

Creating, not picking, winners: How to develop an industrial strategy which works for everyone

Chris White and Benedict Wilkinson

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About the Policy Institute at King's College London

The Policy Institute addresses complex policy and practice challenges with rigorous research, academic expertise and analysis focused on improving outcomes. Our vision is to contribute to building an ecosystem that enables the translation of research to inform policy and practice, and the translation of policy and practice needs into a demand-focussed research culture. We do this by bringing diverse groups together, facilitating engagement between academic, business, philanthropic, clinical and policy communities around current and future societal issues.

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Preface

Issues & Ideas is a series of policy pamphlets published by the Policy Institute at King's to stimulate debate on contemporary, and often controversial, policy ideas.

Issues and Ideas is a series of pamphlets published by the Policy Institute at King's College London, designed to stimulate debate on contemporary, and often controversial, policy issues. The series acts as a vehicle for leading thinkers and practitioners associated with the Institute, to share their insights with a broad community of policymakers, academics, journalists, business leaders and the public. While all reports reflect the views of the authors alone, they remain true to the ambition of the Policy Institute to champion the application of robust evidence in formulating policy.

After decades of being locked away in a dusty filing cabinet, the Industrial Strategy is again topical, again in the news as policy that will strengthen our domestic core, being 'at the heart of a fairer Britain.' A philosophy which should be applauded and embraced.

The stakes riding on the Government's imminent Industrial Strategy (otherwise referred to by the BBC as the 'UK's post-Brexit economy plan'), cannot be higher.

Executive summary

This paper is fully supportive of an Industrial Strategy. It makes the case as to how important this strategy is, both as core to domestic policy in terms of delivering growth and prosperity across the country but also as a cultural narrative to the way we do things here in the UK, and how this narrative can be articulated.

The paper looks at the challenges, the contradictions and the need to work collaboratively to achieve the above vision. The age of cross-party and cross-departmental cooperation may now have to arrive, not least as there does not seem a ready alternative.

The political climate is volatile, and public confidence needs a boost. The ambition described in the following pages will hopefully go some way towards achieving that. But it needs to be bold, definitive and resilient to scrutiny. The following recommendations are a place to start, creating winners rather than picking them.

Key recommendations

- ♦ Re-focus the Department for Business, Energy and Industrial Strategy as the Department for Industrial Strategy, operating with authority across government departments.
- ♦ Ensure that the Secretary of State or a Minister at BEIS/DoIS is responsible and accountable for delivery and reporting on the continuing progress of the Industrial Strategy.

- ♦ Create an independent Office for Industrial Strategy, responsible for scrutiny, monitoring and measurement of the Industrial Strategy. As part of its remit, this body should be able to ‘recalibrate’ the strategy where necessary.
- ♦ Development of the core strategies; skills and communications (both in terms of digital and infrastructure), that will both enable and drive the strategy forward through responding to the stubborn gap in productivity to an increased network efficiency, both physical and digital.
- ♦ Shift from ‘pillars’ to whole government, from picking winners to creating winners, creating a ‘national’ as opposed to sectoral environment.
- ♦ Develop a communications narrative which will pull the strategy together, making it comprehensible, accessible and attractive. The narrative should give the strategy ‘life’ and a sense of public ownership. This is possibly the hardest, but most necessary element of the strategy to deliver.
- ♦ Increase collaboration and cooperation among sectors, regions, political parties and different levels of government, to ensure that the Industrial Strategy is not seen as a number of competing or even conflicting elements. This is where, and how, the strategy will be most effective, and will help it gain traction through reach.

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1 | Introduction

1 | Introduction

The very idea of an ‘Industrial Strategy’ runs against the grain of traditional policymaking. To be successful and to survive the often polarising manifestos of a general election, an industrial strategy must cut across boundaries: it has to be inter-departmental, cross-party, and sufficiently robust to endure several parliaments. And yet despite their inherent difficulties, industrial strategies have the potential to pay huge dividends: they can create economic value, improve productivity, develop and enhance skills in the workforce, and ultimately help to create a happier, healthier and wealthier population.

Despite the best efforts of their various architects, however, recent attempts to create an industrial strategy in the UK have been short-lived. As the Institute for Government points out, in the last 10 years, the UK has seen four different iterations of industrial strategy, beginning with Lord Mandelson’s 2008 drive for a ‘new activism’, through Sir Vince Cable’s Industrial Strategy of 2012 and Sajid Javid’s 2015 ‘industrial approach’, and ending with the latest iteration which took root in 2016.¹ The relative fragility of these strategies is, in part, a consequence of entrenched political volatility in the UK system, but it also neatly symbolises the challenges inherent in developing successful industrial strategies.

1 Norris, E. and Adam, R. ‘All Change: Why Britain is so prone to policy reinvention, and what can be done about it’, Institute for Government. 14 March 2017.

In short, creating a meaningful and substantial Industrial Strategy is a huge challenge, but one that has the potential to produce even greater returns. Current political uncertainties necessitate the creation of an ambitious, overarching policy that underpins the Prime Minister's aspiration of an 'economy that works for everyone'.² Without question, it is a challenge that the Government needs not only to take on, but also to overcome. To create such an economy, we need an industrial strategy that influences treasury, education, local government, energy, business and trade policy, providing a coherent strategic narrative. A popular vision that every primary school teacher, banker, truck driver and construction worker can feel part of and identifies with.

In creating the Department for Business, Energy and Industrial Strategy, the Prime Minister overtly recognised the challenge and importance of an industrial strategy amid the political volatility produced by Brexit and wider economic uncertainty. The sheer scope and ambition of the UK's fledgling industrial strategy in the current political climate is absolutely clear from the foreword to the Green Paper, which was unambiguous as to the goals of the strategy. The new industrial strategy aims to:

...help to deliver a stronger economy and a fairer society - where wealth and opportunity are spread across every community in our United Kingdom, not just the prosperous places in London and the South East. It will help our young people to develop the skills they need to do the high paid, high skilled jobs of the future. And it will back Britain for the long-term: creating the conditions

2 Theresa May, Speech at the Matthew Taylor Review Launch, 11 July 2017.

where successful businesses can emerge and grow, and backing them to invest in the long-term future of Britain.³

Once again, the challenge of the UK's industrial strategy is clear: it will have to be cross-cutting, all-party, national, and long-termist. These aspects of an effective industrial strategy were also highlighted in a 'policy lab' held by the Policy Institute at King's College London. As outlined in the subsequent paper, submitted to the Government consultation on industrial strategy, 'Joining up the dots: Delivering a holistic and effective industrial strategy for everyone', stakeholders at the lab returned time and again to the need to think about the industrial strategy as a strategy, not as a policy, if it is to be successful. In the paper, the research team outlined seven 'core principles' for the strategy to be successful in the longer-term. Among these were 'developing a supportive and enabling environment', 'articulating a long-term and sustainable strategy', and 'creating a clarity of purpose'.⁴

This paper attempts to build on both the Government's Green Paper and the policy lab held by the Policy Institute. In so doing, it focuses on one of the most important, but widely overlooked, challenges in developing an industrial strategy: the strategy itself. It does not go into great detail on some of the more granular aspects such as the sectors in need of support, or the skills that need to be developed, although it covers these in passing. Instead, it explores the overarching strategy and how

³ Foreword to the Industrial Strategy Green Paper. 23 January 2017.

⁴ Van Rij, A., Wilkinson, B., Pow, R. and Grant, J. 'Joining up the dots: Delivering a holistic and effective industrial strategy for everyone', The Policy Institute at King's College London. September 2017.

such a vision might be both created and articulated to the British people. It examines a wide set of issues concerning interventionism, how to create confidence and trust, cultural change, resilience, scope and the need to build a popular narrative for such a strategy. It also investigates the crucial matters of independent scrutiny and evaluation, the two foundations on which a successful strategy will depend.



2 | Co-operation and collaboration

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The wider success of an industrial strategy is dependent on the cooperation and collaborative support from its natural, although sometimes competing, stakeholders: business, local government, other (potential trade partnership) governments, educational institutions and communities seeking to reap the rewards of a coherent strategy. To satisfy these stakeholders the strategy must adapt to an array of interests, contributions and ‘asks’ in a finely balanced approach, the success of which will be the measurement of the strategy, not least holistically. The final recommendation of the King’s submission, to ‘construct an overarching narrative’,⁵ is perhaps the most challenging recommendation of all: how can the strategy capture the imagination? Could this be the policy that re-engages the public and re-builds trust, in a dynamic and constructive way?

However, part of the problem is that there is a widespread and acknowledged lack of strategic thinking and strategic leadership in Government. In 2012, the House of Commons Public Administration Select Committee issued a report, ‘Strategic thinking in Government: without National Strategy, can viable Government strategy emerge?’.⁶ The report was based on a fundamental enquiry: not ‘Who governs?’, but

⁵ Ibid.

⁶ House of Commons, Public Account Committee, ‘Strategic thinking in Government: Without National Strategy, can viable Government strategy emerge?’. HC 1625. 24 April 2012.

‘How do they govern?’. The first paragraph of the summary is uncannily topical:

The UK faces complex, diverse and unpredictable domestic and global challenges. The process by which National Strategy is developed to tackle these challenges, and by which policy and the consequent tax and spending decisions are aligned with the nation’s long-term interest, public values and identity, is the process of ‘emergent strategy’. Emergent strategy occurs inevitably and is to be discerned from the policy choices and decisions that the Government takes.

The report goes on to say:

The challenges facing the UK cannot be tackled simply by the publication of a deterministic plan for Government but require strategic leadership. Such leadership is central to Government ...

In the specific case of industrial strategy, the problems are heightened because such a vision has invariably been subject to political riptides. For instance, an article on UK science funding by the BBC’s Science Correspondent, Pallab Ghosh, recounts a story about an ‘ambitious’ Conservative minister who created a strategy to ‘turn the UK’s scientific expertise into new products and services that will generate jobs and wealth for the economy’.⁷ The Minister was Kenneth Clarke, and the strategy was the Alvey programme, designed to drive the UK to become a vanguard nation in advanced computing. Clarke’s decision to ‘pick a

⁷ Ghosh, P. ‘Science funding: Will “picking winners” work?’, BBC News. 31 August 2017.

winner' did not find political favour with Margaret Thatcher, and five years later, the Alvey programme was shut down. More than 30 years later, a different Clarke – Greg – announced £4.7bn of funding for the sciences, once again, to propel the UK to the forefront, to drive business and the economy.

For Ghosh (and indeed, many others), a return to 'picking winners' is the consequence of 'high-tech companies and leading scientists [who] have persuaded the Treasury and Downing Street that the policy was not wrong'.⁸ Or to put it another way, they have argued successfully that financial inputs to a given sector will create wider economic benefits, both in terms of skills and dividends. The £4.7bn investment is, of course welcome, in a successful sector which has huge potential. But the question is whether such investment would have happened anyway from Government research grants, industrial sponsorship, venture capitalism and higher education funding.

This question is at the heart of creating an Industrial Strategy and one that pervaded a key debate on Industrial Strategy in October 2016 (surprisingly well attended for a Thursday afternoon, but surprisingly poorly attended for a policy that would have an impact on each and every constituency). Jo Johnson, the Minister for Universities, Science, Research and Innovation, set the tone of the debate:

When Governments fail to look ahead and make the right long-term decisions on fundamentals such as tax, infrastructure, research, education and skills, they are abdicating responsibility. Such plans require us to take not a partisan approach but one that seeks to establish common ground...

8 Ghosh, 2017.

Our industrial strategy will necessarily be wide ranging, but that should not be at the expense of clear focus...For a start, let us acknowledge our powerful record on science and innovation... Science, research and innovation are essential to our future and must be at the core of any effective strategy for the long term.⁹

Towards the end of the debate a contribution was made by Richard Fuller, the then MP for Bedford:

As the Hon. Member for Aberdeen North has just said, we do not know what industrial strategy is—no one has defined it. When I heard earlier that the Minister had not yet published what the industrial strategy was, I raised my hands in prayer. As long as the Government continue not to define their industrial strategy, they will keep themselves out of a great deal of trouble. As soon as they define it, people will start to disagree with them, because the phrase ‘industrial strategy’ is a wonderful grab bag of good ideas...In industrial strategy, all are winners, because no industrial strategy will pick a loser. The Minister will always say yes, because with an industrial strategy, one can never say no.¹⁰

All the possible reservations to an industrial strategy elegantly articulated into one paragraph. However, Terry Scouler, the Chief Executive of EEF, sums up his ask in the introduction to ‘Making the Future, Making Britain Great: A Manifesto for Manufacturing’, recommending all the more reason to press ahead:

⁹ Jo Johnson, House of Commons debate on Industrial Strategy, 20 October 2016.

¹⁰ Richard Fuller, House of Commons debate on Industrial Strategy, 20 October 2016.

By driving forward a comprehensive industrial strategy it can lay the foundations for generations to come; it can put Britain at the forefront of the fourth industrial revolution, investing in digital technology and new innovation; it can create the right conditions for industry to thrive and invest. It can - and must - revolutionise our education system, to equip existing employees and a new generation with the skills and capabilities they need to help the economy grow.¹¹

The key point that runs through all of the claims and counter-claims is that an industrial strategy needs first and foremost to be a strategy. And for it to be a strategy, it needs to draw different stakeholders together. It may seem fanciful to suggest that a vision that contains two words, 'industrial' and 'strategy', neither of which on their own attach emotion, needs to inspire a nation for decades to come. But it is clear that this is at the core of ensuring that such a strategy not only survives in a politically volatile environment, but also that it positively shapes the behaviours of organisations and people.

Indeed, this is precisely why phrases like 'the Northern Powerhouse', 'the Midlands Engine', 'the march of the makers', and to return to a previous era, 'the white heat of technology' are so powerful.¹² These are important elements of industrial strategy which generated broad appeal, not only among officials and policymakers, but in manufacturers, businesses and populations.

¹¹ EEF, 'Making the future: Making Britain Great'. 2017.

¹² Prime Minister Harold Wilson, Speech at Labour Party conference, October 1, 1963: 'The Britain that is going to be forged in the white heat of this revolution will be no place for restrictive practices or for outdated methods on either side of industry'.

‘The white heat of technology’, for instance, first used by Harold Wilson in 1963, captured the national mood of the time, and still reverberates even over the decades. It represents the kind of Industrial Strategy that now causes such anxiety: excessively interventionist, the kind of strategy that is based on tractor production figures and quotas, centrist (Whitehall) control and the smothering of creativity and entrepreneurship. Alternatively, the ‘Midlands Engine’ strategy appeals beyond the corridors of government, arguing that:

The Midlands is essential to our national economic success. The region is responsible for over a fifth of the UK’s total manufacturing capability...This is a dynamic region: there are now 427,610 more people in employment in the Midlands than there were in 2010 and the size of the Midlands economy has increased by £32.9 billion.

...there is more that we can do to harness the region’s potential to help deliver the future we want for our country after we have left the European Union. Building on our modern Industrial Strategy, the Midlands Engine Strategy sets out concrete actions we are taking to address productivity barriers across the Midlands, enabling businesses to create more jobs, export more goods and services, and grow productivity.¹³

The Chancellor describes an intervention that builds on existing policy, driven by raw numbers and

¹³ Philip Hammond MP, Chancellor of the Exchequer, foreword to Midlands Engine Strategy. March 2017.

economics but needs greater reference to emotion: pride, passion and ownership.

The 'Northern Powerhouse' was a phrase of George Osborne, and one which was designed not only to recognise the potential of the 'once former heartlands' of the Industrial Revolution, but also as a call to arms to address some of the regional challenges such as productivity, skills and investment. The 2016 'Northern Powerhouse' Strategy describes and lists its ambitions clearly:

We have set out here our strategy for building the Northern Powerhouse. We will invest in the North's transport infrastructure, to improve connections between and within the North's towns and cities. We will continue to work with local areas to raise education and skills levels across the North. We will ensure the North is an excellent place to start and grow a business. And we will ensure the Northern Powerhouse is recognised worldwide for the trade and investment opportunities it offers. We are also announcing the next steps we will take to deliver this strategy, including over half a million pounds of investment from the Local Growth Fund to improve transport links, unlock housing and enhance digital connectivity.

The economic strengths of the Northern Powerhouse are identified as manufacturing, pharmaceuticals, energy and digital. However, the major challenge is to increase productivity (value added per worker is 13% lower than the UK average and 25% lower than in the South of England), which has traditionally been held back because of poor connectivity and a fragmented

regional economy (and the limited reach of Northern labour markets), with regard to skills there are fewer graduates and a greater proportion without any qualifications at all, entrepreneurship (in terms of enterprise and innovation) is at a lower base than the rest of the UK, and FDI (foreign direct investment) per head is significantly lower than that received by the South East.

These four platforms, connectivity, skills, enterprise and innovation, and trade and investment, are built on in the Northern Powerhouse Strategy document, with specific support for projects such as the Sir Henry Royce Institute and the Factory theatre in Manchester.¹⁴

The point is that all these strategies are articulated in such a way as to cut across political, regional and parliamentary divides and to reach the wider population. Few would challenge the idea of a Northern Powerhouse, or a Midlands Engine; they might challenge how that would be delivered, but not the basic thrust of the argument.

The same applies to the current Industrial Strategy. Few deny that such a thing is crucial, but without a narrative to articulate it beyond Westminster and Whitehall, it has little chance of success. To put it another way, would a poster placed at the top of the escalator leading to Old Street Underground Station, designed by Rolls Royce or British Airways containing images of jets, turbines, apprentices, welding, plus a Union Jack, instil a sense of pride even among those not working for these international brands? This has

¹⁴ HMG Government, Northern Powerhouse, 'Northern Powerhouse Strategy'. November 2016.

been visited before in the 'Britain is Great' campaign in which we saw posters proclaiming:

Culture is GREAT
Heritage is GREAT
Creativity is GREAT
Business is GREAT
This is GREAT Britain¹⁵

But the strategy, and thus the narrative and campaigning attached to it, failed to capture the public imagination. The National Audit Office reported that this £113.5m campaign produced a £1.2bn return on investment between 2012-15, against a target return of £1.9bn by 2019/20, so the campaign has been at least economically successful in driving exports and business overseas.¹⁶ How extensive was the impact of the above campaign on the British public and did it capture that imagination, not least outside our embassies or government departmental buildings, where the banners were most likely to be seen? What does 'Business is Great' actually mean? Does it begin to sound like the character from the Fast Show who declares that everything is 'Brilliant!'? The point, of course, is that while the Britain is Great campaign has been partially successful, it was directed at only half the required audience; it needed to drive not just businesses and attitudes overseas, but also to inspire the public to engage with a wider economic and industrial plan for the future.

The UK's Britain is Great campaign came third in the 2014 Anholt-GfK Roper Nation Brands Index™. Germany, however, came second. While their strategy

¹⁵ See <http://www.greatbritaincampaign.com/>

¹⁶ National Audit Office, 'Exploiting the UK brand overseas'. 5 June 2015.

is less formalised, it pervades almost every area of German domestic and foreign policy to some degree. The German Government sees little need to pin down formal strategies or statements because this philosophy is so entrenched, and it flows through all activity.

Industrial strategies are embedded into the domestic policy to a greater or lesser extent, and on the spectrum of the implicit to the explicit, from the hands-on to the hands-off. Strategies have evolved, or been the response to, internal or external shocks, or driven by individuals such as Shinzō Abe, Japan's prime minister, coming to office with the aim of giving the necessary shock to bring the Japanese economy out of two decades of stagnation (Abenomics).

Many countries use a range of incentives and policies to support key industries believed to be of strategic importance, not necessarily in terms of competitive advantage, but often to provide security and independence, for example energy security, or protecting intellectual property.

It goes without saying that getting the industrial strategy right – so that it has the potential to create benefits in the round – is essential. And there is a whole range of best practices to follow and risky traps to avoid. For instance:¹⁷

- ♦ In Germany, the close relation between state and business has allowed a relationship of trust to develop which has helped it navigate the 2008-2009 recession more successfully than its counterparts.
- ♦ In France, the large role the state plays has resulted in sluggish growth and disincentivised innovation.
- ♦ South Korea has benefitted from powerful

¹⁷ See Van Rij, A., Wilkinson, B., Pow, R. and Grant, J. 2017.

conglomerates and strong social cohesion, with a long history of R&D programmes driving growth.

- ♦ Japan grew exponentially during the 1980s, but has stalled since then, with Abenomics failing to revive the economy.
- ♦ The US operates under WTO trading rules, while simultaneously lacking diversification with regards to federal grant allocation.

If the various approaches to industrial strategy are compared between these five nations, looking at some key issues, such as regional policy, sectors, entrepreneurship, skills development, knowledge flows and commercialisation, it can be seen that different emphasis is placed on comparative strengths and weaknesses.

- ♦ South Korea builds on successful business conglomerates, whereas France focuses on 'strategic' industries such as infrastructure, nuclear (which, by its very nature, is definitively long-termist and strategic).
- ♦ Germany focuses heavily on green innovation, with its 'Framework Programme for Sustainable Development' focusing on climate, energy and sustainable resource management. However, despite the central role of SMEs in the economy there is limited access for finance, although the Central Innovation Programme has been created in an attempt to remedy this.
- ♦ The UK is recognised internationally for its 'soft power', creativity, innovation and 'heritage' brands, but needs the glue that an Industrial Strategy would provide to bind these and other strengths together.

3 | First steps then next steps

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The Green Paper is wide-ranging in its scope, identifying 10 pillars under which 100 different policy actions are listed, ranging from the specific, such as the ‘£440 million to trail the deployment of digital signalling and plans for digital train control technologies as part of accelerating the digital modernisation of railways’, to the more nebulous, such as to ‘explore how to maximise the opportunities that a UK presence at existing international trade fairs offers for business’, and finally, to the ‘place’-related actions, such as to ‘join up trade and investment promotion with local areas, with area-specific trade missions working with local areas to highlight opportunities’.¹⁸

Under the 10 pillars the actions can be divided into three subsets, the horizontal – using terms such as review, establish and convene; the vertical – for example, the strategy challenge fund, the extension of the Biomedical catalyst and additional funding to accelerate the transition to ultra-low emission vehicles; to the place – which looks at local areas, devolution deals and spreading best practice.

The paper provides a ‘wish list’, with connected and unrelated actions to achieve the headline objective of an ‘economy that works for everyone’, but by its very nature, a Green paper that will stimulate debate and generate submissions from academics to trade bodies and from industry to politicians, must include the

¹⁸ HMG, ‘Building our Industrial Strategy’, Green Paper. January 2017.

widest range of 'actions'. But the more scattered the actions become, the more 'sectoral' the White Paper will become, snapping back to the comfort zone of 'picking winners' rather than creating them.

There should be investment in ultra-low-emission vehicles, but is this the purpose of a strategy? Should the purpose not be to create an environment where ultra-low-emission vehicles and for that matter, similar (not least, inevitable) technologies and the research and development supporting them, receive investment almost automatically? By being an explicit part of the strategy, does this specific investment limit creativity in research and development to a handful of projects, gambling on future consumer demand?

In 1965, the then Secretary of State for Economic Affairs produced the 'National Plan', which sought to cover 'all the aspects of the country's economic development over the next five years'. The plan was over 450 pages long and had a position on everything from the running cost of schools to the future development of the electronics industry. While the plan was comprehensive in scope, our economy no longer operates in such a command-based structure, and there would be negative consequences if it were to be replicated today.

However, notwithstanding the above, a policy or a strategy such as this needs to attract 'buy-in' and inspire confidence and trust. A policy which has tangible benefits in the short term may have resilience for the long term, whatever the unpredictability of global or national politics.

In terms of the 'space' aspect, the Midlands Engine Strategy provides a good example, identifying weaknesses or challenges and providing a coherent and interdependent focus on five key objectives:

- ♦ Improving connectivity in order to raise productivity
- ♦ Strengthening skills in order to make the Midlands a more attractive location for business
- ♦ Supporting enterprise and innovation in order to foster a more dynamic regional economy
- ♦ Promoting the Midlands nationally and internationally in order to maximise trade and investment in the region, and
- ♦ Enhancing quality of life in order to attract and retain skilled workers, as well as to foster the local tourist industry.¹⁹

The Strategy goes on to say:

The government cannot deliver this strategy alone. The Midlands Engine Partnership brings together business, local authorities, academic institutions and Local Enterprise Partnerships. It is a unique example of local government and businesses joining forces to deliver a shared vision for a whole region. Together with the West Midlands Combined Authority, and Local Enterprise Partnerships and local authorities across the region, it provides an excellent vehicle to support delivery of this strategy....

To support this, we will work with the Midlands Engine Partnership to establish an industry board to support the Partnership's activities. This will be attended by the Secretary of State for Communities and Local Government, as the Government's Midlands Engine Ministerial

¹⁹ HMG, Department for Communities and Local Government, 'Midlands Engine Strategy'. March 2017.

Champion, and Sir John Peace, Chairman of the Midlands Engine Partnership.²⁰

It is clear for the Midlands at least, that there are the components of a genuine strategy. A definition and purpose, a direction and leadership providing a framework to respond to the challenges that the Midlands faces. Lines of accountability, including the recently elected Mayor of the West Midlands, Andy Street, provide a focused clarity gained from democratically elected responsibility. The ‘Midlands Engine Vision for Growth’ published in September is a powerful document, including this statement from Sir John Peace:

To tackle our under-performance, we need to be bold and to do more to improve our productivity and drive economic growth. This is vital to achieving the objective which is most important to us – improving living standards, prosperity and opportunity across the Midlands. Inclusive growth requires better productivity and that’s the focus of our partnership.

Central Government generally responds well to objectives and targets which provide focus and concentrate minds. An industrial strategy would allow the public and business to hold the Government to account. Debate would be unavoidable and long-term, and a consensual policy would be prevalent.

²⁰ Ibid.



4 | An Industrial Strategy that works for everyone: Creating winners

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In September 2012, the Rt Hon Dr Vince Cable announced the following:

...a co-ordinated industrial strategy will not be a quick fix...A good industrial strategy allows for failures, and recognises that innovation may strike in an unpredictable place - we must be ready for that too. But as the credit crunch showed, there are huge risks to taking a complacent, hands off approach. And as our thriving automotive and aerospace sectors show, I strongly believe that the potential rewards are substantial.

We have identified several areas where government action can have a real and early impact. These are: access to finance; partnerships with sectors; support for emerging technologies; creating a pipeline of skilled workers; and finally, government procurement and the development of supply chains...²¹

Dr Cable was calling for a horizontal strategy, and although the Green Paper did not materialise for several years (and under a Conservative Government), he deserves some credit... 'if it looks like a duck, swims like a duck and quacks like a duck, then it probably is

²¹ Vince Cable, 'A vision of the future of British industries' [speech] 11 September 2012.

a duck.’ But it follows that to create such a policy for the long term, it will take years in the gestation. To be successful, it needs a long time in the cradle, but with ideally no grave in sight.

Dr Cable’s analysis can be categorised to include education (skills), infrastructure (the supply chain, including digital), access to finance, research and development, and productivity. These are the foundations of a strategy which can be planned and outcomes measured.

While it is appreciated that manufacturing does not make up the majority of the economy, it can be seen as a driver for other sectors – efficiencies, processes, skills, exports and so on. It also requires more explicit planning than other sectors, tooling, prototypes, design phases, product and safety testing, etc, which can be seen as inter-dependent, with the state playing a more active role. This should not come, however, at the expense of creativity or productivity, and can assist rather than hinder.

For example, the automotive sector is a driver of change, requiring ever shorter design and pre-production lead times, the latest technology and process techniques, from lean manufacturing to total quality management to the fourth industrial revolution (and the digital revolution that that will require), an increasingly skilled workforce and an evolving infrastructure which its supply chain demands.

And because of this, the most consistent call from the sector has been for Government to articulate a long-term commitment and to give an indication as to the policy framework in which they are likely to operate in the medium to long term.



5 | Evaluating an Industrial Strategy

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In 2010, one of the first actions of the coalition government was to create the Office of Budget Responsibility (OBR). This was perhaps a logical step following the Bank of England becoming an independent body, specifically with independence in setting monetary policy, in 1998, under the Blair administration.

The OBR has five main functions:

1. Economic and fiscal forecasting
2. Evaluating performance against targets
3. Sustainability and balance sheet analysis
4. Evaluation of fiscal risks
5. Scrutinising tax and welfare policy costing²²

Both these initiatives were popular and welcome, generating levels of public and market confidence and trust. A similar body could be created for the Industrial Strategy: an Office for Industrial Strategy, or OFIS for short.

With the underlying theme of the Industrial Strategy being one of cross-party consensus over the long term, the policy will need to be transparent, measurable and withstand scrutiny. Not least, a Minister should be responsible for the policy, but also report regularly and

22 See 'About', Office for Budget Responsibility. [Online] Available from: budgetresponsibility.org.uk

frequently to Parliament. The BEIS Select Committee recommended that the Government should include metrics relating to the following:

- ♦ Improving real-terms earnings per household and closing regional disparities
- ♦ Reducing differential regional GDP per head between least and best performing nations and regions
- ♦ Improving UK productivity relative to comparator economies and closing the gap with the G7 average
- ♦ Improving UK Gross Domestic Expenditure on R&D relative to comparative OECD economies
- ♦ Improving levels of UK investment in fixed capital relative to comparable OECD economies
- ♦ Improving the UK's position in international rankings on basic skills
- ♦ Improving the UK's position in international rankings on infrastructure
- ♦ Ensuring emissions remain within Carbon Budgets and legal limits for air pollution
- ♦ Closing the UK trade deficit; and,
- ♦ Improving the proportion of businesses which scale up²³

The title of the subsequent Select Committee report is important: 'Industrial Strategy: First Review'. A recognition that the Strategy would need to be flexible, respond to ebbs and flows, but essentially be marked against a set of criteria, which the committee provides, and which, although not exhaustive, is at least a start.

23 House of Commons, Business, Energy and Industrial Strategy Committee, 'Industrial Strategy: First Review'. HC 616. March 2017.

The policy lab at King's College London also suggested further goals for the UK Industrial Strategy:

- ♦ Reduce inequality/spread wealth/build social cohesion
- ♦ Improve growth and productivity
- ♦ Establish clear, holistic and inter-connected frameworks
- ♦ Improve skills
- ♦ Capitalise on existing strengths
- ♦ Support international cooperation and trade/create jobs
- ♦ Encourage innovation and investment
- ♦ More manufacturing
- ♦ Offer stability and continuity

These principles are included in the recommendations.²⁴

²⁴ See Van Rij, A., Wilkinson, B., Pow, R. and Grant, J. 2017.

6 | Recommendations

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Rarely has a policy met with such cross-party support, however fragile, and welcomed by such a huge array of stakeholders. So as to not lose momentum, the imminent White Paper should receive the maximum level of attention. The Government should demonstrate its commitment that the Industrial Strategy is still at the heart of its domestic agenda. But the challenge remains, what to include in the Paper?

The answer could be divided into two sections: 1) The principles – the golden rules which will define the strategy as something different from ‘discrete’ policy and 2) The structure – how will the strategy be delivered in practice.

Principles

A clear definition of what an Industrial Strategy means to the Government, stakeholders and practitioners is needed, with a clear vision, objectives, plan and an outline of what its success will look like. All temptations to make announcements regarding the industrial strategy in terms of sectoral or even individual project grants or other funding should be avoided. This is not what the strategy should be about.

The strategy should be described in language that refers to creating an environment, bringing together the regional strategies and supporting skills (from the earliest years to re-skilling) and investment in terms of communications (including digital) infrastructure, the vital components to a ‘complete’ industrial strategy.

A Minister should be appointed with responsibility for the delivery of the Industrial Strategy, working across Departments and updating Parliament on a regular basis, similar to the Budget. Furthermore, as ‘Energy’ and ‘Business’ are functions of any Industrial Strategy, the Department for Business, Energy and Industrial Strategy could be replaced with a more definitive Department for Industrial Strategy, with the appropriate powers available to a Secretary of State. This would demonstrate the Government’s commitment and intent, provide clarity of purpose and assist in changing the ‘silo’ mindset characteristic of various departments of state.

An independent body, the ‘Office for Industrial Strategy’ (OFIS), should be created to scrutinise the strategy as it develops and proceeds; covering a checklist developed from the submissions to the Green Paper, the BEIS Select Committee Report, King’s College London and others. This body would also support measurement and analysis of the devolved strategies, the Midlands Engine, the Northern Powerhouse, and other similar proposals, and ensure a national collaborative agenda. In addition, OFIS would ‘benchmark’ the UK Industrial Strategy against those of other nations, providing an effective feedback loop into the agenda.

The strategy must be designed, by its very nature, to withstand shocks, both domestic and global. The strategy will be crisis-averse and not be seen as a ‘flavour of the month’ – instead representing a cultural change on an unprecedented scale.

The wider principles, including those set out in the policy lab, are reducing inequality, spreading wealth and building social cohesion, improving growth and

productivity, encouraging innovation and supporting co-operation and collaboration.

Practice

Supporting the implementation of the strategy will fundamentally require some serious cross-party working, through joint development of the principles and practice that will give the strategy the momentum on which its success will depend. Furthermore, to attract support from stakeholders, a narrative must be created that is attractive, comprehensive, achievable and believable.

Removing the pillars to create a more horizontal strategy, to design upwards, from primary schools and STEM subjects to trade missions and procurement policy; creating winners, rather than picking them.

To develop a grid structure to facilitate more networked operational practices; local authorities, LEPs, Whitehall, industry bodies, research institutions, multinationals and further education bodies, all better understanding their role in, and contribution to, the national strategy. An advanced method of partnership, which historically has not always been the case.

7 | Summary of recommendations

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- Department for Business, Energy and Industrial Strategy to become the Department for Industrial Strategy
- Secretary of State/Minister at BEIS/DoIS responsible for delivery and reporting on Industrial Strategy
- Creation of an independent Office for Industrial Strategy, responsible for scrutiny, monitoring and measurement
- Development of core strategies; skills and communications (digital and infrastructure)
- Shift from ‘pillars’ to whole government, from picking winners to creating winners
- Development of a communications narrative
- Increase collaboration and cooperation across sector, region, party, government, country

The lack of success of historical documents like the ‘National Plan’ does not mean there should not be an Industrial Strategy for the UK or that there isn’t a case for a coherent document to be drafted by the Government, outlining the support and leadership it intends to provide.

But a ‘modern’ Industrial Strategy will be immense in scope, business no longer as usual, that requires huge cultural change. This will present an enormous challenge to the Government and put its capability and capacity severely to the test.

The economic and political landscape is unprecedented. There is therefore all the more reason for an Industrial Strategy, one that is well crafted and one that works. This will clearly be the start of a new political journey requiring collaboration and cooperation between sectors, parties, governments, regions and even countries. But in an increasingly competitive environment, and with the continuing trend towards globalisation, there is little choice. A 'free for all' will not be able to resist these unrelenting pressures.

Although there will be a reluctance to turn the key, there must be a start date to the strategy. The Government proposed the Industrial Strategy and now it must take the initiative. Roughly 18 months have passed since the creation of the Department, and a year since the Green Paper was launched. It is time to take the initiative and lead – and create the momentum, which will be difficult to halt.

So, in answer to the question 'What is the purpose of strategy?', and for that matter, 'What is the purpose of an Industrial Strategy?', there can be no better response than that given by the American Civil War General: 'To get the furthest, with the mostest'.²⁵

That should be the sentiment which drives our economy and increases and sustains prosperity throughout the United Kingdom, the original objective behind the Industrial Strategy. So, perhaps the final thought should be given to Terry Scouler, Chief Executive of the EEF, whose quote deserves repeating:

Is it too fanciful to ask whether a policy, that contains two words, Industrial and Strategy, neither of which on their own attach emotion, could, put together, inspire a nation for decades to come?

²⁵ Freedman, L. *Strategy: A history*. Oxford: Oxford University Press. 2013.

White, C. and Wilkinson, B., *Creating, not picking, winners: How to develop an industrial strategy which works for everyone*, November 2017, The Policy Institute at King's College London.

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