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#GE2017Economists

The UK's New Industrial Strategy

Anna Valero

CENTRE for ECONOMIC PERFORMANCE

CEP ELECTION ANALYSIS

The UK's New Industrial Strategy

Anna Valero

- The UK's continued poor productivity performance since the financial crisis and new economic challenges – in particular, related to Brexit – necessitate the formulation of a new, overarching and long-term industrial strategy. Such a strategy must aim for growth that is fairly distributed across society and space, and is environmentally sustainable.

- Chronic underinvestment in skills, infrastructure and innovation has held back growth in the UK. A successful modern industrial strategy should combine economy-wide policies – such as ensuring schools are adequately resourced and stimulating investment in infrastructure or R&D – with more focused sector or place-based policies that seek to address specific market failures that hold back growth.

- Institutional reform is key to differentiating a new industrial strategy from collections of business policies that have gone before. The aim should be an industrial strategy that is based on political consensus and institutions that give it stability and protection from the political cycle.

- All three main parties are committed to having an industrial strategy and to providing more support for innovation. But there are major differences in the parties' business policies. Labour would significantly raise business taxes and government borrowing to finance large-scale spending and investment in skills and infrastructure, and plans to renationalise the major utilities. The Conservatives would keep taxes low, and maintain commitment to a smaller level of borrowing for public investment, as announced in the last Autumn Statement.

- Both the Conservatives and Labour would seek to intervene in energy markets by setting price caps of some form. Such policies could have negative impacts on competition: it is preferable to strengthen the role of regulators and take further steps to stimulate effective competition.

- The Conservatives' policies of arbitrary immigration targets, restrictions on foreign students and increasing the costs for firms that employ non-UK workers are likely to hurt productivity.

Centre for Economic Performance
London School of Economics and Political Science
Houghton Street, London WC2A 2AE, UK
Tel: +44 (0)20 7955 7673
Email: cep.info@lse.ac.uk Web: http://cep.lse.ac.uk

Introduction

'Industrial strategy' has returned to the policy agenda, with the government recently setting out its plans in a Green Paper, and dedicated sections appearing in the election manifestos of all three main parties.

Until recently, the term tended to be associated with attempts to 'pick winners' which often resulted in subsidising losers at taxpayers' expense. But every government has an industrial strategy however it is articulated: government affects the investment climate for business through tax and regulation, establishes national priorities, invests in skills, infrastructure and research, and procures outputs from the private sector, all of which influence the evolution of the private economy. What has varied over time is how far governments are willing to spell out their industrial strategy and the arguments that motivate it.

An effective modern industrial strategy must be based on an understanding of market failures that are holding back economic growth, and whether these can be usefully addressed by government. It should be more than a collection of policies aimed at boosting business performance; rather, it should represent a long-term, coherent plan for sustainable and equitable growth in the UK.

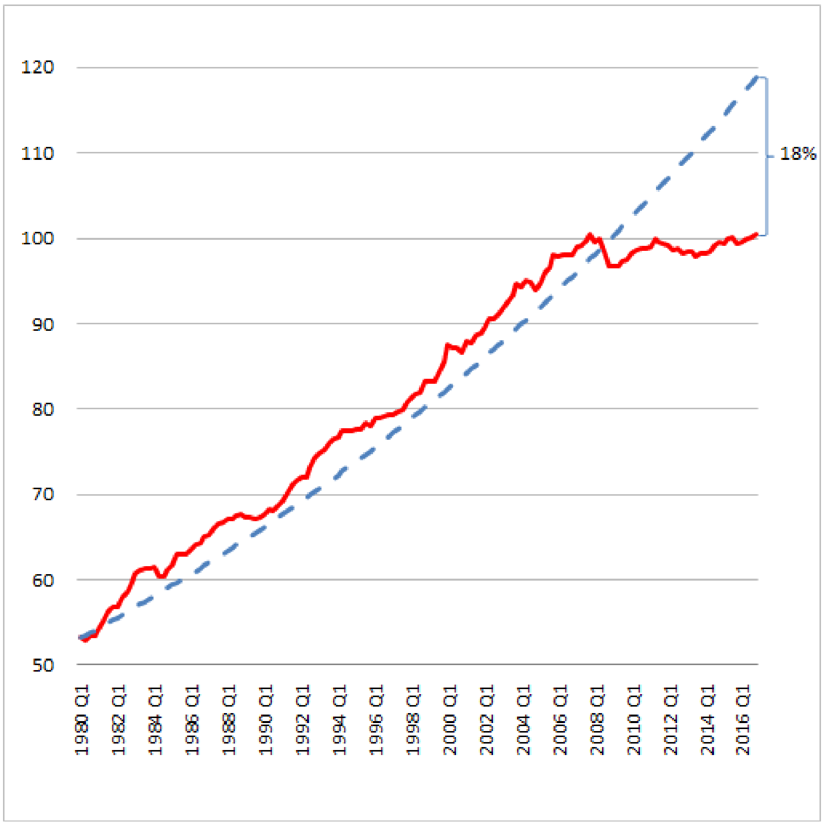
Why does the UK need an industrial strategy?

Since the financial crisis, a key policy priority has been to improve UK productivity performance. Productivity fell after the financial crisis and has been flat ever since. In the most recent data from the fourth quarter of 2016, GDP per hour stands at 18% below its trend between the first quarter of 1979 and the second quarter of 2008 (see Figure 1). There are a number of potential explanations for this 'productivity puzzle', including reduced investment following the financial crisis, a slowing in innovation or its diffusion, and measurement issues, but to date economists have not been able to account for it fully.[1]

To some extent the puzzle is international. Other countries – including France and Germany – have experienced similar trends, but they have been quicker to bounce back than the UK. Of course the flipside to this poor productivity performance has been record number of people in work, but real wages are still around 5% below their pre-crisis peak (see the first Election Analysis in this series, Real Wages and Living Standards in the UK'). To achieve sustainable growth in living standards and to fund public services, the UK must improve its productivity performance.

[1] See Haldane (2017) for recent discussion.

Figure 1: GDP per hour, 2008 Q2=100



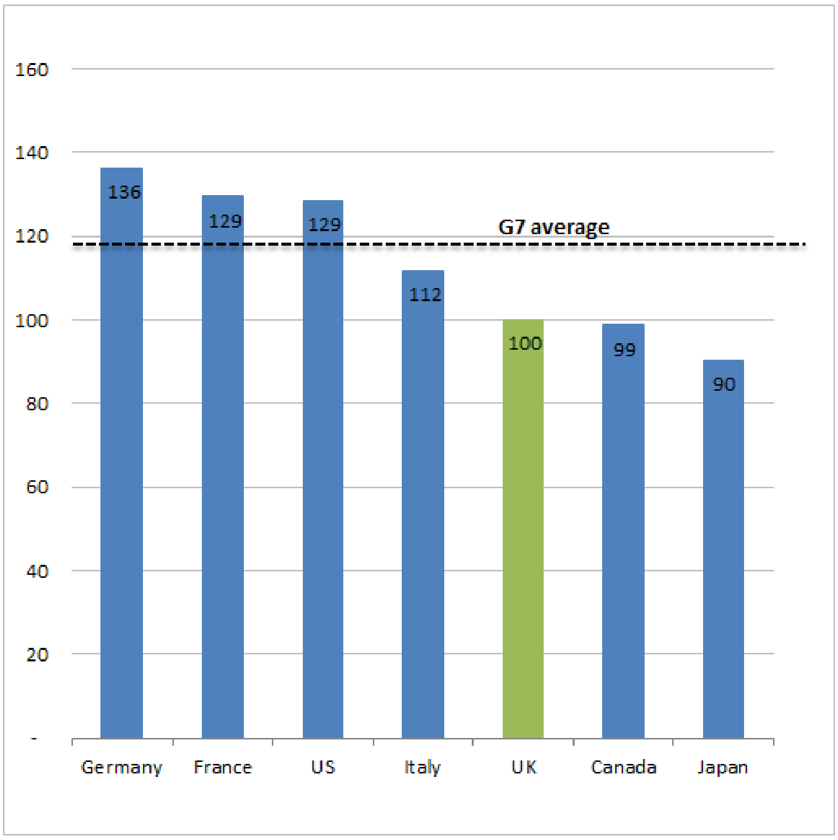
Note: predicted value after Q2 2008 is the dashed line calculated assuming a historical average growth rate of 2.2%.
Source: Whole Economy GDP per hour worked, seasonally adjusted. ONS Statistical Bulletin, Labour Productivity, Q4 2016, release date 5 April 2017. (Q2 2008=100).

Achieving better productivity growth will allow the UK to begin to close its 'productivity gap' with other advanced economies (Figure 2). This gap is longstanding (though it was narrowing in the years before the financial crisis) and is largely explained by chronic under-investment in skills, infrastructure and innovation including management practices.[2]

But economic growth itself is not the only objective. The Brexit vote and the general rise of populism in the Western world have highlighted the importance of ensuring that the benefits of economic growth are distributed fairly across society and geography. These issues are discussed in more depth in the CEP Election Analyses on real wages and regional policy. Sustainable growth also requires an appreciation of the environmental impact of economic activity and the UK's legally binding climate change targets should play a key role in shaping industrial strategy.

[2] These issues were the focus of the first report of the LSE Growth Commission (2013).

Figure 2: G7 current price GDP per hour worked, UK=100



Notes: ONS International Comparisons of Productivity, Final Estimates 2015 (release date 5 April 2017 release), current price GDP per hour worked, UK=100. G7 average (excluding UK)=119.

In recent years there have been a number of policies aimed at raising productivity and business performance. During the Labour years 1997-2010, most such policies were economy-wide including a new emphasis on research and development (R&D), public capital investment, and a long-term commitment to public education and expenditure on science.

Following the 2008 financial crisis, Labour's business secretary Peter Mandelson began to develop a case for a return to more selective industrial policy. But it was his successor Vince Cable in the coalition government who formally set out an industrial strategy that included support for key sectors and technologies, coupled with more focus on place-based policies like the 'Northern Powerhouse'. The coalition government also had a 'Plan for Growth', which was followed by the Conservative government's 'Productivity Plan' in July 2015. Most recently, the government has released a Green Paper including a number of proposals on industrial strategy.[3]

Given the scale of the UK's productivity woes, increased economic risks and uncertainties surrounding Brexit, and the need to deliver more equitable growth, the challenge now facing the new government will be to set out a long-term, overarching strategy to raise business performance in the UK. To have a real impact, this should be more than a grouping together of existing policies with some policy reforms at the margin. It should form part of a wider growth strategy that consists of economy-wide policies for skills, infrastructure and investment that

[3] See Davies et al. (2017) for the CEP response to the Green Paper.

apply to all UK firms, and it should also involve selective policies targeted towards addressing market failures in specific sectors, firms or localities.

The UK must continue to maintain its openness to trade, foreign direct investment and international talent post-Brexit – all of which have been key factors in its economic success to date. In this sense, industrial strategy should be consistent with the UK's strategy for exiting the EU and negotiating new trade deals. This briefing outlines some key issues that the government must address in its formulation of industrial strategy, before moving on to compare what the main parties are promising in these areas. While issues regarding skills, immigration, Brexit and regional disparities are touched on here, they are covered in more detail in other CEP briefings in this Election Analysis series[4].

Institutional structures for industrial strategy

Industrial strategy in the UK has tended to be fragmented and mercurial, with teams in different government departments often working separately, and regular re-branding or changing of business policies. This creates uncertainty, which harms investment. Lessons can be learned from the strong institutional frameworks governing UK monetary, fiscal and competition policy. The LSE Growth Commission recommended that industrial strategy should be given a new law or long-lasting mandate.[5] And since the existing EU state aid framework has blocked arbitrary political intervention in the economy, a new one is needed when the UK leaves the EU. A set of transparent rules for intervention is also required, and should be based on identifying market failures. Competitive processes should be used wherever possible to ensure that government support is channelled to its most beneficial use.

The ultimate objective is a strategy based on political consensus and isolated from political cycles. An independent body of some form would help to achieve this. To enhance transparency, a long-term plan setting shared objectives and aligning decision-makers should be published, together with a standardised annual report on the state of UK business, tracking policy progress and success.

With the trend towards devolution and the agreement of a number of City Deals over the last few years, a number of important policy levers that can help to deliver an effective industrial strategy are now at the level of nations and regions, including skills, innovation and infrastructure. But the current structure of local and regional governance is not well placed to address local challenges. While the Local Enterprise Partnerships (LEPs) have the potential to help deliver successful local economic growth strategies, there is some disjointedness between them and local government and it is unclear how they fit into the evolving devolution landscape. There are also concerns that they lack sufficient resources, and the incentives to invest in projects for long-term development. Universities are key actors in policies for places, improving regional economic performance via their role as producers of skills and incubators of innovation, but as yet there is no formal requirement that LEPs work with universities. It is crucial therefore to improve engagement between LEPs, local government and universities.

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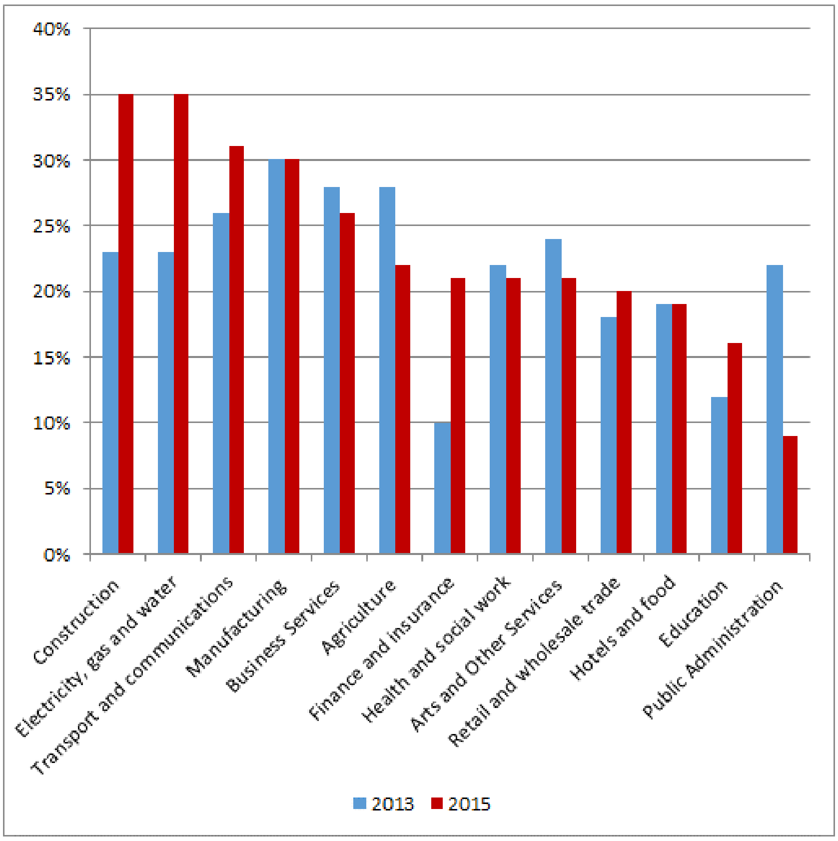
[4] 'CEP 2017 Election Analyses', Centre for Economic Performance, LSE http://cep.lse.ac.uk/election2017/. Policy briefings on real wages and living standards, Brexit, health, immigration, education and regional policy.

[5] See LSE Growth Commission (2017).

Skills

Strong human capital is critical for sustainable growth, but the UK has had a persistent problem of high numbers of inadequately educated young people emerging into the world of work, and skill shortages are reported by employers in all sectors (Figure 3). Improving skills must be at the heart of industrial strategy.

Figure 3: skills shortages across sectors



Notes: Skills shortage vacancies as a percentage of total vacancies by sector.
Source: UKCES (2015).

A key component in this is improving school outcomes for disadvantaged children. To do this, it is important to ensure that the appropriate pre-school and school resources are provided and there are currently significant risks in this area, in particular with regard to schools funding. Continuous skill development can help workers gain greater security and adaptability in a world of rapidly changing technologies and labour market structures. While improvements in the further education and training system are central to this, individuals and firms must be able to finance such investments and the government can provide tax breaks to help in this regard. More details are in the forthcoming CEP Election Analysis on education and skills by Sandra McNally and Gill Wyness.[6]

Addressing the misallocation of female talent would be a way to use existing skills more effectively and it could potentially create large gains in productivity.[7] Gender gaps in

[6] See 'CEP 2017 Election Analyses', Centre for Economic Performance, LSE, http://cep.lse.ac.uk/election2017/.
[7] See Bandiera and Valero (2016).

participation and wages are high in the UK compared with other OECD countries. Such gaps are largely explained by career breaks and part-time work after women have children, and there is scope for the government to pursue more targeted policies to encourage parents to share work and home responsibilities, which would enable more women to put their skills to productive use.

Brexit poses new risks to the UK's skill base, which has traditionally benefitted from international talent. This is not only an issue for UK firms, but also for universities. High quality students and researchers from abroad contribute to the economy directly, and international students also increase resources available for domestic students. The visa system for non-EU nationals was already considered too restrictive by many in the business community before the Brexit vote, and there are now new concerns around the status of EU nationals in the future.

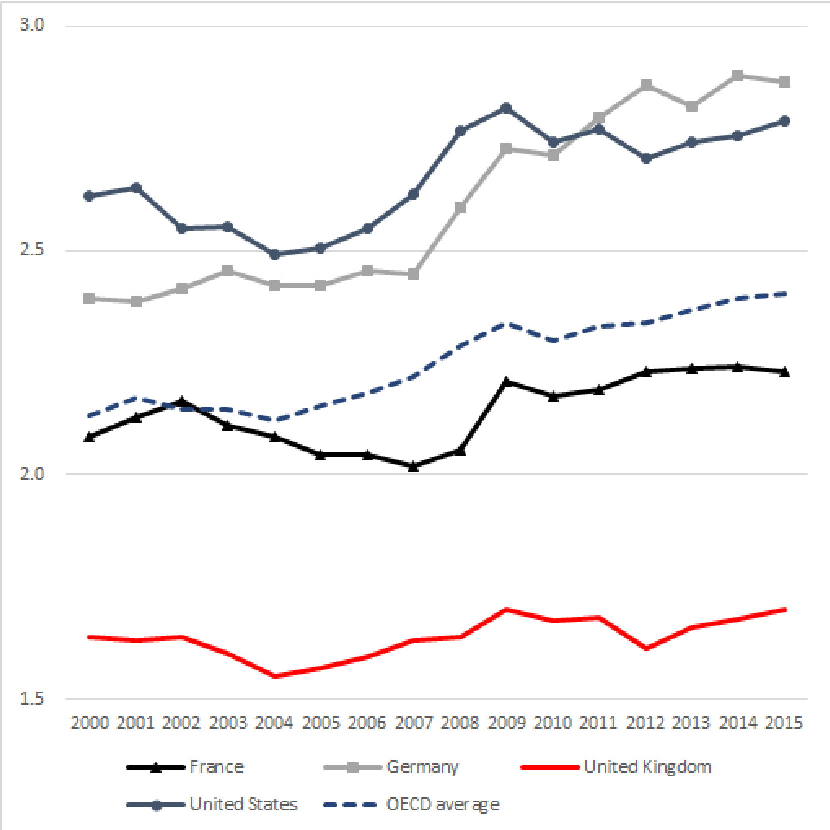
Investment and innovation

UK infrastructure is poor by international standards and large-scale investments are required in all areas. The government has made some progress in infrastructure strategy with the establishment of the National Infrastructure Commission – an independent institution that should help to reduce policy uncertainty and hence lower the cost of capital of private sector investment. There have also been moves to channel more public sector investment into infrastructure, such as the pooling of local authority pension funds and the new 'National Productivity Investment Fund'. These developments are welcome but there is still much to be done. The policy climate in many areas is still uncertain and a deterrent to long-term private investment. And there is, as yet, no clearly articulated strategy that joins up housing, transport and energy needs.

A range of sectors need to innovate to stay on the global technology frontier. The standard measure of innovation input is R&D expenditure. But UK R&D (both government and business funded) is consistently lower than international comparators as a share of GDP (Figure 4). There is extensive evidence that public R&D spills over to the private sector, and also 'leverages-in' private R&D,[8] and there is therefore a strong case for increasing such spending in line with our peers.

[8] See for example, Haskel and Wallis (2013) and Goodridge et al. (2015).

Figure 4: R&D as a share of GDP



Notes: Gross domestic expenditure on R&D (government and business funded) as a share of GDP.
Source: OECD.

While the UK excels in terms of the quality and impact of its research, it underperforms in the commercialisation of ideas. There are also well-documented problems with collaboration between business and universities, and new structures like the Catapult network[9] appear to be a promising mechanism to improve this. The government's focus to date has been predominantly on the supply side of research (universities). But a number of reviews on this topic in recent years have noted that addressing the demand side – particularly from businesses carrying out R&D – is crucial. There is evidence that R&D tax credits are an effective mechanism for giving incentives to smaller firms to engage in R&D.[10]

A key issue holding back investment in innovative firms – where the payoffs might be uncertain and a long way off – is inadequate access to finance. This is linked with the issue of excessive short-termism in UK business and financial markets, which hampers long-term investment more generally (investment in fixed capital in the UK is also lower than in our main international peers as a share of GDP). In recent years there has been debate around changes to corporate governance or the tax code to try to encourage investors to take a longer-term outlook (see for example, the Kay Review, 2012). More measures to improve competition in the banking sector and stimulate alternative sources of finance are also needed.

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[9] https://catapult.org.uk/
[10] See Dechezlepretre et al. (2016).

There are a multitude of government schemes targeted at small and medium-sized enterprises (SMEs), offering financial support or business advice. The rationale for such schemes is often unclear. Because SMEs have lower productivity, a concern is that firms have incentives to stay small to take advantage of these subsidies and this could depress aggregate productivity. From a productivity perspective therefore, support should be channelled towards high growth potential firms that face obstacles to investment and growth. There is a general lack of high quality evaluations of targeted business support schemes, and this should be addressed through the design of policy experiments where possible and the creation of better data sets.

Policies for sectors

There are cases where firms are affected by sector specific barriers to growth that can be addressed by government policy. Intervention might take the form of co-ordinating relevant stakeholders, risk sharing and investment, addressing sector specific regulatory issues or skills gaps. Government can also enter a sector directly by bringing assets into public ownership – most recently this was done with the banks following the financial crisis, but Labour has pledged large-scale renationalisations in its manifesto (more discussion below).

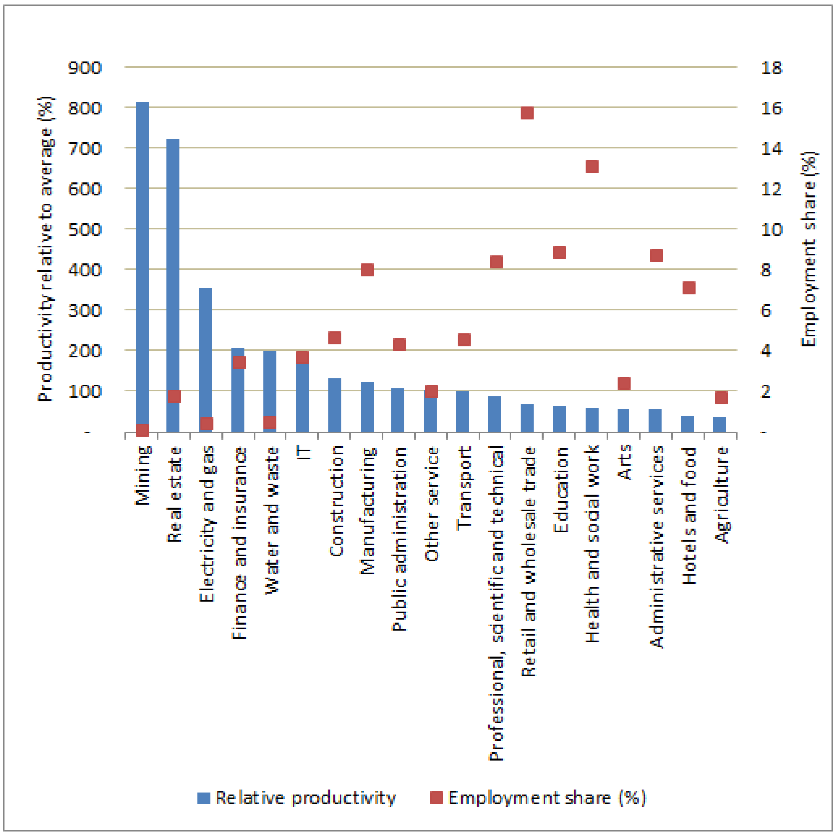
In developing sector policies, it is important that processes for granting support to particular sectors are competitive, transparent and based on a real understanding of whether there are market failures that the government can usefully address. This helps to minimise the risk of policy being influenced by the lobbying of incumbents with outcomes that are not necessarily beneficial for the UK economy as a whole. Strong and transparent institutions governing the UK's industrial strategy (as set out above) can help to justify the grounds for sector-based support.

In recent years, the government's industrial strategy has focused on high-performance/high growth sectors such as aerospace and pharmaceuticals. But low productivity sectors such as retail, hotels and administrative services employ a large share of the population (Figure 5), and also face obstacles to growth (such as the availability of skills or investment in technology).[11] Sector policies that seek to raise productivity in such sectors could have large aggregate effects and also help to reduce wage inequality.

In practice, it is not always easy to define a sector, and indeed there may be multiple sectors that face common challenges. There is scope therefore for a 'mission-oriented' approach, which can help to bring together all relevant companies or technologies across sectors, and have the benefit also of potentially solving key public policy challenges in areas such as air quality in cities, health and social care – all of which are important goals in their own right, but are also likely to raise productivity in the long run.

[11] See Thompson et al. (2016).

Figure 5: Sector productivity differences



Notes: GVA/employment relative to average=100, data for 2015.
Source: ONS.

The election context

Our 2015 Election Analyses[12] included an overview of UK business policies.[13] Since then the major development with implications for UK business is that the Brexit process is now underway, which has created new risks for future trade, investment and access to international skills. There are large differences between the parties, as discussed in the forthcoming CEP briefing on Brexit by Swati Dhingra and Thomas Sampson[14]. But from an economic point of view, the commitment to a 'hard' Brexit that is being signalled by the Conservatives is likely to be the most damaging.[15]

Domestic policies for business to date have been broadly similar. There have been further reductions in the main rate of corporate tax – which has come down to 19% (compared with 20% in 2015). Increases to the science budget – an area of public spending that was previously protected in real terms – were announced by Chancellor Philip Hammond as part of the new 'National Productivity Investment Fund'. While this increased funding was a positive step, it still leaves total public R&D as a share of GDP below most other advanced economies.

[12] http://cep.lse.ac.uk/election2015/
[13] See Roland and Valero (2015).
[14] See 'CEP 2017 Election Analyses', Centre for Economic Performance, LSE http://cep.lse.ac.uk/election2017/
[15] See CEP analysis on Brexit at http://cep.lse.ac.uk/BREXIT/.

Despite a number of measures aimed at increasing competition in the banking market, the UK's independent competition regulator recently concluded that shortfalls in competition remain.[16] Moreover, there have not been any substantive changes in corporate governance or tax structures to promote long-termism in UK business. One positive step in this area has been the recent launch of a 'Patient Capital Review', looking into the availability of long-term scale up capital from innovative firms.[17] While the current government has been developing a new industrial strategy, this is in its early stages, and as we set out above, will require institutional reform to differentiate it clearly from policies that have come before.

In contrast with 2015, the main parties are now setting out some very different policies for business in their 2017 manifestos. But there are also some areas of common ground, in particular where both Labour and the Conservatives are proposing more government intervention in markets. A summary of key policies and differences is given below.

Overall stance on industrial strategy

The Conservatives outline an industrial strategy in line with government's recent Green Paper, one that would seek to address economy-wide and sector or place-based challenges. They hint at the need for new institutional frameworks to ensure that industrial strategy can be for the long term, but do not provide any details on how this would be done. They would also strengthen the role of local authorities and LEPs in delivering industrial strategy in alignment with the national strategy, which would be likely to increase their effectiveness. The Liberal Democrats highlight similar priorities on devolution and strengthening local institutions. More CEP Election Analysis of regional policy will be in the forthcoming briefing by Henry Overman.[18]

Labour outlines an industrial strategy based on 'missions', in particular decarbonisation and making the UK an 'innovation nation'. Other than their planned renationalisation of transport and utilities (see below), they appear to focus more on economy-wide policies for skills, infrastructure, trade and R&D, but they do highlight the need to integrate trade and industrial strategy. Despite formally reintroducing industrial strategy into policy during the coalition years, the Liberal Democrats do not give it much explicit prominence in their manifesto. They discuss industrial strategy only in the context of innovation, and propose building on the coalition government's industrial strategy, which focused on high growth, high comparative advantage sectors. Both Labour and the Liberal Democrats emphasise steps they would take to protect the environment, both in terms of decarbonisation and combating air pollution in the UK's cities.

All parties acknowledge the importance of skills for economic growth, and all promise some extra investment in schools and other areas – but there are major differences in the extent of this, as discussed in the forthcoming CEP Election Analysis on education and skills by Sandra McNally and Gill Wyness mentioned previously. Labour and the Liberal Democrats would spend significantly more on schools and pre-schools (with Labour also promising increased spending in further and higher education too), to be funded through tax increases. The Conservatives plan a more modest increase in the main school budget, to be funded by ending universal free lunches. They promise they would amend the recently proposed changes in the

[16] See CMA (2016).

[17] https://www.gov.uk/government/publications/patient-capital-review.

[18] See 'CEP 2017 Election Analyses', Centre for Economic Performance, LSE http://cep.lse.ac.uk/election2017/

funding formula so that no school would lose out as a result of reallocation. Overall however, substantial real-terms cuts in per pupil spending are to be expected under Conservative plans.

All parties talk of the need to address gender gaps in participation and pay, but Labour and the Liberal Democrats commit extra resources to lowering the costs of childcare. While the Conservatives outline plans to improve the take-up of shared parental leave, to promote flexible working and to make it easier to return to work after long breaks, they do not provide any detail. The Liberal Democrat policy of 'use it or lose it' months of parental leave for fathers is likely to be an effective policy for encouraging sharing of childcare responsibilities between parents, and helping mothers to return to work.[19]

The Conservatives' strict immigration targets are likely to be damaging for the UK skills base, business and the research community. Students would continue to be included in immigration targets, and firms would face extra costs when hiring non-UK workers.

Business taxes and regulation

The Conservatives remain committed to further reductions in corporation tax to reach 17% by 2020. In sharp contrast, Labour intends to fund its large-scale spending commitments in part through increases in the corporate tax main rate to 26% by 2020 (to protect small businesses, however, Labour would re-introduce the small business rate). While the main rate would still be low compared with other G7 economies, it represents a large increase relative to the status quo. It is uncertain how much tax revenue this type of policy would raise, and in the current climate of uncertainty surrounding Brexit, it could prompt internationally mobile businesses to relocate abroad or invest less in the UK. A similar point applies to Labour's proposed extension of stamp duty to a wider range of financial transactions (the so-called 'Robin Hood' tax). The Liberal Democrats would raise the main rate of corporate tax to 20% (back to its level during the coalition government) and reverse recent cuts to capital gains tax.

All parties promise review and reform of the business rates system, and further action to clamp down on tax avoidance. In addition, all parties discuss how companies should have duties to a wider group of stakeholders than just shareholders. The Conservatives and Liberal Democrats promise worker representation at board level in listed companies. Both Labour and the Liberal Democrats would reform corporate governance rules so that directors have duties to a wider group of stakeholders. Labour and the Conservatives also plan to tighten up rules on takeovers. For Labour, the focus would be on safeguarding jobs in strategically important sectors. The Conservatives would seek to enforce promises made by bidders and take action to protect key infrastructure assets. It is important to strike the right balance between continuing to attract foreign direct investment into the UK post-Brexit and ensuring that it serves the UK's interests, and any new rules in this area should be transparent and based on clear reasoning.

Investment and innovation

In contrast to the 2015 election, all parties are now in agreement that some level of borrowing for public investment is acceptable and desirable from an economic perspective – particularly as interest rates remain low – but there are wide differences in the extent of this. While it is difficult to determine what would be the 'right' level of additional borrowing, some degree of caution is necessary given the high levels of economic uncertainty surrounding Brexit.

[19] See, for example, Eckberg et al. (2013).

Both Labour and the Liberal Democrats plan significant increases in borrowing. Labour has announced a new ‘National Transformation Fund’ of £250 billion over 10 years. This would fund transport and infrastructure investment, R&D and broadband rollout. Labour also plans to establish a ‘National Investment Bank’, which would support a network of regional banks. It is unclear to what extent this would build on the existing British Business Bank (BBB) or be an entirely new institution supporting infrastructure investment in addition to providing finance to small businesses. It is also unclear to what extent the financing of the renationalisations and the new National Investment Bank are included in the £250 billion fund, and there is a strong possibility that additional borrowing would be required to meet all those policy commitments.

The Liberal Democrats would invest a more modest £100 billion on infrastructure, renewable energy, broadband, housing and capital investment in schools and hospitals. This would also include £5 billion of initial capital for a new ‘British Housing and Infrastructure Development Bank’. This type of institution has been one of the key recommendations of the LSE Growth Commission, as a mechanism to ‘crowd-in’ private investment. The Liberal Democrats would also expand the role of the BBB.

The Conservatives are sticking to their commitment to the ‘National Productivity Investment Fund’ of £23 billion, as announced in the 2016 Autumn Statement, to cover increased investment in infrastructure, housing and R&D. They also promise to build up university investment funds, and set up new sovereign wealth funds to invest in UK infrastructure.

All parties aspire to raise UK R&D intensity, with the Conservatives’ commitment to increase R&D further as a share of GDP to 2.4% within 10 years and a longer-term aim of 3%; a Labour target of reaching 3% by 2030; and the Liberal Democrats’ long-term aim to double R&D spending. This is a welcome contrast to the 2015 election, when no parties committed to more than a nominal ring-fence of the science budget. Labour and the Liberal Democrats both highlight the importance of EU research funding, and how access should be retained post-Brexit.

Sector policies

A dramatic difference between the parties on industrial strategy is their approach to utilities, with Labour proposing to renationalise the railways, the water industry (in England), the Royal Mail and parts of the energy industry. Key issues here are how the privatisations themselves – and continuing investment – would be financed, and whether the capacity exists to run these utilities better than the private sector. The arguments are different for each of these sectors, but the UK has a well-developed system of sector utility regulation and competition policy. What’s more, many of the challenges in these sectors – high prices, excessive profits and inadequate investment – can be addressed through regulatory reform and stricter measures to stimulate effective competition and investment.

Perhaps the sector where there is more public support for renationalisation is rail, where the network is already in public hands, and franchises are due to expire over the coming years. But again, continuing investment would have to come out of public funds, and previous UK experience with national ownership resulted in underinvestment. Given the current economic outlook and budgetary pressures, it is difficult to imagine why this time things would be different.

There seems to be some agreement on the need to take action against high energy prices, with both Labour and the Conservatives planning some form of price cap for certain customers, an idea that was first mooted by Labour's Ed Miliband in 2015. Key risks with this measure are that it would reduce the incentives for switching (and hence actually damage competition), and that energy companies would simply recoup lost profits by increasing prices for other customers. The focus of the government and the regulators should be on improving effective competition through reducing switching costs and reducing prices through energy efficiency. The wider issue in energy markets is security of supply as UK generating capacity is running dangerously low.

All parties plan to continue a programme of sector support, and all agree that such support should be extended to the creative industries. Consistent with the plans in the government's Green Paper, the Conservatives would continue sector support for high-performing sectors, and extend support to other sectors that come forward for 'sector deals'. Rather than spelling out sector industrial policy more generally, Labour appears to take a more missions-based approach, with some specific focus on sectors with strategic performance, where they would establish councils to oversee sectors of strategic significance to the UK. The Liberal Democrats promise to build on the industrial strategy they developed during the coalition years, focusing on innovative sectors in which the UK has comparative advantage.

Conclusions

All parties highlight the importance of an industrial strategy with the aim of improving UK economic growth and achieving more balance in how its gains are distributed. In addition, and in contrast to the 2015 election, all parties state a commitment to raising R&D as a share of GDP to bring the UK into line with international peers, which is welcome.

Both the Conservatives and Labour share a desire for more market intervention in some areas: promising energy price caps of some form, tightening up rules on takeovers, and – along with the Liberal Democrats – pushing company boards to consider the interests of workers.

But major differences have emerged with respect to business taxes, and the extent of public investment and intervention. The most dramatic differences are that Labour would renationalise large parts of the privatised utilities, and would raise corporate (and other) taxes to fund higher public spending in a number of areas.

Creating an institution like the Liberal Democrats' proposed development bank or Labour's National Investment Bank would provide a promising mechanism for addressing problems raising finance for infrastructure projects. The idea was a key recommendation of the LSE Growth Commission.

A significant concern for UK businesses, already facing skill shortages, will be increased difficulties in accessing international talent under the Conservatives' net immigration targets. This type of policy is likely to damage productivity and innovation in the UK.

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For further information, contact:

Anna Valero: a.a.sivropoulos-valero@lse.ac.uk
Or **Romesh Vaitilingam**: romesh@vaitilingam.com)

Further reading

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