# BEIS consultation on Building our Industrial Strategy

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**Summary**

1. This response to the Green Paper *Building our Industrial Strategy* engages with two of the questions it poses:

    Q. 4) Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?

    Q. 37) What are the most important institutions which we need to upgrade or support to back growth in particular areas?

2. Proceeding from L.P. Hartley's observation that the past is a foreign country I place the Green Paper in historical context to emphasise its lack of ambition and its likely failure to meet its stated objectives due to the cross-cutting and higher priority placed on deficit reduction.

3. We should learn the lessons of past success in industrial strategy and:

    3.1. Remove H.M. Treasury's veto power by persuading it of the merits of borrowing to invest.

    3.2. Embrace a balance sheet approach to national accounting, borrow to support much higher government investment in industrial strategy, and (via balance sheet accounting) recognise the likely long-run return on that investment.

    3.3. Think more holistically, making industrial strategy more than just a set of specific policy ideas for raising industrial and commercial investment and productivity. Rather, industrial strategy should place those policies within a broader strategy for the modernisation of the economy, including supportive macro-economic policy.

    3.4. Set specific targets for faster economic growth and better productivity that are endorsed by the whole government (and particularly by a Treasury that has been brought to support the need for an active, interventionist, and effective industrial strategy on a broad front).

    3.5. Ensure that decisions in all areas of policy relevant the economy (not least on the level and form of government spending and taxation) are taken within the context of those targets.

**Q. 37) What are the most important institutions which we need to upgrade or support to back growth in particular areas?**

4. There are things worth praising in the Green Paper.

   4.1. The label 'industrial strategy' suggests a return to an earlier (pre-1975) Conservative Party recognition that government has an important role to play in correcting market failure and in shaping and supporting the modernisation and development of the private sector.

   4.2. The focus on improving productivity is essential if an economy with record levels of employment is to raise its present rate of growth (which is historically lacklustre).

   4.3. The analysis highlights many shortcomings that inhibit growth in output and productivity (e.g. poor infrastructure, low skill levels, relatively poor transport and communication infrastructure, and the unbalanced nature of regional economic development).

   4.4. Government intervention is rightly identified as growth- and productivity-promoting (e.g. via investment in science, research and innovation; vocational education; new and improved infrastructure; using government procurement to drive innovation; promoting competition; and creating new / improved institutions supportive of growth).

   4.5. It hints at a regional policy to develop potential outside London and the South East.

   4.6. It recognises the importance of government working cooperatively with business to support its development and remove obstacles to raising its growth and productivity.

5. But Greg Clark's introduction highlights a fundamental problem when it reiterates the government's commitment deficit reduction. That forces the industrial strategy into a much less interventionist form than characterised successful examples of past industrial strategy.

   To take but one example, £740m to support fibre broadband and 5G investment over three years to2020/21 is unlikely to make a significant difference. (Note how much lower it is than the £1.7bn investment by government, local authorities and the EU to extend 'superfast' (24Mbps+) broadband coverage to at least 95% of premises by 2017 – itself hardly a beacon of success).

6. Put brutally, the overriding importance attached to deficit reduction transforms the Green Paper from a potentially workable strategy for higher growth and productivity into a rehearsal of platitudes and a list of relatively small-bore spending initiatives that are unlikely to achieve much.

**Recommendations**

7. We can only improve UK industrial strategy and increase the chances of it being effective in raising the trend rate of economic growth and, crucially, increasing productivity, if we decrease the power of HM Treasury over it.

8. The Treasury should embrace a balance sheet approach to national accounting as well as its present annual 'profit and loss account' of national income – thus allowing greater government near-term spending on investment in the recognition that, if done effectively, it will create productive assets that will generate positive long-run returns.

**Q. 4) Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?**

9. L.P. Hartley famously observed that ‘the past is a foreign country; they do things differently there.’ As we can learn from other countries, so too can we learn from history. History can be a guide to present day policy making because it can:

   a) Help us repeating the mistakes of the past;
   b) Highlight past achievements that we can learn from;
   c) Provide institutional memory and so help policy makers avoid reinventing the wheel.

10. All three of these apply in the case of the Industrial Strategy Green Paper.

11. The Green Paper uses history selectively. To identify the 1970s as the benchmark against which to assess the present proposed strategy is to ignore the very difficult economic conditions of the 1970s (experienced by all advanced economies) which served to distort the government’s industrial strategy – dissolving it into a day-to-day battle to keep firms alive to sustain employment. That means the Green Paper gives an artificial sense of past failure.

12. A less selective reading of history serves to reveal that the ‘industrial strategy’ set out in the Green Paper is too limited to be termed an ‘industrial strategy’ at all – rather it is a ‘policy for industry’. Ironically, this is all too reminiscent of the 1970s.

13. Past experience of a successful industrial strategy (in the 1960s) suggests that the proposals contained in the Green Paper are too limited in terms of commitments to government spending and too narrowly based to achieve its aims.

14. As now, Britain in the 1960s faced the challenge of modernising and retooling its economy as it reoriented its international trade (away from empire) and embraced more competitive international trading.

15. The industrial policy of the 1960s was much more interventionist than today’s BEIS proposals. It was much better financed. And it was embedded within a broad-based strategy that harnessed macro-economic policy to build confidence and create the conditions for higher private investment in human and physical capital.

16. The strategy emerged from the Treasury’s analysis of the impediments to faster economic growth. In its 1961 report ‘Economic Growth and National Efficiency’ it identified a need for government to increase the level and quality of investment, raise the quality and mobility of the workforce, improve British management, generate sustainable employment in areas of declining industry, and attack anti-competitive practices. Crucially, it proposed to craft decisions on public spending and tax to create ‘an efficient full-employment economy capable of sustained growth’.

17. This was the start of a decade of active intervention by successive Conservative and Labour governments. They worked with employers (and with unions, then powerful economic actors with the potential to derail the strategy) in a new institution, the National Economic Development Council, to set a 4% annual growth target (with subordinate sectoral targets for growth and investment). The Prime Minister clearly and publicly endorsed that target. And the Treasury assumed the target in its fiscal policy and investment planning over a 5-year horizon to give

private firms the confidence to increase capital investment (both physical and human). When Labour took power in 1964 it essentially endorsed and expanded the strategy.

18. The industrial strategy of the 1960s came to be seen as a mistake for several reasons:

18.1. Although it raised economic growth from 2.6% p.a. at the start of the decade to 6.4% p.a. by 1967 that proved unsustainable given a competing commitment to fixed exchange rates.

18.2. It set very ambitious and very public targets that were missed (but governments failed adequately to explain that the targets were intended to be stretching and so might not all be achieved)

18.3. Some of investments (e.g. Concorde) failed commercially and, unlike private investment, that failure was both public and political.

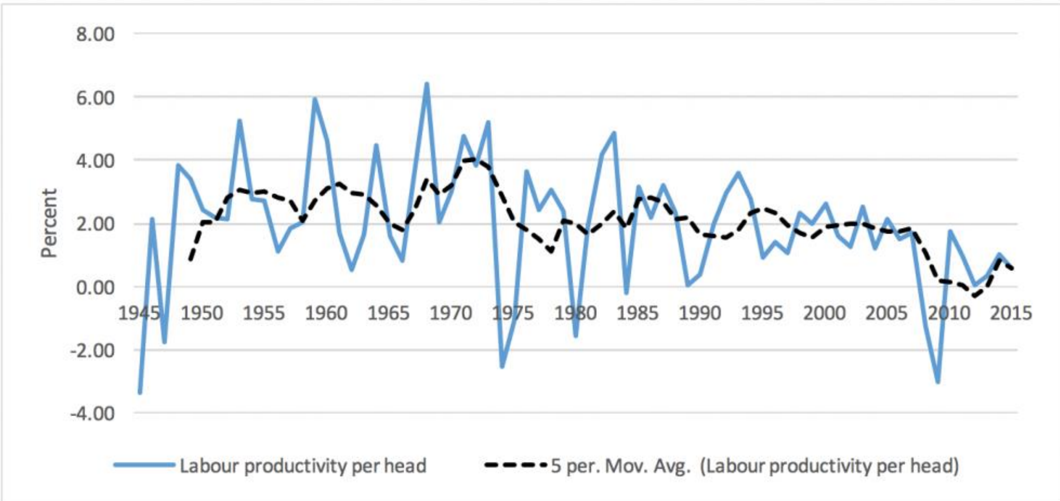
18.4. Annual national income accounting emphasised the cost of public borrowing to invest without recognising the long-run return on that investment (which ultimately led the Treasury to assess the effectiveness of the strategy in negative short-run terms as well as, again, providing ammunition to political opponents).

19. Yet in many ways, 1960s' industrial strategy was an unacknowledged and major success.

19.1. It supported a reorientation of UK trade towards advanced economies on the Continent.

19.2. It raised productivity over the short- to medium-term until the onset of recession in 1973 in the wake of the OPEC I oil shock and the onset of stagflation (after which a clear secular trend for labour productivity to decline is observable, as can be seen in Figure 1 below).

**Figure 1 Annual growth rate of labour productivity per head, 1945-2015**




Source: S. Hills, et al, 'Three centuries of macroeconomic data, v.2.3' (Bank of England, 2016).

19.3. It laid the infrastructural foundations for longer-term growth. The investments of the 1960s long out-lasted the industrial strategy itself (e.g. the new motorway system, an entirely new national gas supply network, nuclear power stations, modernised state-owned industries such as British Railways, and significant expansion and improvements in schools, technical colleges and universities). When growth restarted in the late-1970s and 1980s it was built on these foundations. Indeed, much of today's economic output is still dependent on them.

19.4. Despite high levels of government spending, the national debt as a proportion of GDP fell during the decade. Why? Because the economy grew more rapidly than the nominal value of the debt.

**Recommendations**

20. The lessons of success in the 1960s produce three recommendations:

20.1. We should recognise that Treasury buy-in to more active government intervention can promote economic modernisation and investment.

20.2. We should be more prepared to support higher government investment in industrial strategy with a view to creating assets that will continue to deliver growth over the long-term.

20.3. We should think more holistically about industrial strategy. Most notably, we should embed government intervention to promote output and higher productivity within a fiscal policy that supports specific targets in both dimensions

**Notes**

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