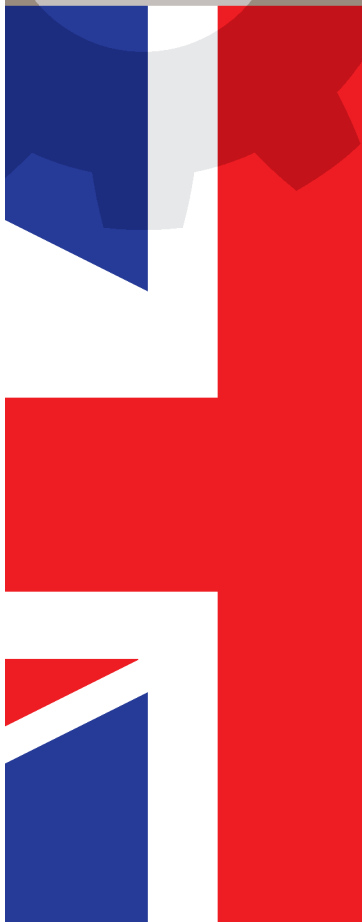
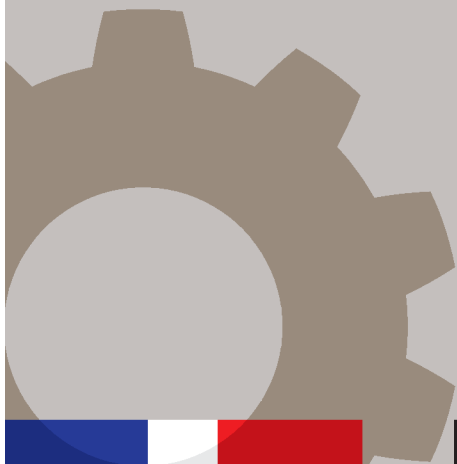


German Lessons

DEVELOPING INDUSTRIAL POLICY IN THE UK



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Introduction

The British economy is at a crossroads. With growth stagnating and the public finances facing an unprecedented period of retrenchment. The imperative of boosting British manufacturing and securing export growth is greater than it has been for decades.

Even without the economic downturn of recent years questions would still persist about Britain's ability to survive and thrive in an era of globalisation. Since the end of the 1970s, Britain has moved away from its manufacturing heritage and focused instead on the service industry – financial services in particular. Whatever the benefits of success in these sectors there is concern at the decline of manufacturing, particularly the impact this has had for specific communities and regions. Many decent, well-paid jobs for skilled manufacturing workers have been lost and the economy has faced growing regional and sectoral imbalances.

The TUC believes that a strong manufacturing sector belongs at the heart of the British economy, and has for many years championed the need to develop a comprehensive and modern industrial policy. So while we have welcomed the government's recognition of manufacturing's importance, we also know this will require a commitment to actively support its growth. This report sets out some ideas about how this might be done.

Our research was aimed at understanding the practical measures the UK could take to rebalance our economy in the years ahead. The search for

expertise led to Germany, a powerhouse of the European economy and a country that has never lost sight of the value of its manufacturing sector. Through meetings with senior managers, works council members and trade union officials in leading German companies, including Volkswagen, Siemens and BMW, we tried to see how the UK could learn from German manufacturing successes.

Our conclusions are wide ranging. We call for a new manufacturing eco-system for the UK: a range of policies needed to bring the country back to its rightful place as a major manufacturing nation. Skills, investment, procurement, helping small firms to expand, finance for strategic sectors and the role of government are all identified as priority areas for action. We also recognise the need for a new economic system that brings management and workers together, rather than pushing them apart, and sets out the role of modern trade unions and the value of collective bargaining and of minimum standards.

'If we can achieve success the prize is significant: a manufacturing renaissance in a rebalanced economy, boosting our industrial strength.'

This report challenges the government to recognise the importance of industrial activism. But we know it is not just ministers, but also companies and trade unions that need to consider the role they can play in achieving change. If we can achieve success the prize is significant: a manufacturing renaissance in a rebalanced economy, boosting our industrial strength and enhancing social justice.




Industrial policy in the UK and Germany today

The UK government does not favour an energetic industrial policy. Such a policy would cost money, which the government doesn't want to spend in the current economic climate. But the government also has ideological doubts about political intervention in industry.

Critics argue that the government doesn't have a meaningful growth strategy, but a number of initiatives have been introduced:

- A network of Technology and Innovation Centres (TICs) is expected to help commercialise new and emerging technologies. TICs will be based on the German Fraunhofer model (a society for the advancement of applied research), although fewer in number and with a smaller budget.
- A 'National Infrastructure Plan' is due to 'unlock' £200bn of public and private sector investment over five years.
- A Green Investment Bank, which will have £3bn of capital support, but has had its borrowing powers delayed until 2015 and until debt is falling as a percentage of GDP.
- A Regional Growth Fund with a budget of £1.4bn, now increased by a further £1bn, will be used to unlock private sector enterprise and create sustainable private sector jobs. Critics argue that this funding is much less than the budgets of the Regional Development Agencies, which it replaces.
- There will be an expansion of the University Technical Colleges (UTCs) programme, to establish at least 24 new colleges by 2014.

- Nine new university-based centres for Innovative Manufacturing which will be introduced by 2012.
- There will be a new £74m programme of targeted support to help smaller employers access Advanced Level and Higher Apprenticeships.
- The development of new, degree-equivalent Higher Level Apprenticeships, which will include incorporating engineering status and professional recognition for successful apprentices when they graduate.



'A network of Technology and Innovation Centres (TICs) is expected to help commercialise new and emerging technologies.'



While many argue these measures do not go far enough, they do represent some recognition that government has a role to play in boosting UK growth.

A number of distinctive features of German industrial policy highlight its central position in the German economy:

- First, in 2008, Germany spent around 2.6 per cent of its GDP on research and development, well above the EU average of 1.9 per cent.
- Second, Germany enjoys a broad commitment to the social market economy, in which the state guarantees the free play of entrepreneurial forces and the social partnership of trade unions and employer associations is enshrined in collective labour law.

- Third, co-determination ensures the right of workers to participate in the management of the companies they work for. Co-determination means that elected representatives have seats on works councils and supervisory boards. The number of seats is determined by the size of the company. These representatives, who are often trade union members, allow the workforce to exercise major influence, and take major responsibility, for corporate governance. Co-determination has been central to German economic success.

More controversially, critics argue that wage moderation has been a major feature of German economic policy in recent years. According to this view, Germany has enjoyed a competitive advantage by keeping wages low as part of an export-driven industrial policy.

ABOVE: German tinplate manufacturers celebrate a record year. The Works Council chairman Wilfried Stenz is fourth from left.



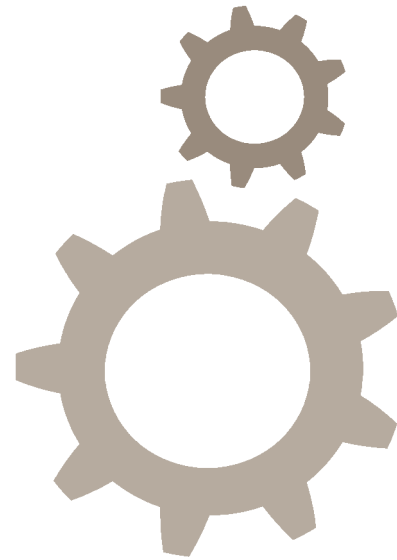
Towards a new UK industrial policy

The TUC visited a number of companies in Germany and the UK: Volkswagen, Siemens, ThyssenKrupp, BASF and Airbus in Germany; and Bentley, Siemens, BMW and Roballo Engineering in the United Kingdom.

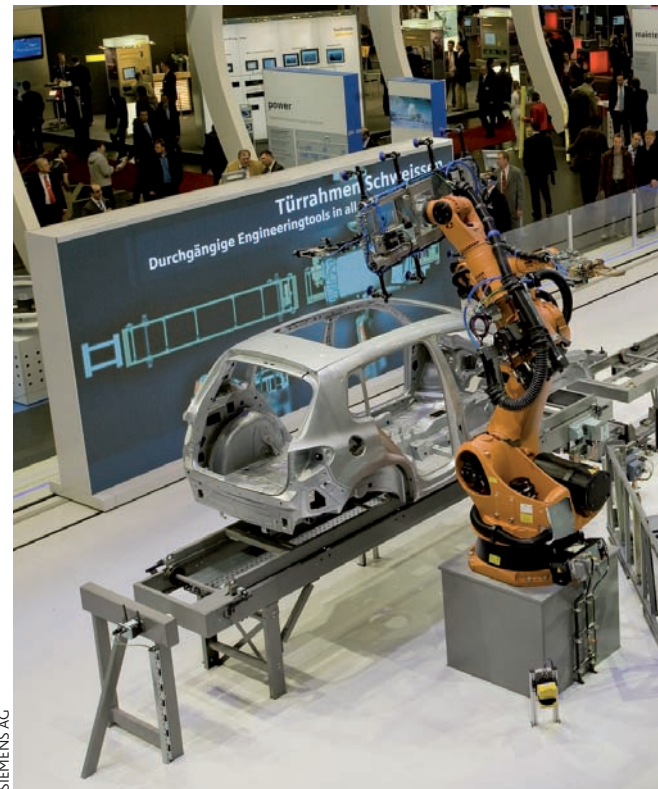
At these companies, the TUC interviewed senior managers, works council members and shop stewards, asking questions about the economic downturn, globalisation, skills, industrial relations, the challenge of the green economy and the role of government in supporting industry. Based on these interviews, it proposes a number of policy recommendations to government, designed to strengthen British industry and rebalance the British economy.

A new manufacturing eco-system

The TUC proposes the creation of a new manufacturing eco-system. Rather than a piecemeal approach, this would link together a number of initiatives to deliver renewed manufacturing success. Those would include initiatives around identifying future industrial trends, skills, procurement, growing small firms and the image of manufacturing.



BELOW:
Siemens Industry Automation deployed at the 2008 Hannover Trade Fair on a manufacturing line for the VW Tiguan.



SIEMENS AG

A policy based on future trends in manufacturing

Which areas of manufacturing need to grow, if its profile is to rise? There needs to be a break with the consensus of the past 30 years – that the market reigns supreme – because to argue that all manufacturing sectors are of equal value is not credible. To argue that the UK can become a world leader in all sectors is even less so. The UK must align its abilities and potential with long-term world trends if it is to succeed.

Siemens, in both Germany and the UK, spoke of 'mega-trends', be they geographical, biological or ecological. The company cannot predict the future, but it can assess where economic, political, social, technological and ecological developments are heading and use this assessment to develop its business.

This does not mean that Siemens can predict micro-detail about the future. It does mean that it can assess where economic, political, social, technological and ecological developments are taking us and use this assessment to develop its business. The TUC believes that the same could apply to an industrial nation. We cannot predict micro-detail, but we can identify future trends that are inevitable.

What would this mean for policy? It would require government to take into account the impact that global trends could have on industry over the coming 10, 20 or 30 years. The government should commission research into how those trends will affect the demands on industry and match this to an assessment of those industries in which the UK could have a comparative advantage. Those are the industries on which government must focus. That might have implications for tax policies, or policies to support skills or R&D in those sectors.



“Have a look at London, for example. We try to answer the question, what will London look like in 2020 or 2025? What are the major things that need to change in a city like that? For Siemens, that is a kind of headline, a possibility to develop business.”

Harald Kern, Siemens Works Council, Nuremberg



A strategic investment bank

The industries of the future will need to be funded and, while some of that funding could come from traditional high-street banks, experience shows that some key sectors, especially those that are not in tried and tested, 'safe-bet' industries, cannot get development capital. The UK's major international competitors have strategic investment banks, whether based on a model such as Germany's KfW or France's FSI. The government is committed to establishing a Green Investment Bank, but the question of how to fund future strategic sectors that are not particularly associated with low-carbon growth is one that must be grappled with.

A strategic investment bank could make use of existing government holdings in the banking industry. It would be able to raise large amounts of money on the commercial markets, backed by a smaller capital base provided by government. It could be set up on a commercial basis, run by an independent board, with all stakeholders represented, including trade unions. Its remit would be to generate a long-term return, based on investment in infrastructure and British businesses across sectors.

'A strategic investment bank could make use of existing government holdings in the banking industry. It would be able to raise large amounts of money on the commercial markets, backed by a smaller capital base provided by government.'



A broad consensus on the shape, scale and operating status of a UK strategic investment bank will be important. It is possible that a future Green Investment Bank could form part of a wider strategic investment bank, so long as the development of green industries was safeguarded as part of its remit. What is essential however, if British companies are to compete with those in France, Germany and elsewhere, is a bank that can lend to strategic industries.

ABOVE:
German's state-owned KfW Bankengruppe lent over 25 billion to green projects in 2011.

Growing more medium-sized firms

The role of middle-sized companies – as suppliers to larger companies – provides an interesting debating point. In Germany, the 'Mittelstand', the network of medium-sized companies, is central to this task.

There needs to be a conversation about the need to grow small firms, and the role of medium-sized firms. The UK tends to prize world class large companies, such as Rolls Royce, Nissan and Toyota, and rightly so. Public policy is also focused massively on small companies, but whilst small companies may be a good in themselves, they are assigned little role in a wider economic strategy. Growing small companies into medium-sized enterprises, which might employ more people and provide the components and parts that larger companies might need, is seldom part of the narrative.

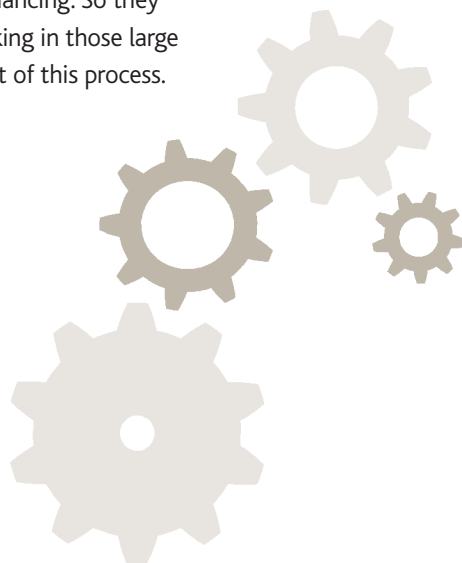
The CBI has suggested that the Department for Business, Innovation and Skills and the CBI encourage large companies to work with medium-sized firms in strengthening their supply chain by promoting best practice in leadership, innovation, recruitment, exporting and financing. So they should, and trade unions working in those large companies should also be part of this process.

"In German industry we have the "Mittelstand", the medium-sized companies, and especially in manufacturing they have a very important role. In Germany there is a saying that these medium-size companies are the engine of the German economy. From my observation, this is different in the UK."

Erich Thanner, Director of Human Resources, MINI Plant, Oxford

Though rarely acknowledged, the majority of small companies fail in the first five years. An analysis of what makes for a successful company, what type are needed to support a rebalanced UK economy, and how these can best be supported is essential. Some companies work best as small firms while others will better reach their potential by growing into medium-sized companies.

Government must consider how it supports the growth of small firms into strategic, medium-sized enterprises. Germany enjoys more devolved government than the UK and so is able to make more support available at regional and local level – a trend that the UK could do well to learn from. Some of the money available to the Green Investment Bank and any strategic investment fund could be spent locally or regionally. Structures would need to be established or adapted to make that possible. The TUC offers no final word on this subject. More work is needed in this area.





The case for a social market economy

The TUC's research highlights the value of a social market economy, a role for strong trade unions and a positive approach to industrial relations. A social market economy would also imply a strong role for employers' organisations.

Interviewees attested to the value of the German model in helping their company through the crisis. This is especially important, given that it is during the most difficult times that relationships are tested. In particular, the strong, independent employees' voice, exercised through works councils and through supervisory boards, was emphasised.

German management and unions are comfortable in recognising their conflicts, but this is because they are also aware of their strong common interests. Paradoxically, by acknowledging conflict, they are able to put aside traditional roles when this is in the interests of both sides.

"Labour representatives expect the company to be competitive, they force the company to be competitive, and take care of the interests of their members. Here you don't have the classic understanding of what is whose role in this game."

Martin Rosik, Human Resources Manager, Volkswagen

"This [the social market economy] is very strong in Germany, which means that there is a very close interaction between enterprise, especially big ones, the welfare state, the unions. We saw that in the crisis. The main contribution of the German state is to provide stable industrial relations and to provide the welfare state which linked up with the companies."

Thymian Bussemer, Industrial Relations Department, Volkswagen

Germany's social market economy is culturally cherished, in a way perhaps that the National Health Service is in the UK, because it safeguards a high degree of equality and fairness among the population. The TUC believes that this model offers valuable lessons to the UK, and that it requires strong unions. In turn, strong unions need employers' trust. This report encourages policy-makers to consider the value, and the possible drawbacks, that such a model could offer the UK economy and society.

BELOW:
Bentley apprentices Reece Jenks, Paul Alcock and Marcus Gorvin in the Bentley tool room training for the manufacturing team challenge at World Skills 2011.



Skills

The battle to attract and retain skilled workers is a constant issue in discussions about industry, and one with which Germany also struggles. There is no magic bullet.

TUC support for high quality apprenticeships is almost as old as the TUC itself and we are currently driving forward this agenda on two fronts:

- helping unions to build on their acknowledged strengths in supporting and protecting apprenticeships at work and in negotiating a greater take-up of trainees among a wider pool of employers;
- pressing government to introduce measures to tackle some key policy challenges, in particular to improve quality of training, equality of access and employer demand.

Apprenticeships must be high-quality, career development opportunities and should not be viewed simply as a means of subsidising employers to deliver occupation-specific training. The challenge facing policy-makers lies in imposing an apprenticeship quality standard in a voluntary skills system that lacks a social partnership approach.

Many small and medium-sized enterprises (SMEs) feel they lack the capacity to take on apprentices. The answer is collaboration. The TUC supports the model of Group Training Agencies (GTAs), which allow apprentices to be directly employed by the SME but within a 'pooled training' resource. The GTA model offers a valuable vehicle for supporting groups of employers to come together, often with union support, to develop high-quality apprenticeships. Of course, the German practice of large companies training more apprentices than they need and then allowing, even encouraging,

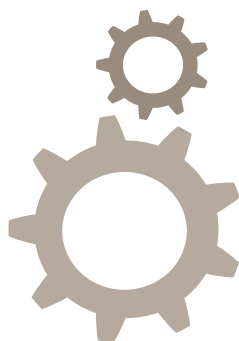
'The TUC welcomes both the recognition that much more focus needs to be given to vocational skills and that some pupils are ill-served by the present education system.'

members of their supply chain to take on their excess apprentices, is another model to be considered, especially in a co-determination model, where union representatives can ensure the quality of the jobs those excess apprentices are going on to.

A major recent development in education in the UK is the establishment of University Technical Colleges (UTCs). These are designed to offer 14- to 19-year-olds the opportunity to take a technically oriented course of study at a specialist college. Under the proposals, students would study technical subjects, alongside English, maths, science and IT. Technical studies might include engineering, product design, health sciences, construction and building support services, land and environmental services and food technology.

The TUC welcomes both the recognition that much more focus needs to be given to vocational skills and that some pupils are ill-served by the present education system. Of course, in the current political environment, and against the backdrop of general concern at levels of education funding, the TUC would oppose any move to divert money either from current schools or from colleges of further education to pay for UTCs. There is also the fear that UTCs could be seen as a "second best" option. The TUC would oppose any return to selection, be it at 11 or at 14, and any two-track system.

Trade unions are sceptical about any governance model that draws on the academy model, as is currently the case with UTCs. But we do recognise the value that UTCs could bring, if properly introduced in a non-divisive and adequately funded manner. A dialogue with government on this issue would be welcome.





Procurement

There are serious problems with public procurement policy in the UK. The TUC has campaigned for a more intelligent procurement strategy for many years and is pleased that this issue, in particular, is one in which there is very little difference between its views and those of employers, both individual companies and employers' organisations. Put simply, across industry there is a view that the UK's attitude to procurement is a wasted opportunity for British business.

Specifically, there is a concern that procurement does not work for the benefit of the UK economy or industry. The controversial decision not to give the Thameslink trains contract to Bombardier has put the issue of how procurement supports British industry in the political spotlight.

The economic crisis makes this issue more important than ever. Government spending cuts mean that, in those areas where public money is being spent, it is essential to achieve value for that money. But for as long as value for money is interpreted as being synonymous with low cost, procurement will fail to support the UK as it does in other countries.

'There is a concern that procurement does not work for the benefit of the UK economy or industry.'

'Every pound of taxpayer's money spent on procuring goods and services must do something to support the development of a modern, high-skill, high-value economy in the UK.'

There is a lack of trust that European procurement rules are applied consistently across Europe. What certainly seems to be true is that other countries push procurement rules to the limit, whereas the UK tends to assume that certain procurement practices would fall foul of the law, so they never check. Not only does this mean that other countries are able to promote their own industries as far as possible, giving them an advantage, it also sends a message that other governments are prepared to fight harder for their industries than the UK government is.

The TUC sets this simple test for the future of procurement policy. Every pound of taxpayer's money spent on procuring goods and services must do something to support the development of a modern, high-skill, high-value economy in the UK. The company delivering the contract need not necessarily be a British company – this is not about "British jobs for British workers" – and there may even be scenarios in which the production in question does not take place in the UK. But it must be possible that procurement policy, in a single European market, is made to work for the UK economy and wider society in an intelligent way. Government should meet with industry and unions to define the guidelines within which support for the British economy can be measured.

The image of manufacturing

Much of manufacturing has an image problem. There is not enough understanding of what it actually does.

Some companies will always be particularly attractive which, of course, makes it harder for others. BASF in Germany competes for local talent with Porsche, a company with whom it would be difficult for anybody to compete. Yet a greater understanding of the reality of manufacturing would be very helpful. This does not mean being dishonest about the current role and potential of manufacturing. Instead, the UK's areas of success should be highlighted as a sign of potential, but we should be realistic about our current problems.

The TUC supports efforts to highlight the positive impact of manufacturing, as part of a wider strategic renaissance for manufacturing. A gimmicky campaign to rebrand manufacturing should be avoided. Instead, there should be a long-term campaign in schools. Business leaders should be encouraged to visit schools to talk about manufacturing. It will take years of patient work, but the image of UK manufacturing can be rebuilt.

“The government has hugely missed their targets on immigration, that is purely because they never could control them. Most immigration happens because we happen to be part of the EU and they can't stop people coming in or leaving the country... Because they can't control the big numbers they are trying to control the very small numbers.”

Toby Peyton-Jones, Director of Human Resources, Siemens UK and North West Europe



ABOVE:
Manufacturing must change its image to attract young people. This is the Engineering Club at Little Ilford School, Newham, London.

Immigration

Immigration policy can prevent a company from accessing much-needed specialist skills. Targets to drive down immigration numbers, under pressure from right-wing newspapers and in spite of EU rules which prevent restrictions on immigration from within the 27 member states, could damage the economy, by keeping out non-EU citizens who make a major contribution to some niche companies.

Of course, immigration can also be used to depress wages, especially in the low-skill service sector. Immigration should therefore be seen as positive for high-skill, high-value businesses, as long as collective bargaining is restored, and the labour market better regulated to ensure equal pay and fair treatment for those at the bottom end.



Employment law in Germany and the UK

It is often said that it's easier to hire and fire employees in the UK than in many other countries – that it would be easier to close a factory in the UK than in Germany. Its defenders argue that light-touch regulation makes the UK more agile and, therefore, more competitive.

In fact, TUC research finds no evidence that moderate levels of labour market regulation impede economic performance and a good deal of evidence that some types of regulation improve it. For example, the modest re-regulation of the labour market in the first decade of the twenty-first century was achieved without harming job

creation. Meanwhile, trade unions have no significant negative consequences for labour market outcomes and indeed have positive effects in promoting workplace cohesion and social justice, while co-ordinated wage bargaining systems are associated with lower unemployment.

'TUC research finds no evidence that moderate levels of labour market regulation impede economic performance and a good deal of evidence that some types of regulation improve it.'

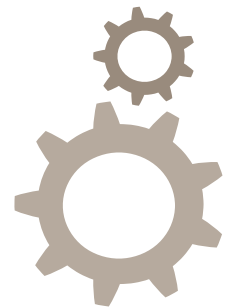
Short-time working in an economic downturn

The TUC hopes the worst of the economic downturn is over, but it's important that lessons are learnt. The single most important lesson that emerged from early in the recession was the value of a short-time working programme.

The TUC urges political parties in the UK to learn from this experience. If the UK slides back into recession in the months or years ahead, a short-time working subsidy could be the most important area of support the government could give to British business.

"I like to think that some assistance should be given for UK manufacturing. Everyone knows there's always a start and an end to a recession. Do the government really want all these fellas drawing income off the government, when they could easily keep that benefit by keeping them employed by the company...?"

Joe Peacock, Works Manager, Roballo Engineering



Collective bargaining: minimum standards and strong employers' organisations



ABOVE:
Kath Mellor is an employee and union member at Wade Ceramics, designers and makers of high quality earthenware and porcelain products, who recognise and work with trade unions.

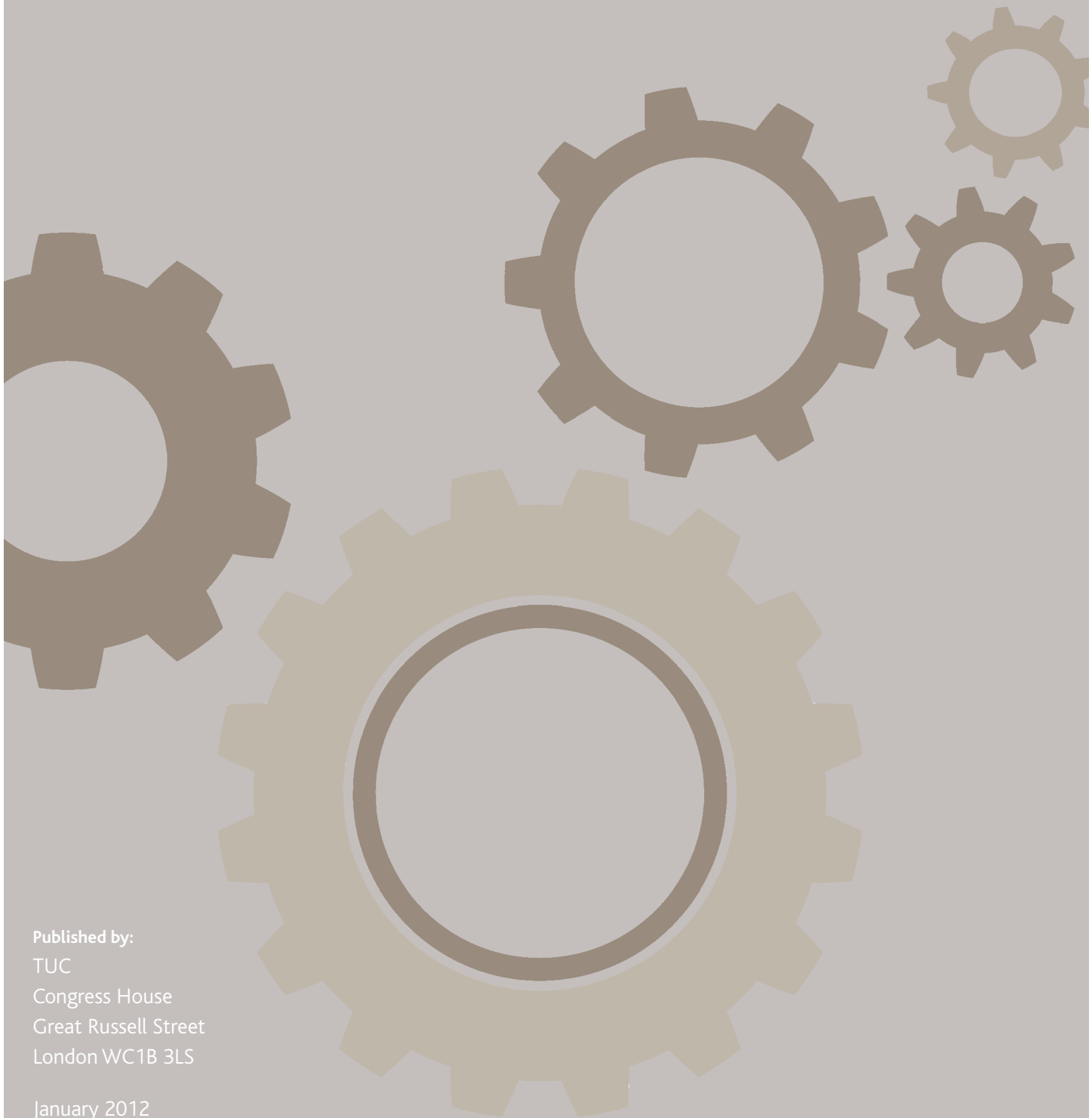
Collective bargaining, involving strong trade unions, and legal protection are sometimes seen as either/or options. In fact, both have their place and can even reinforce each other. Trade unions must always bear in mind that, while they are elected to defend and enhance the position of their members, they cannot be oblivious to the situation facing other workers. There is always a case for minimum standards to underpin whatever is achieved by trade union negotiators.

“The union can only be strong if they have, in the German system, a strong employers’ association sitting at the bargaining table, which would be able to satisfy their demands. If nobody is showing up to negotiate or if somebody is showing up who is not capable to bring these agreed terms and conditions to his constituency, what [can we] do as a union? The alternative would be to negotiate with each company individually.”

Martin Behrens, Hans Bockler Stiftung

For collective bargaining to work in a social market economy, it is also necessary to have strong employer organisations. Unions are not representative if they do not have strength in numbers and the same is true for employers’ organisations.

The TUC calls for employers’ organisations, such as the CBI and the EEF, to consider the role of co-determination as part of a new economic model. How do employers see a co-determination system working in the UK? How do they see trade unions fitting in to that system?



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