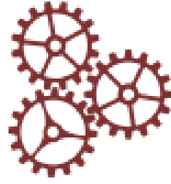


Council for National Resilience

Briefing Note 1: Industrial Resilience & Welfare

April 2025

Summary

- A central tenant of the deindustrialisation programme and reduction in public subsidy in the 1980s through to the 2000s was that it was too expensive to maintain support for the UK's industrial sector and nationalised industries.
- Original analysis by the Council for National Resilience based on historic data indicates that this assumption was incorrect.
- Based on historic data on subsidies to nationalised industries, manufacturing and employment support and working-age welfare compared with the total level of industrial support and employment support and working-age welfare today, we estimate that it would cost us annually **£30bn *less* today to have maintained support for domestic industries.**
- Over the whole period (1980 to 2024), we estimate the *direct* cost to the taxpayer at **£172bn** from failing to support our strategic businesses and industries through higher levels of unemployment, worklessness and economic inactivity.
- This is likely to be a significant **underestimate** of the total cost because it does not consider the additional burden created through poor physical and mental health on public services alongside social dislocation that was created through deindustrialisation.
- **We should see industrial support for key industries such as steel, aerospace, defence and other export industries as cost *saving*.**

Policy Actions:

1. HM Government should immediately create a **National Economic Resilience Taskforce** to begin the work of identifying key strategic industries, how we can support them and create incentives to maintain employment and support economically inactive people into those industries.
2. HM Government should mandate **fiscal scoring the net *cost* of economic and employment policies over a fifteen year period**, rather than the current five year period, to avoid presenting false economies.
3. HM Treasury should create an **Economic Opportunity Costs Unit** to provide assessments of the cost of *inaction* not simply the cost of action through lack of support for key industries – this unit would *blue team* government economic policy.

Background

In the post-war period, HM Government took control over several strategically important industries (e.g. coal, electricity, steel, civil aviation) not only to significant increase investment and exports but also to ensure full employment. In 1979 around 1.63m people were employed in nationalised industries and contributed around 14% to UK GDP.

Alongside this, institutions such as the National Enterprise Board and assistance grants to key industries and employment grants were provided across disadvantaged places and regions.

Overall, the total spend in 1975-1976 was £2.59bn in 1975 prices (£18.91bn in 2024 prices) according to research published at the time by critiques of this model, the Centre for Policy Studies.

From 1979 onwards, the Thatcher Government pursued a policy of reduction in national ownership of industries, targeted subsidies for strategic firms and regional support, with a view to ensuring that the private sector would sustain these industries and higher levels of employment. Subsidies and direct intervention were considered too expensive and wasteful.

This has led in the UK to the loss of productive capacity, growing levels of economic inactivity *and* loss of national control of key strategic industries (e.g. steel and civil nuclear capacity).

It appears that this gamble has not paid off.

The Council for National Resilience therefore decided to undertake research to consider a thought-experiment:

What would the cost to the taxpayer have been if we had continued to subsidise nationalised industries and regional investment at levels equivalent to those that we saw in the mid-1970s through to the current day and how does that compare with the current spend on subsidy and welfare?

The outcome of that research forms the rest of this note.

'Strategic investor' versus 'safety net'

The 1980s saw a shift from one form of government approach to employment and industry to another.

The pre-1979 approach can be best summarised as the state taking a role as 'strategic investor' – providing direct support to industries and places to subsidise and sustain employment through direct action. This approach saw the state has having an active role and saw the costs of inactivity (through loss of industries, firms and employment in places) as being higher than the financial savings that would accrue to the state. The state took on higher levels of risk with the assumption that this was better than the cost of inaction.

There was also recognition that new or competitive industries are hard to create and maintain, with the state required to provide long term support to businesses to help them navigate challenging international markets and overcome bumps in the business cycle. Lacking the large

scale private capital markets of the United States, the UK state needed to do more to support domestic firms.

The post-Thatcher shift was towards the state as provider of a 'safety net' to the economy – providing indirect support to the economy through the welfare system and helping to reskill / retain people for new industries, whilst providing macroeconomic stability or interventions (e.g. tax cuts) to stimulate private investment. The cost of providing this support was deemed to be cheaper than trying to prop up industries and places facing significant economic and competitiveness challenges.

Ideologically, this period can be summed up by a critique of the ability of the state to support businesses and concern that political pressure would always lead to the state bailing out so-called "losers" rather than picking "winners" – although what classified a loser and what classified a winner was never effectively defined.

The £171bn cost of inaction

Recent events, particularly the potential loss of domestic steel making and problems with the automotive sector alongside a growing trade war has brought the debate on the role of government to support domestic industries back to the fore.

The CNR decided to conduct analysis based on publicly available data to compare what would have happened if the government had continued to be a 'strategic investor' and then what happened over that period when it decided to become a 'safety net'.

The methodology for calculating the figures in this dataset involves two main components.

For the pre-1979 model, the starting point is £3.9 billion in 1975 prices (£2.6 billion for subsidies to nationalised industries and employment programmes, plus £1.3 billion for working-age benefits, primarily unemployment and Family Income Supplement), sourced from reports into nationalised industries and employment programmes and Hansard. This reflects the period before the IMF bailout and the move towards a reduction in state support that had already begun in the last years of the Labour government. **We call this the 'strategic investor' model.**

The post-79 model uses actual spending data for each year, sourced from historic records, reflecting subsidies to industries/employment programmes and working-age benefits in that year's prices (real terms), then adjusted to 2024 prices. Subsidies are drawn from HM Treasury's Public Expenditure Statistical Analyses (PESA) (PESA Historical Data), while working-age benefits come from Department for Work and Pensions (DWP) Benefit Expenditure and Caseload Tables (DWP Benefit Expenditure, November 2024). **We call this the 'safety net' model.**

Working-age welfare in scope

- **Unemployment Assistance:** Includes Unemployment Benefit (pre-1996), Jobseeker's Allowance (JSA, from 1996), and the unemployment-related portion of Universal Credit (UC, phased in from 2013). Pre-UC, this is primarily contributory and income-based JSA; post-2013, UC's "intensive work search" group approximates

unemployment support. Legacy benefits like Income Support for the unemployed are included where relevant.

- **Tax Credits:** Covers Family Credit (1988-1999), Working Families' Tax Credit (1999-2003), and Working Tax Credit (WTC) and Child Tax Credit (CTC) from 2003, administered by HMRC.

Figure 1 shows the broad outline of the cost of subsidies and employment support over the period in 2024 prices between the two different models. Table 1 summarises the data.

The analysis shows three distinct phases since 1980s.

Initially in the early to mid-1980s, 'High Thatcherism', the cost of reducing support for nationalised industries is offset by significantly higher levels of unemployment which creates higher demand for working age benefits. Over the whole period, an additional £40bn (2024 prices) was spent on working-age benefits, compared with 1980 spend, which was, a higher than normal year. Income from North Sea Oil alongside reductions in capital expenditure by the state helped to offset the increasing cost of welfare during this period. The safety net model was not actually cheaper, a fact that can be seen by the fact that public spending at the end of Thatcher's time in office was as high as it was when she began. All that changed was the *type* of expenditure.

The late 1980s to the 2008, the 'Soft Economy' saw savings to the Exchequer from the safety net model as the economy benefited from benign global economic conditions and a debt-fuelled consumption boom that helped to keep unemployment low. The shift away from industry towards the service sector saw a reduction in subsidy and support for UK business. However, it is interesting to note that the total savings in this period (£42.2bn) were still less than the total higher cost of the early period (£43.15bn). In essence over the whole period, HM Treasury had just about recouped its earlier losses during the period of High Thatcherism. We call this the Soft Economy because the factors underpinning growth were unsustainable (i.e. a debt-fuelled consumption boom) and shielded from any major economic dislocation.

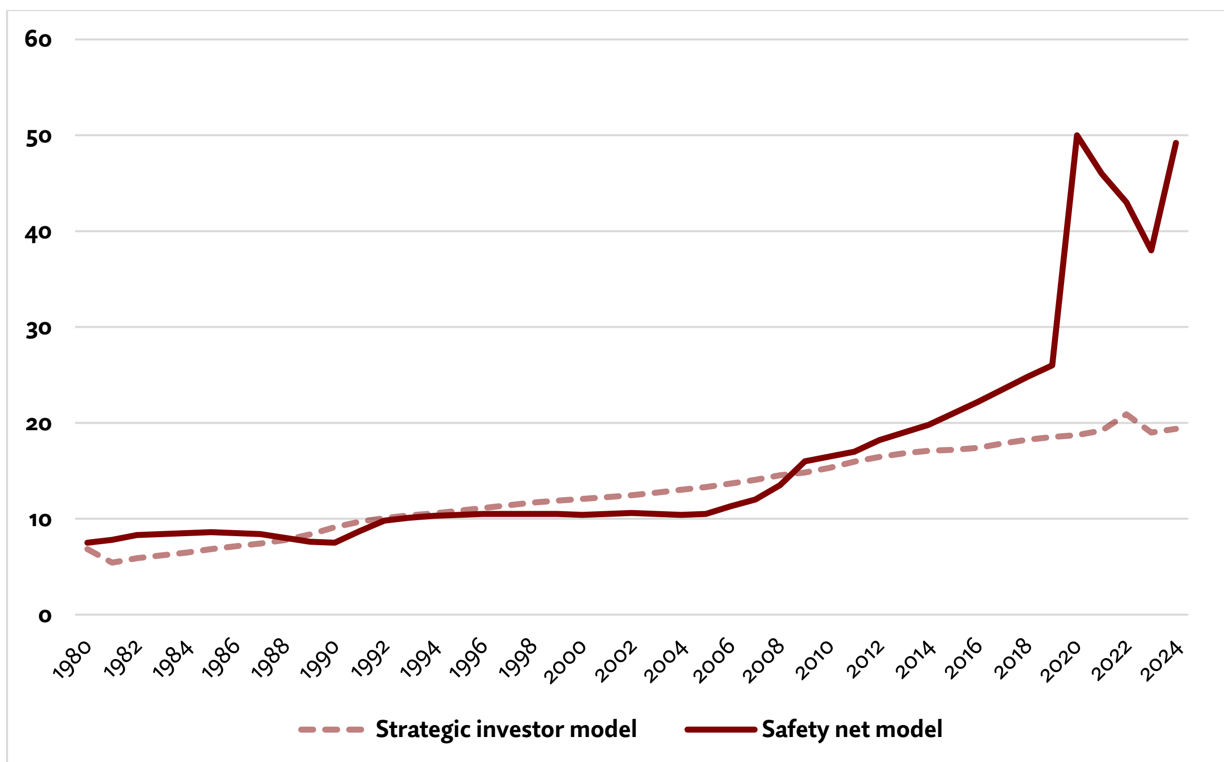
Finally, the post financial crisis period sees significant increases in working age benefit expenditure as economic inactivity rose and workers became stuck in low-productivity, low wage employment. Moreover, the costs of generational and embedded economic inactivity came home to roost. Between 2008 and 2024 the estimated additional cost from the current model of subsidy and employment support is around £172bn higher than in the pre-1979 model. We call this the 'Hard Reality' period as the loss of subsidised industries, particularly in manufacturing, began to make itself felt and could not be covered over by growth in other areas such as service industries.

Table 1 – Summary of findings

Phase	Fiscal impact of 'safety net' model versus 'strategic investor'	Net savings or (cost)
1980-1988: 'High Thatcherism'	Significantly higher level of unemployment and welfare expenditure – continued subsidies	**(£43.15bn cost)**

	required to stimulate private investment in industries	
1988-2008: 'The Soft Economy'	Savings due to consumption boom reducing unemployment and shift from industries to cheaper services – reduction in government support for key industries.	**£42.22bn saving**
2008 – 2024 – 'The Hard Reality'	Significantly higher costs, rising dramatically over the period, due to rising stagnating living standards and, lately, higher levels of economic inactivity and long term economic decline in areas of Midlands and North	**(£171.63bn cost)**
		(£172.56bn cost)

Figure 1 – Strategic investor versus safety net model costs (£bn 2024 prices)



Our research aligns with other studies of this kind, for example, by Sheffield Hallam University in 2016 which found that additional incapacity benefit spend had created a "£30bn a year claim" on the Exchequer with spend higher in deindustrialised areas.

There are limitations to this analysis.

Firstly, we cannot predict how the UK would have sought to support domestic industries and businesses in the wake of increased competition from China and South-East Asia as well as energy price spikes. However, given the £170bn of wiggle room between the cost of the strategic investor model, HM Government would have had considerable fiscal firepower to utilise before having to incur any higher costs over this period.

Secondly, we cannot predict the levels of labour saving that would have taken place in subsidised industries. Over the period of 1945-1979, the number of people directly employed in nationalised and subsidised industries had fallen, particularly in areas such as coal mining. This would likely have continued. However, we can assume that if the 'strategic investor' model had been pursued, shifts in employment in one industry would have freed up resources to invest in training and support in other industries. Moreover, this also does not take into account the positive spill over effects from government industries, as noted by economists such as Mariana Mazzucato.

Finally, we cannot predict what would have happened to welfare spending and generosity. The welfare system over the safety net period was required to become more generous given the significantly higher levels of unemployment and inactivity. Moreover, the squeeze in real living standards meant that the welfare system needed to become more generous to avoid significantly higher levels of social distress. It is likely that the welfare system would have become more generous, but it is also likely that unemployment would have been significantly lower and higher-paid, higher-productivity jobs would have been sustained reducing demand for working-age welfare. The relative balance of costs between these two points is impossible to quantify.

On the positive side, many of the industries that were being subsidised, particularly in manufacturing, were high-productivity, high-wage sectors that also sustained large supply chains. The wider positive economic benefits of these industries is impossible to quantify but would likely have maintained a large number of other jobs. Oxford Economics research, for example, found that at least as many jobs were supported in the supply chain (2.6m) compared to the number of people working in manufacturing itself (2.6m).

That being said, it is clear that when considering not simply the cost of subsidies but the impact of different approaches of working-age welfare, that **an active state and intervention is significantly lower than state inaction and simply providing a safety net.**

Avoiding past mistakes

We cannot go back in time and correct the mistakes of the past, but we can avoid repeating them in the future.

We can begin with a fair understanding of what has happened over the past fifty years.

The state did not stop supporting the economy over the period of Thatcher, New Labour and Coalition Governments, instead it simply shifted expenditure between direct support for strategic industries and businesses to indirect welfarism. Both come with a bill, we simply argue that one has a smaller bill than the other. **We must stop pretending that an inactive state is a cheap state.**

Going forward, there are critical industries from steel to automative which require support *today* to get through the current difficulties. We must do whatever it is necessary to support them and not use cost as an excuse.

Finally, we need to restructure the state to better take into account these trade-offs. Under its current structure, far too much weight is given to the benefits of inaction.

We propose three immediate measures to rebalance policy making.

1. HM Government should immediately create a **National Economic Resilience Taskforce** to begin the work of identifying key strategic industries, how we can support them through smart subsidies and shift economically inactive people into those industries through employment support and subsidies.

2. HM Government should mandate **fiscal scoring the net *cost* of economic and employment policies over a fifteen year period**, rather than the current five year period, to avoid false economies.

3. HM Treasury should create an **Economic Opportunity Costs Unit** to provide assessments of the cost of *inaction* not simply the cost of action.

These are not a long term solution, but the start of an effort to shift the debate away from the failed model of state passivity towards a model of strategic investment.

Given the geopolitical instability of the coming years, the danger is that without a clear direction of travel, the costs of inaction will spiral out of control not to mention the social and cultural impact of economic decline.

Now is the time for the state to work with businesses to rebuild our productive capacity through smart subsidy, shared risk-taking and patient investment.

Andrew O'Brien
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