Still ‘picking winners’: the political history of UK industrial strategy

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Beginning in the seventeenth century, UK governments have sought to ‘pick winners’, making them one of the pioneers of industrial strategy. Unlike most other countries, whose industrial strategies tended to promote civilian manufacturing, UK industrial strategy has focused predominately on financial services and defence manufacturing. Broadly speaking the UK’s industrial strategy has dovetailed with three periods of statecraft concerned with the rise and fall of the British empire. This chapter briefly elucidates the dominant forms of industrial strategy in each era.

Industrial strategy in the age of empire, 1650-1914

Simon Lee (2017) locates the genesis of state support for financial services and arms manufacturers in the English financial revolution of the seventeenth century, itself the result of a series of military defeats against the emerging naval and commercial power of the Netherlands. Defeats in the three Anglo-Dutch wars (1652-1654, 1665-1667, 1672-1674) culminated in the coup d’état of the 1688 Glorious Revolution as English parliamentarians conspired in the successful invasion of England by William III with a Dutch fleet and army. This would prove a pyrrhic victory for the Netherlands. Just as they appeared on the cusp of becoming the foremost global power, William III introduced a number of economic reforms that would underpin UK hegemony for the next 250 years.

The key advance for industrial strategy was the creation of the Bank of England in 1694. The Bank, the issuer of the world’s first government bonds, was charged with acting as a financial intermediary between citizens and the state for the purposes of rebuilding English military capacity, and later prosecuting war. In particular, in a forerunner of what David Edgerton (2006) terms the warfare state, governments used the innovation of public debt to channel public credit into military spending. In turn, investment into defence manufacturers prompted technological improvements needed to deliver the battlefield superiority upon which the British empire was constructed.

The financial revolution's legacy was a service orientated British economy. By the Victorian period service industries were the principal creator of economic growth with finance, distribution, transport and communication particularly important sectors of the UK economy. Indeed, between 1700 and 1914, C.H. Lee (1986) calculated that manufacturing only exceeded the contribution of services to GDP growth in the opening three decades of the nineteenth century, prompting him to question whether the British economy really underwent a nineteenth century industrial revolution. These developments were underpinned by government policies deliberately designed to augment the financial services sector. Under state patronage the City became the foremost global financial centre and expansion of the British empire facilitated the growth of a number of ancillary commercial services such as insurance. British manufacturing meanwhile was largely excluded from this highly integrated global financial network, financing its economic activity through profits, inherited wealth, and loans from friends and family. The result was inadequate capital investment in industrial

production. In turn this limited scientific modernisation, putting UK manufacturers at a competitive disadvantage with technologically superior American and German counterparts.

Industrial strategy in an age of economic crisis, 1918-1939

With the 'roaring 20s' largely bypassing the UK, its interwar economic performance was lamentable. Unemployment, poverty and deprivation were especially widespread across many communities, most notably in the 'outer Britain' of Northern England, Wales, Scotland and Northern Ireland, reliant upon uncompetitive 'staple' industries such as coal mining and steel (Miller, 1976). Many of these economic troubles stemmed from changes to the international economy accelerated by the First World War, to which the UK struggled to adapt. The conflict started a process of introspection among policy-makers, who sought to defend the UK's pre- eminent economic power from the challenge of the United States (Burk, 1979).

The response of industrial strategy was to extend state intervention in the economy in four directions. First, the UK invented what would later become known as regional policy (Pemberton, 2017). In the 1920s regional policy sought to enhance labour mobility, but in the 1930s its focus switched to increasing employment in ‘special areas’ through public works and public procurement. The second direction was state-led rationalisation of British industry predicated on the belief that enhanced competitiveness in world markets would arise from economies of scale. The 1921 Railways Act, for example, reduced the number of companies from 60 to just four (National Archives, 2018).

Third, the state broadened the ‘winners’ identified in its industrial strategy. Industries including chemical, electrics, and motor vehicles that were assisted through government-funded research and subsidised investment during the First World War continued to be supported by government in the interwar period (Pope, 1998). Parliamentary evidence by Sir John Simon (1939a, 1939b) (Chancellor of the Exchequer, 1937-1940) demonstrate the significant subsidies given by the Treasury to ‘new’ industries appearing as a result of the First World War, such as civil aviation, and ‘staple’ industry like agriculture. Other selective interventions were anchored in regional policy with government support assisting the establishment of new businesses across the ‘special areas’ after their introduction in 1934 in a diverse range of industries from aluminium manufacture to confectionary.

Fourth, the UK’s industrial strategy took a protectionist turn. Import duties were first introduced in 1915 as a wartime expediency. During the 1920s, however, a series of laws were passed to extend the range of protection offered to British industry. Most notably, the 1921 Safeguarding Industries Act initiated a 33.3 per cent duty on 6500 imported goods thought to be of strategic consequence. Muddled motives lay behind this legislation, which did not constitute a coherent protectionist industrial strategy (Tomlinson, 1990). This would change with the introduction of the general tariff in April 1932 due to ‘growing support for tariffs in labour, business and financial circles by 1930’ (Garside, 1998: 47) and acknowledgment by the ruling Conservative Party and Treasury that a sheltered domestic market might restore industrial efficiency and maintain confidence in Sterling (Garside, 1998: 63-65). The general tariff was also imperial policy by other means, maintaining an economic rationale for empire in the maelstrom of global depression of the 1930s. The 1932 Ottawa Conference established a system of imperial preference, exempting imports into the UK from the empire from the general tariff whilst guaranteeing UK firms access to international markets.

Industrial strategy in the age of imperial decline, 1945-2018

By the mid-1960s the post-war renaissance of British manufacturing began to dissipate. Throughout the decade UK manufacturing output lagged behind international competitors and from 1966 manufacturing employment started to dwindle. Concurrently the UK's economic growth trailed many of its advanced industrial counterparts in Europe and North America.

Explanations for the UK's relative economic decline range from dysfunctional management and lack of investment to recalcitrant trade unions and short-termism in UK financial markets. By far the most important explanation of economic decline however was the dismemberment of the British Empire, which had long protected British companies from global competition (Skidelsky, 2013). Even into the 1960s many British firms were still reliant on captive domestic and imperial markets allowing them to postpone the investments needed to modernise production and management techniques.

To stave off economic decline governments put renewed emphasis on industrial strategy (Pemberton, 2017). Alongside the economic turmoil of the 1970s, a heated debate about industrial strategy was underway. Proponents of industrial strategy asserted that its failure to resurrect the British economy derived from a lack of coherence and a backward-looking focus that cosseted troubled sectors and incumbent companies, rather than building capacity in the industries of the future. The insurgent New Right however drew different conclusions. Its adherents argued that attempts by governments to pick winners were both expensive and futile. Worse, by keeping obsolete firms afloat, industrial strategy was crowding-out private investment and blunting entrepreneurial dynamism. After the election of Margaret Thatcher's Conservative government in 1979, the emphasis of industrial strategy shifted away from selective intervention towards 'functional' industrial policies designed to rejuvenate the national business environment through privatisation, deregulation, competition, and liberalisation of trade and finance.

UK's governments have nevertheless continued to 'pick winners'. Since 1979 Britain's industrial policy has been somewhat schizophrenic with habitual appeals to the virtues of free markets being accompanied by selective state intervention to support specific firms and sectors. Throughout the last four decades, governments have proved systematic and sustained support for defence manufacturers, the construction sector, the aerospace and automotive industries but the most lavish attention has been reserved for the financial services sector (Lee, 2010). As well as supporting the City of London with expensive infrastructure investment, the state has also equipped the City with an ever more elaborate, if ineffectual, regulatory apparatus. When the failings of this apparatus, which relied excessively on private risk management, were revealed by the financial crisis, the state rescued ailing companies with a taxpayer bailout worth at peak £1.162 trillion (National Audit Office, 2011). As of March 2017, the total support to UK banks remained at £58 billion, far in excess of the financial assistance offered to all other sectors in the name of industrial policy (National Audit Office, 2018).

Having hitherto made few public pronouncements on the economy, Theresa May's decision to make industrial policy one of the cornerstones of her campaign for leadership of the Conservative Party and Prime Minister came as a surprise to some. Although initially received with some scepticism (see Silverwood, 2017), once in office May moved with alacrity to meet her pledge to implement a 'proper industrial strategy to get the whole economy firing'. Changes to the machinery of government, including the creation of a new Department for Business, Energy and Industrial Strategy and a Cabinet Committee on Economy and Industrial Strategy chaired by the Prime Minister personally, injected momentum into the process. The final white paper, *Industrial Strategy: Building a Britain Fit for the Future* was published in November 2017. The new industrial strategy has been hailed as a 'significant departure' from the 'hands off approach to industrial policy' implemented by UK governments since 1979 (Stirling & Laybourn-Langton, 2017). However, whilst the industrial strategy of the May government doubtless has novel features, in reality it perpetuates the state's previous predilection for 'picking winners' in sectors – including life sciences, construction, automotive and creative industries – that bear an uncanny resemblance to those supported in the past (Woodward & Silverwood, 2018).

Conclusion

Industrial strategy has a long political history in England and the UK. Its development has occurred within three periods of statecraft associated with the British empire and the management of economic and imperial decline. Whilst these periods have seen innovation, a notable continuity has been the willingness of the state to 'pick winners' with the same sectors recurring throughout history. It is no surprise that Theresa May's government shows no sign of departing substantially from an approach whose lineage can be traced to the seventeenth century.

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