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The Show Must Go On: British Industrial Strategy and the Creative Industries

Film, music, and the arts are vital parts of Britain's economy. These creative industries, **James Silverwood** and **Kiev Ariza,** argue have benefited from targeted industrial strategies that have often gone unrecognised but will be needed more than ever post-Brexit.

In early January 2021, barely a week after the end of the Brexit transition period, it was reported that British musicians, artists and other creatives would not have visa-free travel within the European Union. The response was rapid, and furious. The Incorporated Society of Musicians organised an open letter. Oasis frontman Liam Gallagher shared a stage with award-winning violinist Nicola Benedetti and classical conductor Sir Simon Rattle, all criticising Boris Johnson's government for 'shamefully failing' British musicians. Elsewhere, Sir Elton John, a fellow signatory of the open letter, exhorted his fellow musicians, with the ferocity of any stanza in Rocketman, to 'go into battle' on the issue. Not to be outdone, a letter arranged by the trade union Equity, signed by stars of stage and screen from Abiola Ogunbiyi to Sir Ian McKellen to Shelia Hancock, lambasted the prime minister. The Johnson government's response was to blame the EU, whilst in the next breath, admitting they had rejected an EU proposal on visa-free travel because it had been ‘conflating general freedom of movement/work with specific provision for musicians/artists’.

This utterance from Caroline Dinenage, Minister of State for Digital and Culture, illustrates an inherent tension between Brexit and industrial policy. Johnson has said that Brexit will release the national economy from the shackles of EU state-aid rules, allowing the British state to more flexibly support British business. In February, Department for Business, Energy and Industrial Strategy (BEIS) announced on an eight-week consultation period to design a new ‘subsidy control system’ with the aim of allowing the UK ‘to be more dynamic in providing support to businesses, including in innovative, R&D-focused industries, to encourage job creation and growth across all parts of the UK’. No doubt these will appear warm words to those industries who found the requirements they needed jettisoned from the EU-UK Trade and Cooperation agreement.

Industrial strategy is long-term strategic economic management that provides a framework for industrial policy. Johnson and his government have been extremely quiet about industrial strategy since taking office, preferring instead to discuss individual industrial policies such as state-aid or ‘Project Birch’ – the government’s mechanism to provide emergency funding in exchange for equity during the Covid-19 pandemic. More recently, it has looked extremely likely that BEIS will lose its responsibilities for industrial strategy, with the economic agenda set thereafter by the Treasury. A retreat from the industrial strategy put in place by the Theresa May (described by Kwasi Kwarteng, current Secretary of State for BEIS, as a 'pudding without a theme') appears to be in process. In her bid to become leader of the Conservative party, Theresa May promised to implement a 'proper industrial strategy to get the economy firing'. As Prime Minister, May set about reforming the machinery of industrial policy. As well as establishing BEIS, the May government published a white paper setting out the industrial policies, including sector deals for industry and support for R&D, to improve productivity performance and meet four grand challenges of the ageing society, clean growth, mobility and data and AI.

This flurry of activity provoked sometimes-breathless commentary among media and think-tanks about the 'return of industrial policy' but this narrative merely served to mask that successive British governments in previous decades had never abandoned it. This was more obviously the case between 2008-2016 when the Brown and Coalition government began a public experimentation with interventionist economic policies, but it was evident in the decades prior to the global financial crisis as well. Hidden behind rhetoric that emphasised an abhorrence of 'picking winners' and a reluctance to use the term, British governments nevertheless re-directed industrial policy between 1979-2008 towards improving the international competitiveness of certain economic sectors and making their markets an attractive location for international capital. Nowhere has this been more in evidence than in the evolution of 'film policy' since the 1980s, from which contemporary British creative industrial policy can be traced.

Industrial Policy and the British Film Industry

Magor and Schlesinger (2009) provide an excellent outline of the development of industrial policy directed towards the British film industry. In line with the neoliberal persuasion of her economic policy, Thatcher's governments spent the 1980s progressively dismantling the subsidy and protection erected around the British film industry since the Cinematograph Film Act 1927. This free-market experiment led to a significant fall in the number of films produced in Britain, and in June 1990, a seminar on how to revive the British film industry was held in Downing Street. Attended by industry insiders and chaired by Thatcher, the seminar included discussions on measures to promote inwards investment from the United States and the promotion of British films overseas.

Thatcher's defenestration only five months later means we will never know if the 'lady was for turning' on the issue of industrial policy for the British film industry. The mantle falling instead on the newly incumbent Major government who introduced the major innovation of tax relief for films that qualified as 'British' under Schedule 1 of the 1985 Films Act. Of arguably lesser impact over the long-run, but still worth noting, the Major government also sanctioned the distribution of National Lottery funding to support the film industry.

The incoming New Labour government ran with this legacy, providing 100 per cent relief against taxable profits on the production and acquisition costs of films certified as British with budgets less than £15million. New Labour disbursed some £2billion worth of subsidy to the film industry between 1997 and 2006.

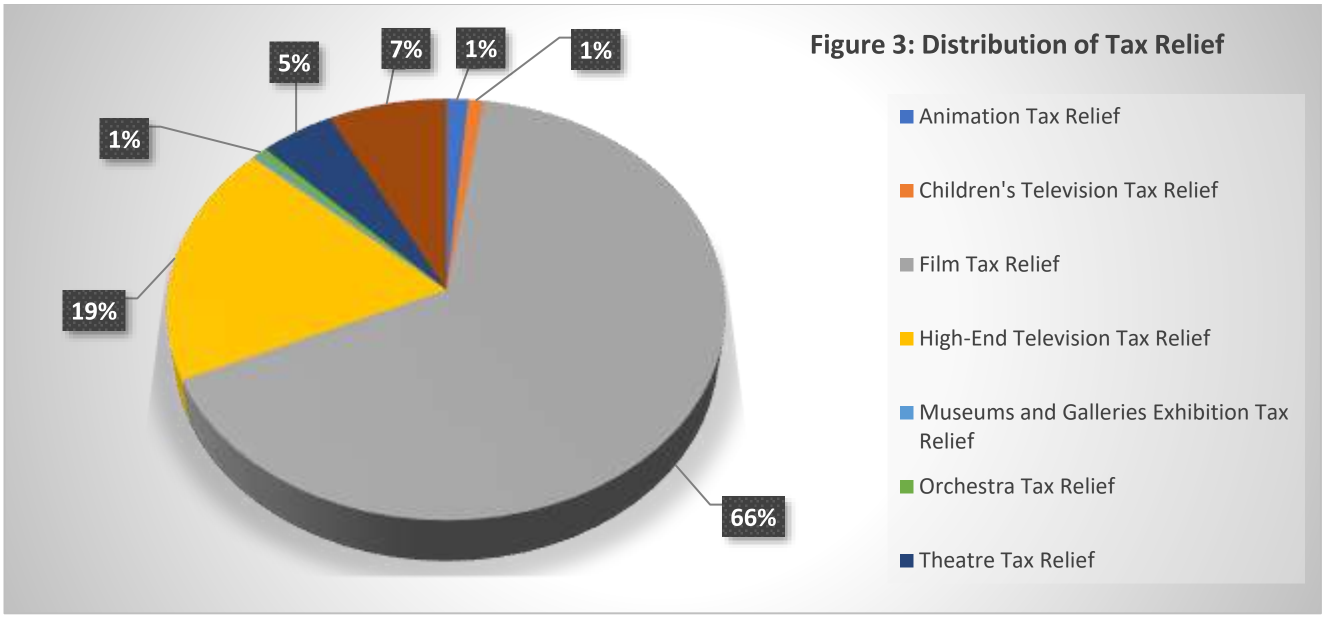
Dissatisfaction with these changes led to their eventual replacement with the UK Film Tax Relief (FTR), which came into effect on the 1 January 2007. Still available, FTR has developed such that it provides a cash rebate direct to production companies of 25 per cent of qualifying expenditure (incurred during the act of filming such as pre-production, principal photography, and post-production in the UK) with further tax relief available worth 80 per cent of core expenditure on production. FTR is made available to all films that can pass a 'cultural test', originally designed by the New Labour government to ensure the policy met EU rules on state aid, proving they promote either British or European cultural content and practitioners, disseminate British culture or heritage, or aid the development of Britain as a cultural hub for film.

The Evolution of British Creative Industrial Policy

The election of New Labour in 1997 saw film policy subsumed within broader policy directed at the creative industries. A mapping document published in 1998 (followed by another in 2001) defined the creative industries as those 'which have their origin in individual creative, skill and talent' and 'the potential for wealth and job creation through the generation and exploitation of intellectual property' identifying examples from advertising to film to music to publishing. The mapping exercises led to the creation of a raft of corporatist structures within Whitehall, such as the Creative Industries Task Force and Ministerial Creative Industries Strategy Groups, to encourage export promotion and development of regional creative industries amongst other targets.

Defeat at the 2010 general election left later plans for the creative industries by New Labour, in their 2008 'Creative Britain' and 2009 'Digital Britain' reports, unfulfilled. Subsequent Coalition and Conservative governments extended tax relief to animation, high-end television, and video games (2012 budget), theatres (2014 budget), children's television (2015 budget), orchestra's (2016 budget) and museums and galleries (2017 budget). As part of her industrial strategy, the May government's sector deal for the creative industries broadened the scope of policy away from tax including a raft of public expenditure commitments such as a £20million Cultural Development Fund, £58million to promote immersive technologies, and a £64million creation of an Arts and Humanities Research Council to deliver partnerships between universities and creative businesses. The Johnson government signalled its commitment to this augmentation of creative industrial policy with its formation of a £250m Culture Investment Fund (£50m distributed per annum over a five-year period) before the Covid pandemic brought a £1.57billion crisis-driven bailout of arts, cultural and heritage and £500million Film and TV Production Restart Scheme to induce companies to resume filming.

Demand for tax relief across some creative industries, such as animation, children's television programming, and theatres, has been stable. Video games and high-end television meanwhile has seen rapid growth accelerating per annum from £45million in 2015-16 to £121million in 2019-20, and £52million in 2013-14 to £324million in 2019-20, respectively. These figures are dwarfed however by the annual relief delivered to the film industry rising from £100million in 2007-08 to £522million in 2019-20. This pattern is reiterated in Figure 1, which showathat the big winners from the introduction of tax relief has been the film industry (£3.9billion), high-end television (£1.1billion), and video games (£444million). The £3.9billion total for the film industry actually rises to £5.9billion if we include New Labour's £2billion of tax relief before 2007.



In total, £7.925billion of subsidy has been granted to the creative industries in the form of tax relief since 1997-98, but the annual figures are ever higher. Whereas only £100million of tax relief was distributed in 2007-08 (the introduction of the new film tax relief saw a sharp drop in claims from the previous regime) by 2019-20 this figure had risen to £1.114billion as more and more tax reliefs have been directed at the creative industries.

Furthermore, the £7.925billion of creative industrial policy quoted above is purely from tax relief. It does not include the more conventional forms of industrial policy for the creative industries implemented by the May and Johnson governments, which alone would add approximately £2-3billion to the total. Moreover, it does not incorporate other creative industrial policies such as funding for the film industry delivered by the National Lottery, which for illustrative example amounted to £423million between 1995 and 2005.

British Industrial Policy

The existence of considerable creative industrial policy in Britain since the 1990s poses twin academic challenges. The first relates to how we define the term 'industrial policy' in the British context. Whilst there are myriad competing definitions of industrial policy many now coalesce around the formulation established by Ha-Joon Chang (2003: 112) of 'policy aimed at particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole'. The public good targeted by industrial policy is often identified as productivity, the begetter of which is civilian manufacturing with whom industrial policy is often identified (Berry, 2016). Chang's definition of industrial policy however can be discounted because it limits our understanding of the scope of British industrial policy. It has become unduly associated with civilian manufacturing meaning that recipients of industrial policy from outside this economic sector, such as the creative industries, are often overlooked as are those implemented to secure objectives other than the macroeconomic.

Competing definitions of industrial policy that rest on separation between horizontal (to improve the conditions throughout the entire economy) and vertical (to support specific economic sectors and firms) variants meanwhile get us no further towards a definition of industrial policy appropriate for the British context supplying arbitrary distinction between 'types' of industrial policy. In reality, the boundaries between horizontal and vertical industrial policies are often hazy, with even seemingly non-interventionist economic policies (horizontal) often favouring certain economic sectors (vertical). Likewise, public policies that don't appear to have an immediate economic component can often be found upon investigation to direct significant state support to specific economic sectors and firms.

A more suitable definition of industrial policy in Britain comes from El-Agraa (1997), who characterises industrial policy as 'any state measure designed primarily to affect the allocation of resources between economic activities'. This definition enables us to identify industrial policy through the intention of the policymaker, and not through excessive focus on policy objectives or instruments. Additionally, it ensures inclusion of *all* policies that are aimed at specific economic sectors or firms, importantly including those that are *not explicitly described as industrial policy* by government. For instance, it is only since 2017 that the tax reliefs directed at the creative industries have been explicitly identified as industrial despite their existence in relation to the film industry since the 1990s.

The second relates to the perception that British industrial policy has historically been a failure. This narrative is rooted in some high-profile disappointments of the 1970s, but once we broaden our understanding of the economic sectors bestowed with industrial policy in Britain we find a number of notable successes. According to most recent statistics published by the British government, the creative industries (Advertising, Antiques, Architecture, Crafts, Design, Fashion, Film, Music, Performing Arts, Publishing, Software, TV and Radio) made a gross value-added contribution to the UK economy of £111.7bn to the UK Economy in 2018, the industry growing a little over 43% in real terms since 2010. This included a real term growth of 7.4% from 2017 to 2018, five times more than the average rate of growth of the entire UK economy. Sustaining and growing the cultural industries will be a key post-Brexit task: picking fights with the EU, and creatives, will do little to help anybody.

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