Whither 'Industrial Strategy'? Building Back Badly

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The UK 'industrial strategy' had been purported as a flagship policy for post-Brexit Britain. It was seen as a partial retreat from the 'free-market, limited government' model that had dominated UK economic policy over the last 40 years. Indeed, the 'industrial strategy' was held up as an opportunity for the UK to do things differently, while recognising the state can play a proactive role in shaping markets and enhancing growth. Moreover, while there were nuanced debates about particular aspects of the industrial strategy, it did attract a wide consensus from across business, academia and the political divide.

Yet, in February, just three years and three months after the 2017 White Paper, several sectoral deals later and the launch of local industrial strategies in England, the UK government quietly announced it was ditching its 'industrial strategy' along with the Industrial Strategy Council. The latter was an independent advisory group led by Andy Haldane – Chief Economist at the Bank of England – which had been tasked with providing impartial advice and ensuring the industrial strategy met its objectives.

In its place, the government announced a new policy 'Our Plan for Growth: Build Back Better' with outlines for new funding streams relating to regional development, namely the Levelling Up Fund and the Community Renewal Fund. To assuage business fears, on the 30th March, Chancellor Rishi Sunak and Business Secretary, Kwasi Kwarteng, also released a joint letter setting out the government's commitment to build on the '*best elements of the Industrial Strategy*'. This emphasised continued support for infrastructure, skills and innovation and delivering on transition to 'net zero', 'levelling up' and tackling regional disparities and promoting trade and investment in 'Global Britain'. Laudable aims, and some observers, such as Tim Lord of the Tony Blair Institute have suggested the new plans and priorities are remarkably similar to the old industrial strategy. Of course, and as always, the devil will be in the actual detail.

So why ditch the industrial strategy and at a time – post-Brexit and with the country looking towards economic recovery from the pandemic – when it is probably most needed? In part, this may be a political re-branding exercise with the Johnson administration keen to demonstrate it offers a fresh break from its Conservative predecessor. More critical observers note that with the abolition of the short-lived Industrial Strategy Council (which we called for back in 2015), the new 'Plan for growth' lacks critical oversight. Indeed, while the Council's annual report recently praised the government's role in supporting the development of the Oxford/Astra Zeneca vaccine, at the same time it was also highly critical of its plans for 'levelling up' noting that it was '*over-reliant on infrastructure spend and continued use of centrally controlled funding pots thinly spread across a range of initiatives*' and this was '*unlikely to be a recipe for success*'. Cynics may suggest the government is trying to avoid scrutiny and accountability.

And yet, a long-term industrial strategy framework accompanied by an independent review body – such as the Industrial Strategy Council – is critical if the UK economy is to recover from the twin shocks of Brexit and the pandemic. Industrial Strategy is a long-term and often experimental process. This is especially the case in the context of the Fourth Industrial Revolution, with uncertainty surrounding the development and application of new digital technologies, robotics and artificial intelligence. Mistakes will be made in the design and implementation of policy, but there will also be successes and the key for policymakers is to learn from both. If the UK is to promote a 'stable of winners' then it needs to adopt a policy learning mindset.

So where is the Plan for Growth heading? Following the 2019 election, there was much rhetoric around 'levelling up' and re-balancing the country's economic geography – although precisely what 'levelling up' entails has yet to be clearly defined. On the surface, recent initiatives such as the new Towns Fund, a High Street Fund, a network of Freeports, and the regional relocation of many key civil services roles, may point towards regional development occupying a more central and cross-cutting role in policy than in the 2017 Industrial Strategy. Yet, at the same time the new plans made no reference to LEPs and their potential role in the new national growth agenda. Moreover, the 2021 Budget failed to provide any funding for the implementation of the local industrial strategies, that LEPs and Combined spent significant resources and time compiling. Like the earlier Strategic Economic Plans, the local industrial strategies are danger of being left to wither on the vine.

Meanwhile, we still await the details of the Shared Prosperity Fund that will, in part, replace the EU structural funds that did so much for the UK's regions and the much-delayed publication of the Devolution and Local Recovery White Paper. Details of these funding and institutional changes are important, especially because UK industrial and regional policy has often been undermined by continual changes in local governance arrangements.

Two recent initiatives may give an initial indication of where 'levelling up' may be heading. In the March Budget, the Chancellor announced a list of 45 towns allocated central government funding from the £3.6 billion Towns Fund. This fund encourages competitive bids from towns for projects to enhance town centres, local culture and/or improve local transport. Funding is said to be allocated on a 'needs-based' formula, but there has been a lack of clarity around the criteria for evaluating bids. Of the 45 towns selected for priority funding, 39 were represented by Conservative MPs, including the Chancellor's own leafy Richmond constituency, which was given a higher priority than nearby struggling Barnsley. This has led to accusations of the government engaging in pork-barrel politics.

The other big announcement is the announcement of eight new freeports. These are mainly to be located in the UK's so called "left behind places". The precise details are not yet published, although in theory a freeport levies no taxes (tariffs) on imported goods and may offer resident firms temporary tax breaks and easier planning rules. The intention is this will attract new investment and jobs to these regions.

Yet freeports are not a silver bullet to address the UK's regional imbalances. Indeed, much of the economic evidence suggests that granting a region 'freeport status' merely encourages firms to relocate – often a few miles down the road – to be inside the 'freeport' boundary to enjoy from any tax breaks and possibly looser regulations. New investment and increased employment is thus likely to be minimal. Moreover, it is also difficult to ascertain how businesses might benefit from no import taxes, since average tariffs on intermediate goods into the UK are already very low.

Furthermore, any finished goods leaving the freeport – even to other places in the UK – will also have to be accompanied by a new set of customs forms. This is likely to be an additional burden, especially for the small and medium sized firms. Just as importantly, any goods exported from freeports outside the UK may be subject to future retaliatory export tariffs – if other countries and/or trading blocs (such as the EU) deem these goods to have disproportionately benefitted from UK government support.

In short, the abrupt abandonment of the UK's industrial strategy and its replacement by the New Plan for Growth is emblematic of the nation's long history of short-termism and engaging in stop-start initiatives. Rather than building back better, it is more likely the UK will continue to Build Back Badly.