

Industrial Strategy

Alternative Heads of Report

Strategy is defined as “a plan of action to achieve a long term or overall aim” (OED)

What do we mean by Industrial Strategy?

The phrase “industrial strategy” is unhelpful because:

- The phrase has historical meaning which creates pre-conceptions, many negative;
- The phrase creates an implicit bias towards a sector of the economy (manufacturing) rather than obviously embracing the whole economy;
- The phrase biases towards an expectation of government action in the economy when the best default is for government **not** to intervene; and
- A strategy, as the OED definition states, should be in pursuit of a goal but this has not been defined, will be hard to gain unified support and will be almost impossible to sustain through political cycles.

As a result

- People, politicians, companies and sectors ascribe to the phrase “industrial strategy” the issues that are most important to them resulting in “special pleading”;
- The lack of clarity enables those with largest budgets/greatest access to “crowd out” smaller, less powerful interests in influencing policies; and
- Policies and investment may be misdirected.

Why do we need an Industrial Strategy?

Multiple justifications for an Industrial Strategy have been presented but most are of one of the following two types:

- Issue X is important and needs to be tackled (e.g. skills shortages, imbalances between regions), or
- Sector X is important/strategic and therefore needs to be encouraged/supported.

These may be justifications for potential policy measures, but neither of these are appropriate justifications for a strategy. There is a significant risk that, no matter what the original intentions of an Industrial Strategy, it will degrade in to the appeasement of special interests or be presented as the coherent framework for somewhat random policy initiatives – (see UK productivity plan).

Previous Secretaries of State for Business (Lords Mandelson and Heseltine and Sir Vince Cable) argued that they had pursued industrial strategies. This is true; a developed economy - implicitly or explicitly, by revelation or by diktat, and with varying degrees of coherence - must have a strategy, it cannot just amble along.

If we accept this, then the major concerns are the focus and extent of intervention by government that accompanies its Industrial Strategy. A more interventionist approach carries the risk that

economically rational decisions made by businesses, shareholders, entrepreneurs and employees may be disrupted leading to poorer economic outcomes.

So if an Industrial Strategy is inevitable what shapes or changes it are its goals and the events of significance to the economy.

The Government has stated that its goal is “a country that works for everyone” and this would therefore appear to be the goal of its Industrial Strategy.

The UK has just experienced an “event” of generational importance: the decision to leave the European Union. This event has created much larger degrees of uncertainty in the UK economy – affecting future trade relations, inward investment, regulatory policy as well as the course of future fiscal and monetary policies.

The Government could choose to ignore this increase in uncertainty or it could, perhaps more wisely, address the uncertainty by providing a clear set of national objectives supported by a plan to deliver on those objectives. This is the strongest and best argument for an “Industrial Strategy”.

Principles underpinning the design of an industrial strategy

In constructing that strategy to respond to the event of leaving the European Union, it would be appropriate to look back and assess what aspects of the preceding period have been successful attributes of the UK economy and which attributes have been unsuccessful. It would also be appropriate to look forward to see what can be agreed as significant future trends or challenges on the economy. This analysis should inform the principles of its Industrial Strategy.

The most important attributes of the UK economy over recent decades which promote its success include:

- Open, competitive and contestable markets;
- A preference to lower regulatory burdens and taxes on economic activity;
- A globally competitive university and research base.

The most important attributes of the UK economy over recent decades which hinder success include:

- A bias toward low cost labour because of the “advantages” of EU freedom of movement;
- Growing national and international “crony” capitalism;
- Inability of many regions of the United Kingdom to match the economic competitiveness of London and the South East;
- A long term negative trade balance;
- Growing scepticism that the economy is working for everyone
- Increasing scepticism that the economy will deliver a “better future for future generations”.

The most important, discernible trends that will affect the UK economy over coming decades are:

- Process automation which will affect a significant proportion of the workforce and which will demand retraining and reskilling;

- Replacement of formal, direct and sole employment by a variety of independent employment structures;
- Uncertainty and change in established global supply chains driven by competition by nations pursuing incompatible national economic strategies; and
- Continuing imbalances in supply and demand both by quantum and location.

If the primary goal of the Government's Industrial Strategy is to create conditions for an economy that delivers a better future for all our citizens, then this strategy must be secured by three fundamental principles:

- Free trade will be pursued expansively and resolutely with all nations;
- Our domestic economy will be firmly based on competitive, contestable markets that welcome innovation and disruption of incumbents; and
- Policies will be premised on long term, inter-generational outcomes.

Components of an Industrial Strategy

For the reasons outlined earlier, the Government should state clearly that its Industrial Strategy

- will have no bias toward any sector of the economy;
- will use legislation and policy measures to promote adoption of new technologies, products and services that stimulate competition;
- will minimise taxes, reduce restrictions and develop strategies to promote early stage investing, encourage entrepreneurship and reward patient capital;
- will exclude university students from immigration totals and promote high skilled migration to the UK on an equal "who contributes most" basis to people wishing to invest and innovate in the UK;
- further liberalise controls over local economic activity, including innovation in tax and expenditure, to local authority areas that seek, and have the capacity, to promote economic prosperity in their regions;
- modernise the system of taxes on business, reducing or eliminating taxes on small businesses and signing a landmark global tax agreement for multinationals (with the United States);
- develop a system of training credits accessible at any stage of a career to upgrade or change skills;
- promote a regulatory framework that promotes independent working, protects employment rights and complies with a full, rather than marginal, cost of employee time.

Concluding Comment

"Strategy is what happens, not what is planned to happen"

In warfare, a military strategy falters after the first time the enemy is engaged. In business, an economic strategy falters after it engages with the dynamics of millions of people making decisions in their own interests. Ultimately the Industrial Strategy will be what people and events make of it, so best not to be too prescriptive; fewer clipboards, datasets and metrics, more freedom, trust and agility.