Britain’s Postwar Industrial Development – and the Road not Taken?

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1. Introduction – Back to the future

Britain, like many other nations, emerged from World War One into a strange new world. The productive pressures resulting from four years of essentially industrial warfare had put an emphasis on large-scale manufacturing to satisfy demand; and this encouraged the development of new ideas about industrial organisation, policy and corporate governance. Meanwhile, attempts to return to pre-war “normality” were frustrated not only by the slower growth and high unemployment that accompanied the cessation of hostilities, but also the inexplicable behaviour of an economy which was not only heavily reliant on income tax for government revenues, but also contained the beginnings of the welfare state. Austerity now came with even more unwelcome side effects than before.

The situation was made more urgent by the very real possibility of uncontrolled social change. The Russian revolutions of 1905 and 1917, along with the increasing influence of fascism in various parts of Europe, suggested that there were serious problems with democratic capitalism, as it then stood. In Britain, these worries were further fueled by concerns about mass unemployment, which had not previously been seen as a serious problem;[1] this was made worse by austerity as the government attempted to return to the gold standard at prewar parity, to balance its budget and repay wartime debts.

All of this encouraged public debate about these all too obvious economic, social and political problems. An important contributor was John Maynard Keynes, whose ideas about the potentially beneficial role of the State in managing the economy, would ultimately help to inform macroeconomic policy after the Second World War. Much less well known, however, are Keynes’s contributions to the interwar debate about microeconomic (industrial) policy, especially during the 1920s.

The Liberal Party’s contribution to this debate – which was based on detailed empirical research, from which reliable conclusions might be drawn – took a similar approach to the study of industry as Charles Booth and Seebohm Rowntree had taken in their earlier studies of poverty.[2] This research had revealed not only the extent, but also the environmental and systemic (as opposed to moral and individual) nature of poverty and unemployment, with much of the poverty they observed being

[1] Gordon 1972.
[2] Booth 1893-1903; Rowntree 1901.

caused by factors beyond the control of the poor. This helped promote the idea of "social justice" and a growing role for the State in the regulation of social and economic life.[3] But it wasn't until the Liberal Social Reforms preceding the First World War that these ideas were translated into policy, which – informed by Keynes's ideas about macroeconomic dynamics – would be significantly built upon after World War Two.

The 1928 "Liberal Inquiry" into the future of British industry, in which Keynes played a key role, thus had the potential – like Booth's and Rowntree's earlier research on poverty – to profoundly influence the long-term development of British industry. And had it survived the 1930s and Second World War – and been as influential as "Keynesian" macroeconomic theory and policy proved to be – it might have set the British economy on a very different road to that actually taken.

Keynes's analysis included the questions of the problems confronting particular industries; their relationship with the State; relationships within and between industries; and crucially, the relationship between industry and finance. Given that Keynes was skeptical about both the existing "laissez faire" policies – whose time he believed had passed – and the equally dogmatic socialist vision of nationalising industry, he also considered corporate governance in some depth.

Based on analysis of Britain's industrial problems, Keynes then developed proposals for industrial organisation and corporate governance reform; as well as ideas about the question of the basis for effective competition. Focusing almost exclusively on the large-scale businesses, which were coming to dominate British industrial organization at the time, Keynes was interested in understanding how they – and the people managing them – might evolve, particularly where monopolies and cartels were concerned. However, the future of smaller businesses in industrial clusters, the core of Britain's industrial development before the war – which Keynes's former teacher, Alfred Marshall, had studied in some detail – received very little attention.

Unfortunately for both Keynes and the Liberals, the resulting *Britain's Industrial Future,* published in 1928, not only came at a time when the Liberal Party was rapidly becoming a spent force; it was also overshadowed by seismic world events – including the economic and social effects of the 1929 Stock Market Crash and Great Depression – as well as the need to re-arm for another expensive industrial war. By the time the world emerged from that war, Keynes's ideas about industrial policy were largely forgotten, as the international systems of trade and finance were re-constructed to an essentially American vision.[4] The legacy of Keynes, who did not long survive the war, would be mainly restricted to his contributions to macroeconomic theory and policy.

Fast forward almost a century, and the post-2008 world looks rather similar to the interwar years, with finance once again in a position of economic and political dominance. Unemployment, poverty and inequality are high, whilst economic growth remains elusive. "Populist" parties are arising across Europe, on both sides of the political spectrum, whilst the British Conservative and Labour parties are, like the

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[3] Konzelmann et al. 2018a, pp. 74-76.
[4] Rauchway 2015.

Liberal Party before them, exhibiting significant internal strains, with new political groupings making their appearance. Austerity is back as a policy for the downturn – with predictable results. The outcome of all this is also similar; and politicians are once again talking about the need for industrial strategy.

Although questions about how to encourage both innovation and industrial re-development have become increasingly urgent, Keynes's ideas in *Britain's Industrial Future* remain little known. However, that has not stopped some of them being quietly tried-out, with encouraging results – but not by the industrial behemoths Keynes had anticipated. They can instead be discerned in some of Britain's contemporary industrial districts, populated by those long neglected, smaller enterprises. [5] Keynes's ideas about the relationship between State and non-state bodies, as well as within and between industrial sectors, the development of appropriate supporting institutions, effective corporate governance and finance can also be found in a perhaps less likely, but no less encouraging, test-bed – UK elite sport, which in many respects represents both a high-performance industry sector and a significant British industrial policy success story,[6] contributing an estimated annual gross value added (GVA) of nearly £30 billion to the UK economy, when the direct and indirect effects are taken into account.[7]

This paper explores the links between the ideas that have informed macroeconomic and industrial policy, as well as corporate governance, and Britain's industrial development and social outcomes from the interwar years to the present. Part two examines interwar developments in both theory and policy in relation to both the economy as a whole and industrial organization and development – and the important contributions made by Keynes in this context. Part three considers postwar developments – and the return of laissez-faire during the 1970s and 1980s. The "renaissance of interest" in industrial policy in the aftermath of the 2008 financial crisis is the focus of Part 4 before we consider, in Part 5, the case of UK elite sport as a significant industrial policy success story. Part 6 concludes.

2. Interwar developments in economic and industrial theory and policy

During the interwar years, Keynes was largely preoccupied with refuting the totalitarian response to the social and economic hardship of this period, in the form of fascist, communist and socialist movements that were gaining influence across Europe. He was particularly concerned about demonstrating that democratic capitalism – and the market approach to economic activity – were not inherently flawed but had instead been failed by economic thinking that ignored the monetary nature of economic relations.[8]

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[5] For a further elaboration, see Konzelmann and Wilkinson 2016; Konzelmann and Wilkinson 2017; and Konzelmann, et. al. 2018b. We use the term "industrial district" to describe contemporary industrial clusters in which features of Marshall's external economies, derived from a balance of effective cooperation and constructive competition are in evidence.
[6] For a further elaboration, see Konzelmann and Fovargue-Davies 2017.
[7] Sport Industry Research Centre 2017.
[8] Tily 2016.

The 1919 Versailles conference had prioritised the financial interests of creditors in postwar economic arrangements. Central banks were made independent of political authority, whilst private international financial actors were assigned key roles in their governance structures. The free movement of international capital under the gold standard was restored; monetary policy was aimed at supporting currency values and repaying debt; and government spending was tightly constrained.

Keynes had resigned from the British Treasury Delegation in frustration because he believed that, far from establishing the conditions for postwar recovery and peace, the Versailles Treaty threatened to undermine them. He returned to Cambridge, and during the summer of 1919, wrote *The Economic Consequences of the Peace*. The book was an immediate international success, establishing Keynes's reputation as a leading economist, especially on the left. Its assessment of the Versailles treaty and its likely results also proved to be depressingly accurate.

Towards the end of *The Economic Consequences of the Peace,* Keynes described the challenges confronting Britain:

> "England is in a state of transition, and her economic problems are serious. We may be on the eve of great changes in her social and industrial structure …
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> The most serious problems for England have been brought to a head by the war, but are in their origins more fundamental. The forces of the nineteenth century have run their course and are exhausted. The economic motives and ideals of that generation no longer satisfy us: we must find a new way and must suffer again the *malaise*, and finally the pangs, of a new industrial birth".[9]

2.1. Interwar theories about industrial concentration and competition – thought experiments versus empirical research

During the 1920s, very large and successful (mainly American and German) vertically integrated corporations came to dominate the sectors of the economy in which they operated; and banking concentration resulted in similarly large financial institutions. In Britain, the "big five" banks (Barclays, Lloyds, Midlands, Westminster and National Provincial) accounted for approximately 80 percent of English deposits by 1920,[10] each with a head office in London and a national branch banking system. All of this attracted economists' attention to the question of how to reconcile increasing returns in production – and, hence, industrial and banking concentration – with competition in markets. From the perspective of static neoclassical economic theory, firms securing scale efficiencies relative to market size, were a threat to free market competition.

This dilemma sparked a vigorous debate about increasing returns and competitive equilibrium; and it raised questions concerning Alfred Marshall's conceptualisation of

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[9] Keynes 2007 [1919], pp. 145-6 (emphasis in the original).
[10] Carnevalli 2005, p. 15.

internal and external economies, and their implications for industrial organisation and its effective operation.[11]

In Marshall's detailed empirical and theoretical research into the evolution of British industrial organization, *industrial districts* formed an important part. During the 19th century, these localised clusters of small enterprises and their suppliers were embedded in communities; and they became centres for Britain's economic, social and political development. Marshall discovered that an important determinant of the competitive success of industrial districts was effective *cooperation* within and between firms, supported by dense networks of institutions, and by markets regulated by agreed rules, norms and standards. His research revealed that industrial districts generate *economies* that are *external* to individual firms, but *internal* to their clusters.

Concerning competition, by recognising that interactions between supply and demand are essentially dynamic, Marshall's analysis regarded competition to be "an activity, a process with evolutionary dimensions".[12] Marshall chose this approach because of his awareness of the unsuitability of static analysis for his central purpose; and he insisted that "fragmentary statical hypotheses are useful as temporary auxiliaries to dynamical – or rather biological – conceptions: but the central idea … must be that of living force and movement".[13] In other words, whilst static analysis provides a way of indicating differences, a more dynamic analysis is required to show how these differences develop, the purposes they come to serve and what longer-term effects they might have. Most importantly, to appropriately serve this purpose, Marshall insisted that theory needed to be rooted in reality.

In Marshall's view, the economy was divided into a traditional sector – composed of small firms and industrial districts – and a corporate sector – composed of large, joint stock companies.[14] Based on Adam Smith's conceptualization of the division of labour and its relation to the extent of the market, markets were not assumed to be fixed in size;[15] so increasing returns in the corporate sector did not necessarily lead to monopoly. Marshall's theory of industrial districts thus purported to resolve the problem of increasing returns and competitive equilibrium through external economies that enabled member firms to compete effectively, even with much larger, vertically integrated firms. However, Marshallian economics was now being challenged by the emerging conventional economic wisdom that optimising economic welfare required unrestricted price competition amongst a plenitude of small firms.

Perhaps the most influential attack on Marshall's theory came from Piero Sraffa, who dismissed external economies and contended that increasing returns were pervasive in industry and incompatible with competition, suggesting that the solution was the

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[11] For a further elaboration, see Konzelmann and Wilkinson 2016; Konzelmann and Wilkinson 2017; and Konzelmann, et. al. 2018b.
[12] Kerstenetzky 2010, p.576.
[13] Marshall 1920 [1890], p. 50.
[14] Jensen 1990, p. 409.
[15] Young 1928.

theory of monopoly.[16] His conclusion – that “in the circumstances, I think it is Marshall’s theory that should be discarded”[17] – apparently settled the debate; and Marshall’s dynamic and evolutionary theory of industrial organization and development was abandoned.[18]

After Marshall’s death in 1924, theoretical developments in economics were steered away from the idea of competition as an active force driving the system, seeing it instead to be a static devise for assessing whether individualistic firms competed *perfectly* or *imperfectly* with each other. Following on from this, economists were concerned about what the welfare costs of market imperfections might be, and what, in policy terms, should be done about them. Effectively, this alternative methodology, built on supposition – itself derived from abstract reasoning – was then used to evaluate actual reality.

During the 1920s, as Britain experienced high levels of unemployment and excess capacity, neoclassical economic theorists, including Sraffa, attempted to explain the microeconomic (firm / industrial organization) effects of low levels of demand. They also sought to explain and justify the existence of large-scale production, despite the challenge this posed to market competition.

Focusing on the supply side and assuming a given market size, economists developed static equilibrium models of perfect, oligopoly and monopolistic competition. Theories of oligopoly and monopoly were used to explain the growing concentration in British industry, and to justify large scale production. These theories maintained that capacity utilization – and hence employment – is determined by the equilibrium level of output, which only in perfectly competitive markets is at full employment.[19] In imperfectly competitive firms, equilibrium output is at less than full capacity. This meant that – theoretically, at least – in sectors dominated by such firms, some level of unemployment is technically “efficient”; but as in any other market, it was considered *voluntary* on the part of those unemployed, with the solution being a reduction in the price of labour.[20]

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16 This position was strongly challenged by Allyn Young 1928, Joseph Schumpeter 1928, and Normal Silberling 1924. For further elaboration, see Konzelmann and Wilkinson 2016.

17 Robertson, Sraffa and Shove 1930, p. 93.

18 O’Brien 1990; See also Foss 1994, who provides an excellent analysis of the process by which Marshall’s dynamic and evolutionary theory of industrial organization and development was suppressed and ultimately eliminated from economics during the 1920s and 1930s.

19 Hart’s (2003) analysis shows how the development of these theories led to the disappearance of Marshall’s methodology and theoretical approach as the “Marshallians” who followed him abandoned his biological analogy and transformed his “representative firm” into an equilibrium firm.

20 During this same period, Keynesian macroeconomic theory was evolving in quite a different direction, contending that the problem of unemployment was *involuntary* and the consequence of an insufficient level of effective *demand*, with the solution being government spending on public works to compensate for weak private sector spending. However, although economists have long lamented the absence of

As the focus of study in industrial organization shifted away from clusters of firms operating in industrial districts and sectors – and towards individual firms competing in particular market structures – the conventional wisdom evolved to contend that the historical tendency in capitalist development is towards large firm dominance. As this became the conventional wisdom in industrial organization and policy circles, the role of small firms and localized productive systems was progressively marginalized;[21] and the idea of geographic location and external economies generated only a "thin trickle" of contributions in relation to forms of firm agglomeration in local and regional productive systems.[22]

2.2. Keynes's approach to economic and industrial analysis

Keynes's analysis of industrial organization and development did not focus on small firms in industrial sectors and clusters. But it did follow Marshall in emphasising both the importance of developing theory and policy on the basis of the empirical investigation of reality, as well as the role of cooperation as a key factor determining competitiveness. Keynes also viewed macroeconomic and industrial policy as complementary, with both being essential for the restoration and maintenance of full employment.

As a result, Keynes was highly critical of the static equilibrium approach upon which neoclassical theories of industrial organisation were based. In his view, the proper method of analysis has two clear stages: The first involves developing the simplest and most analytically workable set of assumptions; this should then be followed by substituting more realistic assumptions derived from empirical investigation for those initial assumptions of stage one. From this perspective, only the second stage model, based on realistic assumptions, is appropriate for developing guidelines for government policy.[23]

During the early 1920s, the problem of unemployment loomed large. On 12 April 1924, in a letter published by the political weekly, *The Nation and Athenaeum*, the Liberal Party leader and former Prime Minister David Lloyd George expressed grave concerns about Britain's economic future; and he suggested that improving production efficiency was the most pressing task confronting industrial and political leaders. During the weeks that followed, in the columns of *The Nation*, the discussion continued; and on 24 May, Keynes weighed-in with "Does Unemployment Need a Drastic Remedy?", making the case for a permanent programme of large-scale State investment as the "ultimate cure for unemployment, and for the stimulus which shall initiate a cumulative prosperity".[24]

"microeconomic" foundations for macroeconomic theory, the inconsistency between these conflicting explanations of output and unemployment appears to have gone un-noticed.

[21] See, for example, Solo 1984.

[22] De Propris 2009, p. 361.

[23] An example of this reasoning can be found in Keynes 2010 [1926], pp. 282-87; it is also described in Crotty 1999, pp. 557-64.

[24] Keynes 1981 [1924], p. 223.

Keynes believed both that the unemployment of the 1920s was primarily structural and located in Britain's key export industries, and that the decline of Britain's prewar export dominance would be permanent. But he did not consider the solution to be the traditional assault on unions, cuts in wages and reduction in export prices:

> "Rather, we must seek to submerge the rocks in a rising sea – not forcing labour out of what is depressed, but attracting it into what is prosperous; not crushing the blind strength of organised labour, but relieving its fears, not abating wages where they are high, but raising them where they are low … We can best achieve this by recreating the mood and conditions in which great works of construction, requiring large capital outlays, can again be set on foot".[25]

Keynes went on to elaborate his vision of macro- and microeconomic policy in a series of articles during 1925 and 1926. These included "The End of Laissez-faire", a critique of economic coordination by means of unregulated competition, due to the destructive consequences of real world *disequilibrium* competitive processes.[26] In it, Keynes argued that supporters of laissez faire did not take into consideration the complications arising from the presence of economies of scale in production, significant overhead costs, and monopolies and combinations, all of which were dominant features of British industry during the 1920s. These factors make the social and economic costs of competitive failure so great as to effectively render some firms too big to be allowed to fail. Keynes was also concerned about the maldistribution of income and wealth resulting from unregulated competition.

"Considering what the State ought to take upon itself to direct by public wisdom, and what it ought to leave, with as little interference as possible, to individual exertion",[27] Keynes accepted the trend towards industrial concentration. During the 1920s, this included private, public and non-profit organisations.[28] Here, Keynes saw a role for the State, not in managing them directly through nationalisation, but in setting goals, supporting and encouraging their development, evaluating their performance, and regulating them.

2.3. Industry and the State, industrial relations and corporate governance

The 1926 general strike / coal dispute was the catalyst that shifted Keynes's interests towards Britain's industrial problems;[29] and in the same year, Lloyd George financed the Liberal Industrial Inquiry (LII), to carry out a detailed study of the British economy, with the assistance of leading economists and businessmen. As part of the LII Committee, for the next two years, Keynes engaged in a detailed empirical investigation of key British industries, including roads and housing, electricity, waterways and docks, agriculture, forestry and land reclamation as well as cotton and coal.

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[25] Ibid., p. 221.
[26] Crotty 1999, pp. 558-65.
[27] Keynes 2010 [1926]. P. 288
[28] Pollard 1983, pp. 98-107.
[29] Moggridge 1992, Chapter 18 "Industry and Politics", pp. 446-74.

Keynes was a major contributor to the resulting LII Report, *Britain's Industrial Future,* which was published in 1928. As well as being a member of the Inquiry's Executive Committee and Chair of the Committee on Industrial and Financial Organisation, he drafted Book 2, "The Organisation of Business"; wrote two chapters ("Currency and Banking" and "Reform of the National Accounts") and collaborated on the other two chapters ("The Burden of Taxation " and "Rating Reform and the Rating System") of Book 5, "National Finance". Keynes also endorsed Lloyd George's proposals for specific public investment programs in Book 4, "National Development"; and he co-authored the "Summary of Conclusions" section and edited the report as a whole.[30]

Britain's Industrial Future begins by articulating its authors' vision of industrial policy and purpose:

> "The measures we advocate in relation to … financial and industrial reforms, international trade and national development, the just distribution of wealth, the worker's right to be a citizen, not merely a subject in the world of production … spring from one clear purpose. We believe with a passionate faith that the end of all political and economic action is … that individual men and women may have life, and that they may have it more abundantly".[31]

To realise this vision, Keynes and the LII Committee were concerned about understanding and addressing the problems resulting from the decline in particular industries, widespread under- and unemployment, as well as large disparities in the distribution of income, wealth and housing, which in turn contributed to inefficiency and industrial strife. But rather than trying to justify large scale industrial organisation, the LII Committee took this as given and focused on the scope for beneficial State action as a consequence of this change in the structure of production.

In a speech to the London Liberal Party Candidates Association in 1927, entitled "Liberalism and Industry", Keynes argued that:

> "Combination in the business world, just as much as in the Labour world, is the order of the day; it would be useless as well as foolish to try to combat it. Our task is to take advantage of it, to regulate it, to turn it into the right channels … We need the maximum degree of decentralisation which is compatible with large units and regulated competition".[32]

The LII Committee recognized that Britain's industrial problems were located mainly in the traditional export industries – coal, iron and steel, shipbuilding and textiles – and that it was necessary to adjust the "whole structure of our economic life" to twentieth century industrial conditions.[33] They therefore recommended "turning our attention to what we have long neglected – the development of our home resources

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[30] Crotty 1999, p. 569; Harrod 1951, 392-93; Moggridge 1992, 457-59; Skidelsky 1992, 264-69.
[31] LII 1977 [1928], p. xxiv.
[32] Keynes 1981 [1927], p. 643.
[33] Ibid., p. 455.

… housing, road construction, electricity, and the regeneration of agriculture and our rural life”.[34]

The LII Committee saw the State’s role as articulating a vision for the future of the economy, and then working closely with businessmen and workers to facilitate realisation of that vision. It described the “new industrial order … as a system of industrial self-government under the regulation and encouragement of the State”,[35] involving “the substitution of an organised system of co-operation for the existing system of conflict … [with] steady and wise guidance continued through a long period”. [36] This guidance would be provided by

> “a properly organised department of State [and] … some organ representative of industry as a whole, to afford leadership and stimulus in the development of the *machinery of co-operation*, to keep continuously in mind the interaction of industries one with another, and ensure that the direction of industrial policy in this field shall *not* merely be political or bureaucratic in character”.[37]

The new system would have the objectives “not merely of industrial peace, but of effective *co-operation* to achieve efficiency in production and justice in distribution”.[38]

The Committee also took care to distinguish the proposed new industrial order from “the harsh individualism and the employer autocracy of the nineteenth century, which Socialist preachers mostly have in mind when they denounce ‘Capitalism’, … the scheme of rigid State control or the scheme of trade-union dictatorship, between which the vague dreams of socialism waver”.[39]

The contributors to *Britain’s Industrial Future* – many of whom had direct experience in industry – made it clear that they believed the economic order based on laissez-faire had passed and that “[t]he theory that private competition, unregulated and unaided, will work out, with certainty, to the greatest advantage of the community is found by experience to be far from the truth”.[40] Whereas there was comparatively little social cost associated with the collapse of small (or sole) proprietorships or partnerships with unlimited liability as a consequence of unregulated competition, this was certainly not the case with larger firms; and unregulated competition could not solve the economic problems of large joint-stock companies, where shareholder “ownership” was separated from managerial “control” over their day-to-day operations.

In “The End of Laissez-Faire”, Keynes had contended that “[o]ne of the most interesting and unnoticed developments of recent decades has been the tendency of

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[34] Ibid.
[35] LII 1977 [1928], p. 205.
[36] Ibid., pp. 219-20.
[37] Ibid (emphasis added).
[38] Ibid., p. 215 (emphasis added).
[39] Ibid.
[40] Ibid., p. xix.

big enterprise to socialize itself"[41] – which he viewed with great optimism. In his view, when a large joint-stock company reached a certain age and size, its shareholders would become "almost entirely dissociated from the management", by virtue of the widely dispersed nature of share-ownership. At this point, he believed that management would be more interested in "the general stability and reputation of the institution [than] … the maximum profit for the shareholders".[42] Large joint-stock institutions would therefore over time approximate the status of "public corporations" – serving a public purpose – rather than "individualistic private enterprise".

Although the LII Committee did not study the small firm sector in any detail, its vision of a potentially beneficial role for the State in establishing conditions conducive to industrial prosperity, extended to all forms of industrial organisation:

> "Where neither diffused ownership nor monopolistic tendencies are present, our object should be not to interfere with the existing state of affairs, but to establish an environment in which normal competitive conditions can flourish with the *greatest efficiency* and the *least possible waste*".[43]

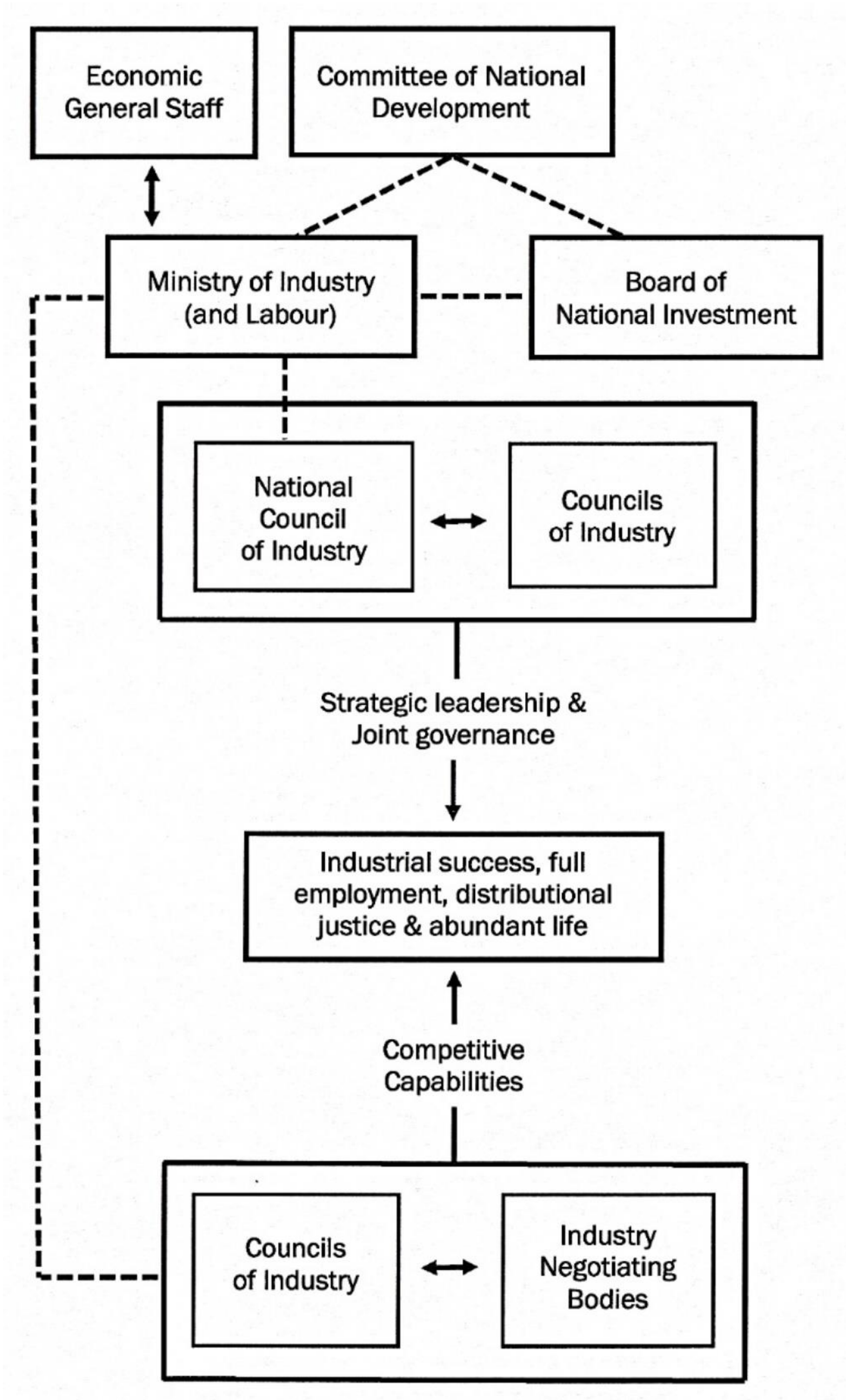
But for "those companies which have passed out of the effective control of their shareholders … and those companies which have attained … something of a monopoly position and where free competition from newcomers is inefficient",[44] the LII Committee's proposals were for corporate governance reform aimed at reporting transparency; strengthening the responsibility and authority of the external Auditor; and improving board effectiveness via a German-style dual board structure, with the Management Board to include outside members with technical expertise, and a "Supervisory Council" representing shareholders, and in some cases, employees.

The governance structure of the new system would be built upon existing institutions at both State and industry levels, with new institutions being created in collaboration with the parties involved – and only where they did not already exist.

Figure 1 illustrates the structure of the LII's proposed system of industrial self-government. At the top, an *Economic General Staff* would be established to work closely with the Prime Minister, the Cabinet and key Economic Departments of the State as well as the Ministry of Industry (and Labour). Its responsibilities would be to keep appraised of any economic problems affecting national policy and the development of industry and trade; to collect information and statistics required by the Government and Parliament; to call Cabinet attention to important domestic and international developments; and to develop Government plans for addressing fundamental economic challenges, such as unemployment, national resource development and stabilisation of trading conditions.

[41] Keynes 2010 [1926], p. 289.
[42] Ibid.
[43] Ibid., p. 85 (emphasis added).
[44] Ibid.

Figure 1: Structure of the LII's proposed system of industrial self-government



A *Committee of National Development*, directly accountable to the Prime Minister and actively assisted by the Treasury, would take over the work performed by the Development Commission. It would be responsible for formulating a consistent and comprehensive policy for the development of national resources and for coordinating the work of the Departments in which the executive duties would fall. A *Committee of Economic Policy* would also be set-up as a Standing Committee of the Cabinet, to which the Chief of the Economic General Staff would act as Secretary. Together these bodies would assist the executive government in anticipating and addressing "the complex problem of modern administration".[45]

A *Board of National Investment* would be created, as a department subordinate to the Treasury and subject to authority of the Chancellor of the Exchequer. "All capital resources accruing in the hands of Government Departments [would] be pooled in the hands of this Board",[46] and made available to public and semi-public enterprises to fund new capital expenditure. Through this board, the State would regulate the aggregate rate of growth in the economy by not only controlling the pace of public capital accumulation but also directing it to the industries and regions hardest hit by structural unemployment. The LII committee believed that the Board of National Investment had the potential to "become a factor of great importance" in developing Britain's national resources, without crowding-out private sector investment.[47]

A *Ministry of Industry (and Labour)* would be developed from the Ministry of Labour, taking over some powers of the Home Office under the Factories Acts and Compensation Acts, the Board of Trade's Mines Department, and any other functions required to bring within its purview all of the relations between the State and the organised bodies of both employers and workers. The Ministry would work with the Economic General Staff, and have responsibility for equipping the industry level Negotiating Bodies with adequate knowledge of financial facts affecting their industries.

The LII Committee believed that:

> "[i]t would be undesirable to leave the function of guiding and stimulating industry into new courses wholly to a public department however well organized. Industry itself must provide leadership. Industrial policy must be safeguarded against those sudden reversals which are apt to follow changes in government, and against any risk of a too rigid bureaucratic method".[48]

The effectiveness of the Ministry of Industry could therefore only be effective if and when "the great organisations of employers and workpeople" had themselves created (with State assistance where required) an effective structure to coordinate intra- and inter-industry activity through self-regulation: It "should be regarded as one of the primary duties of a Minister of Industry to assist and forward industrial efficiency, not by overriding or disregarding the organised bodies of employers and workpeople, but by bringing them together and working with them".[49]

Thus, a *Council of Industry* would be established in each sector to self-regulate and self-coordinate both inter- and intra-industry activity, under the guidance of the Ministry of Industry. It would report on applications for compulsory powers from Trade Boards and other negotiating bodies; and continuously review both the development of consultative machinery in the various industries, and the movement

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45 Ibid., p. 461.
46 Ibid., p. 111.
47 Ibid., p. 461.
48 Ibid.
49 Ibid., p. 222.

in wage-rates, to alert negotiating bodies to any problems. The Council would present and publish annual reviews, consider measures proposed by Parliament affecting industry and advise the Ministry on all matters referred to it.

The Council of Industry would meet frequently and work in close association with the Ministry of Industry. It would have 9 representatives each for employers and workers, and 6 other members appointed by the Ministry of Industry. Council members would hold a three-year terms, with one third of each grouping retiring every year. The LII "attach[ed] very great importance to the creation and active working of the Council of Industry, as affording the means both of giving leadership to industry from within itself and of keeping the Ministry and the Government in touch with the best industrial opinion on both sides".[50]

Ultimately, the LII Committee anticipated the establishment of a *National Council of Industry*, with responsibility for self-regulating the whole of industry under the watchful eye of the Ministry of Industry. But it was felt that this should not take place until:

> "industry is more fully organized and when the practice of cooperation is more widely established. In the meanwhile, the urgent thing is to provide a nucleus round which instructed opinion in the industrial world can form itself, and to give driving force to the movement towards a better industrial order".[51]

There would also be *Industry Negotiating Bodies* within each industry, representative of all sections of industry, with the "power to make regulations binding upon their industries as a whole,"[52] and ultimately, with responsibility for a range of issues extending beyond wage negotiations. But the LII Committee stressed the importance of creating "the machinery of organized cooperation" at the level of the individual factory or workshop, rather than at the level of the national negotiating bodies. For establishments employing fifty or more people, there would be a legal requirement to set up a consultative body – a "Works Council", composed of representatives from every important group within the concern, from top management to the shop floor.

Industry Negotiating Bodies would include (1) Trade Boards, constituted by the Ministry of Industry, covering all industries insufficiently organised to be able to make and keep general agreements; (2) Joint Industrial Councils in more organised industries; (3) other Negotiating Bodies, created by the Ministry and Council of Industry, in industries where neither Trade Boards nor Joint Industrial Councils existed; and (4) negotiating bodies to help avoid disruption of essential public services, with a view to protecting both the public and the smooth working of industry, but with the provision that there would be no impairment of the ultimate right to strike or lock-out.

The LII Committee strongly recommended that these bodies include a "neutral element" as well as representatives of managerial and technical staffs.

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[50] Ibid., p. 223.
[51] Ibid.
[52] Ibid., p. 207.

> "These bodies should make their regulations in the light of an ample knowledge of the facts … with a view always to the twofold end of efficiency in production and justice in distribution ...
>
> They should … consider such matters as the conditions of entry into an industry and the methods of training its recruits; the best ways of stimulating inventions and improvements, and of opening careers to talent; the methods of giving to various groups of workers an appropriate share of responsibility, and of diffusing as widely as possible a share of ownership, and the sense that the industry in some degree belongs to all who are engaged in it".[53]

At the end of March 1928, the LII Committee's proposals were adopted by the Liberal Party in a series of resolutions. In the Preface to "Can Lloyd George Do It?" – a pamphlet written by Keynes and Hubert Henderson in support of Lloyd George's 1929 election pledge to reduce unemployment through a programme of public spending – Keynes and Henderson contended that "*Britain's Industrial Future* remains the fullest statement of the Liberal programme [and] … the Liberal pamphlet "We Can Conquer Unemployment" has been remarkably successful in crystallising the essence of the matter in a few broad simple propositions".[54]

2.4. "Events, dear boy, events" – From Liberal Inquiry to the Macmillan Report

The 1929 general election did not deliver a Liberal Party government. Instead, a minority Labour government under James Ramsay MacDonald took office; and shortly afterwards, in October 1929, the Wall Street Stock Market crashed. The following month, the new government set up another committee of economists and businessmen – the Macmillan Committee on Finance and Industry – to look into the problems confronting the British economy. Its objective was to determine the root causes of Britain's depressed economy and whether the organization of the banking and credit system and the government's monetary policy were helping or hindering industry and trade. The Committee's remit was:

> "to enquire into banking, finance and credit, paying particular regard to factors both internal and international, which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour".[55]

The Macmillan Committee was named after its chairman, the Scottish lawyer Hugh Pattison Macmillan; and it included Keynes and Ernest Bevan (General Secretary of the Transport and General Workers' Union) as non-ministerial members, chosen because of their expert knowledge of economics and industry. The Committee took evidence from leading economists and industrialists; and Keynes provided two papers for the meetings. In one of these, he revived the LII Committee's proposal for an Economic General Staff; and on 24 January 1930, the government announced establishment of an Economic Advisory Council,

[53] Ibid., p. 206.
[54] Keynes 2010 [1929], p. 87.
[55] Quoted in Moggridge 1992, p. 481.

> “to advise His Majesty’s government in economic matters, to make continuous study of developments in trade and industry and in the use of national and imperial resources, of the effect of legislation and fiscal policy at home and abroad, and of all aspects of national, imperial and international economy, with a bearing on the prosperity of the country”.[56]

The Macmillan Committee Report, largely authored by Keynes, was approved in May 1931. It recommended nationalization of the Bank of England and government regulation of international trade and finance; and it emphasized that general wage reductions should *not* be seen as a way out of Britain’s problems.[57] However, significantly, the Macmillan Committee did not challenge the so-called “Treasury view” – that public investment crowded-out private sector investment – and concluded that government expenditure on public works was not the answer to the country’s economic challenges. This was despite the signing of “Addendum 1” – advocating a programme of public works – by some of its leading members, including Keynes and Bevan.

With regard to the relationship between British industry and finance, the report concluded that it was not as close as it was in either Germany or the United States, and small businesses, in particular, were being put at a disadvantage. The Committee noted that “closer coordination between British industry and the City of London would be advantageous for the provision of long-dated capital, especially for large-scale industry”.[58] But in response to what came to be known as the “Macmillan gap”, it recommended establishment of a separate financial institution – “which would confine itself to smaller industrial and commercial issues”[59] – to provide finance to the small business sector.

In 1931, with a deepening depression, unemployment at nearly 20 percent and an expanding government deficit, then Chancellor, Philip Snowden, set up the May Committee on National Expenditure, to suggest ways for the government to reduce its spending. The Conservative opposition blamed the deficit on the Labour government’s extravagance and demanded cuts in “wasteful” public spending, including unemployment benefits. Labour, however, maintained that the deficit was a result of the economic depression. The minority government refused to implement all of the May Committee’s recommended spending cuts; and as a result, the Labour Prime Minister, MacDonald, and Chancellor, Snowden, joined the Conservative and Liberal Parties in a national government, while Labour went into opposition.

In 1932, the economy improved since one of the casualties of the September 1931 financial crisis had been sterling’s place on the gold standard. This not only freed-up monetary policy, and permitted a reduction in the bank rate from 6 to 2 percent; it also reduced the cost of financing the 1917 War Loan. Another casualty was free trade, courtesy of the Import Duties Act of 1932. The combination of devaluation, cheap money and protectionism led to a recovery, which produced balanced budgets from 1933 to 1937. However, unemployment was slow to come down, although it

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[56] Ibid., p. 482.
[57] Williamson 2003, pp. 255-258; Gordon 1972.
[58] Thomas 1931, p. 11.
[59] Ibid., p. 12.

was increasingly confined to the north of England, Scotland and Wales. There was a brief slump in 1937-8; but with rearmament, the economy again rebounded in 1938 – nearly a decade after the start of the Great Depression.

Throughout the 1930s – as he had during the 1920s – Keynes repeatedly advocated a major programme of large-scale public investment as the key to sustained prosperity; he also continued to express support for specific industrial policies, including industrial location programmes and State directed credit allocation. But he no longer wrote at length about industrial policy. The 1929 Stock Market Crash and Great Depression had shifted his focus to the problems associated with insufficient effective demand and generalised – as opposed to structural – unemployment. In 1936, Keynes published *The General Theory of Employment, Interest and Money,* setting out the theoretical foundations for his economic policy proposals, in which he called for "a somewhat comprehensive socialization of investment … [as] the only means of securing an approximation to full employment".[60]

By 1937, Keynes was engaged in planning for another major war – and during that war, planning for the transition to peace afterward. But Keynes died soon after the Second World War, in 1946; and although the immediate postwar decades have been identified as the "Keynesian revolution", the economics profession proved unwilling to abandon its "scientific" approach to modelling. Keynes's ideas and approach to both theory and policy were quickly absorbed into the static equilibrium framework of the "Neoclassical-Keynesian synthesis", of which Keynes would surely have disapproved. Thus, instead of the "Keynesian" revolution being fashioned on Keynes's vision of the economy and society, "a new theoretical edifice was erected which could be reconnected to the neoclassical theory of harmony and just shares in the distribution of income … The 'Keynesian' revolution gained acceptance because ultimately it was, after its formalisation, deeply conservative in character".[61]

3. A new world order – for now

With the end of yet another economically ruinous war in sight, the aims of the Bretton Woods conference included making sure that the economic and social circumstances that had led to both the war, and the depression that preceded it, would not be repeated. This resulted in an unprecedented level of both vision and international cooperation.

The Bretton Woods international monetary system established the conditions by which governments could manage their welfare states; and domestic financial markets were tightly regulated to prevent a recurrence of the activities that had produced the 1929 Stock Market Crash. In 1946, nationalization of the Bank of England reflected the formal repositioning of finance as the servant – rather than the master – of British industry.

[60] Keynes1997 [1936], p. 378.
[61] Balogh 1976, pp. 83-4.

3.1. Rationalization of the industrial structure

The economic difficulties of the 1920s and 1930s led many to question both the market's ability to deliver growth and whether the economy might be better managed at a macro-economic level with Keynesian tools and at a micro-level by "rationalizing" the industrial structure. Thus, following the Second World War, there was acceptance of a role for the state in managing the economy; and governments of all persuasions prioritized *re*-industrialization, promoting concentration through mergers and acquisitions as a means of raising efficiency.[62] Fueled by strong war-time demand and postwar reconstruction, large mass production firms reaped the benefits of internal economies of scale, giving the appearance of improved productivity. Nationalisation was also a key feature of postwar industrial policy, with the initial targets being utilities (coal, electricity, gas and railways), and manufacturing firms being nationalized much later.[63]

However, instead of developing new industries and technologies, due to well-connected special interest groups, British industrial policy tended to take the form of shoring-up ailing industries.[64] Whilst British management and governments were dominated by a belief in the advantages of large firms and the efficiency gains of internal economies of scale, the conglomerates put together by nationalisations, mergers and acquisitions were larger than the most efficient size and often composed of groupings of inefficient plants[65] which were either state-owned or owned by widely-dispersed shareholders – that would eventually make them vulnerable to further "restructuring" via the stock market. Manufacturing capability was severely weakened, but rather than evolving a strategy for addressing the problem, the view was that the economy was progressing to a "post-industrial", service-based stage of capitalism.[66]

From the 1960s onward, as memories of the interwar years faded, there was growing confidence in financial markets; and the stock market came to be viewed as a mechanism for restructuring industry.[67] This was based on the "efficient markets hypothesis", that a firm's share price is an accurate reflection of the value of the underlying productive enterprise. Using this logic, the stock market was theorized to be an efficient "market for corporate control" and the "discipline mechanism" by which under-performing management teams could be replaced by more effective

[62] Meeks 1977.

[63] British Steel was created in 1967, bringing together the 14 largest British steelmakers under public ownership and to create large integrated steelworks; and during the 1970s, nationalization was extended to shipbuilding, aerospace and motor vehicles (Rolls-Royce and British Leyland), resulting in further concentration.

[64] See, for example, BIS 2010; Wren 1996; Silbertson 1981; Vickers and Yarrrow 1988.

[65] Prais 1976.

[66] Gibson, 1993; Dunham-Jones 2000

[67] British industry was particularly vulnerable, since it had historically been reliant on the stock market, instead of banks, for financing that could not be generated internally.

ones when share price fell.[68] Restructuring through hostile take-over was therefore viewed as performance-enhancing.[69]

However, the leverage used to finance these take-overs meant that targets needed to be asset-rich, the selling of which would more than repay the debt.[70] Thus, investors targeted companies whose assets were under-valued by the stock market, creating enormous profits and stock market bubbles, which were interpreted as evidence of improved industrial performance. The reality, however, was that this process was dismantling vast segments of British industry and accelerating de-industrialization.

3.2. Industrial finance

The Macmillan Committee had noted in 1931 that, as a consequence of banking consolidation, local and regional banks had all but disappeared; and the dominant form of commercial bank was a joint-stock, London-based bank, with a national network of branch banks. Pressure to deliver “value” to their shareholders encouraged a focus on activities generating short-term profits. Thus, in trying to strike a balance between their depositors, seeking high rates of interest and liquidity, on the one hand, and debtors in industry, seeking low-interest loans with medium- to long-term maturities, on the other, these banks were increasingly unwilling to take the risks associated with financing small- and medium-sized businesses. So the Committee had recommended the establishment of a separate financial institution to provide finance to the small business sector. In 1945, the Industrial and Commercial Finance Corporation (ICFC) was set-up for this purpose, with the Finance Corporation for Industry (FCI) also being established, to provide finance for large businesses.

However, neither ICFC nor FCI were State-backed banks, like the German development bank, KfW, which had been set up at the same time, to invest in small- and medium-sized German companies, with the support and guarantee of the German State. In the case of ICFC, whilst the Macmillan Committee had advocated a fully-empowered financial institution that could raise funds in the private markets, ICFC was established with a heavy reliance on the existing “big five” large commercial banks in London. It was owned by the Bank of England and the big five banks, which – out of fear of nationalization – had effectively been forced to fund ICFC and become its shareholders.[71] But the Bank of England opposed any official connection between ICFC and government policy; and ICFC was not permitted to compete with the big five banks. Nevertheless, initially at least, the banks were less than supportive of ICFC’s existence, which they considered a competitive threat.

Despite these challenges, ICFC established local branches and recruited staff with expertise in specific industrial sectors. Rather than investing in narrow industries or sectors, it invested in local companies with sound business fundamentals and good

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68 Schleiffer and Vishny 1997.
69 Fama 1970
70 Lazonick and O’Sullivan 2000
71 Merlin-Jones 2010, p. 10.

management teams, diversifying its investments across a wide range of industries.[72] ICFC fostered long-term relationships with its clients; and its investments were considered a certificate of quality management and promising long-term performance. However, ultimately, majority ownership by the big five banks – which had little incentive to protect its core purpose – and being disconnected from government policy, together put ICFC at a disadvantage in meeting demand from small- and medium sized businesses for long-term, low-interest loans; and it severely limited the availability of finance for this segment of industry.

In 1959, ICFC was reorganized; and the big five banks allowed it to raise external funds on the stock market, which freed it from spending constraints and made ICFC less reliant on the five big banks. But it also injected short-term pressures to deliver returns to its shareholders; in response, ICFC gradually shifted its activities towards ventures generating higher short-term profits. During the 1960s and 1970s, having been caught-up in the merger wave, ICFC set-up Industrial Mergers Limited, which proved to be a highly profitable business at the time; but it “went completely against the traditional areas in which ICFC was developing its strength, the finance of small- and medium-sized businesses”.[73] In 1973, ICFC and FCI were merged to form Finance for Industry (FFI), which became a leading provider of finance for management buyouts. FFI was rebranded “Investors in Industry” in 1983, by which point ICFC’s original identity and purpose had been lost; and in 1987, Investors in Industry was privatized as 3i Group, a multinational private equity and venture capital firm, no longer focused on loans to industry. Thus, by the 1960s, British industry was already being starved of bank-provided industrial finance.

3.3. Industrial policy – and the return of laissez-faire

Despite the challenges – and increasingly successful attempts by the financial services sector to wriggle free of regulation – the “Keynesian” revolution delivered nearly three decades of unprecedented economic and social prosperity and progress. Financial crises were notable by their absence, as living standards and economic equality steadily increased and economic growth rates were unmatched. However, “Keynesian” economic theory and policy proved no match for the “stagflationary”[74] crises of the 1970s; and with the election of Margaret Thatcher in 1979, all of this changed. Macroeconomic policy was sharply reversed, whilst the very concept of industrial policy joined Keynes’s ideas about it on the scrap heap of history – where it would remain for at least the next thirty years.

In a speech delivered in July 1976, Thatcher made her views about industrial policy and the future of British manufacturing clear: “Manufacturing industry is of critical importance to our entire economy … the recovery and sustained expansion of British industry is the most important task of the next Conservative government”.[75] She went on to argue that excessive state intervention had left British industry “over-

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[72].Ibid., p. 12.
[73] Coopey and Clark 1995, p. 87.
[74] “Stagflation” is the co-existence of inflation, economic stagnation and high levels of unemployment.
[75] Thatcher 1976.

governed, over-spent, over-taxed, over-borrowed and over-manned".[76] In Thatcher's view, the solution lay in a programme of privatization, market liberalization and deregulation, with the State's role being confined to attempting to correct market failures and fostering the conditions for efficient, "free" market operations.

But Thatcher's policies accelerated deindustrialization; and despite rhetoric to the contrary, during the 1980s, Conservative governments continued to "pick winners", providing generous support to defense manufacturers and the financial services industry in the City of London.[77] They also provided incentives to foreign investors to locate production facilities in the UK, which included the Japanese car maker Nissan and later, Honda and Toyota. For the next three decades, this approach to industrial policy was continued under subsequent governments of all political persuasions.

4. A "renaissance of interest" in industrial policy?

Like the crises of the interwar years, the arrival of the 2008 financial crisis attracted attention to the problems of British industry; and business leaders called for leadership and support. In the 2007 Gabor Lecture, entitled "Why Manufacturing Matters", Sir John Rose, chief executive of Rolls-Royce, had argued that since the mid-1960s, the UK's increasing reliance on the services sector – particularly financial services – created growing risks for the economy as a whole. Advocating support for "high value" manufacturing to act as a counter-balance to high value services, he made the case for creation of a more diversified economy. He also urged the government to provide a clearer sense of direction for UK industry, highlighting the need to articulate both its objectives with regard to the kind of manufacturing industry it would like to see develop and a strategy for achieving them.[78]

However, Rose acknowledged the political obstacles to making progress in these areas. Although New Labour had been in government for over a decade, the non-interventionist stance inherited from the Thatcher government remained in place; and "the fear of returning to anything that remotely resembles centralized industrial planning has resulted in even the discussion of such a framework being off limits".[79]

Several months later, at a meeting of the House of Commons' Business, Enterprise and Regulatory Reform Committee in February 2008, Rose responded to questions from MPs about the future of manufacturing in the UK. When asked what the main aspects of a manufacturing strategy should be, he replied: "the government should do more to set priorities ... It should have a better view about the technologies that the UK needs in the future and set future priorities. If you ask me about a lack of technology vision and sufficient amounts of funding, then both need to be improved".[80]

Rose's comments about the potentially obstructive influence of politics, the sort of leadership and institutional structures required – as well as the need for a forward-

[76] Joseph 1976.
[77] Silverwood and Woodward 2018.
[78] Rose 2007.
[79] Ibid.
[80] *Financial Times* 2008.

looking approach and sustainable source of finance for industry – all resonate with the vision set out 80 years earlier, in *Britain's Industrial Future*; and as we will see below, they can also be detected in the development of the highly successful UK elite sport system. This time, however, any thaw in political views about industrial strategy would, at best, be tentative.

With the recession deepening and unemployment continuing to mount, New Labour took its first hesitant steps towards accepting a possible role for industrial policy, with the appointment of Peter Mandelson as Business Secretary. Believing that the UK had become overly reliant on the financial services sector, Mandelson saw the need to rebalance the economy and sought advice from Rose and other British industrialists. The result was a 2009 White Paper, *New Industry, New Jobs: Building Britain's Future,*[81] calling for a "new activism" on the part of government to assist businesses in exploiting new, advanced technologies by means of "targeted intervention". To strengthen the economy's capacity for innovation, growth and job creation, a Strategic Investment Fund (SIF) was established, supporting a range of investments across the UK economy.

However, progress stalled when the new Conservative-Liberal Democrat Coalition came to office in 2010; and the SIF was discontinued. As government attention shifted to the "market's" expected reaction to the high levels of public debt, accumulated as a consequence of the emergency stimulus and bank bailouts that had accompanied the 2008 financial crisis and resulting "great recession", the policy debate was increasingly dominated by austerity. In a speech at the Cass Business School, the new Secretary for Business, Innovation and Skills, Vince Cable, told the audience that "[w]hat we *shouldn't* be doing is trying to micromanage the economy at the level of individual companies or so-called national champions: trying to supersede the judgement of markets".[82]

But the government soon started moving closer to a role for the State in providing greater support for industry. In 2011, it set out its vision for the economy's recovery in *The Plan For Growth*,[83] which included horizontal industrial policy measures and the identification of key sectors where barriers to growth were to be addressed. In his 2011 Budget Statement, George Osborne, Chancellor of the Exchequer, talked about the need for a "march of the makers";[84] and in a speech at the Policy Exchange, Cable called for a "New Industrial Policy" aimed at supporting innovation and technological leadership, developing skills (centred on apprenticeships), re-building supply chains and implementing supply-side reforms as a means of building and maintaining business confidence.[85]

In September 2012, with the London 2012 Olympic Games still alive in the public imagination, Cable set out his expanded vision for a long-term UK industrial strategy – making direct reference to the strategy that had contributed to Britain's Olympic success:

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[81] BERR 2009.
[82] Cable 2010 (emphasis added).
[83] BIS and HM Treasury 2011.
[84] Osborne 2011.
[85] Cable 2011.

> "Over the last few weeks the papers have been full of pictures of athletes. The Olympics provided a unique opportunity to celebrate the things the UK does well. ... Our athletes achieved what they did because of their years of commitment and planning. I was initially a sceptic; I could see the costs but not the benefits. But the games proved to be a success. Years of planning and investment in pursuit of a clear and ambitious vision were realised. ... I think there is a read-across to the way we approach our economic future. We need to take the same approach: a clear, ambitious vision; the courage to take decisions that bear fruit over a long period; openness to new opportunities as they develop; focus on the things we do best; and an enduring commitment far beyond a five year parliament or spending review period".[86]

But although policy-makers and politicians seemed to be looking for parallels between the approach that had delivered the international competitiveness of UK elite sport – and what the implications might be for evolving an industrial strategy to address the challenges confronting the UK economy – attention proved fleeting; and austerity continued to dominate the policy agenda.

The 2016 referendum result in favour of the UK leaving the European Union – with its implications for the economy in general, and British manufacturing, in particular – brought another renewal of interest in industrial strategy. Theresa May made it a key priority after replacing David Cameron as Prime Minister; and in July that same year, she created the Department for Business, Energy and Industrial Strategy (BEIS), to replace the former Department of Business, Innovation and Skills (BIS). In early 2017, BEIS published a Green Paper, *Building Our Industrial Strategy*, which was followed by a 2018 White Paper, *Building a Britain Fit for the Future.*

But attention rapidly turned to the mechanics of "Brexit" – with very little *actually* being achieved in the area of industrial strategy – and May's government soon fell into disarray. Thus, more than a decade after the most serious financial and economic crisis since the 1929 Stock Market Crash and Great Depression, as the UK continues to experience very similar conditions to those of the turbulent interwar years, from a policy perspective, very little seems to have been learned.

5. A new relationship between the State and some non-state sectors is born – The radical rebirth of UK elite sport

As we have seen, for at least the past century, the UK's experience with industrial strategy, let alone actual policy development, has had strong political dimensions; and for most of this period, laissez-faire has been the default approach. During the interwar years and Cold War era following the Second World War, this is perhaps partly a consequence of opposition to managing the economy and industry under a system of socialist-style central planning, especially given concerns about socialist revolution.

However, Keynes had been as unconvinced by the Socialist vision of nationalised industries as he was by the concept of laissez-faire – whose time, as far as he could

[86] Cable 2012.

see, had come and gone. The ideas about industrial policy articulated in *Britain's Industrial Future* instead called for a more cooperative relationship, not only between the State and industry, but also within and between industries, and among those involved in industrial organization and development. It was a much more human vision of the economy and industry than either of the alternatives Keynes rejected; and what the result might have been, had the Liberal Party actually won the 1929 election remains an open question – especially given the impact of the Wall Street Crash and the beginnings of the Great Depression that had so closely followed.

The remaking of British elite sport, which was initiated more than 60 years later, also involved strong political dimensions – but absent the arguments fiercely contesting it that had dogged industrial strategy development for so long. This is probably what allowed the elite sport system to come into being at all. The way it was created and developed was, almost certainly, entirely unconscious of Keynes's insights in relation to industrial policy. But the resonance between the two systems – and the remarkable effectiveness of the elite sport system – suggests that there is clear value for industrial policy to be found in the industrial system of self-government and regulation envisioned by Keynes and the LII Committee.

Moreover, UK elite sport currently generates an estimated annual GVA of around £30 billion and employment for approximately one million people, as well as consumer spending of almost £20 billion and turnover of nearly 75 billion per year, when the direct and indirect effects are taken into account. This puts it above the Agriculture, Forestry and Fishing, and the Water Supply, Sewerage, Waste Management and Remediation Activities industries – and roughly the same size as Arts, Entertainment and Recreation.[87] As a high-performance industrial sector, UK elite sport thus constitutes an important segment of the UK economy – and a significant industrial policy success story.

5.1. Team GB and industrial strategy

By the 1990s, like British industry during the 1920s and 1930s, British elite – and especially Olympic – sport had been in the doldrums for some time. However, unlike industry, elite sport subsequently became the subject of an innovative programme of development that was not only instigated by a conservative government that still maintained a laissez-faire view of most things, but also sustained by several other political administrations of varying political persuasions.

This radical overhaul began following the British Olympic Team's dismal showing at the 1996 Atlanta Summer Games, where it was branded the "Team of Shame" finishing 36th, with just one gold medal.[88] Given that the team had included the likes of Steve Redgrave and Ben Ainslie, this underperformance, in retrospect at least, could not simply be put down to a lack of talent.

When John Major succeeded Margaret Thatcher as prime minister in 1991, a decade of political indifference to sport came to an end. Major was a life-long cricket fan,

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[87] Sport Industry Research Centre 2017.
[88] Quoted in Kelso 2012.

who understood the political significance of sport, especially in a nation where many read their newspapers starting with the sports pages at the back; and his backing would be instrumental in the strategic changes underpinning British elite sport's impressive – and rapid – competitive turnaround.[89]

Political support was thus a crucial starting point for the process of change, since both the institutional and legal framework supporting elite sport development required reform, something that only government could do. Another fundamental problem was locating a predictable, competitive source of funding, both in absolute terms and by comparison to other countries. At the time, the UK was – as it was during most of the interwar years – in recession; worse still, the government's reputation for fiscal prudence had been seriously undermined by Sterling's exit from the European Exchange Rate Mechanism in 1992. Under these circumstances, exchequer funding would be very hard to justify, so something new would be required – and this time, it was actually delivered. The new National Lottery, set up in 1993, provided a viable alternative to exchequer funding, with around 30 percent of the proceeds being earmarked for good causes – including sport.

But neither political support nor additional funding would, by themselves, be sufficient to change the game. As with the way forward set out in *Britain's Industrial Future*, leadership, a clearly articulated vision and a strategy for achieving it – along with processes for identifying and developing talent – also needed to be part of the package. Since the difficulties afflicting elite sport were hardly a secret, an interested government could engage with existing sporting institutions to facilitate the most pressing changes quickly. The use of existing institutions not only made it easier to create the system and to develop it further as required; but crucially, it also took into account the specific UK cultural context.

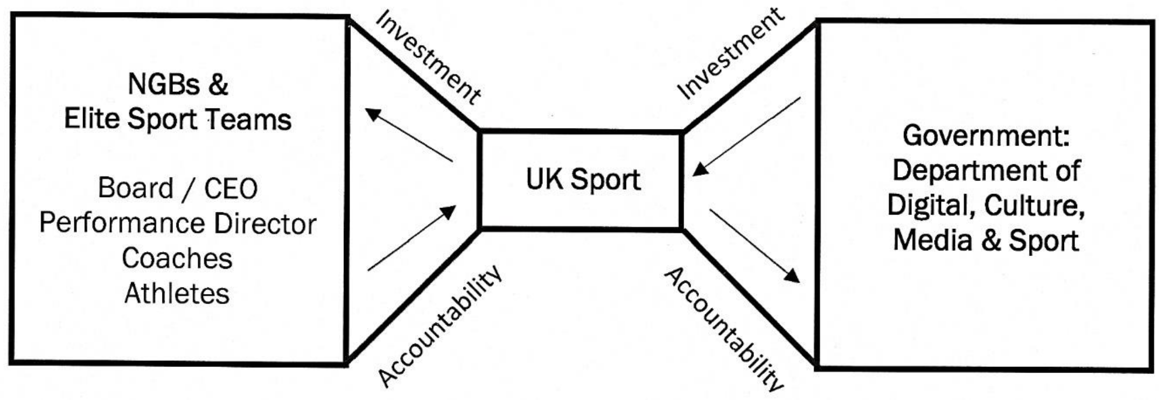
Funding was thus the second of only four – albeit highly significant – changes in the government's relationship with elite sport. The third was the primary institutional change, also initiated by the Major government: In July 1994, it proposed the separation of elite sport from its mass participation counterpart. As a result, the Sports Council of Great Britain, was replaced by the England Home Country Sports Council (Sport England) for mass participation sport, and a new arms-length government body, the United Kingdom Sports Council (UK Sport), which was assigned responsibility for elite sport only, with much closer links to the British Olympic Association. In January 1997, UK Sport became fully operational, and was granted a license to distribute Lottery funding to elite sport, shortly afterwards.

UK Sport's new-found ability to distribute funding, however, could not solve the problem by itself. Not only did this brand-new institution need effective communications with the various sport governing bodies to decide who would receive what, there was also the question of how those governing bodies would account for the investment of funds. Keynes had emphasised the key role to be played by corporate governance in the industrial structure he thought might develop – and it also plays a central role within the elite sport system.

[89] Houlihan and Lindsey 2013, p. 40.

UK Sport works with all funded organizations to ensure that they are professionally and efficiently run, with a commitment to the highest level of governance and financial management. Figure 2 illustrates the governance relationship between UK Sport, the Government, national sport governing bodies (NGBs) and Elite Sport Teams.

Figure 2. Elite sport governance structure



UK Sport invests both exchequer and National Lottery funding in elite teams, which invest in athletes; and it is accountable to government for this investment. The NGBs and elite teams, in turn, are accountable to UK Sport for its investment in them, the success of which is determined by a “no compromise” medal-based approach. But this governance system did not spring-up out of nowhere. Whilst larger sport governing bodies, such as the Royal Yachting Association (RYA), were already set up to handle and account for the investment of large amounts of money, many of the smaller ones were not. Helping these to develop appropriate systems of governance thus fell not only to UK Sport itself, but also to organisations such as the RYA, which had first-hand knowledge and experience of what was involved. But as we will see below, this networking of UK Sport and the national sport governing bodies would not be limited to corporate governance. In 2016, UK Sport published *A Code for Sports Governance*, covering all funded sport, which took effect from 2017 onward.[90]

Crucially, political support for elite sport – with a key message for industrial strategy development – has survived several subsequent changes of government, allowing a long term, strategic vision to be both delivered and developed further. Whilst the first three fundamental changes to the elite sport system came under John Major’s government, the fourth emerged from Tony Blair’s New Labour. Up to this point, legally, State and Lottery funding could only be spent on facilities. With the change in the legal framework under Blair’s government, it could now be allocated to teams, athletes and support staff. So athletes no longer had to juggle employment with training and competition; and coaches and other specialists could be funded.

This fundamentally changed the way the system worked: Instead of government dictating what teams spent money on, they were now free to spend it on what was *actually* required and *when*. Discipline came with the hard-nosed rule that funding

[90] UK Sport 2019a.

was entirely contingent on competitive success – or the demonstrable likelihood of it – within set timescales as well as on strict governance procedures for recipients to account for their use of public investment.

5.2. The British Olympic team's competitive turnaround

Table 1 shows the British Olympic team's performance since 1996, illustrating both the speed of the competitive turnaround and the sustained development ever since.

Table 1. British Olympic team's performance in the summer games

Olympic Games	Total Funding from UK Sport* (£millions)	Number of Funded Sports*	Number of Medals				World Ranking
			Gold	Silver	Bronze	Total	
Atlanta 1996	NA	NA	1	8	6	15	36th
Sydney 2000	£58.9**	13	11	10	7	28	10th
Athens 2004	£ 71.0**	16	9	9	12	30	10th
Beijing 2008	£ 235.1	27	19	13	15	47	4th
London 2012	£ 264.1	27	29	17	19	65	3rd
Rio 2016	£ 274.5	20	27	23	17	67	2nd
Tokyo 2020	£266.5	20	NA	NA	NA	NA	NA

* **Source:** UK Sport, 2019.
** Figures for the Sydney and Athens Olympiads relate only to Podium level funding as during that time the home nation Sports Councils were responsible for supporting athletes at the Foundation and Podium Potential levels.
* On 1 April 2006, UK Sport assumed responsibility for all performance funding, from Talent to Podium. Figures for Beijing, London, Rio and Tokyo also include costs of sport science and medicine provision, not previously included in a sport's funding award.

The successful bid for London 2012 in 2005 proved pivotal to Team GB's performance lift between Athens and Beijing, when it rose from a world ranking of 10th to 4th. At the time, it was understood that a successful London 2012 bid would be crucial, with any under-performance – by organizers or the team – being both highly public and politically unhelpful. The bid had demonstrated closer cooperation between government, the British Olympic Committee (BOC) and elite sporting institutions than before. Winning it not only reinforced a high-profile medium-term commitment to elite sport; it also extended the system's planning and strategy horizon from one Olympiad, to two. However, in response to the request by emerging sports for a twelve year period to provide additional time to develop, UK Sport incorporated a third Olympiad from 2017 onward.

Winning the London bid also put a premium on the *collective* performance of Team GB – rather than *individual* athletes and disciplines. According to Liz Nicholl, UK Sport's CEO:

> "When we won the Games bid, we realized that this wasn't about each sport becoming successful at an Olympic and Paralympic Games; this was about the collective performance in London ... So we developed our "Mission 2012" approach to get them to think beyond competing with each other for our resources and to think about how to help each other on the collective goal of being tremendously successful in London ... Now, the power of the collective is really well understood".[91]

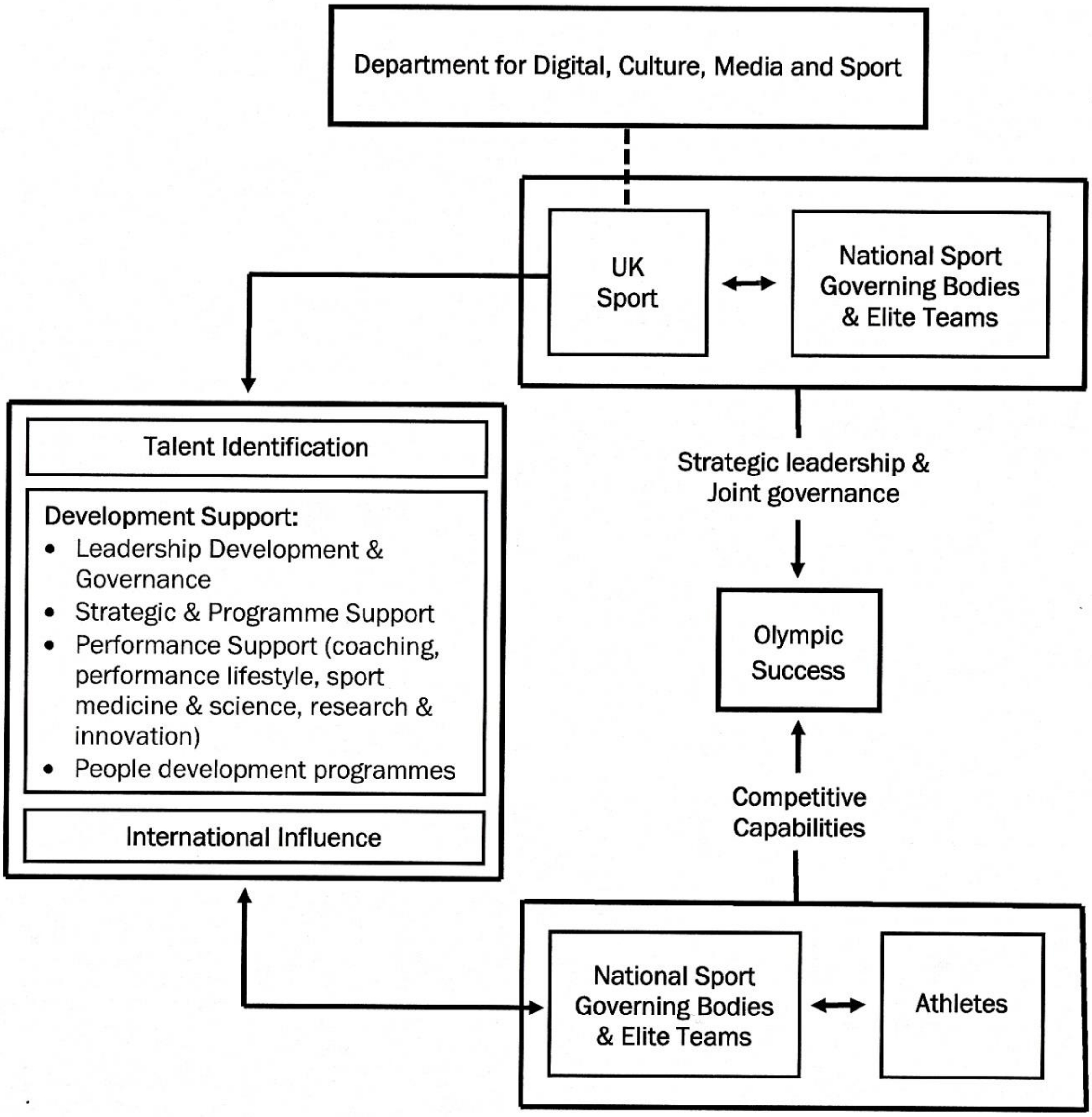
The successful London 2012 bid thus strengthened the sense of the Team as a whole being in competition with the rest of the world – and needing to work together to succeed. This legacy of working together has grown steadily ever since; and it contributed to Team GB making Olympic history in Rio, by becoming the first team ever to improve its performance following a home games – winning medals across more sports by more athletes in the process; and the ambition for Tokyo 2020 is to improve still further.

5.3. UK elite sport institutions — and their relationship with the State

Figure 3 illustrates the structure of the UK elite sport competitiveness development system, showing the limited, but essential role that the State plays in the integrated system.

[91] Personal communication, May 22, 2015.

Figure 3: The UK elite sport development system



UK Sport is an executive non-departmental public body of – and accountable to – the Department for Digital, Culture, Media and Sport (DCMS). It sits between the DCMS and the other sporting institutions and is unusual in many respects; a public institution, it is run at “arm’s length” from government, working in *partnership* with the Home Countries Sports Councils, National Sport Governing bodies (NGBs) and elite teams to *lead* elite sport to world class success. This makes UK Sport an integral part of the elite sport network, rather than a top-down instrument of government policy. UK Sport, in turn, is led not by civil servants, but by former sporting world champions, who know what it takes to win medals in international events. This underpins the quality of its relationships with the rest of the network and its ability to put a convincing case to government for the needs of elite sport.

UK Sport is therefore pragmatic and adaptive; it has also avoided capture by either political or sporting interests. This is critical for an organization that leads an industrial sector. In many ways, the role played by UK Sport is comparable to that envisioned by the Liberal Industrial Inquiry, when it proposed Councils of Industry, which would report to a Ministry of Industry; and it stands in sharp contrast to the role played by a traditional industry body, which is subject to the control of – and hence, vulnerable to capture by – those members providing the most financial support.

As with Keynes' vision of communication and cooperation within UK industry, in the elite sport network, there is regular collaboration between the NGBs and elite teams; UK Sport often serves as the facilitator, with the NGBs and elite teams having input into the processes required and how they are operationalized. Because recognizing and developing talent within particular disciplines takes place within individual sports, effective information sharing between the NGBs, elite teams and UK Sport is essential. State involvement is thus indirect, horizontal and integrated, involving open, regular and effective communication.

Since most institutions in the elite sport network are in the business of developing athletes, the end result is an "expert driven" system, with access to state resources, rather than the other way round. By allocating these resources to the most successful teams, UK Sport enhances the "market" within which British elite sport, ensuring that it is highly competitive with a focus is winning. There is competition for team places as well as funding, both within sports and between them. But competition is constructive, based on outcomes, and it takes place within a transparent framework designed to maximize the performance of athletes, sports and the team as a whole.

But there is *cooperation* as well as competition. Facilitating information sharing and working together *among* the NGBs, allows teams learn from failures, and where possible, turn them into successes. This is illustrated by the response to a disappointing performance in the pool at the London Games. Along with the inevitable reduction in funding came significant support – including input from other teams as well as performance experts from outside sport – to identify and address areas of weakness. The result was the best performance in the pool since 1908 at the following Rio games.

Although development programs within particular disciplines vary, by continually mapping the international sporting landscape, the competitiveness development system can evolve to suit changing requirements, exploit opportunities, and address obstacles as – or preferably before – they appear. To ensure that a team's focus is not only on performance but also on the systems and processes that help deliver it, UK Sport developed its "Mission" review process. This tracks, assesses and challenges each funded sport, to identify – and find solutions for – issues before they can impinge upon performance. The focus on winning is thus realized via a network producing a steady stream of talent, (rather than a few individuals), resulting in sustainable success.

In summary, whilst increased funding and intelligent, arms-length State involvement have certainly helped, these are not the whole story. Equally important are the overall leadership and vision, the institutions making up the system, the way they work together, their relationship with the State, and the nature of the strategic lead body. The constructive nature of "co-opetition" is also central to an enabling competitive environment. These principles – along with longer-term planning and investment horizons – have clear implications for the development of an industrial strategy, and the health of modern industrial districts.

5.4. What might be learned from the elite sport policy model?

Sport, generally, has its own structure, culture, and criteria for success – as do the various disciplines within it. The same is true of business and industry. For this reason, the approach adopted by UK elite sport should be seen for what it is: a strategy designed to build, maintain and develop international competitiveness. The detailed approaches required to win medals in any particular discipline are the focus of those most directly involved. Again, this would also be the case in a strategy for business and industry.

Seen from this perspective, the transformation of elite sport reveals transferable insights for industry in terms of vision, leadership and state involvement as well as funding, and the allocation of – and accountability for – resources. There are also insights in terms of strategy and planning horizons; and structures, systems and processes for identifying opportunities, building and developing competitiveness, providing support services to promising sectors and managing sectors facing decline.

In UK elite sport, an important prerequisite for the development and implementation of an effective strategy for competitiveness development was sustained high-level political commitment – and the will to make the necessary legal and institutional changes upon which such a strategy could be founded. This includes the removal of obstacles, such as lack of access to competitive and stable funding. The creation, maintenance and development of an enabling competitive environment – including access to a predictable and sustainable source of finance – has also been central to success. In the elite sport model, the objective is not to protect athletes and teams from competitive pressures but instead to support them in developing and improving competitive capabilities, which are tested and honed in the process of competing for funding, places on elite teams and medals. An enabling competitive environment for British businesses would have much the same purpose, with international competitive capabilities being refined and strengthened in markets for their goods and services.

However, whilst sport has a regular schedule, with easily identified criteria for success, this is less clear in industry. Because of the unpredictable nature of markets and technologies, an industrial strategy depends upon developing the capacity to predict, recognize and respond effectively to changes in the competitive environment. In part, this will depend upon the ability to facilitate the processes required for identifying new, promising industries and technologies – and the generation of supporting resources including requisite knowledge and capital requirements (physical, human and social). Equally important is the ability to identify out-moded industrial sectors and technologies and to effectively manage their decline. The details of such a strategy will depend upon the particular circumstances of sectors and firms – again putting a premium on the quality of relationships, communication and information sharing throughout the system and the existence of appropriate planning and strategy horizons.

Finally, not all of the ideas supporting the development of UK elite sport were learned from scratch; many were inspired by other teams or best practice and adapted to fit the British cultural and institutional context. Similarly, an industrial strategy might well draw upon ideas from elsewhere, such as Germany's "Mittelstand", Italy's industrial districts and other successful industrial clusters. But to be sustainable and effective, it should take local culture, institutional context and conditions into account.

Four broad areas then, stand out as key contributors to the success of UK elite sport. (1) an institutional structure to provide strategic leadership, identify talent and support the development of internationally competitive athletes and teams – insulated from interference by short-term political (or elite sport) interests; (2) an enabling competitive environment in which access to a reliable source of finance forms a part; (3) an institutional system that encourages learning, innovation and responsiveness to opportunities and constraints; and (4) robust governance structures to ensure transparency and accountability for the investment of public funds. Taken together, these – if made available to British businesses, clusters and sectors – would be likely to facilitate significant improvement in the UK's international industrial performance.

6. Conclusions – So, what of Keynes and the Liberal Industrial Inquiry?

We conclude by returning to the question of the path that Britain's industrial development might have taken, had Keynes's ideas about industrial organization and policy been taken as seriously as his ideas about macroeconomics.

Whereas the current debate about industrial strategy in the UK has largely revolved around the question of *whether* the state should be involved as an economic actor, rather than *how*, having carefully examined the "many and various" problems confronting British industry during the 1920s, the LII Committee had rejected the alternatives of *both* laissez-faire and socialism, arguing instead for a "many-sided" industrial policy. They proposed dealing with the high levels of unemployment plaguing Britain's traditional export industries by removing its causes, establishing a large-scale programme of public investment and constructing a new industrial order by which effective cooperation – between the State and industry, between and within industries, and between employers and the employed – would deliver not only industrial peace, but also productive efficiency and distributional justice. It would be a system of "industrial self-government", in which the State would help create an environment conducive to long-term industrial prosperity, which the Committee saw as ultimately delivering a more "abundant life" for individual men and women – and British society as a whole.

For large firms, Keynes saw a role for the State in supporting and encouraging their development, helping them set goals and evaluate performance, and regulating them in the public interest. He believed that over time, large joint-stock companies, properly self-governed and regulated, would evolve to serve a public purpose, rather than the private financial interests of their shareholders. He also advocated regulation of finance, so that it, too, would serve its social purpose of directing new investment into profitable productive channels. In a famous passage in *The General Theory,* Keynes had written:

> “Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlwind of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done”.[92]

Keynes was also concerned about industrial finance. As a member of the LII Committee, he had supported creation of a Board of National Investment; and with the Macmillan Committee, he supported recommendations for a closer relationship between industry and the City of London for the provision of finance for large-scale industry, and establishment of a separate financial institution to provide finance for small- and medium-sized businesses, which were being neglected by existing financial institutions.

Keynes considered macroeconomic and industrial policy as complementary and mutually reinforcing, with both being essential for the achievement and maintenance of full employment, stable prices, national prosperity and social progress. However, Keynes’s dynamic theory of economics and industrial development, and his empirically-grounded methodological approach, were quickly abandonned with formalisation of *The General Theory* in the static equilibrium framework of the ”Neoclassical-Keynesian Synthesis”. This framework – itself based on supposition derived from abstract reasoning, rather than reality – had been branded “bastard Keynesianism” by Joan Robinson.[93]

Thus, following the Second World War, although the early postwar decades were identified as the “Keynesian Revolution”, Keynes’s ideas about monetary and fiscal policy had been severely distorted; and Keynes’s untimely death in 1946 meant that he would be unable to defend them. During this same period, industrial policy was informed by neoclassical microeconomic theories of individual firms competing in different market structures.

Belief in the efficiency benefits of large-scale production encouraged rationalisation of the industrial structure though nationalisation as well as promotion of concentration via mergers and acquisitions. But the large firms constructed by these means were usually larger than the most efficient scale of production and composed of inefficient, often ailing businesses, due to the political influence of well-connected special interest groups.

Concerns about the separation of (shareholder) ownership from (managerial) control over the day-to-day operations of large joint-stock companies with widely dispersed shareholder ownership, led to the prioritisation of shareholder interests in corporate governance. As a result, instead of evolving to serve the public purpose, as Keynes had envisioned, they drifted in quite the opposite direction. And as memories of the interwar years – and 1929 Stock Market Crash – faded, and finance wriggled free of

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[92] Keynes 1997 [1936], p. 159.
[93] Robinson 1973, pp. 1-11.

domestic regulation, growing confidence in financial markets encouraged investors to once again look for ways of generating financial returns from speculative activities.

From the 1960s onward, the stock market was theorized to be an efficient market for corporate control – and the means by which shareholders could "discipline" senior management teams by selling their shares or launching hostile takeovers. This put increasing pressure on senior managers to deliver continuous appreciation in short-term share prices, distracting them from managing in the interests of their organisations' long-term productive viability. In the process, large swathes of British industry were deindustrialized, as hostile take-overs came to be viewed as a legitimate mechanism for restructuring industry.

During the "stagflationary" crises of the 1970s, since "Keynesian" theory and policy were blamed – and in response to intensifying economic and industrial strife – there was a return to laissez-faire, which continued apace until the arrival of the 2008 financial crisis; and although there has since been talk about the need for industrial strategy, very little progress has been made.

Keynes's ideas about industrial policy were thus never given the chance; and Britain's postwar industrial development was piecemeal, and driven by short-term political interests. The result is very similar economic, social and political problems to those experienced during the interwar years. However, the striking resonance between Keynes's ideas and those implemented in the UK elite sport system since the early 1990s – which have contributed to the delivery of such remarkable international competitive outcomes – strongly suggest that had Keynes's ideas about industrial strategy been tried-out, Britain's postwar industrial development might have been radically different – and much more likely to have delivered the vision set out in *Britain's Industrial* Future – than it turned out to be.[94]

Thus, with much of the developed world again plagued by un- and under-employment, counter-productive austerity and the parallel rise of radical social and political movements, perhaps the time has come to revisit some of these ideas more generally, to help inform policy for the 21st century.

[94] For an interesting analysis of the contrasting perspectives on industrial policy between the interwar years and now, see Chick 2018.

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