New tensions and directions in Britain’s post-2008 industrial policy

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Following the financial crisis, the UK’s industrial policy consensus, that liberally regulated competitive markets were assumed to best determine the composition of economic activity, has come under strain. ***Martin Craig*** *argues British governments must overcome their aversion to ‘picking winners’ and embrace their discretionary role.*

In recent decades British economic policy has disavowed ‘picking winners’. Industrial policy has been restricted to a narrow type of interventionism – ‘competitiveness policy’ – alongside occasional ad hoc subsidies, often to incentivise inward investors. In the post-2008 context this neoliberal policy consensus has been under strain. Interestingly, it has been under strain within both governments since 2008 rather than between parties.

Competitiveness policy involves the government making a variety of supply-side interventions with a common purpose: to better enable market-led industrial development by improving the business environment. They rest on the neoliberal assumption that it is liberally regulated competitive markets that best determine the composition of economic activity, and that governments should not seek to improve on the market distribution of economic resources except where ‘market failures’ occur (scenarios in which markets produce outcomes that limit resources that firms require, such as a lack of correctly skilled workers). Under the Conservative administrations of the 1980s and ‘90s competitiveness was pursued first through the liberalisation of labour markets and the economy. Later, governments began identifying and making up for market failures through public sector investment in areas such as skills training, research, urban regeneration, and stimulation of private investment in non-corporate firms. What the interventions had in common was the centrality of the markets as the arbiter of worthwhile developments and the relegation of public policy to simply ‘lubricating’ them.

This contrasts with the ‘discretionary industrial strategies’ pursued by governments of the past. The discretionary approach rejects the assumption that the trajectory of economic development selected by liberal competitive markets is necessarily optimal, even if market failures are addressed. It asserts that industrial policy should identify investments that the market has not supported but which evidence suggests hold potential for a superior trajectory of economic development.

The consensus on the exclusive use of the competitiveness approach was never truly complete in Britain. The business ministry under the Labour governments of 1997-2007/08 was more receptive to the discretionary instruments than other departments, evident in the grant financing powers of the Regional Development Agencies and the creation of the Technology Strategy Board (TSB) to co-invest in private sector technology projects that it deemed of strategic importance to the UK’s economic development. Yet the resources available to these agencies were never sufficient to supplant the market as the rudder of industrial development.

In the post-2008 context many of the assumptions underpinning neoliberal economic policy are in question. An ‘unbalanced’ and unstable growth model had developed in Britain, with growth dependent on the effects of consumer borrowing and the expanding credit that in turn depended upon unsustainable financial sector business strategies. Long standing issues with productivity growth and investment remained unresolved. The real median wage stagnated, the balance of trade deteriorated and British manufacturing failed to consolidate a sustainable position at the top of high value supply chains.

Supporters of neoliberal economic policy point to various impacts of public sector activity and regulation to explain these problems, while some critical political economists have placed the blame on the very structure of economic activity that neoliberal economic policy had facilitated. The contrasting prescriptions – a market-led recovery or a recovery premised on discretionary intervention to shape the composition of economic activity – also appear within the policies of both governments that have held office since 2008. Both have identified the public sector deficit as a barrier to recovery. Both have strengthened existing competitiveness policies, whilst the coalition government has also initiated further rounds of supply-side liberalisation. Yet the Department for Business, Innovation and Skills (BIS) has pursued a rather different agenda alongside this neoliberal one, creating an expanded architecture for strategic industrial strategy.

Under both governments the department has utilised large funds – SIF and the RGF respectively – to directly finance private sector capital projects that it deemed likely to yield positive long-term jobs and growth outcomes. Both have also bolstered the finances of the TSB. Under Peter Mandelson various collaborative testing and prototyping centers were established to provide capital equipment and development facilitates to firms that would not otherwise have access to them, whilst under Vince Cable these have been further invested in and consolidated in the ‘Catapult’ programme. Under both governments, BIS has attempted to identify the needs of strategically important sectors, publishing strategies detailing a range of targeted interventions. Perhaps most significantly of all, the department has publicly articulated a diagnosis of Britain’s economic problems to accompany these interventions in which this discretionary and strategic measures are deemed both possible and necessary to securing sustainable economic development encompassing a greater role for high value exports.

In the wake of the 2010 spending review the funds available to industrial policymakers have shrunk dramatically, limiting the extent to which these policies can have an impact and suggesting that the Treasury does not accept the necessity of the approach that they embody. The historic tension between the business ministry and the Treasury is thus revealed anew. The continued dominance of the former means that it is Treasury personnel and their perceptions of what is possible and desirable that have determined the developmental trajectory on which Britain has embarked post-2008.

Given the abject failure of neoliberal economic policy prior to 2007-08 and the popular perception that political parties are indistinguishable, 2015 may be a ripe moment for an incoming government to channel greater resources into this alternative approach to economic policy. The necessary ideational and institutional resources are already present in a nascent form. Yet the real challenge is to secure a trajectory of economic recovery and development that is socially just and environmentally sustainable. If the experience of the past 30 years is anything to go by then it is unlikely that free competitive markets alone can yield a transition to a low carbon, high productivity, high wage economy on a timescale consistent with avoiding ecological crisis. To ensure that de-carbonisation occurs and to seize the economic opportunities that it presents, British governments must overcome their aversion to ‘picking winners’ and embrace their discretionary role.

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About the Author

Martin Craig is a PhD candidate at the University of Sheffield where he has been researching the political construction of economic crisis in Britain in the post-2008 context. In October 2014 he will take up a position as a research associate at the Sheffield Political Economy Research Institute. During the course of his PhD studies Martin has presented papers at major conferences, and he has recently published an article in the journal New Political Economy on which his contribution to this blog is based.