

Two days in politics

The UK ends the week in political turmoil, and uncertainty over government policies and personalities. These notes look at some of the key events and personalities from the perspective of the machinery and component supply chain.

PM resigns

On Thursday, July 7th, prime minister Boris Johnson resigned as leader of the Conservative Party after a flood of resignations that was unprecedented in British history. When he will cease to be PM remains unclear at time of writing. He appointed a new cabinet and many junior ministers and made clear he intended to stay on as long as possible, perhaps for three months. Some, including former PM John Major, wanted him gone immediately and a caretaker appointed, but there is no mechanism to force that. The most likely scenario appears to be a party leadership contest leading to a new PM taking over some time in September.

Johnson's tone was unrepentant. He called the move to oust him "eccentric" and referred to it as changing government, rather than just PM. It was a manifestation of "herd instinct", he said. And he stated that he had wanted very much to carry on, out of a sense of duty.

By Friday morning, there remained many holes in government, some of which might be filled over the weekend. Somewhat intriguingly, quite a few ministers who have resigned are understood to have made it known that they would be happy to return, their point having been made and the issue of the PM's future having been largely resolved. Their return might be helpful for continuity in government but whether the PM would feel sufficiently magnanimous in defeat to re-appoint them remains to be seen.

Policy differences

Ministerial resignation letters centred on one of two areas of concern, or on both: his judgement, integrity, and competence; and disagreement over economic policy. Johnson had fuelled concern over his suitability to be PM the day before – after the first cabinet resignations – when he conceded, at the fourth time of pressing by a committee of MPs, that he "probably did" meet Alexander Lebedev, a former KGB agent, in 2018, in Italy and without officials present.

Health secretary Sajid Javid and chancellor Rishi Sunak had been first to quit, earlier in the day. In his resignation letter, Sunak focuses on policy differences: "Our country is facing immense challenges. We both want a low-tax, high-growth economy, and world-class public services, but...[the public] need to know that whilst there is a path to a better future, it is not an easy one. In preparation for our proposed joint speech on the economy next week, it has become clear that our approaches are fundamentally too different." He also implies that the PM is failing to govern "properly, competently, and seriously".

The joint speech had already been delayed by a month. Commentators suggest that the PM wants to scrap the corporation tax increase from 19% to 25% (due next spring) and to cut personal taxes. Sunak says the country cannot afford such giveaways – and his letter says the public is ready to hear

such a message. The Office of Budget Responsibility had concluded, in a report published the following day, that the economy could not afford tax cuts.

This policy debate is characterised by some as Johnson putting policies that will be popular in the short term before those that are economically necessary - investing in tax cuts that would fuel inflation beyond its already-worrying level and raise UK debt to dangerously high levels. An alternative view is that investment incentives and spending on infrastructure would be a better use of what money we can afford.

The debate will, very likely, continue through to the autumn budget and will include interesting options in the middle ground.

Chancellor Zahawi

Sunak was quickly replaced as chancellor by Nadim Zahawi, who was education secretary and before that a business minister with responsibility with manufacturing. Zahawi quickly said he would be reviewing the increase in corporation tax and that nothing was ruled out.

Zahawi had been a public supporter of Johnson. One of the founders of the polling firm YouGov, he set up the Unit for Future Skills at DfE, was thought to have done well when given vaccine responsibility in the early days of the pandemic, and before that was the minister responsible for the Made Smarter Industry 4.0 initiative.

He is therefore well-aware of arguments about investing in support for manufacturing and skills training. Speaking at the Conservative Party conference in October 2019 (before the Industrial Strategy was scrapped) he said: “What you certainly can do, is have a 10-year plan then make sure you deliver that. Then follow up with the next 10 years where you may have to flex your strategy.

“You are going to see us very much focus on the SME sector and how we can drive that fourth industrial revolution.” Support for SMEs has in reality been patchy and, at least in manufacturing, much less than many had hoped for, however, perhaps due to resistance from HM Treasury.

One of the key decisions for the chancellor is the extent to which HM Treasury is prepared to get behind the government’s newly-identified imperative to “reverse the historic decline in manufacturing in the UK” (Levelling Up White Paper, February 2022), with business improvement and investment support for firms in the sector. Many governments have coherent national schemes for manufacturing – Scotland, New Zealand and the United States, as example; Westminster does not have such a scheme for England.

Clark’s return

Johnson’s spate of cabinet appointments brought the remarkable return of Greg Clark, who had been business minister at the Department for Business, Energy and Industrial Strategy (BEIS) and who even had the whip removed over Brexit. He has become secretary of state at the Department for Levelling Up, Housing and Communities (DLUHC), replaced Michael Gove, whom Johnson sacked on Thursday.

This opens up intriguing questions about the *de facto* return of the Industrial Strategy and the relationship between to expanded DLUHC and BEIS. Is DLUHC encroaching further into BEIS territory? Clark championed the Industrial Strategy, along with former Bank of England chief

economist Andy Haldane, who was chairman of the defunct Industrial Strategy Council. Haldane is already rehabilitated, was much involved with the flagship Levelling Up White Paper and only last month was announced chair of the Levelling Up Taskforce.

It is notable that the imperative to revive manufacturing comes in a DLUHC paper. We need to hear much, much more about what the government has in mind for contributing to that revival.

It will be an interesting cabinet meeting, with Clark and his successor at BEIS, Kwasi Kwarteng. Kwarteng in 2012 saw the UK as “a bloated state, [with] high taxes and excessive regulation” and described the Industrial Strategy as “a pudding without a theme”. He said that on the floor of the House of Commons, when he scrapped it in early 2021. Curiously, the IS remains in his department’s name, 15 months on, however.

On Thursday evening, junior BEIS minister Paul Scully moved to DLUHC as part of Johnson’s ministerial reshuffle. With BEIS ministers George Freeman and Lee Rowley resigning, and none so far replaced, BEIS ends the week four ministers down, following the resignation also of Lord Grimstone. A former banker, he held ministerial roles at both DIT and BEIS, focused on attracting large-scale foreign inward investment. He was very much a personal appointment of the PM.

Junior ministers

Four junior ministerial resignations this week are of particular interest to the machinery and component supply chain: Lee Rowley from BEIS, who was winning friends as a champion of manufacturing, and who resigned in a group of five which includes Alex Burghart, the apprenticeships and skills minister at DfE; George Freeman, the BEIS minister for science, research and innovation; and Mike Freer, the former banker who was exports minister, plus equalities minister.

Rowley’s departure is disruptive, in that he was much involved in trying to define and sharpen government’s approach to manufacturing and the supply chain. He was leading on the development of a Manufacturing Investment Prospectus, due out this autumn.

Burghart’s departure comes at a time of turmoil in skills education. In September, we will see the introduction of the government’s flagship T-Levels for engineering and manufacturing.

Freeman’s resignation focuses on Johnson’s character but he is also known to have been worried about issues linked to Brexit. The failure to resolve the Northern Ireland Protocol dispute has led to the UK being excluded from Horizon Europe and other important research programmes in which the UK wants to participate, and Freeman has raised concerns about HM Treasury blocking funds for alternative UK programmes, which he says will undermine the UK’s ambition to be a science superpower. He publicly attacked HMT’s lack of commitment and risking “a deepening brain drain and crisis of confidence and credibility in the UK #ScienceSuperpower mission”.

Freer’s departure will lead to renewed calls for a change in direction on the Department for International Trade’s export policy – although it is not clear how much influence Freer had on that, in reality. DIT is accused of trying to do everything itself, poor performance, and poor support for exporters.

It is worth noting that any paralysis in Whitehall will be much less felt in some of the devolved nations, especially Scotland, where the departure of Rowley and Burghart is largely irrelevant as their functions are run by ministers in Edinburgh.

Brexit has been little-mentioned this week. However, many will be hoping, at least, for a change in tone regarding the EU, if only to help optimise business relations. Johnson “uses bashing Europeans as a political tool”, one banking leader commented on Wednesday this week.

Business confidence

The turbulence in government comes as business and personal insolvencies have started to climb steadily. The use of company voluntary arrangements (CVAs) and pre-packs are both increasing.

It seems almost certain that business confidence and investment will be further hit by the political turmoil that has flared up this week.

Business will be looking for a quick leadership contest and rapid succession. We need a PM and cabinet that can bring policy stability and confidence to business, and make strong investments in the economy’s infrastructure. (George Osborne has said that failing to invest adequately was his biggest mistake as chancellor a decade ago.) We need to support and invest in sectors that are competing in international markets, that create intellectual property, tax revenues and well-paid jobs.

Specifically, we need to hear more about how the government will contribute (alongside businesses and their trade associations) towards achieving the imperative, that it identified in the Levelling Up White Paper in February, of reversing the historic decline in manufacturing in the UK.

Comment welcome.

Links: <https://www.gov.uk/government/publications/rishi-sunaks-resignation-letter-and-the-prime-ministers-response>
<https://twitter.com/GeorgeFreemanMP/status/1544929459286966272?s=20&t=pYzWNiqp239-IOON9OFZ3g>
<https://obr.uk/overview-of-the-july-2022-fiscal-risks-and-sustainability/>
<https://www.gov.uk/government/news/ministerial-appointments-july-2022>

Jack Semple
Alliance secretary
July 8th, 2022