

Industrial strategy: a Britain that works

A plan to deliver a more resilient UK economy

Sir Alan Rudge / Sir Terry Morgan / Dr Adam Marshall / Mike Turner CBE



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Making Britain make again

Sir Alan Rudge, president of the ERA Foundation, presents the case for industrial revitalisation post-Brexit



The critical issue for the UK before and after Brexit is the state of the economy. It is this above all that will govern the nation's prosperity and our ability to afford the services that people expect in the modern world. But the underlying economy is not in good shape. The UK is running a huge deficit in trade; we import far more than we can pay for with our exports and our other earnings. The resultant deficit is balanced by increased debt and the sale of our assets to foreign buyers – including our ports, airports, utilities, industries, businesses and property.

The false mantra that the UK is “a post-industrial society” has led to the neglect of our manufacturing industries which, having shrunk to less than ten per cent of GDP, still provide nearly half of our exports. The 80 per cent of GDP identified as “services” provides the other half of our exports, but the total is still substantially less than our

import bill. Pound-for-pound of GDP manufacturing is at least five times more effective than services in providing exports. Yet such have been the narratives of successive governments, we are led to believe that just focusing on “services” and especially “financial services” is a sound course of action. The reality is that in pursuing a purely service economy and neglecting productive industry, we have in fact become a heavily indebted “servant economy”, providing labour and expertise for foreign-owned enterprise to an excessive degree. While foreign direct investment (FDI) is often regarded as good and to be encouraged, the truth is that nearly two-thirds of this has been merely buying up UK assets. Some discernment between desirable foreign investment and straight asset purchase is called for in the national interest.

The revitalisation and growth of productive industry in the UK is essential if the economy is to flourish and be able to fund the quality of life expected. An effective industrial strategy is essentially the national plan to achieve that end. In particular, as a first major objective,

**“We have
become
a servant
economy”**

the strategy must provide for the creation of a fertile environment for the investment and operations of productive industry, small or large. Government has influence and sometimes total control over many of the parameters, ranging from: energy policy; foreign exchange rates; investment in infrastructure; banking and bureaucracy reductions for SMEs; procurement policy; taxation on investment and manufacturing operations; and skilling the workforce. It is important that we view these multiple



components holistically and not as departmental silos – but a co-ordinated managed programme across government with clear objectives.

The economic issues raised here are not new; the UK trade deficit in manufactured goods has been steadily widening for more than 15 years and in 2015 was approaching £120 billion – three times the defence budget. The surplus due to services has grown but not fast enough to offset this deficit. Overcoming the banking crisis in 2008 added £1 trillion to a national debt that is now of the order of £1.6 trillion and still rising at the rate of more than £5,000 per second. This additional debt incurred by the banking crisis in 2008, with its servicing cost, is not normally taken into account when comparing the contributions of financial services with productive industry. However, it does reinforce the argument that the current imbalance is not a basis for a sustainable economy.

The decline in manufacturing and its supporting industries has been particularly evident outside of the south of England and is a contributing factor to the dissatisfaction felt by

the population in these areas, as was demonstrated democratically in the result of the Brexit referendum. Hopefully, government will take note since the dissatisfaction is justifiable and an effective industrial strategy could do much to compensate for the errors of the past. The UK suffers from low productivity but this is primarily due to our own underinvestment. Globalisation has contributed to this problem by encouraging the flow of UK investment overseas. The challenge to government is to create an industrial strategy that makes investment in UK productive

industry more attractive to investors.

Secure, competitively priced energy supplies are the basis of any successful industry and the UK is fortunate in having access to substantial deposits of shale gas and oil. The early tapping of these sources of energy could help to transform the industrial prospects of many parts of the UK as they have already done in the United States. In my view, the application of hydraulic fracturing technology, or fracking, to extract shale gas, has received an unjustifiable bad press. But given that every form of mass extraction of energy requires some disruption, for the ERA Foundation fracking is one of the safest and least disruptive techniques. The gas is a fossil fuel but with half the CO₂ emissions of coal. It could provide the UK with secure home-based energy supplies and a huge saving in foreign exchange. It is our view that the 2008 Climate Change Act requires massive revision if we are to have an industrial base at all.

There is no doubt that Brexit will create challenges for the UK but the underlying economic problems discussed in this article have been present and untreated despite the UK's membership of the EU. Indeed, EU rules may have restricted some of the actions the government might have taken to revitalise UK industry. Brexit therefore offers a number of additional freedoms for the government to act and these must be used to full effect in an industrial strategy if the fundamental problems of the UK economy are to be addressed.

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Why the UK must invest in innovation

Sir Terry Morgan, chairman of Crossrail, says the UK must continue to have the confidence to deliver big projects on time and on budget

The aim of industrial strategy is to drive growth right across the economy using investment in infrastructure and research to create new highly skilled, highly paid jobs and opportunities. When we talk about industrial strategy, we often think of the state-owned industries of the 1970s with government supporting huge national enterprises. However, industrial strategy in the current context is now a key component for modern economies, whether it means targeting skills in specific sectors or increasing deregulation.

In some sectors, the UK has built a global reputation. We are a world leader in aerospace, engineering design and financial services. We are also regaining a reputation for infrastructure with projects such as the 2012 Olympics, Heathrow Terminal 5 and Crossrail. These projects are being delivered thanks to the world-class skills base we are developing in the UK. With the

unprecedented pipeline of major projects around the corner we now have a significant opportunity to not only drive economic growth at home, but increase exports abroad as well.

Since the end of the Second World War, the UK has seen a huge increase in construction as we rebuilt but also delivered the new infrastructure the country needed such as the creation of the motorway network, airports and utilities. But in the following decades our focus on delivering major infrastructure fell away. Britain lost its way in building infrastructure, but now we have found it again. What we lost was that sense of succession with projects flowing one into the other with the resulting skills linkages, instead we tended to do them in isolation with one big project a decade.

In the coming years, the UK will undertake a huge programme of infrastructure investment from railways and roads to nuclear power and flood



The Elizabeth Line will run from Reading and Heathrow in the west, through tunnels under London, across to Shenfield and Abbey Wood in the east. Pictured: Canary Wharf



defences. Significant further investment will take place in transport to update our infrastructure and deliver much-needed additional capacity with projects such as HS2, the completion of Thameslink, upgraded Tube lines, the Intercity Express Programme and electrification of the existing rail network.

Our recent record of successfully delivering megaprojects has reminded us as a nation that if we want to do it, we can do it. This track record is now the envy of the world. In the past four years on Crossrail we have hosted delegations from over 60 countries. The reason they want to come and see us is that they believe Britain delivers major infrastructure better than anyone else, on time and, crucially, on budget.

However, the construction sector continues to face some fundamental issues. The combination of our cyclical workload and low levels of client leadership have resulted in a fragmented supply chain. We too often pitch competition on the basis of price alone, which results in low profit margins across the industry. This means in turn that we are unable to sustain any sort of significant investment in skills, technology and innovation in the medium to long term.

Brexit has been a catalyst for the industry to realise this cannot go on and that it must do something about it. The industrial strategy is our opportunity to present to government a joined-up industry, willing to modernise and worthy of supporting – as they have backed the automotive and aerospace industry in the past and will continue to do so. As an industry we employ ten per cent of the UK’s workforce and contribute eight per cent of the nation’s GDP. We are six times larger than the automotive industry – yet to date we have attracted a fraction of the investment.

Our capacity crisis, caused by a lack of skills across a range of professions, impacts our ability to deliver much-needed infrastructure and holds the sector back from realising its ambitions. We must improve our productivity by investing more in innovation and digital design as well as manufacturing

techniques such as off-site and modular production. We need to re-skill the construction workforce so that it is proficient to deliver these new technologies, products and techniques; and we need to attract more young people into the sector to replace our ageing workforce and adapt to a post-Brexit world. The supply chain cannot make these changes alone.

The prize is huge. Take manufacturing techniques as an example. We have instances on Crossrail where using off-site manufacturing has increased productivity by over 200 per cent as it has allowed concrete to be cast in factories in the Midlands rather than the far more logistically complicated sites in central London. In doing so it reduces our dependence on site labour, delivers increases in quality and ensures the economic benefits of Crossrail are felt more widely. On Crossrail we established an innovation fund, in which contributions from the supply chain were match-funded by the client and the learning shared by all. As a result we have had over 1,200 innovations which not only improved productivity, safety and skills on this project, but will also be taken on by future infrastructure projects.

Crossrail also prioritised injecting new skills into the existing workforce, and bringing in new talent. We asked our supply chain to create an apprenticeship for every £3m of construction spend – training over 700 apprentices. In partnership with the Skills Funding Agency we also built the Tunnelling and Underground Construction Academy (TUCA), a state-of-the-art centre of excellence that has helped over 40,000 people learn the skills to deliver Crossrail, and the pipeline of projects planned over the next 40 years. I am delighted that HS2 has supported the build of a National College which will open later this year in both Birmingham and Doncaster to specifically develop the new skills we will need for high speed rail.

As a country we’ve never been better placed to deliver a pipeline of major projects or sell our expertise abroad. We must embrace this opportunity.



“Our record is the envy of the world”

How do we sow the seeds for growth?

Industrial strategy must sit at the heart of a strong domestic business agenda, according to Dr Adam Marshall, director general at the British Chambers of Commerce



For many businesses, the term “industrial strategy” will conjure memories of a series of short-lived and impractical schemes that successive governments wheeled out as a means of guiding the development of the UK economy. But experience has shown that piecemeal and on-the-fly planning by Whitehall doesn’t have the meaningful or enduring impact that is needed for real economic success.

Now, the government must really listen to what business communities are telling them is needed. Guided by a small number of clear and ambitious missions, it must create the conditions for lasting growth that will underpin the economy through the Brexit transition and beyond. The formation of this strategy comes at a particularly crucial time, as the UK considers what the kind of country it wants to be post-Brexit, and works to forge new trading relationships with European and other markets. But the outcome of the much-hyped Brexit trade negotiations will be worth little if the fundamentals aren’t right at home.

Civic-minded businesses in every corner of the UK recognise that people are their most important resource, but they are increasingly reporting difficulties recruiting the skills they need. Plugging the skills gap and ensuring that firms have access to a pipeline of trained and work-ready staff will boost productivity and growth potential in local economies everywhere. The UK’s infrastructure, both physical and digital, needs major investment to prevent us lagging behind our competitors. For too long we’ve been underinvesting in important projects, or

delaying them altogether – leaving our transport system operating at over-capacity and our digital framework far behind where a modern economy should be, with businesses across the country still reporting unreliable internet connections and patchy mobile coverage.

The government must also take action on the burden of upfront costs hammering businesses, including business rates, insurance premium tax, the Apprenticeship Levy and pensions auto-enrolment. These costs hit firms regardless of their economic conditions, diverting cash that might otherwise be used to grow the business.

For the UK to succeed beyond Brexit we must also turn around our current account deficit and improve our trade performance. A small number of industries, such as manufacturing, account for a disproportionate share of the UK’s exports, and while we must support these sectors, we also need to encourage new ones to trade with the world. Central to this strategy for economic development, must be a focus on place and geography – not repeating the mistakes of the past where support for specific sectors was given precedence, with little regard for geography.

Instead, we must unlock the potential of place, sweeping away the barriers to local growth and addressing local priorities which, aggregated, will create real change across the country. Chambers of commerce, and the communities of civic businesses they represent, understand the importance of building on the existing competitive advantages of our cities, towns and counties.

We’re calling on the government to ensure meaningful business input into local economic strategy and for a simplified, more transparent and broader public sector procurement process, to help facilitate this aim. It’s imperative that Brexit isn’t allowed to become a distraction from all the issues which need attention at home. Instead, this industrial strategy must sit at the centre of a strong and ambitious domestic policy agenda to give our dynamic firms a solid foundation to get on and grow.

Unshackling the UK's supply chain

Synergy between government and industry is crucial to the UK's success, says Mike Turner CBE, chairman at Babcock International



Throughout my career I have had the opportunity to travel the world. Working for multinational companies like BAE, Babcock and GKN, I have seen first hand how different governments interact with their industries. While each country is different, one thing remains the same: the countries that have an effective and consistent industrial strategy are those that thrive.

I have long argued that the UK government not only needs to continue to foster an environment that is generally attractive to industry but also an effective industrial strategy to support business opportunities. Such a strategy would give businesses the confidence they need to invest in those new opportunities and in recruiting apprentices and graduates. For too many years the government, damaged by its experiences of “picking winners” in the 1970s, saw having an industrial strategy as a betrayal of a free-market economy. Thankfully, that is not entirely the case now. Industries that contribute to the real economy and which are, or have a realistically high probability of being world-competitive, should be supported. A partnership between the government and certain industries is essential to help them address the high capital costs, specific skills needs and long product cycles that characterise many of these industries if they and the UK are to succeed on the global stage.

To be successful, the government must be ruthless about which sectors should be supported. My own view is that the list, arrived at after consultations between government, universities, the

CBI and other trade bodies, should be short, so as not to spread financial support too thinly; concentrating on areas such as aerospace, automotive, life sciences, creative industries, nuclear and energy.

Recently, the government has correctly increased its focus on relevant skills, including a welcome emphasis on the value of apprenticeships. We have also seen a significant increase in research funding, but any industrial strategy should also embrace the ‘D’ in R&D, and the capital investment required to take a promising invention through to scale production.

A large number of inventions have come from the UK but too many of these ideas have then been developed and produced at scale in other parts of the world. I don't want the UK to remain a place for great invention but not a place of great world market penetration and wealth creation. Therefore the UK government, either by direct funding and/or by investment tax allowances, and UK industry need to ensure, jointly, that funding is available to promising inventions.

Excellent work is now being undertaken by institutions such as the Business Growth Fund. My concern, though, is funding beyond that initial investment phase. This is where government should sometimes step in.

This has worked before. For example, Airbus is a significant wealth creator for the UK economy but it would not exist were it not for the leadership and investment by the French, supported by other governments, over several decades. The UK government played a significant role by investing, over four decades ago, in advanced wing research in collaboration with Hawker Siddeley Aviation Limited (later to form part of British Aerospace) and then in providing Repayable Launch Investment, alongside British Aerospace, to support the design and production of wings for a number of aircraft in the Airbus family. We need to see more success like this, a bold and long-term industrial strategy can result in other significant future contributions to the UK economy and wealth creation.

The ERA Foundation is a non-profit organisation which contributes to the economic vitality of the UK

Better industrial strategy means:

- A fertile environment comprising a fiscal and regulatory framework that enables productive industry to flourish and is attractive to investors
- Competitive energy policies and a relatively stable exchange rate
- Plans for medium to long-term infrastructure that are more transparent
- An integrated programme across government institutions with the objective of regenerating the UK's industrial base



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Our report on the importance of productive industry
and its revitalisation is available at:

www.era.report