From Maggie to May: Forty Years of (De)Industrialisation Strategy

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From Maggie to May: Forty Years of (de)Industrial Strategy

Abstract

Upon becoming Prime Minister, Theresa May installed industrial strategy as one of the principal planks of her economic policy. May's embrace of industrial strategy, with its tacit acceptance of a positive role for the state in steering and coordinating economic activity, initially appears to be a decisive break with an era dating back to Margaret Thatcher in which government intervention was regarded as heresy. Whilst there are doubtless novel features, this article argues that continuity is the overriding theme of May's industrial strategy. First, despite their reluctance to confess it, like every UK government over the past 40 years May is proposing to intervene selectively to 'pick winners'. Moreover, the strategy envisages extending assistance to industries in receipt of substantial government resources since the 1970s. Likewise, the backing anticipated for industries identified in May's strategy is dwarfed by those that are not, most notably the financial services sector. Far from radically rebalancing the structure of the UK economy May's strategy seems destined to entrench the deindustrialisation with which its governments have grappled for almost a century.

Keywords

industrial strategy, industrial policy, Thatcher, May, Brexit, deindustrialisation

Introduction

Just over a decade ago the run on Northern Rock heralded the start of a financial crisis whose baleful consequences continue to convulse the UK. For many citizens, the response to the crisis epitomised the unfairness and injustice at the heart of Britain's economic model. The use of public money to bailout and subsidise the profits of corporate behemoths in financial services contrasted sharply with the experience of the majority of people who bore the brunt of tax rises and spending cuts inflicted in the name of austerity. Speaking in September 2017 at an event to mark the tenth anniversary of Northern Rock's collapse Alastair Darling, the then Chancellor of the Exchequer, echoed the widely held sentiment that the combination of financial crisis and austerity had aggravated social and economic marginalisation that found its political expression in the referendum decision in favour of leaving the European Union.[1]

Brexit prompted another bout of hand-wringing amongst the political elite about what the state could, or should, do to alleviate the plight of individuals and communities left behind by globalisation. Theresa May's subsequent embrace of industrial policy, with its implicit acceptance of a positive role for government in shaping the economy and promoting competitive advantage, has been presented as a 'significant departure' portending the 'reversal of the previously hands off approach to industrial policy' over the last forty years[2].

The May government's industrial strategy, published as a November 2017 White Paper[3], undoubtedly exhibits some novel features. Nonetheless this article contends that this policy shift is less dramatic than it appears. First, the strategy sustains the tension, inherent in UK industrial policy throughout the previous four decades between, on the one hand, explicitly endorsing free market prescriptions and, on the other, a more implicit recognition of the market's limit as an agent of social change and innovation. The upshot has been a schizophrenic industrial policy which combines habitual appeals to the virtues of free markets with selective state intervention to support specific firms and sectors. Second, many of the industries singled out for assistance in the latest industrial strategy including construction, automobiles and aerospace, have received substantial government support since the 1970s. Finally, the strategy is significant for what its fails to acknowledge, namely that the anticipated government assistance for manufacturing is still dwarfed by that being conferred on other sectors, most notably the financial services industry. The new industrial strategy is poised to preserve precisely the kinds of policies that have produced the deindustrialisation and the imbalances characteristic of the British economic growth model.

(De)Industrial Strategy - the Thatcher effect

Following the Second World War, industrial strategy was an intrinsic part of the post-war consensus and efforts of successive governments to arrest the deindustrialisation seen as symptomatic of the UK's economic decline. The emphasis was upon selective industrial policy whose intent is to promote certain industries over others irrespective of market signals. Despite these interventions, the growth of manufacturing output lagged behind other advanced economies and, in the late 1960s, manufacturing employment began to slump. Faced with growing economic turmoil, UK governments of the 1970s significantly expanded the scale and scope of selective industrial intervention but this provided little more than rear-guard action against encroaching deindustrialisation.

Proponents of selective industrial policy maintained that its failure to resurrect UK manufacturing derived from its conservatism and lack of coherence. Rather than seeking to nurture nascent sources of industrial capability UK industrial policy concentrated on cosseting declining sectors and incumbent firms. The increasingly assertive apostles of the New Right drew a different conclusion, namely that the travails of the UK's industrial policy were evidence of the cost and futility of government attempts to 'pick winners'. The UK industry's insulation from market discipline through, amongst other things, nationalisation, subsidies and restraints on foreign trade and investment, had provoked complacency and blunted its innovative instincts. Commercial opportunities, they professed, should be located by entrepreneurs taking risks in response to price signals generated by the forces of supply and demand. Whereas bureaucrats may be tempted to be profligate with public money the entrepreneur, with their personal capital at risk and the profit motive as an incentive, made superior investment decisions. Winners would emerge from competition for customers, not government diktat. Furthermore industrial policy was also thought to be 'crowding-out' private investment by absorbing the scarce economic resources entrepreneurs needed to launch more efficient and innovative enterprises. In short, industrial strategy was thought to be inhibiting the creative destruction so essential to economic vitality.

Margaret Thatcher made plain her views on the future of manufacturing in a speech delivered July 1976. During this address, she declared that 'manufacturing industry is of critical importance to our entire economy' to the extent that 'the recovery and sustained expansion of British industry is the most important single task of the next Conservative government'.[4] She went on to aver that the principle obstacle to a thriving UK manufacturing sector was excessive state intervention which, in the words of Keith Joseph, had left enterprise 'over-governed, over-spent, over-taxed, over-borrowed and over-manned'.[5] The antidote, outlined in a nine-point plan, was a programme of liberalisation, privatisation and deregulation that would roll back the frontiers of the state thereby unleashing pent up entrepreneurial energy and rolling forward the frontiers of the market. Henceforth the state would be confined to implementing functional industrial policies that correct market failures and foster the conditions for efficient market operations.

Upon assuming office in 1979 Thatcher was, ostensibly at least, as good as her word. The resources devoted to industrial strategy diminished and the blend of sectoral and functional policies moved towards the latter. At 1980 prices, spending on national industrial assistance slumped from £4.54 billion in 1978/79 to £65 million in 1989/90.[6] Dwindling public expenditure on industry steadily drained the Department of Trade and Industry's resources and brought responsibility for industrial policy within the orbit of the Treasury's supply-side economists. An extensive privatisation process curtailed direct state control in several key economic sectors such as telecommunications, energy and aviation. Instead the Thatcher administrations' industrial policy stressed the importance of strengthening education and workforce skills, flexible labour markets, lower taxes, and exposing UK companies to competition from home and abroad through domestic deregulation and growing openness to foreign trade and investment. Unfortunately, many firms, already hampered by high interest rates and an overvalued pound, atrophied in the ruthless competitive environment unleashed by the free market revolution.

Far from checking the UK's industrial decline the policies of the Thatcher governments proved an accelerant. Between 1979 and 1990 1.779 million UK manufacturing jobs disappeared. Manufacturing output did not return to 1978 levels until 1988 and continued to fall as a share of UK national income, from 23% in 1980 to 20% in 1990.[7] Finally the balance of trade in goods turned negative in 1983 and has remained so ever since.

The oft repeated allegation that selective industrial strategy in the UK was immolated amidst the pyre of interventionist policies ignited by the Thatcher administrations is somewhat misleading, however. Thatcher swiftly overcame her aversion to industrial policy when confronted by climbing unemployment. Despite an almost callous disregard for the fate of vast swathes of manufacturing industry, and rhetoric to the contrary, the 1980s Conservative governments continued to 'pick winners'.

Thatcher's governments lent ample backing to defence manufactures, perpetuating a role played by the British governments throughout the twentieth century. As well as touring the globe drumming up sales for Britain's armaments companies, the Thatcher governments authorised a series of deals to underwrite risks and subsidise investment in the aerospace industry. British Aerospace was offered loans worth £700m to expedite the investments necessary to produce components for the new generation of Airbus aeroplanes, most notably the wings for the fabled A380. Meanwhile, Rolls Royce received £437 million of 'launch aid' part of which endowed investments into the engine which would ultimately power the Airbus A320. When the company was privatised in 1988 the government sweetened the deal with £283 million of equity capital. The state retains a 'golden share' in Rolls-Royce that allows it to veto takeover attempts thus cushioning the company from shareholder demands to maximise short-term financial returns.

Civilian manufacturing witnessed diminishing government support but it did not disappear altogether. Amongst the leading beneficiaries of government largesse was the automobile industry. Almost £3bn of public money was ploughed into British Leyland as the Thatcher governments sought to break up the company and restructure its balance sheet in preparation for privatisation. Simultaneously the state was providing incentives to foreign vehicle manufacturers to invest in the UK. As the 2017 industrial strategy concedes 'we successfully rebuilt our automotive industry by *deliberately* attracting investment from abroad' (emphasis added).[8] The sizable investment in production facilities by Nissan and later Honda and Toyota understandably hogged the headlines but their success paved the way for other Japanese manufacturers to invest in the UK. By the end of the decade over 30,000 people were employed by more than one-hundred Japanese manufacturing firms.

Conveniently privatisations and inward foreign direct investment were very lucrative for another sector chosen for targeted intervention: the financial services industry of the City of London. In accounts of UK deindustrialisation and relative economic decline the City of London is regularly cast as one of the chief villains. Contrastingly, the Thatcher governments judged financial services to be an industry in which the UK could be globally competitive and thus worthy of state support. Besides, the industry seemed to exemplify the go-getting individualist creed the government wished to instil elsewhere. Praising the City's export contribution in 1978 Thatcher suggested 'this was not the achievement of politicians (because) the services provided by the City attract no subsidies, no hidden subventions from Government'.[9] A thoroughgoing programme of liberalisation and deregulation, culminating in the Big Bang of 1986, sought to enhance the efficiency of the financial services industry by injecting greater foreign competition and ending the segmentation of domestic financial markets.

Taxpayer subsidies for infrastructure investment cemented the City's ascent. Four billion pounds of state support went into the London Docklands Development Corporation, which sponsored the emergence of the Canary Wharf financial district. An equivalent amount eased transport links to the area by financing the London Dockland Light Railway. The biggest subsidy of all however, were the implicit guarantees offered by the government to financial institutions in the event of their default. The magnitude of these subsidies would be graphically illustrated by the financial crisis of 2008. The City's competitiveness rested not just on the inherent inventiveness possessed by the denizens of the Square Mile but on strong and centrally coordinated state intervention. Only ideology prevented this being acknowledged as selective industrial policy.

Industrial Policy from Thatcher to May

In the quarter century following Thatcher's defenestration UK industrial policy exhibited remarkable continuity with not even the economic earthquake of 2008 fundamentally disturbing its trajectory. Apart from a brief flirtation with a more activist industrial strategy during Michael Heseltine's stint as Secretary of State for Trade and Industry governments outwardly acquiesced with the new consensus that industrial policy meant 'functional' interventions to augment the business environment. While the Major administrations prioritised further deregulation and privatisation the Blair administrations accentuated competition as a spur to entrepreneurial innovation and risk-taking. Concurrently, however, governments of this period pursued sectoral intervention to shelter favoured industries from competitive hardships. Some notable exceptions notwithstanding, these interventions saw civilian manufacturing continuing to wither and reinforced the service orientation of the UK economy.

After the 2008 financial crisis came a brief, if belated, recognition of the shortcomings of markets and the need to rebalance the sectoral composition of the UK economy. Starting with Peter Mandelson the Secretaries of State for Business, Innovation and Skills (BIS) in the Brown and coalition governments pontificated publicly about the need for industrial activism. They were joined by the then Chancellor of the Exchequer, George Osborne, who popularised the rebalancing narrative in his 2011 'march of the makers' speech. This did not profoundly alter industrial policy, however. Under Osborne the Treasury clung steadfastly to the usual recipe prosecuting an industrial strategy where tax cuts, labour market deregulation and investments in education outweighed assistance to struggling manufacturers. Under the coalition government the BIS budget fell by a fifth helping the Treasury to safeguard its stranglehold on industrial policymaking. During his tenure at the BIS Vince Cable frequently fulminated about the Treasury's frustration of his aspiration to realise a more interventionist agenda.

Despite bemoaning their ability to pick winners governments carried on doing so. Reflecting their importance not only to national security but also UK industrial capacity and competitive advantage governments have advanced support to defence and aerospace manufacturers. Between 2012 and 2015 alone the civil aerospace sector pocketed £535 million in launch aid to bankroll projects incapable of securing commercial funding. Collaboration with government was expanded in 2013 through the Aerospace Technology Institute which by 2026 will distribute £3.9billion of funding jointly supplied by government and firms for research to secure the global competitive position of the industry. In the automotive industry the Blair government made £6.5million of public money available to cover MG Rover's wage bill to finesse its acquisition by Nanking Automobile group. The financial crisis saw support ramped up. In 2009 the Brown government inaugurated a £300 million car scrappage scheme to subsidise vehicle purchases. In the same year, the Automotive Council, a joint government-industry forum, was created. In 2013 the Council formed the Advanced Propulsion Centre to dispense joint funding of £1 billion to promote the UK leadership in low carbon technologies. Construction was another sector where state patronage crowded consumers in to the UK property market. By 2016/17 the 'Help to Buy' scheme unveiled in Osborne's 2013 budget had subsidised home buyers to the tune of £19 billion. New sectors, such as renewable energy, were also identified for assistance. The Brown government found £60million in its 2010 budget to support the manufacture of wind turbines, but it was the subsidies provided under the coalition's electricity market reform that turbocharged the offshore wind industry. By reducing exposure to volatile wholesale prices subsidies, worth up to £120 per megawatt hour, protected future revenue streams by insulated the industry from volatile market prices. May's industrial strategy admits that the UK's ability to build the world's largest offshore wind capacity rested on 'tailored public support'.[10]

The post-Thatcher governments' efforts to rejuvenate manufacturing industry pale into insignificance when compared to those to maintain the City's standing as a global financial centre. The Major governments continued to support the City's growth through beneficent infrastructure investments such as the Jubilee Line extension to Canary Wharf but it was New Labour that placed support for the City on steroids. A brand-new supervisor, the Financial Services Authority (FSA), was built from scratch with a mandate to promote as well as regulate the financial service industry. When the global financial crisis made evident that the FSA's 'light touch' regulation engendered greed and malfeasance, the Brown government orchestrated a recapitalisation package worth, at its peak, £1.162trillion.

Predictably, these policies hastened the pace of deindustrialisation. Between 1990 and 2016 manufacturing employment plunged by 2.262 million, the value added by UK manufacturing dropped from 16.704% to 9.015% of GDP and manufacturing's share of national output fell in half. By 2016 manufacturing output was only fractionally higher than 1996 and the deficit in trade in goods as a percentage of GDP had widened to its highest levels since records began in 1948.[11]

May's New Industrial Strategy

In her speech on the 11th July 2016, at the beginning of her national campaign to become leader of the Conservative party and Prime Minister, Theresa May asserted that a future government under her leadership would implement a ‘proper industrial strategy to get the whole economy firing’.[12] The turn to industrial policy from a politician that previously espoused few deep-seated views about the economy was greeted with a mixture of suspicion, surprise and, from those anxious about imbalances in the British economic growth model, guarded acclaim. Upon taking office May allayed accusations of gimmickry by initiating changes in the machinery of government, including the creation of a new Department for Business, Energy and Industrial Strategy (BEIS) and a new Cabinet Committee on Economy and Industrial Strategy chaired by the Prime Minister. In January 2017, a consultation process began following the publication of a Green Paper, *Building Our Industrial Strategy*.

Ten months later a White Paper, *Industrial Strategy: Building a Britain fit for the future*, appeared. Shaped by more than 2000 formal responses, the White Paper’s ambitious vision is for the UK to become the ‘world’s most innovative economy......[and] the best place to start and grow a business’ whilst delivering ‘a major upgrade to the UK’s infrastructure.....good jobs and greater earning power for all.....[and] prosperous communities across the UK’.[13] The White Paper pinpoints four ‘Grand Challenges’, each forecast to revolutionise industries which the UK had potential to be a global leader with appropriate cooperation between government, business, civil society and academia. These challenges are artificial intelligence and the data economy, clean growth, the future of mobility, and meeting the needs of an ageing society.

Compared with its predecessors the White Paper is more candid about the limits of markets and the potential of governments to foster progressive economic and social change. The Prime Minister’s foreword to the document asserts that the industrial strategy ‘epitomises my belief in a strong and strategic state that intervenes decisively wherever it can make a difference’.[14] The White Paper also endorses a role for the state that extends far beyond the usual emphasis on the promotion of competition and the correction of market failure. In particular, the strategy recognises that the long-term and risky nature of investment poses an appreciable obstacle to private actors installing new, or boosting existing, industrial capacity. In contrast governments ‘can make long-term investment that no single commercial or academic player can take alone. The modern nation state is the most powerful means we have of pooling risk’. The new industrial strategy accepts that risk taking is not exclusive to entrepreneurs but is a legitimate venture for the government which must be prepared ‘to take these risks, which means accepting not all will work out successfully. An industrial strategy that avoids risk is no industrial strategy at all’.[15]

The White Paper challenges other nostrums associated with Thatcherite economic thinking. Whereas the Thatcherites believe markets emerge spontaneously to enable the exchange of goods and services the new industrial strategy foresees an active role for the state in building markets or, in its words, ‘explore opportunities to work with UK businesses to encourage emerging consumer markets’.[16] Correspondingly the document rejects the idea that state intervention automatically crowds out private investment. Quite the reverse: it crowds it in. The discussion of clean growth for example calls for ‘measures to build a market for energy efficiency among homeowners. This will incentivise greater private investment in household and commercial building energy efficiency’.[17] Research and development is also cited ‘as an example of public spending stimulating rather than displacing private spending’.[18]

The White Paper's penchant for selective government intervention however does not augur a fundamental overhaul of the state-market relationship. In most respects, the novelties of Theresa May's industrial strategy are more superficial than they first appear. As this article has already demonstrated, throughout the last 40 years selective industrial policies have remained integral to economic management. Moreover, the industries touted for the bulk of support under the new industrial strategy bear an uncanny resemblance to those receiving past state patronage. One of the strategy's flagship proposals is the launch of 'Sector Deals', alliances between government and industry to nourish sectors of strategic value and lift their productivity. Of the five sector deals concluded to date with the life sciences, construction, automotive, creative industries and artificial intelligence sectors only the last is a truly a fresh initiative. Although it is not the subject of a Sector Deal, another industry systematically favoured in the past for which government support is reaffirmed in the White Paper is aerospace. Since 2010 the UK's efforts to capture a larger share of the global civil aviation market have been underpinned by government and industry collaboration in the form of the Aerospace Growth Partnership. The strategy proclaims the government's commitment to research and development in this industry, most notably through the Aerospace Technology Institute and a 2016 pledge of £365 million to fund new aerospace technologies. Designed to leaven the confidence of aerospace firms to make long-term commitments, these schemes provide another example of public money crowding in private investment.

This overwhelming focus on a handful of industries means the new industrial strategy is unlikely to be a harbinger of a UK manufacturing renaissance. In reality, as it is presently constituted, the strategy may further narrow the UK's manufacturing base.

The White Paper speaks approvingly of the German and Japanese industrial strategies but differs from them in fundamental ways. Prominent is its focus on deepening the competitive advantage of industries that are already, to use its phrase, ‘world leading’ rather than attempting to broaden the range of competitive UK industries. For instance in the discussion of the artificial intelligence and data revolution the White Paper remarks ‘[w]e start from a position of strength. The UK is already a world leader in AI’.[19] This is corroborated by rising venture capital investments into the UK’s artificial intelligence industry which grew from £6 million in 2010 to £152 million in 2016.

Similarly whereas a minority of well-established sectors are set to benefit handsomely from government munificence the majority of the manufacturing sector will be left to fend for itself. Typifying the inconsistencies and contradictions of UK industrial policy since the 1970s the White Paper’s enthusiasm for selective intervention is tempered by a desire to indicate fidelity to the free market. Having already nominated sectors worthy of special treatment the new industrial strategy still insists ‘the role of government is not to pick favourites and subsidise and protect them’. The government’s task ‘is to ensure that the British business environment is shaped by competition and contestability in which the best businesses of all sizes can thrive’.[20] In a further nod to free markets the White Paper proceeds to suggest that ‘competition, open financial markets, and the profit motive are the foundations of the success of the UK. The best way to improve productivity is to increase exposure to competition’.[21] The message is clear. The role of the state is to expose those sectors not chosen for special treatment by government to the rigour of international competition regardless of the fairness of the competition they may face. As before, the new strategy combines selective industrial policy for the few with functional industrial policy for the many.

Nowhere is this better illustrated than the financial services industry. Aside from a passing reference to 'the UK's global leadership in green finance'[22] the White Paper barely refers to the financial services sector. Yet, enormous state support for financial services persists. The latest data from the National Audit Office shows that in March 2017 the total support outstanding from the UK government to banks stood at £58bn[23], a level of financial assistance appreciably higher than that offered to all other sectors combined in May's industrial strategy. Assisting the City of London's companies to tap new markets remains central to the missions of the Treasury and the Bank of England. In March 2018 a Fintech Sector Strategy was introduced. This includes a commitment by the Treasury and the Department for International Trade to invest resources to help Fintech firms to expand into foreign markets. Curiously, although it references the White Paper, the Fintech Sector Strategy it is authored by the Treasury and is not mentioned on the BEIS website. This development can perhaps be interpreted as a further sign of the Treasury's reluctance to relinquish control of industrial policy and the likely sustenance of strategies that reinforce the UK economy's reliance on financial services.

Conclusion

In the aftermath of Brexit industrial policy has been rehabilitated as a plausible remedy to the UK's broken model of economic growth. As well as becoming one of the cornerstones of the May government's economic agenda the devolved governments of Northern Ireland and Scotland now possess their own strategies for industry. A flurry of reports by academics and think tanks including the Industrial Strategy Commission, the Institute for Public Policy Research, and Policy Exchange have accompanied these developments.

Conventional wisdom submits that Margaret Thatcher's ascent to the premiership meant the extinction of UK industrial strategy. To be more precise industrial policy no longer inhered in selective interventions to tweak the structure of economic activity towards favoured sectors but in the application of mechanisms designed to buttress the operation of markets and cultivate a business friendly environment. In reality, and despite their reluctance to confess it, every government of the past 40 years has pursued a selective industrial strategy. Indeed Theresa May's proposed industrial strategy sustains the centuries old practice of UK governments of using state support to protect or develop selected sectors of the economy. The collapse of the manufacturing sector and the phoenix like rise of the financial services industry reflect patterns of state support as much as the interplay of free individuals in the marketplace. When it comes to industrial policy recent UK governments exhibit a split personality whereby eulogies for free markets are fused with picking winners, saving losers and funnelling sometimes surreptitious subsidies to privileged companies and sectors.

These anomalies suffuse the new industrial strategy implying that it is unlikely to the be a precursor to sweeping changes in the UK's state-market relationship . By openly expressing doubts about the market's propensity to deliver a strong, equitable and balanced economy the new industrial strategy is tackling an important taboo. It is also conceived as a living document that will evolve to encompass additional challenges and extend Sector Deals to any industry with a strong business case and united by strong leadership. Equally, especially in the short-term, there are strong reasons to suppose the status quo will survive. Brexit provides an inauspicious backdrop for the new industrial policy. Theresa May's faith in government intervention is not widely shared by her party. Worse, some of the arch Brexiteers keeping her in a gilded cage in 10 Downing Street, are amongst the most zealous exponents of the free market religion. One week before the publication of the Green Paper, May threatened the EU with a race to the bottom in tax and regulation.[24] Negotiating tactic with the EU or not, the May government's industrial strategy is unlikely to redress the economic imbalances and grievances that drove people of the UK to vote leave on the 23rd June 2016 .

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