Industrial Strategy

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What is industrial policy?

• Pack & Saggi (2006):

‘any type of selective intervention or government policy that attempts to alter the structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention’

How has it evolved in the UK?

1970s: Keynesian economics and planning—characterised as ‘picking winners’

1980s–early 1990s: privatisation

late 1990s–early 2000s: competition policy

2008 onwards: financial crisis, patent boxes, and industrial strategy, including sector deals
Arguments in favour

- infant industries, learning by doing
  - e.g. capital market imperfections
- knowledge spillovers, dynamic scale economies, and industrial targeting
- coordination failures as a rationale for industrial policy
  - e.g. Nordic Mobile Telephony standard NMT450 and GSM
- informational externalities
- exports and foreign direct investment (FDI)
GSM case study

Handset volumes, thousands

Sources: Gartner, Tech Insider, Nokia and Ericsson public financial filings
Arguments against

• knowledge requirements on government
  • e.g. Indian software

• markets are quite efficient
  • e.g. OECD (2015) ‘Industrial Policy: Not a Bad Word’

• capture and rent-seeking behaviour

• it is not very effective

Organisation for Economic Co-operation and Development (2015),
What works?

- What Works Centre for Local Economic Growth
- transport investment
- broadband
- enterprise zones

www.whatworksgrowth.org
Future issues

- more sector deals—beyond the existing deals in life sciences, automotive, creative industries, AI, and construction—e.g. nuclear

- state aid—what constraints might be imposed by future state aid rules?

- the role of the Green Book?

- impact on merger control?
  - e.g. merger of E.ON / Ruhrgas
  - e.g. clustering impact on efficiency analysis?
