

# The UK needs to develop an industrial policy as visionary and compelling as the German one

*In the wake of the financial crisis, many have called for the UK to rebalance its economy away from financial services in favour of industry. **Tim Page** argues that the UK government's laissez-faire approach which has weakened the country's industrial base, and that the UK must look to Germany's example by focusing on medium sized firms, and encouraging vocational qualifications and trade unions.*



**This article first appeared on the LSE's [EUROPP](#) blog.**

If budgets are one of the showpiece occasions of British politics, this year's budget did not disappoint. The 'granny tax' and the 'pasty tax' have now entered the political lexicon. Perhaps more importantly, this was the budget when the Chancellor took the political risk of cutting the top rate of tax from 50p to 45p. A move which shows Britain is "open for business", according to its supporters. A decision which shows we are far from being "all in this together", in the view of its opponents.

There were bits of the budget that the Trades Union Congress (TUC) liked and, sadly, quite a few more bits that we did not. But instead of focussing on micro-details here, I would like to talk about the "vision thing". I believe the budget should have been about more than deficit reduction. Instead, it should have put forward a strategy for long-term, sustainable growth. In particular, it should have considered how the UK can rebalance its economy, away from its over-reliance on financial services, thereby allowing it to compete in the age of globalisation.

If this is to happen, I have long believed that the UK needs a modern industrial strategy. Happily, the Business Secretary, Vince Cable, seems to be coming to the same conclusion. [Speaking](#) at a conference organised by the Institute for Public Policy Research in February, Dr Cable said:

*a passive and short-term approach to market forces is not sufficient for creating long-term industrial capabilities. Difficult as it is, uncertain as it is, I believe we have to try to develop a strategic vision for where our future industrial capabilities should lie, and how to deliver them*

I was duly disappointed, therefore, to see no signs of any such a strategic vision in the budget. This left me wondering how much influence the Department of Business, which calls itself the Department for Growth, really has over UK economic policy.

What could George Osborne have announced in his budget that might have led to an industrial renaissance and a rebalanced economy?

There are plenty of ideas in a report that the TUC recently published called '[German Lessons](#)'. This sought to learn if the most successful economy in Europe, an economy which has never lost sight of its industrial heritage, has anything to teach the UK. We concluded that it has and we put forward a number of recommendations for future policy.

Our most over-arching recommendation was for the UK to develop a new manufacturing ecosystem. This recognises that, when it comes to industrial policy, the whole is greater than the sum of the parts. Skills policy, investment policy, innovation policy and, yes, tax policy, should all be geared to supporting those key industrial sectors where the UK is or could become competitive in the decades ahead.

What are those industrial sectors? The UK has traditionally been strong in the aerospace, automotive and pharmaceutical sectors. We could be strong in environmental technology if this sector is given government support. But this leads me to the controversial bit. Other countries are partly strong in particular sectors because their governments have targeted those sectors. Areas of industrial strength are a political decision. This is true for Germany, as elsewhere, but the UK's laissez-faire philosophy has long rejected such an approach, saying that government cannot "pick winners". And the "picking winners" argument has prevented any serious discussion about industrial policy for a generation – a generation in which other countries have powered ahead, or at least stayed still, while the UK has fallen behind.

Among the other conclusions from 'German Lessons', we describe the importance of growing more small companies into medium sized firms. The UK seems obsessed by small companies, which we see as a sign of healthy capitalism, but growing these has rarely been part of our narrative. By contrast, Germany has its powerful 'Mittelstand', the network of thousands of medium sized firms who often act as suppliers to large multinationals.

Skills policy must also be addressed. In Germany, to be an engineer at a major company such as Volkswagen or Siemens is highly respected, whereas in the UK to have a vocational skill is often seen as "second best". We need to achieve parity of esteem between academic and vocational qualifications and to do that, modern, high quality apprenticeships are vital.

Finally, Germany has lots to teach us about the role of trade unions in industry. As in other European countries, German trade unions are seen as a vital counterbalance to the power of capital, defending their members' wages and helping to guarantee greater equality. The German Social Market Economy gives trade unions seats on supervisory boards, where they have the power to influence company decisions. Works council members, who are usually trade union members, also ensure that the concerns of employees are taken into account in the day-to-day running of the workplace.

Germany has not got everything right. British companies often have creativity and a nimbleness that others find hard to achieve. The trick, therefore, is to see how the best of both systems can work together. But British levels of inequality would not be tolerated in Germany. An economic model that develops world class industries, while delivering social solidarity, would be quite a prize. 'German Lessons' gives us some ideas about how we might achieve it. I hope George Osborne is listening!

*'German Lessons: Developing Industrial Policy in the UK' can be downloaded [here](#).*

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*Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.*

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