

# Debating Industrial Policy in Wales



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**This collection of articles has been commissioned by Wales TUC but, unless otherwise stated, each contributor represents his/her own analysis and views.**

# Foreword



It is a pleasure to provide the foreword to this important collection of articles debating industrial policy and the wider Welsh economy. Since the financial crash, ordinary people have paid the price for a crisis they did nothing to cause. Wages have fallen behind prices for a longer period than any time since Queen Victoria sat on the throne in the 1870s while brutal attacks to our welfare state continue to inflict unjust hardship upon those without power or a voice in our society.

Long before the crisis hit, workers in Wales were on the receiving end of an economy that increasingly shunned the contribution of labour as a driving force for growth and prosperity. Against this backdrop, Wales TUC has long campaigned for a whole government approach to the Welsh economy, where the pursuit of social justice and solidarity challenges the short-termist race to the bottom on pay and job quality that dominates working life for too many people.

Sheila Bearcroft MBE  
Wales TUC President

From fighting blacklisting and outsourcing to supporting Remploy workers into new jobs, trade unions work with the Welsh Government to deliver for members in the most difficult times. However, we know that the best security for working people requires a long term vision wedded to the creation of good jobs that deliver real development opportunities - backed by sustainable investment.

In bringing together this collection of essays we have attempted to encourage a genuinely open and challenging debate about the possibilities for the Welsh economy over the long term. This includes an article from Wales TUC but otherwise our contributors represent their own views and analysis and we are extremely grateful for the time and expertise they have offered to this work.

# Grounded firms and Welsh Government policy

*Karel Williams*

Walking home from school in 1960s Wales, every day I passed the Llanelli Steel works and between school and university I worked in Trostre tinplate plant for the Steel Company of Wales. Late in my working life, driving through Sweden in the 2010s I had a sense of déjà vu. Every little place with a name had its edge of town strip of (often eponymous) local firms and some world famous firms like Husqvarna and Sandvik are named after small home towns with populations of less than 25,000.

Names matter because they suggest connection. Some capitalist firms (and many public organisations) are tied to a specific place by a variable combination of supply and demand side roots and branches. The list of ties includes stable ownership and local management cadre; then on the supply side a regional supply chain, district support services, relevant technical education and the human skills pool; while on the demand side, branch distribution or network requirements can dictate location to serve population.

Mergers of Anglo American corporates have become an opportunity to rename the firm so as to efface any connection with identifiable place or product: the FTSE 100 now includes companies named Aggreko, Aviva, Capita, Diageo, G4S, Serco and Vedanta. And behind the meaningless names is the practice of restructuring by mobile, ungrounded firms which endlessly threatens Welsh employment:

- Footloose globalised and financialised giants have global options and generate moveable employment because they can pull out as Sony did at Bridgend where it once employed 4,000
- Large companies in sectors like food processing generate precarious employment because they respond to retail order switching with plant closures as Two Sisters did with Avana bakeries
- SMEs generate pass the parcel employment when the family sells out and the firm is passed between corporates like Rachel's Dairy which has successively had American and French owners

The Welsh government counters all this with policies to make Wales a more attractive destination by improving infrastructure and training and specifically by competing for inward investment so that new companies and jobs replace old. The WDA was abolished nearly ten years ago but Welsh policy makers are still trying to emulate its success in attracting mobile firms.

The Welsh government currently boasts of record levels of Foreign Direct Investment (FDI). But there are reasons to be sceptical about such claims which just add up benefits to produce an impressive sounding, rather misleading total:

- Totals are exaggerated because inward investment includes merger and acquisition spend and property investment; and there is no calculation of economic net benefits after deducting costs like project subsidies and sweeteners including tolerance of tax avoidance
- The social claims are significantly about jobs created not wages paid; even though inward investment like the Amazon warehouse in Jersey Marine locks in low pay which increases the social bill for child care, housing benefit and pensions
- The emphasis on “capturing” FDI investment displaces attention from the awkward fact that the result is too often branch plants which do little beyond assembly. A 2012 manufacturing supply chain report concluded that “Welsh based, FDI based companies lack the means and authority to innovate”

We would not argue against attempts to attract mobile firms. But the Welsh government should come clean about the ongoing costs of FDI in wage subvention and tax avoidance so that we can all be clear that this is not part of a race to the bottom (at government cost). And it should also calculate whether FDI is a replacement strategy which relies on new entrants who are doing little more than plugging the gaps left by the departure of older players like Murco and Two Sisters.

It is time therefore to think again about our stock of grounded firms and their potential. Of course, 1980s deindustrialisation took out the old style grounded firms like Llanelli Steel. While the wider British failure in tradeable goods has left us with an emaciated manufacturing sector and an economy centred on sheltered services like adult care which employs nearly 7 per cent of the Welsh workforce.

Wales has only a handful of technically competent private sector firms operating in competitive sectors with ownership that protects them from merger and acquisition. The stock of grounded firms has not been reliably replenished by newcomers like Admiral and Gocompare in insurance or tinopolis in media. We can expect consolidation and stock market restructuring in the next phase of commodified insurance where Admiral is already directly quoted and Gocompare has already gone to esure; tinopolis is reported to be for sale.

But we have a huge stock of public organisations and private firms in the sheltered economy whose roots and branches tie them to localities because their demand is distributed according to population. 30% of Welsh employment is in public sector organisations and para state firms like nurseries and residential homes delivering mainly tax funded health, education and welfare. Another 10% is in private sector provision of basic services in the form of pipe and cable utilities, transport, food processing and grocery distribution.

Quite literally these grounded organisations and firms have to stay if they are to carry on tapping into Welsh revenues. And that observation allows us to change the fundamental question and reframe Welsh government policy. Welsh government policy pays too much attention to mobile private firms with the question “how can we do more for you?” Why not refocus Welsh government policy on all public sector organisations and larger firms with the question “what have you done for us?”

We need to “raise the ask” for all grounded organisations and firms because their behaviours on employment and sourcing can lever Welsh benefits. All larger grounded firms should pay attention to what they put back in return for local demand and support. This is a question not only for local authorities but also for universities and hospitals as for supermarkets and utilities in the private sector.

The aim should be to vary community obligations so that all these organisations put back something that is relevant. This is not as radical as it seems. It only involves doing more strategically and systematically what we are already doing in local government procurement or the Welsh NHS which is now an anchor company committed to paying a living wage. Wouldn't Wales be a better place if private employers in home care paid the minimum wage (for the whole working day) and if the supermarket chains committed to Welsh regional suppliers on fair contracts?

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# Skills policy in Wales: developing a new approach

Caroline Lloyd

The ambition of the Welsh government is to create a 'highly-educated, highly-skilled and high-employment Wales' (Welsh Assembly Government 2008). Currently, this vision of Wales is confronted by a low productivity economy, low employment participation levels and a preponderance of relatively low skilled and low paid jobs. Much of the higher skilled work is concentrated in the public sector or is directly supported by it, for example in education and health. What role can skills policy play in shifting the economy towards a position which is far removed from where it is today?

## Skills and industrial policy

For the last 30 years, education and training across the UK has been given a central role in delivering improved economic performance and social inclusion. Increasing the supply of skills has been the policy focus in the context of an unwillingness to contemplate interventionist forms of industrial policy and a reliance on deregulated product and labour markets. Even before the financial crisis, there was a recognition that these policies were failing to deliver high skilled and sustainable employment or solve the problem of low waged work. The financial crisis was associated with a revival of interest in industrial policy and rebalancing the economy, while subsequent UK government austerity measures has reduced the capacity to financially support traditional skills policies.

Welsh government policy has long focused on the importance of education and training to economic growth and the quality of life for individuals. Despite questions over the success of skills policies over the last decades, recent statements indicate little change in the underlying assumptions that inform policy making. It is argued that Wales must compete in the 'global race' to develop skills, that skills are a 'strong lever for tackling poverty and strengthening the creation of jobs and growth' (Welsh Government, 2014a) and that there is an 'upward pressure on skills as jobs become more highly skilled' (Welsh Government, 2014b). Before identifying what role skills might play in an effective industrial policy, it is important to challenge these propositions.

- *The global race for skills.*

There may well be a global race to increase qualification levels but there is little evidence to indicate that mobile capital shifts to countries based on PISA results or the proportion of the workforce with a degree. Simply by having 'more' is not necessarily going to make Wales stand out from other parts of the UK, Europe, the US or China. Lack of skills may make it difficult for organisations to expand within Wales or encourage them to look elsewhere for labour. However, evidence indicates that skills shortages, even before the recession, were low. In certain sectors and for specific jobs, there are issues with underinvestment in training, particularly in relation to an ageing workforce, the loss of skills due to job losses in downturns, and the failure to invest over many years in initial training including apprenticeships.

- *Tackling poverty and creating jobs*

The reduction in poverty under the previous UK Labour Government was a result primarily of the expansion of in-work benefits rather than through a more qualified or skilled workforce leveraging better paid employment. For individuals, obtaining qualifications may provide the opportunity to compete for a wider range of jobs on offer but there is no evidence that it creates more or better jobs. Recent data shows a growth in low wage work, now accounting for one in four of all Welsh jobs (Resolution Foundation, 2014). In a deregulated labour market and under conditions of recession and austerity, there has also been an expansion in zero hours contracts, core hour contracts and 'false' self-employment.

- *Jobs are becoming highly skilled*

While there has been a small increase in the proportion of the workforce in graduate and professional occupations in Wales (Felstead et al, 2013), there remain half a million jobs (close to 40%) that do not require a level 2 qualification (equivalent to five A-C GCSEs) on entry. Only around 200, 000 people of working age in Wales do not possess a level 2 qualification. Working Futures (Owen 2012) predictions point to very small future reductions (less than 2 percentage points) in the numbers employed in lower occupational jobs that typically have limited qualification demands. The

result of these mismatches has been a growing concern about levels of over-qualification, poor skill utilisation and outward migration of qualified workers from certain regions, as well as from Wales.

### **Moving forward**

Questioning these assumptions about skills leads to a recognition that raising qualification levels or improving training will have little impact if employers do not change. This problem has been recognised by the Welsh government, and there has been a welcome shift towards asserting the need to attract and develop higher skilled industries and to improve skill utilisation. A skills policy could be used in a targeted way to support an industrial strategy by focusing on those organisations and sectors which have the potential to create and sustain high value-added, intermediate and high skilled jobs. The proposal for better labour market intelligence and locally delivered training in collaboration with further education colleges is a welcome move away from 'one size fits all' approaches. Attempts to leverage existing organisations to improve skill utilisation is also a positive development but in practice presents an extremely difficult challenge. Even in Scandinavia, where there have been long-standing institutional and financial supports for such initiatives, change is difficult and has often been small scale (Buchanan et al, 2010).



In addition, there is a debate to be had around the type of skills to be developed. The approach across the UK for the last 30 years, described as 'employer-led training', is aimed at trying to deliver what employers want. The result has been a narrowing of the scope of vocational qualifications and the widespread elimination of general education and broad skill development. For much of the rest of Europe, many aspects of vocational education and training are subject to joint decision-making by the social partners, ensuring a voice for the workforce. If training is to be about the long-term, progression and wider forms of learning, then institutional structures are required that provide trade unions with a substantial role. Finally, even with the most successful industrial policy, many workers will be excluded from higher skilled jobs; there will still be large numbers working as cleaners, retail workers, catering assistants, drivers and care workers. While enabling progression out of these jobs is important, improving the quality of work, in particular pay and working time, is a priority for a more socially inclusive Wales.

In a period of austerity and with limited powers to address broader macro-economic conditions, labour market regulations and minimum wages, the types of options available are inevitably restricted. However, government financial support and public sector procurement are key levers that could be used to target higher skilled sectors, encourage the development of long-term social partnership institutions and to reduce the number of low paid jobs.

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# Reinventing Industrial Policy

*Kevin Morgan*

Industrial policy is back in fashion globally, though not everyone is happy about it. On the left it is greeted with enthusiasm as a belated attempt to address the legacies of the Financial Crisis and a means to spearhead the transition to a more sustainable and better balanced economy. The reaction on the right is more mixed because, while conservative governments are embracing industrial policy in practice, conservative journals remain ideologically opposed to “the global revival of industrial policy” (The Economist, 2010). The idea that the public sector can play a creative role in economic development is totally foreign to the neo-liberal paradigm, where the public sector is invariably portrayed as a drag on innovation and development, whereas the private sector is assumed to be the quintessential source of creativity and value-adding activity. However, this stereotype has been challenged by recent studies, where the state is shown to have fostered rather than frustrated innovation (Mazzucato, 2013).

But all sides agree that strategies for smart specialisation (S3), the name of the new regional innovation policy in the EU, will place enormous demands on the public sector. Our conceptions of the state are deeply imbued with the legacies of intellectual debates that have raged since the dawn of capitalism. This paper aims to address this challenge.

## **Debating the State: From Hayek to Rodrik**

No issue polarises political debate as much as the role of the state in economic life. The business community would be wrong to think that it is above such theoretical debates because, as Keynes famously said: “Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist” (Keynes, 1973). Two influential economists, normally treated as polar opposites – Friedrich Hayek and Dani Rodrik - have much to contribute to our understanding of the state’s role in economic affairs, albeit in very different ways

Hayek offers a powerful critique of the limits of state intervention and his critique deserves to be treated seriously because it highlights the fallibility of the state. The key problem of a “rational economic order” according to Hayek was that “the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess”. The idea that knowledge is not given to any single agent in its totality, and that the tacit element cannot be fully codified, fuelled Hayek’s critique of state planning and his defence of the market, which he considered to be a form of “decentralized planning by many separate persons” (Hayek, 1945).

Although neo-liberal critics of the state rarely refer to Hayek's seminal article on the use of knowledge in society, the latter informs two of their key propositions: firstly, that the state can never be a surrogate for the decentralised processing capacity of markets because it lacks the necessary knowledge; and secondly, that the state should not seek to pick winners because it lacks the competence to do so.

No one has done more to respond to this neoliberal challenge than Dani Rodrik, who has sought to establish the design principles of an industrial policy for the twenty-first century (Rodrik, 2004). The principles (reproduced in Box 1) constitute a set of recommendations for the design of a new industrial policy that is far more creative and capacious than we normally associate with the term.

Although he accepts Hayek's criticism that the state has a knowledge deficit, Rodrik turns the critique on its head by arguing that firms suffer from the same problem, especially when they are exploring new technologies and emergent markets. In Rodrik's conception, industrial policy is essentially a "process of economic self-discovery", a process he describes as:

"An interactive process of strategic cooperation between the private and public sectors which, on the one hand, serves to elicit information on business opportunities and constraints and, on the other hand, generates policy initiatives in response. It is impossible to specify the

#### Box 1: Ten Design Principles for Industrial Policy

1. Incentives should be provided only to "new" activities
2. There should be clear benchmarks/criteria for success/failure
3. There must be a built-in sunset clause
4. Public support must target activities not sectors
5. Subsidised activities must have potential for spillover effects
6. Industrial policy must be vested in agencies with demonstrated competence
7. The implementing agencies must be monitored closely at the highest political level
8. Policy makers must have good channels of communication with the private sector
9. Optimally, mistakes that result in "picking losers" will occur
10. Promotion activities need to have the capacity to renew themselves, so that the cycle of discovery becomes an ongoing one

*Source: Rodrik (2004)*

results of such a process ex ante: the point is to discover where action is needed and what type of action can bring forth the greatest response. It is pointless to obsess, as is common in many discussions of industrial policy, about policy instruments and modalities of interventions. What is much more important is to have a process in place which helps reveal areas of desirable interventions." (Rodrik, 2004: 38).

Far from being a wholly autonomous agent, the state becomes an embedded state.<sup>1</sup> The state is actually embedded in this interactive process of strategic cooperation and, is better able to appreciate the scope for/barriers to innovation and development.

### **The highs and lows of regional innovation policy in Wales**

Wales offers salutary lessons for other less developed regions as it attempts to migrate from a **state-centric** to a **network-based** regional innovation policy repertoire. This is best illustrated by the changing role of the Welsh Government in promoting innovation in two radically different ways – from controlling the process in the case of the Technium programme to curating it with the Specific low carbon energy project.

The rationale for the Technium Centres was twofold: (a) to commercialise near market academic research and (b) to create high value jobs to retain graduates in Swansea,. The idea of an incubator facility to support new technology businesses was originally mooted in the Regional Technology Plan (1996). But the concept would not have been realised had it not met the emerging agenda of the property division of the Welsh Development Agency (WDA), which was at that time searching for a flagship project to spearhead the regeneration

of Swansea Docks. This marriage of convenience spawned the concept of the Technium, which was presented to funders as an alliance between the university sector, which was reckoned to have expertise in *intellectual* property, and the WDA, which was responsible for *industrial* property. Having secured the backing of the Welsh Government, the concept was eventually funded for a two year period through a £1million ERDF grant. However, the most remarkable feature of the Technium story was the fact that a further 9 centres were launched before the first centre in Swansea had been evaluated (DTZ, 2009).

Many of the centres had a strong sectoral focus, ostensibly to reflect local business clusters or academic expertise. But it was later discovered that this focus had actually been proposed by WEFO, the Welsh Government's EU programmes agency in order to satisfy funding procedures. Given all these policy design defects, it was hardly surprising that the Welsh Government decided to close the majority of the centres in 2010, a decade after the concept was originally conceived and after more than £100 million had been invested, most of it public money from Welsh Government and EU sources.

How are we to explain the extraordinary degree of central control exercised by the Welsh Government in the design and delivery of the Technium programme? Money and knowledge

help to explain this state-centric repertoire. The Welsh Government felt it had a right to exercise full control because the Technium Centres were largely funded by the public purse. It also felt no need to enlist the expertise of other partners because, as the Technium project morphed from its original purpose, a novel venture in intellectual property, into a conventional industrial property venture, it believed it had all the requisite knowledge in-house (Morgan, 2013b).

However, a radically different regional policy repertoire began to emerge in the context of the Specific low carbon energy project. The main aim of the Specific project is to develop functional coated glass and steel products that will transform the roofs and walls of buildings into surfaces that are able to generate, store and release energy (Worsley, 2012).

Specific was designed to be an exemplar of open innovation and, thanks to a unique collaboration between government, academia and industry, it has made rapid progress, moving from R&D to pilot production in a remarkably short time. Although Swansea University and Tata Steel are the lead academic and industrial partners, Specific is closer to an innovation ecosystem because the expertise of a host of other partners has also been mobilised, including world class companies like BASF and Pilkington on the industrial side and Imperial

College and Cardiff University on the academic side. Though barely 3 years old, Specific is already widely regarded as one of the most successful regional innovation projects ever undertaken in Wales.

Although they are local projects, Technium and Specific have a much wider resonance because they embody two very different regional policy repertoires. Technium embodies the state-centric repertoire that has dominated regional innovation policy for the past two decades, a repertoire that is strongly associated with the phenomenon of “cathedrals in the desert” (ie projects that are a massive waste of money because they were not calibrated with the demand side of the regional economy). Specific, on the other hand, embodies a network-based repertoire in which innovation is conceived as a collective endeavour, where each partner recognises that what they can achieve by working in concert is so much greater than what they can achieve by acting alone.

The role of the regional state may seem insignificant in the case of Specific, but nothing could be further from the truth. The role of the Welsh Government was highly significant on two counts. First, its initial financial investment of £2 million was crucial because, by acting at an early stage investor, the Welsh Government demonstrated its confidence in the project and this persuaded other investors to come forward.

Second, the Welsh Government assumed the role of curating the project, a role that is more akin to the embedded state, where the state is content to be an equal partner in a network of innovators.

## Conclusions and Implications

Although the public sector is today facing unprecedented pressures, not least from the “age of austerity”, it has a major role to play in the S3 era of regional innovation policy. In fact its promise of smart specialisation will not be fulfilled without the public sector playing its full part. However, in regions where the state and its public agencies need to play a pro-active role, it is imperative that they do so in the light of the insights that we distilled from the work of Hayek and Rodrik.

Rodrik’s argument is challenging because it assumes a public sector that can routinely absorb mistakes and failures. The embedded state that he advocates is an experimental state, a state that is well-disposed to experiment, to explore and to engage in a process of self-discovery with its partners. However, the political culture of the public sector is becoming increasingly schizophrenic: while it extols public sector experimentation when it leads to successful innovation, it berates public sector managers if they make a mistake. The public sector is enjoined to innovate, so

long as it does not lead to mistakes or failures. To redress this schizophrenic culture, national governments will need to deal with three taboo issues that have stymied public sector innovation – namely feedback, failure and learning.

Although the significance of robust and honest *feedback* is impossible to overestimate, we tend to assume that such feedback is readily available. The truth is that robust and honest feedback is like gold dust. In almost every sphere of life – but especially in the worlds of business and politics – feedback is filtered and tempered by a whole series of things, like power, status, hierarchy, fear, and ambition.

If feedback is hard to manage, *failure* is even more difficult, especially in the public sector where taxpayers’ money is at stake. In contrast, in some parts of the private sector failure is something of a badge of honour because it is assumed to be synonymous with learning. Among organisations that take “error management” seriously - in the airline and healthcare sectors for example – the evidence suggests that when people talk openly about their mistakes, morale and performance improve. Failure in the public sector can spell disaster for managers and their political superiors. We need to have a higher tolerance of failure because it is part and parcel of experimentation and innovation.

The public sector will need to allocate more space, time and resources to *learning* about what works where and why because monitoring and evaluation are still seen as Cinderella activities.

If these cultural issues seem remote to traditional industrial policy, they are critically important to the new industrial policy, which is fundamentally concerned to foster innovation and development in a more sustainable fashion. To that end the public sector will need to become more creative, more experimental and more tolerant of failure.

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*This article is an abridged version of a report produced for the European Commission.*

## Notes

<sup>1</sup> The concept of the embedded state draws on Peter Evans' concept of "embedded autonomy" which highlights the need for industrial policy-making to be embedded in a network of linkages with private enterprises as opposed to the arm's length relationship extolled by the neo-liberal state repertoire (Evans, 1995; Cooke and Morgan, 1998).

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# Spatial disparities, 'rebalancing' and territorial development policy

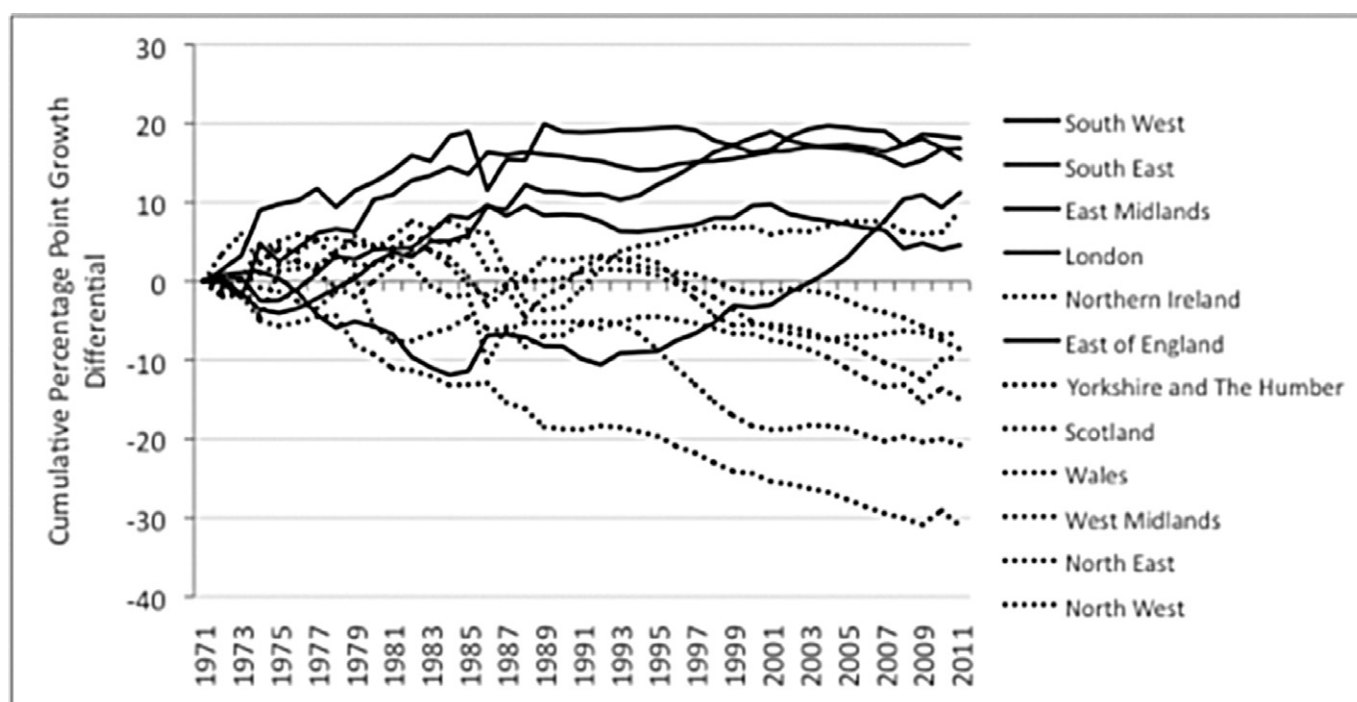
Andy Pike

Spatial disparities in economic and social conditions have been an entrenched and persistent feature of the UK landscape since the middle of the 19th century. The scale of spatial disparities has grown since the late 1970s, accelerating during the 1980s, and continuing to increase during the 1990s and 2000s (Figure 1). Spatial disparities in the UK have far outstripped those in France, Spain, Italy, Germany and (at state level) the US. In the post-war period, the UK pioneered regional policy to address spatial disparities based on economic, social and political arguments for more balanced development that promoted wider economic opportunity and better mobilised the assets, resources and skills of people and places across the nation.

Figure 1: Regional Cumulative Percentage Point Differential Growth Gaps of GVA (2005 prices), 1971-2011

In the wake of the global financial crisis and 'Great Recession', spatial disparities and the geographical concentration of economic activities in London and the Greater South East formed part of the diagnosis of the UK's 'unbalanced' growth model that was over-reliant upon (financial) services, the public sector and high levels of corporate and consumer debt and imports. The UK Coalition government has made a commitment to 'rebalancing'. In the context of austerity, this 'rebalancing' has been characterised by deficit reduction, fiscal stress, public expenditure and employment reductions, growth and recovery-oriented development policy, a private sector focus, particular forms of decentralisation and state shrinkage and hollowing-out.

In England, territorial development, institutions and policy for 'rebalancing' have focused upon two not always integrated agendas that have aimed to shift power to local communities and



Source: Cambridge Econometrics



business, enable places to tailor approaches to local circumstances, provide incentives for growth, and support investment in places and people to tackle barriers to growth. First, following the dismantling of the regional tier of Government Offices, RDAs and Regional Chambers, the Local Growth agenda aimed at 'realising every place's potential' assisted by decentralisation and localism. A new institutional framework of 39 Local Enterprise Partnerships was established led by the private sector, working on functional economic areas and each with wide variations in economic performance, potential and resources. At reduced funding levels, new policy instruments were set up including the Regional Growth Fund, Growing Places Fund and Single Local Growth Fund alongside EU funds where eligible.

Second, the Cities agenda has focused upon cities and city-regions as the engines of economic growth, prosperity and 'rebalancing' as economic counterweights outside London. Several waves of City Deals with 29 (and counting...) city-regional groupings in England and Scotland have been rolled-out involving bespoke agreements between central and local government aimed at supporting growth and job creation using public and private investment, identifying national government measures to support delivery of the plans, securing greater local control over public spending, the pooling of resources across functioning economic areas, and the planning and delivery of strategic local infrastructure investment.

In the context of a further decentralising UK, what does the experience of rebalancing, territorial development, institutions and policy in England since 2010 mean for Wales? There are a few things to highlight. First, the conundrum of the governance of territorial development in England has become more acute in an asymmetrical and decentralising UK. This issue has been given further momentum following the Scottish independence referendum result and is being focused upon potential fiscal devolution to Combined Authorities and Metro Mayors at the city-regional scale. Where such developments leave further decentralisation to Wales will warrant thinking through and reflection especially given the city-regional focus to developments in England.

Second, the period of churn, instability and uncertainty since 2010 is but the latest episode in what Geoff Mulgan has called the "perpetual restructuring" of the British state. This compulsive reorganisation has generated endemic institutional churn, disruption and fragmentation for (non-statutory) economic development. The period since 2010 is another swing of the pendulum in the post-war history between the regional (early 1960s), local (c. 1979-1994), regional (1997-2010) and local (2010-) levels. England's experience is a long way from the continuity, stability and long term strategic planning for territorial development evident internationally and provides a cautionary lesson for Wales in reflecting upon its aims for new strategies and institutional reform.

Third, structural problems remain unresolved in the new territorial development and policy landscape in England between centralism and localism, competition and collaboration, agility and “bureaucratisation”, and limited and uneven capacity and resources. ‘Deal-making’ has become the preferred method of centre-local relations with highly uneven outcomes in terms of powers and resources amongst the ‘winners’ and ‘losers’. While no easy answers exist to address such issues, thinking them through up front and in advance of strategy making and reform is worthwhile. ‘Deal-making’ as a framework for public policymaking especially needs further scrutiny.

Last, the new context has meant reduced resources, fragmentation, weakened strategic leadership over larger geographies, increased centralisation and highly constrained decentralisation leading to drift, lost momentum, diluted expertise, reduced confidence and debateable impacts on local growth and prosperity. Such problems in England provide food for thought in formulating territorial development policies in Wales in the current context.

The frustration with the patchy and slow progress of reforms in addressing ‘rebalancing’ has stimulated ideas – being developed as part of a policy intervention with the Regional Studies Association (Gardiner et al, 2014) - to inject some fresh life into the case for a more balanced approach to spatial economic growth and development policy in the UK. Some of these may resonate with potential measures in Wales and include: i) aligning and matching the economic and spatial strategies in the devolved territories with one for England; ii) integrating industrial and spatial strategy and policy; iii) establishing Territorial Investment Banks beyond the City of London; iv) providing better territorial co-ordination of public investment flows; v) bolstering the role of anchor institutions such as large employers in the private and public sectors especially universities; vi) using public procurement and the dispersal of public sector activities and assets to stimulate industrial and territorial development; vii) formulating a ‘road map’ for further decentralisation of governance across the UK; and, viii) for England, strengthening and consolidating the LEPs.

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# Challenging the Concept that there can be Fair Employment with No Guaranteed Minimum Hours

*Karen Williams & Jean Jenkins*

In the second decade of the twenty-first century, against a backdrop of austerity policies and attacks on public services, a new global elite flourishes while millions of workers exist from day to day in conditions of precarious employment and financial insecurity. On the international stage, it has become plain that paid work outside the home is no guarantee of the longer term economic and social upgrading of the worker. Closer to home, in the UK, and in Wales, current research shows us that alongside the ills of unemployment, in-work poverty is now a significant feature of contemporary society. Yet, in theory, and according to sections of the popular media which demonises those forced on to welfare benefits, work is a pathway to social inclusion, to individual dignity, to a better income and a better life. It should be so, but the emancipatory capacity of work is no longer a given, particularly for those trapped in low-skilled, low-paid employment. In this context, it is not only the quality of the jobs themselves but also the way they are structured and organised that is at issue, as unpredictable patterns and hours of work compound the problems faced by the low paid. In this short discussion note, we highlight the links between the casualisation of hours, insecurity of employment and poverty pay, and consider the wider implications of the current labour market for commodified workers trapped in low skilled work.

Today, the Welsh economy is dominated by the service sector, with manufacturing employment in Wales now comprising just 11% of all workforce jobs. Earnings of the Welsh worker are on average around 88% of that enjoyed across the UK generally. While public and private sector services provide a range of employment prospects, and there is consistent rhetoric about the need to generate higher skilled, more secure and better paid jobs in Wales, it remains generally the case that (even were the working population suitably trained) the number of opportunities for high skilled and high paid employment is limited. Service sector employment in Wales (as elsewhere in the UK) is dominated by social care, retail and hospitality, where work and workers – very often female workers – are classed as low-skilled are low paid and, ultimately, a disposable resource.

Much of this sort of service sector employment is offered in varying packages of part-time work. Employee-driven, regular and reliable part-time working is to be valued, but we know that, increasingly, this is not the sort of part-time package that workers are being offered in the labour market. Rather than being a means of flexible working driven by workers' needs, part-time working arrangements are market-focused attempts to accommodate organisational needs for 24/7 cover at minimum cost. Thus it is that surveys and research by the

Rowntree Foundation, IPPR, the Wales Institute for Social and Economic Research Data and other academics, the Bevan Foundation, the TUC and the ONS, have consistently exposed the association between part-time working, underemployment and unsustainable wages. We know that a significant proportion of those corralled into part-time work are likely to be seeking longer working hours, and that they are unable to subsist without the assistance of in-work welfare benefits.

To add to the privations of low paid part-time work, there are clear trends in the casualisation of work through employers' use of 'contracts with no guaranteed minimum hours', to use the definition adopted by the Office for National Statistics (ONS) (2014). In popular parlance, we have come to know such arrangements as 'zero hours' contracts, but this term fails to fully reflect the range of contractual forms, including bogus self-employment. Such contracts treat the worker as a dispensable commodity, easily picked up and put down. Changes to working patterns are occurring in real time, even mid-shift, particularly in the retail and hospitality sectors, underscoring the arbitrary nature of work in such environments. The scope for the assignment of work through managerial favouritism (or intimidation) is clear, with all the attendant implications for workplace stress,

unfair discrimination and the nullification of both the principle and practice of equal opportunity. The ONS Report noted that at least 1.4 million workers in the UK now work to contracts with no guaranteed minimum hours, a figure that by the Report's own admission, probably significantly under-reports the exact figure.

A contract with no guaranteed minimum hours is one where mutuality of responsibility – by employer and employed – is negated. The unpredictability and precariousness of such forms of employment is linked with limited access for the worker to sustainable earnings, training and collective representation, and reduces any realistic prospects of social mobility through paid work. Such contractual arrangements also complicate the status of the employed person, distancing them from the possibility of accruing contractual privileges or statutory employment rights at some point in the future. By definition, this is a contractual device which isolates the individual worker and offloads all the risk of flexibility on to their shoulders, the very person who, already low paid, is least equipped to accommodate fluctuations in hours and earnings. While under this model of employment the employer gains a 'flexible' workforce with minimal obligation to care for their needs, the workers can expect

only limited, if any, advancement through work, and at the most basic level are unable to forecast their earnings from week to week because they cannot rely on a whole day's work – or even a whole working shift – when the customer doesn't 'turn up'. It is in this context that in 2015 the 'working poor' in Wales and the UK are increasing in number. The associated implications for the state and public finances are serious, as welfare benefits are needed to supplement the incomes of workers through tax credits and benefits. The state, in effect, is subsidising low paying employers who offer contractual terms which provide neither security of employment nor predictability of earnings for their workers, nor tax returns for the state. It is all the more shameful when such forms of employment contaminate public sector provision through the privatisation and outsourcing of services in the community, like social care, all of which are coming under increasing pressure during this time of austerity and cutbacks.

It is to be hoped that the Welsh Government's decision, in June 2014, to adopt the two-tier workforce code, will begin to realise the 'power of procurement', to use the words of the recent Smith Institute Report on 'Making Work Better'. The Report praised the code as an example for other regions of the UK to emulate, in setting higher employment standards for public service provision. This move by Wales's policy makers is, we feel, significant in engaging with what employment with no guaranteed minimum hours represents, and being imaginative and unafraid in challenging the business model that underpins it.

The 'zero hours contract' in all its many forms, embodies the abandonment of any conception of the worker as a citizen with legitimate rights and aspirations, or individual needs beyond bare subsistence. It seems that in the brave new world of twenty-first century employment, the neo-liberal rhetoric of market imperatives is leading us backwards to the days of the Sliding Scale, whereby miners' wages were tied to the price

of coal rather than a living wage. In our more recent preoccupation with what the disembodied market demands, we appear to have lost our commitment to what a worker should be able to expect. In 2015, Wales needs an industrial strategy which finds a route to better jobs, but this is clearly a longer term endeavour. In the meantime, as strategies for growth and prosperity take form, public policy needs to reconstruct the image of the worker as a person with the right to organise collectively, to have a voice in the employment relationship, to see opportunities for social mobility and to be more than just another commodity in the marketplace. The rise of the new forms of exploitative employment we have highlighted in this short discussion, show that decent employment conditions are never guaranteed and that the increasing power of employers in the marketplace needs to be counterbalanced by vigorous state policy making and trade union action to ensure that working people are recognised and treated as human beings with basic rights in the workplace as well as in the wider society.

Fair pay and dignity in employment, relies on fair contractual terms for all workers. In building our future society and ideas of what work should be, we in Wales should not be afraid to champion this cause.

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# Industrial Policy and infrastructure in Wales

*Gerald Holtham*

## *The conventional view*

The conventional view about industrial policy is that it should aim at providing the right conditions for business and industry to flourish and should not be too interventionist or prescriptive. The right conditions include good quality infrastructure and a trained and educated labour force.

Even countries that used to follow more directive industrial strategies, like Japan, with its Economic Planning Agency, or France, with its Commissariat du Plan have tended to move in the orthodox direction. The view has grown that as Western economies developed away from the mass-production of standardised consumer goods – the so-called Fordist era – towards more diverse customised products, centralised intervention has become less useful. Governments seldom know enough about market developments in fast-moving new industries to intervene productively. More often they prop up declining businesses trying to defend jobs or else back the wrong horse. The UK government had a particularly mixed record with its industrial interventions and sponsorships. From Concorde to the AGR nuclear reactor it has backed high-tech commercial failures at great expense.

If the UK cannot get it right, what price the Welsh government, which has much smaller resources of industrial experience and expertise? It already has some white elephants to show such as the Technium programme.

So much for the orthodox view. There is much to recommend it but it is not a sufficient guide to policy. It seems likely that a peripheral country like Wales, which has a lower income per head and lower levels of economic activity than the rest of the UK will stay in that situation without purposeful policy action. Welsh GVA per head is at only 72 per cent of the UK average level, roughly what it was in 1999. There is a tendency for some of the more highly educated young people to leave and seek their fortune elsewhere while older people move in. In 2012-13, for example there was net emigration of 3980 people aged 15 to 29 and net immigration of 2430 people aged over 45. There is no obvious reason why these tendencies should reverse or why the free market would start pushing up the Welsh GVA towards UK levels. So what should the government in a small country like Wales do to foster economic development?

### *The need for a plan*

It should certainly look to develop infrastructure and training but what infrastructure should take priority, given the scarcity of resources? Wales has an Infrastructure Investment Plan but it is not yet underpinned by an explicit industrial or economic strategy. To maximise the benefit from infrastructure investment the government has to set priorities, concentrate resources accordingly and take some political risk. That will be easier if it explains to the public what it is trying to do and takes them along. Part of that is explaining that business and enterprise are good things that we should encourage with appropriate infrastructure investment.

Currently the Welsh government, via Business Wales provides support services for smaller businesses and has in-house units attempting to encourage trade and inward investment. The government has also earmarked nine sectors where it claims to support investment and has created nine sector panels mainly of business people who are supposed to help the government identify opportunities for growth. The government has also designated seven enterprise zones and created seven Boards to administer them.

### *The two dangers of industrial policy*

Industrial policy in a small country like Wales has to thread between opposing dangers. The first problem is attempting to do too much. Political pressures often push governments into this trap. Any attempt at concentrating effort, know-how and resources meets cries from those left out, with complaints of unfairness or post-code lotteries. Clearly Wales has not avoided this danger. Nine sectors span almost the entire economy; there is more in than out. That hardly counts as concentration. Diffusion is a more appropriate word. Similarly we have seven enterprise zones. They appear designed more to meet political objectives than out of any industrial or commercial logic; a contributory factor was that such zones were created across the English border and it was felt necessary to counter any pull in that direction.

Perhaps we should not worry too much about it, however, because a great weight of academic research shows that enterprise zones almost never succeed. They sometimes pull businesses from other less-favoured areas but seldom if ever generate an increase in new business. There does not appear to be a lot happening in a number of the Welsh enterprise zones and perhaps it would be just as well not to try to invest in all of them.



If doing too much is one danger in a small country, another is crony capitalism. That does not necessarily imply anything corrupt or illegal. Yet big businesses and the prestige of their managers or proprietors can often have a disproportionate influence in a small country on politicians with no business experience. The risk is increased if the government civil service equally lacks such experience and Ministers come to doubt the acumen of their advisers. Wales has not escaped that fate either. It has been known for ministers to prefer the advice of business acquaintances to that of colleagues in government. Often, no doubt, the advice is sound and unbiased. Can we bet that it always will be so?

There is no airtight way of avoiding such difficulties but it would help if the government provided its industrial support in the form of soft loans or equity investment and phased out entirely grants to commercial companies. In many cases the grants pay for things the company would have done anyway so they just benefit shareholders. If a project is worth undertaking the company responsible will be happy to finance it with a soft loan or to accept an equity investment whereby the public sector takes a minor stake in return for cash. When that was suggested to a public official the answer was: "oh but firms would not take the money then". When public officials are so credulous public money is sure to be wasted. By investing not giving hand-outs, the government also creates a pool of capital that can be recirculated as earlier investments are paid off.

### *Consistency and public support*

Suppose the government enunciated a clear economic strategy with a limited number of objectives, set it out, invited responses and debated it in the Assembly before adoption. It would then be easier to resist pressures to divert resources to other areas or to appease particular business interests. The priorities would ideally be maintained consistently over a period of time and would help to direct spending on infrastructure. The pressure on politicians is always to announce initiatives and seize photo-opportunities but the boring fact is that the best results come from a well thrashed-out strategy implemented consistently over the long haul – building the thing your predecessor promised, not promising something new.

Since 1999 the government has announced a number of targets that turned out to be over-ambitious – like increasing Wales' share of UK GVA up to 90 per cent, (from 72 per cent) or getting into the top 20 countries on educational standards as revealed in PISA reports. As those targets turned out to be over-ambitious, there has been a tendency to become less, not more, explicit on what we are trying to achieve. That is unfortunate. The government must expose itself to some risk of embarrassment if it is to achieve anything. Real objectives should continue to be set, even if they are more modest.

The sector panels have been going long enough now for the government to start pruning back its objectives but to be more explicit about them. It could take a view as to which initiatives really deserve complementary infrastructure investment or training support, and which should be merely wished well. Then it should see what the implications are for the geographical spread of investment in infrastructure and follow through decisively.

### *The opportunity and a problem*

When requirements exceed capital budgets it should raise private finance which is extraordinarily cheap at present, perhaps at hundred-year lows. Caution about PFI (private finance initiative) deals has served Wales well because the country avoided the expensive early phase of such investment when the public sector was finding its way and all too often paid through the nose for assets. That caution means Wales has debt servicing around one per cent of the public budget compared with 5 per cent in Scotland, for example. Now that the lessons of that early experience have been learned, finance is so cheap and contractors are scrambling for business, there is an opportunity to take advantage of earlier prudence and invest more heavily now.

Yet economic and industrial policy in Wales is bedevilled by two misunderstandings that stem from the early days of devolution and have never been corrected. The first is a misunderstanding of the role of executive agencies that are responsible to Ministers but

not part of the central civil service. There is an essential role for such agencies in a modern economy, whether it be a venture capital investment fund or a transport authority with statutory powers to deliver the Cardiff city-region metro, for example. They require technical and commercial expertise and enough distance from government to take risks without being overtaken by party-political sniping. Bringing the quangos under the arms-length democratic control of an elected Welsh government or Assembly was essential. Having an indiscriminate bonfire of all of them and transferring the functions into a necessarily cautious, risk-averse and politically hamstrung civil service was just a huge mistake.

The second mistake was to have “Polo-mint” government - one with a hole in the middle. There is no substantial First Minister’s department, no strong Cabinet office and no real Treasury in the Welsh government. There is no body that is supposed to help frame an overall strategy or to co-ordinate the strategies of different ministries, which all too often operate with detached independence. If the First Minister wants to create an industrial strategy driving the infrastructure plan and to ensure that the policies of all departments are in harmony with it, he will have his work cut out. The institutions to help him are not there. You won’t get joined up government if a chunk of the government’s central nervous system is missing.

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# A Whole Government Approach

*Martin Mansfield*

For the Welsh economy to truly thrive, the UK economy – and the political choices that define it - must change. A genuine and overdue rebalancing which sees the financial sector enlisted in the service of the whole economy should be at the heart of creating a more diverse and productive system that prioritises fair pay and social solidarity over speculation and gross inequality.

As part of the British trade union movement, the Wales TUC continues to campaign for a meaningful UK industrial strategy which encourages high investment levels, a long-termist culture and is supported by an industrial relations system that allows for difference while promoting consensus. This is part of our ambition of bringing about genuine economic democracy.

What we strive for in Wales is an economy which takes its lead from the best of what's already happening here, where strong productivity is matched by good employment practices and pay. At the Council for Economic Renewal and in key industries such as aerospace and automotive, the Welsh government, unions and employers are used to coming together in partnership on issues from apprenticeships to major commercial investments. Where

collective bargaining is present pay is higher and opportunities for learning and development are improved. But this is far from the norm for hundreds of thousands of workers across Wales. One in four of all workers here now earn less than the living wage, around one in ten are under-employed and the number of people who are self employed on part time hours has doubled since the crash. This is not a recovery that is rewarding the contribution and sacrifices made by working people.

To change this trades unions in Wales campaign on, and contribute to, economic policy in an effort to shift the longstanding weaknesses that often leave Wales with the smallest reward in good times whilst paying the heaviest price in bad. A specific programme is needed, underpinned by shared values and based on social partnership. This shared approach must be aimed at tackling our underlying economic problems and not just dealing with the impact of recession.

Unions have already achieved important practical victories for working people through working in partnership with the Welsh Government. Reinstating the two tier workforce code, clamping down on blacklisting, winning training clauses in government procurement

and fighting for the Agricultural Workers Board are just a few examples of what has been achieved. Flagship tripartite policies including ProAct, ReAct and Jobs Growth Wales also act as leading lights in the case for active labour market policies. However for these to be more effective, we need a wider strategy which challenges the aggressive business model of some employers who drive down pay, conditions and opportunity at work.

On skills, our economy needs far more employers like the best who live up to their responsibility to deliver meaningful employee development. Training which is overly task specific and solely employer led often leaves workers in precarious employment with skills that simply do not transfer or lead to decent jobs afterwards. The Wales TUC has led calls for training levies based on priorities set jointly by employers, unions and providers; ensuring that we drive up standards in training. Achieving a more diverse and higher level skills base is essential for a more resilient Welsh economy that's able to compete. Similar systems, based on reciprocity and shared interest, have a track record of success in countries such as Denmark, Germany and the Netherlands.

A wider strategy could also be used to support disabled and disadvantaged people into work as the labour market continues to be dominated by discrimination – an injustice made worse by an increasingly brutal welfare system. Unions worked with the Welsh Government to make the Employer Support Grant a success in supporting 220 former Remploy workers into new jobs but as we aspire to achieve full employment, we need to do more to make the jobs market work for those who need more support. New EU directives allow governments to reserve contracts for organisations with a workforce made up of at least 30% disabled or disadvantaged people. With a scope for disadvantage that genuinely recognises the problems some of our most deprived communities face, now is the time to grasp the chance to create jobs in vibrant mixed workplaces, helping to tackle poverty and extend the benefits of work to those effectively shut out.

In order to overcome the short term pressures which mitigate against such policies, the Welsh Government should develop a specific industrial policy with challenging but achievable targets, to ensure a 'whole government' approach to supporting the economy with a clear focus on delivering quality employment. Wales TUC Conference 2013 called on ministers to use all available powers and to focus resources in support of this active industrial policy – including procurement, structural funds, regeneration programmes and skills policy.

The Welsh economy is under enormous pressure in the midst of a totally unjust and ideological UK austerity agenda. Public service budgets have been hammered while casual jobs, insecure and low paid work now cuts across huge swathes of the labour market. This makes that the task of designing an effective, modern industrial policy even more crucial and urgent.

The Welsh economy will not automatically overcome its structural problems on the coat tails of the current limping UK 'recovery' and no amount of positive business confidence surveys will end the exploitation faced by hard working people stuck in casual work. Active industrial policy should unashamedly and explicitly serve those workers, their communities and the many thousands still excluded from any kind of job. An active industrial strategy which engages the social partners, utilises the interventions of Welsh government across the board and prioritises those interventions accordingly has a chance of building the fair and prosperous Wales we all want.

**Martin Mansfield** is General Secretary of the Wales TUC

# Global Lessons in Modern Industrial Policy

*Tim Page*

Nearly six and a half years after the collapse of Lehman Brothers, how should Wales, a country with a rich industrial heritage, think about its economic future?

Most would agree that sustainable economic growth and low inflation are priorities. But the TUC would go further: in our view, Wales, and the rest of the UK, needs an economy that delivers quality jobs. And we need to focus on building sustainable industries in those sectors where we are or we could become world leaders in the age of globalisation.

This is the language of industrial policy. In 2005, the TUC published a policy paper entitled 'An Industrial Strategy for the United Kingdom'. Ours was a lonely voice: industrial policy was a failed notion of the 1970s, we were told. Then, the economic crisis hit and the degree to which the UK had relied on financial services, to the detriment of other sectors, came into sharp focus. Suddenly, economic rebalancing was at the top of everyone's agenda. Industrial policy was the new normal.

Others have been doing this for a long time, so the TUC decided to take a look at what was going on in two very different countries. In 'German Lessons', we considered Europe's powerhouse economy, with its strong manufacturing tradition. 'The Way of the Dragon' looked at China's place in the world economy, which has developed at a startling pace since the economic reforms of Deng Xiaoping in 1978. Those are two very different countries. But what do they know that we don't?

Germany is a social market economy. There is a strong role for trade unions and a positive approach to industrial relations. In all large companies in Germany, works council representatives (who are usually trade union members) have seats on works councils and supervisory boards. German managers and trade unionists are comfortable recognising their conflicts and differences, because they are keenly aware of their strong common interests. As Martin Rosik, the Human Resources Manager at Volkswagen told us: "Labour representatives expect the company to be competitive, they force the company to be competitive, and take care of the interests of their members. Here you don't have the classic understanding of what is whose role in this game."

Germany has a world class apprenticeship system and employers recognise the importance of skilling their workforce. Germany also has the 'mittelstand', its network of medium sized companies that are considered to be the backbone of the economy. The need to grow small companies into medium sized firms has started to be discussed in the UK. For a long time, we prized world class multinational companies like Rolls Royce, while the UK love affair with small firms continued, but there was very little talk of the need for a tier of medium sized companies. Britain is also learning from Germany's Fraunhofer Institutes, which bring businesses and universities together to create innovation hubs. The UK has set up its network of Catapult Centres, based on the Fraunhofer model. Happily, Catapults enjoy cross party support, so the work done in establishing the

network will not be undone by a change of government. Indeed, the need for a cross party consensus in support of industry is another lesson from so-called Rhineland Capitalism. The task now is to scale up the Catapult network (through which Wales should benefit), which will be necessary if we want to be a world leader in innovation.

China, another country studied by the TUC, does not need cross party consensus, since there is only one party. The TUC has real concerns about human and democratic rights in China and we naturally support the role of free trade unions in every country. Nevertheless, China is having a profound influence on the global economy and it is important that the UK understands its significance. And notwithstanding our very different societies, there are still lessons that we could learn from China.

One such lesson is the ambition of full employment. China's recent history was characterised by the so-called 'iron rice bowl' and as it has started to embrace the law of the market, the concept of a job for life has been under scrutiny. China has responded by making employment a central feature of its economic policy. It seeks industries that move the country up the value chain and create quality jobs. In the west, by contrast, we have sought the economic fundamentals, but if we have those in place, we expect the market to provide the jobs we need. Yet the market has clearly failed in this task. So the UK needs an economic policy that puts quality jobs at its heart, as exists in China.

China's economic development is guided by a Five Year Plan. Such an idea seems hopelessly naive for a western European democracy. But is it really? In October 2012, the British Government was recommended to "produce an overarching and long term National Growth Strategy and its vision for wealth creation, with concrete commitments against which it can be held to account". That isn't a million miles away from a Five Year Plan for the UK. The author of that recommendation was Lord Heseltine, the former Conservative Deputy Prime Minister.

China should be a destination for niche UK exports. Clearly we cannot compete with China, or anywhere else, on labour costs and as China moves up the value chain, it will increasingly compete in more sophisticated markets. So where the UK has niche exports, in industries that China cannot easily replicate, we need UKTI to help us into Chinese markets. The TUC called for a major study of where UK firms could export to China.

Finally, the UK must remain at the heart of Europe. As the global economy grows, power blocs will increasingly dominate and set trade rules. The US is one such power bloc and China is fast becoming a second. No single European country could match the powers of Washington or Beijing, but Europe acting together could punch its weight in the world. The UK must be a part of that Europe.

**Tim Page** is an economist and senior policy officer at the TUC specialising in industrial policy.

# Re-imagining the Welsh Economy: towards a 'distributed economy'.

*Dave Adamson*

For too long in Wales we have been desperately trying to recreate the economic past. It is time to re-imagine a different future. Our economic policy remains locked to a pattern of employment embedded in the industrial era when mass employment in key industries was the norm and where the workforce skills requirements were minimal. The Welsh economy thrived almost by default as demand for coal and steel maintained the economy despite its inefficiency and poor competitiveness (Adamson 2010). The collapse of that economic model from the early 1980s onwards has not prompted a wholesale rethink of how Wales can be prosperous in a post-industrial era, now characterised by the deep reach of the global economy into every city, town and village in the country.

The recently published GVA figures for 2012-13 demonstrate how poorly Wales fares in this new economy. The long-term trend is depressingly familiar. Wales currently achieves 72.2% of the average UK GVA. Assuming we could maintain the 2013 growth rate and the rest of the UK did not improve it would take nearly 35 years to catch up. We do not have that long.

We also currently have a 33% child poverty rate. That's a third of our children leaving school every year under-achieving, failing in the job market, experiencing high levels of economic inactivity or precarious patterns of employment. Even the employed will experience in-work poverty in our low wage economy. We have reached the point in Wales where poverty is endemic and where our current policies will not eradicate poverty by the 2020 deadline.

Underlying this consistent pattern is a collective failure to 'tackle the cause of the causes of poverty' which was identified in the CREW Deep Place study as the high levels of economic inactivity and low wage levels that characterise the Welsh economy (Adamson and Lang 2014). Our economic and industrial policy remain wedded to the Foreign Direct Investment model and the development of new 'key sectors'. These include the creative industries, ICT, life sciences, financial and professional services and tourism. This is despite their limited employment potential and the clear certainty that the generally highly skilled labour required will not be recruited from the ranks of the poor in Wales, as long as the geographical and social barriers to these opportunities remain unchallenged by policy.



Fortunately, some attention is being paid to the construction, energy and environment and food and farming sectors, where considerable potential exists for job development. However, to realise that potential and that of other areas of employment growth we need a radical rethink of the fundamental pattern of economic organisation.

In the Deep Place study, inspiration was drawn from transition theory, Total Place approaches to public service improvement and the 'foundational economy' model developed at Manchester University Business School, and covered elsewhere is this collection of essays by Professor Karel Williams. These three sources of new thinking identify a shared perspective based on a more localised model of the economic structure. Since publication of the report I have engaged in many conversations about a new economic model for Wales and I have begun to apply the term 'the distributed economy' to the vision shared by a large number of people, but yet to find a clear and well articulated place in public policy discourse.

The distributed economy is one that will ensure that employment opportunities are widely distributed geographically in Wales and socially through to the most disadvantaged members of Welsh society. The Deep Place report identified opportunities in food production, energy conservation and generation, the care industries and in e-commerce and e-employment ventures supported by high-speed broadband in all communities in Wales. The vision that is gathering pace is one of communities producing and consuming their own energy and food, caring for the most vulnerable in collectively owned services and working at highly skilled national and international roles from the home or local e-working centres.

Many of these patterns will be imposed by climate change and oil-shock issues anyway and we should be pre-empting crisis by developing the structures and patterns to support this model now. The foundational economy model identifies the role of localising supply chains in key sectors such as energy, housing and food production to maximise local employment at the point of consumption in every community in Wales. The Welsh Government has gone a long way to creating the legal and contractual environment for this to happen, but there is a slow response from the local authorities, hospital and universities, which are the 'anchor organisations' that could trigger new patterns of production that would provide employment throughout Wales. This will require us also to undo the damage of neo-liberal dogma that has asserted that public sector employment is an economic evil.

We have also seen a low level of policy commitment to supporting and developing the role of indigenous employers, particularly in manufacturing and in the broad-based SME sector. Local supply chain development and the fostering of SME growth, merger and consolidation can provide significant employment potential. These strategies do not require the complete abandonment of current, orthodox policy but instead a redirection of some level of resource to an innovative approach to economic localisation.

However, this context is not simply one of economic policy. We must also fundamentally tackle the health divide and educational underachievement to promote greater equality of outcomes for the most disadvantaged sections of the population. This will require a radical reform of the public service model in Wales towards an integrated planning and delivery regime that identifies national goals, regional delivery structures and locally determined objectives. It will be a model characterised by co-production, in which citizens play a key role in the design, delivery and evaluation of public services. The Total Place approach to public service delivery was identified in the Deep Place study as a means to achieve more effective public services in Wales.

This collection of essays is a call to think differently and radically about the future of the Welsh economy. We need a new vision that sees the development of a distributed, more localised economy as a key priority. This would promote an investment in a deep social infrastructure of educational and skills improvement and peer-led health programmes to overcome the skills and health barriers to future employment. As Wales develops borrowing and taxation powers we must invest in our people, not roads. The decision to spend almost £1 billion on the M4 at Newport is a lost opportunity to promote economic opportunity throughout Wales. It supports the foreign direct investment driven hope of attracting investment that will somehow save the Welsh economy. The reality is that it is and should be down to us to do this in an independent and radical drive that breaks with London-centric UK policy to develop an economy that works for everyone in Wales.

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# Designing the Future of Our Cities: What if?

*Carole-Ann Davies*

Working throughout Wales, sharing experience with colleagues around the UK and Europe, I am regularly accosted with a single challenge. In a country the size of Wales, which is as it turns out, roughly the size of Wales, is it not possible to effect *transformational change*?

The pace of change in today's world is unprecedented and the way we live, work, consume and communicate has accelerated beyond all previous experience. We use technologies we still don't really comprehend and create new ways to apply them it seems, by the hour. We have access to vast amounts of data and information, greater freedom of choice and more power over our daily lives. Give or take a few obvious caveats (not least the ever present social polarisation), this is our world.

As we grow accustomed to this, so we become more aware of its impact on our everyday lives, of the where and how we live. The overwhelming characteristic of this impact is increased and rapid urbanisation and at the centre of that trend sits the question of the future of our cities. Undoubtedly they are our most important economic drivers and as such they attract young, connected, qualified, global and mobile citizens. Depending on your perspective, your preferred metaphor may frame cities as the beating hearts of the

emerging agile Asian century, or the ticking time bombs of the last days of a flabby aging European one. Either way, cities represent the problems and potential, the immense challenges and opportunities of our age. So why aren't we looking harder at how they work? Why are we seemingly doing so little to shape the infrastructures they need? Why have we been slow to recognise why cities matter for Wales?

More people live in, move to and through cities, than ever before. The impact of conflict, economic migration, changes in climate, access to work and the other benefits cities can offer, all contribute to unprecedented urbanisation. Irrespective of scale, and much like the global financial crisis, this trend in urbanisation is also important for Wales. The issues for our cities are greater than traditional drive for property development and construction, retail and commerce. They are all in the mix of course but wider issues cannot be ignored. Expectations for quality of life, equality of opportunity, well-being and fulfilled potential are high. And rightly so. The physical quality of the environments we inhabit is vital in underpinning our health, well-being and potential. In turn that quality must be anchored in better and increased services, infrastructure and utilities of all kinds that are essential for an increasingly urban future.

In the evidence and information recently gathered in preparation for the next 20 years or so of development needs in Wales, housing projections alone in relation to population growth are significant for Cardiff, Newport and Swansea. They are also considerable for smaller centres and conurbations elsewhere in the country and the tensions are telling. Housing need and access to employment, the concept of city regions for Wales and how they might work, along with planning reform are all natural responses to the impact of a series of conflicting realities. An aging population alongside a more mobile one; altered living and working patterns; the function and purpose of cities and towns in a digital age; public service delivery, education and learning, healthcare, well-being and expectations around quality of life, are all matters for which we must design new approaches. As our urban environments expand, and provide the opportunity for growth, what kinds of places will they, should they and can they be? How will we design and deliver services? How do we need to think about current needs and those of future generations in an increasingly urban world?

No country and certainly no city can continue to plan, allocate resources and address services without recognising the impact of a global economy and the global movement patterns that accompany it. Wales is distinctive, its landscape and countryside outstanding, its culture rich and diverse. But its cities will grow; are growing and we are experiencing the challenge without fully identifying the opportunities. We need to address questions of road, rail and air connections; of walkable, networked, well connected cities and settlements; the impact and capacity of technological innovation to which we have never before had access. We need to seriously reconsider blue/green infrastructures, the possibilities of urban agriculture, food and energy supply and security, the extremes of poverty and wealth; we must be more creative and better understand the demographic impact, and the cultural dimensions of becoming ever more city-centric.

Internationally, extensive work is being done at local and global scales on resilience, on the importance of well connected cities, on the power of graduates and the contribution of our universities. Live projects are shaping what

it means to be 'smart' in an urban world, from Philadelphia to Hamburg, Barcelona to Bogotá where new systems have been tested to keep cities moving and to support service delivery in health and education to an ever greater extent. And yet, almost none of the characteristics, impacts or issues inherent in the above, are so far sufficiently reflected in political debate or crafted in a well formed policy approach.

There is no time here to debate the ethics of such rapid transformation suffice it to say that conflicting realities abound. Addressing the challenges and grasping opportunities requires that we embrace fresh ideas and take a more courageous approach in order to liberate opportunities. What if we shift perspective to shape new health promotion models? What if we prioritised excellent learning models over mere schools estate strategies? What if we really pushed on fully integrated transport connecting people to work and opportunity? What if we focussed on the service needs of places and their fluid, diverse populations rather than hang swathes of new property off tired, fractured infrastructure? All this may be in the ether, but it surely needs to be more tangible, swifter, bolder.

The quality of our lives and our capacity to thrive in a predominantly urban future requires a recalibration of thought, decision making and leadership, informed by a range of perspectives and expertise, commensurate with the pace and shape of change. Leadership is tough. It is almost never about authority, or truly about power. It is about vision, courage and purpose and at times about the trade offs of pragmatism for the short term. The short term is demanding, its shrill tone urges action, its detail is all too satisfying. The long term picture is hazy, its tones muted and ill defined. The long term is complex and does not play well to a demanding audience. Thinking and acting for the long term, for a worthwhile legacy is among the most difficult of things in a world where the very nature of politics and governance is overwhelmed by unprecedented pressures. Nevertheless, to avoid terminal, short term and reactive pragmatism, as the reality of our lived experience outpaces our governance structures, it is an absolute necessity. So what if, in this country, conveniently the size of Wales, we put aside our tired and territorial fears? What if we let that old carcase be and craft a new tune?

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