A tentative, ‘me-too’ approach to industrial strategy will lead us nowhere

blogs.lse.ac.uk/businessreview/2017/06/14/a-tentative-me-too-approach-to-industrial-strategy-will-lead-us-nowhere/

6/14/2017

In some ways, the ambition to have a successful industrial strategy is like the ambition to have a perfect body. Most people are shy about admitting it. In the UK’s case, there is an additional problem; we are addicted to good news, whether it is real or fake. For example, despite having no supporting evidence, Brexit has been widely presented as a wonderful economic opportunity – an opportunity to build on the triumph of a near decade of stagnant real wages, increasing public and private sector debt, and a collapse in productivity growth.

At Alcoholics Anonymous, addicts are required to admit their failings before they undertake treatment. For the UK, admitting the truth about our industrial performance over the last 150 years is painful, although the conclusion is unavoidable. From a Victorian-era position of industrial and trade supremacy, we have steadily fallen down the league tables of economic performance.

We cannot replicate earlier successes; these were built on military and technological domination, as well as a buccaneering disregard for the rights of other nations. A different approach is therefore needed. The dilemma for a government inclined to a free-market, liberal democracy is the extent to which it should intervene in the economy’s operation. Since the Thatcher/Reagan era, governments have been discouraged by the consensus economic views that they are bad at picking winners, markets are best left to determine optimum economic outcomes, and central bank interventions should be confined to monetary policy, operated by independent technocrats.

In the period before the 1980s, some economists and philosophers warned that technocratic financial management of an economy would bring trouble. In 1964, Herbert Marcuse specifically identified the risk of an evolving society in which no real discussion of economic alternatives existed. He was right, but he was soon forgotten; the ideas of Milton Friedman and his disciples took over most university economics departments and business schools, and infiltrated national treasuries, central banks, and international financial organisations. Trouble duly arrived with the

2008 banking crisis; this has left the UK permanently poorer. Thus, the economic state of the UK and the concomitant anger in broader society now need to be addressed by a new approach to industrial strategy.

There are plenty of reasons why a government should not manage a country like a public limited company, but given the recent political enthusiasm for industrial strategy, it is worth thinking how a company in crisis would react differently from a government. For a start, no CEO who wished to keep the job would spend much time deciding whether a recovery plan was needed. The data are clear: austerity as a path to a thriving economy is as successful as anorexia is the path to a perfect body. And private sector companies hoping an invisible hand will save them don't enjoy a large shareholder following.

For a medium sized economy like the UK, some realities are apparent. We need to reduce public and private debt and the trade deficit, and raise real wages while maintaining a high level of employment. There is, however, no good reason why borrowing to finance productive investment should be squeezed, and no good reason why the public sector should not be used to deliver services where this can be done well and efficiently. There is also no good reason for tax laws that encourage private companies to avoid paying UK corporate taxes and take profits offshore, while squeezing salaries paid in the UK.

There is much a confident state could do to improve UK economic performance, and ensure that the benefits of prosperity are distributed equitably. For example, the state can plug holes in funding the initial development or rollout of important new enabling facilities, such as 5G mobile communications, smart grids, and electric vehicle charging points. The state can identify requirements for new products and services that the private sector fails to provide; such initiatives could improve healthcare and social care, and the efficiency with which these are provided. The state can properly finance services such as the NHS; this is popular and a breakdown will increase costs to consumers, and probably reduce standards.

Although the state cannot reliably pick winners, it can resist the temptation to back losers such as Hinkley Point C. The state has a role in backing proven winners in promising areas, to avoid the benefits of breakthrough research going overseas. The state is the key to improving dialogue between companies, universities and regional government. The state is the only organisation able to remove legislative ambiguity, e.g. in tax laws concerning corporate taxation, and to improve government's ability to deliver major cross-departmental projects. Markets do not provide leadership in such areas, but it could be delivered by a capable government.

The strengths and advantages of the UK are still enormous. Our assets include the English language and culture, as well as an adaptable and resourceful population. Our universities and research institutions are immensely attractive to overseas students, and also provide a wonderful springboard for a technology-based economy. This was well understood by Vince Cable when he was Business Secretary in the coalition from 2010 to 2015, but he was hamstrung by lack of investment support from the Treasury.

Besides the widely accepted need for infrastructure investment, UK thinking on industrial strategy is also firmly locked into mature industries, such as automotive, aerospace and banking, each of which faces industry disruption and technological challenge. We thus need to develop the confidence and capability to exploit the industries of the future, where we lag behind other nations. The young people of the UK are keen to do this but often lack the means, particularly if they live outside London and the Southeast. The so-called FAANG (Facebook, Apple, Amazon, Netflix and Google) group of companies contribute enormously to the US economy without manufacturing much in the US. The UK could mobilise its own resources and talent, in the same way.

Key questions for an economically ambitious UK government are: Can the UK, especially outside of the EU, ever hope to compete in commodity manufacturing and services with nations like China and India? How can the UK build sustainable competitive advantage in an era of free movement of capital? The answer must be that the UK has to work around such issues; our strengths give good clues to how this can be done. The UK could set a goal to become the education and research centre for the world. It could focus more strongly on promoting professional services including architecture, design, engineering, accountancy and consultancy. It could also support and promote more strongly leisure and tourism, the arts, media and entertainment. These are areas where we already have pre-eminent strengths that are not highly vulnerable. They also have some synergy with each other, and would be helped by an improved digital infrastructure, and coherent education and immigration policies. A well-planned, regionally-oriented strategy could develop skills and investment out of London and the southeast, that would have economic and social benefits.

It is easy to characterise plans for strategic investment as lazy and wasteful alternatives to hard market disciplines. The reverse is true in well-managed companies, and should also be true for a government. Willingness to invest is, however, only the first step. A company or a government needs to use finance with discipline and skill. The UK Civil Service does not have a good record in successfully managing major cross-departmental projects, especially where these involve information technology. An entrepreneurial government wishing to bring in transformational change would have to significantly improve financial and management control, especially of major projects. If this were done, the government would not need to be tentative about industrial policy; it could raise its ambitions for the UK economy. Such leadership would help and inspire companies and individuals, and could deliver the dramatic economic revitalisation that is needed to support the other policy initiatives that the country needs. The glittering prize is there if we sincerely want to grasp it.

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Notes:

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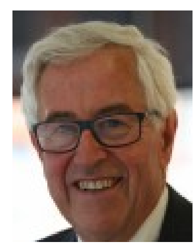

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