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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?

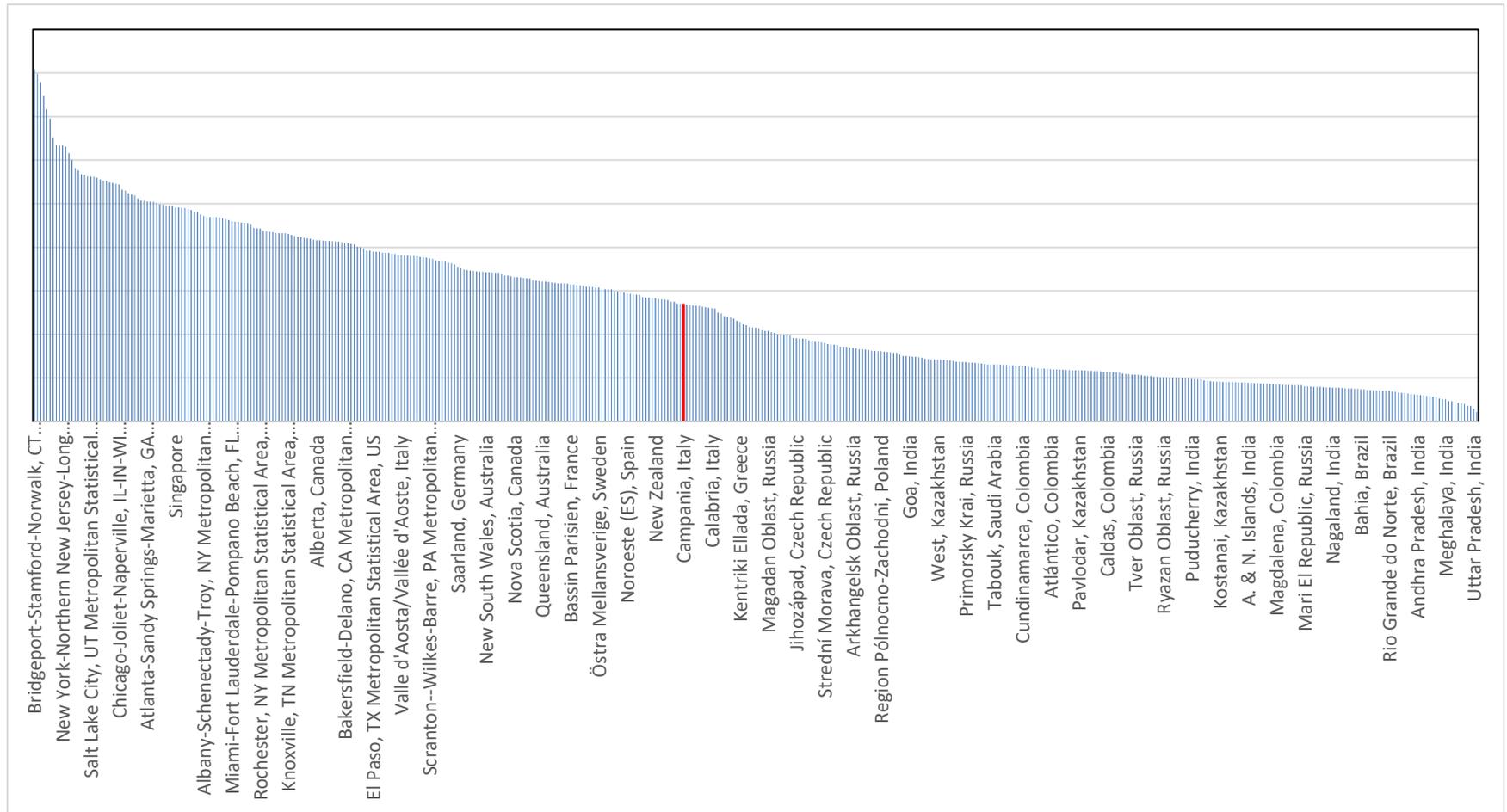
29th March 2019

Brian Morgan  
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

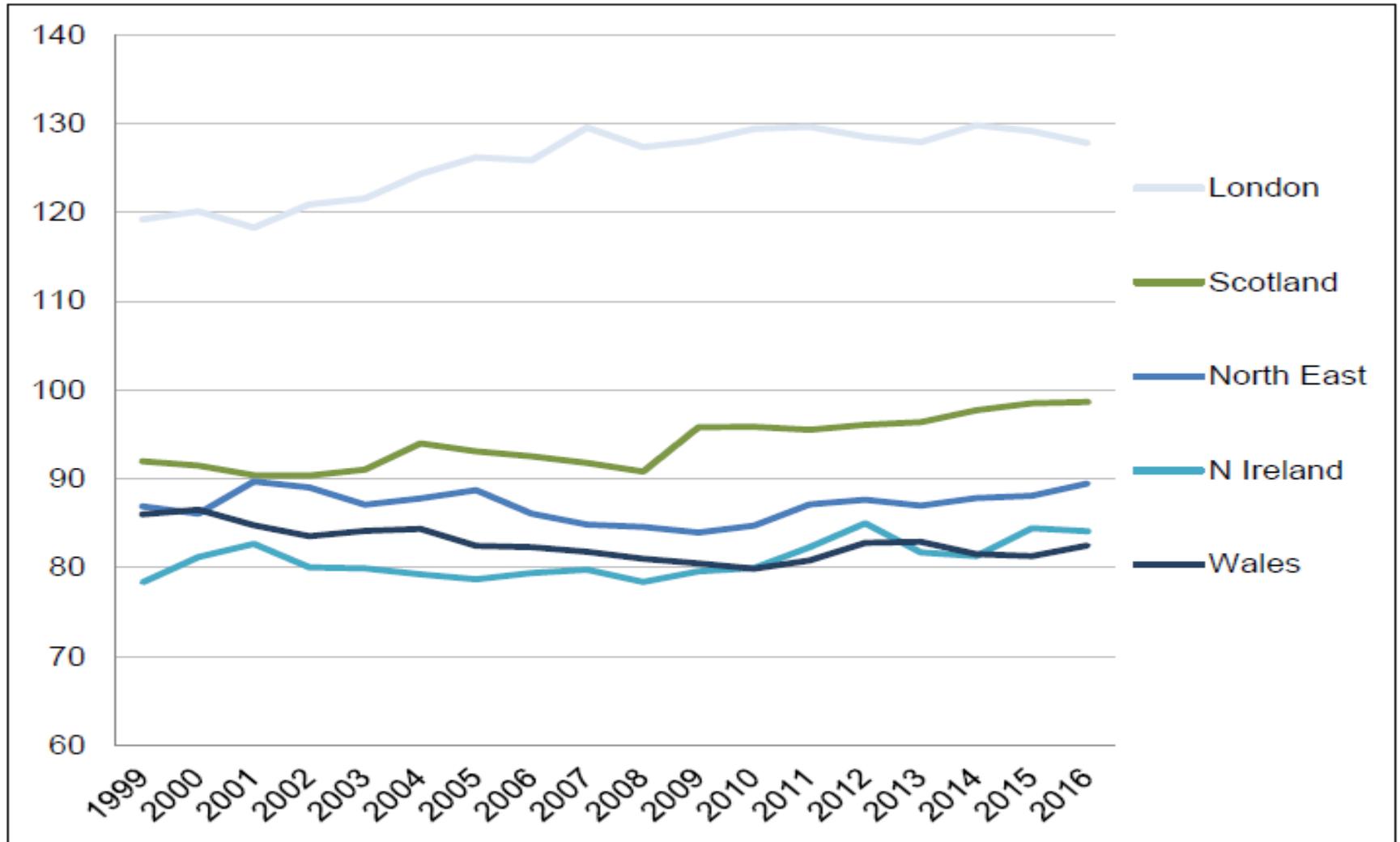
# UK regions ranked

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:

<b>Box 4: effect of different factors on the labour productivity of the average firm</b>	
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

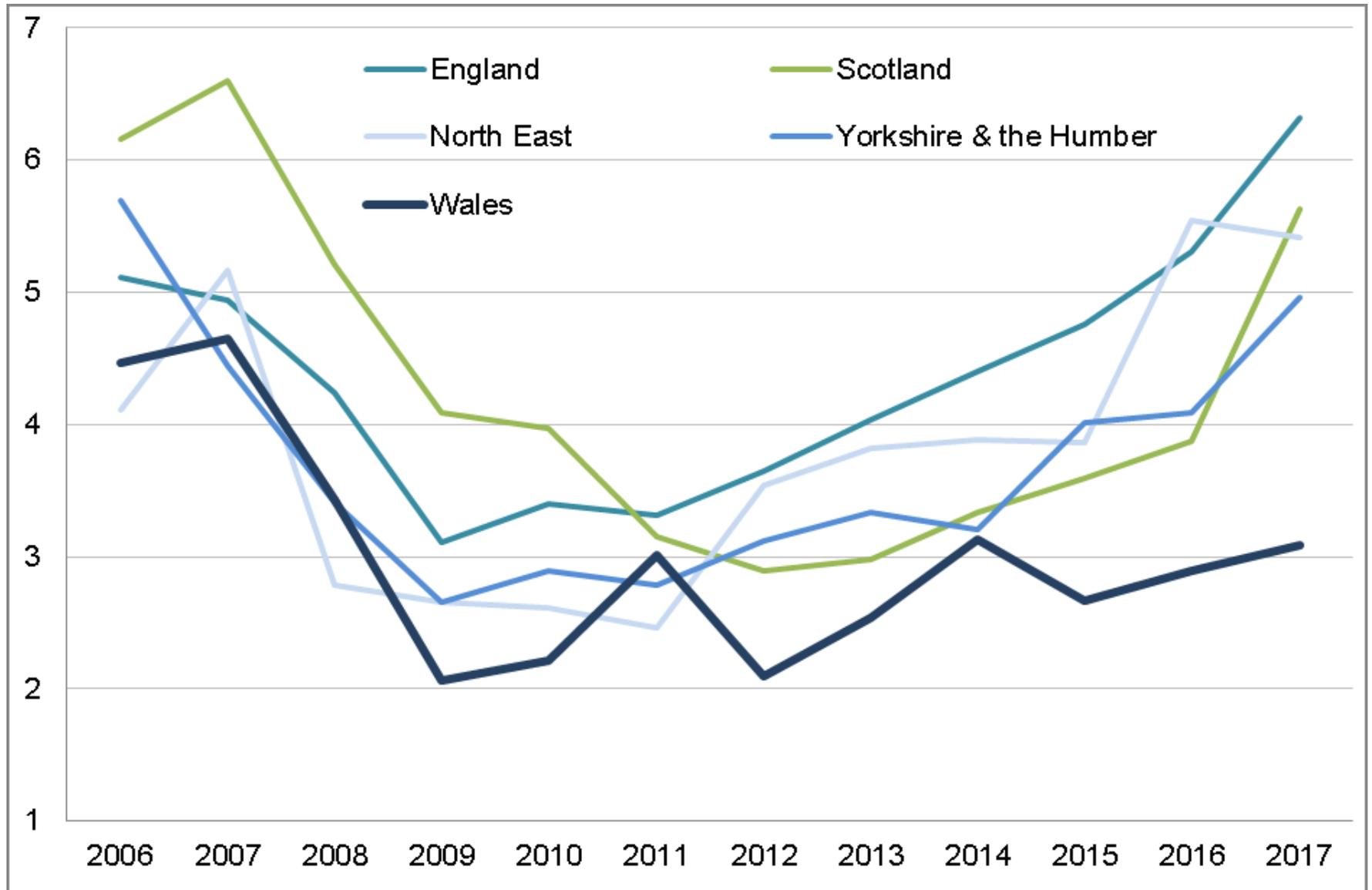
# Transport

- 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



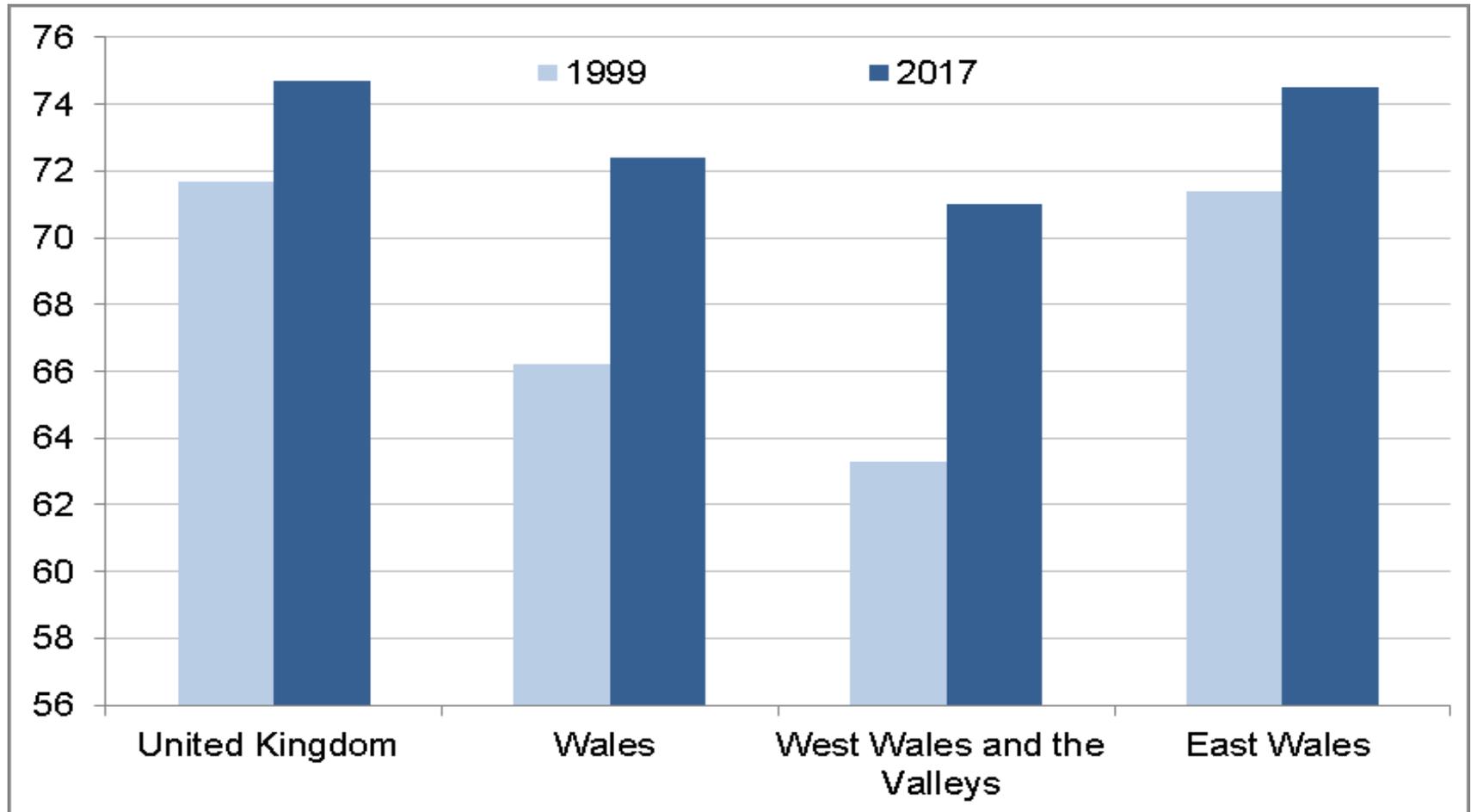
# Regional Economics

- 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

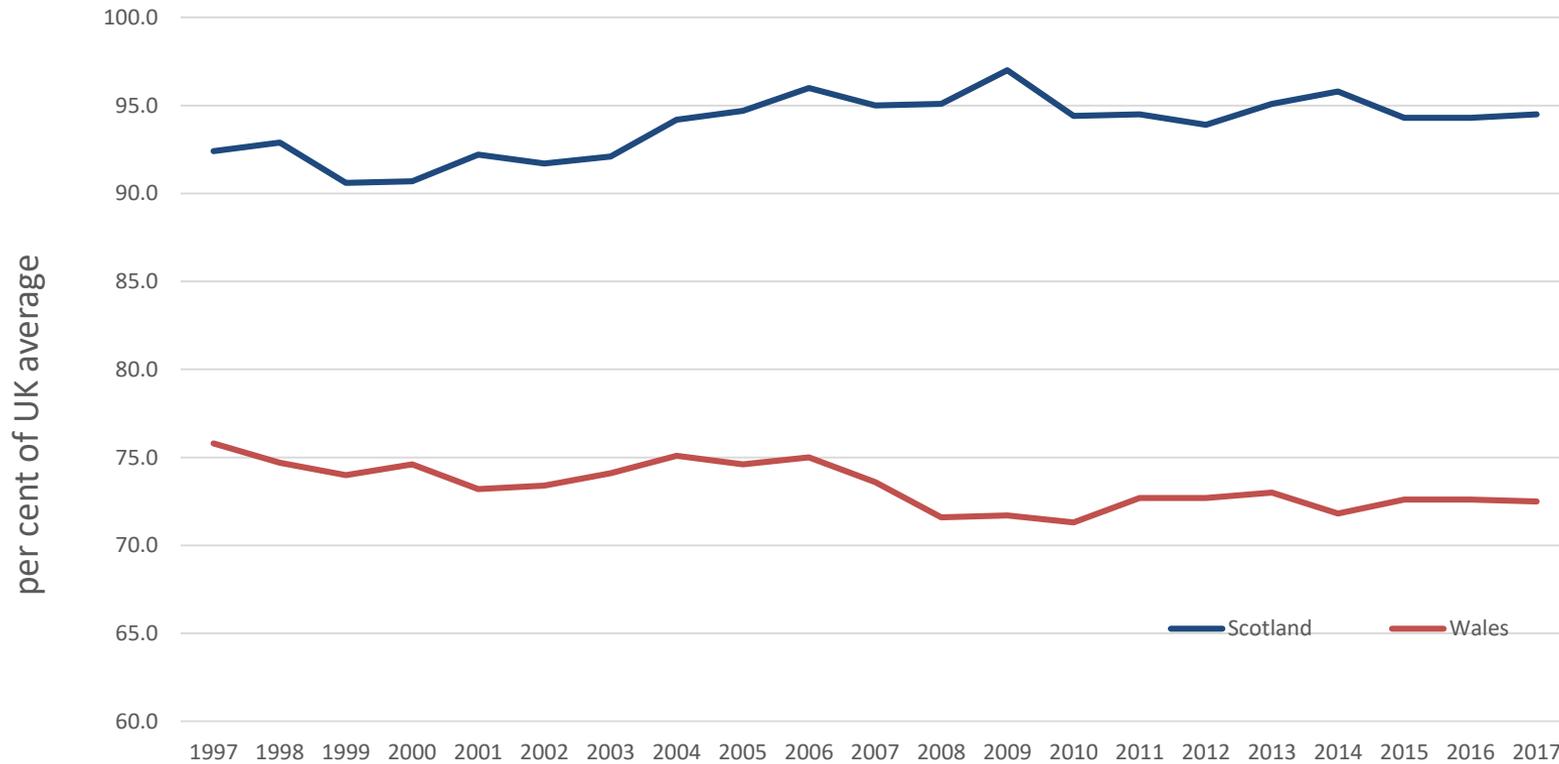
## Employment rate, Wales and UK 1999 and 2017



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

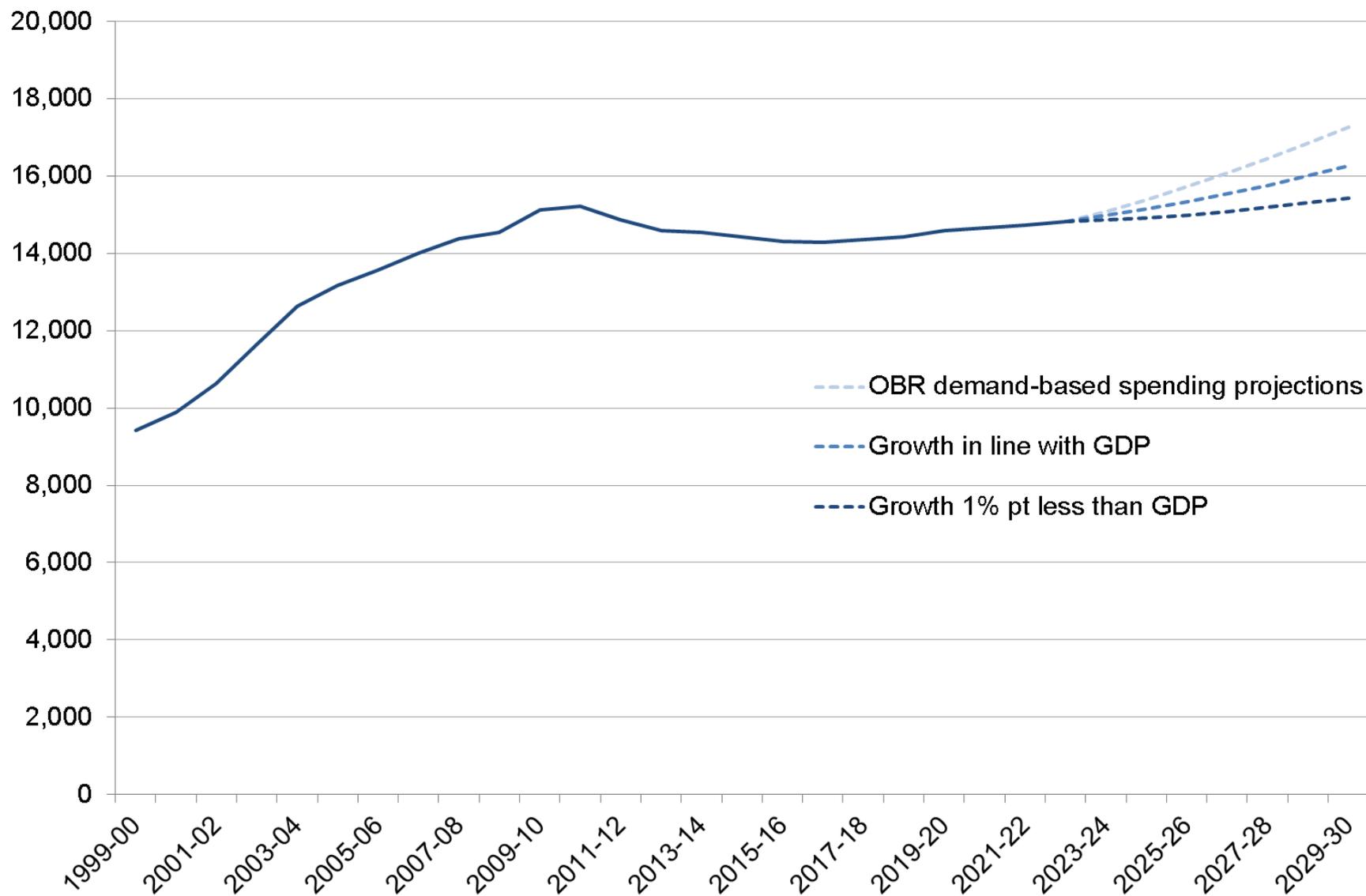
# GVA per head

## 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