**The Schizophrenia of UK (De) industrialization Policy**

It is now over a decade since the run on Northern Rock augured the onset of a financial crisis whose reverberations are still being felt in the British political system. The response to the crisis, not least the austerity inflicted on the majority of the population, fanned the flames of social and economic discontent that found its political expression in the 2016 referendum decision in favour of leaving the European Union.

Brexit prompted another outbreak of soul-searching amongst the UK establishment about how to allay the plight of those ‘[left behind](https://onlinelibrary.wiley.com/doi/abs/10.1111/1467-923X.12285)’ or ‘[let down](https://link.springer.com/article/10.1057/s41293-017-0062-8)’ by globalization. Against this background Theresa May’s turn to industrial policy, with its tacit acceptance of a role for the state in shaping economic outcomes, appears to mark the resurrection of the kinds of selective government intervention thought to have ended with the Thatcher administrations.

The industrial strategy put forward by the May government, formally outlined in a [White Paper](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf) published in November 2017, is unlikely to rectify the economic and social discontent that led to Brexit. The strategy perpetuates the schizophrenia evident at the heart of UK industrial strategy over the last four decades that has accelerated the demise of manufacturing and accelerated dependence on financial services. Reports of the death of UK industrial policy were always widely exaggerated. Despite a reluctance to confess it, every government of the past forty years has pursued an industrial strategy. Eulogies to free markets have stood alongside interventions to support specific sectors and firms. Moreover, the industries the White Paper touts for assistance exhibit a startling similarity to those supported in the past. For instance, the backing anticipated for manufacturing industry in the White Paper is dwarfed by that being offered to the biggest beneficiary of UK industrial policy since 1979, the financial services industry.

**Schizophrenia in (De)Industrial Strategy – the Thatcher effect**

After 1945, industrial strategy was intrinsic to the efforts of successive governments to halt Britain’s industrial decline. The emphasis was upon selective industrial policies that deliberately favour certain sectors and actors. Britain’s industrial decline continued nonetheless. To the increasingly assertive apostles of the New Right this was no surprise. The failure of selective industrial policies only confirmed their view that attempts by governments to buck the market by picking winners were both costly and futile. According to them the travails of British industry derived from excessive state intervention that, in the words of Thatcher’s economic guru Keith Joseph, had left enterprise ‘[over-governed, over-spent, over-taxed, over-borrowed and over-manned](https://www.margaretthatcher.org/document/110796)’. The remedy was a scheme of liberalization, privatization and deregulation to roll back the frontiers of the state and incentivize entrepreneurs. Officially, under this regime, there would be no place for selective industrial policies. Market forces would determine which firms and industries would prosper. To assist with this the state would pursue so-called functional industrial policies, general interventions designed to improve the business environment and foster the conditions for efficient market operations.

Under Thatcher the blend of sectoral and functional industrial policy did move towards the latter. Spending on direct industrial assistance fell by [98%](https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-0084.1996.mp58002007.x) between 1978/79 and 1989/90 while an extensive privatization programme curtailed direct state control in key economic sectors. Industrial policy consisted of boosting education and workforce skills, flexible labour markets, tax cuts and growing openness to foreign trade and investment.

Despite their professed aversion to selective industrial policy, however, the Thatcher governments continued to use it. Over £1bn of government support was funneled to British Aerospace and Rolls Royce during the 1980s as the Thatcher governments sought to underwrite the risks associated with the long-term investments needed in the aerospace industry. The automobile industry likewise benefitted from government largesse. Nearly £3bn of public money was ploughed into British Leyland as Thatcher sought to break up the company and restructure its balance sheets ahead of its privatization. Substantial investments by Nissan, Honda and Toyota reflected the inducements offered by the state to foreign vehicle companies to manufacture in the UK. Tax relief and fiscal subsidies to entice customers into the housing market was similarly used to back the construction sector.

Privatizations and inward foreign direct investment were profitable for the sector most favoured by Thatcherite selective industrial policy: financial services. Tales of Britain’s industrial decline typically cast the City of London as one of the leading villains. In contrast, the Thatcher governments regarded [financial services as a sector in which the UK could be internationally competitive](https://www.margaretthatcher.org/document/103609) and deserving of state support. A sweeping programme of liberalization and deregulation, culminating in the Big Bang of 1986, was designed to galvanise the financial services industry by injecting greater competition both from foreign companies and by ending the segmentation of domestic financial markets. Taxpayer subsidies for infrastructure investment, not least the Canary Wharf financial district, leavened the City’s ascent. The biggest subsidy of all however, were the implicit state guarantees offered to financial institutions in the event of their default, a point graphically illustrated by the financial crisis of 2008.

**From Maggie to May: Schizophrenia Perpetuated**

In the quarter century after her departure, Thatcher’s legacy weighed heavily on UK industrial policy. The various industrial policies published by the Major, Blair, Brown and Cameron administrations clung steadfastly to the view that government interventions should be limited to the correction of market failures and contained the obligatory references to the futility of picking winners.

Despite lamenting their inability to pick winners governments continued to do so. Between 2012 and 2015 the government bestowed £535m of launch aid on the civil aerospace sector to underpin projects deemed too risky by private investors. Following the financial crisis, the state stepped up support for other chosen industries. While the automobile sector benefitted from a £300m scrappage scheme to subsidise vehicle purchases the construction sector was aided by initiatives, such as the Help to Buy Scheme unveiled in 2013, that crowded consumers into the struggling housing market.

By far the biggest beneficiary of selective industrial policy, however, was the financial services sector. Further investments in physical and regulatory infrastructure turbocharged the City’s growth. This was epitomized by the creation of the Financial Services Authority (FSA), a body which combined its regulatory responsibilities with a mandate to promote the industry. When the global financial crisis revealed the shortcomings of the FSA’s ‘light touch’ regulatory philosophy the Brown government orchestrated a bailout package worth, at its peak, £1.162tr.

Predictably, these policies continued to shift the balance of the UK economy away from manufacturing towards services. Between 1990 and 2016 [manufacturing employment dropped by 2.262 million](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/timeseries/jwr7/lms) and [manufacturing’s share of national output fell by half.](https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05809#fullreport) By 2016 the UK’s trade deficit in goods as a percentage of GDP had widened to the [highest level since records](https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/d28j/ukea) began in 1948.

**May’s ‘New’ Industrial Strategy**

The pursuit of a ‘[proper industrial strategy’](http://press.conservatives.com/post/147947450370/we-can-make-britain-a-country-that-works-for) was central to Theresa May’s pitch to become leader of the Conservative Party and Prime Minister. Upon taking office May set about translating her vision into reality. A new Department for Business, Energy and Industrial Strategy (BEIS) and a Cabinet Committee on Economy and Industrial Strategy were created to oversee the development and implementation of this policy. The result, *Industrial Strategy: Building a Britain fit for the future*, outlines an ambitious vision for the UK to become ‘[the world’s most competitive economy……..the best place to start and grow a business](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf)’. The White Paper also promises to deliver ‘a major upgrade to the UK’s infrastructure……good jobs and earning power for all……[and] prosperous communities across the UK’.

Compared with its predecessors May’s industrial strategy is more frank about the market’s limitations as an agent of social change and innovation. Indeed the White Paper envisages a role for the state that extends far beyond the emphasis on functional interventions designed to support the operation of markets. The strategy recognizes, for example, that the enormous risks arising from the large and long-term nature of the investments poses an appreciable obstacle to private actors installing new manufacturing capacity. Governments in contrast ‘[can make long-term investments that no single commercial or academic player can take alone. The modern nation state is the most powerful means we have of pooling risk](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf)’. In other words, the new industrial strategy recognizes that risk taking is a legitimate venture for government rather than an activity exclusive to entrepreneurs. Similarly rather than seeing markets as the spontaneous outcome of individual interactions the White Paper sees an active role for the state in building markets for, amongst other things, energy efficiency.

The White Paper’s proclivity for selective intervention does not augur a fundamental change in the state-market relationship however. Despite claims to the contrary selective industrial interventions have, as we have previously demonstrated, remained integral to government policy during the last 40 years. Furthermore, the sectors touted for the bulk of support under the new industrial strategy bear a striking resemblance to those of the past. One of the cornerstones of the strategy are so-called ‘Sector Deals’, alliances between government and industry designed to nourish sectors of strategic value. Four of the five sector deals concluded so far are in industries (life sciences, construction, automotive, the creative industries) systematically favoured in the past. Although it is not the subject of a sector deal the White Paper also reaffirms the Aerospace Growth Partnership, a government-industry collaboration started in 2010 to underpin the UK’s efforts to capture a larger portion of the global aviation market.

The exclusive focus on a handful of industries means the new industrial strategy is unlikely to spark the renaissance of UK manufacturing. Indeed, as it presented conceived, the strategy may narrow the UK’s industrial base. The White Paper speaks approvingly of the German and Japanese industrial strategies but departs significantly from them. Specifically whereas the strategies emanating from Berlin and Tokyo look to widen the number of industries in which they are internationally competitive, the UK strategy looks to deepen the competitive advantage of UK industries that are already, in its words, ‘world leading’.

Furthermore, while a small number of world leading sectors are poised to benefit from government support, the majority of the manufacturing sector will be abandoned to its fate. Exemplifying the contradiction at the heart of UK industrial policy the White Paper’s enthusiasm for selective intervention is tempered by a desire to indicate fidelity to the free market. Despite nominating sectors worthy of special treatment, the strategy persists with the argument that the government’s role ‘is not to pick favourites’ but to ‘[ensure that the British business environment is shaped by competition and contestability in which the best businesses of all sizes can thrive](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf)’. As before, the UK’s industrial strategy combines selective industrial policy for the few with functional industrial policy for the many.

This is illustrated by the continued support for the financial services industry. Aside from a cursory reference to green finance the White Paper does not address financial services. Nevertheless, data from the [National Audit Office](https://www.nao.org.uk/highlights/taxpayer-support-for-uk-banks-faqs/) show that the total support outstanding from the UK government to the banks stands at £58bn, a figure far in excess of those being offered to all other sectors combined. In March 2018 the Treasury announced a Fintech Sector Strategy, including a commitment by the Treasury and the Department for International Trade to invest resources to help firms expand into foreign markets. Curiously, although it references the White Paper, the Fintech strategy is not mentioned on the BEIS website. This development is perhaps a further sign that the Treasury is trying to reassert control of industrial policy and sustain strategies that reinforce the UK economy’s reliance on financial services.

**Conclusion**

In the aftermath of Brexit industrial policy has been rehabilitated as a plausible remedy to the UK’s broken model of economic growth. Unfortunately the strategy proposed by the May government persists with policies that have prompted the collapse of many manufacturing industries and heightened the UK’s dependence on financial services during the past 40 years. The UK’s industrial strategy retains its split personality on the one hand expressing doubts about the market’s propensity to deliver strong, equitable and balanced economic growth while on the other making it clear that most UK’s firms and sectors will be left to the ravages of economic competition. In the immediate term, the backdrop of Brexit looks set to ensure the latter personality prevails. Theresa May’s faith in intervention is not widely shared by her party, moreover the Brexiteers who keep her in her gilded cage in Downing Street are amongst the most zealous exponents of the free market creed. Almost at the same time she was endorsing the consultation on industrial policy, the [Prime Minister was threatening the EU with a race to the bottom in tax and regulation](https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech). Irrespective of whether this broadside was aimed at the EU negotiators or Conservative hardliners it is another sign that the May government’s industrial strategy is unlikely to redress the economic imbalances and grievances that powered the Brexit insurgency.