

## **The decline of manufacturing and its regional consequences in UK**

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**Like in other developed countries, manufacturing has sharply declined in Britain as a share of total income over the past century. While the movement stagnated in the 2000's in France and in the US, it kept on falling in Britain. Labour has succeeded in redistributing income among people, but could not stop the regional divergence generated by the decline of manufacturing. This divergence is deeply rooted in economic geography mechanisms that will be hard to counteract, whoever wins the next election.**

Everybody – whether British, French, or of any other nationality knows that the British don't make things anymore. You might buy a French car, a German car, a Japanese car, even an Italian car. But a British car? We all know that British Leyland went bankrupt long ago. It is the French and the Japanese who make high speed trains, and the French are famous for building nuclear power stations. In contrast the British are famous – infamous even – for finance, banking, insurance, and so on.

### **Manufacturing in Britain has fallen as a share of national income, not in total**

This picture is surprisingly partial. Britain does produce cars – not only Rolls Royces, Lotus, and minis, but also Nissans, Hondas, Toyotas, as well as Fords and Opels. Britain is a major producer of aero-engines, as well as aeroplane wings, and is one of the world leading centres for military optics.

So it isn't true that Britain produces nothing. In fact, Britain produces as many manufactured goods – measured by value – as it has done at any time in its history. But since the economy is growing, that means that the *share* of national income that comes from manufacturing has fallen.

That manufacturing has fallen as a share of national income, but not in total, has been true for more than a century now. Given that Britain had the first industrial revolution, and ended up with manufacturing representing an exceptionally high proportion of the economy, a fall was to be expected, and probably even welcomed. Even as late as 2000 Britain still had a more manufacturing-oriented economy than France or the United States. So manufacturing's relative decline from 1900 to 2000 is easy to explain. But it has kept falling. In 2008 – the latest year for which data are available – manufacturing made up 18% of GDP in France and the United States, but only 15% of GDP in Britain. That is not a trivial difference. And it is still falling in the UK, while remaining – roughly – stable in France and the US.

### **Decline of manufacturing has regional consequences**

For Britain this has dramatic regional effects. The South of England has never been a major manufacturing centre. The Industrial Revolution happened primarily in the North, in a band stretching from Liverpool through Manchester and across the Pennines to Leeds and beyond, complemented by Newcastle and Sunderland further north. These were the areas with cheap coal. Cheap coal no longer makes an area attractive. Electricity and gas can move around easily. And the particular industries in which Britain once specialised – a million people working in textiles in the Manchester area, Sunderland as the world's biggest producer of shipping, the potteries in Stoke- have gone. It is not just that they have left these areas, they have left Europe. High wage economies cannot compete in low cost goods with low wage emerging economies. As consumers we celebrate that our money goes further than ever before. But for the regions of Britain that based their prosperity on manufacturing this aspect of globalisation is very painful indeed.

In 1997 Britain elected a Labour Party whose election theme tune had been “Things can only get better”. And we all knew that even if Labour didn't make life better for City slickers, it would make life better for the men and women who lived in manufacturing areas, and who worked, or had worked, in manufacturing. Even in 1997 these were areas in which people were poorer on average, people who had been left out of the growing wealth that came in the Thatcher era, particularly in the south east.

Labour has made life better for the poor. The authoritative and independent Institute for Fiscal Studies has shown that Labour's changes to the tax and benefits system means that people in the bottom decile by income are 10% better off than they otherwise would be, and people in the top income decile are 10% worse off. And that is what Labour governments are supposed to do, surely?

### **Labour did not succeed in stopping regional divergence**

But what Labour has failed to do is to regenerate parts of the country that were heavily dependent on manufacturing. In the last 13 years in which Labour has been in office, people in the North of England have seen their incomes grow by about 20%, as measured by disposable income, while Londoners have seen their incomes grow by 28%. Given that Labour have introduced a more progressive tax system, and higher benefit levels, which move money out of London and to the rest of the country, this regional divergence in income levels understates the divergence in wealth creation by region. In short, the London powerhouse is even more powerful than it used to be, and it is leaving the rest of the UK behind.

The problem for the rest of the country is that manufacturing is changing. Once upon a time factories used to employ a lot of people, and manufacturing was a great basis for the local economy. But technological change, high levels of competitive pressure and wages that are high by Chinese standards mean that there is big pressure to replace expensive British workers with machinery, and if production cannot be mechanised, to move the factory to Poland, or Vietnam. The same pressures affect French manufacturing, but because manufacturing is less regionally concentrated in France, the regional effects are less strong.

Under Labour, manufacturing productivity growth averaged around 3.5% per year, a rate broadly in line with previous trends, and probably necessary for Britain to remain internationally competitive. But since manufacturing output is broadly constant, that means that around 3.5% of manufacturing workers lose their jobs each year. Since these jobs are heavily concentrated in some regions, the result is growing regional inequality. Office of National Statistics data show that the Gini coefficient of inequality for Gross Value Added for the 133 UK “NUTS 3” regions has increased steadily from 0.14 to 0.17 over the last decade or so. In contrast the equivalent measure for France’s 97 NUTS3 regions has remained constant at 0.11. Britain was regionally more unequal to begin with,

and has become increasingly unequal since.

It is not that Labour did not try. Our former manufacturing towns and cities are awash with regeneration initiatives. We have a huge number of regeneration agencies, each with an upbeat, optimistic sounding name. These include big schemes, such as the Neighbourhood Renewal Fund, that aimed to tackle issues in a particular area in a holistic manner, to smaller schemes with very specific aims - such as the Capital Modernisation Fund (Small Retailers), or the Youth Music Action Zones. Many cities have been scrubbed up, and they do look aesthetically better than they did before. But grand buildings and attractive plazas are the symptoms of success, not the causes.

### **Whoever wins the next election, regional disparities are likely to remain**

The reality is that the Government failed to understand the root causes of regional divergence. The causes of economic success are location and human capital. Here Britain has a problem that France does not have. We are at the edge of Europe (geographically, as well as emotionally, politically and so on). Most of France is near somewhere economically important. The north east is near Belgium and the Netherlands, and particularly Europe's major port in Rotterdam. The eastern areas are also near Germany and, further south, near Switzerland and Italy. The South, which is a desirable tourist area in itself, is near Italy and Spain. The western area is less well connected, but is historically less populous.

Britain is different. In economic geography terms, the South East clearly trumps the rest of the country. If you are a national business, then being in the South East makes you closer to the bulk of your consumers – the south east has the largest number of people, and particularly the largest number of people with high incomes. If you are an international business then the south east is nearer to Europe, and, since our principal airports are in the south east, nearer to the US, the far east, and so on. We do have regional airports, but the number of flights designed for business passengers are relatively small. It is possible, for example, to fly non-stop from Birmingham, Manchester and Glasgow to New York, but there are respectively only 1, 4 and 1 flights per day. The Birmingham flight is a narrow bodied 757 with just 16 business class seats. In contrast there are 30 non-stop flights each day from London to New York offering business people a huge choice of airlines and departure times. Why would an American firm, or an Asian firm, decide to locate anywhere except

within Heathrow's orbit?

One answer might be that other areas offer particularly high levels of skills. Sometimes this is true. For reasons that are historically obscure, St Asaph, in North Wales is the centre of Britain's thriving military optics industry. Those wanting to set up in this industry will move to St Asaph, because the relevant skilled labour is relatively plentiful in the area. Those wanting to work in the industry will move to the area because there are lots of good jobs, offering good pay and interesting work. And it is a beautiful area!

But St Asaph is the exception and not the rule. In general skills are more abundant in London than in the regions. 38% of London's working age population have a degree, compared with less than 25% in Liverpool, Sheffield, Newcastle/Sunderland and Birmingham. School results are lower as you move to poorer areas, graduate retention rates are lower, and in particular, the ability of these areas to recruit graduates who neither grew up in the area, nor went to university in the area is very weak.

Without a geographical or human capital advantage these areas will continue to struggle in the future. Some will remain lucky – an existing “St Asaph” style cluster will continue. Some will become lucky – a local entrepreneur who liked the area will start something that works. Morrison's, Britain's fourth biggest supermarket, is headquartered in Bradford, Yorkshire, because that is where William Morrison, its founder, came from. But for most, the only way to compete is likely to be by undercutting the South East. Rents and wages must be lower to attract firms away from an area characterised by good connectivity, and high skill levels. And competing by offering lower wages implies that regional inequalities are likely to remain pronounced in Britain, whoever wins the next election.

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