All of the UK’s main political parties now highlight the importance of an ‘industrial strategy’ with the aim of improving economic growth and achieving more balance in how its gains are distributed. In addition, and in contrast to the 2015 election, all parties have made a manifesto commitment to raising the intensity of UK research and development.

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.

These are among the conclusions of a new report from the Centre for Economic Performance (CEP) – the third in a series of background briefings on key policy issues in the June 2017 UK general election. Among the findings:

- 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 research and development (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 (and other) taxes and government borrowing to finance large-scale spending and investment in skills and infrastructure, and plans to renationalise large parts of the privatised 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.

Anna Valero, author of the report, comments:

‘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.’

‘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. This was a key recommendation of the LSE Growth Commission.’

‘A key 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.’

ENDS

Notes for editors:

‘The UK’s New Industrial Strategy’ by Anna Valero is the third in CEP’s #GE2017Economists series:

Objective, brief and non-technical, CEP Election Analysis is a series of background briefings on the policy issues in the June 2017 UK General Election.

This series discusses the research evidence on some of the UK’s key policy battlegrounds, including education, health, immigration, industrial strategy, living standards, regional policy and Brexit.

These analyses are provided by some of our expert researchers and draw on some of our past and current research.

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