



## BIROn - Birkbeck Institutional Research Online

Konzelmann, Suzanne J. and Berry, C. and Froud, J. and Lavery, S. (2022) The political economy of industrial strategy in the UK: Craig Berry and Julie Froud in discussion with Suzanne J. Konzelmann and Scott Lavery. *Renewal: A Journal of Social Democracy* 30 (3), pp. 8-18. ISSN 0968-5211.

Downloaded from: <https://eprints.bbk.ac.uk/id/eprint/49153/>

*Usage Guidelines:*

Please refer to usage guidelines at <https://eprints.bbk.ac.uk/policies.html>

or alternatively

contact [lib-eprints@bbk.ac.uk](mailto:lib-eprints@bbk.ac.uk).

**“The Political Economy of Industrial Strategy in the UK: Craig Berry and Julie Froud in discussion with Suzanne J. Konzelmann and Scott Lavery”.** *Renewal: A Journal of Social Democracy*, 30(3): 8-18, 2022.

**“The Political Economy of Industrial Strategy in the UK: Craig Berry and Julie Froud in discussion with Suzanne J. Konzelmann and Scott Lavery”.**

**What are some of the key issues underlying discussions about UK industrial policy?**

*In recent years, Conservative prime ministers have shown renewed interest in industrial strategy: have they done anything to implement one, and does this signal a shift away from neoliberal political economy? The Political Economy of Industrial Strategy in the UK, edited by Craig Berry, Julie Froud and Tom Barker, considers these and other questions, arguing that the UK is in need of a more capacious industrial strategy, one that focuses on the foundational as well as the tradeable economy, and that thinks big about the purposes – social and ecological – that our economy should serve.1 In the discussion below, based on a series of written questions and responses, Craig Berry and Julie Froud discuss some of the issues raised in the book with Suzanne J. Konzelmann and Scott Lavery.*

**Suzanne J. Konzelmann:** One theme in your collection is the importance of regional industrial policy, which has been attempted in one form or another for at least the past four decades; and, indeed, during the 1920s it was discussed by Keynes. However, it has so far proven largely ineffectual.

To what extent has inconsistent central government policy been a factor in this? With potential changes in policy resulting from either cabinet reshuffles or shifts in the governing party after elections, such inconsistency seems almost inevitable. This suggests that a significant reappraisal is long overdue – of the way relationships work, not only within and between political parties, and between central and local government, but also between both these governmental institutions and local industry.

To what extent and in what ways is there scope for de-politicising industrial strategy and achieving some sort of consensus, with the potential to provide a greater degree of stability and ambition within the UK’s local and regional business environment?

**Craig Berry and Julie Froud:** These questions strike at the heart of the difficulty of ‘doing’ industrial policy – in any country, but especially the UK. At a basic level, we agree that the high turnover of personnel, and therefore policy agendas, at the centre is a barrier to embedding a long-term vision for industrial strategy which would help to achieve structural change within the UK economy, such as an alleviation of geographical inequalities. This is compounded by the fact that the centre matters a great deal more in the UK than elsewhere, given our highly centralised political system.

But we can also turn this question on its head. The problem for regional policy in the UK is not necessarily inconsistency, but rather its opposite. There is a deep-rooted opposition to muscular industrial and/or regional policy in the UK, which tends to prevail even when the occupants of the relevant ministerial posts in Whitehall are supportive of reform. Recent prime ministers Theresa May and, arguably, Boris Johnson have both been amenable, in

different ways, to rethinking the UK's traditional approaches to supporting industrial development. But both have been thwarted by the Treasury's reservations, and a lack of governing capacity at all levels (two barriers which are not unrelated!).

Is depoliticisation (part of) the answer, in terms of either industrial or regional policy? Yes and no. In many ways, economic policy is already effectively depoliticised in the UK, with little serious political contestation of its main features. The problem is that we have depoliticised an economic model which is not in the long-term interests of the country or most of its population. The threat of climate change is probably going to challenge this settlement, with clearer dividing lines between left and right starting to emerge, which will mean the prospect of a more explicit industrial strategy, at least based around themes like energy transition and new technologies, will at least get more of a public airing in the years ahead (though this will still probably fall short of a comprehensive response). Government bodies such as the Bank of England and Office for Budget Responsibility – if not yet the Treasury – have started to understand climate change in such terms, even if there remains a large gap in the policy imagination.

Your question relates mainly, however, to whether we can place the day-to-day (and year-to-year) management of an industrial strategy, once agreed, at arm's length from elected government. We can see the value of such an approach. But we would maintain that industrial policy and the issues it addresses are inescapably political, since they often involve the fundamental relationships between state, economy and citizen; isolating it entirely from democratic oversight, over a long time period, would be difficult to achieve. It would perhaps also be counter-productive: we believe that empowering people to have *more* influence over economic policy might be the very thing that forces Whitehall to take industrial policy seriously.

One institutional change that must happen is placing local and regional government on a firmer constitutional footing. This would not represent depoliticization *per se*, since it would involve empowering the democratically elected leaders of our towns, cities and regions. But it would herald a more mature form of politics where the centre recognises – as in almost all comparable countries – that it must govern the economy *through* local areas, not simply *for* local areas. A decade of devolution has not yet delivered the enduring constitutional shift now required. Greater autonomy (and resources) for sub-national leaders would necessitate a partnership between the centre and localities on how to support the economy, inevitably creating opportunities for (but not guaranteeing) different forms of intervention to be tested and ultimately adopted.

**SJK:** Your point about the difficulty of separating industrial strategy from politics, which represents an important consideration in evolving any industrial strategy for the UK, is well taken; and the involvement of both central and regional political institutions will certainly continue to be significant. However, these fundamentally political organisations are not the only stakeholders who might – and probably should – exert a powerful and well-informed influence on the design and implementation of policy.

How, and to what extent, do you think that institutions such as businesses, universities, industry bodies and employee representatives should be able to help shape the policies that will address local challenges and fulfil their shared ambitions?

**CB/JF:** Industrial strategy is obviously very different to economic planning. To a large extent, industrial strategy is defined by the attempt to encourage the kind of institutions you list – ‘businesses, universities, industry bodies and employee representatives’ – to cohere around mutual, long-term objectives while retaining their autonomy from state actors, whether for pragmatic or principled reasons. Your question reminds us, however, that this issue is far from straightforward. Does the need to work with these institutions mean their leadership, strategies and behaviour have to be taken at face value? Should they be given privileged access to the policy-making processes by which an industrial strategy is determined?

We would argue that, in the UK, many such institutions have developed in a way which means their activities are not always consistent with the public good. The notion that industrial strategy must at all times be a partnership between state and stakeholders is a recipe for conservatism. There are clearly many businesses, and many aspects of the higher education sector, which could, and do, support a progressive industrial strategy. This applies even more so to trade unions (although unions no longer adequately represent private sector workers). But industrial strategy also has to be about reshaping non-state institutions (as well as the state itself) so that public purpose is central to everything they do. Connecting industrial strategy to issues that matter to people and communities ‘on the ground’ – like housing retrofit or social care – offers ways for a different and more participative approach.

**Scott Lavery:** In the introduction to your book, you allude to the ‘developmental state’ debate and the idea that the UK’s peculiarities – its status as the first industrialising state, its post-imperial character, its heavily financialised orientation – have limited its capacities to develop a coherent industrial strategy. This frame of British ‘decline’ has of course been a long-standing feature of debates on British capitalism. It has recently resurfaced in a dispute between David Edgerton and Perry Anderson, with the latter defending his decline thesis in response to Edgerton’s revisionist history. How do you position yourselves in relation to the question of British decline? Is the UK’s failure to develop a coherent industrial strategy a failure of policy, or is it rooted in the longer-term historical formation of the UK’s state, economy and society? How might a longer-term historical perspective enrich contemporary thinking on industrial strategy?

**CB/JF:** You raise a fascinating set of questions. Our headline view would probably be that, while the recent essays produced by Edgerton and Anderson across the pages of the *New Statesman* and *New Left Review* are individually brilliant, we are not convinced that the debate as a whole has uprooted our understanding of British economic history, in either direction.

It might be useful to start here by reiterating what is meant by industrial policy in a conventional sense. Usually, the term denotes policy interventions designed to enhance particular industries – usually in the manufacturing sector – including things like ‘infant industry’ protection, import substitution, investment in R&D, and the establishment of bodies to facilitate dialogue and co-ordination between government and business elites (and occasionally trade unions). There have been numerous attempts over the years by many different UK governments to implement such measures, from the protectionism and investment in ‘special areas’ of the interwar years, through to the institutional innovations of the Wilson era (notably the creation of the Department for Economic Affairs and the National Economic Development Council), up to the most recent wave under Theresa May, with its

array of sector deals, new industrial strategy council (since abolished), and a dedicated government department.

Edgerton, in his book *Rise and Fall of the British Nation*, singles out the policies of the Attlee governments, in particular, arguing that they amounted to the creation of a British ‘developmental state’, geared towards boosting exports. This, Edgerton argues, laid the foundations for a prolonged period of economic growth, during which the ‘British nation’ renewed its physical infrastructure and approached self-sufficiency in food production. We largely agree with Edgerton’s assessment in this regard, while acknowledging Anderson’s point that there are elements of British political economy which meant that any conventional, post-war industrial strategy would have inevitably struggled to endure.

Does this mean that Anderson’s declinist thesis is essentially correct? It is worth noting the chapters in our book by James Silverwood and Richard Woodward, and Simon Lee, which depict the British state’s longstanding support for the finance sector (and other selected industries) as part of a ‘hidden’ industrial strategy, embedded in key economic policy institutions such as the Treasury and the Bank of England. Crucially, the architects of this hidden strategy would not see it as a product of weakness – they would see it as a quite deliberate and sensible focus on one of the UK economy’s key comparative advantages (as well as something which placed the country at the centre of the world economy, both during and beyond the imperial period).

Anderson is correct to point out that state support for the finance sector was evident even in the immediate post-war era when, to some extent, a new developmental path was being forged – the City’s apparent re-emergence in the 1980s was less of a ‘surprise’ than Edgerton implies (although Edgerton is correct to point out that the post-Big Bang dominance of the City by foreign firms is quite novel).

Anderson is also correct to point out that the economic crisis of the 1970s, disrupting the new path being tentatively trod, was as much the product of endogenous flaws as exogenous shocks (although we do think this argument is over-stated – all economic models have vulnerabilities). But if this is decline, it is not something that simply ‘happened’. It was chosen, implicitly, by elites. Different choices could have been made – and the choices we make in future may also differ from what declinist scholars would expect.

It would of course be rather naive for any critically-minded political economist to think that the recent noises around industrial strategy mean that the UK is in the early stages of an inexorable process of developing a new, more progressive economic model. Empirically, further decline – even if we resist the decline thesis analytically – is more likely than not, at least, in part, because economic elites continue to be relatively insulated from the under-performance of the economy at aggregate level, from the inevitable impact of Brexit on trade with Europe, and indeed from the social consequences of stubborn levels of poverty and inequality.

But nothing lasts forever. Covid-19 has at least dented neoliberalism in the UK; climate change may be the crisis that it cannot survive. Or an eye-watering rise in the cost of living – rendering the current government’s ‘levelling up’ rhetoric increasingly hollow – may trigger political demands that finally compel genuine, root-and-branch economic policy reform.

**SL:** Looking beyond the UK, many advocates of industrial strategy point to successful cases of state-led economic development elsewhere, for example citing Germany's post-war institutional framework or the East Asian developmental states. Your book focuses principally on the British case, but this leaves the question of how a comparative approach might inform analysis of industrial strategy. What lessons might we draw from comparing the British case to alternative models of capitalism?

**CB/JF:** A comparative approach would be very helpful! Our book is of course guilty of focusing predominantly on the UK. Variation in industrial policy was a key plank of comparative political economy scholarship on 'models' and 'varieties' of capitalism in the early 2000s, and a reappraisal of this work in light of the UK's recent experience in this policy area would be welcome. We would suggest that there are two paradoxical lessons that the UK can learn from continental European and East Asian cases.

The first is that an industrial strategy cannot be summoned from nowhere: the relationships within and beyond the state that make an industrial strategy possible and effective are many decades in the making. For example, the status and quality of technical education, or the development of capable supply-chain actors, are consequences of a long-term focus. Even if we accept that the UK is somewhere along a similar path, we must assume that it has taken only a few steps forward, and that future progress is fragile. The second is that muscular industrial strategy is far from a panacea. Depending on the metrics by which we might measure the success of any strategy, the countries you highlight have many of the same social and economic problems that the UK has. They also have development models which are vulnerable to endogenous flaws and exogenous shifts – perhaps less so than the UK, but not necessarily, and not always.

The most important lesson is that we should not be asking how to do industrial strategy better, for the sake of having an industrial strategy. We should be asking about what kind of economy we want, and considering the mechanisms we need to take us there. Some solutions will resemble policies used elsewhere, some will be unique to the UK, and some will of course rely on co-operation across national borders.

**SJK:** Your book challenges the idea that economic growth should be a key objective of industrial strategy. Even Simon Kuznets, the Nobel laureate who created the concept, was careful to warn against its use in measuring and managing an economy during peacetime, whilst Keynes argued that industry, and the firms of which it is composed, should serve a public purpose.

The question of corporate purpose has recently returned to the top of the policy agenda, in no small part due to growing concerns about the potentially destabilising effects of high levels of poverty and inequality, which are features of liberal capitalism. These have been made considerably worse since the 2008 financial crash by a decade of misguided austerity, which has undermined key public services in the areas of social and economic security, social care and public health – leaving us much less well-equipped to handle the Covid crisis than we should have been. Adding urgency to this debate is the increasing fragility of our natural environment.

To what extent might taking a wider view of industrial strategy – with an increased focus on corporate purpose – affect the shape of the resulting policy? And should industrial strategy

therefore be more closely connected to such policy areas as social and economic security, education and health?

**CB/JF:** An industrial strategy can never be simply a set of interventions – it is important that it is based on a serious consideration of what our economy is *for*, and what we want it to *do*. As you suggest, this has a number of implications.

First, interventions must have a purpose. This could be GDP growth, but we agree with you that GDP growth has for too long stood as the unquestioned *summum bonum* for economic policy elites, at the expense of proper scrutiny not only of the distributional aspects of any particular approach to growth, but also the environmental consequences. Moreover, a default assumption that GDP growth is even easily achieved is unrealistic, particularly in the current context.

Second, we must also consider what our corporate organisations are for, and what we want them to do; that is, how they contribute to wider economic objectives. The chapter by Ciaran Driver in our book brings issues of corporate governance firmly into the remit of industrial policy debates. Your own work on purposeful companies is a source of inspiration on this – we are sure you will see its influence in the chapter by Victoria Chick, which contrasts the 2017 industrial strategy white paper with the report of the Liberal Industrial Inquiry, featuring the insights of John Maynard Keynes and David Lloyd George, which was published in 1928. Chick argues that, while the white paper reads like a ‘shopping list’, in which people’s lives are subordinated to a particular conception of economic success, the earlier document springs from a vision of public purpose, in which industrial policies are understood as a means to improving people’s lives and enhancing their freedom.

A muscular version of industrial policy of course involves ‘vertical’ support for strategically important companies; insofar as the UK has begun to adopt this (again) in recent years, it has bucked the traditional focus on ‘horizontal’ interventions which focus on the business environment in general. It is essential the UK strengthens its vertical interventions, but it should also adopt a more radical form of horizontal policy, by transforming corporate governance. It is interesting that Theresa May once floated the idea of ‘workers on boards’ – although it did not make it into the white paper. If current corporate governance practice (based on ‘shareholder value’, that is, the notion that the owners of a company’s stock are the only group to which it is accountable) is a barrier to the sustainable development of the UK economy, then it absolutely should be seen as a legitimate area for industrial policy-makers to intervene.

This does not mean it will necessarily be the most effective way to intervene – corporate governance can be a very imprecise tool, and protection of workers and the environment is usually better addressed directly through regulation.

Third, we must challenge the arbitrary distinction between what is ‘economic policy’ and what is ‘social policy’ – from both directions. The point of economic policy is to improve society. And social policy often involves significant interventions in the economy – even if not understood in these terms – which are just as important as any conventional industrial policy. For example, it has been apparent for many years that current NHS procurement practices are not only sub-optimal on their own terms, but also represent a missed opportunity to develop key UK industries in a progressive and sustainable way. In our book, Susan Himmelweit’s chapter also makes a powerful case for an industrial strategy focused on social

care, arguing that ‘care and the capabilities that it enables are a vital part of the infrastructure upon which the reproduction of society, the health of the economy and the quality of all our lives depend’. There is still not sufficient recognition that activities like health and care are not only essential for social reproduction, but are also large industries in their own right. There have been missed opportunities to focus on employment and spending as ways to directly support communities and the development of capable firms.

More generally, we adopt the lens of the ‘foundational economy’ in order to make sense of the relationship between public services, locally rooted industries and the more innovative sectors which contribute in different ways to mainstream metrics like GDP or exports. These domains are inescapably intertwined. If our health and education sectors are not adequately funded and well-organised, this has an impact on the economy as well as society. If public transport is expensive and of poor quality, this limits the mobility of workers as well as enforcing car use as a default, with congested roads and all the environmental and public health problems that follow.

**SJK:** This touches upon the question of what businesses and industry are actually for – a lively debate during the economic and social turbulence of the interwar years that has recently re-emerged. The UK’s Purposeful Company, a think tank set up in 2015 by Will Hutton and Clare Chapman, takes the view that rather than prioritising profit for itself and its shareholders: ‘In a purposeful company, creating value for society is the end goal’. However, a rather more nuanced position has been taken both by Larry Fink, Chief Executive of Black Rock, in his annual letters to CEOs since 2018, and by the US Business Roundtable, in its 2019 re-definition of the purpose of the corporation. Whilst these, too, appear to encourage a focus on purpose over profits, they nevertheless make a strong connection between the two.

To what degree do you think these perspectives might signal a genuine desire to shift the way in which society views the role of businesses? Or might Larry Fink and the Business Roundtable’s perspective, in particular, represent an attempt to reinterpret the meaning of corporate purpose to maintain the status quo?

**CB/JF:** We have to acknowledge that, while an industrial strategy may shape the operation of capitalism, it is not underpinned by *post*-capitalist ideals. An industrial strategy will always seek synergies between commercial and societal goals. This may of course mean that even a broad, comprehensive and progressive industrial strategy will be insufficient for addressing major societal problems that are largely *caused by* capitalist accumulation, such as climate change. Nevertheless, we would argue that industrial strategy is at least *part of* a realisable agenda for addressing climate change, given that the necessary shifts in energy demand and supply or transportation, for example, require co-ordination, investment and co-operation.

Yet, within this, there are important questions about purpose, which are inevitably connected with ownership and organisational forms in the private sector.

Encouraging a diversity of organisational types and ownership forms may well be more helpful than assuming that all listed companies can be converted to a purpose-driven approach. Privately-owned small- and medium-sized companies typically take a longer-term focus, and may be more grounded in local economies than large corporates. Social enterprises and co-operatives operate typically at small scale, and can embed purpose more effectively.



The assumption that profit and public purpose can be straightforwardly combined is inherently problematic in a context where shareholder primacy is normalised. There was excitement in some quarters about Larry Fink's apparent conversion, or the Business Roundtable's revised statement on corporate purpose, but these developments are slippery and rather gestural, and have not yet been converted into meaningful difference. The rhetoric around purposeful business models is vulnerable to co-option by actors with less progressive intent. We can and should seek to promote public purpose within the private sector, but it is probably better to seek a variety of corporate governance models – including public ownership and public interest companies, depending on the industry – and associated regulatory regimes, rather than assuming that all businesses should have a similar corporate identity.

There are industries for which combining profit and public purpose is socially useful, or at least socially harmless. Yet for firms located within the foundational economy, for instance, a rebalance of profit and purpose will require tougher regulation or social licensing, and a normalisation of low returns.

**SL:** Many scholars have detected a structural shift in the world economy over the past decade or so. The confident assumptions of neoliberal globalisation – that open capital markets, deregulated labour markets, tight fiscal discipline and the removal of trade barriers would deliver prosperity and stability – have come under immense pressure. In its place, many argue we are seeing the proliferation of alternative governance paradigms, captured in phrases such as 'state capitalism' and 'geo-economics'.

To what extent do you think there has been a global shift in the past decade which erodes core neoliberal principles, and to what extent does this open up a space for the forms of industrial strategy which you advocate?

**CB/JF:** We certainly agree that the structural shift you describe is detectable. Whether this is to something different to neoliberalism, or remains a development within neoliberal economic governance, is not a debate we can resolve here. But you would presumably agree that the notion that this shift necessarily represents an opportunity for the left is, at best, a little complacent. There is a risk of a more interventionist state being used to defend elite interests rather than the public good – and plenty of evidence that the UK is heading in this direction. There is a strong case for arguing that the British state has always embodied elements of state capitalism, and that the British model of capitalism has been a product of geopolitical considerations as much as the application of a particular philosophy. But these features have usually worked *against* the prospect of embedding a progressive industrial strategy, insofar as the state has acted to promote financial and rentier interests, and manipulated the boundaries of British economic space in a way which inhibits consideration of how 'the national economy' can be acted upon by conventional industrial policies.

*Craig and Julie are grateful to Sue and Scott for their searching questions and endless patience, and to all of the book's authors for their insightful contributions, especially their co-editor Tom Baker.*

**Craig Berry and Julie Froud** are co-editors, with **Tom Barker**, of *The Political Economy of Industrial Strategy in the UK: From Productivity Problems to Development Dilemmas*, published by Agenda in 2021.

**Craig Berry** is Associate Professor of Economic Policy and Head of Policy at the Institute of Innovation and Public Purpose, University College London, and author of *Pensions Imperilled: The Political Economy of Private Pensions Provision in the UK* (Oxford University Press, 2021).

**Julie Froud** is Professor of Financial Innovation at the Alliance Manchester Business School, University of Manchester, and co-author of *Foundational Economy: The Infrastructure of Everyday Life* (Manchester University Press, 2018).

**Suzanne J. Konzelmann** is Professor of Economics, Birkbeck University of London, and author of *Austerity* (Polity, 2018).

**Scott Lavery** is Lecturer in Politics at the Department of Politics and International Relations, University of Sheffield, and author of *British Capitalism After the Crisis* (Palgrave, 2019).

## Notes

1 Craig Berry, Julie Froud and Tom Barker (eds), *The Political Economy of Industrial Strategy in the UK: From Productivity Problems to Development Dilemmas*, Newcastle, Agenda Press 2021.