Post-Brexit Industrial Strategy: a curious complacency hovers over the General Election

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Unlike during the 2015 campaigns, the state of the economy is not at the forefront of this general election. Neither is one of the UK's biggest economic problems: productivity. ***Peter Kenway*** *and* ***Dan Corry*** *write that solving this problem should be the primary goal of the institutions responsible for industrial strategy.*

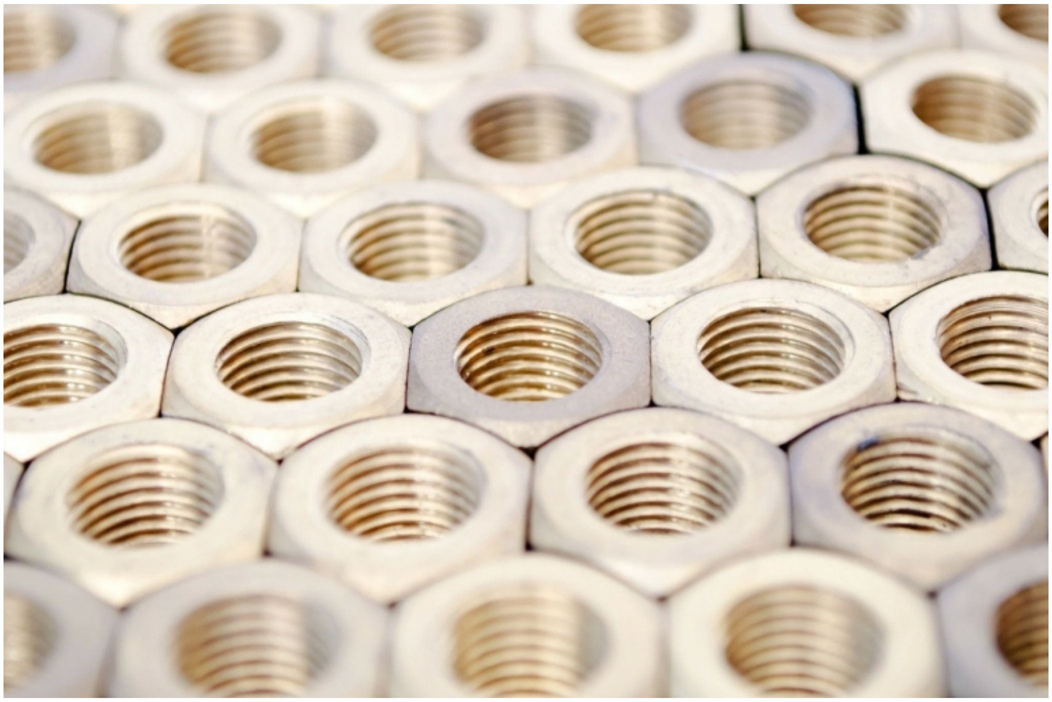
Debate about the state of the economy was centre-stage in the 2015 election campaign, held there by the Tories' four word mantra 'long term economic plan'. This time round, in a campaign lulled by 'strong and stable leadership', it's barely being mentioned. But that does not mean that all is well, however much the failure of the economy to nose-dive post the Brexit vote may have distracted people from this underlying truth.

The overall rate of economic growth is poor. The provisional estimate for the first three months of 2017 – just 0.3 per cent – caught the headlines but that is off the back of a below-average 1.8 per cent for the whole of 2016, the third lowest annual figure since 2010 and well below the long-term average of 2¼ per cent.

Since the financial crash, productivity growth has been next to non-existent, with output per hour worked in 2016 just 0.4 percentage points higher than in 2007. At just 0.3 per cent, productivity growth in 2016 was derisory, with no sign of the long-awaited upturn. By contrast, between the start of the 1970s and 2007, productivity growth averaged 1.5 per cent a year.

Not only is economic growth anaemic but the economy is seriously unbalanced. The public (government) sector financial deficit was still over four per cent of GDP in 2016. The reduction in this deficit since 2013 has been almost entirely at the expense of a rise in the deficit of the household sector. Now borrowing to maintain living standards, households posted a deficit of 1.2 per cent of GDP in 2016. The balance of payments deficit in 2016 at 4.5 per cent of GDP is only fractionally below the 2014 all-time high while the corporate sector – which should be borrowing to invest – is chalking up a financial surplus for the 14th consecutive year.

It is because of these factors that it is so vital that we have a renewed debate about what an Industrial Strategy for Britain should be. In our new report – An industrial policy for a post Brexit Britain we take up this challenge. A key point we emphasise is that for three decades, as the focus on industrial policy has ebbed and flowed, the massive underpinning of it has been our belonging to a single European market in which labour of all skill levels can flow pretty effortlessly to wherever there is demand for it.



After Brexit, this will be gone and the implications are serious. Any UK industrial strategy will need to focus much more on the supply of labour – verging on a return to some sort of manpower planning. Analysis in our report shows many sectors face challenges either because they have a high proportion of young EU staff or because they have an ageing workforce.

So we argue that for a successful industrial policy we need four elements.

First, within a focus on the supply-side of the economy – pretty much standard for any industrial strategy – a new strategy must pay particular attention to labour supply as this is the factor of production most heavily impacted by Brexit.

Second, it must concern itself not just with manufacturing but with the whole of industry. As a producer not just of consumer goods but of industrial inputs, manufacturing enjoys a special status in economic thinking. But with less than 10 per cent of UK labour hours going into manufacturing, half what it was in the early 1990s, manufacturing just is not big enough to be the sole, or even the main focus.

Third, it should take as its goal increasing labour productivity across the economy. Progress will require an industry-level focus on the problem. Low productivity and low productivity growth are not the same. Since the financial crash, it is often the high productivity industries which have shown the lowest – even negative – productivity growth.

Fourth, it should be owned in England by the city region Mayors and/or the 39 Local Enterprise Partnerships which between them cover the country. In Scotland, the City Regions, covering most of the country, should take the lead. This all needs a supporting national infrastructure overseen by a National Economic Council.

In proposing that the institutions responsible for industrial strategy should have the UK's productivity problem as their primary goal, we are arguing that someone must 'own' one of the UK's greatest economic problems. This is an agenda for action and we need to get on with it. The state of the economy today bears an uncanny resemblance to 2006, just before the financial crash. Waiting, hoping and ignoring these issues is only likely to lead to a downturn of the kind that nobody would benefit from.

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Note: the above draws on the authors' report, who write here in a personal capacity.

About the Authors

Peter Kenway is Director and co-founder of the New Policy Institute.

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