

Manufacturing Needs Its Own MPC

What can be done about the current dismal prospects for UK manufacturing? The only good news seems to be that there is in prospect a temporary slight recovery from a newly established low point. But, as was reported last week, the CBI warned that nevertheless almost 50,000 manufacturing jobs are likely to be lost in 2004

The responses in 2003 have been – not much different from other years - much hand wringing, and Pavlov's dog type reactions, by industry commentators to changes in interest rates and exchange rates, either actual or desired.

We should have no truck with isolated special pleading, not only in principle but more so by the practical experience that it goes unheeded by the decision makers. So are we left only with only despairing of the future for UK manufacturing?

Of course, there are those promoting the vision (hope?) that UK manufacturing's future is essentially that of a design and invention enterprise, with manufacturing being carried out in low cost economies. We shall be the high wage, high skill designers and inventors, they say, while low wage economies carry out the unattractive grind of actually making the widgets. At the same time, we shall pull down the smokestacks on our own landscape and view our green and pleasant land from clean rooms and high technology laboratories.

But is there not an arrogance and, more seriously, a potentially calamitous misjudgement in this rose tinted prospective view of life?

First of all, history has taught us that there is a difference between *capacity*, and *capability*, going overseas. Once capability has gone, it is difficult to restore. Secondly, in an uncertain, less secure, world there are products and technologies which it is in our national interest to keep at close quarters. Thirdly, the practice of manufacturing a widget informs the design. Design for efficient manufacture is an iterative process requiring intimacy between production and design engineers.

Finally, and this is the arrogance, what makes us think that we are so clever that the design and technology jobs will not follow the manufacturing jobs? Take a look at what is happening even now, in India for example, impacting on employment in the UK's IT industry. (Indeed, does it make sense to actively work towards a national economy which has a high proportion of "portable jobs"?)

The good news is that government is not insensitive to the issues – it indeed has a manufacturing strategy. And there is truly much good sense in the government's strategy, starting with its recognition of the long term importance of manufacturing to the UK economy and the identification of its fundamental building blocks. Its "seven pillars" of macroeconomic stability, investment, science and innovation, best practice, skills and education, infrastructure and policies for the right market framework.

But I fear that, in the meantime and beyond, we will nevertheless incur irretrievable losses. Narrowing the productivity gap does not enable you to win - it just reduces the margin of defeat.

Free trade enriches us all, but this can be a policy which can be practiced to a fault. This is particularly so in businesses (I do not restrict the comment only to manufacturing industries) for which we would rue the day that we allowed a key capability or basic capacity to seep beyond our control. That is why I am suggesting that a DTI Manufacturing Policy Committee, or the like, be appointed to manage particular import duties / tariffs against terms of reference based on a clear strategy for the retention / development of long term important capabilities. Much in the same way that the MPC uses the lever of interest rates to manage inflation, so the Committee would have means at its disposal to meet a necessarily narrowly defined purpose.

This is not old fashioned protectionism nor intended to protect individual firms from the cold but invigorating wind of competition – it is a specific tool which can be brought to bear to defend core domestic capabilities and capacities when they are in danger of falling below a critical mass for survival

The success of such an approach would be dependant on utter clarity of purpose and a narrow target of manufacturing capabilities. Care would need to be taken to anticipate knock on effects. Frankness and openness with international trading partners would also be an essential ingredient. Intellectual honesty should prevail over any opportunity seized by particular companies or industries for special pleading

Before anyone points to the example of the failure of the recently dismantled US steel import tariffs, I would point out that this just shows the fallibility of knee jerk reactions and their unintended consequences. The US example is not a reason for dismissing tactical management of tariffs per se. A properly considered long term policy, and its implications, should inform the range and level of particular duties and tariffs. Again in common with changes in interest rates, I would foresee changes in duties / tariffs to be a finessing process rather than one of sudden and dramatic changes.

In summary, I am not suggesting that an MPC style approach to certain duties and tariffs is a further major pillar which needs to be added to the strategy for UK manufacturing – this would detract from the importance of getting on with what is already there.

It is, however, a failsafe which it may well be in our national interest not to ignore.

R W Mitchell

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