



Business, Energy and Industrial Strategy Committee

Oral evidence: Post-pandemic economic growth, HC 393

Thursday 25 June 2020

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Members present: Darren Jones (Chair); Alan Brown; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Charlotte Nichols; Mark Pawsey; Alexander Stafford.

Questions 1 - 34

Witnesses

I: Diane Coyle, Bennett Professor of Public Policy, University of Cambridge; Mariana Mazzucato, Professor of Economics of Innovation and Public Value, University College London and Director of the UCL Institute for Innovation and Public Purpose.

Examination of witnesses

Witnesses: Professor Diane Coyle and Professor Mariana Mazzucato.

Q1 **Chair:** Welcome to this first session in our post-pandemic economic growth inquiry. We all recognise the enormity of the economic challenge facing our country and indeed the world, with the most significant post-war recessionary environment and warnings from the OECD that the United Kingdom has one of the most distinct challenges of developed nations in its recovery. We know this is not just about GDP figures; this about employment, skills, equalities, climate change, and the success and strength of the British economy for the future. That is why this super inquiry will be taking evidence over the coming months on how we can build back better for Britain.

This first session will look at the economic environment before the pandemic and discuss what the impact of the pandemic has been on it, so that we can understand the baseline on which we wish to build in the coming weeks and months ahead. I am delighted to have two fantastic witnesses on our panel this morning: Professor Mariana Mazzucato, who is the director of UCL Institute for Innovation and Public Purpose and a professor of economics of innovation and public purpose; and Professor



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Diane Coyle, who is the Bennett professor of public policy at the University of Cambridge. Welcome to you both.

I am going to start with a general question to get us going and I would be delighted to hear answers from both of you. What would you describe as the key features that defined the state of the UK economy before the pandemic?

Professor Coyle: Thank you for the invitation to give evidence today in this very important inquiry. It has been a story of strengths and weaknesses with the UK economy. Clearly we have some very innovative areas such as fintech and AI. We have thriving creative and higher education sectors.

Chair: We have an internet challenge with Diane. I am going to move swiftly on to Mariana and I hope we can come back to Diane in a second.

Professor Mazzucato: I thank you as well. This is a real honour and an urgent inquiry. Without being too negative, I will focus on the challenges. As Diane was saying, there are lots of positives. Over the last two years I have been working with the Government around some of that positivity, specifically around the challenge of that industrial strategy, which I know we will get to later.

On the challenges, the first has been the direction of growth, not so much the rate. That has been a rate of growth that has been led by the consumption part of GDP and that consumption has been fuelled by private debt. The ratio of private debt to disposable income is actually back at the record levels it was before the financial crisis. The bad news there is that that is what caused the financial crisis.

A second challenge is that the form of finance we have in the UK has been overly financialised. By that I mean that too much of it goes back to the financial sector. Some Bank of England data shows that something like only 20% to 25% of finance reaches the real economy itself. A lot of it goes back to finance, insurance and real estate. The acronym there is FIRE.

The other thing is the short-termist corporate governance structure. Of course, that is not across the board. It is always important to remember that, amongst any of these statistics and numbers, there is heterogeneity within the category. In general, the Anglo-Saxon model of corporate governance has been quite short-termist, in the sense that pressure to maximise shareholder value has led to lower rates of investments in those areas that produce long-term growth. I am thinking of things like research and development, which continues to be lower than the OECD average.

The other thing is something that is very dear to me and the reason I set up the Institute for Innovation and Public Purpose. The public sector itself has increasingly been losing, in some ways, its capacity to govern. Again, that is obviously not across the board, but this overreliance on



outsourcing to the private sector some key Government functions potentially hurts the trial-and-error learning by doing within Government and the lack of investment within Government's own capabilities because of this overreliance. On top of that, over the last decade, the austerity years, if you want to call it that, key areas like public health have been losing funds. Since 2015, there has been £850 million lower in real terms to public health itself. Then the crisis comes and we need to throw money at the public health service. If, in the meantime, it has been hurt in terms of its own capacity, that is a problem.

Coming back to the issue I was mentioning before in terms of the private sector, what is interesting is it itself loses capacity. This overly financialised business model means that its investment in its own productive capacity can be falling over time. You see that in terms of aggregate investment levels if you look at the investment side of GDP in the UK. It has, on trend, been falling over the last decade.

Q2 Chair: Productivity has been an underlying theme to many of the points you have mentioned there.

Professor Mazzucato: Productivity is a result of that lack of investment. Where does productivity come from? It comes from areas like investing in human capital and research and development. If these long-run investments are not made due to an overly financialised and short-termist corporate culture, productivity of course will suffer from that. It is also true that productivity comes from particular types of institutions and so, for example, science-industry linkages are extremely important to the economy's productive capacity.

The catapult centres that were set up over the last years are a huge improvement, but we continue to underinvest in that. The last time I checked, we invest only about a tenth of what Germany invests in areas like their Fraunhofer institutes. I am not sure if the data has changed since I last checked. We have not necessarily been making those kinds of investments over the last 20 or 30 years, so we are catching up in terms of creating a dynamic innovation system. The science base is quite strong, but those science-industry linkages have been weaker than in some of our northern neighbours.

Q3 Chair: Mariana, is your submission there that we have understood some of the challenges around productivity, but perhaps we have not been funding it adequately in order to challenge? Is that the point you were making?

Professor Mazzucato: Yes, exactly. The culture of the dividends and share buyback mode of focusing on quarterly returns is not unrelated to the lack of investments that are made in that productive capacity. A recent report I saw by Common Wealth, the think-tank, found that the 100 largest non-financial UK firms, so the ones in the real economy, paid out £400 billion in dividends and £61 billion in share buybacks between 2011 and 2018. That is equivalent to 68% of their total net profits. That



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is a large amount of finance going outside of productive capacity. It is a question of both reinvesting profits back into those areas and setting up structures, which I would put under the heading of a strong national system of innovation.

There are lots of actual positive stories there. I am sure we will get to it later. There is this more recent challenge-led industrial strategy we have had and the attention to particular institutions like the ARPA model. This has been a very recent development in the UK innovation discourse. Those are all really positive movements towards thinking about not just productivity as an aggregate data point but what we know about the long-run drivers of productivity in different countries and how we can start building that productive capacity. That is within the private sector, again thinking about a more long-term corporate governance model within the public sector, in terms of the investments it itself has to make in areas like publicly funded R&D, and also the relationships between public and private, in terms of the fundamental linkages we need between science and industry.

Q4 Chair: Understood, thank you. You will be pleased to know that Diane is back with us. I will go back to Diane with that opening question about the defining features of the state of the UK economy pre-pandemic.

Professor Coyle: Our internet chose to crash at that moment; I do apologise. What else I was planning to say is entirely consistent with what I heard from Mariana just then. It is about the persistently low level of investment in the UK economy. We have lagged the OECD average. We have been near the bottom of the league table for many years now, and it is across the board. It has been private business investment, investment in R&D and infrastructure and investment in certain kinds of skills. It has been both public and private. Investment is key because it not only indicates confidence in the future but actually determines the sustainable rate of growth over long periods of time. If we do not address that, we are going to be baking relative decline into the British economy for years and decades to come.

Even before the pandemic, the trend in the UK had been quite adverse. The economy was generally quite weak. The Brexit uncertainty for three years before the pandemic hit us had itself added to the discouragement of business investment. We have a big backlog to make up in all these domains of investment.

Professor Mazzucato: Can I add one thing? I am sure we both agree on this, but we should at least put it on the record that another huge problem is inequality. Average real wages in the UK remain below their 2008 peak. That is also affected by structural conditions, including the relative weakness of trade unions, so worker bargaining power. The number of people in in-work poverty was in fact at an all-time high, according to the Rowntree Foundation, even just before the crisis. 56% of people who are living in poverty were in a household where at least one person had a job in 2018.



Q5 **Chair:** We will come on to some of those issues, including geographical inequalities as well, which we know is a priority for the Government. Moving on to the industry strategy, I will come to you first, Mariana, because I know you have been involved in it. What are your reflections on the current iteration of the UK's industrial strategy? Has it delivered the outcomes that were hoped for when it was put together?

Professor Mazzucato: In some ways, it is too early to tell. The real question is whether the Boris Johnson Administration will continue the effort, as Theresa May's Government did. The big change in that industrial strategy under Theresa May, so with Greg Clark when he was Minister of BEIS, was that it moved away from thinking of the vertical part of industrial strategy as just picking sectors. You will remember that there was a list of sectors under Vince Cable. When he was the BEIS Minister I think there were automotive, aerospace, life sciences, creative industries and financial services. That takes a view of industrial strategy as types of sectors to support. Then of course there is a horizontal part of that, which has to do with skills, capabilities and the science base.

The real change in Theresa May's Government's industrial strategy, and part of it was also engagement with our institute, which was cited in that 2017 industrial strategy, was to take a challenge-oriented lens rather than a sectoral lens. Instead of making a list of top sectors, they chose four challenges. Those were around clean growth, the future of mobility, healthy ageing and the opportunities that are presented by AI and big data. The idea there is that you use those challenges to foster investment in the industrial capacity of all UK sectors, but especially to think how they can, together, collaborate best and innovate in order to solve what we then called missions underneath those challenges. A carbon-neutral city or region will require investments not just in renewable energy but in all sorts of materials, as well as how we eat, walk and move. Financial services themselves need to modernise for that digital design. AI and digital will be part of a strategy around clean growth. That cross-sectoral lens of the strategy, versus that sectoral approach, was very important.

Since the recent Administration came into power, I think there was so much attention then to Brexit that at least lots of the people we were working with, through my institute, in BEIS were moved over to the Brexit team. Now that Brexit has been done, the real question is if we will again see a real emphasis on a challenge-oriented approach. There is no point talking about an ARPA model if we do not have big challenges for ARPA to address.

In fact, if I can just pause there for a minute, the DARPA model and the ARPA model in the United States, which has been the one that has inspired Downing Street and in particular Dominic Cummings, is a very important one to learn from. There are two parts of it that we need to pay attention to. One is what I was just talking about: that DARPA in the past had success in the US because it was focused on big problems that need to be solved. The internet was a spill-over of the fact that they



wanted the satellites to communicate. GPS was a spill-over and a solution to the problem of knowing how to bomb very carefully for the army. You could almost see all the things in our iPhones—Siri; touchscreen display—as solutions to big problems that organisations like DARPA tried to tackle. By the way, that was always in conjunction, in collaboration, with the private sector.

The other point is that it was also done through procurement itself. Government as purchaser, not just Government as investor, created a funnel through which, for example, start-ups that were financed through programmes like the Small Business Innovation Research programme—there is a similar one here in the UK, SBRI—created a scaling-up process. Instead of focusing on start-ups or SMEs as somehow inherently innovative or important, the focus there has always been on scaling up those companies, small, medium or large, that are willing to engage with Government on these kinds of big missions. In the past, those have tended to be more wartime, but in the more recent present they have been just as active in areas like energy, so ARPA-E, and the health budget. The National Institutes of Health in the US spent \$40 billion a year on health innovation.

The really interesting thing again with Greg Clark is he took on board that challenge-oriented, mission-oriented lens of the strategy. Again, I am taking more about the vertical element of that. The horizontal remains incredibly important on skills, and I know Diane Coyle works with the Industrial Strategy Council on those areas. I have not yet seen the current administration putting as much attention to that challenge-oriented 2017 industry strategy. I really hope that now is the moment to do that, both because the attention now can hopefully move away from the obsession around Brexit, but also because the Covid crisis itself is throwing many challenges to us. Those are related to health but also the digital divide. I have four children. They might be educated quite well at home because we have, as you can see here, quite good broadband. Not everyone has that. Not everyone has laptops, iPads and iPhones or smartphones at home.

Here, there is real inspiration to be had from the BBC back in 1980s, when there was that mission—if I can continue to use that word—challenged for an adult literacy programme and also getting all kids to learn how to code in schools. It was actually the procurement of that mission that led to the ability of ARM and Acorn, two very important UK tech companies, to scale up. You had the mission. It was societal, social, around the digital challenges that we also talk about today. It produced the BBC Microcomputer. To produce that, it required a procurement strategy that led to that scaling up. It is more that holistic view of industrial strategy that we need to be continuing to push forwards. I urge the Government to build on the work Greg Clark's team did.

Q6 Chair: Diane, coming to you on the industrial strategy, what evidence or early signs have you seen about actual delivery through the industrial



strategy? Have we seen that cross-sectoral collaboration that has resulted in economic growth, or are there lessons to be learnt from the early few years of it being in place?

Professor Coyle: It is too early to be sure. Having a strategy is the important part. If you want to fix long-term weaknesses, that is going to be difficult and is going to take time, and you might not expect to get any evidence or results within a couple of years. It is really important for Government to take that lead in aligning the expectations and activities of individuals and businesses over long-term horizons. My concern about it would be that it gets ditched early and then, in another couple of years, we have another so-called strategy. This is the third in the 2000s already.

We have a very distinctive pattern of policy seesaws in the UK. A couple of years ago, the Institute for Government documented 29 major skills policy reforms since the 1980s. That is about one a year. We have had half a dozen energy market reorganisations in the same span, and this is an industry where investment horizons can be up to 50 years. Government intervene all the time. We have had an industry policy in favour of the finance sector, which includes infrastructure investment like the Jubilee line and London City Airport. It included the regulatory environment. The key is to do it purposefully and consistently, strategically over time.

To echo some of what Mariana is saying, I do not think of it in terms of challenges but in terms of what horizontal policies it is important for Government to put into place and to keep consistent. One is publicly financed R&D spending. We have the commitment from Government on that, which is very encouraging. That crowds in private research spending. They go together. They are not opposites. One is a stable skills policy environment and adequate funding of skills policy. One is using public procurement intelligently, not always looking for the lowest cost possibility but thinking about using that for innovative purposes. There are technical standards, things like digital switchover for televisions, setting a date and making sure the standards are aligned.

Importantly, and this has been under-emphasised in the industrial strategy, there is a really tough competition policy. There is quite good evidence from the OECD and others that some markets are becoming less competitive over time. The environment of the post-pandemic recession is going to make it harder but more important to have a very effective competition policy.

Q7 **Richard Fuller:** In the interests of time, I am going to direct my questions to Professor Coyle. Professor, we were talking a little earlier on about problems in the economy. Of course, picking faults and identifying problems is the easy part. Certainly if we look into the private sector it is perhaps easy to pick on some faults. In terms of what the risks are of the Government having an industrial strategy, you talked about the difficulties in Government maintaining a strategy. You said there were 29 skills policy reforms and half a dozen energy market changes. Is that the



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main risk of a Government having an industrial strategy? What other risks should we be looking out for?

Professor Coyle: We know from the old-style industrial policies that the other risk is that the policy becomes a vehicle for supporting companies that are not viable in the long term, for very understandable reasons. There may be circumstances where you want to smooth the transition in terms of job losses or where there may be place-based reasons. You do not want the impact of a closure to fall too heavily on one place. Those are valid reasons for transitional support, but everybody knows the picking winners hazard of old-style industrial policies.

I do not think anybody, certainly in the economics community, is talking about that now. The focus is very much on horizontal policies and Mariana's emphasis on challenges and what long-term problems we know we are going to face as a society, be it decarbonisation or ageing populations.

Q8 **Richard Fuller:** Policymakers may not be talking about place, but I can assure you that politicians are. The steel industry, for example, is very much driven by local MPs with local employees at risk. Place continues to be a risk. I can see the aspect of it being a risk, but I am also interested, Professor Coyle, in your thoughts on place as a positive. Historically, people felt a sense of pride. They were from Sheffield and Sheffield was a steel town. They were from Stoke and Stoke was a potteries town. Over the last 30 or 40 years, we have seen the benefits of globalisation, but perhaps less emphasis on place and less connectivity and sense of belonging. What are your thoughts about the role of industrial strategy in that particular one of the five foundations that our colleague, Mr Clark, put together?

Professor Coyle: This focus on place is clearly essential. We know that not only have median incomes not gone up for 10 years or so, but that has fallen unequally in terms of geography, as well as in terms of categories of people. The challenge is that the fundamental economic drivers—the technological changes, the shift towards service-based and intangibles-based economy—have actually emphasised and accelerated those forces of divergence between places, favouring big cities and leaving behind, as the phrase goes, some other places. It is essential as a society to start to address that.

One of the things that industrial policy or strategy can start to do is to get a much more granular understanding of what it is that certain places need and can move into. We have been generalising too much about these possibilities. Local industrial strategies therefore become a very important part of the armoury, because then you get the information that can only be known at local level, and not in SW1, about what employers' needs are, for instance. You might start to think about devolving skills policies, because it is not just that employers might need electricians; they might need a certain kind of electrician, given what is possible and



what growth is feasible in a certain area. It is an important vehicle for addressing those place-based challenges, but it is a touch challenge.

Q9 Richard Fuller: I know that issue of the granulated data is an area of your concern. Do you think the greater availability of data now will help rebalance from, when we think about place, focusing on defending what we have, protecting what we have, rather than understanding what we can be on a local level and trying to draw together? Is that where the local data improvements will help?

Professor Coyle: You have touched on a really important issue. We do not have as much data as we need. The availability of local data has improved enormously and the Office for National Statistics has done a tremendous job in the past few years in increasing that availability. There is still a lot of data that it is not possible to access. Officials in both BEIS and the Treasury, but also the research community, would love to be able to address that.

I would like to add to the economic strategy a national data infrastructure strategy, where we can start to join together and create the right meta data for official figures, administrative data, health data, all the many surveys available, and also for some of the data that is held by private sector companies that we cannot access at the moment.

Q10 Richard Fuller: I have one final question to build on the issue of data that Professor Coyle mentioned. My apologies to the other witness for focusing my questions here. AI and the data economy is one of the four grand challenges. You talked about competition policy. Is it not true that there is really no data champion in the United Kingdom? All the data champions are in either the United States or China. What do you see as an important part of learning from the mistakes of previous policies about how we should be using competition policy on those international data champions to help provide that sort of competence and capability that we may need?

Professor Coyle: I was a member of Jason Furman's panel that reported on digital competition, so you will not be surprised to hear that I am very much in sympathy with the idea that we need to develop an effective digital competition policy. The CMA is working on that at the moment. That is very important.

I would emphasise the point that, if we can create a national data resource—we know we have the AI skills—this is a real opportunity for Britain to have a thriving industry in the years ahead.

Professor Mazzucato: Can I add something on the steel part of the question? How to think about a challenge-oriented approach, how it fits with support to particular sectors like steel, is that the challenge then creates conditionalities. In Germany, for example, they had the Energiewende challenge. That then determined how the public sector interacted with the steel industry. There were conditions attached to



receiving any sort of public subsidy or bailout. You will recall that, just over a year and a half ago, steel was asking for a bailout in this country. The condition in Germany was that steel had to lower its material content. It did that through repurpose, reuse and recycle. It had to innovate and invest in order to receive a public subsidy.

That is something that has been quite weak, in terms of the public-private relationship in the UK, in terms of conditionalities in exchange for really ambitious and important public support. By the way, we see that today with Covid, in terms of the lack of conditionalities in the UK, compared to France, Denmark and Austria.

Chair: Thank you for that. It is an important point and no doubt one that we will continue to consider as the Government announce their next stage of fiscal support.

Q11 **Charlotte Nichols:** My question is to Professor Coyle. You were appointed as a member of the Industrial Strategy Council in November 2018. What impact did the council have and why did you stand down from it?

Professor Coyle: One important thing that the council started early was to set up the monitoring, subject to the data limitations that I was just referring to. It has recently found its voice. Its recent report criticised aspects of the implementation of the industrial strategy and in particular monitoring which policies are actually into effect and which not. We are very bad at policy evaluation and monitoring in the UK.

I stepped down for family reasons. There was nothing nefarious about it. What I had hoped the industrial council would be would have been more suited to my skills and preferences, and that is an independent evaluation body. It is actually more of a representative body. Of course it is really important to hear all the different voices from industry and around the country, but I would like it to have been something more like the OBR, an independent expert body, something like the CPB in the Netherlands or the Australian Productivity Commission, where that independent evaluation of policy implementation and retrospective evaluation can go on.

Q12 **Chair:** Diane, I have a quick question. Did the Industrial Strategy Council have proper links with Ministers and civil servants who were responsible for actually delivering industrial strategy policy in Government, or was it purely this body of external advisers overseeing what Government were doing?

Professor Coyle: It had very close links with officials in BEIS and with the Ministers concerned also, so I do not think that was the issue. It is the expectation of that kind of body that seems to me to be the missing element. As I said, my preference would have been for something like the OBR.

Q13 **Chair:** My concern is I think there were over 200 policies in the industrial



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strategy across Departments across Government. Did you have confidence that people were empowered in each Department to prioritise the delivery of industrial strategy policies?

Professor Coyle: Within each Department, yes, as far as I can tell. The missing bit is actually the joining up across Departments and a single point of responsibility for delivery across the whole of Whitehall. It is less than the sum of its parts.

Q14 **Alan Brown:** There has been an obvious sudden short-term impact on the UK economy because of Covid. Is there any way you can assess the potential medium and long-term impact?

Professor Mazzucato: One of the questions is what impact it has on some of the challenges already. Is it going to worsen it even further? In the same way that both Diane and I were talking about in the beginning, in terms of the lagging business investment, especially in long-run drivers of productivity growth, that tends to happen when your expectations of the future are positive, when you have strong expectations of what the future growth and market possibilities are. That would be the negative side, but I agree. Let us focus on the positives.

By steering policies towards using the full power of Government, through the grants, loans, redesigning procurement to be designed to help solve some of the big problems Covid has thrown our way, both health-related and the digital divide, but also retaining that green growth, green deal strategy, at the national and regional levels, that can help catalyse business investment. In other words, if Government are able, through their policies, to create more certainty and make those higher-risk long-term investments, which then crowd in the business sector, that can help balance out that fall in investment.

Of course, there is also the inequality issue that I raised. We know that inequality in some ways has been both a cause, in terms of the gravity, and an effect of the crisis, in terms of who it is affecting the most. Given that inequality was already an issue, that is a huge problem and so we should be putting as much attention as possible to policies that will redistribute income but also increase the capabilities and capacities of individuals who are most vulnerable and ensure they are able to prosper. That includes education, so I am very worried about the fact that schools have been closed for almost six months. What are we actually doing to strengthen the ability of the public education system, not just through private tutoring, to help the most vulnerable children? That is a huge question for the Government.

Q15 **Alan Brown:** Mariana, you have spoken about regional, and I would argue national, differences in growth and inequalities. This week in Scotland it was the publication of the Higgins economic report. One of the asks there is for additional borrowing powers for the Scottish Government so they can invest in longer-term industrial strategy and infrastructure. Is that something that you would agree would actually help, in terms of the



Scottish economy?

Professor Mazzucato: It is all localities. Even without looking at Scotland, all local councils across the UK, are having to invest massively. Unfortunately, the idea that they are going to have to pay that money back is a hindrance. Ideally, give as much power to local and regional bodies to make the investment of whatever it takes to solve the citizen-level problems but also foster that long-term growth.

One of the issues has been that Scotland has had a strategy. Nicola Sturgeon has had a strategy—I am on her panel of economic advisers—around long-term innovation-driven growth and has set up new entities, like the Scottish National Investment Bank. If the funding for a bank like that is being withheld or if the money that is not spent has to go back to the Treasury, that is exactly what prevents that long-termism. We need to focus as much as we can on structures that really incentivise and enable long-term growth and investments and giving what you can call autonomy, but also agreements that, for example, the funding the bank receives can be held for the next year and not given back if it is not spent. It is those kinds of details that matter as much.

Q16 **Alan Brown:** It is about being able to do long-term planning rather than year on year.

Professor Mazzucato: Yes. It is impossible to do year-on-year planning for the kind of drivers we have been talking about, both to solve inequality and especially to foster innovation-led, investment-led growth.

Q17 **Alan Brown:** Diane, do you want to add anything about the potential medium and long-term impact, and the challenges as well?

Professor Coyle: I would completely echo this concern about what we economists would call scarring on people's labour market prospects, especially young people who have missed out on part of their education or whose exams have been disrupted. If you go into the labour market at an early stage in your career, in a recession, that can be a lifetime penalty. Avoiding the mistakes of previous downturns in the 80s and 90s through the labour market effects is really important.

One thing I would add is that the evidence from history is that major crises sometimes cause people to re-evaluate. There is a kind of reset. We see that in some of the conversations that are going on in public now about the future of the economy: low pay for key workers, job conditions for people working freelance or in the gig economy, and the impact of the economy on the environment and particularly the food system. There is this concern about resilience. Have we focused too much on efficiency? How does resilience fit with the need to improve productivity? Even more broadly, how do we assess future progress? Is it time to go beyond GDP growth? I thought that the really excellent report on the Scottish economy this week highlighted that last concern and that conversation really well.



Q18 **Alan Brown:** The furlough scheme has been very welcomed by industries across the UK. Now, as we look forward to getting back to normality, there is an argument that some sectors could require the furlough scheme to operate longer, with maybe a sectoral approach rather than a one-size-fits-all. Do you have any views on that? Also, there is possibly the argument that more loans need to be transferred to grants, because otherwise it is just debts that businesses are struggling to repay.

Professor Coyle: I will be very brief. It is a great question. There are some sectors where we can see that their long-term contribution to the economy through export earnings is going to be important and we want to sustain them over the short term. Parts of the creative sector, for example, might fall into that category. One has to make judgments then about which parts of the economy have those long-term prospects and ought to be sustained over the short term.

Professor Mazzucato: I would echo that all these measures are very important and especially they need to be around for as long as they are needed. However, coming back to my previous point about conditionalities, furloughs are also benefits that businesses receive by retaining workers but having the Government pay for the salaries in the meantime. More conditions could be attached to what the actual investments by the businesses will be once the workers are back, also to improve worker training, retain workers, invest in reducing carbon emissions in the relevant sectors and not use tax havens. There are all sorts of different conditions that are currently being explored in different countries. Even the *Financial Times*, not a socialist paper, has been advocating for conditionalities tied to this kind of Government support, which is absolutely essential.

Your point about debt is very key, precisely because private debt to disclosable income is so high. We need to make sure we are not increasing private debt in the process. Also, in some cases, in terms of citizens, we need to make sure that, instead of just delaying mortgage payments, we have debt relief. That would obviously have to be chosen case by case. Increasing private debt right now is definitely not the thing to do, given the weakness of the economy pre-Covid, in terms of the financialised nature.

Professor Coyle: We had the principle before in agriculture of public funds for public good. It is a good principle.

Q19 **Mark Pawsey:** Alan Brown has just referred to the job retention scheme. That is just one of a whole range of measures that the Government introduced very quickly. It is a level of intervention that, frankly, is unprecedented and we have not seen before. Could you each give me your views on how that intervention has changed attitudes towards the principle of intervention? It seems to me that business wants to be left to get on with things and would want a hands-off approach wherever possible as far as Government are concerned. That may be just for the



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good times and at bad times, such as those we are experiencing now, business looks to Government for support. How do you think the attitude from Government has changed the argument and discussion, particularly amongst businesspeople themselves? What do you think the view is among the general public on the Government's intervention?

Professor Mazzucato: I think it has made those people who did not realise how important Government is and can be, realise how essential it is. The real question is if we can also frame the role of Government differently. Can we learn from this crisis that you cannot just wait for Government to come in during a mega epidemic and patch things up? We need that kind of Government support and investment as a more continual feature of the economy.

It is useful to think of it in a different framing than the more mainstream one, which is you only come in to fix a market failure. Market failures are key. Of course they are important. We do not throw the baby out with the bathwater. What we are seeing today is a much more active co-creation, co-shaping of markets between the state and the private sector. That then begs the question of what that means for how we regulate and how public and private interrelate, precisely in terms of those conditionalities I was talking about before.

Otherwise, as you were insinuating, which I completely agree with, we end up having a kind of socialisation of risks and privatisation of rewards mentality. You also see that with the bailouts. When things go bad, Government come in to bail out a company. When things go well, that must be the entrepreneurial, innovative success of the managers driving the business. Of course, that is absolutely true. Managerial competence matters. Private sector investment absolutely matters. The role that the public sector has played historically, especially in crisis times, should, over time, allow us to think about wealth creation itself and value creation as a collective endeavour. That then requires Government to be investing in their own capabilities to create that value.

It is that point I was mentioning in the beginning about the overreliance in the UK of outsourcing to companies like Serco, G4S and even the big four consulting companies, like Deloitte doing the testing. That is a symptom of that lack of continual Government investment and overly relying on private sector roles, even doing things like security for the Olympics; it does not work, so the military has to come in to cover that failure. Having a more proactive co-shaping, co-creation view of Government and private sector investment requires rethinking those relationships and the capacity-building that is required.

Q20 Mark Pawsey: When Government have intervened in the last few months, they have done so on an indiscriminate basis. There are gaps and there are some sectors that have missed out, but there have been no conditions attached. Is it your view that the support packages that have been put in place over the last few months should have had conditions attached to them, or have they been at the right level?



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Professor Mazzucato: As I was mentioning, what is interesting is the global picture, where there have been conditions attached, for example to the airlines in both Austria and France. The EasyJet package here did not have any conditions attached. Government need to use their negotiating power and leverage to get conditions, but not just as a stick. It is not about punishing companies that are not doing something. It is about fostering what one could call stakeholder capitalism. If we say we are all in it together, what does it actually mean?

When Government are helping the airlines or the automobile sector, what do we expect back from that sector in order to achieve the kind of growth we want? If the kind of growth we want is inclusive and sustainable, that requires certain types of investments. It does not mean that the airlines today have to reduce their carbon emissions, but they should, in getting a bailout package, commit to reducing their carbon emissions over the next two, three or four years. If they are not doing that, to be honest I am not really sure why they should be getting a bailout. It is about, again, fostering that inclusion, sustainability, but also co-creating value in the ways I was talking about. If it is just going to be a handout subsidy guarantees kind of approach, that is going to be a race to the bottom in the end. That is also why we have been having less investment in the UK, because there have not been conditions attached to investment.

Q21 **Mark Pawsey:** Diane Coyle, how do you think attitudes have been changed by Government's intervention in business and industry over the last few months?

Professor Coyle: The demonstration of the scale of Government intervention and the extent of its power over the economy has been quite stark. I think it is changing attitudes somewhat. This is reinforcing a shift that had already started occurring. In the UK, we have had this rather extreme version of the philosophy that it is Governments versus markets. Even the United States, which has had an industrial policy since the days of Alexander Hamilton and has never stopped, never took it to that kind of extreme. One of the things that might come out of the current situation is a more nuanced understanding of how Government and business can work together.

I entirely agree about conditionality. If the Government are putting so much money into companies, they have every right and responsibility to incentivise them to take the business in directions that serve societal aims like decarbonisation, with some caution about the inability to invest at a time when they have such downturns in their business and profits. The one condition that a number of countries have attached, which I am sure we ought to have done, is limits on boardroom pay for the duration that Government support is being received.

Q22 **Mark Pawsey:** In response to an earlier question, you also spoke about policies that are supporting businesses that are not viable in the long term. Is there a danger that, in the approach the Government have taken, with indiscriminate grants, subsidies and the job retention



scheme, that we have actually supported businesses that might otherwise have failed and will fail at the end of these measures?

Professor Coyle: In the context of the crisis, it was absolutely right to be indiscriminate. It was important to provide that support to the economy as a whole. In time, the moment will come when the Government have to accept that some businesses are going to fail. Those are always judgment calls, so there will be some mistakes made, and I will have every sympathy for people trying to make these difficult judgments. The criteria need to be about long-term viability but also transition, particularly in certain locations. You do not want job losses to fall all at the same time in certain places.

There may be public goods that it is absolutely appropriate to subsidise. I gave the example earlier of the creative sector. I am absolutely fine about paying people to work in that sector for quite a long time ahead. There are broader and long-term benefits that would come from that. These are judgment calls and there will be companies that go under and jobs that get lost.

Q23 **Mark Pawsey:** Are you happy that the way that support is packaged does not simply prop up failing businesses, or should the support be changed in order to pick out those that are going to succeed and leave those to fail that would otherwise fail?

Professor Coyle: So far, that has not been an issue, because it has been so important to prevent an even steeper collapse in economic activity. Those decisions come now and they are not easy. I am not a believer in the Government's ability to make these judgments very well, so there will be mistakes made in this respect.

Q24 **Mark Pawsey:** Is the market better able to make those decisions? Is that what you are saying? Can the market do better than Government?

Professor Coyle: In the long term, the market can always do better than Government, but we are talking about a transition out of a particularly acute crisis, where the Government have, of necessity, become very involved. Those are the judgments that people in the Treasury and BEIS are going to have to be making over the next six to 12 months.

Professor Mazzucato: I am very passionate about this. I wrote a whole book about this called *The Entrepreneurial State*. In other words, can the state be entrepreneurial? Can it actually make investments, or should these kinds of strategic investments just be made by the market? It always depends. There are ways to do it really badly and ways to do it better. There is that example I gave of EasyJet, which just received £600 million in liquidity from the Bank of England, despite having paid £174 million in dividends just a month earlier. That is that lack of conditionality.



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There is a bigger question of whether you then invest in companies just if they are succeeding or whether you should be bailing out companies that do not look like they are going to have good prospects. Diane is absolutely right. Even in good times, you do not know. There is always going to be uncertainty. The bigger question is whether Government should just be coming in to help when the businesses are struggling. The answer should be no.

That is precisely the point of, if you have a challenge-oriented, mission-oriented policy, you should not be picking specific companies but a trajectory. If you want to have a green growth trajectory, there might be higher-risk, capital-intensive investments that require Government to come in early precisely to crowd in the private sector later. Downstream, those few companies that are willing to engage with something like a green transition strategy, often need long-term patient finance. In a country where there is lots of impatient finance and not enough patient finance, that will often come from Government.

The real question is to make sure it is structured as a portfolio, not just picking one company and putting all your eggs in one basket. The lesson in the US, which is fascinating, during the Obama administration, was that is exactly what they did. They gave companies like Tesla a \$500 million guaranteed loan. The same amount of money went to Solyndra. Solyndra went bankrupt. The taxpayer had to bail them out. Tesla was a success. At the time, Obama said to Elon Musk, "If you do not pay back the loan, we get 3 million shares in your company." When they did pay back the loan, in 2013, the price per share went from nine to 90, between 2009 and 2013.

That difference in price, multiplied by 3 million, would have more than paid back the Solyndra loss and the next round of investigation. The issue of how you socialise both risks and rewards can also be answered by saying that, sometimes, you might take out equity stake, not permanently. It is not about nationalisation or ownership, but governing that process as an investor of first resort, not just a lender of last resort, through a portfolio approach, which might mean also temporary equity stakes, so that citizens benefit from the upside and are not just covering the downside.

Q25 Alexander Stafford: As I am sure you both know, on 8 June the Business Secretary, Alok Sharma, launched five new business-focused groups—the future of industry, green recovery, backing new businesses; I am sure you know them—to unleash Britain's growth potential. First, do these groups address the key issues? Are they the right groups, basically? Which ones are missing? I can read you all of them if you need. Also, what are the inherent contradictions in them? One is looking at the future of industry and, basically, exports, but another is looking at the green recovery. Is there a conflict between these groups, or can they work harmoniously?



Professor Coyle: The groups are very wide-ranging and I would not pick out any big things that are missing. My question about them goes to the second part of your question, which is how you think about the overlaps between them and the trade-offs that are going to be made. I hope there is some way that the groups will work together, and BEIS and the Government can think about the ways these different policies need to interact with each other.

There are always trade-offs in economic decisions. That is where political judgment comes into it. There will be conflicts between short-term objectives of saving jobs in the short term in particular types of businesses and long-term objectives of decarbonisation. That is why it is a particularly difficult moment, because the pandemic and the collapse in the economy in the short term make those short-term goals really important.

The challenge is to be quite clear about which bits are about transitional assistance and transitional policies and which are longer-term objectives. When we get to a point that businesses can afford to invest again, we clearly want all that investment to be directed towards broad societal aims, such as long-term care or decarbonisation, but there is no easy way to avoid trade-offs. That makes the joining up between the different groups absolutely essential.

Professor Mazzucato: I had the privilege to attend the future of industry one on 12 June. It was very positive. My reflections would be that they are great groups and it is a good list, but it does not really push much further than what was already being discussed in the 2017 and 2018 industrial strategy. It needs to build on that and not just start up a whole new conversation, precisely due to the problem we were talking about before.

I have lived in this country for 20 years and just the Department now called BEIS has changed its name three different times. The TSB has changed its name two or three different times; now it is Innovate UK. Getting more stability and a deeper discussion about these common themes is critical. One big gap, at least in my experience of looking at the roundtables, is the very weak or non-existent participation of trade unions. Bringing that stakeholder governance lens to these discussions is critical.

In that sense, we should remember that, at the end of August, at the business roundtable, the CEOs of the 180 most successful global companies called for a real rethink in corporate governance and, in so doing, have talked about this issue of stakeholder governance. The UK really needs to take that on board in the process through which these roundtables are discussed, so it is not just skewed towards business.

Q26 **Alexander Stafford:** On the trade union point, maybe you could elaborate a bit more on the value you think is missing, because they are not fully involved. How would they add value, in your view?



Professor Mazzucato: You used the right word, “value”. If—it is a big “if”—one has a view that value is co-created, not just by business and then simply facilitated or de-risked by the public sector, you need business, Government and trade unions, meaning a voice of labour, which in some countries is not necessarily through trade unions. In Spain, for example, there is a very active co-operative movement in the Basque region. We have been looking precisely at the co-operative movement to inspire new thinking around stakeholder governance. It is really not just about trade unions, but you need to bring all the different stakeholders to the table.

It is not productive to just be bringing business and having a conversation with Government behind closed doors. This can be a really active debate and discussion between Government, business and different voices of labour, but also, I should say, movements. We should realise that, without social movements, we would not have many great things, such as the eight-hour workday, the weekend, birth control and the AIDS drugs. People fought for change. The green movement, or Fridays for Future among the student movement, has been a really refreshing, energising thing in past years. Bringing those voices to the table as well, in terms of what kind of economy we want to build, is part of that discussion, surely at least in the green recovery. Labour definitely has to be at the table *ex ante*, not just *ex post*, defending itself around a just transition.

Q27 **Alexander Stafford:** Moving to growth, what are the key challenges for the Government over the next few years in delivering growth? What policy levers can the Government use to deliver on growth, in your views?

Professor Mazzucato: Coming back to the challenges I mentioned at the beginning, there is this problem of having lots of impatient finance. We definitely need more patient and long-term committed finance. There was movement on that, in terms of setting up a business bank, but unfortunately it still has to go through the private banking sector and cannot lend on its own, so setting up a proper set of different types of public finance funds is important.

Moving away from a consumption-led towards an investment-led, innovation-driven growth dynamic is central precisely because that is not how we have been growing. Again, it has been mainly private debt-fuelled consumption. Moving that also means considering why it is that there is so much private debt? If people have to take out debt to retain their existing living standards because real wages have not been growing, that itself becomes part of that problem. That is not just issues around debt relief I was talking about before but making sure that we are creating conditionalities that make sure that businesses themselves are investing in long-run drivers of what actually increases people’s skills and long-term wage potential.



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There is this focus on structures and institutions, in terms of the system of innovation. There is a really nice dynamic debate in the UK right now around, for example, the ARPA model. For me, that is just one of the questions, which is what the gaps are right now in terms of providing institutional support across the whole innovation chain to those companies that are willing to invest or innovate towards some of the most pressing challenges of our time, like the green transition. We need to help those companies do that and redesign tools like procurement grants and loans to foster that bottom-up experimentation towards solving the problems of our time. That requires a different mindset of how to do procurement, not just low cost but being able to funnel that bottom-up experimentation.

Professor Coyle: I agree that the big gap is the Government financial vehicles. The British Business Bank does not have the right structure. We used to have 3i, which is a terrific vehicle for equity stakes.

The institutional issues go broader. The Government have lots of policy leaders already, but they are not well co-ordinated. They need to be co-ordinated to address the systemic, long-term problems that we have. The institutional issues go well beyond the innovation system. We have very complex institutional arrangements, governance arrangements and accountability. Decision-making in the UK is certainly overcentralised. The centre cannot possibly have all the information that is needed for good decision making and good policy in all kinds of areas: health, education, training and so on.

The pandemic has shown there has been too little liaison between the centre and local government. The trouble is the last thing we need is another big rearrangement of the furniture, because we have already had too much of that kind of instability. It needs a very open discussion between the centre and local leaders about what they know and what is needed. Within the centre, how do policies get joined up across Departments? People have been saying this for a long time. It is absolutely true, but the costs it imposes on the economy are getting bigger and bigger.

Q28 **Ms Ghani:** The Government have announced that they will be providing bailouts as a last resort and taking stakes in strategically important companies. We have heard this morning from the two witnesses that, in the post-Covid world, we need to assess what is strategic and what we want our economy to look like. Can I please turn to Diane first? Who gets to decide what is strategic? Is it too early, during Covid, to make that decision right now?

Professor Coyle: As we were all discussing earlier, we are not out of the crisis yet, so I do not think these decisions need to be made in the next few weeks, but over the next months the Government clearly need to start thinking about it. The criteria will be partly about the kinds of long-term success stories that we know we have in the economy. That might be creative, AI or pharmaceuticals. We know that they are drivers of



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exports and investment over the long term, or can be. We have the technologies that we think we are particularly good at in the UK, like AI. That is one kind of criterion.

Another kind of criterion is thinking about aspects of public good that might not be reflected in the market, so particular places. Are there areas of industry that are tied to particular places? We need to think about their supply chains and the knock-on consequences for those. That would be another kind of criterion.

There is a third, which has been coming to the fore in the economics discussion more recently. That is about the kinds of know-how that it is important to have in the economy. One of the consequences of outsourcing a lot of manufacturing activity during the 1980s and 1990s has been a loss of important engineering know-how in certain supply chains. A really urgent task for the Government is to get a really good handle on what supply chains are in the economy, where they are and what kinds of know-how they have. This is hard, because the data does not exist in any easy form, but it is an important research and policy question. Thinking about long-term skills, long-term investment and export prospects and aspects of public good, including geographic concentration, would be my first stab at answering that question.

Professor Mazzucato: I think it is an excellent question. We partly covered some of the issues before. In the example I gave when the German Government helped its local steel industry, there were strong conditions attached to decarbonisation. That could be used as a model today. Instead of asking, "Should we help Tata Steel or not right now?", which of course is being done, the question is how. How do you structure that so it helps us build a better economy? The £500 million, which is I think what they are about to get from the Government, could be linked to a decarbonisation strategy. Again, that would link to the industrial strategy. That is why all these policies should be linked up.

If you have an industrial strategy around four goals, from the future mobility to healthy ageing, clean growth and AI, including how AI can help us modernise the welfare state, those become signals and visions for how you structure a bailout. It is less problematic than "Which companies do you bail out?" Right now, lots of different companies require help, so we do not have to be too picky. How you structure that bailout can help us make sure that these companies are investing, not extracting through dividends and share buybacks or using tax havens, but reinvesting back into the economy, which will be good, but also investing in that direction that, in theory, we are interested in, given that there is an industrial strategy that talks about a more inclusive and sustainable type of growth.

All we have to do is look globally. One of the most successful venture capital funds is state-funded. It is the CIA's In-Q-Tel. In Israel, they have been very successful with schemes like the Yozma public venture capital fund. That then retains royalties in their investment. Whether it is



through royalties or equity, there are ways to structure these funds so, even if things go wrong—some of these investments will fail—at least you are getting some of the upside from the successes. Again, this is not about nationalisation but about being a smart investor across a broad portfolio, not putting all your eggs in one basket.

Q29 Ms Ghani: It is interesting you mentioned steel. Are there any sectors or businesses that you think would be controversial not to support, but that Government should not, because the global economy has changed and these companies will eventually fail?

Professor Coyle: Steel is the hard case. You have put your finger on it. Given global oversupply, it is not clear that the Tata plant is a viable plant in the long term. The choice is if you decide that you use it as a vehicle for driving decarbonisation and creating a niche or distinctive British sector or if you decide that what is needed here is a transitional kind of assistance.

Professor Mazzucato: I agree. That is why you also need the trade unions at the table. Any sort of transition like that has to be just. For the workers who are in a sector that might be judged by the Government, with its advisers, to be scaled down, at least over time, towards a green transition strategy, there are going to be huge employment and other types of labour consequences. We need to make sure we bring a stakeholder approach to that negotiation.

We should also remember that sectors are not static. They can evolve. I have always been fascinated by how, in Denmark, they do not only have strong companies like Vestas in renewable energy but also lots of different services. They are now the number one providers of high-tech green services to China's green strategy. China is spending \$1.7 trillion in its green transition. A little country like Denmark is servicing a large country's green transition strategy, so also bringing in that service element and, when we think about the sectors of the future, always seeing it through both manufacturing and services.

We need to think about how the skills currently in the steel sector can also be repurposed. That can only happen if we are investing also in the people, the human capital, working currently in steel. That is currently being talked about as a just transition. It would be good to hear more about that in the Government's policy.

Q30 Ms Ghani: My concern would be the pressure that was put on by regional representatives, whether that skews what we need to do across the country, and vested interests as well.

Professor Mazzucato: That is why you need a strategy, so you do not give in and get captured by, for example, a particular sector. Academics capture all the time too, so this is not an anti-business point, but it is true that certain industries have been able to lobby for particular benefits. That would include the pharmaceutical industry in the past, with policies



like the patent box. That makes very little sense, but did not happen from science. It happened through lobbying, so making sure Government are always aware of how they are getting lobbied and captured by particular interests, whether they be regional or industrial, is a capability that any Government require. When they have a strategy towards a green and inclusive transition, that can help guide what they do, as opposed to just listening to the asks of a couple of businesses.

Q31 Ms Ghani: We are also reading that there may be a stimulus package put out by the Chancellor and the Prime Minister next month. I was reading what the IMF chief economist was saying: that it is still unclear how our economies will normalise. If a stimulus package is put forward next month, Diane, is it too soon to have any decent long-term effect?

Professor Coyle: Any stimulus package is going to help at the moment because of the severity of the downturn. It may be that the Chancellor will need to come back with more. We have no idea at the moment to what extent the economy is going to recover. It depends not just on policy but on people's attitudes, people's willingness to go out and spend money, people's ability to bring their businesses back and what kind of demand they will face. It is still highly uncertain and we may need more.

The key is to direct the spending towards people and skills, the human capital that Mariana was just talking about. There is a lot of talk about a VAT cut. It is not evident to me that will actually help very much. If it turns out that people are still a bit unwilling to go out, reducing the price of a pint by a little bit of money will not help either. Sustaining people in jobs and sustaining training is where I would want to direct stimulus over the next few months.

Q32 Ms Ghani: Investing in people and training does not bring enough return quickly. That is going to be a problem because they are going to want to see a change in the next few months. I would point out that some of the things that are being written about in the papers are that the proposals will require shovel-ready projects. I have been speaking to the leader of my own county council. Shovel-ready projects are available, but they were prepared under a pre-Covid phase. Do you feel that shovel-ready projects are not going to be what is required post-Covid?

Professor Mazzucato: I have often used that word to describe what the problem is. It seems that we either think of austerity or investment, and when we think of investment we talk about shovel-ready projects. Coming back to the point, when you have a strategy and a vision for the kind of growth we want, so investment and innovation-driven, towards a more inclusive and sustainable type of economy, that should guide the type of shovel-ready projects we do. The word "shovel-ready" is then no longer useful. If we are talking about housing or infrastructure, whether that be around transport or others, those structures and that type of social and physical infrastructure should embed the vision we have. On the most obvious point, having a greener infrastructure, you are not going to get there by calling it shovel-ready.



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We should remember that this has been the case post-crisis, financial crisis. Interest rates had been so low that it made a lot of sense to be investing in infrastructure. The type of infrastructure we have is key, but also how we finance it, so having more of that patient, long-term finance that can also take up some of the higher-risk, more capital-intensive areas, which then crowds in private finance.

Coming back to the austerity point, one worry is that, even though there is lots of money being put in now, no one is talking about austerity, we are already starting to hear terms like “burden-sharing” coming back. That makes me think that those local authorities I was talking about before that are currently being given cash injections will soon have to pay that back. Doing it in a very indiscriminate way would be a mistake. We need to be asking ourselves what we have learned during this crisis about the essential—it is a beautiful word—services, the key workers, essential workers and essential parts of the economy, which, unfortunately, even in good times, we were undervaluing and under-resourcing. Let us make sure we resource them properly, both during Covid and post-Covid, so in the next crisis, the next pandemic—there will be one—we are better prepared.

Professor Coyle: I do not think it matters whether projects are shovel-ready or not, because we need the investment long term. Even if they are not, we should be going ahead and doing the work. There are also lots of types of projects that we need that are not big infrastructure projects, for example restoring lots of natural capital assets, restoring wetlands and tree-planting upstream to avert flooding in future. There are loads of investments that the country needs and we should be cracking on with them.

Professor Mazzucato: That is exactly what lies behind the job guarantee scheme that is being discussed in many countries. I use the word “shovel-ready” simply to mean that it is easy, there are already plans out there, so let us think about it. There are lots of interesting plans around natural capital, as you were mentioning. How we do it should be discussed in terms of making sure it fits the strategy. A job guarantee scheme could actually help Government employ people directly, as opposed to income support, which is also important, in those kinds of jobs for areas that are again emerging, which would be essential for a green transition. There are all sorts of green services that could be serviced initially by jobs that Government could fund, initially at least, and use that period to actually invest in training of people.

Q33 **Paul Howell:** Nusrat has covered a part of the question I was going to ask. Diane, you have talked about the need to understand the long-term needs in any short-term actions. Whether that be about regional support, supply chain integrity or whatever it is, there are the two considerations. As Nusrat said, it is well speculated that the Chancellor is going to put some sort of stimulus into the economy within the next few weeks, which is speculated on everything from skills through to infrastructure



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investment. Given that you have already said it is a few months before we need to make some of these decisions, as opposed to a few weeks, what do you think he should actually be doing in this sort of stimulus at the moment, in terms of messages and particular initiatives? What do you think we are looking at in short-term actions?

Professor Coyle: I think we have covered the jobs guarantee. I completely agree about that, not only making sure people have enough to live on but that what they are doing is providing some public good and future economic good, so that is a really important area. Stimulus through the education sector is needed, making up the really damaging losses that certain kinds of pupils have suffered from not being in school for a long time and not having the kinds of equipment they need to keep up with their work. At that age that can have a really big impact. I would put a lot of resource into that in the short term. Those are two really important areas of stimulus.

Then there are a very large range of investment needs and some of them are place-focused. We were talking earlier about having lots of policy levers. They have not been used at the right scale. There is a need to think about what interventions you could sensibly make in particular places, at scale, which would help with the long-term ambitions we all share. There is a need to have a good understanding of the capabilities and skills available in a local area, what other amenities and bits of infrastructure need to go alongside it. We too often think about these big projects in isolation, without thinking about how you align all the different policies that are needed.

It is not just the investment in a piece of infrastructure. It is the skills. It is where people live and how they travel to those places. It is what amenities make those places attractive, what the schools are like and so on, getting the whole thing lined up. We have come through a really awful few months, in terms of both the pandemic and the economic impact. This is an opportunity for the Government to align people around a vision of what the economy can be, having that long-term focus. It is a pretty awful place to start from, but there are some opportunities here.

Professor Mazzucato: I would agree. As we have both kept saying, work also on strengthening and going deeper into the existing policies. The industrial strategy exists. Use that as a major lever through which you also create the stimulus. Three big areas have to be part of the stimulus, in terms of the direction of the stimulus, versus just throwing helicopter money into it. One is green and the green deal, at the city level, the regional level and the national level.

The digital divide question is massive and even worse, in some ways, in the UK than some other European countries, due to the public-private divide of the education system, but also the health services. We have discovered through Covid, luckily globally, that we are only as healthy as our neighbours. Hopefully that is going to revive what we mean by essential and key workers, so we value them and invest in them more.



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Remember that there is a huge haemorrhaging of talent from the NHS in recent years, with the junior doctor strike but also dissatisfaction among nurses.

Instead of worrying about that as a negative, let us bring those people to the discussion on what it means to have a strong, resilient, well-funded, innovative health service, using the Beveridge history of the UK. The UK Government was, in some ways, an international leader around the welfare state. Let us ask what kind of welfare state we need to make our society more resilient and have an innovation lens to that, which requires both investment and redesign on the demand side of areas like procurement policy.

Paul Howell: I could continue this conversation for a huge amount of time, but I am very conscious of time. One of my towns is designed by Beveridge, so I am very interested in this side of things.

Chair: I promise we will be revisiting these issues time and time again over the coming month.

Q34 **Alan Brown:** I will start with Mariana. You kept talking about the importance of the industrial strategy, but if we are looking for a proper green recovery, is it not the case that the long-awaited energy White Paper needs to come out soon and there needs to be an energy strategy that fully aligns with the industrial strategy, or should the industrial strategy get revised to accord with the long-term green energy aims? Rather than a focus on shovel-ready projects, do we need to look at emerging industries and support them in terms of a just transition?

Professor Mazzucato: Absolutely, and that was the point I have been making and why I really believe that the point is not even to think of energy necessarily as a sector, but energy and the energy transformation as one of the inputs towards achieving the strategy around clean growth, which was central to the industrial strategy, as was the future mobility part of that.

Looking at the missions that we designed, in a commission that I co-chaired with David Willetts for the Government around this mission-oriented approach, the clean growth one included all sorts of issues around energy, but also recycling, how we change the materials for construction, how we use water and heating. Again, they are infrastructure problems. It was really looking at all the multiple different types of sectors that need to come into an energy transition strategy, using an industrial strategy lens to that. It goes beyond just looking at energy as a sector, to the green transition, which requires lots of different sectors to innovate. I would advocate using that to guide how we think about shovel-ready projects and the types of shovel-ready projects.

Professor Coyle: I would agree. I would add transport policy and natural capital strategy. The challenge is joining all of these up to deliver the outcomes that we want to see.



HOUSE OF COMMONS

Chair: Thank you for your answers and thank you for that supplemental question, Alan. This session has been fascinating and has shown that there is lots more work to be done from our Committee, in Government and with partners across business, trade unions and academia. I look forward to continuing this discussion with you all and with others watching the session today. Thank you to Mariana Mazzucato and Diane Coyle for taking the time to be with us today.