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Spatial Economics Research Centre

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De-industrial revolution

BIS have launched their '[Make it in Great Britain](#)' campaign highlighting the best in British Manufacturing (presumably with a view to getting more of it). Aditya Chakraborty also had an interesting piece on the Guardian yesterday on [the de-industrial revolution](#) asking why Britain doesn't make anything anymore. Both of these things had me reflecting on what, if anything, policy can do about this.

Let's start with what caused the decline in British manufacturing. The economists explanation of this is pretty simple - Britain's comparative advantage lies in services rather than manufacturing so as the world globalised, we shifted towards services away from manufacturing. Of course, comparative advantages are generally created, rather than god-given, so it's reasonable to ask whether there are things policy could do to change this. For example two popular prescriptions are that we could introduce more apprenticeships or different ways of funding businesses. In short, we could be more like the Germans. Unfortunately, these kinds of explanations muddle cause and effect. Who says that these parts of the system haven't developed in response to the fact that manufacturing in Germany got big because of some *other* comparative advantage - e.g. the fact that Germany is more centrally located in the EU than the UK (which makes it a better place to manufacture heavy machine parts that need shipping around). In short, we have no idea if replicating bits of the German system would make any difference.

Similar problems apply for calls to spend 'more on innovation'. We already have an R&D tax credit and various other BIS run schemes that try to do exactly that. Perhaps we should 'invest more in manufacturing'? Trouble is, the Regional Selective Assistance scheme has been making big investment directly in manufacturing firms since the 1970s. In short, even if the government had the money, spending more of it wouldn't necessarily shift our comparative advantage that much. At the end of the day, the UK is relatively good at services for many reasons.

Of course, there is always the argument that the structure of our economy is 'distorted' because of what happens in the financial sector. I have some sympathy with these arguments and have considered them in more [detail in a previous post](#). But even if we removed some of these distortions - e.g. by changing the pay structure in financial services - why think that the rebalancing is towards manufacturing over other service activities that the UK is good at?

The issues are further complicated by the fact that the debate often assumes that these changes would benefit lower skilled workers or declining places. Both of these assumptions are highly questionable. Even if we did manage to improve our manufacturing share, lower skilled workers would still be hit the double whammy of competition from China *and* technological change. For a long while, research suggests that the latter had actually been far more important than the former in explaining the widening pay gap. More recent evidence suggests that intense competition from China may now also play a role, especially for the lowest paid. Unless people are seriously willing to consider much more trade protection (or some sort of ban on technologies) then 'more manufacturing' is likely to be able to do relatively little for the lower skilled. If restrictions on trade are out, we either need to increase skill levels, or get the lower skilled to provide non-traded goods. But when economists say 'non-traded' goods they often mean services (cleaners, builders etc) so that doesn't necessarily equate to more manufacturing either. Of course, in non-traded goods lower skilled workers often face intense competition from immigrants, but suggestions of restrictions there run in to both political and practical difficulties (lots of this competition is from EU workers). Again, evidence on the magnitudes of these effects on wages and employment are mixed, although moving towards finding larger effects in periods when immigration has been larger.

Similar arguments apply to whether a move towards manufacturing would help declining places. Who knows where these new manufacturing jobs would be created. In addition, here, I share Aditya Chakraborty's intense scepticism about calls to change the skill composition of places (get more high tech jobs) as a means of indirectly helping the lower skilled.

It should be clear that I do not think this is an area where there are any easy answers. My gut feeling is that there is no reason to think that the UK is going to generate lots of additional manufacturing jobs anytime soon. In fact, I worry that this continued focus on the *structural* composition of the UK economy is a considerable distraction from the tasks at hand. In the short term this is all about finding sources of demand. The longer run issue may be even trickier. How do we improve the labour market outcomes for lower skilled workers? 'More manufacturing' is simply not an answer to this question.

Posted by [Prof Henry G. Overman](#) on [Thursday, November 17, 2011](#).

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