

Case article Recession and Research

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Recession and research: fairy tales of London

I think that the so-called 'credit crunch' is not our real problem; it is simply the most recent and most widely-publicised symptom of a much longer term malaise which has been affecting the UK economy for the last forty years. The UK may be hit more than other countries but this is not because of the importance which the City attaches to itself, it goes much deeper than that. My concerns have been growing over the last twenty years, based simply on my travels around the country during that time. But be warned, this case note is a fairly long rant: I do not apologise for it and I feel better for writing it.

The goose that lays the golden eggs is not well

Just think, how is that in my home part of the country, the Borders, what were once thriving textile mills are now supermarkets and chain stores? How is it that in the Midlands I see the sites of china and pottery factories turned into housing estates? What is the long term mechanism which supports the replacement of Yorkshire steel works with sports venues, visitor experience centres, financial HQs, and shopping malls? We all can see such 'developments' but can you see the sites which replace them in terms of making things or even giving people employment which is of lasting benefit to the economy?

We no longer make things, we no longer produce things.....look at the label on any non-food item you have bought and the likelihood is that it will say anything but 'Made in Britain'. Unfortunately though, it is only in production and manufacturing - in making steel or textiles or computers or anything where raw materials are combined to make something that is intrinsically worth more than the sum of its constituent parts (that's what manufacturing is all about) - it is only via such activities that any economy can create its own real wealth and value. Furthermore, at the international level, we can generate useable surplus by exporting more than we import, and we can include services and other 'invisibles' in this equation; but we are not very good at that either.

It is from this real wealth that a surplus can be redirected, via taxes etc, to resource the upkeep and development of a public service sector which offers its citizens what could be described as the ultimate end-product or goal of all our economic endeavour, namely the universal provision of education, health services, law and order, and defence and....everything that contributes to a happy and stable society. But at its most simplistic, regardless of their undoubted importance as huge employers, critical service providers such public services cannot be provided without thriving industrial, manufacturing, and exporting sectors to finance them. I think many in the public sector tend to overlook this fact. Even more people in some parts of the private service sector have forgotten this as well; more on this later.

Anyway, we really do have a problem, and as Keynes so rightly identified in the 1930's depression, Government's role in spending our way out of trouble is vital. But surely Keynes was thinking of the economies in the first half of the twentieth century which were fairly self-contained by today's globalised standards. They were economies where any Government spending would be translated quickly into a rising demand for home-produced goods hence a rising need for labour and jobs. Today in the UK we no longer have significant domestic means of production and any Government attempts to encourage domestic spending will increase sales in the shops but do little for the underlying economy because so much of our purchases are produced overseas.

The emperor's new clothes; he can't walk the walk so he'll talk the talk.

We have got ourselves into this mess partly because the private service sector, particularly finance, has forgotten what its role is; and it is fascinating to note how the language has been adapted to accommodate this. Up until the '70's we used to think of the economy as having an industrial and manufacturing sector, and a service sector; the latter, as its name implies, existed to support the needs of the real wealth creating activities of the former, through offering such services as banking, insurance, communications, advertising, market research etc. And the whole effectiveness of the economy was reported each month by way of publishing the **Balance of Trade** figures which showed the value of our exports and imports, and the Mr Micawber dictum was drummed out each and every month as the gap widened and become redder. (One shudders to think what today's Balance of Trade figures look like.) But as the Thatcherite years saw manufacturing dwindle, and the Blairite years did nothing to rectify this, the private service sector started to forget its role and the finance sector in particular stopped supporting industry and turned in on itself (to be fair perhaps it had no choice as the opportunities for investment in UK industry declined). In this climate the City stopped being a source of funds for British business to become a source of fun for its Burlington Berties.

So how did our professional commentators and professionals address the problem? Well, in the simplest manner possible....they just defined it away. They started to call the private service sectors 'industries'. In the '90's we heard a lot about the 'pensions industry', now we hear of the 'banking industry', and in recent trade articles I have read about the 'research industry'. And surely this nonsense reached its peak when a Government minister could stand on the site of the ill-fated super casino in East Manchester and talk about the 'gambling industry'. Clearly, these are not industries; they are just ways of shifting money around. They are concerned in the main with wealth **distribution and redistribution**, not real wealth or value **creation**.

And the same goes for most of the other types of business in the private service sector; while their activities surely do contribute to the well-being of society, and do generate loads of jobs, if industry is not functioning then who needs or can afford hotels, restaurants, 'culture', leisure outlets, hairdressers, holidays Yes, those in the public sector will continue to use them in the short-term, but as we are beginning to see now, without

the funding from vibrant manufacturing, industry, and exporting enterprises then they too will have to cut back.

We have managed to put off this day of reckoning for a good few years by borrowing, both individually and collectively, but as Mr Micawber might have said "Borrow to invest, result happiness. Borrow to buy, result misery".

Furthermore our own business sector is not immune from the jargon used to disguise the truth; we too like to think of ourselves as a real industry: we 'macho up' our pen-pushing by working in workshops, with breakout groups, we impose data security measures, we 'drill down' and we 'mine' data, we process re-engineer.

The hare or the tortoise?

Anyway, the Government's current obsession with getting people spending and borrowing in a bid to get us back to where we were a couple of years ago is probably a bit misguided. But I take hope in the fact that at long last I have heard a Government minister talk about investment in manufacturing, yes Lord Mandelson has used that term rather than 'business' or even the ambiguous 'industry'. It looks like he at least has seen that the fundamental issue is not the credit crunch, or bank lending, but that we need to start making things again. I know this is a very last century notion, and one which rarely arises in the salons of Westminster or the Home Counties, but maybe we have had the wake-up call just in time. But the Government must look to invest in UK-based activities which will stimulate our economy and not that of others by concentrating on meaningful long term manufacturing activities directed at our generation's big once-in-a-lifetime economic opportunity which is the desperate need to 'green' the global economy. Furthermore, the fact that interest rates are at an all-time low should not be overlooked; this action, though perhaps designed to encourage spending, is the ideal policy action to encourage long-term investment.... but somehow I fear not many people or businesses think that way anymore.

A shining knight to the rescue?

Can we in the survey research business help? Well, we probably can't do much, but we should –

- accept that we are a service, 'back-of-house', private business and try and direct our efforts towards those clients seeking to improve the fundamentals of the economy
- help in any way we can to educate the public about the basic failure in the economy. We shouldn't just supply data to those trying to talk up the currently (mis)structured economy, but we must take the long term view. (On that note, just where is the CBI these days?)
- try harder to work with companies seeking to export out of the country rather than those seeking to import into the UK
- help promote the green agenda
- abandon our sector's love affair with London; the main show in the next twenty years will lie in our once industrialised heartlands beyond the M25
- but, most of all, start offering our services **directly** to industry and manufacturers; this has always been a difficult sell, but one which now more than ever should pay long term dividends to successful agencies who can get in early with those firms which are making the best of the green opportunities.

Happily ever after?

We know we will still have a very long way to go until the news channels and programmes stop invariably reporting on the recession and seeking (and presumably placing some credence and value on) the views of some talking head in a London trading room full of computer-gawking 'bankers' who think that holding on to a bundle of unknown debt for a week is a long term investment. We will know we are coming out of the woods when commentators start to accept that the need for the 'fundamental rebalancing of the economy' is the result of forty years of woeful

industrial neglect and ignorance and not just something that has arisen in the last two years because greedy bankers punted too much on the wrong horses. We will know for sure that we are on the right track when we can start again to look at the FTSE index as a meaningful barometer of the underlying long-term performance of the economy rather than an indication of that day's frenzied buying and selling of shares in a bid simply make money. And we will definitely have arrived when the Government of the day has the courage to restart publishing our monthly **Balance of Trade** statistics prominently....don't hold your breath.

Overall though, I cannot get over last year's emphasis on saving the High Street, and if nothing else is clear, it is surely that Napoleon was right - we really are a nation of shopkeepers. The trouble now is, that even if we get people back into the shops, they will not, indeed cannot, do what was entreated of us back the late '60's, and Buy British. We have not come very far since then, but we have been very good at twisting our language (the ultimate spin?) to make most of us think that we have.

The emperor of the fairy tale cannot solve the problem of his new clothes by simply putting them back on again; we have to help him get real and proper ones this time!

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