Blackburn and District Trades Union Council

Response to the Labour Party Consultation on Industrial Strategy

This is the response of Blackburn and District Trades Union Council to the consultation by the Labour Party on the question of "Industrial Strategy".

We are delighted that the Labour Party has chosen to invite front-line Trade Union organisations to participate in this initiative and we hope that what we have to say will be of interest.

Given that we are an entirely voluntary organisation, and that the questionnaire is rather long, we have elected to present our views in this form.

Ours is a part of the country that has had reason to be grateful in the past for active political intervention on the economic front.

In 1935 the Blackburn Town Council formed an "Industrial Development Sub-Committee" to help bring new industry to the town, in response to the falling off of the cotton trade.

According to the local history website www.cottontown.org:

"With the cotton industry in decline from the 1930s something had to fill the employment vacuum left by the closure of over half the town's cotton mills. The town would have to find new industries and employment for its citizens. This was to prove difficult as there was no money available to attract new industry to the area. Lancashire was not included as a development area under the Special Areas Act of 1934, this would have meant that Blackburn would have been eligible for some financial assistance. In 1937 Blackburn was added to an amendment of the Act which meant that loans were to become available for new businesses who wished to start business in the town.

"There were other incentives such as the Council being able to offer low rents or reduced purchase prices to those who wanted a site to set up a business. Slowly Blackburn began to employ its people in new ways.

"Industries that arrived included the Royal Ordnance Factory on a site at Lower Darwen which was to make munitions and would eventually supply jobs for around 2,000 people. The first industrial estate was opened in Whitebirk in Blackburn in the late 1930s. The Mullard firm was established there, a company which made radio valves and would later become one of the town's largest employers. The company later diversified, making components for aircraft and eventually being involved in the manufacture of components for television sets.........British Northrop Loom Co. Limited was a firm founded in 1902, they manufactured looms at Greenbank Ironworks. They were also set to become a major employer supplying textile machinery to the countries which, ironically had dealt Blackburn's cotton trade the death blow.

"Eventually as years passed Blackburn made a switch from textiles to being a town whose main industries were light engineering"

A lesson about “Industrial Strategy”, in particular about how it needs to be a constant and maintained exercise, may perhaps be learnt from the fact that the major employers mentioned above - ROF, Mullards and Northrop - which came to employ thousands of workers by the 1960s, have now themselves all gone.

In its broadest terms we would define an “Industrial Strategy” as being a high-level description of what sorts of action the British government could and should take, within the context of a market economy:

⇒ To develop and sustain product making businesses whose profits can contribute towards national prosperity and income;
⇒ To develop products that will contribute towards human wellbeing and quality of life;
⇒ To ensure national self-sufficiency in key areas of production; and
⇒ To create opportunities for stable and sustainable employment distributed equitably across the country.

The common wisdom is that for “developed” nations the key lies in their economies being seed-beds for scientific and technological developments which they can then make into commodities.

Writing in “FT Weekend” on 28/29 January, Philip Delves Broughton gives an anecdote that indicates how reality is more complicated: *“At a dinner in Silicon Valley in 2011 President Barak Obama is reported to have asked Steve Jobs what it would take for Apple to employ Americans in America to make iPhones. With characteristic candour, Mr Jobs replied ‘Those jobs aren’t coming back’.”*

In a world where many companies operate across national boundaries the location of an innovation is not guaranteed to be the location of any subsequent commodity production. Beyond that, we may also observe that there is nothing to guarantee that there will be any national organic link between innovation and product development. And even where there is, it could still be that innovative and high value sectors will remain too small to make much difference to economy wide employment.

This does not mean we should give up on the idea of an “Industrial Strategy”, but it needs to be kept in mind that achieving the core goal of full employment may require other measures - such as direct employment by the state on public works.

We also see support for new “non-industrial” types of employment as being something slightly different. In our area, for instance, it can be argued that there is a need to encourage more “office type” jobs. With a large brewery site in the centre of town due to become redundant there would be a significant opportunity to develop a substantial office-block complex on this location. Some of the issues we highlight below may feed into such a project - but, essentially, we would see it as a different sort of investment.

With these caveats, we identify eight areas for activity, or policy, as follows as being of particular importance in our hopes for what a dynamic “Industrial Strategy” would look like.

1) Infrastructure

Infrastructure is basically about providing an environment to support productive activity. It can be so widely defined that it takes in many areas of social activity, from education to housing. When looked at in the context of an “Industrial Strategy” it is best to concentrate on the more material elements, particularly the utilities and transport and communication networks.

Of primary interest to us here is the extent to which nationalisation is key to maintaining effective planning and intervention in these areas as well as maximising the benefits of investment in them.

It seems to us that public ownership allows for several specific benefits:

- ⇒ Direct support to enterprises in billing and charges;
- ⇒ The ability to factor developmental, social and environmental elements into investment decisions; and
- ⇒ National terms and conditions of employment.

Taking into account the way in which capacity has been developed it would be difficult to implement nationalisation of road construction and road haulage. Renationalisation of water, gas and electricity distribution, alongside some areas of production, should, however, be achievable. We would also support renationalisation of Royal Mail, the Railways and Telecommunications.

2) Priority technologies

The desire to identify priority areas for innovation can lead to success stories, like China’s push into production of solar panels. It can also, however, lead to technological marvels, like Concord, built at a cost.

The current Government approach is to try and avoid the pitfalls by concentrating on technological areas – the “Eight Great Technologies” – rather than on specific products. There is some merit in this approach, but it may be better put to have the “across field” approach at the level of scientific research married to a “case by case” approach to product research and development. The potential complexities are illustrated by the history of graphene. It falls, as an “advanced material, into the “Eight Great Technologies” scope and even won the particular backing and interest of George Osbourne. It was invented in Manchester. Yet the jury remains out as to whether or not British manufacturing will prove able to exploit it. Of the 11,372 patents and patent applications worldwide relating to graphene, the UK has filed just 101 – equivalent to less than 1 per cent. It may be that it is better to have a few patents of strategic value and that there is not necessarily strength in numbers. But according to the “Financial Times” *“While graphene* *development in Asia is being led by technological heavyweights such as Samsung, Britain is relying on a number of minnows that are still struggling to achieve credibility with investors. Haydale Graphene Industries, Applied Graphene Materials and Graphene Nanochem have all suffered huge stock market volatility after their recent flotations, with Haydale's share price falling 40 per cent since its initial public offering last month".* So whilst the Government is putting some money into science projects, like the "National Graphene Institute", there may be a gap in terms of support for commercial development.

3) Investment in science, technology and innovation

Everybody agrees that Britain lags behind other OECD countries when it comes to the proportion of GDP going into research and development. There also appears to be a consensus that more could and should be done. The problem lies in deciding how much and then in getting funds to the right places along the R+D continuum. Given that Government activity in some areas – military spending under the NATO Treaty, for instance, or International Aid – is set as target percentages of GDP, is this an area where a similar measure may be applied?

4) Product Development

The current "Catapult Centres" appear to be very much examples of the type of institution the Trades Council was arguing for in the 1990s, when it lobbied for the redundant Brockhall Hospital site to be developed as a "technopole" campus.

Product development, however, is not just a question of applying vanguard technology. On a more general level it needs to call upon a range of skills and capabilities – things like market research, logistics, costing and production management. We feel that there is scope for local product development centres at a "lower" level than the "Catapult Centres" – places where local businesses of varying levels of maturity can go for help and support that they would not have in house.

5) Skills

The need for investment in commercially applicable skills is another area in which there is little disagreement in principle. The disputed areas are those of scale and appropriate design.

We feel that the UK Commission for Employment and Skills Report "International approaches to the development of intermediate level skills and apprenticeships" points the way to a number of issues in this area that merit further consideration. In particular:

⇒ Whether participation is adversely affected by devaluation of how apprenticeships are perceived, when they can be seen as being more about low pay to the "apprentice" than about gaining of skills;

⇒ Whether there should be a greater element of social partnership in the specification of-training standards with representatives of employers, employees, and the State involved in decision making at various levels. The UKCES Report says: “The OECD has questioned the extent to which employers are truly represented or engaged in theUK system (Field et al., 2009), and it is clear that the voice of the employee is not formally represented in the labour market institutions which regulate the provision of intermediate level skills training”.

⇒ Whether there is sufficient account taken of the importance of ensuring that there is a significant amount of general education provided in any apprenticeship or other type of intermediate level skills training. The aim should be to give trainees those transferable skills which will allow them to progress in the labour market over time. (There is an enormous difficulty in knowing exactly what specific skills will be most in demand even 10 years in advance).

⇒ Whether there are sufficient pathways and support to allow and encourage individuals to move to higher skill levels.

⇒ Whether there are sufficient pathways and support to allow for adult training. Skills supply cannot be simply regarded as the task of initial vocational education and training. It is particularly noticeable that the current benefits system places obstacles in the way of unemployed workers who might wish to gain effective vocational qualifications.

The UKCES Report also comments that: “The role of public authorities is also important with respect to those situations where companies have adopted relatively low skill, low value-added production strategies as appears to be the case in some UK sectors. It is therefore the role of public policy to foster the development of SMEs, innovation and international competitiveness in lagging industries. The provision of publicly funded intermediate level training could be allied to measures designed to improve the performance of companies”.

6) Investment

The “Socialist Economic Bulletin” has consistently argued that the fundamental problem with the British economy – resulting in low growth and low productivity – has been historically low levels of investment, interpreted as “Gross Domestic Fixed Capital Formation” as a percentage of GDP.

Gross Domestic Fixed Capital Formation actually covers quite a wide range of things – from spending on industrial equipment to spending on some types of land improvement and house building. It is not entirely clear, therefore, that spending on the non-industrial components would necessarily promote growth in manufacturing.

There is also a question mark over the extent to which British industry is “held back” by lack of cash. An article in “Enconomia” on 23/09/2016 reported on a survey by “Grant Thornton” which looked at the year-end working capital of 2,929 companies and found that they were “sitting on” £246bn – equivalent to 13.5% of GDP in 2015.

In some cases, therefore, it may be that it is factors other than access to money dissuading companies from investment.

On the other hand, the cash resources identified are not distributed evenly. Almost a third of the £246bn is accounted for by just 10 companies, and the survey found that medium sized businesses were more likely to have liquidity problems: they showed a 3% year-on-year decline in their cash to cash cycle, while their smaller and larger peers saw improvements of 2% and 14% respectively”.

In business cash reserves are also of no relevance to start-ups, and concerns have been raised about how the banking sector operates regarding small business finance.

There does on balance, therefore, seem to be cause to support the argument for a National Investment Bank, as proposed by the Labour Party, and also to maintain that it should not be limited to investment only in infrastructure projects.

The Labour Party sees the Bank as being financed by borrowing. Additional possibilities would be to use the assets of Royal Bank of Scotland, which remains in public ownership, or to raise funds through an NS+I investment bond (to be available to individuals only with a guaranteed minimum rate of return).

7) Subsidies

The economic viewpoint of successive British governments has been to see subsidies as fundamentally self-defeating. They are supposed to lead to inefficient use of resources and to support inefficient enterprises at the expense of efficient ones. The reality, however, is that most countries find some ways to allow for some degree of subsidy either to guarantee outcomes (eg. bus services) or to protect companies from short-term dangers.

The key issues are those of extent and purpose. China, for instance, has made extensive use of subsidies in a variety of forms to both stimulate and shape growth – low interest loans, reduced utility costs and land grants, for example. We see no problem with this sort of support.

Public procurement policies can also amount to a sort of subsidy, insofar as they allow social factors to influence contracts.

8) Corporate environment

It says something about the normal relationship between companies and institutional investors that the idea of “activist investors” is seen as radical and upsetting. Some say that “activist investors” push companies towards short-term dividend maximisation before they jump ship, leaving behind a wreck. Others that they turn companies round and point them towards new and profitable ways of working. Either way, the point is that it is not seen as normal for shareholders to be so involved in corporate strategy and that their role too often boils down to trading ownership as an asset stripped of responsibility.

So profoundly is this part of the British model that it is hard to see how it can be changed. One possibility would be for there to be a degree of inflexibility written into the disposal of holdings in a company of over a certain percentage, to encourage the view that investors really do have a stake in the long term development and sustainability of the entities they nominally own.

There also needs to be a review of Britain’s laws around the issues of insolvency and administration. Improvement here would involve a genuine review of prospects for repair and rescue, and there should be a clear distinction between firms acting as reporting accountants and those acting as receivers.

One final issue we want to raise is the observation that it can be helpful to have actors at a local level identifying local needs and opportunities and with sufficient lines of contact with national agencies to be able to call on significant financial support when appropriate. We think that such agencies should involve local authorities in association with others, such as businesses and Trade Unions.

When it comes to the question of engagement at a local level, our Trades Union Council has generally been interested in joining local bodies aimed at promoting regeneration and employment. Over time, however, these links have become weaker.

We withdrew from the Local Strategic Partnership when the extent to which it was expected to dilute ourselves into a wider “community and voluntary” sector got to the point of there not being any real prospect of a distinct Trade Union voice at Board level. At the same time, the bodies able to affect significant local resource distribution have become more remote. The Lancashire Enterprise Partnership, for instance, has several employers on its Board, but no Trade Union representative. We don’t know if “Pennine Lancashire” is still operational in any sense, but even when it was active it did not have any Trade Union representation even on its Employment and Skills Board. “Growth Lancashire Ltd” is a live project – but like the Lancashire Enterprise Partnership its Board is primarily comprised of employers, alongside some Local Authority and Further/Higher Education representatives.

Even without this institutional exclusion it is difficult for local Trade Union representatives to have an effective influence over strategic decisions because they don't bring any command over resources to the table. And it is difficult for them to be effective Board members because they typically have less control over how they can spend their time during working hours.

This does not mean, however, that local Trade Union bodies will not have ideas that they wish to see being at least seriously evaluated and considered for local implementation. As an example, in our case, we would like to have assessed the feasibility and value of:

⇒ Reviving the plan, that was part of the City Challenge, to renovate the Imperial Ring Mill at Greenbank, along with development of surrounding areas. This is still identified as a potential project in the Pennine Lancashire Heritage Investment strategy. We would like to investigate if it would be feasible to make this a "Product Development Centre" with the involvement of Blackburn College.

⇒ Developing the south side of the M65 opposite Walker Park as a 500+ employee manufacturing plant.

⇒ Extending the M65 eastwards to link with Bradford and Leeds.

These are all, in one sense, very local projects. But they are all of a scale that would probably require a much higher degree of national investment than has previously been available to us.

Over several generations of local regeneration partnerships the model has been for them to bid for monies of a certain expected magnitude by drawing up plans consistent with this – which has tended to rule out more ambitious schemes. There needs to be an additional mechanism whereby local bodies can put forward these more ambitious schemes and have some hope that they will be supported as contributing to the national "Industrial Strategy".

It should be recognised also that even within a "Region" some areas can find it more difficult to gain a voice than others. As Mathew Engel put it in a recent "FT Weekend" article on the Stoke bye-election: *"When George Osborne was chancellor, trumpeting his "northern powerhouse" scheme, it sounded quite impressive in London, less so in Stoke-on-Trent".* In our context, we can get annoyed if it looks like we are being ignored in favour of Manchester and Liverpool.

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