

Economic Priorities for Wales

Submission by the Bevan Foundation in response to the Cabinet Secretary's invitation to submit initial views on the priorities for the economy¹

The Bevan Foundation is an independent, non-political think tank that generates new ideas to make Wales fair, prosperous and sustainable. We welcome the opportunity to submit our views on the future priorities for the economy in Wales.

A New Approach is Timely

The economic context has changed substantially since the last Welsh Government economic strategy which was published some six years ago.²

Changing context

First, the policy context has changed. The new Welsh Government has made 'prosperity for all' a key priority in its Programme for Government 2016-2021, pledging to create 'more and better jobs'. This emphasis on the distribution of economic growth is a welcome change from previous approaches and, together with the new focus on spatial development in the form of City Regions and the Taskforce for the Valleys, requires a reorientation of the Welsh Government's actions to achieve its objectives.

Second, the economic context has changed. There has been a considerable and very welcome recovery since the formulation of the previous strategy in the immediate aftermath of the financial crash and recession. Gross Value Added per head in Wales has increased by 14.5 per cent between 2010 and 2014, out-performing many other parts of the UK outside London and the south-east of England; inward investment is performing strongly; and Wales' unemployment rate is now at a historic low of 4.1%, below the UK average.

Continuing Challenges

Despite Wales' good performance some major challenges remain. There is still a shortage of jobs in some parts of Wales, where many areas have yet to return to the levels of full-time employment that they enjoyed in the 1980s. In some areas the shortage of jobs is acute – for example Blaenau Gwent, Caerphilly and Rhondda Cynon Taff have barely half the number of jobs per head of working-age population compared with the UK average.

Where there has been employment growth, much of the increase has been in self-employment, part-time working and temporary jobs – for example more than one in twenty employees (5.9%) in Wales is non-permanent, the second highest rate in the UK. Wages, especially at the bottom of the earnings distribution, have been stagnant over the last six years with some parts of Wales experiencing substantial real terms decreases in earnings. In Blaenau Gwent for example, earnings have not kept up with inflation so that a man on median earnings is now £71.10 a week worse off in real terms than in 2002.

New Challenges

There are significant new challenges and opportunities arising from Wales and the UK leaving the European Union in less than three years' time. The terms of Brexit remain to be seen but there are inevitably concerns about the consequences for Wales' 500 foreign-owned companies and its £1 billion of exports each quarter as well as potentially new opportunities to be seized.

Given these substantial shifts in the political, economic and international context as well as the persistence of some challenges, we think it is time to re-orientate the development of the economy to focus on inclusive growth.

1. Inclusive growth

For many years, Welsh economic policy has focussed on increasing Gross Value Added (GVA), not least because this is the objective of EU structural funding. While the target to increase GVA to 90% of the UK figure no longer features, growing GVA nevertheless is implicit in many Welsh Government strategies, for example GVA is the key measure of success in regional employment and skills plans and underpins the selection of most of the nine priority sectors. There have been some calls to make increasing GVA an explicit economic objective once again.

While increasing GVA is important, it does not necessarily improve prosperity for everyone. The relationship between GVA and employment is complex, but it is feasible to have GVA growth with few if any increases in the number of jobs. The phenomenon of jobless growth is well known and has occurred in some sectors such as manufacturing. In addition, increases in GVA may also be taken as dividends rather than being invested in labour.

Where jobs are created in conjunction with GVA growth, not everybody may benefit if the jobs are inaccessible to the least well-off, either because of the skills required for the new jobs or because of their location. Similarly, if growth in GVA is accompanied by increases in the cost of living, especially housing costs, the benefit in terms of quality of life may be limited. Last, increases in GVA do not necessarily improve people's quality of life and well-being, for example if the new economic activity damages health and the environment.

So even if the implicit aim of increasing GVA per head is achieved, it is entirely possible that some people in some parts of Wales would be no better off as a result.

We therefore recommend that the goal of the Welsh Government's economic policies should be to promote inclusive growth. This will involve combining the aim of growing prosperity, such as increasing employment and human capital as well as GVA, with the aim of increasing inclusion, such as addressing low incomes, reducing high living costs and cutting exclusion from the labour market. A number of organisations have already developed indicators of inclusive growth and we recommend that these be adopted in place of the single measure of GVA per head.

2. Priority to Employment

Evidence shows that increases in employment have more impact on reducing poverty than increases in output (GVA) in the short- to medium-term.³ It is especially important that jobs growth occurs

within reasonable travelling distance of people experiencing poverty. More jobs in local economies help to widen the number and range of opportunities available for unemployed and economically inactive people to enter the labour market, and reduce the number of workless households. Reducing workless through increasing labour demand as well as through action on labour supply should be a high priority, not least as workless households are forecast on average to be £84 a week worse off by 2019 compared with little if any impact on most working households.⁴ A focus on employment creation and decreasing worklessness in the next five years could help to mitigate the worst effects of benefit changes on Wales' population.

Emphasising job creation rather than GVA growth could also help to increase wages, especially at the bottom of the wage distribution. Evidence shows that in the UK as a whole people who are in low-paid jobs leave them for better-paid positions faster in buoyant labour markets than in static or contracting labour markets.⁵ With around a quarter of Wales' workers being in low-paid jobs, boosting the number of jobs, especially in weaker labour markets, would have a beneficial impact on earnings levels.

3. Whole-economy approach

Delivering inclusive growth will also require a shift away from the previous focus on a limited number of priority sectors towards a whole-economy approach. This would mean that jobs, output and human capital development are supported in **all** economic sectors not just a selected few.

It is especially important that the sectors that are often marginalised in economic policy, such as social care, retail and hospitality sectors, are considered. These are sectors where large numbers of people already work – nearly half a million employees in Wales in 2015 – and which are forecast to generate substantial numbers of jobs in the next 10 years, for example as demand for social care grows.⁶ These sectors are also characterised by low pay and part-time hours, and are where many females work. They typically have a smaller proportion of innovative firms, poorer management quality and a shorter-term focus than their Western European counterparts.⁷

Strategies for these low-paid sectors could be highly beneficial not only in securing their projected employment growth but also in boosting innovation, increasing productivity and improving terms and conditions at work.

4. Raise the wage floor

Low pay is the main cause of low income amongst people in work, especially where the main earner in the household is low-paid.⁸ Trade union membership is associated with better pay and conditions, but in an era of weaker collective bargaining, government intervention to protect the lowest paid workers is also important. The Welsh Government has made good progress in encouraging the adoption of the voluntary Living Wage in the public sector, including the Welsh Government, NHS, further education colleges and some local authorities.

There is much more that could be done to increase take-up of the voluntary Living Wage. The Welsh Government should require all public sector employers to pay it to their directly employed staff within a year, and should expect all public sector employers to outline plans to pay it to sub-

contractors by 2019. Public procurement should incorporate payment of the voluntary Living Wage rates and ensure it is enforced, and payment of the voluntary Living Wage should be built into grant agreements. The Welsh Government, working with trades unions, should also encourage employers to seek accreditation from the Living Wage Foundation through pump-priming a business-facing Welsh Living Wage campaign building on our recommendations.⁹

5. Better Local Connectivity

We welcome the Welsh Government's significant investment in improving transport infrastructure. However, unless it is complemented by significant improvements in **local** public transport people who typically do not have use of a car will continue to experience constraints on getting to and from work. We urge the Welsh Government to use its powers over public transport and bus to incentivise commercial operators to address gaps in the local travel-to-work market and to use the limited funding that is available for subsidised services to meet job-related transport needs.

6. Spatial Priorities

Wales has a wide range of areas designated for different economic purposes, including regeneration areas, enterprise zones, business improvement districts and Communities First clusters. The areas do not necessarily complement each other (see Annex 1) and, in addition, City Regions have emerged since their designation.

There is some evidence that area-based programmes, such as enterprise zones, have positive effects on employment, unemployment, wages and the number of businesses, although they need to be carefully planned to avoid displacement (i.e. encouraging businesses to relocate into a zone or businesses in a zone replacing those elsewhere) and achieve maximum benefit.¹⁰ As is argued in the Joseph Rowntree Foundation's framework for action to solve poverty in Wales, area-based approaches could make a valuable contribution to increasing employment and reducing poverty.¹¹

We recommend that the number of designated areas in Wales should be substantially streamlined. Area-based initiatives should be refocused on achieving inclusive growth within a City Region framework. This should take the form of, first, two or three larger new enterprise zones in areas of significant employment shortfall, such as the south Wales Valleys, together with smaller-scale designations in key rural centres. Incentives should be focused on job creation and the recruitment of people who are unemployed or under-employed.

Second, within city regions there should be a limited number of growth poles or hubs at strategic locations to ensure that growth is balanced and opportunities are available for all people, not just those able to commute. For example, in Cardiff Capital Region we envisage three or four growth hubs – in the west, north and east of the region - to counterbalance the pull of Cardiff itself. The hubs should be designated on a case-by-case basis following a robust assessment of need and potential. One growth hub should be Merthyr Tydfil, for which there is a very strong case as shown in Figure 1.

Figure 1 The Case for Merthyr Tydfil to be a Growth Hub

Merthyr Tydfil is ideally placed to be Wales' first growth hub.

1. Counterweight to Cardiff

Cardiff Capital Region and the Metro have the potential to attract investment and drive growth. This growth is welcome but Merthyr Tydfil may not benefit fully because:

- The travel time will still be considerable at 45 minutes for the 24 mile Merthyr – Cardiff trip, far greater than the average British commute of 28 minutes for 10 miles. The cost of travel is also a deterrent: a return train fare from Merthyr Tydfil to Cardiff (£7.90) is equivalent to more than an hour's pay at the National Living Wage and more than two hours' pay for an apprentice.
- Cardiff does not have the capacity to provide sufficient jobs. Even if Cardiff generated 30,000 new jobs and half of these jobs were filled by people living in the Valleys, both heroic assumptions, Cardiff would provide only around one-third of the jobs required to bring the valleys up to the GB average employment rate.
- Those who most need to get work are least likely to use the Metro: on average people in lower socio-economic groups travel shorter distances to work and are much less likely to use the train than people in higher socio-economic groups.

2. Why Merthyr Tydfil?

Merthyr is ideally placed to be a growth hub for the northern part of the city region. 'Greater Merthyr' offers:

- A substantial population within 20 minutes' drive time – at least 175,000 people (about half the population of Cardiff).
- Already around 10,000 people commute into jobs in the borough.
- It is at a key transport intersection – between A470 and A465 and a Metro terminus – with good public transport links to the north, south, east and west.
- It is attracting significant private and public investment .e.g Cyfarthfa Retail Park, Merthyr Leisure Village, Trago Mills, General Dynamics.
- It already has key 'anchor' institutions of a local authority, further and higher education institution, University health board, Welsh Government office, law courts.

3. What would being a 'growth hub' mean?

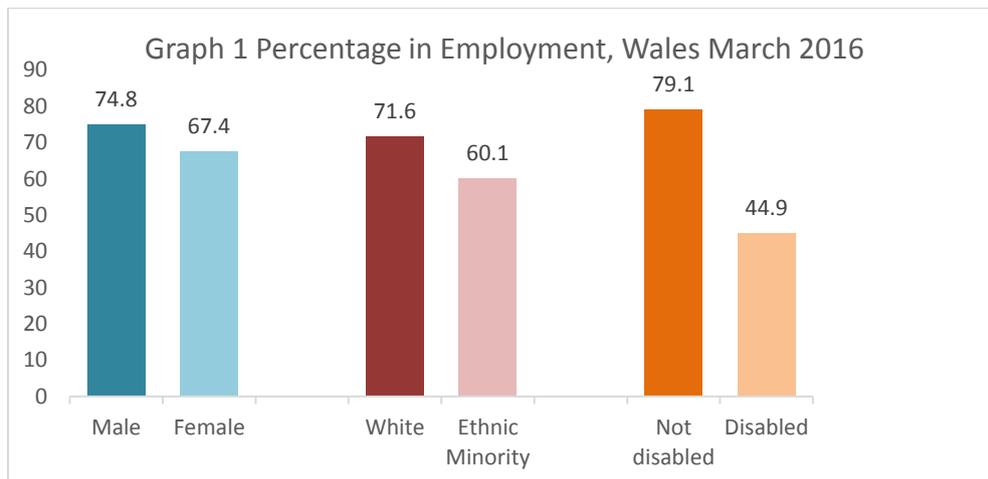
More work needs to be done but being a growth hub could include:

- Significant improvements in transport to the town centre
- Additional incentives for job creation.
- Designation of specialist employment areas e.g. a science and technology park.
- Improved provision of industrial and office premises.
- Specialist further and higher education offer e.g. engineering academy.

Third, consideration needs to be given to supporting the development of rural areas especially those outside the city regions / growth deal areas. More than 200,000 people live in Powys and Ceredigion and ensuring that there are good prospects for people in these areas, not least to stem out-migration of young people, is important.

7. Equality Priorities

Inclusive growth should address the substantial inequalities within the labour market in terms of gender, ethnicity and disability. A combination of differences in human capital, social expectations about labour market participation and discrimination in recruitment and progression mean that the talents and abilities of thousands of people in Wales are wasted. Graph 1 shows the substantial differences in the percentage of people in employment. Less than half of disabled people are in work, as are less than two-thirds of people from an ethnic minority. In contrast some groups, such as non-disabled people, are already close to experiencing full employment. If employment rates are to increase further then action to ensure disabled people, ethnic minorities and women are able to take up new opportunities is essential.



Source: Annual Population Survey via NOMIS

8. Conclusions

Although Wales' economy and employment have made good progress, there are still too many people in Wales for whom a secure, decently-paid job is just a pipedream. We welcome the Welsh Government's commitment to prosperity for all, and recommend that its commitment be turned into reality by refocusing its economic priorities on jobs, in all economic sectors and with decent terms and conditions including the Living Wage.

We also recommend that the many designated areas be streamlined into a smaller number of enterprise zones and growth hubs at strategic locations, and that action be taken to ensure all groups of people can access paid work.

Annex 1 Selected Area Designations

| | Vibrant and Viable Places* | Enterprise Zones | Business Improvement Districts |
|--------------------|--------------------------------|----------------------------|--------------------------------|
| Anglesey | Holyhead | Anglesey | |
| Gwynedd | | Snowdonia | Caernarfon Bangor |
| Conwy | Colwyn Bay | | Colwyn Bay |
| Denbighshire | | | |
| Flintshire | Deeside | Deeside | |
| Wrexham | Town Centre/Caia Park/Hightown | | |
| Ceredigion | | Teifi Valley Growth Zone | Aberystwyth |
| Powys | | Llandrindod Wells GZ | |
| Pembrokeshire | | Haven Waterway | |
| Carmarthenshire | | | Llanelli |
| Swansea | City Centre | | |
| Neath Port Talbot | Port Talbot | Port Talbot Waterfront | Neath |
| Bridgend | Town Centre | | Bridgend |
| Rhondda Cynon Taff | Pontypridd | | Pontypridd |
| Merthyr Tydfil | Town Centre | | Pant & Merthyr Ind. Estates |
| Caerphilly | | | |
| Blaenau Gwent | | Ebbw Vale | |
| Torfaen | Pontypool | | |
| Monmouthshire | | | Abergavenny |
| Newport | City Centre | | |
| Cardiff | | Central Cardiff | |
| Vale of Glamorgan | | Cardiff Airport & St Athan | |

* Vibrant and Viable Places areas have replaced Strategic Regeneration Areas (which were different)

Notes

¹ <http://gov.wales/topics/businessandeconomy/welsh-economy/priorities-for-the-economy/?lang=en>

² Welsh Government (2010) **Economic Renewal: a New Direction.**

³ Lee, N. et.al (2014) **Cities, Growth and Poverty: an evidence review.** Joseph Rowntree Foundation

⁴ Elming, W. and Hood, A. (2016) **Budget 2016: distributional analysis.** Institute for Fiscal Studies

⁵ Green, A., Sissons, P. and Lee, N. (2016) **Growth Sectors and Poverty:** presentation at Bevan Foundation seminar, 5th October 2015, Wrexham

⁶ UK Commission for Employment and Skills (2016) **UKCES labour market projections for Wales: 2014 to 2024: data sheets.** <https://www.gov.uk/government/publications/ukces-labour-market-projections-for-wales-2014-to-2024>

⁷ Joseph Rowntree Foundation (2016) **UK Poverty: causes, costs and solutions**

⁸ Joseph Rowntree Foundation (2016) **UK Poverty: causes, costs and solutions**

⁹ Bevan Foundation (2016) **Fair Pay: A Living Wage Wales**

¹⁰ What Works Centre for Local Economic Growth (2016) **Evidence Review 10 Area Based Initiatives**

¹¹ Joseph Rowntree Foundation (2016) **Prosperity without poverty: a framework for action in Wales.**