



XXX. c.MET05 Policy Research Meeting

Opening speech: *Phil Tomlinson (University of Bath)*

Tuesday 30th June 2020

‘Industrial policy and strategy in the UK in the Brexit (and Coronavirus) era’

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IPR Institute for
Policy Research

CGR&IS

Centre for Governance,
Regulation and Industrial Strategy

- Defining Industrial Strategy/Policy
- The Return of UK Industrial Strategy

Bailey, D & Tomlinson, P.R. (2017) 'Back to the Future? UK Industrial Policy after the Great Financial Crisis', in Arestis, P & Sawyer, M (eds), Economic Policies since the Financial Crisis, Palgrave MacMillan, 221-264

Fai, F., & Tomlinson, P. R. Developing a Place-Based Industrial Strategy: the case of England's LEPs. L'Industria, (4/2019), 737-760. <https://doi.org/10.1430/95939>

- Current Challenges
 - Brexit
 - COVID-19 pandemic
- Future (Research) Possibilities

*‘Industrial Policies are a variety of **public actions** aimed at **guiding** and **controlling** the **structural transformation process** of an economy’ (Bianchi & Labory, 2006)*

*Industrial Policy is a traditional term to describe specific ‘measures (undertaken by the state) ‘aimed at improving the **competitiveness** and **capabilities** of **domestic** firms and promoting structural transformation’ (UNCTAD, 2011)*

*‘Industrial Policy is any **type of intervention** or government policy that attempts to improve the business environment or to **alter the structure of economic activity** toward **sectors, technologies or tasks** that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention’ (Warwick, 2013, OECD Paper).*

*‘It comprises **policies** affecting “infant industry” **support of various kinds**, but also trade policies, science and technology policies, public procurement, policies affecting foreign direct investments, intellectual property rights, and the allocation of financial resources. Industrial policies, in this broad sense, come together with processes of **“institutional engineering”** shaping the very nature of the economic actors, the market mechanisms and rules under which they operate, and the boundaries between what is governed by market transactions, and what is not’ (Cimoli et al. (2009, pp. 1–2))*

The term '**Industrial strategy**' implies an over-arching **coordinated policy framework** that encompasses a '*set of measures taken by the state to influence/enhance the performance of firms, sectors, industries, and clusters towards a desired objective (such as inclusive growth)....*' (Pitelis, 2015, p.18)

Industrial Strategy has gained credibility in **modern parlance** and is a broader concept than Industrial Policy.

Place-based Industrial Strategy (e.g. *Smart Specialisation*) emphasises a **place's** historic, geographical, cultural characteristics & capabilities/institutions for determining what/how economic activities can progress/drive development, economic growth and productivity. Often new industrial paths emerge from building upon a place's **existing capabilities/expertise**. Place-based industrial policies can be tailored to build upon these regional strengths (Barca, 2009; Hildreth and Bailey, 2013; Bailey et.al 2019).

'The best industrial policy is none at all'. (Nobel laureate Gary Becker 1985)

'The only alternatives today are to be neo-liberal or neo-moron'. (President of the Central Bank of Brazil, Franco 1996)

'In a ruthlessly competitive global marketplace, only prudent and judicious government intervention can help an economy change course and adapt'.

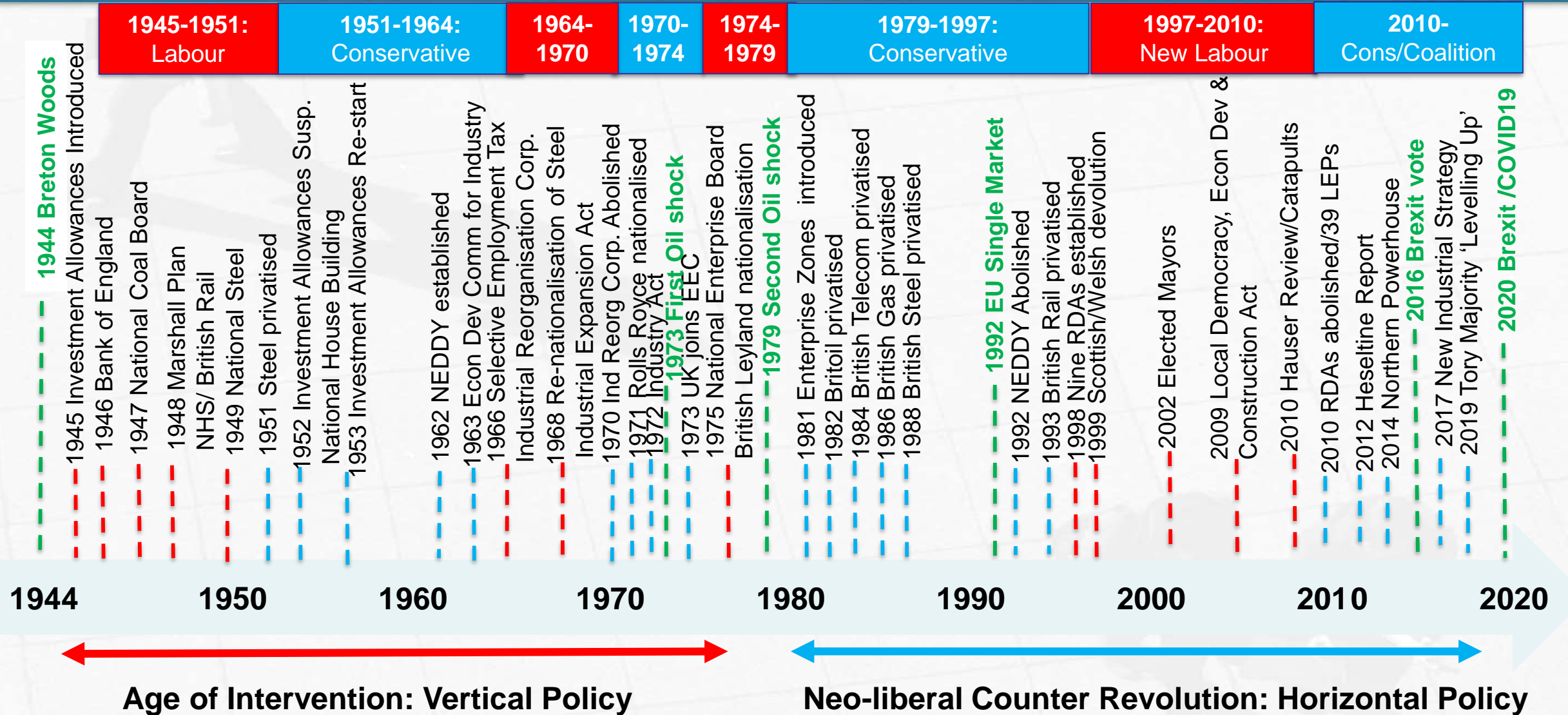
(Kishore Mahbubani, dean of the Lee Kuan Yew School of Public Policy at National University of Singapore 2011)

'The laws of economics, it's often forgotten, are like the laws of engineering. One set of laws (privatization, stabilization, liberalization) works everywhere' (Larry Summers, 2010)

'The government should be providing conditions that help all businesses – namely, effective infrastructure, a skilled workforce and better planning. We should make no attempt to pick winners – whether individual companies, specific sectors, or manufacturing as a whole.' (Leunig 2010, 14)

- In reality Industrial Policy didn't really go away (*Mazzucato, 2013; USA health and defence*)
 - it became more **'horizontal'** (*around an **enabling competitive environment***)
 - paradoxically this had a **'vertical (selective) element'** in that a 'level playing field' inherently favours incumbent monopolists/oligopolists
(Cowling & Tomlinson, 2011)
e.g. Larger firms inherently gain more from R&D tax credits, Skills policy etc.
- Recent returns to vertical policies (*e.g. smart specialisation; Foray, 2013*)

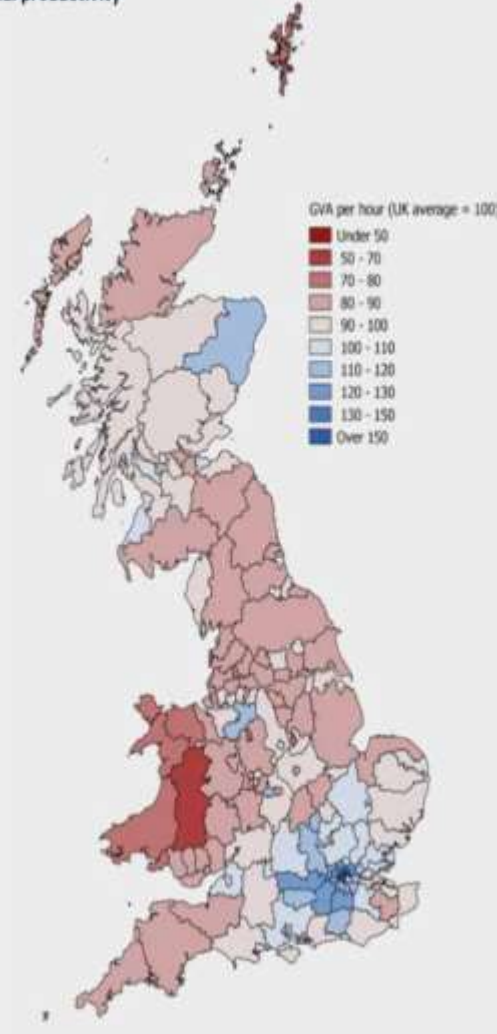
Brief Timeline of UK Industrial Policy



- UK has some of the **widest regional disparities** (in terms of productivity/GDP per capita) in Europe
- These are strong & persistent – ‘North-South divide’ traced to 1850s (Martin, 1988, Nguyen, 2019)
- This has contributed to rising **socio-economic problems**; crime (Farrall et.al, 2017) and poorer lifetime opportunities
- Rising **socio-political discontent** – reflected in Brexit vote (Rodriguez-Pose, 2018)
- Unexploited **socio-economic potential!** (Industrial Strategy, 2017)

Variation in performance across regions

Regional productivity



Source: DNS (2017) "Subregional Productivity: Labour Productivity."
Ordnance Survey Data © Crown Copyright 2017 *NUTS3 statistical region classification

Prosperity Index scores – region





'It was a vote not just to change Britain's relationship with the EU, but to call for a **change in the way our country works**....

Our Economy should **work for everyone**.....It's time to remember the good that government can do....

Supporting free markets, but **stepping in to repair them** when they aren't working as they should.....

....**a new industrial strategy** to address those long-term structural challenges and get Britain firing on all cylinders again....

And we will **identify the places** that have the potential to contribute to economic growth and become the homes to millions of new jobs. That means inspiring an economic and cultural **revival of all of our great regional cities**'.

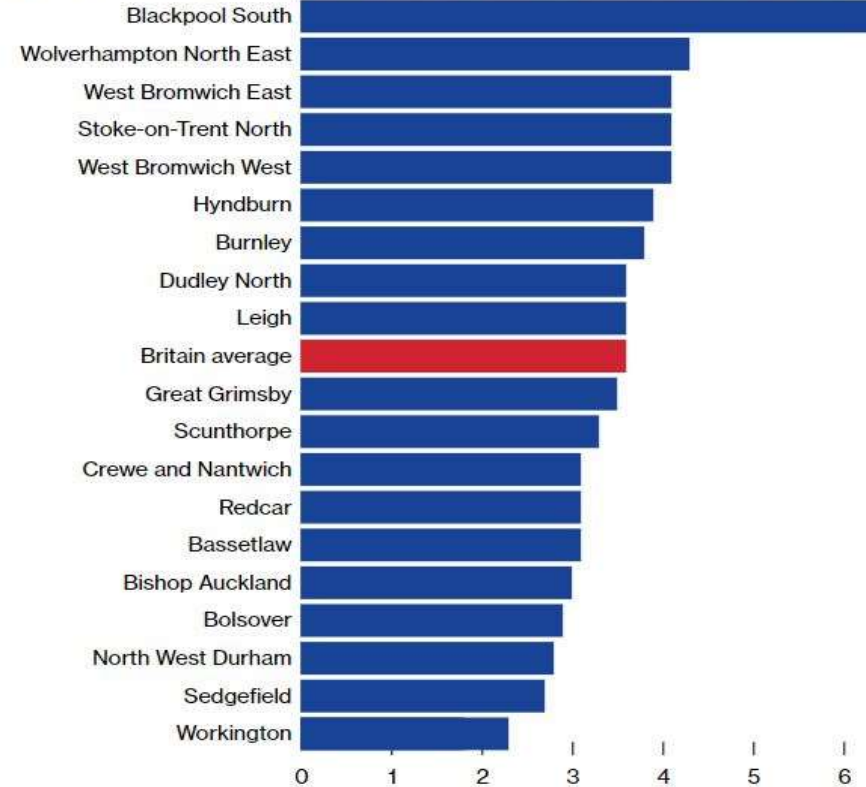
Theresa May, 2016 Tory party conference speech



Blue Wall

Economic stress is rising in seats Boris Johnson pledged to level up

■ Claimant count (percentage-point increase since December general election)



Source: House of Commons Library, Nomis, Bloomberg calculations
 Note: 'Red Wall' seats the Conservatives won from Labour with the biggest vote swing. Figures, based on non-seasonally adjusted data for May, cover claimants of Jobseeker's Allowance and Universal Credit claimants required to look for work

But what does 'Levelling up' actually mean? Tomaney and Pike (2020)

Industrial Strategy

Building a Britain fit for the future

Our five foundations align to our vision for a transformed economy



We will set Grand Challenges to put the United Kingdom at the forefront of the industries of the future:



AI & Data Economy

We will put the UK at the forefront of the artificial intelligence and data revolution



Clean Growth

We will maximise the advantages for UK industry from the global shift to clean growth



Future of Mobility

We will become a world leader in the way people, goods and services move



Ageing Society

We will harness the power of innovation to help meet the needs of an ageing society

- The Industrial Strategy has begun to recognise ‘place’ as being an important.

(this is a significant departure from previous policy!)

- Aim to facilitate ‘Places’ to develop and reach their ‘potential’
- Aim for more inclusive, balanced and sustained regional growth.
- Smart Specialisation is an example of a ‘place based’ industrial policy

Places

To have prosperous communities throughout the UK.

The United Kingdom has a rich heritage with world-leading businesses located around the country. Our cities, towns and rural areas have competitive advantages that will be essential to shaping our economic future.

Yet many places are not realising their full potential. The UK has greater disparities in regional productivity than other European countries²⁰⁹. This affects people in their pay, their work opportunities and their life chances.

Every region in the UK has a role to play in boosting the national economy. We will build on the strong foundations of our city, growth and devolution deals and continue to work in partnership with local leaders to drive productivity. We will introduce Local Industrial Strategies and further strengthen local leadership through Local Enterprise Partnerships and Mayoral Combined Authorities.

We will also introduce new policies to improve skills in all parts of the country, create more connected infrastructure, back innovation strengths, ensure land is available for housing growth, and strengthen our cultural assets.

We are working with our partners in the devolved administrations to deliver ambitious plans for communities across Scotland, Wales and Northern Ireland.

We will also continue to build the Northern Powerhouse and Midlands Engine to help create prosperous communities throughout the UK.

Key policies include:

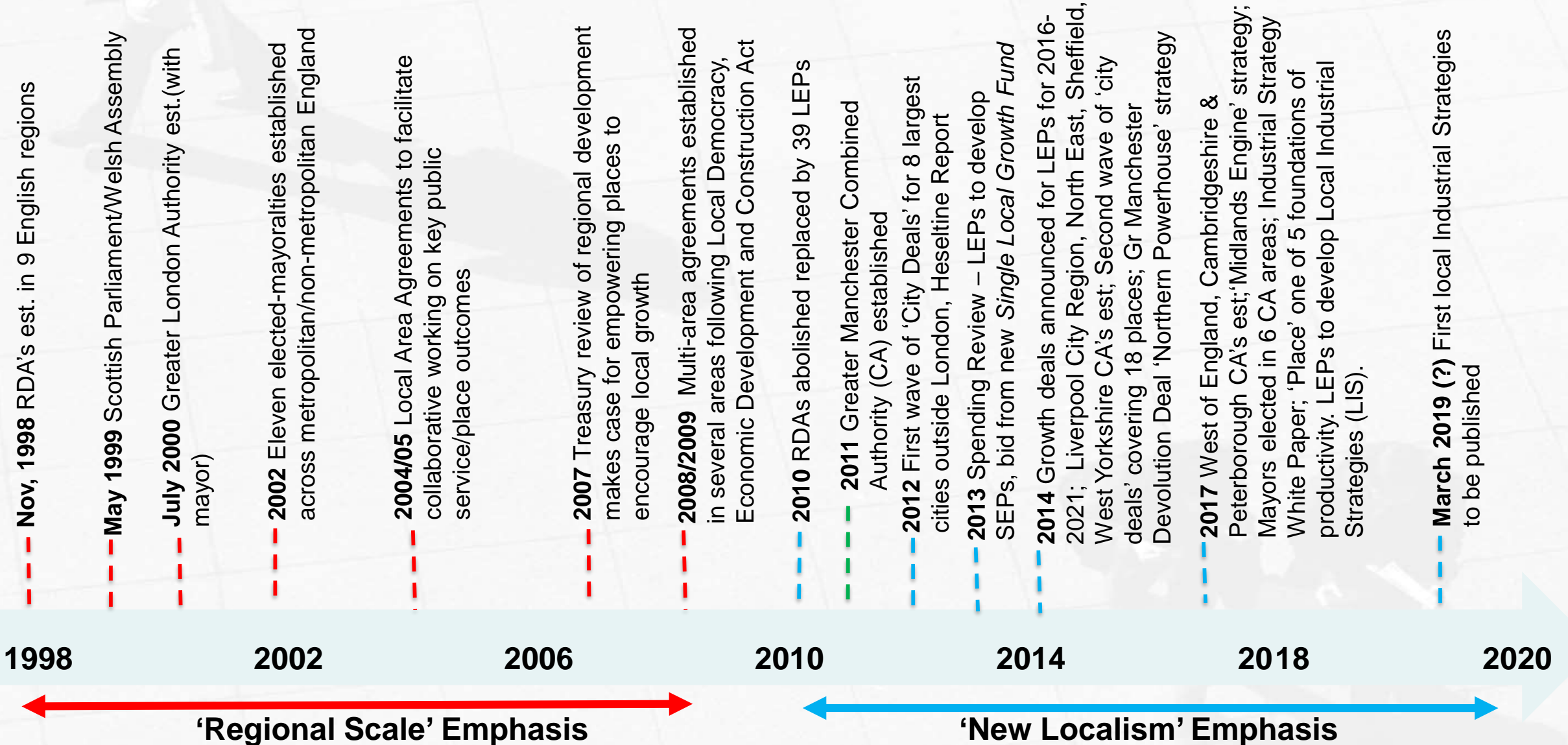
- ▶ Agree Local Industrial Strategies that build on local strengths and deliver on economic opportunities
- ▶ Create a new Transforming Cities fund that will provide £1.7bn for intra-city transport. This will fund projects that drive productivity by improving connections within city regions
- ▶ Provide £42m to pilot a Teacher Development Premium. This will test the impact of a £1000 budget for high-quality professional development for teachers working in areas that have fallen behind

- UK is the most fiscally centralised 'big' economy in Europe/World (HoC, 2009)
- In 2014, UK local government collects **just 5%** of total UK taxes (*France, it is 13%; Italy, 17%; Spain, 24%; Germany, 30%, Canada, 50%*)
- Of every £1 raised in taxation, 91% is controlled and allocated by Central government
- Consequently, **big, strategic decisions** on UK infrastructure/transport/education/skills/health have historically been centralised - dominated by the UK Treasury/Whitehall
- Since 1997 – there has been a **gradual move** towards **devolution/devolved powers** at the Regional/Local Level (though most (local) policy still largely created in Whitehall)
- Even with recent reforms, over **20 million people** in England (approx. half of total English population) have **no devolved powers** at all.

Timeline of Recent Reform

1997-2010: New Labour

2010- Cons/Coalition



Regional Development Agencies (1998-2010)

RDAs

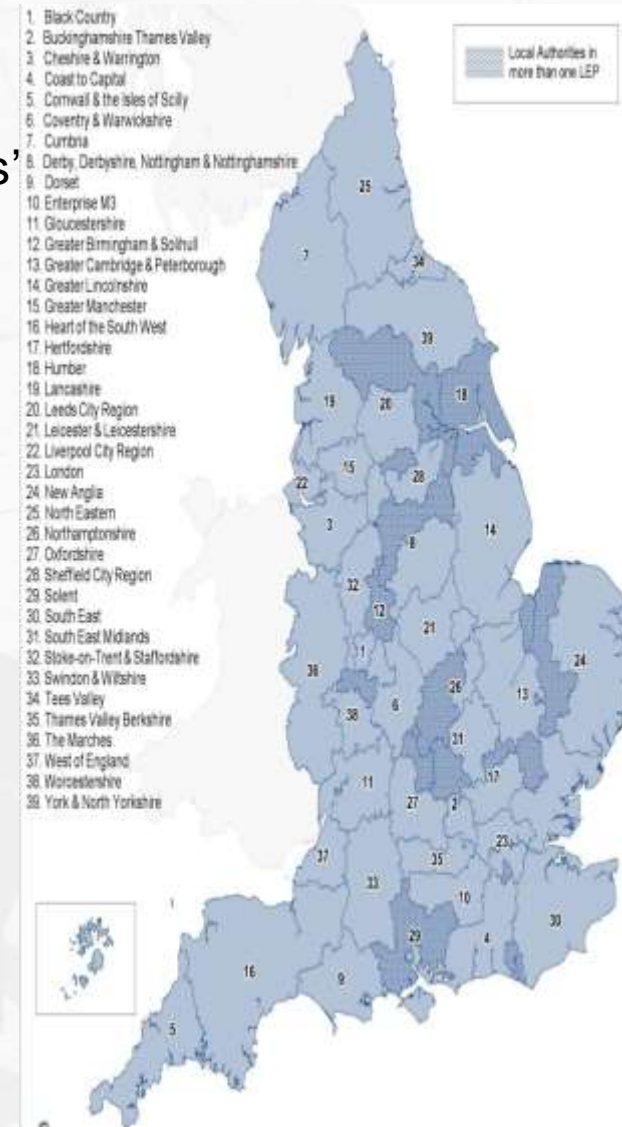
- One per NUTs1 region
- Formal Funded Bodies
- Regional Economic Strategies
- Estimated to generate £4.50 for every £1.00 of public spending for local area
- Too remote/'favoured 'big cities' vis-à-vis 'towns'?



Local Economic Partnerships (2011 -)

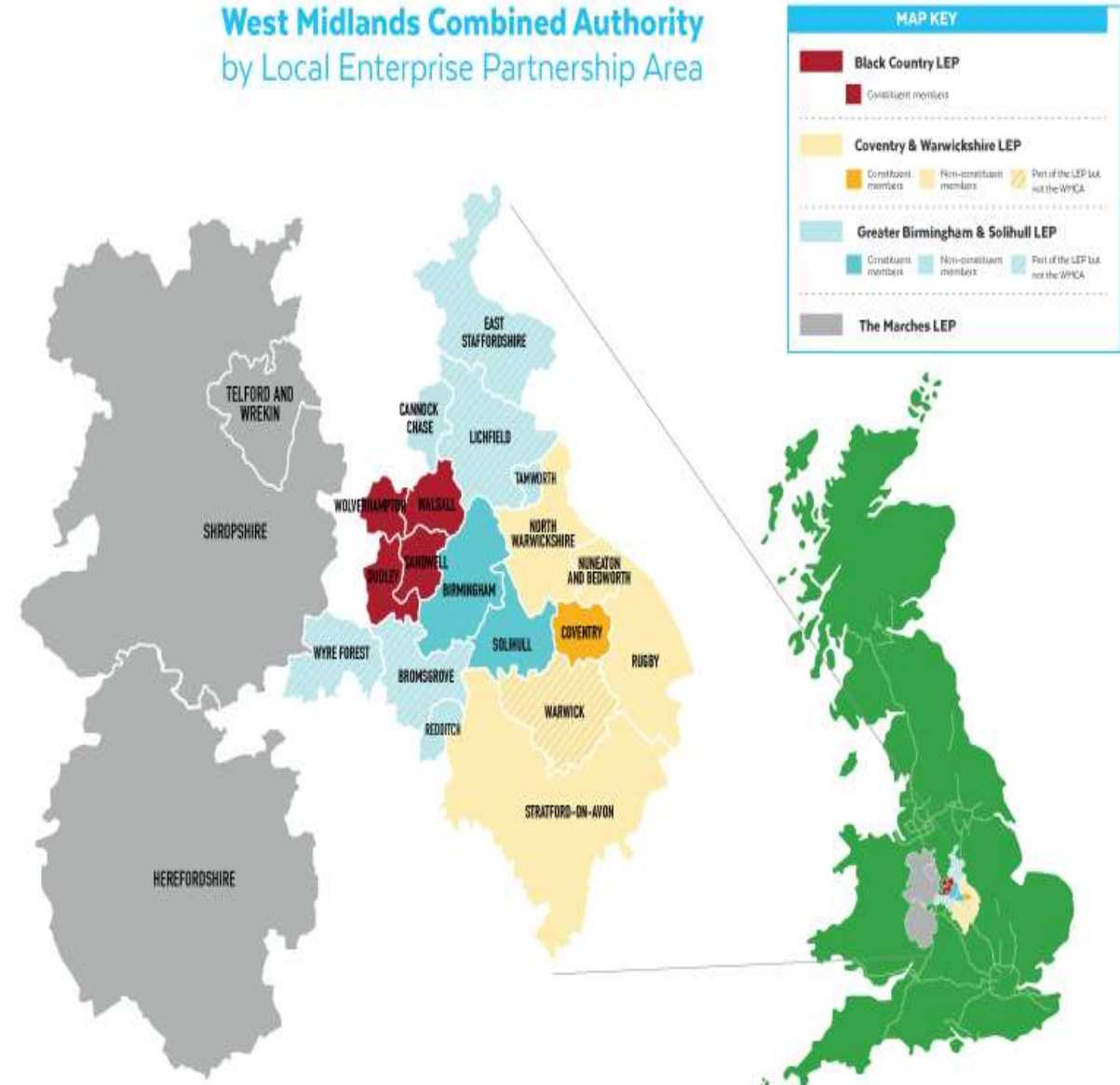
LEPs

- 'Functional Economic Areas'
- Voluntary Partnerships
- Limited Funding
- Resource Disparities
- Increasingly taken on more responsibilities (SEPs, LIS's)



	Local Authorities (Councils)	Combined Authorities (CA's)	Local Economic Partnerships (LEPs)
Legislation	Local Government Acts 1972 and 1992	Local Democracy, Economic Development and Construction Act (2009)	No formal legislation UK Government Policy Initiative of 2010 to replace 9 RDAs
Institution	Unitary Authorities and Non-Metropolitan County & district councils	A Legal Body of 2 more local councils to take collective decisions across council boundaries.	Voluntary local partnerships between LA's (and now CA's) and business in 'functional economic areas'
Governance	Councillors elected every 4 years Majority party/coalition manage/direct policy on delivering local public services	Elected Mayors in 7 CA's who act as Chairs (see footnote 6) Members co-opted on from local authorities	Unelected Bodies Statutory LEP Boards appointed from business and the public sectors (including councils and Higher Education) Different Legal Statuses
Main Sources of Finance <i>(for full details see Bentley & Pugalis, 2013)</i>	Revenue from Local Household Council Tax, Business Rates & Service charges <i>(including any congestion charges)</i> Revenue Support Grant <i>(fiscal transfer via Central Government)</i> City Deals Transforming Cities Fund Targeted Grants <i>(from Central Government)</i>	Devolution Deal Funding <i>(amount agreed with Central Government)</i> Other sources include those available to LA's and LEPs <i>(see across)</i>	<i>National Funds allocated for Local Development:</i> Enterprise Zones Local Growth Fund Growing Places Fund Strength in Places Fund EU Structural Funds <i>(until Brexit)</i>
Core Responsibilities	Responsible for delivery of Local Government services (e.g. education/housing/fire/waste & recycling)	Responsibilities Differ <i>(these depend upon Devolution Deal agreed with Central Government)</i> Core responsibilities: Economic Development, Regeneration & Transport	Responsible for local growth initiatives Strategic Economic Plans (SEPs) 2014/2016 Local Industrial Strategies 2019

- LEPs are primarily responsible for drafting LIS's
- Where LEPs reside in Combined Authorities, then both will work together in drafting/ implementing LIS
- Big Mayoral CA's are in a better position to take advantage (funding/resource opportunities) e.g. new Transforming Cities Fund/Sector Deals
- Still fragmented structure/Overlapping responsibilities e.g. West Midlands CA



- **Wide Disparities in LEP capacities?**
 - LEP areas have varying capabilities in terms of resident entrepreneurs, networks, innovative firms (**coalition-building**)
 - Some LEPs have corporate/professional representatives/ sponsors, others less so (**expertise**)
 - Different legal status (**charities/limited by guarantee? – latter can leverage assets**)
 - Issue of Two Tier LEPs: Resource imbalances widely evident (**funding issues**)
- **LEP and LA Co-operation?**
 - Where boundaries overlap - political/cultural/geographical antagonisms/rivalries?
 - Some confusion around CA and LEP responsibilities re. LIS
- **Scale?**
 - LEPs too small to implement large scale projects
 - Further rationalisation expected (to around 20 LEPs) and emergence of City-Regions around CAs
 - Inter-LEP collaboration around Sector deals ?

(see Fai and Tomlinson, L'industrie, 2019)

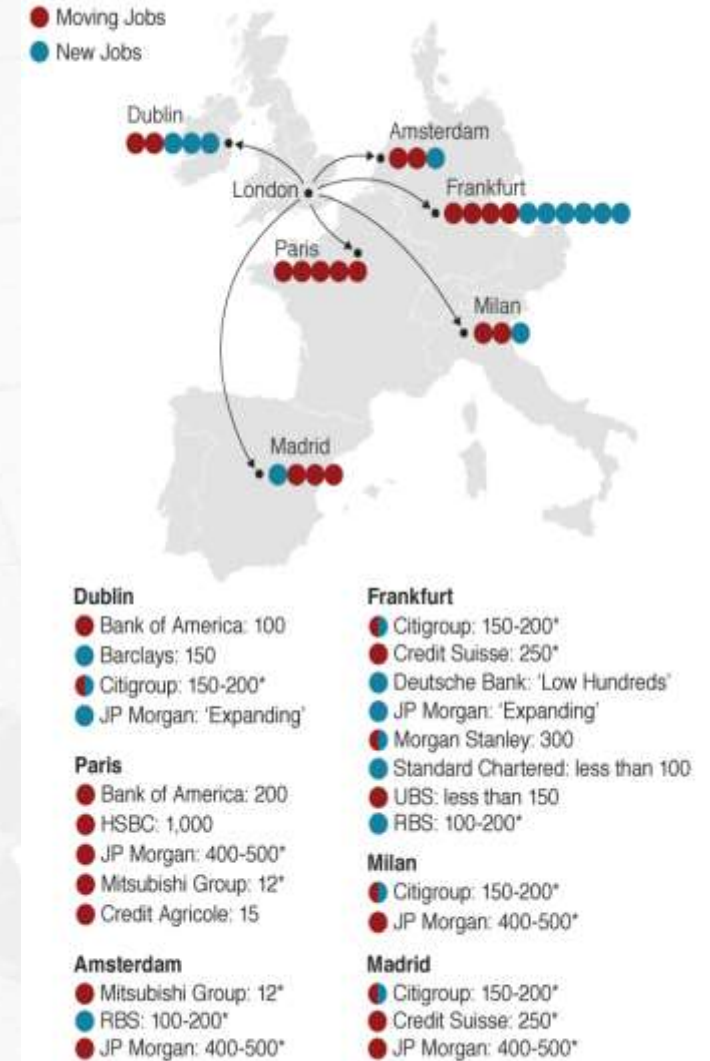


- OECD forecast of **3% contraction** of UK economy over **3 year period** in the event of No Deal (WTO rules).
- Signs of a **decrease** in **business confidence** backed by a number of surveys. Still a mixed picture with some large businesses postponing investment projects and some SMEs still continuing with investments.
- Uncertainty - Investment is **especially stagnant**
- UK economy **declining** before COVID-19
- Around half of businesses have still done no formal preparation for No Deal Brexit.



- UK once seem as **'gateway to Europe'**
- EU Membership has raised FDI into UK by 28% (LSE, 2016)
- Over 50% of Japanese FDI in EU is in the UK
- Since Referendum and continued uncertainty, many firms have begun to relocate operations (e.g. *Dyson, Sony, Panasonic, Philips, Schaeffler*).
- Big Concerns over the **UK Automotive sector**
 - Honda (Swindon) closing 2021
 - Nissan new X-Trail SUV will be made in Japan (and with 'No Deal' – threatened to exit)
 - Ford/JLR/BMW/Toyota all cut back
 - Tesla now opt for Berlin (over UK)
- Concerns over Airbus (Filton, Bristol)

Where have UK banking jobs moved to?



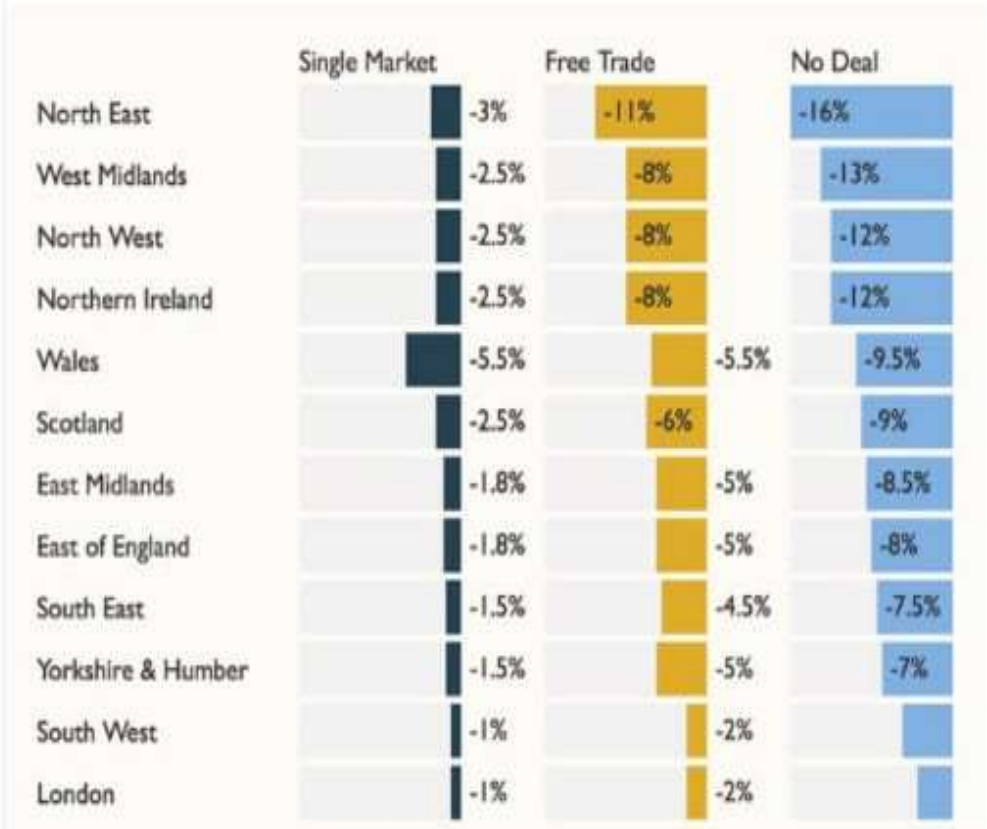
*Number of jobs shared between different cities



Trade and migration impact

	Without productivity adjustment	With productivity adjustment
	%	%
May's deal	-1.9	-5.5
Johnson's proposals		
Liberal migration scenario	-2.3	-5.8
Restrictive migration scenario	-2.7	-7.0
WTO	-3.8	-8.7

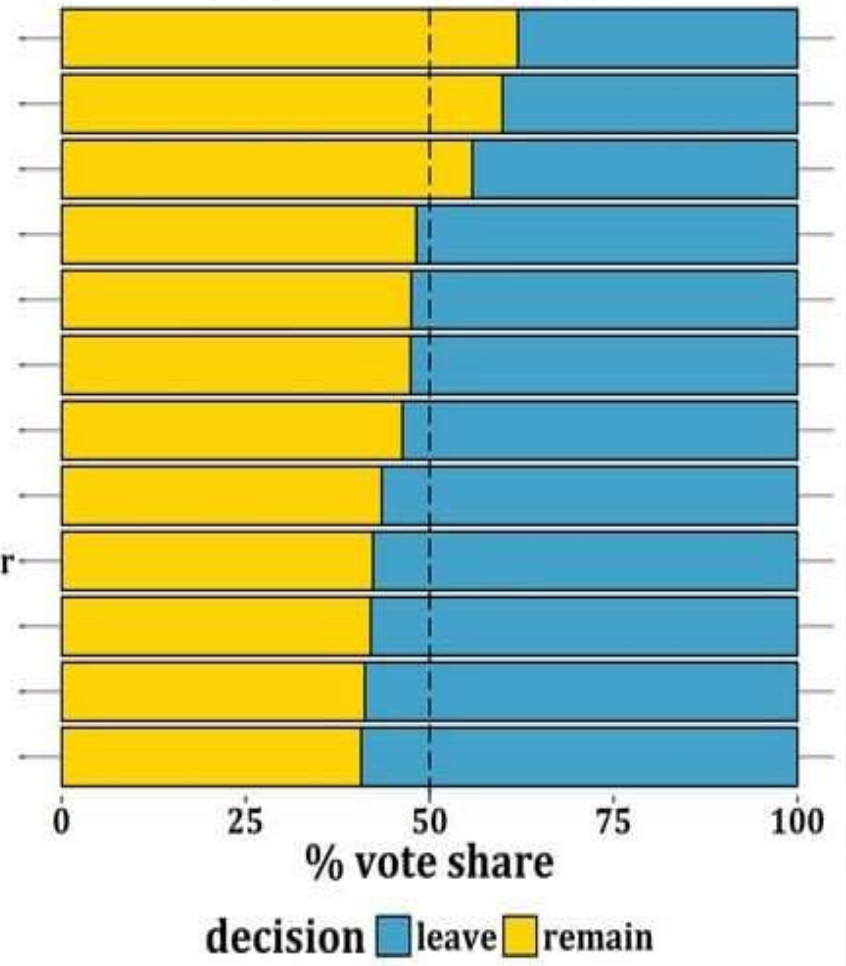
Economic impact on GDP from Brexit scenarios



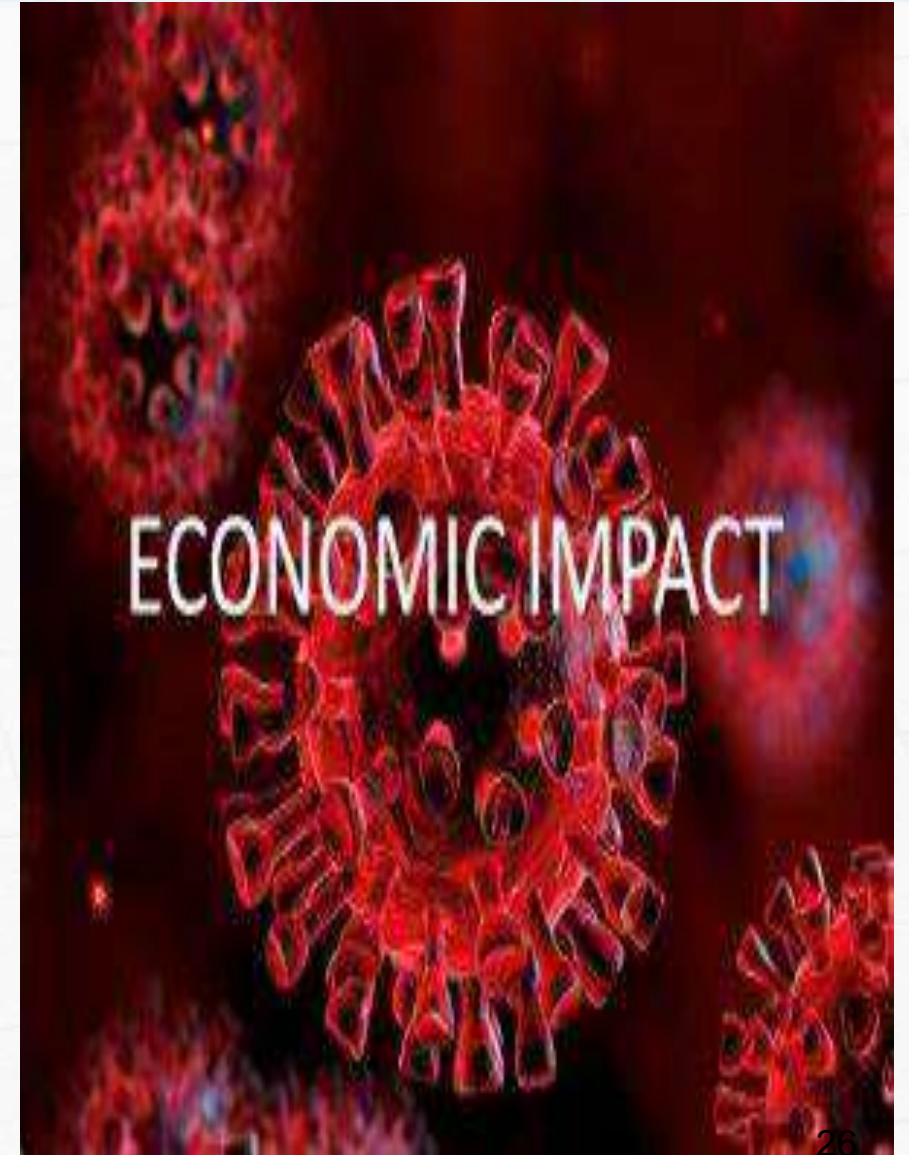
Source: EU Exit Analysis - Cross Whitehall Briefing

- Scotland
- London
- Northern Ireland
- South East
- Wales
- South West & Gibraltar
- North West
- Eastern
- Yorkshire & The Humber
- North East
- East Midlands
- West Midlands

Referendum results



- **UK GDP Fell 20.4% in April**
(expected to fall by 11.5% over the year)
- **UK Debt/GDP ration 100.3%**
(first time since 1963)
- **Unemployment expected to rise from 3.8% to 10% in Q2**
(it was 11.9% in 1984)
- **Inflation falls to 0.5%**
(though Groceries prices up 2%)



UK COVID-19 Policy Responses

FISCAL SUPPORT (£18 bn)

For Health Care Trusts/LAs & CAs for local public services

SELF EMPLOYED INCOME SUPPORT SCHEME (£15 bn)

Worth upto 80% of average monthly profit for Sole-traders

'PROJECT BIRCH'

Tentative Proposals to 'bailout' struggling firms (Aviation/Aerospace/Steel/JLR).

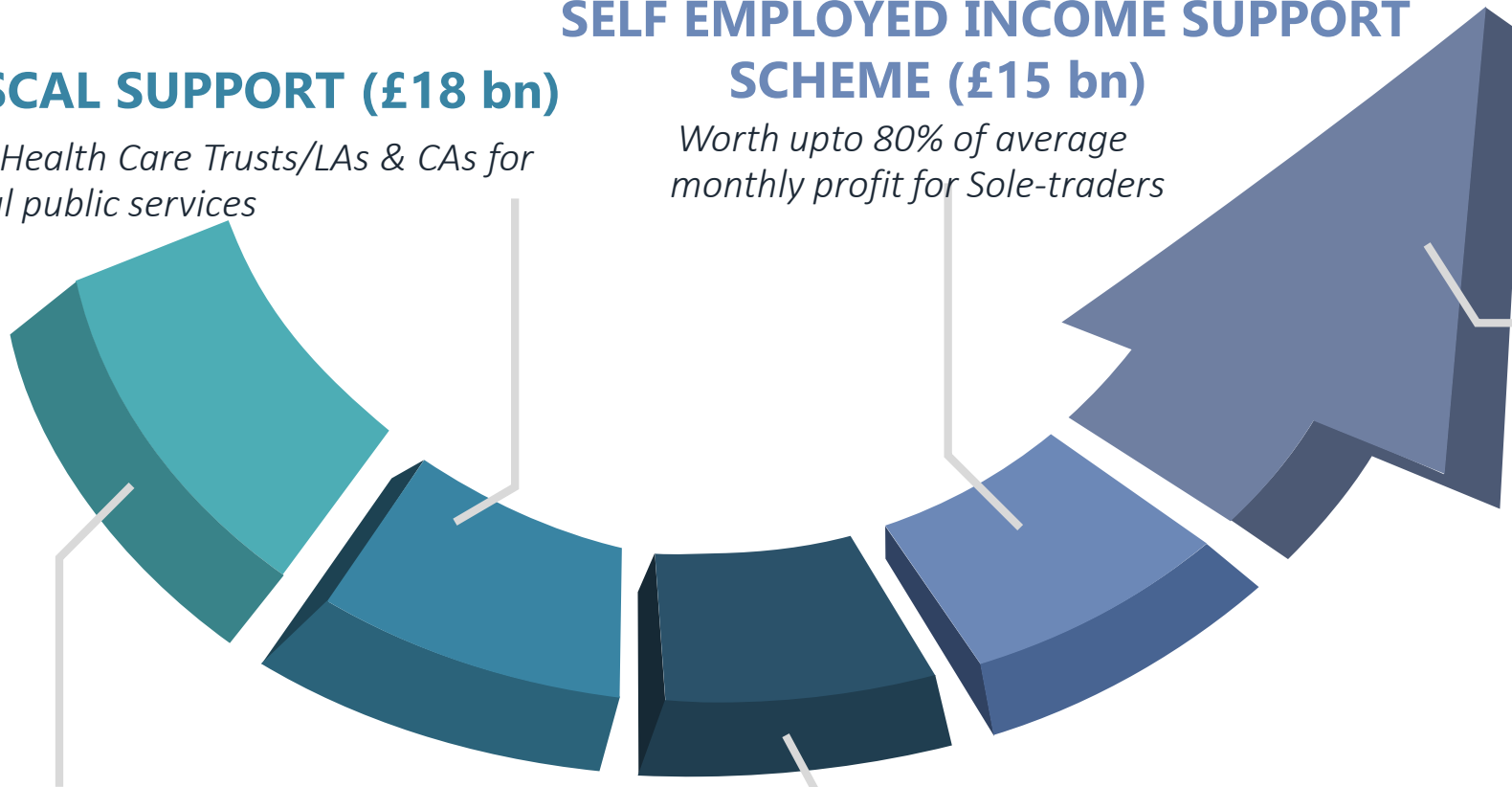
Possible Govt. Stakes in Companies.

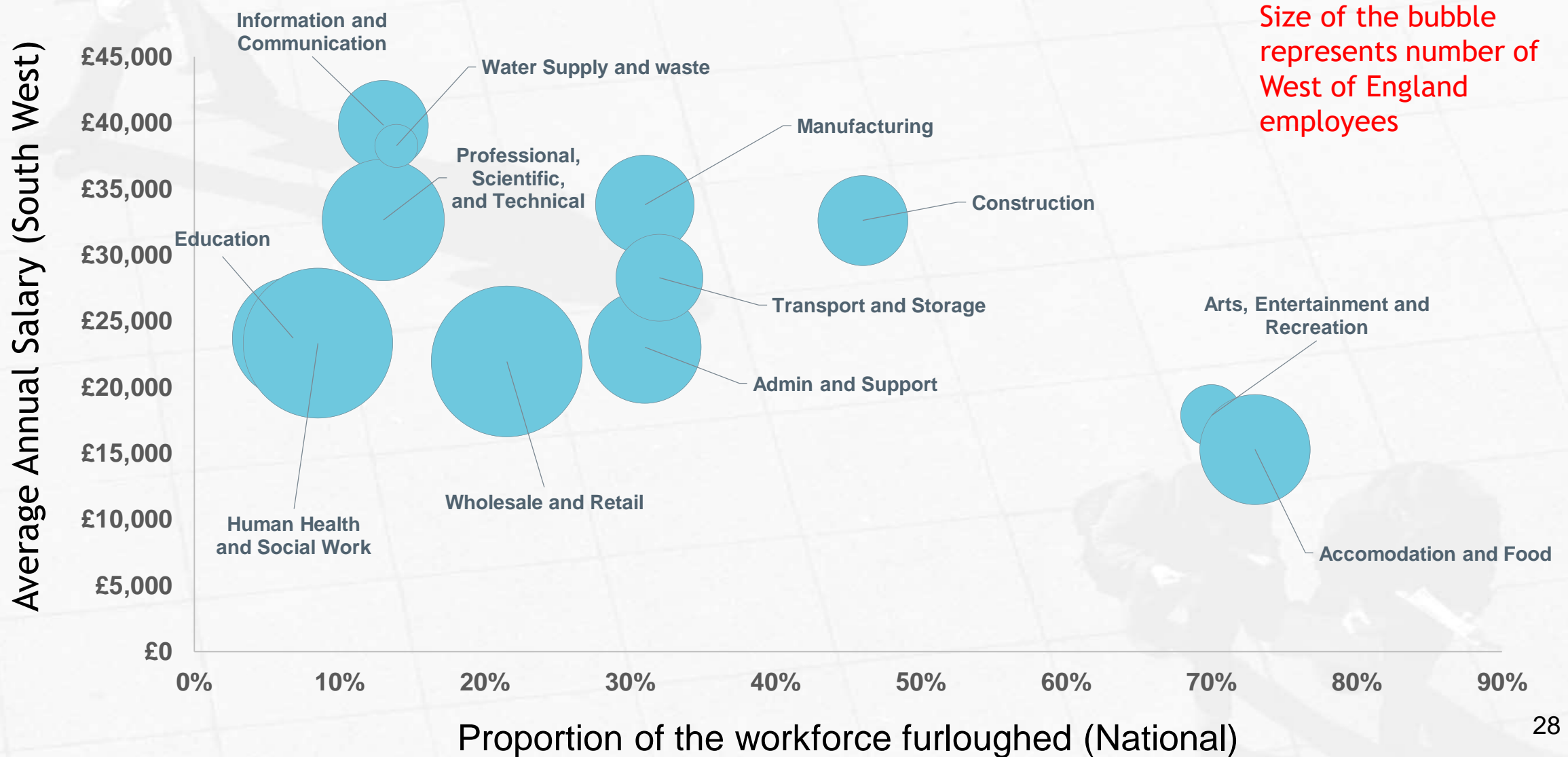
JOB RETENTION SCHEME (£55 bn)

Initially 80% of salary covered (upto £2500 per month). 9 million workers covered,. Being phased out Aug-Oct 2020.

BUSINESS SUPPORT

Small Grant Scheme/ Business Rates Support via LAs. Interruption Loans (upto £200 m)/Bounce Back Loans (upto (£50k) (Govt Guaranteed/Interest free for 12 months)

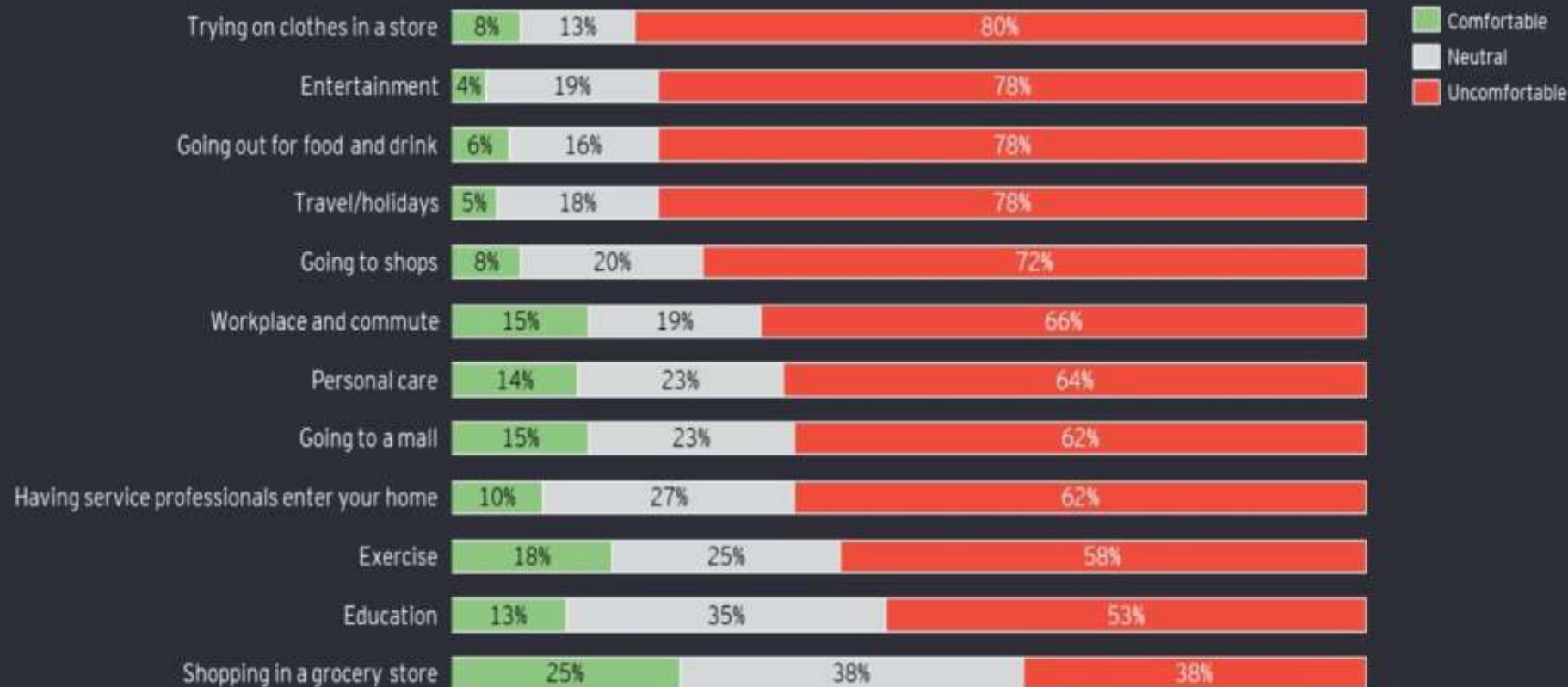




As restrictions ease, still some way to go before consumers return to "normal"



Current level of comfort in daily activities as restrictions ease



Source: EY Future Consumer Index (UK), May 2020

West of England Combined Authority:

Purpose

- To support the region's recovery and renewal following COVID-19.
- Bring together and build on work already underway, to develop a coordinated regional response to benefit residents and business.
- Ensure region has a strong and consistent message to Central government.

Key responsibilities

- Identifying challenges and opportunities following the pandemic.
- Agreeing measures to help businesses adapt to the new economic landscape and improve their resilience.
- Finding ways to help people access employment, skills and training opportunities.
- Creating a vision for the economic renewal of the West of England, building on and refocusing the principles of the **Local Industrial Strategy**

<https://www.westofengland-ca.gov.uk/ourstrategy/>

Stage 1) Short term: crisis response & exit from lockdown (3-6 months)

Business: identifying access to emergency support and highlighting lockdown exit needs

Skills: what is needed for individuals and skills providers to access immediate support

Infrastructure: identify immediate travel requirements

Stage 2) Medium term: adaptation & resilience (6 months - year)

Business: identify issues and needs for recovering operations (finance, working practices, staff/customer confidence...)

Skills: how workforce & skills needs will shift; how to encourage people to move into areas of need

Innovation: what practices/technologies can be promoted to support recovery

Infrastructure: where are the opportunities to embed positive change eg active travel?

Green & inclusive recovery: where are the opportunities to ensure recovery improves outcomes?

Stage 3) Long term: renewing & growing (Beyond)

Business: what is needed to ensure a return to growth; where can opportunities be taken to do things differently

Skills: how can sectors improve skills pipelines; how can our education and training providers respond most effectively

Innovation: where can strategic investment (public/private) best be targeted to drive long term adaptation and resilience

Infrastructure: how do future transport, digital, housing and workspace needs change?

Green & inclusive recovery: where is investment best targeted to address our Local Industrial Strategy objectives?

A POLICY ROADMAP FOR LONG TERM RECOVERY?

(What needs to be done!)

● COHERENT DEVOLUTION FRAMEWORK

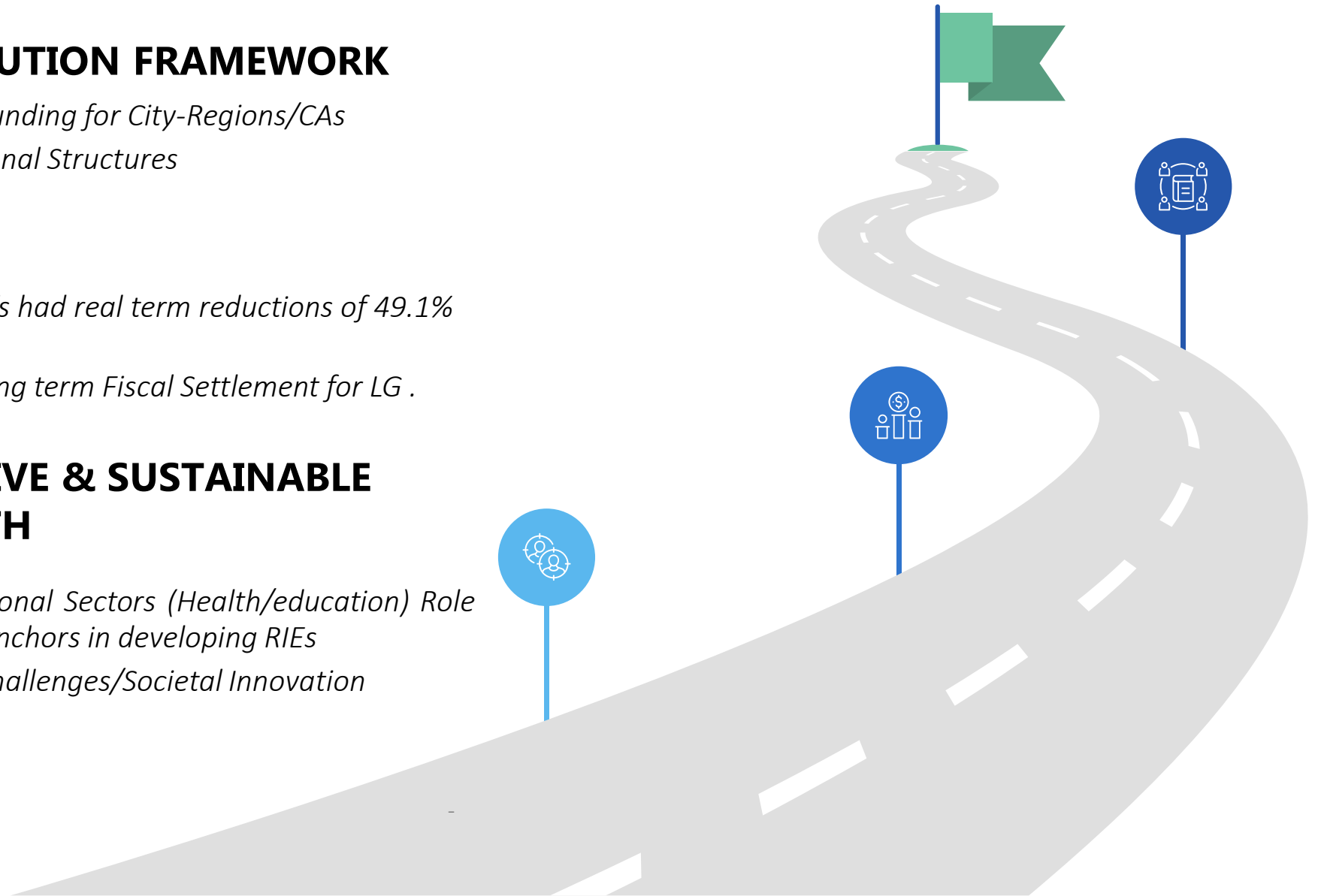
- *Greater Powers and Funding for City-Regions/CAs*
- *Coherent Regional Institutional Structures*

● END TO AUSTERITY

- *Between 2010-2018, LA's had real term reductions of 49.1% in Local Govt funding.*
- *New (and generous!) Long term Fiscal Settlement for LG .*

● PROMOTE INCLUSIVE & SUSTAINABLE REGIONAL GROWTH

- *Emphasis upon Foundational Sectors (Health/education) Role for Universities & Local Anchors in developing RIEs*
- *Emphasis upon Societal Challenges/Societal Innovation (Morgan, 2019)*





- How might place-based industrial strategies be best utilised to ‘level up’/revitalise lagging regions?
- Will ‘levelling up’ reduce ‘populism’?
- What roles should Universities play in ‘levelling’ up? Can they be an effective regional anchor to drive inclusive growth?
- Should we re-orientate innovation policy to better support societal innovation?
- What are the opportunities for foundational sectors? Will this aid ‘levelling up’ ?

Regional Studies Special Issue on *'Place-based Industrial and Trade Strategy – Levelling the playing field'*

Guest Editors: David Bailey, Christos Pitelis & Phil Tomlinson

https://www.tandfonline.com/loi/cres20?utm_source=CPB&utm_medium=cms&utm_campaign=JOJ11633

Deadline: 31st October 2020

Cambridge Journal of Economics Special Issue on *Big Tech, Corporate Power and Economic Performance: Revisiting Monopoly Capitalism*

Guest Editors: Martin Conyon, Christos Pitelis & Phil Tomlinson

<https://academic.oup.com/cje/pages/call-for-papers-big-tech-corporate-power-economic-performance>

Deadline: 8th February 2021

IPR Institute for
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Thanks for Listening

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