**Industrial Policy John Foster**

**Procurement and Supporting Industry**

The legislative framework governing Britain’s industrial policy is currently undergoing radical change. A Subsidies Control Bill was laid before parliament in summer 2021 and, as amended, will become law later this year.[[1]](#endnote-1) A Green Paper on public procurement was issued in March 2021 and a Bill will go before parliament in the autumn.[[2]](#endnote-2) Both will operate, in general, within the terms of the Trade and Competition Agreement (TCA) signed with the EU in December 2020 and the WTO’s Government Procurement Agreement (GPA). This GPA agreement was renegotiated by Britain in 2020 and came into force in January 2021. In terms of current policy interventions, the Chancellor announced in March 2021 a two-year Corporation Tax holiday for larger companies in return for enhanced industrial investment. Over the past six months the prime minister has also launched a series of ‘levelling up’ initiatives costing a further £20 billion. A legislative framework for this new ‘Levelling Up’ programme will be presented in a White Paper in autumn 2021- replacing, it would seem, the 2017 Industrial Strategy that was scrapped earlier this year. Almost all of the new legislation will impact directly or indirectly on industrial policy in Scotland.

This emerging policy framework, partly new, partly embedding pre-existing EU regulations into British law, therefore poses a number of critical questions for Scotland’s trade union and labour movement. The first two questions relate specifically to Scotland.

One is how far the new legislative framework denies the Scottish parliament powers over industrial policy conferred by the 1998 Scottish Parliament Act. Even though EU rules on state aid and competitive tendering largely nullified these powers over the past two decades, such powers remain critical for the future. In the past they would have enabled, if supported politically in Scotland, the rescue of many endangered firms, large and small, and ensured that key industries like steel, electronics and motor manufacturing survived – both through government aid, and if necessary ownership, and also the insistence that major infrastructure projects, like the new Forth road crossing, used Scottish steel or that trains in Scotland were serviced and maintained in Scotland.

The second is how far, if there are new or restored powers of industrial intervention (and there appear at least on paper to be some), the Scottish parliament will have the resources, in terms of income and borrowing powers, to use them. This now looks very doubtful and, as we will see, will not be accidental.

The third is a more general question. It is about the state of the British economy and the *kind* of industrial policy that is now, in a period of intense financialised monopolisation, required to sustain economic development – and, hence, how far the policy interventions so far announced by the Westminster government will match those needs.

1. **The policy perspectives of Johnson and the Westminster government**

We will start with these policy perspectives as outlined by Boris Johnson on 15 July 2021.

In what was a populist and very political speech Johnson committed the government to a range of economic and industrial interventions to ‘level up’ what the prime minister described as the dramatic differences in life chance and wealth across Britain. It sought to dispel any belief that these differences were on a purely north-south basis and therefore that any levelling up should be from ‘south to north’. Disparities existed everywhere. But Johnson did commit the government to a new level of industrial intervention. This covered both immediate actions to support economic development and a commitment to extend local powers with more elected mayors at both city and ‘county’ level. It was predictably made clear that both these immediate interventions would be on private sector terms. There would be no ‘municipal socialism’ or any return to the 1980s-type policies of the Greater London Council. Regeneration would be via the private sector. The job of the new mayors would be to go out and woo the big multinationals.

There was, however, a key additional feature in Johnson’s speech. It was about developing direct partnerships between the Westminster government and local communities. The new town and county mayors, and existing councils and local communities, must directly ‘buy-into’ and help mould the new developments in dialogue with London – by-passing, in Scotland and Wales, devolved administrations. This, it seems, will be the case with the ‘Build Back Better’ scheme that directs £4.8 billion to local authorities for projects designed to create business-attractive environments. It will equally be so with the £5 billion ‘Restart’ for high streets, some university research programmes and other funding streams for regional development previously routed via the European Union.

1. **The investment deficit**

The political objectives are obvious. On the one hand, they are tactical: to sustain support in the ‘Red Wall’ Tory seats in the north without alienating Tory voters in the south. On the other, they are also strategic in terms of Johnson’s populist ideology: to defend the ‘Union’ by building direct governmental links, bypassing Holyrood and Cardiff, with local councils and communities in Scotland and Wales and creating new bonds of economic dependency with ‘British’ level companies.[[3]](#endnote-3)

How far, then, will these interventions match the developmental needs of the British economy and more specifically those of Scotland?

Large sums of public money are involved. The Chancellor’s corporation tax rebate, with an additional 30 percent grant for every pound invested in equipment and R&D, will cost £20 billion over two years. Of the other initiatives so far costed, the ‘ten-point plan’ for a ‘green revolution’ will be funded by £15 billion. Combined, the ‘Build Back Better’ and High Street ‘Restart’ will cost £10 billion. Another £20 billion is earmarked for direct grants to business. This funding presumably includes the grants for electric car battery production at Speke and Tyneside and the carbon storage hubs in the North Sea. The FreePort scheme across England and Wales (only two are actually sited in the North) has not yet been costed but Freeports appear to be mainly based on the removal of controls over planning and employment and the waiving of import-export charges.[[4]](#endnote-4) Additionally, there are a number of smaller funds. The Future Fund Breakthrough has £375m to promote new business projects in life sciences, quantum computing and clean tech. ‘Community ownership’ is allocated £150m. Traineeships get £125m. In all this amounts to around £65 billion over two years.

To what extent, therefore, does this £65 billion measure up to the challenges currently posed for Britain’s economy? Two figures are relevant. The first is the most recent OECD report which shows that over the past two years Britain has seen the biggest fall in capital investment of all developed countries. Between the last quarter of 2019 and the first quarter of 2021 capital expenditure fell by 2 per cent of GDP. In the US it rose by 2 percent. In France and Germany it has remained stable. Redressing a 2 per cent fall GDP equivalent in capital spend would cost around £40 billion; matching the US another £40 billion. The second comparison is for overall spending: that is, the absolute proportion of GDP invested in capital equipment and R&D. Britain’s proportion has for recent years been around 16 per cent of GDP. The OECD average is around 20 per cent. In absolute terms Britain therefore spends about £90B less a year than the average.[[5]](#endnote-5)

The Johnson government’s rhetoric appears to show a realisation of the magnitude of this gap – but its own committed expenditure comes nowhere near to matching it. Its answer would doubtless be that it is not meant to. Its purpose is to lever-in the higher levels of investment needed from the private sector.

Before going on to consider the potential industrial powers of the Scottish parliament, it is therefore important to look at the wider economic outlook for Britain as a whole, why Britain’s investment deficit is, historically, so big and whether, against this background, whether a proportionate buy-in by the private sector is likely.

1. **The outlook for Britain’s internationally weak and financialised economy**

Covid, US global politics and the growing impact of climate change are currently transforming the international environment. Even before the onset of Covid, the UN World Investment Report documented a sharp reversal of the trend to investment in emerging economies, previously the major driver of global growth. Since then there has been a major disruption of global supply chains and financial crises spreading from Brazil to India, across Africa and the Middle East. Apart from China, global recovery is likely to be slow and very uneven.[[6]](#endnote-6)

Britain itself comes out of the crisis with an additional £400 billion of debt, bringing the total to near 100 percent of GDP, the highest peacetime debt to date. Additionally, the unprecedented expansion of credit, combined with global supply constraints, is likely to trigger significant inflationary pressures for the first time this century. For Johnson’s ‘Global Britain’ this is a particularly dangerous combination. Johnson’s central objective, and that of the City, remains that of sustaining London as a global banking hub, one that combines a stable currency with relaxed regulations, higher leverage and higher returns for international wealth holders.[[7]](#endnote-7) Already in the summer of 2021 the Chancellor of the Exchequer and the Bank of England were stressing the urgent need to pay down national debt and cut current expenditure in order to protect sterling.

Whether or not the government does so directly, and whether the Bank increases interest rates, inflation will itself enforce real cuts in both public spending and household consumption.

This will be the context for industrial policy in Britain and Scotland for the coming period and any moves to reverse Britain’s very low and decreasing levels of domestic industrial investment.

Previous editions of the Red Paper have detailed some of the reasons for the very low levels of industrial investment. The 2019 OECD report on industrial investment confirms this analysis in some detail. It attributes the decline to the financialisation of company ownership, a general trend across the advanced capitalist world but one most pronounced in Britain.[[8]](#endnote-8) Dominant blocks of shares in public companies are now typically owned by four or five finance companies that have themselves, in order to maintain their investment streams, to ensure maximum short-term returns to their investors. The result has been an accelerating trend to privilege the payment of dividends, and share buy-backs, over investment.

Over the past two years this financialisation of company ownership has been further heightened by the asset inflation resulting from Covid credit policies in Europe, Britain and the US - accelerating the redistribution of wealth in favour of the very wealthy and further boosting the funds held by wealth managers.[[9]](#endnote-9)

It is against this background that the interventionist industrial policies of the Johnson government have been developed: an understanding that industrial investment will, in Britain, remain critically low unless the state intervenes on a new scale. The big question is whether these new interventionist policies will be sufficient to override the demands imposed by the financial sector.

**Industrial policy in Scotland**

For Scotland three key questions follow:

* what powers the Scottish parliament will have under the new Tory legislation for policies that might allow different priorities, particularly various forms of public sector control and ownership;
* how far the Scottish parliament has the financial ***resources*** to implement such policies;
* and, finally, the feasibility and relevance of alternative platforms for industrial development, particularly those posed the SNP government’s ‘independence in the EU’ and the policies posed by Labour in the last election eighteen months ago.

The current legislative situation is, as we have seen, complicated. Key parts remain undefined. The Subsidy Control Bill will not be finalised before the autumn and legislation governing public procurement six months after that. However, the current drafts seem to indicate that they offer somewhat greater scope for intervention and subsidy than existed under EU regulations – presumably reflecting an understanding at governmental level that such intervention is now necessary for any significant investment-led industrial growth.

In terms of the restoration of policy powers to Scottish and Welsh legislatures, it also seems that these more permissive powers of intervention also apply to the actions of the devolved governments – although the ultimate legal authority, to allow or disallow, rests, under the terms of the Subsidy Control Bill, with the Competition and Markets Authority at British level. Formally, therefore, in terms of ultimate control, the industrial policy powers conferred on Scotland and Wales by the 1998 Acts have not been restored although Westminster will argue that devolved legislatures do have the power to initiate.

In terms of ‘state aid’ the 2021 Subsidy Control Bill would, under Clause 19, enable the Scottish government to ‘rescue’ failing or insolvent companies by providing temporary liquidity to assist restructuring or to provide financial assistance where it is satisfied that the objective is to avoid social hardship, severe market failure or job losses. Clause 20 makes provision for finance to be made available for the ‘credible restructuring’ of SMEs *or* where owners have contributed significant funds. Clause 29 enables the subsidisation of ‘services of public economic interest’ where the public authority is satisfied that the subsidy is ‘delivering required public objectives’.[[10]](#endnote-10)

The Green Paper ‘Transforming Public Procurement’ proposes new policy perspectives that would prioritise ‘levelling up’ and the opening of procurement to small and medium businesses. Acceptable conditions for the award of contracts, by central government, local authorities and devolved administrations, would include ‘social wellbeing’ and contributions to ‘economic, social and environmental outcomes’ as well as creating ‘new businesses, new jobs and new skills in the UK’ and ‘supply diversity, innovation and resilience’.[[11]](#endnote-11) Some greater leeway would therefore appear to exist for the types of policy being pursued under the ‘Preston model’ (or North Ayrshire in Scotland) for rerouting supply contracts to local suppliers as well as taking contracts in-house.[[12]](#endnote-12) However, the shift of emphasis is limited – as Unite stressed in its response, flagging up a number of areas of concern.[[13]](#endnote-13) The terms already agreed by the government under the new 2020 GPA agreement with the WTO will in practice restrict ability to define ‘social value’. Nor do the new Green Paper proposals oblige contractors to give first consideration to locally produced components, such as steel. Nor, finally, do local authorities have any mandatory obligation to give pre-contract consideration to whether in-house provision provides better outcomes – and there no requirements for trade union recognition or collective bargaining.[[14]](#endnote-14)

However, in practice and certainly for the immediate future, a still more powerful constraint will apply. Scottish government budgets will be very sharply constrained by the Treasury’s drive to cut back spending and there will, additionally, be the impact of inflation itself. The borrowing powers of the Scottish government are limited: £450m annually on capital investment and £600m on resource spending. These figures may appear to be relatively large – but not when viewed against the Westminster’s announced spending on industrial policy over the coming year of over £30 billion (of which a Scottish 10 percent would be £3 billion) – or even the very low figure for Scottish business investment itself: £1.4 billion in 2018-2019.[[15]](#endnote-15) Finance as well as policy would militate against significant public sector intervention by the Scottish parliament.[[16]](#endnote-16)

Against this lack of power, particularly in terms of financial resource, we come to the developmental needs of the Scottish economy.

Previous editions of the Red Paper have documented the problems. Business investment in Scotland is low, lower still than that of Britain as whole, and reached its lowest level just before Covid, less than 7 per cent of GDP. Research and development is also lower than the British average, and, unlike English regions, preponderantly dependent on university research rather than industry (and, without the funding stream from Chinese students, that itself would be minimal).[[17]](#endnote-17)

Only a very small number of significant industrial firms, with export potential, remain independent and under local control – rather than owned by external investors. Since the last edition of the Red Paper, the number of such firms has reduced from eight to seven with the loss of Alexander Dennis buses, Scotland’s last significant motor manufacturer. The remaining seven cover timber (2), whisky (2), shipping (1), fishing (1) and publishing (1). Other financially significant firms under independent ownership are all geared to services catering for internal markets: car hire, plant hire, property, construction and, in two cases, finance. All other companies listed among the top 100 by Scottish Business Insider are either subsidiaries of externally owned firms or firms, such as John Wood or Weirs, now dominated by blocks of shares owned by the big finance companies. BlackRock, Capital Group and Invesco are currently the three most active.

**Johnson’s intervention and the political alternatives: some interim conclusions**

Johnson’s strategy seems likely to have some interim success – economically and, probably, politically. At this stage his government appears to have the resources to direct major British companies to undertake investment in Scotland – on infrastructure, defence and on ecologically privileged projects for carbon storage and wind and wave power. But, the future battle to pay down national debt, with priority given to sterling and the City, makes it doubtful whether such state sponsored investment can continue for long. As with the manufacturing branch plants of the 1960s and the electronics companies of the 1980s, rationalisation will then take its toll. In developing self-sustaining regional growth one of the most important factors is the cumulative development of mutually-related technological skills. One-off and relatively short-term investments by external companies, with most key research-staff located elsewhere, will not have this result – particularly when coherent and consistent planning involving coherent co-working between Holyrood and Westminster is unlikely. And while Johnson’s government does talk about community ownership and wealth building, this also in unlikely in circumstances where local government will be under acute financial stress – either as a result of new cuts or as a result of inflation or, as is likely, both.

What, then, of the political alternatives – discussed elsewhere in this report but needing some mention here?

That offered by the SNP, as embodied in the Growth Commission report, looks increasingly far-fetched. A now massively inflated national debt and the loss of the Barnet consequentials would provide minimal scope for government-led investment and leave a domestic economy with little to attract external corporate investors - particularly with a new regulatory barrier covering the 60 percent of exports going south of the border. Even the golden prospect of international banks switching from London to Edinburgh, a key element in the Growth Commission Report, now looks extremely unlikely. Any relocation from London will have already taken place – to Dublin, Amsterdam and Paris. And Scotland would once more be saddled with EU regulations on state aid, procurement and bans on comprehensive public ownership.

So what of the public sector based alternative as outlined by Labour in its 2019 election manifesto – still the basis of current policy and now made much more feasible outside the EU?

The first key element that distinguishes Labour’s industrial plans from those of Johnson concerns the City of London. There would be no automatic prioritisation given to paying down the national debt and defending the value of sterling. This means that there would be correspondingly greater scope for longer-term funding industrial and wider economic regeneration – themselves the key to long-term defence of the currency. The second element would be genuinely democratic and collective participation. Public ownership would be restored across services vital for both communities and industry – gas and electric power, rail, ferry and bus transport, postal services and communications. State shareholdings in key companies (together with trade unions represented on company boards) would provide a safeguard against the short-term extraction of shareholder income. Genuinely community ownership would also be backed financially. All this was pledged in Labour’s 2019 election programme.

1. The initial text of the Bill: https://publications.parliament.uk/pa/bills/cbill/58-02/0135/210135.pdf [↑](#endnote-ref-1)
2. The Green Paper consultation can be found here <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943946/Transforming_public_procurement.pdf>; Unite’s response is available here https://www.politicshome.com/ugc-1/1/4/0/unite\_submission\_to\_the\_cabinet\_offi.pdf [↑](#endnote-ref-2)
3. This political objectives of this ‘centralist’ strategy were clearly laid out in a feature in the *Times,* 29 July 2021, by Iain Martin citing Michael Gove. [↑](#endnote-ref-3)
4. <https://www.instituteforgovernment.org.uk/explainers/trade-freeports-free-zones> (July 2021) [↑](#endnote-ref-4)
5. Comparative figures for the years to 2017 are provided by ONS from OECD statistics to 2017 here <https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/aninternationalcomparisonofgrossfixedcapitalformation/2017-11-02>. Valentina Romei, *Financial Times* 30 September 2020 provides comparative figures to 2019 [↑](#endnote-ref-5)
6. https://unctad.org/webflyer/world-investment-report-2021. [↑](#endnote-ref-6)
7. March 2021 Memorandum of Understanding was analysed by the *Financial Times* for 26 March as safeguarding the privileges of the City of London and the British government to determine its own, potentially more favourable, regulations for attracting overseas investment. [↑](#endnote-ref-7)
8. OECD Report 2019, *Shareholder Value and Industrial Investment*. Andrew Haldane, former Chief Economist at the Bank of England, has repeatedly made these points – most recently in his speech at Bloomberg, reported in *City AM*, 24 February 2020. [↑](#endnote-ref-8)
9. Credit Suisse, Wealth Report, 2021.Feature by Richard Waters, *Financial Times*, 16 July 2021, reports on the returns for the elite top ten percent of venture capital investment companies, patronised by the very wealthy, giving annual rates of between 15 and 20 percent in period where returns on post office savings were zero. [↑](#endnote-ref-9)
10. https://publications.parliament.uk/pa/bills/cbill/58-02/0135/210135.pdf [↑](#endnote-ref-10)
11. Clause 38 in the Green Paper. [↑](#endnote-ref-11)
12. Teis Hansen, ‘The Foundational Economy and Regional Development’, *Regional Studies* online publication 9 July 2021 outlines the developmental potential. [↑](#endnote-ref-12)
13. Unite’s response is available here <https://www.politicshome.com/ugc-1/1/4/0/unite_submission_to_the_cabinet_offi.pdf>. [↑](#endnote-ref-13)
14. https://www.politicshome.com/ugc-1/1/4/0/unite\_submission\_to\_the\_cabinet\_offi.pdf [↑](#endnote-ref-14)
15. https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2020/12/business-enterprise-research-and-development-2019/documents/business-e [↑](#endnote-ref-15)
16. https://fraserofallander.org/fiscal-stimulus-plus-a-note-about-borrowing-powers/ [↑](#endnote-ref-16)
17. Scottish National Statistics Q4 2019 for research and development at 1.63 per cent GDP; Royal Society, Research and Innovation in Scotland with 12,000 research staff in business and 15,000 in HE. https://royalsociety.org/~/media/policy/projects/investing-in-uk-r-and-d/regional/factsheets/research-innovation-scotland.pdf [↑](#endnote-ref-17)