Industrial policy: Past, present and future in post-Brexit Britain and beyond

One in a series of evidence sessions for the Centre for Economic Performance’s second Growth Commission, a panel of top-tier economists, policymakers and business figures set out their visions for a best practice industrial strategy, before taking questions on: the impact of Brexit, where next for state aid, the role of governmental institutions, and more.

Mariana Mazzucato, Professor of Economics of Innovation at SPRU, Sussex University, and author of the bestselling book ‘The Entrepreneurial State’

The case for a bold, mission-led industrial policy:

• ‘An economy doesn’t just have a growth rate, it has a direction. And we need to make sure that the UK economy is going in the innovative, job-creating direction we want it to.’

• ‘We need mission-orientated, vertical industrial strategy policies which catalyse growth across sectors. When JFK decided that man should go to the moon, that catalysed growth across all sorts of sectors, from science technology to specialist apparel.’

• ‘The UK does not have enough patient finance. Since innovation is inherently risky and takes a long while to pay off when it does, this means that we cannot necessarily rely on the finance sector or the private market to provide the funding we need to support scaling and job-creating good businesses.’
Mark Littlewood, Director General of the Institute of Economic Affairs

A free-market libertarian response:

- ‘I am deeply sceptical about the ability of governments to pick winners.’
- ‘The question is who stands in a position on comparative advantage to be able to foresee what the industries and sectors of the future are, and nothing indicates that those people are in Whitehall.’

Gary Elliott, CEO of the Aerospace Technology Institute

A positive case study for industrial policy in aerospace:

- ‘In many sectors, including aerospace, we need industrial policy to overcome market failure and promote positive spillover effects.’
- ‘We act as a voice for the industry, an interlocutor between government and business and an ambassador for aerospace abroad.’

Kate Collyer, Dep. Chief Economic Adviser at Competition and Markets Authority

On the important role of competition policy in industrial best practice:

- ‘We believe that competition promotes innovation and drives the creation of growth and jobs.’
- ‘The UK has one of the most effective competition frameworks in the world, which is attractive to companies considering relocating and to people in the UK thinking about starting a business.’

Alan Overd, Vice President at Charles River Associates

The perspective from the business side:

- ‘Clarity, transparency and reliability are key for businesses.’
- ‘A stable competition framework is particularly important. Whilst there certainly are some areas of UK competition policy which might be improved, on the whole businesses know what they are getting and it’s...”
important not to change the framework too much.’

Q & A

What does Brexit mean for the future of the UK’s industrial strategy?

- Panellists agreed that Brexit had caused significant uncertainty for businesses, which might result in greater corporate surpluses (corporate cash reserve piles) at a time when the economy would benefit from investment and recycled profits.
- Some noted the importance of protecting key sectors, for example the UK’s strong higher education and universities sector.
- All noted that Brexit will result in a significant legislative pipeline for Parliament, which presents both opportunities and challenges in terms of re-evaluating the industrial policy landscape in the UK.

What is the future of state aid rules?

- Leaving the EU will mean that British policymakers are no longer bound by certain important EU state aid rules.
- Panellists discussed the potential and desirability for these to be re-imposed by Parliament.
- It was noted that state aid rules can play an important role in preventing politicians from making short-term interventionist decisions, and also offer politicians a ‘cover’ in periods when such decisions might be demanded by the media but possibly not in the best long term interest of the country.
- It was noted that even within the EU there are ‘asymmetric’ state aid rules, applying to some companies in some countries and not always to others.

What institutional architecture is required for best practice industrial policy?

- It was agreed that further work should consider the functions, objectives and balance of power between different departments, as well as decision-making at different levels of national vs devolved / regional government.

What are international best practice examples?

- Singapore, Hong Kong, Germany, and the United States were all noted for different aspects of their industrial policy strategies.