The art of strategy

How to make a success of the Government's new Industrial Strategy

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Summary

The UK Government's Green Paper Invest 2035: The UK's Modern Industrial Strategy outlines a 10-year strategy for fostering economic growth through targeted support for eight key growth-driving sectors, ahead of a White Paper expected next year.

In terms of objectives, the strategy's clear focus on growth and decarbonisation are hard to argue with, given the UK's dire record on the former and the pressing challenge posed by the latter. But its aims on national security and regional growth need clarification. In particular, what does it look like in practice for each region to 'reach its potential'?

The strategy correctly identifies the UK's strengths, including in services exports, universities and innovation, while also acknowledging challenges such as low investment rates and a lack of business dynamism.

But, in going from a high-level Green Paper to a strategy that delivers on these ambitious objectives, key trade-offs, including those related to place, scarce public resources and other government objectives, must be addressed head-on. For example, how does the imperative to support industries located in already prosperous regions cut across the Government's objective to see growth in all parts of the UK? Household incomes are already nearly twice as high in the three ITL2 regions with the highest share of growth sectors than in the three with the lowest shares.

Moreover, the Government will need to be more specific about the policy instruments it wants to use. The list in the Green Paper is notably 'horizontal', cutting across the whole economy rather than providing targeted support. The Government should also support the strategy by driving forward improvements to the data on industrial composition and growth than the ONS currently provides.

Finally, it will be important to legislate for a robust Industrial Strategy Council with powers to assess the impact of other Government policies on the strategy's objectives, and to ensure the political sustainability of the strategy by demonstrating and sharing its benefits.

Introduction

October's Budget attracted a huge amount of attention. But, in the same week, the Government released a Green Paper on its new industrial strategy: Invest 2035: The UK's modern industrial strategy.[1]

In broad strokes, the Green Paper shares much with the final report of the Economy 2030 Inquiry.[2] As discussed in Box 1, the similarities include an emphasis on the UK's world-leading services exports, on trade and economic openness in generating productivity and prosperity, and on the need to raise the UK's investment rate and business dynamism.

More generally, as discussed in our previous work, a coherent economic strategy must include: clear objectives; clarity about context; realism about trade-offs; scale; and staying power. As we move from Green Paper to White Paper stage, we use this framework to assess how the Government might make a success of its new industrial strategy.

BOX 1: **Key features of the Government's industrial strategy Green Paper**

The UK Government released Invest 2035: the UK's modern industrial strategy, a Green Paper outlining a 10-year plan aimed at fostering economic growth by encouraging investment in a small number of key sectors. The strategy emphasises proactive government involvement to shape markets and eliminate barriers to growth in sectors with significant potential and proposes establishing a statutory Industrial Strategy Council to ensure policy stability and facilitate long-term planning for businesses.

The strategy identifies eight sectors for targeted growth: advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences, and professional and business services. The Government plans to collaborate with industry leaders and regional authorities to develop tailored plans for each sector.

Looking ahead, the final strategy and sector plans are scheduled for publication in Spring 2025.

1 Invest 2035: the UK's modern industrial strategy, October 2024
2 Resolution Foundation and Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

Clear objectives: while the decarbonisation growth objectives are clear, 'economic security' and 'regional growth' are not

The Strategy can generally be commended for clear objectives. These include focusing on raising growth and productivity in eight high-productivity sectors with the aim of achieving broader economic growth objectives while also supporting the net zero transition and economic security.

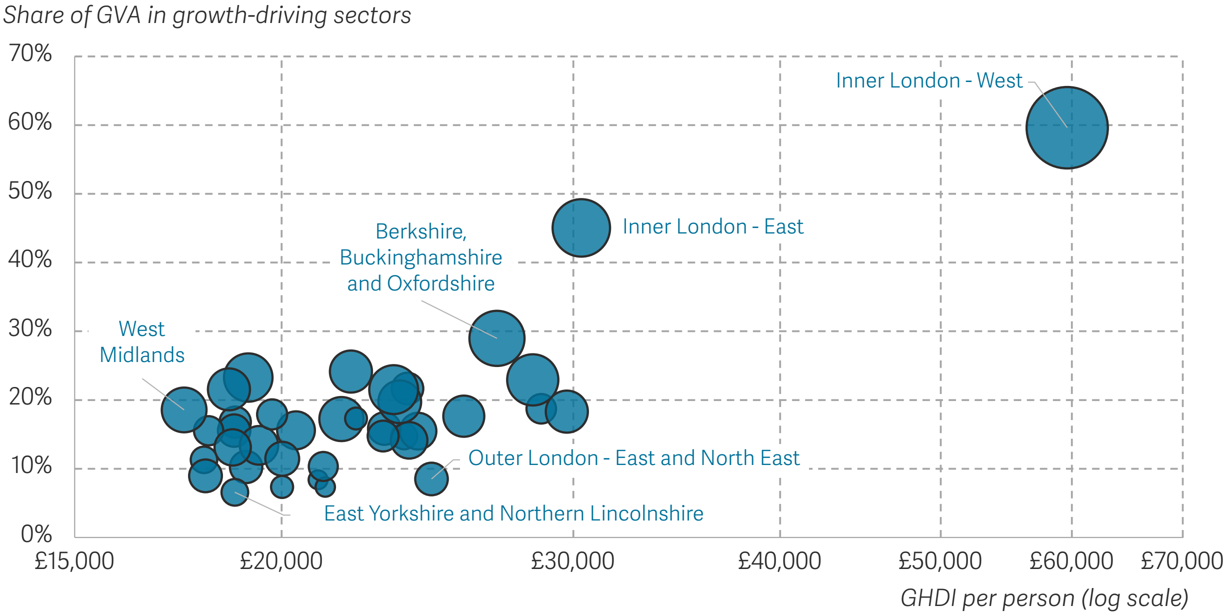
But the objective on regional growth is fuzzier. Here the forthcoming White Paper will need to put 'meat on the bones' by explaining what it means to "unleash the potential of UK cities and regions", and how the Government will know when it's done so. To illustrate the issues here, Figure 1 shows that, across broad regions of the UK, the share of output produced in these high-value sectors is positively related to overall incomes in those regions. Household incomes (gross domestic household income per head) are nearly twice as high (£38,978) in the three ITL2 regions with the highest share of growth sectors (Berkshire, Buckinghamshire and Oxfordshire; Inner London – East; and Inner London – West) than in the three regions with the lowest shares (£20,000 in East Yorkshire and Northern Lincolnshire; Cornwall and Isles of Scilly; and Lincolnshire).[3]

A key question for the Government, then, is the extent to which it wants to spread out these high-value sectors. Given agglomeration benefits, would the Government be content for there to be parts of the country, including some poorer ones, to remain relatively untouched by the growth sectors? This is an important trade-off to assess, and one we return to below.

3 For more on income gaps between places in the UK, see: L Judge and C McCurdy, Income outcomes: Assessing income gaps between places across the UK, Resolution Foundation, June 2022.

FIGURE 1: **The Government's 'growth-driving sectors' are, unsurprisingly, mostly located in richer parts of the country**

Gross household disposable income per person and share of GVA in growth-driving sectors: UK, 2022



NOTES: Regions are ITL2. High-value sectors approximate the Green Paper list and are defined as SIC 07 codes 26, 27, 28-30, 35-39, 58-63, 64-66, 69-75 and 90-91. Bubble size represents total regional GVA.
SOURCE: RF analysis of ONS, Regional gross disposable household income.

A second objective that needs more clarity relates to economic security and resilience. The strategy mentions promoting sectors that "drive growth and economic security" but the mapping from this objective to the otherwise sensible choice of eight growth-driving sectors is far from clear.

Clarity about context: the strategy gets the UK's strengths and weaknesses broadly right, but successful policy will require better data

In terms of its diagnosis of the problem, the Strategy is also broadly clear about what needs to change. Fundamentally, the UK is a mid-sized, reasonably prosperous and open economy that neighbours but, crucially, sits outside the world's largest integrated market for goods and services. For this reason, the UK's industrial strategy must recognise – but not copy – similar proposals in the US and the EU.[4] Our smaller size means that we will rely more heavily on international trade and partnerships and that we cannot achieve critical scale in as many industries as those places.

4 M Draghi, The future of European competitiveness – A competitiveness strategy for Europe, European Commission, September 2024; US Department of the Treasury, Inflation Reduction Act.

None of this is to say the UK is without its own strengths.[5] The Green Paper correctly identifies the UK as: a leading exporter of services and destination for FDI; a European leader in defence and decarbonisation; and home to some very good universities, an excellent science and research base and a global city as its capital.

On the other side of the ledger, the Green Paper also gets the UK's weaknesses right. Here it highlights mediocre levels – and anaemic growth in – labour productivity, driven in part by exceptionally low levels of investment compared to peer countries, uneven workforce skills, and declining, but internationally unexceptional, business dynamism. Going forward, the Government will need much more granular data on faster-growing sectors in order to identify the UK's industrial strengths and weaknesses more precisely. This is discussed in more detail in Box 2.

BOX 2: **The industrial strategy will need better data**

Current industrial classifications are not well designed for the purposes of measuring the contemporary UK economy or implementing an industrial strategy. There are two key problems. First, the taxonomy is extremely uneven, with some sectors defined much more narrowly than others, particularly those in manufacturing sectors. Second, and relatedly, the taxonomy of sectors only changes slowly, lagging innovation in the economy, such that firms often transcend sector boundaries, or have more in common with firms in different sectors than they do with their own. This will, by construction, hamper the measurement, and, therefore, the identification and support, of new economic activities.

The solution is to construct innovative data to cluster firms on the basis of their suppliers, customers, workers, geographic location and so on. The raw data could include payments data, tax data, administrative labour market data (for labour market flows), patent and other free-text data (e.g. from company websites, earnings calls and so on). The benefit of taking such an approach is a flexible, data-driven, near real-time picture of firms that resemble each other along these dimensions.[6]

5 J De Lyon et al., Enduring Strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade, Resolution Foundation, April 2022.
6 T A Hassan et al., Economic Surveillance using Corporate Text; T Forth, SIC Codes Fixed. Introducing Real-Time SIC Codes (RSICs), The Data City, October 2024; and T Fetzer et al., AI-Generated Production Networks: Measurement and Applications to Global Trade, November 2024.

Realism about trade-offs: the Strategy is unhelpfully silent about how these will be managed

Any strategy worth its name must engage with trade-offs, choosing what to deprioritise, and what costs to accept in pursuit of an objective. Here, perhaps unsurprisingly, the draft Strategy is worryingly quiet. In this context, while it is difficult for politicians to be transparent about the potential downsides of their policy choices, there are three broad trade-offs that the strategy must confront sooner or later: the importance of place; the fact of scarce public and private resources; and the existence of other government objectives and policy areas.

There are opportunities from following a place-based approach, but these may increase geographical inequality

A strategy that focuses on building on the UK's current strengths, and recognises the importance of industrial clusters, cannot ignore the fact that this means focusing on some parts of the country more than others. The previous government did, in its final year, investigate Britain's clusters of high-tech businesses and showed they were more widely distributed than the pessimists fear.[7] Moreover, a decarbonisation strategy focussing on offshore and onshore wind, tidal power, carbon capture and storage, nuclear power (including small modular reactors) and home insulation could drive investment outside the South East.

A successful strategy might nonetheless still leave some parts of the country behind. The strategy should acknowledge this as a price worth paying for economic growth and develop mitigation strategies. These could include helping people to move towards jobs in other parts of the country, managing the resulting decline of some locations, and redistributing the benefits, as discussed in more detail below.

Policy should place special emphasis on our big cities. The Birmingham and Manchester city-regions are places which are large enough to achieve agglomeration benefits and which are too large, from the perspective of the UK as a whole, not to be thriving.[8] Among other things, this means densifying housing and investing in city-wide transport networks so as to increase the effective size of their labour markets.

There is also a strong case for continuing to invest in the golden triangle of London, Oxford and Cambridge. This region has global strengths, and there is scope to improve its agglomeration benefits further with, for example, investment in better transport links

7 Department for Science, Innovation and Technology, Identifying and describing UK innovation clusters, February 2024.
8 P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond, Resolution Foundation, September 2023; P Brandily et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, October 2023.

between Oxford and Cambridge. In addition, both should be far bigger cities. This means investing in key infrastructure, such as better access to the electricity grid, water supply and radial transport links. This also must be matched by efforts to boost connectivity between this key region and others.[9]

Growing some industries means others will need to shrink

Growing industries need productive resources in the form of land, investment and skills. All of these are in finite supply. So growing some industries and firms faster will mean allowing, or even helping, others to shrink.

This is a normal part of the economic growth process, and we start from a position of relatively slow reallocation of workers and jobs across firms and industries.[10] The Green Paper recognises this, and the need for increased business dynamism, but says relatively little about how to make it happen.

The first place to look is where the Government currently hinders the reallocation of productive factors. Transaction taxes on residential and business property discourage people from moving house (including to new jobs) and reallocating business capital to different uses. Various taxes that favour small businesses – such as lower rates of Corporation Tax, Business Rates reliefs and the Employment Allowance – encourage resources to stay in small businesses irrespective of whether they are productive or growing. Reforming these taxes will cost political capital but would support the aims of the Industrial Strategy. The focus should not be on small businesses as a whole but particularly those which are rapidly growing and facing classic scale-up challenges.

More broadly, increased business dynamism could mean more people losing their jobs and more businesses closing in return for better job opportunities and faster wage growth elsewhere in the economy. The Government should consider how to facilitate these job transitions equitably, both to encourage them to happen, and to help households cope with the associated shocks.[11]

Industrial Strategy can produce tensions with other government policy areas

Tax is an example of a policy area that will impinge on the aims of the Industrial Strategy. But the Government will – quite reasonably – use it to meet other objectives, such as redistributing income and adequately funding public services.

9 HM Government, Oxford-Cambridge Arc, February 2021
10 See R Davies et al., Ready for change: How and why to make the UK economy more dynamic, Resolution Foundation, September 2023.
11 For a more detailed discussion, see Chapter 8 of: Resolution Foundation and Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, December 2023.

There are several other examples of such policy overlaps. These include:

- Skilled labour will be key to the success of the target sectors, but migration policy responds to many pressures.
- Trade policy is intimately related to industrial policy, but is constrained by an array of international agreements and also by the Government's self-imposed red lines on the trade relationship with the EU.
- Universities – upon which all of the priority sectors will rely – have competing objectives to teach, produce research, and need to be funded to do both at acceptable cost to graduates and the Exchequer.

There is also little clarity about the policy instruments that will be deployed

Any policy needs instruments. The Industrial Strategy Green Paper lists six policy areas that are important for its priority sectors:

- People and skills;
- Innovation;
- Energy and infrastructure;
- Regulatory environment;
- Crowding in investment; and
- International partnerships and trade.

Beyond setting out the broad areas, the Green Paper contains very little detail on how they will be tailored and deployed, and at what scale. These are notably 'horizontal' policy instruments, in that they apply to all sectors of the economy. In our previous work we have set out an approach in each of these areas.[12] We address each of them briefly in turn below.

Skills

The Apprenticeship Levy needs reform and this is now underway. The priority should be to focus on programmes for the under-25s and at education levels 2 and 3 (GCSEs and A-levels). Too much of the Apprenticeship Levy funding is now going to over-25-year-olds,

12 Resolution Foundation and Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, December 2023.

often existing employees.[13] Many are doing degree apprenticeships which should be funded through fees and loans like the rest of higher education.

Higher education is barely referred to in the Green Paper but many university courses are vocational and technical and most yield a substantial graduate premium indicating a strong return in the labour market.[14] Fees and loans are a progressive way of funding them.

Innovation

Innovation is rightly identified as a key policy area. But it's not enough to repeat the mantra that Britain has some of the world's top universities. Their strength is not some kind of fixed natural phenomenon, but rather to a large extent the result of previous policy decisions. UK universities face intensifying competitive pressure and new policy initiatives are needed to ensure we continue to enjoy this competitive advantage. University research funding is now estimated to operate at an overall loss of £5 billion a year.[15]

One option is to move closer to full economic costing of research even if this means less in total. Centres for Doctoral Training (CDTs) are an excellent means of delivering public private partnership to deliver applied research and investment in skills. There are proposals for CDTs in priority areas with willing business partners which are not going ahead because of public funding constraints – unblocking these should be a priority for the forthcoming Spending Review.

Energy and infrastructure

Energy and infrastructure also need new policy initiatives. Too much of the cost of decarbonisation is being imposed on electricity bills, contributing to making electricity four times more expensive than gas (compared to just 1.2 times more expensive in Sweden), reducing incentives to electrify our infrastructure.[16] This hits low-income families and business users too. A social tariff and rebalancing of levies towards gas bills are some promising avenues to electrify infrastructure while protecting consumers.[17]

13 S Corcoran & L Murphy, Labour Market Outlook Q3 2024: The Growth and Skills Levy, Resolution Foundation, September 2024.
14 R Layard, S McNally & G Ventura., Applying the Robbins Principle to Further Education and Apprenticeship, Resolution Foundation, October 2023.
15 Office for Students, Annual TRAC 2022-23, June 2024.
16 For more on electricity bill levies, see M Shepheard et al., Cheaper electricity, fairer bills, Nesta December 2024. For more on electricity to gas price ratios, see UK Collaborative Centre for Housing Evidence, Heat Pump Deployment and the Electricity-to-Gas Price Ratio, September 2024.
17 E Fry & J Marshall, Electric Dreams: How can we decarbonise electricity without disadvantaging poorer families?, Resolution Foundation, April 2024.

Regulation

Regulation can be used to reinforce areas of comparative advantage. The last significant example of a British company becoming a major global business – the rise of Vodafone – was due to action by ministers and officials to shape new regulatory standards for mobile phones in the EU and beyond to favour its model.[18] Britain now has a complex web of regulators which are powerful means of promoting growth if used smartly. The proposed new Regulatory Innovation Office could potentially work to ensure that their regime promotes innovation and does not inadvertently inhibit it by assuming old technologies are the only way of operating.

Crowding-in investment

The Mansion House agenda has the potential to ensure that more UK savings are invested in the UK economy and, crucially, that owners have more of a stake in monitoring the people to whom they have delegated the management of their investments.[19] Merging local authority pension schemes to create larger single pots of savings will take time to deliver: it would be wrong to put too much weight on this policy alone.

There is more that the Government can do to lower the risk of investment in innovative British companies. In particular, public procurement could play a role in helping these companies grow with non-dilutive funding, and boosting the confidence of private investors. This is what public agencies do in the US.[20] Care must be taken to translate this to a UK context, where procurement in several areas is constrained by the UK-EU Trade and Cooperation Agreement, and where procurement will be done at a smaller scale than in the US. Nevertheless, the new Procurement Act is an opportunity which needs to be seized.

International partnerships and trade

Finally, the UK has a clear comparative advantage in three-quarters of services sectors but has failed to devote as much attention to these in trade deals as it should.[21] The twin trade shocks of Brexit and Covid have led Britain to focus further on exporting service industries which are relatively lightly regulated such as public relations, advertising and

18 S Temple, Casting the Nets: From GSM to Digital TV, Grosvenor House Publishing, 2018
19 R Reeves, Mansion House 2024 speech, November 2024; P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.
20 D Connell, Leveraging public procurement to grow the innovation economy, HM Government, November 2017
21 The average long-run increases in goods trade from FTAs are estimated to be between 54 and 97 per cent, compared to an increase of just 5 to 17 per cent for financial services. Source: RF Analysis of DBT, Services trade modelling working paper; OECD, STRI, Measuring services liberalisation and commitments in the GATS and RTAs; and ECB Working Paper Series, Global trade in final goods and intermediate inputs: impact of FTAs and reduced 'Border Effects'.

management consultancy, as well as those able to switch to selling services remotely or through subsidiaries such as computer services, film and TV.[22] Trade growth in areas like architecture, accountancy, and legal services will depend on tackling regulatory barriers, which can be addressed through deeper services agreements, such as mutual recognition of standards and qualifications.[23] This should be a priority for future trade negotiations.

Staying power: legislation may shield the Industrial Strategy Council from a premature demise, but it will take more to make the Strategy a success

Our final key area for a successful growth strategy is staying power. Sectors are like trees – they take many years to grow to full strength, although it is possible to kill them quickly. Looking back at previous iterations of industrial strategy from the likes of Peter Mandelson, Vince Cable and Greg Clark, there is a high degree of continuity across parties and over time. When political leadership changes suddenly, as was the case under Business Secretaries Sajid Javid and Kwasi Kwarteng, the planned establishment of the Industrial Strategy Council in legislation should help to somewhat.

But political and policy sustainability are about more than the existence of formal public bodies. It will be crucial for other aspects of policy not to cut across Industrial Strategy. Policy across disparate areas – including trade, transport, education, migration, net zero and tax, to mention but a few – will affect the key sectors the Government wants to support through its industrial strategy.

So the Industrial Strategy Council must strike a balance between the two polar cases of (1) ignoring developments in these areas and (2) seeking effective veto rights over wide swathes of government policy. In practice, this should mean the Industrial Strategy Council acquiring the faculty to prospectively and retrospectively analyse government policy that impinges on the aims of the Industrial Strategy, both reactively and by proposing new policy measures. In doing so, it will provide an additional source of advice and expertise for policy making and evaluation, but not campaign for or against policy changes elsewhere in government. The new Council should also keep industrial strategy honest, avoiding capture by powerful incumbent producers and seductive new fads for technologies or sectors which don't stand up to careful scrutiny.

It will also be important for the Industrial Strategy to retain broad public support, despite having to target support and attention in particular parts of the country. The Government

22 E Fry & S Hale, Trading blows: How should Britain buy and sell in a turbulent world?, Resolution Foundation, December 2024.
23 S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023.

should give careful consideration about how to ensure that the prosperity benefits of this concentration of industrial activity are broadly and saliently shared across the country, as much of the activity itself cannot be.

Overall, much more needs to be done to turn the tide on our failing attempts at industrial strategy

The Green Paper identifies many of the key issues in establishing a successful industrial strategy for the UK, drawing on several such exercises in the past. The hard bit will come next, however, as the Government will have to define its objectives and especially its instruments more clearly, and engage with the difficult trade-offs the strategy will entail. The coming White Paper will reveal much about how the Government has risen to this challenge.