

# Political Economy

## WAVEing or Drowning?

**Approaching two terms old, the verdict on the economic policy of the Assembly must be mixed.** In its original economic development plan "A Winning Wales" the National Assembly for Wales outlined a number of successful outcomes that it would seek to achieve by 2010, including increasing employment by 135,000 (then revised to 175,000), increasing Wales R&D spend to over 1% of business turnover and reducing levels of unqualified working-age adults to 10%. Also included was the now renowned aspiration to reach 90% of the UK average GDP per head. On a number of the indicators and targets, notably in the labour market, progress has been heartening and rapid. Nevertheless, the recently released *Wales: A Vibrant Economy* has moved away from explicit targets and now suggests a basket of tracking indicators with which to judge success. Reflection on the targets and aspirations of the Welsh Assembly Government shows that in labour market indicators Wales appears to have improved at a faster rate than for the UK as a whole, but in other areas, progress is more difficult to discern.

### Labour Markets & Participation

Here, the Welsh economy has improved significantly with the Assembly rightly pointing to a period with unemployment rates sustained at below the UK average. Perhaps even more importantly, there has been improvement in educational achievement, with the proportion of unqualified labour falling steadily, and the proportion of adults with higher level (NVQ 4+) qualifications rising from 20% in 1999 to over 25% in 2004 – albeit rising at the same rate as the UK, thus still lagging by around 2 percentage points.

Between 1999 and 2005 the *Local Labour Force Survey* (LLFS) shows a significant improvement in participation rates for Wales compared to the GB average – at a time when the UK saw static participation rates, those in Wales rose by 1.5 percentage points. The increase in participation in Wales was wholly a female phenomenon, with female participation increasing by 3.5 percentage points, although it is notable that Wales largely avoided the fall in male participation rates that was evident for GB as a whole.

### Employment

Employment levels in Wales have increased substantially since the Assembly's inauguration in 1999. The Assembly quote the LLFS to show an increase of 100,000 to 2005, the highest proportional increase of any GB region. Further, the Assembly suggest that Wales is the only region to have increased its share of private sector employment over this time. Whilst improvements in numbers employed are welcome, data on the industrial mix suggests a complex picture. For example, the LLFS suggests that the public sector share of employment also increased over this time (albeit at a rate far slower than GB as a whole), with Wales still having the second highest public sector share of any GB region.

Turning to the *Annual Business Inquiry*, a survey of businesses rather than

households, suggests that of a 90,000 increase in employment between 1999 and 2004, around 67,000 was in the public sector – an increase in employment levels of over a fifth – mirroring the upward trend in the UK as a whole. More positively, Wales has significantly outperformed GB on the creation of full-time jobs, with full time employment increasing by around 7% in Wales compared to 2% in GB.

Numbers employed in Banking and Finance, another *A Winning Wales* indicator, have increased by 30,000 between 1999 and 2005 according to the Labour Force Survey – comfortably exceeding the target of 20,000 and a faster growth than in GB as a whole. Interestingly, the *Annual Business Inquiry* suggests that employment growth here from 1999-2004 was a more modest 11,000, implying a worse than GB-average performance. This means either that a significant upsurge was experienced in very recent months, or that users must be careful when choosing the most appropriate dataset with which to measure policy impact.

### Productivity and Value Added

The suggestion that much of the increased employment in Wales is in the public sector may be responsible for an otherwise surprising result: that these significant gains in employment have not led to a consequent rise in the level of economic activity in Wales (measured by gross value added per head) compared to the UK – public sector employment is notoriously difficult to measure in gross value added terms. Wales' level of GVA per head has remained resolutely at 79% of the UK average for the entirety of the Assembly's tenure (now the worst in the UK) – although the switch by ONS to a five-year moving average calculation for regional GVA might delay any very recent improvements 'on the ground' from showing in the data. The *WAVE*-quoted improvement in Wales' level of value added relative to the EU25 is, thus, directly a consequence of the UK economy's strength compared to that of the wider Europe post-millennium.

Levels of GVA per job and hours-worked in Wales, whilst poor, are not the worst in the UK, indicating that the problem stubbornly remains one of both low productivity and relatively lower participation.

### Research and Development

The encouraging growth in levels of business R&D, from 0.4% of GVA in 2001 to 0.7% in 2003, looks unlikely to be sustained. Recent figures for 2004 suggest that R&D in Wales fell from £264m in 2003 to £228m in 2004 – a drop of 14% at the time when the UK suffered a drop of around 1%. The relative concentration of business R&D in Wales in manufacturing (85%) compared to the UK (76%) suggests that the Assembly may find it difficult to influence levels of R&D at a time when manufacturing activity is forecast to continue its decline in all parts of the UK.

### Entrepreneurship

There is very little progress on levels of entrepreneurship in Wales, despite a stronger policy focus over recent years. The per capita level of VAT registered businesses in Wales is actually in slight decline. Here the Assembly are fighting the historical legacy of over a century's domination of the economy by non-Welsh capital and a former strength in agriculture – the latter accounting for large numbers of businesses in Wales, now in decline. It is to be expected that any progress here will be measured in decades rather than years.

In summary, then, Wales has outperformed the UK on a number of key labour market indicators, including unemployment and job creation. The extent to which Wales has improved in these areas is, however, more difficult to judge. Export performance appears strong, whilst tourism (another target in *A Winning Wales*) has experienced mixed fortunes. Results from the resident-based *Local Labour Force Survey* quoted in *WAVE* are rather more optimistic (e.g. in terms of private sector job creation) than the employer-

based *Annual Business Inquiry*, the more traditional source for employment estimates. In other areas, progress has been patchy or not discernable. There is little or no evidence in the data that Wales is moving towards the more entrepreneurial or 'knowledge based' economy favoured by the Assembly, either in terms of the stock of businesses, levels of high-tech employment or R&D expenditure.

There are strong caveats to be placed upon any consideration of Assembly policy success since 1999 (or its own favoured 2001 base year). Firstly, the above shows that the data sometimes conflicts, and is in any case inadequate to represent shifts in economic structure that the Assembly would like to see. Measures of 'medium and high tech' employment provided by DTI are actually counts of simple industry classifications including elements which may be decidedly low tech – such as electronic assembly occupations. The same is true of the financial and business services 'industry' which includes much of Wales' call centre employment – as a rule not high value or high wage – as well as the high value services that would impact upon wealth levels more generally.

Secondly, and more fundamentally, is the limited sphere of operations within which any regional agency, elected or otherwise, has room to manoeuvre. Many of the disappointments, for example in R&D and (arguably) GVA per head are the result of global structural changes – principally the decline of manufacturing in the Western world – which have affected Wales perhaps

more critically, with our heavy reliance on foreign capital and on manufacturing. With no access to the major levers of economic policy, the Assembly can act only at the margin – for example by improving the quality of the labour supply, or by supporting individual businesses in the hope they will prosper (through, for example the *Technium* project or *Knowledge Bank for Business*). It is simply unrealistic to expect a small, peripheral region with an even smaller research base to outperform the UK as a whole whilst following the same economic policy template. It appears that in the field of wealth generation at least, Wales has managed (in common with other lagging regions) to at least keep pace with UK growth – no mean feat in itself.

What is perhaps concerning about the new development strategy, WAVE, is that it does not appear to move far beyond its predecessor in conceptual or analytical terms. Conceptually, WAVE continues to be beholden to the region-competitiveness agenda espoused by DTI, emphasising (post-'clusters') the importance of innovation, knowledge economy, 'regional learning' and business support. Analytically, there is little substance regarding how factors such as innovation or the knowledge economy are expected to impact upon regional prospects more generally – or what the implications of such a focus might be on those less qualified or able to participate in such activities. Clarity is especially important in view of the fact that aspirations for a dynamic, knowledge-based and innovative economy are shared by every other UK (and most other global) regions – with

the policy toolkit also surprisingly similar (most in the UK emphasising developments in biotech, creative, ICT and tourism activities to name but the most popular).

Outside of the 'core' development ethos, progress has again been mixed. A strong emphasis on community development and the social economy has been aided by a plethora of Objective 1 funded schemes and projects; ICT infrastructure development through *Broadband Wales* has been encouraging. On the other hand, Wales risks losing its (nominal) advantage as a duty-bound advocate of sustainable development if related actions do not become far more firmly entrenched in every aspect of Assembly development policy. In summary, there is no real evidence that Wales has a more dynamic and innovative economy, or skilled and entrepreneurial workforce than other regions of the UK – the undoubted areas of progress so far have served typically to bring us closer to national averages. We have no substantial first-mover advantage in any area of current economic policy. Without, then, some fairly serious thinking 'outside the box', the exam report following the next five years is likely to be much the same: that of a decent, solid student, perhaps not overly blessed with natural talent but working hard to maximise their available assets. Reasonable progress. But could do better?

#### Data Sources:

Office for National Statistics:

- *Research and Development in UK Businesses, 2004* Newport: National Statistics January 2005 (Business Monitor, MA14)
- *Regional Gross Value Added Economic Trends*, February 2006
- *Annual Business Inquiry* [www.nomisweb.co.uk](http://www.nomisweb.co.uk)
- *Local Labour Force Survey* [www.nomisweb.co.uk](http://www.nomisweb.co.uk)

Department for Trade and Industry:

- *Regional Competitiveness and State of the Regions* April 2005 <http://www.dtistats.net/sd/rci/>

Welsh Assembly Government

- *A Winning Wales* <http://www.wales.gov.uk/themesbudgetandstrategic/content/neds/winningwales-refresh-e.pdf>
- *Wales: A Vibrant Economy* <http://www.wales.gov.uk/subitradeindustry/content/wave/wave-report-e.pdf>