where skills are valued and fully used and where everyone is encouraged to give of their best for the good of the enterprise. (DBIS 2010a: 40)

The view that HPW can support better skills utilisation is, as noted above, broadly in line with the position taken by UKCES in a series of recent publications on the topic (UKCES 2009b, 2010).

In terms of the Government's specific role, the white paper outlines a series of measures, which include: working alongside the TUC, ACAS, Business in the Community, the National Enterprise Academy and CIPD 'to develop a new framework to support better leadership and management'; promoting *Investors in People* as 'the improvement tool of choice for businesses wishing to grow through smarter acquisition and use of skills'; introducing a new pledge, whereby leading employers, Sector Skills Councils, trade unions and other representatives commit to working together to create HPWs; and establishing a Growth and Innovation Fund (with an annual budget of £50 million) designed to 'support employers to be more ambitious about raising skills in their sectors and to promote workplace practices that will lead to better development and deployment of workplace knowledge and skills' (DBIS 2010a: 8, 44-45).

It is difficult at this stage to discern the precise shape of many of these initiatives. However, a number of observations might be made. First, the white paper provides little clarity in terms of what it means by a 'high performance workplace'. Definitions of HPW – normally taken to refer to various combinations of managerial and work practices which when 'bundled' together are thought to improve organisational performance – are highly varied both in terms of the individual practices they are thought to comprise and the way in which those practices can themselves be defined and operationalised (see Lloyd and Payne 2006). If one takes 'team working' for example, often said to be a core feature of HPW, in some cases teams may have extensive autonomy and problem solving capabilities. Equally, however, there are many examples of teams with limited discretion, where tasks are narrowly defined, and whose members are subject to extensive managerial supervision and control (see Barker 1993, Procter and Mueller 2000, Godard 2004).

HPW can also be associated with 'lean production', which has often been found to be linked to downsizing, work intensification, deskilling and a loss of control and autonomy (see Kumar 2000).

UKCES, while emphasising the *potential* of HPW to improve skills utilisation and create 'good quality work', acknowledges that 'care needs to be taken to ensure that performance gains are not achieved to the detriment of employee well-being through increased workload, limited discretion and enhanced stress at work' (UKCES 2009a: 126, also Green 2010). There is, in other words, *no simple equation* between HPW and improved skill utilisation or better outcomes for employees, with more nuanced discussions stressing the importance of *context* and the manner in which practices are *implemented* and *received* in particular workplaces (see Hughes 2008, Green 2009, UKCES 2009, Wood and Bryson 2009, Edwards and Sengupta 2010).

The second point is that *if* HPW is to be a/the means of delivering better skills utilisation, there are questions around how government might best support its adoption. After three decades during which the benefits of employee engagement and strategic HRM have been widely promulgated among the business community, take-up of HPW remains confined to a minority of UK organisations and did not increase significantly between 1998 and 2004 (see Kersley *et al* 2006, Edwards and Sengupta 2010). Some of the policy instruments identified to transform this situation (e.g. *Investors in People*) have been around for some time, while others, such as the voluntary pledge, rely upon exhortation and are likely to be a relatively weak lever for changing employer behaviour.

Improving management and leadership capability is dearly important (see UKCES 2009a), although there are questions around how this can be best achieved and whether, on its own, it can produce the desired transformation that policy makers may expect. For what does *not* appear in the Government's list of measures is any attempt to change the *incentive structures* in which firms and their managers operate and which shape behaviour. Ameliorating the pressures on firms to maximise short-term shareholder returns (which can make long-term holistic organisational change difficult to achieve and sustain), or tackling a flexible, deregulated labour market (that allows firms to compete on this basis of low value added strategies with a relatively cheap and disposable workforce), remain firmly outside the boundaries of 'legitimate' policy debate. Instead, the problem is turned into a *skills problem*, but this time on *the side of management* rather than simply the workforce.

Given the aforementioned importance of context and implementation when it comes to getting HPW to work for the business and its employees, a strong case can be made for offering organisations *expert* advice and support that is *tailored* to their particular circumstances and needs. In the case of SMEs, this would seem to be especially important. All the indications are, however, that the Coalition does not envisage a role for locally targeted forms of business support aimed at helping organisations to implement changes in managerial and work practices, with Business Link regional services set to become a national website and call centre (see DBIS 2010a: 43). How SMEs might be helped then to navigate their way through a quite complex process of designing and implementing such systems remains unclear.

It is useful to consider, in this context, the Government's view of innovation. As Keep (forthcoming) argues, the Coalition favours a 'traditional model of innovation', based on hard science, patents, publicly-funded R&D and efforts to improve technology and knowledge transfer from a 'world-class' university sector. Emphasis is being placed upon boosting the number of graduates in STEM subjects[3] and developing an 'elite network of Technology and Innovation Centres', modelled on Germany's Fraunhofer institutes. These are useful policy developments, although as argued below there are questions about the level of investment. However, the idea that there might *also* be a role for innovation policy in supporting '*social* innovations' inside firms and organisations, through targeted forms of advice and support aimed at helping them to develop appropriate forms of work organisation, is absent from this approach.

This notion is more prominent in Europe, particularly in Scandinavia, the Netherlands and Germany, where workplace development/innovation programmes have been developed specifically for this purpose. In Finland, for instance, national workplace development programmes between 1996 and 2010 have funded research experts and consultants in projects specifically aimed at improving both productivity and the quality of working life (see Payne 2004, Alasoini 2006, Ramstad 2009a&b). Such programmes, which are funded by the state or social partners, have no real equivalent in the UK (see Payne and Keep 2003). It would also seem that England will not attempt to develop any specific skills utilisation projects, along similar lines

[3] i.e. science, technology, engineering and mathematics.

to those currently being tried in Scotland involving colleges and universities (see Payne 2011).

Local Economic Development

Efforts to promote local economic development are a key part of any agenda which seeks to raise employer ambition in relation to skills. UKCES (2009b: 14) identifies local economic development as one of five core strategic priorities for the employment and skills system, highlighting the need to 'support effective economic development in cities and local communities, built upon economic and labour market strengths and opportunities, and maximising the skills of the local working age population.' How then is policy in this area taking shape under the Coalition Government?

Here too the Coalition has moved rapidly, with the announcement that Regional Development Agencies (RDAs), established under Labour, are to be abolished, along with 'regional strategies', and replaced with new Local Enterprise Partnerships (LEPs), the details of which are set out in a new white paper, *Local Growth: Realising Every Place's Potential* (HM Government 2010a). With the abolition of the RDAs (to be wound up by March 2012), LEPs will become the key vehicle for delivering sub-national economic development in England. What role will they play and how effective are they likely to be?

A LE(a)P of faith?

Announced initially in the Coalition's programme for government, LEPs are 'joint local authority-business bodies brought forward by local authorities themselves to promote economic development' (HM Government 2010b: 10). With a board comprised of business and council representatives, and chaired by a prominent business leader, they will be expected to 'provide the clear vision and strategic leadership to drive sustainable private sector-led growth and job creation in their area.' Their role and functions will be 'diverse', spanning transport, planning, strategic housing delivery, employment and the transition to a low carbon economy 'as part of an integrated approach to growth and infrastructure delivery' (HM Government 2010a: 13). The white paper describes these moves as part of the Coalition's commitment to localism and building the 'Big Society' by devolving 'real power to communities, giving them a greater say in shaping the shape and future of their economies' (HM Government 2010a: 8).

Following a letter on 28 June 2010 inviting local councils and business leaders to submit proposals (by 6 September 2010), the white paper gave the green light to 24 LEPs selected from 62 original bids. A further seven, including one covering the whole of London, have since been announced, bringing the total number of LEPs so far in England to 31. There are, however, some serious question marks about whether, in their current form, LEPs will provide a powerful vehicle for locally-driven economic development.

Policy rationale behind the LEPs

The official policy rationale behind the creation of LEPs is three fold. First, LEPs will be in a better position to reflect 'real functional economic areas' than the RDAs which were based on 'administrative regions'. Second, LEPs will be more efficient, given that 'previous arrangements also involved significant complexity and duplication of responsibilities, which led to increased costs to the public purse' (HM Government 2010a: 13). Third, by devolving decisions and power to local actors, they will be more 'directly accountable to local people and local businesses' than the RDAs which were unelected government 'quangos' (HM Government 2010a: 12). Each of these claims is open to question.

As Johnson and Schmuecker (2010: 3) note, the *idea* of developing governance arrangements which allow local actors to shape decisions that are based on real 'functional economic areas' is, of course, 'entirely valid'. However, as they also remind us, such areas are 'amorphous and notoriously difficult to define… [and] historically evolve more quickly than public policy can keep pace with.' Whether one looks at travel to work patterns, supply chains, housing, retail markets or particular industries and sectors, the relationship between places can be extremely complex, such that identifying a functional economic space is anything but straightforward.

Given the difficulties involved and the importance of getting such decisions right, it might seem rather surprising then that the Government allowed a mere 69 days for local authorities and business leaders to get their act together and submit bids. And it comes as no great shock, therefore, that many of the subsequent bids appeared to lack political backing from the areas they claimed to cover, sometimes overlapped with one another, were generally 'thin' in terms of the extent of business engagement and involvement, and lacked a strong evidence base (SQW 2010). In the end, less than half were judged to have met the necessary criteria to be sanctioned by Government. At the same time, the involvement of local councils in LEPs means inevitably that they *too* will be tied to artificial administrative boundaries, a point which has already attracted some criticism from within the business community.

When it comes to efficiency and value for money, the Coalition Government has made no secret that it considers the RDAs a wasteful extravagance and the epitome of all that was wrong with New Labour's 'quango state', the communities and local government secretary, Eric Pickles, describing them as 'bloated regional quangos' (The Guardian 2010). The RDAs' position was certainly not helped by some high profile media examples of largesse on the part of certain chief executives – for example, the former chairman of SEEDA running up a £50k chauffeur and taxi bill in the space of 12 months (see Sunday Times 2007). Nor, for that matter, was it helped by the lack of any really robust evaluation of their work over the past 11 years (see Keep *et al* 2006), although supporters can point to a recent report from the National Audit Office (2010), which found that for every £1 spent by RDAs between £4 and £15 was produced in regional economies (Bentley *et al* 2010:551).

Some question whether LEPs will be any more *efficient* than the RDAs (Bentley *et al* 2010, WMLGA 2010). In place of the eight RDAs and the London Development Agency, there will now be a much larger number of smaller and more fragmented bodies (the final number of LEPs at this stage remains unclear). The removal of the regional tier of governance presumes that there will need to be a high level of cross-LEP coordination, for example in terms of sharing research facilities. By the same token, it also raises the possibility that some services and functions could be duplicated, 'with unhelpful, as opposed to healthy, competition', and a corresponding loss of efficiency (WMLGA 2010: 6).

On paper, the involvement of local councils and businesses ought to provide for decisions that are more locally-driven and in tune with the needs of local communities. It is not clear at this stage, however, through what mechanisms and procedures LEPs will be rendered accountable to local communities and their citizens, a factor of some significance given that the views of local businesses on issues such as strategic planning applications may not necessarily accord with those of local residents (see WMLGA 2010). The involvement of senior local authority officers is central to ensuring that such structures pass the democratic accountability test. As a discussion paper from the West Midlands Local Government Association (WMLGA 2010) makes clear, where LEPs span several local authority areas, meetings may become quite large, making it harder to reach consensus over difficult decisions, especially in cases where councils have statutory responsibilities such as housing, transport etc. Where there is a need for 'cross-LEP working', the involvement of representatives from other LEPs and the need to secure the agreement of individual local authority cabinets has the potential to make the process both time consuming and somewhat unwieldy.

If such decision-making structures do prove to be slow and bureaucratic, this may test the patience of business representatives. Indeed, the soundings from the business community who worry that LEPs will become, in the words of the former head of the CBI, Richard Lambert, 'council-dominated talking shops' (Financial Times 2010), do not augur well. If these fears turn out to be well founded, winning and retaining the commitment, enthusiasm and membership of local business people will be extremely challenging. Others have argued that policy is politically-driven and is more about abolishing the RDAs than anything else, reflecting a 'long-standing opposition by the Conservative Party to regionalism' that can be traced back to the dismantling of regional policy under the Thatcher government (Bentley *et al* 2010: 549). Whatever the motivation, however, there are real concerns about whether LEPs will have sufficient resources and powers to act as a robust vehicle for local economic development (see SQW 2010, WMLGA 2010, Bentley *et al* 2010).

Funding

Unlike the RDAs, LEPs will receive no direct funding from central government. Instead, they will have to bid for funds from a new Regional Growth Fund (RGF) which will make available £1.4 billion spread over three years. This represents a significant cut in funding for sub-national economic development in England, when compared with the RDAs' annual budget of 2.3 billion. In submitting bids to the RGF, LEPs will also face stiff competition from other businesses and private-public partnerships, with the white paper warning that LEPs cannot expect any 'preferential treatment'. The white paper also states that LEPs will be 'expected to fund their own day-to-day running costs and will also want to consider how they can obtain the best value for public money by leveraging in private sector investment' (HM Government 2010a: 15).

How far local businesses will be prepared to contribute to the administrative costs of running a LEP, or pay for the services they offer, remains to be seen. Some LEPs, like Greater Manchester, with long-established histories of joint-working and resource generation, may well fare better than others (see SQW 2010). Given the current economic downturn, not to mention the difficulties that sectors skills councils have experienced when it comes to getting employer contributions (see Payne 2008), it could well end up being pretty tough going for many.

Discretionary powers

Besides funding constraints, there are concerns that LEPs will not have the discretionary powers at their disposal needed to promote local economic development. The Government signalled very early on that 'core RDA functions', such as inward investment, innovation, sector leadership, business support and access to finance, would be 'led-nationally', in what some commentators saw as a process of 'creeping centralisation' (Financial Times 2010). At the same time, however, the Government continued to hold out the promise that LEPs might be able to share certain functions in these areas, Vince Cable referring initially to the possibility of 'devolved local management in some cases'.

There is no doubt that many LEPs have expressed their desire to perform a continuing role in relation to these former RDA functions (see SWQ 2010, WMLGA 2010). The white paper on *Local Growth* states that 'the new delivery framework for functions led at national level will be flexible and take account of the evolving capabilities and priorities of different local enterprise partnerships', adding that 'national leadership does not necessarily imply a monopoly of power and responsibility, and there will be scope to share and pool power and responsibility between national and local levels' (HM Government 2010a: 17). So exactly how is responsibility and power to be shared in this new evolving relationship between the centre and the local?

In terms of *business support* functions, as noted above, Business Link regional services are to be replaced with a national website and call centre. The Government will fund the creation of new 'Growth Hubs' designed to 'provide access to specialist strategic advice, coaching and mentoring to firms with high growth potential' (HM Government 2010a: 42). The role of LEPs will be to offer 'locally focused information and advice', by helping to understand the local skill set, identifying local support networks and providing advice on how best to deliver growth (HM Government 2010a: 17). They will, we are told, have a 'very important role in supporting enterprise and businesses in their areas' by helping to promote 'a more entrepreneurial culture', supporting business start-ups, fostering business networks and mentoring, and developing the infrastructure for successful business communities (HM Government 2010a: 42).

Support for *business innovation* will be led nationally by the BIS-sponsored Technology Strategy Board (TSB). As previously noted, the Government is setting aside £200 million to create a new 'elite network' of Technology and Innovation Centres (TICs) whose role will be to support the take up and commercialisation of new technological innovations and research. The first of these centres in high value manufacturing has now opened, which will coordinate the activities of seven existing research centres (two in Rotherham, two in Coventry, and one each in Glasgow, Durham/Redcar and Bristol). The *Plan for Growth* makes no reference to the role of LEPs in relation to TICs, with some commentators already questioning how local areas which are without such centres will be able to support their manufacturing ambitions (Marlow 2011). Inward investment will also be coordinated nationally by UK Trade and Investment, with LEPs again promised a supportive role in providing local information and support. How inward investment around TICs will be coordinated and delivered to reflect local needs is not vouchsafed (Marlow 2011).

The role of LEPs also remains limited in relation to *skills*. As noted above, all adult skills funding will now be routed through the Skills Funding Agency (SFA) to colleges and other providers according to what individual learners and employers want and are prepared to pay for. The previous government's plans to give local authorities a lead role in funding and commissioning 14-19 provision, through sub-regional groupings and linking this to wider regional strategies, have also been scrapped. Sixteen to 18 funding for FE colleges and other independent providers will now be routed through the SFA thereby providing a single point of contact. These moves will undoubtedly be welcomed by many colleges who tended to regard Labour's proposed arrangements, with good cause, as overly complex and bureaucratic (for a discussion, see Payne 2010).

However, LEPs will still be required 'to develop effective working relationships with the further and higher education sector and engage directly with their networks of colleges and training organisations *in order to agree how to* *generate the demand for agreed strategic priorities locally…'* (HM Government 2010a: 49, *emphasis added*). It is difficult to see how LEPs can be effective in this role, given that they will have no formal powers over providers. With funding being driven by learner demand (based on the demand in the previous year) and what employers are willing to pay for to meet their *immediate* needs, it is not clear how LEPs will be in a position to *strategically* shape local skills provision in accordance with the current, emerging and future economic development needs of their areas. As a paper from the WMLGA has noted:

> With many FE institutions having wide catchment areas and markets, the ability to ground any particular institution within a LEP to make it identify with a local economic context may prove difficult. By the same token, concerns have been expressed in some quarters of business and FE that the introduction of LEPs and the new funding regime will discourage joined-up working by colleges across boundaries and make it harder to provide skills where there is a wider need but no ready market able to pay for them. This may impact on objectives to frontload skills for small but emerging sectors, providing a joined up offer for inward investment and pump priming and future, aspirational economic sectors. (WMLGA 2010: 15)

In other words, ensuring that skills provision is aligned with local economic development needs still requires some form of sophisticated long-term strategic *planning*. How and through what mechanisms this will happen in a competitive 'market-led' skills system remains unclear.

One thing does seem fairly certain. It is the Government who decides how responsibility and power are to be shared and distributed in this new national-local relationship, and the white paper can be read as an attempt to put a fairly thin gloss of localism on what remains essentially a process of centralisation (see Bentley *et al* 2010). The *Plan for Growth*, published as part of the March 2011 budget, argues that LEPs will have 'a vital role in supporting local authorities plan for key sub national infrastructure', and emphasises their contribution to the development of new Enterprise Zones, similar to those developed by previous Conservative governments in the 1980s (HM Treasury/DBIS 2011: 48). However, this does little to disguise the limited resources that LEPs will have at their disposal and their marginalisation in terms of strategic economic development functions.

Back to industrial policy (not)

Finally, it should be noted that although core RDA functions are being re-centralised, this does not mean that the Government is willing to contemplate a national industrial policy approach. Vince Cable made clear very early on that, 'My general approach going forwards will be supporting enterprise, but rarely targeting individual enterprises for support', and that in terms of technology, innovation, skills and infrastructure, 'when these policies are effective they almost always target *capabilities*, not companies' (Cable 2010b). There will then be no 'picking winners' or supporting 'national champions'. Labour's £1 billion Strategic Investment Fund, launched in 2009 to provide selective investment in key areas such industrial bio-tech and low carbon vehicles, was dismissed by Cable in opposition as a 'really dreadful Old Labour idea' and a 'massive waste of money' (cited in Horton 2010), and, after two years, has been duly dispensed with. The Government has also cancelled certain loans, notably to Sheffield Forgemasters, which was attempting to break into the market to supply heavy components to nuclear power plants.

Industrial policy is controversial and has never had much appeal to governments of a neo-liberal, free-market persuasion. Dolling out government money to 'lame ducks' is certainly not a good idea. But this is not the same as nurturing and supporting *new* leading edge sectors and helping firms to develop the 'critical mass' and particular specialisms needed to break into high value global markets. As Brown *et al* (2010, 2011) note, with low cost emerging economies, such as China and India, rapidly improving their indigenous skills base, they increasingly provide a platform for both the low *and* high value added activities of leading multi-national companies and are increasingly competing for a share of high-end work. This means that, more than ever before, developed countries need to find ways of ensuring that they can stay ahead of the game when it comes to innovation and gaining a 'smart' competitive edge. Boosting the supply of high skills is not enough; policies are also needed to build the economy's 'capacity for high-skill *utilisation*' (Brown *et al* 2010: 54, see also Buchanan *et al* 2009, 2010). This means some form of modern industrial policy that can help to restructure the economy and raise employer ambition. In other countries, such as France, Japan and Germany, this role is broadly accepted. But in the UK, it rubs up against neo-liberal sentiment and a certain squeamishness when it comes to the role of the state in supporting industry. As Horton (2010) notes, in the end the problem with not picking any winners is that one can simply end up with very few winners.

As noted above, the Coalition Government is seeking to create new institutions which aim to target areas such as innovation. While these developments are to be welcomed, there are serious question marks over whether this is enough. For example, £200 million is not a lot of money to create an 'elite network of Technology and Innovation Centres', especially if the intention is to emulate Germany's 59 Fraunhofer institutes (which have a budget of 1.6 billion euros, a large proportion of which comes from research contracts with industry).

Final Thoughts

As under the previous Labour government, the Coalition continues to argue that skills are central to both economic performance and social inclusion/mobility. Of course, there is no question that skills, *acting in combination with other elements*, do have a very important role to play. The issue is whether the overall 'policy mix' is sufficiently balanced and robust to tackle a UK 'skills problem', which research suggests encompasses not just problems of skills supply but also demand and usage.

Given the state of the public finances and with the Government committed to a radical reduction in the deficit, skills policy is now being developed for an age of austerity. Out go targets/ planning, top-down micro-management of the skills system, and large doses of public subsidy, to be replaced with markets, private investment and small(er) government. The $64,000 dollar question is whether in a voluntarist training system and deregulated labour market, and given current patterns of employer demand for, and usage of, skill, employers and individuals will increase their investment in education and training sufficient to deliver progress towards the Government's ambition of creating a 'world-class skills base'. The Government believes that with greater choice over what training they can buy, they will; history, together with recent research, might question such optimism.

When it comes to addressing issues of skills *demand* and *utilisation*, the Coalition places its faith in some fairly modest and familiar measures. These include building support for 'high performance workplaces' (whatever these turn out to be) mainly through exhortation and voluntary pledges, supporting better management and leadership, and providing financial support via a small Growth and Innovation Fund.

It remains to be seen how much progress can be made on the back of these initiatives, but insofar as it relies upon *persuading* employers of the benefits of HPW, it is difficult to see why an approach, which has been flogged pretty much to death over the past 30 years, should meet with any greater success this time round. With business support, through Business Links, also set to become a national call centre and website, there are searching questions about how firms, particularly SMEs, can be given the kind of targeted help and expert advice they need to implement more skill-intensive production strategies.

In terms of sub-national economic development, a great deal is riding on the success of the LEPs and the RGF. Without central funding and with limited powers, concerns have already been voiced, both among the academic and business communities, about how effective the LEP project will prove. It is possible, of course, that some, like the Greater Manchester LEP for example, which benefit from established histories of joint working and income generation, may make some progress. Others, however, look as if they may well struggle. Indeed, some commentators close to local government have already expressed fears that they could turn out to be something of a 'poisoned chalice' and that '[h]anding responsibility for economic development to councils and local businesses during such tough times runs the danger of setting councils up to fail' (WMLGA 2010: 24).

When it comes to the role of *central* government in helping to raise employer ambition, de-regulation rather than re-regulation is the name of the game. There will be no attempt to block-off low value added competitive strategies which rely upon low wage costs and numerical labour flexibility, and which make only very limited skill demands on the bulk of their workforces. While there will be state support to boost technology and knowledge transfer to industry, albeit on fairly limited scale, the idea of an active industrial policy remains, for this Government, something of an anathema. In this context, focusing upon education and training allows English policy makers to promise action on both economic and social problems, but without challenging the fundamentals of the UK's neo-liberal growth model. This was certainly the case under New Labour, and it remains so for a centre-right Coalition which is simply a 'purer' and 'more pristine' advocate of business deregulation and labour market flexibility (see Hay 2011).

What all of this suggests is that the *political* and *ideological* space for developing the kind of integrative policy mix that may be needed to address the UK's long-standing ‘skills problem’ is likely to be very tightly constrained in England under the Coalition. Outside England, notably in Scotland, skills policy is moving in a different direction and there is a real determination on the part of policy makers to address problems of skills demand and utilisation. Given that the UK government retains control over labour market policy and employment relations there are, inevitably, certain limits to the room for policy manoeuvre. However, the commitment to address skills utilisation has been sustained in Scotland over the past four years (not an inconsiderable length of time when one considers the rate at which skills policy in England has chopped and changed in recent times). Current initiatives, such as the Scottish Funding Council’s skills utilisation projects, are interesting and are beginning to make some progress, albeit on a limited scale (see Payne 2011). The re-election of a Scottish National Party administration in the May 2011 elections would suggest that such experimentation will continue at least for the foreseeable future. It seems fairly clear then that skills policy trajectories will continue to diverge between England and Scotland. The more Scotland can make progress on this agenda, the more this will present a challenge to the approach being pursued south of the border.

Such progress will certainly not be easy, especially in the current period of austerity. More than ever, however, it is important that progress is made. For without it, the prospects for tackling many of the fundamental social and economic challenges confronting the UK – problems rooted in the way in which many firms compete and the structure of our labour market – would seem remote.

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