

# Reflections on the Welsh economy: remanence, resilience and resourcefulness

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## Introduction

The challenges facing the Welsh economy are well known and understood, but are brought into sharp perspective by the fact that after twenty years of devolution and considerable policy effort, the Welsh economy today is exactly where it was in 1998 in relative performance terms.

The critical question therefore becomes why - why does the Welsh economy continue to struggle to improve its relative economic performance in the UK? There are many factors at work of course and this short paper cannot possibly do justice to them all. Instead, this article seeks to highlight the value of taking an evolutionary perspective on the issues facing the Welsh economy. In other words, this seeks to understand how regional economies grow, adapt and change over time in line with the changes occurring in their external environment. One interesting feature of this evolutionary approach is its increasing emphasis on exploring how key actors within regions

respond to shocks and change – in other words, on issues of agency.

There is growing body of work which suggests that agency matters in regions, particularly in terms of how resilient regions are in the face of economic change. In other words, the decisions made by policy-makers, firms and households in both anticipating and recognising risks, coping with shocks when they hit, and taking positive and purposive action to adapt to change, have an important bearing on how effectively their regions are able to recover from economic shocks (Bristow and Healy, 2014; 2015; Cowell et al, 2016; Kakderi and Tasopoulou, 2017). However, this capacity to adapt is critically shaped and influenced by a range of different factors, many of which connect to the region's past, or lie outside its direct control and are critically dependent on the economic and political relationships it has with its neighbours and the wider national economy.

The purpose of this article is to introduce some of these

issues. It does this by reporting on insights from recent research exploring the responses of key actors in Wales to the global economic shock of 2008. This research is part of a wider comparative study into the degree of resilience displayed by different regional economies across Europe through the crisis (see Bristow and Healy, 2018)<sup>1</sup>.

The article argues that understanding the nature of responses in the region to the 2008 shock, has the potential to give valuable insights into the agency of key actors within the Welsh economy and the nature of their adaptive capacities. It also illuminates how these capacities are critically shaped and constrained by the region's evolution and context. In so doing, the article focuses on three key themes which arguably must be understood and confronted if the Welsh economy is to improve its future economic position.

The first of these is what we might refer to as the region's remanence. This refers to what remains or has been left

behind from Wales' industrial past, and reminds us of the importance of understanding the continuing legacy of deindustrialisation in Wales and its profound repercussions.

The second key theme is resilience. Evidence from the 2008 crisis suggests that the Welsh economy was in many respects remarkably resilient, particularly in terms of sustaining employment through the crisis. However, this appears to have been underpinned by short-term coping strategies rather than longer-term, transformative adaptation or change.

The final theme is resourcefulness. This research suggests that in terms of the future, there is a need to develop actions in support of resilience which both build on the specific strengths and resources within the Welsh economy and, critically, help to develop them. Crucially however, this resourcefulness is unlikely to be effectively supported and developed by policy actors within Wales alone.

### **Remanence – taking the long view**

There is good reason to argue that the financial crisis of 2008, whilst significant, is not the defining event in Wales' recent economic history. Rather, the source of many of its current challenges lies in the decline of its industrial base from the

1970s (see, for example, Beatty and Fothergill, 2011; 2016). Since then, Wales has faced massive de-industrialisation with a continuous decline in heavy industry, culminating in the virtual disappearance of coal-mining in the 1980s, and a legacy of high unemployment and economic inactivity amongst older men, especially in the South Wales Valleys (Beatty and Fothergill, 2011). In material terms, the Welsh economy has been left poorer, with less productive capacity, fewer people in high value added jobs, a greater dependence on the public sector, and with poorer health and housing stock amongst particular communities.

But perhaps equally, if not more, significant than the material impact of deindustrialisation has been its legacy on the collective memory and psyche, on the informal institutions and social fabric in Wales' industrial communities. Numerous studies have alluded to the challenges faced by these communities in adjusting to a post-industrial way of life and the profound disruption caused to community identities who through de-industrialisation have lost the sense of their 'place' in the wider economic world. The consequences are high levels of economic inactivity, low skills and high levels of social deprivation, which have become entrenched in many

communities and thus have exhibited a powerful capacity to endure (e.g. Beatty and Fothergill, 2011).

As well as the effects of de-industrialisation, there are other defining features of the Welsh economy which become clear when looked at from an evolutionary perspective. One of these is the economy's enduring dependence on external and often cost-sensitive investment. This started in the post-war period with the UK public and private investment it secured to update and modernise its industrial equipment. It then continued during the course of the 1980s when Wales secured more Foreign Direct Investment (FDI) than any other part of the UK. These foreign-owned plants were, however, typically highly footloose, capital-light operations which progressively left Wales during the 1990s, as falling transport costs and the opening up of new markets in the expanding European Union made the region a less attractive investment opportunity.

A further defining feature of the Welsh economy's evolution is the extent to which it is becoming less rather than more diversified over time. This is particularly evident in terms of traded exports where a steady decline in exports amongst relatively light manufactured goods has been compensated for by rising exports of heavy engineering

and manufactured goods, particularly power-generating equipment and iron and steel. Moreover, these exporters are typically owned by companies outside of Wales which brings an additional degree of fragility. Furthermore, the economy has increased its dependence upon the public sector (through attraction of European structural funding and major public sector employers), which now accounts for over one-third of all jobs. With low activity rates and a high dependent population, the Welsh economy is now heavily dependent upon fiscal transfers from the UK national government with a higher dependence on the welfare state than any other part of the UK (NEF, 2013). In short, whilst the Welsh economy is increasingly self-determined in terms of its governance and policy-making, it has limited self-reliance in economic development terms.

**Resilience and agency – employment responses to the 2008 economic crisis**

In evolutionary terms the Welsh economy is thus characterised by certain dependencies whether on particular industries or sources of funding, and thus faces considerable challenges in diversifying its economic opportunities. This raises interesting questions about the scope that the different economic actors in Wales, namely households, workers, firms and policy-

makers, have to change the economy's course and develop new, more prosperous and less fragile economic pathways.

One way to explore these questions is to look in detail at how these actors responded to the economic crisis that hit the global economy from 2008. Crises are often regarded as opportunities in disguise. They can disrupt existing institutions and cause uncertainty about future directions, which offers opportunities for substantial change that deviates from seemingly locked-in trajectories (Geels, 2013). In particular, they provide a valuable means of illuminating the ability of key actors within economies to adapt to serious disruptions in the economic environment by showing how they responded to the shock and what their decisions and behaviours reveal about their priorities in terms of coping, recovering and supporting transformative change.

As part of wider comparative study of how resilient different European regions were to the 2008 economic crisis, the responses to the crisis within Wales were explored (see Bristow and Healy, 2015). In particular, there was a focus on the impact of the crisis on the labour market, and specifically the responses and behaviours of workers, businesses and policy makers at the time.

These responses must of course be understood within a wider UK economic perspective. Notably, the most distinctive feature of the 2008 economic crisis in terms of its effect upon the UK economy was the differential performance of employment and output. Whilst UK output fell by 6% between 2008 and 2010 (which represented a performance markedly worse than in past recessions), the loss of employment was much smaller at some 3% of the initial level. Furthermore, this pattern of labour market adjustment was significantly more pronounced in Wales than any other part of the UK (see Bristow and Healy, 2015). Whilst employment fell by 2.3% over this period, there is clear evidence that this fall in employment was significantly tempered by the strategies deployed by businesses, households and policy-makers during this period.

Workers in Wales appear to have been much more inclined to take pay cuts and accept reduced working hours during the crisis than to become unemployed. With an already challenging labour market and crisis-induced austerity measures leading to significant changes in welfare provision, they appear to have had little choice in this regard. Instead of redundancy, there was an increase in part-time working and acceptance of reduced, or zero hours contracts as well as lower rates of pay.

Moreover, underemployment rose to an unprecedented scale – a measure of the number of people who want more work than is available to them - indicative of both a fall in real wages and reduction in hours available.

The effects of de-industrialisation are undoubtedly relevant here and explain why this crisis perhaps had a less devastating impact on the psyche of many of those living and working in Wales than might have been the case for other parts of the UK or indeed other European regions. This is supported by evidence of the impact of the recession on the former coalfield community of Gellideg in Merthyr Tydfil gathered as part of research for the Joseph Rowntree Foundation. One resident when asked about the impact of the current recession replied 'Recession, what recession? Economic and social depression is a constant state of life here' (Day, 2009; p. 10), reflecting the community's ongoing struggle with generational unemployment. This sense that communities and households entered the current crisis somewhat inured to recessionary shocks was also supported by evidence collected as part of the wider European study reported on here, where it was widely acknowledged that many communities within Wales have become somewhat desensitised to

recession (Bristow and Healy, 2015).

The Welsh Government played a key role in establishing a strategy and norm of employment retention as a response to the crisis. A policy of labour subsidies was one of the outcomes of a series of eight Welsh Economic Summits facilitated by the Welsh Government in the wake of the economic crisis. The ReACT II initiative was launched in the immediate aftermath of the crash. It adapted the original ReACT scheme, developed using part-funding from the EU to assist newly employed individuals looking to retrain. The enhanced scheme provided grant support to employers taking on recently unemployed individuals, with funding provided to support the new employees' wages for four months (up to £2,080), and pay for training over a six-month period.

More innovative was the ProAct initiative, also launched in October 2008. This provided part-funding for businesses that had introduced short-term working for employees, the expectation being that once economic conditions improved, they would benefit from the retention of skilled workers and their specific on-the-job knowledge. It offered support for training costs of up to £2,000 per individual, along with a wage subsidy for up to 12 months of up to £2,000 (£50 per day) per individual during training and

is widely regarded as having worked well in Wales (Cambridge Policy Consultants, 2011).

There is strong evidence to suggest that firms across a range of business types, sectors and parts of Wales also took on board this approach to employment retention in that they exhibited a much stronger inclination to hold onto workers through the crisis rather than lay them off or make them redundant. A survey of all local authorities across Wales in the midst of the crisis found evidence of labour hoarding across many businesses and authority areas (WLGA, 2009, cited in Wales Rural Observatory, 2009). There were a number of reasons identified for this behaviour. For many firms, the shake-out had already happened prior to the crisis – further evidence of the important influence of previous crises and their legacy effects. Local authorities however also reported that initially, greater dependence on public sector employment in Wales shielded the economy from the recession and provided a degree of stability and confidence through it. Furthermore, in the midst of the crisis, very few local authorities cut back their own employment to any significant extent and many stressed that proposed reductions in headcount could be achieved through natural wastage rather than redundancy. Many posts

were also protected by virtue of their being in service areas such as regeneration and economic development which were on fixed-term, funding-related contracts. It is likely of course that this picture will have changed subsequently as austerity measures have required more substantive public sector contraction.

Whilst these responses to the crisis in Wales appear to have been valuable in encouraging employment retention through the crisis, they represent essentially a short-term, reactive form of coping through the crisis. As such, questions surround the extent to which they have enabled longer-term adaptation to the changing contours of the global economy.

This argument is lent credence by the Welsh Government's strategic shift from 'green' and low carbon economic development agenda to one more pragmatically accommodating all energy development (including nuclear power, new gas power stations or other fossil fuel facilities). Clearly, of course, transformative change may be taking place but its effects are not yet seen, making longer-term evaluation of crisis responses an important imperative. Furthermore, similar labour subsidy schemes have been deployed in other European nations and regions, such as in Germany. Cross-

comparative work on the effects of these schemes and how these have played out in different contexts and within different governance and policy frameworks would be interesting in establishing how these tools may be used to encourage longer-term restructuring and adaptation.

### **Challenges going forward: developing resourcefulness and securing wider support**

The responses to the 2008 crisis described briefly above provide some useful insights into the adaptive capacities of the region's actors in the short-term when confronted with an economic crisis, and have highlighted considerable ability within the labour market in Wales to find ways of coping with economic change and maintaining job security. However, these responses do not necessarily provide for resilience for the wider economy inasmuch as these skills in adapting or coping in the short-term do not necessarily guarantee or help to support future resistance to crises and/or success in improving economic and social outcomes over the longer-term. Neither does this evident capacity to cope in the short-term remove the importance of understanding the political economic realities and institutional landscape out-with the region which frame how the nature and extent of adaptation by policy actors,

businesses and workers within Wales.

This leads on to a number of critical questions about the resources that can be drawn upon by key actors within Wales to enable and support the economy's longer-term adaptation and transformation. There is a developing literature within regional studies highlighting the importance of approaches to regional development which build on a region's capabilities or resourcefulness. This is defined as a region's capacity to combine its assets (i.e. its skills, physical resources, technology, social capital, institutional support systems and connectivity), to maximise its capabilities to achieve a more sustainable economic performance into the future (see, e.g. MacKinnon and Derickson, 2013; Nijkamp, 2016; Iammarino et al, 2017).

This thinking suggests that transforming regional economies like Wales requires the development of approaches to development which are sensitive to and build on the region's unique economic conditions and strengths and, importantly, build up the capacity of as many actors within the economy as possible to participate productively within it. This suggests that interventions focusing on the region's development capabilities – education, health, cultural attitudes around entrepreneurialism and tolerance of risk, and so

on – are just as important as the more conventional economic development imperatives around renewing the industrial and employment base.

In many respects, Wales is resource rich. It was powered by natural resource endowments in the past and it undoubtedly has rich natural resources which offer huge potential for the future, whether in green and recreational or landscape tourism, heritage, and in renewable energy systems around tidal, wave and wind power. Recent experience however suggests that there are considerable challenges in developing and making the most of these. Wales seems to continue to find it difficult to generate or attract the capital resources necessary for the big ticket investments in infrastructure in many of these areas, as demonstrated by the recent difficulties in securing UK Government support for the Swansea Tidal Lagoon.

This implies that unlocking the resourcefulness of the Welsh economy will require taking the long view in terms of economic development strategy making and support, with an emphasis on building

capabilities and adaptive capacities to effect wider transformative change. This of course will not happen overnight. It will also require more than simply action from policy actors within Wales alone. It will require substantive UK government support and intervention, particularly in the context of Brexit. Wales will need to articulate its role and significance in the wider UK economy, and make a clear case that efforts to support its capabilities and resourcefulness will work in the wider UK national interest. Wales needs to be able to articulate the strengths in its place (and places) and the value of unlocking these strengths and resources in support of the UK's wider economic and productivity challenges. None of this is easy, especially in the context of uncertainties around future governance arrangements and available financial powers and resources, all of which have significant potential to militate against longer-term thinking and action in policy making, and, of course, to erode working in mutually co-operative ways.

The launch of the UK2070 Commission provides

something of an opportunity here however. This is an independent inquiry into city and regional inequalities in the UK.<sup>2</sup> Chaired by Lord Kerslake, it has been set up to conduct a review of the policy and spatial issues related to the UK's long-term city and regional development and offers an opportunity for the case to be made for building on and strengthening the mutual interdependencies between the different constituent parts of the UK. Critically, it also provides the opportunity to have a more detailed debate about the need for the development of a spatial economic framework to manage them so that inequalities are addressed and the unique opportunities and assets of the UK's diverse economies properly understood and supported. This is an ambitious agenda of course, and one which will undoubtedly face a range of political and fiscal challenges. But it is one which seems incredibly timely for Wales given its need to develop a sustainable and resilient economy for the future, which understands both its assets and dependencies and seeks to make the most of them.

## Endnotes

1. This research was undertaken as part of an Applied Research Project conducted within the framework of the ESPON 2013 Programme, and partly financed by the European Regional Development Fund.

2. See <http://uk2070.org.uk/>

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