

JRF response to the Industrial Strategy Green Paper

This consultation response outlines JRF's views on the problem the strategy needs to solve, and sets out five priorities to deliver an economy that works for all. If you would like to arrange a meeting with one of our experts to discuss the points raised please contact Frank Soodeen, Head of Public Affairs at frank.soodeen@jrf.org.uk, 07791 223956, 02075 202081, @franksoodeen

Key points – five key areas are currently overlooked or underplayed by the Industrial Strategy that would help deliver an economy that works for all:

- **Productivity strategies for low-paid sectors** – the Green Paper makes sector deals open to all, but government should proactively seek deals with low pay sectors, focusing on management quality and supporting diffusion of technology and innovations to low productivity firms.
- **Adult basic skills** – the strategy is right to focus on the skills of young people, but with 90% of the 2025 workforce having already left education, the need to increase adult skill levels is underplayed. Government should set an ambitious target to meet all basic skills needs by 2030 by reforming basic skills training and doubling the participation rate.
- **A strategy for struggling places** – Closing the gap between places requires growth in struggling towns and cities. JRF's work (Pike et al. 2016) has identified a specific challenge for 'freestanding' towns and cities that aren't located near to major cities. As the UK withdraws from the EU (and therefore European Structural and Investment Funds) there is an opportunity to think afresh about how to combine funding, devolution deals and capacity building support.
- **Devolution deals and capacity for all places** – ensure all places have sufficient capacity, powers and strong institutions to lead local industrial strategies that respond to local challenges, including those without mayors or Combined Authorities.
- **Rebalance national economic spending** – especially transport and science and technology, which are currently tilted towards London and the South East. This will require revising allocation methods.

The challenge

In January the government published its Industrial Strategy Green Paper, setting out how it will deliver its ambition of building ‘a stronger, fairer Britain, that works for everyone’. This is the right aim for a modern industrial strategy, but the Green Paper falls short of a set of actions that will achieve this goal.

That the UK has a productivity problem is widely recognised. Less frequently acknowledged is the strong link between the productivity problem and the UK’s unbalanced economy and high in-work poverty. **The UK’s productivity problem doesn’t come from its market leading firms or most vibrant local economies; it is in the lagging parts of the economy where the UK looks different to its competitors.** Delivering a Britain that works for everyone requires action to address:

- Low pay **sectors**, such as retail and hospitality, that constitute 23% of the economy, but account for 30% of the productivity gap to countries such as France and Germany (IPPR, 2016). Low pay sectors also have higher rates of working poverty (JRF, 2016).
- The long tail of low productivity **firms** in every sector. Two thirds of employees work for firms with below average productivity for their sector (McKinsey, 2016). A modest upshift in productivity among firms in the tail could take the UK to within 90-95% of German and French productivity levels (Haldane, 2017).
- The five million **individuals** in the UK that lack basic functional literacy and numeracy (JRF, 2016), and 3.5 million working age adults that have no formal qualifications. OECD analysis finds the negative impact on growth of a large proportion of the population having very low skills is greater than the positive impact of a large proportion with degrees (OECD, 2012).

In recent years, policy measures to drive up productivity have focused on high end innovation, major infrastructure projects, high level skills and large cities. These themes are evident in the Industrial Strategy Green Paper too. But a focus on bringing up the bottom could bring greater benefits to national prosperity.

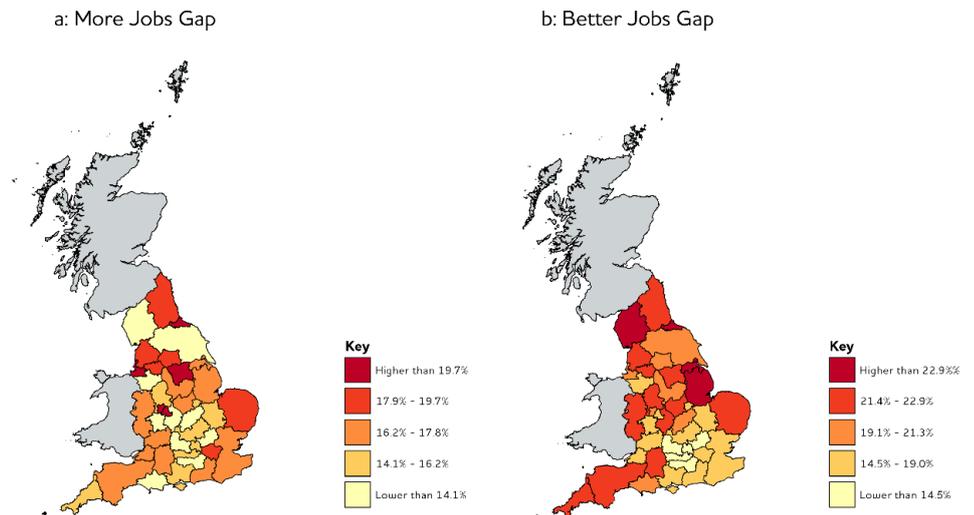
It is also worth reflecting on **how far we are from the goal of an economy that works for everyone**. In 1996/97 there were 2.3 million working households in poverty, today there are 3.7 million. Work should be a route out of poverty, but for a growing number of people it isn’t. The industrial strategy is an opportunity to drive up the number of good jobs that will provide rising living standards.

New analysis for JRF shows that the strength of local labour markets and the supply of good jobs varies considerably between Local Enterprise Partnership (LEP) areas (see figure). The ‘More Jobs Gap’ shows the proportion of the workforce seeking work or more hours. The ‘Better Jobs Gap’ shows the proportion who lack a good quality job, either through low pay or insecurity.

The More Jobs Gap is highest in many LEPs covering city regions; the highest More Jobs Gaps were in Greater Birmingham and Solihull (22%), Black Country (21%) and Liverpool City Region (21%). Interestingly, the pattern for the Better Jobs Gap is quite different. Job quality appears most lacking in some predominantly rural LEPs and

LEPs containing struggling towns identified in previous JRF analysis (Pike et al. 2016); the higher better jobs gaps were in Greater Lincolnshire (27%), Humber (26%) and Cumbria (24%).

Figure: The More and Better Jobs Gap



Source: Analysis of Annual Population Survey data following methodology of Pike et al. (forthcoming), which estimates the More and Better Jobs Gap for Core City regions.

Note: The More Jobs Gap captures the proportion of the workforce currently not in work, including those who are classed as economically inactive, but would like to work and those who are underemployed (they are in work but would like to work more hours). The Better Jobs Gap captures two elements of low job quality: low pay (earning less than the Living Wage) and an element of insecurity (on temporary contracts but want a permanent contract). We would be very happy to make the full dataset and analysis available on request.

The importance of place

This analysis underlines why place must be at the heart of the industrial strategy: the challenges and opportunities that face different parts of England vary significantly. These differences in opportunity played into the vote to leave the EU, which shone a spotlight on the UK's unbalanced economy (Goodwin and Heath, 2016). Transforming the prospects of the poorest people and places must be at the heart of the post-Brexit economy.

There is a strong relationship between the productivity problems outlined above and the large **regional disparities** in output per head seen in the UK (Eurostat, 2016):

- Less productive regions have a greater concentration of low productivity firms (ONS, 2017).
- Individuals with no formal qualifications are over-represented in economically weaker parts of the country.

- Some places have become trapped in negative cycles, with low demand for skills from employers matched by low skill levels among the population – known as a ‘low skills equilibrium’ (OECD, 2016).

Place is discussed in the Green Paper. But having place as the 9th and 10th pillars underplays its importance to delivering an Industrial Strategy that boosts national productivity. It should be the central theme that runs throughout.

The varying economic challenges across the country mean there cannot be a ‘one-size-fits-all’ approach to the Industrial Strategy. It will need to recognise the strengths and needs of different places and, most importantly, will need to be locally-led.

An Industrial Strategy that makes the economy work for all

To boost national productivity and combat rising in-work poverty, the Industrial Strategy should aim to see:

- Productivity rising faster in low-paid sectors such as retail and hospitality.
- Lower-productivity firms catching-up by improving processes and technologies.
- Everyone having the skills they need to participate.
- All places have the capacity to create the conditions for more and better jobs and connect people in poverty to economic opportunities.

This points to five key areas that are currently overlooked or underplayed by the Industrial Strategy that would help deliver an economy that works for all:

- **Productivity strategies for low-paid sectors** – the Green Paper makes sector deals open to all, but government should proactively seek deals with low pay sectors, focusing on management quality and supporting diffusion of technology and innovations to low productivity firms.
- **Adult basic skills** – the strategy is right to focus on the skills of young people, but with 90% of the 2025 workforce having already left education, the need to increase adult skill levels is underplayed. Government should set an ambitious target to meet all basic skills needs by 2030 by reforming basic skills training and doubling the participation rate.
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- **Rebalance national economic spending** – especially transport and science and technology, which are currently tilted towards London and the South East. This will require revising allocation methods.

JRF will be working on the above issues throughout the rest of the year. We hope these priorities will be prominent in the Industrial Strategy White Paper later in the year, as the government takes its next step towards delivering an economy that works for all.

References

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