



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Menter a Dysgu
The Enterprise and Learning Committee**

**Dydd Iau, 19 Mawrth 2009
Thursday, 19 March 2009**

Cynnwys
Contents

- 3 Cyflwyniad ac Ymddiheuriadau
Introduction and Apologies
- 4 Ymchwiliad y Pwyllgor i Ymateb Llywodraeth Cynulliad Cymru i'r Dirywiad
Economaidd Rhyngwladol Presennol
Committee inquiry into the Welsh Assembly Government's Response to the Current
International Economic Downturn

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included. This is a draft version of the record. The final version will be published within five working days.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Christine Chapman	Llafur Labour
Jeff Cuthbert	Llafur Labour
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Nerys Evans	Plaid Cymru The Party of Wales
Gareth Jones	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
David Melding	Ceidwadwyr Cymreig Welsh Conservatives
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

Eraill yn bresennol
Others in attendance

Yr Athro/Professor David Blackaby	Yr Ysgol Fusnes ac Economeg, Prifysgol Abertawe School of Business and Economics, Swansea University
Yr Athro/Professor Stephen Hill	Pennaeth Datblygu Staff ac Ymchwil, Ysgol Fusnes Prifysgol Morgannwg Head of Staff Development and Research, University of Glamorgan Business School
Yr Athro/Professor Philip Murphy	Yr Ysgol Fusnes ac Economeg, Prifysgol Abertawe School of Business and Economics, Swansea University
Wyn Pryce	Ysgrifennydd, Menter Busnes Gorllewin Cymru Secretary, West Wales Business Initiative

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Gwyn Griffiths	Cynghorydd Cyfreithiol Legal Adviser
Dr Kathryn Jenkins	Clerc Clerk
Mike Lewis	Dirprwy Glerc Dros Dro Acting Deputy Clerk
Ben Stokes	Gwasanaeth Ymchwil yr Aelodau Members' Research Service

Dechreuodd y cyfarfod am 9 a.m.
The meeting began at 9 a.m.

Cyflwyniad ac Ymddiheuriadau
Introduction and Apologies

[1] **Gareth Jones:** Bore da bawb, a **Gareth Jones:** Good morning everyone, and chroeso cynnes i chi i'r cyfarfod hwn o'r a warm welcome to this meeting of the Pwyllgor Menter a Dysgu. Fe'ch atgoffaf, yn Enterprise and Learning Committee. I remind you, as usual, to switch off mobile phones drefn arferol, i ddiffodd ffonau symudol ac

unrhyw ddyfais electronig arall. Ni ddylech gyffwrdd â'r meicroffonau. Nid ydym yn disgwyl ymarfer tân, felly os bydd argyfwng bydd yn rhaid inni symud o'r ystafell a'r adeilad o dan gyfarwyddyd y tywyswyr. Bydd y cyfarfod yn ddwyieithog ac mae clustffonau ar gael i dderbyn gwasanaeth cyfieithu ar y pryd o'r Gymraeg i'r Saesneg ar sianel 1, ac hefyd i chwyddleisio'r sain ar sianel 0. Bydd cofnod o'r cyfan a ddywedir yn gyhoeddus.

and any other electronic devices. You should not touch the microphones. We do not expect a fire drill, so if there is an emergency we will have to evacuate the room and building following the ushers' guidance. The meeting will be bilingual and headphones are available to receive simultaneous translation from Welsh to English on channel 1, and also to amplify the sound on channel 0. There will be a record of everything that is said in public.

[2] Ni dderbyniwyd unrhyw ymddiheuriadau ac felly nid oes dirprwyon, ond yr wyf yn gwahodd Aelodau i ddatgan unrhyw fuddiant.

No apologies have been received and therefore there are no substitutions, but I invite Members to declare any interest.

[3] **Christine Chapman:** I declare an interest as a visiting fellow of the University of Glamorgan.

[4] **Gareth Jones:** Diolch yn fawr iawn. **Gareth Jones:** Thank you very much.

9.01 a.m.

Ymchwiliad y Pwyllgor i Ymateb Llywodraeth Cynulliad Cymru i'r Dirywiad Economaidd Rhyngwladol Presennol

Committee inquiry into the Welsh Assembly Government's Response to the Current International Economic Downturn

[5] **Gareth Jones:** Fel gair byr o gefndir, mae'r pwyllgor yn cynnal ymchwiliad i'r dirywiad economaidd presennol, gyda sylw arbennig i'r cymorth sydd ar gael i fusnesau. Mae Aelodau eisoes wedi craffu ar y Dirprwy Brif Weinidog, y Ffederasiwn Busnesau Bach, Menter Cymru, Cyngyrair y Cyngorau Sgiliau Sector, Cydffederasiwn Diwydiant Prydain Cymru a Chyngres yr Undebau Llafur Cymru. Heddiw, yr ydym yn cael cyfle i holi economegwyr academiaidd. Yn nes ymlaen y bore yma, ceir cyfle i graffu ar gynrychiolydd o Fenter Busnes Gorllewin Cymru. Mae'r corff hwnnw wedi cyflwyno deiseb ar fater cronfeydd strwythurol, a barnwyd y byddai'n briodol i gymryd tystiolaeth gan y deisebydd fel rhan o'r ymchwiliad hwn.

Gareth Jones: As a brief background, the committee is holding an inquiry into the current economic downturn, paying particular attention to the support available for businesses. Members have already scrutinised the Deputy First Minister, the Federation of Small Businesses, Venture Wales, the Sector Skills Councils Alliance, the Confederation of British Industry Wales and the Trades Union Congress Wales. We have an opportunity today to ask questions of academic economists. We will have an opportunity later this morning to scrutinise a representative of West Wales Business Initiative. That body has presented a petition on the issue of structural funds, and it was deemed appropriate to take evidence from the petitioner as part of this inquiry.

[6] Yr ydym yn troi yn awr at gynrychiolwyr o Brifysgol Abertawe, sef yr Athro Philip Murphy a'r Athro David Blackaby o'r ysgol fusnes ac economeg. Croeso i'r ddau ohonoch. Ar ran y pwyllgor, diolch i chi am eich tystiolaeth ysgrifenedig

We now turn to representatives of Swansea University, namely Professor Philip Murphy and Professor David Blackaby of the school of business and economics. Welcome to you both. On behalf of the committee, thank you for your written evidence and for your

ac am eich presenoldeb yn y pwyllgor. Fe'ch gwahoddaf i wneud cyflwyniad o bum munud yr un, neu sut bynnag yr ydych am weithio ar hynny, fel y cawn wedyn gyfle fel Aelodau i ofyn cwestiynau. Felly, drosodd i chi.

attendance in the committee. I invite you to make a presentation of five minutes each, or however you wish to do it, so that we then have an opportunity as Members to ask you questions. So, over to you.

[7] **Professor Blackaby:** Thank you very much, Chair. We are both labour-market economists—we have some expertise in recessions and the effects on labour markets in recession, but we are not necessarily experts on business support. By way of introduction, the committee has a very difficult task in attempting to mitigate the effects of this recession. The magnitude and speed of the current recession has caught many by surprise. Even this week, the International Monetary Fund, for example, has forecast that the UK economy will spend longer and be deeper in recession than many other advanced economies. Twelve months ago, the IMF forecast that we would not experience a recession in the UK. Many groups forecast that unemployment will reach well over 3 million by the time that we see a recovery.

[8] The amounts of money spent or promised by Government to solve the current financial crisis are truly staggering. For example, the European Central Bank has injected over €95 billion into the money markets. Only last night, the US Federal Reserve said that it would spend \$1.2 trillion, which is £4.3 billion, buying up debt to help to boost bank lending. The UK Government is to expand the amount of money in the system by £75 billion—and I think that there was a typographical error in our original submission—in an attempt to boost the banking system. That comes on top of a number of reductions in interest rates and a reduction in value-added tax. The Government has put an emphasis on international co-ordination to help to solve the problems of the slump, but, despite that, each successive forecast suggests that the recession will be deeper and longer than the previous forecast. As a result, the worst of the recession is likely still to come, and we can expect over 1 million people to be added to the dole queues in the next 12 months, which would raise unemployment in Wales to well over 130,000.

[9] In the current environment, the Welsh Assembly Government has few levers that it can use to attempt to deal with the effects of the current recession. Looking at the numbers that I gave earlier and the numbers that you have to play with, you see that the magnitude of the levers are relatively small. However, most individuals and organisations seem to be praising the Assembly Government for what it is attempting to do to help with the recession, and, clearly, that is important, given that the social costs of unemployment can be enormous, as we have seen in Wales. Some of the effects of the recession in the 1980s are still with us.

[10] On business support, although we talked about how we are all dead in the long run, going back to Keynes, I suppose that the important levers that are available to the Assembly Government tend to be those that can influence longer-term growth rather than mitigate short-term problems. The most important lever for supporting the Welsh economy is the powers that you have in the area of education. From that point of view, it is important not to take our eyes off the ball, because, even though we are in a recession, the education system needs to be fit for purpose. Even in a recession, many new companies are formed and many companies grow and prosper. It is important that we have the correct business environment to encourage those companies that can come to Wales to do so and to grow and to prosper in Wales. Evidence suggests that workforce skills and the business environment are the crucial factors in those areas. That is all the introduction that I was going to make. Do you have anything to add, Phil?

[11] **Professor Murphy:** I do not see the point of going over the same ground as David, but I will make a couple of comments on what has been done. Rightly, the Assembly Government has been commended for the speed of its response and the way in which it has

engaged with stakeholders. Its engagement through the summit process with the CBI, the TUC and so on is exemplary. It has come up with a range of packages in an attempt to address issues in Wales, using micro-type policies. Looking at the range of policies, we see that some of them are developments of programmes from the Department for Business, Enterprise and Regulatory Reform, while others are developments of Government programmes that bring forward capital expenditure. They are all excellent for what they are, but the problem is the effect that they will have in the long term. My worry about a lot of policy initiatives undertaken in Wales is that there is no proper evaluation of their effect. We seem to observe how many people pass through the process and how much money is distributed, but not an awful lot of work is done on whether the policies are effective. Evaluation is a major problem with current policies in Wales. That is probably all that I need to say.

[12] **Gareth Jones:** Thank you for those few points. I turn to David Melding for the first question.

[13] **David Melding:** Your analysis, although gloomy, is accurate. I have always emphasised, as the shadow Minister for the economy, that the levers that we have are relatively modest, compared with UK and international levers, and it is at those levels that the recession must be tamed and reversed, if at all possible. At some point, the recession will end and growth will be restored. When that time comes, we will want to do comparatively better than we have done in the past 30 years or so compared with other regions of the UK and Europe.

9.10 a.m.

[14] Education is clearly one of the main areas in which Government action can have an impact on long-term economic development. It is clearly a big issue and something substantial that we control. You say that the curriculum has not been as responsive to the demands of enterprise as it could be. That is not to say that there is nothing there but perhaps we need to look at it more. Are there any examples of particularly good practice internationally, where countries have really got this idea of how to mainstream enterprise skills into the curriculum? I know that it is done practically from kindergarten in some countries, and I just wonder what we should be looking at to develop the curriculum from as early an age as possible, so that people are thinking about forming their own businesses and being as enterprising as possible when they enter the world of work.

[15] Secondly, you refer to data deficiencies, and you mention gross value added in particular, which has been raised in the Assembly several times. It would help if we had better benchmarks, if the indicator did not lag as much, and if figures were available quarterly or more often, if achievable. Are there any other economic indicators that you think need to be developed on a Welsh basis, in the first place, and which are not developed at present, or that need to be published more frequently on a Welsh basis, whether quarterly or whatever?

[16] **Professor Blackaby:** On education, the answer is 'yes'. That is the emphasis and you have realised the importance of it, not surprisingly. The Welsh Assembly Government has a lot of new initiatives in this area, such as breakfast clubs, and realises the importance of getting the most out of children and so on, but I am not sure that the curriculum has necessarily been clearly analysed. That is what businesses are told to do in a recession: go back and analyse the business from scratch. I suppose that the Assembly Government could do the same with education. For example, there is research to show that graduate earnings are related to the subjects that they study. So, a study was done looking at graduates and at what they are earning 11 years after graduation. Among the top earners were economists, who were second only to clinical dentists. So, dentists were first, not surprisingly, as we all know the problem that we have finding a dentist. When we go to the dentist, we usually worry about

whether it will hurt and not how much it will cost—until we get out. However, economists get a high return in the labour market.

[17] I was involved in the Future Skills Wales project, talking to people about careers, and I was surprised by the business and economic ideas in Wales. Perhaps we could just take the idea of an interest rate as an example, and the rate of return if you have a massive debt problem. Children are not taught about debt, managing debt, or what an interest rate is and a payback period. They know more about Gerald of Wales, which may or may not be useful to them in later life. So, they just do not have basic business skills. It is difficult to make these changes quickly to a curriculum, because you do not necessarily have the skills in the labour force to teach these things. However, if you looked at what was compulsory in our schools up to the age of 16, you would have thought that all the enterprise stuff would be taught, but we do not teach it at all, or, if we do, it is an add-on. However, that is what is growing and is more important. On other countries that do it successfully, I could look into it, but I do not have that information to hand. The United States tend to have a more business-orientated culture than we do, so we could look at what is done there.

[18] On the figures, you are right, and GVA is an obvious one. The problem with unemployment is that it is a lagging indicator. As we mentioned in the introduction, we know that the increase is still likely to come, although we have probably been in the recession since the beginning of the year. I suppose that if the Welsh Assembly Government wants to make decisions and act early, it needs more up-to-date information. As for what we do not have, I suppose that we could ask the Office for National Statistics. What data is it supplying to the UK Government that are not available at a regional level, or quarterly? GVA is obvious because you cannot get annual figures until 2006. There is a whole host of data. I would not go through them here, but you could ask the ONS to supply you with what is not available. The ONS had a publication in February in which it stated that it was aware of the problems and it would try to do much better at supplying data.

[19] **Professor Murphy:** I would just add a couple of points. On education, there are lessons to be learned from other countries, which we could look at more closely. Germany is one example, and it resonates with the discussions that have taken place on the pathways to learning programme. In Germany, there is less concentration on a single route through education, and there is much more sorting of individuals into particular streams, which is of benefit to them in the long term as they enter the labour market. There are international comparisons that we can learn from.

[20] David has covered most of the points on data, but I would emphasise the scope for merging administrative data sets with the data that we already collect within Wales. We should look at that a bit more closely. As an academic, I also find that there are unreasonable restrictions on the use of data, with obstacles to accessing it and using it in a Welsh context. Data should not just be collected by individuals, but across time, which goes back to the point about evaluation. If you introduce a policy, you need to see what its effects are, and the only way to get a handle on that is to use longitudinal data. Then you can observe what happens prior to the introduction of the policy and what happens after.

[21] **David Melding:** I do not have a follow-up question, as those answers were very clear, but the point on the committee writing to the ONS to ask about the available data and where the major deficiencies are for regional data is a useful suggestion.

[22] **Gareth Jones:** Yes, it is a useful and interesting point. Thank you for that.

[23] **Jenny Randerson:** You say that there are restrictions on the use of data by academics. Can you illustrate what you mean by that?

[24] **Professor Murphy:** For example, to get access to data at a disaggregated regional level, unitary authority level, or even lower, you have to go to a particular laboratory in Newport: the BML laboratory. You can only access the data from a single laboratory in Wales.

[25] **Jeff Cuthbert:** Thank you for your written submission, and the oral statement that you began with. You mentioned dentists, and I suppose that they are the only professionals for whom it is true that the less work they do, the happier we are.

[26] **David Melding:** Amen to that.

[27] **Jeff Cuthbert:** I am glad that you pointed out the typo in the seventh bullet point of paragraph 1.4. I thought that the Bank of England had made more than £75 million available, so I am grateful for that clarification.

[28] The purpose of our inquiry is to look at the Welsh Assembly Government's response to the economic situation, and we are extremely familiar with how it affects employment and business development. You rightly say that the Assembly Government's ability to respond is limited, given its size, and given that it does not have tax-raising powers and so on. Clearly, it has to work within the powers that it has. However, you might want to comment on the value of developments that have emerged from the economic summits, such as the faster payment of bills, particularly for small and medium-sized enterprises. There has also been investment in public works, such as releasing land to help the construction industry, building affordable housing, and so on. Do you anticipate that helping to mitigate the worst effects?

[29] You rightly point out that we have to think about the longer term, and in paragraph 1.8 you talk about education and training, as has been indicated. As you know, earlier this week, we completed Stage 4 of the Proposed Learning and Skills (Wales) Measure, which we hope will provide more vocational opportunities in the long term. I agree with the points that you make in paragraph 1.13 about the skills needed to take advantage of jobs, and with the obvious statement that you make at the end:

[30] 'Evidence suggests that gaining employment is one of the most effective ways for individuals and families to move out of poverty'.

9.20 a.m.

[31] The question is whether we are following policies that, in the longer term, regardless of the recession in a sense, are likely to improve skill levels in Wales and, therefore, make us more competitive? I would say that that is even more important now, because, when we come out of the recession, we will need to be well placed. Any more comments that you wish to make in that regard, about the longer term, would be welcome.

[32] Finally, although you do not refer to it specifically—unless I have missed it—I wish to look at the issue of European structural funds. We are not here to analyse structural funds in detail, but their use is part of the Assembly Government's response to the economic situation. I do not wish to cause you any embarrassment, as your vice-chancellor is a member of the programme monitoring committee for European structural funds in Wales. However, as you know, ProAct, which you mentioned, is one initiative that, like ReAct, has come about through that process. There is a host of initiatives coming online linked with the Lisbon agenda on jobs and growth. At this stage, do you have any feel for whether we are heading in the right direction in that regard as a contribution towards helping to mitigate problems? No-one is suggesting that the use of structural funds will solve the problems, but it can help.

[33] **Gareth Jones:** I think that Christine has a related question.

[34] **Christine Chapman:** Jeff talked about the long term, and I wish to make a point on the back of that. I would like your comments on whether you feel that, at the moment, because we are in difficult financial times and looking at some very short-term measures, there is a temptation to not worry too much about the longer term. Last week for example, the Confederation of British Industry recommended that Wales should delay its targets for building zero-carbon homes. The Trades Union Congress did not agree with that view, but perhaps there is a view that, because of the problems that we face, we should look at more realistic targets. We are already hearing such comments that, in a sense, we should cut corners.

[35] Another example would be equality issues. I can see that there could be a tendency for people to say that that is not an issue at the moment—that we just need to get people jobs. However, we are seeing good research results that show that we need to get more women involved in running companies. There was a very interesting study done in Finland, which I think the European Commission has picked up on, showing that companies run by women are up to 10 per cent more efficient than those headed by men.

[36] **Jenny Randerson:** Are you surprised? [*Laughter.*]

[37] **Christine Chapman:** Again, it is about taking a more holistic approach. Do you feel that people are cutting corners a bit now? I would be interested in any comments that you have on the long-term picture.

[38] **Professor Murphy:** I think that you are right to identify that there is a tension between short and long-term policies. Clearly, our focus is on the current recession, so, initially, our focus must be primarily on short-term policies. However, one needs to worry about whether implementing those policies causes distortions in the markets. This goes back to an earlier comment about procurement policies. Reducing the delay in payment is a good thing, particularly given that some businesses are facing a cash-flow problem, with their access to credit lines from banks being restricted. Therefore, any help that can be provided in terms of paying bills more quickly is to be welcomed. In some of the other evidence about procurement, I saw mention of placing restrictions on suppliers within a certain number of miles of the commissioning agent. That can encourage money to be spent locally, which will therefore have a benefit locally, but it is a restriction on trade, which is a distortion that, in the long term, creates inefficiencies. So, although it may be a policy that you should encourage for the current recession, it is not something that I would like to see continued in the long term, because it is a major distortion in markets.

[39] Looking at the longer term, the performance of our younger population, in terms of educational qualifications and skills is a major worry. So, an education system that is fit for purpose must be put in place. Having said that, we would have to match that with a realistic attempt to encourage firms that can use those types of skills into the Welsh economy, otherwise all we are doing is educating individuals who then move out of Wales and are, therefore, of no benefit to Wales. In that sense, the long-term strategy that might need to be looked at is one of encouraging more innovative practices on the part of business and, in particular, research and development in Wales. You can call on the universities for that, and you could call in a number of individuals who have expertise in that area. The problem with many policies is that they are initiated by civil servants who do not have a feel for what is going on in the marketplace. We should encourage engagement with people who are doing these things on the ground. The name Simon Gibson springs to mind. He is Wales's premier venture capitalist, I would imagine. He has several good ideas about how entrepreneurship and innovation can be encouraged in Wales. You can link all of these aspects to incentives that encourage moving into areas that give gain, rather than just doling out money to the recipients and not seeing what effect that money has later on.

[40] **Professor Blackaby:** We have learned from previous recessions. In Wales in the 1980s, people went from unemployment to inactivity and claiming incapacity benefit. We have learned those lessons, and the ReAct and ProAct programmes and policy are clearly appropriate.

[41] On the payment system, it is obviously going to help small businesses if you can make your payments more quickly. Whether they pass that on remains to be seen. All those policies seem to be very sensible, proactive and appropriate. The only criticism that I have come across—we have done a little research on this, but it is not our area—is on the Assembly's response with the Flexible Support for Business. When we have spoken to business support agencies—the CBI would be better informed about this than us—and to the people who are on the ground supplying this support, we have found that they have gone through a very bureaucratic process, which involved a lot of form-filling. They now have to take out tenders. They were not seeing as many people as they expected to see, given that we have the problems in this downturn. So, the one criticism that we came across was on that response.

[42] On gender, sustainability, and the Welsh language, which I suppose would be put into that pot, it is okay for us middle-class people to think about sustainability, and it is clearly important, but if you ask people on the ground in the Rhondda and Merthyr who have lost their jobs whether sustainability or getting a job is more important, you will find that it is usually jobs that are most important to them. There is evidence, as you have indicated, that equal opportunities in the area of gender, namely having more women in work and more women on boards, can improve decision making. Businesses did not want the minimum wage to be introduced, but no-one suggests now that we should do away with the minimum wage. The same will be true of reducing carbon and so on, if new legislation comes along. Businesses tend to react in that way.

[43] You have made a business case for equal opportunities, and I suppose that it would also be important to have a business case for anything that is introduced in the area of the Welsh language. Having said that, Governments are about cultural and social as well as economic issues, and it is a trade-off. All that we would want to know, I suppose, as Phil said, is what evidence exists with regard to equal opportunities? Is it going to damage the economy if we look at it seriously?

[44] There is a certain emphasis in terms of carbon sustainability. I read documents from the Assembly that talk continually about sustainability and Objective 1. My understanding of Objective 1 is that its purpose is to increase gross domestic product, to get people back into work. There are sustainability issues, but we sometimes overlook the fundamental objective of structural funds. Coming back to Phil's point, we had structural funds last time, and we have them again this time. Had it worked as well as it should have, we probably would not have been in the position to get them this time. Clearly, it is a large amount of money, and it can be directed at the area of skills development, but what we do not know, because we have not done the monitoring, and we do not have the longitudinal data set, is what has happened to the people who received this help in the past. Has it been effective? Do we know where this money is most effective? I am not sure that we know those answers. It is a bit late now, because we are already in the process.

9.30 a.m.

[45] **Christine Chapman:** I want to go back to the climate change issue that you mentioned. In relation to the Heads of the Valleys strategy, for example, what approaches should there be with regard to green technology? It could be the new innovation in that area. Do you have any further comments on the types of industries and the innovation involved?

The issue is not just about jobs and sustainability in its broader sense; it is actually about linking it to innovation as well, in order to give jobs to those people in Merthyr, Rhondda and so on.

[46] **Professor Blackaby:** My issue is about the role of Government. Is it the role of Government to pick winners? With regard to Concorde, in the 1960s, the Government tried to pick a winner, but it lost. Concorde was innovative, beautiful—all those sorts of things—and it could have been a new technology, but governments are not usually the best at picking where the future is going to be. Everyone is saying that sustainability and green technology are the future. They may be right, but if so, we would expect to see businesses moving in that direction. Governments are not usually the best at deciding where economic activity is. What governments should be doing is providing a field in which any activity can bear fruit. So, I would say that there is a danger in saying, ‘This is where the future is, this is where we will put our money’ with regard to the role of government. That is my personal view.

[47] **Professor Murphy:** I would agree with much of what David said, but I feel that this is potentially an opportunity for Wales. As we come out of the current recession, we know that the financial sector will not be the engine of growth for the UK economy as a whole. It has been in the past, but we are already talking about increasing regulation on the financial sector, which will keep its size under more control than it has been in the past. So, we would be looking for other areas in which to develop in order to promote growth, and the green agenda represents probably one area that is likely to grow in the future. The policies that the Assembly Government should be pursuing—in line with what David was saying—are not those that try to pick the winners; it should be providing an environment in which those opportunities can be grasped by Welsh businesses.

[48] **Nerys Evans:** Hoffwn ofyn rhai cwestiynau ynglŷn ag addysg, gan ddilyn y pwyntiau sydd wedi eu gwneud yn barod am y gyfundrefn addysg. Soniodd Jeff am y Mesur a gymeradwywyd yr wythnos hon, ac yr ydych wedi cyfeirio at lwybrau dysgu. Mae newid cyfeiriad i’w weld, felly, ym mholisi Llywodraeth y Cynulliad. A ydych yn credu fod y newid hwnnw yn ddigonol? Yn amlwg, nid ydym eto yn gweld y canlyniadau ar lawr gwlad, ond a ydych yn credu fod y cynlluniau yn ddigonol i newid y feddylfryd yn y gyfundrefn addysg?

Nerys Evans: I would like to ask some questions on education, following up on some of the points that have already been made. Jeff mentioned the Measure that was agreed this week, and you made reference to learning pathways. There does seem to be a shift in Assembly Government policy. Do you think that that shift is adequate? Obviously, we have not yet seen the outcomes of that at the grass roots, but do you think that the schemes are adequate in order to change the mindset in the education system?

[49] Yr ydych yn sôn hefyd yn eich papur am y pryder ynglŷn â dod ag Awdurdod Datblygu Cymru yn rhan o’r Llywodraeth. Sut mae hynny wedi effeithio ar economi Cymru? Yr ydych yn dweud ei fod yn llai effeithiol ac yn llai cefnogol i fusnesau. A allech roi mwy o esiamplau o hynny?

You also mention in your paper the concern about merging the Welsh Development Agency with Government. How has that impacted on the Welsh economy? You state that it is now less effective and less supportive of businesses. Can you give us more examples of that?

[50] Yr ydych yn dweud mai’r peth pwysicaf y gallai’r Llywodraeth ei wneud yw creu amgylchedd sydd yn galluogi busnesau i dyfu, ond yr ydych yn cydnabod nad oes llawer o sgôp o fewn pwerau’r Cynulliad i wneud hynny. A yw hynny’n rhwystro’r broses o helpu busnesau yng Nghymru? Yn

You say that the most important thing that the Government can do is to create an environment in which businesses are encouraged to grow, but you acknowledge that there is not much scope for that within the Assembly’s powers. Is this hampering the process of assisting businesses in Wales?

amlwg, mae'r dirwasgiad yn un byd-eang, ond a oes rhwystredigaethau oherwydd pwerau cyfyng Llywodraeth y Cynulliad yn y maes hwn?

Obviously, this is a global recession, but are there any frustrations caused by the limited powers of the Assembly Government in this particular area?

[51] Mae fy nghwestiwn olaf yn ymwneud â blaenoriaethau Llywodraeth y Cynulliad, ac mae'n gwestiwn eang ei sgôp. A ydych yn credu fod y cydbwysedd yn iawn o ran blaenoriaethau Llywodraeth y Cynulliad? Yn amlwg, mae'r Llywodraeth yn ceisio cefnogi busnesau i fod yn hyfyw, cefnogi busnesau newydd, ac yn ceisio paratoi ar gyfer dod allan o'r dirwasgiad. Mae angen gwneud y tri pheth. Beth yw eich barn am flaenoriaethau Llywodraeth y Cynulliad? A ydych yn credu eu bod wedi eu lleoli'n iawn o fewn y tair elfen hynny?

My final question relates to the Assembly Government's priorities, and it is a wide-ranging question. Do you think that the balance of the Assembly Government's priorities is right? Obviously, it is trying to support viable business, support new businesses, and trying to prepare for the upturn. Those three things need to be done. What do you think of those priorities? Do you think that they are properly placed within those three elements?

[52] **Professor Blackaby:** With regard to the WDA, you might have put it a bit more harshly than what we wrote in paragraph 1.12 of our evidence. We said that:

[53] 'since the WDA was taken into the Assembly it has lost some of its visibility and presence and become less effective in the area of business support and job creation'.

[54] I suppose that you are correct. The important thing, as the evidence suggests, is that it has lost some of its visibility and presence. You do not see the advertising for it. The advantage of the WDA was that it was at arm's length from the Government. Having dealt with the WDA in the past, it would have done things that the Government cannot do, because it does things that businesses do that are at the edge. Government was always concerned about procedure, possibly more than the outcome. That was where the WDA could sit between business and the Government. It has been shortened, but we do not have support for the view that it is less effective in terms of job creation, so we ought to withdraw it and suggest that it may need some sort of evaluation. However, among the people to whom we have spoken in the business community—again, it is not a scientific sample; it was not even a survey—there was a feeling that it was less effective. However, we do not have the evidence, so that point might be a little harsh.

[55] The first question was on the learning pathways, was it not?

[56] **Professor Murphy:** On the learning pathways, the simple answer is that we do not know. If you read the documentation that describes these schemes, they look fit for purpose. However, we will not know the answer to that until the schemes have been working and churning out product that businesses can say, 'This is what we want'. So, I guess the answer to that is that we will not know until we can see the results of the scheme.

[57] In terms of the powers of the Assembly, the current Assembly's powers are limited; they are much more limited than the devolved Governments in Northern Ireland and Scotland. More powers would allow more discretion. However, that is a political issue.

[58] **Nerys Evans:** What about the priorities of Government?

[59] **Professor Blackaby:** I think that the priorities are right. When you outlined them—and I cannot remember the order in which you said them—they seemed to be appropriate in terms of the priorities that the Government was following in the area of business support and

business generally. However, as I was saying, the TUC and the CBI would have a better view on that. As academics, we tend to look at the long term. We are not at the sharp end, so it is difficult for us to comment authoritatively on things like the WDA without doing a proper study of it. That is probably a mistake in what we have said here.

[60] **Professor Murphy:** On the programmes, it is important to find out how quickly that money is channelled into the economy and what ties are placed on it in relation to business access. That is the slip between the lip and the cup if there is not an appropriate way in which you can get that money quickly into the economy. It is of little use making an announcement only for it to have little effect on the economy at a time when we need it.

[61] **Gareth Jones:** We are becoming pressed for time, but it is a very interesting discussion. I would like to bring in Jenny Randerson and then Paul.

[62] **Jenny Randerson:** Thank you. I will make my questions as short as possible, Chair.

[63] In your paper, you produced two graphs that show clearly statistics that suggest that the recession is hitting Wales harder than the rest of the UK, or the UK as a whole. Can you suggest an explanation for this, because, to me, it is counterintuitive? I have been aware of it, but it is counterintuitive because we have a more public-sector-based economy and, therefore, we should be more unemployment-proof, if you want to put it that way—at least in the short term until Government spending cuts begin to bite in future years.

[64] I have a second question. You refer to the UWIC competitiveness index, in which we come eleventh out of the 12 regions of the UK. What do you think are the key reasons for that?

[65] **Professor Blackaby:** You are right. We would have thought beforehand that, given the size of the public sector and the small financial sector, Wales would have been protected. We have a relatively large manufacturing sector. It is about 10 per cent in the UK and about 13 per cent in Wales. There have been job-loss announcements from Hoover and car component companies, and manufacturing is massively in decline as it tends to be hit during all recessions. We probably have not seen, as yet, the redundancies in the finance sector that we might have seen. Manufacturing tends to respond much quicker. Manufacturing has been particularly badly hit in Wales.

9.40 a.m.

[66] Given that the exchange rate has fallen quite dramatically, we might have expected some help for manufacturing in Wales. Indeed, we might come out of the recession slightly earlier. However, if you look at the kind of manufacturing jobs that we are losing, those were the result of the inward investment of 40 or 50 years ago, but now technology has moved on. We cannot make washing machines in Wales in the same way as they can in China and eastern Europe, but even eastern Europe is struggling with that now.

[67] Getting a handle on competitiveness is difficult. The UK competitiveness index takes account of a number of factors, but it does not measure that environment issue; it is difficult to get a handle on that and how networks are forged or how companies come together. We know from the literature about what we call 'the agglomeration effect' that the big cities that bring people together seem to develop the new ideas. This is down to education to a certain extent. When New Labour came to power, we heard all about 'education, education, education'. If you look at the drivers of economic growth, all the evidence suggests that those are down to education. If a region with the lowest percentage of students getting 5 plus GCSE grades in the UK is in your remit, then you will not attract firms to that area. Firms are looking for high skills and they tend to go to those places where the skills currently exist. So,

in terms of competitiveness, you need to tackle that education issue.

[68] On the environment issue, there was an interesting feature on Channel 4 news last night where someone from the CBI mentioned that Wales was doing the right thing in terms of business support. If the idea gets out that you can get the CBI and the TUC in Wales to work together with the Welsh Assembly, then that is a change of perception in my view. You have held the all-Wales economic summit, which both the CBI and the TUC attended and at which they worked together and co-operated; that does not happen often. So, in some respects, you can feel a change in culture. Therefore, if a company in London were looking to invest somewhere and were told that Wales is working in that respect, that would help in the longer term. Unfortunately we have to deal with this recession in the short term. A million people in the UK are on the unemployment register and the Government needs to be seen to be responding to that.

[69] **Paul Davies:** You keep referring to the fact that there has not been proper evaluation of the Assembly Government's policies and of the schemes that it has introduced. You mentioned the flexible support for business as an example. Can you give us any other examples? You also mentioned that civil servants are responsible for introducing some of these schemes. Do you think that that is endemic and a problem?

[70] **Mr Murphy:** There is a lack of proper evaluation across the board. You could take examples of business support and the ProAct and ReAct programmes and consider how they will be evaluated, but I suggest that they will not be evaluated at all and that it is just a question of throughput in terms of numbers affected. If you take more recent examples of how Objective 1 money, which David has already touched on, has been used to help the Welsh economy, there has been little proper evaluation of that. There has been talk of money being spent and of projects being set up, but there has not been any real analysis of the impact of those policies.

[71] On your second question on civil servants, it is not so much about the civil servants drawing up the policies because if you look at the policies themselves, they look rational and reasonable; the problem is the interface between business and the support that is being provided. If that support is tied up in bureaucracy by risk-averse civil servants, who do not know how businesses work, you will not get those programmes to work effectively and efficiently. You will still get take-up, but they will not work effectively and efficiently.

[72] **Gareth Jones:** On behalf of the Members here, I thank you for your contribution; it has been interesting and helpful and a useful scrutiny session. Best wishes to both of you.

[73] Hoffwn wneud cyhoeddiad byr. Yr wyf wedi derbyn neges bod yr Athro Stephen Hill wedi cael ei ddal mewn traffig ar yr M4, fel yr wyf yn deall, ac ni fydd yn gallu ymuno â ni ar amser. Mae'n dda gennyf adrodd bod Mr Wyn Pryce gyda ni'n barod a'i fod wedi cytuno i ddod gerbron y pwyllgor yn gynt na'r disgwyl. Felly, gyda'ch caniatâd chi, gwahoddwn Mr Wyn Pryce i roi ei dystiolaeth yn ystod y rhan hon o'r sesiwn graffu, gan obeithio y cawn gyfle i graffu ar yr Athro Stephen Hill yn hwyrach y bore yma.

I would like to make a short announcement. I have received a message that Professor Stephen Hill has been caught in traffic on the M4, as I understand it, and will not be able to join us on time. I am pleased to report that Mr Wyn Pryce is already with us and that he has agreed to appear before the committee earlier than scheduled. Therefore, with your consent, we will invite Mr Wyn Price to present his evidence during this part of the scrutiny session. We hope that we will have an opportunity to scrutinise Professor Stephen Hill later this morning.

[74] If you approve of that, we can invite Mr Wyn Pryce to give evidence.

[75] Yr ydym yn troi yn awr at ail ran y sesiwn graffu ar ymateb Llywodraeth Cynulliad Cymru i'r dirywiad economaidd presennol—yr ydym wedi ad-drefnu'r agenda. Fel yr eglurais, yr ydym yn dra diolchgar i Mr Wyn Pryce am ymuno â ni ychydig yn gynt na'r disgwyl.

[76] Yr ydym yn eich croesawu, Mr Pryce, ysgrifennydd Menter Busnes Gorllewin Cymru. Yr ydym yn ddiolchgar ichi am y dystiolaeth ysgrifenedig yr ydych wedi ei darparu sydd eisoes wedi ei dosbarthu i'r Aelodau. Tynnaf sylw'r Aelodau at y ffaith ein bod wedi derbyn caniatâd a'n bod yn rhydd i ddosbarthu'r holl wybodaeth a'r dystiolaeth hynny, a dyna yr ydym wedi ei wneud.

[77] Mr Pryce, yr ydym yn ymwybodol eich bod wedi cyflwyno deiseb i'r Cynulliad sy'n ymwneud yn bennaf, os cofiaf yn iawn, â'r defnydd o arian strwythurol Ewropeaidd. Fodd bynnag, at bwrpas heddiw, prif amcan y sesiwn hon yw edrych ar sut mae'r Llywodraeth yn ymateb o dan amgylchiadau anodd iawn. Penderfynasom fod y defnydd o arian strwythurol yn hollbwysig, ac nid ydym yn osgoi hynny o gwbl, ond mae'n debygol y byddwn ni, fel pwyllgor, yn craffu ar yr elfen honno yn hwyrach y tymor hwn neu efallai'r tymor nesaf. Byddwn yn cydnabod y dystiolaeth yr ydych chi wedi ei hanfon atom wrth gwrs, ac mae'n bosibl y byddwn yn eich gwahodd chi, yr adeg honno, i drafod ac i ymhelaethu ar y defnydd a wneir o arian Ewropeaidd. Yr ydym yn hynod o ddiolchgar am yr holl wybodaeth yr ydym wedi ei derbyn gennych, ond byddwn yn gwerthfawrogi'ch cyfraniad y bore yma yng nghyd-destun sut y mae'r Llywodraeth yn ymateb i'r dirwasgiad neu'r argyfwng economaidd presennol. Yn unol â'n harfer, a fydddech mor garedig â gwneud cyflwyniad o ryw bum munud er mwyn i ni, fel Aelodau, gael cyfle i ofyn cwestiynau ichi? Drosodd i chi, Mr Pryce.

[78] **Mr Pryce:** Thank you. You have had all the documentation and read it. We have provided you with a great deal of information. The key points that we want to bring home are that there is a desperate need to rebalance the Welsh economy. I know that previous contributors have already mentioned this and although there are various figures, it is generally accepted that between 60 and 70 per cent of the Welsh economy is now dependent on the public sector. We believe that it is essential that we set a target to move to a 50:50 split between the two sectors within a specific number of years—three years might be a bit too

This is the second part of the scrutiny session of the Welsh Assembly Government's response to the current economic decline—we have rearranged the agenda. As I explained, we are very grateful to Mr Wyn Pryce for joining us a little earlier than expected.

Welcome, Mr Pryce, secretary to the West Wales Business Initiative. We are grateful to you for the written evidence that you have provided, which has already been distributed to Members. I draw Members' attention to the fact that we have received permission and are free to distribute all that information and evidence, and we have done so.

Mr Pryce, we are aware that you have presented a petition to the Assembly that is mostly concerned with the use made of the European structural fund, if I remember rightly. However, the main aim of this session is to look at how the Government is responding under what are very difficult circumstances. We decided that the use made of structural funds is extremely important, and we are not avoiding that subject at all, but it is likely that, as a committee, we will be scrutinising that element later this term or possibly next term. We will naturally be acknowledging the evidence that you have submitted, and it is possible that we will invite you, at that point in time, to come in to discuss and expand upon the use made of European funding. We are extremely grateful for all the information that we have received from you, but we would appreciate your contribution this morning in the context of how the Government is responding to the current recession or economic crisis. As is our wont, would you be so kind as to make a five-minute presentation so that we will have an opportunity, as Members, to ask questions of you? Over to you, Mr Pryce.

ambitious, but we might consider five years.

9.50 a.m.

[79] The main way in which we can do this is to invest and to move resources from the public sector to the private sector. In the Objective 1 programme, I think that it was £2.5 billion, and the majority of that went into the public sector. It was meant to go towards economic wellbeing, but it went to the public sector. Yes, jobs were created in the public sector, but that contributed to the imbalance in the economy. We therefore feel that there are key issues that need to be addressed, and if we are going to move resources from the public sector to the private sector, we have to ask the important question: what should the public sector do? The answer to that is all important, because from that springs out what the private sector can do in Wales.

[80] If we set a target of, say, 50:50 by 2015, the best way to do it would be, as I said, by investing in the future, and that investment, directly or indirectly, must involve the private sector. There has been reluctance in Wales to invest in joint ventures, such the private finance initiative for example. That needs to be re-evaluated, and quickly. If we are to invest to minimise the impact of this recession, that money needs to be got out very quickly. At the moment, the signs are that it is not getting out, both from the point of view of the public and the public sector. Convergence funds are far too complicated. Just look at all the documentation—I have some here, hot off the press. I could set you a task: find the private sector in all these reports and documents. Try to find a private sector scheme in all the schemes that have been approved or are currently going through. That has to be re-evaluated.

[81] We have to guide money into capital investment in Wales, in homes, infrastructure, hydroelectric dams— Excuse me; I have had a cold for the last three weeks, so I will be drinking a lot of water.

[82] A lot of investment must go into capital expenditure, roads, the electrification of railways, the dualling of roads between key regional centres—it is all in the documentation. Basically, that is at the heart of what I wanted to discuss today.

[83] **Gareth Jones:** We are grateful to you for that. They are key issues for all of us, but it up to the Members now to ask their questions. I turn first to Jeff Cuthbert.

[84] **Jeff Cuthbert:** I do not mind saying that when I read the evidence that you provided, I was concerned by its nature and tone. We will put that to one side, at least for the moment. Your petition referred specifically to Objective 1, and as the Chair said, that is another matter, because, as you know, it has passed. There is a six-month extension to help with the winding-up process, the main bulk of spending finished a while ago.

[85] On the issues facing us now, I note what you say about rebalancing the Welsh economy by 2015 to roughly 50:50, and I would suggest that one of the key issues is that of skill levels. It is a matter that has been recognised by the Assembly Government in its changes to the education system, such as the 14-19 learning pathways, which ought to give greater opportunity for vocational development, and which are linked in to future employment opportunities, as far as they can be. I would be grateful to know whether you think that that is the right thing to do.

[86] Then there is the current response of the economic summits. You probably know that the CBI is broadly supportive of them. It has some criticisms, which is to be expected, but it is broadly supportive of the partnership approach of the Wales TUC, the Assembly Government and local government to all pull together. The things to come out of the summits include the faster turnaround for the payment of bills, particularly to SMEs, and the release of land for

building developments—I know what you said about public works such as road building and so on. Do you feel that these policies will help under these circumstances?

[87] We still have to keep an eye on the long-term future. Any Government that does not think of the middle to long-term policies would be negligent. Within our powers, do you think that the overall approach of the Welsh Assembly Government is positive or not?

[88] **Mr Pryce:** Going back to Objective 1 funding, we must learn from Objective 1. The two previous witnesses this morning said that there had been very little evaluation. We need to evaluate.

[89] On the other points that you made, does time permit us? We are haemorrhaging jobs and skills at the moment. Will those skills come back? There are many skills already out there. Do not forget that many things were good—‘if it ain’t broke, don’t fix it’, basically. A key point to mention is that in the last five years—perhaps you can help me here—I cannot recall how many Ministers responsible for economic development we have had. There was Mike German, then Andrew Davies, then, very briefly, Brian Gibbons, and then Ieuan Wyn Jones in 2007. You can check, but there has been a change of emphasis and a change of label every time—we have moved from the Department for Economic Development to DEIN. I do not know whether you remember what that was—it was the Department for Enterprise, Innovation and Networks. Brian Gibbons started work on something else, and Ieuan Wyn Jones is, I think, responsible for enterprise and transport. Whenever someone new comes in—all politicians, obviously—they want to change things, but is it change for the sake of it? If you go back even further—

[90] **Jeff Cuthbert:** Do you feel that it is?

[91] **Mr Pryce:** There is need for change. The example that I often give to people goes back to the 1980s—I have been around a long time in economic development—when Maggie Thatcher took a hatchet to the steel industry and the coal industry when perhaps a scalpel was needed—well, I am pretty certain that a scalpel was needed. There were problems, but you do not take a hatchet to them. There seems to be constant change. If you speak to the former Wales Development Agency staff, they will say that it is change for change’s sake. They had lots of good products and good schemes, which have all been swept away and new ones brought in. We must have some sort of consistency. When it is important enough to change, change it, but learn from the past and get an evaluation of Objective 1 to find out the good things that happened then, and put them into convergence funds. I know that I have expanded on the question a bit, but I hope that that answers your question.

[92] On the economic summits to date, you had a report from Ieuan Wyn Jones in your meeting in February. If you look at the scale of what is being done, it is lightweight—it is featherweight. Scale and urgency are vital at this time. In our submission, we talk of billions of pounds. If you add up what has been spent to date, you are talking about £100 million tops. If you translate this money into turnover and jobs, you are talking of saving perhaps a few thousand jobs. The scale is much bigger than that.

[93] **Jeff Cuthbert:** I do not want to have a dialogue with you on that, because that would not be fair to the other Members. I want to come back briefly, not on Objective 1, I must stress, but on the current round of structural funds. You mention in your paper diverting more moneys into the private sector, and that that money is going into Welsh Assembly Government budgets, which is not quite right because the major procurers of European structural funds and public works will be the private sector. Admittedly, there is the issue of match funding the structural funds, which will be hard for the private sector in the current economic situation, but, nevertheless, I would suggest—and I would welcome your comments on this—that the intention is that the private sector will be a major partner in this, especially

the construction industry.

[94] **Mr Pryce:** Absolutely, and also the people who feed off of the construction industry, because many manufacturers feed off the construction industry with regard to materials such as lintels or wall boards. To some degree, it is debatable how much Objective 1 money gets through to the private sector. Again, I suggest that that should be a key question for any investigation.

[95] **Gareth Jones:** Yes, I think that we are agreed on evaluation; the point was made earlier in the first part of this morning's scrutiny session.

10.00 a.m.

[96] **Jenny Randerson:** Thank you for your submission. Jeff may be concerned about its tone, but I welcome it, because it does us good to be shaken up from time to time. I like people who do not pull their punches. You refer to the importance of joint venture and to private finance initiatives. You may be aware that the Finance Committee did a lengthy review on the impact of public-private partnerships and other joint-venture styles of investment. I was a member of that committee and we looked at Scotland, Northern Ireland and beyond, and it was obvious that Wales had missed out. I am a firm advocate of that, but I want to play devil's advocate: is now the time to change tack on this in Wales and to introduce a wider policy of investment that uses the private sector? I wonder whether private sector firms can, at the moment, assemble the finance required, because borrowing opportunities have dried up. I would strongly like to see this in the future, but I wonder whether what you advocate is possible at the moment, although it may be possible within six months or a year.

[97] My second question is that you talk about a small firms investment scheme, which would match fund investment in new equipment. Can you talk a little more about that and your ideas about it?

[98] **Mr Pryce:** Returning to major projects and how they can be funded, I am a firm believer in the business case for that particular project, but, at this moment in time, and again returning to the scale of what needs to be done, I feel that the Assembly Government should get around the table with the key industries—the building, steel and automotive industries—and the banks and look at what can be done on a case-by-case basis. If significant assistance is available in the ways that we have described, namely using convergence fund money, European Investment Bank money and the capital bonds that we have suggested—I am sure that there are people in Wales who would be prepared to back their country—and all that is brought together, that would reduce bank risk significantly. You would not be looking for 100 per cent mortgages, but at, let us say, 50 per cent loans, which would put a bank in a pretty good situation. Normally, when the Welsh Assembly Government gets involved in a big project, it is happy to sit behind the bank when it comes to security. The mechanisms are there.

[99] In all of the recent hullabaloo about the banking industry, we seem to be forgetting that the UK had a world-class banking system for many years. Granted, it has gone askew over the last 20 years, but the underlying banking system is still there, and I do not think that we are using it correctly. I regret the movement away from a local bank manager, based on my experience with my business. However, that can be done; it is just a matter of getting people together. Let us look at the industrial sectors and get the key contractors, such as Corus, together and find ways to do it—there are ways; they already exist.

[100] On the point about the small firms investment scheme, that was in existence in 1982 when we had the coal and steel community moneys from Europe. The scheme was in

existence for only about 18 months to two years. It was a 33 per cent grant with no job criteria at that stage, but it had an automatic spin-off, because you had to buy what was called computer-aided design, computer-aided manufacturing equipment—high-tech equipment that was just coming in at the time—therefore, you had to train people in the use of computers and machinery and so on. The interface was there and you had to train people. So, that automatically followed. Part of the problem with grant schemes is the insistence on immediate jobs. It is holding back a lot of projects and expansion. Companies cannot create those jobs immediately. There has to be some change to give it more time. Interestingly, I could list a dozen companies that took advantage of the scheme when it was available in 1982. It put them at a competitive advantage at the time and they are still in existence today, which is important.

[101] **Jenny Randerson:** I wish to seek clarification from Gwyn Griffiths. Are we allowed to issue bonds?

[102] **Mr Griffiths:** I am not sure. I would have to come back to you.

[103] **Mr Pryce:** At present, the Assembly powers do not allow that. All you have to do is ask your friendly Members of Parliament to have a word—

[104] **Gareth Jones:** You have given us a long list to ponder on, Mr Pryce, for which we are grateful. Let us move to David Melding.

[105] **David Melding:** We heard from the previous witnesses that they were surprised that more businesses were not seeking business support—although they emphasised that it was not a formal survey—and they wondered whether the system was now flexible enough to respond since the merger, when the Welsh Development Agency was taken into the Welsh Assembly Government. What is your sense of how the functions of the former WDA are now working at the interface, as you have been describing it, given that there is a much more central approach? It tries to get out into the business community but it is from a central model. Do you think, from the initial evidence, that that is working?

[106] I also want to follow up Jeff's point, which had some validity, namely that we need some measure. As you said, we do not really have it. Under Objective 1, even if many of the projects were not led by the private sector, they would have involved the private sector because services would have been provided by it, in construction or whatever. Is your worry that the situation does not improve strategically unless the private sector leads on some of these projects, thus getting to the root of why some of our communities do not have the level of enterprise that we would want to see, and why we are not achieving a long-term improvement in the economy through European programmes? As we heard from the professors previously, the fact that we now have another regional programme demonstrates that Objective 1 was not fully successful; otherwise, it would have taken us over the threshold for qualification. What type of leadership do you feel that the private sector can give to these programmes, and has that increased or diminished in the convergence programme, as compared with Objective 1?

[107] **Mr Pryce:** I will take your second question first. As I said earlier, it is debatable whether Objective 1 money did, or whether the convergence fund money will, get through to the coalface. In the case of Objective 1, the money went through a lot of mini-quango type organisations first and so I think that the money was at the periphery, and did not get through to the coalface. How do you address that? The convergence fund moneys, in the main, have to be in capital investment and, as we discussed, you have to get together with the various sectors. There has to be a total re-think. I know that convergence funding officially started in January 2007, but we should not be afraid of calling a halt now. We should put up our hands, and ensure that we get it right. The main thing is that we get it right. We have to learn the

lesson of Objective 1.

[108] On the WDA, I am biased, as I worked for the WDA between 1978 and 1989. It was a civil service organisation for the first few years, but, between 1982 and 1988, under the chairmanship of John Williams, it was a class-leading development agency in the world. After that, something went wrong. Too much change was, again, part of the reason. Between 1982 and 1988, when the WDA set up the regional offices, it was definitely getting to the coalface. Those were the best years of the WDA. Let us learn from that again.

10.10 a.m.

[109] Let us look at that, because there are plenty of people still in the civil service who worked for the WDA. They can tell you about all the products that used to be available in rural and urban areas, but which were swept away during the 1990s. Again, in the 1990s, set off by Margaret Thatcher, there was a lot of wheeling and dealing in the public sector. Local authorities were given the powers to wheel and deal. One example is the old land division, the Land Commission in Wales or whatever it was called, which became part of the WDA. People were acting like private sector risk companies, but with blank cheques from the public purse. A lot of things went wrong in the 1990s.

[110] **Gareth Jones:** Jeff, do you want to come in on this?

[111] **Jeff Cuthbert:** Yes, just for clarification, you referred to the convergence programme spending beginning in 2007, but that is actually when the programmes were agreed. Spending began in 2008. However, you mentioned calling a halt to the programmes. Did you mean to look at them again to see whether they need to be adjusted, or simply to stop them altogether? What did you mean by that?

[112] **Mr Pryce:** Someone needs to look at the current state of the programmes. They are too bureaucratic and complicated; we have to go from A to B to C and to D and see several people before we can move forward. In the main, they are geared towards getting money into the public sector.

[113] **Gareth Jones:** Thank you for that. We have a few minutes left, and Christine has a point to make.

[114] **Christine Chapman:** You said that Objective 1 should be evaluated, but there were a couple of evaluations of it. There was a mid-term review and, from recollection, having chaired the monitoring committee, the Wales Audit Office also undertook an evaluation. Jeff then took over the reins of the programme monitoring committee before convergence. The point that I wanted to make is that there was a sense of refocusing. Perhaps a good example is that, in the second phase of Objective 1, we decided to look more at town-centre regeneration with private sector involvement. Everyone would agree that, to attract jobs to some of the more difficult areas, like my constituency, you need that infrastructure in place and a good environment. So, it is not quite accurate to say that Objective 1 was not evaluated. There were a number of evaluations. However, as you said, Mr Pryce, there are lessons to be learned.

[115] Shall I make my substantial point now?

[116] **Mr Pryce:** May I just make a point on what you just said? You are right. Halfway through, there was a re-evaluation of Objective 1 and, towards the end, it began to get right. I agree with you. However, we are still at a relatively early stage of convergence funding, and that gives us a better opportunity to get it right.

[117] **Gareth Jones:** We will be returning to all these issues.

[118] **Christine Chapman:** To make my substantial point, I was one of the Members who were very keen on this inquiry, because we all face difficulties in our areas with businesses struggling. From what you said this morning, Mr Pryce, could you briefly outline what the strengths of the economic summits have been so far, from your point of view as a businessperson? Could you also tell us what you think the Welsh Assembly Government could do better to help those businesses that are struggling? If I had a small business, that is what I would be looking for.

[119] **Mr Pryce:** We had a meeting in the Liberty Stadium in Swansea last week with about 40 companies. There were not quite as many as I had hoped for, but there were about 40. We had previously had meetings with small groups of companies in Pembrokeshire and west Wales, and a number of key issues came out. Yes, payments from the public sector are now quicker, as someone mentioned, and that is great, but someone also needs to look at how quickly the convergence money is being paid after it has been approved. I have been told of cases where money has not been paid for six months. There may be audit issues, but it still needs to be looked at.

[120] The other key issue that came out of the meeting was about rates, and the proposed increases. I think that I am right in saying that the rate take in Wales is in the region of £800 million. It looks as though rates are going up by 5 per cent in May, because they are based on last September's retail prices index. The Government uses the higher indicator, the RPI, for the private sector, and the consumer prices index, or the lower indicator, when it wants to. That would add £40 million to private sector costs. At present, that is all right because we have the ProAct and ReAct programmes. We have to keep people in jobs. That means that companies are looking at keeping their direct costs down. Rates are too high. They are going up again, and, on top of that, there will be a revaluation next year. We can see rates going up by 10, 20, or 30 per cent over the next 18 months. That needs to be looked at urgently. The other thing is national insurance employers' contributions, which I know does not involve the Assembly Government directly, but perhaps it can pass the message back. That is another direct cost on jobs. That needs to be looked at. The fact that the Government has taken 2.5 per cent off VAT has had no impact, but if it takes 2.5 per cent off employers' NI contributions, it will see the difference. That would keep people in jobs and keep skills in jobs, and that is what we need at the moment.

[121] **Nerys Evans:** Diolch yn fawr am eich papur a'r dystiolaeth. Mae gennyf dri phwynt byr. Mae un am gaffael a'r broses dendro. Yr ydych yn sôn yn eich papur fod hynny'n broblem fawr i gwmnïoedd, ac mae gennyf brofiad o hynny yn sir Gaerfyrddin hefyd. A ydych yn credu bod angen torri i lawr ar y contractau i'w gwneud yn fwy cystadleuol i gwmnïoedd lleol neu o Gymru, ynteu mater o agwedd ydyw mewn rhai meysydd?

Nerys Evans: Thank you for your paper and the evidence. I have three brief points. One is on procurement and the tendering process. You mention in your paper that that is a great problem for companies, and I also have experience of that in Carmarthenshire. Do you think that there is a need to cut these contracts down to a smaller size to make them more competitive to local and Welsh companies, or is it simply a matter of attitudes in certain areas?

[122] Mae fy ail bwynt am y gyfundrefn gynllunio. Yr ydych yn sôn yn eich papur am yr angen am dir. A ydych yn credu bod y gyfundrefn gynllunio ar hyn o bryd yn rhwystro busnesau preifat rhag datblygu? Yn dilyn pwynt a wnaeth Chris am y ffaith nad yw'r uwchgynadledau yn cynnig llawer, a ydych yn credu bod hynny oherwydd diffyg

My second point is on the planning system. You talk in your paper about the need for land. Do you think that the planning system is currently a barrier to private businesses' development? Following on from Chris's point that the economic summits are not offering much, do you think that that is because of a lack of power? You talked

pŵer? Soniasoch yn gynharach am ofyn i'n cyfeillion yn San Steffan, ond ni chredaf ei fod mor hawdd â hynny. A ydych yn credu bod hynny oherwydd diffyg pŵer, diffyg cyllid neu oherwydd problem gydag agwedd? earlier about asking our colleagues at Westminster, but I do not think that it is quite that easy. Do you think that that is because of a lack of powers, a lack of funding, or because of a problem with attitude?

[123] **Mr Pryce:** Procurement is an ongoing problem. I know that the Deputy First Minister has had meetings this week with a group from north Wales. I also know that several construction companies have written to him recently asking for these procurement programmes to be repackaged, because they are not getting through. Some of them are so big that the Welsh companies are not big enough to bid for them, so they need to be repackaged so that Welsh companies can access them. We need to think a bit more like the French. When the French use European money, they think of every which way they can to spend it. There are classic examples of the French getting through the so-called European rules. They interpret them one way; we interpret them a different way. That needs to be looked at. There are big problems with planning, and with the availability of land. Normally, if an application involves public sector land, it flies through the planning process. If it is the private sector trying to do something, it is a totally different ball-game.

[124] On top of that, you have the commuted sums from section 106 agreements. Carmarthenshire, for example, imposes those quite stringently. If someone wanted to develop 30 houses, say, it would mean that they would get hit for anything up to £100,000 of the so-called 'commuted sums', which go towards recreation or social projects. In the past few years, Carmarthenshire has taken in nearly £2 million of commuted sums money, but it has spent only £80,000 of it. Where has the other £1.9 million gone? I hope that it is not in Iceland.

[125] On the economic summits and powers, I feel that it is quite clear that we need to look at things in a different way. I feel that the Assembly Government has to set achievable objectives, including getting the balance right. Out of that, it should split strategies for different industries, such as housing, definitely, manufacturing, the steel industry, and so on. You develop strategies to achieve that objective, and then, as I suggested, you get people from the private sector to work with the civil servants to deliver those.

[126] **Gareth Jones:** I think that Christine wants to ask about one aspect.

[127] **Christine Chapman:** You talked about the French doing things differently, but do you have any evidence for that? Perhaps you could send it to us, because I am sure that the committee would be really grateful. You do not have to give it now, but maybe we could have a note.

[128] **Mr Pryce:** Shall I give a quick example?

[129] **Gareth Jones:** Yes, go on.

10.20 a.m.

[130] **Mr Pryce:** This is a quick example, but this is now a classic in France. A small town—and this is typical of Brittany—has a traffic problem. You know what small French towns are like, with a lot of traffic and so on. So the town builds an industrial estate. If you imagine that these glasses in front of me represent the situation, the town builds the industrial estate where I am placing this glass—

[131] **David Melding:** The Record of Proceedings team is going to love you. [*Laughter.*]

[132] **Mr Pryce:** This other glass is the main road running through the town. The French build very high-quality link roads to industrial estates. Two years later, it diverts the main road through that industrial estate—beautiful.

[133] **Gareth Jones:** On that note, thank you for bringing a new dimension to our scrutiny. We took a good look at the supporting evidence and at the list of ideas, and listened to the comments that you made. They are in the public domain, and I think that you should take some satisfaction from that. They will provide us with evidence for the future, and, as I said, we hope to revisit European funding, and I am sure that we will have some quite exciting debates then. Our concern now is to focus on this Government's response to the economic downturn. Thank you for presenting us with the evidence—I am sure that I speak on behalf of all Members—and for sharing your comments and ideas with us.

[134] Yr ydym yn troi yn awr at drydedd rhan y sesiwn graffu. Yr wyf yn falch o weld bod yr Athro Stephen Hill wedi ymuno â ni. Cafodd ei ddal mewn traffig, fel yr eglurais yn gynharach. Pennaeth datblygu staff ac ymchwil Prifysgol Morgannwg yw'r Athro Hill. Estynnaf groeso cynnes ichi. Diolch yn fawr am y dystiolaeth ysgrifenedig yr ydym wedi'i derbyn a'i darllen. A fyddech mor garedig â gwneud cyflwyniad byr o rhyb bum munud? Cawn gyfle wedyn, fel Aelodau, i ofyn cwestiynau i chi.

We now turn to the third part of our scrutiny session. I am pleased to see that Professor Stephen Hill has joined us. He has been stuck in traffic, as I explained earlier. Professor Hill is head of staff development and research at the University of Glamorgan. I extend a warm welcome to you. Thank you for your written evidence, which we have received and read. Would you be so kind as to give us a five-minute presentation? We will then have an opportunity, as Members, to ask you questions.

[135] **Professor Hill:** I apologise for the fact that you have had to change the order of things this morning. I have been taking a very close look at the inside of the Brynglas tunnel. I would like to outline a few issues. I do not intend to go through the things that you have read; I will just talk briefly about the nature of the recession and the impact on enterprise.

[136] The characteristics of this recession are slightly different to those of other recessions. The main characteristics are a shortage of credit and the collapse of consumer demand in particular sectors. However, there are also some opportunities: the devaluing of the pound, for example. I guess that we all appreciate that a recession changes relative prices. It changes the abundance of labour and the supply of capital, and it is clear that recession hastens structural change. Structural change happens anyway, but it happens a lot quicker in a recession, and we can see that in the continued decline of steel, manufacturing and so on, which increases the relative importance of the public sector—I will come back to that in a minute.

[137] I will talk a little about the structure of the Welsh economy, which has a large number of small firms and relatively few large firms. It is important to recognise that the large firms are typically more productive. In a recession, just when we need more enterprise, enterprise becomes less rewarded and inherently more risky. The latest figures that I have, which I shared with you in the presentation, are that, if you newly registered for VAT in 2002—remembering that only the largest of new firms do that—there is less than a half chance that you were still registered at the start of 2008.

[138] I talk a bit about the global entrepreneurship monitor project, which, intrinsically, is a large-scale survey of individuals. Most other business statistics are about surveys of firms; GEM is really the only big survey of individuals. It asks: are you actively involved in starting or running a new enterprise? This is what we refer to as early-stage entrepreneurial activity. Wales sits pretty much in the middle of the northern European nations—the study is replicated across about 40 countries—with a rate of about 6 per cent. So, about six people out of every 100 of the adult population in Wales are actively engaged in starting or running a

new business, which is fairly low by international standards, but higher than some other parts of northern Europe. That figure has been very consistent; it is just under 6 per cent, and it has been at that level for the past eight or nine years. However, that figure hides substantial variations across Wales, variations by gender, by location, by level of education and so on. If the rate in south-east Wales matched the rate in north Wales, for example, we would have something like 30,000 more new small businesses.

[139] In general, the level of activity reflects attitudes, and I guess that that is the policy key: if you can change attitudes, you can change behaviour, and if we can stimulate, encourage and build a positive view of enterprise, we can have a good go at increasing the level of entrepreneurial activity. However, it is not easy, as we have learned, certainly at the University of Glamorgan. The likelihood of being engaged in enterprise increases substantially with income, but there are still enormous regional variations across that.

[140] There are many other issues that I am happy to talk about, one of which you have already been talking about this morning, namely how we know what is working—how we evaluate. We can also look at how higher education can help. There is a clear need for training and upskilling. Recession provides a golden opportunity for that, but the big question, of course, is who pays for it. It is logical that we might as well pay people to upgrade their skills as pay them to do very little, but there is the question of where the money comes from. A big issue that I have been thinking about lately is creative businesses. We know that there are many creative, talented people in Wales, but how do we translate that into successful businesses?

[141] That was a quick, five-minute introduction, but I am very happy to discuss issues and answer your questions.

[142] **Gareth Jones:** Thank you, Professor. I will bring Christine Chapman in first.

[143] **Christine Chapman:** I am really interested in the point that you made about the comparisons between north and south Wales. There are greater levels of economic inactivity and poor health in south Wales, so there are issues around that. Looking at the economic summits that we have had, do you feel that a more holistic message should be coming across, that it is not just about businesses? I think that the economic summits have tended to concentrate on support for businesses and on trade unions, but there is a much broader picture there. I wonder whether the messages need to be changed or refocused so that we can include issues such as health inequalities and education, which Jeff has already mentioned.

[144] **Professor Hill:** The approach that I would take would be that what I am interested in is wellbeing. We have to interpret that very broadly. You can be very well off and extremely miserable, and vice versa. There is a close connection between economic activity and the other dimensions of wellbeing.

10.30 a.m.

[145] For example, I have a particular interest in levels of physical activity, but that is an economic issue as well as a question of attitude, the provision of opportunities and so on. What I have learned over a long period of time is that the key to all of these issues is attitudes and abilities. If there is a key message, it is that we need to put our efforts into changing those attitudes and making sure that we have the skills and motivation to do the things that are necessary to improve the economy, as well as improving social cohesion, attacking poverty and all the things that we think are important. They are not distinguishable; they are all part of the same thing. So, I agree with you entirely.

[146] **David Melding:** I was very interested in your analysis, some of which matches the

earlier evidence that we received in thinking about trying to improve ways in which enterprise is integrated into the school and college curriculum, which I presume you would favour.

[147] Turning to my substantial point, we will recover from the recession at some point, and we will have long-standing issues around Wales being the economically poorest part of the UK. If you look at the situation in the 1980s, the response in terms of regional policy was very traditional—a heavy use of grants to attract inward investment. That had substantial advantages; as you said, those companies tend to be productive and offer a set number of jobs that you get in one hit, which can, if sustained, bring long-lasting benefits, research and development and so on. However, it does not make Wales more enterprising in terms of what we do for ourselves in developing indigenous businesses. Supply chains can offer opportunities—I am not saying that there is a need to completely change the approach—but would you recommend that we looked less at large regional selective assistance grants to attract the big players, and tried to seed our economy, generally, to make it more enterprising? A vast sum of money is spent on regional policy—colossal sums—but do we need a fundamental examination of how we use it, so that we can evaluate its effectiveness? I suppose that you would need to look at it on a generational basis—25 years or so—to see how effective some 1980s policy was.

[148] **Professor Hill:** I appreciate what you are saying. I have been involved in the Welsh economy for over 30 years. I have looked from the outside and I have looked from the inside. I have shared this sense of failure—I think that we have failed in economic policy in Wales. We have tried lots of things. It is clear that foreign direct investment was not the fix, but I was as enthusiastic as everyone else about trying to get large firms in from outside. You can argue—I would have some sympathy with your view—that we could have been worse off without FDI, because it is clear that Wales has undergone, and is undergoing, a fairly traumatic transformation. Whether the money spent on supporting FDI could be better spent is a really interesting question. What I have learned over the years is that you must understand why companies would come here, and their motivation for coming. In the 1980s and 1990s, it was perfectly sensible to attract large-scale manufacturing companies, because they saw Wales as a relatively low-cost location in order to feed European markets. You do not have to be a professor of economics to realise that that changed, and that other locations in Europe became more attractive. To some extent, that is just part of a process. To some extent, would we want large-scale, low-skilled, manufacturing-assembly-type jobs? I would hope that we have moved on.

[149] If you are asking me about the future, then I think that the future of the Welsh economy is clear. We are a small nation and we have to be a trading nation. We do not have abundant raw materials, so we are going to have to survive on our skills and our enterprise. Not only would those be good to have, but there is now emerging evidence that the provision of enterprise training, at whatever level—and it can go from school to university and beyond—significantly enhances the prospect of one being actively involved in starting a business. Obviously there will be failures, but we have been very risk-averse. Supporting new enterprise is a dangerous strategy because some will fail. Mind you, we have also had one or two failures at the other end of the scale. I think that failure is necessary and we must recognise that even failing to start a new enterprise is a learning experience in itself, which adds to one's skills, experience and expertise and enhances the prospect of one succeeding in future.

[150] Enterprise training can work. I am involved in a very imaginative project in sub-Saharan Africa, which brings enterprise skills to creative young people. That has been stunningly successful. There is no shortage of talented young people, but there is a very big step between being talented and running a successful business. At all kinds of levels, there is much more that we can do about that. Does that answer your question?

[151] **David Melding:** There is no simple solution, but as well as focusing on the talents of our own people and encouraging enterprise, we need a few more mechanisms because Government can sometimes do things directly to help.

[152] **Professor Hill:** We have to recognise what has not worked. However imperfect gross domestic product per capita is, it has worsened rather than improved over time. It is now less than three quarters of the UK average. That is appalling; it is just as much of an indictment of me, as a professor of economics, looking at this, as it is of the Welsh Assembly Government.

[153] **Gareth Jones:** Paul has a follow-up question.

[154] **Paul Davies:** You mentioned that we have been very risk-averse in the past, can you expand on that?

[155] **Professor Hill:** For over two years, I was chief economic adviser for the Welsh Development Agency, which is why I say that I have seen things from the inside and outside. We put a lot of thought into the enterprise action plan and we considered a lot of ideas, many of which were quickly rejected as being inherently risky. For example, if you were to run a competition for 100 business plans in which the best out of 100 would win £10,000, some winners would spend that £10,000 in wholly inappropriate ways. The headlines would tell us how inappropriately that money was spent and would ask what we are doing wasting taxpayers' money. However, some winners would create highly successful businesses, which would be much more likely to outweigh the failures. However, we cannot get away from the headlines. It is hard for politicians, even for executive agencies, to make such decisions and accept that there will be some hits.

[156] **David Melding:** If a policy is working, that is an indicator that you are promoting the taking of diligent risks.

[157] **Professor Hill:** Yes, even though we now know that half of those newly registered VAT companies will fail, that does not mean that we should not support new business.

[158] **Jenny Randerson:** I am interested in your example that suggests that the WDA was risk-averse because we have just received evidence that suggests that now that the WDA has been brought in-house, it is even more risk-averse. I do not know whether you wish to comment on that. To turn to my main question, I am interested in your statistics on entrepreneurs in different regions of Wales and we can think of very good reasons, other than the one that Christine mentioned, as to why there are fewer entrepreneurs in south-east Wales.

10.40 a.m.

[159] You have the Driver and Vehicle Licensing Agency in Swansea, the Office for National Statistics and so on in Newport, and therefore south Wales in general is likely to be weighted towards the public sector. However, I am particularly struck by the fact that if you go down to the next table—'Attitudes towards entrepreneurship'—and look at where it says 'good start-up opportunities', you will see that the perception of good start-up opportunities is counter to the number of entrepreneurs in a region. Do you think that that perception is a reflection of a real situation? Do you think that there are better start-up opportunities in north-west Wales, for example, than in mid Wales or is it just a perception and a sign of budding entrepreneurs that have never been activated?

[160] On the GEM survey, it is my recollection that Wales has fallen down the list in the GEM survey on entrepreneurship. I think that it was in a much higher position on the list in 2004. Do you think that other countries have got better in that time or have we got worse? Have we lost the incentives or the mechanisms perhaps? You have given an example from

Canada, but could you give us some examples of other situations, other countries, where the provision of training during a recession has been financed particularly effectively and how that has been done?

[161] **Professor Hill:** There were a number of questions there. On the question of why entrepreneurial rates vary by region, I think that there is a really interesting answer. I suspect that it is partly about economic structure. We know that if you work for a small firm, you are much more likely to start a small firm at some point in the future than if you work for a large firm and, of course, the size structure of industry is also very different in different parts of Wales. We also know that recognising opportunities is an important part of the decision to start a new business, but it is only a part of that decision. The last data that I have is for 2007 and people may have changed their minds significantly since then on whether they think that there are good start-up opportunities available. However, even if you think that there are good start-up opportunities available, you still have to think that you have the skills, the abilities and the motivation to be able to grasp those opportunities and it seems to be those attitudes that vary most across Wales. I do not understand why they vary that much, but they certainly do.

[162] As for GEM, if you look at one of the earlier tables, you will see that the early start-up rate has been fairly consistent in Wales. The reason why Wales has moved down the international table is because many more countries have joined the GEM project. Internationally, we are in a relatively low position on that table. I gave the example from Canada because we had some visitors from a Canadian university recently and we had a long discussion about that. I am not an authority on what is going on in other countries, but it seems to me that there are many ways in which you can respond positively to a recession and that seems to me to be a very good one. I am quite happy to look at what is going on in other countries, but I am not claiming any expertise.

[163] **Jeff Cuthbert:** Thank you very much for your paper, the oral statement that you made and the answers that you have given to the other questions, which I found extremely interesting. I have two points to make and the first is on higher-level skills. I wonder, Chair, if we could find out more about the Canadian programme because that sounds very interesting. I think that it would be useful if we could get information about that. I do not want to reopen the inquiry that we have already done on the contribution of higher education to the Welsh economy, but you made a point of this in your recommendations.

[164] Clearly, all skills training is important, especially so that, when we get out of the recession, we are as well placed as we can be. No-one knows how long that will take, so we have to think long term as well as short term. Do you think that the Welsh Assembly Government can do more to encourage stronger links between business and higher education so that there is greater awareness of the types of training—be it bespoke training, degree training or whatever—that would be of use to business, as opposed to, shall we say, traditional courses, which were very good, but which may not have been related well enough to the Welsh economy? Can more be done to encourage it one way or the other?

[165] You mentioned the collapse of the pound as offering opportunities. I accept that, as one would assume that the tourist and hospitality industry, which are very important to Wales, would seek to benefit from people staying at home because the eurozone is more expensive. How well, do you feel, is that being captured? There is a downside as well, of course, for the structural funds. You do not mention that as such. On the one hand, the state of sterling is a blessing in that it means that the value of the programmes, which were calculated in euros but which will be spent in sterling, has gone up in that more sterling can be spent. The negative side is that that will impact on match funding, because all the business plans were based roughly on an exchange rate of €1.4 to £1, but it is now about €1.09 to €1.1, which means that more match funding has to be found at a time of economic recession, by the public sector and

the private sector alike. Can you deal with those two points and whether you think we are taking enough account of them?

[166] **Professor Hill:** I have been closely involved in the relationship between higher education and business. In my view, higher education is an asset, and one of the things that it needs to do is to provide as much help and support to business as it can. That is one of the reasons for having higher education, though not the only one. As for whether we have the relationship right or not, there is quite a lot of evidence that relatively few firms in Wales are directly connected to a university. A big Economic and Social Research Council project is looking at the full impact of higher education, and that is the social as well as the economic impact. From that, we are learning a lot about the relative paucity of involvement in Wales compared with elsewhere. Whether that is a failure on the part of business or higher education is something that we could debate at length, but as to whether WAG can do more, it certainly can. However, it comes back to this notion of taking risks and putting money into things that may not always work, or which may only work in part.

[167] You know as well as I do that universities are having a fairly tough time right now with funding. Certainly, that is what my university tells me. Students' motivation has changed over time. Students today are much more focused on the advantages of higher education, and that is probably a good thing, although I suspect that their experience is very different to those that we might have had as undergraduates. Many of our students, if not the majority, work in some shape or form, and we have to recognise that fact and find the right balance.

[168] There are plenty of opportunities for Government to get involved, particularly the Welsh Assembly Government, and I say that because I think that the higher education institutions in Wales are much closer to Government than those in most other parts of the UK. You are much more accessible than your counterparts in other parts of the UK, and so we see much more of you, and that is probably a good thing.

10.50 a.m.

[169] As for the state of the pound, it does offer an opportunity. I know of some fairly small businesses in Wales that are doing very well out of the relative weakness of the pound. There are very good export opportunities, which they are making the most of—both into continental Europe and North America. However, not all firms can do that.

[170] As for European funding, again, it is a double-edged sword. I have previously expressed my views on European funding and what we could have done with it but have not. Again, it is an opportunity missed when we have significant input from outside and GDP per capita is continuing to decline relative to the UK average.

[171] As for particular programmes and match funding, I am well aware of the difficulties that the strength of the euro—let us call it that rather than the weakness of the pound—has caused. If we recognise problems, then we have to deal with them. I do not think that Europe will solve them for us. WAG could be involved in encouraging manufacturing—I am talking particularly about manufacturing because the export potential is much easier to see—to make the most of the current opportunities. I know that WAG is involved in doing that. Sorry, that is a very roundabout answer.

[172] **Jeff Cuthbert:** Thank you.

[173] **Gareth Jones:** Well, Professor, those words were very significant, because they are the last words in our inquiry into the economy. We are very grateful to you for your time this morning and for sharing your views, your ideas and your comments with us.

[174] Diolch yn fawr iawn.

Thank you.

[175] Fel y dywedais, dyna ddiwedd yr ymchwiliad ar yr economi. Bydd y swyddogion yn llunio adroddiad drafft a ddaw gerbron yr Aelodau yn y dyfodol agos.

As I said, that is the end of the inquiry into the economy. Officials will draw up a draft report, which will be circulated to Members in the near future.

[176] Mae papur i'w nodi gan Fforwm. Dyna ddiwedd y cyfarfod. Diolch yn fawr iawn.

There is a paper to note from Fforwm. That is the end of the meeting. Thank you very much.

*Daeth y cyfarfod i ben am 10.52 a.m.
The meeting ended at 10.52 a.m.*