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BREXIT! THE URBAN AND REGIONAL IMPLICATIONS

29th March 2019

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Has Devolution prepared the Welsh Economy for Brexit?

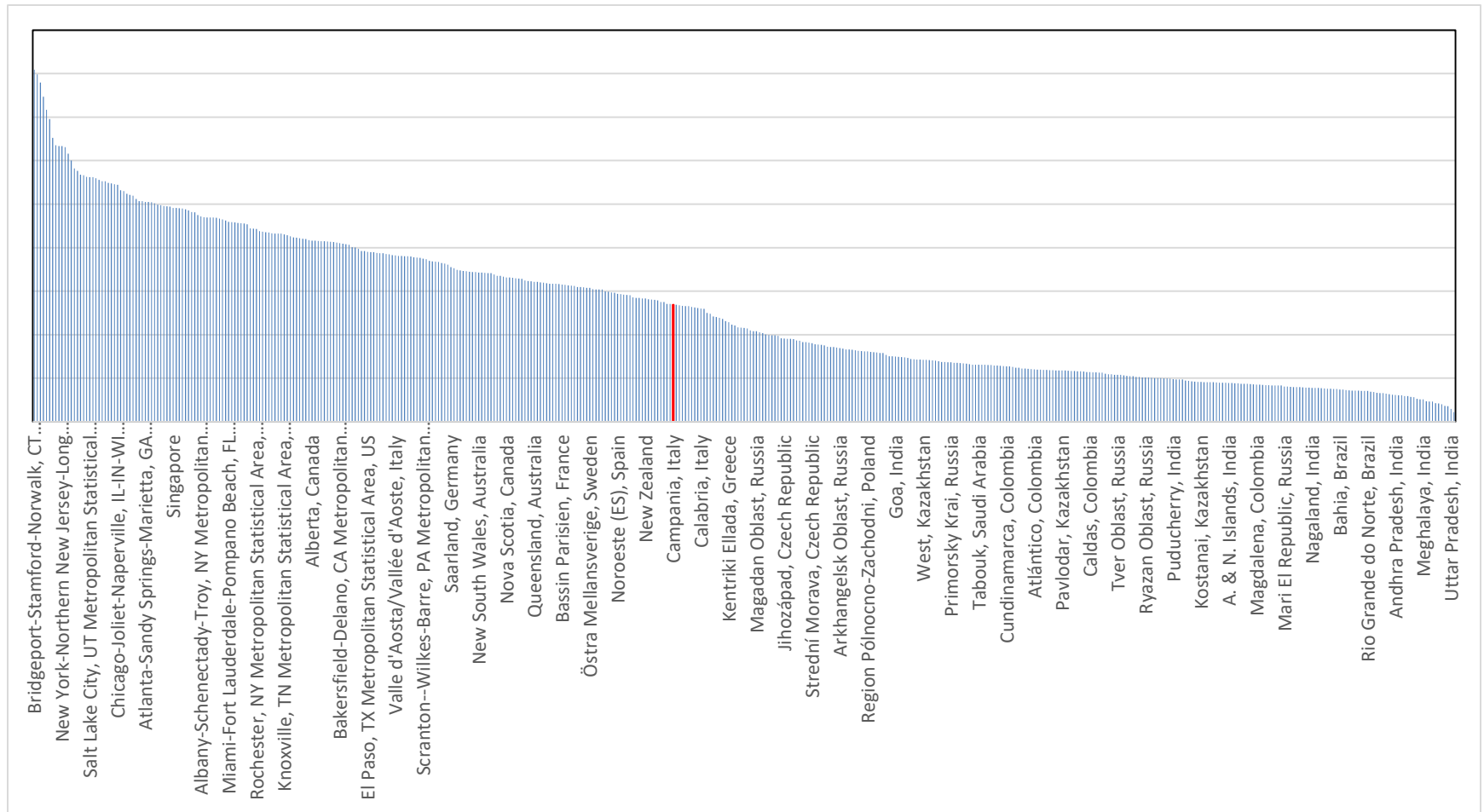
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Cardiff Metropolitan University

Where does Wales rank?

- The Hodge Project has looked at data from 450 sub-state regions of the world
- And considered 4 indicators of prosperity:
 - gross value added,
 - average monthly wage,
 - labour productivity and t
 - economic activity
- Wales is in the richer group but at number 208, it is near the bottom of that group.

World regions ranked by prosperity



Source: Holtham, G. & Huggins, R., (2017). What accounts for the success of regions?
Welsh Economic Review. 25, pp.1–8

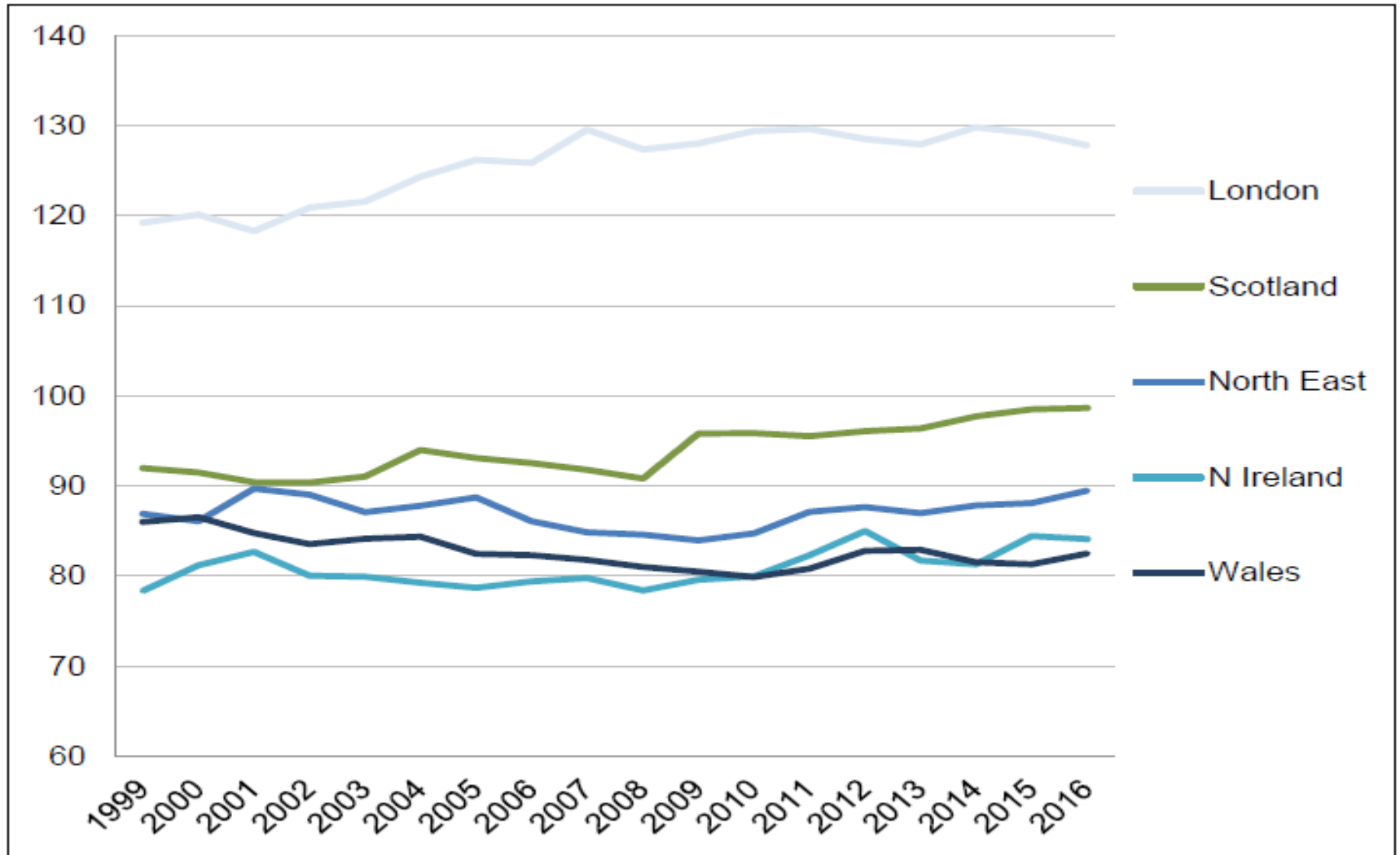
UK regions ranked

Region	Rank
London	23
South East	138
Scotland	152
South West	179
North West	187
West Midlands	189
North East	201
Northern Ireland	204
Wales	208

Economic Performance

- GVA per head in Wales is 71% of the UK average.
- Within Wales the poorest regions, Anglesey and Blaenau Gwent are at 53 and 54% respectively
- Wales' GVA per head is about 40% of the London level, which is 72% above the UK average
- Robert Huggins competitiveness report this week confirms this

GVA per hour worked (UK=100)



Welsh Productivity

- Welsh economic performance has been poor, productivity is the lowest of the UK regions
- The Welsh economy was not strong in 1999
- But there has been a small and persistent decline in GVA per head since then
- Should we have expected devolution to have improved this outcome?
- After all, the Assembly has limited powers and no macroeconomic levers

Drivers of productivity

- A stable macroeconomic framework, low tax rates, flexible labour markets they all play an important role
- But there is also a strong link between productivity growth and skills
- And between productivity growth and investment in infrastructure, in connectivity
- Regional economic policies and good governance also have an impact

Training and infrastructure are important

Welsh Government research confirms the main messages from wider evidence base on where action needed:

Box 4: effect of different factors on the labour productivity of the average firm	
A 10% increase in capital stock	+2.9%
A 10% increase in the ratio of full-time to part-time employment	+3.4%
A 10% increase in % of local labour force with NVQ 2-3	+1.6%
A 10% increase in % of local labour force with NVQ 4+	+1.2%
A 10% increase in the average travel time to London and the 4 next largest cities	-0.7%
A 100% increase in population density	+1.3%

Source: **Understanding productivity variations between Wales and the rest of the UK**
Report to the Economic Research Advisory Panel, Welsh Assembly Government. University of the West of England, Bristol and the University of Bath

Devolved powers

- Yes the Welsh Government has limited control over macroeconomic factors, but, since 1999, education and transport as well as regional economic policy, have all been devolved
- Have Welsh Government policies in these areas been a success?
- There have been some successes but in general there has been no economic dividend from devolution

Education

- Since devolution education spending per head in Wales has grown more slowly than the rest of the UK
- Level of spending per head is greater in Scotland and NI
- Education policy has been poor leading to very poor PISA results
- Higher education – Welsh universities receive less income per student than in England
- So education policies have not helped close the gap

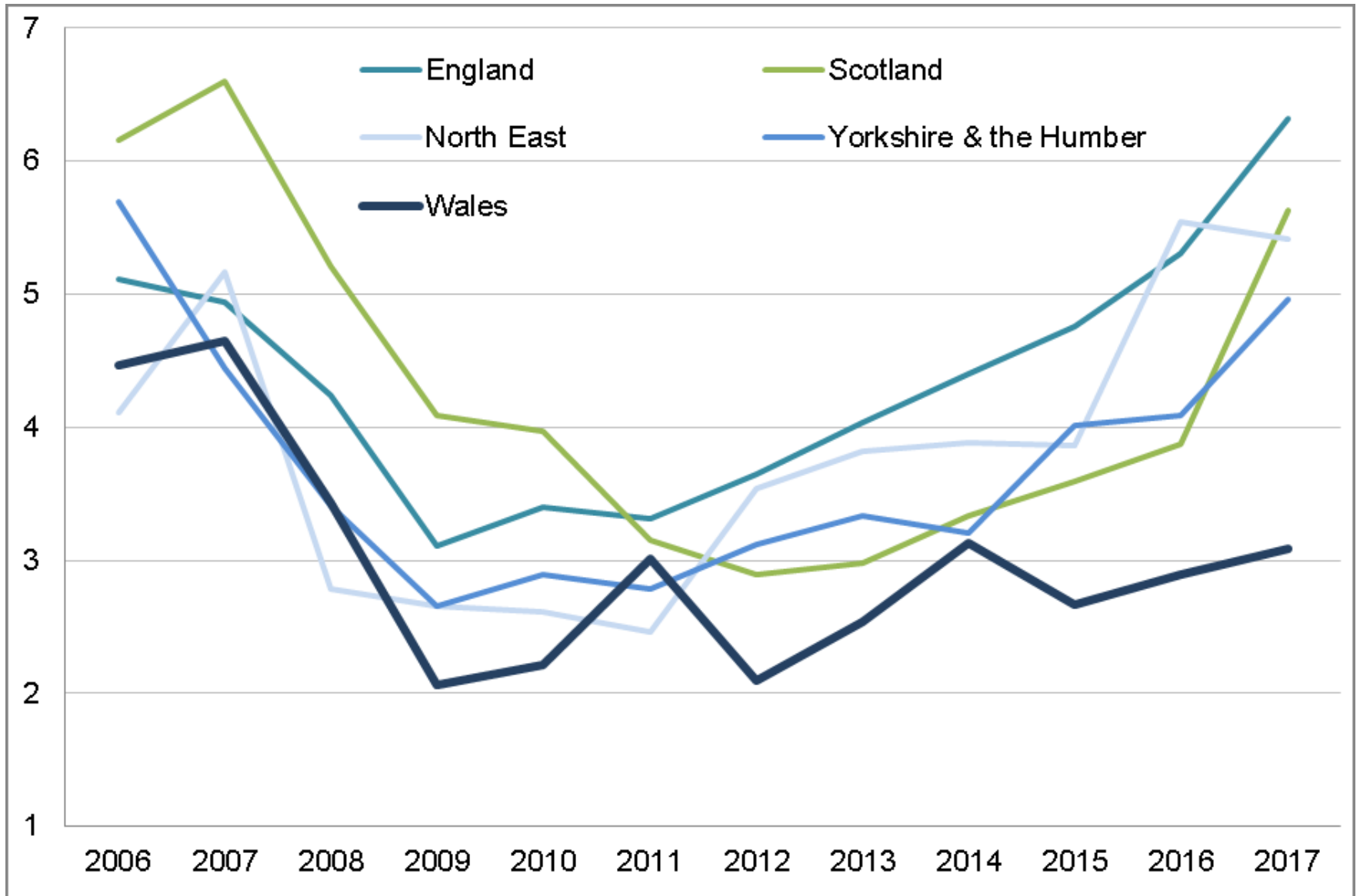
Transport

- Infrastructure projects have been delayed, and transport investment has not been prioritised
- The M4 relief road has been talked about since 1999 but still nothing has happened and the HoV road remains incomplete
- Rail has been underinvested – not one mile of electrified rail in Wales
- Connectivity inside Wales and with our markets in England and further afield remains poor
- Congestion is inevitably getting worse

Scotland v Wales

- Scotland has an 'Infrastructure Mission' and economic strategy that highlights the important role of infrastructure investment in achieving growth and social inclusion
- It funds this investment through its own ambitious programme using private finance – investing £2- 3 billion per parliament
- Compare this to the unambitious 'Wales Infrastructure Investment Plan' – which has achieved very little and is now dead in the water
- And it's not just roads

Housing unit approvals per 1,000 population



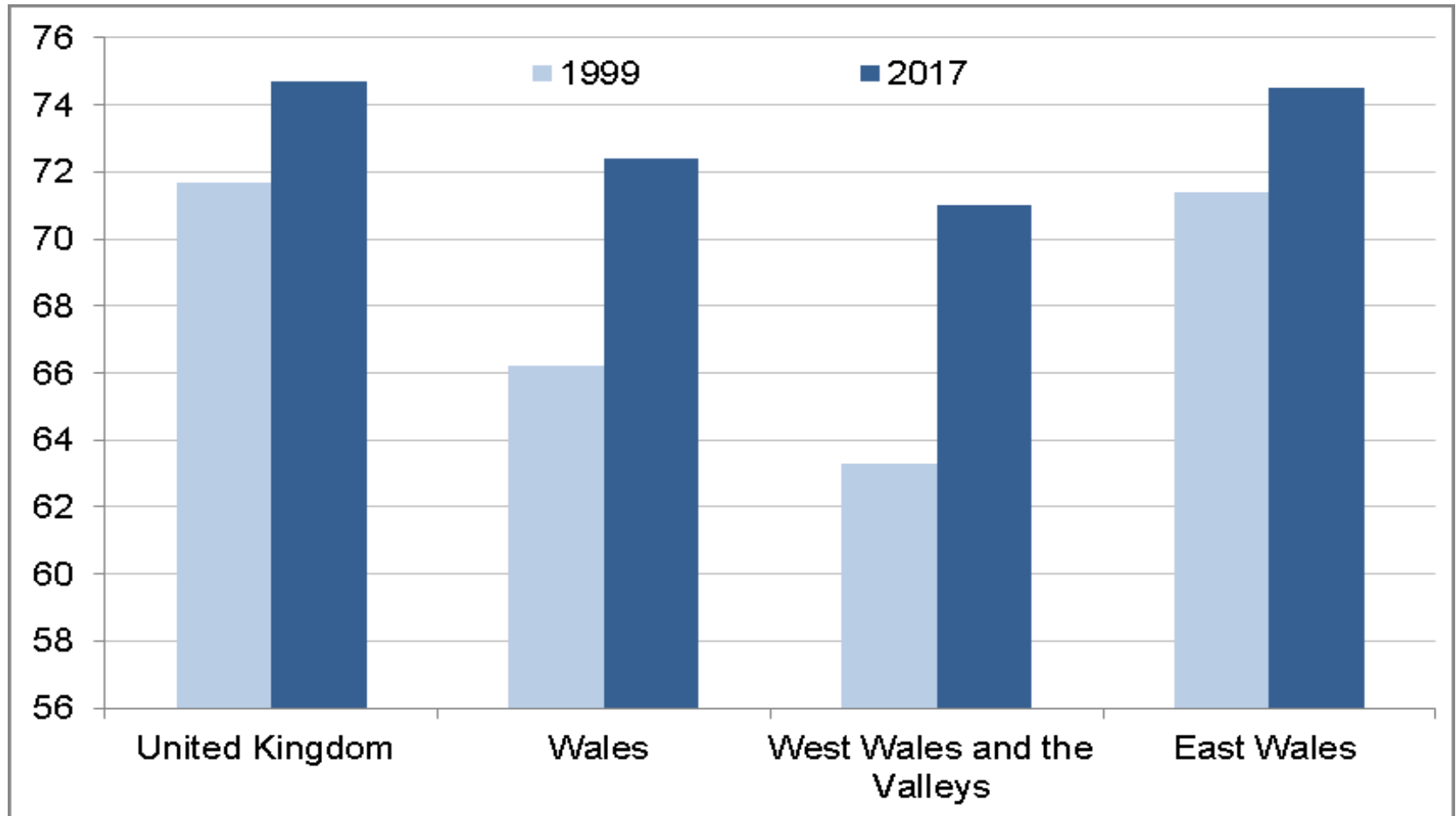
Regional Economics

- Finally the abolition of the WDA!
- The worst economic policy decision since devolution! (Scotland and Ireland did not follow our lead!)
- The OECD has highlighted the importance of Executive Agencies in prioritising regional policies and delivering outcomes
- Abolition resulted in regional economic expertise being lost – less delivery and inward investment fell off a cliff
- There was also a sharp decline in public scrutiny of economic performance.

Some successes

- Employment has been growing and the gap between Wales and the UK has narrowed significantly since devolution.
- The Welsh employment rate has risen by 6 percentage points, more than twice as fast as the UK as a whole since 1999.
- Inactivity has fallen in the Valleys and the policies of ReAct and ProAct following the 2008 recession were successful in reducing the impact on jobs

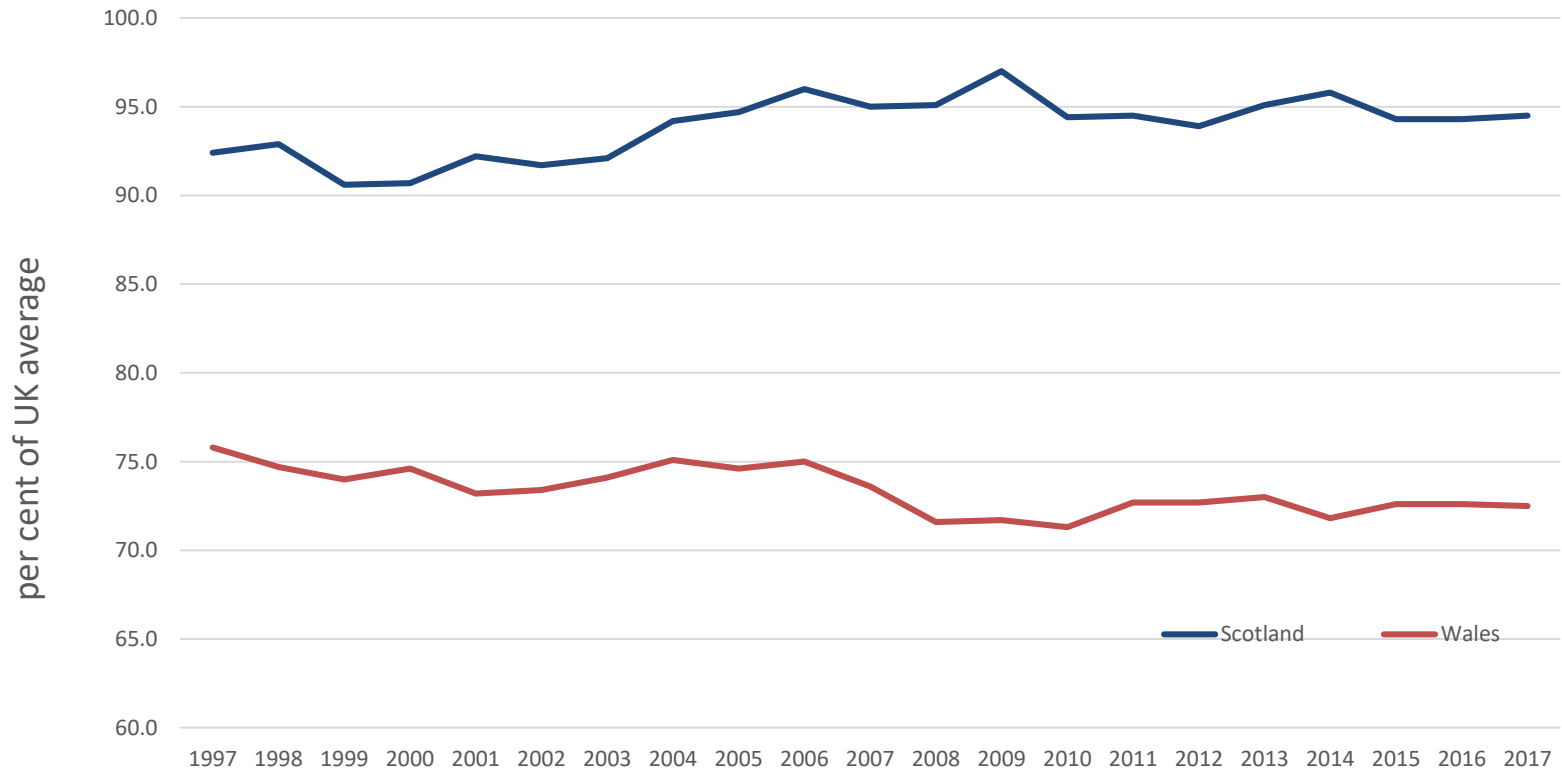
Employment rate, Wales and UK 1999 and 2017



But better employment growth linked with slow GVA growth, means lower productivity in Wales

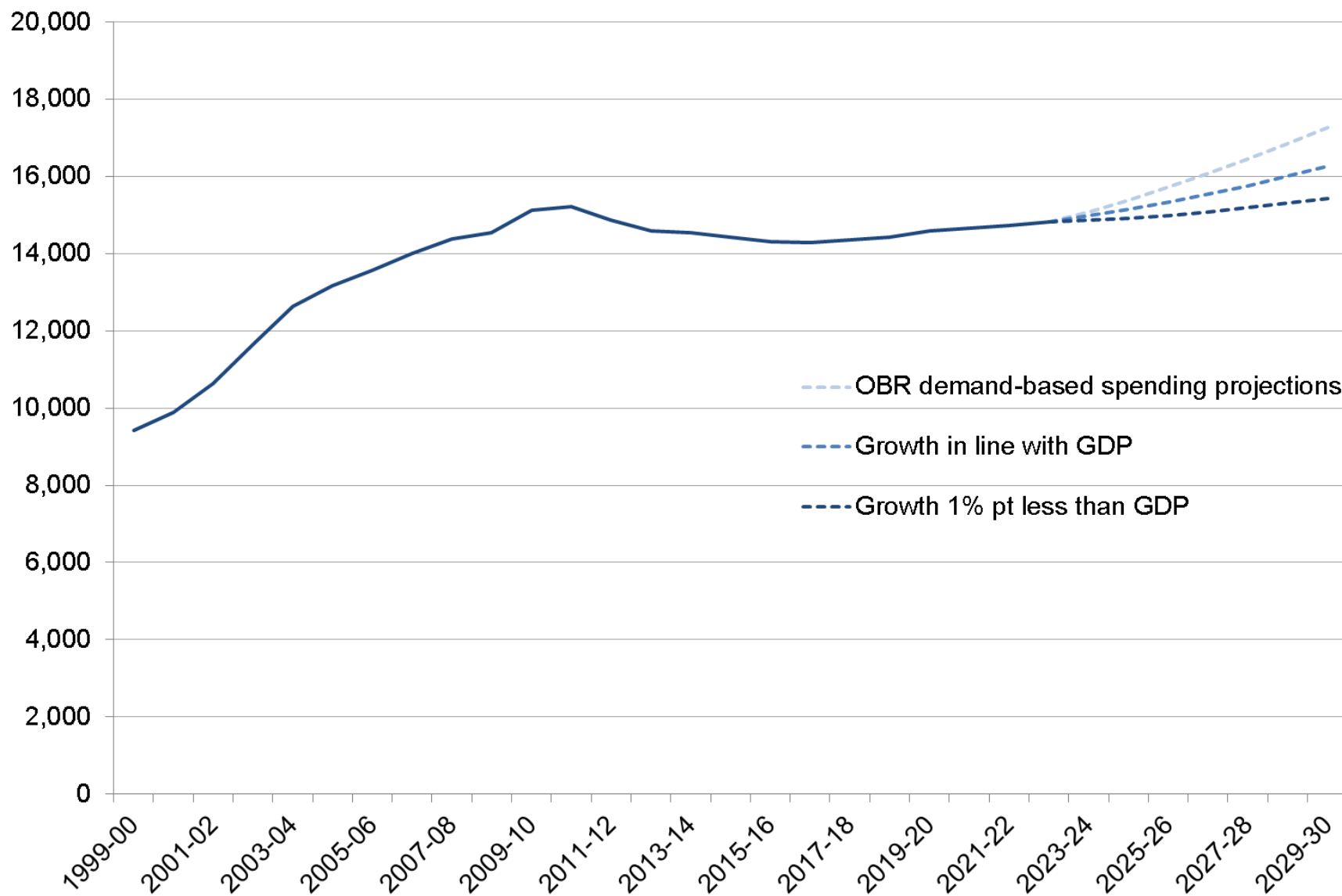
GVA per head

1997-2017



Source: ONS 2018 GVA reference tables

The Block Grant: Welsh Government spending in real terms, £m,



Did it have to be this way?

- Welsh Government's approach to infrastructure investment has been far too cautious and is incompatible with an ambition to produce significant changes in economic performance
- To have a chance of closing the prosperity gap Welsh policies needed to have been more focused on prioritising economic development
- Instead we had a focus on social issues : abolishing prescription charges, providing free bus travel for over 60s and 'Community First'. Worthy but did little to close the gap
- Closing the gap after Brexit will require a greater preparedness to take risks and prioritise investment funds

Brexit

- Responding to the new Brexit regime would be easier if we had a dynamic, flexible economy with underlying productivity growth
- It would also be easier to solve some of the social problems in Wales that led to the Brexit vote
- The trouble is that policy options that were seen as difficult in a period of rapid growth in the Block Grant will, post Brexit, be even more difficult
- Conclusion: The Welsh economy is in no better shape than the rest of the UK to race into the economic uplands after Brexit