

A-level ECONOMICS

Paper 3 Economic principles and issues

Insert

The march of the makers – does manufacturing matter?

- **Extract A:** Manufacturing in the UK
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Extract A: Manufacturing in the UK

The UK manufacturing sector is diverse, with activities ranging from aerospace, pharmaceuticals, chemicals and the automotive industry to food and drink. However, most manufacturing firms are small. Firms that are large, and often foreign-owned, generate most of the value-added in the manufacturing sector and dominate research and development. In recent years, the relative share of manufacturing in the UK economy has declined more rapidly than in other developed economies, from 30% of GDP in the early 1970s to below 10% in 2015. While manufacturing output has grown, the service sector has grown at a faster rate. This ‘deindustrialisation’ has also applied to UK manufacturing employment, with numbers reducing at a faster rate than in other advanced economies, from close to 9 million people in 1966 to around 2.6 million in 2015.

Source: News reports, April 2016

Extract B: Trends in UK manufacturing

Figure 1: Index of manufacturing output 2003 to 2015, 1997 = 100

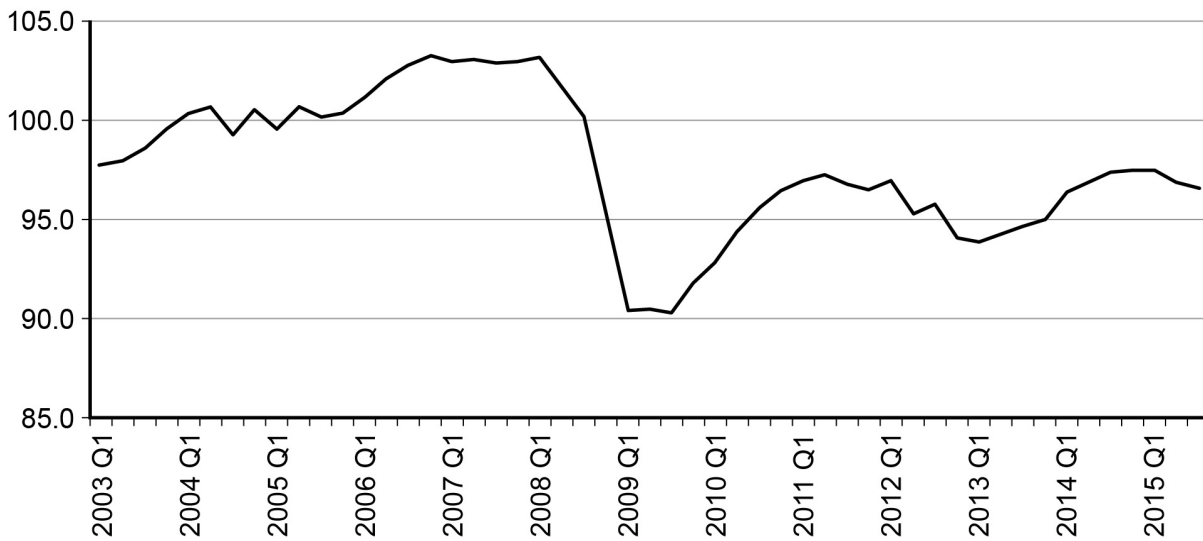


Figure 2: Manufacturing employment Jan–Mar 2003 to Oct–Dec 2015, thousands

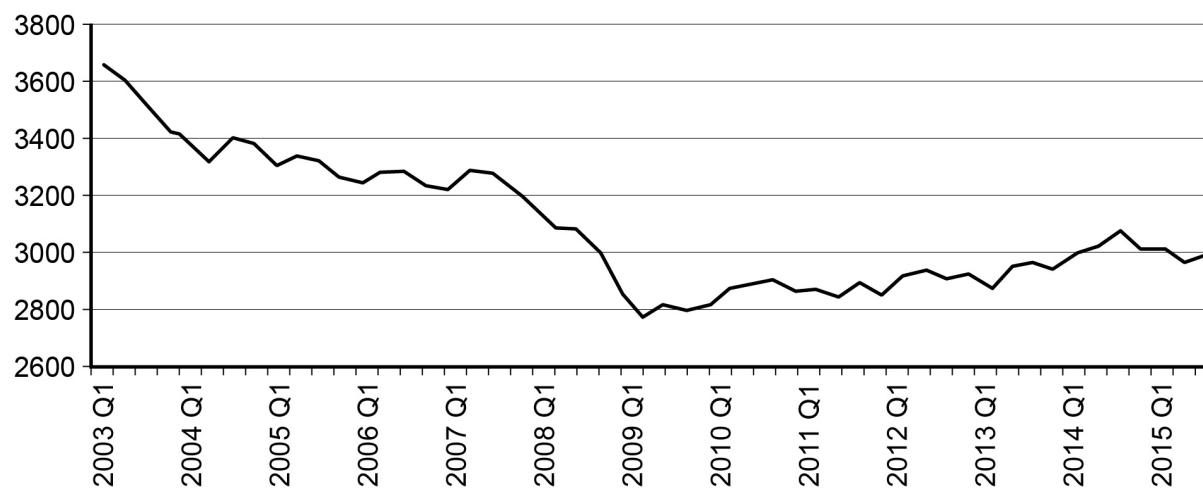


Figure 3: Value of UK trade in goods 2003 to 2015, £ billion at current prices

Year	Exports	Imports	Balance
2003	188.5	239.5	-51.0
2004	191.6	253.5	-61.9
2005	212.1	282.2	-70.1
2006	244.0	322.9	-78.9
2007	223.0	313.5	-90.5
2008	254.6	349.6	-95.0
2009	229.1	315.7	-86.6
2010	270.2	367.6	-97.4
2011	308.2	401.7	-93.5
2012	304.3	410.8	-106.5
2013	306.2	421.5	-115.3
2014	293.7	416.9	-123.2
2015	285.6	410.7	-125.1

Figure 4: Annual average rate of growth in UK manufacturing output and real GDP, 1949 to 2015

Years	Average rate of growth of UK manufacturing (%)	Average rate of growth of UK real GDP (%)
1949 – 1973	3.4	3.4
1974 – 1992	0.1	1.9
1993 – 2007	0.9	3.0
2008	-2.8	-0.5
2009	-9.4	-4.2
2010 – 2015	1.1	2.0

Source: Official statistics for all data in Extract B

Turn over for Extract C**Turn over ►**

Extract C: Whatever happened to the march of the makers?

Chancellor George Osborne, in his 2011 Budget speech, set out his aspiration for “a Britain carried aloft by the march of the makers”. Part of his vision for the future was an economy with a more prominent role for manufacturing; but was the Chancellor's hope ever realistic? 1

The UK is not alone in experiencing a declining share of manufacturing. At 11%, according to World Bank data in 2014, the output of UK manufacturing as a percentage of GDP was the same as France, ahead of Norway and Australia and just behind the US. However, many other countries have much larger manufacturing sectors; for example, manufacturing output is more than 20% of GDP in Germany and 30% in South Korea. China's share of manufacturing has fallen from 42% of GDP in 1981 to 36% now. Over the years, most of the rich nations have seen their manufacturing shares decline as the service sector has grown faster. 5 10

According to economists, there are some fundamental forces at work. Part of the decline in manufacturing output can be explained by the fact that the income elasticity of demand for services is generally higher than for many manufactured goods.

There has also been competition from other rich countries and from newly emerging economies. Because of competition from low-wage economies such as China, UK firms have had to abandon the production of low-cost, labour-intensive manufactured goods. Even in industries where manufacturing output has increased, changes in technology and improvements in productivity have led to a fall in employment. Generally, it is not as easy to improve productivity in the service sector. 15

This does not mean that there is no future for manufacturing in the UK. There has been a revival in British car making, but there have also been some setbacks, notably to steel producers, which could damage other areas of the economy. 20

The leader of the Trades Union Congress, Frances O'Grady, as well as criticising the government's response to the crisis affecting the steel industry, described manufacturing as one of Mr Osborne's failures. “If the government had made the right choices with strong investment in skills, infrastructure and innovation, we could be in a much stronger position”, she said. 25

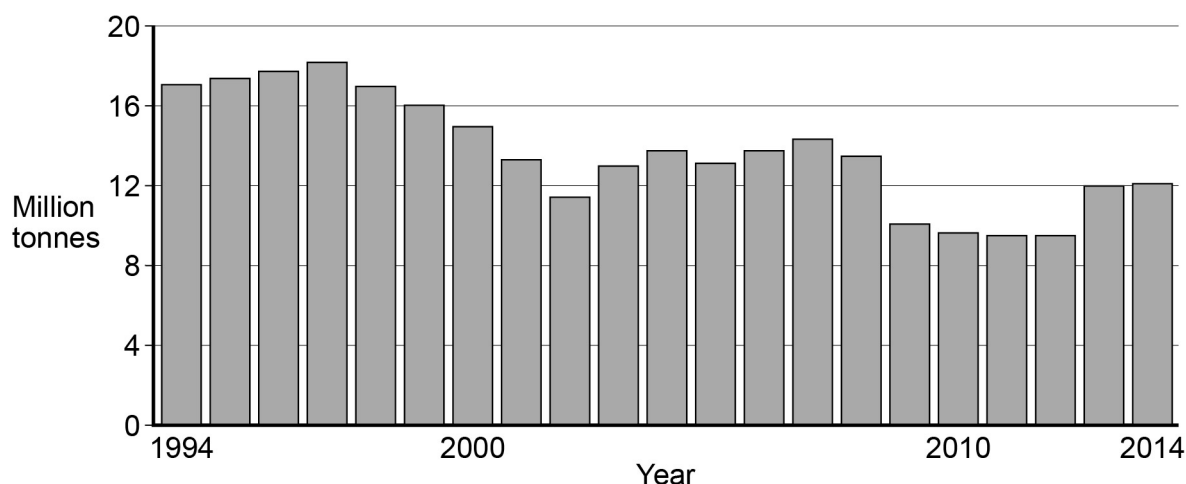
Source: BBC News Online, January 2016

Extract D: Another blow to UK manufacturing as job losses are announced in the steel industry

Tata Steel, part of an Indian-owned conglomerate that includes Jaguar Land Rover, has confirmed that it is to cut 1050 jobs in the UK, including 750 at Port Talbot, the UK's biggest steel works. The Port Talbot plant is said to be losing £1 million per day. These jobs cuts will take the number of steel jobs lost since the summer to more than 5000 out of a total of about 30 000.

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Figure 5: Steel production in the UK, 1994–2014



Weak growth in China has meant that the demand for steel has fallen, encouraging Chinese producers to look for markets abroad. Some have accused China of dumping steel on world markets. In 2015, the European Union imposed anti-dumping tariffs for 6 months on some steel imports from China, but many commentators say more needs to be done. The UK steel industry has also been hit by a strong pound, high electricity prices and increased costs due to the government's climate change policies.

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In the summer of 2015, the sterling exchange rate index reached a seven-year high but has fallen recently; this depreciation in the value of the pound may provide some relief to the struggling UK steel industry.

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Steel is vital for many essential products including buildings, vehicles and refrigerators. The problems in the steel industry will affect other related sectors and some of the less prosperous regions of the country. The industry believes that the government needs to do much more to protect steel making in the UK. They have argued for lower business rates, a relaxation of carbon emission targets, compensation to offset high UK energy prices and a commitment that UK steel is used in major construction projects.

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However, others believe that intervention by governments to support sectors of the economy where the UK no longer has a comparative advantage leads to higher taxes and imposes costs on other more efficient firms. Cheap steel benefits the UK economy and they believe that firms and not governments should decide which goods and services are produced in the UK.

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Source: News reports, April 2016

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