

Ideas Wales: December 2010

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1. On measures of GDP/GVA, despite limitations of the methodology, it is clear that Wales, far from catching up with the rest of the UK, has fallen further behind and now stands at 74% of the UK average.
2. inclusion of London and the South East distorts this picture but even when compared with Scotland, North East and North West England, Wales' relative position has declined. We have now been overtaken by Northern Ireland, to rest at the foot of the table.
3. Important to remember that this is all a *relative* measure. Performance in Wales can be improving – but if others are improving faster our relative position is affected. Important to remember, too, that once London and the South East is removed from the picture, the gap between the remaining nations and regions is covered by only a few percentage points.
4. Within Wales, too, there are important variations in performance and prosperity. Geographically, the split has strong East:West character, with areas which do best lying closest to Offa's Dyke.
5. Across the whole of the UK, Wales has four of the five lowest performing NUTS 3 areas. Taken together, [4] and [5] can only be taken as evidence of clear failure in at least some parts of the Welsh economy.
6. A significant part of the explanation lies in the low wages earned in the Welsh economy, and the low numbers in employment, in comparison with England. In 1971 Welsh male earnings were close to the UK average, and above those in the NE/NW England, and Scotland. Today they are well below. Wages are 8% higher in Scotland, and 20% higher in London and the South East. The same pattern can be seen in female wages.
7. Of the difference, only about 7% can be explained by the characteristics of the Welsh economy. It is more that the Welsh economy does not generate the same *rate of return* on such characteristics, and *pay off*, or *return* is what counts.
8. This implies that, while levels of education and skills remain important in creating a successful economy, it is *demand* rather than supply which accounts for the greater part of differential in wages.
9. The same explanation holds good for differences within Wales, as well as between Wales and other nations and regions. Wages in the South

of Wales are, on average, 11% higher than in the North. Only 3% of that difference is explained by differentials in qualifications.

10. Nevertheless, educational qualifications remain a powerful predictor of future earning power. In comparison with a person with no qualifications, someone with GCSEs will earn 23% more, with a first degree 97% more, and with a higher degree 116% more. Yet, the same pattern remains true in comparing Wales with other parts of the UK. Education pays off, but the rate of return is less than in other places. A person with a first degree in Scotland, for example, will earn 112% more than someone without qualifications. In London and the South East, that rises to 153%. And, inside Wales too, the educational pay-off is greatest in most prosperous areas.
11. In Wales the qualifications-payoff is greater for women than men. There continue to be some significant sources of formally unskilled employment for men in Wales, for example in steel making and manufacturing. Such jobs are less plentiful for women – so the rate of return on education is greater.
12. A different indicator of the same phenomenon can be seen in the likelihood of unemployment. 15% of people with no qualifications are unemployed; 10% of those with qualification at GCSE level and 4% of those with a degree.
13. Assembly Government has responsibility for skill development and education. Proportion of young people leaving school with no qualifications in Wales remains far too high, with some research suggesting that Welsh performance is lagging behind England. General conclusion of almost all research is that early years investment has greater payoff than at any other stage in the life-cycle.
14. What does this mean for the future of the Welsh economy?
 - manufacturing will continue to decline, as business services grow
 - government should concentrate on trying to create the conditions in which businesses can invest-develop-sustain-grow
 - questions need to be asked about whether the curriculum in Welsh schools provides best preparation for the sorts of business skills and economic-know-how which lead to the greatest returns in later life
 - questions need to be asked about whether the emphasis on STEM subjects in higher education makes sense, given that figures suggest that they don't provide particularly good returns in relation to earnings, and therefore GVA

Discussion

- are differentials within Wales more important than between Wales and other nations and regions? Probably. Spreading prosperity within Wales is a great policy priority than obsessing about Wales' relative performance with others.
- How to tackle those differentials? Should the concentration be on investing in Cardiff as the motor of the Welsh economy? Maybe, if Cardiff is to compete with other centres such as Bristol or Nottingham. But, difficult to persuade the rest of Wales of such a strategy and evidence that a prosperous Cardiff has an impact on, say the economy of Ynys Mon is tenuous.
- In any case, Cardiff's GVA figures are an artefact of its commuter belt. People coming in to work in Cardiff artificially inflate its GVA, while equally artificially deflating the GVA of surrounding areas.
- The success of Admiral Insurance suggests that, once decisions are taken to locate to Wales, then success is as likely (or more likely) in Wales than anywhere else. The problem lies in getting a better share of such 'micro' decisions to locate here in the first place.
- Need to make positive use of all opportunities. Inward investment may not provide jobs which last forever, but they may provide a whole generation with work. Inward investment continues to come to the UK: the challenge is to make sure that Wales gets its fair share. Jobs such as those in Amazon may not provide a high-skill, high-wage future, but they give lots of people a start in the employment market which can lead to better things. The Tata contract in Cardiff might have been a much better deal if it had included a requirement to up-skill local staff over a decade, so that the work could have been repatriated to Wales at the conclusion of the contract. The long-term future may well lie with growing indigenous businesses, creating a regulatory framework and wider environment in which they can flourish. But that shouldn't mean turning our back on other economic opportunities.