



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Pwyllgor yr Economi, Seilwaith a Sgiliau](#)

[The Economy, Infrastructure and Skills
Committee](#)

16/02/2017

[Agenda'r Cyfarfod](#)
[Meeting Agenda](#)

[Trawsgrifiadau'r Pwyllgor](#)
[Committee Transcripts](#)

Cynnwys Contents

- 4 Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest
- 4 Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
Motion under Standing Order 17.42 to Resolve to Exclude the Public
- 5 Yr Economi a'r Amgylchedd—Safbwyntiau Amgen ar y Strategaeth
Economaidd i Gymru
The Economy and the Environment—Alternative Perspectives on the
Economic Strategy for Wales
- 32 Dyfodol Economi Cymru—Safbwyntiau Amgen ar y Strategaeth
Economaidd i Gymru
The Future of the Welsh Economy—Alternative Perspectives on the
Economic Strategy for Wales
- 58 Papurau i'w Nodi
Papers to Note
- 58 Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o
Weddill y Cyfarfod ynghyd â Chyfarfod y Pwyllgor ar 1 Mawrth
Motion under Standing Order 17.42 to Resolve to Exclude the Public
for the Remainder of the Meeting and the Committee Meeting on 1
March

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Hannah Blythyn Bywgraffiad Biography	Llafur Labour
Hefin David Bywgraffiad Biography	Llafur Labour
Russell George Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Vikki Howells Bywgraffiad Biography	Llafur Labour
David J. Rowlands Bywgraffiad Biography	UKIP Cymru UKIP Wales

Eraill yn bresennol
Others in attendance

Yr Athro/Professor Gerry Holtham	
Yr Athro/Professor Robert Huggins	Prifysgol Caerdydd Cardiff University
Yr Athro/Professor Calvin Jones	Ysgol Fusnes Caerdydd, Prifysgol Caerdydd Cardiff Business School, Cardiff University
Anne Meikle	Pennaeth WWF Cymru Head of WWF Cymru
Yr Athro/Professor Brian Morgan	Prifysgol Metropolitan Caerdydd Cardiff Metropolitan University

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Gareth Price	Clerc Clerc
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Robert Lloyd-Williams Dirprwy Glerc
Deputy Clerk

Anne Thomas Y Gwasanaeth Ymchwil
The Research Service

Gareth Thomas Y Gwasanaeth Ymchwil
The Research Service

*Dechreuodd y cyfarfod am 09:15.
The meeting began at 09:15.*

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Russell George:** Bore da. Good morning. Welcome to the Economy, Infrastructure and Skills Committee. I'd like to welcome Members and members of the public this morning. I move to item 1, introductions and apologies. I note that we have had apologies this morning from Adam Price, Mark Isherwood and Jeremy Miles for either all or part of the meeting. Are there any declarations of interest? No.

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd Motion under Standing Order 17.42 to Resolve to Exclude the Public

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o eitem 3 yn exclude the public from item 3 in
unol â Rheol Sefydlog 17.42(vi). accordance with Standing Order
17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[2] In that case, I move to item 2. Under Standing Order 17.42, I resolve to exclude the public from the meeting for item 3. Then we will be back into public session just before 10 o'clock. Are people content with that? In that case, we will go into private session.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 09:16.
The public part of the meeting ended at 09:16.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 09:41.
The committee reconvened in public at 09:41.*

**Yr Economi a'r Amgylchedd—Safbwyntiau Amgen ar y Strategaeth
Economaidd i Gymru
The Economy and the Environment—Alternative Perspectives on the
Economic Strategy for Wales**

[3] **Russell George:** Welcome back to the Economy, Infrastructure and Skills Committee. I move to item 4 on our agenda, in regard to alternative perspectives on the economic strategy for Wales. This morning, I'd like to welcome two witnesses that I'm familiar with from giving past evidence on the environment committee, a committee I sat on in the last Assembly. So, I'd like to welcome you both back. I'd be very grateful if you could just introduce yourselves and who you represent, just for the Record.

[4] **Ms Meikle:** I'm Anne Meikle. I'm the head of WWF Cymru, but, in this context, maybe more importantly, I'm the chair of the sustainable development alliance.

[5] **Professor Jones:** I'm Calvin Jones. I'm professor of economics at Cardiff Business School and I have a particular interest in the analysis of the Welsh economy.

[6] **Russell George:** I'm grateful. Members have got a number of questions this morning, but it'll very much be led by some of the ideas that we hope that you'll impart to us today. I'll ask a very wide question to start with: what should the Welsh Government have in their economic strategy?

[7] **Ms Meikle:** Go on, Calvin.

[8] **Professor Jones:** I'll go on forever, so you'd better go first. [*Laughter.*]

[9] **Russell George:** Okay, Anne first.

[10] **Ms Meikle:** For me, I think it's critical that we go back to what the goal is, as per the legislation of the Well-being of Future Generations (Wales) Act 2015. The prosperous Wales goal is probably the most complex of all the goals in there, and it's a very integrated goal because it's got economic outcomes, it's got social outcomes and it's got environmental outcomes. I think it embodies the idea that, for a prosperous future for Wales, actually, you have to look at these things in a much more integrated way than we've done in the past, and look a lot further forward.

[11] I think the goal was right because it's trying to address the world as it's going to be in 30-odd years' time—growing global population, growing economy in general, growing demand for resources. So, a world where resources are much more constrained, there's much more competition for them, costs are likely to rise, and—I was just saying to Calvin, we've been saying this since about 2007—big, forward-looking companies are already changing their business models to 'what will that look like?' Quite often, it's a more circular economy, certainly one that's incredibly more resource efficient than it is now, and low carbon is a major part of that. Calvin's better placed to talk about that than me in many ways. But their efficiency and the way they operate across entire supply chains is different, and if Wales doesn't have a plan to get to that same place of competitiveness, then we will not be prosperous—your grandchildren will not have as good a life as you've got now.

[12] So, I think what I'm looking for in this, following up, because this is the first time they've had to do it since the future generations Act, is something that has a much more long-term vision and a much more integrated vision of where we need to get to. Everybody knows there's a current need for jobs—there is always a current need for jobs and replacing things that are changing in the economy—but what we mustn't do is lock ourselves into an infrastructure that is going to damage the ability of our grandchildren to have a prosperous life.

09:45

[13] And I think there are a lot of big decisions coming forward that need to be made to make that transition, because, make no mistake, that is a massive change to the structure of the Welsh economy and the way businesses operate. And I think that's what I'm looking for in here—a

recognition of the difference. We've actually had recognition of it from the last two Governments before this one. There have been targets for 80 per cent reduction in greenhouse gas emissions, zero waste, all of which implies exactly this sort of circular economy, et cetera, but, actually, can you see that in an economic strategy? Can you see the actual transition plan, and how do you get there, assessing the risks and the opportunities in that? Because everybody knows we're still living with some of the restructuring from the 1980s. So, you can either plan for that and come up with a way to get to that place or you can just react to what is thrown at you and your lack of competitiveness in a global world. So, for me, it's trying to look much further ahead and actually plan for that much more resource-constrained world.

[14] **Russell George:** And should there be explicit mention of some of the points you've made in the plan, or should it be a theme that's not explicitly mentioned but is embedded in the plan?

[15] **Ms Meikle:** I think there's another requirement on Government in general, not just in the economic strategy, to lead by example in terms of delivering on the FG Act, and I think, at the moment, because it demands a major culture change in the thinking of all public bodies, including all the departments of Welsh Government, I think that they need to be explicit, because I don't think—. Not everybody gets it yet, not everybody understands it yet, and 'A prosperous Wales' is actually a very good example, because I quite often hear what I would call kind of notional mentions of that goal by various politicians, but they are using the term not as that goal descriptor says, which is a low-carbon, resource-efficient economy that respects environmental limits and grows skills, but in the way they've always used it—'We won't be prosperous'. So, actually, you're going to have to be much more explicit, I think, about what you mean, to make clear that you're talking about a change, I think. That's, I think, what I would say.

[16] **Russell George:** That makes sense. Calvin.

[17] **Professor Jones:** I don't disagree with any of that, unsurprisingly perhaps, but I think we need to focus in any plan on the reality of implementing those desirable goals. I mean, a large part of the problem is that many of the levers are not in Wales, and I'm not specifically talking about the devolution settlement now. What I'd like to see is a plan that reflects the reality of the Welsh economy, which is one that is not very palatable, but it's one that is of a resource periphery for, certainly, the rest of the UK and possibly Europe, and always has been. If you look across the

Welsh economy and Welsh landscape, we suffer from many of the same dysfunctions as you'd see in a small, less developed country. So, we have a very high incursion of non-national, non-Welsh national, corporates, we have a landscape that is largely monoculture, or duo-culture if you count sheep separately from forests, and which in our case is massively subsidised, which delivers no biodiversity goals, let alone economic goals, which may form important cultural, linguistic functions, but those are not properly valued or assessed.

[18] And, returning to the urban parts of Wales, a very extensive part of Wales that is home to a stratum of people who are now functionally obsolete economically—and that's a really horrible thing to say, and I hate saying it, but it's true. The jobs that my family would have had, and which my dad had 34 years ago, the four factories he worked in first have all gone, and where are they? They're in China. We can't outcompete China with wages being 10 per cent lower than they are here. Whatever we do in an economic plan, it has to reflect the two realities of a very problematic landscape economically, particularly in view of Brexit, and a transformation, a complete redirection of our social and economic policy to reflect the reality that there are tens upon tens upon tens of thousands of people, particularly around where I live and north of where I live, who will never find a role in a globalised, competitive economy.

[19] **David J. Rowlands:** Can I just address a question to you, Anne, really? These are very laudable goals and I think we'd all agree with that, but there's going to be a cost, particularly in the short term, to our economy. We are in a very competitive market—the Wales economy is in a competitive market. If we push these goals too soon, too early, how do you think the economy's going to be able to keep up with the rest?

[20] **Ms Meikle:** I think that I would just say that all that we've been doing for 10 years is putting off the pain, and the pain will come to you whether you plan for it or you don't. There was a report in 2009, which is now wildly out of date, from the Wales TUC and the Bevan Foundation, which tried to look at where are the job losses and the job gains of a transition to a low-carbon economy. That was their contribution to saying, 'Please help us plan for this'. It assumed the loss of places like Tata because they're high carbon, et cetera. Now, that may be put off and it may never happen, I don't know. But they were assuming some major changes to the Welsh economy because of the price of carbon, the price of energy and all of those peripheral and competitive issues, and simply saying, 'We're going to lose a fair proportion

of these no matter what we do because we don't have levers over them; we don't have all those things. What could we grow in their place and how much do we need to grow?'

[21] What I've not seen, but please don't take this as an absolute criticism because I am not an economist and I don't spend most of my time looking at the Welsh Government's economic policies et cetera—. I don't know if Government has ever done that themselves. I don't know if they've actually sat down and had a good hard look at, 'Okay, what are we facing here in terms of that?' They may be forced to do it now because of leaving the EU, I don't know. Maybe it's happening now, if it's not happened before. But, actually, having that very realistic look and saying, 'This is going to happen. Can we influence when it happens and what can we do to mitigate that change? Where can we grow the sorts of businesses or attract the sorts of businesses that are going to be competitive in the future even if, sadly, they may not hit all of the ranges of skill levels that we might want them to, and what are we going to do about that?'

[22] We've got, I think, some real opportunities. Calvin was talking about the agricultural system. Leaving the EU takes away one of the largest causes of environmental degradation, which is the common agricultural policy. So, you've got an opportunity to replace that with something that's more integrated and that would look at the rural economy in a different way and start to say, 'What are the land management options here? For the future, what are the most sustainable things? What is it that we wish to support, going forward?' Obviously, Welsh Government cannot write the trade rules of whatever it is that we negotiate; they're going to have to operate within those, but it's about taking that opportunity now to say, 'Actually, we've got a structural change coming here; what is it that we can try and make it do?' That is a really crucial thing.

[23] The other things like the city deals and what not—. I note, from a few weeks ago, the Future Generations Commissioner for Wales sending a letter to the city deal representatives, saying, 'I don't think you're thinking through this in an integrated way. I don't see you setting objectives that are going to help the delivery of those goals effectively enough. I want to see you do this differently.' That's what I meant about locking us into something else. If you let those few big opportunities that we have got get away from you and just do business as usual, you're just delaying the pain without using that opportunity to put something in its place. You know, I'm definitely no expert on the economy, but I think we all accept there are going to be losses as well

as gains, and it's having to—

[24] **Russell George:** Okay. Did you want to come back, David?

[25] **David J. Rowlands:** If I can. Picking up the agricultural theme, we've got, without doubt, some of the most innovative farming communities in the whole world, never mind Europe. Do you have an idea of where you feel the agricultural system ought to be heading to be sustainable in the way that we want?

[26] **Ms Meikle:** Yes, and I think—. So, I'm part of another network—Wales Environment Link—that has been part of some of the Government's Brexit round-table discussions, and has been working around those with farmers and the fishing community to think, okay, what does a what we would call a—? Can we stop calling it an agricultural policy and start talking about a land management industry? Because at the moment, for example, forestry isn't integrated with agriculture; you don't make sensible decisions on what's the best use of that land for biodiversity purposes, for income purposes et cetera. You know, you're constrained by different systems and different grant things about what you can do. Well, you can redesign that now. You can say, 'Let's look at this in a more integrated way.'. We also want to look at those what I would call 'environmental goods and services' that currently farmers provide probably for free, or as a by-product of what they do, and they could be doing them much better in many instances. Some of the things around—. You know, there've been some pilots already about changing land use to help prevent flooding further downstream. There've been pilots of payments by, say, Welsh Water to farmers at the top end of the catchments. It pays them to pay the farmers to clean up what's going into the rivers to stop the soil erosion run-off et cetera, because then they don't have to pay so much money to clean the water before it comes to us. There are some economic changes, if you look at the whole of land management and say, 'What do we, as a population, actually want from all of that?', and it's not just food. And I think that's the critical thing here. I can understand why farmers want to grow food. Of course, that's what they've been brought up to do, but they do do all those other things and, actually, food is not the one and only thing that we want from them. All that beautiful landscape, those clean rivers, all those things—we want all of those, but we currently don't really make our system work to help them pay for that.

[27] **Russell George:** Members have got a few questions, unless Calvin wants to come in on this point. If not, we'll—. Yes, Calvin.

[28] **Professor Jones:** Very briefly, I'll take the two points in reverse order. Do you know what, we don't have the most innovative farmers in the world, or if there are globally innovative farmers in Wales, I've never found them? And I think we need to be really clear that, much like other parts of Wales, farmers have been trained to be non-innovative by the CAP since, you know, whenever. There's innovation in the Welsh agricultural space. A lot of that is interesting social innovation that Anne has already talked about between different organisations. Individual farmers are not the answer. Groupings of—. You know, developments that change the structure of farming in Wales can lead to more innovation. Yes, there's interesting stuff going on. I don't think we can expect some uprising of amazing stuff happening once we take the shackles off. That will need fostering.

[29] And the second thing, on the earlier point about competition and costs, now no doubt if we all took our shoes off here and had a look at where they were made, because we're all lovely middle class people, they're probably handmade in Britain—brogues, no doubt; everybody's bought them from a really lovely cobbler somewhere in the midlands. For most people, they would say either Vietnam or Thailand on them, or Indonesia—not China anymore, and the reason is because China doesn't want the crap in its rivers, because making shoes, particularly trainers, is a very, very dirty thing. And if we want to be Indonesia, Thailand or Vietnam, rather than China, fine, but that's the route we're going down if we don't put a red line across what we will and won't do in terms of our leather industry.

[30] **Russell George:** Where are the most innovative farmers in the world?

[31] **Professor Jones:** Well, New Zealand, or previously, but, you know, there are a lot fewer of them because they're innovative.

[32] **David J. Rowlands:** The reason for that is because they had subsidies taken away from them, and they innovated—

[33] **Professor Jones:** Exactly.

[34] **David J. Rowlands:** —and I want to come back on you with the innovative farmers. Without any doubt, we've all seen over the last few years farmers going into the production of very specific foods et cetera, and still under the CAP situation.

[35] **Professor Jones:** I agree.

10:00

[36] **David J. Rowlands:** Now, that CAP situation is coming off—it does free the farmers up in a great way, and let's hope that the British Government will actually do what they've said they'll do, and that they will actually subsidise the farmers, or give the farmers a certain amount of time to adapt. But I have to say that I do believe our farmers are some of the most innovative—

[37] **Russell George:** Calvin, do you want to comment on that?

[38] **Professor Jones:** Saying our farms are globally innovative may be true of a small number of individual farmers but the average age of a farmer in Wales is 59. I know as I get older I tend to be less innovative. There are real structural problems with agriculture in Wales that just removing CAP is not going to solve and we need a much more proactive approach to land use that places farming within a wider structure rather than expecting that there is somehow a flowering of productivity. Because do you know what? Our land is like that, and you simply can't be as productive in the vast majority of certainly horticulture as you can on land like that. And that's a fact, and we have to respect that fact in how we understand what we do with our land.

[39] **Russell George:** I'm going to resist asking more questions myself because we've got some other subject areas that Members want to cover, but then if we've got time we can come back and pick up some of the other points. Hannah Blythyn.

[40] **Hannah Blythyn:** Thanks, Chair. You've both spoken about the importance of planning and preparation and a resource-efficient future, because change is on the horizon whether we plan for it or not, so, clearly, there's a sense that it's best to plan for it. So, if the economic strategy that the Welsh Government is currently looking at is a potential opportunity, what would be the specific measures and approaches that you would like to see as part of that?

[41] **Ms Meikle:** Do you want to go?

[42] **Professor Jones:** Okay. A specific—

[43] **Hannah Blythyn:** Feel free to give us a shopping list of—

[44] **Professor Jones:** Well, the first thing, I think, is the fact we're talking about an economic development plan within an economic development and infrastructure committee signals a fundamental problem in that we're asking the wrong question. Because what we're doing is we are narrowing the scope of our inquiry to exclude things like land use, to exclude things like social and health care, which are absolutely part of Wales's prosperous future, and I think that a consideration of the socioeconomic future of Wales, which respects various ecological limits, is a better place to start than thinking about how you think of 'the economy'. Even economists now are realising now that the economy is not a thing, and I think politicians and even—well, most of my colleagues aren't, but some are. So, it's just a really important question.

[45] In terms of individual things in the economic development strategy, I absolutely think that there's a lot to be said around the foundational economy, which no doubt you've heard about before and will hear about again, and the idea that providing local services, mundane services, closer to home, is something we've not thought about enough.

[46] I absolutely think that—. I would probably—if I was king of the world, I wouldn't have an economic development strategy, and do you know what? I would just abolish the department and I'd rename it the skills department and I would just concentrate on making sure the next generation of Welsh kids grew up to be more highly skilled, with a wider range of more resilient attitudes and aptitudes than the ones we have now—or the adults we have now, certainly, myself included probably, because the fundamental problem is we have a labour supply problem and a labour demand problem. There's no-one bringing companies here, and they can't then find the right sort of workers. There's no point building roads to places that are just to nowhere, effectively, and the only way you get around that is by growing people's skills and aspirations in a way that embeds them in the local communities. Actually, if we don't do that, everything else you do is utterly pointless. So, I know that's not a very positive answer, but that would probably be my answer.

[47] **Russell George:** Anne.

[48] **Ms Meikle:** I think that's quite interesting, because that's back to my point about: we need that prosperous Wales goal. The second half of it is all about the skills that are going to be needed in the future, and how we get

there. So, I absolutely agree with Calvin's point. I think there are a couple of things. I think, let's go back to the low carbon—the aim here was low carbon. We have an 80 per cent reduction target. We still have a high-carbon economy. Most of those big emitters are not really within Welsh Government's control. They're currently under the emissions trading scheme, and most of the rest of it is caused by the energy system. So, there are things that we can be doing to help decarbonise that energy system, but we don't have all the levers of power for that, so we're going to have to recognise that. But actually trying to align your spend, your grants, your subsidies towards reducing the carbon—well, the greenhouse gas emissions of those sectors will help those companies become more competitive anyway, but will also help us in general.

[49] So, I think that's one, and I think the other one, for me, in a way, is back to—and it's not different from the foundational economy; I think it fits around it—this thinking about what does the circular, zero-waste economy look like and how you get there. We've done some very good things that are about trying to reduce the amount of waste, but you can only get part of the way to zero waste by recycling things better. You have to redesign them. That's, kind of, what I'm saying about—I feel like a worn-out record. In 2007, we had people like IKEA coming to Wales, explaining how they were changing the way they designed their products to use less wood, to be dismantlable so that they got them back at the end of their life cycle and they reused the components that didn't go into the system of waste collection. We have people like Lafarge, the big aggregates company saying, 'By 2035, we will not be a virgin aggregates company; we will be a recycle company.' You know, that's 10 years ago, they must be quite a long way down the path of planning for that change. I have no idea whether anybody in Wales has taken that into account and thought, 'Where are the supply chains for that? Where does Wales fit into these kinds of companies?' There are only a couple of examples. M&S is another one. They think, maybe, by 2035, you will rent your clothes from them, and you'll give them back at the end, however long that might be. It might be a few weeks, it might be months, it might be years, because they need the materials back. I don't see much in the way of the infrastructure that will help businesses get into that mindset, nor, indeed, the business support ideas that will help businesses compete into those kinds of supply chains in the future.

[50] It's interesting, the consultation on the natural resources policy—and this goes back to Calvin's point that everything needs to join up here—has a big section on wanting to move to a circular economy and what we need to

do to get there. I think those are two big key components of what we need to do in terms of the actual businesses here in Wales.

[51] **Russell George:** Hefin wanted to come in, and Calvin wanted to make a point. So, if, perhaps, Hefin makes his point and Calvin picks that up as well, and then Hannah, if she's got any more questions. Hefin.

[52] **Hefin David:** It's like conducting an orchestra, isn't it? [*Laughter.*]

[53] **Russell George:** It is a bit. [*Laughter.*]

[54] **Hefin David:** I was just struck by something Professor Jones said about the—

[55] **Professor Jones:** You can call me Calvin, that's all right. [*Laughter.*]

[56] **Hefin David:** Well, I was going to use Professor Jones the first time and Calvin every time after that. You mentioned a fundamental question of macro-economic policy, and you said something pretty fundamental, actually—pretty radical. Are you suggesting then that we question how we even measure the economy and are you talking, perhaps, about moving towards what's espoused by green economist politicians like Molly Scott Cato, which would be a kind of steady-state approach, rather than economic growth? Would you advocate steady state?

[57] **Professor Jones:** Yes. There's an issue about 'measurement' per se, which is GDP, or GVA as we call it in Wales, which is a very narrow measure, and then there's what you want the economy to do. Do you want the economy to grow or do you want the economy to deliver an appropriate range of services to the citizens who inhabit that economy? The latter one might include growth, particularly if you've got population growth, or it might not, particularly if you've got a lower resource base in the economy that you are using more efficiently, you might not need an ever bigger balloon to deliver the services that you require.

[58] So, yes, I think I would like to see a position where the Welsh Government have an economic strategy that's aim was to deliver prosperity, primarily to the people at the bottom of the income scale, and that's something we've—you know, we could increase GVA by inviting a shedload of geneticists, lawyers and accountants to come and live in Cardiff Bay. Would that help? Well, only in a very narrow sense. So, I think there's an issue

about who we are helping, particularly with the levels of child poverty, for example, we see in Wales.

[59] But that key question about whether the economy has to grow, I think, is a really interesting one, because in 2010, there were four workers, or people of working age, I should say, for every dependent in the UK. So, for every person who was on some sort of—in school, on a pension or whatever, there were four workers looking after them. By 2050, there will be two workers of working age per dependant. So, we can either persuade people to set aside their diabetes and their strokes and their heart attacks and work until they're 75 or 80—that's one way of doing it, if you could manage that—or we can think about what sort of economy has only two warm bodies looking after one warm body, which is a very different sort of economy than the competitive, growth-oriented, trade-oriented economy that we have now. It requires a very fundamental shift in the way we think about the economy and what it's for, but of course we know—we've got a strong steer now from the UK Government—that what we're not going to do is import a load of young migrants to work for us to keep that economy growing. So, labour supply issues are going to get worse and worse and worse, and skills issues, because old people like me—certainly not you—become curmudgeonly and unwilling to learn new skills. That is a reality that cannot change. It's fundamental demographics. We're not going to change fertility rates, we're not going to import a shedload of young people, so what sort of economy will we have when we're all old? That's a very big question.

[60] **Hefin David:** Just very quickly, sorry. You're talking about the micro-economic principles, though, in some of the issues that you raise in the specifics, which are really attractive ideas and things that talk to the heart of parties like the Labour Party. If you're trying to go for a national global sell, you're talking unilaterally going for a steady-state economy in Wales when the rest of the world is still talking about economic growth.

[61] **Professor Jones:** No, I'm saying that you build an economy that delivers for you. If you get growth as a result of that, it's a happy coincidence—or if you get sustainable growth. If you get a steady-state economy that delivers your services, then why do you care if it's growing or not? I'm not saying you say, 'We're not having growth'; I'm saying you build, you set your outcomes very clearly in terms of human welfare, inclusive human welfare, geographically, socially, whatever, in terms of age structure, so you don't throw your old people off a cliff. Part of the reason why Japan has not grown for 10, 15 or 20 years is because it didn't throw its old people

off a cliff. It's looking after them with the money that it's not investing in growth sectors. And then whatever comes out of that you accept, and, you know what, interesting companies, people, will self-select themselves to come and work or live with us.

[62] **Russell George:** Okay. Vikki.

[63] **Vikki Howells:** Thank you. Renewable energy: how much of a role, realistically, would it have to play in the Wales economy moving forward? I'm thinking particularly about the trade-offs between the kinds of jobs that we've got now in conventional power stations, places like Tower Colliery in my constituency, which is scheduled to close within weeks, with a loss of 120 skilled jobs, versus the kinds of jobs that we see in the renewable energy sector, which may be high-skill but quite dispersed across a larger area. How can we sort of square that circle?

[64] **Professor Jones:** Okay. I could bore for Wales on this, and I will. Virtually every fossil fuel technology has a lower employment per megawatt power than every renewable. So, there are more jobs in virtually every renewable technology than there are in fossil technologies. The jobs in fossil technologies are visible, because, you're right, they're concentrated, not dispersed. The skill issue doesn't change much between them. In fact, you can argue that some renewables industries—solar installation—actually aren't as high skill as some fossil fuel industries. I think that's very complicated. This is a little bit—. At a regional level—not for communities, at a regional level—this is a bit of a red herring because, even if you steamed into both fossil and nuclear and renewable technologies and you built loads of new power stations and you built the lagoon, once the capital spend is over and you're manning those in the long term, you'd probably have, I reckon, 3,000 or 4,000 jobs, which is less than, what, 0.5 per cent of the Welsh employment level. So, actually, in terms of employment generation, energy generation is a non-starter. I'm not sure of energy efficiency and so on, but I think the employment-related impacts, particularly when the capital is almost wholly owned outside of Wales, are not worth worrying about. The opencast at Tower will go anyway. The opencast at Ffos-y-fran, the second biggest hole in Europe, will go anyway. Aberthaw will close, irrespective of what happens with the EU. Because coal is just not economic anymore. We're getting to a stage now where—. I was talking to Natural Resources Wales on a project we did last year or the year before and they were saying that the lack of feed-in tariffs and lower subsidies for renewables is not an issue for big mobile renewables companies because they're looking to a period—early

2020s—when onshore wind will be cost comparable with gas. They fully expect that to happen in the early 2020s and so they're getting the planning permissions in place now. So, I think that transition will happen, and, really— . Particularly since the election in the US, I can imagine a state of play, within a small number of years, where you have a properly jihadist Government in Saudi Arabia. That could much more easily happen now than it could have done a year ago because of the interesting and somewhat fragmented policies the US seems to be developing towards that region—today is an example. If that happens, you know what, people will think very, very carefully about their renewables investments because, despite the fact that Saudi is not as important as it once was, certainly for the States, which has its own oil and gas for the moment, all it takes is one shock of that nature and then, quite quickly, our current energy balances look very, very asymmetric.

10:15

[65] **Russell George:** So, what do we do about it?

[66] **Professor Jones:** Well, I mean—. You know what, I'd take £1 billion or £1.5 billion away from the M4 and I would just pump prime renewables everywhere in Wales, whether it's investing some money in a Cardiff lagoon, assuming the Government does the right thing on Swansea, whether it's spending a shedload of what's left of ERDF money on community renewables and not worrying about whether they pay back in the short term or not, which WEFO seems to be obsessed with, whether it's merging another—you know, let's have Arbed x 10 to make sure we are more energy resilient in the future so we've got more disposable income to spend. I know we've put another significant amount of money into Warm Homes now, but let's quadruple or quintuple that. I think using our borrowing powers in that way seems to be much more future-resilient, economically and socially, than what we're currently suggesting.

[67] **Vikki Howells:** So, within the renewable energy sector, is there one type that stands out to you as being more beneficial, in theory, to the Welsh economy?

[68] **Professor Jones:** No. The problem is—we haven't got time to go into it this morning, unfortunately—the grid is such a dysfunctional animal that, even when you've got projects that would wash their face financially, which are in places that are technically appropriate, environmentally appropriate,

sometimes the connection is not there. It won't happen. What you do then is you have to optimise and maximise where you can.

[69] So, for example, if you're building a new, big lagoon, why would you not put a load of wind turbines on the wall that you're building anyway so you've got an intermittent set of power along with your reliable twice a day? Why wouldn't you put a load of solar PV on your onshore wind so that you've got one grid node that's always at capacity rather than up and down when the wind does or doesn't blow?

[70] It's those sorts of multiple solutions, maybe along with things like local balancing of supply and demand—so, where you've got, as at Porthcawl, a big energy user, the cement plant, if you've got a generator on site, you don't go near the grid. In a perfect world, you might have a big lagoon off Cardiff that renewably powered your metro. Why would you worry about what the strike price was then? So, I think there's lots of space there, but it's not about picking winners in technologies, any more than it would be industrial sectors.

[71] **Russell George:** Did you have comments, Anne?

[72] **Ms Meikle:** I think I was just going to pick up on some of the energy efficiency stuff because, if you go back to looking at the transition more holistically—again, if you take it from the perspective of, 'What does this low-carbon future look like?', you will not get there simply by changing to renewables. As Calvin has alluded, we need a really massive increase in the energy efficiency of both businesses but also the residential sector.

[73] We've commissioned various reports over the years in terms of the returns on investment on energy efficiency. We've suggested, on the basis of those returns, which are better than many other things you get, and the number of jobs you get, and the savings in fuel poverty you get, that you're getting a far higher return for the £1 that's going into energy efficiency than in many other things, as Calvin is talking about.

[74] We were suggesting, for instance, that you should consider energy efficiency, retrofitting of buildings and everything else, as part of the national infrastructure programme: put them in the same place as these big all-in-one-place pieces of infrastructure, because they're just as important to the future of Wales and its prosperity and getting there, and, you know, exactly that. There is a problem because there isn't really an incentive

programme sufficient for the people who can afford to retrofit their own houses to get on and do it to the standard that's necessary at the moment. So, you'd need, in total, about £3 billion to get all of Wales's houses up to a SAP C rating. Welsh Government, quite rightly, is focusing its money on the most vulnerable households—the ones in most fuel poverty—that can't afford to do that anyway. But, as Calvin said, it's not enough. And it will never be enough while it is financed in the way that it is out of Government revenue, et cetera, and actually trying to think of how do you find other ways of dragging in that investment that has such a good return, to me, is a fundamental part of, short term, what you need to be doing with your economic strategy.

[75] Going back to skills and things that are achievable in the short term, that's not beyond the wit of builders and people who work in all those small and medium-sized enterprises in Wales, which is our other structural problem. Wales is full of small and medium-sized enterprises and not big businesses. How do you get them into a place where they're going to be much more competitive and they can grow? What are the things that they can do? And these are some of them.

[76] **Russell George:** Do you have any more questions, Vikki?

[77] **Vikki Howells:** No, that's fine.

[78] **Russell George:** Do Members have any other questions on this before we move on to a new subject? Hefin.

[79] **Hefin David:** Just regarding some of the specifics then, going from that big picture to the local, do you think there's potential for a small-scale renewable energy strategy for the south Wales Valleys—for the northern Valleys perhaps?

[80] **Ms Meikle:** Yes. I haven't thought about it. I'm sure there is.

[81] **Hefin David:** Because people keep talking about Cardiff and Swansea.

[82] **Ms Meikle:** Well, I'm not talking about Cardiff and Swansea. I think—

[83] **Hefin David:** Calvin did.

[84] **Professor Jones:** Yes, I mean—. I'll share a story. I'm very apolitical,

but I'm from Ferndale, so I went to a Plaid Cymru metro meeting in Ferndale Monday night in the Ferndale Imperial Club. Brilliant—how you politicians do it, I've no idea. Ferndale had a chance to have a community windfarm about 10 or 15 years ago—the Arts Factory—and the local residents said 'no'. The then AM was instrumental—I've got to be careful what I say, because he works for me now—in clearly representing the views of his constituents, and that community windfarm didn't get the go-ahead. It was stopped in planning and, within a couple of weeks, a commercial company had swept in, taken the plans away, tweaked them a little bit and now there's a windfarm above Ferndale on Penrhys mountain that is not owned by the locals.

[85] You can only have that kind of plan for the Valleys if you first do the groundwork in explaining—and I don't want to sound patriarchal and patronising because, when you explain stuff to people, it implies that you know stuff that they don't, and that's not quite true, but working out with the people of the Valleys what sort of energy mix they are happy to see on their hills, what sort of energy investments in their domestic properties or non-domestic properties that they would prioritise, whether the role of social housing in the Valleys is the right one and whether the social housing might be something you can tie into some really interesting things that may then work more widely.

[86] All that stuff, unfortunately, requires a really honest conversation about the fact that the status quo is busted in the Valleys. I had a big barney with somebody on Twitter a couple of weeks ago because he was complaining about the fact that the windfarm above the Rhigos—the big windfarm, the Balfour one; 73 turbines, I think—had destroyed the pristine environment of the Rhigos. And I said, 'We did that 10,000 years ago when we cut the trees down and then 400 years ago when we put the sheep on the hills, and 200 years ago when we started digging big holes in the mountain, and now you're complaining because we've destroyed the pristine landscape of the Rhigos. Really?' We've got to get away from that, 'This is the only version of industrialisation we're happy with in the Valleys, because it's the one we grew up with—you know, we're happy with a bloody great big black hole in the ground above Merthyr, but we're not having wind turbines up there. How perverse is that—you might say; I certainly wouldn't.

[87] **Hefin David:** Well, they're not happy with a hole in the ground in Merthyr either, are they?

[88] **Professor Jones:** Well, it got fewer objections than the windfarm did

when the planning went through.

[89] **Hefin David:** There's a political dimension to all of this, isn't there?

[90] **Professor Jones:** Oh, yes, absolutely. What I was going to say, by finishing off, is: it is a rarity to find politicians who will have that honest conversation with people who then have to vote for them a couple of years later.

[91] **Hefin David:** Well, they don't stay around very long probably.
[Laughter.]

[92] **Ms Meikle:** Could I just pick up on—?

[93] **Russell George:** Yes.

[94] **Ms Meikle:** Because I think the point about engaging local people is really important. It just so happens that, yesterday, I was in a meeting with the future generations commissioner's office talking about the well-being assessments that are happening for all the public services boards now that are starting in Wales, which are supposed to be the basis of the future well-being plans of those areas. A lot of that discussion and a lot of the assessment of the ones that are coming through at the moment was about the quality of the engagement that they're having with local people, and the discussion. One of the points I made is very similar to Calvin's—and this isn't about politicians, because most of this is done by officers of councils or health boards or whoever—but we need to help people ask the questions differently and put some—. What's not very good is we're not very good at painting potential scenarios to people with some clarity that they can understand, instead of, you know—'I don't want to go and talk to them about the circular economy and what not'; you have to find a different sort of language to explain why change is necessary, and try and elicit from them where they would like to see things going.

[95] It's funny, one of the things that was quite interesting—I will just say this to everybody now because I was so blown away by it. There was a visiting professor who came to Cardiff and gave a talk about her research, which was actually about health policy, but about the language used to assess what people thought about policy. They changed the language from asking people a question about the long term, or 'What would you value, what would you want in 10 years' time?' They just changed the question to,

'Would you prefer this or this for your grandchildren?' and the answer is totally different, and is much more what I would call selfless. As in, if you just say to somebody—this is about future cost—'I can give you £10 today or £100 in 10 years' time', people on the whole will say, 'I'll have £10 today'. That's just the way people are. If you say, 'I'll give you £10 today or I'll give your grandchild £100 in 10 years' time', they'll say, 'Give the £100 to the grandchild'. It's a mindset of how you talk to people about the future and what they want that elicits a different response. Going back to that honesty, you can be honest without necessarily being brutal and get people to look at it.

[96] As WWF, we've had a big, European-funded project doing stakeholder engagement for the Celtic seas—so, beyond Wales; the Welsh bit of the Celtic seas, but also Ireland and Scotland and whatnot—asking them to come up with future scenarios for what does the development of that—. What should it look like? And what's the end result? I think they looked at four scenarios, some of which are just 'Maximise the amount of income and growth and jobs', and other ones that are a little more sustainable in the way we would look at it, and actually have those people who are the competitors for the use of that resource, those seas, that have the impact on it—actually get them to talk about this. One of the things you have to do, for example, is employ mediators and conflict resolvers, because people don't agree. It's a difficult thing, but the only way you can do something about that is actually bring in some people who can help talk people through that and try and find some consensus going forward to the end. But the end result of that is, 'Yes, there you are; we've done a whole load of plans about what we should do for the Celtic seas'. One of the things, interestingly—going back to growing the economy—they identified three hotspots where there is real conflict of use and real potential problems that actually need to be addressed through planning and more forward planning and more discussing now. One is kind of off Anglesey, the north Irish sea, if you like—the north Wales coast. The second one is in the Severn and the third one is up in Scotland. So, two out of the three of the crucial bits of the entire Celtic seas with the biggest problems, but the biggest potential, are in Wales. It's an area that doesn't get very much discussion. What is the future of that half of Wales that is water, and where are the economic benefits of that, and how can it be done better in future?

[97] **Russell George:** Are there any Members that are waiting to raise a new subject area? We've automatically moved on to some of them already. David, are you okay? In that case, I will—are you, Hefin, waiting?

[98] **Hefin David:** I did want to ask about the supply chain—

[99] **Russell George:** Yes, go ahead.

[100] **Hefin David:** —and the fact that, Calvin, you've mentioned specifically that we've got a particularly weak supply chain when it comes to renewables. I'd just like to hear a bit more about that and how you address that problem.

10:30

[101] **Professor Jones:** Well, despite the fact that we talk about renewables or non-fossil fuel technologies, including nuclear, as being somehow novel, most of them have been around for decades, if not generations. When you've got a very mature technology and innovation is low, you just tend to find that production, certainly at European level, for things like windfarms—onshore wind and offshore wind—clusters in particular places where they have first-mover advantage. The experience that Mabey Bridge shows is that you cannot get a foothold in that, because you don't have the same economies of scale and the network economies that you have from clustering that, in the wind turbine case, in northern Europe. The same is true, but probably even worse, with things like nuclear. The nuclear industry does talk a lot about its supply chain development. Obviously, that tends to be in terms of shovels in the ground. So, you will have, yes, tens of thousands of people building that nuclear power station, if we do, at Wylfa. But in the longer term, nuclear power is actually quite straightforward, and you're talking about a handful of fuel in a bath. There's not a lot of local—apart from the kind of very generic stuff that you can imagine Wales doing. That's true of most big technologies, then, outside of renewables. Obviously, we have the opportunity where we have more or less a brand-new technology in the lagoons, where we have a company who claims to be very interested in developing supply chains in the UK and in Wales. We've done some work on that. It's a great company. They're really great people. I would be a little bit cautious of expecting they will have 70 per cent or 80 per cent of their input sourced from within Wales. This is not going to be transformational, necessarily, but it will be better, I think. Certainly, the turbines that will be made in Rugby and so on will at least be British.

[102] So, I think, where you have a first-mover advantage in things like tidal lagoons, then there is space to develop supply chain skills and other developments around that. But, of course, that's a very unusual case. So, I

think we should really—. I know that some of my environmentalist friends—I have some—are a little bit uncertain about the lagoons and, you know, whether it's the right thing, but then when you point out that Hinkley is probably the alternative, if not both, then they tend to come round, maybe. What's the least worst technology to turn the lights on? There's not a good one. So, the lagoon, I think, will offer a lot of opportunities that we don't see in other places. If you go down to somewhere like Pembroke and to the gas-fired power station down there—they shipped it in in bits. They stuck it together onsite. Now, it's literally Homer Simpson in a control room turning it on and off—you know, gigawatts of power. There's just not much opportunity to develop interesting things off the back of that.

[103] **Russell George:** Do you want to come in, Anne?

[104] **Ms Meikle:** Well, I guess it's a different point on supply chains, which is going back to this: 'How do you change the nature of businesses and get them ready for a more resource-efficient future?' I don't profess to know a lot about who is supplying who in Wales already, or how strong any of those supply chains are. One of the things that, way back in 2007, we were kind of saying is that the future of resource efficiency is actually about supply chain co-operation. It's obvious already in some bits of Europe, where what you would think of as competitors for something are actually coming together to pool some resources to make the supply chains and the resource mechanisms more efficient. I just get the feeling that that world completely passes by people who are thinking about the future in Wales. That's perhaps partly because—and I go back to the point that we have so many small and medium enterprises—they don't have those kinds of clusters or that kind of way forward. So, I think it's really difficult for Welsh businesses to prepare to be in the same place in that world as some of the people with closer ties to those supply chains. I think it's something we really have to think about a bit harder. How do you tie into that? How do we—? You know, who does supply—? Some of those companies who are already changing their business models, who already want to make their chains much more efficient, to be starting to reuse stuff, who are they? Where are the opportunities in Wales? Can you grow some of those? Can you make the ones in Wales part of some cluster that are looking at genuine change to the way they do design and reuse of components? I have no real idea—and I don't know if Calvin does—where the opportunities are for that in Wales, but there was a thing many years ago, there was something like a resource efficiency expert panel in Welsh Government, which I think died a death. Is it still going?

[105] **Professor Jones:** There was money spent on resource efficiency under the resource efficiency framework. It was quite a narrow definition of resource efficiency, I would say that.

[106] **Ms Meikle:** So, you know, something that has come and gone and has sort of—. I don't know why it's been put to one side, and that's why I'm saying it's not my area of expertise, but there's a whole—. You can just see the changes out in that world. Alongside that world where we're still going for, 'Where's the cheapest place to produce this stuff, and we don't care about the consequences', there's a parallel process, which is big companies going, 'Okay, how are we going to live in a world where we can't get some of the finite resources?' Even the renewable resources like timber and whatnot are going to become overly competed for. What do we do about that?

[107] **Professor Jones:** It's worth saying as well that, of course, nobody who works in Wales at Airbus, Ford, Tata or any of the other big corporates has the autonomy to make any of these changes. Tesco is a good example. I've done work with them in retail on sustainable supply chains; it's been the same with food. You quickly realise that the British retail federation—or the bit that's in Wales—is an arm of somebody in London or something who's never going to hear what you say, and the people who you are talking to have no competence—I mean institutional, organisational competence, not personal—to make big decisions. That's a structural problem that's not going away. Therefore, we have to—. You know, I think the Welsh Government has to concentrate its policy and its engagement with areas—social enterprises, SMEs, this kind of third sector fuzziness—who are autonomous and open to change, potentially, rather than the big corporates, Admiral excepted, who just aren't here in any kind of real, autonomous sense.

[108] **Russell George:** David.

[109] **David J. Rowlands:** Then again, if you build these SMEs, what happens is they get taken over by a big corporation, and that's your problem, isn't it? How do we get away from that situation?

[110] **Professor Jones:** I hope that whatever emerges out of the Welsh development bank discussions includes things like continuity, finance and equity stakes for public sector agencies as an integral part of a development strategy, because without—. You know, every single year Wales leaks various forms of capital across the border and further afield. You know, when

interesting companies get to small millions of pounds of turnover, they tend to sell out or there's a bid that is unwelcome but goes through, or you find those companies move to places that are cheaper. That's not the worst thing; the worst thing is that every single year we lose between 25 and 33 per cent of our graduates, largely to England. How can you build a sustainable economy when you're exporting 25 per cent of your Welsh resident graduates over the border to work in England every year?

[111] There are various ways in which these sorts of capital—. I always say that the very sensible thing that Julien Macdonald did when he was growing up as a wannabe clothes designer in Merthyr was leave Merthyr. You know, why wouldn't you? Because you're probably not going to forge a career doing that there. Unless we recognise that asymmetric relationship between capital and space—that, you know, for better or worse, London is like a big black hole and it sucks interesting stuff out of not just Wales but the north of England and Scotland—and unless we somehow can recognise that in policy, we can grow stuff in Wales but it'll leave. You're right; if companies will leave, people will leave. Interesting ideas will leave and get bought out. It seems to me that this competitive regional framework we have of imagining them on a level playing field, and, if we just had a few more factories, or a bit better infrastructure, or a slightly better metro and trains, we'd just somehow solve this deep structural problem, seems to me to be pretty false.

[112] **David J. Rowlands:** Could it be argued that, coming back, we'd get some of that back in the Barnett formula? Because London is not just a magnet for the UK, it's a magnet for the world, and they create this huge amount of wealth, which does feed back to us through the Barnett formula.

[113] **Professor Jones:** But money given is not the same as money earned.

[114] **David J. Rowlands:** It's not what we want.

[115] **Professor Jones:** Money given is not the same as money earned, and that's a psychological difference that we—. And the Welsh Government has been dysfunctional, one might argue—he said—for 15 years, because it's operating on money given, not money earned.

[116] **Russell George:** Hefin.

[117] **Hefin David:** Just back to the small firm population in Wales, I've been reading this paper by Foreman–Peck, Makepeace and Morgan from 2006. It

gives a picture of the small firm, SME, make-up of Wales. I haven't seen a paper as detailed, and a bit of research as detailed, as this since, but I've no reason to think anything's particularly changed, and one of the problems is small firms have traded profitability today for profitability tomorrow. They'd rather have £10 today than £100 tomorrow. The motivation for small firms is not to grow. It's to be a lifestyle and, certainly, avoid employment, because employment brings a whole load of issues, and instead rely on social capital. As a result, you have a small to medium-sized firm sector that is microfirms-dominated. That is a huge challenge that goes beyond anything that the Government can do.

[118] **Professor Jones:** Again, it depends what you want from your economy. If a microfirm is providing a decent income for its owner, and providing a decent service for its local area, then what's the problem with it not growing? I always say, Welsh Government, in line with many other Governments, has always targeted growth firms, not good firms. If you rack up at the Welsh Government and say, 'I've got this really fantastic thing I want to do. It's going to improve my business. My customers will be happier. I'll be more resource-efficient', and they say, 'How much is your employment going to grow by?', and you say 'zero', they'll say, 'Toddle on your way, sunshine', and we've got to get away from that. I think that it's coming back to your earlier question—the perceptive question, if I may say—about the size the economy is. You decide what you want the economy—. And you might want, in the Valleys, a diverse mix of enterprises, and, again, language: you wouldn't say 'entrepreneurial', 'enterprising', maybe, in the way you engage. But you want a diverse mix of enterprises, with different ownership structures, different sizes, in different sectors, with owners who are happy, providing good products and services. And you decide that's your outcome, and then you build towards that with the policies that you embody and implement, rather than thinking, 'We have to grow these firms'. And, yes, some firms will never succeed unless they grow. If there are economies of scale, they will never succeed unless they grow. In other areas, you might find interesting things that—. You imagine somebody starting a nursing home, in the upper Cynon valley or somewhere, and they've got half a dozen to 10 residents who they look after: if they built a Travelodge-style nursing home next door and had 100 or 200 residents they looked after from a little cubicle at the front, yes, profitability's higher, there'd be a bit more employment, but all those residents would be worse off, and those are the sorts of quality of service I think we're missing at the moment.

[119] **Hefin David:** Professor Karel Williams made a very similar

representation to the cross-party group.

[120] **Professor Jones:** I nicked it off him, basically.

[121] **Hefin David:** Sorry?

[122] **Professor Jones:** I sort of nicked it off him.

[123] **Hefin David:** You nicked it off him. Oh, there we are then. [*Laughter.*]

[124] **Professor Jones:** He calls it ‘the Travelodge-style of social care’, I think, or something like that.

[125] **Hefin David:** We must reference. We must reference.

[126] **Professor Jones:** But this is absolutely the sort of—. The quality of the service we provide is key, and—

[127] **Hefin David:** ‘Mom and pop’, I think, he refers to.

[128] **Professor Jones:** Well, yes. That’s not to say that big firms can’t provide good services, but the quality of service is what we aim for, and, as I say, diversity, I think, is a good thing. It’s throwing stuff at the wall and seeing what sticks, rather than a model of business growth, or a model of how a sector works.

[129] **Hefin David:** Okay, thank you.

[130] **Vikki Howells:** It all comes back to what Anne said at the start, really, about the way that we use the term ‘prosperity’, and we need to engage more with the vision of prosperity that’s actually set out in the well-being and future generations Act, of course.

[131] **Ms Meikle:** I was just going to come back on your—. So, again, ages ago when we started talking about trying—. What’s the scale of retrofit of energy efficiency, and who would do it, and how would you ensure that all those microbusinesses or very small businesses of builders and plasterers and plumbers and everybody else in Wales actually get skills to the right level to do it effectively? Because there was evidence, looking at the retrofit of houses, that it was often done so badly, even simple things like fitting double-glazed windows, that, actually, you’re not getting the carbon savings

from it that you want, you're not getting the increases in heating and lower costs of energy, because the work isn't done well enough.

10:45

[132] And then you just look at the structural problem that those people aren't going to go to college because they have to take a day off work. How do you upskill them? There's a whole raft of discussions and things, and there are answers to that. But you actually have to design your business support and your training to work around the fact that that's the kind of businesses they are. They're not going to do day release or whatever. You're going to have to do it in the—I don't know—hour before they start work, when they go to the plumbers' merchants anyway, or whatever. You're going to have to design it differently to make them more efficient and more effective.

[133] **Professor Jones:** Back in 2010, I think it was, or 2011, I did a very short piece—two sides of A4—which was presented in Plenary by, I think, a Plaid Cymru AM, which posited a green construction skills college for the Valleys. So, this would have been a college that—virtual or in existing provision—would have done all that training, done the training not just for the bricklayers and the plasterers but for business owners. And the stick for that would have been a kitemark without which you could not bid for public sector work. Because I know the builder opposite me, the bulk of his money comes via Rhondda Cynon Taf council, because they're a big procurer of building services. And without this green kitemark you could not have bid into public procurement processes. Across Wales that stick would have quickly got day release for individuals, in a kind of Gas Safe kind of mechanism where you make sure those skills remain topical by topping up every year. That would have kept the money local, it would have—. While you got the SME owners there, you don't just tell them about green skills, you tell them about how to run their business, succession planning, marketing, so that the business owners have to engage with the process as well. You'd develop—. It would have been very low cost—I estimated way back then about £5 million to put some modules on that would have linked together into this idea—and a very strong visible statement that this is how we build in Wales, this is how we retrofit in Wales, this is how we do this work in Wales.

[134] I think you have to somehow join the demand and supply sides to get a circle, because, otherwise, even with the best will in the world, things like

Arbed, which in many ways is a very good example of how you try and do this, the stuff leaks out when the big boys come in. Particularly post Brexit, we may have a lot more scope in structuring our procurement in order to deliver local benefits, community benefits, social benefits, to SMEs and social enterprises. The problem is, as Kevin Morgan, always says—a colleague of mine—‘We’ve got half as many trained procurement officers per head as England does’. And that’s a big challenge, post Brexit particularly.

[135] **Russell George:** We’re out of time. I’ve got two questions, both picking up on what Calvin said, but if you could be as succinct as you can in answering them; I don’t want to go without asking them. You described—. Well, what can we do about people who you described as ‘functionally obsolete economically’? What can we do for those people?

[136] **Professor Jones:** This is a little bit of a blasé answer, but the south Wales Valleys are full of little old ladies who can’t nail a picture to the wall and big strapping young men who can’t cook. And, somehow, we have to find a way to create the market, in its widest sense—not necessarily a commercial market, but join together the skills and competencies we do have and the primarily social, healthcare needs that are there, environmental improvement, you know—. There’s a lot of landscape in the Valleys that has very little employment on it. You know, you look at a sheep farm, look at the forestry—very little employment. You can imagine, with the right sort of pump priming, higher numbers of people working on the land in the Valleys, and that may be true of rural areas as well, as Anne’s already alluded to.

[137] At the moment, I think the best and first thing to do is to look at Karel’s work on the foundational economy and understand what sorts of policies could develop. And we’re doing this. Interestingly, Cardiff Business School is now—we’re the only business school that has nailed its colours to the mast of being a public value business school, of looking at improving social conditions as well as economic. And we are very interested in looking at the social care sector as the first place you start to restructure your economy around delivering long-term welfare. And the Valleys would be a good place to start.

[138] **Russell George:** Anne.

[139] **Ms Meikle:** No, I was just saying, I’m with him 100 per cent. I’m just standing there waiting for my curtain rail to fall off the wall because the plaster’s terrible and thinking, ‘Who on earth would do a little job like that

for me?’ And it’s not that I’m—it’s just that I can’t do plastering. But do you know what I mean? He’s right, and I hear that all the time, that there are niches for small operators that will never be filled by those big companies who are coming in from outside. But, again, perhaps it’s too small a scale to be valued in big economic strategies. That’s part of the—. What’s the human scale that you are having to work with here in Wales, and are we overly focused on the majority of the big income generators rather than the majority in terms of across the population and who needs help? I think that that is a very good point from Calvin.

[140] **Russell George:** I did have a second question, but I think that that’s a good time to end on, because my second question would have opened another can of worms, so I’ll mention it to Calvin privately afterwards. Can I thank you both for your time this morning? It’s been a great session. It started early and has gone beyond its time, so I think that speaks for itself. I’m very grateful to both of you this morning. I’ll take a short break now and be back at 11 o’clock.

[141] **Professor Jones:** Thanks for having us.

*Gohiriwyd y cyfarfod rhwng 10:51 ac 11:00.
The meeting adjourned between 10:51 and 11:00.*

**Dyfodol Economi Cymru—Safbwyntiau Amgen ar y Strategaeth
Economaidd i Gymru
The Future of the Welsh Economy—Alternative Perspectives on the
Economic Strategy for Wales**

[142] **Russell George:** Welcome back. I’d like to welcome our expert witnesses this morning. I move to item 4, in regard to alternative perspectives on—. Item 5, I think it is—I’ve got the wrong paper. Anyway, I move to the appropriate item in regard to alternative perspectives on the economic strategy for Wales. This morning, we’ve got three witnesses before us. I’ll just ask you to introduce yourselves and the organisations you represent before we move into questions. If I could start from my left.

[143] **Professor Holtham:** I’m Gerald Holtham. I’m a visiting professor currently at Cardiff Metropolitan University, where we’re engaged on a project looking at Welsh competitive advantage—areas where Wales may have a competitive advantage. I’ve previously done various things including

chairing the commission on financing Wales.

[144] **Professor Huggins:** I'm Rob Huggins. I'm professor of economic geography at the school of geography and planning at Cardiff University, and I'm part of the team working with Gerry and Brian on the Hodge foundation work.

[145] **Professor Morgan:** Brian Morgan, professor of entrepreneurship at Cardiff Metropolitan University. I head up the Hodge foundation project and also run the leadership centre at Cardiff Met.

[146] **Russell George:** Members have got a series of subject areas they would like to take up with you this morning. I shall ask the first question, but it's a very wide question, so just give me the headlines. What should the Welsh Government have in their economic strategy? Who wants to go first? Brian.

[147] **Professor Morgan:** What we have to be aware of, I think, in terms of an economic strategy is that it has to be something that is implementable, whatever is in it. We have had a raft of economic strategies since 1999, unfortunately very few of which have actually led to any real impact, particularly for people up in the Valleys. So, we have to put in place a strategy that can be implemented and can have an impact. That has to be the overriding foundation for that strategy.

[148] So, what should be in it? I think there should be three or four things that they focus very much on. One should be skills—both high-level skills and, sort of, lower level skills, if we might say that, for people who are just coming in to the workforce, because there's a lot of problems with those sorts of skills, and finance for growing companies, and entrepreneurship. How do we create that entrepreneurial drive that is so vital for economic growth and how are we going to prioritise investment in infrastructure? The implementation of those four things will be, I think, absolutely vital. We shouldn't have a huge raft of areas that we're going to cover. It should be focused. It should be no more than 10 pages long and it should be implemented straight away.

[149] **Russell George:** Thank you. That's very clear and succinct. I'm grateful for that. Mr Huggins.

[150] **Professor Huggins:** I would tend to agree with Brian. It's not rocket science in the end, when you look at what the drivers of economic growth are

at a regional, local level. We're talking about human capital, so, again, the skills agenda. Physical capital—thinking about infrastructure. You mentioned entrepreneurship, and we could think about entrepreneurship capital and, obviously, the finance around that.

[151] I think one thing to add is the area around innovation and creativity as well. So, how do we mobilise knowledge, technologies et cetera? I think entrepreneurship, innovation and creativity go hand in hand. Obviously, we've tried this in the past, but I think there may be new approaches to thinking about this in terms of policy development within Wales.

[152] **Russell George:** Before I ask Mr Holtham to come in, David, I'll come to you when Mr Holtham has given his answer to ask the first question as well. Mr Holtham.

[153] **Professor Holtham:** I don't have much to add to that. I do think that things the Government can do are mainly in the area of skills and finance. Those are the two areas that we get referred to by businesses that we talk to as their main areas of concern. I think the Government also has to think about its own structures. Is it capable of doing everything it wants to do, and, if not, what reforms does it need to make to its own structures in order to be able to carry out the plan? You know, there's no question that they have got people who can draft attractive paragraphs, and they've got printers who can print them on glossy paper, but that isn't the real issue; the real issue is what happens then. And, as Brian has said, there's been—and in fairness to the Minister himself, he has said that, in the past, the issue is delivery, and I think one has to look critically at the delivery structures within the Government.

[154] **Russell George:** Very grateful. I'll go to David Rowlands for the first question.

[155] **David J. Rowlands:** You mentioned in the report about bringing back the economic development agency. Now, I'm old enough to remember that quango—it was probably one of the most successful quangos with regard to bringing inward investment into Wales. But we've been talking this morning about the fact that Wales is very much a micro-economic country, in that it's very much dominated by SMEs and microbusinesses. Do you think this will sit comfortably if we're bringing in those huge investments? How do you think that that will fit in with the general strategy for—

[156] **Professor Morgan:** Who's going to take this first?

[157] **Professor Holtham:** I'll have a go at that. The structure of the economy is partly—only partly, but it is partly—a function of the availability of finance. You know, you get a company that gets into that, sort of, famous mittelstand area in Wales—I can think of several: Boomerang in the media area, Rachel's dairies in the food area—and, if the usual entrepreneur gets tired, they do a trade sale and the next thing you know you don't have the business anymore. And that's because everybody focuses on start-up finance. Start-up finance is not the problem; we've got start-ups coming out of our ears. The problem is when a company starts growing, it hits a certain scale, and then, if it needs continuity finance or succession finance, it's just not available on the right terms. So, you get a trade sale and the thing disappears. And then we wonder why we've got a hole, you know, just below the quoted company level. And we've got lots of microbusinesses, we've got two or three quoted companies, and then there's a hole in the middle. That is partly—not entirely, but partly—a function of that lack of finance, and I think that's one of the holes that the Government should tackle.

[158] My own view on inward investment is that I am in the camp that says we should focus more on trying to develop indigenous businesses, encouraging them, but if you've got an incipient cluster of businesses, it can be quite good then to look and say, 'If we were looking specifically to reinforce this cluster, who would we want to bring in?' So, rather than saying, you know, 'We will give you shedloads of money if you come to Wales', and we take anybody who comes, including people who want to build, you know, a racing circuit, you sort of say, 'No, what we really need now is this area of biotech; can we go out and persuade somebody to come in, because that will reinforce something that's already here?' So, I would look to make the inward investment more integrated with your efforts to encourage local companies.

[159] **Professor Morgan:** I think that's not a bad line. I think that, also, the point that you made was a good one about the WDA having successes in inward investment, but I think people forget about the fact that the WDA did a lot of other good things as well. One thing in particular it did was to invest in property. It invested in developing large industrial sites, it invested in large commercial sites, but also it invested in smaller start-up units, funnily enough, up in the Valleys and places, and I remember, in 2004, for example, there was a quite important property development plan put in place by the WDA for inward investors and for indigenous growth. So, we're talking about the twin track that Gerry emphasised there. And that plan took about three

years to develop. It was done with the then King Sturge and the WDA, and when the WDA was abolished in 2004, that plan sat on the back. I can tell you now that, since 2004, not a thing has been built in the Valleys. Not a thing has been built since that property strategy was developed and put forward in 2004. So, we've lost our ability to actually help indigenous businesses to grow as well as provide the sites for inward investors to come in.

[160] **Professor Huggins:** I think it's quite interesting actually, if you look at the recent industrial strategy released by the UK Government—there are multiple mentions throughout the report of the term 'institutions'. It talks about institutions. This was partly the Government, which obviously got rid of the regional development agencies. When you start to read between the lines, when they're talking about these institutions, a lot of it is the components of what were in these RDAs and what was in the WDA, which, again, goes beyond inward investment, to think about finance, to think about property and to think about indigenous business development. So, I think there's something in that and I think the tide is turning in a way in terms of thinking about the agenda again around development and thinking about the type of institutions and agencies that can actually support our development in the future.

[161] **Professor Morgan:** That's a very good point, isn't it? It goes back to your point, Chair, at the very beginning: what should be in the economic strategy? What could be the implementation plan and what are the institutions that we're going to need to implement it? We haven't got those institutions at the moment and we haven't had them since the beginning of the century.

[162] **David J. Rowlands:** So, why did the Welsh Government decide to take in the WDA? Do you have any ideas?

[163] **Professor Morgan:** Political vengeance.

[164] **Professor Holtham:** I think it had become—. The organisation wasn't functioning particularly well at the time, but there's always the question: do you put a splint on a broken leg or do you cut it off. They chose to amputate it, when, perhaps, extensive reform would have been more appropriate. They had reasons for doing it, but it was not evidently the right thing to do.

[165] **Russell George:** So, what form should a new WDA take? How would it

be different? Would you replicate it or—

[166] **Professor Morgan:** I think perhaps you don't need a WDA, a national development organisation. We've got three city-region-type areas at the moment. So, you could have an urban development corporation in the south and in the west, perhaps including shared development with mid Wales, and one in the north. An urban development-type corporation that has resources and has the ability to undertake planning-type activity and has the ability to implement an economic strategy for the region. The Welsh Government then could be the overarching umbrella organisation that ensures that there is consistency across Wales. In terms of implementation on the city region level, you could have those types of urban development corporations, which I think would actually be a lot better than what we've got now.

[167] **Russell George:** But could the functions that you talk about sit within, effectively, Welsh Government departments in each of those areas?

[168] **Professor Morgan:** That's the failure, isn't it? The civil service has not got those skills to deliver and implement, and they're thinking too much about ministerial relationships. We need something that is one step removed from Government, which can actually make decisions and is not continuously just sending up notes to the Minister. We need something that is independent.

[169] **Russell George:** In terms of skills, couldn't those additional skills that are needed be employed by Welsh Government rather than a third body? I'm not saying I disagree with you; I'm just prompting discussion.

[170] **Professor Morgan:** Yes, they're new skills, but it is that independence though. It needs to be one step removed from a politicised civil service. You need to get economic development out of politics—that's what we need.

[171] **Professor Huggins:** I think the evidence around the world really shows that the most successful economies have some kind of vehicle that is arm's-length, which has some autonomy, particularly at the micro level, which is able then to mobilise a strategic agenda in terms of economic development.

[172] **Russell George:** What is an example of where in the world that would be?

[173] **Professor Huggins:** I'd say that you've only got to look at the strongest

region in the world, not that we could ever imitate it, but look at Silicon Valley. It's got a strong public-private partnership, which is independent locally. It's called 'joint venture', which really drives the strategic agenda in terms of economic development across that region. It's now actually a wider one because you're talking more around the bay area. But we could look at numerous examples of some of the strongest regions around—. I was involved in a project with Kevin Morgan, who was mentioned earlier, looking at smart specialisation around Europe. Wherever there was smart specialisation, which was basically an innovation strategy for the region, it was being implemented by an arm's-length organisation.

11:15

[174] **Russell George:** You're all singing from the same hymn sheet on this as well, but what are the key negatives to what you're saying? I mean, what are your opponents saying who've got a different view to you, or what are the advantages of it coming under Welsh Government and not being an arm's-length body?

[175] **Professor Morgan:** You're right in that—I mean, there is a body of people out there that would say that you lack effective control over these organisations—. They become too independent, and therefore political control becomes at arm's length and becomes difficult to implement, and the politicians feel that these organisations—what used to be called 'quangos'—become a law unto themselves, but there are ways of controlling those. There is lots of evidence, such as a strong regional Government and giving them a remit letter that says what you have to do and report on an annual basis. You know, you can get that type of control quite effectively. So, the main argument is about lack of political control.

[176] **Russell George:** Are there any other—? David or Hefin, did you want to come back at all on those points before I move to—? No. I'll go to Vikki, then. Vikki.

[177] **Vikki Howells:** Thank you. Thinking about education and skills, how important would you say they are for the development of an economic strategy, particularly thinking about the regional skills partnerships that we've already got? How successful do you think they've been in streamlining that?

[178] **Professor Morgan:** Just to answer your first question about how

important it is, it's absolutely vital, as I said. That was the first part of the economic development strategy that I mentioned, supported by my colleagues. Skills are absolutely vital. How do you go about that? There are various initiatives at the moment going on in England—the apprenticeship levy, for example, which is absolutely fundamental for those mid-level skills that we definitely lack. There's a lot going on in England at the moment. The institute for apprenticeships is being set up in England to actually monitor the quality of apprenticeships, and make sure that they meet the needs of business. So, there's a lot going on in England about how they're going to effectively use the apprenticeship levy to develop those skills that are very, very necessary. So, in terms of skills, there are things going on.

[179] Just last year—. You mentioned the regional skills partnership. I'm afraid the regional skills partnership is just another example of this plethora of pro bono organisations, with no resources whatsoever, really, that are just talking shop and have very little implementation opportunities and very little funding to actually put a strategy together. It's all done on a shoestring. I'm a member of the one in south-east Wales—the Learning, Skills and Innovation Partnership—and I'm a member of the employment and skills board, and we're all doing it as part of our job. There's no real resource there. The biggest mistake they made, apart from the one we've just been talking about, was getting rid of the techs. The techs had resources, they were linked in with business and they could drive the skills development agenda in terms of making it relevant for business. We don't have that anymore and I'm afraid the regional skills partnerships are like tech-light without resources, and so it's inevitable that they're going to make very little impact until they're properly resourced.

[180] **Vikki Howells:** So, can you clarify how you think the regional skills partnerships should be improved, then? Are you talking about full-time staffing, for example?

[181] **Professor Morgan:** If you want to actually have some sort of impact at this level, yes, you will need resource. Anybody want to add anything on that?

[182] **Professor Holtham:** I think there's also an issue in the—. I mean, there are issues at both ends of the scale. We certainly haven't, in the past anyway, succeeded in getting the less capable and the less lucky people to a good level of education—functional literacy and numeracy. And that's very important if people are not to get left behind. But there are also issues at the other end. You know, I've given lectures at Cardiff University, and if you're

lecturing on a subject that requires numeracy, you sit there and you look at a sea of faces and maybe 5 per cent are European; 80 per cent are Chinese. So, we at the moment—. Our universities are getting by at the moment by selling their graduate-level services to abroad. We keep talking that we want to go up the value chain as a country and that we've got to be a clever country. So, the way we become a clever country is to train our own kids to Bachelor level, load them up with debt and chuck them out, so they've got no interest in doing a higher degree, and then training Chinese kids to PhD. How the hell that is going up the value chain beats the hell out of me. I mean, it's—

[183] **Russell George:** Hefin, do you want to come in on this point?

[184] **Hefin David:** I would certainly raise Professor Ian Diamond at this point, and some of the proposals he's had, but I know that Professor Morgan has had a leadership programme running for some time in Cardiff Met. Is that the kind of vehicle for delivery of high-level skills?

[185] **Professor Morgan:** I think the thing is it's a very useful vehicle to upskill existing managers and owners of small businesses. This is what it's aimed at. We do have larger businesses on it as well. There is that gap in the market as to how you take your business up the value chain that Gerry was talking about.

[186] **Hefin David:** And you can't provide that through that.

[187] **Professor Morgan:** We're providing it to 250 companies over a three-year period, yes. That's having an impact, but a wider way in which you might ensure that your graduates, British graduates, are supported to go on to postgraduate education would be a good thing. I think the Welsh Government has now brought in a scheme to do that, which is great, because we shouldn't just be supporting undergraduates and then throwing people on to the problem areas of finding funding, then, to go on to postgraduate level.

[188] **Hefin David:** I should declare an interest having taught on that programme as well. I'm not trying to—

[189] **Professor Morgan:** Sell it—

[190] **Hefin David:** No—

[191] **Professor Morgan:** But it is a very good programme, yes. [*Laughter.*]

[192] **Hefin David:** You said that, not me. [*Laughter.*]

[193] **Professor Huggins:** The difference with that programme is that there are a lot of programmes, particularly with apprenticeships—and I've done some evaluation of apprenticeships—where we always seem to be chasing our tails, in a way, and trying to plug skills shortages within companies, and not really even improve the performance, often, thinking about workforce development now rather than thinking about the skills of the future. I think this is what some of these programmes do, and what other, smaller programmes within Wales are doing—thinking about future skills.

[194] **Hefin David:** Up until now, you haven't necessarily had the Welsh Government backing high-level skills. Therefore those kinds of programmes are operating almost entrepreneurially on their own. I wonder if there's an opportunity for universities to extend that into a broader market at this point and extend what they do. So, you talk about middle managers, but what about those people who aspire to be middle managers of the future, and other SME-style skills? I just wonder if there's an opportunity there that hasn't been there before.

[195] **Professor Morgan:** I think you're right, Hefin. If we speak about level 3 and 4, education level, that is first-year, second-year undergraduate, and whoever is outside of the university scheme, and then 5 and 7, which would be final-year undergraduate and postgraduate, we need to get a scheme in place that takes people from 2 and 3 to 4 and 5 to 5 and 7. You know, that's where we're lacking, and I tell you what, we've a very successful 5 and 7 scheme, that is at the higher level, with people getting postgraduate level instruction, but trying to get people interested at the 3 and 4 level when they're in work, and trying to get the companies interested in supporting those people at 3 and 4 level, we really struggle. We try and sell it in the same way and we just can't get the traction. So, we need some sort of huge marketing development programme here to explain how the 3 to 4s need support to get on to 5 and 7. That's what is lacking at the moment, you're absolutely right, Hefin.

[196] **Russell George:** Do you want to come back at all, Vikki?

[197] **Vikki Howells:** No, that's fine.

[198] **Russell George:** Hannah, do you want to come in at this point?

[199] **Hannah Blythyn:** Yes, thanks, Chair. I just want to move to the area of research and development. I know that your project—sorry, I'm at the back end of a cold—that state intervention's needed to boost economic growth in terms of R&D. So, from your perspective, how should the Welsh Government's economic strategy as it's being formulated create an approach that does attract research and development?

[200] **Professor Huggins:** I can kick off with that one. I've looked a lot around how we can attract, or whatever we can do, in terms of, say, R&D, but take the broader level of innovation, I think. Now, clearly, what Wales has lacked over a long period of time is any sort of large-scale public sector research, which differs from the majority of English regions—that there isn't really a basis where innovation is undertaken and then actually the knowledge spills over to increase commercialisation. Numerous initiatives have been suggested to Welsh Government over the years, none of which has really been taken up, due, I imagine, to a lack of investment.

[201] Now, I think the way around it—one potential way around it, in terms of whether we can attract R&D or whatever, is actually thinking about better access to R&D elsewhere, and creating better collaborative networks. I think universities—I would say Cardiff University has been fairly successful in terms of linking up with large multinationals, acting like what you call a knowledge aerial. You link up with a multinational elsewhere, then you can attract the knowledge in, then, hopefully, that will spill over to some of these SMEs around. So, I think universities and maybe some other key anchor companies within Wales can take a key role in being these knowledge aerials, or another word would be transceivers—knowledge in and out in terms of facilitating R&D.

[202] But I think that only goes part of the way. I think, without further investment—if you look at, even again, leading regions around the world that are dominated by private sector-led R&D, there's often some significant public sector R&D that actually pump-primes and is an attractor to this other private sector R&D over time. So, I think that does need to be a balance between this idea of access and then anchoring and indigenous development and innovation.

[203] **Professor Morgan:** Just to support what Rob was saying there, at the moment, there are two very important UK-level policies: there is the R&D tax

credit and then there's the new R&D expenditure credit that allows money to be put into companies that can't claim tax because they're not making any profit. So, there are two new developments that are very, very important here to subsidise R&D. So, that's at the UK level. Are we making the most of that? What are we doing to make sure that Welsh companies have access and our share, if you like—our 5 per cent share—of that funding? Similarly, a recent innovation has been the national productivity investment fund—£23 billion at the UK level for the national productivity investment fund. Where are we in terms of making sure that our share of that money is coming into Wales to develop the R&D and productivity relationships that we need to drive growth in Wales?

[204] **Professor Holtham:** I think the other element is the foreign investment element. Again, if we have a strategy for encouraging specific sorts of foreign investment, one of the things that we could be pushing companies on is, 'What research capability are you going to be bringing in? It's one thing to bring in a turnkey assembly plant, but are you going to be bringing in any functions that will increase R&D in Wales?' Particularly if you're looking for companies that are just pieces of the jigsaw, you do want them, as far as possible, to be bringing in that kind of function. Now, because we have such a focus on jobs, that sort of thing tends to get lost. It's almost as if we'd rather have 100 jobs in a call centre than 20 high-level research jobs, and both have their place, but I think we should be not quite so preoccupied with sheer number of jobs.

[205] **Hannah Blythyn:** So, there should be more of a balance.

[206] **Professor Holtham:** More of the quality.

[207] **Russell George:** Hefin, do you want to start a new line of discussion?

[208] **Hefin David:** Well, I wanted to come to the Hodge Foundation research, and one of the things you've said is that—I think it was you, Professor Holtham, who might have said this—Wales is rather like a second-division football club with a promising youth development system. I've read somewhere—maybe it was one of you.

[209] **Professor Holtham:** I think I am guilty of that, yes. [*Laughter.*]

[210] **Hefin David:** You talk about the fact that—you've mentioned the *mittelstand* and the missing middle, and the areas of research currently

going on elsewhere as well. I think you even mentioned Rachel's dairies, the fact that they get sold on and are no longer indigenous businesses; they're stripped of their assets and disappear. Can you tell us something more and just expand on that a little bit and your thoughts?

[211] **Professor Holtham:** Yes, I think there are several elements in this, because it affects different kinds of companies. Sometimes, it's a matter of succession: that you have a company founded by an original entrepreneur who gets to a certain point, wants to take equity out of the company, possibly move to a chairman or non-exec role and leave the day-to-day management to somebody else. Extracting that equity is very difficult if it's a big company. It's okay if it's—the Welsh Government has a succession fund: it's £50 million. Now, I know one civil engineering company that is owned by eight people, the youngest of whom is 65. It's a great company and the turnover is £400 million. It's going to cost several hundred million pounds to get equity out of that, so £50 million just isn't going to cut it. So, that's one area where we've got a problem—that when we do have successful privately owned companies, there could be a succession issue. At the moment, the Welsh Government has recognised the problem, but the solution isn't on the requisite scale, I would say.

11:30

[212] How to get on the requisite scale is a difficult and interesting question in itself. But there's also the question of small growth companies that just need continuity finance. They come in, they get the start-up finance, perhaps from Finance Wales. Finance Wales is like a lot of venture capital; it's focused on exit. They want to show that they're clever and that they've made good investments, and they want to get paid. So, in the private equity business, that only happens when you close and you exit from the company. So, they will lend to a start-up company for three to five years, and if they're still growing and they still need external finance, they've got to find it from somewhere else. That somewhere else often isn't in Wales. As soon as you're in the situation where your main financier is not in Wales and your business isn't in Wales, if you're an exporter, what are you doing in Wales? You get a sort of drift that way as well. So, it isn't just one issue, but it's financing companies that are past the initial start-up phase; our growth companies—capital-hungry companies for one reason or another. On the whole, we don't have the institutions that are ready to provide that finance, I don't think.

[213] **Hefin David:** It was interesting that Professor Karel Williams mentioned

exactly the same example in 'What Wales Could Be', when he talked about the foundational economy. It seems to be coming at it from a different angle, talking about things like adult social care. Calvin Jones has already mentioned smaller care homes and such things—less private sector, more public-private partnership kind of approaches, I suppose.

[214] **Professor Holtham:** People talk about the German *mittelstand* and the fact that we haven't got one. Some of that could indeed be developed, carrying out functions for the local economy. I think Karel Williams has spotted a number of interesting ideas and areas where you could do that. That's essentially, if you like, import substitution. It's doing things ourselves that we currently buy in, or we commercialise when we don't need to. But the German *mittelstand* isn't purely just serving Germany. They are the world's biggest exporter. In a sense, a country the size of Wales, if you just rely on your own market, you're not going to get very rich, if you like. I think, to focus purely on the foundational economy—. I've nothing against it; I think it's a set of really interesting ideas and some very good concrete suggestions as well, but if you just do that, in a sense you're saying, 'We can never really materially change our position. We're going to make the best of a fairly mediocre situation, and it can be improved, but we're not going to even imagine that we could actually change it more fundamentally'. Because if you're going to have a *mittelstand* on the German scale, it's going to be exporting. And if you're going to get much richer as a country, you've got to be able to sell into global markets. We're just not big enough otherwise. So, some of those *mittelstand* companies have got to be exporters, in my view.

[215] So, the foundational economy is terribly important, but I don't think it can be the whole story. If it's the whole story, we are resigning ourselves to optimising poverty.

[216] **Professor Huggins:** I think it's about having a balance, really, between the foundational economy and what you consider is non-foundational, but thinking more about what you might term—or what we used to term, at least—the knowledge economy. Perhaps it's harder, in some ways, to actually develop that side of the economy, maybe, than the foundational economy. I think that that is really where policy can make a big difference, in a way. If you think about it, if you think of certain environments around the world, they call them 'hostile environments'. Well, often, you get an entrepreneur who sort of springs up. They call them something like 'a black swan entrepreneur'. Now, where do they come from and how do they develop? How do they break out of the sort of black box of not becoming an

entrepreneur, maybe becoming part, themselves, of the foundational economy? I think there are examples where we can actually—. I have done some work—I did the first evaluation of the Alacrity Foundation a couple of years ago. I thought that was an excellent example, in a way, of trying to find what you might call ‘black swan entrepreneurs’, taking people from a certain environment within the Welsh academia and actually nurturing them. They probably already had the right personality to be a strong entrepreneur, to be working in some kind of advanced manufacturing, advanced services et cetera, but if you’ve got that nurturing environment, where they’ve got the culture around them to actually help them grow—.

[217] Now, again, we’re talking about wider examples in terms of skills development. I think initiatives such as Alacrity could be done on a wider level, in tandem with some of these issues around the foundational economy. If we got that right, I think then we could start thinking about not being as poor, maybe, as Gerry would actually think we may be.

[218] **Professor Holtham:** There was something that Calvin said, actually, in the last session that I think is relevant as well; he talked about equity. I’ve talked to some software companies that have sprung out of Alacrity and other ones as well. They say, ‘We’re developing this gizmo that nobody else can do, and if you got it the security service will be able to spot blah blah blah’, and I say, ‘Gosh, if that works, Microsoft are going to be in the next day, aren’t they, because they’re going to want to buy it?’—‘Yes’—and that’s the whole point: then the guy is going to retire, rich as Croesus, and Microsoft are going to get the kit. And you think, ‘Well, great, but we’ve just put money into this, and he’s got his exit, but where’s the Welsh advantage?’ That’s where, if we had equity, when he cashes up, the Welsh Government, or whoever cashes up, you can recycle the money. Or you have alternative sources of finance who say, ‘Don’t sell to Microsoft’. You know, ‘Here’s a shed load of money, let’s develop the next thing and try and market it ourselves’. But you know, if we haven’t got that second tier, we’ll pump money in and then the end of it is that it’s going to be sold to Microsoft.

[219] **Professor Morgan:** So, I think the point that we’re emphasising here is that we’ve got have a twin-track approach. Yes, there is a role for the foundational economy, there is a role for investment—I want to talk about that in a second—but you’ve got to actually grow the economy. The growth poles, if you like, have to be nurtured. And one of those key things, obviously, will be finance, and particularly continuity finance.

[220] But in terms of the foundational economy, I think there's a lot we could do in that area. I like the suggestion about smaller care homes, for example. Why, for example, doesn't the Government build social care homes in the same way that they build hospitals? You know, it's a public good in a way, isn't it? So, there's a role there, and it's a role, in fact, where you could actually get a return, because if you build social care homes to a standard—. One of the ways of doing this these days, and this is a big opportunity, I think, for Wales, is to invest in pre-manufactured construction units in Wales, which produce high quality, pre-manufactured construction: walls, kitchens, bathrooms et cetera. You have this unit, and you could then build, to a very good standard, these smaller social care homes that could then be run by local people and probably giving a better quality of life to the people in them. But it doesn't stop there, because social care homes are the next stage, if you like, from social housing, affordable housing. The Government could be investing in pre-manufactured construction methods in Wales.

[221] The biggest inward investor I think we should be looking for at the moment is a big company that's prepared to put up a factory that would produce 2,000 to 3,000 construction units, equal to 2,000 to 3,000 homes or 100 care homes, for example—invest and get that investment in here, and then invest in the skills needed to deliver those goods and, on site, deliver them in the construction, because that is the key part of the foundational economy. Construction is often overlooked as a key part of the foundational economy. If we could get the construction sector working more effectively, we could raise productivity in the construction sector. We could reduce the cost of social housing—producing new social housing now—and reduce the cost of affordable housing. You could then get the big house builders to join with you, and that would be a fantastic opportunity for the Welsh Government both to stimulate the foundational economy and also to create a much better living experience for most of the people in Wales.

[222] **Hefin David:** Can I come back? That's the kind of—. There are overlaps with some of those ideas, which is neat to see. I picked up this article by Foreman-Peck, Makepeace and Morgan from 2006, which I've mentioned to Calvin Jones, so it's only right to mention it now—and it is Professor Morgan—which gives a picture of small firms in Wales in 2006. One of the things you raised in that paper was the specific issue that small firms and microfirms in Wales are dominant, and they tend to trade profitability today for profitability tomorrow. They'd much rather have the money today than wait, and it's a fundamental issue. I haven't necessarily heard anything that would overcome that human nature issue. Have you—? Since 2006, I've not

seen anything of that depth again. Have you considered that since?

[223] **Professor Morgan:** Well it's related, really, to what Gerry's been saying. You're absolutely right; that is the way that small businesses work. Therefore, you have to have a financial mechanism, really, for allowing those SMEs to exit, without selling the—

[224] **Hefin David:** I'm thinking of the microfirms. They're not interested; they would rather rely on their social capital, rely on each other—

[225] **Professor Morgan:** Oh, I see. They're not prepared to grow, you mean.

[226] **Hefin David:** They're not interested in growth.

[227] **Professor Morgan:** Ah, I see. Right. That's a good point.

[228] **Hefin David:** Employment growth, I mean.

[229] **Professor Morgan:** That's a good point. What we tend to distinguish, at this level, is the difference between growth firms—potential growth firms—and neighbourhood, lifestyle firms. Trying to get lifestyle firms and neighbourhood firms to actually grow is a huge problem. Why? Because once you start employing people, of course, as we know now, you've got to start paying people's pensions, you've got to start—. There's a huge swathe of health and safety laws and everything else that comes in. For small businesses, they don't want to do it. That's why that programme that we talked about earlier on, Hefin, is there—to help those small businesses make that leap. But you have to have the mentality that you want to grow. If you are content to live and work at the level you are at the moment, in terms of the size of your company, there's nothing that we can really do to change the mindset, if you like, other than giving people the opportunity to grow, and to help them overcome the constraints of growth.

[230] **Hefin David:** So, we need to accept that there's going to be a body of firms that, simply, are that. One person firms; 1.7 employees or whatever.

[231] **Professor Morgan:** And they are the bedrock of the foundational economy.

[232] **Hefin David:** Okay, that's interesting.

[233] **Professor Huggins:** What we know is—. The data tells us we can almost predict the outcomes. Because I did some work with Brian about 15 or 16 years ago, under what was then the entrepreneurship action plan. We interviewed and we did a survey of 1,500 new starts across Wales, and we asked them for various data. They'd only just come into existence. One of them we asked them is, 'How motivated are you to actually grow?', which we thought would be quite interesting at the time. I managed to secure some funding, actually, from Welsh Government, to return to these 1,500 companies a couple of years ago. So, first of all, we could find out who has survived and who had actually died along the way, which could give us some idea in performance. It comes as no surprise: those firms who has said that they were growth oriented and that they were not lifestyle businesses were the ones who tended to survive, and had been the most profitable over that period. A lot of the lifestyle businesses had actually died. So, maybe they had served their purpose for the owner at that point in time, but they hadn't really done anything in terms of development for the economy. They hadn't grown in terms of employment, and they hadn't really grown in terms of their productivity either. So, there seems to be a correlation between the type of business and the orientation of the entrepreneur at the outset, and then actual success.

[234] **Hefin David:** Okay. Can I have one last question? It's handy having not so many Members on the committee today. One issue I did want to come back to—and if you've seen the evidence that was in the previous session, we talked about the concept of growth. You've all mentioned economic growth as a good, whereas Professor Calvin Jones suggested that a steady state economy is possibly a more realistic and better—qualitatively better—option, and that we shouldn't worry too much about growth. We should, instead, worry about what we actually do. I think that's where you diverge ideologically from the likes of Calvin Jones.

[235] **Professor Holtham:** Well, the first point I'd make is: do we have a stable population? Because if you don't have a stable population and you have a static economy, then everybody's getting worse off per head. So even population growth necessarily entails some economic growth if you're just going to keep people at the same level of life. So, an absolutely static economy requires a fairly draconian population policy. I don't think anybody is contemplating it. I have a lot of sympathy with arguments about sustainability. I do think that over the next few decades we're going to have to radically change the way that we do things, but I am an optimist. I believe that that's possible, and that it is possible to continue to make people's

situation better, in some sense, without destroying the ecosphere or something—not that we're on course to do it at the moment. If I had to bet, I'd bet that we were going to destroy the ecosphere, but you know, that's not inevitable, in my opinion.

[236] What this comes down to is that the way we measure growth at the moment isn't very good, and that's true, so I think there's a sort of semantic issue here, and if you got us in the bar with Calvin for half an hour, I don't think there would be very many disputes left at the end of it, once you'd sorted the semantics out. We know GDP isn't a perfect measure. We do know it's fairly well correlated with most other measures of welfare. On the whole, richer countries are cleaner, environmentally, than poorer countries. You walk around Stockholm and you walk around Phnom Penh and you don't have much doubt which one's doing more polluting. So, I think it's really a question of measurement, and it's a question of specifically saying what we mean by 'growth' in a particular situation.

11:45

[237] **Hefin David:** We can agree.

[238] **Professor Huggins:** I think Gerry's right; I think, unless you—. You take out outliers such as, maybe, Bhutan, I think you do see a strong correlation between GDP per capita and other measures around wellbeing or happiness or whatever at the national level. You can do that fairly easily. I think the interesting point is that that holds, and is often even stronger, that relationship, when you come down to the regional and local level. We've been doing work looking at local differences in well-being and happiness across the UK and looking at other measures of economic competitiveness, thinking about what we talked about earlier in innovation, and we see a really strong relationship between the two. I think really there's a symbiotic relationship—they're endogenous. One is pushing the other: the economic growth is pushing social and welfare development, you have a strong, healthy economy—it stands to reason, in a way. I think that the two go hand in hand. As I say, excepting a few outliers, you see few very highly happy strong welfare places that are actually poor as well, or in a steady state, in a way. Growth tends to be the driver of welfare over time.

[239] **Professor Morgan:** I think that's a good point. Economies that grow tend to look after their environment a lot better than economies that don't grow. There's a lot of evidence to suggest that. But there's another issue

here, isn't there? People are naturally aspirational. And aspiration tends to come in terms of their own well-being and the well-being of their family. And how do you raise economic well-being? How do you raise productivity? How do you get people better off? Now, the only way to do that if you don't get growth is to redistribute the cake. There's absolutely no evidence that you can redistribute a given cake and reduce inequality without actually reducing the size of the cake. My view is that what we need here is to grow the cake, and growing the cake, growing, is the best way to actually tackle inequality. Because you can deal with issues by growing the cake. You can put more money into health, you can put more money into social services, if you're growing the cake. But, if you're not growing the cake, unfortunately, all those problems become so much more difficult to actually deal with.

[240] **Hefin David:** And therein Government needs to choose a side, really, doesn't it?

[241] **Professor Morgan:** It does.

[242] **Hefin David:** Are we talking about growth and that, or are we talking about the likes of the work of Molly Scott Cato, which, I'm sure you know, is a steady state, green economy? There's a decision that needs to be made.

[243] **Professor Morgan:** Absolutely. A steady state is a sort of neoclassical or classical—

[244] **Professor Holtham:** I think the electorate is going to be inclined to make the decision for you, and actually not necessarily in a good way. I think politicians will have to lean, will have to be a little more courageous in insisting on sustainability than the actual public would want them to, if they see it in terms of a short-term sacrifice of cash. I think inequality is something that has to be thought about. There is evidence as well that human beings measure their position relative to other human beings. That's how they decide whether they're worse off or not, or they're poorer. And so grotesque inequalities also make for unhappiness. And there's some evidence—disputed, but there is some evidence—that inequality in society isn't functional. Grotesque inequality isn't functional; it makes people unhappier. So, I think the Welsh instinct to try and keep everybody on board is a good one. I think we shouldn't abandon it.

[245] **Hefin David:** Good.

[246] **Professor Morgan:** I thought you might be moving on to another question.

[247] **Russell George:** No, well—. Have Members finished on this line of questioning? Do Members have any lines of questioning to ask? David Rowlands.

[248] **David J. Rowlands:** Not so much new, because we'll have touched on most of the elements, but I've got two questions that are interlinked, obviously. I'm looking here at a graphic of the eight key economic indicators for Wales. It's pretty horrific reading, actually, because it shows us at the bottom of the league for almost all of them. But if I can pick up one of them, which is the GVA per capita, that's obviously the value-added element to whatever we are doing, and whatever economic activity we're undertaking. Is there a way that you feel we can—you've touched on it to a certain extent—by skills, increasing the skills of the general workforce, but is there any other way that perhaps we can attract the type of businesses where the GVA is a lot greater than the ones that we have at the moment?

[249] **Professor Morgan:** Yes, the GVA per capita is an interesting measure, isn't it? It is, effectively, the GDP of Wales—the gross domestic product of Wales—but ignoring taxes and subsidies. This GVA per capita measure, flawed as it may be, has been around for a long time. That level has been falling now steadily—it's been steady, but also falling steadily, slightly—to about 70 per cent of the UK average. That means that we are now at the lowest level of any region of the UK, but also the lowest level that any region has ever been in the UK in terms of the average. So, it is a measure that's telling us that something is wrong; we need to do something.

[250] You mentioned that one thing could be an investment in skills, and I mentioned it earlier on, because that's one of the key ways in which we could drive this forward. And in relation to some of the questions that came from the other part of the committee today, skills, that type of investment with the apprenticeship levy, et cetera, are hugely important. In the Cardiff Met university at the moment, we have this Construction Futures Wales project, which is a £3 million investment in the construction sector to raise those skill levels. It's doing a fantastic job, and we need more of those across different sectors. Instead of just having a sector panel talking about things, we need the £3 million there, both private and public money—this is not just public money; this is private and public money—a private-public partnership that drives it up.

[251] If we think about those things, those are very important. But the other things I mentioned that are equally important are the ones that Rob and Gerry have mentioned. Finance is absolutely vital. We need to be offering that type of financial package that is attractive in terms of future finance, in terms of continuity finance. We need to invest in entrepreneurship. We need to make sure that we have got those starter units that small businesses can start up and grow and flourish, and we need that infrastructure plan. But, overall, we just need to implement the things that we know that work, and we need to get the institutions right. Then I think—. The only way that we are going to get GVA per capita to rise is to get the institutional framework right, which allows us to implement a proper economic strategy in Wales.

[252] **David J. Rowlands:** Fine. I might be showing my ignorance a little bit here. The GVA, does that take into account the public services? And how do you measure the GVA of public services because, obviously, in Wales, the public economy is much bigger than, say, the private economy is, at the end of the day?

[253] **Professor Morgan:** GVA in public services is measured by the total amount of money spent on them.

[254] **Professor Holtham:** Yes, it's just wages, basically. It's just on the wage bill. That's the agreed one.

[255] **Professor Morgan:** That's the biggest—[*Inaudible.*]

[256] **David J. Rowlands:** So, it's not a particularly accurate—

[257] **Professor Holtham:** Well, the thing is, if you can't measure outputs, you measure inputs, and you assume that the output's worth the input, otherwise they wouldn't be doing it. So, basically, every time the public sector hires somebody, that's an addition to GVA.

[258] **Professor Morgan:** And it's also the reduction in productivity.

[259] **David J. Rowlands:** The other question touched on there, Brian, is with regard to finance. I think this is one of the fundamental problems that we have with regard to the Welsh economy, the availability of finance and the ease of accessibility of that finance. I have been involved with a small, innovative company that I've tried to get finance for—far too many agencies,

as far as I'm concerned. I spoke in the Senedd yesterday about, if we have this bank that we are going to set up, it has to be a one-stop bank where people will know exactly where they are going to access this finance, which is relative to where they want to go. Would you say that that is a weakness within the Welsh economy at the moment?

[260] **Professor Holtham:** I think it is, and I think there's a cycle in these things. The commercial banks, fairly notoriously, if the economy is booming and they're profitable, they're reasonably easy going about making loans, perhaps to a fault. Then, when times get tough, they want the money back and they are very reluctant to lend. Of course, when you had a financial crisis that threatened their balance sheets, that was even more the case. So, I think we're in a particularly difficult period, where banks haven't been very helpful. Force majeure, you could say, but they haven't been able to be helpful, and they haven't been helpful.

[261] The complaint that I hear from small companies about, say, Finance Wales is that it's impossible to get a quick decision. So, somebody says, 'Look, will you take an order for 7 million widgets?', and I can only produce 0.5 million, gosh, can I get working capital to upscale immediately? The guy wants to know whether I'll take the contract—I need somebody to say 'yes' or 'no', not, 'Well, I'll put this to my committee and I'll let you know in two months' time.'

[262] So, first of all, there's a gap in speed. Then the second gap, as I say, is that they tend to want exits. So, we don't have relatively small sums with a rapid response, a quick 'yes' or 'no'—well, it could be 'no', but not a quick 'yes'—on the one hand, and we don't have patient capital that says, 'As long as you keep paying the dividends, I'll be here for your grandson. I don't care. Just make a success of it and then I'm a success too'. So, we don't have patient capital and we don't have rapid capital.

[263] I have some concerns about us expecting that the development of Finance Wales into an investment bank is going to solve all the problems. I think, first of all, these things are partly an issue of culture. Will we be able to really change the culture of the institution in a way that will solve those problems? I don't know.

[264] The second thing is, if we're dealing at the top end, where we're trying to keep Boomerang or Rachel's Dairy or whatever in business as a Welsh company, we need a lot more money. These guys have to be able to go to the

market and say, 'Co-invest with us; we've got to put £400 million in here'. Now, if this thing is owned by the Welsh Government it's never going to be able to do that, because it's a charge on the Welsh departmental expenditure limit. The Treasury rules are that if Finance Wales lends £200 million to somebody, that's £200 million capital expenditure by the Welsh Government. It's insane, but that's the rule, and I don't think you're going to get the Treasury to change it. You should try, but I don't think you're going to succeed.

[265] So, at the moment, they're constrained by Treasury rules. When the business pays back, that's a reduction in Welsh expenditure, but, upfront, if it's a big deal, it's going to hit the Welsh Government's budget. I think that is going to constrain things at the top end. So, I think what Wales really needs is a not-wholly-state-owned merchant bank of some sort. You could do it on a Dŵr Cymru, quasi-mutual thing if you like, or a no-dividend distribution. You could aim for one of those public-service-type structures, but I think you've got to get it outside the departmental expenditure limit, which means it can't be 100 per cent owned by the state, by the Welsh Government.

[266] **David J. Rowlands:** Can that be overcome by the equity situation where they took equity in the company? We know that the commercial banks in this country now are totally risk averse; there's no doubt about that at all. But I understand that the standard thing in Germany was that commercial banks took a stake in the company, basically.

[267] **Professor Holtham:** Well, unfortunately, the Treasury rules don't distinguish between above-the-line and below-the-line transactions. If that money's going out of the door, they're counting it as expenditure. The Welsh Government can't say, 'Oh, this is investment, therefore, it doesn't count'. All its investments still count. It's an absolute expenditure limit. No other country does it, by the way, but we have got this very strange system of public accounting and it's deliberately used as a straitjacket.

[268] **Professor Morgan:** That should be part of the industrial strategy that we're waiting to hear back from the UK Government on how they're going to tackle this huge problem.

[269] **Professor Holtham:** There are various things that you can attempt to do. You can talk to the Treasury about making exceptions, you can try and get Finance Wales classified as a self-financing public corporation, which means it's half out, or you can actually quasi-privatise it as a public service

operation. But, somehow or other, you've got to try and get the thing outside the Welsh Government's own budget, otherwise it's going to be a straitjacket.

[270] **Professor Morgan:** That's a good point. Rob, did you want to come in at all on that?

[271] **Professor Huggins:** No, I'm fine.

[272] **David J. Rowlands:** Obviously, the fact that there are limits on what it can actually lend, it has to then maybe bring the capital back out of its investments earlier than it should because it has to get that money back in.

[273] **Professor Morgan:** That's the problem. It's the opposite of continuity finance then, isn't it?

[274] **David J. Rowlands:** It is, yes. Absolutely.

[275] **Professor Holtham:** That's the point. It does give them that incentive as well, which, as we've said, is not always the right incentive.

12:00

[276] **David J. Rowlands:** Thank you.

[277] **Russell George:** Okay, the session is just drawing to an end now, but can I thank you very much for your time with us? Bearing in mind that our session this morning is about alternative perspectives, is there any key message that you want to leave us with before the end of the session?

[278] **Professor Huggins:** Well, I think one thing that we discussed was the fact that, obviously, you are politicians and policy makers, and there's a certain expediency to what you do. I think we would plead, really, for something that is long-term in terms of economic development strategy. You know, try to think that, if we're going to see real change, maybe it's going to be generational, in a way, and we really need to take that into account and sow some seeds that will really nurture the economy over the long term. I think, when we talk about entrepreneurship, there's the finance in the long term, and they come together, and that does need, you know—. That temporal dimension, as I said, is not going to happen overnight.

[279] **Professor Morgan:** That's a good point, yes.

[280] **Professor Holtham:** Yes, I mean, because, if you think about this famous 70 per cent, to get that to 90 per cent over, I would say, 20 years would require a growth rate that is almost certainly unachievable. We'd have to be doing a China, you know—we'd have to be growing at 5, 6, 7 per cent or something. So, that isn't going to happen. So, even if we're successful and we do gradually make ourselves more prosperous relative to the rest of the UK, it will be a multi-decade operation. There isn't anything that you can do that's going to take us from 70 to 75 per cent in the next five years—nothing.

[281] **Professor Morgan:** Absolutely. It's going to be a long burn, Chair, and that's what the Hodge foundation pamphlet is about and what the Hodge foundation research project is about. And can I just make this final plea? You know, if we are going to develop an economic strategy, it has to be developed with the officers in the Welsh Government getting themselves involved with the type of discussion we've been talking about today, and we're hoping to have a policy think tank meeting sometime in June where, whether or not the industrial strategy for the UK is out by then, whether or not the Welsh economic development strategy is out by then, we want to have officers, practitioners and academics and interested parties together. It's sometime in June that we're looking at at the moment, to say, 'What is it that we need to put in place to implement a long-term economic strategy that does close that prosperity gap?' Let's identify what it is, let's all agree that it's got a chance, and let's give it to the Welsh Government to implement and hope they do a good job of it.

[282] **Russell George:** I'm very grateful. We'll be taking account of all our evidence and, as a committee, we've not yet decided how we're going to structure our report, but our report will be presented to Government with regard to an alternative perspective, really, to help them, and, obviously, we want our committee's work to influence their thinking, and that's the aim of the sessions today.

[283] I'm very grateful for your time. Thank you very much for being with us today. Thank you.

12:03

Papurau i'w Nodi
Papers to Note

[284] **Russell George:** I move to item 6—papers to note. Are Members happy to note the papers?

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o
Weddill y Cyfarfod ynghyd â Chyfarfod y Pwyllgor ar 1 Mawrth**
**Motion under Standing Order 17.42 to Resolve to Exclude the Public
for the Remainder of the Meeting and the Committee Meeting on 1
March**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o weddill y exclude the public from the
cyfarfod yn unol â Rheol Sefydlog remainder of the meeting in
17.42(vi).*

*accordance with Standing Order
17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[285] **Russell George:** I now move to item 7 and, under Standing Order 17.42, resolve to exclude members of the public from the rest of the meeting. Are Members content with that? [*Interruption.*] And also, yes, the clerk has just rightly reminded me, also to exclude members of the public from the meeting on 1 March. Is that right? Okay. In that case, then, if Members are content with that, we'll close the public meeting. Thank you.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 12:03.

The public part of the meeting ended at 12:03.