Welsh Economic Review

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The *Welsh Economic Review* is now published once a year, 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 Welsh Assembly Government.

Notes for Contributors

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Editorial

2011 was a volatile year. At the beginning of 2102, there is cause for cautious optimism despite relatively high unemployment rates, and a return to growth is predicted for 2013.

Stepping back from the month on month economic volatility that has become familiar, the Interview section provides a polemical piece written by Professor Richard Wyn Jones which considers the history, challenges and prospects of Welsh government. He highlights the threats to democracy inherent in the increasing technocratic culture across Europe, and more locally notes the leakage of talent from Wales. This point is discussed more fully in the article contributed by Gillian Bristow, Madeleine Pill, Rhys Davies and Stephen Drinkwater.

The UK Coalition government has expressed an aspiration that the baton of recovery should be passed from the public to the private sector in the UK, provoked by substantial cuts in public sector budgets. The Project Report by Verina Pinto and Calvin Jones provides a timely reminder of the importance and nature of the steel sector in Wales; a long established private sector activity. The final Project Report then provides an equally timely appreciation of, not only the scale of the public health sector, but the urgency with which it must re-evaluate its procurement policy to secure the greatest regional and local effect.

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Economic Commentary

World Economy

In January 2012, the International Monetary Fund (IMF) published an update to their World Economic Outlook projections. The IMF's predictions for the world economy were revised downwards compared to their initial figures (published in September 2011), largely due to the economic problems of the euro area. The IMF now predict that the euro area will contract by 0.5% this year, but that there will be economic growth of 0.8% in 2013. Growth in most other advanced economies is expected to be lower than previously anticipated.

In the US, stronger domestic demand has countered some of these global economic pressures. The US unemployment rate decreased at the start of this year to a three-year low of 8.3%, and industrial production was 3.4% higher in January 2012 compared with the previous year. The US manufacturing sector has led the increase in employment, and this is set to continue in some parts of the sector. For example, the auto industry has recently announced better than expected sales figures, and companies such as Chrysler have announced the creation of 1,800 new jobs at a plant in Illinois. Figure 1 shows that the US economy is expected to have grown by 1.7% in 2011, and that growth will be 2% this year. The IMF predict that US output will grow by around 2.2% in 2013. Despite these relatively healthy predictions, the US and other world economies will take many years to recover from the global financial crisis.

The Economist estimated the number of years lost by each country as a result of the financial crisis (February 25th, 2012). Their overall indicator of economic health comprised three main categories. These were measures of household wealth (including property prices), measures of annual output and private consumption, and then real wages and unemployment. According to the overall index the 'economic clock' in the US has been turned back by 10 years, and for Greece, the clock has gone back over 12 years. Other European countries such as Ireland and Spain have lost over seven years, while Germany has done rather better losing just over two years. Figure 2 shows that Germany is expected to have grown by 3% in 2011, but that growth will be only just positive (0.1%) this year. The slow-down in world trade is expected to hit German exports particularly hard and the euro area debt crisis places a deal of uncertainty over the economy. German public sector investment is expected to fall by over 7% during 2012 (OECD, November 2011). The German labour market has however remained relatively healthy, and this has been attributed to past labour market reforms. The German unemployment rate was 6.7% in January (compared to an average of over 10% for the euro area). Whilst the short-term economic outlook for this year worsened in recent months, the OECD forecast that the German economy would return to growth in 2013 (OECD Economic Surveys - Germany, February 2012).

The Greek economy is now in its fifth year of recession. The economy is expected to have declined by just under 7% in 2011, and the fall in output will be just over 7% this year. Agreements of new economic support packages, and confirmation by the IMF in March 2012 that it was to recommend a €28 billion arrangement *'to support Greece's ambitious economic programme over the next four years'* (IMF, March 9th 2012) should restore some confidence in the economy, however the downside risks remain substantial. The unemployment rate in Greece is around 20%, and this is expected to remain at similar high levels in 2013, although the economy is expected to achieve small but positive growth levels in 2013, supported by increased exports (OECD, November 2011).

The Japanese economy contracted by an estimated 0.7% during 2011, but is expected to return to growth of around 1.6% this year. The earthquake and tsunami in March 2011, and the subsequent nuclear shutdowns resulted in imports of energy into Japan. This, together with falling manufacturing

Figure 1: GDP Forecasts, Selected Economies, annual % change, 2011 and 2012.

Source: The Economist, March 5th 2012. The Economist Poll or Economist Intelligence Unit estimate/forecast.

Table 1: FDI Inflows by Selected Region/Economy, 2007-2010, (US$m).

Region / economy	2007	2009	2010
World	1,970,940	1,185,030	1,243,671
Developed economies	1,306,818	602,835	601,906
European Union	850,528	346,531	304,689
France	96,221	34,027	33,905
Germany	80,208	37,627	46,134
United Kingdom	196,390	71,140	45,908
North America	330,604	174,298	251,662
Developing economies	573,032	510,578	573,568
South, East and South-East Asia	261,041	241,534	299,653
China	83,521	95,000	105,735
India	25,350	35,649	24,640
South-East Europe and the CIS	91,090	71,618	68,197

Source, UNCTAD, WIR 2011.

exports, led Japan to record its first trade deficit since 1980, and in January 2012 the trade in goods deficit reached an all time high of US$19.2 billion.

Economic growth in China and India remained exceptionally strong during 2011, in sharp contrast to the other world economies shown in Figure 1. These growth rates are however expected to be lower this year. Exports from China are expected to be hit by problems in Europe, which is China's largest export market, and from lower demand from America. China is the world's largest manufacturing country, accounting for over one fifth of global manufacturing output (The Economist, 10th March 2010).

Foreign Direct Investment

The World Investment Report 2011 (WIR, produced by the United Nations Conference on Trade and Development, UNCTAD), reports that global foreign direct investment (FDI) flows increased moderately to US$1.24 trillion in 2010. These flows for 2010 are 15% below pre-economic crisis average levels, and almost 37% below the 2007 peak. UNCTAD estimates that FDI flows will recover to the pre-crisis level (US$1.4-1.6 trillion) in 2011, and to increase further to US$1.7 trillion in 2012 and reaching US$1.9 trillion (2007 levels) in 2013. This forecast is however conditional on the absence of further unexpected global economic shocks. In this difficult and unpredictable economic environment, such forecasts have to be treated very carefully.

FDI flows in the European Union in 2010 were only just over one third of the 2007 flows, whilst in the UK, FDI flows fell from US$196,390 million in to 2007, to US$45,908 million in 2010.

The UK economy

Figure 1 shows that the UK economy is expected to have grown by 0.9% during 2011, and that this will slow to 0.2% this year. The IMF downgraded their forecast for UK output growth from 1.6% to 0.6% in their January update. The UK economy contracted by 0.2% in the final quarter of 2011, with many predicting a further decline in the opening quarter of this year, and hence a slip back into recession. However labour market data has shown that the

Table 2: GVA Per head Indices[1], UK = 100.

	1997	2000	2008	2009	2010[2]
North East	78.4	77.2	76.6	76.5	76.9
North West	88.6	87.7	84.8	84.4	84.9
Yorkshire and the Humber	89.7	87.6	83.2	82.6	82.6
East Midlands	93.3	90.3	87.8	87.6	88.3
West Midlands	90.5	89.8	83.8	83.0	83.3
East of England	96.4	96.2	94.3	92.7	92.8
London	156.2	159.8	171.0	173.9	171.1
South East	104.8	106.8	106.9	106.3	107.1
South West	92.6	91.7	91.0	90.9	91.2
Wales	**78.2**	**76.3**	**73.9**	**73.3**	**74.0**
Scotland	96.2	94.2	97.8	98.8	98.7
Northern Ireland	80.8	80.7	77.9	76.2	76.4

Notes:
1. GVA per head indices at current basic prices on a workplace basis, based on a weighted 5-year moving average.
2. 2010 estimates are provisional.

Source: ONS, December 2011.

Table 3 Forecast Change in Real GVA (%)

	2011	2012
Wales	0.8	0.1

unemployment rate stabilised in January at 8.4%, and public sector job losses slowed. The public sector lost 37,000 jobs in the quarter to December, but this loss was more than offset by growth of 45,000 in the private sector.

Growth in household consumption and exports are expected to contribute to a recovery in the UK economy during the latter part of this year, continuing into 2013. Investment growth in 2013 is expected to further improve the economic outlook. The IMF has forecast that the UK economy will grow by 2% in 2013 (IMF, January 2012).

The Welsh Economy

The Labour Market section of this Review shows that the unemployment rate in Wales is above the UK average, and with considerable variations in rates within Wales. Unemployment rates are well above the Welsh average in Merthyr Tydfil and Blaenau Gwent, and below average in Powys, Ceredigion and Monmouthshire.

The Industrial Activity section of this Review suggests that the economic outlook in the production industries of the Welsh economy is cautiously positive with output increasing during the latter part of 2011. Recent export figures for the whole of 2011 further reveal that the value of exports from Wales increased by £1.629bn, compared to 2010, and that exports to both EU and non-EU countries increased.

In December 2011, the ONS released data for regional, sub-regional and local gross value added (GVA). Table 2 gives an extract of the regional data provided, showing a time series of GVA per head indices for selected years from 1997 to 2010. The table shows that London and the South East (as would be expected) far outperform other regions of the UK, with London recording GVA per head of over 171 compared to the UK average of 100. At the other end of the scale, Wales has the lowest GVA per head for each of the years shown. The 2010 (provisional) figure suggests that GVA per head in Wales is only 74% of the UK average.

The sub-regional and local data contained in this latest press release relates to 2009. At the sub-regional level (NUTS2), West Wales and the Valleys is bottom of the UK table, with GDP per head only 62.8% of the UK average. At the local level (NUTS3), the Central Valleys and the Isle of Anglesey are in the bottom five of UK local areas, with Gwent Valleys last in the table with a GDP per head of 53.3% of the UK average.

Eurostat provide data that compares the 27 European Union regions by expressing GDP per capita in terms of purchasing power standards. This data shows that GDP per capita in Wales was 79.8% of the EU 27 average in 2009, with the West Wales and the Valleys region at only 68.4%, below some regions in Eastern Europe and Greece (Eurostat, 13th March 2012).

Table 3 shows Forecasts for the Welsh economy for 2011 and 2012. The Welsh economy is expected to have grown by 0.8% during 2011, and the growth forecast is just positive, at 0.1%, for this year.

Economic Events Diary November 2010-December 2011

November 2010
In a deal reportedly worth billions of pounds to the UK, China Aviation Supplies Holding Company (CAS) substantially expanded its order from **Airbus** to 102 aeroplanes. Final wing assembly for Airbus is carried out at its Broughton, Flintshire facility.

Japanese company **Sharp PV** announced a £35m investment at its **solar panel production** facility in Wrexham. The new investment will fund three new assembly lines and double production capacity. In early 2011 the company revealed details of an expansion in jobs at the site, which exports throughout Europe (see *Comings & Goings* section).

The Welsh Assembly Government announced the **closure of six out of the ten Technium innovation centres** in Wales. In a statement from the Deputy Minister for Science, Innovation & Skills, Lesley Griffiths, it was noted that a review of the centres (which provide incubation support, such as office space, for new and growing businesses) had found parts of the network were "...not delivering or providing value for money..."

December 2010
According to research by the Prince's Trust and RBS (which was based on work conducted by the Centre for Economic Performance at the London School of Economics), the **price of youth disadvantage in Wales had hit a new high**. Lost productivity from youth unemployment was estimated to range from between £2.6m a week (based on productivity being equal to Jobseeker's Allowance) to £8.4m a week (based on productivity being equivalent to the average weekly wage for the age group).

According to the Manpower Employment Outlook Survey, hiring intentions for the first quarter of 2011 amongst employers in Wales were more optimistic than any other region in the UK. The seasonally adjusted net employment outlook for Wales was +9%.

January 2011
The Welsh Assembly Government announced its backing for **Swansea University's science and innovation campus**, a £400m regeneration scheme for 69 acres of land on Fabian Way, previously owned by BP. The scheme, which would aim to attract industry research and development centres, as well as being a base for 5,000 students, was given a funding pledge of £15 million from the Assembly.

UK gross domestic product (GDP) figures released for the last quarter of 2010 revealed an unexpected decrease of 0.5% from the previous quarter. Inclement weather, contributing to very poor December retail sales in the UK and reduced activity for transport firms, combined with the end of a construction 'blip' (that had buoyed figures in previous quarters), were held up as major factors for the disappointing GDP figures.

February 2011
Support from the Welsh Assembly Government worth £10m, utilising monies from funds including the Heads of the Valleys programme and European Regional Development Fund, was announced for the **redevelopment of Abertillery town centre**. This is to be combined with £3m of investment from Blaenau Gwent County Council and the private sector.

Following the launch of the Economic Renewal Programme (ERP) for Wales in July 2010 by the Assembly Government (which indicated that the focus of the Department for the Economy and Transport would be on six sectors), the names of the **six sector external panel chairs** were announced as: Sir Chris Evans (life sciences); Gareth Jenkins (advanced materials and manufacturing); Chris Nott (financial and professional services); Kevin McCullough (energy and environment); Thomas Kelly (ICT); and Ron Jones (creative industries).

March 2011
Following a **referendum** which took place on March 3rd, the people of Wales voted for the National Assembly to have **law-making powers** in 20 policy areas *excluding* defence, foreign affairs, fiscal, monetary and economic policy, broadcasting, social security, immigration, employment law, policing and criminal law. Wales can follow different pathways from the rest of the UK in education, health and economic development.

The Wales Manufacturing Forum unveiled its **manufacturing Strategy for Wales**. Amongst its aims was to encourage leaders in the sector to "...establish and develop many more high value-added manufacturing companies capable of identifying, capturing and exploiting new market opportunities through an innovative and technology-led approach..."

Valero, the new owners of the former Chevron **oil refinery in Pembroke,** stated its intention to retain the facility's workforce of 600 permanent and 800 contract staff. There had been a year long period of uncertainty for workers as a buyer for the site was sought.

April 2011
Following the devastating **earthquake and tsunami damage in Japan** in March, Toyota put in place an engine production slowdown at its Deeside plant. Forecasted difficulties in obtaining parts resulted in the site being shut down for the week after Easter, and production volumes being reduced in May.

Pembrokeshire Marine Group began work on the **£5m redevelopment of Milford Marina.** The five year scheme, involving promotional and management partners Milford Haven Port Authority and Cardiff Marine Group, will incorporate a new dry stack berthing facility, upgraded berthing pontoons, and new safety equipment.

May 2011
Plans were unveiled for the further development of 38 acres of land in Cardiff Bay in a joint venture between regeneration company Igloo and the Welsh Government. The **Porth Teigr development**, which incorporates the BBC Roath Lock Studios, includes proposals for new commercial, retail and residential space.

June 2011
Following the announcement that 21 **enterprise zones**, offering business-friendly planning and lower business rates, were to be set-up in England, the Welsh Government First Minister, Carwyn Jones, revealed that similar plans were being developed for Wales. It was indicated that in Wales, enterprise zones were likely to take a cluster approach, looking to base particular industries and business together geographically. (*See also September 2011 below.)*

In a report commissioned by HSBC investigating potential growth areas for sectors, north Wales was identified as being at the forefront of renewable energy technology over the next decade. **The Future of Business 2011 report** also noted that Swansea has a potential lead in the transformational technology of plastronics (where instead of circuits being etched onto boards they are created through a printing process), and that Cardiff is well positioned to build itself up as a creative industries hub.

Wylfa on Anglesey was confirmed by the UK Government as one of eight sites in the UK suitable for a new nuclear power station. The proposals will go to Parliament for debate.

After operating as a pilot scheme for two years, **The EADS Foundation Wales**, which provides funding for research and technology projects, was formalised. Partners in the not-for-profit company which includes the Welsh Government, defence/electronics group EADS and Cardiff University, are to make available £0.5m per year for research bids from Welsh small to medium-sized enterprises (SMEs) and universities.

July 2011
According to research by the Office for National Statistics (ONS), Wales experienced a loss of 49,000 jobs or 3% of the workforce, during the recent recession (2008Q1 to 2009Q3). This was the second highest percentage loss overall when compared to English regions**. The Impact of the Recession** report notes that manufacturing jobs accounted for 32,000 of the job losses in Wales.

Inward investment performance figures reported from the Welsh Government (covering the financial year to March 2011), showed that 38 investment projects had been attracted, expanded or created (the latter through mergers and acquisitions) in the region. This represented 2.6% of the UK total (Wales had secured 6.4% in the financial year to March 2010). These 38 projects secured 2,444 jobs and safeguarded a further 1,100.

August 2011
Deputy Minister for European Programmes, Alun Davies, revealed details of the **Business Information Communications Technology 2 (BICT2)** project aimed at increasing ICT skills in the Welsh workforce. The £1.6m scheme, incorporating £0.66m of European Social Fund monies, aims to support 800 small to medium-sized enterprises and train 1,000 people, with the overall goal of improving business performance.

September 2011
The Welsh Government confirmed that the first five **enterprise zones** in the region would be: Cardiff central business district (financial enterprise zone); Deeside in Flintshire (advanced manufacturing); Ebbw Vale (automotives); St Athan (aerospace); and Ynys Mon (energy). The Welsh enterprise zones are to receive a Barnett formula consequential *(see note 1 at end of section)* of £10m of funding from the UK government, to be spread over five years.

Three further priority sectors to receive focussed support were identified by the Welsh Government. Edwina Hart, the Business Minister, revealed that the food and farming, tourism and construction sectors had been selected, and that their advisory sector panels would be chaired by Dr Haydn Edwards, Dan Clayton Jones and David Joyce, respectively.

Tata announced a **week-long production shut down** at its Trostre tin packaging facility for November. The 700 workers at the site were to be temporarily transferred to training and maintenance activities during the production halt.

October 2011
A High Pressure Compressor Centre of Excellence was opened at **GE Aviation** in Nantgarw, to reduce turnaround times for aircraft engine maintenance and overhaul. The investment included skills training for existing staff and the recruitment of 50 new workers.

First Minister, Carwyn Jones, led a **trade and academic delegation to China** with the intention of increasing the profile of Wales and helping to develop business links between the regions. A memorandum of understanding was signed between the Chinese municipality of Chongqing and Wales, forming an agreement to work together on areas including science, health, agriculture, the environment and tourism.

The Prime Minister, David Cameron, officially opened the **new 46,000 sq m Airbus wing building facility in Broughton.** The £400m investment at Airbus North Factory, which will be used to build carbon-fibre wings for A350 type aircraft, included £29m of funding from the Welsh Government (the latter being utilised to enable workers to upgrade their skills and transfer from metals to composite wings).

Proposals for a **transport hub and lorry park at Parc Cybi Business Park** on **Anglesey** were revealed. A planning application in support of the £5m scheme, being prepared by Conygar Investment Company, was expected to incorporate a HGV service centre, driver facilities and fuel provision.

November 2011
Two industry support funds were unveiled by Business Minister, Edwina Hart: the £40m **Wales SME Investment Fund**, which will be managed by Finance Wales (the independent company set up by the Welsh Government in 2001 to provide commercial funding); and the £15m **Wales Economic Growth Fund**, offering short term, fast-track funding via non-repayable grants to businesses in Wales.

The Business Minister also announced a £38.9m **Economic Stimulus Package for Wales** - the funding being made available to Wales as a Barnett consequential following the UK Government's decision to freeze council tax in England. Included in the package were plans for spending £9.26m on capital maintenance in schools; £6m for the Ely Mill housing development in Cardiff; and £4.9m for employers to support apprenticeship programmes.

December 2011
It was reported that **Corlan Hafren**, a private sector consortium including Halcrow and Ove Arup, were developing ideas for a **tidal energy scheme in the Severn estuary**. Although the UK Government's Severn tidal power feasibility study, carried out between 2008 and 2010, concluded that there was not at present a case for public investment in such a scheme, it did not preclude a privately financed project.

According to research from LloydsTSB, **private sector business activity in Wales was continuing to decline**. The *Wales Business Activity Index*, which measures changes in output of manufacturing and service sectors was 49.0 for November (below the important 50.0 mark which indicates no change), and therefore showing a deterioration for the second consecutive month.

Comings & Goings: Companies' Activities in Wales

Cardiff based aluminium product fabricator **Glamalco** went into administration in November 2010 following reported cash flow difficulties. A total of 140 staff were made redundant at the company's three sites.

Headland Foods, who produce frozen ready meals for supermarkets, closed its Castle Park, Flint facility with the loss of 318 jobs. Intense competition in the frozen meal market was cited as a major factor for the decision.

As part of a company supply chain transformation aimed at reducing operational costs and increasing productivity,

Burton's Foods cut 70 jobs at its Llantarnam, Cwmbran factory. The company produces biscuits and snacks.

Diamond Holidays, the coach tour operator based in Swansea, went into administration at the start of 2011, with increased costs (particularly for fuel) given as a main cause. The business, which also included Brian Issac Coaches Ltd, had employed around 80 staff.

There was encouraging news from the aviation sector in Wales with US-owned **GE Aviation** announcing that 100 aircraft engineering jobs were to be created at its servicing facility in Nantgarw, Caerphilly. Additionally, at the **Airbus** wing-making plant in Broughton, 770 agency staff working as contractors and employed by Blue Arrow, were taken on permanently by Airbus.

Solar panel manufacturer **Sharp** revealed that it was to create 300 jobs at its Wrexham site as part of plans to nearly double existing production capacity. The company noted that "feed in tariffs" (FITs - *see Note 2 at end of section*) had generated substantial demand in the sector.

Contact centre company **Nationwide Energy Services** announced it was to recruit 300 staff at its Swansea Enterprise Park headquarters as part of a diversification strategy. With a core business providing help for people to claim government grants for loft and cavity wall insulation, the company also operates in the financial services market.

Morrisons, the supermarket chain, revealed plans for a new store to be built in Bargoed by the end of 2011. It was estimated that 300 jobs would be created.

In February 2011, following the termination of a contract worth £200m over eight years (to streamline fire service control rooms in England), Newport-based high-technology company **Cassidian** began a 90-day consultation process with staff on the future of over 200 jobs.

Swedish-owned **Tetra Pak**, the drinks carton manufacturer, revealed it was to cut 150 jobs at its Wrexham facility. Falling export orders were reported as a main contributing factor.

The award of a one year £19m skills provision contract from the Welsh Government to **Associated Community Training (ACT)** is forecast to create 100 jobs. Expectations are that half of these positions will comprise new trainers and assessors in Cardiff-based ACT, while the remainder will be created elsewhere in Wales amongst other training contractors and partners. The award follows the Government's move towards concentrating delivery of work-based learning in a smaller number of high quality training providers.

Financial services company, **ING Direct**, announced it was to recruit 100 extra staff over the next two years at its call centre in Cardiff. The Dutch-owned firm noted that the employment growth would help to meet expansion in its savings and mortgage businesses.

In May it was confirmed that up to 120 jobs would be lost at the **Newport Passport Office** as part of a cost saving exercise. From March 2012 postal and on-line passport applications will no longer be processed from the office. A customer service centre and other allied functions are to remain, accounting for around 125 full-time equivalent jobs.

There was mixed news for Welsh call centres in June. **LloydsTSB** announced it was to shut its office in Pencoed, near Bridgend, with the loss of 700 jobs as it moved to integrate operations with HBOS. However, **The Listening Company** (a subsidiary of global services company Serco) created 600 jobs in Cardiff managing sales and customer service activity for a variety of clients.

Sogefi Filtration, the Italian-owned car filter manufacturer, started a 90-day consultation period with staff at Llantrisant over 190 job cuts. Spiralling costs and continued difficult trading conditions were reported as the reasons behind the decision.

Financial services company **Zurich** announced that it was to cut 100 jobs at its Cardiff office due to partnership arrangements with subsidiary company Endsleigh. As part of its new low-cost model, Zurich are to concentrate on motor and home insurance.

Also in the capital, a number of new tenants started-up in the **St Davids** shopping precinct. These included: Red Hot World Buffet and Bar (creating around 60 full-time and 60 part-time jobs); VANS (footwear); The North Face (outdoor pursuits clothing); Auntie Anns (food outlet); and a third branch of the The Perfume Shop.

Tata Steel announced the closure of its construction products business based in Llanwern, Newport. Around 70 jobs were to be lost in a move reportedly attributed by management to markets not recovering from the financial crisis, and depressed activity in public procurement due to public sector cutbacks. The company also stopped production at its Llanwern hot strip mill with the loss of 115 jobs. It was reported that the steel plant is to be mothballed until market demand recovers. However, there was also more positive news from Tata as it announced the largest single year intake on its Apprentice Development Scheme, with 81 places for young people taken up in 2011 at Llanwern and Port Talbot. The apprenticeship positions are full-time and permanent.

Moneypenny, a Wrexham-based business that handles telephone calls for law firms and estate agents, revealed plans to recruit 100 staff as it expanded its office headquarters at Wrexham Technology Park.

In November, home delivery company **Yodel** announced it was to cut 140 jobs in Wales as part of a UK-wide restructuring to streamline operations. The network's depots in Anglesey, Carmarthenshire and Cardiff are to close in early 2012.

Following a decision to centralise operations at a single production facility to reduce costs, **Biomet,** a supplier of medical products, revealed it was shutting its manufacturing site in Swindon and creating 80 jobs in Bridgend.

Deloitte, the professional and financial services company, revealed it was creating 100 jobs in Cardiff at a new risk management centre. The centre will serve clients worldwide.

Around 250 jobs are expected to be created by Scottish and Southern Energy at a renewable energy training centre in Treforest. The **Swalec Smart Energy Centre,** which is planned to be operational by summer 2012 will house specialist teams working in the green energy sector.

Note:

1. *For further information see http://wales.gov.uk/about/cabinet/cabinetstatements/2005/061005-SE-Thebarnettformula;jsessionid=1y9nPyndJ45vQgVFyjnlX4QVKyGx2hw3kDhGPyCfd6pzKLk27hG4!-587213559?lang=en*
2. *The FITs scheme was first introduced on 1st April 2010 under powers covered by the Energy Act 2008, to encourage the deployment of additional small scale (less than 5MW) low carbon electricity generation, particularly by businesses/individuals not normally engaged in the electricity market. A review of this scheme by the Department of Energy and Climate Change (DECC) resulted in the rate paid for small scale solar energy production being halved from mid-December 2011 onwards.*

Labour Markets

Labour Market statistics covering the period October to December 2011 show that the seasonally adjusted working age employment rate increased by 0.1 of a percentage point from the previous quarter (July to September 2011), but fell by 0.2 of a percentage point from the previous year to 70.3% (*Labour Market Statistics*, February 2012). The number of people in employment in the UK between October and December 2011 stood at 29.1m, representing an increase of 60,000 from the previous quarter, and up 7,000 on the same period a year earlier.

The UK seasonally adjusted ILO unemployment rate was 8.4% in the October to December quarter of 2011, up 0.1 of a percentage point on the previous quarter, and up 0.5 of a percentage point on the previous year. The ONS *Labour Market Statistics* February 2012 release noted that the unemployment rate in the UK for the period October to December 2011 was the highest since the three months to November 1995.

Table 4, which shows a summary of the UK regional labour market for October to December 2011, indicates that the employment rate was highest in South East and East of England (at 74.2% and 74.6% respectively) and lowest in the North East (66.2%). The unemployment rate was highest in the North East (11.2%) and London (10.0%).

In Wales, the employment rate stood at 68.5% in the period October to December 2011, representing an increase of 0.8 of a percentage point from the previous year. The Welsh ILO unemployment rate at 9.0% was 0.7 percentage points up from the same period a year ago. The *Labour Force Survey* estimated the number of economically active people in Wales to be 1.48 million in the October to December period; a gain of 21,000 over the year. The economic activity rate for Wales increased to 75.4%, up by 1.3 percentage points from a year earlier, whereas in the UK as a whole over the same period the economic activity rate increased by 0.2 of a percentage point to at 76.9%.

Table 5 shows employee jobs by broad industry for Wales over the period September 2009 to September 2011, with the final column indicating the percentage change by each industrial

Table 4: Labour Market Summary, October 2011 to December 2011

	Economic Activity	Change year	Employment rate	Change on year	ILO Unemployment rate	Change on year
North East	74.7	1.6	66.2	0.6	11.2	1.1
North West	75.8	0.8	68.7	-0.4	9.3	1.6
Yorks & Humber	75.6	0.4	67.9	-0.2	9.9	0.6
East Midlands	77.6	0.7	71.1	0.5	8.2	0.2
West Midlands	75.1	0.4	68.0	0.1	9.3	-0.4
East	80.4	1.1	74.6	0.6	7.0	0.5
London	75.2	-0.5	67.5	-1.3	10.0	1.1
South East	79.3	-0.7	74.2	-0.8	6.3	0.1
South West	79.0	-0.1	74.0	0.0	6.1	0.0
England	77.1	0.2	70.5	-0.3	8.4	0.5
Wales	**75.4**	**1.3**	**68.5**	**0.8**	**9.0**	**0.7**
Scotland	77.5	0.1	70.7	-0.4	8.6	0.6
Northern Ireland	72.8	1.2	67.5	1.7	7.2	-0.8
UK	76.9	0.2	70.3	-0.2	8.4	0.5

Source: Labour Force Survey (October 2011 to December2011)
http://www.ons.gov.uk/ons/dcp171778_254579.pdf

Table 5: Workforce Jobs by Industry in Wales (thousands) seasonally adjusted

Sector (SIC 2007)	Sept 2009	Sept 2010	Sept 2011	% change 09/11
All	1,374	1,359	1,357	-1.2
Manufacturing (C)	145	138	142	-2.1
Construction (F)	100	101	101	1.0
Total Services (G to S)	1,069	1,069	1,058	-1.0
Other sectors (A,B,D&E)	61	50	55	-9.8

Source: Employer Surveys, Labour Force Survey and administrative sources; reported in Regional Labour Market Statistics February 2012

http://www.ons.gov.uk/ons/rel/subnational-labour/regional-labour-market-statistics/february-2012/index.html

Table 6: Unemployment in Wales; Claimant Count by Unitary and Local Authority Area, 12th January 2012, % of Population (not seasonally adjusted)

	Men	change on year	**Women**	change on year	**People**	change on year
Wales	6.2	0.5	2.6	0.4	4.4	0.4
Blaenau Gwent	10.8	0.9	5.0	1.0	7.9	1.0
Bridgend	6.5	0.4	2.8	0.3	4.6	0.3
Caerphilly	7.8	0.7	3.5	0.7	5.6	0.7
Cardiff	6.6	0.6	2.6	0.3	4.6	0.5
Carmarthenshire	4.8	0.2	2.0	0.2	3.4	0.2
Ceredigion	3.1	0.2	1.3	0.1	2.2	0.2
Conwy	6.4	0.6	2.4	0.4	4.4	0.5
Denbighshire	6.3	0.4	2.6	0.5	4.4	0.4
Flintshire	4.6	0.1	2.5	0.4	3.5	0.2
Gwynedd	5.2	0.3	2.0	0.2	3.6	0.2
Isle of Anglesey	6.7	-0.1	2.8	0.3	4.7	0.1
Merthyr Tydfil	10.0	1.6	4.0	0.8	7.0	1.3
Monmouthshire	3.8	0.9	1.9	0.6	2.8	0.7
Neath Port Talbot	5.6	0.2	2.4	0.4	4.0	0.3
Newport	8.1	0.4	3.5	0.6	5.8	0.5
Pembrokeshire	5.8	0.2	2.4	0.4	4.0	0.3
Powys	3.7	0.6	1.7	0.2	2.7	0.4
RCT	7.2	0.5	3.1	0.5	5.1	0.5
Swansea	5.3	0.3	2.2	0.3	3.8	0.3
Torfaen	7.7	0.8	3.3	0.7	5.5	0.8
Vale of Glamorgan	5.8	-0.2	2.2	0.2	4.0	0.1
Wrexham	5.7	0.4	2.6	0.6	4.2	0.6

Source: Jobcentre Plus Administrative System

Table 7: Median gross weekly earnings by government office region for full-time adults whose pay was unaffected by absence, April 2011

	Male	**Female**	**All**	**Annual % Change, All 2010- 2011**
United Kingdom	538.5	445.1	500.7	0.4
North East	486.2	412.4	451.8	2.0
North West	498.5	417.0	460.3	-1.4
Yorkshire and The Humber	499.8	410.2	465.5	1.2
East Midlands	498.3	401.3	461.3	-0.8
West Midlands	505.4	407.3	470.6	0.7
East	535.5	432.1	494.5	1.2
London	706.4	585.2	650.9	1.3
South East	578.5	454.0	528.1	0.8
South West	509.8	405.8	464.5	0.9
Wales	**485.9**	**402.6**	**454.4**	**0.8**
Scotland	517.5	440.8	488.8	0.2
Northern Ireland	463.5	427.8	450.6	3.0

Source: 2011 Annual Survey of Hours and Earnings (ASHE) Table 5.1a category. These figures are taken from the *Regional Labour Market Statistics* published by the Office for National Statistics.

The overall number of workforce jobs in the Principality decreased by 15,000 (or 1.1%) between September 2009 and September 2010 to 1.35m, but then remained relatively stable to September 2011. Manufacturing in Wales suffered a drop of 7,000 workforce jobs from September 2009 to September 2010. However, this was partly balanced by a subsequent increase of 4,000 manufacturing workforce jobs between September 2010 and September 2011.The number of workforce jobs in construction in Wales remained at around 100,000 between September 2009 and 2011, while jobs in "Other sectors" fell by 6,000 or 9.8% during the same time period.

Table 6 shows unemployment claimant count rates in Wales by unitary authority area for January 2012. For Wales as a whole the claimant count unemployment rate was 4.4% (83,131 claimants), an increase of 0.4 percentage points over the year (or 7,968 claimants). There was an increase in the claimant count rate for every unitary authority in Wales over the year to January 2012. The biggest percentage point increases were experienced in Merthyr Tydfil and Blaenau Gwent (claimant count rates in the year up 1.3 and 1.0 percentage points respectively). Of particular concern is that these areas have consistently had a higher claimant count than elsewhere in Wales.

Female unemployment rates were highest in Blaenau Gwent (5.0%) and Merthyr Tydfil (4.0%), while male unemployment continued to be relatively high for Wales in Blaenau Gwent (10.8%), Merthyr Tydfil (10.0%) and Newport (8.1%).

Earnings

The latest Annual Survey of Hours and Earnings (ASHE) was published on the 23rd Nov 2011 by the Office for National Statistics. Table 7 shows the median of gross weekly earnings for full-time employees, split by government office region and gender for 2011. The highest paid full-time earners were in London and the South East, with Wales median weekly earnings (all) 9% below the UK average and 30% below London.

The final column of the table calculates the percentage change in median earnings from April 2010 to April 2011. This shows that the median earnings for full-time workers in Wales increased by 0.8% over the year, compared with 3% in Northern Ireland (the region having the highest year-on-year growth) and a fall of 1.4% in the North West of England (the worst performing region).

By gender in 2011, the average weekly earnings of full time females in Wales were 82.9% of their male counterparts in the region (down 0.2 of a percentage point from 2010). Full-time females in Wales earned 90.5% of the UK female average (compared to 91.4% in 2010). Wages for males in the Principality were 90.2% of the comparative UK figure in April 2011, closing the gap slightly from 89.9% in 2010.

A relatively low proportion of employees in Wales are in the highest earning occupational categories (managers and senior officials), with higher concentrations of the workforce in the lowest paid occupations such as sales and customer services. These factors contribute to the region's poor wage performance.

Property Markets

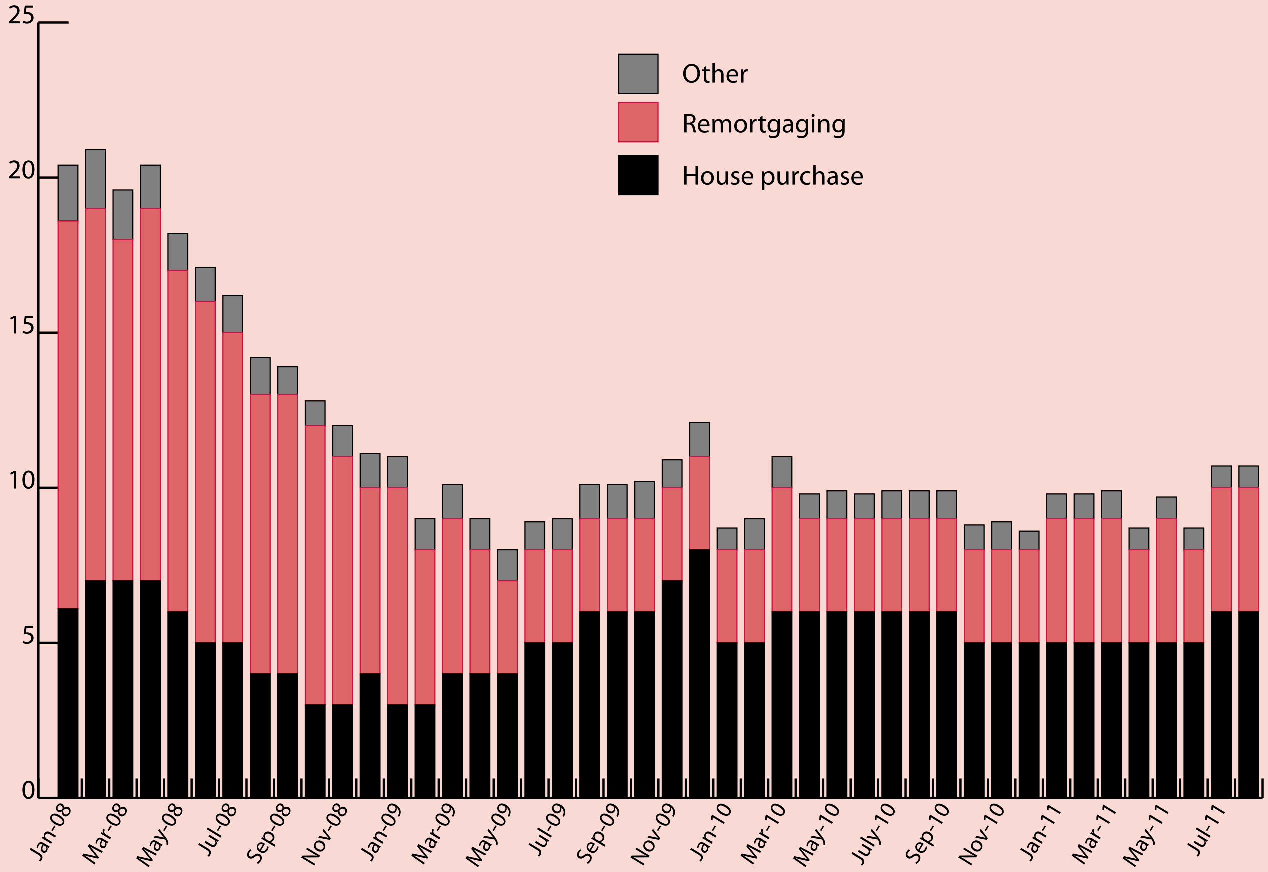
Property markets are tightly linked into the circular flow of economic activity. The lending behaviour of banks caused the credit crunch. Their recapitalisation and reluctance to lend has prolonged it. The UK housing market remains in the doldrums. Many building programmes being undertaken by private sector construction companies have been shelved, and Britain's social housing providers have reported a decline in the rate of affordable home-builds, as they negotiate new terms with the government. A suppressed housing market impacts on consumer demand for household goods, and so on.

It is unsurprising then that the UK government recently announced a number of measures to boost the market from the bottom up. In November 2011 the mortgage indemnity scheme was launched, in which the government will undertake to underwrite some of the lenders' risks on mortgages up to 95% of the value of newly-built homes. This is expected to help 100,000 people. Signed-up lenders are Barclays, HSBC, Lloyds Banking Group, Nationwide, Royal Bank of Scotland, Santander, and Yorkshire and Clydesdale Banks, who between them have 80% of the mortgage market. Among the 25 developers who have agreed to participate in the scheme are Barratt, Persimmon and Taylor Wimpey, who build around 60% of all new homes in the country.[1]

A 'Get Britain Building Fund' of £400m was also announced to reinvigorate building projects which have been moth-balled, providing these projects meet the criterion of a commitment to affordable homes. This will be rolled out in the summer of 2012. However, against a background of cuts, it is impossible to determine whether any or how much of this is new money.

Another interesting development is HSBC's new mortgage deal at 3.84% two-year discount with no fee to pay,

Figure 2 Mortgage lending by the major UK lenders (seasonally adjusted) £ billion



Source: Bank of England

Note:
The split in 2008 is estimated using gross lending data and the split of loan approval values between house purchase, remortgaging and other advances. The split from 2009 onwards is reported data from the major UK lenders, rather than estimated data. Data from the major UK lenders on secured gross lending are provided to the Bank on a 'best endeavours' basis. Data covers lending in both sterling and foreign currency, and is expressed in sterling terms.

[1] http://www.estateagenttoday.co.uk/news_features/New-mortgage-indemnity-scheme-could-hit-mainstream-homes-market

with a 10% deposit. For the first two years the rate will be 0.1% below the bank's standard variable rate (SVR), and thereafter at the SVR (currently 3.94%). It is not without potential problems since the lending rate is fixed to the banks own rate which can be varied at any time, and the bank is likely to undertake rigorous credit checks. Nonetheless it appears to go against the grain of other lenders who are raising their mortgage rates to cover costs incurred from a rising London Interbank Offered Rate (LIBOR). For example, the Woolwich, Halifax and Santander have increased their mortgage tracker rates and fixed-rate mortgages, and the Bank of Scotland has increased its SVR by

Table 8: Land Registry House Price Index, November 2011

	Monthly change %	Annual change %	Average price (£)
North West	1.4	-4.8	112,374
Wales	**1.1**	**-1.6**	**118,370**
London	0.8	1.4	342,749
West Midlands	0.6	-1.8	131,303
Yorkshire & The Humber	0.5	-3.4	120,057
South West	0.3	-1.9	172,150
North East	0.3	-5.4	101,954
East Midlands	0.0	-2.5	123,352
South East	-0.1	-0.9	206,371
East	-0.6	-2.3	171,619
England & Wales	0.3	-1.9	160,780

Source: Land Registry (2011).

Table 9: Average house price by Welsh unitary authority, twelve months to November 2011

Local authority	Average house price (£) November 2011	Monthly change (%)	Annual change (%)
Blaenau Gwent	71,818	2.0	-4.8
Bridgend	116,773	0.3	-6.9
Caerphilly	98,763	-0.9	-5.3
Cardiff	145,557	0.4	1.0
Carmarthenshire	107,683	-2.2	-5.8
Ceredigion	161,367	1.2	-6.0
Conwy	137,055	-0.9	-0.5
Denbighshire	116,330	-1.4	-3.9
Flintshire	124,264	-1.6	-4.4
Gwynedd	137,419	-2.7	-5.4
Isle of Anglesey	134,044	-1.9	-0.4
Merthyr Tydfil	66,699	-5.9	-8.6
Monmouthshire	176,660	-0.7	-1.9
Neath Port Talbot	85,992	3.3	-5.6
Newport	115,111	-0.3	-4.1
Pembrokeshire	140,990	-1.0	-5.9
Powys	150,144	0.2	-6.7
Rhondda Cynon Taf	75,559	-0.1	-6.2
Swansea	107,981	-1.5	-6.1
The Vale of Glamorgan	155,059	0.3	-1.8
Torfaen	103,997	-1.8	-3.6
Wrexham	120,771	-1.1	-1.7

Source: Land Registry (2011).

0.11 percentage points to 4.95%. It will be interesting to see how influential HSBC will be in reversing the lending sentiment.

Figure 2 shows mortgage lending by major UK lenders. The house purchase lending contour depicts the trough of 2008 followed by the green shoots (or false dawn) of 2009/10, and the protracted lumpiness since.

The average house price for England and Wales was £160,780 in November 2011 according to the Land Registry. This is very close to the Halifax figures of £160,907. It is now some years since the average house price broke through the £200,000 threshold. The average house price was £211,453 according to the Land Registry's quarterly report for July to September 2006. After a difficult period of declining values, the average house price rose once again to over £200,000 by January 2010, subsequently dropping back to its current value. However, the Centre for Economics and Business Research predict that by 2015 the average house price will have once again risen to over £200,000. This predicted rise is expected to be very gentle and below inflation; premised on the chronic lack of homes in the UK. There is little prospect of another housing boom.

Returning to the current position, Table 8 shows that house prices have fallen the most in the North West and North East followed by Yorkshire and Humberside, reflecting the old and persistent North South divide. Wales sits in the middle of this depressing picture, while house prices in London are holding their own, as ever. On a more optimistic note, the monthly change reported has turned positive for the regions – but these are hardly 'green shoots'.

Table 9 shows that average house prices in Wales are highly variable. The lowest house prices are found in Merthyr Tydfil (£66,699) with the highest prices to be found in Monmouthshire some 2.6 times higher (£176,660). In the last property report the highest prices were to be found in Ceredigion (£172,288); around 1.8 times higher than the lowest (Merthyr £70,347). At the moment conditions in Wales are conspiring to widen existing local differences. Demand for housing is typically stronger in Monmouthshire, Caerphilly, Cardiff and the Vale, and the annual figures reflect this. Meanwhile, Merthyr Tydfil experienced the highest *annual* price change in November, with a downward movement of 8.6%, and Neath Port Talbot experienced the strongest *monthly* growth with an increase of 3.3%. On the whole though, the picture in Wales is more optimistic than that reported in the last Review, in which the percentage annual change was negative across the board.

Construction News

Most people will be able to call to mind an abandoned building site in their neighbourhood. The speculative builds that were typical of the early 2000s can no longer be countenanced. However, construction is still active in the public and not for profit sectors that have longer term building programmes, and this includes the Higher Education sector which needs to fulfil demand for student accommodation (often driven by demand from overseas students).

The Welsh Assembly Government recently announced funding of £15m to back Swansea University's science and innovation campus. This is a £400m regeneration scheme for 69 acres of land on Fabian Way, previously owned by BP.

Other developments include the £5m Milford Marina project, being undertaken by Pembrokeshire Marine Group. The five year scheme will incorporate a new dry stack berthing facility, upgraded berthing pontoons, and new safety equipment. Some 38 acres of land in Cardiff Bay are also under redevelopment; a joint venture between Igloo and the Welsh Government. The Porth Teigr development, which incorporates the BBC Roath Lock Studios, includes proposals for new commercial, retail and residential space.

In recognition of the impact of current economic conditions on construction businesses in Wales four organisations have recently convened (Civil Engineering Contractors Association (CECA Wales), National Federation of Builders (NFB), Federation of Master Builders (FMB) and Home Builders Federation (HBF)) to form the Wales Construction Federation Alliance (WCFA). This new 'voice' was keen to emphasise that businesses employing fewer than 10 people account for almost 98% of the construction sector in Wales.

Industrial Activity

The index of production for Wales shows the short term movements in the outputs of industries. Information relating to the third quarter of 2011 was released in January 2012.

Figure 3 shows the trend in the index of production as a whole from 2004Q1. From 2009Q3 the index of production as a whole for Wales has been trending at around 10% below 2008 levels (the index base year 2008=100). The UK index also shown in Figure 1 has trended somewhat above the Welsh index for much of 2010 and 2011 but with some closing of the gap in the third quarter of last year. Taking the last four quarters of the Welsh index of production and comparing with the previous four quarters reveals a fall of 0.3% while the UK index rose by 0.4% over these same quarters. A little more encouraging was the fact that the index of production for Wales in 2011Q3 was actually 1.5% higher than it had been in 2010Q3, and was a full 2.0% higher than it had been in 2011Q2.

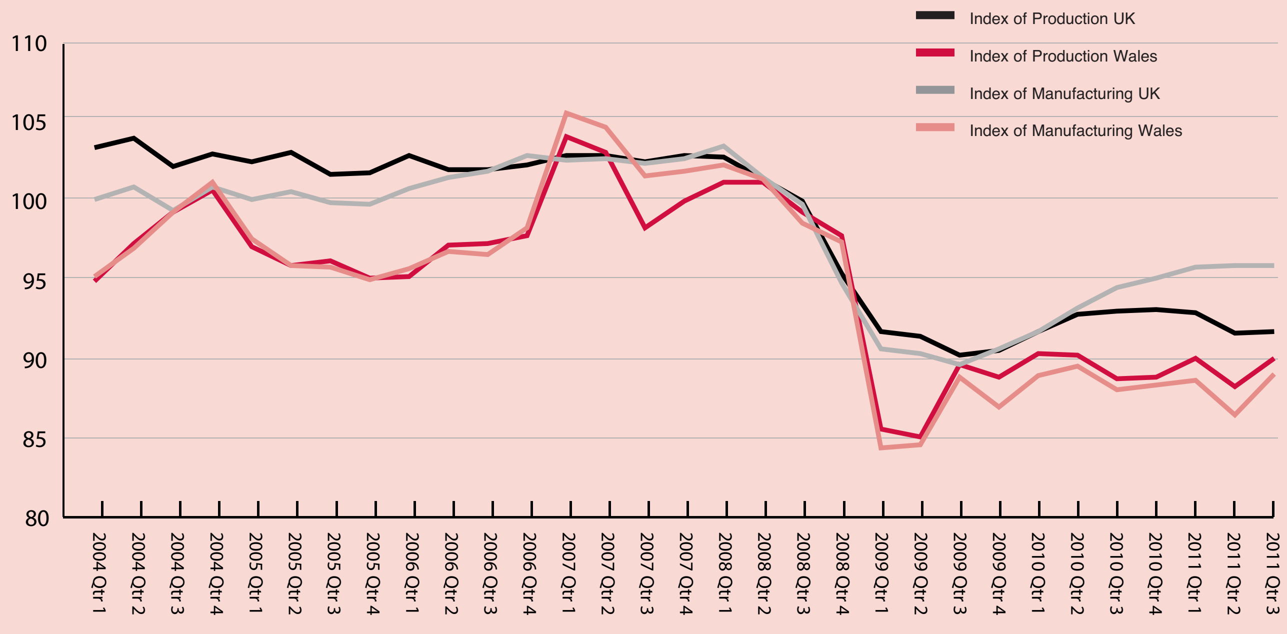
The index of production is made up of a large number of industries and it is useful to drill down into the index to explore recent winners and losers. Manufacturing makes up a large part of the index in terms of weights. In the year to 2011Q3 the index of manufacturing for Wales increased by 1.1% (UK 1.5%). While the manufacturing sector as a whole appears to be holding its own in the recent tough times, the index values in the closing months of last year were still well down on 2007-08. Also, more disconcerting is how far the Welsh index of manufacturing is lagging behind its UK counterpart. There is a strong hope that manufacturing sectors will lead the Welsh economy out of recession, but the evidence in Figure 3 reveals a sector that is still failing to see any strong growth in output.

The challenge facing the manufacturing sector needs to be set in the context of what has happened to individual elements of this sector in the last five years. Figure 4 shows for each manufacturing sector in Wales the value of the index in the third quarter of each year. It reveals the biggest winners and losers through the period of economic difficulty.

In the important food and drink sector current output levels are around 24% below what they were in 2007Q3. Textile and leather products have fared even worse. Output in the oil refining sector at Milford Haven has largely been maintained. Wales' two last refineries have faced difficult times but are still among Wales' largest exporters. During 2011 the Chevron refinery was purchased by Valero, and with the Murco refinery also now for sale. Milford Haven handled 14.1m tonnes of crude oil in 2010, and 17.3m tonnes of oil products. The refineries are an important element of the regional export base, and the maintenance of output revealed in Figure 4 is possibly one of the reasons why Welsh overseas exports were maintained at a high level through the recession (see below). The refining sector at Milford faces severe pressures but as the UK refining sector has shrunk, the remaining Welsh refineries represent a larger share of UK refining capacity (around 20% of capacity in 2010). Importantly a key trend in the sector is refineries becoming dependent on the refining margin alone i.e. the difference between the input crude price and the ex-refinery transfer price to the distribution sector. Structural change in this sector is far from over.

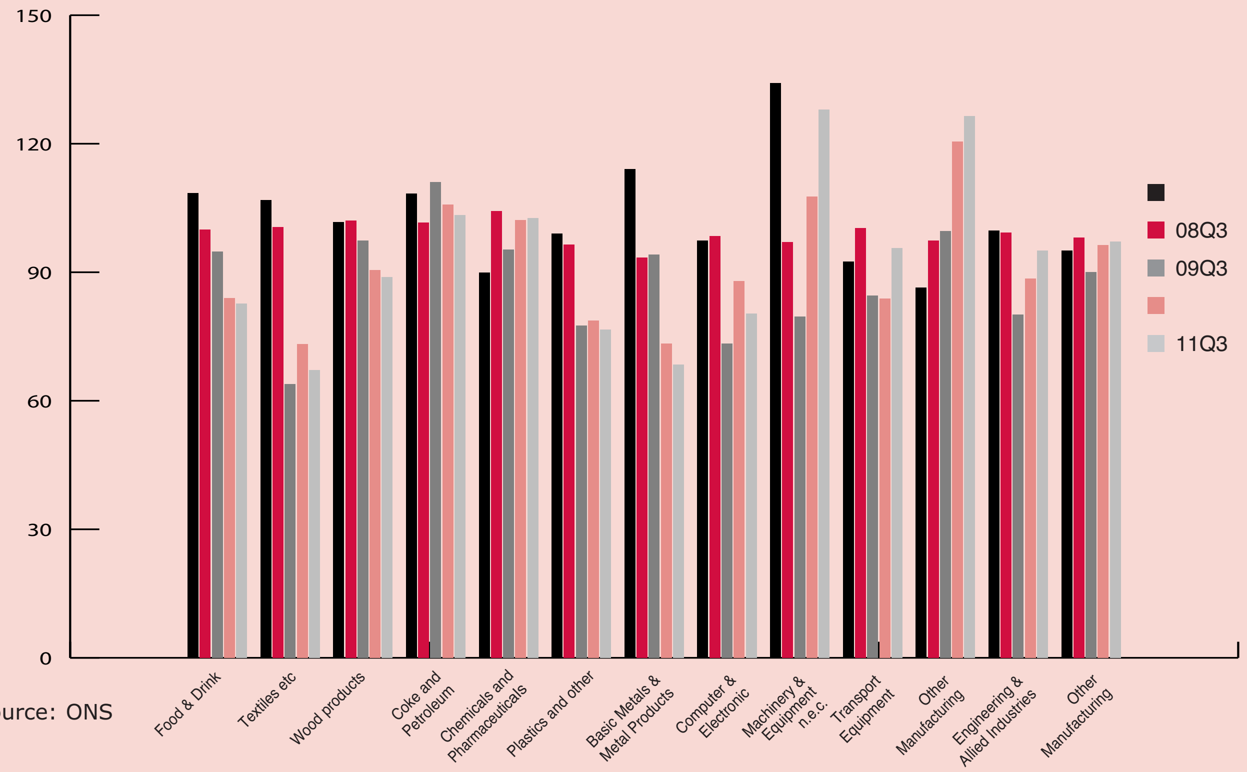
Other areas of interest in Figure 4 include the sharp fall in the output of basic metals and metal products sector. Important here are the operations of the Tata group who took over Corus interests at the integrated Port Talbot mill and other satellite activities throughout Wales. Figure 4 evidences something of a strong recovery in the

Figure 3 Index of Production and Manufacturing for Wales and UK 2004-2011Q3



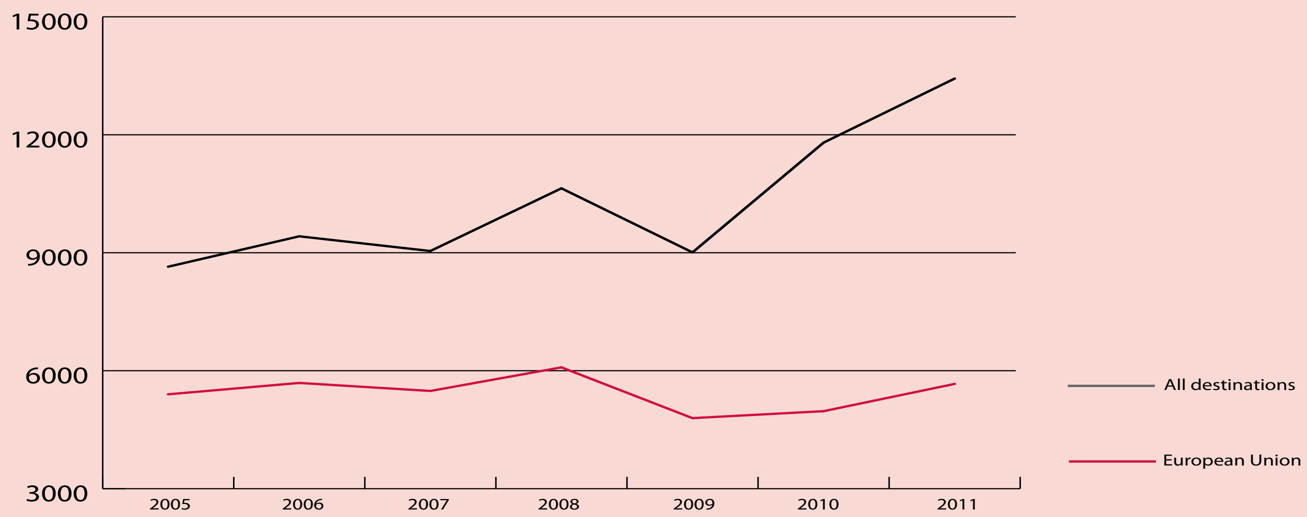
Source: ONS

Figure 4: Index of Manufacturing Sectors 2007Q3-2011Q3



Source: ONS

Figure 5: Welsh Exports, £m, 2005 - 2011



Source: HMRC

machinery sector, and in other manufacturing and repair.

The changes revealed in Figure 4 are occurring over a period through which Wales has struggled to attract new inward investment in manufacturing (and other sectors) from overseas. Indeed recent research undertaken by Crawley *et al.*, (2012) reveals a weakening of Wales' marketing effort overseas and issues of poor coordination of this marketing effort. These themes have also been picked up in the 2011-12 Inquiry by the Welsh Affairs Committee into *Inward Investment in Wales* which is also expected to be critical of Wales' poor recent performance in attracting foreign investment. This in combination with the information in Figure 4 highlights a need for Welsh agencies to work more closely with existing inward investors to win new investment.

Exports

Figures for UK regional exports for 2011Q4 were released by HM Revenue and Customs in April. Figure 5 shows the trend line in total Welsh exports from 2005.

Given the difficult economic times the export figures provide some encouraging news. Total exports for the year to 2011 quarter 4 increased by 13.8%. In total Welsh exports for the four quarters to 2011Q4 were up by £1,629m compared to the previous four quarters. Of real encouragement in Figure 5 was the growth of exports from outside of the European Union. Breaking the relatively strong dependence on trade within the Eurozone is expected to become more important in 2012 and 2013. In 2011 around 42% of Welsh exports were to North America, Asia and Oceania. Almost 60% of Welsh exports in 2011 were in the energy and engineering sectors.

Reference
Crawley, A. *et al* (2012), *Selling Wales: The Role of Agencies in Attracting Inward Investment.* Report for Cardiff Business Partnership by Cardiff Business School.

Interview and Feature Articles

Interview with **Professor Richard Wyn Jones**

Professor Richard Wyn Jones joined Cardiff University in 2009 as Director of the Wales Governance Centre. He is a Professor of Welsh Politics. Richard has written extensively on contemporary Welsh politics, devolved politics in the UK and nationalism. In addition, he was also one of the founders of Critical Security Studies. He is a respected broadcaster, commentating on Welsh politics in both Welsh and English for the BBC in Wales and across the UK, and has presented two television series. Richard is also a regular columnist for the Welsh language current affairs magazine Barn. His new book co-authored with Roger Scully, 'Wales says Yes: Welsh Devolution and the 2011 Referendum' is published this year by the University of Wales Press.

The *Welsh Economic Review* has an economic bias, and you may be wondering where lies the link between it and your own research interests which are largely of a political nature. With this in mind, our first question is somewhat theoretical. Do you think economic structures follow political structures or the reverse?

My own intellectual formation was very heavily influenced by Marxism and neo-Marxism, and so the question of the nature of the relationship between the economic and political has always loomed large for me. Is it, after Engels, the economic that 'ultimately' determines the nature of social development or was this unwarranted reductionism by a man who, in seeking to popularise the work of this comrade-in-arms, was guilty of vulgarisation? And what, anyway, does 'ultimately' mean is this context? Then, of course, you've got somebody like Gramsci – so influential in Welsh historical writing and, indeed, Welsh politics through Gwyn A. Williams – stressing the 'relative autonomy' of the political and ideological super-structure. Begging the further question, what is meant by 'relative autonomy'?!

For what it's worth, even if aware of its problems and lacunae, I've always been drawn to the latter position. That said, in recent years I've also been reading a lot of historical sociology and find Michael Mann, in particular, very persuasive. His argument that there are four main sources of social power (economic, political, military and ideological) all of which clearly interact with each other, but none of which can be reduced to each other, seems to me to ring true.

But all of that is very abstract! In terms of my analysis of devolved politics I'm always very much aware of the interaction between politics and economics, be that mediated through social class, or as a tussle of ideas about which institutional arrangements and policies might best deliver certain economic and social outcomes. With regards the latter, it is going to be fascinating to see how the debate over Scottish independence pans out over the next couple of years. For even if one can't be certain of the result of any referendum, I think we can be pretty confident in predicting that it will turn on arguments about the economic benefits and dis-benefits of independence and union.

Linked to the first question: some people express surprise (and consternation) that the European Common Market of the 1970s has evolved into a political union in the 2000s. Given that individual businesses cannot compete fairly without a consistent regulatory framework, how much surprise is appropriate?

Anyone who ever regarded European integration as a wholly economic project for a 'common market' with no broader political goal cannot have been taking much notice of what the 'European founding-fathers' or their followers actually said; their goal being very explicitly the transformation of Europe from a cockpit of war and world war into a zone of peace.

Another supplementary aim, in the early years in particular, was to buttress a particular form of capitalist liberal democracy against what was then a very real threat posed by the popular legitimacy and electoral strength of the Marxist-Leninist left. The latter being a point that Alan S. Milward's work brings out very strongly.

The 'common market' was, therefore, always a means to a wider political end; and indeed only one among several means being deployed at the same time. The common currency was to become another means, of course. In that case a particular concern was to tie a reunited Germany into the rest of Europe.

The concern at the present juncture is that the means that have been deployed or perhaps put more accurately, their cack-handed application – may well be undermining the very ends they were intended to serve. Not that I mean to suggest that peace is being threatened. But it is not scaremongering to point out that the Euro crisis is damaging and even undermining liberal democracy in western Europe. With the installation of unelected, technocratic governments at the behest of 'Brussels'; the imposition of draconian cuts in social welfare provision at the insistence of 'Brussels'; and the moves in 'Brussels' to secure some form of fiscal union in ways that very deliberately seek to avoid any possibility that European electorates might have their say on the matter: these are dark days indeed for the European ideal.

How far do you consider Welsh devolution to be a product of European federalism?

Only to a very, very limited extent. While it has often been asserted that European integration was a key factor in the establishment of devolved government, it is in fact a very difficult argument to flesh out empirically.

So, for example, the establishment of the Welsh Office – a necessary though not sufficient step on the road to the National Assembly for Wales – took place before the UK determined to try to join the European project. Even if we turn to the late 1980s and early 1990s when we might expect stronger evidence of a European influence, one is reduced to speculating about the role of the Delors Commission (with its deliberate attempt to engage the sub-state level) in helping to persuade Welsh Labour councillors that 'regional government' was not necessarily reactionary, or in re-energising the Welsh nationalist movement by allowing nationalists to persuade themselves that the nation-state level was becoming obsolete and therefore that their victory was inevitable! But, frankly, there are far more persuasive explanations of the shift in attitudes closer at hand, most of which get an outing in a new book by Roger Scully and myself. It was always going to be a struggle and so it has proved to be.

Wales has had a devolved institution for a decade now. Has devolution and its effects met with your expectations?
In actual fact my expectations were always pretty low. The record of new polities (if I can use that term in the Welsh context) is of a rather long transition period in which initial, unrealistically high expectations get disappointed while the new institutions gradually become more capable and effective. Just think of post-independence USA or Norway, to cite only two examples that I know something about. The same is also true at the sub-state level. And of course, in the Welsh case we were burdened by a quite spectacularly inadequate constitutional design that left us with an institutional structure that was simply not fit for purpose and had to be adjusted and then replaced in very short order. I'm pretty sure that – *pace* Peter Hain's assertion that this is it for a generation – further changes will be necessary before we have a sustainable system of institutions and powers that will allow devolved government to operate effective.

In what areas have you suffered disappointment?
The main disappointment as far as I'm concerned is the failure of our country's universities to respond properly to the challenges posed by devolution. For too long these institutions have regarded themselves as 'being in but not of' Wales – as a Lampeter Professor is once meant to have boasted. I think that is now beginning to change, not least here in Cardiff. But in academic field after academic field, it remains the case that there is still little or no Wales-focused expertise that can be drawn on. Incidentally, this is why I'm doubtful about the Welsh Government's plans for establishing some kind of Institute for Public Policy in Wales. At least as presently formulated, this seems to presuppose that the capacity is there in the system and that all that is required is some form of mechanism to bring this capacity into better alignment with the interests of Government. I'm sorry to say that that simply isn't the case; the capacity isn't there. It will need to be built up.

I would also say that it has been very unfortunate that the coming of the National Assembly has coincided with a period of turmoil and crisis in the mass media. This has meant that we simply don't have the outlets for the kind of critical scrutiny required in a complex, modern democracy, let along the broad-based policy debate that our country's intractable problems demand.

We recall here a *WER* interview with John Humphrys in which he said that complacency tended to be a feature of mature democracies. Do you think the Welsh electorate is complacent?
I'm not sure if 'complacent' quite captures it in the Welsh case. I do sometimes wonder, though, if parts of the electorate are not demoralised. That would hardly be surprising given what has happened to so many communities. I'm continually struck, for example, by the ways in which previously quiet villages and towns in my native Ynys Môn (Anglesey) are being ravaged by hard drugs. What with the lack of jobs and that kind of social dynamic, it's hardly surprising that so many of those young people with a bit of 'oomph' about them want to get out, making it even more difficulties for those communities to escape the present downward spiral.

Less apocalyptically, the key challenge in terms of the electoral process in Wales – indeed perhaps **the** defining feature of our political culture as a whole – is the existence of what political scientists call a 'one party dominant' system. Whilst this rather unusual state of affairs is fascinating from an analytical perspective, I would question whether this relative lack of pluralism makes for a healthy political life.

Do you think it is possible for the Welsh Government, with its new legislative capacity, to steer a different trajectory from the rest of the UK, or is it only able to tinker at the edges?
I think it's pretty clear that Wales has now definitively embarked on a very different trajectory from England, and across a whole raft of policy areas. This difference resulting not only from 'positive' decisions made in Wales to pursue a particular course of action, but also – perhaps even more so – from 'negative' decisions when Wales declines to follow initiatives being pursued by the UK government in its role as the English government. It impossible to conceive how this state of affairs might be reversed especially when the electoral preferences and political cultures in both countries are so different. This is not to say, by the way, that I think that independence is inevitable. I don't believe that. But we are moving in the direction of greater autonomy and more difference. It's certainly going far beyond the point at which it is appropriate to talk of 'tinkering at the edges'.

Can Welsh Government change the business environment in Wales in a manner that is substantially different from the rest of the UK?
What do you mean by 'substantially different'? Key for me is what the Welsh Government decides to do in the field of education. This is where it has the potential to make the largest difference in terms of the country's economic performance, at least over the medium to long term. There's a huge amount it can do if it has the political will and policy imagination to do so. But summoning-up that will and imagination will be no easy task, not least because it will mean challenging some very entrenched institutional and ideological positions.

We know all about the problems highlighted by the PISA scores, but what of the deeply problematic nature of the current A-level qualification? Then there's the damage to what the Germans might call technical education – never a strong point in the UK anyway – caused by the decision to (in effect) turn all higher education institutions into universities, leaving us with some very, very weak higher education institutions (whose weakness is not going to be overcome simply by mergers) and a further education system that is on its knees. And so on.

Then there's perhaps the most serious problem of them all; a problem that currently appears almost wholly unacknowledged. That is the tendency of Wales to haemorrhage its brightest and best 18 year olds, so many of whom choose to cross Offa's Dyke for their university education never to return. This represents an incalculable loss of human, social and cultural capital for a relatively poor country. If I had to choose only one policy area for action, then incentivising the retention of young talent in Wales would be it.

What additional powers would you like the Welsh Government to have?
It's not really my views that matter here. I rather think that it's highly likely that we will see moves in two areas over

the next few years; most likely catalysed by the work of the current Silk Commission.

First, since the self-styled unionist parties shifted to using the language of 'accountability' in the context of the Calman Commission's proposals for expanding the tax powers of the Scottish Parliament, it's very difficult to see how they can avoid the following same logic in the context of Wales. After all, if the law-making Scottish parliament requires these powers to ensure that it is 'fiscally accountable', why should the law-making National Assembly for Wales be any different? Or are they saying that it's acceptable for Wales to be 'unaccountable'? While I'm sure that some in Wales will seek to hide behind Barnett reform as a way of avoiding such a potentially contentious step – 'no taxation powers without Barnett reform' will be the slogan – given that none of the unionist parties are actually serious about reform (especially in the lead in to a Scottish independence referendum!), I doubt that it's a line that they will be able to hold for very long.

Secondly, I think it's nigh on inevitable that we will see a move to establish a separate Welsh legal jurisdiction (all be it on the Northern Irish rather than Scottish model.) Not least because this is a development for which Carwyn Jones has provided conspicuous support over the past 5 or so years.

It has sometimes been said that until UK became 'blue' while Wales remained 'red' the Welsh Government would not be truly tested. Is this true?

There's probably a lot in that. But perhaps even more pertinent is the test created by the huge squeeze on the public finances that's going to dominate political life for the coming years. The first decade of devolution was after all accompanied by a period of unparalleled largesse in terms of public spending. This made managing the transition to devolved government very much easier than might otherwise have been the case. Now that's changed and we're entering a period in which inter-party tensions within the National Assembly are likely to become much more apparent and in which Cardiff and London are going to seek to blame in each for the cuts. In other words, there will be a new edge to Welsh and UK territorial politics, which is going to be fascinating for analysts like myself, but much more difficult for those actually charged with governing.

Is Wales destined to be one of the poorest regions in the UK into perpetuity, or are there untapped resources which have yet to yield riches?

No. Even if it would be foolish to underestimate the difficulties, I don't believe that history is destiny. As individuals and as a society we have some agency. But a key first step in actually addressing the very deep-seated problems we face is to ensure that the extent of the problem is more widely known. So while some worry that broadcasting the extent of our dependence on English taxpayers will stoke up English resentment, my own view it needs to become **the** key issue in Welsh politics. It's only then that we're likely to see the necessary psychological shift in our Assembly and Government. Thus far, and for wholly understandable reasons given the Welsh Office inheritance and the nature of Welsh political culture, those active within our key political institutions have in the main regarded their primary task as distributing the funds allocated to them by Westminster by choosing between different public policy options. That needs to change and their task reframed as encouraging wealth creation within a policy framework consistent with the centre-left values that continue to dominate in Wales. Until that happens, I see no prospect other than we will continue to perform poorly.

Reference

Richard Wyn Jones and Roger Scully, *Wales says Yes: Welsh Devolution and the 2011 Referendum* (University of Wales Press, 2012.

Location, Location... Employment? Understanding Welsh Graduate Mobility Over Time

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Given the importance of human capital to economic performance, it is widely acknowledged that graduates play a key role in Wales' economic future. Historically however, Wales has been a net loser of graduates, often described as the 'brain drain'. This article sets out some of the key findings of research (see note at end) into the scale and nature of the problem, specifically the extent to which Wales retains its graduates in employment, and labour market outcomes for 'Welsh' (ie. Welsh-born) graduates in relation to their migration behaviour. This seeks to provide some useful insights for the future development of Higher Education and regional economic development policies.

Graduate Mobility and Employment

Existing research into the UK's geography of graduate labour highlights some key themes to aid understanding of graduates' migration and employment decisions. First, the main result of human capital acquisition amongst graduates is that they are more able to gain higher quality employment in a much broader set of locations (Faggian et al, 2007). In turn, a region's ability to generate, retain and attract graduate workers is critically linked to the employment opportunities available. Secondly, patterns of graduate mobility are strongly connected to previous patterns of migration for education – if you have moved before, you are more likely to move again. Thirdly, it is increasingly clear that graduate mobility evolves over time. This carries important implications for 'loser' regions if they are able to attract graduate returnees at a later stage in their life cycle. Overall, therefore, graduate mobility over time is likely to be influenced by the complex and perhaps competing 'pull' forces of places where graduates grew up or studied, as well as the powerful 'push' of career opportunities.

A Note on the Data

Previous studies have made much use of data produced by the Higher Education Statistics Agency (HESA), which provides excellent coverage of recent graduates in terms of their location and employment, but is limited as the data are collected just 6 months after graduation. Here we augment HESA data with data from the Labour Force (LFS) and Annual Population (APS) surveys, which are household surveys of the UK population. The LFS enables consideration of how graduate mobility and graduate careers evolve over time, focused on 'young' (aged 25 or below when graduated) graduates since the 1992 expansion of Higher Education. The APS adds values to the LFS analysis as it enables identification not only of

Table 1: Non-Student Population under Age 45 in Possession of a Degree/Higher Degree (%)

	Region of residence					Migrant Summary		
Country of birth	IRC	Rest of England	Wales	Scotland	N. Ireland	Non-Migrants	Migrants	Total
England	25.0	16.4	28.6	34.9	24.7	19.4	31.1	19.7
Wales	**55.9**	**37.4**	**14.6**	**38.8**	**-**	**14.6**	**43.9**	**19.8**
Scotland	48.9	28.5	27.5	15.6	22.8	15.6	35.7	18.4
N. Ireland	50.3	43.6	32.9	61.5	18.0	18.0	48.8	22.0
Total	25.8	16.8	17.7	18.1	18.3	18.9	36.4	19.7

Source: Labour Force Survey 2006-2010

Table 2: UK Migration among Post-1992 Young Graduates (%)

	Region of residence					Migration Incidence (%)
Country of birth	IRC	Rest of England	Wales	Scotland	N. Ireland	
England	44.8	51.9	1.6	1.6	0.1	3.3
Wales	**17.5**	**19.6**	**61.9**	**1.0**	**0.0**	**38.1**
Scotland	13.5	10.5	0.6	75.0	0.4	25.0
N. Ireland	7.6	11.1	0.4	7.4	73.5	26.5
Total	39.6	45.5	4.3	7.6	3.0	7.5

Source: Labour Force Survey 2006-2010

Welsh-born and Welsh-working graduates, but also those who have gained their highest degree in Wales. It also enables analysis of the UK's stock of Welsh-born graduates.

Graduate Mobility in Wales

Graduate mobility is a particularly pertinent issue for Wales given the relatively poor performance of the Welsh economy; the related desire to attract and retain graduates which is constrained by the range of employment opportunities available; the strong interconnections between Welsh and English Higher Education and labour markets; and the spatially variable changes being made to Higher Education policy and fees by the Westminster and devolved governments. Here we first look at the scale of graduate flows to and from Wales within the UK, and secondly at the 'quality' of employment amongst Welsh graduates, to inform understanding of how these flows of human capital are shaped.

Welsh-born graduates are particularly likely to migrate (Table 1). In Wales, 15% of those under the age of 45 who were born and live in Wales have a degree, compared to 44% of those who have migrated elsewhere in the UK. This 29 percentage point difference for Wales contrasts to a 20 point difference for Scotland and 12 for England. Within England, we differentiate between the Inner Region Core, or 'IRC', of London, the South East and East regions, and the rest of England. This is because of the unique economic circumstances and opportunities for graduates that exist within the IRC.

Welsh Graduate Retention

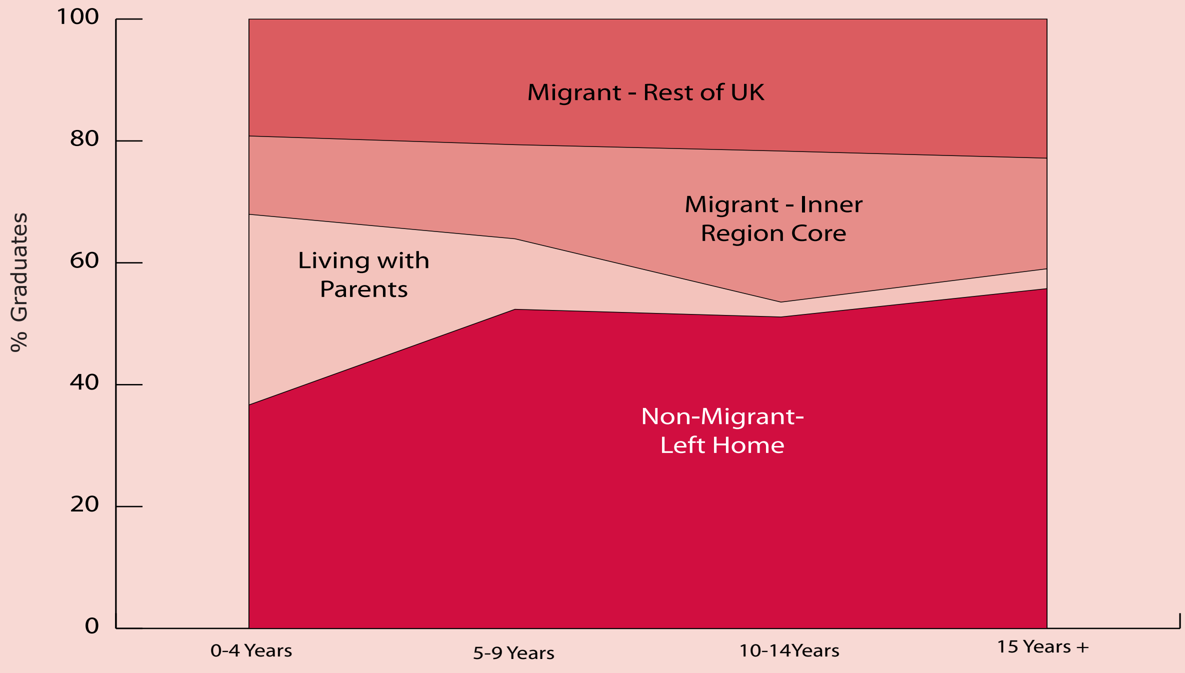
Turning to our first key question, the extent to which Wales retains its graduate labour in employment, Table 2 shows that Wales has the lowest retention rate of the home nations. Some 38% of Welsh-born graduates reside elsewhere in the UK, a markedly lower retention rate (of 62%) than that of Scotland (75%) and Northern Ireland (74%). Over 95% of English-born graduates remain in England. However, as the LFS does not record information on region of birth we cannot compare the Welsh graduate retention rate with that of the English regions.

That Wales is a 'loser region' is not surprising given the extent to which it imports students to its universities from other parts of the UK, especially England. The latest HESA data for students in Higher Education (2009-10) show that 42% (or 25,000) undergraduates studying in Wales are English-domiciled. Interestingly, the post-1992 expansion of Higher Education has raised the proportion of Welsh-born students studying in Wales (revealed by analysis of the stock of Welsh-born graduates enabled by APS data). This has particularly been the case since the introduction of student top-up fees in England in 2004, highlighting the significance of spatially variable changes in Higher Education fees to student choices about where to study.

In turn, while Wales is a 'loser region', with a net flow of graduates out of Wales, there is not an unequivocal 'brain drain'. Whilst Wales' retention rate of graduates is lower than the other home nations, analysis of 5 years of HESA first graduate destinations data show that it is higher (at 62%) than that observed among a majority of English regions (an English regional average of 56%), and is only exceeded by London and the North West (Mosca and Wright, 2010).

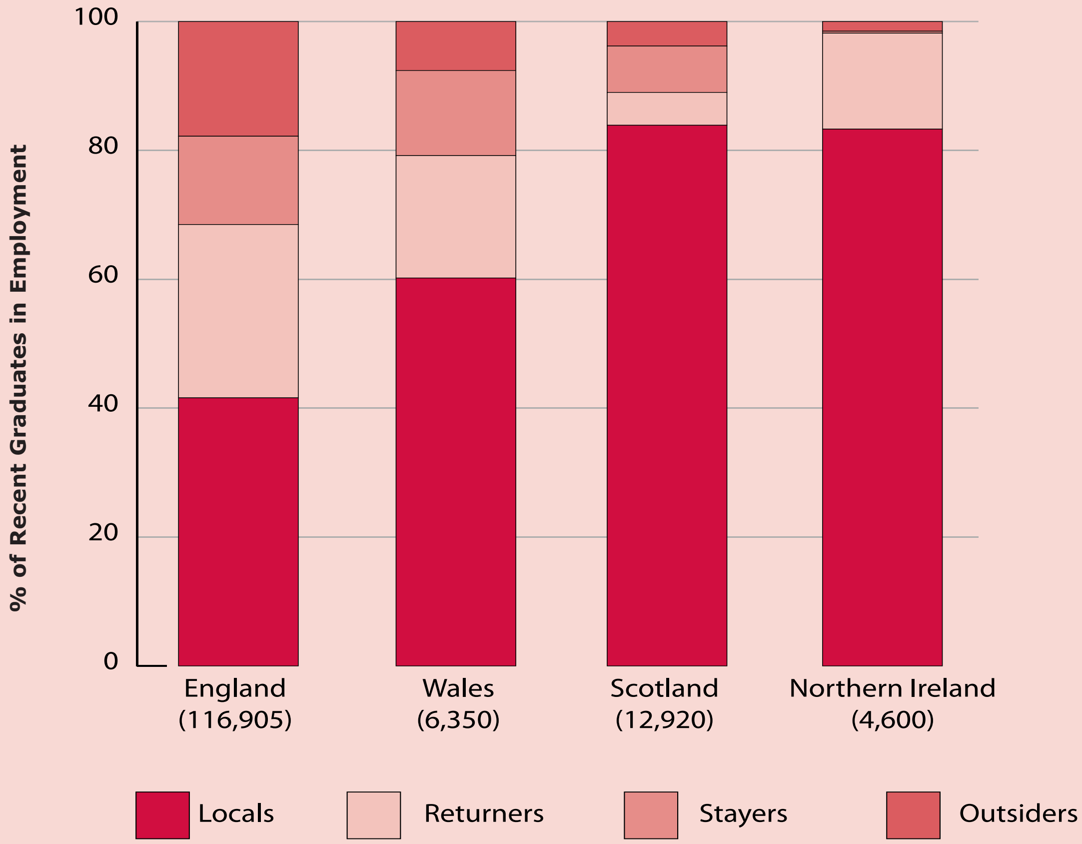
There is also some evidence of returners in the short-term (students returning home) and later in the graduate life-cycle. This highlights the importance of looking at graduate mobility for Welsh-born graduates over time. In Figure 1 we can see students returning home upon graduation. We can also see this group diminishing over time as they get their own home in Wales, or migrate elsewhere in the UK. In addition, about 15 years after graduation, we can see that some graduate migrants leave the IRC. This provides us with some evidence of 'returners' to Wales, likely associated with family formation, who may have developed valuable skills and networks.

Figure 1: Evolution of Graduate Mobility (Welsh-Born Graduates)



Source: Labour Force Survey 2006-2010

Figure 2: Graduate Pathways into Home Nation Labour Markets



Source: 'Graduate Mobility: who goes to work in each region' (2008) prepared by HECSU for Prospects.ac.uk, using HESA 'Destinations of Leavers from Higher Education' (DLHE) 2005/06.

The Pull of Home: Locals and Returners

HESA data provide useful insight regarding the geographic 'pathways' into regional labour markets, particularly pertinent given the large inflow of English students to study in Wales. Using HESA data, Hoare and Corver (2010) found that Wales is one of only four of the 12 'regions' (along with Scotland, Northern Ireland and the North East) which draws its largest single volume of graduate recruits from the 'locals' pathway. This is confirmed by the analysis of HESA data shown in Figure 2 on a more recent cohort (2005/06) of graduates six months after graduation in (full-time, paid) employment. 'Locals', who are Welsh-born and studied in Wales, are the most significant source of graduate labour recruitment for Wales (at 60% of total employed graduates). 'Returners', the Welsh-born who studied (probably) in England, and then returned home for employment, are the second most important source (at 19%). Finally, 'stayers', the non-Welsh born who came to Wales to study and stayed to work comprise 13%; and 'outsiders', who are working in Wales but have no prior connection through home or study, comprise only 8 per cent of graduates recruited. This demonstrates the 'pull of home' on graduate migration flows.

Table 3: Earnings and Occupations of Post-1992 Young Graduates by Sector of Employment

	Gross Weekly Earnings (£)			Non-Graduate Occupations (%)		
	Private	**Public**	**All**	**Private**	**Public**	**All**
IRC	651	530	616	19.9	16.1	18.9
Rest of England	531	499	518	27.7	17.3	23.8
Wales	**469**	**507**	**487**	**33.5**	**18.5**	**26.7**
Scotland	567	533	553	26.9	14.3	22.2
Northern Ireland	535	486	513	32.0	16.9	25.6
All	584	512	558	24.5	16.7	21.9

Source: Labour Force Survey 2006-2010

Welsh Graduate Labour Market Outcomes
We now turn to second key question regarding the labour market outcomes for Welsh-born graduates. We first consider where these graduates work in Wales by sector of employment before considering the consequences of migration for these graduates in terms of their labour market outcomes.

Public Sector as a Graduate Employer
While the public sector provides a source of relatively well-paid employment among graduates living within the UK's devolved regions, this is particularly the case in Wales. About half of post-1992 young graduates who were born and live in Wales are employed in the public sector. This compares to 38% for Scotland and 44% for Northern Ireland (these data are included in the second pane of Table 4). Indeed, the public sector is the main source of 'quality' employment for non-migrant graduates in Wales, where we define quality in terms of earnings and occupations.

As shown in Table 3, in terms of earnings, we found that Wales is the only home nation where average graduate earnings are higher in the public than in the private sector (with a differential of about £40 per week). In terms of occupations, we use Elias and Purcell's (2005) SOC(HE) classification to distinguish between 'graduate' and 'non-graduate' jobs. A non-graduate job is defined as one where the skills, knowledge and experience associated with the competent performance of work tasks is less than that which would be expected to be held by a person who had successfully completed a degree. While the incidence of non-graduate employment is generally lower in the public than in the private sector, this is particularly the case in Wales, as shown in the right-hand pane of Table 3. Here 34% of post-1992 young graduates employed in the private sector are in non-graduate occupations, compared to 19% of those employed in the public sector. This 15 percentage point differential compares to a UK-wide differential of 8 percentage points, and 13 points for Scotland. The public sector is able to offer a range of roles which are more likely to make use of the skills which graduates have gained.

Consequences of Migrating
So what are the consequences of migrating for Welsh-born graduates' quality of employment? Table 4 sets out findings from our analysis of LFS data on different dimensions of employment outcomes for post-1992 young graduates according to their migration status. This is further refined into a fourfold classification in terms of whether non-migrants are living with their parents, and whether migrants have gone to the IRC (Inner Region Core) or elsewhere in the UK, which aids understanding of labour market outcomes.

The top pane shows that young graduates from Wales who have migrated have better quality jobs as they are less likely to be employed in a non-graduate occupation (a differential of 13 percentage points between migrants and non-migrants). Overall, non-migrant graduates in the devolved nations are more likely to be employed in a non-graduate job than migrants, but this is particularly so in Wales. Interestingly, Welsh migrants to the IRC are more likely (at 16%) than the other devolved nations to be in a non-graduate job, possibly reflecting the relative proximity of the IRC to Wales.

The middle pane shows that Welsh migrants are less likely to be employed in the public sector (a 16 point differential between migrants and non-migrants). Again, this is particularly the case for Wales compared to the other devolved nations, with an overall 11 point differential between migrants and non-migrants.

Finally, the bottom pane considers the relative earnings of the different graduate groups. Regional price differentials have been applied to the LFS earnings data to account for cost-of-living differences. It shows that Welsh migrants have higher earnings

Table 4: Employment Outcomes of Post-1992 Young Graduates

	Non-Migrants			Migrants			Migrant/Non-Migrant Differential
	Living elsewhere	Living with parents	All	IRC	Rest of UK	All	
Employed in a Non-Graduate Job (%)							
Wales	**20.5**	**50.7**	**27.2**	**15.6**	**13.9**	**14.7**	**-12.5**
Scotland	18.0	45.6	23.3	10.8	14.7	12.6	-10.7
N. Ireland	19.7	41.1	25.6	11.7	13.9	13.2	-12.4
Total	19.0	45.5	24.8	12.7	14.2	13.5	-11.3
Employed in the Public Sector (%)							
Wales	**50.0**	**45.0**	**48.9**	**24.4**	**41.0**	**33.3**	**-15.6**
Scotland	39.9	28.9	37.8	17.5	35.1	25.7	-12.1
N. Ireland	45.1	39.2	43.5	28.1	36.2	33.9	-9.6
Total	43.6	36.0	41.9	21.6	37.6	30.3	-11.6
Real Gross Weekly Earnings (£)							
Wales	**515**	**325**	**480**	**691**	**566**	**621**	**29.5%**
Scotland	579	343	539	766	647	708	31.4%
N. Ireland	546	363	510	603	607	605	18.7%
Total	556	343	517	715	607	655	26.6%

Source: Labour Force Survey 2006-2010

(migrants' gross weekly earnings are 30% higher). The premium associated with migration to the IRC is in excess of 40% among graduates from both Wales and Scotland.

Our APS analysis, not tabled here, shows that all these findings hold true for the stock of Welsh-born, Welsh-resident graduates, that is, across all age groups, and not just for young post-1992 graduates.

In addition to showing the economic returns to migration, Table 4 also illustrates the flipside, or the penalties of staying, particularly for those who remain living in the parental home. In our analysis we realised the importance of differentiating this group as it has the worst employment outcomes (as well as the worst social outcomes in terms of partnership and family formation, not detailed here). The poorer labour market outcomes of non-migrants compared to migrants can generally be attributed to the particular career circumstances of those who remain living in the family home. For example, while Welsh non-migrant graduates are most likely to be employed within a non-graduate job (27%) this is partly explained by the over half of graduates who live with their parents holding a non-graduate position. This may be expected given that assimilation into a graduate-level job takes time following graduation, and younger graduates who are living at home are probably more likely to be in non-graduate employment.

Conclusions and Policy Implications

Wales exhibits low retention rates compared to other devolved nations in terms of the proportion of graduates from Welsh Higher Education institutions who subsequently gain employment within Wales. However, the analysis suggests that the notion of a clear, unequivocal graduate brain drain has to be qualified. Wales does manage to retain high numbers of graduates relative to many English regions and there is a clear 'pull of home' for graduates who have left the region to study elsewhere, as shown by the importance of 'locals' and 'returners' to the graduate labour market.

There are clear benefits of migrating for individual graduates. Young graduates who have migrated from Wales have better quality jobs, are less likely to be employed in the public sector, and have higher earnings. This reflects the relative lack of opportunities for graduates within Wales. The main source of quality employment is the public sector, which employs approximately half of post-1992 young graduates who were born and live in Wales. This draws attention to the significance of the relationships between graduate migration and retention and the employment structure of the Welsh economy.

There are varied policy implications of these findings. Wales is a public sector dominated knowledge economy and the significance of this in terms of the likely career development opportunities for its graduates has implications in light of public sector cuts which will threaten the ability of Wales to retain graduates (see WAO, 2011 and Wright, 2011). The findings perhaps suggest a need to develop policies which make the courses taught at local universities more appropriate for the specialised needs of the Welsh economy (see Simmie et al, 2006), as well as the need for greater attention on the possibility of nurturing graduate entrepreneurs.

In turn, encouraging locals to study and stay in the region ('grow your own') is more likely to have an impact on graduate retention rates than attracting students from outside the region. But the localisation of Higher Education admissions that such an approach would entail would lead to tensions between individual returns to education, increased through migration, and potential benefits to the Welsh economy. There are also clear implications for Higher Education fees policy. The potential importance of 'returners' also points to a key policy question of how to assist the 'pull of home'? Lessons can perhaps be learnt from the experiences of Scotland (see, for example, Findlay et al, 2008).

Note

This article presents the initial findings of research which commenced in 2010. The research was funded by the ESRC's SKOPE Centre on Skills and Organisational Performance for the Knowledge Economy, based at Cardiff University and Oxford University. It was conducted in partnership with WISERD, the Wales Institute of Social and Economic Research, Data and Methods. Further information on the research, including the full report and its supporting data, can be accessed here: http://www.wiserd.ac.uk/research/wiserd-projects-current/welsh-graduate-migration/

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The Economic Impact of Tata Steel in Wales

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Introduction

In Summer 2011, the Welsh Economy Research Unit undertook an assessment of the economic and social impact of the operations of Tata Steel in Wales. Tata is the second largest steel producer in Europe and in the global top ten, and remains probably the most significant private sector employer in Wales–in terms of direct employment, indirect and supply chain impacts, and in the importance of its outputs in other UK manufactures. Despite significant employment decline since the 1970s, steel remains a key industrial sector in Wales, with the largest facility in Port Talbot, and with significant Tata facilities at Shotton on Deeside, Trostre and Llanwern (to this can be added the Celsa arc steel plant in Cardiff).

This report quantifies Tata's impact in Wales. The Input-Output Tables for Wales were used to examine the direct and 'multiplier' impacts of Tata Steel activities; that is to say the on-site employment, output and gross value-added (GVA) plus that generated across the Welsh economy as Tata buys goods and services from Welsh supply chains, and as Tata employees spend money in the region. This then is a timely update to earlier WERU work examining the economic significance of steel in Wales, using the same methodology and analytical tools[1].

Whilst steel in Wales brings many benefits, Tata plants emit significant levels of greenhouse gases. These carbon emissions are contextualised as highlighting the need for regional and national policymakers to work with Tata within an appropriate framework to continue to reduce environmental impact, and thus protect the viability of its plants in Wales.

Economic Impact Methodology & Data

The regional economic impacts of a single facility do not stop at the factory gates. The onsite employment and economic output are certainly important, typically the largest part of any regional impact, but there are important offsite benefits.

Traditional economic impact methodologies classify and measure these in two major streams. Firstly, there is the employment; output and value-added that is created in the supply chain to the facility. Here, then, there will be thousands of employees and many millions of value-added created in firms supplying Tata – including at subcontractors used during the industrial processes and in transporting final products, as well as more generally in business services. These impacts travel back along supply chains as Tata's direct contractors themselves purchase inputs from other Welsh companies. Added to the above are economic impacts related to the re-spending of wages by Tata employees *and* employees in the Tata supply chain, again comprising additional economic demand and hence employment and value added in Wales. The sum of these two impact 'avenues' then comprise total offsite effects. These can be added to the onsite impacts to provide an indicative overall estimate of economic impact in terms of full-time equivalent employment and GVA.

Wales benefits from having a longstanding and well-developed modelling system that can value the multiplier benefits detailed above. The *Input Output Tables for Wales*[2] have been published by WERU for over a decade. They have been used to examine the economic impact of many Welsh sectors and economic activities, including coal, ports and (relevant here) steel, as well as non-traditional economic activities such as tourism and stadia.

Input-Output modelling has a number of limitations and restrictions. However, their continuous publication and improvement in Wales provides a way of measuring and assessing the importance of Welsh industries and activities that is consistent between different industries, and to some extent over time.

The modelling is 'data hungry', requiring good information on the purchases, wages and other business metrics of the facility or company in question. This information was gathered from Tata over Summer 2011 during a number of face-to-face interviews and other correspondence, and relates to the entirety of Tata operations across Wales – a novel analysis for the company itself. With the exception of some data on subcontractors, necessarily limited by third-party privacy considerations, we have therefore fully up-to-date, detailed and high quality information with which to inform the economic impact estimates presented below.

The Economic Impact of Tata Steel on Wales

Direct Impacts

Table 1 shows that overall some 8,000+ people are employed by Tata in Wales. These jobs are relatively highly paid. Tata pays a minimum of £14 per hour and employees are overwhelmingly full-time: less than 3% are part-time, compared with a Welsh average of 35% in 2010[3]. The quality of employment is no doubt causally linked to an average length of service of 16 years[4].

These employees created around £2.5bn of industrial output in 2010, comprising around 8% of all industrial and extractive output in Wales and highlighting the importance of the firm in the Welsh industrial landscape.

Onsite GVA at Tata plants totals around £1.28bn[5]. This equates to roughly 3% of total Welsh GVA, almost certainly the largest direct GVA contribution of any private sector employer.

Indirect Impacts

To these above impacts can be added those in the supply chain, and through wage effects, as detailed in Section 2 above. Use of the Input-Output Tables for Wales suggests that a further £670m of economic output and £320m of GVA is created across Wales as a result of Tata activities (Table 2). Thus, the total economic impact of Tata stands at £3.2bn in Wales, with a supported GVA of £1.6bn.

Whilst these figures are significant, the extent to which Tata supports off-site employment is more significant still. The Input-Output modelling suggests that almost 10,000 full-time equivalent jobs are supported off-site in the Tata supply chain, and as those employed at Tata and in the supply chain spend their wages in Wales.

The 'employment multiplier' is thus 2.22, suggesting that every job at Tata supports another 1.22 employees throughout the Welsh economy. This employment multiplier is, along with oil refining, electricity generation and some food production, amongst the highest of all Welsh sectors, and with this number similar to those reported in earlier WERU steel reports.

The largest portion of the off-site impacts arise in private services in Wales (these including transport and engineering). Interestingly, there are few supply links to other *manufacturers* in Wales, highlighting both the vertical integration of the company in Wales and the global nature of steel logistics operations. This position (and the overall level of economic impact) might change somewhat if the company is successful in once again sourcing its coal from Wales (rather than Australia) with the Margam Coal Development Project.

Depending on how one treats intra-company sales and intermediate products, Tata exports between 80%-95% of its output to markets outside Wales, thus earning inter-regional export revenues of between £2bn - £2.2bn for Wales.

Tata and Sustainable Development

The Tata plants in Wales, particularly the integrated Port Talbot mill, occupy a complex position within Wales' wider commitment to sustainable development and climate change mitigation. It is clear that the company is one of the largest sources of climate emissions in Wales. Despite significant and successful efforts to reduce these emissions – including the £60m investment in 2010 which saves 250,000 tonnes of CO_2 per annum – this position will likely remain unchanged for as long as the *current* plant operates in Wales.

The complexity arrives, first, in the form of the regulations under which Tata operates with regard to climate emissions. As a large emitter, these are governed by the European Union Emissions Trading System, with neither Westminster or the Welsh Government having a proactive remit. The second complexity arrives in the form of Welsh Government climate policy. As an EU-ETS signatory, Tata's emissions are not considered 'devolved': That is to say they do not count towards the Welsh Government's measure of the emissions for which it is responsible (more widely, the Welsh Government and Tata collaborate regularly on sustainability matters of course, for example in the area of land remediation and treatment of wastes).

This is not to say regional or UK government does not or cannot influence Tata operations. For example Tata in Wales spends around £150m on electricity, gas and water for Welsh operations. Here, the provision of lower carbon inputs – particularly electricity – might in the long run result in lower cost, more diverse and reliable supplies for Tata, improving the viability and longevity of plants in the UK[6].

Table 1 Tata Operations in Wales

Business	Locations	Nature of Business	Approx Direct Employees
Tata Steel Strip Products UK	Port Talbot Llanwern	Production of Hot Rolled Coil used in the construction, automotive, electrical / household appliances packaging and other industries	5,500
Tata Steel Colors	Shotton Tafarnaubach	Production of coated & organic coated products for the construction, electrical appliance and other industries. NB: Shotton hosts the Sustainable Buildings Envelope Centre (SBEC) and the Photovoltaic (PV) research project	650
Tata Steel Packaging	Trostre, Llanelli	Steel for packaging applications – cans, boxes, trays, etc. Some other specialised markets	850
Cogent – shortly Tata Steel Electrical Steels	Orb, Newport, South Wales	Specialised grain-orientated steel for electrical applications including wind turbines	450
Colorsteels	Cross Keys	Coated strip steels for manufactured goods and the construction sector	120
Tata Steel Building Systems (Catnic)	Caerphilly	Steel lintels for building construction	100
Tata Steel Building Systems	Shotton	Profiled steel composite panels for walls and floors for commercial construction	100
Tata Steel Living Solutions	Shotton	Modular steel units for construction – currently not operating	100
**SPECIFIC*	*Baglan Innovation Centre*	*R&D into functional coatings for steel. A partnership project under the legal aegis of Swansea University*	*(50)*
			~8,000

*** Sustainable Product Engineering Centre for Innovative Functional Industrial Coatings***

Turning to the specifically Welsh context, it is worth remembering that the Government seeks to measure and reduce our environmental 'footprint' on a consumption, rather than production basis. This means that (through the Ecological Footprint) the government strives to reduce the global impact of all the resources we use, irrespective of whether they are Welsh or imported. From this perspective, the emissions of Tata should be considered in the light of the overwhelming proportion that comprises *exports* from Wales. On a consumption basis plant emissions might be considered after discounting those related to exported commodities – but with the corollary of course that we count the manufacturing and transport related emissions of all goods consumed by the people of Wales, irrespective of origin.

Leaving aside complex measurement issues, it is clear that steel production in Wales; indeed the UK and Europe; is under increasing pressure as a result of climate regulation and electricity costs currently unique to Europe. This position may not change for a number of years. Meanwhile, the carbon content of steel is chemically determined; unalterable by policy intervention or incremental technical development. Steel makers in Europe have made huge strides with current technology to reduce emissions per tonne of product, but these improvements have largely run their course. A fundamental shift in steel technology is needed,; as recognised by the Europe-wide *Ultra Low Carbon Steel Consortium* of manufacturers (www.ulcos.org). Without losing sight of the short term, policymakers might consider how to best ensure Tata's first ultra low carbon steel mill in Europe is in the UK – indeed in Wales.

Summary

This project report has illustrated Tata's position as the most economically important private sector company in Wales. For every employee within Tata, another 1.2 jobs are supported throughout Wales, together totalling almost 18,000 full time equivalent jobs. The company supports £3.2bn of output and £1.6bn of value added in Wales, as well as contributing to the development of much needed innovation and R&D activities in the region.

Climate regulation and resource constraints bear down harder on steel makers in Europe than elsewhere. Whilst the Welsh Government does not have direct responsibility for regulating Tata in this regard, actions on sustainable development and in energy supply (as far as is relevant) will have a potential impact – as will encouraging an appropriate, sophisticated and holistic debate on understanding climate emissions' impacts and responsibilities.

Wales has been lucky in retaining its major industrial actors through the 2007/8 Credit Crunch and subsequent recessions and volatility. As long as Tata plant and operations in Wales have the possibility of profitable use, they will remain. Encouraging a new, more sustainable generation of plants to be located here is the longer; more difficult, yet potentially far more lucrative challenge.

Notes

1 WERU (1994) The Economic Impact of Steel Production in South Wales, Welsh Economy Research Unit.
WERU (2001) The Economic Effects of Corus Restructuring in Wales. In Fairbrother, P. and Morgan, K. (eds) Steel Communities Study (Volume II), Cardiff University.

2. available from www.weru.org.uk

3. http://www.wiserd.ac.uk/wp-content/uploads/2011/05/WISERD_RRS_002.pdf

4. Tata Steel, 2011

5. Albeit with some uncertainty in this estimate as relevant taxes cannot be estimated at Wales level.

6. See Jones (2009) *Wales in the Energy Crunch* http://www.lulu.com/product/ebook/wales-in-the-energy-crunch/17544084

Table 2: The Regional Economic Impact of Tata Steel

	Output (£m)	GVA (£m)	Jobs (FTE)
On-site	2,520	1,280	8,000
Off-site (Supply chain & wages effects)			
Manufacturing & Energy	91.1	23	370
Construction & Maintenance	109.2	40.8	1,680
Private Services	288.6	148.8	4,160
Public & Other Services	180.1	104.7	3,520
All Off-site	669	317.3	9,730
TOTAL ECONOMIC IMPACT	3,189	1,597	17,730
Regional Multiplier	*1.27*	*1.25*	*2.22*

The Economic Impact of NHS Procurement: A Study of the Aneurin Bevan Health Board

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Introduction
The School of City and Regional Planning at Cardiff University and the Welsh Economy Research Unit of Cardiff Business School were commissioned by Caerphilly County Borough Council and Newport City Council to undertake an analysis of the local and all-Wales procurement of the Aneurin Bevan Health Board (ABHB).

ABHB is responsible for the delivery of health care services to more than 600,000 people living in the Gwent area. Health services are delivered across the local authority areas of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. The Health Board came into being on the 1st October 2009.

One context of the report is a paucity of evidence on the wider economic effects of Welsh public procurement, and the potential for regional firms to meet needs which are currently serviced by imports. These questions have been brought into a sharper focus with NHS budgets coming under pressure in current spending reviews.

The research objectives in summary were as follows:

- To define the term 'local' with respect to the purchasing behavior of ABHB.
- To demonstrate how far the Board had successfully implemented selected action points contained in the *NHS All Wales Procurement Strategy 2007-2010* relating to communicating opportunities to local suppliers, and assisting suppliers to improve delivery of goods and services.
- To identify whether targets had been set for local procurement by the ABHB, and the nature of actions being taken to achieve these targets.
- To analyse the amount of local spending undertaken by the Board and to analyse the benefits of local procurement for the wider local economy.
- To identify further local procurement opportunities for ABHB.

The definition of local was taken to mean the Health Board area in terms of the local authority areas of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. Regional was taken to mean of whole of Wales.

Opportunities for local SMEs
The report reveals that progress is being made by ABHB in meeting the strategic action points outlined in the *NHS All Wales Procurement Strategy*. However, the report highlighted a series of contextual issues that must be borne in mind in this connection. First, in terms of efficiently communicating requirements and in developing local supply potential, individual health boards are unlikely to be able to act wholly independently. With large amounts of goods and services flowing through designated hubs such as NHS Supply Chain and Welsh Health Supplies it is arguably in these organisations where a lead needs to be taken in communicating and developing local supply potential. The use of supply hubs and framework style agreements, greater procurement cooperation with the other home countries, tighter procurement regulations, the use of electronic portals and the wider advertising of tender opportunities, places constraints on the amount of supplier development that can be undertaken by organisations such as the ABHB. It is also difficult to escape the conclusion that the trend in the procurement process and tighter public spending conditions could work together to make it more difficult for SMEs to compete in winning NHS business in Wales.

ABHB Spending
The report provides an analysis of the expenditure undertaken by ABHB for 2009-10. A large amount of total spending relates to the wages and salaries of staff, (nearly £406m) and with this supporting an estimated 10,754 full time equivalent (FTE) jobs. During 2009-10 non-pay operational spending was a little over £547m. Finally, there was estimated total capital spending through the year of £125m and with the vast majority of this relating to the construction of the Ysbyty Ystrad Fawr and Ysbyty Aneurin Bevan hospitals.

Table 1 shows that of total ABHB operational spend (net of depreciation) of £528.7m, around 23.5% represents payments to firms and institutions in the ABHB area. Total ABHB spending in Wales as a whole in 2009-10 was £306.5m or 58% of total operational spending. Discounting for spending within the health and social work sector leaves £25.2m of spending in other sectors of the economy. Total operational spending outside of Wales was £222.2m or 42% of overall operational spending. Of the total of non-pay operational spending (less health and social work spending) of £113.1m, around 8% is within the ABHB area, 22% is within Wales as a whole (including the ABHB area), and then with 78% of spend outside Wales.

Figure 1 shows the level of purchases outside Wales by ABHB by sector. In a number of sectors the percentage of total operational spending outside of

Table 1: Spatial distribution of ABHB (non-pay) operational spending in 2009-10

	£000s	£000s	£000s	£000s
	ABHB	**All of Wales (Incl ABHB)**	**Outside of Wales**	**Total**
Total	**124,015**	**306,519**	**222,155**	**528,674**
(Total less health spending)	*9,196*	*25,176*	*87,905*	*113,081*

Wales is in excess of 90%. The high importing propensities across some sectors reflect that Wales is a small open economy. Some of the demands placed by the NHS are very specialist in nature meaning that there would be no suppliers of such products in the regional economy. The report provides an analysis of sectors where import substitution possibilities might occur.

The Economic Significance of the ABHB

ABHB was shown to directly support some £953m of output, over 10,700 FTE jobs, and around £406m of gross value-added in Wales. However, indirectly the Board was shown to support economic activity in a wide range of regional sectors. In total, our analysis suggests that Board activity supports, directly and indirectly some £1.7bn of economic activity in Wales, and nearly 20,000 jobs and around £0.73bn of gross value added. Even discounting the impacts within other parts of the health sector, the ABHB supports a significant number of jobs throughout the Welsh economy.

Recommendations and Conclusions

Among the chief recommendations that emerge from this study, there were two bearing directly on urgent procurement problems.

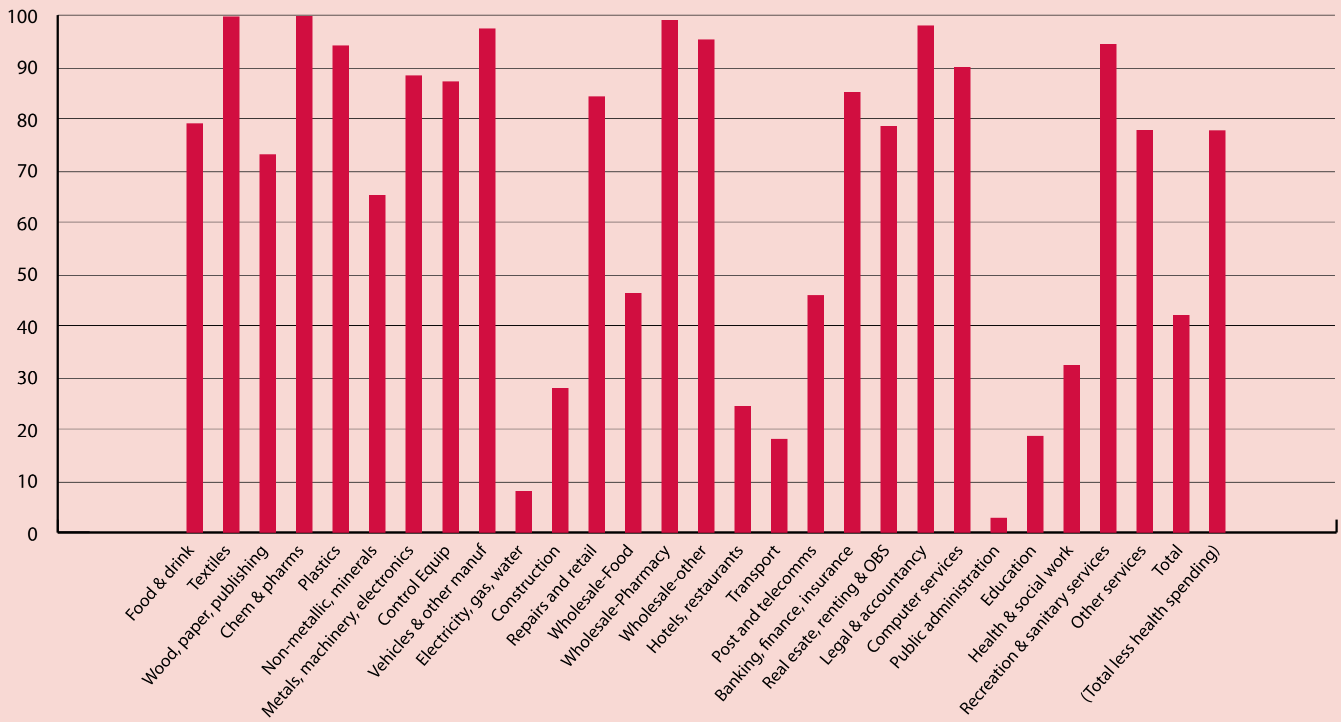
On the demand side the most critical challenge is to promote more genuine collaborative procurement across the public sector in Wales. It is vital that local government and health boards form integrated services and stronger partnerships. In the case of the ABHB area for example, the five county councils and the health board should consider the creation of a joint collaborative procurement team, working to a combined sourcing plan, to reduce costs and add value. While this evidently brings issues of accountability across responsible authorities and short term costs, this type of collaboration can lead to long run savings on contracts.

On the supply side there is an equally urgent need to design and deliver a better system of business advice for actual and aspiring SMEs in the health board area. SMEs are faced with a bewildering array of business support points, with little or no coordination between them. There is too little coordination among the five local authorities in the ABHB area and there is too little coordination inside the Welsh Assembly Government, especially between the Department for the Economy and Transport (DET) and Value Wales for example. There is an insistent need for local government, the health boards and the Welsh Assembly Government to form an integrated service and a stronger partnership by, for example, creating a single one stop shop for SMEs that would benefit from advice on how to become a supplier to the public sector in south east Wales. Moreover, the analysis reveals a need for more targeted events to assist local SMEs to win NHS business and it is recommended that organisations such as Welsh Health Supplies might be key in coordinating such activity.

More specific recommendations arose from the analysis of opportunities to displace ABHB spending on imports. First a large amount of spend is directed to wholesalers and distributors both inside and outside of Wales. There may be scope here to encourage wholesalers, particularly, those in Wales, to investigate local sources of supply where they are available. Moreover, we expect that wholesalers might be well placed with knowledge on local supply opportunities and are a useful antennae for regional potential particularly in terms of food products, and basic commodities.

Second, the analysis suggests that it is high value-added products that are sourced outside of Wales. While the report emphasises the constraints on the regional supply side it recognised that even small levels of import displacement in selected niches of sectors, such as in engineering, equipment and chemicals, could have important effects in terms of the support of good quality employment in south east Wales.

Figure 1: **ABHB Import Propensities 2009-2010 (% of total imports by sector).**



Third, there are some areas of business and computer services where there would seem to be real opportunities to purchase more in the regional economy. We note that one of the problems identified in strategic economic planning documents by the Welsh Assembly Government has been the region's low shares of national (UK) activity in higher value business services. We would argue that public procurement is one potential means to bolster regional activity in these sectors, particularly at a time when there are real pressures on private sector demands for these services i.e. from the regional manufacturing sector.

Fourth, it was shown that the *NHS All Wales Procurement Strategy* suggests the significance of local sourcing but does not specify targets for local sourcing. It is recommended that the scope for such target setting be investigated. This report commends ABHB for monitoring its local procurement and setting implicit targets on Welsh purchases. At the same time it is recognised that year on year increases in local purchasing may be impractical given supply side constraints in the Welsh economy. Furthermore, the level of local purchases in any one year is not entirely within the control of ABHB procurement officers.

The conclusions of the report generally relate to one health board area. A key issue for the future is how far the conclusions reached here might be applicable to other health board areas across Wales. In this context different health boards might have very different regional economic impacts according to the distribution of their spending between capital, operational and labour categories, and the extent to which they purchase in the region. Whether similar conclusions could be made for health boards in the west and the north of Wales is an issue for further research.

Without a more robust evidence base, of the kind we have tried to provide here, it is hard to imagine how the public sector can have an informed debate about the social and economic impact of its spending. This would help to foster a fuller and more mature understanding of value for money.

A copy of the full report can be found at http://www.newport.gov.uk/stellent/groups/public/documents/report/cont599382.pdf