

Rethinking the Region: Actions for a Sustainable Welsh Economy

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"We know what happens to people who stay in the middle of the road. They get run down."

Aneurin Bevan

Introduction

There are few today who would argue that the conjunction of growth-oriented capitalism with the technical ability to extract and combust hydrocarbon fuels on a massive scale has resulted in extreme pressure on a number of global ecosystems. Many ecosystems not yet directly impacted by human-origin climate change have faced the more mundane problem of extreme over-exploitation, with many fish stocks, fresh water supplies and levels of important biodiversity in danger of collapse. In part this has been painted as a population problem, and one that is set to worsen, but with natural resources having been so far consumed in a hugely disproportionate fashion by Western/Northern countries whose populations are now static or in decline, a focus on population neglects the central cause of existing environmental pressure: *economic* rather than population growth.

The development of the corporation in the 17th and 18th centuries as a legally separate entity with a single requirement to maximise shareholder value (in the UK and US cases at least) has led modern capitalism to develop in a way which values profit growth, and hence firm, sector and economy growth, above all else (Joel Bakan's film and book *The Corporation* provides an interesting polemic).

Meanwhile, startling technical developments and an increase in efficiencies due to trade have led in the West to an immense surplus of wealth over our fundamental needs of food, shelter and clothing. Rather than this surplus generating a debate on what to do 'next', now that capitalism has done its job of making lives comfortable, firms have responded to protect their own existence by convincing 'consumers' that they cannot be satisfied with their current level of consumption or material wealth, and hence consume ever more in search of happiness. This is, of course wholly self-defeating for the consumer, engendering no more actual satisfaction, and according to Hamilton and Dennis (2005) actually far less. Importantly, it results in an increasing proportion of resources being allocated to non-productive use which nevertheless

protects or enhances market share. These include advertising and marketing; the production of dozens of differentiated products that do the same job; and the aggressive creation of a need for a product where none formerly existed (for example, the marketing of deodorants to non-Western populations who were hitherto unaware that they smelled or razors with an ever-increasing number of blades).

Events throughout 2007 and 2008 suggest that not only is the current economic system environmentally damaging, but also that it may be a good deal less efficient and stable than was previously thought. Additionally, as environmental pressure increases, and the need for climate action becomes more pressing, an economic (and value) system which prioritises (indeed *needs*) ever increasing consumption appears fatally flawed. There is then a strong rationale for a reconsideration of capitalism at a fundamental level. Despite, indeed because of, its small size and relative lack of 'prosperity' Wales is ideally placed to be among the first regions to forge a new approach to economic production and consumption.

A New Approach?

Progress made in recent years toward reining in environmental damage caused by resource exploitation has been extremely patchy. This arises in part from an incoherence and fragmentation in the conceptualisation and hence implementation of sustainable development policy. The ultimate objective of policy, in Wales as in most other regions is to increase the level of economic activity or output, with this by implication raising the income and welfare of Welsh residents. Whilst individual policy actions might thus be considered 'sustainable', their success will still result in an increase in consumption, and thus an increase in the Welsh contribution to climate change emissions, natural resource depletion and ecosystem fragility. The policy paradigm here rests wholly on a largely unspoken assumption that consumption can be made income-neutral (or spun 180 degrees to have an inverse relationship), and that this can be achieved not in generations or decades, but in mere years. Work being undertaken by DEFRA suggests this to

be a very tall order (see www.defra.gov.uk). At the same time, of course production and distribution systems for goods must be largely decarbonised, further complicating the policy context.

There is an alternative to the above, which involves a pause and reflection to consider what a regional economy is for, and how it might continue to deliver the goods and services a region needs in the face of far stronger local and global environmental, security and logistical risks – and very much higher energy costs (the 2008 World Energy Review is forthcoming). A pause for reflection might reconsider the following elements of our current regional economic development concept:

The Need for Growth – When one is a child, growth is good. When one is a mature adult, growth = more fat and is to be avoided. The analogy between adopting a less calorific, healthier (and hence safer) personal lifestyle, and re-engineering our economy in a similar fashion is trite, but illustrative. Meanwhile, the rationale for growth is often couched in terms of enabling the new wealth to be distributed to the most needy, either via governments or directly, as in Reagan's infamous 'trickle down' theory (see Andrew Simms, *New Scientist*, 18th October 2008). This, of course assumes first that ever-continued growth will be possible, and secondly that there will never be a time when there is finally enough money, food or shelter to 'go around' (either locally or globally). Gross disposable income per head in Wales was £12,300 in 2006 (£12,000 in West Wales & the Valleys) – around £30,000 for every Welsh household. If it was suggested to earlier generations that was this is not yet enough, reasonably distributed (and inflation adjusted), to provide a comfortable lifestyle, a robust response might have been forthcoming.

A Competitive Region – The reason that we do not sit back in satisfied repose and consider our comfortable lifestyle is because we do not compare ourselves to previous generations, but to our current peer group which is of course made vastly wider with the advent of mass and far-reaching media. Competition with the neighbours has

become a central plank of economic policy across many geographies and at different spatial scales – indeed, the Nobel Laureate economist Paul Krugman referred to competitiveness as ‘a dangerous obsession’ for nations and regions. The idea that the welfare or happiness of a population is measured on a relative, purely monetary, ranking of the level of economic activity occurring within an arbitrary administrative area is problematic to say the least. Yet chasing ever-increasing levels of economic gross value added in pursuit of the ever-receding target of a ‘UK average’ dominated by London and the South East has intimately shaped our economic life and physical surroundings for decades.

A Reliance on External Actors – Despite laudable intentions on the part of the Assembly Government, Wales has not developed a dynamic, innovative and high value SME sector that can compete internationally. We remain largely a back office region for national and multinational companies, with existing high value, non-Welsh owned activities such as steel, aerospace and automobiles vulnerable to contraction. Meanwhile our way of thinking about our economy is adopted wholesale from Whitehall, which itself promotes a mildly tweaked version of something that appeared to be a good idea in California twenty years ago. As a small, increasingly peripheral nation, Wales will always lag the larger motor regions if it follows the same template for development. The alternative, which considers how Wales might live sustainably largely on its own resources, both material and intellectual is worthy of consideration.

Managing Change – Steps to a Sustainable Economy

Moving from a growth agenda to a true development agenda for Wales clearly implies a host of changes in objectives and goals, in policies and in management tools. A fundamental first step is a restatement of public policy objectives. A first stab at this was made in 2005 by a group of economists drawn together by *Cynnal Cymru* (Table 1).

Table 1 contains elements which might attract criticism or debate, but its central thrust of prioritising the retention of natural resources, and of enhancing (or at least protecting) the basic welfare of Welsh residents is a coherent (albeit certainly not easy or cost free) alternative to the current growth paradigm. In fact, given the worsening of environmental conditions and forecasts since 2005, elements of Table 1 might be considered rather too weak. Casting forward from the adoption of a Table 1- type framework, one can imagine an overarching policy context which is clear in its motivation, transparent in its implementation and which gives firms and households absolute confidence in the policy and regulatory framework over the medium term. There are some policy implications that fall self evidently out of this strongly sustainable framework.

*The Emissions Test:
There will be no single Assembly or partner policy which leads to a **net** increase in carbon emissions*

Any policy, infrastructure or way of thinking that relies upon the continued burning of fossil fuels at levels akin to (let alone more than) the current rate

beyond 2020 (let’s be generous) is wholly unfit for purpose, and exposes Wales to ever higher levels of vulnerability to environmental and energy pressures. Money should not be allocated to any such project, be it an M4 relief road, a business park at Junction 33 of the M4, or a new single use housing development remote from public transport links. Of course, such an appraisal is nowhere near enough to prepare us for a low carbon future, but it would be a start.

*Quality of Life:
Policy proponents will demonstrate how their policy will improve the quality of life of Welsh residents, with improvements to outcomes for the poorest weighted most heavily*

Assembly policies should be benchmarked on their impact of the wider quality of life of those affected both as potential employees and local residents. There is also the need for a consistent and comparable policy framework and *ex ante* evaluation (something the Assembly has worked towards) – only in this way can the total (opportunity) cost associated with Assembly action be gauged and a hierarchy of policy actions developed.

*Bye Bye, FDI
The attraction of Mobile Capital is a short-term fix and will not enhance the resilience of Wales’ economy for the longer term.*

No matter how long they stay, we are still devastated when they leave. The

Table 1: A Welsh Sustainable Development Philosophy?

<ul style="list-style-type: none"> • Understands that society and its economy are wholly dependent upon the environment but not <i>vice versa</i> and treats the loss of irreplaceable resources for economic use appropriately
<ul style="list-style-type: none"> • Accepts both the intrinsic and economic importance of those natural resources
<ul style="list-style-type: none"> • Is mainly local and community-led in production, consumption work and leisure
<ul style="list-style-type: none"> • Does not rely solely on markets to attach long-term value to irreplaceable natural resources
<ul style="list-style-type: none"> • Has a higher level of public sector involvement in economic life than is currently the case, for example in the management of resources
<ul style="list-style-type: none"> • Actively plans and regulates current socio-economic activity for a low-carbon future
<ul style="list-style-type: none"> • Values improvements in welfare for lower income groups more than increases in overall wealth
<ul style="list-style-type: none"> • Attracts and retains people who empathise with the ethical stance that the philosophy adopts, to social and economic benefit
<ul style="list-style-type: none"> • Measures welfare improvements in absolute, not relative terms

Source: Cynnal Cymru. Submitted to the Assembly Government as part of the consultation on Wales: A Vibrant Economy. A full paper is available from Calvin Jones. Jonesc24@cardiff.ac.uk

withdrawal of waves of foreign investors following often a very long term presence has left Wales no more dynamic or innovative than before they arrived (although the level of prosperity that we would have faced if they had not arrived is open to an interesting debate). Whilst FDI policies have provided substantial, high paid and welcome employment for Wales in the past, their time has passed, and we never managed to embed firms in a way which delivered high-value and locked-in activities. The realities of our expensive wage rates relative to competitor regions has combined with lower levels of FDI globally to diminish the level and importance of new inward investments; as consumer markets follow producers East, marginal returns to FDI activity will diminish more rapidly, and Western regions competing for investment will simply appear desperate. Living within our means should mean striving to live within our own sustainable productive capacity, and welcoming like-minded investors only should they proactively wish to be involved.

*A Moral Economy;
Wales will not export emissions to enable a consumptive lifestyle and will not support industries or firms which do not adhere to strict environmental and labour standards*

There is little point in decarbonising Welsh production to then import goods that are carbon intensive, or to then engage in high-carbon lifestyles. A strong moral thread should be evident in Welsh economic policy, which is consistent with the Bruntland and other definitions of sustainability, making no distinction between the welfare of our own (current and future) residents and those of other regions or nations.

There are, of course, a myriad of other areas where a non-growth economic policy implies radical change: a number of these areas will be expanded upon in future editions of the *Welsh Economic Review*. Meanwhile, in terms of economic policy, measurement and evaluation will need to change radically.

Monitoring, Measurement and Evaluation of Policy

Despite the aspirations contained in *Wales: A Vibrant Economy* in 2005, our region has developed no alternative to GVA that is appropriate to guide economic policy, with the Ecological Footprint only available infrequently, using a proprietary (and partially non-Welsh specific) approach and being expensive to estimate. We require a measure of welfare that disregards

unsustainable improvements, be these environmentally unsustainable; socially unsustainable (in terms of developing inequalities); or economically unsustainable (as has been recently the case with asset-bubble and debt-fuelled growth in the UK and US). A number of approaches have been investigated, but have run aground on the sand of the Assembly civil service, beached by a lack of methodological certainty. The time for such niceties is past. Fully describing an appropriate welfare indicator set is outside the scope of this article, but some useful characteristics might include:

Quantification of Environmental Targets & Impacts – The Assembly has introduced a laudable ambition to reduce carbon equivalent emissions from 2011 by 3% a year. This means we have a three year window to develop, test and refine emissions calculators that are able to quantify current levels of direct and indirect emissions across all areas of Assembly remit, plus allow for scenario and impact assessment to help develop efficient policy. At the same time, a number of non-climate change environmental limits are being breached, requiring the development and integration into policy of other tools that can assess the impact of activity on the exploitation of natural resources, or on other areas of deep ecological concern

Make Risk Analysis Explicit – Governments, like people, are bad at accounting for risks that are low-likelihood but high impact. As likelihood of adverse climate and other impacts increases, local risk-resilience is being incorporated into the planning of the Environment Agency, local authorities and others. A similar approach needs to be adopted to examine macro or systematic risk. For example the decision to support the creation of massive capacity at Milford Haven to land ‘cheap’ gas probably did not account for the possibility that three of the world’s largest producers of gas (Russia, Iran and Qatar) would move towards the creation of a gas ‘OPEC’, with the intention presumably of controlling supply and driving up price. The extent to which Assembly policies (economic, but also on housing, transport and elsewhere) imply lower levels of resource, energy or environmental security should be explicit.

Have a Sophisticated Approach to Welfare – £10,000 spent with an automotive retailer on upgrading from a BMW 320i to a BMW335i is unlikely to have the same welfare impact as £10,000 spent on the purchase of a family supermini. Policy evaluation

should reflect these types of considerations, and there are a number of ways of incorporating ‘graded’ welfare into indicators. For example, Gini coefficients provide an overall measure of income inequality, whilst there are various approaches to valuing human needs (*Maslow’s Hierarchy of Human Needs* being the best known) that might help prioritise policies that address the ‘basic’ needs of Welsh residents.

Understand Wales as an Economic Entity – We can only make the Welsh economy eco-efficient *and* morally guided if we understand it fully. Current ONS statistics are inadequate for this task, and the Assembly will need to develop tools which can trace the flow of goods, services and people in and out of Wales, and use this basis to properly assess our ‘carbon trade balance’ (and, indeed, use *social accounting matrices* to examine how the resultant economic surpluses accrue across companies and household types in Wales).

Conclusion: Can’t Get There from Here?

This article begins to paint a picture of a very different Welsh economy and a very different Wales. It carries a host of undeveloped implications, not least the move to a largely localised production and consumption structure, with all the lifestyle changes that implies. Yet it should not be thought of as an alternative to the *status quo*. There is no status quo; resource debt is increasing and we have no way of repaying. The only uncertainty is which catastrophe hits first. Given that change is inevitable, we must decide how we react to that change; either by moving quickly towards a lower impact economy before we are forced to do so, or by waiting, in the hope that technological or societal solutions will arrive from outside our region to ‘solve’ ecological problems. There is no evidence that solutions are imminent, or that if they do arise, they will be appropriate for Wales. Yet again, we are likely to lag larger regions in adaptation.

The alternative is to forge a truly local approach to our pressing problems; to be amongst the first regions to re-shape our regional economy to deliver access to fundamental needs and a level of comfort for our residents as a first priority within long-term environmental limitations. Clearly, the Assembly is limited in its remit and powers, but a clear statement on its aspiration for the development of a steady state, sustainable and moral economy will have a huge impact. There will be short-term economic costs, as unsympathetic businesses and people decamp to less discriminating regions, and electoral pain as unsustainable household

behaviours are discouraged. But in the longer term, a far more resilient, localised and welfare oriented economy would develop. First-mover advantage would give us the products, skills and attitudes that could be exported to our neighbours, whilst a strong ethical 'brand' would attract like-minded footloose individuals and companies. As Jared Diamond points out in his sobering work *Collapse*, we will be forced to abandon many of our current values if we are to survive. It is time to assess which of our values can be retained and developed to sow the seeds of a new type of prosperity.

Reference

Hamilton, C and Deniss, R, (2005) *Affluenza: when too much is never enough*, Allen and Unwin.