Industrial policy change in Britain’s multi-layered economy: policy innovation in an incomplete institutional and ideational environment

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Abstract: Most critical analysis within political economy of the continuation of the pre-crisis growth model in the UK has focused centrally on macroeconomic conditions, rather than considering the role and status of different sectors before and after the financial crisis. It is vital to consider, however, the various, hierarchically ordered ‘layers’ of growth models, and the extent to which the resurrection of the pre-crisis growth model in Britain is premised to some extent on ‘relayering’, as policy discourse on manufacturing might suggest. The paper therefore seeks to interrogate the character of the coalition and Conservative governments’ approach to industrial policy and the manufacturing sector. It does so through the prism of Peter Hall’s ‘three orders of policy change’, and especially as applied by Andrew Baker in terms of post-crisis change within financial regulation. It shows that we have seen some evidence of ‘third order’ policy change (i.e. paradigm shift) towards manufacturing, as longstanding perceptions of the need to focus on supporting advanced manufacturing in ‘post-industrial’ regions have become more prominent in discourses germane to UK economic policy. Yet the crisis of manufacturing is not akin to the ‘explosive’ financial crisis of 2008, but rather the ‘slow burn’ macro-economic crisis of the 1970s studied by Hall; as such, third-order change should according to this framework have followed earlier processes of policy learning and technocratic modifications. But the path of policy change has followed neither ideal-type, owing, the paper argues, to the subservient status of industrial policy and manufacturing in the British political economy.

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Introduction

The fortunes of British manufacturing have been, at least in public discourse, an important concern for British policy-makers since the 2008 economic crisis, as demonstrated by the ‘rebalancing’ narrative espoused by Conservative politicians (albeit not exclusively) – which seemingly signifies the importance of supporting the manufacturing sector – and Chancellor of the Exchequer George Osborne’s rhetoric around ‘the march of the makers’. The discourse has been matched by a plethora of policy initiatives emanating largely from the Department for Business, Innovation and Skills (led under the coalition government by the Liberal Democrat minister Vince Cable) which suggest new directions in British industrial policy in favour of a stronger role for government, the value of a sectoral as well as horizontal approach to industrial policy and, within this, an awareness of the unique importance of the manufacturing sector to the economy.

This paper essentially seeks to assess the significance of this apparent transformation, through the prism of Peter Hall’s ‘three orders of policy change’ framework, and especially as applied by Andrew Baker in terms of post-crisis change within financial regulation. In explicating the shift, broadly speaking, from Keynesianism to monetarism in Britain in the late 1970s and early 1980s, Hall outlined ‘three orders’ of policy change. Third-order change is largely synonymous with a ‘paradigm shift’, and relates to the ideas and assumptions that underpin key policy priorities or the overall character of economic statecraft. Second-order change is denoted by reform of the instruments and institutional arrangement that enable new policy agendas to be pursued. First-order change refers to the precise setting on new policy instruments in quantitative or numerical terms, which Hall considered a definitive hallmark of the establishment of a new policy framework, and the replacement of an old one. Baker introduces, albeit building upon Hall’s own insights into how crises are translated into policy problems, the notion that there are ‘varieties of economic crisis’ which explain variety in how policy and paradigmatic change unfolds in the wake of economic crisis. Studying change in financial regulation, Baker credits a more explosive crisis in 2008 with a more rapid paradigm shift (that is, third-order change coming first), followed by more uncertain and contested processes of first- and second-order change.

This paper builds upon but challenges Hall’s and Baker’s analysis for three main reasons. Firstly, there is a need for a more sophisticated understanding of the relationship between ideational, discursive and paradigmatic change – a point which echoes well-established criticisms of institutionalism as an analytical framework. Secondly, in assessing post-crisis policy change, Hall and Baker take the institutional framework as given, but some policy areas are more institutionalised than others. Thirdly, the nature of apparent changes in economic policy cannot be adequately understood without recognition of the role played by the associated economic activities within an economy’s model of growth. Crucially, this role will also shape the extent to which a ‘crisis’ within this economic sphere has been recognised by elites. The paper begins by exploring the ‘three orders of policy change’ framework in more depth, before the second section discusses the place of manufacturing within Britain’s multi-layered growth model, and the third discusses the performance of British manufacturing since the 2008 crisis. The final section outlines the main discursive and policy changes related to manufacturing and industrial policy since the crisis.
Policy change, ideas and growth models

This section explores Peter Hall’s (1993) framework for understanding economic policy change, or more precisely Andrew Baker’s (2015) interrogation and adaptation of this framework, in order to develop an understanding of industrial policy change in the UK. Change in industrial policy, it argues, follows a different pattern to that envisaged by Hall or Baker, although there are many clues to why this is the case in Baker’s work. In explicating the shift, broadly speaking, from Keynesianism to monetarism in Britain in the late 1970s and early 1980s, Hall outlined ‘three orders’ of policy change. Third-order change is largely synonymous with a ‘paradigm shift’, and relates to the ideas and assumptions that underpin key policy priorities or the overall character of economic statecraft. Second-order change is denoted by reform of the instruments and institutional arrangement that enable new policy agendas to be pursued. First-order change refers to the precise setting on new policy instruments in quantitative or numerical terms, which Hall considered a definitive hallmark of the establishment of a new policy framework, and the replacement of an old one.

Crucially, Hall inverts conventional wisdom on how a paradigm shift in policy thinking may occur, in that second- and first-order change is seen to precede third-order change; indeed, second-order change may be conceived as policy experimentation, led by policy entrepreneurs responding directly to policy problems as they arise, and enabled by learning from settings exogenous to the immediate policy environment. The emergence of alternative intellectual frameworks in response to perceived crises is of course part of the context within which experimentation, learning and entrepreneurship occurs, but third-order change is only secure once piecemeal and technocratic reforms gain wider political support, leading to the political elite in general reordering the hierarchy of economic policy goals. Baker largely accepts Hall’s analysis of how macroeconomic policy change occurred over this period. But he introduces, albeit building upon Hall’s own insights into how crises are translated into policy problems, the notion that there are ‘varieties of economic crisis’ which explain variety in how policy and paradigmatic change unfolds. In the process Baker appears superficially to defend the conventional wisdom of paradigm change, that is, of new ideas arising from the ingenuity of a single individual or small number of individuals, which gradually pick away at an established order which lingers longer than it should as its intellectual foundations are dismantled. However, as Baker’s account of change in financial regulation following the 2008 financial crisis shows, paradigmatic shifts in policy thinking are only ever inadvertently conventional. In practice, each instance of wholesale change plots its own course, based in large part on the type of crisis the new paradigm is ostensibly designed to address.

Baker therefore contrasts the crisis which preceded radical change in financial regulation with the crisis which preceded radical change in macroeconomic policy. The latter was ‘very much a slow burning long term economic crisis of stagnation’ typified by a persistent lack of growth and rising inflation, and the ineffectiveness of established policy instruments in arresting the problem (Baker 2015, 348-9; emphasis added). As a result, second- and even first-order change was evident from the mid-1970s onwards as the Labour government and the wider policy elite sought solutions to the apparent ineffectiveness of the Keynesian paradigm in controlling inflation, resolving balance of payments problems and mitigating pressure on the currency. The election of Margaret Thatcher in 1979 and the public acknowledgement of the virtues of monetarism sealed third-order change, or even, in fact, constituted third-order change. In contrast, the 2008 financial crisis was ‘dramatic’, ‘explosive’ and ‘extreme’, and related not to a persistently under-performing economy, but rather an exigent ‘malfunction’ in the financial system which, had the state not intervened...
decisively, would have threatened rapid economic collapse (Baker 2015, 348, 353-4; emphasis added). Falling liquidity and asset prices, and severe credit tightening, created both an empirical demonstration of the falsity of the efficient markets paradigm that had hitherto underpinned financial regulation, but also an urgent need for an alternative approach to regulation to be enacted. What quickly emerged was a near-universal endorsement of macroprudential regulation, principally in the form of capital requirements on financial institutions, among economic policy-makers in advanced and emerging capitalist economies, and the key supranational supervisory institutions.

However, although Baker notes that the macroprudential perspective had ‘a prior intellectual presence’ among domestic and international regulators (including within the Bank of England), which helps to explain the speed of its widespread adoption, ‘the sequencing at work in the case of the macroprudential ideational shift was exactly the reverse of that evident in the case of the UK macroeconomic policy in the 1970s’ (Baker 2015, 354, 355). Third-order change came easily, but second- and first-order change has been slow, with long delays in implementation and significant debate over the precise details of the new restrictions on financial institutions. As Baker explained in greater depth in an earlier article, first- and second-order change in financial regulation has become contested and even controversial, which risks diluting policy content and ultimately the redundancy of apparent third-order policy change (Baker 2013). For Baker, the conditions which enabled swift third-order change were also implicated in the sluggishness of implementation. In short, whereas macroeconomic policy is highly politicised, financial regulation is not. Change in policy approach can therefore happen quickly in a depoliticised, technocratic institutional environment in response to crisis but, at the same time, those economic actors that believe they will be penalised by the new policy paradigm are able to contest its prescriptions without incurring a popular backlash.

Clearly, Hall’s framework views ideational change from an institutionalist perspective, the same which underpins his other major contribution to political economy (with David Soskice), that is, the ‘varieties of capitalism’ perspective (Hall and Soskice 2001), focused on explicating the differences between capitalist economies in terms of their institutional arrangements. Hall and Baker’s accounts of policy change therefore depict political life, especially policy-making, as highly institutionalised (with institutional processes politicised to a greater or lesser degree). Of course, in Hall’s three orders of policy change framework, we find an evolutionary dynamic in terms of the ideational foundations of political institutions. New ideas evolve in the day-to-day life of institutional practice, before being disseminated to wider political arenas. This sense of ideational change is arguably missing from the varieties of capitalism framework; as such, varieties of capitalism has been criticised for promoting a form of rational choice institutionalism, with different capitalist varieties each producing policies consistent with the form of equilibrium dictated by their institutional configuration (Clift 2012; Hay 2005). However, arguably the three orders and varieties of capitalism frameworks are entirely consistent; the former refers to ideational instability in a period of time in which economic crisis has disrupted equilibrium, whereas the latter focuses on the pro-equilibrium dynamics of an institutional arrangements under a settled policy paradigm. By examining a case in which third-order change comes first, Baker challenges the generalisability of Hall’s account of ideational evolution. However, he maintains that the institutional arrangements (‘the policy system’) determine how ideational evolution occurs; because the relevant formal institutions were closed off from scrutiny, the passage from third-order to second- and first-order change has been slower and more uncertain.
Further work by Baker on the progress of macroprudential regulation in the UK, with Wesley Widmaier, suggests the importance of extra-institutional ideational processes in policy reform. They argue that a lack of popular legitimacy for macroprudential regulation due to its technocratic nature (more specific than a generic anti-finance sentiment) is an important barrier to its progression towards comprehensive and effective implementation (Baker and Widmaier, 2014). However, this would appear to be a rather reductionist approach towards extra-institutional ideas, depicting them as instrumental only insofar as they proffer legitimacy to institutionalised processes (or not). For Hall, third-order appears as a near-automatic product of successful second- and first-order change. Baker rightly challenges this by looking in greater depth at third-order change as a pre-requisite for further change in a different economic environment. But surely the most reasonable conclusion is not that third-order change has failed to lead to second- and first-order change, but rather to broaden our understanding of third-order change to include a wider array of ideational and discursive phenomena, which might suggest that third-order change following the financial crisis was actually incomplete. Arguably, this broader understanding would be more consistent with Hall’s understanding of third-order change, as a paradigmatic shift, even though he attributes little explanatory weight to this shift.

Our most immediate priority in this regard would be to integrate into analysis of third-order change the possibility that popular and political discourse (and the various means by which this can be interpreted analytically) is as instrumental in policy change as the specific, policy-focused ideational frameworks maintained by the inhabitants of formal political institutions. This is not to deny the importance of institutions in mediating processes of ideational change, but rather to highlight limitations in any empirical ideational analysis which focuses solely on institutions. Indeed, Baker’s analysis of macroprudential regulatory change includes as an aside a short outline of how macroeconomic policy has not changed since the financial crisis, by way of updating (and largely vindicating) Hall’s empirical work on macroeconomic responses to the stagnation of the 1970s. However, he overlooks the rather obvious possibility that it is precisely because wider public and political discourse has focused on one half of conventional macroeconomic policy (that is, fiscal policy) as the source of the policy failure which caused the 2008 crisis, that it has been difficult to generate popular legitimacy for radical change within financial regulation. Indeed, it is also the reason that the most radical policy responses to the crisis in the UK (in the other half of macroeconomic policy, that is, monetary policy) have attracted such little scrutiny (Berry 2016). Discursive redirection (or misdirection) helps to explain the incompleteness of third-order change in financial regulation, and thus the lethargy of second- and first-order change.

It is also necessary to introduce a further contextual variable. It would be beneficial to analysis of economic policy change to acknowledge the centrality (or otherwise) of the economic activities to which policy pertains within the model of economic growth being pursued. (It is of course not necessary to adopt the terminology of ‘growth model’ in this regard, although this conceptualisation has become fairly widespread within the field of political economy in Britain, and is adopted here to represent the main sources of growth within the national economy – especially insofar as they are distinguishable from other capitalist economies – and the orientation of political and economic institutions configured to enable the associated economic activities.) This variable overlaps to some extent with the variable introduced by Baker in terms of the variety of crisis, distinguishing principally between stagnation in growth and/or productivity, and a financial crisis. We need not be overly concerned with the obvious points that one type of crises may precede or even cause another – what is important here is how the way that political institutions are confronted by
different types of crises shapes the kind of responses that follow. As such, although it may be perfectly sensible to refer to crisis, whether slow burning or dramatic (or both), in certain areas of economic life, and indeed to identify acknowledgement of crisis among some parts of the policy community and/or media, the importance of the relevant activities to the growth model will determine how seriously the apparent crisis is taken by the inhabitants of political institutions, and indeed whether an effective institutional architecture even exists. This would have been an unremarkable variable to apply to the case assessed by either Hall or Baker, given the obvious importance of overall growth, productivity and inflation (and therefore macroeconomic policy) and finance (and therefore financial regulation) to any capitalist economy, and particularly, in the latter case, to Britain in the early twenty-first century.

There are therefore several implications for the goal of assessing industrial policy change using Hall’s framework, or that adapted by Baker. Firstly, the nature and density of the institutional framework around industrial policy must be determined. Secondly, the nature and significance of the crisis in the economic activities to which industrial policy pertains (primarily the manufacturing sector, but perhaps production more generally) must be determined. The first and second implications would probably not compel us to stray significantly beyond Hall’s framework, in the sense that they create analytical objectives which are not inconsistent with institutionalism. Thirdly, however, there is a need to consider the various tempos of ideational change that might broadly be considered as an element of third-order change. In particular, how should we understand the significance of discursive change in the absence of alternative policy ideas? We must also consider, fourthly, the role that industrial policy plays in the maintenance of the national growth model. Clearly, the third and fourth implications take us away from a narrow focus on institutional processes – not so far away that institutionalism should be eschewed, but far enough to recognise its limitations in accounting for post-crisis policy reform.

Manufacturing and the British political economy

This section seeks to locate the manufacturing sector and its adjacent policy framework within the British political economy. As David Coates (2015) explains, industrial policy can be defined either narrowly or broadly. A narrow definition would understand it as focused on the manufacturing sector; that is, ‘the economic health of companies that make things’. Yet ‘industry’ and manufacturing are not synonymous; as such, a broader definition would understand industrial policy as focused on ‘the health of any firm that employs local sources of labour’ (Coates 2015: 42). The simplest analytical manoeuvre at this stage would be to acknowledge the possibility of industrial policy that is not concerned only with manufacturing, but declare that this paper is interested primarily in forms of industrial policy which do pertain exclusively to manufacturing. But there would be several problems with such a move. Firstly, it is not desirable to rigidly delineate manufacturing or policy focused on manufacturing. Secondly, the decision to adopt either the narrow or broader definition of industrial policy is a normative one; arguably, the broader definition serves to delegitimise the notion that manufacturing should be the core focus of industrial policy. Thirdly, we have to recognise why manufacturing has seemingly been singled out for special treatment in some industrial policy traditions. Manufacturing is, by definition, the application of technology to natural resources (a bounding that statistical typologies of sectors does not capture adequately). As such, the sector has always functioned as capitalism’s ‘learning centre’ (Chang, 2014: 258). As the industrial progenitor of technological development, manufacturing is the key to improving productivity. Moreover, and reinforcing the first point, the material technologies that other sectors rely upon must also be ‘manufactured’, one way
Accordingly, it is certainly necessary to recognise the centrality of manufacturing to most industrial policy forms, by way recognising the importance of manufacturing to capitalist development. To acknowledge that Britain might define industrial policy as broader in scope than supporting manufacturers is to acknowledge at the same time that the role of industrial policy within British economic policy traditions is paradoxically restrictive in scope, in that it signifies the reluctance of the state to intervene in how private economic actors may seek to improve productivity. Despite a brief period of industrial policy ‘activism’ in the 1970s, industrial policy interventions are ‘horizontal’ in nature, that is, focused on improving the general business environment, rather than on supporting particular firms, industries or technologies. They generally take the form of ‘soft’ support, such as advice services, gateway services and the dissemination of best practice. Britain has traditionally favoured tax credits and weighted public sector procurement practices to direct subsidies for private enterprise (Buigues & Sekkat, 2009; Coates, 2015; Skidelsky, 2013).

In fact, industrial policy has often essentially taken the form of regional policy – an orientation that intensified in the 1990s and especially after the election of the Labour government in 1997. However, while through regional policy mechanisms parts of the state appeared to take on a more interventionist pose, this was often a defensive move in support of regions undergoing hardship associated with deindustrialisation, and often took the form of subsidising investment by foreign corporations. Most often, the regional layer simply replicated the horizontal approach of national government, and indeed probably reinforced it; by encouraging all regions to pursue similar economic objectives, often in competition with each other and paradoxically with little sense that strategies were genuinely ‘place-based’, central government continuing to forgo its capacity to establish a strategic direction in British industrial policy (Bailey and Driffield, 2007; Bailey, Hildreth and De Propris, 2015; Buigues & Sekkat, 2009). Certainly, there is little sense that Britain has in the recent past used regional policy as a way of enabling the regions with a greater concentration of manufacturing within their economies to support manufacturing industries, but rather to, at most, nurture alternative sources of employment.

Although it probably goes without saying, the weakness of British industrial policy is not explained by the British manufacturing sector’s ability to thrive without substantive government support. As explored further in the next section, Britain’s manufacturing sector is now smaller than most (if not all) comparable countries, significantly so in some cases, having been in relative decline for at least several decades. It suffices to conclude, for the moment, that maintaining a strong manufacturing base is not a particularly important objective for the British polity, and has not been for a considerable period of time (although this does not mean that policy-makers are entirely indifferent to this objective, or that straightforward solutions exist). This has been recognised to some extent in the literature around the ‘Anglo-liberal’ growth model that has emerged in the wake of the failure of this model (Crouch 2009; Hay 2011, Hay 2013, Berry and Hay 2016). However, the weakness of manufacturing in the pre-crisis British growth model is explicated in these accounts primarily by way of demonstrating the centrality of the financial sector within the model. The focus on finance is the exception that proves the rule in terms of this literature’s focus on distinct sectors within the British economy; for the most part, it focuses on macro-economic pathologies related to private debt, earnings, investment, and consumer spending, and to some extent productivity and the balance of payments (for the latter two issues, the link to manufacturing weakness is rather obvious and should have received greater attention in this
It may be helpful therefore to consider whether growth models may encompass different ‘layers’ of economic activity. Analysis by the Centre for Research on Socio-Cultural Change (CRESC) on the ‘foundational economy’ in relation to industrial policy is also instructive for our purposes here (see Bentham et al. 2013). The CRESC researchers argue that a recategorisation of capitalist economies is required to recognise the economic value of activities that are not (or should not be) profitable in any conventional way, but which nevertheless form a crucial context in which higher productivity and higher profit activities, including manufacturing, can succeed. They estimate that the foundational economy employs around 40 per cent of the workforce in Britain. However, it is clear that their central argument is that the foundational layer should be recognised as intrinsic to any capitalist economy, and supported as such by policy-makers. This does not mean that this is the case, currently, within the British growth model. As such, the CRESC researchers offer a normative approach to economic layering which, although valuable for considering how to transform British industrial policy, arguably marginalises the notion that the economy is already layered. The foundational economy framework also marginalises the spatial dimension of economic layers. This is a characteristic it shares with the Anglo-liberal growth model literature which, while recognising significant and persistent inequalities between Britain’s constituent regions, has not offered a sustained focus on how different localities interact economically within the national economy (with the partial exception, again, of identifying the finance sector’s relative neglect of industries concentrated outside London and the South East).

The spatial dimension of economic layering alerts us to the contribution of economic geographers to political economy. As such, one of the most important critiques of the institutionalist epistemology of Hall and Soskice’s varieties of capitalism framework came from economic geographers Jamie Peck and Nik Theodore (2007), whose ‘variegated capitalism’ framework emphasised the importance of uneven development (albeit with spatial unevenness characterised by ‘common underlying tendencies of capitalist restructuring’), and contingency brought about by dynamic interactions between local economic spaces across national borders. Peck and Theodore are right to challenge the methodological nationalism of institutionalism, but probably too hasty in marginalising the real-world influence of nation-states on local economies and how they interact, and indeed in helping to shape how the delineation of different local and regional spaces is institutionalised through social and political practice (Passi 1986, 1991, 2013; MacLeod & Jones, 2001; Jones & Paasi, 2015). Economic geographer Ron Martin (2015) recently challenged the broadly defined field of regional studies to establish more encompassing explanations for how variations in sub-national regional development are produced by systemic characteristics (while avoiding the crude parsimony of the new spatial economics). In doing so, he indicated again his support for the ‘developmental’ turn in evolutionary economic geography (Martin and Sunley 2014).

Calvin Jones (2015) has taken up Martin’s call directly, arguing that regional economies within a national economy are not equivalent to ‘small nations’, competing on equal terms for resources, albeit with variable growth outcomes. Instead, Jones points to the ossification of regional ‘hierarchies’ within the British economy based on the concentration of different forms of capital (albeit which are mutually reinforcing), with particular reference to industrial production, distinguishing broadly between the centre (London, which hosts the political and financial elite), its hinterland (the South East and most of the East and South West, providing living and leisure space for the London workforce, as well as key defence and R&D activities), industrial regions (the North West, the Midlands and parts of Yorkshire and the
Humber), and the resource periphery (the North East, Wales, Northern Ireland and parts of Yorkshire and the Humber). (Scotland does not fit easily into this layering, given the relative autonomy and diversity of its economy.) and is instead designated by Jones a ‘contested territory’. From first to last, these geographical layers have lower GVA per head of population. Interestingly, Jones has suggested that his analysis is broader than one that is applicable solely to a national economy, advocating a ‘world systems’ approach, thereby initiating the conversation between development studies and regional studies advocated above.

Of course, Jones is most concerned with explicating Britain’s economic geography, rather than its growth model. From a political economy perspective, it is necessary to consider whether different sectors form distinct, hierarchically ordered layers, insofar as they contribute less to the core sources of growth within the economy and/or are supported as such by the policy elite. However, it would be wrong to assume that sectors can be easily distinguished from one another in these terms. The insight of regional studies and economic geography that economic organisation is inherently spatially differentiated has to be taken into account – manufacturing in Berkshire is not necessarily the same thing as manufacturing in Teesside, and indeed policy-makers may approach the same types of activities in different regional economies quite differently. Moreover, we would clearly also need to exercise caution about the delineation of sectors usually applied to the British economy (while noting the way that such categories structure the collection and reporting of data about the economic activities contained within these sectors). In short, some manufacturing processes may be more, or less, important than others within the growth model and, especially when aligned with spatial hierarchies, may justifiably be considered to belong to different layers.

We need not adjudicate decisively here on where manufacturing or its constituent activities might be located within Britain’s multi-layered growth model. It suffices to note that, given evidence of the decline of the British manufacturing sector (discussed further in the next section), the relatively limited importance of industrial policy focused on manufacturing to policy-makers, and the concentration of manufacturing in large parts of poorer and more peripheral regional economies in the North, the Midlands and Wales, the sector plays a subservient role with the layered political and economic functions of the growth model. But we cannot assume that such hierarchies are fixed. The notion of layering helps us to understand why a crisis in manufacturing might elicit a different set of policy responses than those assessed by Hall and Baker, yet at the same time, it is sensible to inquire into the possibility of ‘relayering’ in the wake of a (perceived) crisis in the growth model more generally. After the next section discusses the performance of British manufacturing industries in relation to the 2008 crisis, the third and fourth sections focus on post-crisis policy responses which appear to impinge on the geographical and sectoral hierarchies within the British economy.

Manufacturing performance and the financial crisis

This section briefly considers the scale and nature of the crisis in British manufacturing. It is clear that far from being resurrected following the failure of a finance-led growth model, the manufacturing sector now constitutes a smaller part of the British economy than before the 2008 crisis. In 2007, manufacturing accounted for 11 per cent of gross value added in the British economy, but in 2015 this had fallen to below 10 per cent.¹ The proportion had been

¹ Author calculations based on Office for National Statistics’ data, available at www.ons.gov.uk.
11 per cent in 2014, compared to 23 per cent in Germany, 13 per cent in Spain, 15 per cent in Italy, 11 per cent in France, 12 per cent in the United States (in 2013), and 19 per cent in Japan (in 2013).\(^2\) Output in the manufacturing sector remains more than 6 per cent below its pre-crisis peak in 2007, and more than 300,000 jobs have been lost in the sector over the same period.\(^3\) Of course, British manufacturing has been in relative decline for a very long period of time. The UK’s share of world manufacturing output had been 23 per cent in 1880, but in 2013 was only 3 per cent – falling rapidly in the early part of the twentieth century, but then steadily ever since (English & Kenny, 2000: 280; House of Commons Library, 2015). In terms of its share of output within the British economy, the manufacturing sector has fallen from 30 per cent in 1980, to 19 per cent in 1990, 16 per cent in 2000 and, as noted above, below 10 per cent in 2015. The number of jobs in British manufacturing has fallen spectacularly over this period: 1.1 million jobs were lost in the 1980s, 1 million in the 1990s, and 1.3 million in the 2000s.\(^4\) As such, although we have not seen a ‘rebalancing’ of the economy towards manufacturing since the financial crisis, the rate of decline is not significantly more rapid than the trend which has been evident for many decades, if not centuries.

It is necessary however to consider that the feted rebalancing between finance (or services) and manufacturing will be signalled by change in the composition, as well as size, of the manufacturing sector. Essentially, so the story goes, Britain is moving towards higher-tech manufacturing (which would probably involve a smaller manufacturing workforce, other things being equal). Indeed, while Britain has lost many low-skilled manufacturing jobs to developing countries in the post-war era, it has also lost many high-skilled jobs to OECD rivals (Pilat et al., 2006). So, while overall output remains relatively low, is there evidence of a shift (back) towards higher-tech manufacturing industries which may precipitate a revival over the long term? Of course, classifying an industry as high-tech with precision is difficult, and made more so by the tendency of government bodies to adopt industrial classifications different to those by which manufacturing data is routinely reported. However, it is possible to say that, of the five key medium-to-high technology manufacturing industries – chemicals and chemical products; coke and refined petroleum products; pharmaceuticals; transport equipment; and computers, electronic and optical products – only one (transport equipment, which includes motor vehicles) has seen a rise in output since the financial crisis. All of the others have seen a significant decline in output, including a 29 per cent reduction in pharmaceuticals, and a 15 per cent reduction in computer, electronic and optical products (although the possibility that there has been a shift within these industries to higher-tech activities cannot be fully discounted). Even the recent success of UK car manufacturing can be questioned. New production largely consists of Japanese-owned firms increasing production in the UK, with a high proportion of components being imported (Berry, 2014).

What kind of crisis, if any, can be said to exist within British manufacturing? It is clearly not the explosive crisis of 2008 studied by Baker, characterised by a financial crisis. But does this mean it is akin to the ‘slow burn’ crisis (as explained by Baker) of sluggish productivity and growth studied by Hall? If so, it would have to be conceived of as incredibly slow-burning, to the point whereby the decline of manufacturing has been treated by policy elites not as a problem to be solved, but as a fact to be accommodated – or indeed celebrated, insofar as manufacturing decline might be considered the flipside of other, more welcome economic trends. At the same time, policy-makers have recently adopted, to some extent, the

\(^3\) See note 1.
\(^4\) Ibid.
vocabulary of crisis in relation to manufacturing, treating its very long-running decline as having passed a critical point before the financial crisis, in a way that has jeopardised (or unbalanced) the British economy more generally. Determining the nature of the crisis clearly matters if the three orders of policy change framework is to be used to help us understand recent changes in British industrial policy. A slow burn crisis would be expected to have produced a series of technocratic responses which may coalesce into a paradigm shift once implemented, enabling an emerging policy framework to attain a higher status in the ordering of policy priorities. An explosive crisis would be expected to precede an intellectual awakening among elites, with actual policy instruments negotiated subsequently, sometimes in a conflictual manner, within policy-making institutions.

**The march of the makers**

This section considers evidence of actual change in British industrial policy, and how change (whether genuine or not) is justified. There is clearly evidence of an intellectual awakening among policy elites, with the unbalanced nature of the British economy deemed part of the contextual context for the 2008 crisis. Yet the argument here is that, despite this apparent paradigm shift, there has been remarkably little struggle over the levers and instruments of a new, manufacturing-centred approach to industrial policy. There has been more elite-level noise about manufacturing since the financial crisis, but its core characteristics appear paradoxically to replicate those of the relative silence on manufacturing before the crisis, which persisted despite the sector’s long-running decline.

The coalition government’s initiatives in the area of industrial policy have received relatively little scholarly attention – but this does not mean they have been insignificant in terms of assessing the coalition’s governing agenda. In fact, Martin Craig’s analysis of post-2008 changes of industrial changes in Britain ponders whether ‘[w]hile not indicative of a ‘paradigm shift’, these changes signal the presence of ideas among policymakers administering industrial policy that are in tension with the neoliberal coordinative discourse drawn upon by those administering macro-economic policy. Consequently, there are grounds to suggest that a process of ideational change is occurring in the post-2008 context that is both more substantial and more nuanced than has hitherto been claimed’ (Craig, 2015: 109).

It is, essentially, what the coalition’s policy agenda signifies about the economic role of the state that leads Craig to suggest that a substantive shift in British industrial policy might have occurred. However, in an earlier working paper, researchers from CRESC expressed a greater degree of scepticism about the novelty of coalition efforts in the area. They describe coalition industrial policy as a ‘bolt on’: a set of ‘auxiliary policies’ bolted on to the mainstream agenda which ‘leave[s] the fundamental framework unchallenged and (partly for that reason) are likely to fail because they leave conjunctural problems ill-defined and alternative possibilities unexplored’ (Bowman et al, 2015: 61). The truth probably lies somewhere between the two positions: Craig’s primary interest in discourse leads him to over-state the significance of the policy changes championed by coalition figures, yet CRESC’s radical alternative vision for British industrial policy leads them to set the bar too high in terms of identifying transformation in existing approaches.

The notion of ‘rebalancing’ the economy has become one of the defining motifs of the coalition and Conservative governments since 2010, and an apparent imbalance between different sectors (often identified explicitly as finance and manufacturing) has been one of the defining characteristics of this discourse. On the day the coalition was formed, Prime
Minister David Cameron (2010) remarked that ‘our economy has become more and more unbalanced, with our fortunes hitched to a few industries in one corner of the country, while we let other sectors like manufacturing slide’. In his 2011 budget speech, Chancellor of the Exchequer George Osborne argued that ‘manufacturing is crucial to the rebalancing of our economy’; the finale of his speech added oratorical flair to this statement, and indeed has entered British political folklore (explaining the title of this section):

We want the words ‘made in Britain’, ‘created in Britain’, ‘invented in Britain’ to drive our nation forward. A Britain carried aloft by the march of the makers. That is how we will create jobs and support families. We have put fuel into the tank of the British economy. And I commend this Budget to the House.

The budget also marked the publication of the coalition’s ‘plan for growth’. The document’s foreword – co-authored by Osborne and Business Secretary Vince Cable, a Liberal Democrat minister – offers a quite remarkable critique of Britain’s pre-crisis growth model, based as it was on ‘rising levels of debt, over-leveraged banks and an unsustainable property boom’. The foreword also bemoans a severe decline in manufacturing output and employment, and points longingly towards the success of Germany in developing a high-tech manufacturing base and maintaining its share of world exports (HM Treasury & BIS, 2011).

Do these discursive manoeuvres represent a paradigm shift? They certainly appear to represent, at face value, a trenchant departure from previous discursive practices around industrial policy. Yet as I have argued elsewhere (with Colin Hay), the discourse around ‘rebalancing’ has several distinctly, small-c conservative connotations. Above all, the notion of rebalancing suggests that there once was balance, that is, a natural economic balance that it is possible, in theory, to rediscover. In terms of sectors, the narrative appears to suggest that all of the component parts of the economic model are legitimate, and capable of functioning effectively, but also that they have simply become disordered. Accordingly, state intervention is limited to encouraging, levering or cajoling sectors closer or further away from the economy’s fulcrum so that a natural balance can be restored (Berry & Hay, 2014). Of course, this does not, logically, mean that some radical shifts in specific policy areas are impossible, even if the overall economic policy agenda is largely a continuation of pre-crisis practice. However, it is not entirely clear exactly which paradigm is being shifted. There appear to be two (overlapping) possibilities; it may be that manufacturing is being recognised as a particularly (or uniquely) important sector upon which to focus industrial policy initiatives or, alternatively, it may be that industrial policy itself needs to change, chiefly through a more substantive role for state intervention.

As Craig recognises, the apparent shift in British industrial policy starts immediately after the 2008 crisis (if not slightly earlier). Indeed, rebalancing discourse was employed by Labour in government before 2010, most notably in the Pre-Budget Report (now known as the Autumn Statement) published in 2009. The document contains several references to rebalancing, and although not using the specific term, then Chancellor of the Exchequer Alistair Darling said:

[G]rowth will come from more varied sources and not depend as much on the financial sector which will, of course, remain an important part of our economy. Growth will be driven by fresh opportunities to export as the global economy expands and by investment by business in the key industries of the future (Darling, 2009b).
This echoed his remarks from earlier that year, when the 2009 Budget was published:

In future, the sources of our growth will be more varied – and we need to ensure we play to our country’s strengths. It will increasingly come from an expansion in investment by businesses in the industries of the future, such as low-carbon, advanced manufacturing and communications. These industries, together, are as important to the British economy as the financial services sector… Growth will also be driven by the opportunities to export as the global economy doubles in size in the next two decades (Darling, 2009a).

In early 2010, Peter Mandelson (who had been surprisingly restored to the Cabinet, as Business Secretary, by Gordon Brown) said:

And let me say this quite bluntly: for the past decade, we have allowed ourselves to become over-dependent on the City and financial services for growth and our tax revenues. That is why, without wishing the financial sector to be smaller, we need other industrial strengths and sources of revenue to grow faster (Mandelson, 2010).

The resurfacing of Peter Mandelson – also made de facto Deputy Prime Minister when appointed First Secretary of State – coincided with the creation of the Department for Business, Innovation and Skills (BIS), with its previous incarnation the Department of Trade and Industry (DTI) having been split into the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DIUS) in 2007. The new department published the flagship statement of Labour’s post-crisis industrial policy – New Industry, New Jobs – in April 2009. Many of the policies that the coalition would go on to champion as their own were born during this period, including greater venture capital investment through the Technology Strategy Board (which has been established in 2007), more investment in skills, and initiatives to improve access to finance for some SMEs, efforts to introduce a more strategic approach to government procurement (with, again, a focus on SMEs). New Industry, New Jobs explained that the two key flaws of British industry were low R&D spending, and a lack of success in translating scientific expertise into commercial products.

Interestingly, manufacturing features relatively little in New Industry, New Jobs, although it did coincide with the announcement of some new funding for advanced manufacturing research centres. It is also worth noting that BERR and DIUS had teamed up in September 2008 to announce a new ‘manufacturing strategy’, although the accompanying document focused on celebrating what Labour had already done in government rather than advocating a new approach (BERR & DIUS, 2008). New Industry, New Jobs appears to have been the product of a government confronting the parameters of its ideological perspective in seeking to justify a new role for the state, albeit one aligned to its avowed, pre-crisis distrust of the state. It equates industrial policy with an ‘active strategy’ to combat financial crisis, and suggests that ‘[w]e need to start seeing industrial policy and our competitive strengths in a wider, strategic way. What Government does – or does not do – when it taxes, regulates, buys goods and services and act in any of a range of ways shapes the conditions which British businesses and their employees develop and capitalise on their competitive strengths. This means making Britain’s economic and industrial strength the remit of not just the Department for Business, but of all Government departments’ (BIS, 2009: 5; emphasis original). What is
most revealing, however, is how keen Brown’s Labour government were to stress that they were not reverting to a mythical ‘Old Labour’ view of the state:

It is important to stress that the last thing the Government wants to do is revive old theories or to invent a new ideology in managing the economy. This is not about Government seeking to override market forces or ignore market signals… The Government’s essential view remains that this balance requires markets where possible, complemented by state action where necessary. However the way the Government sees its own role in the market needs to change in order to deliver a more coherent and effective approach (BIS, 2009: 21).

The ‘new activism’ is ‘pragmatic but not dismissive about the way markets work…. What the approach defined here does not involve is national ownership of industry, the picking of national winners, the revision of European state aid rules or the erection of trade barriers. It does not involve distorting resource allocation in an inefficient way or displacing creative private enterprise. It recognises that while a role for Government in working with the private sector to build our competitive future is necessary, that role also has important limits (BIS, 2009: 33-4).

The timidity of its policy programme might suggest that Labour need not have worried about being mistaken for Bennites – yet its weary insistence on being seen as pragmatic rather than ideological speaks to the historical context in which Brown, Mandelson and co. captured power within the party. One fascinating possibility is that the Conservative Party in government has been relatively free to enhance the state’s industrial policy role without fear of being accused of ideological backwardness. This does not necessarily mean that it has used this freedom in any expansive way, but it is nevertheless interesting that the party does not appear to have been particularly worried about the implication for its laissez-faire image of maintaining, and expanding, the industrial policies initiated by Labour after 2008.

Despite the Osborne/Cable rhetoric, and policy activism in this area, it is probably fair to conclude that manufacturing and industrial policy played a relatively restricted role within the coalition’s growth plan. In *The Plan for Growth*, arguments that might support a more interventionist industrial policy ran alongside support for fiscal conservatism, lower taxes and deregulation, and flexible labour markets (albeit with a higher-skilled workforce). Increasing investment and exports is stated as one of four main ambitions, yet attracting FDI is listed as the main specific goal in this regard. Previewing the approach devolution that would become more prominent under the Conservative majority government (as discussed below), the document explains regional inequalities within Britain with reference to the extent to which different areas are integrated into the global economy, and argues that ‘all places must be empowered to find and secure the growth that is required to build a sustainable and prosperous future’ (HM Treasury & BIS, 2011: 28).

There are elements of both horizontal and sectoral policies in coalition industrial policy (notwithstanding uncertainty over what ‘counts’ as industrial policy). Access to finance has been an important objective, including loan guarantees that could amount to around £2 billion. Funding for Lending – described by Larry Elliott (2015) ‘perhaps the single most important initiative taken by the government in the last parliament’, but only because it was originally used for mortgage lending as well as small business lending – allowed banks to lend cheaply from the Bank of England to incentivise lending to SMEs. The British Business Bank enabled
a more director form of lending to SMEs, albeit with funds of only around £1.5 billion. Other horizontal measures include efforts to focus government procurement on SMEs, some additional funding for apprentices, and the creation of enterprise zones offering tax and planning concessions (and superfast broadband) for companies relocating to these areas. It is certainly the case, however, that the coalition government was comfortable in its public discourse with endorsing also a sectoral approach to manufacturing, with the emphasis in its 2012 industrial strategy on eleven key sectors as the focus of government action. Many of the sectors constitute or encompass manufacturing industries, or industries which might feed directly into manufacturing (aerospace, automobiles, life sciences, nuclear, offshore wind) but also include many less directly relevant to industrial production (agricultural technologies, construction, information economy, international education, oil and gas, professional and business services). Supporting advanced manufacturing, in general, was singled out in The Plan for Growth as an important industrial policy priority. This is borne out by some of the sectoral strategies, but also in the creation of the Advanced Manufacturing Supply Chain Initiative (at a cost of around £240 million) and, more specifically, catapult centres – most of which have some connection to high-tech manufacturing industries – where firms and universities can collaborate on R&D and access common, publicly-funded resources (the centres are expect to attract private funding in the medium-term). The coalition also consistently expanded tax allowances related to capital investment, which primarily benefit manufacturers. Finally, it is worth noting the Regional Growth Fund (which has invested £2.7 billion since 2010), designed to offer seed investment to projects able to attract private investment in areas most affected by public sector employment cuts.

There is an important sleight of hand at work, however, in the coalition’s apparent (and partial) move towards sectoral industrial policy. The government’s emphasis was largely on what stakeholders within these sectors could achieve through additional government support – rather than reorienting industrial policy in general towards promoting these sectors. In ‘sector analysis’ published by BIS in 2012, the department stressed that ‘[h]orizontal policies, such as setting the legal and regulatory frameworks in which businesses across the economy operate, form the bedrock of industrial strategy’, but added ‘[w]ithin this framework, it is crucial to take into account sector-specific effects’ (BIS, 2012: 7). Crucially, the focus on sectors is justified almost entirely in terms of the government’s support for the overall business environment. BIS argues that industrial policy carries a high risk of policy failure, and so a focus on sectors can provide the government was more specific information about conditions within the economy. The department also notes that firms’ tendency to group themselves into sectors for lobbying purposes means a sectoral approach makes it easier for government and business to talk to each other. The analysis does concede that some sectors may have specific contributions to make to a national economic strategy, but the only example it offers in this regard is the importance of construction to efforts to combat climate change. It also concedes that some sectors have a higher risk of innovation failure than others – therefore circumscribing quite carefully the grounds upon which government may intervene in particular sectors to correct market failures.

There was clearly an appetite, however, among BIS ministers to have gone much further. In a 2011 speech, Vince Cable proselytised the importance of manufacturing:

One of the first decisions I took was to put manufacturing at the centre of our long term economic vision… Manufacturing contributes disproportionately to overall levels of productivity as well as generating half the UK’s exports of goods; and is responsible for much of the business R&D in this country and the innovation
which drives growth. So providing the right framework of incentives and support will have a material effect on future rates of growth.

He maintains that ‘picking winners’ is illusory, but argues that nevertheless government has a ‘legitimate and necessary’ role in supporting manufacturing innovation. Crucially, he argues that R&D in some high-tech manufacturing industries is not only ‘risky’ (an argument which correlates with the overall coalition position), but also ‘simply too complex or resource intensive for an individual company to make the necessary investment’. Cable offers therefore a more strident critique of private sector efficiency than most of his coalition partners. In a remarkable open letter to David Cameron and Deputy Prime Minister Nick Clegg (Cable’s party leader) in 2012, he argued that:

there is still something important missing [in the government’s industrial strategy] – a compelling vision of where country is heading beyond sorting out the fiscal mess; and a clear and confident message about how we will earn our living in the future… Market forces are insufficient for creating the long term industrial capacities we need.

He continued that ‘our actions, frankly, are rather piecemeal.’ This line of argument underpinned the Government Office for Science’s (GOS; a BIS agency) project into the future of manufacturing which, in positioning itself as independent of government, made recommendations to ‘substantially increase’ funding for the high-value manufacturing catapult centre, as well as, intriguingly, ‘adapt and build innovative new institutional capacity for the future’ (Foresight, 2013). It is not clear whether the project leaders were referring here to capacity within BIS or Whitehall in general, although Cable took up this theme after leaving office, blaming the Treasury for perennially ‘undermining or abandoning productive, long term government interventions (in a letter co-authored with Labour’s former business spokesperson Chuka Umunna) (Cable & Umunna, 2015).

David Willets – Conservative MP and science minister for most of the life of the coalition – generally agreed with Cable’s stance, although he rarely, if ever, criticised government policy in public. In a 2012 speech, however, he appeared to offer a stronger endorsement of a sectoral approach to industrial policy than BIS officials, arguing that ‘[g]overnments find themselves making decisions about allocation of resources and we should not pretend that we do not. The coalition’s pledges on rebalancing the economy depend on such a view’. Interestingly, in the ‘sector analysis’ noted above, BIS also justified a focus on the aerospace and automotive industries in particular by saying ‘[b]oth industries also have very important local economy and rebalancing effects’ (BIS, 2012: 32). The idea that the economy should be balanced between different regions and sectors actually features very little in policy or analytical documents produced by BIS in recent years. The inclusion of this argument therefore contradicts the project’s emphasis on industrial policy being employed to maximise the national growth rate (indeed, the point about rebalancing was preceded by the caveat that ‘McKinsey have argued that the competitiveness of sectors matters more than the sector mix in producing growth’ (BIS, 2012: 7)). Is the paradoxical reference to rebalancing therefore evidence of an ideological struggle within the post-crisis policy elite between advocates of traditional industrial policy approaches, and those more eager to promote particular sectors? Although such struggle clearly existed within the coalition to some extent, the reference here is probably testament to the insubstantial nature of the rebalancing concept in this regard.

By 2014, it is clear that Osborne had shifted decisively away from the idea of an activist
industrial policy, or at least any position that might constitute a paradigm shift. His speeches began to celebrate the coalition’s success in rejuvenating British manufacturing (Osborne, 2014a; 2014b). In his first budget after the 2015 election, he proclaimed the success of economic rebalancing, focusing on manufacturing in particular:

Business investment has grown four times faster than household consumption. Britain’s manufacturing output has grown more than four and a half times faster than it did in the entire decade before the crisis. And over the last year, the North grew faster than the South. We are seeing a truly national recovery.

The reference to manufacturing growth here is of course highly disingenuous, by including the inevitable post-recessionary uplift in output his evaluation of coalition performance. A speech dedicated to manufacturing in 2014 euphemistically reduced industrial policy to the notion of ‘backing businesses’ as part of the long term economic plan, alongside deficit reduction, cutting tax, and investing in education. He argued that ‘[i]t’s not about picking winners, but helping British businesses maintain their competitive edge’ (Osborne, 2014b; emphasis added). The post-election budget in 2015 also marked the publication of the Conservative government’s ‘productivity plan’. The associated document Fixing the Foundations did not contain a single reference to manufacturing. There is a clear lack of strategic thinking evident in Fixing the Foundations; it lists the two drivers of productivity as (understandably) ‘long term investment’ and (perversely) ‘a dynamic economy’. Objectives related to the former include skills, infrastructure, science and innovation, albeit with tax cuts at the top of the agenda, and alongside highly tenuous references to the Osborne agenda around reforming pensions tax relief. A flexible labour market appears to be the main objective of the latter category (with the inclusion of the highly political ‘high pay, low welfare rhetoric), but the top bullet point in the relevant section of Fixing the Foundations is actually ‘planning freedoms, more houses to buy’. Revealingly, the final objective listed in this category is ‘Resurgent cities, a rebalanced economy and a thriving Northern Powerhouse’. The document endorses Conservative plans for devolution to newly-formed city-regions, with little strategic analysis of which powers should be devolved to which level of authority, beyond a rather vague reference to cities as engines of ‘global growth’. Unlike The Plan for Growth in 2011, Fixing the Foundations was published solely by the Treasury (despite being co-signed by the new Business Secretary Sajid Javid). It is worth noting at this point that the Manufacturing Advisory Service was abolished in the 2015 spending review, as part of a 20 per cent reduction in the BIS resource budget for 2015-2020, matching that it had endured 2010-2015.

After championing, to some extent, a more activist industrial policy, the Conservative government appears to have reverted to the use of regional policy as the ‘exception that proves the rule’ in terms of reinforcing Britain’s horizontal approach to industrial policy. The means by which it has arrived at this point are, however, highly revealing. The coalition government abolished New Labour’s regional layer of industrial policy, the Regional Development Agencies (RDAs) as soon as it took office. It replaced them with Local Enterprise Partnerships (LEPs), relatively loose networks of local civic and business leaders, with few resources to invest or powers by which to leverage private investment, broadly organised on a smaller, city-regional basis. However, while interpreting the LEPs as a further hollowing out of the regional layer of industrial policy that Blair and Brown had built would be correct to some extent, subsequent developments suggest that it would be erroneous to understand the LEPs as only a symbolic form of industrial policy at the regional level. Rather, their creation marks an important step towards the version of local industrial policy now on
offer through the Northern Powerhouse agenda (or, more broadly, the ‘city deals’ being negotiated with all city-regions). In short, as the structure of local government (particularly in the North) is reorganised around mayor-led city-regions, local government itself is being reoriented towards the delivery of a horizontal industrial policy, as central government imposes its vision of market-led urban agglomeration on peripheral regions, while continuing to underpin directly the prosperity of London, now Britain’s only globally significant city. Some powers related to industrial policy (such as skills) will be devolved to city-regions, but in the context of significant budget cuts and the phasing out of central grants, to be replaced by a decentralisation of business rates, which will make local government more dependent on the ability of the local economies to grow their private sectors through tax incentives.

Michael Heseltine’s *No Stone Unturned* review is often credited with establishing a business-led devolution agenda within Conservative Party thinking on industrial policy (see Heseltine, 2012), yet in practice Heseltine had advocated a much more muscular approach to local industrial policy, with far greater devolution of resources, and a stronger partnership between central and local government. The reports in over 200 pages long, with almost 90 recommendations, but for our purposes its first sentence is probably its most significant:

> The Government should set out a comprehensive strategy for national wealth creation, defining its view of its own role – and the limits of that role – together with those of others in local authorities, public bodies and the private sector (Heseltine, 2012: 3).

The paradigm shift suggested by the coalition’s early initiatives is one encompassing a stronger focus on sectors, particularly manufacturing. Heseltine’s analysis would not support a conclusion in favour of such a shift occurring. However, he certainly advocates a much more interventionist and strategic role for government (split between local and national levels) – closer to the paradigm shift offered, almost apologetically, by Labour after 2008.

Interestingly, however, industrial policy was seemingly not a priority of the 2010-2015 Labour opposition, at least not initially. Ed Miliband sought consistently to make a positive case for government intervention in the marketplace, but it did not amount to a significant effort to build the case for a strongly sector-focused industrial policy. Reviews led by Mike Wright (Executive Director of Jaguar Land Rover) and former Labour cabinet minister Andrew Adonis, both published in 2014, essentially endorse the direction of policy established by Vince Cable, albeit with higher levels of public investment. Adonis also makes the case for a stronger BIS department. Nevertheless, even as the Conservative Party moved away from this agenda in 2014 and 2015, Labour did not make industrial policy a feature of its 2015 election campaign, and largely chose to ignore the Northern Powerhouse narrative and the issue of devolution more generally. Ed Miliband’s left-wing successor Jeremy Corbyn (2015) and his shadow chancellor John McDonnell (2015) have concentrated significantly more on industrial policy in their public discourse, drawing upon Marianna Mazzucato’s (2013) work to persistently advocate higher levels of public investment in R&D, principally through a national investment bank. However, Corbyn has also inadvertently criticised the tax allowances offered to many companies to incentivise R&D and capital investment, by advocating an end to the £93 billion ‘corporate welfare’ bill (see also Farnsworth, 2015).

**Conclusion**

The period since 2008 has certainly been characterised by a plethora of initiatives related to
industrial policy, often focused on manufacturing – propelled, it seems, by a new degree of comfort among policy elites towards acknowledging the unbalanced nature of Britain’s pre-crisis economy. What insights can we derive from an application of the ‘three orders of policy change’ framework to these developments? It would be instructive to imagine that industrial policy changes outlined here had unfolded in accordance with the two alternative sequences suggested by Hall’s and Baker’s analysis of, respectively, macroeconomic policy change in the late 1970s and early 1980s, and financial regulatory change following 2008.

Accordingly, and firstly, it could be argued that what we have witnessed is, if not yet a paradigm shift in how British elites approach industrial policy and manufacturing, then at least policy experimentation which will, in time, coalesce into third-order change. However, there are several problems with this (hypothetical) account. It is not clear that the experimentation evident is radically distinct from pre-crisis practice, and there is little sense of policy learning, either from previous domestic successes and failures, or the international environment. While BIS and, to a lesser extent, local political institutions could, conceivably, be said to be engaged in developing a novel approach to industrial policy (which are not necessarily consistent with each other), evidence that other governing institutions (notably the Treasury) are supportive of this agenda is, at best, inconclusive.

Furthermore, and secondly, substantive policy change seems to have been preceded by a radical shift in discourse, which would be more consistent with Baker’s notion of an explosive crisis leading to third-order change emerging first. On this account, therefore, we have seen a broad acceptance of the need for a new industrial policy paradigm, yet also subsequently contestation within policy-making institutions over implementation. As such, there is evidence of such contestation, such as Vince Cable’s (and, to a lesser extent, David Willets’ and Michael Heseltine’s) concern about the extent and pace of policy change, largely supported the representatives of the manufacturing sector itself. Yet it is not clear how disruptive such apparent struggle has really been in practice. Although parts of BIS may have sought more radical change in favour of sectoral policy, overall there is little evidence of an appetite for change within the department. Clearly, we should be wary of equating departments and institutions. BIS is part of a wider, Whitehall-based institutional framework; taken as whole, there appears to be little dispute over, for instance, the Treasury’s dominance within this framework, or the need for extensive departmental spending cuts in order to reduce the deficit. The implication, which is also relevant to an account based on Hall’s sequence, is that the institutional arrangements within which British industrial policy is made are incomplete. There may be some dispute over what the custodians of these institutions should produce in terms of policy outcomes, but more significantly, an absence of scrutiny regarding the extent to which adequate policy levers exist by which industrial policy practice may be transformed.

Insofar as a paradigm shift in post-crisis political discourse around industrial policy was evident, the publication of the Treasury’s productivity plan in 2015, with the support of new Business Secretary Sajid Javid probably represented the moment that it evaporated (with the possible exception of ideas around the Northern Powerhouse). It is also worth noting that the crisis in British manufacturing is should probably not be perceived as an explosive one, such as that which affected financial institutions in 2008. Although the financial crisis subsequently had a severely detrimental impact on manufacturing, the sector has been in decline for decades, if not centuries, and moreover, experiencing a particularly rapid decline since the early 1970s.
The apparent and rather sudden emergence a radical shift in political discourse in 2008, and certainly after 2010, despite the fact that the crisis in manufacturing was more akin to the ‘slow burn’ crisis documented by Hall in relation to macroeconomic policy, is testament to the need for a more sophisticated understanding of how ideas evolve. The discourse around rebalancing and/or the legitimate role of government in correcting market failure represented a radical critique of previous policy practice. But it is not clear that it genuinely represents a response to perceived crisis. Simply, if such imbalances, and market failures, were not a problem before 2008, then why were they suddenly a problem afterwards? Similarly, even though this discursive shift suggested a wholesale rejection of recent industrial policy practice, the specific notion that a horizontal approach to industrial policy was inadequate never fully crystallised. We are left with the sense that ideational change was multi-faceted; radical in some ways, but feeble in others. We are also left with the intriguing possibility that some parts of the policy elite were able to appear to be advocates of a radical policy shift precisely because of the patchwork institutional arrangements; if the discourse had been filtered through conventional institutional processes before ending up in budget speeches and growth plans, it may not have been quite so radical. In practice, departments like the Treasury, traditionally sceptical of active industrial policy, can remain relatively unconcerned about the policy advocacy of BIS ministers, and even the rhetorical tendencies of Chancellors, because their institutional functions connect to structural forces that can not only withstand occasional criticism, but may even be reinforced by it, insofar as it creates the impression of contingency.

This is not to say there is no contingency in policy-making – circumstances in which Vince Cable might have ended up as Chancellor of the Exchequer in 2010 or 2015 are not difficult to imagine. Yet we will never know whether he would have expressed the same appetite for industrial policy change had he been primarily responsible for deficit reduction in the wake of the financial crisis (an agenda he professed to strongly support). Furthermore, despite the existence of contingency, there is little doubt that the balance of political struggle is weighted towards those seeking to preserve the existing economic order, even in the wake of apparent crisis. Manufacturing clearly plays a subordinate role in the British growth model, and even if there was evidence that some elite actors sought to alter this, through industrial policy, in the wake of the financial crisis, the implications of this traditionally subordinate role in terms of the ideational and institutional resources available to them represented a significant barrier to meaningful change. In the policy change studied by Hall, the monetarist experiments in macroeconomic policy were, generally speaking, consistent with the quintessential features of the growth model. Similarly, the nature of the British growth model may provide for an unexplored variable in Baker’s account. While the finance sector and its supporters within policy institutions may have acquiesced to paradigm shift in regulatory practice in order to preserve the legitimacy of a finance-led growth model after 2008, they exhibited a great deal more stubbornness in relation to implementation, because the new regulatory principles agreed might in fact have disturbed the growth model in practice.

Please contact the author for references