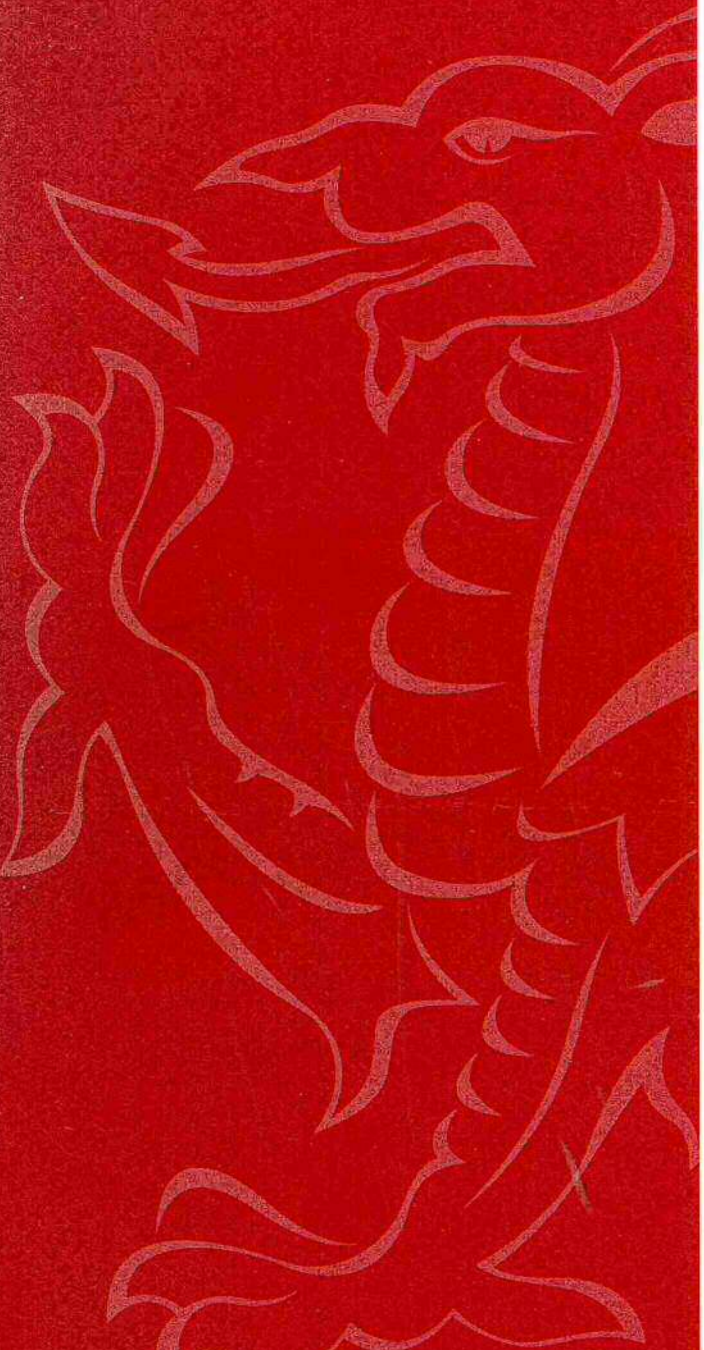

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Welsh Economic Review

Volume 13.2 Autumn 2001

Produced in association with

BANK OF WALES
BANC CYMRU

ISSN 0965-2450

The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes understanding and informs decision-making. The 'core' section of the Review is written by members of WERU, with feature articles contributed by academics or practitioners within or outside Wales. The *Review* is circulated widely within Wales, to both private and public sector organisations, including the education sector and the National Assembly.

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Authors should send papers for potential publication in the *Welsh Economic Review* to the Editor at the address given below, preferably via e-mail in a Word for Windows format. Papers are welcome on any topic that would be of general interest to the readership, and should be written in a style suitable for non-specialist readers. Papers should be approximately 3,000-4,000 words and any graphs or figures should be accompanied by the underlying data to allow reproduction.

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£35

Political Economy

The Limits of Devolution: the Global Economy, Corus and Regional Responses

The recently implemented round of Corus redundancies has thrown into sharp focus the relationship between the global economy and the new regional government in Wales. For many observers this fraught time provided evidence that the devolved body was powerless to influence this, or any other multinational corporation. Yet these events perhaps say as much about the consequences of a flexible UK labour market and a *laissez-faire* government approach, as it does about the remit of the National Assembly.

Steel in the Global Economy

The latest round of Corus redundancies has been blamed on several factors. The continuing strength of Sterling certainly imposes difficulties for British firms selling abroad, or competing with cheaper imports; difficulties only partially offset if raw materials are imported more cheaply. Corus faces the challenge of selling to a British manufacturing base in recession and, additionally, in long-term decline. Yet the abandonment (or in the case of Ebbw Vale and Shotton, partial relocation) of substantial productive capacity is not solely driven by currency considerations that may be mitigated in the medium term. Indeed, continued steel restructuring and mergers across the globe indicate this is not a uniquely British problem. Whilst Western Europe will continue to demand steel, mature and developed economies provide little opportunity for sales growth. Thus, steel companies are likely to look eastward. Firstly this will be to central and eastern Europe, where there are existing steel facilities and an experienced but less expensive workforce. However, the real prizes lie further east, with China and India approaching levels of wealth likely to stimulate an explosion in consumer demand, and attendant demand for steel. Thus, as the centre of global manufacturing shifts eastward over the longer term, location factors dictate, particularly in the case of a product which is expensive to transport, that inputs to the manufacturing process follow.

The Steel Industry in Wales

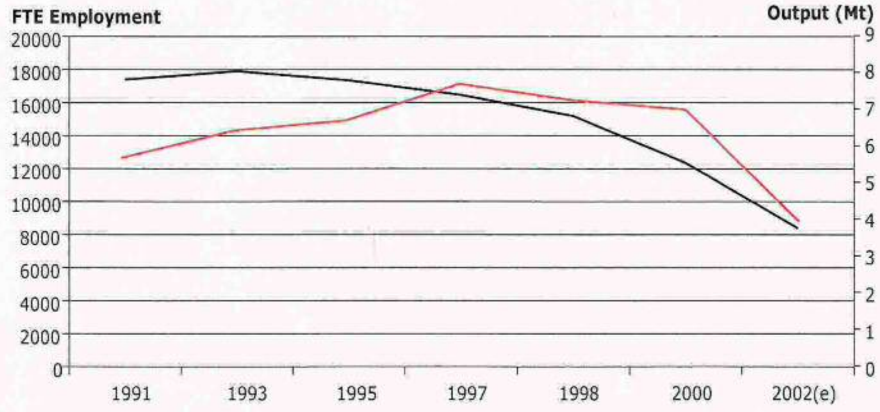
Steel in Wales is an industry in long-term decline, in terms of employment if not, until recently at least, in terms of output. Massive improvements in productivity have combined more recently with shifting global demand to push employment down from 64,000 in 1972 to a forecasted 8,000 in 2002. Yet the public, and government in Wales remain almost irrationally attached to the industry, out of all proportion to actual employment. This attachment has resulted in a heightened level of media interest in recent months, and a raft of special measures to help regeneration, including specific retraining programmes and a £2,500 lump sum payment for each steel worker, neither available to those unfortunate to be recently redundant from other pressured manufacturing industries such as textiles or electronics.

The 'eminent' position of steel in Wales has manifold roots. Steel making is perhaps the last remaining bastion of traditional heavy industry in Wales. Moreover, steel workers, almost all full-time, are notably well paid, particularly by regional standards. The industry is also the archetype of that rare entity; a high value Welsh economic activity. In the year 2000 12,000 steel workers created over £2bn of output in Wales, and contributed around £400 million to Welsh GDP; around 700 of the 2000 suppliers to Corus' Welsh 'hub' are based in Wales. Every Corus job has another dependent upon it somewhere in Wales, perhaps in metals or engineering; in financial or business services; or in distribution and retail (see Bryan *et al* 2001). Job losses at Corus certainly threaten the attainment of stated GDP growth targets for the Welsh economy: Whereas gradual job losses experienced before 2000 did not affect production, it is estimated that the latest round of redundancies are likely to substantially impact on output, with the loss of up to 3m tonnes annually (Figure 1). Also, whilst the Newport and M4 corridor economy may be large and diverse enough to withstand the blow of redundancies at Llanwern, the complete closure of Ebbw Vale and consequent loss of over 800 jobs may prove locally ruinous.

The National Assembly and Government Response

Initially the National Assembly for Wales' reaction to the Corus announcement of redundancies was one of great upset - and an almost complete lack of direct action. The latter was not due to any lack of will, but to a lack of options. The Assembly was no more able to halt redundancies at Corus than it was to prevent the many manufacturing redundancies which had preceded them. Talk of ameliorating Corus' rates bill, and of a legal challenge to the company was just that. The formulation of a coherent Assembly response was not aided by national government civil servants who appeared to undermine Assembly support for the proposed union rescue package - to be paid for partially by UK government - and who were perhaps wary of setting a precedent. The Corus episode proved that the sum of government, union and public pressure was wholly inadequate to constrain a company who saw its future best served by actions which were seen locally to bear socially divisive and negative consequences. Additionally it served as a reminder that the primary (indeed some would say sole) responsibility of Corus is to its shareholders, whose utility is measured by the share price. Once the stock market had reacted positively to the Corus announcement, the company's course was effectively set - consideration of the union rescue plan notwithstanding.

Figure 1 Steel in Wales: 1991-2002



Source: WERU

Since the realisation that the redundancies were inevitable, the Assembly has responded with a raft of proposals to aid affected localities, announcing initially some £66m of regeneration monies. The strong emphasis upon retraining is welcome. However, ensuring redundant individuals who wish to remain in the labour market are equipped with saleable skills is only half the solution, particularly in the case of Ebbw Vale, where the demand for even current 'quality' skills is likely to be weak. Stimulating employment demand, for example, through encouraging inward investment has so far had limited success for less accessible locations. A more holistic regeneration response encompassing, for example, improved transportation links to employment sites, will be necessary.

UK Labour Markets: The Benefits and Costs of Flexibility

The United Kingdom is currently enjoying a period of sustained low unemployment, unprecedented in decades. Labour market flexibility (including the ease with which companies in the UK can hire and fire, and low employment costs) has paradoxically, been in part the cause of this success, encouraging inward investment and enabling companies to remain cost competitive. Yet a labour market that is an advantage in times of investment can be the opposite in times of retrenchment. Although one-off redundancy costs are unlikely to be the major rationale for deciding which plants of a multinational group are expendable, in certain cases, the ease with which British workers can be made redundant, with no duty for example to consult with unions or the workforce, may prove important (for example in Motorola's recent decision to close its Scottish plant).

Such supply-side flexibility has been married in the UK in recent decades to a free market philosophy which decries government intervention to support declining industries. Such an approach is undoubtedly 'economically efficient'; however, this standpoint may incur disproportionate costs on the UK steel industry in a context of continued clandestine state support for steel producers on the Continent and elsewhere, and of potential protectionist US steel import quotas.

Conclusion

The latest round of Corus redundancies is part of an ongoing global restructuring within the steel industry. Short term, cyclical and currency factors may have driven the scale of the latest cutbacks, but underlying these events are long term cost drivers and market shifts which serve to radically alter the nature and scale of steel production in Western Europe. Some fifteen years ago Wales looked forward to the prospect of an economy largely bereft of coal production. In those troubled times, inward investment at least provided a partial buttress, improving employment prospects. In the 21st Century, with such investment flows far more difficult to attract, and little sign yet of a domestically driven economic revival, it is perhaps fortunate that Welsh employment is no longer heavily dependent on the Steel Industry.

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