

Boosting manufacturing and rebuilding supply chains

‘Rebalancing the economy’ has come into widespread use in discussion of British economic problems, highlighting UK dependence on public spending, regional disparities and the question as to where new jobs will come from.

A national ‘business model’ can be used to show which measures of performance matter and how they fit together, with employment and increases in income being particularly important factors.

The authors of *Rebalancing the Economy (or Buyer’s Remorse)*, from the ESRC-funded Centre for Research in Socio-Cultural Change, argue that the political commitment to ‘rebalancing’ fails to engage with long-standing problems in the national business model and does not address the challenges of the manufacturing sector:

The report concludes that the national economy is unsustainably dependent on publicly funded job creation and unproductively dependent on equity withdrawal from property. Both problems are long-standing and have persisted since 1979, throughout the years of Conservative and New Labour governments.

Focusing on the manufacturing sector, the researchers find that poorly conceived privatisation and shareholder value pressures have shaped a sector dominated by small workshops and broken supply chains.

While the New Labour and Coalition governments have assumed that well-managed individual firms are the key to success in global markets, a successful manufacturing system should rather be understood as an ecosystem in which the different competences of firms of all sizes are profitably connected by supply chains.

Key findings

- The UK has an unsustainable business model that since 1979 has relied on publicly-funded employment to compensate for weak job creation in the private sector and job losses in manufacturing – particularly in the Northern and Western regions, where income disparities with London increased sharply between 1989 and 2008.
- Manufacturing shows no long-term output growth and investment has declined to well under ten per cent of net output, whilst foreign-owned firms dominate a diminished factory sector. These developments have been partially offset and masked by two credit booms which boosted house prices and fuelled housing equity withdrawal.
- Continuous retreat caused by economic downturns has damaged the ambitions and capabilities both of individual firms and the chains which connect them.
- Broken supply chains make small firms vulnerable to overseas multinational companies outsourcing more cheaply elsewhere, undermines high British content in domestic products and limits firms in developing relationships with domestic suppliers.
- Since 1979 most areas of manufacturing have been increasingly dominated by small workshops which lack the structural position and capabilities to build capacity or move up the supply chain. Any renaissance in British manufacturing would feed the import of components - with limited benefits for domestic firms.

Policy relevance and implications

'Rebalancing' is a comfortable idea because it makes it possible to acknowledge multiple economic problems whilst also suggesting that they are manageable, and so do not require wholesale change. However, dealing with the symptoms of 'unbalance' requires a radical approach to problem definition and policy solutions. A new approach to selective tax privileges for manufacturing would begin to help British manufacturing and revive the regions.

- In order to meet the problems of capacity shortage and broken supply chains, manufacturing companies should be offered output incentives in the form of a reduction in corporation tax for every year that they increase UK value added, with tax relief on retained profits given to those that increase investment in capital equipment.
- National Insurance relief should be offered for new manufacturing jobs, with a tapered NI holiday for each additional new worker employed. This would also help to revive the regions.
- To meet the shortage of skills in manufacturing, apprenticeships should be encouraged by offering NI holidays on structured schemes to employers of all sizes.
- With regard to building capability, firm and sectoral reviews should explore how skills and physical capacity might be nurtured across industry.
- Raising relevant technocratic skills in government is also necessary and might be achieved by limiting the outsourcing of work to consultants and developing regional institutions.
- A land value tax would encourage relocation and new regional agencies, and increase the attraction for businesses of regions outside the South East.

BRIEF DESCRIPTION OF THE RESEARCH

'Rebalancing' the economy is an idea that fails to engage with longstanding problems in the British national business model and failures in the manufacturing sector; argues a study undertaken by the ESRC-funded Centre for Research on Socio-Cultural Change (CRESC) at the University of Manchester. The report recommends new sector-specific tax incentives to expand output, and encourage investment in capacity and workforce skills.

Julie Froud, Adam Leaver, Karel Williams, John Law, Sukhdev Johal: *Rebalancing the Economy (or Buyer's Remorse)*

Web: www.cresc.ac.uk/publications/rebalancing-the-economy-or-buyers-remorse

FURTHER INFORMATION

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