

The Future for Manufacturing in the UK – Part 2 (of 3)

In Part 1, I re-visited this summer's "Competing in the Global Economy – The Manufacturing Strategy Two Years On" report from the dti (**Note 1**), in the light of the recent news from the CBI, that a further 22,000 manufacturing jobs may be lost in the current quarter, and that manufacturing in the West Midlands remains particularly gloomy (**Note 2**).

I reported that it seemed to be accepted by government that certain industries and capabilities will disappear from these shores, and pondered whether it is good policy to let the vagaries of the global economy choose for us which of our capabilities survive and which do not.

As a thought experiment, I wonder what would happen if, for example, there were no UK or (if we remain on good terms) European steel manufacturing capability, having one day been rendered totally uncompetitive; and the world lurches into one of its phases of instability affecting inter continental transportation? In extremis, some have suggested that countries may respond to instability by closing their borders to the flow of goods and people. There is, I have to say, no current evidence of this. While the US, as any recent visitor will know, has recently tightened up on its immigration processes, the burgeoning US current account deficit suggests that the exact opposite has occurred as regards the flow of goods. (Conspiracy theorists might speculate that a "stocking up" policy is taking place as a security measure!)

A further threat is the disappearance of the UK supply chain. One of the current brakes on mass manufacturing outsourcing is the underdeveloped supply chain in the East. However, with each passing day, the supply chain is strengthening in the East at the expense of the supply chain in the UK. Sir James Dyson recently commented that the lack of capable local supply is making it hard for entrepreneurs to launch a manufacturing venture in the UK (**Note 3**)

In thinking one's way through this, it needs to be recognised that the shorthand term "manufacturing" is too wide a church. It needs to be disaggregated in order to make progress. For example, manufacturing encompasses all of the following:

Invention – smart at new concepts

Innovation – smart at improving things

Manufacturing – smart at making things

The innovation and invention aspects depend almost entirely on the area where I, and almost everybody else, would agree with Ms Hewitt – the "need to attract good quality people".

Manufacturing can be helpfully further subdivided into "high volume", "medium volume", "batch" and "jobbing". As a nation, it is unlikely that we can be successful in most areas of "high volume" manufacture and many areas of "medium volume" manufacture where where labour costs are a significant element of total cost. There is

however no long term reason why we should not be world leaders in invention, innovation and lower volume manufacturing. This is in fact much more realistically “in our DNA” than some fanciful notion of being world traders embracing outsourcing as a source of long term competitive advantage.

Indeed, a focus on manufacturing on a relatively modest scale has almost always been the case in the UK. Only for a brief period in the 19th century did British goods dominate world trade. This was in very particular circumstances when labour was cheap, all modes of transport were being greatly improved, and there were massive changes in technology and the organisation of production leading to a decline in prices. This was against a backdrop of greater demand from a domestic population explosion, and in a period of social flux and transformation where clothing, personal and household possessions were important ways of communicating one’s position in society. **(Note 4)** The above may sound very familiar to visitors to 21st century China!

The other lesson from this period in British history is that, while there were indeed some large firms with powered machinery employing thousands of workers under one roof, these were the exception. The more typical firms in the “workshop of the world” were small scale, employing about 50 workers, and were geared towards niche rather than mass markets. **(Note 4)**

It is, as I have written before, potentially an arrogance to believe that only unskilled jobs are at risk in the UK and that we can broadly survive as a “high skill” service based economy. The opposite is perhaps more likely. Businessmen who have experienced the frighteningly rapid response and rate of prototype development in China will know this. Intimacy with the manufacturing process also informs design. All other things being equal, I find it difficult to envisage China looking to the UK for its inventions and innovations in 10 years time. Alas, technical and service jobs are even more portable than those attached to a machine – while relatively non-wealth creating (I hesitate to use the word “unskilled”) jobs, such as cleaning, unavoidably remain local.

To make an extreme contrast for the purpose of making a point, is the ability to buy a pair of jeans for £5, in national interest terms, a reasonable trade off for losing, say, the nation’s capability to build ships?

Or is this just the usual paranoia about outsourcing? Is this merely a political issue (albeit a potentially sensitive one, as it was in the US presidential election until Iraq came along) rather than an economic issue?

In Part 3, I shall try and reconcile these issues, which are vividly real for individuals and regions, with the totem of “Free Trade”

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Note 1 http://www.dti.gov.uk/manufacturing/strategy_review.pdf

Note 2

<http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/128867be2da7300e80256f46005b8d8a?OpenDocument>

Note 3 Estimate based upon

http://www.statistics.gov.uk/downloads/theme_commerce/PA1003_2003/PA1003_2003.pdf pages 16-17

Note 4

http://www.bbc.co.uk/history/society_culture/industrialisation/workshop_of_the_world_01.shtml