We don't need an industrial policy [1]

Written by **Dr Eamonn Butler** [2] | Tuesday 11 September 2012

Britain's business secretary Vince Cable wants an industrial policy. He is wrong.

Core to his proposals are a new state-sponsored business bank. "There are areas where the banking sector just isn't working for large chunks of the economy," he says. "Small business lending has actually contracted." So he wants a new bank, with as much money behind it as he can squeeze out of a hard-pressed Chancellor, George Osborne, to step into the breach.

We don't need a new government bank. Governments are not good at running banks, or any other industries, for that matter. And the government is already the controlling shareholder in many of Britain's banks. And they are not doing their job, one might surmise that it is up to the shareholders to change their policy, rather than run off and build a competitor.

But in fact the banks are behaving perfectly rationally given the circumstances they are in. They got burned in 2007/08 because they had lent too much to too many people who, when the boom came to and end, discovered they were well overstretched and couldn't meet their repayments. Regulators in Basel had told them that government bonds were good security that they should invest in, but it turned out that governments are even more broke than householders. So now ? once bitten, twice shy ? banks are being far more canny about how much they lend, and to whom. And indeed Vince Cable and his colleagues have been telling them to stock up on their reserves, which leaves them less money to lend out even if they wanted to.

Businesses and householders got a fright too. So they have been paying off their debts and trying to have some money under the mattress just in case another financial crisis hits them for six. In other words, the banks can't and don't want to lend so much, and businesses don't want to borrow as much. But Mr Cable sees only those small businesses who want to borrow but can't get a loan from the bank. He forgets that small businesses are in general very risky businesses, and that he has already told the banks to be more wary.

So when Mr Cable's new government bank opens its windows, who is it going to lend to? Small businesses? That would be a risky thing to do with taxpayers' money. Particular future-focused industries? Governments have never proved very good at 'picking winners'. Good ideas generally get the support of investors, if people really believe that they will make money in the future. Is the government, politicians and civil servants, better at predicting what industries and what companies will succeed better than professional investors who make such decisions every hour of the day? You would have to be nuts to think that.

But no, we are told that the bank will target lending to carmakers, aerospace, life sciences, construction, energy, higher education and creative industries. The winners, it seems are already picked. And taxpayers will pick up the cost of the government's choices, just as they always have. We would have a more thriving industrial sector if Mr Cable took his own advice: "Most sectors of the economy function perfectly well on their own. They want lower taxes and for the government to get out of the way." Quite. Low taxes, less

regulation, fewer confusing, short-term, counterproductive but headline-grabbing initiatives like a state investment ba nk. As Allister Heath put it in City AM today [3], "There is only one industrial policy worth pursuing: making the UK a better place to conduct business, regardless of sector." Mr Cable should be creating that open competition policy, not a new bank.

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