

How Wales can win: new possibilities

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Wales needs a new imaginary

- **No precedent or template for fixing the problems of Wales and other stranded ex industrial regions and districts:** scale e.g. Wallonia or West Midlands; dispersion e.g. Enfield In London; political as much as economic in Belgium or Spain
- **Worsening problems require a new imaginary of possibilities** which changes what's thinkable and doable
 - **regional and local initiatives** because economic renewal is beyond the capacity of the central state
 - **Possibilities of 'guerrilla development' focused on the foundational economy** which serves everyday life
- **Wales can win** or do much better by focusing on foundational activities and managing what 's left in Llanelli or the Valleys

Argument in five steps

1. **Agreed mess:** after 2008, worsening Welsh regional problems nested in a stalled UK economy
2. **What's lost and what 's left:** a gestalt flip/reframing on the foundational economy,
3. **Policy impasse:** central state lacks the political will and technical capability to solve your problems
4. **Economic possibilities:** new economic management principles of ending fragmentation and curbing value extraction
5. **A politics of active regionalism?** right across the centre left (not the same as old style nationalism)

(1) The agreed mess

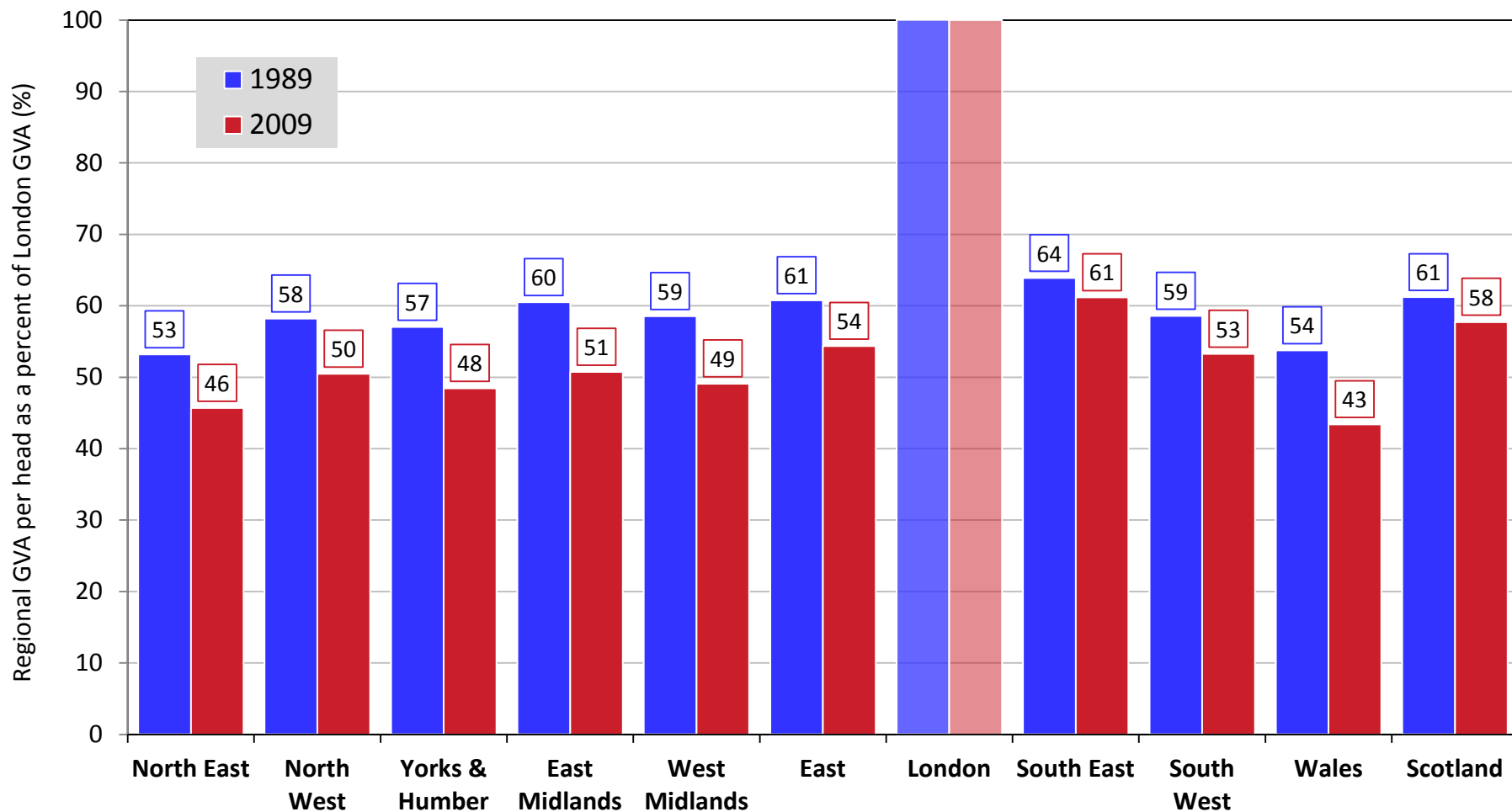
**Long standing regional problems
...now taken a national turn for the worse**

The agreed mess (regional and UK wide)

- **Wales problems like those of the twilight ex industrial regions and districts** (West Midlands or North East; Burnley or Enfield)
 - ✓ **post 1979 = 30 years of falling behind** by GVA measure and only London creating full time jobs (for immigrants) cf 1920s and 30s when 400k left Wales for South East and Midlands
 - ✓ **post 2008 = towards free fall** ex tight fiscal policy = anti-regional via cuts in publicly funded employment and welfare which supported 18-20% of working age population
- **Post 2008 context of stalled national economy;** with failure of the Thatcher/Blair drivers i.e.
 - ✓ **housing equity withdrawal** boosted consumption demand
 - ✓ **government spending created publicly funded jobs** in health education and welfare; increasingly in the para-state

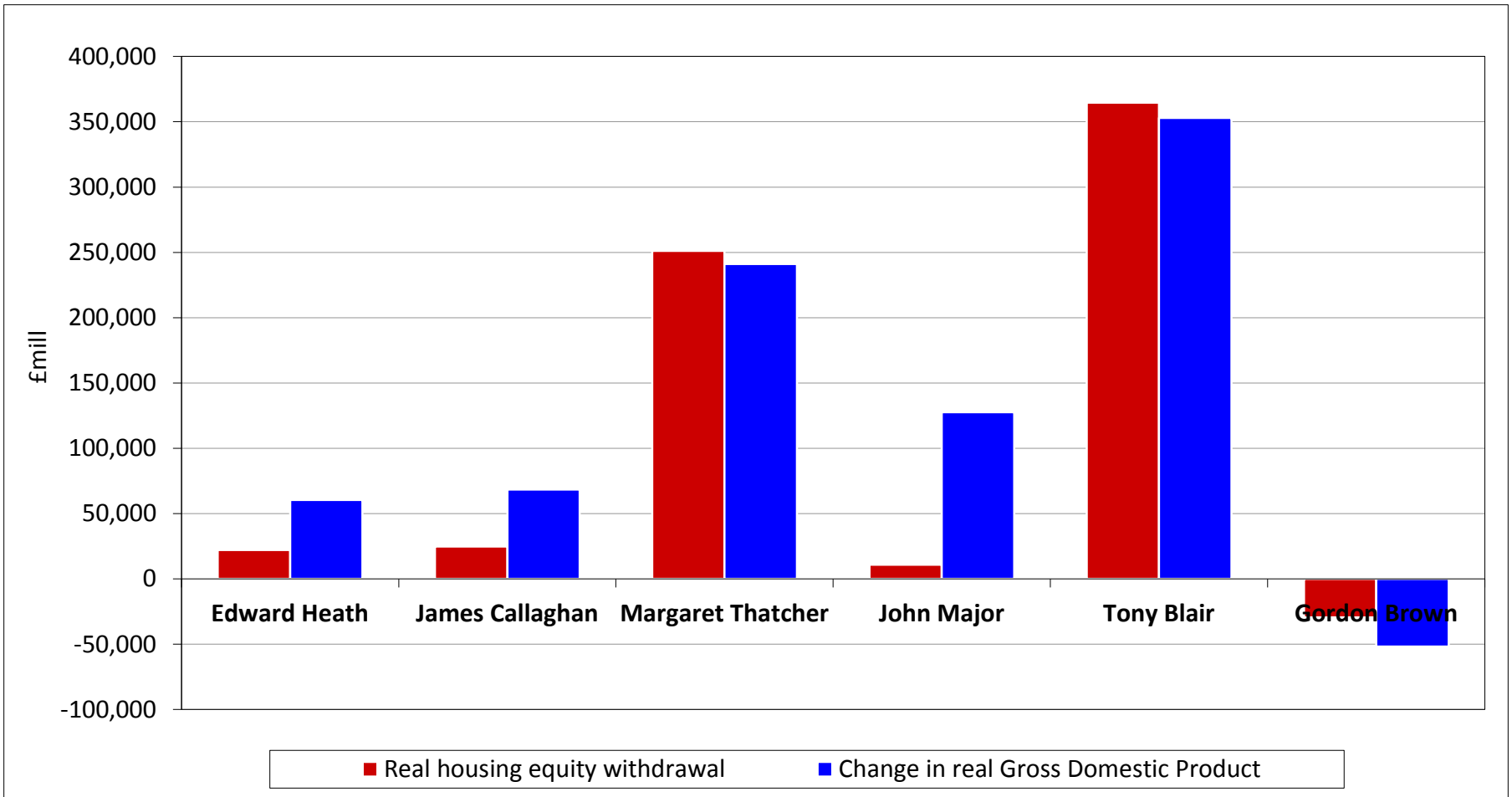
Regional GVA per head compared to London in 1989 and 2009

(expressed as a percentage share of London's GVA per head) Source: ONS

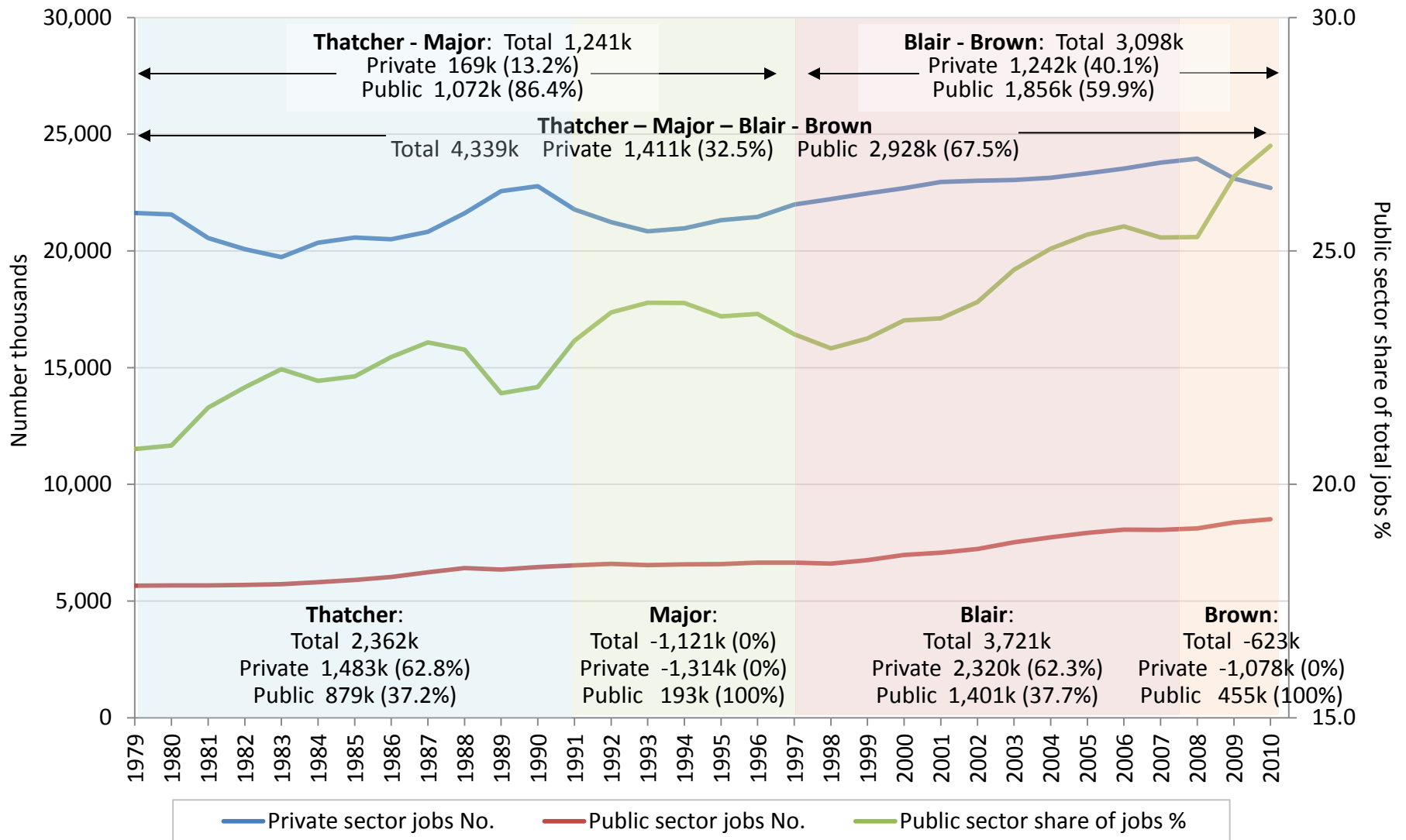


A comparison of household equity withdrawal and GDP growth in the UK

(all money data in 2009 prices and data seasonally adjusted. Source: Bank of England and ONS)



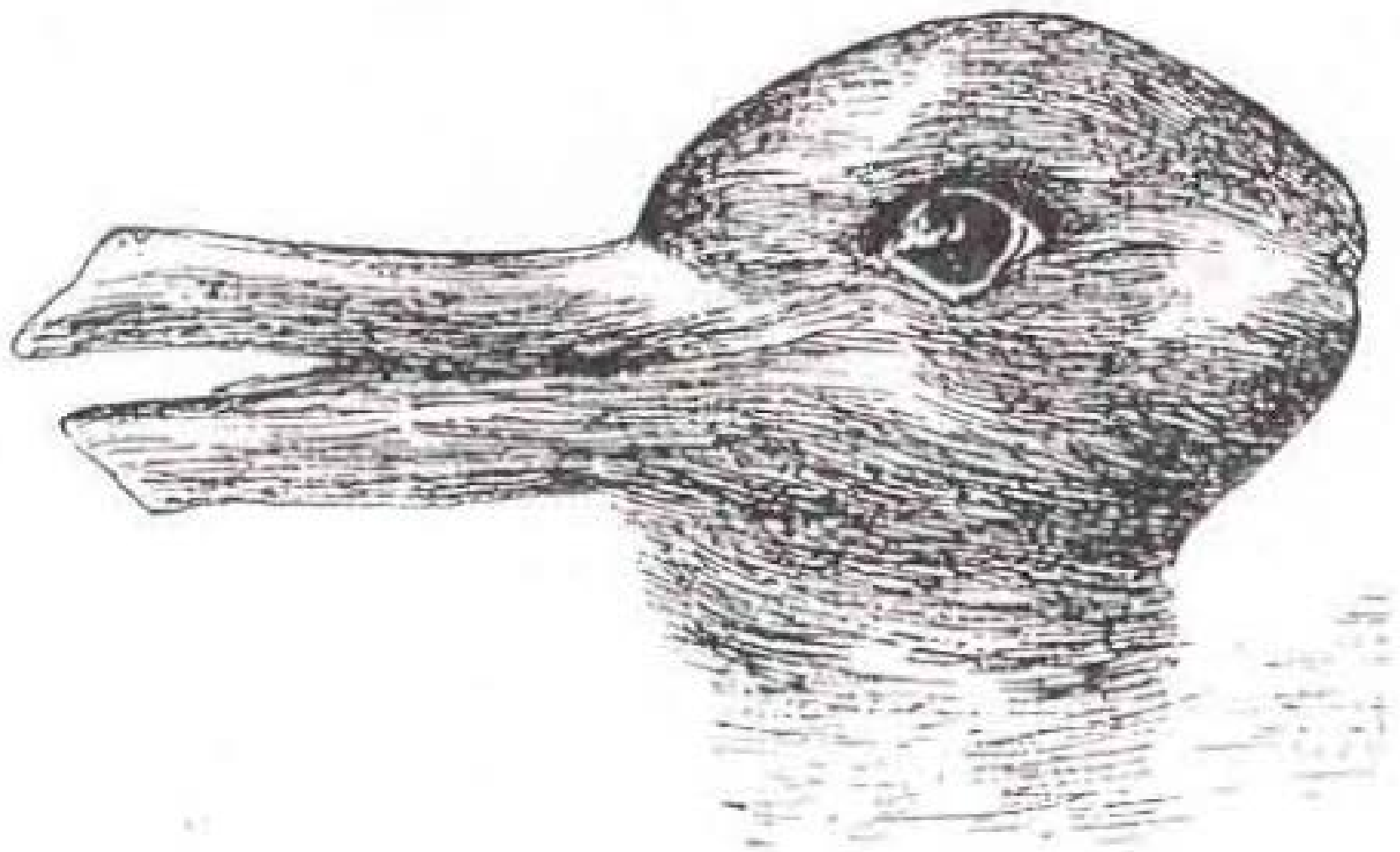
UK private sector and public sector employees 1979-2010



(Public sector is the summation of education, public administration and health. Underlying data relates to employees and excludes self-employment)

(1) What's lost vs what's left

**reframing intervention:
focusing on the foundational economy
+ new possibilities**



Gestalt flip: what's lost/what's left

Need to make a perceptual gestalt flip; as with a visual gestalt flip from duck to rabbit = both in the picture but we see one at a time

Shift from what's lost to what's left: from manufacturing to the foundational economy in UK and ex industrial regions

What's lost = manufacturing and tradable goods sector = employment down from 7mill in 1970s to 2.25 mill by 2010 with output flat; what we see = disaster for the male, working class, broken supply chains, failed manufacturing PLCs

What's left = a foundational economy of mundane activities maintains employment of 10 million on broad definition; output mainly sheltered, politically franchised (trains or supermarkets), distributed according to population (unrecognised eg University of Manchester is largest employer of male, unskilled in the City)

Classification: what's in the foundation?

- **The foundational as a network that supports us all**
 - **Health, education and welfare: more 'eds and meds' in all high income countries; UK via state and para-state employment (i.e. publicly funded private employment e.g. in nurseries or care homes) ; UK > 6.5 million and near 30% of the workforce and higher in unsuccessful Wales: 400k and 35% in Wales**
 - **Mundane (private sector) activities: infrastructure/utilities necessary to everyday life and used by everybody regardless of income or social status** e.g. electricity, gas and water plus supermarkets/basic food processing, transport; around 10% of workforce everywhere 125k in Wales because this activity is distributed and sticks when all else fails/expands with success

Overlap (a) much of the state delivers mundane output e.g. primary education so far taxpayer funded not revenue generating (b) mundane dominates British manufacturing where the largest sector is food processing employing 400,000

State and State supported employment split by regions and activity, 2010

	England		Wales		East Wales		West Wales	
	Employees No.	Share of total %	Employees No.	Share of total %	Employees No.	Share of total %	Employees No.	Share of total %
State and State-supported (using CRESC method)	6,656,846	29.4	408,954	35.5	165,502	33.7	243,477	36.9
Private sector	15,963,334	70.6	741,924	64.5	325,287	66.3	416,629	63.1
Total employment	22,620,180	100.0	1,150,878	100.0	490,788	100.0	660,107	100.0
Conventional measure of public sector -addition of education, health, care and public administration	4,888,515		300,616		120,738		179,878	
Difference between CRESC measure and conventional measure	36.2%		36.0%		37.1%		35.4%	

Source: Nomis (Classifications from BIS)

Note: DEFRA for NUTS 2 regions is estimated. Due to rounding columns may contain small differences. Data refers to employees

Private sector mundane activities, 2010

	England		Wales		of which share of Wales total employment	
	Employees	Share of total employment	Employees	Share of total employment	East Wales	West Wales and The Valleys
	No.	%	No.	%	%	%
Meat and fish processing	65,706	0.3	4,144	0.3	46.8	53.2
Manufacture of bread, cereals and other basic foodstuffs	237,494	1.0	15,292	1.2	52.6	47.4
Utilities	207,941	0.9	13,709	1.1	51.6	48.4
(mainly) supermarkets	888,812	3.7	56,678	4.5	40.5	59.5
Transport and storage	856,721	3.6	32,949	2.6	42.5	57.5
Mundane activities	2,256,674	9.4	122,772	9.8	44.0	56.0
Total employment	24,104,050		1,259,038		42.1	57.9
(comparator) Manufacturing	2,066,567	8.6	129,680	10.3	44.2	55.8

Source: nomis. Data includes all employment including self-employed

(2) Policy impasse

central state lacks political will and technical capacity



Is the central state here to help?

- **Our assumptions about Central State's political will and technical economic capacity = a kind of halo effect/ anachronistic**
 1. **Central State was part of the solution 1940s -1970s:** UK social settlement was Keynes and Beveridge plus Barlow for regional disparities (with cause/ effect disputable)
 2. **Central State was part of an experiment under Thatcher and Blair** dismantling the settlement via flexibilisation and privatisation but not shrinking the state; fig leaf regional policy of making market work via infrastructure and training
 3. **Central State is now part of the problem** (a) no political will ex decline mass parties, Westminster factions pitch to swing voters, London as a city state (b) economically, many different policies but none can sort the mess and many make it worse

The failure of macro management

- **Thermostatic macro management of the national economy** (for growth) ex 1930s recession; monetary policy (for low inflation) ex 1970s crises; failed after 2008
- **Cold/ no growth economy** ex (a) fiscal brake of austerity doesn't so far reduce debt, makes deleveraging worse (b) Keynesian accelerator is limited by £100 billion UK trade deficit and bond markets
- **Wild improvisation not precision engineering:**(a) IMF puts multiplier between 0.5 and 2.0 (b) ultra loose monetary policy with 0% plus £375 billion QE = bank welfare with Bank of England balance sheet at 25% of GDP
- **The new cargo cult:** autonomous export led recovery e.g. OBR in 2010-11, Rajoy projects 6% export growth (Plaid Cymru Offa's Gap ends with an export boom)

The old imaginary of recovering what 's lost

- **Right's structural reform/ enterprise:** i.e. abolish Sern planning restrictions and add regional pay scales: “the revolution fails because it is incomplete” = more of the same package won't help losers (enterprise zones)
- **Centre left's industrial policy/ world leading new sectors:** from networks, innovation culture and institutions etc to an investment bank for *foie gras* feeding of SMEs; an aspirational future ?
 - **Global?** is digital a transformational general purpose technology like electricity or ICE (Gordon's question)
 - **National?** leakage ex broken supply chains with imported components = 35% of the value of UK automobile output
 - **Regional?** industrial policy texts have no geography but their policy is for M 11 corridor and Thames valley

(3) Guerrilla economic development

**new possibilities of/actors for
local and regional development**

The foundational as an object of policy

- **The foundational can become an object of policy;** challenge is stewardship or sustainability in times of public expenditure cuts and private value extraction
- **A different kind of industrial policy;** infrastructure is central to quality of life and social objectives as well as efficiency; foundational connects with >40% of UK employment with scope for training/upskilling and intervention to set model employment conditions (compatible with flexibility)
- **Regional policy on steroids** because this is an active/social democ. version of infrastructure and training where regional and local governments would be the key actors because:
 - ✓ central government lacks knowledge and expertise (CRESC on Bombardier or pigs)
 - ✓ distributed activity (e.g. infrastructure) is best managed at regional network level
 - ✓ all that's left to manage in the ex industrial districts

Reworking the foundational: (a) curb fragmentation

Build coordinated/networked provision: Thatcher/Blair pro competition and markets; result = a fragmented economy of profit centres (privatised trains, academy schools or Lansley NHS reforms); social outcome e.g. broadband's urban duplication, pathological competition and rural underinvestment

1. **Think regional** as space of coordination **and** because private sector utility brings in the product and take out the money: What is your supermarket or British Gas doing for the region?
2. **Think chain** because little gain from a retailer or final assembler whose supply chain is in chaos or leads out of the economy: e.g. regionalise in food processing and distribution, integrate in transport provision
3. **Think non-profit** because retail banking/supermarkets/trains deliver shareholder value but not social good; recognise state is not good at contracting out which creates vested interests and transaction costs (PFI)
4. **Think pro-state revenue sources;** need new sources of tax on land and property ; and why can't state run revenue earning enterprises on the model of Jo Chamberlain's gas and water socialism

Redesigning the foundational: (b) limit value extraction

Society needs to build regional financial circuits; fragmentation and intermediation = opportunities for local toll booths from PFI schools to train line train tickets; financialized capitalism works by sucking money into and through the London clipping system (e.g. L.A. pension funds)

Policy depends on mapping the flows diverting into foundational investments; giant sucking sound ex utilities, supermarkets taking nearly £100 per week per household, pension funds, insurance contributions; social investment not water into the colander via business loans)

- 1. Back regional infrastructure:** as in Enfield the best initial projects would probably be social housing (preferably council run); but not other kinds of property development (capturing planning gains)
- 2. Mobilise pension funds:** don't send your pension fund to London managers but retain in the region and local community for a social purpose
- 3. Think 5% return maximum:** your pension fund isn't currently getting any more and infrastructure is inherently low return, high investment secure return; think useful things for low and steady returns

(4) The political challenge

**can the Welsh government
do active regionalism?**

The political challenge

- **Please, lets not argue that Welsh government must wait for more money and powers;** here's a flyer about what London Borough of Enfield Council is doing with less resource and power; you have the advantage of locals with leading edge ideas (Keith Edwards on housing; Kevin Morgan on food)
- **Please don't confuse active regionalism with Celtic nationalism;** this is not about cultural identity or Alex Salmond's electoral pitch based on economic strength; active regionalism should be the shared defensive concern of every centre-left party in Wales
- **About the politically thinkable and the economically doable;** if you accept you're losers under the current rules of the game, you can start doing different; if Enfield can (within a year) plan 50 acres of glass houses and social housing from pension funds, Wales should be doing much more

Limits of the Welsh political class

- **Praise the Lord, we are a public service nation;** a nation led by a public service middle-class as our genealogies show e.g. Rhodri Morgan first minister, son of Prof T J Morgan, brother of Prys Morgan; public sector middle-class did very nicely out of the Thatcher-Blair experiment
- **The Welsh public service middle-class has never had a radical economic imagination;** under the historic division of labour, our middle-class managed the politico social and spent public funds; large scale capital and private management was provided by the English outsiders who used to manage the Steel Company of Wales and now run Serco
- **Can the Welsh middle-class escape this historic role division;** and challenge received ideas as endorsed by the clerisy of economists and consultants?