



PROMOTING
**GROWTH AND
SHARED PROSPERITY**
IN THE UK

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BRIEFING

THE LOST ORIGINS OF INDUSTRIAL GROWTH

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Institute for Public Policy Research



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ABOUT PROMOTING GROWTH AND SHARED PROSPERITY

This major programme of work aims to identify public policies that will promote the economic growth needed to return the UK to full employment and ensure that the benefits of future prosperity are more equally shared.

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IDEAS to
CHANGE BRITAIN

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Amid the clamour for a 'plan for growth', or a 'plan B', or even a 'plan A+', it is generally forgotten that British industry has been losing international competitiveness for at least three decades. It is perverse to rely on the institutional structures and attitudes that have contributed to this decline to reverse the trend.

This is a failing inherent in the Coalition government's reports on *Trade and Investment for Growth* (BIS 2011) and a *Plan for Growth* (HM Treasury and BIS 2011). These purport to set out how the country can earn its way in the future by rebalancing the economy away from reckless debt and financial services and towards manufacturing and exports – but they are tough going. There is a tendency to toss so many items into the mix that the documents seem designed as much to confuse as to suggest any real sense of purpose.

To take just two examples: 'The Government is committed to doing everything possible to ensure that the world is open to our business, open to our trade and open to our investment' (BIS 2011: 3) and '[the government will] use all its levers to break down the barriers faced by industry at home and abroad' (ibid: 45). These are declarations that would have carried some weight during the Opium Wars, when steam-powered warships like *Narcissus* could smash China's junks and coastal forts, with a few battalions of sepoys in support. But today, when Britain has negligible authority in the world, such rhetoric is so much quixotic nonsense.

International comparisons

The discrepancy between myth and reality is borne out by the frank admission in the reports of just how far Britain is lagging in international comparisons:

- Between 2000 and 2009, the UK fell in the OECD's education rankings from fourth to 16th in science, seventh to 25th in literacy, and eighth to 28th in mathematics.
- Even though 43 per cent of graduates in the UK were in science, technology or mathematics-related subjects, less than five per cent went into manufacturing.
- In 2008, the UK invested less as a percentage of GDP in early-stage investment than Sweden, Switzerland and the US, and there was a 30 per cent fall (€187 million) in early-stage venture capital investment between 2008 and 2009.
- While just over 40 per cent of UK manufacturing firms are involved in technological innovation, that figure is over 70 per cent in Germany, with Sweden and Finland at 50 per cent.
- The UK ranks 11th among OECD countries for fixed broadband and 16th for mobile coverage.
- The UK working-age population has fewer skills than the workforces in France, Germany and the US and lower employer engagement in skills, with one result being that just eight per cent of employers offered apprenticeships in England in 2008, compared to around 25 per cent in Austria, Germany and Switzerland.
- The number of robots per 10,000 people is 23 in Britain, lower than Germany (124) and Sweden (103).
- Between 1998 and 2008, UK exports to the eight largest emerging markets increased by just 0.5 per cent of GDP, compared to over three per cent for Germany and in 2009 exports to China were less than half those to Belgium.
- The UK's share of world exports fell from 4.4 per cent in 2000 to 2.8 per cent in 2009.

That the specific comparisons are for the most part confined to Europe, with just the occasional reference to the US and with Asia largely ignored, is a failing that might be

attributable to a variety of motives. Perhaps avoiding wider referencing is an attempt to disguise an honest disclosure of Britain's proximity to disaster; for example, Japan's application of robots markedly exceeds even Germany's. Perhaps also there is a limitation of geographic horizons, evident in the aim 'to make the UK one of the best places in Europe to start, finance and grow a business' (ibid: 5). To benchmark ourselves against one of the world's least dynamic economic areas seems yet again to betray an underlying 19th-century perspective.

The orderly management of decline

The decline of British industry is not a new phenomenon and to claim that '... this failure over the *last decade* to confront the causes of our relative economic decline' (ibid: 3, emphasis added) is pure political spin. A House of Lords report in 1985, which was totally ignored, deplored the decline of British industry and noted that the UK's share of world trade was 7.6 per cent in 1984, compared to the early 1950s (admittedly when many countries were still recovering from the second world war) when it was roughly 25 per cent (Buxton et al 1994). The same historical trend is reflected in the IHS Global Insight survey, which shows that the UK's share of global manufacturing value-added fell from 5.4 per cent in 1980 to 3.6 per cent in 2006 and just 2.3 per cent in 2010. There are no grounds, therefore, for the usual ya-booing debate between the main political parties: it is a toss-up which has presided over the steepest industrial decline.

Behind such bland statistics lies the story of British manufacturing slipping from preeminence to marginal significance across a range of industries: computers, nuclear and coal-fired power generation, civil aircraft, railway rolling stock, mining equipment, motorbikes, machine tools, forklift trucks, steel and process plant construction, shipbuilding, motor vehicles, undersea cabling, TV and wireless equipment. UK capability in many fields now derives from foreign owners having taken over British companies or invested in green field sites, to create a success from the same people and infrastructure that native companies failed to exploit. This suggests there are serious failings in the British corporate system.

Less visible, but just as crucial, each industry that has disappeared will have had its own dynamic hinterland of interdependent subcontractors, suppliers and sources of technology. These too have gone, or dissipated. One of the main obstacles in the way of a rebalancing of the UK economy back in favour of manufacturing is the need to restore such networks. The disappearance of native suppliers has led to increasing reliance on producers in other countries that have not allowed their industries to languish. Recent reminders of this deficiency come from machinery manufacturer JCB's admission that whereas 96 per cent of their digger was made in this country in 1979, this was down to 36 per cent in 2010, and the evident disruption to UK car production which occurred when the supply of key components and modules from Japan was affected by the earthquake and tsunami there in March.

In contrast to Britain's depleted competencies, the international scene is evolving rapidly, with greater use of technology and enhanced levels of productivity being achieved by the 'old' industrial countries, such as Germany, the US, Japan, France, Sweden and Italy, and also by increasing numbers of competitive enterprises in the 'new industrialisers', including South Korea, Taiwan, China, India, Brazil and Singapore. Ignoring the rising economies of Asia and Latin America disguises the fact that, by any reasonable measure, our industrial condition can only be diagnosed as parlous.

Failed gimmickry

For a country with long experience of sustained industrial decline that has been conditioned by a prevailing economic cant that has not changed much over a couple of centuries, it is hardly surprising that many of the prescriptions in the government's reports are recycled nostrums and gimmicks that have failed in the past. Strains of complacency persist: 'English remains the predominant language of business throughout the world' (HM Treasury and BIS 2011: 5). If this matters, why has it failed to enhance the UK's historical trade performance? In practice, the monolingual Brit is poorly equipped to tackle overseas markets that present distinct language, cultural and institutional differences.

It is also supposed to be an advantage that we have strengths in such services as legal advice. But services represent less than 20 per cent of world trade and the UK's legal services are being increasingly outsourced to other countries where the locals, as in IT services, have every intention of moving up-market. Meanwhile, the major emerging countries are insistent that such services follow their own internal legislation and systems, and that these remain predominantly in local hands.

The reports also contain the obligatory splattering of the words 'enterprise' and 'entrepreneurs', despite the dismally unadventurous record of British venture capitalists, whose main activity has been buying out existing businesses rather than fostering dynamic new innovators.

There are due to be new subsidies to support venture capital funds to take 'growth start-ups' to the glories of a trade sale to an existing company or an initial public offering (IPO) flotation on the stock market – the conventional exit for venture capitalists eager to pocket quick returns. In effect, this means sale, invariably to a foreign company, or the subjugation of the business to the twin strangleholds of care-less dividend-hungry shareholders and banks demanding priority in collateral and themselves subject to the same care-less dividend-hungry shareholders. So the traditional British pattern of companies distributing a higher percentage of post-tax earnings as dividends and spending less on research and development (R&D) will continue.

Real entrepreneurs

The mantra of 'enterprise' and 'entrepreneur' presumably reflects half-remembered first-year university tutorials that placed innovation, and waves of creative destruction, at the heart of growth in the economy.

If patent filings under the Patent Co-operation Treaty are taken as a guide, the world's leading international innovator in 2010 was Panasonic, with 2,154 patent applications. Panasonic is the trade name of the company started by the late Konosuke Matsushita. He was one of Japan's iconic entrepreneurs, who developed Panasonic from backstreet to a global operation and was noted for articulating and practising the social role of his company's activities. According to the R&D Scoreboard, Matsushita's R&D expenditure in 2008 was £4,255 million. This emphasis on R&D is a marked change from the company's early reputation as a 'fast follower'. It is now actively seeking greater efficiencies, new materials and enhanced products in the face of pressure from aggressive competitors across its range of electrical products: air conditioners, vacuum cleaners, medical devices, office equipment, flatscreen TVs, recording devices, digital cameras, personal computers, camcorders, power-assisted bicycles, inflight entertainment systems for Boeing's Dreamliner, and batteries – most recently, developments in fuel cells and batteries for hybrid and electric vehicles.

The top 100 'patent entrepreneurs' include Sharp, Canon, Sony, Honda, Murata, Kyocera and Konika. All have a similar profile of growing from modest beginnings to globally significant enterprises – a pattern followed by the 'hidden champions', of Germany, Austria, Switzerland and Italy (see Simon 2009). Their common recipe is the application of post-tax earnings primarily to develop the business by evolving competitive technologies, pursuing continuity within a common purpose, sustaining skills and expertise, and building market position. All this transpires in an environment where public shareholders have a negligible or muted influence and where companies maintain relationships of trust with their banks, which in turn develop an appreciation of the necessities of the business and rate behind trade creditors in priority for collateral. This form of transformational growth is achieved only after decades, indeed sometimes generations, of focused application.

There are no British entrepreneurs on the upper slopes of the top 100 patent filers – Unilever, which hardly fits this pattern, is the sole contender on the list. Instead, the archetypal British entrepreneur, after pocketing a few million pounds, is more likely to be found reclining in a luxury retreat. If anything, the British market model has an inherent tendency to drive companies downhill. Companies that might have had pretensions to international significance have, via crazed acquisitions, demergers, break-ups and devices in pursuit of shareholder value collapsed into oblivion: ICI, GEC, Hawker Siddeley, Courtaulds – and so the list goes on.

Recycled devices

Over the years, governments of both complexions have deployed a plethora of devices, ostensibly designed to enhance the competitiveness of industry. With a single possible exception, these measures have failed to deflect the dynamics of decline imposed by shareholders and banks. Typical of the measures that have previous form and so need to be viewed with suspicion are:

- **Deregulation and cutting red tape:** Too much regulation has been a continuous bleat of British industry as an excuse for its lack of performance over decades, despite the fact that countries like Germany and Japan are far more regulated, particularly in employment protection.
- **Reduced corporation tax:** There is no connection between the level of corporation tax and investment in this country, and Germany and Japan have historically had far higher levels than in the UK. The likeliest outcome of lower corporate tax rates is a higher level of dividends, as executives take advantage of share incentives to boost their bonuses.
- **Enterprise zones:** These have previously figured as part of the package of regional policies. But their effectiveness depends on the origin of the investing company: if it is a domestic enterprise, it is questionable whether the result is a net addition to investment, rather than a shift in the location of investment a few miles down the road to enter the 'zone'; if the purpose is to attract inward greenfield investment, the dominant motive of the foreign investor is to enter a sizeable market. In targeting the European market – a prime objective of the Japanese inward investment in the 1980s – this country is now challenged by other locations with better access to the continent, such as Hungary (Suzuki) or the Czech Republic (Panasonic).
- **Apprenticeships:** The call for greater numbers of apprenticeships has been constant since the 1960s. An unremarked factor was the termination of national service, through which many tradesmen were created by offering three-to-five-year stints with the promise of acquiring higher technical qualifications. Since then, all efforts to

encourage industry to take on more apprentices have been bedevilled by ‘free rider’ concerns, that in a flexible labour market trained apprentices would be enticed away by better offers from other firms that had not invested in staff training themselves.

- **Scientific research:** Pride is voiced at keeping up the funding for science despite straitened circumstances. A generic problem with British industry has been its failure to exploit advances by domestic scientists, exacerbated as the industrial infrastructure has decayed. Consequently, of UK patent applications in 2010, probably a larger percentage than in other countries were put forward by universities/academies. And the total also compares unfavourably: 4,857 originated in the UK compared to 44,855 in the US, 32,156 in Japan, 17,771 in Germany, 12,357 in China, 9,696 in South Korea and 7,193 in France. In short, without the industrial competencies to exploit our native science output, the UK is in effect funding someone else's R&D. (Typical historical examples are liquid-crystal displays, carbon fibres, monoclonal antibodies, tilting and maglev trains.)
- **Regional Growth Fund:** This has, unsurprisingly, been oversubscribed with applicants no doubt drawn from formerly pending and previously failed submissions to the defunct regional development agencies. How far these may be considered additional investment above what would otherwise have occurred must remain moot.

Welcome new measures

In addition to these recycled measures, there are some welcome new elements in the government's plans, covering advanced manufacturing and technology centres. These draw inspiration from the Fraunhofer network in Germany. The impact of such measures will depend on the availability of suitable induction and instructing staff and a local community of enterprises with a genuine passion to develop. Such networks have taken decades to evolve in other countries, and will inevitably take time to become established in a British context.

A preferential regime for profits arising from patents is also envisaged. While welcome to encourage traditionally reluctant British companies to pursue commercial applications of science, this concession is liable to be easy pickings for enterprises that are already focused on patents, such as GSK, Astra Zeneca and Rolls-Royce, and also for multinationals with research centres in the UK, such as Procter & Gamble.

Most welcome among the outlined measures is the return of the Exports Credit Guarantee Department (ECGD) to the respectability of even warranting mention. The department had been deliberately emasculated by the Treasury since the 1990s on specious arguments of providing a subsidy and concern at the cost of liabilities should they crystallise (ignoring established techniques of rescheduling). In-keeping with the general thread of the reports, new facilities are focused on supporting efforts by small and medium enterprises (SMEs). Although welcome as a ‘nudge’, the administrative demands are high, as support, including recourse requirements, is negotiated individually.

This underlines a crucial dilemma in supporting industry. If measures are automatic in application – tax allowances, grants and so on – discrimination is impossible and the scope for ‘fiddling’ or activities that offer no additional economic gain are high. Conversely, if the support is discretionary, the chances of a dodgy use of resources are reduced and viability more likely, but only at the cost of additional scrutiny, which means in effect a need for additional qualified staff to monitor the system. Given the diversity of measures and potential overlap for specific companies, the old problems of confusion have not been removed, nor the extra administrative demands of implementation and scrutiny.

So, at best, any positive effects are going to take time and, for all the good intentions, the reforms do not address the fundamental dysfunctionality of the British industrial financing system. Shareholder short-termism has been the subject of debate for half a century at least, while the search for shareholders to take on ownership responsibilities is as elusive as efforts to identify the Higgs boson.

Why no industrial groups?

Another, generally unremarked, problem of the City's approach to industry is the 'analysts' curse'. Companies are categorised into sectors and performance is compared by ratios against others in the sector. 'Fallible conglomerates' is the typical, derogatory terminology for companies whose activities spread beyond comfortable sectoral analysis (despite the general acclaim for General Electric). In practice, the diversified, often family-controlled, group is a key component of other countries' industrial structure. Ironically, perhaps the UK's best example is Tata, which owns Rover, what used to be British Steel, Brunner Mond chemicals and Tetley Tea, and whose IT subsidiary is actively pursuing UK market share. All these activities link back to some of Tata's activities in its native Indian market. Tata began as a textile firm in the late 19th century: its subsequent evolution to its present scale and spread suggests that this type of enterprise is reasonably sustainable.

Other examples are Samsung and LG in South Korea, Hutchinson in Hong Kong, numerous examples in Japan – even Toyota makes houses as well as cars, trucks and forklifts, has a joint venture with Microsoft, is entering medical equipment, and investing in mining developments – Anglo-American and Rembrandt in South Africa, Siemens and Bosch in Germany, the Wallenberg group in Sweden and the Agnelli empire in Italy. This type of business is commonplace in Taiwan, Indonesia, Malaysia, Turkey, Brazil, Mexico and Chile, and is burgeoning in China (Colpan et al 2010). Moreover, they have played a crucial role in the development of national managerial skills and adoption of technologies (Amsden 2003).

'Picking winners' nonsense

There is no more vivid example of recent governments' subservience to 'market' nostrums than the Pavlovian repetition of the assertions that previous governments had attempted and failed to 'pick winners'. Propagandists claim that the rescue of British Leyland provides an egregious example, but this is about as absurd as claiming that bailing out the Royal Bank of Scotland was an attempt to pick a winner. Of course, no government has ever picked winners on an analogy with playing the stock market or sticking pins into race cards on Ladies' Day at Ascot.

In what is presumably an attempt to provide some historical justification of this dogma, there is an abbreviated reference to the computer industry:

'For example, throughout the 1960s the UK government attempted to nurture a domestic computer industry through a range of measures, including a 15% import surcharge, a restriction on exporting computer technology, a preferential procurement policy and by encouraging a consolidated computer producer to become a national champion. These efforts were neither effective nor successful.'

BIS 2011: 18

This account betrays the same myopia as the rest of the reports. The real narrative is that World War II led to major advances in electronics and, with Cold War threats of

incursions into its airspace by Soviet aircraft and missiles, the US was determined to lead in computing capabilities. Massive defence funding – larger than had been applied to the Manhattan Project to develop the atomic bomb – was put into the development of computers by IBM, and this was accompanied by an aggressive buy-American policy. The US also took the lead in Western countries' embargoes on strategic technology transfer, via the consultative body COCOM. This led to IBM becoming the dominant market leader.

The UK, as a result of the work at Bletchley Park, was one of the leaders in computing applications but, typically, had a gaggle of companies with pretensions to developing computers – among them Ferranti, Plessey, Decca, Elliott, Thorn and even Lyons, of teashop fame (whose Leo computer was viewed by many pundits as better than IBM's commercial offering). None, however, had the range of technical expertise or focused government support to compete against IBM – even when there was preferred procurement, IBM was selected by British government agencies on grounds of reliability and technical backing. With loss of market share, there was an inevitable consolidation of the bits and bobs of British industry into ICL as the final remnant.

The only western country to recognise the necessity and scale of government support to take on IBM and its Pentagon backing was Japan. Within a remarkably perceptive and innovative approach of 'controlled competition', subsidies for development were allocated to avoid any one company having preeminence in all related technologies. A rigorous national purchasing bias was introduced, alongside allowances for companies to invest in computers and for second-hand computers to be passed down to smaller companies. As a result, Japan's industry rose to a competitive international standard (Fransman 1995). An ironic outcome was the acquisition of ICL by Fujitsu, a company which, when Ferranti was a world-leader, did not even have a division specialising in computers.

The moral of this sorry saga is not that British government intervention failed, but that it was inadequate compared to the scale and focus being applied by other governments. Instead of naïvely relying on national competition, the lesson is that if you want to compete in the big boys' game, you have to recognise that they are setting the rules. This applies as much to export credits as to the focusing of resources.

Amusingly, the only instance where this country has managed to match the international game to 'rear' a winner – a more appropriate term than 'pick' – was involuntary. When Rolls-Royce collapsed, it was nationalised by the Conservative government. After refinancing it was refloated again with a 'golden share' and restrictions on the nationality of senior executives. After receiving several slugs of launch aid and other support, including orders from the military and for nuclear submarines, it has managed to build a leading international position, with the golden share helping it to resist shareholder pressures for increased dividends that would have come at the expense of longer-term growth.

Myopic choice of growth sectors

Despite the general aversion to 'picking' winners, the government's reports identify several sectors with growth potential. Most are generic headings:

- **Healthcare and life sciences:** This area is one of the UK's traditional strengths thanks to the purchasing power of the NHS and, historically, a generous treatment of R&D. GSK and Astra Zeneca are leading names. But pharmaceuticals is notoriously a global business, where a drug may be developed in country A and produced in country B, with marketing controlled in country C. In terms of export value-added, production should be the target investment. But how is this to be achieved?

Biotechnology inevitably suffers from the relatively vulnerable scale of the protagonists and is being pursued around the globe with rising investment in Singapore, China, South Korea and India. This is a tough competitive scene that calls for some discrimination.

- **Advanced manufacturing:** A few companies are already committed to this field, such as Rolls-Royce, Weir, BAe and other defence equipment producers. But the dilemma is to encourage the second-tier manufacturers to accelerate their investment and commitment to expertise for new materials, machining and processing systems. On a global scale, this is already a fiercely competitive arena among the leading industrial countries. Germany, Japan and the US – with China trying to catch up fast – are already investing aggressively across a wide spread of industries and have a greater diversity of companies. One challenge in rebalancing UK industry is to establish a comparable spread and diversity.
- **Construction:** This is a relatively fragmented industry. Its contribution to growth is essentially reactive, depending upon government and private-sector investment. As a potential source of exports, the larger companies have been relatively reluctant overseas players, having been spoon-fed by the UK's domestic housing boom and the easy pickings of private finance initiative (PFI) orders. While Balfour Beatty has taken over Parsons, one of the US's leading consultants, and Amec shows signs of focusing on energy and nuclear technology, when it comes to opportunities in developing markets success depends upon a sustained commitment to establishing a local presence and working with local partners. In this area, none of the UK contractors has an international footprint to compare with Vinci, Hochtief or leading Japanese (and Chinese) contractors that have followed their national compatriot companies' overseas investments.
- **Digital and creative industries:** This is a modish definition, embracing aspirations of recreating Silicon Valley on roundabouts and science parks and the prospect of entrepreneurs creating websites. But the UK has no Google or Amazon, and the likeliest outcome is that any success will be bought up by larger industrial players, like Hewlett-Packard's recent purchase of Autonomy. Equally, however, this is an extremely congested arena with aspirations in virtually all countries.
- **Retail:** One of the consequences of a few decades of inflated sterling values has been to elevate retailing as a leading sector, in which easy margins could be achieved by driving down prices from foreign suppliers and overcharging gullible British customers. Retail is, however, responsive to, rather than a driver of, growth. Its contribution to growth in exports is negligible. If anything, retail is a driver of imports. A recent, comic example was given by a BBC programme, Britain's Next Big Thing, in which a Dragon's Den entrepreneur presided over an open day for new products at Liberty, Habitat and Boots. The winners, ecstatically applauded by our entrepreneur, achieved only increased imports from Italy – fashion silk scarves and decorative pottery – and from China – a wall-fitting for hangers. Apparently, the objective of rebalancing towards greater exports has not filtered down to our TV entrepreneurs. Where retail might contribute to net exports would be via a concerted effort to establish UK sources of supply, rather than imports, like the old Marks & Spencer.
- **Professional and business services:** The most constructive measure of support is identified as increasing their freedom to take on qualified immigrants. In the longer term, however, these services are vulnerable to the transfer of expertise, as parent countries entice their expatriates to return and as local staff absorb experience from British professionals active in the market.

- **The space industry:** This is also increasingly contested globally, and UK firms are reliant upon others for launch capability. But, beyond Europe, the US, Japan, India and China all have or are aggressively creating a comprehensive capability across all related technologies.
- **Tourism:** An old chestnut, where the UK's efforts seem to be perennially lagging the more concerted efforts of other European countries.

Overall, this is hardly a compelling portfolio, particularly when viewed in a global context, with which to reverse four decades of British industrial decline. We are promised that the growth review will continue. So long as this is premised on Whitehall sprinkling around another slew of 'initiatives' and 'subsidies' in the belief that magical growth will result, there is not much hope, particularly when it also relies on the institutions of finance that have contributed to persistent decline.

The failure of industrial finance

Bank bail-outs and the recollection of queues outside Northern Rock have inevitably focused attention on protecting retail customers from the vagaries of financial markets. However, of equal importance is the absence from the UK of 'industrial banking', a confident and appreciative relationship that supports the long-term development of a business. British banks, having truncated their traditional branch networks, have a perceived behaviour pattern of damaging their own clients in the interests of shareholder returns. A revolution is needed, leading to a change in culture and decisions being delegated out of City headquarters to local professionals with an understanding of industry.

The Business Growth Fund, offered under the Merlin arrangements agreed between the Coalition government and UK banks to maintain lending to small and medium-sized businesses, is a grudging recognition of the growth potential of this style of banking. But it should have become the norm for bank relationships with industry over past decades, offered through local branches. Historically, banks have argued that this is inherently risky business and to embark on it would put their depositors' funds in jeopardy. If, however, a small proportion of the funds lost during the recent financial crisis through playing ill-understood computer games had been applied to such a mechanism, much of the country's industrial capability might have been sustained with timely competitive investment. Banks should be coerced to develop such a network.

It is absurd that the UK has never established a development bank. Germany's KfW, originally set up to administer Marshall Aid, has included in its range of functions the provision of long-term loans to companies alongside their banks (with stringent provisions to prevent free-riding). Japan's Development Bank has a similar track record, and is currently contributing funding to restore supply chains disrupted by the March earthquake and tsunami. To match the growth financing in other countries, the UK should have a similar facility, either directly focused or on the lines of the proposed Green Investment Bank, but with a wider remit, such as infrastructure investment (just as the KfW has taken on wider functions, including Germany's overseas aid programme).

At company level, such a development bank would have scope to offer seven-to-10-year loans on a subordinated basis, while insisting that the company's bank does not demand excessive security priority and undue fees, and monitoring that these conditions are obeyed. Such an arrangement could also be used to encourage the adoption of trusts and co-ownership to create greater worker participation. If growth at the rate and scale

of Huawei's (itself a recipient of China government concessionary loans) is too much to hope for, at the least a path should be opened to permit companies to evolve like Bosch and other continental companies have done, free of the premature influence of public shareholders.

Curing industrial illiteracy

If only establishing an industrially oriented financing system was our sole problem. Any British official meeting his opposite number in Brazil, Italy, Singapore, Japan, South Korea, Taiwan or Malaysia will be struck by the latter's close appreciation of their industrial capabilities and an acute awareness of their ambitions and how to achieve them. So it is hardly surprising that the French run rings around the UK in aerospace and space, and will surely do so again if the mooted closer collaboration in defence takes place. All these countries share a tradition of industry as a cultural priority, spreading from an orientation in education towards technology and practical skills. And all can quite happily play the rhetorical charade of 'open markets' with a clear national glint in the eye.

The UK, by contrast, still suffers from a long tradition of industrial illiteracy. We are confronted by the bizarre spectacle of politicians with politics, philosophy and economics (PPE) and history degrees and a spell as a special adviser or in a thinktank, bemoaning the 'skills gap'. They are dead suckers for the brand of naive economics that dominates the Treasury's mind-set and are fed a diet of subservience to the City (thus leading to the light regulation that has landed the country in its present mess). Despite all the evidence that naive economic orthodoxies are demonstrably false, the cant is repeated.

A more serious consequence of this has been a reluctance to admit the incursion of reality into policy, or to recognise the success of other countries that have followed entirely different models for their successful economic growth. The tyranny of dogma has led naturally to an ethos of cultivated ignorance. So it is not surprising that the 'growth' reports display such ignorance about the downfall of the British computer industry: 'Indeed, these preferential policies discouraged British companies innovating and meant they were poorly prepared for the PC revolution of the 1980s' (BIS 2011: 18). Wrong again. There are still those who remember fondly the early Amstrad, Sinclair and Acorn computers which were trendsetters for PCs. But none of this gaggle of British companies had the scale and technological spread to compete against the big boys from the US and Japan. From this foundation of cultivated ignorance, the uncoordinated scattergun approach laid out in the reports is a natural consequence.

Solutions

Any realistic growth plan should start by accepting that the UK lacks the sinews, networks and public perceptions of a genuine industrial society. This deficiency can be dated back over a century to the predominance of imperial preoccupations, but latterly our leading economic pundits have hailed the post-industrial society as some elevated state of national Elysium. This has culminated in the UK being arguably less industrially oriented than many emerging economies. Raising industrial literacy is a fundamental task. Real businesses coping with real markets should be substituted in the national consciousness for the usual diet of GDP speculation, stock market indices, company share prices and exchange rate fluctuations. A genuine growth strategy also needs to junk conventional policy approaches, and replace them – to quote a senior policy adviser in Singapore – with a government team 'smarter than the smartest captains of industry'. Given the myopic shareholder-value perspective of most of Britain's 'captains', this should be achievable.

Essential to the formation of such a team is knowledge of the competitive threat posed by companies from other countries, and their supporting state infrastructure. The team should have at its disposal a palette of measures to match those offered by other countries and access to other relevant government agencies. For a growing UK business to be sustainable it must secure business outside this country and this is unlikely to be achieved if its international competitors are being provided with support unmatched in this country. (There is no need to worry about ‘agency capture’, since this team will be better armed with access to information than the usual British company and, in any event, some agency capture is desirable in order to counter the Treasury’s subjugation to the City). The problem would be how to recruit such a team. Neither the usual brand of civil servant nor the traditional ‘City type’ is suitable. It might be necessary to secure secondments from Singapore, France, Japan, Germany or Malaysia, all of whom would think naturally in terms of the real international marketplace.

This is a long-term solution. In the short-term, there are a number of practical steps that could be taken:

- Infrastructure is essential for building viable industries. More resources need to be devoted to building the UK’s infrastructure, including high-speed broadband.
- While it may be desirable to see SMEs gaining ground in export markets, this is difficult for many, given the front-end costs of gaining market entry and establishing joint ventures, particularly in the more challenging emerging markets. A more likely route to expanded exports is to work alongside successful companies, offering any support necessary to widen their success. At the same time, efforts should be made to explore whether UK sources could be developed to supplant supplies that such firms are currently obtaining from abroad.
- If improving net exports is a key objective, government procurement should give priority to those companies that have achieved export success, so using domestic orders to enhance their ability to compete internationally.
- Retailers and entrepreneurs should be hounded to increase their UK purchasing, with support provided to establish competitive UK facilities or to define targets for attracting inward investment.
- For regional rebalancing, there should be some rational allocation of support for complementary activities to reinforce each other. Such a ‘cluster approach’ demands coordination with local enterprise centres, which is not necessarily easy when different regions will be competing for new investment.

It may be refreshing to hear ministerial voices admitting the country has been operating a model that failed. However, there is little to suggest they are close to coming up with a new model that is likely to work. Government should not duck direct involvement in the economy – every other industrial country has established intervention mechanisms that have to be countered. The new pacesetters are companies like ZTE, a telecommunications and handset company – second behind Panasonic on the international patents list with 1,893 applications – that has a controlling, protective holding by the Shenzhen government, half a dozen research centres around China, joint ventures with Alcatel and other foreign multinationals, and a growing international market share.

The challenge is how the UK can match this type of remarkable business growth – a task made all the more demanding when, despite a sterling devaluation of 25 per cent, the trade deficit is running at around £100 billion a year. Achieving growth led by net exports, as the government desires, looks to be an extremely challenging objective.

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