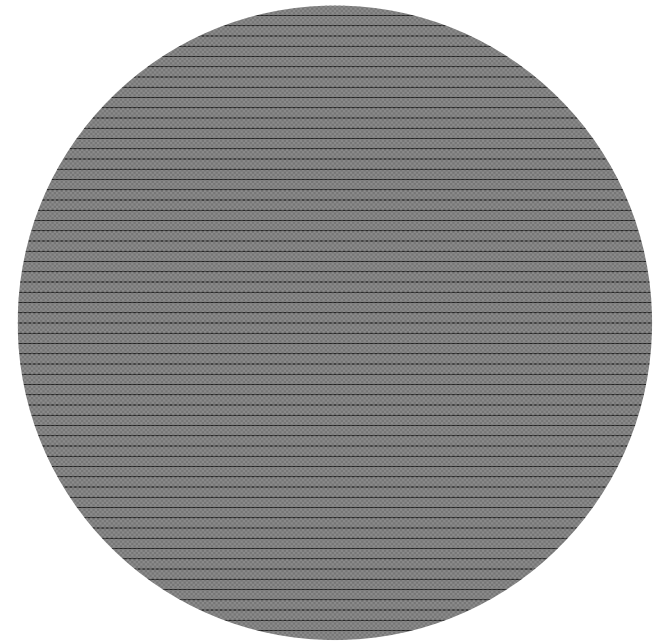


# Industrial policy as place based experiment: the realist turn and the case of Wales

---

*Julie Froud, Colin Haslam, Sukhdev Johal,  
Nick Tsitsianis and Karel Williams*

[foundationaleconomy.com](http://foundationaleconomy.com)



# Outline

*1. aspirational vs realist,  
place based industrial  
policy & Wales*



*2. the policy challenge of  
the economy as it is:  
objectives, actors and  
levers*



(1) Aspirational vs  
realist, place-based  
industrial policy +  
Wales

---

# aspirational industrial policy; building the economy as it should be

- Aspirational policy: building the industries of the future i.e. high tech, high productivity, export oriented; supporting early stage innovation; competing for footloose inward investment; sponsoring big projects in specific sectors e.g. wheels, wings, bio-tech, digital...
- Generic tendencies: same objectives (similar interventions) in different places e.g. the selling of the Swansea Bay barrage as the basis for new industry
- Aspirational policy sold in Wales as fix for deindustrialisation after regional collapse of export-oriented & resource-based heavy industry, and exit of light manufacturing
- Broadly failed to deliver for devolved Welsh government since 1997 by its own criteria: inward investment brings Amazon Warehouse; the GVA gap vs UK has been stuck at 73% since mid-1990s

## the realist turn: recognising the economy as it is

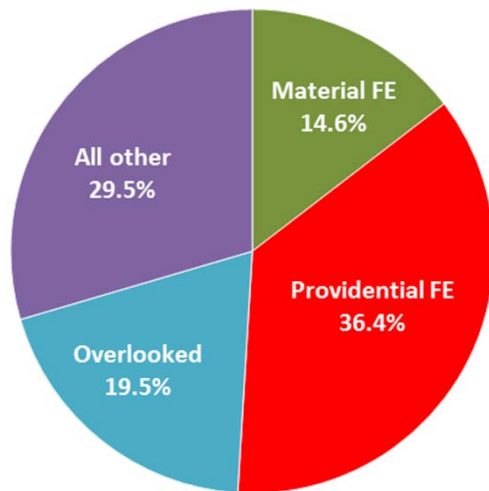
- Most of the Welsh economy is mundane services meeting local household/ business needs. For Rachel Reeves = 'the everyday economy'; for Centre for Cities = 'local services'; for us = **'the foundational economy'** (FE)
- Essential, everyday foundational services = 50% of Welsh employment
  - ✓ *providential FE = education, health, care, welfare = c.35%*
  - ✓ *material FE = pipe and cable utilities, food supply = c.15%*
  - ✓ *overlooked/ outside FE = haircuts, funerals, sofas... another 20%*
- (Very) small firms are dominant in the Welsh economy; micro firms employing an average of less than 2 account for 1/3<sup>rd</sup> of employment; Wales has a 'missing mittelstand' with firms of 50 -250 providing just 12% of employment
- New official realism about building the economy that Wales has: Welsh Government Economic Action Plan of 2017 recognises four 'foundation sectors': care, food, tourism and retail

# Foundational employment in Wales and Swansea Bay

## • Material share of employment

- Wales 14.7% (191,725)
- Swansea Bay City Region 14.6% (34,875)

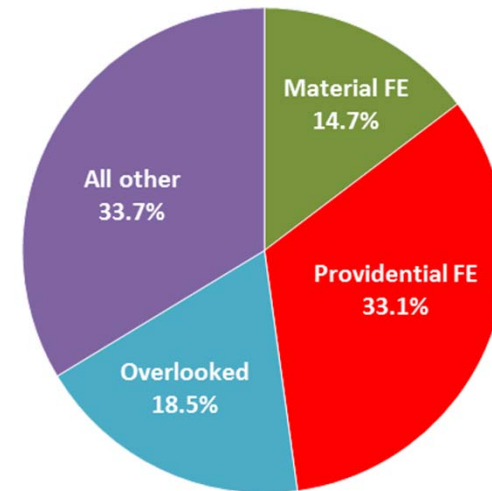
Swansea Bay City Region  
Employment in the Foundational Economy



## • Providential share of employment

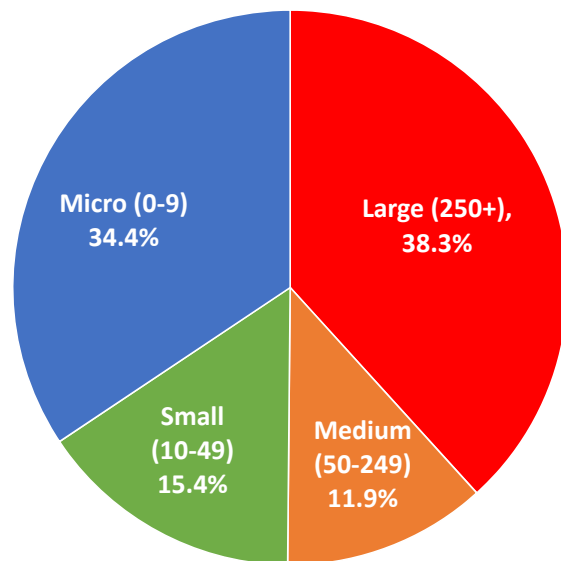
- Wales 33.1% (432,350)
- Swansea Bay City Region 36.4% (86,985)

Wales  
Employment in the Foundational Economy

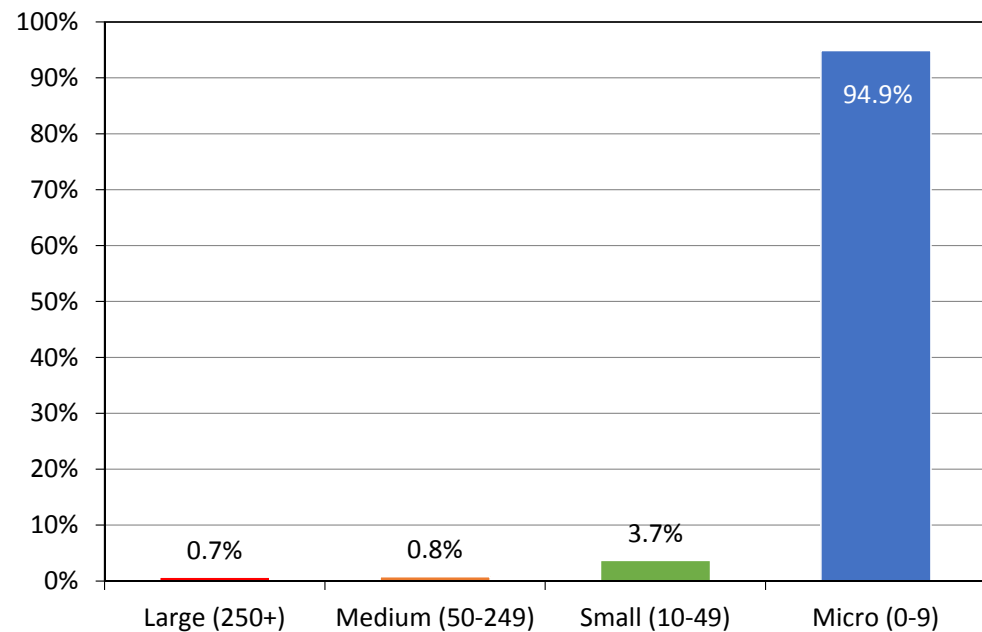


# Micro firm employment in Wales

Wales employment 1,143,300 in 2017



2017: 253,635 enterprises in Wales



# why the realist turn in Wales? political and economic pre-conditions

- Political pressures on devolved government after 20 years of policy failure; role of progressive trades associations and intermediary institutions e.g. FSB (Wales) and Coastal Housing
- Dawning realisation that reach and leverage of generic policy limited when Wales has few large corporates (with Welsh HQs) that can serve as locus of initiative/ recipients of aid + their supply chains lead elsewhere
- ✓ *Iconic branch plants with mixed prospects employ less than 15,000: Airbus/ Flint 6,000 workers (facing Brexit), Tata Steel/Port Talbot 3,000 workers (OK for now); Ford/ Bridgend 1700 workers (shrinking); GE Aviation Wales at Nantgarw 1,400 workers (growing)*
- ✓ *Firms accidentally HQd in Wales with most of their activity outside e.g. Iceland (food retail) + Redrow (house building)*
- ✓ *Just two substantial Welsh corporates with most of their activity in Wales = Dwr Cymru/ debt-financed water utility + one FTSE 100 company, Admiral = employing 5,000 in Wales + then..... its down to Sinclair Motors/VAG dealer*
- Policy makers and media have had a bias against the everyday: endless stories about the 3,000 Welsh employed in steel making at Port Talbot; nobody discusses the 3,000 workers in sofa production across Wales

(2) The policy  
challenge of the  
economy as it is

---

# (How) should policy change to engage the economy as it is?

- So far, we have *conservative responses* which recognise the everyday but envisage minimal changes in the focus of policy:
  - ✓ *No change at all: Centre for Cities (2018)* argues we should rely on 'exporting sectors' to deliver productivity gains because they better incorporate new technology
  - ✓ *New mundane sectors will deliver the old policy objectives: Rachel Reeves (2018)* wants productivity gains from care; Valleys Task Force (2017) wants more and better jobs...
- Our more *radical response*:
  - ✓ *the realist turn towards the everyday economy requires rethinking objectives, actors and levers in a deindustrialised region like Wales*
  - ✓ *change of sectoral object requires a shift in policy thinking. Not as either/or, but adding a new policy strand to encompass a neglected economy*

## (a) Objectives? productivity gains and output increase are not everything

- Productivity is only part of the problem in providential sectors like care: e.g. in home care rounds, travelling time is wasteful; but the aim of care should be to maintain the social relations of older people as much as process their bio-medical problems
- Output growth can be complex in overlooked sectors like tourism: e.g. Rhossili beach is a positional good and tripling the number of visitors to the Gower will produce problems of congestion and crowding; which most of us would not want to solve by pricing out the poor
- As we engage the everyday economy we have to recognise
  - ✓ *the intrication of economic and social objectives* (enabling economic and social infrastructural support for people and small/ micro firms)
  - ✓ *most of the foundational sectors are mature, low-growth sectors* which won't on their own solve the problem of more jobs closer to home; but could deliver better jobs

## (b) Actors? reduced role of financialised and PLC/PE business models & alternatives

- *Business model problems in some foundational sectors e.g. utilities, care, food retail*
- In material utilities and providential sectors like care, privatisation and outsourcing admitted PLCs and private equity with double digit ROCE targets & business models developed for high risk/high return
- Results are hobbling in residential care where (a) the PE target 12% return on capital adds £100 a week to the cost per bed with 5% capital and (b) more state funding will bid up prices paid and increase debt burdens so recreating chain collapse. Needs focus on alternative (smaller) providers and new infrastructures for business support, care innovation.
- *Fragmentation and dispersion of interests & intermediaries e.g. absence of supply chains or organisation; high street challenges*
- Upcoming retail challenge: repurposing the high street and retail park (NB in Swansea 5% work in manufacturing and 10% in retail).
- Post-2008 paralysis of High St landlords about recognising losses when they are accustomed to upward rent revisions and capital gains. Needs new actors, compulsory purchase at prices well below 2008 peak & redevelopment via intermediaries with expertise as with Coastal Housing on Swansea High St.

## (c) Policy levers? the challenge of policy as it

- What policies do we have for micro firms and small SMEs: what could policy do for Sidoli's ice cream in Ebbw Vale and Jenkins bakery in Llanelli?
- Small business policy = generally neglected and unimaginative; relying on adding a bit of investment co-funding and sponsoring training.
- The policies of adding investment and training need to be rethought
- Ideas about adding finance have a long patrimony (a) politically back to the Macmillan committee in the 1930s and to comparisons of Brit and German financial systems and (b) intellectually encouraged by abstract input/output thinking
- Performed post-2016 by the Alliance project in textiles with limited success because did not engage with specifics (a) realities of constraints in low density clusters e.g. in woollen and worsted or (b) sub sector supply chain conditions e.g. from fast fashion to the illegal sector in Leicester

Adding  
finance is  
problematic:  
needs  
divergent  
thinking

- Adding external funding is problematic below a certain size e.g. £5 million and 150 employees in Yorkshire woollen and worsted; the lump of profit is not reliably large enough to cover external interest and capital repayment + the owner/ manager's return
- The survival of small firms in an uncertain world depends on not having external cash claims and a patient owner who varies their draw-down in good and bad years
- Continuity finance may help when buy out finance + resale in 5-7 years can be positively disruptive: churning of ownership and strategic confusion e.g. Avana Bakeries or Rachel's Dairy and reverse merged Tinopolis into an international media business
- Probably more important than finance is managing supply chain demand fluctuations in volume and price i.e. the supermarkets are more relevant than the banks to Welsh producers and processors of lamb
- And, banking services for business as much as lending to

## Training matters: but needs adapting to small firms

- British aspiration since the early 20<sup>th</sup> century: a technical training system like Germany;
- In Wales (like the UK), we don't have a mittelstand of family owned 50 year old engineering firms employing >500
- When micro firms account for more than one third of employment, we need not just to train wage labour, but more training for owner /managers + sole traders
- the 'pop up business school' (basic accounting, customer management...) for start ups
- new delivery systems and business models from training providers whose current systems are geared to volume training of 16-19 year olds

# Conclusion

---

The realist turn is about place-based policies that recognise multiple dimensions/ specifics in a (regional) economy

---

Can be challenging for many politicians, advisers and NGOs with sunk cost in the status quo (objectives, actors and levers)

---

But gathering momentum because the mainstream often disappoints; the alternative is creative and experimental & has wide potential