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UK Universities Have Little to Fear from Rishi Sunak's Thatcherism

Terence Kealey

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The most important fact about the UK's latest new prime minister, Rishi Sunak, is that he was head boy at school. Together with his chancellor, Jeremy Hunt, another former head boy, he will therefore be conscientious and orthodox in office – because that's how head boys come.

British science and higher education can, therefore, breathe sighs of relief. Their institutions have long captured the orthodoxy, so in Sunak and Hunt they will find a pair of politicians anxious to accommodate them.

The last prime minister to question the science and higher education orthodoxy was Margaret Thatcher. Trained both as a chemist and a lawyer, she would interrogate the evidence. Harold Wilson's "white heat of technology" revolution – his vast expansion after 1964 of government funding for science and higher education – had culminated in 1976 with the chancellor, Dennis Healey, urgently turning back from Heathrow airport to beg the International Monetary Fund for an immediate loan to avert the imminent collapse of the British economy. From that, Mrs Thatcher concluded that the government funding of science was neither necessary nor sufficient for economic growth. So she cut the science and university budgets.

What a fuss it caused! Maynard Keynes once wrote that "the ideas of economists, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else". And it didn't matter how much Mrs Thatcher protested that there was zero evidence that the government funding of either science or higher education stimulated economic or technological growth by even a jot, she lost the public argument. A myriad vested and supremely articulate interests persuaded the British people to privilege economic theory over actual facts – that, by crowding out private funding, public investment in science yields no net economic or technological benefit. And because we live in a democracy, no subsequent politician has dared challenge the ascendant science and higher education orthodoxy.

Rishi Sunak has pledged to "govern as a Thatcherite". But deference to this orthodoxy was never better illustrated than by Sunak himself, when, in February, he delivered his economic manifesto at a prestigious event, the Mais Lecture, at City, University of London. "Providing our people with a world-class education is one of the government's greatest responsibilities," he said. "We will deliver our pledge to increase public investment in R&D to £22 billion a year".

Then came a call to expand the UK's R&D tax credit system as a way to increase business investment in R&D. "[Yet] as Cambridge economist Dr David Connell's research shows, while other nations' businesses have increased the share of GDP they devote to R&D investment by

50 per cent in recent decades, UK business investment in R&D has stayed flat or even fallen. [Therefore] it would be sensible to make sure our tax regime for innovation is globally competitive.”

Yet Connell found that industrial R&D spending net of the government subsidy “is estimated to be between 10 and 15 per cent *lower* than before R&D tax credits were introduced” (Connell’s emphasis). The explanation for this is unclear but it may be because, by boosting profits, tax credits diminish the fear factor that drives corporate investment and, instead, are used for dividends or share buy-backs (which further ramp up share prices and executive bonuses).

Connell’s paper also states that “most of the best role models for UK policy, including Germany, Sweden, Switzerland, Finland and Israel, make little or no use of R&D tax credits” – which currently cost the UK Treasury no less than £8.4 billion a year. No reader of his paper could answer its titular question, *Is the UK’s Flagship Industrial Policy a Costly Failure?*, with anything but “yes”, but because the concept of crowding out is unorthodox within governmental R&D circles, Sunak wants to render “our tax regime for innovation...globally competitive”, which, as Connell wrote, is code for making it more generous.

Sunak, who used to work at Goldman Sachs, has a record of bad judgement, not least on the economy. In 2016, for instance, he came out for Brexit, tweeting that it would “bring some uncertainty, but on balance I believe that our nation will be freer, fairer and more prosperous outside the EU. Outside the EU, we can...enhance our position as a dynamic, outward-looking trading economy.”

To be fair, Sunak did warn that a Truss/Kwarteng mini-budget of unfunded tax cuts during a stagflationary low-unemployment episode would fail, but that constitutes a low bar since most people had made the same prediction. It was, after all, the orthodox view in economics.

But sticking to orthodoxy could be worse for the nation. And for science and higher education, it could be a very great deal worse.

Terence Kealey is emeritus professor of clinical biochemistry at the University of Buckingham and an adjunct scholar at the Cato Institute in Washington, DC.