



CRESC Working Paper Series

Working Paper No.126

AGAINST NEW INDUSTRIAL STRATEGY

framing, motifs and absences

**Justin Bentham, Andrew Bowman, Julie Froud,
Sukhdev Johal, Adam Leaver, Karel Williams**

July 2013

www.cresc.ac.uk



The Open University

AGAINST NEW INDUSTRIAL STRATEGY: framing, motifs and absences

Justin Bentham¹, Andrew Bowman², Julie Froud³,
Sukhdev Johal⁴, Adam Leaver³, Karel Williams²

¹ Manchester Metropolitan University

² Centre for Research in Socio-Cultural Change (CRESC), University of Manchester

³ Manchester Business School

⁴ School of Business & Management, Queen Mary University of London

Corresponding author:

Karel Williams

CRESC

University of Manchester

178 Waterloo Place

Oxford Road

Manchester M13 9PL

Email: karel.williams@manchester.ac.uk

ABSTRACT¹

Many diverse UK institutions such as think tanks, trade unions, government departments and industry lobbies are now promoting variant versions of a new industrial strategy. This working paper argues that the debates about the 'new industrial strategy' are structured so that there are commonalities or motifs and important absences in the collective conversation about what to include in an industrial policy. The preoccupation with adding new high tech sectors (without rejecting neo liberal structural reform) makes new industrial strategy a politically and intellectually non-disruptive form of policy innovation. By focusing on the external restraints on production, new industrial strategy glosses over business model problems, supply chain dynamics and does not engage with regional differences. The working paper concludes by arguing that a re-framing which focuses on mundane, large employment base sectors and import substitution is more sensible than hoping for salvation through export-led growth sectors.

KEY WORDS: *industrial strategy, industrial policy, market failure, structural reform, export-led growth*

¹ Free download available from

AGAINST NEW INDUSTRIAL STRATEGY: framing, motifs and absences

*Justin Bentham, Andrew Bowman, Julie Froud,
Sukhdev Johal, Adam Leaver, Karel Williams*

Introduction

How could anyone be against the industrial strategy which all now support? The orthodoxy from CBI and the TUC and the three established national parties is that a new industrial strategy can help to deal with the UK's underperforming and unbalanced national economy. Against this national consensus, we would argue that this preference for a *new* industrial strategy rests on a conservative framing of the nature of the UK private sector's economic problems and a corollary emphasis on changing the environment outside the firm; indeed, we show that the enthusiasm for new industrial policy carries over large elements of the earlier neo-liberal framing and the preoccupation with structural reform to create a more congenial environment for competitive business. In earlier CRESC working papers we have presented a rather different heterodox analysis of mundane activities and shown that the problems of sectors like railways and meat supply are rooted in internally dysfunctional supply chains and predatory firm business models which are financially levered on the state and supply chain partners.² This paper changes the focus and instead criticises the orthodox framing of new industrial strategy; the aim of this paper is to show that these problems of internal dysfunction are not recognised by the advocates of new industrial strategy which is therefore unlikely to succeed in its own terms.

The return of what has conventionally been termed *industrial policy* in the UK is an important moment. Not because it represents a return to an earlier set of specific pre 1979 policies which had (after the event) been stereotyped as 'picking winners', and widely viewed as an ineffective or downright damaging relics of the mid-20th Century; nor because it is yet a coherent approach to our specific and acute set of post 2008 economic problems. This return is most relevant because it indicates a widespread acceptance of the inadequacy of other fiscal and monetary policies to restore economic growth, plus general endorsement of the post 2008 goal of rebalancing the economy away from financial services and debt-

² See Bowman et al. (2012) on pig meat supply (<http://www.cresc.ac.uk/publications/bringing-home-the-bacon-from-trader-mentalities-to-industrial-policy>) and Bowman et al (2013) on railways (<http://www.cresc.ac.uk/publications/the-great-train-robbery-the-economic-and-political-consequences-of-rail-privatisation>).

based consumption and towards export-orientated manufacturing. The revival of the specific term *industrial* policy is significant because while there is no consensus about exactly what should be done, there is agreement that *industry* somehow needs to be supported and grown. And it goes with a redefinition of rebalancing which is not simply about recovering old, now diminished industrial capacity, but finding and building new industries so that the rebalanced economy is a modern, forward-looking one.³

The shift is quite startling and takes the form of a new (unacknowledged) consensus, where the main private sector employers' lobby group, the Confederation of British Industry (CBI), the Trades Union Congress (TUC) and everyone in between are saying things which sound increasingly similar. According to the CBI, 'the debate is no longer about whether the UK needs an industrial strategy, but getting the approach right' (p.8). The approach should be one of 'tilting the playing field' (p.14) which explicitly includes (vertical) intervention from government to benefit specific sectors, not just (horizontal) framework setting.⁴ While there are predictable major differences between the CBI and the TUC in the area of employment law and the need for continued deregulation and flexibility, the areas of overlap are sufficient to indicate an important change in the way that policy possibilities are now discussed.

The spectre of old industrial policy's failure in the 1970s has encouraged a kind of relabeling and a minor discursive shift so that industrial policy is often referred to as (*industrial strategy*). This term suggests something different from 'picking winners' in the 1970s, while the notion of strategy implies something that is broader and more long term; it also has an implied sense of the corporate and the purposive. A *strategy* is something that every organisation should have and to be *strategic* is considered a wise and reasonable response to dynamic circumstances. Thus industrial strategy is now the term of choice for many and widely used by, for example, Business Secretary Vince Cable⁵ and the CBI⁶; even Frances O'Grady⁷ of the TUC has used the term. In the content of what is written and spoken, there is little to consistently distinguish industrial policy from industrial strategy and the latter term is used in this working paper, with the qualification that we use the term *new industrial strategy* used to distinguish what has been advocated in the UK since 2010.

³ For more discussion of the rebalancing of the economy, see Froud, Johal, Law, Leaver and Williams (2011) 'Rebalancing the economy (Or buyers' remorse). CRESC Working Paper 87, available at:

<http://www.cresc.ac.uk/sites/default/files/Rebalancing%20the%20Economy%20CRESC%20WP87.pdf>

⁴ CBI (2012) 'Playing our strongest hand).

http://www.cbi.org.uk/media/1821466/cbi_industrial_strategy_report.pdf

⁵ <https://www.gov.uk/government/speeches/industrial-strategy-cable-outlines-vision-for-future-of-british-industry>

⁶ http://www.cbi.org.uk/media/1821466/cbi_industrial_strategy_report.pdf

⁷ <http://www.tuc.org.uk/union/tuc-22151-f0.cfm>

The focus of this working paper is not on why industrial policy has returned in the UK as industrial strategy after several decades when it was abandoned by most academics as much as by policy makers, industrialists and other opinion formers. That why question has an immediate and simple answer: industrial strategy is here because of the state of the economy in the aftermath of the banking crisis and the worrying prospects for job creation, especially in the regions. The question also has a more complex answer: industrial strategy indicates doubt and disillusion about an economy where more competition and ‘the market’ could be the main guiding force for economic activity; all this was reinforced by the way in which the banking crisis required large scale state intervention to prevent collapse of banking institutions and systems. Rather, this working paper focuses on a different object, which is about how the advocates of new industrial strategy in the UK, read through their mainstream reports, frame our private sector problems as they press for a more interventionist approach. Our answer to this how question is important because it points to an undisclosed frame of thinking about the economy and what industrial strategy could and should do.

Thus, the discussion of common motifs and absences in new industrial strategy reflects both an obvious shift but also the stubborn persistence of the market-based economic thinking of the past 30 years. New industrial strategy is hailed and promoted as a break with neoliberal thinking because it supposes the state could and should play a more active role in guiding economic development. But the role of the state new industrial strategy is limited in important ways which reflect the carry over of neoliberal assumptions about competitive enterprise. The state should intervene so as to improve the environment in which the private sector operates by, for example, easing its access to finance, skilled workers, or new infrastructure. At its worst, this results in a form of foie-gras industrial policy of pumping the economy with credit (in left of centre proposals through an industrial bank) in the hope of creating a healthy goose.

The continuity with pre-crisis neoliberal economic policy stems not simply from these implicit foundations, but also because the claim that pre-crisis economic policy was pure *laissez faire* is a straw man argument. As previous CRESC papers have discussed, both the Thatcher government and its eventual New Labour successors used an activist state policy to support privileged industries (finance) and state funding to generate employment in post-industrial regions.⁸ In more radical variations of new industrial strategy, the proposal is that the state should take responsibility for doing things the private sector does not want to do

⁸ ‘Rebalancing the economy (Or buyers’ remorse). CRESC Working Paper 87, available at: <http://www.cresc.ac.uk/sites/default/files/Rebalancing%20the%20Economy%20CRESC%20WP87.pdf> AND ‘City State against national settlement UK economic policy and politics after the financial crisis’. CRESC Working Paper 101. Available at <http://www.cresc.ac.uk/sites/default/files/City%20State%20and%20National%20Settlement%20CRESC%20WP101.pdf>

(such as fundamental research, early-stage innovation, or risky lending). New industrial strategy provides minimal scope for the state to address the dysfunction of existing industry, which is to be left well alone. If competition is not abridged, power relations and internal dynamics are of no interest to the advocates of new industrial strategy, because the constraint and deficit is always implicitly external to the private sector. Private corporations in competitive markets are inherently economically virtuous and must be better supported rather than reconfigured because they are socially dysfunctional. In this way, new industrial strategy achieves a post-political consensus which brings together a range of unlikely allies, who have all come to speak the same new language which carries over the syntax of the old. Intellectually and politically, new industrial strategy has succeeded because it is a non-disruptive innovation which adds progressive new elements without requiring any fundamental rethinking or restructuring of what has hitherto been intellectually taken for granted.

This working paper about the framing of new industrial strategy is structured around two sets of issues: first, the commonalities or motifs, both acknowledged and implied in the discussion of new industrial strategy; and second, some important absences in the collective conversation about what industrial strategy should be about. These issues are summarised below and explored at more length in the following sections. The working paper concludes by turning to the question of how new industrial strategy constructs the economy which is its object. Because the most fundamental problem with new industrial strategy is not its concept of limited intervention but its framing of what is visible and acted upon within the economy. What does the reading of these reports imply about orthodox understandings of the economy; and if we wish to think beyond new industrial strategy's forms of knowledge and practices of intervention, we must first *meet the economy in a different way* ?

Summary of commons motifs and absences

The various recent reports produced by think tanks, trade unions, government departments and industry lobbies all bring something slightly different to the new industrial strategy debate - and contributions are often presented as original or at least a novel statement of discovery – but there are nonetheless considerable overlaps between them. The level of detail varies but the novelty is reasonably limited: in part the reports are a way for organisations to demonstrate a new found interest in industrial policy, or to bend established interests towards particular sets of preferences. From the chorus of different voices it is possible to discern six common narrative motifs which enable us to understand the emerging UK consensus about new industrial strategy:

- i. The need to '*pick sectors*' (rather than winners) of *high-technology* manufacturing where Britain can be a *world leader* in the *global race* and achieve *export success* to eliminate the deficit in tradable goods. This means pharmaceuticals, aerospace and

automobiles (where there is a claim to already be among the ‘world leaders’) alongside green technology, information technology and precision engineering (where there is an aspiration to join the leading group).

- ii. Government intervention in the form of targeted subsidies to overcome *market failure* in these key sectors, specifically in technological ‘*risk-taking*’ and *innovation*. The place of government intervention is at the embryonic stage of industries of the future, with the task to link cutting edge university R&D to industry supply chains via ‘clusters’.
- iii. Improving manufacturers’ *access to credit* through the use of unconventional monetary policy measures (E.g. Funding for Lending, ‘Green QE’) and new state lending institutions, such as the Green Investment Bank or a mimic of the German regional banks.
- iv. Creating a coherent, long-term *vision* which gives the private sector the *confidence to invest* their hoarded cash surpluses.
- v. Creating *enabling conditions* via a mixture (which varies according to political perspectives) of traditional ‘horizontal’ policies: creating accommodating macro-economic conditions (either lower budget deficit or increased demand, depending on politics); better infrastructure; more skilled workers; removing ‘red-tape’.
- vi. A greater role for the ‘*local*’, based on a view that local partnerships between the private sector and local authorities should play a stronger part in developing plans and deploying resources at city region level to deliver growth. This motif is a key part of the Heseltine report for the Coalition Government.

This new industrial strategy approach is however defined not only by the presence of common motifs, but by two key absences. These absences reflect a general lack of empirical depth and complexity in the analysis so that the specifics of different places and the heterogeneity of economic activities are not engaged and consequently the rebalancing approach is vague or generalised. The fundamental underlying problem is that the advocates of new industrial strategy have a wish list and some ideas about how to add innovation and about the desirability of new technology sectors. But they lack a developed concept of the existing economy or what we want from that economy, other than growing national economic output in a competitive world (in a way which would underpin the shaky political franchise of centre left and centre right elites).

- i. *The absence of discussion of organisation or business models; business problems are largely assumed to be exogenous, stemming from environmental conditions.* In new industrial strategy, it is assumed (even on the centre left) that the private sector

generally works well but is being held back by exogenous restraints e.g. low bank lending, decrepit infrastructure, lack of government R&D support, too few engineering graduates. The idea that problems may be endogenous to the private sector and its supply chain organisation or to firm level business models is off the radar, aside from a generalised concern to (re)build supply chains largely disconnected from some doubts about shareholder value.

- ii. *The absence of geography*: New industrial strategy policy proposals are for the UK economy as a national entity, and there is an unwillingness or inability to explain how these policies relate to the differing needs and capabilities of the UK's regions; or, more specifically, which areas win and which would lose. When geography does enter the discussion it is in the form of anecdotal observations, e.g. Airbus A380 wings are made in north Wales, therefore aerospace is what Wales needs. While there has been a recent focus on the 'local' as a means to deliver growth, the local tends to be depicted as a black box where rebalancing results can be produced through local initiative (via unspecified policies); the local within the national context or the highly specific attributes of different place localities is little discussed⁹.

The sources

The analysis in this working paper is based on reports, speeches and other resources produced since the 2007-08 banking crisis by government and non-governmental organisations. In government, the relevant department is BIS (Department for Business, Innovation and Skills) which replaced the Department for Business, Enterprise and Regulatory Reform (BERR) in 2009. BERR had a relatively short life, replacing the Department for Trade and Industry (DTI) in 2007. The DTI had a longer existence, having been the home of old Industrial policy (and its aftermath) since 1970, albeit with frequent reorganisation to absorb other departments (like energy) and responsibilities like deregulation. Under Vince Cable, since 2010, BIS has produced a series of reports about industrial strategy, including general and sector-specific documents.

Outside government, a number of organisations have produced reports that refer directly to 'industrial policy' or 'industrial strategy', or use similar terminology to address the same broad issues. The organisations whose reports are covered here include trade associations, think tanks and other policy-focused groups. In terms of trade associations, the Confederation of British Industry (CBI) and the Engineering Employers Federation (EEF) have

⁹ A notable exception is the recent NEF report on Wales (<http://www.neweconomics.org/publications/entry/towards-a-welsh-industrial-strategy>) which interestingly also takes a much more critical line on the assumptions underpinning industrial policy. Significantly this is a study of a loser region, where it is increasingly hard to believe that competition (with more training and infrastructure) will benefit the region.

been engaged with industrial policy¹⁰, though the Institute of Directors (IoD) remains wedded to supply side measures. In a recent ‘big picture’ analysis the IoD’s chief economist seems something of an outlier in arguing for the need to maintain the focus on deficit reduction and supply side, while warning against big government: ‘Unless sustained economic recovery arrives soon, there could be a political reaction towards intervention that could leave the state at around 45% of GDP over the next decade’¹¹.

Think tanks of both left and right have joined the trend; particularly striking is the shift of position by organisations with a more neoliberal focus or new labour outlook. For example, the Policy Exchange (headed by Universities’ Minister, David Willets) backs interventions that support ‘science’¹² and has ‘Industrial Policy’ as one of its projects¹³. In 2013 Civitas has argued for a ‘proactive export policy’¹⁴ and also published a volume that explores the role for industrial policy in a rebalanced economy¹⁵. More predictably, the TUC (in line with its long established enthusiasm for stakeholder capitalism) points to lessons from Germany¹⁶ at the same time as it is attempting to build cross-party support for ‘industrial policy activism’¹⁷. From the left and centre left, think tanks with an economic focus have been part of the chorus of voices in harmony: for example, New Economics Foundation (NEF) has explored how a new industrial strategy focus can relate to social as well as economic objectives¹⁸, while IPPR have supported industrial strategy as part of its arguments about building strength in the regions.¹⁹

Part 2: Common motifs

As the number of reports on new industrial strategy proliferate, it is still possible to discern some common themes. These reflect a degree of mimetic circling around key ideas as the

¹⁰ <http://www.eef.org.uk/NR/rdonlyres/779379BD-3DC6-49D0-99AA-34D90921E602/21515/RoutetoGrowth1.pdf>

¹¹ *The UK Economy: Time to Grasp the Nettle*, Spring 2013, available from: <http://www.iod.com/influencing/big-picture#nettle>. See also the IoD’s ‘freebie’ growth plan i.e. ten (supply side) measures that do not require public expenditure <http://www.iod.com/influencing/policy-papers/the-economy/iod-freebie-growth-plan>.

¹² <http://www.policyexchange.org.uk/images/publications/eight%20great%20technologies.pdf>

¹³ <http://www.policyexchange.org.uk/advancedmodules/industrial-policy>

¹⁴ <http://www.civitas.org.uk/economy/IdeasForEconomicGrowth4.pdf>

¹⁵ Hunt (2013) <http://www.civitas.org.uk/pdf/RebalancingtheEconomyAPPG.pdf>

¹⁶ <http://www.tuc.org.uk/industrial/tuc-20509-f0.cfm>

¹⁷ <http://www.afterausterity.org.uk/?p=554>

¹⁸ <http://www.neweconomics.org/issues/entry/jobs-industrial-strategy>

¹⁹ See for example: <http://www.ippr.org/articles/56/9863/heseltine-report-puts-the-state-back-on-the-hook-for-helping-lead-economic-recovery> AND <http://www.ippr.org/articles/56/9003/supporting-business-lets-follow-northern-europe>

parameters of policy acceptability shift and organisations set out their particular positions; the themes also indicate some common positive and normative assumptions about the economy as it is and how it could be rebalanced.

1) Picking sectors for high-tech export success

While all are agreed that ‘picking winners’ was a failed old approach (albeit in a rather unexamined way), there is nonetheless a sense that some part of the industrial economy should be selected for attention. For various reasons, including apparent market failures of different kinds and a recognition that this is what other (more successful) industrial economies have done, there is a common view that interventions of varying kinds should be targeted on particular sectors. So, many reports stress the need to nurture the high-tech sectors of the future in which Britain already is or could be a ‘world leader’, and at the same time lay the foundation for exploiting future ‘mega trends’ on the world market. This is an approach that has been pushed in BIS (then BERR) since 2009²⁰ And must partly explain the success of new industrial strategy because this strategy is positioned as non-disruptive practice which will work by adding new (mainly manufacturing sectors) and does not require, for example, the deliberate shrinking of finance

This is nevertheless a major shift in two ways: first it is a shift away from de facto assumptions that markets will best govern the allocation of resource; second it is envisaged that the leading role will often be played by manufacturing, not services whose expansion has hitherto been dominant in the UK economy. The UK has been protected by North Sea oil and runs a sizeable trade surplus in services which has hitherto masked the approximately £100bn deficit in goods, but anxiety is now mounting and government wishes to prioritise manufacturing exports. As one recent BIS study claims, exporting ‘is greatest among firms who are innovative, R&D active, and have relatively high productivity, across all size bands.’²¹ Future manufacturing success in the UK, BIS says, will come from niche high-tech products in a narrow range of sectors with expanding overseas markets.²² The assumption following this is that government must target its support narrowly on these priority sectors where it will achieve the most impact in terms of export earnings. As the CBI says:

²⁰ <http://www.berr.gov.uk/files/file51023.pdf>

²¹ <http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/i/11-805-international-trade-investment-rationale-for-support>

²² <http://www.bis.gov.uk/assets/biscore/international-trade-investment-and-development/docs/u/12-579-uk-trade-performance-markets-and-sectors.pdf> AND <http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/i/12-1140-industrial-strategy-uk-sector-analysis>

‘Spreading limited resources thinly across the economy decreases the likelihood that policies will alter investment decisions in favour of the UK. In turn, this reduces the potential to create new jobs and make the most of our comparative advantages.’²³

Chuka Umunna (speaking as Shadow Secretary of State for Business, Innovation and Skills) similarly says,

‘Success in the global economy won’t come from being quite good at lots of things. There is a premium on being the best. So we must develop our areas of existing strength – sectors, technologies, services – where we are already world class ... We must build on these strengths. We must develop other areas where we could realistically aspire to global leadership’²⁴

‘Picking sectors’ is the new strategic re-working of the classic ‘picking winners’ approach to old industrial policy which all concerned are keen to disassociate themselves from. This kind of strategizing has now been endorsed not only by government and industry policy experts, but by a succession of influential industry figures, ranging from Sir John Parker to Anthony Bamford.²⁵

Although remaining for the most part vague and non-committal, the government has signalled the following as key areas of attention (see also the David Willets / Policy Exchange, report ‘Eight Great Technologies’)²⁶:

- i. *Life sciences and pharmaceuticals*: where the UK has the largest share of world market for any of its export goods at around 5%. It is to be supported by several pots of money for research, including the £775m Translational Research partnerships, tax breaks, and assistance for clustering around areas like Cambridge, Oxford and London, plus further integrating biotech firms with universities. The success is built on the back of the NHS as the world’s largest publicly funded health service - a large integrated commissioner of research and new products able to share risks with manufacturers.²⁷
- ii. *Aerospace*: the UK is the world’s second largest manufacturer in this area, which the government has pledged to maintain in the face of increasing global competition, and

²³ http://www.cbi.org.uk/media/1545028/cbi_industrial_policy_a5_report.pdf

²⁴ <http://www.chuka.org.uk/2012/03/speech-active-government-working-in-partnership-with-productive-business/>

²⁵ <http://www.guardian.co.uk/business/2012/jun/04/manufacturing-sector-engineering>,

²⁶ <http://www.policyexchange.org.uk/images/publications/eight%20great%20technologies.pdf>

²⁷ <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/g/12-1010-growing-uk-automotive-supply-chain-2012-update>, AND <http://www.bis.gov.uk/assets/biscore/innovation/docs/i/11-1428-investing-in-uk-health-and-life-sciences>, AND <http://www.bis.gov.uk/assets/biscore/innovation/docs/s/11-1429-strategy-for-uk-life-sciences>

for the task has set up an Aerospace Growth Partnership similar to the Automotive Council, with new policies due to be announced this autumn.²⁸

- iii. *Cars*: the UK's largest manufactured export. Inward investment here is viewed as a measure of success, and there is the potential to export £7bn+ to China by 2020, eliminating one quarter of the goods trade deficit according to the CBI. But also as BIS studies show there is potential to increase the proportion of UK components in the finished product – 80% *could* be made in Britain, but only 36% of purchases for assembly are from UK suppliers.²⁹

The following three sectors have also been mooted as having potential for growth by various actors, but government support remains more ambiguous to date.

- iv. *Green technology*: identified by government as an area for future export success and employment, it has established the Green Investment Bank with £3bn capital to this end, though general policy has been confused and support vague.³⁰ It is central to TUC strategy, which sees the potential for mass employment in retrofitting.³¹
- v. *Digital economy*: the UK is said to have a comparative advantage here from its large 'creative economy', which has grown considerably faster than the rest of the economy, but it is far less competitive than pharmaceuticals. Government has signalled various attempts to support it through minor interventions, with 'Silicon Roundabout' as the flagship.³²
- vi. More generally, what BIS calls *advanced manufacturing*, with an emphasis on R&D intensive tradable goods, where the government aspires to be the European leader, providing support through financing, more skilled employees, export assistance etc.³³

Linked to the excitement over high tech is another old motif of the Centre-Left, the admiration for Germany's industrial strength (see for example, a TUC report on *German*

²⁸ <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/r/12-954-reach-skies-strategic-vision-uk-aerospace>

²⁹ <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/g/11-1478-growing-automotive-supply-chain> AND <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/g/12-1010-growing-uk-automotive-supply-chain-2012-update>

³⁰

https://online.businesslink.gov.uk/Horizontal_Services_files/Enabling_the_transition_to_a_Green_Economy_Main_D.pdf

³¹ <http://www.paper.org.uk/documents/Buildingourlowcarboninds.pdf>

³² <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/m/10-1333-manufacturing-in-the-UK-an-economic-analysis-of-the-sector>

³³ <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/g/10-1297-growth-review-framework-for-advanced-manufacturing>

*Lessons*³⁴. This is now highlighted by unfavourable comparisons between the UK and Germany's ability, in particular, to capitalise on emerging market growth as developed economies stagnate. As the CBI say:

'A rebalanced economy must turn net trade into a growth asset, rather than a structural economic imbalance. The UK has missed past opportunities to target export markets in high growth economies such as the BRICS. Reaching these markets is now a prerequisite for net trade to deliver substantial economic growth.'

The EEF also identify emerging markets as the key area of opportunity for manufacturing growth going forward, with overcoming barriers to entry the key task ahead for Britain's companies.³⁵

Key assumption: Britain needs to be a globally competitive exporter of goods as well as services to create employment and lower the trade deficit. Delivery of this rebalanced economy will come only through high-tech sectors where future demand is expected to grow.

2) 'Market failure' holding back innovation

'Innovation' is seen as the universally good thing that will enable national success as a 'world leader' in high tech, in a competitive globalised economy. Measurement of innovation is complicated because input-based measures are partial and it is harder to assess outcomes that matter most. Nonetheless, input concerns are frequently raised over the low R&D intensity of UK industry – at 1.8 per cent of GDP less than half that of South Korea or Finland.³⁶ Government plans to boost it to 2.5%, and is being asked to step in to support advanced research in key sectors, on the model of the US government's approach to risk-sharing in R&D through subsidies, supportive procurement policies, and agencies such as DARPA. This connection with innovation and America positions helped establish new industrial strategy as a non-divisive, consensual option because the more innovation the better.

The low level of R&D investment on the part of the UK private sector is framed as 'market failure', and for both Cable and Umunna it is acceptable to criticise the laissez faire approach and say that government must step in to make them work 'better'. The latter MP says,

³⁴ <http://www.tuc.org.uk/tucfiles/204/GermanLessonsEdit.pdf>

³⁵ <http://www.eef.org.uk/NR/rdonlyres/2016BDC6-99F2-4897-A88F-6A7119A88783/20960/ManufacturingFocusSpring2012.pdf>

³⁶ http://www.cbi.org.uk/media/1545028/cbi_industrial_policy_a5_report.pdf

‘Healthy, competitive markets reward the innovator, the insurgent, and the risk taker. They keep incumbents on their toes, benefitting consumers. They create the disciplines at home that drive success abroad.

This does not happen by itself – markets are not always efficient. Even where policy frameworks can correct market failures, markets still require active stewardship, constant vigilance against unhealthy concentrations of power, and deliberate promotion of competition ... [But] I would argue that governments can – in some circumstances – improve on market outcomes even when pursuing the same goals. How? By doing things that, left to their own devices, markets cannot or will not do’³⁷

And what many now say markets can’t or won’t do is effectively pursue technological innovation because they are unwilling to take the significant risks involved. The most widely referenced academic authority for this view is the Sussex economist Mariana Mazucatto. She draws upon economic history (e.g. US government support for Silicon Valley) and argues that the state rather than the private sector is often the key source of technological innovation. On her account, private companies generally prefer to join in at a later stage once the opportunity for profit is clear, and make incremental rather than revolutionary advances in the technology and its applications. The real danger is not so much market failure, Mazucatto claims, but ‘opportunity failure’ as major transformative technologies is passed by because the private sector won’t bear the risk.³⁸

Although Mazucatto’s variant of market failure is more radical and entails the state playing a much larger role in the economy as an entrepreneur in its own right, her assumption appears to be shared to some degree by the government, with George Osborne bestowing favours on Silicon Roundabout, and directing £250m of funding to the biosciences. Science Minister David Willets said ‘It is what they do not just in Germany or South Korea but in the USA too. We should not let myths about free market America inhibit us from doing the same here.’ A green investment ‘bank’ (a misleading term, since it cannot raise its own funding) is to be established, with £3bn of capital to direct towards green innovation; there is also support being directed to ‘Catapult Centres’³⁹ to take university research to business, as with graphene⁴⁰ and a variety of other innovation areas. Vince Cable in 2012 said:

‘A modern industrial policy must also focus on keeping Britain at the cutting edge of technological innovation. For this reason, despite the difficult spending decisions taken elsewhere, we have ring-fenced and maintained the science and research budget at £4.6bn, and boosted capital investment around £500m. Key competitors –

³⁷ <http://www.chuka.org.uk/2012/03/speech-active-government-working-in-partnership-with-productive-business/>

³⁸ http://www.demos.co.uk/files/Entrepreneurial_State_-_web.pdf

³⁹

<http://webarchive.nationalarchives.gov.uk/20130221185318/www.innovateuk.org/content/catapult/catapult-centres-key-to-business-innovation-says-c.ashx>

⁴⁰ <http://news.bis.gov.uk/content/Detail.aspx?ReleaseID=421451&NewsAreaID=2>

the US; France; Germany; and China – have all prioritised science and innovation in response to the recession, and we can't afford to be left behind.

Government has a legitimate role in making choices and addressing the market failures that hinder the development of core technologies, especially during the innovation phase. It is often too risky, or simply too expensive, for an individual company to undertake the necessary investment in R&D by itself.⁴¹

The BIS Innovation strategy document is informed by similar thinking:

'The highest performing innovation systems in the world, such as the USA, Japan, Germany and Sweden, are characterised by their ability to generate public and private long term investment, at scale, in uncertain new ideas through intensively networked innovation systems. Within these systems Government takes an active leadership role. This entails fostering groundbreaking scientific and technological breakthrough through public investment in the research base, strengthening connections between actors in the innovation system, supporting those who identify business innovation opportunities and marshalling investment resources to help business respond to global innovation challenges.'⁴²

Similarly Unite, the main trade union representing manufacturing workers, which in its *2020 Vision* for manufacturing outlines how 'innovation is the key to differentiation' with other manufacturing economies but 'The market alone will not deliver this vision'⁴³. The CBI too says:

'Government should play a strategic role in backing innovation and demonstrating new ideas. Its actions need to create a critical mass of activity where the UK has, or can develop, comparative advantage.'⁴⁴

Key assumption: the private sector's problem is that it struggles to innovate because of the inherently risky nature of such processes. If the state can help it through the difficult early phases of innovation and application, the rest will follow.

3) Credit pumping, or the foie-gras industrial strategy option

As well as these targeted sector specific subsidies for innovation under conditions of market failure, advocates of new industrial strategy are also concerned with the failure of private banking to provide sufficient access to credit. This concern is backed by frequently dismal

⁴¹ <http://www.bis.gov.uk/news/speeches/vince-cable-eef-manufacturing-conference-2012>

⁴² <http://www.bis.gov.uk/assets/biscore/innovation/docs/e/11-1386-economics-innovation-and-research-strategy-for-growth>

⁴³

[http://www.unitetheunion.org/uploaded/documents/\(JN3983\)%20Manufacturing%202020%20Vision%20Final%2011-1856.pdf](http://www.unitetheunion.org/uploaded/documents/(JN3983)%20Manufacturing%202020%20Vision%20Final%2011-1856.pdf)

⁴⁴ <http://www.cbi.org.uk/campaigns/a-vision-for-rebalancing-the-economy/industrial-policy/industrial-policy-seven-steps-to-a-new-approach/>

figures for bank lending to productive activity, and widely publicised complaints by SMEs that they have been shut out by the major banks which concentrate on property lending. Here new industrial strategy may not be consensual but does appeal widely because it connects with popular ideas that the banking system should do more to support the “real economy”. New industrial strategy should then one way or another seek to establish that connection between finance and production.

The EEF have called for the government to go beyond Project Merlin lending targets and reform the banking sector:

‘A number of large UK-based companies have recently set out their purchasing needs and highlighted their increasing appetite to see these satisfied by domestic supply chains. The UK would be letting investment opportunities slip through its fingers if SMEs were unable to access the patient capital they need to tool up and meet new contracts. The government must work with the banks and industry bodies to develop more innovative thinking to get the finance mix right ... The continuing problems SME’s face accessing finance argues for government to go further with structural reforms of the banking sector. The objective of increasing competition would support improvements in the cost and availability of finance and improve the choice of finance providers, particularly for those which are discouraged from going to their bank to finance investment plans. The government must now investigate the options available for greater competition and banking reform.’⁴⁵

This motif overlaps with post crisis critiques of the social utility of finance and its willingness to lend to the productive economy, with Ed Milliband for example saying ‘while we rightly celebrate having a leading financial centre, our financial sector has too often let down our real economy.’⁴⁶

But within this ‘real economy’ the ‘sectors of the future’ in particular are said to require different lending institutions. For example, a recent BIS report on the Aerospace Growth Partnership says

‘Access to finance represents a risk to the industry: the nature of aerospace programmes, with heavy up-front investment costs, and long timescales to make a return, makes it hard for finance providers to understand risk and deters them from lending.’⁴⁷

⁴⁵ <http://www.eef.org.uk/NR/rdonlyres/779379BD-3DC6-49D0-99AA-34D90921E602/21515/RoutetoGrowth1.pdf>

⁴⁶ <http://www.edmiliband.org/made-in-britain-the-case-for-patriotism-not-protectionism---ed-m>

⁴⁷ <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/r/12-954-reach-skies-strategic-vision-uk-aerospace>

Others have said the same about green tech and new pharmaceutical products, and it is this anxiety about the shortcomings of the private banks which have driven calls for a state investment bank for industry.

For most new industrial strategy advocates, Germany is the model of good banking practice support for the real economy. This has been focused on in particular by the centre-left and the Blue wing of the Labour Party, with both the TUC and Compass releasing reports praising the German banking system's support for manufacturers.⁴⁸ While for the left Germany's social market economy has a particular attraction, across the spectrum of opinion there is interest in its banking - the regional Landesbanken, non-profit *Sparkassen-Finanzgruppe* and state-backed banks such as Kreditanstalt für Wiederaufbau, which are able to lend counter-cyclically and into areas with strategic importance but limited market appetite due to risks. The TUC says,

'The industries of the future will need to be funded and, while some of that funding could come from traditional high-street banks, experience shows that some key sectors, especially those that are not in tried and tested, 'safe-bet' industries, cannot get development capital. The UK's major international competitors have strategic investment banks, whether based on a model such as Germany's KfW or France's FSI. The government is committed to establishing a Green Investment Bank, but the question of how to fund future strategic sectors that are not particularly associated with low-carbon growth is one that must be grappled with.'

*A strategic investment bank could make use of existing government holdings in the banking industry. It would be able to raise large amounts of money on the commercial markets, backed by a smaller capital base provided by government. It could be set up on a commercial basis, run by an independent board, with all stakeholders represented, including trade unions. Its remit would be to generate a long-term return, based on investment in infrastructure and British businesses across sectors.'*⁴⁹

Monetary policy also features in these discussions: quantitative easing (QE) was both supposed to achieve the goal of increasing credit flows to the 'real economy', though critics now claim it has been more effective in inflating asset prices and there is now a second attempt with Funding for Lending. Others, particularly the trade unions, argue that QE and monetary policy should be more closely directed towards favoured manufacturing sectors and in particular green industries.

Key assumption: lack of credit is one of major contributory problems of a weak manufacturing sector.

⁴⁸ http://clients.squareeye.net/uploads/compass/documents/Compass%20Plan%20B_2.pdf

⁴⁹ <http://www.tuc.org.uk/tucfiles/204/GermanLessonsEdit.pdf>

4) The need for a 'vision'

The British private sector is defined by low levels of investment in comparison to OECD peers, but this is combined with high corporate cash surpluses. Unlocking these surpluses and boosting the investment share of GDP vs. household consumption is a key pre-occupation of new industrial strategy. The means, it is frequently said, is for government to provide a 'vision' which sets out long term priorities for economic development, and gives the private sector the ability to invest with confidence in the future. Maybe this is why so many talk of new industrial strategy rather than policy because, in loose popular usage, strategy is about worthy aspirations and being strategic is about acting on a purpose which must again have a consensual appeal.

As the EEF says, 'Generating growth is the role of business, but government sets the climate and conditions which allows this to happen'; this implies a coherent and predictable policy framework across different department, rather than the present patchwork quilt of reactive ad-hoc policies:

*'A modern industrial strategy can bring a vision, coherence and accountability to economic strategy that matches government's approach to the fiscal mandate. It would send out a clear signal to the private sector where government wants growth to come from and provides a framework for transparent decision-making that would give confidence that all parts of government are pulling in the same direction.'*⁵⁰

The CBI similarly says,

*'There is no shortage of policies that impact on industry, but all too often they fail to generate the right conditions for long-term investment in the UK's productive capacity and future capabilities. Policies don't always join up, may even work against each other, or fail to play to our strengths... Businesses need to be confident about the future when making medium to long-term investment decisions. If government action is to make a real and positive impact on business investment, the UK requires a clear vision of its economic future and ambitions... For business, bringing cutting-edge technologies and other new ideas to market is risky, and routinely takes more than a decade to realise returns on investment. During this time, a consistent approach from government is critical. Shifts in the policy environment constitute a significant danger when planning and financing projects.'*⁵¹

The most egregious counter example from this parliament would be green energy, where government has ramped up ambitions for the sector with green business rhetoric while

⁵⁰ <http://www.eef.org.uk/NR/rdonlyres/779379BD-3DC6-49D0-99AA-34D90921E602/21515/RoutetoGrowth1.pdf>

⁵¹ http://www.cbi.org.uk/media/1545028/cbi_industrial_policy_a5_report.pdf

simultaneously prevaricating over feed in tariffs and emission reduction requirements to the extent that wind turbine manufacturers start to cancel projects.

Vince Cable's leaked letter in February 2012 complained that, while clear on fiscal policy, the Coalition lacked a 'compelling vision of where the country is heading', with 'piecemeal' industrial policy and no 'clear and confident message about how we will earn our living in future'. Cable's justification for his short-of-detail new industrial policy announcement in September 2012 was that, even if lacking specifics, it would 'give our businesses certainty, allow them to make their own plans and know that the full weight of government is behind them'. The automotive council, which government convenes to enable coordination and information sharing in the sector is cited by Cable as an example of how this could be done more widely, and appears to be the prototype for the Aerospace Growth Partnership.⁵²

For the trade unions and Labour party, part of the uncertainty problem also lies in the Coalition's over-zealous austerity programme. As Umunna says,

*'by cutting too far and too fast, this Government choked off growth before it was properly established. Business confidence nosedived following their 2010 Spending Review. Since then, we have seen too little investment and virtually no growth. Right now, many large firms are sitting on big piles of cash. Tragically, in an uncertain macro environment, they see greater value in hoarding cash against future uncertainties than investing it in productive capacity or re-circulating it in the economy. We need to get them investing, and this starts with getting the macroeconomic judgements right.'*⁵³

Key assumption: manufacturers and investors are held back by policy uncertainty, creating and sticking to a 'grand plan' for industrial transformation will unlock investment

5) The old structural reforms: or, cut 'red tape' and lower labour costs

Most of the advocates of new industrial strategy do not break with the earlier neoliberal orthodoxy because they advocate or assume that a more active new strategy could and should operate within this older frame. To that extent, new industrial strategy is, in intellectual terms, a profoundly non-disruptive innovation because it adds new injunctions without any obligation to rethink or jettison the doxa of the past thirty years. The Treasury and the UK's business associations continue to believe in structural reform and the horizontal, enabling policies of deregulation and liberalisation that have dominated the UK government policy mindset since the 1980s. Much in post-2010 new industrial strategy is

⁵² <http://www.bis.gov.uk/news/speeches/vince-cable-eef-manufacturing-conference-2012>

⁵³ <http://www.chuka.org.uk/2012/03/speech-active-government-working-in-partnership-with-productive-business/>

carried over from previous manufacturing reviews carried out by New Labour in 2002 and 2008, in BIS's BERR and DTI incarnations. In this earlier phase, the New Labour emphasis was on creating macro-economic stability as a first priority, guaranteeing the free market framework, lowering the tax and regulatory 'burden', providing skilled workers and infrastructure, and encouraging integration with global markets.⁵⁴

The carry over is clear in the Coalition's March 2011 *Plan for Growth* which contained the following four 'ambitions' where three of the four ambitions were entirely consistent with earlier New Labour neo liberal orthodoxy:

- Encouraging investment and exports as a route to a more balanced economy;
- Making the UK the best place in Europe to start, finance and grow a business;
- Creating a more educated workforce that is the most flexible in Europe; and
- Creating the most competitive tax system in the G20.

The Coalition, when pressed on what they are doing for business growth, point to infrastructure investment planned in the 2011 National Infrastructure Plan and more recently the Help to Buy housing purchase support programme,⁵⁵ creating favourable macro-economic conditions via the elimination of the structural deficit, removing 'red tape' (health and safety legislation, redundancy law, planning procedures and environmental regulations, and cuts to the top rates of tax and corporation tax.

Meanwhile BIS, which under Cable has produced more forward-thinking documents and initiatives than many of his Tory colleagues, does not escape neo liberal assumptions. In September 2012 BIS stressed its 'continuing commitment to open and competitive markets as a means to stimulate innovation and growth.'⁵⁶ While market failure can be conceded by the advocates of new industrial strategy, the benefits of increased competition cannot in any way be questioned. This *idee fixe* predates 1979 and has endured since Edward Heath's 1964 abolition of Retail Price Maintenance opened the way for the supermarket chains.

Business associations such as the BCC, EEF and CBI have welcomed structural reform moves and called for more actions to lower the cost of doing business, while simultaneously asking government to explore more radical options, with the BCC for example saying:

⁵⁴ <http://www.bis.gov.uk/files/file27411.pdf> AND <http://www.bis.gov.uk/files/file25266.pdf>

⁵⁵ http://cdn.hm-treasury.gov.uk/national_infrastructure_plan291111.pdf AND <http://www.bis.gov.uk/assets/biscore/corporate/docs/i/11-1058-infrastructure-supply-chains-barriers-opportunities>

⁵⁶ <http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/i/12-1140-industrial-strategy-uk-sector-analysis>

*'Cutting back forms of red tape that do not serve the public interest is a very positive move for the business environment. However, it is not going to be the silver bullet that delivers growth ... It has to go alongside access to financing, improvements in infrastructure and making a skills system that works for companies.'*⁵⁷

The EEF have similarly in September called for government to accelerate cuts to employment regulation to lower the costs of doing business and create a more flexible labour force, while also upping support for key sectors and infrastructure.⁵⁸

*'Rising costs, growing regulatory burdens and unpredictable tax changes can create uncertainty and act as a brake on investment in modern machinery and innovation ... Strategic use of horizontal policies – policies that cut across the economy, having an impact on multiple sectors – by government, has the potential to make the biggest difference to growth. Horizontal policies must focus on getting the business environment right, align with clear economic ambitions and tackle costs that are of most concern for companies focused on investment and trade ... This, therefore, leaves all parts of government that impact on the economy with a role in delivering the objectives of an industrial strategy in the same way that they must play their part in reducing spending levels and driving ahead with efficiency savings ... This would deliver a very powerful signal to business that all departments are working relentlessly to remove obstacles to growth and stand ready to deploy their resources to create the best possible business environment to support the activities our economy needs for stronger and more balanced growth.'*⁵⁹

Trade Unions meanwhile have predictably mounted some opposition because they fear flexibilised labour markets and argue that the real problem is the lack of demand in the economy. But trade unions remain something of a voice in the wilderness with the Labour party remaining, if not supportive, then muted in its opposition to structural reform for fear of appearing anti-business. Umunna's line here is that:

'The first big lesson is that the further policy moves from the whole economy towards particular sectors or firms, the riskier it gets. The surest foundation for active government must be effective horizontal policies. The most important horizontal policy for active government is fair competition in markets. Second, third, fourth and fifth must be other horizontal policies like skills, finance and infrastructure investment, effective corporate governance and incentives that reward long term value creation over short term value extraction.'

⁵⁷ <http://www.guardian.co.uk/business/2012/sep/10/cable-red-tape-health-safety>

⁵⁸ <http://www.eef.org.uk/NR/rdonlyres/779379BD-3DC6-49D0-99AA-34D90921E602/21515/RoutetoGrowth1.pdf>

⁵⁹ <http://www.eef.org.uk/NR/rdonlyres/779379BD-3DC6-49D0-99AA-34D90921E602/21515/RoutetoGrowth1.pdf>

As far as concrete policy goes however, Labour's five point plan for growth relies on a different set of tax cuts, tax rises, and the bringing forward of new infrastructure projects.⁶⁰

The dominant approach then appears to be the state withdrawing from its role in protecting the interests of the workforce (e.g. in health and safety, job security) and the environment, or in redistributing wealth, at the same time as it increases its role in providing support to favoured industries via infrastructure, training or subsidies. Thus, the coalition speak of 'private sector investment freed from unnecessary barriers, supported by government funding where the market cannot reach unaided'⁶¹ While intellectually contradictory, this position represents a response to the stubborn lack of sustained growth and the increasing clamour (especially from the private sector) to do more to encourage the economy.

Key assumption: the problems of the private sector are generic; enterprise and growth will follow from structural reform policies which target the whole economy and create an environment in which it is easier to do business.

6) A new interest in localism

Despite the widespread agreement about the need to rebalance the economy, in terms of the relative strengths of particular sectors and regions, new industrial strategy has been presented and discussed very much as a national level policy that lacks any sense of place because it does not engage regional or local differences in economic activity and capability. This national preoccupation has been qualified or challenged by the Coalition Government commissioned Heseltine Report, *No Stone Unturned in Pursuit of Growth*, which adds a local focus but again does so in a way which is non- disruptive because it is about devolution from the centre which empowers regions to solve their problems

At the centre of this is a recommendation to bundle up small pots of money into larger ones. So that local government (acting under the strategic direction of partnerships with the private sector via Local Enterprise Partnerships [LEPs]) can have more forward visibility about the level of resource and more autonomy about how monies can be spent locally to achieve certain goals:

'I have produced an indicative list of central budgets that would be more effectively managed by local leaders based on a first examination of the public expenditure accounts. These include significant parts of the skills, infrastructure, employment support, housing, regeneration and business support budgets held by central

⁶⁰ <http://www.labour.org.uk/plan>

⁶¹ Department of Culture, media and Sport / Business Innovation and Skills (2010), *Britain's superfast broadband future* (December 2010)

*government. Local leaders would have flexibility to spend the budgets on priorities relevant to local circumstances as agreed with central government.*⁶²

The role of central government then is not simply to use horizontal approaches to deregulate and reform taxation, but to enable and ‘empower’ cities and other communities to drive growth at the level of FEMAs - functional economic market areas. These areas are defined in ways which hybridise older notions of city region with ideas about agglomeration. But the policy instruments and economic mechanisms that would drive growth inside these boxes are never specified or disclosed; instead, it is assumed that the combination of more devolution of resources (albeit accompanied by more responsibility) with more initiative and accountability has the (innate?) power to drive growth through more locally-tailored actions.

*‘We need to pass much more of the initiative for deciding how funding is spent from central government to a local level. We need to enable local partnerships to take a holistic view of the challenges they face and develop strategies grounded in the economic reality of their area. This would prove a significant economic and social stimulus over the medium and long term’*⁶³.

Of course, this is in a context where there is no net increase in funding; but the underlying assumption is that local control and accountability will lead to more effective use of resources to promote growth, thus implying a continued reliance on mechanisms of competition (here, between authorities) to improve overall performance. LEPs are also expected to ‘leverage’ funding from the private sector and other sources to supplement central government funds. As CLES argues⁶⁴, the Heseltine Report is partly a return to old principles of cities and regions competing with each other so that rewards go to those local authorities who are best placed and most adept at managing such processes. The outcome could easily be a competition of the unequal without a central referee.

The government’s official position is that it agrees with Heseltine’s localism agenda: in the 2012 Autumn Statement the role of LEPs is highlighted in setting local ‘strategic plans’ for which spending can be allocated for action by local authorities.⁶⁵ This represents both a reallocation of resource (though modest in the first instance⁶⁶) but also a reallocation of the ‘duty’ to promote local economic development. A fuller response to the Heseltine report was produced in spring 2013, when the Government stated that it accepts 81 of the 89 recommendations. The spirit of the localism agenda is firmly embraced:

⁶² <http://www.bis.gov.uk/assets/BISCore/corporate/docs/N/12-1213-no-stone-untuned-in-pursuit-of-growth.pdf>, Para 2.29

⁶³ <http://www.bis.gov.uk/assets/BISCore/corporate/docs/N/12-1213-no-stone-untuned-in-pursuit-of-growth.pdf>, para 2.25.

⁶⁴ <http://www.cles.org.uk/wp-content/uploads/2012/12/No.-94-A-new-local-economic-narrative.pdf>

⁶⁵ <https://www.gov.uk/government/publications/autumn-statement-2012-documents>

⁶⁶ <http://www.cles.org.uk/wp-content/uploads/2012/12/No.-94-A-new-local-economic-narrative.pdf>

‘Just as strong local leadership is what made the UK successful in the past it also has the potential to transform our competitiveness in the present. The process is already underway. The creation of business-led Local Enterprise Partnerships, greater powers and flexibilities for local authorities, the introduction of the Regional Growth Fund, City Deals and Enterprise Zones are but some of the measures this Government has taken to empower local communities. We now need to take the next bold step that will turn the tide on the excessive centralisation that shackles local ambition and creativity.’⁶⁷

For central government, the continuing responsibility is one of leadership and ensuring that individual departments have a coherent approach to realising the growth vision. This will require some organisational change, such as streamlining of functions, as well as ‘cultural change’ amongst the civil service and greater use of non-executive directors and other outside experts to guide departments. The response to Heseltine builds on earlier statements about a shift to localism (see for example the 2010 White Paper *Local Growth. Realising Every Place’s Potential*),⁶⁸ by envisaging a greater role for LEPs as well as committing a large volume of spending to the devolved pot. This fuller response in 2013 holds to the notion of the local as a way of obtaining leverage over local economic problems, but there is no further articulation of which specific mechanisms could or should empower local partnerships to achieve more balanced growth. The local emphasis therefore represents a kind of optimism which derives from twin processes of empowerment and responsibility working through some black-box-like metamorphosis.

Key assumption: central government cannot take sole responsibility for rebalancing the economy; devolution of resource and responsibility for economic growth will stimulate local activity in ways that do not simply redistribute economic activity between local areas.

Part 3: Common absences

While some common motifs can be easily detected, there are some striking and important absences in the form and content of reports on new industrial strategy that should also be noted. Two such absences are highlighted here. First, analysis of business models and supply chain dynamics is largely missing so that it is not clear what actions might be required to grow employment, join up and rebuild supply chains, nor is there any focus on the fundamental difficulties in doing so. Second, in spite of a new generic emphasis on the ‘local’

⁶⁷

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/188379/PU1465_Govt_response_to_Heseltine_review.pdfhttps://www.gov.uk/government/uploads/system/uploads/attachment_data/file/188379/PU1465_Govt_response_to_Heseltine_review.pdf

⁶⁸ <https://www.gov.uk/government/publications/local-growth-realising-every-places-potential-hc-7961>

there is no clear geography in new industrial strategy (because, of course, everywhere is local). The notion of unbalance suggests regions with different histories of growth and different kinds of trajectories. But there are no specifics about how policy could be different in, for example, London and Liverpool, Warrington and Oldham. These two absences are built on a common lack of empirical analysis. New industrial strategy is a matter of general, high level ambition which highlights some sectors and business activities (such as aerospace and bank lending). But it lacks a coherent map of the existing economy and does not engage with differences of place even as the advocates of new industrial strategy lament a lack of vision about what might be possible in the future.

1) Understanding business models

As the above review demonstrates, within the new industrial strategy frame, the problems of UK manufacturers are understood as exogenous to production: the government does not provide enough supply side support; banks do not lend; policy is too incoherent to instil confidence; infrastructure is inadequate; the regulatory and tax burden is too high; demand in the economy is too low. Logically, if the government were able to create the correct environment for its private sector manufacturers, they would flourish in Britain just as they have in Germany.

Although new industrial strategy has a very specific aim of output growth, particularly through exporting, there is little specific discussion of business models, product markets (and forms of competition) and supply chain strength and relationships. It is implied that the most significant obstacles to growth are exogenous so that fixing environmental deficiencies by boosting workforce skills, bank credit or other infrastructures should be the priority. A broader analysis needs also to consider to what extent the private sector has endogenous problems, in the form of dysfunctional business models and supply chain power relations; and that these might require some specific interventions to reduce their dysfunctionality. Understanding of business models is important because it combines analysis of how organisations recover their costs through making and selling products, within a specific business environment; it incorporates the nature of competitive markets, the structure of costs and the options available to meet stakeholder needs and interests. Thus, business model analysis might explore the obstacles to growth for a firm in a particular sector. One set of obstacles might relate to supply chains: for example the impact of supermarket buyer power in food manufacturing; or an absence of local suppliers to ensure that the potential benefit from regional increases in output is realised.

The importance of supply chains has been recognised and many reports and interventions note problems with existing, often patchy supply chain arrangements. For example, Umunna on the need for ‘developing our manufacturing capacity by lengthening and

strengthening supply chains⁶⁹ and Cable on ‘the need for strategic, long-term thinking about supply chains, and the role played by public procurement in supporting them.’ Sectors such as automotive and aerospace have said they want to nurture their UK supply chains,⁷⁰ and these are now at the centre of sector-based aspects of new industrial strategy. Supporting supply chains has now become a routine aspirational element in the new form of interventionism, focusing on networks of organisations rather than hoping for a large firm ‘winner’. However, aside from a £125 million Advanced Manufacturing Supply Chain Initiative and promises to re-think public procurement, the rhetoric is devoid of serious content.⁷¹ There is, for example, no recognition that supply chains are generally much shorter and simpler outside engineering sectors like cars and aerospace which produce complex products with hundreds of sub-assemblies and tens of thousands of individual parts.

The Kay Review has drawn attention to problems caused by a preoccupation with shareholder value⁷², and it is almost as fashionable now to deprecate short-termism as it is to mention supply chains, but serious policy proposals on the table are absent. Let us suppose that if the UK economy has a real economy problem of supply chains as well as a financial preoccupation with shareholder value, driven by power relations embedded in the preferences of main stream investors and the culture of successful firms; put simply, let us suppose that the problem is the stock market together with Sainsbury and Tesco and their effects on food processing which is our largest manufacturing sector. The new industrial strategy literature contains no clear answer as to what should then be done because it is concerned mainly with adding new sectors and sources of finance, and has proposed nothing more than talking shops for different interests in the food chain as the means to “win win” supply chain improvement. Areas like food supply chains and retail are seen as important only in the sense that markets should pass a test of competitiveness which ensures they are operating in the consumer interest. Meanwhile the food processing sector, the largest manufacturing sector in the UK by employment, is not in view as a priority sector to be targeted by new industrial strategy.

2) Geography

⁶⁹ <http://www.independent.co.uk/news/business/comment/chuka-umunna-manufacturing-can-boom-if-we-really-want-it-to-7960049.html>

⁷⁰ <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/g/11-1478-growing-automotive-supply-chain>, AND <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/r/12-954-reach-skies-strategic-vision-uk-aerospace> AND <http://www.bis.gov.uk/assets/biscore/corporate/docs/i/11-1058-infrastructure-supply-chains-barriers-opportunities>

⁷¹ <http://www.bis.gov.uk/news/speeches/vince-cable-eef-manufacturing-conference-2012>

⁷² <http://www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report>

While there are some elements of the new industrial strategy discussion which touch upon organisational and business model issues, there is very little, if anything, which thinks seriously about how to address regional differences which logically would require some kind of differentiated policy response. This is despite the whittling down of regional economic policymaking capacity following the abolition of the RDA, with Regional Growth Funds failing to provide anything like an adequate replacement for what was already an inadequate mechanism.⁷³

The fact that different regions of the UK have divergent needs and capabilities is only recognised indirectly through the Heseltine emphasis on local solutions; this is ambiguous because devolved funding and power goes to successful and unsuccessful areas alike (and the suspicion is that the successful in London and the South East will then have a larger paddle for their own canoe). BIS does recognise the different experiences of regions and there is perhaps a general assumption that a revival of manufacturing will benefit the ex-industrial regions of the North and West. But this assumption is only justified if it is empirically based on a mapping of existing manufacturing capacity and an assessment of the geographical impact of growth in those sectors of manufacturing most likely (to be supported) to grow. Certainly, the strongest remaining large assembler/manufacturers have a regional base (e.g. Rolls Royce in Derby, Nissan in Sunderland, and Airbus in Broughton); but, equally, the natural poles of growth in high tech are the M 11 corridor and the Thames Valley. Nevertheless, the regional impact of new industrial strategy, especially that related to targeted sectors, let alone how to use industrial strategy to work on manufacturing growth in any specific region, has not been considered in any major empirical study. New industrial strategy is industrial policy without a map

Instead, in the new industrial strategy frame, the UK economy is discussed as a singular, abstract entity, whose performance deficiencies are largely described in national aggregate statistics and redressed with policy measures which are to be nationally applied. This is despite the fact that the underlying premise of new industrial strategy is of an unbalanced economy where imbalance is partly geographic between the North and West and the rest; and despite the empirics which show that private sector employment growth has been concentrated in London and the South East. The most likely outcome of new industrial strategy would be more economic activity off roundabouts on the M11 and down the Thames Valley. But the possibility that new industrial strategy will intensify existing regional inequalities cannot be opened because regional policy remains entirely forbidden (except insofar as it becomes Heseltine style localism). Regional policy is, thus, explicitly rejected, as in the BIS 2010 paper on local growth; where a planned approach to narrowing regional growth rates is rejected as part of the doctrine of failed old policies:

⁷³ <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/regional-growth-fund-report/>

‘The previous approach to sub-national economic development was based on a centrally driven target which sought to narrow the growth rates between different regions. Not only did this approach lead to policies which worked against the market, it was also based on regions, an artificial representation of functional economies; for example, labour markets largely do not exist at a regional level, except in London. This therefore missed the opportunities that come from local economic development activity focused on functional economical areas. It also largely ignored the knowledge and expertise of the private sector, local authorities and their local communities. The lack of local accountability for economic development functions also meant that local partners did not feel empowered to lead action to improve economic growth.

A further feature of earlier approaches was the belief that planning could both determine where growth should happen and stimulate that growth. This approach failed as it went against the grain of markets. Regional and other strategies stifled natural and healthy competition between places and inhibited growth as a consequence.’⁷⁴

The new industrial strategy approach is a more devolved localist one, which starts from acknowledging difference and which recognises the importance of agglomeration. Central to this is an apparent shift of responsibilities to the local level, backed by generic support for markets and some targeted infrastructure improvement.

‘Shifting power to local communities and businesses every place is unique and has potential to progress. Localities themselves are best placed to understand the drivers and barriers to local growth and prosperity, and as such localities should lead their own development to release their economic potential. Local authorities, working with local businesses and others can help create the right conditions for investment and innovation. Critically, our new approach will enable places to tailor their approach to their circumstances and recognises that places can usefully compete with one another, harnessing self-interest and ambition to grow, increase prosperity and collectively increase the size of the national economy.’⁷⁵

The 2010 BIS report originally envisage fairly modest (and rather vague) shifts of resource and power, initially to a dozen cities; the Heseltine agenda argues that this should be both deeper (allowing local partnerships to do more) as well as encompassing everywhere outside London, not just lead cities. The Government’s ostentatious support for most of the Heseltine report’s proposals suggests a new found enthusiasm for the local but without any specific understanding or recognition of the diversity of local problems, conditions and possibilities; or any engagement with the specifics of how persistent disadvantage could be rectified other than by environmental improvements.

⁷⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32113/10-1226-understanding-local-growth.pdf

⁷⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32113/10-1226-understanding-local-growth.pdf

*'The Government therefore proposes to devolve resource and responsibility to those places which can demonstrate credible and compelling economic leadership. Local areas will receive powers and budgets previously held nationally in order to pursue local priorities, and local leaders will take on accountability for economic outcomes. Funding and flexibility will reflect the quality of the strategic proposals put forward by LEPs, the commitment of local authorities to work more efficiently and effectively across the LEP area, as well as local need.'*⁷⁶

From this point of view, the support for local leaders apparently removes any requirement to critically discuss geography. It becomes a matter to be dealt with at the local level by the local community and its leaders; for central government the issue of geography is at once both recognised and dispensed with as a problem for another set of actors. If, as is likely, local trajectories continue to be different, this no doubt will not discredit the new local approach. Within this frame, uneven results would demonstrate simultaneously the potential for local based strategy and action to work in specific locales, while underperforming areas do so through faults of their own, and must do better.

Conclusion

The interest in new industrial strategy represents a striking shift, though it is intellectually and politically a case of non-disruptive innovation which works partly because it builds on rather than rejects established, earlier neoliberal approaches to the economy which is an object that remains blurred except insofar as the focus is on the targeted priority high tech sectors of the future. A new focus on supporting industry and encouraging more balanced growth (howsoever that is to be done) is added to the existing structural reform task list of deregulation (especially of employment), competitive tax regimes and supporting markets. There is no alternative as the Thatcherites used to say and new industrial strategy performs that slogan in a flexible way which accommodates undeniable realities. The outcome is a longer list of approved policies with sector-level actions plans as well as conventional horizontal measures to create the right conditions. The resulting collection of policies lacks coherence; however it has the merit in the parlance of the Heseltine Report of leaving 'no stone unturned'. The severity and urgency of the need to rebalance leaves no room for ideological dogmatism; pragmatism and working together are performed in new industrial strategy as supported by the r CBI and TUC.

Even as sleeves are rolled up, an interesting issue arises about how we understand the economy that is to be worked upon and rebalanced. At this point, the Heseltine Report is the most interesting of the many reports and manifestoes for the new strategy. As well as stretching the problem definition by adding localism;, the Heseltine Report begins to

⁷⁶ <https://www.gov.uk/government/publications/governments-response-to-the-heseltine-review-into-economic-growth>

recognise and make (empirical) sense of a baseline economy which has little high tech glamour and is far from competitive success. While highlighting the need to focus on sectors of the economy that offer prospects for growth, Heseltine also acknowledges that a large part of the economy consists of undistinguished small and medium sized firms that are themselves part of the problem. Acknowledging that his argument is sure to draw criticism, Heseltine argues that any shift in the national picture requires an upgrading of many such firms so that they are able to recognise and take advantage of growth opportunities. While his remedies are only loosely spelt out and focus on the infrastructure of business advice and support, it is quite striking and exceptional that the Heseltine Report recognises that our broad based future depend on a large, and often underperforming, rump of private sector businesses in sectors like trucking, hospitality and health::

*'It is tempting for policy to focus on a few select, top-end sectors and on high growth companies. The fashion changes, but at the moment it is high tech and exports to the new markets that are paraded as the easy solutions. They are important, but ultimately they are not enough to ensure a broad-based competitive economy. We cannot ignore the performance and growth potential of the mass of businesses across all sectors including construction, logistics, retail, hospitality and health and social care, which have traditionally provided a high proportion of the employment opportunities in this country.... they will continue to provide a high proportion of our employment opportunities'*⁷⁷

*'The big challenge we face, therefore, is in encouraging the growth ambitions and developing the capabilities of the remaining large mass of slower growing and lower performing businesses. These are the ones that ministers rarely get to see on their regional visits, focused as such visits are – invariably – on the high achievers. It is rare too, for ministers to get advice about these businesses, or to have a dialogue with them'*⁷⁸

The Heseltine report (p.126) also provides sectoral estimates of projected employment growth between 2010 and 2020: those sectors expected to contribute more than 100,000 jobs are (in descending order of importance): professional services, support services, construction, arts & entertainment, accommodation & food, wholesale & retail trades and real estate. While there is no information provided about the basis for such claims, it is unusual that employment creation is considered in such an empirical way, with a focus on areas that lie outside lists of favoured sectors. In this sense we have a glimpse into the majority, mundane economy where large numbers already work and where mass employment creation will happen in the future, if it is to happen at all. In terms of where job growth might come from, according to the Heseltine report estimates, the economy in 2020 is unlikely to be substantially rebalanced by new industrial strategy because such strategy

⁷⁷ Para 5.15

⁷⁸ Para 5.12

does not engage the sectors with large and growing employment bases. And, as jobs are a way of distributing income, if high quality jobs are not created in volume, what is the benefit of innovation?.

What does all of this imply about the economy? First the new industrial strategy frame adds the necessary policy optimism that things can get better, though there is little discussion about the depressing macro-economic context. This is important not only in the domestic context but also because new industrial strategy embraces an export-led version of rebalancing which implies that export markets are relatively unproblematic. This is not so at present when other austerity-hit high income countries attempt to follow similar approaches and while the emerging economies themselves have changing market conditions. Second, insofar as there is consensus in new industrial strategy, it does represent a shift because it is coloured by the twin novelty of a return to targeting (of sectors or supply chains, not firms) and a new responsibility for 'local leaders' to take charge of their own destinies, while maintaining the old enthusiasm for the supply side measures to enhance and promote operation of competitive markets. Third, we can know very little about the existing economy of the 2010s from reading the mass of new industrial strategy reports. The more academic reports like that by BIS on 'UK sector analysis' do provide various breakdowns of the UK economy, along with international comparisons of productivity.⁷⁹ But the detail of particular sectors and how these could figure in a broad-based industrial strategy is less than clear.

In the new industrial strategy frame, that part of the economy which is amenable to action seems to be the (relatively small, though usually unquantified) sectors or sub-sectors that develop and use particular modern technologies. Industrial policy involves adding small new sectors in ways which all support; not intervening in large old sectors in ways which question power and challenge established interests which would resist. There may be opportunities for new sector high tech growth and indeed such developing industries might provide some skilled and quality employment. But a preoccupation with add-ons ignores the majority economy which we could think of as mundane or foundational, that already accounts for a large amount of employment and where (on present form) new jobs are being created and will need to be created⁸⁰. Here, one of the interesting corollary features of the current policy discussion is the emphasis on success through exports which ignores import substitution, though both create the 'goods' of improved trade balance and employment. Of course, it is more politically acceptable to speak of export-led growth

⁷⁹ <http://www.bis.gov.uk/assets/BISCore/economics-and-statistics/docs/l/12-1140-industrial-strategy-uk-sector-analysis.pdf>

⁸⁰ For more discussion of the foundational economy and how this could form the basis for a new approach to employment creation, see Bowman et al. (2013) <http://www.cresc.ac.uk/publications/the-foundational-economy-rethinking-industrial-policy> and other reports and papers at the CRESC Foundational Economy project site: <http://www.cresc.ac.uk/our-research/remaking-capitalism/the-foundational-economy>.

rather than import substitution, which implies more local production and consumption. However, supporting the mundane activities in a local or regional economy can deliver many social and economic benefits; sustainability and resilience provide a vocabulary that needs to be inserted into new industrial policy discussions in ways that would give localism new meaning.