

The Telegraph

No, Britain's vaccine success does not justify state-led industrial policy

Ryan Bourne

Feb 11, 2021

Internal sentiment about a government's economic competence invariably hinges on its last major action. So the UK's relative success with vaccines has, for now, seemingly wiped ministers' memories clean of the PPE debacle, contact tracing difficulties and scrambled attempts to build spare capacity in our rationed healthcare system.

Just as after victories in war, the potential end to this crisis has seen despair replaced with hubris. The Treasury is now said to believe that the vaccine committee's success provides a blueprint for state-led industrial policy. Government ministers, meanwhile, hold a renewed confidence in their ability to deliver more "self-sufficiency" in medicine and medical manufacturing to improve our economy's "resilience".

Does the vaccine rollout really hold such meaningful lessons about the Government's ability to shape the economy? The up-front purchases and muscle to guarantee domestic manufacturing here, expertly led by Kate Bingham, were delivered under a clear objective, with a pretty open chequebook. Unlike the EU, the Government correctly recognised that speeding up the approval and manufacturing processes had benefits massively exceeding costs, justifying paying higher purchase prices.

But this was all about mobilising resources to a specific, time-limited goal: delivering effective, safe and easy to distribute vaccines quickly. That's very different from ordinary industrial policy, which attempts to improve economic efficiency or achieve social objectives through R&D spending in specific national industries in a way that is market beating and cost effective, all in a world of tight budgets, competing objectives and private competitors.

Indeed, what we've seen on UK vaccines is not really evidence of the modern industrial policy enthusiasts speak of. The Government provided funding to Oxford-AstraZeneca that helped lower private R&D risks and expedite trials that, due to regulatory hurdles, are ordinarily extremely costly. Even then, Pfizer took no government money, spending around \$2bn (£1.5bn) on R&D and testing in the US.

Public funding was not necessary then, but helped grease the wheels for speed. Yet the bulk of the technological research behind the vaccine already existed and was undertaken in a world of fierce global, private competition. That included, notably, development of the mRNA technologies in the Moderna and Pfizer-BioNTech vaccines.

While the basic research behind this received some public finance, this technology was not discovered as part of any government "mission" for vaccines or therapeutics, but spun off from general scientific inquiries into the molecular structure of life. Until this crisis, it had not really

found an effective application. Its current success then is actually evidence of the incremental and serendipitous nature of innovation, not long-term government policy goals.

Nor has the Government been in the business of really “picking winners” on vaccines, whether in technologies or companies. In fact, the advanced market orders represented a diverse portfolio of seven vaccine purchases across multiple technologies, for which any unused could be distributed overseas in the service of global immunity. Even then, of course, there were misses: the Government initially did not purchase the high efficacy Moderna vaccine but did pre-order the failed Sanofi one.

All this is obviously a world away from the industrial policy of the post-war period, which saw governments plunge funds into consumer technologies with doubtful viability (Concorde) and into uneconomic types of power generation (nuclear).

Yet I’d argue it’s also distinct from the “mission-oriented” industrial policy now in vogue. This idea says governments should set overarching “strategic goals” before explicitly tilting the deck towards certain sectors, such as artificial intelligence, or renewables, or electric vehicles. Public R&D funding and regulatory privileges would be granted that go far beyond supporting basic research or dealing with market failure, so that businesses are put at the service of government aims. This might include reducing carbon emissions, or achieving domestic self-sufficiency.

These privileges, former Theresa May special adviser Will Tanner says, should be granted where the UK “ostensibly benefits from comparative advantage and where demand is highly likely to grow in future”. Yet no government knows these things in a world of ever-changing technologies, tastes and preferences. Unlike “crisis innovation”, when the options and social returns are clear, this neo-industrial policy is therefore a hostage to cronyism and the near-term biases that occur when politicians allocate resources.

The idea the economy can be reduced to a set of “missions” where expert committees choose industries in pursuit of “solutions” would invariably leave us overinvested in unimaginative technologies, rather than novel breakthroughs consumers desire. Would governments have ever financed a fledgling Google or Microsoft? No, says Terence Kealey, whose research has found no evidence public R&D funding enhances growth. State officials would probably have focused on atomic motor cars.

“Mission-oriented directionality” just ignores the very essence of a market economy, in which entrepreneurs and companies test and tinker to discover or fulfil demands for things that we, as consumers, value. Our bitter experience with coal also shows that when the economics of industries change, such government privileges are difficult to untangle, given the interest groups they create.

As an example of perverse political incentives, ministers, scarred by the current crisis, today say that we need more domestic “self-sufficiency” in the production of certain PPE, medicines and manufacturing, as strategically important industries. Yet, as I outline in my forthcoming book, *Economics In One Virus*, if we knew already the next crisis would be identical, we could prepare more efficiently through stockpiling, or options, or diversifying trade links, than by explicitly reshoring activity at great cost.

In reality, of course, we do not know whether a future crisis will affect domestic production or foreign suppliers more. Nor do we know what capacities it will require. Ministers are fighting the

last war. In a world of uncertainty and ever-fluctuating prices and technologies, there's no reason to believe government committees can generally better entrepreneurial innovation, even if they can perhaps speed up vaccines in pandemics.

Ryan Bourne occupies the R. Evan Scharf Chair for the Public Understanding of Economics at Cato. He has written on a number of economic issues, including: fiscal policy, inequality, minimum wages, infrastructure spending and rent control.