TACKLING THE HOUSING CRISIS THROUGH DIGITAL TECHNOLOGIES AND OFFSITE MANUFACTURING

POLICY SERIES
AN INDUSTRIAL STRATEGY FOR TOMORROW

INDUSTRIAL CAPACITY IN POST COVID-19 BRITAIN

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Published:
May 2020

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A publication from the Bennett Institute for Public Policy
Introduction

For the newly elected government in the UK, like many of its counterparts elsewhere, industrial strategy has become the most important institutional vehicle through which it seeks to achieve some of its core goals. These include promoting economic growth, tackling falling productivity growth, designing research and innovation policies that will enhance the strengths of the UK economy, and ensuring that its leading sectors are globally competitive.

Its declared commitment to ‘levelling up’ the performance and opportunities of poorer regions with wealthier and more productive ones is also connected to its industrial strategy. This shift in UK government thinking mirrors developments elsewhere, as a range of international organisations and various western governments have recently proclaimed their commitment to ‘place-based’ economic development strategies.

Some experts in this area argue that there exists a template or model that the UK could import from other leading economies. At the Bennett Institute, however, we take a different tack. We have been working with some of the leading researchers at Cambridge, and engaging key decision-makers in government, to interrogate more deeply some of the dilemmas and challenges facing those tasked with designing and evaluating the industrial strategy, and the local strategies which government has encouraged some of its metro-mayoral authorities and Local Enterprise Partnerships in England to develop. Our belief is that these will only succeed if they understand and address today’s social and economic needs from place to place, and align with the key dynamics shaping the economy emerging in the coming decades.

Each of the papers in this series offers an in-depth examination of some of the fundamental issues concerning data, measurement, definition, research policy and strategic ambition – which will determine how well governments across the UK fare in this area. Some of these draw upon evidence from other countries, and some offer arguments and proposals that are germane internationally, as well as applying to the UK.

Our aim in publishing these is to enrich and stimulate thinking and debate about some of the core precepts and goals of industrial strategies. The massive societal impact of the coronavirus pandemic, and the stark geographical divides which it has illuminated, make it all the important that we devise an industrial strategy which can help restore economic growth in the coming years, and generate tangible benefits for all.

Michael Kenny and Diane Coyle
Co-Directors of the Bennett Institute for Public Policy
Key advice

- COVID-19 is having a very significant impact on societies and economies. Governments are having to think and operate differently. This offers a real opportunity to think about public policy in new ways.

- In the UK, the Conservative Government is new, winning a mandate and majority in December 2019. It has an ambitious domestic agenda, including investment in R&D, levelling up economic performance and a post-Brexit agenda for free/global trade.

- This paper suggests that Government’s emerging thinking about national self-sufficiency and building more resilient supply chains, offers an opportunity to rethink its views of – and approach to – industrial strategy. In turn this can help strengthen other objectives and priorities such as levelling up and NHS performance.
OVERVIEW

In *Cities and the Wealth of Nations*, the US urbanist Jane Jacobs describes how the most successful cities and nations should constantly grow their own capabilities, products and services in order to become less reliant on goods and services from elsewhere. Describing this as ‘import replacement,’ she saw it as a prerequisite for urban social and economic success. But writing in the mid-1980s, this was an unfashionable idea during accelerating globalisation, growing international trade and (at least in the US and UK) policymakers’ preference for open, networked economies. These ideas have also looked out of step with orthodoxies about promoting global supply chains, just-in-time procurement, and lean management practices associated with the ‘new public management’ approach to public services. According to Chris Cook, the coronavirus pandemic has exposed some significant weaknesses in the British policy model, notably the prizing of efficiency over resilience: ‘. . . part of any disaster response planning needs to include some generic idea of resilience — a generalised ability to absorb the unforeseeable. A uniquely British problem is that the way the country has been run for three decades pushes in the opposite direction. We started this crisis in a weak position. We have built a fragile state.’

He adds that the UK has depended on surge capacity or the ability to supplement day to day requirements for staff, beds and equipment with stepped-up procurement from established suppliers, and from firms and individuals with a desire to help. Invoking the Blitz spirit (and other wartime metaphors), we have seen Burberry making PPE, Formula One designing ventilators and Brewdog manufacturing hand sanitiser. Nightingale hospitals have been built across the country in exhibition centres and university car parks. Retired doctors and nurses and nearly a million NHS volunteers have stepped in to fill staff shortages. But this approach has had, at best, mixed success.

COVID-19 is now rapidly challenging established orthodoxies and public opinion. The role and power of the state is being reshaped and by politicians who might never have imagined thinking and acting in such ways. In time, it suggests this will extend to industrial policy after the current crisis is over.

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National self-sufficiency

In the 2019 General Election and its immediate aftermath, Boris Johnson seemed lukewarm about the idea of an industrial strategy. There were rumours that he and Dominic Cummings would disband the Department for Business, Energy and Industrial Strategy (BEIS) amidst wider reforms to Whitehall and the Civil Service. A focus on place, or levelling up, and boosting R&D might have offered familiar themes, but the industrial strategy as developed by Johnson’s predecessor Theresa May and by BEIS Minister Greg Clark, looked doomed.

But as in so many agendas formed at that time, Johnson’s priorities and objectives are changing fast. Writing in The Spectator, James Forsyth notes a shift to what Johnson calls ‘national self-sufficiency’ and ‘the view that Britain cannot afford to be dependent on imports for vital medical equipment’. He adds that there will be a ‘huge new push for domestic manufacturing after this crisis to ensure that this country can produce drugs, vaccines and medical equipment when necessary.’

It seems that the Government now believes that ‘little platoons’ or ‘small boats’ aren’t always enough, and that they don’t always arrive in time. And neither are supply chains or markets, especially when many countries are trying to expand supplies and capacity at the same time. So, what might national self-sufficiency or a post COVID-19 industrial policy look like? And how might it aim to increase strategic and industrial capacity in key sectors?

This approach has been further developed in the Government’s recently published guidance for ‘the UK’s world-leading pharmaceutical and medical-device manufacturing sectors’ and describes the need for a new ‘NHS and care capacity and operating model’ with ‘a new Industrial Strategy for PPE’. This is to expand supply from overseas, ‘improve domestic manufacturing capability’, ‘diversify the UK’s sources of supply and strengthen the UK’s supply chains for the long term’.

This is then a concerted ‘effort to unleash the potential of British industry to manufacture PPE for the health and social care sectors’. It also promises to ‘support the scale-up of engineering efforts for small companies capable of contributing to supplies’, to ‘expand and improve the logistics network for delivering to the front line’ and to ‘ensure the UK’s supply chains are resilient’ and that ‘the UK has sufficient access to the essential medicines, PPE, testing equipment, vaccines and treatments it needs, even during times of global shortage’.

Costs and trade offs

Few policymakers or taxpayers are likely to have a problem with increasing investment in the NHS, and particularly in the supply of doctors, nurses and other health professionals, as well as the numbers of beds and intensive care places. The need to improve procurement and distribution systems in the NHS would seem equally uncontroversial, including any increased costs of maintaining spare capacity in staff levels and hospitals and on reshored supply chains and equipment stockpiles. With existing commitments to doubling R&D spending, few are likely to complain about more funding for medical research or increased investment in vaccine or drug-making facilities.

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But the goal of national self-sufficiency should naturally be extended to other parts of the public and private sector too. Given the importance of manufacturing, it would make sense to have more support going to firms or for more inward investment in this sector. An industrial strategy informed by this goal might well be less blasé when manufacturing firms are struggling, or when they are successful and the subject of takeover bids from abroad.

Of course, there are important and difficult trade offs to consider here and politicians will need to be honest about these. It is widely accepted by many economists – as well as many government officials and policy-makers – that the UK has historically benefitted from the openness of its economy and from its strong commitment to free trade. While this has not been without controversy, and has involved its own trade offs, (such as damaging some industries and places whilst benefitting others), on the whole the benefits have clearly been more than theoretical. Active support for, and/or protection of, domestic activity that might be less efficient than that found elsewhere, is not obviously optimal. This might be true in terms of both long-term costs and standards as well as efficiency overall.

It is important to acknowledge that not all sectors or supply chains should be affected by the goal of national self-sufficiency. Just as the benefits from globalisation, free trade and global governance will still apply after COVID-19, it is best to think of this as part of a balanced or hybrid approach across the economy as a whole. This should not then be considered as the start of a journey towards economic nationalism, high tariffs and protectionism, nor should the ideological critics of such an approach be allowed to frame it as such. Rather, it should be better considered as a shift to a more pragmatic, mixed approach, with resilience as a more significant objective of overall economic strategy. Furthermore, any shift should try and minimise additional costs and resist lowering of standards.

Jacobs’ vision for ‘import replacement’ does not involve either higher costs or lower standards but instead envisages cities developing know-how, expertise and new specialisms. She also set out how cities can bring together skills and networks to drive innovation. Building industrial capacity and reshoring some supply chains could share benefits around the country by helping to reinforce existing networks and specialisms. This can extend directly to other important objectives of industrial strategy, such as the importance of place and the need to address uneven and unbalanced economic performance.

According to the OECD, the regional and local impacts of the current crisis have been highly asymmetrical. In China 83% of confirmed cases were in Hubei Province. In Italy the North was the hardest hit, and Lombardy registered the highest number of cases, around 41% of the nation’s total. We know that London has suffered badly in the pandemic but, as Max Nathan writes, the highest rates of infection are now elsewhere. The Newcastle city region has become a national hotspot, with Sunderland (435 per 100k as of 1st May), Gateshead (430) and South Tyneside (397) amongst the highest in the country. Nearby Middlesborough and the Tees Valley has 410. Oldham (353) and Salford (320) have the highest case rates in Greater Manchester. In the West Midlands, Walsall (363) and Wolverhampton (336) are the most affected. There is now compelling


5 Nathan Max, ‘The City and the Virus’, 14th May 2020, Medium
evidence from the ONS\(^6\) that the impact has been greatest in poorer parts of the country. We also know that the economic consequences, coming on top of high levels of regional and intra-regional inequality, are likely to be asymmetrical too.

But prioritising industrial capacity provides government with a powerful set of tools to address this, if it does so in a deliberate and strategic way. In other words, a refreshed and refocused industrial strategy could support both levelling up and associated devolution. Procurement, such as for PPE, is typically organised through best value via global contracts based on delivery at massive scale. Smaller national or local suppliers that do not make it into these supply chains have to look elsewhere for business. It is the same with many different supply chains, whether in manufacturing, retail or food production. Firms either innovate and move up the value chain or they disappear. If they do the latter, then local jobs and income are lost. In turn, this reduces capacity and resilience at national and local levels.

**Better value and better strategy?**

The trick will be to ensure that increasing capacity and cost does not come with lower quality or standards. We do not want ventilators that don’t work, or PPE that isn’t effective and nor do manufacturers or retailers want to compromise on standards in their products or supply chains. So reshoring and relocating supply chains must still prioritise high standards of product design, adaptability and innovation amongst other things. Firms will still require absorptive capacity — defined as the ‘ability to recognize the value of new information and technologies, assimilate it, and apply it to commercial ends’\(^7\). In turn this will require high levels of skills, good networks, more R&D, and a policy and business environment that supports them.

As with previous iterations of industrial strategy,\(^8\) since the global financial crisis in 2007/8 there has been a renewed focus upon technical skills, applied research and the institutions that can best provide them. Enhancing capacity and resilience in health and other vital services requires more staff and more training. One of the reasons the NHS was in danger of being overwhelmed by the initial spread of the coronavirus was the high number of staff reporting symptoms and being required to self-isolate. The same was true in care homes, supermarkets and in other important sectors.

All of this thinking should extend to more routine sectors and occupations and to the social economy too. The Covid-19 crisis has seen an increase in the perceived value of previously lower-profile activities and occupations. Key workers and supply chains in food production, retail and social care are all examples, and their overall worth to local and national economies has become much more visible. The third sector — and social capital more broadly — has also proved its worth in the way that the economy and individual communities function. It might not have ever been quite so dependent on global supply chains or ‘just in time’ procurement, but its role should not be undervalued when rethinking industrial strategy and capacity.

Of course, Jane Jacobs is also remembered for her thinking about social capital, the importance of trust and of different types of people coming together in public spaces with common interests and shared values. A similar argument

\(^6\) ONS, ‘Deaths involving COVID-19 by local area and socioeconomic deprivation’, 1st May 2020

\(^7\) See Cohen and Levinthal (1990), ‘Absorptive capacity: A new perspective on learning and
has been made, recently by Andy Haldane, Deputy Governor of the Bank of England and Chair of the Industrial Strategy Council, observing in the Financial Times that ‘even as other capital has crumbled, the stock of social capital has risen, acting as a countercyclical stabiliser across communities.’

He concludes that ‘we need to invest this rich endowment of social capital created by the crisis, by rethinking and rebuilding the institutional immune system that is our social sector’.

A refreshed industrial strategy should bring a broader emphasis upon increasing industrial and strategic capacity across the UK economy. This starts with national self-sufficiency in health and manufacturing but then would naturally broaden out to other sectors. There are also very strong arguments to extend it to the so called ‘foundational economy’, including retail, social care, distribution, and to civic and social organisations – for these are also enhancing capacity and building resilience, especially at the local level.

All might come with a higher price than debates about efficiency and value for money have allowed in the past. It is more expensive to pay for equipment, facilities and people that you may not need. But we should also be willing to pay more for the sectors and occupations that have proved their value during the crisis. Other trade-offs also matter. There are potential costs and inefficiencies at the macroeconomic level, and political dangers if national self-sufficiency is taken too far. But these may be mitigated, at least to some extent, if at the local level there is an opportunity to revisit some of the more negative consequences of globalisation, for various industries and left behind places.

Furthermore, such an approach (like the UK Industrial Strategy launched by Theresa May and Greg Clark as well as earlier versions during the Coalition and in the later days of New Labour) still represents a major paradigm shift for the UK’s existing economic policy model and away from its historic reliance on free trade and economic openness. It may also represent quite a shift for this Government too, given some of its reported scepticism towards the existing industrial strategy. The support of successive governments for such a model has also reduced the capacity at the centre to adopt such an approach and added to the weakening of some local economies as well as that of local government and civic institutions. All of which makes it much harder to get this right and to do it effectively.

But with huge problems to address, and a political will to do so, there is opportunity to think and act differently. There are issues of cost, value and capability to consider when thinking about renewing or strengthening industrial capacity and national self-sufficiency. But an industrial strategy that acknowledges these issues and sets its sights on the longer term, can deliver wider political, social and economic benefits. This is partly about understanding in what sectors and supply chains import replacement might be practical or desirable, but also about winning wider political and public support for reshoring costs and sustaining both for a long period.

This coming together of ideas might have already occurred to some in Government. Certainly, the trade-offs and tensions between the goals of supporting domestic industries and a global free-trade agenda have been discussed widely in debates about Brexit. Boris Johnson has

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9 See the ‘Foundational Economy Collective’ for definitions and further thinking about COVID-19

reportedly\textsuperscript{11} described himself as a ‘Brexit Hezza’, acknowledging these same contradictions, but at the same time signalling a commitment to levelling up and a more active role for his Government.

Increasing resilience and growing industrial capacity could provide important tools for the UK. Manufacturing offers strong multipliers in local economies, and so do well supplied public services and institutions. As Jane Jacobs argues, ‘import replacement’ — or industrial capacity — might be best considered at a local level, and in concert with a levelling up agenda. Like Andy Haldane, she might also have described the value of social capital in the same context and argued for additional investment in the ‘social’ and ‘foundational’ economy to further strengthen the same places. Any objective for rebuilding capacity and resilience as a primary objective for the national economy needs to be supplemented by a real commitment to rebuild and strengthen local economies too.

\textsuperscript{11} See for example Parker George and Bounds Andy, ‘Brexit: Will Boris Johnson reverse
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