



# Making things

A reassessment of British manufacturing

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policy network paper



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## Introduction: Making things

The financial crash of 2008 prompted extraordinary interventions by Governments – nationalising banks, launching emergency stimulus packages and the running up of large government deficits.

Since then, public discourse has been dominated by debate about how to deal with these deficits. This is still playing out as recent election results in France and Greece show voters losing patience with austerity. Here in the UK, the Coalition Government has defined the reduction of the deficit as its central purpose.

The unwinding of the events of 2008 is still very much with us. There may yet be more bailouts and rescue packages, or defaults and severe consequences for some countries.

In the midst of all this there is a need to ask fundamental questions about our economic future – how will we make a living, where will the jobs come from and can the activity of making things become a bigger part of our economic future?

Posing this question must not be an exercise in nostalgia or an attempt to ignore the importance of services to any modern economy. Britain is strong in retail, education, law, accountancy and, even after the battering it has taken, in banking and financial services. All these sectors are important and between them provide millions of jobs. But with unemployment high, an economy imbalanced between north and south and a need to generate more exports it is time to look again at making things.

Importantly, an ambition for more of making things is not just a question of economics. Alongside the decline of manufacturing in recent decades there has been a decline in confidence in the areas most affected. In some parts of the country a damaging and corrosive sapping of belief in the present and future has taken hold as the industries that once provided wealth, employment and a sense of purpose disappeared or moved abroad. This has led to political disaffection as the concerns of national politics seemed removed from the everyday experience of people and the sense of loss that they feel.

Politicians often talk about trying to address political disaffection in terms of new policies or a new way of talking about politics or constitutional reform. These things may have their place but the answer to political disaffection is not only political. Political disaffection is related to economic disaffection, to the sense that some have been written out of our national story.

In the great wave of globalisation that swept the world since the fall of the Berlin Wall and the communications revolution, its boosters were keen to talk about the opportunities it presented to the UK as an open, trading country. And they were absolutely right that we are well placed to take advantage of a more open, mobile world. But the debate too often ignored or downplayed the insecurity and dislocation globalisation caused as factories closed, production shifted abroad and both people and places became less sure of their economic purpose.

Change is constant and the dislocation did bring new opportunities and new jobs, but not always in the same places where the old ones were lost. The effects were, to quote the academic Richard Florida, spiky, and it was not hard for the valleys between the spikes to feel disenfranchised.

So a new sense of national purpose around our economic future has the potential not only to provide jobs but to increase confidence and belief in a broader sense. The challenge for Britain now is to create a viable vision of the future in which every part of the country can take part. The question is, can it be done?

## 1. Where does Britain stand?

Speak to voters in the Midlands or other parts of Britain's manufacturing heartlands about making things and their answer will be pretty clear. They will most likely tell you it's something Britain used to be good at but that it's largely gone now. The overwhelming impression will be one of decline, of loss. There is a sense of pride in the past but far less in the present. And of the future, the mood is often fear and uncertainty.

My Wolverhampton constituency used to ring to the sound of big manufacturing sites each employing thousands of people. Names like Sankeys, GKN and Stewarts and Lloyds defined the area, giving it its personality and its *raison d'être*. These workplaces were as big as small towns. Sankeys at one time employed 7,000 people. In recent decades, one after the other, they closed their doors. Today, even the larger private sector employers locally employ no more than 100 or 200 people.

It is hard to overestimate what this does to a place. It isn't just jobs that are lost. It's a sense of identity. But the most critical thing is not actually the closures. Change always happens and industries will rise and fall. The critical thing is that for this and many other parts of the UK, the decline of what was there was not replaced by anything that comes close to giving the same sense of economic purpose.

The effect of this differs depending on the size of the town affected. In some of the bigger cities where big industrial closures have taken place there are more options for making an alternative living. As one sector declines, others can grow. It may be services or a stronger cultural economy. This kind of change has always happened. But the shift to find a new economic purpose can be harder for the small cities, the places heavily dependent on one sector.

The "declinism" represented in the doorstep view of the place of manufacturing in our national life is often reflected in debates on this subject in Parliament. When manufacturing is discussed in the House of Commons MPs there can be a wearily familiar ring to what is said. Thatcherism is blamed by Labour. Blairism by the Conservatives and the Liberal Democrats. "We're not going to take lessons from the party who..."

The sense of loss and the desire for a political scapegoat crowds out the discussion we should be having about what we still make today how we might make more in the future

The problem with the search for blame is that it is looking in the rear view mirror. There is precious little sober analysis of why these changes happened, how they compare with other countries or what we actually do make now. The sense of loss and the desire for a political scapegoat crowds out the discussion we should be having about what we still make today how we might make more in the future.

If we want a basic scorecard on manufacturing it would be that we make less than we once did, but more than we think we do.

Manufacturing has declined as a proportion of our economy and as an employer of people. In 1980, it was responsible for around 26% of GDP and by 2010 it had reduced to just 12%. In 1980 it employed over 6 million people but by 2010 that figure had reduced to just 2.6m.

However, before we all assume making things is a lost cause and sign up to the culture of declinism we should pause and think about the picture a little more deeply.

Here are five reasons to reject "declinism".

**Firstly, we have been going through the biggest wave of globalisation in human history.** This should give us some sense of perspective. Germany has of course done very well through all this but almost all other developed countries have lost some manufacturing capacity to Asian tigers to the East and to China in particular. To expect Britain to have remained immune from this or simply to blame whoever formed the Government in the years from which we take our comparisons is to miss this fundamental point.

This globalisation effect is crucial because it affects not only the amount we make but also the kind of things we make. It is hard for the UK to compete on labour cost terms with Asia where the product is simple and will be made in large production runs. But where the product is more specialised, where people want suppliers close to their production centre and where there is constant innovation, that equation changes.

**Secondly, we still have great assets. Britain is superb at innovation, design and high value manufacturing.** Our open culture and free society make us a great incubator for ideas. We have a superb higher education infrastructure with many of the world's top universities and a science base which has been well funded in recent years. These assets mean that although globalisation has impacted on the overall volume of what we make, there are still good reasons to make things in Britain.

**Thirdly, it is important to remember that as productivity grows employment per product will fall.** It takes fewer people hours to make a car today compared to 20 years ago. That is no one's fault. It is simply the impact of technological change.

**Fourthly, our manufacturing sector, if smaller than in the past, still packs an economic punch.** More than 70% of business research and development goes into the manufacturing sector and it accounts for half of UK exports. So if we can do more of making things it can have a big impact on trade and on our ability to generate new wealth.

And some sectors are doing well...

Around 1.5 million cars are built every year in the UK, most of them for export. Our high end vehicle manufacturers like Rolls Royce, Bentley and Jaguar Land Rover have all reported bumper sales in recent months as the growing global middle class seeks to buy prestige brands. Mass market producers have also been doing well with new investment announced at GM's Ellesmere Port plant, Nissan's Sunderland plant and Toyota's Derby plant. All this creates jobs here in the UK.

Overall, our automotive industry is smaller than Germany's but it is the fourth biggest in Europe and still of a scale that makes it a major UK employer and an important part of our manufacturing industry. It is responsible for around 50,000 direct manufacturing jobs but according to the NAIGT Report commissioned by the last government this supports almost another 400,000 in component supply, sales and services.

The UK aerospace industry is the leader in Europe. It employs over 100,000 people and has a turnover of over £20 billion per year. Rolls Royce engines, our role in the Airbus consortium and in the Eurofighter programme all give us expertise, export potential and high quality jobs.

We are a world leader in pharmaceuticals. According to the Association of British Pharmaceuticals the industry spends more than any other on R&D in the UK – over £12m per day. This is about 9% of global pharmaceutical R&D – much more than Germany or France. Pharmaceuticals employs 72,000 people directly and produces a trade surplus of over £7 billion annually.

**Fifthly, we need to reassess what we mean by making things.** We should beware of hard definitions. The boundary between manufacturing and services has become more blurred. The best manufacturers no longer regard their job finished when the product leaves the factory. A company like Rolls Royce places as much emphasis on post delivery care and maintenance of its products as the initial manufacturing. This “manu-services” development is important and means that customer care and relationship management has become an integral part of the process.

And making things should not just be about physical products. Britain excels in the creative industries. Why, in the digital age, should we restrict ourselves to a view of making things which is only about what you can see and touch? You can't touch great music but UK music estimates that making it still employs around 100,000 people and it makes a huge contribution to Britain's identity and our cultural reach.

British excellence in creative industries is about more than music. Our video games, sports and TV formats are watched all over the world. This is making things too.

So if we think about global and technological change, remain aware of our strengths and take a broader view of what is meant by making things, the picture is less bleak than the prevailing culture of declinism would suggest. We certainly make less than we used to but by building on what we do well and identifying new areas of growth we can still be a global player in making things.

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## 2. A case-study - Jaguar Land Rover

The new Range Rover Evoque is a sleek looking beast. Smaller than the traditional Range Rover, with better mileage and aimed at a new generation of buyers, it has been getting rave reviews from the motoring press in the UK and in the growing target markets for which it is built.

The Evoque is part of Jaguar Land Rover's renaissance. In tough economic times this company has been responsible for one good news story after another. 1,000 new workers to be hired at its Solihull plant. Big overseas sales growth. A £300m new engine plant employing 750 new workers to be built in Wolverhampton. A new model with buyers queuing round the block and others in the pipeline.

It is all a far cry from my childhood memories of the 1970s UK auto industry which seemed to be a case study in poor products and appalling industrial relations. If there was an image that defined the industry then it would probably be a factory car park with thousands of workers putting their hands in the air to vote to go on strike. It seemed like a suicidal death battle between workers and management, two exhausted prize fighters hauling each other to the ground.

But the story today is very different. In the 1980s the Japanese investors came to the UK with Nissan opening a plant in Sunderland, Toyota in Derby and Honda in Swindon. And they didn't just bring jobs. They brought a culture change, one sometimes referred to as the Toyota system of production. Just in time supply. Continuous improvement. Less “us and them” and more teamwork. A revolution in car making.

At the same time and indeed heavily influenced by the Japanese manufacturers, in the industry which was already here industrial relations were transformed and UK car making became more efficient and raised its game in terms of quality.

Steve Evans, GMB convenor at Jaguar Land Rover's Solihull plant is candid about the changes. "Years ago, suppliers used to put up their prices every year. When the Japanese came they got rid of that culture, instead working with suppliers to become more efficient, but promising them security in return."

All these changes had their impact on Jaguar Land Rover (JLR). Today it employs around 20,000 people directly and supports another 50,000 jobs in the supply chain. In total, the company estimates it is responsible for supporting 170,000 jobs across the world. And although these figures are not massive compared to larger volume carmakers like Ford or Toyota, it has been estimated that it is responsible for £1 in every £7 of UK exports to China.

Visitors to JLR's R&D headquarters at Gaydon in Warwickshire, a site shared with Aston Martin, won't find groups of angry workers ready to go on strike. Instead, some 4,000 engineers work with 3d computer screens or life size clay models perfecting the next generation of cars. The atmosphere is more like a university campus than an automobile plant.

JLR's owners, Tata, have committed to a long term investment strategy which will result in a major increase in car production in the UK in the coming years. As well as the Evoque, resources have been made available for more new models and the threat of a plant closure has been lifted.

Before a car goes into production at all, there are years of work and development and this is what JLR does at Gaydon. The process starts before the company has even thought of a particular model. A team of around 250 people are engaged in non product related research, or as some call it, problems without solutions.

In all of this JLR operates a system whereby after a period of time, a particular innovation must need a product target or work stops – an obvious means to avoid burning up too much money on ideas that may never go into production.

Another team, also hundreds strong, is working on hybrid technology, an obvious area of expansion for a company whose cars have many attributes but a reputation for heavy fuel use.

The kinds of people working in these jobs may have backgrounds in nuclear, aerospace or even video games technology. Most are engineers and very highly skilled.

Before making the Evoque the company analysed the trend in car purchasing across the kind of price range they might be aiming at – broadly speaking a decline in traditional saloons and an increase in SUV types, plus of course a desire for better fuel consumption and lower CO2 emissions. They asked their designers for various concepts, rejected many and eventually came up with the 2008 concept car on which the Evoque was based.

Innovation is of course necessary in car companies but not without risk. Larry Martin, a JLR manager who has been with the company through all its ownership changes in recent decades, talks about "the personality of the car" – the things that make a car a Jaguar or Land Rover. The trick is to innovate without losing your identity.

The process from concept to production requires patience, resources and skill. Throughout it there are the conflicting pressures of speed and quality. Take too long to get from concept to market and your competitors will steal a march on you. Products not in production don't make money so there's a commercial imperative not to take too long in development. But go too quickly and launch a car without ironing out the faults and you can have a very costly reputational problem on your hands.



If development is rushed there is more of a danger of glitches and “rework”. Car companies hate “rework” – having to go further back in the process and redesign a component or system in the car.

To manage all this JLR uses a system called PCS – Product Creation System. This system, originally inherited from Ford’s days as the company owners, attempts to manage these conflicting pressures, allow for blue sky research yet gear it toward products and get products to market in a reasonable time but without rushing the process or compromising quality. JLR benchmarks this process against what they know other companies are doing. All companies are trying to shorten the timespan between the concept and “job one” - the making of the first car in the manufacturing plant.

The point of illustrating all this is that a large scale manufacturing process like car making is much more than the assembly line, robots, and paint shops we are familiar with. Behind it is a critical mass of research, design and concept testing - a huge amount of skill and knowledge before a car gets to market.

Keeping the capacity for this kind of development in the UK is hugely important. Gaydon is Britain’s university of car making. Held there is a very precious bank of design, innovation and development knowledge. As well as work on products the engineers there are thinking about new materials which can take weight out of cars, hybrid development and compliance with new environmental regulations. This kind of resource takes years to assemble and it is critical to the UK’s capacity to make things.

The issue for the UK is how it keeps this kind of high end research and development and gets more of it. Much of the value in complex products comes from the intellectual property, the thought, design and testing before they go into market. To keep this and add to it means having a ready supply of great engineers from our universities, good training programmes in companies and something less tangible which is the culture of openness and innovation that makes Britain a good place to carry out such research.

To combat the “declinism” which characterises so much discussion of manufacturing in the UK we need to promote our successes more but also have a great sense of belief that we can develop beautiful sought after products for the future. JLR is a company transformed. It has major plans to innovate and introduce new models. It currently can’t produce cars quick enough to sell to the Chinese market where a top end Range Rover, with import duties, can cost about \$200,000. If they can do it, so can others.

### 3. The eco system of making things – the supply chain

When thinking about manufacturing it’s easy to concentrate on the brands we know like Jaguar Land Rover, Rolls Royce or British Aerospace. But they are only the most visible part of the process. Behind them are the raw materials that go into their products and the thousands of small companies that supply components. Manufacturing is an eco system with interdependent companies all along the supply chain. This eco system with its network of companies, culture and learning is what gives a country the capacity to make things.

For a particular product, there are often more jobs in the supply chain than there are in the prime manufacturer. Any country which cares about making things will pay as much attention to the health of its supply chain as it does to the big household names.



## The raw materials

The supply chain starts further up the process than production or component production. It can be the manufacture of steel, chemicals or other raw materials. These are often energy intensive processes. The companies in these industries are at the heart of the debate about climate change, regulation and green taxes.

In recent years there has rightly been great emphasis on combating climate change and reducing unnecessary energy use. All industries have to play their part and be responsible environmental citizens. But countries must take care not simply to export carbon production, and the jobs which go with it, while not reducing overall global CO2 emissions. This is what is known as carbon leakage.

UK energy intensive industries complain about a number of unilateral steps the UK has taken such as the introduction of the carbon floor price which do not apply to their competitors in Europe, let alone in Asia. They warn that if they are priced out of producing in the UK, the planet will not benefit from the reduction in CO2 emissions by a single ounce, but the work will go abroad. The CO2 will just be released elsewhere. That is why it makes both environmental and industrial sense to proceed on the basis of tough, binding international agreements to reduce harmful greenhouse gases. That way, we deliver on the change necessary to protect the planet and we do not do unilateral damage to our manufacturing industries.

This equation matters if we value making things. It is right to demand high environmental standards from our industries but what sense does it make just to export jobs? It is in Britain's interests to retain the capacity to make the basic raw materials for manufacturing – the steel, chemicals, plastics, composites and other essential ingredients of the finished products. These industries form an important part of our supply chain, the eco system of our manufacturing ability.

## The Mid Caps and SMEs

Raw materials are just one part of the supply chain. The other is the supply of components, or parts of a finished product. Excellence in component supply is a very important part of a country's manufacturing capability. It can mean not only a healthier domestic manufacturing industry, but also a valuable source of exports. And most of it is done by small and medium sized enterprises (SMEs).

### Bilston Engineering

Those parts of Britain where making things is still central to economic life are dotted with small factories making components. One such example sits in Spring Road in Bilston in my constituency. There, Rajay Ojelay and his business partner Jagat Ram sit in the office of their factory reflecting on their story. Their company, Bilston Engineering, employs around 50 people making parts for the Ministry of Defence, defence contractors and mining companies. Bilston Engineering's survival is down to determination, hard work and a refusal to be beaten.

Rajay and Jagat both came from India as children in 1959. Rajay's father worked at Wednesbury Tube, now Mueller Europe, one of the UK's largest manufacturers of copper piping. After leaving school Rajay did an apprenticeship in mechanical engineering at Stewart and Lloyds' huge Bilston steelworks and Jagat did his apprenticeship in fabrication and welding at John Thomson's, a large Bilston engineering firm just up the road from the steelworks.

They benefited from the manufacturing eco system of the time. A network of large employers meant good apprenticeships and training opportunities and both men pay tribute to this grounding, saying it was hugely important in their ability to succeed and be adaptable as businessmen later in life.

In 1979, as manufacturing in the local area was in freefall, both men were made redundant. With young families, no money and firms all around them also laying off staff or closing down they decided to form a company. It had no offices, staff or equipment but with £5 they printed some flyers offering their services as engineers and delivered them to local firms.

They got their first real break with an order to dismantle machinery for the Hickinbottom Bakery in Wednesbury. It was a big job involving large industrial baking ovens but they did it faster than the company expected and to a higher standard of quality and were paid £3,600. They were up and running.

They founded their business in the middle of a recession and while they say that was tough they also saw opportunities, being able to buy second hand machinery cheaply as other companies closed down. Jagat sums up their philosophy saying, “there is always work. It’s the price that changes”.

Gradually, they won more orders, found premises and bought more machinery. They took no holidays for five years and regularly worked 12 and 14 hour days.

The company has received some Government help. When they moved into their current premises at the end of the 1980s they did so with a loan from the Department of Trade and Industry at a rate of 10% which was considered good value at the time.

They have kept their business going through thick and thin. But now, as they approach retirement they have passed ownership of the business on to their children, none of whom has chosen careers in manufacturing. One is a dentist, another an accountant. As Rajay puts it, “they will employ manufacturers but they have chosen a different path.”

This company was founded in a recession and it has survived through three more recessions since. It has kept going through the great wave of globalisation that saw “made in China” become such a hallmark of change. But today, Rajay and Jagat remain unbowed. They believe companies like theirs can survive provided they play to their strengths which they say are an emphasis on quality, customer care and short delivery times.

### **Chamberlain and Hill – difficult things done well**

Down the road in Walsall, castings company Chamberlain and Hill has had its headquarters since 1890. These days, with factories in Leicester, Scunthorpe, Cannock and Birmingham it makes products for the automotive, construction, power and rail industries. Its slogan, “difficult things done well” could be a metaphor for how Britain sees its manufacturing future. Simpler things can probably be done cheaper elsewhere and in a competitive world, if the difficult things are not done well, the customer will go elsewhere.

Chamberlain is listed on AIM and is a classic mid cap company, part of the sector that CBI Director General John Cridland has made his top priority to champion. These companies, often larger than the small businesses which have been at the forefront of recent discussions about bank lending and smaller than the big employers with direct access to corporate finance markets, are the mainstay of innovation in manufacturing.

The Managing Director, Tim Hair, is a turnaround specialist. When he surveys the recent history of UK manufacturing he picks out poor management as a big contributory factor to decline. Specifically he feels there has been a failure to be rigorous about costs, quality and customer relationships.

Like many similar companies, this one had to cut back during the recession, but it now has an expanding order book. Many mid cap companies like Chamberlain’s did not survive the recessions of the 1980s

and 1990s but, having weathered the storm, Tim Hair sees grounds for optimism. He believes there is some evidence of a repatriation of manufacturing orders through frustration with extended supply chains and a desire for trusted local suppliers.

### Sheffield Forgemasters

A good example of the interplay between the supply chain and the actions of government is the case of Sheffield Forgemasters. Sheffield Forgemasters is a mid sized manufacturer. A few years ago it sought to expand through the purchase of a 10,000 tonne press which would have enabled it to make key components for the nuclear and wider energy industry. This piece of equipment did not exist anywhere in Europe. Its absence meant that these crucial components for the nuclear power industry were all sourced from Japan and Korea.

After two years of often tortuous negotiations in which I was involved, the last Labour Government eventually agreed to support the Forgemasters plan with an £80m loan. The Deputy Prime Minister described this act as signing a cheque the Labour Government knew would bounce, but this simply showed a lack of understanding of the case, and perhaps the whole idea of government intervention.

Forgemasters were unable to raise the finance privately, despite being a strong company with a healthy order book. In this kind of situation, Government has to take a view. The least risky response would be to say no every time. But to do so would mean Britain passing up critical opportunities, as eventually happened in this case when the Coalition Government cancelled the loan. That act did not just stop Sheffield Forgemasters' expansion plans. It deprived the UK and indeed Europe of this manufacturing capacity, and the future orders we felt would have come.

Forgemasters have since received some Government aid but not for this project. The point of the Sheffield Forgemasters story is this is the kind of decision governments have to take if they want to support Britain's SME sector. This isn't easy and not every decision taken to support a company in this way will work out. But it is better to be trying to do so, succeeding sometimes and perhaps not at other times, than not be trying at all and letting key opportunities pass Britain by.

The Department of Business and UKTI should have a British Supply Chain team working with prime manufacturers on the kinds of changes that would be needed to bring supply chain work back to the UK

You won't see the names Sheffield Forgemasters, Bilston Engineering or Chamberlain and Hill on finished products you would buy in the shop or drive away from a forecourt. But they are crucial to the process of making things. Manufacturing is a chain. If Britain is to make more in the future we need to think not just of eye catching inward investment stories but also the thousands of small engineering firms around the country.

That means making sure these companies have the skilled labour and the financial support they need. Too often they are short of both. These companies should be seen by Government as just as important as the bigger players. The small companies and the big ones need one another. They are all part of the eco system of making things.

And for the prime manufacturers and tier one suppliers Government should be acting as a champion of the UK supply chain. The Department of Business and UKTI should have a British Supply Chain team working with prime manufacturers on the kinds of changes that would be needed to bring supply chain work back to the UK and to make sure that investors know what is available locally when they make an investment in the UK. The strategic aim should be to make the most of what we have already and to make the eco system of making things stronger in the future.

## 4. Not just glass and metal – making music and the “weightless industries”

Sunday 12th February 2012. A young woman from London stands clutching six Grammy awards. “Mum, girl done good” she shouts in a mastery of understatement. Adele’s second album, 21, has broken sales records on both sides of the Atlantic that have been in existence for decades. A Global star has been born and this young British woman is the hottest property in world music today.

Our traditional concept of making things tends to be about physical products like cars, aeroplanes, TVs etc. But that’s too narrow. When we think of making things we ought to think more broadly. It seems odd in an age when we can order music from websites and read books on an e-reader that we should only count as making things that which we can see and touch. Indeed Britain excels at making things that you can’t see and touch but which define us in the eyes of the rest of the world.

It’s about fifty years since the Beatles propelled British music to become the most popular in the world. Perhaps there has never been anything quite like them since, but their success was not a one off. Over the generations, British musicians and British music has remained popular across the world. From punk to Britpop we have shown a consistent capacity to reproduce success with wave after wave of great young musicians.

The huge cultural influence of music in Britain is important economically. UK Music’s manifesto – Liberating Creativity – reports that the UK music industry employs around 100,000 people and contributes some £5 billion to the economy. In fact, the real impact may be higher as much of the activity and employment is in micro companies which don’t always show up in Government figures.

The UK music industry employs around 100,000 people and contributes some £5 billion to the economy

Why is Britain so good at making great music? Andy Heath, Chairman of UK music and founder of Beggars, the record company which had the good fortune to sign Adele, describes music as the first “weightless industry”. He believes both Britain and Ireland have a cultural confidence which encourages young musicians to express themselves creatively. He also points to the highly developed talent searching network that exists in the UK which gives a good chance of a young talented musician being noticed. And he thinks the BBC is a priceless cultural resource which gives new talent a platform that doesn’t exist in other countries.

Paul Smernicki who signed Snow Patrol to Universal Music before heading the company’s digital division points to the microcultures within Britain where accents and identities can change significantly over a distance of just twenty or thirty miles. He also points to the old folk traditions that have always seen the world through song and music and believes there is something distinctive about the speed with which cultural change in the UK is reflected through music.

Whatever the reasons for our musical success, what is remarkable is the degree to which we have been able to reproduce it over different generations and the global cultural reach that it gives Britain.

Could Government do more to support this great British success story? The industry’s manifesto calls for a range of policies including a Cabinet Committee with a responsible Minister to co-ordinate efforts, a recognition that traditional sources of bank lending and Government finance are not easily accessible for music companies, proper protection of intellectual copyright, music apprenticeships and getting the educational opportunities and investment right.

Certainly we ought to cherish our musical excellence. Its global reach and consistent high quality is a welcome antidote to the “declinism” that characterises so much discussion about our economic story.

Of course our cultural reach is not restricted to music. Like them or loathe them, a lot of the Saturday night talent show TV formats originated on the UK and have been copied all over the world. And our football teams are followed by fans in every country.

When it comes to sport, we are not in doubt about an important Government role. In recent years the UK has developed a better funded and more co-ordinated approach to sporting success. Our medal haul at the Beijing Olympic games, and hopefully in London later this year, does not fall out of the sky. The investment and support for young athletes is way beyond what was in place just a few years ago and we are all proud of the success gold medals bring. Indeed we award MBEs and knighthoods to those who achieve them.

But shouldn't we take just as seriously our young musicians and other creative artists? No one can replace the creativity of the artist – that is not Government's business. But it is worth asking whether we ought to be doing more to support something that makes money for the exchequer and more importantly helps define in a very positive way Britain's place in the world.

In that sense our musical and creative success is literally priceless. It would be complacent to think that because we had been successful in the past we didn't need to do anything to support our music industry. This should be taken as seriously as support for our athletes, for the car industry, aerospace or other major sectors. In today's world it is important that countries play to their strengths and for Britain, making music is undoubtedly one of those strengths.

Girl done good? She certainly did, but we should be ambitious for more success like Adele's.

## 5. Five things Britain might do better

In the past two years, the national debate has been dominated by the deficit and how fast or how slowly it should be reduced. But whatever the pace of deficit reduction, on its own it won't be enough to shape our economic future. I began by arguing for an economic future that every part of the country could buy into. Below I set out five things that could help this happen.

**First of all, we need people equipped to do the jobs and young people ambitious to do them.**

Part of this is about the image of making things, part of it is about skills. Some think manufacturing is old fashioned or dominated by routine work. But a modern process of making things is complex and varied and modern factories are a long way from dark satanic mills.

Making things in a world where design and innovation are so important requires top class engineers and technicians and a high value placed on their work. Schools should champion the activity of making things. Why shouldn't an engineering degree have equal prestige with a law or medicine degree? There are some initiatives around to promote engineering but they need booster rockets under them.

One good initiative is the new Queen Elizabeth Prize for Engineering announced by the Royal Academy of Engineering and supported by all three main political party leaders. This offers £1m to the best new ideas which will benefit human knowledge. The first prize will be awarded next year and then every two years thereafter. It is a great idea and the higher the profile it can achieve, the better.

**Secondly, Britain must remain an open society.** It is difficult to pin down exactly what makes Britain such a creative and innovative society but openness to new ideas and new people matters. Of course this is sensitive territory. Immigration is one of the most emotive and sensitive issues in politics. But if we send out signals that high value foreign workers or foreign students are not welcome here our country will suffer. There is no point in saying Britain is open for business then sending a signal saying we are going to make it harder to come to study here. It is quite right to tackle the abuses that have gone on in some so called “colleges” but higher education is a tough global competition to attract the best young minds in the world and we should want them to come to the UK.

Once people have studied here some will settle but most will return home and all will retain an affinity with the UK for the rest of their lives. And although immigration is of concern to many of our constituents, is it really the foreign student or the Japanese engineer they are worried about? If Britain is to continue to excel creatively and to be a great country for making things it must retain the openness that helped make it great in the first place.

**Thirdly, Government needs to be an active player.** If we examine any successful manufacturing economy from Germany to Singapore, active government is part of the picture, be that through university policies, tax and regulation policy, the provision of grants and loans to various sectors and generally backing industrial strength.

Gene Sperling, Director of President Obama’s national economic Council recently made a call for the United States to rediscover industrial policy. He argued that for the United States to maintain its strong position in innovation, the activity of making things was necessary. Citing Harvard Business School professors Gary Pisano and Willy Shih he talked of the virtuous cycle of the “industrial commons” where clusters of manufacturing companies supply one another and feed off one another’s innovations – back to the manufacturing ecosystem we talked of earlier. Mr Sperling was also clear that the role of Government was vital in creating and maintaining such an ecosystem, no better example than the US Government’s actions to stop Chrysler and GM going to the wall following the financial crash of 2008. He quotes Ford CEO Alan Mulally saying at the time, “we believed...that if GM and Chrysler would have gone into free fall bankruptcy, they would have taken the supply base down and taken the industry down”.

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Evidence from across the world shows that the desire to support the activity of making things is neither nostalgia nor some old socialist mantra – more and more countries are realising it is critical to prosperity in the 21st century and more important than ever after the collapse of the financial bubble.

What is common to Mr Sperling’s argument, and also recognised in China, Germany and other key manufacturing countries, is that innovation and production go hand in hand. There was a view as globalisation took off that Britain might still do the research but others would do the producing. That now looks complacent. The truth is research is about trial and error. The capacity to innovate and the capacity to produce are closely related. Britain is brilliant at design but if we want to retain the capacity to design, to research and to innovate we also have to retain the experience of making things.

In the UK, industrial policy came to be associated with wasting public money on lame ducks. As Peter Mandelson put it referring to the 1970s, the suspicion was not so much about the Government picking winners as about losers picking the Government. Peter Mandelson and I resurrected industrial policy in the latter years of the Labour Government but the danger he refers to is real.



Britain should get over its phobia about picking winners. Picking winners isn't the problem. It's backing lots of losers which is the potential problem. For industrial policy to work there are a number of conditions which have to be put in place.

Government has to have the capacity as well as the desire to make good interventions. Not every decision will be right but Government must maximise its chances of getting as many right as possible. That means having a capacity within Government – or at least available to Government – to make good technological judgements, the right infrastructure decisions and to join the dots between departmental budgets and national capacity. That kind of expertise does not always exist in Government today, nor is our system of government geared up to such decision making.

If Industry policy is to be a success it is therefore a question of capacity as well as policy, a question of having the ability to make the right decisions as well as a desire to make them.

That means that for industry policy to work there needs to be a major cultural shift in Whitehall. Departments would have to broaden their scope from managing the budget, crisis management and legislation to a broader view about the impact of what they do and what they spend on the health of the UK economy. At the moment, Whitehall doesn't think like this and doesn't see it as its job.

Some have argued that the Department of Business should be abolished. That would be a mistake. Instead it should be regarded as the Department for the micro economy with a remit to network, facilitate and cultivate the skills across Government to make the most of Government's role as an economic actor, be that as a purchaser, legislator or regulator.

Any Government engaged in active industry policy must also be wary of producer capture, of being lobbied into spending money on things which don't merit it because of political pressure, either internal or external. This in part lay behind some of the mistakes of the 1970s. Industry policy must be about saying no as well as saying yes. It cannot be about the distribution of taxpayers' money on the basis of who shouts the loudest. That requires toughness on the part of the Ministers involved. It may also require external validation of decisions or perhaps externalising some of the decision making itself. And it means supporting the never ending process of competition which involves things closing as well as opening.

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There is a perfectly legitimate, indeed necessary, role for Government in being ambitious for success in certain sectors and adopting an industrial strategy designed to achieve it. It need not cover every area but where we are strong or think we can be strong in the future there is a crucial role for Government to play, either by fostering the skills, financially supporting the companies or through tax and regulation.

An active industry policy requires leadership from the top. Government departments should come together under the chairmanship of the Prime Minister to think about how their budgets can add to national capability. This will require a sustained commitment from the Prime Minister. Not a summit, a headline and move on to the next thing but a real sustained signal from No10 to the rest of Government that life in Whitehall is no longer just about the Spending Review and Departmental budgets but about what all of that contributes to Britain's ability to make its way in the world.

**Fourthly, there is the issue of finance. For making things to be a big part of our economy, industry needs to be able to get the finance it needs.** Part of this is about the right tax policy, part of it about access to finance for investment.



Given the increasingly short lifespan of manufacturing equipment and the continued need for greener production, the UK tax structure should make it tax efficient for manufacturers to renew their equipment at regular intervals, so that we stay competitive in the years to come. If we really believe in rebalancing we should have a corporate tax structure that encourages investment in making things. Recent cuts to capital allowances have made this process harder not easier.

And it is time to stop trying to sell lending agreements with the banks as marking solutions to the lending problem when businesses know this is not the case. People running factories deal with the banks every day. They know when credit lines are being withdrawn, certain sectors pretty much blacklisted or terms being changed so much that the credit is only available in theory and not really in reality.

The relationship between banking and the public has been broken and the relationship between banking and the real economy is hindering the latter from making the progress we want to see. The best way to repair these relationships is for banks to do a better job of what we want them to do which is to support job creation in the real economy.

The four big high street banks have most of the UK business accounts. There is a strong case for new entrants and more players in the market. This ought to give businesses more options.

But even a better performance from the high street banks might not be enough. There have been many calls recently for a new institution – a British Investment Bank, specifically to invest in business. Such banks exist in the Nordic countries, the United States and in Germany. They are not some statist fantasy. In different types of economies around the world banks like this are playing an important part in supporting new businesses and investing for the long term.

The Government has already accepted the principle of some Government role in this field by announcing support for Labour's original idea of a Green Investment Bank. Whether it is this Green Investment Bank with a broader role or another vehicle, there is a strong case for an Investment Bank with a specific remit to invest for the long term in manufacturing and the real economy. Its job would not be to invent ever more obscure financial instruments, or to focus on short term returns but to use the power and credibility of government to provide a flow of professionally managed seed investment to businesses that need a longer timeframe than a purely profit maximising private bank can accept.

Public debate about political economy revolves almost exclusively round a false choice between austerity and growth, as though we either have to be dry as dust accountants or reckless borrowers

**Fifthly, perhaps the most important thing we have to do is to believe that making things can be part of our future as well as our past.** Making things is music as well as machines, a fantastic new computer game as well as a great new car.

After the financial crash there is not only the space but also the necessity to think afresh about our economic future. We have allowed a culture of decline and loss to characterise our discussion of making things for too long. Public debate about political economy revolves almost exclusively round a false choice between austerity and growth, as though we either have to be dry as dust accountants or reckless borrowers. But it is possible for politicians to exercise responsible stewardship over public money and at the same time try proactively to shape our economic future. The task is not only to get our deficit down over time but also to do what we can to secure growth, jobs and hope. Making things can, and should, be a big part of that.

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