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British Industrial Policy

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A M E R I C A N E N T E R P R I S E I N S T I T U T E

Editors' Note

In 1986, the American Enterprise Institute published *The Politics of Industrial Policy*, a collection of essays edited by AEI Senior Fellow Claude Barfield and Hudson Institute Senior Fellow William A. Schambra. The volume emerged from an AEI conference convened in response to shifting dynamics abroad, especially relating to foreign and trade policy, and a reexamination of American economic priorities at home. The conference approached the issue of industrial policy through a “historical, political, cultural, and institutional” lens, bringing together contributors with diverse perspectives and backgrounds for discussion and debate.

The resulting edited volume, though 40 years old, is strikingly relevant to present-day domestic and international policy challenges. As then-President of AEI William J. Baroody Jr. wrote in his preface,

The United States now faces serious challenges abroad. Changing dynamics in the international marketplace as well as deliberate actions by some governments in restraint of free trade have combined to diminish the competitiveness of many American goods and services. This challenge to America's competitive standing in the

international economy has stimulated a reevaluation of U.S. policies on several fronts. Indeed, it has prompted a reevaluation of basic questions concerning the role of the public sector itself in fostering economic growth, technological advance, and sectoral and regional development.

These concerns have returned with renewed urgency. Of course, the specifics of today's policy debates—whether over supply-chain resilience, semiconductor manufacturing, biotechnology, artificial intelligence, green industrial policy, or strategic competition with China—differ in important respects from those on display in the 1986 volume. But the underlying questions remain the same: Can governments effectively guide industrial development? How do—or how should—political institutions shape scientific research and economic development? What are the risks of intervention versus nonintervention? How can the United States preserve its edge in an increasingly competitive and uncertain geopolitical climate?

The new edition will contain an updated foreword by Claude Barfield and AEI Senior Fellow and CTSE Director M. Anthony Mills as well as updated chapters from some of the volume's original contributors.

Executive Summary

First published in the 1986 volume *The Politics of Industrial Policy* by AEI Press, Jeffrey A. Hart’s “British Industrial Policy” is republished here with updates by the author to reflect recent political and economic developments. Hart’s original analysis described a tradition of reactive and fragmented industrial policy shaped by political pressures and institutional decentralization. While these dynamics

persist, according to Hart, the post-Brexit era has introduced new imperatives for industrial strategy, including efforts to rebuild domestic steel capacity, reposition the UK automotive industry, and advance emerging technologies such as semiconductors. Hart’s updated chapter concludes by considering Britain’s efforts to navigate industrial decline and renewal outside the European Union framework.

British Industrial Policy

Jeffrey A. Hart

The British approach to industrial policy combines a market-oriented ideology with poorly coordinated attempts at centralized administrative guidance. The key to British industrial policy is understanding British firms' general weakness in international competition. This has been aggravated by Brexit, the 2016 exit from European Union membership.

The state's reaction to this generalized weakness has taken many forms, most of which have not been considered worthy of permanent institutionalization. The generally reactive nature of British industrial policy before the early 1970s came at a high cost. Britain became more interventionist than anyone—except the most ardent socialists—ever intended. Even British conservatives such as Margaret Thatcher had to yield to the pattern of the past in dealing with industrial crises, despite their belief in the benefits of privatization, deregulation, and competition. The main industrial policy difference between the United States and Britain is not ideological but practical, and the practice in Britain has been primarily the result of the state's belated response to its firms' weaknesses.

The lessons that the United States can learn from Britain are mainly those related to modes of coping with weakness. In this report, I combine descriptions of overall economic and industrial policies with a more detailed look at policies in specific industrial

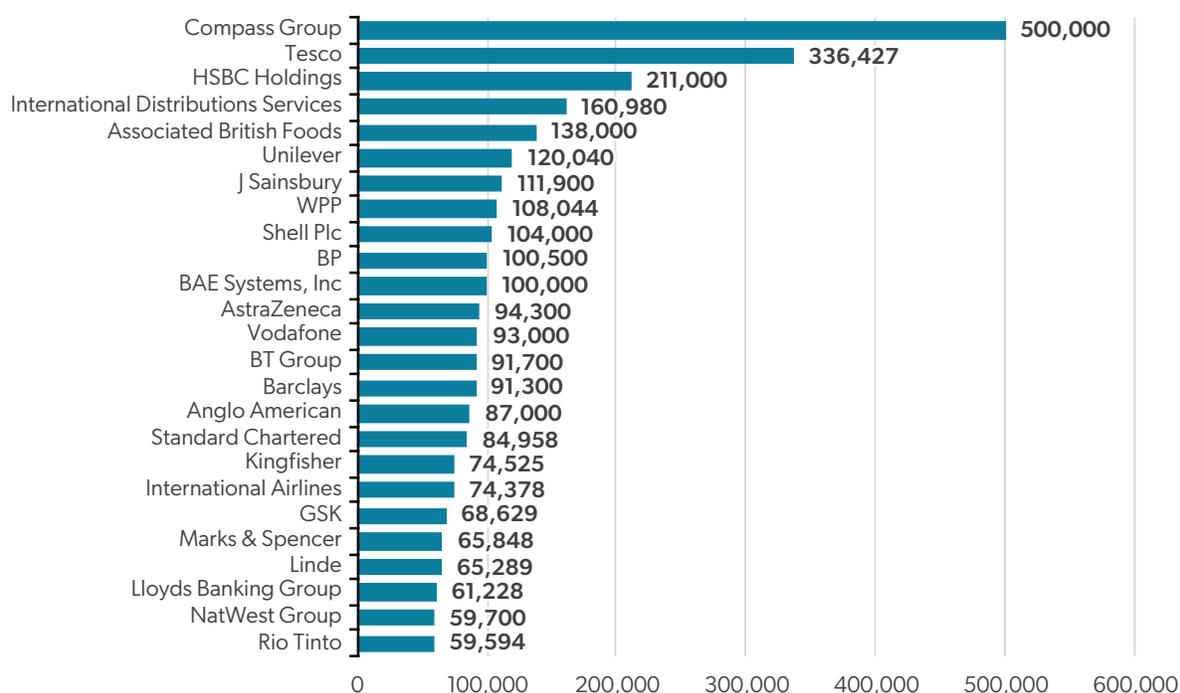
sectors. The three sectors that I single out are steel, automobiles, and information technology.

The Organization of the State

At first glance, the British government seems well equipped with formal institutions for making and implementing industrial policy, but in fact, the power for making policy is widely distributed among conflicting agencies and has fluctuated over time. The most important actors are the prime minister and the cabinet, the chancellor of the exchequer, the Department of Trade and Industry and its successors, the National Economic Development Council (NEDC) and related agencies, and the British Technology Group (BTG)—as well as its predecessors, the Industrial Reorganization Corporation (IRC) and the National Enterprise Board (NEB).

The Prime Minister and the Cabinet

The prime minister is the head of government and the leader of the party in power. He or she appoints the cabinet ministers, who are the leaders of their respective ministries, and chairs cabinet meetings, in which policies are discussed and decided. The prime minister is sometimes involved in new industrial policy initiatives. For example, in July 2024, Prime Minister Keir Starmer announced the formation of a

Figure 1. Number of Employees Worldwide in the Largest UK-Based Companies, 2025

Source: Statista, "Largest Companies Based in the United Kingdom on Number of Employees Worldwide in 2025," June 20, 2025, <https://www.statista.com/statistics/1218430/largest-uk-based-companies-employees/>.

public company to invest in renewable energy projects and the creation of the National Wealth Fund.¹

The alternation between Labour and Conservative prime ministers has been a major factor in the types of industrial policies adopted by the British government. Labour governments have generally tried to address the problems of specific industries, whereas Conservative governments have generally been skeptical of doing so. But there are exceptions to this, as when Theresa May's Conservative government announced the Modern Industrial Strategy in January 2017, which encouraged investment in new technologies and industrial infrastructure.²

Organization of Civil Society

British labor unions are relatively powerful, roughly comparable to German labor unions in their influence over policy formation and implementation. The formal organization that aggregates labor interests is the Trades Union Congress (TUC), a confederation of

48 unions representing 5.5 million union members.³ Connections between the TUC and the Labour Party are quite close. In past decades, British labor unions have consistently supported initiatives to institutionalize industrial policymaking. In 1980, for example, the TUC–Labour Party Liaison Committee advocated an expanded industrial policy based on a combination of comprehensive planning, NEB upgrades, the establishment of what they called the National Investment Bank, and greater use of import controls.⁴

Business is represented primarily by the Confederation of British Industry, which aggregates the views of industry-specific associations and tends to more strongly weigh the views of Britain's largest and most profitable firms. (See Figure 1.)⁵ Many of the largest companies in the UK are financial firms. Real estate and retail merchandising are other areas of strength.

Britain's merchant banking system has prevented the emergence of the kind of bank-manufacturing alliances that exist in Germany. The British system

lacks the relationships that typify the German system, including the extensive personal contacts, close supervision of financial accounts, large shareholdings in specific firms, and bank memberships on firms' supervisory boards. The Bank of England plays a coordinating role in crises, and increasingly, large banks like Barclays and Midland participate in rescue operations as lead banks, but Britain is still far from the so-called universal banking of Germany.⁶

The Evolution of Industrial Policy

The politics of the United Kingdom's industrial policy might seem at first glance to be primarily an outgrowth of interparty rivalry. The Conservative Party and its allies are ideologically hostile to industrial policy. For example, a 1977 Tory policy document contained the following statement:

Should government have an industrial policy at all. . . . Of course, government must have an economic policy . . . but an economic policy that is not primarily directed to creating the conditions in which wealth-creating . . . industry can develop and flourish is bound to fail. An "industrial policy" which consists largely of interference, tinkering, and providing palliatives for structural defects is no kind of substitute for it.⁷

Despite their general ideological hostility to industrial policy, several Conservative governments have found themselves faced with decisions to either accept forms of government intervention or suffer major political costs. Although in most cases they still chose the more politically costly noninterventionist path, there were exceptions.

One example was the passage of the Industry Act 1972 by a Labour-dominated Parliament and its acceptance by subsequent Conservative governments. That act gave latitude to the Department of Trade and Industry to conduct governmental rescues of large private concerns. It also established a set of industrial development advisory boards, which were essentially corporatist institutions to help the government arrive at goals for industrial policy. That

idea was consistent with the economic policy goals of the Edward Heath government.⁸

Another example of Tory industrial policy is the Finance Act of 1972. That legislation established a system of accelerated depreciation of investments in new plants and equipment. An allowance of 54 percent of the value of investments was permitted in the first year and 4 percent in subsequent years.⁹ Thus, in the early 1970s, Conservatives accepted both supply-side investment policies and efforts to build consensus between labor and business—policies that were acceptable to the Labour Party.

The Thatcher government came into office determined to undo the interventionist and statist policies of previous governments. However, it did not insist on the rapid privatization of state-owned companies, nor did it abandon the institutions set up in the late 1970s to promote high-technology industries. As Stephen Wilks wrote,

Sectoral policies in Britain have been embraced by both sides of the equation. The Thatcher government, for example, financed microelectronics, information technology, and robotics. Both Labour and Conservative governments facilitated rationalization in textiles, motor vehicles, steel, and other declining sectors.¹⁰

The Labour Party has not always been a bastion of support for government intervention generally—and industrial policy specifically. The left wing of the party and its allies in the trade union movement have long supported socialization of production through nationalizations, state investment, and other forms of governmental participation. Disillusionment with Labour's National Plan experiment in 1964 and with Tony Benn's stab at industrial policymaking in 1974–75, however, forced party leaders to reevaluate their views. Labour's shifting perspective on industrial policy is best seen in the following three periods: 1964–70, 1975–79, and 1997–2010.

1964–70

In the first period, Harold Wilson's Labour government tried to formulate and implement his National

Plan, but the sterling devaluation of 1967 ended that experiment and strengthened support for alternatives to planning, especially government support for research and development and the establishment of consensus-generating bodies for specific industrial sectors within the NEDC framework. In this case, macroeconomic realities disillusioned moderate Labour Party members with traditional socialist approaches to economic policy.

1975–79

In the second period, another leftist experiment—this time focusing on the promotion of state enterprises under Benn’s management of the Department of Industry—ended badly, thus creating the basis for further policy experimentation and ideological revisionism. Prime Minister James Callaghan personally took charge of preparing the Industry Act 1975, in part as a reaction to the Conservative government’s Industry Act 1972. He was influenced by Stuart Holland, a socialist economist. The 1975 act established the NEB, reduced the protectionist and interventionist elements of the earlier act, and helped to create the basis for a new agency to encourage foreign investment in the UK. Also, Callaghan replaced Benn as minister of industry with Eric Varley, who was more in line with his way of thinking.¹¹

Also in the 1975–79 period, the Labour government implemented the Accelerated Projects Scheme. Between April 1975 and June 1976, that program funded 111 projects with £72 million in direct assistance and £568 million in project costs.¹² The main idea was to use the government to encourage investment in areas the state deemed important—a sort of “pick-the-winners” investment policy. That project was succeeded in 1976 by the Selective Investment Scheme (SIS), which was designed to attract both domestic and foreign private investment in the UK. By June 1979, SIS had received 742 applications, and by March 1980, it had offered £106.5 million to 166 projects and allocated £1 billion for future investments.¹³ Compared with the tax benefits given to manufacturing in the Finance Act of 1972, the SIS looks extremely small.

In 1978, the Labour government was confronted with the imminent collapse of Chrysler UK. I discuss

that crisis at greater length below, but the important point here is that the Labour government used Section 8 of the Industry Act 1972 to justify the expenditure of public funds to prevent Chrysler UK’s liquidation. That part of the act left the state’s participation in financial restructurings of “major” enterprises on the brink of collapse to the chancellor of the exchequer’s discretion. It was included because of the difficulty previous governments had in passing enabling legislation for restructuring, the main example being Rolls-Royce. Industrial assistance to the private sector under Sections 7 and 8 of the Industry Act 1972 (mostly to prevent firm failures) grew sharply from 1975 to 1979.

Labour’s misfortune was that many of these otherwise well-designed and intelligent programs received scathing criticism from the Conservatives, since the Labour government increasingly used them in desperation to bail out failing firms. A careful analysis of the distribution of funds shows a decided tendency to favor mature and declining industries at the expense of more buoyant ones.¹⁴

1997–2010

When the Blair government came to power in 1997, according to Peter Mandelson,

New Labour recalibrated the role of government in the economy away from the intellectually dogmatic market fundamentalism of the Conservatives, pouring investment into resource-starved public services and infrastructure, expanding educational opportunity and creating regional development agencies to spearhead the drive to rebalance the UK economy. This was a mixture of “supply-side socialism”, as we called it, individual opportunity and social inclusion.¹⁵

Blair distanced himself from both the Labour Party’s preference for nationalization and socialization of industry and the Conservative Party’s preference for nonintervention and privatization. According to George Owen, Blair “had no intention of returning to a pre-Thatcher industrial policy.”¹⁶ His “third way” combined a market-oriented

approach with increased spending on health, education, and social welfare.¹⁷ The Conservative governments of Thatcher and John Major had left Britain with a stronger economy but also higher unemployment and increased regional inequality.

The Evolution of Conservative Industrial Policies

The Conservatives came into office in 1979 with the goal of undoing many of the Labour government's innovations. Thatcher's government immediately closed the SIS and converted the NEB into the BTG, tasking it with privatizing the industries under its control. The Conservatives did not privatize everything, however. They kept the Labour government's schemes for promoting the microelectronics industry: the Microelectronics Industry Support Program (MISP), the Microprocessor Applications Project (MAP), and the Product and Processors Development Scheme. Although those were relatively small programs, they helped British manufacturers to become more aware of opportunities to apply semiconductor technology. Government spending for microelectronics research and development doubled between the 1978–79 and 1979–80 fiscal years.¹⁸ Also, the programs continued to use the economic development committees and sector working parties set up by Labour under the NEDC in the 1970s.¹⁹

The Thatcher government shifted away from sector-specific policies back to the regionally focused policies for dealing with the effects of industrial decline. In December 1979, it designated several new “special development areas,” which were eligible for regional development grants.²⁰ It also implemented a new program for designating enterprise zones that could qualify for special government grants. These grants helped local governments upgrade buildings to attract new investment and purchase shares in local firms undergoing financial difficulties.

Like some previous governments, the Thatcher government faced several industry crises—for example, in steel, computers, and automobiles. Thatcher's chancellor of the exchequer, Geoffrey Howe, was decidedly lukewarm on industrial policy, as was her first minister of industry, Sir Keith Joseph. The subsequent minister of industry, Patrick Jenkins, was

more willing than Sir Keith to continue rescue efforts for British Steel, British Leyland Motor Corporation, and International Computers Limited (ICL).²¹ The Thatcher government's desire to extricate itself from industrial policy was expressed fully in the cases of Laker Cars and DeLorean Motors, but it was not allowed to get in the way when larger crises, such as a collapse of British Leyland, was at risk.

Thus, although some reversals occurred as one government succeeded another, the general pattern was one of growing mutual acceptance by both Labour and the Conservatives of policies for rescuing large failing firms deemed crucial to the overall economy. Both parties also provided investment capital and other support for high-technology industries (especially information technology) and managed the state's portfolio, with an eye primarily to obtaining a reasonable return on investment (except in the case of major rescues), otherwise leaving industry to the private sector. Furthermore, both parties accepted the continuing decentralization of administrative authority over industrial policy.

I turn now to a closer examination of British industrial policies in three specific sectors: steel, automobiles, and information technology (with a special focus on semiconductors). These sector-specific cases will help to further demonstrate continuity in British industrial policy, and their examination will reveal the government's reactions to crises.

Policies for Steel

British steel policies must be viewed in light of the general problem of overcapacity in the world steel market. Like many other countries, Britain had to manage the shrinkage of its steelmaking capacity—especially in the late 1970s and early 1980s—because of recession, a decline in demand for steel exports, and the reduced use of steel in manufacturing generally. In the middle and late 1970s, the British steel industry was more of a disaster than that of other countries because of a major push to increase capacity when demand took a major downturn. British policies of the early 1980s were much more realistic and effective than those of the 1970s, so the overall story is one of painful learning.

The problem began after World War II. The British steel plants had done yeoman service during the war, but they were growing obsolete. Britain had many relatively small steel firms, most with old plants. The macroeconomic policies of postwar British governments in maintaining a high value of sterling relative to other currencies had a dampening effect on the competitiveness of British exports from which the British steel industry, like the others, suffered to some extent. In addition, the British steel industry's management was relatively conservative. When the Japanese and German steel industries were rapidly adopting new technologies such as basic oxygen furnaces and continuous casting, Britain stuck with the more expensive and less efficient open-hearth furnaces and emphasized liquid steel processing.²²

Nationalization of the Steel Industry

Leftists in the Labour Party focused on the steel industry as a key to their efforts to socialize the economy. In 1950, they nationalized the industry, but in 1953, the Tories denationalized it. This early attempt at nationalization discouraged private investment. After 14 years of sluggish performance, the Labour government regained a majority in the House of Commons and nationalized the industry again, in 1967. Fourteen of the largest bulk steel producers were consolidated into a state enterprise called the British Steel Corporation (BSC), which controlled 92 percent of British steel production and was the third-largest producer of steel in the world. BSC employed 270,000 people and produced 23.3 million tons of steel in its first year of operation.²³ There remained 210 private steel companies in the domestic market, most of which were quite small. Only two relatively large firms were left to compete with BSC: GKN and Johnson & Firth Brown.²⁴

In 1967, BSC steel relied on open-hearth furnaces to produce 57 percent of its raw steel²⁵—a high percentage compared with Germany and Japan but not too different from the US. Subsidization of the industry began in earnest in 1968. During the merger, BSC inherited plants on more than 60

major sites, many of them in bad shape. Nevertheless, the company's first financial task was to pay for nationalization itself. BSC found itself owing the former shareholders a debt of approximately £1 billion.²⁶ The British government helped to pay that debt by passing the Iron and Steel Act 1969, which wrote off some of BSC's debts and made up the difference with public revenues in the form of government loans. Subsidies subsequently took the form of a dividend forgiveness policy for those loans, called public dividend capital.

New Investments Create Overcapacity

In 1970, the newly elected Conservative government contemplated splitting BSC into two smaller firms but decided instead to undertake a careful study of the industry and BSC's prospects. That study resulted in a white paper published in 1973, which called for a "Ten Year Development Strategy" for steel, proposing a £3 billion expansion program to modernize old plants and construct five new facilities to double steelmaking capacity to 30 million tons per year. That proposal was based on the Department of Trade and Industry's belief that demand for steel, both domestically and in export markets, was rising rapidly and that BSC had an excellent opportunity to profit by modernizing and augmenting its productive capacity.²⁷

In retrospect, the stupidity of that plan is crystal clear. Yet one must recall that the early 1970s were a time of economic boom despite shortages of raw materials. When demand for steel slumped after the 1973 OPEC price increases, the plan's foolishness became evident, and the newly elected Labour government scaled back the size of the expansion. Unfortunately, the damage had already been done. BSC had begun to build major facilities at Scunthorpe, Lackenby, Ravenscraig, Llanwern, and Port Talbot. Once begun, the construction was hard to stop because both parties had to satisfy important political constituencies and because British political leaders were constantly aware that Scotland and Wales might seek independence.

The new plants were built near the coast so that it would be less expensive to use imported

inputs, such as iron ore and coking coal. It would also make it cheaper to export finished steel products. They employed newer processing technologies like basic oxygen furnaces and continuous casting. Unfortunately, the stagnation of both domestic and export markets resulted in political pressures to keep the older and less efficient plants open, forcing the new plants to operate unprofitably at low capacity utilization.

What should have happened, of course, was the closure of older plants. However, this would have been politically difficult because the whole effort had been originally sold as an expansion of capacity rather than as a modernization of existing capacity. The unions and the local communities were opposed to closing the older plants because people would be put out of work. At that time, 14 ministers in the Labour cabinet represented constituencies threatened by plant closures. Thus, big losses began for BSC in 1975 and continued through 1978. Imports to the British market increased from 5 percent of the market in 1970–71 to 20 percent in 1977–78 while BSC's share of the British market declined from 70 to 55 percent.

BSC's huge operating losses required government subsidies to increase rapidly, so that the firm could continue to meet its loan obligations. In 1977, BSC's chairman, Sir Charles Villiers, began to close obsolete plants and reduce capacity. However, the firm continued to suffer large losses. In 1978, Minister of Industry Varley published a white paper on steel, *The Road to Viability*, which recommended drastic cuts in investment and production for BSC. Although the Labour government rejected those recommendations, BSC's workforce was nevertheless reduced by 44,000 between 1974 and 1979.²⁸ By the time the Thatcher government came to power in mid-1979, BSC was near bankruptcy.

The Thatcher Government Reduces Capacity

In June 1980, Sir Charles wrote to the Minister of Industry Sir Keith to ask for an additional subsidy for BSC of £400 million for fiscal year 1980–81, at a time when the normal difficulties of BSC had been compounded by a major strike. The alternative,

according to Villiers, was liquidation. Immediately after the strike was settled, the Thatcher government recruited Ian MacGregor—at that time a partner of the firm Lazard Frères in New York—to replace Villiers as the chairman of BSC. Despite the minister of industry's strong ideological objections to such a bailout, the subsidy request was granted in September 1980. An additional £110 million was granted in November 1980. An implicit quid pro quo for Sir Keith must have been a “get tough” policy pushed by the new chairman.

As soon as MacGregor took over in July 1980, he recommended a further reduction of BSC's workforce by 20,000 and a reduction in production of 600,000 tons per year.²⁹ At that moment, BSC was losing about £3 million a day.³⁰ Between January 1980 and May 1981, BSC's workforce was reduced by an additional 62,000. MacGregor continued or accelerated several reductions planned by Villiers. Between 1977 and 1981, 15 midsize steel plants were closed, as were 31 of the existing 49 blast furnaces in the public sector.³¹ The total workforce was eventually halved, from 160,000 in 1980 to 80,000 in 1981. The combination of layoffs and plant closures drastically increased the productivity of BSC's remaining operations, reducing—though not eliminating—losses. Furthermore, the Iron and Steel Act (Borrowing Powers) 1981 provided for a write-off of £3.5 billion in BSC capital with a £1 billion reserve for future purposes, as deemed fit by the chairman. MacGregor asserted that maintaining production capacity at around 14.4 million tons would be possible.

When the recession in 1982 produced another round of losses, the Labour Party began to criticize MacGregor and the Thatcher government for their policies. One issue was the large payments made to Lazard Frères in compensation for MacGregor's services while he was on loan to BSC (\$1.2 million as of July 1980, with further payments depending on the length of employment and a ceiling of \$3.3 million).³² Also, government subsidies rose again in fiscal year 1983 to \$871 million, from \$497 million the year before.³³

When MacGregor announced in March 1983 that he would retire as BSC's chairman that August to run

the National Coal Board, Arthur Scargill, the head of the National Union of Mineworkers, referred to him as “the American butcher of British industry” and “a hatchet man.” Nigel Lawson, chancellor of the exchequer, said that “hatchet men are a great deal cheaper than this.” MacGregor himself said that he was not a “butcher” but “a plastic surgeon trying to redeem the features of aged properties which need some kind of face lift.”³⁴

The Thatcher government pursued a policy that shifted most of the adjustment costs to workers, whereas previous governments had avoided that because they were not sure it was necessary. In March 1982, the Thatcher government announced that it had instructed BSC to keep all five of its integrated plants open for the next three years, despite the government having not allocated sufficient funds for that purpose.³⁵ When BSC attempted to close the Ravenscraig plant in the summer of 1983, just before the general election, the government blocked it so as not to upset Scottish nationalists.

In 1988, the Thatcher government privatized BSC, whose workforce had been reduced from 142,000 in 1980 to 52,000 in 1988. In 1992, after the UK began to slide into a recession, the plant in Ravenscraig was closed. In 1999, BSC merged with Koninklijke Hoogovens of the Netherlands to create Corus Steel. In 2007, Tata Steel of India purchased Corus. In 2015, Tata closed its plants in Scotland and South Wales but was still unable to stem the persistent losses from its other British plants. Tata was unable to compete with cheap steel imports from China and elsewhere. In 2019, a Chinese conglomerate, Jingye, purchased British Steel, promising to invest £1.2 billion in it to create 3,200 skilled jobs.³⁶ Nevertheless, steel production in the UK continued to decline (Figures 2 and 3).

Policies Toward the Auto Industry

The British auto industry developed significantly in the 1920s and 1930s under an imposing set of tariff barriers but with relatively few restrictions on the entry of foreign firms. Two American giants, Ford and General Motors, began to manufacture in the

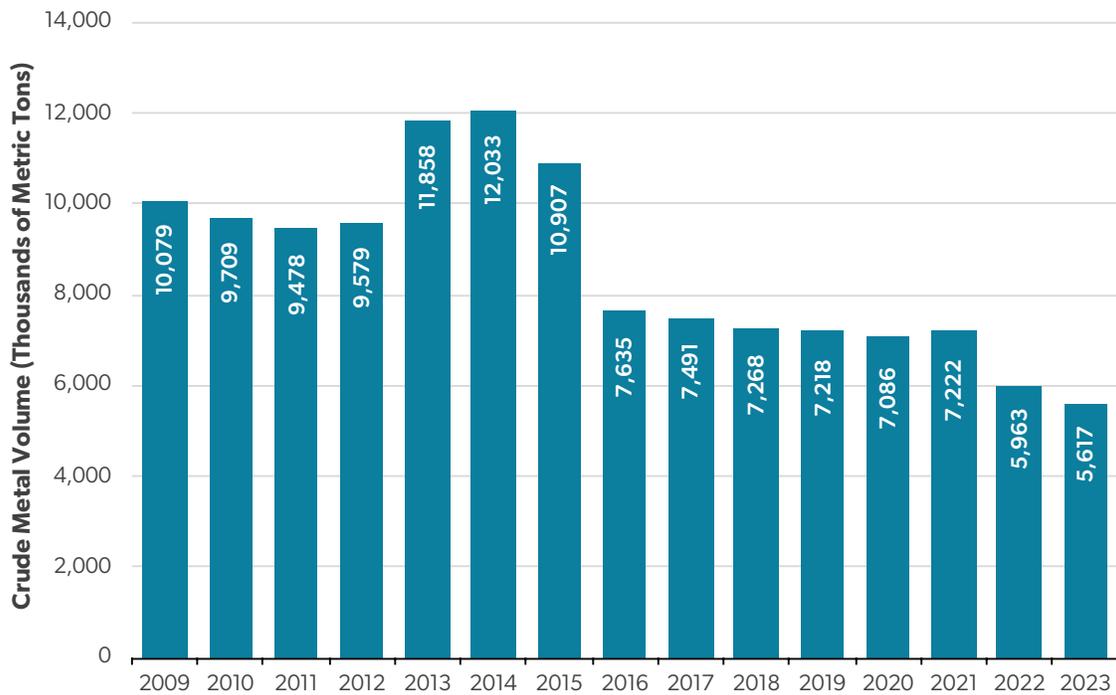
UK during this period. General Motors purchased Vauxhall in 1925. Ford’s large plant at Dagenham was constructed in 1931. In 1945, the British government’s foreign exchange restrictions limited British firms’ ability to set up overseas manufacturing facilities. Thus, the British firms were imperfectly sheltered at home while effectively prevented from internationalizing at a crucial time. Consequently, many small British manufacturers emerged, only to become victims of later waves of internationalization in the global auto industry.

The first glimmer of what was to come was the merger of Austin and Morris in 1952 into the British Motor Corporation (BMC). That merger was prompted by increasing competition from Ford. But because of inattentive management, opportunities for rationalization of production were overlooked, and the firm continued to produce in various small and inefficient plants. The Austin Mini, Austin’s innovative front-wheel drive vehicle, was introduced in the late 1950s and was a technical—but not financial—success. The larger domestic firms were able to just hold on to their shares of the market, but profit margins deteriorated steadily.

The economic boom of the early 1960s created a global overexpansion of the motor industry without making the industrial structure more efficient. That was particularly harmful for the UK motor industry because by 1965, the European motor industry was experiencing overcapacity and intensifying international competition. The failure to rationalize meant that between 1965 and 1969, the UK motor industry consisted of manufacturers that were too small and failed to exploit potential economies of scale.³⁷ In addition, the British government used automobile manufacturing in the 1950s and early 1960s as a weapon in its fight against regional concentration of industry, thus unintentionally encouraging the building of smaller and less efficient manufacturing facilities in under-industrialized regions.³⁸

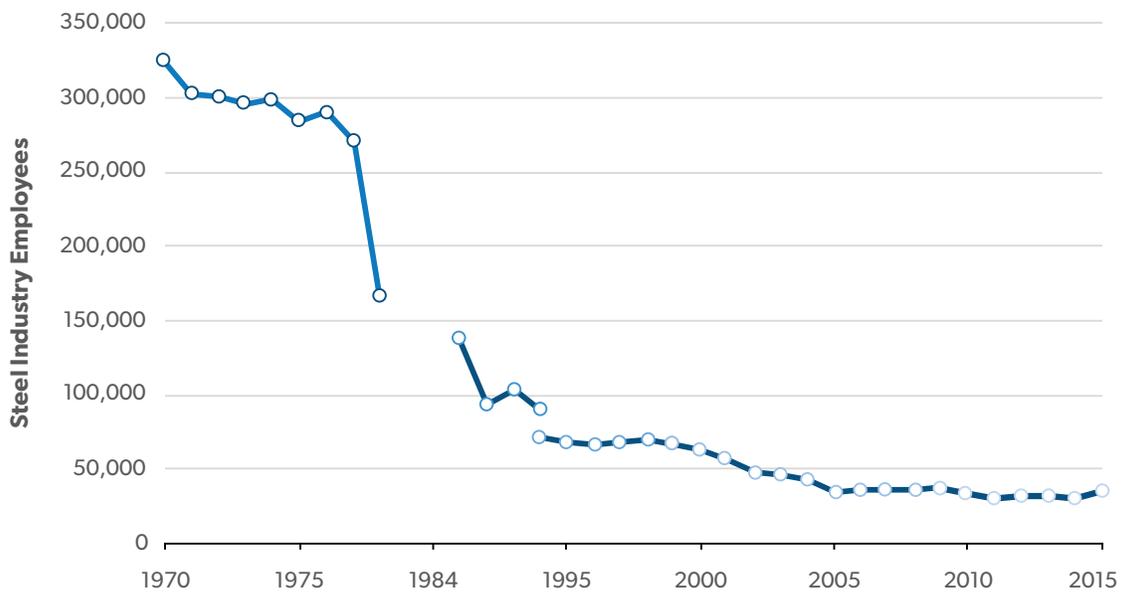
In 1965, BMC purchased Pressed Steel, the only large independent supplier of auto bodies in Britain. After that purchase, smaller firms like Rover and Jaguar saw clearly that they would have to cooperate with BMC or other large firms to survive. Leyland

Figure 2. Annual Volume of Crude Steel Produced in the UK, 2009–23



Source: Statista, “Annual Volume of Crude Steel Produced in the United Kingdom (UK) from 2009 to 2023,” July 4, 2025, <https://www.statista.com/statistics/474809/annual-production-of-crude-steel-uk/>.

Figure 3. Employment in the UK Steel Industry, 1970–2014



Source: UK Office for National Statistics, “Updated: The British Steel Industry Since the 1970s,” January 18, 2016, <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/articles/updatedthebritishsteelindustrysincethe1970s/2016-01-18/>.

purchased Rover at the end of 1965, and BMC and Jaguar formed a joint venture called British Motor Holdings (BMH), which left Jaguar with considerable autonomy but guaranteed access to BMC's auto bodies. Thus, by the end of 1965, only two major British-owned firms or groups were left: Leyland and BMH.

During the recession of 1967, the financial weaknesses of Standard-Triumph became apparent, and it was taken over by Leyland. During that same year, Chrysler UK purchased a 70 percent share in Rootes, with the British government's permission. If there had been no purchaser, Rootes would have had to close. The IRC held 15 percent of the shares in Rootes until 1973, when Chrysler purchased the remaining 30 percent of outstanding shares.³⁹

The Formation of British Leyland

In 1968, Leyland's and BMC's continuing weakness led the government to encourage them to merge into the British Leyland Motor Company. The IRC provided £25 million in loans for retooling as an added incentive.⁴⁰ The auto firms' traditionally independent-minded management was upset about that injection of government capital, and several executives resigned. But the head of British Leyland, Don Stokes, was amenable to the arrangement and was rewarded by the Labour government in 1969 with the deputy chairmanship of the IRC. British Leyland was thus freed from close supervision of and scrutiny by the IRC.

In 1968, British Leyland was a very large firm. Its \$1.9 billion in sales compared favorably with Volkswagen's \$2.5 billion and Fiat's \$1.7 billion. However, it was building too many models, and with 185,000 workers, its output per worker was low. In the US, the same number of workers at Chrysler were producing \$5.7 billion in sales. Some observers have suggested that the earlier mergers had been partly to blame for this low productivity (or, in other words, that Morris injected Austin with inefficiency in 1952 and that BMC had done the same to British Leyland in 1968).⁴¹

The early 1970s were boom years for British Leyland and a period of relative nonintervention by the Tory government. This idyll was ended by two unforeseen catastrophes. In 1973, just before the OPEC-induced recession, British Leyland decided to

make a major investment of £500 million to increase capacity. The difficulties experienced by British Leyland during this period led the Ministry of Industry to undertake a series of discussions with Chrysler UK concerning the possibility of merging the two.⁴² After the passage of the Industry Act 1975, one of the first companies to receive financial assistance from the NEB was British Leyland. One of the first to be denied was Chrysler UK.

Don Ryder, the first director of the NEB, issued a report in 1975 that argued that the government should be willing to back British Leyland financially to the tune of £2.8 billion over eight years. His argument was premised on the feasibility of British Leyland remaining a mass producer of automobiles, which required rationalizing existing facilities and expanding capacity. According to John Barber, deputy chairman and managing director of British Leyland, "We do not have the volume to compete with the real giants in the cheap end of the market."⁴³ Harold Wilson, agreeing with this assessment, accepted Ryder's report and issued the following statement: "The Government has decided that Britain must remain in the world league so far as a British-owned automobile industry is concerned."⁴⁴ In this way, British Leyland became a state enterprise.

Shortly after Ryder's report was issued and accepted, the Central Policy Review Staff in the Cabinet Office published its own report on the auto industry, which suggested that British auto manufacturers needed to internationalize by forming links with other European firms to meet the challenges of international competition. The report underlined that there were too many models and plants but was quick to point out that merely producing fewer models would not solve British firms' problems. To realize economies of scale, production needed to be increased, but not at the expense of overly reducing the number of models offered for sale. As discussed later, this report had a significant influence on later government policies toward Chrysler UK.

The Near Collapse of Chrysler UK

The year 1975 was especially busy for automotive policy because of not just the two reports discussed

above but also the near collapse of Chrysler UK. The crisis was a long time coming, but the precipitating event was a message sent in October of that year from the US chairman of Chrysler, John Riccardo, to the British government, which announced that Chrysler “would start liquidating Chrysler UK from the end of November . . . , unless Her Majesty’s government in the meantime took it over.”⁴⁵

Chrysler UK lost \$35 million in 1974 and \$71 million in 1975. Therefore, neither the NEB nor British Leyland was interested in purchasing Chrysler UK, and even the Ministry of Industry initially favored its liquidation—but only if that were combined with import controls. The cabinet objected, however, to import controls, while the Scottish Office strongly opposed the closing of the main Chrysler UK plant at Linwood. Because the cabinet was concerned about Scottish nationalism and the threat of devolution, and because the closure of Chrysler UK would threaten arms sales to Iran, where Chrysler UK had just completed an assembly plant, the Labour government decided to rescue Chrysler UK with £72.5 million in loans and £90 million in loan guarantees.⁴⁶

The end of the Chrysler story is a sad one. In 1977, Chrysler UK was taken over by PSA Peugeot Citroën (now called PSA Group). Following the suggestions laid out in the 1975 Central Policy Review Staff report, the government had first promoted greater integration between Chrysler UK and Chrysler Europe, especially Chrysler France. When PSA purchased Chrysler’s European interests in 1977, the British government made no objection to Chrysler UK being included in the acquisition. The Linwood plant, which had not been cost-efficient since its construction in 1960–62, closed in June 1981, displacing 5,000 workers—a shadow of the original workforce. Chrysler UK became Talbot under the direction of PSA. In 1982–83, Talbot received £50 million in loans from the Thatcher government.⁴⁷

Continued Weakness at British Leyland

The 1975–77 period was also one of continuing weakness at British Leyland. According to Dunnett, “Ford UK, Vauxhall, and Chrysler UK had all become very much integrated into the European motor industry—

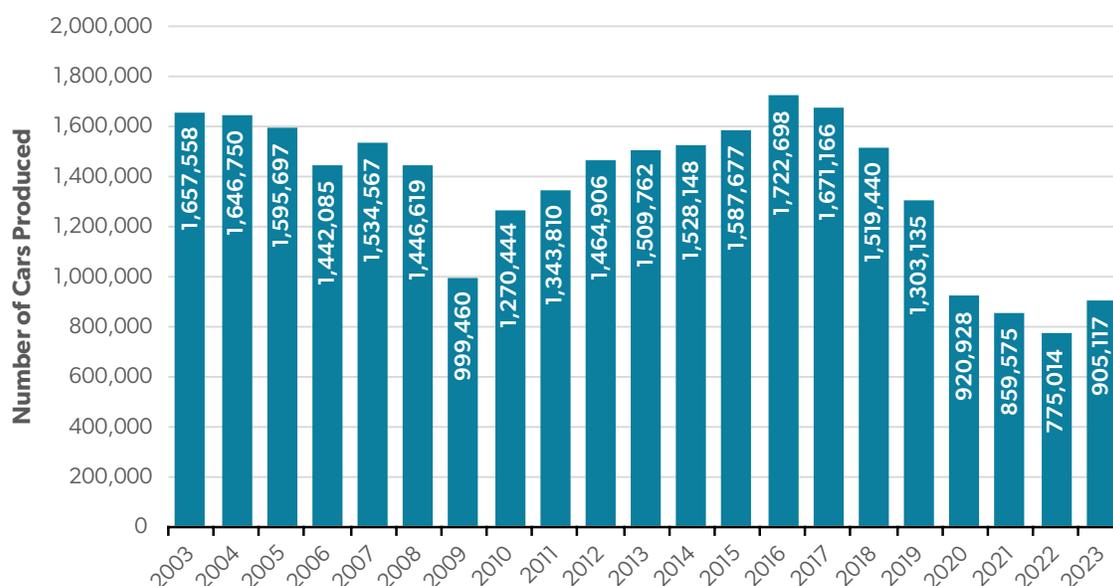
a development encouraged by the Chrysler UK bailout—whilst BL had become a secondary junior league producer.”⁴⁸ Stokes, the managing director of British Leyland, was not a forceful individual and was replaced in 1977 by Michael Edwardes. Edwardes immediately asked for—and received—support for a major reduction in the size of the workforce, the number of plants, and the degree of centralization of the firm’s management. He also won greater managerial independence from the NEB and implemented a new policy of establishing performance targets for divisional managers. When he began a round of tough bargaining with the unions for wage restraints, he was successful, especially after the beginning of the Thatcher government.

In 1979, British Leyland made a deal with Honda to coproduce a midsize car that would be sold in both Europe and Japan. The car would pair a Honda engine, gearbox, and transmission with a British Leyland body and other components. That same year, the government increased the flow of funds to British Leyland to £1.2 billion.

During the general election campaign in 1979, the Tories had pledged to continue aiding British Leyland—a pledge that helped them to win in important constituencies like Birmingham, Coventry, and Oxford. In January 1981, Sir Keith announced that British Leyland would receive £990 million in aid to help the company launch a new model called the Mini Metro.⁴⁹

After encouraging the investment by Honda, the Thatcher government also encouraged Toyota and Nissan to build plants in the UK.⁵⁰ One of the results of the ensuing increase in foreign investment was to further reduce British Leyland’s share of the domestic car market. In March 1981, British Leyland reported a loss of £535 million for the year.⁵¹ British Leyland’s workforce in the UK dropped from 176,000 in 1977 to 96,000 in 1981. The company’s share of the UK domestic market had dropped from 40.6 percent in 1968 to 18.2 percent in 1980.⁵²

In 1986, British Leyland was renamed the Rover Group. It became a subsidiary of British Aerospace from 1988 to 1994 and was subsequently purchased by BMW. BMW sold Rover Group to Phoenix Venture

Figure 4. Passenger Cars Produced Annually in the UK, 2003–23

Source: UK Office for National Statistics, “Updated: The British Steel Industry Since the 1970s,” January 18, 2016, <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/articles/updatedthebritishsteelindustrysincethe1970s/2016-01-18/>.

Holdings in 2000 because of losses and declining market share. Rover Group became the MG Rover Group at that time. In 2005, high-volume car manufacturing by British-owned firms came to an end. The MG Rover Group was bankrupt. The MG, Austin, Morris, and Wolseley brands were purchased by the Chinese firm SAIC (formerly the Shanghai Automotive Industry Corporation). Luxury brands like Jaguar and Rolls-Royce and commercial vehicle manufacturers like Leyland Truck managed to survive.⁵³

The best explanation of British industrial policy in the automobile sector, as in steel, lies in the weakness of its domestic firms (Figure 4). Government interventions became massive, bridging the ideological chasms between Labour and Conservative governments, but their efforts were to no avail.

Policies Toward Information Technology

Government intervention was somewhat more effective in promoting the information technology industry. This illustrates an idea—made by John Ikenberry in his work on US energy policies—

that each country, with its own characteristic set of governmental institutions and state-society links, has distinctive capabilities for responding to certain industries’ needs.⁵⁴

Information technology includes microelectronics, consumer electronics, software, and computing and telecommunications equipment and services. Access to innovations in semiconductors, especially in advanced products such as microprocessors and high-capacity memory devices, is crucial to the competitiveness of downstream industries. For this reason, most industrialized countries have focused on promoting domestically owned semiconductor firms.

In the 1970s, the main British firms in information technology were ICL; General Electric Company (GEC), which has only a faint connection with General Electric in the United States; Standard Telephone and Cables (STC); British Telecom; Mercury; Thorn EMI; Ferranti; Plessey; and Inmos. ICL, British Telecom, and Inmos were state-owned firms until they were privatized. GEC, STC, Thorn, Plessey, and Ferranti were privately owned, but GEC, Plessey,

and Ferranti were highly dependent on British military contracts.

Policy Toward the Industry as a Whole

As in the auto industry, the main problem has been the weakness and small size of British firms and the growing penetration of foreign-owned firms and imports in the British market. According to a study published by the Information Technology Economic Development Committee (of NEDC), “The UK information technology industry now has such a small share of world markets that it can no longer continue to invest adequately in product development, in marketing or in production facilities.”⁵⁵ The global sales of IBM were more than 16 times the total sales of ICL. The sales of AT&T were 20 times the sales of Plessey. By 1982–83, the level of import penetration in information technology had reached 54 percent.⁵⁶

The Alvey Report

In 1982, the British government commissioned a report on the information technology industry, which posed the problem as follows:

The issue before us is stark. We can either seek to be at the leading edge of these technologies; or we can aim to rely on imported technology; or we can opt out of the race. The latter we do not regard as a valid option. Nor is the reliance upon imported technology practical as a general strategy, though we cannot be completely self-sufficient either. . . . The only sensible option . . . is to share in the future growth and development of the world IT sector . . . in specific targeted priority areas.⁵⁷

The Thatcher government accepted the recommendations of the Alvey report and the Electronic Components SWP for a special government-funded research program for advanced information technology aimed at matching, at least on a small scale, the United States’ and Japan’s efforts. In September 1984, the Alvey Research Programme announced funding for 34 research projects—the total for this phase of the program being around \$83 million. About half of that went to Plessey, GEC, and STC.

The program was supposed to run for five years with a total expenditure of \$483 million.⁵⁸ However, the Alvey Research Programme ended in 1988.⁵⁹

Policies of the 1950s and 1960s

In the 1950s, the British government encouraged the domestic computer industry’s growth primarily because its Atomic Energy Agency needed advanced computers. The National Research Development Corporation (NRDC) oversaw these efforts. In 1954, the Development of Inventions Act gave the NRDC more flexibility by extending the time it had to become self-supporting. In 1957, the NRDC initiated a project to develop supercomputers. The principal contractors were Ferranti and the Department of Electrical Engineering at Manchester University. As a result of those efforts, Ferranti developed the Atlas model of supercomputers, which turned out to be more successful in the British market than its main competitor, IBM’s Stretch model.⁶⁰

In the 1960s, when the Labour government was developing a British industrial strategy, it increased government funding for research and development and encouraged the mergers that led to ICL’s formation. The IRC initially financed ICL with a loan of £3.5 million. In 1968, ICL received an additional infusion of public research and development aid of £13.5 million and another £40 million in 1972–73. To favor ICL, the government adopted a preferential purchasing policy for government computers. In 1967, the government started buying shares in ICL; by 1969, it owned 25 percent of the shares.⁶¹

NEB Promotes Information Technology

The year 1978 was particularly important for policy initiatives in information technology. In one of its last major transactions, the NEB purchased 75 percent of the shares in a fledgling microelectronics firm called Inmos. The firm was founded by Iann Barron and two Americans, Richard Petritz and Paul Schroeder, both of whom held 5 percent of the firm’s shares. Petritz, formerly an employee of Intel, saw opportunities for a startup to produce very fast microprocessor chips (later called transputers). When the founders approached the NEB with their

ideas, they were able to secure the Labour government's support. Petritz became the chief executive officer of the firm, which decided to build two plants: one in South Wales to produce 64K DRAMs and the other in Colorado to produce 16K SRAMs and 64K DRAMs. By 1984, Inmos had 844 employees in the United States and 544 in the UK.⁶²

The members of the Electronic Components SWP in NEDC, concerned about the government's sponsorship of new competitors, complained to the government that the purchase of Inmos had been made without adequate consultation. Shortly after receiving these complaints, the Labour government announced two new programs: MISP and MAP.⁶³ MISP was designed to help domestic firms rise to global standards in the manufacturing of integrated circuits. The program was relatively small: Only about £24 million was to be spent. In fact, even that small amount was not spent during the five years allocated for the program. The firms questioned the emphasis on standardized circuits as opposed to customized circuits.⁶⁴

In 1977, a survey by the Department of Industry showed that only 5 percent of British firms were aware of developments in microelectronics. MAP was created in 1979 to increase British manufacturers' familiarity with semiconductor technology so that they would promote its use and increase demand for domestic microelectronics and information technology products. The project offered a series of training sessions for British industrialists, which were well attended. By 1982, 133,000 industrialists had attended MAP awareness seminars.⁶⁵

The Privatizations of Inmos and ICL

The Thatcher government revised the previous governments' policies toward ICL and Inmos. As part of its overall policy of privatization, the Thatcher government instructed the BTG to look for private purchasers for its shares in ICL and Inmos. That instruction created an interesting political controversy between the Conservative and Labour Parties because of the latter's firm belief that the policies of 1976–79 had been responsible for maintaining some credible alternative to IBM (in the case of computers)

and making Britain the only country in Europe with an independent, domestically owned mass producer of integrated circuits (i.e., Inmos). Peter Shore, a Labour member of Parliament and shadow cabinet member, said that "to abandon public ownership now would be no more than ideological spite."⁶⁶

Despite Labour's objections, the Thatcher government proceeded with its plans. Kenneth Baker, the new minister of information technology, criticized the previous government's policies. "The previous government," he said, "saw the NEB as a major interventionist instrument that could start up new ventures and buy companies that were about to collapse and save them. . . . [The problem is that] civil servants aren't very good at that sort of thing."⁶⁷

The irony of this comment was that the NEB and its predecessors had been set up in a way that minimized the influence of civil servants in industrial policymaking. The members of the NEB's board were primarily industrialists. Perhaps the belated recognition of that enabled the Thatcher government to replace the NEB with the BTG without abandoning the idea completely.

In July 1983, the BTG dismissed Petritz as chief executive officer of Inmos, replacing him with Sir Malcolm Wilcox. The first offer to purchase Inmos came from AT&T, soon after its deregulation in the United States. AT&T, which had recently purchased a 25 percent stake in Olivetti, wanted the Inmos plant in South Wales to ensure access to European Community markets and avoid the European Community's 17.5 percent tariff on microelectronic imports.⁶⁸ AT&T offered \$69 million for 60 percent of Inmos's shares in February 1984. AT&T also offered to invest an additional \$96.6 million into the plant in South Wales for retooling, saying that it would transfer the 70-person Inmos design team, which was working on the transputer, to ICL.

The British government was not pleased with this offer since it had already invested over \$140 million in Inmos and wanted to recover at least that sum from the sale. In addition, Inmos itself was opposed to the sale, as were the BTG, Sinclair, and ICL, all of which wanted Inmos to remain in British hands. Shore, of the Labour Party, called the deal "technological

treason,” while David Owen of the Social Democratic Party called it “little short of lunacy.”⁶⁹ However, the bid was rejected as too low soon after it was made. Merrill Lynch had estimated that a public offering of Inmos shares would bring in around \$270 million.⁷⁰

By the end of 1983, the firm had lost around \$78 million, so there was still substantial sentiment among Thatcherites to sell it.⁷¹ A parliamentary debate in June 1984 resulted in the passage of an amendment that endorsed privatizing the firm.⁷² Soon after that debate, Thorn EMI offered \$13.8 million for slightly less than 10 percent of Inmos’s shares. Inmos and the BTG welcomed the offer because it was a gesture of support that would help to counter offers from foreign firms like AT&T. Also in June 1984, Inmos was approached by a Dutch consortium that wanted to finance the building of a new chipmaking facility in Limburg for approximately \$69 million.⁷³ While that offer was another shot in the arm for Inmos, it nevertheless conflicted with the company’s plans to build another plant in the UK. In any case, the BTG had the right to veto the arrangement.

Thorn EMI offered to buy the BTG’s 75 percent of Inmos shares for \$124 million while implying that it would purchase the remaining shares for \$39 million. However, the offer was not contingent on that purchase. Thorn had just submitted an unsuccessful bid of approximately \$1.12 billion for British Aerospace. A merger of Thorn and British Aerospace would have created a firm with annual sales of \$6.95 billion. GEC also offered to purchase British Aerospace, a merger that would have created a military-industrial giant with \$11 billion in annual sales, accounting for about 25 percent of the expenditures of the British Defense Ministry.⁷⁴ When British Aerospace rejected the bid from Thorn, GEC announced that it would not go ahead with its bid for British Aerospace because of the possible objections from the Monopolies and Mergers Commission.⁷⁵ It was rumored that Ferranti and Plessey were pushing for a hearing of the commission if the deal went through.⁷⁶

When Thorn upped its bid for Inmos to \$165 million in August 1984, Inmos accepted. In total, Inmos had received £211 million from the government, but it never became profitable. According to CEO Barron,

Inmos was actually “profitable in 1984. . . . We made revenues of £150 million, and we made a profit which was slightly less than £10 million.”⁷⁷ In April 1989, Inmos was sold to SGS-Thomson (renamed STMicroelectronics), a Franco-Italian, and later Dutch, company. In December 1994, Inmos was fully assimilated into STMicroelectronics, and the usage of the Inmos brand name was discontinued.

In August 1984, the privatization of ICL was concluded with a successful bid of \$561 million from STC. Thus ended a long and largely unsuccessful experiment in state entrepreneurship. In 1980–81, ICL experienced severe financial difficulties. The large losses began in December 1980 and continued through 1981. The Thatcher government had replaced Peter Bonfield, the managing director of ICL, with an American named Robb Wilmot, formerly the manager of Texas Instruments UK. Wilmot soon concluded a series of arrangements with Fujitsu to get access to the Japanese company’s chips and market Fujitsu’s IBM-compatible mainframes in the UK and Europe. Loans and loan guarantees from the government were required to prevent the firm’s bankruptcy until it returned to profitability in 1981–82.⁷⁸

Some Successes in Recent Decades

ARM (Advanced RISC Machine) is a British semiconductor-design company headquartered in Cambridge. It was founded in 1990 as a joint venture with Acorn (a British personal computer firm), Apple, and VLSI Technology (an American semiconductor firm). Apple used Acorn’s RISC technology to develop its Newton personal digital assistant. By 1993, ARM was profitable. Chips with ARM-designed architecture were incorporated into almost all smartphones. ARM quickly set up subsidiaries in many countries to service the global market. In 2016, during the negotiations for Brexit, Japan’s Softbank decided to acquire the firm for £23.4 billion.

ARM now competes with Nvidia in the market for GPUs, which are crucial to developing large language models. Nvidia attempted to purchase ARM in 2020 but was blocked by both the US and UK governments.⁷⁹

Other, smaller British semiconductor companies have been successful in recent years.⁸⁰ British

policymakers attribute this mostly to the strength of British research universities, particularly Oxford and Cambridge, which are funded by national research and development agencies. Openness to collaboration with foreign firms has also played a role. The semiconductor industry has become increasingly globalized. For example, Taiwan Semiconductor Manufacturing Company fabricates over 90 percent of all advanced semiconductor devices worldwide, using the designs of companies like ARM and Nvidia.

A close examination of the UK's information technology sector reveals not a dead industry but one undergoing substantial reinvigoration.⁸¹ The growing concentration of ownership may be a worrisome development, but given the size of the internationally competitive firms in the same industry, Britain apparently is not alone in this. In information technology, the British case demonstrates a combination of unusually realistic, and therefore successful, government policies.

Conclusion

The British case is a strange one. As in the case of Germany, we must distinguish between ideology and practice. The British government has been alternately interventionist and market-oriented with respect to

domestic industries. The weakness of British firms in international competition after World War II was a legacy of the government's defense of the pound in international currency markets. The peculiar combination of consensus building and interventionist institutions set up under both Conservative and Labour governments after 1964 lent some continuity to policy until 1979.

After 1979, the policies of the Thatcher, Cameron, and Blair governments had a lot in common. There was no more subsidizing of declining industries. Instead, greater attention was paid to policies designed to promote innovation. That meant welcoming foreign investment and renewing an emphasis on research and development. The result is that the British government now seems better able to adopt intelligent and effective industrial policies.

About the Author

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