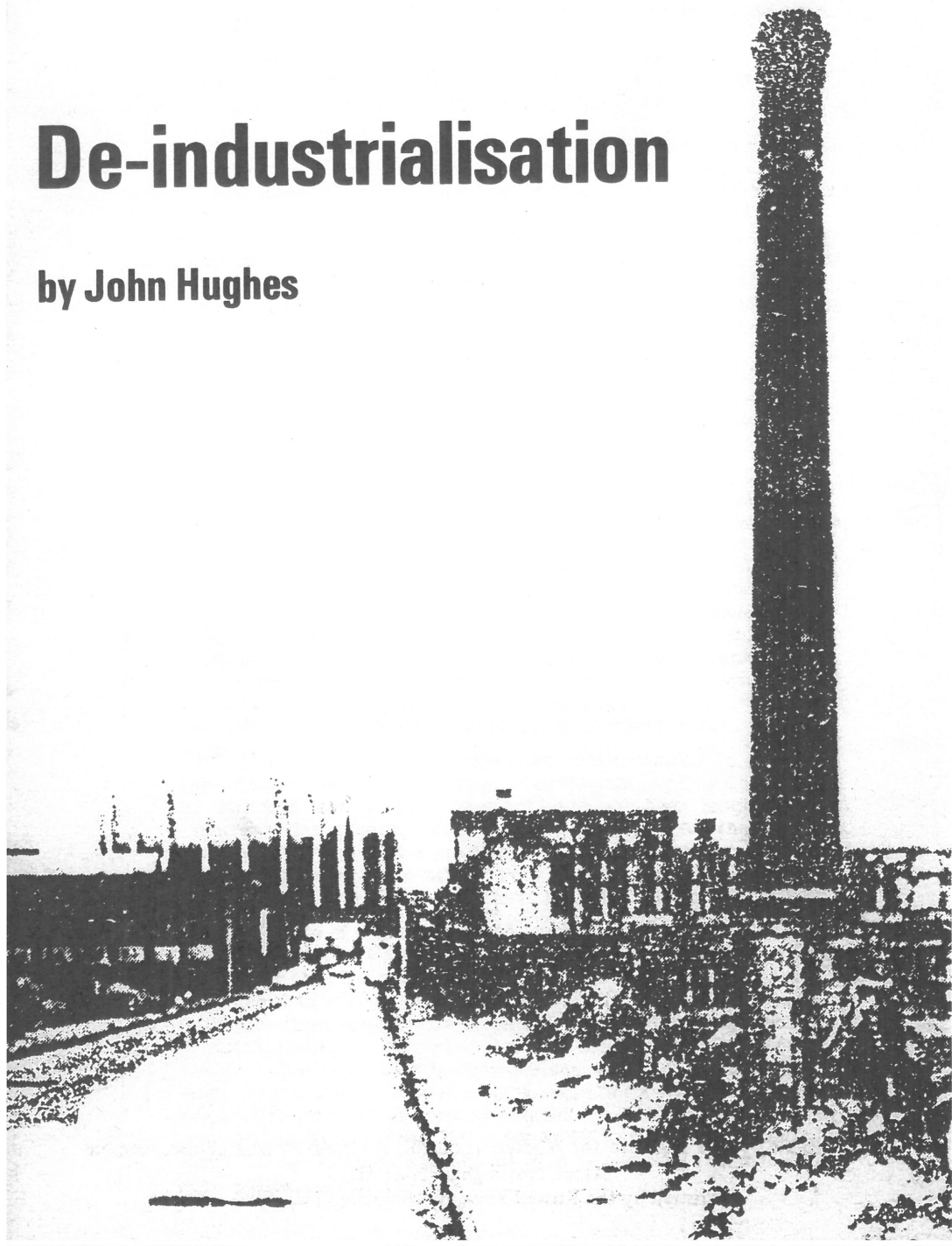


# De-industrialisation

by John Hughes



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Britain entered the 1980s with the most dismal expectations ever.

On the one side, there was a growing debate about "de-industrialization", as non-competitive industries tottered on the brink of collapse, and the weaker enterprises simply folded up.

In this very grave moment, even the benefits which had been seen as the means of rescue turned out to be impediments. For nearly a decade, politicians of both Parties had made all kinds of promises about the effects of the exploitation of North Sea oil. As we now find ourselves, it appears likely that these effects have all gone savagely awry. Instead of floating an industrial regeneration on the flow of oil, it seems likely that what bits of British industry survive might yet drown in the oil we expected to save us. This mad logic is carefully explained in the Bulletin of the Cambridge Economic Policy Group, which says:

"The Government's present policies will rapidly depress and permanently weaken the British economy without necessarily reducing inflation. Literally interpreted, they would cause the economy to collapse within a year or two.

The reasons for reaching this conclusion are easy to set out. The high rate of exchange for sterling, by accentuating long-standing adverse trends in exports and in import penetration, will reduce income and employment. It will thereby tend to increase public sector borrowing because, with lower income, the tax yield will fall. There is then only one way in which the Government can fulfil the commitment to keep down public borrowing to which it has attached so much importance; it must raise tax rates and cut public expenditure, thereby aggravating the recession. Since the external and internal forces making for recession are mutually reinforcing under these policies, there is no reason why the recession should bottom out.

When it comes to consideration of the magnitudes involved the prospect becomes alarming. Conventional aggregates such as GDP and unemployment have not up to now been much worse, relative to past trends, than in other countries. But the full gravity of the underlying position has been temporarily alleviated by the foreign exchange saving from North Sea oil without which our balance of payments would have been £7 billion in deficit.

The rate of exchange has now risen to a level which can only be called absurd. Export costs relative to world prices are about 15% higher than the average post-war level and 25% higher than after the devaluations of 1967 and 1976. While there is room for argument about exactly how large and rapid will be the effect on Britain's trade, all careful analyses of the past suggest strongly that the effects of a loss in competitiveness of this size will be very large indeed. They are being superimposed on long-term trends which are already extremely adverse; imports of finished manufactured goods rose 20% between 1978 and 1979, although this was a period in which our non-oil exports and output of manufactures hardly rose at all ...

Our conditional prediction is that there would ... be an unprecedentedly large fall - of at least 5% - in business output this year, with unemployment rising 50-100,000 a month from now on. On top of this the Government will have lost control of its own finances. The loss of net revenue to the Government, through the destruction of income and employment, will drive public borrowing up towards £20 billion next year. In a word, the contractionary impetus is likely to be so enormous that no acceptable degree of fiscal severity will be able to keep the PSBR in sight of the present target.

It is true that the Government has itself predicted a period of rising unemployment arguing, however, that this will create the conditions essential for sustainable growth once inflation has been squeezed out of the system.

To discuss these matters adequately it is necessary to consider current developments in the context of a longer time horizon.

The strategic predicament facing the British economy, as we have argued for years, is that our manufacturing industry has for a very long time been failing to compete successfully in world markets, including, most particularly, our own. For many years this failure was not such as to prevent some slow growth in the economy because in the early post-war years we built up a handsome surplus on our trade in manufactured goods. But without North Sea oil the adverse trends would by now have reached a critical point; if the oil had not come just when it did, the balance of trade in manufactures could no longer have supported our food and industrial material import needs and an extremely severe recession would have already arrived. But although the advent of North Sea oil postponed this critical point, measures to increase exports and reduce import propensities should already have been taken as a necessary condition for the recovery of manufacturing industry on which Britain's long-term survival depends. For, contrary to what the Government and some academics would have us believe, there are no grounds for supposing that industrial regeneration must come about spontaneously if only we wait long enough. There has, after all, been no "convergence" on Merseyside, in South Wales, West Cumberland or the worse inner city areas; in many places the decline has gone on until nothing at all was left.

Seen in this context the Government's policy must be judged a large and very determined step in the wrong direction.

The profitability of exports has been sharply reduced and import penetration encouraged, so that instead of creating conditions under which manufacturing industry can compete and expand, conditions have been created (high interest rates, an over-valued exchange rate, falling real demand) under which large segments of industry are in the process of being destroyed. The prospect of absolute and self-reinforcing decline has thus been brought forward several years and is now overtaking us."

The British Labour movement finds itself in political and industrial opposition at a time when constructive policies have never been more needed. It is for this reason that the Transport and General Workers' Union has called for an emergency session of the Labour Party Conference, which it proposes should take place as soon as possible, for one day. The papers in this pamphlet make it clear that such a Conference is urgent. The Labour Party needs to announce its own fight back against the unprecedented and ruinous destruction of the British economy. Unless policies are changed, the basic industrial fabric of Great Britain could be damaged beyond short-term repair.

This pamphlet offers an analysis and a warning. The remedies must be agreed quickly, and be brought into force in an extensive political campaign. A heavy responsibility rests on the Labour Party, which must necessarily begin this work in the most adverse conditions.

Ken Coates

## The British Economy : De-Industrialization Gathers Pace

### 1. Introduction

This pamphlet seeks to identify some of the key aspects of the de-industrialization of the British economy. It concentrates particularly on the major swing of the manufacturing sector from long period growth to absolute decline, and looks in some detail at sectors and regions that are particularly adversely affected. It does not seek to review the inconclusive and rather ill-defined discussions among economists earlier in the 1970s on the concept of "de-industrialization" and on possible explanations for Britain's case; these discussions largely preceded the growing evidence that more chronic and cumulative contraction of manufacturing sectors was developing.

The prospects for the British economy if the deterioration of the position of manufacturing industry continues are extremely black. The pamphlet therefore makes some tentative comments on the policies that may be called for. These have to be handled in the context of an economy that is increasingly dominated by large multi-national enterprises. There are, consequently, three main types of enterprise that have to be stimulated to encourage any renewed growth and modernization of the manufacturing sector, indigenous private sector firms, public sector manufacturing enterprises, and companies whose orientation is predominantly multi-national. The rapidly growing flow of Government revenues from North Sea oil could be harnessed for the intense effort that is required; it is more likely, however, that they will be dissipated in a populist emphasis on tax reductions.

### 2. Symptoms of De-Industrialization

A conference on "de-industrialization" held in mid 1978 reached the conclusion that the term had significance in the following sense:-

"The matter for concern was the progressive failure to achieve a sufficient surplus of exports over imports of manufactures to keep the economy in external balance at full employment". (De-Industrialization, Ed. F. Blackaby, Ch. II)

On such an approach there could be a problem of the inadequacy of the British manufacturing sector even if it were continuing to expand in output terms, or even to maintain its proportionate share of employment or contribution to the total national product.

The matter of definition is, however, not one that needs to be strained into some such appraisal of the comparative performance of British manufacturing. A deteriorating competitiveness and worsening import-export balance is certainly part of what should be examined. But it is possible to argue that on almost every possible way of measuring "de-industrialization" the evidence is there that British manufacturing industry is now exhibiting the clearest signs of decline and increasing crisis. As one might expect, the process is uneven, and consequently it

is important to get behind the aggregates and identify the most seriously affected sectors.

In sequence, therefore, we present the major indicators that - taken together - make the notion of "de-industrialization" an all too appropriate account of current realities:-

(i) Manufacturing output: a declining trend

We have to avoid the possibility that periods of decline within a trade cycle are pointed to as signs of decay. The best way of identifying the longer term trends that are emerging is to measure from trade cycle to trade cycle, using the four (or sometimes five) year cycle familiar in post-war years.

Our first figures measure average output of manufacturing in successive cycles over the last twenty years, and the broad measure of the percentage increase in output from one cycle to the next.

Manufacturing Output from Cycle to Cycle (Trough to Pre-trough Year)

<u>Year</u>	<u>Av. output Index</u> <u>(1975 = 100)</u>	<u>% change, cycle</u> <u>to cycle</u>
1958-1961	69.8	
1962-1966	81.3	+ 16%
1967-1970	94.4	+ 16%
1970-1974	103.0	+ 9%
1974-1979	(102)*	- 1%

(\*The average for 1974-1978 was 102; this may be slightly raised by the outcome for 1979 but 102 remains the nearest rounded estimate for 1974-79.)

The table presents us with the astonishing spectacle of the long period expansion of manufacturing moving down from around 16% over a typical trade cycle, to less than 10% in the early 1970s and to something slightly worse than zero growth in the latter half of the 1970s. But is this the chance effect of measuring from cyclical troughs? The next table measures from cyclical peaks, and projects into the early 1980s on the optimistic assumption that only a moderate recession will develop in 1980-81/82.

Manufacturing Output from Cycle to Cycle (Peak to Pre-Peak Year)

<u>Year</u>	<u>Av. output Index</u> <u>(1975 = 100)</u>	<u>% change, cycle</u> <u>to cycle</u>
1960-1963	74.3	
1964-1967	86.0	+ 16%
1968-1972	97.4	+ 13%
1973-1977	103.8	+ 6 $\frac{1}{2}$ %
1978-1981/2	(101) est.	(- 2 $\frac{1}{2}$ %) est.

The same basic trends emerge; if anything the series shows even more clearly the abrupt deterioration from the quite considerable longer term growth rate established in earlier years. Comparing ten year periods, manufacturing output rose over 30% between the trade cycle of the early 1960s and that of the early 1970s; but from the early 1970s to the early 1980s (on quite moderate assumptions about the forthcoming recession) the "growth" is a negligible 3% to 4%.

Within earlier cycles we became familiar with the sequence of "stop-go", that is with a period of almost static output followed by renewed growth. On the declining trend established in the most recent trade cycle we now have to expect "stop-decline" - that is the most favourable years in the cycle look like the "stop" (or slow growth) years of earlier cycles, but these are followed by falling output.

#### (ii) Manufacturing productivity curbed

The unprecedented curtailment of output growth has gone along with an unusually marked reduction in the cyclical improvement in productivity. It is instructive to observe the change in labour productivity from one trade cycle peak to the subsequent one. Thus, between 1968 and 1973 labour productivity per person employed in manufacturing in Britain rose by some 21%, and measured per hour by around 23%. The contrast with more recent experience over an equivalent period (and again from peak to peak) is stark. From 1973 to 1978 labour productivity per person employed in manufacturing rose less than  $2\frac{1}{2}\%$ , and on an hourly basis by only some 5%.

British manufacturing appears to be alone among the major manufacturing powers in this extreme curtailment of its productivity advance. Hourly productivity appears to have improved by some 15% between 1973 and 1978 in the USA, around 17% in Italy, and by 20% or slightly more in Canada, Japan, France and Germany.

This contrast in productivity trends is connected with the major loss of output and market share in a number of major sectors of the British manufacturing industries which is commented on subsequently.

#### (iii) The Fall in Manufacturing Employment

Employment in manufacturing has been falling through each trade cycle since the late 1960s. Major falls in the recession phase of each cycle have been followed by a plateau of employment between 1972 and 1974 and between 1976 and 1978. Even with the slower growth of labour productivity in the most recent cycle, the downward shift in the trend of output has led to major falls in employment. But it must be assumed that the next two years will witness further major decline in employment.

Between the peak activity years of 1968 and 1973 manufacturing employment fell by around 400,000, from rather more than eight million, that is by around 5%. Between 1973 and 1978 the fall in employment was



around half a million (or over 6%); it should be said that we still lack final official figures for the most recent years. Had manufacturing productivity advanced as fast as in other major economies the fall in employment might well have been larger (though it should be recognized that some part of the apparent productivity weakness arose from high levels of disputes disrupting production).

Looking ahead into the coming recession, the question is how large a reduction in employment will occur in 1980 and 1981. In the last two cycles the employment fall from cyclical peak to trough was a major one, some  $7\frac{1}{2}\%$  to 8%: in the early 1970s this was due to many major plant closures in a pursuit of short run cost cutting, in the mid 1970s it reflected an unusually deep recession. A similar proportional fall in employment in 1980-81 would imply a reduction of employment by some half a million. But there could be severe effects from a belated catching up on productivity.

Thus, from the cyclical trough in 1971 to the trough in 1975 labour productivity rose by only 10%. If this scale of labour productivity gain were repeated between the trough of 1975 and the trough of 1981 - and this implies a slackening of yearly productivity improvement compared with the earlier cycle - it would point to a fall in employment of around 600,000 from 1978/9 manufacturing employment levels. If this is a reasonable assumption it would mean that by the end of 1981 employment in manufacturing could be down to no more than around  $6\frac{1}{2}$  million (some one and a half million fewer than at the opening of the 1970s). It would require a major emphasis on reducing working time, and temporary work-sharing to reduce materially the employment fall that is in prospect.

Back in 1968 manufacturing employment accounted for about 36% of the total number of employees. By 1981 the ratio could be expected to fall below 30%. These figures would be somewhat higher if the scale of part-time employment could be fully taken into account (since it is more widespread outside manufacturing) but the fall in the ratio would still be apparent. But ratios of workers in employment conceal the significance of the fall in manufacturing employment in its relation to the total number of employees, employed and (registered) unemployed. For Britain, the 1968 data indicate that manufacturing employment accounted for around 35% of the total of employees, employed and unemployed. By 1981 the ratio of manufacturing employment to that total may be around 27% to 28% and the unemployed may be close to  $1\frac{3}{4}$  million.

#### (iv) The weakening of the net export contribution

Between 1973 and 1978 the volume of manufacturing exports rose by 21%, but the volume of manufactured imports rose very significantly faster, by 36%. By 1978 total manufacturing exports of £30 billion (FOB) were offset by £26 billion (CIF) of manufactured imports. In the first three-quarters of 1979 the volume of manufactured imports rose to 54% above the 1973 level; export volume remained at the average 1970 level.

On an Overseas Trade Statistics basis, manufactured exports in the first three-quarters of 1979 only exceeded manufactured imports by less than 5%. In the boom year of 1973 with its over-strained economy manufactured exports had generated earnings 18% higher than the cost of manufactured imports. Back in 1970 manufactured exports were 48% higher in value than the manufactured imports of that year.

Recently, official information on import-export ratios for most manufacturing industries have become available. The latest data were published in "British business" for 14th September 1979. It is most useful to compare the ratio of imports to home demand plus exports (ratio 2) with the ratio of exports to manufacturer's sales plus imports (ratio 4); the base of these ratios is actually the same in each case. Over all the industries surveyed the net balance has shifted from a very small surplus of exports in 1976/77 to a small export deficit in 1978/79.

There were eight "orders" of manufacturing industries that had a net export surplus (ratio 4 higher than ratio 2) in the year to March 1977. Every one of those "Orders" showed a deterioration in the net export position two years later (year to March 1979). The vehicle sector in particular showed a deterioration of the net export ratio of 8% (from +13% to +5%) of home demand plus exports. Textiles and mechanical engineering also displayed serious falls in the net export ratio.

More recent trade data tell a similar story of relative decline of such sectors. The volume of road vehicles exported in the first three-quarters of 1979 was 10% higher than in 1975; the volume imported was 114% higher. Machinery exports in the first three-quarters of 1979 were no higher in volume than in 1975; imports of machinery were nearly 60% higher in volume.

It would appear, therefore, that the manufacturing sector is increasingly failing to secure an adequate surplus of exports over imports of manufactures, so as to assist in the management of a reasonable overseas payments balance at or near full employment. Even with increasing export revenues from North Sea oil as a support to the balance of payments there has been a major swing towards current account deficit in 1979, in an economy well short of full employment in most regions. The balance of trade in goods other than oil deteriorated from a surplus of £400 million in the first three-quarters of 1978 to a deficit of nearly £2 billion in the first three-quarters of 1979.

(v) Decline in manufacturing's share in gross domestic product

One element in the argument about "de-industrialization" has been that if the main manufacturing industries contribute a declining share to the total domestic product of the country it could enhance the problems involved in financing an adequate level of public services. Here, as with the balance of payments, it is true that there is - for some time to come - a contribution available from the increased output of the oil and energy sector of the economy. However, the relative decline of manufacturing in this sense must involve increasingly difficult problems of managing, for

instance, the transfers required to finance the public services.

The Blue book data make clear the declining share of manufacturing. It is best to distinguish manufacturing peaks and troughs:-

Manufacturing: Share of GDP at Factor Cost

	<u>Peaks</u>		<u>Troughs</u>
1968	32.0%	1971	31.5%
1973	29.4%	1975	28.1%
1978	28.7%		

(Source: National Income and Expenditure, Table 1.10)

The decline is quite evident. What is, perhaps, even more striking is the rapidity with which the relative scale within the GDP of public services and manufacturing is changing.

In 1968 the contribution to gross domestic product (GDP) of public administration, defence, public health and educational services, was altogether 36% of that of the manufacturing sector. By 1973 the figure was 43%, and by 1978 it had become 49%. This does not legitimate the extent and nature of public expenditure cuts in recent years, but it does signal the increasing difficulty in managing a progressive economy faced with the "de-industrialization" of its manufacturing industries (and before any large scale flow of oil revenues has come to the aid of the public finances).

(vi) Sectors in major decline: a danger of cumulative collapse?

The unevenness of the "de-industrialization" process was emphasised earlier. Another way of putting this is to say that particular sectors have shown major declines in output and loss of market share; given the nature of modern industrial economics, the disadvantages of enterprises operating substantially below planned capacity, the possible loss of dynamic economies of larger scale operation, the greater difficulty in managing processes of major technological innovation, this could create conditions for cumulative decline. "Sectoral retreat" did not save the British motor cycle industry. Moreover, market and supply links (input-output relationships) may widen the area of such longer run depressive contraction over a number of industries, or concentrate the displacement effects in particular regions.

The general point is well put in the recent symposium on "De-Industrialization" already mentioned:-

"... on the supply side there is a vicious circle of declining market share, declining profits and investment and declining competitive power, which must aggravate the weakness of British industry in the absence of resolute government action. In some versions great emphasis is laid on dynamic economies of scale and the advantages enjoyed by other countries supplying

expanding markets, able to invest more and innovate more rapidly, reinforcing their competitive position and so establishing themselves in an ever-widening range of markets. A picture is painted of a relentless cumulative process working in favour of the strong and against the weak. De-industrialization on this showing is the lot of the weak unless they assert themselves against the strong ... "(1)

This looks uncomfortably close to the industrial groups in which decline has been concentrated ... But it may have significance too for the erstwhile rapidly expanding sectors of output whose rate of advance has slowed down very noticeably over the last trade cycle. Such loss of momentum may be a warning sign. Thus both the chemicals sector and electrical engineering increased output by over 20% in the cycle that peaked (for these industries) in 1974. By 1978 they had managed to increase output by only around 4% above the 1974 peak.

Two manufacturing sectors, vehicles and metal manufacture, stand out as having ceased to show output growth in the previous trade cycle; output in the 1973 peak was no higher than that achieved in the late 1960s. In each case they show steep declines since the 1973 peak. In the case of metal manufacture the 1979 level of output is likely to be about 20% below the 1973 peak and fresh decline is in prospect (most markedly in ferrous metals). In the latest cycles steel production has fallen considerably more than consumption, indicating loss of market share:-

<u>Trade cycles</u> <u>(trough to trough)</u>	<u>Crude Steel</u> <u>Output</u>	<u>Finished steel</u> <u>consumption</u>
1962-1967	+ 17%	+ 14%
1967-1971	Zero	+ 6%
1971-1975	- 18%	- 8%

By 1978-79 crude steel output had fallen back to the levels of output of the late 1950s; but most recently closure plans and estimates of falling demand indicate a further major contraction (to output levels typical of the early 1950s, or perhaps some 40% below the peak at the beginning of the 1970s).

Output of the vehicle sector as a whole had fallen about 15% from the 1973 peak by 1978. The incidence of strikes in this sector has risen from an already high level, and contributed to the adverse output performance in 1978 and 1979, years of high demand. Perhaps the most dramatic indication of rapidly deteriorating performance is provided by passenger car output. The best measure of this is the ratio of total output of passenger cars to home registrations (the difference representing reasonably well net export or import):-

### UK Passenger Car Production as % of New Registration

1970	152
1972	117
1974	121
1976	104
1978	77
(1st 3 quarters 1979	65)

Thus, in the course of the decade the output of cars has moved from a net export surplus of around half the total UK market to an import surplus of around one third of that market. The extreme impact on overseas trade has already been noted; merely measuring from 1975 the adverse swing to net imports (for the category of all types of "road vehicles") is at current prices the equivalent of about £2½ billion a year.

Other sectors of falls in output from the 1973 peak to the late 1970s (which we are taking as representing a cyclical peak before the impending recession of 1980/81) can be briefly indicated. In face of a fall in output in construction of about 12% from the 1973 peak (a fall which owes much to disproportionate capital cuts in public spending) the output of "bricks, cements, etc.," has fallen some 20% below the 1973 peak. This influence must also have been felt in "timber, furniture, etc.," which shows output falls of approximately 14% from 1973 to a 1979 peak. Mechanical engineering peaked in 1974; its next peak year may be 1980. Output in 1978 and 1979 has been running at around 8% to 9% below the 1974 level, but the comparison may be slightly less adverse in 1980. It is more difficult to describe the performance of the "textiles" industries; there was a feeble peak in 1976, some 14% below the 1973 peak, and since then output has fallen further. Import/export ratios for mechanical engineering and for textiles have been worsening in recent years. Finally, shipbuilding also shows a falling trend within which it is difficult to discern anything that might be called a cyclical peak.

Taken together the manufacturing industries whose declining output and performance have been described in this section account for nearly 44% of the total "weights" of industries making up the manufacturing sector (1975 "weights").

### 3. Resisting "De-industrialization": Some Problems of Policy

There are three factors that need emphasis in advance of any discussion of the policy responses that might limit - or indeed reverse - the "de-industrialization" of the economy.

One is that it is important to be realistic about the size structure of firms in manufacturing, and the pattern of ownership involved. The second is that, fortunately, the organizational framework and methods of intervention have been developed for large scale supportive state intervention in the investment and development process of the manufacturing sector. The third is that the employment implications for the 1980s are

particularly difficult, and emerge within an economy in which the labour force is increasing and public service employment is curtailed.

(i) The size structure of firms in manufacturing

At first sight the simplest approach to the structure of manufacturing is to recognize the extensive domination of the sector by giant firms. According to official data, manufacturing contains 31 out of the 50 largest companies in British industry and commerce, and these account for 46% of the assets of the larger companies in manufacturing. (2) But there are in reality three sectors:-

- the sector of giant multi-nationals (whether with UK headquarters or foreign);
- the sector of companies wholly or very largely operating in the UK;
- the extensive sector of public enterprise (much of it recruited from firms and industries in chronic crises of operation or development).

Although we do not have an official analysis of the extent of multi-national operation for manufacturing companies alone, the official estimates for the 1,500 largest industrial and commercial companies are revealing. The table below distinguishes between the 50 largest companies (31 of which are in manufacturing) and the rest; in terms of total assets the 50 largest accounted for nearly half the total:-

UK/ Overseas Involvement of UK Industrial and Commercial Companies (Analysis by asset size involved)

	<u>50 largest</u>	<u>The Rest (1,450)</u>
Proportion of total assets of 15,000 companies surveyed	48.5%	51.5%
Operating Wholly in UK	7.4%	40.2%
Operating Mainly in UK	50.4%	48.1%
Operating mainly Overseas	38.2%	10.7%
Operating Wholly Overseas	4.0%	0.9%

(Source: Trade and Industry, 17th November 1978, p. 357)

(NB. Exports from UK count as UK operations)

A further official study<sup>(3)</sup> shows that the multi-national operational base of large scale enterprise is constantly being reinforced not only by direct investment but by mergers. Thus, in 1978 of proposed mergers coming within the scrutiny of the official mergers panel we have the following details (these include financial company mergers, but industrial and commercial companies accounted for over half the assets bid for, over £6 billion out of a total of £12 billion.):-

In 1978 there were 229 "bidding" companies (with total assets of £185 billion). 51 of these were Non-UK.

Of the 229 "target" companies 72 were Non-UK. Thus, in the "giant" company area any policy initiatives have to deal with enterprises that are only partly committed to UK industrial operation, and which can flexibly deploy capital and credit within a multi-national framework of reference. Moreover, it is this "giant" company sector that has been increasing its share of total UK company assets in recent years, partly through persistent takeover activity.

By contrast there are two sectors that are still in a relevant sense "British". The medium sized companies (often the "targets" for takeover activity), and the public enterprises sector. A combination of harsh monetary policies and of ideological opposition to the operation and development of public enterprises may prove particularly damaging, not least in the sense of making most future development in manufacturing hinge on the expectations, attitudes, and initiatives of multi-national companies. In many ways, too, the selective aid policies of recent years have discriminated in favour of the large multi-national, in a desperate attempt to retain or attract foot-loose manufacturing investment. This (massive capital subsidies for multi-national "inward" investment) may well compete away the market position of indigenous industry. Ford and BL spring to mind as an example; the former secured massive grant aid, the latter has had to borrow at high fixed interest rates.

(ii) The system of supportive state intervention

This takes us to the second point of the importance of the massive deployment of funds, under the Industry Act, to offer increasingly selective assistance to whole sectors of industry (industry schemes) and to individual firms. With the scaling down of general (and more or less unselective) "regional" investment aid, the selective processes become all the more significant.

There is no doubt that Industry Act assistance, especially where it has operated selectively to bring forward projects that would have been delayed or not undertaken at all, has played a major role in sustaining the level of manufacturing investment since the recession of the mid-1970s. Section 7 assistance (selective regional assistance related to maintenance or creation of jobs) had to the end of the 1978/79 fiscal year been provided on manufacturing investment projects totalling over £5 billion. Sectoral schemes of assistance under Section 8 (to such industries as wool textiles, ferrous foundries, machine tools, etc.), had to the same date provided offers of assistance of over £250 million to projects with total costs of over £1.2 billion. Selective investment aid to firms under the earlier Accelerated Projects Scheme totalled over £70 million and led to investment project expenditure of over £570 million. The Selective Investment Scheme (SIS), which followed, and which still continues, had by the end of the 1978/79 fiscal year led to interest relief grants of £76 million on projects with capital outlays of £756 million.

The basic logic behind selectivity in investment aid is that it may bring to life investment and development projects that would otherwise be on the wrong side of the "margin" of risk and expected rates of return. Its criteria have learnt to identify and mainly support projects that improve the net export position of the UK economy (though there must always be problems of the displacement of domestic output). Of course, the "bidding" through aid packages to attract large scale investment of multi-nationals is necessarily crude, and its cost reflects the bargaining power of such multi-nationals under current conditions. But the selective aid process is reasonably "cost effective", and it does support a long run process of employment creation (not least through the opportunities for more expansive employment policies in other sectors if the net export position of manufacturing can be strengthened). The more pity, then, that it is currently being constrained, though even the doctrinaire stance of the present government has had to give way somewhat in face of the harsh realities of sustaining investment in the context of an ailing manufacturing sector.

### (iii) The Employment implications for the 1980s

The earlier analysis has already emphasised the severity of the employment problem that is developing around the dismal performance of many sectors of manufacturing. In general it does not appear as if employment levels have yet adjusted to the deterioration of output levels and underlying competitiveness. This may reflect not only resistance to demanning, but also the fact that in many processes employment is more a function of capacity than of its rate of utilisation. Even so, the very limited overall rise in labour productivity over the last cycle (which involves declines in productivity in some declining sectors) suggests that employment has not as yet reflected the weakening performance of industry.

Since the immediate prospects are for further market decline in most sectors (though this may be delayed for some months in some sectors of engineering), it seems likely that pressures on profit margins and falling rates of capacity utilisation will lead to widespread plant closures as in 1971. The experience then was that closures in several cases removed capacity (and skilled work teams) that were important links in any subsequent ability to respond to renewed market demand. In other words, waste of recent investment in plant and human resources led into new imbalances that limited the next upturn.

The pattern is already evident in particular regions where output has been even weaker than the overall outcome discussed so far. Regional disparities in employment are consequently mounting and must be expected to develop further. Scotland provides a case in point:

- The output of Scottish manufacturing industries has fallen behind the UK indices since 1975. By 1978 output overall in Scotland was only 1.2% higher compared with 3.6% for the UK. Within this, the performance of "engineering and allied" industries was particularly weak, with a 7% fall from even the levels of output of the 1975 recession (com-



pared with a 1% fall for the UK). (These industries account for nearly 40% of Scottish manufacturing output.) Metal manufacturing also showed steeper falls than in the UK, as it had done in fact in the previous trade cycle as well.

- Plant closures and associated redundancy have become of major importance over the last year. A recent article (FT, 9th November 1979) listed 22 major plant closures announced in the previous ten months with over 16,000 redundancies.
- The discrepancy between the unemployment rate in Scotland and in the rest of the UK is widening. For Scotland the rate persisted at close to 7.4% with no downward trend from the autumn of 1978 to autumn of 1979. Over the same period the unemployment rate in the rest of the UK fell from 5.4% to 5.0%.

Some recent discussion of employment has concentrated on the possible labour displacement effects of new technology, in particular that associated with micro-processors and other developments in electronics. All that needs to be emphasised here is that the large scale displacement of labour from jobs in manufacturing that we have witnessed and are witnessing is not yet associated with any acceleration of labour productivity improvements. On the contrary it has emerged from a marked slowing of productivity gains.

Consequently a return to earlier levels of annual productivity improvement would reveal itself as a marked and persistent loss of manufacturing jobs (almost certainly more "bunched" into recession years, such as 1980/81) unless British manufacturing resumed a distinct long term improvement in its output. Any acceleration of productivity improvements would only serve to emphasise this requirement.

The only other offset to this danger of persistent falls in manufacturing employment might come from reductions in working time (although as these might be associated with efficiency gains they cannot be entirely separated from the consideration of the factors influencing productivity trends). The 1970s were least affected by any reduction in the normal working week. Nevertheless average weekly hours worked per "operative" in manufacturing fell by nearly  $4\frac{1}{2}\%$  in the decade to 1978. Without this, it would be reasonable to assume that the loss of jobs would have been greater (possibly be 300,000). It seems reasonable to conclude that if job retention on that scale can result from falls in average working time, even in a period when normal hours were not being reduced, then it is important to put more emphasis on reductions in average working time in the decade ahead.

#### 4. And Policy?

The survey of de-industrialization that has been attempted should already suggest a number of imperatives. The future survival of British manufacturing can hardly be left to the chance effect of (multi-national) "market forces". Still less can it be treated as a peripheral concern for public financial strategy, to be steadily reduced as a budgetary commitment (which has been the tone of the new government in 1979). Still less should the competitive difficulties of the sector, where it is most exposed to international trade and displacement from the market, be compounded by policies which directly and sharply worsen industry's comparative cost position. Yet, this again has been typical of recent government intervention, notably the combined damage of excessively high interest rates and an overvalued currency. But we must not understate also the extreme damage to competitiveness that must stem from effective abandonment of policies aimed at moderating the inflation rate. Fiscal policy, on indirect taxes and nationalized industry pricing, the abandonment of price controls, high interest rates as a deliberate instrument (e.g. the impact on mortgages), and the adoption of a crude "adversary" relationship to trade unionism have all served to force the underlying inflation rate up from around 10% in the spring of 1979 to over 20%. Even if pay settlements are largely "defensive" in fact of such actual and anticipated inflation they necessarily involve an inflation in unit labour costs significantly higher than our manufacturing competitors. Taken together such postures represent the road to further disasters. But they have gone along with even more serious damage from a crudely negative attitude to the role of public manufacturing enterprises, with responses that range between an exploitative selling off of the capital of the currently viable enterprises to the most arbitrary of "cash limits" that force public corporations into irrational exercises in closures, postponement of capital investment spending, etc.

In total, therefore, such frozen attitudes (possibly the first exercise of doctrinaire ideology in modern British economic history) have to be seen not merely as precipitating the economy into a painful and unnecessarily deep recession as the 1980s begin, but as jeopardising any industrial recovery.

Given the weakening of the manufacturing sector this is the last moment to combine a worship of "market forces", which are likely to present a dynamic combination of pressures further disadvantaging the weaker economy, with doctrinaire intervention that further damages the market position and development opportunities of manufacturing enterprise.

It is difficult in current circumstances to envisage a combination of policies that might support and strengthen the manufacturing sector and carry wide social consent. But at least as an intellectual exercise it may be worth suggesting what might provide a relevant and linked set of initiatives.

(a) It is increasingly urgent to halt and reverse the rapid worsening of the comparative cost position of British manufacturing. Since 1978 sterling has appreciated by close to 10%. Yet unit costs in manufacturing have risen about 14% in 1979 and appear set to rise even faster (possibly by 16% to 17%) in 1980; this is a cost inflation several per cent higher each year than the rest of the OECD. It looks as if a sterling devaluation of 10% or more is needed to overcome intense pressure on profit margins and loss of market share. NIESR estimates, from their forecasting model, indicate that such a devaluation would increase output and rapidly improve the payments balance. The critical need would be to adopt other policies that ensured that the improvement in price competitiveness gained through devaluation was not subsequently eroded (preferably that price competitiveness was further strengthened).

(b) Interest rate and credit policies would need to become much more selective. It might be necessary to reinforce devaluation by blocking access to credit for a number of categories of imports (or requiring advanced cash payments). Within a general reduction of short term rates (to reduce the cost burden on productive industry) "corset" or other constraints on bank lending could be made more selective (e.g. to prevent leakages into speculative property transactions such as occurred in 1972/73). Given the importance of shifting policy towards a much lower inflation rate, the long term burden of recent orthodox funding by issue of very high interest long gilts must be recognized and avoided for the future. There is obvious scope for attracting institutional funds through low coupon indexed stock available to UK holders only; this might indeed involve some form of "oil stock".

(c) One of the key requirements is to redesign policy so that for the future unit labour costs (in manufacturing) do not rise faster than the OECD average (preferably by less), but this is made clearly compatible with maintenance and improvement of real earned incomes (personal disposable, and the real social wage) as a basis both for "consent" and for an expansion of real effective demand and an improvement in employment. This takes the British political economy into the search for wider tripartite support ("parallel action") for combined initiatives. For instance, it is not sensible to dissipate the rapidly growing oil revenues on populist tax cuts. It is sensible to offer new possibilities of tax reductions and pricing and pay response. For instance a staged reduction in VAT rates following a sterling devaluation (but conditional for subsequent stages on response) might link into a business price restraint and margin cutting response, and some readiness on the part of collective bargainers to take into account the "forward" effects of such policies on reduced inflation.

(d) Of course, "oil revenues" are not some bottomless pit. They are finite. But they are increasingly large and they enable a much more constructive use of public sector finance to be made to back up a mutually reinforcing set of measures to renew the strength of manufacturing industry. The most recent NIESR estimates (which would be

higher if some £ devaluation had been assumed) put UK government oil revenues and the additional positive cash flow stemming from gas sales at over £5 billion even as early as 1980, at around £7 billion by 1981, and rising to £14 billion by 1983. So a phased medium term strategy can be related to an unusual degree of buoyancy in revenue terms. It is strange that just as this prospect opens up there is a retreat from a bold presentation of medium term policy; for what is needed is to change business expectations about the prospect for the coming decade.

(e) This must, of course, mean an altogether larger scale deployment of selective development aid, notably to the firms and industries whose investment and market development decisions will strongly and positively improve the "net output" of the British manufacturing sector. Monetary, fiscal, and specific Industry Act support need to be brought together to reinforce the emphasis on improved industrial performance, process and product improvements, new capacity, fuel conservation and efficiency, and an enlarged training and skills programme.

(f) Selective investment aid to the larger firms is likely to have to be stepped up to prevent a cyclical downturn in industrial investment in 1980/81. A renewed "accelerated projects" scheme might at least be important in shielding companies from recent exposure to high interest rates. But the policies so far have been significantly weaker in their coverage of smaller manufacturing firms (e.g. the Selective Investment Scheme only relates to investment projects of over £ $\frac{1}{2}$  million). An interest relief scheme on similar lines but aimed at smaller enterprises is needed, (which could well be handled largely through the Bank of England, banking consortia, and could be linked to help in organized export consortia). But what is also needed is a much more supportive attitude to the needs of public manufacturing enterprises and corporations for investment and development finance. Many of the public manufacturing enterprises came into public ownership from the unresolved financial and development crisis they experienced in their privately owned forms. The necessity of rescue through state ownership and financial underpinning was a direct reflection of the importance of their contribution to net exports and to employment (directly and indirectly). Of course, that means that many difficult tasks of re-organization and of the search for viable development have to be faced. The announcement in December 1979 of governmental readiness to provide additional equity finance to BL, and to convert a tranche of existing debt into equity, however grudgingly it was made, is the first sign of some recognition of real needs dawning on the government. Besides, the planning of the investment and development needs of all forms of public enterprise provides one of the most positive ways of building up the renewed strength of British capital goods industries. In all this, what is needed is not an indiscriminate extension of subsidies but a series of interventionist planning dialogues that search for competitive viability and cost effectiveness.

(e) All of this needs to be connected to an active pursuit of employment creation. Here again public fiscal policy should help by supporting work sharing programmes in the recession immediately ahead, but more generally by supporting increased employment, and associated training expenditures. There could be little confidence in government intentions unless these embraced a medium run programme for shortening working time (within the context of the sustained support for manufacturing industry's development already argued for), and for linking the improved performance - especially in balance of payments terms - of manufacturing with the maintenance and subsequent strengthening of the whole fabric of public services.

### Footnotes

1. De-Industrialisation, Ed. F. Blackaby, p. 11, article by A. Caincross. In the quotation given Caincross is summarising the "Cambridge" view. On this see, for instance, Ajit Singh, "UK Industry and the World Economy; a case of de-industrialisation", Cambridge Journal of Economics, 1977, 1.
2. The official survey covered the largest 1,500 companies in British industry and commerce (with asset size of £4 million or more). 903 of these were in manufacturing. The 31 largest manufacturing companies' assets would account for around 40% of all manufacturing assets in the company sector. 'How Many and How Big'. (Cf Trade and Industry, 17th November 1978.
3. 'Trends in UK merger control', Trade and Industry, 14th September 1979.

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