Industrial Strategy and the UK Economy
Debate on 8 January 2018

Summary

On 8 January 2018, the House of Lords is due to debate a motion moved by Lord Henley, Parliamentary Under Secretary of State at the Department for Business, Energy and Industrial Strategy, "that this House takes note of Her Majesty's Government's Industrial Strategy and of the case for boosting earning power and productivity across the United Kingdom with investment in the skills, businesses and infrastructure of the future".

On 23 January 2017, the Government published a green paper for consultation, *Building Our Industrial Strategy*. Following this consultation, the Government's white paper, *Industrial Strategy: Building a Britain Fit for the Future*, was published on 27 November 2017.

The white paper states that the industrial strategy will "create an economy that boosts productivity and earning power throughout the UK" by focusing on what it describes as the "five foundations" of productivity.[1] These foundations are: ideas (research and innovation); people (skills, jobs and earnings); infrastructure (particularly transport, housing and digital technology); business environment (encouraging business creation and small business productivity); and places (prosperous communities, addressing disparities in regional productivity and spreading the proceeds of growth).

In addition to the five foundations, the industrial strategy also identifies four "grand challenges" facing the UK and seeks to position the UK economy "at the forefront of the industries of the future".[2] These challenges are: the artificial intelligence and data revolution; the global shift to clean growth; the future of mobility (focused on transport networks, electric vehicles and driverless cars); and an ageing society.[3]

With regard to the impact of leaving the European Union, the industrial strategy states that "there will, inevitably, be uncertainty while we determine the precise nature of our future trading arrangement with the EU".[4] However, the Government states that there are "opportunities to be gained" and states its intention to secure a deal with the EU to maintain "the most free and frictionless trade":

> The decision to leave the European Union was not a decision to retreat from the world […] We must remain an open, liberal market economy. There are opportunities to be gained upon leaving the EU […] The Government believes it is overwhelmingly in our mutual interest to agree a comprehensive and ambitious UK-EU economic partnership that enables the most free and frictionless trade possible with minimal disruption to business.[5]

Industrial Strategy Proposals

Greg Clark, Secretary of State for Business, Energy and Industrial Strategy, announcing the publication of the Government's industrial strategy in a statement in the House of Commons on 27 November 2017, stated the strategy's aims and summarised the Government's intentions for public investment:

> [The] industrial strategy white paper starts with the five foundations of productivity: ideas; people's skills; infrastructure; the business environment; and the importance of every place in the country […] Our vision is that the UK will be the world's most innovative economy […] Last week [ie in the Autumn Budget], we announced an increase in public investment in research and development, with the aim of reaching a combined public-private spend up from 1.7 percent to 2.4 percent of GDP by 2027, and to 3 percent thereafter.[6]

Under the headings of the five foundations, the industrial strategy lists the Government's "key policies", which provide details of proposed investment.[7] The policies are summarised by the Government below:

- **Ideas**
  - Raise total research and development (R&D) investment to 2.4 percent of GDP by 2027.
  - Increase the rate of R&D tax credit to 12 percent.
  - Invest £725m in new Industrial Strategy Challenge Fund programmes to capture the value of innovation.
- **People**
  - Establish a technical education system that rivals the best in the world to stand alongside our world-class higher education system.
  - Invest an additional £406m in maths, digital and technical education, helping to address the shortage of science, technology, engineering and maths (STEM) skills.
  - Create a new National Retraining Scheme that supports people to re-skill, beginning with a £64m investment for digital and construction training.
- **Infrastructure**
  - Increase the National Productivity Investment Fund to £31bn, supporting investments in transport, housing and digital infrastructure.
  - Support electric vehicles through £400m charging infrastructure investment and an extra £100m to extend the plug-in car grant.
  - Boost our digital infrastructure with over £1bn of public investment, including £176m for 5G and £200m for local areas to encourage roll out of full-fibre networks.
- **Business environment**
  - Launch and roll out Sector Deals—partnerships between government and industry aiming to increase sector productivity. The first Sector Deals are in life sciences, construction, artificial intelligence and the automotive sector.
  - Drive over £20bn of investment in innovative and high potential businesses, including through establishing a new £2.5bn Investment Fund, incubated in the British Business Bank.
  - Launch a review of the actions that could be most effective in improving the productivity and growth of small and medium-sized businesses, including how to address what has been called the 'long tail' of lower productivity firms.
- **Places**
  - Agree Local Industrial Strategies that build on local strengths and deliver on economic opportunities
  - Create a new Transforming Cities fund that will provide £1.7bn for intra-city transport.

- Provide £42m to pilot a Teacher Development Premium. This will test the impact of a £1000 budget for high-quality professional development for teachers working in areas that have fallen behind.[8]

Commentary and Reaction

Debate in Parliament

Responding to the statement made by Greg Clark in the House of Commons on 27 November 2017, Rebecca Long Bailey, the Shadow Secretary of State for Business, Energy and Industrial Strategy, welcomed the report's acknowledgement of "fundamental problems faced by our economy", but also expressed the view that the strategy "appears to be little more than a repackaging of existing policies and commitments".[9] Rebecca Long Bailey questioned the level of investment announced in the strategy and highlighted the Labour Party's alternative proposals:

> [The Government] have simply restated their plans for a £31 billion national productivity investment fund. As Trades Union Congress analysis shows, this only raises investment to 2.9 percent of GDP, whereas the average for leading OECD industrial nations is 3.5 percent […] The strategy restates the commitment to raise total research and development investment to 2.4 percent of GDP. This is moving in the right direction, but it is still behind world leaders and far less ambitious than Labour's commitment to reaching 3 percent of GDP by 2030.

Ms Long Bailey also criticised the focus on industries and sectors in the south of England, and criticised the fact that "just one of the named transport projects in the national productivity investment fund is in the north [of England]".[10]

The Labour Party's commitment to spend 3 percent of GDP on research and development by 2030 had been made in its own industrial strategy, *Richer Britain, Richer Lives: Labour's Industrial Strategy*, published prior to the 2017 general election. The Labour Party's industrial strategy also committed to providing 60 percent of the UK's energy needs from low carbon or renewable sources by 2030,[11] and the creation of a National Education Service to facilitate upskilling and retraining among the workforce, through the abolition of university tuition fees and free, lifelong learning in further education colleges.[12]

Also speaking in the debate following Greg Clark's statement on the industrial strategy, Vince Cable, Leader of the Liberal Democrats and former Secretary of State for Business, Innovation and Skills, welcomed its publication but similarly criticised its policies as "essentially, a rebranding exercise".[13] He also highlighted the relationship between productivity and skills, criticised the "catastrophic decline now occurring in apprenticeships", and called for the abolition of the apprenticeship levy, which, he argued, "has been appallingly maladministered".[14]

External Reaction

The Trades Union Congress (TUC) commended the strategy as "an important step forward" and welcomed the emphasis on the four "grand challenges".[15] However, the TUC also argued that the strategy lacked sufficient commitment to employee representation, stating "the voice of business needs to be matched with that of workers".[16]

With regard to the issue of regional productivity, the think tank Centre for Cities welcomed the inclusion of "place" among the industrial strategy's five foundations. However, it criticised the emphasis on digital and technology industries, arguing that the high-value components of these sectors are mainly based in an area it describes as the "Greater South East" of England, which already displays a productivity advantage.[17] Centre for Cities highlighted its report, *The Role of Place in the UK's Productivity Problem* (15 November 2017), which had been produced "to show the huge variation in productivity across the country, and what it means for both the Government's industrial strategy and the Chancellor's Budget as they attempt to improve the country's lacklustre productivity performance".[18] The report contained an analysis of the productivity performance of 62 urban centres in the UK in 2015, and found the top five most productive areas were all in the "Greater South East": Slough, London, Reading, Milton Keynes and Aldershot. The bottom five areas for productivity performance were identified as Stoke, Blackburn, Mansfield, Doncaster and Swansea.[19]

Terry Scuoler, Chief Executive of EEF, the manufacturers' organisation, praised the strategy's focus not only on current industries, but those that would affect the way people live and work in the future. He stated that the Government's intentions in the strategy were "a good foundation for a new partnership with industry".[20]

Clare Chapman and Will Hutton, co-chairs of the Big Innovation Centre's Purposeful Company Task Force, writing in the *Financial Times*, described the strategy as a "breakthrough moment" and welcomed its commitments on skills, retraining, and its spending commitments on infrastructure and research and development.[21] They concluded that the strategy "heralds a new era of market-friendly public economic activism, and attempts to redress longstanding British economic weaknesses".

Carolyn Fairbairn, Director-General of the Confederation of British Industry, commenting on the day of the strategy's publication, was broadly favourable towards its proposals and welcomed the strategy's stated intention to establish an independent Industrial Strategy Council to report on progress. Fairbairn also argued that the council must be given real power to oversee long-term implementation:

> [The strategy] shows the Government has its eye firmly on the horizon, not just the next few yards. Today's announcement must be the beginning of a strategic race, not a tactical sprint. And it needs to last. This is a time for consistency and determination, not perpetual change with the political winds. The creation of an independent council with teeth to monitor progress will help this.[22]

With regard to the establishment of the independent Industrial Strategy Council, the Trades Union Congress had also warned that it was imperative that the council include representatives from the workforce, for without the engagement of employees "it's hard to see how the strategy can be truly comprehensive".[23]

Productivity and Earnings Statistics

The Government's industrial strategy has been published in the context of reduced productivity growth and reduced earnings growth in the UK in recent years. The relationship between productivity and earnings is set out in the industrial strategy:

> [S]ustained higher productivity is the essential requirement for higher wages […] At a time of astonishing technological advance, output per hour worked in the British economy has been weak since the financial crisis.[24]

Chart 1 below shows Office for National Statistics labour productivity data between 1982 and 2016. It shows a trend of steady productivity growth peaking in 2007–8 at the time of the financial crisis, then falling during the subsequent economic downturn. Since 2008, productivity growth has failed to return to its pre-crisis upward trend.

Chart 1: UK Labour Productivity (Output per Worker—Whole Economy), 1982–2016. Index, Base Year 2015=100[25]

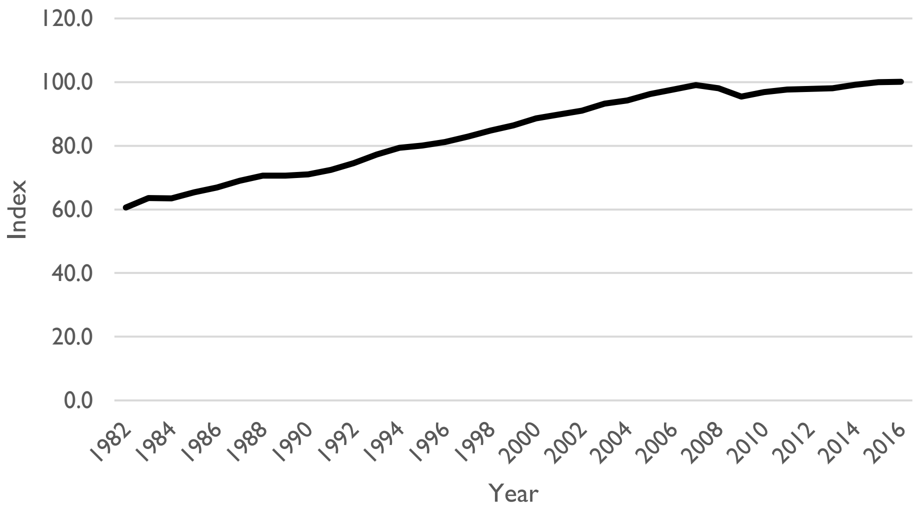
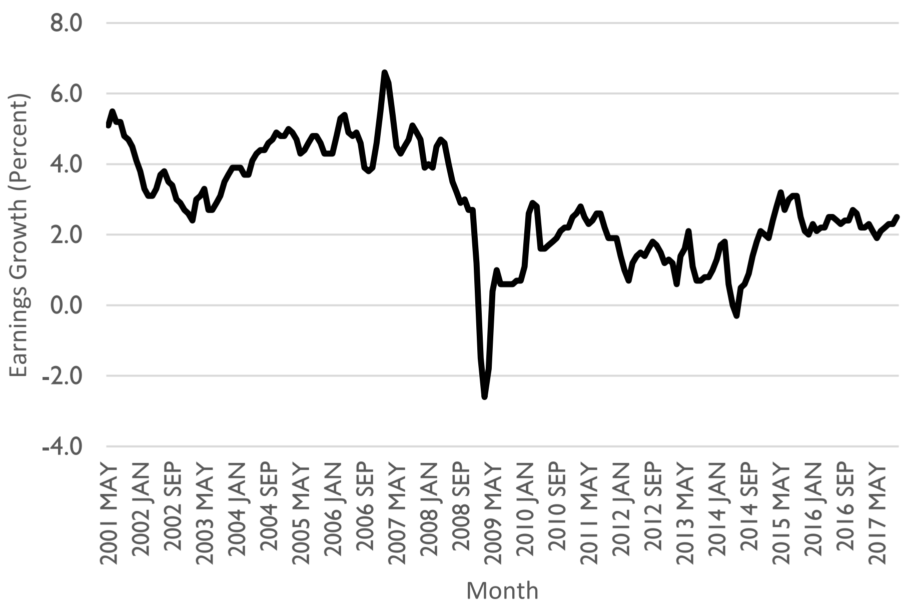


Chart 2 below shows Office for National Statistics earnings growth data between 2001 and 2017. The earnings growth data shows a similar trend to productivity growth—a decline following the 2007–08 financial crisis and subsequent economic downturn and failing to return to pre-crisis trend thereafter.

Chart 2: UK Average Weekly Earnings Percentage Pay Growth (Year on Year Three Months Average), 2001–17[26]



On the day of the Autumn Budget, 22 November 2017, the Office for Budget Responsibility (OBR) published its *Economic and Fiscal Outlook* (EFO). The document revised down the OBR's forecast for both productivity and earnings growth:

> [T]he largest change we have made to our economy forecast in this EFO has been to revise down trend or potential productivity growth […] We have assumed that productivity growth will pick up a little, but remain significantly lower than its pre-crisis trend rate throughout the next five years. On average, we have revised trend productivity growth down by 0.7 percentage points a year. It now rises from 0.9 percent this year to 1.2 percent in 2022. This reduces potential output in 2021–22 by 3.0 percent.[27]
>
> […]
>
> [W]e have also revised earnings growth down in line with the weaker outlook for productivity. We now expect it to pick up slowly from 2.3 percent this year to 3.1 percent by 2022. Real earnings growth is forecast to average just 0.6 percent a year in the six years to 2022.[28]

Further Information

- House of Commons Library, *Industrial Strategy*, 30 November 2017
- GOV.UK, 'Press Release: Government Unveils Industrial Strategy to Boost Productivity and Earning Power of People Across the UK', 27 November 2017
- House of Commons Library, *Productivity in the UK*, 20 September 2017

[1] HM Government, *Industrial Strategy: Building a Britain Fit for the Future*, 27 November 2017, p 10.
[2] ibid.
[3] ibid.
[4] ibid, pp 24–5.
[5] ibid, p 24.
[6] HC *Hansard*, 27 November 2017, col 29.
[7] HM Government, *Industrial Strategy: Building a Britain Fit for the Future*, 27 November 2017, p 11.
[8] ibid.
[9] HC *Hansard*, 27 November 2017, cols 30–1.
[10] ibid.
[11] Labour Party, *Richer Britain, Richer Lives: Labour's Industrial Strategy*, 2 June 2017, p 3.
[12] ibid, p 12.
[13] HC *Hansard*, 27 November 2017, cols 34–5.
[14] ibid.
[15] Trades Union Congress, 'The Voice of Workers Is Missing From the Industrial Strategy White Paper', 27 November 2017.
[16] ibid.
[17] Paul Swinney, 'A Strategic Oversight? Why the Industrial Strategy Will Struggle to Address the UK's Productivity Problem', Centre for Cities, 28 November 2017.
[18] Centre for Cities, *The Role of Place in the UK's Productivity Problem*, 15 November 2017, p 1.
[19] ibid, p 3.
[20] EEF, 'EEF Comment on Industrial Strategy White Paper', 27 November 2017.
[21] Clare Chapman and Will Hutton, 'UK's New Industrial Strategy Is a Breakthrough Moment', *Financial Times* (£), 29 November 2017.
[22] Confederation of British Industry, 'CBI Full Response to the Government's Modern Industrial Strategy', 27 November 2017.
[23] Trades Union Congress, 'The Voice of Workers Is Missing From the Industrial Strategy White Paper', 27 November 2017.
[24] HM Government, *Industrial Strategy: Building a Britain Fit for the Future*, 27 November 2017, pp 19–20.
[25] Office for National Statistics, 'Time Series: Output per Worker: Whole Economy', 6 October 2017.
[26] Office for National Statistics, 'Time Series: LMSB SA AWE Total Pay WE Growth Yr on Yr 3 Months Average', 13 December 2017.
[27] Office for Budget Responsibility, *Economic and Fiscal Outlook*, November 2017, Cm 9350, p 9.
[28] ibid, pp 10–11.