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Political Economy

The Comprehensive Spending Review

Gordon Brown's second Comprehensive Spending Review (CSR), covering the budgetary years 2001-2 to 2003-4 was announced on July 18th, and presaged a £43bn increase in UK departmental spending over the period.

"Prudence" and the UK Economy

The prior announcement of the broad headline figures in the March budget ensured that the Chancellor could be reasonably sure of the reaction of the Bank of England, the City and economic commentators to his detailed plans. Indeed, most agreed that whilst the CSR provided the most significant increase in public spending in twenty-five years, the plans were deliverable, and would have only a modest influence on growth and inflation. However, these plans will probably rule out tax cuts in the medium term: the CSR leaves little room for error in the event of either smaller than expected tax revenues, or higher social security payments. Growth in government spending which comfortably exceeds the long term growth of the UK economy, will not be sustainable even though the UK still spends considerably less as a proportion of GDP than most European countries. Nevertheless, a far more modest CSR might be expected from whoever is Chancellor in three years time – the current spending period will not only encompass the next General Election, but also the 2003 polls in the Welsh Assembly and Scottish Parliament.

Winners and Winners

Gordon Brown has managed to satisfy almost all Whitehall departments with the CSR. In particular, ministers who did not do well in the 1998 review have fared better this time around – John Prescott will see transport investment increase by over 20% per year, kick-starting the ten-year transport plan, and the Regional Development Agencies gain a 50% increase in their budgets. Meanwhile, the small increase in defence spending is the first since the end of the Cold War. Yet the real winners are, unsurprisingly, education and health. Spending by the Department for Education and Employment rises by

5.4% in real terms per annum, whilst health gains by 6.1% pa. The Home Office gains significant monies to aid the fight against crime, and smaller departments such as International Development, the Foreign Office and Culture, Media and Sport show increases of between 4% and 6% in real terms. Another major beneficiary is the Treasury itself. The imposition of tough new performance targets will increase its influence over how money is disbursed, at the expense of the spending departments themselves.

The Comprehensive Spending Review and Wales

Discussions regarding the application of the CSR to Wales have centred, unsurprisingly, around European Funding, in particular Objective 1. What is immediately obvious is that the Chancellor has for the first time in 20 years significantly departed from the Barnett Formula, which determines the level of the Welsh block grant in proportion to departmental spend in England. The formula in theory covers European Funding, but a strict adherence to the allocation, in tandem with Wales' disproportionate share of EU aid would have left the Assembly unable to spend Objective 1 monies without compromising increases in health and education. The departure gives a boost to spending in Wales in advance of the 2003 Assembly elections, with around £200m allocated for EU aid over the next three years. The Chancellor also took the opportunity to transfer responsibility for the European Social Fund, worth some £150m, from the Department for Education and Employment to the Assembly. However, opposition parties in Wales were quick to attack the settlement, with Plaid Cymru claiming a shortfall in matched funding allocation of some £350m over three years, and opposition politicians in general bemoaning the lack of any explicitly marked matched funds. The

lack of explicit earmarking necessitates hard decisions in the near future to be made in Cardiff.

Satisfaction from most sectors regarding the level of allocation must now turn to discussion over how the money can best be spent. Opinion from within the Health Service and Education in Wales is unanimous on the need for greater staffing levels – requiring resource far beyond the next three years. However, there is also an acceptance that throwing money at spending departments will not result in long term quality improvements. These will require that the recently announced reform of the NHS nationally, along with ongoing reforms in education are organisationally successful. In a similar vein, discussions and disagreements about the level of matched funding must not be allowed to obscure the need for clear guidance from the Assembly regarding "on the ground" approval and implementation of Objective 1 projects. Now that the CSR is in place, and the level of Wales' block grant is clear to 2003-4, it must be ensured that the responsibility for management and disbursement of EU and matched funds is also clear. Whilst a partnership approach, involving the National Assembly Office, WDA, County Councils, the voluntary sector, community groups and others is to be commended, there is as yet little evidence that such an approach is working in a truly inclusive way. The "top down" and centralised approach to project management and implementation has been explicitly discarded by the EU for the latest round of Structural Funds. It is important that the powerful organisations at the heart of economic development in Wales pay more than lip service to the EU's "four pillars" of entrepreneurship, employability, adaptability and equal opportunity, and adopt a truly decentralised approach based on "bottom up" subsidiarity and inclusiveness.

Labour Markets

Total employment in Wales (including the self-employed) during the early part of 2000, was an estimated 1.25m (Labour Force Survey), with employees typically accounting for around 87% of this total. Table 2 shows how employment (excluding the self-employed) was distributed across industrial sectors in Wales over the period March 1999 to March 2000. The largest increases in employment occurred in the construction industry with an increase of 9.1%, and the primary sector where employment increased by 11.8% in the year to March 2000. Over the same period manufacturing employment in Wales fell by 1.4%.

Economic activity rates show the proportion of population of working age who are in work or seeking work. During the second quarter of this year the Labour Force Survey estimated that the Welsh economic activity rate stood at 74.4%. This remains well below the national average of 78.1% and is one of the causes of GDP per capita differences between Wales and the UK. In Wales there is a trend towards falling male activity rates and rising female rates.

Table 3 shows how the composition of unemployment has changed over the past three years. The percentage of all claimants who have been claiming unemployment-related benefits between 12 and 24 months declined over the period July 1998 to July 2000. Long-term joblessness has declined; in July 1998 24.9% of all claimants had been jobless for longer than a year, whereas in July 2000 the figure was 19.6%.

Table 4 shows the age structure of the long-term unemployed for the past three years. The proportion of long-term jobless is lowest in the 18-24 year age band, with the majority of the long term unemployed claimants in the 25-49 age band. This may suggest that younger claimants are able to find jobs more easily than older job-seekers, reflecting perhaps greater mobility, more appropriate skills, and a wider selection of jobs. There has been a large fall in the proportion of claimants among 18 to 24 year olds between July 1998 and July 2000, from 14.9% to 1.7%. This is largely as a result of the government's *New Deal* to target this age group. The proportion of individuals claiming benefits should also start to fall for other age groups, as the government launched a £270m programme to get the over 50's back to work in April 2000.

Figure 4 shows how the overall

Table 2 Employees in Employment by sector, all workers

	March 99	March 00	Change %
Primary	17,000	19,000	11.8
Extraction and Utilities	10,000	10,000	0
Manufacturing	209,000	206,000	-1.4
Construction	55,000	60,000	9.1
Services	717,000	715,000	1.3
All jobs	1,008,000	1,010,000	0.2

Source: ONS Wales Labour Market Statistics, August 2000

Table 3 Claimant count by duration (%) all ages

	<6 months	6-12 months	12-24 months	>24 months
July-98	56.4	18.7	11.7	13.2
July-99	60.3	17.6	11.6	10.5
July-00	63.6	16.8	9.7	9.9

Source: Benefits Agency administrative system

Table 4 Claimant count by age of the long term unemployed >12 months (%)

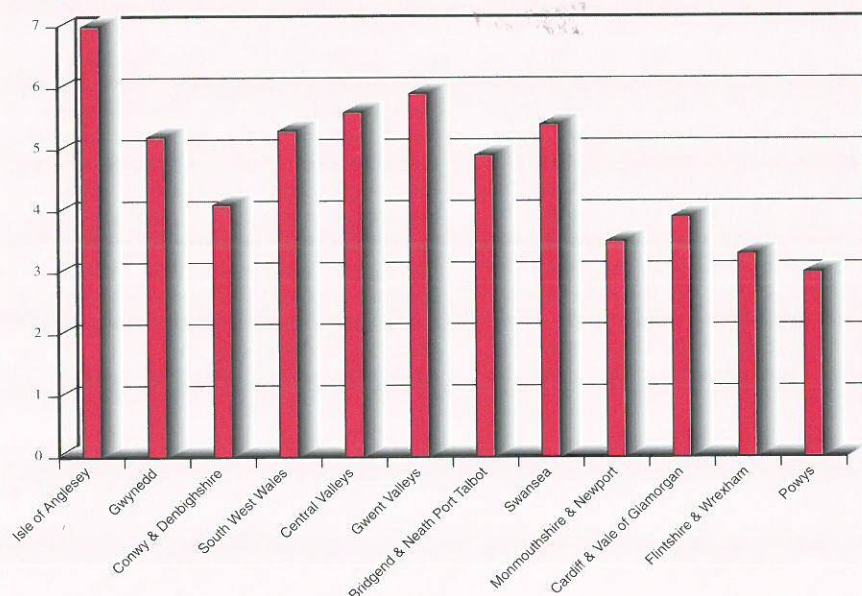
	18-24	25-49	50+
July-98	14.0	62.8	23.3
July-99	2.8	70.2	27.0
July-00	1.8	70.3	27.9

Source: Benefits Agency administrative system

unemployment claimant rates in July 2000 varied across Wales. Powys had the lowest rate at under 3% whereas the Isle of Anglesey had a rate of over 7%. The Valleys had a high claimant rate at around 5.5% together with high inactivity rates (Blaenau Gwent 35.4%

and Merthyr Tydfil 27%). Whilst the governments *New Deal* may have helped to reduce the overall claimant rates, significant regional disparities in unemployment and other economic and social indicators remain.

Figure 4 Claimant Rates across Wales, July 2000



Source: Benefits Agency administrative system