How our politicians helped to kill UK manufacturing

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We are heading into a world economic depression – one that might be even worse than the 1930s. Because the UK is heavily dependent upon the global services economy, it will be slow to emerge from said depression. Large parts of the UK economy is the froth on the top of the global economy and that will to be slow to reappear – if it reappears at all. Countries with a larger manufacturing base can – as it were – restart the factories. We have comparatively few of those left, thanks, in large part, to the ignorance of our politicians. Many of the citizens of this country – the usual victims: the poor, the old, the sick – are going to be in deep doody.[1]

There is a book by *Telegraph* journalist Nicholas Comfort, *The Slow Death of British Industry* (London: Biteback, 2013).[2] Comfort has been in and around the British political scene – as a journalist and a civil servant – for forty years.[3] His book is a very nostalgic but depressing account of British companies – many well known names to someone my age – which have disappeared. But the book's subtitle is *A Sixty-Year Suicide 1952-2012*. Suicide? That is wrong: none of the businesses he talks about *wanted* to die.

And he skips lightly over the the role of the politicians. Of the great inflation created by Edward Heath's 'dash for growth' in 1972/3 there is one passing reference to the 'Barber boom' – Anthony Barber was Heath's Chancellor the Exchequer.

Of the Thatcher/Major period, 1979-97 he notes:

> ' . . . Britain's manufacturers should have thrived during the 18 years of Conservative rule . . . yet the reverse was the case with the manufacturing industry suffering painful reductions in markets, capacity

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1 Dan Atkinson's thoughts on what is coming are in his 'The dawning of a new era?' at <https://thelionandunicorn.wordpress.com/2020/04/13/the-dawning-of-a-new-era/>.

2 It received one or two decent reviews but was largely ignored, as far as I can see. One was by Robert Skidelsky at <https://tinyurl.com/y7faxrt8> or <https://www.newstatesman.com/culture/culture/2013/01/meeting-our-makers-britain's-long-industrial-decline>.

3 He is profiled at <https://www.bitebackpublishing.com/authors/nicholas-comfort>.

and employment . . . .' (p. 109)

His explanatory comments are these:

> 'Her [Thatcher] government's economic and *exchange rate policies* may have brought down inflation, but they took no prisoners as export orders dried up and imports flooded in.' (p. 110)
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> 'A combination of pent-up wage demands, *high interest rates which forced up sterling*, increasing import penetration and an attitude from government which convinced sir Keith's [Joseph] critics that he had the "de-industrialisation" of Britain on his agenda, made the early years of Mrs Thatcher's government tough for manufacturers large and small, before inflation fell back and the economy began to revive.' (p. 113)
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> '. . . a period of low domestic demand, high borrowing costs and an *exchange rate that priced British goods out of export markets*.' (p. 247) (emphases added)

Exchange rate policies and high interest rates . . . is there a theme here?

Prime Minister Thatcher, Financial Secretary to the Treasury Nigel Lawson and Chancellor Geoffrey Howe were in charge of the economy during the first years of Thatcherism. Mostly it was Lawson, who was carrying the City of London's agenda. Thanks to Edward Heath's credit boom in 1972/3 and the rise in the price of crude oil in 1973, inflation was running at close to 12% when the Tories took office. Looking for a quick fix to reduce that figure, they plumped for monetarism: the claim that, to control inflation, you control the money supply.[4] Controlling the money supply can be done by restricting the amount of credit the banks can create. (This was the prescription given to the preceding Labour government by the IMF.) But Lawson, Thatcher and Howe were all linked to the City of London[5] and did not believe in controlling banks. So they plumped for 'controlling' the money supply by making credit expensive and duly put up interest rates; and when the money supply didn't respond as their theories said it would, they kept on putting the rates up. As an 'A' level student of economics would know, this made sterling attractive to currency speculators and the value of the pound went up and up, making British exports

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[4] An an undergraduate in the early 1970s I did a subsidiary course in economics. Among the things we looked at was the monetarists' theories of inflation. It was obvious baloney. In so far as it could be said to work at all, monetarism worked by creating unemployment; creating unemployed people reduces their spending, so reduces demand in the economy; as demand falls, prices fall. Monetarist theories could be said to be political camouflage for causing a recession.

[5] Thatcher and Howe had been lawyers there. Lawson had been a financial journalist and his father worked in the City.

less and less competitive abroad. It was banal and entirely predictable.

We have an insider's view of this. John Hoskyns was an army officer who became a businessman. Used to a command structure and intolerant of fools, he looked at Britain in the mid 1970s and saw chaos, stupidity and systems failure; and wanted to do something about it. He sold the business he had created and set about 'saving Britain'. In his memoir [6] he offered this list from 1977 of the problems facing Britain:

> ' . . . trade union obstruction, inflationary expectations, the tendency of the best talent to keep away from manufacturing industry, fiscal distortions, high interest rates, an over-valued pound, stop-go economic management, the low status of engineers, poor industrial design, the anti-enterprise culture, illiterate teenagers.' (p. 11)

There is a conflict between the interests of the City and those of industry, which I have discussed before.[7] Much of this Hoskyns list is a spot-on critique of the British economy from the industry side of the City-versus-industry divide, though Hoskyns never expresses it that way.

Two years later he was the head of Mrs Thatcher's Policy Unit, where he discovered that most of the Conservative politicians for whom he was devising policy were interested in only one item on his list – 'trade union obstruction' – and some were economically illiterate.

Just after the election in May 1979 which produced the first Thatcher government, Hoskyns wrote:

> 'I had been convinced since before the election that the pound was too high. Margaret seemed to be convinced that *the "higher the pound, the better for the economy"*; and that complaints from industry were invariably "just whingeing". This was to be a continuing and growing disagreement.' (p. 107 emphasis added)

On 18 February 1980 Hoskyns met Anthony Barber, who had been Chancellor of the Exchequer in the Heath government of 1970-74, and at that time was Chairman of the Standard Chartered Bank. Hoskyn noted in his diary:

> 'Barber v. nice indeed but *seemed to think that it was the strong Deutschmark that had helped Germany to prosper, rather than the other way round.* The more I see of people generally and especially those who run or have run the country, the more amazed I feel. He [Barber] *seemed*

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6 John Hoskyns, *Just In Time: Inside the Thatcher Revolution* (London: Aurum Press, 2000)

7 The City v industry divide is discussed in 'Well, how did we get here?' in *Lobster* 60 at <https://www.lobster-magazine.co.uk/free/lobster60/lobster60.pdf>.

to think that the high pound was going to do the same for us.' (p. 159 emphases added)

This is astonishing. If Thatcher and Barber didn't understand something as simple as this, what could they understand of the economic advice they received? Nothing, in effect. And the end result, says Hoskyns, was the Thatcher government's economic policies of 1980-82: very high interest rates, which drove up the international value of the pound – thus destroying a section (the general estimate is 15–20%) of British manufacturing.[8] At the centre of all this, Hoskyns wrote in early 1980:

> 'Only ministers and civil servants devoid of business experience could think that the private sector could adjust to such ham-handed policy without suffering great damage.' (p. 162)[9]

NuLab

On the Brown/Blair years Comfort merely comments:

> 'Yet, once again, the resulting high exchange rate inflicted pain on industry, and having given up control over the setting of interest rates to the Bank of England on taking office, there was little Brown could do about this.' (p. 249)

By the time Labour won the 1997 election, Gordon Brown and Tony Blair had learned the central mantras of neo-liberalism: public bad, private good; national bad, global good. They had promised to toe the Conservative Party line on economic policy: no income tax rises, no increased public spending, no attempts to use government to direct the economy; and no reacquisition of the privatised state assets, the roughly £100 billion of taxation-created assets sold for around £50 billion during the Thatcher years. All talk of justice, fairness and redistribution had been stripped from their vocabulary.

Taking office, there was one major tool left in the hands of new Chancellor Gordon Brown, but it was the critical one: the control of interest rates for the economy. This was duly surrendered to the Bank of England on Brown's first day in office: henceforth interest rates were to be set by a committee chaired by the Governor of the Bank of England and with a majority of its members

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8 Thatcher eventually began looking for a way out. This is described in 'Thatcher versus the City of London' in *Lobster* 60 at <https://www.lobster-magazine.co.uk/free/lobster60/lobster60.pdf>.

9 Nigel Lawson, one of the architects of the economic 'reforms' of the first Thatcher administration, has only four index references to manufacturing in the 1000+ pages of his memoir.

employees of the Bank, tasked to keep inflation at two and a half per cent using only interest rates.[10]

So – absurdly and incredibly – like Mrs Thatcher in 1979, Labour set out in 1997 with neither an interest rate policy nor an exchange rate policy. The Bank of England's Monetary Policy Committee duly agreed that interest rates as low as those in the Euro zone or the United States would not maintain inflation at the target figure of 2.5% and so they put the rate up. Consequently the pound rose and a chorus of complaint issued from British manufacturing as the overvalued pound began putting them out of business – again. This did not deter Brown. He wanted 'stability' and 'an end to Tory boom and bust' – the latter a phrase he must have uttered a hundred times a month while in opposition. But Brown defined 'stability' simply as low inflation – currency instability didn't matter and didn't get onto the agenda.[11] In any case, manufacturing was very old Labour, redolent of trade unions and troublesome lefties, not the bright, shiny world of New Labour and the 'knowledge economy'.

> 'The architects of New Labour were convinced that the future lay in what they called the "knowledge economy". [Peter] Mandelson declared Silicon Valley his "inspiration"; Brown swore he would make Britain e-commerce capital of the world within three years.
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> Again, the theme was simple: most of what could be manufactured could be done so more cheaply elsewhere. The future lay in coming up with the ideas, the software, and most of all, the brands. Once the British had sold cars and ships to the rest of the world; now they could flog culture and tourism and Lara Croft.'[12]

This mistakes New Labour's rationalisation of their perceived situation for their reasons. In fact New Labour was following their predecessor, John Smith, in believing that the City of London was too powerful to oppose and would do

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[10] Nigel Lawson was trying to get this done in 1988 but Prime Minister Thatcher blocked it. Nigel Lawson, *The View From No. 11* (London: Corgi Books, 1993) pp. 869/70.

[11] The parallels with the Thatcher-Howe regime arise again. Like them, Brown seems to have believed that if domestic inflation is low everything else falls into place, automatically.

[12] Aditya Chakrabortty in the *Guardian* in 2011 at <https://tinyurl.com/yxt78d7p> or <https://www.theguardian.com/business/2011/nov/16/why-britain-doesnt-make-things-manufacturing>. He adds: 'The odd thing is that all this techno-utopianism came from men who would struggle to order a book off Amazon. Alistair Campbell tells a story about how Blair got his first-ever mobile phone after stepping down as prime minister in 2007. His first text to Campbell read: "This is amazing, you can send words on a phone."'

terrible things to a Labour government which didn't do what the City wanted.[13] This just displayed more economic ignorance. With a floating pound in a global financial market, the sabotage the City could have employed against a fixed currency was no longer available. The pound couldn't be driven down by the City alone selling sterling: global opinion and demand determined the rate for sterling. George Soros and others had demonstrated this in forcing the over-valued pound out of the ERM a few years before. And, if British financial institutions refused to buy government debt, others would if the returns were adequate.

'Iron Chancellor' Brown duly gave us a re-run of 1980-2. Through 1998 and into 1999 UK interest rates rose to almost double those in the Euro zone and British manufacturers began to go bust again.

Eventually, sympathetic *noises* were heard from Labour ministers. It was reported that 'Mr Brown . . . is concerned that sterling's 20% appreciation over the past 12 months will damage industry by making exports more expensive.'[14]

But nothing was done.

Helen Liddell, Economic Secretary to the Treasury, said, 'We share the concern about the impact the pound has on industry'.[15]

But nothing was done.

And President of the Board of Trade, Margaret Beckett, said, 'The Government values the manufacturing base of this country and shares its belief in the benefits of a stable and competitive exchange rate'.[16] But three months later she told the annual dinner of the Engineering Employers' Federation that the government 'has to take a view across the whole economy, not just a part, even as important a part as manufacturing'.[17]

And nothing was done.[18]

And so it was that manufacturing, which was roughly 20% of the economy

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13 In 1991 John Smith and Marjorie Mowlam toured the dining-rooms of the City of London promising not to do anything which would affect the City's operations. This was the so-called prawn cocktail offensive. See <https://enacademic.com/dic.nsf/enwiki/3062938>. Smith was another politician who didn't understand simple economics.

14 The *Guardian* 7 July 1997

15 The *Guardian* 11 July 1997

16 The *Guardian* 5 December 1997

17 The *Guardian* 18 February 1998. She repeated this central 'line' in an exchange of letters with Austin Mitchell MP. See Larry Elliot, the *Guardian* 9 March 1998.

18 John Booth reminded me that both Liddell and Beckett represented constituencies which had significant manufacturing in them, which makes their actions all the more peculiar.

in 1997, when New Labour took office, fell to around 12% by the end of New Labour's period in office.[19]

After the crash

With the financial crash of 2007-9 there was a striking change of tone and the importance of manufacturing for Britain was back on the agenda again. Here's the *Telegraph* economics editor Edmund Conway in 2009:

> 'One dangerous misconception perpetuated by financial lobbyists is that without the City, we are nothing. Financial engineering [sic], they argued, was something Britain was well placed to do, while mechanical engineering could be carried out far more cheaply by the Chinese, or with far greater quality by the Germans. While it is a compelling narrative, and fits nicely with the British propensity for defeatism, it is balderdash.' [20]

And there is David Green, again in the *Daily Telegraph*. Green noted in his opening paragraph that 'Despite the hype, the City (financial services and insurance) contributed only £47 billion, less than a quarter of the export earnings of manufacturing.' And he concluded that 'we need to be in the vanguard of re-industrialisation.'[21]

Chuka Umunna, then Labour's Shadow Secretary of State for Business, also had a piece in the *Telegraph* (23 February 2012): 'If we want the UK to grow, we should take lessons from Germany'. The German lessons for Umunna were: more medium-sized firms, better education, a state bank and an 'active government approach for business and industry', though what this would look like was not spelled out.[22]

Labour leader at the time, Ed Miliband, added his voice:

> 'The next Labour government will put British design, British invention, British manufacturing at the heart of our economic policy. When I talk

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19 Chris Giles, 'Manufacturing fades under Labour', *Financial Times* 2 December 2009 <www.ft.com/cms/s/0/f32a3392-df7a-11de-98ca-00144feab49a.html?nclick_check=1>.

20 Edmund Conway, 'Shock news – Britain still makes things. Our much-mocked manufacturing sector is stronger than we think', *Daily Telegraph* 26 November 2009.

21 'Three powerful reasons why British manufacturing matters'. The subheading – 'Margaret Thatcher spoke enthusiastically about regional aid' – 24 November 2011 <https://tinyurl.com/y7rnvz7c> or <https://www.telegraph.co.uk/finance/economics/8912273/Three-powerful-reasons-why-British-manufacturing-matters.html> David Green is director of Civitas, a conservative think tank.

22 <https://tinyurl.com/y9y9tnz4> or <https://www.telegraph.co.uk/finance/comment/9101672/If-we-want-the-UK-to-grow-we-should-take-lessons-from-Germany.html>

> about how we need to encourage productive forms of business behaviour to help those, it is you who I am thinking about. We need to back those who invest, invent, sell, make – the producers of this country.[23]

Even incoming Prime Minister David Cameron joined the chorus. Addressing the Confederation of British Industry (CBI) in November 2011, though not quite so explicit, he talked the same talk. He sought:

> ' . . . a *fundamental rebalancing of the economy*: more investment, more exports, a broader base to an economic future [. . . .] I'm not interested in ideological arguments about intervention versus laissez faire. I want an industrial strategy that works. We need government to get behind those high growth, high value sectors which will be the backbone of the new economy. Everyone agrees now that in the past Britain's economy had become lopsided – too dependent on debt, consumption and financial services.'[24] (emphasis added)

But nothing was done.

On 21 October 2014 financial journalist and author Dan Atkinson sent out an e-mail:

> 'Main story headline in yesterday's edition of *City AM*:
> "The City is back: Number of people working in London's financial sector soars past its pre-crash peak"
> So how's that "re-balanced economy" working out for you all?'

Indeed: it was the same old same old. The City was booming, London and the southeast were booming and migrants flocked to London to service the people with the money. The global gamblers were still gambling, debt and derivative volumes were still rising and manufacturing was still declining.

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[23] In a speech on 6 March 2012 to the Engineering Employers Federation. The full text is at <https://tinyurl.com/yas6gh4c> or <www.newstatesman.com/uk-politics/2012/03/british-business-government>.

[24] The text is at <https://tinyurl.com/ycqxb9fn> or <https://www.politics.co.uk/comment-analysis/2011/11/21/david-cameron-cbi-speech-in-full>.