

THERE HAS BEEN much debate as to whether Thatcherism offers a solution to the long-term problems of British capitalism. Those problems are well-known: low productivity, declining profitability, loss of export markets and increasing import penetration. The Government's monetarist strategy has sought to squeeze out the 'lame duck' firms and target for survival those lean and competitive sunrise firms which will form the vanguard of the revival of the British economy. Figures now presented by the Treasury would suggest that the strategy is beginning to achieve a measure of success. Average productivity, we are told, is on the increase.

The problem is that this 'success' has been produced amidst widespread de-industrialisation and a massive 'shake-out' of manufacturing jobs. The process is a complex one. Job loss can be due to different kinds of production change, for example intensification of labour use, cuts in capacity or the introduction of new technology. Productivity gains in Britain, it seems, have been mostly due to shedding 'surplus' capacity and increasing labour output in the remaining plants. However, to sustain these improvements the smaller industrial base which has survived still requires higher levels of investment. Yet the Bank of England has recently calculated that once allowance is made for depreciation, net manufacturing investment has been negative in the past three years.

The West Midlands

A key focus of the Thatcherite strategy is a fundamental restructuring of the manufacturing base of the economy. As a region with a very high dependence on manufacturing, the experience of the West Midlands provides a useful test-case of this strategy.

Once a region of relative prosperity which attracted an inflow of workers on the basis of higher than average wages, it has been hit hard and fast since the late 1970s. The unemployment rate is now among the highest in the UK and wages rates are among the lowest. One in five working people are now jobless and over half of these have been unemployed for over a year. A thousand jobs a week have gone over the last four years. In a region where the work ethic once struck a particularly responsive chord, people are now facing worklessness on a hitherto unknown scale.

However the current economic crisis in the West Midlands masks a far more fundamental problem. This is the rapid overall contraction of the industrial base. There is an extraordinary degree of

The West Midlands was, until recession, the industrial heartland of Britain. But the current precipitous decline is as much a product of global restructuring as the recession itself.

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The Bleak Country

agreement about this between much of the labour movement and business interests in the region. A recent report by the Birmingham Chamber of Commerce had this to say on the subject:

'All the evidence shows that whilst the region's problems have undoubtedly been intensified by the national and indeed the world recession. THEY HAVE NOT BEEN CAUSED BY IT. The fond belief expressed by some politicians and others that the West Midlands economy will revive along with the UK's national fortunes is not borne out by the facts. A significant part of the region's manufacturing capacity has been destroyed and is beyond resuscitation. Those who say otherwise are deluding themselves.'

In December 1983 the West Midlands regional CBI published findings from its survey of 70 Midlands companies which revealed an 18% drop in manufacturing output over the past three years, compared to a 12% drop nationally. Its director concluded that, 'On current trends and without government action, the UK manufacturing base will continue to contract. The West Midlands, in particular, will finish up bottom of every league of economic performance.'²

In its report the CBI presents the companies as helpless victims of the world recession and bemoans the fact that the West Midlands has been disadvantaged by successive government policies which have denied it regional aid. In doing so, the CBI appeals for further government subsidy to the private sector while sidestepping the responsibility of its own member companies for the contraction of the industrial base of the region.

Preponderance of transnationals

Despite the popularly-held view that the West Midlands economy is based upon thousands of independent small to medium firms, in fact manufacturing employment in the region now displays a higher than average concentration in a small number of large companies. In the late 1970s just ten companies accounted for no less than 43% of all manufacturing jobs in Birmingham,

and in Coventry ten companies accounted for 70%. In such a tightly-knit regional economy, the fortunes of a large number of small companies are closely tied to the growth strategy of a small number of large companies to which they supply components and services. Today most sectors are dominated by a handful of large companies. Consequently, detailed investigation of the corporate strategies of these major companies in the region is essential for a more precise understanding of the dynamics of the local economy.

In our recent study,³ we focused attention on the activities of ten companies which have consistently figured among the largest employers in the West Midlands in recent years — BSR, Cadbury, Delta, Dunlop, GEC, GKN, Glynwed, IMI, Lucas and TI. In 1977 they employed some 135,000 workers in the region, equivalent to 27% of their combined workforce in Britain. While they are among the largest companies operating in the region, they also feature among the largest companies in Britain. Nine of them are among the top 200 UK companies, when ranked by world sales. All are household names in the West Midlands.

In recent years these 'traditional' West Midlands companies have increasingly internationalised their production through the acquisition of a growing number of overseas subsidiaries and associated companies. This process predated Thatcherism, although it was undoubtedly speeded up by the abolition of exchange controls in 1979 and the deflationary economic policies of the present government. By 1982 each company owned an average of 39 subsidiaries and associates in 17 foreign countries. At the same time as building up their overseas operations, these companies have announced massive redundancies in the West Midlands, estimated at a minimum of one-third of their combined workforce between 1977 and 1983. Consequently several of them can no longer be considered as major employers in the region.



Global restructuring

1 The underlying shift in the productive base of these companies, traditionally concentrated in the West Midlands, to new production sites overseas is reflected in company financial data. Between 1978 and 1982 the combined world sales of these ten companies rose by 5.3% pa to £13,868m. The combined value of their production in Britain (including exports) however, rose by only 1.7% pa, while the value of their overseas production rose by 12.1% pa. Every single one of the ten companies showed a marked decline in the British share of world output. As a result, the share of overseas production in the combined world output of these companies jumped from 30% to 41% in just five years.

Overseas sales by these companies grew by 9.3% pa compared to a growth of only 1.4% pa for their domestic sales in Britain (excluding exports). As a result the share of overseas sales in world sales rose from 46% to 55% in only five years. This increasing share of overseas sales would not, in itself, provide cause for concern if British exports had maintained a rising or even a constant share of overseas sales. But this was not the case. On the contrary, overseas subsidiaries contributed a growing share of overseas sales to the detriment of direct exports from Britain. Over the period production from overseas subsidiaries rose by 12.1% pa while British exports rose by only 3.1% pa. This evidence contradicts the claim by the West Midlands regional CBI that overseas expansion by West Midlands companies has had a beneficial effect on British exports. On the contrary, the evidence suggests that overseas expansion is in direct conflict with the growth in exports of British manufactured goods, a disproportionately large share of which originates in the West Midlands.

Shift in workforce

This underlying shift in the geographical location of production is reflected in the

changed pattern of employment. In 1978 these ten companies employed a combined total of 686,694 workers throughout the world, of whom 75% were employed in Britain. By 1982 the global workforce had fallen by 23% to 530,275. This fall was accounted for, exclusively, by cutbacks in Britain, where the total workforce fell by 31% to 353,508 in 1982 — a loss of 160,000 jobs in just five years. Meanwhile the overseas workforce of these companies rose by 2% to 176,767 in spite of the world recession. As a result of these changes, the British share of the global workforce of these companies fell to 67% by 1982.

•There is much evidence from opinion polls that the general public has attributed the rise in unemployment in Britain to the inevitable consequences of a world recession. However, in the case of the West Midlands this view clearly ignores the extent to which a deep-rooted global reallocation of production activities by these ten companies is having a devastating knock-on effect on the local economy. This process has been facilitated by, but is distinct from, the current recession.

Investment in the Third World

The US and Britain, followed by West Germany and Japan, are the countries whose TNCs own the largest stocks of direct overseas investment. The location of this international capital flow remains heavily concentrated in the EEC and the US. However, the flow of direct overseas investment to the Third World has expanded over the last decade. This flow has been predominantly destined for ten countries — Brazil, Mexico, Argentina, Peru, Malaysia, India, Hong Kong, Singapore, Taiwan and the Philippines.

The relocation of industry to Third World countries where cheap labour can be exploited has been facilitated by the development of new technology such as transport (containerisation, air cargo), telecommunications and information (data-processing systems). These make industrial

location, as well as the control of production, less and less dependent on geographic distance. Another factor is the development of a technology which makes it possible to decompose complex production processes into elementary units in order that unskilled workers can be easily trained to perform them. As a result of all these factors, TNCs are becoming increasingly 'footloose' — and are able to switch the location of production far more easily than hitherto.

An example of this trend from the Philippines is the Bataan Free Trade Zone (FTZ) where two of the ten companies surveyed — BSR and Dunlop — now operate. Free Trade Zones are industrial estates set aside for TNC manufacturing plants which typically assemble imported components for re-export. These zones offer the TNCs cheap non-union labour kept in check by harsh anti-strike legislation, tax holidays, lax environmental and safety controls, and unrestricted repatriation of profits.

Dunlop profit figures in recent years suggest an obvious reason for the shifting of production to such zones. In 1972 operations in Africa, Asia and Australasia accounted for 30% of its global profit. By 1982 they accounted for 95%. The attitude of Dunlop management to its workforce in the Philippines is evident from the following statement by DAA Osborne, President of International Sports, a Dunlop subsidiary which manufactures tennis balls in the Bataan FTZ:

'The thing you've got to be careful about when you talk, is saying you've come here purely to exploit the natives. Well, that isn't really true because we're only an employer among many.'⁴

In 1978 95% of the global workforce of BSR was located in Britain. Over the period from 1978 to 1982 the British workforce fell by 10,820, while the overseas workforce rose by 5,557. As a result, the overseas share of the global workforce rose from 5% in 1978 to 56% in 1982. Almost all of this increased overseas employment took place in South-East Asia, where BSR

¹ Birmingham Chamber of Commerce and Industry *Reversing structural decline in the West Midlands*, 1983.

² Dr Kevin Hawkins, Regional Director, WM CBI quoted in *Financial Times* 1/12/83.

³ F Gaffikin and A Nickson *Jobs Crisis and the Multinationals: the case of the West Midlands* Birmingham Trade Union Group for World Development, Russell Press 1984.

⁴ Interviewed on 'A Small World', Thames TV 17 January 1982.

⁵ Workers at its plant in the Bataan FTZ, it should be noted, went on strike in October 1983 for union recognition and received support from workers at other factories in the Zone.

has invested heavily in the assembly of electronic equipment. In 1984 BSR moved its world headquarters from the West Midlands to Hong Kong.

A new local authority response

The rapid rise in unemployment has squeezed local authorities in the West Midlands between the growing demand placed on their services and the growing pressure on rates, as the industrial base contracts and central government rate support grant is cut back. In response the Labour-controlled West Midlands County Council (WMCC) has begun to intervene in the promotion of economic development. In 1981 it set up an Economic Development Committee (EDC) to 'give positive help to local people and firms'. Its work is financed from the proceeds of a 2p rate which local authorities were empowered to spend under Section 137 (1) of the 1972 Local Government Act, in the interests of the local area. The EDC has carried out a number of initiatives, such as the promotion of worker co-operatives, training programmes, community-based inner-city schemes and a welfare benefits campaign.

The key vehicle of the WMCC's economic strategy is the West Midlands Enterprise Board (WMEB), set up in 1982 to 'provide development capital for medium and large local companies with long-term prospects' which signed a planning agreement that increased their accountability to the WMEB and to their workforce. The WMEB received an initial grant of £3.5m from the WMCC through Section 137. This was committed to 12 companies with around 100 employees each in a wide range of sectors.

In 1983 local authority and other pension funds were invited to invest in the WMEB. Union representatives on boards of trustees were often swayed by the advice of stockbrokers that the social objectives of the WMEB made it too risky. This was the case even when there was a union policy to invest pension funds in British industry, or even directly in enterprise boards. Despite these difficulties the WMEB succeeded in raising £2.5m of pension fund finance, all of which came from London. The WMCC pension fund did not commit finance to the WMEB.⁶

Problems and limitations

There are a range of problems which local authorities face in undertaking such initiatives. There is the hostility of the Conservative government, which has sought to restrict local democracy. The limited funds available are out of all proportion to

the scale of the problem of unemployment. In addition the new economic development units often remain relatively small organisations within the overall city/county hall management.

In their desperation to maintain and create jobs, the pressure on Labour-controlled local authorities to adopt strategies scarcely distinguishable from those of the business community is ever-present. These strategies typically involve financial incentives and the provision of physical infrastructure in order to attract private investment. In the East Midlands, the Labour-controlled Nottinghamshire County Council's own EDC is even emphasising to potential investors that wage rates in the county are 9% below the national average!

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In 1983 the WMCC submitted proposals for the creation of a Freeport at Birmingham airport. The rationale for such Freeports bears a striking similarity to that of FTZs in the Third World. Indeed the Adam Smith Institute, a right-wing think-tank referred to this connection in its own earlier submission to the Department of Trade:

'... although there are no Freeports in the United Kingdom, the development of Hong Kong under British rule has been a spectacular testament to the success of the freeport policy. Taiwan and Singapore have enjoyed similar success with Freeports, with South Korea and Malaysia numbered among those seeking to partake of the growth which the freeport concept achieved there. More recent examples from the Philippines and Sri Lanka seem set to achieve the same.'⁷

That element of the economic development strategy of local authorities which seeks to attract private investment by offering unconditional subsidies to capital has to be called in question in the current economic climate, compounded as it is by the underlying exodus of private capital from Britain. Such a strategy is becoming increasingly ineffective as the cost per job created by this process soars.

The time is surely ripe for a radical rethink of the traditional role of local authorities in the promotion of economic development. Serious consideration should now be given, at least at an experimental level, to the creation of new local authority-owned companies within the more dynamic industrial sectors, such as computer technology, where they have often pioneered new training initiatives.

Local authorities should also seriously consider pressing, within the context of the campaign for reform of local government finance, for the establishment of a system of unitary taxation similar to that which operates in a growing number of American states. Under this system, a local authority would be able to claim a share of the global profits of a parent company whose subsidiaries operate within its own jurisdiction. It would derive this share from a calculation of the proportion of the TNC's total business that is transacted locally.

Conclusion

The challenge facing a Labour-controlled local authority is how to exploit its financial leverage to maximise local job and income opportunities, while at the same time extending social accountability. This requires new ways of involving the general public in economic and social planning. The success of such an approach depends upon the capacity of the labour movement to redefine the traditional meaning of key economic concepts.

For example the central goal of Thatcherism is the achievement of a *competitive, profitable, British* industry. But what do these terms really mean? For one thing, the term *British* industry cannot be confined simply to companies producing in Britain. Similarly foreign competition can often incorporate overseas production controlled by British-based TNCs. And the logical consequence of the notion that British workers should become more *competitive* in order to 'price themselves back into jobs' is that they should be prepared to accept wages and conditions akin to those prevailing in the FTZs of the Third World. The promise that hard graft and good behaviour will improve *profitability* and thereby job security, ignores the fact that TNCs can decide to close a profitable plant if it no longer accords with the direction of their overall corporate identity. They can also keep open an unprofitable plant if only to prevent competitors from gaining any increase in market share.

Of course, there can be no total local nor even national solution to the power of transnational capital. Together with the development of a multilateral approach to planned trade amongst progressive governments in Europe and the Third World, there is an inescapable need for labour to develop its own international links. And therein lies another thorny problem. •

⁶ R Minns 'Pension Funds: Local Council debate' *Labour Research* March 1984.

⁷ Adam Smith Institute *Proposal for the establishment of Freeports in the UK* 1981.