



HM Government

New Industry, New Jobs



Building 
Britain's Future

New Industry, New Jobs

April 2009

We will work closely with the Devolved Administrations in Northern Ireland, Scotland and Wales, recognising their particular and varying responsibilities. While some of the policies in this paper are specific to England, the challenges are common across the four countries of the United Kingdom. Each will consider the most appropriate arrangements in those areas for which they have devolved responsibility, to address the issues in ways that meet their own circumstances and needs.

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A strategic vision for Britain's recovery

- 1.1** Following the banking crisis, the ensuing credit crunch and economic downturn, Britain has taken exceptional, active measures to limit the impact and to contain the damage to our economy. Now it is time to work on the action needed to prepare for the upturn and beyond so that we invest properly in the future.
- 1.2** At the outset, the decision to adopt an active strategy was neither simple nor easy, and it has involved additional Government borrowing. The need to get Britain back to its normal rate of growth as soon as possible is therefore vital in order to rebalance public finances. How we do this by removing the barriers holding British businesses back and building on our undoubted strengths is the subject of this paper.
- 1.3** 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. Without intervention in the financial sector, the rest of our economy risked collapse. 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.
- 1.4** Underlying these decisions is a core judgment that despite the tough times, it is better to keep investing in growth and jobs so as to speed recovery and build the manufacturing and services we need for the future.
- 1.5** We have also chosen to act internationally, because no country can successfully fight back against such a global crisis on its own. Britain is totally connected to, and dependent on, the rest of the world's economy for exports, investment and jobs. Getting the world economy growing again is vital for growth at home.
- 1.6** That is why Britain has led international action to combat the financial crisis and its impact. The London G20 Summit, organised and hosted by the Government, was a landmark international gathering. It took a range of decisions that will have consequences both for the duration of the recession and the longer term financial and trading health of the global economy.

- 1.7** The initial results of some of these active policy steps are now becoming evident. Although this will take time, the financial system is on its way back to functioning properly, supporting the housing and business sectors. Where possible, viable businesses damaged through no fault of their own have been helped through the downturn to avoid damage to their skill base and other strengths.
- 1.8** We now need to focus on the resources our businesses and people need to prepare for the upturn, because their success is the basis for everything else we want to achieve.
- 1.9** Britain's economy will look different in coming years. 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.
- 1.10** The world's economy is set to double in size and a number of trends in the global economy will present significant new opportunities for British businesses: growing populations and rising prosperity in other parts of the world; new technologies; the transition to low carbon and the green revolution; changes in the age profiles of different societies; and the spread of international supply chains.
- 1.11** British businesses, and the British economy as a whole, have fundamental strengths that position us well to capitalise on these dramatic changes. But others will be doing the same so we have to keep ahead of the game. That is why continued investment to raise the performance of British businesses and people is now needed to help them seize these market opportunities.
- 1.12** But the Government also has to do more to help equip high potential British firms. We need to take a range of actions. We must improve the skills of our people and adapt them to the specialist demands of a modern economy; strengthen our capabilities in research and development; innovate further in science and technology, and industrialise this innovation in commercially successful ways. These actions are the bridges to our economic future.
- 1.13** That is why the Government has decided to strengthen its own industrial policies and the way it supports Britain's economic renewal and future growth. Our policy must not only offset the damage being done by the downturn, but make sure we are in a stronger position to take advantage of the opportunities that will come as the global economy returns to growth.
- 1.14** We need to start seeing industrial policy and our competitive strengths in a wider, strategic way. 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. This means making Britain's

economic and industrial renewal the remit not just of the Department for Business, but of *all* Government departments.

- 1.15** As the Director General of the CBI Richard Lambert has argued, what we need from the Government is “a vision of the kind of economy we want to have in ten years time and what it’s going to take to get from here to there”.¹
- 1.16** Critical to this will be ensuring that British science and technology are at the heart of the revolutions in industrial production that will define the 21st century. In promising areas like advanced engineering, electronics and biosciences, British companies already hold strong advantages, as they do in many parts of the services sector. But those strengths must be reinforced and Government needs to play a greater role in fostering them. This paper sets out the approach we will take.
- 1.17** It is important to stress that the last thing the Government wants to do is revive old theories or to invent a new ideology in managing the economy. This is not about Government seeking to override market forces or ignore market signals. It is about the Government matching the influence it exercises in the economy to the strategic needs of business.
- 1.18** In most respects, the Government’s business support will build directly on what we are doing already, but become more targeted on specific tools and measures that have worked well. In some cases, new policies or instruments will need to be developed in consultation with business. In doing so, the Government will only act where there is a genuine opportunity to make a difference, and where, in acting, its actions will make a genuine long-term impact.
- 1.19** This is a moment to re-establish a sense of optimism about the future. Of course the current recession is painful, but this should not lead us to ignore Britain’s strengths and immense potential. Britain’s overall business environment – a commitment to free trade, regulatory transparency and a fair tax system that rewards enterprise – is recognised to be amongst the best in the world. Britain remains one of the world’s largest economic and industrial powers. Despite great competitive challenges we remain the world’s sixth largest manufacturer and we need to maintain that position.
- 1.20** Britain’s product markets are open and competitive. We have a strong, flexible labour market, with increasingly high skills at all levels and policies, such as effective childcare provision, that encourage women, parents, older workers and those with disabilities to be economically active. There should be no doubt we have the skills, resources and knowledge base to retain and strengthen our competitive position. We need not be pessimistic about our economic future, so long as we are active in preparing for it.

1 Richard Lambert’s speech at CBI North West annual dinner
<http://www.cbi.org.uk/pdf/20090401-rl-speech-nw-annual-dinner.pdf>

- 1.21** This paper frames a national discussion which the Budget will take forward and which the Government will follow with further detailed statements of policy in the coming weeks and months. Over the course of 2009 these will build into a picture of how we can now pull together to come through more strongly and secure Britain's future economic success.

Preparing for new opportunities

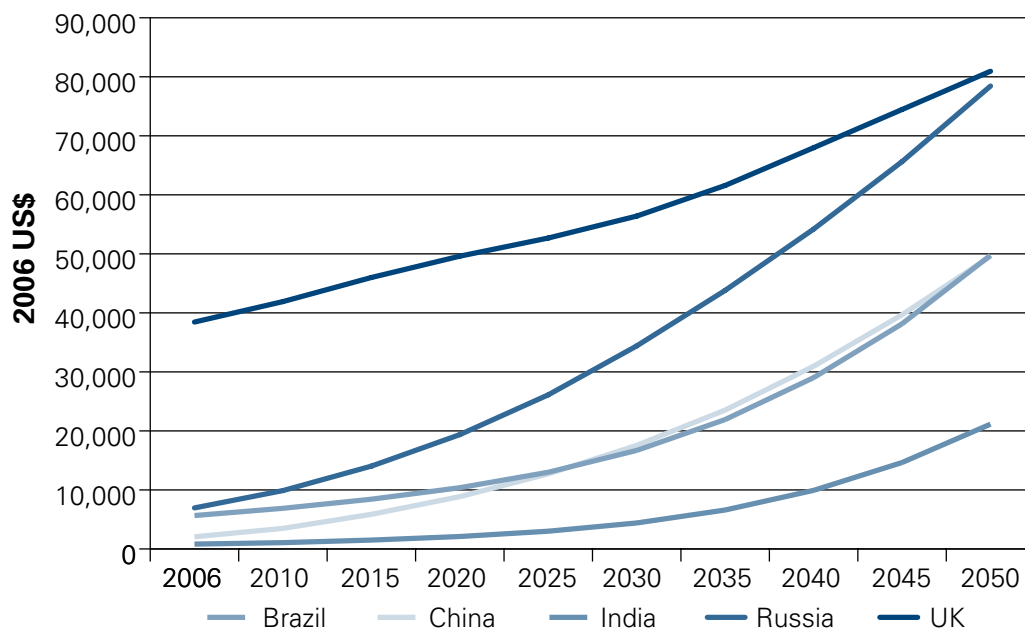
- 2.1** Britain needs to plan for more than simply recovery from recession, because we face structural changes in the global economy that are radically transforming the world in which our businesses and people compete.
- 2.2** The global economy that emerges from the current downturn will continue to be defined above all by globalisation – the progressive economic and financial integration of national economies, facilitated by dramatic improvements in the speed and ease of moving capital, goods and information around the world. This will create huge opportunities for British businesses, although it will also bring new competitive pressures.
- 2.3** There are a number of trends which will shape our post-recession economy in Britain, and that in the EU and globally.

Rising incomes

- 2.4** Rising incomes will be a feature of the global economy (see Figure 1). While the EU and US will continue to be Britain's main export markets, the growth of middle-classes in highly-populated emerging economies will also create new opportunities for UK-based businesses.² These consumers will be purchasing higher quality goods and services, including those that are produced to high environmental standards. These are areas where British businesses excel and these growing export markets will be a huge opportunity for UK-based businesses.

2 BERR (2009) Economics Paper No. 5: China and India – Opportunities and Challenges for UK Business, <http://www.berr.gov.uk/files/file50349.pdf>

Figure 1: GDP per capita in emerging economies is projected to get closer to the UK



Source: Goldman Sachs (2007) BRICs and Beyond

Low carbon and greater resource efficiency

2.5 Managing global resource pressures, moving to low carbon economies and ensuring that the global economy is resource efficient and resilient to the effects of climate change will require a big structural transformation in how we generate and use energy. Governments have a key role in setting the policy framework and creating some of the incentives that will drive this transformation. In doing so, we are addressing not just an environmental imperative but a huge business opportunity as demand expands for low carbon goods and services and for greater energy and resource efficiency.

New technologies

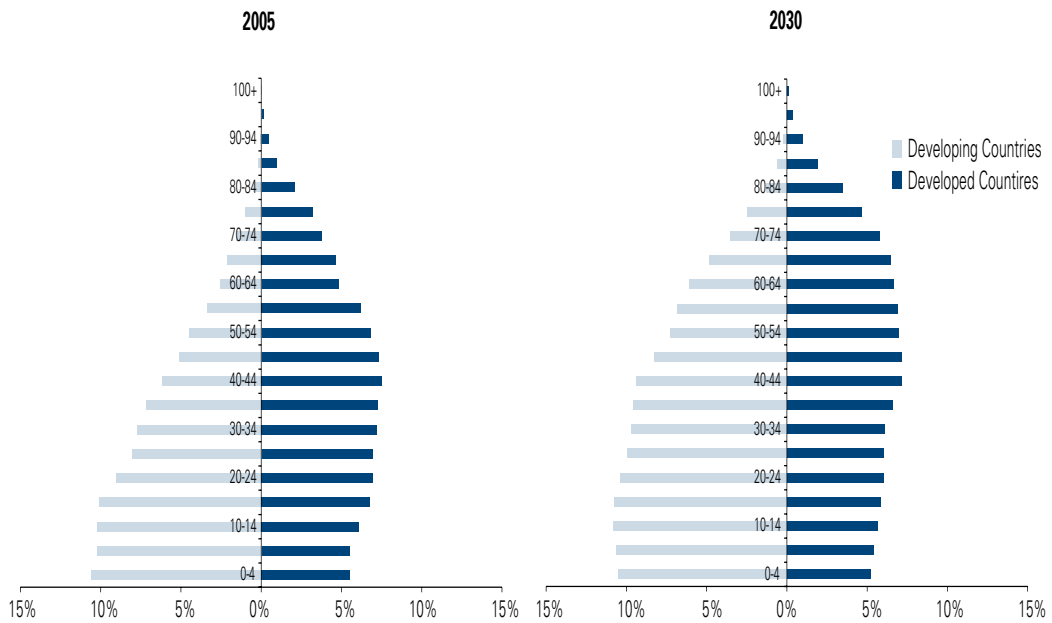
2.6 New technologies will drive both consumer and business demand. They will also transform existing products, and are likely to force businesses right across the supply chain to develop new business models and adopt new, innovative ways of delivering services. The life sciences, for example, will be transformed by advances in genetics. Developing communications technologies that allow the transfer, processing and exploitation of huge amounts of data have the potential radically to change business and leisure activities and the way we provide public services.

Demographics

2.7 Demographic patterns will change markets in both the developed and the developing world. An ageing population in the developed world means that the ratio of older people to the working age population is expected to increase by

40%-60% in the advanced economies.³ This will reinforce the shifts towards spending in areas such as healthcare and leisure goods. In the developing world, the number of people under 25 will grow steadily, creating a big market for education.

Figure 2: Share of Population by Age Group



Source: UN World Population Prospects (2008 revision)

2.8 Alongside these broad trends, UK businesses will also have to respond to the continuing expansion of the global labour market, and the increasing skill levels of workers in the developing world.

2.9 Continuing economic reform and development in China and other non-OECD economies is expected to expand the total global workforce by 35% between 2001 and 2030 (Table 1). This growth will be predominantly in low-skilled labour, although future years will undoubtedly see these economies improving their skill and innovation capabilities, enabling them increasingly to compete in higher value parts of global supply chains.

Table 1: Estimates of skilled and unskilled workers (millions)

	Total		Unskilled		Skilled	
	2001	2030	2001	2030	2001	2030
World	3,077	4,144	2,674	3,545	403	598
High-income Countries	481	459	327	276	154	183
Other Countries	2,596	3,684	2,347	3,269	249	415
Of which China	773	870	740	816	33	54
Of which India	473	712	441	653	32	59

Source: World Bank Global Economic Prospects 2007

3 UN World Population Prospects 2008, <http://esa.un.org/unpp/>

- 2.10** Reflecting falling transport and production costs, international supply chains will dominate the way goods are produced and traded. Different businesses will contribute to finished products through different processes at different stages of production.⁴ British businesses will provide not just finished products, but increasingly, intermediate goods and the complex services that are an integral part of modern supply chains, including design, marketing and financial services.⁵
- 2.11** As a result, opportunities will multiply hugely for competitive British businesses. However the same changes to patterns of production also increase dramatically the levels of productivity, skills and innovation required from UK-based businesses to remain competitive. That pressure will only get tougher.

Britain's existing strengths

- 2.12** In principle, British businesses and their employees are well placed to respond to increasing demand for high value-added, sophisticated goods and services. Over the last decade we have invested heavily in Britain's capacities in science, research and innovation. British businesses draw on a strong and open economy that promotes enterprise and encourages innovation and are rooted in a socially diverse society that has unique links to the rest of the world.
- 2.13** The fastest-growing global product and services markets are, in many cases, areas where the productivity and trade performance of British businesses has been strong.⁶ However, as other economies respond to the same opportunities, or try to replicate the UK's strengths, the competitive pressure our businesses face will intensify.
- 2.14** Our response in Britain to this pressure has to be to continue to raise our productivity, improve our resource efficiency and concentrate on developing comparative advantages at the top of global value chains. Two key elements will be critical.
- 2.15** First, a continued focus on ensuring that our economy is driven by **high levels of skills and creativity**. Britain is, and will continue to be, an economy driven by the creation and exploitation of knowledge. Over the last fifteen years the contribution of high-technology manufacturing and knowledge-intensive services to UK gross value added has increased steadily to over 40%.⁷ For this reason, any constraint on the ability of UK-based businesses to exercise comparative advantage on the basis of high levels of skills or knowledge must be regarded as a serious impediment to the UK's economic success.

4 For example, see OECD Policy Brief: Moving up the (Global) Value Chain, July 2007, <http://www.oecd.org/dataoecd/45/56/38979795.pdf>

5 BERR and DIUS (2008) Manufacturing: New Challenges, New Opportunities, pp. 14-20, <http://www.berr.gov.uk/files/file47660.pdf>

6 HM Treasury (2008) The UK economy: analysis of long-term performance and strategic challenges, http://www.hm-treasury.gov.uk/d/bud08_strategicchallenges_645.pdf

7 Work Foundation (2006) Defining the knowledge economy, http://www.theworkfoundation.com/assets/docs/publications/65_defining%20knowledge%20economy.pdf

- 2.16** Second, it will also be necessary to pay particular attention to **technological change** where this is reshaping industries and demanding high levels of innovation, skills and investment from those businesses who will ultimately lead in these markets. These include the shift to digital communications in vital network industries,⁸ a range of low carbon technologies and new processes in the chemical, automotive, aerospace and other industries. Businesses attempting to innovate in these areas will in many cases face particular challenges of finance, and the need to sustain development programmes over the long timeframes required to commercialise new technologies.
- 2.17** The three following sections of this paper set out how Government will back businesses and their employees in Britain in responding to these challenges and building new sources of competitive strength. They set out how the Government will:
- adapt and strengthen Britain's general competitiveness policies in critical areas like innovation, skills, finance, infrastructure and access to global markets;
 - use its role and influence in the market in a new and more strategic way;
 - use a new approach to targeted interventions to ensure that Britain continues to retain and develop strengths in high-value areas of global growth or rapid and fundamental technological change.

8 BERR and DCMS (2009) Digital Britain: the interim report, http://www.culture.gov.uk/images/publications/digital_britain_interimreportjan09.pdf

The foundations of UK competitiveness

- 3.1** After more than a decade of supply side reform, Britain's economy ranks highly on openness and flexibility. Britain has a strong set of competition rules⁹ that guarantee a dynamic market, boosted by the European Union's relative openness to trade.
- 3.2** Our flexible labour markets enable businesses to respond quickly to changes in the market place, but also ensure that there are fair standards and support for people when they need to move between jobs.¹⁰ These strengths have drawn high levels of inward investment to Britain and helped narrow the productivity gap between Britain and other major economies. Britain is now ranked by the World Bank as sixth in the world for ease of doing business.¹¹ There is, however, little room for complacency, as others are investing heavily in their own strengths.
- 3.3** There are four immediate priority areas for action and reform in Britain: **innovation, skills, finance** and **infrastructure**. We must also continue to ensure that British businesses are able to **access growing global markets**.

Turning excellence in science and technology into innovation and new opportunities

- 3.4** Over the last decade, sustained investment has given Britain one of the strongest science and research bases in the world. We are a world leader in potential growth markets such as low carbon technologies.
- 3.5** Government support for innovation is also provided through a successful R&D tax credit which has provided £3 billion of support to UK businesses since 2000. The establishment of the Technology Strategy Board in 2007 has given Britain a successful business-led body whose programmes channel public funds into driving business innovation in areas where there are major opportunities for future growth.
- 3.6** Despite this extra investment we have two important weaknesses.¹² First, although those British businesses that do invest in innovation do so

9 DTI (2007) Peer Review of Competition Policy, <http://www.berr.gov.uk/files/file39863.pdf>

10 The World Economic Forum observed that efficient labour markets are one of the UK's 'notable strengths', World Economic Forum (2008), The Global Competitiveness Report 2008-2009, <http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>

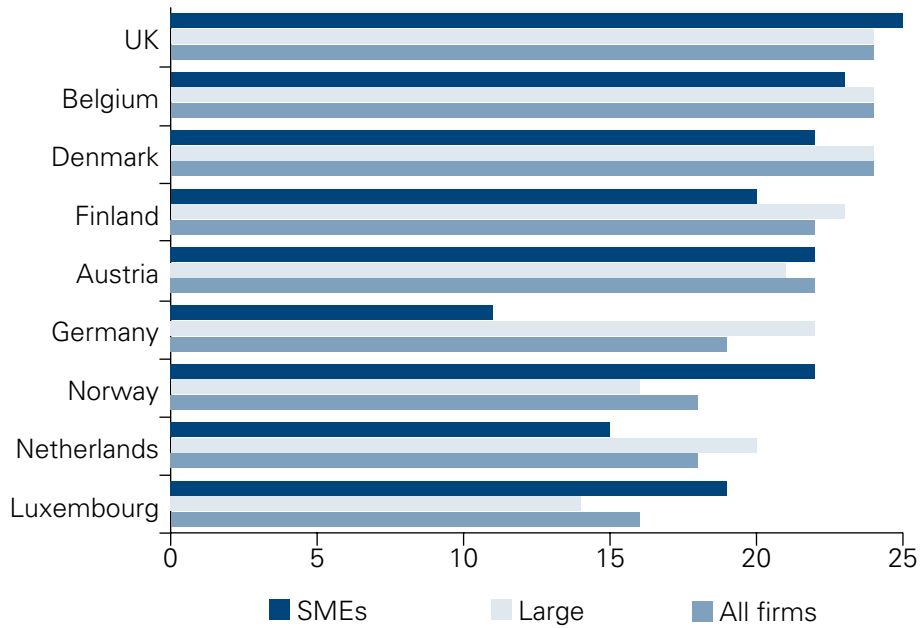
11 World Bank (2009) Doing Business 2009, <http://www.doingbusiness.org/>

12 DIUS (2008) Background analysis: strengths and weaknesses of the UK innovation system, http://www.dius.gov.uk/reports_and_publications/~/_media/publications/innovation_nation_background_analysis

successfully, both UK-based businesses and the Government itself continue to invest less in R&D as a percentage of GDP than other comparator economies.

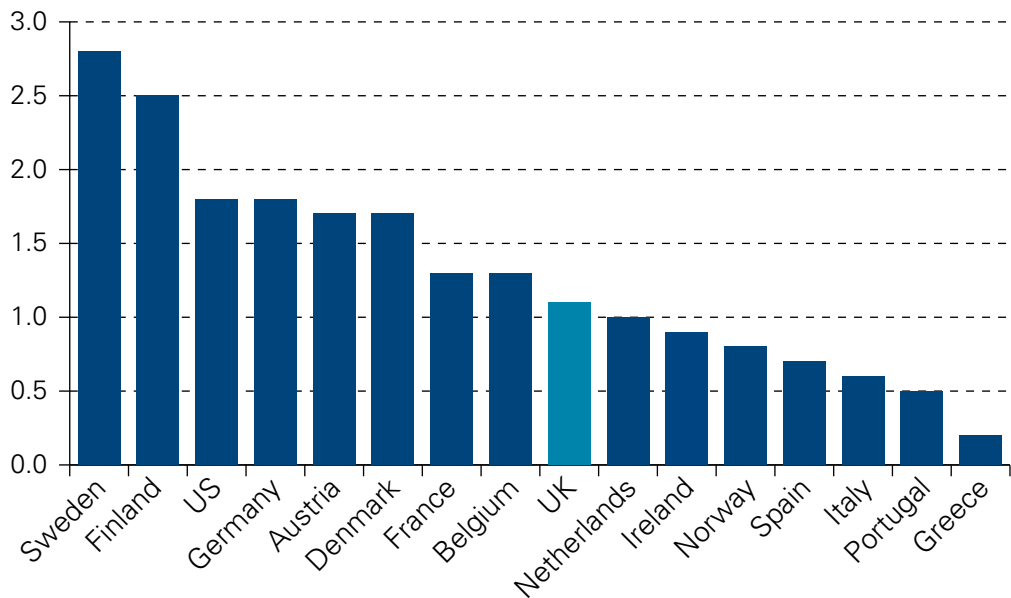
3.7 Second, our excellence in generating knowledge is not consistently translated into innovative and commercially successful goods and services.

Figure 3: Share of turnover from product innovations 2004-2006, % of total turnover



Source: Eurostat

Figure 4: Business expenditure on R&D as % of GDP, 2006 (EU15 & US)



Source: Eurostat

- 3.8** The Innovation Nation White Paper¹³ published in 2008 set out in detail our policy for addressing this, in particular through research, development and skills. It also set out how we could use public sector procurement, regulation and investments in infrastructure to encourage and enable innovation.
- 3.9** Stable, ring fenced Government funding and support for our science and research base provides an essential foundation to support economic growth in the short, medium and longer term. We will continue to protect and raise investment in science and research in the years ahead.
- 3.10** The science base this creates is a key resource for the high-tech companies and start-ups that will grow into the world-beating businesses of the future. Encouraging closer ties between the UK's growing pool of scientific and engineering researchers and industry and private investors is now key to ensuring that we are able to benefit economically from groundbreaking science.
- 3.11** To help small businesses in particular work with the UK knowledge base, for the first time, we are now providing Innovation Vouchers worth up to £10,000. Through the new Solutions for Business Portfolio we have made it easier for small high-technology businesses to access support from the Technology Strategy Board, English Regional Development Agencies, universities and others.
- 3.12** As well as delivering on this and other Innovation Nation commitments:
- we will 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;
 - 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;
 - 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.

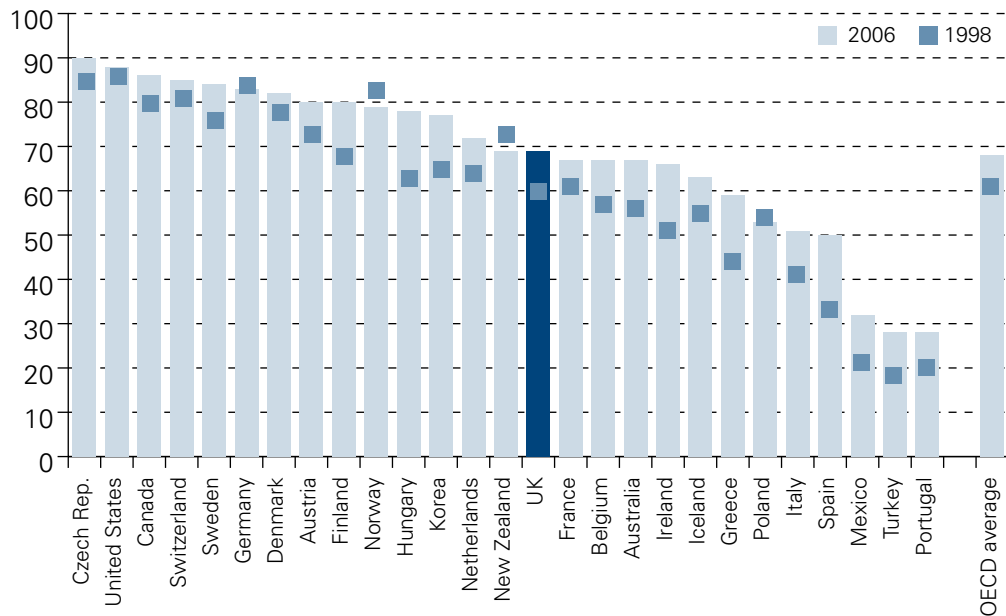
Fostering a talented workforce

- 3.13** Innovative businesses need educated, entrepreneurial and skilled people. Investment in education and skills is an important part of the Government's economic and industrial policy.

13 DIUS (2008) Innovation Nation, http://www.dius.gov.uk/innovation/innovation_nation

- 3.14** Building on the reforms of the past decade, 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.

Figure 5: Percentage of population aged 25-64 that are skilled to level 2 and above, 2006 and 1998



Source: OECD, EAG2008 and 2000

- 3.15** In reforming the training system we will ensure that it meets tomorrow’s as well as today’s skills needs. As new and established businesses grow to meet the opportunities in the new economy, we will ensure they are able to get the skilled workers they need in the right place and at the right time.
- 3.16** As set out in the Government’s response to the Leitch report in England,¹⁴ we are implementing a demand-led skills system that delivers what individuals and employers need. In particular, Train to Gain is successfully delivering high quality work-based training for employers and learners.
- 3.17** However, 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. As more women chose to enter the workforce, we also need to ensure that the UK is equipped to train people with the highest quality childcare skills to meet the demand created by our approach to developing a fair and family-friendly labour market for the future.
- 3.18** An active approach to our skills base will be particularly important where skills capabilities determine the UK’s ability to secure jobs at the top of global value

14 DIUS (2007) World Class Skills: Implementing the Leitch review of skills in England, <http://www.dcsf.gov.uk/furthereducation/uploads/documents/FinalLeitchworldclassskills.pdf>

chains. It is also important to ensure that UK businesses and their employees have the skills to compete for government procurement or the demand created by other significant government action. This is discussed further in the next section.

3.19 Later this year we will publish 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.

Key elements of this work will 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;
- ensuring that public procurement, regulators and regulatory frameworks all make a full contribution to raising skills levels.

3.20 Of course, such government action must be embedded in a wider education system in Britain that is accessible to all and targeted on producing talented, skilled and adaptable people. For example, our historic commitment to raising the participation age in England for education and training will be a key driver to enhance intermediate skills and provide a broader base of candidates for higher education.

Ensuring access to capital for growing businesses

- 3.21** The credit crunch and economic downturn has had a negative impact on the availability of finance for businesses. Government has taken a range of measures to restore stability and liquidity to capital markets.
- 3.22** However, even before the credit crunch, it was recognised that finance for some kinds of businesses is significantly affected by market failures. Research shows that start-ups and young businesses in particular consistently experience greater difficulties in accessing finance than more established businesses. For example, just over one quarter of young businesses seeking bank finance in 2006 attributed difficulties to a lack of financial track record or insufficient collateral.¹⁵
- 3.23** Government has intervened to correct this market failure, in the past through the Small Firms Loan Guarantee Scheme and now through the Enterprise Finance Guarantee Scheme. In addition, Enterprise Capital Funds are aimed at supplying venture capital for technology and high-growth businesses, addressing an equity gap that has been identified for the provision of small amounts of venture capital between £250,000 and £2 million. This “equity gap” exists in finance markets due to the relative costs of making small investments and the difficulty in assessing risks.
- 3.24** Over the last decade we have seen providers of development capital moving further away from smaller investments and focusing on larger, leveraged transactions. For example, in 1998 one leading provider invested £908 million in 600 companies at an average investment size of £1.5 million. By 2007, it was investing £1.5 billion in 62 companies with an average investment size of £25 million.
- 3.25** This creates an issue for smaller firms or social enterprises with growth aspirations, especially as conventional bank finance may not match their risk profile and growth aspirations. Experience also shows this is likely to become an even more acute problem as the economy picks up, order books begin to recover and demand for growth finance increases. To address these issues we will:
- launch 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. This will include options for a Public-Private Partnership similar to the predecessor of 3i, the Industrial and Commercial Finance Corporation, leveraging private sector capital to address gaps in growth finance and risk capital.

15 BERR (2007) Annual Small Business Survey 2006/07, <http://www.berr.gov.uk/whatwedo/enterprise/enterprisesmes/research-and-statistics/research-evaluation/business-surveys/page38370.html>

- 3.26** Any new Government initiative in this area could build on the success of the eight Enterprise Capital Funds currently part-funded by Government as well as the Capital for Enterprise Fund announced in January 2009 to increase the supply of risk capital to innovative businesses through the downturn.

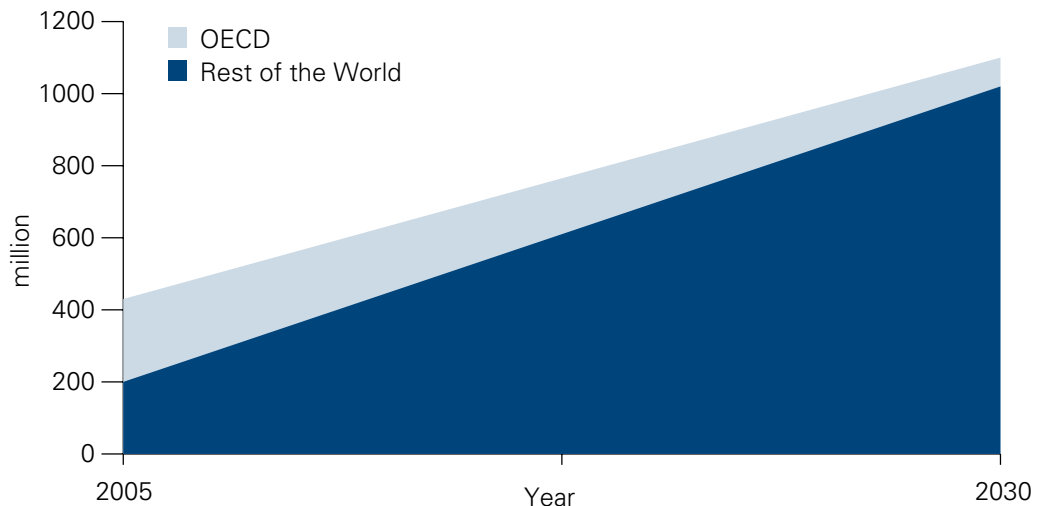
Investing in the necessary infrastructure

- 3.27** Effective modern infrastructure is fundamental to the competitiveness of British business. From energy and communications to transport and airports, in the decades ahead the country needs to make significant investments in new infrastructure. Much of this infrastructure development will be in response to public policy, although it will be funded and delivered by the private sector. The economic regulators will determine the terms for many of these investments, whose successful completion will shape Britain's prosperity for decades ahead.
- 3.28** For this reason, we need an environment in which it is attractive to invest in infrastructure, and in which those investments are made in good time and without unnecessary planning delays or uncertainty. It is therefore vital Britain has an environment, from the planning system to independent economic regulation, which secures the infrastructure investment the country needs.
- 3.29** To improve the planning process for nationally-significant infrastructure projects, this summer the Government will consult on the first National Policy Statements setting out a view of what new infrastructure is needed. These statements will set the policy framework for the Infrastructure Planning Commission in considering and deciding applications. The Infrastructure Planning Commission will offer advice to potential applicants from this autumn and commence operation in Spring 2010.
- 3.30** We are also legislating through the Local Democracy, Economic Development and Construction Bill to introduce integrated regional strategies that will coordinate and prioritise key infrastructure projects for sustainable economic growth.
- 3.31** Other important work in upgrading Britain's infrastructure in the months ahead will include:
- the Government's Digital Britain review, which will establish the framework for a fundamental transformation of our broadband infrastructure. The aim will be for virtually all of Britain's homes and businesses to have access to high speed broadband within the next three years;
 - a clear programme for adapting Britain's energy grid to link homes and businesses to the new forms of power generation, including renewables and nuclear, and for helping them reduce their energy demands;
 - the report to the Prime Minister later this year from the Council for Science and Technology on the interconnectivity and resilience of the major components of the national infrastructure, and the innovation and strategic science and technology gaps that need to be filled to create a modern, integrated national infrastructure that meets the big global challenges.

Accessing open global markets

3.32 Britain's trading strengths and its ability to access export markets will be central to Britain's future prosperity. 60% of British productivity growth between 1996 and 2004 came from businesses that export.¹⁶ The rising incomes of the emerging economies and the massive expansion of the purchasing power of the global middle class will present significant opportunities for UK businesses, alongside the developed markets of the OECD.

Figure 6: Distribution of emerging global middle class



Source: World Bank – Global Economic Prospects (2007)

Note: Defined as income range at \$16000-\$77000 ppp, growth calculated at 2006 rates.

3.33 Britain will make the continued effectiveness and openness of the European Single Market a priority of its European policy. We will work to ensure that flexibilities introduced to the European Union's state aid rules as an exceptional response to the financial crisis are removed when economic conditions stabilise. Britain will also make the continued openness of the global trading system and the progressive removal of trade barriers a priority.

3.34 The Government will ensure that the scope and effectiveness of its assistance to UK companies, and especially small and medium sized businesses looking to break into new export markets remains of the highest calibre. UK Trade and Investment (UKTI) has acted as an extremely effective catalyst for UK exporters and will continue to be our chief means of doing this.

3.35 This year's G20 London summit set out an ambitious programme to promote global trade and investment and reject protectionism. To reflect this, and to further improve our support for trade, the Export Credits Guarantee Department (ECGD) will:

16 Harris R. and Q Li (2007) Firm Level Empirical Study of the Contribution of Exporting to UK Productivity Growth, <https://www.uktradeinvest.gov.uk/ukti/fileDownload/FameFinalReport2007v2.pdf?cid=401169>

- consult on a new facility to provide Government support for short-term trade finance through sharing risks with banks in confirming letters of credit. In addition, the Government will look at existing and potential support offered by ECGD with the aim of ensuring the organisation plays a significant role supporting UK exporters when demand picks up.

Summary of key next steps

- From April 2009 all applications to Research Councils for academic funding will have to set out the economic impact of proposed research.
- Decisions on a new Research Excellence Framework that will take greater account of the economic value of research will be announced early in 2010. We expect this to influence university behaviour from that point, prior to the first framework exercise in 2013.
- Later this year we will set out a new strategic approach to skills in England, through the Higher Education Framework and a paper on skills activism.
- In the weeks ahead we will launch 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.
- The final Digital Britain report will set out in the Summer how the UK's digital infrastructure can be upgraded for a broadband-enabled world.
- In the summer we will publish proposals for adapting Britain's energy grid to link homes and businesses to the new forms of power generation.
- In the weeks ahead the ECGD will consult on ways of further supporting levels of credit for UK exporters. The Government will ensure that the support offered by ECGD plays a significant role supporting UK exporters when demand picks up.

The Government and the market

- 4.1** A more active approach from Government to competitiveness policy 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.
- 4.2** However the way the Government sees its own role in the market needs to change in order to deliver a more coherent and effective approach. 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. This involves Government acting creatively and pragmatically in new ways to supplement the market, not the Government substituting itself for the market.

Complementing the market and correcting significant market failures

- 4.3** 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.
- 4.4** Nothing that has occurred in the financial markets undermines that overall view. However, the credit crisis has vividly brought home the crucial importance of strong regulatory frameworks. Markets are extremely powerful tools but they cannot always be relied upon automatically to serve the long-term public interest.
- 4.5** The Government fully accepts the need for radical change in the regulation of financial markets. The Government's response to the Turner and de Larosière reviews¹⁷ will set out our approach to improving oversight of financial markets in both Britain and the EU. Britain is also playing a lead role through the G20 process in assessing the need for change in global frameworks for financial markets.¹⁸

17 FSA (2009) The Turner Review: a regulatory response to the global banking crisis, http://www.fsa.gov.uk/pubs/other/turner_review.pdf, and European Commission (2009) High-Level Group on Financial Supervision in the EU Report, http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

18 Cabinet Office (2009) The Road to the London Summit: The plan for recovery, <http://www.londonsummit.gov.uk/resources/en/PDF/road-to-london-summit>

4.6 More widely, Government has a fundamental role in setting the regulatory and legal frameworks in which markets can operate fairly and effectively. This means a readiness to address market failures – or the failures caused by uncoordinated Government action – where these may significantly constrain the economic performance of our businesses.

Problems can occur, for example, where:

- 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;
- 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.

4.7 There is a pragmatic role for Government in identifying solutions to these problems. While this is something the Government already does, in future there should be no barriers of mindset that hold back sensible and prudent intervention.

Aligning Government action across departmental boundaries

4.8 Possibly the most desirable – and most difficult – dimension to get right is to join up the many different aspects of Government policy that shape the business environment. 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.

4.9 This requires all Government departments and agencies at national, regional and local level to work together across traditional boundaries in order to promote business competitiveness. Too many worthy initiatives in Britain are still designed according to how the Government is organised, rather than according to how our economy operates. The long-term competitiveness of the British economy will depend on the ability of both Ministers and officials to change this.

4.10 The model of cross-departmental strategy-making for individual sectors and markets, piloted for example in the Digital Britain review and the Office for Life Sciences, needs to be applied systematically where it is useful to enforce a cross-governmental approach on major industrial policy issues.

A more strategic approach to government's role as a market-shaper

- 4.11** The UK Government's regulatory decisions and frameworks define the investment landscape for millions of businesses and create incentives for individuals to choose between different skills. Regulators set the framework for investment in many network industries.
- 4.12** The importance and potential influence of this role must be recognised and managed more effectively. The experience of other European countries shows the potential benefits of a clear combination of firm, strategic Government commitments, plus private enterprise to build technological strengths.
- 4.13** Clear incentives to produce and use renewable energy, along with action to facilitate installation sites and support for research and development, have given Denmark and Germany a headstart in a number of renewable energy technologies.
- 4.14** Britain needs to draw on the lessons of this experience in reflecting on how Government action influences conditions or shapes the market for UK-based businesses. This is important in two general ways.
- 4.15** First, there is an obligation on Government to send clear and transparent signals of its strategic intentions where these will inevitably shape the long term investment decisions made by businesses. This is particularly important where businesses entering a market face large initial investments. In areas like these the right regulatory framework is a key condition for long term investment. It must reflect the need for long term stability, especially in areas where large scale technological or industrial change is needed.
- 4.16** For example, this is the case for a number of renewable energy technologies such as low carbon vehicles, wind and wave power, and nuclear power generation. Here the Government itself is not the procurer, but its actions in incentivising or facilitating low carbon or other technologies through regulation, taxation or other action will fundamentally shape the nature of consumer and business demand in the economy, and thus business planning and investment.
- 4.17** Second, when the Government regulates or acts in a way that has a serious impact on demand or supply conditions in Britain, it must fully take into account the consequent effect of its actions for UK-based businesses. It must also ask what conditions need to be in place to enable them to benefit from any new opportunities.
- 4.18** 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. Indeed, the very success of the Government's wider policies may depend on its ability to equip or incentivise businesses and their employees in Britain to implement them.

4.19 However the Government will not achieve this goal unless there is a machinery and a culture in place that considers and acts on the wider industrial implications of Government action. In future, when regulating in ways that will affect demand in the UK, policymakers should assess the potential supply chain opportunities for UK-based businesses and their employees as an integral part of planning work. This practice cannot be limited to one or more Government Departments: it must be replicated across all Departments.

Smarter, more strategic procurement

4.20 There is also a need to see the Government's long-term role as a direct customer and purchaser in the same way. The public sector itself spends or invests around £175 billion annually and is by far the largest customer in the British market. This procurement can have a powerful role in shaping markets, with the potential to drive demand for new technologies, skills, and processes. This in turn represents a huge source of opportunity for UK-based businesses and their employees, where they can compete successfully to meet Government needs.

4.21 This requires that we see the 'pre-procurement' phase as just as important as the procurement process itself. The Government needs to think ahead about the shape and nature of its likely requirements for new products and processes. It needs to communicate those requirements, in a structured way, to the right audiences. Particularly where markets are new and significant, it should be willing to take active steps to encourage new supply chains and to ensure UK businesses of all sizes are able to compete. The Government must work actively with UK-based businesses to overcome their potential skills and technology deficits so as to enhance their ability to compete.

4.22 During 2009, all Government Departments must publish 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.

4.23 Expansion of the Small Business Research Initiative (SBRI) reinforces this by using the chance to compete for Government procurement contracts to incentivise early-stage, high-technology businesses and support these companies through a critical stage in their development. Building on the successful pilot competitions run by the Department of Health and the Ministry of Defence in 2008/9, the reformed SBRI programme will be extended in 2009 to involve a wider range of departments and an increased number and value of competitions.

4.24 We 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.

A change of culture in Government

4.25 In future, the market-shaping role of regulatory or procurement decisions must be a key concern of policy makers. Over the last decade the principles of better regulation have permeated the way public policy is made in Britain and are now reducing the administrative burden of regulation on small businesses in particular. In the same way, examination and articulation of the opportunities and challenges in the supply chain must now become an integral part of the policymaker's tool kit. To embed the necessary changes we 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;
- make greater use of the temporary recruitment of secondees from the private sector to provide necessary expertise in all of these areas.

4.26 An important corollary of all of these approaches to policy is the ability of Government to produce targeted or tailored UK supply chain strategies for key markets or sectors affected by regulatory or other change. This is discussed in greater detail below.

National strategy, regional expertise, local delivery

4.27 The right balance between central Government and the bodies that deliver industrial policy in the nations, regions and local communities is critical for ensuring that we match a clear national strategy with the expertise and local knowledge that are central to effective delivery.

4.28 National government's role must be to define a single set of strategic priorities for sustainable economic development for all national, regional and local bodies. These priorities will be set out in the Government's new guidance for integrated regional strategies for England, on which we will consult later this year.

- 4.29** However, within this national framework, there is a vital role for better coordination of Government work at the regional and local level, working in partnership with the private sector. Each region has a unique set of challenges and capabilities, and understanding of these is critical to effective policy delivery, as is rapid feedback to Government from delivery partners
- 4.30** The recent evaluation by PriceWaterhouseCoopers has demonstrated RDAs' effectiveness in generating economic growth for their regions.¹⁹ Building on this strong performance, the Regional Development Agencies (RDAs) will have a key role to play in driving sustainable economic growth within the English regions. The new responsibility of RDAs for developing regional strategies in partnership with leaders of local authorities will create a new and powerful means to align regional and local partners in delivering a coherent economic vision for their region, rooted strongly in the responsibility to generate sustainable economic growth.
- 4.31** Delivery at local and city-region levels should also meet regional and national strategies and priorities. In particular, partnerships at city-regional level have the potential to also deliver a stronger focus on economic growth and to increase alignment in support of common objectives. In London the Government will work with the Mayor on how it can complement the Mayor's approach. In combination, these strategies will need to reflect local and sub-regional concerns and aspirations. But delivery must also deliver national priorities in a regional context.
- 4.32** To improve the delivery of Government services to business on the ground we have continued to consolidate the Business Link service, which is now the front office for most businesses accessing Government assistance in areas such as innovation, business and manufacturing advice, training, and skills. April 2009 saw the creation of an integrated skills and business support brokerage service delivered through Business Link. The successful simplification programme to streamline 3000 Government support schemes for business to 30, all accessible through the Solutions for Business portfolio that is part of Business Link, will be a model for all future publicly-funded business support.

19 BERR (2009) Impact of RDA spending, <http://www.berr.gov.uk/files/file50735.pdf>

Summary of key next steps

- We will set out shortly in more detail how all Government Departments will actively consider industrial opportunities created by major government action, and the skills and other strategies required to address them.
- This summer we will consult on guidance for regional strategies in England, setting out a single set of strategic priorities for national, regional and local delivery. The Government will also announce city-region pilots which will develop the mechanisms for supporting greater economic development and business engagement at the city-region level.
- This Autumn the UK Commission for Employment and Skills will publish its recommendations for delivering a simplified and effective skills service for business. The Government will respond to its recommendations without delay.

Unlocking our potential through targeted measures

- 5.1** Britain has a diverse economy with strengths in many sectors – from retail and financial services to advanced manufacturing.²⁰ This diversity and the resilience and flexibility that comes with it are important strengths that must be retained. For this reason, many of our most important competitiveness policies run across the entire economy and are relevant to businesses in every sector.
- 5.2** However, there is often also a very strong case for tailoring what Government does to reflect the different circumstances of different markets, sectors and places. This reflects two powerful but simple truths:
- the scale of the economic opportunities for the UK, here and internationally, are different from one area of the economy to another, as are the challenges faced by individual sectors;
 - the ability of Government to make a positive impact through its actions can vary markedly across sectors and markets.
- 5.3** This becomes even more important in an era of global specialisation. Business and Government alike will need to focus more on, and prioritise, areas where the UK holds – or realistically can gain – lasting advantages.
- 5.4** This need to tailor policy has been recognised before, but too often in a way that has been over-cautious or reluctant. In fact, well-designed and well-implemented policies, when focussed on particular sectors and markets, can be a source of enormous competitive advantage and benefit, both to businesses and to the competitive profile of the economy as a whole.
- 5.5** 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. By sharing the expertise of business and government, we can also identify broad areas of technology, products or services within which there may be **opportunities** for UK-based businesses.

²⁰ Although it is often thought that the UK economy is heavily dominated by financial services, the most recent (2007) OECD report on the UK economy notes for example that as well as a growing service sector, the UK still boasts a number of world class manufacturing businesses , with higher than average export shares in 6 manufacturing sectors.

- 5.6** It is also possible, and important, to be realistic about the cases in which action by Government will have a real and beneficial **impact**. We have to be hard-headed about this. The value for money of targeted intervention must be identified in advance, for example in terms of greater productivity, greater growth, sustainable high-value job creation or valuable spillovers.
- 5.7** A systematic focus on removing barriers to growth for UK businesses in markets with high potential is new. But it also builds on existing practice in some ways. For example, the Government already part-funds skills academies for a range of key industries; we focus export promotion work on key growth markets; and we fund the Technology Strategy Board, which focuses its investments in a small number of emerging technologies in areas of significant potential.²¹
- 5.8** The sole aim of a targeted policy is to unlock competitive or productive potential that would not be achieved by the market alone. This could include measures such as the Government facilitating industry contacts or collaboration; financial support for sectoral centres of excellence or business-university links; or other forms of Government support to overcome a barrier to economic development. In every case, it is the intervention of Government that creates new competitive potential where the market alone will not.
- 5.9** A decision by Government to target action on a particular sector does not necessarily mean it believes that sector is more important for UK growth than others. Rather it signals that the sector has significant constrained potential and that Government can make a difference to the prospect of growth or high-value employment by removing barriers to market. For some highly competitive and valuable parts of the economy there may be little that the Government can do to add to the basic dynamics of the market and the basic frameworks of general competitiveness policy.

21 <http://www.innovateuk.org>

Summary of key next steps

The Government's recent Manufacturing Strategy²² and Creative Industries Strategy²³ have both shown the potential of a closer sectoral focus in unlocking potential in specific sectors. This approach will now be followed systematically. Over the next few months we will analyse both the opportunities and constraints that are present for UK businesses in British and global markets in a range of key areas. The list below includes existing work and areas where work will now be undertaken. It is by no means exhaustive.

Low Carbon Industrial Strategy

The Government will set out detailed proposals to help businesses make the most of the opportunities of a low carbon future being pioneered by the Department for Energy and Climate Change. We will examine the issues facing businesses across the economy as they look at the opportunities and challenges presented by rising demand for low carbon products and services. We will tackle the key barriers to growth in the UK's low carbon sector, aiming at a coherent approach at both national and regional levels and across the economy.

Ultra low carbon vehicles

The Government has already put in place a major building block of the low carbon future by publishing a strategy for the development of ultra low carbon vehicles in the UK. This includes £250 million of funding, the majority of which will be used to support consumers purchasing electric or plug-in hybrid electric cars, with £20 million being used to provide financial support for cities ready to invest in infrastructure. Through a significant scaling up of the Technology Strategy Board's ultra low carbon car demonstration competition the Government is also supporting the trial that will put around 200 ultra low carbon demonstrator cars on Britain's roads over the next 18 months.²⁴

Digital Britain

In the early summer we will publish the final report of the Digital Britain project. This will help to drive the upgrading of digital networks, establish a dynamic investment climate for UK digital content, provide quality content for UK users, ensure access and near-universal participation, and enable widespread delivery of public services online. This will represent a comprehensive plan of action to ensure the UK is a global leader in the digital economy and society – a shift in how we do things that will define the 21st century.

22 BERR and DIUS (2008) Manufacturing: New Challenges, New Opportunities, <http://www.berr.gov.uk/files/file47660.pdf>

23 DCMS (2008) Creative Britain – New Talents for the New Economy, http://www.culture.gov.uk/reference_library/publications/3572.aspx

24 HM Government (2009) Ultra-Low Carbon Vehicles in the UK, <http://interactive.berr.gov.uk/lowcarbon/>

Life sciences and pharmaceuticals

This summer, we will publish a Life Sciences Industrial Strategy prepared by the new Office for Life Sciences. This strategy will set out the steps that can be taken to stimulate investment in this area. It will also address how the NHS can be more effective as a champion of innovation, how we can get medicines to market faster, make the UK a more attractive base for clinical trials, and market our strengths better abroad.

Advanced manufacturing

We will build on our 2008 Manufacturing Strategy to help British businesses maximise the role they can play. The strategy already brings together £150 million of support for the medium term, helping business to access increased skills and technology support, to enter new markets overseas, and to use design and intellectual property to compete strongly in global markets.²⁵

There are a range of new industrial technologies in manufacturing in which strong UK capabilities should also be a priority for Government attention and support where appropriate.

- In **aerospace**, engine and wing design and manufacture will have to adapt to the low carbon age – and the UK should aim to retain its existing strengths.
- The shift from metal to **composite** materials will provide vast commercial opportunities and will have important applications in the automotive, marine, aerospace, wind and wave, construction, oil and gas, and medical equipment sectors.
- In the **industrial biotechnology sector** the shift from a chemical industry based on oil to one based on renewable and biological substances will redefine chemical manufacture in the 21st century.
- Developing **plastic electronics** technology will enable electronic circuits to be printed cheaply onto flexible surfaces, something impossible with conventional silicon semiconductors and with a massive range of potential applications.

Over the next few months we will assess both opportunities and constraints in these areas to determine whether there is any role for Government in unlocking competitive potential in the UK in these areas.

25 BERR and DIUS (2008) Manufacturing: New Challenges, New Opportunities, <http://www.berr.gov.uk/files/file47660.pdf>

Professional and financial services

Professional and financial services in the UK represent some of our core strengths, and we have a strong international reputation in these areas. We will use the Professional Services Global Competitiveness Report²⁶ on professional services and views from the Chancellor's High Level Group on City Competitiveness to assess the need for any specific action to ensure that London and the UK's position as a key global financial centre remains secure in the future.

Engineering construction

The Gibson review of productivity and skills in engineering construction aims to make recommendations by Autumn 2009 on ways to improve the productivity and skills in the UK engineering construction industry.

Industrial opportunities in an ageing society

Building on the Ageing Society Strategy, we will establish an Innovation and Growth Team to draw up an action plan for business and Government on the economic opportunities presented by an ageing society by Spring 2010. This action plan will be developed from a review of the opportunities that are being created – both in manufacturing and services – and the likely future skills needs and technological opportunities; for example, in relation to leisure needs and care, as well as the development of drug treatments for those affected by illness related to age. It will determine whether it is necessary for Government policy to assist further the private sector in preparing to compete for these opportunities.

We will assess continually with business and other stakeholders the need for further targeted sectoral strategies.

26 HM Treasury and City of London(2009) Professional Services Global Competitiveness Group report, http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf

Conclusion: a new activism

- 6.1** The Britain that emerges from the current recession will have addressed the weaknesses of its financial system and restored trust in its financial institutions. It must also have put in place policies that will deepen its competitive strength, resource efficiency and growing productivity in this century. Our goal remains a balanced and diversified economy, with opportunity and quality employment across the whole of the United Kingdom, capable of creating the wealth needed to sustain an improving quality of life.
- 6.2** By its nature, this requires a joint partnership between business, Government and our wider society. Success in meeting demand in any sector or market requires a combination of the right business responses and the right public policy. Alongside the expertise of the private sector, Government must have an equivalent expertise in creating the frameworks in which successful businesses can be created, develop and thrive, and in which people in Britain can maximise their potential.
- 6.3** In 1998 the Government's Knowledge Driven Economy White Paper²⁷ set out a strategy for modernising the UK's Enterprise, Competitiveness, Employment and Companies Acts, building the UK's capabilities through investment in science and infrastructure and promoting closer collaboration with business. This strategy was largely, if not perfectly, implemented.
- 6.4** Its basic priorities remain the right ones. However, our economic world is changing and this demands a new and more active approach from government. The approach set out here could be described as 'activist' in a number of ways.
- First, it is pragmatic but not dismissive about the way markets work. While building on their efficiency and dynamism it nevertheless recognises that there are ways that Government can act that will complement markets to produce better outcomes for the aggregate productivity and growth of the British economy. This is particularly true in the cases of infrastructure, training or investment in innovation where the market left to itself may under-invest.
 - Second, it recognises the role of Government in shaping the market when it procures goods or services and when it sets the frameworks in which the private sector operates and the consequent need to do this strategically

27 DTI (1998) Building the Knowledge Driven Economy, the government's competitiveness white paper.

and in a way that drives innovation wherever possible. It must also be done with great clarity and coherence, especially where large private sector investments in change are contingent on Government commitments, such as the shift to low carbon energy or transport. It commits Government to a long-term strategic vision for the economy, delivered coherently, so that businesses and individuals can invest and make choices about their futures.

- Third, it argues that there is a case for targeting certain kinds of public policy measures, including tailored skills strategies and assistance with access to capital, in growth areas in the economy, on the basis of robust criteria.
- Fourth, it argues that there needs to be a cultural change in Government in Britain to enable public policy towards business to be made and implemented across departments and different levels of government. Because the total business environment in Britain is shaped by almost everything the Government does, everything it does must reflect advance consideration of its effect on the businesses and people who are the bedrock of Britain's economic strength. This paper has set out how we will go about embedding that change in government.

6.5 What the approach defined here does not involve is national ownership of industry, the picking of national winners, the revision of European state aid rules or the erection of trade barriers. It does not involve distorting resource allocation in an inefficient way or displacing creative private enterprise. It recognises that while a role for Government in working with the private sector to build our competitive future is necessary, that role also has important limits.

6.6 This is not activism for its own sake. Its purpose is sustainable international competitiveness for British businesses and people and it must be judged solely by that goal. It sees a greater activism from Government in equipping Britain to produce people and businesses capable of competing at the top of global value chains as a necessary part of our political and governmental response to globalisation and key to our recovery from the recession.

6.7 We need sustainable growth that addresses the social, economic and environmental challenges of the future. Our challenge is to build an integrated public policy that drives that goal. It should reflect the expectation that Government will help people compete in a globalised world and ensure that we retain a diversified economy based on high value employment, without closing our markets or denying the huge benefits of free enterprise.

